DEBT MANAGEMENT OFFICE
NIGERIA

SFTAS
States Fiscal Transparency, Accountability and Sustainabilty

STATE DEBT SUSTAINABILITY ANALYSIS AND DEBT MANAGEMENT STRATEGY

(STATE DSA - DMS)

DEVELOPED BY THE

ADAMAWA STATE DEBT MANAGEMENT AGENCY (DMA)

IN COLLABORATION WITH

THE WORLD BANK

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CHAPTER ONE
INTRODUCTION

1.0 Background of Debt Sustainability.

A State's Public Debt is considered sustainable if the Government is able to meet all its current and future payment obligations without exceptional financial assistance i.e. extreme financing or additional borrowing. Furthermore, Debt Sustainability Analysis (DSA) assesses how a State's current level of debts and prospective borrowing affects its present ability to meet debt service obligations. It is a consensus that a key factor for achieving external and public debt sustainability is a macroeconomic stability.

Debt sustainability is aimed at determining the extent of robustness of the state's current and future revenues in meeting these Debt service obligations.

The Debt Sustainability Analysis analyzes the trends and patterns in the State's public finances during the period 2017 - 2021 and evaluates the debt sustainability in projected period 2022 - 2031 (the long-term). The analysis highlights recent trends in revenue, expenditure, and public debt, and the related policies adopted by the State. A debt sustainability assessment is conducted, including scenario and sensitivity analysis, in order to evaluate the prospective performance of the State's public finances.

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 Adamawa 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 Adamawa 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.

1.2 SUMMARY OF FINDINGS

The results of the Adamawa State S-DSA shows that the State's debt portfolio appears to be sustainable in the short term to medium term, but it will be unsustainable in the long term if all the technical inputs/ measures such as the IGR drive, and blockages of leakages are not put into considerations.

The State has made giant strides in IGR mobilization through the recently introduced, improved, tax administration reforms. The State's revenue office is now autonomous with more competent personnel to follow through on the state's vision with the assistance of up-to-date technology. Also worthy of mention is the Land Use Charge as a new revenue head embedded with motivators to reduce tax defaulters. Given the State's forecasts for the economy and reasonable assumptions concerning its revenue and expenditure policies, there is a need to cut down on recurrent expenditure in order to reduce the deficit which can disrupt the forecast by increasing Debt Stock and Debt Service payment astronomically. The Covid-19 pandemic with its attendant impact on the price of crude oil will most likely reduce the statutory allocation to the State from the center.

CHAPTER TWO

THE ADAMAWA STATE FISCAL AND DEBT FRAMEWORK

2.1 Fiscal Reforms in the Last 4 to 6 years

Adamawa State fiscal policy measures have been driven by objectives such as the need to promote macro-economic policy objectives, such as promoting rapid growth of the state, generating employment and maintaining price levels. Although policy measures change frequently, these objectives have remained relatively constant.

The reform of revenue administration is ongoing, with implementation of Treasury Single Account (TSA), IGR projection in the immediate term is expected to surpass 2021 approved estimates, and however, actual collections are largely expected to rise due to blockage of leakages. It is believed that current effort to establish taxpayer database by BIR, perfection of the TSA 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, collection is hoped to improve. Also, the Board of Internal Revenue has introduced more revenue sources intended to boost inflows such as ground rent and other collections from the grains and cattle markets etc. Therefore IGR is expected to grow annually from 2022 up to 2031.

The Fiscal Reforms being implemented by the Adamawa State Government in the last four to six years include the Public Financial Management (PFM) and Human Resource Management (HRM) which are sub-divided into Budget reform, Audit reform, Public Procurement reform, Tax Administration reform, 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 Adamawa State Fiscal Responsibility Law (FRL), 2020 Amended; Adamawa State Finance Management Law, 2017; Adamawa State Government Financial Regulations and Store, 2017; Adamawa State Public Procurement Law 2017 and Adamawa State Audit Law, 2021 Amended. 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.

2.2 Adamawa State Approved 2022 Budget and Medium-Term Expenditure Framework (MTEF), 2022-2025

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 Coronavirus Pandemic. The resulting global economic recession, low oil prices and heightened global economic uncertainty have had important implications for our economy.

Based on the foregoing fiscal assumptions and parameters, the Adamawa State total revenue available to fund the 2022 Budget is estimated at N86,337 billion, this includes Internally Generated Revenue N13,326 billion which constitutes 15% of the total projected Revenue, Statutory FAAC Allocation N65,738, which constitutes 76% of the total estimated Revenue, Capital receipt N28,677 billion, Grants N7,273 respectively.

Total projected Revenue:

	2022	2023	2024	2025
Total Revenue	86,337	99,473	110,451	103,197
Gross FAAC Allocation	65,738	75,887	89,612	81,551
IGR	13,326	14,658	15,391	14,458
Grants	7,273	8,928	5,448	7,188

The 2022 proposed projected Expenditure comprises of Total estimated expenditure of N115,763 billion, Overhead cost of N19,542 billion constitutes 17% of the total projected Revenue, Debt service (interest + amortization) N10,318 billion, other recurrent expenditure of N8,271 billion, personnel cost of N31,697billion constitutes 27% of the total projected Revenue and Capital Expenditure of N45,935 billion representing 40%, respectively, Adamawa State's total revenue is projected to grow from 2022 to 2024 and fall in 2025. Between 2023 and 2024, our projections show tremendous increase in oil revenues due to the unrest in eastern Europe (Russia-Ukraine war) which has created scarcity of oil products internationally. By extension, this has raised the price of oil to over $100 per barrel. This is expected to result in greater FAAC for Adamawa State in 2023 and 2024. However, normalcy is projected to return by 2024, leading to availability of the product, hence decline in price of the commodity, accounting for the shortfall in projected oil revenue for the State in 2025

Total projected Expenditure:

	2022	2023	2024	2025
Total Expenditure	115,763	111,757	132,685	130,057
Personnel	31,697	33,232	33,843	32,257
Overhead Costs	19,542	21,323	20,257	20,041
Debt Service (Interests+Amortizations)	10,318	13,330	18,214	21,276
Other Recurrent Expenditures	8,271	8,685	9,119	8,692
Capital Expenditure	45,935	35,188	51,252	47,792

Overheads comprise mainly of operational and maintenance costs for running day-to-day activities of the Government. Overhead allocations are transferred to MDAs monthly subject to warrants and availability of fund. Performance against budget has been poor occasioned by dwindling fortune of the revenue year-on-year. Going forward, overhead expenditure must be brought under control, to ensure that cost of governance is not more than necessary. The expansion in the loan repayment was because of upward review of the monetary police rate (MPR) which is one of the determinants of the cost of funds. This influenced the upward review of the lending rate by commercial banks and new loans that the State intends to acquire.

Aside from the legislation made by the state assembly to raise a state Bond of N100 billion in four tranches, year by year i.e. N25 billion for each year, starting from the year 2021, the state Debt Management Agency has advised the State to seek soft loans from the federal government through on-lending as they are cheaper in terms of pricing. By the year 2024, it is presumed that new/ existing Government will be firmly settled for infrastructural development, this explains the increase in capital expenditure from N35.188 billion in 2023 to N51.252 billion in 2024

2.2.2 The Key Reform Drivers of Adamawa State Approved 2022 Budget

i. Reduction in the cost of running Government

ii. Prudent management of scarce Government resources

iii. Enhanced revenue optimization system

iv. Meticulous assurance of value for money

v. Improved payroll management systems

vi. Respect all commitments and restructure the Debts of predecessor Governments of the State

vii. Constituting a robust cabinet with good Economic management team

viii. improve the state's public financial management to entrench transparency, accountability and integrity; and

ix. Strategic diversification of the state's economy using the Public Private Partnership (PPP) model.

2.2.3 Medium Term Budget Policy Objectives and Targets 2022 -2025

The overall medium-term policy objectives are:

1. Reduced over-dependence on Federal transfers through improved independent revenue generation achievable via a technological-driven and autonomous Board of Internal Revenue.

2. Continuous improvement in access to - and quality of - public services, these include Agriculture, Environmental and Infrastructural Development, Education, Water and Health Care Delivery Systems at all levels. Inherent in this is the resolve of government to promote gender equality and inclusive development.

3. Pursuit of initiatives that would continue to generate economic growth and guarantee security. This would involve implementation of programmes that generate employment and create wealth and ensure adequate security. Grow the economy through targeted spending in areas of comparative advantage.

Another major priority area is to broaden governance reforms particularly in the area of policy and strategy; public expenditure and financial management; and public service management. As part of this process, Government has started developing the Adamawa State Medium-Term Development Plan and Medium-Term Sector Strategy for the key sector

CHAPTER THREE

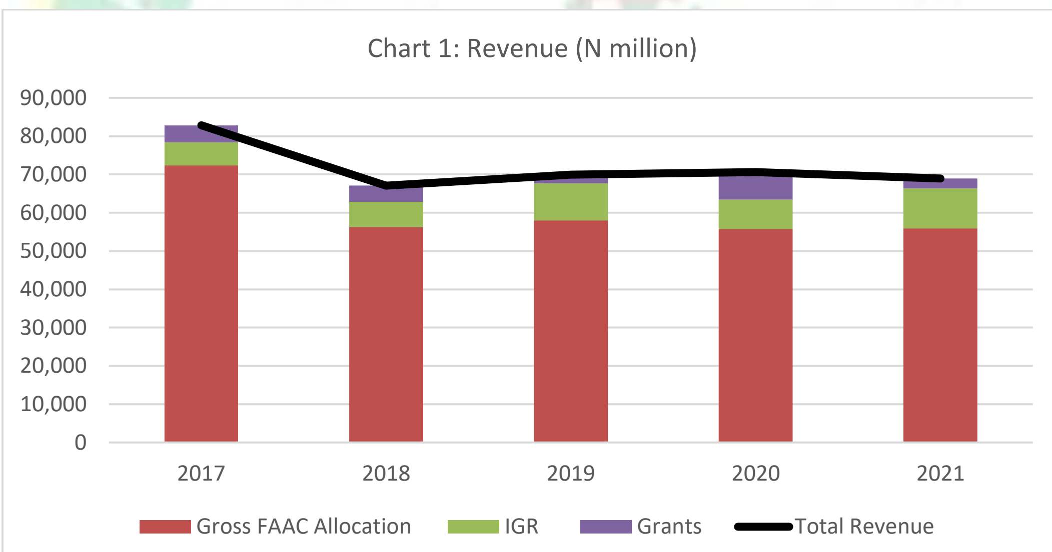
The Adamawa State Revenue, Expenditure, and Public Debt Trends (2017 - 2021)

3.1 Revenue, Expenditure and Overall and Primary Balance

The revenue of Adamawa State squarely depends on the State's share of Statutory Allocation from the Federation Account, Value Added Tax (VAT) and to some extent Internally Generated Revenue. Other sources like Excess Crude oil, Ecological and Stabilization funds are not regular. The State also gets substantial amount on Capital Receipts.

The actual revenue earned by Adamawa State Government for the period 2017 - 2021 are shown and explained in Chart 1, while the actual expenditures incurred by the State are shown in Chart 2.

Chart 1: Revenue



	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Total Revenue	82,837	67,068	69,979	70,605	68,948	86,337	99,473	110,451	103,197	105,370	106,424	107,488	108,563	109,649	115,919
Gross FAAC Allocation	72,335	56,262	58,016	55,709	55,937	65,738	75,887	89,612	81,551	84,217	85,059	85,909	86,768	87,636	91,401
IGR	6,044	6,614	9,705	7,740	10,375	13,326	14,658	15,391	14,458	14,836	14,984	15,134	15,285	15,438	16,953
Grants	4,458	4,193	2,259	7,156	2,636	7,273	8,928	5,448	7,188	6,318	6,381	6,445	6,509	6,574	7,565

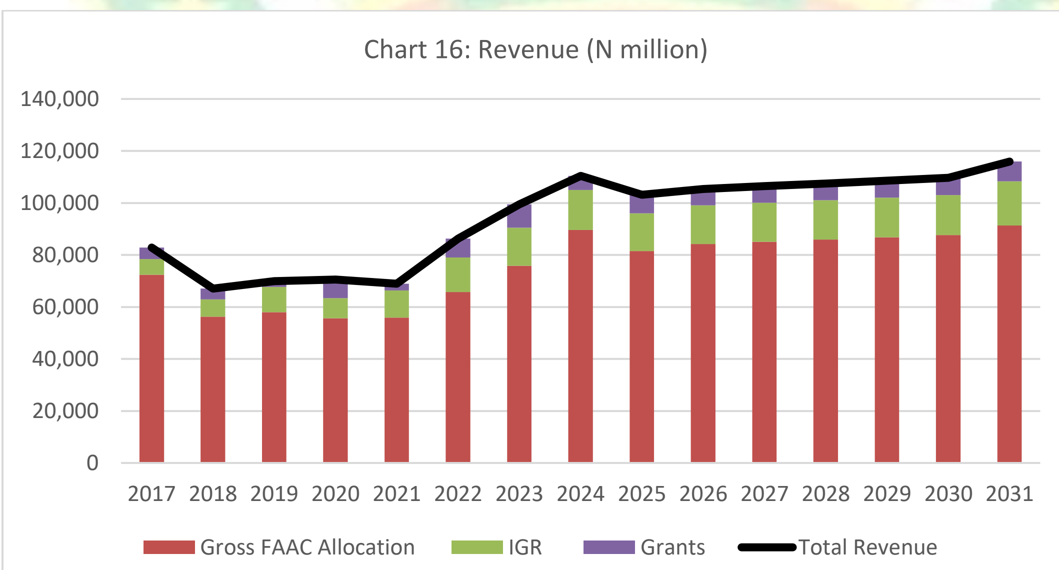
The Gross FAAC Allocation accounts for **87%** performance to total recurrent revenue of the state in 2017 but slightly went down as a result of the impact of post economic recession experienced in the country in 2017. However, 2019 the economy picked up slightly as a result of Federal Government Recovery Interventions, and slightly dropped in 2020 and slightly picked up in 2021 respectively. However, it is expected to increase by over 20% in 2022 by projection.

The average Internally Generated Revenue (IGR) of N6.0b accounts for **7.30%** of the total Revenue in 2017 and also contributed nearly 11% of total Revenue in 2020. The IGR is expected to increase by 10% in 2022. With the recent Tax Administration Reform by the state which includes the Introduction of Land Services, Automated Tax Collection of all forms, Treasury Single Account (TSA), etc., there will be tremendous improvement in the performance of the State IGR.

