

2023

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

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CHAPTER 1INTRODUCTION

Katsina State Debt Sustainability Analysis – Debt Management Strategy (DSA-DMS) analyzes trends and patterns in the State public finances during the period of 5-years from 2018-2022, and evaluates the debt sustainability in 10-years 2022-2031 (the long-term). The analysis highlights recent trends in revenue, expenditure, and public debt, and the related policies adopted by the Katsina State. A debt sustainability assessment is conducted using scenario and sensitivity analysis in order to evaluate the prospective performance of the State's public finances. The main objective of the debt strategy is to ensure State debt stock remains sustainable in the medium to long-term, by using the State's macroeconomic framework, to assess the current and future debt levels, as well as its ability to meet debt service obligations as and when due, and without compromising growth and development.

The Katsina State DSA-DMS forecast comprises the difference between revenue and expenditure, plus the existing debt service (interest payment and principal repayments). The revenue was based on the harmonized revenue administration law 2021 of the state government, which provided for capital gains tax, and other property tax to expand the tax base to maximally increase the state internally generated revenue that are considered achievable. Also, the state forecasts increased recurrent and capital expenditures with expected growth in the National economy with cascading effects in the State's economy leading to increase in overall economic activities in the private sector, as well as job creation in the public sector.

The economy of the State is basically agrarian with a cultivable 2.4 million hectares of land out of which 1.6 million is under cultivation, leaving land area of 800,000 hectares, equivalent to one third of the total cultivable land available for investment. Agriculture is the backbone of Katsina State's economy and 75 percent of the population is involved in subsistent farming and livestock rearing A vast proportion of the land is suitable for cultivation and a variety of crops can be grown Current agricultural products include guinea corn, millets, maize, cowpeas, cotton, and groundnut. The State government is currently making effort to promote livestock production by providing variety of services such as pesticide sprays, subsidized chemical fertilizers and veterinary services to counter plant and animal diseases. Large deposits of metallic and iron-metallic minerals are found in the region. These include: Kaolin, asbestos, gold, uranium, nickel, chromites and silica sand.

The marketing channel for these crops consists mainly of three alternative channels. First is the movement from the producer through the rural wholesaler/assemblers and rural retailers to consumers. The second channel is the movement from the producers through the processors to either the rural assembler/retailers or to the urban market wholesalers, retailers and even consumers. The third is that arising directly from the producers to the rural or urban consumers/retailers. A substantial cross-border trade exists in grain between the international marketers and Niger Republic.

Usually, these crops are sold as grains at farm gates, local markets or exported to other states in the country. Intermediate processed products such as Flour, cooking oils, tuwo pap/ snack and mills are some of the pathways in the marketing of these crops. Maize and sorghum are used increasingly as partial substitute for wheat in bakery, biscuits and pastry industries as well as raw materials in the beverage and brewing industries. Household consumption of these crops has resulted in their limited availability for industrial use. Katsina State is major source for grains to industries located in other parts of the country. The markets where these products are sold in Katsina State are categorized into: international, large, medium and small markets depending on the size, the demographics of attendees and location. The international markets such as Jibia and Mai'adua cater for traders within the state and cross-border trading activities between the State and Niger Republic.

CHAPTER 2 KATSINA STATE FISCAL AND DEBT FRAMEWORK

Katsina state is in the process of preparing a comprehensive development plan by 2024 which will be used to produce Medium-Term Expenditure Framework (MTEF) therefore this report is based on projections made using State's budget, Accountant General reports and Debt Management Office (DMO) reports. The 2023 Budget is government premeditated to lay emphasis on legacy projects, dry season farming, irrigation, and reconstruction of flood-ravaged infrastructure, in order to safeguard and solidify our achievements. Provision of welfare packages to our people especially is this difficult period will remain our major concern, while effective healthcare services and quality education creation of employment opportunities and improved infrastructure will continue to be accorded high premium. Some of the fiscal reforms that the Katsina State has implemented within the last 3 to 5 years include some of the following: The Introduction of the IPPIS (Integrated Payroll and Personnel information system), Treasury single account, the implementation of IPSAS (International Public Sector Accounting Standard).

Other state developments such as the Introduction of new revenue streams and expansion of existing one, the creation of the Community Watch Corps has tamed the growing insecurity; the massive employment in the education sector has reduced the unemployment rate and improved the quality of education; the quality of public service has also significantly improved by recognizing and instilling merit as a key determinant for occupying public office; the investment in human capital in the form of financing local and foreign scholarships, which will have long-run positive effects on the state, the creation of new MDAs have also improved the access, quality, and delivery of public service, reviewing pension schemes to ensure long-term financial viability, has also influenced the fiscal variables for both expenditure and revenues for the Katsina State.

These reforms have yielded some positive results: Katsina State has seen a steady rise in IGR, reducing dependence on federal allocations and grants, reduced recurrent expenditure has led to fiscal consolidation and better budget management, proactive debt management policies have ensured debt levels remain within sustainable limits. Katsina State intends to significantly increase debt service for its domestic debts, starting from the 2023 fiscal year. This will ensure continuous and uninterrupted service on the existing domestic debts.

2.1 Katsina State's Budget Policy Thrust

The 2024 budget estimate of Katsina State is a progressive and ambitious fiscal plan that aims to build the future of the State and its people. The budget is based on the "Building Your Future policy" manuscript, which outlines the strategic objectives and priorities of the state. The budget is also aligned with the national, continental and global development agendas such as the Sustainable Development Goals (SDGs) and the African Union Agenda 2063. The 2024 budget estimates worth N454.3 billion to the State's House of Assembly for consideration and approval, which are the biggest capital spending and the highest capital allocation in the political history of Katsina and even among the northwestern states.

The budget is expected to boost the economy and improve the welfare of the people by hugely investing in infrastructure, social services, and human capital development. The budget is also expected to enhance the quality of life and the productivity of the people, by providing a safe and adequate water supply; improving access, quality, and equity of education; providing primary, secondary, and tertiary health care services; protecting and restoring the natural resources and ecosystems; promoting food security, diversifying the economy, and creating employment opportunities. The high capital expenditure ratio of 72.63%, which represents N329.9 billion attaches maximum emphasis to investment in infrastructure, which aims to transform Katsina State into a prosperous state. The budget allocates the largest share of N67.1 billion (20.35% of the total budget) to the water sector, followed by education with N66.4 billion (20.13%) and works with N53.5 billion (16%).

