OSUN DEBT MANAGEMENT OFFICE

2020

REPORT OF THE

OSUN STATE DEBT SUSTAINABILITY ANALYSIS

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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background

Debt sustainability remains a topical concept in public finance globally. The rising cases of fiscal challenges that continue to ravage the world economy on the account of insecurity, political instability and the current COVID 19 pandemic that continues to rattle the whole world further triggered lots of economic challenges worldwide. At this very critical time, calls for increased fiscal discipline and controlled borrowing particularly on the part of both National and sub-National mount. Debt sustainability analysis assesses the long run viability of a borrowers' level of exposure in relation to her revenue generation potential. The focus of Debt sustainability analysis (DSA) is usually on debt stock and Gross national product (GDP). While a country's GDP might not be difficult to ascertain, most sub-national particularly in some developing and under-developing countries are fraught with dearth of verifiable statistics. Consequently, sub-national revenue is usually adopted instead of GDP in most cases.

Generally, Sub-national debt portfolio (at any point in time), like National debt portfolio could be classified into two, namely Domestic and External. While domestic debts refer to all local borrowings made within a system, external debt refers to borrowings sourced outside the shore of a sovereign. Domestic debts include loans raised from either a country's money or capital market. These include commercial loans, advances, bonds and Sukuk. External debt on its own includes loans taken from multi-lateral agencies, international financial institutions. The usual attractions of external debts reside in their long tenor and concessionary (single digit) interest rates.

Whatever the composition is, the key question about public debt (either at National or sub-national level) remains how sustainable?. Analysing how sustainable sub-national debts are is an overdue expectation considering the myriads of hardships and shocks associated with unsustainable public debts.

1.2 Summary of Findings

The outcome of the State's DSA for the year 2019 indicates that Osun Debt position improved particularly from 2018 to 2019. The improvement is associated with the State's successful full liquidation of one of the major components of capital market borrowings it took in the years 2012 and 2013. The capital market borrowings (Conventional bond and Sukuk) were both tenured for 7 years. Out of the total =N=41.7billion capital market borrowing the State had fully liquidated the =N=30billion bond, leaving a balance of =N=2.2billion on her historic =N=11.7billion Sukuk. These two loans though on the average accounted for about 25% of the State's total loan portfolio, monthly repayments on them represented about 40% of the State's monthly loan repayment obligations. This is so given that the remaining portfolios (inclusive of the External loans) have longer tenor (average of about 20years). To be specific, in 2018 Debt to Revenue was 255.3%, while Debt service to Revenue was 43.1%, whereas in 2019, Debt to Revenue decreased to 247.4%, while Debt service to Revenue marginally increased to 44.34%. The improvement on the State's Debt to revenue figure between the two years (2018 and 2019) was due to significant reduction in the State's loan portfolio arising from the portion fully redeemed in 2019 (as earlier explained). Contrarily however, Debt Service to Revenue deteriorated slightly from 43.1% in 2018 to 44.34% in 2019. This deterioration was due to commencement of monthly loan repayments on a loan portfolio (=N=17.6billion Budget support extended to the State by the Federal government in 2017). Hitherto, the referenced FGN intervention loan was in moratorium period. Total annual repayment on the portfolio is over =N=1.8billion. Unfortunately, repayment of this loan kicked in during the third quarter (Q3) of 2019, at a time the State was exiting her monthly obligations of about =N=1billion on capital market borrowings.

1.3 Overall Results

From the outcome of the DSA, whereas the State recorded slight improvement on her Debt to Revenue ratio between the two years 2018 and 2019 (i.e. from 255% to 247%), the ratio achieved in 2019 is still below the threshold of 200% set by the Federal ministry of Finance/Federal DMO in line with the expectation under the World Bank's State Fiscal Transparency Accountability and Sustainability (SFTAS) program for results. Also, Debt service to Revenue figure of 44% for 2019 is below the benchmark of 40%. Whereas it could be concluded that till end of the year 2019, the State was yet to achieve the desirable benchmark on debt sustainability specifically in terms of her carrying capacity and debt service obligations in relation to her revenue, the sensitivity analysis carried out on the State's baseline however indicates that all things being equal, and barring no external issues not factored into the State's assumptions, the State's debt position might become sustainable as from the year 2027. By that time, the State's Debt to Revenue figure is expected to be 185%, a figure far below the benchmark of 200%. Also, in terms of Debt service to revenue figure, it is envisaged that the State's debt burden in terms of her annual debt service figure would have reduced considerably. By the year 2020 from 44% recorded in 2019 to 30% in 2020 and remains at average of about 30% till 2029.

CHAPTER TWO
OSUN STATE FISCAL AND DEBT FRAMEWORK

2.1 Fiscal Reforms in the last 3 to 5 years

With a view to achieving continuous improved governance in the State, the State governments since the creation of the State in 1991 had gone through so many trajectories of reforms, cutting across human resources, finance, fiscal e.t.c. Over the last three to five years however, the State government had pursued some notable reforms aimed specifically at strengthening the State's fiscal position, by instituting efficiency, transparency and accountability in the management of the State's resources. The various reforms cover areas such as Debt management, Fiscal responsibility, revenue administration, procurement administration, payroll administration among others.

Given below however, is the list of the various fiscal reforms embarked upon by the State over the last five years:

(a) Revenue administration
(b) Public financial management
(c) Public procurement administration

The above reforms are backed by the following legislations:

i. Revenue administration and Tax (Codification and Consolidation) Law, 2019
ii. Public Financial Management Law 2020
iii. Public procurement Law 2015

(a) Revenue administration

The reforms focusing revenue administration in the State could be said to be an extension of the earlier reform instituted in the State in 2012 and backed by Osun Revenue Administration Law 2012. The revenue administration reforms led to the autonomy of the State internal revenue Services (i.e. Osun Internal Revenue Services-OIRS). The essence of the reform that begun in 2012 was to ensure that collection and administration of internally generated revenue in the State is exclusively ceded to OIRS, whose modus operandi, administration and governance is well defined and autonomous in the State. The reforms specifically aimed at efficiency in matters relating to internal revenue in the State. According to the Law, the autonomous body (OIRS) shall be solely responsible for collecting all internally generated revenue in the State and across her local government Areas, Local councils Development Areas, and Area Councils. In addition, the revenue collecting body shall nominate the bank accounts to which all internally-generated revenues in the State shall be kept.

The reforms have led to the growth in the State's internally generated revenue. This is due to reduction in incidences of revenue leakages and suppression of cash. Consequently, the

State’s IGR had been boosted significantly. From a paltry sum of about N300million monthly prior to the commencement of the reforms in 2012, the State’s IGR is presently about =N=1.5billion monthly. Various initiatives adopted under the reforms include:

1. introduction of ATM card-enabled point of sales collections machine
2. introduction of web-pay technology
3. use of Global Positioning System (GPS) to enumerate all the properties in all senatorial districts for Land Use Charge billings
4. use of Ad-hock staff to enumerate all the business premises for the collection of business premises charges across all the senatorial districts
5. aggressive backduty assessments on all recastrant tax payers for the collection of all the outstanding Pay As You Earn and Withholding Taxes
6. introduction of cashless collection policy on government revenue across the state
7. distribution of Harmonized demand notices on all business premises for the collection of all the due levels

(b) Public financial management

All reforms on the State’s financial management are aimed at securing and entrenching transparency, accountability and sound management of the State’s revenue, expenditure, assets and liabilities. The essence of sound financial management within the public space cannot be over-emphasised. This is due to the fact that the resources accruing to the State are common wealth and are meant for the welfare of all and sundry including generations yet unborn. Without sound financial management practices, the resources accruing to the State may fail to address the purpose meant for. The various reforms on the State’s financial management are therefore aimed at ensuring transparency and accountability on the part of the various people saddled with the responsibility of administering the resources of the State. According to the State of Osun Public Financial Management Law 2020, the various reforms are meant to:

i. regulate financial management in the State;
ii. ensure that all revenue, expenditures, assets and liabilities are managed efficiently and effectively and in a transparent manner;
iii. ensure that officers are put in positions to be able to manage and control the available resources accruing to the State and be more accountable;
iv. ensure timely provision of quality financial information;
v. eliminate waste (including unnecessary expenditure) and corruption in the use of public resources;
vi. stipulate the responsibilities to persons entrusted with financial management roles.

Given the expansive focus of the reform and the legislation thereon, all MDAs in the State, and all Accounting officers saddled with one roles or the other relating to finance are involved. These particularly include but not limited to Ministry of Finance, Office of the State’s Accountant-General, the State Debt Management Office, Offices of the Auditor General of the State and Local government, Ministry of Economic planning and Budget, Going by this reform and the legislation backing it, efficient allocation of the State resources, and sound financial management and practices are anticipated in the State.

(c) Public procurement administration

Various reforms here are meant to promote transparency in the manner public services, contracts and goods are procured in the State. The thrust of the reform remains ''value for money''**.** The various reforms focusing public procurement in the State are backed by the State of Osun Public Procurement Law 2015.

