NIGER STATE DEBT MANAGEMENT BUREAU

2020

REPORT OF THE

NIGER STATE DEBT SUSTAINABILITY ANALYSIS

(NSDSA)

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CHAPTER ONE

1. 1 Background:

A Debt Sustainability Analysis (DSA) generally provides a basis for the production of a Debt Sustainability Framework (DSF) which serve as an early warning system of potential risks of debt distress so that preventive action can be taken. The Sub – national DSA (SDSA) Framework is designed to assess Debt sustainability in the States

The major purpose of the NSDSA is to assess the Debt vulnerabilities and ensures that Sub – national Debt are managed at sustainable levels. It is conducted to ensure that the risks associated with sub – national debt distress is minimized, taking into consideration the debt carrying capacity of the sub – nationals and their projected future borrowing under the baseline projected and stress scenarios.

The Framework provides necessary guidance for the conduct of the sub- national DSA, and facilitates the classification of sub – nationals according to their levels of risk of debt distress.

A Sub - national Debt Sustainability Analysis (SDSA) assess how a State`s or the Federal Capital Territory`s (FCT's) current level of debt and projected borrowing affect its ability to meet its debt service obligations as at when due, without recourse to exceptional financing such as debt relief, restructuring or significant changes in its macroeconomic framework.

This report will show the trend and pattern of Niger State public finance for the period of 2015 – 2019 and also evaluates Debt Sustainability of the State for the period 2020 – 2030.

METHODOLOGY

The Consultative technical workshop for sub – national Debt sustainability Analysis (DSA) Toolkit was conducted in Abuja from 13th – 17th October, 2020 and followed up with Zonal workshop on sub – national Debt Sustainability Analysis from at Sokoto from 11th – 13th , 2020, in order to facilitate effective and timely conduct of Niger State Sustainability analysis in the short , medium and long term. This document reports the result

Macroeconomic variables that guided resource projection as contained in the State medium term Expenditure Framework (MTEF) 2021 -2023.

SCOPE OF DATA USED IN THE TEMPLATE

The Template analyses Total External Debt and Domestic Debt of the State.

- Total External Debt refers to the liability that requires payment of principal and/or interest at some point in the future that are owed to non-residents of the State. As the State is not allowed to borrow externally, External Debt constitutes the loans contracted by the State, but on-lent or guaranteed by the Federal Government of Nigeria (FGN). In this case, the FGN signs the Original External Loan Agreement with External Creditors and later signs a Subsidiary Loan Agreements (SLAs) with the beneficiary State..
- Domestic Debt refers to the liabilities owed by the Sub-nationals to the residents, which include Arrears, etc.
- Short-term External Debt or Short-term Domestic Debt is any debt with original maturity of not more than one year.
- SDSA focuses on Gross Debt, that is, the Total Stock of Outstanding Liabilities of the State

PARTICIPATING AGENCIES

- Niger State Debt Management Bureau
- Ministry of Finance
- Office of the Accountant General
- Niger State Internal Revenue Services
- Niger State Planning Commission

1.2 NIGER STATE REVENUE TREND (2015 – 2019)

Details	2015	2016	2017	2018	2019
SRA	38,077,200,733.92	26,345,142,782.18	33,583,853,148.88	50,367,477,158.14	48,774,385,694.17
VAT	8,548,539,899.00	9,369,585,081.23	10,611,350,196.56	12,032,220,723.87	13,058,527,718
Excess Crude	181,414,953.97	1,574,788,460.02	485,558,223.84		
IGR	5,265,076,764.09	4,812,844,568.78	6,064,105,882.04	12,050,465,457.00	13,613,221,795.95
TOTAL	52,072,234,365.98	42,102362908.00	50,744,869,468.32	74,450,165,357.01	75,446,137,227.12

From the Table above one will see the movement of Niger State Revenue trend from 2015 to 2019.Niger State Total Revenue in 2015 was (52.072BN) and increased to N75, 446.12BN in 2019 compare to the Revenue in 2018, which was (74.450BN) it shows a great increase of the Revenue drive in the State.

