



EBONYI STATE DEBT SUSTAINABILITY ANALYSIS AND DEBT MANAGEMENT STRATEGY (DSA-DMS) REPORT

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ABAKALIKI, EBONYI STATE**

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1. INTRODUCTION

Ebonyi State Debt Sustainability Analysis (DSA) looks into the trends and patterns in the State's public finances during the period 2017-2021 and tries to evaluate the level of debt sustainability for the period of 2022-2031 (long-term). It highlights the recent trends in revenue, expenditure, and public debt, and the related policies adopted by the State. Ebonyi State Debt Sustainability Analysis (S-DSA) Toolkit was developed by Debt Management Office, Nigeria and reviewed by the World Bank. A debt sustainability assessment is conducted, including scenario and sensitivity analysis, in order to evaluate the prospective performance of the State's public finances.

The main objective of the debt strategy is to ensure that the government's financing needs and payment obligations are met at the lowest possible cost, consistent with a prudent degree of risk. Consequently, for the Debt Management Strategy (DMS), the analysis calculates the costs of carrying public debts, and measures risks associated to macroeconomic and fiscal shocks.

Historic data of revenue, expenditure and public debt were obtained for the State's DSA-DMS and analyzed from 2017 to 2021 and projections for the years 2022 to 2031 were obtained from this analysis using the appropriate assumptions, and our findings shows that the State's long term outlook (2022-2031) for the public debt appears sustainable.

Our review shows that the gross revenue of the State grew by 46.15% between 2017 and 2021; growing from ₦69.862 billion to ₦102.102 billion. Revenue outlook from the projection analysis table therefore shows that the State Revenue is expected to grow up to ₦215.748 billion in 2031, which is about 208.82% growth taking 2017 as the baseline.

With the massive infrastructural growth of the State Government since 2015 and also the personnel occasioned by increase in staff strength and promotions with corresponding increase on overhead cost, Ebonyi State has witnessed a noticeable increase in her expenditure. The expenditure of the State grew by 53.21% from ₦65.784 billion in 2017 to ₦100.787 billion in 2021. Expenditure outlook from the projection analysis table show that the State expenditure is expected to grow higher in the year 2022 to ₦134.457 billion, reaching a peak value of ₦248.963 billion in 2031. The debt trend therefore shows that the long-term outlook (2022-2031) for the public debt appears sustainable for the State. As the State Internally Generated Revenue (IGR) grew from ₦6.456 billion in 2017 to ₦26.004 billion in 2021, it is projected that in 2031, the IGR of the State should be ₦34.592 billion growing from ₦12.443 billion in 2022. This thereby creates a solid debt position.

2. EBONYI STATE FISCAL AND DEBT FRAMEWORK

Fiscal Reforms - Revenue and Expenditure in the last 3 to 5 years

The Year 2019 marked the beginning of the second tenor of this Administration, therefore, in the last 3-5 years Ebonyi State has worked very hard to ensure that the State enjoys the best fiscal reforms in the history of the State. The fiscal reform is most evident in the way and manner the State's annual budgetary projections are made with also a reform in the Internally Generated Revenue (IGR), which in 2020 led to the introduction of new revenue heads which were before 2020 not collected in the State. Recent experience shows also that with this reform, the State Government is currently operating near-realistic budgeting contrary to what was previously obtainable.

In 2019, the State Government estimated total expenditures of ₦188.402 billion for the year. In the budget, total expected revenues were equal to total expected expenditures. However, out of this ₦188.402 billion, only the sum of ₦81.615 billion was realized as revenue, while only the sum of ₦72.240 billion was spent within the fiscal year. This led to a surplus closing balance of -₦9.375 billion.

It is therefore rational to expect that the State's budget size for the next fiscal year will reduce from what it was in 2019 fiscal year. In 2020, the budget size decreased from ₦188.402 billion to ₦178.137 billion and was later revised downwards to ₦132.002 billion within the year due to COVID-19 health and Economic effects. At the end of the same fiscal year, the actual revenue increased to ₦103.760 billion, while actual expenditures stood at ₦118.692 billion, and a negative closing balance of ₦14.932 billion.

With the aim of ensuring that a zero or near to zero budget balance is achieved, and with the relatively low budget performance in the two immediate past years, there was a slight decrease in the budget size as at 2021 to the sum of ₦122.852 billion. This budget estimate also took into consideration the infrastructural plans of the State Government for the fiscal year 2021. Actual revenue in 2021 fiscal year dropped to ₦102.102 billion, while actual expenditures stood at ₦100.787 billion, and a closing balance of ₦1.315 billion. The drop in the expected revenue for 2021 made the State Government to revise her budget downwards to ₦99.157 billion. In all, the recent years have taught the State Government to make realistic revenue projections so as to have sufficient funds to implement the expenditure components of the budget. The State has also made significant efforts to increase internal revenues through various sorts of reforms that are targeted at increasing the tax base instead of the

Ebonyi State Approved 2022 Budget and Medium Term Expenditure Framework (MTEF), 2022 – 2024

Approved 2022 Budget

The 2022 budget of Ebonyi State followed an upward trend unlike that of 2020 fiscal year with the State fully conscious of the need to make the revenue and expenditure projections to be as realistic as possible. This upward trend was necessitated to cater for the outstanding expenditure of 2021 in 2022 which as a result of the drop in the expected revenue in 2021 that led to 2021 budget being revised downwards, could not be done. The budget size for the year 2022 is ₦145.410 billion.

Unlike the 2020 and 2021 budgets of the State, the 2022 budget size represents 18.36% increase from the budget size of 2020 actual budget, and 45.65% increase from the budget size of 2020 revised budget. In the 2022 budget of the State, total revenue for 2022 fiscal year is estimated at ₦114.705 billion, while the fiscal deficit of ₦30.705 billion will be financed through internal loans.

The Key Objectives of Approved 2022 Budget

The key objectives of the Approved 2021 Budget are:

- i. Ensure the sustenance of security of lives and properties in the State;
- ii. Sustain and improve the State's education service delivery system;
- iii. Enhance and sustain the State's healthcare service delivery system;
- iv. Combat the spread of COVID-19 and ameliorate the health and economic effects of the disease on the people on one hand, and micro, small and medium scale enterprises on the other hand;
- v. Sustain and improve the State's resolves to reduce the cost of governance; and
- vi. Sustain the overall improvement in human capital development so as to ensure that the population growth will be effectively utilized in such a manner that the youth population is an advantage.
- vii. Consolidate and improve on the provision of critical infrastructures in the State;
- viii. Concentrate on the completion of on-going capital projects in order to avoid any case of abandoned project in the State.
- ix. Sustain the on-going reform of the State's public financial management system started on the platform of the SFTAS programme and ensure that transparency, accountability, integrity and fiscal prudence is entrenched in the system;

- x. Sustain the on-going reform of the State's IGR administration system so as to grow the IGR on annual basis.

Indicative Three-Year Fiscal Framework

The State did not prepare a Medium Term Expenditure Framework (MTEF) for the period of 2022–2024. However, the 2023-2025 MTEF of the State has been approved by the House of Assembly. The budget of 2022 shows an increase in budget size over the previous year as expected and shown above. Since this increase was mainly to cater for the outstanding expenditure of 2021, approved 2023-2025 MTEF shows that in 2023 fiscal year, the budget size is expected to drop ₦133.571 billion and slightly increase to ₦139.089 billion in 2024. Analyzing from the 2022 approved budget and the approved 2023-2025 MTEF, it shows that the expected expenditure for 2022 to 2024 fiscal years are respectively ₦145.410 billion; ₦133.571 billion and ₦139.089 billion. This expenditure is expected to be financed with the expected revenues corresponding to each fiscal year. These revenues are respectively ₦114.705 billion; ₦115.831 billion and ₦134.089 billion. While the ₦30.705 billion debt burden expected to be created in 2022 is expected to be financed by Commercial Bank loan (₦7.000 billion); FGN Bridging Facility to State (₦18.225 billion) and NG-Cares Program Fund (₦5.480 billion), the debt burden to be created in 2023 and 2024 are respectively ₦17.740 billion and ₦5.000 billion, they are both expected to be financed through loans.

Importantly, these are only estimates and are not expected to exert much pressure on fiscal deficit which will lead to deficit financing through loans. The reason for this is that there are some public financial management reforms (including IGR reforms) that are expected to have started yielding fruits to the State within these years. That way, there may not be need to borrow even in the face of increase in budget size of the State.

The devastating effect of COVID-19 pandemic really affected the revenue generation in 2020 and also part of 2021 fiscal year, which is evident in the downward reviews of both fiscal years budgets. However, with the IGR fiscal reforms it is expected that these effect will be tackled in the coming years and the economy set back on positive track.

Medium Term Policy Objectives and Targets

The key objectives of the Medium Term Policy are:

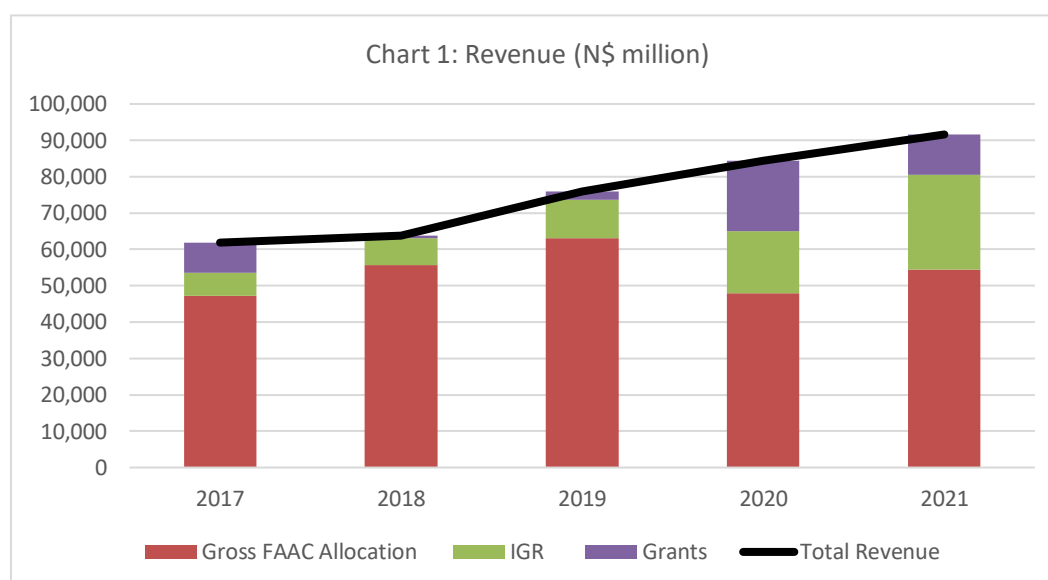
- xi. Reduce the cost of governance by efficiently managing personnel and overhead costs in a manner that will free up funds for investment in critical infrastructures in the State;
- xii. Manage available human and material resources within the education sub-sector in order to improve on the quality of service delivery;
- xiii. Prioritize the improvement of healthcare service delivery in the State so as to make the State attractive for Healthcare Service Tourism.
- xiv. Grow the IGR by a minimum of 20% on annual basis in line with the SFTAS verification protocol in order to make the State self-reliant.
- xv. Sustain the current regime of peace and order in the State through the provision of requisite support to security agencies of the Federal Government and that of South East to control and prevent crime;
- xvi. Grow the economy through targeted spending in areas of comparative advantage;
- xvii. Prioritize relieving people and MSMEs of the adverse economic effects of COVID-19 pandemic through grants and micro-credit facilities.

3. THE STATE REVENUE, EXPENDITURE, AND PUBLIC DEBT TRENDS (2017 – 2021)

3.1 Revenue, Expenditure, Overall and Primary Balances

Aggregate State Total Revenue trend in the last five years and its composition in 2021

The main components and determinants of the aggregate revenue are the FAAC allocations, IGR and the grants, with the FAAC allocation contributing a higher percentage within the years under review. Chart 1 below clearly shows that the total revenue of Ebonyi State maintained an upward trend throughout the review period of 2017 – 2021. The State's total revenue (including grants and excluding other capital receipts) stood at ₦91.602 billion in 2021 as against the sum of ₦84.359 realized in 2020 fiscal year. This represents an increase of 8.59% in total revenue of the State within one fiscal year. It is important to note that the 2021 fiscal year came immediately after the year the global economies were adversely affected by the COVID-19 pandemic, economic rejuvenation therefore became paramount to the Government of Ebonyi State and there was a need to make reforms that will aid in this economic restoration. 2021 fiscal year saw an increase in all revenue items except in capital receipts which grants from SFTAS formed a major part of it.



The State improved on its internal revenue collections as a result of certain reforms of the tax administration system that had started yielding results which has also attributable to increased overall reform of the State's public financial management system around which the SFTAS programme is built.

FAAC Allocations trend in the last five years.

Generally, there has been a progressive growth in total revenue between 2017 to 2021, though with significant decline in gross FAAC allocation of 2020 when compared 2018, 2019 and 2021; it only increased by 1.63% when compared with 2017 FAAC allocation. This decline in 2020 is attributed mainly to the COVID-19 pandemic which lead to the drop of oil prices and subsequent reduction in FAAC allocation to the State. However, in 2021 when the

COVID-19 effect had been managed, FAAC allocation is seen to have increased. In 2018, FAAC allocation grew by 17.99% when compared with 2017. This growth was sustained in 2019 fiscal year, due to increased federal transfers from crude oil receipts, and grew by 13.24%. However, there was a decline in 2020 by 23.93% as oil prices fell with subsequent drop in the federation transfers. In 2021, oil prices picked up, transfers from federation account increased and this was evident in the 13.72% increase seen that year.

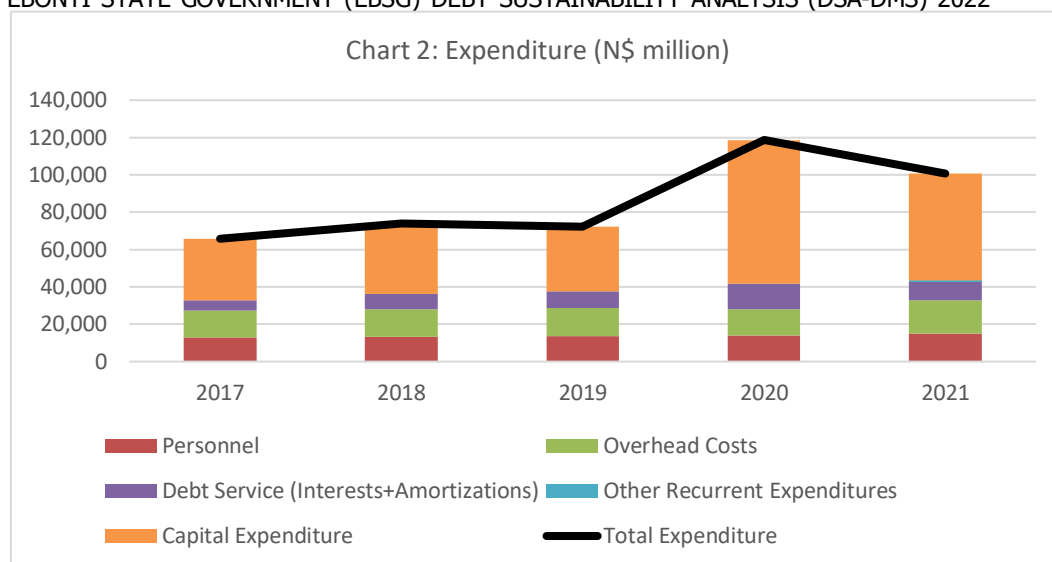
IGR trend in the last five years.

In 2017, 2018, 2019 IGR and grants formed very insignificant portions of the State's total revenue, and as a result, any shock in the FAAC revenue of the State equally translated to shock in the total revenue of the State. However, that was not the case in 2020 and 2021 fiscal years. In those years, the shares of IGR and Grants in the total revenue of the State increased.

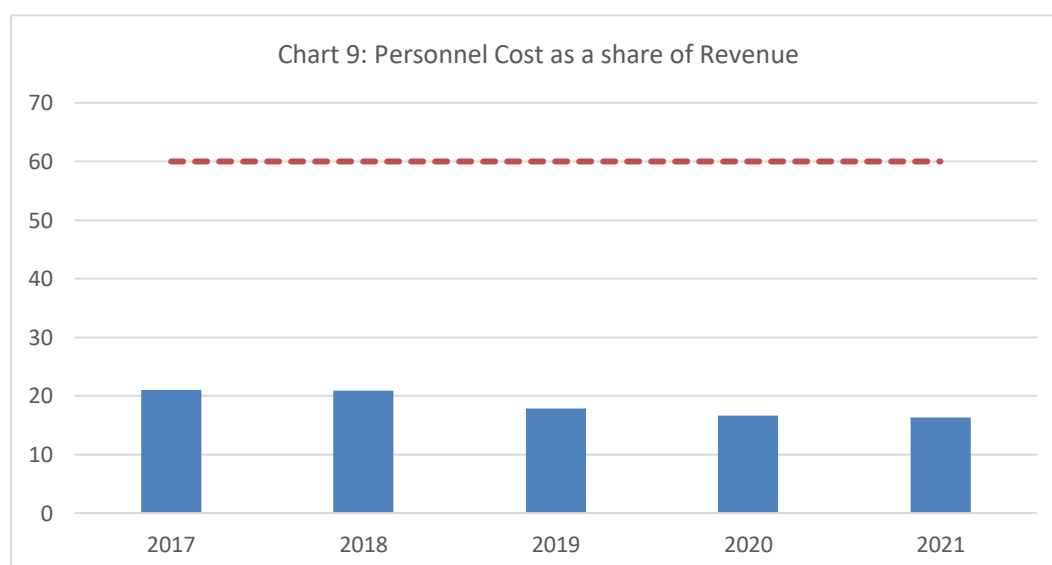
The increased shares of IGR and Grants caused the overall influence of FAAC revenue on the State's total revenue to decline. In fact, the State's FAAC revenue of 2020 stood at almost the 2017 level, which represents a sharp decline from its 2019 level. On the other hand, the 2020 values of IGR and Grants represent sharp increases from the 2019 values of the two sources of revenue within the State. With the Government's reforms already yielding results, IGR and grant had the highest growth in 2021.

Aggregate (total) Expenditure trend in the last five years and its composition in 2021.

