DEBT MANAGEMENT OFFICE
NIGERIA

SFTAS
States Fiscal Transparency, Accountability and Sustainabilty

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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1. INTRODUCTION

1.1 Background

Ebonyi State Debt Sustainability Analysis (DSA) analyses trends and patterns in the State's public finances during the period 2016-2020 and evaluates the level of debt sustainability for the period of 2021-2030 (the long-term). The analysis highlights recent trends in revenue, expenditure, and public debt, and the related policies adopted by the State. The State Debt Sustainability Analysis (S-DSA) Toolkit was developed by Debt Management Office, Nigeria and reviewed by the World Bank. A debt sustainability assessment is conducted, including scenario and sensitivity analysis, in order to evaluate the prospective performance of the State's public finances.

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

1.2 Summary of Findings

Historic data of revenue, expenditure and public debt were obtained for the State's DSA-DMS and analysed from 2016 to 2020 and projections for the years 2021 to 2030 were obtained from this analysis using the appropriate assumptions, and our findings shows that the State's long-term outlook (2021-2030) for the public debt appears sustainable. A review of this shows that;

i. There was a positive growth in gross revenue of the State. It grew by 146.63% between 2016 and 2020; from ₦42.072 billion to ₦103.760 billion. Revenue outlook from the projection analysis table show that the State Revenue is expected to grow up to ₦399.991 billion in 2030, which is about 285.50% growth.

ii. Due to the huge infrastructural development seen in Ebonyi State since the advent of the current administration, the expenditure of the state grew by 152.83% from ₦46.946 billion in 2016 to ₦118.692 billion in 2020. Expenditure outlook from the projection analysis table show that the State expenditure is expected to grow higher in the year 2021 to ₦120.876 billion, reaching a peak value of ₦262.051 billion in 2027 before declining to ₦99.857 billion in 2030.

iii. The debt trend therefore shows that the long-term outlook (2021-2030) for the public debt appears sustainable for the State. As the State Internally Generated Revenue (IGR) grew from ₦7.658 billion in 2016 to ₦17.132 billion in 2020, it is projected that in 2030, the IGR of the State should be ₦172.791 billion growing from ₦21.586 billion in 2021. This thereby creates a solid debt position.

2. EBONYI STATE FISCAL AND DEBT FRAMEWORK

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

The past 3-5 years have been important in the fiscal reform history of Ebonyi State. The fiscal reform is most evident in the way and manner the State's annual budgetary projections are made. Recent experience shows that the State Government is currently operating near-realistic budgeting contrary to what was previously obtainable.

In 2018, the State Government estimated total expenditures of ₦208.332 billion for the year. In the budget, total expected revenues were equal to total expected expenditures. However, out of this ₦208.332 billion, only the sum of ₦63.741 billion was realized as revenue, while only the sum of ₦74.014 billion was spent within the fiscal year. This led to a negative closing balance of -₦10.273 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 2018 fiscal year. In 2019, the budget size decreased from ₦208.332 billion to ₦188.402 billion. Within the same year, actual revenues stood at ₦81.615 billion, while actual expenditures stood at ₦72.240 billion, thereby leading to surplus closing balance of ₦9.375 billion.

The relatively low performance of the budget in the two immediate past years with the infrastructural plans of the State Government led to a slight increase in the budget size as at 2020 to the sum of ₦178.137 billion which was later revised downwards to ₦132.002 billion within the year due to COVID-19 health and economic effects. Actual revenue in 2020 fiscal year increased to ₦103.760.4 billion, while actual expenditures stood at ₦118.692.3 billion, and a closing balance of –₦14.931.9 billion.

In all, the recent years have taught the State Government to make realistic revenue projections so as to have sufficient funds to implement the expenditure components of the budget. The State has also made significant efforts to increase internal revenues through various sorts of reforms that are targeted at increasing the tax base instead of the rates.

2.2 Ebonyi State Approved 2021 Budget and Medium Term Expenditure Framework (MTEF), 2021 – 2023

2.2.1 Approved 2021 Budget

The 2021 budget of Ebonyi State followed a downward trend as that of 2020 fiscal year as the State become fully conscious of the need to make the revenue and expenditure projections to be as realistic as possible. The budget size for the year 2021 is ₦122.852 billion.Also, within the 2021 fiscal year, the budget was reviewed downwards to ₦99.157 billion.

Just like the 2019 and 2020 budgets of the State, the 2021 budget size represents 6.93% reduction from the budget size of 2020revised budget. In the 2021 budget of the State, total revenue is estimated at ₦118.852 billion, while the fiscal deficit of ₦4 billion will be financed through internal loans.

2.2.2 Indicative Three-Year Fiscal Framework

The State has not prepared a Medium Term Expenditure Framework (MTEF) for the period of 2021–2023. However, the 2022 budget of the State is at the point of completion with the draft estimates of ₦145.411 billion just presented to the State House of Assembly for consideration and possible approval.

In 2022 and 2023, it is expected that the budget size will slightly increase in each of the two years. The slight increase is estimated at5 percent increase from its previous year's value. This means, the total budget size of the State in 2022 and 2023 is expected to stand at ₦145.411 billion and ₦155.444 billion respectively. Importantly, the increases are not expected to exert any pressure on fiscal deficit which may 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 in 2022 and 2023 fiscal years. That way, there may not be need to borrow even in the face of increase in budget size of the State.

2.2.3 The Key Objectives of Approved 2021 Budget

The key objectives of the Approved 2021 Budget are:

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

2.2.4 Medium Term Policy Objectives and Targets

The key objectives of the Medium Term Policy are:

i. Reduce the cost of governance by efficiently managing personnel and overhead costs in a manner that will free up funds for investment in critical infrastructures in the State;
ii. Manage available human and material resources within the education subsector in order to improve on the quality of service delivery;
iii. Prioritise the improvement of healthcare service delivery in the State so as to make the State attractive for Healthcare Service Tourism.

iv. Grow the IGR by a minimum of 20% on annual basis in line with the SFTAS verification protocol in order to make the State self-reliant.

v. 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;

vi. Grow the economy through targeted spending in areas of comparative advantage;

vii. Prioritise relieving people and MSMEs of the adverse economic effects of COVID-19 pandemic through grants and micro-credit facilities.

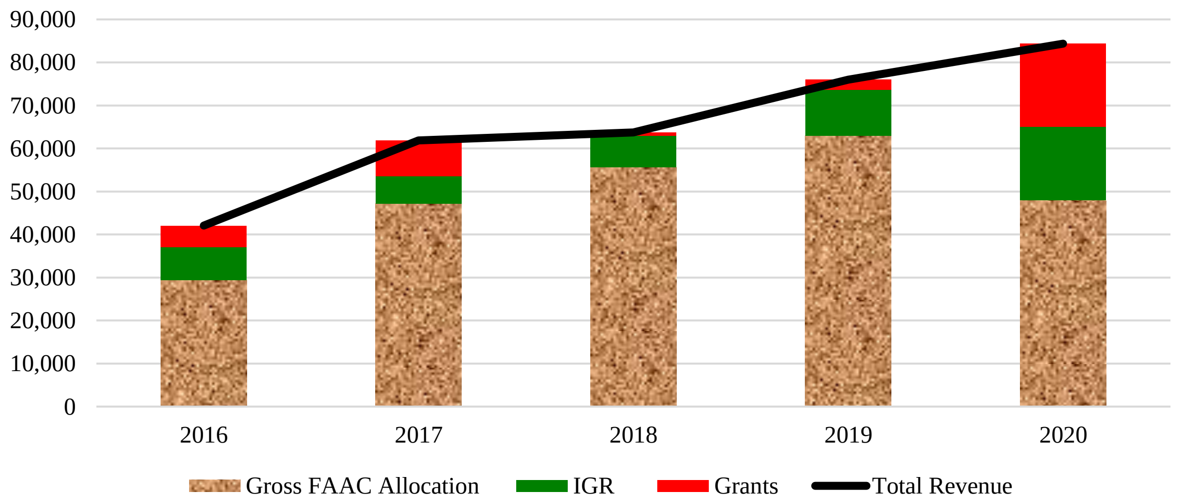
3. THE STATE REVENUE, EXPENDITURE, AND PUBLIC DEBT TRENDS (2016 – 2020)

3.1 Revenue Performance

As shown in Chart 1 below, the total revenue of Ebonyi State maintained an upward trend throughout the review period of 2016 – 2020. The State's total revenuestood at ₦84.359 billion in 2020 as against the sum of ₦75.976 realised in 2019 fiscal year.This represents an increase of 11.03% in total revenue of the State within one fiscal year. It is important to note that the 2020 fiscal is also the year that the global economies were adversely affected by the COVID-19 pandemic. It should have therefore been expected that the total revenue of Ebonyi State Government will reduce in 2020 fiscal year. On the contrary, the total revenue of the State increased as a result of several reasons which include: (a) capital receipts (like grants) to the State increased significantly in 2020; (b) the State improved on its internal revenue collections as a result of certain reforms of the tax administration system that had started yielding results. In addition, the increase in grants was also attributable to increased overall reform of the State's public financial management system around which the SFTAS programme is built.

With the above reasons, the decline in 2020 FAAC revenue could not lead to any decline in the overall revenue of the State in 2020. As obtainable in previous years, any significant shortfall in FAAC revenue would always cause a significant decline in the total revenue of the State. But the situation was not the same in 2020, where the State witnessed a significant increase in total revenue even in the face of a significant decline in FAAC revenue.

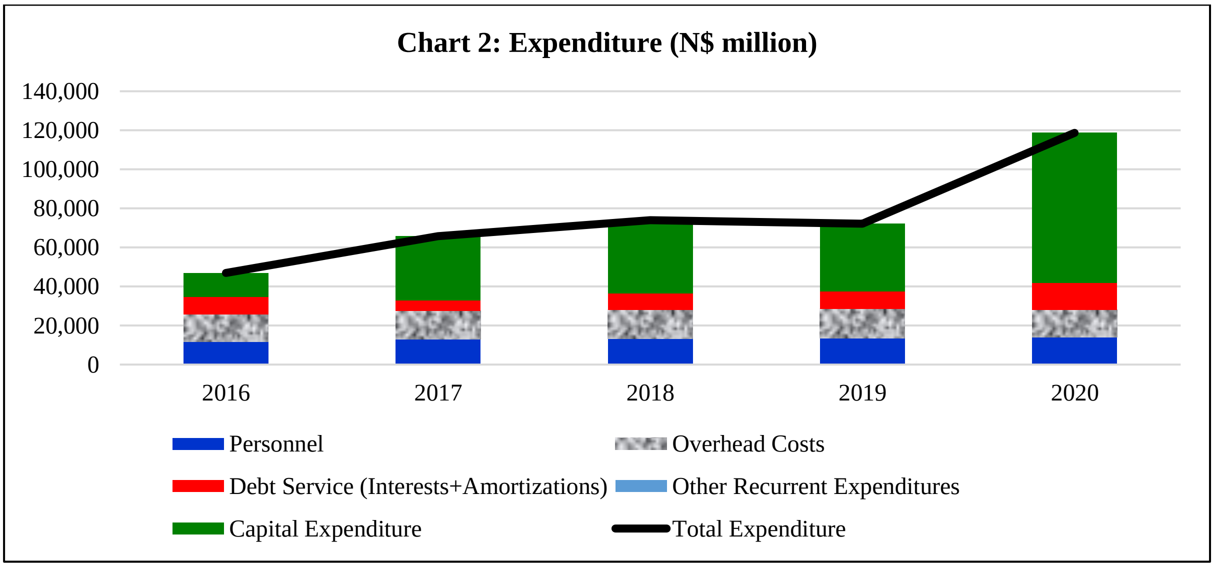
Chart 1: Revenue (N$ million)



In previous years (i.e. 2016 & 2018), 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 2017 and 2020 fiscal years. In those two years, the shares of IGR and Grants in the total revenue of the State increased. The increased shares of IGR and Grants caused the overall influence of FAAC revenue on the State's total revenue to decline. In fact, the State's FAAC revenue of 2020 stood at almost the 2017 level, which represents a sharp decline from its 2019 level. On the other hand, the 2020 values of IGR and Grants represent sharp increases from the 2019 values of the two sources of revenue within the State.

3.2 Expenditure Performance

Chart 2 below shows that the State's total expenditures increased throughout the review period, except in 2019 when it fell below the level of 2018. Similarly, capital expenditure increased steadily throughout the review period except in the same 2019 when it fell slightly below the 2018 value. The State Government's Personnel cost has remained almost stagnant throughout the review period. On the other hand, the State Government's Overhead cost slightly maintained an upward trend between 2016 and 2019 before following a downward trend in 2020 fiscal year. It is important to point out that the State has drastically reduced the cost of governance by ensuring a stable or downward movement of the State Government's personnel and overhead costs.



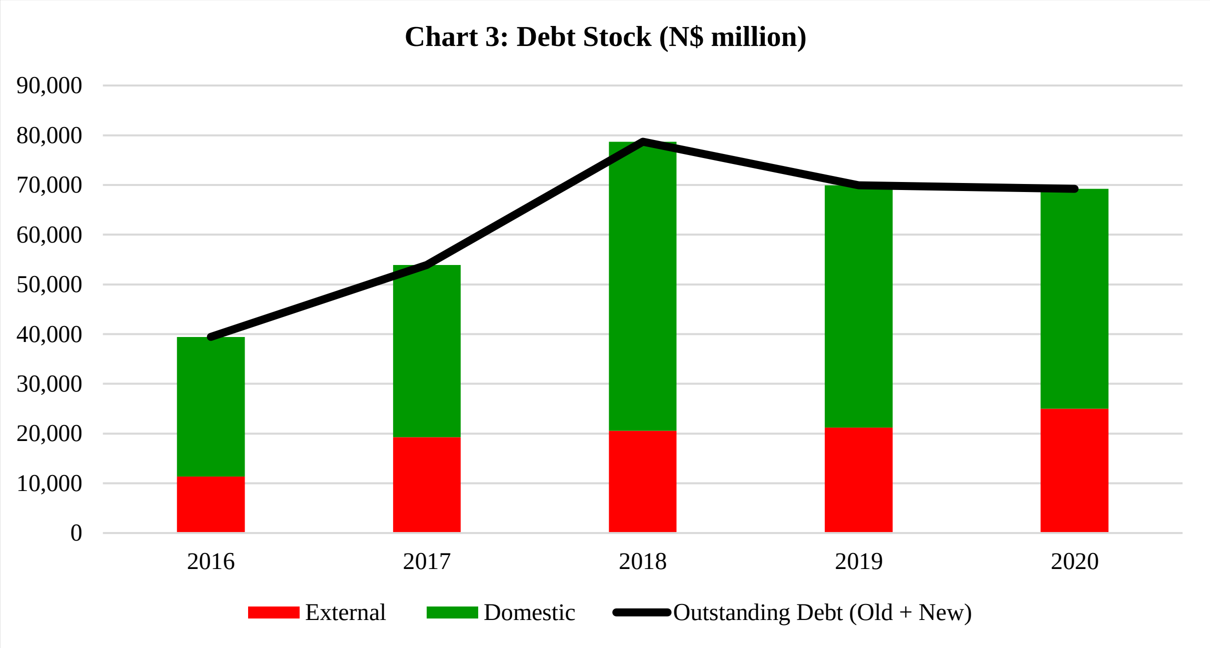
Incidentally, debt service obligations of the State have been marginally increasing since 2018 fiscal year. This is as a result of some of the previous capital projects that were executed with debt financing facilities and needed to be serviced in the present periods. This is an outcome of fiscal deficit financing options of the State Government.

The 2020 total expenditure of the State Government stood at ₦118.692 billion, which is an increase of 64.30% from the ₦72.241 billion total expenditure in 2019 fiscal year. Similarly, in 2018, the total expenditure of the State, which stood at the sum of ₦74.014 billion, represents an increase of 12.51% from the sum of ₦65.784 billion that was actually spent as total expenditure in 2017 fiscal year by the State. The 2020 total expenditure of the State was higher than the 2020 total revenue of the State by ₦14.932 billion. That fiscal gap created room for more loans and therefore more debt service obligations for the State in subsequent years.