As provided by the Law, reforms on the State public procurement are aimed at:

- **i.** ensuring probity, accountability and transparency on matters relating to public procurement in the State;
- **ii.** establishing fair pricing standards and benchmarks;
- **iii.** ensuring the application of fair, competitive value-for-money standards and practices for the procurement and disposal of public assets and services. creating ample opportunities for the citizenry particularly, small and medium scale enterprises to participate in the economic opportunities and benefits of public procurements;
- **iv.** creating a cost and time efficient and effective adjudicatory mechanism for the resolution of complaints arising from public procurement process in the State and its Local governments filed by procuring entities, bidders and the general public;
- **v.** attaining transparency, competitiveness, professionalism, and guarantee integrity and public trust in the public procurement procedure.

2.2 2020 Budget and MTEF – 2021-2023

Table 2.1: Osun 2020 Budget

DESCRIPTION	**TOTAL REVISED BUDGET 2020 (=N=)**
1. OPENING BALANCE: (A)	**3,646,643,790.00**
2. RECURRENT REVENUE & CAPITAL RECIEPTS:	
RECURRENT REVENUE:	
GOVERNMENT SHARE OF FAAC	21,853,265,710.00
GOVERNMENT SHARE OF VAT	12,475,764,440.00
GOVERNMENT SHARE OF EXCESS CRUDE ACCOUNT	-
OTHER REVENUE FROM FAAC	400,000,000.00
B = TOTAL REVENUE FROM FAAC	**34,729,030,150.00**
C = INTERNALLY GENERATED REVENUE	15,082,345,490.00
TOTAL RECURRENT REVENUE (D) = B + C	**49,811,375,640.00**
CAPITAL RECIEPTS:	
FOREIGNS AIDS AND GRANTS	9,422,217,320.00
DOMESTIC AIDS AND GRANTS	13,216,437,150.00
OTHER CAPITAL RECIEPTS	6,132,396,860.00
E = TOTAL CAPITAL RECIEPTS	**28,771,051,330.00**
F = TOTAL PROJECTED FUNDS AVAILABLE (A + D + E)	**82,229,070,760.00**
3. EXPENDITURES:	
RECURRENT EXPENDITURE:	
CRFC	640,000,000.00
PERSONNEL COST	26,535,911,910.00
OTHER RECURRENT EXPENDITURE	14,424,968,810.00
TOTAL RECURRENT EXPENDITURE (G)	**41,600,880,720.00**
CAPITAL EXPENDITURE: I	40,628,190,040.00
TOTAL EXPENDITURE (J = G + I)	**82,229,070,760.00**
BALANCE (K): F – J	-
FINANCING:	
EXTERNAL LOAN	-
INTERNAL LOAN	-
FINANCING (L)	**-**
FINANCING GAP: M = -(K+L)	**-**
TOTAL BUDGET SIZE	**82,229,070,760.00**

Table 2.2: Osun MTEF (2021-2023)

Fiscal Framework	2021	2022	2023
Treasury Opening Balance	10,000,000	72,538,402	76,837,817
Recurrent Revenue			
Statutory Allocation	32,756,711,413	35,565,060,889	38,773,062,813
VAT	14,597,405,153	16,088,470,231	17,695,075,409
IGR	24,000,000,000	24,000,000,000	24,000,000,000
Excess Crude Oil / Other Revenue	1,184,285,886	1,184,285,886	1,184,285,886
Other Recurrent Revenues			
Total Recurrent Revenue	**72,538,402,452**	**76,837,817,006**	**81,652,424,108**
Recurrent Expenditure			
CRF Charges	23,900,000,000	22,705,000,000	21,569,750,000
Personnel	31,500,000,000	25,553,008,631	26,191,833,847
Overheads	15,000,000,000	15,000,000,000	15,000,000,000
Total	**70,400,000,000**	**63,258,008,631**	**62,761,583,847**
Transfer to Capital Account	**2,148,402,452**	**13,652,346,778**	**18,967,678,078**
Capital Receipts			
Grants	29,739,160,010	0	0
Other Capital Receipts	0	0	0
Total	**29,739,160,010**	**0**	**0**
Reserves			
Contingency Reserve	0	0	0
Planning Reserve	0	0	0
Total Reserves	**0**	**0**	**0**
Capital Expenditure	**36,127,524,059**	**13,575,508,961**	**18,886,025,654**
Discretional Funds	5,542,864,049	13,575,508,961	18,886,025,654
Non-Discretional Funds	30,584,660,010	0	0
Net Financing	4,312,500,000	0	0
Total Budget Size	**106,527,524,059**	**76,833,517,592**	**81,647,609,501**
Closing Cash Balance	72,538,402	76,837,817	81,652,424
Ratios			
Growth in Recurrent Revenue	31.06%	5.93%	6.27%
Growth in Recurrent Expenditure	14.18%	-10.14%	-0.78%
Capital Expenditure Ratio	33.91%	17.67%	23.13%
Deficit to Total Expenditure	4.05%	0.00%	0.00%

Assumptions on Osun MTEF

Statutory Allocation – This is estimated based on elasticity forecast using the oil price of $40 per barrel (pb), National Inflation of 11.95%, National Real GDP Growth expands from -4.42% to 2%, NGN:USD Exchange benchmarks of ₦379 to $1 and production benchmark of 1.8 million barrels daily production (MBDP). The NGN:USD exchange rate and crude oil price are consistent with the reviewed benchmark contained in the Federal Fiscal strategy paper 2021-2023. 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 increase the non-oil revenue flowing to the federation account.

VAT - is based on elasticity forecast using the combined change in GDP and inflation rate. The estimate for 2021-2023 is in line with the current rate of collections. This forecast will be revisited if there are any changes to the VAT rates (i.e. increase VAT rates) as proposed in the ERGP 2017 – 2020. For 2021, the sum of ₦14.597 billion is assumed.

Other Federation Account Distributions - It is assumed that the NNPC refunds, augmentation, and FOREX equalization will continue to be distributed. The estimation is based on the current receipt (i.e. from January to October 2020).

Internally Generated Revenue (IGR) – Key fiscal target for the State of Osun is to grow IGR by a minimum of 20% in 2018 and 15% annually in 2019, 2020, 2021 and 2022. However, the COVID-19 pandemic has greatly affected the economy of the State to the point that the target set cannot be met again in 2020. Hence, the new target is ₦24 billion. The Government has already started putting in place measures to achieve these IGR targets. However, the growth target of 2019 was not achieved as IGR grew by 15% from 2018 to 2018. Consequently, the actual 2021 IGR is projected to increase by 20% for 2022 and 2023.

Grants – The total sum of ₦24,270,065,010 is assumed for internal grant.

2.3 Medium Term Debt Management Strategy (MTDS)

The incessant fiscal challenges in the country, and the current gloomy economic outlook in the country certainly underscore the need for robust public debt management strategy. For us in Osun, painful lesson had been learnt from the unexpected shocks over the various economic surprises arising from dwindling revenue accruing to the Federation account and the resulting serious drop in the State's monthly statutory revenue particularly in the year 2014 and early part of 2015. The unprecedented financial challenges nearly knocked the State off track during the period. The above however does not imply no debt management strategy was put in place in the State. Rather, the financial and economic distortions of the time that actually made Osun a cynosure on issues of financial quagmire throughout the country was a result of some expectations (both on her Statutory revenue and IGR) that failed to materialize due to some unprecedented social economic crises in the country. Discussed below are arrays of the components of Osun Debt Management Strategy:

(a) Legislation

The Debt Management Strategy in the State actually begun with the enactment of State of Osun Debt Management Law 2012. Establishment of the State's DMO marked the beginning of the Debt management strategy in the State. This is so given that the law led to delineation of the debt management arm of the State from the core financing role. Prior to 2012, the State conducted her debt related matters through a department (known as External financing) within the ministry of Finance. The legislation of 2012 therefore paved way for clarity of roles, responsibilities and focus on issues pertaining to debt in the State.

(b) Governance structure

The governance structure of the office provides sound footing for debt negotiation, acquisition and management in the State and ultimately engenders transparency and accountability. For avoidance of doubts, No Ministry, Agency or Departments of government across the State is authorized to negotiate or take any loan on behalf of the government. The power to negotiate or take any loan is vested in the State's Debt Management Office. In order to strengthen the office given its critical roles, the office also has a Board whose membership (as stipulated by the referenced Law) are as follows:

i. The Commissioner for Finance as the Chairman,
ii. The Chief of Staff to the Governor as the Vice Chairman,
iii. The Permanent Secretary, Ministry of Finance as a member,
iv. The Accountant-General of the State as a member,
v. The Director-General of the offices as a member,
vi. Secretary to the board; and
vii. A representative of Private sector (a person competent in financial matter) as a member.

The State's DMO is mandated to issue on behalf of the State such instruments as the State may desire to issue, from time to time.; borrow, cause any contingent liability to be issued on behalf of the State, and also maintain reliable database of all instruments issued, loans taken or guaranteed by the State. In addition, the office also sets guidelines for managing government financial risks and financial exposures with respect to loans and instruments. These provisions ensure coordination of debt related activities and proper management of debt issues in the State.