NIGER STATE EXPENDITURE PROJECTION

This section analyses the expenditure projection for Niger State for the period of 2020 – 2029. The total expenditure comprises of both recurrent and capital expenditure shown in the table below.

NIGER STATE EXPENDITURE PROJECTION FOR (2020 – 2024)

Details	2020	2021	2022	2023	2024
Recurrent Expenditure	66,026,027,266	70,195,534,962	72,867,237,606	74,874,188,125	77,742,804,221
Capital Expenditure	77,908,132,232	54,538,982,765	57,414,503,705	67,786,206,323	77,654,766,414

NIGER STATE EXPENDITURE PROJECTION FOR (2025 – 2029)

Details	2025	2026	2027	2028	2029
Recurrent Expenditure	80,735,689,570	83,858,608,017	87,117,599,950	90,518,995,790	94,069,430,141
Capital Expenditure	87,070,658,267	98,393,629,728	110,237,712,660	123,539,729,127	139,072,887,046

1.3 NIGER STATE DEBT SUSTAINABILITY AS AT 31ST DEC. 2018 & 2019

Description	Ratio 2018	Ratio 2019	Basic Target	Stretch Target
Sustainability Ratio (Average Debt Service/FAAC Allocation	11.62%	12.03%	<40%	-
Total Debt Stock/Total Revenue	98.22%	105.80%	<140%	<115%

RECOMMENDATION

The following Recommendation were made in respect of the long – Term outlook for Niger State Government for a sustainable debt level

- Maintain the policy of borrowing/ and issuing Long term debt instruments to minimize and maintain Low debt sustainability ratio.
- Minimize reliance on short term commercial bank borrowing
- Improve internally generated revenue capacity and adopt a policy of investing borrowed funds in projects and programs having revenue generating capacity or potential to improve business environment and enhance the debt to revenue carrying capacity of the State.
- Increase Government reliance on private sector investments through public private partnership to reduce Government reliance on debt finance, finance and accelerated growth of debt Stock. SFTAS Stretch target for sustainable debt stock to revenue,

CHAPTER TWO

NIGER STATE FISCAL AND DEBT FRAMEWORK

2.1 Fiscal Reforms in the Last 3 to 5 years

Fiscal reforms implemented by the State as part of effort to improve transparency ,Accountability, reduce corruption and improve service delivery in the last 3-5 years are automation of revenue management to reduce leakages, introduction of ground rents, identification of new revenue sources and upward review of existing rates, fines, fees and service charges. This is with the objective of improving revenue generation. The State also adopted a Single Treasury Account (TSA) for all government transactions (payments and revenue collections) to be managed using a single account. The State also adopted State Integrated Financial Management Information System (SIFMIS) and conversion to the International Public Sector Accounting Standards (IPSAS) accrual for optimal utilization of human and material resources and curb leakages as well as blocking all loopholes in the revenue and expenditure streams.

2.2 2021-2023 Medium-Term Expenditure Framework (MTEF)

The State Medium Term Expenditure Framework (MTEF) 2021- 2023 was prepared in line with the provision of the State Fiscal Responsibility Law (FRL), 2010 which requires His Excellency, the Executive Governor to lay the document before the State House of Assembly on or before the last business day of August of each financial year . It comprises of Economic and Fiscal Update, Fiscal Strategy Paper and Budget Policy Statement. MTEF provides framework that guides the State Government in allocating resources based on its identified priorities, control and enforce compliance with established expenditure limits to achieve budget realism.

The resources projection in the Fiscal Strategy Paper adopted elasticity based forecast to project Statutory Allocation (SA). This is done using exchange rate of N360 to $1, oil production benchmark of One million and Eight Hundred Thousand (1.8m) barrels per day and oil price benchmark of **$40, $45 and $50** per barrel for 2021, 2022 and 2023 respectively. While a three year moving average was used for estimation of Value Added Tax (VAT); own percentage for Internally Generated Revenue (IGR) and draw downs, grants and loans for Capital Receipt (CR) were based on Memorandum of Understanding and other agreements signed between the State and the Development Partners. Consequently, a total estimated budget size for 2021, 2022 and 2023 are **₦127,419,285,720.00; ₦131,754,254,753.00 and ₦146,457,345,531.00 respectively.**

The Budget Policy Statement in the MTEF divides aggregate resource envelope into indicative sector expenditure ceilings in line with the Government's policy priorities in Agriculture, Education, Health, Youth and Women Empowerment, Infrastructure and Investment from 2021 – 2023 for socio-economic development.