3.3State Debt Portfolio, 2016 – 2020

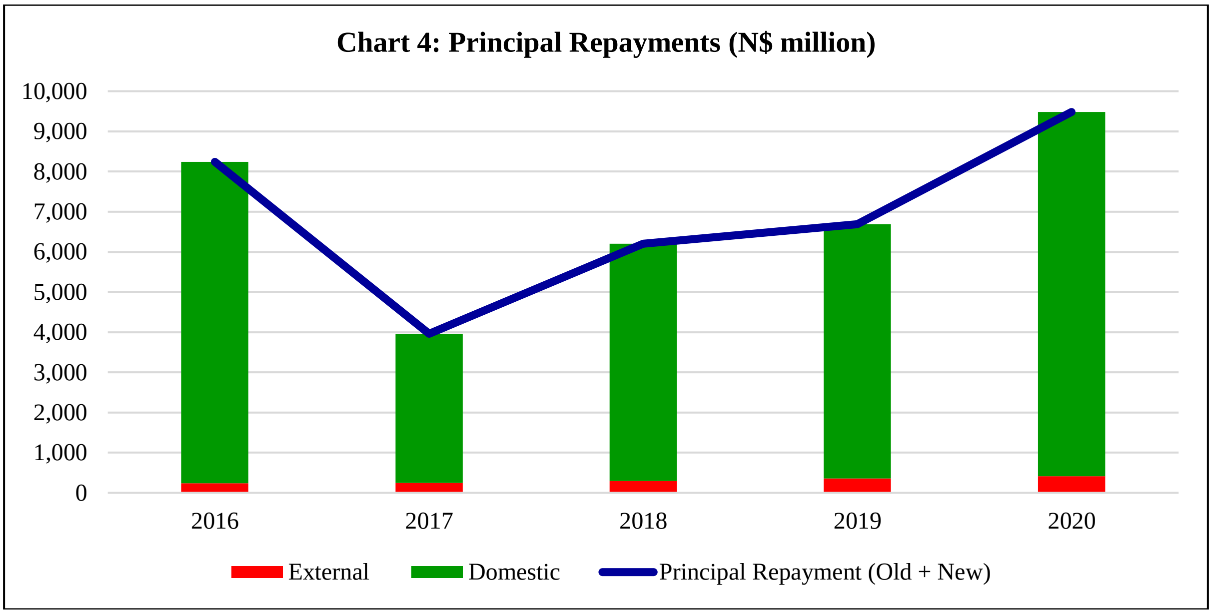
The total debt stock of Ebonyi State increased steadily between 2016 and 2018 fiscal years before falling gradually between 2018 and 2020 fiscal years. Chart 3 below shows that though there have been fluctuations in the State's total debt stocks, yet the State's external debt stock has been on steady increase throughout the review period,

Precisely, the total debt stock of Ebonyi State Government increased by 36.57% from the sum of ₦39.451 billion in 2016 to the sum of ₦53.878 billion in 2017 fiscal year. Within the same period, the share of external debt stock in the total debt stock of the State increased from 28.88% in 2016 to 35.76% in 2017 fiscal year. The total debt stock of the State further increased by 46.07% from the sum of ₦53.878 billion in 2017 to the sum of ₦78.697 billion in 2018 fiscal year, before declining by 11.14% to stand at the sum of ₦69.927 billion in 2019 fiscal year. Within the same period, the share of external debt stock in the total debt stock of the State initially declined from 35.76% in 2017 to 26.09% in 2018 before moving upwards to 30.30% in 2019. Furthermore, the total debt stock of Ebonyi State declined by 1.00% from the sum of ₦69.927 billion in 2019 to the sum of ₦69.231 billion in 2020 fiscal year. However, while there was a decline in the total debt stock of the State, the value of the external debt stock of the State kept increasing to even make up about 36.08% of the total debt stock in 2020 fiscal year. The consistent increases in the value and share of external debt stock of Ebonyi State 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 2016 – 2020, it is imperative to also review the debt service obligations of the State within the same period. This is because the suitability and sustainability of any society's fiscal operations largely depend on the amount of money it uses in servicing debts. Sometimes, principal repayment is not considered a problem as they may just constitute a minute proportion of total expenditure of the society. However, when some due interests are capitalized, principal may increase, thereby mounting pressure on principal repayment. This subsection therefore presents Ebonyi State Government's recent experiences in repayment of principals and interests. Figure 4 below presents the recent principal repayment obligations of Ebonyi State Government within the review period.

From the chart below, principal repayment has not maintained a steady trend throughout the study period. From an upward trend in 2016, the repayment fell in 2017 to about 50% of its value in 2016. However, in 2018, it increased significantly by more than 50% of the 2017 value before recording a marginal increase in 2019. In 2020 however, the growth was significant when compared with 2019 and even grew above the 2016 value. Incidentally, throughout the review period, repayment of external debts remained very insignificant, while the large chunk of the repayment went into domestic debt principal repayment. Looking at the Chart 3 above, and comparing same with Chart 4 below, it is clear that the proportions of domestic principal repayment obligations of the State Government in total principal repayment obligations were consistently higher than the proportions of debt stock in total debt stock of the State.



Given the significant components of the principal repayment that were made up of domestic debt instruments, it can be concluded that the oscillating movements in total principal repayment were greatly determined by oscillations in domestic principal repayments. On the other hand, external principal repayments have also been increasing, though very marginally. The effects of the increases may not be felt in the total principal repayments due to the insignificant proportion of external principal repayment in the total principal repayment of the State Government throughout the review period.

Chart 5 belowreveals that the interest payment obligations of Ebonyi State have also maintained oscillating movement; increasing between 2016 and 2019, but dropped sharply in 2020 fiscal year. Just like the principal repayment discussed above, interest payment obligations on domestic debt formed a major component of the total interest payment and therefore greatly determined the movement of the total interest payment throughout the review period. The oscillating movements in total interest payment therefore were greatly determined by oscillations in domestic interest payments. On the other hand, external interest payments have also been increasing, but the effects of the increase may not be felt in the total interest payments due to the insignificant proportion of external interest payment in the total interest payment of the State Government.

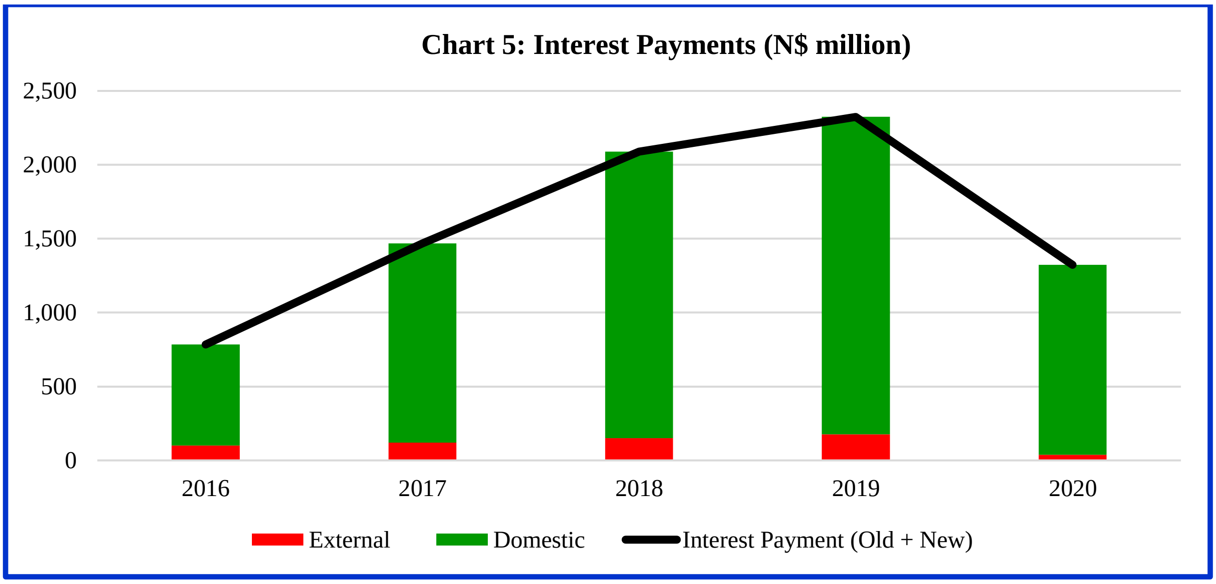


Chart 5: Interest Payments (N$ million)
2,500
2,000
1,500
1,000
500
0
2016
2017
2018
2019
2020
External
Domestic
Interest Payment (Old + New)

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. 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 subnational government levels (especially, among countries of the global south).The debt burden with their corresponding performance indicators aredescribed and summarized in the table below:

Table 1: Indicators of Debt Sustainability across Subnational Entities in Nigeria

Indicators With Indicative Thresholds	Indicators Without Thresholds
Debt as share of SGDP = 25%	Debt Service as share of FAAC Allocation (%)
Debt as share of Revenue = 200%	Interest Payment as share of Revenue (%)
Debt Service as share of Revenue = 40%	External Debt Service as share of Revenue (%)
Personnel Cost as share of 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 2016 to 2020, Ebonyi State maintained far lower than the indicative threshold which shows that the State is debt was sustained for these years with the highest figures recorded in 2018. Debt Service as a percentage of revenue was seen to have its highest in both 2018 and 2020.The debt burden without threshold also maintained a relative down trend, though slightly increased as 2020 was approached due to the additional domestic loans acquired.

4.1 Medium-Term Budget Forecast

Recent reforms in the public financial management (PFM) systems of national and sub national governments emphasize the need for medium term budget forecasts (MTBF) or at least a medium term expenditure framework (MTEF). The forecast or framework helps the government to make projections of expected expenditures (and revenues) for a future period of at least three years. Arguments for MTBF or MTEF are supported by the fact that most governments are elected for a period of more than one year, and therefore should be able to plan for a longer time than just one year (as is usually the case with annual budgets). In the case of Ebonyi State, there is no Medium TermBudget Forecast (MTBF) or medium term expenditure framework (MTEF). The State Government is currently working on her Medium TermExpenditure Framework (MTEF) which should be ready within the next fiscal year. As such, all Medium TermBudget Forecasts of the State are based on a certain percentage rate of increment in the current values of the items.

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 estimatesthe Medium Term Budget Forecasts (MTBF) for Ebonyi State. Table 2 below presents the figures for the period covering 2021 – 2024. The table shows that throughout the forecast period, Ebonyi State Government's projected revenue (inclusive of all forms of capital receipts) exceeds her projected expenditure, thereby leading to positive budget balance (i.e. surplus). The persistently higher revenue than expenditure is partly attributable to the projected increase of 26% per annum in the State's IGR throughout the medium term period of 2021 – 2024. The projected annual rate of increase in the State's IGR is in line with the basic target of minimum increase of 20% per annum.

Table 2: Ebonyi State Medium Term Budget Forecasts (MTBF) 2021 – 2024

	2021	**2022**	**2023**	**2024**
Revenue	**141,282.98**	**175,852.90**	**200,014.66**	**236,062.83**
1. Gross Statutory Allocation (exclusive of VAT)	45,139.00	52,010.00	53,676.00	57,641.00
1.a. Net Statutory Allocation (exclusive of VAT)	37,839.40	44,808.50	46,545.40	50,962.80
1.b. Deductions	7,299.60	7,201.50	7,130.60	6,678.20
2. Derivation (if applicable to the State)	0.00	0.00	0.00	0.00
3. Other FAAC transfers (exchange rate gain, augmentation, others)	5,853.94	7,200.34	8,856.42	10,893.40
4. VAT Allocation	16,994.79	20,903.59	25,711.41	31,625.04
5. IGR	21,586.70	27,199.24	34,271.04	43,181.51
6. Capital Receipts	51,708.56	68,539.73	77,499.78	92,721.87
6.a. Grants	8,500.00	11,700.00	5,850.00	2,925.00
6.b. Sales of Government Assets and Privatization Proceeds	2,405.27	1,683.69	1,178.58	825.01
6.c. Other Non-Debt Creating Capital Receipts	1,153.67	807.57	565.30	395.71
6.d. Proceeds from Debt-Creating Borrowings (bond issuance, loan disbursements, etc.)	39,649.62	54,348.47	69,905.90	88,576.16
Expenditure	**126,829.98**	**174,674.38**	**198,777.22**	**234,763.51**
1. Personnel costs (Salaries, Pensions, Civil Servant Social Benefits, others)	15,490.31	17,039.34	18,743.28	20,617.60
2. Overhead costs	15,300.45	16,830.50	18,513.54	21,290.58
3. Interest Payments (Public Debt Charges, including interests deducted from FAAC Allocation)	3,529.80	8,708.24	11,027.07	14,506.68
3.a. Interest Payments (Public Debt Charges, excluding interests deducted from FAAC Allocation)	0.00	0.00	0.00	0.00
3.b. Interest deducted from FAAC Allocation	0.00	0.00	0.00	0.00
4. Other Recurrent Expenditure (Excluding Personnel Costs, Overhead Costs and Interest Payments)	3,994.95	4,394.45	4,833.89	5,317.28
5. Capital Expenditure	84,668.87	93,135.76	102,449.33	112,694.27
6. Amortization (Principal) payments	3,845.60	34,566.10	43,210.10	60,337.10
Budget Balance (' + ' means surplus, ' - ' means deficit)	**14,453.00**	**1,178.52**	**1,237.45**	**1,299.32**
Opening Cash and Bank Balance	**9,117.40**	**23,570.40**	**24,748.92**	**25,986.37**
Closing Cash and Bank Balance	**23,570.40**	**24,748.92**	**25,986.37**	**27,285.68**

Also, Table 2 above shows that for most parts of the medium term period of 2021 – 2024, capital expenditure accounts for over 50% of the projected total expenditure of the State. the only exception occurs in 2024 fiscal year. In fact, projected capital expenditure of the State represents about 66.76% of the projected total expenditure of the State in 2021 but keeps declining in proportion until 2024 when it reaches 48.00% of the projected total expenditure. On the average, capital expenditure of the State accounts for 54.91% of the projected total expenditure of the State throughout the medium term period of 2021 – 2024 fiscal years.

The Gross Statutory Allocation is projected following the Federal Government's MTEF revenue projections for the period. It takes a certain percentage of the projected Federation Account revenue for the period of 2021 – 2024 in line with the actual percentage of the Federation Account revenue that has always been due to Ebonyi State in recent years. IGR, VAT Allocation and other FAAC transfers are projected to increase by 26%, 23% and 23% per annum respectively. This projected rate of increase is justified by the fact that the current level of investment in physical infrastructures in the State is expected to attract more investment into the State and increase consumption within the period, thereby leading to increase in IGR and VAT. Grants are projected to start reducing from 2023, especially immediately after disbursement from the SFTAS programme is fully ended.

On the other hand, personnel and overhead costs are projected to increase by 10% per annum throughout the medium term period of 2021 – 2024. This projected rate of increase is expected to accommodate wage bill increases that will occur because ofexpected recruitments and promotions within the period on one hand, and projected inflation rate in the country on the other hand. Debt service obligations are based on the calculated obligations that will be due based on the terms of the various facilities. The projected closing balances of the State are expected to increase at 5% per annum throughout the medium term period of 2021 – 2024.

Table 3below presents Ebonyi State debt performance as at the end of 2020 fiscal year. From the table, Ebonyi State debt to GDP ratio as at 2020 fiscal year stood at 3.68% as against the 25% indicative threshold. This implies that the State's debt remains within acceptable limit based on 2020 figures. Similarly, the State's debt to revenue ratio, which stood at 82.07% in 2020, is still within acceptable limits as it is still less than the 200% indicative threshold. Again, the State's debt service to revenue ratio of 13.23% is equally lower than the 40% indicative threshold for this indicator, just as the State's personnel cost to revenue ratio of 16.69% is also lower than the 60% indicative threshold for this indicator.

