



BORNO STATE
GOVERNMENT NIGERIA

2021

**BORNO STATE DEBT SUSTAINABILITY
ANALYSIS REPORT**

DEVELOPED BY BORNO STATE DEBT MANAGEMENT OFFICE,
DEBT MANAGEMENT OFFICE ABUJA

IN

COLLABORATION WITH WORLD BANK

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Borno State – Technical Team

CHAPTER ONE

1. INTRODUCTION

Debt Sustainability Analysis (DSA) is an instrument use in ascertaining debt position, revenue generation, recurrent and capital expenditure and other indices which will determine the trend and pattern in the state public finance.

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

Borno State Debt Sustainability Analysis (DSA) for the period (2017-2031) indicate an increase in public expenditure (capital and recurrent), through concerted efforts toward increase in revenue generation as well as overall appraisal of debt status for the period stated. The analysis portrays immediate past trends in revenue, expenditure, and public debt, and the similar activity adopted by the Borno State. A debt sustainability assessment was conducted to reasonably forecast future trends in Borno State's public finances.

The DSA results from assumptions concerning the State's revenue (i.e. the performance in terms of mobilizing (IGR) and expenditure projections (i.e. Personnel, Overhead Costs and Capital expenditure measures). The DSA forecast for revenue were based on effective usage of the harmonized revenue law accented to by His Excellency which provided for capital gains tax, stamp duty and other property tax to expand the tax base, identify and block leakage areas and to maximally increase the state internally generated revenue that are considered achievable.

The DSA looked at the level and terms of the outstanding and new public debt. Also, the state forecasts increased recurrent and capital expenditures with expected growth in the National economy with cascading effects in the State's economy leading to increased staff employment in the public sector.

The DSA results also depended on the forecasts made for the Nigerian economy (i.e. GDP growth, oil production and prices, exchange rate) and its implication on the FAAC Allocations.

Borno State shows a solid debt position and is confident that the State debt is sustainable taking into account of the new fiscal policies stated above. The State plans to strictly control its recurrent and capital expenditure and also maintain a low public debt with a vigorous drive to clear outstanding arrears.

The State pursues a prudent debt management strategy that maintains an adequate cost of carrying debt and an admissible exposure to risks. A prudent debt management strategy emerges from the State's reliance on a mix of sources of finance, including external concessional loans and domestic low-cost financing. Given

Borno State's own forecasts for the economy and reasonable assumptions concerning the State's budget and financing policies going forward, the medium-term cost-risk profile for the public debt portfolio appears consistent with debt-management objectives

CHAPTER TWO

2. BORNO STATE FISCAL AND DEBT FRAMEWORK

Borno State has a policy of actively involving the general public through active participation of citizens in budget preparation for them to make their input. The policy direction of this administration was to ensure effective and efficient delivery of the 10 pact development agenda which includes the Reconstruction and Rehabilitation of Basic Infrastructure and Social Services in terms of Road Networks, Housing and Electricity, Water and Sanitation, Security, Education and Health Facilities. The Government has put in place a harmonized revenue law in order to expand the tax net and boost internally generated revenue. The increase in IGR is expected to positively impact on the debt status of the State, other innovations in place include Borno State Contributory Health Care Management Agency. The State anticipates an increase in expenditure as a direct result of the high number IDPs and the repent insurgent.

The global economic meltdown as a direct result of the Covid-19 pandemic, the war in Ukraine which has triggered a costly humanitarian crisis that demands a peaceful resolution and the insurgency crisis experienced by the state pushed prices of goods and services in Borno State to rise even higher than other parts of the Country. The peculiar circumstances of Borno State having three international borders proved be a disadvantage due to the unfortunate activities of the insurgents, which further restricted movement across the State. With the relative stability witness recently, the Fiscal Policy strategy of Borno State 2022 budget is to boost IGR by expanding the tax base and also explore untapped areas such as capital gains tax and stamp duty and property taxes, create efficiencies in personnel and overhead expenditure to allow greater resource for capital development, continue to ensure reduction in non-essential overheads . The State plans to augment the State budget through sales of Government Property, borrowings from commercial banks and external loans, also reviewing revenue projections to reflect current realities.

CHAPTER THREE

3. BORNO STATE REVENUE, EXPENDITURE, AND PUBLIC DEBT TRENDS (2017 – 2021)

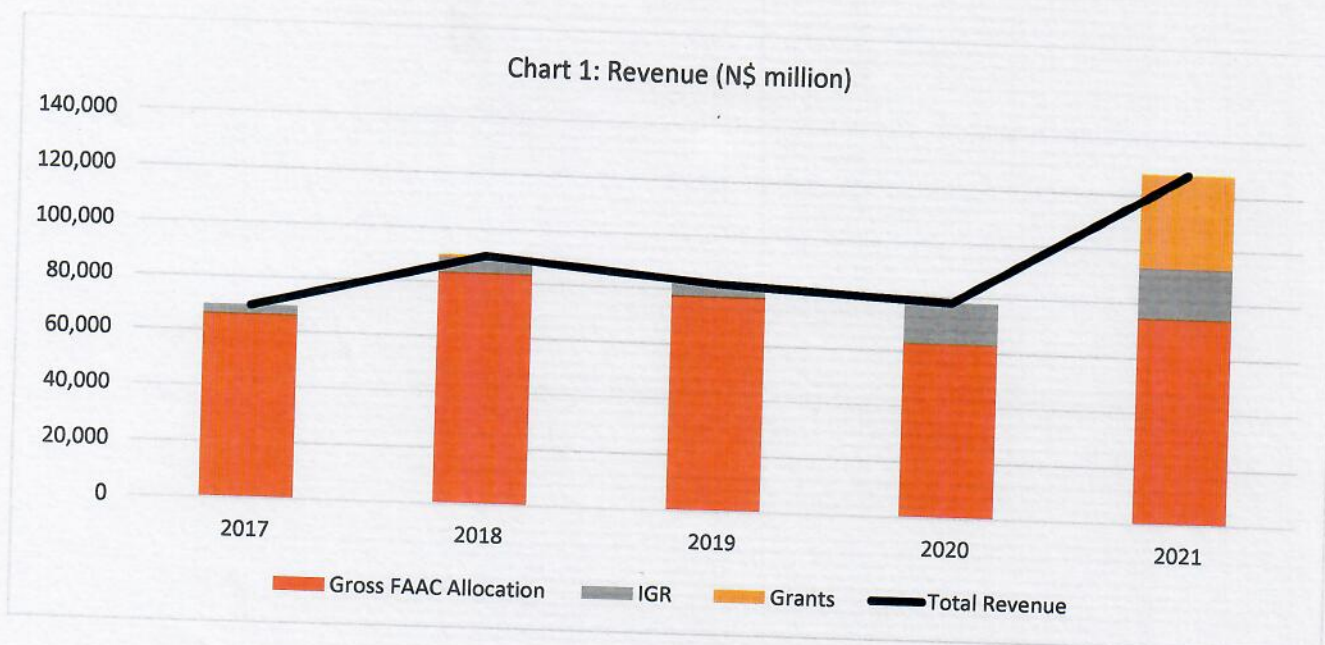
3.1 Revenue Performance

Borno State's Revenue stood at N127,477.4 billion in 2021 compared to N77,923 billion in the period of 2020, which represent an increase of N49,554.4 billion or 63.6 percent.

The Revenue has shown improvements from 2017 to 2021, due to the increased inflow of financial resources to the real sector of the economy, and effective implementation of the Economic Policies in the State. The huge revenue recorded in 2021 was mainly driven by the large amount of grants received during the year in addition to IGR and FAAC allocation. The Gross FAAC allocation that comprises the Statutory allocation, derivations, VAT allocation, exchange rate gain, augmentation among others decreased from N47,021.8 billion in 2020 to N43,995 billion in 2021, which present a declined of N3,026.8 billion or 6.9 percent, the decreased was due to slow in financial activities during the Coronavirus Pandemic Period and the impact of the insurgency in 2021.

Borno State's Internally Generated Revenue (IGR) shows a growth during the period under review, the IGR shows a significant grew from N3,388 billion in 2017 to N18,738 billion in 2021. The improvement in IGR was mainly because of tax administration reforms. These reforms covered legal, institutional, and operational frameworks. Accordingly, several reform activities were instituted to strengthen the IGR collection. Specifically, as a bedrock for other reforms, new Revenue Administration Law was passed, among other things, to consolidate state revenue code covering all state IGR sources. Collections were thereafter enhanced with improvement on all electronic platforms and payment gateways used by the State Internal Revenue Service. The state also expanded its Taxpayer Database and developed an electronic Taxpayer Database system. Revenue sources were expanded to include Introduction of Land Use Charge and all revenue leakages were blocked through automation processes.

	2017	2018	2019	2020	2021
Total Revenue	77,598	89,992	83,294	77,924	127,477.4
Gross FAAC Allocation	55,192	70,680	64,399	47,021.8	43,995
VAT	10,763	12,135	13,073	16,023.4	22,546.23
IGR	3,388	5,731	4,766	14,877.4	18,738
Grants	8,255	723	1,056		34,323.5



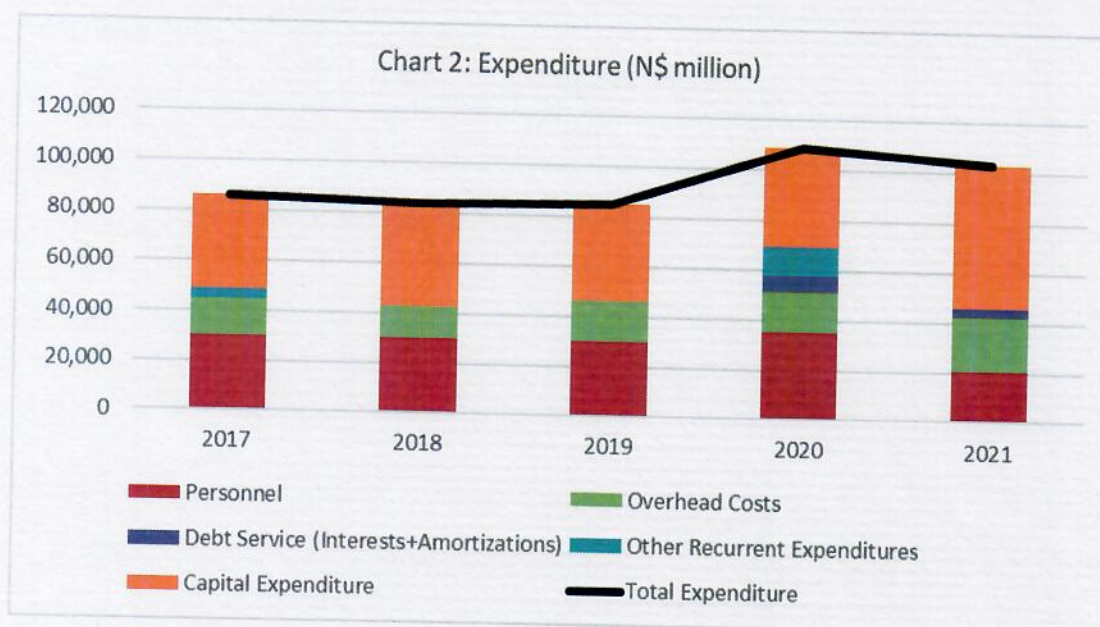
- i. Aggregate State TOTAL Revenue¹ trend in the last five years and its composition in 2021.** There was a general decline in Federation transfers to the states in Nigeria, as a result of shock to crude oil prices. However Gross statutory allocation to the state in absolute terms, including other transfers to Borno State, has been on the rise from 2017 and 2018, but dropped in 2019 and 2020. However, there was a sharp rise in IGR in 2021 as shown in the 2021 Financial Statement, but that notwithstanding there was an increase in total Revenue. The nominal growth rate of total Revenue between 2017-2021 was 64.3% (*Chart 1*). **ii. FAAC Allocations trend in the last five years.** (*Chart 1*)
- ii FAAC Allocations trend in the last five years.** (*Chart 1*). However, the Gross statutory allocation to the state in absolute terms, including other transfers to Borno State, has been on the rise from 2017 to 2018, but dropped by about 9% in 2019 and further dropped in 2020 then rise in 2021. The Borno State's federal allocation, including transfers from the excess crude account, in total grew marginally by 12.8 percent between 2017-2021.
- iii. IGR trend in the last five years.** (*Chart 1*). Borno State IGR shows steady growth during the period under review with a sharp increase between 2018 to 2020 and then it rises in 2021. IGR grew exponentially by 453.1 percent between 2017 and 2021. The outstanding improvement in IGR is mainly as a result of tax administration reforms aimed at improving collection efficiency and broadening the tax revenue base. The TSA has also been put in place and is functioning smoothly, with so many leakages blocked. (*Chart 1*).