Chart 1: Revenue (Historical)

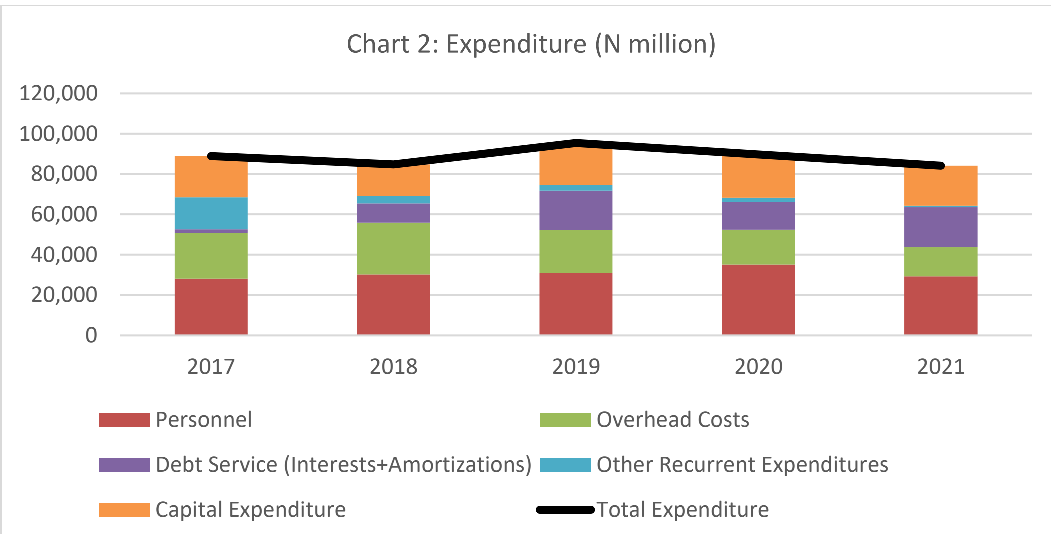
The historical chart below depicts the revenue pattern of the state from 2017 to 2031, it is projected that in 2022, it will rise to about **N86.3b** and further astronomically to about **N110.4b** in 2024 due largely to the proceeds of State bond issuance, which will stimulate Agric-business in the state, and reduce the expenditure due to pensions, thus making the state PENCOM compliant.

Between 2020 and 2021, the State also recorded a 68% increase in its IGR moving from N7.740bn in 2020 to N10.375bn in 2021. The decline in 2020 IGR was caused by Covid-19 pandemic while recovery and government interventions like tax relief led to improved revenue generation in the following year.



	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	
Total Revenue	82,837	67,068	69,979	70,605	68,948	86,337	99,473	110,451	103,197	105,370	106,424	107,488	108,563	109,649	115,919	
Gross FAAC Allocation	72,335	56,262	58,016	55,709	55,937	65,738	75,887	89,612	81,551	84,217	85,059	85,909	86,768	87,636	91,401	
IGR	6,044	6,614	9,705	7,740	10,375	13,326	14,658	15,391	14,458	14,836	14,984	15,134	15,285	15,438	16,953	
Grants	4,458	4,193	2,259	7,156	2,636	7,273	8,928	5,448	7,188	6,318	6,381	6,445	6,509	6,574	7,565	

Chart 2: Expenditure



	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Total Expenditure	88,981	84,838	95,438	89,673	84,168	115,763	111,757	132,685	130,057	137,062	149,364	157,422	169,817	174,962	183,049
Personnel	28,127	30,291	30,872	35,141	29,337	31,697	33,232	33,843	32,257	32,777	33,105	33,436	33,770	30,108	31,588
Overhead Costs	22,744	25,666	21,335	17,228	14,303	19,542	21,323	20,257	20,041	20,540	20,746	20,953	21,163	21,374	21,588
Debt Service (Interests+Amortizations)	1,719	9,548	19,573	13,682	19,916	10,318	13,330	18,214	21,276	26,502	37,698	44,640	55,907	66,913	74,592
Other Recurrent Expenditures	15,938	3,834	2,931	2,320	781	8,271	8,685	9,119	8,692	8,832	8,920	9,009	9,099	9,190	9,282
Capital Expenditure	20,453	15,498	20,727	21,303	19,830	45,935	35,188	51,252	47,792	48,411	48,895	49,384	49,877	47,376	45,998

Chart 2 above depicts Aggregate (Total) Government Expenditure i.e., Recurrent and Capital Expenditures. The recurrent expenditure includes Personnel Cost, Overhead Cost, Debt Service (Principal and Interest) and Consolidated Revenue Fund Charges (CRFC); while the capital expenditure is the total expenditure incurred on infrastructural development of the State.

The personnel cost consists of salaries and allowances of all Ministries, Departments and Agencies as well as public and political office holders' emolument. The State personnel cost accounts for almost **32%** of the State Total Expenditure from 2017. While in 2021 the personnel cost accounts for about **35%** of Total Expenditure and is projected to account for 27.3% of Total Expenditure by the end of 2022. Overhead expenditure entails the cost of maintenance and operation of Government activities, even though it has been relatively volatile over the period 2017 - 2021. However, overhead cost is projected to account for 17% of Total Expenditure of the State by the end of 2022.

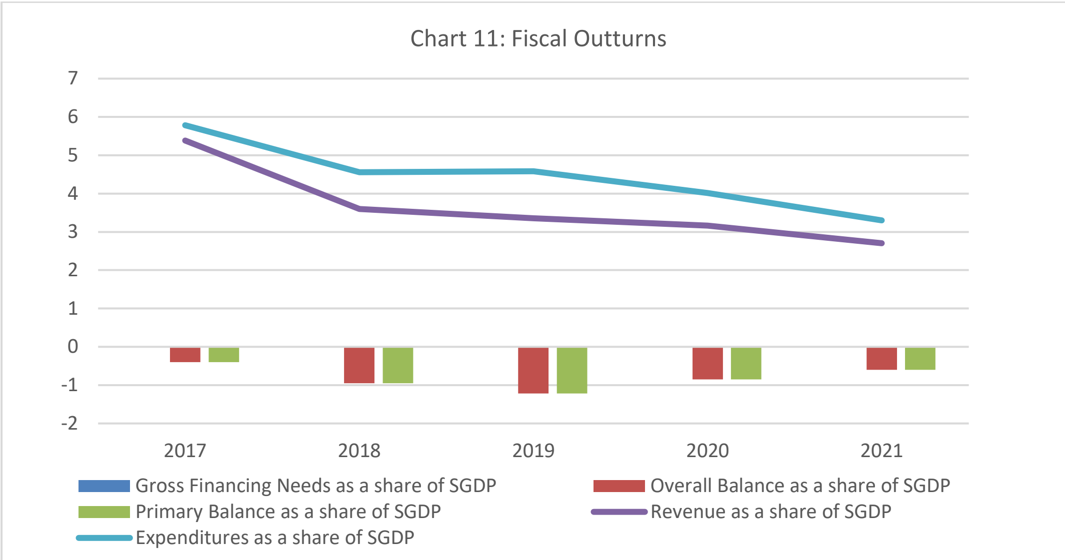
Between 2020 and 2021, Adamawa State recorded a decline in its personnel cost from N35,141bn to N29,337bn. This was as a result of retirements of about 2,000 senior civil servants. Also, between 2020 and 2021, the State government conducted a verification exercise for all civil servants that led to the identification and removal of ghost workers from its payroll.

In addition, overhead costs fell from N17,228bn in 2020 to N14,303bn in 2021. Deliberate steps such as slash in the running costs of MDAs by between 15-25%, were taken by the Government. This was done to reduce the cost of running Government to free up more funds for capital projects in the State.

Capital Expenditure includes the main investment and implementation of programme 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. 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 State capital expenditure to total expenditure is expected to account for about **40%** of the State Total Expenditure by the end of 2022.

Except for 2018 and 2021, Adamawa State has expended an average of N20 billion on Capital Expenditure owing to competing demand and increase in recurrent expenditure without corresponding increase in the total revenue of the State. The highest capital expenditure recorded was N21.3 billion in 2020 while the lowest was

N15.5 billion in 2018. Some major capital projects include the construction of 2 flyovers in the State capital.



3.2 Budget and Debt Out-Turn

In the fiscal out turn of the state, the revenue pattern moved from N82.837 billion in 2017, to N67.068 in 2018, N69.979 in 2019, N70.605 in 2020, N68.948 in 2021. It is projected to increase to N103.197 billion by 2025. The expenditure pattern has been on the steady increase from N88.981 billion in 2017, N89.673 in 2020 and dropped to N84.168 billion in 2021.

The year 2017 was closed with a budget balance of N-953.7 million (deficit), which increased further to a surplus of N1.215 billion in 2018, and the state went into deficit again in the year 2019 by N-929.4 million to N11.754 billion (surplus) in 2020. This dropped to N1.372 billion (surplus) in 2021.

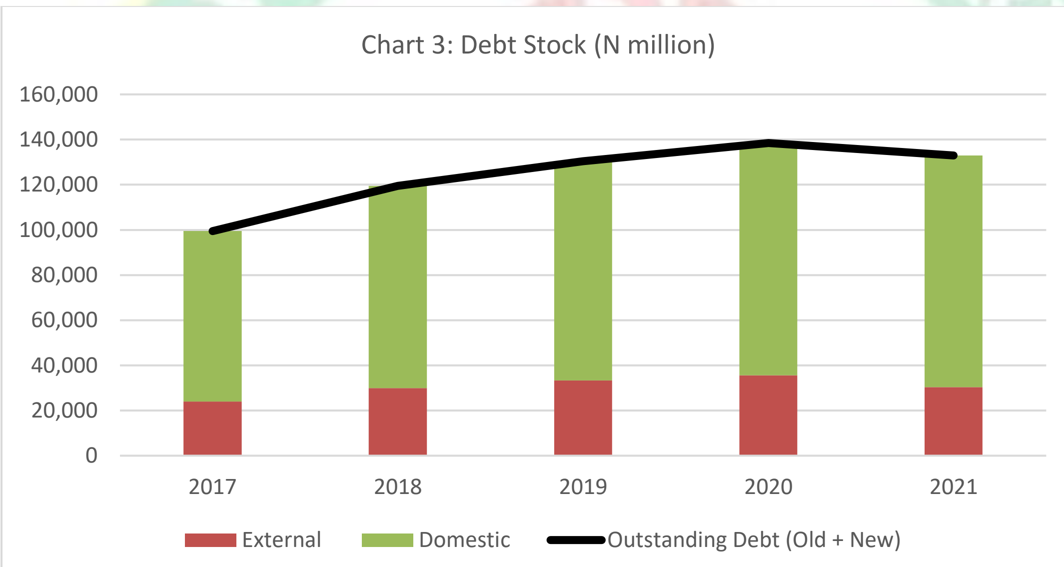
Some of the factors responsible for the fluctuations in revenue include the decline in oil production, price of oil at the international market, recessions in 2016 and 2020, and the effect of Covid-19 pandemic.

3.3 Existing Public Debt Portfolio

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

Chart 3: Debt Stock

	2017	2018	2019	2020	2021	2022
Outstanding Debt (Old + New)	99,454	119,504	130,338	138,462	132,933	153,238
External	23,952	29,906	33,347	35,664	30,396	32,480
Domestic	75,502	89,598	96,991	102,797	102,538	120,758



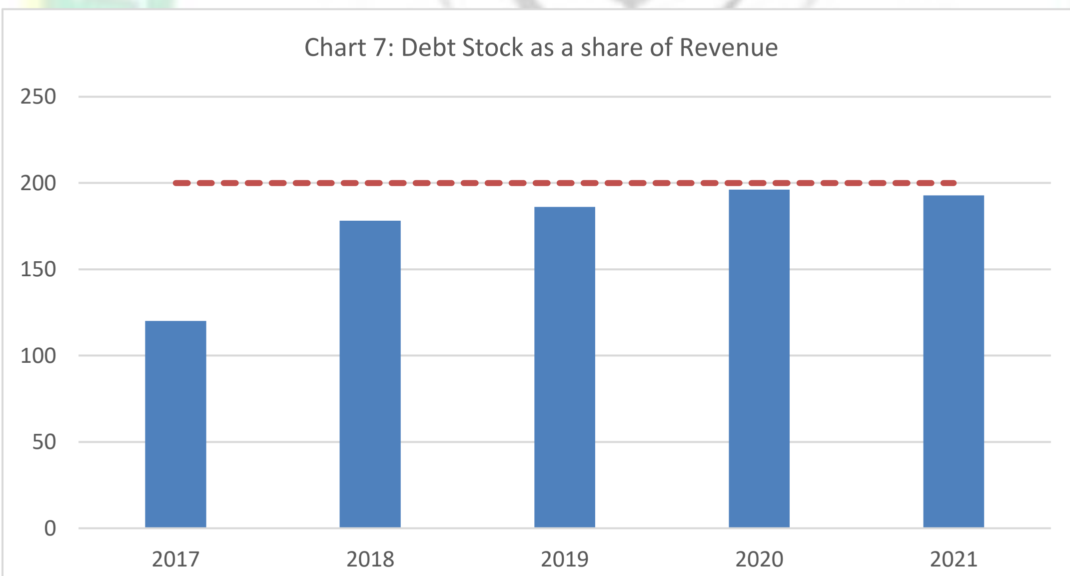
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Outstanding Debt (Old + New)	99,454	119,504	130,338	138,462	132,933	153,238	162,919	179,732	199,744	220,927	245,869	274,555	308,601	338,798	367,888
External	23,952	29,906	33,347	35,664	30,396	32,480	32,040	43,867	43,398	42,932	60,756	59,915	81,333	85,960	104,412
Domestic	75,502	89,598	96,991	102,797	102,538	120,758	130,879	135,864	156,346	177,994	185,113	214,640	227,269	252,838	263,476

The debt stock is classified into two in the chart, which includes the External and Domestic debt.

The State’s public debt as at 2017 ending stands at (N99,454bn) constituting (N75,502bn) Domestic debt and (N23,952bn) as External debts.

While the State’s public debt amounted to N132.933bn at the end of 2021 and has been increasing since the collapse of oil prices. The State’s debt portfolio largely consists of Domestic debt with about 77% and External stood at about 23% of the Total debt stock. At the end of 2022, Domestic debt is projected to increase by 79% mainly due to Bond floatation by the State. Adamawa state intends to float state Bonds serially within four years i.e., 2022- 2025 as legislated by the state assembly.

The State holds a medium-cost, and medium-risk debt portfolio. The debt portfolio carried an average interest payment represented by just 5% of total expenditure in the year 2022. In addition, the debt portfolio is narrowly exposed to currency, interest rate, and rollover risks. Most external loans are fixed, thus not affected by changes in interest rates as these loans have maturities running from 5 to 30 years and include financing from the Federal Government and multilateral organizations.



			2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
S1_Baseline	21a	Debt as % of Revenue	120	178	186	196	193	177	164	163	194	210	231	255	284	309	317
S1_Baseline	21b	Threshold	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200

The chart above depicts the state debt stock as a share of Revenue which is below the prescribed threshold of 200 i.e., in the historical years of 2017-2022, indicating that the state debt is within its Debt Carrying Capacity in the period under review. It was shown to bridge the threshold by the projected year 2026. Therefore, caution should be taken by the government to further widen the revenue bracket of the State.

CHAPTER FOUR
DEBT SUSTAINABILITY ANALYSIS

4.0 INTRODUCTION

A Debt sustainability analysis (DSA) assesses how a state or nation's current level of debt and prospective borrowing affect its present and future ability to meet debt service obligations. It is a consensus that a key factor for achieving external and public debt sustainability is macroeconomic stability. 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. Government therefore should endeavor to strike a balance between revenue and expenditure, so that any debt incurred will not impact negatively on the State, leading to serious financial crisis.

4.1 ADAMAWA STATE DEBT SUSTAINABILITY ANALYSIS

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

Table 6: Adamawa State Debt burden indicators

Indicators	Thresholds	As at 2021	Average 2017 to 2031/Ratio
Debt as % of GDP	25%	5%	5%
Debt as % of Revenue	200%	193%	227%
Debt Service as % of Revenue	40%	58%	36%
Personnel Cost as % of Revenue	60%	43%	32%

Source: Adamawa State DSA/DMS Template, 2022

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. The ratio has continued to decrease steadily over the period under review dropping to 4 - 5 percent from 2021 up to 2031, it is well within the threshold. 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's economy. Chart 22 shows the Debt stock as a percentage of revenue.