Chart 2 below shows that the State's total expenditures increased throughout the review period, except in 2019 when it fell below the level of 2018 and in 2021. Similarly, capital expenditure increased steadily throughout the review period except in the same 2019 and 2021 when it fell respectively slightly below the 2018 and 2021 values. The State Government's Personnel cost has remained almost stagnant throughout the review period. On the other hand, the State Government's Overhead cost slightly maintained an upward trend between 2017 and 2019 before following a downward trend in 2020 and sustained its upward trend in 2021 fiscal year. It is important to point out that the State has drastically reduced the cost of governance by ensuring a stable or downward movement of the State Government's personnel and overhead costs.



Incidentally, debt service obligations of the State have been marginally increasing since 2018 fiscal year, reaching its peak in 2020 and declining in 2021. This is as a result of some of the previous capital projects that were executed with debt financing facilities and needed to be



served in the present periods. This is an outcome of fiscal deficit financing options of the State Government. Personnel cost increased by 2.72% in 2018 when compared to what it was in 2017. This growth was maintained throughout the review period growing from 2.01% in 2019, 3.66% in 2020 and 5.75% in 2021. During this period also, overhead cost also grew at 2% in 2018 and 2019. It however declined by 7.80% in 2020 and sustained its growth in 2021 to 29.75%. Capital expenditure on the other hand contributed the highest portion of the total expenditure, having its highest in 2020 which grew by 122.57%. This growth noticed a decline of 25.44% in 2021. The 2021 total expenditure of the State Government stood at ₦100.788

billion, which is a decrease of 15.08% from the ₦118.692 billion total expenditure in 2020 fiscal year. Similarly, in 2018, the total expenditure of the State, which stood at the sum of ₦74.014 billion, represents an increase of 12.51% from the sum of ₦65.784 billion that was actually spent as total expenditure in 2017 fiscal year by the State. The 2021 total expenditure of the State was higher than the 2021 total revenue of the State by ₦9.186 billion. That fiscal gap created room for more loans and therefore more debt service obligations for the State in subsequent years.

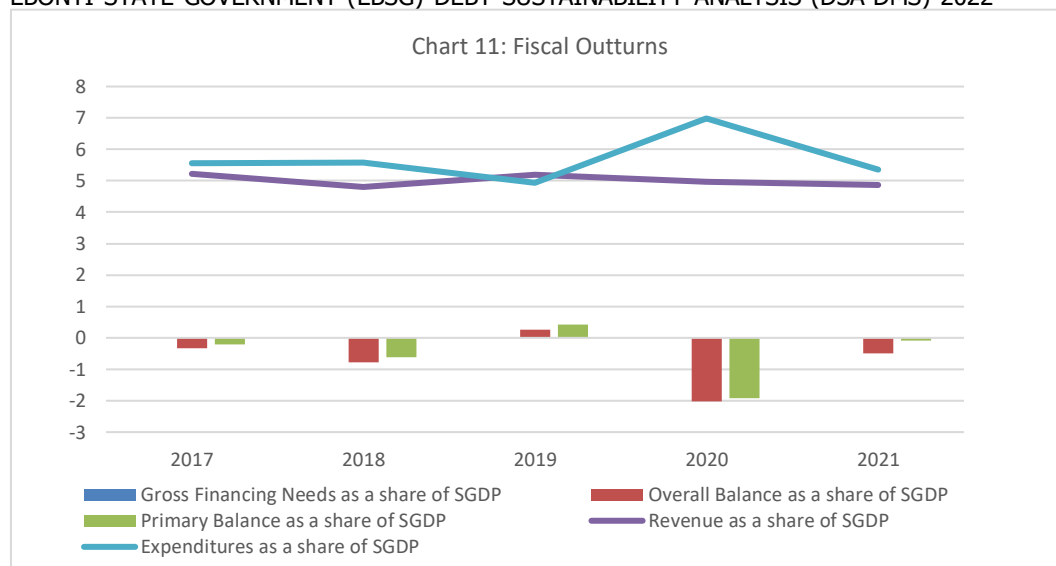
Main expenditure variations in the last five years by economic classification.

While the personnel and overhead costs have shown close to constant variation, the capital expenditure has shown a wide variation. It contributed 49.99% of the total expense in 2017, 50.82% of the total expense in 2018, 47.87% of the total expense in 2019, 64.85% of the total expense in 2020 and 56.94% of the total expense in 2021. This alone made it the highest expense line within the period being reviewed.

Ebonyi State was known and called the “dust” of the nation, due to lack of infrastructure in the state. As a result of this, a massive growth on infrastructural reform became the hallmark of the current Administration. As a result of this also, more attention was given to capital expenditure which has taken over a bigger chunk of the total expenditure. Between 2017 and 2021, capital expenditure had its highest growth in 2020, growing by 122.57%. This growth was facilitated by the rejuvenation of the effects of COVID-19 pandemic by building and renovating Hospitals to cater for the sick, providing the necessary health care facilities and medication, buildings roads and bridges for easy transportation between the rural and urban centers, etc. In 2021, the growth dropped by 25.44% , though increased by 65.95% when compared with 2019.

Overall and primary balance trend in the last five years.

The essence of fiscal policy is to use government revenues and expenditures to direct economic activities within the national or sub-national entity. When the economic activities are properly directed with the revenue collection and expenditure tools of the Government, the effects become obviously felt in the society. Figure 11 below presents the fiscal out-turns of Ebonyi State Government for the period of 2017-2021.



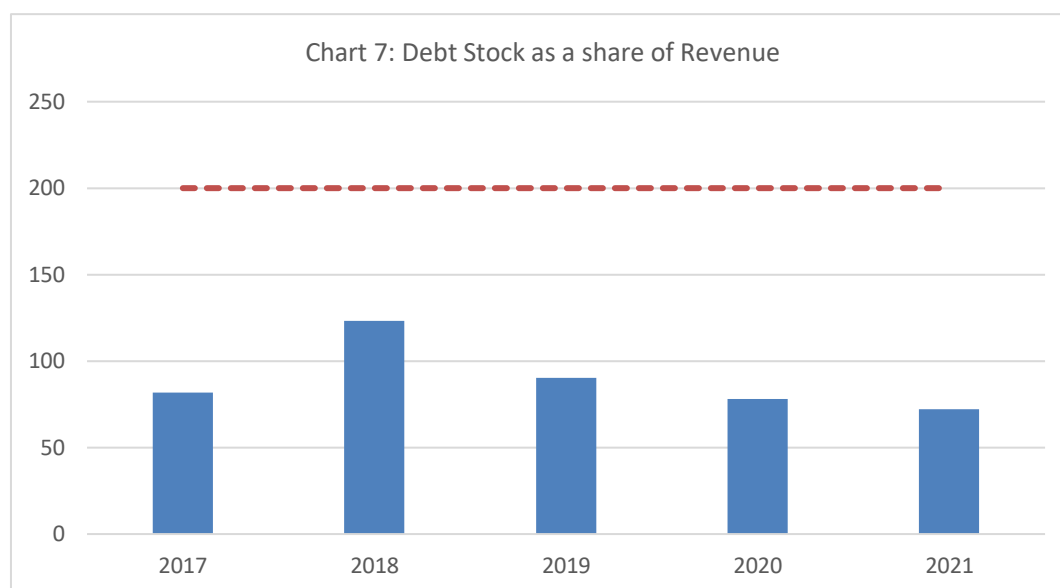
The fiscal out-turns presented in figure 11 above show that the State's total revenues and total expenditures for the period of 2017-2021 maintained a close to straight line trend when measured as percentages of the State GDP. From total expenditure to GDP ratio of 6% in 2017, reaching a peak level of 7% in 2020 and returning back to 5% in 2021. Similarly, total revenue to GDP ratio of the State remained constant at 5% from 2017 to 2021 fiscal years. On the other hand, the trio of primary balance, overall balance and gross financing needs of the State refer to fiscal deficit/surplus that the State recorded within the period. Each of these items stand at less than 0% of the State's GDP per annum with the exception of overall and primary balances as a share of GDP; while they were both less than 1% in 2018 as a share of the State's GDP, they were also less than 2% as a share of the State's GDP in 2020. Though there is no given benchmark for acceptable level, yet a record of less than 1% ratio of primary balance to GDP is quite impressive.

3.2. Existing Public Debt Portfolio

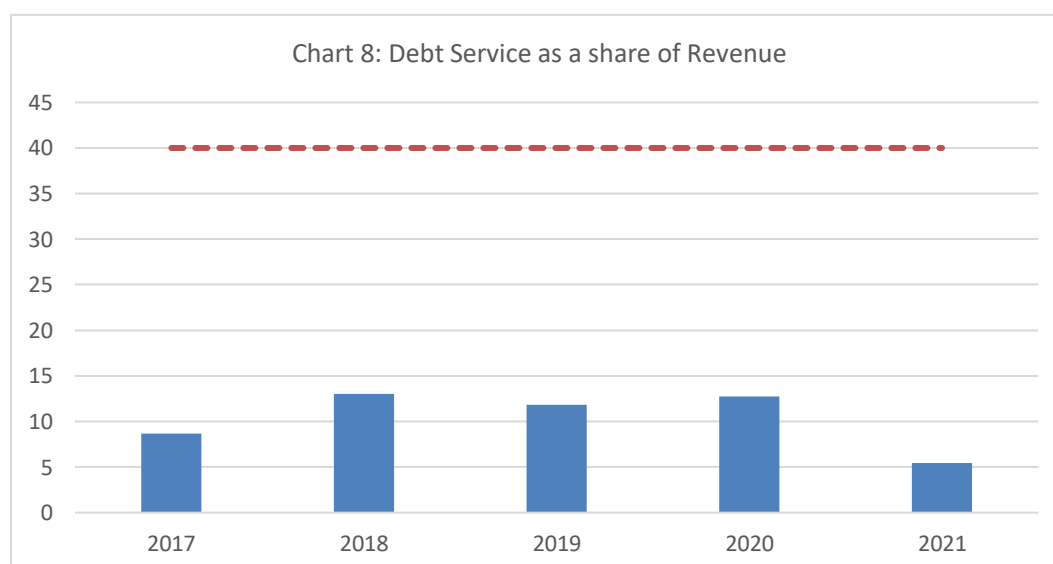
Public debt are obligations of Governments, particularly those evidenced by securities, to repay certain sums of the holders at some future time. It represents the total outstanding debt (loans, bonds and other securities) of the state Government and often expressed as a ratio of the state's GDP.

Public debt stock amount or its shares on total Revenue at end-2021 and its growth in the last five years.

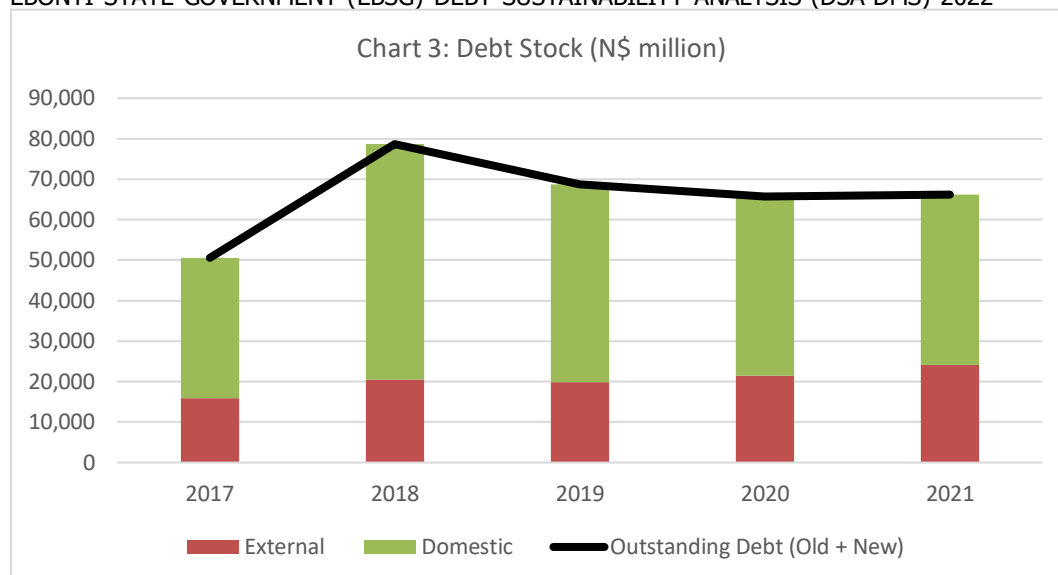
In her quest for development, Ebonyi state have continually increased her debt stock over the years. The state public debt stock amounted to ₦66.227 as at the end of 2021. Between 20017 and 2021, the state acquired more of the domestic debt than external debt which mostly came



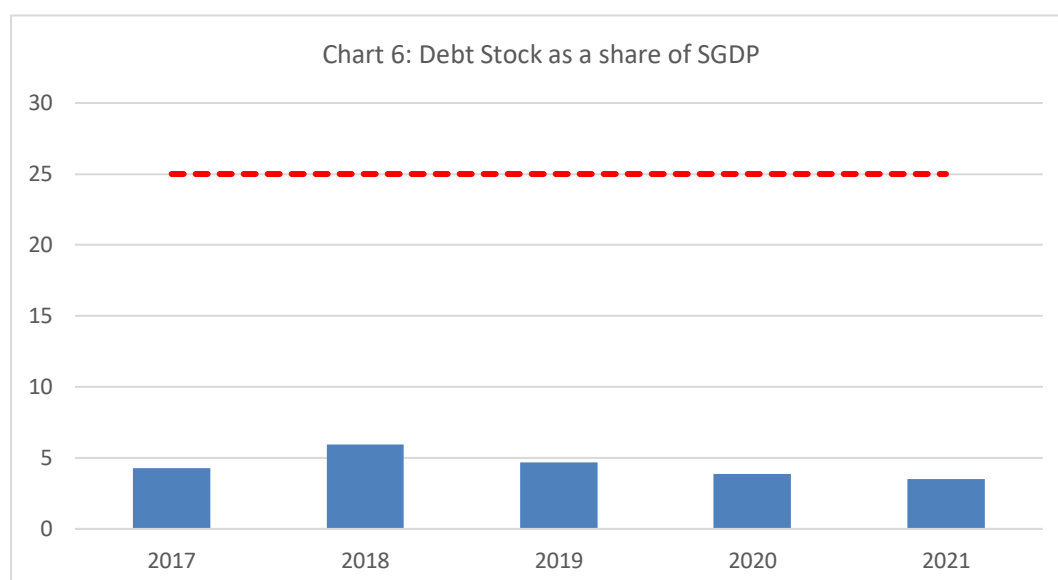
as Federal Government bailouts and financial support. Currency devaluation also increased the pressure on the external loans over the years from 2017 to 2021. All these repayment have its own significant pressure it exerts on the total revenue each fiscal year. The debt stock of Ebonyi state, when analyzed as a fraction of total revenue accounted for 81.74% in 2017, 123.39% in 2018, 90.37% in 2019, 77.93% in 2020 and 72.30% in 2021 fiscal year. From chart 7 above, it can be deduced that the debt stock as a share of revenue is sustainable since the benchmark is 200%.



The debt service within the analyzed years also shows sustainability. Between the years 2017 and 2021, the debt service as a share of revenue fluctuated from 5% to 13% with the lowest of 5% in 2021 fiscal year. With the threshold of 40%, Ebonyi State has shown sustainability in her prudence in managing her Finances.



With a threshold of 25%, it is evident that the debt stock as a share of the State's GDP is sustainable owing to the fact that the state has maintained its level to between 4% to 6% from 2017 to 2021 with 4% within the 2021 fiscal year.

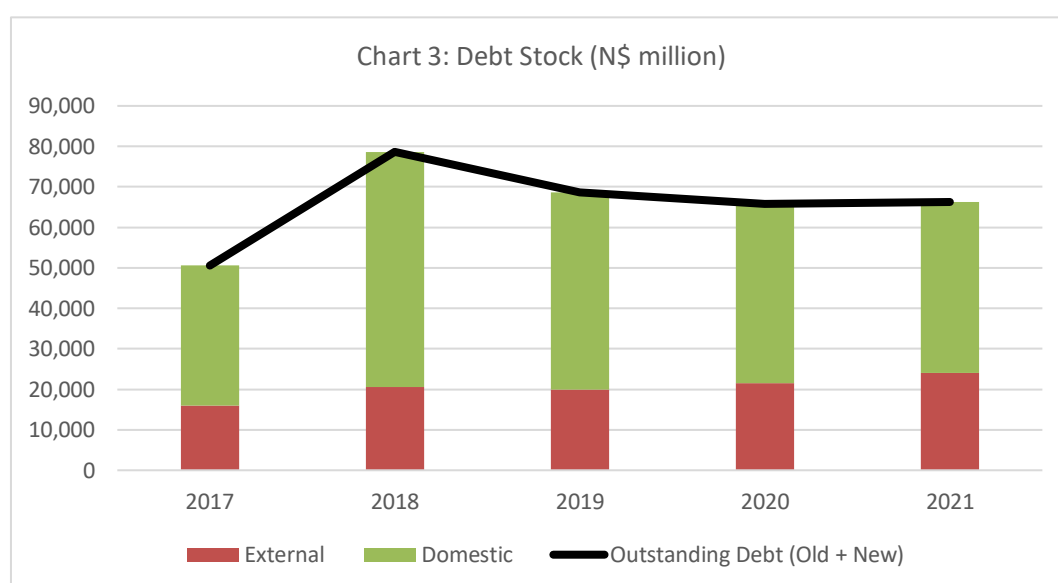


The existing public debt portfolio composition at end-2021.

The total debt stock of Ebonyi State increased steadily between 2017 and 2018 fiscal years before falling gradually between 2018 and 2020 fiscal years. It however increased by 0.74% in 2021 fiscal year from ₦65.738 billion to ₦66.227 billion. Chart 3 below shows that though there have been fluctuations in the State's total debt stocks, yet the State's external debt stock has been on steady increase throughout the review period except in 2019.

Precisely, the total debt stock of Ebonyi State Government increased by 55.54% from the sum of ₦50.564 billion in 2017 to the sum of ₦78.649 billion in 2018 fiscal year. Within the same period, the share of external debt stock in the total debt stock of the State increased from

28.44% in 2017 to 35.76% in 2018 fiscal year. The total debt stock of the State further decreased by 12.70% from the sum of ₦78.649 billion in 2018 to the sum of ₦68.660 billion in 2019 fiscal year, before further declining by 4.26% to stand at the sum of ₦65.738 billion in 2020 fiscal year. Within the same period, the share of external debt stock in the total debt stock of the State initially declined from 28.44% in 2018 to 2.76% in 2019 before moving upwards to 7.83% in 2020. Furthermore, while the total debt stock of Ebonyi State increased by 0.74% from the sum of ₦65.738 billion in 2020 to the sum of ₦66.227 billion in 2021 fiscal year its corresponding value of the external debt stock also increased by 12.03% to even make up about 36.34% of the total debt stock in 2021 fiscal year.

