GOMBE STATE OF NIGERIA

GOMBE STATE DEBT SUSTAINABILITY ANALYSIS and Medium-Term Debt Strategy (State DSA-MTDS)

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 developed by Debt Management Office, Nigeria and reviewed by the World Bank to analyze the trends and patterns in the State's public finances during the period of 2017 - 2021 while also evaluating the ability of the State to sustain its debt in the long term (2022 – 2031). The DSA carried out by Gombe State's Technical Team appraised recent Revenue, Expenditure, State Public debt trends, and related policies adopted by the State Government, while considering the policy thrust of the State. A sub-national sustainability assessment was conducted using baseline scenarios and sensitivity analysis in order to evaluate the prospective performance of the State's public finances going forward. The intention is to assist the Gombe State Government in striking a balance between the State's programs execution and new borrowings by utilizing recent trends in the State's public finances.

1.1.1 Policy Objective

The main purpose of Gombe State DSA-DMS is to assess the trends and patterns of public finances for the period 2017 to 2021 and evaluate Debt Sustainability and Debt Management Strategies of the State in 2022-2031.

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

1.1.2 Methodology

The date of conducting the DSA-DMS of Gombe State is September 2022 and the tool kit used for the report is the World Bank/DMO DSA-DMS Template, while, the scope of data covered the historical period of 2017-2021 and the projection period of 2022-2031, 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 State shows a medium debt position that appears sustainable in the long term. The medium debt position results from the State's average performance in terms of mobilizing Internally Generated Revenue (IGR) underpinned by the successful tax administration reforms introduced in May 2020 and development of Gombe State 10 years Development Plan, also worthy of mention is the Land Used Charge as a new revenue head embedded with motivators to reduce tax defaulters. The State controls its recurrent expenditure growth and reduces the level of its public debt due to the collapse of oil prices, COVID-19 pandemic and exchange rate fluctuations. Given the State's forecasts for the economy and reasonable assumptions concerning the State's revenue and expenditure policies going forward, the long-term outlook for the public debt appears sustainable. Therefore, the summary of findings is as follows:

i. **Findings on Revenue trend going forward mirroring National Revenue trend**
The State's Federal Allocation rose averagely by 37.74 percent from 2022 to 2031, while the average percentage of the Debt to State Gross Domestic Product (GDP) remains at 2 percent from 2022 to 2031 whereas IGR grew averagely by 52.09 percent from 2022 to 2031.

ii. **Findings on Expenditure projection, 2022-2031**
State expenditure remained stable during the period. In 2022–2031, real aggregate expenditure grew by 9.44 percent, whereas, capital spending showed positive average growth of 29.88 percent over the analyzed period, while recurrent expenditure registered a modest decrease of 6.90 per cent. During the period, recurrent spending (personnel costs, overheads, debt charges) represent 47.28 percent of total spending on average.

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

Debt is projected to drop from N91.727 billion in 2021 to N62.030 billion in 2031. However, there is decline in the State's Debt Stock capacity of the public debt to revenue from 2021 to 2031 (130% to 45%), while, debt service is projected to fall from N34.452 billion to N12.353 billion in 2021 to 2031. However, there is improvement from 2022 to 2031 in the State's repayment capacity of the public debt position to Revenue with an average of 12 percent. The analysis of the Baseline Scenario concluded that the State will be able to preserve the sustainability of its debt in the medium-term because it is within the limit of the threshold of 200 percent and 40 percent for debt and debt services respectively.

1.3 Overall Results

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

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

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

Chapter Two

Gombe State Fiscal and Debt Framework

2.1 Fiscal reform in last 3-5 years

The Fiscal Reforms being implemented by the Gombe State Government in the last four to six years include the Gombe State 10 years Development Plan 2021-2030, Public Financial Management (PFM) and Human Resource Management (HRM) which are sub-divided into Budget reform, Audit reform, Public Procurement reform, Tax Administration reform, and Civil Service & Pension reform. These reforms led to the enactment of Laws that regulates implementation of Fiscal Policies in the State. The Laws are Gombe State Fiscal Responsibility Law (FRL), Amended, 2018; Gombe State Finance Management Law, 2017; Gombe State Government Financial Regulations and Store, 2017; Gombe State Public Procurement Law 2017, Cash Management Regulation 2019, and Gombe State Audit Law, Amended, 2021. The FRL for instance, provides for the creation of the implementation organ, medium term fiscal framework, how public expenditure should be carried out, borrowing process, transparency and accountability in governance and principles of sound financial management.

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

The estimation of the State IGR is based on percentage taking into consideration the economic activity of the State, reform of revenue administration and the impact of COVID-19. Sequel to implementation of treasury single account, IGR projection in the immediate terms is not expected to surpass 2021 approved estimate. However, actual collections are largely from traditional sources such as PAYE, fees, etc. It is believed that the current effort to establish taxpayer database by Board of Internal Revenue Service, the perfection of the TSA, executive management committee, cash to cashless policy, and technical support from development partners towards harmonization/review of tax rate and other efforts focused on blocking leakages and dealing with the phenomena of tax avoidance/evasion, the collection will improve. The Internal Revenue Service has introduced more revenue sources intended to boost inflows; therefore, IGR is expected to grow annually in 2022 up to 2025. 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) 2023 – 2025 and 2022 Budget

2.2.1 Approved 2022 Budget

The 2022 Budget was prepared amidst a challenging global and domestic environment due to the persistent headwinds from the high rate of increase in inflation. The resulting global economic recession, low oil prices and heightened global economic uncertainty have had important implications for our economy.

Based on the foregoing fiscal assumptions and parameters, the Gombe State total revenue available to fund the 2022 Budget is estimated at N159.414 billion. This includes Internally Generated Revenue, Statutory Allocation, Value Added Tax, Other Statutory Revenue, Domestic Grants, Foreign Grants, Opening Balance, Domestic Loans, Foreign Loans and Sale of Government Assets, respectively.

An aggregate expenditure of N154.964 billion is proposed by the Gombe State Government in 2022. The 2022 proposed Expenditure comprises, Debt Repayment (Interest and Principal) of N23.189 billion, Recurrent Expenditure of N70.000 billion, and Capital Expenditure of N84.963 billion, respectively.

The main features of the 2021 Approved Budget in terms of financial outcomes for FY2021 and the fiscal policy strategies of the 2022 Budget and the 2023-2025 MTEF/FSP, regarding the revenue, expenditure and debt forecasts for the next years is in line with the State policy Statement which is based on its fiscal responsibility law which advocates "sound public expenditure and financial management in the State" specifically this is achieved through:

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

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

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

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

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

Implementing the 2022 budget should be closely monitored, given the security situation, the developed Gombe State 10 years Development Plan, 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 Inflation and Covid-19 pandemic on the total revenues, expenditures and debt in comparison to the original 2022 budget has called for the drastic cutting of expenditures while increasing support to the already excluded group and vulnerable who are left to bear the brunt of the economic contraction. The economic and growth recovery program which has the aim of increasing social inclusion by creating jobs and providing support for the poorest and most vulnerable members of society through investments in social programs and providing social amenities will no doubt suffers some setbacks.

2.2.2 Indicative Three-Year Fiscal Framework

Gombe State Economic and Fiscal Update (EFU), Fiscal Strategy Paper (FSP) and Budget Policy Statement (BPS) constitute the major components of the Annual Budget Process. These set of principles provides logical starting point for the development of Medium-Term Expenditure Framework (MTEF), which highlight the context of the annual budget. The key objective and targets for the State Government from a fiscal perspective are as follows;

i. Effective management of personnel and overhead expenditure to allow greater resource for capital development;

ii. Growth in IGR by a minimum of 5% every year from 2023 to 2025;

iii. Only capital projects will be financed with loans;

iv. Achieving long term target of funding all recurrent expenditure with revenue of a recurrent nature (IGR, VAT and Non-mineral component of Statutory Allocation);

v. Targeting of sources of capital receipts and financing outside of loans (e.g. Grants, PPP, etc.);

vi. Ensuring that projected Capital receipts are based on Memoranda of Understanding (MoUs) and other agreements signed with Development partners;

vii. Ensuring that the State's Debt position is within the ratio set by the Debt Management Office, Abuja;

viii. Giving priority to the completion of ongoing capital projects before new projects are commenced; and,

ix. Growing the economy through targeted spending in areas of comparative advantage such as health, education, agriculture, trade, and tourism.

The foundation for any fiscal discipline and the attainment of fiscal realism starts with the Economic and Fiscal Update (EFU). It (the EFU) presents data and analysed information on all the strata of the state, national and global economic and fiscal situations. This forms the basis for fiscal and 6 macroeconomic assumptions and projections reflected in the Fiscal Strategy Paper which also goes further to manifest medium-term fiscal projections (revenue and expenditure). The EFU gives a measured reflection of recent budget performance identifying factors that significantly affects the attainment of budgetary outputs and outcomes which transmit into the subsequent fiscal plans. The EFU provides the context for a prospective Fiscal Strategy Paper (FSP) that feeds into the Medium-Term Expenditure Framework (MTEF) where resources are strategically allocated considering Government policy objectives and priorities as dictated by the budget policy statements. Thus FSP is an indispensable element in annual budget process as it determine the resources available to fund government prioritized projects and programmes in a sustainable manner and consistent with its development policy objective and priorities as encapsulated in the existing policy document It provides justification and corroborate the estimation for medium-term major Revenue and Expenditure aggregates including important components of the MTEF Process such as fiscal targets, fiscal constraints and an assessment of the fiscal risks. The indicative three-year fiscal framework for the period 2023-2025 is presented in the table below.

Gombe State Medium Term Fiscal Framework

Fiscal Framework

Item	**2023**	**2024**	**2025**
Opening Balance	3,800,000,000	1,800,000,000	1,800,000,000
Recurrent Revenue			
Statutory Allocation	43,916,766,179	58,580,853,859	73,141,834,479
Derivation			
VAT	17,579,983,858	21,599,385,568	26,517,326,720
IGR	13,255,808,331	14,912,784,372	16,776,882,419
Excess Crude / Other Revenue	4,600,000,000	4,500,000,000	3,500,000,000
Total Recurrent Revenue	**79,352,558,368**	**99,593,023,800**	**119,936,043,617**
Recurrent Expenditure			
Personnel Costs	22,343,879,283	23,014,195,661	23,704,621,531
Social Contribution and Social Benefit	7,060,677,527	7,272,497,853	7,563,397,767
Overheads	18,266,376,559	19,179,695,387	20,138,680,157
Grants, Contributions and Subsidies	526,114,591	552,420,320	580,041,336
Public Debt Service	22,500,000,000	23,000,000,000	23,700,000,000
Total	**70,697,047,961**	**73,018,809,222**	**75,686,740,792**
Transfer to Capital Account	**12,455,510,408**	**28,374,214,577**	**46,049,302,826**
Capital Receipts			
Grants	17,250,000,000	13,300,000,000	13,000,000,000
Other Capital Receipts	5,000,000,000	5,000,000,000	5,000,000,000
Total	**22,250,000,000**	**18,300,000,000**	**18,000,000,000**
Reserves			
Contingency Reserve	2,078,813,959	2,534,825,595	3,043,401,090
Planning Reserve	1,058,110,208	1,169,484,292	1,478,986,057
Total Reserves	**3,136,924,167**	**3,704,309,887**	**4,522,387,147**
Capital Expenditure	**51,768,586,241**	**54,769,904,691**	**69,426,915,679**
Discretional Funds	21,018,586,241	31,869,904,691	48,226,915,679
Non-Discretional Funds	30,750,000,000	22,900,000,000	21,200,000,000
Financing (Loans)	22,000,000,000	13,600,000,000	11,700,000,000
Total Revenue (Including Opening Balance)	**127,402,558,368**	**133,293,023,800**	**151,436,043,617**
Total Expenditure (including Contingency Reserve)	**125,602,558,368**	**131,493,023,800**	**149,636,043,617**
Closing Balance	1,800,000,000	1,800,000,000	1,800,000,000
Ratios			
Growth in Recurrent Revenue	9.06%	25.51%	20.43%
Growth in Recurrent Expenditure	3.13%	3.28%	3.65%
Capital Expenditure Ratio	42.06%	42.54%	47.39%
Deficit (Financing) to Total Expenditure	17.52%	10.34%	7.82%

Source: Gombe State MTEF 2023-2025

2.2.3 The Key Objectives of Approved 2022 Budget

i. consolidate and improve on the provision of functional education strategy already embarked upon in the State, with emphasis on technical and technological aspects;
ii. sustain and improve the State's healthcare delivery system;
iii. enhance the overall improvement in human capital development such that will empower youths, artisans and market women for wealth and jobs creation;
iv. compliance with the developmental plan in the Gombe State 10 years Development Plan.
v. ensure security of lives and properties of the residents of the State;
vi. combat the spread of Covid-19 and ameliorate the effects of same on people, SMEs and MSMEs across the State;
vii. ensure the completion of the on-going capital projects and also sustain the current investment in infrastructural facilities;
viii. sustain and intensify the current efforts in Independent Revenue generation;
ix. combat gender-based violence and facilitate social inclusion through target spending on the vulnerable and other marginalized group;
x. improve the State's public financial management to entrench transparency, accountability and integrity; and
xi. Strategic diversification of the State's economy using the Public Private Partnership (PPP) model.

2.2.4 Medium Term Policy Objectives and Targets

The overall medium-term policy objectives are:

i. To have higher proportion of capital expenditure compared to recurrent expenditure.

ii. Personnel expenditure is to be on stable marginal increase for 2023 - 2025.

