

**DELTA STATE  
DEBT SUSTAINABILITY  
ANALYSIS REPORT – DEBT  
MANAGEMENT STRATEGY**

**REPORT 2021**

**BY DELTA STATE TEAM  
BASED ON THE TEMPLATE  
PROVIDED BY WORLD BANK.**

## TABLE OF CONTENT

	<b>Pages</b>
1. Introduction	3
2. Delta State Fiscal and Debt Framework	6
3. Delta State Revenue, Expenditure, and Public Debt Trends (2016 – 2020)	11
4. Concept of Debt Sustainability Analysis	17
4.1 Medium-Term Budget Forecast	18
4.2 Borrowing options	20
4.3 DSA Simulation Results	21
4.4 DSA Findings	26
4.4.1 Conclusion	29
5. Debt Management Strategy	30
5.2 DMS Simulation Results	31
5.2.4 DMS Assessment	35
Annex I. Table Assumptions	36
Annex II. Historical and projections of the S1_Baseline Scenario	38

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.1 BACKGROUND**

Delta State is located in the mid-Western region of Nigeria, with Asaba as its capital city. The State was created on August 27<sup>th</sup> 1991 from the defunct Bendel State. It shares boundaries with Edo, Ondo, Anambra and Bayelsa State, it has twenty five Local Government Areas. Its estimated population as at 2018 was 6,037,463 at an annual growth rate of 2.74 percent. Delta State is a fast growing State with regards to infrastructural development most of which are being funded with borrowed funds. This has resulted in the accumulation of debt which may have serious negative effect on the domestic economy, if not well managed and monitored.

It is thus, imperative that debt sustainability analysis of Delta State be carried out for the actual period of 2016-2020 and a long term projected period of 2021-2030 in order to have an in-depth understanding of the trend and patterns in the state's public debt, expenditure, revenue and related policies adopted by the Delta State Government as well as to evaluate the prospective performance of the State's public finances.

### **1.2 SUMMARY AND FINDINGS:**

The dwindling fortune of Delta State arising from the collapse of oil price in international markets has impacted negatively on the State economy and its 25 Local Government Areas. This is particularly so, because oil has continued to remain the mainstay of Delta State economy contributing over 70 percent of its earnings. The state and its 25 local government areas have relied heavily on funds from the

federation allocation which has constituted over 80 percent of the state revenue. Therefore, the state and its local government areas have been found to have suffered greatly from executing planned projects meant for socio-economic development due to its weak internal revenue generation capacity amidst rising expenditure for administration and infrastructural development. This has made the State to resort to debt financing. To ensure that the State debt remain sustainable in the future, it is important that Delta State diversify its economy to include a vibrant non-oil sectors as well as widening of its tax base to include property tax and land rent so that the State internally generated revenue will improve tremendously to avoid a situation that will lead to the State debt becoming unsustainable in the future.

### **1.3 OVERALL RESULTS:**

The overall result of Delta State's debt sustainability analysis shows that the State debt position is currently sustainable, and in the near future up to 2027 but not in the far future as from 2028 upwards due to the fact that some of the debt sustainability variables such as the rising total external debt stock which was N12,907,010,139.15 in year 2016 and N23,581,439,117.87 in the projected year of 2030, the rise in Delta State total expenditure between year 2016 and projected year of 2030 as depicted in the total projected expenditure chart, including the slow growth cum constant dwindling real value of Delta State's Internally Generated Revenue due to high inflation growth rate in the Nation as well as the illustrations in the debt service as a percentage share of revenue chart that exceeded the 40% thresholds from the projected year of 2028 upwards shows that the state revenue will not be able to finance and service the Delta State's total debt in the far future as from 2028 upwards. Consequently, it is advisable for Delta State government as a matter of economic policy to do

something in good time to ensure that there is a reduction in its recurrent expenditure, diversify the state economy to reduce its over reliance on oil as the main source of income and increase drives for a higher internal generation of revenue (IGR)in order to overcome this problem of the state debt not being sustainable in the far future as from year 2028 upwards.

## **CHAPTER TWO**

### **DELTA STATE FISCAL AND DEBT FRAMEWORK**

#### **2.1 Fiscal Reforms in the last 3 to 5 years:**

Delta State fiscal reforms in the last 5 years since 2016 was predicted upon vision 2020 plan as well as the new vision 2030 plan. The principal goal was to make Delta State the most industrialized and developed State in Nigeria, diversify its economy in order to shift dependence on oil sector to other sector of the economy such as Agricultural sector and also to create a peaceful atmosphere and secured enabling environment that will attract new investors to the State as well as to encourage some oil producing companies that have moved out of the States as a result of constants community clashes, youth restiveness and other security breach to return back to the State. As a result of the foregoing, several program envisioned at achieving accelerated employment, diversification of the economy, improvement in internally generated revenue and social sector development were adopted by the Delta State government in the following area;

- i.** To tackle the issue of security challenge, the Delta State Security and Waterways Committee was created and is helping to prevent any breach of peace and security on the waterways, as well as kidnapping and armed robbery.
- ii.** The state between 2016 to 2020 has constructed over 77 trunk roads covering about 572km; and currently almost 2000km of roads projects are ongoing.
- iii.** Delta State is mainly agrarian, with its people mostly in subsistence farming while livestock farming is minimally undertaken. To encourage Deltans to go into livestock farming, the state government since the past five years has

been giving micro credit loan to its citizens for the improvement of livestock farming in Delta State. It is envisioned that by 2028, the state would become a net producer of hides and skin, beef and other agricultural products for consumption and export.

## **2.2 2021 BUDGET:**

Delta State 2021 budget was predicted on some assumptions including that the average price of oil will be \$58.52 a barrel in 2021 and \$54.83 a barrel in 2022 and will remain unchanged in real terms over the medium term; that the six-month London interbank offered rate on US dollar deposits will average 0.3 percent in 2021 and 0.4 percent in 2022; that the three-month euro deposit rate will average -0.5 percent in 2021 and 2022; and that the six-month Japanese yen deposit rate will yield, on average, -0.1 percent in 2021 and 0.0 percent in 2022. These are, of course, working hypotheses rather than forecasts, and the uncertainties surrounding them add to the margin of error that would, in any event, be involved in the projections. The estimates and projections are based on statistical information available through March 22, 2021. The oil price plummeted by about 60% following the spread of the global pandemic. As the oil sector accounts for the bulk of Delta State government revenue, this collapse in prices had profound implications for the budget as the projected revenue is no longer realistic. The sharp drop in oil price has impacted negatively on the FAAC returns to the state. In effect, the assumptions underlying the 2021 budget are no longer sustainable.

The Delta State approved 2021 budget has been amended to respond to recent developments in particular, COVID-19 pandemic. The scarce resources have been reallocated to ensure implementation of required

health and emergency measures as well as mitigate the negative socio-economic effects of the COVID-19 pandemic. The overall budget size was dropped from the sum of N395.4bn in 2020 to the approved budget sum of N383.9bn in 2021.

Delta State year 2021 budget was based on certain fiscal assumptions which the State has been forced to revisit as follows:

In Delta State 2021 budget, the sum of N173.32 billion is earmarked for recurrent expenditure. This figure is higher than the sum of N172.11 billion naira approved in the original 2020 budget. The absolute difference of N1.21 billion is less than 1% variance. A major part of the 2021 recurrent cost is the N85.30 billion earmarked for Personnel cost or 49.21% of the total recurrent budget figure for the year. The Personnel cost is higher than the original 2020 budget figure by N1.34 billion naira or 1.34%. The slight increase is meant to cater for traditional annual increment for worker as well as increment arising from promotions and other progression. The sum of N62.05 billion which was estimated for Overhead cost is higher than that of the original 2020 budget by only 2%.

The 2021 Budget was anchored on the following indices:

- 1.** The year 2021 State assumption for inflation was 11.95%.
- 2.** The year 2021 assumption for oil price bench mark was \$40 per barrel.
- 3.** The exchange rate for year 2021 was N379 per dollar.
- 4.** The oil production benchmark (MBPD) for year 2021 budget was 1.86 mpbd.
- 5.** The GDP Growth Rate for year 2021 was projected at 3.0%

Going forward, the State will in its medium term expenditure framework from 2022-2024 produce its annual budget based on year 2021 current economic conditions from which the State will



draw its budgetary fiscal assumptions for the next 3 years. Therefore, the Oil production benchmark for year 2022-2024 fiscal years has been

earmarked at \$25 per barrel in order to absorb any shock that may arise in the medium term period. Inflation rate has also been pegged at 14.13% with hope that low productivity in the State economy presently experienced as one of the effect of COVID-19 Pandemic will gradually improve as the socio-economic effect of the Covid-19 pandemic dropped during the medium term period.