(c) The focus

The thrust of the debt management strategy being adopted in the State is efficiency in government financing by ensuring that government's financing needs and its payment obligations are met at the lowest possible cost on medium to long term basis within the minimum foreseeable level of risk without jeopardizing any other crucial obligations of the State. In attaining the efficiency objective in managing the State's loan portfolio, the prevailing fiscal and monetary policies in the country remain the indices. Continuous calibration of directions of these policies serve as the main driver of sub-national debt oversight. These form the major parameters usually considered in offering any recommendation to the government on debt-related issues. Structuring of the State's loan portfolio is usually predicated on careful analysis of various inherent risks associated with each type of loan particularly capital market and external loans. Careful risk monitoring and cost evaluation remain the bases of periodic modification of the State's debt structure from time to time.

(d) Cash management strategy

In line with the State's cash management strategy, Osun DMO also maintains regular hand-sake with both the State's internal revenue service (OIRS) and the office of the Accountant-General of the State to validate various amortizations schedules applicable on the State's loan portfolio from time to time. The essence is to prepare robust repayment plan/schedule so as to ease debt management by ensuring no debt overhang while also guaranteeing availability of cash for government's other critical expenditures.

(e) Debt ceiling policy

In recognition of the need to carry portfolio at sustainable level, the State's DMO usually plays critical roles by forecasting for the State' government her maximum debt carrying capacity from time to time. This is usually done annually during the State budgeting session. The office is required by law establishing it to prepare and submit to the Government for consideration in the annual budget a forecasted loan service obligation and borrowing capacity. Reference is of course usually made to the State's prior year revenue (owing to the challenges of estimating the State's Gross Domestic Products-GDP). The essence of this benchmarking is to ensure that the State maintains sustainable optimal level of debt from time to time. In order to institutionalise this practice, the State usually get the buying in of her House of Assembly on the desirable level of borrowing on medium term basis in form of Debt ceiling.

The above indicates the State's Debt management strategy which shall also be improved upon in consonance with year on year realities.

CHAPTER THREE

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

3.1 Revenue, Expenditure and Fiscal Performance, 2015 – 2019

3.1.1 Revenue Performance

Discussion here focuses the trend maintained by the State's Revenue for the five year period (2015-2019). The relationship between the State's statutory revenue (from Federation account) and the internally-generated revenue (IGR) is also highlighted.

Table 3.1: Osun Total Revenue Trend (2015-2019)

	Actual				
	2015	**2016**	**2017**	**2018**	**2019**
	=N='000,000	**=N='000,000**	**=N='000,000**	**=N='000,000**	**=N='000,000**
TOTAL REVENUE	**85,954.00**	**91,550.00**	**93,085.00**	**99,000.00**	**101,074.00**
1. Gross Statutory Allocation ('gross' means with no deductions; do not include VAT Allocation here)	25,670.00	18,591.00	25,859.00	38,781.00	37,637.00
of which Net Statutory Allocation ('net' means of deductions)	8,299.00	(7,539.00)	(3,168.00)	9,700.00	10,451.00
of which Deductions	17,370.00	26,131.00	29,027.00	29,081.00	27,186.00
2. Derivation (if applicable to the State)	0.00	0.00	0.00	0.00	0.00
3. Other FAAC transfers (exchange rate gain, augmentation, others)	4,008.00	4,171.00	7,506.00	4,093.00	1,184.00
4. VAT Allocation	8,144.00	8,446.00	10,175.00	11,343.00	12,195.00
5. IGR	11,783.00	11,253.00	11,842.00	15,690.00	17,600.00
6. Capital Receipts	10,479.00	10,699.00	10,023.00	11,768.00	29,008.00
Grants					
Sales of Government Assets and Privatization Proceeds					
Other Non-Debt Creating Capital Receipts		19,775.00	14,425.00	16,625.00	
Proceeds from Debt-Creating Borrowings (bond issuance, loan disbursements, etc.)	25,871.00	18,614.00	13,255.00	700.00	3,450.00

Whereas, Table 3.1 above indicates steady improvements in the State's total revenue year on year (from total revenue of =N=85.95billion in 2015 to =N=101.07billion in 2019).

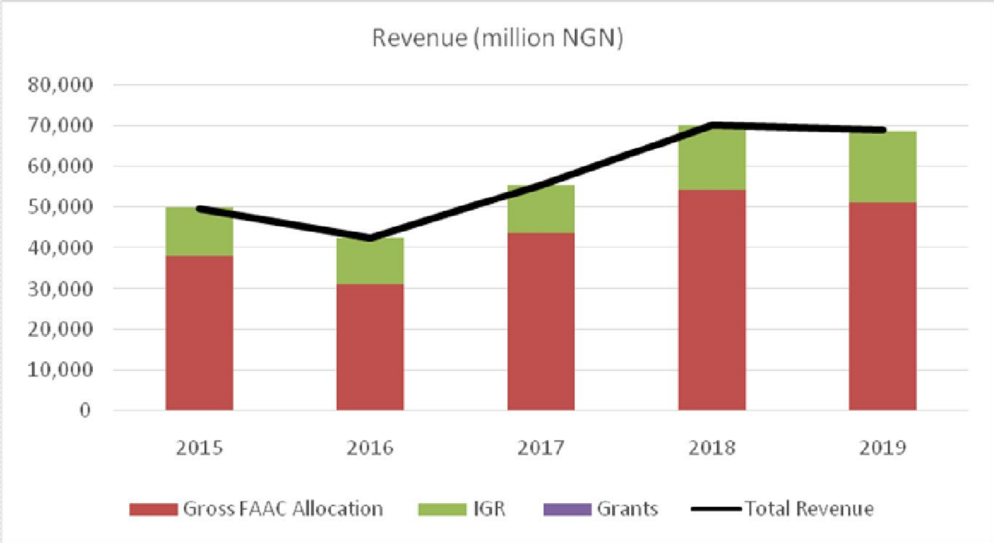
however, Gross statutory allocation to the State maintains unstable pattern through the years under focus. This is an indication of volatility of statutory allocation from the Federation account which is a combination of so many factors. For instance, revenue from crude oil, the main source of the nation's statutory revenue is dependent on the volume the Federal government is able to dispose at the international market, and the prevailing crude oil price. Crude oil price variation is of course beyond the control of the FGN. Second, instability of the foreign exchange rates is another factor that contributes to the volatility of revenue from sale of crude oil. Other items of interest from the table are the State's internally generated revenue (IGR) and capital receipts. While the State's efforts on her IGR mobilization is evident in the steady growth (particularly from the year 2018), from =N=11.78billion in 2015 to =N=17.6billion in 2019. Capital receipts which was on the average of about =N=10.5billion from 2015 to 2018, rose astronomically from =N=11.77billion to =N=29.01billion in 2019 (i.e. an increase of 146.5%). The main contribution to the leap in grant in the year 2019 includes health grant received by the State under the ''Save one million lives (SOMIL)'', a comprehensive health scheme aimed at expanded access to essential primary health care service for women and children under the auspices of the Federal ministry of health. Others include grants accessed under the FGN's rural roads intervention program and Universal basic education.

Table 3.2: FAAC trend

	2015	2016	2017	2018	2019
	=N='000,000	**=N='000,000**	**=N='000,000**	**=N='000,000**	**=N='000,000**
Total Revenue	49,605.00	42,461.00	55,382.00	69,907.00	68,616.00
Gross FAAC Allocation	37,822.00	31,208.00	43,540.00	54,217.00	51,016.00
IGR	11,783.00	11,253.00	11,842.00	15,690.00	17,600.00
Gross FAAC to Total Revenue (%)	**76.25**	**73.50**	**78.62**	**77.56**	**74.35**
IGR to Total Revenue (%)	**23.75**	**26.50**	**21.38**	**22.44**	**25.65**

Further breakdown of the State's main sources of revenue (statutory) and the relationship between it and the State's IGR is presented in table 3.2 above (as also depicted by Chart 1 below). Details presented in the table convincingly establish the State's heavy reliance on statutory revenue. For the five years shown in the table (2015-2019), Gross FAAC contributes about 75% of the sustainable revenue while the State's IGR accounts for about 25%. This further emphasizes the volatility of the State's revenue particularly in this era of uncertain revenue from crude oil. The best alternative for the State particularly at this time is to continue to evolve strategy that will translate to sustainable improvement on her IGR.

Chart 1: Revenue



3.1.2 Expenditure Performance

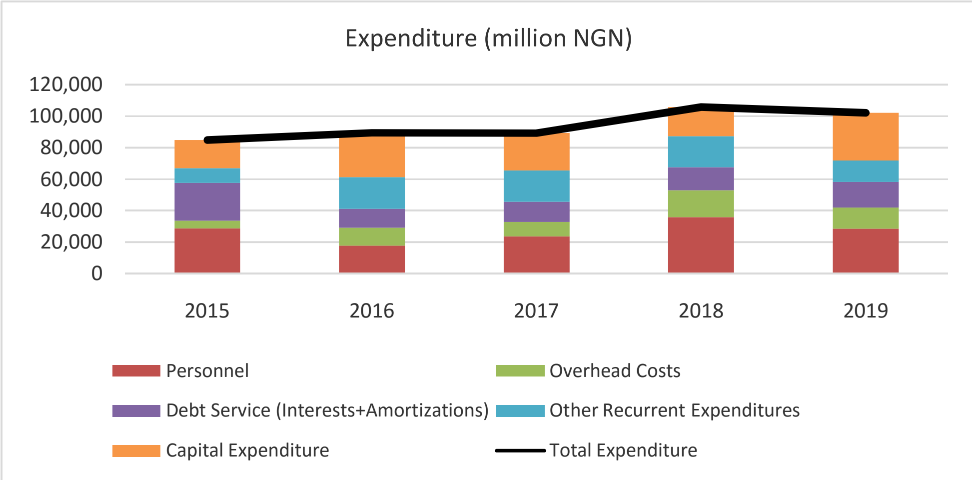
Discussion under this sub section relates to the State's expenditure in terms of its main components-i.e. Personnel, Overhead and capital expenditure.