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 (2017-2021)

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

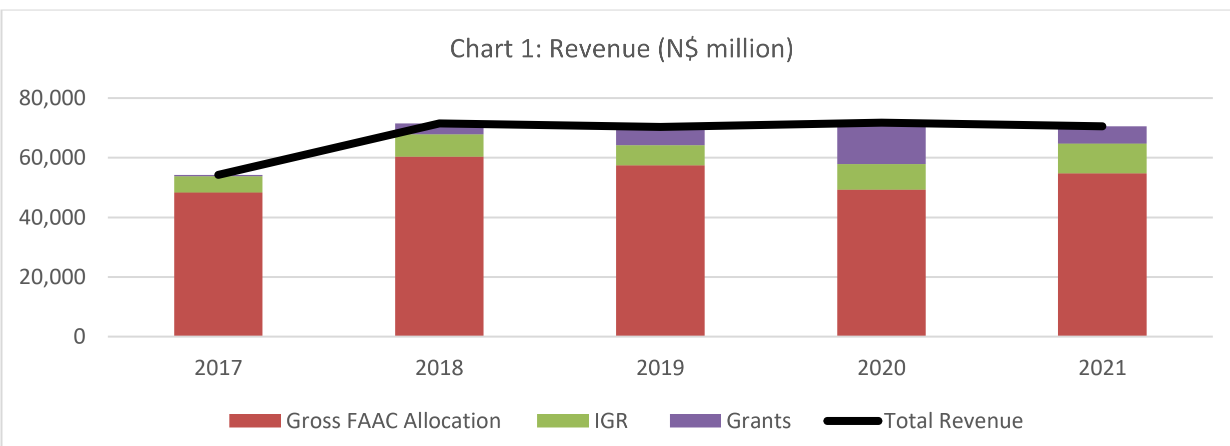
The revenue performance of the State is shown in Table 1 and Chart 1 below:

Table 1: Revenue

	2017	2018	2019	2020	2021
Total Revenue	54,249	71,462	70,364	71,753	70,491
Gross FAAC Allocation	48,348	60,379	57,412	49,286	54,736
IGR	5,492	7,490	6,832	8,637	10,023
Grants	409	3,593	6,120	13,829	5,731

Source: Gombe State DSA/MTDS Template, 2022

CHART 1: Revenue



Source: Gombe State DSA/MTDS Template, 2022

Gombe State's Revenue stood at N70.491 billion in 2021 compared to N71.753 billion in the period of 2020, which represent an increase of N1.262 billion or 1.79 percent. The Revenue has shown improvements from 2017 to 2021, due to the growth increased in the financial resources to the real sector of the economy, and effective implementation of the Economic Policies in the State. The Gross FAAC allocation that comprises the Statutory allocation, VAT allocation, exchange rate gain, augmentation among others increased from N49.286 billion in 2020 to N57.412 billion in 2021, which present increase of N8.126 billion or 16.49 percent, the decline was due to recovery of the economic activities from the effect of Coronavirus Pandemic Period in 2020. The percentage of statutory allocation to total revenue has been relatively stable, over the period 2017 to 2021. The average percentage of statutory allocation to total revenue stands at 80.31%. The percentage of statutory allocation to total revenue were 89.12%, 84.49%, 81.5%, 68.68% and 77.65% for 2017, 2018, 2019, 2020, and 2021 respectively. The State's Federal Allocation, fall averagely by 4.18% from 2017 to 2021.

Gombe State's Internally Generated Revenue (IGR) shows a growth during the period under review, the IGR shows a significant grew from N5.492 billion in 2017 to N10.023 billion in 2021. Over the last five years (2017 - 2021), actual IGR collection has been lower than the budgeted. The average percentage of IGR to total revenue from 2017 to 2021 was 14.31 percent. The percentage of IGR to total revenue were, 11.36%, 12.41%, 11.90%, 17.53% and 18.31% in 2017, 2018, 2019, 2020, and 2021 respectively. The State IGR has been increasing in the period under review, it only declines in 2019, the IGR increased with about 36.38% from 2017 to 2018 and decline with 8.79% from 2018 to 2019 and also increases with 26.42% and 16.05% from 2019 to 2020 and 2020 to 2021 respectively. The improvement in IGR is mainly as a result of tax administration reforms aimed at improving collection rates and broadening the tax revenue base.

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

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

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

3.1.2 Expenditure Performance

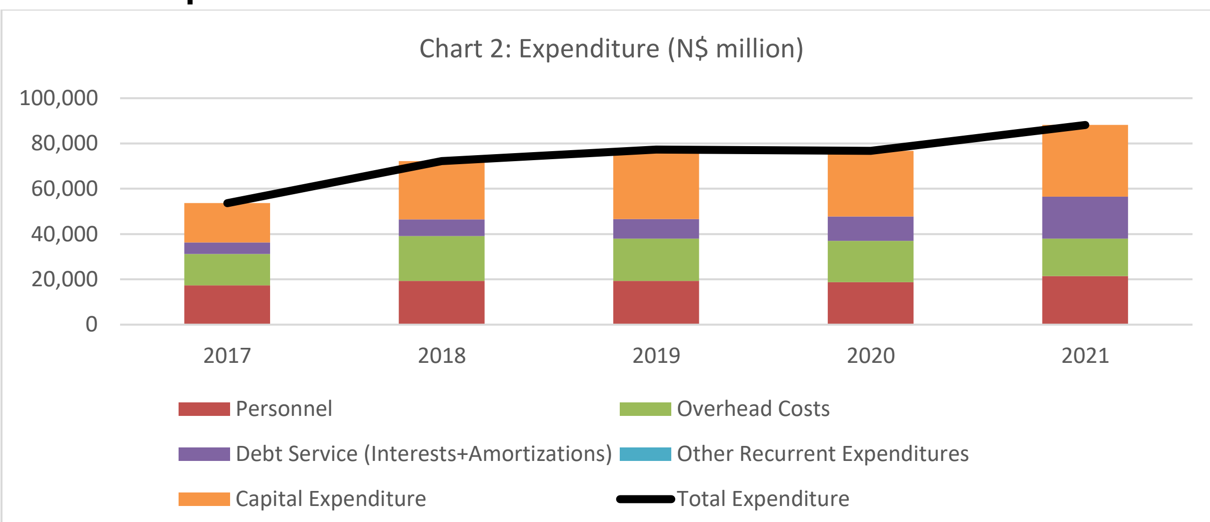
The expenditure performance of the State is shown in Table 2 and Chart 2 below:

Table 2: Expenditure

	2017	2018	2019	2020	2021
Total Expenditure	53,651	72,281	77,291	76,727	88,161
Personnel	17,396	19,277	19,330	18,776	21,438
Overhead Costs	13,872	19,877	18,716	18,274	16,506
Debt Service (Interests+Amortizations)	5,011	7,351	8,530	10,644	18,641
Other Recurrent Expenditures	0	0	0	0	0
Capital Expenditure	17,371	25,776	30,715	29,033	31,576

Source: Gombe State DSA/MTDS Template, 2022

CHART 2: Expenditure



Source: Gombe State DSA/MTDS Template, 2022

The State's Total Expenditure includes Capital expenditure, Personnel costs, Overhead costs, other recurrent expenditure, and Debt service (interest payment and principal repayment). In 2021 Gombe State total expenditure amounted N88.161 billion compared to N53.651 billion as at end-December 2016, which represent a growth of N34.510 billion or 64.32 percent. The personnel cost stood at N17.396 billion in 2017, N19.277 billion in 2018, N19.330 billion in 2019, N18.776 billion in 2020, and N21.438 billion in 2021, respectively. The overhead cost stood at N16.506 billion in 2021 compared to N18.274 billion in 2020. Capital expenditure amounted to N31.576 billion in 2021, N29.033 billion in 2020, N30.715 billion in 2019, and N17.371 billion in 2017 respectively. The Total debt service that comprises the interest payment and principal repayment stood at N31.576 billion as at end-December 2021 compared to N17.371 billion as at end-December 2017.

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 2017 - 2021, the average percentage of personnel cost to total expenditure stands at 26.90%.

Overhead expenditure comprises of operational and maintenance cost for running day-to-day Government activities. Overhead expenditure has been relatively volatile, with a downward trend over the period 2014-2016, and a recovering upward trend over the period 2017-2021. However, the average percentage of overhead to total expenditure stands at 26.58%

Capital Expenditure includes the main investment and implementation of programmes and projects of government. The capital expenditure for the period (2017 – 2021) has been highly unstable, with the actual capital expenditure deviating significantly from the budget performance during this period, only performing above 50% in 2021. The trend expectation for budgeted and actual capital expenditure has been linear, with actual falling as budgeted figure declines. Over the period 2017-2021, the average percentage of capital expenditure to total expenditure stands at 36.29%.

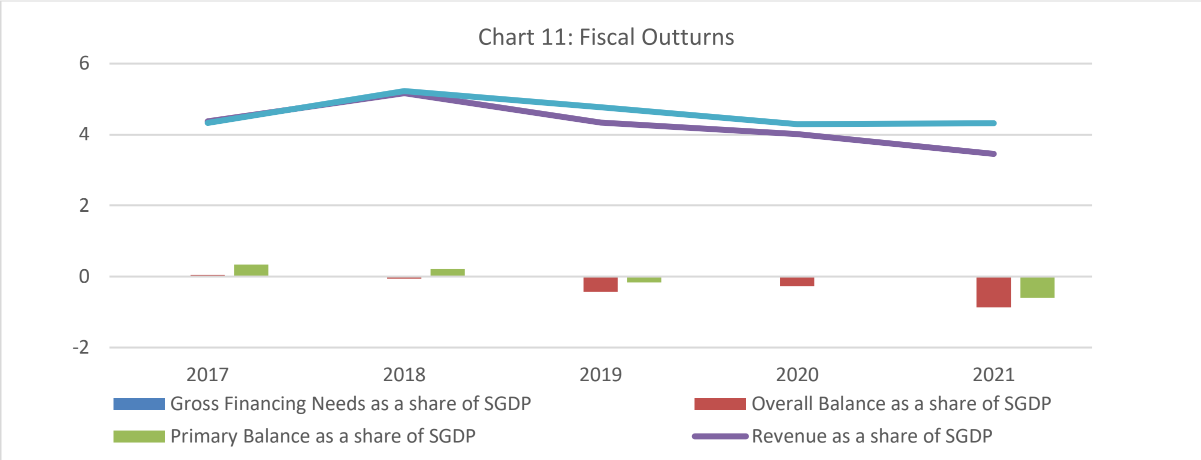
The debt services include the interest paid and principal repayment, where the debt service for the period have been fluctuating. The average percentage of debt services to total expenditure for the period stands at 13.11%.

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

3.1.3 Fiscal Outturns

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

CHART 11: Fiscal Outturns



Source: Gombe State Forecasts, 2022

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 to State GDP has been stable at 0% during the reviewed period (2017-2021). Since 2017 the overall balance remained stable at 0 percent of the State GDP up to 2020 and decline to -0.1 in 2021. 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 continuously remain during the period under review, from a deficit of -0.1 of the State GDP in 2017 to a deficit of -0.1 percent of the State GDP in 2021.

3.2 Gombe State Public Debt Portfolio, 2017-2021

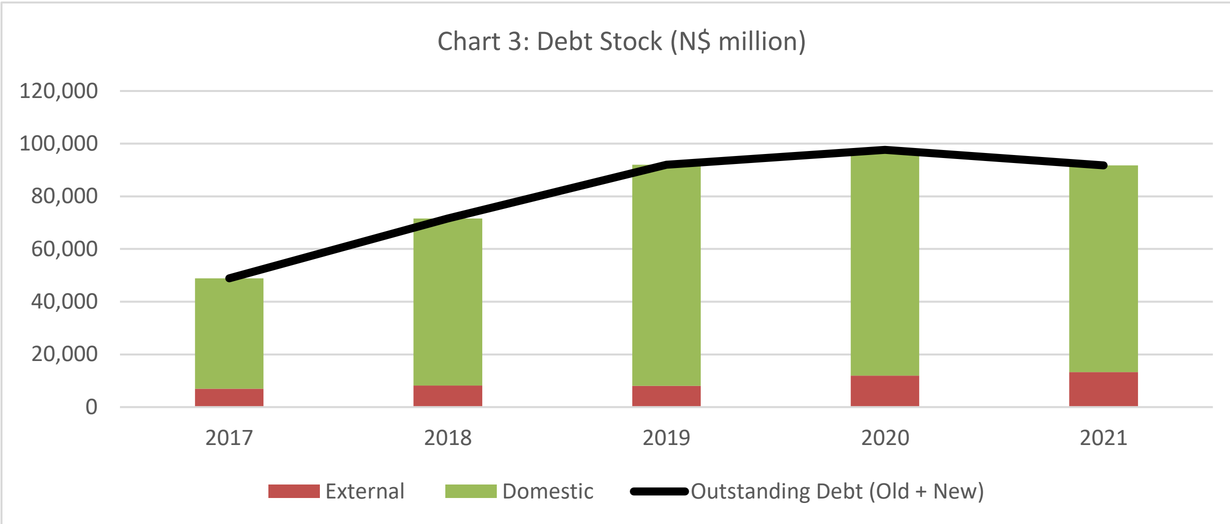
The trend of public debt service is highlighted in Table 3 and Chart 3 below:

Table 3: Debt Stock

	2017	2018	2019	2020	2021
Outstanding Debt (Old + New)	48,887	71,564	91,985	97,655	91,727
External	6,988	8,226	8,061	11,932	13,318
Domestic	41,899	63,338	83,924	85,723	78,409

Source: Gombe State DSA/MTDS Template, 2022

CHART 3: Debt Stock



Source: Gombe State DSA/MTDS Template, 2022

Gombe State's Debt stock amounted to N91.727 billion as at end-December 2021 compared to N97.655 billion as at end-December 2020, representing a decrease of N5.928 billion or 6.07 percent. The decrease in the Total Debt Stock was reflected in only in the Domestic Debt components. The external debt stock increased from N11.932 billion in 2020 to N13.318 billion in 2021, while the domestic debt stock significantly decreased to N78.409 billion in 2021 from N85.723 billion in 2020.

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

Chart 3: Shows a sharp increase in the Debt Stock from N48.887 billion in 2017 to N91.727 billion in 2021, due to change in the calculation of the State Bond debt stock (semi-annually to monthly), receipt of the Excess Crude Account Backed Loan and Budget Support, Commercial bank loans the Debt Stock from 2019 to 2021. Also, the State Government secured a ₦12.5 billion Bond in 2016 and N8.4 billion in 2020 and the GTBank N12 Billion facility has been liquidated.

Gombe State Debt Portfolio as at the end of 2021 consists of external debt N13.318 billion or 14.32 percent and Domestic debt was amounted to N78.409 billion or 85.68 percent, respectively.

Gombe State holds a medium cost and medium risk debt portfolio. The debt portfolio has an average domestic interest rate of 15.5 percent and average external interest of 1.21 percent in 2021. The State debt portfolio is minimally exposed to currency, rollover, and interest rate risks. An exposure to currency fluctuation is limited because the foreign currency–denominated loans are only 14.32 percent of total debt stock in 2021. Some of the loans in Gombe State are fixed-rate obligations, thus not affected by changes in interest rates. A portion of these loans have maturities ranging from 10 to 35 years and include financing from the Federal Government and Multilateral organizations. Therefore, rollover/refinancing risk associated with potential deterioration of domestic financial conditions is reasonably negligible.

