



2020
REPORT OF THE
KANO STATE DEBT SUSTAINABILITY ANALYSIS
(KS - SDSA)



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CHAPTER ONE

INTRODUCTION

1.1 Background

- Policy Objective

This DSA being conducted by the state in order to analyzes trends and patterns in the State's public finances during the period 2015-2019, and evaluates the debt sustainability in 2020-2029 (the long-term). The analysis highlights recent trends in revenue, expenditure, and public debt, and the related policies adopted by the State. A debt sustainability assessment is conducted, including scenario and sensitivity analysis, in order to evaluate the prospective performance of the State's public finances.

More so, it aims at analyzing the patterns of:

- All the State's sources of revenues (Statutory, IGR, Grant, etc.) which indicated slit fall as a result of global pandemic of COVID-19, kidnapping and other social as well as political factors associated with Nigeria's economy. While the expenditures in forms of Personnel Cost, Overheads, Capital and Debt services are at increasing pace due to Inflations, minimum wages, cost of borrowings, etc.
- In the same vein, the is probable increase in the State Public debts that is directly associated with falls in revenues and increase in expenditures going forward.
- The forecast mainly depends on the Nigeria Economic Outlook (2020-2029) of GDP growth, oil production and prices, exchange rate) and its implication on the FAAC Allocations.
- Purpose of this DSA -is assessing the trends and patterns of public finances for the period 2015 to 2019 and evaluating Debt Sustainability of the State in 2020-2029

- Methodology

1.2 The DSA is being conducted for the period 2019 which uses the historical data between 2015-2019 and forecast data of 2020-2029. It is being conducted in December, 2020 with the use of DMO's S-DSA toolkit produced in November, 2020 for the Sub-national Government in the country. The participating MDAs in the production of this document are Office of the Accountant-General, Ministry of Finance and Economic Development, Ministry of Planning and Budget, Kano State Bureau of Statistics and Kano State Internal Revenue Services (KIRS), State Debt Management Department (DMD).

- Summary of Findings

From the overall result, the major findings are:

- i. Revenues (FAAC, IGR, Grant, etc.) are affected by the economic downturns such as the COVID-19 Pandemic, fall in crude oil prices and other associated economic factors
- ii. Generally, total expenditures (Personnel Cost, Overheads, Capital, etc.) are at the constant level basically eroded by inflation and purchasing power of money
- iii. The debt position is historically indicating sustainable position. And, going forward it look sustainable as both percentage to GDP and Revenues.

1.3 Overall Results

- The Current Debt trend is sustainable

- Similarly, future Debt position will remain sustainable as they all below the threshold
- Recommendations

It may be essential to recommend that:

- The State Government as a matter of urgency device means of increasing its revenue base
- Borrow only when there is urgent need to do so. If possible, borrow from concessional with very low interest rate
- The state should invest heavily in projects that can assist in Ease of Doing Business that can eventually lead to increase of household income and tax base of the state.

CHAPTER TWO

KANO STATE FISCAL AND DEBT FRAMEWORK

2.1 Fiscal (Revenue and Expenditure) Reforms in the last 3-5 years

Kano State Government in recent time has come up with various fiscal that include, among others, the followings:

- Restructuring of Kano State Internal Revenue Services (KIRS). This include giving it Autonomy, automation of revenue collection, opening and maintenance of Single Revenue Account (SRA), ETC.**
- Adoption of realistic budgetary system through reduction of budget size**
- Launching of State Integrated Financial Management Information System (SIFMIS)**
- Creation of Internal Audit Department in the Office of the Accountant General of the State**
- Establishment of the functional Websites of the State Government and various ministries such Planning & Budget, Finance, Bureau of Due Process, etc. for ensuring accountability and transparency**
- Submission of monthly Domestic Debts Report to DMO, Abuja as and whenever fall dues**

2.2 2021- 2023 MTEF and 2020 Budget

Summary of Kano State 2021-2023 MTEF

MACROECONOMIC FRAMEWORK

THREE YEARS MACRO ECONOMIC PROJECTION BASED ON HALF YEAR PERFORMANCE (IGR) 2020 Item	2021	2022	2023
National Inflation	11.95%	10.94%	11.02%
National Real GDP Growth	3.00%	4.68%	3.86%
State Real GDP Growth		2.90%	
Oil Production Benchmark (MBPD)	1.8600	2.2000	2.2000
Oil Price Benchmark	\$40.00	\$40.00	\$40.00
NGN: USD Exchange Rate	378	378	378
Other Assumptions			
Mineral Ratio	34%	36%	38%
	2021	2022	2023
Treasury Opening Balance	223,254,228	263,105,997	78,000,000
Recurrent Revenue			
Statutory Allocation	52,250,000,000	60,000,000,000	62,000,000,000
Net Derivation	0	0	0
VAT	28,401,874,754	25,861,371,691	28,369,872,343
IGR	24,000,000,000	26,400,000,000	29,040,000,000
Other FAAC Revenues	2,074,275,658	4,800,000,000	4,800,000,000
Total Recurrent Revenue	106,949,404,640	117,061,371,691	124,209,872,343
Recurrent Expenditure			
CRF Charges	7,752,957,219	8,051,219,920	8,183,219,920
Personnel	54,769,399,510	57,507,869,486	60,383,262,960
Overheads	16,428,895,990	17,539,882,863	17,539,882,863
Total	78,951,252,719	83,098,972,269	86,106,365,744
Transfer to Capital Account	27,998,151,921	33,962,399,422	38,103,506,599
Capital Receipts			
Grants	32,957,939,304	13,400,787,934	13,311,078,060
Other Capital Receipts	2,350,000,000	0	0
Total	35,307,939,304	13,400,787,934	13,311,078,060
Reserves			
Contingency Reserve	1,032,642,256	468,000,000	507,600,000
Planning Reserve	3,093,523,008	624,000,000	676,800,000
Total Reserves	4,126,165,264	1,092,000,000	1,184,400,000
Capital Expenditure	64,857,425,056	39,405,078,338	40,146,287,684
Discretionary Funds	51,180,681,136	33,830,078,338	39,146,287,684
Non-Discretionary Funds	9,550,578,656	0	0
Net Financing		5,575,000,000	1,000,000,000
Total Budget Size	147,934,843,039	130,462,159,625	137,520,950,403
Closing Cash Balance	223,254,228	292,653,429	310,524,681
Ratios			
Growth in Recurrent Revenue	81.96%	9.45%	6.11%
Growth in Recurrent Expenditure	-10.64%	5.25%	3.62%
Capital Expenditure Ratio	45.93%	30.68%	29.68%
Deficit to Total Expenditure	0.00%	4.27%	0.73%

Fiscal Risks

The analysis and forecasting basis as laid out above implies some fiscal risks, including but not limited to:

Risk	Likelihood	Reaction
Security issues directly affecting economic activity in Kano and the rest of the country, affecting IGR collection and the levels of Statutory Allocation and VAT which are both dependent on the level of economic activity	Low	Increases security related expenditure, more vigilance, sensitization on security issues. Identification of new sources of IGR. Prioritization of capital expenditure. Creation of schemes to employ youths
Political uncertainties associated with the direction of new administration	Low	Focus on completing large on-going capital projects to ensure partially implemented projects are not abandoned. Efforts to ensure sustainability of programmes and projects.
Retirement and redeployment of senior officers	Medium	Training and retraining of middle and high-level civil servants
Mismanagement and inefficient use of financial resources	Low (based on policy statement of new administration)	Adherence to existing and new institutional and legal/regulatory framework that will require more transparent and efficient use of financial resources.
Over reliance on federal transfers (Statutory Allocation, VAT and Excess Crude) to fund the budget, and associated uncertainty over the global oil prices	High	Improved IGR effort (broaden base and efficient collection), investment in enabling environment for economic growth, and leverage of PPP to supplement government resources
Unstable power supply hampers economic activity and investment climate and increases costs of government	High	Completion of State Independent Power Project and political pressure on federal government to improve national power supply
Environment issues related to global warming causing floods and others natural disasters	Medium	Establishment of early warning system, continued inclusion of contingency reserve in budget, utilization of Development Partners and Federal Government funds available for climate resilience

It should be noted however that no budget is without risk. The on-going implementation of the 2020 budget should be closely monitored, as should the security situation and impact of the fiscal and economic outlook.

Policy Statement

The policy of the present administration states the following:

- Continue with the good work of previous administration;
- Provide security, protect lives and properties of the public;
- Partnerships for growth and development of Kano State;
- Openness, transparency, prudence and accountability; and,
- Strict adherence to fiscal discipline and robust financial management.
- Free and compulsory education for primary pupils & Secondary schools

Objectives and Targets

The key targets / objectives for fiscal perspective are:

- Efficient and effective spending of state funds;
- Transition towards a 40:60 ratio of recurrent and capital budget allocation by taking into consideration the requirement to fund asset servicing and maintenance;
- Provide adequate funding and contingency for security;
- To continue with the policy of economizing on recurrent costs and making more money available for capital development projects;
- To continue cooperation with development partners, local and international, Non-Governmental Organizations (NGOs), Civil Society Organization (CSOs) and Public-Private Partnerships (PPP); and,
- To continue investing on the gains made in the Governance Reform in the state.

