DEBT MANAGEMENT OFFICE
NIGERIA

EBONYI STATE DEBT SUSTAINABILITY ANALYSIS AND DEBT MANAGEMENT STRATEGY

(DSA-DMS) REPORT

DEBT MANAGEMENT DEPARTMENT MINISTRY OF
FINANCE AND ECONOMIC DEVELOPMENT
ABAKALIKI, EBONYI STATE

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Table of Content

1. INTRODUCTION

Debt Sustainability Analysis (DSA) is a tool in public finance management used by governments and international financial institutions to assess the sustainability of a State debt burden. Ebonyi State 2024 DSA evaluates the trends and patterns in the State's public finances during the period 2019-2023 and tries to look into the level of debt sustainability for the period of 2024-2033 (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 scenarios and sensitivity analysis, in order to evaluate the prospective performance of the State's public finances.

The main aim of the debt strategy is to ensure that the government's financing needs and its payment obligations are met at the lowest possible cost, over the medium to long term period, 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 2019 to 2023 and projections for the years 2024 to 2033 were obtained from this analysis using the appropriate assumptions, and our findings shows that the State's long-term outlook (2024-2033) for the public debt appears sustainable. Our review shows that the gross revenue of the State grew by 79% between 2019 and 2023, growing from ₦75.9 billion to ₦133.5 billion. Revenue outlook from the projection

analysis table therefore shows that the State Revenue is expected to grow up to ₦697.7 billion in 2033, which is about 818% growth, taking 2019 as the baseline.

With the massive infrastructural growth of the State Government since the inception of the new Government in 2023 and also the personnel increase occasioned by increase in staff strength and the implementation of the minimum wage with corresponding increaseon overhead cost, Ebonyi State has witnessed a noticeable increase in her expenditure. The expenditure of the State grew by 70% from ₦72 billion in 2019 to ₦123 billion in 2023. Expenditure outlook from the projection analysis table shows that the State expenditure is expected to grow higher in the year 2028 to ₦464 billion, reaching a peak value of ₦775 billion in 2033 which is 974% growth rate using 2019 as the baseline. The debt trend therefore shows that the long-term outlook (2024-2033) for the public debt appears sustainable for the State. As the State's Internally Generated Revenue (IGR) grew from ₦10.6 billion in 2019 to ₦15 billion in 2023, it is projected that in 2033, the IGR of the State should be ₦71 billion growing from ₦15 billion in 2023. 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

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 estimatealso 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 actualexpenditures stood at ₦100.787 billion, and a positive 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. The 2022 budget size rose to ₦ 145.410 this rise in budget was as a result of the fact that the past administration wanted to complete all on-going projects before leaving office. During the cause of the year's budget performance actual revenue was 99.251 billion, while actual expenditure stood at 80.536. As a result of the gap between the budgeted and actual in 2022, the State Government reviewed the 2023 budget downwards to ₦ 139.398 billion tohave a more realistic budget. 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 rates.

Ebonyi State Approved 2024 Budget and Medium-Term Expenditure Framework (MTEF), 2025 – 2027

Approved 2024 Budget

The 2024 budget of Ebonyi State followed an upward trend with the budget size of ₦202 billion, when compared with that of 2023 fiscal year which is ₦139 billion. The reason for this increase in budget size in 2024 was necessitated by the removal of oil subsidy which plunged in more funds into the coffers of Federal Government for onward disbursement to the States, in line with this increase state intends to increase their infrastructural development, empowerment of the unemployed youths, recruitment of new employees and increase of minimum wage. The State is fully conscious of the need to make the revenue and expenditure projections to be as realistic as possible.

The 2024 budget of the State is ₦202 billion representing 45% increase of the 2023 budget size of ₦139 billion. This upsizing of the budget stems from the fact that, 2023 actual revenue which was ₦152 billion is far above the ₦139 billion budgeted estimates for the year. Actual revenue has ₦152 billion as the physical revenue which was overly achieved within the 2023 fiscal year, this is one of the reasons the 2024 budget size was increased to ₦202 billion.

The Key Objectives of Approved 2024 Budget

The key objectives of the Approved 2024 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. To enhance micro, small and medium scale enterprises in the State

v. Sustain and improve the State's resolves to reduce the cost of governance

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 at 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 and SABER programs 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 2023-2025 Medium Term Expenditure Framework (MTEF) of the State was prepared and has been approved by the State House of Assembly. The 2023 budget was produced based on this MTEF. The 2024-2026 MTEF has been prepared, approved by the State Houseof Assembly and published. The budget of 2023 shows a decrease in budget size over the previous year as expected and shown above. Analyzing from the 2023 approved budget andthe approved 2024-2026 MTEF, it shows that the expected budget size for 2024 to 2026 fiscal years are respectively ₦202.721 billion; ₦223.927 billion and ₦251.43 billion. This expenditure is expected to be financed with Revenue same as the amount of expenditure foreach fiscal year. 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 borroweven in the face of increase in budget size of the State.

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 overheadcosts 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 Tourists.

xiv. Grow the IGR by a minimum of 20% on annual basis in line with the SABER 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 increase in Fuel price occasioned by fuel subsidy removal through grants and micro-credit facilities

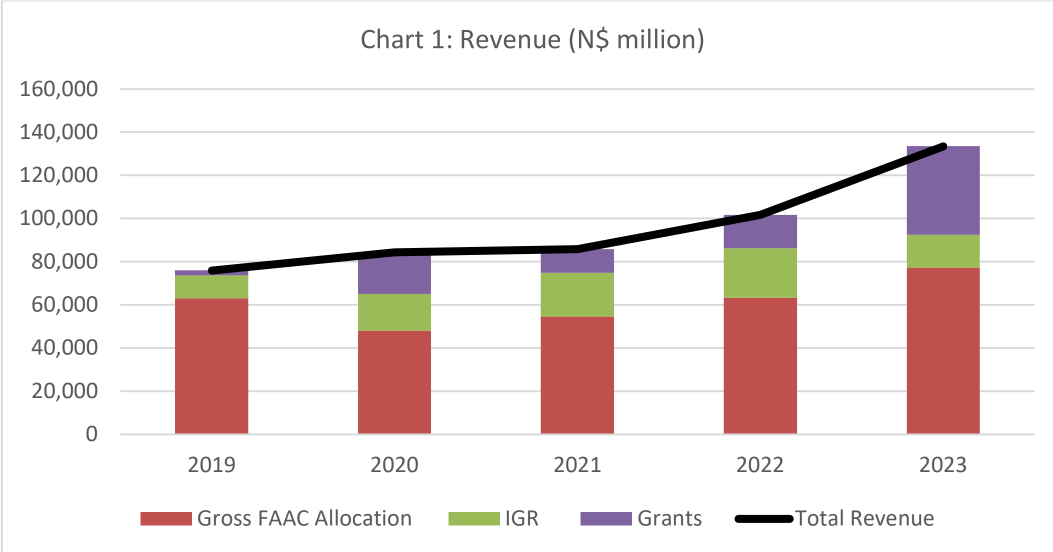
3. THE STATE REVENUE, EXPENDITURE, AND PUBLIC DEBT TRENDS (2019 – 2023)

3.1 Revenue, Expenditure, Overall and Primary Balances

Aggregate State Total Revenue trend in the last five years and its composition in 2023

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. Table and Chart 1 below clearly show that the total revenue of Ebonyi State maintained an upward trend throughout the review period of 2019 – 2023. The State's total revenue (including grants and excluding other capital receipts) stood at ₦133.5 billion in 2023 as against the sum of ₦101.6 billion realized in 2022 fiscal year. This represents an increase of 30% in total revenueof the State within one fiscal year. It is important to note that the 2023 fiscal year witnessed the removal of oil subsidy by the Federal Government that brought about an increase in the FAAC revenue received by the State. The removal of oil subsidy did not just cause an increase in the revenue alone but also brought about so much increase in the cost of governance because of the hike in fuel price. It therefore became paramount to the Government of Ebonyi State that there is a need to make reforms that will cushion the effect of the high cost of living in the State. 2023 fiscal year saw a huge increase in all revenue items except in IGR which witnessed about 33% reduction compared to what it was in 2022.

	2019	**2020**	**2021**	**2022**	**2023**
Total Revenue	75,976	84,359	85,867	101,612	133,468
Gross FAAC Allocation	62,998	47,921	54,496	63,234	77,139
IGR	10,595	17,132	20,269	23,028	15,315
Grants	2,383	19,306	11,102	15,350	41,014



The decline in IGR was as a result of the change in authorities manning the internal revenue services who needed to grab the reforms to implement them for the growth of the IGR.

FAAC Allocations trend in the last five years.

Generally, there has been a progressive growth in total revenue between 2019 and 2023, though with significant decline in gross FAAC allocation of 2020 when compared 2019 and 2021. This decline in 2020 by 23% which is attributed mainly to the COVID-19 pandemics which led 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 2021, oil prices picked up, causing transfers from federation account increased and this was evident in the 13.7% increase seen that year. This growth was sustained in 2022 as FAAC allocation grew by 16% when compared with 2021, FAAC continued to grow at the rate of 21% in 2023 when compared to 2022.

IGR trend in the last five years.

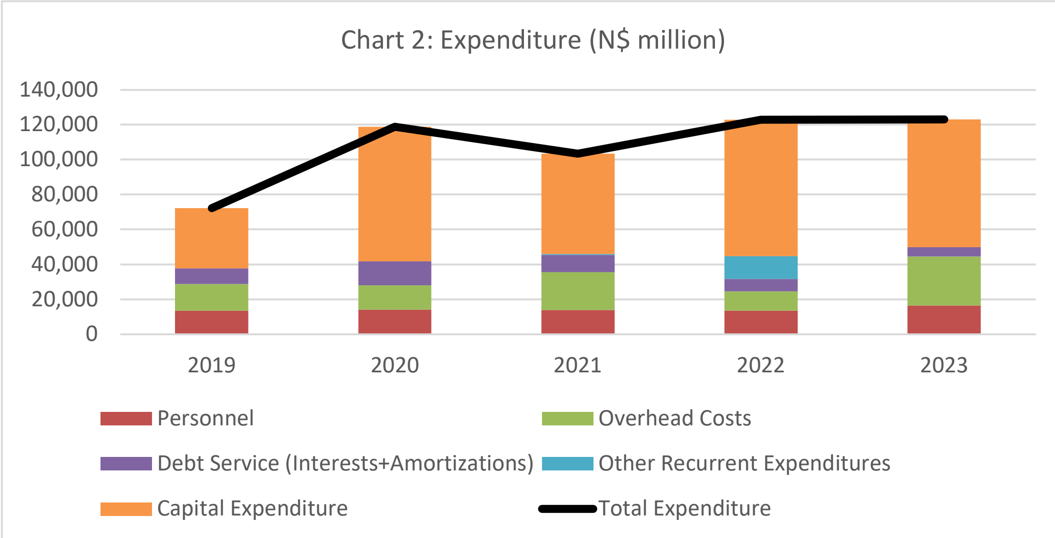
In 2019, IGR and grants formed very insignificant portions of the State's total revenue, and as a result, any shock in the FAAC revenue of the State equally translated to shock in the total revenue of the State. However, that was not the case in 2020, 2021, 2022 fiscal years. In those years, the share of IGR continued to increase between 2020 to 2022 with a sharp decline in 2023 by 33.5%. Grants witnessed a 42% decrease in 2021 when compared with 2020, this is caused by withdrawal of grants after COVID-19 Pandemic, there is a huge growth rate of 167% in 2023 when compared with 2022. This huge increase in grant is caused by the accumulation of SFTAS grant due to the State from 2020 to 2022. In fact, IGR and Grant figures combined is in close measure with the figure of the State's FAAC revenue of 2023. On the other hand, the 2020 values of IGR and Grants representsharp increases from the 2019 values of the two sources of revenue within the State. With the Government's reforms already yielding results, Grant had the highest growth in 2023, While IGR declined.

Aggregate (Total) Expenditure trend in the last five years and its composition in 2023.

Table and Chart 2 below shows that the State's total expenditure increased throughout the review period with a sharp drop in 2021 when it fell below the level of 2020 and 2022. Similarly, capital expenditure increased steadily throughout the review period except in the same 2021 when it fell slightly below the 2020 and 2022 values respectively.

