

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

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

November 2023

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1. INTRODUCTION

Debt Sustainability Analysis (DSA) is a tool in public finance management used by governments and international financial institutions to assess the sustainability of a State debt burden. Ebonyi State 2023 DSA evaluates the trends and patterns in the State's public finances during the period 2018-2022 and tries to look into the level of debt sustainability for the period of 2023-2032 (long-term). It highlights the recent trends in revenue, expenditure, and public debt, and the related policies adopted by the State. Ebonyi State Debt Sustainability Analysis (S-DSA) Toolkit was developed by Debt Management Office, Nigeria and reviewed by the World Bank. A debt sustainability assessment is conducted, including scenario and sensitivity analysis, in order to evaluate the prospective performance of the State's public finances.

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

Historic data of revenue, expenditure and public debt were obtained for the State's DSA-DMS and analyzed from 2018 to 2022 and projections for the years 2023 to 2032 were obtained from this analysis using the appropriate assumptions, and our findings shows that the State's long term outlook (2023-2032) for the public debt appears sustainable.

Our review shows that the gross revenue of the State grew by 59% between 2018 and 2022, growing from ₦63.741 billion to ₦101.612 billion. Revenue outlook from the projection analysis table therefore shows that the State Revenue is expected to grow up to ₦341.464 billion in 2032, which is about 435.7% growth, taking 2018 as the baseline.

With the massive infrastructural growth of the State Government since 2015 and also the personnel occasioned by increase in staff strength and promotions with corresponding increase on overhead cost, Ebonyi State has witnessed a noticeable increase in her expenditure. The expenditure of the State grew by 65.9% from ₦74.014 billion in 2018 to ₦122.767 billion in 2022. Expenditure outlook from the projection analysis table shows that the State expenditure is expected to grow higher in the year 2023 to ₦148.859 billion, reaching a peak value of ₦455.356 billion in 2032. The debt trend therefore shows that the long-term outlook (2023-2032) for the public debt appears sustainable for the State. As the State's Internally Generated Revenue (IGR) grew from ₦7.407 billion in 2018 to ₦23.028 billion in 2022, it is projected that in 2032, the IGR of the State should be ₦32.221 billion growing from ₦19.219 billion in 2023. This thereby creates a solid debt position.

2. EBONYI STATE FISCAL AND DEBT FRAMEWORK

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

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

In 2019, the State Government estimated total expenditures of ₦188.402 billion for the year. In the budget, total expected revenues were equal to total expected expenditures. However, out of this ₦188.402 billion, only the sum of ₦81.615 billion was realized as revenue, while only the sum of ₦72.240 billion was spent within the fiscal year. This led to a surplus closing balance of ₦9.375 billion. It is therefore rational to expect that the State's budget size for the next fiscal year will reduce from what it was in 2019 fiscal year. In 2020, the budget size decreased from ₦188.402 billion to ₦178.137 billion and was later revised downwards to ₦132.002 billion within the year due to COVID-19 health and Economic effects. At the end of the same fiscal year, the actual revenue increased to ₦103.760 billion, while actual expenditures stood at ₦118.692 billion, and a negative closing balance of ₦14.932 billion.

With the aim of ensuring that a zero or near to zero budget balance is achieved, and with the relatively low budget performance in the two immediate past years, there was a slight decrease in the budget size as at 2021 to the sum of ₦122.852 billion. This budget estimate also took into consideration the infrastructural plans of the State Government for the fiscal year 2021. Actual revenue in 2021 fiscal year dropped to ₦102.102 billion, while actual expenditures stood at ₦100.787 billion, and a closing balance of ₦1.315 billion. The drop in the expected revenue for 2021 made the State Government to revise her budget downwards to ₦99.157 billion. The 2022 budget size rose to ₦ 145.410 this rise in budget was as a result of the fact that the past administration wanted to complete all on-going projects before leaving office. During the course of the year's budget performance actual revenue was 99.251 billion, while actual expenditure stood at 80.536. As a result of the gap between the budget and actual in 2022, the State Government reviewed the 2023 budget downwards to 139.398 billion to have a more realistic budget. In all, the recent years have taught the State Government to make realistic revenue projections so as to have sufficient funds to implement the expenditure

components of the budget. The State has also made significant efforts to increase internal revenues through various sorts of reforms that are targeted at increasing the tax base instead of the rates.

Ebonyi State Approved 2023 Budget and Medium Term Expenditure Framework (MTEF), 2024 – 2026

Approved 2023 Budget

The 2023 budget of Ebonyi State followed a downward trend unlike that of 2022 fiscal year with the State fully conscious of the need to make the revenue and expenditure projections to be as realistic as possible. The budget size for the year 2023 is ₦139.398 billion.

The 2022 budget of the State is ₦145.410 billion representing 4.3% decrease of the 2023 budget size. This downsizing of the budget stems from the fact that, 2022 actual revenue which was ₦138.414 is below the budget estimates for the year. Actual revenue has ₦101.612 billion as the physical revenue supported by internal loans of ₦36.802 billion. The new administration really needs to increase its tax base to be able to achieve the 2023 budget size.

The Key Objectives of Approved 2023 Budget

The key objectives of the Approved 2023 Budget are:

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

the IGR on annual basis.

Indicative Three-Year Fiscal Framework

The 2023-2025 Medium Term Expenditure Framework (MTEF) of the State was prepared and has been approved by the State House of Assembly. The 2023 budget was produced based on this MTEF. The 2024-2026 MTEF has been prepared, approved by the State House of Assembly and published. The budget of 2023 shows a decrease in budget size over the previous year as expected and shown above. Analyzing from the 2023 approved budget and the approved 2024-2026 MTEF, it shows that the expected budget size for 2024 to 2026 fiscal years are respectively ₦202.721 billion; ₦223.927 billion and ₦251.43 billion. This expenditure is expected to be financed with Revenue same as the amount of expenditure for each fiscal year. While the ₦30.705 billion debt burden expected to be created in 2022 is expected to be financed by Commercial Bank loan (₦7.000 billion); FGN Bridging Facility to State (₦18.225 billion) and NG-Cares Program Fund (₦5.480 billion), the debt burden to be created in 2023 and 2024 are respectively ₦17.740 billion and ₦5.000 billion, they are both expected to be financed through loans.

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

Medium Term Policy Objectives and Targets

The key objectives of the Medium Term Policy are:

- xi. Reduce the cost of governance by efficiently managing personnel and overhead costs in a manner that will free up funds for investment in critical infrastructures in the State;
- xii. Manage available human and material resources within the education sub-sector in order to improve on the quality of service delivery;
- xiii. Prioritize the improvement of healthcare service delivery in the State so as to make the State attractive for Healthcare Service Tourism.
- xiv. Grow the IGR by a minimum of 20% on annual basis in line with the SFTAS verification protocol in order to make the State self-reliant.
- xv. Sustain the current regime of peace and order in the State through the provision of requisite support to security agencies of the Federal Government and that of South

East to control and prevent crime;

- xvi. Grow the economy through targeted spending in areas of comparative advantage;
- xvii. Prioritize relieving people and MSMEs of the adverse economic effects of COVID-19 pandemic through grants and micro-credit facilities.

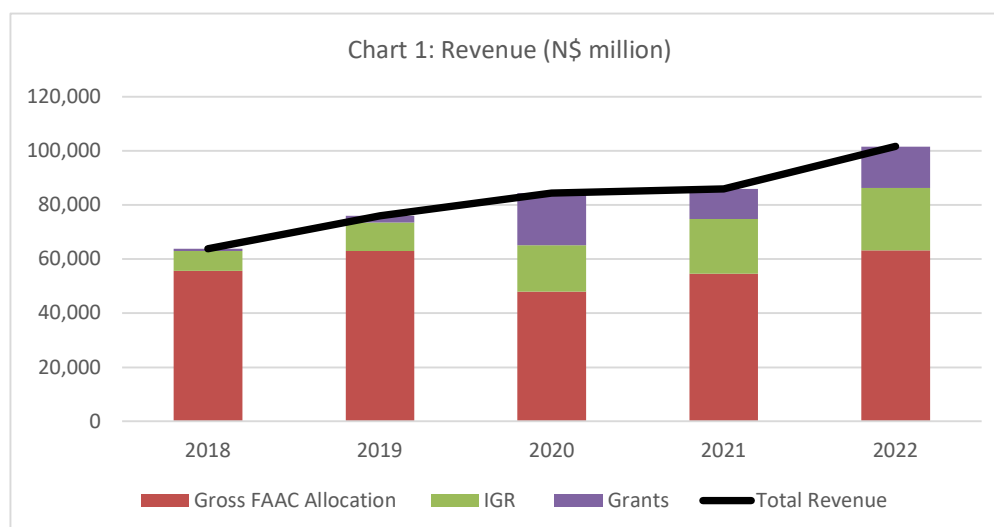
3. THE STATE REVENUE, EXPENDITURE, AND PUBLIC DEBT TRENDS (2018 – 2022)

