DEBT MANAGEMENT OFFICE
NIGERIA

SFTAS
States Fiscal Transparency, Accountability and Sustainabilty

GOMBE State Debt Sustainability Analysis (State DSA)

Outline of the GOMBE State DSA Report

Developed by the

Debt Management Office

In Collaboration with

The World Bank

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CHAPTER ONE
INTRODUCTION

1.1 Background

This chapter highlights the policy objective and methodology of Gombe State Debt Sustainability for the historical and projection periods of 2015 to 2019 and 2020 to 2029 respectively.

1.1.1 Policy Objective

The main purpose of Gombe State DSA is to assess the trends and patterns of public finances for the period 2015 to 2019 and evaluate Debt Sustainability of the State in 2020-2029.

The analysis highlights recent trends in revenue, expenditure, and public debt, and the related policies adopted by the State. A debt sustainability assessment is 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 of Gombe State is early November 2020 and the tool kit used for the report is the World Bank DSA Template, while, the scope of data covered the historical period of 2014-2019 and the projection period of 2020-2029, while the participated agencies are; the DMO, Budget Office, the Treasury Office, State Bureau Statistics and the Revenue Office of Gombe State.

1.2 Summary of Findings

The State shows a medium debt position that appears sustainable in the long term. The medium debt position results from the State's average performance in terms of mobilizing IGR underpinned by the successful tax administration reforms introduced recently in May 2020. The State controls its recurrent expenditure growth and reduces the level of its public debt due to the collapse of oil prices, COVID-19 pandemic and exchange rate fluctuations. Given the State's forecasts for the economy and reasonable assumptions concerning the State's revenue and expenditure policies going forward, the long-term outlook for the public debt appears sustainable. Therefore the summary of findings is as follows:

i. Findings on Revenue trend going forward mirroring National Revenue trend
   The State's Federal Allocation rise averagely by 88 per cent between 2015-2019, while the percentage of the Debt to State GDP rise from 3.9 per cent in 2015 to 4.1 per cent in 2019, whereas IGR grew averagely by 11 per cent between 2015 to 2019.
ii. Findings on Expenditure projection, 2020-2029
   State expenditure remained stable during the period. In 2015–2019, real aggregate expenditure grew by 8 percent, whereas, GDP to aggregate spending decreased from 5 percent in 2015 to 4 percent in 2019. Capital spending showed positive growth of 51 percent over the analyzed period, while recurrent expenditure registered a modest growth of 2 per cent. During the period, recurrent spending (personnel costs, overheads, debt charges) represent 64 percent of total spending on average.

iii. Findings on Debt trend going forward

Debt is projected to decline from 2019 to 2029 with N92.954 billion to negative amount of N8.241 billion. However, there is increase in the State's repayment capacity of the public debt to revenue from 2019 to 2029 (144% to -122%), while, debt service is projected to fall from N8.53 billion to N13.985 billion in 2019 to 2029. However, there is improvement from 2019 to 2029 in the State's repayment capacity of the public debt position to Revenue with an average of 26 percent. The analysis of the Baseline Scenario concluded that the State will be able to preserve the sustainability of its debt in the medium-term because it is within the limit of the threshold of 200 percent and 40 percent for debt and debt services respectively.

1.3 Overall Results

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

Based on the DSA Analysis template it is recommended that:

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

CHAPTER TWO

GOMBE STATE FISCAL AND DEBT FRAMEWORK

2.1 Fiscal reform in last 3-5 years

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

The estimation of the State IGR is based on percentage taking into consideration the economic activity of the State, reform of revenue administration and the impact of COVID-19. Sequel to implementation of treasury single account, IGR projection in the immediate term are not expected to surpass 2020 approved estimate. However, actual collections are largely from traditional sources such as PAYE, fees, etc. It is believed that current effort to establish taxpayer database by Board of Internal Revenue, the perfection of the TSA, executive management committee, cash to cashless policy, and technical support from development partners towards harmonization/review of tax rate and other efforts focused on blocking leakages and dealing with the phenomena of tax avoidance/evasion, the collection will improve. Also, the Internal Revenue Service has introduced more revenue sources intended to boost inflows; therefore IGR is expected to grow annually in 2021 up to 2023. Also, the implementation of the Minimum Wage policy significantly impacts on personnel costs.

2.2 Medium-Term Expenditure Framework and Fiscal Strategy Paper (MTEF/FSP) 2021 – 2023 and 2020 Budget

The main features of the 2020 Amended Budget in terms of financial outcomes for FY2020 and the fiscal policy strategies of the 2021 Budget and the 2021-2023 MTEF, regarding the revenue, expenditure and debt forecasts for the next years is in line with the State policy statement which is based on its fiscal responsibility law which advocates "sound public expenditure and financial management in the state" specifically this is achieved through:

a. Aligning state government's income and expenditure by keeping spending limits within the dictates of available resources and fiscal sustainable debt position;

b. Boosting IGR by the recently submitted business case of IRS;

c. Emphasis on achieving a more favourable balance for capital expenditure through restraining the increasing trend in recurrent expenditure;

d. Ensuring that the budget process is pursued with a framework that supports strategic prioritization and rational resource allocation and under the overall development policy objectives of the state; and

e. Ensure strict adherence to due process in budget execution as well as accountability, transparency and prudence in the entire public financial management process.

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

The aggregate effects of the Covid-19 pandemic on the total revenues, expenditures and debt in comparison to the original 2020 budget has called for the drastic cutting of expenditures while increasing support to the already excluded group and vulnerable who are left to bear the brunt of the economic contraction. The economic and growth recovery program which has the aim of increasing social inclusion by creating jobs and providing support for the poorest and most vulnerable members of society through investments in social programs and providing social amenities will no doubt suffers some setbacks.

CHAPTER THREE

REVENUE, EXPENDITURE, FISCAL AND DEBT PERFORMANCE, 2015-2019

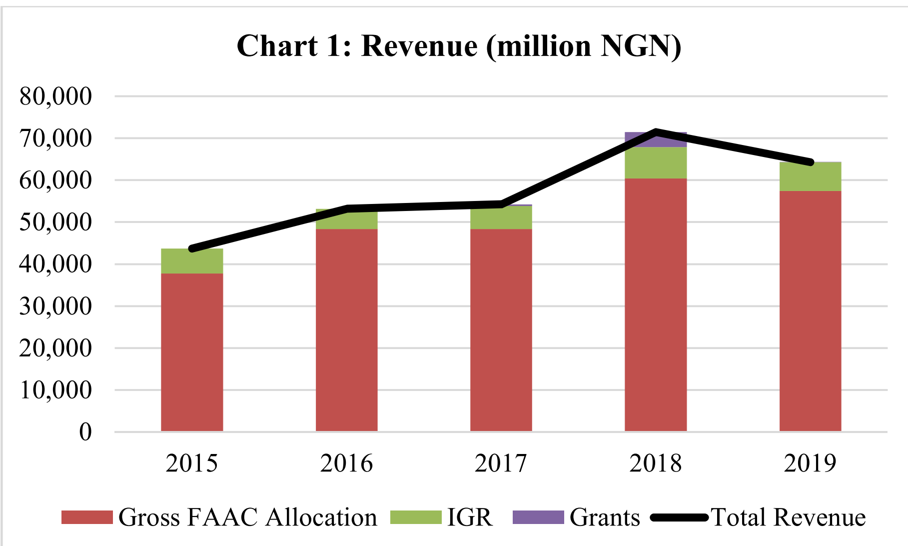
3.1 Revenue, Expenditure and Fiscal Performance, 2015-2019

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 Chart 1 below:

CHART 1: Revenue



Source: Gombe State Forecasts

The revenue in the Chart 1 consists of Gross FAAC Allocation, IGR and grants. The Statutory Allocation is a transfer from Federation Account that is distributed to all three tiers of government based on vertical (percentage to each of the three tiers) and a horizontal (e.g. Equity, land mass, population, etc) sharing formula. The revenue that flows into the Federation Account as Statutory allocation comes from the mineral and non-mineral sources (company income tax and custom and excise duties). FAAC Statutory Allocations make up a significant portion of the State Government's recurrent revenues (almost 70% in 2019), consequently, realistic forecasting that would ensure strong performance is of great importance. The percentage of statutory allocation to total revenue has been relatively stable, over the period 2014-2019. The average percentage of statutory allocation to total revenue stands at 87.9 percent. The percentage of statutory allocation to total revenue were 86.46%, 90.96%, 89.12%, 84.49% and 89.3% for 2015,2016,2017,2018,2018, and 2019 respectively. The State's Federal Allocation, rise averagely by 75% from 2015 to 2019.