Moreover, the State in the future fiscal years for all its socio-economic activities involving monetary transaction will adopt the exchange rate of N379/US\$1, since the federal government of Nigeria has officially reviewed the exchange rate upward in year 2021 from N360/dollar to N379/dollar. This is because the State is expecting capital inflow as export of commodities in the oil sector and agricultural sector increases from 2022 to 2024.

### **2.3 MEDIUM TERM DEBT MANAGEMENT STRATEGY:**

The State Medium Term Debt Management Strategy is predicated upon SFTAS program directive for Sub-National Debt management. Going forward, the State is poised towards making sure that stock of domestic arrears is greatly reduced to a minimum level if not totally cleared.

The State debt management strategy is to identify the constituents of domestic stock of arrears and to have the explicit aggregate amount of

this stock of domestic arrears that will be given priority consideration and be settled consistently by the state Government. This will ensure that stock of arrears reduces annually and do not grow to the extent of having serious negative effect on the State's economy. With this planned action, it is envisioned that Delta State Domestic Arrears will be reduced to the barest minimum in the near future

## CHAPTER THREE

### REVENUE, EXPENDITURE, FISCAL AND DEBT PERFORMANCE, 2016-2020

**3.0: TABLE 1: REVENUE PERFORMANCE 2016-2020**

	2016	2017	2018	2019	2020
	Actual	Actual	Actual	Actual	
FAAC	19,075,189,340.91	19,693,960,490.28		20,960,436,830.57	18,864,390,000.00
Statutory	20,698,241,666.93	28,789,923,775.74	43,174,289,641.62	41,808,714,151.81	34,416,390,000.00
Derivation	47,090,971,140.54	81,055,600,747.11	182,450,270,523.43	161,490,407,134.93	153,042,870,000.00
VAT	9,592,344,336.46	11,321,599,918.28	13,060,073,803.71	14,767,378,587.54	13,290,640,000.00
IGR	45,586,142,651.63	53,109,509,882.73	52,472,283,670.97	60,338,363,355.97	56,638,480,000.00
Grant	2,756,149,772.00	7,140,044,964.57	2,769,511,100.00		9,460,280,000.00
<b>Total</b>	<b>144,799,038,908.47</b>	<b>201,110,639,778.71</b>	<b>293,926,428,739.73</b>	<b>299,365,300,060.82</b>	<b>285,713,050,000.00</b>

From the above revenue table, it could be seen that the only year that revenue declined between 2016 and 2020 was in 2020 when it declined by N13, 652,250,060.82 from what it was in the previous year. The revenue was N144, 799,038,908.47 in 2016 compared to the amount N299, 365,300,060.82 in 2019. Nevertheless, the revenue fell to N285,713,050,000.00 in 2020. This decline in the State Revenue in year 2020 is as a result of the State and nation wide economic recession that year caused by the Pandemic.

**3.1: TABLE 2: EXPENDITURE TREND FROM 2016 – 2020.**

	2016	2017	2018	2019	2020
	Actual (cash basis)	Actual (Accrued Basis)	Actual (Accrued basis)	Actual (Accrued basis)	Actual (Accrued basis)
Salaries	67,435,016,139.57	68,545,192,209.12	71,298,285,223.18	75,635,373,045.94	71,853,604,393.64
Overhead	61,046,559,640.82	91,088,824,853.68	111,961,473,247.82	105,853,030,450.76	7,225,625,685.18
Other Recurrent	54,170,531,442.04	61,808,489,881.05	144,965,490,335.29	174,886,276,194.06	370,760,057.41
Capital Ex	54,170,531,442.04	61,808,489,881.05	144,965,490,335.29	174,886,276,194.06	61,473,010,000.00
Public Debt charge	66,918,695,103.16	74,061,416,481.42	157,770,344,687.21	188,948,243,552.56	1,137,599,342.66
Repayments	14,507,463,844.12	13,644,493,004.17	67,216,564,875.90	3,714,469,179.25	11,312,600,000.00
<b>Total</b>	<b>318,248,797,611.75</b>	<b>370,956,906,310.49</b>	<b>698,177,648,704.69</b>	<b>723,923,668,616.63</b>	<b>153,373,199,478.89</b>

The above table shows that the expenditure was N318,248,797,611.75 in 2016 compared to the amount of N153,373,199,478.89 in 2020. The decline in the State Expenditure in year 2020 is as a result of the Corona virus Pandemic which almost turn the State Economy upside down.

### 3.2: TABLE 3: DELTA STATE GDP FROM 2016 – 2020

			2016	2017	2018	2019	2020
Delta State GDP (at current prices)	Naira	Million	2,895,425.26	4,057,812.28	4,963,102.21	4,471,182.21	4,824,044
Exchange Rate NGN/US\$ (end-Period)	NGN/US\$						

The above table show that the GDP was N2,895,425.26 in 2016 compared to the amount of N4,824,044 in 2020. The source of this GDP figures was from NBS/ guidance note for completing the data request developed by the DMO and the World Bank.

### 3.3: Table 4: DELTA STATE TOTAL EXTERNAL DEBT STOCK FROM 2016 - 2020

Creditor / Loan Title	2016	2017	2018	2019	2020
EDF: Delta State Oil Palm Dev. (29%)	4,330,814.03	4,574,383.36	4,036,115.55	3,635,251.45	3,112,834.18
IDA: Delta State Health System Dev.	1,466,252.07	1,510,765.17	1,436,100.98	1,385,218.30	1,383,860.54
IDA: Delta State HIV/AIDS programme	1,690,100.12	1,739,945.83	1,652,481.41	1,592,423.08	1,605,984.46
IDA: Delta State third fadama project.	5,772,863.26	6,120,527.49	5,924,702.03	5,757,367.46	5,768,904.30
IDA: Delta State 2 <sup>nd</sup> HIV/AIDS programme	3,229,080.60.	3,423,548.36	3,351,496.49	3,332,218.40	3,391,257.65
IDA: Delta State employment and Expenditure for Result	24,589,649.89	39,762,128.90	45,705,000.65	45,705,000.65	45,705,000.00
IFAD: Delta State community	1,239,306.06	1,260,191.97	1,181,051.32	1,121,941.79	1,088,577.05

based Natural Resources Mgt Project.					
<b>Total in USD</b>	<b>42,318,066.03</b>	<b>58,391,491.08</b>	<b>63,286,948.43</b>	<b>62,529,421.13</b>	<b>62,056,418.73</b>
<b>Total in Naira</b>	<b>12,907,010,139.1 5</b>	<b>17,809,404,779. 4</b>	<b>19,302,519,271.1 5</b>	<b>19,071,473,444.6 5</b>	<b>23,581,439,117.8 7</b>

The table above shows a consistent increase in Delta State's External debt Stock from year 2016 when it was \$42,318,066.03 (N12,907,010,139.15) up to year 2019 when it was \$62,529,421.13 (N19,071,473,444.65) but it slightly declined in dollar value to \$62,056,418.73 in 2020 while the naira value is still on the increase to the tune of N23,581,439,117.87 as a result of the higher exchange rate which is only a nominal increase caused by the devaluation of naira in the foreign exchange market.

### **3.4: TABLE 5: DELTA STATE TOTAL EXTERNAL DEBT SERVICES FROM 2016– 2020 IN NAIRA**

Categories	2016	2017	2018	2019	2020
<b>existing external debt Services by categories</b>					
<b>Total External Debt Services in naira</b>	<b>239,633,613.94</b>	<b>263,464,840.92,</b>	<b>310,794,847.07</b>	<b>338,957,827.69</b>	<b>207,371,730.96</b>
EDF/IDA/IFAD	<b>239,633,613.94</b>	<b>263,464,840.92,</b>	<b>310,794,847.07</b>	<b>338,957,827.69</b>	<b>207,371,730.96</b>
/BADEA Fixed	-	-	-	-	
IBRD/ADB/IDB Fixed	-	-	-	-	
IBRD/ADB/IDB Floating	-	-	-	-	
Multilateral-5	-	-	-	-	
Multilateral-6	-	-	-	-	
Bilateral (AFD)	-	-	-	-	
Bilateral-2	-	-	-	-	

The table above shows a consistent increase in the State total External Debt Service from 2016 to 2020. The External Debt was **N239,633,613.94 in 2016 compared to N207,371,730.96 in 2020**