3.2 Expenditure Performance

The State's Total Expenditure includes Capital expenditure, Personnel costs, Overhead costs, other recurrent expenditure, and Debt service (interest payment and principal repayment). In 2021 Borno State total expenditure amounted N103,031 billion compared to N86,091 billion as at end-December 2017, which represent a growth of N16,940 billion or 16.4 percent. The personnel cost stood at N30,298.34 billion in 2017, N30,036.17 billion in 2018, N30,116.73 billion in 2019, and N35,456.9 billion in 2020, 20,849.30 in 2021

respectively. The overhead cost stood at N21,829 billion in 2021 compared to N15,676.5 billion in 2020. Capital expenditure amounted to N56,613 billion in 2021, N39,208.8 billion in 2020, N38,422.53 billion in 2019, N41,120.13 billion in 2018, and N37,460.5 billion in 2017, respectively.

	2017	2018	2019	2020	2021
Total Exp	86,091	84,160	85,019	108,862	103,031.0
Personnel Cost	30,298.34	30,036.17	30,116.73	35,456.9	20,849.30
Overhead	14,220.3	13,004.20	16,479.56	15,676.5	21,829
Debt Service	3,947.47	3,925.85	4,604.33	3,397.5	3,740.63
Other Recurrent Exp	4,112.08			11,527.4	
Capital Exp	37,460.45	41,120.13	38,422.53	39,208.8	56,613



- i **Aggregate (total) Expenditure trend in the last five years and its composition in 2021.** Borno State expenditure remained stable during the period. Between 2017 – 2021, real aggregate expenditure grew by 19.7 percent. While Capital spending showed positive growth of 51 percent over the analyzed period, recurrent expenditure decreased by 45. percent. During the period, the bulk of expenditure went to recurrent spending – personnel costs, overheads, debt charges. (Chart 2).
- ii. **Main expenditure variations in the last five years by economic classification.** Borno state capital expenditure shows a significant variation, this is largely due to aggressive reconstruction and rehabilitation of basic infrastructures and social services rendered in the state arising from destruction of these facilities by Boko haram. The variations in personnel cost and overhead costs were only slight. (Chart 2).

iii. Overall and primary balance trend in the last five years. Borno State has a negative balance as compared to GSDP in 2017 and 2020 and positive balanced as compared to GSDP in 2021, with fluctuating Gross financing needs as a share of GSDP. (Chart 11).

3.3 Existing Public Debt Portfolio 2017-2021

Subnational 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 term, consistent with a prudent degree of risk. In a broader macroeconomic context for public policy, governments should seek to ensure that both the level and rate of growth in their public debt are on a sustainable path and that the debt can be serviced under a wide range of circumstances, including economic and financial market stress, while meeting cost and risk objectives.

Every government faces policy choices concerning debt management objectives, in particular its preferred risk tolerance, the parts of the government balance sheet that debt managers should be responsible for, the management of contingent liabilities, and the establishment of sound governance for public debt management. Poorly structured debt portfolios, in terms of maturity, currency, or interest rate composition and large contingent liabilities, have been important factors in inducing or propagating economic crises in many countries throughout history.

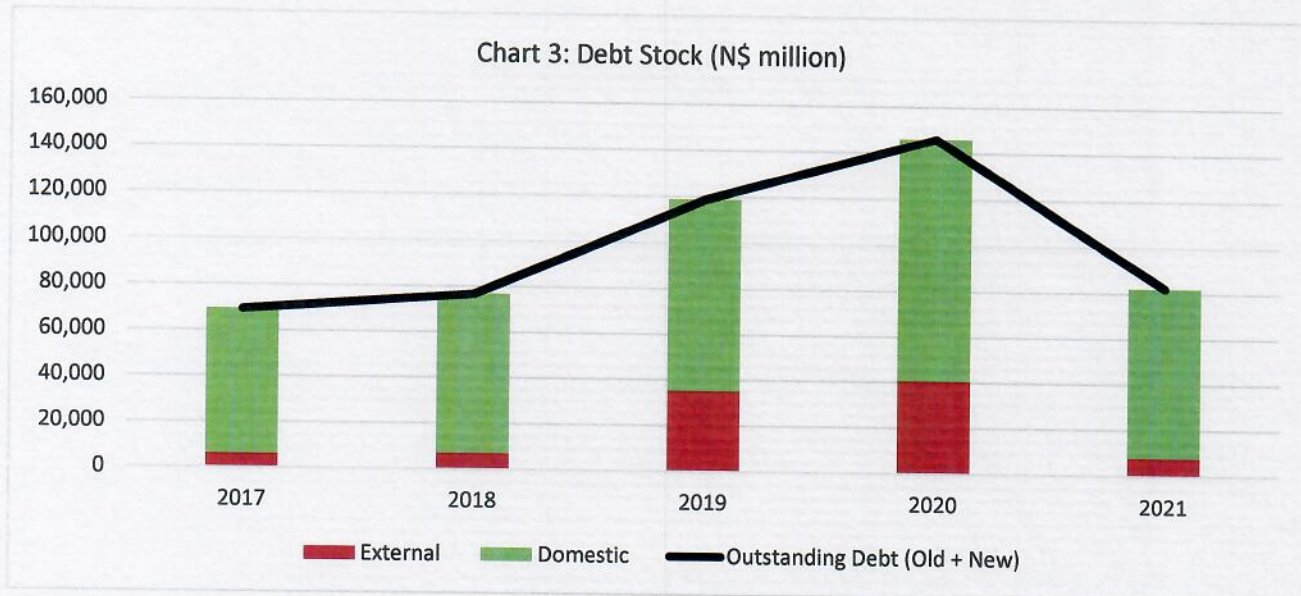
Sound risk management practices are essential given that a government's debt portfolio is usually the largest financial portfolio in the country and can contain complex and risky financial structures, which have the potential to generate substantial risk to the government's balance sheet and overall financial stability. Debt crises have highlighted the importance of sound debt management practices.

Borno State has a domestic debt that represents percent of the total debt portfolio of Borno State Debt profile while External debts represents 17.1 percent of the total debt profile of Borno State as at the end of FY 2021.

3.3.1 Debt Stock

Borno State public debt amounted to N82,154 billion as of end-2021 and has been increasing rapidly since the collapse of oil prices. Borno State total Revenue is about 64% of its total public debt as at the end of 2021. Public debt in Borno has been increasing at an average rate of 25% each year from 2017 to 2021. Borno State between the periods 2017 and 2021 also received bailout funds, Excess Crude Loans from the Federal government, as well as Budget Support Loans. The detail of the debt stock are as shown in the Table and Chart 3 below.

	2017	2018	2019	2020	2021
Outstanding Debt (Old + New)	69,409.00	76,595.68	118,727.96	146,144.19	82,154.26
External	5,720.71	6,610.56	35,341.77	40,521.80	7,521.26
Domestic	63,688.29	69,985.12	83,386.19	105,622.39	74,633.00



3.3.2 Debt Composition

The existing public debt portfolio composition at end-2021:

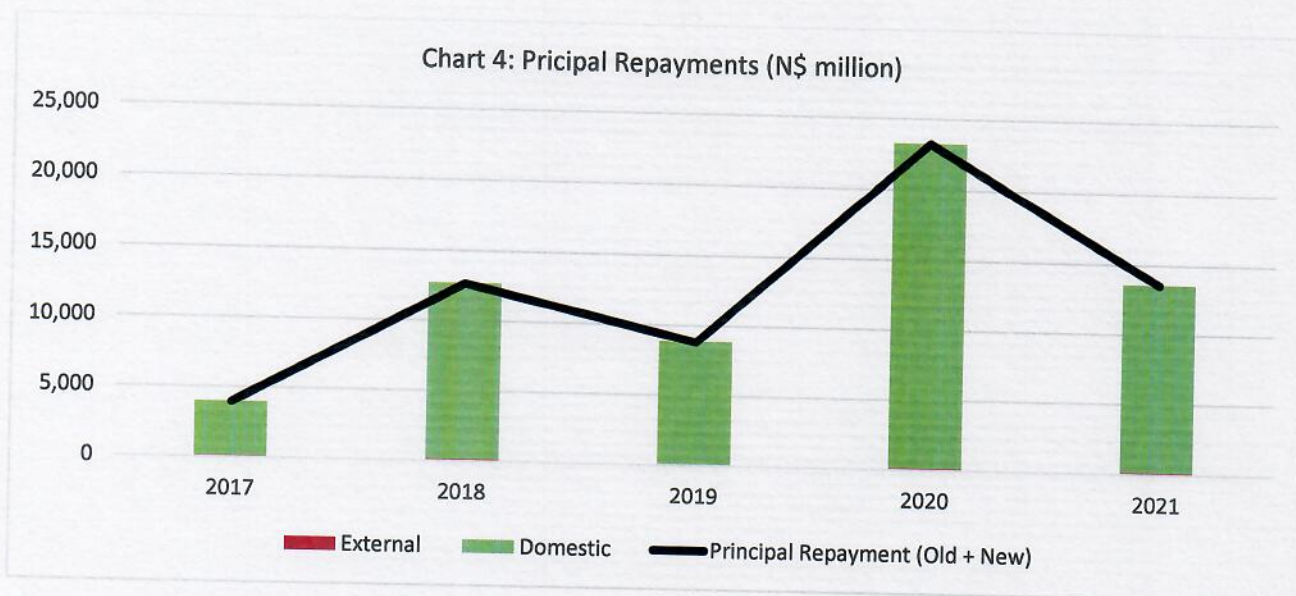
Borno State debt portfolio consist of 90.8 % as domestic debt and 9.2 % as external debt. The main components of the domestic debt are Bail out loans, Budget Support Facility, Excess Crude Account Backed Loan, Contractor's Arrears and Pensions & Gratuity arrears. While the components of External Debt include World Bank (WB) (including International Development Association (IDA) and IBRD) and African Development Bank (AfDB) [including African Development Fund (AfDFP) and Africa Growing Together FUND]

3.3.3 Debt Service

Debt Service - The Total debt service that comprises the interest payment and principal repayment stood at N7,042.56 million in 2017, N15,31497 million in 2018, N11,914.93 million in 2019, N25,366.63 million in 2020 and N17,288.91 million in 2021, respectively.

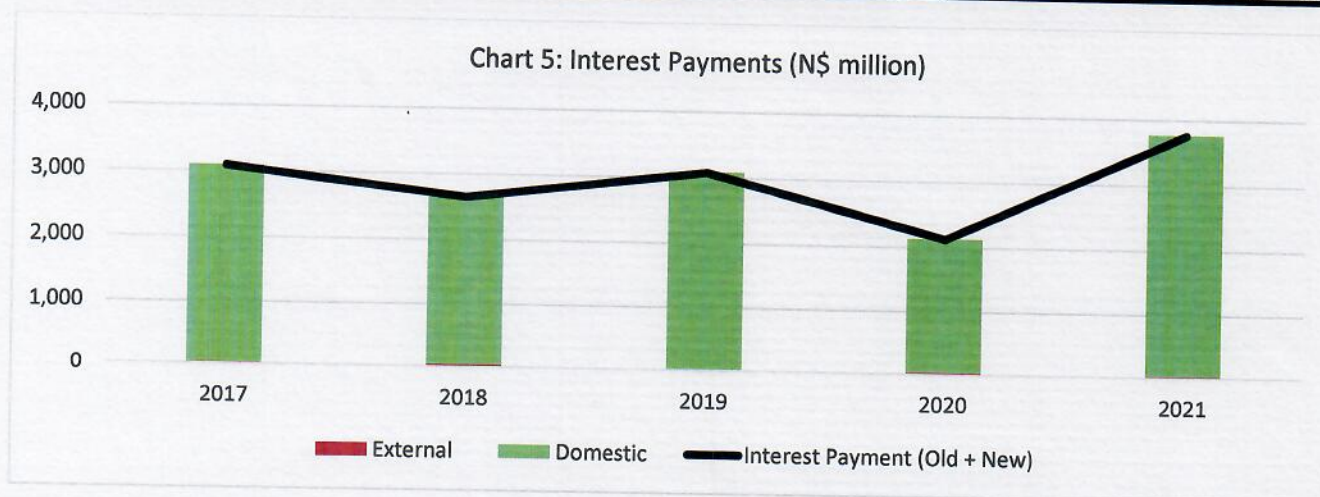
The actual Principal Repayment stood at N3,954.80 million in 2017, N12,666.31 million in 2018, N8,827.43 million in 2019, N23,242.20 million in 2020 and N13,523.01 million in 2021 respectively.