The State Government's Personnel cost has remained almost stagnant throughout the review period except for a slight increase in 2023 occasioned by the Christmas Bonus given to workers by the new Administration. On the other hand, the State Government's Overhead cost slightly maintained an upward trend between 2019 and 2023 except for the slight decline in 2020 which was as a result of low financial activities occasioned by the COVID-19 pandemic. In 2022, part of the overhead cost was shared into other recurrent expenditure and this seemed as though it has a low value but it was still on an upward trend. It is important to point out that the State has drastically reduced the cost of governance by ensuring a stable movement of the State Government's personnel and overhead costs.

	2019	**2020**	**2021**	**2022**	**2023**
Total Expenditure	72,241	118,692	103,328	122,767	123,023
Personnel	13,585	14,082	13,822	13,580	16,544
Overhead Costs	15,086	13,910	21,772	11,005	27,983
Debt Service (Interests + Amortizations)	8,986	13,729	9,907	7,063	5,263
Other Recurrent Expenditures	0	0	549	12,963	0
Capital Expenditure	34,584	76,972	57,278	78,156	73,233



Incidentally, debt service obligations of the State rose by 52% in 2020 when compared with 2019 value. However, debt service declined in 2021 and maintained a downward trend till 2023. The reason for the decline is that the previous debts of the State Government is reducing gradually and the new loans borrowed within 2021 and 2022 fiscal year periods, which were an outcome of fiscal deficit financing options of the State Government were still under moratorium.

In 2022 fiscal year, there was a demand according to IPSAS recommendation for the removal of the sub-head in the overhead cost of the State called Miscellaneous Expenses. To this end, all the items of overhead underthis sub-head e.g. Donations, Honorarium, Advertisement Refreshment etc. were moved into an expenditure item called "Other Recurrent Expenditure" that was how this item came intoour 2022 expenditure, which formed 10.56% of the State total expenditure. This item of expenditure is still the make-up of the State overhead cost but has been shifted to other recurrent expenditure.

Personnel cost increased in 2019 and 2020 and dropped slightly with 1.3% in 2021 and 1.8% in 2022. In 2023, it picked up again with 21% increase when compared to 2022. This rise in personnel cost was caused by the change in Government that focused on personnel welfare as explained above. During this review period also, overhead cost dropped b y 7.8% in 2020 from its figure in 2019. It however increased by 56% in 2021 and maintained an accelerating trend up to 2023. Capital expenditure on the other hand contributed the highest portion of the total expenditure throughout the five-year historical period, having its highest in 2020 when the percentage of capital over total expenditure grew by 65% as a result of the provision of Health Care facilities to combat COVID-19 effects. There was a downslide in 2021 as a result of COVID-19 effects. In 2022, there was an increase of 36% in Capital expenditure from its figure in 2021 due to the fact that the past administration concentrated on completing all ongoing projects in the State and also deaccelerated again in 2023 because the New Administrations focused first on the welfare of its Citizens. The 2023 total expenditure of the State Government stood at ₦123 billion, which is an increase of 0.2% from the ₦122 billion total expenditure in 2022 fiscal year. Similarly, in 2020, the total expenditure of the State, which stood at the sum of ₦118 billion, represents an upsurge of 64% from the sum of ₦72 billion as total expenditure in 2019 fiscal year. The 2021 total expenditure of the State was higher than the 2021 total revenue by ₦17.461 billion. In the same vain the 2022 total expenditure of the State was also higher than its revenue by 20.73%. These fiscal gaps created room for more loans and therefore more debt service obligations for the State in those years. However, in 2023 the total expenditure took a downturn when compared to total revenue by 8.5%.

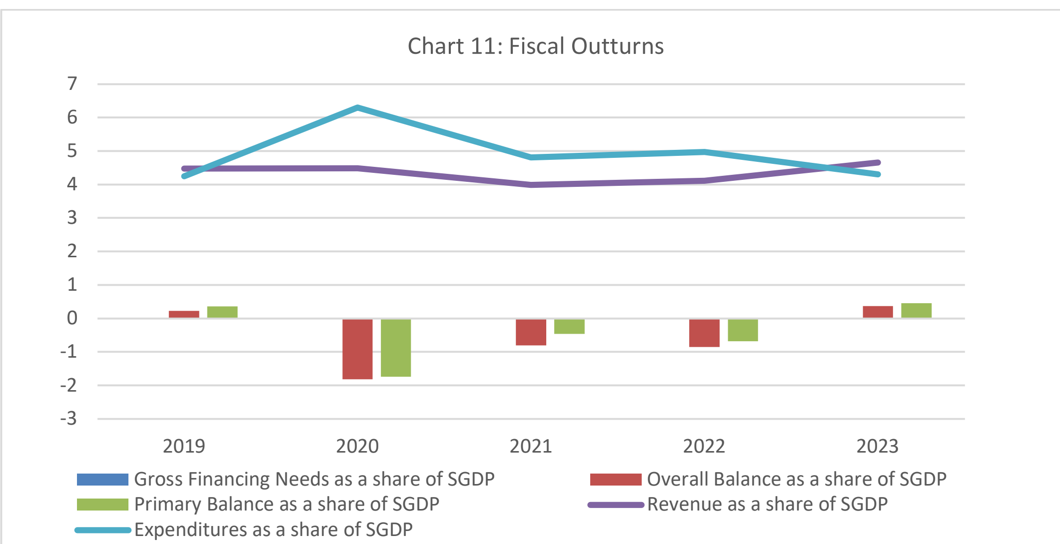
Main Expenditure Variations in the last five years by Economic Classification.

While the personnel and overhead costs have shown close to constant variation, the capital expenditure has shown a wide variation. It contributed 47% of the total expense in 2019, 64% of the total expense in 2020 and 55% of the total expense in 2021, 64% in 2022 and 60% in 2023. 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 formed the hallmark of the immediate past 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 2019 and 2023, capital expenditure had its highest growth in 2022, growing by 126% when compared to its figure in 2019. This growth was facilitated by the fact that the Government of the past regime wanted to complete all the ongoing project before handing over which ranged from building and renovating Hospitals to cater for the sick, providing the necessary health care facilities and medication, building roads and bridges for easy transportation between the rural and urban centers, the Airport project etc. There was a high growth of capital expenditure in 2020 by 123% when compared to 2019 fiscal year. In 2021, the growth dropped by 26%, from its figure in 2020 and increased again by 36% in 2022 against its figure in 2021.

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 2019-2023.

	2019	2020	2021	2022	2023
Gross Financing Needs as a share of SGDP	0	0	0	0	0
Overall Balance as a share of SGDP	0	-2	-1	-1	0
Primary Balance as a share of SGDP	0	-2	0	-1	0
Revenue as a share of SGDP	4	4	4	4	5
Expenditures as a share of SGDP	4	6	5	5	4



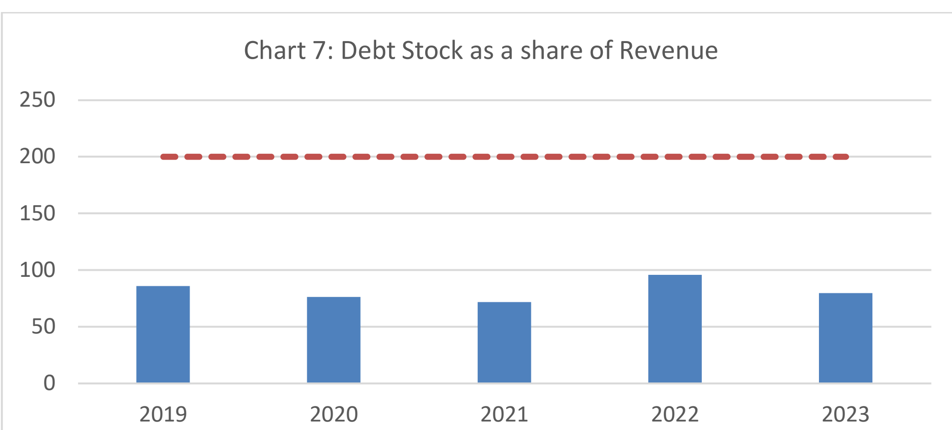
The fiscal out-turns presented in Table and chart 11 above shows that the State's total revenues and total expenditures for the period of 2019-2023 maintained a close to straight line trend when measured as percentages of the State GDP. From total expenditure to GDP ratio of 4% in 2019, reaching a peak level of 6% in 2020 with a slight reduction to 5% in 2021 and 2022, then declined to 4 % in 2023. Similarly, total revenue to GDP ratio of the State remained constant at about 4% from 2019 to 2022 fiscal years and took an upturn to 5% in 2023. On the other hand, the ratio of primary and overall balance of the State refers 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 overall balance of 0 and primary balance of 0 in 2019 as a share of State GDP, the primary and overall balance is -2 each in 2020 fiscal year, the overall balance of -1 and the primary balance of 0 as a share of the State's GDP in 2021, -1 each in 2022 and 0 for both primary and overall balance in 2023. Though there is no given benchmark for acceptable level, yet a record of 0 ratio of primary balance to GDP is still impressive.

3.2. Existing Public Debt Portfolio

Public debts 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-2023 and its growth inthe last five years.

In her quest for development, Ebonyi state has continually increased her debt stock over the years. The state public debt stock amounted to ₦106 billion as at the end of 2023. Between 2019 and 2023, 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 2019 to 2023. All these repayments 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 86% in 2019, 76% in 2020, 72% in 2021 with and upsurge of 96% in 2022 and took a slight dip to 80% in 2023 fiscal years. From Chart 7 above, it canbe deduced that the debt stock as a share of revenue is sustainable since the benchmark is 200%.

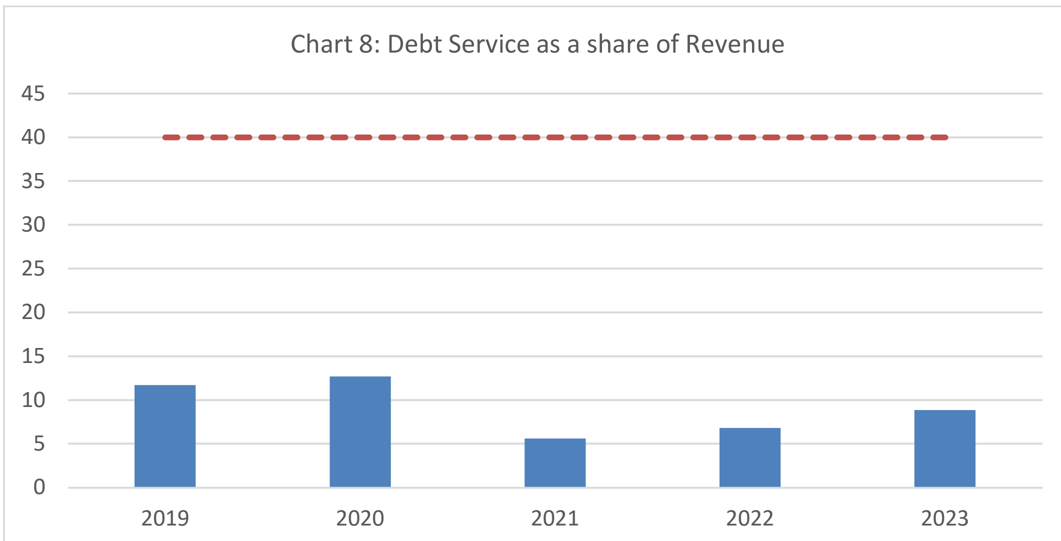
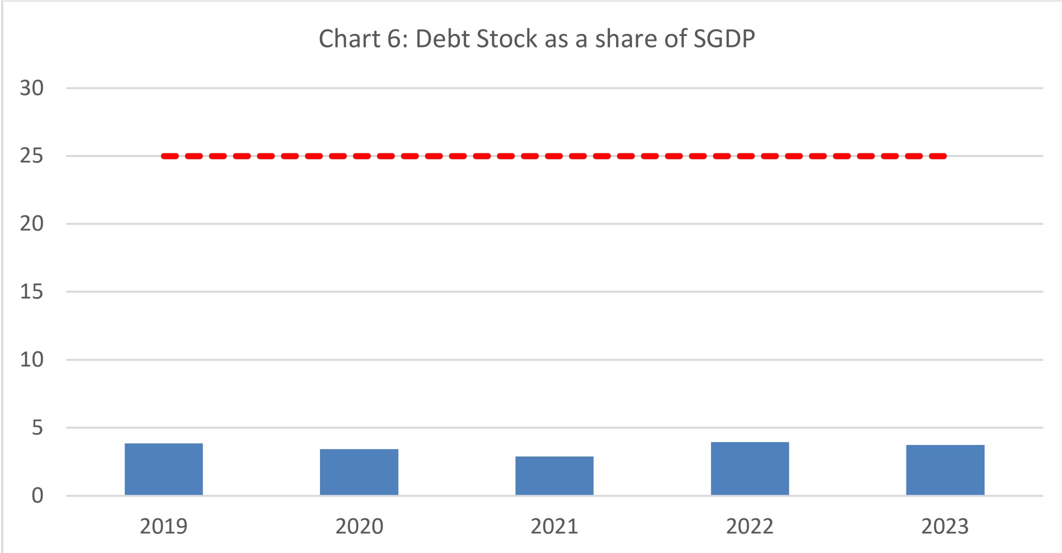
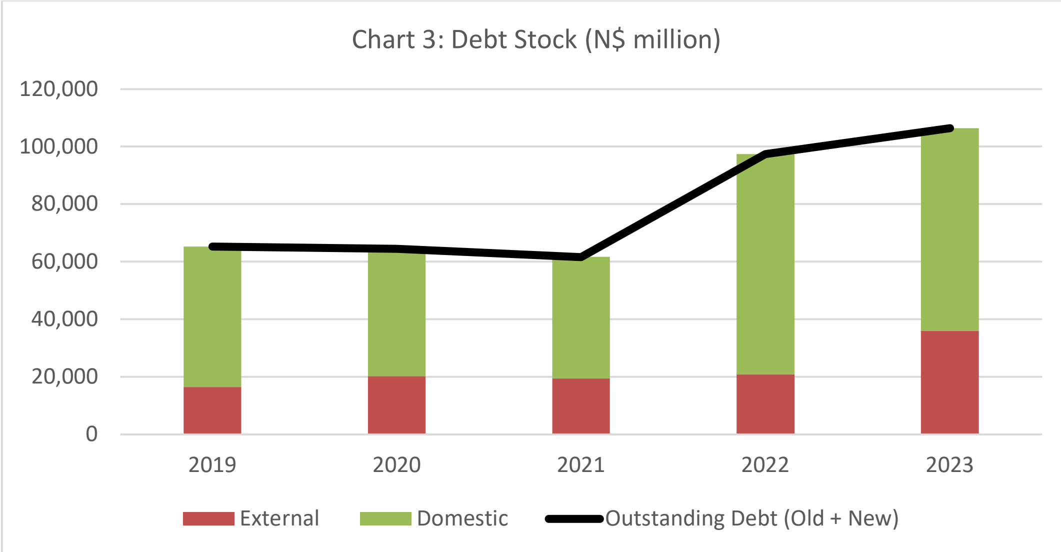


