

GOMBE STATE OF NIGERIA



GOMBE STATE DEBT SUSTAINABILITY ANALYSIS AND MEDIUM- TERM DEBT STRATEGY (DSA-MTDS 2024)

GOMBE STATE DSA-MTDS REPORT

DEVELOPED BY THE
GOMBE STATE DEBT MANAGEMENT AGENCY
MINISTRY OF FINANCE

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Chapter One

Introduction

1.1 Background

The State Debt Sustainability Analysis (S-DSA) Toolkit was created by the Debt Management Office of Nigeria and underwent a review by the World Bank. Its purpose is to examine the financial developments in the State from 2019 to 2023 and assess the State's capacity to manage its debt in the long term, spanning from 2024 to 2033. Gombe State's Technical Team conducted a Debt Sustainability Analysis (DSA), which included an evaluation of recent revenue, expenditure, public debt trends, and the policies implemented by the State Government, while taking into account the State's policy direction. This assessment involved analyzing various scenarios and sensitivity factors to gauge how the State's public finances might perform in the future. The goal is to assist Gombe State Government in making informed decisions regarding the execution of its programs and the issuance of new loans, based on the most up-to-date trends in the State's public finances.

1.1.1 Policy Objective

The main purpose of Gombe State DSA-MTDS is to assess the trends and patterns of public finances for the period 2019 to 2023 and evaluate Debt Sustainability and Debt Management Strategies of the State for 2024–2033.

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

1.1.2 Methodology

The date of conducting the DSA-MTDS of Gombe State is September 2024 and the tool kit used for the report is the World Bank/DMO DSA-MTDS Template, while, the scope of data covered the historical period of 2019-2023 and the projection period of 2024-2033, and the participated agencies are; the Debt Management Agency (DMA), Budget Office, the Treasury Office, State Bureau of Statistics and the Internal Revenue Service (IRS) of Gombe State.

1.2 Summary of Findings

The analysis of Gombe State's debt sustainability reveals a moderately sustainable debt position for the medium term, supported by several positive economic trends and effective fiscal management strategies. However, the state also faces a number of challenges that could influence its fiscal outlook.

Key achievements include the successful implementation of revenue-enhancing reforms such as the introduction of the Land Use Charge, which has provided a steady stream of income. Furthermore, the Gombe State 10-year Development Plan, launched in 2020, continues to guide economic planning and has driven improvements in public finance management.

Despite these positives, Gombe State must navigate significant external and internal challenges, including inflationary pressures, exchange rate fluctuations, and the removal of fuel subsidies. These challenges could affect revenue generation and increase public debt obligations. Nonetheless, the state's commitment to controlling recurrent expenditure and improving public debt management is expected to mitigate these risks in the medium term. Therefore, the key findings are summarized as follows:

i. Findings on Revenue Trends Going Forward, Reflecting National Revenue Trends

- a. The State's Federal Allocation is projected to increase by an average of 43.3 percent from 2024 to 2033.
- b. The average percentage of Debt to State Gross Domestic Product (GDP) is expected to averagely at 11 percent from 2024 to 2033.
- c. Internally Generated Revenue (IGR) is anticipated to grow by an average of 11.56 percent from 2024 to 2033.

ii. Findings on Expenditure Projections for 2024-2033

- a. State expenditure is expected to averagely increase during this period.
- b. Real aggregate expenditure is projected to grow by 43.63 percent in 2024-2033.
- c. Capital spending is anticipated to show positive average growth of 11.53 percent, while recurrent expenditure is projected to decrease modestly by 15.54 percent.
- d. Recurrent spending, which includes personnel costs, overheads, and debt charges, constitutes an average of 38.10 percent of total spending during this period.

iii. Findings on Debt Trends Going Forward

- a. Debt is forecasted to increase from N223.08 billion in 2024 to N1,184.54 billion in 2033.
- b. However, there is a decline in the State's Debt Stock capacity as a percentage of public debt to revenue from 2024 to 2033 (from 187% to 113%).
- c. Debt service is expected to increase from N29.75 billion to N136.87 billion from 2024 to 2033.
- d. There is an improvement in the State's repayment capacity of the public debt position to revenue, with an average of 38.74 percent from 2024 to 2033.
- e. The analysis of the Baseline Scenario concludes that the State will be able to maintain the sustainability of its debt in the medium term, although its debt-to-revenue ratio is

expected to exceed the recommended threshold of 200 percent for debt and 40 percent for debt service-to-revenue.

1.3 Overall Results

The comprehensive analysis of the State's Debt Sustainability Assessment and Medium-Term Debt Strategy (DSA-MTDS) indicates a sustainable economic environment within the State, encompassing aspects such as revenue generation, expenditure control, management of public debt, and the implementation of related policies.

Based on the framework provided by the DSA-MTDS Analysis template, the following recommendations are made:

1. Enhance Internal Revenue Generation (IGR) and Revenue Collection Integrity:

It is imperative for the State to enhance its efforts in increasing Internal Generated Revenue (IGR) by addressing and rectifying any existing revenue leakages. This involves improving the efficiency and transparency of revenue collection processes to maximize revenue inflows.

2. Prudent Expenditure Management: The State should exercise strict fiscal discipline by minimizing expenditure to the utmost possible extent. This entails carefully scrutinizing and optimizing all budgetary allocations to ensure resources are allocated efficiently and in line with the State's priorities.

3. Effective Public Debt Management: The State should focus on managing its public debt more effectively, which includes negotiating favorable interest rates with lending institutions. By engaging in sound debt management practices, the State can reduce the cost of servicing its debt, thereby freeing up resources for developmental projects.

4. Diversify Revenue Sources: In addition to improving IGR, the State should explore opportunities for diversifying its revenue sources. This may involve exploring new sectors, promoting investments, and considering innovative revenue-generating mechanisms to reduce dependence on a single revenue stream.

5. Enhance Financial Reporting and Transparency: Implement robust financial reporting and transparency mechanisms to provide clear insights into the State's financial health. This transparency fosters trust among stakeholders and investors and ensures accountability in financial management. Gombe state has been ranked an impressive 6th out of 36 states by BudgIT, with a commendable score of 74/100. This is as the result in commitment to fiscal transparency and accountability that earned a significant distinction in the 2023 fiscal transparency index published by BudgIT, a reputable fiscal policy tracking organization in Nigeria, and two times 1st position in ease of doing business in Nigeria.

6. Develop a Contingency Plan: Given the uncertainties in the economic environment, it is advisable for the State to establish a contingency plan that outlines steps to be taken in the event of unexpected financial challenges. This plan can help mitigate risks and ensure the State's financial stability during crises.

7. Engage in Capacity Building: Invest in the capacity building of relevant personnel involved in financial management to ensure they possess the skills and knowledge necessary for effective fiscal management and debt negotiation.

By implementing these recommendations, the State can further strengthen its economic resilience and ensure the continued sustainability of its financial position.

Note: The DSA-MTDS Report is based on the exchange rate of N1,000 to US \$1 from Federal Debt Management Office Assumption for the year 2024.

Chapter Two

Gombe State Fiscal and Debt Framework

2.1 Fiscal reform in last 3-5 years

Over the past five to six years, the Gombe State Government has implemented a series of significant fiscal reforms to enhance economic development and strengthen financial management. These initiatives encompass the Gombe State 10-Year Development Plan (2021–2030) and reforms within Public Financial Management (PFM) and Human Resource Management (HRM). Notable sub-divisions include Budget Reform, Audit Reform, Public Procurement Reform, Tax Administration Reform, and Civil Service & Pension Reform.

These efforts have led to the enactment and amendment of critical laws governing fiscal policy in the State. These laws include:

- a. Gombe State Fiscal Responsibility Law (FRL), amended in 2018
- b. Gombe State Finance Management Law, 2017
- c. Gombe State Government Financial Regulations and Store, 2017
- d. Gombe State Public Procurement Law, 2017
- e. Gombe State Debt Management Agency Law, 2021
- f. Gombe State Audit Law, amended in 2023
- g. Gombe State Public Financial Management (PFM) Law, enacted in 2024

The PFM Law 2024 represents a critical milestone in enhancing the transparency, accountability, and efficiency of public financial management systems within the State. It provides a framework for fiscal governance, streamlines budget processes, and strengthens compliance with international financial reporting standards.

The Gombe State Fiscal Responsibility Law (FRL), for example, outlines the creation of implementation bodies, the establishment of a medium-term fiscal framework, the regulation of public expenditure and borrowing, and the promotion of transparency and accountability in governance.

These fiscal reforms aim to achieve macroeconomic goals such as stimulating economic growth, creating job opportunities, and implementing critical infrastructure projects. While specific measures have evolved over time, the overarching objectives of the State's fiscal policy have remained consistent.

Revenue Mobilization and IGR Growth

The State's Internally Generated Revenue (IGR) is estimated based on economic activity, revenue administration reforms, and contemporary economic challenges. Rising inflation, foreign exchange instability, and the removal of fuel subsidies have placed pressure on household incomes and overall State revenues. Despite these challenges, traditional revenue sources such as PAYE and fees remain primary contributors to actual revenue collections.

Notable measures to enhance revenue generation include:

- a. Establishing a taxpayer database by the Board of Internal Revenue Service
- b. Refining the Treasury Single Account (TSA)
- c. Transitioning to cashless transactions
- d. Establishing an Executive Management Committee
- e. Support from development partners for tax rate harmonization and review
- f. Addressing the impact of subsidy removal by exploring alternative revenue sources and promoting economic diversification

These efforts have introduced additional revenue streams, mitigated tax avoidance and evasion, and are expected to drive annual IGR growth from 2023 to 2025.

With these fiscal reforms and the enactment of the PFM Law 2024, Gombe State is better positioned to address current economic challenges, achieve sustainable financial management, and foster inclusive economic development.

2.2 Medium-Term Expenditure Framework and Fiscal Strategy Paper (MTEF/FSP) 2025 – 2027 and 2024 Budget

2.2.1 Approved 2023 Budget

The 2024 Budget was formulated in the context of prevailing economic challenges and opportunities, both globally and domestically. These include Nigeria's efforts to adapt to the removal of fuel subsidies, foreign exchange policy reforms, and persistent inflationary pressures, alongside a concerted push for economic diversification. Despite these challenges, the budget reflects the State's commitment to sustainable fiscal management and economic growth.

For 2024, **Gombe State's total revenue projection for funding the budget stands at N270.57 billion.** This revenue is derived from diverse sources, including Internally Generated Revenue (IGR), Statutory Allocation, Value Added Tax (VAT), Other Statutory Revenue, Domestic and Foreign Grants, Opening Balance, Domestic Loans, Foreign Loans, and proceeds from the Sale of Government Assets.

The total approved expenditure for 2024 is N208.06 billion, with the breakdown as follows:

- a. Debt Repayment (Interest and Principal): N22.43 billion
- b. Recurrent Expenditure: N85.27 billion
- c. Capital Expenditure: N120.54 billion

Highlights of the 2024 Approved Budget

The 2024 budget prioritizes fiscal sustainability and strategic resource allocation while addressing critical social and economic issues. It aligns with the **2025–2027 Medium-Term Expenditure Framework and Fiscal Strategy Paper (MTEF/FSP)** and is guided by the Gombe State Fiscal Responsibility Law. Key strategies include:

Revenue Optimization: Intensifying efforts to increase IGR through improved tax administration, expanding the taxpayer database, and leveraging the newly implemented business case by the Internal Revenue Service (IRS).

Capital over Recurrent Expenditure: A significant focus on infrastructure development and other capital-intensive projects to stimulate economic growth and job creation.

Budget Prioritization and Resource Allocation: Aligning expenditure with the State's development objectives as outlined in the **10-Year Development Plan (2021–2030)**.

Accountability and Transparency: Strengthening budget execution processes to ensure due process, prudent financial management, and effective monitoring.

Addressing Economic Challenges: Adjusting fiscal policies to mitigate the impacts of subsidy removal and inflation, with a focus on supporting vulnerable groups and promoting social inclusion.

Impact of Economic Reforms

The 2024 budget reflects adjustments to accommodate the macroeconomic realities, including:

Fuel Subsidy Removal: Additional spending on transport infrastructure and targeted palliatives for marginalized groups to cushion the effects of higher fuel costs.

Inflation and Exchange Rate Management: Measures to address cost-of-living increases and attract foreign investment through concessional borrowing and favorable debt terms.

Security Concerns and Economic Recovery: Enhanced allocations for security and resilience programs to protect lives and property while fostering a conducive environment for investment.

Looking Ahead

The 2024 fiscal framework emphasizes leveraging the Gombe State Public Financial Management (PFM) Law, enacted in 2024, which provides a robust foundation for efficient fiscal governance. By focusing on prudent debt management, enhanced revenue generation, and targeted social programs, Gombe State aims to sustain its growth trajectory, create jobs, and reduce poverty.

Close monitoring of budget implementation and a collaborative approach with development partners will be crucial to achieving the outlined objectives and ensuring that the budget contributes to inclusive and sustainable development across the State.

2.2.2 Indicative Three-Year Fiscal Framework

Gombe State's annual budget process is anchored on key policy instruments, including the Economic and Fiscal Update (EFU), Fiscal Strategy Paper (FSP), and Budget Policy Statement

(BPS). Together, these documents form the backbone of the Medium-Term Expenditure Framework (MTEF), providing critical guidance for the State's fiscal and economic planning.

Key Highlights for 2024-2027:

The fiscal framework for the period 2024-2027 reflects the State Government's commitment to maintaining fiscal discipline and achieving its developmental priorities.

i. Revenue Mobilization:

- a. Total recurrent revenue is projected to grow steadily from ₦102.39 billion in 2024 to ₦139.99 billion by 2027.
- b. Statutory Allocations remain a critical source of revenue, with an estimated ₦41.94 billion in 2024, increasing to ₦47.61 billion by 2027.
- c. Internally Generated Revenue (IGR) is targeted for consistent annual growth, from ₦22.31 billion in 2024 to ₦30.75 billion by 2027, supported by reforms in digitalized tax systems and innovative tax administration.
- d. Excess Crude and other revenue sources contribute significantly, with ₦8.10 billion projected in 2024 and ₦20 billion annually from 2025 to 2027.

ii. Expenditure Prioritization:

- a. Recurrent expenditure will rise from ₦83.60 billion in 2024 to ₦100.65 billion in 2027, focusing on personnel costs, social contributions, and public debt servicing.
- b. Transfers to the capital account are projected at ₦58.83 billion in 2024, reducing to ₦44.33 billion by 2027 to optimize the balance between recurrent and capital expenditures.

iii. Capital Financing and Reserves:

- a. Capital receipts are projected to rise significantly, from ₦17.50 billion in 2024 to ₦63.22 billion annually from 2025 to 2027. This will reduce reliance on loans for capital projects.
- b. The State has prioritized maintaining reserves, with a total reserve balance projected to grow from ₦5.75 billion in 2024 to ₦7.24 billion in 2027, enhancing fiscal sustainability.

iv. Capital Expenditure and Financing:

- a. Capital expenditure is estimated to increase from ₦118.72 billion in 2024 to ₦148.58 billion in 2027, emphasizing infrastructure development, especially in education, healthcare, and agriculture.

- b. Financing from loans will grow from ₦7.23 billion in 2024 to ₦53.72 billion annually from 2026 onward, carefully managed within debt sustainability thresholds.

v. Closing Balances:

- a. Despite fiscal pressures, the State aims to maintain a consistent closing balance of ₦25 billion from 2025 to 2027, underscoring the government's commitment to prudent fiscal management.

Implications for Fiscal and Debt Policies (2024-2027):

The projections highlight key fiscal trends and their implications for fiscal and debt policies:

- i. Revenue Growth and Sustainability: The steady growth in IGR and other revenue sources supports sustainability in recurrent expenditure funding, reducing reliance on volatile federal allocations.
- ii. Expenditure Efficiency: Recurrent expenditure management focuses on personnel cost rationalization and improving overhead efficiency to free up resources for high-impact capital projects.
- iii. Debt Management: The financing strategy ensures the State's debt remains within acceptable thresholds, supported by diversified funding through grants and PPPs.
- iv. Reserves and Contingency: Building contingency and planning reserves enhances the State's fiscal resilience against economic shocks.

The State's fiscal strategy is geared toward achieving developmental objectives while maintaining fiscal sustainability, ensuring that resources are allocated effectively to optimize social and economic outcomes.

Gombe State Medium Term Fiscal Framework

Fiscal Framework

Item	2024	2025	2026	2027
Opening Balance	40,027,890,933	25,108,445,500	25,000,000,000	25,000,000,000
Recurrent Revenue				
Statutory Allocation	41,944,787,742	44,880,922,884	46,227,350,571	47,614,171,088
Derivation				
VAT	30,026,984,919	36,032,381,902	39,635,620,093	41,617,401,097
IGR	22,318,245,500	27,897,806,875	29,292,697,219	30,757,332,080
Excess Crude / Other Revenue	8,104,536,406	20,000,000,000	20,000,000,000	20,000,000,000
Total Recurrent Revenue	102,394,554,567	128,811,111,661	135,155,667,882	139,988,904,265
Recurrent Expenditure				
Personnel Costs	28,220,142,337	36,121,782,192	37,927,871,301	39,824,264,866
Social Contribution and Social Benefit	8,514,519,574	8,727,382,563	8,945,567,127	9,213,934,141
Overheads	25,488,944,082	31,861,180,103	30,268,121,098	28,754,715,043
Grants, Contributions and Subsidies	277,169,292	332,603,151	349,233,309	366,694,974
Public Debt Service	21,094,916,771	21,411,340,523	21,839,567,334	22,494,754,354
Total	83,595,692,057	98,454,288,531	99,330,360,168	100,654,363,377
Transfer to Capital Account	58,826,753,443	55,465,268,630	60,825,307,714	64,334,540,887
Capital Receipts				
Grants	12,500,000,000	58,215,000,000	58,215,000,000	58,215,000,000
Other Capital Receipts	5,000,000,000	5,000,000,000	5,000,000,000	5,000,000,000
Total	17,500,000,000	63,215,000,000	63,215,000,000	63,215,000,000
Reserves				
Contingency Reserve	3,560,561,138	3,847,988,929	4,003,891,697	4,124,722,607
Planning Reserve	2,190,977,250	2,806,838,463	3,056,208,154	3,116,392,818
Total Reserves	5,751,538,388	6,654,827,392	7,060,099,851	7,241,115,424
Capital Expenditure	118,716,769,555	133,795,541,238	145,750,307,863	148,578,525,463
Discretionary Funds	99,266,769,555	117,690,541,238	128,645,307,863	131,473,525,463
Non-Discretionary Funds	19,450,000,000	16,105,000,000	17,105,000,000	17,105,000,000
Financing (Loans)	73,250,000,000	46,770,100,000	53,770,100,000	53,270,100,000
Total Revenue (Including Opening Balance)	233,172,445,500	263,904,657,161	277,140,767,882	281,474,004,265
Total Expenditure (including Contingency Reserve)	208,064,000,000	238,904,657,161	252,140,767,882	256,474,004,265
Closing Balance	25,108,445,500	25,000,000,000	25,000,000,000	25,000,000,000

Source: Gombe State MTEF 2025-2027

2.2.3 The Key Objectives of Approved 2024 Budget

The 2024 budget of Gombe State focuses on sustainable development, improved governance, and resilience-building, with the following key objectives:

- Advancing Functional Education:** Prioritize technical and technological education to enhance skills and knowledge.
- Strengthening Healthcare:** Expand access to quality healthcare services across the State.
- Empowering Citizens:** Promote youth and women empowerment for wealth creation and job opportunities.

- iv. **Aligning with Development Plans:** Ensure compliance with the Gombe State 10-Year Development Plan.
- v. **Enhancing Security:** Safeguard lives and properties to create a conducive environment for growth.
- vi. **Building Economic Resilience:** Mitigate the impacts of economic shocks, including pandemics, on citizens and businesses.
- vii. **Completing Key Projects:** Focus on completing ongoing capital projects and scaling up infrastructure investments.
- viii. **Increasing Revenue Generation:** Strengthen internally generated revenue (IGR) mechanisms.
- ix. **Promoting Social Inclusion:** Address gender-based violence and support marginalized groups through targeted programs.
- x. **Improving Financial Management:** Uphold transparency and accountability in public financial management.
- xi. **Driving Economic Diversification:** Leverage Public-Private Partnerships (PPP) for economic growth and diversification.

This framework underpins Gombe State's commitment to addressing immediate priorities while achieving long-term sustainable development.