HIGHLIGHT OF THE STATE 2021 PROPOSED BUDGET

FINANCIAL STATEMENT			
2021 APPROVED BUDGET			
Ref	Description of Items	2020 APPROVED REVIEWED BUDGET	2021 APPROVED BUDGET
A	Estimated Recurrent Revenue		
1	Total Internally Generated Revenue	24,000,000,000	25,166,038,005
2	Statutory Allocation	52,250,000,000	52,250,000,000
3	Value Added Tax (VAT)	28,401,874,754	28,401,874,754
4	Others Receipts	2,074,275,658	1,969,326,537
	Total Recurrent Revenue	106,726,150,412	107,787,239,297
B	Consolidated Revenue Fund Charges	7,898,957,219	9,713,494,149
C	Estimated Recurrent Expenditure		
1	Personnel Cost	54,769,399,510	57,670,694,360
2	OverHead Cost	15,125,251,990	12,002,643,262
	Total Recurrent Expenditure (B+C)	77,793,608,719	79,386,831,771
D	Estimated Recurrent Surplus		
	(Transfer to Capital Dev. Fund)(A-[B+C])	28,932,541,693	28,400,407,526

E	Other Receipts		
1	Miscellaneous General		2,229,992,156
2	Grants General	31,289,884,251	41,863,059,628
3	Loans		25,793,333,461
4	Treasury Opening Balance	263,105,998	263,105,997
	Total Capital Receipts	31,552,990,249	70,149,491,244
F	Capital Development Fund (D+E)	60,485,531,942	98,549,898,770
G	Total Capital Expenditure	60,485,531,942	98,549,898,770
H	Total Expected Revenue (A+E)	138,279,140,661	177,936,730,541
I	Total Estimated Expenditure (B+C+G)	138,279,140,661	177,936,730,540
J	EXPECTED SURPLUS/(DEFICIT) (H-I)	(0)	0

2.3 Medium-Term Debt Management Strategy (MTDS) (if any)

Although, there is no MTDS for the State it however indicated that the Government Borrowing are merely restricted to “FG Intervention Funds” and the Local Contractor Bond as internal sources of funds. While the concessional and Bilateral sources remained the ultimate external borrowing alternatives.

CHAPTER THREE

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

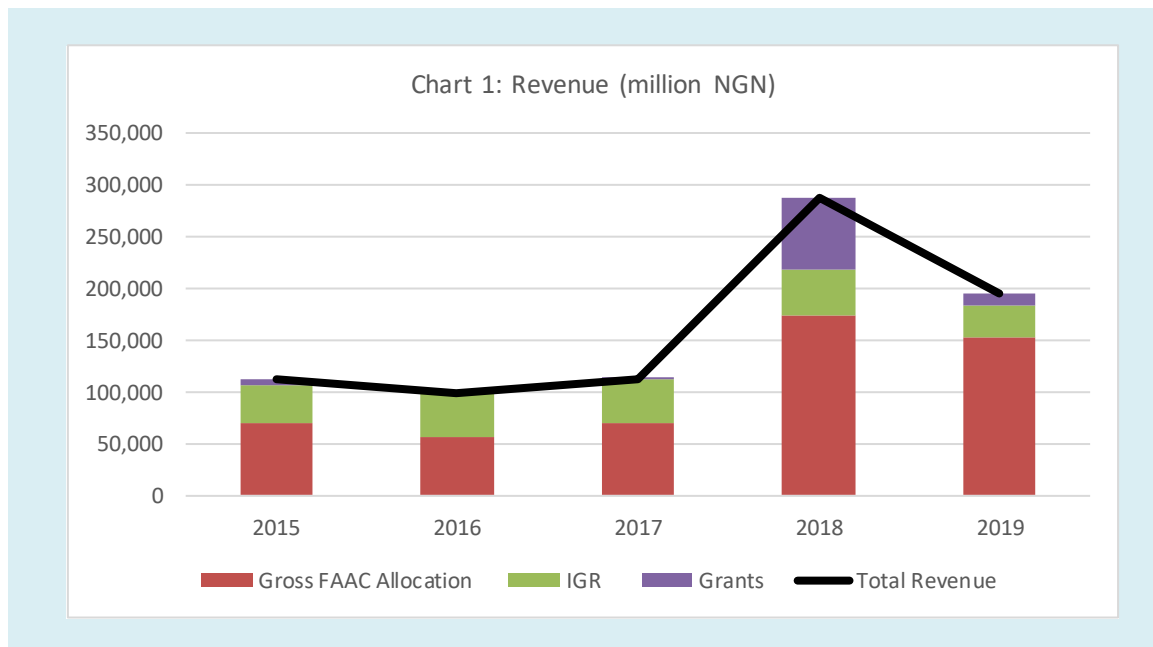
3.1 The State economy experienced a growth in 2019 with growth in the IGR from 3.98 percent in 2018 to 27.82 percent in 2019. This was due to economic reforms to improve tax and other service sectors, as well as other initiatives by the Government.

Revenue and Expenditure

The State's Revenue includes Statutory Allocation, VAT Allocation, IGR, and Capital Receipt. The State's economy grew as the State reported an average Revenue growth of 31.41 percent from 2015 to 2019. This growth increased the financial resources to the real sector of the economy, and effective implementation of the Economic Policies in the State. Statutory allocation, VAT allocation, and other transfers has increased, FAAC recorded N69,488 million in 2015 to N152,974 million in 2019.

While the Internally Generated Revenue (IGR) shows steady growth during the period under review. IGR grew from N37,002 million in 2015 to N44,107 million in 2018 and a slight decline of N31,837 million in 2019. The improvement in IGR is mainly because of tax reforms aimed at improving collection efficiency and broadening the tax revenue base. The details of the revenue are as shown in the table below.

Revenue	2015	2016	2017	2018	2019
Total Revenue	111,845	99,585	112,513	287,700	195,435
Gross FAAC Allocation	69,488	57,522	70,093	173,723	152,974
IGR	37,002	40,974	42,420	44,107	31,837
Grants	5,355	1,089	1	69,869	10,624



3.1.1 Revenue Performance

- Total Revenue Trend: the above Chart 1, it indicates low total revenues as a result of recession being experienced by the country with the exception of 2018 that turn out to be exceptional as a result of recovery measures put in place by the government.
- FAAC trend taking into account of National Revenue trend: FAAC remains major sources and fluctuates as a result of swinging in oil revenue due to fall in crude oil price in the international market.
- IGR: It sharply raises in the 3 consecutive years, with small fall in the remaining 2 historical year.

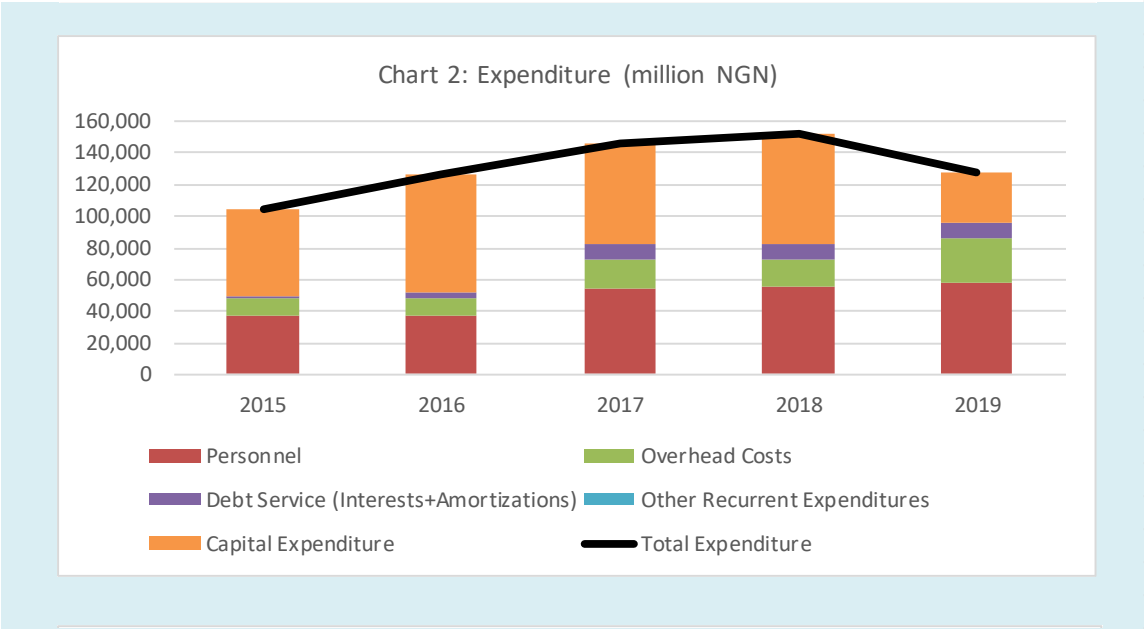
3.1.2 Expenditure Performance

The State's Total Expenditure includes Capital expenditure, Personnel costs, Overhead costs, other recurrent expenditure, and Debt service (interest payment and principal repayment), which recorded an increase from N104,489 million as at end-December 2015 to N151,698 million as at end-December 2018 and decline in 2019 to N127,707.

Total Expenditure trend: there is little increases in the total expenditures from 2015-2018 with sharp fall in 2019 which may be associated with 2019 General Election.

- Over Head: Being in the smallest component in the total expenditure with tremendous increases in the year 2019
- Personnel: it remains significant component of the State's total expenditure considering the total workforce and minimum wages increases started in 2019.
- Capital Expenditure: accounts for significant expenditures with greatest fall in the year 2019 which associated with fall in the State total revenue compared to 2018.