Debt to Revenue peaks in 2020 because of increased borrowing and depressed revenue in the light of COVID-19. However, as noted by Federal Government, this ratio is far more a revenue issue than a debt issue, and with positive dynamics in Federation Account Receipts (based on mineral revenues, CIT, Customs and VAT) beyond the prudent forecasts under the baseline. This ratio has the potential to fall even further than Chart 22 shows.

The baseline sees the Debt to Revenue ratio dropping to 163% in 2024 and increasing to more than 200% i.e. above the threshold from 2026 - 2031.

For Debt Service as percentage of Revenue (chart 23), debt service will naturally increase over the medium term as the debt portfolio increases. It was below the 40% threshold in the historical years 2017 to 2020 until in 2021 where it appears to be nearly 58% largely due to refinancing of some commercial bank loans, exceeding the threshold. Projections for 2028 to 2031 also exceed the 40% threshold.

Personnel Costs as a share of Revenue consistently remain below the threshold of 60% up to 2031 with its peak of 50% in 2020. This is shown in chart 24.

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 in year 2022. In 2021, debt service to FAAC ratio spiked to 72%, up from 15% in 2020. This was caused by the consolidation of commercial bank loans. Also, 2021 FAAC (N55.937bn) did not increase significantly over 2020 figures (N55.709bn) whereas debt service grew significantly from N3.9bn in 2020 to N34bn in 2021. By 2022, debt service to FAAC ratio falls again to 16%. It is projected to continue an upward trajectory with a peak of 82% by 2031. As IGR takes a more prominent place in the State's revenue portfolio, the increasing debt service to FAAC ratio is expected to become of less concern because of the ongoing revenue drive in the state. These dynamics are shown in Chart 25.

4.2 MEDIUM-TERM BUDGET FORECAST

Debt Sustainability Analysis of the State is predicated on the continuation of recent efforts to grow the IGR of the State annually by 10 percent in the medium term. The economy is expected to gradually recover from 2021 - 2024, with real GDP expanding at an average annual rate of 3 percent and domestic inflation decreasing below 8.12 percent by 2023. The moderate recovery will be supported by economic growth through diversification and increase in the share of VAT. The Tax Administration reforms adopted by the State Government will also strengthen resources provided by IGR, as well as numerous industries that are being attracted to the State through industrialization drive, which are expected to continue in the next few years. This will benefit the economy immensely.

The State has put in various Tax Administration reforms to strengthen its IGR in order to sustain its debt, these include the enactment of new Revenue Administration Law, Land Use Charge Administration Law. With these new reforms adopted by the State Government, the IGR of the State is expected to grow in the next few years and this will benefit the State towards overall economic recovery. On the other hand, is the Civil Service Reform Policies being implemented regarding personnel and overhead cost, which are likely to maintain from their historical trends.

4.2.1 Macroeconomic Outlook

Adamawa State has published its 2022-2024 State Fiscal Strategy Paper (FSP) which includes GDP and revenue growth projections for the state. Furthermore, the Adamawa State 2022-2024 MTEF further expands on these assumptions particularly with regards Mineral sector assumptions. The precise details in these documents can be found on Adamawa State Ministry of Finance website mof.ad.gov.ng, however the Macro-Mineral framework for the MTEF is provided below.

The State’s medium-term debt sustainability is predicated upon a gradual recovery of the Nigerian economy that will increase FAAC statutory allocation. According to the Federal Government and State’s own forecasts, the Nigerian economy is expected to gradually recover in the period 2022-2024, with real GDP expanding at an average annual rate of 3 percent and domestic inflation decreasing below 10 percent by 2022. Such a moderate recovery will be supported by higher oil prices in global markets, an increase in domestic production, prudent fiscal policy, and the stabilization of the exchange rate relevant for international public-sector financial transactions at its current level. Oil and gas revenue, as well as shared resources such as custom duties and VAT, would then increase relative to the depressed levels observed in 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, 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 regards to personnel and overhead costs, which are thus likely to preserve their historical trends.

4.2.2 Revenue and Expenditure Assumptions

Federation Account revenue estimates (Statutory Allocation, VAT) for the period 2022-2024 are again as per the Adamawa State MTEF which are based on elasticity forecasting (see MTEF for more details).

The Adamawa State bond (2022-2025) will be collected in 4 tranches of N25 billion each. The first tranche collected in 2022 has been used to liquidate the outstanding loans to the tune of about N12 billion. The balance is being used to improve the IGR through agro-businesses. 2023 is an election/transition year which may witness a change in government that may lead to increased recurrent expenditures, which accounts for the decline in the capital expenditure of the year. However, by 2024, existing/new Government will be firmly settled for infrastructural development. This explains the increase in capital expenditure to N51.252 billion in 2024 (chart 17).

Between 2023 and 2024, our projections show tremendous increase in oil revenues due to the unrest in eastern Europe (Russia-Ukraine war) which has created scarcity of oil products internationally. By extension, this has raised the price of oil to over \$100 per barrel. This results in greater FAAC for Adamawa State in 2023 and 2024.

However, normalcy is projected to return by 2024, leading to availability of the product, hence decline in price of the commodity, which accounts for the shortfall in projected oil revenue for the State in 2025.

IGR forecasts for 2022 is based on the approved 2021 budget. From an expenditure perspective, Adamawa State Government has the desire to ensure sufficient funds are available for Capital Investment, but at the same time acknowledging the need to keep up with and ensure operation and maintenance costs (i.e., overheads) are sufficient to maintain assets and provide services.

4.3 ADAMAWA STATE BORROWING OPTIONS

Adamawa State Government intends to finance its new borrowings from 2022 to 2031 reference to the State’s four Borrowing Strategies adopted.

In Debt strategy 1(S1), the State Planned to borrow majorly from the Domestic Capital Market (State Bond) maturing 10 years at 15.5% with 1 year grace period. i.e., Projected to be source from The Nigerian Stock Exchange. The grand total of N403.551 billion to be sourced from both Domestic N323.601 billion and external N79.950 billion sources. Out of this, N118.606 billion will be sourced from the domestic capital market, representing 29.4% of the gross borrowing requirements within the ten years projection period 2022- 2031. The currency for domestic borrowing is naira while external borrowing is US dollars.

Also, in Debt strategy 2(S2), The State Plans to borrow mainly from the Domestic Capital Market (State Bond) maturing 5 years at 16% with 1 year grace period, amounting to N159.481 billion representing 36% of N445.796 billion the grand total of both the domestic and external borrowing which constitutes the gross borrowing requirements within the ten years projection period 2022-2031. The currency for domestic borrowing is naira while external borrowing is US dollars.

In Debt strategy 3(S3), The State Plans to Borrow majorly from the Domestic Commercial Banks maturing in 7 years at 16.5% with 1 year grace period. The State is projected to source the State loans from the Domestic financial Institutions i.e. The Commercial Banks, amounting to N242.735 billion representing 53% of the N459.739 billion i.e. the grand total of both domestic and external borrowing which constitute the gross borrowing requirements within the ten years projection period 2022-2031. The currency for domestic borrowing is naira while external borrowing is US dollars.

Also, in Debt strategy 4(S4), The State Plans to Borrow majorly from the Domestic Commercial Banks maturing in 5 years at 17% with 1 year grace period. The State is projected to source the State loans from the Domestic Financial Institutions i.e. the Commercial Banks, amounting to N256.662 billion representing 54% of N479.041 billion the grand total of both domestic and external borrowing which constitute the gross borrowing requirement within the ten-year projection period 2022-2031. The currency for domestic borrowing is naira while external borrowing is US dollars.

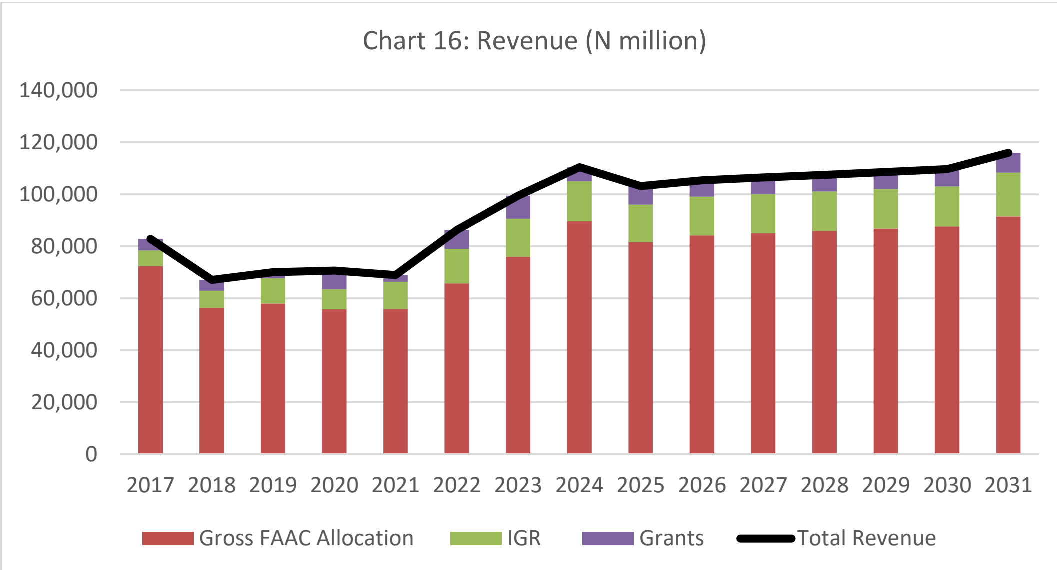
4.4 DSA SIMULATION RESULTS

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 7% from its current 3%. 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 Adamawa State projected revenue from 2022 to 2031 is presented in Chart 16 below:



Source: Adamawa State DSA/DMS Template, 2022

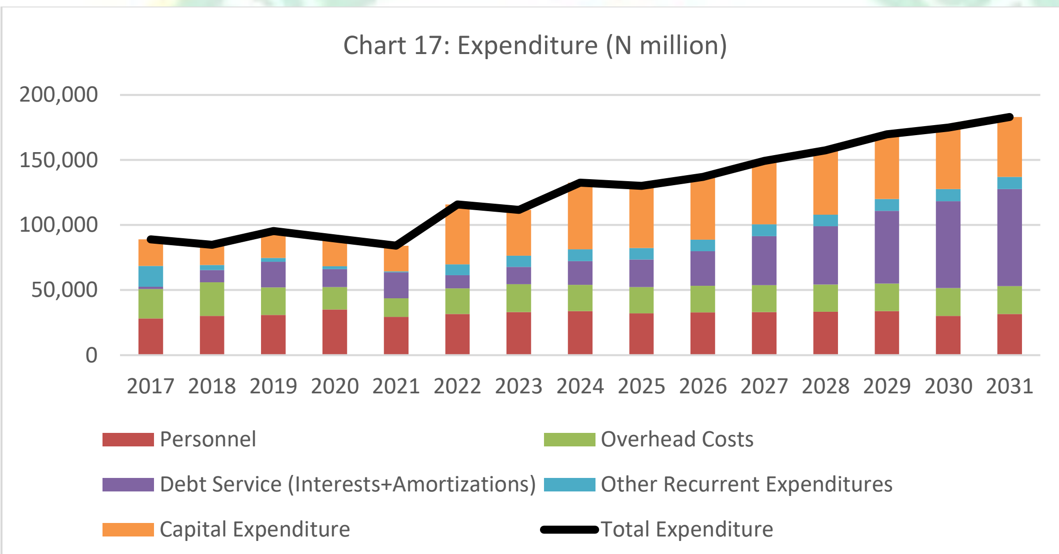
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Total Revenue	82,837	67,068	69,979	70,605	68,948	86,337	99,473	110,451	103,197	105,370	106,424	107,488	108,563	109,649	115,919
Gross FAAC Allocation	72,335	56,262	58,016	55,709	55,937	65,738	75,887	89,612	81,551	84,217	85,059	85,909	86,768	87,636	91,401
IGR	6,044	6,614	9,705	7,740	10,375	13,326	14,658	15,391	14,458	14,836	14,984	15,134	15,285	15,438	16,953
Grants	4,458	4,193	2,259	7,156	2,636	7,273	8,928	5,448	7,188	6,318	6,381	6,445	6,509	6,574	7,565

Adamawa State Total Revenue (including grants and excluding other capital receipts) is expected to increase from N86.337 billion in 2022 to N115,919 billion in 2031, representing an increase of N29,582 billion or 34% percent over the projection period. Gross FAAC Allocation projected to grow from N65.738 billion in 2022 to N91,401 billion in 2031, which represents an increase of N25,663 billion or 39% percent and IGR is projected to grow from N13,326 billion in 2022 to N16,953 billion in 2031, representing an increase of N3,627 or 27%, while Grant is projected to grow slightly N7,273 billion to N7,565 billion representing an increase of N292 million and a percentage of 4% over the projection period,(2022-2031).

Revenues are dipping in 2025 because normalcy is expected to return following the Ukraine-Russia war that has led to increase in oil price to over $100 per barrel. Together with expected increase in local oil production, Adamawa State is projected to receive greater FAAC revenues in 2023 and 2024.

4.5.2 Projected Expenditure-Chart 17

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



Source: Adamawa State DSA/DMS Template, 2022

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Total Expenditure	88,981	84,838	95,438	89,673	84,168	115,763	111,757	132,685	130,057	137,062	149,364	157,422	169,817	174,962	183,049
Personnel	28,127	30,291	30,872	35,141	29,337	31,697	33,232	33,843	32,257	32,777	33,105	33,436	33,770	30,108	31,588
Overhead Costs	22,744	25,666	21,335	17,228	14,303	19,542	21,323	20,257	20,041	20,540	20,746	20,953	21,163	21,374	21,588
Debt Service (Interests+Amortizations)	1,719	9,548	19,573	13,682	19,916	10,318	13,330	18,214	21,276	26,502	37,698	44,640	55,907	66,913	74,592
Other Recurrent Expenditures	15,938	3,834	2,931	2,320	781	8,271	8,685	9,119	8,692	8,832	8,920	9,009	9,099	9,190	9,282
Capital Expenditure	20,453	15,498	20,727	21,303	19,830	45,935	35,188	51,252	47,792	48,411	48,895	49,384	49,877	47,376	45,998

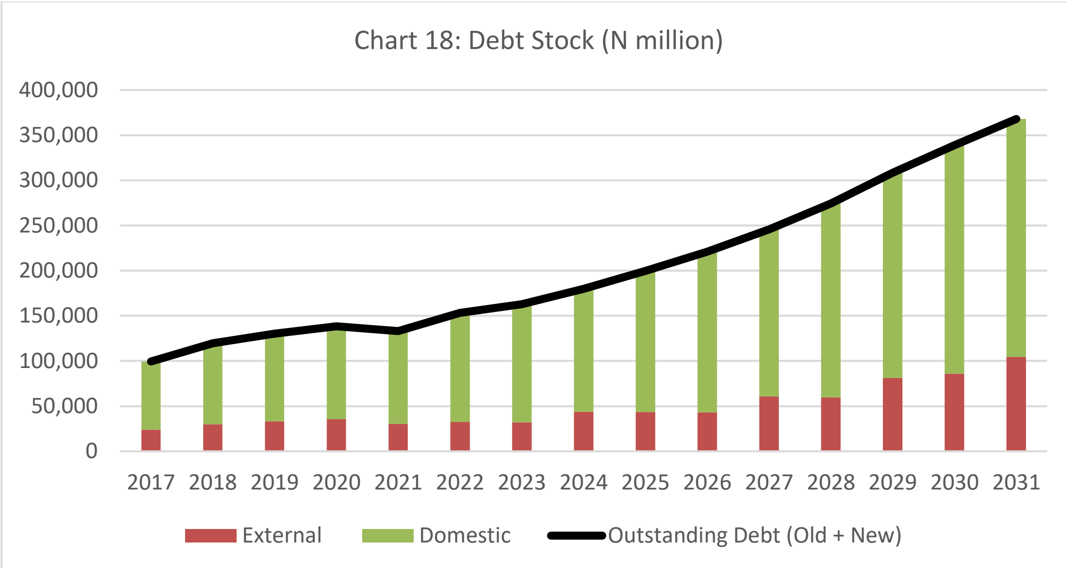
Total expenditure is projected at N115,763 billion in 2022, N111,757 billion in 2023, N132.685 billion in 2024, N130.057 billion in 2025, N137.062 billion in 2026, N149,364 billion in 2027, N157,442 billion in 2028, N169,817 billion in 2029, N174,962 billion in 2030 and N183,049 billion in 2031, respectively, indicating a near stability in the state growth recovery, Personnel Costs, Overhead Costs, Debt Service.

