

**KEBBI STATE GOVERNMENT**

**2024**

**DEBT SUSTAINABILITY ANALYSIS & DEBT MANAGEMENT STRATEGY (DSA-DMS) REPORT**

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# **Chapter 1: Introduction**

Kebbi State Debt Sustainability Analysis (KS - DSA) covers the period of 5-year historical from 2019 to 2023 and 10-year projection 2024-2033, under various macroeconomic assumptions and shock scenarios. To ensure that State debt stock remains sustainable in the medium to long-term, the State’s macroeconomic framework is used to assess the current and future debt levels, as well as its ability to meet debt service obligations as and when due, and without compromising growth and development.

The Kebbi State DSA-DMS forecast for primary balance that comprises the difference between revenue and expenditure, plus the existing debt service (interest payment and principal repayments). The revenue was based on the harmonized revenue law of the state government, which provided for capital gains tax, and other property tax to expand the tax base to maximally increase the state internally generated revenue that is considered achievable. Also, the state forecasts increased recurrent and capital expenditures with expected growth in the National economy with cascading effects in the State’s economy leading to an increase in overall economic activities in the private sector, as well as job creation in the public sector.

Global growth is projected to stay at 3.1 percent in 2024 and 3.2 percent in 2025, with the 2024 forecast 0.2 percentage point higher than that in the October 2023 World Economic Outlook (WEO) on account of greater-than-expected resilience in the United States and several large emerging market and developing economies, as well as fiscal support in China. The forecast for 2024–25 is, however, below the historical (2000–19) average of 3.8 percent, with elevated central bank policy rates to fight inflation, a withdrawal of fiscal support amid high debt weighing on economic activity, and low underlying productivity growth. Inflation is falling faster than expected in most regions, in the midst of unwinding supply-side issues and restrictive monetary policy. Global headline inflation is expected to fall to 5.8 percent in 2024 and to 4.4 percent in 2025, with the 2025 forecast revised down.

With disinflation and steady growth, the likelihood of a hard landing has receded, and risks to global growth are broadly balanced. On the upside, faster disinflation could lead to further easing of financial conditions. Looser fiscal policy than necessary and then assumed in the projections could imply temporarily higher growth, but at the risk of a more costly adjustment later on. Stronger structural reform momentum could bolster productivity with positive cross-border spillovers. On the downside, new commodity price spikes from geopolitical shocks––including continued attacks in the Red Sea––and supply disruptions or more persistent underlying inflation could prolong tight monetary conditions. Deepening property sector woes in China or, elsewhere, a disruptive turn to tax hikes and spending cuts could also cause growth disappointments.

Policymakers’ near-term challenge is to successfully manage the final descent of inflation to target, calibrating monetary policy in response to underlying inflation dynamics and—where wage and price pressures are clearly dissipating—adjusting to a less restrictive stance. At the same time, in many cases, with inflation declining and economies better able to absorb effects of fiscal tightening, a renewed focus on fiscal consolidation to rebuild budgetary capacity to deal with future shocks, raise revenue for new spending priorities, and curb the rise of public debt is needed. Targeted and carefully sequenced structural reforms would reinforce productivity growth and debt sustainability and accelerate convergence toward higher income levels. More efficient multilateral coordination is needed for, among other things, debt resolution, to avoid debt distress and create space for necessary investments, as well as to mitigate the effects of climate change.

economic growth in Nigeria slowed from 3.3% in 2022 to 2.9% in 2023 due to high inflation and sluggish growth in the global economy, which declined from 3.5% in 2022 to 3.2% in 2023. Growth was driven by services and agriculture on the supply side and by consumption and investment on the demand side. Inflation rose from 18.8% in 2022 to 24.5% in 2023, due to rising fuel costs and a depreciating naira. Petrol prices increased 167%, from naira 254 per liter in May 2023 to naira 671 in December 2023.

The exchange rate depreciated by 95.6% in 2023, resulting from the floating of the naira in June 2023. Monetary policy was tightened to control inflation, with the policy rate increased from 17.5% in January 2023 to 18.75% in December 2023. The fiscal deficit narrowed from 5.4% of GDP in 2022 to 5.1%, as general government revenues improved from 6.7% of GDP in 2022 to 7.6% in 2023, although remaining low. The deficit was financed mainly by domestic borrowing, including from the Central Bank’s Ways and Means. Public debt remained low at 40% of GDP in 2023, but the federal government debt service to revenue ratio was high, at 111%, due to weak revenues. The current account surplus improved from 0.2% of GDP in 2022 to 0.9% in 2023, driven by higher oil prices and exports. International reserves remained robust but dropped from 6.6 months of import cover in 2022 to 5 months in 2023, reflecting tight global financing conditions. The poverty level remains high, with multidimensional poverty at 63% and income poverty at 40%. Income inequality is lower than in many middle-income countries, with a Gini coefficient of 0.35.

Economic growth is projected to increase to 3.2% in 2024 and 3.4% in 2025, due to improved security, higher oil production, and stronger consumer demand. Inflation is expected to rise to 31.6% in 2024, driven by higher food prices and continued depreciation of the naira, before moderating to 20.7% in 2025 as inflationary pressures abate. The fiscal deficit, financed by domestic borrowing, is projected to narrow to 4.3% of GDP in 2024 and 4.1% in 2025 as both oil and nonoil revenues improve. The current account surplus is expected to improve to 3.0% of GDP in 2024 and 3.6% in 2025 due to higher oil exports. Headwinds include insecurity, lower oil production, rising fuel and food prices, and further exchange rate depreciation. Tailwinds include new oil production from the Dangote refinery, which is expected to lower energy prices as it starts supplying the local market.

Despite some evidence of structural transformation, reflected in agriculture employment’s falling share in total employment from 49.3% in 2000 to 35.2% in 2021, the pace of transformation is not sufficient to propel industrial take-off. Labor has relocated to the services sector, whose share of employment rose from 39.4% in 2000 to 52.1% in 2021. However, industry’s share of employment has increased only marginally over the past 20 years, from 11.3% to 12.7%, reflecting slow industrialization. Furthermore, wage employment is low, at 11.8%, reflecting low-quality jobs and characterized by high informality, at 92.6%.

Kebbi State has enjoyed impressive GDP performance over the years, although not quite as high as the national average since Kebbi does not benefit directly from the mineral sector. The State is still a net importer of goods and services but is a net exporter of agricultural produce majorly rice, sorghum, millet and beans to other States. The movement of agricultural produce is not well-documented and computed to register meaningful contribution to the State economy. Despite the steady progress in economic growth and development, available data indicate that agriculture, especially crops and livestock, and fisheries as well as SMEs, which have the potential to generate large scale employment opportunities, are not currently doing so. However, these areas are undergoing transformation.

There is the predominance of subsistence and non-mechanized agriculture in the State. That is why the growth of the State's economy is predicated on increased transformation of the agricultural value chain (large scale agricultural production and agro-based industrial production). Although the trend of IGR in the State over the years has been varied, the present administration has demonstrated strong determination to change the prevailing situation of the State's IGR. With the establishment of Kebbi GIS (KBGIS), the state is in the process of computerization of all land records in urban centres. This when completed is expected to generate more revenue to the state. The state is also on the drive to enroll more individuals and businesses on the tax net.

In its effort to cushion the effect dwindling revenue, Kebbi State Government has put in place a harmonized revenue law to expand the tax net and boost Internally Generated Revenue. The increase in Internally Generated Revenue is expected to positively impact on the debt obligations and economic development of the State. The State plans to augment the State budget through borrowings from domestic and external loans. Consequently, the MTDS had to be adjusted to ensure the financing gap of government is met.