3.1 Revenue, Expenditure, Overall and Primary Balances

Aggregate State Total Revenue trend in the last five years and its composition in 2022

The main components and determinants of the aggregate revenue are the FAAC allocations, IGR and the grants, with the FAAC allocation contributing a higher percentage within the years under review. Table and Chart 1 below clearly show that the total revenue of Ebonyi State maintained an upward trend throughout the review period of 2018 – 2022. The State's total revenue (including grants and excluding other capital receipts) stood at ₦101.612 billion in 2022 as against the sum of ₦85.867 billion realized in 2021 fiscal year. This represents an increase of 18.3% in total revenue of the State within one fiscal year. It is important to note that the 2022 fiscal year came during the economic rejuvenation from the COVID-19 pandemic. It therefore became paramount to the Government of Ebonyi State that there was a need to make reforms that will aid in this economic restoration. 2022 fiscal year saw a huge increase in all revenue items except in capital receipts which grants from SFTAS formed a major part of it even though part of the grant came in 2023.

Item	2018	2019	2020	2021	2022
Total Revenue	63,741.00	75,976.00	84,359.40	85,867.00	101,612.00
Gross FAAC Allocation	55,634.00	62,998.00	47,921.20	54,496.00	63,234.00
IGR	7,407.00	10,595.00	17,132.30	20,269.00	23,028.00
Grants	700.00	2,383.00	19,305.90	11,102.00	15,350.00



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

FAAC Allocations trend in the last five years.

Generally, there has been a progressive growth in total revenue between 2018 and 2022, though with significant decline in gross FAAC allocation of 2020 when compared 2018, 2019 and 2021. This decline in 2020 is attributed mainly to the COVID-19 pandemics which lead to the drop of oil prices and subsequent reduction in FAAC allocation to the State. However, in 2021 when the COVID-19 effect had been managed, FAAC allocation is seen to have increased. In 2019, FAAC Allocation increased by 13.2% when compared to 2018, this increase was due to increased federal transfers from crude oil receipts. However, there was a decline in 2020 by 31.5% as oil prices fell with subsequent drop in the federation transfers. In 2021, oil prices picked up, transfers from federation account increased and this was evident in the 13.72% increase seen that year. This growth was sustained in 2022 as FAAC allocation grew by 16% when compared with 2021.

IGR trend in the last five years.

In 2018 and 2019 IGR and grants formed very insignificant portions of the State's total revenue, and as a result, any shock in the FAAC revenue of the State equally translated to shock in the total revenue of the State. However, that was not the case in 2020, 2021 and 2022 fiscal years. In those years, the shares of IGR and Grants in the total revenue of the State increased.

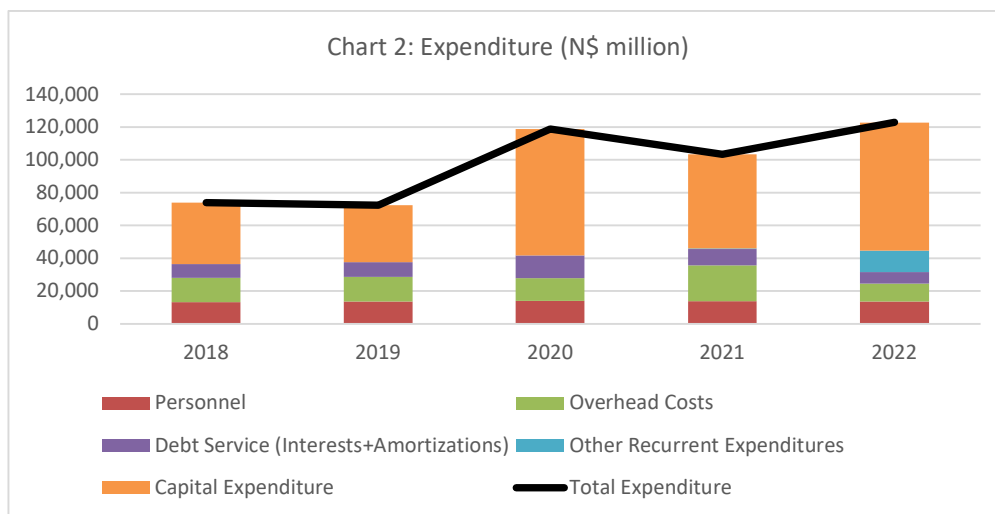
The increased shares of IGR and Grants caused the overall influence of FAAC revenue on the State's total revenue to decline. In fact, IGR and Grant seriously measured with the State's FAAC revenue of 2020. On the other hand, the 2020 values of IGR and Grants represent sharp increases from the 2019 values of the two sources of revenue within the State. With the Government's reforms already yielding results, IGR and grant had the highest growth in 2022.

Aggregate (total) Expenditure trend in the last five years and its composition in 2022.

Table and Chart 2 below shows that the State's total expenditures increased throughout the review period, except in 2019 when it fell below the level of 2018 and 2021 fell below 2020 figures. Similarly, capital expenditure increased steadily throughout the review period except in the same 2019 and 2021 when it fell respectively slightly below the 2018 and 2020 values.

The State Government’s Personnel cost has remained almost stagnant throughout the review period. On the other hand, the State Government’s Overhead cost slightly maintained an upward trend between 2018 and 2019 before following a downward trend in 2020 and sustained its upward trend in 2021 fiscal year. 2022 saw a serious decrease in its overhead cost. 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.

Item	2018	2019	2020	2021	2022
Total Expenditure	74,014.00	72,240.70	118,692.30	103,327.70	122,767.00
Personnel	13,317.00	13,585.00	14,082.10	13,822.00	13,580.00
Overhead Costs	14,790.33	15,086.13	13,909.50	21,772.00	11,005.00
Debt Service (Interests+Amortizations)	8,292.00	8,986.00	13,729.00	9,906.60	7,063.00
Other Recurrent Expenditures	-	-	-	549.10	12,963.00
Capital Expenditure	37,614.67	34,583.57	76,971.70	57,278.00	78,156.00



Incidentally, debt service obligations of the State have been marginally increasing since 2018 fiscal year, reaching its peak in 2020. This is as a result of some of the previous capital projects that were executed with debt financing facilities and needed to be serviced within these periods. However debt service declined in 2021 and 2022 fiscal years. The reason for the decline is that the previous loans are reducing and the new loans borrowed within 2021 year end 2022 fiscal year periods, which were an outcome of fiscal deficit financing options of the State Government were still under moratorium. In 2022 fiscal year, there was a

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

Personnel cost increased by 2.01% in 2019 when compared to 2018. This growth was sustained in 2020 by 3.66%, and decreased throughout the remaining review period by 1.88% in 2021 and 1.78% in 2022. During this period also, overhead cost also grew at 2.00% in 2018 and 2019. It however declined by 8.45% in 2020 and grew again in 2021 by 56.52%. In 2022, it dropped drastically by 97.83% when compared to 2021 figure, also overhead as a percentage of total expenditure in 2022 declined by 12.07% against its percentage in 2021. Capital expenditure on the other hand contributed the highest portion of the total expenditure throughout the five-year historical period, having its highest in 2020 when the percentage of capital over total expenditure grew by 65% as a result of the provision of Health Care facilities to combat COVID-19 effects. The 2022 total expenditure of the State Government stood at ₦122.722 billion, which is an increase of 18.81% from the ₦103.328 billion total expenditure in 2021 fiscal year. Similarly, in 2018, the total expenditure of the State, which stood at the sum of ₦74.014 billion, represents a decrease of 2.45% from the sum of ₦72.241 billion as total expenditure in 2019 fiscal year by the State. The 2021 total expenditure of the State was higher than the 2021 total revenue of the State by ₦17.461 billion. In the same vein the 2022 total expenditure of the State is also higher than the 2022 revenue of the State by 20.73%. These fiscal gaps created room for more loans and therefore more debt service obligations for the State in subsequent years.

