



KANO STATE

GOVERNMENT OF NIGERIA

2023

Annual Report



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GLOSSARY

AfDB	African Development Bank
AFD	French Development Agency
AfDF	African Development Fund
BOA	Bank of Agriculture
BOI	Bank of Industry
CBN	Central Bank of Nigeria
DOD	Disbursed Outstanding Debt
DeMPA	Debt Management Performance Assessment
DMDs	Debt Management Departments
DMO	Debt Management Office
DSA	Debt Sustainability Analysis
ECA	Excess Crude Account
EDF	European Development Fund
LC	Local Currency
ES	External Support
EU	European Union
FCT	Federal Capital Territory
FGN	Federal Government of Nigeria
GDP	Gross Domestic Product
GIFMIS	Government Integrated Financial Management Information System
HOD	Head of Department
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Islamic Development Bank
IFAD	International Fund for Agricultural Development
IGR	Internally Generated Revenue
IMF	International Monetary Fund
IT	Information Technology
MDAs	Ministries, Departments and Agencies
MTDS	Medium-Term Debt Management Strategy

MTEF	Medium-Term Expenditure Framework
NDMF	National Debt Management Framework
NGN	Nigerian Naira
PMD	Portfolio Management Department
SDR	Special Drawing Rights
SFTAS	States Fiscal Transparency, Accountability and Sustainability
SMEs	Small and Medium Enterprises
USD	United States Dollar
WB	World Bank
WEO	World Economic Outlook

PDMO'S VISION, MISSION, BROAD OBJECTIVE, CORE VALUES AND BRAND

VISION

To be a Public Debt Management Institution of sub-national reference.

MISSION

Borrowing costs to government are as low as possible over the medium to long term, consistence with prudent degree of risk:

BROAD OBJECTIVE

To use Debt and Debt-related instruments in supporting Kano State's development goals, while ensuring that public debt is maintained at sustainable level.

MANDATE OF THE DEBT MANAGEMENT OFFICE

The mandate of the Public Debt Management Office as articulated in Part II, Section 4 of the Debt Management (Establishment) Act 2021, specifies that the PDMO shall:

- i. Maintain a reliable database of all loans taken or guaranteed by the Federal or State Governments or any of their agencies;
- ii. Prepare and submit to the Federal Government a forecast of loan service obligations for each financial year;
- iii. Prepare and implement a plan for the efficient management of Nigeria's external and domestic debt obligations at sustainable levels compatible with desired economic activities for growth and development and participate in negotiations aimed at realizing these objectives;
- iv. Verify and service external debts guaranteed or directly taken by the Federal

Government;

- v. On an agency basis, service external debts taken by State Governments and any of their agencies, where such debts are guaranteed by the Federal Government;
- vi. Set guidelines for managing Federal Government financial risks and currency exposure with respect to all loans;
- vii. Advise the Federal Government on the re-structuring and re-financing of all debt obligations;
- viii. Advise the Minister on the terms and conditions on which monies, whether in the currency of Nigeria or in any other currency, are to be borrowed;
- ix. Submit to the Federal Government for consideration in the annual budget, a forecast of borrowing capacity in local and foreign currencies;
- x. Prepare a schedule of any other Federal Government obligations such as trade debts and other contingent liabilities, both explicit and implicit and provide advice on policies and procedures for their management;
- xi. Establish and maintain relationships with international and local financial institutions, creditors and institutional investors in Government debts;
- xii. Collect, collate and disseminate information, data and forecasts on debt management with the approval of the Board;
- xiii. Carry out such other functions which may be delegated to it by the Minister or by Act of the National Assembly; and
- xiv. Perform such other functions which in the opinion of the Office are required for the effective implementation of its functions under the Act.

DIRECTOR-GENERAL'S REMARK

It is with great honour and privilege that I present to our esteemed stakeholders and the general public, the Debt Management Annual Report of the State Public Debt Management Office (PDMO) for the year ended December 31st, 2023. The Annual Report contains comprehensive information on Kano



State Debt position as well as Public Debt statistics. The Report provides the debt data statistics of the Kano State Government. In addition, an update is provided on recommended strategy to be adopted that would guide the State on future borrowing through the conduct of Medium-Term Debt Management Strategy, 2023, as well as the outcome of the 2023 State's Debt Sustainability Analysis (DSA) exercise.

Total Public Debt 2023

Government considered borrowing as a means of sourcing fund in closing its budget gap with an objective of implementing the Government's Economic Recovery and Growth Plan amidst dwindling revenues, Government still considered borrowing as a bridging measure to secure funding for on-going infrastructure projects and meet other economic priorities. For the past 8 years funds were sourced largely from Federal Government Interventions through commercial Banks in the domestic capital market and externally source through the World Bank. Out of the of the 11 existing external loans that is undergoing repayment by the state, mostly were signed in Special Drawing Right (XDR) while few were signed in US Dollar (USD) and Euro (EUR).

Kano State's outstanding Total Public Debt as at December 31, 2023 stood at N217,382,475,453.49 while in 2022 the state debt position is

N155,718,102,542.19 as at December 31, 2021, representing an increase of N61,664,372,911.30 or 40.0 percent in Naira terms. The sharp increase in the Total Public Debt stock was reflected in both external/domestic debt due to significant loss of naira value to dollar and other credit currencies. The Total External Debt stock as at December 31, 2023 was N97.1 billion relative to N45.2 billion as at the end of 2022, showing a significance growth of N51.9 billion or 114.8 percent which is largely due to an exchange rate loss against dollar, in 2022 the naira to dollar rate is 448.550NGN/1\$ while in 2023 the exchange rate uses was 899.393/1\$ on the Total Public Debt stock and also due to inflow of cash through disbursement within the year, unlike the external debt stock the domestic component as at 31st December 2023 stand at N120.8 billion while at the of year 2022 the Total Domestic Debt stock was N122.4 billion pointing a decrease by ₦1.6 billion or 1 percent of the previous year.

