

# **GOMBE STATE DEBT SUSTAINABILITY ANALYSIS and Debt Management Strategy (State DSA-DMS)**

## **GOMBE STATE DSA-DMS REPORT**

**DEVELOPED BY THE  
DEBT MANAGEMENT OFFICE  
IN COLLABORATION WITH  
THE WORLD BANK**

**DECEMBER, 2021**

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# **Chapter One**

## **Introduction**

### **1.1 Background**

The State Debt Sustainability Analysis (S-DSA) Toolkit was developed by Debt Management Office, Nigeria and reviewed by the World Bank to analyze the trends and patterns in the State's public finances during the period of 2016 - 2020 while also evaluating the ability of the State to sustain its debt in the long term (2021 – 2030). The DSA carried out by Gombe State's Technical Team appraised recent Revenue, Expenditure, State Public debt trends, and related policies adopted by the State Government, while considering the policy thrust of the State. A sub-national sustainability assessment was conducted using baseline scenarios and sensitivity analysis in order to evaluate the prospective performance of the State's public finances going forward. The intention is to assist the Gombe State Government in striking a balance between the State's programs execution and new borrowings by utilizing recent trends in the State's public finances.

#### **1.1.1 Policy Objective**

The main purpose of Gombe State DSA-DMS is to assess the trends and patterns of public finances for the period 2016 to 2020 and evaluate Debt Sustainability and Debt Management Strategies of the State in 2021-2030.

The analysis highlights recent trends in revenue, expenditure, and public debt, and the related policies adopted by the State. A debt sustainability and debt management strategies assessment was conducted, including scenario, sensitivity analysis and debt management strategies, to evaluate the prospective performance of the State's public finances.

#### **1.1.2 Methodology**

The date of conducting the DSA-DMS of Gombe State is September 2021 and the tool kit used for the report is the World Bank/DMO DSA-DMS Template, while, the scope of data covered the historical period of 2016-2020 and the projection period of 2021-2030, and the participated agencies are; the Debt Management Office (DMO), Budget Office, the Treasury Office, State Bureau of Statistics and the Internal Revenue Service (IRS) of Gombe State.

### **1.2 Summary of Findings**

The State shows a medium debt position that appears sustainable in the long term. The medium debt position results from the State's average performance in terms of mobilizing Internally Generated Revenue (IGR) underpinned by the successful tax administration reforms introduced in May 2020, also worthy of mention is the Land Used Charge as a new revenue head embedded with motivators to reduce tax defaulters. The State controls its recurrent expenditure growth and reduces the level of its public debt due to the collapse of oil prices, COVID-19 pandemic and exchange rate fluctuations. Given the State's forecasts for the economy and reasonable assumptions concerning the State's revenue and expenditure policies

going forward, the long-term outlook for the public debt appears sustainable. Therefore the summary of findings is as follows:

**i. Findings on Revenue trend going forward mirroring National Revenue trend**

The State's Federal Allocation rose averagely by 40 per cent from 2016 to 2020, while the percentage of the Debt to State Gross Domestic Product (GDP) rose from 5 per cent in 2016 to 6 per cent in 2020, whereas IGR grew averagely by 15 per cent from 2016 to 2020.

**ii. Findings on Expenditure projection, 2020-2029**

State expenditure remained stable during the period. In 2016–2020, real aggregate expenditure grew by 29 percent, whereas, GDP to aggregate spending decreased from 5 percent in 2016 to 4 percent in 2020. Capital spending showed positive growth of 28 percent over the analyzed period, while recurrent expenditure registered a modest growth of 3 per cent. During the period, recurrent spending (personnel costs, overheads, debt charges) represent 66 percent of total spending on average.

**iii. Findings on Debt trend going forward**

Debt is projected to decline from N99.594 billion in 2020 to N48.522 billion in 2030. However, there is increase in the State's repayment capacity of the public debt to revenue from 2020 to 2030 (39.12% to 4.82%), while, debt service is projected to fall from N28.068 billion to N6.287 billion in 2020 to 2030. However, there is improvement from 2019 to 2029 in the State's repayment capacity of the public debt position to Revenue with an average of 26 percent. The analysis of the Baseline Scenario concluded that the State will be able to preserve the sustainability of its debt in the medium-term because it is within the limit of the threshold of 200 percent and 40 percent for debt and debt services respectively.

### **1.3 Overall Results**

The overall result of the State DSA-DMS shows a sustainable level in the economic activities of the State which include the revenue, expenditure, public debt and other related policies introduced by the State.

Based on the DSA-DMS Analysis template it is recommended that:

1. The State must improve its IGR and tie all leakages of revenue collections;
2. The expenditure must be cut to the dearest minimum level;
3. Public debt should be managed by reviewing the interest rate based on negotiation by the lending institution.

## **Chapter Two**

### **Gombe State Fiscal and Debt Framework**

#### **2.1 Fiscal reform in last 3-5 years**

The Fiscal Reforms being implemented by the Gombe State Government in the last four to six years include the Public Financial Management (PFM) and Human Resource Management (HRM) which are sub-divided into Budget reform, Audit reform, Public Procurement reform, Tax Administration reform, Civil Service & Pension reform and Land Use Act. These reforms led to the enactment of Laws that regulates implementation of Fiscal Policies in the State. The Laws are Gombe State Fiscal Responsibility Law (FRL), Amended, 2018; Gombe State Finance Management Law, 2017; Gombe State Government Financial Regulations and Store, 2017; Gombe State Public Procurement Law 2017, Gombe State Audit Law, Amended, 2021, and Debt Management Agency Law, 2021. The FRL for instance, provides for the creation of the implementation organ, medium term fiscal framework, how public expenditure should be carried out, borrowing process, transparency and accountability in governance and principles of sound financial management.

The State fiscal policy measures have been largely driven by the need to promote macro-economic objectives such as promoting rapid economy growth, creating job opportunities, and execution of capital projects that are critical to the economy. Although policy measures change frequently, these objectives have remained relatively constant.

The estimation of the State IGR is based on percentage taking into consideration the economic activity of the State, reform of revenue administration and the impact of COVID-19. Sequel to implementation of treasury single account, IGR projection in the immediate term are not expected to surpass 2021 approved estimate. However, actual collections are largely from traditional sources such as PAYE, fees, etc. It is believed that the current effort to establish taxpayer database by Board of Internal Revenue Service, the perfection of the TSA, executive management committee, cash to cashless policy, and technical support from development partners towards harmonization/review of tax rate and other efforts focused on blocking leakages and dealing with the phenomena of tax avoidance/evasion, the collection will improve. The Internal Revenue Service has introduced more revenue sources intended to boost inflows; therefore IGR is expected to grow annually in 2022 up to 2024. Also, the implementation of the Minimum Wage policy significantly impacts on personnel costs.

#### **2.2 Medium-Term Expenditure Framework and Fiscal Strategy Paper (MTEF/FSP) 2021 – 2023 and 2021 Budget**

##### **2.2.1 Approved 2021 Budget**

The 2021 Budget was prepared amidst a challenging global and domestic environment due to the persistent headwinds from the Coronavirus Pandemic. The resulting global economic recession, low oil prices and heightened global economic uncertainty have had important implications for our economy.

Based on the foregoing fiscal assumptions and parameters, the Gombe State total revenue available to fund the 2021 Budget is estimated at N107.266 billion. This includes Internally Generated Revenue, Statutory Allocation, Value Added Tax, Other Statutory Revenue, Domestic Grants, Foreign Grants, Opening Balance, Domestic Loans, Foreign Loans and Sale of Government Assets, respectively.

An aggregate expenditure of N124.346 billion is proposed by the Gombe State Government in 2021. The 2021 proposed Expenditure comprises, Debt Repayment (Interest and Principal) of N17.959 billion, Recurrent Expenditure of N62.628 billion, and Capital Expenditure of N61.6665 billion, respectively.

The main features of the 2021 Approved Budget in terms of financial outcomes for FY2021 and the fiscal policy strategies of the 2021 Budget and the 2022-2024 MTEF/FSP, regarding the revenue, expenditure and debt forecasts for the next years is in line with the State policy Statement which is based on its fiscal responsibility law which advocates "sound public expenditure and financial management in the State" specifically this is achieved through:

- a. Aligning State government's income and expenditure by keeping spending limits within the dictates of available resources and fiscal sustainable debt position;
- b. Boosting IGR by the recently submitted business case of IRS;
- c. Emphasis on achieving a more favourable balance for capital expenditure through restraining the increasing trend in recurrent expenditure;
- d. Ensuring that the budget process is pursued with a framework that supports strategic prioritization and rational resource allocation and under the overall development policy objectives of the State; and
- e. Ensure strict adherence to due process in budget execution as well as accountability, transparency and prudence in the entire public financial management process.

Implementing the 2021 budget should be closely monitored, given the security situation and COVID-19 impact on the fiscal and economic outlook and future debt drawn down should be focused on foreign concessional rate debt rather than higher interest domestic debt.

The aggregate effects of the Covid-19 pandemic on the total revenues, expenditures and debt in comparison to the original 2021 budget has called for the drastic cutting of expenditures while increasing support to the already excluded group and vulnerable who are left to bear the brunt of the economic contraction. The economic and growth recovery program which has the aim of increasing social inclusion by creating jobs and providing support for the poorest and most vulnerable members of society through investments in social programs and providing social amenities will no doubt suffers some setbacks.

## 2.2.2 Indicative Three-Year Fiscal Framework

The indicative three-year fiscal framework for the period 2021-2023 is presented in the table below.

### Gombe State Medium Term Fiscal Framework

<b>Fiscal Framework</b>				
<b>Item</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>2024</b>
<b>Opening Balance</b>	16,830,929,386	5,000,000,000	5,000,000,000	5,000,000,000
<b>Recurrent Revenue</b>				
Statutory Allocation	35,084,269,352	46,313,676,611	51,996,013,004	56,868,176,826
VAT	15,420,277,355	17,809,277,628	20,303,561,190	23,069,742,761
IGR	10,192,629,524	11,403,573,987	13,544,083,192	15,740,776,245
Excess Crude / Other Revenue	4,500,000,000	4,500,000,000	4,600,000,000	5,000,000,000
<b>Total Recurrent Revenue</b>	<b>65,197,176,231</b>	<b>80,026,528,225</b>	<b>90,443,657,386</b>	<b>100,678,695,832</b>
<b>Recurrent Expenditure</b>				
Personnel Costs	24,766,692,997	27,243,362,297	27,924,446,354	28,622,557,513
Social Contribution and Social Benefit	7,903,108,591	9,483,730,309	12,328,849,402	13,561,734,342
Overheads	13,502,113,840	16,202,536,609	20,253,170,761	16,202,536,609
Grants, Contributions and Subsidies	112,714,080	112,297,310	112,072,687	114,801,402
Public Debt Service	0	0	0	0
<b>Total</b>	<b>46,284,629,508</b>	<b>53,041,926,524</b>	<b>60,618,539,204</b>	<b>58,501,629,866</b>
<b>Transfer to Capital Account</b>	<b>35,743,476,108</b>	<b>31,984,601,701</b>	<b>34,825,118,182</b>	<b>47,177,065,966</b>
<b>Capital Receipts</b>				
Grants	22,300,000,000	22,600,000,000	19,750,000,000	19,150,000,000
Other Capital Receipts	6,000,000,000	6,000,000,000	6,000,000,000	6,000,000,000
<b>Total</b>	<b>28,300,000,000</b>	<b>28,600,000,000</b>	<b>25,750,000,000</b>	<b>25,150,000,000</b>
<b>Reserves</b>				
Contingency Reserve	0	0	0	0
Planning Reserve	1,124,250,934	1,511,692,034	1,383,502,364	1,620,541,319
<b>Total Reserves</b>	<b>1,124,250,934</b>	<b>1,511,692,034</b>	<b>1,383,502,364</b>	<b>1,620,541,319</b>
<b>Capital Expenditure</b>	<b>66,919,225,174</b>	<b>74,072,909,667</b>	<b>67,791,615,818</b>	<b>81,406,524,647</b>
Discretionary Funds	48,119,225,174	47,972,909,667	44,941,615,818	59,056,524,647
Non-Discretionary Funds	18,800,000,000	26,100,000,000	22,850,000,000	22,350,000,000
<b>Financing (Loans)</b>	<b>9,000,000,000</b>	<b>20,000,000,000</b>	<b>13,600,000,000</b>	<b>13,700,000,000</b>
<b>Total Revenue (Including Opening Balance)</b>	<b>119,328,105,617</b>	<b>133,626,528,225</b>	<b>134,793,657,386</b>	<b>144,528,695,832</b>
<b>Total Expenditure (including Contingency Reserve)</b>	<b>114,328,105,617</b>	<b>128,626,528,225</b>	<b>129,793,657,386</b>	<b>141,528,695,832</b>
<b>Closing Balance</b>	<b>5,000,000,000</b>	<b>5,000,000,000</b>	<b>5,000,000,000</b>	<b>3,000,000,000</b>
<b>Ratios</b>				
Growth in Recurrent Revenue	14.19%	22.75%	13.02%	11.32%
Growth in Recurrent Expenditure	50.59%	14.60%	14.28%	-3.49%
Capital Expenditure Ratio	59.52%	58.76%	53.30%	58.66%
Deficit (Financing) to Total Expenditure	7.87%	15.55%	10.48%	9.68%

**Source: Gombe State MTEF 2021-2024**



### **2.2.3 The Key Objectives of Approved 2021 Budget**

- i. consolidate and improve on the provision of functional education strategy already embarked upon in the State, with emphasis on technical and technological aspects;
- ii. sustain and improve the State's healthcare delivery system;
- iii. enhance the overall improvement in human capital development such that will empower youths, artisans and market women for wealth and jobs creation;
- iv. ensure security of lives and properties of the residents of the State;
- v. combat the spread of Covid-19 and ameliorate the effects of same on people, SMEs and MSMEs across the State;
- vi. ensure the completion of the on-going capital projects and also sustain the current investment in infrastructural facilities;
- vii. sustain and intensify the current efforts in Independent Revenue generation;
- viii. combat gender-based violence and facilitate social inclusion through target spending on the vulnerable and other marginalized group;
- ix. improve the State's public financial management to entrench transparency, accountability and integrity; and
- x. Strategic diversification of the State's economy using the Public Private Partnership (PPP) model.

### **2.2.4 Medium Term Policy Objectives and Targets**

The overall medium-term policy objectives are:

- i. To have higher proportion of capital expenditure compared to recurrent expenditure.
- ii. Personnel expenditure is to be on stable marginal increase for 2022 - 2024.
- iii. Decrease in overhead expenditure.
- iv. Certain parastatals cover overhead expenditure from the revenue they generate.

## Chapter Three

### Gombe State Revenue, Expenditure, Public Debt Trend (2016-2020)

#### 3.1 Revenue, Expenditure, Overall and Primary Balance

The State major source of revenue comprises Statutory Allocation, VAT, IGR, Excess Crude, and Capital receipts. While the major expenditure incurred by the State Government include the Consolidated Revenue Fund (CRF) charges, Personnel, Overheads and Capital Expenditure.