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

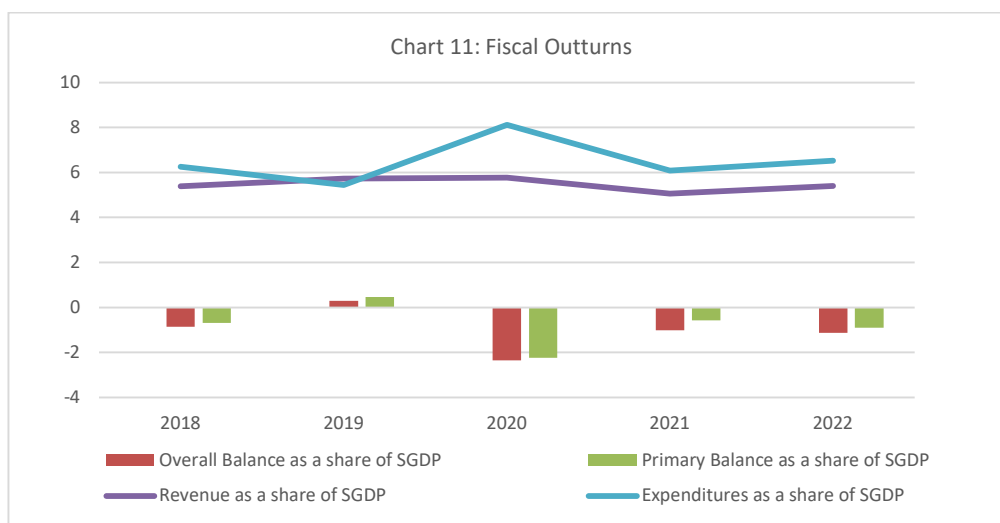
While the personnel and overhead costs have shown close to constant variation, the capital expenditure has shown a wide variation. It contributed 50.82% of the total expense in 2018, 47.87% of the total expense in 2019, 64.85% of the total expense in 2020 and 55.43% of the total expense in 2021 and 63.66% in 2022. This alone made it the highest expense line within the period being reviewed. Ebonyi State was known and called the “dust” of the nation, due to lack of infrastructure in the state. As a result of this, a massive growth on infrastructural reform formed the hallmark of the immediate past Administration. As a result of this also, more attention was given to capital expenditure which has taken over a bigger chunk of the total expenditure. Between 2018 and 2022, capital expenditure had its highest growth in 2022,

growing by 107.78%. This growth was facilitated by the fact that the Government of the past regime wanted to complete all the ongoing project before handing over which ranged from building and renovating Hospitals to cater for the sick, providing the necessary health care facilities and medication, buildings, roads and bridges for easy transportation between the rural and urban centers, etc. There was a high growth of capital expenditure in 2020 by 122.57% when compared to 2019 fiscal year. In 2021, the growth dropped by 34.38%, and increased again by 36.45% in 2022. This was still an increase of 1.54% when compared with 2020.

Overall and primary balance trend in the last five years.

The essence of fiscal policy is to use government revenues and expenditures to direct economic activities within the national or sub-national entity. When the economic activities are properly directed with the revenue collection and expenditure tools of the Government, the effects become obviously felt in the society. Figure 11 below presents the fiscal out-turns of Ebonyi State Government for the period of 2018-2022.

Item	2018	2019	2020	2021	2022
	0	0	0	0	0
Overall Balance as a share of SGDP	-0.8669067	0.2814625	-2.34564013	-1.02737135	-1.12328289
Primary Balance as a share of SGDP	-0.6906224	0.4557518	-2.23895087	-0.58198312	-0.9012812
Revenue as a share of SGDP	5.3789056	5.724947	5.76347451	5.05233441	5.3953685
Expenditures as a share of SGDP	6.2458123	5.4434845	8.10911463	6.07970576	6.51865138



The fiscal out-turns presented in Table and chart 11 above show that the State’s total revenues and total expenditures for the period of 2018-2022 maintained a close to straight line trend when measured as percentages of the State GDP. From total expenditure to GDP ratio of 6.25% in

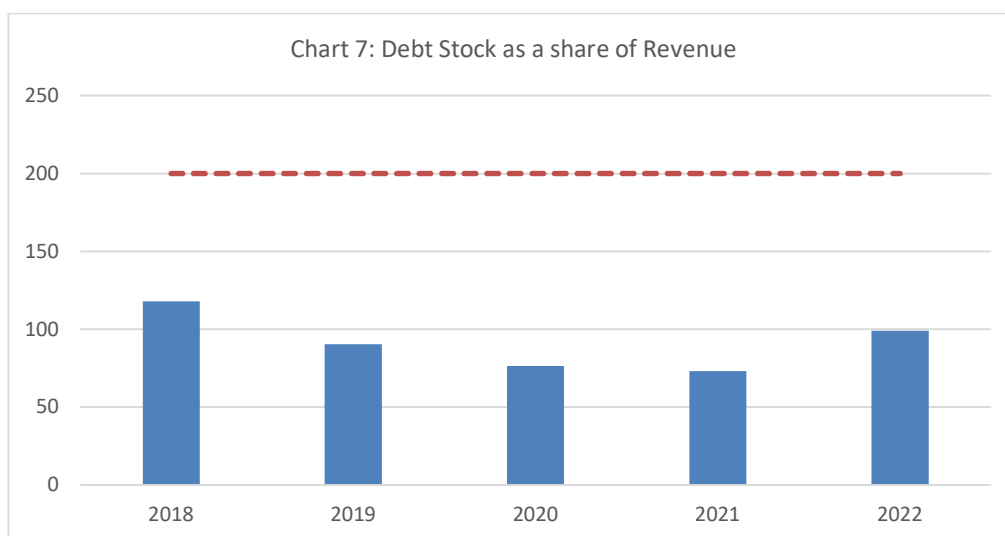
2018, reaching a peak level of 8.11% in 2020 and returning back to 6.08% in 2021, then picking up again by 6.52 in 2022. Similarly, total revenue to GDP ratio of the State remained constant at about 5% from 2018 to 2022 fiscal years. On the other hand, the ratio of primary and overall balance of the State refers to fiscal deficit/surplus that the State recorded within the period. Each of these items stand at less than 0% of the State's GDP per annum with the overall balance of -0.86 and primary balance of -0.69 in 2018 as a share of State GDP, overall balance of -2.34 and the primary balance of -2.23 as a share of the State's GDP in 2020 and -1.12 and -0.92 each in 2022. Though there is no given benchmark for acceptable level, yet a record of -0.92 ratio of primary balance to GDP is still impressive.

3.2. Existing Public Debt Portfolio

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

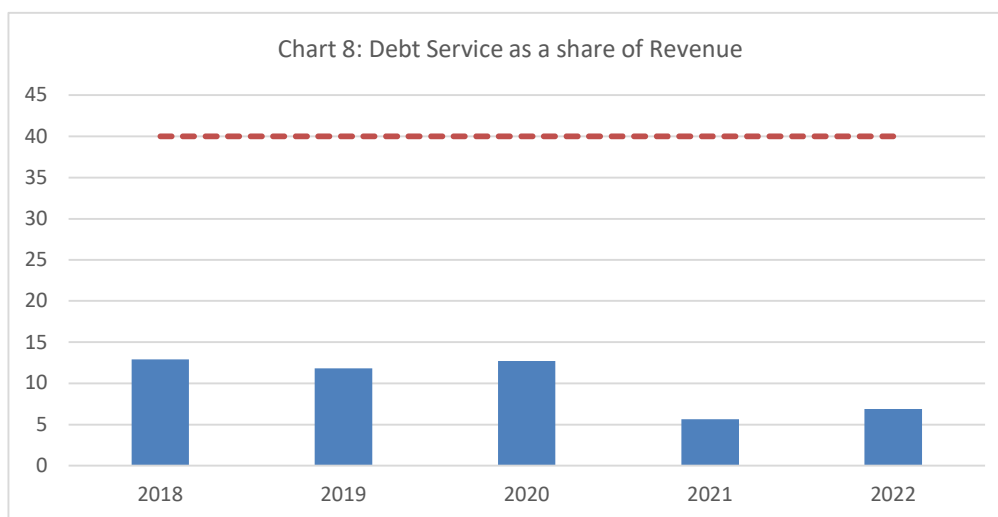
Public debt stock amount or its shares on total Revenue at end-2022 and its growth in the last five years.