These are critical sectors that can enhance the quality of life and the productivity of the people of the State. By signification, the water sector is expected to provide a safe and adequate water supply to the urban and rural areas, while the education sector is expected to improve access, quality, and equity of education at all levels. The works sector is expected to construct and maintain roads, bridges, and public buildings. The budget also allocates substantial amounts to the health, environment, and agriculture sectors, which have N38.3 billion (11.62%), N37.7 billion (11.43%) and N20.5 billion (6.21%) respectively. These are also important sectors that can contribute to the well-being and resilience of the people of the State. That means the health sector is expected to provide primary, secondary, and tertiary health care services as well as prevent and control diseases. The environment sector is expected to protect and restore natural resources and ecosystems as well as mitigate and adapt to the effects of climate change.

The agriculture sector is expected to promote food security, diversify the economy and create employment opportunities. The 2024 Budget Policy thrust is as follows:

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

2.2 Katsina State Budget Blueprint

Katsina State Budget Blueprint constitutes the major components of the Annual Budget Process. These set of principles provides logical starting point for the development of Katsina State Budget Blueprint, which highlight the context of the annual budget. The key objective and targets for the State Government from a fiscal perspective are to:

- Effectively manage personnel and overhead expenditure to allow greater resource for capital development;
- Grow IGR by a minimum of 5% every year from 2024 to 2025;
- Ensure loans will only be used for implementation of capital projects;
- Achieve long term target of funding all recurrent expenditure with revenue of a recurrent nature (IGR, VAT and Non-mineral component of Statutory Allocation);
- Target sources of capital receipts and financing outside of loans (e.g. Grants, PPP, etc.);
- Ensure projected Capital receipts are based on Memoranda of Understanding (MoUs) and other agreements signed with Development partners;
- Ensure that the State's Debt position is within the ratio set by the Federal Debt Management Office, Abuja;
- Give priority to the completion of ongoing capital projects before new projects are commenced; and,
- Grow the economy through targeted spending in areas of comparative advantage such as agriculture, trade, and tourism.

Katsina State Government 2023 Approved Budget Summary			
Item	2022 Revised Budget	2022 Performance January to August	2023 Approved Budget
Opening Balance	12,500,000,000.00	20,876,790,434.90	12,062,370,089.11
Recurrent Revenue	145,767,033,740.00	68,057,265,617.71	152,122,912,451.89
11 - GOVERNMENT SHARE OF FAAC	114,955,748,318.00	55,788,370,713.34	119,021,024,430.89
12 - INDEPENDENT REVENUE	30,811,285,422.00	12,268,894,904.37	33,101,888,021.00
Recurrent Expenditure	100,731,793,079.00	54,223,379,451.91	105,708,412,562.88
21 - PERSONNEL COST	48,145,986,669.00	26,206,030,762.60	48,419,148,318.88
22 - OTHER RECURRENT COSTS	\$2,585,806,410.00	28,017,348,689.31	57,289,264,244.00
	-0-		
Transfer to Capital Account	57,535,240,661.00	34,710,676,600.70	58,476,869,978.12
Capital Receipts	165,029,187,221.00	46,481,669,154.70	125,447,975,422.00
13 - AID AND GRANTS	85,774,697,203.00	16,465,127,259.10	53,757,812,112.00
14 - CAPITAL DEVELOPMENT FUND (CDF) RECEIPTS	79,254,490,018.00	30,016,541,895.60	71,690,163,310.00
3 - ASSETS (CAPITAL EXPENDITURE) (Capital Expenditure)	222,564,427,882.00	51,241,026,678.06	183,924,845,400.12
C. V			
Total Revenue (including OB)	323,296,220,961.00	135,415,725,207.31	289,633,257,963.00
Total Expenditure	323,296,220,961.00	105,464,406,129.98	289,633,257,963.00
. ()			
Closing Balance		29,951,319,077.34	0

CHAPTER 3

THE STATE REVENUE, EXPENDITURE, AND PUBLIC DEBT TRENDS (2018-2022)

The Katsina State economy experienced a growth under Internally Generate Revenue (IGR) from N5,931 million in 2018, N7,956 million in 2019, N10,822 million in 2020, N19,179 million in 2021 and 18,473 million in 2022, respectively, which represent a grow by N12,542 million or 211.47 percent from 2018 to 2022. The growth in IGR was due to economic reforms to improve tax and other service sectors, as well as other initiatives by the Government.

3.1 Revenue and Expenditure

3.1.1 Revenue:

The State's economy comprises Statutory Allocation, VAT Allocation, IGR, and Capital Receipt. the State's Revenue amounted at N96,372 million in 2018, N88,983 million in 2019, N94,449 million in 2020, N116,963 million in 2021 and N120,505 million in 2022, respectively.

3.1.1.1 Gross FAAC Allocation:

Katsina State recorded a declined in the review period relative to the preceding year, as the FAAC Allocations recorded at N86,958 million in 2018, N77,096 million in 2019, N73,419 million in 2020, N79,729 million in 2021 and N83,877 million in 2022, respectively.

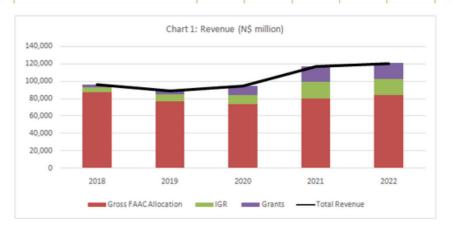
3.1.1.2 Internally Generated Revenue:

Katsina State witnessed modest growth and significant improvement in the State IGR, where the IGR grew from N5,931 million in 2018, N7,956 million in 2019, N10,822 million in 2020, N19,179 million in 2021 and 18,473 million in 2022, respectively. The improvement in IGR mainly due to the tax reforms aimed at improving collection efficiency and broadening the tax revenue base in the State.

3.1.1.3 Grants:

The actual grant received by Katsina State Government comprises internal grants and external grants. Katsina State Grants received in five years was N3,483 million in 2018, N3,930 million in 2019, N10,208 million in 2020, N18,055 million in 2021 and N18,155 million in 2022, respectively.