The Total Public Debt as a percentage of Gross Domestic Product (GDP) remained sustainable at 21.61 percent as at December 31, 2020, relative to 19.00 percent at the end of December 2019. This ratio is within the new Country Specific Debt Limit of 40 percent set under the approved MTDS, 2023-2028 and below the maximum threshold of 55 percent of the IMF and World Bank for countries in Nigeria's peer-group, as well as the West African Monetary Zone (WAMZ) convergence threshold of 70 percent.

Whilst the Debt Portfolio remained sustainable in relative to the GDP, Debt Service to Revenue Ratio still remains a source of concern to the Government. However, given the various revenue generation reforms and effective implementation of the Strategic Revenue Growth Initiatives by the State, it is expected that the revenue-based parameters would improve,

which would substantially reduce the Debt Service to Revenue Ratio in the short to medium-term.

Our Plan for the Local Governments

As part of our efforts to strengthen the capacity of debt managers at the Local Government level, the PDMO has concluded its plan to conduct a special Capacity Building Program on “Public Debt Creation and Local Government Debt Management” for the nominated officials of the 44 Local Government areas within the state. The training is meant to assist the Local Government to track and manage their local government debt so as to assist the state to attain the requirements of the World Bank States Action on Business Enabling Reforms (**SABER**) program.

Conclusion

I wish to express my sincere appreciation to our entire stakeholders for their continuous support in ensuring the target objective of the office mandate is achieved. I also wish to place on record the close collaboration and partnership between the PDMO and the State Assembly, Development Partners and other stakeholders, including Ministry of Planning & Budget among others, Departments and Agencies during the year under review.

Finally, I am particularly thankful to the Management and Staff of the PDMO whose consistent focus and dedication to the goals and aspirations of the Office have ensured that we continue to succeed in the discharge of our mandate.

Hamisu Sadi Ali, PhD,
Director-General,
Kano State Public Debt Management Office
June 30th 2024.

CHAPTER ONE

THE MACROECONOMIC ENVIRONMENT

1.1 National Economic Growth

Nigeria's Gross Domestic Product (GDP) grew by 3.46% (year-on-year) in real terms in the fourth quarter of 2023. This growth rate is lower than the 3.52% recorded in the fourth quarter of 2022 and higher than the third quarter of 2023 growth of 2.54%. The performance of the GDP in the fourth quarter of 2023 was driven mainly by the Services sector, which recorded a growth of 3.98% and contributed 56.55% to the aggregate GDP. The agriculture sector grew by 2.10%, from the growth of 2.05% recorded in the fourth quarter of 2022. The growth of the industry sector was 3.86%, an improvement from -0.94% recorded in the fourth quarter of 2022. In terms of share of the GDP, industry, and the services sectors contributed more to the aggregate GDP in the fourth quarter of 2023 compared to the fourth quarter of 2022. On an annual basis, GDP grew by 2.74% in 2023 relative to 3.10% in 2022.

In the quarter under review, aggregate GDP stood at N65,908,258.59 million in nominal terms. This performance is higher when compared to the fourth quarter of 2022 which recorded aggregate GDP of N56,757,889.95 million, indicating a year-on-year nominal growth of 16.12%. For better clarity, the Nigerian economy has been classified broadly into the oil and non-oil sectors.

1.2 Kano State Background

Kano state of Northern Nigeria is the fastest growing city in the sub-Saharan Africa. Having undergone massive transformations in the past century has been characterized by urbanization of sustainable rapid developmental growth. Kano is a State located at North-Western Nigeria created on May 27, 1967 from part of the Northern Region. Kano State borders Katsina State to the North-West, Jigawa State to the North-East and Kaduna State to the South. The State originally included Jigawa State which was made a separate State in 1991. Kano State is a center of commerce and the second most industrialized state in Nigeria. The economic nerve of the North and most politically active and have the most sophisticated people in the northern part of the country. It was created along 11 other states by the military government of General Yakubu Gowon.

Despite changes in its administrative structure and size due to creation of Jigawa State in 1991, the importance of Kano as a commercial nerve center of the north has not been eroded, there is still concentration of middle men and agents in the famous Singa, Kwari, Kurmi and Sabongari markets who distribute finished goods manufactured to different parts of Nigeria and the rest of the world. Apart from its striving commerce, Kano economy consist of a booming agricultural sector established since the groundnut pyramids of the colonial era, and an industrial sector that is yet to regain its status since it was destroyed by the effect Structural Adjustment Program (SAP) in the late 1980's and early 1990's respectively. With a growing population estimated at about 20 million, unskilled labour is relatively cheap. The competitive wage rates have conferred on the state comparative advantage. Given its rich endowment, various and multi-faceted economic activities are being undertaken in the state grouped under the following sectors;

- Agriculture
- Commerce
- Manufacturing
- Mining
- Banking & Industry
- Tourism & Recreation and other services

1.3 People, Culture & Tourism

The State is home of 44 LGA's and its predominantly Hausa-fulani ethnic group. Other settlers' ethnic groups include Jukun, Nupe, Kanuri, Yoruba, Igbo, Tiv, Idoma and Igala. There are also foreigners from neighboring African countries like Niger republic, Ghana & Cameroon and a sizeable number of Sudanese, Lebanese & Turkish people. Kano State has a number of tourist attraction and recreation centers which attract Nigerians and foreigners and serve as means of earning revenue.

1.4 Economic Development Policies and Plan

The policy direction of the present administration is to create enabling environment for the teeming youth population to be engaged in economic activities to reduce the rate of unemployment, ensuring the security of people and their property all over the State and it is also part of the government priority to ensures all the children in the State are enrolled in school to reduce the level of illiteracy in the State large.

