# Fifteen years of UK partnership with Nigeria on debt management: lessons for DFID's wider approach to building capability

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**July 2013**

The Policy Practice

Centre for the Study of the Economies of Africa

# Contents

## Acronyms

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| CBN | Central Bank of Nigeria |
| CME | Coordinating Minister for the Economy |
| DDR | Debt data reconstruction |
| DeMPA | Debt Management Performance Assessment |
| DMD | Debt Management Department |
| DMO | Debt Management Office |
| DSA | Debt Sustainability Analysis |
| FEPAR | Federal Public Administration Reform Programme |
| FGN | Federal Government of Nigeria |
| FRL | Fiscal Responsibility Law |
| GDN | Global Depository Notes |
| ICM | International Capital Market |
| MTDS | Medium-Term Debt Strategy |
| PCR | Project Completion Report |
| PDML | Public Debt Management Law |
| PFM | Public Financial Management |
| PPP | Public-Private Partnership |
| SPARC | State Partnership for Accountability, Responsiveness and Capability |
| TA | Technical Assistance |

# Summary findings and lessons

## Findings

The quality of debt management in Nigeria has been transformed over the fifteen years under review, from a situation where debt was out of control and there was no debt management to speak of, to one where debt management is professional, the country has a reasonably well-functioning domestic government bond market, its bonds are included in major bond indexes of emerging markets, and the yield on its bonds in the Eurobond market is lower than that of a number of developed countries. International rating agencies and investment banks interviewed for this review rate Nigeria's Debt Management Office (DMO) as the top in Africa second only to South Africa. The DMO has also made good progress in getting a buy-in from Nigeria's States for improved debt management.

In terms of impact, stronger debt management has been a critical ingredient in improving Nigeria's macroeconomic performance, its credibility as a reformer, and its creditworthiness on international markets. The greatest achievement was the 2005 debt deal. Prospects are good, but not certain, for continued strong performance into the future.

The progress is explained by the confluence of four factors, the four Ps: top-level political **power** (mainly internal, but also international, led by the UK) being mobilised to resolve the debt problems, reinforced by **pressure** from the public, National Assembly and the media, **passionate leadership** within the Ministry of Finance and the DMO, and **technical professionalism**, including from highly capable technical assistance.

Support from DFID, and the UK government more widely, for what has consistently been a Nigerian-led initiative, ended in 2013, having played an important role in this progress over the fifteen years.

## Lessons

Some of the lessons that emerge are more relevant for the government of the country concerned, and some for development agencies. They include:

**Broader lessons**:

- in seeking to build capacity, priority should be given to those cases where individuals and groups with power have a clear interest in progress; where power is not obviously supportive of reform, agencies will need to decide whether it is feasible to seek to expand the reform space by helping to shift incentives, or to make the most use of what room for manoeuvre does exist, or to avoid getting involved at all;
- communication strategies to help create an informed public opinion are likely to be an important dimension of building and sustaining pressure for reform;
- leadership that is appointed on merit and sustained over time is crucial;
- international good practice was used in this case, but tailored to local conditions;

- reformers need an awareness of obstructing interests, and a tactical sense of how these may be addressed;
- the UK government usefully tied together instruments of politics, aid and diplomacy;
- though these reforms were domestic, there were important international dimensions which provided entry points for international partners;
- internationally, civil society involvement and pressure reinforced official support for resolving Nigeria's debt;
- creating a virtual poverty fund with some of the money saved by Nigeria helped to broaden the international appeal of debt relief;
- a quick and very major win – the 2005 debt deal --- raised ambitions and lent credibility to wider reforms and to sustaining improved debt management;
- this is a case of transformational change, which is more feasible in a specialised small unit in a defined policy area than in the case of broad systems change;
- given that Nigeria is not an aid-dependent country, this is a widely-relevant example of how international agencies can support domestic reform that helps the partner country make better use of its own resources; and
- looking to the future, prospects are favourable for sustaining progress made, although the main determinants will be political rather than technical, meaning that there can be little room for complacency. The greater State-level transparency being created may help to guard against the possibility of individual States becoming over-indebted.

**Programme-specific:**

- consciously promote ownership of the programme by the in-country government and partner organisation, and provide support in line with expressed need;
- allow the programme flexibility to modify its priorities and activities as events unfold;
- build timeliness and speed of response into programme design and the wider systems of the development agency; this flexibility is likely to be a central element of maximising the results achieved and fully meeting demands that aid resources be used effectively;
- provide funding over a long enough time scale to permit real institutional development, and enabling relationships of trust to be built, the evolving needs of the organisation on the ground to be understood, and local ownership to grow;
- ensure that the financial challenges facing the local organisation as a result of the ending of external support can be met;
- better manage the frequent turnover of DFID's professional advisers (fortunately offset in this case by continuity on the part of Crown Agents staff implementing the technical assistance);
- strengthen links with other DFID-funded programmes in Nigeria; and finally
- the fact that UK-funded assistance was low-key and largely 'un-badged', had the merit of helping to strengthen Nigerian ownership of the debt management initiative.

## 1. Introduction and purpose of review

The purpose of this paper is, covering the period from 1998-99 to the present, to 'review fifteen years of UK partnership with Nigeria on debt management and draw out lessons on institutional strengthening that can inform DFID's wider approach to building capability'[1]. The team interpreted this as calling for a broad assessment of UK's partnership with Nigeria on debt management, rather than a focus specifically on project performance; nor is it an assessment of the DMO itself.
This is an independent analysis, which is the responsibility of the authors alone. The approach taken by the review team was, guided by the TORs, to identify a set of questions to be addressed, and the information required to do this. The team interviewed a range of individuals, both in Nigeria and the UK, including former President Olusegun Obasanjo, the Co-ordinating Minister for the Economy and Minister of Finance, Dr Ngozi Okonjo-Iweala, all three present and past Directors-General of the DMO, and several individuals from rating agencies and banks. It also drew on a series of documents, including most notably the Debt Management Office's own assessment of the relationship with DFID from 1999 to 2013 (hereafter called the DMO's review)[2]. The DMO's review is a sound and balanced account of what was done and achieved over the period, and captures many of the most pertinent lessons.

The team also used the Project Completion Reports for Phases II and III of the DFID-funded support programme[3] which provide good accounts of project-specific matters such as value-for-money assessments, which are not therefore repeated here. Two books provided particular insights: 'Reforming the Unreformable' written by the current Minster of Finance (notably Chapter 6 'Obtaining debt relief') [4], and 'Strong Organisations in Weak States: Atypical Public Sector Performance in Dysfunctional Environments,' by Joe Abah[5] which examines factors explaining success and failure in strengthening semi-autonomous Nigerian public sector units (of which the DMO is one, though it was not itself reviewed by Abah).