Revenue	2018	2019	2020	2021	2022
Total Revenue	96,372	88,983	94,449	116,963	120,505
Gross FAAC Allocation	86,958	77,096	73,419	79,729	83,877
IGR	5,931	7,956	10,822	19,179	18,473
Grants	3,483	3,930	10,208	18,055	18,155



3.1.2 Expenditure

The State's Total expenditure covers Capital expenditure, Personnel costs, Overhead costs, other recurrent expenditure, and Debt service (interest payment and principal repayment) recorded at N96,730 million in 2018, N104,616 million in 2019, N111,939 million in 2020, N129,276 million in 2021 and N166,681 million in 2022, represent an increase by N69,951 million or 72.32 percent over the historical (actual) year from 2018 to 2022.

3.1.2.1 Personnel:

Katsina State Personnel costs stood at N25,728 million in 2018, N29,185 million in 2019, N31,627 million in 2020, N31,722 million in 2021 and N40,532 million in 2022, respectively. The actual figure for personnel cost represents an increase with the period from 2018 to 2022 by N14,804 million or 57.54 percent.

3.1.2.2 Overhead Cost:

The actual Overhead costs amounted at N17,928 million in 2018, N17,355 million in 2019, N16,295 million in 2020, N16,174 million in 2021 and N25,904 million in 2022, respectively.

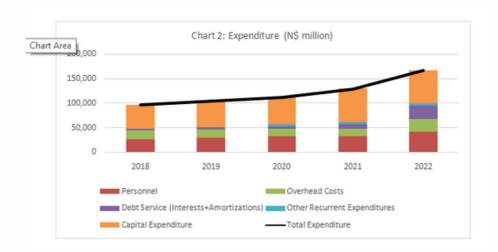
3.1.2.3 Other Recurrent Expenditure:

Other Recurrent Expenditure stood at N4,073 million in 2022 compared with N4,437 million in 2021, representing a declined of N364 million or 8.20 percent.

3.1.2.4 Capital Expenditure:

The actual Capital Expenditure stood at N67,971 million in 2022 compared with N68,498 million in 2021, N55,425 million in 2020, N54,379 million in 2019 and N49,011 million in 2018, represent an actual growth of N18,960 million or 38.69 percent within the historical period.

Expenditure Performance	2018	2019	2020	2021	2022
Total Expenditure	96,730	104,616	111,939	129,276	166,681
Personnel	25,728	29,185	31,627	31,722	40,532
Overhead Costs	17,928	17,355	16,295	16,194	25,904
Debt Service (Interests + Amortizations)	4,063	3,697	3,592	8,425	28,201
Other Recurrent Expenditures	0	0	5,000	4,437	4,073
Capital Expenditure	49,012	54,379	55,425	68,498	67,971

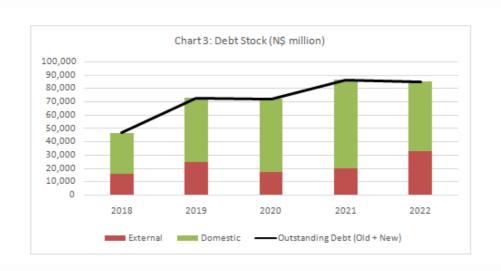


3.2 Existing Public Debt Portfolio

3.2.1 Debt Stock:

The Katsina State's Debt Stock comprised External and Domestic Debts which was stood at N46,576 million in 2018, N72,748 in 2019, reduced to N71,790 million in 2020, the actual declined in stock was largely due the repayment from Contractors Arrears amounted to N7,772 million with the period. Katsina State's Debt stock amounted to N84,717 million in 2022 compared to N86,236 million in 2021, representing a decrease of N1,519 million. The decrease in the Total Debt stock was reflected in only the Domestic Debt components. The external debt stock increased from N19,560 million in 2021 to N32,594 million in 2022 due to exchange rate disparity, while the domestic debt stock significantly decreased from N66,676 million in 2021 to N52,123 million in 2022.

	2018	2019	2020	2021	2022
Outstanding Debt (Old + New)	46,576	72,748	71,790	86,236	84,717
External	15,723	24,188	17,225	19,560	32,594
Domestic	30,853	48,560	54,565	66,676	52,123



3..2.2 Debt composition

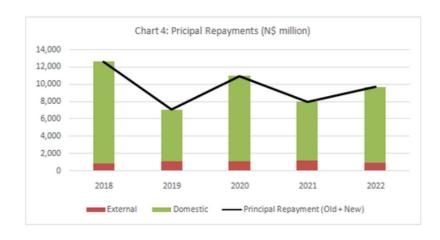
The main domestic debt portfolio consists of Budget Support Facility, Salary Bail out loans, Excess Crude Account Backed Loan, Micro Small & Medium Enterprise Development Fund, Commercial Banks, Bond, Contractor's Arrears and Pensions & Gratuity arrears. While the External Debt from World Bank. In 2021 the composition of external debt (22.68 percent) and domestic debt (77.32 percent), compared to the debt composition of the external debt (38.47 percent) and domestic debt (61.53 percent) in 2022.

3.2.3 Debt Service:

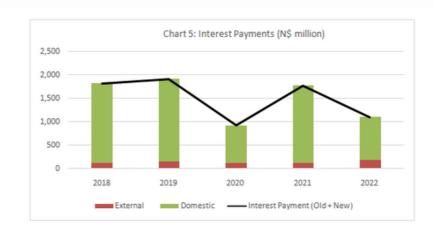
Katsina State total debt service that comprises the interest payment and principal repayment stood at N10,122 million in 2023, N24,416 million in 2025, N58,317 million in 2028 and N60,400 million in 2032 respectively.

The actual Principal Repayment stood at N9,671 million in 2022 compared to N12,569 million in 2018. Interest Payment amounted to N1,099 million in 2022, N1,767 million in 2021, N923 million 2020, N1,908 million in 2019 and N1,810 million in 2018, respectively.

Principal Repayment	2018	2019	2020	2021	2022
Principal Repayment (Old + New)	12,569	7,076	10,915	7,979	9,671
External	886	1,131	1,165	1,239	948
Domestic	11,683	5,945	9,751	6,740	8,723



Interest Payment	2018	2019	2020	2021	2022
Interest Payment (Old + New)	1,810	1,908	923	1,767	1,099
External	127	153	123	130	190
Domestic	1,683	1,756	800	1,637	910



CHAPTER 4

DEBT SUSTAINABILITY ANALYSIS

"The concept of debt sustainability refers to the ability of the government to honor its future financial obligations. Since policies and institutions governing spending and taxation largely determine such obligations, debt sustainability ultimately refers to the ability of the government to maintain sound fiscal policies over time without having to introduce major budgetary or debt adjustments in the future. Conversely, fiscal policies are deemed unsustainable when they lead to excessive accumulation of public debt, which could eventually cause the government to take action to address the unwanted consequences of a heavy debt burden."