3.2.1 Gombe State Principal Repayment, 2017-2021

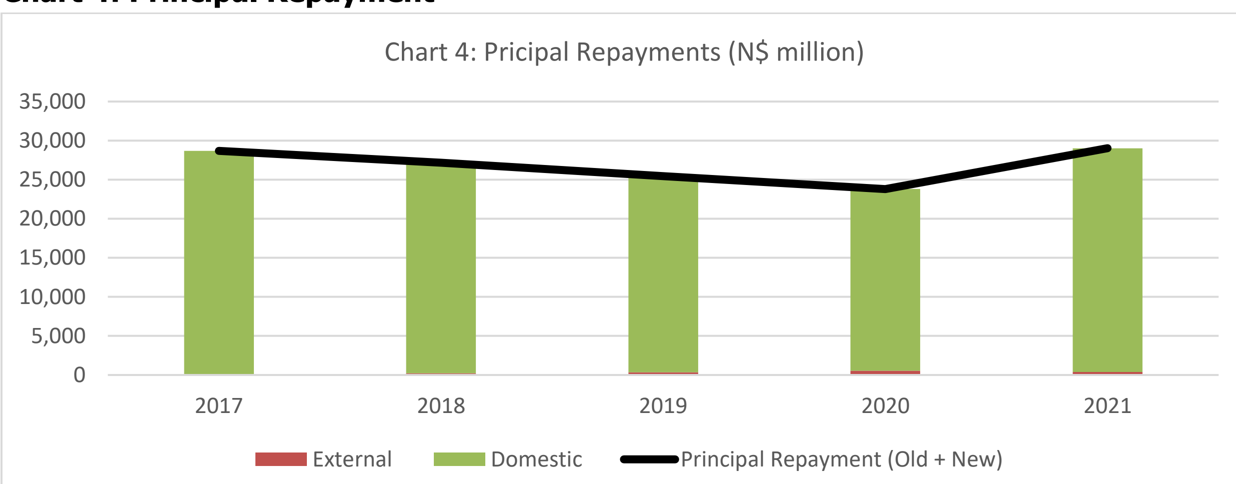
Gombe State Debt Service amounted to N28.680 billion, N27.166 billion, N25.430 billion, N23.795 billion and N29.027 billion for 2017, 2018, 2019, 2020, and 2021 respectively. The principal repayment stood at 23.795 billion in 2020 compared to N29.027 billion in 2021.

Table 4: Principal Repayment

	2017	2018	2019	2020	2021
Principal Repayment (Old + New)	28,680	27,166	25,430	23,795	29,027
External	114	211	325	548	393
Domestic	28,566	26,955	25,105	23,247	28,634

Source: Gombe State DSA/DMS Template, 2022

Chart 4: Principal Repayment



Source: Gombe State DSA/MTDS Template, 2022

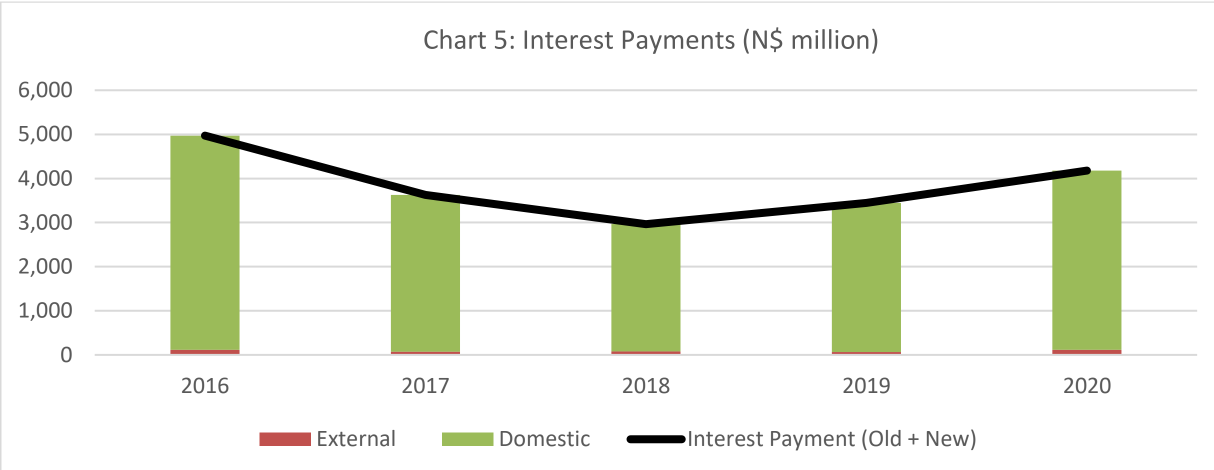
3.2.1 Gombe State Interest Repayment, 2017-2021

The interest payment for the period under review 2017-2021 is presented below:

Table 5: Interest Payment

	2017	2018	2019	2020	2021
Interest Payment (Old + New)	3,615	2,964	4,273	4,167	5,425
External	61	76	58	103	51
Domestic	3,554	2,887	4,215	4,064	5,374

Chart 5: Interest Payment



Source: Gombe State DSA/MTDS Template, 2022

The Interest Payment amounted to N5.425 billion in 2021 compared to N4.167 billion in 2020. The principal repayments and Interest Payment made were on both External Debt and Domestic Debt (see Table 4 & Chart 4 and Table 5 & Chart 5).

3.2.1 Total Debt

The total outstanding debt for the State is N48.887 billion, N71.564 billion, N91.985 billion, N97.655 billion, and N91.727 billion as at December 2017, 2018, 2019, 2020 and 2021 respectively. There has been rapid increase in the public debt since the collapse of oil prices, COVID-19 pandemic and exchange rate fluctuations.

3.2.2 Debt Composition

The State's debt portfolio largely consists of external borrowings (World Bank, African Development Bank, Islamic Development Bank, etc.) and the internal borrowings (Federal Government facilities, Bonds and commercial banks). The average of the State domestic debt is 87.74% while the average external debt is 12.26% for the period 2017 to 2021.

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 15.5 percent from 2017 to 2021 and the interest payments represented 5.59 percent of total expenditure. Exposure to currency fluctuations is expected as a result of foreign currency denomination of about 3.5% 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.

The Debt Management Strategy (DMS), 2022-2026 represents a robust framework for prudent debt management, as it provides a systematic approach to decision making on the appropriate composition of external and domestic borrowing to finance the 2022 budget. The cost-risk trade-off of alternative borrowing strategies under the DMS has been evaluated within the medium-term context. DMS-related performance indicators (Debt Stock as a share of Revenue, Debt Service as a share of Revenue and Interest as a share of Revenue) suggest that the State debt is affordable and resilient to shocks (Shock revenue, shock expenditure, shock exchange rate, shock interest rate, and historical scenario) over the medium-term.

The debt-management policies that will be used by the State to preserve an adequate balance between cost of carrying debt, the exposure to risks and to mitigate the cost and risk of the State debt portfolio is establishment of taxpayer database by Board of Internal Revenue Service, the perfection of the TSA, executive management committee, cash to cashless policy, and technical support from Development Partners (i.e., World Bank, USAID/S2S) towards harmonization/review of tax rate and other efforts focused on blocking leakages and dealing with the phenomena of tax avoidance/evasion, the collection taxes will be improved, it will lead to an acceptance of the baseline scenario and most-adverse shock scenarios after considering DMS-related performance indicators.

The state debt portfolio in the year 2022-2026 are: debt as a percentage of revenue is averagely 133.3% which is below the threshold of 200% (S1_Baseline, 637:21a); debt service as a percentage of revenue is averagely 14.6% as against the threshold of 40% (S1_Baseline, 641:22a) and debt service as a percentage of Gross FAAC Allocation is averagely 21.1% (S1_Baseline, 649); while its cost and risk profile under Strategy 1 (Reference Strategy) debt stock as percentage of revenue as at 2026 is 62.5% with an exposure to risk of 51.2% and under Strategy 3 the debt stock as percentage of revenue as at 2026 is 62.5% with an exposure to risk of 51.2% (ChartsDMS:S1_Tables, 25); under Strategy 1 (Reference Strategy) debt service as percentage of revenue as at 2026 is 11.3% with an exposure to risk of 3.7% and under Strategy 3 the debt service as percentage of revenue as at 2026 is 10.7% with an exposure to risk of 3.6% (ChartsDMS:S1_Tables, 65).

In summary, this indicated that the State debt is affordable and resilient to shocks over the medium term which is evidenced by the Reference Strategy 1 and Strategy 3, the most efficient strategy is Strategy 3 because the cost and the risk are low, therefore, with this the State is more resilient to shocks with the choosen Strategy 3 apart from the First Strategy.

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-2021	Average 2017 to 2031
Debt as % of GDP	25%	4%	3%
Debt as % of Revenue	200%	130%	83%
Debt Service as % of Revenue	40%	49%	24%
Personnel Cost as % of Revenue	60%	30%	26%
Debt Service as % of FAAC Allocation	Nil	63%	31%
Interest Payment as % of Revenue	Nil	8%	5%
External Debt Service as % of Revenue	Nil	1%	0.3%

Source: Gombe State DSA/MTDS Template, 2022

The average Debt to GDP of the State for 2017 to 2031 is 3%, while the Debt to GDP as at December 2021 is 4%. Therefore, it shows that the Debt to GDP is strong which is highly below the threshold. Chart 21 shows the Debt as a percentage of State GDP (with indicative threshold of 25%). The sustainability position of the State's total debt portfolio in the fiscal block shows a gradual ascending trend from 2017 to 2031. Even though the ratio has continued to decrease steadily over the period under review dropping at a value of 4 percent in 2031, it is well within the threshold insinuating room for additional further borrowing under the right circumstances. Based on this, the State's GDP have potentials for growth and can also accommodate the State's debt stock, with minimal effect on the State economy.

The average Debt to Revenue of the State for the period 2017 to 2031 is 83% and the Debt to Revenue as at December 2020 is 130% which shows that the result is favorable as it's below the threshold. Chart 22 shows the Debt as a percentage of revenue, Debt Service as percentage of

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

The average State Debt Service to Revenue for 2017 to 2031 is 24%, and the Debt Service to Revenue is 49% as at 2021 which shows the Debt Service to Revenue is favorable as it's below the threshold of 200.

The State average percentage of Personnel cost to Revenue for 2017 to 2031 is 26% and the Personnel cost to Revenue is 30% as at December 2021 which is below the threshold of 60%. Personnel cost as percentage of Revenue are below the threshold to the end of projection period. The Government is coming up with various reforms, in its revenue drive.

The average percentage of Debt Service to FAAC Allocation for 2017 to 2031 is 31% while as at December 2020 is 63%.

The average percentage of Interest Payment to Revenue for 2017 to 2031 is 5% and 8% as at December 2021. Interest Payment as a percentage of Revenue revealed that, the maximum exposure of the State Interest towards Revenue is 8 percent in the year 2031 with over-all positive outlook.

Finally, looking at the External Debt Service as a percentage of Revenue, the maximum exposure of the State Revenue towards External Debt shows that the External debt of the State was properly managed, peaking at 1 percent in year 2021, the average percentage of External Debt Service to Revenue for 2017 to 2031 is 0.3% and 1% as at December 2021.

4.3 Medium-Term Budget Forecast

The State's medium-term debt sustainability is predicated upon a gradual recovery of the Nigerian economy that will increase FAAC statutory allocation. According to the Federal Government and State's own forecasts, the Nigerian economy is expected to gradually recover in the period 2022-2025, with real GDP expanding at an average annual rate of 3 percent and domestic inflation decreasing below 10 percent by 2023. 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 the efforts made by the Nigerian government to improve the non-oil revenue such as custom duties and VAT, would then increase relative to the depressed levels observed in 2021, thus improving the State's revenue position.

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

The State's medium-term debt sustainability is predicated upon a gradual recovery of the Nigerian economy that will increase FAAC statutory allocation. According to the Federal Government and State's own forecasts, the Nigerian economy is expected to gradually recover in the period 2022-2025, with real GDP expanding at an average annual rate of 3 percent and domestic inflation decreasing below 10 percent by 2023. Such a moderate recovery will be supported by the discovery of oil in Kolmani with Oil Prospecting Licenses (OPLs) 809/810 due to higher oil prices in the global markets, an increase in domestic production, prudent fiscal policy, and the stabilization of the exchange rate relevant for international public-sector financial transactions at its current level. Oil and gas revenue, as well as shared resources such as custom duties and VAT, would then increase relative to the depressed levels observed in 2021, thus improving the State's revenue position.

Debt sustainability analysis is also predicated on the continuation of recent efforts to mobilize local revenue sources such as property tax which will boost revenue, and an unchanged policy on cutting some of the expenses concerning personnel and other operating expenses (i.e., the Executives convoy and Personal Assistants). At local level, the tax administration reforms adopted by the State Government to strengthen resources provided by IGR (The 2020 Revenue Law), are expected to continue in the next few years and will benefit from the overall economic recovery. On the other hand, continuation of policies with regards to reduction of cost in respect of personnel and overhead costs, which are thus likely to preserve their historical trends. The Gombe State 10-year development plan is on its full implementation and will have significant impact of the revenue generation towards the state. In summary, the discovery of oil and introduction of property tax (land and building) in Gombe State will enhance revenue and have impact on the debt policies of Gombe State by setting aside some percentage in order to reduce the debt burden of the state.

4.4 Borrowing Assumptions

Gombe State government intends to finance its new borrowing from 2022 to 2031 mainly through Commercial Bank Loans (maturity 1-5 years) with an average of 22.8 percent, Commercial Bank Loans (maturity 6 year above) estimated at 22.56 percent, State Bonds (maturity 1-5 years) at 13.34 percent, State Bonds (maturity 6 years above) at 28.70 percent, over projection period, compared with External financing – Concessional financing which was estimated at 12.59 percent. For external financing was due to the limited funding envelopes from the external borrowing with long processing time required loans from Multilateral and Bilateral.

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

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

The State Government is planning to borrow from commercial banks at 18.5% interest rate, 3 years maturity period with no grace period. The sum of N2.707 billion, N5.206 billion and N4.308 billion will be borrowed in 2025, 2028, and 2030 respectively.

Similarly, the State Government is planning to borrow the sum of N2.714 billion, N4.090 billion, and N5.285 billion in 2023, 2027 and 2029 respectively from commercial bank at 18.5% interest rate with 7 years maturity and no grace period.