[1] From the terms of reference provided to the review team by DFID Nigeria. The team comprised Professor Mrs Dora Akunyili (formerly Director-General of the Nigerian NAFDAC), Menachem Katz (Associate Executive Director of the Centre for the Study of the Economies of Africa, and formerly Mission Chief for Nigeria of the IMF), and Alex Duncan (the Policy Practice, team leader). We would like to thank the individuals we consulted (see Annex) who were generous with their time, and in particular Richard Ough and Valentine Udida of DFID Nigeria for their support and guidance to the team. However, the contents of the report should not be attributed to DFID nor to any other organisations or individuals.
[2] 'Fourteen Years of Strategic Partnership between the Department for International Development, United Kingdom, and the Debt Management Office, Nigeria, November, 1998 – March, 2013,' DMO, The Presidency, Abuja, 2013.
[3] 'Support to the Debt Management Office Project Phase II. Project Closing Review'. Draft Report, Ronald E. Quist for DFID Nigeria. May 2009. Also 'DFID Project Completion Review. Phase III support of Nigeria's Debt Management Office,' Draft report, Menachem Katz and Zakari Momodu. 2013.
[4] 'Reforming the Unreformable,' Ngozi Okonjo-Iweala, MIT Press, 2012
[5] Published by Boekenplan, Maastricht, Netherlands, 2012. Based on doctoral dissertation, University of Maastricht.

## 2. The wider context in Nigeria

Understanding the difficult wider context in Nigeria, especially in the immediate aftermath of military dictatorship in the late 1990s, is essential if the scale of the challenge that faced those seeking to reform debt management fifteen years ago is to be appreciated.

Over long periods, while oil revenues have offered great potential for stimulating economic growth, in practice they have created distortions, whether political, economic or social, that have often undermined growth and prospects for diversification in the non-oil sectors[6]. Public accountability has been weakened: there have been long periods when there has been a lack of sustained citizen pressure on government for improved governance, exacerbated at some times by military rule and at others by the tendency for competition for political power to depend substantially on self-enrichment and managing patronage relationships. And the policy process has often been personalised, rather than vested in formal institutions. All of these characteristics were acutely evident during the period of military rule that ended in 1998 and that preceded the transition to democratic government, which began in 1999 and saw the start of the intensive period of reform to debt management. Much of Nigeria's public sector has long been characterised by poor performance and corruption; institutional development in these conditions has been extremely difficult but, as the present assessment shows, not impossible.

By the time of the end of military rule in 1998, in the words of ex-President Obasanjo (see Box 1), "Nigeria was a....pariah state........... Nobody wanted to touch Nigeria," economic management was in chaos, and the debt situation was out of control. The country had for some time been unable to service its debt, which by 2004 had built up to $36billion, or 57.8% of GDP (64% if domestic debt (excluding arrears) is included[7]). Even interest payments were not being met, and penalties were being paid on penalties. To the extent there was a system for debt management it was fragmented and weak. President Obasanjo again: '....at that time, nobody could tell us exactly how much we owe, to whom, on what, and…..what we have paid back, what remains to be paid and what interest are we paying'[8]. Part of the problem was, as DMO's review noted: 'Nigeria's debt management function was spread amongst uncoordinated disparate government agencies and departments' (p.8). There is also reason to believe that debt management was contributing to corruption, as in this opaque situation of wide discretion some creditors were said to be bribing officials in order to gain preferential treatment as they sought repayment.

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[6][6] These arguments are elaborated in 'The political economy of reform: the case of Nigeria 2003-2007' by Pat Utomi, Alex Duncan and Gareth Williams, Briefing Paper 3, the Policy Practice.

[7] See the Minister of Finance's June 7th 2013 article in the newspaper This Day, 'Clarifying Nigeria's Debt Position', p.48.

[8] Interview with review team, June 17th, 2013.

**Box 1**

**Highlights from the team's interview with ex-President Olusegun Obasanjo[9].**

**The determination to reform was crucial**
"Internally and externally, we needed to make it ….crystal clear that we are going to reform, and it will not be business as usual".

**Reform was essential to the restoration of Nigeria's external credibility; and Nigeria's partners demanded credibility**
"Nigeria was a.... pariah state........... Nobody wanted to touch Nigeria...... For Nigeria's image to be right, you must be doing what is right internally...... You can't hide; if you are doing what is right internally people know. If you are whitewashing, people know; if you are playing games, people know; if you are deceiving people, they know".

....................... "If you have seen people who want to help themselves, then go out and help them. Again it is the British government, who have been by our side.... who spearheaded our debt relief negotiation. Because unless we had somebody among the creditor nations that was ready to stand for us, that was ready to speak on our behalf, then nobody would, and Britain did that... They had come to believe that we had become genuine partners".

**But there was opposition: not everyone favoured repaying the debt**
.............. "[There were] those who believed that the debt should not be paid, I believed the debt should be paid. I believe that it is a mark of responsibility, that even in your private life if you borrow money, you must endeavour to pay, and if your creditor sees that, for reasons beyond your control, you have difficulty, he will give you a leeway, and that is my own position. I believe it is height of irresponsibility to borrow money without intention to pay or to repay. And I believe also that if we make attempts and we do what we should do, we can get debt relief, which we got".

**The three lessons:**

1. **Institutional development. "**Institutions ..... are very very important in governance. And not just having institutions, institutions that work. Because there is no point in having institutions which do not work, which will not serve [their] purpose............ You need institutions, but you need institutions that are virile, dynamic, strong, and can deliver the goods".
2. **Competence is essential**. "You need to win the confidence of your partners..... competence adds to confidence, you have to be competent, and when people know you are competent, they will have confidence in you".
3. **Preparation is key to overcoming opposition.** "There must be flow of information, even within your own system. For instance, the State Governor comes and says 'Look you are deducting so much of our monthly allocation for debt relief, show us.' It is the DMO that can say, sit down.............. There is no substitute for an effective, efficient and competent institution that is not compromised in any way, or that cannot be frustrated in any way. ....... People will want to undermine things. We were prepared for that, [they] tried to undermine but they did not succeed".

[9] Interview conducted by Prof Dora Akunyili, June 17$^{th}$, 2013.

More positively, at the start of the period under review, political factors were conducive to reforming debt management. Most important, the newly-elected President Obasanjo had a strong interest in a debt relief deal and articulated this as one of his highest priorities consistently over the next six years[10]. As long as Nigeria was not servicing its debts, the President's intention to re-establish the country as a respected member of the international community would not be achieved. The desired debt deal was, however, intimately tied to improved debt management: Nigeria's official creditors made it clear that the latter would be a prior condition for the former. Moreover, improved debt management was also an integral part of the economic reform programme that was the priority especially during Obasanjo's second term (2003-07), and was a necessary condition for the resumption of inward investment at scale and for broad-based economic growth.

There was not, however, consensus on the way forward. Many voices, including in the National Assembly and the press, expressed the view that the new democratic government should default on what was widely seen as 'odious' debt, incurred by often corrupt autocrats without democratic legitimacy borrowing from sometimes (but not always) corrupt creditors, for unclear purposes that led to few or no benefits to the Nigerian people. Adding to the unpopularity of the debt, much of it by now represented accumulating interest and penalties rather than the original sums borrowed.