Table 3.3 Expenditure performance

	2015	2016	2017	2018	2019
	=N='000,000	=N='000,000	=N='000,000	=N='000,000	=N='000,000
Expenditure	**84,836.00**	**89,460.00**	**89,249.00**	**105,658.00**	**102,027.00**
Personnel costs (Salaries, Pensions, Civil Servant Social Benefits, other)	**28,771.00**	**17,675.00**	**23,632.00**	**35,905.00**	**28,703.00**
Overhead costs	**4,849.00**	**11,564.00**	**9,219.00**	**16,904.00**	**13,335.00**
Other Recurrent Expenditure (Excluding Personnel Costs, Overhead Costs and Interest Payments)	**9,343.00**	**19,992.00**	**20,152.00**	**19,844.00**	**13,803.00**
Capital Expenditure	**17,924.00**	**28,206.00**	**23,571.00**	**18,362.00**	**30,095.00**
Interest Payments (Public Debt Charges, including interests deducted from FAAC Allocation)	4,496.00	1,067.00	1,146.00	1,298.00	1,464.00
Amortization (principal payments):					
Domestic bonds (a)	5,664.00	7,579.00	8,830.00	10,307.00	11,465.00
Commercial bank loans (b)	10,544.00	-	-	-	-
External loans (c)	3,245.00	3,377.00	2,699.00	3,038.00	3,162.00
Total Debt service (a+b+c)	**19,453.00**	**10,956.00**	**11,529.00**	**13,345.00**	**14,627.00**
Debt service/Total expenditure (%)	**22.93**	**12.25**	**12.92**	**12.63**	**14.34**
Capital expenditure/Total expenditure (%)	**21.13**	**31.53**	**26.41**	**17.38**	**29.50**
Overhead costs/Total expenditure (%)	**5.72**	**12.93**	**10.33**	**16.00**	**13.07**

As can be seen from the above table the proportion of the State's total expenditure allocated for debt servicing revolves around an average of about 13% from the years 2016 to 2019, from 22.93% in 2015. Overall, this is about 50% of the State's expenditure on infrastructure over the years. The State's capital expenditure revolves around an average of about 25%. This indicates that the State government is still conscious of the need to keep to her social contract with the people in spite of her huge loan portfolio that seems out of the expected thresholds. The pattern is further shown in chart 2 below.

CHART 2: Expenditure performance

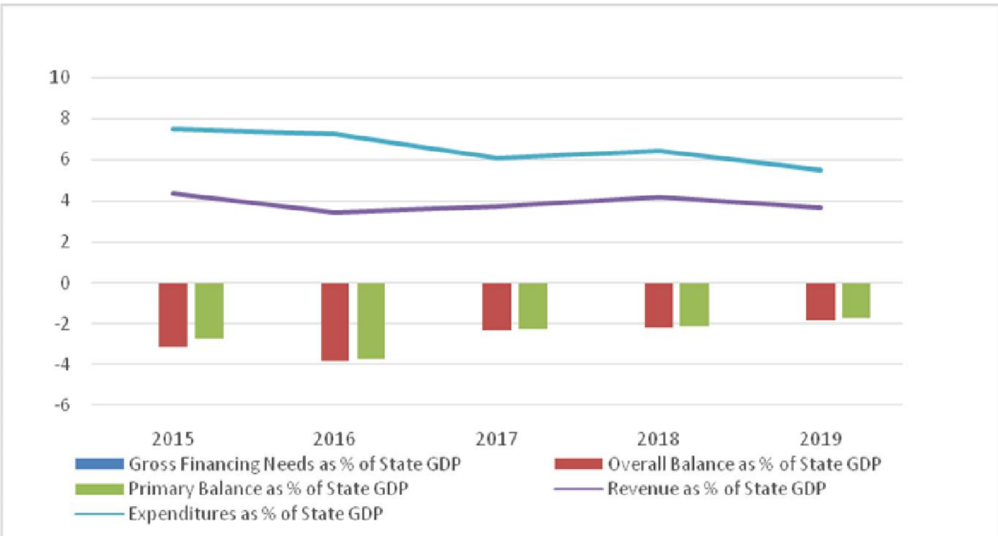


3.1.3 Fiscal Outturns

Table 3.4: Fiscal outturns

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
	=N='m	=N='m	=N='m	=N='m	=N='m	=N='m	=N='m	=N='m	=N='m	=N='m
i. Primary balance	(18,072.00)	14,949.00	19,203.00	19,206.00	30,298.43	31,324.98	32,272.28	33,125.31	33,867.24	34,479.24

CHART 3: Fiscal Outturns

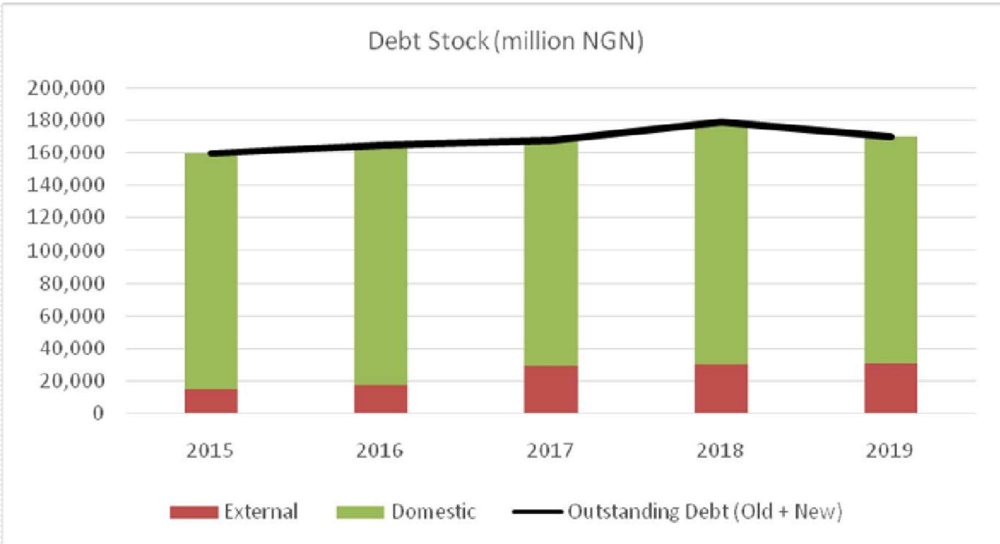


3.2 Osun State Debt Portfolio, 2015-2019

Table 3.5 **Debt portfolio**

	2015	2016	2017	2018	2019
	=N='000,000	=N='000,000	=N='000,000	=N='000,000	=N='000,000
Total Debt (stock)	**159,806.85**	**164,939.13**	**167,779.00**	**178,470.09**	**169,786.00**
External	15,107.85	17,870.13	29,542.00	30,371.09	31,133.00
Domestic	144,699.00	147,069.00	138,237.00	148,099.00	138,653.00
External debt/Total Debt(%)	**9.5**	**10.8**	**17.6**	**17.0**	**18.3**
Domestic debt/Total debt (%)	**90.5**	**89.2**	**82.4**	**83.0**	**81.7**

CHART 4: Debt Stock



During the period under review, about 15% (on the average) of the State's total loan portfolio is external. Specifically in the year 2019, External debt component of the State's total loan portfolio accounts for 18.3%. This shows that the state loan is tilted more towards Domestic. One may therefore say that the State is yet to take full advantage of longer tenor and low interest rate associated with foreign loan from multilateral agencies. This could also be interpreted to mean very low risk appetite on the part of the State's executives. In another way however, one can say that the State is more insulated against shocks associated with foreign exchange rate fluctuations usually inherent in foreign loan.

Table 3.6: Domestic Debt Composition

	2015	2016	2017	2018	2019
	=N='000,000	=N='000,000	=N='000,000	=N='000,000	=N='000,000
Total Domestic Debt – Stocks	144,699.00	147,069.00	138,237.00	148,099.00	138,653.00
Budget Support Facility	0.00	0.00	0.00	15,169.00	17,530.00
Salary Bailout Facility	25,715.00	25,216.00	24,669.00	24,072.00	23,419.00
Restructured Commercial Bank Loans (FGN Bond)	86,381.00	85,420.00	84,307.00	83,018.00	81,523.00
Excess Crude Account Backed Loan	0.00	9,861.00	9,660.00	9,441.00	9,202.00
Commercial Banks Loans	0.00	0.00	0.00	0.00	0.00
State Bonds	32,603.00	26,572.00	19,601.00	11,543.00	2,230.00
Commercial Agriculture Loan (CBN Development Financing Facility)	0.00	0.00	0.00	0.00	0.00
Infrastructure Loan (CBN Development Financing Facilities)	0.00	0.00	0.00	4,856.00	4,749.00
FGN bond/Total Domestic debt(%)	**59.7**	**58.1**	**61.0**	**56.1**	**58.8**

Since the year 2015 till 2019, FGN bond issued in 2015 by the FGN on behalf of the State for redemption of the State's outstanding balances on her debilitating loans with the commercial banks, accounts for about 60% of the State's total domestic indebtedness. The bond has a tenor of 226months with interest rate of 14.83%p.a. Incidentally, this component has the highest interest rate out of all the other components. As at end of year 2019, all other loans in the State's portfolio (with the exception of Sukuk that was running at 14.75% p.a) were on single digit interest rate (specifically 9%p.a.). In realization of the need for reduced cost of borrowing, the State government had over time been pursuing possible and cheaper alternative structure for the referenced bond. This desire is however yet to be realistic.