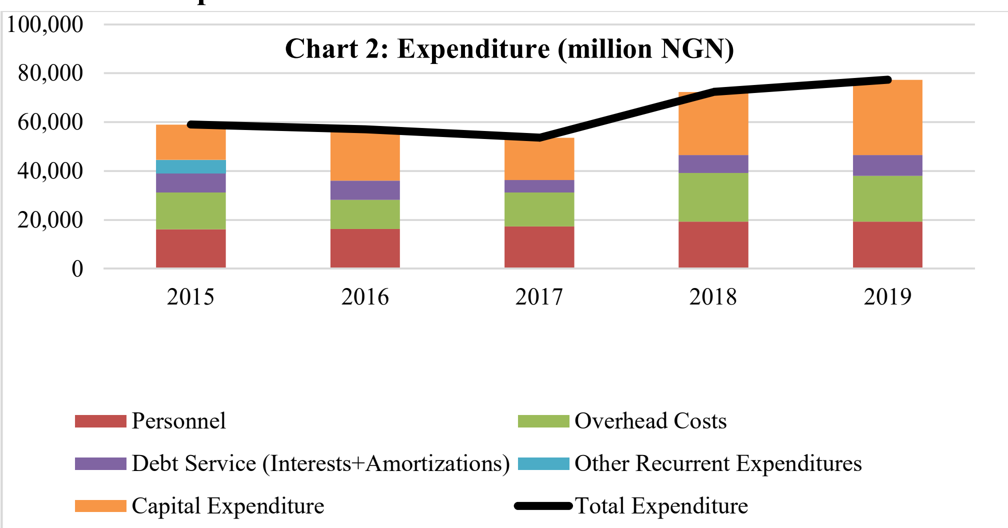
Internally Generated Revenue (IGR) is collected by Internal Revenue Service (IRS) and revenue collecting MDA's. The major sources of IRS are PAYE, land and land Services, withholding tax, fines, fees, licenses and other sources. Over the last five years (2014 - 2019), actual IGR collection has been lower than the budgeted revenue. The average percentage of IGR to total revenue from 2015 to 2016 was 10.6 percent. The percentage of IGR to total revenue were 13.5%, 9.0%, 10.1%, 10.5%, and 10.6% in 2015, 2016, 2017, 2018 and 2019 respectively. The State IGR fluctuate in the period under review, from 2015 to 2016, the IGR reduced with about 19% and increases in 2017 and 2018 with about 14% and 36% respectively, while it reduced in 2019 with 9%. The improvement in IGR is mainly a result of tax administration reforms aimed at improving collection rates and broadening the tax revenue base.

Grants are receipts from Federal Government and Development partners such as Federal Government Conditional Grant Scheme, Federal Government Universal Basic Education Scheme, UNICEF, etc. With the recent efforts by the State Government to finalise its 10-year development plan, development partners and other donors will key in with more grants in the coming years.

3.1.2 Expenditure Performance

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

CHART 2: Expenditure



Source: Gombe State Forecast

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

Personnel Cost comprised of salaries and allowances of civil servants, public servants in government agencies and parastatals, members of the State House of Assembly, Judicial Officers, other Political Office holders, staff of the office of the Accountant General, Auditor Generals of state, Auditor Generals for Local Government and staff of Statutory Commissions. Over the period 2015 - 2019, the average percentage of personnel cost to total expenditure stands at 27.7%.

Overhead expenditure comprises of operational and maintenance cost for running day-to-day Government activities. Overhead expenditure has been relatively volatile, with a downward trend over the period 2014-2016, and a recovering upward trend over the period 2017-2019. However, the average percentage of overhead to total expenditure stands at 24.9%

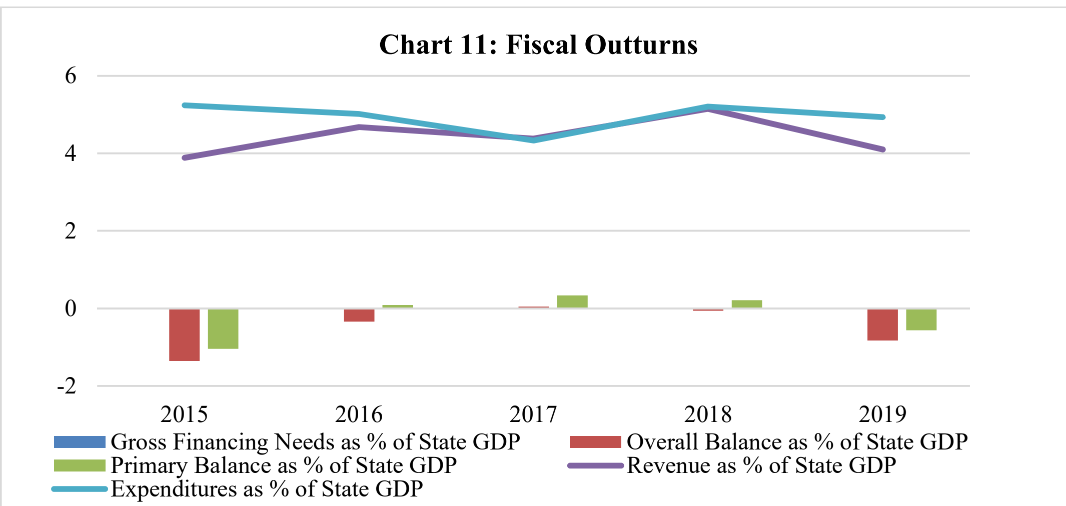
Capital Expenditure includes the main investment and implementation of programmes and projects of government. The capital expenditure for the period (2014 – 2019) has been highly unstable, with the actual capital expenditure deviating significantly from the budget performance during this period, only performing above 50% in 2014, 2016 and 2019. The trend expectation for budgeted and actual capital expenditure has been linear, with actual falling as budgeted figure declines. Over the period 2014-2019, the average percentage of capital expenditure to total expenditure stands at 34%.

The debt services includes the interest paid and principal repayment, where the debt service for the period have been fluctuating. The average percentage of debt services to total expenditure for the period stands at 11.47%.