Over the years since that period, the context has changed. The economic reform period of 2003-07 provided favourable conditions for the strengthening of debt management. However, two factors could have combined to undermine the priority given to debt management: (a) the successful achievement of the 2005 Paris Club debt relief deal which took the urgency out of the situation, and (b) the weakening of reform momentum and fiscal discipline in the run-up to the 2007 election, and for several years thereafter, a period marked by rapid turnover of Ministers of Finance. But in the event the ground gained in strengthening debt management was not lost, and the DMO was able to continue to progress even given the less favourable context. In more recent years, political support has been less evidently strong than in the early period, but the reappointment by President Jonathan in 2011 of Ngozi Okonjo-Iweala, a debt hawk[11], in the powerful role of Co-ordinating Minister for the Economy and Minister of Finance suggested continuing high-level support for rigour in managing the debt. However, the run-up to the 2015 elections is not generally considered to be favourable to reform and fiscal discipline.

[10] The present Minister of Finance told the review team that at the time of her first appointment to the post in 2003 the President wrote to her instructing her to give the debt issue very high priority (interview, June 13th, 2013).
[11] See her June 7th 2013 article in the newspaper This Day on the importance of robust debt management, 'Clarifying Nigeria's Debt Position', p.48.

## 3. What was done: a brief account of debt management and of technical assistance during the period under review

From 1998/99 to 2002, as the new administration started to get to grips with debt, DFID alongside other external agencies provided ad hoc technical assistance; especially notable was the Commonwealth Secretariat which provided its standard computer software for debt management. The agreement between the Nigerian and British governments specified the aim of this assistance as being 'to establish an effective public debt recording and management system in Nigeria[12].' What with hindsight came to be called Phase I of external support clearly was not adequate for the task in hand, however[13]. In 2000, the present Minister of Finance (then in a temporary advisory capacity) prepared a memorandum for the President on strengthening debt management, proposing a restructuring of the organisations concerned, notably through the creation of a DMO. This was established late in 2000, with a modest budget, and staff mostly from the Central Bank and the Ministry of Finance which also provided the first Director-General, Akinlose Arikawe (later Permanent Secretary, Ministry of Finance). The emphasis in the early years was very much on dealing with the legacy issue of debt --- on creating a complete database, on streamlining the payments system and on building staff capabilities, with a view to creating the conditions in which a debt relief deal could be negotiated.

Phase II (2003-07, extended to 2009) was planned in a more structured way, with the goal being defined more broadly than that of Phase I 'to achieve a sustainable debt position for Nigeria that supports growth and poverty reduction', and its purpose 'to strengthen public debt management and develop stronger relationships with stakeholders, financial institutions and the public[14]'. Crown Agents were appointed to implement the programme of support. Alongside the strengthening of the DMO, the major achievements during this period were the 2005 debt deals with the Paris Club and London Club.

With the completion of these agreements, there was a change of thrust from (a) dealing with the specific tasks associated with the legacy of debt, towards (b) more forward-looking institutional development designed to ensure that improved debt management contributed on a sustained basis to national economic development. To achieve this, the DMO prepared its first strategic plan, 2002-06 a second covering 2008-12. The vision was to 'manage Nigeria's debt as an asset for growth, development and poverty reduction', creating the framework within which DFID-funded TA was provided. The PCR concluded that 'the second phase of the project has been largely successful. Indeed this very successful record could lead to a level of complacency with the possibility of some slippage in the gains that it has already made[15]'. The total cost to DFID was £4.28 million.

Under Phase III (2009-13), DMO continued the shift 'from external debt reduction to designing and managing a successful national debt policy'.[16] Reflecting the

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[12] DMO's review, p.10.
[13] The cost of DFID's support during the period 1999-2002 was a relatively modest £923,000.
[14] Phase II PCR, p.10.
[15] Phase II PCR, p.6.
[16] DMO's review, p.15.

institutional-development focus, the goal and purpose for DFID-funded assistance were to ensure that 'debt management best practices are institutionalised at both the national and sub-national levels of government' and 'to strengthen the sustainable capacity of the DMO to help meet its strategic objectives.[17]' Project-sponsored training, capacity building and support activities contributed to a draft Medium-Term Debt Strategy for the period 2012-2015, also supported by the World Bank. In an important shift of ownership, during Phase III Crown Agents no longer appointed an in-country Project Manager. Rather, a DMO staff member took the role of coordinator, with the Crown Agents Manager paying regular visits. The Phase III PCR concluded: 'Overall, DFID support under the project has been effective, and the project has met virtually all of its objectives and has provided value for money'[18]. DFID support closed in 2013, a further £2.8 million having been spent, bringing the total over fifteen years to £8 million.

## 4. What was achieved and could it have been done better?

What was achieved over the period is discussed under four headings: changes in the quality of debt management; capabilities; debt management at State level; and impact.

### Quality of debt management

In 1998, at the end of military rule there was no debt management to speak of in Nigeria nor was there an institution capable of producing accurate up-to-date debt data. Under the military dictator Abacha Nigeria came to pay an annual amount of no more than US$1 billion in debt service (the total debt service due was about US$3 billion annually), thus continuing to accumulate external payment arrears. Seven different government agencies were nominally in charge of different aspects of Nigeria's public debt, but there was no coordination among them and no single one knew how much was owed to whom and when it was due. In addition, reportedly there was lack of transparency and abuse in debt service payments to contractors and other suppliers of government goods and services.

Fifteen years later debt management in Nigeria is professional, the country has a reasonably well-functioning domestic government bond market, its bonds are included in major bond indexes of emerging markets, and the yield on its bonds in the Eurobond market is lower than that of a number of developed countries. Further, from the time of its creation in 2000, the DMO has come a long way, from being a user of technical assistance to becoming a TA provider to Nigeria's States and two other countries in the continent (South Sudan and Zimbabwe).

The DMO continues to climb on its learning curve after graduating from the DFID support and is pursuing the areas which had been delayed under the project, including in particular the recently completed Medium-Term Debt Strategy which will

[17] DMO's review, p.16.

[18] 'Project Completion Review: Phase III support of Nigeria's Debt Management Office', Menachem Katz and Zakari Momodu, draft 2013 (p.1)

enable it to begin applying new risk management techniques and yield curve analysis, as well as Public-Private Partnerships and related instruments.

The DFID Project has played an important role in this progress. DFID's support evolved over the 15 years from ad-hoc assistance to well-structured support for institutional development, and from hands-on to demand-driven delegated assistance. All in all, the support played an important role in institution building, growing skills, greater professionalism, and a build-up in long-term human capital, consistent with economic development principles which stress the critical role of institutions.

While it is difficult to argue with success, there are several activities and structures that could have been set up differently. In a large number of countries, the DMO is typically a department within the Ministry of Finance. In Nigeria it is highly doubtful that setting up the DMO as a department would have succeeded in the way the autonomous DMO has succeeded.

From the side of DFID's management, two issues arise. First, the frequent changes of DFID Economic Advisers who oversaw the project in the Abuja office raise questions of institutional memory and consistency of supervision (there were seven Advisers in total from 2001 to 2013, an average of less than two years each). In the event while this turnover must have been sub-optimal, there is no direct evidence that it harmed project supervision, perhaps partly because it was compensated by the continuity provided by Crown Agents whose most recent Project Manager served eight years from 2005 to 2013. Second, with the recent stronger emphasis by DMO on helping the State governments to establish debt management departments, there could have been better coordination between DFID support for the DMO and DFID-supported projects for PFM at the same sub-national governments, notably through the SPARC programme.