Chart 8 above shows the debt service within the analyzed years as sustainable. Between the years 2019 and 2023, the debt service as a share of revenue fluctuated from 6% to 13% with the lowest of 6% in 2021 fiscal year. With the threshold of 40%, Ebonyi State has shown sustainability in the prudence of managing her Finances. From the chart 6 below 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 between 3% to 4% from 2019 to 2023 with 4% maintained within the 2022 and 2023 fiscal years as seen in chart 6 below.



The existing public debt portfolio composition at end-2023.

The total debt stock of Ebonyi State was slightly high in 2019 fiscal year before falling gradually between 2020 and 2021 fiscal years. It however upswing by 57% in 2022 fiscal year from its 2021 value. That is ₦61 billion in 2021 to ₦97 billion in 2022. At the tail end of 2021 and 2022 fiscal years, the immediate past Administration foresaw the great need to complete all ongoing projects and also execute new ones that were of great importance to the growth of the State's economy before handing over to the new Administration. As a result of this, the State Government contracted some Commercial Bank and Federal Government Intervention loans, some of which includes; Commercial Bank Term loan of ₦8.5 billion, Federal Government Intervention loans like Bridging Finance of ₦18.225billion, Airport loan of ₦10 billion. This accounted for the large increase in the State's public debt in 2022 fiscal year, there is also a slight increase by 9% in 2023. This increase especially affected the Domestic Debt more than the External ones. Chart3 below shows that though there have been fluctuations in the State's total debt stock, yet the State's external debt stock has been on steady increase throughout the review period except for the slight drop in 2021.

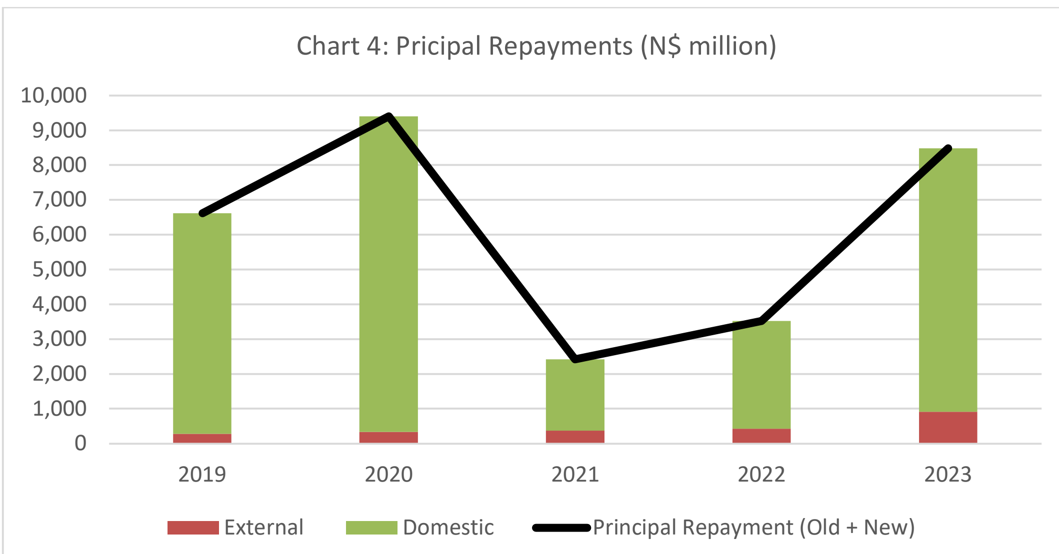


Precisely, the total debt stock of Ebonyi State Government decreased from the sum of ₦65 billion in 2019, ₦64 in 2020 and further to ₦61in 2021 decreasing by 4% 2021 when compared with 2020 fiscal year. The total debt stock rose by 58% in 2022 to the sum of ₦97 billion. The reason for this upsurge in debt stock is the borrowings made by the State Government to enable it complete the ongoing project. In 2023 Debt stock slightly increased by 9% to the sum of ₦106 billion with the same reason as above. Within the same period the external debt stock of the State had a galloping effect through the historical period under review. The external debt stock of 2023 which was the highest within the review period only contributed 34% of the total debt of the State. In overall, Ebonyi State borrowing requirement within the review period was majorly financed by Domestic Debt.

Cost and risks exposure of the existing public debt portfolio at end-2023.

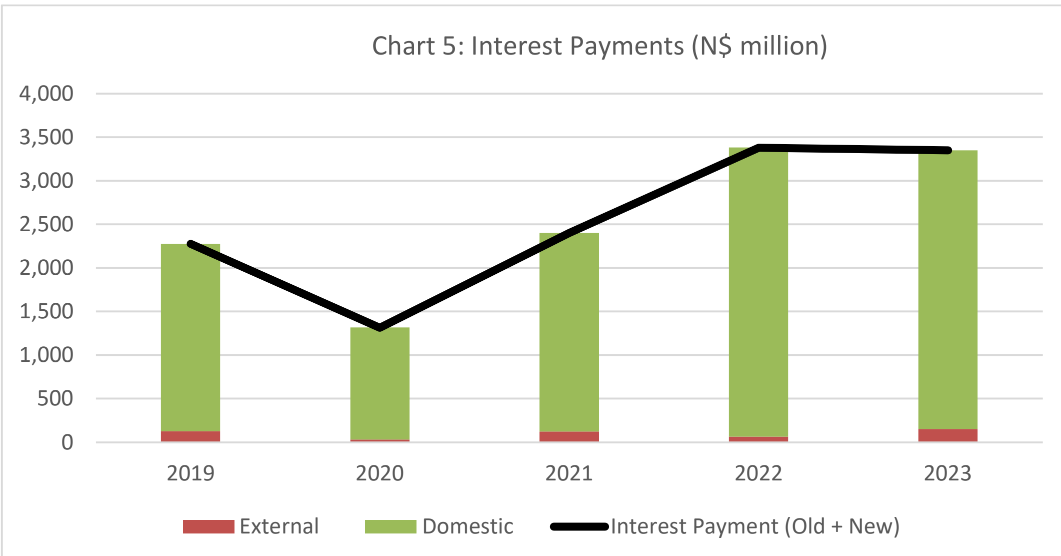
The consistent increases in the value and share of external debt stock of Ebonyi State almost throughout the review period may be attributed to the persistent devaluation of the Nigerian local currency (Naira) viz-a-viz other major currencies of international trade and foreign loans. Given the nature of the State's debt stock over the review period of 2019 – 2023, it is imperative toalso 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 problemas 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 from 2019 to 2020, the repayment fell in 2021 by 74% of its value in 2020 and slightly increased in 2022 by 46%. 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 external 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 decreased in 2020 when compared to 2019, because of the moratorium given to states in debt repayment during the Covid-19 pandemic. It took an upward turn within 2021 and 2022 fiscal years recording the highest increase in 2022. The increase in the interest payment in 2022 was contributed by the commercial bank loan that the interest payment was commenced immediately it was disbursed that same year, while the principal repayment was still under moratorium. However. There was a slight decrease in 2023 fiscal year by 0.9%.



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 description of the movement of interest payment is greatly determined by the movement on interest payment on domestic debt. 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 Service/ 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 2019 to 2023, 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 2020.

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 mostgovernments 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 2025-2027. As such, all Medium-Term Budget Forecasts of the State are based on the approved medium-term expenditure framework (MTEF) and the 2024 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 present the figures for the period covering 2025 – 2027 with the macroeconomic assumptions.

Table 2: Ebonyi State 2024 Budget

Item	**2024 Budget**
Assumptions:	
Oil price (US$/bbl.)	65.00
Oil production (national, Mbpd)	1.6000
Exchange rate (N/US$)	750
GDP growth (national, percent annual change)	3.00
Inflation (national, percent, annual average)	30.00
1. Opening Balance	**6,000,000,000**
2. Revenues and grants:	**175,627,918,907**
Gross (not net of deductions) Statutory Allocation	37,000,000,000.00
Derivation	-
Other FAAC transfers (exchange rate gain, augmentation, others)	34,820,918,907.00
VAT	36,500,000,000.00
IGR	25,100,000,000.00
Internal grants	22,607,000,000.00
External grants	-
Other Capital Receipts	19,600,000,000.00
3. Expenditures:	**202,127,918,907**
Recurrent expenditures:	69,323,178,907.00
Personnel costs (salaries, pensions)	28,162,078,907.00
Overhead costs	31,231,100,000.00
Public Debt charges (Interest payments on debt (or debt service), including FAAC deductions)	9,930,000,000.00
Contingency	1,000,000,000.00
Capital expenditures:	**132,804,740,000.00**
Administration	14,522,380,000.00
Economic	70,485,690,000.00
Law and Justice	1,459,000,000.00
Regional	667,900,000.00
Social	45,669,770,000.00
Contingency	
4. Balance (= (1+2-3))	**20,500,000000**

Table 3a: Ebonyi State Medium Term Expenditure Framework (MTEF) - Macro-EconomicFramework (2025 – 2027)

Macro-Economic Framework			
Item	**2025**	**2026**	**2027**

National Inflation	30.50%	27.50%	25.00%
National Real GDP Growth	3.50%	3.00%	3.20%
Oil Production Benchmark (MBPD)	1.7000	1.8000	1.9500
Oil Price Benchmark	$87.00	$85.00	$85.00
NGN: USD Exchange Rate	1360	1150	800
Other Assumptions			
Mineral Ratio	28%	28%	28%

The State medium term debt sustainability is dependent upon the recovery of the nation's economy which will lead to increase in FAAC allocations. The macroeconomic assumption for sustainability is based on maintenance of oil production to between 1.7000mbpd to 1.9500mbpdat the national level, inflation stood at 30.50% in 2025 and started deaccelerating from 27.50% to 25.00%, oil price benchmark stood at $87/bbl in 2025 and maintained $85/bbl in 2026 and 2027. NGN: USD exchange rate is ₦1360:1$ in 2025, downslide to ₦1150 in 2026 and ₦800 in 2027. It is also expected that shared resources such as VAT, receipt from custom duties, etc., will increase in the coming years.