Also, the State Government is planning to borrow the sum of N2.843 billion, and N4.306 billion in 2024 and 2026 respectively through bond at 15.5% interest rate with 5 years maturity period and no grace period.

Similarly, the State Government is planning to borrow the sum N15.384 billion in 2022 through State bond at 15.5% interest rate and 7 years maturity period with no grace period.

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

The State government is planning to borrow concessional borrowing of the sum of $16.5 million in 2031, with an expected interest rate of 1% to 2% per annum and 30 years maturity period with 5 years grace period.

4.4.3 Planned Debt Management Strategy

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

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

i. Fiscal: all outstanding payments incurred by the State government have been recorded by Debt Management 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

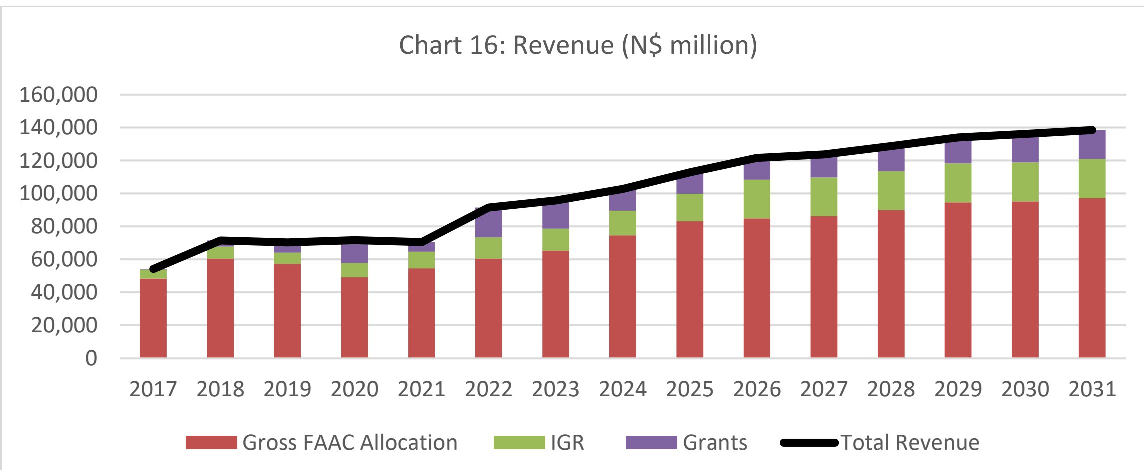
4.5 DSA Simulation Results and Findings

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

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

4.5.1 Projected Revenue- Chart 16

The Gombe State projected revenue from 2022 to 2031 is presented in Chart 16 below:



Source: Gombe State DSA/MTDS Template, 2022

In the Baseline Scenario total revenue (including grants and excluding other capital receipts) is projected to increase from N91.614 billion in 2022 to N138.534 billion by 2031. Therefore, the fiscal surplus (computed as the difference between revenue and expenditure) is expected to remain within a range of –N16.903 billion in nominal terms, compared to the 2021 deficit of –N17.670 billion.

Gross FAAC Allocation is projected to increase from N60.402 billion in 2022 to N97.135 billion by 2031 with an average of N83.196 billion, the increase was based on the National GDP taking into consideration the average changes in the National GDP, increase in oil price with expectation of ending Covid-19 pandemic. With the increase in the VAT rate from 5% to 7.5%, the State will be expecting more revenue from VAT.

IGR is projected to increase from N13.147 billion in 2022 to N23.939 billion by 2031 with an average of N19.995 billion, the growth was based on the implementation of treasury single account (TSA), establishment of taxpayer database, the perfection of the TSA, establishment of

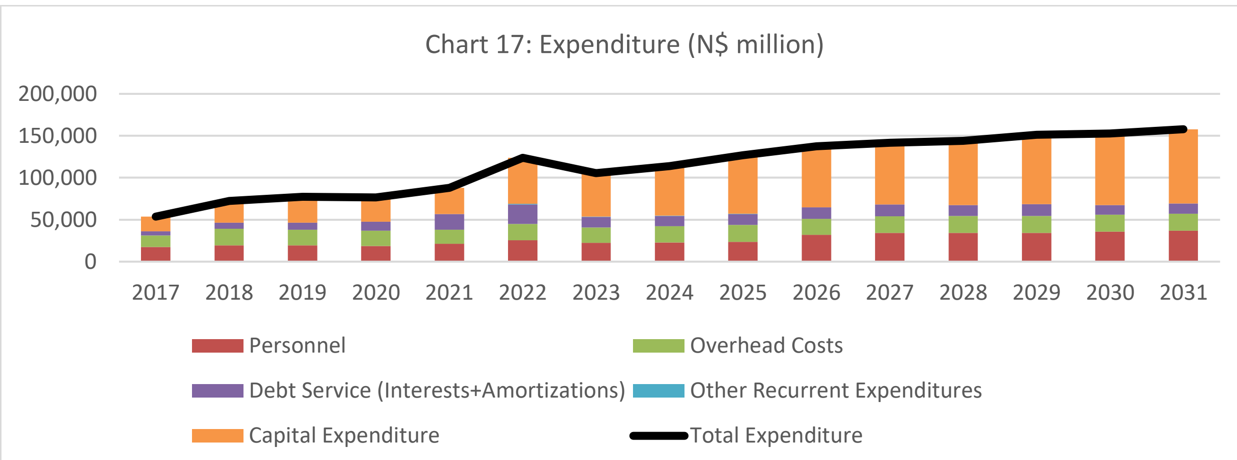
Executive Management Committee, cash to cashless policy, and technical support from development partners towards harmonization/review of tax rate and other efforts focused on blocking leakages and dealing with the phenomena of tax avoidance/evasion.

Grants is projected to be decline from N18.065 billion in 2021 to N17.459 billion in 2031 with an average of N15.450 billion, the maintenance was based on the recent efforts by the State Government on the development of 10-year Development Plan, Development Partners and other donors are expected to key in with more grants in the coming years, hence more grants to State.

The projections were sources from the Approved 2022 Budget; MTEF, 2023-2025; 2026-2031 projections as estimated by the Ministry of Finance and Economic Planning & Budget official.

4.5.2 Projected Expenditure- Chart 17

The Gombe State projected expenditure from 2022 to 2031 is presented in Chart 17 below:



Source: Gombe State DSA-DMS Template, 2022

As a result of the State's modest increase in GDP, great improvement in IGR, increase in Personnel, Overhead costs, and Capital Expenditure. The increased in projected expenditure increase the debt through Primary Balance. In the Baseline Scenario the total expenditure will rise from N123.786 billion in 2022 to N157.840 billion by 2031 with an average of N135.468 billion.

Personnel Costs will also raise from N25.480 billion in 2022 to N36.777 billion by 2031 with an average of N30.187 billion, the increase in the personnel cost for the period under review was due to the minimum wage policy by the Federal Government and the appointment of public service office holders.

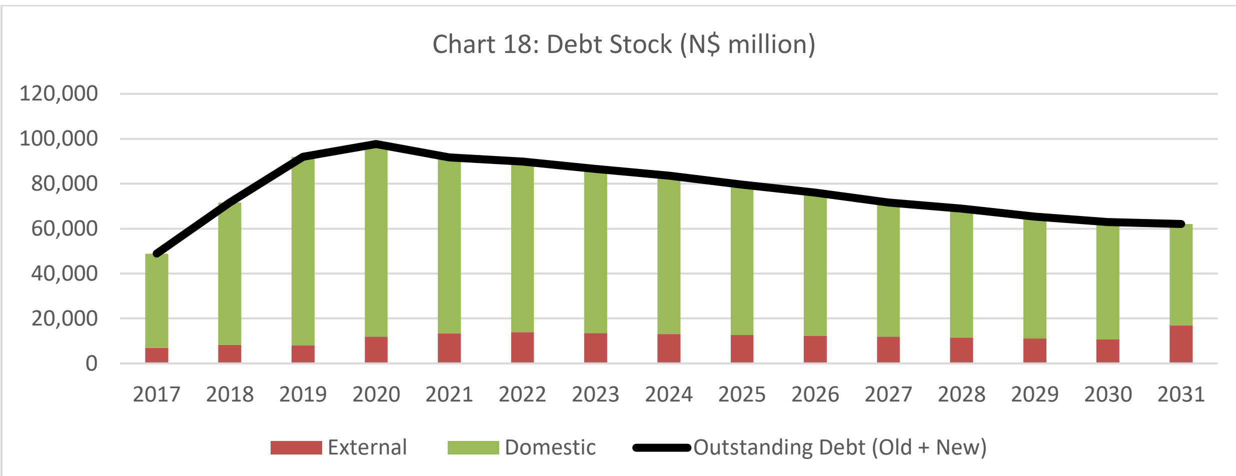
Overhead Costs will also increase from N19.594 billion in 2022 to N20.340 billion by 2031 with an average of N19.668 billion, the increment was based on the day to day running of the Government activities particularly the adverse effect of Covid-19 pandemic and effect of economic recession.

Capital Expenditure will increase from of N54.992 billion in 2022 to N88.370 billion by 2031 with an average of N71.424 billion, the increment was based on State Government intention to embark on more developmental projects due to the expectation in the increase in revenue.

Debt Service (Interest + Amortization) will also fall from N23.189 billion in 2022 to N12.353 billion by 2031, with an average of N13.970 billion, the decrease in the debt services during the period 2021 to 2022 was as a result of increase in revenue and due to the establishment of Arrears Clearance Framework in order to mop up the outstanding arrears which lead to the clearance of the debt by 2026.

4.5.3 Projected Debt Stock- Chart 18

The Gombe State projected debt stock from 2022 to 2031 is presented in Chart 18 below:

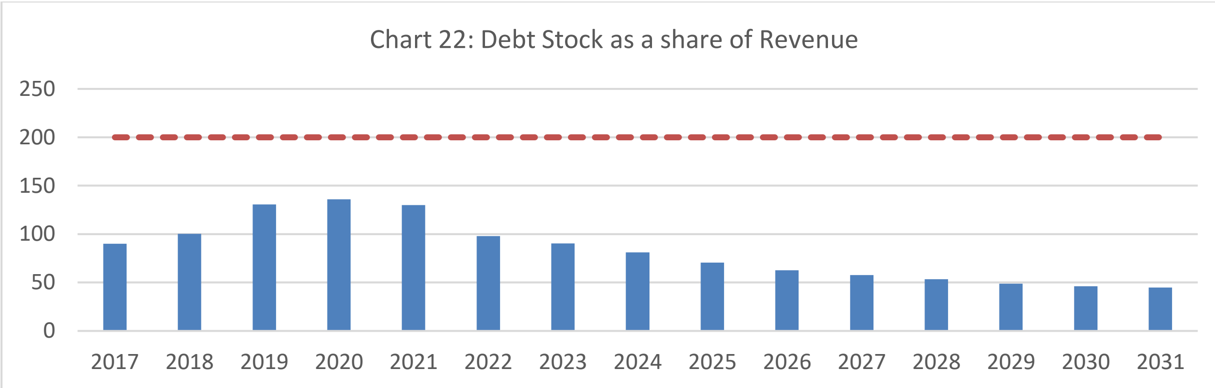


Source: Gombe State DSA-DMS Template, 2022

Gombe State's Debt Stock estimated to decrease from N89.902 billion in 2022 to N62.030 billion in 2031, representing a decrease of N27.872 billion or 31.00 percent over the projection period. Domestic Debt projected to decline by N30.795 billion or 40.56 percent and External Debt to increase by N2.923 billion or 20.91 percent over the projection period.

4.5.4 Projected Debt as a Share of Revenue- Chart 22

The Gombe State projected debt as share of revenue from 2022 to 2031 is presented in Chart 22 below:

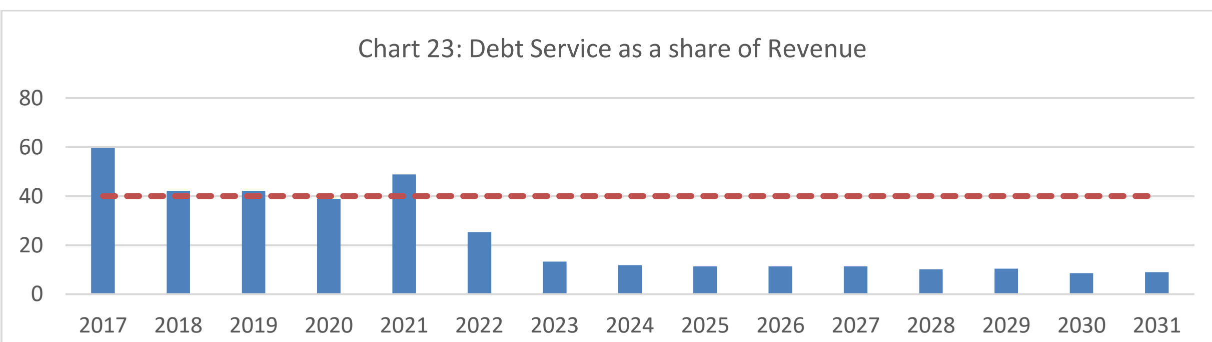


Source: Gombe State DSA-DMS Template, 2022

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 2022 to 2031. However, relative to the State's borrowing capacity, the public debt position will improve: it is expected to decrease from 98 percent of the Revenue in 2022 to 45 percent by 2031 with an average percent of 65%. As the fiscal deficit stabilizes in nominal terms over the next few years, and the public debt ratio improves, the analysis of the Baseline Scenario suggests the State will be able to preserve the sustainability of its debt in the medium-term because it is within the limit of the threshold of 200 percent.