Other Recurrent Expenditures estimated to increase from N8,271 billion to in 2022 to N9,282 in 2031, Personnel Costs will decrease from N31,697 billion in 2022 to N31,588 billion in 2031, Overhead Costs from N19,542billion in 2022 to N21,588 billion 2031, and Debt Service from N10,318 billion in 2022 to N74.592 billion in 2031. Capital Expenditure estimated to increase slightly over the projection period from N45.935 in 2022, to N45,998 billion in 2031, by N63 million, over the projection period as provided in the Approved 2022 Budget; MTEF, 2022-2024; 2025-2031 projections as estimated by the Ministry of Finance & Budget official.

The Adamawa State bond (2022-2025) will be collected in 4 tranches of N25 billion each. The first tranche collected in 2022 has been used to liquidate the outstanding loans to the tune of about N12 billion. The balance is being used to improve the IGR through agro-businesses. 2023 is an election/transition year which may witness a change in government that may lead to increased recurrent expenditures, which accounts for the decline in the capital expenditure of the year. However, by 2024, existing/new Government will be firmly settled for infrastructural development. This explains the increase in capital expenditure to N51.252 billion in 2024 (chart 17).

4.5.3 Projected Debt Stock-Chart 18

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



Source: Adamawa State DSA/DMS Template, 2022

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Outstanding Debt (Old + New)	99,454	119,504	130,338	138,462	132,933	153,238	162,919	179,732	199,744	220,927	245,869	274,555	308,601	338,798	367,888
External	23,952	29,906	33,347	35,664	30,396	32,480	32,040	43,867	43,398	42,932	60,756	59,915	81,333	85,960	104,412
Domestic	75,502	89,598	96,991	102,797	102,538	120,758	130,879	135,864	156,346	177,994	185,113	214,640	227,269	252,838	263,476

Adamawa State's Debt Stock is estimated to increase from N153.238 billion in 2022 to N367.888 billion in 2031, representing an increase of N214.650 billion over the projection period. External Debt is projected to increase by 71.932 billion or 221% percent and Domestic Debt to increase by N142.718 billion or 118% percent over the projection period 2022 to 2031.

In the short and medium terms (2017-2015), Adamawa State is found to be sustainable as it lies within the threshold of 200%. However, from 2026-2031, the State becomes unsustainable as it exceeds the threshold.

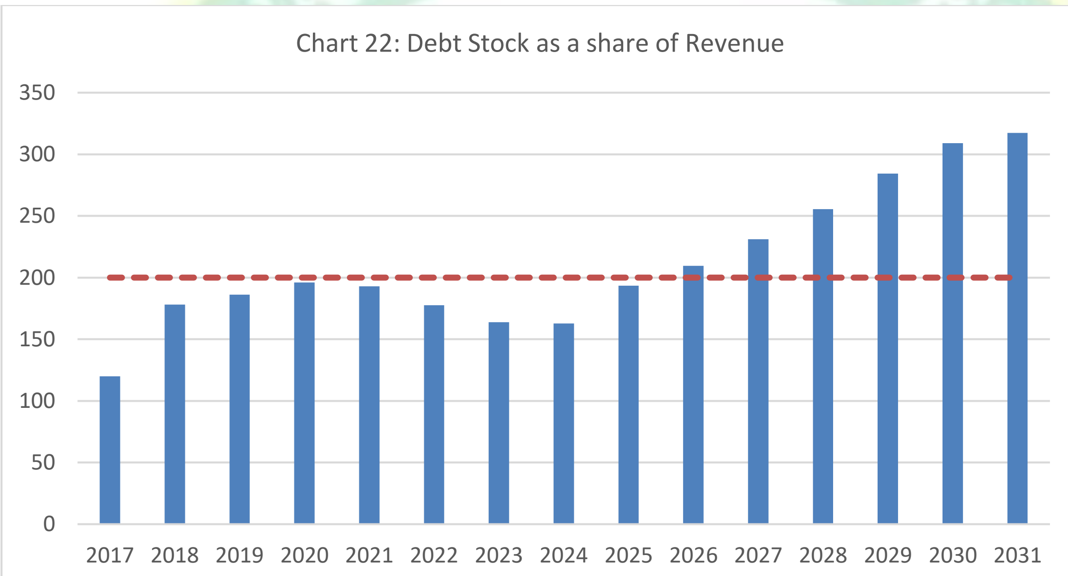
The ratio of Debt as percentage of Revenue is estimated at 177% in 2022, 164% in 2023, 194% in 2025, 255% in 2028 and 317% in 2031. Thus, the ratio remains below the threshold of 200% from 2017-2025 but exceeds the threshold from 2026-2031.

The Baseline Scenario results shows that the ratio of Debt stock as percentage of GDP is projected at 5% in 2022, 5% in 2023, 4% in 2027, 4% in 2028 and 4% in 2031, respectively, as against the indicative threshold of 25%.

More details are provided below.

4.5.4 Projected Debt as a Share of Revenue-Chart 22

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



Source: Adamawa State DSA-DMS Template, 2022

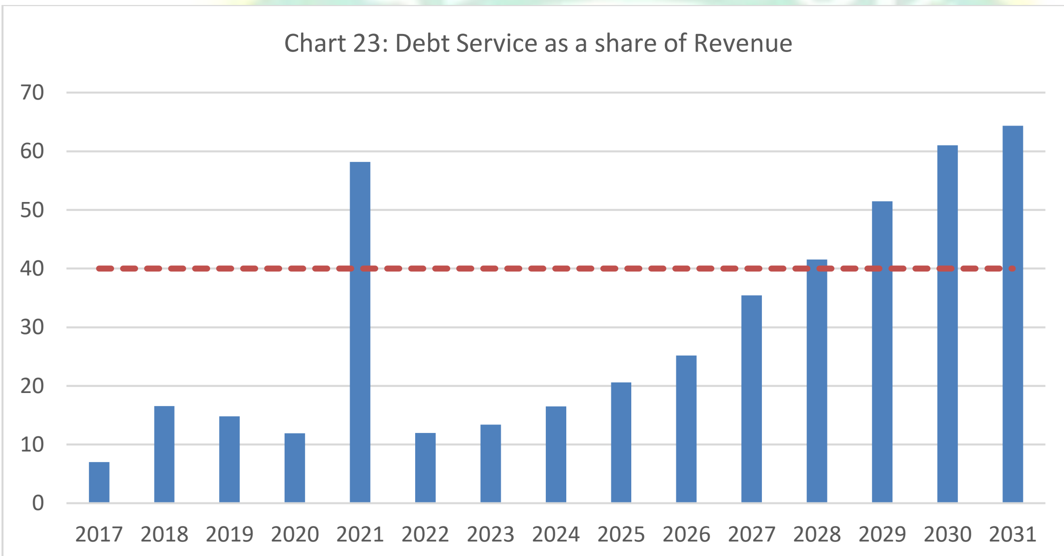
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Debt as % of Revenue	120	178	186	196	193	177	164	163	194	210	231	255	284	309	317
Threshold	200	200	200	200	200	200	200	200	200	200	200	200	200	200	200

As a consequence of the modest increase in investment and external borrowings, the **public debt will increase, and the State's repayment capacity will fall**. Debt is projected to decline from 2022 to 2024. However, by 2026 to 2031 the State Debt as a percentage of Revenue will exceed the prescribed threshold of 200%, relative to the State's borrowing capacity, the public debt position will increase, it is expected to increase from 177% percent of the Revenue in 2022 to 317% percent by 2031.
In the final analysis, the state was found **to be unsustainable** from the projected period 2026-2031, however, the state was sustainable within the threshold of 200%

within the historical period 2017 up to the period 2025 in the projection. As a mitigating measures, the state needs to reduced over-dependence on Federal transfers through **improved independent revenue generation** achievable via a technological-driven and autonomous State Board of Internal Revenue.

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

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



Source: Adamawa State DSA-DMS Template, 2022

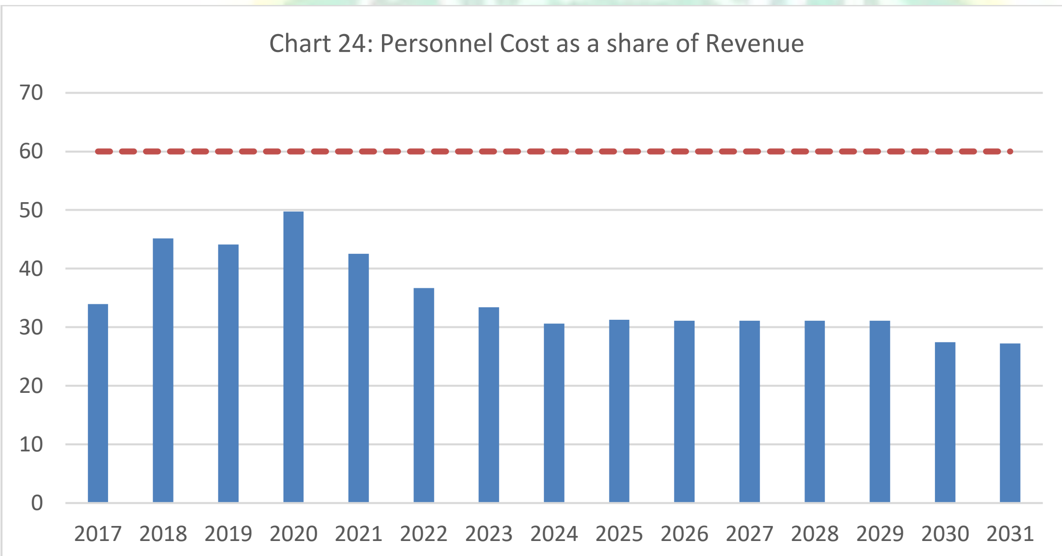
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Debt Service as % of Revenue	7	17	15	12	58	12	13	16	21	25	35	42	51	61	64
Threshold	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40

In the four years historical period (2017-2020) the debt service appears to be sustainable within the threshold of 40. However, the **outlier (spike) depicted in 2021** is as a result of the principal repayment totaling (N34,090) billion, which accounts for 58% of debt service as a share of revenue as against the 40% threshold.

This is occasioned by the state Bond floated in the year 2021, (N11,585.6) to Refinance some commercial Bank loans. From the year 2022, the debt service remained within the threshold (40%) up to the projected year 2028 when it exceeded the threshold rising to 42% and to 64% by 2031 above the threshold mainly due to interest and exchange rates volatilities.

4.5.6 Projected Personnel Cost- Chart 24

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



Source: Adamawa State DSA-DMS Template, 2022

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Personnel Cost as % of Revenue	34	45	44	50	43	37	33	31	31	31	31	31	31	27	27
Threshold	60	60	60	60	60	60	60	60	60	60	60	60	60	60	60

Personnel Cost as a share of Revenue is projected to rise from 37% as at 2022 to a decrease of 27% by 2031 with an average decrease of -27%. 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 prescribed threshold of 60%.

4.6 ADAMAWA MAIN FINDING AND CONCLUSION OF THE BASELINE SCENARIO IN TERMS OF DEBT SUSTAINABILITY

In the final analysis, the state was found **to be unsustainable** from the projected period 2026-2031 i.e., over the long-term. However, it was sustainable within the threshold of 200% within the historical period 2017 up to the period 2025 in the projection i.e. in the short and medium terms.

The ratio of Debt as percentage of Revenue is estimated at 177% in 2022, 164% in 2023, 194% in 2025, 255% in 2028 and 317% in 2031. Thus, the ratio remains below the threshold of 200% from 2017-2025 but exceeds the threshold from 2026-2031.

The Baseline Scenario results shows that the ratio of Debt stock as percentage of GDP is projected at 5% in 2022, 5% in 2023, 4% in 2027, 4% in 2028 and 4% in 2031, respectively, as against the indicative threshold of 25%.

The ratios of Debt Service to Revenue remained within the threshold of 40% from 2017 to 2027 except for the year 2021 which recorded a spike of 58%. This was caused by the principal repayment totaling (N34,090) billion and refinancing of some commercial bank loans through state Bond issuance. Thereafter, the ratio exceeds the threshold from 2028 (42%) to 2031 (64%).

Personnel Cost to Revenue trends remains under the threshold (60%) over the projection period from 2021 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. The highest ratio recorded is 50% in 2020.

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

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. Sustain the efforts to increase IGR e.g., through plugging of revenue leakages;

f. Ensuring a balanced debt portfolio, not to borrow too excessively, and to create sufficient buffers within the ratio analysis so as not to breach them as a result of a shock;

g. Providing fiscal buffers, including contingency funds and debt service funds, to also help alleviate the impact of shocks;

h. Consideration should also be given to the scenario where more of these shocks occurs simultaneously, as it has happened in 2020, the magnitude is higher, or more persistent (e.g. multiple exchange rate depreciation of the period). Again, this emphasizes the need to borrow to invest, and ensure that investment is made in the areas that have greatest economic and social benefit to the State;

i. Pursuing alternative financing models like Public Private Partnerships (PPP).