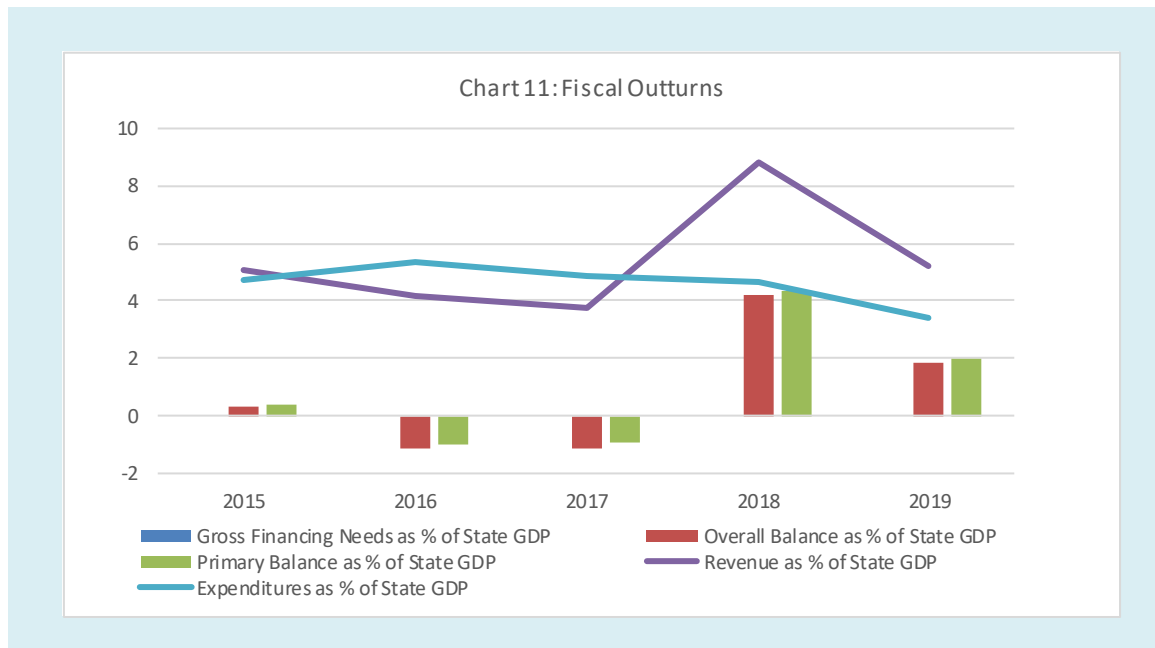
	2015	2016	2017	2018	2019
Total Expenditure	104,489	126,701	145,764	151,698	127,737
Personnel	37,314	37,050	54,002	56,068	58,082
Overhead Costs	10,547	10,600	18,473	16,966	27,709
Debt Service (Interests+Amortizations)	1,729	4,640	9,851	9,000	10,656
Other Recurrent Expenditures	0	0	0	0	0
Capital Expenditure	54,899	74,411	63,437	69,665	31,290



3.1.3 Fiscal Outturns

Primary Balance trend: from the above chart 11, it indicated that the Primary Balances as the % of State GDP look good indicating stability if all things being equal.

Overall Balance trend: this is also similar to primary balances as they response in the same direction and indicate similar trend.



Debt composition

The main domestic debt portfolio consists of Bail out loans, Budget Support Facility, Excess Crude Account Backed Loan, Contractor's Arrears and Pensions & Gratuity arrears. While the External Debt includes World Bank (IDA) and African Development Fund (AfDF). The ratio of External to Domestic Debt in the Total Debt portfolio was 15 percent external and 85 percent domestic as at December 31, 2019.

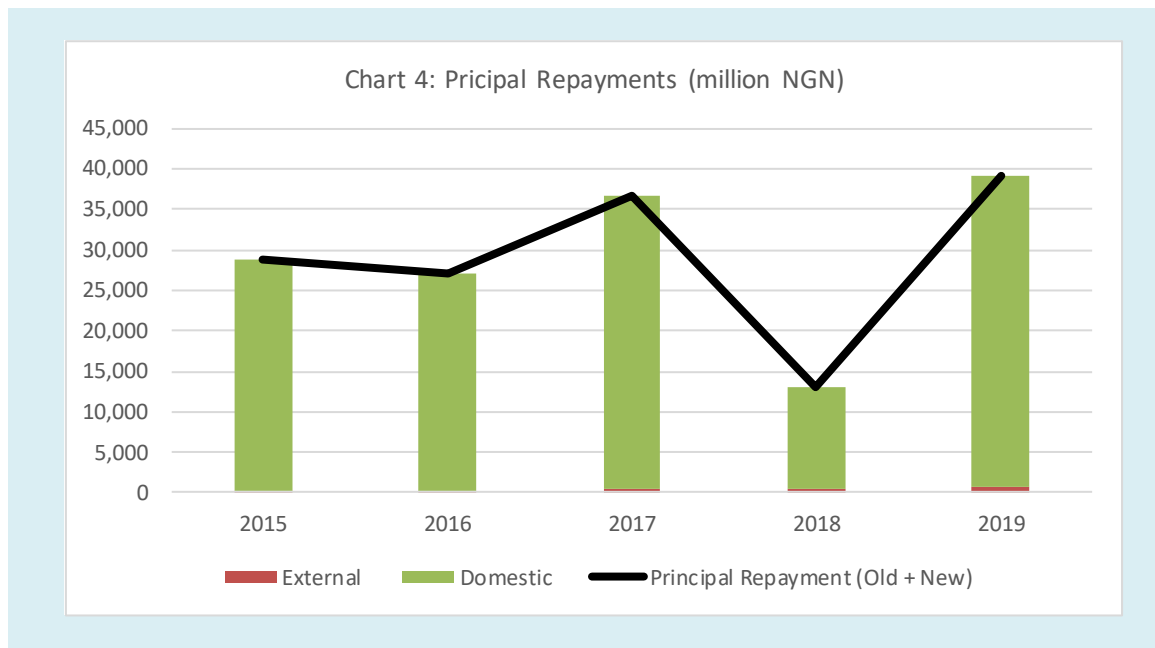
Cost and Risk Profile: in term of cost, external debts are cheaper as they are all concessional in nature with very low interest rate, long duration and long moratorium period. However, they associated with exchange rate risk that can force great fiscal risk to the State in form of increasing External Debt Stocks and debt services without increase in borrowing. While, the Domestic Debts are associated with high interest rate compared to external debts and are accompanied with interest rate risk.

Debt Service

The Kano State Debt Service amounted to N42,919 million as at end-December 2019 compared to N14,637 million as at end-December 2018, representing an increase of N28,282 million or 66 percent. The principal repayment showed a slight increase from N12,961 million to N39,232 million in 2018 and 2019, respectively. Interest Payment also increase from N1,675 in 2018 compared to N3,687 million in 2019. The principal repayments and Interest Payment made were on both External Debt and Domestic Debt. The details of the interest payment and principal repayment are as shown in the table below.

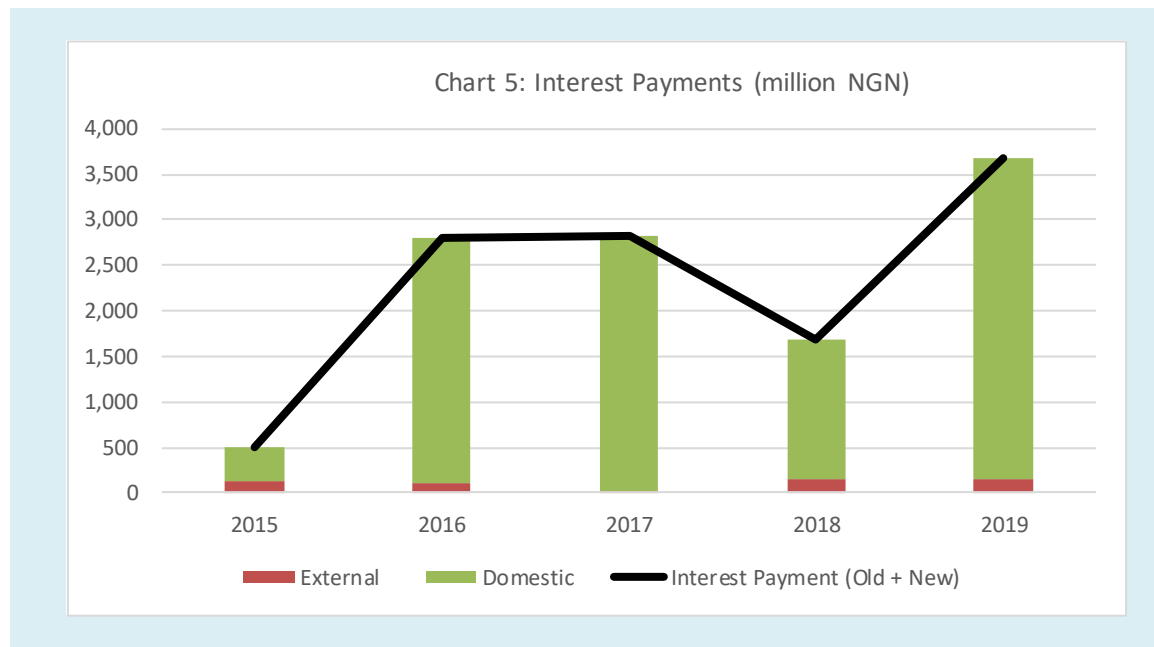
Principal Repayment – Chart 4

	2015	2016	2017	2018	2019
Principal Repayment (Old + New)	28,714	26,980	36,744	12,961	39,232
External	232	282	434	544	762
Domestic	28,482	26,698	36,310	12,417	38,470

