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

December, 2023

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CHAPTER ONE
INTRODUCTION

1.0 Background of Debt Sustainability.

A State's Public Debt is considered sustainable if the Government or an entity is able to meet all its current and future payment obligations without exceptional financing 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 2018 - 2022 and evaluates the debt sustainability in projected period 2023 - 2032 (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 2018 - 2022 while also evaluating the ability of the State to sustain its debt in the long term (2023 – 2032). 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 DMS-DSA shows that the State's debt portfolio appears to be sustainable in the short term to medium term, but it will be near sustainable 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.

CHAPTER TWO

THE ADAMAWA STATE FISCAL AND DEBT FRAMEWORK

2.1 Fiscal Reforms in the State

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 2022 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 2023 up to 2032.

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 2023 Budget and Medium-Term Expenditure Framework (MTEF), 2023-2026

2.2.1 Approved 2023 Budget

The 2023 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 2023 Budget is estimated at N156.238 billion, this includes Internally Generated Revenue N22.41 billion which constitutes about 14% of the total projected Revenue, Statutory FAAC Allocation N119.29 which constitutes 76% of the total estimated Revenue and Grants N14.52 billion respectively.

Total projected Revenue:

	2023	2024	2025	2026
Total Revenue	156,238	186,465	190,908	206,374
Gross FAAC Allocation	119,291	134,333	138,776	159,304
IGR	22,418	12,418	12,418	15,751
Grants	14,529	39,714	39,714	31,319

The 2023 proposed projected Expenditure comprises of Total estimated expenditure of N184.75 billion, Overhead cost of N40.75 billion constitutes 22% of the total projected Revenue, Debt service (interest + amortization) N9.73 billion, other recurrent expenditure of N20.05 billion, personnel cost of N44.20 billion constitutes 23% of the total projected Revenue and Capital Expenditure of N70. Billion representing 38%, respectively, Adamawa State's total revenue is projected to grow from 2023 to 2026 progressively. 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:

	2023	2024	2025	2026
Total Expenditure	184,756	221,951	244,631	262,192
Personnel	44,203	48,623	53,486	58,834
Overhead Costs	40,759	44,835	49,318	54,250
Debt Service (Interests+Amortizations)	9,737	16,096	27,224	38,857
Other Recurrent Expenditures	20,050	22,055	24,260	26,686
Capital Expenditure	70,008	90,343	90,343	83,564

Below is a table depicting the budget balances of the projected years 2023- 2026 which shows the difference between the revenue including debt proceeds and expenditure

Budget Balance	2023	2024	2025	2026
	393.69	**433.06**	**476.36**	**524.00**

The table below shows the financing needs of the projected years 2023- 2026, which indicates the States borrowing requirements based on the financial activities of the State.

Financing Needs	2023	2024	2025	2026
	28,912.55	**35,919.44**	**54,199.42**	**56,341.89**

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 funds. 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 N70.008 billion in 2023 to N90.343 billion in 2024.

2.2.3 Medium Term Budget Policy Objectives and Targets 2023 -2026

The overall medium-term policy objectives are:

Adamawa State's mission is to mobilize the people of Adamawa State to harness all its natural resources, create and use wealth for the ends of individual happiness, collective fulfillment, and peaceful cohabitation in an environment of transparent and honest leadership. The State's fiscal policy is envisaged to control and enforce compliance with established spending limits to achieve sound budgeting system, which include aggregate fiscal discipline, allocative efficiency, and effective spending

1. The key targets for Adamawa State Government from a fiscal perspective are:
    - Create efficiencies in personnel and overhead expenditure to allow greater resource for capital development;
    - Loans will only be used for capital expenditure projects;
    - Long term target of funding all recurrent expenditure through revenue of a recurrent nature (IGR, VAT and Non-mineral component of Statutory Allocation);
    - Target sources of capital receipts and financing outside of loans (e.g., Grants, PPP, donor support etc.); and
    - Priority given to the completion of ongoing capital projects before new projects are commenced.

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 sectors.

CHAPTER THREE

The Adamawa State Revenue, Expenditure, and Public Debt Trends (2018 - 2022)

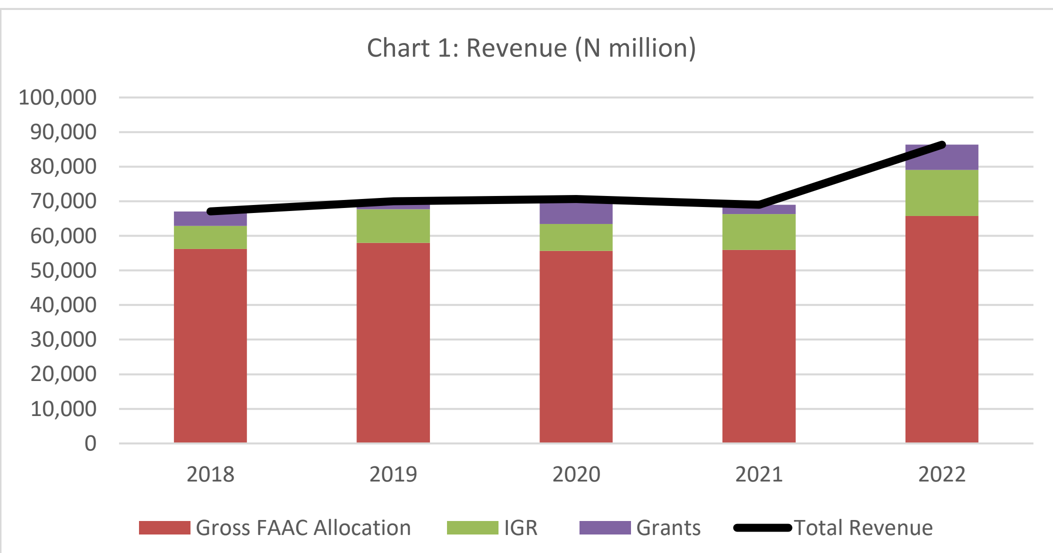
3.1 Revenue, Expenditure and Overall and Primary Balance

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 2018 - 2022 are shown and explained in Chart 1, while the actual expenditures incurred by the State are shown in Chart 2.

Chart 1: Revenue

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Total Revenue	67,068	69,979	70,605	68,948	86,337	156,238	186,465	190,908	206,374	219,276	245,172	269,164	294,190	326,525	363,617
Gross FAAC Allocation	56,262	58,016	55,709	55,937	65,738	119,291	134,333	138,776	159,304	174,428	195,756	220,304	247,094	278,833	315,292
IGR	6,614	9,705	7,740	10,375	13,326	22,418	12,418	12,418	15,751	13,529	13,899	14,393	13,940	14,078	14,137
Grants	4,193	2,259	7,156	2,636	7,273	14,529	39,714	39,714	31,319	31,319	35,516	34,467	33,155	33,614	34,188



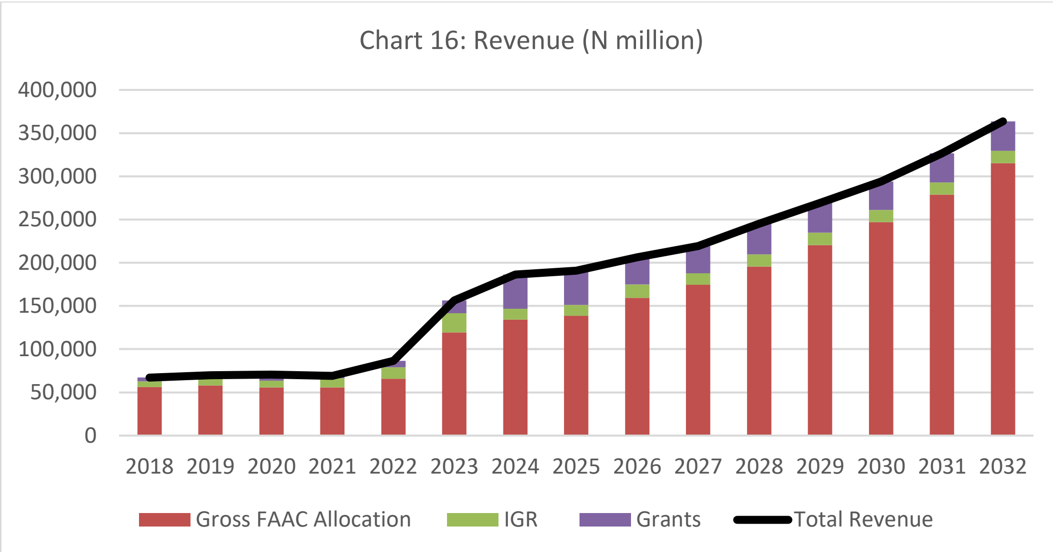
The Gross FAAC Allocation accounts for about 84**%** performance to total recurrent revenue of the state in 2018, it slightly went up in 2019 as a result of the impact of COVID 19, total revenue grew slightly from 2019 to 2020 due to some federal government interventions like the budget support facility and salary bailouts, and slightly fell to about N68.9 in 2021. However, it is expected to fall from 2023-2026 by about 42%, in 2023, due largely to improper plugging of leakages and resistance of tax payments from the new international cattle markets in state, which has been shown in the year of assessment (2023) .

The average Internally Generated Revenue (IGR) of N6.6 billion accounts for about 9.9% of the total Revenue in 2018 and also contributed nearly 11% of total Revenue in 2020. The IGR is expected to increase by 68.2% in 2023 from 2022 figures. 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)

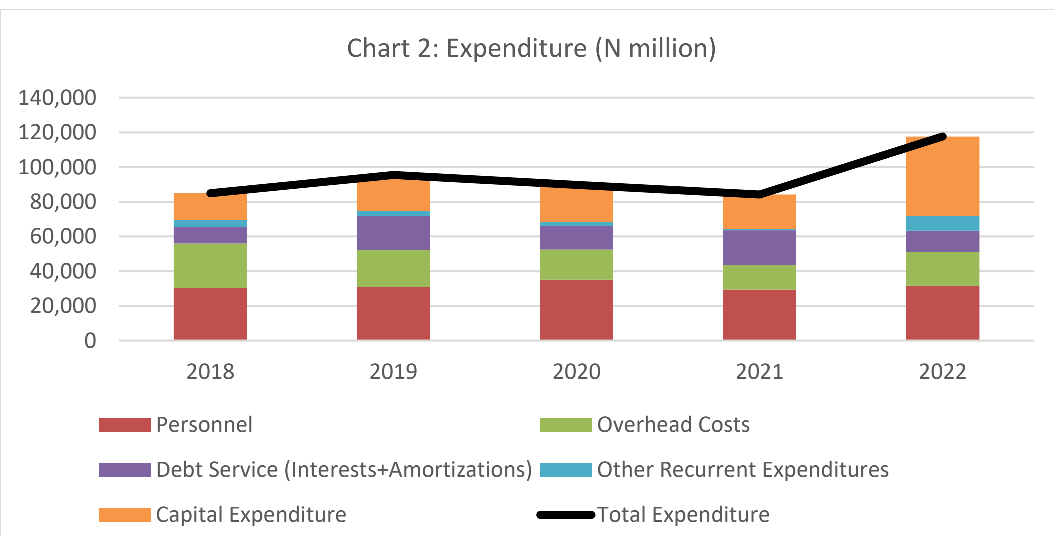
The historical chart below depicts the revenue pattern of the state from 2018 to 2032, it is projected that in 2023, it will rise to about N156.23 billion and further astronomically to about **N190.9b** in 2025 due largely to the proceeds of State bond issuance, which will stimulate Agric-business in the state, and reduce the expenditure due to pensions, thus making the state PENCOM compliant and also increase in federal Allocations due to the state as a consequence of fuel subsidy removal.

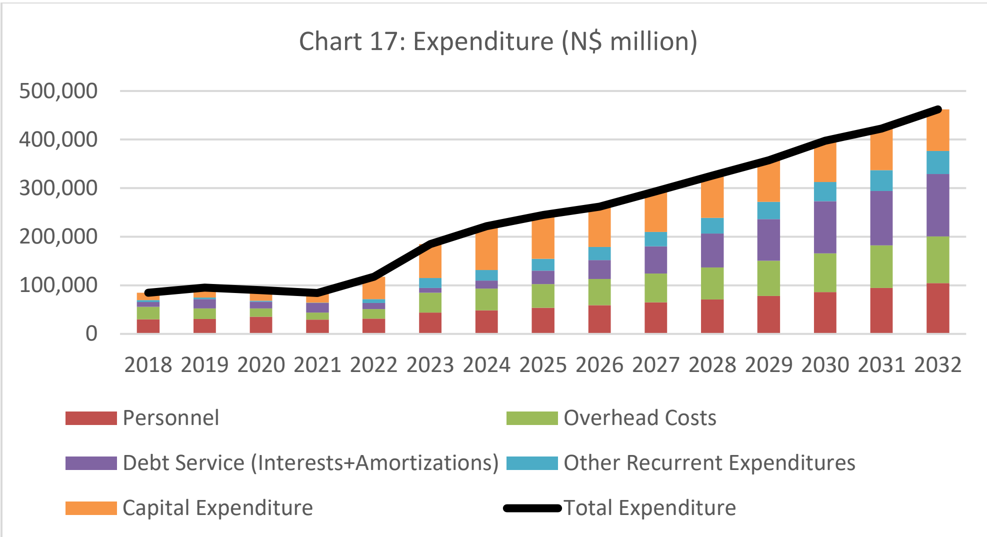
Between 2023 and 2032, the (projection period) total revenue is projected to grow from 156.23billion to 363.61billion representing an increase of about 133%. The State also recorded a 68% increase in its IGR moving from N13.32bn in 2022 to N22.41bn in 2023. The decline in 2020 IGR was caused by Covid-19 pandemic while recovery and government interventions like tax relief led to improved revenue generation in the following year.