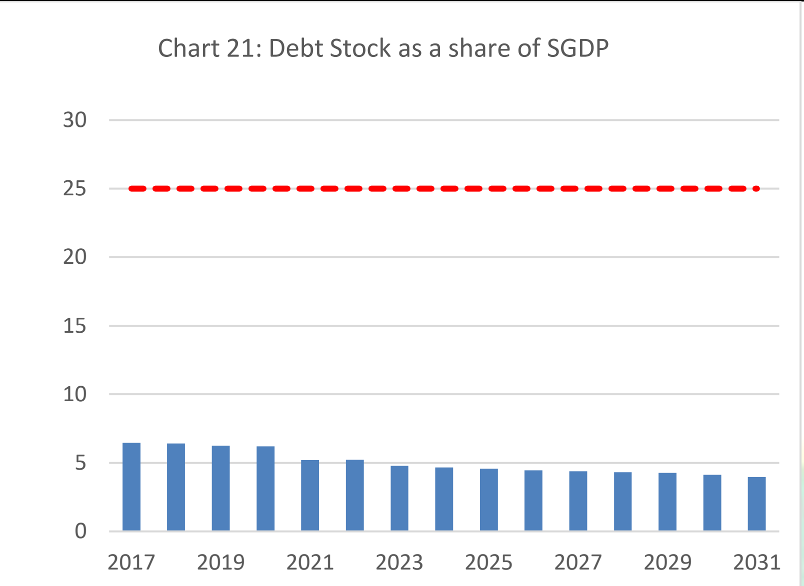


Chart 21: Debt Stock as a share of SGDP
30
25
20
15
10
5
0
2017
2019
2021
2023
2025
2027
2029
2031

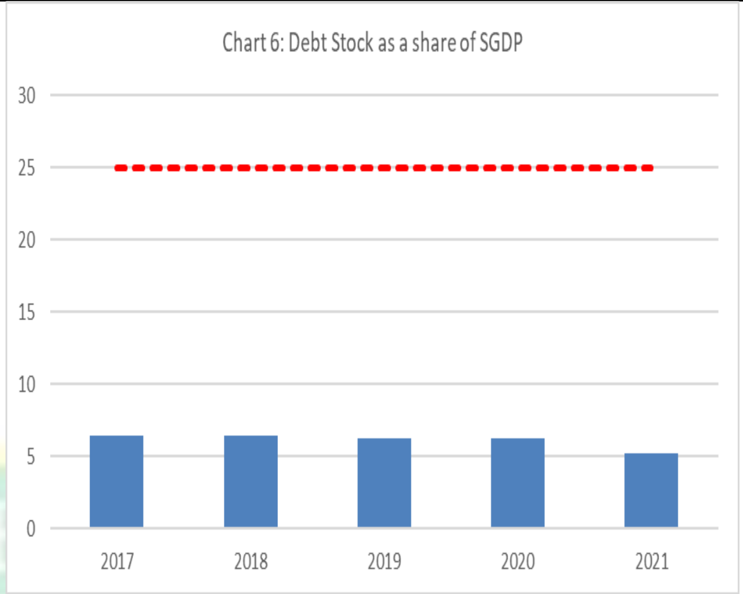


Chart 6: Debt Stock as a share of SGDP
30
25
20
15
10
5
0
2017
2018
2019
2020
2021

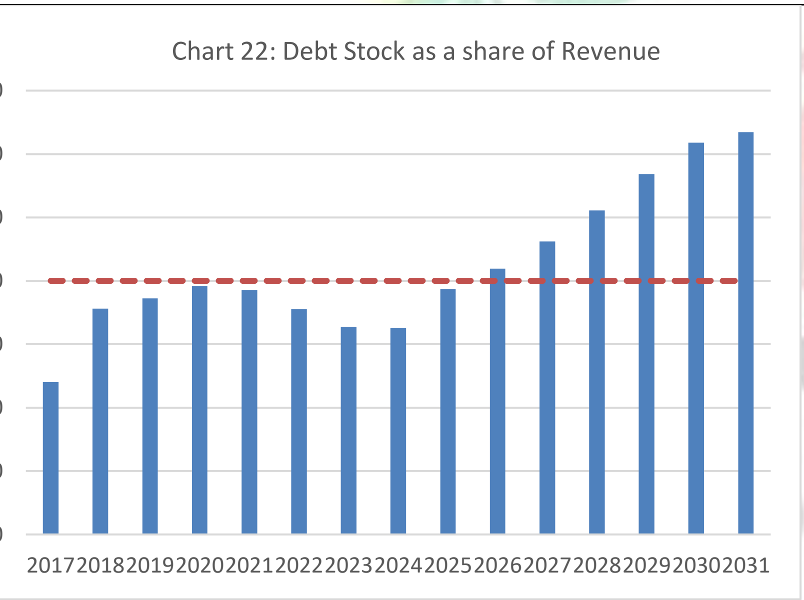


Chart 22: Debt Stock as a share of Revenue
2017
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
2031

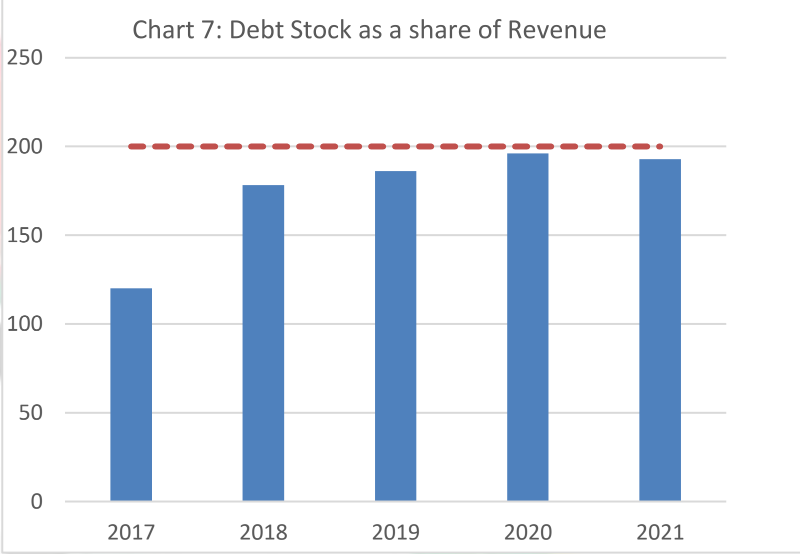
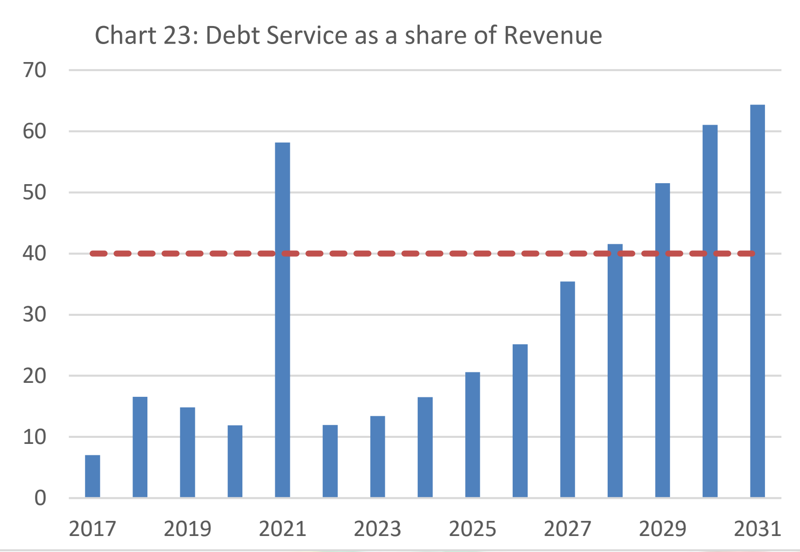
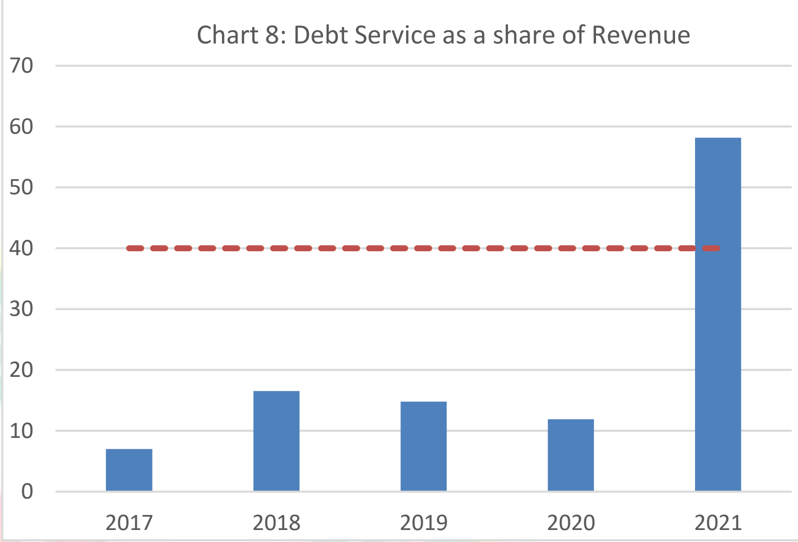
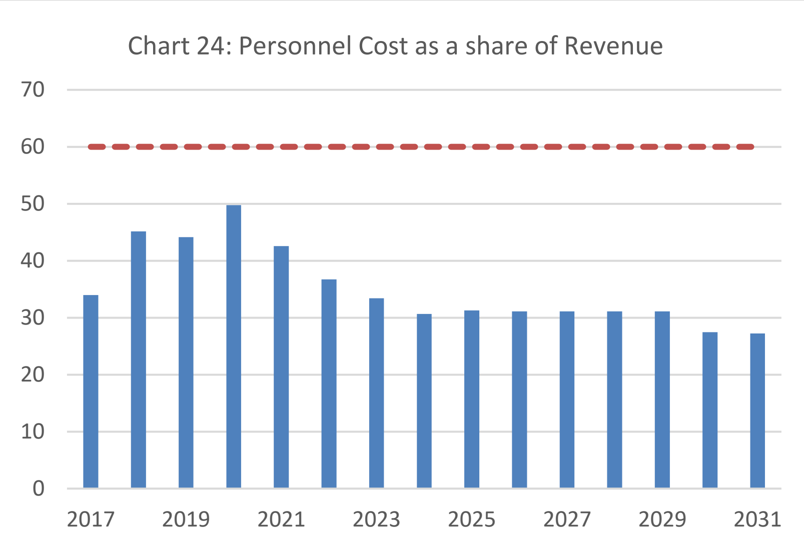
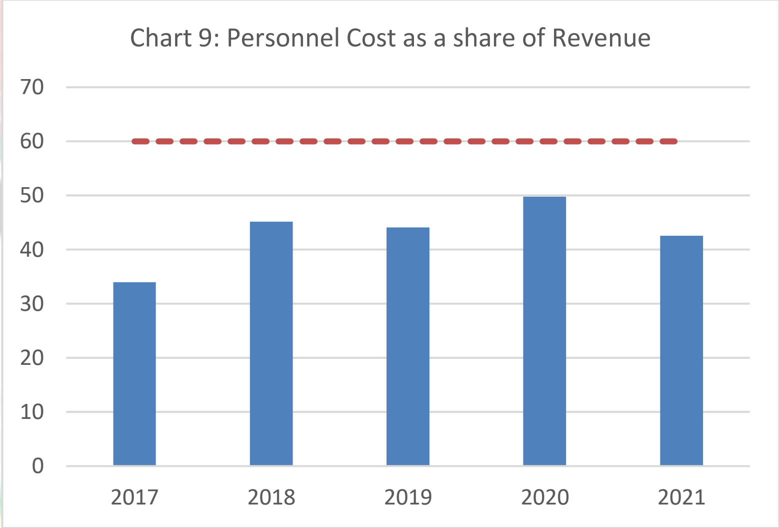


Chart 7: Debt Stock as a share of Revenue
250
200
150
100
50
0
2017
2018
2019
2020
2021









Source: Adamawa State DSA-DMS Template, 2022

4.6.1 CONCLUSION

Adamawa State DSA Result shows that, the State remains at Risk of Debt Distress.

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. There is therefore the 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 implement far-reaching policies that will boost the state IGR such as the legislation by the state assembly to issue state Bonds to the tune of N100 billion from the year 2021-2024 i.e. in four tranches through the Agric Business support Program, to among other things refinance existing loans, reduce the backlog of arrears of pensions to make the State PENCON compliant and to boost the State's IGR. This has become critical, given the continued volatility in the FAAC allocation. However, the State appears to be sustainable in the short term to medium term, but it will be unsustainable in the long term if all the technical inputs/ measure are not put into considerations.

4.7 ADAMAWA STATE DSA SENSITIVITY ANALYSIS

The State faces important sources of fiscal risks associated to the possibility of adverse country wide macroeconomic conditions and the reversal of the State's revenue and expenditure policies. A sensitivity analysis is undertaken considering macroeconomic shocks and policy shocks to evaluate the robustness of the sustainability assessment for the baseline scenarios discussed in the previous sub-sections. When considering both macroeconomic and policy shocks, it is assumed that external and domestic borrowings cover any revenue shortfall and additional expenditure relative to the baseline scenario discussed earlier.

The 2022 DSA analysis shows that Adamawa remains at risk of debt distress under sensitivity analysis.

The State DSA analysis shows deterioration related to revenue shocks, expenditure shocks, exchange rate shocks, interest rate shocks and historical shocks that would lead to increase Gross Financing Needs over the projection period.

The debt stock as percent of Revenue breached the benchmarks from 2026 to 2031 through Revenue shocks, Expenditure Shocks as well as Historical shocks. Debt service as percentage of Revenue breached the threshold under revenue and Expenditure Shocks in 2021, and 2028-2031.

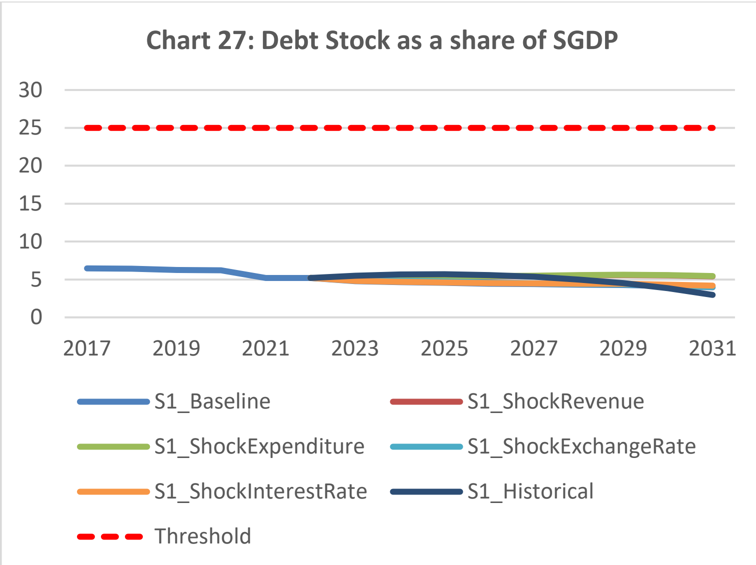
The four shocks as simulated (shock revenue, shock expenditure, shock interest rate, shock exchange rate) all have impacts on the ratios analyzed at the magnitudes tested. These four shocks all have a marked impact on Debt Service, but in terms of its deviations from the baseline scenario, what these entails is to plan for future flexibility, but these deviations may have further negative impacts beyond this period i.e. the period of analysis.

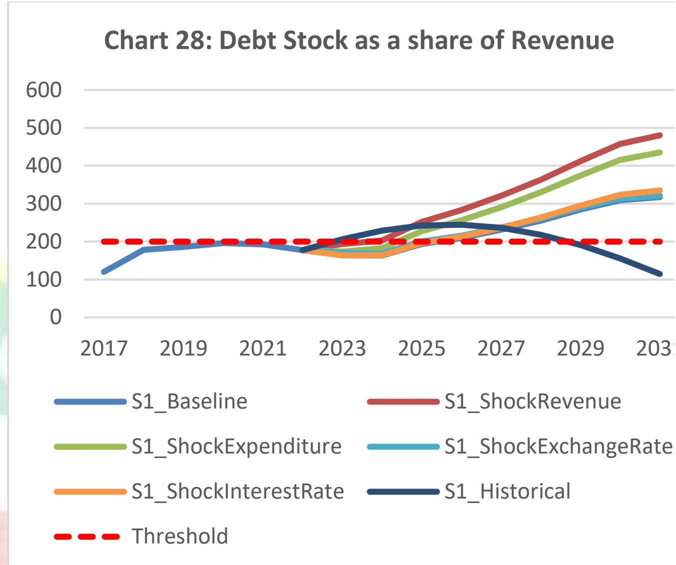
This serves as a reminder on the need to continue the effort to increase IGR, to ensure a balanced debt portfolio, not to borrow too excessively, and to create sufficient buffers within the ratio analysis so as not to breach them as a result of a shock. Fiscal buffers, including contingency funds and debt service funds, would also help alleviate the impact of shocks.