### 3.5: TABLE 6: DELTA STATE DOMESTIC DEBT STOCK FROM 2016 – 2020

	2016	2017	2018	2019	2020
existing domestic debt stock by categories					
Total Domestic Debt	<b>241,231,439,060.79</b>	<b>228,328,360,009.20</b>	<b>228,805,996,159.83</b>	<b>233,892,694,776.08</b>	<b>227,018,001,548.77</b>
Commercial Loans	1,879,145,542.61	3,791,682,429.91	1,591,356,365.58	1,335,617,487.32	9,500,000,000.00
State Bonds	17,597,736,499.84	7,701,234,719.43	-	-	
Contractors' Arrears	108,521,122,753.58	110,740,916,972.66	108,036,800,559.69	117,644,134,053.18	95,998,332,911.38
Pensions & Gratuity	23,633,355,808.46	18,593,501,654.17	14,168,983,850.17	12,326,872,629.17	14,690,084,316.30
Government-to-Government Borrowing	68,863,078,045.57	67,977,682,285.79	66,951,679,396.90	65,762,739,969.11	99,907,368,943.63
Salary Arrears & Other Staff Claims	-	-	-	-	
Judgement Debt	780,332,894.63	509,772,091.61	506,172,091.61	572,597,091.61	570,136,458.00
Other Liabilities	19,956,667,516.10	19,013,569,855.63	37,551,003,895.88	36,250,733,545.69	6,352,158,919.46

The table above shows that the State Domestic debt was **N241,231,439,060.79 in 2016 compared to N227,018,001,548.77 in 2020 which shows a decline of N14,213,437,512.02.**

**3.6: TABLE 7: DELTA STATE DOMESTIC PRINCIPAL PAYMENT FROM 2016 – 2020**

	<i>2016</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>	<i>2020</i>
<i>existing Domestic Amortization Total</i>	<b>125,419,710,556.89</b>	<b>51,711,677,954.12</b>	<b>143,944,353,615.32</b>	<b>61,309,117,258.05</b>	<b>71,984,509,216.26</b>
Commercial Loans	2,620,854,457.39	1,919,005,895.51	51,827,804,679.64	-	411,403,581.82
State Bonds	7,592,716,926.38	9,896,501,780.41	5,351,234,719.43	-	
Contractors' Arrears	70,888,301,535.37	28,870,582,769.61	69,150,437,679.39	51,595,139,987.20	50,116,887,562.05
Pensions & Gratuity	40,024,437,085.40	8,892,214,088.32	7,550,000,000.00	6,000,000,000.00	3,800,000,000.00
Government-to-Government Borrowing	764,057,937.80	885,395,759.80	1,044,549,223.01	1,188,939,427.39	3,779,118,072.39
Salary Arrears & Other Staff Claims	-	-	-	-	
Judgement Debt	-	304,880,000.00	9,300,000.01	-	67,500,000.00
Other Liabilities	3,529,342,614.55	943,097,660.47	9,011,027,313.84	2,525,037,843.46	13,809,600,000.00
<i>existing Domestic Amortization</i>	<b>125,419,710,556.89</b>	<b>51,711,677,954.12</b>	<b>143,944,353,615.32</b>	<b>61,309,117,258.05</b>	<b>71,984,509,216.26</b>

The table above shows that the State domestic principal payment was **N125, 419,710,556.89 in 2016 compared to N71, 984,509,216.26**

In the year 2020.which shows a decline between 2016 and 2020.

**3.7: TABLE 8: DELTA STATE DOMESTIC INTEREST PAYMENTS**

	2016	2017	2018	2019	2020
<i>existing Domestic Interest Payments (commercial + state bond)</i>	<b>16,440,688,190.16</b>	<b>14,131,299,133.16</b>	<b>13,255,552,435.25</b>	<b>14,061,024,962.61</b>	10,663,988,731.09
Commercial Loans	<b>371,169,516.17</b>	<b>405,966,459.17</b>	<b>544,110,833.47</b>	-	
State Bonds	<b>16,069,518,673.99</b>	<b>13,725,332,673.99</b>	<b>12,711,441,601.78</b>	<b>14,061,024,962.61</b>	10,663,988,731.09

The table above shows that the State Domestic interest payment was **N16,440,688,190.16** in 2016 compared to N10,663,988,731.09 in 2020.



## CHAPTER FOUR

### CONCEPT OF DEBT SUSTAINABILITY, ASSUMPTION, RESULTS ANALYSIS AND FINDING.

#### 4.0 CONCEPT OF DEBT SUSTAINABILITY:

A Debt Sustainability Analysis [DSA] can be explained as an analysis conducted by an entity to evaluate its ability to service its stock of Debt over a period of time without recourse to external financing such as debt restructure, debt forgiveness and debt relief. A DSA analyses both the historical and projected status of a Debt portfolio under varied possible scenarios. DSA thus reflects a States or country's solvency, Liquidity and Adjustment capacity. Alternatively, fiscal policies are considered 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. The objectives of a State's DSA are to monitor and get general overview of the debt situation, assess the State's indebtedness and debt service cost as well as to provide analytical tools to Debt Managers for managing the portfolio in terms of cost and risk.

As a guide to international best practice in debt management, the World Bank and DMO Abuja has presented the following debt burden indicators computed in the table below to access debt sustainability, some with thresholds and others without thresholds

**Table 9: DEBT BURDEN INDICATORS**

With indicative thresholds	Without Thresholds
Debt / GDP – 25%	Debt Service / FAAC Allocation
Debt / Revenue – 200%	Interest Payment / Revenue
Debt Service / Revenue – 40%	External Debt Service / Revenue
Personnel Cost / Revenue – 60%	

#### **4.1 MEDIUM TERM BUDGET FORECAST:**

The 2021 Delta State revised budget is tailored after the Federal Government’s macro-economic framework which key assumptions are shown in the table below:

**Table 10: MACRO ECONOMIC FRAMEWORK**

<b>Item</b>	<b>2020Budget Assumptions</b>	<b>Approved 2021Budget Assumptions</b>
National Inflation	10.36%	11.95%
National Real GDP Growth	3.6%	3.0%
Oil Production Benchmark (MBPD)	2.18	1.86 mbpd
Oil Price Benchmark (\$)	57	40USD
NGN:USD Exchange Rate	305	379
Other Assumptions		
Mineral Ratio	34%	27.0%

It is worthy of note to state that it was under the above macro-economic framework that the State DSA is being conducted.

##### **4.1.1: REVENUE ASSUMPTIONS:**

The State revenue assumption for medium term budget forecast is predicated upon emerging economic realities. Following the impact of the pandemic, the Brent crude oil price crashed as low as \$23.5 per barrel in the early months of 2021 while oil production in year 2020 to date has dropped significantly below 2.0 million barrels per day. Though, oil price hovers around \$40/barrel as at 30<sup>th</sup> June, 2021. The

official exchange rate has also been adjusted from N360/US\$1 by the Central Bank of Nigeria (CBN) in year 2020 to N379/dollar in 2021,. There will be increase in inflation rate based on the October 2020 consumer price index (CPI) report recently released by the National Bureau of Statistics (NBS)for activities in September 2020, the inflation rate was 12.50% (year-on-year) which is 4.6% points higher than the rate recorded in January 2021(i.e. 11.95%). Based on this, the State for its medium term revenue assumptions has aligned with the assumption of Federal Government inflation rate of 14.13%.It is our view that things may not get worse than they currently are. That being the case, our revenue assumption for the medium term of at least three years has taken account of our actual receipts in 2020 and also our receipt over the first 6 six months of the year 2021.

#### **4.1.2: EXPENDITURE ASSUMPTIONS:**

The State expenditure assumptions for the medium term will be concentrated on projects and programmes that will alleviate suffering of citizens as a result of the economic downturn caused by COVID-19. This being the case, the State in its medium term expenditure will ensure that all monies to be expended will impact on activities such as medical procurements, Social Security, funding of capital projects that can create employment and keep workers on the Job, sustenance of major road construction projects, Secretarial Complex, Agricultural programmes, and other vital programmes all geared towards improving healthcare and stimulating economic activities of the State. For all these project and programmes, provision will be made for them in the medium term fiscal years.