##### 3.1.1 Revenue Performance

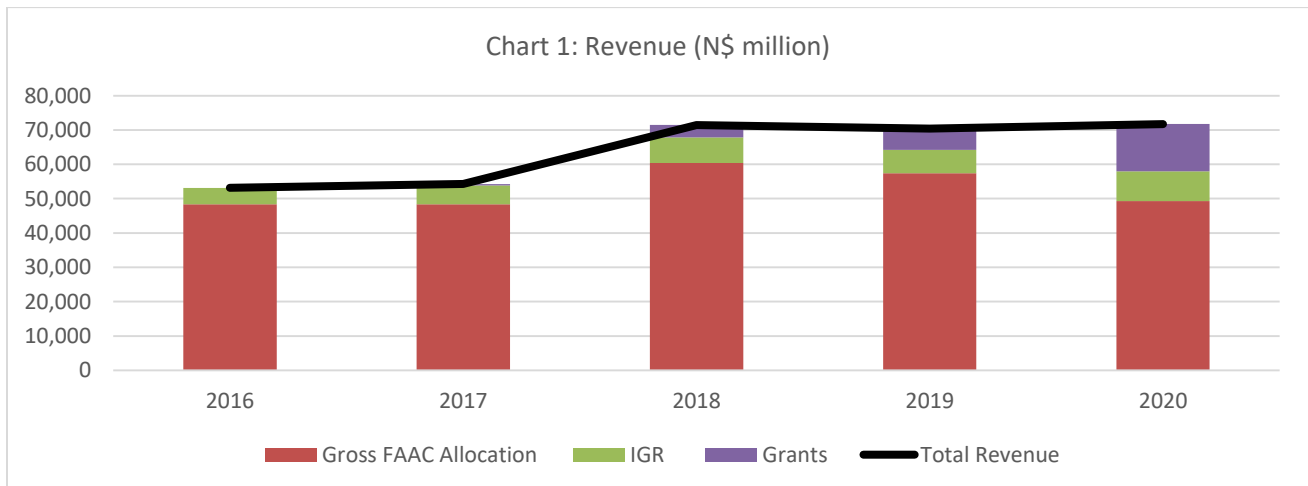
The revenue performance of the State is shown in Table 1 and Chart 1 below:

**Table 1: Revenue**

Details/Period	2016	2017	2018	2019	2020
Total Revenue	53,152	54,249	71,462	70,364	71,753
Gross FAAC Allocation	48,348	48,348	60,379	57,412	49,286
IGR	4,804	5,492	7,490	6,832	8,637
Grants	0	409	3,593	6,120	13,829

**Source: Gombe State DSA/DMS Template, 2021**

**CHART 1: Revenue**



**Source: Gombe State DSA/DMS Template, 2021**

Gombe State's Revenue stood at N98.624 billion in 2020 compared to N71.753 billion in the period of 2020, which represent an increase of N1.389 billion or 1.97 percent. The Revenue has shown improvements from 2016 to 2020, due to the growth increased in the financial resources to the real sector of the economy, and effective implementation of the Economic Policies in the State. The Gross FAAC allocation that comprises the Statutory allocation, VAT allocation, exchange rate gain, augmentation among others declined from N57.412 billion in 2019 to

N49.286 billion in 2020, which present a declined of N1.165 billion or 2.03 percent, the decline was due to slow in financial activities during the Coronavirus Pandemic Period in 2020. The percentage of statutory allocation to total revenue has been relatively stable, over the period 2016 to 2020. The average percentage of statutory allocation to total revenue stands at 82.64%. The percentage of statutory allocation to total revenue were 90.96%, 89.12%, 84.49%, 81.5% and 68.68% for 2016, 2017, 2018, 2019, and 2020 respectively. The State's Federal Allocation, fall averagely by 1.72% from 2016 to 2020.

Gombe State's Internally Generated Revenue (IGR) shows a growth during the period under review, the IGR shows a significant grew from N4.804 billion in 2016 to N8.367 billion in 2020. Over the last five years (2016 - 2020), actual IGR collection has been lower than the budgeted revenue. The average percentage of IGR to total revenue from 2016 to 2020 was 10.28 percent. The percentage of IGR to total revenue were, 9.04%, 10.12%, 10.48%, 9.71% and 12.04% in 2016, 2017, 2018, 2019 and 2020 respectively. The State IGR fluctuate in the period under review, from 2016 to 2017, the IGR increased with about 12.53% and also increases in 2018 with 26.68% and thereby reduced in 2019 with about 9.63% and increased with 20.90% in 2020. The improvement in IGR is mainly as a result of tax administration reforms aimed at improving collection rates and broadening the tax revenue base.

The improvement in IGR was mainly because of tax administration reforms. These reforms covered legal, institutional, and operational frameworks. Accordingly, several reform activities were instituted to strengthen the IGR collection. Specifically, as a bedrock for other reforms, new Revenue Administration law was passed, among other things, to consolidate State revenue code covering all State IGR sources. Collections were thereafter enhanced with improvement on all electronic platforms and payment gateways used by the State Internal Revenue Service. The State also expanded its Taxpayer database and developed an electronic taxpayer database system. Revenue sources were expanded to include Introduction of Land Use Charge and all revenue leakages were blocked through automation processes.

Grants are receipts from Federal Government and Development partners such as Federal Government Conditional Grant Scheme, SFTAS and UNICEF, etc. With the developed 10-years developmental plan by the State Government, development partners and other donors will key in with more grants in the coming years.

**NOTE:** *The reason for the high difference between the historical and 2021 to 2024 for the revenue is because FAAC Allocation from the Federal Government is expected to increase as the economy is recovering from recession and out of Covid-19 pandemic. Also the rate of VAT is revised from 5% to 7.5%.*

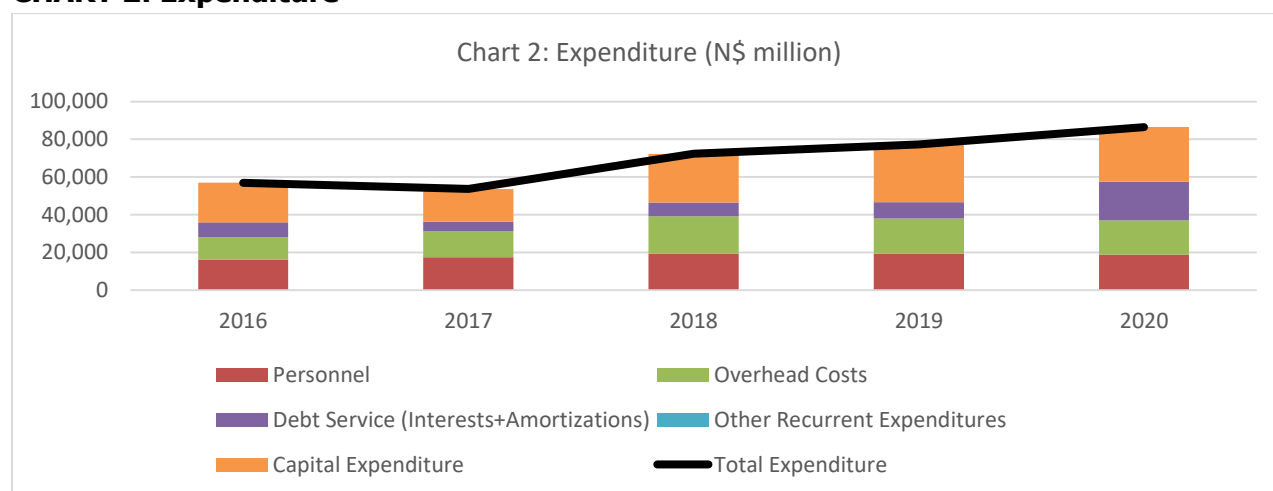
### **3.1.2 Expenditure Performance**

The expenditure performance of the State is shown in Table 2 and Chart 2 below:

**Table 2: Expenditure**

Details/Period	2016	2017	2018	2019	2020
Total Expenditure	56,985	53,651	72,281	77,291	86,468
Personnel	16,341	17,396	19,277	19,330	18,776
Overhead Costs	11,843	13,872	19,877	18,716	18,274
Debt Service (Interests+Amortizations)	7,872	5,011	7,351	8,530	20,385
Other Recurrent Expenditures	0	0	0	0	0
Capital Expenditure	20,930	17,371	25,776	30,715	29,033

**Source: Gombe State DSA/DMS Template, 2021**

**CHART 2: Expenditure**

**Source: Gombe State DSA/DMS Template, 2021**

The State's Total Expenditure includes Capital expenditure, Personnel costs, Overhead costs, other recurrent expenditure, and Debt service (interest payment and principal repayment). In 2020 Gombe State total expenditure amounted N86.468 billion compared to N56.985 billion as at end-December 2016, which represent a growth of N29.483 billion or 51.74 percent. The personnel cost stood at N16.341 billion in 2016, N17.396 billion in 2017, N19.277 billion in 2018, N19.330 billion in 2019, and N18.776 billion in 2020, respectively. The overhead cost stood at N18.274 billion in 2020 compared to N18.716 billion in 2019. Capital expenditure amounted to N29.033 billion in 2020, N30.715 billion in 2019, N25.776 billion in 2018, N17.371 billion in 2017, and N20.930 billion in 2016, respectively. The Total debt service that comprises the interest payment and principal repayment stood at N20.385 billion as at end-December 2020 compared to N7.872 billion as at end-December 2016.

The expenditure in Chart 2 includes Personnel, Overheads, debt service (interest + amortization), other recurrent expenditure and Capital Expenditure.

Personnel Cost comprised of salaries and allowances of civil servants, public servants in government agencies and parastatals, members of the State House of Assembly, Judicial Officers, other Political Office Holders, Staff of the Office of the Accountant General, Auditor Generals of State, Auditor Generals for Local Government and Staff of Statutory Commissions.

Over the period 2016 - 2020, the average percentage of personnel cost to total expenditure stands at 26.90%.

Overhead expenditure comprises of operational and maintenance cost for running day-to-day Government activities. Overhead expenditure has been relatively volatile, with a downward trend over the period 2014-2016, and a recovering upward trend over the period 2017-2019. However, the average percentage of overhead to total expenditure stands at 23.90%

Capital Expenditure includes the main investment and implementation of programmes and projects of government. The capital expenditure for the period (2016 – 2020) has been highly unstable, with the actual capital expenditure deviating significantly from the budget performance during this period, only performing above 50% in 2016 and 2019. The trend expectation for budgeted and actual capital expenditure has been linear, with actual falling as budgeted figure declines. Over the period 2016-2020, the average percentage of capital expenditure to total expenditure stands at 35.62%.

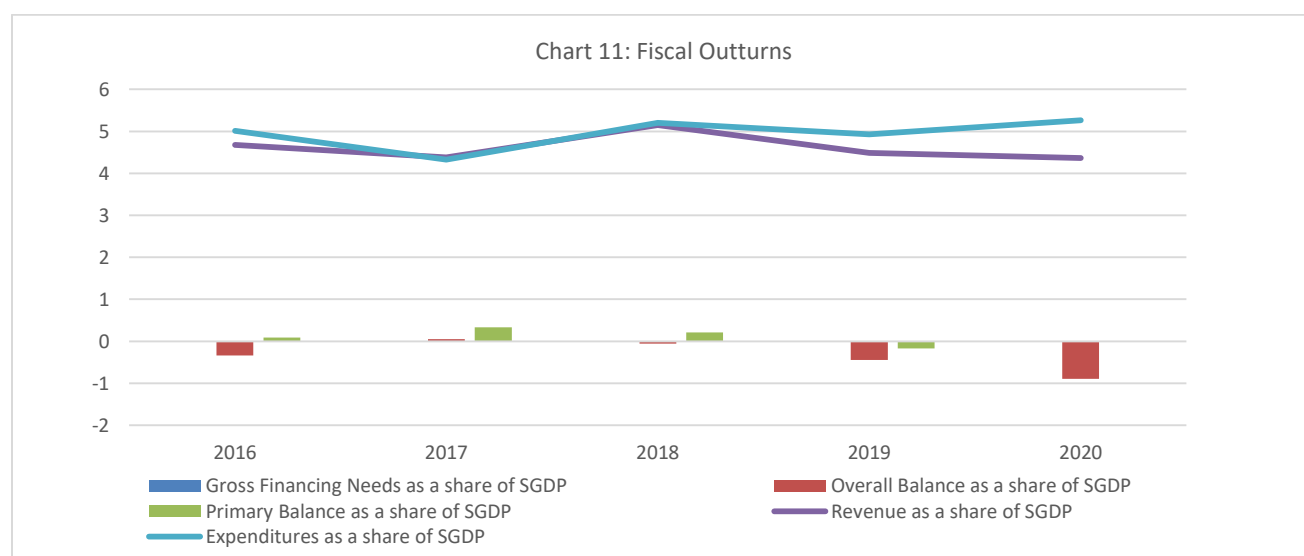
The debt services includes the interest paid and principal repayment, where the debt service for the period have been fluctuating. The average percentage of debt services to total expenditure for the period stands at 13.59%.

**Note:** *The reason for the high difference between the historical and 2021 to 2024 for the expenditure is because the revenue is expected to be high in the period; therefore, the expenditure is expected to increase.*

### 3.1.3 Fiscal Outturns

The overall and primary balance of the State Fiscal Outturns is shown in Chart 11 below

**CHART 11: Fiscal Outturns**



**Source: Gombe State Forecasts, 2021**

The Gross financing need is the summation of primary balance (revenue less expenditure), debt service (amortization plus interest) and other financing needs (difference between opening and closing cash and bank balances). The overall fiscal balance has been decreasing during the reviewed period, from a deficit of -0.2 percent of the State GDP in 2016 to -1.0 percent of the State GDP in 2020. Since 2016 the overall balance remained stable at 0.2 percent of the State GDP in 2016 to 2020, owing to the fall in federal transfers (oil receipts). In 2017 and 2018, overall balance partially recovered to a deficit of 0.1 and -0.1 percent of the State GDP, respectively, due to the adjustment of personnel cost and of pensions and gratuities and the upturn of federal transfers. On the other hand, primary fiscal balance has been declining continuously during the period under review, from a deficit of -1.1 of the State GDP in 2016 to a deficit of -0.6 percent of the State GDP in 2020.

### 3.2 Gombe State Public Debt Portfolio, 2016-2020

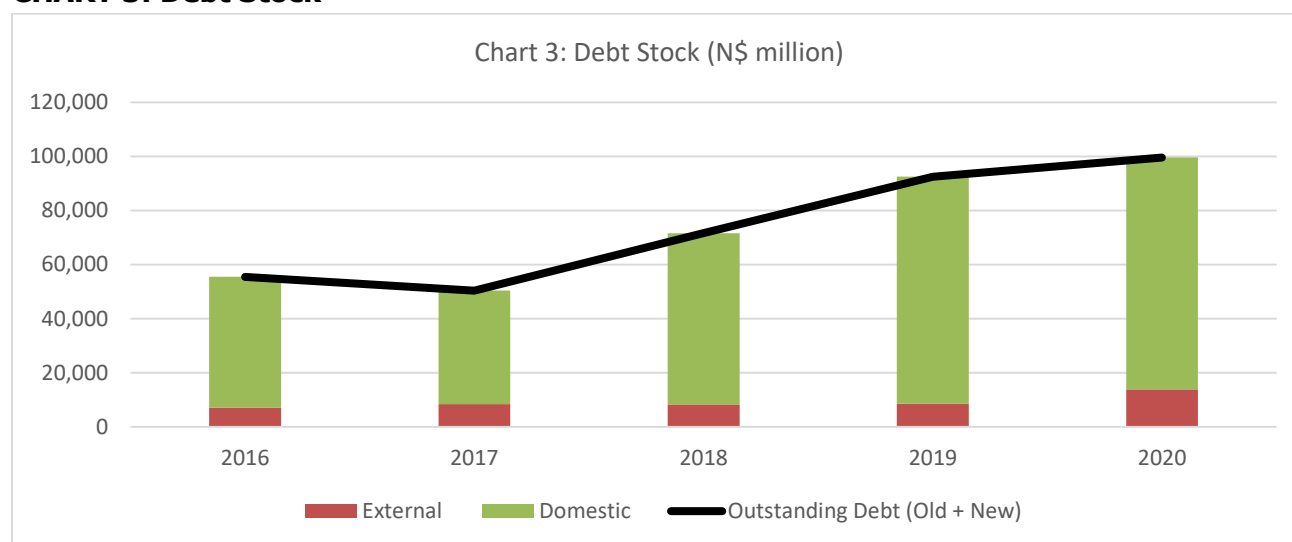
The trend of public debt service is highlighted in Table 3 and Chart 3 below:

**Table 3: Debt Stock**

Details/Period	2016	2017	2018	2019	2020
Outstanding Debt (Old + New)	55,452	50,339	71,583	92,498	99,594
External	7,140	8,440	8,245	8,574	13,871
Domestic	48,312	41,899	63,338	83,924	85,723

**Source: Gombe State DSA/DMS Template, 2021**

**CHART 3: Debt Stock**



**Source: Gombe State DSA/DMS Template, 2021**

Gombe State's Debt stock amounted to N99.594 billion as at end-December 2020 compared to N92.498 billion as at end-December 2019, representing an increase of N7.096 billion or 7.67 percent. The increase in the Total Debt stock was reflected in both Domestic and External Debt

components. The external debt stock increased from N8.574 billion in 2019 to N13.871 billion in 2020, while the domestic debt stock insignificantly increased to N85.723 billion in 2020 from N83.924 billion in 2019.