Table 3b: Ebonyi State Medium Term Expenditure Framework (MTEF) 2025 – 2027

Fiscal Framework

Item	2025	2026	2027
Opening Balance			
Recurrent Revenue			
Statutory Allocation	154,792,497,183	154,095,898,415	145,182,786,517
VAT	71,110,463,909	106,605,975,236	155,111,606,995
IGR	27,987,244,979	33,584,693,975	40,301,632,770
Excess Crude / Other Revenue	17,642,873,559	17,819,302,295	17,997,495,318
Total Recurrent Revenue	**271,533,079,630**	**312,105,869,921**	**358,593,521,600**
Recurrent Expenditure			
Personnel Costs	31,229,363,596	34,352,299,956	37,787,529,952
Social Contribution and Social Benefit	4,605,689,985	5,066,258,984	5,572,884,882
Overheads	33,717,871,304	34,729,407,443	35,771,289,667
Grants, Contributions and Subsidies	34,965,313	43,706,641	54,633,301
Public Debt Service	6,946,967,442	4,661,379,519	3,449,639,310
Total	**76,534,857,641**	**78,853,052,543**	**82,635,977,112**
Transfer to Capital Account	**194,998,221,989**	**233,252,817,378**	**275,957,544,488**
Capital Receipts			
Grants	22,607,000,000	22,607,000,000	22,607,000,000
Other Capital Receipts	19,600,000,000	19,600,000,000	19,600,000,000
Total	**42,207,000,000**	**42,207,000,000**	**42,207,000,000**
Reserves			
Contingency Reserve	8,417,525,469	9,675,281,968	11,116,399,170
Planning Reserve	19,327,891,649	22,196,986,303	25,399,840,837
Total Reserves	**27,745,417,118**	**31,872,268,271**	**36,516,240,006**
Capital Expenditure	**229,959,804,872**	**264,087,549,107**	**302,148,304,482**
Discretional Funds	203,859,804,872	237,987,549,107	276,048,304,482
Non-Discretional Funds	26,100,000,000	26,100,000,000	26,100,000,000
Financing (Loans)	20,500,000,000	20,500,000,000	20,500,000,000
Total Revenue (Including Opening Balance)	**334,240,079,630**	**374,812,869,921**	**421,300,521,600**
Total Expenditure (including Contingency Reserve)	**334,240,079,630**	**374,812,869,921**	**421,300,521,600**
Ratios			
Growth in Recurrent Revenue	72.43%	14.94%	14.89%
Growth in Recurrent Expenditure	26.92%	3.03%	4.80%
Capital Expenditure Ratio	74.58%	76.38%	77.75%
Deficit (Financing) to Total Expenditure	6.13%	5.47%	4.87%
Deficit (Financing) to GDP Ratio	NA	NA	NA

State's revenue and expenditure policies going forward under the baseline scenario. The State Government budgeted ₦25 billion in 2024 fiscal year in IGR and projected to grow it by 12% to ₦28 billion in 2025 fiscal year; 20% in 2026 to ₦34 billion and 20% in 2027 to ₦40 billion as seen in the Budget and MTEF tables 2 and 3b. The assumption underpinning the Budget of 2024 is based on the oil price of 65.00US$/bbl, oil production at 1.6000mbpd, Exchange rate of NGN: USD 750:1, National GDP is 3% while inflation rate stood at 30%. IGR is projected to increase nominally within the period and it is projected to increase by 12% in 2025 from its 2024 budget figure, as a result of new revenue base from the infrastructural development already on ground in the State. Even though IGR is projected to grow at its nominal value at 10% from 2028 to 2033, the percentage growth to GDP growth is almost stagnated from 2024 through the remaining part of the projection period. The IGR of the State as a percentage of SGDP is predicted to rise slightly between 2024 and 2033 from 0.7% to 0.8%.

This projected slight increase in IGR is based on the fact that the new administration needs time to organize the revenue base and take their stand on the most resourceful revenue base that can favor the State Government and the citizens. The above projection is temporal pending thefinal decision of Government on the new IGR reform. It is expected that this projection will be reviewed in the subsequent years. It is also projected that the new administration in the State intends to employ workers and increase the salaries of existing staff within the period and the removal of oil subsidy suggests that there would be an increase in the cost of administration in the State. On this note, new policies are anticipated with regard to personnel and overhead costs, which are likely to improve on 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 makes up budget deficit. Tobe 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 35.9% 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 6-years and above 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, but will not be considered in this projection period because of its complexity. Commercial Bank Loans and Federal Government Intervention funds are the major domestic borrowing options that will be used for financing fiscal deficits within the projected period. It is also expected that there will be an increase of about 19% of the gross and planned borrowing need of the state in 2028 fiscal year when compared with 2027 fiscal year. Increasing from ₦24.9 billion to ₦29.6 billion (₦4.7 billion increase), this borrowing need will gradually increase from 2029 fiscal year until 2033 fiscal year when it is expectedto increase to ₦63 billion; which is 152% higher than gross and planned borrowing needs of 2027 (₦38 billion higher).

External Borrowing Option

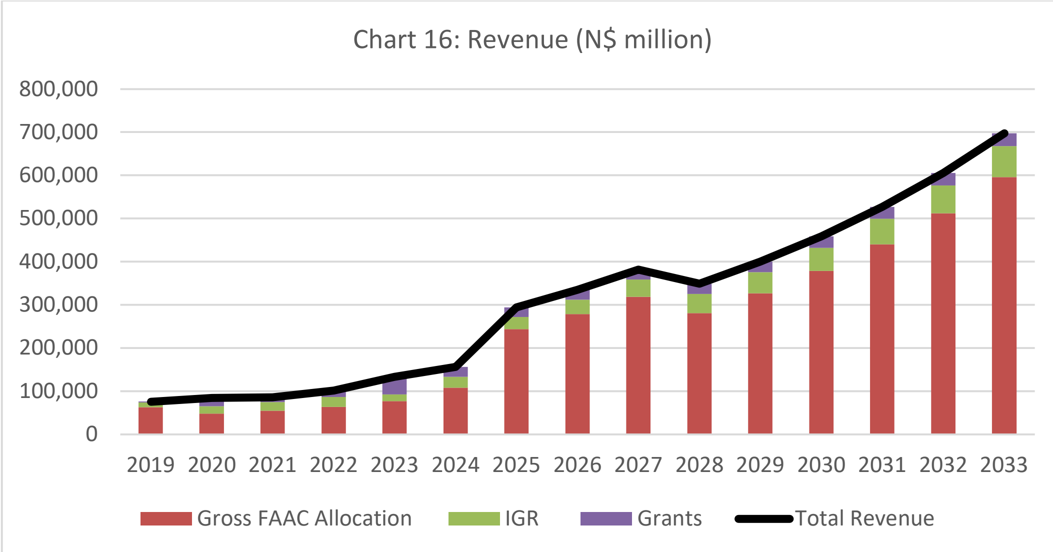
As inversely explained under domestic borrowing, external borrowing may be more difficult and take a slightly longer time to facilitate. However, external borrowing may be the most suitable for augmenting deficit arising from medium term budget forecast. The costs (interest rates and maturity period) 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 polices 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

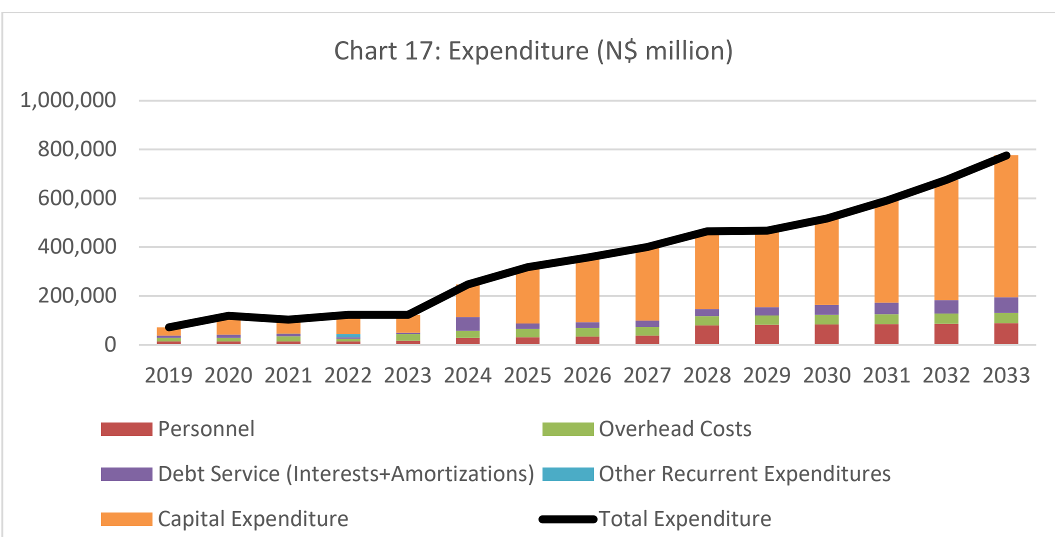
Ebonyi State Government has significantly invested in physical infrastructures so as to create conducive business environment for businesses to massively start up and thrive in the State. The massive start-up of businesses on one hand is expected to improve on the current level of labor force employment 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.



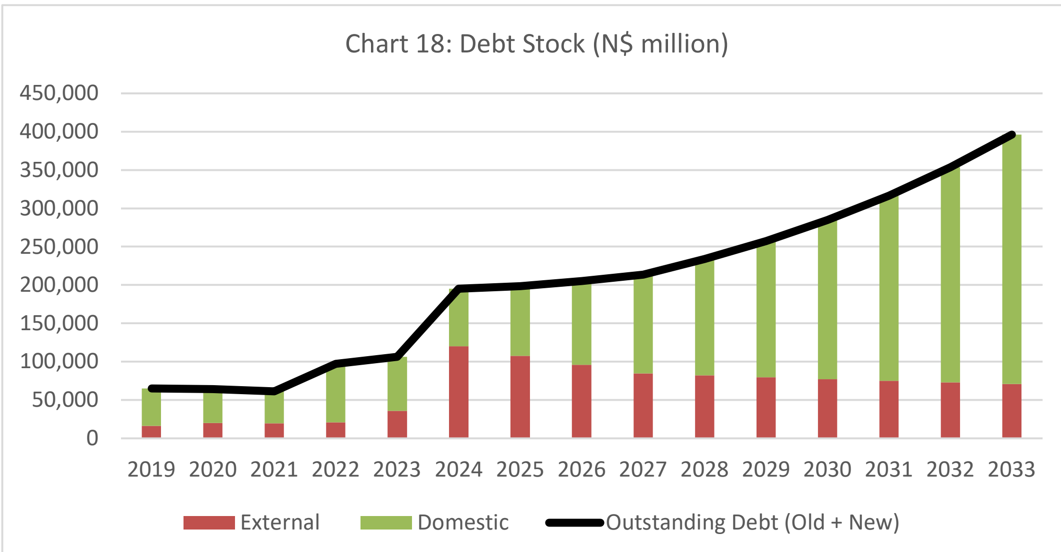
Revenue, Expenditure, Overall and Primary Balance Over the long-term.

Specifically, figure 16 above shows that the total revenue of the State Government is projected to increase from ₦156 billion in 2024 to ₦349 billion in 2028, representing an increase of about 124% or the sum of ₦193 billion over the five years period. The increase in the total revenue of the State within the five years period is explained by increasesin the State's statutory Allocation and her share of VAT Allocation, both of which more than tripled within the five-year period especially in 2027 fiscal year due to the expected flow of so much money into the Federal Government Treasury occasioned by the removal of oil subsidy by the Federal Government.On the assumption of office of the new regime, the President of the federal republic of Nigeria announced the removal of oil subsidy, this means that the huge amount of money that has been in use to cushion the effects of oil cost on the citizenry will now fall back into the coffers ofthe federal government treasury. It is expected that this fund will continue to be shared to the federal, State and Local Governments as allocation and this will go a long way to increase the allocation of the State government in 2025 fiscal year. It is also expected that the balance of the State Allocation after settling the recurrent expenditure will be used to establish industries and project that will generate more VAT Revenue. It is also envisaged that the flow of more funds into the public domain will also increase business activities that will also lead to increase in VAT revenue. On the other hand, IGR is projected to increase nominally within the period and it is projected to increase by 12% in 2025 from its 2024 budget figure, as a result of the massive infrastructural development already on ground in the State. Even though IGR is projected to grow at 20% from 2025 to 2027 and 10% from 2028 to 2033 in its nominal value,the real GDP value will be accelerating slowly from 2025 through the remaining part of the projection period.