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



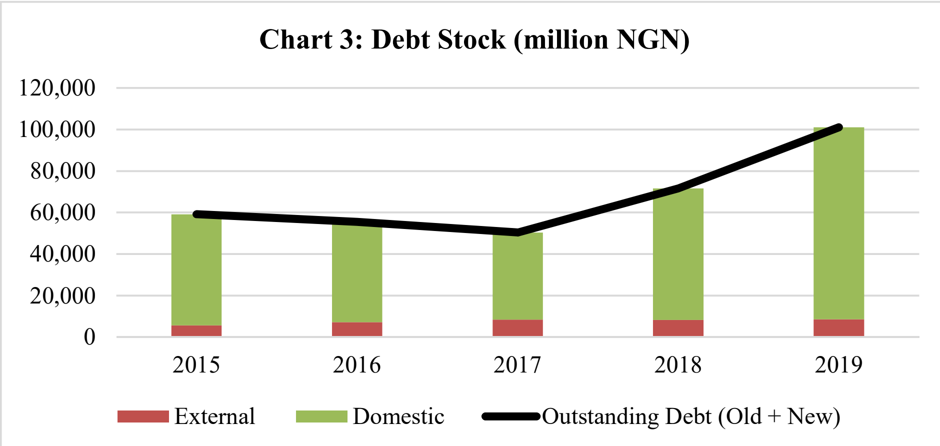
Source: Gombe State Forecast

The Gross financing need is the summation of primary balance (revenue less expenditure), debt service (amortization plus interest) and other financing needs (difference between opening and closing cash and bank balances). The overall fiscal balance has been decreasing during the reviewed period, from a surplus of 1.3 percent of the State GDP in 2015 to -0.9 percent of the State GDP in 2019. Since 2014 the overall balance increase continuously from 0.6 percent of the State GDP in 2015 to 1.3 percent in 2019, owing to the fall in federal transfers (oil receipts). In 2017 and 2018, overall balance partially recovered to a deficit of 0.1 and -0.1 percent of the State GDP, respectively, due to the adjustment of personnel cost and of pensions and gratuities and the upturn of federal transfers. On the other hand, primary fiscal balance has been declining continuously during the period under review, from a deficit of -1.1 of the State GDP in 2015 to a deficit of -0.6 percent of the State GDP in 2019.

3.2 Gombe State Public Debt Portfolio, 2015-2019

The public debt includes the explicit financial commitments (loans and securities) that have paper contracts instrumenting the government promises to repay. The trend of public debt service is highlighted in Chart 3 below:

CHART 3: Debt Stock



Source: Gombe State Forecast

3.2.1 Total Debt

The State public debt amounted to N100.994 billion as at 31st December 2019 has been increasing rapidly since the collapse of oil prices, COVID-19 pandemic and exchange rate fluctuations.

3.2.2 Debt Composition

The State's debt portfolio largely consists of external borrowings (World Bank, African Development Bank, Islamic Development Bank, etc.) and the internal borrowings (Federal Government facilities, Bonds and commercial banks).

3.3 Cost and Risk Profile

The State holds low cost, low risk debt portfolio investments. The debt portfolio carried an average interest rate of 12.8 percent between 2015 to 2019 and the interest payments represented 5.9 percent of total revenue. Exposure to currency fluctuations is expected as a result of foreign currency denomination of about 8.5% of the total debt stock. Domestic loans are fluctuated rate obligations, thus affected by changes in interest rates. These loans have maturities running from 1 to 30 years.

CHAPTER FOUR

CONCEPT OF DEBT SUSTAINABILITY, ASSUMPTIONS, RESULTS ANALYSIS AND FINDINGS

4.1 Introduction- Concept of Debt Sustainability

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

4.2 Debt Sustainability indicators and thresholds

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

Table 1: Gombe State Debt burden indicators as at end-2019

Indicators	Thresholds	Ratio
Debt as % of GDP	25%	1.59%
Debt as % of Revenue	200%	33.57%
Debt Service as % of Revenue	40%	21.15%
Personnel Cost as % of Revenue	60%	28.84%
Debt Service as % of FAAC Allocation	Nil	34.17%
Interest Payment as % of Revenue	Nil	5.9%
External Debt Service as % of Revenue	Nil	1.85%

The average Debt to GDP of the State for 2015 to 2029 is 1.59%. Therefore, it shows that the Debt to GDP is strong which is highly below the threshold.

The average Debt to Revenue of the State for the period 2015 to 2029 is 33.57% which shows that the result is favorable as it’s below the threshold.

The average State Debt Service to Revenue for 2015 to 2029 is 21.15% which shows the Debt Service to Revenue is favorable.

The State average percentage of Personnel cost to Revenue for 2015 to 2029 is 24.84% which is below the threshold.

The average percentage of Debt Service to FAAC Allocation for 2015 to 2029 is 34.17%.

The average percentage of Interest Payment to Revenue for 2015 to 2029 is 5.9%.

Finally, the average percentage of External Debt Service to Revenue for 2015 to 2029 is 1.85%.

4.3 Medium-Term Budget Forecast

The State's medium-term debt sustainability is predicated upon a gradual recovery of the Nigerian economy that will increase FAAC statutory allocation. According to the Federal Government and State's own forecasts, the Nigerian economy is expected to gradually recover in the period 2021-2023, with real GDP expanding at an average annual rate of 3 percent and domestic inflation decreasing below 10 percent by 2022. Such a moderate recovery will be supported by higher oil prices in global markets, an increase in domestic production, prudent fiscal policy, and the stabilization of the exchange rate relevant for international public-sector financial transactions at its current level. Oil and gas revenue, as well as shared resources such as custom duties and VAT, would then increase relative to the depressed levels observed in 2020, thus improving the State's revenue position.

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

4.4 Borrowing Assumptions

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

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

The State Government is planning to borrow the sum N6.265 billion, N3.586 billion, N3.603 billion, N3.623 billion, N4.432 billion, N7.438 billion, N5.000 billion, N7.000 billion, N7.678 billion, and N6.756 billion in 2020, 2021, 2022,2023, 2024, 2025, 2026, 2027, 2028 and 2029 respectively from commercial bank at an expected average interest rate of 12.83% per annum. The expected repayment period is 6 years with zero grace period.

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

The state government is planning to borrow concessional borrowing of the sum of N3.5 billion, in 2021, the sum of N4.00 billion in 2022, the sum of N2.00 billion in 2023, the sum of N3.9 billion in 2026, and the sum of N1.546 billion in 2027 with an expected interest rate of 1% to 2% per annum.

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

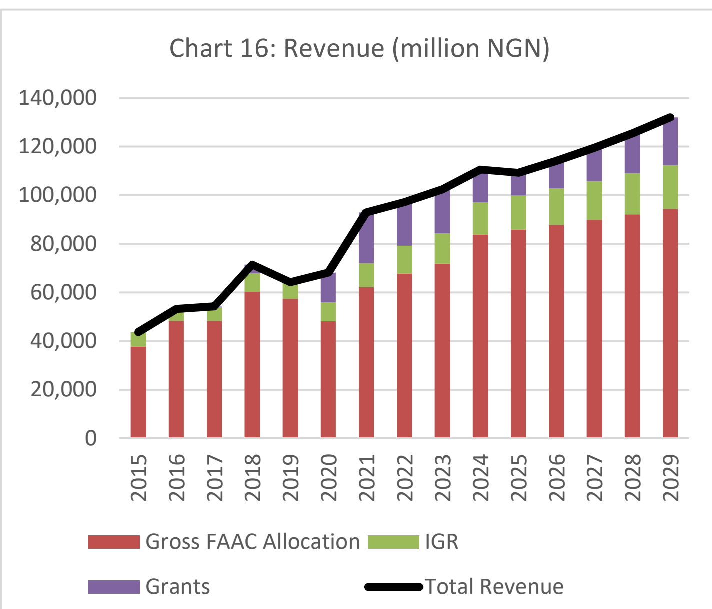
The principles that will guide the debt management strategy are enumerated as follows:

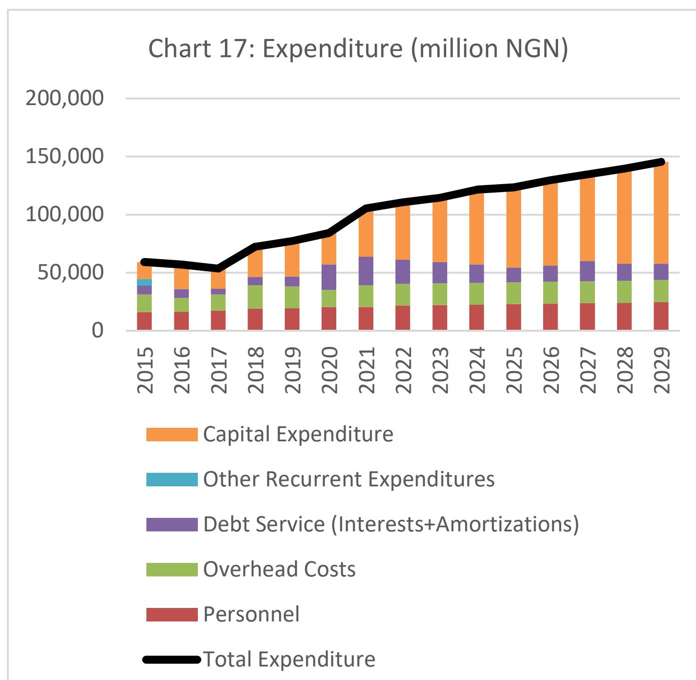
i. Fiscal: all outstanding payments incurred by the State government have been recorded by Debt Management Department.
ii. Transparency: The criteria for prioritizing borrowings should be clearly stated and adhered to.
iii. Accountability: The State Debt Management Department have accounted all outstanding debts for clearance and measures have been taken by the State to reduce the accumulation of new arrears; and
iv. Sustainability: The payments of borrowings by the current Government have shown that the State is at sustainable level.

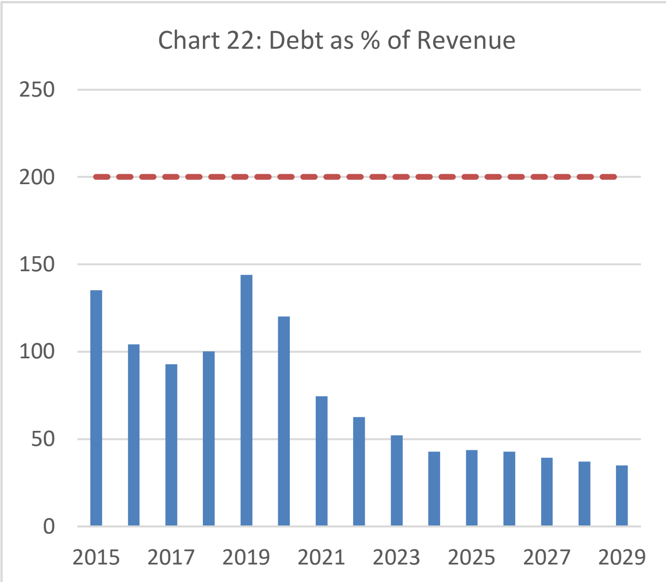
A separate control on the remaining stock and proposed borrowings should be kept by the Ministry of Finance to ensure that sufficient provision is made in each subsequent annual budget until all debts are paid by centralizing of payments according to the agreed Framework and State government schedule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

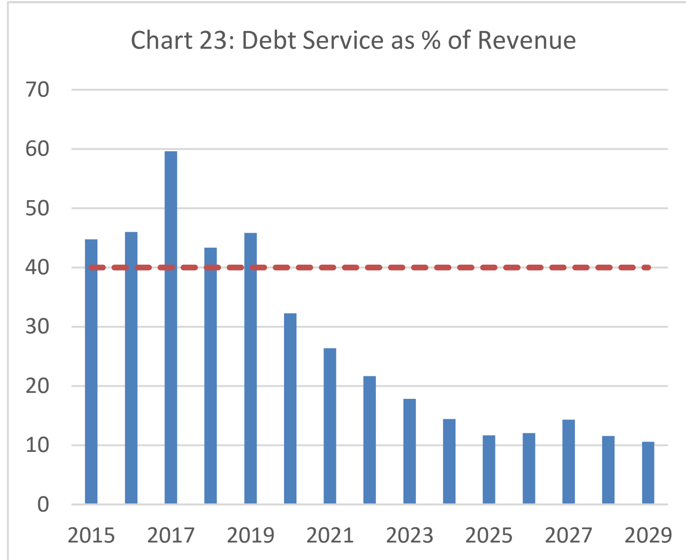
i. Statutory Allocation
ii. Internally Generated Revenue
iii. Grants from the Federal Government, and
iv. Loans

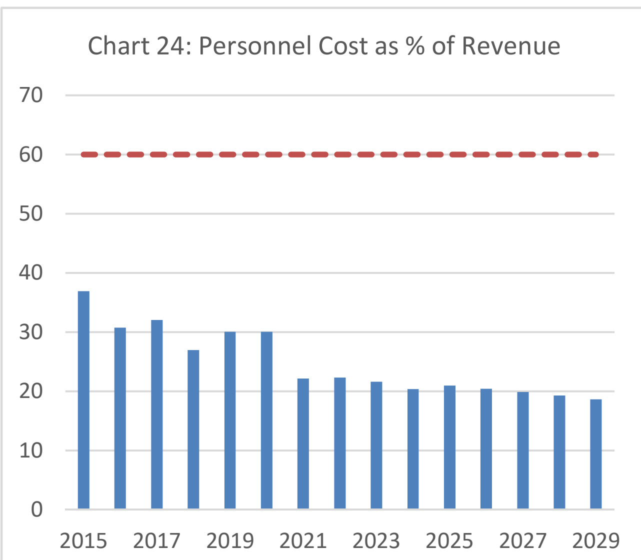
4.5 DSA Simulation Results and Findings
The main findings and result of the baseline scenario in terms of projected revenue, expenditure, primary and overall balance; and debt service indicators and thresholds are shown in the following charts below:

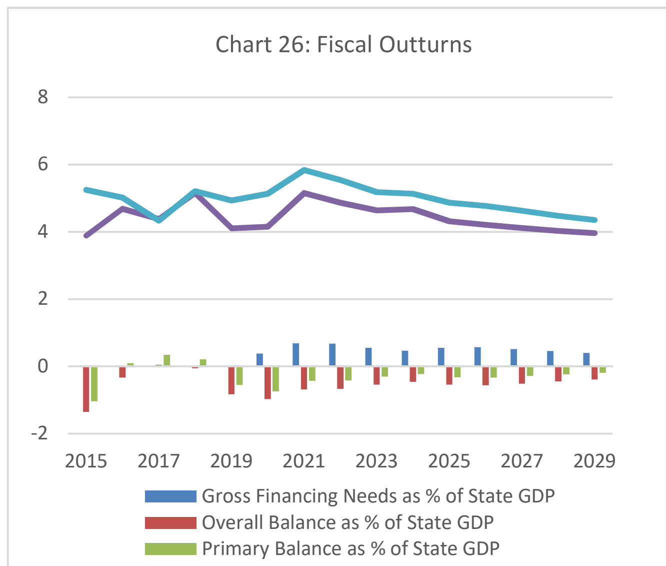












Source: Gombe State Forecasts

4.5.1 Projected Revenue- Chart 16

In the Baseline Scenario total revenue (including grants and excluding other capital receipts) is projected to increase from N64.292 billion in 2019 to N132.018 billion by 2029. Therefore, the fiscal surplus (computed as the difference between revenue and expenditure) is expected to remain within a range of N67.726 billion in nominal terms, compared to the 2019 surplus of N64.292 billion.