## 4.2: BORROWING ASSUMPTIONS

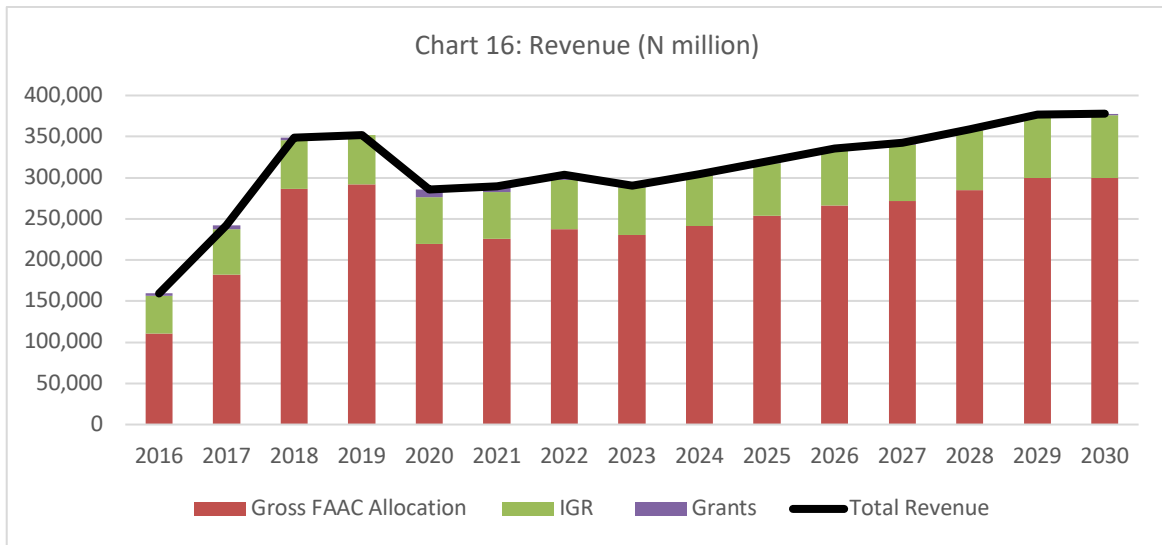
Yrs	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	30,723.06	48,967.26	80,860.74	88,687.75	100,316.62	120,557.59	152,092.90	174,554.36	197,630.10	234,946.73

### **DELTA STATE GROSS BORROWINGS REQUIREMENTS FROM 2021 - 2030**

Looking at the above State Gross borrowing requirements from 2021 to 2030, it shows that Delta State is presently Debt Sustainable and will still need to borrow to finance its infrastructural project in future. Therefore, there is need for the State to borrow from 2021 to 2030 through a commercial bank loan with a maturity of 7 years and above, with an average of 30%, and another commercial bank loan of maturity between 1 to 6 years with an average of 25%, and also State bond with maturity of 8 years and above, with an average of 15%. The State will also go for external financing through multilateral or bilateral financing of its projects with a maturity of 8 years and above, with an average of 15%. The purpose of the State reducing its external borrowing to only 15% of the total borrowing plan is to avoid the risk involved in external borrowing.

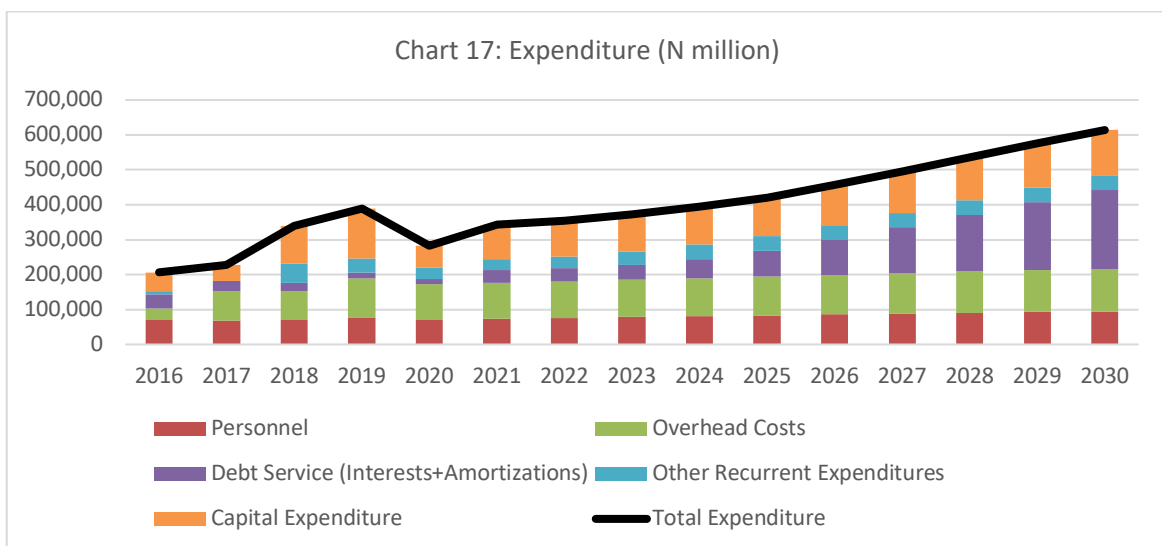
### 4.3: DSA SIMULATION RESULTS AND FINDINGS

#### 4.3.1: Projected revenue chart



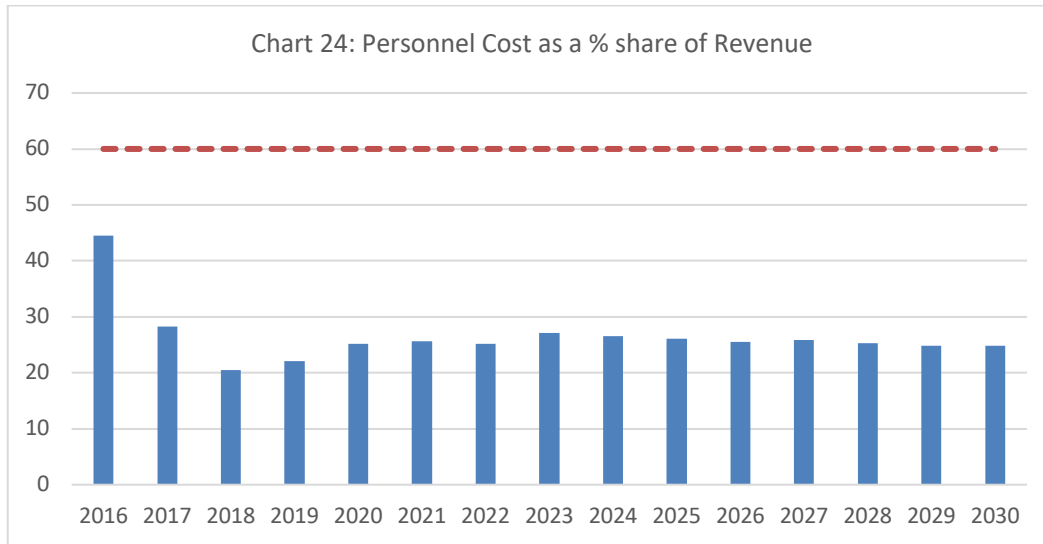
The above chart shows that the Delta State revenue rises from 2016 up to 2018 and remain steady till 2019 after which it falls in 2020 then rises a little in 2021 and 2022 and dropped again in 2023 after which it rises at a slow rate from 2023 to 2030.

#### 4.3.2: Projected total expenditure chart



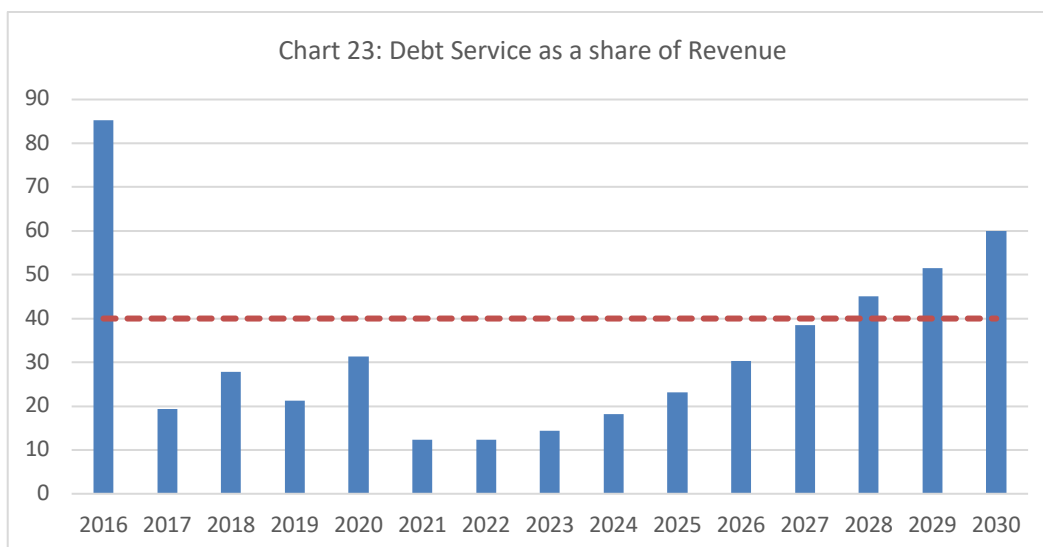
The above chart shows that the State total Expenditure keeps rising from 2016 up to 2019, it declines in 2020 and also rises from 2021 through the projected years up to 2030.