# **Chapter 2: The State Fiscal and Debt Framework**

Kebbi State Government Budget prepared in line with the Federal Government’s outlook for each fiscal year, by using oil price benchmark per barrel to project the Statutory allocation, considered inflation rate and exchange rate during projections. The economy is the primary and critical component of life, the Kebbi State Government submitted an Economic Policies and Procurement Bills to the State House of Assembly with a view to transforming the State economy in urban and rural area, particularly health care, agriculture, education, agriculture, Small Medium Enterprises, solid minerals. This is expected to boost Internal Generated Revenue.

Kebbi State Government Budget is driven by Agriculture, youth empowerment and provide an enabling environment for Small Medium Enterprises to grow and pave way for industrial development of the State’s government. The Government also rolled out a social intervention programme to provide support to the poor and the unemployed; reconstructed and equipped skills acquisition centres to provide training for women and youth towards self-reliance; and building the critical infrastructure needed to speed up the development of the State.

The recent resolution of the US debt ceiling standoff and, earlier this year, strong action by authorities to contain turbulence in US and Swiss banking reduced the immediate risks of financial sector turmoil. This moderated adverse risks to the outlook. However, the balance of risks to global growth remains tilted to the downside. Inflation could remain high and even rise if further shocks occur, including those from an intensification of the war in Ukraine and extreme weather-related events, triggering more restrictive monetary policy. Financial sector turbulence could resume as markets adjust to further policy tightening by central banks. China’s recovery could slow, in part as a result of unresolved real estate problems, with negative cross-border spillovers. Sovereign debt distress could spread to a wider group of economies. On the upside, inflation could fall faster than expected, reducing the need for tight monetary policy, and domestic demand could again prove more resilient.

The Government has put in place a harmonized revenue law to expand the tax net and boost Internally Generated Revenue. The increase in Internally Generated Revenue is expected to positively impact on the debt obligations as well as economic development of the State. The State plans to augment the State budget through borrowings from domestic loans and external loans.

**2.1 Medium-Term Budget Forecast**

The Economic and Fiscal Update (EFU) provides economic and fiscal analyses which form the basis for budget planning process. It is aimed primarily at policy makers and decision takers in Kebbi State Government. The EFU also provides an assessment of budget performance (both historical and current) and identifies significant factors affecting implementation.

On the other hand, Fiscal Strategy Paper (FSP) and Budget Policy Statement (BPS) are key elements in Medium Term Expenditure Framework (MTEF) and annual budget process, and as such, they determine the resources available to fund Government projects and programmes from a fiscally sustainable perspective.

Kebbi State Government decided to adopt the preparation of the EFU-FSP-BPS for the first time in 2021 as part of the movement toward a comprehensive MTEF process. This is the fourth rolling iteration of the document and covers the period 2024-2026.

The implication for the 2024-2026 forecast is that if more capital receipts are not obtained and the IGR increases, the same scenario may still be recorded since the State IGR cannot fund recurrent expenditure, but the debt stock continue to remained sustainable over the period.

**Objectives**

The MTEF documents strengthen top-down budgeting in line with the requirements of fiscal responsibility legislation. The document assists State in achieving the following objectives:

1. to ensure overall and proper linkage between policy, planning and budgeting.
2. to improve fiscal policy formulation and implementation by instituting a medium-term budget framework as part of the regular economic management process.
3. to improve budget allocations that reflects the State policy priorities and development needs of the State.
4. to provide robust medium term expenditure programmes of selected critical MDAs.
5. ensuring budget execution through more predictable cash releases, thereby guaranteeing more effective service delivery.
6. reducing deviation between budgeted and executed levels of expenditures.
7. to improve cash management for Transparency and Accountability

In accordance with international best practice in budgeting, the production of a combined Economic and Fiscal Update (EFU), Fiscal Strategy Paper (FSP) and Budget Policy Statement (BPS) is the first step in the budget preparation cycle for Kebbi State Government (KBSG) for the period 2025-2027.

The purpose of this document is three-fold:

1. To provide a backwards looking summary of key economic and fiscal trends that will affect the public expenditure in the future - Economic and Fiscal Update.
2. To set out medium term fiscal objectives and targets, including tax policy; revenue mobilization; level of public expenditure; deficit financing and public debt - Fiscal Strategy Paper and MTFF.
3. Provide indicative sector envelopes for the period 2025-2027 which constitute the MTBF.

The EFU is presented in Section 2 of this document. The EFU provides economic and fiscal analysis to inform the budget planning process. It is aimed primarily at budget policy makers and decision takers in the Kebbi State Government. The EFU also provides an assessment of budget performance (both historical and current) and identifies significant factors affecting implementation. It includes:

1. Overview of Global, National and State Economic Performance.
2. Overview of the Petroleum Sector and non-oil sectors.
3. Trends in budget performance over the last six years.

The FSP is a key element in the KBSG Medium Term Expenditure Framework (MTEF) process and annual budget process. As such, it determines the resources available to fund the Government’s growth and poverty reduction programme from a fiscally sustainable perspective.

Kebbi State Government’s Medium-Term Budget Forecast determines the accessible resources and ensured the use of these resources for the medium term. Medium-Term Expenditure Framework is a five-year period projection as well as source document for the preparation of State Budget proposal to be tabled before the State House of Assemble. Medium-Term Budget Planning implies approval of State Budget law for one year, and determination of maximally allowable expenditure levels for the subsequent two years.

Kebbi State’s Medium-term covers macroeconomic analysis, government’s fiscal policy objectives for medium term, state budget revenue projections and state budget expenditure ceilings for each ministry and their agencies (MDAs) for medium term. The details of the macroeconomic assumptions are as shown in the table below.

**Kebbi State Medium Term Expenditure Framework (MTEF), 2024-2026**

**(NGN’ Million)**

|  |  |  |  |
| --- | --- | --- | --- |
| **Macroeconomic Assumptions** | **2024** | **2025** | **2026** |
| National Inflation | 20.00% | 15.50% | 15.20% |
| National Real GDP Growth | 3.00% | 3.00% | 3.00% |
| Budget Oil Production Volume (mbpd) | 1.6 | 1.7 | 1.8 |
| Oil Price Benchmark (US$ per barrel) | 65 | 65 | 65 |
| Average Exchange Rate (N/US$) | 1,300 | 1,200 | 1,100 |
|  |  |  |  |
| **Revenue** |  |  |  |
| Gross Statutory Allocation | 79,254.27 | 92,131.59 | 105,980.20 |
| Other FAAC transfers | 24,104.99 | 1,120.38 | 1,029.78 |
| VAT Allocation | 41,660.06 | 56,031.70 | 72,429.64 |
| IGR | 17,887.34 | 19,230.72 | 24,999.94 |
| Grants | 19,380.38 | 25,963.35 | 26,751.27 |
| Other Non-Debt Creating Capital Receipts | 12,820.11 | 0.00 | 0.00 |
| **Total Revenue** | **195,107.15** | **194,477.73** | **231,190.82** |
|  |  |  |  |
| **Expenditure** |  |  |  |
| Personnel costs | 40,321.25 | 46,777.48 | 48,233.71 |
| Overhead costs | 30,717.68 | 18,774.43 | 23,337.66 |
| Other Recurrent Expenditure\* | 14,595.36 | 23,386.44 | 44,583.98 |
| Capital Expenditure | 146,172.86 | 132,700.01 | 148,399.70 |
| **Total Expenditure** | **231,807.15** | **221,638.36** | **264,555.06** |
|  |  |  |  |
| **Budget Deficit** | **36,700.00** | **27,160.62** | **33,364.24** |
| New Domestic Borrowing | 30,022.89 | 27,160.62 | 23,144.26 |
| New External Borrowing | 6,677.11 | 0.00 | 10,219.98 |