The public debt includes the explicit financial commitments (loans and securities) that have paper contracts instrumenting the government promises to repay.

Chart 3: Shows a sharp increase in the Debt Stock from N55.452 billion in 2016 to N99.594 billion in 2020, due to change in the calculation of the State Bond debt stock (semi-annually to monthly), receipt of the Excess Crude Account Backed Loan and Budget Support, Commercial bank loans the Debt Stock from 2018 to 2020. Also, the State Government secured a ₦12.5 billion Bond in 2016 and N8.4 billion in 2020.

Gombe State Debt Portfolio as at the end of 2020 consists of external debt N13.871 billion or 13.93 percent and Domestic debt was amounted to N85.732 billion or 86.07 percent, respectively.

Gombe State holds a medium cost and medium risk debt portfolio. The debt portfolio has an average domestic interest rate of 13.2 percent and average external interest of 1.21 percent in 2020. The State debt portfolio is minimally exposed to currency, rollover, and interest rate risks. An exposure to currency fluctuation is limited because the foreign currency-denominated loans are only 13.93 percent of total debt stock in 2020. Some of the loans in Gombe State are fixed-rate obligations, thus not affected by changes in interest rates. A portion of these loans have maturities ranging from 10 to 35 years and include financing from the Federal Government and Multilateral organizations. Therefore, rollover/refinancing risk associated with potential deterioration of domestic financial conditions is reasonably negligible.

### **3.2.1 Gombe State Principal Repayment, 2016-2020**

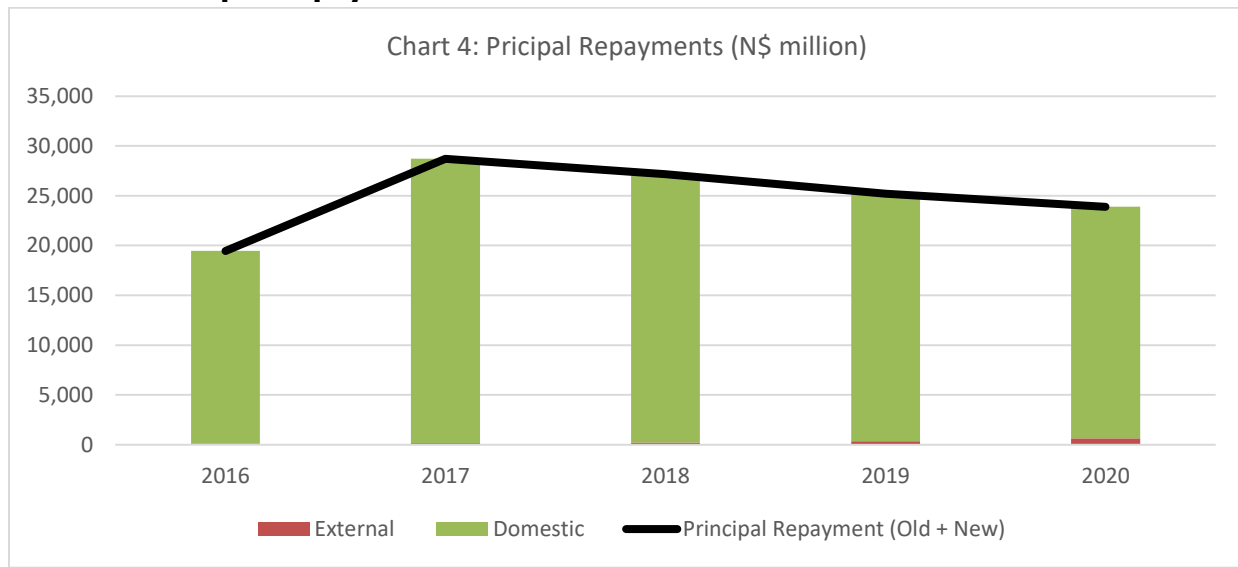
Gombe State Debt Service amounted to N19.454 billion, N28.719 billion, N27.170 billion, N25.213 billion and N23.891 billion for 2016, 2017, 2018, 2019, and 2020 respectively. The principal repayment stood at 25.213 in 2019 compared to N23.891 billion in 2020.

**Table 4: Principal Repayment**

Details/Period	2016	2017	2018	2019	2020
Principal Repayment (Old + New)	19,454	28,719	27,170	25,213	23,891
External	127	153	215	359	644
Domestic	19,327	28,567	26,955	24,854	23,247

**Source: Gombe State DSA/DMS Template, 2021**

**Chart 4: Principal Repayment**



**Source: Gombe State DSA/DMS Template, 2021**

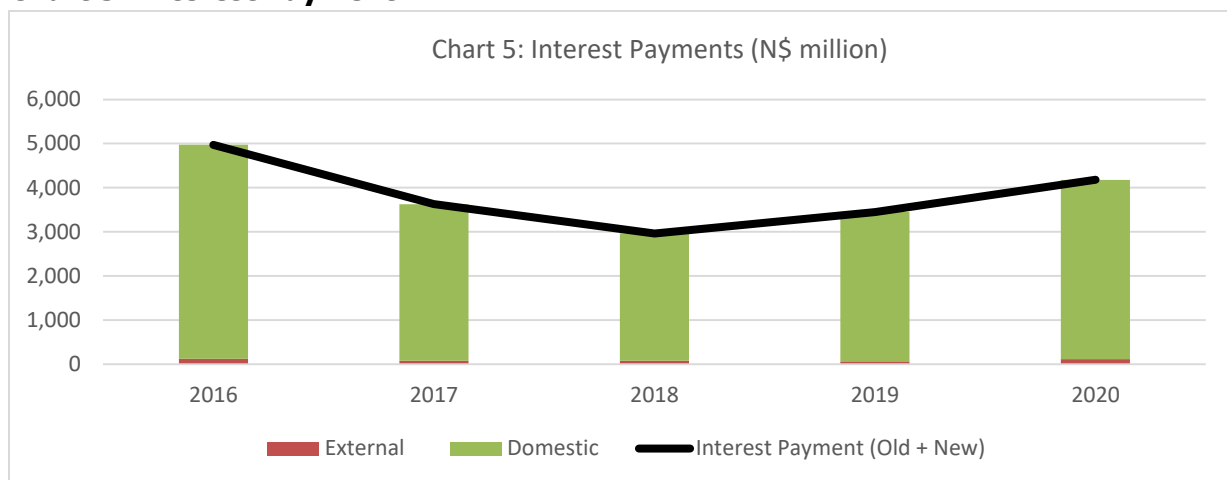
### 3.2.1 Gombe State Interest Repayment, 2016-2020

The Interest Payment amounted to N4.178 billion in 2020 compared to N3.447 billion in 2019. The principal repayments and Interest Payment made were on both External Debt and Domestic Debt (see Table 4 & Chart 4 and Table 5 & Chart 5).

**Table 5: Interest Payment**

Details/Period	2016	2017	2018	2019	2020
Interest Payment (Old + New)	4,971	3,628	2,964	3,447	4,178
External	119	73	77	62	114
Domestic	4,852	3,554	2,887	3,386	4,064

**Chart 5: Interest Payment**



**Source: Gombe State DSA/DMS Template, 2021**



### **3.2.1 Total Debt**

The total outstanding debt for the State is N55.452 billion, N50.339 billion, N71.583 billion, N92.498 billion, and N99.594 billion as at December 2016, 2017, 2018, 2019 and 2020 respectively. There has been rapid increase in the public debt since the collapse of oil prices, COVID-19 pandemic and exchange rate fluctuations.

### **3.2.2 Debt Composition**

The State's debt portfolio largely consists of external borrowings (World Bank, African Development Bank, Islamic Development Bank, etc.) and the internal borrowings (Federal Government facilities, Bonds and commercial banks). The average of the State domestic debt is 85% while the average external debt is 15% for the period 2016 to 2020.

### **3.3 Cost and Risk Profile**

The State holds low cost, low risk debt portfolio investments. The debt portfolio carried an average interest rate of 13.2 percent from 2016 to 2020 and the interest payments represented 39 percent of total expenditure. Exposure to currency fluctuations is expected as a result of foreign currency denomination of about 8.5% of the total debt stock. Domestic loans are fluctuated rate obligations, thus affected by changes in interest rates. These loans have maturities running from 1 to 30 years.

## Chapter Four

### Concept of Debt Sustainability, Assumptions, Results Analysis and Findings

#### 4.1 Introduction- Concept of Debt Sustainability

The concept of debt sustainability refers to the ability of the government to honor its future financial obligations. Since policies and institutions governing spending and taxation largely determine such obligations, debt sustainability ultimately refers to the ability of the government to maintain sound fiscal policies over time without introducing major budgetary or debt adjustments in the future. Conversely, fiscal policies are deemed unsustainable when they lead to excessive accumulation of public debt, which could eventually cause the government to take action to address the unwanted consequences of a heavy debt burden (World Bank, 2020).

#### 4.2 Debt Sustainability Indicators and Thresholds

The debt sustainability indicators and thresholds are shown in the Table 1 below:

**Table 1: Gombe State Debt burden indicators**

Indicators	Thresholds	As at end-2020	Average 2016 to 2030
Debt as % of GDP	25%	5.6%	3.3%
Debt as % of Revenue	200%	138.8%	74.8%
Debt Service as % of Revenue	40%	39.1%	23.4%
Personnel Cost as % of Revenue	60%	26.2%	25.4%
Debt Service as % of FAAC Allocation	Nil	56.9%	28.9%
Interest Payment as % of Revenue	Nil	5.8%	4.9%
External Debt Service as % of Revenue	Nil	1.1%	0.5%

**Source: Gombe State DSA/DMS Template, 2021**

The average Debt to GDP of the State for 2016 to 2030 is 3.3%, while the Debt to GDP as at December 2020 is 5.6%. Therefore, it shows that the Debt to GDP is strong which is highly below the threshold. Chart 21 shows the Debt as a percentage of State GDP (with indicative threshold of 25%). The sustainability position of the State's Total debt portfolio in the fiscal block shows a gradual ascending trend from 2016 to 2030. Even though the ratio has continued to decrease steadily over the period under review dropping at a value of 2 percent in 2030, it is well within the threshold insinuating room for additional further borrowing under the right circumstances. Based on this, the State's GDP have potentials for growth and can also accommodate the State's debt stock, with minimal effect on the State economy.

The average Debt to Revenue of the State for the period 2016 to 2030 is 74.8% and the Debt to Revenue as at December 2020 is 138.8% which shows that the result is favorable as it's below the threshold. Chart 22 shows the Debt as a percentage of revenue, Debt Service as

percentage of Revenue and Personnel Costs are below the threshold to the end of projection period. The Government is coming up with various reforms, in its revenue drive.

The average State Debt Service to Revenue for 2016 to 2030 is 23.4%, and the Debt Service to Revenue is 39.1% which shows the Debt Service to Revenue is favorable as it's below the threshold.

The State average percentage of Personnel cost to Revenue for 2016 to 2030 is 25.4% and the Personnel cost to Revenue is 26.2% as at December 2020 which is below the threshold of 60%. Personnel cost as percentage of Revenue are below the threshold to the end of projection period. The Government is coming up with various reforms, in its revenue drive.

The average percentage of Debt Service to FAAC Allocation for 2016 to 2030 is 28.9% while as at December 2020 is 56.9%.

The average percentage of Interest Payment to Revenue for 2016 to 2030 is 4.9% and 5.8 as at December 2020. Interest Payment as a percentage of Revenue revealed that, the maximum exposure of the State Interest towards Revenue is 5.8 percent in the year 2030 with over-all positive outlook.

Finally, looking at the External Debt Service as a percentage of Revenue, the maximum exposure of the State Revenue towards External Debt shows that the External debt of the State was properly managed, peaking at 1.1 percent in year 2020, the average percentage of External Debt Service to Revenue for 2016 to 2030 is 0.5% and 1.1 as at December 2020.

### **4.3 Medium-Term Budget Forecast**

The State's medium-term debt sustainability is predicated upon a gradual recovery of the Nigerian economy that will increase FAAC statutory allocation. According to the Federal Government and State's own forecasts, the Nigerian economy is expected to gradually recover in the period 2022-2024, with real GDP expanding at an average annual rate of 3 percent and domestic inflation decreasing below 13 percent by 2022. Such a moderate recovery will be supported by higher oil prices in global markets, an increase in domestic production, prudent fiscal policy, and the stabilization of the exchange rate relevant for international public-sector financial transactions at its current level. Oil and gas revenue, as well as shared resources such as custom duties and VAT, would then increase relative to the depressed levels observed in 2021, thus improving the State's revenue position.

Debt sustainability analysis is also predicated on the continuation of recent efforts to mobilize local revenue sources, and on unchanged policies concerning personnel and other operating expenses. At local level, the tax administration reforms adopted by the State Government to strengthen resources provided by IGR (The 2020 Revenue Law), are expected to continue in the next few years and will benefit from the overall economic recovery. On the other hand, no new policies are anticipated with regard to personnel and overhead costs, which are thus likely to preserve their historical trends.

## **4.4 Borrowing Assumptions**

Gombe State government intends to finance its new borrowing from 2021 to 2030 mainly through Commercial Bank Loans (maturity 1-5 years) with an average of 44.95 percent, Commercial Bank Loans (maturity 6 year above) estimated at 19.30 percent, State Bonds (maturity 1-5 years) at 3.10 percent, State Bonds (maturity 6 years above) at 26.60 percent, over projection period, compared with External financing – Concessional financing which was estimated at 6.10 percent. For external financing was due to the limited funding envelopes from the external borrowing with long processing time required loans from Multilateral and Bilateral.

The borrowing assumptions highlight the domestic borrowing terms (interest rate, maturity and grace period) and external Borrowing-Terms (interest rate, maturity and grace period).

### **4.4.1 Domestic Borrowing-Terms (interest rate, maturity and grace period)**

The State Government is planning to borrow from commercial banks at 15% interest rate, 5 years maturity period with no grace period. The sum of N11.483 billion and N6.655 billion will be borrowed in 2021, and 2028 respectively.