Table 3: Ebonyi State Government's Performance on Indicators of Debt Sustainability as at 2020

Indicators	Indicative Thresholds	Observed Ratio
Debt as a share of SGDP (%)	25%	3.68%
Debt as a share of Revenue (%)	200%	82.07%
Debt Service as a share of Revenue (%)	40%	13.23%
Personnel Cost as a share of Revenue (%)	60%	16.69%
Debt Service as a share of FAAC Allocation (%)	Nil	23.00%
Interest Payment as a share of Revenue (%)	Nil	1.85%
External Debt Service as a share of Revenue (%)	Nil	0.58%

Based on the indicators with indicative thresholds, Ebonyi State debts are still within sustainable limits throughout the review period of 2016 – 2020 fiscal years. These positive positions can be attributed to the reforms in the revenue collection and administration systems of the State as well as commitment to reducing the cost of governance by the current administration of the State Government. On the other hand, the performance of Ebonyi State Government across the indicators without indicative thresholds is also looking very good. For instance, the State needed only 0.58% and 23% of her FAAC allocation to service her external debts and all her debts respectively in 2020 fiscal year,

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. To be able to finance budget deficits, one of the most prominent options is to borrow. Therefore, this analysis assumes that any deficit that will be recorded within the forecast period will be financed through borrowing.

Domestic Borrowing Option

To meet up with borrowing needs, this report considers domestic borrowing as the easiest and fastest route for augmenting budget deficit in any fiscal year. This will mainly come from commercial bank loans (at maximum of 15% interest rate per annum and 1 – 5 years maturity period) and Federal Government intervention funds(e.g. the Agric loan, MSMEDF, etc), which come with maximum of 9% interest rate and up to 5 year maturity period.There are also other domestic borrowing options like the Federal Government intervention funds (e.g. the Agric loan, MSMEDF, etc), which come with maximum of 9% interest rate and up to 10 year maturity period. The two categories of FGN intervention funds are usually given by the Central Bank of Nigeria (CBN) through commercial banks. Another important source of domestic borrowing is the State Bond, which usually passes through the Nation's capital market. As discussed in more details later in this report, these domestic borrowing options will be the main options for financing fiscal deficits throughout the projected period.

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/programmes.

Public debt is one way to raise money for development which is incurred by borrowing.

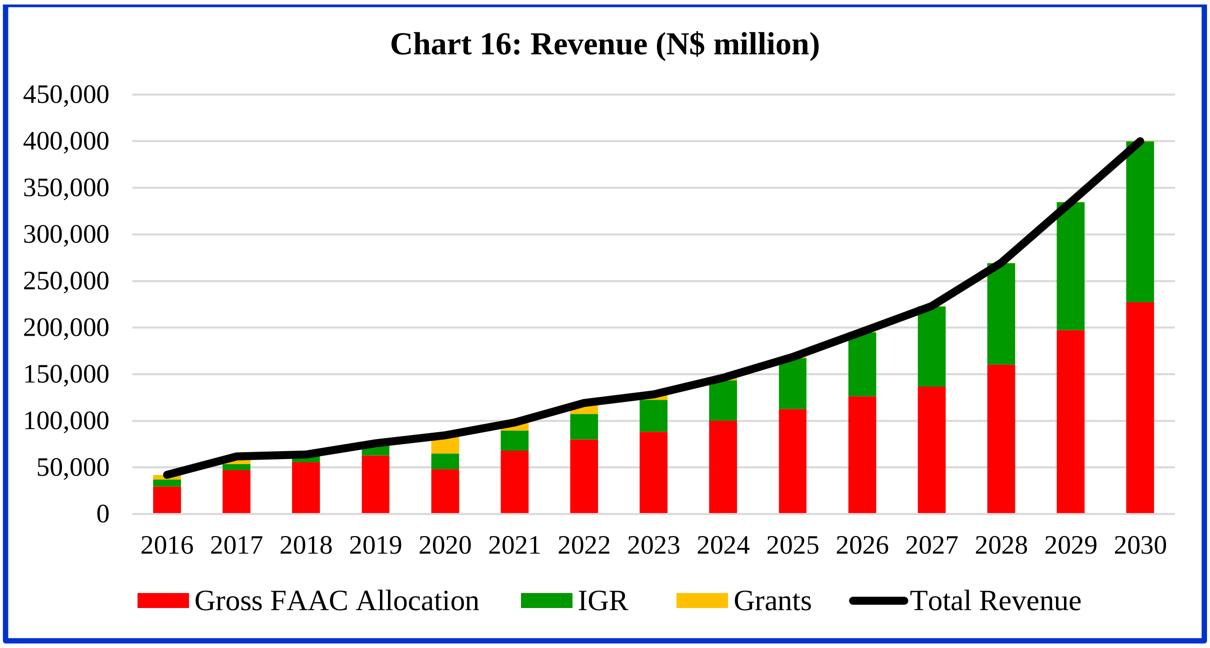
State Governments borrow to enable them finance important development programs and projects. However, taken too much, the burden of debt repayment of interest, principal, or both can overwhelm the state's finances, at worst leading to default. Debt is only considered sustainable if the Government is 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.

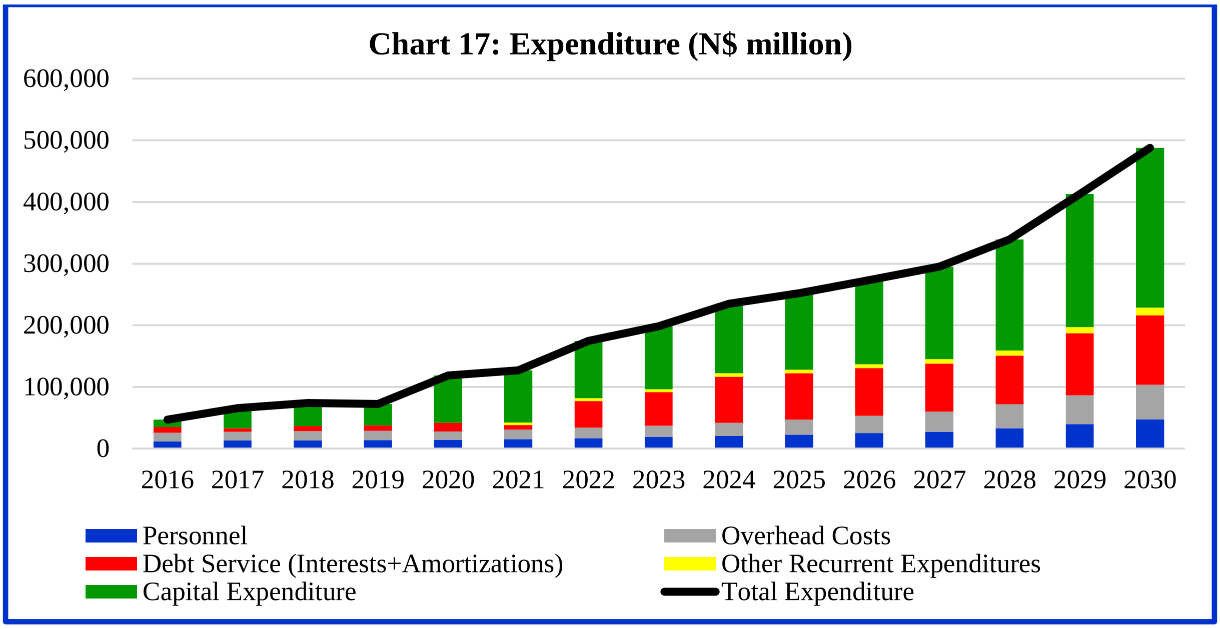
4.3 DSA Simulation Results

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 labour force employment and on the other hand, increase the State Government revenue. The increase in State Government revenue will also lead to more future investments in critical infrastructures within the State.



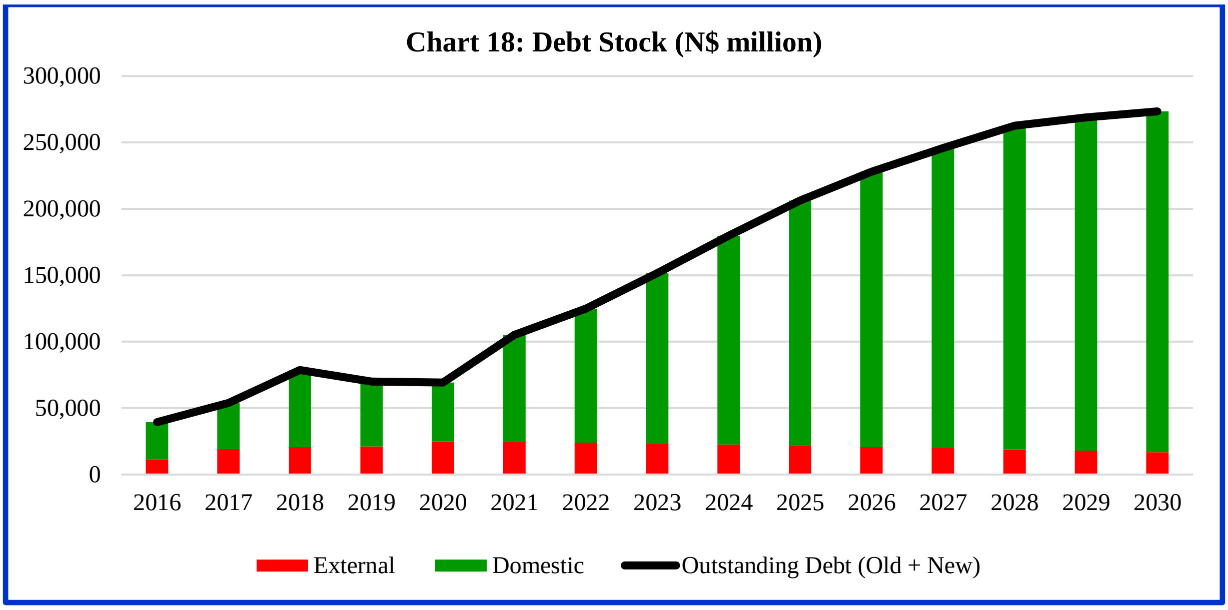
Specifically, figure 16 above shows that the total revenue of the State Government is projected to increase from ₦84.359 billion in 2020 to ₦168.452 billion in 2025, representing an increase of about 99.68% or the sum of ₦84.092 billion over the five years period. The increase in the total revenue of the State within the five years period is explained by increases in the State's IGR and her share of VAT Allocation, both of which almost triples within the five-year period. On the other hand, gross statutory allocation is projected to increase moderately within the period and also contributes to the overall increase in the State's projected revenue (2021 – 2025). These two major sources of the increase could rightly be attributed to the dividends of the current investment of the State Government in critical infrastructures within the State.

In addition, the State's total revenue is projected to increase in a higher dimension from the sum of ₦168.452 billion in 2025 to the sum of ₦399.991 billion in 2030, representing anincrease of about 137.45% or the sum of ₦231.538 billion within the five years period. This projected increase in the overall revenue of the State Government may as well be attributed to the dividends of the current infrastructural investment of the State Government. On the overall, the total revenue of Ebonyi State Government is projected to increase from the sum of ₦84.359 billion in 2020 to the sum of ₦399.991 billion in 2030. This projection represents an increase of about 374.15% or the sum of ₦315.631 billion within the ten-year period of 2021 – 2030. It is important to emphasise that within the projected period, IGR is expected to have increased in size and proportion to the point of accounting for about 43.20% of total revenue in 2030 fiscal year.



The total expenditure of Ebonyi State Government is projected to increase steadily from the moderate value of ₦118.692 billion in 2020 to the sum of ₦252.108 billion in 2025. The projected total expenditure of the State in 2025 represents an increase of 112.41% within a period of 5 years from the actual total expenditure of the State in 2020 fiscal year. Furthermore, the total expenditure of the State is projected to increase from the sum of ₦252.108 billion in 2025 to the sum of ₦487.807 billion in 2030 fiscal year. The 2030 value represents an increase of about 93.49% within the five-year period.Interestingly, capital expenditure is projected to account for 48.00% - 66.76% of the annual total expenditure of the State. This huge share of capital expenditure in total expenditure of the State is brought about by the annual projected rate of increase in capital expenditure, which is set at 10% between 2021 and 2028 fiscal years, and 20% between 2029 and 2030 fiscal years.

Looking at the pictorial data presented in Chart 17 above, it is clear that the second most significant component of expenditures for the projected period is debt service (interest payment and amortisation). This expenditure component is projected to increase steadily from its insignificant value of ₦7.375 billion in 2021 fiscal year to its peak of ₦113.012 billion in 2030 fiscal year. It is important to emphasise that within the projected period, debt service is projected to increase both in value and in proportion. It is projected to account for only about 6.21% of total expenditure in 2021 fiscal year and to jump up to about 34.12% of the total expenditure in 2022 fiscal year. For the rest of the years (2023 – 2030), debt service is projected to account for 26.70% – 37.65% of the total expenditure.



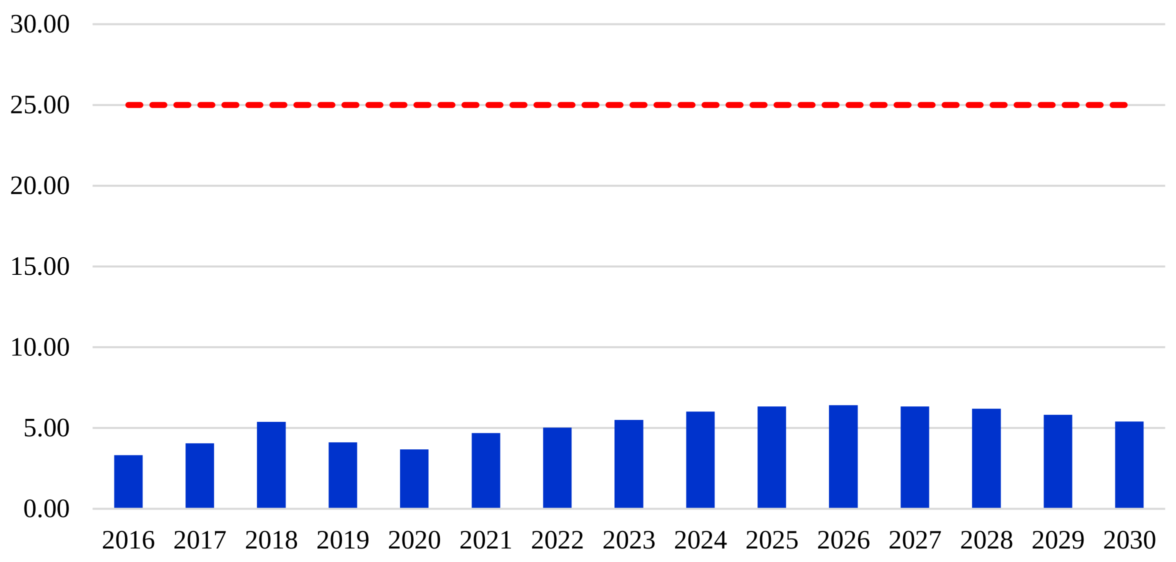
As shown in Chart 18 above, the total debt stock of Ebonyi State Government is expected to rise sharply (10.47% and 21.39%) between 2020 and 2026 fiscal years before moving on a moderately increasing lane (1.66% – 7.76%) between 2027 and 2030 fiscal years.However, the value and proportion of external debts are projected to moderately decline throughout the projection period of 2021 – 2030 fiscal years, while the value and proportion of domestic debt stock is projected to increase throughout projection period of 2021 – 2030 fiscal years.