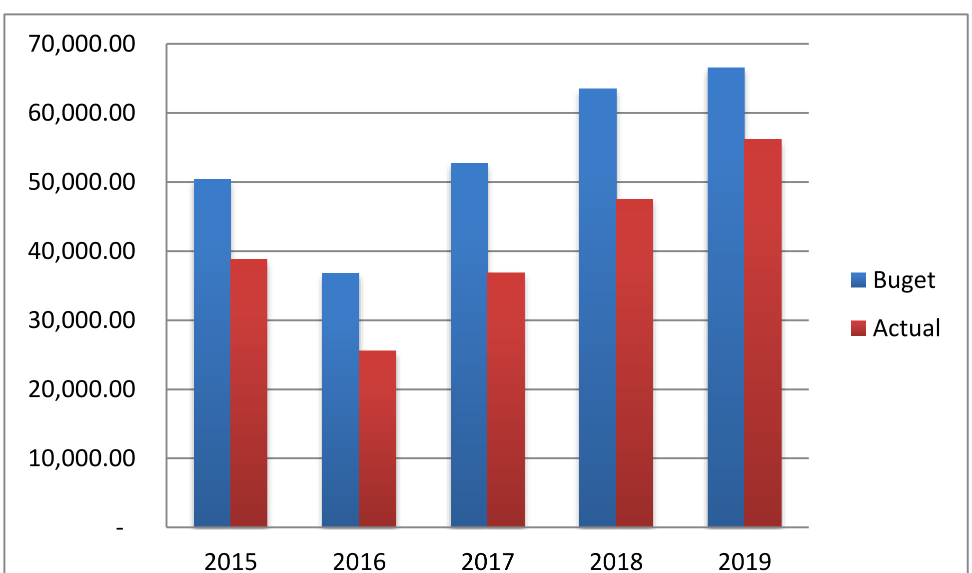
CHAPTER THREE

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

3.1 REVENUE:

On the Revenue side, the report looks at statutory Allocation, VAT, IGR, Excess crude and capital receipt – budget verses actual for the period 2015 – 2019.

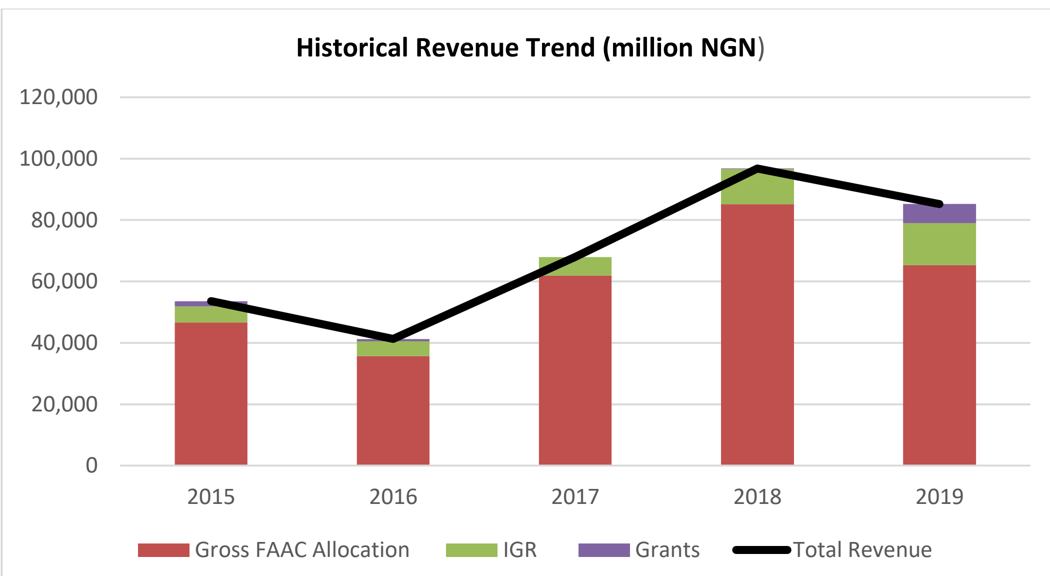
FAAC Statutory Allocation Budget vs Actual 2015 - 2019