In general, government aim in an employing an economic reform program at all levels which will ensure sustainable development and poverty reduction in the State. Government also pays a key policy priority in the under listed area in pursuance of Human Development Policy;

- Mass farming activities through support given to farmers in terms of improved seeds, fertilizers and financial support to farmers
- Water supply to improve health standard within the rural & urban communities through "CRC"
- Support education through recruitment of qualified teachers and teaching material and also sponsoring mass indigenous youth to further their studies abroad
- Support to security agencies and commission groups to ensure safety and security of people and their properties.
- Employment of health personal, supply of drugs, equipment and provision of access to basic health facilities.
- Support to security agencies and commission groups to ensure safety and security of people and their properties.
- Development of (private) Business Section especially SME's reducing poverty, creating wealth and generating employment especially for women and the youth.

The above-mentioned priorities are based on the human development of the present administration.

CHAPTER TWO

APPRAISAL OF DEBT MANAGEMENT STRATEGY

2.1 Introduction

The Debt Management Strategy is a policy document that provides guide to the government's borrowing activities in the medium-term, in other word 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 terms, consistent with a prudent degree of risk. Debt Management Strategy examines the costs and risks inherent in the current debt portfolio, as well as in the debt portfolios that would arise from a range of possible issuance strategies, in light of factors such as the macroeconomic and financial market environment, the availability of financing from different creditors and markets, and vulnerabilities that may have an impact on future borrowing requirements and debt service costs.

The Medium-Term Debt Management Strategy (MTDS) conducted in August 2023, provides alternative strategies to meet the financing requirements for Kano State. The strategies are shown by the breakdown of funding mix (domestic debt and external debt) and within the broad categories of domestic and external debts, the share of each stylized instrument has also been illustrated. The Kano State's Debt Management Strategy, 2023-2027, analyses the debt management strategies outcomes of the three debt management performance indicators namely Debt Stock to Revenue, Debt Services to Revenue and Interest to Revenue. The cost is measured by the expected value of a performance indicator in 2026, as projected in the baseline scenario. Risk is measured by the deviation from the expected

value in 2026 caused by an unexpected shock, as projected in the most adverse scenario. Among the 4 strategies studied in the course of conducting 2023 MTDS, it was analyzed that strategic scenario of contracting external financing (concessional loans) should represent an average of 11.83 % from 2023-2028, Bilateral Loans 9.25 %, other gross financing comprises other domestic financing, commercial bank loans (1-5 years), commercial bank loans (above 6 years) and State bonds (1-5 years) with average period of 46.95 %, 22.86 % and 13.14 %, respectively.

CHAPTER THREE

KANO STATE TOTAL PUBLIC DEBT

3.1 Total Public Debt Outstanding

The Kano State's Total Public debt (comprising the external and domestic debt) was ₦218,979,825,619.39 as at December 31, 2023 compared to ₦155,718,102,542.19 as at December 31, 2022, which represent an increase of ₦63,261,723,077.20 or 40.1 percent, at the end year 2021 the state total debt stood at ₦159,074,903,729.30 while in 2020 the DOD was ₦142,927,483,561.88 and ₦129,213,047,365.33 as at 31st December 2019. The Table and chart below are the composition of Kano State debt as at 31st December 2023 and 5 years trend of the state total indebtedness from 2019 - 2023.

Table 3.1: Composition of Kano State Total Public Debt as at 31st December 2023

Credit Type	Outstanding Amount (in NGN)	% to the Total Debt
External Debt	97,063,350,437.02	45%
Domestic Debt	120,382,475,453.49	55%
Total Debt	217,382,475,453.49	100%

Source: Debt Management Office

Figure 3.1: Percentage Composition of the State Debt as at 31st December 2023.

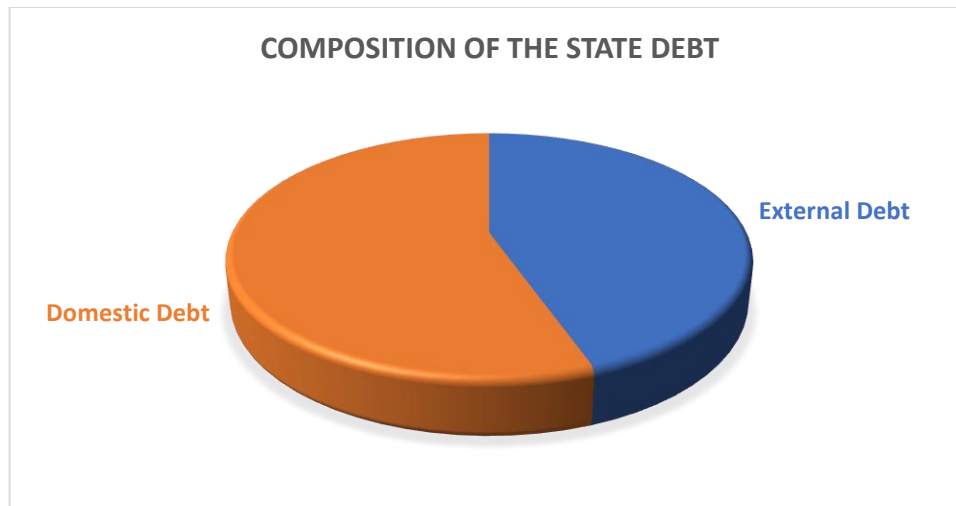
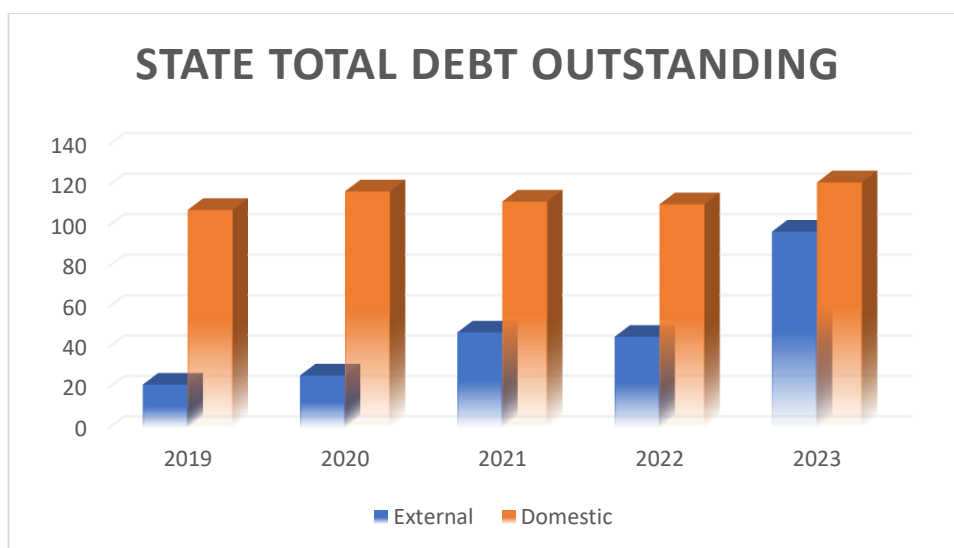