Katsina State Debt burden indicators as at end-2023

Indicators	Thresholds	Ratio
Debt as % of GDP	25%	4.97
Debt as % of Revenue	200%	78.25
Debt Service as % of Revenue	40%	5.40
Personnel Cost as % of Revenue	60%	25.67
Debt Service as % of FAAC Allocation	Nil	8.80
Interest Payment as % of Revenue	Nil	0.57
External Debt Service as % of Revenue	Nil	0.74

Note: Nil means not available

Source: Katsina State DMD/Accountant General Report

4.1 Borrowing Options

The borrowing options are considered due to the timing of government's cash flows throughout the fiscal year. Domestic borrowing serves as one of the main sources of borrowing with average ratio of 86.68 percent compared with 83.93 percent over the projection period from 2022 to 2031 and given the limited funding envelopes from the external borrowing with long processing time required, domestic borrowing are mainly through: the commercial banks, Bond, Federal Government and other Central Bank of Nigeria (Interventions) loans are main source of financing.

Borrowing options

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Domestic Fin	ancing in	NGN' Mil	lion							
Commercial	8,6 18.3	11,184.2	12,844.0	13,782.4	0.0	14,807.9	7,251.6	10,175.3	11,430.0	8,685.7
Bank Loans										
1 ⇔ 5 years										
Commercial	5,436.5	0.0	8,028.9	6,410.7	13,254.3	0.0	18,462.2	0.0	0.0	0.0
Bank Loans -										
6 years >										
State Bonds -	0.0	5612.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
l ⇔5 years)										
State Bonds -	34,740.7	0.0	10,217.8	0.0	0.0	10,318.5	0.0	0.0	0.0	0.0
6 years >										
Other	17,370.3	0.0	24,517.37	0.0	24,934.4	0.0	0.0	0.0	0.0	0.0
Domestic										
Financing										
External Fina	ncing in U	JS\$' Milli	0 <u>11</u>							
External	0.0	32.4	15.0	113.6	0.0	41.9	0.0	0.0	0.0	0.0
Financing -										
Concessional										
Loans (e.g.,										
WB, AFDB)										
External	0.0	7.3	24.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing -										
Bilateral										
Loans										
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External										
Financing										
Total Gross I	Borrowing	Requirem	ents in NG	N' Million						
Total Gross	66,156.8	34,089.3	72,987.3	69,693.4	38,188.7	43,379.2	25,713.9	10,175.3	11,430.00	8,685.7
Borrowing										

4.2.2 Expenditure:

The Katsina State's Total expenditure projected increase from N313,164 million in 2023 to N402,168 million in 2032, the Capital expenditure has the largest share over the estimated period indicating stability in the state growth recovery. The growth in the period is predicated on sustaining effective implementation of the new laws. Government is expected to continue its fiscal strategy of directing resources to the most productive and growth-enhancing sectors, including Agriculture, Infrastructure, Manufacturing, Housing and Construction, Education, Health and Water Resources within the period.

Estimated on Expenditure were sources from the Approved 2021 Budget; Medium 2024 Budget Blueprint; the projections period from 2023-2032 projections as estimated by the Katsina State Technical Team using Katsina State Accountant General and Debt Management Office reports.

4.2.2.1 Personnel:

The on-going staff verification is to check abnormalities in the pay roll and expected retirements between 2023 and 2024. The State is determined to sustain the trend to reduce personnel cost. It is anticipated that the number of political office holders will also be reduced, and the personnel cost is projected at N48,123 million in 2023 to N52,298 million in 2032.

4.2.2.2 Overheads:

Estimated at N14,216 million in 2023, N15,317 million in 2025, N16,017 million in 2028 and N17,238 million in 2032, respectively.

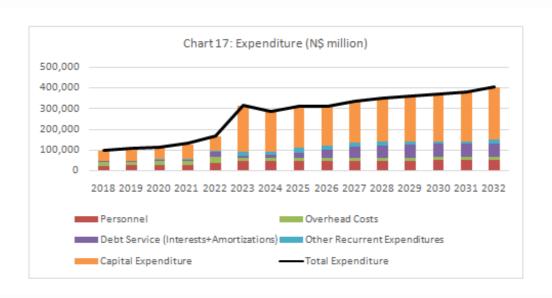
4.2.2.3 Total Debt Service:

The Debt Stock chart shows a steady rise in Debt Stock for the period 2023 to 2032 with the initial value of N10,121 million in 2023 to a projected value of N60,400 million in 2032. Hence, an own value has been used anticipating that public debt charge will remain largely stable with minimal growth over the projection period.

4.2.2.4 Other Recurrent Expenditures:

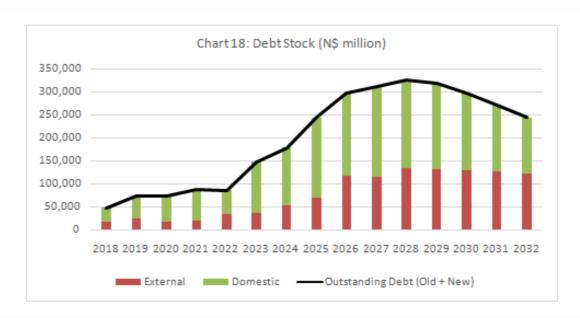
other recurrent expenditure comprises Social Contribution and Social Benefits estimated to increase by N22,993 million in 2021, N18,690 million in 2025, N14,833 million in 2028 and N23,225 million in 2032 respectively.

4.2.2.5 Capital Expenditure: is based on the balance from the recurrent account plus capital receipts, less contingency reserve as outlined above. The projection of capital expenditure as at 2023 to 2032 is projected as N217,709 million in 2023 to N249,007 million in 2032.