In her quest for development, Ebonyi state has continually increased her debt stock over the years. The state public debt stock amounted to ₦100.753 as at the end of 2022. Between 2018 and 2022, the state acquired more of the domestic debt than external debt which mostly came



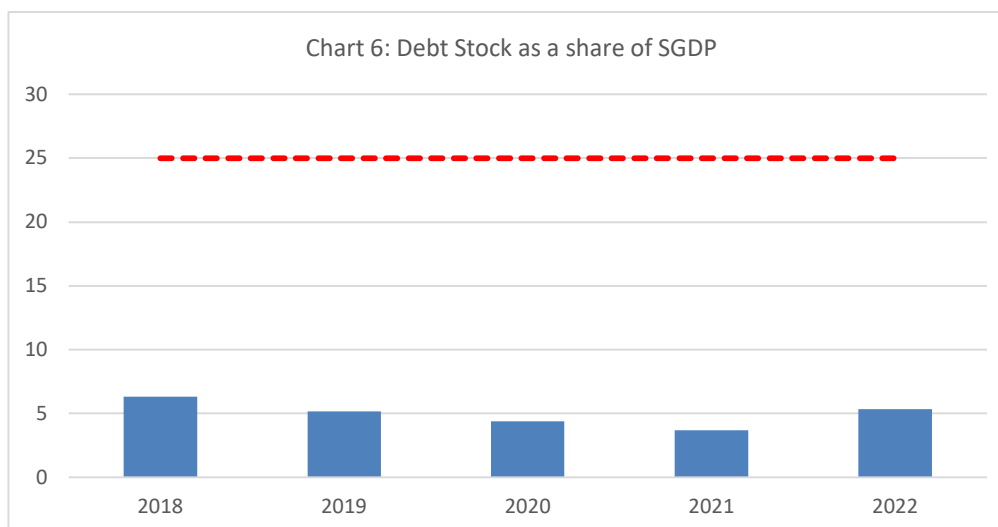
as Federal Government bailouts and financial support. Currency devaluation also increased the pressure on the external loans over the years from 2018 to 2022. All these repayment have its own significant pressure it exerts on the total revenue each fiscal year. The debt stock of

Ebonyi state, when analyzed as a fraction of total revenue accounted for 118% in 2018, 90% in 2019, 76% in 2020, 73% in 2021 and 98% in 2022 fiscal year. From Chart 7 above, it can be deduced that the debt stock as a share of revenue is sustainable since the benchmark is 200%.



The debt service within the analyzed years also shows sustainability. Between the years 2018 and 2022, the debt service as a share of revenue fluctuated from 6% to 13% with the lowest of 6% in 2021 fiscal year. With the threshold of 40%, Ebonyi State has shown sustainability in the prudence of managing her Finances.

With a threshold of 25%, it is evident that the debt stock as a share of the State’s GDP is sustainable owing to the fact that the state has maintained its level at 4% to 6% from 2018 to 2022 with 5% within the 2022 fiscal year as seen in chart 6 below.

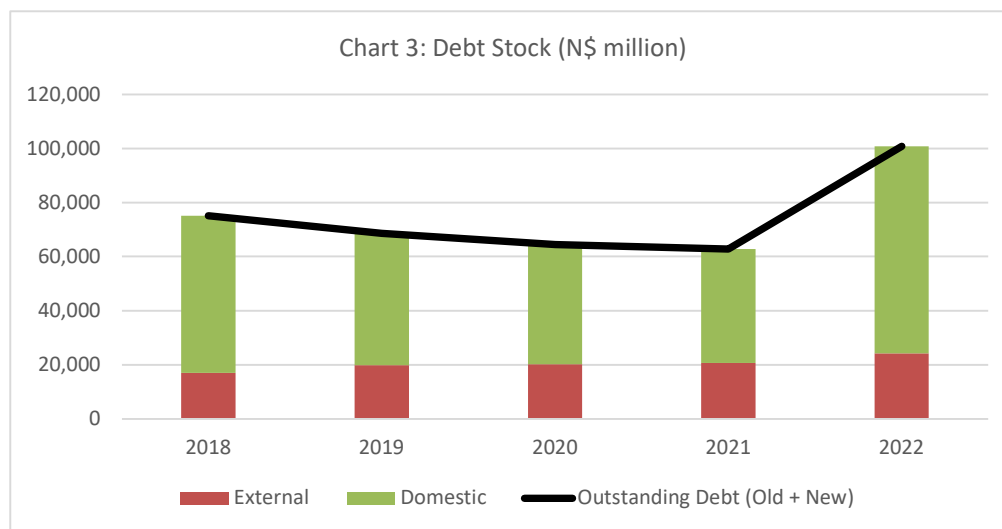


The existing public debt portfolio composition at end-2022.

The total debt stock of Ebonyi State was high in 2018 fiscal year before falling gradually between 2019 and 2021 fiscal years. It however increased by 60.28% in 2022 fiscal year from

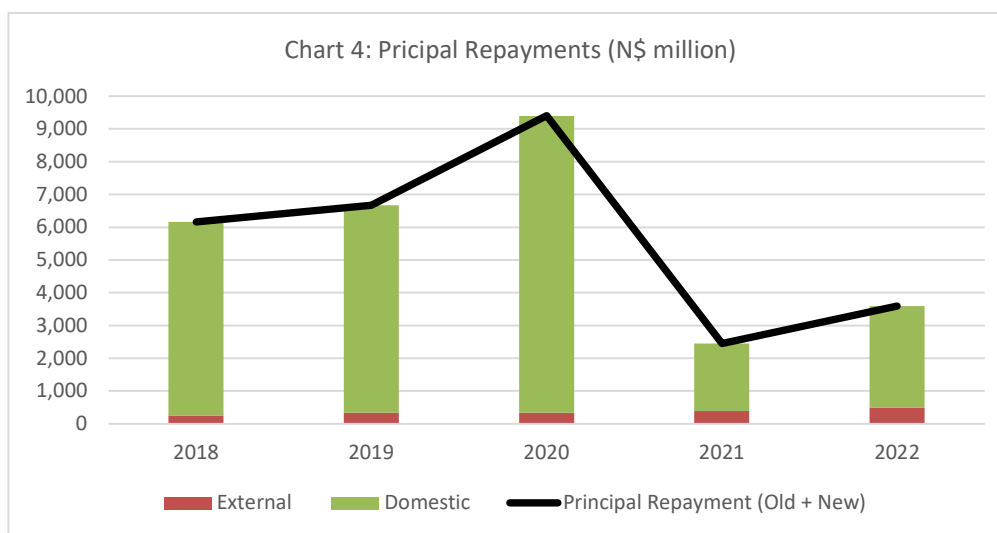
its 2021 value. That is ₦62.861 billion in 2021 to ₦100.753 billion in 2022. At the tail end of 2021 and 2022 fiscal years, the immediate past Administration foresaw the great need to complete all ongoing projects and also execute new ones that were of great importance to the growth of the State's economy before handing over to the new Administration. As a result of this, the State Government contracted some Commercial Bank and Federal Government Intervention loans, some of which includes; Commercial Bank Term loan of ₦8.5 billion, Federal Government Intervention loans like Bridging Finance of ₦18.225 billion, Airport loan of ₦10 billion. This accounted for the large increase in the State's public debt in 2022 fiscal year. This increase especially affected the Domestic Debt more than the External ones. Chart 3 below shows that though there have been fluctuations in the State's total debt stock, yet the State's external debt stock has been on steady increase throughout the review period.

Precisely, the total debt stock of Ebonyi State Government decreased from the sum of ₦75.125 billion in 2018 to ₦68.613 billion in 2019, ₦64.453 in 2020 and further to ₦62.861 in 2021 decreasing by 19.51% between 2018 and 2021 fiscal years. The total debt stock rose by 60.28% in 2022 to the sum of ₦100.753 billion. Within the same period the external debt stock of the State steadily increased from the sum of ₦16.964 billion in 2018, to ₦19.876 in 2019, ₦20.198 in 2020, ₦20.701 in 2021 and ₦24.256 in 2022 fiscal years. The external debt stock of 2022 which was the highest within the review period only contributed 24.07% of the total debt of the State. This shows that Ebonyi State borrowing requirement within the review period was majorly financed by Domestic Debt.