Table 3.2: Kano State's Total Public Debt Outstanding, 2016-2020 (in billion N)

Debt Category	2019	2020	2021	2022	2023
External	21.459	25.992	47.278	45.154	97.064
Domestic	107.754	116.934	111.897	110.564	120.319
Total	129.213	142.926	159.175	155.718	217.383

Source: PDMO

Figure 3.2: shows the trend of Kano State Debt Category from 2019 – 2023 (in billion Naira)



Source: PDMO

3.2 Kano State's Total Public Debt Repayment

Kano State's Total Public Debt service repayment consist of principal and interest repayment for both external and commercial bank loans and other domestic liabilities such as contractors' arrears. In the year 2023 a total of ~~N~~25 billion was spent by the government to service its external and domestic loans and other liabilities across the year, while in 2022 the state services it's loan with the sum of ~~N~~50.0 billion representing a declined of ~~N~~25 billion

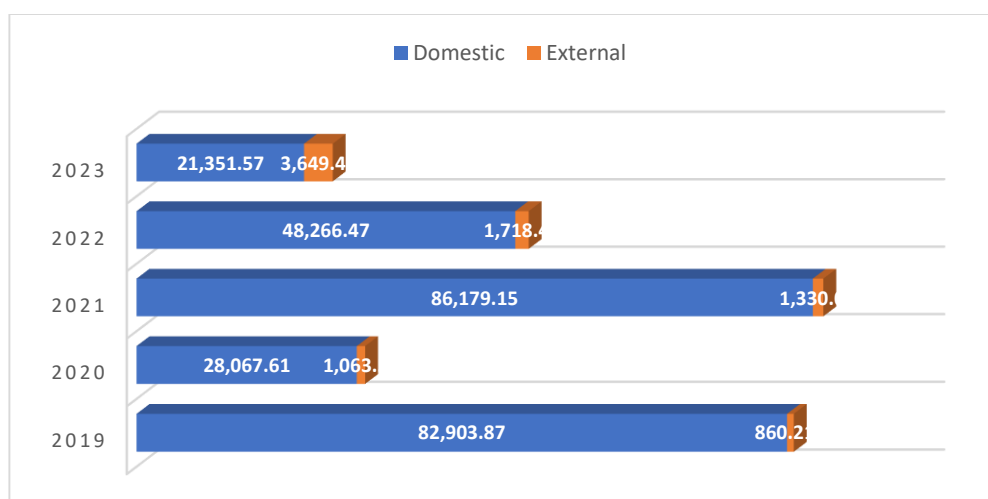
or 50 percent, the debt repayments made were on total debt due in 2023 including their respective deferred payments.

Table 3.3: Total State's Public Debt Repayments, 2019-2023 (NGN' Million)

		2019	2020	2021	2022	2023
Debt Service	External	860.213	1,063.56	1,330.08	1,718.41	3,649.41
	Domestic	82,903.87	28,067.61	86,179.15	48,266.47	21,351.57
TOTAL		29,131.17	29,131.17	87,509.23	49,984.81	25,000

Source: PDMO

Figure 3.3: Pattern of the State Loan Repayment from 2019 to 2023



Source: PDMO

Domestic debt service forms the majority part of total debt services as it consists of commercial bank loan repayment, FG interventions to state and contractors/suppliers liabilities settlement.

CHAPTER FOUR

4.1 Kano State External Debt Stock

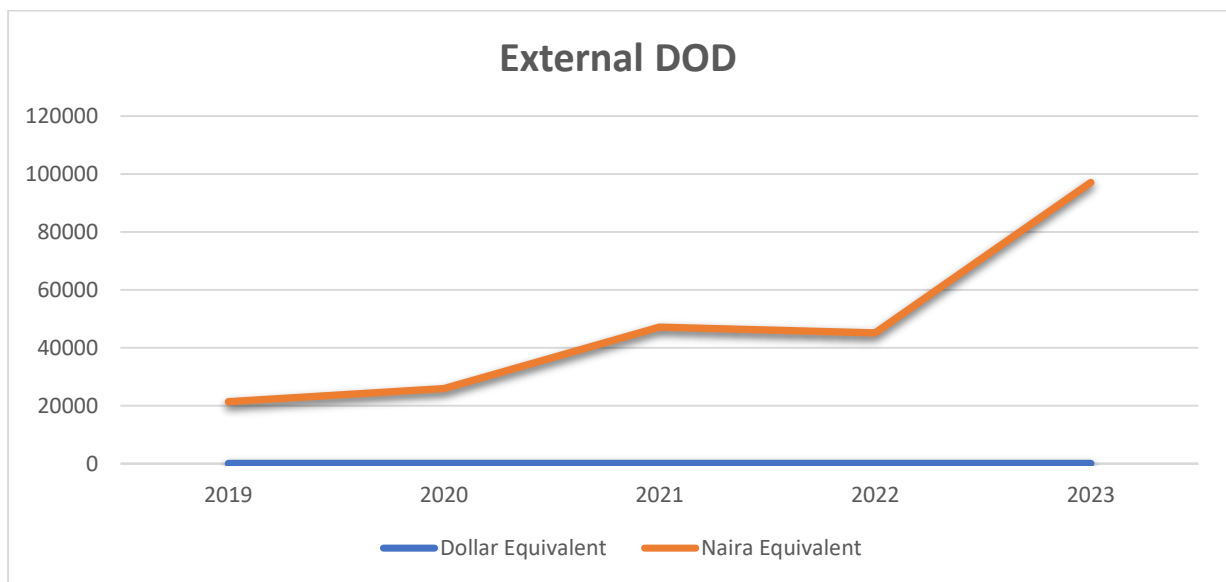
Kano State external loans are the composition of multilateral and bilateral loans, the existing multilaterals are all International Development Association (IDA) loans and the bilateral are African Development Bank (ADF) loans, the loans are negotiated and signed by Federal Government and on-lent to state's, those loans are concessional in nature as they have a longer grace period, low interest rate and longer repayment period. Kano State has eleven (11) existing loans that are yet to mature, some are fully disbursed while some are undergoing disbursement process. The loan currencies are of different type majority are signed in Special Drawing Right (XDR) while some are in Euro (EUR) and Dollar (USD) denominations.