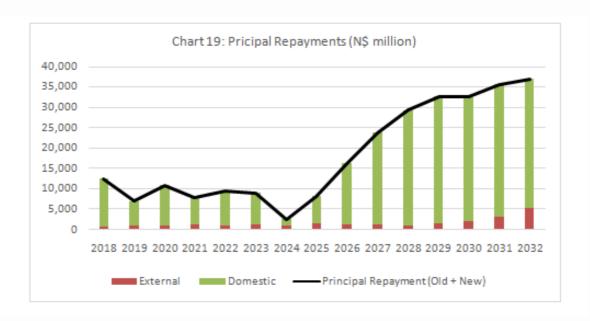


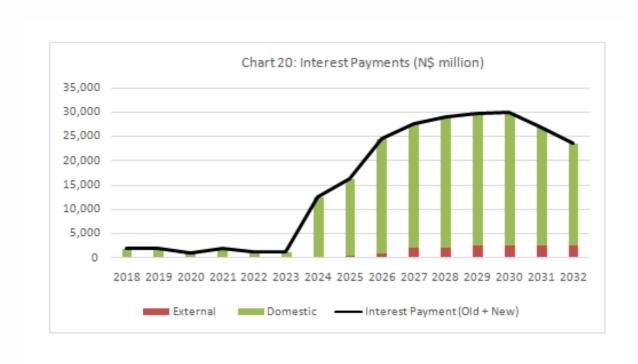
4.3 Debt Stock

Katsina State's Debt Stock estimated to increase from N146,689 million in 2023, N178,169 million in 2024, N242,891 million in 2025, N296,215 million in 2026, N310,640 million in 2027, N324,743 million in 2028, N317,834 million in 2029, N395,401 million in 2030 N271,171 million in 2031, and N242,944 million in 2032, respectively.



Debt Service projected at N10,122 million in 2023, N24,416 million in 2025, N58,317 million in 2028 and N60,400 million in 2032 respectively. Principal Repayment estimated at N9,059 million in 2023, N8,265 million in 2025, N29,276 million 2028 and N36,913million in 2032 respectively, compared with the Interest Payment of N1,063 million in 2023, N16,151 million in 2025, N29,041 million in 2028 and N23,487 million in 2032.





4.4 Main Key Findings

Under Baseline Scenario, the Debt Sustainability Analysis results shows that the ratio of Debt as % of GDP is projected at 5 percent in 2023, 4 percent in 2024, 5 percent in 2025, 5 percent in 2026, 5 percent in 2027, 4 percent in 2028, 4 percent in 2029, 3 percent in 2030, 3 percent in 2031, and 2 percent in 2032 respectively, as against the indicative threshold of 25 percent.

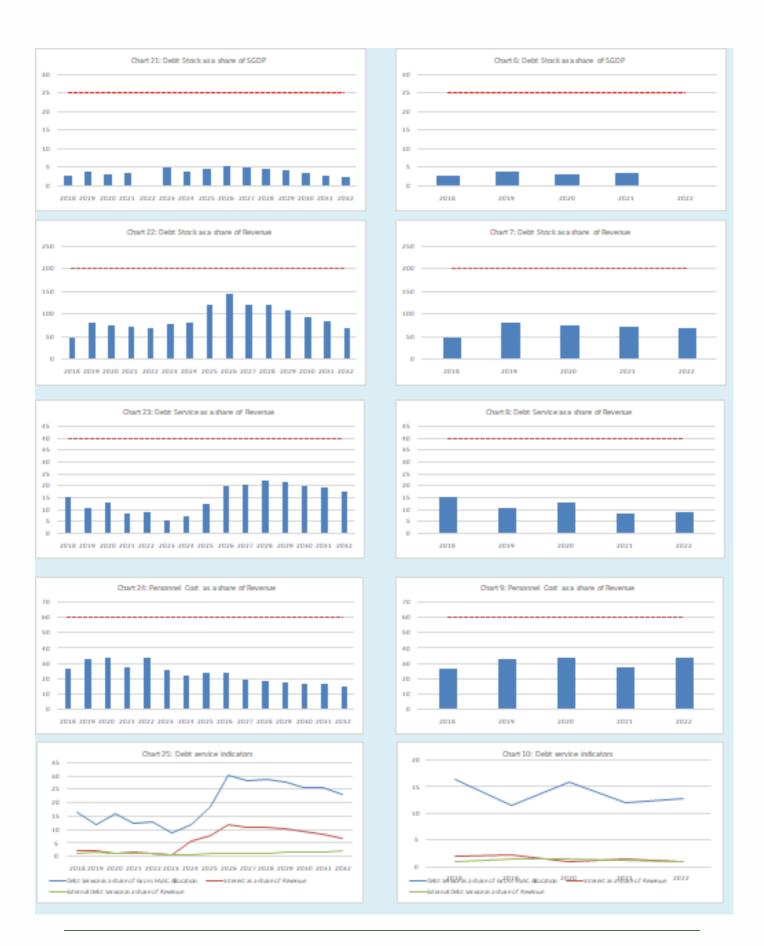
DSA 2023 exercise shows that there is substantial Space to Borrow based on the state's current revenue profile. Meanwhile, the ratios of Debt Service to Revenue and Personnel Cost to Revenue trends remains under the threshold over the projection period from 2023 to 2032, with the strong minded efforts by the State Government through its various initiatives and reforms in the key sectors of the economy.

The revenue-based indicators show that the Debt to Revenue projected at 78 percent in 2023, 81 percent in 2024, 119 percent in 2025, 114 percent in 2026, 121 percent in 2027, 121 percent in 2028, 108 percent in 2029, 93 percent in 2030, 84 percent in 2031 and 70 percent in 2032, respectively and were still below the threshold of 200 percent. Katsina State would remain under the threshold for Debt to SGDP ratio for 25 percent over the projection period.

For the Debt Service to Revenue, the outcome estimates the ratios at 5 percent in 2023, 7 percent 2024, 12 percent in 2025, 20 percent in 2026, 20 percent in 2027, 22 percent in 2028, 21 percent in 2029, 19 percent in 2030, 19 percent in 2031, and 17 percent in 2032 respectively, as against the threshold of 40 percent to the end of the projection period in the medium to long term.

The Personnel Cost to Revenue remained under state threshold of 60 percent from 26 percent in 2023, 24 percent in 2025, 19 percent in 2028 and 15 percent in 2032, respectively. Thus, Katsina State Debt remained sustainable on the revenue and debt indicators.