Main Findings of the Baseline Scenario

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

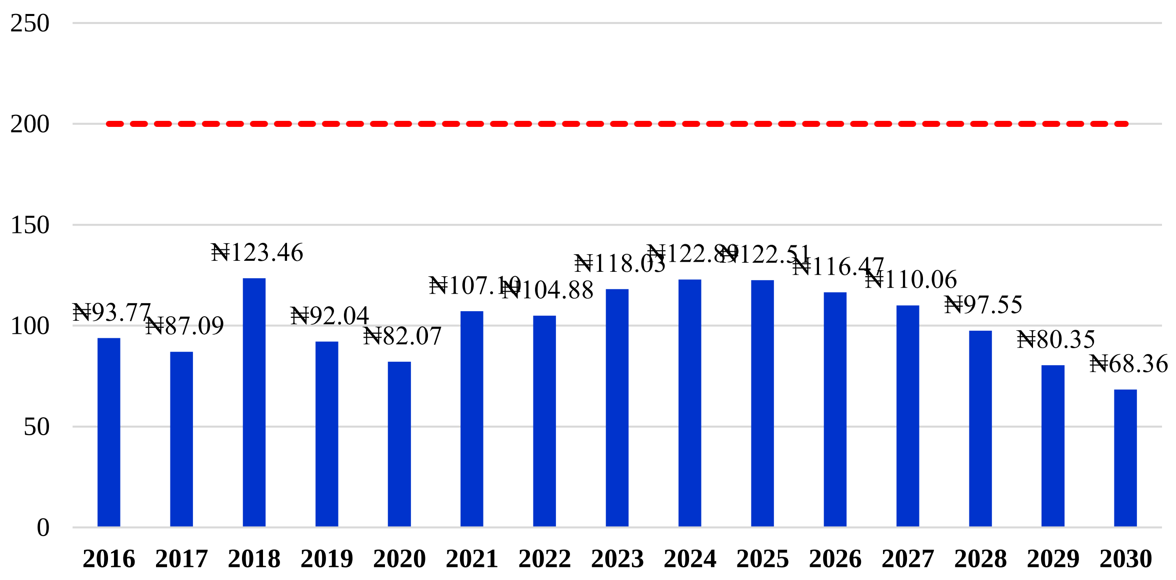
From figure 21 below, the indicative threshold/benchmark for the indicator of State's debt stock as a share of the State's GDP is 25% (as represented by the red dotted line in the Chart). However, the debt stock of Ebonyi State Government is projected to consistently remain less than 10% of the State's GDP throughout the projection period of 2021 – 2030 fiscal years. This implies that on the basis of this indicator of debt stock to GDP ratio, the State's debt level will remain sustainable throughout the projection period of 2021 – 2030 as shown in the figure below. It is equally important to highlight that the ratio is projected to moderately but consistently increase from 3.68% in 2020 to6.41% in 2026 before moderately but consistently declining from 6.41% in 2026 fiscal year to 5.41% in 2030 fiscal year.

Chart 21: Debt Stock as a share of SGDP

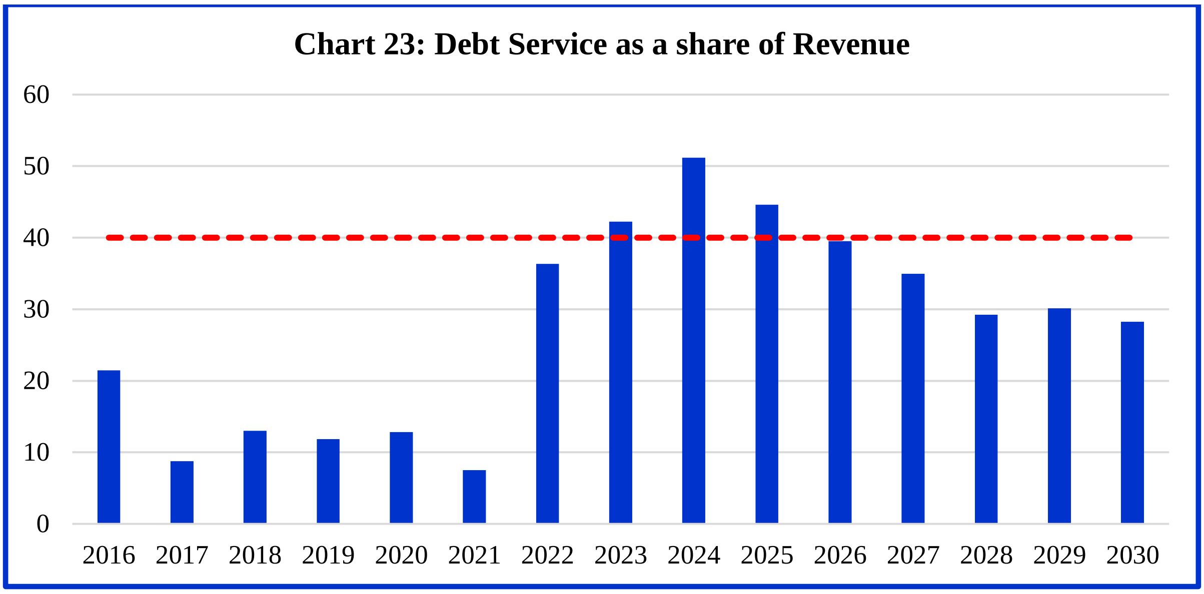


Another important indicator of debt sustainability is debt stock as a share of revenue. Figure 22 below shows the projected performance of Ebonyi State on this indicator.

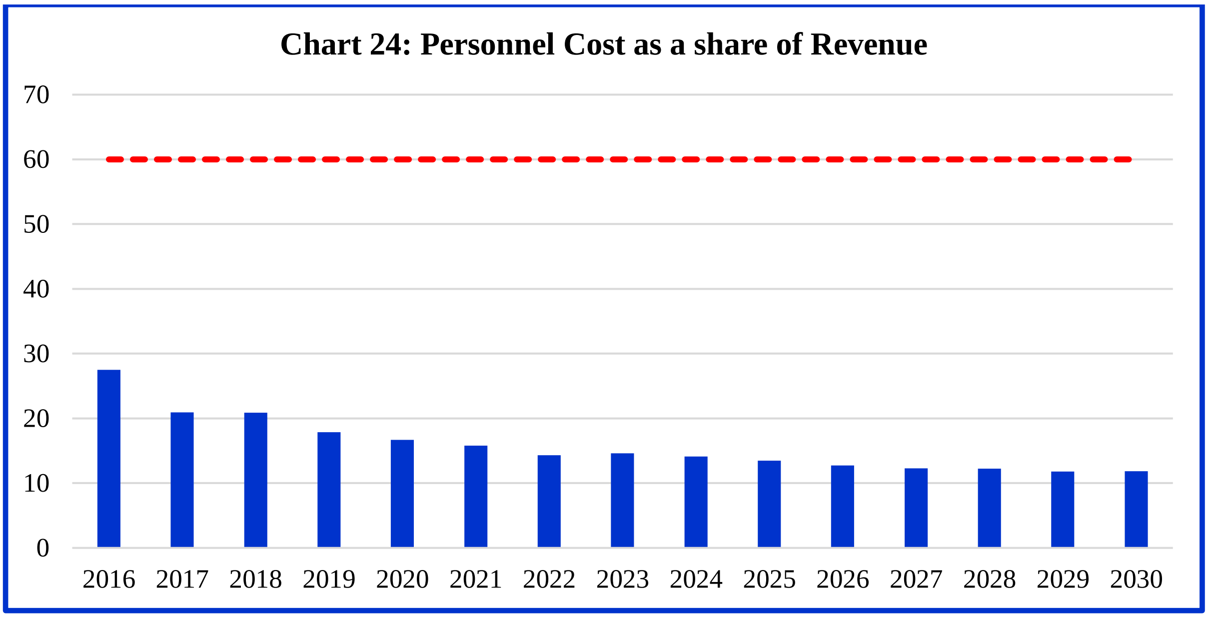
Chart 22: Debt Stock as a share of Revenue



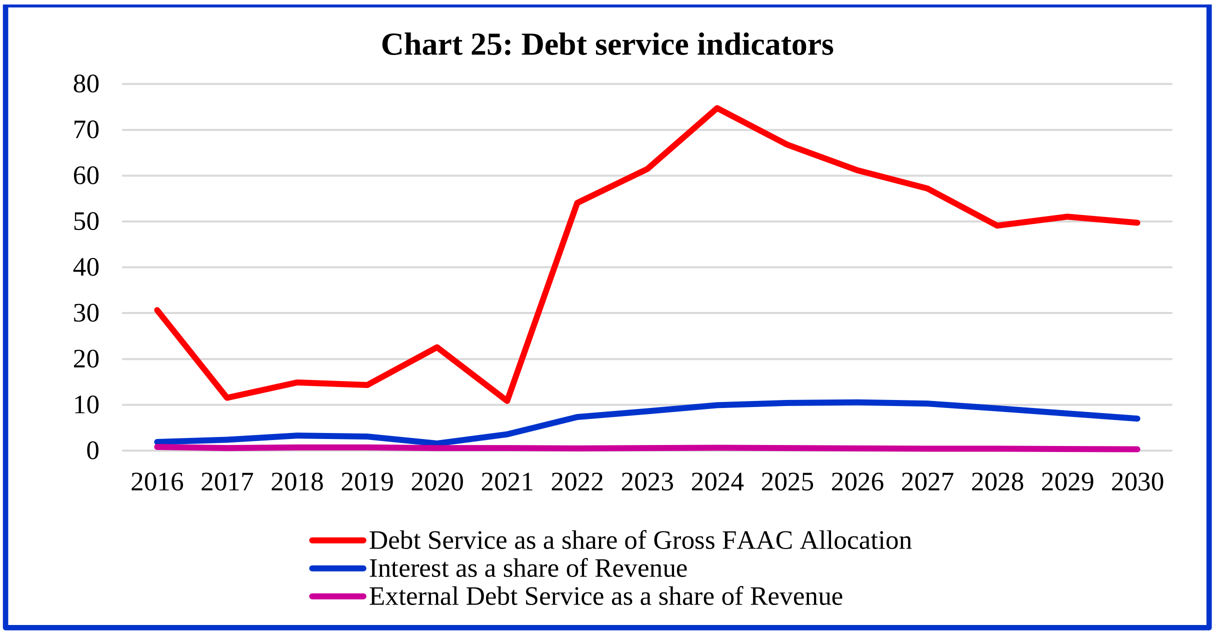
From figure 22 below, the indicative threshold/benchmark for the indicator of State's debt stock as a share of the State's revenue is 200% (as represented by the red dotted line). However, the debt stock of Ebonyi State Government is projected to consistently remain less than 125% of the State's revenue throughout the projection period of 2021 – 2030 fiscal years. In fact, the ratio is projected to moderately increase from 107.10% in 2021 to 122.89% in 2024 before declining moderately between 2025 and 2030 when it will settle at 68.36%.



From figure 23 above, the indicative threshold/benchmark for the indicator of State's debt service as a share of the State's revenue is 40% (as represented by the dotted line). However, the debt service of Ebonyi State Government is projected to be above this threshold for the period of 2023 – 2026 fiscal years and remain below this threshold for the rest of the projection period of 2021 – 2030 fiscal years. This implies that at some points in the projection period, the State's debt service obligation will exceed a sustainable level before coming down to a sustainable level where it will remain throughout the medium term period of 2021 – 2030 fiscal years.

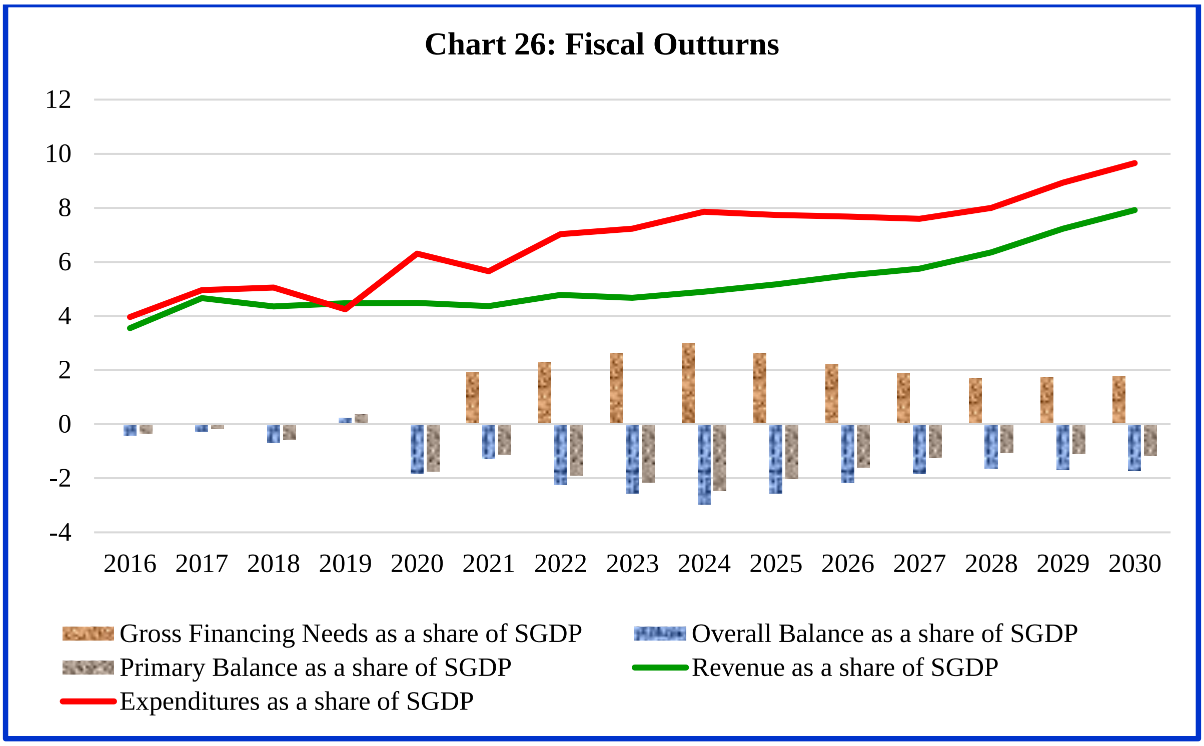


Personnel cost is seen as one of the major factors that pressure the Government to borrow money. As a result, its share in the total revenue of any government is equally important in determining how sustainable the finances of the State will be. Figure 24 above presents the indicative threshold of Ebonyi 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 2021 – 2030 fiscal years, the personnel cost of Ebonyi State Government will remain below 20% of the State's revenue. At such level, the projected performance of Ebonyi State Government on this indicator is lower than one third of the threshold level.



As previously shown in 1 above, there are some indicators for measuring the sustainability of State's debt but they do not have any particular indicative threshold. The indicators are collectively presented in figure 25 above. From the figure above, debt service as a share of the Gross FAAC Allocation of Ebonyi State is projected to drastically increase between 2021 and 2024 fiscal years to settle at a peak of about 75% in 2024 fiscal year. Afterwards, this indicator is projected to decline and settle at 50% in 2030 fiscal year.

Figure 26 below shows some of the fiscal outturns of the State Government based on information supplied in the baseline scenario. From the figure, Ebonyi State's projected total expenditures as a share of the State's GDP will hover between the lowest ratio of 5.65% in 2021 and a peak of 9.65% in 2030 fiscal year. In all the other years, projected expenditure of Ebonyi State as a share of the State's GDP will fall within the range of 5.65% –9.65%. On the other hand, the State's revenue to GDP ratio will hover between 4.48% in 2021 and 7.91% in 2030 fiscal year. As a result of the situations of revenue and expenditure in the State, primary balance and overall balance will turn negative for all the years, creating room for borrowing to fill up the fiscal gaps. Therefore, the ratios of primary balance and overall balance to the State's GDP are projected to remain negative throughout the projection period of 2021 – 2030 fiscal years.



Conclusion of the Baseline Scenario

From all the discussions of the findings of the baseline scenario, it is clear that except on one indicator and for the period of 2023 – 2025 fiscal years, Ebonyi State Government operates and will continue to operate within a very sustainable level of debt management. This is because for most of the indicators of debt sustainability, the State will operate within their indicative thresholds. However, it is important to point out that it is only on the basis ofthe indicator of debt service to revenue ratio that the State will at some points operate outside the threshold. This means that for this particular indicator, the State Government has to watch out and be more careful in devising strategies to avoid reducing the risks associated with operating outside the threshold. This unsustainable level of debt service to revenue ratio of Ebonyi State could be attributed to the possibility of mounting debt service burden as a result of many maturing obligations within the same period of 2023 – 2025 fiscal years.