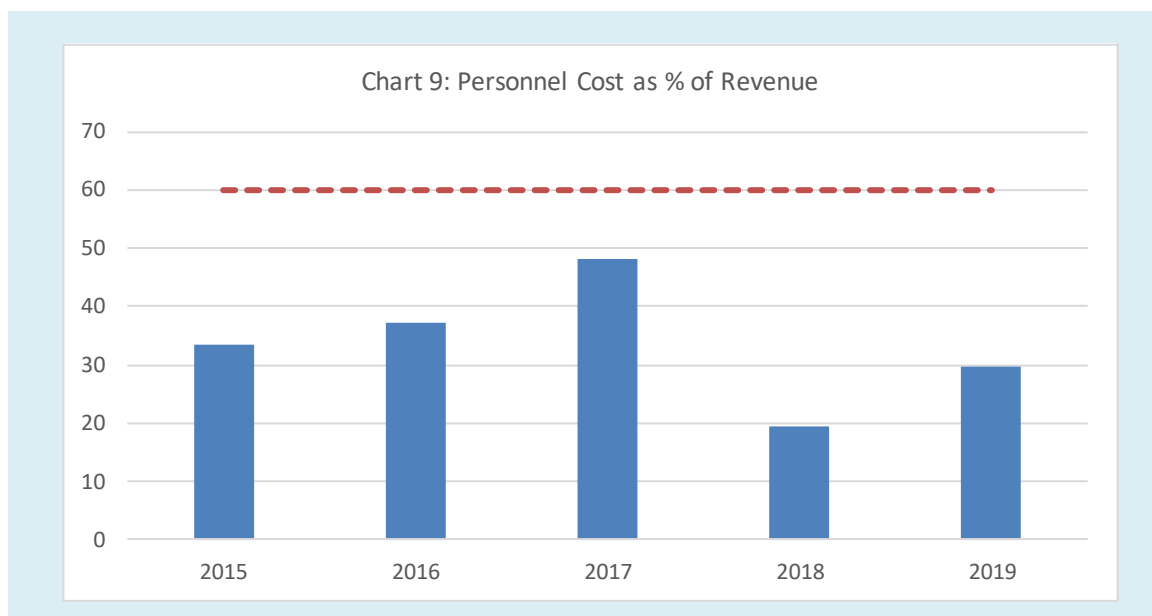


Interest Payment – Chart 5

	2015	2016	2017	2018	2019
Interest Payment (Old + New)	494	2,803	2,830	1,675	3,687
External	121	101	13	153	155
Domestic	373	2,702	2,818	1,522	3,532



- Personnel Cost – Chart 9**



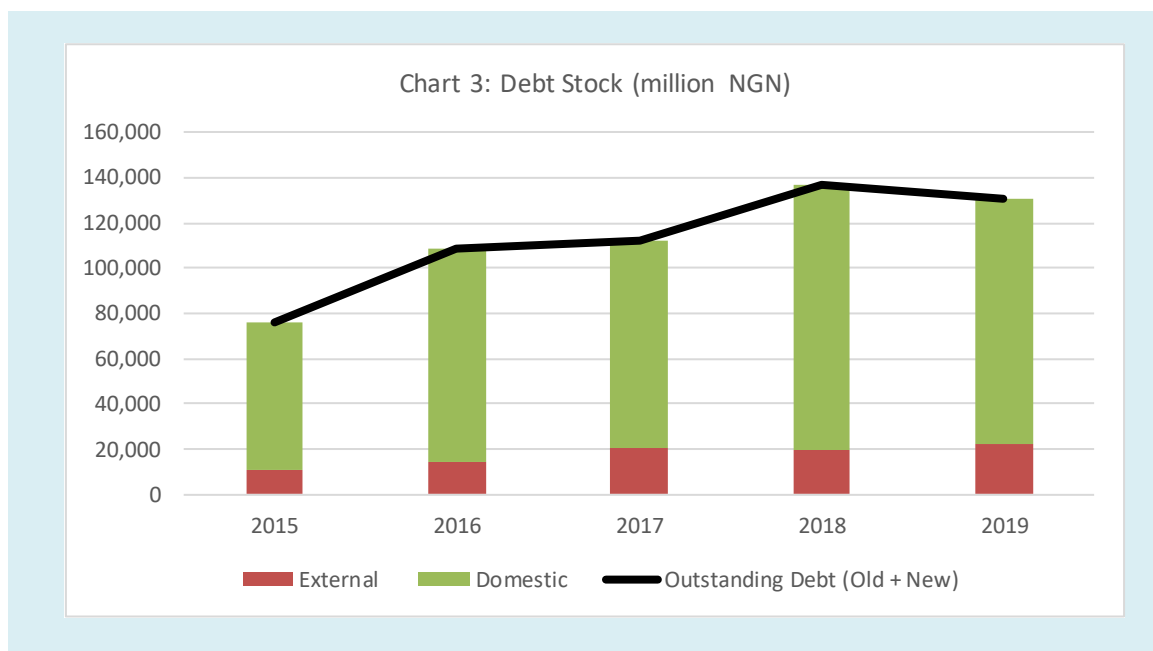
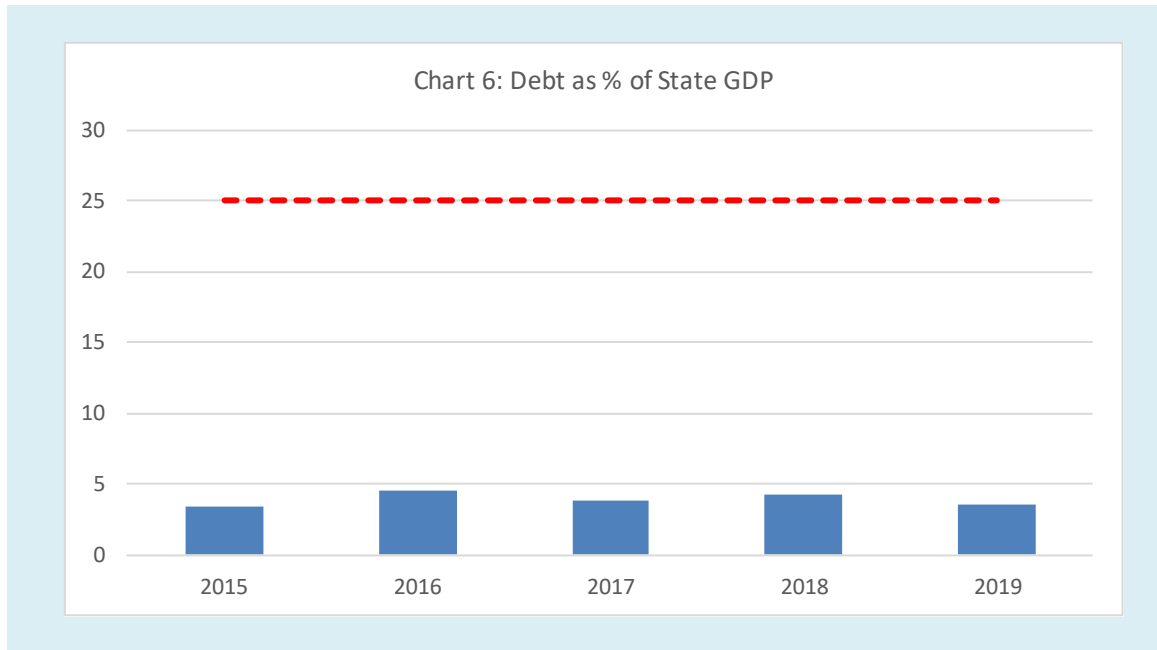


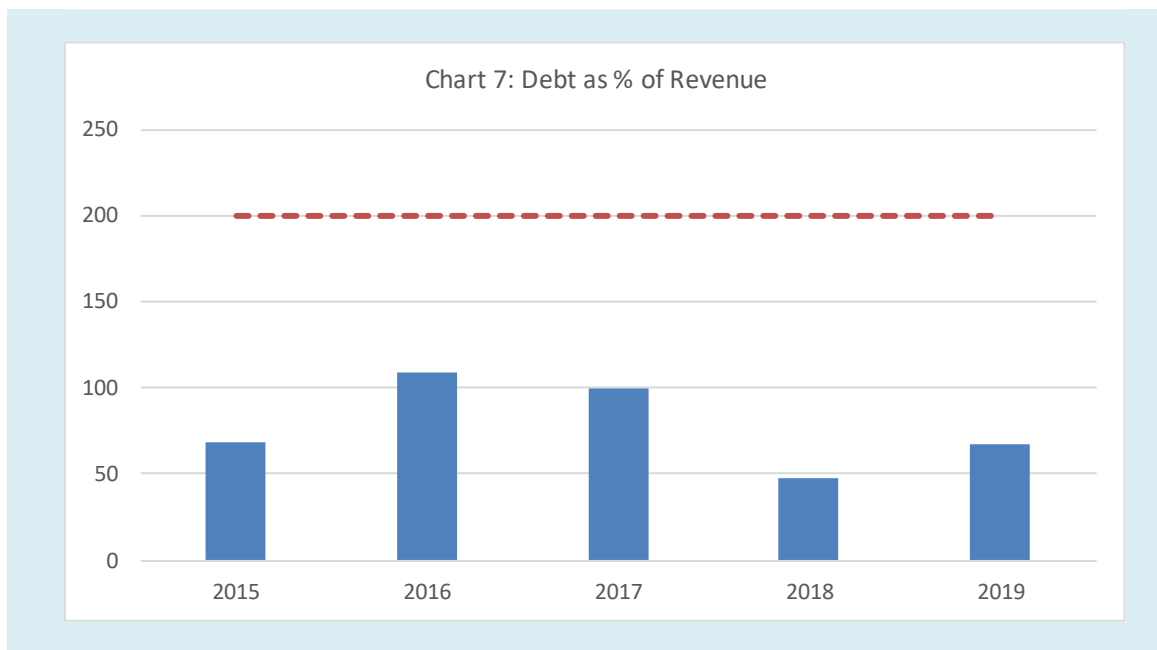
CHART 3: Debt Stock (Mandatory)

Debt Stock	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Outstanding Debt (Old + New)	76,327.31	108,462.7	112,571.6	136,517.1	130,283.9	131,901.5	130,240.1	13,3830.52	122,712.6	120,086.0	117,059.1	129,745.2	143,488.3	159,986.8	178,638.2
External	11,319.98	14,747.54	20,314.60	19,434.86	22,530.19	25,283.47	24,354.92	23,407.4	22,440.97	21,455.57	39,086.66	57,197.29	64,608.56	79,448.87	85,646.17
Domestic	65,007.33	93,715.18	92,257.05	117,082.3	107,753.7	106,617.7	105,881.1	11,0423.11	100,271.6	98,630.44	77,972.47	72,547.92	78,875.81	80,537.97	92,992.12