Similarly, the State Government is planning to borrow the sum of N2.676 billion and N1.068 billion in 2024 and 2025 respectively from commercial bank at 15% interest rate with 6 years maturity and no grace period.

Also, the State Government is planning to borrow the sum of N9.298 billion, N1.051 billion and N3.270 billion in 2023, 2026 and 2029 respectively through bond at 15.5% interest rate with 5 years maturity period and no grace period.

Similarly, the State Government is planning to borrow the sum N14.467 billion and N3.281 billion in 2022 and 2027 through State bond at 15.5% interest rate and 7 years maturity period with no grace period.

### **4.4.2 External Borrowing-Terms (interest rate, maturity and grace period)**

The State government is planning to borrow concessional borrowing of the sum of \$2.3 million, in 2022, with an expected interest rate of 1% to 2% per annum and 30 years maturity period with 5 years grace period.

### **4.4.3 Planned Debt Management Strategy**

The planned actions for settlement of the State's borrowings are based on the principles guiding the debt management strategy

The principles that will guide the debt management strategy are enumerated as follows:

- i. Fiscal: all outstanding payments incurred by the State government have been recorded by Debt Management Agency.
- ii. Transparency: The criteria for prioritizing borrowings should be clearly Stated and adhered to.

- iii. Accountability: The State Debt Management Agency have accounted all outstanding debts for clearance and measures have been taken by the State to reduce the accumulation of new arrears; and
- iv. Sustainability: The payments of borrowings by the current Government have shown that the State is at sustainable level.

A separate control on the remaining stock and proposed borrowings should be kept by the Ministry of Finance to ensure that sufficient provision is made in each subsequent annual budget until all debts are paid by centralizing of payments according to the agreed Framework and State government schedule through the following sources:

- i. Statutory Allocation
- ii. Internally Generated Revenue
- iii. Grants from the Federal Government, and
- iv. Loans

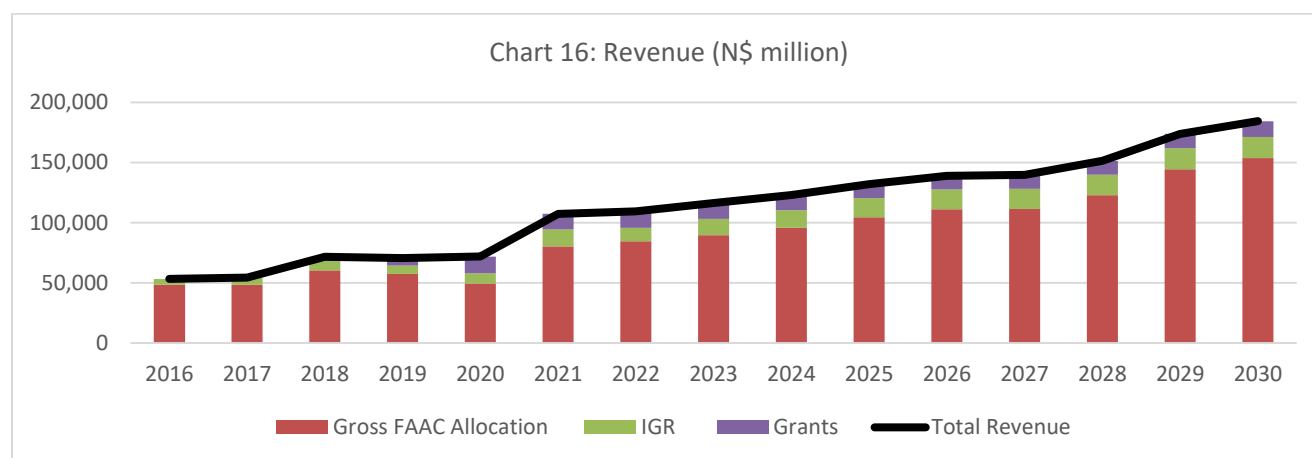
## 4.5 DSA Simulation Results and Findings

Recent shocks underscore the urgent need to significantly diversify and improve government revenues and reduce the dependence on oil revenue sources. Government remains committed to using innovative ways to raise the revenues required to finance its expenditure and diversifying its revenue sources. The medium-term target is to increase the Revenue-to-GDP ratio to 15%. Higher revenue collections will enable Government to deliver public services more effectively, enhance infrastructure investment, and improve investment in human capital.

The main findings and result of the baseline scenario in terms of projected revenue, expenditure, primary and overall balance; and debt service indicators and thresholds are shown in the following charts below:

### 4.5.1 Projected Revenue- Chart 16

The Gombe State projected revenue from 2021 to 2030 is presented in Chart 16 below:



**Source: Gombe State DSA/DMS Template, 2021**

In the Baseline Scenario total revenue (including grants and excluding other capital receipts) is projected to increase from N107.266 billion in 2021 to N184.201 billion by 2030. Therefore, the fiscal surplus (computed as the difference between revenue and expenditure) is expected to remain within a range of –N11.87 billion in nominal terms, compared to the 2020 deficit of –N14.716 billion.

Gross FAAC Allocation is projected to increase from N80.179 billion in 2021 to N153.474 billion by 2030 with an average of N112.968 billion, the increase was based on the National GDP taking into consideration the average changes in the National GDP, increase in oil price with expectation of ending Covid-19 pandemic. With the increase in the VAT rate from 5% to 7.5%, the State will be expecting more revenue from VAT.

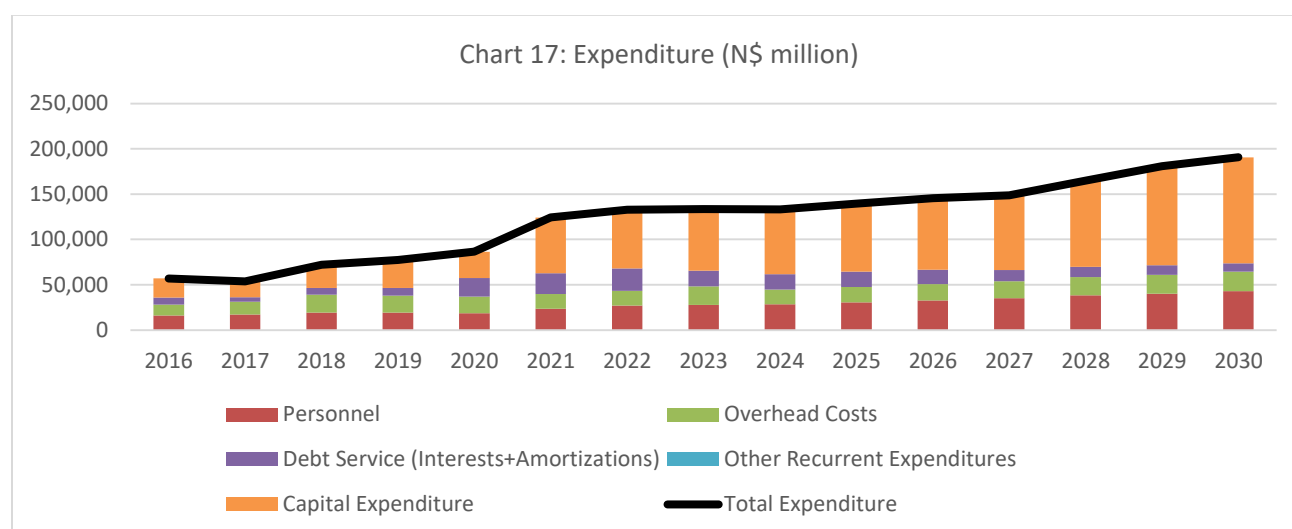
IGR is projected to increase from N14.087 billion in 2021 to N17.727 billion by 2030 with an average of N15.663 billion, the growth was based on the implementation of treasury single account (TSA), establishment of taxpayer database, the perfection of the TSA, establishment of Executive Management Committee, cash to cashless policy, and technical support from development partners towards harmonization/review of tax rate and other efforts focused on blocking leakages and dealing with the phenomena of tax avoidance/evasion.

Grants is projected to be maintained at N13.000 billion in 2021 to N13.00 billion by 2030 with an average of N12.239 billion, the maintenance was based on the efforts of the State Government to implement the 10-year Development Plan, Development Partners and other donors are expected to key in with more grants in the coming years, hence more grants to State.

The projections were sources from the Approved 2021 Budget; MTEF, 2022-2024; and 2025-2030 projections as estimated by the Ministry of Economic Planning & Budget official.

#### 4.5.2 Projected Expenditure- Chart 17

The Gombe State projected expenditure from 2021 to 2030 is presented in Chart 17 below:



### Source: Gombe State DSA-DMS Template, 2021

As a result of the State's modest increase in GDP, great improvement in IGR, increase in Personnel, Overhead costs, and Capital Expenditure. The increased in projected expenditure increase the debt through Primary Balance. In the Baseline Scenario the total expenditure will rise from N124.346 billion in 2021 to N190.556 billion by 2030 with an average of N149.380 billion.

Personnel Costs will also raise from N23.490 billion in 2021 to N42.955 billion by 2030 with an average of N32.741 billion, the increase in the personnel cost for the period under review was due to the minimum wage policy by the Federal Government and the appointment of public service office holders.

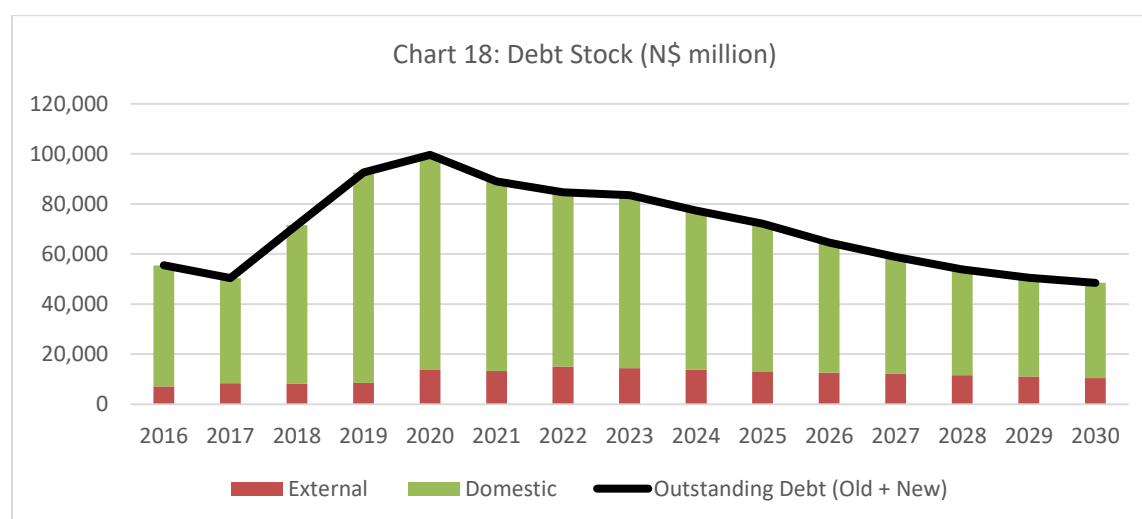
Overhead Costs will also increase from N16.471 billion in 2021 to N21.713 billion by 2030 with an average of N18.522 billion, the increment was based on the day to day running of the Government activities particularly the adverse effect of Covid-19 pandemic.

Capital Expenditure will increase from of N61.665 billion in 2021 to N116.939 billion by 2030 with an average of N82.334 billion, the increment was based on State Government intention to embark on more developmental projects due to the expectation in the increase in revenue.

Debt Service (Interest + Amortization) will also fall from N22.719 billion in 2021 to N8.949 billion by 2030, with an average of N15.782 billion, the decrease in the debt services during the period 2021 to 2022 was as a result of increase in revenue and due to the establishment of Arrears Clearance Framework in order to mop up the outstanding arrears which lead to the clearance of the debt by 2026.

### 4.5.3 Projected Debt Stock- Chart 17

The Gombe State projected debt stock from 2021 to 2030 is presented in Chart 18 below:

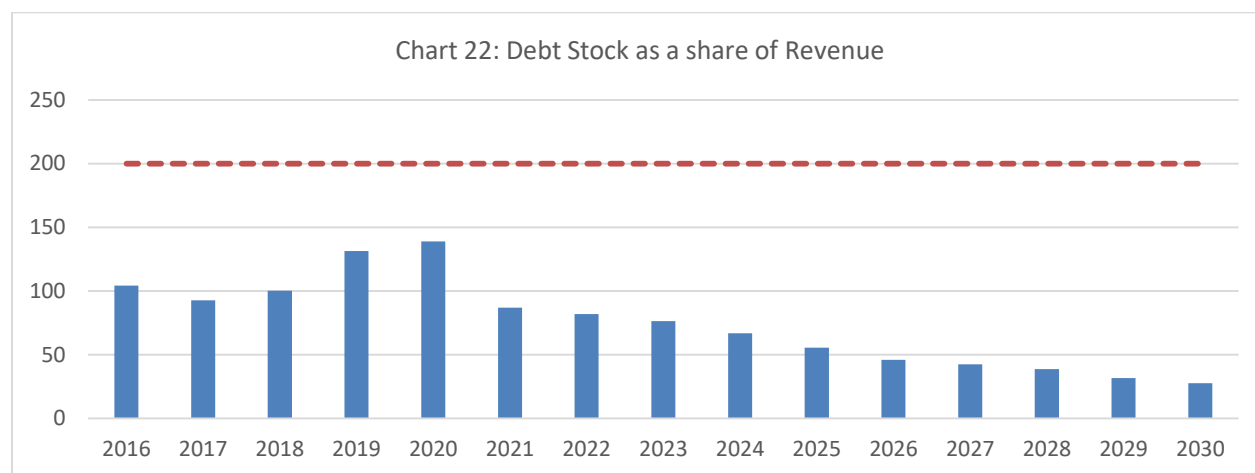


Source: Gombe State DSA-DMS Template, 2021

Gombe State's Debt Stock estimated to decrease from N99.594 billion in 2020 to N48.523 billion in 2030, representing a decrease of N21.071 billion or 21.16 percent over the projection period. External Debt projected to decline by N83.201 billion or 251.08 percent and Domestic Debt to increase by N3.359 billion or 24.22 percent over the projection period.

#### 4.5.4 Projected Debt as a Share of Revenue- Chart 22

The Gombe State projected debt as share of revenue from 2021 to 2030 is presented in Chart 22 below:



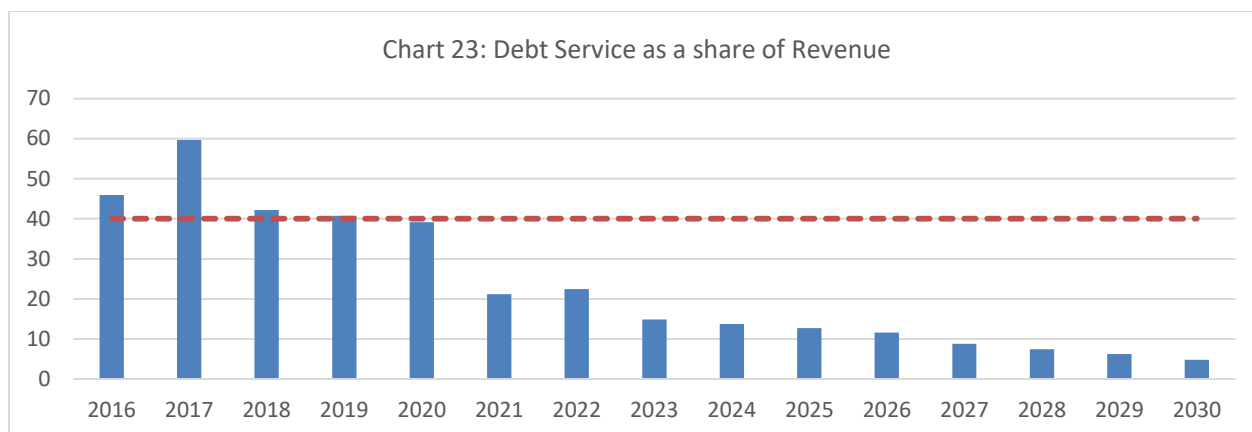
**Source: Gombe State DSA-DMS Template, 2021**

As a consequence of the modest increase in investment and external borrowings, the public debt will decline and the State's repayment capacity will fall pari passu. Debt is projected to decline from 2021 to 2030. However, relative to the State's borrowing capacity, the public debt position will improve: it is expected to decrease from 87 percent of the Revenue in 2021 to 28 percent by 2031 with an average percent of 55%. As the fiscal deficit stabilizes in nominal terms over the next few years, and the public debt ratio improves, the analysis of the Baseline Scenario suggests the State will be able to preserve the sustainability of its debt in the medium-term because it is within the limit of the threshold of 200 percent.