### 4:3:3



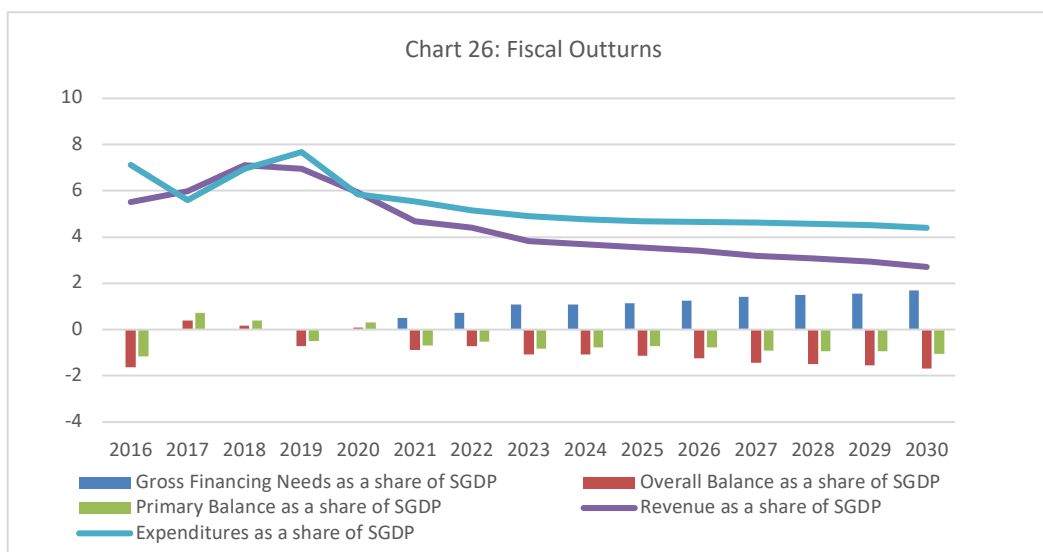
The above chart shows that the personnel cost of Delta State is well below the 60% threshold.

#### 4.3.4: Debt service as a % share of revenue chart

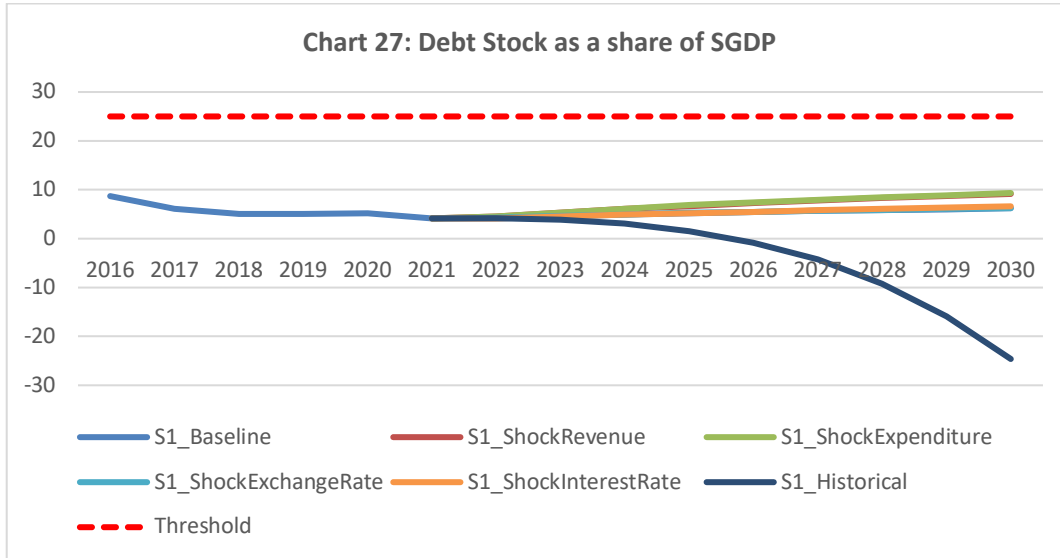


The above chart shows that Delta State debt service exceeded the 40% threshold as from year 2028 upwards. This further shows that Delta State may have challenge servicing its debt in the far future as from 2028 upwards.