	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Total Revenue	67,068	69,979	70,605	68,948	86,337	156,238	186,465	190,908	206,374	219,276	245,172	269,164	294,190	326,525	363,617
Gross FAAC Allocation	56,262	58,016	55,709	55,937	65,738	119,291	134,333	138,776	159,304	174,428	195,756	220,304	247,094	278,833	315,292
IGR	6,614	9,705	7,740	10,375	13,326	22,418	12,418	12,418	15,751	13,529	13,899	14,393	13,940	14,078	14,137
Grants	4,193	2,259	7,156	2,636	7,273	14,529	39,714	39,714	31,319	31,319	35,516	34,467	33,155	33,614	34,188

Chart 2: Expenditure





	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Total Expenditure	84,838	95,438	89,673	84,168	117,626	184,756	221,951	244,631	262,192	293,394	325,981	357,614	397,510	422,450	462,151
Personnel	30,291	30,872	35,141	29,337	31,697	44,203	48,623	53,486	58,834	64,717	71,189	78,308	86,139	94,753	104,228
Overhead Costs	25,666	21,335	17,228	14,303	19,542	40,759	44,835	49,318	54,250	59,675	65,643	72,207	79,427	87,370	96,107
Debt Service (Interests+Amortizations)	9,548	19,573	13,682	19,916	12,181	9,737	16,096	27,224	38,857	56,082	69,905	85,474	107,825	111,931	128,658
Other Recurrent Expenditures	3,834	2,931	2,320	781	8,271	20,050	22,055	24,260	26,686	29,355	32,290	35,519	39,071	42,978	47,276
Capital Expenditure	15,498	20,727	21,303	19,830	45,935	70,008	90,343	90,343	83,564	83,564	86,954	86,106	85,047	85,418	85,881

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.

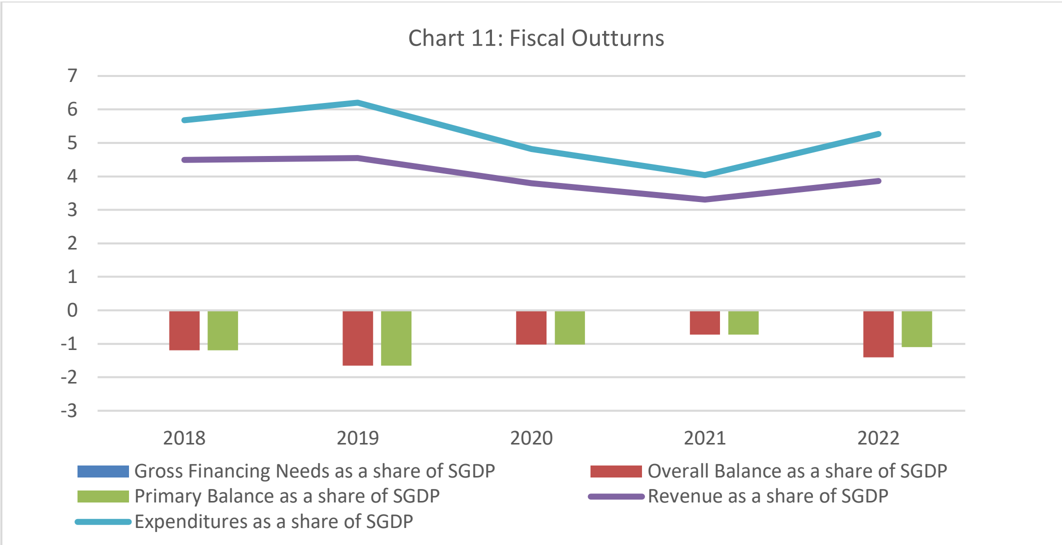
The personnel cost consists of salaries and allowances of all Ministries, Departments and Agencies as well as public and political office holders' emolument. The State personnel cost accounts for almost 36% of the State Total Expenditure from 2018. While in 2022 the personnel cost accounts for about 27% of Total Expenditure and is projected to account for about 24% of Total Expenditure by the end of 2023. Overhead expenditure entails the cost of maintenance and operation of Government activities, even though it has been relatively volatile over the period 2018 - 2022. However, overhead cost is projected to account for 22% of Total Expenditure of the State by the end of 2023.

Between 2020 and 2021, Adamawa State recorded a decline in its personnel cost from N35,141billionn 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 (2018 - 2022) 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 2018 - 2022, the State capital expenditure to total expenditure is expected to account for about 38% of the State Total Expenditure by the end of 2023.

Except for 2018 and 2021, Adamawa State has expended an average of N19.3 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 N67,068 billion in 2018,

to N69.979 in 2019, N70.605 in 2020, N68.948 in 2021, N86.337 in 2022. It is projected to increase to N219.276 billion by 2027. The expenditure pattern has been on the steady increase from N84.838 billion in 2018, N184.756 in 2023 and it increased to N117.626 billion in 2022 from N84.168, 2021 figures.

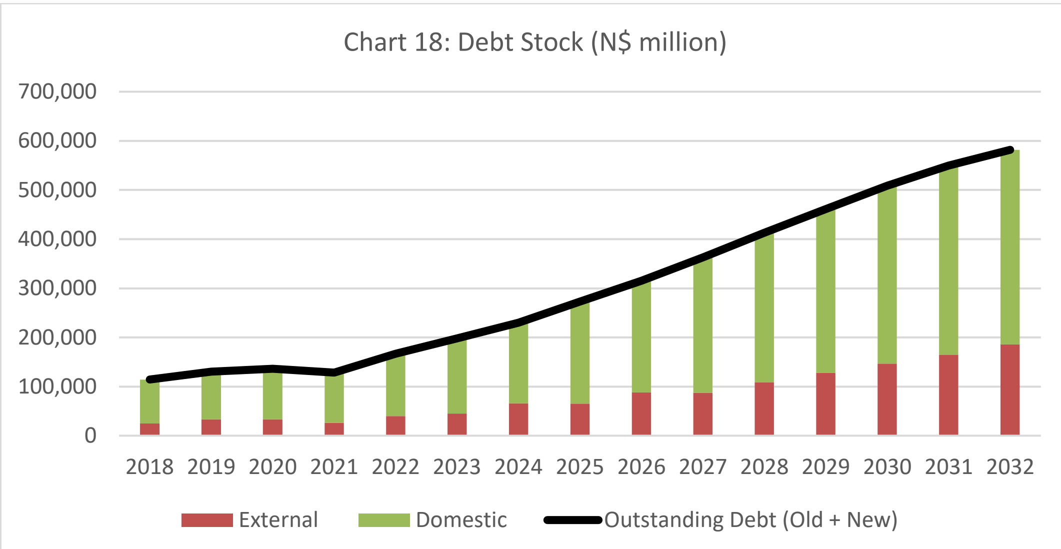
The year 2018 was closed with a budget balance of N1.215 million, (N929.5) billion in 2019,ie the state went into deficit in 2019, million to N11.754 billion (surplus) in 2020. This dropped to N1.372 billion (surplus) in 2021.

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.

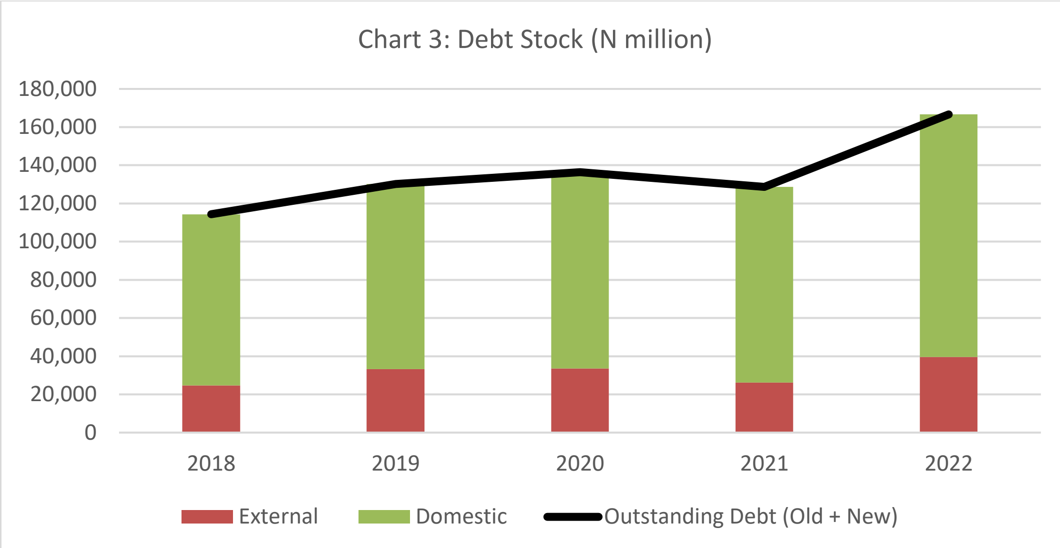
3.3 Existing Public Debt Portfolio

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



	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Outstanding Debt (Old + New)	114,360	130,260	136,329	128,683	166,635	197,813	230,199	273,300	315,559	363,140	413,078	461,226	508,492	549,911	581,772
External	24,762	33,270	33,531	26,145	39,643	44,864	65,902	65,074	88,159	87,375	109,197	127,970	146,423	164,876	185,507
Domestic	89,598	96,991	102,797	102,538	126,991	152,950	164,297	208,226	227,399	275,765	303,880	333,256	362,069	385,035	396,266



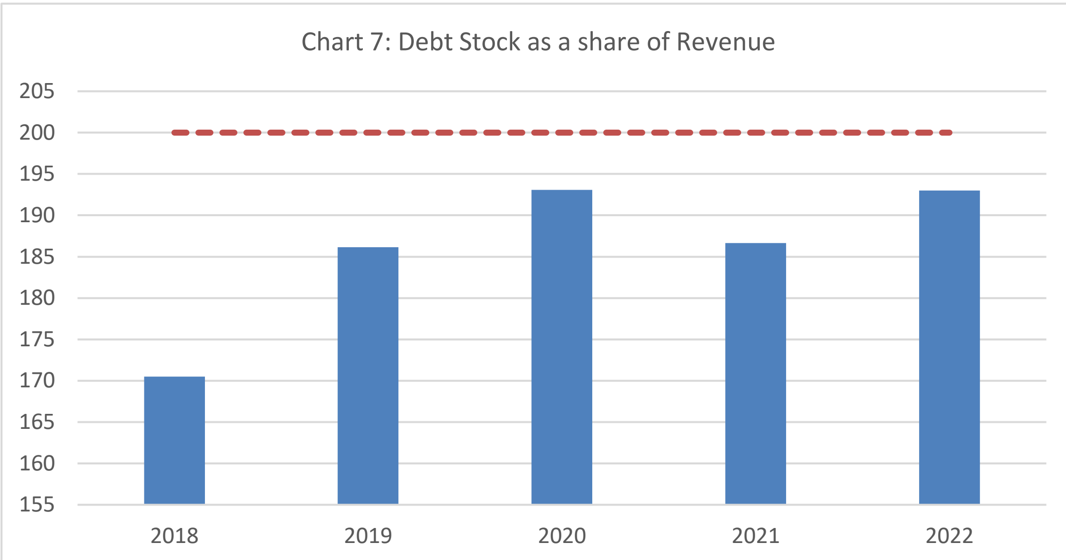
	2018	2019	2020	2021	2022
Outstanding Debt (Old + New)	114,360	130,260	136,329	128,683	166,635
External	24,762	33,270	33,531	26,145	39,643
Domestic	89,598	96,991	102,797	102,538	126,991

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

The State's public debt as at 2018 ending stands at (N114.360bn) constituting (N89.598bn) Domestic debt and (N24.762bn) as External debts.

While the State's public debt amounted to (N166.635bn) at the end of 2022. The State's debt portfolio largely consists of Domestic debt with about 76% and External stood at about 24% of the Total debt stock. At the end of 2022, Domestic debt is projected to increase by 20% in 2023 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.



	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Debt as % of Revenue	171	186	193	187	193	127	123	143	153	166	168	171	173	168
Threshold	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 2018-2022 and also it falls below the threshold over the projection period 2023-2031, indicating that the state debt is within its Debt Carrying Capacity in the period under review, therefore caution should be taken by the government to further widen the revenue bracket of the State, to preserve sustainability.

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 2022	Average 2018 to 2032/Ratio
Debt as % of GDP	25%	7%	9.6%
Debt as % of Revenue	200%	193%	227%
Debt Service as % of	40%	50%	39%
Personnel Cost as % of Revenue	60%	37%	50%

Source: Adamawa State DSA/DMS Template, 2023

The Chart above 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 as shown in the trend from 2018 to 2032. The ratio has continued to decrease steadily over the period under review dropping to … percent from 2020 up to 2032, 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 2022 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.

The baseline sees the Debt to Revenue ratio breaching the threshold at 58% and 50% against the threshold of 40% in 2021 and 2022 respectively due mainly to huge debt service from the state's bond raised in 2021 and the debt refinancing activities in 2022.

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 2018 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 2028-2030 also shows an ascending order but still falls within the 40% threshold.

Personnel Costs as a share of Revenue consistently remain below the threshold of 60% up to 2032 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 71%, 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 2023, debt service to FAAC ratio falls again to 8%. It is projected to continue an upward trajectory with a peak of 44% by 2030. 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 2023 to 2032 reference to the State's four Borrowing Strategies adopted.