	2017	2018	2019	2020	2021
Principal Repayment (Old + New)	3,954.80	12,666.31	8,827.43	23,242.20	13,523.01
External	76.66	102.31	51.91	100.05	95.41
Domestic	3,878.14	12,564.00	8,775.52	23,142.15	13,427.60



Interest Payment amounted to N3,087.76 million in 2017, N2,648.66 million in 2018, N3,087.50 million in 2019, N2,124.43 million in 2020 and N3,765.90 million in 2021 respectively.

	2017	2018	2019	2020	2021
Interest Payment (Old + New)	3,087.76	2,648.66	3,087.50	2,124.43	3,765.90
External	22.64	28.43	13.63	26.40	25.27
Domestic	3,065.12	2,620.23	3,073.87	2,098.03	3,740.63



3.4 Cost and risks exposure of the existing public debt portfolio at end-2021.

Borno State holds a low-cost, low-risk debt portfolio. The average debt portfolio showed, an implicit interest rate of 9 percent in 2020-2021 and the interest payments represented just 3 percent of total expenditure. Furthermore, the debt portfolio is narrowly exposed to currency, interest rate, and rollover risks. Exposure to currency fluctuations is limited because the foreign currency denominated liabilities are only 30 percent of the

total stock. Most internal loans and all external loans are fixed-rate obligations, thus not affected by changes in interest rates. As these loans have maturities running from 10 to 30 years and include financing from the Federal Government and multilateral organizations, rollover risk associated with potential deterioration of domestic financial conditions is negligible

CHAPTER FOUR

4.0 DEBT SUSTAINABILITY ANALYSIS

The concept of debt sustainability refers to the ability of the government to honor its future financial obligations. Since policies and institutions governing spending and taxation largely determine on 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”.

Borno State Debt burden indicators shows that the Debt as percentage of SGDP stood at 4.38 percent in 2021 as against the State Debt threshold of 25 percent. Debt as percentage of Revenue stood at 64.45 percent in 2021, Debt service as percentage of Revenue remained at 14 percent which is within the threshold of 40 percent. Personnel Cost as at end December 2021 was 16.36 percent compared to threshold of 60 percent. The details of the debt burden indicators are as shown in the table below.

	2017	2018	2019	2020	2021
Debt as % of SGDP	6.18	5.60	7.75	8.90	4.38
Debt as % of Revenue	100.10	85.11	144.37	187.55	64.45
Debt Service as % of Revenue	10.16	17.02	14.49	32.55	13.56
Personnel Cost as % of Revenue	43.69	33.38	36.62	45.50	16.36
Debt Service as a share of Gross FAAC Allocation	10.68	18.33	15.38	40.24	23.23
Interest as a share of Revenue	4.45	2.94	3.75	2.73	2.95
External Debt Service as a share of Revenue	0.14	0.15	0.08	0.16	0.09

4.1 MEDIUM-TERM BUDGET FORECAST

Borrowing Terms for New Domestic Debt (issued/contracted from 2021 onwards) shall be at 15% interest rates for maturity periods of 5 and 7 years respectively.

Borrowing Terms for New External Debt (issued/contracted from 2021 onwards) is 8% with 25 years maturity period.

4.1.1 FISCAL STRATEGY AND ASSUMPTIONS:

(i) Policy Statement

Borno State’s policy direction focuses mainly on diversifying the revenue bases of the state, through intensifying efforts to improve the independent revenue base of the state so as to reduce the state’s overdependence on FAAC Allocations, Donor Partner grants and assisted projects. Furthermore, efforts and strategies on control and enforcement of spending limits that will ensure sound budgeting system is being put in place. This will also include aggregate fiscal discipline, allocative efficiency and effective spending.

(ii) Objectives and Targets

The key targets from a fiscal perspective are:

- Ensure the completion of on-going projects.
- Continue to ensure reduction in non-essential overheads.
- create efficiencies in personnel and overhead expenditure to allow greater resource for capital development;
- grow IGR by a minimum of 25% every year from 2023 to 2025
- achieve long term target of funding all recurrent expenditure with revenue of a recurrent nature (IGR, VAT and Non-mineral component of Statutory Allocation);
- grow the economy through targeted spending in areas of comparative advantage
- Diversify the internal revenue base and also reviewing revenue projections to reflect current realities.
- Ensure speedy executions of capital projects, most especially those considered critical by the government.
- Target sources of capital receipts and financing outside of loans (e.g., Aid and Grants, PPP, etc.)
- Use loans to finance only capital expenditure projects
- give priority to the completion of ongoing capital projects before new projects are commenced

(iii) Indicative Three-Year Fiscal Framework

The indicative three-year fiscal framework for the period 2022-2025 is presented in the table below.

The actual projection started in 2023 base on the state M-TEF, but 2022 budget variables are used to reflect the requirement for the projection to start in 2022, as suggested by DMO Abuja.

Table: 2022-2025 State Medium Term Fiscal Framework

Item	2022	2023	2024	2025
Opening Balance		2,700,000,000	2,700,000,000	2,700,000,000
Recurrent Revenue				
Statutory Allocation	56,210,000,000.00	63,981,950,405	72,876,238,180	79,316,023,722
VAT	25,719,000,000.00	34,193,605,087	42,287,904,476	52,444,932,281
IGR	20,765,080,000.00	21,884,984,212	22,979,233,423	24,128,195,094

Excess Crude / Other Revenue	12,361,197,000.00	6,500,000,000	6,500,000,000	6,500,000,000
Total Recurrent Revenue	115,055,277,000.00	126,560,539,704	144,643,376,079	162,389,151,097

Recurrent Expenditure

Personnel Costs	44,520,386,000.00	30,690,297,539	32,531,715,392	34,483,618,315
Social Contribution and Social Benefit		973,875,000	1,032,307,500	1,094,245,950
Overheads	55,531,219,000.00	22,761,946,378	24,355,282,624	26,060,152,408
Grants, Contributions and Subsidies		9,799,235,198	10,387,189,310	11,010,420,669
Public Debt Service		6,410,953,614	6,581,501,295	6,760,576,359
Total	100,051,605,000.00	70,636,307,729	74,887,996,121	79,409,013,701
Transfer to Capital Account	15,003,672,000.00	58,624,231,975	72,455,379,958	85,680,137,396

Capital Receipts

Grants	97,086,322,000.00	34,590,367,463	3,300,000,000	1,400,000,000
Other Capital Receipts	57,555,261,000.00	0	0	0
Total	154,641,583,000.00	34,590,367,463	3,300,000,000	1,400,000,000

Reserves

Contingency Reserve	included in OH	3,517,018,143	3,092,867,522	3,429,783,022
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Planning Reserve	-	5,125,729,972	3,852,768,998	4,469,006,870
Total Reserves		8,642,748,115	6,945,636,519	7,898,789,892
Capital Expenditure	169,645,255,000.00	93,871,851,322	70,109,743,439	81,481,347,504
Discretionary Funds	100,645,255,000.00	57,099,851,322	62,809,743,439	75,081,347,504
Non-Discretionary Funds	69,000,000,000.00	36,772,000,000	7,300,000,000	6,400,000,000
Financing (Loans)	12,500,000,000.00	12,000,000,000	4,000,000,000	5,000,000,000

Total Revenue (Including Opening Balance)	269,696,860,000.00	175,850,907,167	154,643,376,079	171,489,151,097
Total Expenditure (including Contingency Reserve)	269,696,860,000.00	173,150,907,167	151,943,376,079	168,789,151,097

Closing Balance	-	2,700,000,000	2,700,000,000	2,700,000,000
Ratios				

Closing Balance	-	2,700,000,000	2,700,000,000	2,700,000,000
Ratios				

Growth in Recurrent Revenue	54.60%	21.93%	14.29%	12.27%
Growth in Recurrent Expenditure	18.60%	7.53%	6.02%	6.04%
Capital Expenditure Ratio	114.80%	57.17%	48.68%	50.92%
Deficit (Financing) to Total Expenditure	6.93%	6.93%	2.63%	2.96%
Deficit (Financing) to GDP Ratio	NA	NA	NA	NA

(iv) Assumptions

- a. Opening Balance - The state is anticipating an open balance of ₦2.7 billion for the three years period (2023 – 2025), and no opening balance for 2022. This is due mainly to the expected annual increase in Statutory Allocations FAAC.
- b. Statutory Allocation – This is estimated using the elasticity forecasting which projected 56,210,000,000.00 in government’s share of FAAC 2022 and ₦63,981,950,405 in 2023, ₦72,876,238,180, 2024 and ₦79,316,023,722 in 2025. This assumption is however, based on expected rise in crude oil prices and production rate and stable inflationary rate predicted within this period.
- c. VAT – Government share of VAT is also estimated using the elasticity forecasting which is projected to be ₦ 25,719,000,000.00 in 2022, ₦34,193,605,087 in 2023, ₦42,287,904,476 in 2024 and ₦52,444,932,281 in 2024. This sustained rise in VAT is based on the assumption that the increased VAT rate from 5% to 7.5% and the expanded area of coverage including areas such as banks and mobile phone transactions will no doubt make up the projections.
- d. Other Federation Account – Excess Crude and other FAAC Revenues expected is earmarked at ₦6,500,000,000 for the three years period and ₦12,361,197,000.00 for 2022 This takes care of the fluctuations in crude oil price and productions which at times rises and falls at other times. Thus, variations are taken care of by taking the average.
- e. Internally Generated Revenue (IGR) – The state government anticipate to increase its revenue base, blocking the identified leakages and exploring new avenues of revenue sources. The most critical of all is to sustain and continuous enforcement of payment of ground rent by property owners and improving on IGR up to 25% annual growth. The sum of ₦20,765,080,000.00 was projected for in 2022, ₦21,884,984,212 is projected for 2023, rising steadily to ₦24,128,195,094 for 2025.
- f. Grants – The state government anticipate grants from International Donors and other local donors. The sum of ₦34,590,367,463 is projected for 2023, falling to ₦3,300,000,000 for 2024 and to ₦1,400,000,000 for 2025. This is because the major sources of government grants which are the NGOs would have left the state due to the return of peace in most parts of the state.
- g. Miscellaneous Capital Receipts – There is no provision of other capital receipts in the table above thus the zero value.