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 2021 – 2030. Some of such deviations may be exogenously determined (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 27: Debt Stock as a share of SGDP

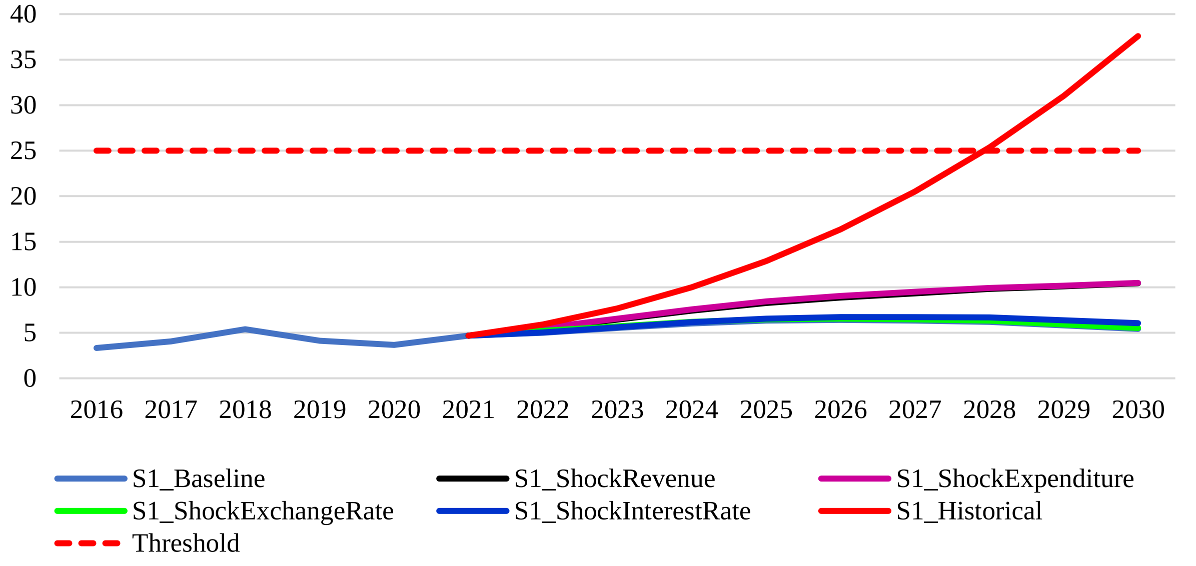


Figure 21 earlier shows that Ebonyi State Government's projected debt stock as a share of the State's GDP will remain much lower than threshold of 25% throughout the projection period of 2021 – 2030 fiscal years. Similarly, figure 27 above shows that even with interest rate and exchange rate shocks the performance of this indicator remains sustainable throughout the projected period of 2021 – 2030 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 Figure 27 above, it is only the historical trend of Strategy S1 (S1 financing option) that can make this indicator to go beyond the threshold between 2028 and 2030 fiscal years. This means that the State will need to be careful with the application of the S1 deficit financing optionwithin those three yearsin order to reduce the associated risks of unsustainable debt management.

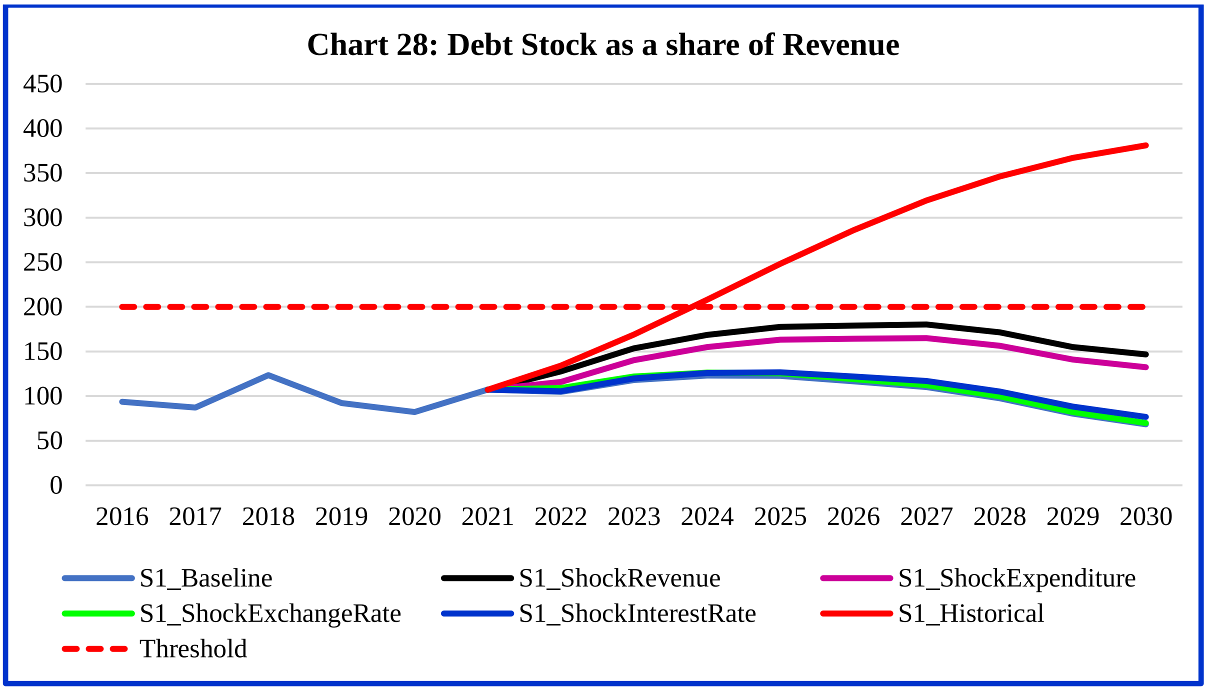
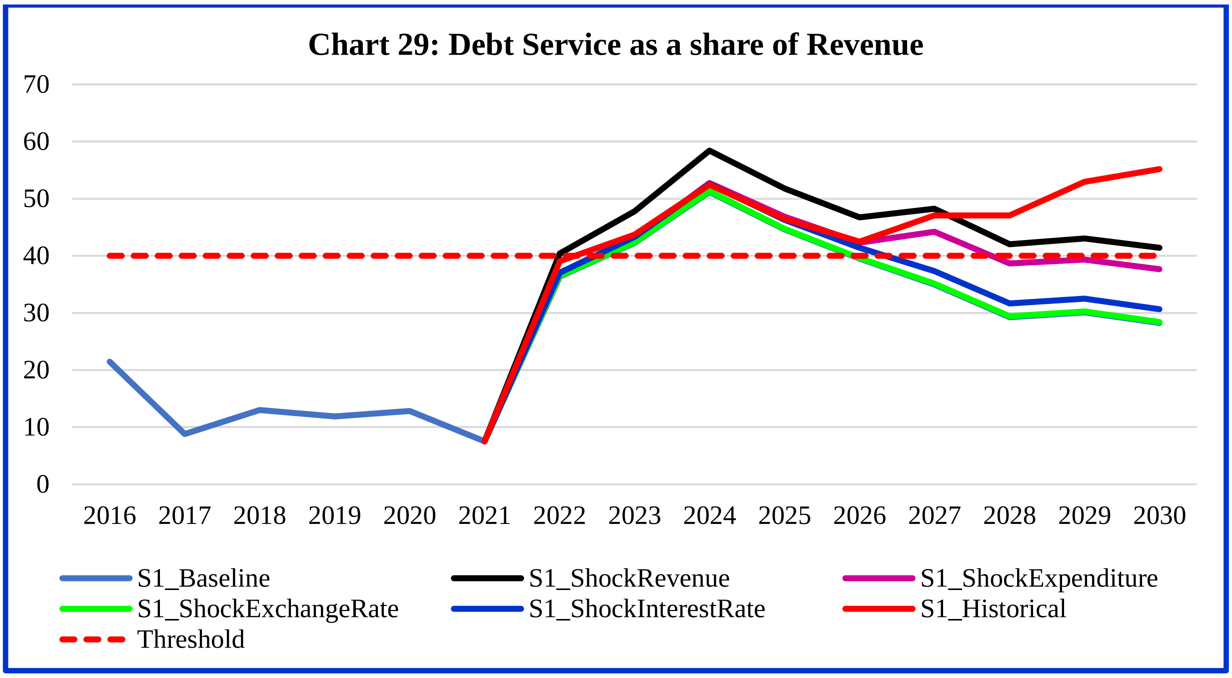


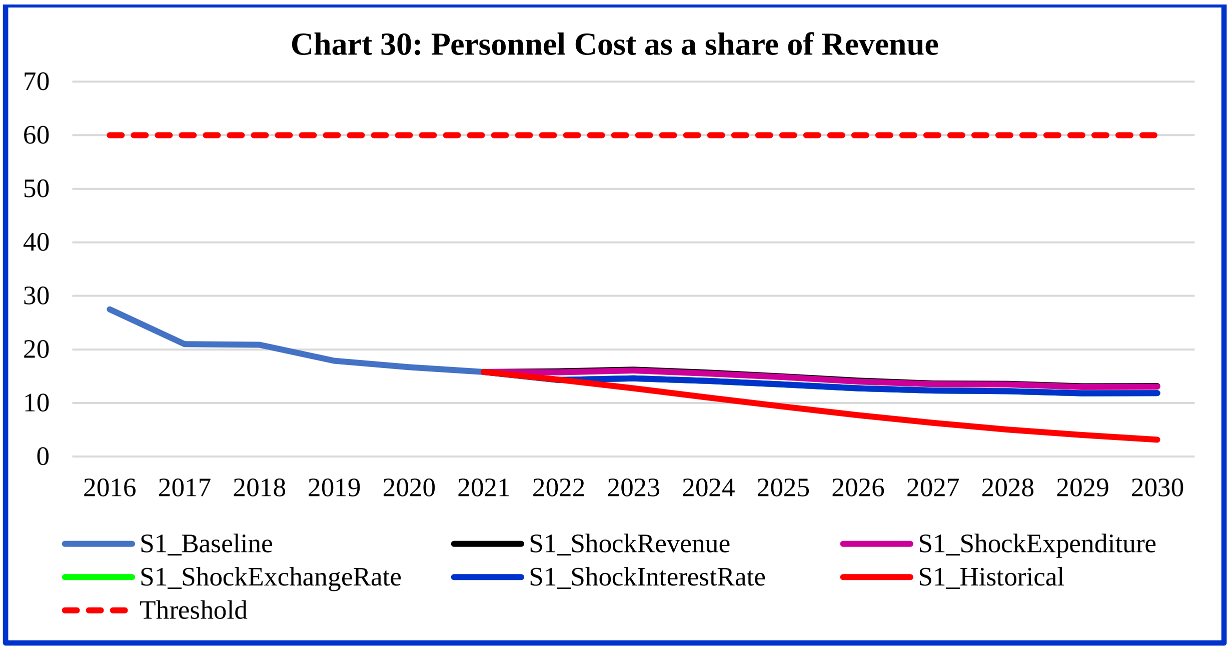
Figure 22 earlier shows that Ebonyi State debt stock as a share of the State's revenue will remain much lower than threshold of 200% throughout the projection period of 2021 – 2030 fiscal years. Similarly, figure 28 above shows that even with all the shocks (revenue, expenditure, interest rate and exchange rate shocks), the performance of the State on this indicator remains sustainable throughout the projection period of 2021 – 2030 fiscal years. However, when thehistorical trend of Strategy 1 (S1 financing option) is introduced, the performance of the State on this indicator goes beyond the threshold of 200% between 2024 and 2030 fiscal years. In fact, the indicator went up very close to 400% in 2030 following the SI historical trend. This means that the State will need to apply caution while adopting/adapting the S1 deficit financing option.

Figure 23earlier shows that without any shocks, Ebonyi State debt service as a share of the State's revenue will at some points become unsustainable by exceeding the threshold of 40%, especially between 2023 and 2025 fiscal years.Figure 29 below shows that with some shocks(revenue shocks, expenditure shocks, exchange rate shocks and interest rate shocks), Ebonyi State debt service as a share of the State's revenue will at some points become unsustainable by exceeding the threshold of 40%. This will mainly occur between 2023 – 2026 fiscal years. However, figure 29 further shows that revenue shocks will exert the greatest influence (even greater than historical trend) on the overall performance of the State on this indicator of debt service to revenue ratio within the projection period of 2023 – 2026 fiscal years.



In addition, Figure 29 above shows that between 2027 and 2030, Ebonyi State debt service as a share of the State's revenue will become sustainable if only faced by the two shocks of exchange rate and interest rate shocks. On the other hand, revenue shocks will still cause the State's debt service to revenue ratio to remain unsustainable by exceeding the threshold of 40%, while expenditure shock will make the State's performance on this indicator to hover around the threshold.

From figure 30 below, the presence of all the shocks (revenue, expenditure, interest rate and exchange rate shocks) may not exert any significant influence on the performance of Ebonyi State on the indicator of personnel cost to revenue ratio. Even with the historical trend that seems to be exerting substantial effects on other indicators may not change this indicator as much. Therefore this indicator remains sustainable and even more sustainable than the rest of the indicators even when the shocks are introduced. In fact, the performance is projected to be below 20% throughout the projection period of 2021 – 2030 fiscal years. On the other hand, the threshold is set at 60%. This means that the projected performance is lower than one third of the threshold throughout the projection period of 2021 – 2030 fiscal years.



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

a. Improving the IGR position of the state by introducing technology and bringing more people into the tax net

b. Aligning State government’s income and expenditure by keeping spending limits within the dictates of available resources and fiscal sustainable debt position;

c. Emphasis on achieving a more favourable balance for capital expenditure through restraining the increasing trend in recurrent expenditure;

d. Ensuring that the budget process is pursued with a framework that supports strategic prioritization and rational resource allocation and under the overall development policy objectives of the State; and

e. Ensure strict adherence to due process in budget execution as well as accountability, transparency and prudence in the entire public financial management process.

f. The State is also embarking on various reforms to block revenue leakages

g. Staff Verification Exercise is being doneto 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 debts may go beyond sustainable and manageable proportions if there are not 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 do to 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 amortising 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 any point in time have to borrow to be able to pay all her due obligations on old debts.

5.1 Alternative Borrowing Options

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

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

In this report, other domestic financing is mainly made up of short-term commercial bank loans like overdrafts that do not necessarily need much procedures to facilitate. The loans usually come at ***maximum interest rate of 15% per annum and maturity period of 5 years***. As the need for deficit financing arises, this category will account for up to about 74.78% of the entire borrowing needs of the State within the forecast period, and reduces in proportion (slightly below 50%) especially between 2025 and 2027 fiscal years. The main advantage of this source of financing is the ease with which it can be secured. This ease arises from the fact that it can even be facilitated through informal relationship with commercial bank operators. The requirements and conditions for domestic borrowing to take place are not usually very stringent. However, the downside of borrowing internally lies in the costs (interest rates and maturity period) of it, which are usually higher than those of external loans. It may actually be easier and faster to borrow from domestic sources, but may not be cheaper to do so. Apart from having relatively shorter maturity period, domestic commercial loans also come with shorter grace period (if any).

Within this Strategy 1 (S1), commercial bank loans (facilitated by the Federal Government of Nigeria and disbursed by the Federal Ministry of Finance and theCentral Bank of Nigeria through Commercial Banks) are projected to constitute specific amounts over some years within the projection period (i.e.₦10 billion in 2021; ₦18 billion in 2022-2027; and ₦24 billion in 2028-2030). This source of financing is projected to be given to the State at ***maximum of 9% interest rate, with 10 years maturity period***. Therefore, going by the interest rate and maturity period, this component of Strategy 1 (S1) should have been the best component and should have constituted over 50% of the entire financing needs. However, the facilitation of this source of financing is at the discretion of the Federal Government of Nigeria and not necessarily that of the State. Most of the time, Federal Government responds to financial requests by majority of the States through the National Economic Council (NEC). This means that this source of financing may not always be available when the need arises.