## Debt management capabilities

While this review focuses on the DFID support and does not assess the DMO's performance as such, it also considered tools developed by the World Bank—the fifteen Debt Management Performance Assessment (DeMPA) Indicators--in order to gauge the extent of progress made in institutional development in relation to best practices and other comparable countries. The DeMPA indicators cover governance and strategy development; coordination with macroeconomic policies; borrowing and related activities; cash-flow forecasting and cash balance management; operational risk management; and debt records and reporting, all of which are essential for a well-functioning DMO.

The DMO scored very highly for managerial set-up, debt management operations, and domestic and external borrowing practices in the 2012 World Bank DeMPA, with substantial improvements noted in the management of operational risks, and debt reporting compared to the 2008 exercise. However, the 2012 report noted there was still some work to be done to raise Nigeria's overall DeMPA performance to A/B (on a scale from A to D, with A being the highest) across the board, notably in formalizing some processes, cash forecasting, and external audit. The DMO has since been working to strengthen these areas.

International rating agencies and investment banks whom the reviewers interviewed for this report rate Nigeria's DMO as the top in Africa second only to South Africa. They also noted that the inclusion of Nigerian government bonds in the emerging market bond indices of both Barclays and JP Morgan was a result not only of improved macroeconomic management but also of the degree of professionalism achieved by the DMO.

## Debt management at State level

Progress in getting a buy-in from Nigeria's States for debt management at sub-national levels has to be viewed against the backdrop of Nigeria's constitution and fiscal federalism under which States are for all practical purposes independent entities in their relations with the Federal Government. Hence, the DMO's success in engaging with States and developing a constructive relationship with them is all the more remarkable. Relying considerably on "diplomacy", the enthusiasm of its staff, and the interest of State officials for this exercise, the DMO has made headway and continues to actively engage the States at multiple levels to facilitate the completion of this exercise[19]. Having said this, the relative autonomy of States in their ability to borrow means that the possibility always exists of individual States incurring excessive debt.

The initiative of institutionalising debt-management best practices in the States through the setting up of Debt Management Departments (DMDs) has been largely effective. A key element in the DMO's mode of intervention at the State level has been the debt data reconstruction (DDR) exercise which has been completed in all 36 States and the Federal Capital Territory. Furthermore, the DMO has assisted the States in developing the necessary supporting legislation; by mid-2013 eighteen States had enacted one form of legislation or the other (eight States have an operational Public Debt Management Law, eight States have a Fiscal Responsibility Law (FRL), and two States have passed both laws). Fifteen States have commenced the process and are in different stages of completion (three States have passed the FRL and are awaiting executive assent, eight States have presented draft legislation to their State assemblies, and four States have drafted legislation).

DDR exercises have become an effective platform to construct debt data and overcome the dearth of reliable statistics on domestic debt liabilities at the sub-national level. DFID-funded project support enabled DMO to provide assistance to

[19] The Phase III PCR reviewers met in September 2011 with representatives of DMDs of four states (Abia, Bauchi, Kogi, and Osun). These states were at different levels in terms of progress in institutionalizing debt-management best practices. They were all highly appreciative of the work performed by the DMO in helping them establish and build debt management capacity in their respective states. In February 2013 the reviewers met with representatives of DMDs of three additional states (Ebonyi, Kaduna, and Ogun--Ebonyi and Kaduna states have received support under the DFID project, and Kaduna has also received DFID support under SPARC). These representatives noted the contribution of DMO to their respective DMDs and indicated that they would be prepared to pay for service rendered by DMO in the future.

States to collate, reconstruct and record the various types of domestic debt obligations. Such efforts provide a solid footing for assessing Nigeria's overall debt sustainability (covering both Federal and State-level liabilities). Over time, the regular availability of accurate debt statistics would be expected to provide an important platform on which States' debt markets can thrive. Specifically, the DDR brings the following benefits:

- providing beneficiary States with access to necessary data for strategy formulation, planning and development, including the incorporation of the external debt data of the State in the unified State Debt data base;
- facilitating the generation by the Sub-national government of appropriate debt reports to enhance the both the Sub-national and Federal Government's planning and budgetary assignments;
- promoting the incorporation of sub-national debt sustainability analysis (DSA) in the overall national DSA.

Post-DDR exercises at the State level are aimed at ascertaining the progress made so far by the State DMD in maintaining the reconstructed Domestic Debt Database and examining challenges confronting the DMD in updating and reporting debt data to facilitate fiscal policy formulation and implementation.

The DMO with the support of donors and in consultation with States' representatives developed sub-national borrowing guidelines, including on-lending, and Federal Government guarantees, and key stakeholders have been sensitised and educated on their specifics.

By mid-2013, the DMO had prepared for the first time a comprehensive table of domestic debt stocks of all States (as of end-2011) and placed it on its website; going forward, DMO plans to produce updates every six months.

In another sign of growing confidence in Nigeria's bond market at the sub-national level — in part a consequence of the DFID support to DMO, Fitch Ratings has raised its outlook on Lagos State to positive from stable, citing "improving debt management" and moves towards a balanced budget by 2015. Increasingly, bonds with fixed repayment schedules, longer maturities and monthly provisions into the debt reserves fund, have replaced the traditional concentration of short-term bank loans for Lagos State. Lagos State Government sold N80 billion ($505 million) of debt last November, its third and biggest issue in six years, to fund developments including an urban rail system that needs about $1 billion to complete. The seven-year notes were priced with a 14.5 percent coupon.

## Impacts

### Economic performance

The broad economic impact of institution building in the establishment of the DMO (and DFID support to it) can be summarised as follows:

- The improved debt management framework that the DFID project has helped the DMO in developing, compliant with international good practice, is a critical ingredient for improving macroeconomic performance in Nigeria.
- DMO's sound debt management policies have helped create an enabling environment for promoting investment and growth.
- Sound debt management has also enhanced the government's credibility as a reformer and has contributed markedly to enhancing Nigeria's creditworthiness – in November 2012 S&P upgraded its long-term foreign and local currency sovereign credit rating of Nigeria to BB-, three notches below investment grade, from B+.
- The increasingly prominent role played by the DMO in debt and wider economic management in Nigeria (including its involvement in verification and reconciliation of fuel subsidy payments and in the Sub-committee on the development of coal as source of power generation).

In assessing the impact of a well-functioning professional DMO on the economy a key question is that of attribution. Two uncertainties stand out: first, many factors other than the price of debt affect economic growth; and, second, in determining the price of Nigeria's debt instruments the market is considering, inter alia, the price of oil, prudent financial policies and other reform measures carried out by the economic team headed by the CME and Minister of Finance and the CBN Governor. Nevertheless as an integral part of a more favourable policy context, part of the improvement can be attributed to stronger debt management.