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 ₦221.6 billion in 2029 to thesum of ₦415 billion in 2033, representing an increase of about 87% or the sum of ₦193.4 billion within the five years period. On the overall, the total revenue of Ebonyi State Government is projected to increase from the sum of ₦133 billion in 2023 to the sum of ₦415 billion in 2033. This projection represents an increase of about 127% or the sumof ₦282 billion within the ten-year period of 2024 – 2033. It is important to emphasize that within the projected period, IGR is expected to have a consistent growth in its nominal value from ₦25. billion to ₦71 billion between 2024 and 2033, but its percentage to total revenue will continued to reduce from 16% to 9.5% from 2024 to 2033. This reduction in IGR as a percentage of total revenue will soon be reversed as the new administration is critically reviewing the revenue reforms of the past administration and trying to establish atax base that will greatly improve the IGR without putting undue burden on the citizens and businesses that generate the revenue. It is expected that this down turn of IGR projection will be reviewed upward in 2025 SDSA/SDMS report when the new Government might have completed its review of the IGR reforms.



The total expenditure of Ebonyi State Government is projected to increase steadily from the moderate value of ₦123 billion in 2023 to the sum of ₦463.9 billion in 2028. This projected total expenditure of the State in 2028 represents an increase of 277% within a period of five years from the actual total expenditure of the State in 2023 fiscal year. Furthermore, the total expenditure of the State is projected to increase from the sum of ₦467 billion in 2029 to the sum of ₦775.6 billion in 2033 fiscal year. The 2033 value represents an increase of about 66% within the five-year period. Interestingly, capital expenditure is projected to account for 54% of total expenditure in 2024 and to have a steady increase up to 75% in 2027. It is also projected that it will reduce to 68% and 66% in 2028 and 2029. The reason for the decline is that the State Government is expected to shift emphasis from capital expenditure to personnel cost to be able to increase its minimum wage in line with the Federal Government decision to increase minimum wage after every three years. The increase in the ratio of capital expenditure to total expenditure in 2024 predicts that the new administration targets to finish all uncompleted projects of the past administration. It is projected that the State Government will focus more attention in human capital development and helping to improve the standard of living of the citizenry first before continuing with the capital expenditure. This attests for the decline on capital expenditure from 2028 and 2029, from 2030 to 2033 it is projected that there will be a continuous increase in the ratio of capital expenditure to total expenditure, since it is expected that the government will resume its infrastructural development in the state. Irrespective of the above stated decline in the percentage of capital expenditure to total expenditure in 2028 and 2029, the capital expenditure still has the highest percentage on the total expenditure of the State throughout the review period. 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 Overhead cost. Overhead cost rose from itsprojected value of 11.7% of the total expenditure in 2024 and continued to deaccelerate to its lowest level in 2033. Debt Service expenditure component is projected to decrease gradually from its high value of ₦57 billion in 2024 fiscal year to its lowest value of ₦22 billion in 2025 and rose again to its peak of ₦63 billion in 2033 fiscal year. It is important to emphasize that within the projected period; debt service is projected to increase in value. It is projected to account for only about 23% of total expenditure in 2024 fiscal year and maintained a downward trend up to 2028 and is expected to increase in 2029 and maintained a steady trend in its proportion up to 2033. This shows that the new administration has started clearing the accumulated debts of the past administration in the State. To be specific, arrears of gratuity and pension has been fully paid to deserving pensioners.



As shown in Chart 18 above, the total debt stock of Ebonyi State Government is expected to upsurge by 83% in 2024 fiscal year, after which it will move on a moderately increasing lane and continued to increase throughout the review period in line with the borrowing requirement.

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

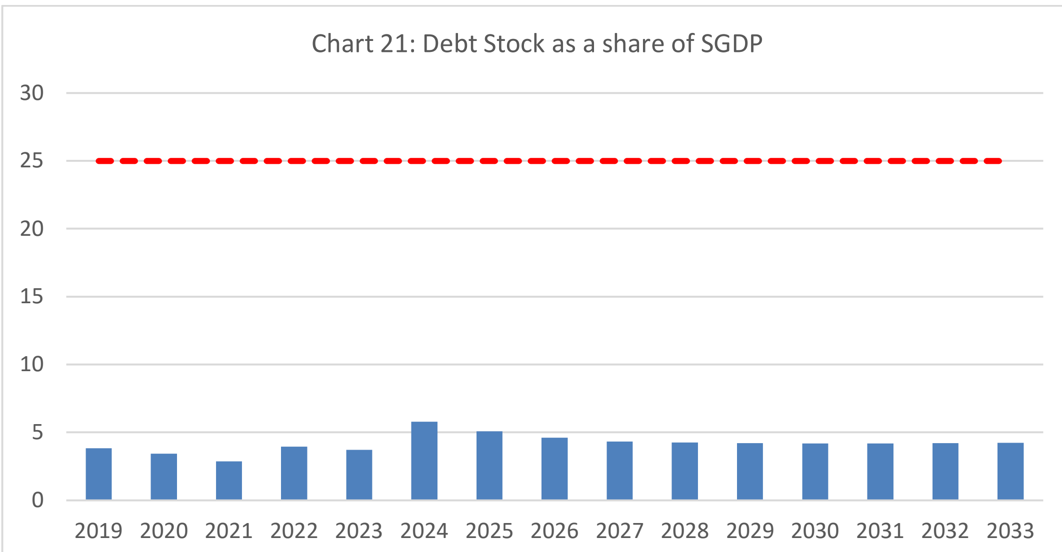
As earlier presented in Table 1 above, there are certain indicators for measuring the level of sustainability of the debt management systems of any Nigerian State. Figures 21 – 26 below present the results for Ebonyi State Government's debts across relevant indicators based on information supplied in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

Main Findings and conclusion of the Baseline Scenario

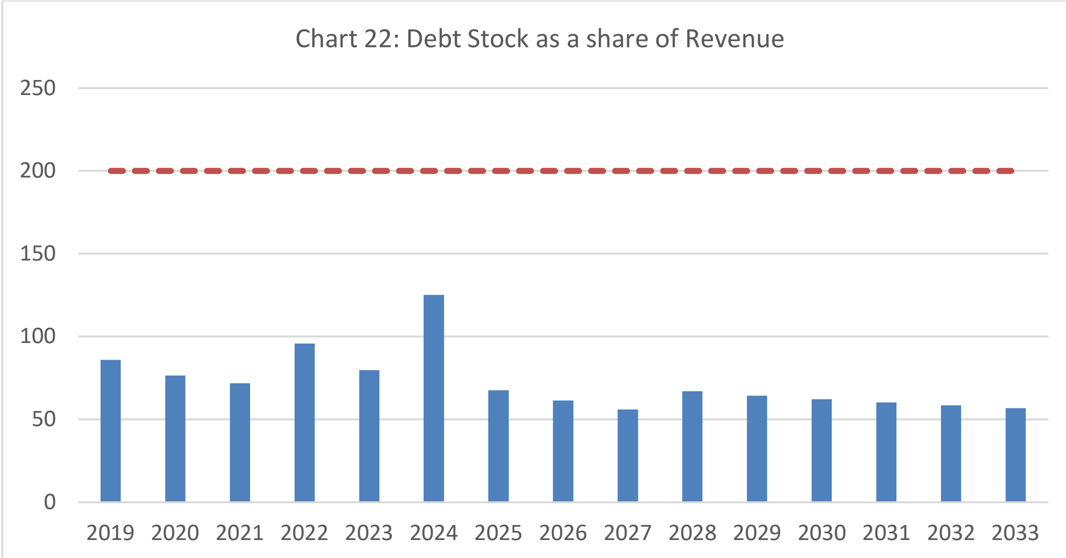
From figure 21 below, the indicative threshold/benchmark for the indicator of State's debt stock as a share of the State's GDP is 25% (as represented by the red dotted line in the Chart).

However, the debt stock of Ebonyi State Government is projected to consistently remain lessthan 10% of the State's GDP throughout the projection period of 2024 – 2033 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 2024 – 2033 as shown in the figure below. Between 2024 - 2030 fiscal years, the debt stock to GDP is projected at 6% and to slightly reduce to 5% between 2025-2026 and maintained 4% ratio throughout the remaining projection period of 2027 to 2033 fiscal years.

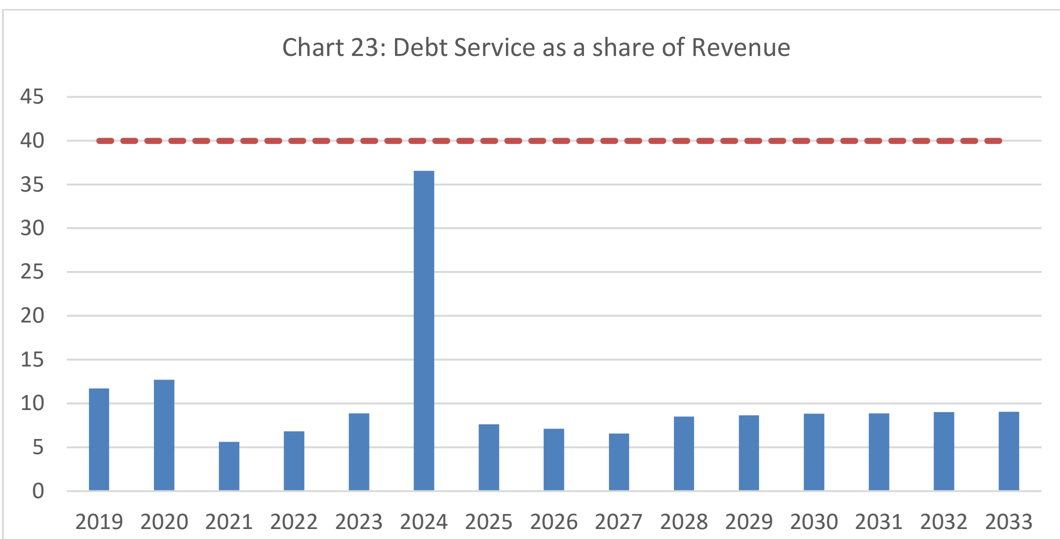
Even with the increase of 6% in 2024, the indicator still shows that Ebonyi State debt is very sustainable.



Another important indicator of debt sustainability is debt stock as a share of revenue. Figure22 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 100% of the State's revenue throughout the projection period of 2024 – 2033 fiscal years, except for 2024 which is projected to 125% due to the debt nil off exercise of the Federal Government. In all this movement, the indicator shows that the State's debt is still very sustainable.



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 upswing to 37% in 2024 and dropped to its lowest of 7% in 2027 and picked up slightly in 2028 and maintained its 9% level from 2029 to 2033. This implies that, the upward movement of the State's debt service obligation will still be within a sustainable level throughout the medium-term period of 2024 – 2033 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.