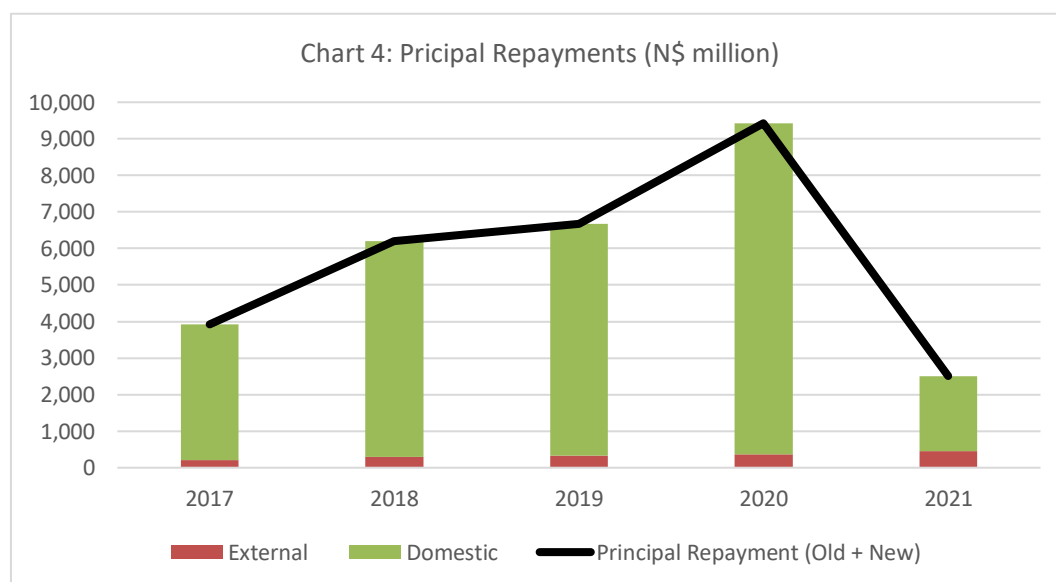


Cost and risks exposure of the existing public debt portfolio at end-2021.

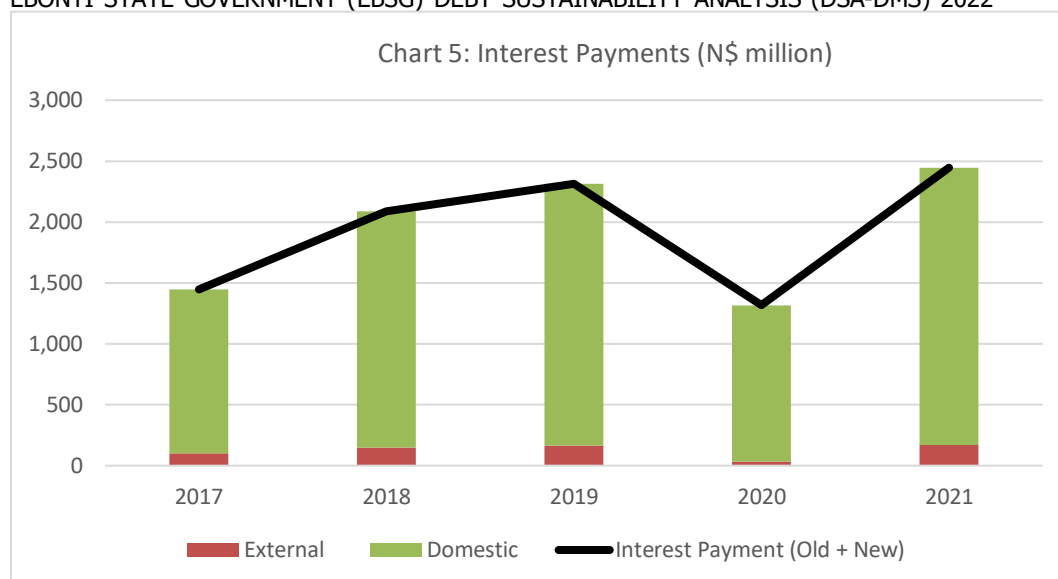
The consistent increases in the value and share of external debt stock of Ebonyi State almost throughout the review period may be attributed to the persistent devaluation of the Nigerian local currency (Naira) viz-a-viz other major currencies of international trade and foreign loans. Given the nature of the State's debt stock over the review period of 2017 – 2021, it is imperative

to also review the debt service obligations of the State within the same period. This is because the suitability and sustainability of any society's fiscal operations largely depend on the amount of money it uses in servicing debts. Sometimes, principal repayment is not considered a problem as they may just constitute a minute proportion of total expenditure of the society. However, when some due interests are capitalized, principal may increase, thereby mounting

pressure on principal repayment. This subsection therefore presents Ebonyi State Government's recent experiences in repayment of principals and interests. Chart 4 below presents the recent principal repayment obligations of Ebonyi State Government within the review period. The principal repayment, from the chart, has not maintained a steady trend throughout the study period. From an upward trend in 2017, the repayment fell in 2021 to about 35.98% of its value in 2017 and 73.38% of its value in 2020. Incidentally, throughout the review period, repayment of external debts remained very insignificant, while the large chunk of the repayment went into domestic debt principal repayment. Looking at the Chart 3 above, and comparing same with Chart 4 below, it is clear that the proportions of domestic principal repayment obligations of the State Government in total principal repayment obligations were consistently higher than the proportions of debt stock in total debt stock of the State.



Given the significant components of the principal repayment that were made up of domestic debt instruments, it can be concluded that the oscillating movements in total principal repayment were greatly determined by oscillations in domestic principal repayments. On the other hand, external principal repayments have also been increasing, though very marginally. The effects of the increases may not be felt in the total principal repayments due to the insignificant proportion of external principal repayment in the total principal repayment of the State Government throughout the review period. Chart 5 below reveals that the interest payment obligations of Ebonyi State have also maintained oscillating movement; increasing between 2017 and 2019, but dropped sharply in 2020 and increased again in 2021 fiscal year.



Just like the principal repayment discussed above, interest payment obligations on domestic debt formed a major component of the total interest payment and therefore greatly determined the movement of the total interest payment throughout the review period. The oscillating movements in total interest payment therefore were greatly determined by oscillations in domestic interest payments. On the other hand, external interest payments have also been increasing, but the effects of the increase may not be felt in the total interest payments due to the insignificant proportion of external interest payment in the total interest payment of the State Government.

4. DEBT SUSTAINABILITY ANALYSIS

The Concept of Debt Sustainability

At every point in time, creditors are mindful of the ability of debtor countries (as well as debtor sub national entities) to service loans and accruing liabilities promptly. It therefore refers to the ability of the government to honor its future financial obligations. This concern stems from the fact that these national and sub national entities will still need to meet up with their development investment needs despite meeting their debt service liabilities. This is how the concept of debt sustainability comes to be discussed. In essence, the concept of debt sustainability refers to the idea of ensuring that national and sub national entities maintain a debt level that will still allow them to have sufficient financial resources to meet their development investment needs after meeting their debt servicing obligations. This takes into consideration the debt service obligations of the entities alongside their financial capacities of the entities. The concept helps developing countries to prevent debt crisis at every point in time. Certain benchmarks have been set as criteria for measuring debt sustainability at the national and sub national government levels. These criteria are most important for developing countries where there are greater needs for governments to embark on investment in capital developmental projects. One of the benchmarks has to do with the ratio of debt service obligations to the total revenue of the sub national entity, which assesses the proportion of the State's revenues that is used for debt service. There are a number of other benchmarks and criteria for measuring debt sustainability at both the national and sub national government levels (especially, among countries of the global south).The debt burden with their corresponding performance indicators are described and summarized in the table below:

Table 1: Indicators of Debt Sustainability across Sub-national Entities in Nigeria

Indicators With Indicative Thresholds	Indicators Without Thresholds
Debt / SGDP =25%	Debt/FAAC Allocation(%)
Debt / Revenue = 200%	Interest Payment /Revenue (%)
Debt / Revenue =40%	External Debt Service / Revenue(%)
Personnel Cost / Revenue = 60%	

Majority of the indicators revolve around the State's revenue generation capacities, with the exception of only one of the indicators that focuses on the State's productive capacity (GDP). Even the exception assumes that the State's GDP is a determinant of State's revenue.

Ebonyi State Debt Sustainability Analysis

It is worth noting that in all debt burdens for the years 2017 to 2021, Ebonyi State maintained far lower than the indicative threshold which shows that the State's debt was sustained for these years with the highest figures recorded in 2018. Debt Service as a percentage of revenue was seen to have its highest in both 2018 and 2020. The debt burden without threshold also maintained a relative down trend, though slightly increased as 2020 was approached due to the additional domestic loans acquired.

4.1 Medium-Term Budget Forecast

Main features of the macroeconomic outlook under which the State DSA-DMS baseline scenario is being conducted.

Recent reforms in the public financial management (PFM) systems of national and sub national governments emphasize the need for medium term budget forecasts (MTBF) or at least a medium term expenditure framework (MTEF). The forecast or framework helps the government to make projections of expected expenditures (and revenues) for a future period of at least three years. Arguments for MTBF or MTEF are supported by the fact that most governments are elected for a period of more than one year, and therefore should be able to plan for a longer time than just one year (as is usually the case with annual budgets). In the case of Ebonyi State, there is an approved medium term expenditure framework (MTEF) covering from 2023-2025. As such, all Medium Term Budget Forecasts of the State are based on the approved medium term expenditure framework (MTEF) and the 2022 already approved budget.

However, following the supply of baseline information of the fiscal operations of the State Government in recent years, the MS Excel Template provided for this DSA-DMS report estimates the Medium Term Budget Forecasts (MTBF) for Ebonyi State. Tables 2, 3a & 3b below presents the figures for the period covering 2022 – 2025 with the macroeconomic assumptions .

Table 2: Ebonyi State 2022 Budget

Item	2022 Budget
Assumptions:	
Oil price (US\$/bbl)	57
Oil production (national, mbpd)	1.88
Exchange rate (N/US\$)	411
GDP growth (national, percent annual change)	4.2
Inflation (national, percent, annual average)	13
1. Opening Balance	7,773,844,026.20
2. Revenues and grants:	106,931,417,593.37
Gross (not net of deductions) Statutory Allocation	35,000,000,000.00
Derivation	-
Other FAAC transfers (exchange rate gain, augmentation, others)	2,470,000,000.00
VAT	20,000,000,000.00
IGR	12,433,276,927.43
Internal grants	7,195,060,943.21
External grants	17,727,700,000.00
Other Capital Receipts	12,105,379,722.73
3. Expenditures:	145,410,597,723.49
Recurrent expenditures:	55,646,880,517.69
Personnel costs (salaries, pensions)	17,044,030,335.23
Overhead costs	19,010,974,166.46
Public Debt charges (Interest payments on debt (or debt service), including FAAC deductions)	19,591,876,016.00
Contingency	
Capital expenditures:	89,763,717,205.80
Admisistration	6,381,180,602.58
Economic	59,882,192,545.39
Law and Justice	1,063,790,000.00
Regional	15,000,000.00
Social	22,421,554,057.83
Contingency	
4. Balance (=(1+2-3))	-30,705,336,103.92
5. Financing:	30,705,336,103.92
Commercial bank loans	7,000,000,000.00
FGN Bridging Facility to States	18,225,336,103.92
NG-Cares Programs Fund	5,480,000,000.00
Sales of government assets	
6. Financing gap (=- (4+5))	-
Memorandum Items:	

Table 3a: Ebonyi State Medium Term Expenditure Framework (MTEF) - Macro-Economic Framework (2023 – 2025)

Macro-Economic Framework	Fiscal Year		
	2023	2024	2025
Item			
National Inflation	13.10%	12.70%	12.30%
National Real GDP Growth	3.10%	3.05%	3.00%
Oil Production Benchmark (MBPD)	1.5	1.6	1.8
Oil Price Benchmark	\$70.00	\$66.00	\$62.00
NGN:USD Exchange Rate	435.57	435.57	435.57
Other Assumptions			
Mineral Ratio	22%	25%	25%

The State medium term debt sustainability is dependent upon the recovery of the nations economy which will lead to increase in FAAC allocations. The macroeconomic assumption for sustainability is based on maintenance of oil production to between 1.5mbpd to 1.88mbpd at the national level, inflation maintained at between 12.30% and 13.10%, oil price benchmark fluctuating between \$57/bbl \$70/bbl and NGN:USD exchange rate stabilized at between ~~N411:1\$~~ and ~~N435.57:1\$~~. It is also expected that shared resources such a VAT, receipt from custom duties, etc, will increase in the coming years.

Table 3b: Ebonyi State Medium Term Expenditure Framework (MTEF)2023 – 2025

Fiscal Framework	Fiscal Year		
Item	2023	2024	2025
Opening Balance	7,773,844,026	7,773,844,026	7,773,844,026
Recurrent Revenue			
Statutory Allocation	45,198,644,214	52,896,454,134	59,000,233,427
VAT	29,492,711,656	36,474,217,038	45,234,869,551
IGR	20,524,800,000	23,603,520,000	23,783,696,000
Excess Crude / Other Revenue	2,931,602,708	2,931,602,708	2,931,602,708
Total Recurrent Revenue	98,147,758,578	115,905,793,879	130,950,401,686
Recurrent Expenditure			
Personnel Costs	17,300,873,637	18,165,917,319	19,074,213,184
Social Contribution and Social Benefit	1,965,408,573	2,014,543,787	2,064,907,382
Overheads	23,136,342,184	24,293,159,294	25,507,817,258
Grants, Contributions and Subsidies	2,348,833,721	2,407,554,564	2,467,743,428
Public Debt Service	6,504,940,000	6,084,370,000	5,328,950,000
Total	51,256,398,115	52,965,544,963	54,443,631,253
Transfer to Capital Account	54,665,204,489	70,714,092,942	84,280,614,460
Capital Receipts			
Grants	6,430,000,000	6,930,000,000	6,930,000,000
Other Capital Receipts	3,480,000,000	3,480,000,000	3,480,000,000
Total	9,910,000,000	10,410,000,000	10,410,000,000
Reserves			
Contingency Reserve	2,003,574,039	2,086,344,569	2,312,013,686
Planning Reserve	5,590,602,035	5,876,268,669	6,893,757,783
Total Reserves	7,594,176,074	7,962,613,237	9,205,771,468
Capital Expenditure	74,721,028,416	78,161,479,705	90,484,842,992
Discretionary Funds	62,711,028,416	68,391,479,705	80,714,842,992
Non-Discretionary Funds	12,010,000,000	9,770,000,000	9,770,000,000
Financing (Loans)	17,740,000,000	5,000,000,000	5,000,000,000
Total Revenue (Including Opening Balance)	133,571,602,604	139,089,637,906	154,134,245,712
Total Expenditure (including Contingency Reserve)	133,571,602,604	139,089,637,906	154,134,245,712

State's revenue and expenditure policies going forward under the baseline scenario.

The State budgeted ₦12.433 billion in 2022 fiscal year in IGR and projected to grow it by 65.08% to ₦20.525 billion in 2023 fiscal year; 15.00% in 2024 to ₦23.604 billion and 0.76% in 2025 to ₦23.784 billion as seen in tables 2 and 3b. This growth is predicated on the tax reforms of the state government where the State made significant efforts to increase internal revenues through various sorts of reforms that are targeted at increasing the tax base instead of the rates. This tax administration reforms adopted by the state Government to strengthen resources provided by IGR are expected to continue in the next few years and will benefit from the overall economic recovery. On the other hand, no new policies are anticipated with regard to personnel and overhead costs, which are this likely to preserve their historical trends.

4.2 Borrowing Options

It is a common knowledge that budgets are forecasts of expected receipts and expenditures within a specified period of time. Whatever is expected to be spent but does not fall within the limit of what is expected to be received as revenue, automatically it makes up budget deficit. To be able to finance budget deficits, one of the most prominent options is to borrow. Therefore, this analysis assumes that any deficit that will be recorded within the forecast period will be financed through borrowing.

Domestic Borrowing Option

To meet up with borrowing needs, this report considers domestic borrowing as the easiest and fastest route for augmenting budget deficit in any fiscal year. This will mainly come from commercial bank loans (at maximum of 30% interest rate per annum and 1 – 5 years maturity period) and Federal Government intervention funds (e.g. the Agric loan, MSMEDF, etc), which come with maximum of 9% interest rate and up to 5 year maturity period. There are also other domestic borrowing options like the Federal Government intervention funds (e.g. the Agric loan, MSMEDF, etc), which come with maximum of 9% interest rate and up to 10 year maturity period. The two categories of FGN intervention funds are usually given by the Central Bank of Nigeria (CBN) through commercial banks. Another important source of domestic borrowing is the State Bond, which usually passes through the Nation's capital market. As discussed in more details later in this report, these domestic borrowing options will be the main options for financing fiscal deficits throughout the projected period.

It is also expected that there will be a decline of about 56.7% of the gross and planned

borrowing need of the state in the 2026 fiscal year when compared with 2025 fiscal year. Declining from ₦48.813 billion to ₦21.150 billion (₦27.663 billion decline), this borrowing need will gradually increase from 2027 fiscal year until 2031 fiscal year when it is expected to increase to ₦50.035 billion; which is 2.5% higher than gross and planned borrowing needs of 2025 (₦1.221 billion higher) and 136.6% higher than the gross and planned borrowing needs in 2026 (₦28.884 billion higher).

External Borrowing Option

As inversely explained under domestic borrowing, external borrowing may be more difficult and take a slightly longer time to facilitate. However, external borrowing may be the most suitable for augmenting deficit arising from medium term budget forecast. The costs (interest rates and maturity period) of borrowing externally are usually lower than those of internal loans. Apart from having relatively longer maturity period, external loans also come with longer grace period. However, it may actually be more difficult and even take longer time to facilitate an external loan, though it is usually cheaper to do so. In addition, most external loans are tied to specific projects/programme.

