Sovereign Debt News Update No. 171: Nigeria to Explore a $5 billion Total Return Swap with UAE Bank

By:

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Nigeria is once again at a critical juncture in its debt trajectory, as mounting fiscal pressures, rising borrowing costs, and constrained access to conventional financing channels push the government toward increasingly complex and opaque instruments. Recent reports indicate that Nigeria is considering a $5 billion Total Return Swap (TRS) arrangement with First Abu Dhabi Bank, marking a significant shift in its debt management strategy. This development must be situated within a broader pattern of an increasing appetite for this credit derivative in the form of Total Return Swaps. Both Angola and Senegal have in the recent past also been reported to have entered into Total Return Swaps. These developments point to a deepening reliance on financial engineering solutions that may provide short term liquidity but carry significant long-term risks for fiscal stability and public accountability.

Nigeria’s Proposed Total Return Swap: Structure, Rationale, and Timing

The proposed $5 billion Total Return Swap reflects Nigeria’s attempt to navigate increasingly expensive global credit markets, where rising interest rates have made traditional Eurobond issuance less attractive. Under this arrangement, Nigeria would effectively exchange the returns on certain assets, reportedly linked to its sovereign bonds, with a UAE lender in return for immediate financing. Government documents submitted to the National Assembly indicate that the facility will be secured by Naira-denominated securities (with a value of up to 33.3% above the loan amount) as collateral in exchange for dollars. This would be accompanied with an obligation to post dollar margin calls if the value of those securities decline, effectively providing lenders with a substantial risk buffer.

The financing is structured to be disbursed in multiple tranches over a six-year period and includes a three-year break clause that allows for early reassessment or exit under specified conditions. Pricing for the initial tranche is set at SOFR plus 3.95%, with a slight increase to 4% for subsequent tranches, levels that officials argue remain relatively competitive when compared to prevailing Eurobond yields. The agreement also introduces currency and market risk exposures, as Nigeria would be required to make payments in dollars if the value of the pledged collateral declines, while any excess value arising from favourable movements would be returned to the government.

This structure allows the government to access liquidity without issuing new debt in the conventional sense, thereby potentially avoiding immediate increases in reported debt stock. However, as has been observed in similar cases, such arrangements often obscure the true extent of sovereign liabilities and shift risks into less transparent contractual frameworks. Reports suggest that the timing of this deal is closely linked to Nigeria’s deteriorating borrowing conditions, as investors demand higher yields amid concerns over macroeconomic stability and reform implementation.

Legislative Approval and Concerns Over Oversight

On the 24th of March 2026, President Tinubu sought legislative approval to establish the to $5 billion Total Return Swap external financing programme. The

request was made in line with Sections 21(1) and 27(1) of the Debt Management Office Establishment Act, 2003, which require National Assembly approval for external borrowing arrangements. By the 31st of March 2026 (exactly a week later), the National Assembly had approved the $5 billion external loan request. This has further intensified concerns about the adequacy of legislative oversight in Nigeria's debt accumulation process. The approval, granted on the 31st of March 2026, adds to an already substantial external debt burden and raises questions about the criteria used to assess the necessity and terms of new borrowing.

As of 31 December 2025, Nigeria's public debt stock stood at US$110.3 billion (approximately ₦159.2 trillion). Critics argue that the legislature has increasingly acted as a rubber stamp rather than a robust check on executive borrowing decisions, thereby weakening democratic accountability. This concern is echoed in commentary highlighting the risks of *"rubber stamping the future,"* where rapid approvals of large scale borrowing requests may lock the country into unsustainable debt dynamics without sufficient scrutiny of their developmental impact. According to one source, the Senate's debt committee approved the package in under four hours without disclosing pricing terms, duration or margin-call thresholds.

In addition to the proposed swap arrangement, the National Assembly also approved a US$1 billion export credit facility backed by UK Export Finance and arranged by Citibank (London Branch). The loan is reportedly tied to infrastructure projects, particularly the reconstruction and rehabilitation of the Tin Can Island Port and the Lagos Port Complex and is expected to carry terms typical of export credit arrangements, including longer maturities and some concessional features. However, as with the broader package, detailed disclosure on pricing and repayment conditions remains limited, raising concerns about transparency and the adequacy of parliamentary scrutiny.

Debt Sustainability and the Question of Productive Growth

The approval of new borrowing and the exploration of complex instruments such as Total Return Swaps must be assessed against Nigeria's capacity to translate debt into productive growth. Ecofin Agency notes that Nigeria's new $6 billion external borrowing will serve as a test of whether ongoing reforms

can generate the economic returns needed to justify increased indebtedness. The central concern is whether borrowed funds are being channelled into investments that enhance productivity, expand the tax base, and support structural transformation, or whether they are primarily used to finance recurrent expenditures and debt servicing obligations. Without clear evidence of productive use, the accumulation of debt risks exacerbating fiscal vulnerabilities rather than alleviating them.