\*Other Recurrent Expenditure comprises Debt Charges and other recurrent Expenditure

**Assumption of the MTEF, 2024-2026**

1. Statutory Allocations – The forecast for the statutory allocation is based on the benchmarked oil price, exchange rate and the oil production Benchmark for the 3 years. Once they are actualized coupled with the subsidy removal, the State can receive the forecast figures for cash allocation. It is based on historical mineral revenue flows and elasticity-based forecast was used.
2. Other Federation Account receipts – the estimation is based on the historical trend (i.e. from 2017- 2022). The State is developing its mineral sector and is expected to receive more funds from derivation and other sources of funds.
3. Value Added Tax (VAT) – elasticity based on the past performance is used to forecast VAT for 2024-2026. This forecast should be revisited if there are any changes to the VAT rates.
4. Internally Generated Revenue (IGR) – the current administration is improving on the ongoing measures to grow IGR. These measures have started yielding results as actual IGR for the current year is increasing. It is anticipated that IGR will continue to increase by 30% in the current year and start to stabilize from 2024 with a minimum annual growth of 30%. Own Percentage is therefore used to forecast IGR for 2024 – 2026.
5. Grants – The internal grants are based on the actual receipts for 2023 and performance from 2019 to 2023. External grants are based on signed grant agreements with the development partners.
6. Other Non-Debt Creating Capital Receipts - Sale of Govt Assets and Other Non-Debt creating Capital receipts are based on the actual receipts from 2019 to 2023. 36,700.0
7. Financing – Financing – Kebbi State intends to secure an external loan/borrowing of about US$5.1 million in 2024 out of the N36,700 million for 2024 proposed financing needs. All internal and external loans are projections based on signed agreements.
8. Personnel –It is anticipated that there will be a new minimum wage before the end of 2023 to cushion the effect of the subsidy removal and naira devaluation which will impact on the wage bill from the fourth quarter of 2023. The projection is that total wage bill will increase by 10% in 2023, with a gradual increase of 15%, 18% and 22% over the 2024 – 2026 fiscal years.
9. Overheads – Overhead has been relatively stable between 2017 and 2021 before the sharp increase in 2022. It is anticipated that it will increase further by 10% at the end of 2023. Consequently, own percentage method is used to forecast overhead for 2024, 2025 and 2026 (5%, 3% and 3% respectively). Social Contribution and Social Benefits – A substantial amount is being owed as pension and gratuity payment. It is appropriate to make adequate provision for these items and other social commitments. Hence, the own value, representing computation for outstanding commitments as well as estimation for next medium term is used.
10. Public Debt Service - is based on the projected principal and interest repayments for 2024, 2025 and 2026.
11. Other Recurrent Expenditure (excluding Personnel Costs, Overhead Costs and Interest Payments) - Special programme is expected to increase marginally on the actual performance level of 2022. This trend is expected in the period of forecast and have been incorporated in the basis of the forecast for 2024 – 2026
12. Capital Expenditure – is based on the balance from the recurrent account plus capital receipts, less contingency reserve as outlined above.

The macroeconomic assumption was in line with the National Macroeconomic Assumption, which estimated the national inflation at 20.00 percent, 15.50 percent and 15.20 percent, the national Real GDP Growth projected at 3.00 percent, 3.00 percent and 3.00 percent, the Oil Production Volume projected at 1.6 mbpd, 1.7 mbpd, and 1.8 mbpd, the Oil Price Benchmark estimated per barrel at $65, $65 and $65 and the average Exchange Rate for US$ was projected at N1,300, N1,200 and N1,100 in the 2024, 2025 and 2026 respectively.

The MTEF 2024-2026 projected the total revenue at N195,107.15 million in 2024, N194,477.73 million in 2025 and N231,190.82 in 2026, which comprises the gross Statutory Allocation of N79,254.27 million, N92,131.59 million and N105,980.20 million, other FAAC transfers are N24,104.99 million, N1,120.38 million and N1,029.78 million, the VAT Allocation are estimated at N41,660.06 million, N56,031.70 million, and N72,429.64 million, as the IGR projected at N17,887.34 million, N19,230.72 million and N24,999.94 million, as well as the expected Grants amounted at N19,380.38 million, N25,963.35 million and N26,751.27 million over the projected period of time.

The total Expenditure projected at N231,807.15 million in 2024 to N264,555.06 million which comprises the Personnel costs that are estimated to move from N40,321.25 million to N48,233.71 million, the Overhead costs from N30,717.68 million to N23,337.66 million, other Recurrent Expenditure from N14,595.36 million to N44,583.98 million as well as the Capital Expenditure N146,172.86 million to N148,399.70 million respectively.

**Kebbi State’s Budget Policy Thrust**

The overall size of the 2024 budget will be based on resource estimates as provided in the Fiscal Strategy Paper (FSP) and sector allocations in line with the State’s development priorities.

The 2024 budget will focus on Agriculture and Rural Development, Infrastructural Development, Health, Education, Water Supply and Sanitation, Environment, Lands and Housing, Culture and Tourism and Youth and Women Empowerment. In the entire sub sectors, priority will be given to on-going projects.

The 2024 Budget Policy thrust is as follows:

1. The Planning instrument of Medium-Term Sector Strategies will be the basis for MDAs 2024 budget proposal.
2. Strict Adherence to the principles and letters of Fiscal Responsibility Law (FRL) 2010 and State Public Procurement Law (PPL), 2010 in the day-to-day implementation of the budget.
3. Prompt payment of State counterpart contributions to attract additional resources for funding projects and programmes.
4. Completion of critical on-going projects that have attained between 75% to 80% level of completion.
5. New projects will only be provided after ensuring adequate provision for on-going projects.
6. Sustain investment in Agriculture to achieve self-sufficiency in food production and security.
7. Use Result Based Monitoring and Evaluation (RBM&E) framework to track project and programme implementation.
8. Strengthen Social Safety Net Programmes to further mitigate the impact of the current economic situation on the poor and vulnerable groups within Kebbi State.
9. Improve revenue base of the State through effective and efficient collections from the existing sources and exploration of new sources by revenue generating MDAs.
10. Continued sustenance of free education programme including School feeding programme and ensuring quality control in the education system.
11. Construction of new and Maintenance of existing physical infrastructure and facilities (Roads, Water and Public buildings).
12. Strengthen public service for efficiency, productivity and value for money through capacity building and incentives.
13. Strengthen provision of social services through whole School and Hospital approach.
14. Prioritize investment in projects and programmes that will enhance job creation, employment generation and contribute to poverty reduction.
15. Improve funding of MDAs for better service delivery.
16. Strengthen coordination of partners` activities in line with the State`s development priorities.
17. Adequate provision and timely payment of MDAs outstanding debts/liabilities with Kebbi State Debt Management Department (DMD).
18. Increase allocation to address issues of insecurity in the State.
19. Prioritize allocation and release of fund to post-Covid-19 recovery programmes.

**Legislative Framework for Public Financial Management in Kebbi State**

The fundamental law governing Public Financial Management (PFM) in Nigeria and Kebbi State in particular is the 1999 Constitution as amended. Section 120 and 121 of the Constitution provides that all revenues accruing to Kebbi State Government shall be received into a Consolidated Revenue Fund (CRF) to be maintained by the Government and no revenue shall be paid into any other fund, except as authorized by the State House of Assembly (SOHA) for a specific purpose. The withdrawal of funds from the CRF shall be authorized by the SOHA through the annual budget or appropriation process. The Governor of Kebbi State shall prepare and lay expenditure proposals for the coming financial year before the SOHA, and the SOHA shall approve the expenditure proposal by passing an Appropriation Law. The Appropriation Law shall authorize the executive arm of government to withdraw and spend the amounts specified from the CRF.