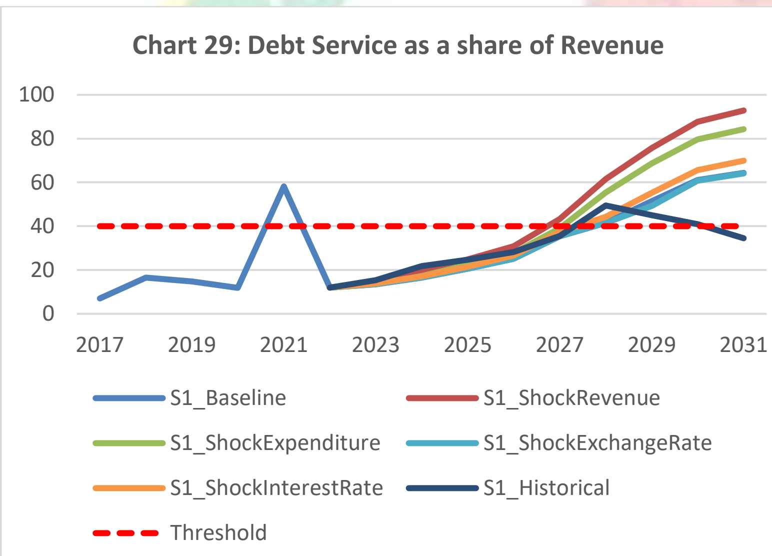
Consideration should also be given to the scenario where more of these shocks occurs simultaneously, as it has happened in 2020, the magnitude is higher, or more persistent (e.g. multiple exchange rate depreciation of the period). Again, this emphasizes the need to borrow to invest, and ensure that investment is made in the areas that have greatest economic and social benefit to the State.

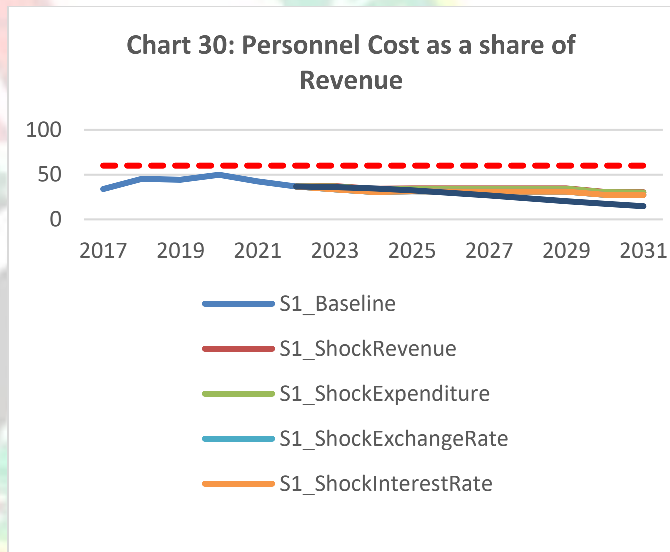
There is, an urgent need for the authorities to fast-track efforts aimed at further diversifying the sources of revenue away from crude oil (FAAC), as well as implement far-reaching policies that will bolster IGR into the state. This has become critical, given the continued volatility in the FAAC allocation.

The following charts below explain the shocks scenarios:









Source: Adamawa State DSA-DMS Template, 2022

CHAPTER FIVE
DEBT MANAGEMENT STRATEGY

5.0 Introduction

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

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

5.1 Alternative Borrowing Options

The State Government is planning to Borrow through the Commercial bank at a Projected interest rate of 16.5% to 17% with 5 years and 7 years maturity respectively, with a year Grace period and through the Domestic Capital Market i.e. State Bond with 5 years and 10 years maturity at a Projected interest rate of 15.5% to 16%. The currency for domestic borrowing is naira, and US dollars for external borrowing.

Also, the State Planned to Borrow Externally concessional and Bilateral loans at 1.15% to 2.47% interest rate, Maturing in 20-30 years with 5-7 years Grace period. The State proposed three (3) 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 the Baseline Focuses on from the Domestic Capital market, Facility Maturing ten years and Above: the State Planned to borrow majorly from the Domestic Capital Market (State Bond) maturing 10 year at 15.5% with 1 year grace period. i.e. Projected to be source from The Nigerian Stock Exchange. The grand total of N403.551 billion to be sourced from both Domestic N323.601 billion and external N79.950 billion sources. Out of this, N118.606 billion will be sourced from the domestic capital market, representing 29.4% of the gross borrowing requirements within the ten years projection period 2022- 2031. The currency for domestic borrowing is naira while external borrowing is US dollars.

Strategy 2 (S2) Also Focus on Financing through the Domestic Capital Market, Facility Maturing five years: The State Plans to borrow mainly from the Domestic Capital Market (State Bond) maturing 5 years at 16% with 1 year grace period, amounting to N159.481 billion representing 36% of N445.796 billion the grand total of both the domestic and external borrowing which constitutes the gross borrowing requirements within the ten years projection period 2022-2031. The currency for domestic borrowing is naira while external borrowing is US dollars.

Strategy (S3) Focus on Financing through Domestic Commercial Bank, Facility, Maturing Seven Years and Above: The State Plans to Borrow majorly from the Domestic Commercial Banks maturing in 7 years at 16.5% with 1-year grace period. The State is projected to source the State loans from the Domestic financial Institutions i.e. The Commercial Banks, amounting to N242.735 billion representing 53% of the N459.739 billion i.e. the grand total of both domestic and external borrowing which constitute the gross borrowing requirements within the ten years projection period 2022-2031. The currency for domestic borrowing is naira while external borrowing is US dollars.

Strategy (S4) Focus on Financing through Domestic Commercial Bank, Facility, Maturing Five Years: The State Plans to Borrow majorly from the Domestic Commercial Banks maturing in 5 years at 17% with 1-year grace period. The State is projected to source the State loans from the Domestic Financial Institutions i.e. the

Commercial Banks, amounting to N256.662 billion representing 54% of N479.041 billion the grand total of both domestic and external borrowing which constitute the gross borrowing requirement within the ten-year projection period 2022-2031. The currency for domestic borrowing is naira while external borrowing is US dollars.

5.2 DMS Simulation Results

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

5.2.1 Debt as a share of Revenue

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

Chart 33. Debt Stock as a share of Revenue
(including grants and excluding other capital receipts)

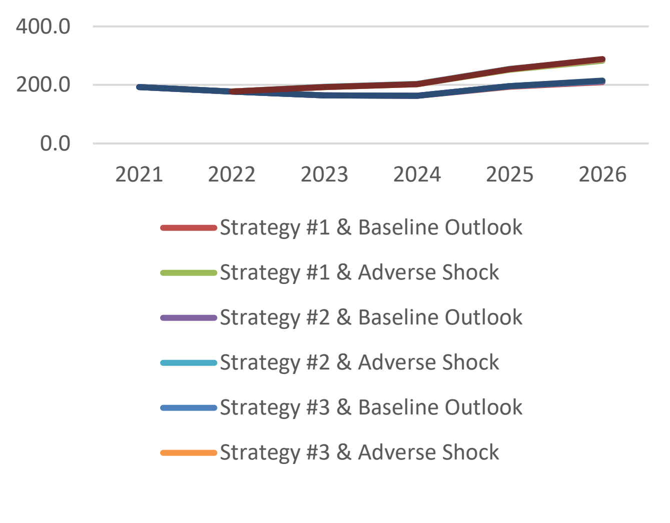
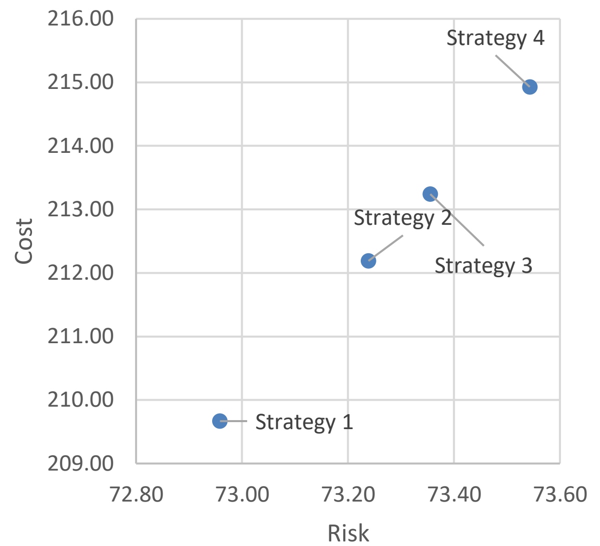


Chart 34. Cost-Risk Trade Off
(Cost in vertical axis, Risk in horizontal axis)



Source: Adamawa State Forecasts, 2022

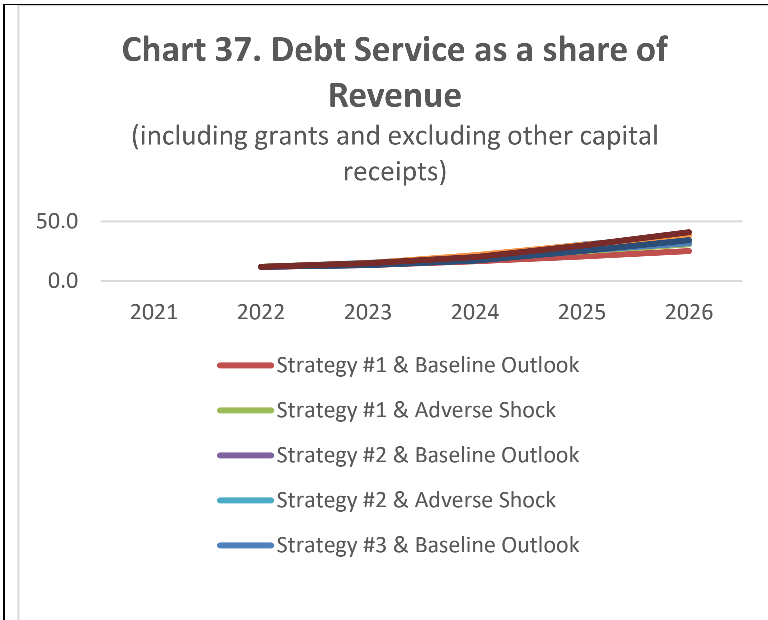
Debt Stock as % of Revenue (including grants anc	2021	2022	2023	2024	2025	2026	
Strategy #1 & Baseline Outlook	192.8	177.5	163.8	162.7	193.6	209.7	73.0
Strategy #1 & Adverse Shock		177.5	193.1	202.7	251.5	282.6	
Strategy #2 & Baseline Outlook	192.8	177.5	164.0	163.3	196.5	212.2	73.2
Strategy #2 & Adverse Shock		177.5	193.3	203.4	254.7	285.4	
Strategy #3 & Baseline Outlook	192.8	177.5	163.9	163.0	196.1	213.2	73.4
Strategy #3 & Adverse Shock		177.5	193.2	203.1	254.3	286.6	
Strategy #4 & Baseline Outlook	192.8	177.5	163.8	163.0	196.1	214.9	73.5
Strategy #4 & Adverse Shock		177.5	193.2	203.0	254.4	288.5	

The result on Debt as share of revenue indicates that Reference Debt Strategy (S1) has a cost of 209.7% with adverse shock of 282.6% and risk at 73.0%. Alternative Strategy (S2) has a cost of 212.2% with adverse shock of 285.4% and risk at 73.2%. Alternative Strategy (S3) has a cost of 213.2% with adverse shock of 286.6% and risk at 73.4. Alternative Strategy (S4) has a cost of 214.9% with adverse shock of 228.5% and risk at 73.5%.

To compare between the referenced strategy (S1) and alternative strategies (S2, S3, and S4), the result indicated that Debt/Revenue of the alternative strategy(S1) has the lowest cost, adverse shock and risk of 209.7%, 282.6% and risk of 73.0% respectively, compared to reference strategy (S3) and alternative strategies (S4).

5.2.2 Debt Service/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: Adamawa State Forecasts, 2022

						COST	RISK measured only in 2026
Debt Service as % of Revenue (including grants a	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	
Strategy #1 & Baseline Outlook		12.0	13.4	16.5	20.6	25.2	5.7
Strategy #1 & Adverse Shock		12.0	14.9	19.1	24.8	30.8	
Strategy #2 & Baseline Outlook		12.0	13.6	18.2	25.7	31.9	6.4
Strategy #2 & Adverse Shock		12.0	15.1	21.0	30.5	38.3	
Strategy #3 & Baseline Outlook		12.0	13.5	18.8	25.5	31.8	6.4
Strategy #3 & Adverse Shock		12.0	15.0	21.7	30.3	38.2	
Strategy #4 & Baseline Outlook		12.0	13.5	17.3	25.1	34.3	6.7
Strategy #4 & Adverse Shock		12.0	15.0	20.0	29.7	41.0	

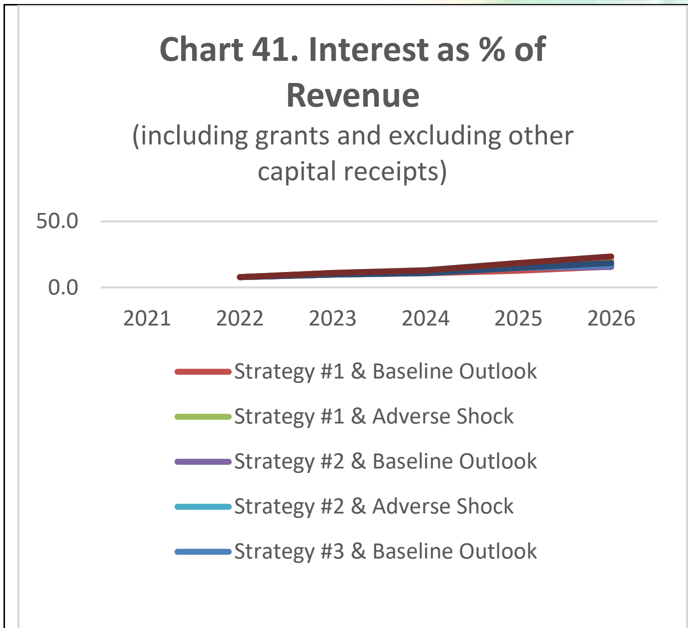
The result on Debt Service as share of Revenue indicates that the Reference Debt Strategy (S1) has a cost of 25.2% with adverse shock of 30.8% and risk at 5.7%. Alternative Strategy (S2) has a cost of 31.9% with adverse shock of 38.3% and risk at 6.4%. Alternative Strategy (S3) has a cost of 31.8% with adverse shock of 38.2% and risk at 6.4%. Alternative Strategy (S4) has a cost at 34.3% with adverse shock of 41.0% and risk at 6.7%.