- h. Financing – The sum of ₦12 billion, ₦12 billion, 4 billion and 5 billion loans for 2022, 2023, 2024 and 2025 respectively. The major source of financing is commercial bank loan.
- i. Personnel – sum of 44,520,386,000.00 billion earmarked as personnel cost in 2022, ₦30.69 539 in 2023, ₦32.53 billion in 2024 and ₦34.48 billion in 2025.
- j. Social Contribution and Social Benefits – ₦973,875,000 was earmarked against 2023, ₦1,032,307,500 against 2024 and ₦1,094,245,950 for 2025.
- k. Overheads – The other recurrent services steadily increase year-on-year with ₦22.76 billion in 2023, ₦24.35 billion and ₦26.06 billion in 2024 and 2025 respectively using own percentage forecasting method. ₦25,719 in 2022.
- l. Grants, Contributions, Subsidies and Transfers - sum of ₦9.79 million was projected for 2023, ₦10.38 and ₦11.01 billion in 2024 and 2025 respectively.
- m. Public Debt Service - Sum of ₦6.41, ₦6.58 and ₦6.76 billion was earmarked to service the debts in 2023, 2024 and 2025 respectively. The proposed debt service is based on the expected amount of interest and principal due for payment on debts owed.
- n. Contingency and Planning Reserves – Planning reserve of ₦8.64 billion, ₦6.95 and ₦7.89 billion was set aside for planning purposes in the next 3 years 2023 – 2025 and 7,000,000,000 in 2022. This will be allocated when a surplus occurs as it might result from getting over 100% from projections such as the Statutory Allocation, VAT or excess crude oil account. This is expected to cover the unforeseen circumstances that might occur.
- o. Capital Expenditure – The sum of ₦93.87 billion in 2023, ₦70.10 billion and ₦81.48 billion in 2024 and 2025 translating into 48.68% and 50.92% growth. While the sum of 169,645,255,000.00 was allocated in 2022 budget.

4.1.2 SUMMARY OF THE MTB FORECASTS

- ◇ The projections for the various revenue and expenditure items are premised on credible forecasting techniques based on global best practice. The volatility of the exchange rate in the 2022 resulted high prices of goods and services
- ◇ Similarly, the fiscal policies and the budget policy statement are reflections of the State's economic status as well as the nation's economy while taking into consideration the global economic trend. Amendment to these projections were considered with care based on the improved economic environment as well as reasonable and credible forecasting techniques in the budget preparation.

◇ The projections for revenue items, especially from the federation account were conservatively arrived at from a collection of forecasting options, so as to reflect the economic status of the State. The Internally generated revenue figures are very encouraging.

◇ Downside risks to economic development have been taken into consideration in the preparation of the 2022-2025 MTEF

◇ The Government will focus on eliminating waste and ensuring prudent and efficient use of scarce resources; and Extra budgetary spending will be sanctioned and discouraged.

◇ Borno State must continue to monitor the performance of mineral-based revenues to ensure estimates are consistent with the latest development globally and within the Federal Government's budget process. If the benchmark price of crude in the Federal

FSP is lower or higher than \$75 per barrel used herein and IMF, World Bank, OPEC and US Energy Information Administration Reports validates the oil price benchmark provided in Federal FSP, the State should revisit the assumptions and recalculate statutory allocation.

State's revenue and expenditure policies going forward under the baseline scenario:

Borno State in its effort to mobilize IGR to fund government expenditure have signed Borno State tax Administration and Harmonization Law 2020. This is expected to strengthen the tax administration capacity and better efficiency in tax collection and accounting.

Borno State has put in place a policy to engage more specialized workforce in its drive to actualize the 25 years development plan for efficient Health care delivery and Education for all.

4.2 Borrowing options

Gross Financing Needs is the sum of budget deficits and funds required to roll over debt that matures over the year. Borno State Government intends to source its Gross Financing Needs mainly through domestic borrowing from commercial Banks, Federal Government and other Central Bank of Nigeria (Interventions) over the projection period, 2022 to 2031, as well as external financing through concessional window either from Multilateral and Bilateral. The details of the Financing options are as shown in the table below.

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
New Domestic Financing (NGN' Million)										
Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)	21,000.00	950.00	2,806.50	2,974.00	7,570.00	18,053.10	20,617.00	17,553.50	17,763.80	17,797.60
Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)	11,259.50	3,319.40	5,097.50	4,891.40	9,849.60	50,579.30	10,151.90	40,635.60	22,388.70	20,547.10
State Bonds (maturity 1 to 5 years)	-	-	-	-	-	-	-	-	-	-
State Bonds (maturity 6 years or longer)	-	-	-	-	-	-	-	-	-	-
Other Domestic Financing	-	-	-	-	-	-	-	-	-	-
New External Financing (USD' Million)										
External Financing - Concessional Loans (e.g., World Bank)	-	5.00	5.00	0.50	-	0.50	0.50	0.50	0.80	0.80
External Financing - Bilateral Loans	-	-	-	-	-	-	-	-	-	-
Other External Financing	-	-	-	-	-	-	-	-	-	-
Total Gross Borrowing Requirements (calculated by t	32,259.52	6,319.39	9,953.98	8,070.40	17,419.60	68,837.42	30,973.91	58,394.19	40,480.48	38,672.74

4.3 DSA Simulation Results

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

In the Baseline Scenario, Borno State preserves debt sustainability. Total revenue (including grants and excluding other capital receipts) is projected to increase from N 127,477 billion in 2021 to N 241,361 billion by 2031 (Chart 16). Total expenditure will expand from N 103,031 billion in 2021 to N 262,187 billion by 2031 (Chart 17). Therefore, the fiscal deficit—computed as the difference between revenue and expenditure—is expected to remain within a range of N24.5 billion to N-20,926 billion in nominal terms. ii. Main finding and conclusion of the baseline scenario in terms of debt sustainability as a consequence of the modest increase in external borrowings, the public debt will rise in 2022 to 2029 and decline, and the State's repayment capacity will rise *Pari passu* (Charts 22). Debt is projected to raise from 82,154 billion as of end-2021 to N232,269 billion by 2031. It is expected to marginally increase from 64 percent of the Revenue in 2021 to 96 percent by 2031. As the fiscal deficit stabilizes in nominal terms over the next few years, and the public debt ratio improves, the analysis of the Baseline Scenario suggests the State will be able to preserve the sustainability of its debt in the medium-term.

Chart 16: Revenue (N\$ million)

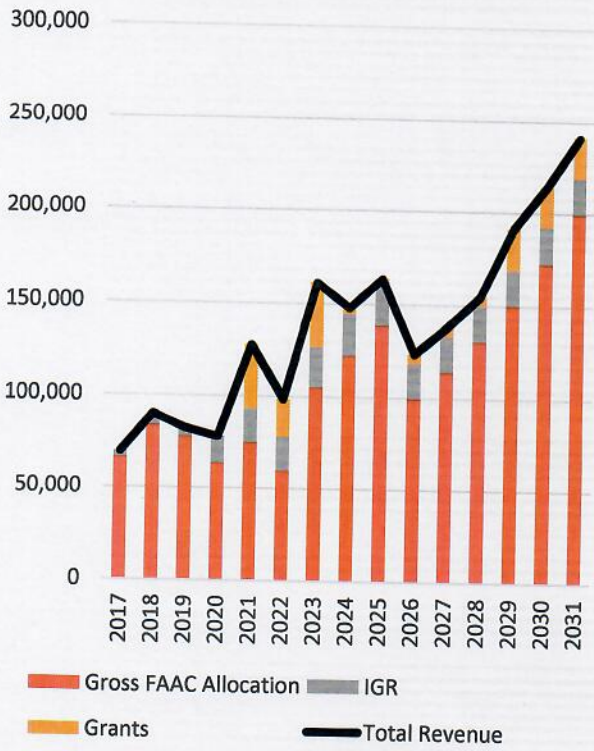


Chart 17: Expenditure (N\$ million)

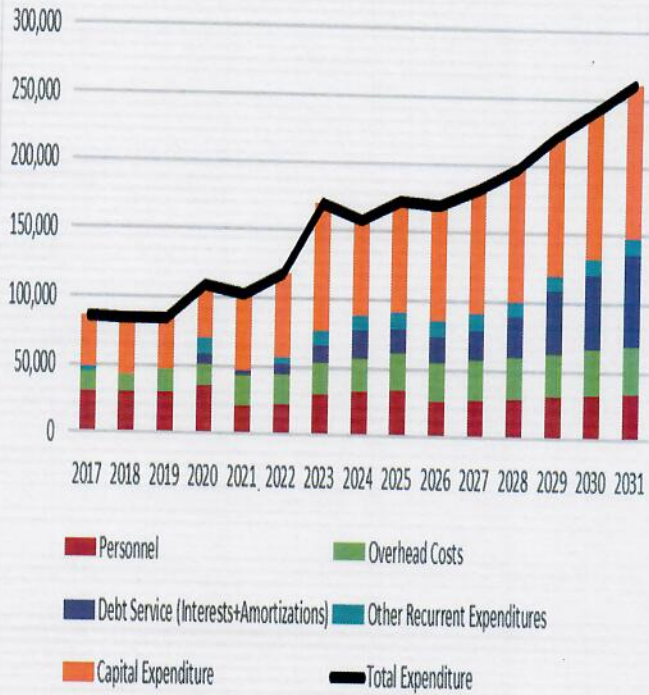


Chart 18: Debt Stock (N\$ million)

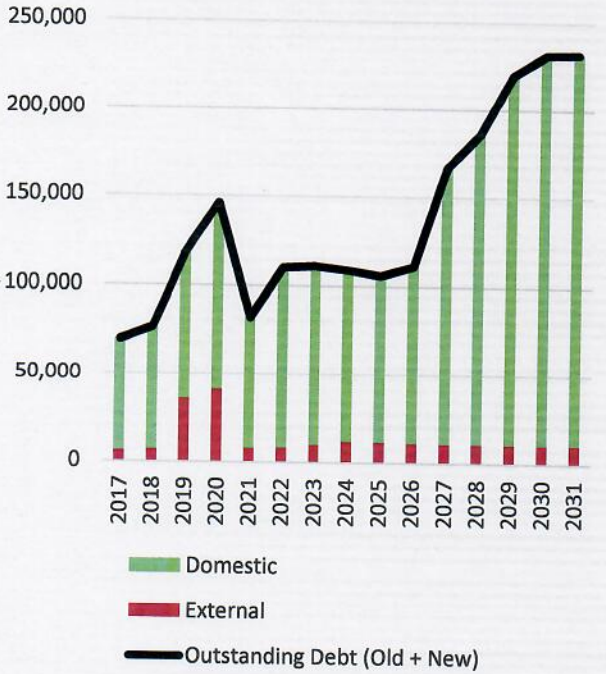
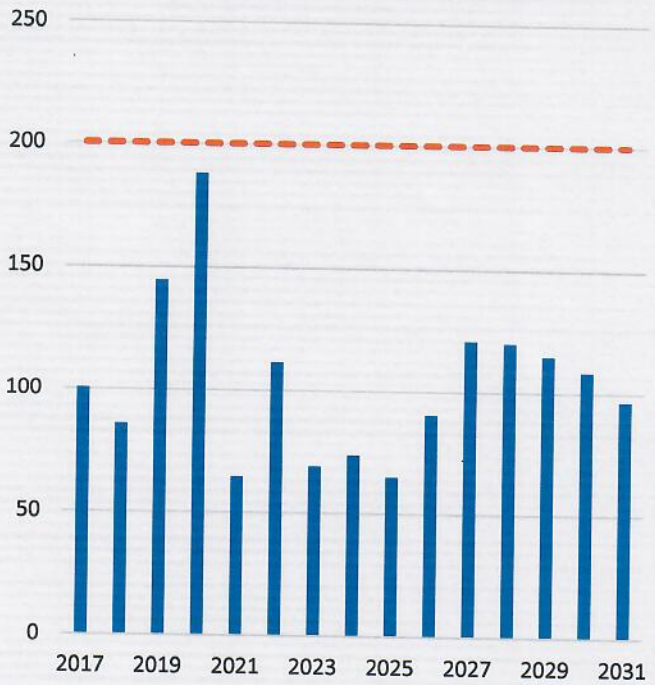
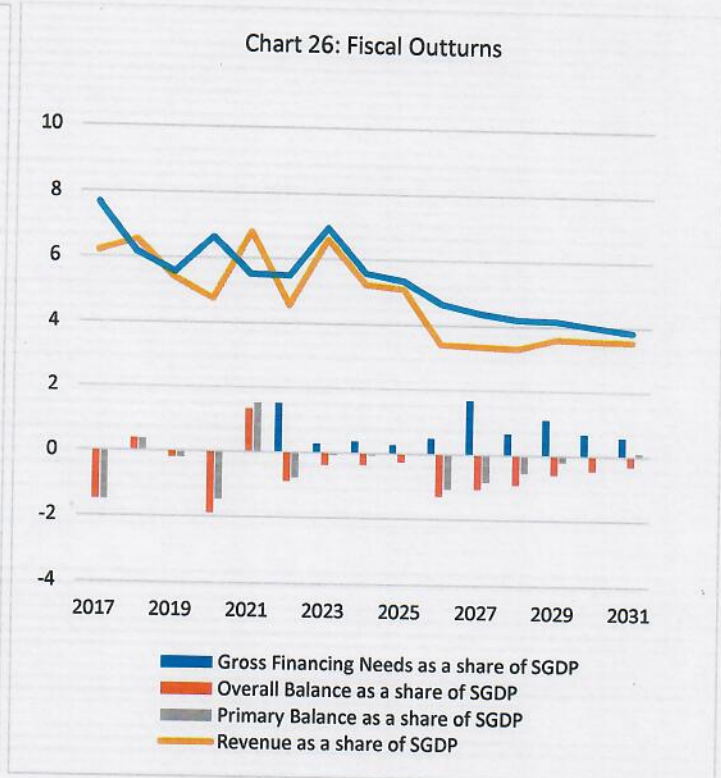
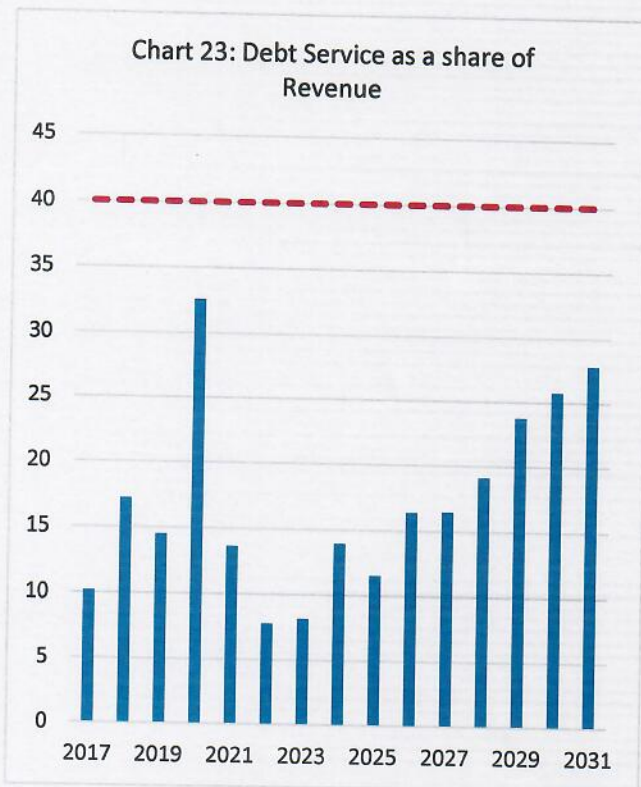