**Institutional Framework for Public Financial Management in Kebbi State**

The Constitution vests the executive powers of the State in the Governor. The Constitution provides that “the Governor shall cause to be prepared and laid before the House of Assembly on or before the last business day of August of each financial year, containing estimates of the revenues and expenditure of the State for the next three financial years”. The Governor of Kebbi State exercises his executive powers directly or through the Deputy Governor, the Commissioners, Special Advisers, Permanent Secretaries, and other officers in the public service of the State.

**2.2 State’s Revenue policies**: Kebbi State Government introduced new “*Revenue Bill 2020*” the bill make provision for the repeal and re-enactment of a law no. 002 of 2019 for the administration and collection of revenue accrued to the Kebbi State Government and local government. Under the new bill the “Taxable person” includes an individual or body, individuals, family, corporation sole, trustee or executor or a person who carries out in a place an economic activity, a person exploiting tangible or intangible property for the purpose of obtaining income there from by way of trade of business or person or agency of government acting in that capacity.

The purpose of the new bill are as follows:

* To establish a single Central revenue account (herein after called “the Account”) for all the internally generated revenue of the state.
* The account should be utilized by SIRS for the purpose of capturing the total revenue collection of the state.
* The account shall be maintained and operated with the designated IGR reporting Bank, which shall account for all revenues collected by Lead Bank through designated collecting Bank as may from time to time be authorized by the Governor or any other person authorized by him.

**2.3 State’s Expenditure Policies**: Kebbi State’s Expenditure Policies drives through a State’s Comprehensive Development Framework (CDF) which is to develop a holistic socioeconomic development strategy that puts together all major elements affecting the development of the State. The effort represents a shared vision of all stakeholders, a development framework that is designed to guide short and medium-term state development plans and ensure effective linkage to the budget through a Medium-Term Expenditure Framework with sufficient flexibility to respond to emerging needs and exigencies.

This section provides a brief review of the development process of the State since its creation, the overall development objectives, and priorities, as well as its mission and vision. The section also gives an overview of the conceptual underpinnings for the sustainable economic development of the State outlined in the Kebbi State CDF.

Government spending drives economic activity either through the development of large-scale infrastructural projects or through the provision of resources to the poor in the form of social grants. Investments in education and health have long-term economic benefits.

Fiscal policy is the deliberate adjustment of government spending, borrowing or taxation to help achieve desirable economic objectives. Kebbi State Government introduced new Bill titled “Price Intelligence and Public Procurement Bill, 2020” the objected of the bill are as follows:

* Maximize economy and efficiency in public procurement;
* Promote economic development through public procurement
* Obtain value for money in public procurement;
* Promote integrity and engender public confidence in the public procurement process;
* Foster transparency in the public procurement process;
* Encourage participation in public procurement
* Provide for the fair and equitable treatment of all persons participating in public procurement proceedings; and,
* Encourage the State economic growth by enabling the participation of small and medium sized enterprises in Public procurement.

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# **Chapter 3: The State Revenue, Expenditure, and Public Debt Trends (2019 - 2023)**

The Kebbi State economy experienced a growth of Internally Generate Revenue (IGR) by 59.31 percent from 2019 to 2023, an increase was due to the implementations new policies that strengthen the Kebbi State internal revenue that held within the period.

**3.0 Revenue and Expenditure**

**3.1 Revenue -** The State’s economy comprises Statutory Allocation, Derivation, VAT Allocation, IGR, and Capital Receipt. The total revenue amounted to N65,104 million in 2019, N62,102 million in 2020, N73,950 million in 2021, N85,155 million in 2022, and N116,139 million in 2023, respectively.

**Gross FAAC Allocation:** Kebbi recorded over the period relative to the preceding year, as the FAAC Allocations amounted to N57,737 million in 2019, N54,126 million in 2020, N57,676 million in 2021, N68,689 million in 2022, and N81,191 million in 2023, respectively.

**Internally Generated Revenue:** Kebbi witnessed modest growth and significant improvement in the State IGR, where the IGR grew from N7,367 million in 2019, N7,976 million in 2020, N11,851 million in 2021, N8,429 million in 2022, and N11,737 million in 2023. Accordingly, the improvement in IGR after pandemic is mainly due to the tax reforms aimed at improving collection efficiency and broadening the tax revenue base. The Kebbi State recorded a grants of N4,423 million in 2021, N7,857 million in 2022 and N23,211 million in 2023 respectively.

**Total Revenue, 2019-2023 (NGN’ Million)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Revenue** | **2019** | **2020** | **2021** | **2022** | **2023** |
| Total Revenue | 65,104 | 62,102 | 73,950 | 85,155 | 116,139 |
| Gross FAAC Allocation | 57,737 | 54,126 | 57,676 | 68,869 | 81,191 |
| IGR | 7,367 | 7,976 | 11,851 | 8,429 | 11,737 |
| Grants | 0 | 0 | 4,423 | 7,857 | 23,211 |



**3.2 Expenditure**- The State’s Total expenditure covers Capital expenditure, Personnel costs, Overhead costs, other recurrent expenditure, and Debt service (interest payment and principal repayment) recorded an increase from N93,769 million in 2019 to N112,272 million in 2023.

Kebbi State Personnel costs increased by N2,000 million or 13.54 percent from 2019 to 2023. Kebbi State Overhead costs was increased from 35.24 percent or N5,126 million from 2019 to 2023 respectively.

Capital Expenditure: Capital Expenditure was N44,379 million in 2019, N26,344 million in 2020, N54,608 million in 2021, N49,704 million in 2022 and N61,508 million respectively, the decline in 2020 was due to slow in activities during coronavirus pandemic.

**Total Expenditure, 2019-2023 (NGN’ Million)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Expenditure Performance** | 2019 | 2020 | 2021 | 2022 | 2023 |
| Total Expenditure | 93,769 | 78,743 | 92,674 | 93,325 | 112,272 |
| Personnel | 22,155 | 26,095 | 24,091 | 24,842 | 25,154 |
| Overhead Costs | 14,548 | 9,643 | 10,376 | 10,778 | 19,674 |
| Debt Service (Interests + Amortizations) | 12,687 | 16,661 | 0 | 0 | 5,935 |
| Other Recurrent Expenditures | 0 | 0 | 3,599 | 8,000 | 0 |
| Capital Expenditure | 44,379 | 26,344 | 54,608 | 49,704 | 61,508 |



* 1. **Existing Public Debt Portfolio**

3.3.1 Debt Stock - Kebbi State Total Debt comprised External and Domestic Debts which stood at N75,963 million in 2023 compared with N77,562 million in 2022, which comprises a decline by 1,599 million or 2.06 percent over the period. External Debt grew by N1,928 million or 14.45 percent from 2022 to 2023, while the Domestic Debt stock decreased by 3,528 million or 5.49 percent from 2022 to 2023 respectively.