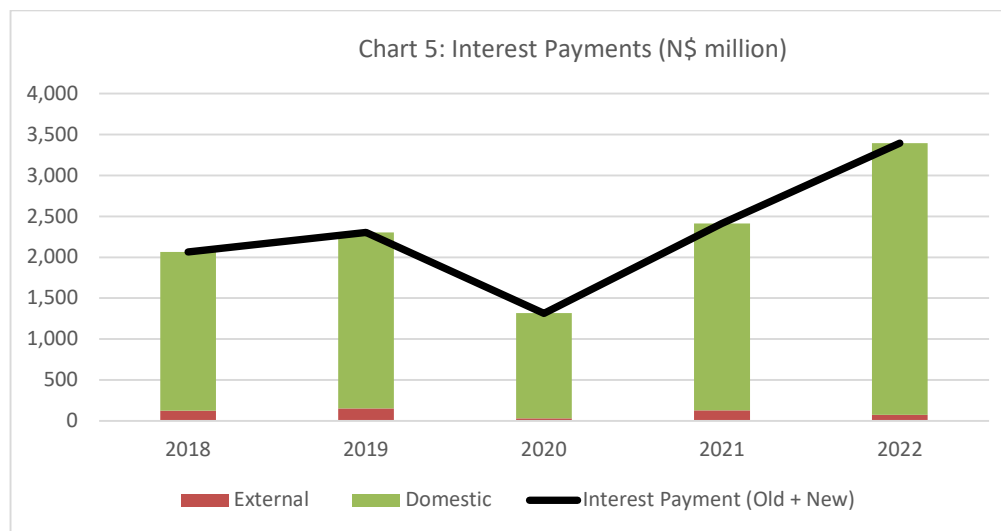
Cost and risks exposure of the existing public debt portfolio at end-2022.

The consistent increases in the value and share of external debt stock of Ebonyi State almost throughout the review period may be attributed to the persistent devaluation of the Nigerian local currency (Naira) viz-a-viz other major currencies of international trade and foreign loans. Given the nature of the State's debt stock over the review period of 2018 – 2022, it is imperative to also review the debt service obligations of the State within the same period. This is because the suitability and sustainability of any society's fiscal operations largely depend on the amount of money it uses in servicing debts. Sometimes, principal repayment is not considered a problem as they may just constitute a minute proportion of total expenditure of the society. However, when some due interests are capitalized, principal may increase, thereby mounting pressure on principal repayment. This subsection therefore presents Ebonyi State Government's recent experiences in repayment of principals and interests. Chart 4 below presents the recent principal repayment obligations of Ebonyi State Government within the review period. The principal repayment, from the chart, has not maintained a steady trend throughout the study period. From an upward trend from 2018 to 2020, the repayment fell in 2021 by 284.58% of its value in 2020 and slightly increased in 2022 by 47.03%. Incidentally, throughout the review period, repayment of external debts remained very insignificant, while the large chunk of the repayment went into domestic debt principal repayment. Looking at the Chart 3 above, and comparing same with Chart 4 below, it is clear that the proportions of domestic principal repayment obligations of the State Government in total principal repayment obligations were consistently higher than the proportions of external debt stock in total debt stock of the State.



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

insignificant proportion of external principal repayment in the total principal repayment of the State Government throughout the review period. Chart 5 below reveals that the interest payment obligations of Ebonyi State have also maintained oscillating movement; increasing between 2018 and 2019, but dropped sharply in 2020 and increased again in 2021 with 2022 fiscal year recording the highest increase. The increase in the interest payment in 2022 was contributed by the commercial bank loan that the interest payment was commenced immediately it was disbursed that same year, while the principal repayment was still under moratorium.



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

4. DEBT SUSTAINABILITY ANALYSIS

The Concept of Debt Sustainability

At every point in time, creditors are mindful of the ability of debtor countries (as well as debtor sub national entities) to service loans and accruing liabilities promptly. It therefore refers to the ability of the government to honor its future financial obligations. This concern stems from the fact that these national and sub national entities will still need to meet up with their

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

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

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

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

Ebonyi State Debt Sustainability Analysis

It is worth noting that in all debt burdens for the years 2018 to 2022, Ebonyi State maintained far lower than the indicative threshold which shows that the State's debt was sustained for these years with the highest figures recorded in 2018. Debt Service as a percentage of revenue was seen to have its highest in both 2018 and 2020. The debt burden without threshold also

maintained a relative down trend, though slightly increased as 2020 was approached due to the additional domestic loans acquired.

4.1 Medium-Term Budget Forecast

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

Recent reforms in the public financial management (PFM) systems of national and sub national governments emphasize the need for medium term budget forecasts (MTBF) or at least a medium term expenditure framework (MTEF). The forecast or framework helps the government to make projections of expected expenditures (and revenues) for a future period of at least three years. Arguments for MTBF or MTEF are supported by the fact that most governments are elected for a period of more than one year, and therefore should be able to plan for a longer time than just one year (as is usually the case with annual budgets). In the case of Ebonyi State, there is an approved medium term expenditure framework (MTEF) covering from 2024-2026. As such, all Medium Term Budget Forecasts of the State are based on the approved medium term expenditure framework (MTEF) and the 2023 already approved budget.

However, following the supply of baseline information of the fiscal operations of the State Government in recent years, the MS Excel Template provided for this DSA-DMS report estimates the Medium Term Budget Forecasts (MTBF) for Ebonyi State. Tables 2, 3a & 3b below present the figures for the period covering 2023 – 2026 with the macroeconomic assumptions.

Table 2: Ebonyi State 2023 Budget

Item	2023 Budget
Assumptions:	
Oil price (US\$/bbl)	75.00
Oil production (national, mbpd)	1.5000
Exchange rate (N/US\$)	750
GDP growth (national, percent annual change)	3.20
Inflation (national, percent, annual average)	22.00
1. Opening Balance	5,000,000,000.00
2. Revenues and grants:	134,398,280,640.00
Gross (not net of deductions) Statutory Allocation	35,000,000,000.00
Derivation	-
Other FAAC transfers (exchange rate gain, augmentation, others)	4,450,000,000.00
VAT	22,000,000,000.00
IGR	19,218,945,640.00
Internal grants	32,602,170,000.00

External grants	
Other Capital Receipts	21,127,165,000.00
3. Expenditures:	139,382,480,640.00
Recurrent expenditures:	58,521,558,769.00
Personnel costs (salaries, pensions)	27,101,968,769.00
Overhead costs	20,322,550,000.00
Public Debt charges (Interest payments on debt (or debt service), including FAAC deductions)	10,597,040,000.00
Contingency	500,000,000.00
Capital expenditures:	80,860,921,871.0
Admisistration	12,386,960,699.00
Economic	44,887,361,172.00
Law and Justice	1,560,000,000.00
Regional	25,200,000.00
Social	22,001,400,000.00
Contingency	
4. Balance =(1+2-3))	15,800,000.00

Table 3a: Ebonyi State Medium Term Expenditure Framework (MTEF) - Macro-Economic Framework (2024 – 2026)

Macro-Economic Framework	Fiscal Year		
	2024	2025	2026
Item			
National Inflation	20.00%	15.50%	15.20%
National Real GDP Growth	3.00%	3.00%	3.00%
Oil Production Benchmark (MBPD)	1.6000	1.7000	1.8000
Oil Price Benchmark	\$65.00	\$65.00	\$65.00
NGN:USD Exchange Rate	750	750	750
Other Assumptions			
Mineral Ratio	25%	30%	35%

The State medium term debt sustainability is dependent upon the recovery of the nation's economy which will lead to increase in FAAC allocations. The macroeconomic assumption for sustainability is based on maintenance of oil production to between 1.6000mbpd to 1.8000mbpd at the national level, inflation maintained between 20% and 15.20%, oil price benchmark stood at \$65/bbl and NGN:USD exchange rate maintained its stand at ₦750:1\$. It is also expected that shared resources such a VAT, receipt from custom duties, etc, will increase in the coming years.