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

The Gombe State projected debt service as share of revenue from 2022 to 2031 is presented in Chart 23 below:



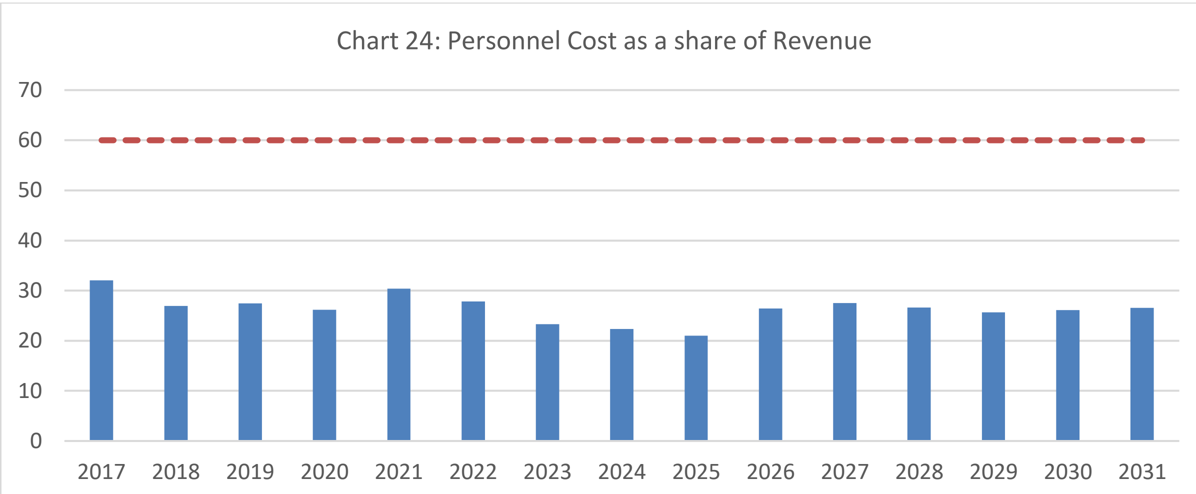
Source: Gombe State DSA-DMS Template, 2022

As a consequence of the modest increase in investment and external borrowings, the public debt service will decline and the State's repayment capacity will fall pari passu. Debt Service is projected to decrease from N23.189 billion as at 2022 to N12.353 billion by 2031 and with average of N6.985 billion. However, relative to the State's repayment capacity, the public debt position will improve: it is expected to decrease from 25 percent of the Debt Service to Revenue in 2022 to 9 percent by 2031 and with average of 12 percent. As the fiscal deficit stabilizes in nominal terms over the next few years, and the public debt service ratio improves, the analysis of the

Baseline Scenario suggests the State will be able to preserve the sustainability of its debt in the medium-term because it is within the limit of the threshold of 40 percent.

4.5.6 Projected Personnel Cost- Chart 24

The Gombe State projected personnel cost from 2022 to 2031 is presented in Chart 24 below:



Source: Gombe State DSA-DMS Template, 2022

Personnel Cost is projected to rise from N25.480 billion as at 31st December 2022 to N36.77 billion by 2031 and with average of N30.187 billion. The personnel cost as share of revenue will decrease from 28 percent in 2022 to 27 percent in 2031 with an average of 25 percent. The analysis of the Baseline Scenario suggests the State will be able to preserve the sustainability of its personnel cost in the medium-term because it is within the limit of the threshold of 60 percent.

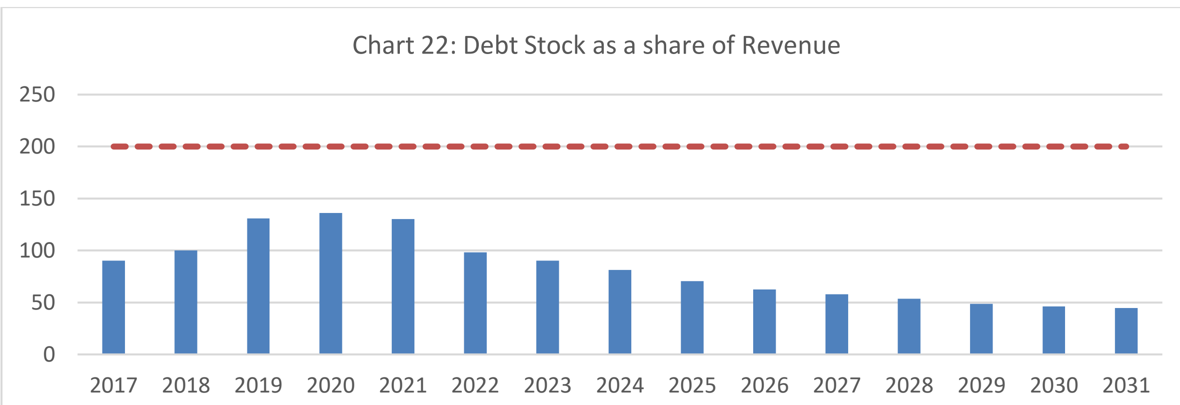
4.6 Main Findings and Conclusion of the Baseline Scenario in Terms of Debt Sustainability

The main findings and conclusion of the Baseline Scenario in terms of sustainability is divided into Projected Debt trend relative to Repayment Capacity (Revenue) going forward (Debt as a Share of Revenue- Chart 22 is 98 percent in 2022 and 45 percent by 2031) and an assessment of Fiscal Deficit and Debt Ratios (Debt Service as a Share of Revenue- Chart 23 is 25 percent in 2022 and 9 percent by 2031) it shows that the State's repayment capacity of the public debt position will improve as against the indicative threshold of 25 percent and 40 percent respectively. Therefore, it is concluded that the State will be able to preserve the sustainability of its debt in the medium-term because it is within the limit of the threshold. The fiscal policy that will be employed by Gombe State Government to stabilize the economy and correct economic imbalance in the period is mobilizing Internally Generated Revenue (IGR) underpinned by the successful tax administration reforms introduced in May 2020 and development of Gombe State 10 years Development Plan, also worthy of mention is the Land Used Charge as a new revenue head embedded with motivators to reduce tax defaulters. The State controls its recurrent expenditure growth and reduces the level of its public debt due to the collapse of oil prices, COVID-19 pandemic and exchange rate fluctuations. Given the State's forecasts for the economy and reasonable assumptions concerning the State's revenue and expenditure policies going forward, the long-term outlook for the public debt appears sustainable.

Therefore, it is concluded that the State will be able to preserve the sustainability of its debt in the medium-term because it is within the limit of the thresholds. In summary (page 14, above) based on the analyses from the Baseline Scenario it is indicated that the State debt is affordable and resilient to shocks over the medium term which is evidenced by the Reference Strategy 1 and Strategy 3, the most efficient strategy is Strategy 3 because the cost and the risk are low, therefore, with this the State is more resilient to shocks with the choosen Strategy 3 apart from the First Strategy. The State will be able to preserve its debt sustainability by applying Strategy 3 and also by following the Reference Strategy (Strategy 1).

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

The Gombe State projected debt as share of revenue from 2022 to 2031 is presented in Chart 22 below:

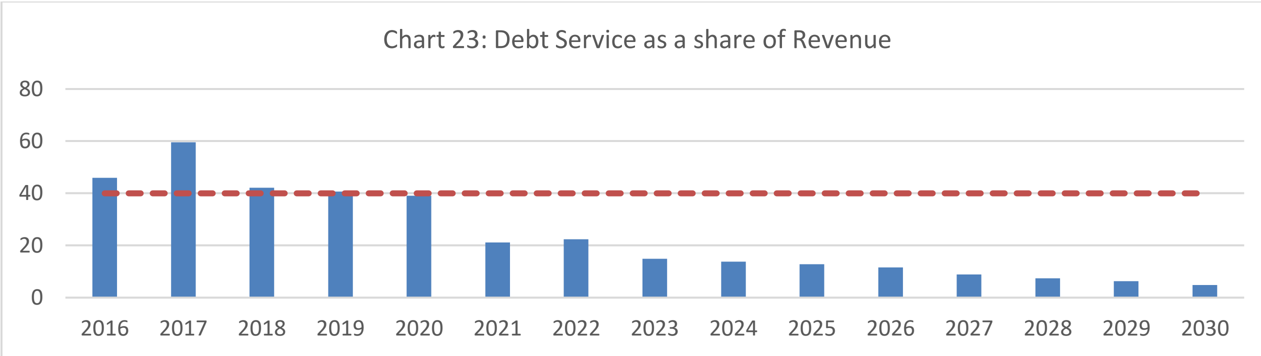


Source: Gombe State DSA-DMS Template, 2022

The State's repayment capacity of the public debt position will improve from 98 percent of the Revenue in 2022 to 45 percent by 2031; the fiscal deficit stabilizes in nominal terms over the next few years. From Chart 22-the analysis of the Baseline Scenario concluded that the State will be able to preserve the sustainability of its debt in the medium-term because it is within the limit of the threshold of 200 percent.

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

The Gombe State projected debt service as share of revenue from 2022 to 2031 is presented in Chart 23 below:

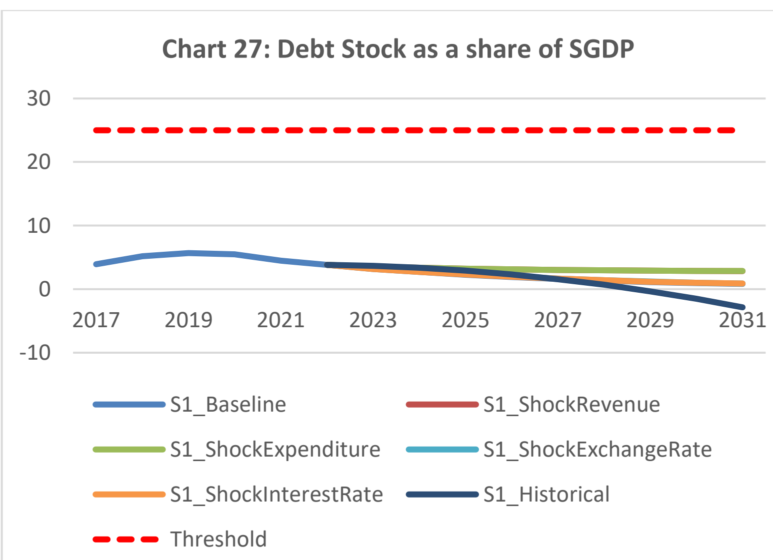


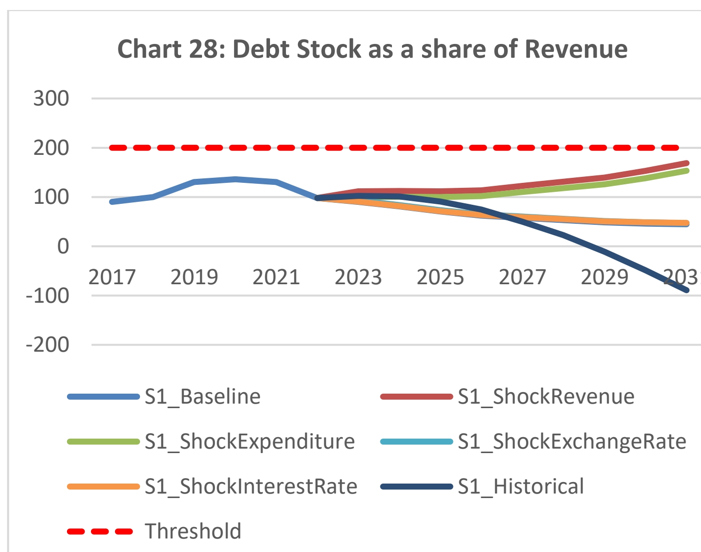
Source: Gombe State DSA-DMS Template, 2022

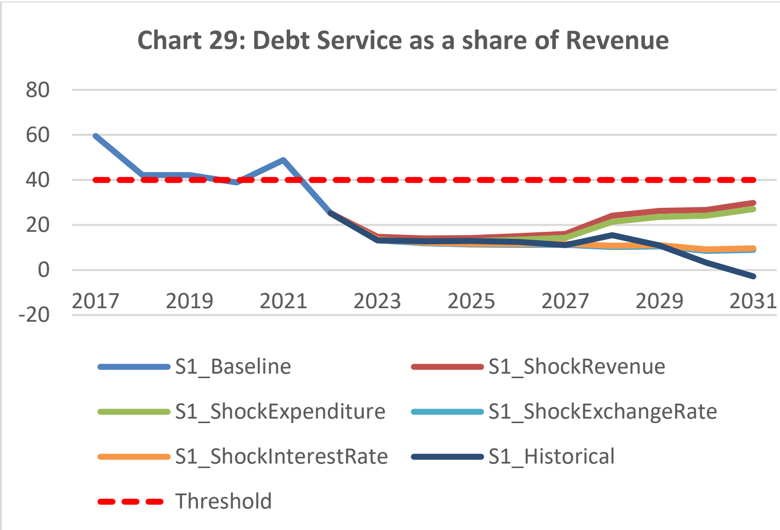
The State's repayment capacity of the public debt service position will improve from 21 percent of the Revenue in 2022 to 5 percent by 2031; the fiscal deficit stabilizes in nominal terms over the next few years. From Chart 23- the analysis of the Baseline Scenario concluded that the State will be able to preserve the sustainability of its debt Service in the medium-term because it is within the limit of the threshold of 40 percent.

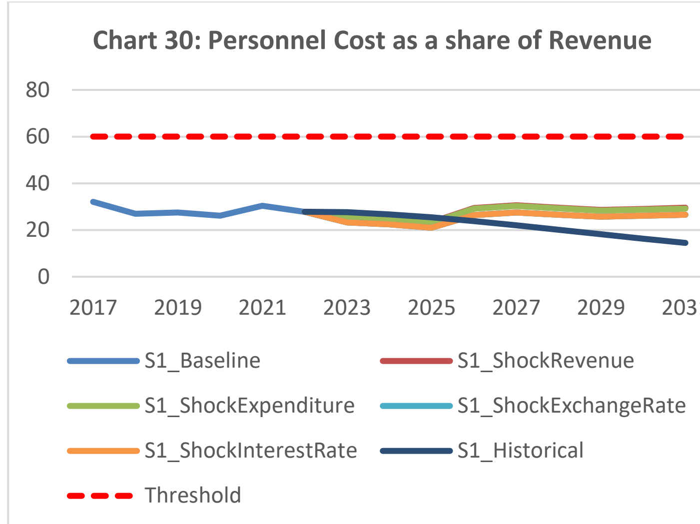
4.7 DSA Sensitivity Analysis (Shock Analysis)

This section 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, 2022

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 98% in 2022 and grows to 169% in 2031 and with average of 126%, while debt service to revenue starts at 25% in 2022 and rise to 30% in 2031 with an average of 21%, whereas, personnel cost to revenue for 2022 was 28% and rise to 29% in 2031 with an average of 28%. All the percentages are below the threshold which indicates that the shock to revenue of the State is sustainable.