In Debt strategy 1(S1) baseline scenario, the State Planned to borrow majorly from the Domestic Capital Market (State Bond) maturing 1-5 year at 15.5% with 1 year grace period. i.e., projected to be sourced from The Nigerian Stock Exchange. The grand total of N720.986 billion to be sourced from both domestically and externally, However, the state is Borrowing majorly from the domestic capital market bond amounting to N165,456.60 which constitutes 23% of the Total Domestic Borrowing requirements for the ten years projection. Out of this, N155,509 billion in naira will be sourced from external sources, representing 22% of the Gross Borrowing Requirements within the ten years projection period 2023- 2032 amounting to N720,986.00 billion. The total domestic borrowing ie commercial banks and the capital market constitutes 78% while that of external debt constitutes 22%. 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 6 years and above at 15% with 1 year grace period, amounting to N193.620 billion representing 29.4 % of total borrowing. N657.639 billion the grand total of both the domestic and external borrowing which constitutes the gross borrowing requirements within the ten years projection period 2023-2033. 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 Capital Market maturing in 1-5 years at 15% with 1 year grace period amounting to N248.140billion, constituting 33% of the total borrowing requirements in the projection period ,and bond maturing 1-5years valued N248,140 constituting 33% of the total borrowing requirement, The State is projected to source some of the loans from the Domestic financial Institutions , The grand total of both domestic and external borrowing which constitute the gross borrowing requirements within the ten years projection period 2023-2032 is N750,988,. 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 6 years and above at 21.5% with 1 year grace period valued at N251,844, which constitutes 31% of the total gross borrowing of N793,845 billion. The State is projected to source the State loans from the Domestic Financial Institutions i.e. the Commercial Banks, amounting to N251,844 billion representing 32% of the total gross borrowing requirements N793.805 billion is the grand total of both domestic and external borrowing which constitute the gross borrowing requirement within the ten-year projection period 2023-2032. The currency for domestic borrowing is naira while external borrowing is US dollars.

4.4 DSA SIMULATION RESULTS

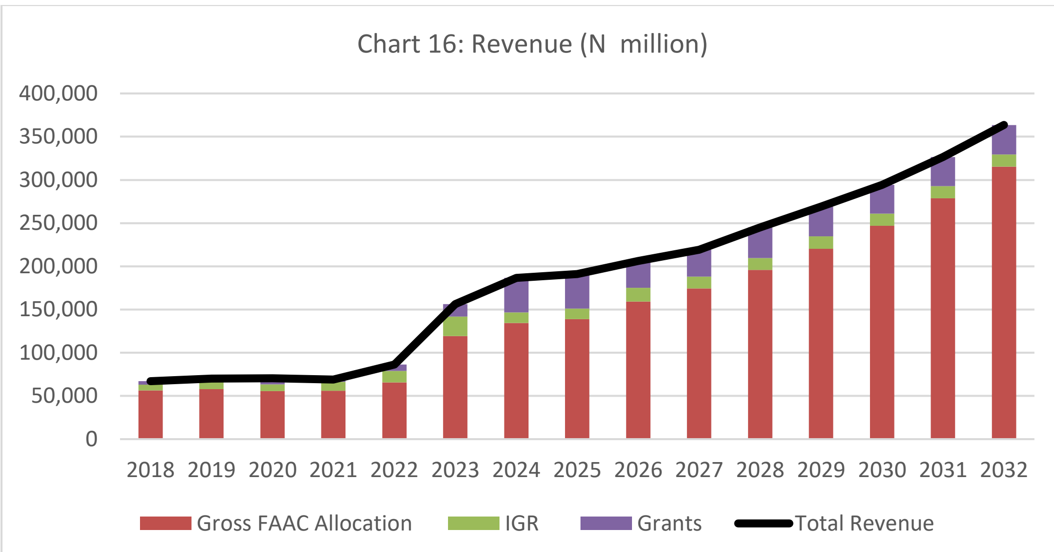
Recent Shocks underscore the urgent need to significantly diversify and improve government revenues and reduce the dependence on oil revenue sources. Government remains committed to using innovative ways to raise the revenues required to finance its expenditure and diversifying its revenue sources. Higher 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 2023 to 2032 is presented in Chart 16 below:

Source: Adamawa State DSA/DMS Template, 2023



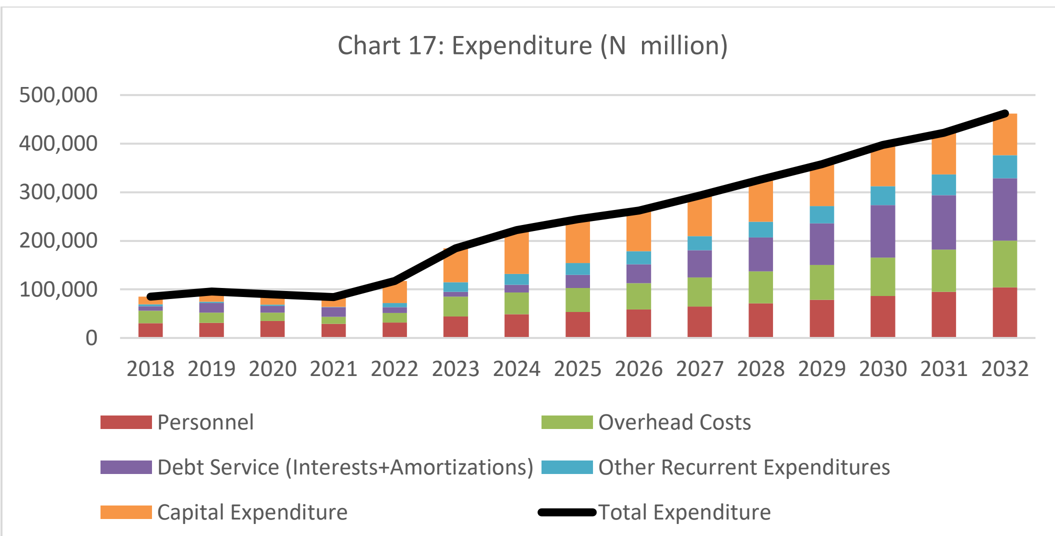
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Total Revenue	67,068	69,979	70,605	68,948	86,337	156,238	186,465	190,908	206,374	219,276	245,172	269,164	294,190	326,525	363,617
Gross FAAC Allocation	56,262	58,016	55,709	55,937	65,738	119,291	134,333	138,776	159,304	174,428	195,756	220,304	247,094	278,833	315,292
IGR	6,614	9,705	7,740	10,375	13,326	22,418	12,418	12,418	15,751	13,529	13,899	14,393	13,940	14,078	14,137
Grants	4,193	2,259	7,156	2,636	7,273	14,529	39,714	39,714	31,319	31,319	35,516	34,467	33,155	33,614	34,188

Adamawa State Total Revenue (including grants and excluding other capital receipts) is expected to increase from N156.238 billion in 2023 to N363.617 billion in 2031, representing an increase of N207.379 billion over the projection period. Gross FAAC Allocation projected to grow from N119.291 billion in 2023 to N315.292 billion in 2032, which represents an increase of N196.001 billion or % percent and IGR is projected to fall from N22.418 billion in 2023 to N12.418 billion in 2032, representing a decrease of N10.0billion or %, due mainly to

resistance from the increase in collections of revenue from local cattle markets, while Grant is projected to grow slightly from N14.529 billion to N34.188 billion representing an increase of N19.659 billion and a percentage of % over the projection period,(2023-2032).
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 2023 to 2032 is presented in Chart 17 below:



Source: Adamawa State DSA/DMS Template, 2023

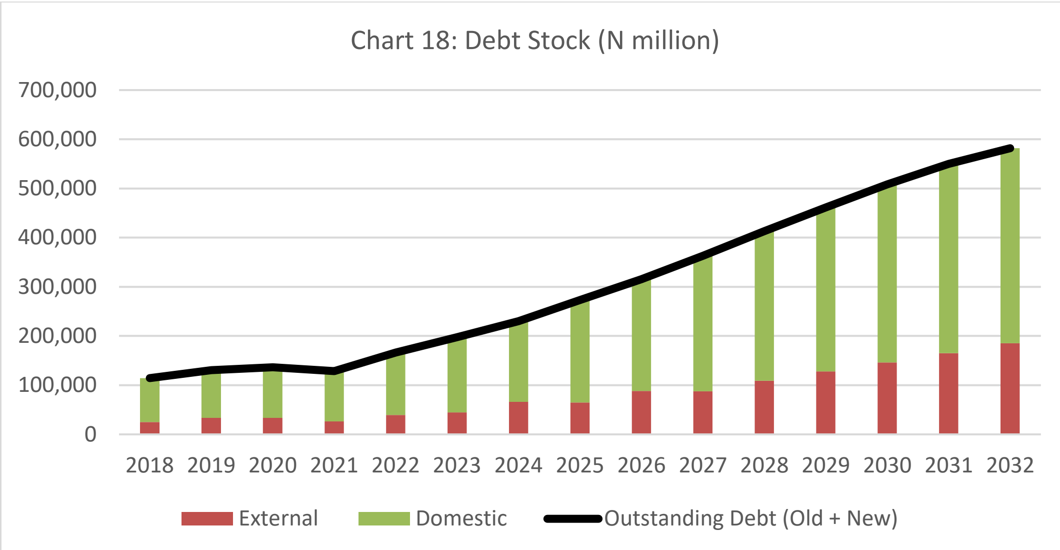
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Total Expenditure	84,838	95,438	89,673	84,168	117,626	184,756	221,951	244,631	262,192	293,394	325,981	357,614	397,510	422,450	462,151
Personnel	30,291	30,872	35,141	29,337	31,697	44,203	48,623	53,486	58,834	64,717	71,189	78,308	86,139	94,753	104,228
Overhead Costs	25,666	21,335	17,228	14,303	19,542	40,759	44,835	49,318	54,250	59,675	65,643	72,207	79,427	87,370	96,107
Debt Service (Interests+Amortizations)	9,548	19,573	13,682	19,916	12,181	9,737	16,096	27,224	38,857	56,082	69,905	85,474	107,825	111,931	128,658
Other Recurrent Expenditures	3,834	2,931	2,320	781	8,271	20,050	22,055	24,260	26,686	29,355	32,290	35,519	39,071	42,978	47,276
Capital Expenditure	15,498	20,727	21,303	19,830	45,935	70,008	90,343	90,343	83,564	83,564	86,954	86,106	85,047	85,418	85,881

Total expenditure is projected at N184.756 billion in 2023, N221.951 billion in 2024, N244.631 billion in 2025, N262.192 billion in 2026, N293.394 billion in 2027, N235.981 billion in 2028, N357.614 billion in 2029, N397.510 billion in 2030, N442.450 billion in 2031 and N462.151 billion in 2032, respectively, indicating a near stability in the state growth recovery, Personnel Costs, Overhead Costs, Debt Service. Other Recurrent Expenditures estimated to increase from N20.050 billion to in 2023 to N42.978 in 2031, Personnel Costs will increase from N44.203 billion in 2023 to N104.228 billion in 2032, Overhead Costs from N40.759billion in 2023 to N96.107 billion 2032, and Debt Service from N9.737 billion in 2023 to N128.658 billion in 2032. Capital Expenditure estimated to increase slightly over the projection period from N70.008 in 2023, to N86.881 billion in 2032, by N16.873 billion, over the projection period as provided in the Approved 2023 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 commercial Bank 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 N90.343 billion in 2024 (chart 17).

4.5.3 Projected Debt Stock-Chart 18

The Adamawa State projected debt stock from 2023 to 2032 is presented in Chart 18 below:



Source: Adamawa State DSA/DMS Template, 2023

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Outstanding Debt (Old + New)	114,360	130,260	136,329	128,683	166,635	197,813	230,199	273,300	315,559	363,140	413,078	461,226	508,492	549,911	581,772
External	24,762	33,270	33,531	26,145	39,643	44,864	65,902	65,074	88,159	87,375	109,197	127,970	146,423	164,876	185,507
Domestic	89,598	96,991	102,797	102,538	126,991	152,950	164,297	208,226	227,399	275,765	303,880	333,256	362,069	385,035	396,266

Adamawa State's Debt Stock is estimated to increase from N197.813 billion in 2023 to N581.772 billion in 2033, representing an increase of N383.959 billion over the projection period. External Debt is projected to increase by N140.634 billion or % percent and Domestic Debt to increase by N243.276 billion or % percent over the projection period 2023 to 2032.

In the short and medium terms (2018-2023) historical period, Adamawa State is found to be sustainable as it lies within the threshold of 200%, from 2023-2032(projection period) the State was found to be sustainable as it did not exceed the threshold.