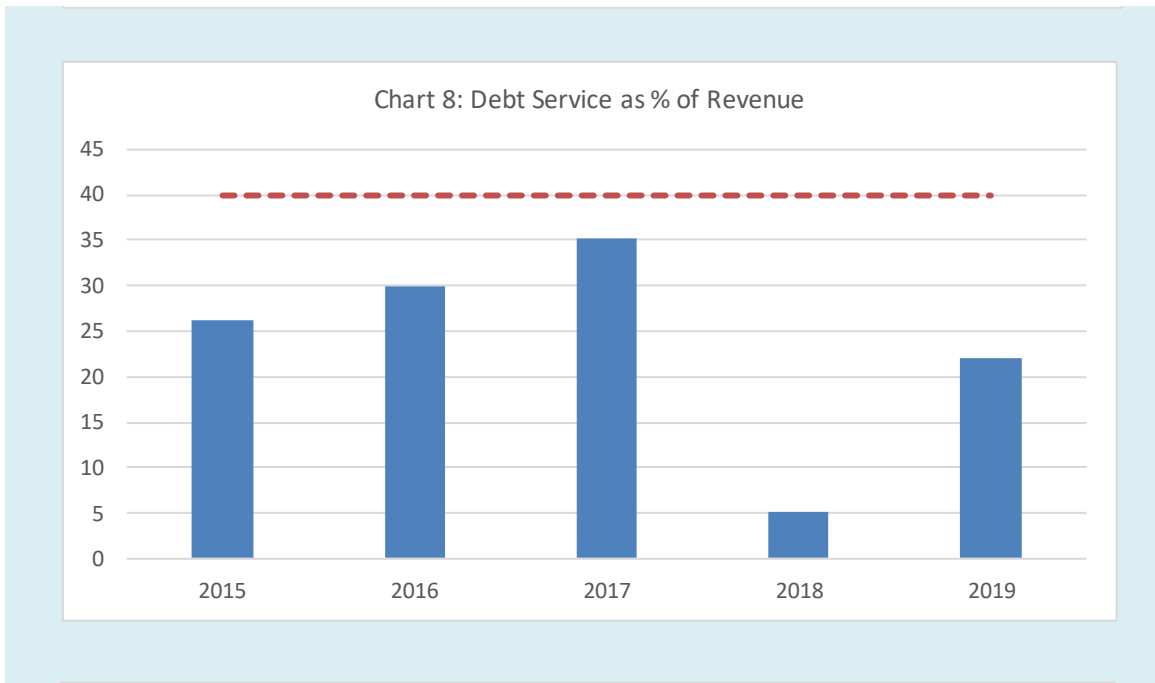
- **Debt as a Share of State GDP – Chart 6**



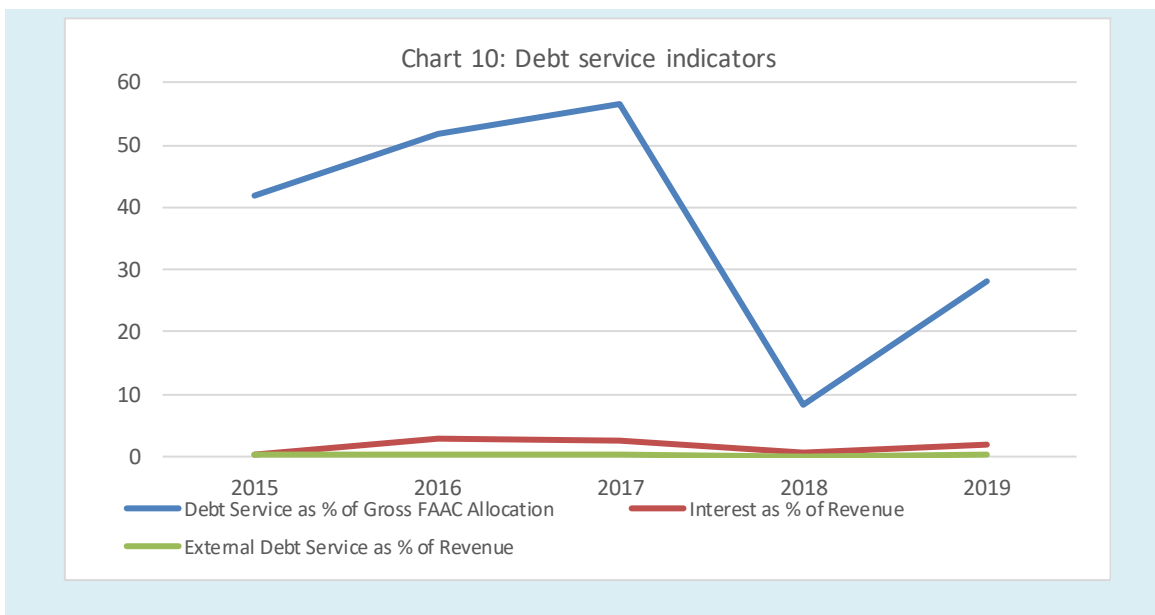
- **Debt as a Share of Revenue – Chart 7**



- **Debt Service as a Share of Revenue – Chart 8**



- **Debt Service Indicators – Chart 10**



CHAPTER FOUR

CONCEPT OF DEBT SUSTAINABILITY, ASSUMPTIONS, RESULTS ANALYSIS AND FINDINGS

4.0 Introduction - Concept of Debt Sustainability

- Definition of Debt Sustainability: the DSA can be viewed as the ability to service all its debt obligation (Interest and Principal) as and when due without resort to exceptional financing (such as debt relief) or a major future correction in the balance of income and expenditures.

In other words, it is the ability of the state to settle all its debt obligation (interest and Principal) as and when due without any fiscal distress.

- Debt Sustainability Indicators and Thresholds: To assess debt sustainability, debt burden indicators are compared to indicative debt-burden thresholds. If a debt-burden indicator exceeds its indicative threshold, this may indicate that a state is at a higher probability of debt distress. The underlying notion is that a State with a high debt service burden relative to its repayment capacity, is more likely to run into debt-servicing difficulties.

The Debt Sustainability indicators, among others, are:

- Revenue Streams
- GDP
- Debt Stocks and Future Borrowing plan
- Debt Services
- Risk element and Shocks (Exchange rate, interest rate, etc.)

The Threshold under the DMO's SDSA Template is set at:

- Debt as % of State GDP **25%**
- Debt as % of Revenue **200%**
- Debt Service as % of Revenue **40%**

4.1 Medium Term Budget Forecast

4.1.1 Revenue Assumptions

Statutory Allocation – is based on governor's forum using the assumptions in the macro-economic framework above and historical data on mineral and non-mineral revenue flows.

VAT – is based on the lowest of the moving averages and governor's forum – in this case the 4-Year weighted moving average.

Other Federation Account Receipts – This figure has been used for the 2021 - 2023 an estimate comprises of NNPC refund, Exchange rate gains, Ecological fund etc.

Internally Generated Revenue (IGR) – The key issue with IGR, as identified in figure 9: IGR above is whether the 2020 figure was a "one-off" drop and the IGR will return to the 2016 trend in 2020 and beyond. It is assumed that this will be the case. This assumption is based on the following:

- Mapping of informal sector resulting in broadened tax base;
- Passage of MDAs revenue harmonization law creating collection and administration efficiencies and blocking leakages, and reduction in multiple taxation;
- Re-structuring of the Kano Internal Revenue Service resulting for efficiencies,
- The resolve of the new national administration to conquer the security challenges for improved business environment and economic activities;

- Policy of the present administration to shift tax burden to the wealthy individuals.
- Introduction of new land use levies and charges;
- Review of Kano state revenue administration law
- Waiver to the tax payers due to COVID-19 pandemic It is assumed that with the implementation of the above reform the future revenue collection will improve by reaching target level and growing by 5% annually. All subsequent years' collection should be properly monitored regularly to assess whether the target will be achievable.

Grants – This indicated that the grant collection trend is far below the budgeted figure there is a need to review the subsequent year budget forecast.

Capital Receipt - Capital Receipt for both scenarios were based on projection of 2016 approved budget, however the Ministry is taking in to account of actual performance of the capital receipts in 2015 as a base year for 2017 budget projection to be considered by the **Council** deliberation and resolution.

Consolidated Revenue Fund Charges – CRF constitute pension contribution, debt public charges, local government IGR contribution, stabilization fund etc. The 2021 provision on 7.7 billion own value projection.

4.1.2 Expenditure Assumptions

Personnel – As a result of the Covid-19 there is no change in personnel cost remain as its in 2020 based on actual expenditure out turn on 2020 actuals

Overheads – The drop in overheads in 2020 was a result of likely to reduced revenues (IGR and Federal Transfers). The forecasts for 2021 - 2023 assume that the overhead expenditure will remain as that of 2020, and then it will grow at 5% annually thereafter. This should be considered within the context of the new administration's policy priorities, and also first and second quarter performance figures for 2020 should also be used to guide.