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 2024 - 2026.
- 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 (2019-2023)

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

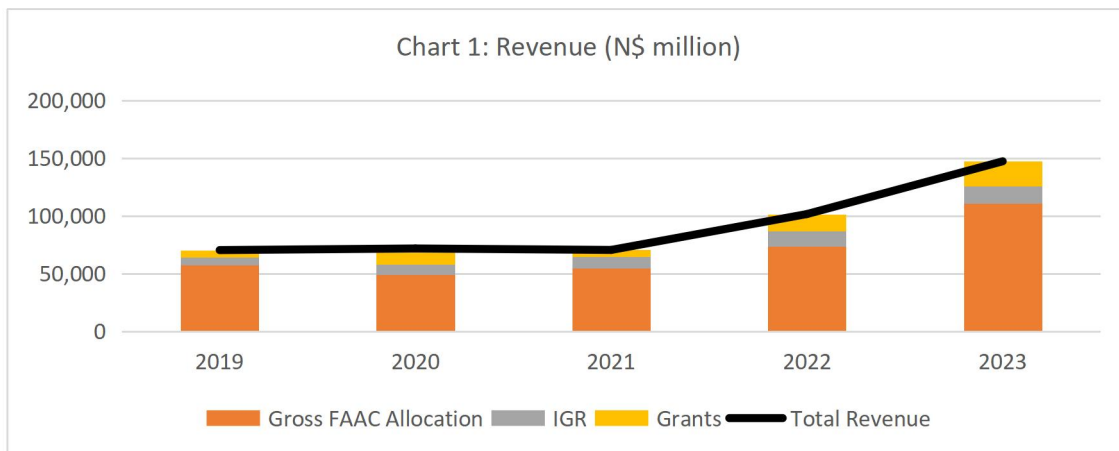
The revenue performance of the State is shown in Table 1 and Chart 1 below:

Table 1: Revenue

	₦ Million	₦ Million	₦ Million	₦ Million	₦ Million
	2019	2020	2021	2022	2023
Total Revenue	70,364	71,753	70,491	101,578	147,276
Gross FAAC Allocation	57,412	49,286	54,736	73,368	110,494
IGR	6,832	8,637	10,023	13,223	15,179
Grants	6,120	13,829	5,731	14,987	21,603

Source: Gombe State DSA/MTDS Template, 2024

CHART 1: Revenue



Source: Gombe State DSA/MTDS Template, 2024

Total Revenue for Gombe State reflects substantial growth, continuing a positive trajectory from previous years. The state's total revenue has increased dramatically from 101,578 million Naira in 2022 to 147,276 million Naira in 2023, indicating a notable rise of approximately 45%

within the year. This surge signifies a strong fiscal performance, with a significant contribution from diverse revenue sources, including FAAC, IGR, and grants.

Gross FAAC Allocation: The Federation Account Allocation Committee (FAAC) allocation to Gombe State shows a consistent upward trend, rising from 73,368 million Naira in 2022 to 110,494 million Naira in 2023. This increase is a positive indicator of growing federal transfers, offering the state a stable source of revenue that complements its own revenue-generating efforts.

IGR (Internally Generated Revenue): Internally Generated Revenue (IGR) also experienced significant growth, rising from 13,223 million Naira in 2022 to 15,179 million Naira in 2023. This upward trend demonstrates Gombe State's improving capacity to generate revenue locally, reducing its reliance on external sources like FAAC and grants. The growth in IGR is crucial for fiscal autonomy, enabling the state to fund critical infrastructure projects and development programs.

Grants: Grants received by the state have seen a notable increase, rising from 14,987 million Naira in 2022 to 21,603 million Naira in 2023. While grants continue to play an important role in Gombe State's revenue generation, the variability of this source underlines the importance of further diversifying revenue streams. The state must continue to ensure that grants are used strategically to support development initiatives without becoming overly dependent on this external funding.

Implications and Effects:

- i. **Increased Total Revenue:** The significant rise in total revenue in 2023 reflects a successful revenue-enhancement strategy and economic growth. This growth can support ongoing infrastructural development, enhanced public service delivery, and progress in the state's development agenda.
- ii. **Fiscal Autonomy through IGR Growth:** The consistent increase in Internally Generated Revenue (IGR) over the years indicates a growing capacity for self-reliance. This not only provides the state with more financial flexibility but also supports sustainable development initiatives independent of fluctuating federal allocations.
- iii. **Dependence on Grants:** Despite the positive trends, grants remain an important yet volatile source of funding. The fluctuation in grant amounts highlights the risks associated with depending on external sources. The state must continue to prioritize the diversification of its revenue streams to ensure fiscal stability and avoid over-reliance on grants, which are subject to external factors.

In summary, the financial trends for 2023 demonstrate Gombe State's improved revenue generation capacity, a promising rise in federal transfers, and ongoing success in securing grants. These developments lay a strong foundation for continued economic growth and fiscal sustainability, while also highlighting the need for careful financial planning and revenue diversification to ensure long-term fiscal health.

3.1.2 Expenditure Performance

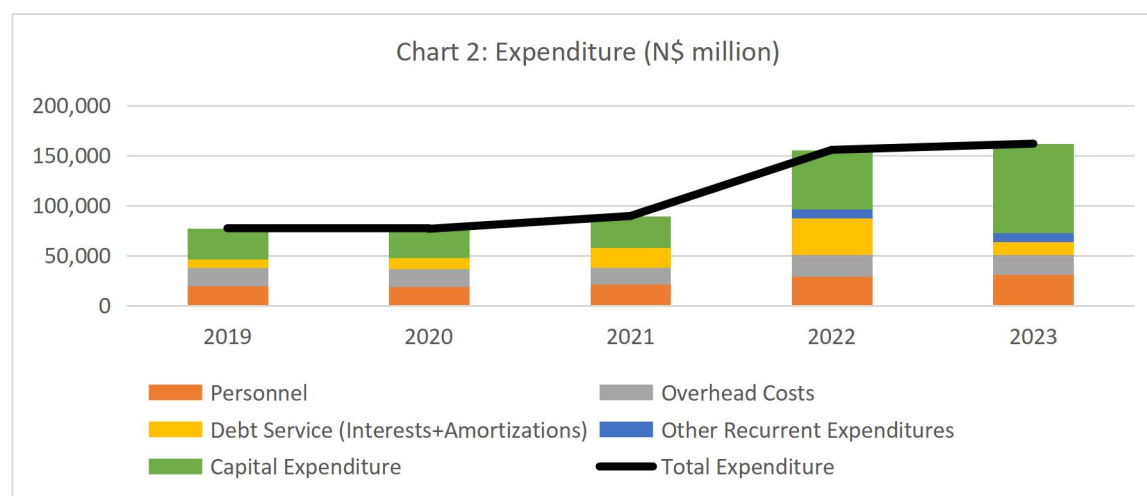
The expenditure performance of the State is shown in Table 2 and Chart 2 below:

Table 2: Expenditure

	₦ Million	₦ Million	₦ Million	₦ Million	₦ Million
	2019	2020	2021	2022	2023
Total Expenditure	77,291	76,727	89,513	155,589	161,731
Personnel	19,330	18,776	21,438	29,161	31,273
Overhead Costs	18,716	18,274	16,506	21,505	19,375
Debt Service (Interests+Amortizations)	8,530	10,644	19,992	36,905	12,914
Other Recurrent Expenditures	0	0	0	8,875	9,368
Capital Expenditure	30,715	29,033	31,576	59,143	88,801

Source: Gombe State DSA/MTDS Template, 2024

CHART 2: Expenditure



Source: Gombe State DSA/MTDS Template, 2024

Total Expenditure: The chart illustrates the total expenditure for Gombe State from 2019 to 2023. In 2019, total expenditure was 77,291 million Naira, increasing slightly in 2020 to 76,727 million Naira. A notable jump occurred in 2021, with expenditure reaching 89,513 million Naira. The most significant increase occurred in 2022, where total expenditure soared to 155,589 million Naira, followed by a further increase in 2023 to 161,731 million Naira.

Personnel costs, which encompass salaries, wages, and benefits for government employees, were 19,330 million Naira in 2019. This figure dropped to 18,776 million Naira in 2020, but increased again to 21,438 million Naira in 2021. A substantial increase occurred in 2022, where personnel costs rose to 29,161 million Naira, reflecting the state's expanding public workforce, which continued into 2023 with a total of 31,273 million Naira.

Overhead costs include operational expenses such as office rent, utilities, and administrative expenses. These costs stood at 18,716 million Naira in 2019, slightly decreasing to 18,274 million Naira in 2020. A further reduction occurred in 2021, with overhead costs falling to 16,506 million Naira. However, in 2022, there was a noticeable increase to 21,505 million Naira as government activities resumed to full capacity. In 2023, overhead costs were 19,375 million Naira.

Debt Service (Interest + Amortizations): Debt service represents the payments made by the state to service its debt, including interest and principal repayment. In 2019, debt service stood at 8,530 million Naira, rising to 10,644 million Naira in 2020. In 2021, there was a sharp increase to 19,992 million Naira, followed by an even more significant rise to 36,905 million Naira in 2022. This increase can be attributed to a higher debt stock, including federal government interventions, such as the Bridge Financing Facility and healthcare facility funding. In 2023, debt service expenses decreased to 12,914 million Naira.

Other Recurrent Expenditures: Other recurrent expenditures, covering various unclassified operational costs, were not reported in 2019, 2020, or 2021. However, in 2022, these expenditures amounted to 8,875 million Naira, increasing slightly to 9,368 million Naira in 2023.

Capital Expenditure: Capital expenditure, which reflects investments in long-term infrastructure projects, stood at 30,715 million Naira in 2019. A slight decrease to 29,033 million Naira occurred in 2020. However, capital expenditure rose again in 2021 to 31,576 million Naira, continuing to grow significantly in 2022 to 59,143 million Naira. The growth in 2022 was driven by mass infrastructure development projects, with a continued commitment in 2023, where capital expenditure reached 88,801 million Naira.

Implications and Effects:

The expenditure data from 2019 to 2023 provides valuable insights into the state's fiscal priorities and its growing spending patterns:

- i. **Increased Total Expenditure:** The surge in total expenditure, particularly in 2022, reflects a strategic emphasis on large-scale infrastructure projects and debt servicing, which may have been a response to both urgent fiscal needs and long-term development goals.

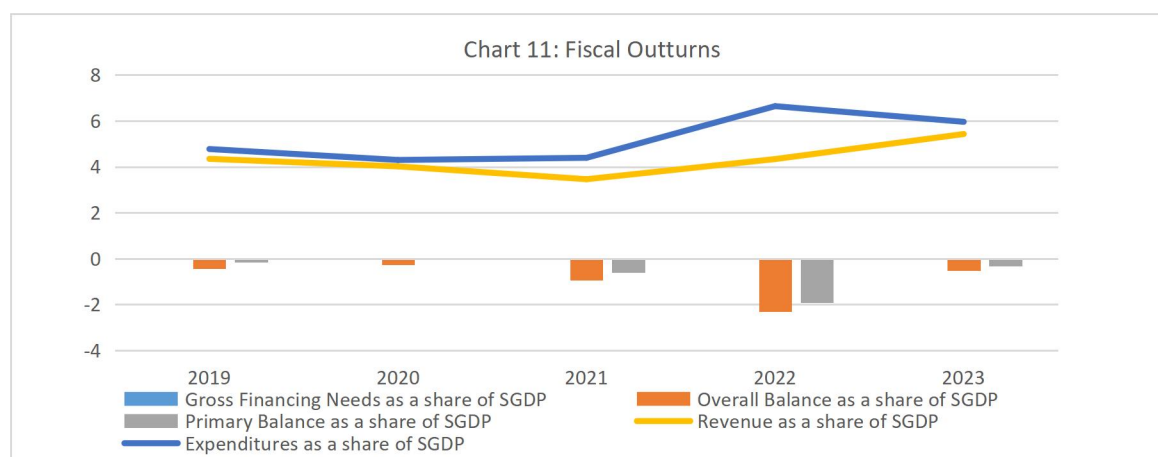
- ii. **Growing Personnel Costs:** The substantial increase in personnel costs indicates a growing public workforce, which could have significant implications for budget management. While this expansion may be necessary for service delivery, it also requires efficient resource allocation and sustainable wage policies.
- iii. **Fluctuating Overhead Costs:** Overhead costs displayed fluctuations, especially in 2022 due to the resumption of government activities. Careful management of administrative expenses will be crucial to ensure they do not detract from critical development spending.
- iv. **Rising Debt Service Burden:** The increasing debt service burden highlights the importance of managing the state's debt portfolio effectively. A higher debt service allocation, especially in 2022, limits the available budget for development and recurrent spending, indicating the need for a more balanced approach to borrowing.
- v. **Emergence of Other Recurrent Expenditures:** The emergence of other recurrent expenditures in 2022 suggests new financial obligations that may not have been anticipated in earlier years. These should be monitored to avoid unforeseen fiscal pressures.
- vi. **Commitment to Capital Expenditure:** The significant rise in capital expenditure, particularly in 2022 and 2023, underscores Gombe State's commitment to long-term infrastructure development. These investments are likely to support economic growth, job creation, and improved public services.

In conclusion, the expenditure data highlights the state's fiscal management priorities, including investments in infrastructure and public service expansion, while also emphasizing the need for effective debt management and cost control to sustain long-term development goals.

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 DSA/MTDS Template, 2024

Gross Financing Needs as a share of SGDP:

Gross Financing Needs represent the total amount required to cover the government's financial obligations, including debt servicing and other financing needs. In all the years from 2019 to 2023, Gross Financing Needs as a share of SGDP remained at 0%. This indicates that the state did not require additional financing beyond its Gross Domestic Product during this period.

Overall Balance as a share of SGDP:

The Overall Balance as a share of SGDP indicates the difference between total revenue and total expenditure, accounting for the size of the state's economy. In 2019 and 2020, the Overall Balance stood at 0% of SGDP, suggesting that the state's revenue equaled its expenditures in those years. In 2021 and 2022, the Overall Balance as a share of SGDP was negative, indicating that expenditures exceeded revenue. The negative balances suggest budget deficits during those years. In 2023, the balance improved slightly, with a negative 1% of SGDP, showing some reduction in the deficit.

Primary Balance as a share of SGDP:

The Primary Balance measures the difference between total revenue and total expenditure, excluding interest payments on debt. In 2019 and 2020, the Primary Balance as a share of SGDP remained at 0%, indicating that the state's revenue was sufficient to cover non-debt-related expenditures. However, in 2021 and 2022, the Primary Balance was negative, signifying that the state had a deficit in its non-debt-related budget. This highlights the need for more effective control over non-debt expenditures.

Revenue as a share of SGDP:

Revenue as a share of SGDP reflects the proportion of the state's Gross Domestic Product represented by its total revenue. In 2019, revenue was 4% of SGDP. In 2020, there was a slight increase to 5% of SGDP, but it declined again to 3% of SGDP in 2021. In 2022, there was a recovery with revenue rising to 4% of SGDP, and it further increased to 5% of SGDP in 2023. The fluctuations underscore the variability in the state's revenue generation capacity, influenced by economic conditions and revenue policies.

Expenditures as a share of SGDP:

Expenditures as a share of SGDP illustrate the proportion of the state's Gross Domestic Product represented by its total expenditure. In 2019 and 2020, expenditures were at 4% and 5% of SGDP, respectively, which matched revenue. In 2021, expenditures remained at 6% of SGDP but surged to 9% in 2022, indicating a substantial expansion in government spending relative

to the size of the economy. This increase suggests increased investments or the need for tighter fiscal control, depending on the nature of the expenditures. In 2023, expenditures decreased slightly to 6% of SGDP, indicating some containment of spending.

Implications and Effects:

- i. The consistent 0% Gross Financing Needs as a share of SGDP implies that the state did not need to seek additional financing beyond its economic capacity during this period, which is generally a positive indicator of fiscal sustainability.
- ii. The negative Overall Balance as a share of SGDP in certain years suggests that the state experienced budget deficits during those periods, where expenditures exceeded revenue. This highlights the importance of careful budget planning and fiscal discipline to manage deficits effectively.
- iii. The negative Primary Balance in 2021 and 2022 implies that the state had deficits in its non-debt-related budget, indicating the need for more effective control over non-debt expenditures.
- iv. The fluctuations in Revenue as a share of SGDP underscore the variability in the state's revenue generation capacity, which may be influenced by economic conditions and revenue policies.
- v. The increase in Expenditures as a share of SGDP in 2022 suggests a substantial expansion in government spending relative to the size of the economy. This could indicate increased investments or the need for tighter fiscal control, depending on the nature of the expenditures.

In summary, the data reflects the state's fiscal performance in relation to its Gross Domestic Product, highlighting the need for prudent fiscal management, control of deficits, and effective revenue generation to ensure fiscal sustainability and economic stability.

3.2 Gombe State Public Debt Portfolio, 2019-2023

3.2.1 Total Debt Stock

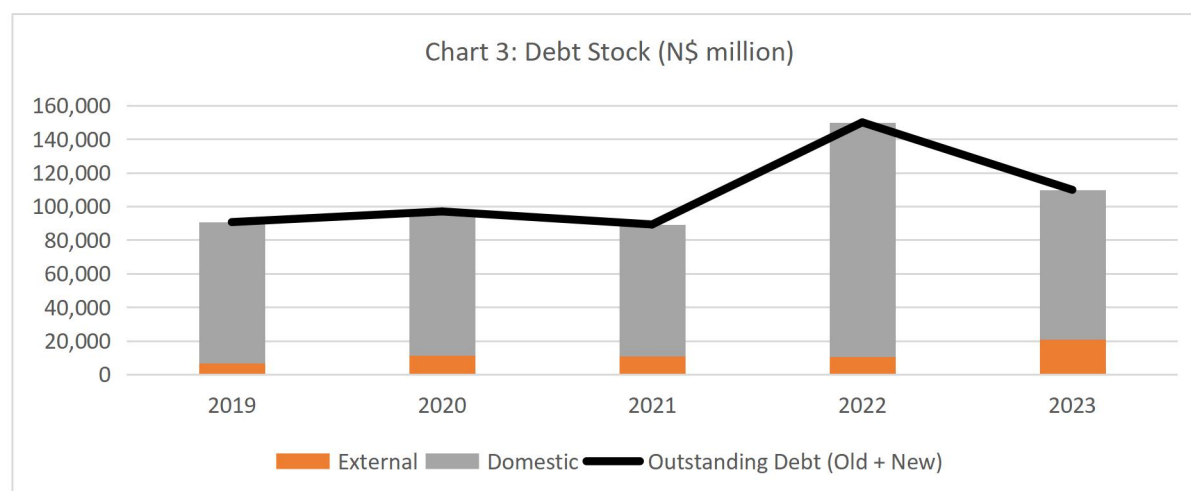
The trend of public debt service is highlighted in Table 3 and Chart 3 below:

Table 3: Debt Stock

	₦ Million	₦ Million	₦ Million	₦ Million	₦ Million
	2019	2020	2021	2022	2023
Outstanding Debt (Old + New)	90,583	96,915	89,179	149,912	109,773
External	6,659	11,192	10,770	10,589	20,798
Domestic	83,924	85,723	78,409	139,323	88,975

Source: Gombe State DSA/MTDS Template, 2024

CHART 3: Debt Stock



Source: Gombe State DSA/MTDS Template, 2024

Outstanding Debt (Old + New): Outstanding Debt represents the total amount of debt owed by the state, including both old debts carried over from previous periods and new debts incurred during the specified years. In 2019, the total outstanding debt increased to 90,583 million Naira. This amount further rose to 96,915 million Naira in 2020. In 2021, outstanding debt decreased slightly to 89,179 million Naira. However, the most significant increase occurred in 2022, with outstanding debt soaring to 149,912 million Naira, before falling back to 109,773 million Naira in 2023. This increase reflects the state's continued borrowing to meet financial obligations and fund projects.

External Debt: External debt represents the portion of the state's debt owed to foreign creditors, such as international financial institutions and foreign governments. In 2019, external debt was 6,659 million Naira, increasing to 11,192 million Naira in 2020. The debt further increased to 10,770 million Naira in 2021, before slightly declining to 10,589 million Naira in 2022. However, by 2023, external debt rose to 20,798 million Naira. The increase in external debt indicates greater reliance on international borrowing, which could expose the state to foreign exchange risks and challenges in servicing foreign obligations.

Domestic Debt: Domestic debt represents the portion of the state's debt owed to domestic creditors, such as banks, financial institutions, and individuals within the country. In 2019, domestic debt was 83,924 million Naira, increasing to 85,723 million Naira in 2020. This amount decreased to 78,409 million Naira in 2021 but surged to 139,323 million Naira in 2022, before dropping to 88,975 million Naira in 2023. Domestic debt has consistently been the largest component of the state's outstanding debt, highlighting the state's reliance on domestic

creditors for financing. Effective management of domestic debt is crucial to maintaining stability in the local financial market and ensuring favorable borrowing terms.