Debt Service to Gross FAAC Allocation estimated at 9 percent in 2023, 28 percent in 2026, 28 percent in 2030 and 23 percent in 2032, respectively. The projections of Interest to Revenue estimated at 1 percent in 2023, 12 percent in 2026, 9 percent in 2030 and 7 percent in 2032 respectively and External Debt Service to Revenue estimated to increase from 1 percent in 2023, 1 percent in 2026, 1 percent in 2030 and 2 percent in 2032 respectively. Thus, Katsina State Debt remained sustainable on the revenue and debt indicators.



4.6 CONCLUSION

Katsina State DSA result revealed that 2023 DSA revealed that Katsina State's Total Debt remains sustainable at a Moderate Risk of Debt distress with substantial space to accommodate shocks. Katsina State Risk Rating remains at a Moderate Risk of debt distress with capacity to accommodate shocks in Revenue, Expenditure, Exchange rate and Interest Rate. The ongoing efforts by the government towards improving revenue generation and diversifying the economy, through various initiatives and reforms in Tax Administration and Collections, as well as the Strategic Revenue Law, would improve the outlook for Total Debt with enhanced revenue performance. Thus, the Revenue indicators and Borrowing Space are expected to improve in the medium to long-term.

4.7 DSA Sensitivity Analysis

Katsina State, 2022 DSA analysis 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 as percent of Revenue from 2024 to 2032 under revenue and expenditure shocks. The debt service as percent of Revenue breached the benchmarks from 2024 to 2032 through expenditure 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 farreaching policies that will bolster IGR into the state. This has become critical, given the continued volatility in the FAAC allocation.

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. .

In line with the projections, the Katsina State 2023 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. Fiscal policies guiding Cash Management and IGR is expected to consolidate on the gains of the State achievements.



CHAPTER 5 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 Katsina 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. Following four strategies are assessed by the government. The Katsina 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.

5.1 Alternative Borrowing Options

For the Katsina State's administration, S1 and the three alternative DMS (S2, S3 and S4) have the following proposed instruments and policy Objectives that motivate them. The proposed instruments for borrowing include State bonds (Government to Government borrowings, Sukuk loans) and Other Domestic Financing (CBN Loans). While the Katsina State external borrowings include the World Bank N-Cares Loan and the China EXIM Bank Loan. Other reasons for adopting these borrowing instruments include, mitigation of risks (currency, interest rate and rollover), to develop domestic debt markets, to fund specific expenses (such as capital investments), to secure liquid assets for cash management.

The Gross Financing needs between 2023 and 2032 will be covered using the following borrowing options:

Strategy 1 (S1): adopts State Bonds (maturity 6 years or longer) and Other Domestic Financing (CBN): External gross borrowing under Concessional loans account on average 19.68 percent over the strategic period (2023-2027). The Domestic gross financing comprises commercial bank loans, State bonds and other domestic financing. The Commercial Bank loans with the maturity of 1-5 years is projected to account on average of 21.00 percent over the strategic period. The Commercial Bank loans (maturing 6 years above), State Bonds (maturing 1-5 years) and State Bonds (maturing 6 years above) estimated with an average of 22.00 percent, 18.75 percent and 19 percent over the DMS period of 2023-2027.

Strategy 2 (S2): focus more financing through commercial bank loans: In this strategy it has been assumed the distribution between external and domestic borrowing remains the same in 2022 as its in strategy 1. The remaining of borrowing distributions from 2023 to 2027, the state government will focus its financing through commercial bank loans with average 14.54percent under 1–5 years and 14.30 percent under above 6 years tenure, other gross financing needs through the State bond (maturing 1–5 years), State bonds (maturing 6 years above) and External borrowing through concessional loan which was estimated to account on average of 18.75 percent, 19.00 percent and 2.47 percent by the end of strategic period.

Strategy (S3): focus its financing through domestic debt market: In strategy 3, the government decided to focus its financing from 2023 to 2027, through State Bonds (1-5 years), State Bonds (above 6 years), Commercial Bank loans (1-5 years), Commercial Bank loans with the maturity of above 6 years, and Concessional Loans with an average of 18.75 percent, 19.00 percent, 14.54 percent, 14.30 percent and 2.47 percent, respectively. This strategy considers the scenario where proportions of external and domestic debt instruments in 2023 remains the same with strategy 2.

Strategy (S4): increases the share of external borrowing: In this strategy, External Financing represent an average of 14.06 percent from 2023 to 2027, which comprises Concessional Loans of 2.47 percent and Bilateral loans 1.15 percent. Other gross financing comprises other Domestic financing, through Commercial bank loans (1-5 years), Commercial bank loans (above 6 years), State bond (1-5 years) and State bond of above 6 years with average period of 21.00 percent, 22.00 percent, 18.75 percent, and 19.00 percent, respectively.

5.2 DMS Simulation Results

Analysis of strategies & outcomes of the analysis. The cost risk trade off charts illustrates the performance of the alternative strategies with respect to four debt burden indicators.

a.Debt as a share Revenue:

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.

a.Debt as a share Revenue:

Strategy 1 shows the Cost ratio of Debt to Revenue estimated at 121.4 percent in 2027, as against Strategy 2 (123.4 percent), Strategy 3 (128.3 percent) and Strategy 4 (127.0 percent), over the DMS period of 2027, compared with the Risks measured of Strategy 1 (56.6 percent), Strategy 2 (56.8 percent), Strategy 3 (57.3 percent) and Strategy 4 (57.2 percent), respectively. Analysis using this debt indicator of debt to revenue shows that S1 is the least costly and riskiest at 121.4 percent and 56.6 compared to S4 (127.0 percent and 57.2 percent), S2 (123.4 percent and 56.8 percent) and S3 (128.3 percent and 57.3 percent), respectively. On the other hand, S3 is the most costly and risky strategy as this concentrated on more State bonds borrowings with little proportion of external financing over the DMS period of 2023–2027.