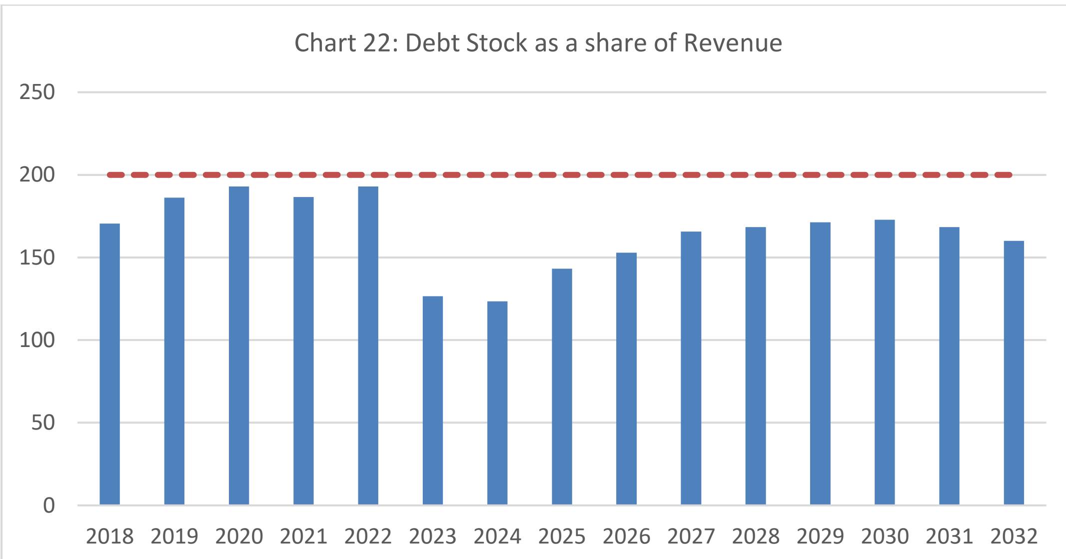
The ratio of Debt as percentage of Revenue is estimated at 127% in 2023, 123% in 2024, 168% in 2028, and 168%% in 2031. Thus, the ratio remains below the threshold of 200% in both the projection and historical periods.

The Baseline Scenario results shows that the ratio of Debt stock as percentage of GDP is projected at 6% in 2023, 6% in 2024, 7% in 2027, 7% in 2028 and 6% in 2032, 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 2023 to 2032 is presented in Chart 22 below:



Source: Adamawa State DSA-DMS Template, 2022

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Debt as % of Revenue	171	186	193	187	193	127	123	143	153	166	168	171	173	168
Threshold	200	200	200	200	200	200	200	200	200	200	200	200	200	200

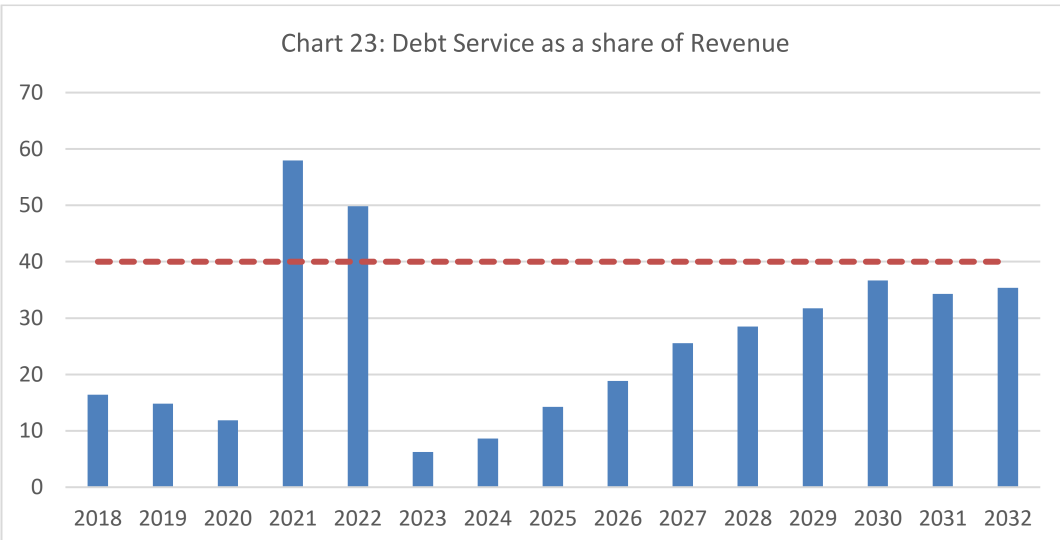
As a consequence of the increase in exchange rate parity, external debt repayment figures will increase, total **public debt will increase, and the State's repayment capacity will slightly fall**. Debt as percentage of revenue is projected to decline from 2022 to 2024. However, from 2023- 2032 the State Debt as a percentage of Revenue appears to be sustainable because it did not exceed the prescribed threshold of 200%, for the state to preserve sustainability, it must take stringent measures on its revenue drive.

In the final analysis, the state was found **to be sustainable** from both the historical period 2018-2022, and the projected period 2023- 2032. 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 2023 to 2032 is presented in Chart 23 below:



Source: Adamawa State DSA-DMS Template, 2022

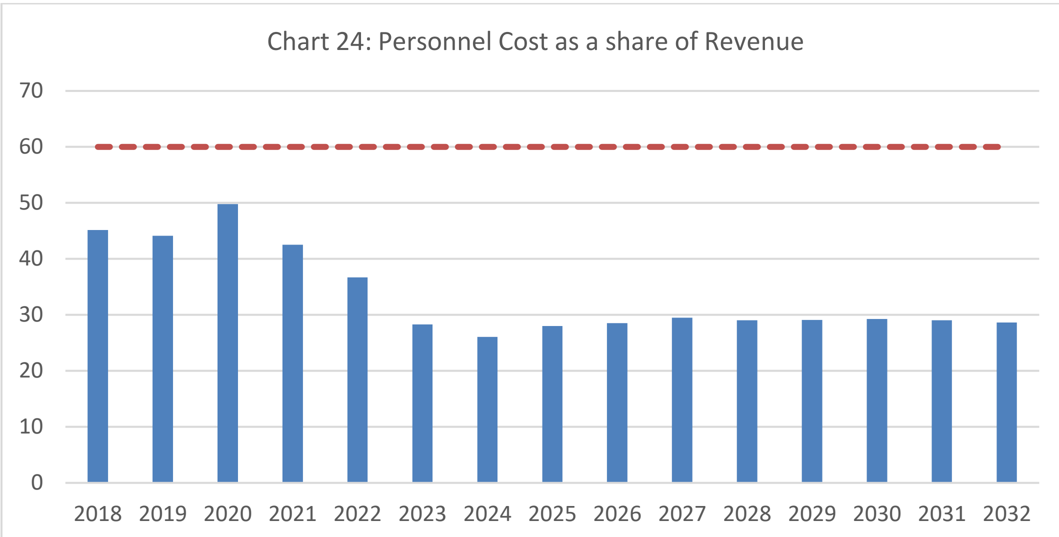
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Debt Service as % of Revenue	16	15	12	58	50	6	9	14	19	26	29	32	37	34	35
Threshold	40	40	40	40	40	40	40	40	40	40	40	40	40	40	40

In the three years historical period (2018-2020) 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, of which (N11, 585.6bn) is to Refinance some commercial Bank loans. From the year 2023, the debt service remained within the threshold (40%) up to the end of projected year 2032.

4.5.6 Projected Personnel Cost- Chart 24

The Adamawa State projected personnel cost from 2023 to 2032 is presented in Chart 24 below:



Source: Adamawa State DSA-DMS Template, 2022

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Personnel Cost as % of Revenue	45	44	50	43	37	28	26	28	29	30	29	29	29	29
Threshold	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 28% as at 2023 to a increase of 29% by 2032 with an average increase of %. 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 sustainable** from the projected period 2023-2032 i.e. over the long-term. However, it was also found to be sustainable within the threshold of 200% within the historical period 2022 up to the period 2032 in the projection i.e. in the short and medium terms.

The ratio of Debt as percentage of Revenue is estimated at 127% in 2023, 123% in 2024, 143% in 2025, 171% in 2029 and 160% in 2032. 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 6% in 2023, 6% in 2024, 6% in 2025, 7% in 2028, 7% in 2029 and 6% in 2032, respectively, as against the indicative threshold of 25%.

The ratios of Debt Service to Revenue remained within the threshold of 40% from 2016 to 2020 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, it was found to be sustainable all through within the projection period 2023-2032.

Personnel Cost to Revenue trends remains under the threshold (60%) over the projection period from 2023 to 2033, with the strong-minded efforts by the State Government through its various initiatives and reforms in the key sectors of the economy, respectively. 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 eg through plugging of revenue leakages;

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;

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

g. 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;

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

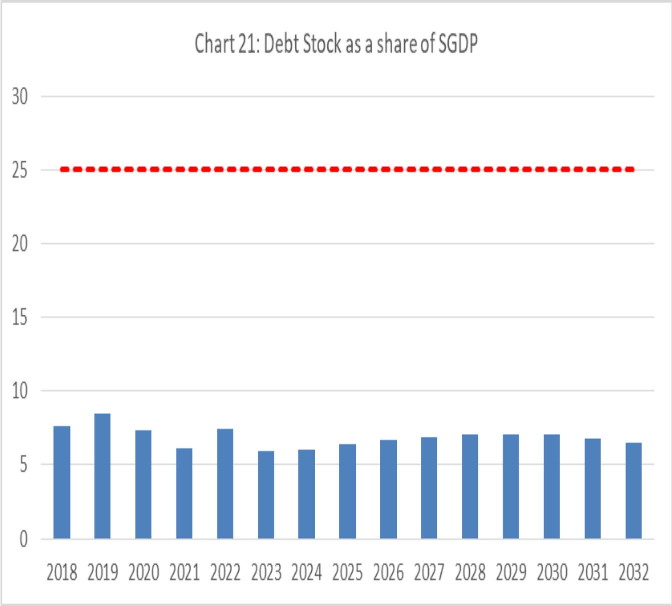


Chart 21: Debt Stock as a share of SGDP
30
25
20
15
10
5
0
2018 2019 2020 2021 2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032

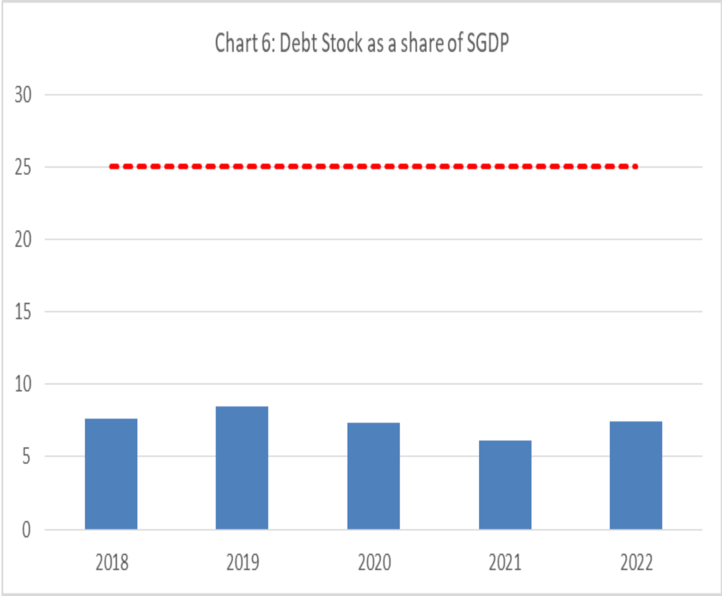


Chart 6: Debt Stock as a share of SGDP
30
25
20
15
10
5
0
2018 2019 2020 2021 2022

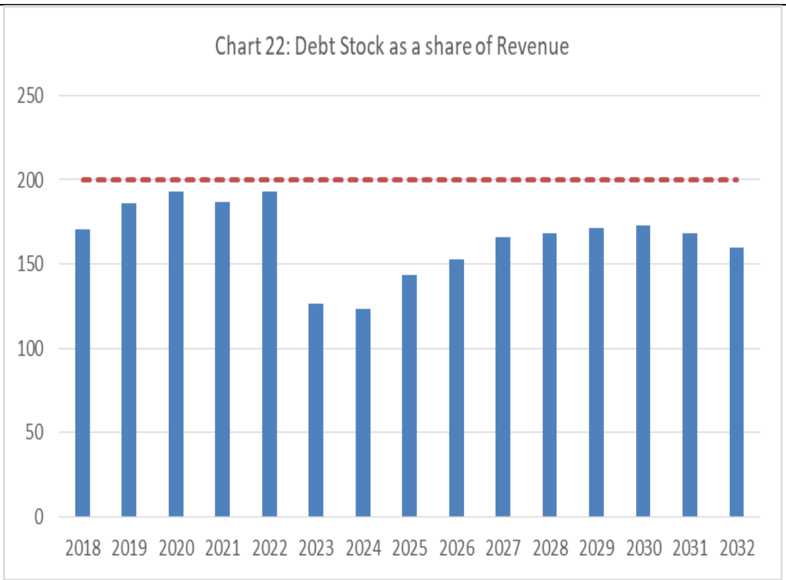


Chart 22: Debt Stock as a share of Revenue
250
200
150
100
50
0
2018 2019 2020 2021 2022 2023 2024 2025 2026 2027 2028 2029 2030 2031 2032