4.7.2 Expenditure Shock

After taking into consideration the macroeconomics shocks and policy shocks it can be evaluated that the robustness for the State sustainability assessment for the Baseline scenario indicate that the expenditure shock is below the threshold of 200%, 40% and 60% for debt to revenue, debt service to revenue and personnel cost to revenue respectively. The shock expenditure for debt to revenue start from 98% in 2022 and grows to 153% in 2031 with an average of 115%, while debt service to revenue starts at 25% in 2022 and rises to 27% in 2031 with an average of 19%, whereas, personnel cost to revenue for 2022 was 28% and rise to 29% in 2031 with an average of 28%. All the percentages are below the threshold which indicates that the shock to revenue of the State is sustainable.

4.7.3 Exchange Rate Shock

After taking into consideration the macroeconomics shocks and policy shocks it can be evaluated that the robustness for the State sustainability assessment for the Baseline scenario indicate that the exchange rate shock is below the threshold of 200%, 40% and 60% for debt to revenue, debt service to revenue and personnel cost to revenue respectively. The shock exchange rate for debt to revenue start from 98% in 2022 and drops to 47% in 2031 with an average of 67%, while debt service to revenue starts at 25% in 2022 and drops to 9% in 2031 with an average of 12%, whereas, personnel cost to revenue for 2022 was 28% and drop to 27% in 2031 with an average of 25%. All the percentages are below the threshold which indicates that the shock to exchange rate of the State is sustainable.

4.7.4 Interest Rate Shock

Also, after taking into consideration the macroeconomics shocks and policy shocks it can be evaluated that the robustness for the State sustainability assessment for the Baseline scenario indicate that the interest rate shock is below the threshold of 200%, 40% and 60% for debt to revenue, debt service to revenue and personnel cost to revenue respectively. The shock interest rate for debt to revenue start from 98% in 2022 and drops to 48% in 2031 with an average of 67%, while debt service to revenue starts at 25% in 2022 and drops to 10% in 2031 with an average of 13%, whereas, personnel cost to revenue for 2022 was 28% and drop to 27% in 2031 with an average of 25%. All the percentages are below the threshold which indicates that the shock to interest rate of the State is sustainable.

4.7.5 Historical Shock

Finally, after taking into consideration the macroeconomics shocks and policy shocks it can be evaluated that the robustness for the State sustainability assessment for the Baseline scenario indicate that the historical shock is below the threshold of 200%, 40% and 60% for debt to revenue, debt service to revenue and personnel cost to revenue respectively. The historical shock for debt to revenue start from 98% in 2021 and drops to -89% in 2031 with an average of 39%, while debt service to revenue starts at 25% in 2022 and drops to -3% in 2031 with an average of 10%, whereas, personnel cost to revenue for 2022 was 28% and dropped to 14% in 2031 with an average of 22%. All the percentages are below the threshold which indicates that the shock to interest rate of the State is sustainable.

Chapter Five
Debt Management Strategy

5.0 Introduction

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

To assess the debt management strategies outcome, three debt performance indicators were utilized, "Debt Stock as a share of Revenue, Debt Service as a share of Revenue and Interest as a share of Revenue". However, the cost for DMS is measured by the expected value of a performance indicator in 2026 (as projected in the baseline scenario), while Risk for DMS is measured by the deviation from the expected value in 2026 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 18.5% with 3 years and 6 years maturity and through bond with 5 years and 7 years maturity at an expected interest rate of 15.5%, also the State planned to borrow externally through concessional loans. The State proposed three alternative strategies (S2, S3, and S4) which consider the cost and risk and in order to mitigate certain risks (currency, interest rate and rollover), to develop domestic debt markets, to fund specific expenses (such as capital investments), and to secure liquid assets for cash management.

Strategy 1 (S1) reflects a "Baseline" MTEF Financing Mix: It follows the broad parameters of the financing mix in the fiscal year 2022 and MTEF, 2023-2025. External gross borrowing under Concessional loans accounts on average 6.05 percent over the strategic period mainly through World Bank and African Development Bank. The Domestic gross financing comprises commercial bank loans, State bonds and other domestic financing. The Domestic Financing under the Commercial Bank loans (maturity of 1-5 years) accounts on average 22.80 percent, Commercial Bank loans (maturity above 6 years) accounts on average 22.56 percent, and Other Domestic Financing accounts (state bond) on average of 42.05 percent over the DMS period of 2022 to 2031. Also, all the borrowing options were combined, where the State Government plans to cover the gross financing needs between 2022 and 2031 through borrowing the sum of N2.707 billion, N5.206 billion, N4.308 billion in 2025, 2028 and 2030 respectively through commercial bank with 3 years maturity, N2.714 billion, N4.090 billion and N5.285 billion in 2023, 2027 and 2029 respectively through commercial with 7 years maturity, N2.843 billion and N4.306 billion in 2024 and 2026 respectively on through State bond with 5 years maturity, N15.384 billion in 2022 through State bond with 7 years maturity and finally $16 million in 2031 through concessional loan.

Strategy 2 (S2) focus on financing through commercial bank loans: In this strategy it has been assumed the distribution between commercial bank with 5 years and 7 years maturity, where the State plans to cover the gross financing needs between 2022 and 2031. The borrowing distributions from 2022 to 2031, the State government will focus its financing through commercial bank loans with average 54.76 percent under maturity of above 6 years and 45.24 percent under maturity of 1-5 years over the strategic period. The State plans to cover the gross financing needs between 2022 and 2031 through borrowing the sum of N3.390 billion, N5.207 billion, N6.323 billion, N5.969 billion, and N9.038 billion in 2024, 2026, 2028, 2030, and 203 respectively through commercial bank with 3 years maturity, N115.384 billion, N3.176 billion, N3.924 billion, N6.025 billion and N7.717 billion in 2022, 2023, 2025, 2027 and 2028 respectively through commercial bank with 7 years maturity.

Strategy (S3) focus its financing through domestic debt market (State bond). In strategy 3, the government decided to focus more of its financing from 2022 to 2031, through Commercial Bank (6 years and above), State Bonds (above 6 years), with an average of 34.95 percent and 65.05 percent, respectively. The State plans to cover the gross financing needs between 2022 and 2031 through borrowing the sum of N2.714 billion, N2.544 billion, N3.600 billion, N4.040 billion, and N3.103 billion in 2023, 2025, 2026, 2028, and 2030 respectively through Commercial Bank with maturity of 6 years and above, N15.384 billion, N2.843 billion, N3.160 billion, N3.848 billion and N4.542 billion in 2022, 2024, 2027, 2029 and 2031 respectively through State Bond with 7 years maturity.

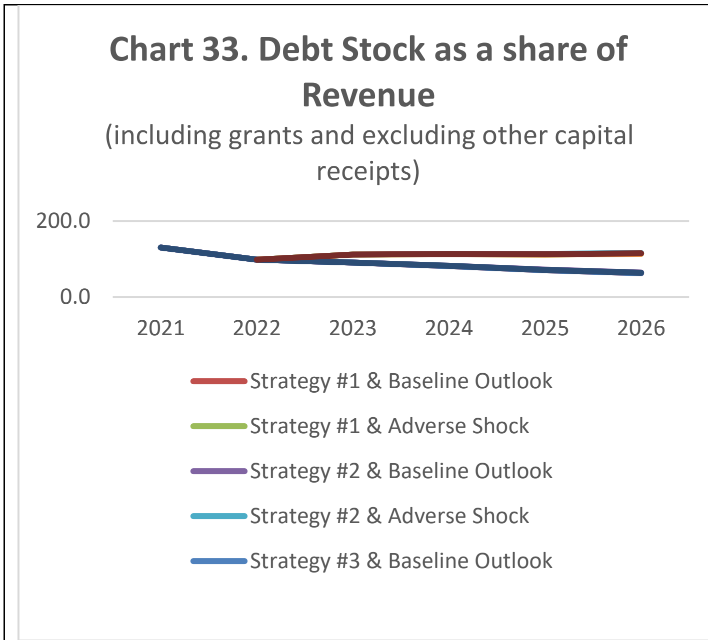
Strategy (S4) focus its financing through one to five years facility. This Strategy (S4) considers the scenario where proportions of commercial bank (1-5 years) and State bond (1-5 years), with an average of 53.99 percent and 46.01 percent, respectively. The State plans to cover the gross financing needs between 2022 and 2031 through borrowing the sum of N15.384 billion, N6.905 billion, N5.730 billion, N5.002 billion and N6.929 billion in 2022, 2024, 2027, 2029 and 2031 respectively through commercial bank with 3 years maturity, N6.106 billion, N8.613 billion, N5.675 billion, N5.917 billion and N7.735 billion in 2023, 2025, 2026, 2028 and 2030 respectively through State bond with 5 years maturity.

5.2 DMS Simulation Results

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



Source: Gombe State Forecasts, 2022

Source: Gombe State Forecasts, 2022

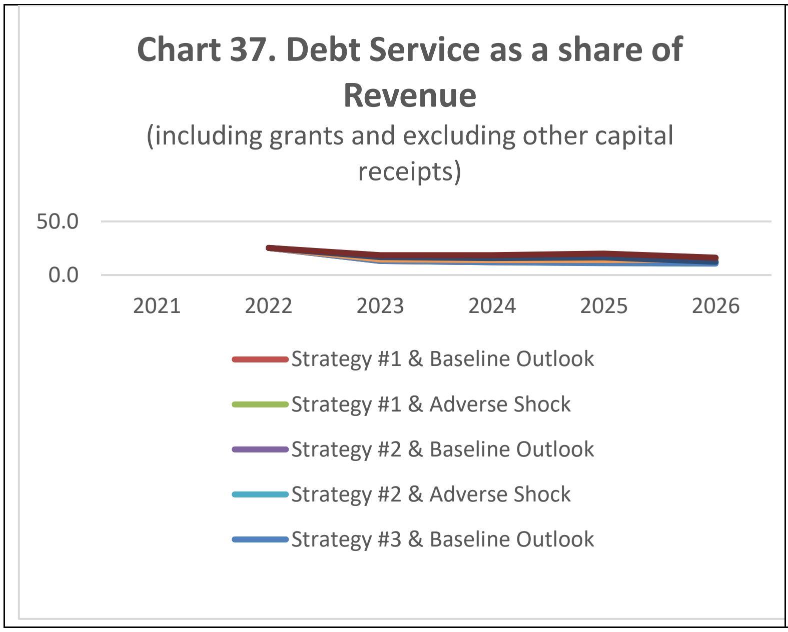
The result on Debt as share of Revenue indicates that:

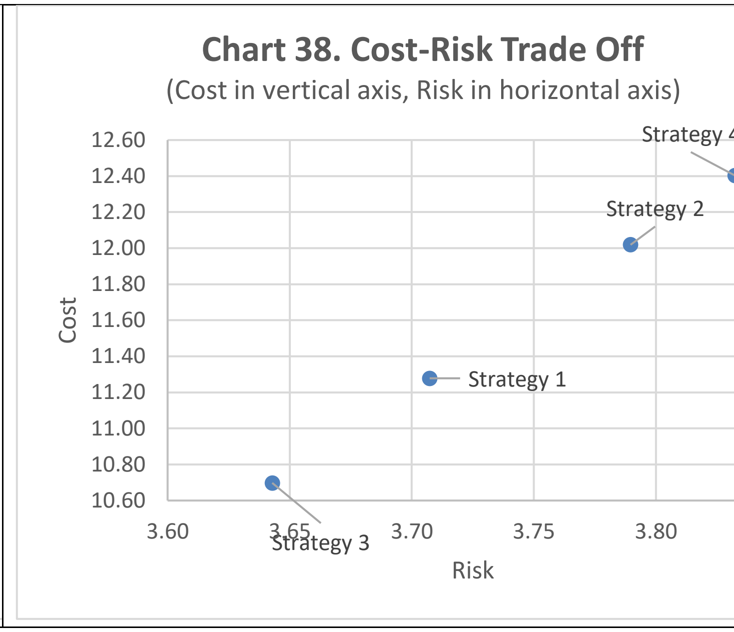
1. Reference Debt Strategy (S1): the cost is 62.5% with adverse shock of 113.7% and risk at 51.2%.
2. Alternative Strategy (S2): the cost is 64.3% with adverse shock of 115.7% and risk at 51.4%.
3. Alternative Strategy (S3): the cost is 62.5% with adverse shock of 113.7% and risk at 51.2%.
4. Alternative Strategy (S4): the cost is 63.6% with adverse shock of 114.9% and risk at 51.3%.

To compare between the referenced strategy (S1) and alternative strategies (S2, S3, and S4), the result indicated that Debt/Revenue of the alternative Debt Strategy (S3) has the lowest cost, adverse shock and risk of 62.5%, 113.7% and 51.2% respectively, compared to other alternative strategies (S3 and S4) but has the same with referenced strategy (S1).

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 Forecasts, 2022

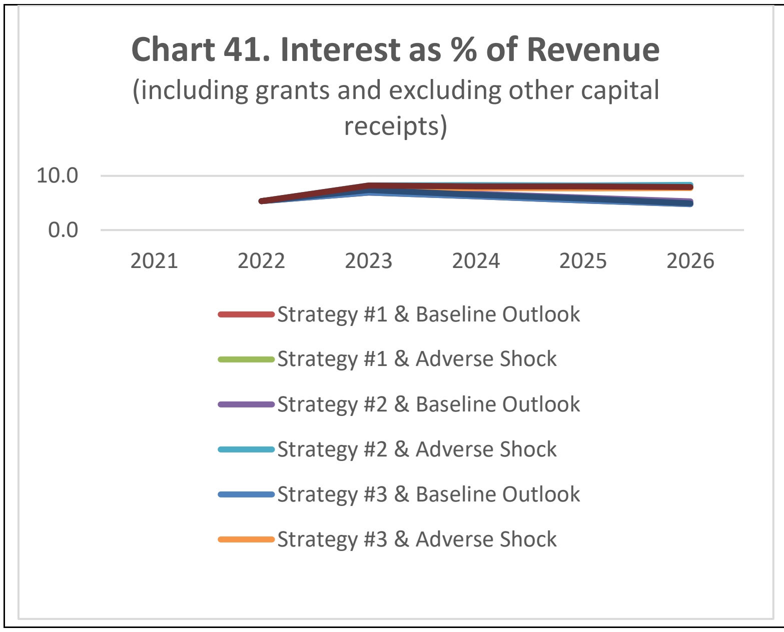
The result on Debt Service as share of Revenue indicates that:

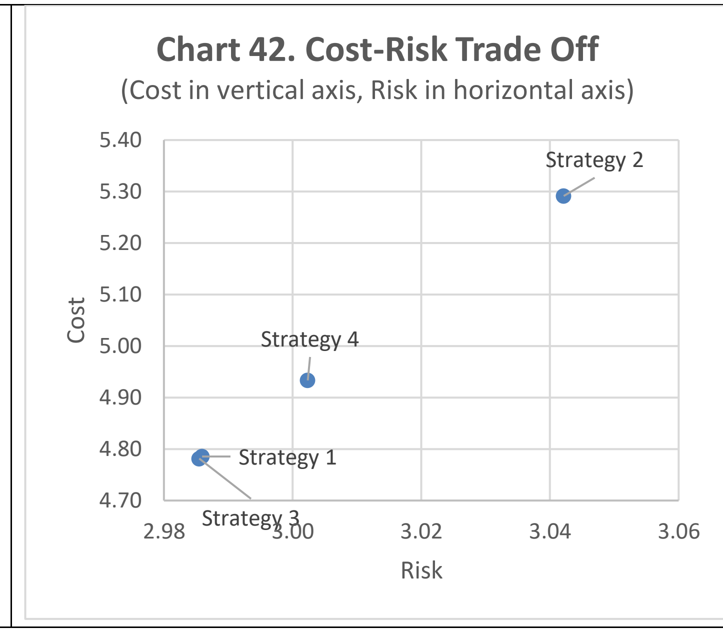
1. Reference Debt Strategy (S1): the cost is 11.3% with adverse shock of 15.0% and risk at 3.7%.
2. Alternative Strategy (S2): the cost is 12.0% with adverse shock of 15.8% and risk at 3.8%.
3. Alternative Strategy (S3): the cost is 10.7% with adverse shock of 14.3% and risk at 3.6%.
4. Alternative Strategy (S4): the cost is 12.4% with adverse shock of 16.2% and risk at 3.8%.