### The 2005 debt relief deal

Aligning the DFID-supported project with the top national priority of the Obasanjo administration, Phase II centred first on obtaining debt relief --- the reduction of Nigeria's external debt, with Nigeria's exit from the Paris Club in 2005 reducing its official debt by some US$30 billion (from $35 billion to $5 billion) through a combination of US$18 billion write-off and a US$12 billion payoff of the remaining balance. The London Club resolution for private creditors was also successful, with a cash payoff of US$1.5 billion and an exchange of notes for the remaining US$0.5 billion. Following the 2005 deals, there were no arrears on Nigeria's external obligations, and data on stocks and flows of debt were available on a real time basis.

DMO management and staff, with technical and political support from DFID and the UK government more widely, were instrumental in preparing the necessary documentation and statistics for the debt reliefs of both the Paris and London Clubs. In this context they played, together with DMO, an important role in overcoming domestic resistance to the debt relief deals by helping to explain their merits to the National Assembly and the media. In this vein they, with others in government and elsewhere, assisted in the development of the concept of the virtual poverty fund whereby US$1 billion of debt service savings would be channelled to priority sectors with a view to meeting the MDGs. This went some way to persuading official international creditors of the value of the debt relief deal as a means of promoting development and reducing poverty.

Success bred success. The debt deals provided DMO's management and staff with a major boost to their morale and reputation, and enhanced their motivation to become a highly professional institution. Their energies then shifted to developing capacity in managing the domestic debt.

### Nigeria's access to capital markets

In January 2011 Nigeria issued a US$500 million 10-year Eurobond, ostensibly to benchmark the price of the country's debt in the international capital market and thus facilitate the private sector's access in raising financing for capital projects in the future. The bond issue, which had to be delayed because of unfavourable international market conditions, was successful—it was oversubscribed and the yield has come down since the issuance. In fact, the yield on these bonds has declined from 6.7 percent in early 2011 to 4.7 percent in mid-2013, below the yield on similar instruments of several EU countries.

The DMO is conducting an annual in-house Debt Sustainability Analysis (DSA) consistent with the IMF-World Bank framework (the most recent one for 2012 has results very close to that of the IMF-World Bank) but the exercise does not yet cover contingent liabilities or PPP, as the framework of contingent liabilities (including PPPs) is not yet completed. DMO is collaborating with the Infrastructure Concessioning and Regulatory Commission (ICRC) to develop a framework for infrastructure financing including through PPPs.

The Federal Government, as part of its debt management strategy of achieving a target ratio of 60 percent domestic debt and 40 percent external debt raised US$1 billion on the Eurobond market in July 2013; the issue was four times over-subscribed. Approvals to issue the Eurobond and a US$100 million Diaspora Bond have been secured. In addition, to attract more foreign investors to participate in the domestic bond market, the Government plans to issue ₦80billion (about US$500m) of FGN Bonds in Global Depository Notes (GDN) format.

Nigeria's debt-to-GDP ratio rose with the expansionary fiscal policies since 2007 but is being maintained at a sustainable and enviable level of 20 percent as at mid-2013 (from 12 percent in 2006 and 15 percent in 2009). The emphasis is on concessional borrowing and the DMO continues to focus on maintaining debt sustainability at well below the 40 percent overall benchmark, while the share of external debt has been kept at below 15 percent.

In sum, sound debt management, supported by the DFID-funded project, has enhanced the government's credibility and has contributed markedly to enhancing Nigeria's creditworthiness, as evidenced by the S&P upgrade of Nigeria's long-term foreign and local currency sovereign credit rating noted above.

## How sustainable is the improvement?

The DMO's recently-completed 2013-17 Strategic Plan charts the road ahead, and DMO management has expressed its confidence that the Office will be able to continue operating unhindered. Indeed the sense of ownership and professionalism by DMO management and its business-like approach, as well as the momentum of training and capacity building, provide a sound basis for the future after the end of DFID support in March 2013.

The principal questions arising around the sustainability of what has been done are financial, managerial and political.

Financially, the large share that DFID support (₦160 million) represented in relation to the DMOs own budget (₦300 million), is a cause for some concern on DMO's ability to continue to carry out all its functions. In particular, DMO's valuable but costly work on sub-national debt may run the risk of having to be scaled back; fortunately, AfDB and the World Bank have indicated that they would be prepared to support PFM-related work at the sub-national level. It can be argued that the DFID project has supported "capital spending"—that is, capacity building and infrastructure -- and going forward maintenance will be required. Hence, DMO graduation from the DFID supported programme is timely as it continues to manage Nigeria's public debt and related activities.

DMO will have to prepare a business plan and begin to cover costs of operations, and to consider additional sources of income, with or without the passage of the DMO Amendment Act part of whose purpose is to increase the DMO's financial flexibility, but which has made little progress through the National Assembly. There is therefore a need for vigilance and careful management of the transition. While there is currently no good argument for continued external support to DMO's routine functioning, there is a case for development agencies to provide targeted support to DMO over the medium term as specific needs arise; in this regard the DFID-supported SPARC programme which works on governance (including PFM) at State level may consider subcontracting work with States on debt management to the DMO.

A management priority for DMO, in order fully to consolidate the gains in institution-building, is to ensure that it operationalises the recent strategies and structures. In particular it should: begin applying the MTDS's new risk management techniques; develop capacity to analyse the yield curve; apply the training received in contingent liabilities and PPP in coordination with other government agencies; and implement the recommendations of the communications strategy and establish stronger lines of communication with foreign investors. It should also build on the framework of sub-national debt and budgetary data to develop a capacity to utilize budgetary data from all States in order to arrive at a consolidated fiscal position of the Federation (in coordination with MoF and CBN). On the positive side, there will be continuity in the management of the DMO with the recent re-appointment of the DG to a new five-year term.

Politically, there are good signs from the statements and writings of senior leaders, and from the re-appointment of the present DG, that political support for rigorous debt management continues. The likelihood that the run-up to the 2015 election may see weakened fiscal rigour is therefore to be noted, but is not necessarily a source of major concern from the perspective of debt management. A "real" stress test in just such a situation showed encouraging results: during the period 2007-11 when commitment to the reform programme weakened considerably, key reforms were reversed and fiscal policy became highly expansionary, the DMO made tangible progress in enhancing its technical capabilities in debt management. Also on the positive side, the fact that Nigeria's government bonds are now included in the indices of emerging markets could act as a disincentive to reducing the DMO's budget or any other action or inaction that would weaken the Office and again undermine Nigeria's international reputation.

While good progress has been made with embedding stronger debt management at Federal level, the various individual States will no doubt vary in the future in the extent to which they use their autonomy to engage in borrowing. The possibility of some States taking on too much debt cannot be excluded.

## 5. What explains successes and failures?

### Overview

One analyst suggests that success in institution building in Nigeria's public sector has been largely limited to several specialised agencies[20], of which the DMO is one. Where success has occurred, it has been a result of the confluence of four major factors, four Ps — Power, Pressure, Passionate leadership, and technical Professionalism[21]. Among initiatives to support capacity development internationally, it is unusual, although not unknown, for these factors to come together. Some, of course, are substantially under the control of those designing and implementing technical assistance programmes. Others are not.