In addition, it is projected that the State willraise the sum of ₦25 billion in each of the fiscal years of 2024 – 2027 through State Bond. This period corresponds with a single term of one administration of the State Government. This State Bond is projected to attract ***maximum of 12% interest rate and maturity period of up to 10 years***. The rationale for projecting to finance fiscal gaps through this source for only one administration is the fact that it greatly depends on the disposition of any particular administration to issue bonds.

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

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

Strategy 3 (S3) – Domestic (State Bonds)

This is an instrument for borrowing mainly from the capital market of the country. Ebonyi State Government has not been adopting this strategy in recent time, but projects to finance all the fiscal deficits that will be incurred within the projection period of 2021 – 2030through this means as a third strategy. This source of financing usually comes at ***maximum of 12% interest rate with maturity period of up to 10 years.*** This means that this option is usually cheaper than the other domestic financing options considered in Strategy S1 above, but costlier than the commercial bank loans considered in Strategy S2 above. However, it is not easy to be accessed due to the processes and procedures involved in accessing financing from the Nation's capital market. The processes, procedures and conditions are the major deterrent to many States in accessing fund through this source.

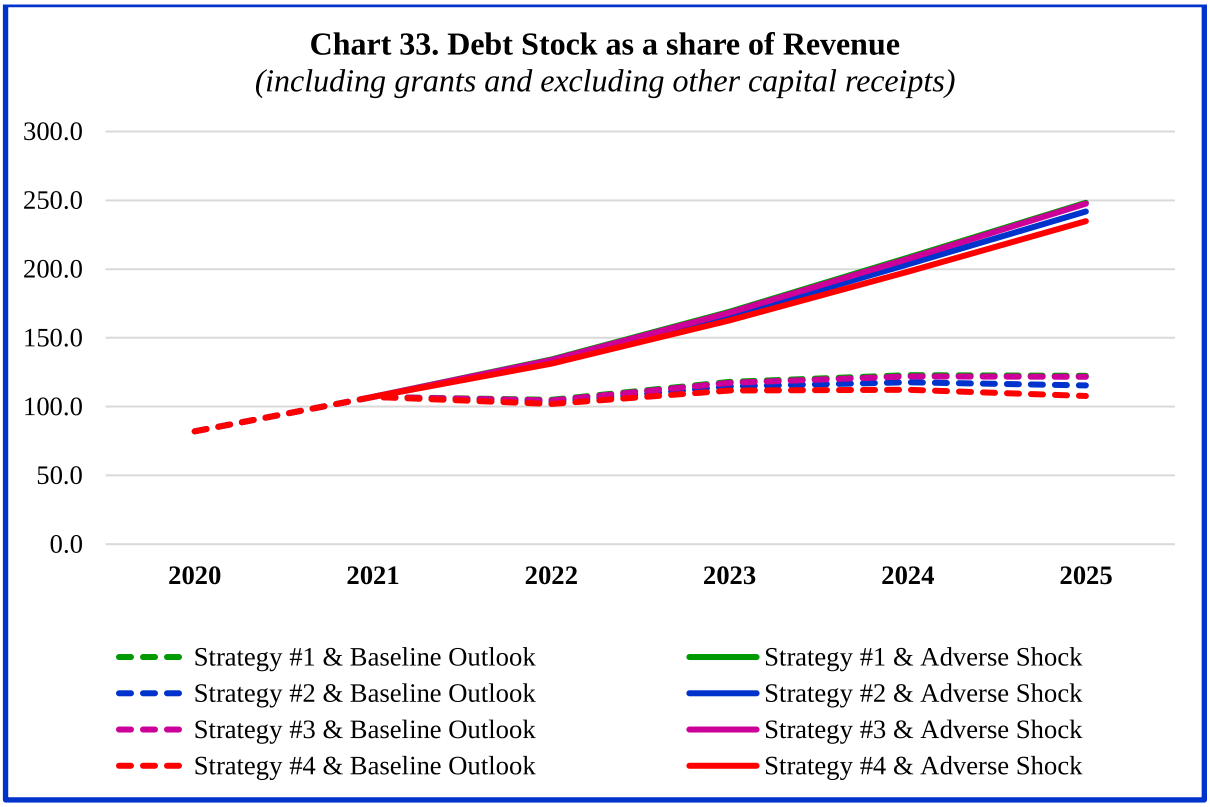
Strategy 4 (S4) – External (Multilateral Loans – World Bank, AfDB, etc)

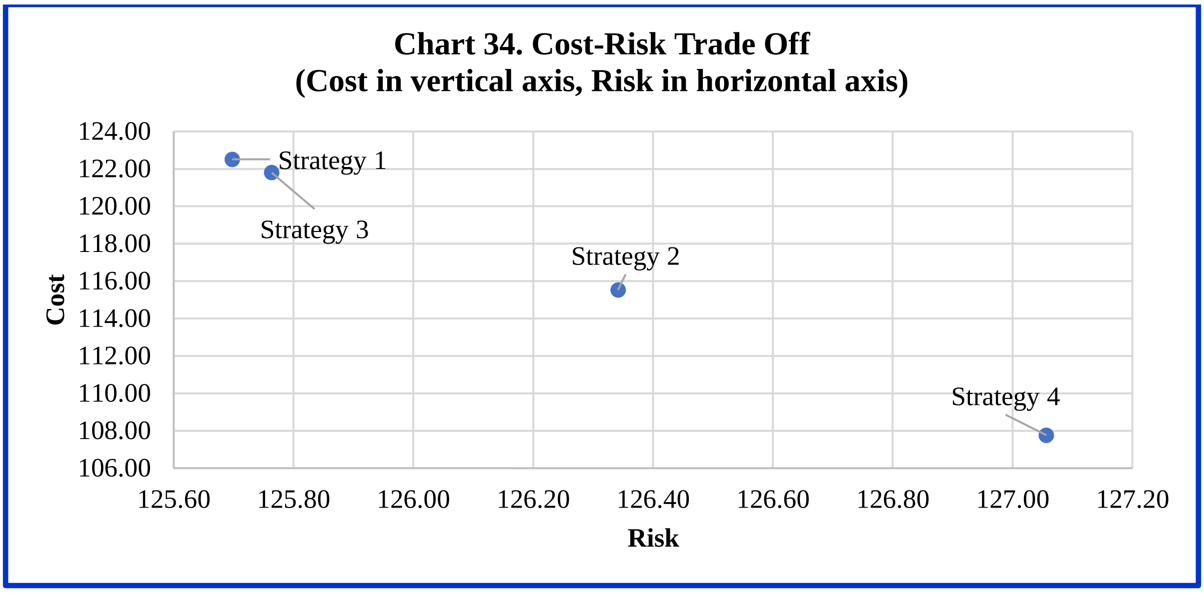
The fourth strategy for financing any fiscal deficit within the projection period of 2021 – 2030 is borrowing from external sources. As inversely explained under domestic borrowingoptions, external borrowing may be more difficult and take a slightly longer time to facilitate. External borrowing may be 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 loans. In this report, the external loans are projected to be facilitated by Multilateral financial institutions at ***maximum of 5% interest rate with maturity period of up to 10 years***. This strategy should have been the best strategy given the relatively lower interest rate and long maturity period, external loans also come with longer grace period.However, it may actuallybe more difficult and even take longer time to facilitate an external loan, though it is usually cheaper to do so. In addition, most external loans are tied to specific projects/programmes.

5.2 DMS Simulation Results

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

5.2.1 Debt/Revenue





From figure 33 above, it is clear that withall the four Strategies (S1 – S4), debt stock to revenue ratio stood at 82.1% in 2020. 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 2021 – 2025 fiscal years. Precisely, the baseline scenario ratio is projected to hover below 150% (which is lower than the threshold of 200%)for the medium term period of 2021 – 2025 fiscal years.However, with adverse shocks associated with each of the four Strategies (S1, S2, S3 and S4), the ratio is projected to increase up to 200% by 2024 and exceed the 200% threshold in 2025 fiscal year. In fact, movements of the State's projected debt stock to revenue ratio look alike across the four strategies between 2021 and 2025 fiscal years.

Figure 34 equally shows that though the cost of Strategy 1 is the highest across board, yet its risk in 2025 is the lowest. On the other hand, Strategy S4, which has the lowest comparative cost, also comes with the highest risks (including exchange rate volatility risk). Strategies S3 and S2 come in between Strategies S1 and S4 (both in terms of risks and costs). This explains why this report chooses Strategy S1 as the one to mostly adopt in any case of deficit financing.

5.2.2 Debt Services/Revenue

From figure 37 below, it is clear that with three out of the four Strategies (S2 – S4), projected debt service to revenue ratio will remain within sustainable level (i.e. below 40% threshold) throughout the medium term period of 2021 – 2025.Across these three Strategies (S2, S3 and S4), the projected debt stock to revenue ratio of the State Government whether by baseline scenario or with adverse shocks will still remain below 30% (which is lower than the threshold of 40% for this indicator) for the medium term period of 2021 – 2025 fiscal years. However, with Strategy S1, the projected debt stock to revenue ratio of the State Government both on baseline scenario and with adverse shocks will only remain below or equal to 40% for the two-year period of 2021 – 2022, before moving higher than the threshold between 2023 and 2025 fiscal years.

Chart 37. Debt Service as a share of Revenue
(including grants and excluding other capital receipts)

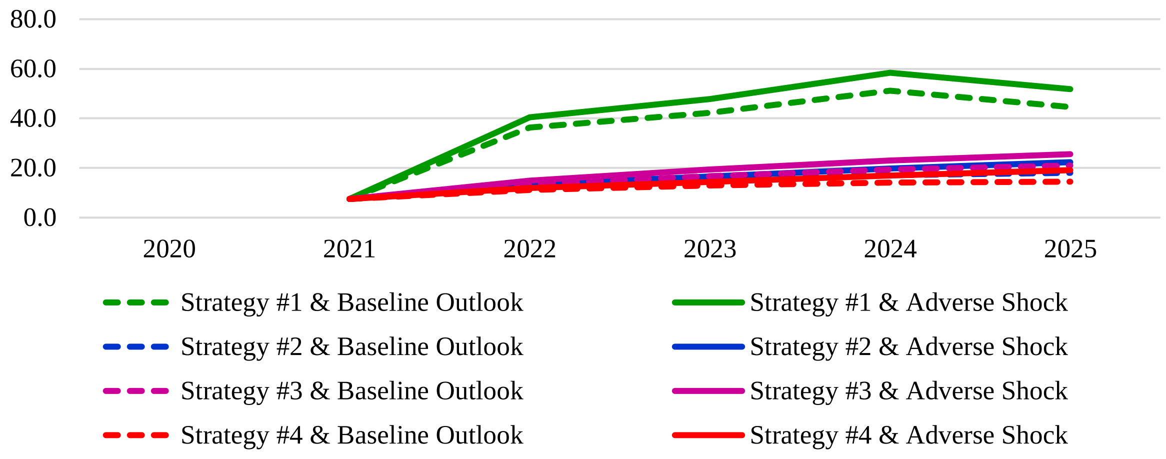
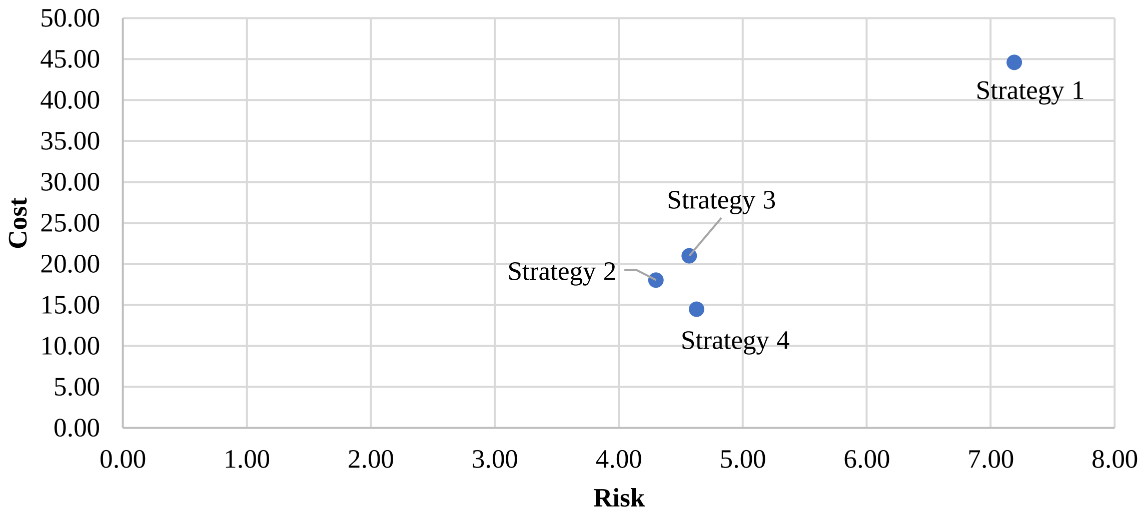


Chart 38. Cost-Risk Trade Off
(Cost in vertical axis, Risk in horizontal axis)



On its own, Figure 38 above shows that the cost and associated risks of Strategy 1 are the highest in 2025 fiscal year. The highest risk may be as a result of the uncertainties associated with accessing some of the sources of the funds within this strategy (e.g. the State Bonds and the Federal Government Intervention Funds). On the other hand, Strategy S4, which has the lowest comparative cost, also comes with the second highest risks (including exchange rate volatility risk). Strategy S2 presents the lowest risk across the strategies, and presents the second lowest cost after Strategy S4 (9% interest rate compared to 5% interest rate). Strategy S3 presents the second lowest risk after Strategy S2 on one hand, and on the other hand, presents the second highest cost after Strategy S1 (12% interest rate compared to 15% interest rate).

5.2.3 Interest/Revenue

Chart 41. Interest as % of Revenue

(including grants and excluding other capital receipts)

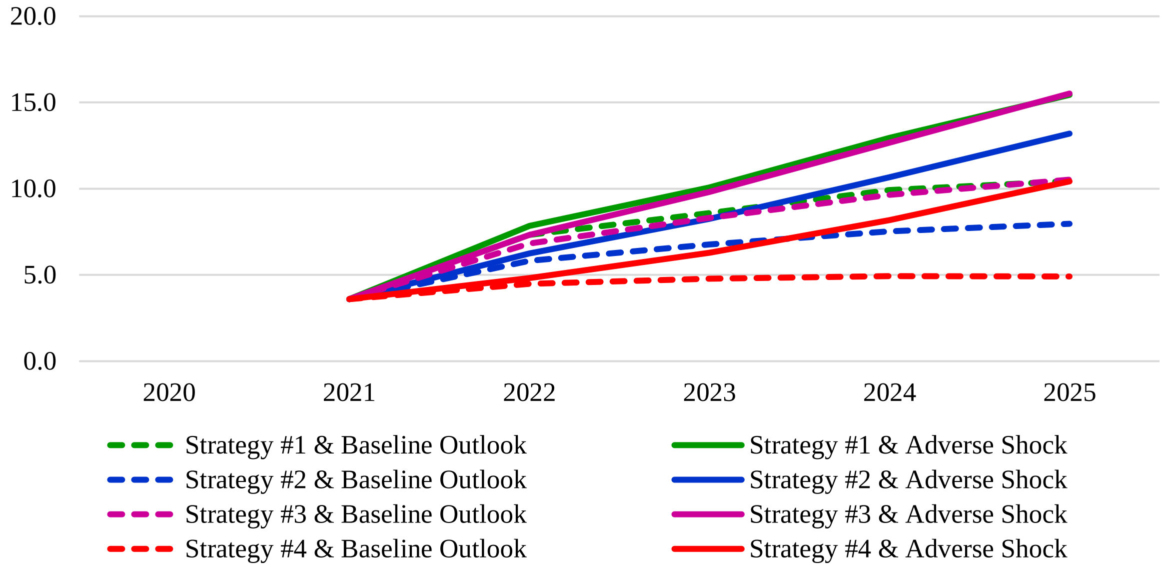
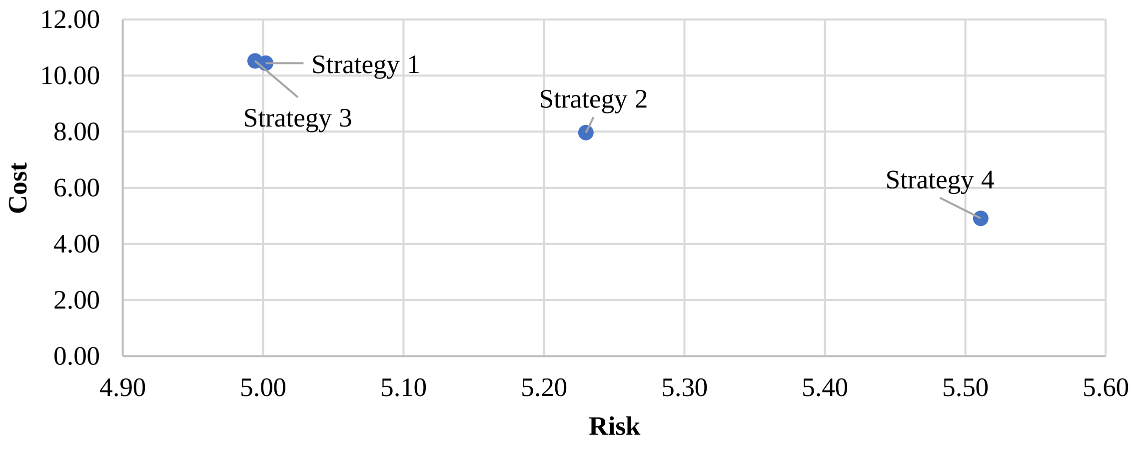


Chart 42. Cost-Risk Trade Off

(Cost in vertical axis, Risk in horizontal axis)



From figure 41 above, it is clear that with Strategy S4, projected interest obligation to revenue ratio will be at the lowest level. This is so for both the baseline scenario and the adverse shocks scenario. Strategy S4 presents the lowest level of interest to revenue ratio throughout the projection period of 2021 – 2025 fiscal years. Strategy S2 presents the second lowest projected interest to revenue ratio for the period of 2021 – 2025 fiscal years. On the other hand, Strategies S1 and S3 present the highest level of interest to revenue ratio throughout the projection period of 2021 – 2025 fiscal years. In fact, even their baseline outlook scenarios are still higher than the adverse shock scenario of Strategy S4. It is not surprising because the interest rates of 5% and 9% of Strategies S4 and S2 really differ from the interest rates of 12% and 15% for Strategies S3 and S1.