Kano State external disbursed outstanding debt as at 31st December 2023, stood at \$107,920,953.84 equivalent to ₦97,063,350,437.02 relative to what the state is owing as at December 2022, standing at \$100,666,105.82 equivalent to ₦45,153,781,765.01 indicating an increase by 7% amounting to \$7,254,848.02 in dollar terms. The increase in external debt stock was mainly due to additional disbursements by the Multilateral and Bilateral Creditors due to new disbursement, but the relative increase in naira equivalent of 32% amounting to ₦142,217,132,202.03 between the year is driven by monetary and exchange rate policy distortions that leads to depreciation of the Naira to the US Dollar during the period, from ₦448/US\$1 as at December 31, 2022 to ₦899/US\$1 by December 31, 2023.

Table 4.1 Trend of the State External Debt from 2019 – 2023 (in \$ and in N)

Loan Category	2019	2020	2021	2022	2023
Dollar Equivalent (Million USD)	69.111	68.402	114.236	100.666	107.063
Naira Equivalent (in Million naira)	21,459.273	25,992.88	47,178.446	45,153.76	97,063.36
Exchange rate @	<i>310.5045</i>	<i>380.0018</i>	<i>412.9910</i>	<i>448.5502</i>	<i>899.393</i>

Figure 4.1: Trend on Kano State's External Debt Outstanding, 2019-2023 (in Million USD\$)



Source: DMO

Therefore, from the above figure we can see the risk associated to loss of currency value where the state external debt in USD remain steady but in NGN terms it keeps on increasing due to naira value loss against Dollar.

4.2 Details of Kano State External loan

State existing instrument that are undergoing repayment are 11, 9 of the loan are undergoing both principal and interest repayment while the remaining two loans the state pays only interest, the state is still enjoying the grace period contains in the financing agreement signed by the FG.

Below is the list of the state's instruments signed by the Federal Government and on-lent to Kano State between 1992 to 2022.

Table 4.2: External Instrument by Loan Amount and D.O.D as at 31st December 2023

S/N	Credit or	Instrument Type	Loan Currency	Loan amount in Original Currency	DOD in USD
1	IDA	Multi-State Road Project	XDR	26,212,376.50	3,962,590.63
2	IDA	State Education Sector Project (SESP)	XDR	17,192,011.90	21,323,729.64
3	IDA	Third National Fadama Project (FADAMA III)	XDR	4,818,310.00	4,850,650.84
4	IDA	Malaria Control Booster Project	XDR	11,550,000.00	4,002,806.85
5	IDA	Health System Development Project (Add Financing	XDR	2,313,697.80	1,457,335.34
6	IDA	Commercial Agricultural Development Project	XDR	17,670,000.00	14,402,029.91
7	IDA	Malaria Control Booster Project (Add Financing	XDR	5,927,445.10	2,971,164.79
8		Erosion & Watershed Management Project	USD	5,000,000.00	2,739,872.19
9		Agro Processing, Productivity, Enhancement Project	USD	36,847,000.00	35,023,073.50
10	AFD	Third National Urban Water Sector Reform	EUR	64,000,000.00	13,317,400.07
11	AFDF	Rural Access & Agricultural Marketing P.	EUR	3,500,000.00	3,870,300.08
Total					107,920,953.84

Source: PDMO

4.2 External Debt Repayments

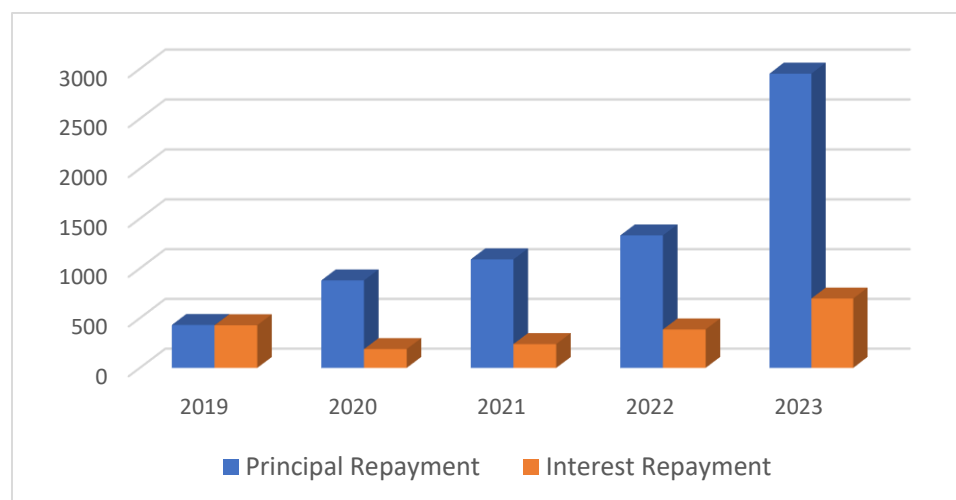
The total Kano State's Principal and Interest Repayment on the External Debt Stock as at December 31, 2023 was US\$4,818,179.08 equivalent to N3,649,419,645.35 to US\$3,960,088.54 equivalent to ₦1,718,408,839.64 as at December 31 2022, representing an increase by 21.7% of US\$858,090.15 and in naira term an increase by 112.4% of N1,931,010,805.71. The increase was largely due to naira decline which is link to factors including heavy reliance on oil and inconsistencies between fiscal and monetary policies, which have strained the nation's economy.