To compare between the referenced strategy (S1) and alternative strategies (S2, S3, and S4), the result indicated that the Debt Service/Revenue of the alternate Strategy (S3) has the lowest cost, adverse shock and risk of 10.7%, 14.3% and 3.6% respectively, compared to referenced strategy (S1) and alternative strategies (S2 and S4).

5.2.3 Interest/Revenue

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





Source: Gombe State Forecasts, 2022

The result on Interest as share of Revenue indicates that:

1. Reference Debt Strategy (S1): the cost is 4.8% with adverse shock of 7.8% and risk at 3.0%.
2. Alternative Strategy (S2): the cost is 5.3% with adverse shock of 8.3% and risk at 3.0%.
3. Alternative Strategy (S3): the cost is 4.8% with adverse shock of 7.8% and risk at 3.0%.
4. Alternative Strategy (S4): the cost is 4.9% with adverse shock of 7.9% and risk at 3.0%.

To compare between the referenced strategy (S1) and alternative strategies (S2, S3, and S4), the result indicated that the Debt Service/Revenue of the alternate Strategy (S3) has the lowest cost, adverse shock and risk of 4.8%, 7.8% and 3.0% respectively, compared to referenced strategy (S1) and alternative strategies (S2 and S4).

5.2.4 DMS Assessment

The preferred strategy was not solely based on the Analytical Tool assessment of all four strategies but took into consideration the ability to implement the chosen strategy successfully in the medium-term. Therefore, although the Analytical Tool's results of costs and risks would suggest that the recommended strategy be S3 these results were just marginally better when compared with referenced strategy (S1) and alternative strategies (S2 and S4). **Strategy 3 was considered as the most feasible of the strategies to implement in the short to medium-term and it would still greatly improve the portfolio's debt position relative to the base year 2021**.

In comparison to the current debt position, Gombe State debt portfolio stood at N91.727 billion as at end-2021, which expected to reduce to N45.784 billion under Strategy 3 to the end of the strategic period, compared to Strategy 1 (N53.597 billion), Strategy 2 (N66.158 billion), and

Strategy 4 (N74.000 billion). In addition to this, the cost/risk trade-offs are considered, using the debt to GDP, debt to revenue, debt service to GDP, debt service to revenue, interest to GDP and interest payment to GDP ratios, S3 is selected as the preferred strategy for the 2022-2025.

The Debt Management Strategy, 2022-2026 represents a robust framework for prudent debt management, as it provides a systematic approach to decision making on the appropriate composition of external and domestic borrowing to finance the 2022 budget. The cost-risk trade-off of alternative borrowing strategies under the DMS has been evaluated within the medium-term context.

The report concluded that, as well as the efforts made by the Nigerian government to improve the non-oil revenue such as 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 2022 to 2031, 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

2022			
		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 calcultaed base on the National GDP taking into consideration the average changes in the National GDP	Word Bank/DMO Estimate
Revenue	**Revenue**		
	1. Gross Statutory Allocation ('gross' means with no deductions; do not include VAT Allo	The estimatation is based on an elasticity forecast (National macro-economic, mineral assumptions in the FGN MTEF/FSP 2022-2024 framework). Its also from historical mineral revenues flows, National real GDP and inflation and Nigeria Governor's Forum Secretariat. Whereas from 2025 to 2030 an average increase was proposed, derived from the average percentage of 2023 to 2025 amount after considering Economic situatio of the country (Expecting the economy growth will improve).	Audited Financial Report/ MTEF
	1.a. of which Net Statutory Allocation ('net' means of deductions)		
	1.b. of which Deductions		
	2. Derivation (if applicable to the State)		
	3. Other FAAC transfers (exchange rate gain, augmentation, others)	The estimation of other FAAC transfer was based on the expected economic situation in the country i.e Inflation rate, Covid-19 pandemic and the recession, from 2026 to 2031 its with the hope the economy will improve therefore an increament was proposed.	Audited Financial Report/ MTEF
	4. VAT Allocation	VAT - is based on elasticity forecast using the combined change in GDP and inflation rate. The estimate for 2022-2024 is in line with the current rate of collections which is 7.5% as approved by the National Assembly. Whereas from 2026 to 2031 an average increase was proposed, derived from the average percentage of 2023 to 2025 amount and expecting economic improvement.	Audited Financial Report/ MTEF
	5. IGR	The estimation is based on own percentage taking into consideration the economic activity of the State, reform of revenue administration and the impact of inflation and COVID-19. Whereas from 2026 to 2031 an average increase was proposed, the percentage was derived from the average percentage of 2023 to 2025 amount and with the implementation of treasury single account, establishment of taxpayer database, the perfection of the TSA, establishment of Executive Management Committee, cash to cashless policy, and technical support from development partners towards harmonization/review of tax rate and other efforts focused on blocking leakages and dealing with the phenomena of tax avoidance/evasion, the collection will improve .	Audited Financial Report/ MTEF
	6. Capital Receipts		Audited Financial Report/ MTEF
	6.a. Grants	Grants are largely from Local Government contributions to the State Infrastructure and social sector projects and UBE. Whereas from 2026 to 2031 an average increase was proposed, derived from the average percentage of 2023 to 2025 amount and with the recent efforts on State Governmentdevelopment of 10-year development plan, however, donors are expected to key in with more grants in the coming years .	Audited Financial Report/ MTEF
	6.b. Sales of Government Assets and Privatization Proceeds		
	6.c. Other Non-Debt Creating Capital Receipts		
Expenditure	**Expenditure**		
	1. Personnel costs (Salaries, Pensions, Civil Servant Social Benefits, other)	The Personnel cost is anticipated to remain the same occasioned by COVID-19 Pandemic which is estimated as 3% for 2022-2024 and based on the State MTEF 2023-2025. Whereas from 2026 to 2031 an average increase was proposed, derived from the average percentage of 2023 to 2025 amount and personnel cost is expected to grow in the period under review due to the minimum wage policy by the Federal Government and the appointment of public service office holders.	Audited Financial Report/ MTEF
	2. Overhead costs	The State overhead costs increased exponentially in 2018 by 17.13% but the current administration is reducing cost of governance for capital investment from 2019 forward. Whereas from 2026 to 2031 an average increase was proposed, derived from the average percentage of 2023 to 2025 amount which is based on MTEF 2023-2025 and the increament 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 Alloca	The Interest payment is based on the amortization schedule of each facility	Audited Financial Report/ MTEF/Amortization Schedule
	4. Other Recurrent Expenditure (Excluding Personnel Costs, Overhead Costs and Interest Payments)		
	5. Capital Expenditure	It is based on the balance from the recurrent account plus capital receipts and is in the form of discretional and non-discretional capital expenditure. Whereas from 2026 to 2031 an average increase was proposed, derived from the average percentage of 2023 to 2025 amount which is based on 2023-2025 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 method used to ascertain the closing cash and bank balance was based on ecomomic 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, 2022 is based on the budget while from 2023 to 2025 is based on MTEF, while from 2026 to 2031 is based on average percentage from the the previous closing cash and bank balances	Audited Financial Report/ MTEF
Debt Amotization and Interest Payments	**Debt Outstanding at end-2021**		
	External Debt - amortization and interest	The Gombe State External debt are mainly from world bank and african development banks at an aveage interest rate of 0.98%, while some debt are concessional, the average period is 30years	Audited Financial Report/ MTEF/Amortization Schedule
	Domestic Debt - amortization and interest	The Gombe State Domestic debt are mainly from commercial banks and federal government of Nigeria, the aveage interest rate of 18.5%,, the average period is 3years for short term and seven years for long term	Audited Financial Report/ MTEF/Amortization Schedule
	New debt issued/contracted from 2022 onwards		
	New External Financing		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	The State Government is planning to borrow $6.3 in 2022 at an avrage interest rate of 0.98% with 30 years maturity period and 6 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 Loan	The Commercial Banbk has an average period of 3 years for short-term which is at average interest rate of 15.5%	Audited Financial Report/ MTEF
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure	The Commercial Banbk has an average period of 7 years for long-term which is at average interest rate of 15.5%	Audited Financial Report/ MTEF
	State Bonds (maturity 1 to 5 years)	The State Bond has an average period of 5 years for short term and it is at 15.5% and will be from capital market	Audited Financial Report/ MTEF
	State Bonds (maturity 6 years or longer)	The State Bond has an average period of 7 years for long term and it is at 15.5% and will be from capital market	Audited Financial Report/ MTEF
	Other Domestic Financing	No plan for other domestic financing	Audited Financial Report/ MTEF

Proceeds from Debt-Creating Borrowings	**Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S1**		
corresponding to Debt Strategy S1	**New Domestic Financing in Million Naira**		
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loan	The short-term commercial bank is planned to be at 18.5% interest rate with an average period of 3 years, the State has plan to borrow from commercial bank at this strategy	Audited Financial Report/ MTEF
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure	The long-term commercial bank is planned to be at 18.5% interest rate with an average period of 5 years, the State has plan to borrow from commercial bank at this strategy	Audited Financial Report/ MTEF
	State Bonds (maturity 1 to 5 years)	The short-term State Bond is planned to be at 15.5% interest rate with an average period of 5 years, the State has plan to borrow from capital market at this strategy	Audited Financial Report/ MTEF
	State Bonds (maturity 6 years or longer)	The long-term State Bond is planned to be at 15.5% interest rate with an average period of 7 years, the State has plan to borrow from capital market at this strategy	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 at an avrage interest rate of 0.98% with 30 years maturity period and 6 years grace period.	Audited Financial Report/ MTEF
	External Financing - Bilateral Loans	The State has no any plan for Bilateral loans	Audited Financial Report/ MTEF
	Other External Financing	No Plan for other external financing	Audited Financial Report/ MTEF
Proceeds from Debt-Creating Borrowings	**Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S2**		
corresponding to Debt Strategy S2	**New Domestic Financing in Million Naira**		
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loan	The short-term commercial bank is planned to be at 18.5% interest rate with an average period of 3 years, the State has plan to borrow from commercial bank at this strategy	Audited Financial Report/ MTEF
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure	The short-term commercial bank is planned to be at 18.5% interest rate with an average period of 3 years, the State has plan to borrow from commercial bank at this strategy	Audited Financial Report/ MTEF
	State Bonds (maturity 1 to 5 years)	No plan for this at this strategy	Audited Financial Report/ MTEF
	State Bonds (maturity 6 years or longer)	No plan for this at this strategy	Audited Financial Report/ MTEF
	Other Domestic Financing	No plan for this at this strategy	Audited Financial Report/ MTEF
	New External Financing in Million US Dollar		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	No plan for this at this strategy	Audited Financial Report/ MTEF
	External Financing - Bilateral Loans	No plan for this at this strategy	Audited Financial Report/ MTEF
	Other External Financing	No plan for this at this strategy	Audited Financial Report/ MTEF
Proceeds from Debt-Creating Borrowings	**Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S3**		
corresponding to Debt Strategy S3	**New Domestic Financing in Million Naira**		
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loan	No plan for this at this strategy	Audited Financial Report/ MTEF
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure	The long-term commercial bank is planned to be at 18.5% interest rate with an average period of 5 years, the State has plan to borrow from commercial bank at this strategy	Audited Financial Report/ MTEF
	State Bonds (maturity 1 to 5 years)	No plan for this at this strategy	Audited Financial Report/ MTEF
	State Bonds (maturity 6 years or longer)	The long-term State Bond is planned to be at 15.5% interest rate with an average period of 7 years, the State has plan to borrow from capital market at this strategy	Audited Financial Report/ MTEF
	Other Domestic Financing	No plan for this at this strategy	Audited Financial Report/ MTEF
	New External Financing in Million US Dollar		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	No plan for this at this strategy	Audited Financial Report/ MTEF
	External Financing - Bilateral Loans	No plan for this at this strategy	Audited Financial Report/ MTEF
	Other External Financing	No plan for this at this strategy	Audited Financial Report/ MTEF
Proceeds from Debt-Creating Borrowings	**Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S4**		
corresponding to Debt Strategy S4	**New Domestic Financing in Million Naira**		
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loan	The short-term commercial bank is planned to be at 18.5% interest rate with an average period of 3 years, the State has plan to borrow from commercial bank at this strategy	Audited Financial Report/ MTEF
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure	No plan for this at this strategy	Audited Financial Report/ MTEF
	State Bonds (maturity 1 to 5 years)	The short-term State Bond is planned to be at 15.5% interest rate with an average period of 5 years, the State has plan to borrow from capital market at this strategy	Audited Financial Report/ MTEF
	State Bonds (maturity 6 years or longer)	No plan for this at this strategy	Audited Financial Report/ MTEF
	Other Domestic Financing	No plan for this at this strategy	Audited Financial Report/ MTEF
	New External Financing in Million US Dollar		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	No plan for this at this strategy	Audited Financial Report/ MTEF
	External Financing - Bilateral Loans	No plan for this at this strategy	Audited Financial Report/ MTEF
	Other External Financing	No plan for this at this strategy	Audited Financial Report/ MTEF