Following the discussion on Figure 41 above, Figure 42 above shows that though the cost of adopting Strategy S4 may be the lowest among other Strategies, yet its associated risks are the greatest in 2025 fiscal year. On the other hand, Strategies S3 and S1, which present the highest cost (in terms of interest obligations) also come with the lowest level of associated risks. Strategy S2 presents mid-level cost alongside mid-level risks.

5.2.4 DMS Assessment

The DMS simulation results presented and analysed in the previous subsections suggest that Strategy S4 is the best strategy with the lowest costs across various benchmarks. But the Strategy S4 does not equally present the lowest level of risk across the benchmarks. In most benchmarks, it presents the highest level of risks and therefore need to be considered with caution. On the other hand, Strategies S1 and S3, which present the lowest levels of risks also present the highest cost for most parts of the projection period. Across the benchmarks, Strategy S2 situates somewhere in mid-level risks and costs.

It is important to emphasise 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. **Having considered all the benchmarks in the light of the costs and risks involved in each of the Strategy, this report goes with Strategy S1as the preferred strategy.** The basis for this choice of Strategy (S1) is that it is the most feasible Strategy at the shortest possible time. As earlier explained, Strategy S1 may be costly and relatively risky (based on some benchmarks), but it is 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 (S2 – S4).

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.

It is also important to note thatEbonyi State public debt management policy is driven by the principle of gradual reduction of public debt to GDP ratio. For S1, theDebt to GDP ratio is observed to be constantly declining over the years. From 6.49% which was the peak position in 2025 to 5.52% in 2030.

Annex I. Table of Assumptions

		Projection Methodology	Source
Assumptions:			
Economic activity	State GDP (at current prices)	As reported by NBS and WBG	NBS, WBG
Revenue	**Revenue**		
	1. Gross Statutory Allocation ('gross' means with no deductions; do not include VAT Allocation here)	Projections based on FG MTEF 2022-2024, then extrapolated as provided by DMO	DMO
	1.a. of which Net Statutory Allocation ('net' means of deductions)	Projections based on FG MTEF 2022-2024, then extrapolated, as provided by DMO, less loan principal and interest amortization	DMO and Amortization schedule
	1.b. of which Deductions	Deductions are based only on agreed loan principal and interest amortization schedule	Loan agreement amortization schedule
	2. Derivation (if applicable to the State)	Nil derivation for none oil producing State	FG MTEF 2022-2024, extrapolated for 2024 to 2030
	3. Other FAAC transfers (exchange rate gain, augmentation, others)	Projected to 23% annual growth rate	Extrapolated at 23.00% growth from 2020 figures
	4. VAT Allocation	Projected to 23.00% annual growth rate	Extrapolated at 23.00% growth from 2020 figures
	5. IGR	Annual percentage growth in revenue - The State is committed to achieving the SFTAS basic target of 26.00% increase per year	Extrapolated at 26.00% annual growth
	6. Capital Receipts		
	6.a. Grants	Expected from SFTAS and other sources in 2021 and 2022, projected decline of 50% as SFTAS comes to an end from 2023 to 2030	Expected figures from SFTAS in 2021 and 2022 with 50% projected decline from 2023 to 2030
	6.b. Sales of Government Assets and Privatization Proceeds	30% annual percentage decrease	State Ministry of Finance
	6.c. Other Non-Debt Creating Capital Receipts	30% annual percentage decrease	State Ministry of Finance

Expenditure	**Expenditure**		
	1. Personnel costs (Salaries, Pensions, Civil Servant Social Benefits, other)	Annual percentage growth in recurrent expenditure - non interest of 10% between 2021 to 2027 and 20% between 2028 to 2030. State is committed to managing its recurrent non interest expenditure	State Ministry of Finance
	2. Overhead costs	Annual percentage growth in recurrent expenditure - non interest of 10% between 2021 to 2023, 15% between 2024 to 2027 and 20% between 2028 to 2030. State is committed to managing its recurrent non interest expenditure	State Ministry of Finance
	3. Interest Payments (Public Debt Charges, including interests deducted from FAAC Allocation)		
	4. Other Recurrent Expenditure (Excluding Personnel Costs, Overhead Costs and Interest Payments)	With N3,994.95 in 2021, it is expected to grow by 10% between 2022 to 2027 and 20% between 2028 to 2030	State Ministry of Finance
	5. Capital Expenditure	Annual percentage growth in capital expenditure (nominal) of 10% between 2021 to 2027 and 20% between 2028 and 2030. State is committed to increasing CAPEX	State Ministry of Finance
Closing Cash and Bank Balance	**Closing Cash and Bank Balance**	Annual decrease of 5.00% with more efficient application of Treasury Single Account (TSA)	State Ministry of Finance
Debt Amortization and Interest Payments	**Debt Outstanding at end-2020**		
	External Debt - amortization and interest	As reported to DMO	Quarterly report to DMO
	Domestic Debt - amortization and interest	As reported to DMO	Quarterly report to DMO

	New debt issued/contracted from 2021 onwards		
	New External Financing	**Insert the Borrowing Terms for New External Debt: interest rate (%), maturity (# years) and grace period (#)**	
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	At 5% interest rate and full amortization within 10 years of maturity; Zero grace period	
	External Financing - Bilateral Loans		
	Other External Financing		
	New Domestic Financing	**Insert the Borrowing Terms for New Domestic Debt: interest rate (%), maturity (# years) and grace period (#)**	
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)		
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)	At 9% interest rate and full amortization within 10 years of maturity; Zero grace period	
	State Bonds (maturity 1 to 5 years)		
	State Bonds (maturity 6 years or longer)	At 12% interest rate and full amortization within 10 years of maturity; Zero grace period	
	Other Domestic Financing	At 15% interest rate and full amortization within 5 years of maturity; Zero grace period	
Proceeds from Debt-Creating Borrowings	**Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S1**		
correspondi ng to 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)	At 9% interest rate and full amortization within 10 years of maturity; Zero grace period	
	State Bonds (maturity 1 to 5 years)		
	State Bonds (maturity 6 years or longer)	At 12% interest rate and full amortization within 10 years of maturity; Zero grace period	
	Other Domestic Financing	At 15% interest rate and full amortization within 5 years of maturity; Zero grace period	
	New External Financing in Million US Dollar		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)		
	External Financing - Bilateral Loans		
	Other External Financing		
Proceeds from Debt-Creating Borrowings	**Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S2**		
corresponding to Debt Strategy S2	**New Domestic Financing in Million Naira**		
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)		
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)	At 9% interest rate and full amortization within 10 years of maturity; Zero grace period	
	State Bonds (maturity 1 to 5 years)		

	State Bonds (maturity 6 years or longer)		
	Other Domestic Financing		
	New External Financing in Million US Dollar		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)		
	External Financing - Bilateral Loans		
	Other External Financing		
Proceeds from Debt-Creating Borrowings	**Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S3**		
corresponding to Debt Strategy S3	**New Domestic Financing in Million Naira**		
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)		
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)		
	State Bonds (maturity 1 to 5 years)		
	State Bonds (maturity 6 years or longer)	At 12% interest rate and full amortization within 10 years of maturity; Zero grace period	
	Other Domestic Financing		
	New External Financing in Million US Dollar		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)		

	External Financing - Bilateral Loans		
	Other External Financing		
Proceeds from Debt-Creating Borrowings	**Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S4**		
corresponding to Debt Strategy S4	**New Domestic Financing in Million Naira**		
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)		
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)		
	State Bonds (maturity 1 to 5 years)		
	State Bonds (maturity 6 years or longer)		
	Other Domestic Financing		
	New External Financing in Million US Dollar		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	At 5% interest rate and full amortization within 10 years of maturity; Zero grace period	
	External Financing - Bilateral Loans		
	Other External Financing		