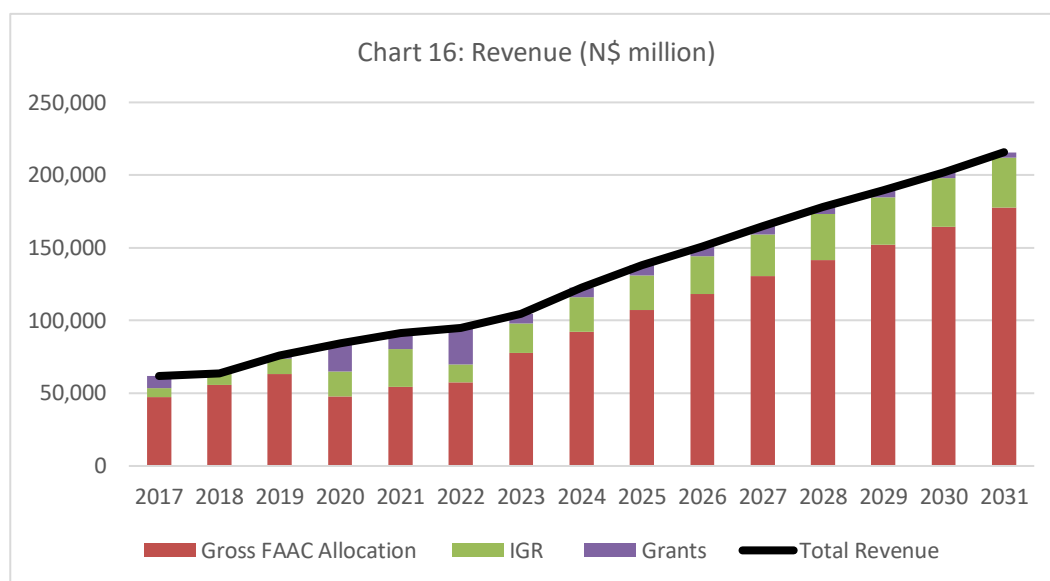
Public debt is one way to raise money for development which is incurred by borrowing. State Governments borrow to enable them finance important development programs and projects. However, taken too much, the burden of debt repayment of interest, principal, or both can overwhelm the state's finances, at worst leading to default. Debt is only considered sustainable if the Government is able to meet all her current and future payment obligations without exceptional financial assistance or going into default. In achieving this, policy implementation is needed to stabilize debt vis-à-vis maintaining growth potential or development progress and related risk involved in borrowing from financial markets to refinance projects.

To mitigate against the above debt burden, Ebonyi State has put in place some fiscal policies that will help preserve her debt sustainability and also mobilize more financing to enable her achieve her growth drive. Some of these policies includes; raising domestic revenue through the Internally Generated Revenue (IGR) as already mention above, improving the efficiency of spending through her zero budgeting, reducing corruption to its minimum, and improving the business environment. Ebonyi State is also committed to keeping her debt sustainable within the period and ensuring it does not jeopardize growth and stability with new borrowing being consistent with fiscal spending and deficit plans, with a commitment of improving the debt reporting and debt statistics in the context of comprehensive medium-term debt management strategies. Debt statistics which include coverage of public and publicly guaranteed debt that is as broad as possible, including debt of state-owned enterprises. Sharing this data with lenders will encourage responsible lending.

Ebonyi State is also committed to taking a comprehensive approach in comparing the return from contracting debt with the cost of accumulating debt. Debt that finances productive social and infrastructure spending can lead to higher income that may ultimately offset the cost of debt service and help balance the risks to debt sustainability.

4.3 DSA Simulation Results

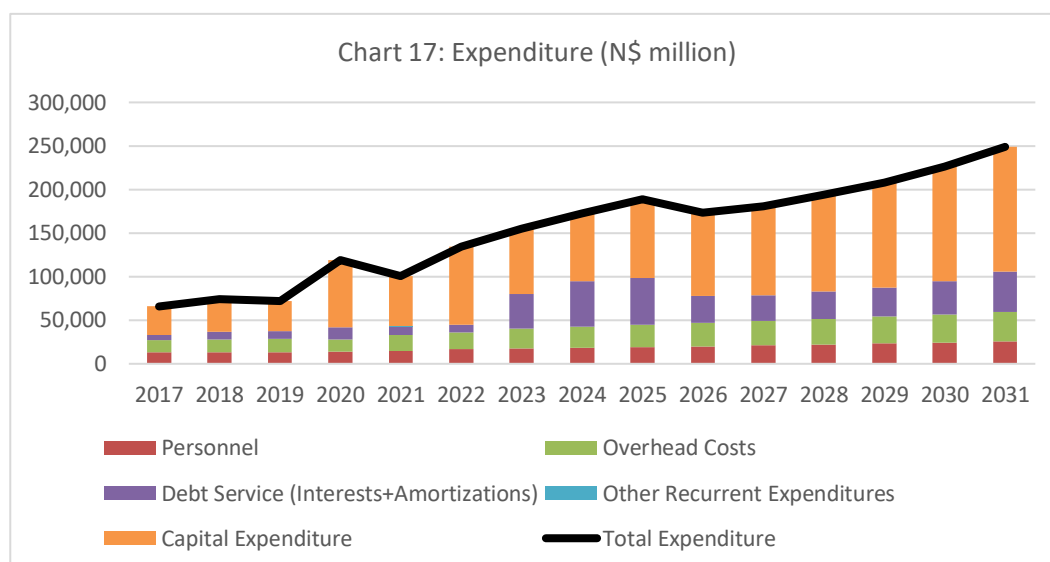
Ebonyi State Government has significantly invested in physical infrastructures so as to create conducive business environment for businesses to massively start up and thrive in the State. The massive start-up of businesses on one hand is expected to improve on the current level of labour force employment and on the other hand, increase the State Government revenue. The increase in State Government revenue will also lead to more future investments in critical infrastructures within the State.



Revenue, Expenditure, Overall and Primary Balance Over the long-term.

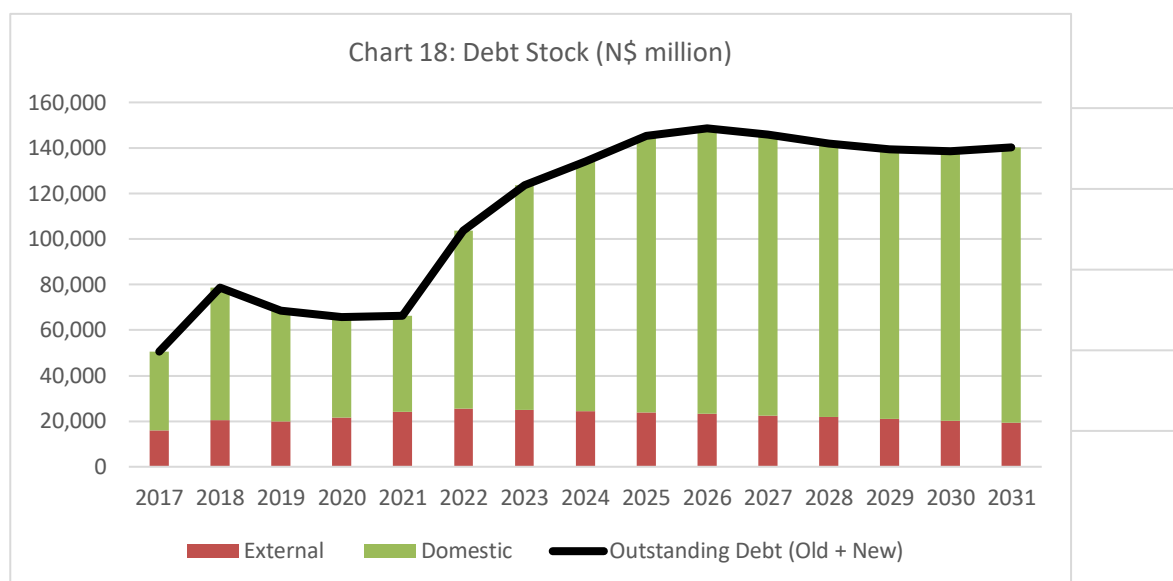
Specifically, figure 16 above shows that the total revenue of the State Government is projected to increase from ₦91.602 billion in 2021 to ₦150.664 billion in 2026, representing an increase of about 64.48% or the sum of ₦59.062 billion over the five years period. The increase in the total revenue of the State within the five years period is explained by increases in the State's IGR and her share of VAT Allocation, both of which almost doubled within the five-year period. On the other hand, gross statutory allocation is projected to increase moderately within the period and also contributes to the overall increase in the State's projected revenue (2022 – 2026). These two major sources of the increase could rightly be attributed to the dividends of the current investment of the State Government in critical infrastructures within the State.

In addition, the State's total revenue (including grants but excluding other capital receipts) is projected to increase in a higher dimension from the sum of ₦150.664 billion in 2026 to the sum of ₦215.748 billion in 2031, representing an increase of about 43.20% or the sum of ₦65.084 billion within the five years period. This projected increase in the overall revenue of the State Government may as well be attributed to the dividends of the current infrastructural investment of the State Government. On the overall, the total revenue of Ebonyi State Government is projected to increase from the sum of ₦91.602 billion in 2021 to the sum of ₦215.748 billion in 2031. This projection represents an increase of about 135.53% or the sum of ₦124.146 billion within the ten-year period of 2022 – 2031. It is important to emphasize that within the projected period, IGR is expected to have increased in size and proportion to the point of accounting for about 178.23% of total revenue in 2031 fiscal year.



The total expenditure of Ebonyi State Government is projected to increase steadily from the moderate value of ₦134.457 billion in 2022 to the sum of ₦188.875 billion in 2025. The projected total expenditure of the State in 2025 represents an increase of 40.47% within a period of 5 years from the actual total expenditure of the State in 2022 fiscal year. Furthermore, the total expenditure of the State is projected to increase from the sum of ₦188.875 billion in 2025 to the sum of ₦248.963 billion in 2031 fiscal year. The 2031 value represents an increase of about 31.81% within the five-year period. Interestingly, capital expenditure is projected to account for 45.20% - 66.76% of the annual total expenditure of the State. This huge share of capital expenditure in total expenditure of the State is brought about by the much emphasis given to the growth in infrastructure by the state government which has been lacking since creation of the State.

Looking at the pictorial data presented in Chart 17 above, it is clear that the second most significant component of expenditures for the projected period is debt service (interest payment and amortization). This expenditure component is projected to increase steadily from its insignificant value of ₦8.639 billion in 2022 fiscal year to its peak of ₦53.808 billion in 2025 fiscal year and drops to ₦45.705 in 2031 fiscal year. It is important to emphasize that within the projected period, debt service is projected to increase both in value and in proportion and as debt is paid off, it gradually declines. It is projected to account for only about 6.43% of total expenditure in 2022 fiscal year and to jump up to about 25.70% of the total expenditure in 2023 fiscal year. It went high to its peak in 2024 to 30.24% and declining to 18.34% of the total expenditure in 2031.



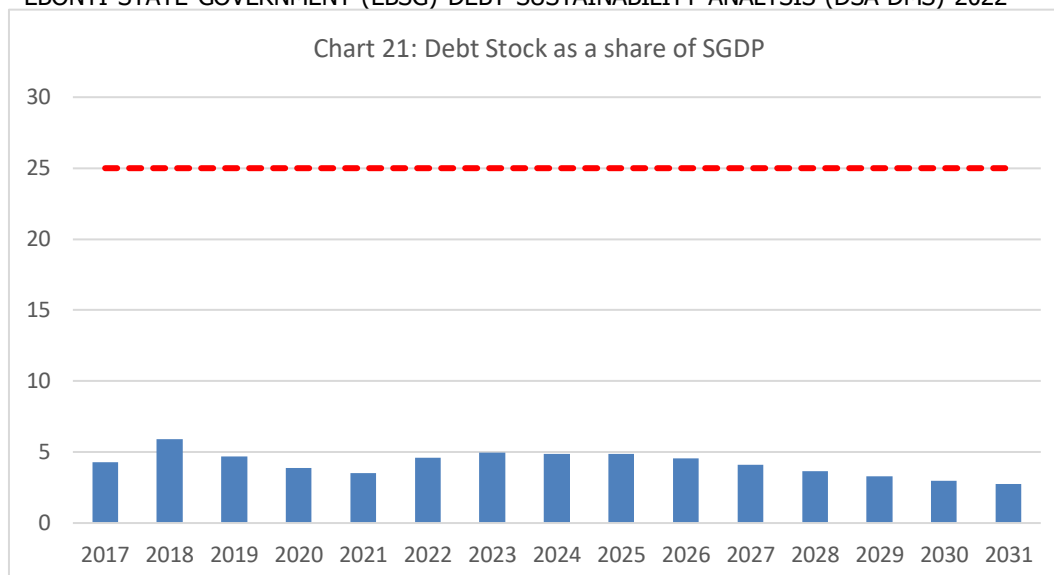
As shown in Chart 18 above, the total debt stock of Ebonyi State Government is expected to rise sharply by 56.60% in 2022 fiscal year, after which it will move on a moderately increasing lane; 19.16% in 2023; 8.58% in 2024; 8.28% in 2025 and 2.28% in 2026 before experiencing a decline between 2027 and 2030 fiscal years. Though an increase of 1.12% is projected between 2030 and 2031 fiscal years, when compared to 2026 fiscal year, 2031 fiscal year is projected to experience a 5.69% decline.

Main Findings and conclusion of the Baseline Scenario under the reference debt strategy (S1) in terms of debt sustainability.

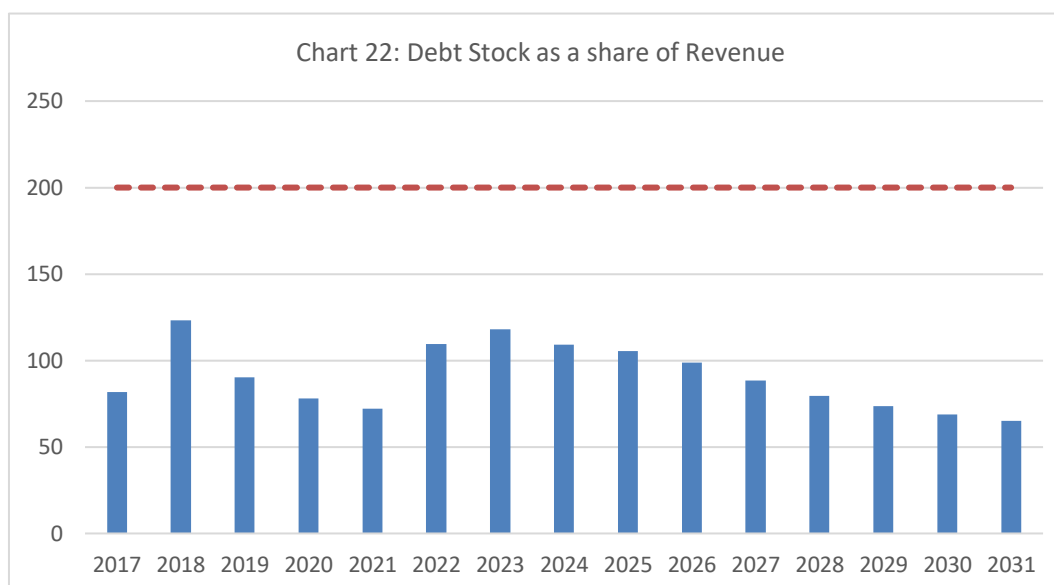
As earlier presented in Table 1 above, there are certain indicators for measuring the level of sustainability of the debt management systems of any Nigerian State. Figures 21 – 26 below present the results for Ebonyi State Government's debts across relevant indicators based on information supplied in baseline scenario.

Main Findings and conclusion of the Baseline Scenario

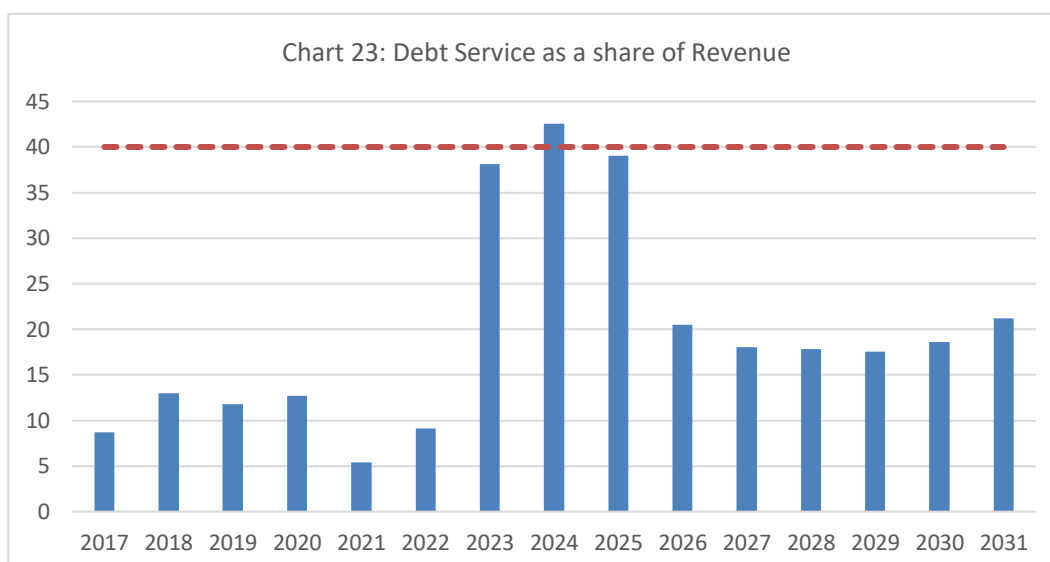
From figure 21 below, the indicative threshold/benchmark for the indicator of State's debt stock as a share of the State's GDP is 25% (as represented by the red dotted line in the Chart). However, the debt stock of Ebonyi State Government is projected to consistently remain less than 10% of the State's GDP throughout the projection period of 2021 – 2030 fiscal years. This implies that on the basis of this indicator of debt stock to GDP ratio, the State's debt level will remain sustainable throughout the projection period of 2022 – 2031 as shown in the figure below. Between 2022 - 2026 fiscal years, the debt stock to GDP was projected at 5% , to drop to 4% between 2027-2028 fiscal years. A further drop to 3% projection between 2029 - 2031 fiscal years shows that Ebonyi State is sustainable.