**Total Debt Stock, 2019-2023 (NGN’ Million)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Total Debt Stock** | **2019** | **2020** | **2021** | **2022** | **2023** |
| Outstanding Debt (Old + New) | 80,414 | 70,146 | 66,275 | 77,562 | 75,963 |
| External | 11,148 | 13,335 | 13,946 | 13,344 | 15,272 |
| Domestic | 69,265 | 56,811 | 52,328 | 64,219 | 60,691 |



**3.2.2 Debt composition** - The main domestic debt portfolio consists of Budget Support Facility, Salary Bail-out facility, Excess Crude Account Backed Loan, Contractor’s Arrears and Pensions & Gratuity arrears. While the External Debt includes World Bank (IDA and IFAD) and African Development Fund (AfDF). In 2020 the composition of external debt to domestic debt portfolio in 2023 stood at 20.10 percent to 79.90, compared to 2019 that stood at 13.86 percent to 86.14 respectively.

**3.2.3 Debt Service** amounted to N12,446 million in 2019, N16,474 million in 2020, N7,003 million in 2021, N12,376 million in 2022 and N3,630 million in 2023, respectively. Kebbi State’s Principal Repayment stood at N10,146 million in 2019, N15,460 million in 2020, N5,344 million in 2021, and N9,218 million in 2022 and N1,528 million in 2023, respectively.

**Total Principal Repayment, 2019-2023 (NGN’ Million)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Principal Repayment** | 2019 | 2020 | 2021 | 2022 | 2023 |
| Principal Repayment | 10,146 | 15,460 | 5,344 | 9,218 | 1,528 |
| External | 332 | 484 | 518 | 477 | 543 |
| Domestic | 9,814 | 14,976 | 4,826 | 8,741 | 986 |



The total Interest Payment was N2,102 million in 2023, N3,158 million in 2022, N1,659 million in 2021, N1,014 million in 2020 as well as N2,299 million in 2019 respectively.

**Total Interest Payment, 2019-2023 (NGN’ Million)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Interest Payment** | 2019 | 2020 | 2021 | 2022 | 2023 |
| Interest Payment | 2,299 | 1,014 | 1,659 | 3,158 | 2,102 |
| External | 81 | 89 | 93 | 103 | 116 |
| Domestic | 2,219 | 925 | 1,566 | 3,055 | 1,985 |



# **Chapter 4: Debt Sustainability Analysis**

*“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 having to introduce 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”.*

**Table 1: Kebbi State Debt burden indicators as at end-2023**

|  |  |  |
| --- | --- | --- |
| **Indicators** | **Thresholds** | **Ratio** |
| Debt as % of GDP | 25% | 3.39 |
| Debt as % of Revenue | 200% | 65.41 |
| Debt Service as % of Revenue | 40% | 3.13 |
| Personnel Costas % of Revenue | 60% | 21.66 |
| Debt Service as % of FAAC Allocation | Nil | 4.47 |
| Interest Payment as % of Revenue | Nil | 1.81 |
| External Debt Service as % of Revenue | Nil | 0.57 |

**Source:** Kebbi State DMD

**4.1 Borrowing Options and Borrowing Terms of New Debt**

The borrowing options are considered due to the timing of government’s cash flows throughout the fiscal year. Domestic borrowing serves as one of the main sources of borrowing with average ratio of 79.28 percent over the projection period from 2023 to 2032 and given the limited funding envelopes from the external borrowing with long processing time required of 20.72 percent, domestic borrowing are mainly through: the commercial banks, State bonds, Federal Government Interventions and other Interventions from Central Bank of Nigeria.

**Borrowing Options**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2024** | **2025** | **2026** | **2027** | **2028** | **2029** | **2030** | **2031** | **2032** | **2033** |
| **Domestic Financing** | | | | | | | | | | |
| Commercial Bank Loans 1 <> 5 years | 11,187.7 | 0.0 | 16,194.3 | 0.0 | 0.0 | 8,599.9 | 0.0 | 7,651.3 | 0.0 | 13,884.9 |
| Commercial Bank Loans - 6 years > | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| State Bonds - 1 <> 5 years) | 0.0 | 16,460.6 | 0.0 | 0.0 | 0.0 | 0.0 | 15,972.0 | 0.0 | 15,017.8 | 0.0 |
| State Bonds - 6 years > | 0.0 | 0.0 | 0.0 | 17,416.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other Domestic Financing | 18,835.2 | 10,700.0 | 6,950.0 | 0.0 | 19,476.1 | 0.0 | 19,780.9 | 18,264.9 | 19,082.9 | 13,197.7 |
| **External Financing** | | | | | | | | | | |
| External Financing - Concessional Loans (e.g., WB, AfDB) | 5.1 | 0.0 | 9.3 | 15.2 | 0.0 | 10.0 | 0.0 | 8.2 | 0.0 | 13.5 |
| External Financing - Bilateral Loans | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other External Financing | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Domestic Financing** | | | | | | | | | | |
| Total Gross Borrowing Requirements | 36,700.0 | 27,160.6 | 33,364.2 | 32,613.4 | 19,476.1 | 18,604.6 | 35,752.9 | 34,130.3 | 34,100.7 | 40,537.9 |

Borrowing Terms of New Debt (issued/contracted from 2024 onwards)

|  |  |  |  |
| --- | --- | --- | --- |
| **Borrowing Terms for New Domestic Debt**  **(issued/contracted from 2024 onwards)** | **Interest Rate (%)** | **Maturity**  **(# of years)** | **Grace**  **(# of years)** |
| Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF) | 35.00% | 5 | 1 |
| Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF) | 0.00% | 0 | 0 |
| State Bonds (maturity 1 to 5 years) | 19.30% | 5 | 1 |
| State Bonds (maturity 6 years or longer) | 19.89% | 10 | 1 |
| Other Domestic Financing | 9.00% | 7 | 1 |
| **Borrowing Terms for New External Debt**  **(issued/contracted from 2024 onwards)** | **Interest Rate (%)** | **Maturity (# of years)** | **Grace (# of years)** |
| External Financing - Concessional Loans (e.g., World Bank, African Development Bank) | 2.47% | 30 | 7 |
| External Financing - Bilateral Loans | 1.15% | 20 | 5 |
| Other External Financing | 3.00% | 7 | 5 |

* + 1. **DSA Simulation Results**

**Revenue, expenditure, overall and primary balance over the long-term.**

**Revenue** The Macroeconomic framework is based on IMF’s national real GDP growth, IMF World Economic Outlook document, and mineral benchmarks (oil price, production and NGN/USD exchange rate) as well as inflation forecasts, which was in line with the Federal Government of Nigeria’s MTEF/FSP 2024-2026.

**4.3.2 Revenue** is expected to raise within the projected period, as the FAAC allocation expected to contribute N145,019 million or 79.56 percent in 2024, N179,440 million or 77.62 percent in 2026, N210,883 million or 80.82 percent in 2028, N226,216 million or 77.79 percent in 2030, and N241,549 million or 75.33 percent in 2032, compared with the IGR which was projected to increase by 9.81 percent or N19,380 million in 2024, 10.81 percent or N25,000 million in 2026, 14.00 percent or N36,538 million in 2028, 16.53 percent or N48,077 million in 2030 and 18.59 percent or N59,615 million in 2032 respectively. The grant was projected at N19,380 million in 2024 and N21,000 million in 2033, respectively. Estimated revenue were sources from the Approved 2023 Budget; MTEF, 2023-2025; and the projections period from 2026-2036 projections as estimated by the official of Kebbi State Ministry of Budget and Economic Planning.



**4.3.2** Expenditure - the actual expenditure was increased by 19.73 percent or N18,503 million from N93,769 million in 2019 to N112,272 million in 2023, as the projected expenditure was estimated at N244,855 million in 2024, N225,349 million in 2025, N262,772 million 2026, N288,618 million in 2027, N308,083 million in 2028, N315,328 million 2029, N350,242 million in 2030, N358,034 million in 2031, N383,820 million in 2032 and N413,173 million in 2033 respectively, the Capital expenditure has the largest share over the estimated period. indicating stability in the state growth recovery. The growth in the period is predicated on sustaining effective implementation of the new laws. The government is expected to continue its fiscal strategy of directing resources to the most productive and growth-enhancing sectors, including agriculture, youth, Housing, education, Health, and Water Resources within the period.