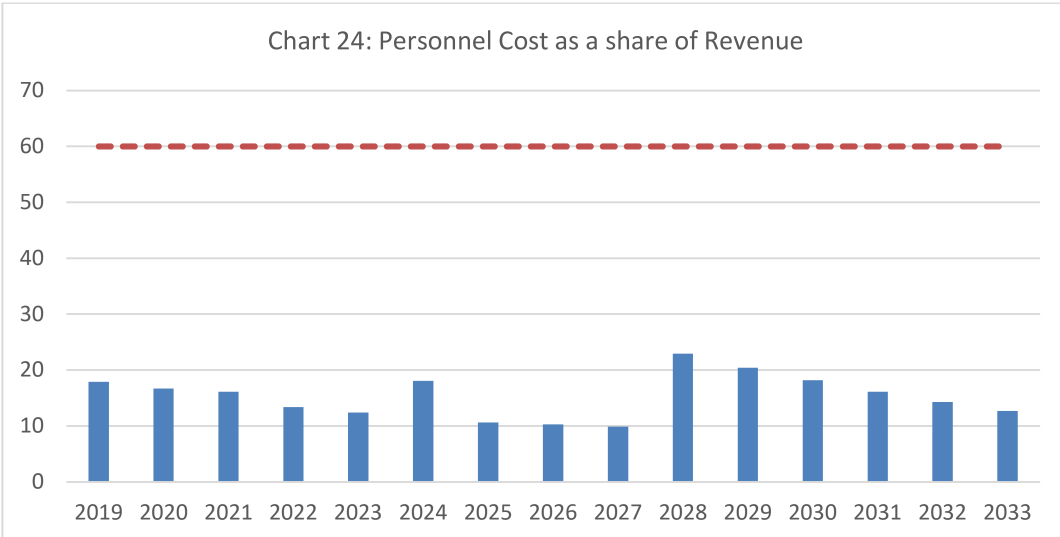
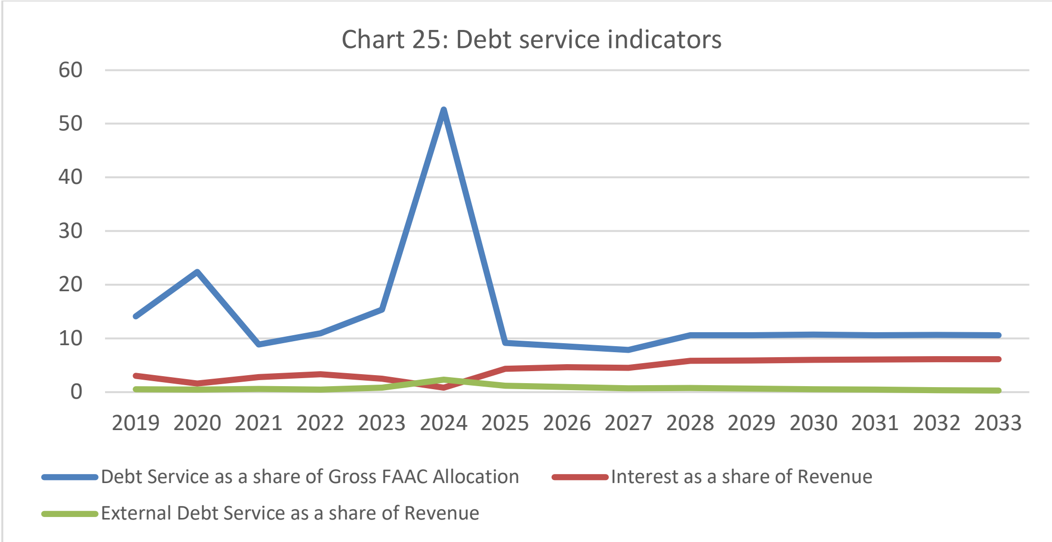
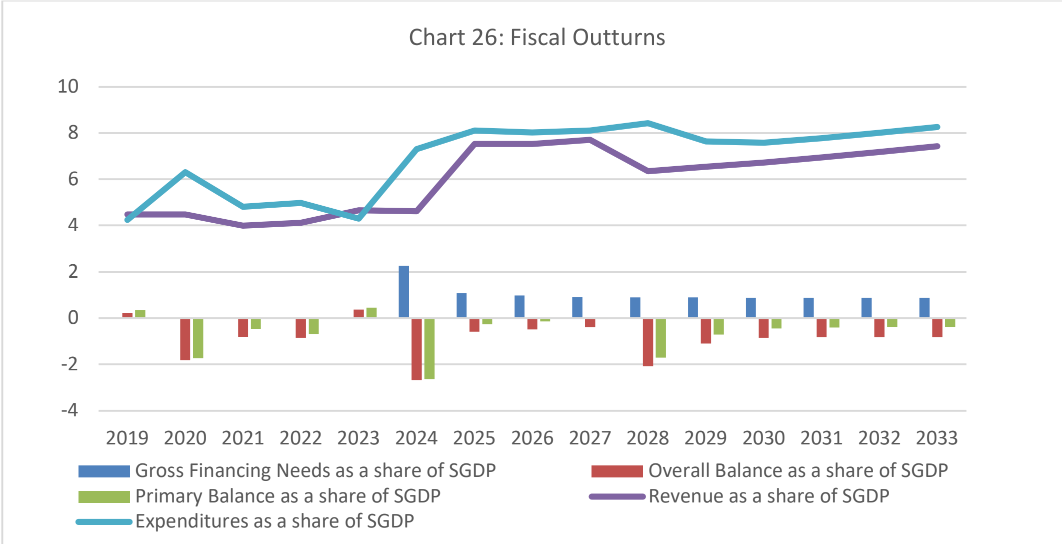


Figure 24 above presents the indicative threshold of Ebonyi State's personnel cost as a share of the State's revenue to be 60% (represented by the dotted line). However, the bars in the figure show that throughout the projected period of 2024 – 2033 fiscal years, the personnelcost of Ebonyi State Government will not exceed 23% of the State's revenue. At such level, the projected performance of Ebonyi State Government on this indicator is lower than half ofthe 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 take an upturn to 53% in 2024 as a result of the nil off mentioned above, and also projected to take almost a straight-line level throughout 2025 to 2033.

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 move from the ratio of 7% in 2024 and moved to 8% in 2025 where it is expected to hover throughout the projection period. On the other hand, the State's revenue to GDP ratio will move from 5% in 2024 and moved to 8% in 2025 to 2027, came down to 6% in 2028 and hover at 7% between 2029 - 2033 fiscal years. As a result of the situations of revenue and expenditure in the State, primary balance and overall balances will turn negative from 2024 – 2033 fiscal years creating room for borrowing to fill up the fiscal gap. However, from 2025 to 2027 fiscal years, the balance will be at zero level.



Conclusion of the Baseline Scenario

From all the discussions of the findings of the baseline scenario, it is clear that Ebonyi State Government operates and will continue to operate within a very sustainable level of debt management. This is because for all the indicators of debt sustainability, the State will operate within their indicative thresholds. However, it is important to point out that Ebonyi State should continue to improve on its revenue generation strategies so as to maintain its debt sustainability level going forward.

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 2024 – 2033. 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.

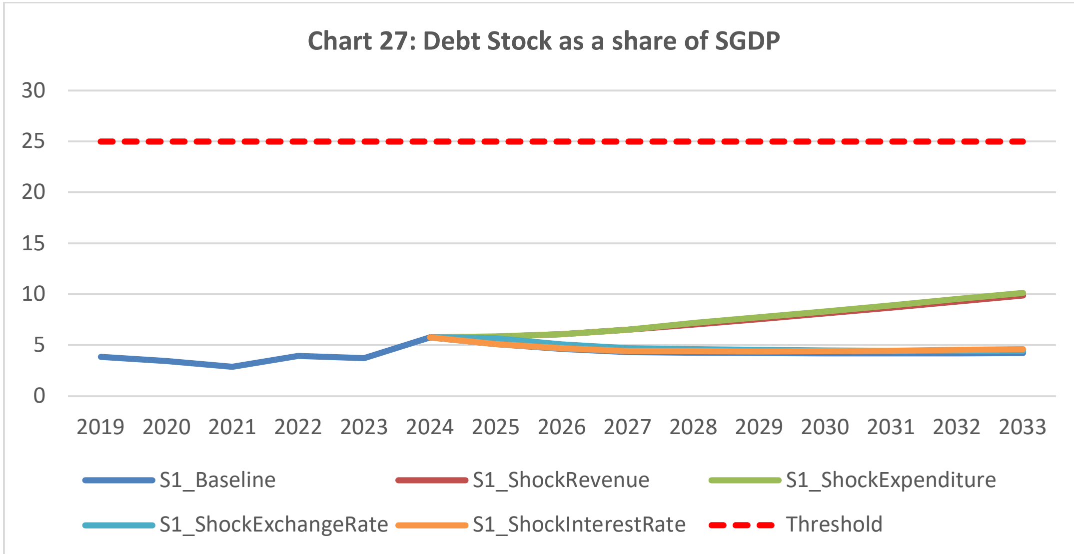


Chart 21 earlier shows that Ebonyi State Government's projected debt stock as a share of the State's GDP will remain much lower than threshold of 25% throughout the projection periodof 2024 – 2033 fiscal years. Similarly, Chart 27 above shows that even with interest rate and exchange rate shocks, the performance of this indicator remains sustainable throughout the projected period of 2024 – 2033 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 Chart 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 2024 and 2033 fiscal years.

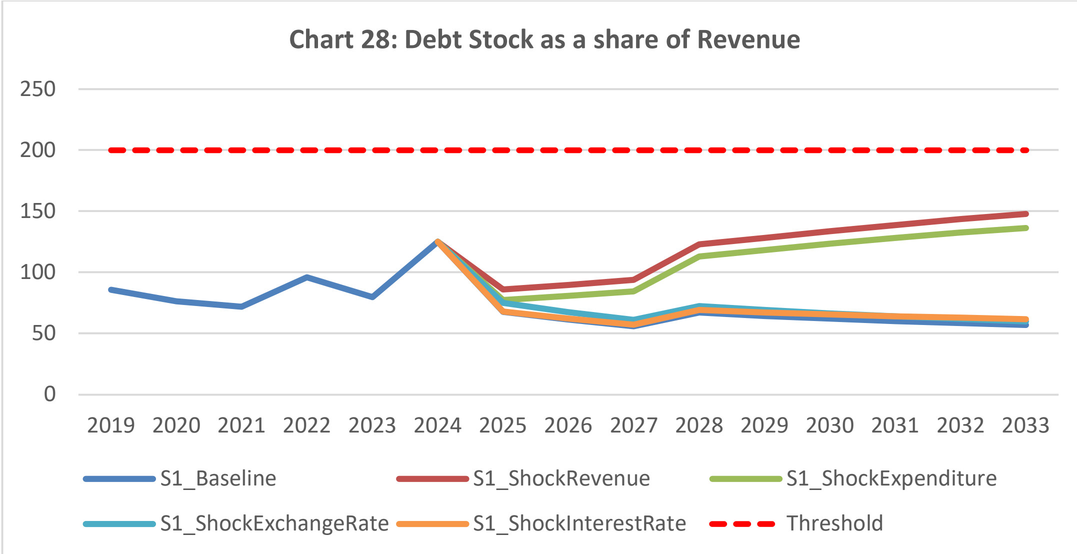
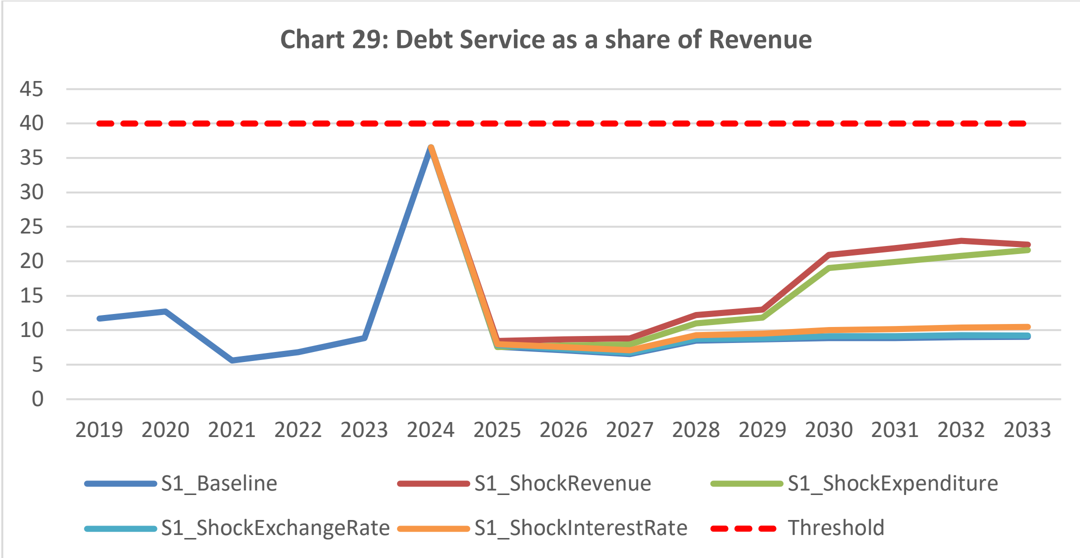


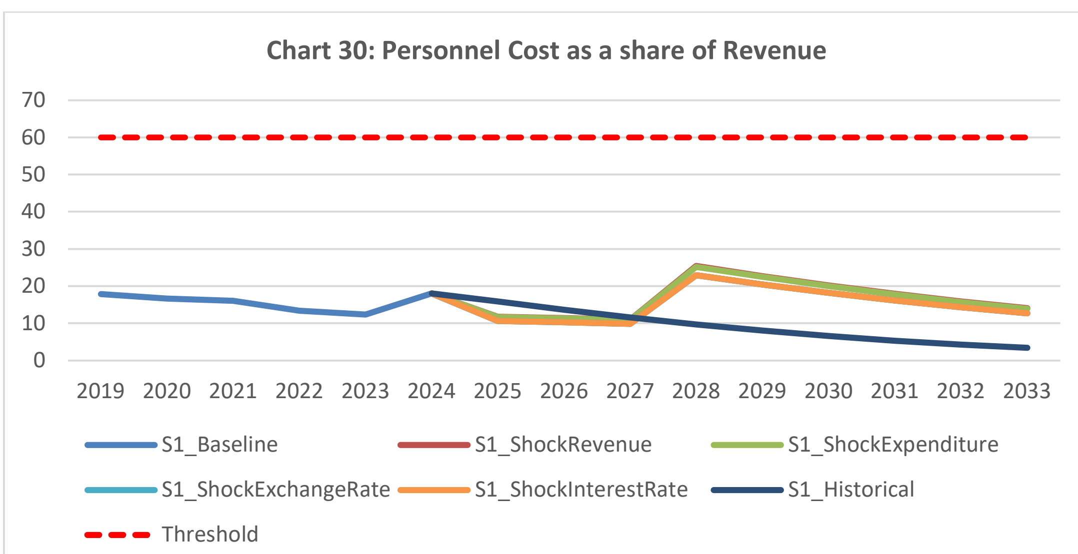
Chart 22 earlier shows that Ebonyi State debt stock as a share of the State's revenue will remain much lower than threshold of 200% throughout the projection period of 2024 – 2033 fiscal years. Similarly, figure 28 above shows that even with all the shocks (revenue, expenditure, interest rate and exchange rate shocks), the performance of the State on this indicator remains sustainable throughout the projection period of 2024 – 2033 fiscal years. 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.