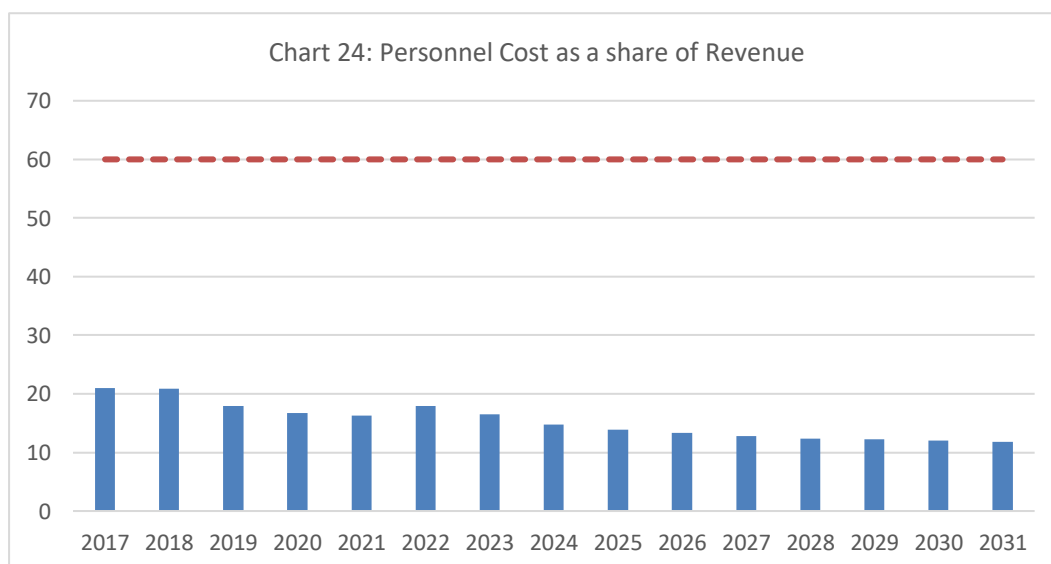
Another important indicator of debt sustainability is debt stock as a share of revenue. Figure 22 below shows the projected performance of Ebonyi State on this indicator.



From figure 22 above, the indicative threshold/benchmark for the indicator of State's debt stock as a share of the State's revenue is 200% (as represented by the red dotted line). However, the debt stock of Ebonyi State Government is projected to consistently remain less than 125% of the State's revenue throughout the projection period of 2022 – 2031 fiscal years. In fact, the ratio is projected to moderately increase from 109% in 2022 to 118% in 2023 before declining moderately between 2024 and 2031 when it will settle at 65%.

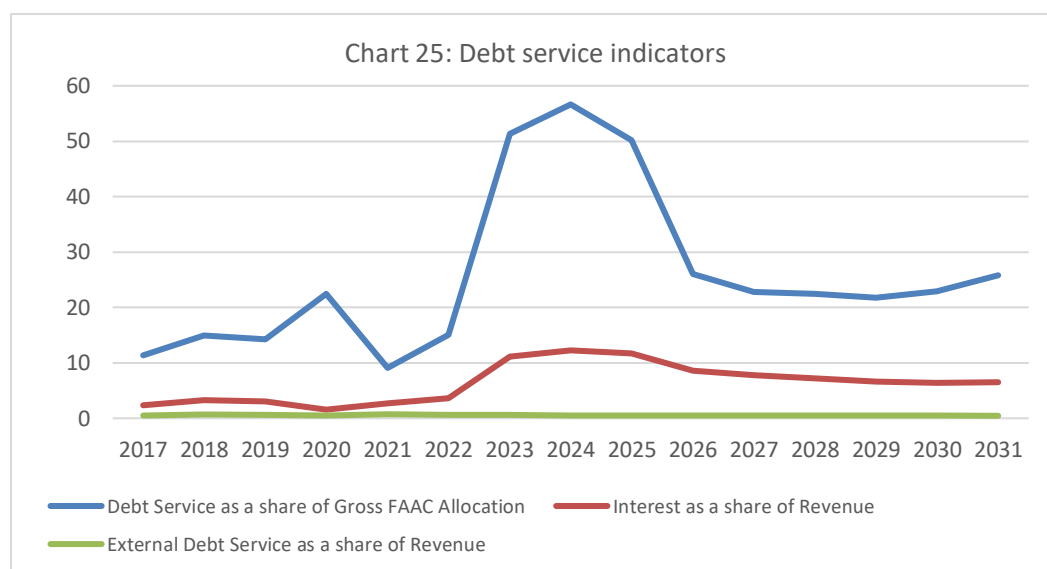


From figure 23 above, the indicative threshold/benchmark for the indicator of State's debt service as a share of the State's revenue is 40% (as represented by the dotted line). However, the debt service of Ebonyi State Government is projected to be above this threshold for the period of 2024 fiscal year and remain below this threshold for the rest of the projection period of 2022 – 2031 fiscal years. This implies that at some point in the projection period, the State's debt service obligation will exceed a sustainable level before coming down to a sustainable level where it will remain throughout the medium term period of 2022 – 2031 fiscal years.



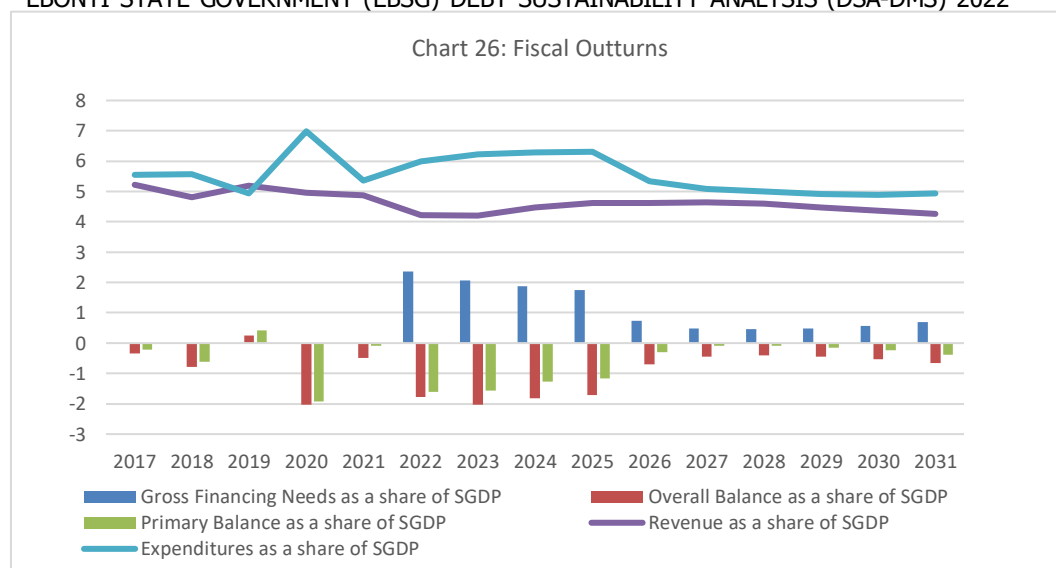
Personnel cost is seen as one of the major factors that pressure the Government to borrow money. As a result, its share in the total revenue of any government is equally important in

determining how sustainable the finances of the State will be. Figure 24 above presents the indicative threshold of Ebonyi State's personnel cost as a share of the State's revenue to be 60% (represented by the dotted line). However, the bars in the figure show that throughout the projected period of 2022 – 2031 fiscal years, the personnel cost of Ebonyi State Government will remain below 20% of the State's revenue. At such level, the projected performance of Ebonyi State Government on this indicator is lower than one third of the threshold level.



As previously shown in table 1 above, there are some indicators for measuring the sustainability of State's debt but they do not have any particular indicative threshold. The indicators are collectively presented in figure 25 above. From the figure above, debt service as a share of the Gross FAAC Allocation of Ebonyi State is projected to drastically increase between 2022 and 2024 fiscal years to settle at a peak of about 57% in 2024 fiscal year. Afterwards, this indicator is projected to decline and settle at 26% in 2031 fiscal year.

Figure 26 below shows some of the fiscal outturns of the State Government based on information supplied in the baseline scenario. From the figure, Ebonyi State's projected total expenditures as a share of the State's GDP will hover at the ratio of 6% between 2022 - 2025 fiscal years and 5% between 2026 - 2031 fiscal year. On the other hand, the State's revenue to GDP ratio will hover at 4% between 2022 - 2024 fiscal years, 5% between 2025 - 2028 fiscal years and decline back to 4% between 2029 - 2031 fiscal years. As a result of the situations of revenue and expenditure in the State, primary balance and overall balances will turn negative for most of the years, creating room for borrowing to fill up the fiscal gaps. Therefore, the ratios of primary balance and overall balance to the State's GDP are projected to remain negative for most of the projection period of 2022 – 2031 fiscal years.

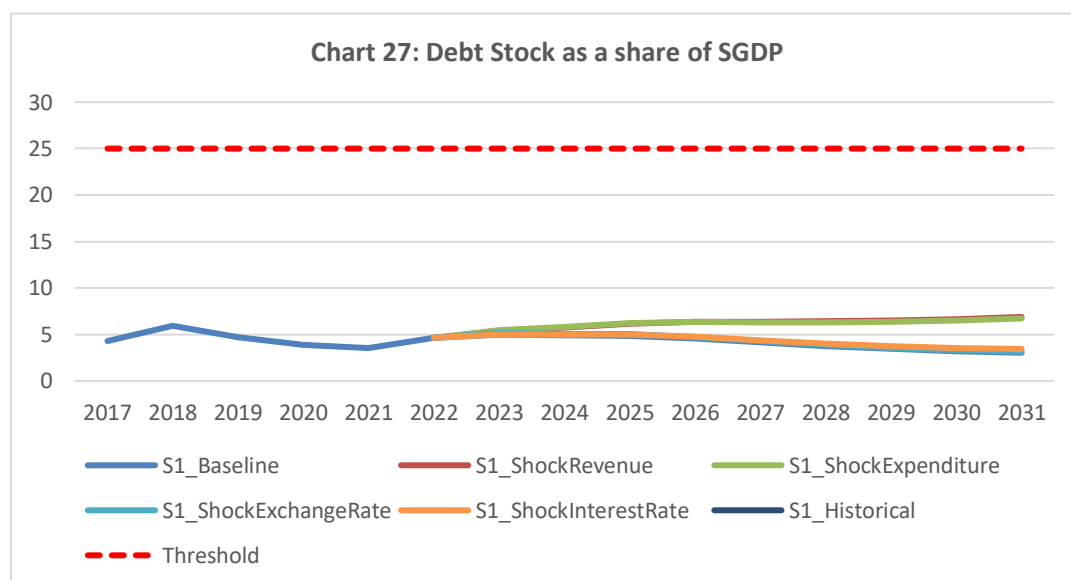


Conclusion of the Baseline Scenario

From all the discussions of the findings of the baseline scenario, it is clear that except on one indicator and for the period of 2024 fiscal year, Ebonyi State Government operates and will continue to operate within a very sustainable level of debt management. This is because for most of the indicators of debt sustainability, the State will operate within their indicative thresholds. However, it is important to point out that it is only on the basis of the indicator of debt service to revenue ratio that the State will at some points operate outside the threshold. This means that for this particular indicator, the State Government has to watch out and be more careful in devising strategies to avoid reducing the risks associated with operating outside the threshold. This unsustainable level of debt service to revenue ratio of Ebonyi State could be attributed to the possibility of mounting debt service burden as a result of many maturing obligations within the same period of 2024 fiscal year.

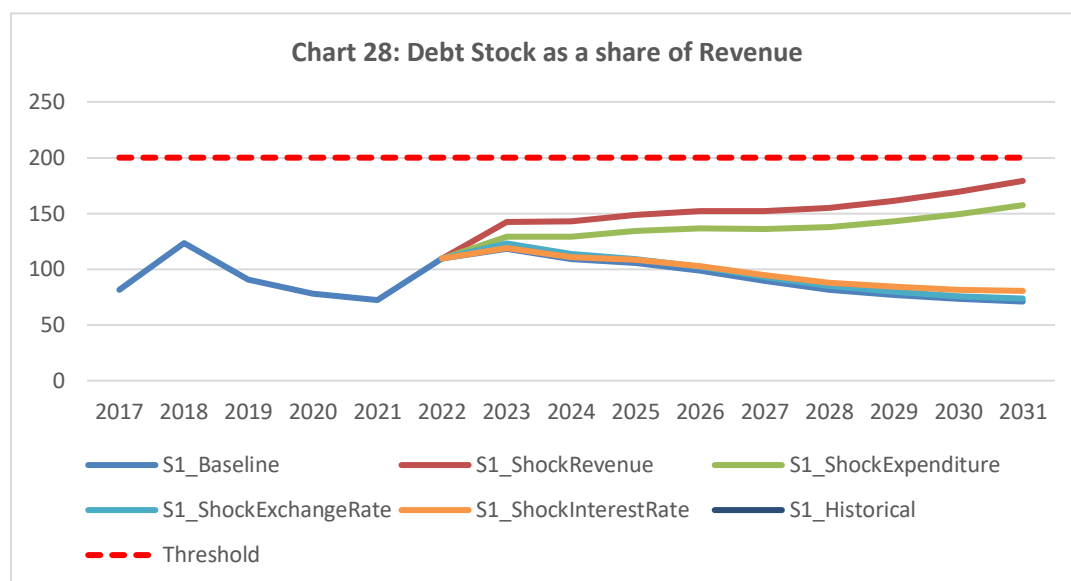
4.4 DSA Sensitivity Analysis

The debt sustainability analysis discussed in the previous subsection assumes that all things will remain equal across the various benchmarks and indicators. But it is a known fact that all things may never be equal in this case. As such, the figures presented in the baseline scenario may not appear so in reality. The changes could come as a result of several macroeconomic and policy shocks that the State's economy may witness within the projected period of 2022 – 2031. Some of such deviations may be exogenous (i.e. caused by external factors). Interestingly, out of the four shocks that are discussed here, only one of the shocks (expenditure shocks) may be considered to be entirely endogenous, though it may sometimes be considered to be exogenous. The rest of the shocks (revenue shocks, exchange rate shocks, and interest rate shocks) are mainly exogenous shocks that the State Government may only consider means and strategies for adapting to them.



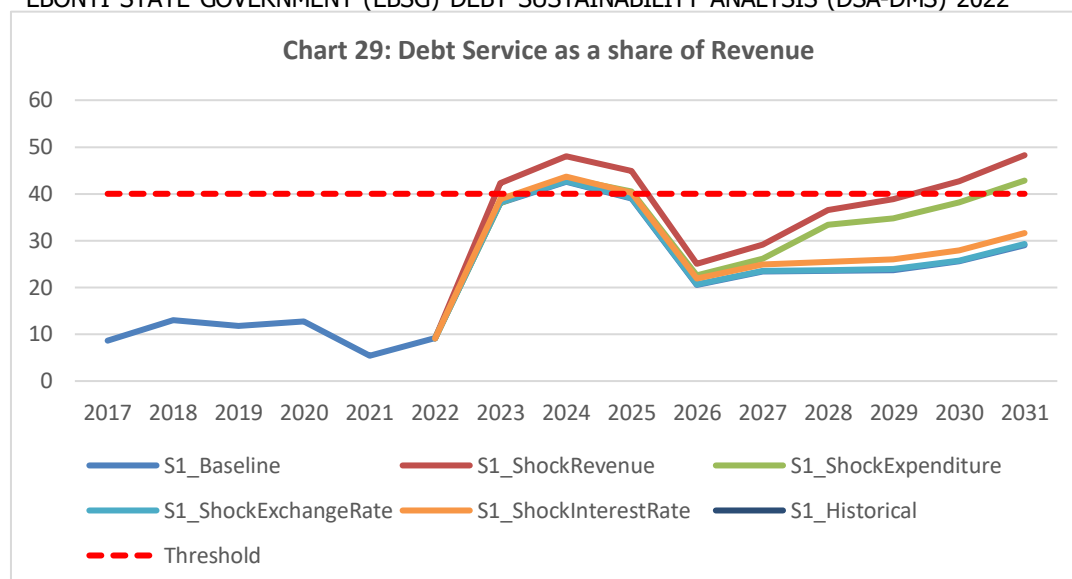
Chat 21 earlier shows that Ebonyi State Government's projected debt stock as a share of the State's GDP will remain much lower than threshold of 25% throughout the projection period of 2022 – 2031 fiscal years. Similarly, Chat 27 above shows that even with interest rate and exchange rate shocks, the performance of this indicator remains sustainable throughout the projected period of 2022 – 2031 fiscal years. It is a common knowledge that the volatility of exchange rate can greatly affect the total debt stock of the State Government (especially if the proportion of external debt in the total debt stock of the State is significantly high). However,

based on the graphs presented in Chat 27 above, it is a clear knowledge that even the historical trend of Strategy S1 (S1 financing option) can't make this indicator to go beyond the threshold between 2022 and 2031 fiscal years.



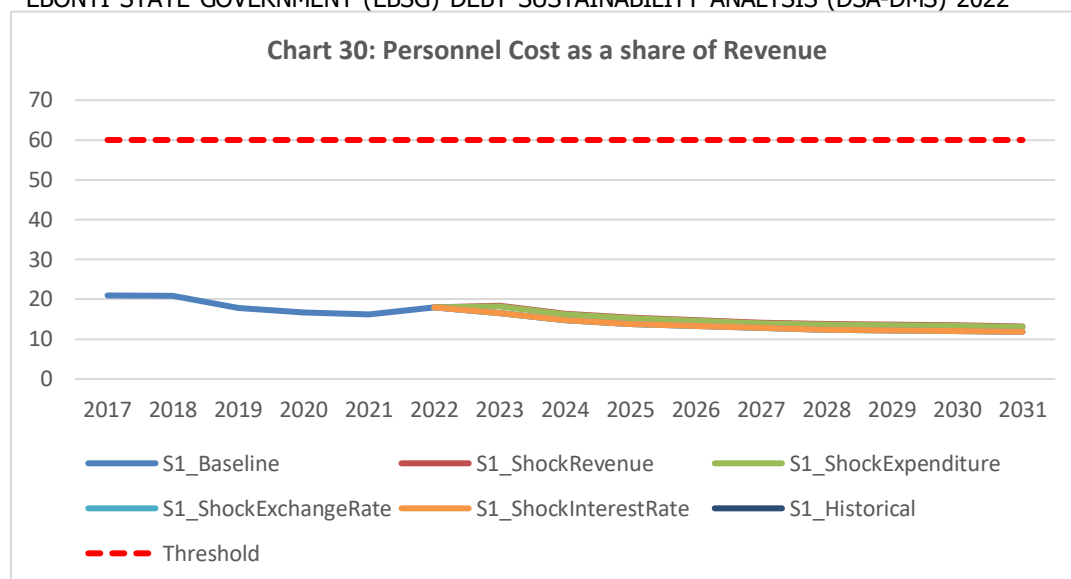
Chat 22 earlier shows that Ebonyi State debt stock as a share of the State's revenue will remain much lower than threshold of 200% throughout the projection period of 2022 – 2031 fiscal years. Similarly, figure 28 above shows that even with all the shocks (revenue, expenditure, interest rate and exchange rate shocks), the performance of the State on this indicator remains sustainable throughout the projection period of 2022 – 2031 fiscal years. However, when the historical trend of Strategy 1 (S1 financing option) is introduced, the performance of the State on this indicator goes even lower than the other four shocks.