Table 4.3: Trend of the State External Debt Repayments from, 2019-2023 (in Million Naira)

YEAR	2019	2020	2021	2022	2023
Principal Repayment	431.631	879.418	1,090.668	1,331.767	2,952.381
Interest Repayment	428.582	189.137	239.415	386.642	697.039
TOTAL	860.213	1,063.56	1,330.08	1,718.41	3,649.41

Source: DMO

Figure 4.2: Trend of Kano State's External Debt Service From 2019-2023



Source: Kano State PDMO

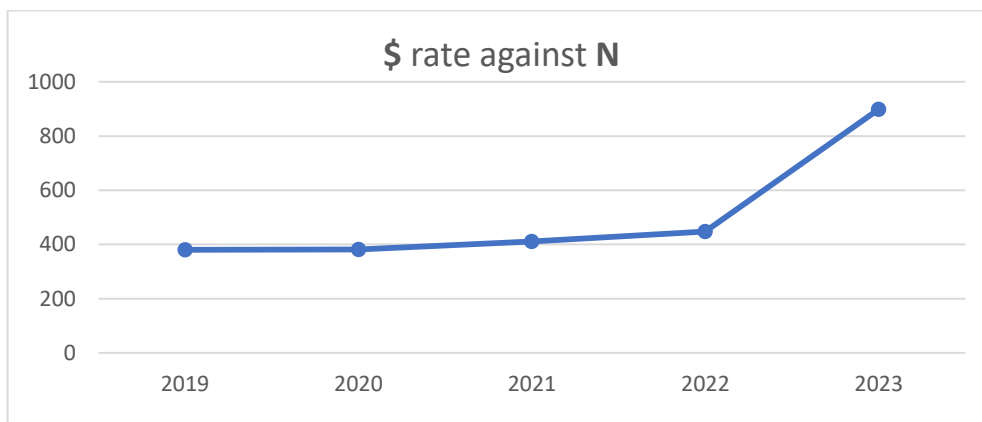
The above figure shows the trend of external debt repayment where principal repayment is greater than the interest repayment due to the fact that World Bank loans are concessional with low interest charges applied to them.

Table 4.4: Trend of Exchange Rate between Naira (₦) and Dollar (\$)

S/N	YEAR	USD EXCHANGE TO NGN
1	2019	380
2	2020	381
3	2021	411
4	2022	448
5	2023	899

Source: DMO/CBN

Figure 4.3: Pattern of Naira Exchange Rate Against Dollar From 2019-2023



The above table and figure display the trend of 5 years exchange rate behavior of Naira (₦) against USD (\$).

CHAPTER FIVE

KANO STATE'S DOMESTIC DEBT

5.1 Kano State's Domestic Debt Stock

Kano State's Domestic Debt portfolio comprises FGN Interventions to state's, commercial bank loans and other liabilities (contractors/suppliers' liabilities and pension/salary arrears). It is very glaring and clear that commercial bank loan is more expansive than World Bank loans due to its high interest rate and shorter repayment period.

State's Domestic Debt stock outstanding as at December 31, 2023 was ~~₦~~120,319,125,016.47 compared to ~~₦~~122,361,942,618.03 in the corresponding period of 2022, representing a decrease of ~~₦~~2,042,617,602.56 or 1.7 percent. The slight decrease in the State's Domestic Debt stock in the period under review is as a result of the debt restructuring and reconciliation between State Governments and the Federal Government where deductions to service four (4) of the FG intervention loan to 36 state's including Abuja are suspended from June 2023. Below is the list of the state domestic debt composition and their corresponding outstanding amount.

Table 5.1 Composition of Domestic Debt & Their DOD as at 31st December 2023

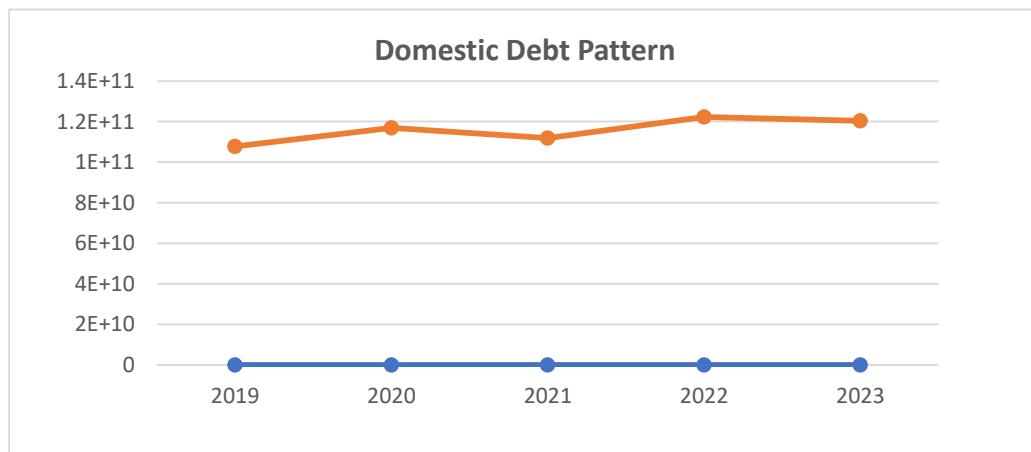
Loan Instrument		Amount Outstanding
	<i>Commercial Bank Loans</i>	
1	RESTRUCTURED COMMERCIAL BANK LOANS (FGN BONDS)	16,109,989,900.82
2	Excess Crude Account	6,833,333,333.33
3	Budget Support	16,249,201,182.47
4	Salary Bail-out	13,500,000,000.00
5	FG Bridging Financing (2022)	18,225,336,103.89
6	State Bonds	13,414,625,928.33
7	PAIF (Power and Aviation Intervention Fund)	2,342,499,094.94
8	FGN Intervention Fund (2021)	1,232,534,318.44
9	MICRO, SMALL & MEDIUM ENTERP. DEVELOPMENT FUND (MSMEDF)	28,255,239.35
10	ABP (Anchor Borrower Facility 2016)	1,010,939,514.70
Sub-Total		88,946,714,616.27
	<i>Other Liabilities</i>	
11	PENSION AND GRATUITY ARREARS	10,075,994,260.39
12	CONTRACTORS' ARREARS	20,655,960,381.43
13	Other Liabilities	640,455,758.38
Sub-Total		31,372,410,400.20
GRAND TOTAL		120,319,125,016.47