Table 3.7: External Debt Composition

	2015	2016	2017	2018	2019
	USD$'000,000	USD$'000,000	USD$'000,000	USD$'000,000	USD$'000,000
Total External Debt – Stocks	76.89	70.58	96.61	99.09	95.50
World Bank (WB) (including International Development Association (IDA) and IBRD)	64.02	57.77	78.56	81.10	77.57
African Development Bank (AfDB) [including African Development Fund (AfDFP)	5.92	5.86	5.80	5.74	5.68
Multilateral Creditor (1) [AFD 1 AND 2]	6.95	6.95	12.25	12.25	12.25
Naira Equivalent of the Total External Debt (N'000,000)	**15,107.85**	**17,870.13**	**29,542.00**	**30,371.09**	**31,133.00**

External component of the State's loan portfolio represents 9.5%, 10.8%, 17.6%, 17% and 18.3% in the year 2015, 2016, 2017, 2018, and 2019 respectively. This implies that the State portfolio is yet to reach the usual benchmark of 40:60 ratio. This indicates opportunity for the State in terms of foreign loan potentials. However, this depends on the State's ability to articulate her funding needs in a timely manner so as to align with the consolidated financing/borrowing plan of the FGN during any desirable fiscal period.

3.3 Cost and Risk Profile

Analysis of the cost and ranking of the state portfolio components in terms of associated risks are given below:

Table 3.8 Cost and Risk Profile (Domestic)

S/N	Loan Portfolio	Current Balance as at Dec. 31, 2019 (=N='000,000)	Pricing/Cost (%)	Risk Profile
1	Budget Support Facility	17,530.00	9	Low
2	Salary Bailout Facility	23,419.00	9	Low
3	Restructured Commercial Bank Loans (FGN Bond)	81,523.00	14.83	Moderate
4	Excess Crude Account Backed Loan	9,202.00	9	Low
5	State Bonds(Sukuk)	2,230.00	14.75	Moderate
6	Infrastructure Loan (CBN Development Financing Facilities)	4,749.00	9	Low

As earlier indicated, FGN bond that accounts for about 60% of the total domestic portfolio also has the highest interest rate out of all the other components. As at end of 2019, all other loans in the State's portfolio (with the exception of Sukuk that was running at 14.75% p.a) were on single digit interest rate (specifically 9%p.a.). in terms of risk profile however, the referenced portfolio and the State Sukuk with a balance of N2.2billion (as at December 31, 2019) are considered moderate. The remaining portfolio are ranked ''Low'' in terms of risk.

Table 3.9 Cost and Risk Profile (External)

S/N	Loan Portfolio	Current Balance as at Dec. 31, 2019 (USD$'000,000)	Pricing/Cost (%)	Risk Profile
1	World Bank (WB) (including International Development Association (IDA) and IBRD)	77.57	2	High
2	African Development Bank (AfDB) [including African Development Fund (AfDFP)	5.68	2	High
3	Multilateral Creditor (1) [AFD 1 AND 2]	12.25	2	High

The State's external loan stock is priced at average of 2%p.a, but the risk is adjudged high given the volatility and inherent risk usually associated with external loans. This include foreign exchange risks, and depletion in the country's foreign reserves associated with decrease in GDP.

3.4 Debt vs GDP and Revenue

Presented below are charts showing Debt as a share of both the State's GDP and Revenue; as well as Debt service as a share of GDP and Revenue.