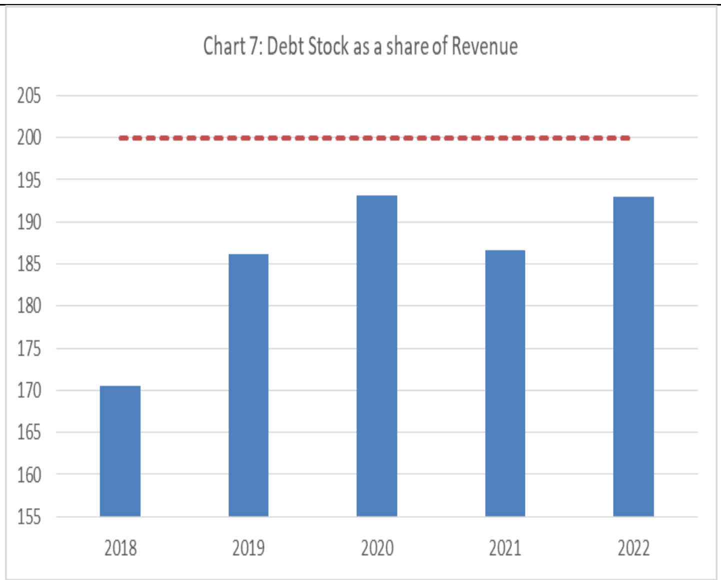
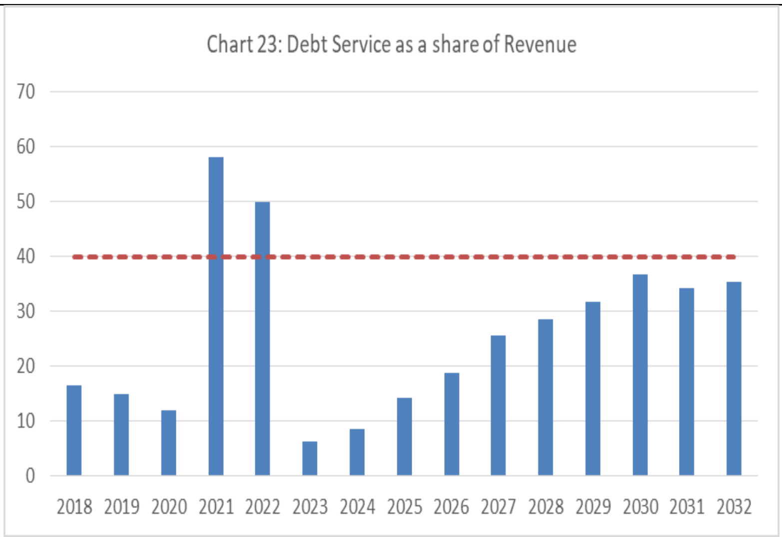
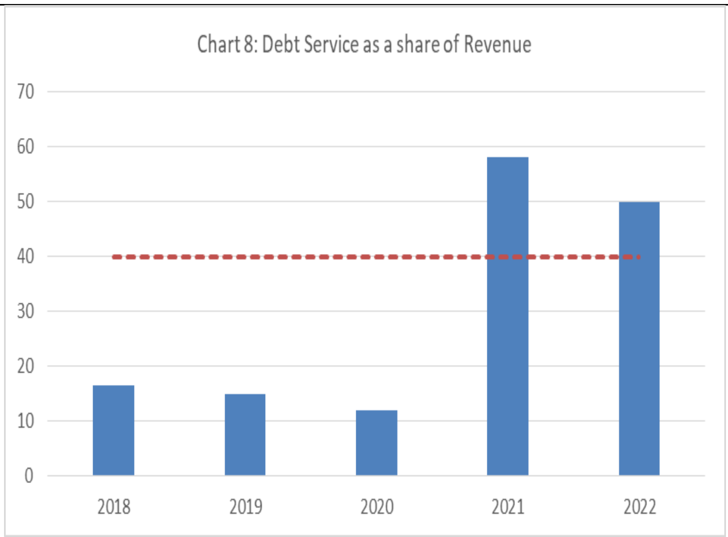
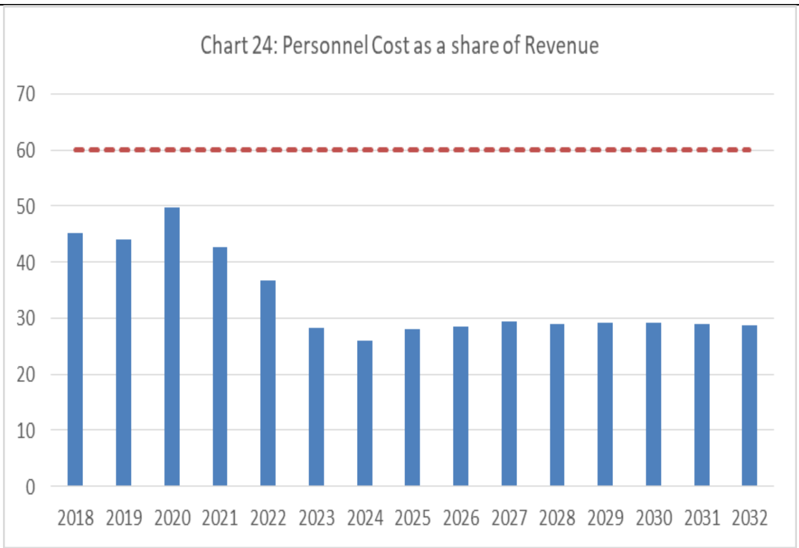
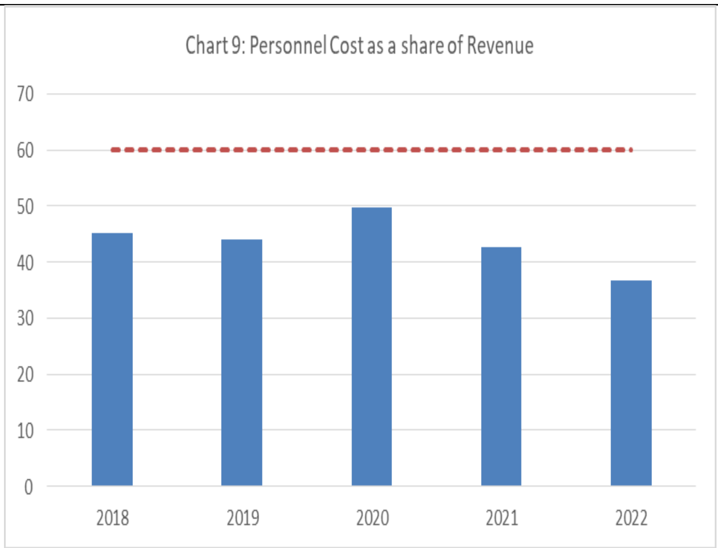


Chart 7: Debt Stock as a share of Revenue
205
200
195
190
185
180
175
170
165
160
155
2018 2019 2020 2021 2022









Source: Adamawa State DSA-DMS Template, 2023

4.6.1 CONCLUSION

Adamawa State DSA Result shows that, the State remains at low 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 2023 DSA analysis shows that Adamawa remains at low 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 did not breach the benchmarks in both the historical and projection periods, 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 2022.

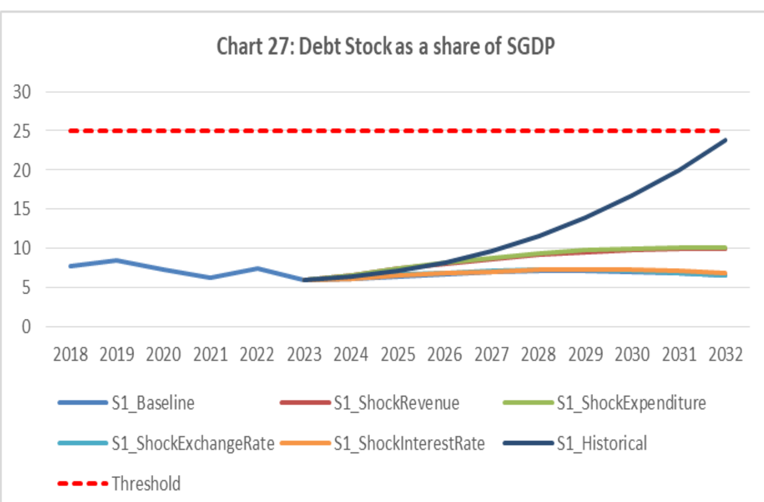
The four shocks as simulated (shock revenue, shock expenditure, shock interest rate, shock exchange rate) all have impacts on the ratios analyzed at the magnitudes tested. These four shocks all have a marked impact on Debt Service, but in terms of its deviations from the baseline scenario, what these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

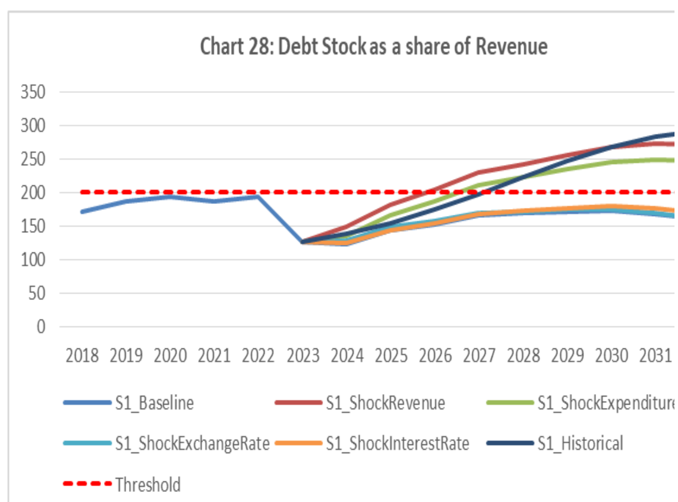
This serves as a reminder on the need to continue the effort to increase IGR, to ensure a balanced debt portfolio, not to borrow too excessively, and to create sufficient buffers within the ratio analysis so as not to breach them as a result of a shock. Fiscal buffers, including contingency funds and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

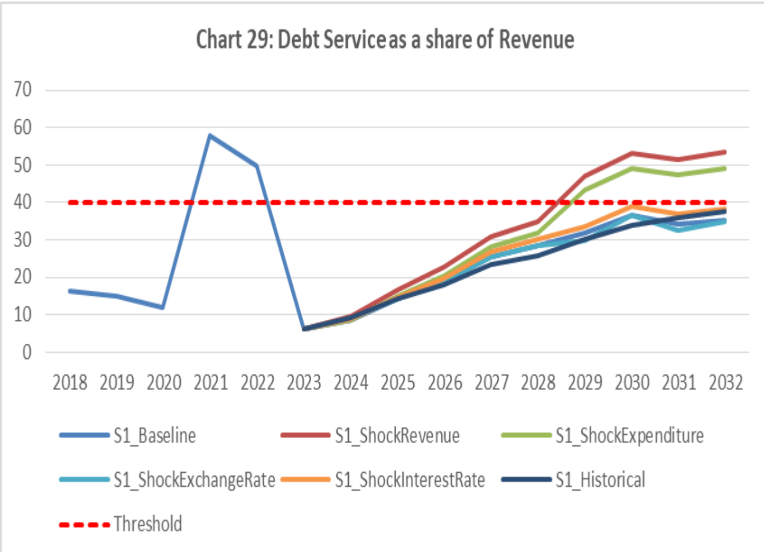
Consideration should also be given to the scenario where more of these shocks occurs simultaneously, as it has happened in 2020, the magnitude is higher, or more persistent (e.g. multiple exchange rate depreciation of the period). Again, this emphasizes the need to borrow to invest, and ensure that investment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

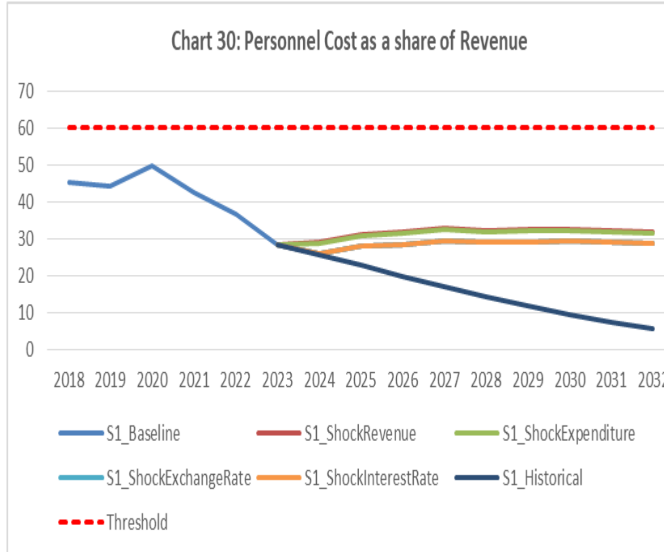
There is, an urgent need for the authorities to fast-track efforts aimed at further diversifying the sources of revenue away from crude oil (FAAC), as well as implement far-reaching policies that will boost IGR into the state. This has become critical, given the continued volatility in the FAAC allocation.

The following charts below explain the shocks scenarios:









Source: Adamawa State DSA-DMS Template, 2023

In the charts above, the sustainability analysis in the shock scenario shows debt stock as percentage of revenue being sustainable all through from the historical period 2018-2022, and the projected period 2023-2032.

Whereas debt service sustainability i.e. Debt service as a percentage of revenue is seen to be sustainable in the historical period 2018-2020, while the State was unsustainable largely due to huge debt repayment (consolidation) during the period 2021-2022, it remained at 24% on average over the ten years projected period i.e. 2023-2032.

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 5-10 years with 5-7 years Grace period. The State proposed three (3) alternative strategies (S2, S3, and S4) which considers 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.

In Debt strategy 1(S1) baseline scenario, the State Planned to borrow majorly from the Domestic Capital Market (State Bond) maturing 1-5 year at 15.5% with 1 year grace period. i.e. projected to be sourced from The Nigerian Stock Exchange. The grand total of N720.986 billion to be sourced from both domestically and external, However, the state is borrowing majorly from the domestic capital market bond is N165, 456.60 which constitutes 23% of the total borrowing requirements for the ten years projection. Out of this, N155,509 billion will be sourced from external sources, representing 21.7% of the gross borrowing requirements within the ten years projection period 2023- 2032. The total domestic borrowing ie commercial banks and the capital market constitutes 78.43% while that of external debt constitutes 21.57%.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 6 years and above at 15% with 1 year grace period, amounting to N193.620 billion representing 29.4 % of total borrowing. N657.639 billion the grand total of both the domestic and external borrowing which constitutes the gross borrowing requirements within the ten years projection period 2023-2033. 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 Capital Market maturing in 1-5 years at 15% with 1 year grace period amounting to N248.140billion, constituting 33% of the total borrowing requirements in the projection period ,and bond maturing 1-5years valued N248,140 constituting 33% of the total borrowing requirement, The State is projected to source some of the loans from the Domestic financial Institutions , The grand total of both domestic and external borrowing which constitute the gross borrowing requirements within the ten years projection period 2023-2032 is N750,988,. The currency for domestic borrowing is naira while external borrowing is US dollars.