Personnel – The staff auditing is to check abnormalities in the payroll. The State is determined to sustain the exercise by adopting the new minimum wage, as a result of the removal of subsidy, devaluation of the national currency, and also high inflation in the country, the personnel cost is projected at N40,321 million in 2024, N50,690 million in 2027, N51,333 million in 2030 and N58,666 million in 2033 respectively.

Overheads – the actual overheads cost stood at N14,548 million in 2019, N9,643 million in 2020, N10,376 million in 2021, N10,778 million in 2022, and N19,674 in 2023 respectively. Moving the average excluding outlier is used to forecast overheads because the expected growth rate for 2024-2033 is expected to substantially follow the trend recorded in the past five years, which was estimated at N22,810 million averagely over the projected period.

Total Debt Service – is based on the projected principal and interest repayments for 2024 to 2033. Hence, based on the projection, the public debt service will remain largely stable with minimal growth over the medium term.

Other Recurrent Expenditures – other recurrent expenditure comprises Social Contribution and Social Benefits – Pensions and gratuity payments projected at N18,279 million in 2024, N25,005 million in 2027 and N27,829 million in 2033.

Capital Expenditure - is based on the balance from the recurrent account plus capital receipts, and less contingency reserve as outlined above. Capital expenditure was estimated at N146,173 million in 2024, N132,700 million in 2025, N148,400 million in 2026, N155,020 million in 2027, N167,641 million in 2028, N186,262 million in 2029, N218,883 million in 2030, N223,504 million in 2031, N242,124 million in 2032, and N260,745 million in 2033 respectively.



**Gross Financing Needs (GFN) - is the sum of budget deficits and funds required to roll over debt that matures over the year.** The GFN for Kebbi State 2024-2026 estimate at N36,700.0 million in 2024, N27,160.6 million in 2025, and N33,364.2 million in 2026, respectively. The gross financing needs projection from 2027 to 2033 is estimated to have an average of N30,745.1 million, the period is hinged on the anticipated improvement on the revenue due to the various initiatives and reforms by Government, as well as efficiency and quality of spending.

Kebbi State should sustain the current Budget reform programme particularly as it relates to the preparation of a realistic budget, ensuring policy-plan-budget linkages using the State MTSSs, and early passage of the budget. Efforts should be made to prepare MTSS for other sectors not yet provided for.

Kebbi State must continue to monitor the performance of mineral-based revenues to ensure estimates are consistent with the latest development globally and within the Federal Government’s budget process. If the benchmark price of crude in the Federal FSP is lower or higher than $65 per barrel used herein and IMF, World Bank, OPEC and US Energy Information Administration Reports validate the oil price benchmark provided in Federal FSP, the State should revisit the assumptions and recalculate statutory allocation.

Kebbi State’s Debt Stock stood N75,963 million in 2023 which was estimated to increase in 2024 (N142,735 million), 2026 (N178,099 million), 2028 (N189,488 million), 2030 (N201,762 million) and 2032 (N231,237 million), respectively. The domestic debt stock estimated to contribute 59.90 percent in 2024, 68.74 percent in 2026, 66.63 percent in 2028, 64.92 percent in 2030, 66.94 percent in 2033, compared with the external debt stock that projected to contribute 40.10 percent in 2024, 31.26 percent in 2026, 33.37 percent in 2028, 35.08 percent in 2030, and 33.06 percent respectively.



Principal Repayment is estimated at N7,040 million in 2024, N20,839 million in 2029 and N22,649 million in 2033, compared with the Interest Payment N2,324 million in 2024, N16,698 million in 2029, and N20,003 million in 2033. (see Charts 18 to 20, below).





**Main Key Findings**

On the Total Debt Sustainability Analysis under Baseline Scenario, the Debt Sustainability Analysis results shows that the ratio of Debt as % of GDP is projected at 5.54 percent in 2024, 5.59 percent in 2025, 5.58 percent in 2026, 5.33 percent in 2027, 4.80 percent in 2028, 4.26 percent in 2029, 4.13 percent in 2030, 3.98 percent in 2031, 3.82 percent in 2032 and 3.74 percent in 2033, respectively, as against the indicative threshold of 25 percent. Kebbi State would remain under the threshold for Debt to SGDP ratio of 25 percent over the projection period.

On the Total Debt Sustainability Analysis, the results show that the ratio of Debt to revenue remains below its indicative threshold under the Baseline scenario. However, based on the Most Extreme Shock in Revenue, Expenditure, Exchange rate and Interest rate, and historical remain moderate debt distress over the projection period (Pease see Chart 22 and Chart 7 in 31 of the report).

The Kebbi State 2024 DSA exercise shows that there is substantial Space to Borrow based on the state’s current revenue profile. Meanwhile, the ratios of Debt Service to Revenue and Personnel Cost to Revenue trends remain under the threshold over the projection period from 2024 to 2033, with the strongminded efforts by the State Government through its various initiatives and reforms in the key sectors of the economy. Kebbi State Debt remained sustainable on the revenue and debt indicators (Pease see Chart 28 and Chart 8 in 31 of the report).

The 2024 DSA analysis revealed that the revenue-based indicators show that the Debt to Revenue projected at 78.30 percent in 2024, 77.04 percent in 2026, 72.62 percent in 2029, 69.38 percent in 2030 and 72.11 percent in 2032 the trends remain below the threshold of 200 percent.

The outcomes of the 2024 DSA analysis revealed that the Debt Service to Revenue ratios was estimated to 5.14 percent, 6.87 percent, 10.02 percent, 13.55 percent, 14.44 percent, 13.61 percent, 12.73 percent, 11.90 percent, 11.77 percent, and 12.71 percent in the period of 2024, 2025, 2026, 2027, 2028, 2029, 2030, 2032, and 2033 respectively, as against the threshold of 40 percent to the end of the projection period in the medium to long term.

The Personnel Cost to Revenue remained under state threshold of 60 percent from 2023 to 2032.

**Kebbi State Debt burden indicators, 2024-2033**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Indicator** | **Threshold** | **2024** | **2025** | **2026** | **2027** | **2028** | **2029** | **2030** | **2031** | **2032** | **2033** |
| Debt as % of SGDP | 25 | 5.54 | 5.59 | 5.58 | 5.33 | 4.80 | 4.26 | 4.13 | 3.98 | 3.82 | 3.74 |
| Debt as % of Revenue | 200 | 78.30 | 82.33 | 77.04 | 75.59 | 72.62 | 67.88 | 69.38 | 70.87 | 72.11 | 74.23 |
| Debt Service as % of Revenue | 40 | 5.14 | 6.87 | 10.02 | 13.55 | 14.44 | 13.61 | 12.73 | 11.90 | 11.77 | 12.71 |
| Personnel Cost as % of Revenue | 60 | 22.12 | 24.05 | 20.86 | 20.28 | 21.14 | 18.57 | 17.65 | 17.15 | 17.32 | 17.48 |
| Debt Service as a share of Gross FAAC Allocation | nil | 6.46 | 8.95 | 12.90 | 16.67 | 17.87 | 17.18 | 16.36 | 15.55 | 15.62 | 17.11 |
| Interest as a share of Revenue | nil | 1.27 | 4.11 | 5.20 | 6.87 | 7.18 | 6.05 | 5.42 | 5.61 | 5.68 | 5.96 |
| External Debt Service as a share of Revenue | nil | 1.22 | 1.11 | 0.84 | 0.79 | 0.89 | 0.83 | 0.86 | 0.81 | 0.89 | 0.84 |
| Gross Financing Needs as a share of SGDP | nil | 1.92 | 0.95 | 1.05 | 1.34 | 0.97 | 0.94 | 1.22 | 1.05 | 1.00 | 1.06 |
| Overall Balance as a share of SGDP | nil | -2.43 | -1.08 | -0.99 | -1.09 | -1.19 | -0.90 | -1.22 | -0.96 | -1.04 | -1.16 |
| Primary Balance as a share of SGDP | nil | -2.34 | -0.80 | -0.61 | -0.60 | -0.72 | -0.52 | -0.89 | -0.65 | -0.74 | -0.86 |
| Revenue as a share of SGDP | nil | 7.08 | 6.79 | 7.25 | 7.05 | 6.61 | 6.28 | 5.95 | 5.62 | 5.30 | 5.04 |
| Expenditures as a share of SGDP | nil | 9.50 | 7.86 | 8.24 | 8.13 | 7.80 | 7.18 | 7.17 | 6.58 | 6.34 | 6.20 |