Implications and Effects:

- i. The substantial increase in outstanding debt from 2019 to 2022 indicates that the state has been actively borrowing to finance its operations and development projects. This strategy is likely used to address funding gaps and invest in critical infrastructure.
- ii. The growth in external debt suggests that the state has been engaging with international creditors to secure financing. While external borrowing provides access to capital, it also introduces foreign exchange risks and potential difficulties in servicing foreign obligations.
- iii. Domestic debt continues to be the predominant component of outstanding debt, reflecting the state's reliance on domestic creditors. Managing domestic debt effectively is essential to maintaining favorable borrowing terms and ensuring stability in the domestic financial market.
- iv. The sharp increase in outstanding debt in 2022, both externally and domestically, indicates a significant expansion in borrowing, likely driven by the need for capital to fund development projects or address economic challenges.
- v. It is crucial for the state to manage its debt prudently to avoid over-indebtedness, ensure debt sustainability, and allocate resources efficiently for debt servicing and development priorities.

In summary, the data reflects the state's ongoing reliance on both external and domestic sources for financing. While borrowing is necessary for funding development, the state must continue to monitor its debt levels and manage them prudently to maintain fiscal discipline, avoid over-indebtedness, and ensure that borrowed funds are used efficiently to benefit its citizens.

3.2.2 Gombe State Principal Repayment, 2019-2023

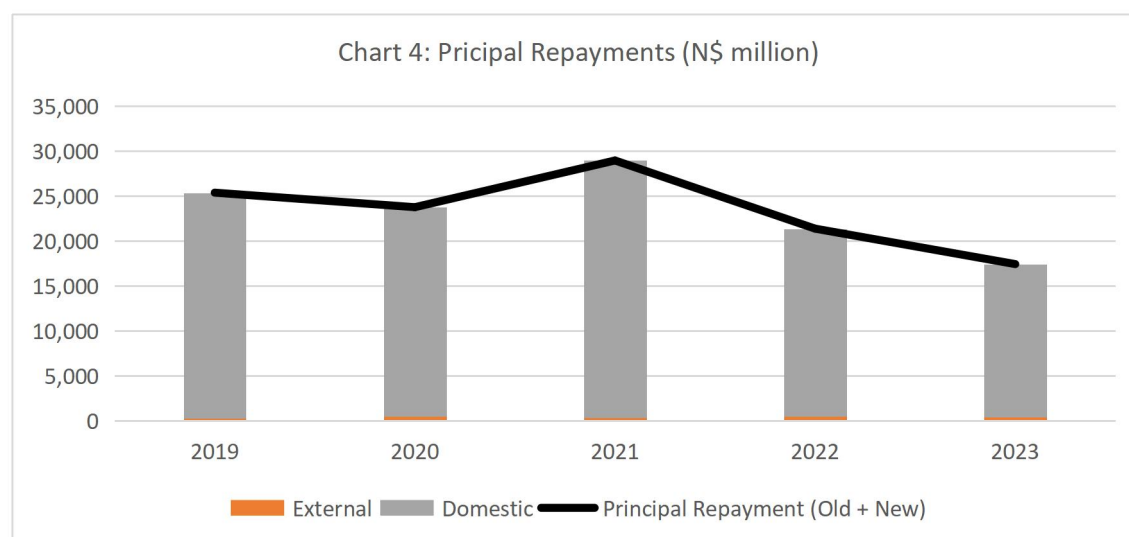
The Gombe State Principal Repayment for the period 2019-2023 is presented in the Table 4 and Chart 4 below

Table 4: Principal Repayment

	₦ Million	₦ Million	₦ Million	₦ Million	₦ Million
	2019	2020	2021	2022	2023
Principal Repayment (Old + New)	25,373	23,761	28,952	21,375	17,435
External	268	514	318	522	393
Domestic	25,105	23,247	28,634	20,853	17,042

Source: Gombe State DSA/DMS Template, 2024

Chart 4: Principal Repayment



Source: Gombe State DSA/MTDS Template, 2024

Principal Repayment (Old + New): Principal repayment refers to the amount of principal (the original borrowed amount) that the state is required to repay on its outstanding debts, including both old debts and new debts incurred during the specified years. In 2019, the state repaid 25,373 million Naira, which decreased slightly to 23,761 million Naira in 2020. In 2021, the principal repayment increased to 28,952 million Naira but decreased again in 2022 to 21,375 million Naira. By 2023, the repayment dropped further to 17,435 million Naira. This reduction in repayment may be attributed to debt restructuring, refinancing, or a reduction in borrowing obligations.

External Principal Repayment: External principal repayment refers to the portion of the state's principal repayment associated with debts owed to foreign creditors, such as international financial institutions and foreign governments. In 2019, external principal repayment stood at 268 million Naira and increased to 514 million Naira in 2020. In 2021, it saw a further increase to 318 million Naira, followed by a slight rise to 522 million Naira in 2022. The increase in 2022 suggests a potential rise in external debt servicing obligations or a change in the state's borrowing strategy, as external debt repayment remains relatively small compared to domestic debt repayment.

Domestic Principal Repayment: Domestic principal repayment refers to the portion of the state's principal repayment associated with debts owed to domestic creditors, such as banks, financial institutions, and individuals within the country. In 2019, domestic principal repayment was 25,105 million Naira, which decreased to 23,247 million Naira in 2020. In 2021, it rose sharply to 28,634 million Naira before decreasing again to 20,853 million Naira in 2022, and further

dropping to 17,042 million Naira in 2023. The bulk of the principal repayment is attributed to domestic debt, reflecting the state's reliance on local financing for its operations and development.

Implications and Effects:

The fluctuations in principal repayment over the five years indicate variations in the state's debt servicing obligations, suggesting a dynamic debt management strategy. The decline in 2022 could reflect reduced borrowing or refinancing of debts to manage repayment schedules.

External principal repayment remains relatively small compared to domestic debt servicing, indicating that the state has a heavy reliance on domestic creditors. Effective management of domestic debt is essential to maintaining financial stability within the state's financial system.

The increase in external principal repayment in 2022 may signal an effort to address foreign debt obligations or a shift in the state's borrowing mix to include more external loans.

The overall decrease in principal repayment in 2022, coupled with a significant rise in outstanding debt, suggests that the state may have restructured or refinanced its debt to reduce immediate repayment obligations, thus easing fiscal pressure in the short term.

In summary, the data shows the state's debt servicing commitments and how they have fluctuated over the period under review. Despite the variations, the state must continue to manage its debt obligations effectively, ensuring that it maintains fiscal discipline while meeting its debt servicing requirements. Refinancing and restructuring debt could provide short-term relief, but long-term fiscal sustainability requires a careful balance between debt servicing and developmental spending.

3.2.3 Gombe State Interest Repayment, 2019-2023

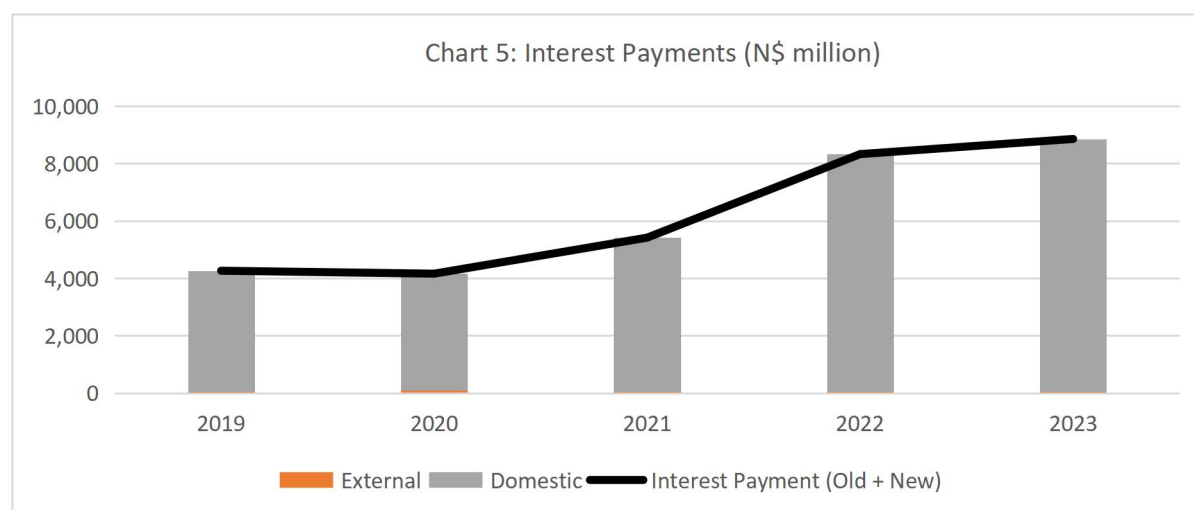
The interest payment for the period under review 2019-2023 is presented below:

Table 5: Interest Payment

	₦ Million	₦ Million	₦ Million	₦ Million	₦ Million
	2019	2020	2021	2022	2023
Interest Payment (Old + New)	4,263	4,160	5,415	8,327	8,856
External	48	96	41	44	51
Domestic	4,215	4,064	5,374	8,284	8,805

Source: Gombe State DSA/MTDS Template, 2024

Chart 5: Interest Payment



Source: Gombe State DSA/MTDS Template, 2024

Interest Payment (Old + New): Interest payment refers to the total amount of interest paid by the state on its outstanding debts, including both old debts carried over from previous periods and new debts incurred during the specified years. In 2018, the state's interest payment was 2,951 million Naira. This amount increased in 2019 to 4,273 million Naira and remained relatively stable in 2020 at 4,160 million Naira. In 2021, there was a noticeable increase to 5,418 million Naira, followed by a substantial rise to 8,334 million Naira in 2022. This increase suggests that the state's debt servicing obligations have grown, potentially due to increased borrowing or a shift in the structure of the state's debts.

External Interest Payment: External interest payment represents the interest the state pays on its debts owed to foreign creditors, such as international financial institutions and foreign governments. In 2018, external interest payments were low at 63 million Naira, indicating minimal external debt servicing. The external interest payment remained relatively stable in 2019 (58 million Naira) and 2020 (97 million Naira). In 2021, the figure decreased significantly to 44 million Naira, but slightly increased to 51 million Naira in 2022. While external interest payments remain relatively low compared to domestic interest payments, the state's reliance on external borrowing is still noteworthy.

Domestic Interest Payment: Domestic interest payment represents the portion of the state's interest payments that are owed to domestic creditors, such as local banks, financial institutions, and individuals. In 2018, domestic interest payments were 2,887 million Naira, which accounted for the majority of the state's interest obligations. This figure rose in 2019 to 4,215 million Naira and slightly decreased to 4,064 million Naira in 2020. However, in 2021, domestic interest payments increased significantly to 5,374 million Naira, followed by a further increase to 8,284

million Naira in 2022. The continued rise in domestic interest payments reflects a growing reliance on local financing.

Implications and Effects:

- i. The significant fluctuations in interest payments, especially the sharp increase in 2022, suggest variations in the state's debt servicing obligations. This could be due to changes in debt structure, the introduction of higher interest rate debt, or the refinancing of old debts with more costly financing options.
- ii. The majority of the state's interest payments are linked to domestic debts, underscoring the state's reliance on domestic creditors for financing. Effective management of domestic debt is crucial to ensure fiscal sustainability and to avoid overburdening the local financial system.
- iii. The relatively low external interest payments compared to domestic payments imply that the state may have secured favorable borrowing terms for its external debt or may have limited external debt relative to its overall debt portfolio.
- iv. The substantial increase in interest payments in 2022, particularly in domestic debt servicing, is likely due to factors such as the floating of the SUKUK/Bond (24.3 billion Naira) and increased interest rates, which significantly raised the cost of borrowing for the state.

The data on interest payments highlights the state's growing debt servicing obligations, particularly in terms of domestic debt. While external interest payments remain relatively stable and low, domestic debt servicing has risen significantly. The increase in interest payments, especially in 2022, points to changes in the debt profile, including the issuance of new bonds and higher interest rates. Moving forward, effective debt management strategies and monitoring of interest rates will be essential to ensure fiscal sustainability and balance between debt servicing and development priorities.

3.2.2 Debt Composition

The debt portfolio of Gombe State consists of both **external** and **domestic** borrowings. The **external borrowings** are primarily sourced from international financial institutions such as the **World Bank**, **African Development Bank**, and the **Islamic Development Bank**. These borrowings typically come with foreign currency denominated loans, often involving specific conditions tied to project financing. On the other hand, **domestic borrowings** consist of facilities from the **Federal Government**, **Bonds**, and loans from **commercial banks**.

From 2018 to 2022, the average breakdown of the debt composition indicates that the state's **domestic debt** accounts for **88.8%** of the total debt, while **external debt** makes up **11.2%**.

This suggests a heavy reliance on domestic sources of debt, which can have both advantages and challenges, including the potential for higher interest costs due to local market rates and currency risk exposure.

3.3 Cost and Risk Profile

The **cost risk** associated with Gombe State's outstanding debt profile between 2019 and 2023 can be assessed by examining various factors that influence the state's ability to service its debt. These factors are:

- i. **Increase in Debt Levels:** The significant increase in both **external** and **domestic debt** levels over the years signals a higher **cost risk**. This is because larger debt volumes mean higher servicing obligations, which can strain the state's fiscal resources, especially during periods of financial instability or economic downturns. An increased debt burden may limit the state's ability to allocate funds to essential development projects and public services.
- ii. **Exchange Rate Fluctuations:** The state's exposure to **external debt** makes it vulnerable to **exchange rate fluctuations**. A depreciation in the local currency (Naira) against foreign currencies means that the cost of servicing foreign-denominated debt increases in local currency terms. This leads to higher debt servicing costs and potential strain on the state's budget, as more Naira must be allocated to meet foreign debt obligations.
- iii. **Interest Rate Fluctuations:** **Interest rate fluctuations** have a significant impact on the cost of servicing **domestic debt**. When interest rates rise, the cost of servicing domestic loans increases, adding to the state's overall debt servicing burden. With an increasing domestic debt profile, the state's fiscal space could be squeezed if interest rates continue to rise, leading to higher fiscal pressures and potentially higher budget deficits.
- iv. **Debt Monitoring and Risk Mitigation:** To mitigate the risks associated with the debt portfolio, Gombe State is closely monitoring its debt levels and repayment obligations. The state is taking steps to reduce its cost risks by employing strategies such as:
 - **Refinancing** existing debt at favorable terms to reduce interest rates and extend repayment periods.
 - **Diversifying** sources of debt to include low-cost loans and exploring non-traditional financing options.
 - Implementing **prudent fiscal management**, including spending controls and revenue-enhancing measures, to reduce reliance on debt and ensure that debt servicing remains sustainable.

The **cost risk** associated with Gombe State's debt portfolio is driven by both **external and domestic** factors. The rise in both external and domestic debt, combined with exposure to **exchange rate** and **interest rate fluctuations**, elevates the overall cost risk. However, through careful monitoring of its debt profile and the implementation of strategies such as refinancing, diversification of debt sources, and prudent fiscal management, the state aims to manage its debt servicing obligations in a sustainable way. Ensuring that the cost of servicing debt remains manageable will be crucial for Gombe State to maintain fiscal stability and support long-term development goals.

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- 2023	Average 2019 to 2023
Debt as % of GDP	25%	4%	15%
Debt as % of Revenue	200%	75%	224%
Debt Service as % of Revenue	40%	18%	63%
Personnel Cost as % of Revenue	60%	21%	25%
Debt Service as % of FAAC Allocation	Nil	24%	94%
Interest Payment as % of Revenue	Nil	6%	31%
External Debt Service as % of Revenue	Nil	0.3%	3%

Source: Gombe State DSA/MTDS Template, 2024

Debt as % of GDP: Gombe State's debt remains well below the threshold of 25% of GDP, suggesting a relatively low debt burden relative to its economic output. However, the economic environment in Nigeria is influenced by changes in the **Monetary Policy Rate (MPR)**, which was recently raised by the Central Bank of Nigeria (CBN) to curb inflation. Higher MPR leads to higher borrowing costs, meaning that if Gombe State borrows more in the future, it could face higher interest payments due to the increased cost of debt. Despite the manageable current level, if interest rates remain high or continue to increase, the state's debt levels could become more expensive in the future. The **exchange rate** also plays a role, particularly if the state borrows externally. Depreciation of the Naira could lead to increased debt servicing costs when foreign currency obligations are considered.

Debt as % of Revenue: In 2023, Gombe's debt-to-revenue ratio is significantly below the 200% threshold, which is a good indicator of fiscal health. However, the projected average for the next decade is concerning at 224%. The MPR increment could lead to higher borrowing costs in the future, increasing the total debt burden on the state's revenues. Additionally, the exchange rate fluctuations could exacerbate this challenge if external borrowing becomes more costly due to a weakened Naira. The state must carefully manage debt issuance to avoid excessive reliance on borrowing, particularly at high interest rates.

Debt Service as % of Revenue: Gombe's debt service as a percentage of revenue is relatively low, at 18% in 2023, which is a positive indicator that the state is not spending an excessive proportion of its revenue on servicing debt. However, the projection of 63% on average over the forecast period indicates a significant rise, which could place substantial pressure on the state's finances. With the **MPR increase**, the cost of servicing existing and new debt may increase, particularly if the state has variable-rate loans or relies on new borrowings to finance projects. Similarly, the **exchange rate** could affect debt servicing for external loans, leading to a higher Naira cost for foreign currency-denominated debt.

Personnel Cost as % of Revenue: Personnel costs remain well below the 60% threshold, suggesting that Gombe State is managing its wage bill effectively. The recent increase in the **MPR** could have indirect effects on inflation, potentially leading to higher salaries and wage demands from public sector workers. This could increase personnel costs, although the state's personnel cost-to-revenue ratio is expected to remain manageable. Similarly, the **exchange rate** fluctuations may affect the cost of importing goods and services for government functions, indirectly impacting personnel costs if there is an increase in the cost of living or imported goods.

Debt Service as % of FAAC Allocation: The state is using 24% of its FAAC (Federation Account Allocation Committee) allocation to service debt in 2023, which is concerning, as the threshold is zero. The forecasted average of 94% indicates that the state could become heavily reliant on its federal allocations to meet debt obligations in the future. The **MPR increase** could put upward pressure on inflation, reducing the purchasing power of FAAC allocations, which may make it more challenging for the state to service its debt without jeopardizing other budget priorities. Furthermore, the **exchange rate** fluctuations can also affect the federal allocation since a weaker Naira may lead to lower allocations in real terms, which could exacerbate the situation.

Interest Payment as % of Revenue: In 2023, Gombe is paying 6% of its revenue on interest, which exceeds the threshold, signaling that interest payments are already consuming a portion of the state's income. The **MPR increase** is a key factor here, as it raises interest rates,

leading to higher borrowing costs. Consequently, the state's interest payments could grow significantly in the future. Additionally, a devalued **Naira** could increase the cost of servicing external debt, further pushing up interest expenses as a percentage of revenue.

External Debt Service as % of Revenue: Currently, Gombe does not have external debt service obligations, which is a positive sign. However, the **exchange rate** poses a risk if the state takes on more external debt in the future. A weakened Naira could increase the amount of local currency needed to meet external debt obligations, even if the nominal value of the debt remains constant. The **MPR increase** could also affect the terms on external loans, potentially raising the cost of borrowing and the associated servicing costs.

Summary of Key Points with MPR and Exchange Rate Considerations:

Positive Indicators: Debt as a percentage of GDP, debt service as a percentage of revenue, and personnel costs are currently at manageable levels. The state is in a favorable position regarding external debt, and the 2023 figures show a relatively low dependence on debt servicing from FAAC allocations.

Concerns for the Future: The projections for future debt service and interest payments as a percentage of revenue suggest a potential fiscal strain. The MPR increase will likely raise borrowing costs, and the exchange rate fluctuations could make foreign debt more expensive to service. The state's reliance on FAAC for debt servicing may become problematic if the federal allocation weakens due to inflation or exchange rate depreciation.

To address these challenges, Gombe State should focus on:

- i. Managing new borrowings with consideration for interest rate hikes and exchange rate risks.
- ii. Strengthening revenue generation to offset potential increases in debt servicing costs.
- iii. Monitoring the impact of inflation and exchange rate changes on the overall fiscal health and ensuring that the debt servicing burden does not undermine the state's financial sustainability.

4.3 Medium-Term Budget Forecast

The sustainability of Gombe State's medium-term debt is closely linked to the gradual recovery of the Nigerian economy, a trend expected to positively influence the Federation Account Allocation Committee (FAAC) statutory allocation. However, the current economic landscape is characterized by high inflation, driven largely by the recent removal of fuel subsidies and a significant increase in the exchange rate. Despite these challenges, the State's economic outlook foresees a gradual recovery between 2024 and 2026. This rebound is anticipated to feature a 3% average annual expansion in real GDP, alongside efforts to bring domestic

inflation back below the 10% mark by 2024. These expectations are underpinned by several key factors, including the favorable trajectory of global oil prices, a revival in domestic production, the implementation of prudent fiscal policies, and efforts to stabilize the exchange rate for international financial transactions.