Source: Kano State PDMO

Table 5.2 Trend of the State Domestic Debt from 2019 – 2023

Year	Disbursed Outstanding Amount
2019	107,753,774,512.23
2020	116,934,604,599.62
2021	111,896,457,385.67
2022	122,361,942,618.03
2023	120,319,125,076.47

Figure 5.1: Trend of Kano State's Domestic Debt From 2019-2023



5.2 Kano

State's Domestic Debt Repayments in 2023

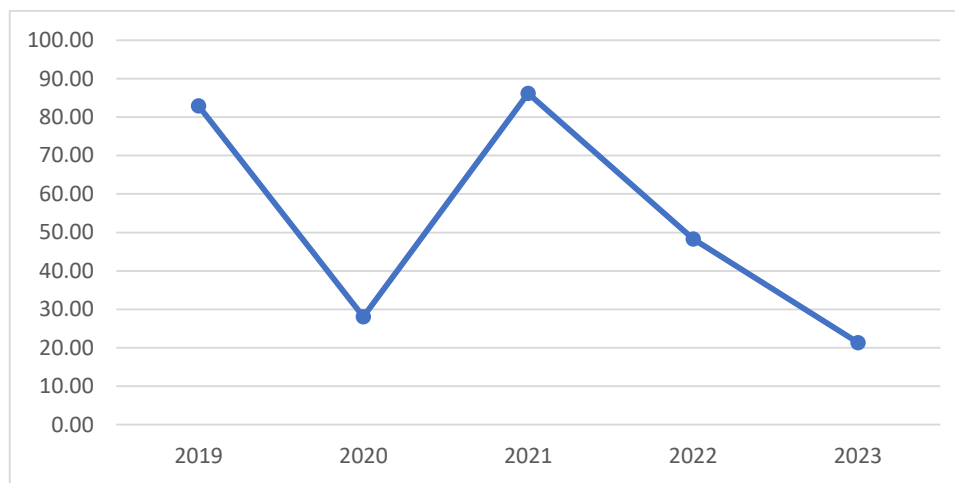
The total state's debt repayment on domestic debt was N21.352 billion in 2023, relative to N48.267 billion in 2022. The decrease of N26.92 billion or 55.8 percent repayments on Kano State Domestic Debt reflects the effect of suspending deductions from June 2023 for the 4 intervention loans and the amount of contractor's liabilities settlement in 2022 is higher than what the state pays in 2023. Below is the trend of domestic debt repayment that consists both commercial bank loans and other state liabilities (i.e. contractors and suppliers arear) from 2019 to 2023.

Table 5.3: Kano State Domestic Debt Service from 2019 to 2023

Year	Domestic Debt Service
2019	82,903,869,696.38
2020	28,067,610,256.76
2021	86,179,147,136.76
2022	48,266,466,785.43
2023	21,351,566,740.32

Source: Kano State PDMO

Figure 5.2: Trend on Kano State's Domestic Debt Service From 2019-2023



5.3 Kano State's Commercial Bank Loans in 2023

Kano State Commercial bank loans were sign from different banks, the creditor banks to state are UBA, Fidelity Bank, Access Bank, FCMB and Bank of Agric. The state contracted the loans and repay through FAAC deduction and the interest charges on the loan ranges from 7 percent to 17 percent with maximum repayment period of 20 years. Find below the details of the ongoing commercial bank loan to state.

Table 5.4: Kano State Existing Commercial Bank Loans

Loan Instrument		Amount Outstanding
	<i>Commercial Bank Loans</i>	
1	RESTRUCTURED COMMERCIAL BANK LOANS (FGN BONDS)	16,109,989,900.82
2	Excess Crude Account	6,833,333,333.33
3	Budget Support	16,249,201,182.47
4	Salary Bail-out	13,500,000,000.00
5	FG Bridging Financing (2022)	18,225,336,103.89
6	State Bonds	13,414,625,928.33
7	PAIF (Power and Aviation Intervention Fund)	2,342,499,094.94
8	FGN Intervention Fund (2021)	1,232,534,318.44
10	MICRO, SMALL & MEDIUM ENTERP. DEVELOPMENT FUND (MSMEDF)	28,255,239.35
11	ABP (Anchor Borrower Facility 2016)	1,010,939,514.70
GRAND TOTAL		120,319,125,016.47

