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Summary of the Debt Sustainability Analysis Toolkit

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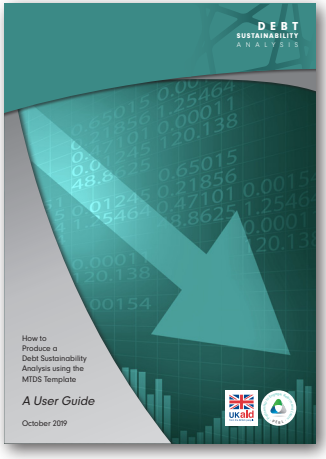
Public Financial Management Tools

DEBT SUSTAINABILITY ANALYSIS (DSA) TOOLKIT



Description of the DSA Toolkit

The Debt Sustainability Analysis (DSA) Toolkit is designed to support states to make informed decisions around debt financing. It provides templates that will allow states to take a backwards look at their historical dynamics in terms of debt stock and debt servicing costs, and to analyse the advantages and disadvantages of various forward-looking debt strategies under different macro-fiscal scenarios.

State governments should undertake a DSA on an annual basis – the results of which should inform the subsequent budget process in terms of how much a state can afford to borrow in a sustainable manner, and how much their existing debt portfolio will cost to service (including under any macro-fiscal shock scenarios).

The benefit of the DSA Toolkit

The toolkit encompasses a set of linked MS Excel templates that allow for relatively simplistic data entry and forecasting. They have been developed based on the learning from various technical assistance interventions. They also include guidance on debt liquidity and solvency ratios that can guide states in their decision-making process. Finally, a number of macro-fiscal scenarios have been proposed which are based on the current risks facing the Nigerian states. Ultimately the toolkit will support better informed fiscal decision making, and hence, improved value for money in terms of public resources utilization.

Structure of the Suite:

The toolkit includes three main documents for use by states as well as a detailed guide on how to prepare the documents.

- **Debt Profile template (MS Excel):** this template should be populated with five years' worth of historical data (draw-down and servicing (interest and principle)) as well as some revenues figures for benchmarking purposes. It uses the data entered to generate three reports which form part of the Debt Profile and Debt Sustainability Report.
- **Medium Term Debt Strategy (MTDS) template (MS Excel):** this template provides a number of different debt scenarios (based on different loan types – e.g. long or short maturity, concessional or commercial, domestic of foreign) and options for stress testing each scenario (e.g. exchange rate shock or revenue shortfall) to help inform decision making on future debt drawdown. It generates a number of outputs (tables and graphs) which form part of the Debt Profile and Debt Sustainability Report.
- **Debt Profile and Debt Sustainability Report template (MS Word):** this template provides sections for the outputs from the above two MS Excel templates and areas for written analysis and recommendations to be added.

In addition to the User Guide, populated examples of the above three templates have been included in the Toolkit (for the fictional state of Wazobia) so that users can appreciate what the completed documents should look like.

Who should use this toolkit?

The Toolkit is primarily intended for State level Debt Management Departments to assist them to produce the annual Debt Profile and Debt Sustainability Report. This report should be produced after the year-end and before the start of the budget cycle (it should inform the borrowing plan in the Medium-Term Fiscal Framework). In the same vein, it may also be used (and modified as necessary by Consultants providing technical assistance to state governments in the area of debt Management.

The potential of the DSA Toolkit to contribute to improved service delivery

The overall aim of the DSA is to support more informed decision making which in turn supports better value for money for public resources. Specifically, it can help ensure that state governments do not have a very high debt servicing burden (crowding out service delivery related expenditures), it helps to promote better decision making in terms of capital project appraisal and economic and social return, and helps ensure that capital projects are funded in a sustainable manner.

It also helps ensure balanced serviced delivery from an inter-temporal view point (i.e. that expenditure during one time period is not done at the expense of another time period).

Finally, the rigor and benefit of undertaking, and potentially publishing, a DSA should encourage lenders to lend at a more favorable rate (since the solvency and liquidity positions of the state are more transparent) – again freeing up resources for other critical areas of expenditure.

The scope of the DSA Toolkit

The DSA Toolkit allows users to collate and model data and a number of quantifiable macro-fiscal scenarios based on which the future path of debt stock and servicing costs will be forecast. These forecasts and scenarios should be used to inform decision making – thus the tool will not, in itself, provide answers, rather, it will provide information for management to make the decisions. To produce the DSA will require further analytical capability.

The model also requires reliable and timely data – the importance of regular capturing of debt data (loan agreements, draw-down and servicing (disaggregated into principle and interest) is a key requirement.

Finally, as with all MS Excel based tools, the MTDS and Debt Profile template have been developed for use by persons experienced in MS Excel. The models have been protected in order to reduce risk of accidental deletion of formula that are key to providing reliable outputs. The models can be updated/modified, but this should be done by those with appropriate levels of MS Excel skills, the accompanying manual should be updated accordingly, and the updated versions should be thoroughly tested before use. If the model is modified in any way, the original developers cannot be held responsible for any errors in outputs.

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