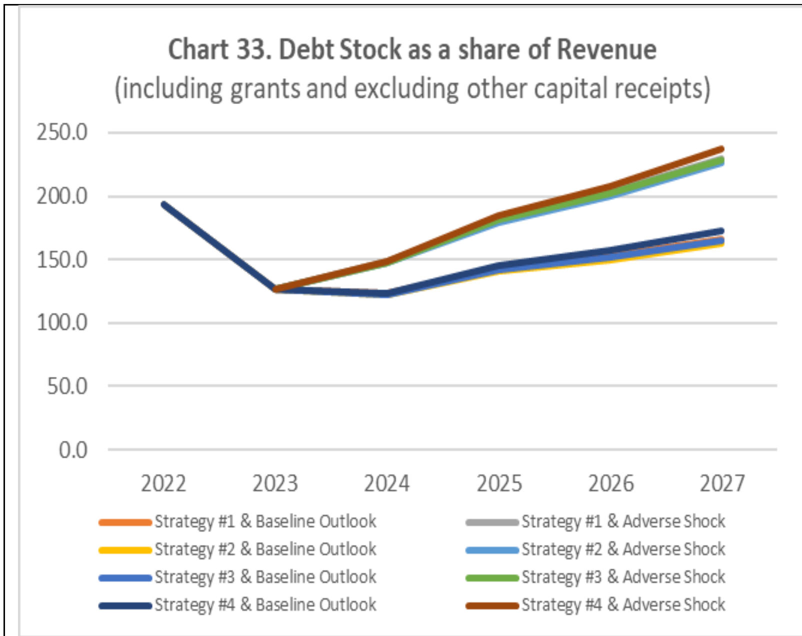
Also, in Debt strategy 4(S4), The State Plans to Borrow majorly from the Domestic Commercial Banks maturing in 6 years and above at 21.5% with 1year grace period valued at N251,844, which constitutes 31% of the total gross borrowing of N793,845 billion. The State is projected to source the State loans from the Domestic Financial Institutions i.e. the Commercial Banks, amounting to N251,844 billion representing 32% of the total gross borrowing requirements N793.805 billion is the grand total of both domestic and external borrowing which constitute the gross borrowing requirement within the ten-year projection period 2023-2032. The currency for domestic borrowing is naira while external borrowing is US dollars.

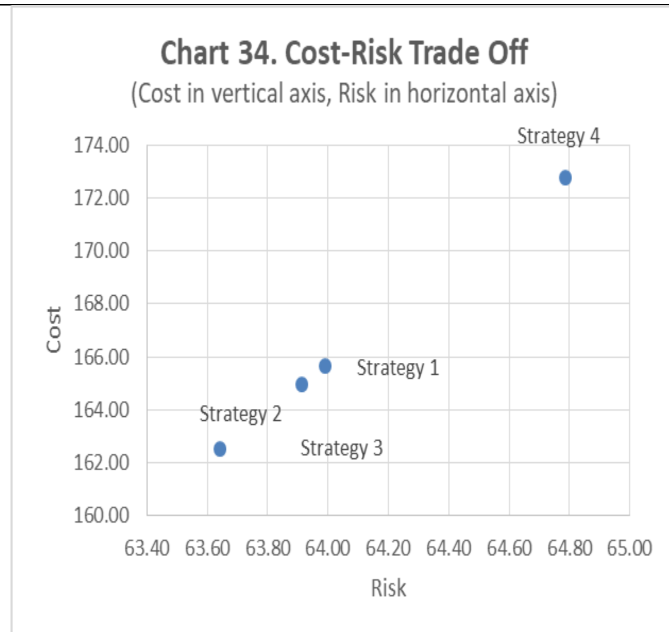
5.2 DMS Simulation Results

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:



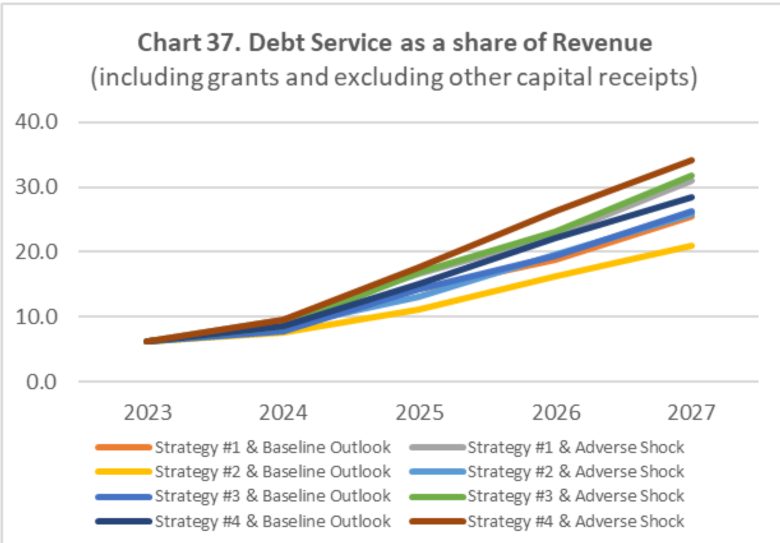


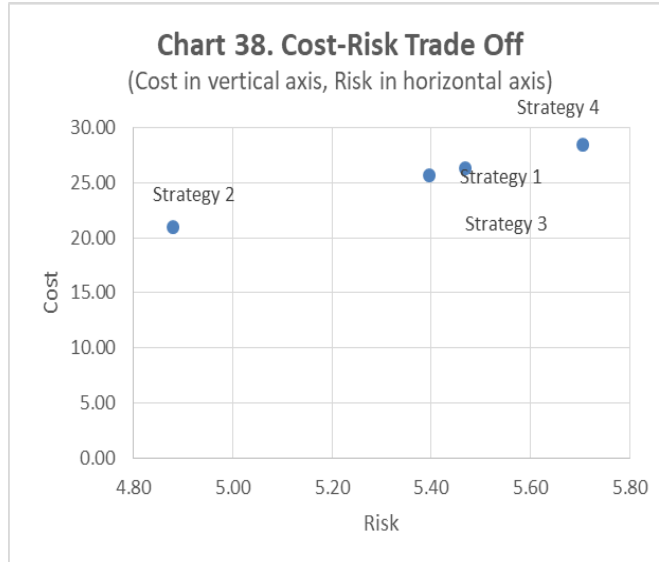
Source: Adamawa State Forecasts, 2023

						COST	RISK measured only in 2027
Debt Stock as % of Revenue (including grants anc	2022	2023	2024	2025	2026	2027	
Strategy #1 & Baseline Outlook	193.0	126.6	123.5	143.2	152.9	165.6	64.0
Strategy #1 & Adverse Shock		126.6	148.3	181.9	203.8	229.6	
Strategy #2 & Baseline Outlook	193.0	126.6	122.4	141.1	149.9	162.5	63.6
Strategy #2 & Adverse Shock		126.6	147.2	179.6	200.4	226.1	
Strategy #3 & Baseline Outlook	193.0	126.6	122.5	142.3	151.5	164.9	63.9
Strategy #3 & Adverse Shock		126.6	147.2	181.0	202.2	228.8	
Strategy #4 & Baseline Outlook	193.0	126.6	123.4	145.2	156.8	172.8	64.8
Strategy #4 & Adverse Shock		126.6	148.2	184.2	208.2	237.5	

For Strategy #1, Adverse Shock is Revenue
For Strategy #2, Adverse Shock is Revenue
For Strategy #3, Adverse Shock is Revenue
For Strategy #4, Adverse Shock is Revenue

The result on Debt as share of revenue indicates that Reference Debt Strategy (S1) has a cost of 165.6% with adverse shock of 229.6% and risk at 64.0%. Alternative Strategy (S2) has a cost of 162.5% with adverse shock of 226.1% and risk at 63.6%. Alternative Strategy (S3) has a cost of 164.9% with adverse shock of 228.8% and risk at 63.9%. Alternative Strategy (S4) has a cost of 172.8% with adverse shock of 273.5% and risk at 64.8%.





To compare between the referenced strategy (S1) and alternative strategies (S2, S3, and S4), the result indicated that Debt/Revenue of the alternative strategy(S2) has the lowest cost, adverse shock and risk of 162.5%, 226.1% and risk of 63.6% 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, 2023

Debt Service as % of Revenue (including grants a	2022	2023	2024	2025	2026	COST 2027	RISK measured only in 2027
Strategy #1 & Baseline Outlook		6.2	8.6	14.3	18.8	25.6	5.4
Strategy #1 & Adverse Shock		6.2	9.6	16.7	22.6	31.0	
Strategy #2 & Baseline Outlook		6.2	7.6	11.1	16.2	20.9	4.9
Strategy #2 & Adverse Shock		6.2	8.5	13.2	19.7	25.8	
Strategy #3 & Baseline Outlook		6.2	7.7	14.3	19.4	26.2	5.5
Strategy #3 & Adverse Shock		6.2	8.6	16.8	23.2	31.7	
Strategy #4 & Baseline Outlook		6.2	8.6	15.2	22.2	28.4	5.7
Strategy #4 & Adverse Shock		6.2	9.5	17.7	26.4	34.1	

For Strategy #1, Adverse Shock is Revenue
For Strategy #2, Adverse Shock is Revenue
For Strategy #3, Adverse Shock is Revenue
For Strategy #4, Adverse Shock is Revenue

The result on Debt Service as share of Revenue indicates that the Reference Debt Strategy (S1) has a cost of 25.6% with adverse shock of 31.0% and risk at 5.4%. Alternative Strategy (S2) has a cost of 20.9% with adverse shock of 25.8.% and risk at 4.9%. Alternative Strategy (S3) has a cost of 26.2% with adverse shock of 31.7% and risk at 5.5%. Alternative Strategy (S4) has a cost at 28.4% with adverse shock of 34.1% and risk at 5.7%.

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 25.6%, 31.0% and 5.4% 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:

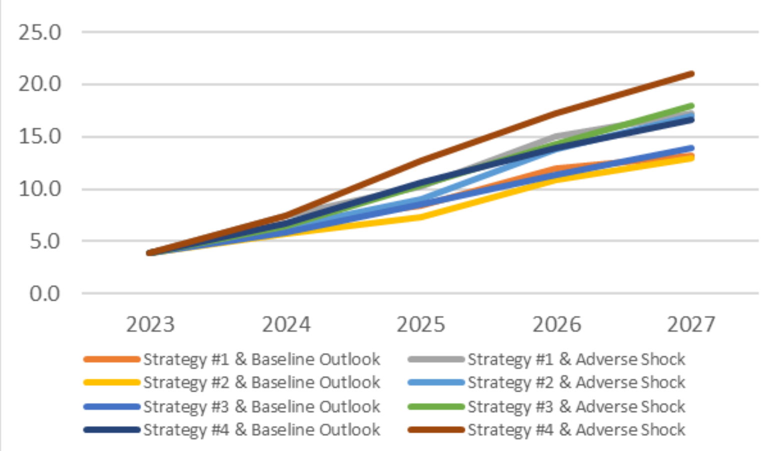


Chart 41. Interest as % of Revenue
(including grants and excluding other capital receipts)

Chart 42. Cost-Risk Trade Off
(Cost in vertical axis, Risk in horizontal axis)

Source: Adamawa State Forecasts, 2023

						COST	RISK measured only in 2027
Interest as % of Revenue (including grants and e	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	
Strategy #1 & Baseline Outlook		3.9	6.7	8.4	12.0	13.2	4.0
Strategy #1 & Adverse Shock		3.9	7.5	10.3	15.0	17.2	
Strategy #2 & Baseline Outlook		3.9	5.7	7.4	10.9	12.9	4.0
Strategy #2 & Adverse Shock		3.9	6.4	9.1	13.8	16.9	
Strategy #3 & Baseline Outlook		3.9	5.8	8.5	11.3	13.9	4.1
Strategy #3 & Adverse Shock		3.9	6.5	10.3	14.3	18.0	
Strategy #4 & Baseline Outlook		3.9	6.7	10.6	14.0	16.7	4.4
Strategy #4 & Adverse Shock		3.9	7.4	12.7	17.2	21.1	

For Strategy #1, Adverse Shock is Revenue
For Strategy #2, Adverse Shock is Revenue
For Strategy #3, Adverse Shock is Revenue
For Strategy #4, Adverse Shock is Revenue

The result on Interest as share of Revenue indicates that the Reference Debt Strategy (S1) has a cost of 13.2% with adverse shock of 17.2% and risk at 4.0%. Alternative Strategy (S2) has the cost of 12.9% with adverse shock of 16.9% and risk at 4.0%. Alternative Strategy (S3) has the cost of 13.9% with adverse shock of 18.0% and risk at 4.1%. Alternative Strategy (S4) has a cost of 16.7% with adverse shock of 21.1% and risk at 4.4%.

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 12.9%, 16.9% and 4.0% 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 S1**, these results were just marginally better when compared with Strategy S2. Strategy 1 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 2023.

In comparison to the current debt position, Adamawa State debt portfolio stood at N166,635 billion as at end-2022, which expected to increase to N720.988 billion under Strategy 1 to the end of the strategic period, compared to Strategy 2 (N657.639 billion), Strategy 3 (N750.988 billion), and Strategy 4 (N793.845 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, 2023 - 2027 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 2023 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 2018 to 2020, and it was sustainable from 2023-2032, This is with the exception of the spike depicted in debt service in the year 2021 and 2022, as a result of refinancing and consolidation of some commercial bank loans through state Bond issuance that peaked the total debt repayment to the tune of N34,016 in 2021 and N33,441 in 2022. Meanwhile, the ratio of Personnel Cost to Revenue trends remains under the threshold of 60% over the projection period from 2023 to 2032.