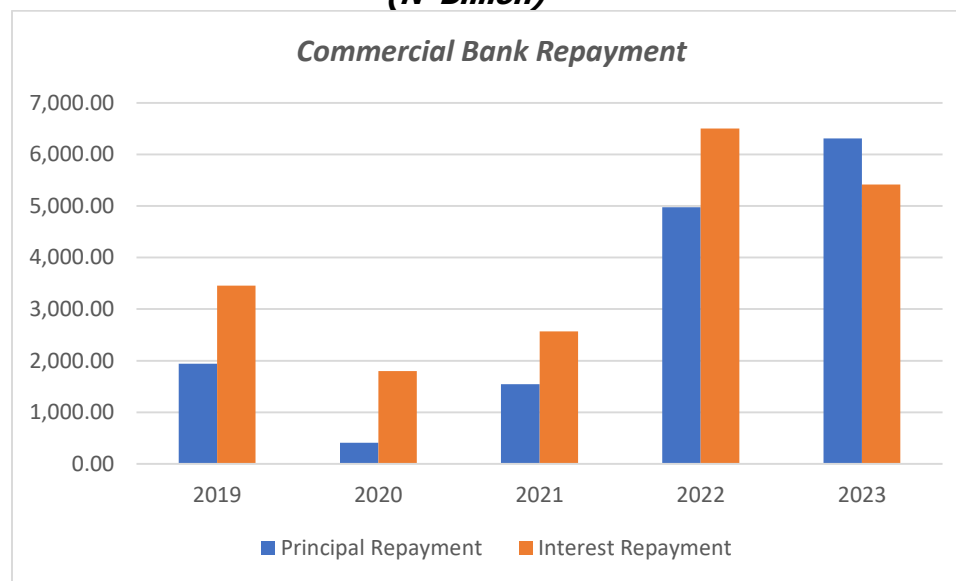
Source: Kano State PDMO

Table 5.5: State's Commercial Back Debt Repayments, 2019-2023 (in Million N)

YEAR	2019	2020	2021	2022	2023
Principal Repayment	1,941.359	404.415	1,543.877	4,979.387	6,312.954
Interest Repayment	3,456.951	1,801.143	2,569.015	6,502.352	5,420.739
TOTAL	5,398.31	2,205.558	4,112.89	11,481.74	11,733.690

Source: Kano State PDMO

Figure 5.3: Trends of Kano State's Commercial Bank Debt Repayments, 2019-2023 (N' Billion)



The above trend in the figure indicate high amount of the state's debt service on commercial bank loans goes to interest repayment only in the year 2023 principal repayment exceed interest payment. The pattern shows how expensive commercial bank loans are compared to external loans.

CHAPTER SIX

DEBT SUSTAINABILITY ANALYSIS

6.1 Kano State Debt Sustainability Analysis

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

Debt Sustainability Analysis (DSA) is conducted in line with National Debt Management Framework (NDMF) using accepted recommended global standard thresholds. This help to test the ability of the state if it can settle its entire debt obligation as at when due within a given time frame. The World Bank standard threshold employed to check the state debt solvency and liquidity ratios for 10 years under review. Below is the result of the state indicators in compares with threshold limit that determine weather the state is in debt distress or not.

Table 6.1: Kano State Debt burden indicators as at end-2023

Indicators	Thresholds	Ratio
Debt as % of GDP	25%	3.50
Debt as % of Revenue	200%	78.11
Debt Service as % of Revenue	40%	18.02
Personnel Cost as % of Revenue	60%	32.57
Debt Service as % of FAAC Allocation	28%-63%	26.96
Interest Payment as % of Revenue	30%	2.49
External Debt Service as % of Revenue	30%	0.64

Source: Kano State PDMO, 2023

Based on the above result, Kano State Risk Rating (KSRR) remains at a Moderate Risk of debt distress with capacity to accommodate shocks in Revenue, Expenditure, Exchange rate and Interest Rate. The ongoing efforts by the government towards improving revenue generation and diversifying the economy, through various initiatives and reforms in Tax Administration and Collections, as well as the Public Financial Management, would improve the outlook for Total Debt with enhanced revenue performance. Thus, the Revenue indicators and Borrowing Space are expected to improve in the medium to long-term.

6.2 Solvency Ratios

Compared to the above thresholds, the state's debt solvency ratios remain sustainable for all the period under review. Though Total Debt Stock as a percentage of Total Revenue increases from 92% in 2019 to 122% in 2020, it drops to 103% and 76% in 2021 and 2022 respectively, but in 2023 the ratio rises to 99%. The same thing applies to Total Debt Stock as a percentage of FAAC Revenue and External Debt Stock as a percentage of FAAC Revenue are all below the recommended thresholds. Therefore, from

the above sustainability analysis the State's indebtedness shows that there is substantial space to borrow based on the State's current revenue profile.

6.3 Liquidity Ratios

During the DSA analysis all the ratios for the year under review are below the recommended thresholds indicating moderate debt distress. The State is also recommended to improve its IGR generation to remove over dependence on FAAC allocations. It is also recommended that preponderance contractor's arrears and pension arrears should be address to make the liquidity ratios more favorable. Finally, the analysis indicate that the State's future borrowing is to access external market when the need to borrow arises as presently the State's spent larger portion of its debt service to domestic creditors.

CHAPTER SEVEN

RISK ANALYSIS OF KANO STATE PUBLIC DEBT

7.1 Introduction

Total Public Debt Sustainability, as well as Costs and Risks performance of the Kano State's Debt portfolio as at December 31, 2023, is analysed to have the following risk indicators: Interest Rate, Exchange rate, Credit and Contingent Liabilities risks.

7.2 Interest Rate Risk

The exposure of Kano State Domestic Debt to Interest Rate Risk decreased toward the end of 2023, due to the exit of FG intervention loans as their interest rate is within the range of 7% to 14% unlike external loan with less than 1 percent interest rate, so there is need for the state to access more fund from external window that is concessional in nature to benefit from low interest rate charges.

7.3 Exchange Rate Risk (Foreign Exchange Component in the Debt Portfolio)

The Kano State's Public Debt portfolio exposure to Foreign Exchange Risk remained at an alarming stage in the year under review, as the share of Total External Debt remained at 60 percent of the Total Debt portfolio as at December 31, 2023, compared to 30 percent as at December 2022.

7.4 Contingent Liabilities Risks

Kano State has a contingent liability from two FG intervention loans where the beneficiaries refuse to repay the loan to CBN, as contained in the agreement sign between the leading bank and the state government any default by the beneficiary the state will bear responsible, under this

condition the state is now negotiating with CBN and BOA to find a way of paying a contingent liability of 1.1 billion naira.