Annex II. Historical and projections of the S1_Baseline Scenario

Indicator		Actuals					Projections									
		2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
		BASELINE SCENARIO														
Economic Indicators																
State GDP (at current prices)		1,185,018.00	1,327,104.00	1,463,690.00	1,699,551.00	1,883,319.00	2,243,659.00	2,487,783.00	2,748,741.00	2,989,421.00	3,257,512.00	3,556,552.00	3,883,043.00	4,239,506.00	4,628,693.00	5,053,607.00
Exchange Rate NGN/US$ (end-Period)		253.19	305.79	306.50	326.00	379.00	379.00	379.00	379.00	379.00	379.00	379.00	379.00	379.00	379.00	379.00
Fiscal Indicators (Million Naira)																
Revenue		**42,072.00**	**69,862.00**	**63,741.00**	**81,615.00**	**103,760.40**	**141,282.98**	**175,852.90**	**200,014.66**	**236,062.83**	**253,472.73**	**274,655.01**	**296,445.06**	**340,598.57**	**414,774.08**	**489,548.53**
1. Gross Statutory Allocation ('gross' means with no deductions; do not include VAT Allocation here)		18,237.00	29,814.00	38,041.00	37,032.00	29,345.00	45,139.00	52,010.00	53,676.00	57,641.00	60,283.00	62,144.00	57,367.00	62,993.00	77,814.00	79,920.00
1.a. of which Net Statutory Allocation ('net' means of deductions)		13,825.00	24,742.00	30,418.00	30,287.00	25,564.50	37,839.40	44,808.50	46,545.40	50,962.80	54,543.20	57,260.40	52,598.90	58,312.50	73,146.30	75,289.30
1.b. of which Deductions		4,412.00	5,072.00	7,623.00	6,745.00	3,780.50	7,299.60	7,201.50	7,130.60	6,678.20	5,739.80	4,883.60	4,768.10	4,680.50	4,667.70	4,630.70
2. Derivation (if applicable to the State)		0.00	0.00	0.00	40.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3. Other FAAC transfers (exchange rate gain, augmentation, others)		3,595.00	8,964.00	9,151.00	14,841.00	4,759.30	5,853.94	7,200.34	8,856.42	10,893.40	13,398.88	16,480.63	20,271.17	24,933.54	30,668.26	37,721.96
4. VAT Allocation		7,592.00	8,373.00	8,442.00	11,085.00	13,816.90	16,994.79	20,903.59	25,711.41	31,625.04	38,898.80	47,845.52	58,849.99	72,385.49	89,034.15	109,512.00
5. IGR		7,658.00	6,456.00	7,407.00	10,595.00	17,132.30	21,586.70	27,199.24	34,271.04	43,181.51	54,408.71	68,554.97	86,379.26	108,837.87	137,135.72	172,791.00
6. Capital Receipts		4,990.00	16,255.00	700.00	8,022.00	38,706.90	51,708.56	68,539.73	77,499.78	92,721.87	86,483.35	79,629.90	73,577.64	71,448.67	80,121.96	89,603.57
6.a. Grants		4,990.00	8,255.00	700.00	2,383.00	19,305.90	8,500.00	11,700.00	5,850.00	2,925.00	1,462.50	731.25	365.63	182.81	91.41	45.70
6.b. Sales of Government Assets and Privatization Proceeds		0.00	0.00	0.00	639.00	3,436.10	2,405.27	1,683.69	1,178.58	825.01	577.51	404.25	282.98	198.08	138.66	97.06
6.c. Other Non-Debt Creating Capital Receipts		0.00	0.00	0.00	0.00	1,648.10	1,153.67	807.57	565.30	395.71	277.00	193.90	135.73	95.01	66.51	46.55
6.d. Proceeds from Debt-Creating Borrowings (bond issuance, loan disbursements, etc.)		0.00	8,000.00	0.00	5,000.00	14,316.80	39,649.62	54,348.47	69,905.90	88,576.16	84,166.35	78,300.49	72,793.31	70,972.76	79,825.38	89,414.25
Expenditure		**46,946.00**	**65,784.00**	**74,014.00**	**72,240.70**	**118,692.30**	**126,829.98**	**174,674.38**	**198,777.22**	**234,763.51**	**252,108.45**	**273,222.51**	**294,940.94**	**339,019.24**	**413,115.78**	**487,807.32**
1. Personnel costs (Salaries, Pensions, Civil Servant Social Benefits, other)		11,563.00	12,965.00	13,317.00	13,585.00	14,082.10	15,490.31	17,039.34	18,743.28	20,617.60	22,679.36	24,947.30	27,442.03	32,930.43	39,516.52	47,419.83
2. Overhead costs		14,216.00	14,500.32	14,790.33	15,086.13	13,909.50	15,300.45	16,830.50	18,513.54	21,290.58	24,484.16	28,156.79	32,380.31	38,856.37	46,627.64	55,953.17
3. Interest Payments (Public Debt Charges, including interests deducted from FAAC Allocation)		785.00	1,470.00	2,089.00	2,313.00	1,561.60	3,529.80	8,708.24	11,027.07	14,506.68	17,590.23	20,640.54	22,940.67	24,825.60	27,183.52	28,070.41
3.a. of which Interest Payments (Public Debt Charges, excluding interests deducted from FAAC Allocation)		0.00	44.00	224.00	0.00	91.10	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3.b. of which Interest deducted from FAAC Allocation		785.00	1,426.00	1,865.00	2,313.00	1,470.50	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Other Recurrent Expenditure (Excluding Personnel Costs, Overhead Costs and Interest Payments)		0.00	0.00	0.00	0.00	0.00	3,994.95	4,394.45	4,833.89	5,317.28	5,849.01	6,433.91	7,077.30	8,492.76	10,191.31	12,229.57
5. Capital Expenditure		12,138.00	32,888.68	37,614.67	34,583.57	76,971.70	84,668.87	93,135.76	102,449.33	112,694.27	123,963.69	136,360.06	149,996.07	179,995.28	215,994.34	259,193.21
6. Amortization (principal) payments		8,244.00	3,960.00	6,203.00	6,673.00	12,167.40	3,845.60	34,566.10	43,210.10	60,337.10	57,542.00	56,683.92	55,104.57	53,918.80	73,602.46	84,941.15
Budget Balance ('+' means surplus, '-' means deficit)		**-4,874.00**	**4,078.00**	**-10,273.00**	**9,374.30**	**-14,931.90**	**14,453.00**	**1,178.52**	**1,237.45**	**1,299.32**	**1,364.28**	**1,432.50**	**1,504.12**	**1,579.33**	**1,658.30**	**1,741.21**
Opening Cash and Bank Balance		**25,744.00**	**20,870.00**	**24,948.00**	**14,675.00**	**24,049.30**	**9,117.40**	**23,570.40**	**24,748.92**	**25,986.37**	**27,285.68**	**28,649.97**	**30,082.47**	**31,586.59**	**33,165.92**	**34,824.22**
Closing Cash and Bank Balance		**20,870.00**	**24,948.00**	**14,675.00**	**24,049.30**	**9,117.40**	**23,570.40**	**24,748.92**	**25,986.37**	**27,285.68**	**28,649.97**	**30,082.47**	**31,586.59**	**33,165.92**	**34,824.22**	**36,565.43**
Financing Needs and Sources (Million Naira)																
Financing Needs							**43,208.56**	**56,839.73**	**71,649.78**	**89,796.87**	**85,020.85**	**78,898.65**	**73,212.02**	**71,265.85**	**80,030.55**	**89,557.87**
i. Primary balance							-21,380.16	-12,386.87	-16,175.16	-13,653.77	-8,524.34	-141.69	6,337.35	9,057.87	22,413.72	25,194.90
ii. Debt service							7,375.40	43,274.34	54,237.17	74,843.78	75,132.23	77,324.46	78,045.24	78,744.40	100,785.97	113,011.55
Amortizations							3,845.60	34,566.10	43,210.10	60,337.10	57,542.00	56,683.92	55,104.57	53,918.80	73,602.46	84,941.15
Interests							3,529.80	8,708.24	11,027.07	14,506.68	17,590.23	20,640.54	22,940.67	24,825.60	27,183.52	28,070.41
iii. Financing Needs Other than Amortization Payments (e.g., Variation in Cash and Bank Balances)							14,453.00	1,178.52	1,237.45	1,299.32	1,364.28	1,432.50	1,504.12	1,579.33	1,658.30	1,741.21
Financing Sources							**43,208.56**	**56,839.73**	**71,649.78**	**89,796.87**	**85,020.85**	**78,898.65**	**73,212.02**	**71,265.85**	**80,030.55**	**89,557.87**
i. Financing Sources Other than Borrowing							3,558.94	2,491.26	1,743.88	1,220.72	854.50	598.15	418.71	293.09	205.17	143.62
ii. Gross Borrowings							39,649.62	54,348.47	69,905.90	88,576.16	84,166.35	78,300.49	72,793.31	70,972.76	79,825.38	89,414.25
Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)							0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)							10,000.00	18,000.00	18,000.00	18,000.00	18,000.00	18,000.00	18,000.00	24,000.00	24,000.00	24,000.00
State Bonds (maturity 1 to 5 years)							0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
State Bonds (maturity 6 years or longer)							0.00	0.00	0.00	25,000.00	25,000.00	25,000.00	25,000.00	0.00	0.00	0.00
Other Domestic Financing							29,649.60	36,348.50	51,905.90	45,576.20	41,166.30	35,300.50	29,793.30	46,972.80	55,825.40	65,414.30
External Financing - Concessional Loans (e.g., World Bank, African Development Bank)							0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
External Financing - Bilateral Loans							0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other External Financing							0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Residual Financing							0.02	-0.03	0.00	-0.04	0.05	-0.01	0.01	-0.04	-0.02	-0.05
Debt Stocks and Flows (Million Naira)																
Debt (stock)		**39,451.54**	**53,877.53**	**78,696.50**	**69,927.00**	**69,231.10**	**105,035.12**	**124,817.48**	**151,513.29**	**179,752.34**	**206,376.69**	**227,993.27**	**245,682.01**	**262,735.97**	**268,958.89**	**273,432.00**
External		11,393.54	19,264.53	20,535.50	21,190.00	24,976.10	24,521.30	24,028.60	23,346.40	22,474.70	21,603.00	20,731.30	19,859.60	18,912.10	17,926.70	16,865.50
Domestic		28,058.00	34,613.00	58,161.00	48,737.00	44,255.00	80,513.82	100,788.88	128,166.89	157,277.64	184,773.69	207,261.97	225,822.41	243,823.87	251,032.19	256,566.50
Gross borrowing (flow)							**39,649.62**	**54,348.47**	**69,905.90**	**88,576.16**	**84,166.35**	**78,300.49**	**72,793.31**	**70,972.76**	**79,825.38**	**89,414.25**
External							0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Domestic							39,649.62	54,348.47	69,905.90	88,576.16	84,166.35	78,300.49	72,793.31	70,972.76	79,825.38	89,414.25
Amortizations (flow)		**8,244.53**	**3,960.63**	**6,204.18**	**6,692.60**	**9,482.90**	**3,845.60**	**34,566.10**	**43,210.10**	**60,337.10**	**57,542.00**	**56,683.92**	**55,104.57**	**53,918.80**	**73,602.46**	**84,941.15**
External		240.53	244.63	291.18	358.60	416.90	454.80	492.70	682.20	871.70	871.70	871.70	871.70	947.50	985.40	1,061.20
Domestic		8,004.00	3,716.00	5,913.00	6,334.00	9,066.00	3,390.80	34,073.40	42,527.90	59,465.40	56,670.30	55,812.22	54,232.87	52,971.30	72,617.06	83,879.95
Interests (flow)		**784.28**	**1,469.26**	**2,090.19**	**2,324.04**	**1,322.90**	**3,529.80**	**8,708.24**	**11,027.07**	**14,506.68**	**17,590.23**	**20,640.54**	**22,940.67**	**24,825.60**	**27,183.52**	**28,070.41**
External		101.28	119.26	150.19	176.04	37.90	75.80	75.80	75.80	75.80	75.80	151.60	151.60	151.60	151.60	151.60
Domestic		683.00	1,350.00	1,940.00	2,148.00	1,285.00	3,454.00	8,632.44	10,951.27	14,430.88	17,514.43	20,488.94	22,789.07	24,674.00	27,031.92	27,918.81
Net borrowing (gross borrowing minus amortizations)							**35,804.02**	**19,782.37**	**26,695.80**	**28,239.06**	**26,624.35**	**21,616.58**	**17,688.74**	**17,053.96**	**6,222.93**	**4,473.11**
External							-454.80	-492.70	-682.20	-871.70	-871.70	-871.70	-871.70	-947.50	-985.40	-1,061.20
Domestic							36,258.82	20,275.07	27,378.00	29,110.76	27,496.05	22,488.28	18,560.44	18,001.46	7,208.33	5,534.31
Debt and Debt-Service Indicators																
Debt Stock as % of SGDP		**3.33**	**4.06**	**5.38**	**4.11**	**3.68**	**4.68**	**5.02**	**5.51**	**6.01**	**6.34**	**6.41**	**6.33**	**6.20**	**5.81**	**5.41**
Debt Stock as % of Revenue (including grants and excluding other capital receipts)		**93.77**	**87.09**	**123.46**	**92.04**	**82.07**	**107.10**	**104.88**	**118.03**	**122.89**	**122.51**	**116.47**	**110.06**	**97.55**	**80.35**	**68.36**
Debt Service as % of SGDP							**0.33**	**1.74**	**1.97**	**2.50**	**2.31**	**2.17**	**2.01**	**1.86**	**2.18**	**2.24**
Debt Service as % of Revenue (including grants and excluding other capital receipts)							**7.52**	**36.36**	**42.25**	**51.17**	**44.60**	**39.50**	**34.96**	**29.24**	**30.11**	**28.25**
Interest as % of SGDP							**0.16**	**0.35**	**0.40**	**0.49**	**0.54**	**0.58**	**0.59**	**0.59**	**0.59**	**0.56**
Interest as % of Revenue (including grants and excluding other capital receipts)							**3.60**	**7.32**	**8.59**	**9.92**	**10.44**	**10.54**	**10.28**	**9.22**	**8.12**	**7.02**
Personnel Cost as % of Revenue (including grants and excluding other capital receipts)							**15.79**	**14.32**	**14.60**	**14.10**	**13.46**	**12.74**	**12.29**	**12.23**	**11.81**	**11.86**
Adverse Shock Scenario is defined by the worst performance indicator measured in year 2025																
For Debt Stock as % of SGDP the adverse shock is: Historical	**Historical**															
Debt Stock as % of SGDP							**4.68**	**5.91**	**7.67**	**9.99**	**12.87**	**16.36**	**20.49**	**25.35**	**31.02**	**37.59**
For Debt Stock as % of Revenue (including grants and excluding other capital receipts) the adverse shock is: Historical	**Historical**															
Debt Stock as % of Revenue (including grants and excluding other capital receipts)							**107.10**	**134.33**	**169.00**	**208.24**	**248.21**	**285.98**	**319.15**	**346.33**	**367.04**	**381.11**
For Debt Service as % of SGDP the adverse shock is: Expenditure	**Expenditure**															
Debt Service as % of SGDP							**0.33**	**1.74**	**2.01**	**2.58**	**2.42**	**2.33**	**2.54**	**2.45**	**2.85**	**2.98**
For Debt Service as % of Revenue (including grants and excluding other capital receipts) the adverse shock is: Revenue	**Revenue**															
Debt Service as % of Revenue (including grants and excluding other capital receipts)							**7.52**	**40.40**	**47.77**	**58.42**	**51.79**	**46.73**	**48.24**	**42.02**	**43.05**	**41.42**
For Interest as % of SGDP the adverse shock is: Historical	**Historical**															
Interest as % of SGDP							**0.16**	**0.35**	**0.46**	**0.62**	**0.80**	**1.02**	**1.27**	**1.56**	**1.91**	**2.31**
For Interest as % of Revenue (including grants and excluding other capital receipts) the adverse shock is: Historical	**Historical**															
Interest as % of Revenue (including grants and excluding other capital receipts)							**3.60**	**7.85**	**10.08**	**12.94**	**15.44**	**17.82**	**19.75**	**21.32**	**22.63**	**23.43**

Annex III. Minimum Requirements to Achieve DLI 7.2 on State DSA-DMS Report in 2021

DLR description as per DLI Matrix & Definition/Description of DLR achievement
Annual state debt sustainability analysis and medium-term debt management strategy published by end of December 2021 States publish an annual State Debt Sustainability Analysis and Debt Management Strategy Report (SDSA-DMSR) by December 31, 2021. The SDSA-DMSR must include the following: (1) medium-term budget forecasts; (2) detailed description of the debt portfolio and borrowing options; including a summary analysis of the projections of performance indicators used to assess Debt Management Strategy, and their implications for cost-risk profile of State debt portfolio in 2025; and (3) analysis of the debt and fiscal figures in the preceding calendar year. The SDSA-DMSR must be published on a state official website. See below for the detailed definition of the **minimum requirements** of the SDSA-DMSR for Year 2021.
The SDSA-DMSR 2021 must include: **For *(1) medium-term budget (MTB) forecasts,* the SDSA-DMSR 2021 must contain:** **1.1 Presentation of MTB forecasts in either a table OR chart(s) (OR both table and chart(s)) with projected annual figures from 2021 to 2024 for all of the following variables:** - Revenues: Total Revenues, FAAC, Derivation (if applicable), IGR, Capital Receipts, and Grants. - Expenditures: Total Expenditures, Personnel Costs, Overhead Costs, Interest Payments, Capital Expenditures, and Amortization Payments. - Budget Balance. **AND** **1.2 Description of assumptions underpinning the MTB forecasts from 2021 to 2024: either a table with assumptions OR corresponding explanations in writing (OR both) for all of the following variables:** - Revenues: Total Revenues, FAAC, Derivation (if applicable), IGR, Capital Receipts, and Grants.

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

AND

1.3 A summary analysis of MTB forecasts and their implications for fiscal and debt policies throughout the period 2021-2024: analysis (in writing) of whether and how the MTB forecasts inform the prospective fiscal and debt policies to be adopted at least in 2021 (for example, a commentary on whether fiscal adjustments should be adopted to preserve debt sustainability, or whether there is sufficient fiscal space to adopt expansionary policies or support public investment).

AND

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

i) negative figures for revenue, expenditure or debt variables (budget balance can be negative);

ii) contradictory or illogical statements or arguments (for example, the written text contains wrong assertions such as ‘sustainability is strengthened when the fiscal indicators deteriorate’);

iii) inconsistencies between the written assessment and the data, assumptions and projections presented in the document (for example, the written text refers to figures and projections significantly different from those reported in the tables and charts).

For*(2)detailed description of the debt portfolio and borrowing options,* the SDSA-DMSR 2021 must contain:

2.1 Presentation of debt and borrowing projections in the baseline scenario: either a table OR charts (OR both) with projected figures from 2021 to 2030 for all of the following variables:

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

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

AND

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

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

AND

2.3 A summary analysis of the debt projections and their implications for debt sustainability and fiscal policies throughout the period 2021-2030: analysis (in writing) of:

(i) whether debt projections and thresholds suggest the State debt is sustainable (or not) over the medium- to long-term; AND

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

AND

2.4 A summary analysis of the projections of performance indicators used to assess DMS throughout the period 2021-2025, and their implications for cost-risk profile of State debt portfolio in 2025. The analysis (in writing) should describe:

(i) whether DMS-related performance indicators suggest the State debt is affordable and resilient to shocks (or not) over the medium-term, and

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

AND

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

(i) negative figures for debt and borrowing projections;

(ii) contradictory or illogical statements or arguments (for example, the written text contains wrong assertions such as 'sustainability is strengthened when the debt indicators deteriorate');

(iii) inconsistencies between the written assessment and the data, assumptions and projections presented in the document (for example, the written text refers to figures and projections significantly different from those reported in the tables and charts).

For *(3) analysis of the debt and fiscal annual figures in the preceding calendar year,* the SDSA-DMSR 2021 must contain:

3.1 Presentation of revenue, expenditure, budget balance, and debt information, at least for 2020: either a table OR charts (OR both table and chart(s)) with historical figures for at least 2020 (but can extend to years preceding 2020) all of for the following variables:

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

AND

3.2 A summary analysis of the information presented on revenue, expenditure, budget balance, and debt in 2020: analysis(in writing) of fiscal and debt situation in 2020 (for example, a commentary on budget and debt outcomes and economic trends, what may have affected them).

AND

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

i) the fiscal and debt information for 2020 presented in the SDSAR 2021 and;

ii) the fiscal and debt information presented in the 2020 Financial Statement and the 2020 Q4 State Debt Report.

AND

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

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

Data Sources

- **State Ministry of Finance** for: (1) the quarterly SDDR (submitted to the DMO and acknowledgements); (2) the 2020 SDSAR; and (3) the 2021 SDSA-DMSR.
- **State official website(s)** for the published 2020 SDSAR and 2021 SDSA-DMSR.
- **State Debt Management Departments (DMDs**) for additional information (if requested by the IVA).
- **(Federal) Debt Management Office (DMO)** for: (1) the guidelines and templates provided by DMO for the SDDR, the SDSAR, and the SDSA-DMSR; (2) the standard internal protocols used by DMO for reviewing and approving SDDR, assessing the SDSAR and assessing the SDSA-DMSR; (3) the State Domestic and External Debt Report (SDEDR) and supporting documentation (format and content detailed in DLI 9 for each state; (4) DMO's assessment of the SDSAR; and (5) DMO's assessment of the SDSA-DMSR.

Ebonyi State Technical Team

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3. DMD/Revenue and Statistic - Mrs. Elizabeth Anigor.
4. Office of the Accountant General - Mrs. Mfon Williamson.
5. Budget and Planning - Mrs. Chinyere Ituma.
6. Budget and Planning - Mr. Oroke Christian.

Approved By

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Mr. Orlando Okechukwu Nweze
Honourable Commissioner for Finance