Chart 5 : Debt as a Share of State's GDP

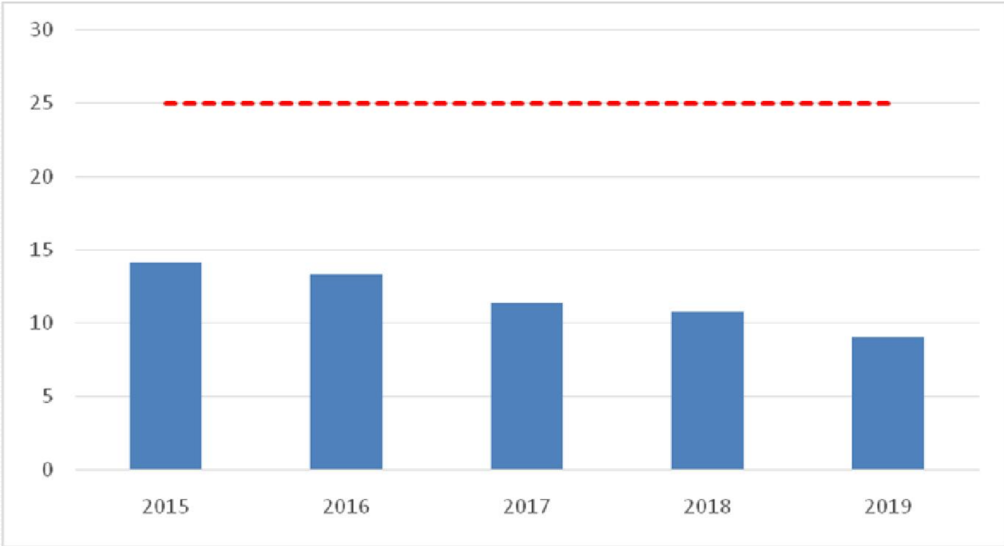


Chart 6 : Debt as a Share of Revenue

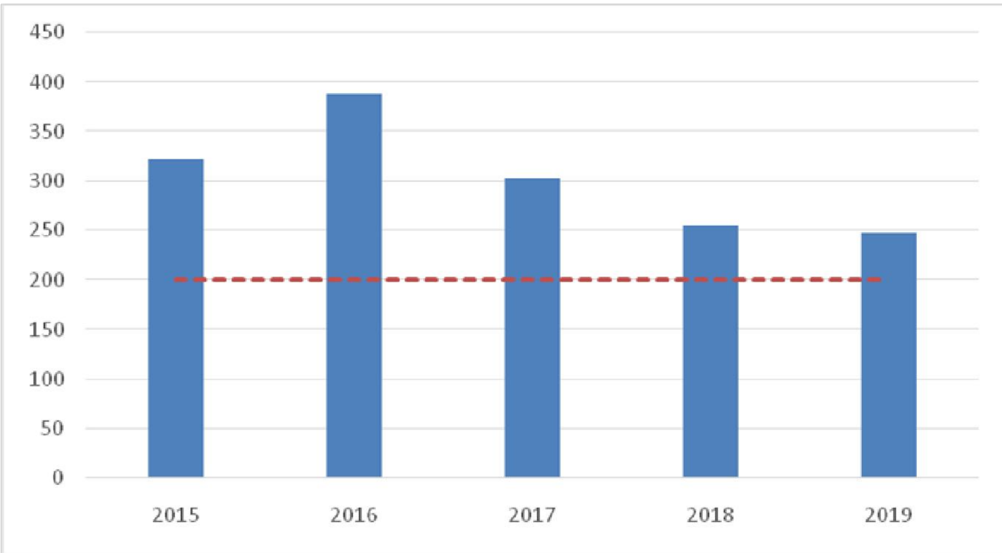


Chart 7: Debt Service as a Share of Revenue

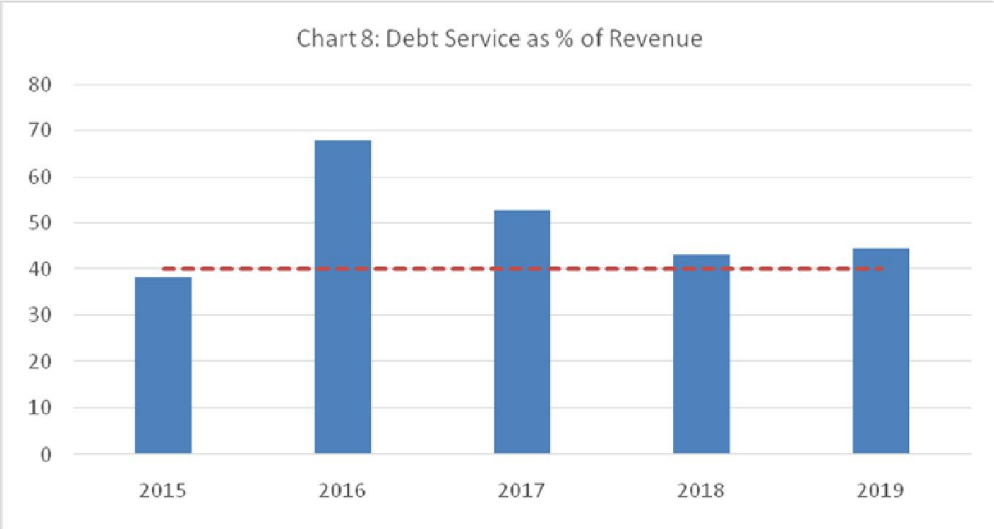


Chart 8 : Debt Service Indicators

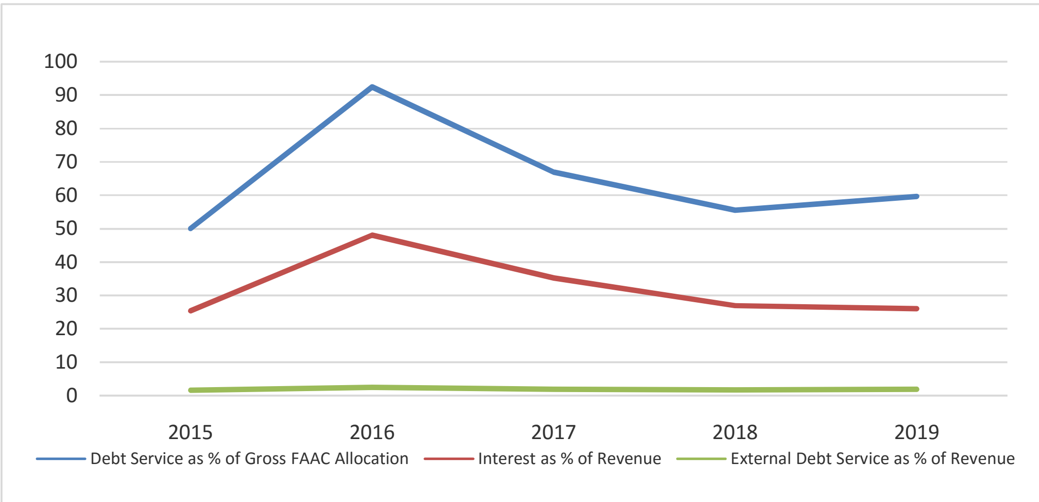


Chart 5 above indicates that the State debt stock to GDP was below the threshold of 25% throughout the period under review. Aside from that, the State also recorded steady improvement on the ratio year on year during the period under review. Starting from 14.16% in 2015 to 9.13% in 2019. This implies that the State could be said to have some headroom for further borrowing if Debt/GDP threshold of 25% is considered.

Aside from unavailability of verifiable statistics required for computation of GDP, the level of reliability on GDP figures (particularly in developing economies) gives credence to the wider use of Revenue figure over it. As shown in chart 6, the State recorded slight improvement on her Debt to Revenue ratio between the two years 2018 and 2019 (i.e. from 255% to 247%). Contrarily, Debt service to Revenue dips slightly between the years 2018 to 2019, from 43% to 44%. Both Debt to Revenue and Debt service to Revenue figures of 247% and 44% for the year 2019 were below the thresholds of 200% and 40% respectively. This speaks volume of the un-sustainability of the State's revenue and an indication of the need for serious improvements over time despite the seeming available headroom for further borrowing as indicated by the State's Debt to GDP ratio.

CHAPTER FOUR

CONCEPT OF DEBT SUSTAINABILITY, ASSUMPTIONS, RESULTS ANALYSIS AND FINDINGS

4.0 Introduction – Concept of Debt Sustainability Analysis

The concept of Debt sustainability analysis is aimed at ensuring that public debts are maintained at sustainable level from time to time. Debt sustainability relates to a borrower's ability to meet obligations (of principal and interest repayments) from time to time as agreed without any distortion on other responsibilities. In effect, a sub-sovereign's debt sustainability assesses how a State's current level of debt and proposed borrowing affects her present and future ability to meet debt service obligations. Originally, issue of debt overhang was synonymous to developing countries perhaps owing to their low productivity (i.e. Gross Domestic Product), and macroeconomic instability. Today however, debt sustainability has become a general issue. This is due to the continuous and borderless fiscal and economic challenges across the world.

The volatility of Nigerian economy arising from her heavy dependence on oil revenue is one of the reasons agitations and worries continue on the rising public debt figures in the country. Given the negative impact debt's non-sustainability can create particularly on the lives of the citizens, there is more awareness on how public debts are being sourced and managed. Unabated cases of insolvency and illiquidity on the part of both National and sub-national governments are enough to call for more attention on debt sustainability across the country. At least, the citizens want to be assured that government's monthly obligations on the existing and proposed debts will not in any way affect other mandatory and critical responsibilities particularly government's social contracts with them. It is on this backdrop that the size of the portfolio, the quantum of loan servicing figure and their relation to Gross National product or Revenue (as the case may be) remain the key parameters when assessing public debt sustainability.

From the analysis carried out on the State's portfolio, Debt to Revenue figure received a slight improvement between the year 2018 and year 2019. Specifically, while Debt to Revenue figure at the end of the year 2018 was 255%, this reduced to 247% at the end of the year 2019. Albeit, this is still above the recommended threshold of 200%, the State's portfolio in relation to her revenue as at the end of year 2019 improved slightly. Contrarily however, Debt service to Revenue figure deteriorated between the periods as anticipated. From 43% in the year 2018, the ratio dropped slightly to 44%.

4.1 Medium Term Budget Forecast

Table 4.1: Osun's Ten years (2020-2029) Revenue and expenditure projections

REVENUE	2020 (=N='M)	2021 (=N='M)	2022 (=N='M)	2023 (=N='M)	2024 (=N='M)	2025 (=N='M)	2026 (=N='M)	2027 (=N='M)	2028 (=N='M)	2029 (=N='M)
Gross Statutory Allocation	21,853.00	32,757.00	35,565.00	38,773.00	40,711.65	42,747.23	44,884.59	47,128.82	49,485.27	51,959.53
Net Statutory Allocation	4,576.00	13,557.00	16,365.00	19,573.00	21,511.65	23,547.23	25,684.59	27,928.82	30,285.27	32,759.53
Deductions	17,277.00	19,200.00	19,200.00	19,200.00	19,200.00	19,200.00	19,200.00	19,200.00	19,200.00	19,200.00
Other FAAC Revenue	400.00	1,184.00	1,184.00	1,184.00	1,184.00	1,184.00	1,184.00	1,184.00	1,184.00	1,184.00
VAT Allocation	12,476.00	14,597.00	16,088.00	17,695.00	18,137.38	18,590.81	19,055.58	19,531.97	20,020.27	20,520.78
IGR	15,082.00	24,000.00	24,000.00	24,000.00	24,600.00	25,215.00	25,845.38	26,491.51	27,153.80	27,832.64
Grants/Capital Receipt	28,771.00	29,739.00	-	-	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00	10,000.00

EXPENDITURE	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Personnel costs	26,536.00	31,500.00	25,553.00	26,191.00	26,191.00	26,191.00	26,191.00	26,191.00	26,191.00	26,191.00
Overhead costs	14,425.00	15,000.00	15,000.00	15,000.00	15,000.00	15,000.00	15,000.00	15,000.00	15,000.00	15,000.00
Other Recurrent Expenditure	15,065.00	4,700.00	3,505.00	2,369.00	2,369.00	2,369.00	2,369.00	2,369.00	2,369.00	2,369.00
Capital Expenditure	40,628.00	36,128.00	13,576.00	18,886.00	20,774.60	22,852.06	25,137.27	27,650.99	30,416.09	33,457.70

4.1.1 BASIC ASSUMPTIONS ON REVENUE AND EXPENDITURE:

The various assumptions made in preparing the State's MTEF shown in table 2.2 on page 9 of this report also form the main assumptions for this 10 year Revenue and Expenditure forecasts. In addition however, other assumptions behind the projections for the years 2024-2029 are as below:

i. FAAC to grow by 5%
ii. Other allocation from FAAC remains constant.
iii. VAT to grow by 2.5% annually from the years 2024-2029
iv. IGR to grow by 2.5% annually from the years 2024-2029
v. Personnel cost remains constant between the years 2024-2029
vi. Overhead cost remain constant between the years 2024-2029
vii. Other recurrent expenditure remain constant between the years 2024-2029
viii. Capital expenditure to grow annually by 10% between the years 2024-2029.