Table 3b: Ebonyi State Medium Term Expenditure Framework (MTEF) 2024 – 2026

Fiscal Framework	Fiscal Year		
	2024	2025	2026
Item			
Opening Balance	14,131,645,880	14,131,645,880	14,131,645,880
Recurrent Revenue			
Statutory Allocation	81,698,755,931	102,084,882,110	125,604,544,694

EBONYI STATE GOVERNMENT (EBSG) DEBT SUSTAINABILITY ANALYSIS (DSA-DMS) 2023

VAT	39,545,983,691	50,836,698,342	63,820,486,196
IGR	25,600,000,000	26,500,000,000	27,000,000,000
Excess Crude / Other Revenue	11,500,000,000	12,000,000,000	12,500,000,000
Total Recurrent Revenue	172,476,385,502	205,553,226,332	243,056,676,770
Recurrent Expenditure			
Personnel Costs	25,924,661,755	29,813,361,018	34,285,365,171
Social Contribution and Social Benefit	4,263,363,369	4,263,363,369	4,263,363,369
Overheads	35,952,527,792	43,143,033,350	47,457,336,686
Grants, Contributions and Subsidies	0	0	0
Public Debt Service	12,462,330,028	14,481,470,533	12,085,641,498
Total	78,602,882,944	91,701,228,270	98,091,706,724
Transfer to Capital Account	93,873,502,559	113,851,998,061	144,964,970,048
Capital Receipts			
Grants	5,374,320,000	5,374,320,000	5,374,320,000
Other Capital Receipts	0	0	0
Total	5,374,320,000	5,374,320,000	5,374,320,000
Reserves			
Contingency Reserve	5,346,767,951	6,372,150,016	7,534,756,980
Planning Reserve	8,249,048,751	8,857,100,414	10,440,573,313
Total Reserves	13,595,816,702	15,229,250,430	17,975,330,293
Capital Expenditure	110,523,145,858	116,997,067,631	135,363,959,755
Discretionary Funds	100,277,685,858	108,622,747,631	126,989,639,755
Non-Discretionary Funds	10,245,460,000	8,374,320,000	8,374,320,000
Financing (Loans)	24,871,140,000	13,000,000,000	3,000,000,000
Total Revenue (Including Opening Balance)	202,721,845,502	223,927,546,332	251,430,996,771
Total Expenditure (including Contingency Reserve)	202,721,845,502	223,927,546,332	251,430,996,771

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

The State Government budgeted ₦19.219 billion in 2023 fiscal year in IGR and projected to grow it by 33.20% to ₦25.600 billion in 2024 fiscal year; 3.52% in 2025 to ₦26.500 billion and 1.89% in 2026 to ₦27 billion as seen in the Budget and MTEF tables 2 and 3b. The assumption underpinning the Budget of 2023 is based on the oil price of 75.00US\$/bbl, oil production at 1.5000mbpd, Exchange rate of NGN: USD 750:1, National GDP is 3.20 while

inflation rate stood at 22%. IGR is projected to increase nominally within the period and it is projected to increase by 33.43% in 2024 from its 2023 budget figure, as a result of new revenue base from the infrastructural development already on ground in the State. Even though IGR is projected to grow at its nominal value at 2% from 2027 to 2029 and 5% from 2030 to 2032, the percentage growth to GDP growth is declining from 2025 through the remaining part of the projection period. The IGR of the State as a percentage of SGDP is predicted to decline between 2022 and 2032 from 1.2% to 0.4%.

This projected decline in IGR is based on the fact that the new administration needs time to organize the revenue base and take their stand on the most resourceful revenue base that can favor the State Government and the citizens. The above projection is temporal pending the final decision of Government on the new IGR reform. It is expected that this projection will be reviewed in the subsequent years. It is also projected that the new administration in the State intends to employ workers and increase the salaries of existing staff within the period and the removal of oil subsidy suggests that there would be an increase in the cost of administration in the State. On this note, new policies are anticipated with regard to personnel and overhead costs, which are likely to improve on their historical trends.

4.2 Borrowing Options

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

Domestic Borrowing Option

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

market, but will not be considered in this projection period because of its complexity. Commercial Bank Loans and Federal Government Intervention funds are the major domestic borrowing options that will be used for financing fiscal deficits within the projected period. It is also expected that there will be an increase of about 24.93% of the gross and planned borrowing need of the state in 2027 fiscal year when compared with 2026 fiscal year. Increasing from ₦26.449 billion to ₦33.042 billion (₦6.59 billion increase), this borrowing need will gradually increase from 2028 fiscal year until 2032 fiscal year when it is expected to increase to ₦114.310 billion; which is 332.19% higher than gross and planned borrowing needs of 2026 (₦87.861 billion higher).

External Borrowing Option

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

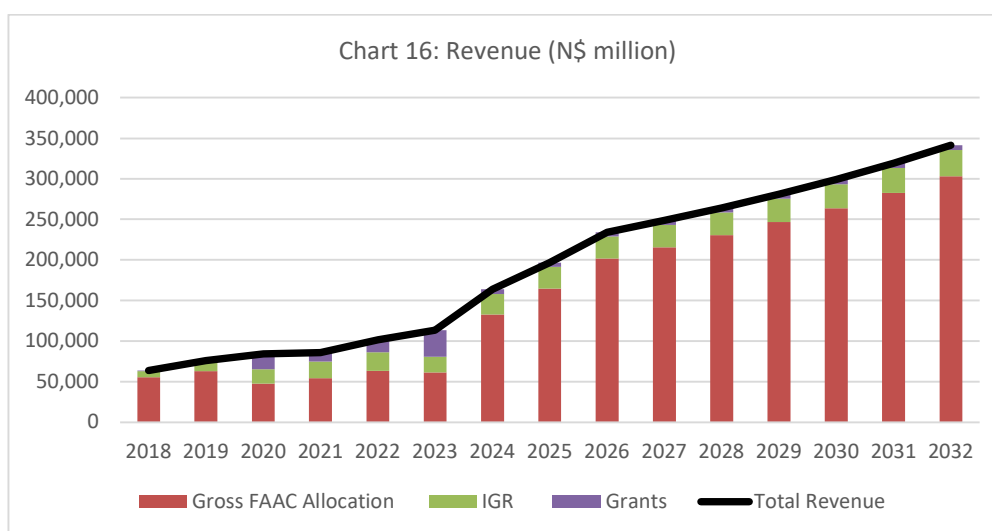
Public debt is one way to raise money for development which is incurred by borrowing. State Governments borrow to enable them finance important development programs and projects. However, taken too much, the burden of debt repayment of interest, principal, or both can overwhelm the state's finances,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

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

management strategies. Debt statistics which include coverage of public and publicly guaranteed debt that is as broad as possible, including debt of state-owned enterprises. Sharing this data with lenders will encourage responsible lending. Ebonyi State is also committed to taking a comprehensive approach in comparing the return from contracting debt with the cost of accumulating debt. Debt that finances productive social and infrastructure spending can lead to higher income that may ultimately offset the cost of debt service and help balance the risks to debt sustainability.

4.3 DSA Simulation Results

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

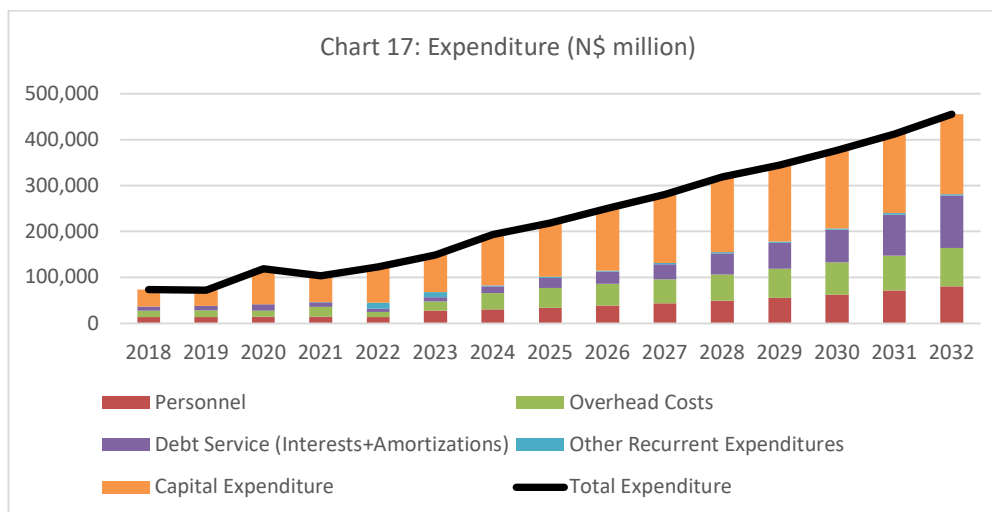


Revenue, Expenditure, Overall and Primary Balance Over the long-term.