In essence, while the State faces a challenging economic environment marked by persistent inflation and exchange rate fluctuations, its debt sustainability plan is built on a projected economic recovery supported by strategic measures and favorable external economic dynamics.

One significant development bolstering this economic recovery is the discovery of oil and gas reserves in the Gongola Basin, located within the Kolmani Oil Fields in the Pindiga district of Akko Local Government Area (LGA) of Gombe State. The discovery, signified by Oil Prospecting Licenses (OPLs) 809/810, aligns with the ongoing positive global oil price trend and is expected to provide a substantial boost to the State's revenue streams. Additionally, the Nigerian government's focus on increasing non-oil revenue sources, such as customs duties and VAT, will further enhance the State's financial position, especially compared to the relatively subdued levels of revenue seen in 2021.

To strengthen its debt sustainability, Gombe State must continue its efforts to mobilize local revenue sources. The proactive implementation of the 2020 Revenue Law has already contributed to an increase in internal revenue generation (IGR), and this trend is expected to continue in the coming years. Further revenue growth is anticipated with the introduction of property tax, alongside other measures designed to expand the State's revenue base. This shift towards enhancing local revenue is a critical element in supporting the broader economic recovery and ensuring fiscal stability.

On the expenditure side, no significant policy changes are expected regarding personnel and overhead costs. Historical trends in these areas are likely to remain stable, contributing to budgetary predictability. Additionally, cost-reduction policies aimed at curbing personnel expenses and overhead costs will continue. The State's ambitious 10-year development plan, which is currently in full implementation, is also expected to have a substantial positive impact on revenue generation, further strengthening the State's financial position. Furthermore, the creation of the Muhammadu Buhari Industrial Park is expected to generate significant revenue, enhancing the State's economic capacity.

In summary, the combination of the oil discovery in the Gongola Basin, the introduction of property tax, and the development of the Muhammadu Buhari Industrial Park will play a pivotal role in boosting Gombe State's revenue and enhancing its debt management strategy. These positive developments reflect a commitment to fiscal sustainability and provide the State with valuable opportunities for debt reduction, ultimately ensuring long-term financial health.

4.4 Borrowing Assumptions

The Gombe State government has outlined its financing strategy for the period from 2024 to 2033, aiming to source funds primarily from a diversified set of channels to support its developmental initiatives. This multifaceted approach includes the following key components:

1. **Commercial Bank Loans (1-5 Years):** Approximately 35% of the financing will be secured through short to medium-term loans from commercial banks. These loans are expected to have a maturity period ranging from one to five years, providing a relatively quick source of capital.
2. **Commercial Bank Loans (6 Years and Above):** An estimated 35% of the funding will come from commercial bank loans with longer maturities, exceeding six years. These loans offer a more extended repayment period, allowing for flexibility in managing debt obligations.
3. **State Bonds (1-5 Years):** The State plans to utilize State Bonds with a maturity period of one to five years to cover 30% of its financing requirements. State Bonds provide a stable and structured means of raising funds from the capital market.
4. **State Bonds (6 Years and Above):** A significant portion, around 30%, will be sourced through State Bonds with maturities extending beyond six years. These long-term bonds offer a sustainable approach to financing major projects and initiatives.
5. **External Financing – Concessional:** The State also anticipates securing approximately 5% of its funding through external sources, specifically concessional financing. This type of financing typically comes with favorable terms, including lower interest rates and extended grace periods, making it an attractive option for development projects.

It's important to note that the allocation of funds among these various sources is a strategic decision based on factors such as maturity, cost, and availability. Additionally, the choice to rely more on external concessional financing is influenced by the limitations associated with accessing loans from multilateral and bilateral sources, which often entail lengthy approval processes.

The borrowing assumptions also encompass a detailed consideration of the terms associated with both domestic and external borrowing. This includes aspects such as interest rates, maturity periods, and grace periods. These terms are critical in shaping the State's debt management strategy and ensuring that borrowed funds are utilized effectively for the benefit of Gombe State's development agenda.

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

The State Government has outlined its borrowing plans with a focus on securing the necessary funds for various development initiatives. These plans encompass a range of financial instruments and terms to meet specific funding requirements:

1. **Commercial Bank Borrowing (Short-Term):** The State plans to secure loans from commercial banks with a maturity period of 1 to 5 years. In 2024, the State plans to borrow N50 billion, with no grace period and an interest rate of 35%. Similarly, in 2025, N73.46 billion will be borrowed, followed by N62.94 billion in 2026. These loans will help meet immediate financial requirements, supporting projects that require quick funding.
2. **Commercial Bank Borrowing (Medium-Term):** For medium-term funding needs, the State will borrow sums from commercial banks with a maturity period exceeding 6 years. These loans will be projected at N40 billion in 2025, N75.56 billion in 2026, and N96.82 billion in 2028. The interest rate for these loans is also set at 35%, with no grace period. The medium-term loans offer flexibility and long-term support for developmental projects.
3. **Bond Issuance (Short-Term):** The State plans to raise funds through bond issuance, borrowing N36.68 billion in 2024 and N15.19 billion in 2030. These bonds will carry an interest rate of 30% and will have a maturity period of 5 years, without any grace period. Short-term bonds will be primarily used for financing specific projects that need to be completed within a defined period.
4. **Bond Issuance (Medium-Term):** For medium-term funding, the State intends to issue bonds with maturities of 6 years or longer. These bonds, with interest rates of 30%, will be used to raise substantial amounts to support major infrastructure and developmental projects. Key bond issuances include N40 billion in 2023, N20 billion in 2028, N20 billion in 2030, and N15.88 billion in 2031. These bonds will help finance projects with long-term economic impacts, allowing for structured and sustainable financing.

The choice of borrowing instruments and terms reflects a strategic approach to meet the State's financial requirements efficiently. These borrowing strategies consider factors such as interest rates, maturity periods, and grace periods, aligning them with the specific needs and timelines of various development projects. This comprehensive financial plan aims to ensure the State's ability to execute its initiatives while managing its debt responsibly.

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

The State anticipates securing external financing through concessional loans from international institutions such as the World Bank and the African Development Bank. In 2025, concessional

loans amounting to USD 212.4 million are expected, with further loans projected in subsequent years, including USD 238.6 million in 2026. These loans, which offer favorable terms, including lower interest rates and longer repayment periods, will provide a cost-effective source of financing for large-scale development projects.

4.4.3 Planned Debt Management Strategy

The State Government has outlined a comprehensive debt management strategy, underpinned by a set of guiding principles. These principles form the bedrock of the strategy, ensuring responsible and effective management of the State's debt obligations. The key principles that will steer this strategy are as follows:

1. **Fiscal Responsibility:** The State Government's commitment to fiscal prudence is paramount. All outstanding payments incurred by the government have been meticulously recorded and are under the purview of the Debt Management Department. This meticulous record-keeping ensures full transparency and accountability in managing financial commitments.
2. **Transparency:** The State places a strong emphasis on transparency in its borrowing practices. Clear and well-defined criteria for prioritizing borrowings will be established and communicated. These criteria will guide decision-making, promoting transparency and a well-informed approach to debt management.
3. **Accountability:** The State Debt Management Department plays a pivotal role in ensuring accountability. It has diligently accounted for all outstanding debts that require settlement. Moreover, proactive measures have been implemented to curtail the accumulation of new arrears, safeguarding the State's financial stability.
4. **Sustainability:** The State's debt management approach is designed to be sustainable. Payments on borrowings undertaken by the current Government have demonstrated the State's ability to maintain a sustainable debt level. This sustainable approach fosters long-term financial stability.

To facilitate the effective execution of this strategy, the Ministry of Finance will maintain rigorous control over the remaining debt stock and proposed borrowings. This proactive oversight ensures that adequate provisions are made in each subsequent annual budget. The budget allocations will be aligned with the agreed framework and the State government's schedule for debt servicing. Funding for debt settlements will be sourced from various channels, including:

- i. **Statutory Allocation:** The State will utilize its statutory allocation to fulfill debt obligations, ensuring that these payments are given priority.

- ii. **Internally Generated Revenue:** Revenue generated internally will be harnessed to support debt payments, reducing reliance on external sources.
- iii. **Grants from the Federal Government:** Any grants received from the Federal Government will be strategically allocated to debt servicing, further bolstering the State's financial position.
- iv. **Loans:** Where necessary, loans may be sourced to meet debt obligations, provided that they align with the principles of sustainability and fiscal responsibility.

This holistic approach to debt management underscores the State's commitment to sound financial practices, transparency, and accountability. It aims to ensure that debt remains within manageable limits and contributes to the State's overall fiscal health and sustainability.

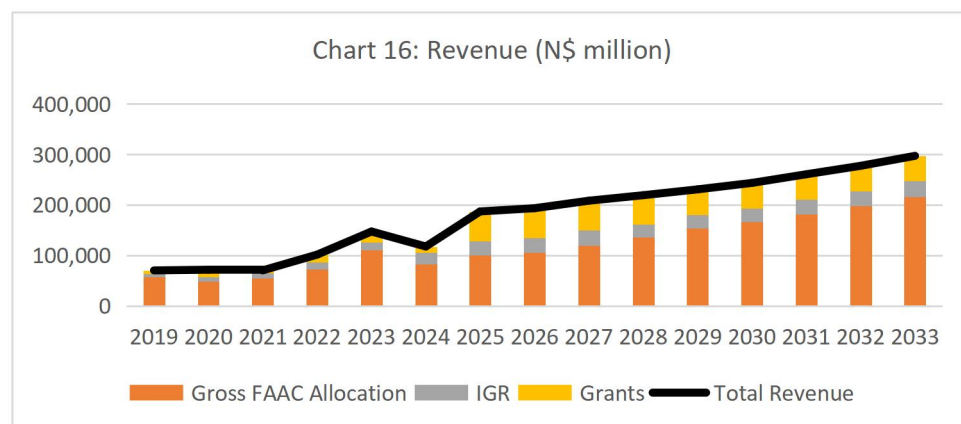
4.5 DSA Simulation Results and Findings

Recent shocks underscore the urgent need to significantly diversify and improve government revenues and reduce the dependence on FAAC allocation. 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 2019 to 2033 is presented in Chart 16 below:



Source: Gombe State DSA/MTDS Template, 2024

The chart 16 above present the financial figures for Gombe State from 2019 to 2033, it reveal significant trends in revenue generation, with key components such as total revenue, gross

FAAC allocation, internally generated revenue (IGR), and grants showing remarkable growth over time.

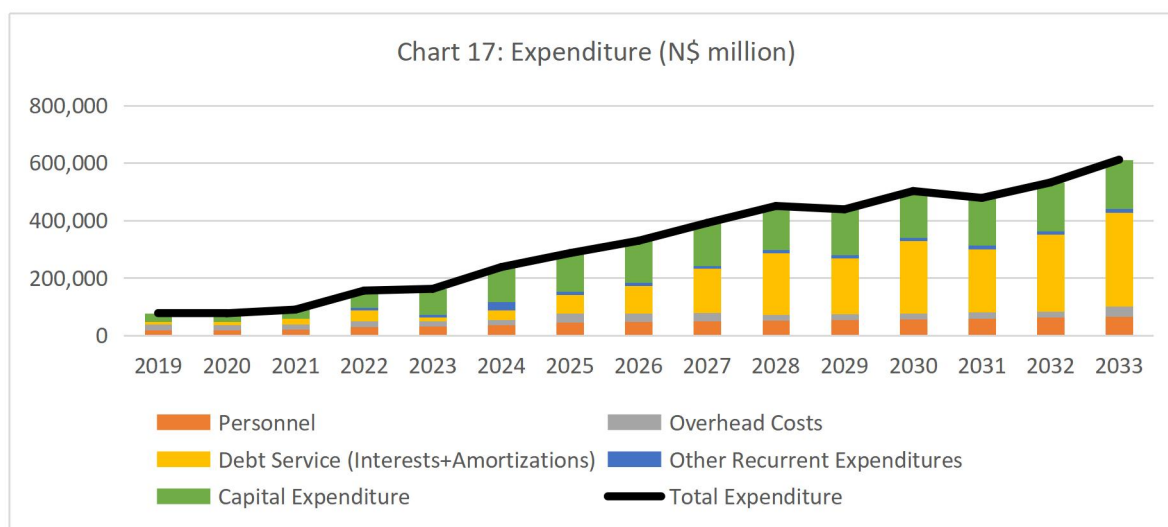
- i. **Total Revenue:** From **2019 to 2023** the average annual total revenue during this period was approximately ₦83.4 billion. While from **2024 onward** total revenue saw a significant surge, with an average annual figure of approximately ₦227.4 billion. This sharp increase highlights the state's stronger revenue performance in the latter period, reflecting a more robust economic outlook and enhanced revenue generation strategies.
- ii. **Gross FAAC Allocation:** From **2019 to 2023** the average annual gross FAAC allocation was ₦69.5 billion. From 2024 onward, the gross FAAC allocation is projected to rise to an average of ₦133.1 billion per year. This indicates a significant increase in federal allocations, positioning Gombe State to benefit from greater intergovernmental transfers in the future.
- iii. **Internally Generated Revenue (IGR):** From **2019 to 2023**, the average annual IGR for the state was approximately ₦12.8 billion. While from **2024 to 2033**, the average annual IGR surged to approximately ₦28.3 billion in the later period. This suggests that Gombe State has made considerable progress in boosting its internal revenue generation, reducing its reliance on external sources and increasing fiscal autonomy.
- iv. **Grants:** Grants remained relatively stable during the **2019 to 2023**, with an average value ₦12.3 billion annually. From 2024 to 2033, grants remained relatively stable, with an average annual value of ₦13.5 billion. While grants have not shown the same significant growth as other revenue sources, they continue to provide a crucial financial cushion for the state's development programs.

In conclusion, the data points to a positive trajectory in Gombe State's financial health, with significant improvements in revenue generation. This financial growth provides a solid base for funding development initiatives and enhancing the well-being of the State's residents. However, continued prudent management of these resources will be key to maintaining this momentum and ensuring the sustainability of the growth in the long term.

These projections are based on the Approved 2024 Budget, the Medium-Term Expenditure Framework (MTEF) for 2025-2027, and estimates for 2028-2033 from the Ministry of Finance, Budget & Economic Planning.

4.5.2 Projected Expenditure- Chart 17

The Gombe State projected expenditure from 2024 to 2033 is presented in Chart 17 below:



Source: Gombe State DSA-DMS Template, 2024

The financial figures for Gombe State from 2019 to 2033 provide insights into the expenditure trends across various categories, including personnel costs, overhead costs, debt service, other recurrent expenditures, and capital expenditure. This analysis highlights the historical growth and future projections, shedding light on the challenges and opportunities that may arise as Gombe State continues its fiscal journey in the coming years.

Personnel costs Personnel costs have seen a steady rise, increasing from ₦19.3 billion in 2019 to ₦31.3 billion in 2023. From 2024 to 2033, personnel costs are projected to continue growing, reaching an average of ₦61.7 billion annually by 2033. This consistent growth reflect increasing wages (N70,000 National Minimum Wage Ploicy), and expanding workforce requirements. The growing personnel expenses imply the need for workforce planning and cost containment strategies to ensure sustainable management of this budget item.

Overhead costs: Overhead costs have fluctuated, with an increase from ₦18.7 billion in 2019 to ₦19.4 billion in 2023, peaking at ₦36 billion by 2033. These expenses, which cover administrative and operational functions, highlight the need for efficient resource allocation and optimization of administrative functions. Managing overhead costs will be essential to preventing inefficiencies and ensuring that these costs do not grow disproportionately during the projected period.

Debt service costs: Debt service costs have shown a significant increase, from ₦8.5 billion in 2019 to ₦12.9 billion in 2023. Over the projection period from 2024 to 2033, these costs are expected to rise substantially, reaching a peak of ₦326.5 billion in 2033. This surge reflects the growing debt burden on the State, and effective debt management strategies, including refinancing options, renegotiating terms, or pursuing lower-interest borrowing, will be critical to mitigate the fiscal pressure from increasing debt obligations.

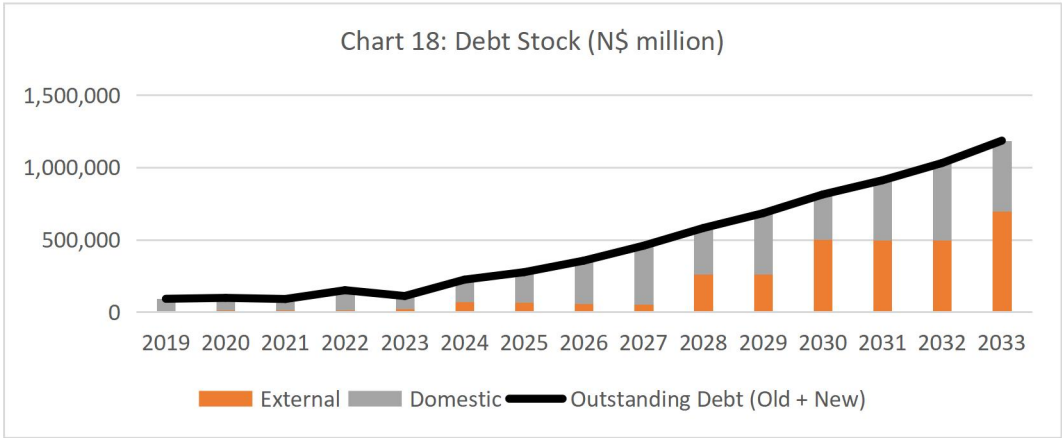
Other recurrent expenditures: Other recurrent expenditures began in 2020 at ₦8.9 billion and reached ₦9.4 billion in 2023. Projections show a gradual increase to ₦12.8 billion by 2033. This category likely covers new or expanding programs and services. It will be crucial to assess the necessity and effectiveness of these initiatives to ensure they are aligned with the State's long-term goals and to avoid unnecessary budgetary strain.

Capital expenditure has experienced a significant increase, rising from ₦30.7 billion in 2019 to ₦88.8 billion in 2023. Over the projection period, capital expenditure is expected to grow steadily, reaching ₦170.1 billion by 2033. This reflects Gombe State's commitment to infrastructure and development projects. Strategic planning, effective project management, and exploring alternative financing options will be vital to sustain and manage this high level of capital investment.

In conclusion, the data from 2019 to 2033 highlights significant fiscal trends, with notable increases in personnel costs, overheads, and capital expenditures, as well as substantial growth in debt service costs. By carefully managing these categories and aligning expenditures with long-term strategic goals, Gombe State can ensure a sustainable and robust fiscal outlook for the future. These projections are based on the approved 2024 budget and estimates for 2025-2033 from the Ministry of Finance, Economic Planning & Budget.

4.5.3 Projected Debt Stock- Chart 18

The Gombe State projected debt stock from 2024 to 2033 is presented in Chart 18 below:



Source: Gombe State DSA-DMS Template, 2024

The provided outstanding debt data for Gombe State (2019–2033) reveals key trends and highlights the fiscal implications of the State's borrowing practices. The debt figures comprise both external and domestic borrowings, providing a comprehensive view of the State's debt profile.

The total outstanding debt Historical Trends (2019–2022): Total outstanding debt grew from ₦90.6 billion in 2019 to a peak of ₦149.9 billion in 2022, reflecting fluctuations in borrowing needs and debt management strategies. This increase likely stemmed from financing infrastructure projects and other government programs.

Projections (2023–2033): From 2023 onwards, total debt is projected to grow steadily, reaching ₦1.18 trillion by 2033. The significant rise suggests a sustained reliance on debt financing, necessitating proactive financial planning to ensure fiscal sustainability.

External debt, Historical Trends (2019–2022): External debt increased moderately from ₦6.7 billion in 2019 to ₦10.6 billion in 2022.

Projections (2023–2033): External debt is projected to rise significantly from ₦20.8 billion in 2023 to ₦695.5 billion by 2033, with notable spikes around 2028 and 2030. This highlights the importance of carefully managing external borrowing, particularly given exchange rate volatility and potential unfavorable borrowing terms. The sharp increase around 2030 indicates reliance on foreign funding for large-scale projects.