Statutory Allocation is a transfer from the federation Account that is distributed to federal, States and Local Governments based on a vertical (percentage to each of the three tiers) and horizontal (based on equality, land mass and population) sharing formula Revenue that flow into the federation Account comes from the Mineral and non Mineral Sources. The decrease experienced during the period was due to economic decline resulting from fall the Global oil price, while the increase experienced in 2017, 2108 and 2019 were as a result of improvement in the international oil price and improved revenue Generation by the customs services and FIRS.

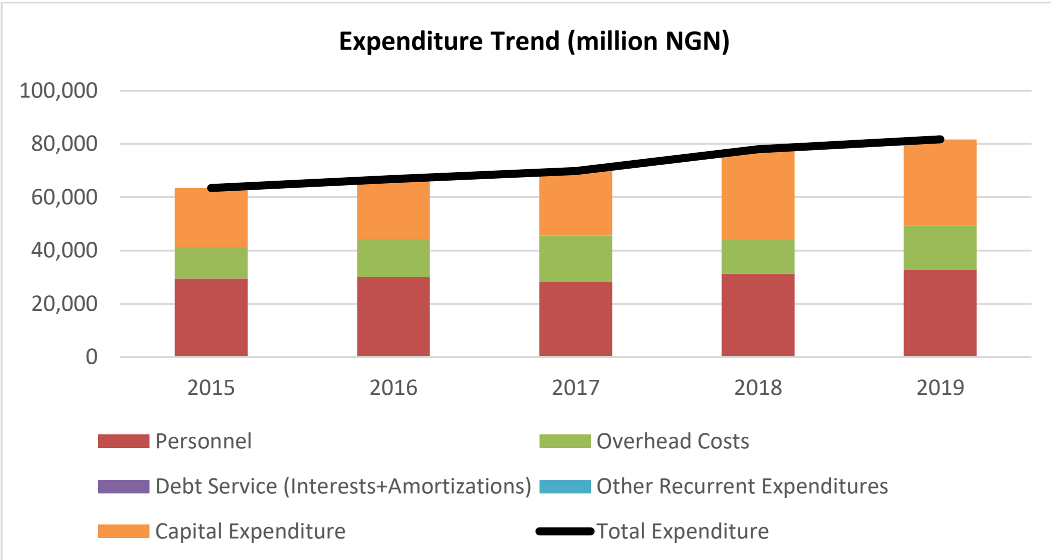
3.1.1 REVENUE PERFORMANCE

Details	2015	2016	2017	2018	2019
Revenue	38,077,200,733.92	26,345,142,782.18			48,774,385,694.17
FAAC	33,340,132,142.52	24,146,736,935.94	33,583,853,148.88	50,367,477,158.14	48,774,385,694.17
IGR					



3.1.2 EXPENDITURE PERFORMANCE

On the expenditure side, the report views the personnel, overheads and capital expenditure – Budget vs actual for the period 2015 – 2019.



OVERHEAD EXPENDITURE TREND

Overhead expenditure comprises of operational and maintenance costs for running the Government. The actual overheads fluctuated over the period of 2015 – 2016 with distinct increase in 2017, 2018, and 2019 respectively due to cost of establishing and running new Agencies as well as increased expenditure on Security. The performance of Actual expenditure against Budget has varied.