Capital expenditure by sector – Educational sector has the largest allocation of 25.16% followed by infrastructure sector (18.58%) then Health sector with the allocation of 15.07% as well as Governance Sector with 14.24% and water sector with the allocation of 6.54%

4.2 Borrowing Assumptions (Options)

4.2.1 Domestic Borrowing - Terms (interest rate, maturity and Grace Period)

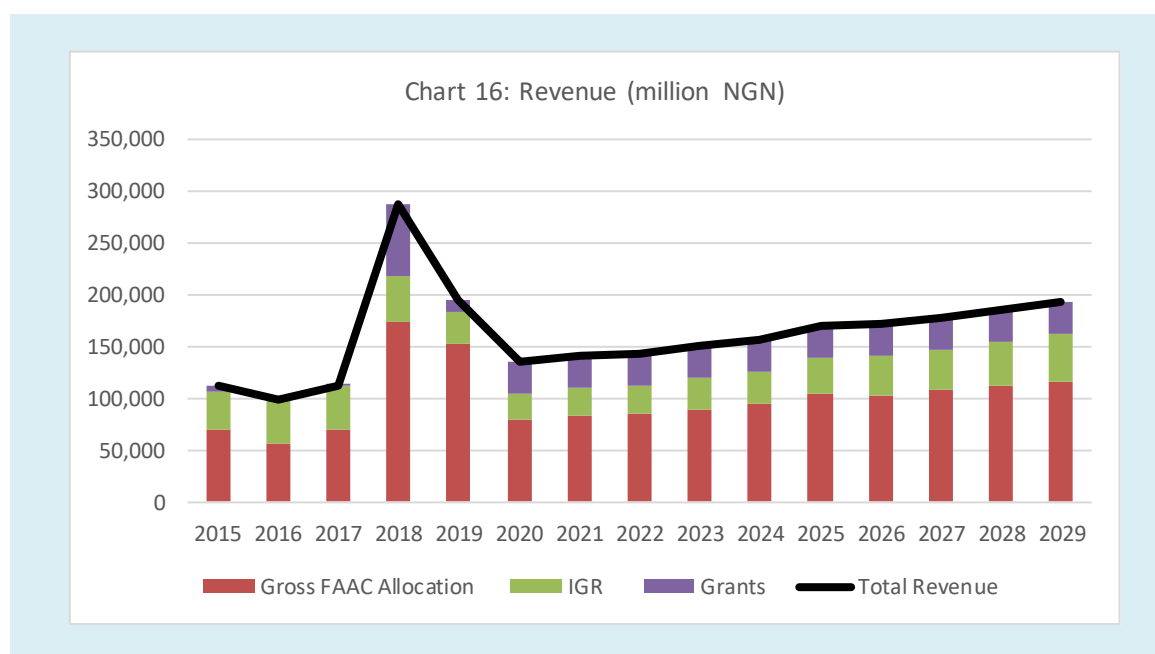
Borrowing Terms for New Domestic Debt (issued/contracted from 2020 onwards)	Interest Rate (%)	Maturity (# of years)	Grace (# of years)
Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans and MSMEDF)	9.00%	5	0
Commercial Bank Loans (maturity 6 years or longer, including Agric Loans and MSMEDF)	12.00%	7	0
State Bonds (maturity 1 to 5 years)	15.00%	4	1
State Bonds (maturity 6 years or longer)	12.00%	5	1
Other Domestic Financing	9.00%	10	0

4.2.2 External Borrowing - Terms (Interest rate, maturity and Grace Period)

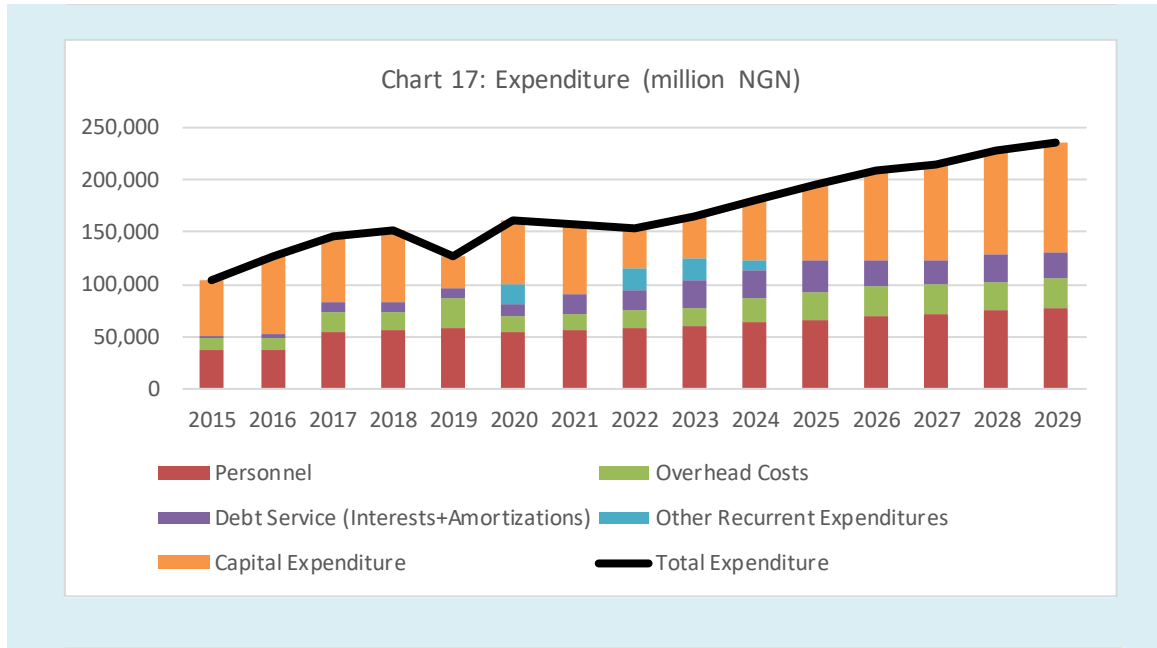
Borrowing Terms for New External Debt (issued/contracted from 2020 onwards)	Interest Rate (%)	Maturity (# of years)	Grace (# of years)
External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	1.50%	30	5
External Financing - Bilateral Loans	2.50%	12	2
Other External Financing	3.00%	7	2

4.3 Simulation Results and Findings

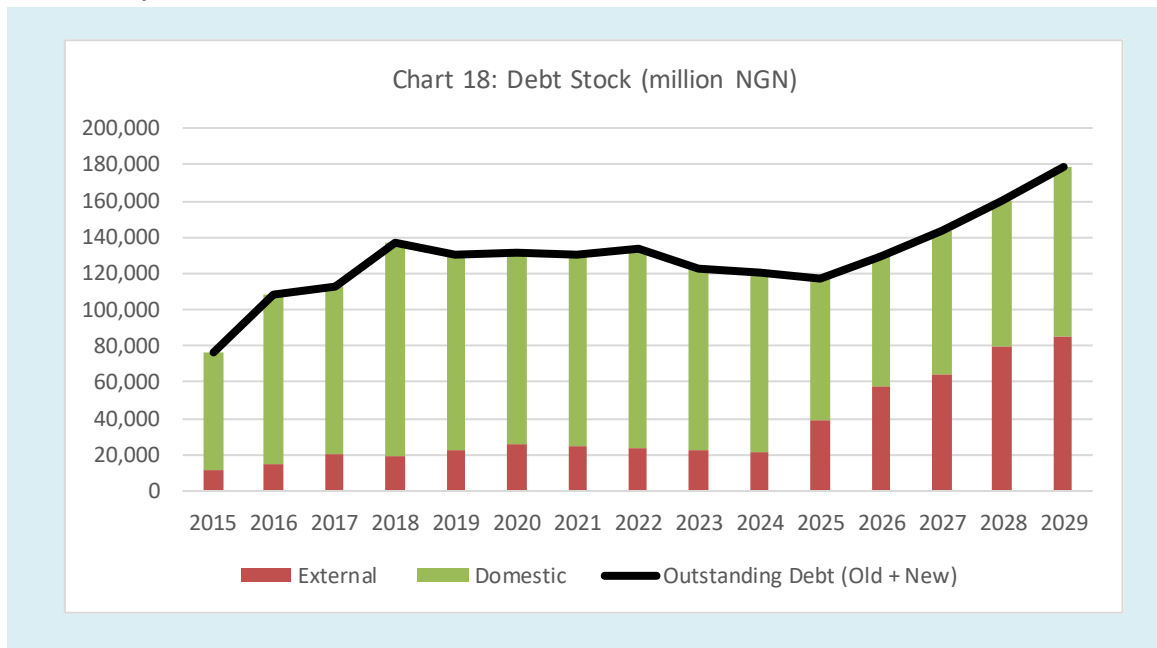
4.3.1 Projected Revenue – Chart 16



4.3.2 Projected Expenditure – Chart 17



4.3.3 Projected Debt as a Share of Revenue – Chart 22





4.3.7 Main Findings and Conclusion of the Baseline Scenario in Terms of Debt Sustainability

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 below threshold over the projection period.

2020 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 2020 to 2029, with the strongminded 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 for 2020 and 2029 were projected at 97 percent and 93 percent respectively and were still below the threshold of 200 percent. Kano State remain under the threshold for External Debt to Revenue, which is 200 percent over the projection period.

For the Debt Service to Revenue, the outcome shows 2021, 2025 and 2029 were projected at 13 percent, 18 percent and 13 percent with threshold of 40 percent to the end of the projection period in the medium to long term.