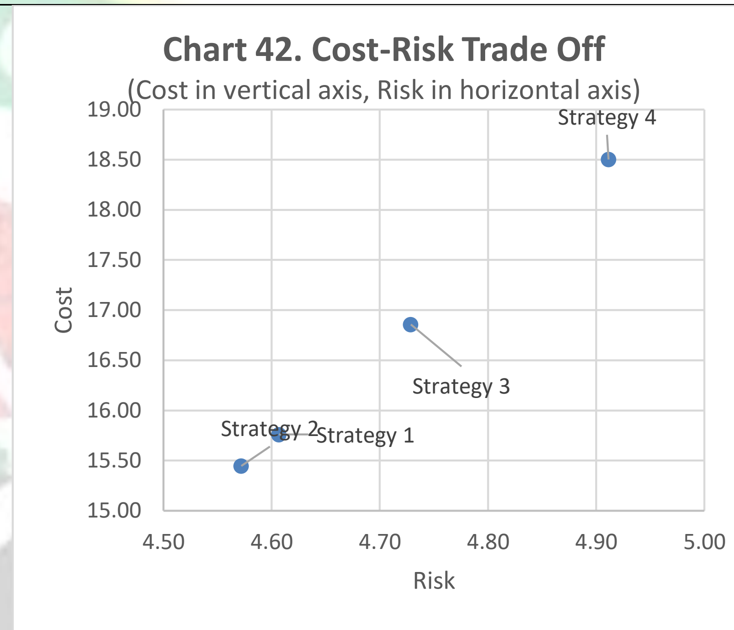
To compare between the referenced strategy (S1) and alternative strategies (S2, S3, and S4), the result indicated that the Debt Service/Revenue of the reference strategy

(S1) has the lowest cost, adverse shock and risk of 25.2%, 30.8% and 5.7% respectively, compared to the alternative strategies (S2, S3, and S4).

5.2.3 Interest/Revenue

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





Source: Adamawa State Forecasts, 2022

						COST	RISK measured only in 2026
Interest as % of Revenue (including grants and e	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	
Strategy #1 & Baseline Outlook		7.8	9.7	10.6	12.6	15.8	4.6
Strategy #1 & Adverse Shock		7.8	10.8	12.6	15.9	20.4	
Strategy #2 & Baseline Outlook		7.8	9.9	11.0	14.9	15.4	4.6
Strategy #2 & Adverse Shock		7.8	11.0	13.0	18.4	20.0	
Strategy #3 & Baseline Outlook		7.8	9.8	10.8	14.8	16.9	4.7
Strategy #3 & Adverse Shock		7.8	10.9	12.8	18.3	21.6	
Strategy #4 & Baseline Outlook		7.8	9.8	10.8	14.9	18.5	4.9
Strategy #4 & Adverse Shock		7.8	10.9	12.8	18.4	23.4	

The result on Interest as share of Revenue indicates that the Reference Debt Strategy (S1) has a cost of 15.8% with adverse shock of 20.4% and risk at 4.6%. Alternative Strategy (S2) has the cost of 15.4% with adverse shock of 20.0% and risk at 4.6%. Alternative Strategy (S3) has the cost of 16.9% with adverse shock of 21.6% and risk at 4.7%. Alternative Strategy (S4) has a cost of 18.5% with adverse shock of 23.4% and risk at 4.9%.

To compare between the referenced strategy (S1) and alternative strategies (S2, S3, and S4), the result indicated that the Interest/Revenue of the alternative strategy (S2) has the lowest cost, adverse shock and risk of 15.4%, 20.0% and 4.6% respectively, compared to referenced strategy (S1) and alternative strategies (S3 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. The Analytical Tool's results of costs and risks suggests that the **recommended strategy be S2**, these results were just marginally better when compared with Strategy S1. Strategy 2 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, Adamawa State debt portfolio stood at N132,933 billion as at end-2021, which expected to increase to N403,551 billion under Strategy 1 to the end of the strategic period, compared to Strategy 2 (N445,796 billion), Strategy 3 (N459,739 billion), and Strategy 4 (N479,041 billion). In addition to this, the cost/risk trade-offs are considered, using the debt to GDP, debt to revenue, debt service to GDP, debt service to revenue, interest to GDP and interest payment to GDP ratios, S2 is selected as the preferred strategy for the 2022-2026.

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, there is a need for the Adamawa 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 remains under the threshold from 2017 to 2027, and exceeds from 2028-2031. This is with the exception of the spike depicted in debt service in the year 2021, as a result of refinancing of some commercial bank loans through state Bond issuance that peaked the total debt repayment to the tune of (N34,090). Meanwhile, the ratio of Personnel Cost to Revenue trends remains under the threshold over the projection period from 2022 to 2031.

Annex I. Table Assumptions

		Projection Methodology	Source
Assumptions:			
Economic activity	State GDP (at current prices)	The Adamawa State GDP is premised, base on assumed figures from National Bureau of Statistics and world bank group estimate in colaboration with Debt Mangement Office, Abuja.	The National Bureau of Statistics,World Bank Group and Debt Management Office Abuja.
Revenue	**Revenue**	The Total Revenue of the State increased by 25.2% from 2021 to 2022, will increase by 15.2% in 2023 , and 11% in 2024 (as a result of political tension/hostilities in Eastern Europe which boosts oil revenue) but falls to 91% in 2025 (in the hope that political stability would be restored in Europe) Grants starts to fall in year 2024. The fall in Grants has to do with the expected completion of most of grants earning programmes/projects of the state before 2024 such as SFTAS.	
	1. Gross Statutory Allocation ('gross' means with no deductions; do not include VAT Allocation here)	The Gross FAAC steadly increases by 24% on the average annually from 2022 - 2025 as the current trend of inflows from SRA shows, Coupled with the additional oil producing state/oil production and stability in the Reverine Areas while VAT maintains an average steady increase of 14% between 2022 and 2023 while from 2024 to 2031 an average 2% increase would be attained. These successes might not be unconnected with the increase in VAT levy from 5% to 7.5% copled with the implementation of electronic money transfer charges.	Office of The Accountant-General of the Federation,The DSA Team Ministry of Finance and Office Of The Accountant-General Adamawa State.
	1.a. of which Net Statutory Allocation ('net' means of deductions)		Office of The Accountant-General of the Federation,The DSA Team Ministry of Finance and Office Of The Accountant-General Adamawa State.
	1.b. of which Deductions		Office of The Accountant-General of the Federation,The DSA Team Ministry of Finance and Office Of The Accountant-General Adamawa State.
	2. Derivation (if applicable to the State)		
	3. Other FAAC transfers (exchange rate gain, augmentation, others)		Office of The Accountant-General of the Federation,The DSA Team Ministry of Finance and Office Of The Accountant-General Adamawa State.
	4. VAT Allocation	The Consistent implementation of Electronic money transfer charges and improvement in public financial management reforms, will lead to an increase in VAT by 14% from 2022 to 2023.and beyond steadly up to 2031.	Office of The Accountant-General of the Federation,The DSA Team Ministry of Finance and Office Of The Accountant-General Adamawa State.
	5. IGR	The IGR has an increase of 9.5% in 2018 from 2017 and 47% in 2019 respectively,However it declined to 20% in 2020 due to the effect of covd-19 that warranted the government to give some tax holiday , but measures put in place had drastically improved performance by 34% in 2021 and from 2022-2023 an average 9.5% growth is expected to be achieved annually , beyond 2023 the IGR will continuously grow because of the expansion of revenue base due to agro-business and landed property taxes.	The DSA Team,Board of Internal Revenue, Ministry of Finance and Office Of The Accountant-General, Adamawa State
	6. Capital Receipts		Office of The Accountant-General of the Federation,The DSA Team Ministry of Finance and Office Of The Accountant-General Adamawa State.
	6.a. Grants	The Grants which are projected to increase by more than 175% from 2021 - 2022 and by 22.7 % from 2022 - 2023, decresed by more than (-38%) in 2024, suddenly increse in 2025 by 32% which would be as a result of completion of the grants earning projects and programmes such as SFTAS , State (Cares Funds), State Education Investment Program (SEPIP), Multisectoral Crisis Recovery Project (MCRP).	Office of The Accountant-General of the Federation,The DSA Team Ministry of Finance and Office Of The Accountant-General Adamawa State.
	6.b. Sales of Government Assets and Privatization Proceeds		The DSA Team,Board of Internal Revenue, Ministry of Finance and Office Of The Accountant-General, Adamawa State
	6.c. Other Non-Debt Creating Capital Receipts		Debt Management Agency Yola,The DSA Team,Board of Internal Revenue, Ministry of Finance and Office Of The Accountant-General, Adamawa State .
Expenditure	**Expenditure**	The Total Expenditure fluctuates between 2017 - 2031(88.9b-175.1b) from 2017 - 2023 the Total Expenditure increases from 88.9b to 112.4b, Because of Huge Infrastructural Development the State will undertake which will only be possible with Deficit financing that will be serviced in the subsequent years(2025 - 2031) . Hence this accounts for the decline in the total Expenditures(2025- 2031).	
	1. Personnel costs (Salaries, Pensions, Civil Servant Social Benefits, other)	The Reason for the oscilating Revenue projections which eventually stagnate the state Revenue is as a result of State newly employed Post Primary School Teachers who would be on the State Govt Payroll, and the State is olso planning to fully implement the (32,000)naira minimum wage for all the state civil servant between 2022 to 2023.However as the loans to be accessed in 2021 is going to be wholly expended on capital expenditue.	The DSA Team Ministry of Finance and Office Of The Accountant-General Adamawa State.
	2. Overhead costs		The DSA Team Ministry of Finance and Office Of The Accountant-General Adamawa State.
	3. Interest Payments (Public Debt Charges, including interests deducted from FAAC Allocation)	The Huge Defit financing in the implentation of the state budget occurs between 2021 - 2023 which makes it the highest ever in the state after which it declines to allow for gradual servicing of the already collected facilities.	Office of The Accountant-General of the Federation,The DSA Team Ministry of Finance and Office Of The Accountant-General Adamawa State.
	4. Other Recurrent Expenditure (Excluding Personnel Costs, Overhead Costs and Interest Payments)	Expenditure between 2021 - 2025 increase because of increase economic activities such as boosting the IGR which will attract 10% cost of collections as an expenditure , increased capital Expenditure which attracts payments of Taxes (VAT<WHT etc) and other grants given to other agencies/institutions of Government for effective and efficient running of Government.	The DSA Team Ministry of Finance and Office Of The Accountant-General Adamawa State.
	5. Capital Expenditure	As the Deficit financing widens up between 2021 - 2023 which are the years of Peak Infrastructural Development activities of the State , the Overhead Expenditures will increase because of additional Bridging finances but supressed in the subsequent years to align with the Best Practices.	The DSA Team Ministry of Finance and Office Of The Accountant-General Adamawa State.
Closing Cash and Bank Balance	**Closing Cash and Bank Balance**	The Balances are Sourced from subtracting The Total Revenue, from The Total Expenditure from Historic years(2017-2021) up to 2031 the end of projectins years.	The Balance are Sourced from the Subtraction of Total Revenue of The State from The Total Expenditure of The State From(2017-2021) the historic years to 2031 end of Porjections years . 408.41
Debt Amotization and Interest Payments	Debt Outstanding at end-2021		
	External Debt - amortization and interest	The External debt amortization and interest Payment is Sourced from Amortization Schedules Generated by the Funding Financial Institutions throught the Debt Management Agency Abuja Being the Guarantor to Sub-Nationals Borrowing Externally.	The External debt amortization and interest Payment is Sourced from Amortization Schedules Generated by the Funding Financial Institutions throught the Debt Management Agency Abuja Being the Guarantor to Sub-Nationals Borrowing Externally.
	Domestic Debt - amortization and interest	The Domestic debt amortization and interest Payment is Sourced from Amortization Schedules Generated from the Various participating commercial Banks and Other Financial Institutions that Funds the Facilities on the Average interest rate of (11.7%), average maturity of (16)years and average one year grace period.	The Domestic debt amortization and interest Payment is Sourced from Amortization Schedules Generated from the Various participating commercial Banks and Other Financial Institutions that Funds the Facilities.
	New debt issued/contracted from 2022 onwards		
	New External Financing		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	The state intends to Borrow Externally concessional based on the following terms: At 1.15% interest rate, maturing 30yrs, with a grace period of 7yrs.	The state intends to Borrow Externally concessional based on the following terms: At 1.15% interest rate, maturing 30yrs, with a grace period of 7yrs. Is Projected to be sourced from the Word Bank Group and African Development Bank.
	External Financing - Bilateral Loans	The state Intends to Borrow Externally Bilateral: On 2.47% interest rate, maturing 20yrs, with a grace peroid of 5yrs.	The state Intends to Borrow Externally Bilateral: On 2.47% interest rate, maturing 20yrs, with a grace peroid of 5yrs.Is Projected to be Sourced from The Paris Club of Creditor Nations, and The London Club of Creditor Banks.
	Other External Financing		
	New Domestic Financing		
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)	The state Intends to Borrow Domestically from Commercial Banks maturing(1-5yrs), At 17%, with 1yr Grace period.	The State is projected to source the Loan from the Domedstic Commercial banks, at 17% interest rate, Matuaring 5yrs , with a year grace period.
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and	The State Intends to Borrow from Commercial Banks 6yrs, and above at 16.5%, with Grace period of 1yr.	The State is projected to source the Loan from the Domedstic Commercial banks, at 16.5% interest rate, Matuaring 7yrs , with a year grace period.
	State Bonds (maturity 1 to 5 years)	The State Intends to Borrow from Domestic Capital Market(State Bond) at 16% interest rate, maturing 1-5yrs, with 1yr grace period.	The State is projected to source the State Bonds from the Domedstic Capital Market , at 16% interest rate, Matuaring 5yrs , with a year grace period.
	State Bonds (maturity 6 years or longer)	The State Intends to Borrow from Domestic Capital Market(State Bond) at 15.5% interest rate, maturing 6yrs and Above, with 1yr grace period.	The State is projected to source the State Bonds from the Domedstic Capital Market , at 15.5% interest rate, Matuaring 10yrs , with a year grace period. I,e From The Nigerian Stock Exchange.
	Other Domestic Financing	NIL	NIL

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 Loans, and MSMEDF)	Interest Rate=(17%),maturity (5),Grace period(1).	
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)	Interest Rate=(16.5%),maturity (7),Grace period(1).	
	State Bonds (maturity 1 to 5 years)	Interest Rate=(16%),maturity (5),Grace period(1).	
	State Bonds (maturity 6 years or longer)	Reference to the State Four Borrowing Strategies Adopted,In Debt strategy 1(S1), The State Planned to Borrowing marjourly from the Domestic Capital Market(State Bond) maturing 10 year at 15.5% with a year grace period.	The State is projected to source the State Bonds from the Domedstic Capital Market I,e The Nigerian Stock Exchange.
	Other Domestic Financing	NIL	
	New External Financing in Million US Dollar		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	Interest rate(1.15%),maturity(30) ,Grace period(7).	
	External Financing - Bilateral Loans	Interest rate(2.47%),maturity(20) ,Grace period (5).	
	Other External Financing	NIL	
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 Loans, and MSMEDF)	Interest Rate=(17%),maturity (5),Grace period(1).	
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)	Interest Rate=(16.5%),maturity (7),Grace period(1).	
	State Bonds (maturity 1 to 5 years)	Reference to the State Four Borrowing Strategies Adopted,In Debt strategy 2(S2), The State Planned to Borrowing marjourly from the Domestic Capital Market(State Bond) maturing 5year at 16% with a year grace period.	The State is projected to source the State Bonds from the Domedstic Capital Market I,e The Nigerian Stock Exchange.
	State Bonds (maturity 6 years or longer)	Interest Rate=(15.5%),maturity (10),Grace period(1).	
	Other Domestic Financing	NIL	
	New External Financing in Million US Dollar		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	Interest rate(1.15%),maturity(30) ,Grace period(7).	
	External Financing - Bilateral Loans	Interest rate(2.47%),maturity(20) ,Grace period (5).	
	Other External Financing	NIL	
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 Loans, and MSMEDF)	Interest Rate=(17%),maturity (5),Grace period(1).	
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)	Reference to the State Four Borrowing Strategies Adopted,In Debt strategy 3(S3), The State Planned to Borrowing marjourly from the Domestic Commercial Banks maturing 7year at 16.5% with a year grace period.	The State is projected to source the State Loans from the Domedstic Commercial I,eThe Commercial Banks.
	State Bonds (maturity 1 to 5 years)	Interest Rate=(16%),maturity (5),Grace period(1).	
	State Bonds (maturity 6 years or longer)	Interest Rate=(15.5%),maturity (10),Grace period(1).	
	Other Domestic Financing	NIL	
	New External Financing in Million US Dollar		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	Interest rate(1.15%),maturity(30) ,Grace period(7).	
	External Financing - Bilateral Loans	Interest rate(2.47%),maturity(20) ,Grace period (5).	
	Other External Financing	NIL	
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 Loans, and MSMEDF)	Reference to the State Four Borrowing Strategies Adopted,In Debt strategy 4(S4), The State Planned to Borrowing marjourly from the Domestic Commercial Banks maturing 5year at 17% with a year grace period.	The State is projected to source the State Loans from the Domedstic Commercial I,eThe Commercial Banks.
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)	Interest Rate=(16.5%),maturity (7),Grace period(1).	
	State Bonds (maturity 1 to 5 years)	Interest Rate=(16%),maturity (5),Grace period(1).	
	State Bonds (maturity 6 years or longer)	Interest Rate=(15.5%),maturity (10),Grace period(1).	
	Other Domestic Financing	NIL	
	New External Financing in Million US Dollar		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	Interest rate(1.15%),maturity(30) ,Grace period(7).	
	External Financing - Bilateral Loans	Interest rate(2.47%),maturity(20) ,Grace period (5).	
	Other External Financing	NIL	