PERSONNEL EXPENDITURE

Personnel cost comprises of salaries and Allowance of civil servants and political appointees of Niger State Government. The actual personnel cost steadily declined from 2015 – 2016 before increasing in 2017, 2018, and 2019 due to implementation of new salary structure medical doctors and other health workers, judiciary, fire service and consequential adjustment in consolidated Public Service Salary Structure (CONPSS).

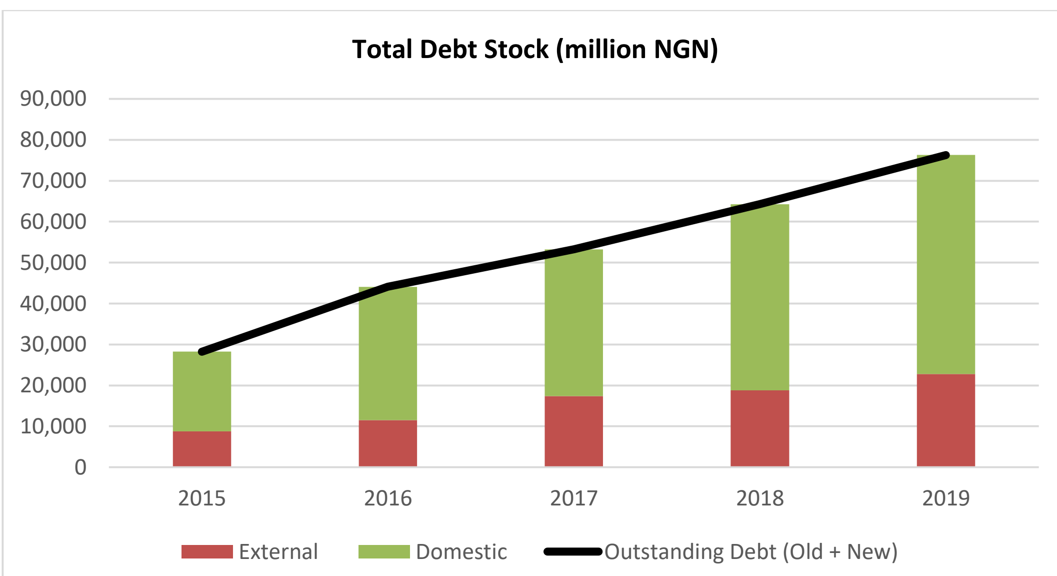
3.2 NIGER STATE DEBT PORTFOLIO

INTRODUCTION

This report provides a historical review of Niger State public debt portfolio for the last five years (2015 – 2019). It reviews the total public debt stock, comprising its external and domestic debt composition. Niger State debt portfolio has undergone significant changes over the past few years due to new borrowings and deliberate effort to change the structure of the debt.

3.2.1 TOTAL PUBLIC DEBT

Niger State public debt stock comprises of both External and domestic debt stock. The total public debt stock stood at ₦28,755,276,171.07 as at 31st December, 2015. External debt Stock accounted for 30.60% of the total public debt stock in 2015, while. Domestic debt Stock was N19, 955,865,156.77 or (69.40%) of the total public debt stock. Compared to the stock as at 2019 which is N82, 576,520,561.96, the increase is due to additional Loan facilities from the State's borrowing program, disbursements to ongoing external debt programs, as well as foreign exchange appreciation against the Naira on the external debt portfolio.



3.2.2 NIGER STATE TOTAL PUBLIC DEBT OUTSTANDING (2015 – 2019)

Table 1.0

Details	2015	2016	2017	2018	2019
Ext. debt stock	8,799,411,014.30	13,502,062,235.02	17,353,622,507.26	18,833,020,905.79	19,974,454,036.03
Domestic debt stock	19,955,865,156.77	34,175,357,513.65	43,496,950,555.73	52,554,650,157.18	62,602,066,522.93
Total	28,755,276,171.07	47,677,419,748.67	60,850,573,062.99	71,387,671,062.97	82,576,520,561.96

The external debt component of the table above shows the trend of total public debt over the period 2015 to 2019. Niger State Domestic debt stock makes up the largest proportion of the total public debt of the State.