**Conclusion**

The outcome of the 2024 DSA revealed that Kebbi State’s Total Debt remains at a Low Risk of Debt distress with substantial space to accommodate shocks. Kebbi State Risk Rating remains at a Moderate Risk of debt distress with capacity to accommodate shocks in Revenue, Expenditure, Exchange rate and Interest Rate. The ongoing efforts by the government towards improving revenue generation and diversifying the economy, through various initiatives and reforms in Tax Administration and Collections, as well as the Strategic Revenue Law, would improve the outlook for Total Debt with enhanced revenue performance. Thus, the Revenue indicators and Borrowing Space are expected to improve in the medium to long-term.

* + 1. **DSA Sensitivity Analysis**

The Kebbi 2023 DSA analysis remains at moderate risk of debt distress under sensitivity analysis. The State DSA under a pessimistic scenario shows deteriorated or weakening ratios due to application of revenue shocks, expenditure shocks, exchange rate shocks, interest rate shocks and historical shock, that would lead to increase Gross Financing Needs over the projection period. The shocks applied breached the threshold under debt stock as percentage of GDP that breached the benchmarks from 2028 to 2033 through historical Shocks, as well as under debt stock as percentage of revenue as the historical shocks breached the threshold from 2027 to 2033, respectively. There is an urgent need for the authorities to fast-track efforts aimed at further diversifying the sources of revenue away from crude oil (FAAC), as well as implementing far-reaching policies that will bolster IGR into the state. This has become critical, given the continued volatility in the FAAC allocation.

Strict adherence to prudent debt management as well as fiscal discipline contributed towards debt sustainability. With the provisions of law guiding domestic and international borrowing by Fiscal Responsibility Act, and Debt Management, the Government is positioned for prudent debt management and fiscal discipline to be able to honor its future financial obligations without recourse to any financing options.

The projections under the Kebbi State 2023 DSA remain sustainable due to strict adherence to prudent debt management as well as fiscal discipline. With the provisions of law guiding domestic and international borrowing by Fiscal Responsibility Act, and Debt Management, the Government is positioned for prudent debt management and fiscal discipline in order to be able to honor its future financial obligations without recourse to any financing options.



# **Chapter 5: Debt Management Strategy**

Sovereign 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, achieve its risk and cost objectives, and to meet any other sovereign debt management goals the government may have set, such as developing and maintaining an efficient market for government securities. 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, in light of 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.

The risks inherent in the structure of the government's debt should be carefully monitored and evaluated. These risks should be mitigated to the extent feasible by modifying the debt structure, taking into account the cost of doing so. To guide borrowing decisions and reduce the government's risk, the authorities should consider the financial and other risk characteristics of the government's cash flows associated with external and domestic financing.

The Debt Management Strategy provides alternative strategies to meet the financing requirements for Kebbi State. The strategies are shown by the breakdown of funding mix between the external and domestic windows, within the broad categories of domestic and external, the share of each stylized instrument has also been illustrated. The Kebbi State’s Debt Management Strategy, 2024-2028, analyses the debt management strategies outcomes of the three debt management performance indicators namely Debt Stock to Revenue, Debt Services to Revenue and Interest to Revenue. The cost is measured by the expected value of a performance indicator in 2028, as projected in the baseline scenario. Risk is measured by the deviation from the expected value within the period caused by an unexpected shock, as projected in the most adverse scenario. The following four strategies are assessed by the government.

**5.1 Alternative Borrowing Options**

**Strategy 1 (S1) Reflects a “status quo” MTEF Financing Mix:** It follows the broad parameters of the financing mix in the fiscal year 2023 and MTEF, 2023-2025. External gross borrowing under Concessional loans accounts with an average of 19.08 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 Commercial Bank loans with maturity of 1-5 years are projected to account on average of 15.80 percent over the strategic period, State Bonds (1-5 years), State Bonds (above 6 years) and Other Domestic Financing are estimated with an average of 12.12 percent, 10.68 percent, and 42.31 percent over the DMS period of 2024-2028.

**Strategy 2 (S2) Focus more on financing through commercial bank loans:** In this strategy it has been assumed the distribution between external and domestic borrowing remains the same in 2023 as its in strategy 1. With the remaining borrowing distributions from 2024 to 2027, the state government will focus its financing through commercial bank loans with average 57.16 percent under maturity of 1-5 years, State Bonds under maturity of 1-5 years with an average of 13.77 percent, Other Domestic Financing with an average of 21.71 percent and other gross financing needs through external financing from Concessional and Bilateral Loans which estimated to account for 3.64 percent and 3.72 percent averagely over the period.

**Strategy (S3) Focus its financing through domestic debt market**. In strategy 3, the government decided to focus its financing from 2024 to 2028, through Commercial Bank loans (1-5 years), State Bonds (1-5 years), State Bonds (above 6 years), Other Domestic Financing, and Concessional Loans with an average of 38.18 percent, 9.04 percent, 26.07 percent, 16.25 percent and 10.25 percent respectively. This strategy considers the scenario where proportions of external and domestic debt instruments in 2023 remain the same with strategy 1.

**Strategy (S4) increases the share of external borrowing.** In this strategy, External Financing (Concessional Loans) represents an average of 25.38 percent from 2024-2028, Bilateral loans 5.07 percent, other gross financing comprises other Domestic financing, Commercial bank loans (1-5 years), State Bonds (1-5 years), and Other Domestic Financing which was estimated to finance the financing need with an average period of 51.39 percent, 7.90 percent, 10.26 percent over the period.

**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.

1. **Debt as a share Revenue:**

* Strategy 1 shows that, the Cost ratio of Debt to Revenue projected at 72.62 percent in 2028, as against Strategy 2 (83.51 percent), Strategy 3 (79.35 percent) and Strategy 4 (77.32 percent), over the strategic period, compared with the Risks which was measured Strategy 1 (153.83 percent), Strategy 2 (150.92 percent), Strategy 3 (152.03 percent) and Strategy 4 (152.57 percent), respectively.
* Analysis using this debt indicator of debt to revenue shows that S1 has the lowest costs which was measured at 72.62 percent compared to Strategy 2 that expected to highest Costs and S2 recorded with the lowest risks with the average measured at 150.92 percent, as the Strategy 1 was measured with the highest risks under debt to revenue ratio, over the period.