#### 4.5.5 Projected Debt Service as a Share of Revenue- Chart 23

The Gombe State projected debt service as share of revenue from 2021 to 2030 is presented in Chart 23 below:



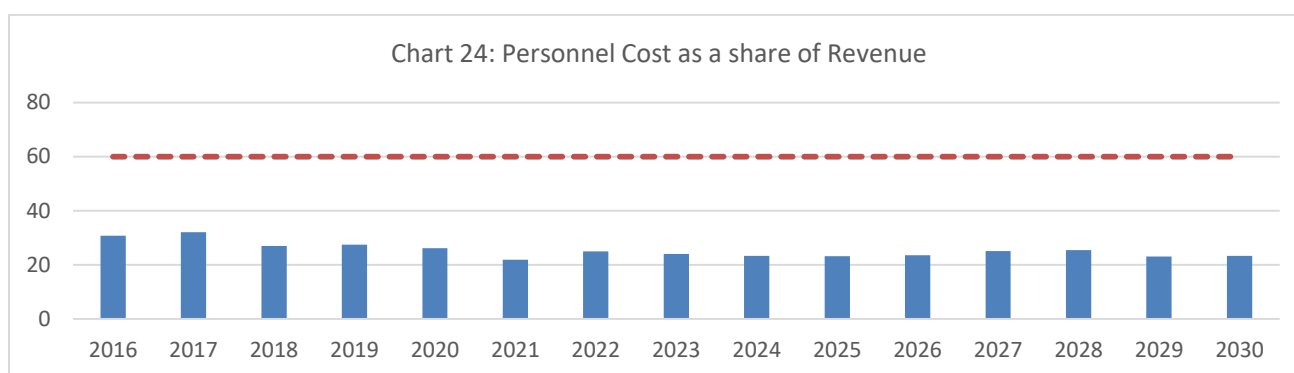


**Source: Gombe State DSA-DMS Template, 2021**

As a consequence of the modest increase in investment and external borrowings, the public debt service will decline and the State's repayment capacity will fall *pari passu*. Debt Service is projected to decrease from N22.719 billion as at 2021 to N8.949 billion by 2030 and with average of N7.891 billion. However, relative to the State's repayment capacity, the public debt position will improve: it is expected to decrease from 21 percent of the Revenue in 2021 to 5 percent by 2030 and with average of 12 percent. As the fiscal deficit stabilizes in nominal terms over the next few years, and the public debt service ratio improves, the analysis of the Baseline Scenario suggests the State will be able to preserve the sustainability of its debt in the medium-term because it is within the limit of the threshold of 40 percent.

#### 4.5.6 Projected Personnel Cost- Chart 24

The Gombe State projected personnel cost from 2021 to 2030 is presented in Chart 24 below:



**Source: Gombe State DSA-DMS Template, 2021**

Personnel Cost is projected to rise from N23.490 billion as at 31<sup>st</sup> December 2021 to N42.955 billion by 2030 and with average of N32.741 billion. The personnel cost as share of revenue will remain increase from 22 percent in 2021 to 23 percent in 2030 with an average of 24 percent. The analysis of the Baseline Scenario suggests the State will be able to preserve the sustainability of its personnel cost in the medium-term because it is within the limit of the threshold of 60 percent.

## 4.6 Main Findings and Conclusion of the Baseline Scenario in Terms of Debt Sustainability

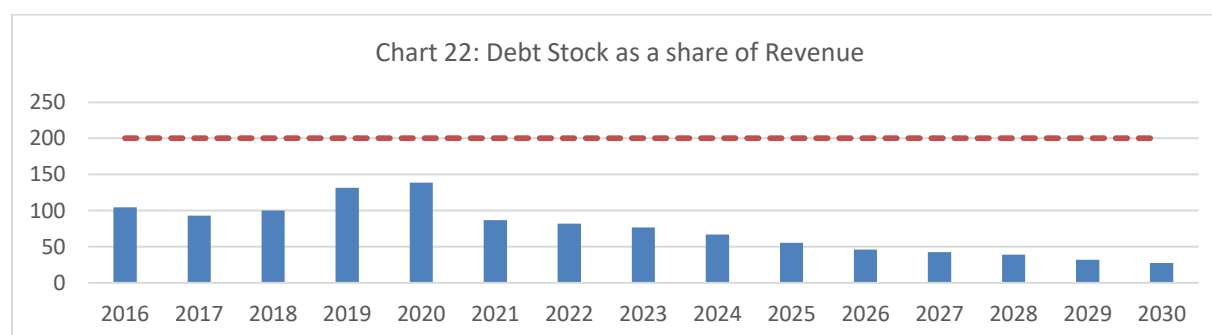
The main findings and conclusion of the Baseline Scenario in terms of sustainability is divided into Projected Debt trend relative to Repayment Capacity (Revenue) going forward (Debt as a Share of Revenue- Chart 22 is 87 percent in 2021 and 28 percent by 2030) and an assessment of Fiscal Deficit and Debt Ratios (Debt Service as a Share of Revenue- Chart 23 is 21 percent in 2021 and 5 percent by 2030) it shows that the State's repayment capacity of the public debt position will improve as against the indicative threshold of 25 percent and 40 percent respectively. Therefore, it is concluded that the State will be able to preserve the sustainability of its debt in the medium-term because it is within the limit of the threshold.

However, the State Government is planning to preserve the sustainability of the debt position through the following policies that will be implemented by the State Government:

- Aligning State government's income and expenditure by keeping spending limits within the dictates of available resources and fiscal sustainable debt position;
- Boosting IGR by the recently submitted business case of IRS;
- Emphasis on achieving a more favourable balance for capital expenditure through restraining the increasing trend in recurrent expenditure;
- Ensuring that the budget process is pursued with a framework that supports strategic prioritization and rational resource allocation and under the overall development policy objectives of the State; and
- Ensure strict adherence to due process in budget execution as well as accountability, transparency and prudence in the entire public financial management process.

### 4.6.1 Projected Debt trend relative to Repayment Capacity (Revenue) going forward (Debt as a Share of Revenue- Chart 22)

The Gombe State projected debt as share of revenue from 2021 to 2030 is presented in Chart 22 below:

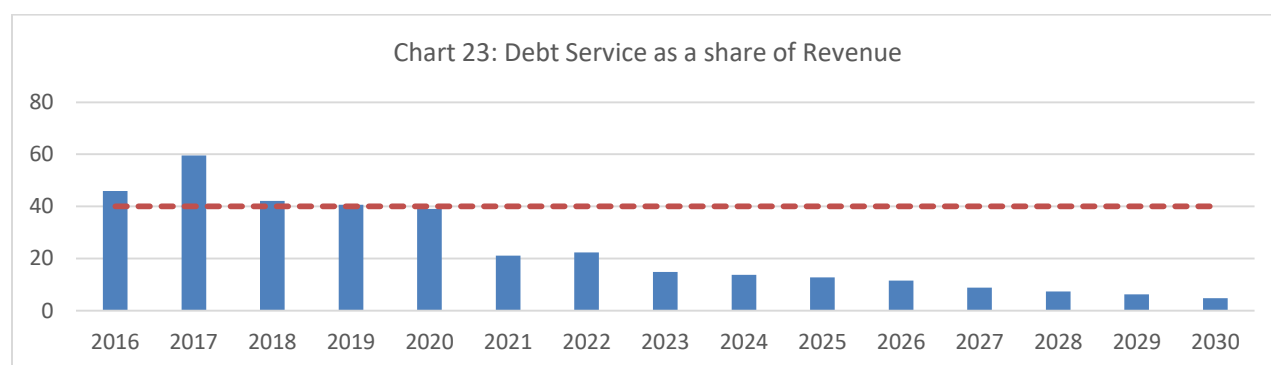


Source: Gombe State DSA-DMS Template, 2021

The State's repayment capacity of the public debt position will improve from 87 percent of the Revenue in 2021 to 28 percent by 2030; the fiscal deficit stabilizes in nominal terms over the next few years. From Chart 22-the analysis of the Baseline Scenario concluded that the State will be able to preserve the sustainability of its debt in the medium-term because it is within the limit of the threshold of 200 percent.

#### 4.6.2 Assessment of Fiscal Deficit and Debt Ratios (Debt Service as a Share of Revenue) to the thresholds- Chart 23

The Gombe State projected debt service as share of revenue from 2021 to 2030 is presented in Chart 23 below:

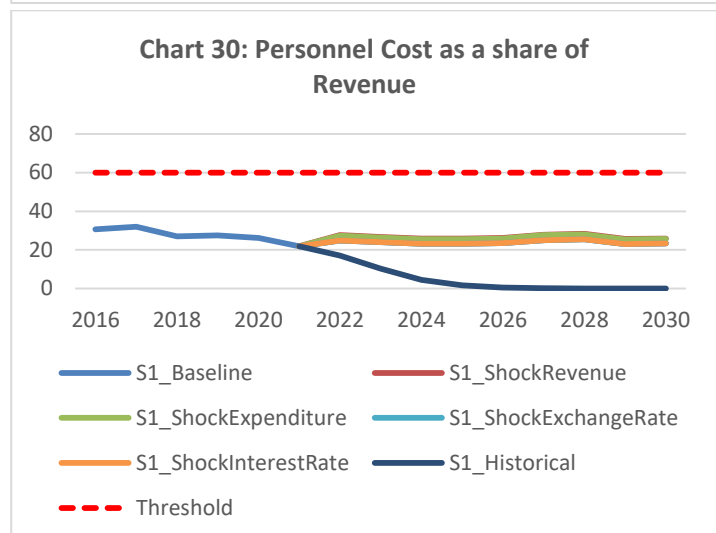
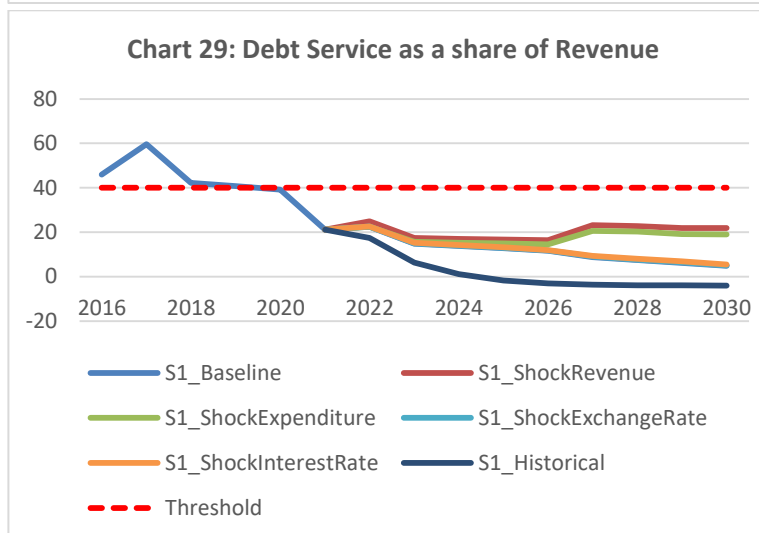
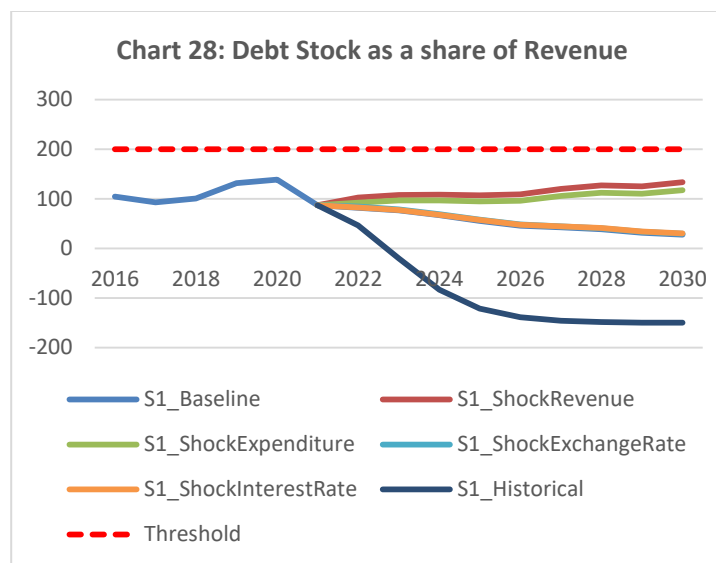
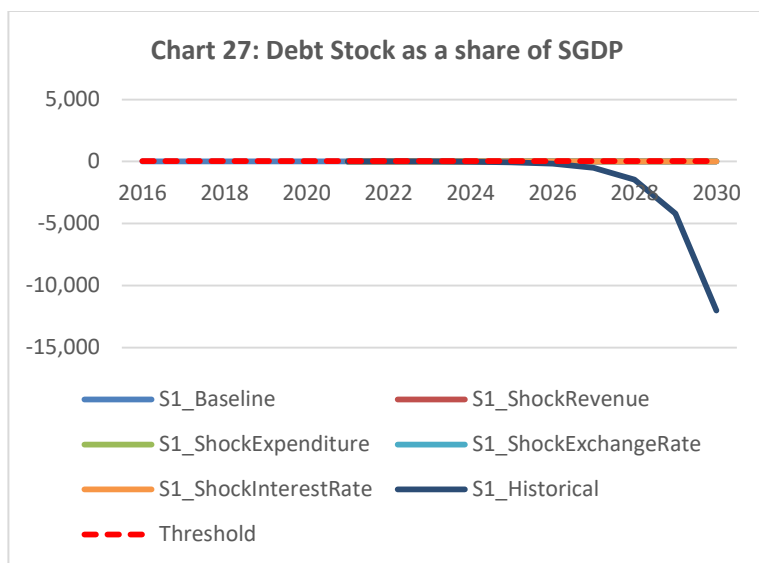


**Source: Gombe State DSA-DMS Template, 2021, 2021**

The State's repayment capacity of the public debt service position will improve from 21 percent of the Revenue in 2021 to 5 percent by 2030; the fiscal deficit stabilizes in nominal terms over the next few years. From Chart 23- the analysis of the Baseline Scenario concluded that the State will be able to preserve the sustainability of its debt Service in the medium-term because it is within the limit of the threshold of 40 percent.