Gross FAAC Allocation of N57.412 billion in 2019 to N94.439 billion by 2029 with an average of N69.086 billion, the increase was based on the National GDP taking into consideration the average changes in the National GDP, increase in oil price with expectation of ending Covid-19 pandemic. As the State discovers oil well, the Gross FAAC Allocation is expected rise from 2024 as the State planned to start receiving derivation from 2024. With the increase in the VAT rate from 5% to 7.5%, the State will be expecting more revenue from VAT.

IGR of N6.832 billion in 2019 to N18.038 billion by 2029 with an average of N11.035 billion, the growth was based on the implementation of treasury single account (TSA), establishment of taxpayer database, the perfection of the TSA, establishment of Executive Management Committee, cash to cashless policy, and technical support from development partners towards harmonization/review of tax rate and other efforts focused on blocking leakages and dealing with the phenomena of tax avoidance/evasion.

Grants of N3.59 billion in 2018 to N19.541 billion by 2029 with an average of N10.443 billion, the growth was based on the recent efforts by the State Government to finalise its 10-year Development Plan, Development Partners and other donors are expected to key in with more grants in the coming years, hence more grants to State.

4.5.2 Projected Expenditure- Chart 17

In the Baseline Scenario the total expenditure will fall from N77.291 billion in 2019 to N75.059 billion by 2029 with an average of N145.224 billion.

Personnel Costs of N19.330 billion in 2019 to N24.632 billion by 2029 with an average of N20.988 billion, the increase in the personnel cost for the period under review was due to the recent minimum wage policy by the Federal Government and the appointment of public service office holders.

Overhead Costs of N18.716 billion in 2019 to N18.962 billion by 2029 with an average of N17.553 billion, the short increment was based on the day to day running of the Government activities particularly the adverse effect of Covid-19 pandemic.

Capital Expenditure of N30.715 billion in 2019 to N82.643 billion by 2029 with an average of N46.975 billion, the increment was based on State Government intention to embark on more developmental projects due to the expectation in the increase in revenue.

Debt Service (Interest + Amortization) of N8.530 billion in 2019 to N13.985 billion by 2029, with an average of N16.589 billion, the decrease in the debt services during the period 2020 to 2021 was as a result of increase in revenue and due to the establishment of Arrears Clearance Framework in order to mop up the outstanding arrears which lead to the clearance of the debt by 2026.

4.5.3 Projected Debt as a Share of Revenue- Chart 22

As a consequence of the modest increase in investment and external borrowings, the public debt will decline and the State's repayment capacity will fall pari passu. Debt is projected to decline from 2019 to 2029. However, relative to the State's borrowing capacity, the public debt position will improve: it is expected to decrease from 144 percent of the Revenue in 2019 to 35 percent by 2029 with an average percent of 63%. As the fiscal deficit stabilizes in nominal terms over the next few years, and the public debt ratio improves, the analysis of the Baseline Scenario suggests the State will be able to preserve the sustainability of its debt in the medium-term because it is within the limit of the threshold of 200 percent.

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

As a consequence of the modest increase in investment and external borrowings, the public debt service will decline and the State's repayment capacity will fall pari passu. Debt Service is projected to increase from N8.530 billion as at 31st December 2019 to N13.985 billion by 2029 and with average of N16.589 billion. However, relative to the State's repayment capacity, the public debt position will improve: it is expected to decrease from 44% percent of the Revenue in 2019 to 11% percent by 2029 and with average of 20 percent. As the fiscal deficit stabilizes in nominal terms over the next few years, and the public debt service ratio improves, the analysis of the Baseline Scenario suggests the State will be able to preserve the sustainability of its debt in the medium-term because it is within the limit of the threshold of 40 percent.

4.5.5 Projected Personnel Cost- Chart 24

Personnel Cost is projected to rise from N19.330 billion as at 31st December 2019 to N24.632 billion by 2029 and with average of N22.336 billion. The personnel cost will reduce, it is expected to decrease from 30 percent of the Revenue in 2019 to 19 percent by 2029 with an average of 22 percent. The analysis of the Baseline Scenario suggests the State will be able to preserve the sustainability of its personnel cost in the medium-term because it is within the limit of the threshold of 60 percent.

4.5.6 Fiscal Outturns- Chart 26

In the Baseline Scenario the fiscal outturns (computed as the difference between revenue and expenditure) is expected to remain within a range of N64.292 billion to N132.018 billion in nominal terms, compared to the 2019 surplus of N64.292 billion; Gross Financing Needs as percentage of State GDP will increase by 2% in 2029; Revenue as percentage of State GDP 4% in 2019 to 6.4% by 2029; expenditure as percentage of State GDP is 4.5% in 2019 to 8.6% by 2029; Primary Balance as percentage of State GDP is -0.3% in 2019 to -1.7% by 2029 and the Overall Balance as percentage of State GDP is -0.8% in 2019 to -2.4% by 2029.

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

The main findings and conclusion of the baseline scenario in terms of sustainability is divided into Projected Debt trend relative to Repayment Capacity (Revenue) going forward (Debt as a Share of Revenue- Chart 22) and Assessment of Fiscal Deficit and Debt Ratios (Debt Service as a Share of Revenue) to the thresholds- Chart 23

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

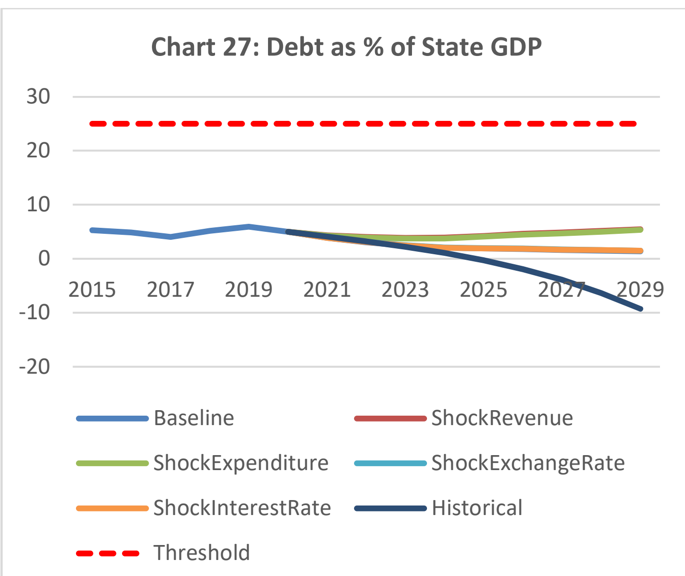
The State's repayment capacity of the public debt position will improve from 144 percent of the Revenue in 2019 to 35 percent by 2029; the fiscal deficit stabilizes in nominal terms over the next few years. From Chart 22-the analysis of the Baseline Scenario concluded that the State will be able to preserve the sustainability of its debt in the medium-term because it is within the limit of the threshold of 200 percent.