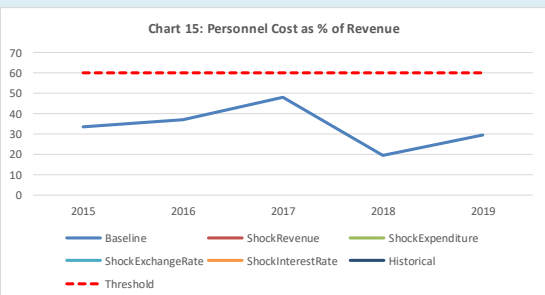
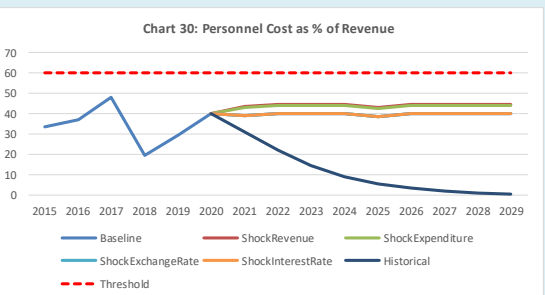
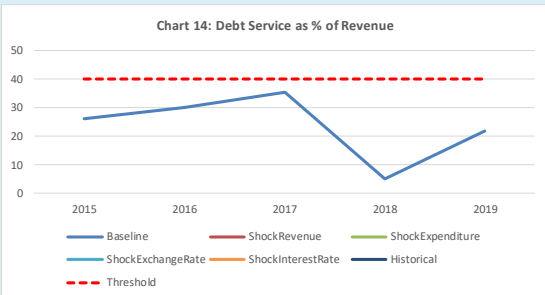
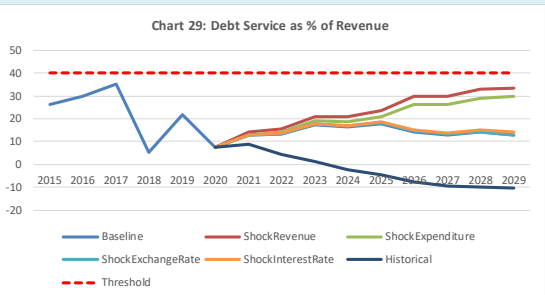
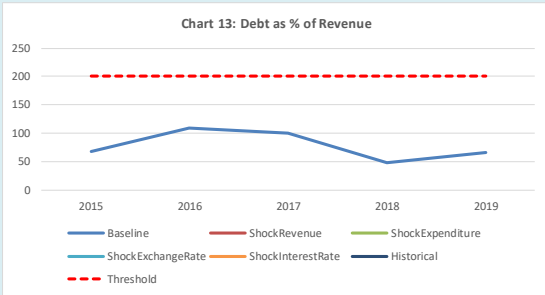
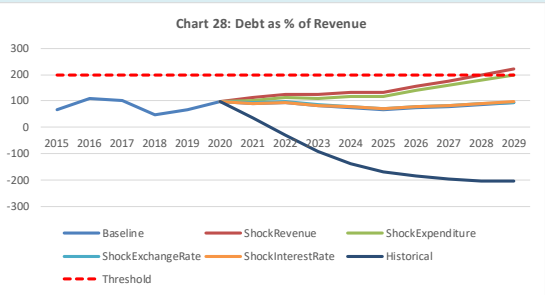
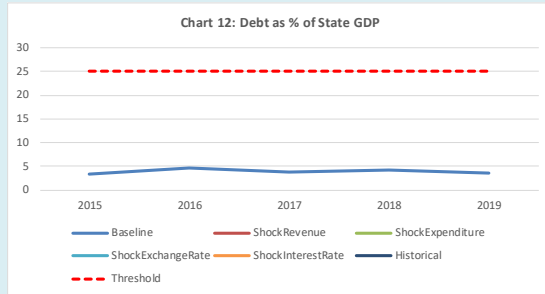
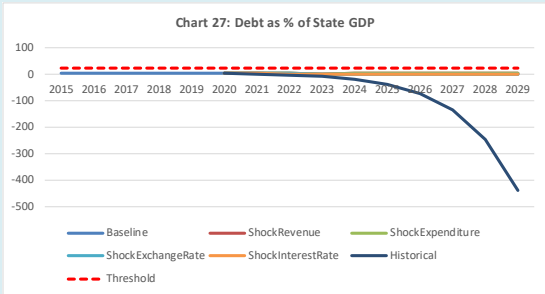
The Personnel Cost to Revenue remained under state threshold of 60 percent. Thus, Kano State Debt remained sustainable on the revenue and debt indicators.

Conclusion

The outcome of the 2020 DSA revealed that Kano's Total Debt remains at a Very Low Risk of Debt distress with substantial space to accommodate shocks. Kano 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.

4.3.1 DSA Sensitivity Analysis

Kano State Debt Portfolio remains sustainable in relation to the revenue shocks. Given the projected size of the State's revenue, which shows an average growth of 0.53 percent over the projection period, this projection outweighs the average growth of debt accumulation of 3.68 percent, the result obtained under the fiscal sustainability of the State External and Domestic Debt indicates that state is at a low risk of debt distress.



ANNEXURES

1. Table of Assumptions 2. Baseline Projection

		Projection Methodology	Source
Assumptions:			
Economic activity	State GDP (at current prices)	For example: State GDP projected using the actual S-GDP and projected N-GDP nominal growth rate	For example: State Bureau of Statistics, NBS, etc.
Revenue	Revenue 1. Gross Statutory Allocation ("gross" means with no deductions) of which Net Statutory Allocation ("net" means of deductions) of which Deductions 2. Derivation (if applicable to the State) 3. Other FAAC transfers (exchange rate gain, augmentation, others) 4. VAT Allocation 5. IGR 6. Capital Receipts Grants Sales of Government Assets and Privatization Proceeds Other Non-Debt Creating Capital Receipts	For example: Forecast within model using Federation Revenue and Revenue Sharing assumptions For example: following State GDP nominal growth	
Expenditure	Expenditure 1. Personnel costs (Salaries, Pensions, Civil Servant Social Benefits, other) 2. Overhead costs 3. Other Recurrent Expenditure (Excluding Personnel Costs, Overhead Costs and Interest Payments) 4. Capital Expenditure	For example: following CPI inflation For example: following State GDP nominal growth	
Closing Cash and Bank Balance	Closing Cash and Bank Balance	Target for Cash and Bank Balance	
Proceeds from Debt-Creating Borrowing	Planned Borrowings (new bonds, new loans, etc.) New Domestic Financing in Million Naira Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Inf Loans, and MSMEDF) Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Inf Loans, and MSMEDF) State Bonds (maturity 1 to 5 years) State Bonds (maturity 6 years or longer) Other Domestic Financing New External Financing in Million US Dollars External Financing - Concessional Loans (e.g., World Bank, African Development Bank) External Financing - Bilateral Loans Other External Financing		
Debt Amortization and Interest Payment	Debt Outstanding at end-2019 External Debt - amortization and interest Domestic Debt - amortization and interest New debt issued/contracted from 2020 onwards New External Financing External Financing - Concessional Loans (e.g., World Bank, African Development Bank) External Financing - Bilateral Loans Other External Financing New Domestic Financing in Million Naira Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Inf Loans, and MSMEDF) Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Inf Loans, and MSMEDF) State Bonds (maturity 1 to 5 years) State Bonds (maturity 6 years or longer) Other Domestic Financing	For example: amortization and interest payments estimated using profiles recorded in the DMD. Include the external debt service paid through FAAC deductions For example: amortization and interest payments estimated using profiles recorded in the DMD. Include the ones paid directly by the State and through FAAC deductions Insert the Borrowing Terms for New External Debt: interest rate (%), maturity (if years) and grace period (if) For example: Redemption profile linear, repayment in 40 years with 5-year grace period. Interest rate: fix at 1% Insert the Borrowing Terms for New Domestic Debt: interest rate (%), maturity (if years) and grace period (if)	DMD DMD