1. **Debt Service as a share of Revenue:**

* In terms of Debt Service to Revenue, Strategy 1 has the lowest costs and risks with 14.44 percent and 4.32 percent by the end of the strategic period compared with Strategy 4 of 17.07 percent and 4.37 percent, Strategy 3 of 18.28 percent and 4.51 percent, all under moderate costs and risks, as against the Strategy 2 with the highest costs and risks of 21.25 percent and 4.84 percent respectively, as at end of the strategic period.
* S1 has the lowest costs and risks of 14.44 percent and 4.32 percent under the Debt Service to Revenue ratio compared with S2 with highest costs and risks, and the Strategy 3 and are considered as the moderate strategy by the end of strategy period.



1. **Interest as a share of Revenue**

* S1 is the least costly and S2 is least risky with regards Interest to Government revenues, which projected at 7.18 percent and 5.00 percent, whilst S2 measured as the costly strategy and S1 measured as the riskiest strategy which estimated at 11.93 percent and 6.27 percent, compared to S4 and S3 with moderate costs of 9.42 percent and 10.19 percent compared with the moderate risks 5.46 percent and 5.67 percent, as at end of the strategic period.
* The analysis shows that the S1 has the lowest cost and risk, compared with the S2, S3 and S4.



**5.3 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 cost and risk would suggest that the recommended strategy is S1 these results were just marginally better when compared with other Strategies. **It was considered that S1 is the most feasible of the strategies to implement in the short-term and it would still greatly improve the portfolio’s debt position relative to the base year 2024**. In line with the result, it is highly recommended that S1 should be considered in the medium Term in order to raise the required amount of funding at the lowest possible cost over the medium term, consistent with a prudent degree of risk.

In comparison to the current debt position, Kebbi State debt portfolio stood at N75,962.95 million as at end-2023, which expected an increase to N189,488.40 million under S1 during the strategic period, compared to S2 (N217,902.69 million), S3 (N207,049.28 million), and S4 (N201,733.33 million). 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, S1 is selected as the preferred strategy for the 2024-2028.

The Debt Management Strategy, 2024-2028 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 2024 budget. The cost-risk trade-off of alternative borrowing strategies under the DMS has been evaluated within the medium-term context.

# **Summary of 2024 DSA-DMS**

The outcome of the 2024 DSA revealed that Kebbi State’s Total Debt remains at a Low Risk of Debt distress with substantial space to accommodate shocks. Kebbi State Risk Rating remains at a Moderate Risk of debt distress with capacity to accommodate shocks in Revenue, Expenditure, Exchange rate and Interest Rate. The ongoing efforts by the government towards improving revenue generation and diversifying the economy, through various initiatives and reforms in Tax Administration and Collections, as well as the Strategic Revenue Law, would improve the outlook for Total Debt with enhanced revenue performance. Thus, the Revenue indicators and Borrowing Space are expected to improve in the medium to long-term.

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. It was considered that S1 is the most feasible of the strategies to implement in the short term and it would still greatly improve the portfolio’s debt position relative to the base year 2024.

## Annex I: Baseline Assumptions

**Statutory Allocations** – The forecast for the statutory allocation is based on the benchmarked oil price, exchange rate and the oil production Benchmark for the 3 years. Once they are actualised coupled with the subsidy removal, the State can receive the forecasted figures for cash allocation. It is based on historical mineral revenue flows and elasticity-based forecast was used.

**Other Federation Account receipts** – the estimation is based on the historical trend (i.e. from 2017- 2022). The State is developing its mineral sector and is expected to receive more funds from derivation and other sources of funds.

**Value Added Tax (VAT)** – elasticity based on the past performance is used to forecast VAT for 2024-2026. This forecast should be revisited if there are any changes to the VAT rates.

**Internally Generated Revenue (IGR)** – the current administration is improving on the ongoing measures to grow IGR. These measures have started yielding results as actual IGR for the current year is increasing. It is anticipated that IGR will continue to increase by 30% in the current year and start to stabilize from 2024 with a minimum annual growth of 30%. Own Percentage is therefore used to forecast IGR for 2024 – 2026.

**Grants** – The internal grants are based on the actual receipts for 2023 and performance from 2019 to 2023. External grants are based on signed grant agreements with the development partners.

**Other Non-Debt Creating Capital Receipts** - Sale of Govt Assets and Other Non-Debt creating Capital receipts are based on the actual receipts from 2019 to 2023. 36,700.0

**Financing** – Financing – Kebbi State intends to secure an external loan/borrowing of about US$5.1 million in 2024 out of the N36,700 million for 2024 proposed financing needs. All internal and external loans are projections based on signed agreements.

**Personnel** –It is anticipated that there will be a new minimum wage before the end of 2023 to cushion the effect of the subsidy removal and naira devaluation which will impact on the wage bill from the fourth quarter of 2023. The projection is that total wage bill will increase by 10% in 2023, with a gradual increase of 15%, 18% and 22% over the 2024 – 2026 fiscal years.

**Overheads** – Overhead has been relatively stable between 2017 and 2021 before the sharp increase in 2022. It is anticipated that it will increase further by 10% at the end of 2023. Consequently, own percentage method is used to forecast overhead for 2024, 2025 and 2026 (5%, 3% and 3% respectively).

**Social Contribution and Social Benefits** – A substantial amount is being owed as pension and gratuity payment. It is appropriate to make adequate provision for these items and other social commitments. Hence, the own value, representing computation for outstanding commitments as well as estimation for next medium term is used.

**Public Debt Service** - is based on the projected principal and interest repayments for 2024, 2025 and 2026.

**Other Recurrent Expenditure (excluding Personnel Costs, Overhead Costs and Interest Payments)** - Special programme is expected to increase marginally on the actual performance level of 2022. This trend is expected in the period of forecast and have been incorporated in the basis of the forecast for 2024 – 2026

Capital Expenditure – is based on the balance from the recurrent account plus capital receipts, less contingency reserve as outlined above.

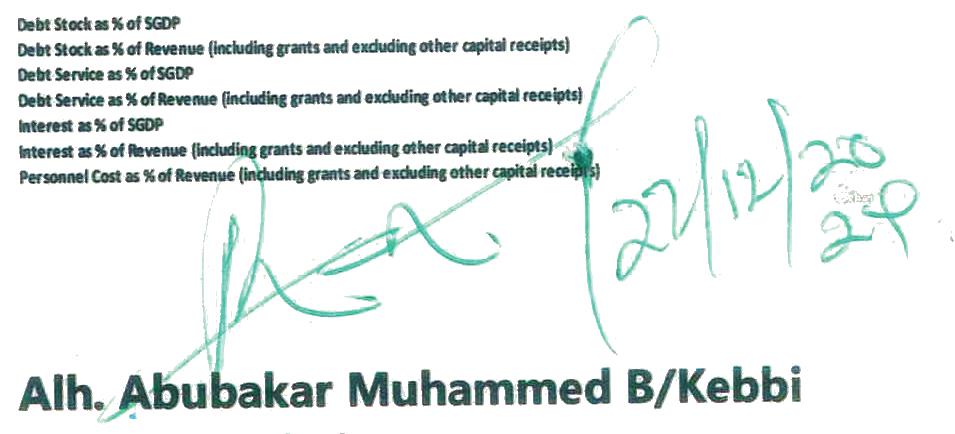




## Annex II: Kebbi State Baseline Scenarios, 2019-2033



***Annex II: Kebbi State Baseline Scenarios, 2019-2033…Cont’d***

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**Alh. Abubakar Muhammed B/Kebbi**

**Hon. Commissioner**

**Ministry of Finance, Kebbi State**