Chart 23 earlier shows that without any shocks, Ebonyi State debt service as a share of the State's revenue is sustainable and well within the threshold of 40%, throughout the projection period. Chart 29 below shows that even 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 be sustainable within the threshold of 40% from 2024 – 2033.

Chart 29 further shows that apart from the upsurge in 2024 as a result of the nil off, the performance indicator in the remaining review period is very sustainable. The overall performance of the State on all indicators of debt service to revenue ratio is within the threshold of 40% during the projection period of 2025 – 2033 fiscal years.



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. Therefore, all indicators remain sustainable and even more sustainable of the indicators even when the shocks are introduced. In fact, the performance is projected to be below 30% throughout the projection period of 2024 – 2033 fiscal years. Onthe other hand, the threshold is set at 60%. This means that the projected performance is lower than half of the threshold throughout the projection period of 2024 – 2033 fiscal years.



To restore and subsequently maintain sustainability, Ebonyi State Government is planning toimplement 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 favorable 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 (Commercial Bank Loans and Other Domestic Financing)

There are several options for domestic borrowing, but the first option to be considered withinthe projected period is a combination of the two major options (Commercial bank loans, and Other Domestic Financing), where other domestic loans will constitute a higher portion of the financing needs. Commercial bank loans will be the major source of this financing strategy.

In this report, Commercial Bank Loans are mainly made up of short-term loan that usually come at ***interest rate of 35.9% per annum and maturity period of 1-5 years*** and long-term loans that are usually contracted with ***29.10% Interest rate and 10 years maturity*** period, that does not necessarily need many procedures to facilitate as the need for deficit financing arises. This category will account for up to about 40% of the entire borrowing needs of the State within the forecast period. 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 this 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 bank loans also come with shorter grace period (if any).

Within this Strategy 1 (S1), the first source of financing would be commercial bank loans at an ***interest rate of 29.10% per annum and maturity period of 6 years or longer*** while the second source of financing for the strategy would be other domestic financing. They are 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. With a ***maximum of 9% interest rate, with 30 years maturity period*** and 2 years grace period. Therefore, going by the interest rates and maturity periods, this financing option of Strategy 1 (S1) should have been the best component and have constituted 100% of the entire financing needs. The reason for choosing these two sources of financing is to make sure that the State is not stranded of a source of finance, so that if one fails, the other one will be available.

Strategy 2 (S2) – Domestic (Commercial Bank Loans and Other Domestic Financing)

This second Strategy (S2) considers financing all the fiscal gaps from commercial bank loans of a maximum of 35.9% per annum and 5 years maturity period. This source of financingoption is a short term commercial bank loan of 1-5 years maturity with no grace period. Strategy (S2) is also projected to have an alternative source of financing which is Commercial bank loans that are facilitated by the Federal Government of Nigeria as budget intervention funds as explained in S1 above. Their interest rates are usually at ***maximum of 9% per annum, with maturity periods of up to 30 years*** and sometimes may give up to 2-year grace period. Givenits relatively lower costs (interest rate and maturity period), this should have been the first option 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 borrowingoption 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 tobe accessed by the State Government at any point of need. This is why it is considered as the second option in this strategy given its uncertainties.

Strategy 3 (S3) – Domestic (Commercial bank Loans) & External (Concessional Loans)

This strategy is projected to source the financing of Ebonyi State financial gap from two sources like other Strategies as follows: 1. Commercial bank long term loans with a maximum of ***29.10% interest rate per annum and 10 years maturity period without grace period.*** This has already been described in (S1) alternative source of financing above. 2. Another financing option projected for (S3) 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 ***2% interest rate with maturity period of upto 40 years*** and 10 years grace period. 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 externalloans are tied to specific projects/programs and affected by fluctuating exchange rates.

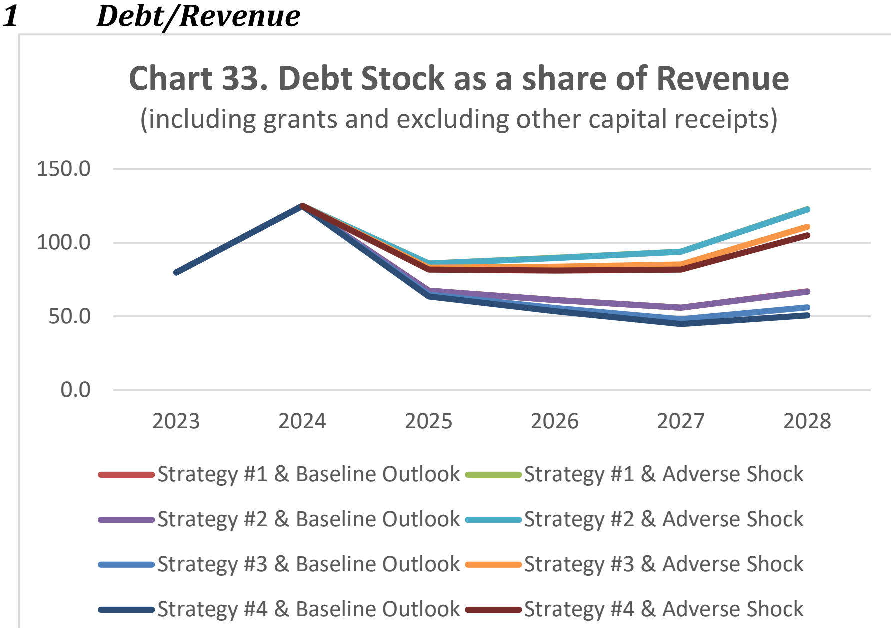
Strategy 4 (S4) –Domestic (Other Domestic Financing) & External (Concessional Loans –World Bank, AfDB, etc.)

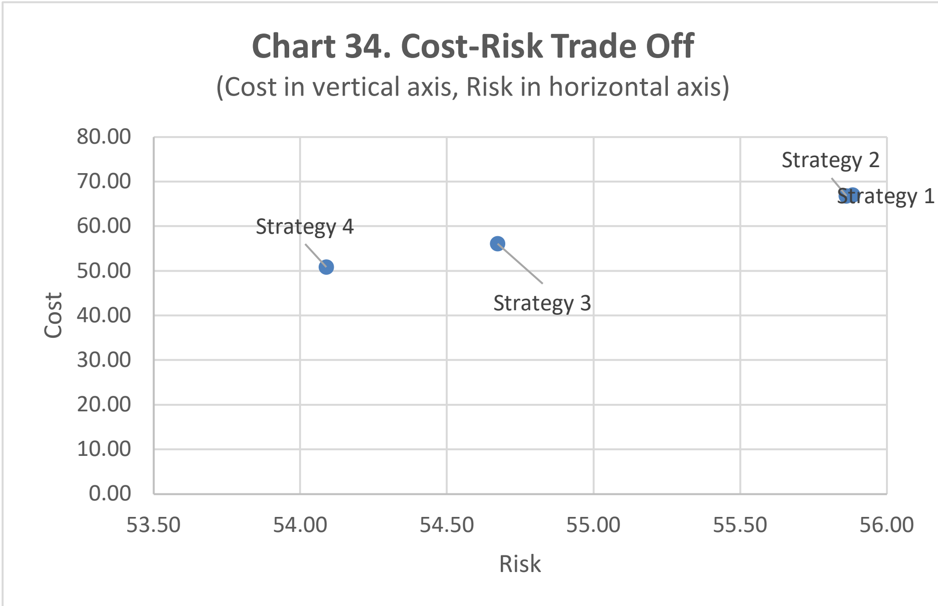
The fourth strategy for financing Ebonyi State fiscal deficit within the projection period of 2024 – 2033 also has two alternative sources. The first one is borrowing from ***Federal Government Intervention Fund*** which is Commercial bank loans facilitated by the Federal Government of Nigeria and disbursed by the Federal Ministry of Finance and the Central Bank of Nigeria which fall under other domestic financing as described in the second source of financing in strategy 2 above and borrowing from ***External Sources*** as described in the second source of strategy 3 above.

5.2 DMS Simulation Results

With the strategies already identified, it is important to critically analyze how each of them compares 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



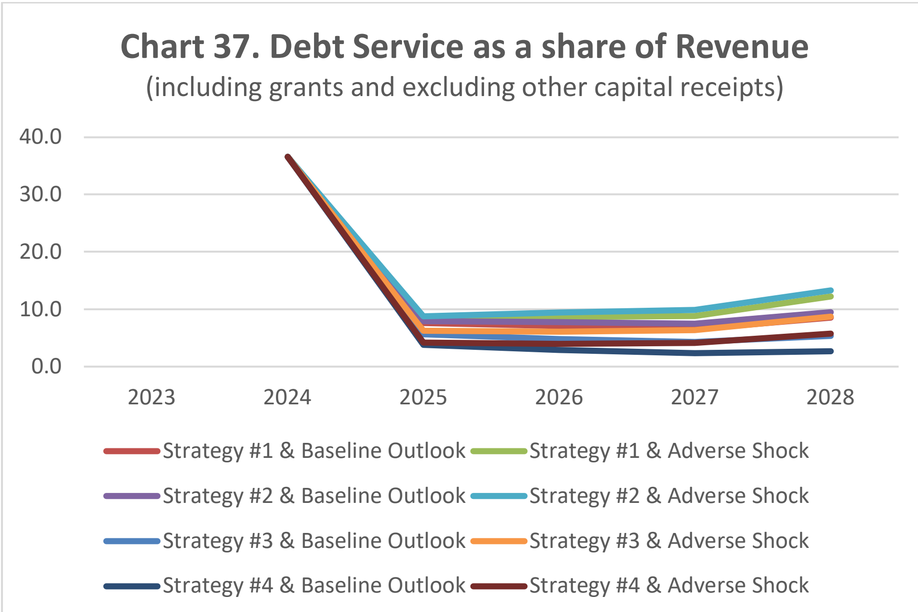


In Chart 33 above, it is clear that with all the four Strategies (S1 – S4), debt stock to revenue ratio stood at 79.7% in 2023. Going by baseline scenario, the projected debt stock to revenue ratio of the State Government will remain within sustainable level across each of the four Strategies (S1, S2, S3 and S4) for the medium-term period of 2024 – 2028 fiscal years. Precisely, the baseline scenario ratio is projected to hover far below 150% (which is lower than the threshold of 200%) for the medium-term period of 2024 – 2028 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 2024 – 2028.This is showing that the State is still sustainable even when adverse shock is applied.