	2015	2016	Actuals			Projections (Baseline Scenario)									
			2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Economic Indicators															
State GDP (million NGN, at current prices)	2,215,983.00	2,371,626.00	2,974,429.00	3,249,639.00	3,724,849.00	4,200,059.00	4,675,269.00	5,150,479.00	5,625,689.00	6,100,899.00	6,576,109.00	7,051,319.00	7,526,529.00	8,001,739.00	8,476,949.00
Exchange Rate NGN/US\$ (end-Period)	196.49	253.19	305.79	306.50	326.00	379.00	379.00	379.00	379.00	379.00	379.00	379.00	379.00	379.00	379.00
Fiscal Indicators (million NGN)															
Revenue	132,845.46	122,184.17	119,023.97	287,904.58	201,346.56	143,274.14	157,583.61	165,889.42	164,093.44	179,304.49	194,658.51	206,929.26	213,845.50	226,228.75	234,402.94
1. Gross Statutory Allocation ("gross" means with no deductions; do not include VAT Allocation here)	48,420.62	32,334.51	44,975.22	67,446.28	65,223.56	52,250.00	52,250.00	60,000.00	62,000.00	64,000.00	66,000.00	68,000.00	70,000.00	72,000.00	74,000.00
of which Net Statutory Allocation ("net" means of 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
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)	6,994.90	10,303.25	4,448.63	19,127.74	2,995.67	0.00	1,774.03	0.00	0.00	0.00	5,700.00	0.00	0.00	0.00	0.00
4. VAT Allocation	14,132.82	14,883.81	20,667.70	87,149.21	84,756.06	28,401.87	30,401.87	25,861.37	28,369.87	30,878.37	33,886.87	35,895.37	38,403.87	40,912.38	43,420.88
5. IGR	37,002.46	40,973.72	42,419.81	44,107.38	31,837.03	24,000.00	26,395.31	26,400.00	29,040.00	31,680.00	34,320.00	36,960.00	39,600.00	42,240.00	44,880.00
6. Capital Receipts	26,354.66	23,688.88	6,520.61	70,073.97	16,535.24	38,622.27	46,762.40	53,628.05	44,683.56	52,746.12	55,251.64	66,073.89	65,841.63	71,076.37	72,102.06
Grants	5,354.66	1,089.30	1.00	69,869.26	10,623.85	31,552.99	31,410.06	31,300.50	31,168.69	31,042.45	30,916.20	30,789.96	30,663.71	30,537.47	30,411.22
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
Other Non-Debt Creating Capital Receipts	0.00	0.00	0.00	0.00	0.00	2,074.28	2,074.28	4,800.00	4,800.00	5,250.00	5,700.00	6,150.00	6,600.00	7,050.00	7,500.00
Proceeds from Debt-Creating Borrowings (bond issuance, loan disbursements, etc.)	21,000.00	22,599.58	6,519.61	204.71	5,911.39	4,995.00	13,278.06	17,527.55	8,714.87	16,453.67	18,635.44	29,133.93	28,577.92	33,488.90	34,190.84
Expenditure	104,488.80	126,700.56	145,764.04	151,897.69	127,737.42	160,885.86	157,847.18	153,889.42	165,593.44	180,804.49	196,158.51	208,429.26	215,345.50	227,228.75	235,902.94
1. Personnel costs (Salaries, Pensions, Civil Servant Social Benefits, other)	37,313.77	37,049.64	54,002.33	56,067.90	58,082.02	54,769.40	55,722.46	57,507.87	60,383.26	63,258.66	66,134.05	69,009.44	71,884.84	74,760.23	77,635.62
2. Overhead costs	10,547.20	10,600.33	18,473.18	16,965.58	27,708.99	15,125.25	16,670.94	17,539.88	17,539.88	23,266.39	25,992.90	28,719.40	27,445.91	27,445.91	27,445.91
3. Interest Payments (Public Debt Charges, including interests deducted from FAAC Allocation)	1,288.07	3,516.62	6,433.36	6,081.38	7,008.45	3,157.91	3,418.83	5,191.96	6,356.68	7,061.23	8,908.27	8,134.26	8,400.35	9,103.17	9,191.67
4. Other Recurrent Expenditure (Excluding Personnel Costs, Overhead Costs and Interest Payments)	0.00	0.00	0.00	0.00	0.00	20,307.48	0.00	20,307.48	21,334.57	11,334.28	0.00	0.00	0.00	0.00	0.00
5. Capital Expenditure	54,898.77	74,410.80	63,437.49	69,664.55	31,289.96	60,485.53	67,095.47	39,405.08	40,146.29	56,803.63	73,460.97	86,118.31	92,775.66	99,433.00	106,090.34
6. Amortization (principal) payments	440.99	1,123.17	3,417.68	2,918.28	3,640.00	7,040.30	14,939.48	13,937.15	19,832.75	19,080.30	21,662.33	16,447.84	14,838.75	16,986.44	15,539.39
Budget Balance (*+ means surplus, *- means deficit)	0.00	0.00	0.00	0.00	0.00	-17,611.72	-263.57	12,000.00	-1,500.00	-1,500.00	-1,500.00	-1,500.00	-1,500.00	-1,500.00	-1,500.00
Opening Cash and Bank Balance	7,884.80	22,639.12	3,702.14	18,329.84	13,525.82	17,875.29	263.57	0.00	12,000.00	10,500.00	9,000.00	7,500.00	6,000.00	4,500.00	3,000.00
Closing Cash and Bank Balance	22,639.12	3,702.14	18,329.84	13,525.82	17,875.29	263.57	0.00	12,000.00	10,500.00	9,000.00	7,500.00	6,000.00	4,500.00	3,000.00	1,500.00

	2015	2016	Actuals			Projections (Baseline Scenario)									
	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Financing Needs and Sources (million NGN)															
Financing Needs						7,069.28	15,352.34	22,327.55	13,514.87	21,703.67	24,335.44	35,283.93	35,177.92	40,538.90	41,690.84
i. Primary balance						-14,482.79	2,742.40	8,801.57	11,174.56	2,937.87	4,735.15	-12,201.83	-13,438.82	-15,949.30	-18,459.78
ii. Debt service						10,198.21	18,358.30	19,129.11	26,189.43	26,141.53	30,570.59	24,582.10	23,239.10	26,089.61	24,731.06
Amortizations						7,040.30	14,939.48	13,937.15	19,832.75	19,080.30	21,662.33	16,447.84	14,838.75	16,986.44	15,539.39
Interests						3,157.91	3,418.83	5,191.96	6,356.68	7,061.23	8,908.27	8,134.26	8,400.35	9,101.17	9,191.67
iii. Financing Needs Other than Amortization Payments (e.g., Variation in Cash and Bank Balances)						-17,611.72	-263.57	12,000.00	-1,500.00	-1,500.00	-1,500.00	-1,500.00	-1,500.00	-1,500.00	-1,500.00
Financing Sources						7,069.28	15,352.34	22,327.55	13,514.87	21,703.67	24,335.44	35,283.93	35,177.92	40,538.90	41,690.84
i. Financing Sources Other than Borrowing						2,074.28	2,074.28	4,800.00	4,800.00	5,250.00	5,700.00	6,150.00	6,600.00	7,050.00	7,500.00
ii. Gross Borrowings						4,995.00	13,278.06	17,527.55	8,714.87	16,453.67	18,635.44	29,133.93	28,577.92	33,488.90	34,190.84
Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)						0.00	13,278.06	12,527.55	8,714.87	0.00	0.00	10,000.00	15,000.00	0.00	7,000.00
Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	10,000.00
State Bonds (maturity 1 to 5 years)						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
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	18,635.44	0.00	8,453.12	0.00	9,190.84
External Financing - Bilateral Loans						0.00	0.00	0.00	0.00	0.00	0.00	19,133.93	0.00	15,901.51	0.00
Other External Financing						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Residual Financing						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Debt Stocks and Flows (million NGN)															
Debt (stock)	76,327.31	108,462.72	112,571.65	136,517.18	130,283.96	131,901.54	130,240.13	135,830.52	122,712.65	120,086.01	117,059.12	129,745.21	143,484.38	150,986.84	178,638.29
External	11,319.98	14,747.54	20,314.60	19,434.86	22,530.19	25,283.47	24,354.92	23,407.42	22,440.97	21,455.57	39,086.66	57,197.29	64,068.56	79,448.87	85,646.17
Domestic	65,007.33	93,715.18	92,257.05	117,082.32	107,753.77	106,618.07	105,885.21	110,423.11	100,271.68	98,630.44	77,972.47	72,547.92	78,875.81	80,537.97	92,992.12
Gross borrowing (flow)						4,995.00	13,278.06	17,527.55	8,714.87	16,453.67	18,635.44	29,133.93	28,577.92	33,488.90	34,190.84
External						0.00	0.00	0.00	0.00	0.00	18,635.44	15,133.93	8,453.12	15,901.51	9,190.84
Domestic						4,995.00	13,278.06	17,527.55	8,714.87	16,453.67	0.00	10,000.00	20,124.40	17,587.39	25,000.00
Amortizations (Flow)	28,714.23	26,979.91	36,744.02	12,961.46	39,231.90	7,040.30	14,939.48	13,937.15	19,832.75	19,080.30	21,662.33	16,447.84	14,838.75	16,986.44	15,539.39
External	232.24	281.92	434.22	544.02	761.84	909.60	928.55	947.50	966.45	985.40	1,004.35	1,023.30	1,042.25	1,061.20	2,993.54
Domestic	28,481.98	26,697.99	36,309.80	12,417.44	38,470.05	6,130.70	14,010.93	12,989.65	18,866.30	18,094.90	20,657.98	15,424.54	13,796.50	15,925.24	12,545.85
Interests (Flow)	494.35	2,893.14	2,830.47	1,676.25	3,685.94	3,157.91	3,418.83	5,191.96	6,356.68	7,061.23	8,908.27	8,134.26	8,400.35	9,101.17	9,191.67
External	121.45	101.11	12.84	153.05	155.04	170.55	181.92	151.60	170.55	151.60	189.50	446.29	947.38	998.38	1,452.77
Domestic	372.90	2,792.03	2,817.62	1,522.19	3,531.90	2,987.36	3,236.91	5,040.36	6,186.13	6,909.63	8,718.77	7,687.97	7,452.97	8,104.79	7,738.90
Net borrowing (gross borrowing minus amortizations)						-2,045.30	-1,661.42	3,590.40	-11,117.88	-2,626.64	-3,026.89	12,686.09	13,739.17	16,502.47	18,651.45
External						-909.60	-928.55	-947.50	-966.45	-985.40	17,631.09	18,110.63	7,411.27	14,842.31	6,197.30
Domestic						-1,135.70	-732.87	4,537.90	-10,151.43	-1,641.24	-2,057.98	-5,424.54	6,327.89	1,662.15	12,454.15
Debt and Debt-Service Indicators															
Debt as % of GDP	3.44	4.57	3.78	4.20	3.50	3.14	2.79	2.60	2.18	1.97	1.78	1.84	1.91	2.00	2.11
Debt as % of Revenue	68.24	108.92	100.05	47.65	66.66	96.84	91.57	93.22	81.49	76.20	68.73	76.59	80.31	86.16	92.70
Debt Service as % of Revenue	26.12	39.91	35.17	5.09	21.96	7.49	12.91	13.32	17.39	16.59	17.95	14.32	13.01	14.65	12.83
Personnel Cost as % of Revenue	33.36	37.20	48.00	15.49	29.72	40.21	39.18	40.06	40.10	40.14	38.83	40.20	40.23	40.26	40.28
Debt Service as % of Gross FAAC Allocation	42.03	51.78	56.46	8.43	28.06	12.64	21.74	22.28	28.98	27.35	29.09	23.66	21.44	23.11	21.06
Interest as % of Revenue	0.44	2.81	2.52	0.58	1.89	2.32	2.40	3.62	4.22	4.48	5.23	4.74	4.70	4.90	4.77
External Debt Service as % of Revenue	0.32	0.38	0.40	0.24	0.47	0.79	0.78	0.77	0.76	0.72	0.70	0.86	1.11	1.11	2.31

KANO STATE S-DSA COMMITTEE MEMBERS

SN	NAME	MDA
1	AHMAD GARBA AUWAL, ACA	OFFICE OF THE AG
2	ABBAS ILIYASU KARAYE	MoPB
3	ALIYU M ABDULLAHI	BUREAU OF STATISTIC
4	ZEENATU ZAKARI DATTI	Debt Management
5	ABDULLAHI BALA IDRIS	Debt Management