Chart 22: Debt Stock as a share of Revenue





4.4 DSA Sensitivity Analysis

2022 DSA analysis shows that Borno remains at moderate risk of debt distress under sensitivity analysis, the State DSA under pessimistic scenario shows deteriorated or weakening ratios due to application of revenue shocks, expenditure shocks, exchange rate shocks, interest rate shocks and historical shock, that would lead to increase Gross Financing Needs over the projection period. The shocks apply breached the threshold under debt to Revenue from 2023 to 2031 and debt service to revenue from 2026 to 2031, all under historical shocks. There is, an urgent need for the authorities to fast-track efforts aimed at further diversifying the sources of revenue away from crude oil (FAAC), as well as implement far-reaching policies that will bolster IGR into the state. This has become critical, given the continued volatility in the FAAC allocation.

The projections under the Borno State 2022 DSA remains sustainable due to strict adherence to prudent debt management as well as fiscal discipline. With the provisions of law guiding domestic and international borrowing by Fiscal Responsibility Act, and Debt Management, the Government is positioned for prudent debt management and fiscal discipline in order to be able to honor its future financial obligations without recourse to any financing options.

With the MTB and FSP, the fiscal policy both on revenue expansion an expenditure control are targeted towards mobilization of fund for the budget as well as investments in the State. This will among others improve budget allocations that reflects the State policy priorities and development needs such as; grow the economy through targeted spending in areas of comparative advantage such as agriculture, trade, and tourism; and improve cash management. Fiscal policies guiding Cash Management and IGR is expected to consolidate on the gains of the State achievements.

Borno State's debt sustainability is expected to largely deteriorate if the revenue

Shock as a result of worsening poor IGR generation and decline in federation allocations to States materialize. Notably, therefore, a major risk for debt sustainability is the reversal of the State's successful revenue mobilization efforts. Also, if Expenditure Shocks occur as a result of increased security cost and/or as a result of damage to infrastructure by the insurgents. If Exchange rate Shocks materialize as a result of global economic shutdown cause by the Russia/Ukraine war may also affect negatively the public debt status. If interest rates shock occur the ability to service debts maybe hampered significantly, and thus affecting the ratings of the country.

4.5 Main Key Findings

The Baseline Scenario results shows that the ratio of Debt as % of GDP is projected at 5 percent in 2022, 3 percent in 2025, 4 percent in 2028 and 3 percent in 2031 respectively, as against the indicative threshold of 25 percent. The ratio of Debt as % of Revenue estimated to increase of 112 percent in 2022, 65 percent in 2025, 120 percent in 2028 and 96 percent in 2031, compare with the benchmarks of 200 percent. Meanwhile, the ratios of Debt Service to Revenue projected at 8 percent in 2022, 11 percent in 2025, 19 percent in 2028 and 28 percent in 2031 compare with thresholds of 40 percent and Personnel Cost to Revenue trends remains under the threshold over the projection period from 2022 to 2031, with the strongminded efforts by the State Government through its various initiatives and reforms in the key sectors of the economy, respectively. The details of the debt and debt service indicators are as shown in the table below.

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

2022 DSA exercise shows that there is substantial Space to Borrow based on the state's current revenue profile. Meanwhile, the ratios of Debt Service to Revenue and Personnel Cost to Revenue trends remains under the threshold over the projection period from 2022 to 2031, with the strongminded efforts by the State Government through its various initiatives and reforms in the key sectors of the economy.

Chart 27: Debt Stock as a share of SGDP

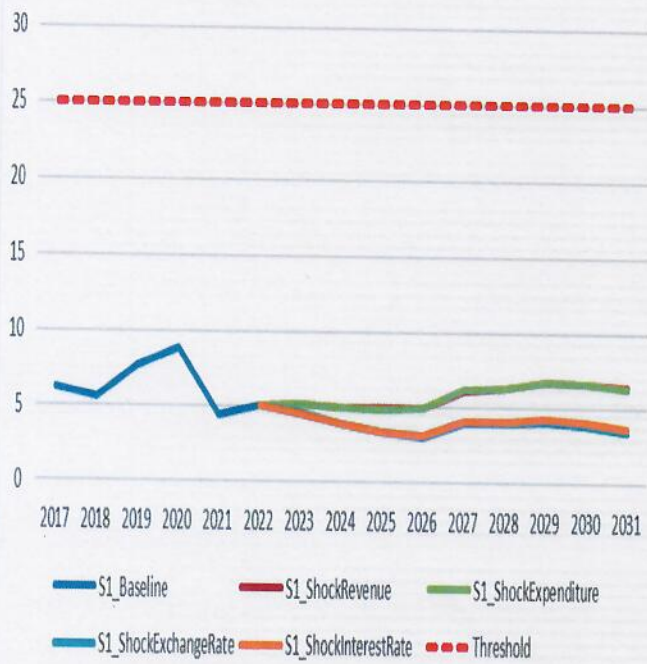


Chart 28: Debt Stock as a share of Revenue

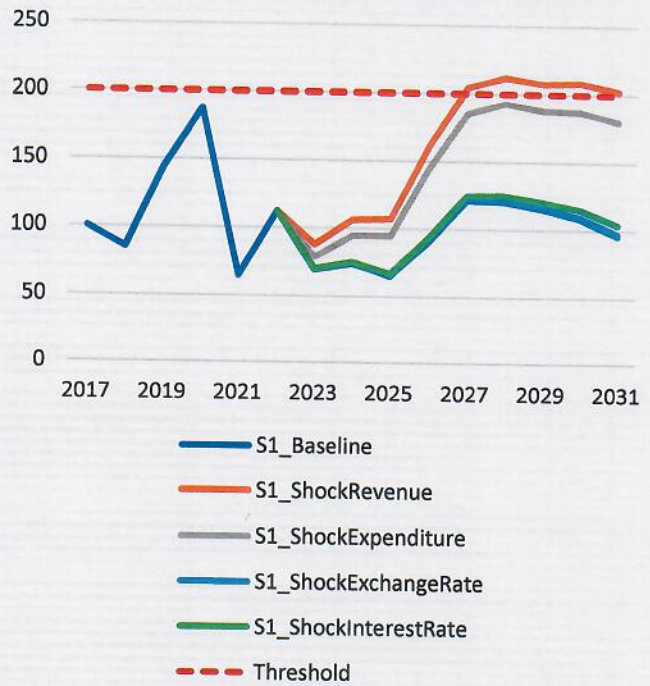


Chart 29: Debt Service as a share of Revenue

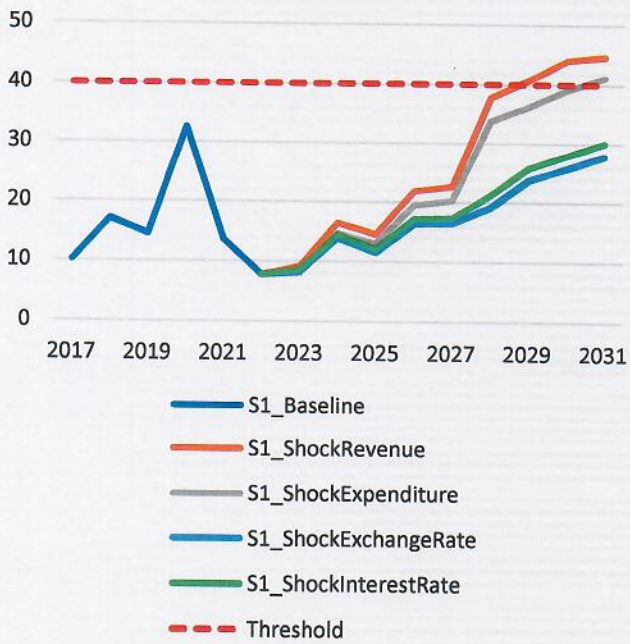
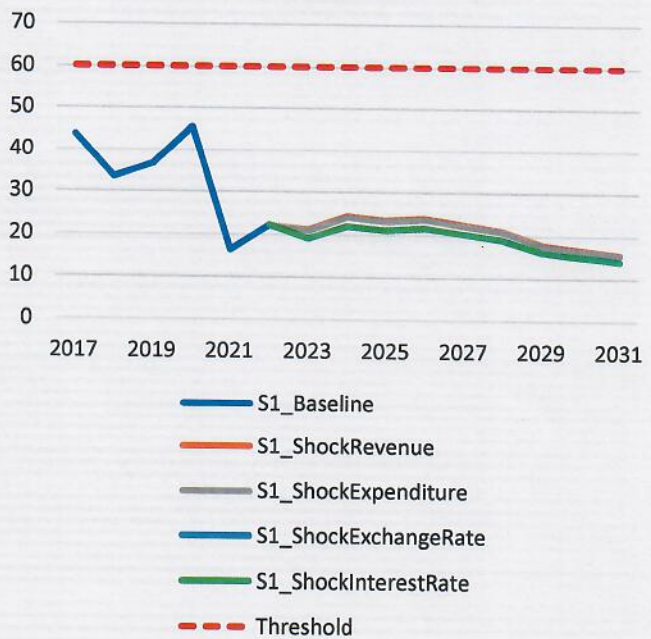


Chart 30: Personnel Cost as a share of Revenue



4.6 Conclusion

The result of the 2022 DSA shows that Borno remains at a moderate risk of debt distress relative to the baseline scenario with Some-Space to accommodate shocks. However, debt sustainability remains mostly sensitive to the revenue shocks and expenditure 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), diversify the internal revenue base and also reviewing revenue projections to reflect current realities, as well as implement far-reaching policies that will bolster IGR into the state. This has become critical, given the continued volatility in the FAAC allocation.