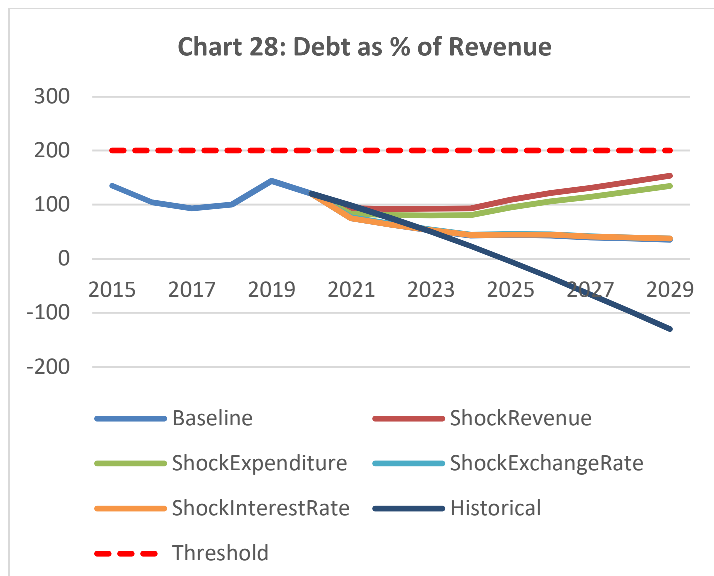
4.6.2 Assessment of Fiscal Deficit and Debt Ratios (Debt Service as a Share of Revenue) to the thresholds- Chart 23

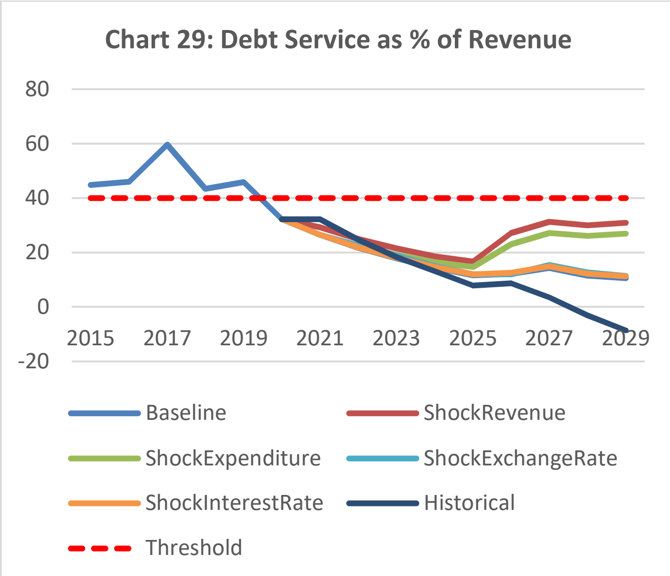
The State's repayment capacity of the public debt service position will improve from 46 percent of the Revenue in 2019 to 11 percent by 2029; the fiscal deficit stabilizes in nominal terms over the next few years. From Chart 23- the analysis of the Baseline Scenario concluded that the State will be able to preserve the sustainability of its debt Service in the medium-term because it is within the limit of the threshold of 40 percent.

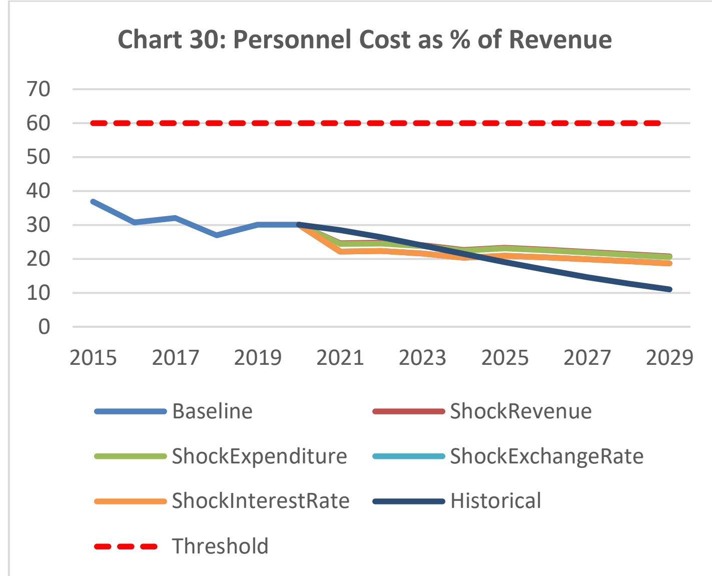
4.7 DSA Sensitivity Analysis (Shock Analysis)

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









Source: Gombe State Forecast

4.7.1 Revenue Shock

The result shows that Total Public Debt to State GDP ratio remains below its threshold throughout the projection period as shown in Chart 27. After taking into consideration the macroeconomics shocks and policy shocks it can be evaluated that the robustness for the State sustainability assessment for the Baseline scenario indicate that the revenue shock is below the threshold of 200%, 40% and 60% for debt to revenue, debt service to revenue and personnel cost to revenue respectively. The shock revenue for debt to revenue start from 94% in 2021 and grows to 154% in 2029 and with average of 114%, while debt service to revenue start at 29% in 2021 and rise to 31% in 2029 with an average of 23%, whereas, personnel cost to revenue for 2021 was 25% and dropped to 21% in 2029 with an average of 23%, all the percentages are below the threshold which indicate that the shock to revenue of the State is sustainable.

4.7.2 Expenditure Shock

After taking into consideration the macroeconomics shocks and policy shocks it can be evaluated that the robustness for the State sustainability assessment for the Baseline scenario indicate that the expenditure shock is below the threshold of 200%, 40% and 60% for debt to revenue, debt service to revenue and personnel cost to revenue respectively. The shock expenditure for debt to revenue start from 83% in 2021 and grows to 134% in 2029 with an average of 100%, while debt service to revenue start at 26% in 2021 and rise to 27% in 2029 with an average of 22%, whereas, personnel cost to revenue for 2021 was 24% and dropped to 21% in 2029 with an average of 23%, all the percentages are below the threshold which indicate that the shock to revenue of the State is sustainable.

4.7.3 Exchange Rate Shock

After taking into consideration the macroeconomics shocks and policy shocks it can be evaluated that the robustness for the State sustainability assessment for the Baseline scenario indicate that the exchange rate shock is below the threshold of 200%, 40% and 60% for debt to revenue, debt service to revenue and personnel cost to revenue respectively. The shock exchange rate for debt to revenue start from 77% in 2021 and drops to 37% in 2029 with an average of 50%, while debt service to revenue start at 27% in 2021 and drops to 11% in 2029 with an average of 16%, whereas, personnel cost to revenue for 2021 was 22% and dropped to 19% in 2029 with an average of 21%, all the percentages are below the threshold which indicate that the shock to exchange rate of the State is sustainable.

4.7.4 Interest Rate Shock

Also after taking into consideration the macroeconomics shocks and policy shocks it can be evaluated that the robustness for the State sustainability assessment for the Baseline scenario indicate that the interest rate shock is below the threshold of 200%, 40% and 60% for debt to revenue, debt service to revenue and personnel cost to revenue respectively. The shock interest rate for debt to revenue start from 75% in 2021 and drops to 38% in 2029 with an average of 49%, while debt service to revenue start at 27% in 2021 and drops to 11% in 2029 with an average of 15%, whereas, personnel cost to revenue for 2021 was 22% and dropped to 19% in 2029 with an average of 16%, all the percentages are below the threshold which indicate that the shock to interest rate of the State is sustainable.

4.7.5 Historical Shock

Finally, after taking into consideration the macroeconomics shocks and policy shocks it can be evaluated that the robustness for the State sustainability assessment for the Baseline scenario indicate that the historical shock is below the threshold of 200%, 40% and 60% for debt to revenue, debt service to revenue and personnel cost to revenue respectively. The historical shock for debt to revenue start from 98% in 2021 and drops to -130% in 2029 with an average of -10%, while debt service to revenue start at 32% in 2021 and drops to -9% in 2029 with an average of 11%, whereas, personnel cost to revenue for 2021 was 28% and dropped to 11% in 2029 with an average of 109%, all the percentages are below the threshold which indicate that the shock to interest rate of the State is sustainable.