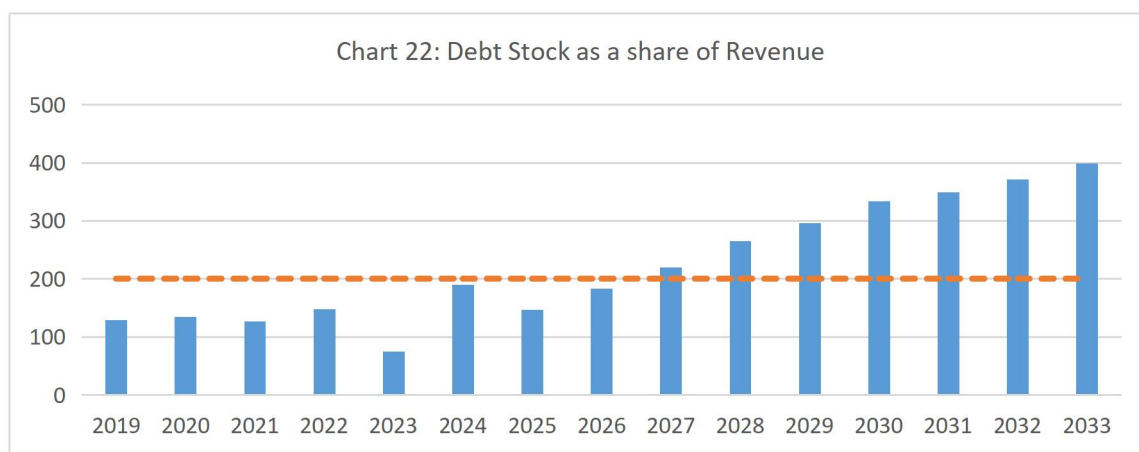
Domestic debt, Historical Trends (2019–2022): Domestic debt has been the dominant component of Gombe State's borrowing, increasing from ₦83.9 billion in 2019 to ₦139.3 billion in 2022.

Projections (2023–2033): Domestic debt is expected to remain the major share of total debt, growing steadily to ₦533.2 billion by 2033. While this highlights the government's preference for local financing, it underscores the need to monitor domestic interest rates and ensure that borrowing remains affordable.

The analysis of Gombe State's outstanding debt (2019–2033) underscores the importance of sustainable borrowing practices and proactive debt management. While borrowing serves as a vital tool for financing development, it must be aligned with long-term fiscal goals to ensure economic stability and growth. By addressing these challenges, Gombe State can effectively navigate its debt obligations and foster sustainable economic development.

4.5.4 Projected Debt as a Share of Revenue- Chart 22

The Gombe State projected debt as share of revenue from 2024 to 2033 is presented in Chart 22 below:



Source: Gombe State DSA-DMS Template, 2024

Analyzing the debt as a percentage of revenue over the given period (2018-2032) and comparing it to the established threshold of 200% reveals several significant trends and implications for the organization or government entity's financial stability:

1. Debt as a Percentage of Revenue:

Historical Trends (2019–2022):

Debt-to-revenue ratios ranged from 129% in 2019 to a peak of 148% in 2022, reflecting varying fiscal pressures. The increase in 2022 indicates a higher reliance on borrowing relative to revenue generation. During this period, the ratio remained below the 200% threshold, suggesting manageable fiscal conditions, albeit close to a critical point in 2022.

Projections (2023–2033):

A concerning rise is evident from 2024, with the debt-to-revenue ratio exceeding the 200% threshold, reaching 265% by 2028 and 399% by 2033. This indicates growing fiscal risks driven by increasing debt and slower revenue growth. The projection period reflects deteriorating debt sustainability as the ratio significantly surpasses the threshold, emphasizing the need for urgent fiscal reforms.

2. Threshold Comparison:

The established threshold of 200% signifies a critical point at which Gombe State Government's debt load may become unsustainable and could lead to financial instability.

The Key Observations are between 2024 and 2033, the ratio exceeds the threshold consistently, indicating a high risk of fiscal distress.

This suggests the possibility of revenue underperformance or increased borrowing to meet financing needs, necessitating immediate policy interventions to prevent debt crises. Throughout the historical and projection periods, the debt as a percentage of revenue remains

below the threshold, indicating a proactive approach to debt management and adherence to fiscal responsibility.

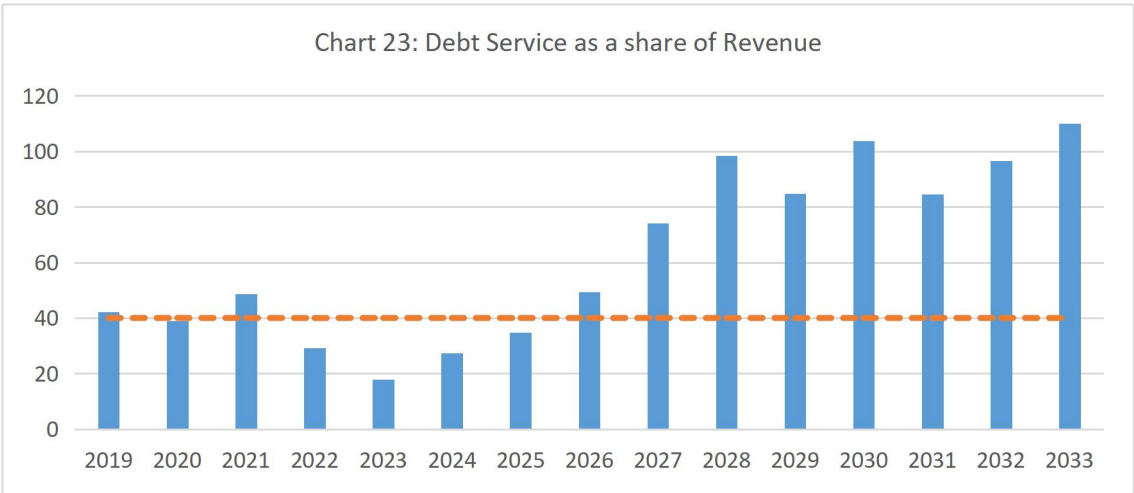
Implications:

- i. Revenue Growth: Strengthening internal revenue generation mechanisms is essential. Investments in revenue-boosting sectors such as agriculture, trade, and industrial development could help stabilize the ratio.
- ii. Expenditure Controls: Implement strict fiscal discipline to manage operating costs and prioritize capital expenditures with high returns on investment.
- iii. Debt Management: Restructure debt where possible to extend maturities and reduce interest costs. Prioritize concessional loans over high-interest borrowing to reduce the debt burden.
- iv. Sustainability Measures: Focus on creating fiscal buffers and maintaining debt below the threshold to ensure room for unforeseen financial shocks.

In summary, the analysis of Gombe State’s debt as a percentage of revenue underscores the critical need for immediate fiscal reforms. The rising debt-to-revenue ratio, surpassing the 200% threshold from 2024 onwards, signals a growing fiscal risk. By implementing strategic measures to boost revenue, control spending, and improve debt management, Gombe State can mitigate risks and achieve long-term fiscal sustainability.

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

The Gombe State projected debt service as share of revenue from 2024 to 2033 is presented in Chart 23 below:



Source: Gombe State DSA-DMS Template, 2024

Analyzing the ratio of Debt Service as a percentage of Revenue over the specified period (2019-2033) in comparison to the established threshold of 40% reveals important trends and implications for the financial health of the organization or government entity:

1. Debt Service as a Percentage of Revenue:

Historical Trends (2019–2022): Debt service-to-revenue ratios fluctuated between 29% (2022) and 49% (2021). The lowest ratio, 29% in 2022, suggests relatively low debt servicing pressure, indicating an easing of fiscal strain compared to previous years.

Projection Period (2023–2033): Debt service obligations are projected to rise significantly, reaching 110% by 2033, far exceeding the 40% threshold. Particularly alarming is the sharp increase beginning in 2027, where the ratio rises to 74%, peaking at 104% in 2030 before continuing an upward trajectory.

2. Threshold Comparison:

The established threshold of 40% serves as a critical point at which debt service obligations may become a significant burden on Gombe State's revenue.

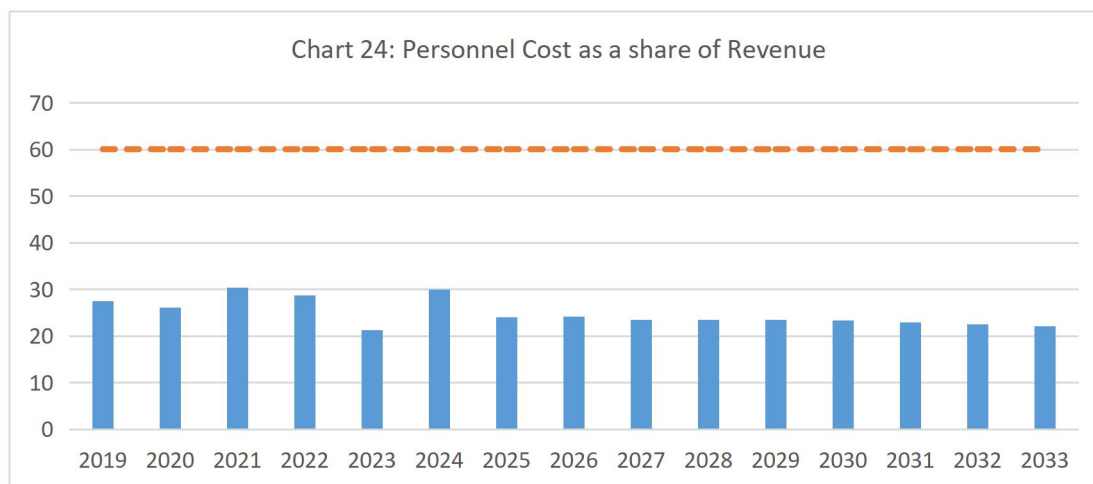
Implications:

- i. **Revenue Strain:** Rising debt service obligations indicate that an increasing share of revenue will be directed toward debt repayment, limiting funds available for essential services and investments.
- ii. **Fiscal Sustainability Risks:** The rapid increase in the ratio from 2027 onward could jeopardize the government's fiscal health, requiring urgent interventions to stabilize debt service costs.

In summary, the analysis reveals that while Gombe State maintained relatively prudent debt service levels in the historical period, the projected sharp rise in debt service as a percentage of revenue beyond the 40% threshold signals a critical need for fiscal reforms. Proactively managing debt servicing costs and aligning borrowing practices with sustainable revenue growth will be essential to maintaining fiscal balance and avoiding potential debt distress during the projection period (2023–2033).

4.5.6 Projected Personnel Cost- Chart 24

The Gombe State projected personnel cost from 2024 to 2033 is presented in Chart 24 below:



Source: Gombe State DSA-DMS Template, 2024

Analyzing the ratio of Personnel Cost as a percentage of Revenue for Gombe State Government over the specified period (2018-2032) in comparison to the established threshold of 60% reveals important trends and implications for the state's fiscal health:

1. Personnel Cost as a Percentage of Revenue:

Historical Trends (2019–2022): The ratio remained stable during the historical period, ranging between 26% (2020) and 30% (2021). The peak of 30% in 2021 still lies comfortably below the 60% threshold, reflecting strong fiscal control over personnel expenses.

Projection Period (2023–2033): Personnel costs are projected to decrease slightly over time, stabilizing at around 23–24% during most of the projection period, with a low of 22% in 2033. The consistent decrease signifies a strong commitment to maintaining efficient workforce-related expenditure relative to revenue.

2. Threshold Comparison:

The established threshold of 60% serves as a critical point at which personnel costs might become unsustainable and overly burdensome for the state's budget.

Implications:

- i. **Fiscal Flexibility:** By maintaining personnel costs well below the threshold, Gombe State ensures greater fiscal flexibility to fund other critical areas like infrastructure, healthcare, and education.
- ii. **Efficient Management:** The stable trend highlights effective workforce cost control, reducing risks of overspending on salaries and benefits.

- iii. Positive Economic Impact: Lower personnel costs as a percentage of revenue allow for increased investment in developmental projects, fostering economic growth and improving service delivery.

In summary, the analysis of Personnel Cost as a percentage of Revenue showcases Gombe State's commitment to responsible fiscal management. By maintaining personnel expenses well below the 60% threshold, the government preserves fiscal space for development initiatives and essential services. Sustaining this trend through proactive workforce and revenue management will contribute significantly to the state's long-term economic stability and growth during the projection period (2023–2033).

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

The baseline scenario analysis of Gombe State Government's debt sustainability focuses on two areas: the projected debt trends relative to repayment capacity (Debt as a Share of Revenue) and an assessment of fiscal deficit and debt ratios (Debt Service as a Share of Revenue). The Debt-to-Revenue ratio is projected to rise from 190% in 2024 to 399% by 2033, demonstrating a significant increase in the government's reliance on debt financing relative to its revenue-generating capacity. This trend underscores the need for enhanced fiscal discipline, improved revenue mobilization, and effective debt management strategies to ensure long-term fiscal sustainability. Similarly, the Debt Service-to-Revenue ratio is expected to increase from 27% in 2024 to 110% by 2033, indicating that a growing portion of government revenues will be consumed by debt servicing obligations.

Main Findings:

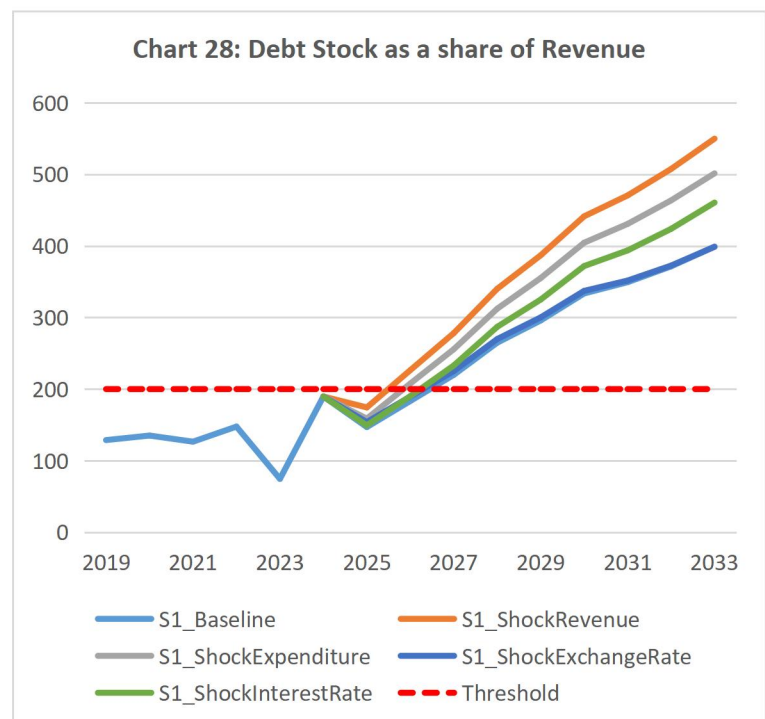
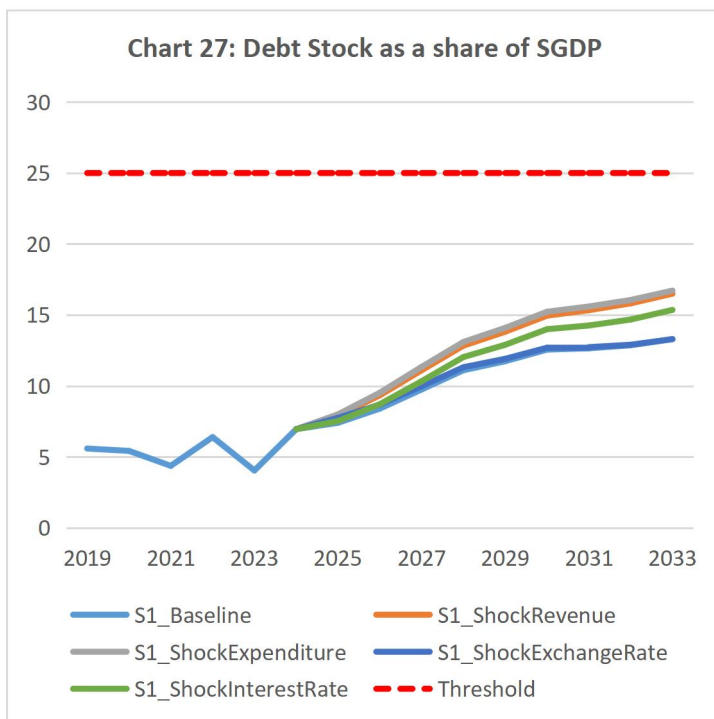
The baseline scenario analysis reveals that Gombe State's Debt-to-Revenue ratio is projected to increase significantly from 190% in 2024 to 399% by 2033, indicating a growing reliance on debt financing relative to revenue capacity. Similarly, the Debt Service-to-Revenue ratio is expected to rise from 27% in 2024 to 110% by 2033, demonstrating that an increasing share of government revenues will be directed towards debt servicing. Despite these projected challenges, historical data (2019–2023) shows that the state has maintained moderate debt levels. The government has adopted measures to enhance revenue mobilization, including expanding the tax base, improving compliance, and introducing additional revenue streams such as the Land Use Charge. Concurrently, efforts to control recurrent expenditure growth and implement strategic economic development plans, such as the Gombe State 10-Year Development Plan, have contributed to fiscal stability.

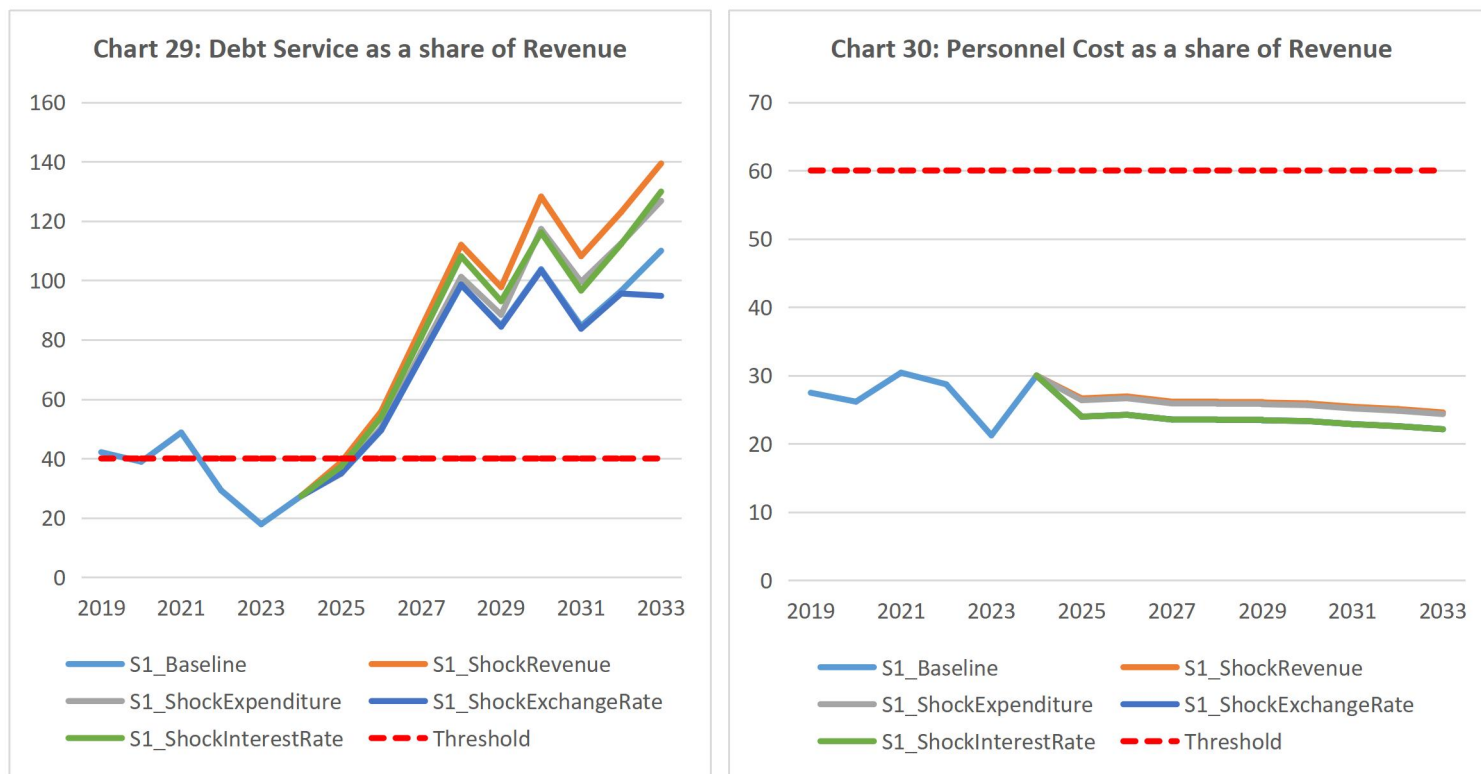
Conclusion:

In conclusion, while the baseline scenario highlights rising debt pressures in Gombe State, the government has demonstrated a commitment to maintaining debt sustainability; by strengthening revenue generation, controlling expenditures, and adhering to strategic development frameworks. The state has kept debt levels within manageable limits historically and ensured that debt servicing obligations remain below critical thresholds. Continued vigilance, fiscal discipline, and proactive policy implementation will be essential for navigating economic challenges and achieving sustainable development goals during the projection period of 2024–2033.