In the case of the DMO, these four combined in the following ways.

High-level political power (mainly internal, provided by President Obasanjo, but supported internationally) had interest in making progress on the issue. This was reinforced and sustained by widespread pressure (from popular opinion, the media, and the National Assembly) to resolve the debt issue one way or the other. The political momentum created two crucial pathways forward. First, it enabled opposing interests to be sidelined or overcome, whether (a) those within the public service who opposed the setting up of the DMO as a semi-autonomous unit, or (b) those voices, including within the National Assembly and media, opposing Nigeria's repaying any of the foreign debt. Second, it also motivated, initially from 1999 and then particularly during the 2003-07 reform period, the appointment of strong leadership at national level (the Minister of Finance and the Economic Reform Team) and within the DMO (notably the three committed and capable D-Gs) and ensured they were given the support they needed. This favourable context, combined with the quick win of the 2005 debt deal, created local ownership and high expectations

[20] Abah (op.cit.)

[21] The first three of these were suggested to us by Joe Abah. This conclusion was also informed by conversations with Ifueko Omoigui Okauru (former Executive Chairmen of the Federal Inland Revenue Service) and with team member Prof Dora Akunyili (former DG of NAFDAC, the food and drug regulator). Both of these are considered atypically effective agencies. Prof Akunyili's account of the success factors in the case of NAFDAC are written up in her book 'The War Against Counterfeit Medicine: my Story', Safari Books, Ibadan, 2010.

conducive to the mobilising and use from Nigeria and outside of professionally high-grade and flexibly-managed personnel able to build technical capacity. Although after the debt deal and from the run-up to the 2007 election, political focus, fiscal rigour and active prioritisation of debt management weakened, the DMO by this time had a budget and sufficient leadership and technical strength to continue to progress. External technical support was provided for long enough, fifteen years, to help create sufficient strength in depth for the prospects for long-term sustainability to be favourable.

The four Ps are elaborated below.

## Power

Powerful interests supporting the initiative to strengthen debt management were both internal and external, of which the internal were the more game-changing. President Obasanjo determined to end the humiliation of Nigeria's pariah status, of which debt was a part, and to achieve the new vision of a proud and democratic country. He also understood that in order to re-ignite economic growth and benefit from capital inflows Nigeria needed to re-join the international economy which would require that the country regularizes its external debt and clears its large stock of arrears. He thus made a debt relief deal with Paris Club creditors a top priority of his first administration, but realised that the deal depended on improved debt management. However, his determination notwithstanding, the President did not during his first term appoint an economic team committed to economic reform and macroeconomic stability, and the quest for debt relief remained elusive until his second term.

Externally, certain strong interests wished the newly democratic Nigeria to succeed, politically and economically. Four influences may be noted. First, the events of 9/11 focussed western governments on two issues present in Nigeria: radical Islam, and unregulated financial flows, addressing both of which required a well-functioning Nigerian state. Second, the adoption in 2000 of the Millennium Development Goals focussed the international community on what was needed for growth and poverty reduction --- and without progress in Nigeria, much the most populous African country, the continent as a whole would be unlikely to achieve them. Third, specific to the UK, links of having a Nigerian diaspora in Britain (and the wish to avoid large-scale distressed migration), a shared history, and commerce, not only made Nigeria's success desirable, but also gave the UK a set of instruments that allowed it to engage effectively. Both the then UK Prime Minister, Tony Blair, and the Chancellor (Finance Minister), Gordon Brown, of the Labour government elected in 1997 had developed high-profile roles in international initiatives to resolve debt problems and to support Africa. Fourth, Paris Club creditors had the incentives to secure repayment of at least part of what they were due, and in the event received $12 billion as a result of the debt deal.

## Pressure

At the same time, domestic public pressure, including from the National Assembly, the press, business interests and ordinary citizens to improve economic relations with the rest of the world, to remove the stigma of a pariah state, and to produce a "democracy dividend," helped to create a conducive environment for action on the debt front[22]. Thus, the President accepted the recommendations of his then short-term advisor, Dr. Okonjo-Iweala, to establish an autonomous DMO as the most effective way forward. Strong political support from the President combined with its ability to overcome resistance at home, enabled the government to pass the necessary legislation for the establishment of the DMO with its own budget and a pay scale higher than that of the civil service.

Internationally, the support from some powerful interests noted above was reinforced by pressure from civil society campaigns on debt, notably Jubilee 2000.

## Passionate leadership

The lack of progress on a debt deal during 1999-2003, despite ceaseless lobbying by President Obasanjo with world leaders, motivated him to appoint a strong pro-reform economic team for his second term and give it the necessary backing. The establishment of a positive track record of sound macroeconomic policies and the initiation of meaningful structural reforms helped the IMF and the World Bank to support Nigeria's quest for debt relief. The IMF in particular showed flexibility in developing a new instrument (the Policy Support Instrument) which enabled it for the first time to argue for debt relief for a country which had not committed to an IMF stabilisation programme. Instead, the IMF accepted that Nigeria's home-grown NEEDS programme met the necessary criteria, provided the IMF was involved in monitoring its implementation.

Within the DMO the three DG's all shared a sense of urgency. Continuity was enhanced by the second and third having been deputies under their predecessors. The appointment of the first DG (2000-03) who shared the President's passion for a debt deal helped the DMO, with donor support, to develop capacity to record and consolidate external debt data. His successor (2003-07), who was a member of the Economic Management Team, further enhanced the visibility of the DMO and enabled it to play an important role in the preparations for the Paris Club debt deal, thus improving the staff's technical skills and increasing their exposure to international debt issues. The debt relief deals of 2005-06 with both the Paris and the London Clubs gave a major morale boost to the DMO. A third DG, also a strong personality, has served since 2007, and has been recently reappointed until 2017.

## Technical Professionalism

Politics and leadership combined to create the possibility of building and sustaining strong technical capacity. Crucially for staff development, the successful units in the public service have had a measure of autonomy with their own budgets and more control over staffing than does the mainstream civil service.

[22] This factor was stressed in Prof Akunyili's book in relation to NAFDAC: '...I was pressured into action by the vibrant Nigerian press that was as impatient as the public to see changes in the system' (p. xiv.)

More specifically, the autonomy of the DMO, with its own budget and a more attractive pay scale, enabled it to attract, train and retain able candidates. Had debt management in Nigeria been constituted as a department in the Ministry of Finance it stands to reason that it would have suffered the same fate as other specialized departments in the ministry (such as the Budget Office) in which staff receive professional training only to be rotated to other ministries. The value of this autonomy was seen in 2003 when the work on a debt deal shifted to a higher gear, and the DG was able to replace some 60% of the staff of the DMO who were not up to the job[23]. Many were sent back to their original units in the government and others were dismissed. Such action would have been most difficult if not impossible had the DMO not been autonomous.