Annexes

Annex I: Table Assumption

		Projection Methodology	Source
Assumptions:			
Economic activity	State GDP (at current prices)	The price of 40 dollars per barrel from 2021-2023 was adopted, the projected GDP was calculated based on the National GDP taking into consideration the average changes in the National GDP	
Revenue	**Revenue**		
	1. Gross Statutory Allocation ('gross' means with no deductions)	The estimation is based on an elasticity forecast (National macro-economic, mineral assumptions in the FGN MTEF/FSP 2021-2023 framework). It's also from historical mineral revenues flows, National real GDP and inflation and Nigeria Governor's Forum Secretariat. Whereas from 2024 to 2029 an average increase of 2% was proposed, derived from the average percentage of 2021 to 2023 amount after considering Economic situation of the country (Expecting the economy growth will improve).	
	of which Net Statutory Allocation ('net' means of deductions)		
	of which Deductions		
	2. Derivation (if applicable to the State)	As oil well was discovered, Gombe State will be expecting derivation from 2024 and a sum of 10 billion was budgeted	
	3. Other FAAC transfers (exchange rate gain, augmentation, others)	The estimation of other FAAC transfer was based on the expected economic situation in the country i.e Covid-19 pandemic and the recession, from 2024 to 2029 it's with the hope the economy will improve therefore an increment of 0.02% was proposed.	
	4. VAT Allocation	**VAT** - is based on elasticity forecast using the combined change in GDP and inflation rate. The estimate for 2021-2023 is in line with the current rate of collections which is 7.5% as approved by the National Assembly. Whereas from 2024 to 2029 an average increase of 2.5% was proposed, derived from the average percentage of 2021 to 2023 amount and expecting economic improvement.	
	5. IGR	The estimation is based on own percentage taking into consideration the economic activity of the State, reform of revenue administration and the impact of COVID-19. Whereas from 2024 to 2029 an average increase of 6.3% was proposed, the percentage was derived from the average percentage of 2021 to 2023 amount and with the implementation of treasury single account, establishment of taxpayer database, the perfection of the TSA, establishment of Executive Management Committee, cash to cashless policy, and technical support from development partners towards harmonization/review of tax rate and other efforts focused on blocking leakages and dealing with the phenomena of tax avoidance/evasion, the collection will improve .	MTEF/FSP 2021-2023
	6. Capital Receipts		
	Grants	Grants are largely from Local Government contributions to the State Infrastructure and social sector projects and UBE. Whereas from 2024 to 2029 an average increase of 0.6% was proposed, derived from the average percentage of 2021 to 2023 amount and with the recent efforts by the State Government to finalize its 10-year development plan, however, donors are expected to key in with more grants in the coming years.	
	Sales of Government Assets and Privatization Proceeds		
	Other Non-Debt Creating Capital Receipts		
Expenditure	**Expenditure**		
	1. Personnel costs (Salaries, Pensions, Civil Servant Social Benefits, other)	The Personnel cost is anticipated to remain the same occasioned by COVID-19 Pandemic which is estimated as 3% for 2021-2023. Whereas from 2024 to 2029 an average increase of 1.8% was proposed, derived from the average percentage of 2021 to 2023 amount and personnel cost is expected to grow in the period under review due to the	

		recent minimum wage policy by the Federal Government and the appointment of public service office holders.	
	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 2024 to 2029 an average increase of 0.1% was proposed, derived from the average percentage of 2021 to 2023 amount and the increment was proposed because of day to day running of Government activities.	
	3. Other Recurrent Expenditure (Excluding Personnel Costs, Overhead Costs and Interest Payments)		
	4. Capital Expenditure	It is based on the balance from the recurrent account plus capital receipts and is in the form of discretional and non-discretional capital expenditure. Whereas from 2024 to 2029 an average increase of 0.05% was proposed, derived from the average percentage of 2021 to 2023 amount and the State intend to embark more developmental projects therefore capital expenditure will grow during the period.	
Closing Cash and Bank Balance	**Closing Cash and Bank Balance**	The method used to ascertain the closing cash and bank balance was based on economic situation of the State and the Country, in 2020 the closing balance drop due to the economic hardship (Covid-19 pandemic and recession), from 2021 it start improving with the expectation of going out of recession	
Proceeds from Debt-Creating Borrowings	**Planned Borrowings (new bonds, new loans, etc.)**		
	New Domestic Financing in Million Naira		
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Inf Loans, and MSMEDF)		
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Inf Loans, and MSMEDF)	The State plans for new borrowing from Commercial Bank of N5.863 billion in 2020 and the sum of N1.058 billion with an expected interest rate of 12.83% and maturity of 6 years.	
	State Bonds (maturity 1 to 5 years)		
	State Bonds (maturity 6 years or longer)		
	Other Domestic Financing		
	New External Financing in Million US Dollars		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	The State plans for new concessional borrowing of N3.5 billion with interest rate of 1% and maturity of 5 years in 2021	
	External Financing - Bilateral Loans		
	Other External Financing		
Debt Amotization and Interest Payments	**Debt Outstanding at end-2019**		
	External Debt - amortization	As at 31st December 2019 the Gombe State External Debt (amortization and interest) is $1.25 million only.	

	and interest		
	Domestic Debt - amortization and interest	As at 31st December 2019 the Gombe State Domestic Debt (amortization and interest) is 29.476 billion only.	
	New debt issued/contracted from 2020 onwards		
	New External Financing	**Insert the Borrowing Terms for New External Debt: interest rate (%), maturity (# years) and grace period (#)**	
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	The new borrowing proposed has an interest rate of 1% with 5 years maturity period and zero grace period	
	External Financing - Bilateral Loans		
	Other External Financing		
	New Domestic Financing in Million Naira	**Insert the Borrowing Terms for New Domestic Debt: interest rate (%), maturity (# years) and grace period (#)**	
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Inf Loans, and MSMEDF)		
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Inf Loans, and MSMEDF)	The new borrowing proposed has an interest rate of 12.83% with 6 years maturity period and zero grace period	
	State Bonds (maturity 1 to 5 years)		
	State Bonds (maturity 6 years or longer)		
	Other Domestic Financing		

Annex II: Baseline Projections

	Units	Scale	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
State GDP (at current prices)	Naira	Million	1,125,437	1,136,161	1,239,249	1,388,519	1,567,590	1,643,127	1,805,726	1,996,317	2,210,031	2,367,385	2,535,943	2,716,502	2,909,917	3,117,103	3,339,041
Nation GDP (at current prices)	Naira	Million	93,497,948	101,253,016	114,004,750	127,736,828	144,210,492	139,517,516	142,694,417	146,794,565	151,464,432	151,464,432	151,464,432	151,464,432	151,464,432	151,464,432	151,464,432
Exchange Rate NG₦/US$ (end-Period)			196	253	306	307	326	379	379	379	379	379	379	379	379	379	379
Present Value Factor (PVF)			0.00	0.00	0.00	0.00	0.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Revenue	Naira	Million	**74,870.28**	**62,022.10**	**71,938.61**	**89,182.22**	**104,198.93**	74086.80	102824.57	102595.21	97376.06	95951.33	96277.25	96719.26	95931.22	84258.74	75059.46
1. Gross Statutory Allocation ('gross' means with no deductions; do not include VAT Allocation here)	Naira	Million	28,801.45	19,201.20	26,707.63	40,051.56	38,784.81	29,000.00	41,957.68	46,028.10	48,678.90	50,560.34	52,514.50	54,544.18	56,652.31	58,841.93	61,116.17
of which Net Statutory	Naira	Million	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