4.7 DSA Sensitivity Analysis (Shock Analysis)

This section explains 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, 2023

4.7.1 Debt-to-SGDP

The analysis of Gombe State's debt-to-SGDP ratio under the baseline scenario and various shock scenarios for the projection period (2023–2032) highlights trends in debt sustainability relative to the established threshold of 25%:

1. **Baseline Scenario (S1_Baseline):** Under the baseline scenario, Gombe State's debt as a percentage of SGDP starts at 7% in 2023 and gradually increases to 13% by 2033.
2. This reflects a stable but cautious trajectory for the State's debt management practices over the period, emphasizing the importance of maintaining fiscal discipline to avoid unsustainable debt levels.
3. **Shock Scenarios:** Various economic shocks were modeled to assess their potential impact on Gombe State's debt sustainability:
 - i. **Shock Scenario 1 (S1_ShockRevenue):** A positive revenue shock of 7% annually from 2024 to 2033 stabilizes the debt-to-SGDP ratio, demonstrating that while revenue growth is crucial, it needs to be complemented by prudent expenditure and borrowing strategies for long-term sustainability.

- ii. **Shock Scenario 2 (S1_ShockExpenditure):** A 7% annual increase in expenditures results in a moderate rise in Gombe State's debt-to-SGDP ratio. This underscores the need for strategic and efficient expenditure management to maintain fiscal health without affecting development goals.
- iii. **Shock Scenario 3 (S1_ShockExchangeRate):** Depreciation in the exchange rate has a mixed impact. For foreign-denominated debt, favorable exchange rate conditions slightly improve the debt-to-SGDP ratio, providing limited fiscal relief.
- iv. **Shock Scenario 4 (S1_ShockInterestRate):** An increase in interest rates raises Gombe State's debt-to-SGDP ratio by escalating debt servicing costs, thereby posing challenges to overall debt sustainability. This underscores the need for careful management of interest rate risks in debt portfolios.
- v. **Historical Scenario (S1_Historical):** Under a trend-based scenario reflecting past practices, Gombe State's debt-to-SGDP ratio increases significantly, reaching 13% by 2033. This underscores the importance of maintaining current fiscal discipline to prevent a return to unfavorable historical trends.

Threshold: Across all scenarios, Gombe State's debt-to-SGDP ratio remains below the established threshold of 25%, signifying that the State is currently managing its debt within sustainable limits.

Conclusion:

The analysis indicates that Gombe State's baseline scenario reflects a decreasing debt-to-SGDP ratio, showcasing positive debt sustainability. Despite potential shocks, the debt levels remain below the critical 25% threshold, demonstrating resilience. To ensure continued fiscal stability, Gombe State must sustain robust revenue generation, prudent expenditure management, and strategic fiscal policies. This approach will support the State's long-term economic objectives and protect against potential fiscal shocks.

4.7.2 Debt-to-Revenue

The analysis of Gombe State's debt as a percentage of revenue from 2023 to 2033 explores the trends under the baseline scenario, shock scenarios, and the established threshold of 200%.

1. **Baseline Scenario (S1_Baseline):** In the baseline scenario, Gombe State's debt as a percentage of revenue starts at 190% in 2024 and increases to 399% by 2033. This trend indicates a growing debt burden relative to revenue, exceeding the sustainability threshold of 200% from 2027 onward.

2. Shock Scenarios:

- i. **Shock Scenario 1 (S1_ShockRevenue):** Revenue increases lead to slightly lower debt ratios than the baseline, starting at 190% in 2024 and peaking at 550% by 2033. This underscores that increased revenue alone may not be sufficient to control the rising debt burden.
 - ii. **Shock Scenario 2 (S1_ShockExpenditure):** Higher expenditures cause the debt ratio to rise significantly, reaching 501% by 2033. This scenario highlights the importance of strict expenditure controls to avoid exacerbating the debt-to-revenue ratio.
 - iii. **Shock Scenario 3 (S1_ShockExchangeRate):** Depreciation in the exchange rate results in a more moderate debt ratio increase, starting at 190% in 2024 and rising to 399% by 2033, similar to the baseline. This suggests limited relief from exchange rate fluctuations on debt sustainability.
 - iv. **Shock Scenario 4 (S1_ShockInterestRate):** Lower interest rates initially moderate the debt ratio, starting at 190% in 2024 but increasing to 461% by 2033, showing that debt service cost reductions alone cannot reverse the rising trend.
 - v. **Historical Scenario (S1_Historical):** Reflecting past trends, this scenario shows the debt-to-revenue ratio improving significantly, declining from 190% in 2024 to negative figures by 2033. This emphasizes the need to maintain favorable fiscal practices to achieve historical gains.
3. **Threshold:** The established threshold of 200% for debt sustainability is breached across most scenarios starting in 2026, except for the historical scenario. This highlights the need for urgent fiscal reforms to maintain debt within manageable levels.

Conclusion:

The analysis demonstrates that Gombe State's debt as a percentage of revenue is on an unsustainable upward trajectory under the baseline and most shock scenarios. To ensure fiscal stability, the State must implement policies to enhance revenue generation, limit expenditure growth, and manage debt service costs. Strengthening fiscal discipline and pursuing economic diversification will be critical to maintaining debt levels within the 200% threshold and ensuring long-term sustainability.

4.7.3 Debt Service-to-Revenue

The analysis of Gombe State's debt service as a percentage of revenue from 2023 to 2033 considers the baseline, shock scenarios, and the sustainability threshold of 40%:

1. **Baseline Scenario (S1_Baseline):** In the baseline scenario, Gombe State's debt service-to-revenue ratio begins at 27% in 2024, rising steadily to 110% by 2033. This surpasses the 40% threshold by 2026, indicating increasing pressure on the state's fiscal resources to meet debt obligations.
2. **Shock Scenarios:**
 - i. **Shock Scenario 1 (S1_ShockRevenue):** Revenue increases result in a higher debt service ratio, which peaks at 139% in 2033. This scenario reveals that additional revenue may not offset rising debt service costs, emphasizing the need for broader fiscal reforms.
 - ii. **Shock Scenario 2 (S1_ShockExpenditure):** Increased expenditures elevate the debt service ratio to 127% by 2033, underscoring the critical need for expenditure control to mitigate fiscal risks.
 - iii. **Shock Scenario 3 (S1_ShockExchangeRate):** Exchange rate pressures show a slight improvement, with the ratio peaking at 95% by 2033. However, the ratio remains unsustainable.
 - iv. **Shock Scenario 4 (S1_ShockInterestRate):** Higher interest rates push the ratio to 130% by 2033, reflecting the importance of managing borrowing terms to reduce debt servicing costs.
 - v. **Historical Scenario (S1_Historical):** This scenario sees a steady decline, with the ratio falling into negative territory by 2033. The trend suggests that replicating historical fiscal strategies could alleviate debt servicing pressures significantly.
3. **Threshold:** The debt service-to-revenue ratio exceeds the 40% threshold in most scenarios starting from 2027, highlighting unsustainable debt servicing levels that could crowd out essential expenditures.

Conclusion:

Gombe State's debt service as a percentage of revenue presents a significant fiscal challenge under the baseline and most shock scenarios, consistently exceeding the 40% threshold. Addressing this requires a comprehensive fiscal strategy that includes rationalizing expenditures, enhancing revenue, restructuring debt, and pursuing favorable borrowing terms to ensure long-term fiscal stability.

4.7.4 Personnel Cost-to-Revenue

The analysis of Gombe State's personnel cost as a percentage of revenue from 2023 to 2033 evaluates the baseline, shock scenarios, and the sustainability threshold of 60%:

1. **Baseline Scenario (S1_Baseline):** Under the baseline scenario, Gombe State's personnel cost-to-revenue ratio starts at 30% in 2024 and gradually decreases to 22% by 2033. This trend reflects effective management of personnel costs, which consistently remain below the 60% threshold, ensuring fiscal sustainability.

2. Shock Scenarios:

- i. **Shock Scenario 1 (S1_ShockRevenue):** Revenue growth results in a slight reduction in the personnel cost-to-revenue ratio, stabilizing at 25% by 2033. This suggests that increased revenue provides modest fiscal relief, contributing to better personnel cost management.
 - ii. **Shock Scenario 2 (S1_ShockExpenditure):** Increased expenditures lead to a marginal rise in the ratio, which stabilizes at 24% by 2033. Despite the rise, the ratio remains comfortably below the 60% threshold, indicating that personnel costs are resilient even under higher spending scenarios.
 - iii. **Shock Scenario 3 (S1_ShockExchangeRate):** Exchange rate fluctuations produce a steady decline in the personnel cost-to-revenue ratio, decreasing to 22% by 2033. This demonstrates that external economic factors have minimal adverse effects on personnel cost sustainability.
 - iv. **Shock Scenario 4 (S1_ShockInterestRate):** Interest rate pressures have a similar impact, with the personnel cost-to-revenue ratio decreasing to 22% by 2033. This indicates resilience against borrowing cost changes and suggests effective management of debt-related fiscal pressures.
 - v. **Historical Scenario (S1_Historical):** Historical trends show a sharp decline in the ratio, falling to 0% by 2033. While this reflects significant fiscal adjustments, it may indicate personnel cost reductions to levels that could compromise service delivery and overall fiscal balance.
3. **Threshold:** Across all scenarios, the personnel cost-to-revenue ratio remains well below the 60% threshold, demonstrating that Gombe State's personnel expenditures are effectively controlled and do not pose a threat to fiscal stability.

Conclusion:

The analysis confirms that Gombe State's personnel cost-to-revenue ratio is on a sustainable path under the baseline and all shock scenarios. Key observations are Revenue growth contributes to further stabilization of personnel costs; Expenditure increases and external shocks have minimal impact on fiscal sustainability.

Historical trends, while improving fiscal metrics, may carry risks of underfunding essential personnel expenditures. To sustain this positive trajectory, Gombe State should continue to strengthening fiscal discipline in managing personnel costs; ensuring adequate funding for service delivery to avoid adverse effects of excessive cost reductions & diversifying revenue sources to build resilience against economic shocks. The consistent adherence to the 60%

threshold across all scenarios highlights effective fiscal management of personnel expenses, ensuring long-term fiscal sustainability.

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 2027 (as projected in the baseline scenario), while Risk for DMS is measured by the deviation from the expected value in 2027 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 35% with 3 years and 6 years maturity and through bond with 5 years and 7 years maturity at an expected interest rate of 30%, 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.

These comparisons highlight the varying significance of each class of borrowing in the context of the total planned borrowing for the entire period from 2024 to 2033. Commercial Bank Loans and State Bonds were the primary sources of financing, with External Financing playing a relatively minor role in the overall borrowing strategy. The proportions changed from year to year, reflecting the organization's evolving financial priorities and strategies.

Strategy 1 (S1) reflects a "Baseline" MTEF Financing Mix: Gombe State's debt composition and financing strategy from 2019 to 2033 reflects a well-structured approach to

meeting its fiscal needs, utilizing a mix of domestic and external financing options. The **baseline MTEF** incorporates **commercial bank loans** with both short (1-5 years) and long (6+ years) maturities, **state bonds**, and **concessional loans** to cover borrowing requirements. Short-term **commercial loans** (1-5 years) account for 16.59% of the financing mix, with key borrowings in 2025 (₦57.374 billion), 2028 (₦36.684 billion), and 2030 (₦37.048 billion). Longer-term **commercial loans** (6+ years) represent 31.15%, with significant borrowings in 2023 (₦39.914 billion), 2027 (₦51.638 billion), and 2029 (₦39.476 billion). **State bonds** are expected to cover 38.73% of financing, with borrowings in 2024 (₦41.471 billion), 2026 (₦35.186 billion), and 2022 (₦25.880 billion). External financing primarily comes from **concessional loans**, such as those from the World Bank and African Development Bank, which form 6.05% of the financing mix, with key disbursements of \$212.4 million in 2023, \$238.6 million in 2025, and \$200 million in 2029.

The strategy outlined in Scenario 1 (S1) balances the use of **domestic** and **external** borrowing to meet Gombe State's financing needs. Notable debt issuance includes ₦57.374 billion in 2025, ₦36.684 billion in 2028, and ₦37.048 billion in 2030 through short-term **commercial loans**, as well as ₦39.914 billion in 2023, ₦51.638 billion in 2027, and ₦39.476 billion in 2029 through long-term **commercial loans**. While the strategy reflects a sustainable financing mix, it exposes the state to risks from short-term debt and reliance on domestic markets. To mitigate these risks, Gombe State should diversify its sources of financing by increasing the share of concessional and bilateral loans and explore innovative options like public-private partnerships. Strengthening debt management systems is also essential to ensure effective management of short-term borrowings and long-term fiscal stability.

Strategy 2 (S2) focuses on financing through commercial bank loans: Strategy 2 (S2) primarily focuses on financing through **commercial bank loans**, with a strategic emphasis on both **short-term** (1-5 years) and **long-term** (6+ years) maturities. In this approach, the State plans to cover its financing needs between 2022 and 2031, with a distribution of **commercial bank loans** split between short-term (1-5 years) and long-term (6+ years) loans. The financing mix in this strategy is heavily weighted towards **long-term** loans, accounting for an average of **54.76%**, while **short-term loans** make up **45.24%** of the total financing. The state aims to borrow significant amounts through **commercial bank loans** with maturities of both 1-5 years and 6+ years, with major borrowings planned for 2024, 2026, 2028, 2030, and 2031, totaling amounts such as **₦57.374 billion** in 2024 and **₦60.130 billion** in 2031 for short-term loans, and **₦115.384 billion** in 2022 and **₦67.767 billion** in 2028 for long-term loans.

Under **commercial bank loans (maturity 1-5 years)**, Gombe State plans to borrow substantial amounts such as **₦89.516 billion** in 2024, **₦429.114 billion** in 2025, and **₦694.213 billion** in 2027, reflecting a large share of the financing needs. However, the **long-term commercial loans (maturity 6 years or longer)** show no planned borrowings under this strategy for the years 2023, 2024, 2026, and 2030, marking a clear focus on meeting financing needs via shorter maturity loans. In addition, the strategy incorporates **State Bonds**, with notable amounts such as **₦108.470 billion** in 2022 and **₦1,047.394 billion** in 2030, though no borrowings under **State Bonds (maturity 6 years or longer)** or **external financing** are included in the mix. The absence of external financing options, such as **concessional loans** or **bilateral loans**, further emphasizes the reliance on domestic sources, particularly commercial bank loans and state bonds.

Strategy (S3) focuses its financing through the domestic debt market (State bond).

Strategy 3 (S3) focuses on financing through the **domestic debt market**, primarily relying on **State bonds** and **commercial bank loans** with maturities of **6 years or longer**. In this strategy, the State government plans to cover its gross financing needs from **2022 to 2031**, with a distribution of **34.95%** from commercial bank loans and **65.05%** from state bonds. The strategy emphasizes borrowing through **commercial bank loans** with maturities of 6 years and above, with borrowings such as **₦89.516 billion** in 2024 and **₦589.712 billion** in 2031. Additionally, the State will focus on **State bonds** with maturities above 6 years, such as **₦115.384 billion** in 2022 and **₦787.540 billion** in 2031. This approach underscores a preference for longer-term financing to meet the State's fiscal needs.

In this strategic period, borrowings through **commercial bank loans** (maturity 6 years or longer) are planned for years including **2023, 2025, 2026, 2028, and 2030**, with significant amounts such as **₦91.419 billion** in 2023 and **₦349.202 billion** in 2027. In addition to these, **State bonds** are projected to make up a large portion of the financing mix, with borrowings planned for **2024, 2027, 2029, and 2031**. For example, in 2027, the State plans to borrow **₦269.619 billion** through **State bonds**, while **₦468.155 billion** is expected to be raised in 2029. This strategy marks a significant reliance on long-term debt instruments, with no external financing options like **concessional loans** or **bilateral loans** planned for the period.

Strategy (S4) focuses its financing through one to five years facility. Strategy 4 (S4)

focuses its financing through **short-term debt instruments**, specifically **commercial bank loans** and **State bonds** with maturities of **1 to 5 years**. In this strategy, the State plans to cover its gross financing needs between **2022 and 2031**, with a distribution of **53.99%** from commercial bank loans and **46.01%** from State bonds. The State government intends to borrow sums such as **₦57.374 billion** in 2022 and **₦47.163 billion** in 2031 through **State**

bonds with maturities of **1 to 5 years**. Additionally, it plans to borrow amounts like **₦36.819 billion** in 2023 and **₦41.380 billion** in 2030, through **State bonds** with maturities of **6 years or longer**. This strategy is geared toward balancing short-term financing needs with long-term obligations.

In terms of **commercial bank loans** and **State bonds**, the State anticipates significant borrowings with **State bonds** maturing between **1 to 5 years** over the strategic period, including **₦125.948 billion** in 2024 and **₦659.658 billion** in 2031. **Commercial bank loans** under this strategy are projected to cover shorter-term needs, with sums such as **₦320.752 billion** in 2027 and **₦429.669 billion** in 2029. For **State bonds with maturities of 6 years or longer**, the government plans to borrow significant sums like **₦207.951 billion** in 2025 and **₦546.243 billion** in 2031. This financing mix highlights the State's emphasis on managing its financing needs through relatively shorter borrowing periods, while still securing longer-term commitments through bonds. No external financing, such as **concessional loans** or **bilateral loans**, is planned under this strategy.

5.2 DMS Simulation Results

Analysis of strategies & outcomes of the analysis. The cost risk trade off charts illustrates 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:

Chart 33. Debt Stock as a share of Revenue

(including grants and excluding other capital receipts)

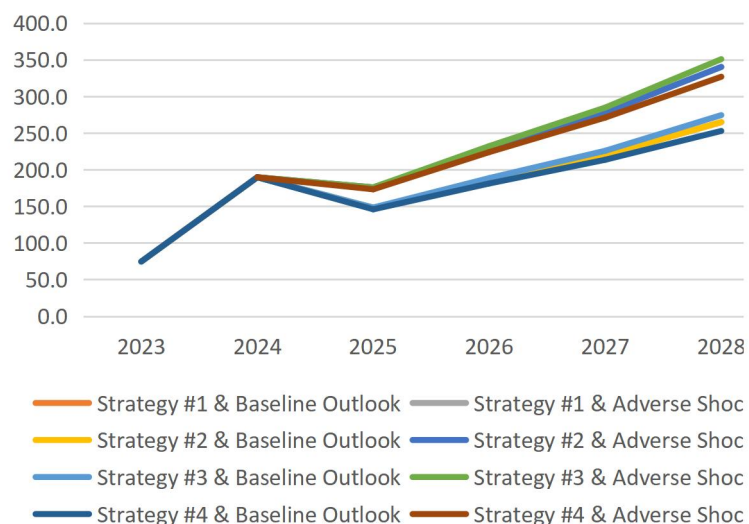
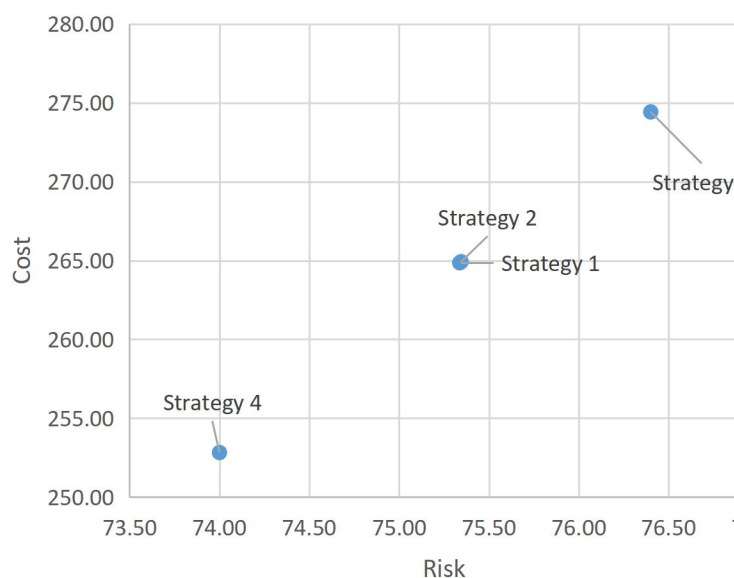


Chart 34. Cost-Risk Trade Off

(Cost in vertical axis, Risk in horizontal axis)



Source: Gombe State DSA/MTDS Template, 2024

The result on Debt as share of Revenue indicates that:

The analysis of the **Debt as a share of Revenue** for different strategies under both **Baseline Outlook** and **Adverse Shock** scenarios indicates varied debt management trends and vulnerabilities across strategies. Below is the breakdown of each strategy's performance:

1. Strategy 1 & Baseline Outlook:

- **Debt Stock as % of Revenue** starts at **74.5%** in 2023, indicating a relatively low debt burden.
- Over time, the debt-to-revenue ratio steadily increases, reaching **264.9%** by 2028. This suggests a growing debt burden, particularly in the later years (2027-2028), reflecting an increasing challenge in maintaining manageable debt levels over the medium term.