Chat 23 earlier shows that without any shocks, Ebonyi State debt service as a share of the State's revenue will at some points become unsustainable by exceeding the threshold of 40%, especially in 2024 fiscal year. Chat 29 below shows that with some shocks (revenue shocks, expenditure shocks, exchange rate shocks and interest rate shocks), Ebonyi State debt service as a share of the State's revenue will at some points become unsustainable by exceeding the threshold of 40%. This will mainly occur between 2023 – 2025 fiscal years. However, Chat 29 further shows that while the historic trend remains very low, revenue shocks will exert the greatest influence on the overall performance of the State on this indicator of debt service to revenue ratio within the projection period of 2023 – 2025 fiscal years.



In addition, Chart 29 above shows that between 2026 and 2031, Ebonyi State debt service as a share of the State's revenue will become sustainable. However, the revenue and expenditure shocks will be placed on serious check as their performances on the indicator are seen to hover around the threshold as they move towards 2031 fiscal year.

In Chart 30 below, the presence of all the shocks (revenue, expenditure, interest rate and exchange rate shocks) may not exert any significant influence on the performance of Ebonyi State on the indicator of personnel cost to revenue ratio. Even with the historical trend that is seen not to exert substantial effects on other indicators, it may not change this indicator as much also. Therefore this indicator remains sustainable and even more sustainable than the rest of the indicators even when the shocks are introduced. In fact, the performance is projected to be below 20% throughout the projection period of 2022 – 2031 fiscal years. On the other hand, the threshold is set at 60%. This means that the projected performance is lower than one third of the threshold throughout the projection period of 2022 – 2031 fiscal years.



To restore and subsequently maintain sustainability, Ebonyi State Government is planning to implement the following policies and actions;

- a. Improving the IGR position of the state by introducing technology and bringing more people into the tax net
- b. Aligning State government's income and expenditure by keeping spending limits within the dictates of available resources and fiscal sustainable debt position;
- c. Emphasis on achieving a more favourable balance for capital expenditure through restraining the increasing trend in recurrent expenditure;
- d. Ensuring that the budget process is pursued with a framework that supports strategic prioritization and rational resource allocation and under the overall development policy objectives of the State; and
- e. Ensure strict adherence to due process in budget execution as well as accountability, transparency and prudence in the entire public financial management process.
- f. The State is also embarking on various reforms to block revenue leakages
- g. Staff Verification Exercise is being done to reduce personnel cost and by extension recurrent expenditure

5. DEBT MANAGEMENT STRATEGY

Public debt management is the process of establishing and executing a strategy for managing the government's debt in order to raise the required amount of funding at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk. This debt management presupposes that government's debt may go beyond sustainable and manageable proportions if there are no laid down strategies for managing the portfolios. To be able to effectively manage public debts, one of the issues that must be regularly considered has to do with the cost of any borrowing option. The cost of any borrowing option does not only entail the interest rate, but also the conditions and requirements for facilitating the loan. Another important issue to consider has to do with the risk involved in the borrowing option. On its own, the risk involved in any borrowing option may not necessarily be about the particular debt instrument, but about how contracting that particular debt instrument may affect the possibility of the State accessing other financing options in the nearest future. This risk could be associated with capital or money market operational guidelines and may hinder a State from future borrowing.

Debt management strategy combines the analysis of the three main outcomes of debt stock/revenue ratio, debt service/revenue ratio, and interest payment/revenue ratio. Each of these three outcomes considers the implications of debt obligations on the earning capacity of the State. Debt stock/revenue ratio considers how easily the State's revenue can cater for amortizing the entire debt stock. Debt service/revenue ratio considers how easily a state is able to meet the recurrent debt obligations it has from her revenue sources. The idea is to ensure that the State does not at any point in time have to borrow to be able to pay all her due obligations on old debts.

5.1 Alternative Borrowing Options

Strategy 1 (S1) – Domestic (Other Domestic Loans + Commercial Bank Loans/State Bond)

There are several strategies for domestic borrowing, but the first strategy to be considered within the projected period is a combination of the three major options (Commercial bank loans, State bonds and Other Domestic Financing), where other domestic loans will constitute over 50% of the financing needs. This implies that other domestic financing sources will be the major source of this financing strategy.

In this report, other domestic financing is mainly made up of short-term commercial bank loans like overdrafts that do not necessarily need much procedures to facilitate. The loans usually come at *interest rate of 30% per annum and maturity period of 1 year*. As the need for deficit financing arises, this category will account for up to about 80% of the entire borrowing needs of the State within the forecast period, and reduces in proportion to 11.9% especially in 2025 fiscal year. The main advantage of this source of financing is the ease with which it can be secured. This ease arises from the fact that it can even be facilitated through informal relationship with commercial bank operators. The requirements and conditions for domestic borrowing to take place are not usually very stringent. However, the downside of borrowing internally lies in the costs (interest rates and maturity period) of it, which are usually higher than those of external loans. It may actually be easier and faster to borrow from domestic sources, but may not be cheaper to do so. Apart from having relatively shorter maturity period, domestic commercial loans also come with shorter grace period (if any).

Within this Strategy 1 (S1), commercial bank loans (facilitated by the Federal Government of Nigeria and disbursed by the Federal Ministry of Finance and the Central Bank of Nigeria through Commercial Banks) are projected to constitute specific amounts over some years within the projection period (i.e. ₦18 billion in 2022-2025; and ₦10 billion in 2026-2031). This source of financing is projected to be given to the State at *maximum of 9% interest rate, with 10 years maturity period*. Therefore, going by the interest rate and maturity period, this component of Strategy 1 (S1) should have been the best component and should have constituted over 50% of the entire financing needs. However, the facilitation of this source of financing is at the discretion of the Federal Government of Nigeria and not necessarily that of the State. Most of the time, Federal Government responds to financial requests by majority of the States through the National Economic Council (NEC). This means that this source of financing may not always be available when the need arises.

In addition, it is projected that the State will raise the sum of ₦25 billion in the fiscal years of 2025 through State Bond. This period corresponds with a single term of one administration of the State Government. This State Bond is projected to attract a *maximum of 12% interest rate and maturity period of up to 10 years*. The rationale for projecting to finance fiscal gaps through this source for only one administration is the fact that it greatly depends on the disposition of any particular administration to issue bonds.

Strategy 2 (S2) – Domestic (Commercial Bank Loans)

The second Strategy (S2) considered in this report is to finance all the fiscal gaps from commercial bank loans that are facilitated by the Federal Government of Nigeria as budget intervention funds (e.g. the Agric loan, MSMEDF, etc) only. This domestic borrowing option, though channeled through commercial banks, is usually coordinated by the Central Bank of Nigeria on behalf of the Federal Government of Nigeria. As a result, their interest rates are usually at ***maximum of 9% per annum, with maturity periods of up to 10 years*** and sometimes may give up to 1 year grace period. Given its relatively lower costs (interest rate and maturity period), this should have been the first strategy to be considered by Ebonyi State Government for deficit financing. This implies that the State will have ample time to invest the borrowed funds and expect returns from the investment to be able to cover for the debt service obligations. However, this borrowing option is usually available only at the behest of the Federal Government through the Federal Ministry of Finance and the Central Bank. This means that it may not always be available to be accessed by the State Government at any point of need. This is why it is considered as the second strategy given its uncertainties.

Strategy 3 (S3) – Domestic (State Bonds)

This is an instrument for borrowing mainly from the capital market of the country. Ebonyi State Government has not been adopting this strategy in recent time, but projects to finance all the fiscal deficits that will be incurred within the projection period of 2022 – 2031 through this means as a third strategy. This source of financing usually comes at ***12% interest rate with maturity period of up to 10 years***. This means that this option is usually cheaper than the other domestic financing options considered in Strategy S1 above, but costlier than the commercial bank loans considered in Strategy S2 above. However, it is not easy to be accessed due to the processes and procedures involved in accessing financing from the Nation's capital market. The processes, procedures and conditions are the major deterrent to many States in accessing fund through this source.

Strategy 4 (S4) – External (Multilateral Loans – World Bank, AfDB, etc)

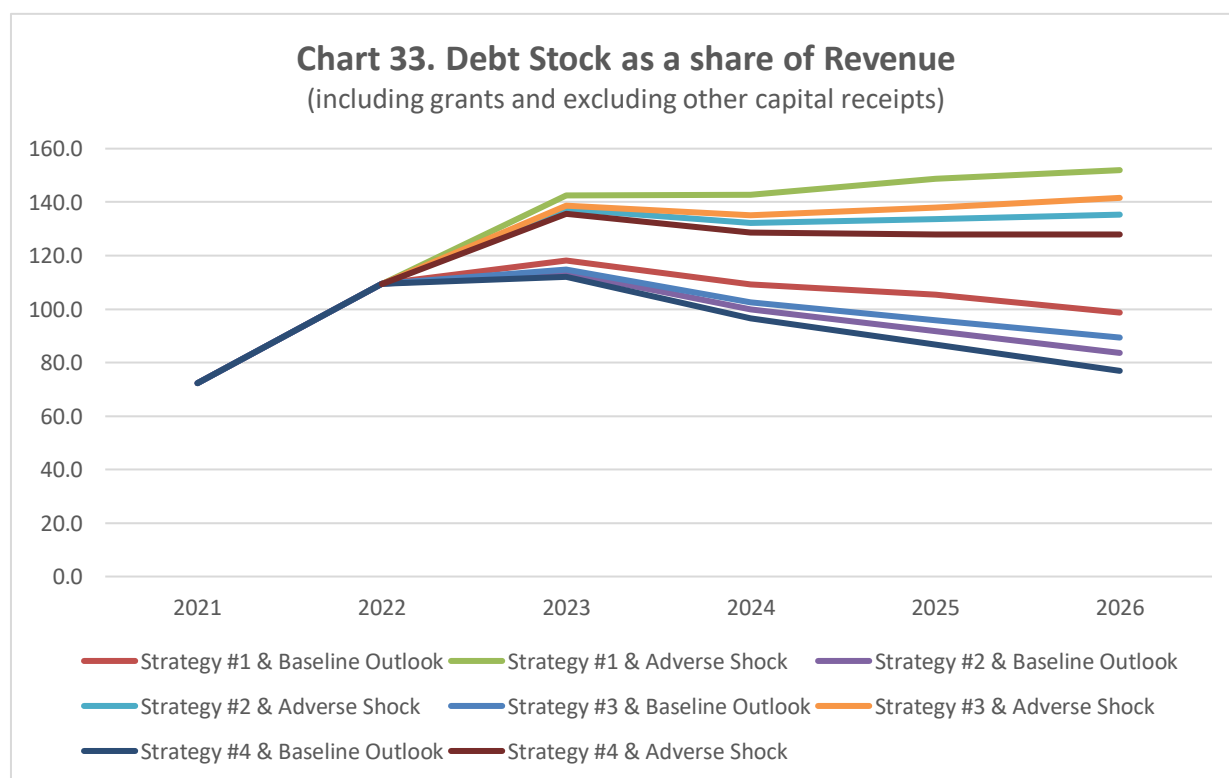
The fourth strategy for financing any fiscal deficit within the projection period of 2022 – 2031 is borrowing from external sources. As inversely explained under domestic borrowing options,

external borrowing may be more difficult and take a slightly longer time to facilitate. External borrowing may be the most suitable for augmenting deficit arising from medium term budget forecast. The costs (interest rates and maturity period) of borrowing externally are usually lower than those of internal/domestic loans. In this report, the external loans are projected to be facilitated by Multilateral financial institutions at **5% interest rate with maturity period of up to 10 years**. This strategy should have been the best strategy given the relatively lower interest rate and long maturity period, external loans also come with longer grace period. However, it may actually be more difficult and even take longer time to facilitate an external loan, though it is usually cheaper to do so. In addition, most external loans are tied to specific projects/programmes and affected by fluctuating interest rates.

5.2 DMS Simulation Results

With the strategies already identified, it is important to critically analyse how each of them compare with the rest in terms of costs and risks. Therefore, this subsection focuses on comparing the identified financing strategies and showing how the selected strategies perform viz-a-viz other strategies.

5.2.1 Debt/Revenue





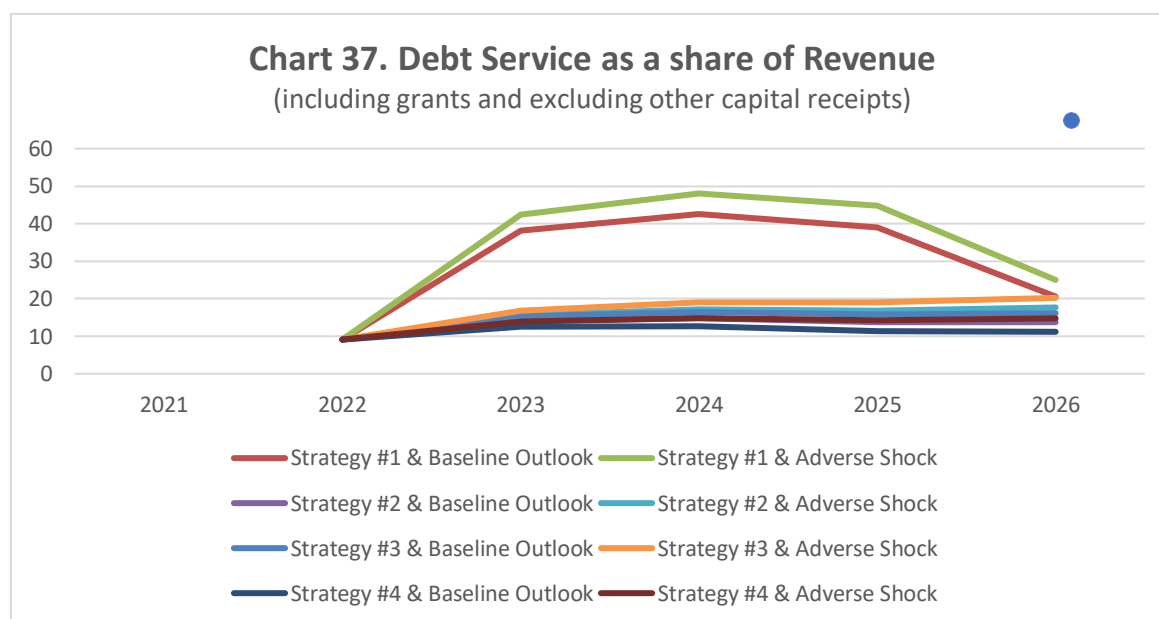
In Chat 33 above, it is clear that with all the four Strategies (S1 – S4), debt stock to revenue ratio stood at 72.3% in 2021. Going by baseline scenario, the projected debt stock to revenue ratio of the State Government will remain within sustainable level across each of the four Strategies (S1, S2, S3 and S4) for the medium term period of 2022 – 2026 fiscal years. Precisely, the baseline scenario ratio is projected to hover below 150% (which is lower than the threshold of 200%) for the medium term period of 2022 – 2026 fiscal years. However, with adverse shocks associated with each of the four Strategies (S1, S2, S3 and S4), the ratio is projected to still be below 200% between 2022 - 2026 showing that the State is still sustainable even when adverse shock is applied.

Chat 34 equally shows that though the cost of Strategy 1 is the highest across board, it also has the highest risk in 2026. On the other hand, Strategy S4, which has the lowest comparative cost, also comes with the lowest risks (including exchange rate volatility risk). Strategies S3 and S2 come in between Strategies S1 and S4 (both in terms of risks and costs).

5.2.2 Debt Services/Revenue

From Chat 37 below, it is clear that with three out of the four Strategies (S2 – S4), projected debt service to revenue ratio will remain within sustainable level (i.e. below 40% threshold) throughout the medium term period of 2022 – 2026. Across these three Strategies (S2, S3 and S4), the projected debt stock to revenue ratio of the State Government whether by baseline scenario or with adverse shocks will still remain below 30% (which is lower than the threshold

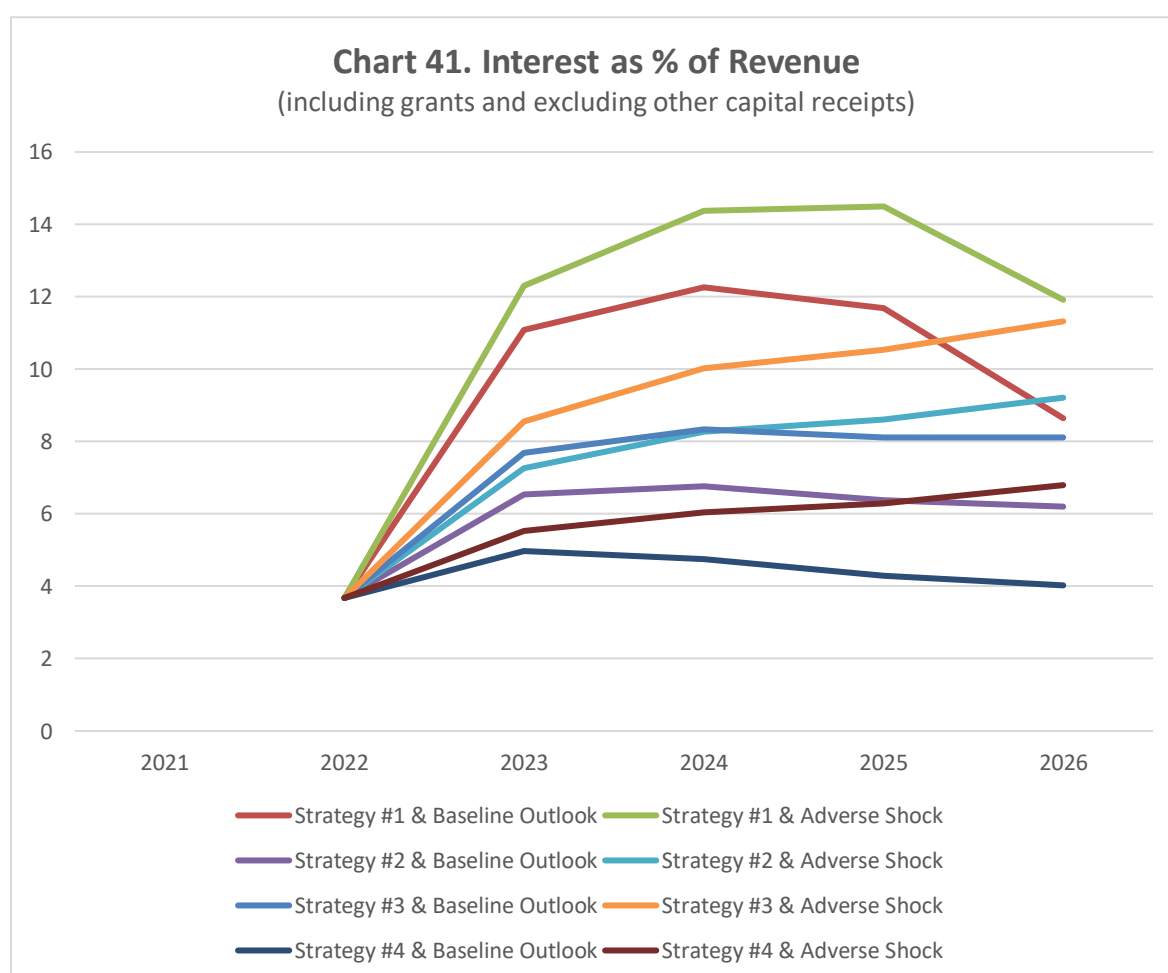
of 40% for this indicator) for the medium term period of 2022 – 2026 fiscal years. However, with Strategy S1, the projected debt stock to revenue ratio of the State Government both on baseline scenario and with adverse shocks will only remain below 40% for the two- year period of 2022 – 2023 (with adverse shock, it becomes unsustainable at 42.3%), before moving higher than the threshold (unsustainable) between 2024 and 2025 fiscal years (without adverse shock, S1 is sustainable at 2025 with 39%) and projected to become sustainable again at below 30% ,with or without adverse shock in 2026 fiscal year.