#### 4.7 DSA Sensitivity Analysis (Shock Analysis)

This section explain the Shock analysis of the DSA which include four shock scenario (Shock revenue, shock expenditure, shock exchange rate, shock interest rate) and one historical scenario. The main features of the other five scenarios (four shock scenarios and one historical scenario) in terms of its deviation from the baseline scenario is to plan for the future flexibility (unforeseen circumstance) of revenue, expenditure, exchange rare, and interest rate. The following charts below explain the shocks scenarios:



**Source: Gombe State DSA-DMS Template, 2021**

#### 4.7.1 Revenue Shock

The result shows that Total Public Debt to State GDP ratio remains below its threshold throughout the projection period as shown in Chart 27. After taking into consideration the macroeconomics shocks and policy shocks it can be evaluated that the robustness for the State sustainability assessment for the Baseline scenario indicate that the revenue shock is below the threshold of 200%, 40% and 60% for debt to revenue, debt service to revenue and personnel cost to revenue respectively. The shock revenue for debt to revenue start from 87% in 2021 and grows to 133% in 2030 and with average of 113%, while debt service to revenue start at 21% in 2021 and rise to 22% in 2030 with an average of 20%, whereas, personnel cost to revenue for 2021 was 22% and rise to 26% in 2030 with an average of 26%. All the percentages are below the threshold which indicates that the shock to revenue of the State is sustainable.

#### **4.7.2 Expenditure Shock**

After taking into consideration the macroeconomics shocks and policy shocks it can be evaluated that the robustness for the State sustainability assessment for the Baseline scenario indicate that the expenditure shock is below the threshold of 200%, 40% and 60% for debt to revenue, debt service to revenue and personnel cost to revenue respectively. The shock expenditure for debt to revenue start from 87% in 2021 and grows to 118% in 2030 with an average of 101%, while debt service to revenue start at 21% in 2021 and dropped to 19% in 2030 with an average of 18%, whereas, personnel cost to revenue for 2021 was 22% and rise to 26% in 2030 with an average of 26%. All the percentages are below the threshold which indicates that the shock to revenue of the State is sustainable.

#### **4.7.3 Exchange Rate Shock**

After taking into consideration the macroeconomics shocks and policy shocks it can be evaluated that the robustness for the State sustainability assessment for the Baseline scenario indicate that the exchange rate shock is below the threshold of 200%, 40% and 60% for debt to revenue, debt service to revenue and personnel cost to revenue respectively. The shock exchange rate for debt to revenue start from 87% in 2021 and drops to 29% in 2030 with an average of 57%, while debt service to revenue start at 21% in 2021 and drops to 5% in 2030 with an average of 13%, whereas, personnel cost to revenue for 2021 was 22% and rise to 23% in 2029 with an average of 24%. All the percentages are below the threshold which indicates that the shock to exchange rate of the State is sustainable.

#### **4.7.4 Interest Rate Shock**

Also after taking into consideration the macroeconomics shocks and policy shocks it can be evaluated that the robustness for the State sustainability assessment for the Baseline scenario indicate that the interest rate shock is below the threshold of 200%, 40% and 60% for debt to revenue, debt service to revenue and personnel cost to revenue respectively. The shock interest rate for debt to revenue start from 87% in 2021 and drops to 30% in 2030 with an average of 57%, while debt service to revenue start at 21% in 2021 and drops to 5% in 2030 with an average of 13%, whereas, personnel cost to revenue for 2021 was 22% and rise to 23% in 2030 with an average of 24%. All the percentages are below the threshold which indicates that the shock to interest rate of the State is sustainable.

#### **4.7.5 Historical Shock**

Finally, after taking into consideration the macroeconomics shocks and policy shocks it can be evaluated that the robustness for the State sustainability assessment for the Baseline scenario indicate that the historical shock is below the threshold of 200%, 40% and 60% for debt to revenue, debt service to revenue and personnel cost to revenue respectively. The historical shock for debt to revenue start from 87% in 2021 and drops to -150% in 2030 with an average of -82%, while debt service to revenue start at 21% in 2021 and drops to -4% in 2030 with an average of 3%, whereas, personnel cost to revenue for 2021 was 22% and dropped to 0% in

2030 with an average of 6%. All the percentages are below the threshold which indicates that the shock to interest rate of the State is sustainable.

## **Chapter Five**

### **Debt Management Strategy**

#### **5.0 Introduction**

Public debt management is the process of establishing and executing a strategy for managing the government's debt in order to raise the required amount of funding at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk (World Bank DSA-DMS, 2021). Debt Management Strategy examines the costs and risks inherent in the current debt portfolio, as well as in the debt portfolios that would arise from a range of possible issuance strategies, considering factors such as the macroeconomic and financial market environment, the availability of financing from different creditors and markets, and vulnerabilities that may have an impact on future borrowing requirements and debt service costs.

To assess the debt management strategies outcome, three debt performance indicators were utilized, "Debt Stock as a share of Revenue, Debt Service as a share of Revenue and Interest as a share of Revenue". However, the cost for DMS is measured by the expected value of a performance indicator in 2025 (as projected in the baseline scenario), while Risk for DMS is measured by the deviation from the expected value in 2025 caused by an un-expected shock (as projected in the most adverse scenario).

#### **5.1 Alternative Borrowing Options**

The State Government is planning to borrow through a commercial bank at an expected interest rate of 15% with 5 years and 6 years maturity and through bond with 5 years and 7 years maturity at an expected interest rate of 15.5%, also the State planned to borrow externally through concessional loans. The State proposed three alternative strategies (S2, S3, and S4) which consider the cost and risk and in order to mitigate certain risks (currency, interest rate and rollover), to develop domestic debt markets, to fund specific expenses (such as capital investments), and to secure liquid assets for cash management.

**Strategy 1 (S1) reflects a "Baseline" MTEF Financing Mix:** It follows the broad parameters of the financing mix in the fiscal year 2021 and MTEF, 2022-2024. External gross borrowing under Concessional loans accounts on average 6.05 percent over the strategic period mainly through World Bank and African Development Bank. The Domestic gross financing comprises commercial bank loans, State bonds and other domestic financing. The Domestic Financing under the Commercial Bank loans (maturity of 1-5 years) accounts on average 45.0 percent, Commercial Bank loans (maturity above 6 years) accounts on average 19.30 percent, and Other Domestic Financing accounts (state bond) on average of 29.70 percent over the DMS period of 2021 to 2030. Also, all the borrowing options were combined, where the State Government plans to cover the gross financing needs between 2021 and 2030 through borrowing the sum of N11.483 billion and NN6.655 billion in 2021 and 2028 respectively through commercial bank with 5 years maturity, N2.676 billion and N1.068 billion in 2024 and

2025 respectively through commercial with 6 years maturity, N9.298 billion, N1.051 billion and N3.270 billion in 2023, 2026 and 2029 respectively on through State bond with 5 years maturity, N14.467 billion and N3.281 billion in 2022 and 2027 respectively through State bond with 7 years maturity and finally \$2.3 million in 2030 through concessional loan.

**Strategy 2 (S2) focus on financing through commercial bank loans:** In this strategy it has been assumed the distribution between commercial bank with 5 years and 7 years maturity, where the State plans to cover the gross financing needs between 2021 and 2030. The borrowing distributions from 2021 to 2030, the State government will focus its financing through commercial bank loans with average 63.10 percent under maturity of 1-5 years and 36.90 percent under maturity of above 6 years over the strategic period. The State plans to cover the gross financing needs between 2021 and 2030 through borrowing the sum of N11.483 billion, N9.570 billion, N2.955 billion, N1.551 billion, N7.415 billion and N1.720 billion in 2021, 2023, 2024, 2026, 2028 and 2029 respectively through commercial bank with 5 years maturity, N14.467 billion, N1.494, N3.877 and N0.448 billion in 2022, 2025, 2027 and 2030 respectively through commercial bank with 7 years maturity.

**Strategy (S3) focus its financing through domestic debt market (State bond).** In strategy 3, the government decided to focus more of its financing from 2021 to 2030, through State Bonds (1-5 years), State Bonds (above 6 years), with an average of 52.06 percent and 47.94 percent, respectively. The State plans to cover the gross financing needs between 2021 and 2030 through borrowing the sum of N11.483 billion, N9.361 billion, N2.741 billion, N1.254 billion, N3.513 billion and N0.330 billion in 2021, 2023, 2024, 2025, 2027 and 2030 respectively through State bond with 5 years maturity, N14.524 billion, N1.312, N7.128 and N3.457 billion in 2022, 2026, 2028 and 2029 respectively through State with 7 years maturity.

**Strategy (S4) focus its financing through one to five years facility.** This Strategy (S4) considers the scenario where proportions of commercial bank (1-5 years) and State bond (1-5 years), with an average of 50.92 and 49.08 percent, respectively. The State plans to cover the gross financing needs between 2021 and 2030 through borrowing the sum of N11.483 billion, N10.125 billion, N3.617 billion, N2.555 billion and N2.488 billion in 2021, 2023, 2024, 2026 and 2029 respectively through commercial bank with 5 years maturity, N14.467 billion, N2.284 billion, N5.076 billion, N6.109 billion and N1.242 billion in 2022, 2025, 2027, 2028 and 2030 respectively through State bond with 5 years maturity.

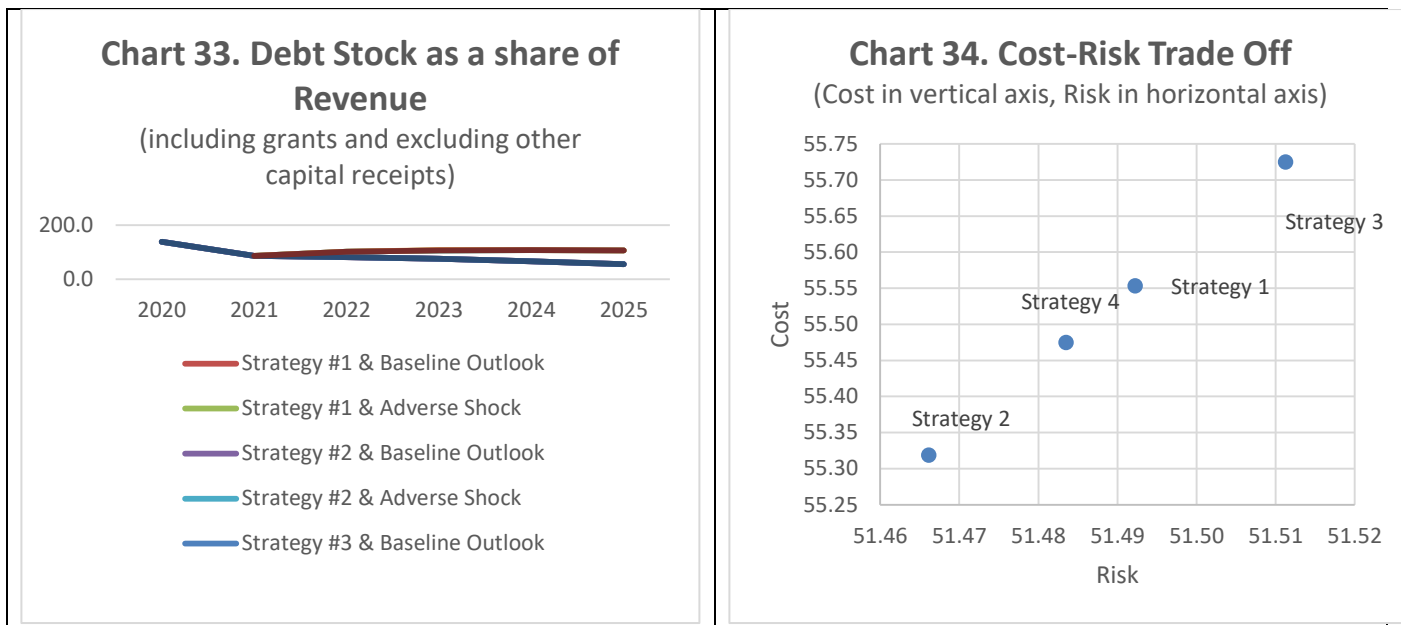
## **5.2 DMS Simulation Results**

Analysis of strategies & outcomes of the analysis. The cost risk trade off charts illustrate the performance of the alternative strategies with respect to four debt burden indicators. Results were obtained from the four DMS (S1, S2, S3, and S4) and the analysis will focus on three performance indicators which include Debt/Revenue, Debt Service/Revenue and Interest/Revenue, also the reference debt strategy (S1) will be compared with the alternative strategies (S2, S3 and S4) to facilitate the drafting and exposition.



### 5.2.1 Debt as a share of Revenue

The share of debt as percentage of revenue and cost-risk trade-off for the referenced strategy (S1) and alternatives strategies (S2, S3, and S4) are presented in the Chart 33 and 34:



Source: Gombe State Forecasts, 2021

Source: Gombe State Forecasts, 2021

The result on Debt as share of Revenue indicates that:

1. Reference Debt Strategy (S1): the cost is 55.6% with adverse shock of 107% and risk at 51.49%.
2. Alternative Strategy (S2): the cost is 55.3% with adverse shock of 106.8% and risk at 51.47%.
3. Alternative Strategy (S3): the cost is 55.7% with adverse shock of 107.2% and risk at 51.51%.
4. Alternative Strategy (S4): the cost is 55.5% with adverse shock of 107.0% and risk at 51.48%.

To compare between the referenced strategy (S1) and alternative strategies (S2, S3, and S4), the result indicated that Debt/Revenue of the alternative Debt Strategy (S2) has the lowest cost, adverse shock and risk of 55.3%, 106.8% and 51.47% respectively, compared to referenced strategy (S1) and alternative strategies (S3 and S4).