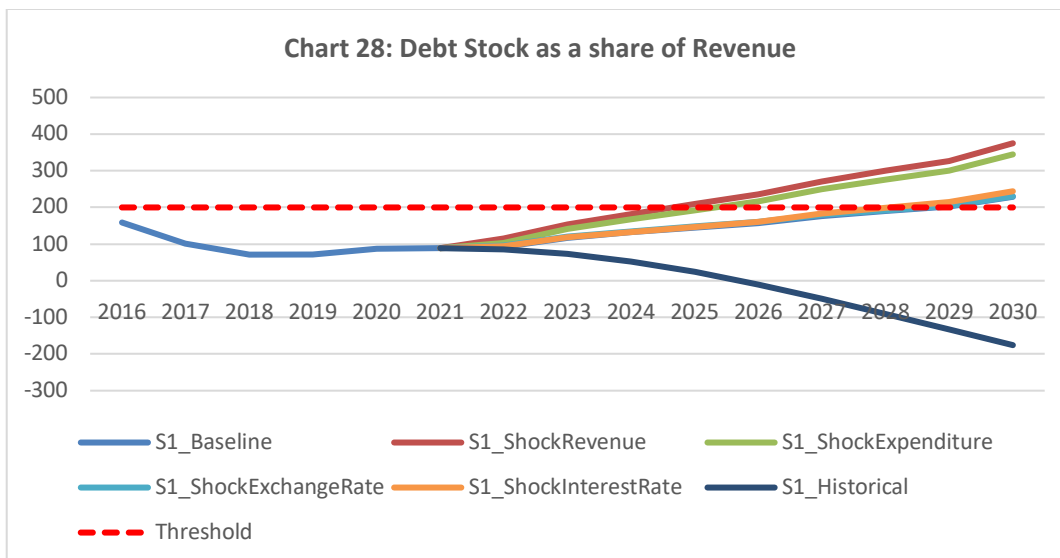
#### 4.3.5: Fiscal out-turns chart



### 4.3.6: Baseline, shock and it Scenario

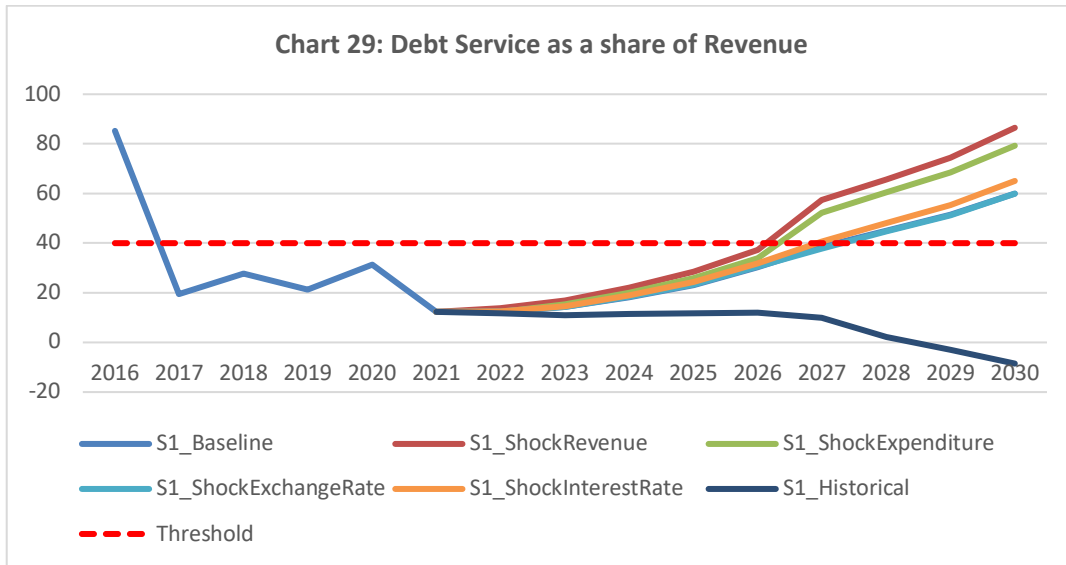


### 4:3:7 Baseline, Shock and it Scenario

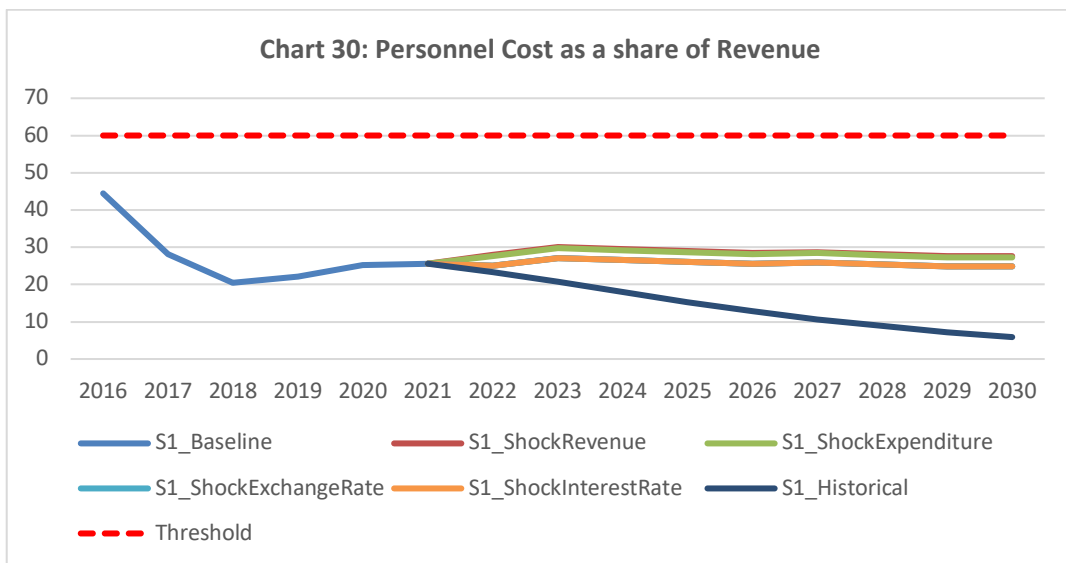




### 4:3:8 Baseline, Shock it Scenario



### 4:3:9: Baseline, Shock it Scenario



#### **4:4:0 MAIN FINDINGS**

The main findings are as follows:

- i.** State external debt stock in 2016 rises from N12, 907,010,139.15 up to N19, 302,271.15 in 2018. It fell in 2019 to N19, 071,474,444.65 and rises again to N23, 581, 439, 117.87 in year 2020.
- ii.** The State domestic debt stock is declining, from 2016 when it was N241, 231,439,060.79 billion compared to N227, 018,001,548.77 billion in 2020.
- iii.** The total State public debt stock is on the decline too. In 2016 it was N254, 138,449,199.94 compared to N250, 599,440,666.64 in 2020.
- iv.** The Total external Debt service increase from N239, 366,613.94 in 2016 to N263, 464,840.92 in 2017. It increases again to N310, 794,847.07 in 2018 and further increased to N338, 957,825.62 in 2019 followed by a decline of N 207,371,730.96 in year 2020.
- v.** The total amount of only domestic debt servicing in 2016 was N158, 301,086,937.21 billion compared to N93, 312,486,678.44 billion in 2020.
- vi.** The total amount of total public debt servicing in 2016 was N158, 540,720,551.15 billion compared to N93, 519,858,409.40 in 2020 which shows a decline. The above shows that the debt burden on the state is declining presently.
- vii.** Domestic debt was 94.3% percent of total debt in 2016, while it was 90.59% percent in 2020.

- viii.** The external debt was only 5.07% percent of total debt in 2016, while it was only 9.41% in 2020.
- ix.** The increasing force in the state total public debt is contractors' arrears and need to be checked before it leads to serious debt overhang in the state. In 2016 contractors' arrears was 108,521,122,753.58 billion compared to N95,998,332,911.38 in 2020.
- x.** In 2016, the percentage of contractor arrears in total public debt was 42.70% percent and it decline to 38.30% in 2020.
- xi.** The total revenue of the state for the period between 2016 and 2020 is on the increase. In 2016 it was N144,799,038,908.47 billion compared to N285,713,050,000.00 billion in 2020. However, it is pertinent to point out that this increase is only in nominal value and not in real value since the value of the Naira has seriously fallen from an average of N257.66 to 1 US Dollar in 2016 to the Naira value of an average of N380.25 to 1 US Dollar in 2020 and an average of N417 to 1 US Dollar in 2021 in addition to the high annual rate of inflation in the nation ever since year 2016 to date. Arising from the foregoing, It has been observed that Delta State need to improve on its total revenue generation to avoid the State debt becoming unsustainable in the future.
- xii.** The State Expenditure shows an uneven trends between 2016 and 2020. In 2016 the Expenditure was N285,713,050,000.00 and it rises up to N723,923,668,616.63 in 2019 and dropped to N153,373,199,478.89 in 2020.
- xiii.** As at end December 2019, the amount of non-flow debt in the State total Public Debt Stock is N130,543,603,773.99.
- xiv.** Findings shows that the percentage amount of non-flow debts in the total domestic debt stock as at end December 2020 is

N49.01%, while the percentage of flow-debts in the State total Domestic Debt Stock is 50.99%

- xv.** The State's Debt / Revenue indicator for debt burden as can be seen in the chart is quite below the World Bank stipulated threshold of 200% from 2016 – 2020 and in the projected years.
- xvi.** The debt service as a percentage share of revenue is below the 40% threshold from base year 2016 up to the projected year of 2027 and never exceeded it. However, as from year 2028 the debt service as a percentage share of revenue exceeded the 40% threshold as illustrated in the chart.

#### **4.4.1 CONCLUSION**

The overall result of Delta State's debt sustainability analysis shows that the State total debt position is currently sustainable, and in the near future up to 2027, but not in the far future as from 2028 upwards due to the fact that some of the debt sustainability variables such as the rising total external debt stock which was N12,907,010,139.15 in year 2016 and N23,581,439,117.87 in the projected year of 2030, the rise in Delta State total expenditure between base year 2016 and projected year 2030 as depicted in the total projected expenditure chart, including the slow growth cum constant dwindling real value of Delta State's Internally Generated Revenue due to high inflation growth rate in the Nation as well as the illustrations in the debt service as a percentage share of revenue chart that exceeded the 40% thresholds from the projected year of 2028 upwards shows that the state revenue will not be able to finance and service the Delta State's total debt in the far future as from 2028 upwards. Consequently, it is advisable for Delta State government as a matter of economic policy to do something in good time to ensure that there is a reduction in its total expenditure, diversify the state economy to reduce its over reliance on oil as the main source of income and increase drives for a higher internal generation of revenue (IGR) in order to overcome this problem of the state debt not being sustainable in the far future from year 2028 upwards.

## **CHAPTER FIVE**

### **5.0 DEBT MANAGEMENT STRATEGY**

Public Debt management is the process of establishing and executing a strategy for managing the government's debt in order to raise the required amount of funding at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk.

In debt management there are three debt management performance indicators utilized to assess the debt management strategies outcomes known as: Debt Stock/ Revenue (%), Debt Services / Revenue (%), and Interest / Revenue (%). It should also be known that debt which result from borrowing has a cost that result from the interest payment on the debt. This interest payment is also liable to risk which result from the unexpected changes in the rate of interest payment associated with domestic borrowing as well as external borrowing and vagaries in exchange rate associated usually with External borrowing.

#### **5.1 ALTERNATIVE BORROWING OPTION**

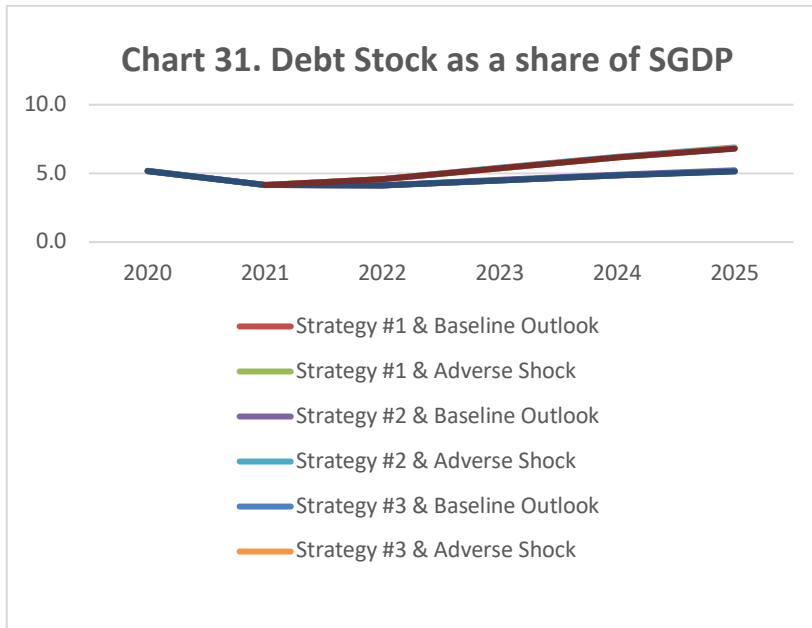
The State has decided to use three alternative borrowing options as part of its debt management strategy (DMS) known as strategy two (S2), Strategy three (S3), and Strategy four (S4). In Strategy two, the State planned to take commercial bank loan in other to fund Agricultural activities and infrastructural development. The maturity period for the commercial bank loan will be for six years and six months at 4% interest rate and two years grace period for its domestic borrowing options. Moreover, the State has decided not to go for bond in its funding gap if the maturity period is not up to six years, but will go for bond if the maturity period is up to six years. As for its external borrowing for strategy two, the State planned to take \$50m dollars loan per annum at 3% interest rate with 18years maturity period and 28 months grace period. For Strategy 3, the State has decided to take domestic loan from commercial bank to fund Agricultural production and infrastructural development provided that such domestic loan