Opacity and Risk: Lessons from Angola and Senegal

The increasing use of complex financial instruments such as TRS by African countries requires to be monitored closely. A recent report notes that African countries are seeking greater support from global banks to bridge their funding gaps, reflecting a gradual shift from Eurobonds to credit derivatives. Nigeria's consideration of a Total Return Swap therefore follows similar explorations in other African countries, notably Angola and Senegal, where such instruments have been used to raise financing outside traditional debt frameworks.

Angola

As reported in AfSDJN's Sovereign Debt Update No. 162, Angola's experience with Total Return Swaps illustrates the opacity and risk inherent in such instruments, particularly when deployed outside traditional accountability frameworks. In December 2024, Angola quietly entered into a $1 billion one-year Total Return Swap with JPMorgan, backed by approximately $1.9 billion in sovereign Eurobonds, with the transaction unfolding without parliamentary debate, public disclosure, or the usual market signalling associated with sovereign borrowing. The structure allowed Angola to obtain immediate liquidity while delaying full debt recognition, as the financing amount was recorded as external debt, but the underlying swapped notes were treated as contingent liabilities until maturity.

As noted in the update, this arrangement effectively obscured the country's true exposure, with one observer describing it as "a discreet line" buried within technical debt filings. Subsequent developments further highlighted the risks, including collateral pressures and rollover decisions, reinforcing concerns that while Total Return Swaps may provide short term financing relief, they simultaneously introduce significant transparency gaps, contingent liabilities,

and vulnerability to market fluctuations.

Senegal

In March 2026, Senegal raised approximately €650 million (US$750 million) through an undisclosed arrangement. This means that there was no immediate disclosure, raising concerns about transparency and hidden liabilities. The International Monetary Fund (IMF) raised persistent concerns about transparency and the true scale of public liabilities. The Fund indicated it will treat these swaps as external debt for sustainability assessments, suggesting that despite their derivative structure, they carry debt like implications that cannot be ignored. However, Senegal has strongly defended this approach, rejecting claims that the borrowing was hidden or irregular. The Ministry of Finance has argued that the transactions were part of a deliberate strategy to *"diversify sources and instruments for raising funds"* and to manage the country's financing needs more efficiently. Authorities further maintained that the swap arrangements were conducted "in accordance with market transparency rules" and were in fact more advantageous than prevailing international market rates, reportedly carrying an interest rate of around 7.1%.

These experiences underscore the risks associated with Total Return Swaps, including the potential for significant financial penalties in the event of default and the difficulty of assessing the full scale of liabilities.

Stakeholder Reactions and Emerging Concerns

Reactions to Nigeria's proposed Total Return Swap have been mixed, with some analysts viewing it as an innovative response to constrained financing conditions, while others warn of the risks associated with increased opacity. Reports emphasize that such deals are often pursued precisely because they allow governments to circumvent traditional debt reporting frameworks, thereby avoiding immediate scrutiny from investors and oversight bodies. However, this lack of transparency can undermine investor confidence in the long term, as markets may become wary of hidden liabilities and contingent risks. Civil society organizations and policy commentators have also expressed concern about the implications for accountability, particularly in contexts where legislative oversight is already perceived as weak. The Bloomberg White Paper on the rise of Total Return Swaps highlights how these instruments can shift

risk to sovereign borrowers while limiting public visibility into contractual terms. While such engagement can facilitate access to capital, it also raises questions about the terms of financing and the balance of power between sovereign borrowers and private lenders. In the context of Total Return Swaps, this dynamic is particularly pronounced, as the complexity of the instruments can create information asymmetries that disadvantage borrowing countries.

Conclusion

The growing reliance on instruments such as Total Return Swaps highlights a deeper structural problem in the global financial architecture, where countries facing high borrowing costs are pushed toward increasingly complex and opaque solutions. While these instruments can provide short term relief, they often do so at the cost of transparency and accountability. The lack of standardized reporting for such arrangements makes it difficult for stakeholders, including citizens, investors, and policymakers, to assess the true extent of sovereign liabilities. This opacity not only complicates debt sustainability analysis but also undermines democratic governance by limiting public scrutiny of borrowing decisions.

Nigeria's current trajectory reflects a broader challenge faced by many developing countries, where rising financing needs and constrained market access drive the adoption of unconventional debt instruments. The proposed $5 billion Total Return Swap, combined with the approval of new external borrowing, signals an urgent need to rethink the balance between short-term liquidity and long-term sustainability. As the experiences of Angola and Senegal demonstrate, reliance on opaque financial instruments can create significant risks that only become apparent over time. Moving forward, there is a critical need for greater transparency, stronger legislative oversight, and a renewed focus on ensuring that borrowed funds are used to support productive and inclusive growth. Without these reforms, the turn to financial engineering solutions risks deepening rather than resolving the structural challenges facing Nigeria's public finances.

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