Specifically, figure 16 above shows that the total revenue of the State Government is projected to increase from ₦101.612 billion in 2022 to ₦248.747 billion in 2027, representing an increase of about 144.80% or the sum of ₦147.135 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 statutory Allocation and her share of VAT Allocation, both of which more than tripled within the five-year period due to the expected flow of so much money into the Federal Government Treasury occasioned by the removal of oil subsidy by the Federal Government. On the assumption of office of the new regime, the President of the federal republic of Nigeria

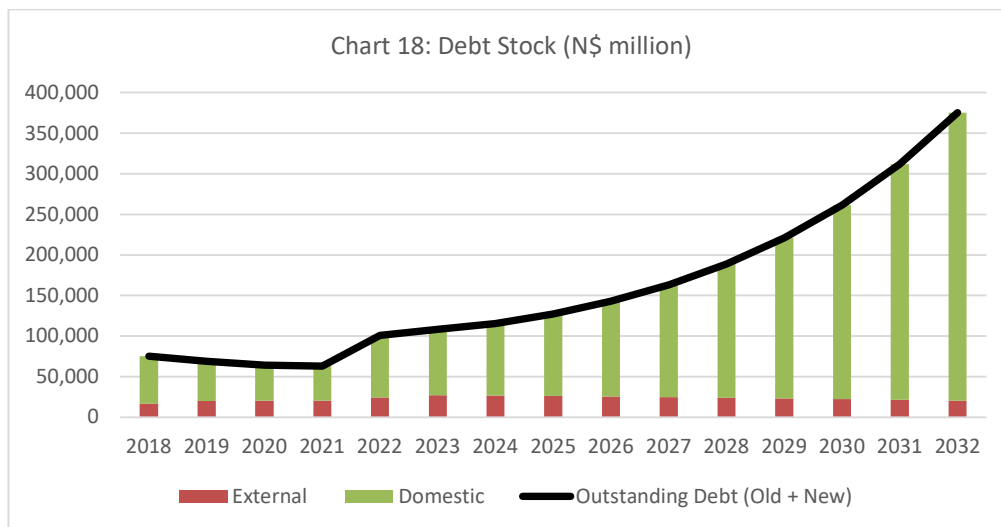
announced the removal of oil subsidy, this means that the huge amount of money that has been in use to cushion the effects of oil cost on the citizenry will now fall back into the coffers of the federal government treasury. It is expected that this fund will be shared to the federal, State and Local Governments as allocation and this will go a long way to increase the allocation of the State government in 2024 fiscal year. It is also expected that the balance of the State Allocation after settling the recurrent expenditure will be used to establish industries and projects that will generate more VAT Revenue. It is also envisaged that the flow of more funds into the public domain will also increase business activities that will also lead to increase in VAT revenue. On the other hand, IGR is projected to increase nominally within the period and it is projected to increase by 33.43% in 2024 from its 2023 budget figure, as a result of the massive infrastructural development already on ground in the State. Even though IGR is projected to grow at 2% from 2027 to 2029 and 5% from 2030 to 2032 in its nominal value, the real GDP value is declining from 2025 through the remaining part of the projection period.

In addition, the State's total revenue (including grants but excluding other capital receipts) is projected to increase in a higher dimension from the sum of ₦248.747 billion in 2027 to the sum of ₦341.464 billion in 2032, representing an increase of about 37.27% or the sum of ₦92.747 billion within the five years period. On the overall, the total revenue of Ebonyi State Government is projected to increase from the sum of ₦101.612 billion in 2022 to the sum of ₦341.464 billion in 2032. This projection represents an increase of about 236.05% or the sum of ₦239.852 billion within the ten-year period of 2023 – 2032. It is important to emphasize that within the projected period, IGR is expected to have a consistent growth in its nominal value from ₦25.600 billion to ₦32.221 billion between 2024 and 2032, but its percentage to total revenue will continued to reduce from 22.66% to 9.43 from 2022 to 2032. This reduction in IGR as a percentage of total revenue will soon be reversed as the new administration is critically reviewing the revenue reforms of the past administration and trying to establish a tax base that will greatly improve the IGR without putting undue burden on the citizens and businesses that generate the revenue. It is expected that this down turn of IGR projection will be reviewed upward in 2024 SDSA/SDMS report when the new Government might have completed its review of the IGR reforms.



The total expenditure of Ebonyi State Government is projected to increase steadily from the moderate value of ₦122.767 billion in 2022 to the sum of ₦280.293 billion in 2027. This projected total expenditure of the State in 2027 represents an increase of 128.31% within a period of five years from the actual total expenditure of the State in 2022 fiscal year. Furthermore, the total expenditure of the State is projected to increase from the sum of ₦280.293 billion in 2027 to the sum of ₦455.356 billion in 2032 fiscal year. The 2032 value represents an increase of about 62.46% within the five-year period. Interestingly, capital expenditure is projected to account for 54.32% in 2023 and rose to 57.17% in 2024, declined again in 2025 to 53.60%, it rose up again to 54.07% in 2026 and continued to decline throughout the remaining projection period and stood at 38.17% in 2032. The increase in the ratio of capital expenditure to total expenditure in 2024 predicts that the new administration targets to finish all uncompleted projects of the past administration. It is projected that the State Government will focus more attention in human capital development and helping to improve the standard of living of the citizenry more than the capital expenditure. This attests for the decline on capital expenditure from 2027 to 2032. Irrespective of the above stated decline in the percentage of capital expenditure to total expenditure within the period of review, the capital expenditure still has the highest percentage on the total expenditure of the State. The reasons for the foregoing is to enable the state government continue to improve on the much needed infrastructure which has been lacking since creation of the State. Looking at the pictorial data presented in Chart 17 above, it is clear that the second most significant component of expenditures for the projected period is Overhead cost. Overhead cost rose from its projected value of 13.65% of the total expenditure to its peak of 19.78 in 2025. After which it decreased to 18.02% in 2028 and started oscillating between 18.31% until it came to a stop at 18.46% in 2032. Debt Service expenditure component is projected to increase gradually from its insignificant value

of ₦9.461 billion in 2023 fiscal year to its peak of ₦114.310 in 2032 fiscal year. It is important to emphasize 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 6.36% of total expenditure in 2023 fiscal year and to jump up to about 25.10% of the total expenditure in 2032 fiscal year. This shows that the new administration has started clearing the accumulated debts of the past administration in the State. To be specific the sum of ₦3 billion has been paid out of the arrears of gratuity and pension and intends to clear all the arrears by fourth quarter of 2023.



As shown in Chart 18 above, the total debt stock of Ebonyi State Government is expected to rise sharply by 7.73% in 2023 fiscal year, after which it will move on a moderately increasing lane; 6.28% in 2024; 10.35% in 2025; 12.35% in 2026 and continued to increase throughout the review period in line with the borrowing requirement.

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

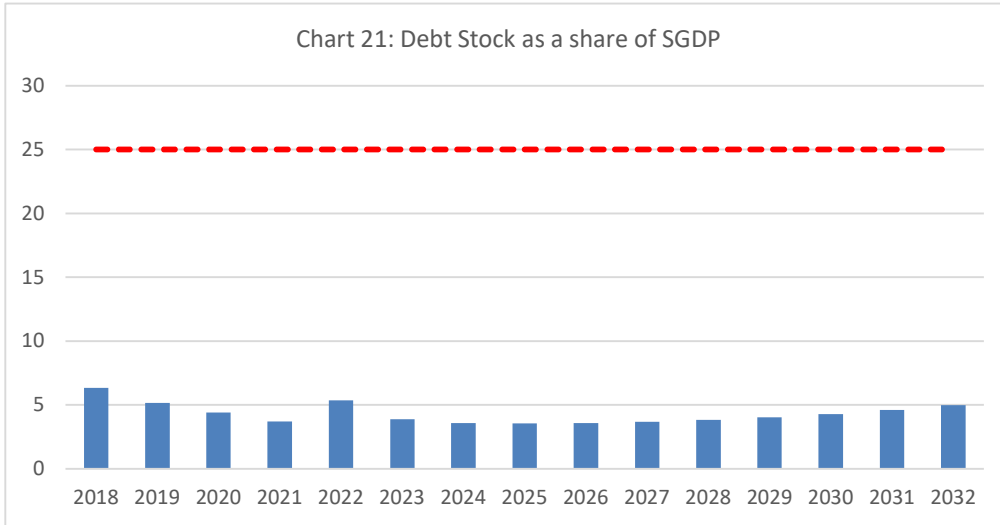
As earlier presented in Table 1 above, there are certain indicators for measuring the level of sustainability of the debt management systems of any Nigerian State. Figures 21 – 26 below present the results for Ebonyi State Government’s debts across relevant indicators based on information supplied in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