must be maintained at 11% interest rate and for 6years maturity period with also 2years grace period before repayment commenced. For its external debt in S3, the State will take concessional loans from world bank and African development bank of \$25m dollar per annum at 3% interest rate and 72 months maturity period as well as 2years grace period to fund infrastructural development in the State. But in its Strategy 4, Delta State will take commercial bank loan for its domestic debt at 11% interest for 6years and 2 years grace period as well as borrowing through bonds that will be maintained at 10% interest rate and also 1 year's maturity period with 2 years grace period before repayment starts. For strategy 4 external borrowing, the State planned to take bilateral loans of \$50m per annum at 3% interest rate for 10 years maturity period and 2 years grace period.

## **5.2 DMS SILMULATION RESULTS**

During the projection base year period of 2021, the total domestic debt and total external debt of Delta State where N41,665,000,000.00 and N215,311,000,000.00 respectively compared to the projection debt profile position in year 2025 where the total domestic debt was N107,089,000,000.00 and total external debt was N357,035,000,000.00 bringing the total public debt profile of Delta State in the projection year period of 2025 to N464,123,000,000.00 as compared to the total public debt of N256,966,000,000.00 during the projection base year period year of 2021. This shows an increase in the total public debt of the State from the projection base year period of 2021 to year 2025 projected period.

## 5:2:1 DEBT / REVENUE



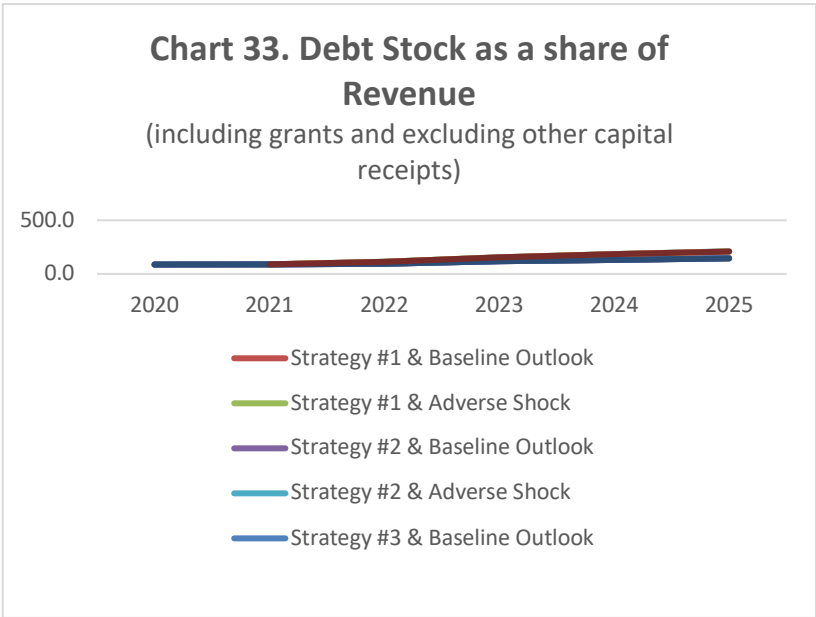
The above chart shows that while the State Debt stock was slightly rising the amount of debt services was also rising.



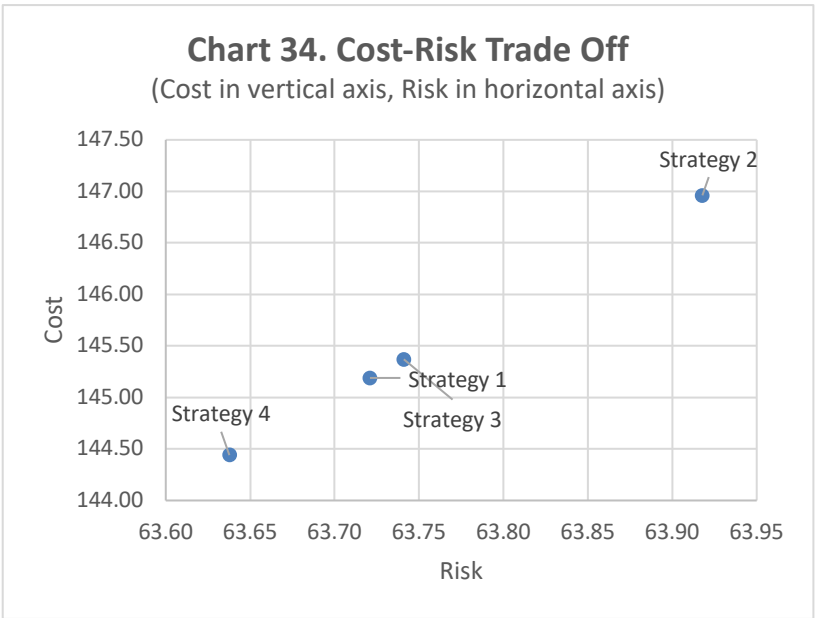
An observation from the chart above shows that Strategy 4 has the lowest risk and cost management trade off. It is also clear that strategy 2 has the highest cost and risk trade off, followed by strategy 3, and strategy 1. Therefore, Delta State will adopt strategy 4 as its debt management strategy in other to reduce cost, risk and debt burden of the State for effective debt management.



**5:2:2 DEBT SERVICE / RVENUE**



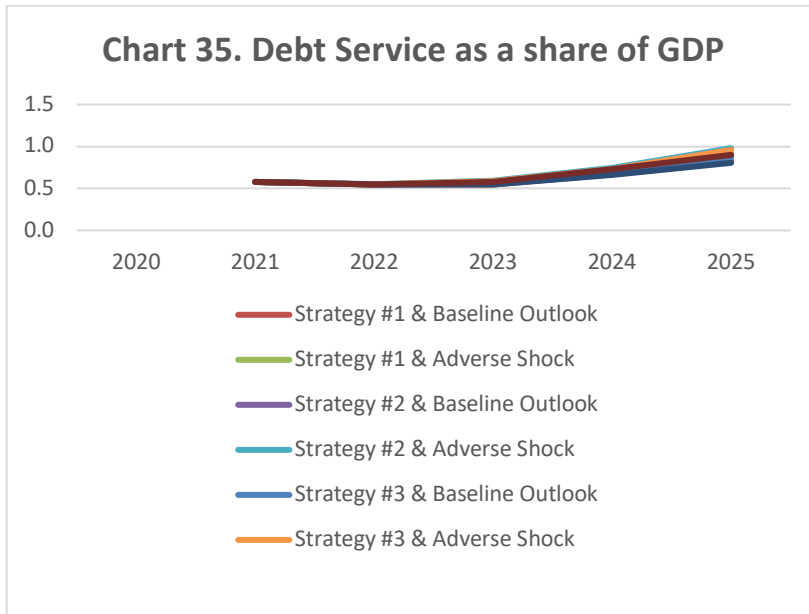
The above chart shows that while the State revenue was slightly rising the amount of debt stock was also rising.



An observation from the chart above shows that Strategy 4 has the lowest risk and cost management trade off. It is also clear that strategy 2 has the highest cost and risk trade off, followed by strategy 3, and strategy 1. Therefore, Delta State will adopt strategy 4 as its

debt management strategy in order to reduce cost, risk and debt burden of the State for effective debt management

### 5:2:3 INTEREST / REVENUE



The above chart shows that while the State revenue was slightly rising the amount of debt stock was also slightly rising.