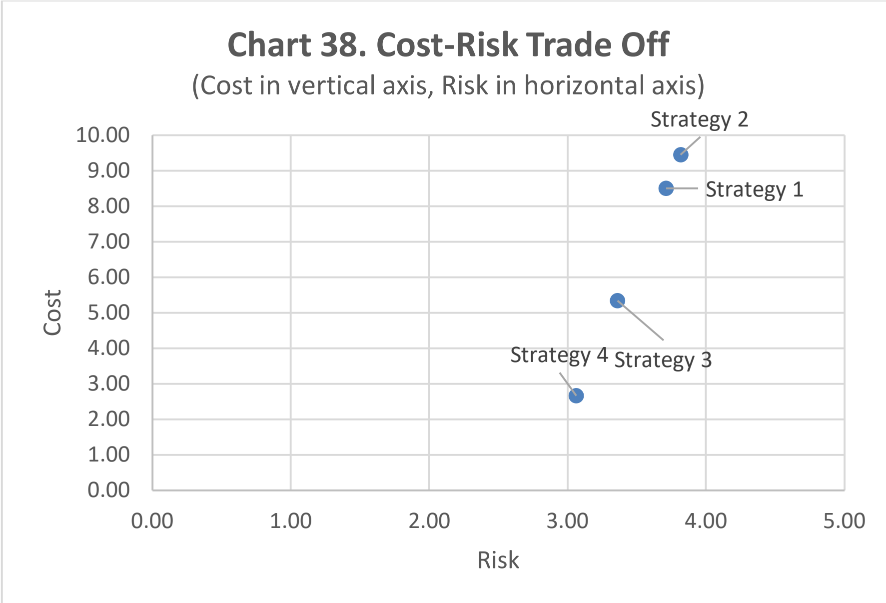
Chart 34 equally shows that though the cost of Strategy 1 is the second highest across board, it also has the highest risk in 2028. On the other hand, Strategy 3, which has the lowest comparative cost, also comes with the lowest risks (including exchange rate volatility risk). Strategies S3 and S4 are the lowest. Strategies S1 and S2 are the highest (both in terms of risks and costs).

5.2.2 Debt Services/Revenue

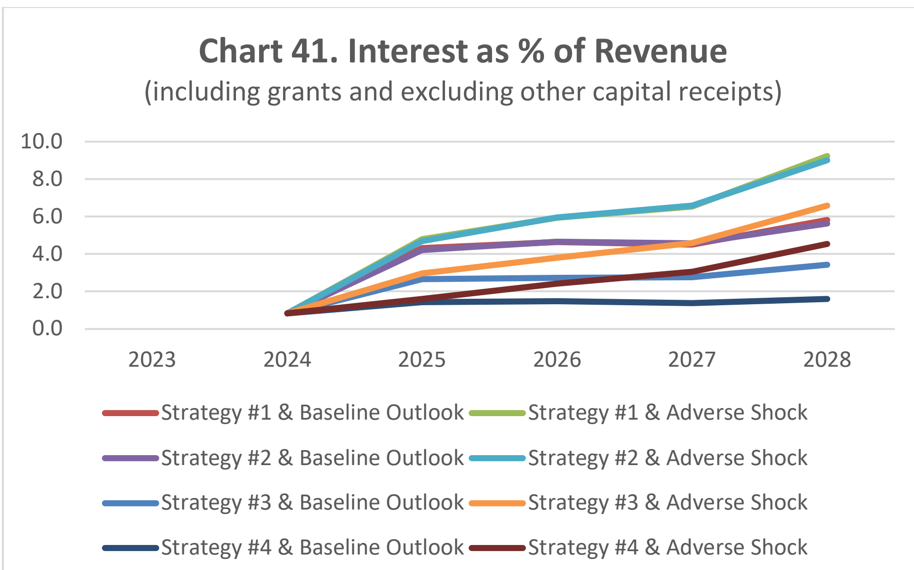
From Chart 37 below, it is clear that with the four Strategies (S1 – S4), projected debt serviceto revenue ratio will remain within sustainable level (i.e. below 40% threshold) throughout the medium-term period of 2024 – 2028. Across these four Strategies (S1, S2, S3 and S4), the projected debt service to revenue ratio of the State Government whether by baseline scenarioor with adverse shocks will still remain below 20% (which is far lower than the threshold of 40% for this indicator) for the medium-term period of 2024 – 2028 fiscal years.

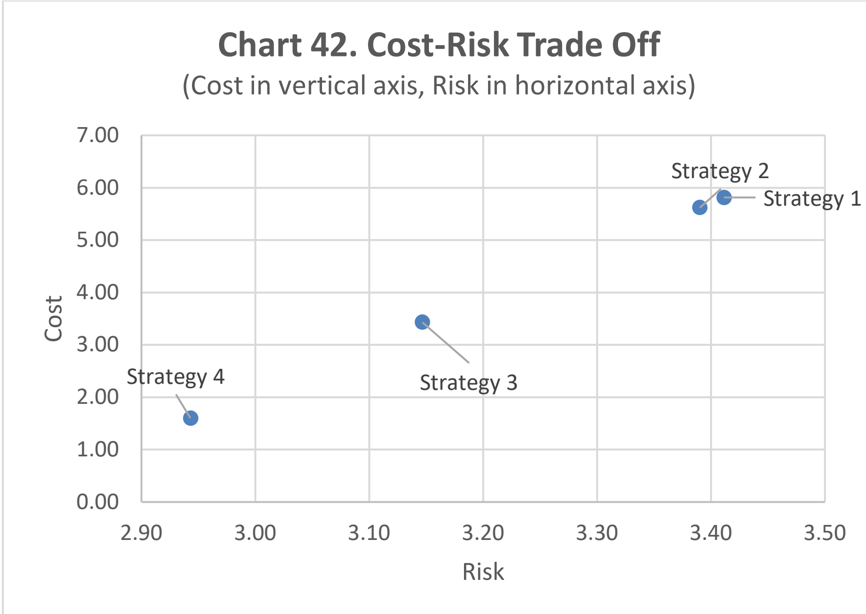


On its own, Chart 38 below shows that the cost and associated risks of Strategy 2 are the highest in 2028 fiscal year. The highest risk may be as a result of the high interest rate and no grace period associated with this source of financing within this strategy and the cost of accessing the short term Commercial bank loans. On the other hand, Strategy 4,which has the lowest comparative cost, also comes with the lowest risks (including exchange rate volatility risk). Strategy 3 presents the second lowest cost and risk after Strategy 4. Strategy 1 presents the second highest risk after Strategy 2 which has the highest risk and cost, also the second highest cost after strategy S2.



5.2.3 Interest/Revenue





In Chart 41 above, it is clear that with Strategy 4, 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 2024 – 2028 fiscal years. Strategy S3 presents the second lowest projected interest to revenue ratio for the period of 2024 – 2028 fiscal years. On the other hand, Strategies1 and 2 present the highest level of interest to revenue ratio throughout the projection period of 2024 – 2028 fiscal years. It is not surprising because the interest rates of 2% and 9% of Strategies 4 and 3 really differ from the interest rates of 29.10% and 35.9% for Strategies 2 and 1. Following the discussion on Chart 41 above, Chart 42 also follow same trend as Chart 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 2028 fiscal year. On the other hand, Strategies 2 and 1, which present the highest cost (in terms of interest obligations) also, come with the highestlevel of associated risks. Strategy 3 presents mid-level cost alongside mid-level risks, coming after S4 in both cost and risk.

5.2.4 DMS Assessment

The DMS simulation results presented and analyzed in the previous subsections suggest that Strategy 4 is the best strategy with the lowest costs across various benchmarks. But the Strategy 4 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 1 and 2, which present the highest levels of risks also present the highest cost for most parts of the projection period. Across the benchmarks, Strategy 3 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. S2 should have made the best strategy to consider based on the fact that S2 is the most feasible Strategy at the shortest possible time. But as earlier explained, Strategy 2 is considered the costliest 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 (3 & 4) but is also applicable to strategy 1. **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 1 as the preferred strategy.** The choice of this Strategy (S1) is made strictly on the basis of the Strategy which e**ven though has relatively high cost and risk but** 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
State GDP (at current prices)	As reported by NBS and WBG	Debt Management Office, Abuja
Revenue		
1. Gross Statutory Allocation ('gross' means with no deductions; do not include VAT Allocation here)	Projections based on 2024 Budget, the State MTEF 2025-2027 for years 2025 to 2027, then projection from FG MTEF 2024 -2026 for 2028 to 2033	Office of the Accountant General
1.a. of which Net Statutory Allocation ('net' means of deductions)	Projections based on the difference between Gross Statutory Allocation projected and the deduction of loan principal and interest from amortization schedule from 2024 - 2032.	Office of the Accountant General
1.b. of which Deductions	Deductions are based only on agreed loan principal and interest in the amortization schedule.	Office of the Accountant General
2. Derivation (if applicable to the State)	Nil derivation for none oil producing State	
3. Other FAAC transfers (exchange rate gain, augmentation, others)	Projections are based on 2024 budget, MTEF Figures from 2025-2027 and then Projected 2% annual growth rate from 2028 to 2033	Office of the Accountant General
4. VAT Allocation	Projections based on 2024 budget for 2024, then EBSG MTEF figures from 2025 to 2027, 2028 to 2033 are based on the FG MTEF figures	Office of the Accountant General
5. IGR	Projections based on 2024 budget for 2024, then State MTEF figures from 2025 to 2027, yearly increase of 10% from 2028 to 2033	Office of the Accountant General
6. Capital Receipts		

6.a. Grants	Expected from sources like UBEB, COPREP, TETfund, PHCDA, INFRASTRUCTURE GRANTS etc. from 2025 to 2027 is projected using MTEF Figures, then annual increase at the rate of 2% from 2028 to 2030, 5% from 2031 to 2033	Office of the Accountant General
6.b. Sales of Government Assets and Privatization Proceeds	N/A	Office of the Accountant General
6.c. Other Non-Debt Creating Capital Receipts	Projected to be Same value per annum throughout the projection period	Office of the Accountant General
Expenditure		
1. Personnel costs (Salaries, Pensions, Civil Servant Social Benefits, other)	Populated with the MTEF Figures from 2025-2027, then Projected to increase by 112% in 2028, 2% increase from 2029 to 2033	Office of the Accountant General
2. Overhead costs	Projected to increase at the rate of 3% yearly from 2028 to 2033	Office of the Accountant General
3. Interest Payments (Public Debt Charges, including interests deducted from FAAC Allocation)	Projected in line with the interest figures in the Loan Amortization Schedules	Office of the Accountant General
4. Other Recurrent Expenditure (Excluding Personnel Costs, Overhead Costs and Interest Payments)	N/A	Office of the Accountant General
5. Capital Expenditure	Populated using MTEF figures from 2025-2027, then estimated to increase at an average rate of 5% in 2028, 1.3% in 2029 and 18% increase from 2030 to 2033	Office of the Accountant General
Closing Cash and Bank Balance	This is determined by the difference between total revenue and total expenditure all through the projection period	
Debt Outstanding at end-2023		

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 with disbursing banks	Quarterly reports to DMO
New debt issued/contracted from 2024 onwards		
New External Financing		
External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	2% interest rate, 40 years maturity period and 10 years grace period.	Office of the Accountant General
External Financing - Bilateral Loans		
Other External Financing		
New Domestic Financing		
Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)	35.9% interest rate, 5 years maturity without any grace period.	Office of the Accountant General
Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)	29.1% interest rate, 10 years maturity period and no grace period.	Office of the Accountant General
State Bonds (maturity 1 to 5 years)		
State Bonds (maturity 6 years or longer)		
Other Domestic Financing	9% interest, 30 years maturity period and 2 years grace period.	Office of the Accountant General

Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S1

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)	29.1% interest rate, 10 years maturity period and no grace period.	Office of the Accountant General
State Bonds (maturity 1 to 5 years)		
State Bonds (maturity 6 years or longer)		
Other Domestic Financing	9% interest rate, 30 years maturity period and 2 years grace period	Office of the Accountant General
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		
Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S2		
New Domestic Financing in Million Naira		
Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)	35.9% interest rate, 5 years maturity without any grace period	Office of the Accountant General

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	9% interest, 30 years maturity period and 2 years grace period.	Office of the Accountant General
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		
Planned Borrowings (new bonds, new loans, etc.) for 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)	29.1% interest rate, 10 years maturity period and no grace period.	Office of the Accountant General

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)	2% interest rate, 40years maturity period and 10 years grace period.	State Ministry of Finance
External Financing - Bilateral Loans		
Other External Financing		
Planned Borrowings (new bonds, new loans, etc.) for 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	9% interest, 30 years maturity period and 2 years grace period.	Office of the Accountant General

New External Financing in Million US Dollar		
External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	2% interest rate, 40years maturity period and 10 years grace period.	State Ministry of Finance
External Financing - Bilateral Loans		
Other External Financing		

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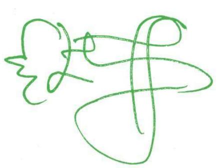

Dr. Leonard C. Uguru
Hon. Commissioner for Finance and Economic Development.