The importance of the DMO's continuity of management, with only three DGs since 2000, all of them insiders in debt management, has been noted. These competent managers, who possessed technical skills in the nuts and bolts of debt management have also been apolitical, which further enhanced their effectiveness in dealing with the National Assembly and with State governors. This record is most unlikely to have been possible without the operational autonomy enjoyed by the Office.

In sum, an enabling political and institutional environment, competent managers who charted a vision and strategic plans, and assumed full ownership and were able to motivate staff, were all important building blocks in institutional development for managing Nigeria's debt. A further factor was flexible and largely demand-driven long-term technical assistance.

## The role of external technical assistance

Building on competent leadership with a strong sense of ownership, external TA contributed importantly to building capacity for debt management.

In 1998, when the public debt functions were spread in seven government agencies and there was chaos in managing the debt data, initial efforts to provide TA, though reportedly helpful as far as they went, were inadequate to the scale of the task. In October 2000 when the DMO was established, it did not have a budget (its creation fell between two fiscal years). Fortunately DFID was able to provide initial budgetary support to allow the DMO to begin functioning. As noted in section 3 above, the aid progressively became more structured, forward-looking and directed to longer-term aims of institutional development. The professionalism of the Crown Agents resident experts embedded in the DMO and their effective interpersonal skills were instrumental in establishing a highly effective relationship with the DMO management. The support evolved over time, from being supply-driven in the early phase (which subsequently became known as Phase I), impelled by the pressure to reconcile the external debt data and develop an automated recording system in order to get ready for the Paris Club.

Following the 2005 debt deals, with the shift of focus to institutional development, DFID-funded support became more consultative and more demand driven.

[23] Team interview with Mansur Muhtar

Highlights of the support included the revamping of the DMO's operational structure to align it with the world's standard best practice of delineating the organization into front, middle and back offices, including training and HR and ICT systems implementation; and resuscitation of the FGN bond market after 18 years of inactivity. DFID also supported DMO's vigorous pursuit of improved sub-national debt management, through assistance in encouraging the States to set up Debt Management Departments and in reconstructing their debt data. During this period DFID also supported two consecutive ODI embedded fellows to further supplement the Crown Agents advisors in the middle office. These individuals appear not only to have brought high levels of competence, but successfully to have established relationships of trust with the DMO's management[24].

The management of the TA support included periodic Project Steering Committee (PSC) meetings where DFID Economic Advisors, Crown Agents, and DMO management would review progress and coordinate support for the period ahead. Such PSC meetings were valuable in providing a forum for flexibility in reprioritizing planned activities to ensure that the changing needs of the DMO were taken on board as and when appropriate.

The mode of intervention of Phase III, consisting of a non-resident Crown Agents Project Manager and a resident Nigerian DMO staff member as Project Coordinator on the ground, while risky ex ante, enhanced ownership and enabled the support to be applied more flexibly and be more closely linked to DMO's priorities and needs. This compensated for the initial cost concerns and attendant delays that were experienced in the early part of Phase III.

In summary, several factors specific to the way in which the TA support was provided contributed to the progress made. **First**, the recipient has had ownership, and the support was largely demand driven, consistent with international good practice but adapted to the country and institutional conditions. **Second**, TA was flexibly provided within the DMO's overall strategies. Other TA providers who offered the DMO what was seen as rigid "one size fits all" support did not have traction and were forced to disengage. **Third**, support for institution building was provided over a long period. Nigeria's debt problem could not be resolved with a one-off capacity building programme in debt recording, but required a debt management strategy and a strong DMO to carry it out. External support was provided for fifteen years, long enough to help create sufficient strength and depth such that prospects for long-term sustainability are favourable.

## 6. Wider lessons

The lessons emerging from this experience relate to the four success factors discussed above: power, pressure, passionate leadership and technical professionalism. The lessons are discussed under two headings: the broader approach to capacity development; and those specific to programme design and implementation. Some of these are more relevant for the government of the country concerned, and some for development agencies.

[24] Team interviews with DGs.

## Broad approach

Lessons are:

- In determining where to invest in capacity development, agencies will best give priority to those (unfortunately sometimes rare) cases where, as with Nigeria's debt, those with power have (or might develop) a clear interest in progress. Where this alignment of interests is not clear, careful analysis of the motivations and incentives facing those with power may be called for.
- In those cases where power is not obviously supportive of reform, agencies will need to decide whether (a) to seek to expand the reform space by helping to shift incentives (often an unrealistic option), (b) to make the most use of what room for manoeuvre does exist, or (c) to avoid getting involved at all.
- As Nigeria's return to democracy showed, wider public opinion (as expressed inter alia through the media and the National Assembly) will often be a significant factor influencing the context for reform, and the incentives facing those with power. Communication strategies to help create an informed public opinion will be an important dimension of building and sustaining pressure for reform.
- The DMO has benefitted from quality leadership with little turnover. In part this is because the DGs were appointed on merit rather than for political reasons, reflecting President Obasanjo's determination to create an institution that is 'virile, dynamic, strong, and can deliver the goods' (Box 1). The re-appointment of the present DG is encouraging, but in the longer term, under different national leadership, there is always the risk in Nigeria that appointments may come to be made on political grounds.
- Improving debt management in Nigeria was based on using international good practice, but tailoring its application to local conditions. In this case, debt management software and the structure adopted for the DMO (into front, middle and back offices) were substantially based on off-the-shelf global models (though the front office was subsequently divided into three to reflect Nigeria's priority tasks); but creating the DMO as a stand-alone unit was a recognition of Nigerian conditions, as it could not work effectively within the civil service mainstream.
- Reformers need an awareness of obstructing interests, and a tactical sense of how these may be addressed. In this case, the early political momentum allowed these either to be confronted and overcome (those who believed Nigeria should default on its debts) or sidelined (elements within the civil service who did not favour the DMO being set up as an autonomous unit). The alternative to setting up a separate unit was seeking systemic civil service reform, an approach that (given the deep roots of dysfunction within the Nigerian public service) was not practicable if the debt issue was to be resolved in a reasonable period of time. More recently, however, DFID has initiated a programme, FEPAR, which seeks to support wider reform.
- This is an instance where the UK government usefully tied together instruments of politics, aid and diplomacy, enabling the UK to lead international efforts to support Nigeria's reform, helping to create a critical minimum mass of other governments and multilateral agencies.