Annex I. Table Assumptions

2023			
		Projection Methodology	Source
Assumptions:			
Economic activity	State GDP (at current prices)	The State GDP is premised based on suggested projection by National Bereau of Statistics, World Bank and DMO for the whole projections period 2023-2032	Federal Government DMO, World Bank estimates.
Revenue	**Revenue**	The total revenue is averagely estimated to increase sharply by 133% from 2023-2032 due largely to fuel subsidy removal which is expected to generate a lot of money to the government corfers from FAAC allocation and plugging of leakages as a result of TSA.	Statutory FAAC allocation,Internallly Generated Revenue (IGR) and Drants both Domestic and External.
	1. Gross Statutory Allocation ('gross' means with no deductions; do not	The State Gross Statutory Allocation is based on the suggested projection by DMO, Ministry of Finance/Accountant General of the Federation and World Bank Group in consideration with the **fuel subsidy removal** for the projected period 2023-2032	Federal Government DMO, World Bank estimate.
	1.a. of which Net Statutory Allocation ('net' means of deductions)		DSA Team, Ministry of Finance and Economic Development
	1.b. of which Deductions		DSA Team, Ministry of Finance and Economic Development
	2. Derivation (if applicable to the State)		
	3. Other FAAC transfers (exchange rate gain, augmentation, others)	The estimation of other FAAC transfer was based on the current economic situations i.e infilation rate and fuel subsidy removal which is expected to impact positively on the economy	DSA Team, Ministry of Finance and Economic Development
	4. VAT Allocation	VAT is based suggested projection from the Federal Government DMO and the World Bank Group (WBG).	DSA Team, Ministry of Finance and Economic Development
	5. IGR	The State IGR is Estimated to flactuate due to revenue leaages	DSA Team, Ministry of Finance and Economic Development
	6. Capital Receipts		
	6.a. Grants	The grant which is projected to increase averagely by 135% due ongoing grant from State Education Implementation progran (SEIP), Multisectoral Crises Recovery program (MCRP) etc.	DSA Team, Ministry of Finance and Economic Development
	6.b. Sales of Government Assets and Privatization Proceeds		
	6.c. Other Non-Debt Creating Capital Receipts		
Expenditure	**Expenditure**	The State Expenditrure is projected to increase avevragly sharp by 150% from 2023-2032 due largely to cost of logistics of day to day government activities, increase in electricity Tarrifs, cost of meeting infrasttructural deficit and cost of employment in other to reduce the unemployment rate	Audited Financial Reports/MTEF
	1. Personnel costs (Salaries, Pensions, Civil Servant Social Benefits, other)	Personel cost is expected to grow steadily from 2023-2032 by 136% due to the minimun wage increase policy of the federal Governmenet and employment derive from the state to reduce unemployment rate of the state populace	Audited Financial Reports/MTEF
	2. Overhead costs	Overcost is expected increased by 135% due huge cost of runing government i.e increase in electricity tarif and cost of fuel.	Audited Financial Reports/MTEF
	3. Interest Payments (Public Debt Charges, including interests deducted from FAAC Allocation)	Interest payment and amortizations is estimated to increase exponentialy largely due to huge Government browwing in other to meet its infrastructural deficit and also to attain **urban renewal**	Audited Financial Reports/MTEF
	4. Other Recurrent Expenditure (Excluding Personnel Costs, Overhead Costs and	its is estimate to increase by 135% due to cost of security, electricity Tarif and cost of fuel	Audited Financial Reports/MTEF
	5. Capital Expenditure	Capital Expenditure is averagely expected to increase by (89,316.03 billion0) from 2023-2032 due to cost of meeting infrastructural deficit and urban renual policy of the Governmnet	Audited Financial Reports/MTEF
Closing Cash and Bank Balance	**Closing Cash and Bank Balance**	The Positive or Negative Balances remaining in the accounts at end of an accounting period	The Positive or Negative Balances remaining in the accounts at end of an accounting period
Interest Payments	**Debt Outstanding at end-2022**		
	External Debt - amortization and interest	The external debt are mainly from World Bank and African Development Bank at an average interest of 2.1%, while some debt are concessional , the average period is 23years	World Bank, African Development bank and other International donors
	Domestic Debt - amortization and interest	The domestic debt are mainly from commercial banks and Federal Government of Nigeria, the average interest rate of 18.3%, the average period is 7years	World Bank, African Development bank and other International donors
	New debt issued/contracted from 2023 onwards		
	New External Financing	Adamawa State Intend to Borrow Externally concessional and Bilateral for the ten years projected period (2023-2032) Mainly from World Bank and African Development Bank at an average interest rate of 2.1%, average 23 years maturity and average grace period of 4 years.	World Bank, African Development bank and other International donors
	External Financing - Concessional Loans (e.g., World Bank, African Development	Interest rate (1.7%), maturity(25yrs), Grace period(5yrs)	World Bank, African Development bank and other International donors
	External Financing - Bilateral Loans	Interest rate (2.50%), maturity(20yrs), Grace period(3yrs)	World Bank, African Development bank and other International donors
	Other External Financing	Interest rate (10.00%), maturity(0yrs), Grace period(0yrs)	World Bank, African Development bank and other International donors
	New Domestic Financing	Adamawa State Intend to Borrow Domestically from the Domestic Commercial Banks and the Domestic Capital Market(The Nigerian Stock Exchnge) for the ten years projected period (2023-2032) at an average interest rate of 18.3%, average 7 years maturity and average grace	
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans,	Interest rate (21.5%), maturity(5yrs), Grace period(1yr)	From the Domestic Capital market.and CommerciAL Banks
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans,	Interest rate (21%), maturity(7yrs), Grace period(1yr)	From the Domestic Capital market.and CommerciAL Banks
	State Bonds (maturity 1 to 5 years)	Interest rate (15.5%), maturity(5yrs), Grace period(1yr)	From the Domestic Capital market.and CommerciAL Banks
	State Bonds (maturity 6 years or longer)	Interest rate (15%), maturity(10yrs), Grace period(1yr)	From the Domestic Capital market.and CommerciAL Banks
	Other Domestic Financing	Interest rate (0), maturity(0), Grace period(0)	From the Domestic Capital market.and CommerciAL Banks

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**	In Debt strategy 1 Which constitude the Base Line Scenario the State Intends to Borrow Majorly from the Domestic Capital Market Bond at 15.5% interest rate matuaring 5yrs and a grace period of 1yrs to tune of (165.5)billions constituting (23%) of the total Gross Borrowing of(721)billions both Externally and Domestically in naira equivalent.in the (10) year (2023-2032) projectected period,	From the Domestic Capital market.and CommerciAL Banks
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans,	The State Intends to Borrow from the Domestic Commercial Banks the tune of (142.9)billions for the projected period 10yrs (2023-2032) at Interest rate (21.5%), maturity(5yrs), Grace period(1yr).	From the Domestic Capital market.and CommerciAL Banks
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans,	The State Intends to Borrow from the Domestic Commercial Banks the tune of (158.2)billions for the projected period 10yrs (2023-2032) at .interest rate (21%), maturity(7yrs), Grace period(1yr)	From the Domestic Capital market.and CommerciAL Banks
	State Bonds (maturity 1 to 5 years)	The State Intends to Borrow Marjorly from the Domestic Capital Market Bond the tune of (165.4)billions for the projected period 10yrs (2023-2032)Interest rate (15.5%), maturity(5yrs), Grace period(1yr)	From the Domestic Capital market.and CommerciAL Banks
	State Bonds (maturity 6 years or longer)	The State Intends to Borrow from the Domestic Capital Market Bond the tune of (98.8)billions for the projected period 10yrs (2023-2032) at Interest rate (15%), maturity(10yrs), Grace period(1yr)	From the Domestic Capital market.and CommerciAL Banks
	Other Domestic Financing	No plan Borrowing.	From the Domestic Capital market.and CommerciAL Banks
	New External Financing in Million US Dollar	In strategy 1,The State Intends to Borrow Externally Concessionally Multilateral and Bilateral from the world Bank and African Development Bank Loans to the tune of (357)millions Us dollars equivalent to (155.5) billion naira (for the projected period 10yrs (2023-2032) at the average Interest rate (2.1%), maturing average (23rs), average Grace period of (4yrs).	World Bank, African Development bank and other International donors
	External Financing - Concessional Loans (e.g., World Bank, African Development	Interest rate (1.7%), maturity(25yrs), Grace period(5yrs)	World Bank, African Development bank and other International donors
	External Financing - Bilateral Loans	Interest rate (2.50%), maturity(20yrs), Grace period(3yrs)	World Bank, African Development bank and other International donors
	Other External Financing	No plan Borrowing.	World Bank, African Development bank and other International donors
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**	In Debt strategy 2 the State Intends to Borrow Majorly from the Domestic Capital Market Bond Matuaring 6 and above years at 15.% interest rate and a grace period of 1yrs to the tune of (193.6)billions constituting (29.4%) of the total Gross Borrowing of(658)billions both Externally and Domestically in naira equivalent.in the (10) year (2023-2032) projectected period,	From the Domestic Capital market.and CommerciAL Banks
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans,	Interest rate (21.5%), maturity(5yrs), Grace period(1yr)	From the Domestic Capital market.and CommerciAL Banks
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans,	Interest rate (21%), maturity(7yrs), Grace period(1yr)	From the Domestic Capital market.and CommerciAL Banks
	State Bonds (maturity 1 to 5 years)	Interest rate (15.5%), maturity(5yrs), Grace period(1yr)	From the Domestic Capital market.and CommerciAL Banks
	State Bonds (maturity 6 years or longer)	In Debt strategy 2 the State Intends to Borrow Majorly from the Domestic Capital Market Bond Matuaring 6 years and above at Interest rate of (15%), maturity(10yrs), Grace period(1yr)	From the Domestic Capital market.and CommerciAL Banks
	Other Domestic Financing	No plan Borrowing.	From the Domestic Capital market.and CommerciAL Banks
	New External Financing in Million US Dollar	In strategy 2 The State Intends to Borrow Externally Concessionally Multilateral and Bilateral from the world Bank and African Development Bank Loans to the tune of (323)millions Us dollars equivalent to (140.6) billion naira for the projected period 10yrs (2023-2032) at the average Interest rate (2.1%), maturing average (23rs), average Grace period of (4yrs).	World Bank, African Development bank and other International donors
	External Financing - Concessional Loans (e.g., World Bank, African Development	Interest rate (1.7%), maturity(25yrs), Grace period(5yrs)	World Bank, African Development bank and other International donors
	External Financing - Bilateral Loans	Interest rate (2.50%), maturity(20yrs), Grace period(3yrs)	World Bank, African Development bank and other International donors
	Other External Financing	No plan Borrowing.	World Bank, African Development bank and other International donors
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**	In Debt strategy 3 the State Intends to Borrow Majorly from the Domestic Capital market Matuaring 1-5 years at 15.5% interest rate and a grace period of 1yrs to the tune of (248.1)billions constituting (33%) of the total Gross Borrowing of(751)billions both Externally and Domestically in naira equivalent.in the (10) year (2023-2032) projectected period,	From the Domestic Capital market.and CommerciAL Banks
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans,	Interest rate (21.5%), maturity(5yrs), Grace period(1yr)	From the Domestic Capital market.and CommerciAL Banks
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans,	Interest rate (21%), maturity(7yrs), Grace period(1yr)	From the Domestic Capital market.and CommerciAL Banks
	State Bonds (maturity 1 to 5 years)	In Debt strategy 3 the State Intends to Borrow Majorly from the Domestic Capital market Matuaring 1-5 years Interest rate of (15.5%), maturity(5yrs), Grace period(1yr)	From the Domestic Capital market.and CommerciAL Banks
	State Bonds (maturity 6 years or longer)	Interest rate (15%), maturity(10yrs), Grace period(1yr)	From the Domestic Capital market.and CommerciAL Banks
	Other Domestic Financing	No plan Borrowing.	From the Domestic Capital market.and CommerciAL Banks
	New External Financing in Million US Dollar	In strategy 3 The State Intends to Borrow Externally Concessionally Multilateral and Bilateral from the world Bank and African Development Bank Loans to the tune of (325)millions Us dollars equivalent to (141.5) billion naira for the projected period 10yrs (2023-2032) at the average Interest rate (2.1%), maturing average (23rs), average Grace period of (4yrs).	World Bank, African Development bank and other International donors
	External Financing - Concessional Loans (e.g., World Bank, African Development	Interest rate (1.7%), maturity(25yrs), Grace period(5yrs)	World Bank, African Development bank and other International donors
	External Financing - Bilateral Loans	Interest rate (2.50%), maturity(20yrs), Grace period(3yrs)	World Bank, African Development bank and other International donors
	Other External Financing	No plan Borrowing.	World Bank, African Development bank and other International donors
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**	In Debt strategy 4 the State Intends to Borrow Majorly from the Domestic Commercial Banks Matuaring 6 years and above at 21% interest rate and a grace period of 1yrs to the tune of (252)billions constituting (32%) of the total Gross Borrowing of (794)billions both Externally and Domestically in naira equivalent.in the (10) year (2023-2032) projectected period,	
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans,	Interest rate (21.5%), maturity(5yrs), Grace period(1yr)	From the Domestic Capital market.and CommerciAL Banks
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans,	In Debt strategy 4 the State Intends to Borrow Majorly from the Domestic Commercial Banks Matuaring 6 years and above at Interest rate (21%), maturity(7yrs), Grace period(1yr)	From the Domestic Capital market.and CommerciAL Banks
	State Bonds (maturity 1 to 5 years)	Interest rate (15.5%), maturity(5yrs), Grace period(1yr)	From the Domestic Capital market.and CommerciAL Banks
	State Bonds (maturity 6 years or longer)	Interest rate (15%), maturity(10yrs), Grace period(1yr)	From the Domestic Capital market.and CommerciAL Banks
	Other Domestic Financing	No plan Borrowing.	From the Domestic Capital market.and CommerciAL Banks
	New External Financing in Million US Dollar	In strategy 4 The State Intends to Borrow Externally Concessionally Multilateral and Bilateral from the world Bank and African Development Bank Loans to the tune of (365)millions Us dollars equivalent to (158.9) billion naira for the projected period 10yrs (2023-2032) at the average Interest rate (2.1%), maturing average (23rs), average Grace period of (4yrs).	World Bank, African Development bank and other International donors
	External Financing - Concessional Loans (e.g., World Bank, African Development	Interest rate (1.7%), maturity(25yrs), Grace period(5yrs)	World Bank, African Development bank and other International donors
	External Financing - Bilateral Loans	Interest rate (2.50%), maturity(20yrs), Grace period(3yrs)	World Bank, African Development bank and other International donors
	Other External Financing	No plan Borrowing.	World Bank, African Development bank and other International donors