EXTERNAL DEBT

EXTERNAL DEBT BY CREDITOR CATEGORY

Niger State external debt portfolio comprises of different categories of creditors. The State multilateral debts stock outstanding as at 31st December, 2019 is USD 65,190,776.88, during the year under review the State had new draw down from their various creditors.

CURRENCY COMPOSITION OF EXTERNAL DEBT

Niger State external debt stock is comprised of the following currencies, USD, EUR, CHF, and XDR as at the 31st December, 2019. The XDR account for the largest proportion of the total External debt stock amounting to 68.99%, while the CHF has the least portion (0.006%) of the total External Debt Stock

DOMESTIC DEBT STOCK

Niger State total domestic debt stock stood at ₦19,955,665,156.77 as at 31st December, 2015 and gradually increased to ₦62,602,066,522.93 (31.88%) as at 31st December, 2019. This increase is attributed to additional bond issuance, the FGN supported facilities (including Agricultural intervention , Budget Support Facilities etc) ,CBN Bail-out due decline revenue inflow arising from fall in Crude oil price, as well as built up arrears in pension obligation over several years, following an audit exercise.

3.3 DEBT PORTFOLIO AND RISK MANAGEMENT

INTRODUCTION

Sound debt management practice stresses the importance of analyzing and monitoring the risk inherent in the structure of public debt, as well as mitigating them, while taking into account the cost of doing so and the tradeoff between expected cost and risk very often, cost minimization is given priority over mitigation in public debt management. However, an excessive focus on cost saving at the expense of risk reduction can have serious consequences on a State's debt portfolio and potentially lead to crisis. The following key risk types are identified and analyzed.

INTEREST RATE RISK

This is the risk associated with movement of the interest rate in the domestic and capital market. Changes in interest rates could affect debt service payment cost increase when interest rates rise at the point of refinancing a debt obligation.

EXCHANGE RATE RISK

This is the risk associated with exchange rate movement.

CURRENCY RISK

Currency risk refers to the risk that arises as a result of a relative mismatch in the currency composition of a country's external debt. The currency composition of a country's external debt should typically align with its stock of reserves asset in order to form a natural back to back ledger against exchange rate risk.

CHAPTER FOUR

4.0 INTRODUCTION – C0NCEPT OF DEBT SUSTAINABILTY

DEFINITION OF DEBT SUSTAINABILITY

Debt is sustainable when a borrower is expected to be able to continue servicing its debts without recourse to exceptional financing, such as Debt Restructuring, Debt Forgiveness or Relief or the accumulation of Arrears.

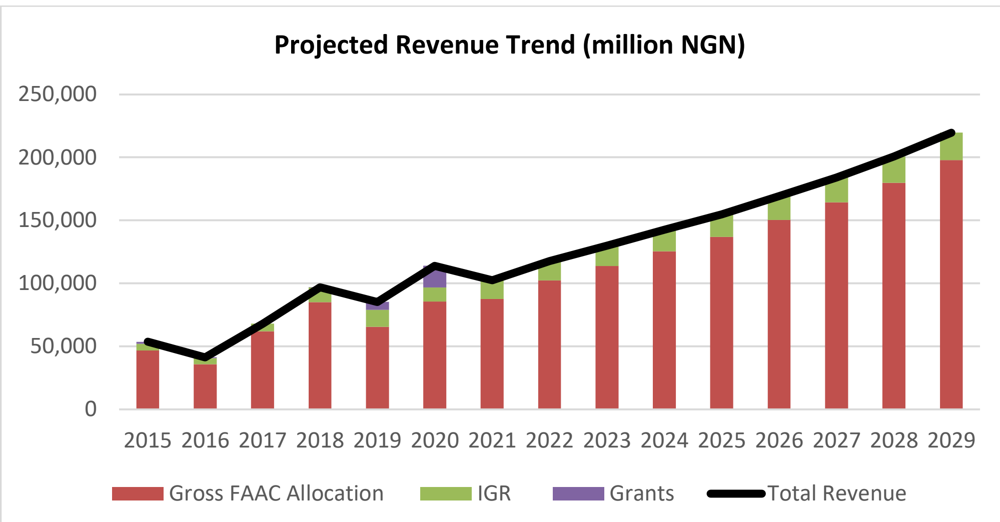
DEBT SUSTAINABILITY INDICATOR AND THRESHOLDS