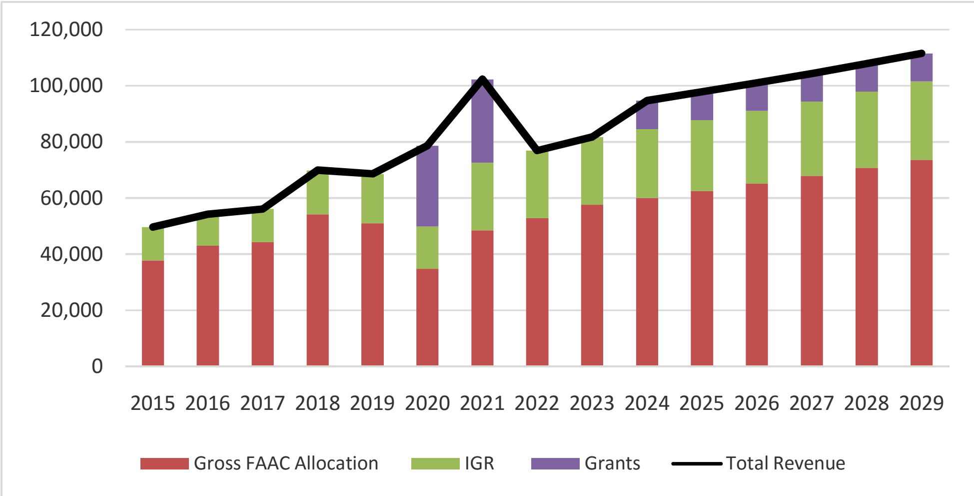
4.2 Borrowing projections Assumptions

As earlier indicated, the concern of the present administration in the State is to reduce the current impact of debt on the State's limited revenue. Therefore, the State is yet to have any plan on fresh borrowing. More so, that the Portfolio bench marks are yet to be fully met.

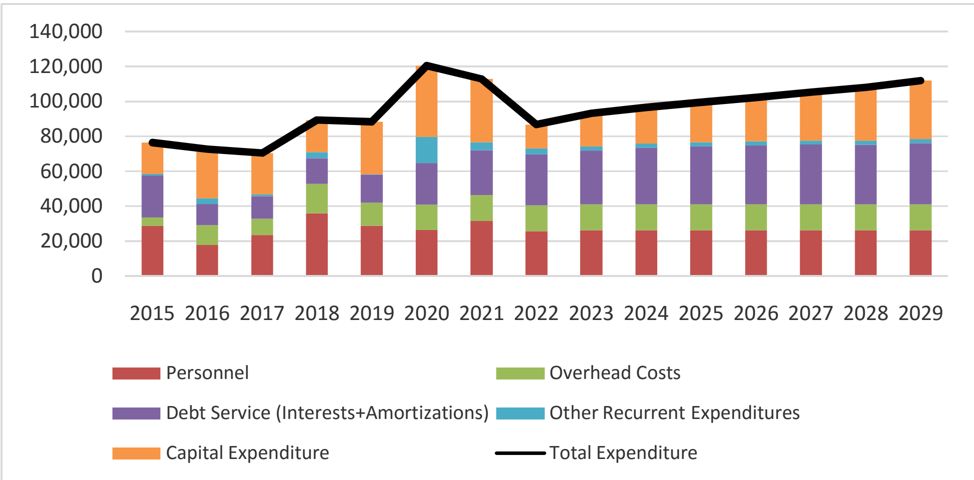
4.3 Simulation Results and Findings

The results of the State's ten year Revenue/Expenditure forecast above are reflected upon in this section. The focus here however relates to how the debt sustainability of the State changes over the ten year period (2020-2029). The relationship between the Debt stock, Debt service figures to Revenue remain the central theme of discussion. This is as displayed in charts 11 and 12 (Projected Debt as a Share of Revenue and Projected Debt Service as a Share of Revenue) on page 29.

4.3.1 Chart 9: Projected Revenue

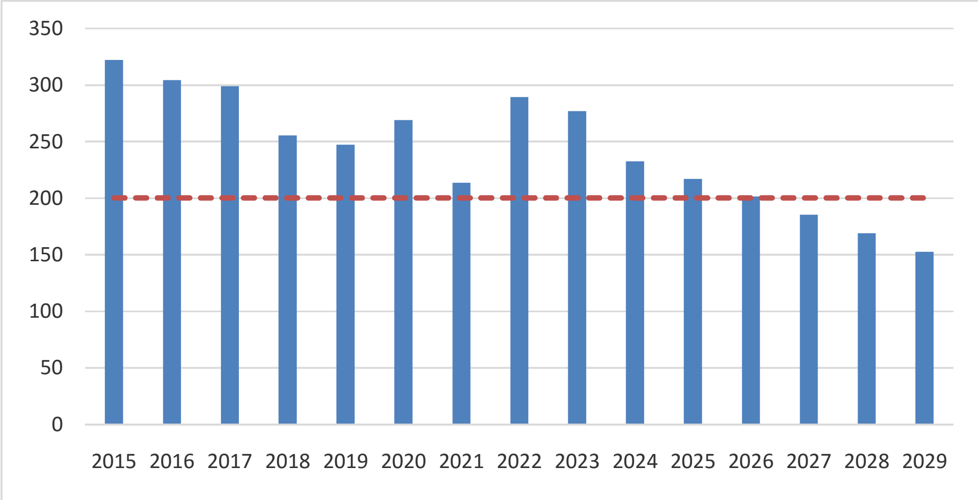


4.3.2 Chart 10: Projected Expenditure

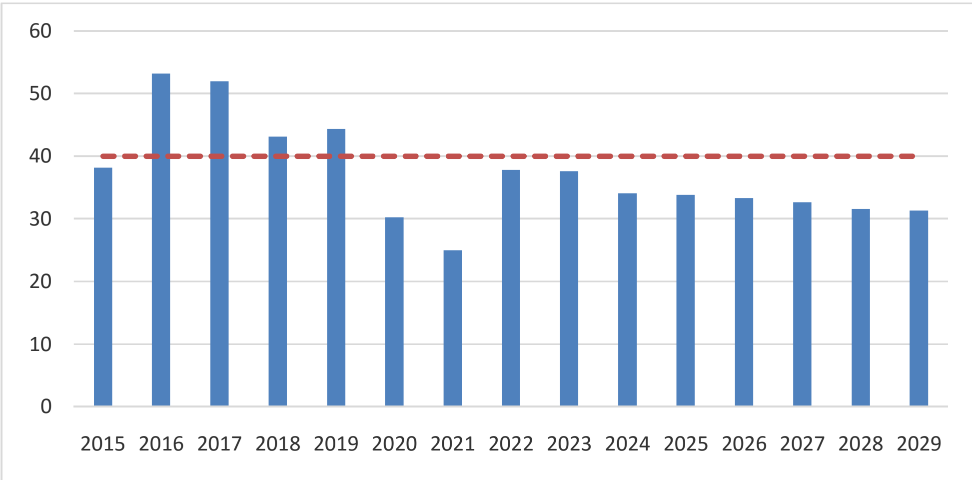


With a view to having a futuristic view of the State's possible position on a ten year period, the above ten year(2020-2029) forecast of the State's revenue and expenditures (Table 4.1) are synthesized. The State's MTEF already shown on page 10 of the report, and the various assumptions underlying same form the major bases of this forecast while the State's actual budget for the year 2020 also serves as the baseline for the forecast. The other assumptions relevant for the projections particularly for the years 2024 to 2029 are as indicated in section 4.1.1.

4.3.3 Chart 11: Projected Debt as a Share of Revenue

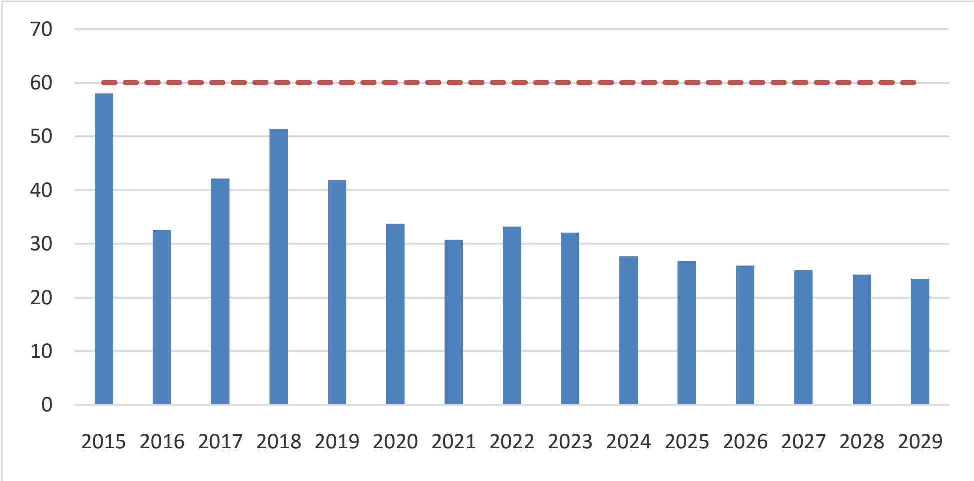


4.3.4 Chart 12: Projected Debt Service as a Share of Revenue



As shown by the charts 11 and 12 above, the State's position in terms of debt sustainability looks appreciably better as from the year 2027. By this time, the State's Debt to Revenue ratio drop from 201% to 185%, and to as low as 153% in year 2029. In terms of Debt service to Revenue however, the State's situation becomes promising as from the year 2020. From the ratio of 44% in 2019, this improved to 30% in 2020 and dropped to 25% in 2021 but jumped to 38% for the two years 2022 and 2023 and thereafter looks stable at an average of about 33% for the years 2024 to 2029. This implies a better Debt service to revenue trend for the State. Whereas the State's administration currently is not anticipatory of further aggressive borrowing at least in the short term, the State's head-room for borrowing evaluated in terms of Debt to revenue and Debt service to Revenue figure shows a promising trend as from the year 2020. Reasonable headroom for fresh borrowing is imminent at least as from the year 2021 as long as the State's revenue forecasts (particularly as from the year 2020) becomes realistic. Items of the State's projected revenue very crucial as from this time are IGR and capital receipts., It would therefore be in the best interest of the Government to concentrate on efforts aimed at boosting her IGR while also aggressively pursuing her anticipated capital receipts.