### 5.2.2 Debt Services/Revenue

The share of debt services as percentage of revenue and cost- risk trade-off for referenced strategy and alternatives strategies are presented in the chart 37 and 38:

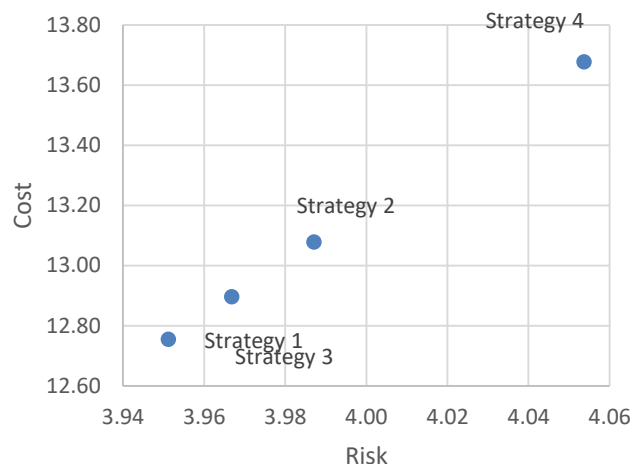
**Chart 37. Debt Service as a share of Revenue**

(including grants and excluding other capital receipts)



**Chart 38. Cost-Risk Trade Off**

(Cost in vertical axis, Risk in horizontal axis)



**Source: Gombe State Forecasts, 2021**

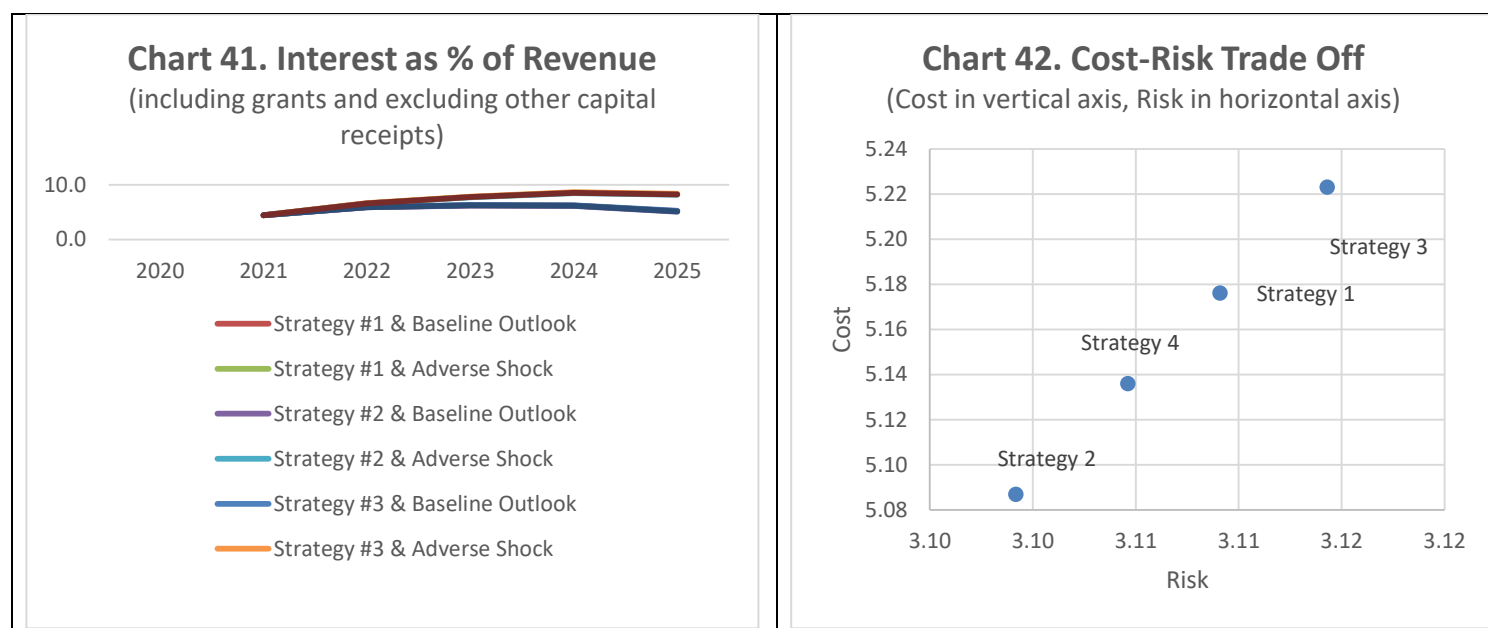
The result on Debt Service as share of Revenue indicates that:

1. Reference Debt Strategy (S1): the cost is 12.8% with adverse shock of 16.7% and risk at 3.97%.
2. Alternative Strategy (S2): the cost is 13.1% with adverse shock of 17.1% and risk at 3.99%.
3. Alternative Strategy (S3): the cost is 12.9% with adverse shock of 16.9% and risk at 3.95%.
4. Alternative Strategy (S4): the cost is 13.7% with adverse shock of 17.7% and risk at 4.05%.

To compare between the referenced strategy (S1) and alternative strategies (S2, S3, and S4), the result indicated that the Debt Service/Revenue of the Referenced Debt Strategy (S1) has the lowest cost, adverse shock and risk of 12.8%, 16.7% and 3.97% respectively, compared to alternative strategies (S2, S3, and S4).

### 5.2.3 Interest/Revenue

The share of interest as percentage of revenue and cost- risk trade-off for referenced strategy and alternatives strategies are presented in the chart 41 and 42:



**Source: Gombe State Forecasts, 2021**

The result on Interest as share of Revenue indicates that:

1. Reference Debt Strategy (S1): the cost is 5.2% with adverse shock of 8.3% and risk at 3.11%.
2. Alternative Strategy (S2): the cost is 5.1% with adverse shock of 8.2% and risk at 3.10%.
3. Alternative Strategy (S3): the cost is 5.2% with adverse shock of 8.3% and risk at 3.11%.
4. Alternative Strategy (S4): the cost is 5.1% with adverse shock of 8.2% and risk at 3.10%.

To compare between the referenced strategy (S1) and alternative strategies (S2, S3, and S4), the result indicated that the Interest/Revenue of the alternative strategy (S2 and S4) has the lowest cost, adverse shock and risk of 5.1%, 8.2% and 3.10% respectively, compared to referenced strategy (S1) and alternative strategy (S3).

#### 5.2.4 DMS Assessment

The preferred strategy was not solely based on the Analytical Tool assessment of all four strategies but took into consideration the ability to implement the chosen strategy successfully in the medium-term. Therefore, although the Analytical Tool's results of costs and risks suggest that the recommended strategy be S2 these results were just marginally better when compared with Strategy S1. **Strategy 1 was considered as the most feasible of the strategies to implement in the short to medium-term and it would still greatly improve the portfolio's debt position relative to the base year 2020.**

In comparison to the current debt position, Gombe State debt portfolio stood at N99.594 billion as at end-2020, which expected to reduce to N49.896 billion under Strategy 2 to the end of the strategic period, compared to Strategy 1 (N50.582 billion), Strategy 3 (N51.477 billion), and Strategy 4 (N50.565 billion). In addition to this, the cost/risk trade-offs are considered, using

the debt to GDP, debt to revenue, debt service to GDP, debt service to revenue, interest to GDP and interest payment to GDP ratios, S2 is selected as the preferred strategy for the 2021-2025.

The Debt Management Strategy, 2021-2025 represents a robust framework for prudent debt management, as it provides a systematic approach to decision making on the appropriate composition of external and domestic borrowing to finance the 2021 budget. The cost-risk trade-off of alternative borrowing strategies under the DMS has been evaluated within the medium-term context.

The Shock analysis of the DMS include four shock scenario (Shock revenue, shock expenditure, shock exchange rate, shock interest rate). The main features of the shocks scenarios are in terms of its deviation from the baseline scenario which is to plan for the future flexibility (unforeseen circumstance) of revenue, expenditure, exchange rate, and interest rate. The result shows that total Public Debt to State GDP, Debt to Revenue, Debt Service to Revenue and Personnel cost to Revenue ratios remains below its threshold throughout the projection period, after taking into consideration the macroeconomics shocks and policy shocks it can be evaluated that the robustness for the State sustainability assessment for the Baseline scenario indicate that the all the shocks are below the threshold of 200%, 40% and 60% for debt to revenue, debt service to revenue and personnel cost to revenue respectively. All the percentages are below the threshold which indicates that the shock to revenue of the State is sustainable. The effect of unforeseen circumstance in respect of the shocks may affect the debt position of the State which may increase the debt stock, principal repayments or interest payment of the State in the long-run.

The report concluded that, there is a need for the Gombe State to diversify sources of revenue away from crude-oil (FAAC), as well as full implementation of policies that will boost IGR into the State. The State remains mostly sensitive to the revenue shocks, expenditure shocks, exchange rate shocks, interest rate shocks and historical shocks, indicating that an increase in aggregate output does not result to a proportionate increase in revenue. Meanwhile, the ratios of Debt Service to Revenue and Personnel Cost to Revenue trends remains under the threshold over the projection period from 2021 to 2030, with the strong minded efforts by the State Government through its various initiatives and reforms in the key sectors of the economy, respectively.

# Annexes

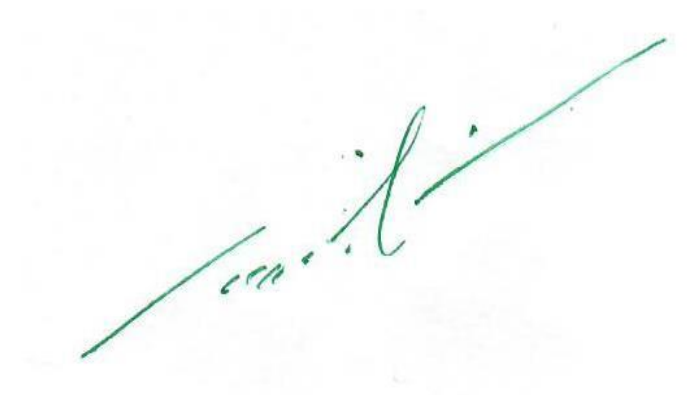
## Annex I: Table Assumption

		Projection Methodology	Source
Assumptions:			
Economic activity	State GDP (at current prices)	The price of 40 dollars per barrel from 2021-2023 was adopted, the projected GDP was calculated based on the National GDP taking into consideration the average changes in the National GDP	National GDP Projection
Revenue	Revenue		
	1. Gross Statutory Allocation ('gross' means with no deductions; do not include VAT Allocation here)	The estimation is based on an elasticity forecast (National macro-economic, mineral assumptions in the FGN MTEF/FSP 2022-2024 framework). It's also from historical mineral revenues flows, National real GDP and inflation and Nigeria Governor's Forum Secretariat. Whereas from 2025 to 2030 an average increase was proposed, derived from the average percentage of 2021 to 2023 amount after considering Economic situation of the country (Expecting the economy growth will improve).	Audited Financial Report/MTEF
	1.a. of which Net Statutory Allocation ('net' means of deductions)		
	1.b. of which Deductions		
	2. Derivation (if applicable to the State)		
	3. Other FAAC transfers (exchange rate gain, augmentation, others)	The estimation of other FAAC transfer was based on the expected economic situation in the country i.e Covid-19 pandemic and the recession, from 2025 to 2030 it's with the hope the economy will improve therefore an increment was proposed.	Audited Financial Report/MTEF
	4. VAT Allocation	VAT - is based on elasticity forecast using the combined change in GDP and inflation rate. The estimate for 2022-2024 is in line with the current rate of collections which is 7.5% as approved by the National Assembly. Whereas from 2025 to 2030 an average increase was proposed, derived from the average percentage of 2022 to 2024 amount and expecting economic improvement.	Audited Financial Report/MTEF
	5. IGR	The estimation is based on own percentage taking into consideration the economic activity of the State, reform of revenue administration and the impact of COVID-19. Whereas from 2025 to 2030 an average increase was proposed, the percentage was derived from the average percentage of 2022 to 2024 amount and with the implementation of treasury single account, establishment of taxpayer database, the perfection of the TSA, establishment of Executive Management Committee, cash to cashless policy, and technical support from development partners towards harmonization/review of tax rate and other efforts focused on blocking leakages and dealing with the phenomena of tax avoidance/evasion, the collection will improve .	Audited Financial Report/MTEF
	6. Capital Receipts		
	6.a. Grants	Grants are largely from Local Government contributions to the State Infrastructure and social sector projects and UBE. Whereas from 2025 to 2030 an average increase was proposed, derived from the average percentage of 2022 to 2024 amount and with the recent efforts by the State Government to finalize its 10-year development plan, however, donors are expected to key in with more grants in the coming years.	Audited Financial Report/MTEF
	6.b. Sales of Government Assets and Privatization Proceeds		
	6.c. Other Non-Debt Creating Capital Receipts		
Expenditure	Expenditure		
	1. Personnel costs (Salaries, Pensions, Civil Servant Social Benefits, other)	The Personnel cost is anticipated to remain the same occasioned by COVID-19 Pandemic which is estimated as 3% for 2022-2024. Whereas from 2024 to 2029 an average increase was proposed, derived from the average percentage of 2022 to 2024 amount and personnel cost is expected to grow in the period under review due to the minimum wage policy by the Federal Government and the appointment of public service office holders.	Audited Financial Report/MTEF
	2. Overhead costs	The State overhead costs increased exponentially in 2018 by 17.13% but the current administration is reducing cost of governance for capital investment from 2019 forward. Whereas from 2025 to 2030 an average increase was proposed, derived from the average percentage of 2022 to 2024 amount and the increment was proposed because of day to day running of Government activities.	Audited Financial Report/MTEF
	3. Interest Payments (Public Debt Charges, including interests deducted from FAAC Allocation)		
	4. Other Recurrent Expenditure (Excluding Personnel Costs, Overhead Costs and Interest Payments)		
	5. Capital Expenditure	It is based on the balance from the recurrent account plus capital receipts and is in the form of discretionary and non-discretionary capital expenditure. Whereas from 2025 to 2030 an average increase was proposed, derived from the average percentage of 2022 to 2024 amount and the State intend to embark more developmental projects therefore capital expenditure will grow during the period.	Audited Financial Report/MTEF
Closing Cash and Bank Balance	Closing Cash and Bank Balance	The method used to ascertain the closing cash and bank balance was based on economic situation of the State and the Country, in 2020 the closing balance drop due to the economic hardship (Covid-19 pandemic and recession), from 2021 it start improving with the expectation of going out of recession, from 2022 to 2024 is based on MTEF, while from 2025 to 2030 is based on average percentage from the previous closing cash and bank balances	Audited Financial Report/MTEF
Debt Amortization and Interest Payments	Debt Outstanding at end-2020		
	External Debt - amortization and interest	The Gombe State External debt are mainly from world bank and African development banks at an average interest rate of 0.98%, while some debt are concessional, the average period is 30years	Audited Financial Report/MTEF
	Domestic Debt - amortization and interest	The Gombe State Domestic debt are mainly from commercial banks and federal government of Nigeria, the average interest rate of 15%., the average period is 6years	Audited Financial Report/MTEF
	New debt issued/contracted from 2021 onwards		
	New External Financing	Insert the Borrowing Terms for New External Debt: interest rate (%), maturity (# years) and grace period (#)	
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	The State Government is planning to borrow \$6.3 in 2022 at an average interest rate of 0.98% with 30 years maturity period and 6 years grace period.	Audited Financial Report/MTEF
	External Financing - Bilateral Loans	The State has no any plan for Bilateral loans	Audited Financial Report/MTEF
	Other External Financing	No Plan for other external financing	Audited Financial Report/MTEF
	New Domestic Financing	Insert the Borrowing Terms for New Domestic Debt: interest rate (%), maturity (# years) and grace period (#)	
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)	The State Government is planning to borrow the sum of N7319, N7534.4, N1334.0 and N1535.7 in 2021, 2023, 2024 and 2025 respectively at an average interest rate of 15% with 5 years maturity period and 0 years grace period.	Audited Financial Report/MTEF
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)	The State Government is planning to borrow the sum of N2896.2, N1362.7, N1812.6 and N1539.4 in 2025, 2028, 2029 and 2030 respectively at an average interest rate of 15% with 6 years maturity period and 0 years grace period.	Audited Financial Report/MTEF
	State Bonds (maturity 1 to 5 years)	The State Government is planning to borrow the sum of N1221.2, in 2026 from State bond at an average interest rate of 15.5% with 5 years maturity period and 0 years grace period.	Audited Financial Report/MTEF
	State Bonds (maturity 6 years or longer)	The State Government is planning to borrow the sum of N10488.3 in 2022 from State bond at an average interest rate of 15.5% with 57years maturity period and 0 years grace	Audited Financial Report/MTEF