Annex II. Historical and projections of the S1_Baseline Scenario

Indicator	Actuals 2017	2018	2019	2020	2021	Projections 2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	BASELINE SCENARIO														
Economic Indicators															
State GDP (at current prices)	1,538,762.14	1,862,415.87	2,084,575.20	2,234,336.74	2,550,444.40	2,939,232.57	3,400,615.23	3,857,171.26	4,372,489.34	4,956,653.92	5,618,862.89	6,369,542.97	7,220,513.91	8,185,174.56	9,278,713.89
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	**88,027.54**	**86,053.12**	**94,508.30**	**101,427.31**	**85,540.49**	**107,741.17**	**112,835.68**	**133,736.07**	**131,503.62**	**136,447.58**	**148,351.50**	**157,811.69**	**170,069.19**	**175,054.75**	**182,870.55**
1. Gross Statutory Allocation ('gross' means with no deductions; do not include VAT Allocation here)	62,372.90	45,090.00	42,772.10	34,422.90	30,319.90	40,980.30	46,978.80	59,053.72	54,004.29	55,678.94	56,235.72	56,798.08	57,366.06	57,939.72	59,519.10
1.a. of which Net Statutory Allocation ('net' means of deductions)	62,372.90	45,090.04	36,159.50	29,891.13	30,319.87	40,980.30	46,978.80	59,053.72	54,004.29	55,678.94	56,235.72	56,798.08	57,366.06	57,939.72	59,519.10
1.b. of which Deductions	0.00	0.00	6,612.56	4,531.76	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)	0.00	0.00	3,281.91	6,654.90	4,934.47	5,120.20	6,520.20	5,120.20	5,058.29	5,099.56	5,150.56	5,202.06	5,254.09	5,306.63	6,325.30
4. VAT Allocation	9,962.09	11,171.98	11,961.61	14,630.81	20,682.65	19,637.72	22,388.10	25,438.30	22,488.04	23,438.15	23,672.53	23,909.25	24,148.35	24,389.83	25,556.30
5. IGR	6,044.49	6,613.76	9,704.65	7,739.81	10,374.73	13,325.61	14,658.20	15,391.10	14,458.30	14,835.87	14,984.23	15,134.07	15,285.41	15,438.26	16,952.60
6. Capital Receipts	9,648.05	23,177.34	26,788.07	37,978.89	19,228.77	28,677.34	22,290.38	28,732.75	35,494.70	37,395.06	48,308.46	56,768.22	68,015.28	71,980.30	74,517.25
6.a. Grants	4,457.72	4,192.59	2,258.83	7,156.32	2,635.97	7,273.10	8,927.70	5,447.70	7,187.70	6,317.70	6,380.88	6,444.69	6,509.13	6,574.22	7,565.20
6.b. Sales of Government Assets and Privatization Proceeds	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
6.c. Other Non-Debt Creating Capital Receipts	6.62	3,315.14	0.00	5.70	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6.d. Proceeds from Debt-Creating Borrowings (bond issuance, loan disbursements, etc.)	5,183.71	15,669.61	24,529.24	30,816.87	16,592.80	21,404.24	13,362.68	23,285.05	28,307.00	31,077.36	41,927.58	50,323.54	61,506.15	65,406.08	66,952.05
Expenditure	**88,981.21**	**84,837.66**	**95,437.75**	**89,673.10**	**84,167.72**	**115,763.31**	**111,757.49**	**132,685.32**	**130,056.84**	**137,062.30**	**149,363.73**	**157,421.94**	**169,817.12**	**174,962.42**	**183,049.11**
1. Personnel costs (Salaries, Pensions, Civil Servant Social Benefits, other)	28,127.10	30,291.33	30,872.08	35,140.58	29,337.26	31,696.70	33,231.54	33,843.11	32,257.12	32,777.26	33,105.03	33,436.08	33,770.44	30,108.10	31,588.30
2. Overhead costs	22,743.86	25,666.36	21,334.82	17,228.32	14,302.94	19,541.98	21,323.28	20,257.11	20,040.79	20,540.39	20,745.80	20,953.26	21,162.79	21,374.42	21,588.16
3. Interest Payments (Public Debt Charges, including interests deducted from FAAC Allocation)	0.48	0.80	0.00	0.00	0.00	6,732.15	9,649.27	11,740.94	12,981.03	16,607.67	20,713.11	23,001.51	28,447.43	31,703.53	36,730.06
3.a. of which Interest Payments (Public Debt Charges, excluding interests deducted from FAAC Allocation)	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.b. of which Interest deducted from FAAC Allocation	0.48	0.80	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
4. Other Recurrent Expenditure (Excluding Personnel Costs, Overhead Costs and Interest Payments)	15,938.40	3,834.04	2,930.61	2,319.97	780.90	8,271.24	8,684.81	9,119.05	8,691.70	8,831.85	8,920.17	9,009.37	9,099.47	9,190.46	9,282.37
5. Capital Expenditure	20,452.87	15,498.08	20,726.99	21,302.65	19,830.17	45,934.94	35,187.75	51,252.20	47,791.63	48,410.53	48,894.63	49,383.58	49,877.41	47,376.20	45,998.30
6. Amortization (principal) payments	1,718.50	9,547.05	19,573.25	13,681.57	19,916.45	3,586.29	3,680.84	6,472.91	8,294.57	9,894.60	16,984.98	21,638.14	27,459.58	35,209.71	37,861.92
Budget Balance (' + ' means surplus, ' - ' means deficit)	**-953.70**	**1,215.40**	**-929.40**	**11,754.30**	**1,372.80**	**-8,022.14**	**1,078.19**	**1,050.75**	**1,446.78**	**-614.72**	**-1,012.23**	**389.75**	**252.07**	**92.33**	**-178.56**
Opening Cash and Bank Balance	**1,362.11**	**408.41**	**1,623.81**	**694.41**	**12,448.71**	**13,821.51**	**5,799.37**	**6,877.56**	**7,928.31**	**9,375.09**	**8,760.37**	**7,748.14**	**8,137.90**	**8,389.96**	**8,482.29**
Closing Cash and Bank Balance	**408.41**	**1,623.81**	**694.41**	**12,448.71**	**13,821.51**	**5,799.37**	**6,877.56**	**7,928.31**	**9,375.09**	**8,760.37**	**7,748.14**	**8,137.90**	**8,389.96**	**8,482.29**	**8,303.73**
Financing Needs and Sources (Million Naira)															
Financing Needs						**21,404.24**	**13,362.68**	**23,285.05**	**28,307.00**	**31,077.36**	**41,927.58**	**50,323.54**	**61,506.15**	**65,406.08**	**66,952.05**
i. Primary balance						-19,107.93	1,045.62	-4,020.45	-5,584.62	-5,189.82	-5,241.71	-5,294.13	-5,347.07	1,599.49	7,461.37
ii. Debt service						10,318.45	13,330.11	18,213.85	21,275.60	26,502.27	37,698.10	44,639.65	55,907.01	66,913.24	74,591.98
Amortizations						3,586.29	3,680.84	6,472.91	8,294.57	9,894.60	16,984.98	21,638.14	27,459.58	35,209.71	37,861.92
Interests						6,732.15	9,649.27	11,740.94	12,981.03	16,607.67	20,713.11	23,001.51	28,447.43	31,703.53	36,730.06
iii. Financing Needs Other than Amortization Payments (e.g., Variation in Cash and Bank Balances)						-8,022.14	1,078.19	1,050.75	1,446.78	-614.72	-1,012.23	389.75	252.07	92.33	-178.56
Financing Sources						**21,404.24**	**13,362.68**	**23,285.05**	**28,307.00**	**31,077.36**	**41,927.58**	**50,323.54**	**61,506.15**	**65,406.08**	**66,952.05**
i. Financing Sources Other than Borrowing						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ii. Gross Borrowings						21,404.24	13,362.68	23,285.05	28,307.00	31,077.36	41,927.58	50,323.54	61,506.15	65,406.08	66,952.05
Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)						1,404.20	0.00	1,491.80	3,616.50	7,115.90	16,959.20	8,147.10	21,833.60	15,907.60	8,116.70
Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)						0.00	4,120.60	0.00	3,991.90	2,735.50	6,518.38	14,300.70	12,868.10	12,579.50	18,335.35
State Bonds (maturity 1 to 5 years)						0.00	0.00	0.00	20,698.60	0.00	0.00	0.00	4,254.40	0.00	20,000.00
State Bonds (maturity 6 years or longer)						20,000.00	9,242.10	9,493.20	0.00	21,226.00	0.00	27,875.70	0.00	30,769.00	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	12,300.00	0.00	0.00	14,350.00	0.00	22,550.00	0.00	20,500.00
External Financing - Bilateral Loans						0.00	0.00	0.00	0.00	0.00	4,100.00	0.00	0.00	6,150.00	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	-0.02	0.05	0.00	-0.04	0.00	0.04	0.05	-0.02	0.00
Debt Stocks and Flows (Million Naira)															
Debt (stock)	**99,454.05**	**119,503.59**	**130,337.70**	**138,461.80**	**132,933.40**	**153,237.54**	**162,919.38**	**179,731.52**	**199,743.95**	**220,926.72**	**245,869.31**	**274,554.71**	**308,601.27**	**338,797.64**	**367,887.77**
External	23,951.75	29,905.89	33,347.20	35,664.40	30,395.80	32,479.93	32,040.26	43,867.02	43,397.59	42,932.29	60,756.45	59,914.69	81,332.54	85,959.79	104,411.69
Domestic	75,502.30	89,597.70	96,990.50	102,797.40	102,537.60	120,757.62	130,879.12	135,864.50	156,346.36	177,994.43	185,112.87	214,640.01	227,268.73	252,837.86	263,476.09
Gross borrowing (flow)						**21,404.24**	**13,362.68**	**23,285.05**	**28,307.00**	**31,077.36**	**41,927.58**	**50,323.54**	**61,506.15**	**65,406.08**	**66,952.05**
External						0.00	0.00	12,300.00	0.00	0.00	18,450.00	0.00	22,550.00	6,150.00	20,500.00
Domestic						21,404.24	13,362.68	10,985.05	28,307.00	31,077.36	23,477.58	50,323.54	38,956.15	59,256.08	46,452.05
Amortizations (flow)	**1,935.58**	**6,381.29**	**5,294.45**	**3,935.20**	**34,090.23**	**3,586.29**	**3,680.84**	**6,472.91**	**8,294.57**	**9,894.60**	**16,984.98**	**21,638.14**	**27,459.58**	**35,209.71**	**37,861.92**
External	101.28	152.89	275.85	391.20	530.60	402.07	439.67	473.24	469.43	465.31	625.84	841.75	1,132.16	1,522.75	2,048.10
Domestic	1,834.30	6,228.40	5,018.60	3,544.00	33,559.63	3,184.22	3,241.17	5,999.67	7,825.14	9,429.29	16,359.15	20,796.39	26,327.43	33,686.96	35,813.82
Interests (flow)	**3,870.19**	**4,721.05**	**5,068.65**	**4,467.00**	**6,024.77**	**6,732.15**	**9,649.27**	**11,740.94**	**12,981.03**	**16,607.67**	**20,713.11**	**23,001.51**	**28,447.43**	**31,703.53**	**36,730.06**
External	126.59	214.05	214.55	260.80	303.20	310.58	316.47	323.84	464.24	459.87	463.05	732.56	735.81	998.42	1,153.64
Domestic	3,743.60	4,507.00	4,854.10	4,206.20	5,721.57	6,421.58	9,332.80	11,417.11	12,516.78	16,147.80	20,250.06	22,268.94	27,711.61	30,705.11	35,576.43
Net borrowing (gross borrowing minus amortizations)						**17,817.94**	**9,681.84**	**16,812.14**	**20,012.43**	**21,182.77**	**24,942.60**	**28,685.39**	**34,046.57**	**30,196.37**	**29,090.13**
External						-402.07	-439.67	11,826.76	-469.43	-465.31	17,824.16	-841.75	21,417.84	4,627.25	18,451.90
Domestic						18,220.02	10,121.51	4,985.38	20,481.86	21,648.07	7,118.44	29,527.14	12,628.72	25,569.12	10,638.23
Debt and Debt-Service Indicators															
Debt Stock as % of SGDP	**6.46**	**6.42**	**6.25**	**6.20**	**5.21**	**5.21**	**4.79**	**4.66**	**4.57**	**4.46**	**4.38**	**4.31**	**4.27**	**4.14**	**3.96**
Debt Stock as % of Revenue (including grants and excluding other capital receipts)	**120.06**	**178.18**	**186.25**	**196.11**	**192.80**	**177.49**	**163.78**	**162.73**	**193.56**	**209.67**	**231.03**	**255.43**	**284.26**	**308.98**	**317.37**
Debt Service as % of SGDP						**0.35**	**0.39**	**0.47**	**0.49**	**0.53**	**0.67**	**0.70**	**0.77**	**0.82**	**0.80**
Debt Service as % of Revenue (including grants and excluding other capital receipts)						**11.95**	**13.40**	**16.49**	**20.62**	**25.15**	**35.42**	**41.53**	**51.50**	**61.03**	**64.35**
Interest as % of SGDP						**0.23**	**0.28**	**0.30**	**0.30**	**0.34**	**0.37**	**0.36**	**0.39**	**0.39**	**0.40**
Interest as % of Revenue (including grants and excluding other capital receipts)						**7.80**	**9.70**	**10.63**	**12.58**	**15.76**	**19.46**	**21.40**	**26.20**	**28.91**	**31.69**
Personnel Cost as % of Revenue (including grants and excluding other capital receipts)						**36.71**	**33.41**	**30.64**	**31.26**	**31.11**	**31.11**	**31.11**	**31.11**	**27.46**	**27.25**

28/12/2022

Honorable Commissioner
Ministry of Finance,
Adamawa State