2. Strategy 1 & Adverse Shock:

- Under an **Adverse Shock** scenario, the debt burden is notably higher, starting at **189.6%** in 2023 and reaching **340.2%** in 2027.
- The sharp increase by 2026 (**278.2%**) and 2027 (**340.2%**) reflects the substantial vulnerability of Strategy 1 to adverse economic conditions, indicating potential difficulties in debt sustainability under such shocks.

3. **Strategy 2 & Baseline Outlook:**

- **Strategy 2** starts similarly to Strategy 1 at **74.5%** in 2023.
- It increases slightly over time, reaching **264.9%** in 2028. This pattern is similar to Strategy 1 but slightly more stable. The debt burden remains relatively manageable, and the increase is less steep than in Strategy 1, indicating a better capacity for managing debt under the baseline outlook.

4. **Strategy 2 & Adverse Shock:**

- Like Strategy 1, Strategy 2 faces an increase in the debt-to-revenue ratio under the **Adverse Shock** scenario.
- Starting at **189.6%** in 2023, it rises to **340.3%** by 2027. Although similar to Strategy 1 in overall performance, Strategy 2 maintains a slightly lower debt burden in comparison under adverse conditions, indicating marginally better resilience.

5. **Strategy 3 & Baseline Outlook:**

- **Strategy 3** starts at **74.5%** in 2023 and follows a more moderate growth trajectory, reaching **274.4%** in 2028.
- This suggests a more consistent and stable increase in debt-to-revenue ratio over the medium term, indicating that Strategy 3 effectively manages its debt levels while avoiding sharp increases over time.

6. **Strategy 3 & Adverse Shock:**

- Under the **Adverse Shock** scenario, the debt burden increases more significantly, from **189.6%** in 2023 to **350.8%** in 2027.
- Strategy 3's debt-to-revenue ratio rises more gradually than in Strategies 1 and 2, indicating that it may have a better ability to manage debt in challenging conditions, although still facing considerable debt pressure under adverse circumstances.

7. **Strategy 4 & Baseline Outlook:**

- Strategy 4 begins at **74.5%** in 2023, similar to the other strategies.
- It exhibits a **decreasing trend** from **189.6%** in 2024 to **252.8%** by 2027, before rising again to **264.9%** in 2028. This volatile pattern suggests that while Strategy 4 may experience a temporary reduction in its debt burden, it still faces challenges, especially towards the end of the period, potentially due to irregular or inconsistent debt management.

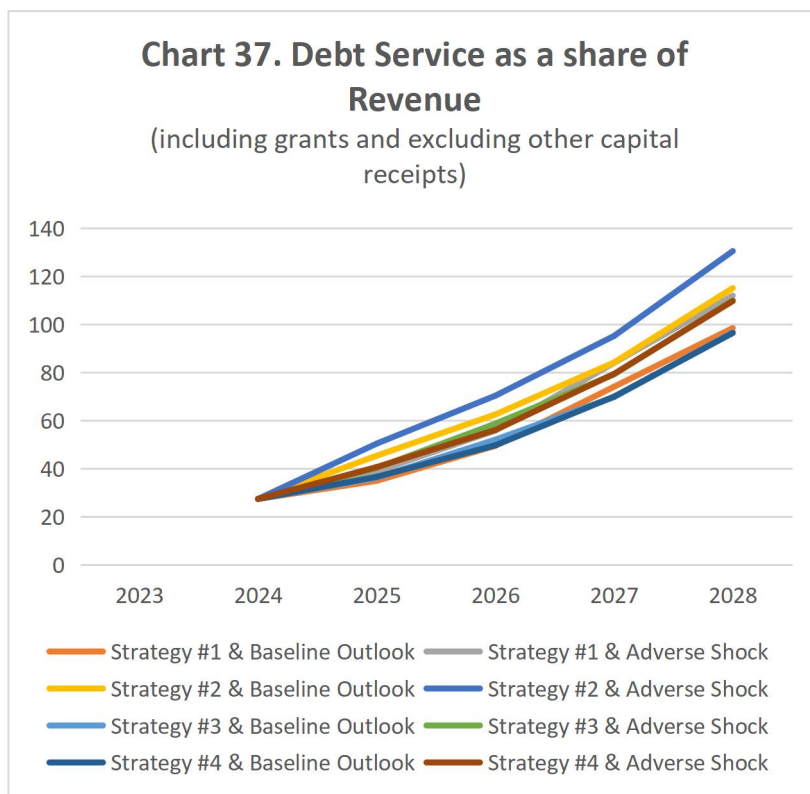
8. Strategy 4 & Adverse Shock:

- Under **Adverse Shock** conditions, Strategy 4 faces an increase in debt-to-revenue ratio, from **189.6%** in 2023 to **326.8%** in 2027.
- The significant increase by 2026 (**271.1%**) and the projected rise to **326.8%** in 2027 shows that Strategy 4 faces considerable difficulties in managing debt under adverse conditions, with more volatility than the other strategies.

In conclusion, **Strategies 2 and 3** demonstrate relatively more stable debt management across both baseline and adverse scenarios, while **Strategies 1 and 4** experience more volatility, especially under adverse economic conditions. When assessing the sustainability of these strategies, it is important to consider their resilience to external shocks and their long-term debt management potential.

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:



Source: Gombe State DSA/MTDS Template, 2024

The **Debt Service as a Percentage of Revenue** reflects the share of revenue allocated to servicing debt obligations. The analysis below reviews the performance of each strategy under both the **Baseline Outlook** and **Adverse Shock** scenarios.

1. Strategy 1 & Baseline Outlook:

- **Debt Service as % of Revenue** starts at **27.4%** in 2023, indicating a manageable debt servicing requirement relative to revenue.
- Over time, the ratio increases significantly, reaching **98.4%** in 2027, reflecting an escalating challenge in servicing debt as the strategy progresses.
- However, in **2028**, the debt service drops to **13.5%**, suggesting a substantial reduction in the debt burden, possibly due to improved revenue performance or a reduction in debt obligations.

2. Strategy 1 & Adverse Shock:

- Under the **Adverse Shock** scenario, the debt service ratio starts at **27.4%** in 2023, similar to the baseline.
- The ratio increases steadily over time, reaching **111.9%** by 2027. This sharp increase highlights the heightened challenges in debt servicing under adverse conditions.
- Unlike the baseline scenario, the debt service ratio does not drop significantly in 2028, remaining under pressure due to ongoing economic difficulties.

3. Strategy 2 & Baseline Outlook:

- **Strategy 2** starts with a debt service ratio of **27.4%** in 2023, similar to Strategy 1.
- The ratio increases over time, reaching **115.1%** by 2027, indicating that the strategy faces growing debt servicing requirements as it progresses.
- In **2028**, there is a slight reduction to **15.4%**, suggesting that this strategy may also experience relief in the final year, though the debt service burden remains quite high compared to the baseline outlook.

4. Strategy 2 & Adverse Shock:

- Under the **Adverse Shock** scenario, Strategy 2 sees a debt service ratio starting at **27.4%** in 2023.
- The ratio increases more sharply compared to the baseline, reaching **130.5%** by 2027, indicating that the adverse shock scenario places considerable strain on debt servicing.

- Similar to Strategy 1, the debt service ratio remains elevated and continues to grow over the period, reflecting a significant challenge in managing debt under unfavorable economic conditions.

5. **Strategy 3 & Baseline Outlook:**

- **Strategy 3** starts at **27.4%** in 2023, identical to the other strategies.
- The ratio increases over time, reaching **96.6%** in 2027. While it rises, the increase is somewhat slower than Strategies 1 and 2, suggesting a more moderate increase in debt servicing pressure.
- In **2028**, the ratio drops to **13.3%**, similar to Strategy 1, indicating a reduction in debt service obligations, possibly due to an easing of debt pressures or improved revenue performance.

6. **Strategy 3 & Adverse Shock:**

- Under **Adverse Shock** conditions, Strategy 3 begins with **27.4%** in 2023.
- The debt service ratio increases over time, reaching **109.9%** by 2027. This shows that Strategy 3 faces significant challenges under adverse conditions but manages debt service slightly more efficiently compared to Strategies 1 and 2.
- The ratio is lower than in the other strategies under adverse conditions, indicating better debt management under stress.

7. **Strategy 4 & Baseline Outlook:**

- **Strategy 4** starts at **27.4%** in 2023, consistent with the other strategies.
- The debt service ratio increases to **96.4%** by 2027, similar to Strategy 3 but higher than Strategy 1, showing that the strategy faces significant challenges in managing debt servicing costs.
- In **2028**, the debt service ratio drops to **13.3%**, similar to Strategy 3, indicating a potential reduction in debt burden or improvement in financial conditions.

8. **Strategy 4 & Adverse Shock:**

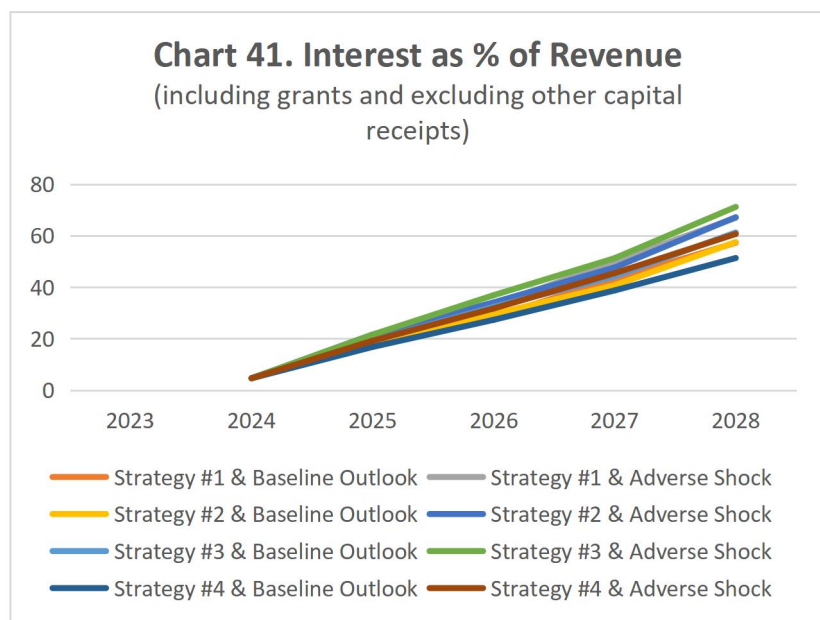
- Under the **Adverse Shock** scenario, Strategy 4 starts at **27.4%** in 2023.
- The ratio increases steadily to **109.7%** in 2027, reflecting considerable strain under adverse economic conditions.

- Like Strategy 3, Strategy 4's performance under adverse conditions shows some resilience compared to Strategies 1 and 2, but still faces considerable challenges in managing its debt service obligations.

In conclusion, **Strategy 3** emerges as the most effective in managing debt service, both under baseline and adverse scenarios, showing moderate increases and better overall debt sustainability. **Strategy 1** and **Strategy 2**, particularly under adverse shock conditions, face the highest debt service ratios, making them less resilient to economic downturns. **Strategy 4** shows similar performance to Strategy 3 but with slightly higher volatility.

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 DSA/MTDS Template, 2024

The **Interest as a Percentage of Revenue** analysis examines how the cost of servicing interest on debt evolves over time under different strategies, with a focus on the **2028 risk** measurement for each scenario.

1. Strategy 1 & Baseline Outlook:

- **Interest as % of Revenue** starts at **4.6%** in 2023, reflecting a manageable interest cost relative to revenue.
- The ratio increases steadily each year, reaching **57.3%** by 2027, suggesting that the interest burden grows significantly as the strategy progresses.

- In **2028**, the ratio drops to **9.7%**, showing a substantial reduction in the interest burden, possibly due to improved revenue performance or a reduction in interest-bearing debt.

2. Strategy 1 & Adverse Shock:

- Under the **Adverse Shock** scenario, the interest ratio starts at **4.6%** in 2023, similar to the baseline.
- The ratio increases over time, reaching **67.0%** by 2027, indicating that the adverse economic conditions place substantial pressure on the debt-servicing requirements.
- Unlike the baseline, there is no noticeable reduction in the ratio in **2028**, maintaining elevated levels of interest burden.

3. Strategy 2 & Baseline Outlook:

- **Strategy 2** begins with an interest ratio of **4.6%** in 2023, consistent with the other strategies.
- The ratio increases each year, reaching **57.6%** by 2027, similar to Strategy 1, indicating that interest costs rise substantially as the strategy progresses.
- In **2028**, the ratio decreases to **9.7%**, similar to Strategy 1, reflecting a potential reduction in the interest burden as the period ends.

4. Strategy 2 & Adverse Shock:

- Under the **Adverse Shock** scenario, Strategy 2 starts at **4.6%** in 2023, mirroring the baseline scenario.
- The interest ratio rises steadily, reaching **67.2%** by 2027, which is similar to the baseline scenario of Strategy 1. This suggests that both strategies experience similar pressure in servicing interest under adverse conditions.
- As with Strategy 1, the ratio does not show a significant reduction in **2028**, maintaining a high level of interest burden.

5. Strategy 3 & Baseline Outlook:

- **Strategy 3** starts with an interest ratio of **4.6%** in 2023.
- The ratio increases over time, reaching **61.3%** by 2027, reflecting a growing interest burden over the years, slightly higher than the other strategies.
- In **2028**, the ratio drops to **10.0%**, indicating a potential reduction in interest costs by the end of the strategy, though it remains slightly higher than in Strategies 1 and 2.

6. **Strategy 3 & Adverse Shock:**

- Under the **Adverse Shock** scenario, Strategy 3 starts at **4.6%** in 2023.
- The interest ratio rises over time, reaching **71.2%** by 2027, which is the highest among all the strategies. This suggests that Strategy 3 faces the greatest pressure in servicing interest under adverse conditions.
- As with the other strategies, there is no noticeable reduction in the interest ratio in **2028**, keeping the interest burden elevated.

7. **Strategy 4 & Baseline Outlook:**

- **Strategy 4** begins with an interest ratio of **4.6%** in 2023.
- The ratio increases each year, reaching **51.4%** by 2027, which is lower than the ratios for Strategies 1 and 3, indicating a slightly more manageable interest burden.
- In **2028**, the ratio decreases to **9.4%**, reflecting a reduction in the interest burden, similar to Strategies 1 and 2.

8. **Strategy 4 & Adverse Shock:**

- Under the **Adverse Shock** scenario, Strategy 4 starts at **4.6%** in 2023.
- The interest ratio increases steadily, reaching **60.7%** by 2027, indicating that the adverse shock leads to a moderate increase in interest costs.
- Like the other strategies, the ratio does not decrease significantly in **2028**, remaining at a relatively high level.

In conclusion, **Strategy 4** appears to be the most resilient in terms of managing interest costs, with a moderate peak and a noticeable reduction by 2028. **Strategy 1 and Strategy 2** show similar performance, experiencing significant increases in interest burdens but also benefiting from reductions by 2028. **Strategy 3** faces the highest interest burden, especially under adverse conditions, and may be less effective in managing interest costs over time.

5.2.4 DMS Assessment

The preferred strategy for Gombe State's Debt Management Strategy (DMS) was not solely based on the Analytical Tool assessment of the costs and risks of all four strategies. While the Analytical Tool's results suggested that **Strategy 3 (S3)** was the most favorable in terms of costs and risks, the decision also considered the feasibility of successfully implementing the strategy in the medium-term. Though **Strategy 3 (S3)** showed marginally better results compared to the **referenced Strategy 1 (S1)** and the alternative strategies (**S2** and **S4**), it

was ultimately chosen because it is considered the most viable and achievable strategy for implementation over the short to medium-term.

Based on the analysis provided and the information about Gombe State's debt management strategy for the previous year, Strategy 3 (S3) emerges as the preferred choice for the following reasons:

1. **Cost and Risk Assessment:** Strategy 3 was found to be marginally better in terms of managing both **costs and risks** when compared to Strategy 1 (S1) and the other alternative strategies (S2 and S4). All strategies showed an increasing trend in **debt service costs**; however, Strategy 3 exhibited a relatively **stable trend**, with a **moderate increase** in debt service as a percentage of revenue. This indicates that, while the debt service burden grows, it does so at a more **controlled rate**, resulting in lower overall financial risk compared to the other strategies.
2. **Cost-Risk Trade-offs:** Strategy 3 was selected based on an evaluation of **cost-risk trade-offs**, which included key financial ratios such as: **Debt to GDP** ratio, **Debt to revenue** ratio, **Debt service to GDP** ratio, **Debt service to revenue** ratio, **Interest to GDP** ratio, **Interest payment to GDP** ratio. These ratios were analyzed for the **2022-2025 period**, and Strategy 3 was found to be the most favorable in managing these trade-offs, striking a balance between **debt reduction** and maintaining manageable risk levels.
3. **Prudent Debt Management Framework:** The **Debt Management Strategy (DMS)** for **2022-2026** provided a robust framework for prudent debt management, which **Strategy 3** aligns with. This ensures that the chosen strategy is not only financially sustainable but also conforms to the state's broader fiscal management objectives.
4. **Sensitivity to Shocks:** Despite Gombe State's sensitivity to various **economic shocks**, **Strategy 3** was considered to provide a stable path forward, capable of withstanding shocks while maintaining fiscal **stability**. This is critical, given the vulnerability of the state's revenue and expenditures to external factors such as changes in oil prices, interest rates, and exchange rates.
5. **Debt Service and Personnel Costs:** Under **Strategy 3**, the projected **Debt Service to Revenue** and **Personnel Cost to Revenue** ratios remain within **acceptable thresholds** throughout the projection period from 2022 to 2031. This indicates a strong commitment by the state to manage its debt service obligations and personnel costs responsibly, ensuring that these do not crowd out other essential services or investments.

Conclusion

Given these factors, Strategy 3 (S3) appears to be the best-rounded choice, considering both cost and risk management, debt reduction, and alignment with the prudent debt management framework. However, it's important to note that the final decision should also consider the specific economic and financial conditions prevailing in the current year and may involve additional factors not covered in the provided analysis.

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 2024 to 2033, with the strong-minded efforts by the State Government through its various initiatives and reforms in the key sectors of the economy, respectively.