An observation from the chart above shows that Strategy 4 has the lowest risk and cost management trade off. It is also clear that strategy 2 has the highest cost and risk trade off, followed by strategy

3, and strategy 1. Therefore, Delta State will adopt strategy 4 as its debt management strategy in order to reduce cost, risk and debt burden of the State for effective debt management.

#### **5:2:4 DMS ASSESSMENT**

An observation from all the chart above shows that Strategy 4 has the lowest risk and cost management trade off. It is also clear that strategy 2 in all the chart has the highest cost and risk trade off, followed by strategy 3, and strategy 1. Therefore, Delta State will adopt strategy 4 among all the strategies as its debt management strategy in order to reduce cost, risk and debt burden of the State for effective debt management and performance.

In the near future by 2025, It is worth mentioning that improvement can be expected between the State current public debt portfolio which was N227,225,373,279.73 in 2020 due to the expected constant yearly deduction in the State debt profile and adoption of the best prudent strategy 4 that has the lowest cost and risk trade off.

## **ANNEXURE 1                      TABLE OF ASSUMPTION**

1. The Delta State Fiscal Strategy Paper 2021-2023 projection for oil production was 1.88mbpd. In making projection for the 2022 budget, the daily projected oil production was retained at 1.8mbpd so that the State do not get unduly over ambitious. It is expected however, that the current steady growth in production will be sustained due to the world economy opening up gradually following the ease in restrictions from the outbreak of the COVID-19 pandemic and the sustained peace in the Niger Delta Region. For non-oil revenue, it is assumed that the current reforms by the Federal Government, especially in Federal Inland Revenue and Nigeria Custom Services will continue to increase the non-oil revenue flowing to the federation account

Deduction from Statutory Allocation accruable to the State is Based on Irrevocable standing payment order (ISPO) Issued to The Office of the Accountant General of the Federation (OAGF)/CBN IRO of Loan and Bond Facilities including Fertilizers and Software Acquired by the RMARFC.

This is based on the oil production from the oil producing communities of the state. 1.88 bpd is maintained as the projected oil production

Estimated using an elasticity based forecast: The estimate for 2022 is in line with the current rate of receipts as well as the expected collection of VAT by state Government based on sustained court Judgment by River State, however in the case of Supreme court sustains Judgments, Delta State will have all the VAT collection as revenue.

Internally Generated Revenue (IGR) – IGR forecast is estimated using the actual receipt of N35 billion from Jan. – June, 2021 (proportionate of N5.4b monthly) with a mark-up of 5% to project for 2022. It is envisaged that with the gradual reduction of COVID-19, economic activities will pick up in 2022. Also, with the renewed vigour with which the State Government is going about revenue drive, it is expected that IGR will increase in 2022.

The State Government is maintaining the 2021 provision. SUBEB Grants is assumed at N2 billion per annum, N1.944 billion for SFTAS, external grants, (WASH N650 million, UNICEF N138 million) etc.

The State is expected to Generate more Revenue from concessioning activity from its developed Capital Asset  
The State is also expecting some funds from Paris refund, FGN Infrastructure (Road) Refund which will be channel to Capital projects from year 2022 to 2023

Personnel costs relate to the salaries and allowances of public/Civil servants and political office holders. Actual Personnel costs has been stable from 2016 to 2020. Personnel Costs increased from N68 billion in 2016 to N87 billion in 2020. Personnel costs performance against budget has always been very close to budget from 2016 to 2020 as variance in the 4 years was less than 5%.

Overhead expenditure relates to the operational costs incurred by MDA's. A proportion of these, classified as regular overheads are released monthly to MDA's for the day-to-day running costs. Non-regular overheads relate to periodic activities of government.

**OTHER EXPENDITURE:** The State is assuming that Transfer to Local Government of 10% IGR and 2.5 % pension support of local Government Employees will continue to support the payment of salary to Primary school teachers of the State.

Capital Expenditure is expected to increase as the citizenry is yawning for increased infrastructural Development in all sectors such as Health, Road in Rural and Urban centers, Security, Electricity and others. State Capital Expenditure will continue to increase from year 2022 to 2030 to be able to achieve and meet the citizen aspirations.

The State has assumed that they will maintain a projected average of N5bn as closing Cash and Bank Balance from year 2022 to 2030

The State has decided to reduce the chunk of external debt on an average of \$1m over the life span of the various external debt subject to the amortization schedules prevailing at the CBN exchange rate.

The State have assumed that domestic debt will be reduced by 10% per annum based on the approved and agreed amortization schedules.

**Insert the Borrowing Terms for New External Debt: interest rate (%), maturity (# years) and grace period (#)**

The State has a \$50m borrowing plan per Annum at 3% interest rate, 10 years Maturity period and 2 years 6months grace period

The State has a \$50m borrowing plan per Annum at 3% interest rate, 10 years Maturity period and 2 years grace period

**Insert the Borrowing Terms for New Domestic Debt: interest rate (%), maturity (# years) and grace period (#)**

The State has decided to maintain a 11% interest rate, 6 years Maturity period and 2 years grace period

The State has decided to maintain a 14% interest rate, 6 years Maturity period and 2months grace period

The State has decided to maintain a 9% interest rate, 6 years Maturity period and 2years grace period

The State has decided to maintain a 4% interest rate, 6 years Maturity period and 2 years grace period

The State has decided to maintain a 11% interest rate, 6 years Maturity period and 2 years grace period

The State has decided to maintain a 14% interest rate, 6 years & 6months Maturity period and 2 years grace period

The State has a \$50m borrowing plan per Annum at 3% interest rate, 17 years Maturity period and 2 years grace period

The State has a \$40m borrowing plan per Annum at 3% interest rate, 17 years Maturity period and 1 years 6months grace period

The State has decided to maintain a 4% interest rate, 6 years & 6months Maturity period and 2 years grace period

The State has decided to maintain a 6% interest rate, 6 years Maturity period and 2 years grace period

The State has a \$50m borrowing plan per Annum at 3% interest rate, 18 years Maturity period and 2 years & 4months grace period

The State has decided to maintain a 11% interest rate, 6 years Maturity period and 2 years grace period

The State has decided to maintain a 14% interest rate, 6 years & 6months Maturity period and 2 years grace period

The State has decided to maintain a 9% interest rate, 72months Maturity period and 2 years grace period

The State has a \$25m borrowing plan per Annum at 3% interest rate, 120 months Maturity period and 2 years grace period

The State has a \$25m borrowing plan per Annum at 4% interest rate, 180 months Maturity period and 2 years grace period

The State has decided to maintain a 11% interest rate, 6 years Maturity period and 2 years grace period

The State has decided to maintain a 14% interest rate, 6 years & 6months Maturity period and 2 years grace period

The State has decided to maintain a 10% interest rate, 10 years Maturity period and 2 years grace period

The State has a \$50m borrowing plan per Annum at 3% interest rate, 10 years Maturity period and 2 years grace period



## **ANNEXURE 111: LIST OF TABLES**

- |       |            |          |   |
|-------|------------|----------|---|
| i.    | Table 3.0: | Table 1: | Revenue Performance 2016-2020                               |
| ii.   | Table 3.1: | Table 2: | Expenditure Trend from 2016 – 2020.                         |
| iii.  | Table 3.2: | Table 3: | Delta State GDP from 2016– 2020                             |
| iv.   | Table 3.4: | Table 4: | Delta State Total external Debt Stock<br>from 2016 - 2020   |
| v.    | Table 5:   |          | Delta State Total External Debt<br>Service from 2016 – 2020 |
| vi.   | Table 6:   |          | Delta State Domestic Debt Service<br>from 2016-2020         |
| vii.  | Table 7:   |          | Delta State Domestic principal repayment<br>2016 – 2020     |
| viii. | Table 8:   |          | Delta State Domestic Interest<br>Payments2016 – 2020        |
| ix.   | Table 9:   |          | Delta State Debt Burden indicator                           |
| x.    | Table 10:  |          | Macro Economic Framework                                    |

**COMPOSITION OF THE JOINT DELTA STATE DEBT ANALYSIS TEAM**  
Participant from the State Debt Management Department, Ministry of Finance:

1. Ekwuabu John            Director Debt Management Department
2. Eze Osita Anthony    SAO Debt Management Department.

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**Participant from the State's Office of the Accountant General**

1. Ogbaudu Blessing    Director, Financial Reporting.

**Participant from the State's Budget Department, Ministry of Economic Planning:**

1. Orere Richard            Assistant Director, programme Analyst.

**2021 DELTA STATE DEBT SUSTAINABILITY ANALYSIS IS  
HEREBY ENDORSED BY ME:**

Name: Tikije Fidelis  
Commissioner for finance, Delta State

Signature\*