Annex II. Historical and projections of the S1_Baseline Scenari0

Indicator			Actuals							Projections					
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
	BASELINE SCENARIO														
Economic Indicators															
State GDP (at current prices)	1,493,713.31	1,538,762.14	1,862,415.87	2,084,575.20	2,234,336.74	3,319,016.17	3,813,154.17	4,242,336.57	4,720,129.72	5,251,734.33	5,843,210.91	6,501,302.54	7,233,511.74	8,048,186.00	8,954,612.95
Exchange Rate NGN/US$ (end-Period)	253.19	305.79	306.50	326.00	379.00	435.57	435.57	435.57	435.57	435.57	435.57	435.57	435.57	435.57	435.57
Fiscal Indicators (Million Naira)															
Revenue	**86,053.12**	**94,508.30**	**101,427.31**	**85,540.49**	**107,741.17**	**185,150.12**	**222,384.21**	**245,107.31**	**262,716.10**	**293,969.92**	**326,614.80**	**358,311.78**	**398,276.98**	**423,293.64**	**463,078.82**
1. Gross Statutory Allocation ('gross' means with no deductions; do not include VAT Allocation here)	45,090.00	42,772.10	34,422.90	30,319.90	40,980.30	63,068.35	89,642.62	92,054.94	101,260.44	111,386.48	122,525.13	134,777.64	148,255.41	163,080.95	179,389.05
1.a. of which Net Statutory Allocation ('net' means of deductions)	45,090.04	36,159.50	29,891.13	30,319.87	40,980.30	63,068.35	89,642.62	92,054.94	101,260.44	111,386.48	122,525.13	134,777.64	148,255.41	163,080.95	179,389.05
1.b. of which Deductions	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	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	3,281.91	6,654.90	4,934.47	5,120.20	26,920.19	13,116.10	13,116.10	17,717.46	14,649.89	15,161.15	15,842.83	15,217.96	15,407.31	15,489.37
4. VAT Allocation	11,171.98	11,961.61	14,630.81	20,682.65	19,637.72	29,302.19	31,574.43	33,605.23	40,326.28	48,391.54	58,069.85	69,683.81	83,620.58	100,344.69	120,413.63
5. IGR	6,613.76	9,704.65	7,739.81	10,374.73	13,325.61	22,417.78	12,417.72	12,417.72	15,751.07	13,528.84	13,899.21	14,393.04	13,940.36	14,077.54	14,136.98
6. Capital Receipts	23,177.34	26,788.07	37,978.89	19,228.77	28,677.34	43,441.62	75,633.33	93,913.31	87,660.84	106,013.18	116,959.46	123,614.45	137,242.67	130,383.14	133,649.80
6.a. Grants	4,192.59	2,258.83	7,156.32	2,635.97	7,273.10	14,529.07	39,713.89	39,713.89	31,318.95	31,318.95	35,516.42	34,467.05	33,155.34	33,614.44	34,188.31
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	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	0.00
6.d. Proceeds from Debt-Creating Borrowings (bond issuance, loan disbursements, etc.)	15,669.61	24,529.24	30,816.87	16,592.80	21,404.24	28,912.55	35,919.44	54,199.42	56,341.89	74,694.23	81,443.04	89,147.40	104,087.33	96,768.70	99,461.48
Expenditure	**84,837.66**	**95,437.75**	**89,673.10**	**84,167.72**	**117,625.80**	**184,756.43**	**221,951.15**	**244,630.94**	**262,192.10**	**293,393.52**	**325,980.76**	**357,614.34**	**397,509.79**	**422,449.73**	**462,150.52**
1. Personnel costs (Salaries, Pensions, Civil Servant Social Benefits, other)	30,291.33	30,872.08	35,140.58	29,337.26	31,696.70	44,202.90	48,623.19	53,485.51	58,834.06	64,717.47	71,189.21	78,308.14	86,138.95	94,752.85	104,228.13
2. Overhead costs	25,666.36	21,334.82	17,228.32	14,302.94	19,541.98	40,758.86	44,834.74	49,318.22	54,250.04	59,675.04	65,642.55	72,206.80	79,427.48	87,370.23	96,107.25
3. Interest Payments (Public Debt Charges, including interests deducted from FAAC Allocation)	0.80	0.00	0.00	0.00	6,732.15	6,086.27	12,561.88	16,126.37	24,773.97	28,969.18	38,399.67	44,474.61	51,003.68	56,580.81	61,057.70
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	0.80	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	0.00
4. Other Recurrent Expenditure (Excluding Personnel Costs, Overhead Costs and Interest Payments)	3,834.04	2,930.61	2,319.97	780.90	8,271.24	20,049.67	22,054.64	24,260.10	26,686.11	29,354.73	32,290.20	35,519.22	39,071.14	42,978.25	47,276.08
5. Capital Expenditure	15,498.08	20,726.99	21,302.65	19,830.17	45,934.94	70,007.62	90,342.83	90,342.83	83,564.43	83,564.43	86,953.63	86,106.33	85,047.20	85,417.90	85,881.26
6. Amortization (principal) payments	9,547.05	19,573.25	13,681.57	19,916.45	5,448.80	3,651.11	3,533.87	11,097.91	14,083.48	27,112.68	31,505.50	40,999.24	56,821.34	55,349.69	67,600.09
Budget Balance (' + ' means surplus, ' - ' means deficit)	**1,215.46**	**-929.45**	**11,754.21**	**1,372.77**	**-9,884.63**	**393.69**	**433.06**	**476.36**	**524.00**	**576.40**	**634.04**	**697.45**	**767.19**	**843.91**	**928.30**
Opening Cash and Bank Balance	**408.41**	**1,623.81**	**694.41**	**12,448.71**	**13,821.50**	**3,936.90**	**4,330.59**	**4,763.65**	**5,240.01**	**5,764.02**	**6,340.42**	**6,974.46**	**7,671.90**	**8,439.09**	**9,283.00**
Closing Cash and Bank Balance	**1,623.81**	**694.41**	**12,448.71**	**13,821.51**	**3,936.90**	**4,330.59**	**4,763.65**	**5,240.01**	**5,764.02**	**6,340.42**	**6,974.46**	**7,671.90**	**8,439.09**	**9,283.00**	**10,211.30**
Financing Needs and Sources (Million Naira)															
Financing Needs						**28,912.55**	**35,919.44**	**54,199.42**	**56,341.89**	**74,694.23**	**81,443.04**	**89,147.40**	**104,087.33**	**96,768.70**	**99,461.48**
i. Primary balance						-18,781.48	-19,390.64	-26,498.77	-16,960.43	-18,035.97	-10,903.83	-2,976.10	4,504.87	16,005.71	30,124.61
ii. Debt service						9,737.38	16,095.74	27,224.28	38,857.45	56,081.86	69,905.17	85,473.85	107,825.02	111,930.50	128,657.79
Amortizations						3,651.11	3,533.87	11,097.91	14,083.48	27,112.68	31,505.50	40,999.24	56,821.34	55,349.69	67,600.09
Interests						6,086.27	12,561.88	16,126.37	24,773.97	28,969.18	38,399.67	44,474.61	51,003.68	56,580.81	61,057.70
iii. Financing Needs Other than Amortization Payments (e.g., Variation in Cash and Bank Balances)						393.69	433.06	476.36	524.00	576.40	634.04	697.45	767.19	843.91	928.30
Financing Sources						**28,912.55**	**35,919.44**	**54,199.42**	**56,341.89**	**74,694.23**	**81,443.04**	**89,147.40**	**104,087.33**	**96,768.70**	**99,461.48**
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						28,912.55	35,919.44	54,199.42	56,341.89	74,694.23	81,443.04	89,147.40	104,087.33	96,768.70	99,461.48
Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)						28,912.50	0.00	16,971.30	9,548.84	22,500.33	13,407.50	3,263.10	15,000.00	11,419.50	21,949.20
Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)						0.00	14,140.90	7,228.12	0.00	25,193.90	17,500.00	36,283.65	16,300.00	18,000.00	23,555.90
State Bonds (maturity 1 to 5 years)						0.00	0.00	30,000.00	0.00	27,000.00	27,885.90	0.00	35,000.00	15,570.70	30,000.00
State Bonds (maturity 6 years or longer)						0.00	0.00	0.00	22,836.70	0.00	0.00	30,000.00	16,008.80	30,000.00	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	21,778.50	0.00	0.00	0.00	22,649.64	0.00	21,778.50	0.00	23,956.35
External Financing - Bilateral Loans						0.00	0.00	0.00	23,956.35	0.00	0.00	19,600.65	0.00	21,778.50	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						0.05	0.04	0.00	0.00	0.00	0.00	0.00	0.03	0.00	0.03
Debt Stocks and Flows (Million Naira)															
Debt (stock)	**114,359.65**	**130,260.04**	**136,328.50**	**128,682.80**	**166,634.60**	**197,813.26**	**230,198.83**	**273,300.34**	**315,558.75**	**363,140.30**	**413,077.84**	**461,225.99**	**508,491.99**	**549,911.00**	**581,772.39**
External	24,761.95	33,269.54	33,531.10	26,145.20	39,643.40	44,863.71	65,901.74	65,074.16	88,159.37	87,375.34	109,197.40	127,970.47	146,423.26	164,876.06	185,506.70
Domestic	89,597.70	96,990.50	102,797.40	102,537.60	126,991.20	152,949.55	164,297.09	208,226.18	227,399.38	275,764.95	303,880.44	333,255.53	362,068.73	385,034.94	396,265.69
Gross borrowing (flow)						**28,912.55**	**35,919.44**	**54,199.42**	**56,341.89**	**74,694.23**	**81,443.04**	**89,147.40**	**104,087.33**	**96,768.70**	**99,461.48**
External						0.00	21,778.50	0.00	23,956.35	0.00	22,649.64	19,600.65	21,778.50	21,778.50	23,956.35
Domestic						28,912.55	14,140.94	54,199.42	32,385.54	74,694.23	58,793.40	69,546.75	82,308.83	74,990.20	75,505.13
Amortizations (flow)	**6,354.99**	**5,293.81**	**3,911.80**	**34,016.03**	**33,441.45**	**3,651.11**	**3,533.87**	**11,097.91**	**14,083.48**	**27,112.68**	**31,505.50**	**40,999.24**	**56,821.34**	**55,349.69**	**67,600.09**
External	126.59	275.21	367.80	456.40	1,080.15	696.91	740.47	827.58	871.14	784.03	827.58	827.58	3,325.71	3,325.71	3,325.71
Domestic	6,228.40	5,018.60	3,544.00	33,559.63	32,361.30	2,954.20	2,793.40	10,270.33	13,212.34	26,328.65	30,677.92	40,171.66	53,495.63	52,023.99	64,274.39
Interests (flow)	**4,667.03**	**5,083.15**	**4,479.40**	**5,962.00**	**9,582.94**	**6,086.27**	**12,561.88**	**16,126.37**	**24,773.97**	**28,969.18**	**38,399.67**	**44,474.61**	**51,003.68**	**56,580.81**	**61,057.70**
External	177.23	214.05	245.20	260.80	325.94	347.37	357.98	741.49	741.20	1,336.48	1,338.75	1,735.30	2,224.95	2,551.41	3,042.01
Domestic	4,489.80	4,869.10	4,234.20	5,701.20	9,257.00	5,738.90	12,203.89	15,384.88	24,032.77	27,632.70	37,060.92	42,739.31	48,778.73	54,029.40	58,015.70
Net borrowing (gross borrowing minus amortizations)						**25,261.43**	**32,385.57**	**43,101.51**	**42,258.41**	**47,581.55**	**49,937.54**	**48,148.16**	**47,265.99**	**41,419.01**	**31,861.39**
External						-696.91	21,038.03	-827.58	23,085.21	-784.03	21,822.06	18,773.07	18,452.79	18,452.79	20,630.64
Domestic						25,958.35	11,347.54	43,929.09	19,173.20	48,365.57	28,115.48	29,375.09	28,813.20	22,966.21	11,230.75

PERMANENT SECRETARY, FINANCE.

GYATAM BASSI 14/12/2023

FOR: **Honourable Commissioner**
Ministry of Finance,
Adamawa State