Annexes

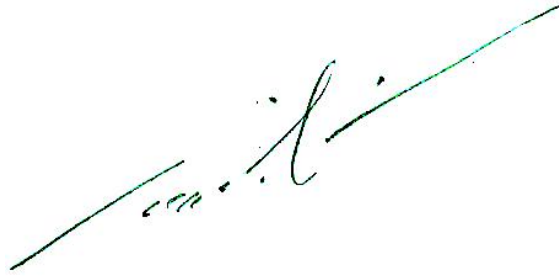
Annex I: Table Assumption

2024		Projection Methodology	Source
Assumptions:			
Economic activity	State GDP (at current prices)	The projected GDP from 2025-2027 was calculated based on the National GDP, using a price of \$80.21 per barrel, with average changes factored in from National GDP trends. From 2028 to 2033, projections assume steady improvement in economic performance, further bolstered by historical trends and fiscal policies.	Word Bank/DMO Estimate
Revenue	Revenue		
	1. Gross Statutory Allocation ('gross' means with no deductions; do not include VAT Allocations linked to the National GDP and inflation. Gross Statutory Allocation stood at N8,784.8 million in the early period, rising to N84,351.4 million by the end, reflecting federal revenue flows. Future projections from 2028-2033 anticipate an average increase tied to improving national economic conditions.	Estimated using elasticity forecasts based on national macroeconomic assumptions in the Federal Government's MTEF/FSP for 2025-2027, and historical revenue flows linked to the National GDP and inflation. Gross Statutory Allocation stood at N8,784.8 million in the early period, rising to N84,351.4 million by the end, reflecting federal revenue flows. Future projections from 2028-2033 anticipate an average increase tied to improving national economic conditions.	Audited Financial Report/ MTEF
	1.a. of which Net Statutory Allocation ('net' means of deductions)	After deductions, the net allocation mirrored the gross figures, as no deductions were reported during the period under review.	
	1.b. of which Deductions		
	2. Derivation (if applicable to the State)	Not applicable to the State for the period under review.	
	3. Other FAAC transfers (exchange rate gain, augmentation, others)	Including exchange rate gains and augmentations, these transfers saw a peak at N73,758.7 million due to favorable federal fiscal policies. Future estimates consider the expected economic situation, with moderate growth forecasted.	Audited Financial Report/ MTEF
	4. VAT Allocation	VAT allocation increased from N10,940.7 million to N57,771.3 million, supported by national tax reforms and a progressive VAT increment to 10% in 2025 and 12.5% in 2026, 2027 & 2028. Future projections from 2028-2033 propose gradual growth based on changes in Progressive VAT Rate, GDP and inflation, following similar trends from 2025-2027.	Audited Financial Report/ MTEF
	5. IGR	IGR rose steadily from N6,832.0 million to N31,022.0 million, reflecting ongoing revenue reforms. Key drivers included improved tax administration, implementation of the Treasury Single Account (TSA), and harmonization of tax policies. Future increases will depend on the successful execution of reforms such as tax base expansion and leakage prevention.	Audited Financial Report/ MTEF
	6. Capital Receipts		Audited Financial Report/ MTEF
	6.a. Grants	Significant inflows from capital receipts peaked at N89,809.7 million, driven by grants and loans. Future projections from 2028-2033 expect further growth, supported by donor engagement and capital project financing.	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)	Personnel costs rose from N19,330.2 million to N65,715.9 million, primarily due to wage increments and new public service appointments. From 2028-2033, personnel expenses are expected to increase, tied to ongoing public sector reforms and national minimum wage adjustments to Seventy Thousand Naira Minimum wage policy.	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 2028 to 2033 an average increase was proposed, derived from the average percentage of 2025 to 2027 amount which is based on MTEF 2025-2027 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 Allocations)	Based on the amortization schedules of public debt, interest payments, including FAAC deductions, remained manageable at N8,744.1 million. Future projections will follow the debt repayment schedules in place.	Audited Financial Report/ MTEF/Amortization Schedule
	4. Other Recurrent Expenditure (Excluding Personnel Costs, Overhead Costs and Interest Payments)	Other recurrent expenses increased from N8,874.9 million to N12,754.3 million, covering essential government services. These costs are projected to rise gradually, based on historical spending patterns and service demands.	
	5. Capital Expenditure	Capital spending rose sharply from N30,715.1 million to N170,069.8 million, driven by investments in critical infrastructure such as roads, healthcare, and education. From 2028-2033, capital expenditure will continue to grow as the State embarks on new developmental projects and with expectation of increase in the revenue generation, the average percentage of 2025 to 2027 amount is based on 2025-2026 MTEF 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 closing balance increased due to higher-than-expected FAAC allocations, peaking in 2023. Future projections for the cash balance from 2028-2033 assume average increases, in line with prior trends and projected budgetary performance.	Audited Financial Report/ MTEF
Debt Amortization and Interest Payments	Debt Outstanding at end-2023		
	External Debt - amortization and interest	External debt, mostly concessional loans from the World Bank and African Development Bank, carried low interest rates (average of 5%) and long-term repayment plans of 30 years.	Audited Financial Report/ MTEF/Amortization Schedule
	Domestic Debt - amortization and interest	Domestic debt, primarily from commercial banks, averaged interest rates of 35%, with bonds ranging at 30%. Future amortization schedules are factored into the budget.	Audited Financial Report/ MTEF/Amortization Schedule
	New debt issued/contracted from 2024 onwards		
	New External Financing		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	The State Government is planning to borrow \$680.40 million in the projection period 2024 to 2033 at a concessional interest rate of 5% with 20 years maturity period and 5 years grace period.	Audited Financial Report/ MTEF/Amortization Schedule
	External Financing - Bilateral Loans	The State has no any plan for Bilateral loans	Audited Financial Report/ MTEF/Amortization Schedule
	Other External Financing	No Plan for other external financing	Audited Financial Report/ MTEF/Amortization Schedule
	New Domestic Financing		
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans)	For commercial bank loans, those with a maturity of 1 to 5 years include N281,655.8 million under Strategy 1 at a 35% interest rate, and N81,057.6 million under Strategy 2 (no interest rate provided), while Strategies 3 and 4 indicate no planned borrowings.	Audited Financial Report/ MTEF
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans)	For loans with a maturity of 6 years or longer, Strategy 1 includes N313,183.5 million at a 35% interest rate, Strategy 3 plans for N81,057.6 million (no interest rate provided), and Strategies 2 and 4 show no planned borrowings.	Audited Financial Report/ MTEF
	State Bonds (maturity 1 to 5 years)	In terms of state bonds, the maturity of 1 to 5 years sees Strategy 1 planning for N170,000 million at a 30% interest rate and Strategy 2 planning for N1,181,989.4 million at the same interest rate. Strategies 3 and 4 indicate no planned borrowings in this category.	Audited Financial Report/ MTEF
	State Bonds (maturity 6 years or longer)	For bonds with a maturity of 6 years or longer, Strategy 1 includes N476,130.6 million at a 30% interest rate, while Strategies 2 and 3 plan for N890,628.8 million and N625,163.7 million respectively (no interest rates provided).	Audited Financial Report/ MTEF
	Other Domestic Financing	No plan of borrowing for Other Domestic Financing	Audited Financial Report/ MTEF

Proceeds from Debt-Creating Borrowings corresponding to Debt Strategy S1	Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S1		
	New Domestic Financing in Million Naira		
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans)	The State plans to borrow a total of ₦281,655.8 million at 35% interest rate with an average maturity period of 3 years within the projection period of 2025-2033 for Strategy S1.	Audited Financial Report/ MTEF
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans)	The State plans to borrow a total of ₦313,183.5 million at 35% interest rate with an average maturity period of 7 years within the projection period of 2025-2033 for Strategy S1.	Audited Financial Report/ MTEF
	State Bonds (maturity 1 to 5 years)	The State plans to borrow a total of ₦170,000 million at 30% interest rate with an average maturity period of 5 years for Strategy S1 within the projection period of 2025-2033.	Audited Financial Report/ MTEF
	State Bonds (maturity 6 years or longer)	The State plans to borrow a total of ₦476,130.6 million at 30% interest rate with an average maturity period of 7 years for Strategy S1 within the projection period of 2025-2033.	Audited Financial Report/ MTEF
	Other Domestic Financing	No plan for other domestic financing	Audited Financial Report/ MTEF
	New External Financing in Million US Dollar		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	The State Government is planning to borrow externally a total of \$680.4 million at an average interest rate of 5% with a 20-year maturity period and 5 years grace period within the projection period of 2024-2032 for Strategy S1.	Audited Financial Report/ MTEF
	External Financing - Bilateral Loans	The State has no any plan for Bilateral loans	Audited Financial Report/ MTEF
	Other External Financing	The State has no plan to borrow externally in this strategy	Audited Financial Report/ MTEF
Proceeds from Debt-Creating Borrowings corresponding to Debt Strategy S2	Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S2		
	New Domestic Financing in Million Naira		
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans)	The State plans to borrow a total of ₦81,057.6 million in 2024, increasing to ₦183,689.4 million in 2027, with a total of ₦779,070.2 million planned by 2032.	Audited Financial Report/ MTEF
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans)	The State has no plan to borrow in this strategy	Audited Financial Report/ MTEF
	State Bonds (maturity 1 to 5 years)	The State plans to borrow a total of ₦102,689.8 million in 2024, ₦143,070.2 million in 2025, and reaching a total of ₦1,181,989.4 million by 2032.	Audited Financial Report/ MTEF
	State Bonds (maturity 6 years or longer)	The State has no plan to borrow in this strategy	Audited Financial Report/ MTEF
	Other Domestic Financing	The State has no plan to borrow in this strategy	Audited Financial Report/ MTEF
	New External Financing in Million US Dollar		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	The State has no plan to borrow externally in this strategy	Audited Financial Report/ MTEF
	External Financing - Bilateral Loans	The State has no plan to borrow externally in this strategy	Audited Financial Report/ MTEF
	Other External Financing	The State has no plan to borrow externally in this strategy	Audited Financial Report/ MTEF
Proceeds from Debt-Creating Borrowings corresponding to Debt Strategy S3	Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S3		
	New Domestic Financing in Million Naira		
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans)	The State has no plan to borrow from 1-5yrs in this strategy	Audited Financial Report/ MTEF
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans)	The State plans to borrow a total of ₦81,057.6 million in 2024, increasing to ₦156,198.9 million in 2027, with a total of ₦661,139.9 million planned by 2033.	Audited Financial Report/ MTEF
	State Bonds (maturity 1 to 5 years)	The State has no plan to borrow bond from 1-5yrs in this strategy	Audited Financial Report/ MTEF
	State Bonds (maturity 6 years or longer)	The State plans to borrow ₦124,691.5 million in 2026, ₦197,784.1 million in 2027, and a total of ₦890,628.8 million planned by 2033.	Audited Financial Report/ MTEF
	Other Domestic Financing	The State has no plan to borrow from other domestic financing in this strategy	Audited Financial Report/ MTEF
	New External Financing in Million US Dollar		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	The State has no plan to borrow externally in this strategy	Audited Financial Report/ MTEF
	External Financing - Bilateral Loans	The State has no plan to borrow externally in this strategy	Audited Financial Report/ MTEF
	Other External Financing	The State has no plan to borrow from other external in this strategy	Audited Financial Report/ MTEF
Proceeds from Debt-Creating Borrowings corresponding to Debt Strategy S4	Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S4		
	New Domestic Financing in Million Naira		
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans)	The State has no plan to borrow from 1-5yrs in this strategy	Audited Financial Report/ MTEF
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans)	The State has no plan to borrow from commercial bank for the period of 6yrs or longer in this strategy	Audited Financial Report/ MTEF
	State Bonds (maturity 1 to 5 years)	The State plans to borrow ₦81,057.6 million in 2024, ₦120,353.8 million in 2026, and a total of ₦769,761.0 million planned by 2033.	Audited Financial Report/ MTEF
	State Bonds (maturity 6 years or longer)	The State plans to borrow ₦87,829.2 million in 2025, ₦197,420.1 million in 2027, and a total of ₦625,163.7 million planned by 2033.	Audited Financial Report/ MTEF
	Other Domestic Financing	The State has no plan to borrow through bonds in this strategy for the period of 6 and above years	Audited Financial Report/ MTEF
	New External Financing in Million US Dollar		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	The State has no plan to borrow externally in this strategy	Audited Financial Report/ MTEF
	External Financing - Bilateral Loans	The State has no plan to borrow externally in this strategy	Audited Financial Report/ MTEF
	Other External Financing	The State has no plan to borrow other external financing in this strategy	Audited Financial Report/ MTEF

Annex II: Historical and projections of the S1_Baseline Scenario

Indicator	Actuals					Projections									
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	BASELINE SCENARIO														
Economic Indicators															
State GDP (at current prices)	1,620,483.73	1,787,083.21	2,059,914.70	2,344,490.79	2,715,930.73	3,207,978.72	3,711,214.52	4,219,585.31	4,894,816.11	5,223,569.77	5,811,874.32	6,466,436.66	7,194,719.09	8,005,024.33	8,906,590.19
Exchange Rate NGN/US\$ (end-Period)	253.19	305.79	306.50	326.00	379.00	1,300.00	1,200.00	1,100.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00
Fiscal Indicators (Million Naira)															
Revenue	82,212.40	80,713.90	82,509.99	176,400.62	152,839.73	215,156.57	285,994.54	328,980.72	391,157.22	449,942.05	438,293.18	501,922.15	478,022.40	531,633.81	511,080.81
1. Gross Statutory Allocation ('gross' means with no deductions; do not include VAT Allocation here)	58,784.81	52,076.46	52,166.05	55,757.43	50,176.11	42,000.00	44,880.92	46,227.55	47,614.17	52,375.59	57,613.15	63,714.46	69,711.91	76,883.10	84,551.41
1.a. of which NetStatutory Allocation ('net' means of deductions)	58,784.81	52,076.46	52,166.05	55,757.43	50,176.11	42,000.00	44,880.92	46,227.55	47,614.17	52,375.59	57,613.15	63,714.46	69,711.91	76,883.10	84,551.41
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 FAACtransfers (exchange rate gain, augmentation, others)	7,686.84	3,831.96	3,570.52	14,560.05	48,908.78	18,890.27	20,000.00	20,000.00	30,000.00	37,500.00	46,875.00	52,500.00	58,800.00	65,850.00	73,758.72
4. VAT Allocation	10,940.65	13,377.68	16,999.82	23,070.22	31,408.98	21,931.54	38,032.38	39,535.62	41,617.40	45,698.27	49,883.18	50,177.34	53,586.21	55,115.52	57,771.30
5. IGR	6,832.03	8,687.45	10,023.30	13,223.27	15,179.05	22,318.25	27,897.81	29,292.70	30,757.33	35,254.98	36,265.18	37,715.78	38,402.47	39,102.99	40,000.00
6. Capital Receipts	17,968.10	22,790.20	17,850.31	89,809.66	27,166.81	110,016.52	157,183.43	193,825.05	241,168.31	289,113.22	257,656.67	308,554.56	267,515.87	304,434.43	364,177.39
6.a. Grants	6,119.73	13,829.10	5,731.20	14,986.74	21,602.70	12,500.00	58,215.00	58,215.00	58,215.00	58,215.00	50,000.00	50,000.00	50,000.00	50,000.00	50,000.00
6.b. Sales of GovernmentAssets and Privatization Proceeds	5,695.20	5,551.13	7,949.20	0.00	0.00	0.00	5,025.00	5,050.13	5,075.38	5,100.75	5,126.26	5,151.89	5,177.65	5,203.54	5,463.71
6.c. Other Non-Debt Creating Capital Receipts	5,153.16	3,410.00	4,169.91	13,805.84	5,564.12	8,000.00	5,000.00	5,000.00	5,000.00	13,400.96	14,071.00	14,774.55	15,513.28	16,288.95	17,103.59
6.d. Proceeds from Debt-Creating Borrowings (bond issuance, loan disbursements, etc.)	0.00	0.00	0.00	60,917.07	0.00	89,516.52	88,943.43	125,559.93	172,877.94	212,396.51	188,459.41	238,628.12	196,824.94	232,941.95	291,610.29
Expenditure	77,291.00	76,726.71	89,512.78	155,588.54	161,730.51	237,513.48	285,994.54	328,980.72	391,157.22	449,942.05	438,293.18	501,922.15	478,022.40	531,633.81	511,080.81
1. Personnel costs (Salaries, Pensions, Civil Servant Social Benefits, other)	19,350.17	18,775.90	21,437.75	29,161.29	31,272.93	35,276.05	44,849.16	46,875.44	49,038.20	51,490.11	54,064.61	56,767.85	59,806.24	62,586.55	65,715.88
2. Overhead costs	18,715.96	18,273.60	16,506.27	21,504.61	19,375.16	19,179.70	31,661.18	30,266.12	28,754.72	19,569.86	19,961.25	20,360.48	20,767.69	21,183.04	26,011.17
3. Interest Payments (Public Debt Charges, including interests deducted from FAAC Allocation)	4,214.57	4,800.01	6,776.85	8,744.11	5,811.09	5,444.65	33,437.82	55,185.19	89,722.09	125,543.08	109,435.44	143,453.55	121,634.31	154,023.96	189,656.43
3.a. of which Interest Payments (Public Debt Charges, excluding interests deducted from FAAC Allocation)	238.50	616.68	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.b. of which interest deducted from FAAC Allocation	3,976.07	4,183.33	6,776.85	8,744.11	5,811.09	5,444.65	33,437.82	55,185.19	89,722.09	125,543.08	109,435.44	143,453.55	121,634.31	154,023.96	189,656.43
4. Other RecurrentExpenditure (Excluding Personnel Costs, Overhead Costs and Interest Payments)	0.00	0.00	0.00	8,874.90	9,387.67	30,319.16	10,200.00	10,404.00	10,612.08	10,824.32	11,040.81	11,261.62	11,486.86	11,716.59	12,754.25
5. Capital expenditure	30,715.08	29,093.40	31,576.47	59,142.50	68,801.22	120,543.80	133,795.54	145,750.31	148,578.53	152,448.68	157,617.65	161,082.36	165,805.65	168,797.88	170,069.80
6. Amortization (principal) payments	4,315.19	5,843.80	13,215.43	28,161.13	7,102.45	26,750.14	31,850.83	40,499.66	64,451.61	90,066.01	86,173.40	108,996.29	98,721.65	113,325.78	136,873.28
Budget Balance ('+' means surplus, '-' means deficit)	4,921.40	3,967.19	-5,992.78	20,812.08	-8,890.79	-22,356.91	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Opening Cash and Bank Balance	13,429.80	18,351.20	22,338.40	15,435.82	35,247.70	27,356.91	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00
Closing Cash and Bank Balance	18,351.20	22,338.39	15,435.82	35,247.70	27,356.91	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00	5,000.00
Financing Needs and Sources (Million Naira)															
Financing Needs						97,516.52	96,968.43	135,610.05	182,953.31	230,898.22	207,656.67	258,554.56	217,515.87	254,434.43	314,177.39
i. Primary balance						-87,678.64	-33,679.77	-39,925.20	-28,779.62	-15,289.13	-12,047.82	-6,104.72	2,840.10	12,915.31	12,352.32
ii. Debt service						32,194.79	65,288.65	95,684.86	154,173.70	215,609.09	195,608.85	252,448.84	220,355.97	267,349.74	326,529.71
Amortizations						26,750.14	31,850.83	40,499.66	64,451.61	90,066.01	86,173.40	108,996.29	98,721.65	113,325.78	136,873.28
Interests						5,444.65	33,437.82	55,185.19	89,722.09	125,543.08	109,435.44	143,453.55	121,634.31	154,023.96	189,656.43
iii. Financing Needs Other than Amortization Payments (e.g., Variation in Cash and Bank Balances)						-22,356.91	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financing Sources						97,516.52	96,968.43	135,610.05	182,953.31	230,898.22	207,656.67	258,554.56	217,515.87	254,434.43	314,177.39
i. Financing Sources Other than Borrowing						8,000.00	10,025.00	10,050.13	10,075.38	18,501.71	19,197.26	19,926.44	20,690.93	21,492.48	22,567.11
ii. Gross Borrowings						89,516.52	88,943.43	125,559.93	172,877.94	212,396.51	188,459.41	238,628.12	196,824.94	232,941.95	291,610.29
Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)						40,000.00	0.00	75,559.93	80,000.00	0.00	0.00	0.00	98,824.90	0.00	0.00
State Bonds (maturity 1 to 5 years)						0.00	50,000.00	0.00	0.00	0.00	0.00	0.00	0.00	170,000.00	0.00
State Bonds (maturity 6 years or longer)						49,516.50	38,943.40	0.00	112,877.90	0.00	115,000.00	0.00	100,000.00	0.00	91,810.30
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	212,396.50	0.00	258,628.10	0.00	200,000.00
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						0.02	0.03	0.03	0.04	0.01	0.01	0.02	0.04	-0.05	-0.01
Debt Stocks and Flows (Million Naira)															
Debt (stock)	90,582.99	96,914.67	89,179.21	149,912.10	109,773.07	223,081.32	274,789.90	354,569.87	457,819.60	580,150.10	682,436.11	812,067.94	910,171.22	1,029,787.40	1,184,524.40
External	6,658.89	11,191.77	10,770.44	10,589.20	20,798.44	69,992.10	63,363.61	56,942.53	50,728.86	262,088.28	261,051.21	498,642.24	497,605.16	496,568.09	695,531.01
Domestic	83,924.10	85,722.90	78,408.77	139,322.90	88,974.63	153,089.21	211,426.29	297,627.34	407,090.74	318,061.82	421,384.90	412,566.06	533,219.31	488,993.39	488,993.39
Gross borrowing (flow)						89,516.52	88,943.43	125,559.93	172,877.94	212,396.51	188,459.41	238,628.12	196,824.94	232,941.95	291,610.29
External	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	212,396.50	0.00	238,628.10	0.00	0.00	200,000.00
Domestic	89,516.52	88,943.43	125,559.93	172,877.94	88,974.63	153,089.21	211,426.29	297,627.34	407,090.74	318,061.82	421,384.90	412,566.06	533,219.31	488,993.39	488,993.39
Amortizations (flow)	25,373.49	23,760.88	28,952.10	21,374.92	17,435.03	26,750.14	31,850.83	40,499.66	64,451.61	90,066.01	86,173.40	108,996.29	98,721.65	113,325.78	136,873



**MAL. MUHAMMAD GAMBO MAGAJI, FCNA
HONOURABLE COMMISSIONER
MINISTRY OF FINANCE GOMBE STATE**