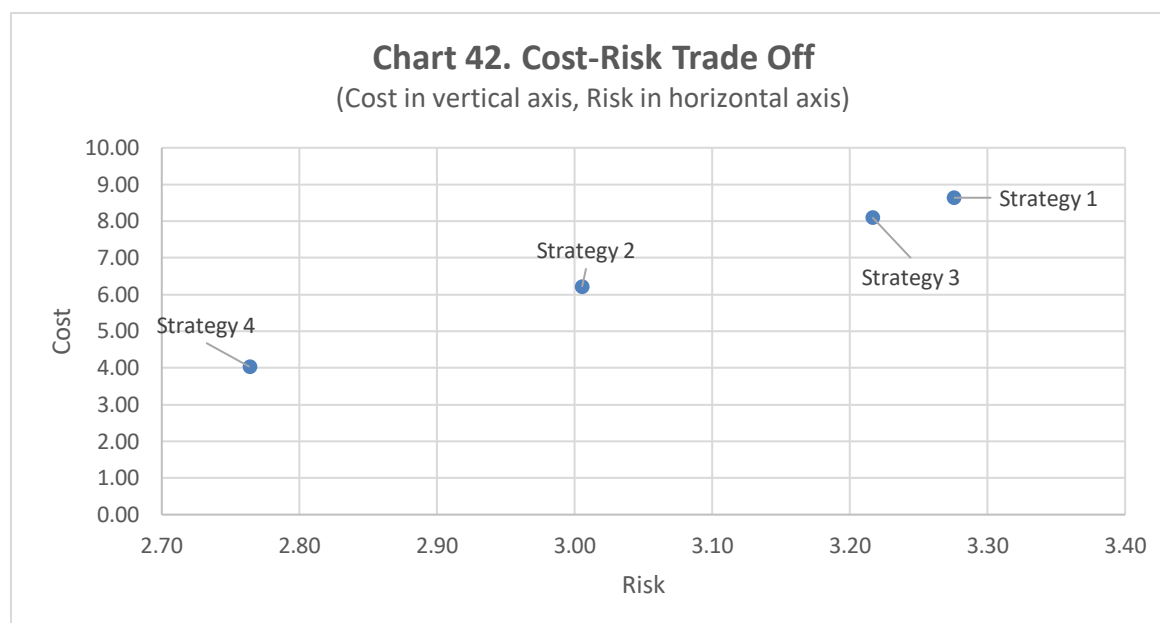


On its own, Chart 38 below shows that the cost and associated risks of Strategy 1 are the highest in 2026 fiscal year. The highest risk may be as a result of the uncertainties associated with accessing some of the sources of the funds within this strategy (e.g. the State Bonds and the Federal Government Intervention Funds). On the other hand, Strategy S4, which has the lowest comparative cost, also comes with the lowest risks (including exchange rate volatility risk). Strategy S2 presents the second lowest cost and risk after Strategy S4 (9% interest rate compared to 5% interest rate). Strategy S3 presents the second highest risk after Strategy S1 and also the second highest cost after Strategy S1 (12% interest rate compared to 30% interest rate).



5.2.3 Interest/Revenue





Chat 41 above, it is clear that with Strategy S4, projected interest obligation to revenue ratio will be at the lowest level. This is so for both the baseline scenario and the adverse shocks scenario. Strategy S4 presents the lowest level of interest to revenue ratio throughout the projection period of 2022 – 2026 fiscal years. Strategy S2 presents the second lowest projected interest to revenue ratio for the period of 2022 – 2026 fiscal years. On the other hand, Strategies S1 and S3 present the highest level of interest to revenue ratio throughout the projection period of 2022 – 2026 fiscal years. It is not surprising because the interest rates of 5% and 9% of Strategies S4 and S2 really differ from the interest rates of 12% and 30% for Strategies S3 and S1.

Following the discussion on Chat 41 above, Chat 42 also follow same trend as Chat 41. It shows that though the cost of adopting Strategy S4 may be the lowest among other Strategies, its associated risks are also the lowest in 2026 fiscal year. On the other hand, Strategies S3 and S1, which present the highest cost (in terms of interest obligations) also come with the highest level of associated risks. Strategy S2 presents mid-level cost alongside mid-level risks, coming after S1 in both cost and risk.

5.2.4 DMS Assessment

The DMS simulation results presented and analyzed in the previous subsections suggest that Strategy S4 is the best strategy with the lowest costs across various benchmarks. But the Strategy S4 does equally present the lowest level of risk across the benchmarks. In most

benchmarks, it presents the lowest level of risks and therefore need to be considered. On the other hand, Strategies S1 and S3, which present the highest levels of risks also present the highest cost for most parts of the projection period. Across the benchmarks, Strategy S2 situates somewhere in mid-level risks and costs and the next preferable in terms of both cost and risk after S4.

It is important to emphasize that the decision of the Strategy to adopt does not necessarily rely on costs and risks alone, but also on the feasibility and accessibility of the Strategy at the shortest possible time. This is because of the time frame being considered for this report – short to medium term period. S1 should have made the best strategy to consider based on the fact that S1 is the most feasible Strategy at the shortest possible time. But as earlier explained, Strategy S1 is considered the most costly and most risky (based on some benchmarks), but it still remains the easiest to come by at any time of quick financial intervention in the State's fiscal system. The ease comes from the fact that it can be facilitated by existing informal relationships between the State officials and the commercial bank operators. Such level of ease may not be applicable across the other Strategies (S3 – S4), but is also applicable to strategy S2. **However, having considered all the benchmarks in the light of the costs and risks involved in each of the Strategy, this report goes with Strategy S2 as the preferred strategy.** The choice of this Strategy (S2) is made strictly on the basis of the Strategy with the **lowest cost, lowest risk** more **feasible** and easily **accessible**.

To maintain an adequate balance between cost of carrying debt and exposure to risks, the state will be implementing appropriate fiscal policies which will make debt ratios to be restored to more appropriate levels over time. The state also intends to embark on proper pricing of the new debts that will be contracted during the projection period. This will automatically impact positively the cost of debt for the state.

Annex I. Table of Assumptions

		Projection Methodology	Source
Assumption s:			
Economic activity	State GDP (at current prices)	As reported by NBS and WBG	NBS, WBG
Revenue	Revenue		
	1. Gross Statutory Allocation ('gross' means with no deductions; do not include VAT Allocation here)	The State Government is committed to achieving the 2022 Budget and MTEF 2023-2025. An annual 10% increase in growth rate is expected from 2026 to 2031	State Ministry of Finance & FAAC report
	1.a. of which Net Statutory Allocation ('net' means of deductions)	net deductions from Statutory allocation which are based only on agreed loan principal and interest amortization schedule	State Ministry of Finance & FAAC report
	1.b. of which Deductions	Deductions are based only on agreed loan principal and interest amortization schedule	Loan agreement amortization schedule & FAAC report
	2. Derivation (if applicable to the State)	Nil derivation for none oil producing State	FG MTEF, extrapolated for 2025 to 2031
	3. Other FAAC transfers (exchange rate gain, augmentation, others)	The State Government is committed to achieving her 2022 budget and 2023 to 2025 MTEF figures. An annual 23% annual growth rate is also expected from 2026 to 2031	State Budget and MTEF report and an estimated state annual growth rate
	4. VAT Allocation	Having the 2022 Budget and 2023-2025 MTEF estimates, the State is committed to an annual growth rate of 10% between 2026 & 2027, 5% in 2028 and 3% between 2029 to 2031	State Budget and MTEF report and an estimated state annual growth rate
	5. IGR	Having the 2022 Budget and 2023-2025 MTEF estimates, the State is committed to an annual growth rate of 10% between 2026 & 2028, and 3% between 2029 to 2031	State Budget and MTEF report and an estimated state annual growth rate
	6. Capital Receipts	Nil as space does not require any input	N/A
	6.a. Grants	AS seen in the Budget and MTEF estimates and as SFTAS gradually winds down, it is expected that the will be a 10% decline in the inflow to the State	Expected figures from SFTAS in 2022 and few others up to 2025, with a 10% projected decline from 2026 to 2031
	6.b. Sales of Government Assets and Privatization Proceeds	Old and obsolete Assets are expected to be sold off, while new ones to be purchased to replace them are expected to stay till the expiration of 2031 . 2022 to 2025 captures the State Budget and MTEF estimated these sales, while a 10% annual rate	State Ministry of Finance

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		decline is expected from 2026 to 2031 as fewer assets are still being sold off	
	6.c. Other Non-Debt Creating Capital Receipts	10% annual percentage decline is expected from all other Non-Debt creating Capital Receipts	State Ministry of Finance
Expenditure	Expenditure		
	1. Personnel costs (Salaries, Pensions, Civil Servant Social Benefits, other)	Annual percentage growth in recurrent expenditure - non interest of 5% between 2026 to 2031. The State Government is committed to managing her recurrent non interest expenditure as captured in the Budget estimates and MTEF figures	State Ministry of Finance
	2. Overhead costs	Annual percentage growth in recurrent expenditure - non interest of 5% between 2026 to 2031. The State Government is committed to managing her recurrent non interest expenditure as captured in the Budget estimates and MTEF figures	State Ministry of Finance
	3. Interest Payments (Public Debt Charges, including interests deducted from FAAC Allocation)	Nil as space does not require any input	N/A
	4. Other Recurrent Expenditure (Excluding Personnel Costs, Overhead Costs and Interest Payments)	The State Government is committed to managing her recurrent non interest expenditure and does not intend to incur more	State Ministry of Finance
	5. Capital Expenditure	Annual percentage growth in capital expenditure (nominal) of 6% between 2026 to 2027 , 9% between 2028 to 2031. The Budget and MTEF estimates represents CAPEX for the years 2022 to 2025. The State Government is also committed to increasing her CAPEX - growing by at least national nom.	State Ministry of Finance
Closing Cash and Bank Balance	Closing Cash and Bank Balance	Annual decrease of 5.00% with more efficient application of Treasury Single Account (TSA)	State Ministry of Finance
Debt Amortization and Interest Payments	Debt Outstanding at end-2021		

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	External Debt - amortization and interest	As represented in the repayment schedules sent by DMO	Bi Annual reports from DMO
	Domestic Debt - amortization and interest	As represented in the repayment schedules agreed with the disbursing Banks	Quarterly reports to DMO
	New debt issued/contracted from 2021 onwards		
	New External Financing	Insert the Borrowing Terms for New External Debt: interest rate (%), maturity (# years) and grace period (#)	
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	At 5% amortization repayment rate for 10 years maturity period with no grace period	State Ministry of Finance
	External Financing - Bilateral Loans		
	Other External Financing		
	New Domestic Financing	Insert the Borrowing Terms for New Domestic Debt: interest rate (%), maturity (# years) and grace period (#)	
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)		
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)	At 9% amortization repayment rate, at 10 years maturity with no grace period	State Ministry of Finance
	State Bonds (maturity 1 to 5 years)		
	State Bonds (maturity 6 years or longer)	At 12% amortization repayment rate, at 10 years maturity with no grace period	State Ministry of Finance
	Other Domestic Financing	Expected demand in recurrent and capital expenditure at 30% maximum for 1 year with no grace period	State Ministry of Finance
Proceeds from Debt-Creating Borrowings	Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S1		
corresponding to Debt Strategy S1	New Domestic Financing in Million Naira		

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	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)		
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)	At 9% amortization repayment rate for 10 years maturity period with no grace period	State Ministry of Finance
	State Bonds (maturity 1 to 5 years)		
	State Bonds (maturity 6 years or longer)	At 12% amortization repayment rate for 10 years maturity period with no grace period	State Ministry of Finance
	Other Domestic Financing	Expected demand in recurrent and capital expenditure at 30% maximum for 1 year with no grace period	State Ministry of Finance
	New External Financing in Million US Dollar		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)		
	External Financing - Bilateral Loans		
	Other External Financing		
Proceeds from Debt-Creating Borrowings	Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S2		
corresponding to Debt Strategy S2	New Domestic Financing in Million Naira		
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)		
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)	Accessing a CBN intervention infrastructure loan at 9% amortization repayment rate for 10 years maturity period with no grace period	State Ministry of Finance

	State Bonds (maturity 1 to 5 years)		
	State Bonds (maturity 6 years or longer)		
	Other Domestic Financing		
	New External Financing in Million US Dollar		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)		
	External Financing - Bilateral Loans		
	Other External Financing		
Proceeds from Debt-Creating Borrowings	Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S3		
corresponding to Debt Strategy S3	New Domestic Financing in Million Naira		
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)		
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)		
	State Bonds (maturity 1 to 5 years)		
	State Bonds (maturity 6 years or longer)	Issuing a State Bond at 12% amortization repayment rate for 10 years maturity period with no grace period	State Ministry of Finance
	Other Domestic Financing		
	New External Financing in Million US Dollar		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	Accessing an external loan at 5% amortization repayment rate for 10 years maturity period with no grace period	State Ministry of Finance

	External Financing - Bilateral Loans		
	Other External Financing		
Proceeds from Debt-Creating Borrowings	Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S4		
corresponding to Debt Strategy S4	New Domestic Financing in Million Naira		
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)		
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)		
	State Bonds (maturity 1 to 5 years)		
	State Bonds (maturity 6 years or longer)		
	Other Domestic Financing		
	New External Financing in Million US Dollar		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	Accessing an external loan at 5% amortization repayment rate for 10 years maturity period with no grace period	State Ministry of Finance
	External Financing - Bilateral Loans		
	Other External Financing		

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Annex II. Historical and projections of the S1_Baseline Scenario

Interest as % of Revenue (including grants and excluding other capital receipts)															
	3.60	7.85	10.08	12.94	15.44	17.82	19.75	21.32	22.63	23.43					
Indicator	Actuals					Projections									
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
BASELINE SCENARIO															
Economic Indicators															
State GDP (at current prices)	1,185,018.00	1,327,104.00	1,463,690.00	1,699,551.00	1,883,319.00	2,243,659.00	2,487,783.00	2,748,741.00	2,989,421.00	3,257,512.00	3,556,552.00	3,883,043.00	4,239,506.00	4,628,693.00	5,053,607.00
Exchange Rate NGN/US\$ (end-Period)	253.19	305.79	306.50	326.00	379.00	410.00	410.00	410.00	410.00	410.00	410.00	410.00	410.00	410.00	410.00
Fiscal Indicators (Million Naira)															
Revenue	69,862.00	63,741.00	81,615.00	103,760.40	102,102.10	147,595.90	156,175.63	174,141.85	190,174.15	174,946.33	190,883.08	205,804.12	221,507.47	241,825.16	267,632.75
1. Gross Statutory Allocation (gross/ means with no deductions; do not include VAT Allocation here)	29,814.00	38,041.00	37,032.00	29,345.00	34,542.00	35,000.00	45,198.60	52,896.40	59,000.20	64,900.20	71,390.20	78,529.20	86,382.10	95,020.30	104,522.30
1.a. of which Net Statutory Allocation (net/ means of deductions)	24,742.00	30,418.00	30,287.00	25,564.50	29,967.00	27,700.40	37,997.10	45,765.80	52,322.00	59,160.40	66,506.60	73,761.10	81,701.60	90,352.60	99,891.60
1.b. of which Deductions	5,072.00	7,623.00	6,745.00	3,780.50	4,575.00	7,299.60	7,201.50	7,130.60	6,678.20	5,739.80	4,883.60	4,768.10	4,680.50	4,667.70	4,630.70
2. Deviation (if applicable to the State)	0.00	0.00	40.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Other FAAC transfers (exchange rate gain, augmentation, others)	8,964.00	9,151.00	14,841.00	4,759.30	310.00	2,470.00	2,931.60	2,931.60	2,931.60	3,605.90	4,435.30	5,455.40	6,710.10	8,253.40	10,151.70
4. VAT Allocation	8,373.00	8,442.00	11,085.00	13,816.90	19,644.00	20,000.00	29,492.70	36,474.20	45,234.80	49,758.30	54,734.10	57,470.80	59,194.90	60,970.70	62,799.80
5. IGR	6,456.00	7,407.00	10,595.00	17,132.30	26,004.07	12,433.20	20,524.80	23,603.50	23,783.70	26,162.10	28,778.30	31,656.10	32,605.80	33,584.00	34,591.50
6. Capital Receipts	16,255.00	700.00	8,022.00	38,706.90	21,602.00	77,692.70	58,027.93	58,236.15	59,223.85	30,519.83	31,545.18	32,692.62	36,614.57	43,996.76	55,567.45
6.a. Grants	8,255.00	700.00	2,383.00	19,305.90	11,102.00	24,922.70	6,430.00	6,930.00	6,930.00	6,237.00	5,613.30	5,052.00	4,546.80	4,092.10	3,682.90
6.b. Sales of Government Assets and Privatisation Proceeds	0.00	0.00	639.00	3,436.10	0.00	10,951.60	2,672.40	2,914.70	3,084.30	2,775.90	2,498.30	2,248.50	2,023.70	1,821.30	1,639.20
6.c. Other Non-Debt Creating Capital Receipts	0.00	0.00	0.00	1,648.10	0.00	1,153.67	807.57	565.30	395.71	356.10	320.50	288.50	259.70	233.70	210.30
6.d. Proceeds from Debt-Creating Borrowings (bond issuance, loan disbursements, etc.)	8,000.00	0.00	5,000.00	14,316.80	10,500.00	40,664.73	48,117.96	47,826.15	48,813.84	21,150.83	23,113.08	25,103.62	29,784.37	37,849.66	50,035.05
Expenditure	65,784.00	74,014.00	72,240.70	118,692.30	100,787.60	134,457.40	154,997.11	172,904.40	188,874.83	173,582.05	189,450.58	204,300.00	219,928.14	240,166.87	265,891.54
1. Personnel costs (Salaries, Pensions, Civil Servant Social Benefits, other)	12,965.00	13,317.00	13,585.00	14,082.10	14,891.70	17,044.00	17,300.80	18,165.90	19,074.20	20,027.90	21,029.30	22,080.80	23,184.80	24,344.00	25,561.20
2. Overhead costs	14,500.32	14,790.33	15,086.13	13,909.50	18,047.50	19,010.90	23,136.30	24,293.10	25,507.80	26,783.20	28,122.40	29,528.50	31,004.90	32,555.10	34,182.90
3. Interest Payments (Public Debt Charges, including interests deducted from FAAC Allocation)	1,470.00	2,089.00	2,313.00	1,561.60	7,569.60	3,486.90	11,587.81	15,061.00	16,102.93	13,014.25	14,465.45	14,808.73	15,061.09	16,023.52	17,914.31
3.a. of which Interest Payments (Public Debt Charges, excluding interests deducted from FAAC Allocation)	44.00	224.00	0.00	91.10	4,902.61	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3.b. of which Interest deducted from FAAC Allocation	1,426.00	1,865.00	2,313.00	1,470.50	2,667.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