CHAPTER FIVE

5.0 Debt Management Strategy

“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”. Debt Management Strategy examines the costs and risks inherent in the current debt portfolio, as well as in the debt portfolios that would arise from a range of possible issuance strategies, in light of factors such as the macroeconomic and financial market environment, the availability of financing from different creditors and markets, and vulnerabilities that may have an impact on future borrowing requirements and debt service costs.

The Debt Management Strategy provides alternative strategies to meet the financing requirements for Borno State, the strategies are shown by the breakdown of funding mix (domestic debt and external debt) and within the broad categories of domestic and external, the share of each stylized instrument has also been illustrated. The Borno State’s Debt Management Strategy, 2022-2026, analyses the debt management strategies outcomes of the three debt management performance indicators namely Debt Stock to Revenue, Debt Services to Revenue and Interest to Revenue. The cost is measured by the expected value of a performance indicator in 2026, as projected in the baseline scenario. Risk is measured by the deviation from the expected value in 2026 caused by an un-expected shock, as projected in the most adverse scenario. The following four strategies are assessed by the government.

5.1 Alternative Borrowing Options

Strategy 1 (S1) reflects a “Baseline” MTEF Financing Mix: It follows the broad parameters of the financing mix under MTEF, 2022-2025. External gross borrowing under Concessional loans accounts on average 8.00 percent over the strategic period mainly from World Bank and African Development Bank. The Domestic gross financing comprises of commercial bank loans, State bonds and other domestic financing. The Commercial Bank loans with the maturity of 5-7 years is projected to account on average of 40.53 percent, the Commercial Bank loans with the maturity of above 6 years estimated with an average of 39.52 percent, are projected over the DMS period of 2022-2026. The State is not desirous of issuing bond under the Strategy 1. Meanwhile, the State intends to contract external financing through concessional window of the World Bank and African Development Bank with an average of 0.01 percent over the DMS projection period.

Strategy 2 (S2) focus more on short term commercial bank loans: In this strategy, the government decided to focus its borrowing through commercial bank loans with average 31.81 percent under maturity of 1-5 years and 51.15 percent under maturity of above 6 years, over the strategic period, compared to other financing needs. Strategy 2 focuses mainly on commercial bank loan for easy access to loan for critical projects in the State.

Strategy (S3) focus its financing by increasing Federal government intervention. In strategy 3, the government decided to finance its Commercial Bank loans (1-5 years) with an average of 38.16 percent, and Commercial

Bank loans with the maturity of above 6 years with average of 30.29 percent, over the DMS period of 2022-2026. While Concessional loans under external financing has an average of 0.03 percent.

Strategy (S4) focus its financing through external Concessional Loans and commercial bank loans. This Strategy (S4) considers the scenario where proportions of Commercial bank loans (1-5 years) with average of 33.69 percent, Commercial bank loans (above 6 years) with average of 48.04 percent, and external financing through Concessional loans with average of 0.02 percent, respectively.

5.2 DMS Simulation Result

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.

Debt as a share of Revenue

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

Chart 33. Debt Stock as a share of Revenue

(including grants and excluding other capital receipts)



Chart 34. Cost-Risk Trade Off

(Cost in vertical axis, Risk in horizontal axis)



S1_Tables	Indicator2_baseline
S1_Tables	Indicator2_baseline
S1_Tables	Indicator2_shock
S2_Tables	Indicator2_baseline
S2_Tables	Indicator2_shock
S3_Tables	Indicator2_baseline
S3_Tables	Indicator2_shock
S4_Tables	Indicator2_baseline
S4_Tables	Indicator2_shock

Debt Stock as % of Revenue (including grants and e						COST	RISK measu
	2021	2022	2023	2024	2025	2026	
Strategy #1 & Baseline Outlook	64.4	111.8	68.9	73.6	64.8	90.3	70.9
Strategy #1 & Adverse Shock		111.8	87.7	106.0	106.7	161.2	
Strategy #2 & Baseline Outlook	64.4	111.8	68.9	73.7	65.1	90.9	71.0
Strategy #2 & Adverse Shock		111.8	87.7	106.1	107.0	161.9	
Strategy #3 & Baseline Outlook	64.4	111.8	68.9	73.7	65.1	90.9	71.0
Strategy #3 & Adverse Shock		111.8	87.7	106.1	107.0	161.9	
Strategy #4 & Baseline Outlook	64.4	111.8	68.9	73.7	64.9	90.4	70.9
Strategy #4 & Adverse Shock		111.8	87.7	106.1	106.8	161.3	

- **Strategy 1** shows the Cost ratio of Debt to Revenue is estimated to decrease from 111.8 percent in 2022 to 90.3 percent, adverse shock 161.2 with 70.9 level of Risk. The Risk is only measured in 2026 and is the least compare to other Strategies.
- **Strategy 2** shows the Cost ratio of Debt to Revenue is estimated to decrease from 111.8 percent in 2022 to 90.9 percent, adverse shock 161.9 with 71.0 percent degree of risk. Given Strategy 2, both Cost and Risk are a bit costlier compare to Strategy 1 as shown in the chart.
- **Strategy 3** shows Cost ratio of Debt to Revenue is estimated to decrease from 111.8 2022 to 90.9 percent, adverse shock 161.9 with 71.0 percent degree of risk. Strategy 3 and Strategy 2 share some similarities, both Cost and Risk are a bit costlier compare to Strategy 1 as shown in the chart.
- **Strategy 4** shows the Cost ratio of Debt to Revenue is estimated to decrease from 111.8 percent in 2022 to 90.3 percent, adverse shock 161.3 with 70.9 level of Risk. The Risk is only measured in 2026 and is the least compare to Strategy 2 and Strategy 3. Strategy 4 share same similarities in terms of cost and risk level.
- **Analysis:** using this debt indicator of Debt to Revenue shows that S1 is the least costly and riskier which was estimated at 90.3 percent and 70.9 percent compared to Strategy 2 (90.9 percent and 71.0 percent), Strategy 3 (90.9 percent and 71.0 percent) and Strategy 4 (90.3 percent and 70.9 percent), respectively. Strategy 1 is the least costly and moderate risk strategy, which was estimated as 90.3 percent and 70.9 percent, which concentrated on commercial Bank loans with maturity period of 6 years and above. Strategy 2 and Strategy 3 have the highest cost and risk of 90.9 and 71.0, respectively. On the Strategy 4 also has lowest cost and risk of 90.3 and 70.9, respectively. Therefore, Strategy 1 and Strategy 4 has the moderate costs and risk over the DMS period of 2022-2026 with a portfolio mix of domestic commercial loans and external financing through concessional window

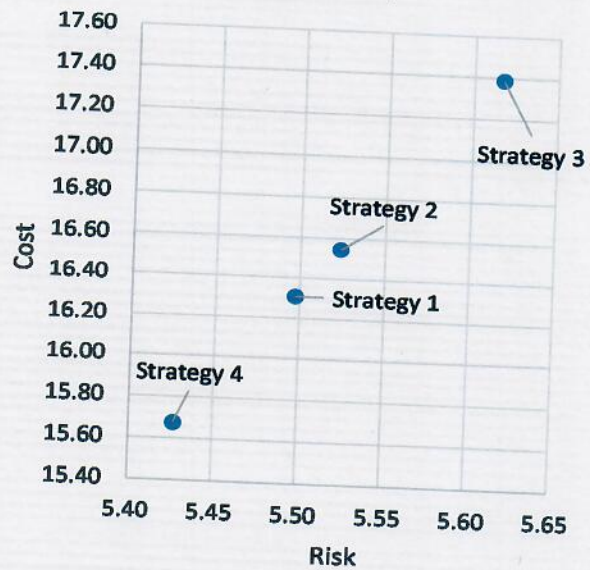
Debt Service as a share of Revenue:

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:

Chart 37. Debt Service as a share of Revenue
(including grants and excluding other capital receipts)



Chart 38. Cost-Risk Trade Off
(Cost in vertical axis, Risk in horizontal axis)



S1_Tables	Indicator4_baseline
S1_Tables	Indicator4_baseline
S1_Tables	Indicator4_shock
S2_Tables	Indicator4_baseline
S2_Tables	Indicator4_shock
S3_Tables	Indicator4_baseline
S3_Tables	Indicator4_shock
S4_Tables	Indicator4_baseline
S4_Tables	Indicator4_shock

Debt Service as % of Revenue (including grants and	2021	2022	2023	2024	2025	COST 2026	RISK measu
Strategy #1 & Baseline Outlook		7.8	8.2	13.9	11.5	16.3	5.5
Strategy #1 & Adverse Shock		7.8	9.1	16.4	14.5	21.8	
Strategy #2 & Baseline Outlook		7.8	8.2	13.4	11.4	16.5	5.5
Strategy #2 & Adverse Shock		7.8	9.1	15.8	14.5	22.1	
Strategy #3 & Baseline Outlook		7.8	8.2	13.9	11.9	17.4	5.6
Strategy #3 & Adverse Shock		7.8	9.1	16.4	15.0	23.0	
Strategy #4 & Baseline Outlook		7.8	8.2	13.5	11.4	15.7	5.4
Strategy #4 & Adverse Shock		7.8	9.1	15.9	14.4	21.1	

- **Strategy 1** shows the Cost of Debt Service to Revenue is estimated to increase from 7.8 in 2022 to 16.3 in 2026 with 5.5 degree of risk and adverse shock of 21.8. The Risk is measured only in 2026 as shown in the chart.
- **Strategy 2** shows the Cost of Debt Service to Revenue is estimated to increase from 7.8 in 2022 to 16.5 in 2026 with 5.5 degree of risk and adverse shock of 22.1. The Risk is measured only in 2026 as shown in the chart.
- **Strategy 3** shows the Cost of Debt Service to Revenue is estimated to increase from 7.8 in 2022 to 17.4 in 2026 with 5.6 degree of risk with adverse shock of 23.0. The Risk is measured only in 2026 as shown in the chart. This Strategy is the riskiest when compared to others.
- **Strategy 4** shows the Cost of Debt Service to Revenue is estimated to increase from 7.8 in 2022 to 15.7 in 2026 with 5.4 degree of risk and adverse shock of 21.1. The Risk is measured only in 2026 as shown in the chart. Strategy1 has the lowest Cost and Risk when compared to others.

Analysis : Strategy 4 has the lowest costs at 15.7 percent and minimum risks at 5.4 percent under the Debt Service to Revenue, followed by Strategy 1 costs at 16.3 percent and risks at 5.6 percent, followed by Strategy 2 costs at 16.5 percent and risks at 5.5 percent. But the Strategy 3 is the costliest and riskiest strategy with cost at 17.4 percent and risks at 5.6 percent.

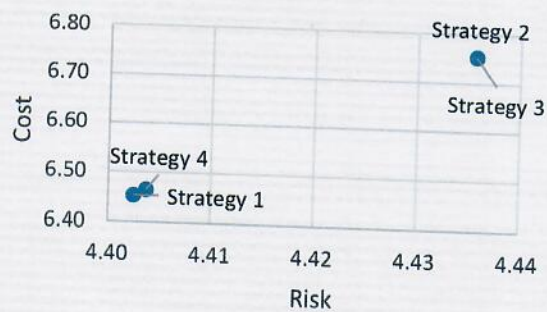
Interest as a share of Revenue

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)



S1_Tables	Indicator6_baseline
S1_Tables	Indicator6_baseline
S1_Tables	Indicator6_shock
S2_Tables	Indicator6_baseline
S2_Tables	Indicator6_shock
S3_Tables	Indicator6_baseline
S3_Tables	Indicator6_shock
S4_Tables	Indicator6_baseline
S4_Tables	Indicator6_shock

Interest as % of Revenue (including grants and excl						2021	2022	2023	2024	2025	COST 2026	RISK measu
Strategy #1 & Baseline Outlook						2.8	4.8	5.7	4.9	6.5	4.4	
Strategy #1 & Adverse Shock						2.8	5.3	7.3	7.1	10.9		
Strategy #2 & Baseline Outlook						2.8	4.8	5.8	5.0	6.8	4.4	
Strategy #2 & Adverse Shock						2.8	5.3	7.4	7.4	11.2		
Strategy #3 & Baseline Outlook						2.8	4.8	5.8	5.0	6.8	4.4	
Strategy #3 & Adverse Shock						2.8	5.3	7.4	7.4	11.2		
Strategy #4 & Baseline Outlook						2.8	4.8	5.8	4.9	6.5	4.4	
Strategy #4 & Adverse Shock						2.8	5.3	7.4	7.1	10.9		

- **Strategy 1** shows the Cost of Interest as Percentage of Revenue is estimated to increase from 2.8 in 2022 to 6.5 in 2026 with 4.4 degree of risk and adverse shock of 10.9. The Risk is measured only in 2026 as shown in the chart.
- **Strategy 2** shows the Cost of Interest as Percentage of Revenue is estimated to increase from 2.8 in 2022 to 6.8 in 2026 with 4.4 degree of risk and adverse shock of 11.2. The Risk is measured only in 2026 as shown in the chart.
- **Strategy 3** shows the Cost of Interest as Percentage of Revenue is estimated to increase from 2.8 in 2022 to 6.8 in 2026 with 4.4 degree of risk and adverse shock of 11.2. The Risk is measured only in 2026 as shown in the chart.