Allocation ('net' means of deductions)																
of which Deductions	Naira	Million	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)	Naira	Million	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00
3. Other FAAC transfers (exchange rate gain, augmentation, others)	Naira	Million	1,597.98	21,569.21	12,567.00	10,181.29	7,686.84	7,686.89	7,686.89	7,686.89	7,686.89	7,702.26	7,717.67	7,733.10	7,748.57	7,764.07	7,779.60
4. VAT Allocation	Naira	Million	7,365.63	7,578.07	9,073.34	10,145.74	10,940.65	11,500.00	12,606.24	14,044.87	15,543.39	15,543.39	15,543.39	15,543.39	15,543.39	15,543.39	15,543.39
5. IGR	Naira	Million	5,913.71	4,803.90	5,492.28	7,490.37	6,832.03	7,786.70	9,865.52	11,428.16	12,502.17	13,289.81	14,127.06	15,017.07	15,963.14	16,968.82	18,037.86
6. Capital Receipts	Naira	Million	28,535.73	4,253.84	12,940.24	11,814.29	28,395.49	18113.21	30708.24	23407.19	12964.71	-1144.47	-3625.36	-6118.48	-9976.19	-24859.47	-37417.55
Grants	Naira	Million	0.00	0.00	408.69	3,593.03	47.95	12,250.00	20,850.00	17,950.00	17,950.00	13,462.50	9,423.75	11,308.50	13,570.00	16,284.24	19,541.09
Sales of Government Assets and Privatization Proceeds	Naira	Million	0.00	0.00	0.00	0.00	5,358.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Non-Debt Creating Capital Receipts	Naira	Million	2,655.78	4,615.88	4,749.43	5,905.94	6,153.16	0.00	5,300.00	5,800.00	6,450.00	6,450.00	6,450.00	6,450.00	6,450.00	6,450.00	6,450.00
Proceeds from Debt-Creating Borrowings (bond issuance, loan disbursements, etc.)	Naira	Million	0.00	0.00	0.00	0.00	0.00	5863.21	4558.24	-342.81	-11435.29	-21056.97	-19499.11	-23876.98	-29996.19	-47593.71	-63408.64
of which Borrowings from Domestic bonds	Naira	Million	0.00	0.00	0.00	0.00	0.00										
of which Borrowings from Commercial bank loans	Naira	Million	0.00	0.00	0.00	0.00	0.00										
of which Borrowings from External loans	Naira	Million	0.00	0.00	0.00	0.00	0.00										
Expenditure	Naira	Million	**58,979.97**	**56,985.29**	**53,651.31**	**72,280.50**	**77,290.97**	83811.91	102824.57	102595.21	97376.06	95951.33	96277.25	96719.26	95931.22	84258.74	75059.46
1. Personnel costs (Salaries, Pensions, Civil Servant Social Benefits, other)	Naira	Million	16,120.99	16,340.96	17,396.48	19,276.64	19,330.17	20,504.17	20,616.93	21,697.76	22,131.72	22,530.09	22,935.63	23,348.47	23,768.75	24,196.58	24,632.12
2. Overhead costs	Naira	Million	15,046.60	11,842.98	13,872.07	19,876.85	18,715.96	14,746.63	18,615.55	18,633.63	18,735.98	18,773.45	18,811.00	18,848.62	18,886.32	18,924.09	18,961.94
3. Interest Payments (Public Debt Charges, including interests deducted from FAAC Allocation)	Naira	Million	3,536.74	4,852.16	3,554.32	3,738.70	4,214.57	3801.86	4592.46	4646.90	4464.98	3412.65	1568.10	-120.09	-1867.45	-4536.98	-7429.61
of which Interest Payments (Public Debt Charges, excluding interests deducted from FAAC Allocation)	Naira	Million	175.98	20.22	44.59	177.83	238.50										
of which Interest deducted from FAAC Allocation	Naira	Million	3,360.76	4,831.94	3,509.73	3,560.87	3,976.07										
4. Other Recurrent Expenditure (Excluding Personnel Costs, Overhead Costs and Interest Payments)	Naira	Million	5,530.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5. Capital Expenditure	Naira	Million	14,420.70	20,929.82	17,371.28	25,775.88	30,715.08	26,192.80	38,812.08	41,693.29	43,777.95	45,966.85	48,265.19	50,678.45	53,212.37	55,872.99	58,666.64
6. Amortization (principal) payments	Naira	Million	4,324.94	3,019.37	1,457.16	3,612.43	4,315.19	18566.45	20187.56	15923.63	8265.43	5268.29	4697.33	3963.81	1931.23	-10197.94	-19771.63
of which Amortization of Domestic bonds	Naira	Million	2,561.07	2,298.18	1,164.69	1,989.55	2,323.07										
of which Amortization of Commercial bank loans	Naira	Million	1,661.70	587.00	154.87	1,411.39	1,646.56										
of which Amortization of External loans	Naira	Million	102.17	134.19	137.60	211.49	345.56										
Budget Balance (' + ' means surplus, ' - '	Naira	Million	**15,890.31**	**5,036.81**	**18,287.30**	**16,901.73**	**26,907.96**	-9725.11	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

means deficit)																	
Opening Cash and Bank Balance	Naira	Million	**1,657.04**	**2,212.17**	**2,091.69**	**8,517.79**	**7,033.37**	9,725.11	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Closing Cash and Bank Balance	Naira	Million	**2,212.17**	**2,091.69**	**8,517.79**	**7,033.37**	**9,725.11**	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financing Needs	Naira	Million						**5,863.21**	**9,858.24**	**5,457.19**	**-4,985.29**	**-14,606.97**	**-13,049.11**	**-17,426.98**	**-23,546.19**	**-41,143.71**	**-56,958.64**
i. Primary balance	Naira	Million						6,779.99	14,921.77	15,113.34	17,715.70	23,287.91	19,314.55	21,270.70	23,609.97	26,408.79	29,757.41
ii. Debt service	Naira	Million						22,368.31	24,780.01	20,570.53	12,730.41	8,680.94	6,265.43	3,843.72	63.78	-14,734.92	-27,201.24
Amortizations	Naira	Million						18,566.45	20,187.56	15,923.63	8,265.43	5,268.29	4,697.33	3,963.81	1,931.23	-10,197.94	-19,771.63
Interests	Naira	Million						3,801.86	4,592.46	4,646.90	4,464.98	3,412.65	1,568.10	-120.09	-1,867.45	-4,536.98	-7,429.61
iii. Financing Needs Other than Amortization Payments (e.g., Variation in Cash and Bank Balances)	Naira	Million						-9,725.11	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Financing Sources	Naira	Million						**5,863.21**	**9,858.24**	**5,457.19**	**-4,985.29**	**-14,606.97**	**-13,049.11**	**-17,426.98**	**-23,546.19**	**-41,143.71**	**-56,958.64**
i. Financing Sources Other than Borrowing	Naira	Million						0.00	5,300.00	5,800.00	6,450.00	6,450.00	6,450.00	6,450.00	6,450.00	6,450.00	6,450.00
ii. Gross Borrowings	Naira	Million						5,863.21	4,558.24	-342.81	-11,435.29	-21,056.97	-19,499.11	-23,876.98	-29,996.19	-47,593.71	-63,408.64

CONTROL: Financing Needs and Sources Must be Identical (i.e., no financing gap)				OK	OK			OK		OK	OK	
New Domestic Financing in Million Naira			Interest Rate (%)									
Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)	Naira		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)	Naira		12.83%	0.00	0.00		5,863.21	1,058.24		0.00	0.00	
State Bonds (maturity 1 to 5 years)	Naira		0.00%	0.00	0.00		0.00	0.00		0.00	0.00	
State Bonds (maturity 6 years or longer)	Naira		0.00%	0.00	0.00		0.00	0.00		0.00	0.00	
Other Domestic Financing	Naira		0.00%	0.00	0.00		0.00	0.00		0.00	0.00	
New External Financing in Million US Dollars			Interest Rate (%)									
External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	US Dollars		0.98%	0.00	0.00			0.00		9.23	0.00	
External Financing - Bilateral Loans	US Dollars		1.00%	0.00	0.00			0.00		0.00	0.00	
Other External Financing	US Dollars		0.00%	0.00	0.00			0.00		0.00	0.00	

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