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4. Other Recurrent Expenditure (Excluding Personnel Costs, Overhead Costs and Interest Payments)	0.00	0.00	0.00	0.00	549.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
5. Capital Expenditure	32,888.68	37,614.67	34,583.57	76,971.70	57,392.70	89,763.70	74,721.00	78,161.40	90,484.80	95,913.90	101,668.70	110,818.90	120,792.60	131,663.90	143,513.70
6. Amortisation (principal) payments	3,960.00	6,203.00	6,673.00	12,167.40	2,337.00	5,151.90	28,251.20	37,223.00	37,705.10	17,842.80	24,164.73	27,063.06	29,884.75	35,580.34	44,719.43
Budget Balance ('+' means surplus, '-' means deficit)	4,078.00	-10,273.00	9,374.30	-14,931.90	1,314.50	13,138.50	1,178.52	1,237.45	1,299.32	1,364.28	1,432.50	1,504.12	1,579.33	1,658.30	1,741.21
Opening Cash and Bank Balance	20,870.00	24,948.00	14,675.00	24,049.30	9,117.40	10,431.90	23,570.40	24,748.92	25,986.37	27,285.68	28,649.97	30,082.47	31,586.59	33,165.92	34,824.22
Closing Cash and Bank Balance	24,948.00	14,675.00	24,049.30	9,117.40	10,431.90	23,570.40	24,748.92	25,986.37	27,285.68	28,649.97	30,082.47	31,586.59	33,165.92	34,824.22	36,565.43

Financing Needs and Sources (Million Naira)

Financing Needs															
i. Primary balance															
ii. Debt service															
Amortisations															
Interests															
iii. Financing Needs Other than Amortisation Payments (e.g., Variation in Cash and Bank Balances)															
Financing Sources															
i. Financing Sources Other than Borrowing															
ii. Gross Borrowings															
Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)															
Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)															
State Bonds (maturity 1 to 5 years)															
State Bonds (maturity 6 years or longer)															
Other Domestic Financing															
External Financing - Concessional Loans (e.g., World Bank, African Development Bank)															
External Financing - Bilateral Loans															
Other External Financing															
Residual Financing															

Debt Stocks and Flows (Million Naira)

Debt (stock)	50,563.95	78,648.68	68,659.50	65,738.40	66,226.50	103,707.83	123,574.59	134,177.74	145,286.48	148,594.51	147,542.86	145,583.42	145,483.04	147,752.36	153,067.98
External	15,950.95	20,487.68	19,922.50	21,483.40	24,066.50	25,502.00	24,969.00	24,395.00	23,780.00	23,165.00	22,509.00	21,812.00	21,074.00	20,295.00	19,475.00
Domestic	34,613.00	58,161.00	48,737.00	44,255.00	42,160.00	78,205.83	98,605.59	109,782.74	121,506.48	125,429.51	125,033.86	123,771.42	124,409.04	127,457.36	133,592.98
Gross borrowing (flow)						40,664.73	48,117.96	47,826.15	48,813.84	21,150.83	23,113.08	25,103.62	29,784.37	37,849.66	50,035.05

EBONYI STATE GOVERNMENT (EBSG) DEBT SUSTAINABILITY ANALYSIS (DSA-DMS) 2022

						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
External															
Domestic						40,664.73	48,117.96	47,826.15	48,813.84	21,150.83	23,113.08	25,103.62	29,784.37	37,849.66	50,035.05
Amortizations (Row)	3,918.55	6,203.50	6,671.15	9,424.60	2,509.10	5,151.90	28,251.20	37,223.00	37,705.10	17,842.80	24,164.73	27,063.06	29,884.75	35,580.34	44,719.43
External	202.55	290.50	337.15	358.60	454.80	533.00	533.00	574.00	615.00	615.00	656.00	697.00	738.00	779.00	820.00
Domestic	3,716.00	5,913.00	6,334.00	9,066.00	2,054.30	4,618.90	27,718.20	36,649.00	37,090.10	17,227.80	23,508.73	26,366.06	29,146.75	34,801.34	43,899.43
Interests (Row)	1,448.74	2,089.84	2,313.51	1,317.60	2,445.76	3,486.90	11,587.81	15,061.00	16,102.93	13,014.25	14,465.45	14,808.73	15,061.09	16,023.52	17,914.31
External	98.74	149.84	165.51	32.60	166.76	82.00	82.00	82.00	82.00	164.00	164.00	164.00	164.00	164.00	164.00
Domestic	1,350.00	1,940.00	2,148.00	1,285.00	2,279.00	3,404.90	11,505.81	14,979.00	16,020.93	12,850.25	14,301.45	14,644.73	14,897.09	15,859.52	17,750.31
Net borrowing (gross borrowing minus amortizations)						35,512.83	19,866.76	10,603.15	11,108.74	3,308.03	-1,051.65	-1,959.44	-100.38	2,269.32	5,315.62
External						-533.00	-533.00	-574.00	-615.00	-615.00	-656.00	-697.00	-738.00	-779.00	-820.00
Domestic						36,045.83	20,399.76	11,177.15	11,723.74	3,923.03	-395.65	-1,262.44	637.62	3,048.32	6,135.62

Debt and Debt Service Indicators

Debt Stock as % of GDP	4.27	5.93	4.69	3.87	3.52	4.62	4.97	4.88	4.86	4.56	4.15	3.75	3.43	3.19	3.03
Debt Stock as % of Revenue (including grants and excluding other capital receipts)	81.74	123.39	90.37	77.93	72.30	109.37	118.17	109.23	105.37	98.63	89.45	81.71	76.80	73.17	70.95
Debt Service as % of GDP						0.39	1.60	1.90	1.80	0.95	1.09	1.08	1.06	1.11	1.24
Debt Service as % of Revenue (including grants and excluding other capital receipts)						9.11	38.10	42.56	39.03	20.48	23.42	23.50	23.73	25.56	29.03
Interest as % of GDP						0.16	0.47	0.55	0.54	0.40	0.41	0.38	0.36	0.35	0.35
Interest as % of Revenue (including grants and excluding other capital receipts)						3.68	11.08	12.26	11.68	8.64	8.77	8.31	7.95	7.94	8.30
Personnel Cost as % of Revenue (including grants and excluding other capital receipts)						17.97	16.54	14.79	13.83	13.29	12.75	12.39	12.24	12.06	11.85

Adverse Shock Scenario is defined by the worst performance indicator measured in year 2026

For Debt Stock as % of GDP the adverse shock is: Revenue	Revenue					4.62	5.39	5.74	6.17	6.33	6.36	6.39	6.49	6.66	6.88
Debt Stock as % of GDP															
For Debt Stock as % of Revenue (including grants and excluding other capital receipts) the adverse shock is: Revenue	Revenue														
Debt Stock as % of Revenue (including grants and excluding other capital receipts)						109.37	142.41	142.70	148.71	151.96	152.30	154.81	161.46	169.56	179.15
For Debt Service as % of GDP the adverse shock is: Expenditure	Expenditure														
Debt Service as % of GDP						0.39	1.60	1.94	1.87	1.05	1.22	1.53	1.55	1.67	1.83

Indicator1_base
line
Indicator2_base
line
Indicator3_base
line
Indicator4_base
line
Indicator5_base
line
Indicator6_base
line

Indicator1_shoc
k

Indicator2_shoc
k

Indicator3_shoc
k

EBONYI STATE GOVERNMENT (ESBG) DEBT SUSTAINABILITY ANALYSIS (DSA-DMS) 2022

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Annex III. Minimum Requirements to Achieve DLI 7.2 on State DSA-DMS Report in 2022

<i>DLR description as per DLI Matrix & Definition/Description of DLR achievement</i>
<p>Annual state debt sustainability analysis and medium-term debt management strategy published by end of December 2022</p> <p>States publish an annual State Debt Sustainability Analysis and Debt Management Strategy Report (SDSA-DMSR) by December 31, 2022.</p> <p>The SDSA-DMSR must include the following: (1) medium-term budget forecasts; (2) detailed description of the debt portfolio and borrowing options; including a summary analysis of the projections of performance indicators used to assess Debt Management Strategy, and their implications for cost-risk profile of State debt portfolio in 2026; and (3) analysis of the debt and fiscal figures in the preceding calendar year.</p> <p>The SDSA-DMSR must be published on a state official website.</p> <p>See below for the detailed definition of the minimum requirements of the SDSA-DMSR for Year 2022.</p>
<p>The SDSA-DMSR 2022 must include:</p> <p>For (1) medium-term budget (MTB) forecasts, the SDSA-DMSR 2022 must contain:</p> <p>1.1 Presentation of MTB forecasts in either a table OR chart(s) (OR both table and chart(s)) with projected annual figures from 2022 to 2025 for all of the following variables:</p> <ul style="list-style-type: none"> - Revenues: Total Revenues, FAAC, Derivation (if applicable), IGR, Capital Receipts, and Grants. - Expenditures: Total Expenditures, Personnel Costs, Overhead Costs, Interest Payments, Capital Expenditures, and Amortization Payments. - Budget Balance. <p>AND</p> <p>1.2 Description of assumptions underpinning the MTB forecasts from 2022 to 2025: either a table with assumptions OR corresponding explanations in writing (OR both) for all of the following variables:</p> <ul style="list-style-type: none"> - Revenues: Total Revenues, FAAC, Derivation (if applicable), IGR, Capital Receipts, and Grants.

- Expenditures: Total Expenditures, Personnel Costs, Overhead Costs, Interest Payments, Capital Expenditures, and Amortization Payments.
- Budget Balance.

AND

1.3 A summary analysis of MTB forecasts and their implications for fiscal and debt policies throughout the period 2022-2025: analysis (in writing) of whether and how the MTB forecasts inform the prospective fiscal and debt policies to be adopted at least in 2022 (for example, a commentary on whether fiscal adjustments should be adopted to preserve debt sustainability, or whether there is sufficient fiscal space to adopt expansionary policies or support public investment).

AND

1.4 The presentation and analysis in the entire forecast period need to be of adequate quality, and do not contain:

- i) negative figures for revenue, expenditure or debt variables (budget balance can be negative);
- ii) contradictory or illogical statements or arguments (for example, the written text contains wrong assertions such as ‘sustainability is strengthened when the fiscal indicators deteriorate’);
- iii) inconsistencies between the written assessment and the data, assumptions and projections presented in the document (for example, the written text refers to figures and projections significantly different from those reported in the tables and charts).

For(2)detailed description of the debt portfolio and borrowing options, the SDSA-DMSR 2022 must contain:

2.1 Presentation of debt and borrowing projections in the baseline scenario: either a table OR charts (OR both) with projected figures from 2022 to 2031 for all of the following variables:

- Debt Stock.
- Debt as % of Revenues.
- Debt Services as % of Revenues.
- Borrowings (requirements and/or sources).

- Debt stock as % of State GDP, *ONLY for states for which the official State GDP figures have been published by the National Bureau of statistics. Other states can do this on an optional basis.*

AND

2.2 Description of assumptions underpinning the borrowing options presented: either a table with assumptions OR corresponding explanations in writing (OR both) for all of the following variables:

- Borrowing Sources (for example, external and domestic borrowings).
- Financing Terms (for example, maturity, interest rates, currency).

AND

2.3 A summary analysis of the debt projections and their implications for debt sustainability and fiscal policies throughout the period 2022-2031: analysis (in writing) of:

- (i) whether debt projections and thresholds suggest the State debt is sustainable (or not) over the medium- to long-term; AND
- (ii) what fiscal policies can help preserve (or restore) debt sustainability (for example, a commentary—based on comparisons between debt projections and thresholds in the baseline scenario and shock scenarios—on (a) whether the State debt is sustainable (or not), and (b) what fiscal and debt policies should be adopted to preserve (or restore) debt sustainability).

AND

2.4 A summary analysis of the projections of performance indicators used to assess DMS throughout the period 2022-2026, and their implications for cost-risk profile of State debt portfolio in 2026. The analysis (in writing) should describe:

- (i) whether DMS-related performance indicators suggest the State debt is affordable and resilient to shocks (or not) over the medium-term, and
- (ii) what debt-management policies can help preserve (or restore) an adequate balance between cost of carrying debt and the exposure to risks. For example, a commentary—based on comparisons between projections of DMS-related performance indicators in the baseline scenario and most-adverse shock scenarios—on (i) whether the cost-risk profile of the State debt under the reference strategy is acceptable (or not), and (ii) what debt-management policies should be adopted to mitigate the cost and risk of the State debt portfolio.

AND

2.5 The presentation and analysis in the entire forecast period need to be of adequate quality, and not contain:

- (i) negative figures for debt and borrowing projections;

- (ii) contradictory or illogical statements or arguments (for example, the written text contains wrong assertions such as ‘sustainability is strengthened when the debt indicators deteriorate’);
- (iii) inconsistencies between the written assessment and the data, assumptions and projections presented in the document (for example, the written text refers to figures and projections significantly different from those reported in the tables and charts).

For (3) *analysis of the debt and fiscal annual figures in the preceding calendar year*, the SDSA-DMSR 2022 must contain:

3.1 Presentation of revenue, expenditure, budget balance, and debt information, at least for 2021: either a table OR charts (OR both table and chart(s)) with historical figures for at least 2021 (but can extend to years preceding 2021) all of for the following variables:

- Revenues: Total Revenues, FAAC, Derivation (if applicable), IGR, Capital Receipts, and Grants.
- Expenditures: Total Expenditures, Personnel Costs, Overhead Costs, Interest Payments, Capital Expenditures, and Amortization Payments.
- Budget Balance.
- Debt Stock.
- Debt as % of Revenues.

AND

3.2 A summary analysis of the information presented on revenue, expenditure, budget balance, and debt in 2021: analysis(in writing) of fiscal and debt situation in 2021 (for example, a commentary on budget and debt outcomes and economic trends, what may have affected them).

AND

3.3 A summary analysis (in writing) of the consistency between:

- i) the fiscal and debt information for 2021 presented in the SDSAR 2021 and;
- ii) the fiscal and debt information presented in the 2021 Financial Statement and the 2020 Q4 State Debt Report.

AND

3.4 The presentation and analysis in the entire historical period need to be of adequate quality, and not contain:

- i) negative values for revenue, expenditure, debt service or debt stock figures;
- ii) contradictory or illogical statements or arguments (for example, the written text contains wrong assertions such as ‘sustainability is strengthened when the debt indicators deteriorate’);
- iii) inconsistencies between the written assessment and the data, assumptions and projections presented in the document (for example, the written text refers to figures significantly different from those reported in the tables and charts).

Data Sources

- **State Ministry of Finance** for: (1) the quarterly SDDR (submitted to the DMO and acknowledgements); (2) the 2021 SDSAR; and (3) the 2022 SDSA-DMSR.
- **State official website(s)** for the published 2021 SDSAR and 2021 SDSA-DMSR.
- **State Debt Management Departments (DMDs)** for additional information (if requested by the IVA).
- **(Federal) Debt Management Office (DMO)** for: (1) the guidelines and templates provided by DMO for the SDDR, the SDSAR, and the SDSA-DMSR; (2) the standard internal protocols used by DMO for reviewing and approving SDDR, assessing the SDSAR and assessing the SDSA-DMSR; (3) the State Domestic and External Debt Report (SDEDR) and supporting documentation (format and content detailed in DLI 9 for each state; (4) DMO’s assessment of the SDSAR; and (5) DMO’s assessment of the SDSA-DMSR.

Ebonyi State Technical Team

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|-------------------------------|----------------------------------|
| 1. Debt Management Department | - Mr. Agwu Igwe Nweze. |
| 2. Debt Management Department | - Mrs. Elizabeth Anigor. |
| 3. Debt Management Department | - Mrs. Sandra Igwe. |
| 4. Ministry of Finance | - Miss Chinenye Benedict Chukwu. |

Approved By



.....
Mr. Orlando Okechukwu Nweze
Honourable Commissioner for Finance