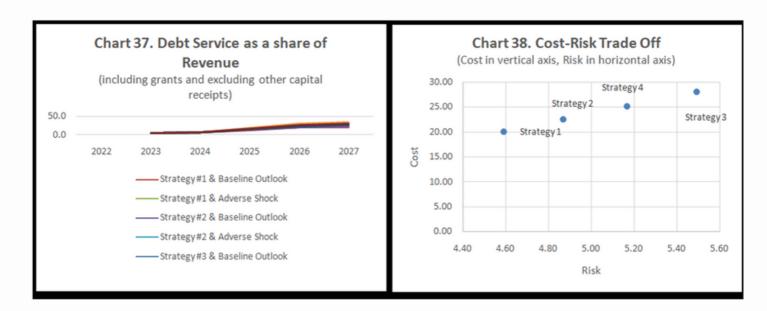




b. Debt Service as a share of Revenue:

In terms of Debt Service to Revenue, Strategy 1 has the lowest costs of 20.00 percent and lowest risks of 4.6 percent compared to Strategy 4 (costs at 25.2 percent and risks at 5.2 percent), Strategy 2 (costs at 22.5 percent and risks at 4.9 percent) and Strategy 3 (costs at 28.1 percent and risks at 5.5 percent), respectively, as at end of the strategic period of 2027.

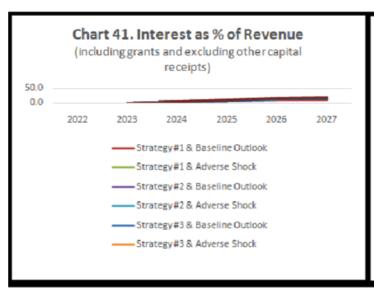
Strategy 1 has the lowest costs and risks at 20.00 percent and 4.6 percent under the Debt Service to Revenue. Strategy 3 is the most costly and riskiest as the domestic debt financing assumed are on more commercial bank and state bonds interest rates, compared with the Strategy 3 and Strategy 4.



c. Interest as a share of Revenue

Strategy 1 is the least costly and riskiest with regards Interest to revenues, which projected at 10.7 percent and 3.6 percent, whilst Strategy 3 is the most costly and risky strategy (15.3 percent and 4.1 percent), compared to Strategy 4(14.5 percent and 4.0 percent) and Strategy 2 (12.7 percent and 3.8 percent) with moderate costs and risks, as at end of the strategic period of 2027.

The analysis shows that Strategy 1 yield the lowest costs and risks due to high external financing assumed in Strategy, as the external debt service terms requirement has low interest rate, longer maturity, and grace period in concessional external financing. Compared to Strategy 4 and Strategy 2 with the moderate costs and risks. Strategy 3 is the most costly and risky strategy.





5.3 DMS Assessment

An important consideration when comparing alternative debt management strategies is a strategy which would best satisfy government's stated debt management objectives to ensure 4it's financing at minimum cost and risk while developing domestic debt market. Government needs to follow the strategy which results in lengthening of its maturity profile to reduce the refinancing risk along with providing sufficient external inflows in the medium term to reduce the pressure on domestic resources keeping in view cost-risk tradeoffs.

Based on cost and risk analysis of alternative strategies, a strategy, such as Strategy 3 and Strategy 4 are the highest costs and highest risks, under debt as percentage of Revenue, debt service as percentage of revenue as well as interest as percentage of revenue, compared with Strategy 1 and Strategy 2 that has less costs and risks. The implementation of Strategy 1 seems feasible than others considering the ability to implement the chosen strategy successfully in the medium-term. Therefore, although the Analytical Tool's results of cost and risk would suggest that the recommended strategy be S1 these results were just marginally better when compared with Strategy S3.

In comparison to the current debt position, Katsina State debt portfolio stood at N84,717.10 million in 2022, which expected an increase to 310,639.88 million under S1 during the strategic period, compared to S2 (N315,602.02 million), S3 (N328,188.06 million), and S4 (N324,846 million). In addition to this, the cost/risk trade-offs are considered, using the debt to GDP, debt to revenue, debt service to GDP, debt service to revenue, interest to GDP and interest payment to GDP ratios, S1 is selected as the preferred strategy for the 2023-2027.