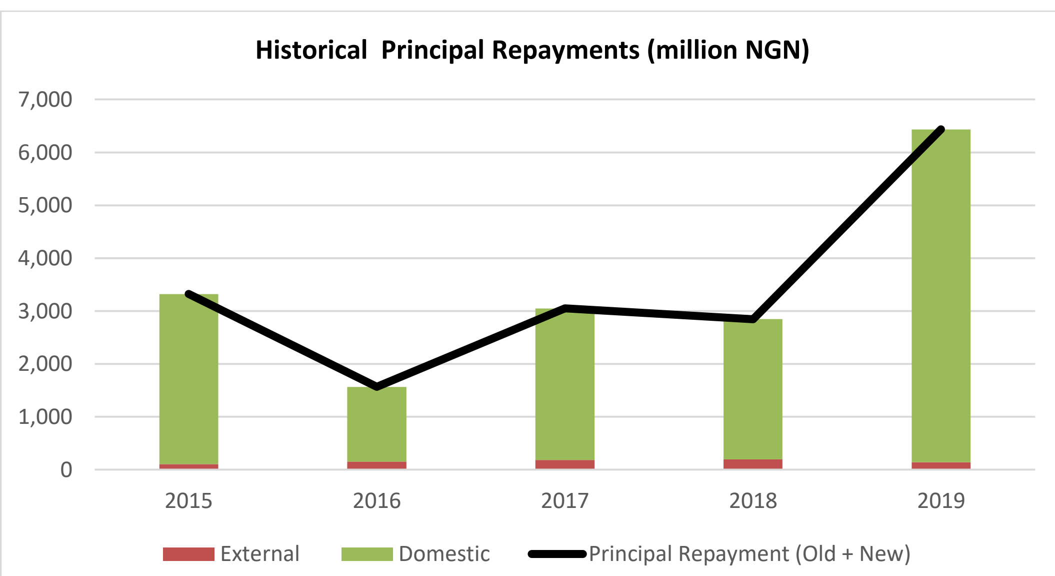
1. SOLVENCY – Nominal Stock/present value (PV) of public or External Debt to GDP
2. Nominal stock or PV of public or private external Debt or export
3. Nominal stock or PV of public or Debt to fiscal Revenue'
4. Liquidity – Debt service to export
5. FX reserve to short – term external Debt.

FISCAL EXTERNAL THRESHOLD

1. Weak
2. Medium
3. Strong

State's medium-term debt sustainability is predicated upon a gradual recovery of the Nigerian economy that will increase FAAC statutory allocation. According to the Federal Government and State's own forecasts, the Nigerian economy is expected to gradually recover in the period 2021-2023, with real GDP expanding at an average annual rate of 3 percent and domestic inflation decreasing below 10 percent by 2022.





CONCLUSION

Sustainable debt management is imperative for an efficient and effective fiscal management at all levels of government. The 2020 State`s Debt Sustainability Analysis (DSA) report prepared using 2015 – 2019 debts trend and 2020 -2029 projections is required to achieve World Bank assisted State Fiscal Transparency, Accountability and Sustainability (SFTAS) Disbursement Link Indicator (DLI) 7.2 of the programme. It showed that the State is within the threshold recommended by the National Debt Management Framework (NDMF). The result signifies the capacity for additional borrowing. It is however recommended for the State to maintain long term debt instruments to minimize and maintain low debt sustainability ratio; Improve Internally Generated Revenue (IGR); reduce debt finance and invest borrowed funds on projects and programmes with the capacity to generate revenue for enhanced revenue. These recommendation were equally due to the high dependency of the State on Federation Accounts and the volatility of international oil market that may cause fiscal shock the will lead to debt distress. This report is recommended for relevant stakeholders either engaging in additional debt transactions or managing existing ones for efficient fiscal management