4.3.5 Chart 13: Projected Personnel Cost



4.3.6 Chart 14: Fiscal Outturns

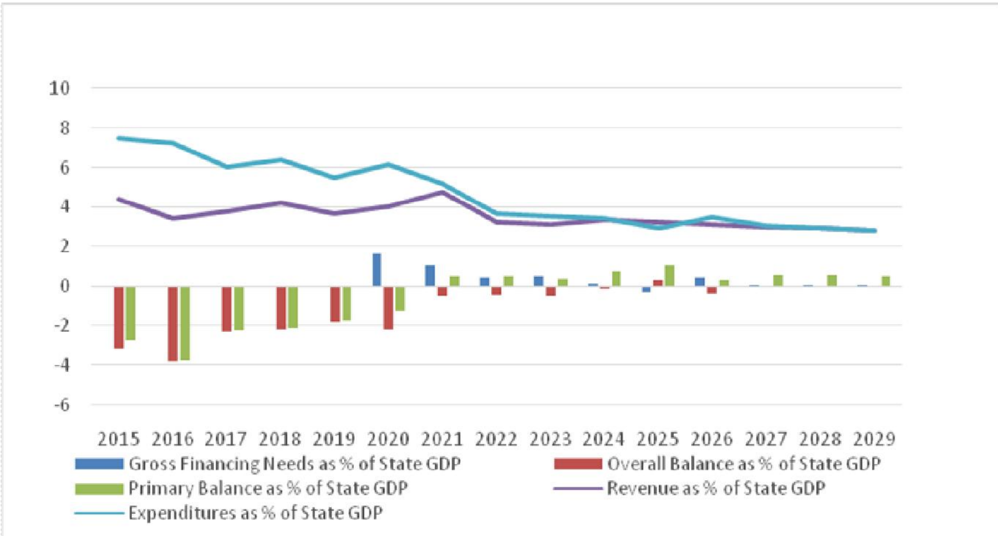
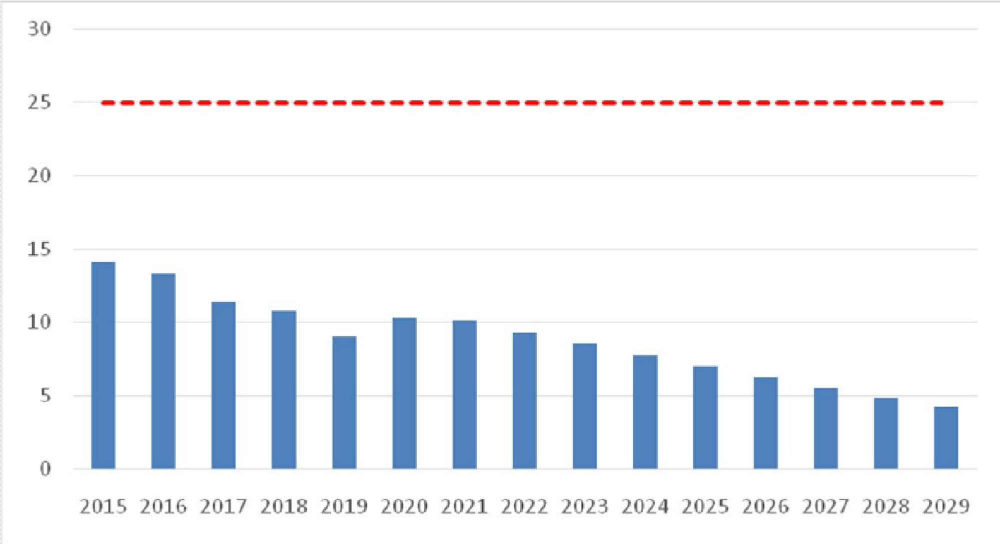
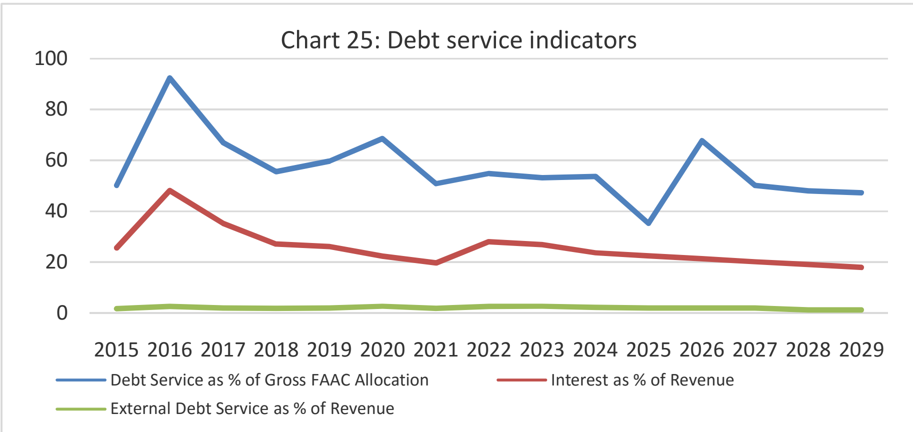


Chart 13 above clearly shows that the State is currently not doing badly in terms of her Personnel cost as a share of Revenue. This is kept below 60% throughout the projected ten year period. From the share of 34%, the share improved remarkably to 23% in 2029.

4.3.7 Chart 15: Debt as a share of GDP



4.3.8 Chart 16: Debt service indicators



4.3.7 Main findings and conclusion of the Baseline scenario in terms of Debt sustainability

The sensitivity analysis of the State's debt sustainability carried out in this chapter is aimed at further evaluation of the State's fiscal situation under various scenarios captured in terms of year on year projections based on some assumptions relating to the State's revenue and expenditure figures for the ten year period (2020-2029). This is to ensure robustness of the results observed based on the baseline positions of the State. Whereas it could be concluded that till end of the year 2019, the State was yet to achieve the desirable benchmark on debt sustainability specifically in terms of her carrying capacity and debt service obligations in relation to her revenue, the sensitivity analysis carried out however indicates that all things being equal, and barring external issues not factored into the State's assumptions, State's debt burden in terms of her annual debt service figure would have reduced considerably. By the year 2020 from 44% recorded in 2019 to 30% in 2020 and remains at average of about 30% till 2029.

Annexure:

1. **List of Tables**

2. List of Charts

3. Assumptions

A. **Assumptions on Revenue and expenditures for the years 2020-2023**

Statutory Allocation – This is estimated based on elasticity forecast using the oil price of $40 per barrel (pb), National Inflation of 11.95%, National Real GDP Growth expands from -4.42% to 2%, NGN:USD Exchange benchmarks of ₦379 to $1 and production benchmark of 1.8 million barrels daily production (MBDP). The NGN:USD exchange rate and crude oil price are consistent with the reviewed benchmark contained in the Federal Fiscal strategy paper 2021-2023. 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 increase the non-oil revenue flowing to the federation account.

VAT - is based on elasticity forecast using the combined change in GDP and inflation rate. The estimate for 2021-2023 is in line with the current rate of collections. This forecast will be revisited if there are any changes to the VAT rates (i.e. increase VAT rates) as proposed in the ERGP 2017 – 2020. For 2021, the sum of **₦14.597 billion** is assumed.

Other Federation Account Distributions - It is assumed that the NNPC refunds, augmentation, and FOREX equalization will continue to be distributed. The estimation is based on the current receipt (i.e. from January to October 2020).

Internally Generated Revenue (IGR) – Key fiscal target for the State of Osun is to grow IGR by a minimum of 20% in 2018 and 15% annually in 2019, 2020, 2021 and 2022. However, the COVID-19 pandemic has greatly affected the economy of the State to the point that the target set cannot be met again in 2020. Hence, the new target is **₦24 billion**. The Government has already started putting in place measures to achieve these IGR targets. However, the growth target of 2019 was not achieved as IGR grew by 15% from 2018 to 2018. Consequently, the actual 2021 IGR is projected to increase by 20% for 2022 and 2023.

Grants – The total sum of ₦24,270,065,010 is assumed for internal grant.

B. **Other assumptions for the years 2024-2029:**

Revenue

i. FAAC to grow by 5%
ii. Other allocation from FAAC remains constant.
iii. VAT to grow by 2.5%
iv. IGR to grow by 2.5%
v. Constant annual grant of =N=10billion (2024 – 2029) was assumed.

Expenditure

i. Personnel cost remains constant
ii. Overhead cost remain constant
iii. Other recurrent expenditure remain constant
iv. Capital expenditure to grow by 10%

Osun State Technical Team

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2. Dr. Wale Tijani -Ministry of Finance
3. Tunji Bankole -DMO
4. Olasunkanmi Ojo -Accountant-General's office
5. Abiodun Olaitan -Osun Internal Revenue Service
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………………………………………………………………………………………..

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(Honourable Commissioner for Finance)