Annex I: Table Assumptions

		Projection Methodology	Source
reptions:	State GDP (at current prices)	are GDP projected using the actual 5-GDP and projected W-GDP nominal growth rate as provided by Federal DMO.	DWD (in appl) All Display Statistics and NEW Previded By Technic Child
4	in the second		
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	splicable to the State)	second Darbusons — the maintains is based on the current receigt, Furthermore, it is articipated that new FAAC will invasigate the criters	
	3. Other FAMC transfers (exchange rate gain, augmentation, others)	at cased by the atvent of the cond-19 pandemic so that the sharing formula would be investigate carduly. With the wostening of economic crises facing accountry of decined in FAME allocation is anticipated.	Accountant Generals Report 2018 to, 2012
	4. VAT Allocation	of colections due to covid 19 swaters; be revisited if there are any changes to the VAI rates as proposed in the previous forecast. Although there was receipted increase in the year 2022.	Accountain Generals Report 2018 to, 2012
		At the estimation is own value which is calculated based on the current growth rate marked up slightly to factor the current administration's reform idualises to grow the KAR and all payments of any nature must be done through the TSA.	Accountaint Generals Report 2018 no.2012
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	6.b., Sales of Generalises and Privatization Proceeds 6.c., Other Non-Debt Creating Capital Receipts		MADDANESM GENERAL POSS OS 2022 Amortan General Report 2028 to 2022
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Defination (Face) as the States) This of the States are an area and a surrounded from defining	000	000	000	0000	900	000	000	000	0.00	000	000	0.00	000	0.00	000
	14,161.90	15,135.70	18,502.50	76,160,90	10,994.00	24,799.07	76,130,25	27,238.51	78,109.67	17,1721,02	25,101.80	42,104.34 48,104.34	42,131.95	10,185.25	34,238.55
6. Captalinesipts	8,066.80	07,177,51	15,277.40	64,949.10	13,020,20	100,811.39	120,092.88	136,764.00	111,011.04	104,711.65	89,280,69	86,017.66	70,771.65	81,518.45	11,420.94
to ab unitarity G. bb. Sales of Government Assets and Privatioation Proceeds	000	000	000	000	000	000	000	000	000	000	000	000	000	0.00	000
G.c. Other Non-Debt Creating Capital Receipts G.d. Proceedifrom Debt-Creating Bornseling (Bond leasurce, loan disbursements, etc.)	0.00	2,959.10	5,000,70	0.00	15,203,90	15,486,00	34,089,78	72,987.28	02,8981,512 09,000,844	38,188.75	10,254.50	25,494.50	10,175,25	11,429.95	64,181.50 8,525.74
Dprofile	96,730.00	104,616.00	111,939.40	129, 276, 10	100,001.10	313,161,65	283,986.12	306,967.35	309,536.45	331,988,35	340,907.90	358, 240, 34	308,102.56	177,172.99	402, 158, 49
Development contra (Salamber, Permitting, CA/d Servant Social Benefits, other) Development contra	17,928.30	17,855.00	16,295,30	16,193.00	25,904.10	14,215.47	15,638.11	15,090,78	15,117.14	15,546,90	15,780.10	16,016,80	16,417.22	16,827.65	17,238.00
 Interest Payments (Public Debt Changes, Including Interests deducted from FAAC Allocation) a. of which Interest Payments (Debt Changes, accluding Interests deducted from EAAC Allocation) 	1,840.40	1,904.50	01.128	0.00	21,800,50	1,062.83	12,385.46	16,150,72	24,427.73	72,413.87	29,040,98	29,578.41	29,929,75	76,767,87	23,485,63
A. or which interest deducted from FAC Mouston.	157.10	149.10	162.90	000	8	8	8	8	8	8	8	8	8	8	8
i .	48,011.50	54,378.90	2,625,10	GR, 458.20 8.425.10	67,971.21	217,709.64	2,009.17	194,849,72	185,813.04	195,101.09	204,858.88	215,101,82	225,855,91 32,007,74	27,149,76	269,0007.25
											000		000		
operate Lawrence + French man Lawrence Control of Control Con	20,284.90	24,610.20	17,420.70	3,000.00	20,500,50 40,030,00	46,038.60	2,200.00	3,500.00	3,000.00	1,200.00	1,200.00	1,200.00	1,700.00	1,900.00	2,300.00
Financing Needs and Sources (Villion Natra)															
Section Section 2							66 686 38	20 684 38			81 679 60	66 308 36	20 869 76	44 424 46	63 863 34
nominating New tra-					7		50,089.14	-78,765.78			23,256.56	-2,606.88	11,806.76	8,303.53	7,732.65
ii. Debt service Americal automat							14,994.63	8.265.28			58,317.13	62,201.48	82,476,51	85,427.98	60,399.89
Interests							12,385.46	16,150.72			29,040.98	29,578.41	29,868.76	26,767.87	23,486.63
In mentang years dang are entranged by America (kg., veneson in centers of sention). Entering Sources						81,651.79	65,583.78	103,681.78	102,587.94	75,283.25	81,673.69	65,208.36	50,869.75	54,324.45	52,867.24
i. Financing Sources Other than Borrowing ii. Cross Berrowings							34,089,28	30,694.50			43,379,19	25,713.86	10,175,25	42,894.50	44,181.50
Commercial Bank Louns (mahunty 1 to 5 years, including Agric Louns, Infrastructure Louns, and MCANIDS). Commercial Bank Louns (mahuntu Commercial Installation Infrastructure), neuro and MCANIDS.							11,186.25	12,843.95			14,807.94	7,251.55	10,175,25	00'00'11	8,585,70
State Bonds (maturity 1 to 5 years)							5,612.90	0.00			000	0.00	000	000	000
State Bends (maturity Gyeans or longer) Other Domestic Financing							0 0	24,517,80			00.00	8 8	0 0	0 0	8 8
External Prants ing - Consentantal Casmi (e.g., World Bank, African Development Bank). External External on Blakesal Lave							14,112.47	10.845.00			18,252,75	000	000	0000	000
											!!	!!	!!	!!	!!
Debt Stocks and Flow (Million Nahra)															ĺ
Dubt (stock)		72,747.89			14,717.10 1		178,169.42	242,891.42	296,214.60	310,639.92	324,742.96	317,833.74	95,401.25	60.171,173	42,943.56
External	30.852.70		54.565.00	19,560.00	52,123,10 1		52,488.19 25,683.24	68,340.93 174,550.48	79.592.92	95,368,51	92,307,72	187,053.67	66.747.92	45,628.89	20,276.83
Gross bomowing (fillow)							34,089.28	72,987.28	69,693.44	38,188.75	43,379.19	25,713.86	10,175.25	11,429.95	8,685.74
Solumid							17,292.13	17,379.24	49,500.34	0.00	18,252.75	0.00	0.00	0.00	0.00
London: Americations (flow)	12,569.06	7,076.01	05.216,01	00.676,7	06'029'6	9,058.60	2,609.17	8,265.28	16,370.26	23,763.42	29,276.16	32,623.07	32,607.74	35,660.11	36,913.26
External	11.682.90	1,131.41	1,164.70	1,238.80	8.723.40		1,045.37	1,524.50	1,219.60	1,350.27		1,655.17		3,111,13	5,265.37
Interests (Row)	1,809.59	1,908.39	922.70	1,767.00	099.10		12,385.46	16,150.72	24,427.73	27,413.87		29,578.41		26,767.87	23,486.63
External	126.59	152.89	122.60	130.40	189.50		12.211.23	559.37	845.48	25,345,74		27,059.43		24,265,27	2,471.45
Net bomowing (gross bomowing minus amontuations)							31,480.11	64,721.99		14,425.32		6,909.21		24,230.16	28,227.53
External							16,246.76	15,854.75	48,280.75 5.042.44	1,350.27		-1,655.17		-3,111.13	-5,265.37
CONTRACT															
Debte and Debt-Service Indicatom															
Debt Stock an Nord SGDP Debt Stock an Nord Revenue (Including grants and exchaling other capital receipting	2.51	180	76.01	222	20.70	4.82	1.75	4.20	5.00	4.74	4.46	1.92	93.04	2.70	2.18
Debt Service as Not SGDP Debt Service as Not Revenue (Including grants and excluding other capital receipts)						5.40	0.10	0.46	19.80	20.01	21.81	21.20	19.60	19.31	17.28
Interest as Not SADP Interest as Not Become fine to the emerican and and taken control interest admini						0.00	0.26	0.31	0.41	0.40	0.40	0.36	0.33	0.27	0.21
Personnel en la conservation presonnel generalment anna en apparent republication de la conservation de la C	_					20.00	22.08	18.02	73.74	19.77	82	17.07	16.22	16.05	14.96

Katsina State - Technical Team

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 Personal Assistant Director DMO
 Office of the Accountant general

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Bashir Tanimu Gambo

Honorable Commissioner of Finance,

Katsina State Ministry of Finance.