➤ **Strategy 4** shows the Cost of Interest as Percentage of Revenue is estimated to increase from 2.8 in 2022 to 6.5 in 2026 with 4.4 degree of risk and adverse shock of 10.9. The Risk is measured only in 2026 as shown in the chart.

Analysis: The ratios of Interest as percent of Revenue analysis shows that Strategy 1 which is the reference strategy yield the lowest costs and risks due to high Commercial Bank loans with maturity of 1 to 5 years and above, as the debt service terms requirement has lower interest rate. Compared to S2 and S3 with the moderate costs and risks.

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Debt as % of SGDP	6.18	5.60	7.75	8.90	4.38	5.10	4.54	3.84	3.30	3.06	4.04	3.97	4.15	3.86	3.41
Debt as % of Revenue	100.10	85.11	144.37	187.55	64.45	111.82	68.93	73.62	64.79	90.27	121.02	120.31	115.16	108.28	96.23
Debt Service as % of Revenue	10.16	17.02	14.49	32.55	13.56	7.75	8.16	13.87	11.49	16.31	16.38	19.09	23.72	25.69	27.77
Personnel Cost as % of Revenue	43.69	33.38	36.62	45.50	16.36	22.22	19.04	21.99	21.05	21.57	20.27	18.97	16.11	15.09	14.07
Debt Service as a share of Gross FAAC Allocation	10.68	18.33	15.38	40.24	23.23	12.90	12.56	16.86	13.61	20.29	19.88	22.67	30.28	31.90	33.62
Interest as a share of Revenue	4.45	2.94	3.75	2.73	2.95	2.81	4.81	5.66	4.86	6.45	6.64	11.52	11.01	12.36	11.85
External Debt Service as a share of Revenue	0.14	0.15	0.08	0.16	0.09	0.15	0.21	0.37	0.48	0.64	0.57	0.53	0.45	0.40	0.37

5.3 DMS Assessment

The preferred strategy was not solely based on the Analytical Tool assessment of all four strategies but took into consideration the ability to implement the chosen strategy successfully in the medium-term. Therefore, although the Analytical Tool's results of cost and risk shows that Strategy 1 has the lowest costs and risks under debt to revenue, while Strategy 1 and Strategy 4 under the debt service to revenue and interest payment to revenue, Strategy 1 and Strategy 4 were considered the most feasible of the strategies to implement in the short-term and it would still greatly improve the portfolio's debt position relative to the base year 2021.

In comparison to the current debt position, Borno State debt portfolio stood at N82,154.26 million as at end-2021, which expected an increase to N111,3767.79 million under S1 during the strategic period, compared to S2 (N112,197.96 million), S3 (N112,197.96 million), and S4 (N111,534.04 million). Furthermore, 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, Strategy 4 which is an alternative strategy is selected as the preferred strategy for the 2022-2026, which shows moderate cost and risk over the DMS under debt as a share of revenue and it indicated low cost and risk under debt service as a share of revenue.

Borno State opted for strategy 4 because :

- i- the state will continue to ensure reduction in non-essential overheads spending,
- ii- use loans to finance only capital expenditure projects,

- iii- the Government will focus on eliminating waste and ensuring prudent and efficient use of scarce resources, and extra budgetary spending will be sanctioned and discouraged.

The above stated policies are implementable under the chosen strategy (S4). Borno State Government can selected the reference strategy or any other alternative strategy in the future if the chosen strategy (S4) seem to be not feasible so as to diversify the internal revenue base and also reviewing revenue projections to reflect current realities

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

The Fiscal Strategy Paper prioritized projects and programmes in a sustainable manner and consistent with its development policy objective of the Government. The fiscal policies strongly recommend that the existing debt and new borrowing should be kept below the established threshold. Also, Fiscal Responsibility Act, 2007 as well as Debt Management Act, 2003 provides for prudent spending of public funds. The Government will always operate with the law by keeping it debt stock below the established threshold at minimum cost and risk. The cost of carrying debt and risk exposure depend largely on the debt management strategy adopted by the Government. The debt management strategy to be adopted will be able to provide for the Government the much-needed fund at minimum cost and risk without recourse to other financing options. Given the projections, both Baseline and Optimistic scenario shows that the debt is sustainable and resilient, and this is due to high expectation on the revenue.

The Debt management strategy to be adopted both in the baseline and the most-adverse shock would be subjected to the principle of cost and risk analysis. The Government is expected by the Fiscal Responsibility Act, 2007, and the Debt Management Act, 2003, provides that the State to borrow or raise the required amount of funding at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk. 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. The borrowed fund should be used for capital project as well as human capital development. Other strategy such as portfolio mix of domestic and external debt ratio in order to hedge against risk.

Annex I: Baseline Assumptions

Statutory Allocations – the estimation for statutory allocation is based on an elasticity forecast taking into consideration the macroeconomic framework (national) and the mineral assumptions in the 2022-2025 Federal Fiscal Strategy Paper. It is based on historical mineral revenues flows and elasticity-based forecast using national Real GDP and inflation data.

VAT – is based on elasticity forecast using the combined change in GDP and inflation rate. The estimate for 2022-2025 is in line with the current rate of collections due to covid-19 pandemic be revisited if there are any changes to the VAT rates as proposed in the previous forecast.

Other Federation Account Distributions – the estimation is based on the current receipt. Furthermore, it is anticipated that new FAAC will investigate the crises that caused by the advent of the covid-19 pandemic so that the sharing formula would be investigate carefully.

Internally Generated Revenue (IGR) – the estimation is own value which is calculated based on the current growth rate marked up slightly to factor the current administration's reform initiatives to grow the IGR and all payments of any nature must be done through the TSA

Grants – The internal grants are mostly based on the expected grant from local donors and programs which was estimated at N97.9 billion. External grants are mostly based on signed grant agreements with the World Bank, UNICEF, EU etc

Financing (Net Loans) – the internal and external loans are projections based on agreement ZGS 2022-2024 EFU-FSP-
BPS Consolidated Revenue Fund Charges – this includes public debt charges (which is external debt servicing) which is changing in medium term. The estimation is own value determined based on the debt servicing costs (principal and interest repayment) for 2022-2025

Personnel – it is anticipated that the new minimum wage will have a negative impact on staff new recruitment because of the burden on the side of the government. This to some extent will reduce the state contribution for Contributory Pension Scheme in the state.

Overheads – overhead has been relatively stable over the years to date. It is anticipated that the status quo will remain stable. Consequently, the estimation is own value calculated using the current growth rate.

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

Table Assumptions of the State DSA Template

	Projection Methodology	Source
State GDP (at current prices)	National GDP at current price	
	Gross State Value Added is assumed to follow the same trend as that of the Federal government	
Revenue		Federal Ministry of Finance DSA Team, Ministry of Finance and Economic Development, Borno State DSA Team, Ministry of Finance and Economic Development, Borno State
1. Gross State Value Added (gross' means with no deductions; do not include VAT Allowance)	Gross State Value Added is assumed to follow the same trend as that of the Federal government	
1.a. of which Net State Value Added (net' means of deductions)		
1.b. of which Deductions	The expected other FAAC transfers depending on Federal Government augmentation.	DSA Team, Ministry of Finance and Economic Development, Borno State Federal Ministry of Finance
2. Derivation (if applicable to the State)	VAT is also dependent on the Federal Government's output	
3. Other FAAC transfers (exchange rate, gpi, augmentation, others)	The expected other FAAC transfers depending on Federal Government augmentation.	Internal Revenue Service/Borno Geographical Incentive
4. VAT Allocation	VAT is also dependent on the Federal Government's output	
5. IGR	The IGR projections are based on the recently demarcated bases like Capital Gains Tax, Stamp duty and Hotel Occupancy tax which is expected to broaden the tax base and increase revenue greatly. Also in 2022 there is expectation of backdoor collections worth N24 billion. There is also increased drive in property tax collections, which is expected to be sustained for at least 5 years.	Borno Ministry of Education and UNICEF Achieving all SDGs Disbursement Linked Indicator DSA (Borno State SDG Technical Committee)
6. Capital Receipts	There is expectation for BESA to continue, which is UNICEF intervention programme on education. The Grant for FY 2022 is expected to increase because of the expectation for SDG grants. Also there is expectation of Grants from Islamic Development Bank, which is expected from PDD24 to FY 2023.	
6.a. Grants		
6.b. Sales of Government Assets and Privatization Proceeds		
6.c. Other Non-Deduction Creating Capital Receipts		
Expenditure		
1. Personnel costs (Salaries, Pension, Civil Servant Social Benefits, other)	Recurrent expenditure is steadily increasing (through employment of qualified youths to develop human capital) and in tandem with expected increase in revenue.	Borno State Ministry of Finance
2. Overhead costs	Overhead cost is expected to increase because of expected increase in government activities in areas like construction, rehabilitation, record keeping, etc.	Borno State Ministry of Finance
3. Interest Payments (Public Debt Charges, including interests deducted from FAAC Allocation)	Interest payment is based on repayment schedule (amortisation) projected.	
4. Other Recurrent Expenditure (excluding Personnel Costs, Overhead Costs and Interest Payments)		
5. Capital Expenditure	Capital expenditure is expected to increase steadily with gradual implementation of the Borno State 10 year Strategic Transformation Plan (STP).	State Debt Management Office, Ministry of Finance and Economic Development, Borno State Borno State 10 years Strategic Transformation Plan was a programme by Borno State Government for recovery economic activities of the State.
Closing Cash and Bank Balance	The closing cash and bank balances are expected to range between 5.5 to 6.3 billion	
Debt Outstanding at end 2022		
External Debt - amortisation and interest	Debt amortisation and interest payment is on monthly basis	Borno State Ministry of Finance, Budget & Economic Planning
Domestic Debt - amortisation and interest	Debt amortisation and interest payment is on monthly basis	
New debt issued/contracted from 2022 onwards	The repayment is on monthly instalment both principal and interest	Federal Ministry of Finance and debt amortisation scheduled
New External Financing	The repayment is on monthly instalment both principal and interest	Debt amortisation and scheduled repayment
External Financing - Concessional Loans (e.g. World Bank, African Development Bank)		
External Financing - Bilateral Loans	The State expects to access loans from WBG only at 6% interest rates, 30 years maturity and 7 years grace period	State Debt Management Office, Ministry of Finance and Economic Development, Borno State
Other External Financing		
New Domestic Financing		
Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure loan)	The State expects to sign loan agreements with commercial banks to offset all outstanding liabilities over a period of 3 years or more.	
Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure)	The State expects to secure loans with maturity periods of 6 years and longer to meet some of its deficit.	Borno State Ministry of Finance, Budget & Economic Planning
State Bonds (maturity 1 to 5 years)		
State Bonds (maturity 6 years or longer)		
Other Domestic Financing		
Planned Borrowings (new bonds, new loans, etc) for Debt Strategy II		
New Domestic Financing in Million Naira		
Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure loan)	The State expects to seek for new financing (loan) with 15% interest rates, 5 years maturity and 4 year grace period	Content of loan agreement with the State Ministry of Finance
Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure)	The State will sign a new loan agreement with 15% interest rates, 5 years maturity and 5 year grace period	Content of loan agreement with the State Ministry of Finance
State Bonds (maturity 1 to 5 years)		
State Bonds (maturity 6 years or longer)		
Other Domestic Financing		
New External Financing in Million US Dollar		
External Financing - Concessional Loans (e.g. World Bank, African Development Bank)	The State expects to access loans from WBG only at 6% interest rates, 30 years maturity and 7 years grace period	Borno State Government Strategic Transformation Plan
External Financing - Bilateral Loans		
Other External Financing		