- Though these reforms were domestic, there were important international dimensions which provided entry points for international partners.  Not only was external political support essential for the debt relief deal and for specialist technical assistance, but President Obasanjo and other key reformers were motivated in part by their own awareness of Nigeria's dismal reputation, an awareness perhaps developed when they were abroad in exile or simply as part of the diaspora. Funding by DFID and other agencies that encouraged or enabled expatriate Nigerians (including the present Minister of Finance and the second DG of the DMO) to return, while contentious, contributed significantly to the impetus of reform.
- Internationally, civil society involvement and pressure (notably the Jubilee 2000 campaign on developing country debt) also reinforced official support for resolving Nigeria's debt.
- Creating a virtual poverty fund with some of the money saved by Nigeria was a useful device for broadening the international appeal of debt relief by linking it more obviously to the MDG agenda, and softening the image of debt as an abstract and hard-to-sell issue.
- A quick and very major win – the 2005 debt deal --- raised ambitions and lent credibility both to Nigeria's wider reforms and to sustaining improved debt management --- though unfortunately the wider reform agenda (if not debt management) lost momentum in the run-up to the 2007 election.
- This is a case of transformational change.  It is more possible in a specialised small unit in a defined policy area, where creating a semi-autonomous agency is an option, than in the case of broad systems change, for instance to the civil service as a whole.  Nevertheless the latter remains extremely important, if elusive, in Nigeria, and is the focus of another DFID-funded programme.
- Given that Nigeria is not an aid-dependent country, this is a good example of how international agencies can support domestic reform that helps the partner country make better use of its own resources.  The case is of potentially wide relevance given that many developing countries are now becoming less aid-dependent.
- The progress made in capacity development means that prospects are favourable for sustainability, although the main determinants will be political rather than technical, meaning that there can be little room for complacency, especially as over time memories are fading of Nigeria's disastrous experience of over-indebtedness.  While the main risks are political, there are also financial and technical dangers: for instance, the DMO's expanding tasks might lead to technical overstretch and unfunded mandates which could combine to undermine it[25].  There is also the possibility of individual States becoming over-indebted.  While this cannot altogether be excluded the greater transparency being created may help to guard against it.

[25] This danger is noted in 'Capability Traps?  The Mechanisms of Persistent Implementation Failure,' Lant Pritchett, Michael Woolcock and Matt Andrews, Centre for Global Development, Working Paper 234, December 2010. See p. 40: 'What happens when organisations undertake, or are mandated by law or policy to undertake, activities whose implementation creates higher levels of stress than the organisational capability can withstand?  This can induce a rout --- a collapse of organisational coherence and integrity, such that agents cease to exercise even what individual capacity they have to pursue the organisation's notional or stated goals.'

## Programme-specific

Other lessons are more specific to the design and implementation of the technical assistance programme:

- A strength of the approach to implementation was consciously to have promoted ownership of the programme by the Nigerian partner organisation, and to have provided support in line with expressed need. This took various forms, for instance: (a) supporting the DMO in developing its own strategies, and using these as the framework for the programme's logframe (working within DMO's strategies gave flexibility to programme managers without losing strategic focus); and (b) withdrawing the resident programme manager from Nigeria for Phase III, with a DMO staff member taking responsibility for coordinating the programme. Sometimes the Nigerian ownership gave rise to difficulties, as when in DFID's view DMO spent too much on a particular event, but in net terms the approach was clearly right.
- The programme was allowed considerable flexibility to modify its priorities and activities as events unfolded --- it was far from a box-ticking approach. Two instances may be noted:
    - it provided assistance beyond the immediate tasks of debt management per se, thus contributing usefully to wider national goals and helping to build supportive networks for the programme. For example it indirectly supported activities of the second DG (who was part of the high-level Economic Management Team) as he played a central role in drafting the crucial Fiscal Responsibility Act; and
    - it switched resources from supporting the National Assembly to supporting States in strengthening sub-national debt management as the latter task came to be seen to be more important.
- One dimension of flexibility in programme management was timeliness and speed of response to emerging needs, a characteristic in Nigeria that DFID is widely held to possess more than other development agencies, and that is one of its comparative advantages[26].
- Concern is sometimes expressed that DFID's emphasis on a results agenda – delivering measurable impact within a set time-frame --- is not consistent with the flexibility needed to implement institutional development programmes that are locally-owned in politically complex contexts. In the case of this programme, the main point to make is that the results achieved could in part be ascribed to a willingness among all parties to build flexibility into programme management.
- DFID funding for the programme was provided over a time scale, fifteen years, that was long enough to permit real institutional development. Such a long period is unusual for support to a specific unit --- it is perhaps more common for support to very broad system change such as public financial management, or civil service reform. The review team's view is that 2013

[26] This finding is consistent with another recent review of a DFID programme in Nigeria 'Policy Development Facility, Annual Review, 2012,' Alex Duncan and Dr Hakeem Baba-Ahmed, July 2012

was the right time to end core support for the DMO. Even two or three years ago might have been too early.

- The importance of the Government, and DMO, ensuring the financial challenges of the end of DFID support are met has been noted. It is right that DMO's routine functioning be funded by Government. However, especially as the DMO takes on new functions, notably in supporting States, there is a case for a mechanism to ensure the necessary funding is available, without undermining the prime responsibility of government through its budget to provide for debt management.
- The time-scale, and the approach of those providing technical assistance, whether from Crown Agents, or the two ODI Fellows, enabled relationships of trust to be built, the evolving needs of the organisation on the ground to be understood, and ownership by DMO management to grow.
- Turnover of DFID's professional advisers was more rapid than is desirable. This was largely offset by continuity on the part of Crown Agents staff, and the fact that the programme went well without the need for sustained hands-on attention from DFID.
- Links with other DFID-funded programmes were significant but could have been stronger. The two ODI Fellows based in the DMO who were DFID-funded performed well; and while DFID funding for returning diaspora individuals was contentious, it certainly helped to improve debt management. Links to the SPARC programme could be stronger at State level, recognising that debt management is part of public financial management, a core element of SPARC's work). Such cross-programme collaboration within DFID's Nigeria programme is unfortunately in practice not straightforward, in good measure because the incentives facing programme managers are not conducive to it.
- Finally, UK-funded assistance to the DMO was low-key and largely 'un-badged', to the extent that even some people active in the finance sector who were interviewed by the review team were unaware of it. While this low profile role may not be ideal from the perspective of domestic UK politics where DFID may seek recognition that its aid is effective, it had the merit of helping to strengthen Nigerian ownership of the debt management initiative.

Annex

## People interviewed

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|---|---|
| HE President Olusegun Obasanjo | Former President |
| Dr Ngozi Okonjo-Iweala | Coordinating Minister for the Economy and Minister of Finance |
| Senator Udo Udoma | Former Senator, and Chairman of the Appropriations Committee |
| Dr Abraham Nwankwo | DG, Debt Management Office |
| Asma'u Mohammed | Director of the Strategic Programmes Department, DMO |
| Nasir Mamoud | Team Leader, External Support, DMO |
| Dr Mansur Muhtar | Executive Director, World Bank; Former DG, DMO |
| Akinlose Arikawe | Former DG, DMO |
| Richard Montgomery | Country Director, DFID |
| William Kingsmill | Former Country Director, DFID |
| Paul Spray | Former Country Director, DFID |
| Arunma Oteh | DG Securities & Exchange Commission |
| Kyari Bukar | CEO, CSCS, SEC |
| Ifueko Omoigui-Okauru | Former Executive Chairman, Federal Inland Revenue Service |
| Richard Fox | Fitch Ratings |
| Olufunsho Olusanya | Executive Director, Treasury and International Banking, FSDH |
| Dr Joe Abah | Director, SPARC |
| Sotubo Oladele George | Stanbic IBTC |
| Dev Useree | Programme Manager, Crown Agents |
| Martin Alsop | DFID, former ODI Fellow |
| Giulia Pellegrini | JP Morgan, former ODI Fellow |