Annex II: Historical and projections of the S1_Baseline Scenario

Indicator	Actuals					Projections									
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
BASELINE SCENARIO															
Economic Indicators															
State GDP (at current prices)	1,239,249.37	1,383,165.02	1,620,483.73	1,787,083.21	2,039,914.70	2,350,878.04	2,719,904.42	3,085,070.33	3,497,235.73	3,964,466.42	4,494,119.13	5,094,533.45	5,775,163.12	6,546,724.91	7,421,367.36
Exchange Rate NGN/US$ (end-Period)	253.19	305.79	306.50	326.00	379.00	410.00	410.00	410.00	410.00	410.00	410.00	410.00	410.00	410.00	410.00
Fiscal Indicators (Million Naira)															
Revenue	**58,998.40**	**77,368.00**	**82,212.40**	**80,713.90**	**82,609.99**	**116,998.71**	**108,597.15**	**115,736.97**	**125,668.33**	**137,380.89**	**139,558.17**	**145,832.16**	**151,373.86**	**152,907.54**	**157,840.29**
1. Gross Statutory Allocation ('gross' means with no deductions; do not include VAT Allocation here)	26,707.63	40,051.56	38,784.81	32,076.46	32,166.05	36,000.00	43,196.77	48,580.85	53,141.83	55,798.92	56,914.90	60,329.79	64,552.88	64,843.94	66,502.38
1.a. of which Net Statutory Allocation ('net' means of deductions)	26,707.63	40,051.56	38,784.81	32,076.46	32,166.05	36,000.00	43,196.77	48,580.85	53,141.83	55,798.92	56,914.90	60,329.79	64,552.88	65,843.94	66,502.38
1.b. of which Deductions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Derivation (if applicable to the State)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Other FAAC transfers (exchange rate gain, augmentation, others)	12,567.00	10,181.29	7,686.84	3,831.96	3,570.52	6,401.50	4,600.00	4,500.00	3,500.00	5,304.50	5,463.64	5,627.54	5,796.37	5,970.26	6,149.37
4. VAT Allocation	9,073.34	10,145.74	10,940.65	13,377.88	18,999.82	18,000.00	17,579.98	21,599.39	26,517.33	23,880.64	24,000.05	24,120.05	24,240.65	24,361.85	24,483.66
5. IGR	5,492.28	7,490.37	6,832.03	8,637.43	10,023.30	13,147.27	13,255.88	14,912.78	16,776.88	23,349.65	23,466.40	23,583.73	23,701.65	23,820.15	23,939.26
6. Capital Receipts	5,158.10	9,499.00	17,968.10	22,790.20	17,850.31	43,449.94	29,964.53	26,143.95	25,732.29	29,047.17	29,713.19	32,171.05	33,082.32	33,911.34	36,765.63
6.a. Grants	408.69	3,593.03	6,119.73	13,829.10	5,731.20	18,065.00	17,250.00	13,300.00	13,000.00	13,325.00	13,991.25	15,110.55	15,714.97	17,286.47	17,459.33
6.b. Sales of Government Assets and Privatization Proceeds	0.00	0.00	5,695.20	5,551.13	7,949.20	5,000.00	5,000.00	5,000.00	5,025.00	5,050.13	5,075.38	5,100.75	5,126.26	5,151.89	5,177.65
6.c. Other Non-Debt Creating Capital Receipts	4,749.43	5,905.94	6,153.16	3,410.00	4,169.91	5,000.00	5,000.00	5,000.00	5,000.00	6,365.40	6,556.36	6,753.05	6,955.64	7,164.31	7,379.24
6.d. Proceeds from Debt-Creating Borrowings (bond issuance, loan disbursements, etc.)	0.00	0.00	0.00	0.00	0.00	15,384.94	2,714.53	2,843.95	2,707.29	4,306.65	4,090.20	5,206.69	5,285.45	4,308.67	6,749.41
Expenditure	**53,651.30**	**72,280.50**	**77,291.00**	**76,726.71**	**88,161.04**	**123,786.11**	**105,597.15**	**113,736.97**	**126,668.33**	**137,380.89**	**141,558.17**	**143,832.16**	**151,373.86**	**152,907.54**	**157,840.29**
1. Personnel costs (Salaries, Pensions, Civil Servant Social Benefits, other)	17,396.48	19,276.64	19,330.17	18,775.90	21,437.75	25,480.09	22,343.88	23,014.20	23,704.62	32,160.31	34,089.92	34,260.37	34,431.68	35,603.83	36,776.85
2. Overhead costs	13,872.07	19,876.85	18,715.96	18,273.60	16,506.27	19,593.88	18,266.38	19,179.70	20,138.68	18,809.94	19,938.53	20,038.23	20,138.42	20,239.11	20,340.30
3. Interest Payments (Public Debt Charges, including interests deducted from FAAC Allocation)	3,554.32	3,738.70	4,214.57	4,800.01	5,425.12	4,889.72	6,628.16	6,418.65	6,154.14	5,821.96	5,444.38	5,199.12	5,108.76	4,878.77	4,773.89
3.a. of which Interest Payments (Public Debt Charges, excluding interests deducted from FAAC Allocation)	44.59	177.83	238.50	616.68	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3.b. of which Interest deducted from FAAC Allocation	3,509.73	3,560.87	3,976.07	4,183.33	5,425.12	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Other Recurrent Expenditure (Excluding Personnel Costs, Overhead Costs and Interest Payments)	0.00	0.00	0.00	0.00	0.00	531.00	526.11	552.42	580.04	0.00	0.00	0.00	0.00	0.00	0.00
5. Capital Expenditure	17,371.28	25,775.88	30,715.08	29,033.40	31,576.47	54,992.32	51,768.59	58,769.90	69,426.92	72,689.70	73,574.19	76,389.93	82,801.88	85,457.92	88,369.98
6. Amortization (principal) payments	1,457.16	3,612.43	4,315.19	5,843.80	13,215.43	18,299.11	6,064.04	5,802.11	6,663.94	7,898.98	8,511.15	7,944.51	8,893.14	6,727.91	7,579.26
Budget Balance (' + ' means surplus, ' - ' means deficit)	**5,347.10**	**5,087.50**	**4,921.40**	**3,987.19**	**-5,551.00**	**-6,787.40**	**3,000.00**	**2,000.00**	**-1,000.00**	**0.00**	**-2,000.00**	**2,000.00**	**0.00**	**0.00**	**0.00**
Opening Cash and Bank Balance	**2,995.20**	**8,342.30**	**13,429.80**	**18,351.20**	**22,338.40**	**16,787.40**	**10,000.00**	**13,000.00**	**15,000.00**	**14,000.00**	**14,000.00**	**12,000.00**	**14,000.00**	**14,000.00**	**14,000.00**
Closing Cash and Bank Balance	**8,342.30**	**13,429.80**	**18,351.20**	**22,338.39**	**16,787.40**	**10,000.00**	**13,000.00**	**15,000.00**	**14,000.00**	**14,000.00**	**12,000.00**	**14,000.00**	**14,000.00**	**14,000.00**	**14,000.00**
Financing Needs and Sources (Million Naira)															
Financing Needs						**25,384.94**	**12,714.53**	**12,843.95**	**12,732.29**	**15,722.17**	**15,721.94**	**17,060.50**	**17,367.35**	**16,624.87**	**19,306.30**
i. Primary balance						-8,983.51	2,977.67	1,376.81	-914.21	-2,001.23	-3,766.42	-1,916.87	-3,365.46	-5,018.19	-6,953.15
ii. Debt service						23,188.83	12,692.20	12,220.75	12,818.08	13,720.94	13,955.52	13,143.63	14,001.89	11,606.68	12,353.15
Amortizations						18,299.11	6,064.04	5,802.11	6,663.94	7,898.98	8,511.15	7,944.51	8,893.14	6,727.91	7,579.26
Interests						4,889.72	6,628.16	6,418.65	6,154.14	5,821.96	5,444.38	5,199.12	5,108.76	4,878.77	4,773.89
iii. Financing Needs Other than Amortization Payments (e.g., Variation in Cash and Bank Balances)						-6,787.40	3,000.00	2,000.00	-1,000.00	0.00	-2,000.00	2,000.00	0.00	0.00	0.00
Financing Sources						**25,384.94**	**12,714.53**	**12,843.95**	**12,732.29**	**15,722.17**	**15,721.94**	**17,060.50**	**17,367.35**	**16,624.87**	**19,306.30**
i. Financing Sources Other than Borrowing						10,000.00	10,000.00	10,000.00	10,025.00	11,415.53	11,631.74	11,853.81	12,081.90	12,316.20	12,556.89
ii. Gross Borrowings						15,384.94	2,714.53	2,843.95	2,707.29	4,306.65	4,090.20	5,206.69	5,285.45	4,308.67	6,749.41
Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)						0.00	0.00	0.00	2,707.30	0.00	0.00	5,206.70	0.00	4,308.70	0.00
Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)						0.00	2,714.50	0.00	0.00	0.00	4,090.20	0.00	5,285.40	0.00	0.00
State Bonds (maturity 1 to 5 years)						0.00	0.00	2,843.90	0.00	4,306.60	0.00	0.00	0.00	0.00	0.00
State Bonds (maturity 6 years or longer)						15,384.90	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Domestic Financing						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
External Financing - Concessional Loans (e.g., World Bank, African Development Bank)						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	6,749.40
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						0.04	0.03	0.05	-0.01	0.05	0.00	-0.01	0.05	-0.03	0.01
Debt Stocks and Flows (Million Naira)															
Debt (stock)	**48,887.44**	**71,563.55**	**91,985.05**	**97,654.50**	**91,726.87**	**89,902.05**	**86,552.53**	**83,594.37**	**79,637.73**	**76,045.39**	**71,624.45**	**68,886.63**	**65,278.94**	**62,859.69**	**62,029.83**
External	6,988.04	8,225.65	8,060.95	11,931.60	13,318.10	13,982.24	13,557.04	13,131.84	12,706.64	12,281.44	11,856.24	11,431.04	11,005.84	10,580.64	16,904.84
Domestic	41,899.40	63,337.90	83,924.10	85,722.90	78,408.77	75,919.80	72,995.49	70,462.53	66,931.08	63,763.95	59,768.20	57,455.59	54,273.10	52,279.05	45,125.00
Gross borrowing (flow)						**15,384.94**	**2,714.53**	**2,843.95**	**2,707.29**	**4,306.65**	**4,090.20**	**5,206.69**	**5,285.45**	**4,308.67**	**6,749.41**
External						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	6,749.40
Domestic						15,384.94	2,714.53	2,843.95	2,707.29	4,306.65	4,090.20	5,206.69	5,285.45	4,308.67	0.01
Amortizations (flow)	**28,680.39**	**27,166.20**	**25,430.00**	**23,794.87**	**29,027.29**	**18,299.11**	**6,064.04**	**5,802.11**	**6,663.94**	**7,898.98**	**8,511.15**	**7,944.51**	**8,893.14**	**6,727.91**	**7,579.26**
External	113.94	210.99	324.89	548.28	393.05	425.20	425.20	425.20	425.20	425.20	425.20	425.20	425.20	425.20	425.20
Domestic	28,566.45	26,955.21	25,105.11	23,246.59	28,634.24	17,873.91	5,638.84	5,376.91	6,238.74	7,473.78	8,085.95	7,519.31	8,467.93	6,302.71	7,154.06
Interests (flow)	**3,615.09**	**2,963.78**	**4,272.81**	**4,166.61**	**5,425.11**	**4,889.72**	**6,628.16**	**6,418.65**	**6,154.14**	**5,821.96**	**5,444.38**	**5,199.12**	**5,108.76**	**4,878.77**	**4,773.89**
External	60.77	76.45	58.24	102.73	50.82	54.98	54.98	54.98	54.98	54.98	54.98	54.98	54.98	54.98	54.98
Domestic	3,554.32	2,887.33	4,214.57	4,063.88	5,374.28	4,834.74	6,573.18	6,363.67	6,099.16	5,766.98	5,389.39	5,144.14	5,053.78	4,823.79	4,718.91
Net borrowing (gross borrowing minus amortizations)						**-2,914.17**	**-3,349.51**	**-2,958.16**	**-3,956.65**	**-3,592.34**	**-4,420.94**	**-2,737.82**	**-3,607.69**	**-2,419.25**	**-829.86**
External						-425.20	-425.20	-425.20	-425.20	-425.20	-425.20	-425.20	-425.20	-425.20	6,324.20
Domestic						-2,488.97	-2,924.31	-2,532.96	-3,531.45	-3,167.13	-3,995.74	-2,312.62	-3,182.49	-1,994.05	-7,154.06
Debt and Debt-Service Indicators															
Debt Stock as % of SGDP	**3.94**	**5.17**	**5.68**	**5.46**	**4.50**	**3.82**	**3.18**	**2.71**	**2.28**	**1.92**	**1.59**	**1.35**	**1.13**	**0.96**	**0.84**
Debt Stock as % of Revenue (including grants and excluding other capital receipts)	**90.12**	**100.14**	**130.73**	**136.10**	**130.13**	**98.13**	**90.27**	**81.24**	**70.52**	**62.51**	**57.84**	**53.50**	**48.71**	**46.12**	**44.78**
Debt Service as % of SGDP						**0.99**	**0.47**	**0.40**	**0.37**	**0.35**	**0.31**	**0.26**	**0.24**	**0.18**	**0.17**
Debt Service as % of Revenue (including grants and excluding other capital receipts)						**25.31**	**13.24**	**11.88**	**11.35**	**11.28**	**11.27**	**10.21**	**10.45**	**8.52**	**8.92**
Interest as % of SGDP						**0.21**	**0.24**	**0.21**	**0.18**	**0.15**	**0.12**	**0.10**	**0.09**	**0.07**	**0.06**
Interest as % of Revenue (including grants and excluding other capital receipts)						**5.34**	**6.91**	**6.24**	**5.45**	**4.79**	**4.40**	**4.04**	**3.81**	**3.58**	**3.45**
Personnel Cost as % of Revenue (including grants and excluding other capital receipts)						**27.81**	**23.30**	**22.37**	**20.99**	**26.43**	**27.53**	**26.61**	**25.69**	**26.12**	**26.55**

16.12.22

MAL. MUHAMMADU GAMBO MAGAJI
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MINISTRY OF FINANCE