ANNEX II: BORNO STATE Baseline Scenarios, 2017 – 2031

Indicator	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
BASELINE SCENARIO															
Economic Indicators															
State GDP (at current prices)	1,122,899.00	1,368,695.00	1,531,961.00	1,642,021.00	1,874,330.00	2,160,051.00	2,449,123.00	2,834,647.00	3,213,356.00	3,642,661.00	4,129,320.00	4,680,997.00	5,306,379.00	6,015,311.00	6,818,956.00
Exchange Rate NGN/US\$ (end-Period)	253.19	305.79	306.50	326.00	379.00	410.00	410.00	410.00	410.00	410.00	410.00	410.00	410.00	410.00	410.00
Fiscal Indicators (Million Naira)															
Revenue															
1. Gross Statutory Allocation ('gross' means with no deductions; do not include VAT Allocation here)	77,597.50	89,992.00	83,294.06	77,922.60	127,477.44	130,769.52	167,470.30	157,897.36	171,859.55	140,799.60	206,659.42	185,615.91	249,561.19	254,786.48	280,033.74
1.a. of which Net Statutory Allocation ('net' means of deductions)	55,191.82	70,679.67	64,399.02	47,021.82	43,994.70	33,452.00	63,981.95	72,876.24	79,216.02	48,948.00	53,843.00	59,228.00	65,150.00	71,665.00	78,832.00
1.b. of which Deductions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Derivation (if applicable to the State)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Other FAAC transfers (exchange rate gain, augmentation, others)	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
4. VAT Allocation	0.00	723.00	0.00	0.00	7,874.50	3,000.00	6,500.00	6,500.00	6,500.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00	3,000.00
5. IGR	10,762.53	12,135.36	13,073.04	16,023.37	22,546.23	22,778.00	34,193.61	42,287.90	52,444.93	47,232.00	56,679.00	68,014.00	81,617.00	97,941.00	117,529.00
6. Capital Receipts	3,388.15	5,730.92	4,766.00	14,877.40	18,738.21	18,800.00	21,884.98	22,979.23	24,128.20	19,200.00	19,300.00	19,400.00	19,500.00	19,600.00	19,700.00
6.a. Grants	8,255.00	723.00	1,056.00	0.00	34,323.40	52,759.52	40,909.76	13,253.98	9,470.40	22,419.60	73,837.42	35,973.91	80,294.19	62,580.48	60,972.74
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	0.00	0.00	356.00	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.d. Proceeds from Debt-Creating Borrowings (bond issuance, loan disbursements, etc.)	0.00	0.00	700.00	0.00	0.00	32,259.52	6,319.39	9,953.98	8,070.40	17,419.60	68,837.42	30,973.91	58,394.19	40,480.48	38,672.74
Expenditure															
1. Personnel costs (Salaries, Pensions, Civil Servant Social Benefits, other)	86,090.87	94,160.49	85,018.82	108,862.00	103,031.03	118,062.02	170,270.30	157,897.36	171,859.55	170,217.60	181,391.82	197,207.51	222,040.19	240,904.48	262,186.74
2. Overhead costs	30,298.34	30,036.17	30,116.73	35,456.90	20,849.30	21,891.77	30,690.30	32,531.72	34,483.62	26,609.58	27,940.06	29,337.06	30,803.91	32,344.11	33,961.31
3. Interest Payments (Public Debt Charges, including interests deducted from FAAC Allocation)	14,220.28	13,004.20	16,479.56	15,676.46	21,828.50	22,919.93	22,761.95	24,355.28	26,080.15	27,859.31	29,252.28	30,714.89	32,250.64	33,863.17	35,556.33
3.a. of which Interest Payments (Public Debt Charges, excluding interests deducted from FAAC Allocation)	0.00	0.00	0.00	6,992.00	3,740.63	2,766.01	7,757.02	8,380.42	7,959.39	7,962.24	9,152.96	17,808.26	21,040.99	26,483.21	28,589.57
3.b. of which Interest deducted from FAAC Allocation	0.00	0.00	0.00	0.00	2,532.24	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)	4,112.08	0.00	0.00	11,527.43	0.00	5,000.00	9,799.24	10,387.19	11,010.42	11,010.42	11,010.42	11,010.42	11,010.42	11,010.42	11,010.42
5. Capital Expenditure	37,460.45	41,120.13	38,422.53	39,208.00	56,612.60	60,613.60	93,871.85	70,109.74	81,481.35	84,618.80	90,620.10	96,621.40	102,622.70	108,624.00	114,625.30
6. Amortization (principal) payments	0.00	0.00	0.00	0.00	0.00	4,870.72	5,389.94	12,133.01	10,864.63	12,157.25	13,416.01	11,715.48	24,311.53	28,579.58	38,443.81
Budget Balance ('+' means surplus, '-' means deficit)	-8,492.87	5,832.00	-1,724.76	-30,939.00	24,446.09	12,707.50	-3,800.00	0.00	0.00	-29,418.00	25,267.60	-11,591.60	27,521.00	13,882.00	17,847.00
Opening Cash and Bank Balance	3,671.29	-4,821.58	1,010.42	-714.58	-31,653.60	-7,207.50	5,500.00	2,700.00	2,700.00	2,700.00	-26,718.00	-1,450.40	-13,042.00	14,479.00	28,361.00
Closing Cash and Bank Balance	-4,821.58	1,010.42	-714.58	-31,653.60	-7,207.50	5,500.00	2,700.00	2,700.00	2,700.00	-26,718.00	-1,450.40	-13,042.00	14,479.00	28,361.00	46,208.00

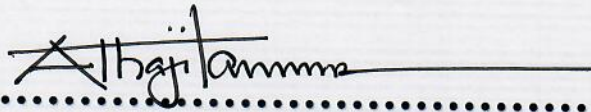
BORNO STATE Baseline Scenarios, 2017 – 2031 Cont'd

Financing Needs and Sources (Million Naira)

	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Financing Needs															
i. Primary balance	32,259.52	6,319.39	9,953.98	8,070.40	17,419.60	68,837.42	30,973.91	58,394.19	40,480.48	38,672.74					
ii. Debt service	-11,915.29	4,027.58	10,559.45	10,753.61	-26,718.11	-21,000.85	-13,041.77	14,479.33	28,464.30	46,207.64					
Amortizations	7,636.73	13,146.97	20,513.43	18,824.02	20,119.49	22,568.97	29,523.74	45,352.52	55,062.78	67,033.38					
Interests	4,870.72	5,389.94	12,133.01	10,864.63	12,157.25	13,416.01	11,715.48	24,311.53	28,579.58	38,443.81					
iii. Financing Needs Other than Amortization Payments (e.g., Variation in Cash and Bank Balances)	2,766.01	7,757.02	8,380.42	7,959.39	7,962.24	9,152.96	17,808.26	21,040.99	26,483.21	28,589.57					
Financing Sources	12,707.50	-2,800.00	0.00	0.00	-29,418.00	25,267.60	-11,591.60	27,521.00	13,882.00	17,847.00					
i. Financing Sources Other than Borrowing	32,259.52	6,319.39	9,953.98	8,070.40	17,419.60	68,837.42	30,973.91	58,394.19	40,480.48	38,672.74					
ii. Gross Borrowings	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00					
Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMED)	32,259.52	6,319.39	9,953.98	8,070.40	17,419.60	68,837.42	30,973.91	58,394.19	40,480.48	38,672.74					
Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMED)	21,000.00	550.00	2,806.50	2,974.00	7,570.00	18,053.10	20,617.00	17,553.50	17,763.80	17,797.60					
State Bonds (maturity 1 to 5 years)	11,239.50	3,319.40	5,097.50	4,891.40	9,849.60	50,579.30	10,151.90	40,635.60	22,388.70	20,547.10					
State Bonds (maturity 6 years or longer)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00					
Other Domestic Financing	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00					
External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00					
External Financing - Bilateral Loans	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00					
Other External Financing	0.00	2,050.00	2,050.00	205.00	0.00	205.00	205.00	205.00	205.00	328.00					
Residual Financing	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00					
Debt Stocks and Flows (Million Naira)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00					
External	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00					
Domestic	0.02	-0.01	-0.02	0.00	0.00	0.02	0.01	0.09	-0.02	0.04					
Debt (stock)															
External	69,409.00	76,595.68	118,727.96	146,144.19	82,154.26	110,158.25	111,087.70	108,908.67	106,114.45	111,376.79	166,798.21	186,056.64	220,139.30	232,040.20	232,269.13
Domestic	5,720.71	6,610.56	35,341.77	40,521.80	7,521.26	8,022.06	9,793.03	11,515.63	11,317.98	10,923.42	10,733.85	10,528.89	10,308.52	10,211.15	10,113.78
Gross borrowing (flow)	63,688.29	69,985.12	83,386.19	105,622.39	74,693.00	102,136.19	101,294.67	97,393.03	94,796.46	100,453.38	136,064.36	175,527.76	209,830.78	221,155.35	222,155.35
External															
Domestic															
Amortizations (flow)															
External	3,954.80	12,666.31	8,827.43	23,242.20	13,523.01	32,259.52	4,269.39	7,903.98	7,865.40	17,419.60	68,632.42	30,768.91	58,189.19	40,152.48	38,344.74
Domestic	76.66	102.31	51.91	100.05	95.41	4,870.72	5,389.94	12,133.01	10,864.63	12,157.25	13,416.01	11,715.48	24,311.53	28,579.58	38,443.81
Interests (flow)	3,878.14	12,564.00	8,775.52	23,142.15	13,427.60	4,756.33	5,110.92	11,805.61	10,461.98	11,762.69	13,021.44	11,305.51	23,886.16	28,154.21	38,018.44
External	3,087.76	2,648.66	3,087.50	2,124.43	3,765.90	2,766.01	7,757.02	8,380.42	7,959.39	7,962.24	9,152.96	17,808.26	21,040.99	26,483.21	28,589.57
Domestic	22.64	28.43	13.63	26.40	25.27	30.21	60.30	226.19	388.55	399.19	397.25	411.78	425.87	442.27	468.51
Net borrowing (gross borrowing minus amortizations)	3,065.12	2,620.23	3,073.87	2,098.03	3,740.63	2,735.80	7,696.73	8,154.23	7,570.84	7,563.05	8,755.71	17,396.48	20,615.12	26,040.94	28,121.05
External															
Domestic															
Debt and Debt-Service Indicators															
Debt Stock as % of GDP	6.18	5.60	7.75	8.80	4.38	5.10	4.54	3.84	3.30	3.06	4.04	3.97	4.15	3.86	3.41
Debt Stock as % of Revenue (including grants and excluding other capital receipts)	89.45	85.11	144.37	187.55	64.45	111.82	68.99	73.62	64.79	60.27	121.02	120.31	115.16	108.28	96.23
Debt Service as % of GDP															
Debt Service as % of Revenue (including grants and excluding other capital receipts)															
Interest as % of GDP															
Interest as % of Revenue (including grants and excluding other capital receipts)															
Personnel Cost as % of Revenue (including grants and excluding other capital receipts)															

BORNO STATE TECHNICAL TEAM

1. ABBA LIMAN MUSTAPHA
2. ABUBAKAR KACHALLAH
3. TITUS JOHN
4. MOHAMMED ABUBAKAR MUSTAPHA



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HONOURABLE COMMISSIONER
MINISTRY OF FINANCE, BUDGET AND ECONOMIC PLANNING
BORNO STATE