		period.	
	Other Domestic Financing	No plan for other domestic financing	
<b>Proceeds from Debt-Creating Borrowings corresponding to Debt Strategy S1</b>	<b>Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S1</b>		
	<b>New Domestic Financing in Million Naira</b>		
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)	The State Government is planning to borrow the sum of N7319, N7534.4, N1334.0 and N1535.7 in 2021, 2023, 2024 and 2025 respectively at an average interest rate of 15% with 5 years maturity period and 0 years grace period.	
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)	The State Government is planning to borrow the sum of N2896.2, N1362.7, N1812.6 and N1539.4 in 2025, 2028, 2029 and 2030 respectively at an average interest rate of 15% with 6 years maturity period and 0 years grace period.	
	State Bonds (maturity 1 to 5 years)	The State Government is planning to borrow the sum of N1221.2, in 2026 from State bond at an average interest rate of 15.5% with 5 years maturity period and 0 years grace period.	
	State Bonds (maturity 6 years or longer)	The State Government is planning to borrow the sum of N10488.3 in 2022 from State bond at an average interest rate of 15.5% with 57years maturity period and 0 years grace period.	
	Other Domestic Financing	No plan for other domestic financing	
	<b>New External Financing in Million US Dollar</b>		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	The State Government is planning to borrow \$6.3 in 2022 at an average interest rate of 0.98% with 30 years maturity period and 6 years grace period.	
	External Financing - Bilateral Loans	The State has no any plan for Bilateral loans	
	Other External Financing	No Plan for other external financing	
<b>Proceeds from Debt-Creating Borrowings corresponding to Debt Strategy S2</b>	<b>Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S2</b>		
	<b>New Domestic Financing in Million Naira</b>		
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)	The State Government is planning to borrow the sum of N2319, N5000, N2507.5, N3207.2 and N2689.3 in 2021, 2022, 2024, 2028 and 2029 respectively at an average interest rate of 15% with 5 years maturity period and 0 years grace period.	
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)	The State Government is planning to borrow the sum of N5000, N7706.3, N4359.6, N4743.3 and N4018.8 in 2021, 2022, 2025, 2027 and 2030 respectively at an average interest rate of 15% with 6 years maturity period and 0 years grace period.	
	State Bonds (maturity 1 to 5 years)	The State Government is planning to borrow the sum of N8435.7 and N2991.9 in 2023 and 2026 respectively from State bond at an average interest rate of 15.5% with 5 years maturity period and 0 years grace period.	
	State Bonds (maturity 6 years or longer)	The State Government has no plan for State bond (maturity 6 years or longer)	
	Other Domestic Financing	No plan for other domestic financing	
	<b>New External Financing in Million US Dollar</b>		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	The State has no any plan for concessional loans	
	External Financing - Bilateral Loans	The State has no any plan for Bilateral loans	
	Other External Financing	No Plan for other external financing	
<b>Proceeds from Debt-Creating Borrowings corresponding to Debt Strategy S3</b>	<b>Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S3</b>		
	<b>New Domestic Financing in Million Naira</b>		
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)	The State Government is planning to borrow the sum of N7319, N5000, N2931.9, N4685.7, N2000 and N1885.4 in 2021, 2022, 2023, 2025, 2027 and 2028 respectively at an average interest rate of 15% with 5 years maturity period and 0 years grace period.	
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)	The State Government is planning to borrow the sum of N6000, N2858.8, and N2186.9 in 2023, 2024, and 2027 respectively at an average interest rate of 15% with 6 years maturity period and 0 years grace period.	
	State Bonds (maturity 1 to 5 years)	The State Government is planning to borrow the sum of N7873 and N3496.8 in 2022 and 2029 respectively from State bond at an average interest rate of 15.5% with 5 years maturity period and 0 years grace period.	
	State Bonds (maturity 6 years or longer)	The State Government is planning to borrow the sum of N3528.4 and N4508.3 in 2026 and 2030 respectively from State bond (maturity 6 years or longer at an average interest rate of 15.5% with 5 years maturity period and 0 years grace period.	
	Other Domestic Financing	No plan for other domestic financing	
	<b>New External Financing in Million US Dollar</b>		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	The State has no any plan for concessional loans	
	External Financing - Bilateral Loans	The State has no any plan for Bilateral loans	
	Other External Financing	No Plan for other external financing	
<b>Proceeds from Debt-Creating Borrowings corresponding to Debt Strategy S4</b>	<b>Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S4</b>		
	<b>New Domestic Financing in Million Naira</b>		
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)	State Government is planning to borrow the sum of N4129, N3500, N4313.2, N1860.6 and N3319.8 in 2022, 2023, 2025, 2028, and 2030 respectively at an average interest rate of 15% with 5 years maturity period and 0 years grace period.	
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)	The State Government is planning to borrow the sum of N7319, N5142.3, and N2539.7 in 2021, 2023, and 2024 respectively at an average interest rate of 15% with 6 years maturity period and 0 years grace period.	
	State Bonds (maturity 1 to 5 years)	The State Government is planning to borrow the sum of N8500and N3081.2 in 2022 and 2026 respectively from State bond at an average interest rate of 15.5% with 5 years maturity period and 0 years grace period.	
	State Bonds (maturity 6 years or longer)	The State Government is planning to borrow the sum of N35313.3 in 2027 from State bond (maturity 6 years or longer at an average interest rate of 15.5% with 5 years maturity period and 0 years grace period.	
	Other Domestic Financing	No plan for other domestic financing	
	<b>New External Financing in Million US Dollar</b>		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	The State is planning to borrow the sum of \$8.847 from concessional loans at an average interest rate of 0.98% and 30 years maturity period with 5 years grace period	
	External Financing - Bilateral Loans	The State has no any plan for Bilateral loans	
	Other External Financing	No Plan for other external financing	

# Annex II: Historical and projections of the S1\_Baseline Scenario

Indicator	2016	2017	Actuals 2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	BASELINE SCENARIO														
Economic Indicators															
State GDP (at current prices)	1,136,161.00	1,239,249.00	1,383,165.00	1,620,484.00	1,787,083.00	2,096,399.00	2,324,500.00	2,568,330.00	2,793,213.00	3,043,709.00	3,323,121.00	3,628,184.00	3,961,251.00	4,324,894.00	4,721,919.00
Exchange Rate NGN/US\$ (end-Period)	253.19	305.79	306.50	326.00	379.00	379.00	379.00	379.00	379.00	379.00	379.00	379.00	379.00	379.00	379.00
Fiscal Indicators (Million Naira)															
Revenue	57,768.30	58,998.40	77,368.00	82,212.40	80,713.90	126,749.30	132,713.68	134,466.84	135,132.40	139,409.86	146,470.47	149,806.30	164,911.90	183,984.23	192,555.57
1. Gross Statutory Allocation ("gross" means with no deductions; do not include VAT Allocation here)	19,201.20	26,707.63	40,051.56	38,784.81	32,076.46	47,524.00	54,757.00	56,511.00	60,686.00	63,468.00	65,426.00	60,398.00	66,320.00	81,925.00	84,142.00
1.a. of which Net Statutory Allocation ("net" means of deductions)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1.b. of which Deductions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Derivation (if applicable to the State)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Other FAAC transfers (exchange rate gain, augmentation, others)	21,569.21	12,567.00	10,181.29	7,686.84	3,831.96	11,200.00	4,500.00	4,600.00	4,700.00	4,500.00	5,000.00	5,500.00	5,600.00	5,800.00	5,800.00
4. VAT Allocation	7,578.07	9,073.34	10,145.74	10,940.65	13,377.88	21,455.00	25,085.00	28,513.00	30,180.00	36,318.00	40,616.00	45,423.00	50,798.00	56,810.00	63,532.00
5. IGR	4,803.90	5,492.28	7,490.37	6,832.03	8,637.43	14,086.51	11,403.57	13,544.08	14,740.00	16,055.62	16,376.73	16,704.26	17,038.35	17,379.12	17,726.70
6. Capital Receipts	4,615.90	5,158.10	9,499.00	17,968.10	22,790.20	32,483.79	36,967.11	31,298.75	24,826.40	19,068.25	19,051.74	21,781.04	25,155.55	22,270.11	21,354.87
6.a. Grants	0.00	408.69	3,593.03	6,119.73	13,829.10	13,000.00	13,500.00	13,000.00	12,650.00	11,500.00	11,500.00	11,500.00	11,500.00	12,000.00	13,000.00
6.b. Sales of Government Assets and Privatization Proceeds	0.00	0.00	0.00	5,695.20	5,551.13	3,000.00	3,000.00	3,000.00	3,500.00	3,500.00	3,500.00	4,000.00	4,000.00	4,000.00	4,000.00
6.c. Other Non-Debt Creating Capital Receipts	4,615.88	4,749.43	5,905.94	6,153.16	3,410.00	5,000.00	6,000.00	6,000.00	6,000.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	3,500.00
6.d. Proceeds from Debt-Creating Borrowings (bond issuance, loan disbursements, etc.)	0.00	0.00	0.00	0.00	0.00	11,483.79	14,467.11	9,298.75	2,676.40	1,068.25	1,051.74	3,281.04	6,655.55	3,270.11	854.87
Expenditure	56,985.30	53,651.30	72,280.50	77,291.00	86,468.40	124,346.00	132,713.68	133,466.84	133,132.40	139,409.86	145,470.47	148,806.30	164,911.90	180,984.23	190,555.57
1. Personnel costs (Salaries, Pensions, Civil Servant Social Benefits, other)	16,340.96	17,396.48	19,276.64	19,330.17	18,775.90	23,489.81	27,243.36	27,924.45	28,622.56	30,626.18	32,770.00	35,063.92	38,570.29	40,144.68	42,954.80
2. Overhead costs	11,842.98	13,872.07	19,876.85	18,715.96	18,273.60	16,471.37	16,202.54	20,253.17	16,202.54	17,012.60	17,863.23	18,756.39	20,069.40	20,678.90	21,712.87
3. Interest Payments (Public Debt Charges, including interests deducted from FAAC Allocation)	4,852.16	3,554.32	3,738.70	4,214.57	14,541.70	4,760.44	6,466.17	7,246.11	7,635.89	6,824.28	5,668.39	4,409.07	4,025.73	4,120.29	3,816.69
3.a. of which Interest Payments (Public Debt Charges, excluding interests deducted from FAAC Allocation)	20.22	44.59	177.83	238.50	616.68	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3.b. of which Interest deducted from FAAC Allocation	4,831.94	3,509.73	3,560.87	3,976.07	13,924.98	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Other Recurrent Expenditure (Excluding Personnel Costs, Overhead Costs and Interest Payments)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5. Capital Expenditure	20,929.82	17,371.28	25,775.88	30,715.08	29,033.40	61,665.46	64,748.80	67,986.21	71,385.50	74,954.80	78,702.50	82,637.67	95,033.35	109,288.36	116,938.59
6. Amortization (principal) payments	3,019.37	1,457.16	3,612.43	4,315.19	5,843.80	17,958.93	18,052.82	10,056.90	9,285.92	9,992.00	10,466.35	7,939.25	7,213.13	6,752.00	5,132.62
Budget Balance ("+" means surplus, "-" means deficit)	783.00	5,347.10	5,087.50	4,921.40	-5,754.50	2,403.30	0.00	1,000.00	2,000.00	0.00	1,000.00	1,000.00	0.00	3,000.00	2,000.00
Opening Cash and Bank Balance	2,212.17	2,995.20	8,342.30	13,429.80	18,351.20	12,596.70	15,000.00	15,000.00	16,000.00	18,000.00	18,000.00	19,000.00	20,000.00	20,000.00	23,000.00
Closing Cash and Bank Balance	2,995.20	8,342.30	13,429.80	18,351.20	12,596.70	15,000.00	15,000.00	16,000.00	18,000.00	18,000.00	19,000.00	20,000.00	20,000.00	23,000.00	25,000.00
Financing Needs and Sources (Million Naira)															
Financing Needs						19,483.79	23,467.11	18,298.75	12,176.40	7,568.25	7,551.74	10,281.04	13,655.55	10,270.11	8,354.87
i. Primary balance						5,638.88	1,051.88	4.26	6,745.41	9,248.04	9,583.00	3,067.28	-2,416.69	3,602.17	2,594.44
ii. Debt service						22,719.37	24,518.99	17,303.01	16,921.81	16,816.28	16,134.74	12,348.32	11,238.86	10,872.29	8,949.31
Amortizations						17,958.93	18,052.82	10,056.90	9,285.92	9,992.00	10,466.35	7,939.25	7,213.13	6,752.00	5,132.62
Interests						4,760.44	6,466.17	7,246.11	7,635.89	6,824.28	5,668.39	4,409.07	4,025.73	4,120.29	3,816.69
iii. Financing Needs Other than Amortization Payments (e.g., Variation in Cash and Bank Balances)						2,403.30	0.00	1,000.00	2,000.00	0.00	1,000.00	1,000.00	0.00	3,000.00	2,000.00
Financing Sources						19,483.79	23,467.11	18,298.75	12,176.40	7,568.25	7,551.74	10,281.04	13,655.55	10,270.11	8,354.87
i. Financing Sources Other than Borrowing						8,000.00	9,000.00	9,000.00	9,500.00	6,500.00	6,500.00	7,000.00	7,000.00	7,000.00	7,500.00
ii. Gross Borrowings						11,483.79	14,467.11	9,298.75	2,676.40	1,068.25	1,051.74	3,281.04	6,655.55	3,270.11	854.87
Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)						11,483.80	0.00	0.00	0.00	0.00	0.00	0.00	6,655.60	0.00	0.00
Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)						0.00	0.00	0.00	2,676.40	1,068.20	0.00	0.00	0.00	0.00	0.00
State Bonds (maturity 1 to 5 years)						0.00	0.00	9,298.80	0.00	0.00	1,051.70	0.00	0.00	3,270.10	0.00
State Bonds (maturity 6 years or longer)						0.00	14,467.10	0.00	0.00	0.00	0.00	3,281.00	0.00	0.00	0.00
Other Domestic Financing						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
External Financing - Concessional Loans (e.g., World Bank, African Development Bank)						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	854.90
External Financing - Bilateral Loans						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other External Financing						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Residual Financing						-0.01	0.01	-0.05	0.00	0.05	0.04	0.04	-0.05	0.01	-0.03
Debt Stocks and Flows (Million Naira)															
Debt (stock)	55,452.15	50,339.10	71,582.75	92,497.90	99,594.30	93,119.16	89,533.46	88,775.31	82,165.79	73,242.03	63,827.42	59,169.21	58,611.63	55,129.74	50,851.99
External	7,139.95	8,439.70	8,244.85	8,573.80	13,871.40	13,265.00	12,658.60	12,052.20	11,445.80	10,839.40	10,233.00	9,778.20	9,323.40	8,868.60	9,268.70
Domestic	48,312.20	41,899.40	63,337.90	83,924.10	85,722.90	79,854.16	76,874.86	76,723.11	70,719.99	62,402.63	53,594.42	49,391.01	49,288.23	46,261.14	41,583.29
Gross borrowing (flow)						11,483.79	14,467.11	9,298.75	2,676.40	1,068.25	1,051.74	3,281.04	6,655.55	3,270.11	854.87
External	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	854.90
Domestic						11,483.79	14,467.11	9,298.75	2,676.40	1,068.25	1,051.74	3,281.04	6,655.55	3,270.11	-0.03
Amortizations (flow)	19,453.99	28,719.39	27,169.76	25,213.08	23,890.89	17,958.93	18,052.82	10,056.90	9,285.92	9,992.00	10,466.35	7,939.25	7,213.13	6,752.00	5,132.62
External	126.59	152.89	214.55	358.60	644.30	606.40	606.40	606.40	606.40	606.40	606.40	454.80	454.80	454.80	454.80
Domestic	19,327.40	28,566.50	26,955.21	24,854.48	23,246.59	17,352.53	17,446.42	9,450.50	8,679.52	9,385.60	9,859.95	7,484.45	6,758.33	6,297.20	4,677.82
Interests (flow)															

A handwritten signature in green ink, appearing to be 'M. Gambo Magaji', is written diagonally across the page.

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**MAL. MUHAMMADU GAMBO MAGAJI**  
**HONOURABLE COMMISSIONER**  
**MINISTRY OF FINANCE**