Main Findings and conclusion of the Baseline Scenario

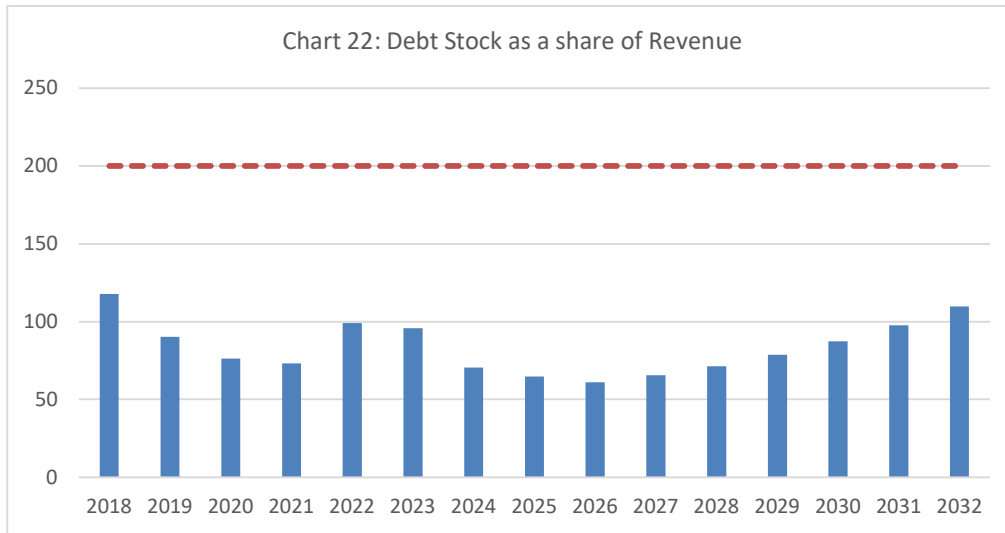
From figure 21 below, the indicative threshold/benchmark for the indicator of State’s debt stock as a share of the State’s GDP is 25% (as represented by the red dotted line in the Chart).

However, the debt stock of Ebonyi State Government is projected to consistently remain less than 10% of the State’s GDP throughout the projection period of 2023 – 2032 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 2023 – 2032 as shown in the figure below. Between 2023 - 2030 fiscal years, the debt stock to GDP was projected at 4% and to slightly increase to 5% between 2031-2032 fiscal years. Even with this increase within these two years, the indicator still shows that Ebonyi State debt is sustainable.

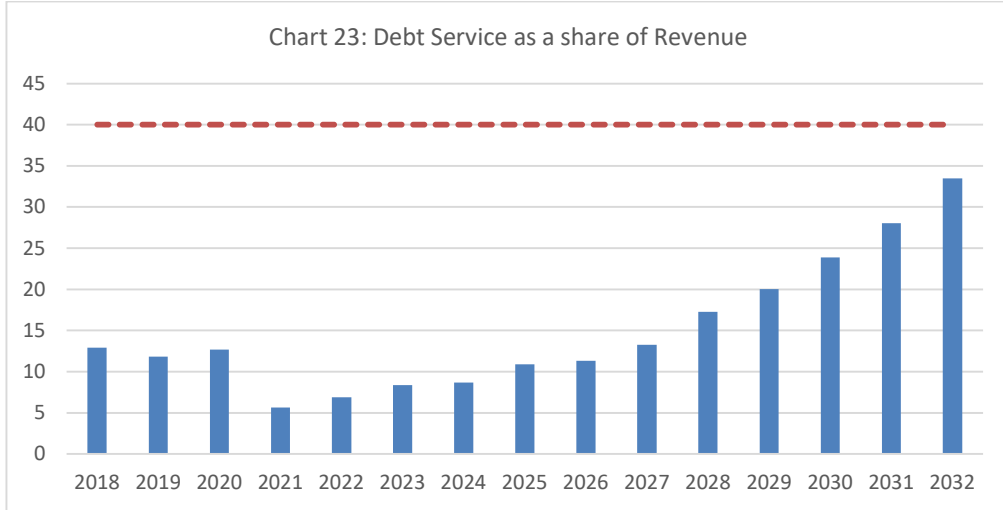


Another important indicator of debt sustainability is debt stock as a share of revenue. Figure 22 below shows the projected performance of Ebonyi State on this indicator.



From figure 22 above, the indicative threshold/benchmark for the indicator of State’s debt stock as a share of the State’s revenue is 200% (as represented by the red dotted line). However, the debt stock of Ebonyi State Government is projected to consistently remain less than 110% of the State’s revenue throughout the projection period of 2023 – 2032 fiscal years. In fact, the ratio is projected to drop from 96% in 2023 to 61% in 2026 before increasing moderately between 2027 and 2032 when it will settle at 110%. In all this movement, the indicator shows that the

State’s debt is still very sustainable.



From figure 23 above, the indicative threshold/benchmark for the indicator of State’s debt service as a share of the State’s revenue is 40% (as represented by the dotted line). However, the debt service of Ebonyi State Government is projected to gradually increase form 8% in 2023 to 33% in 2032. This implies that, the upward movement of the State’s debt service obligation will still be within a sustainable level throughout the medium term period of 2023 – 2032 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.

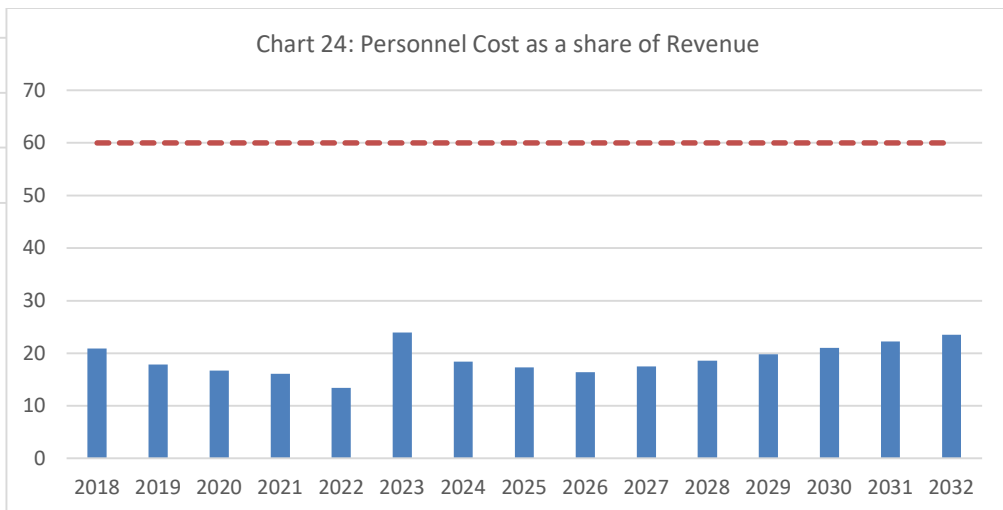
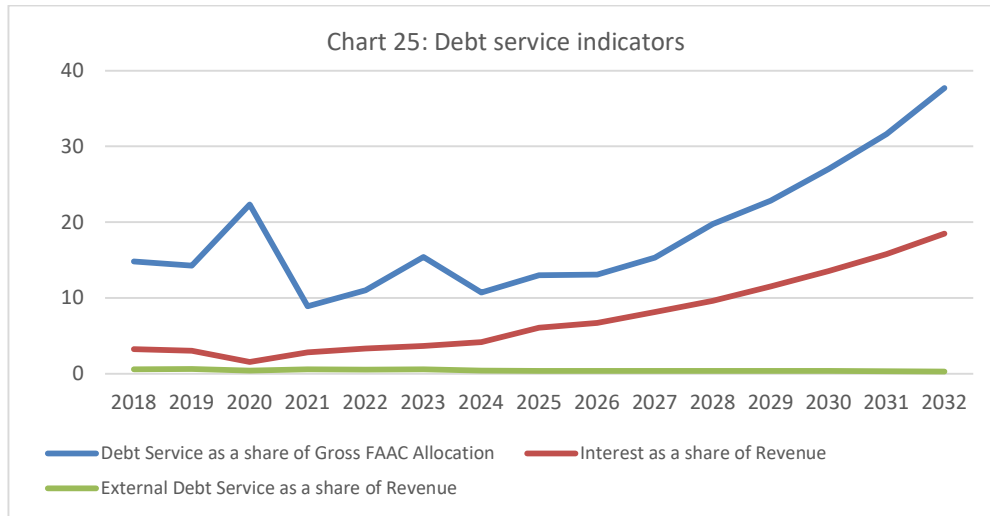


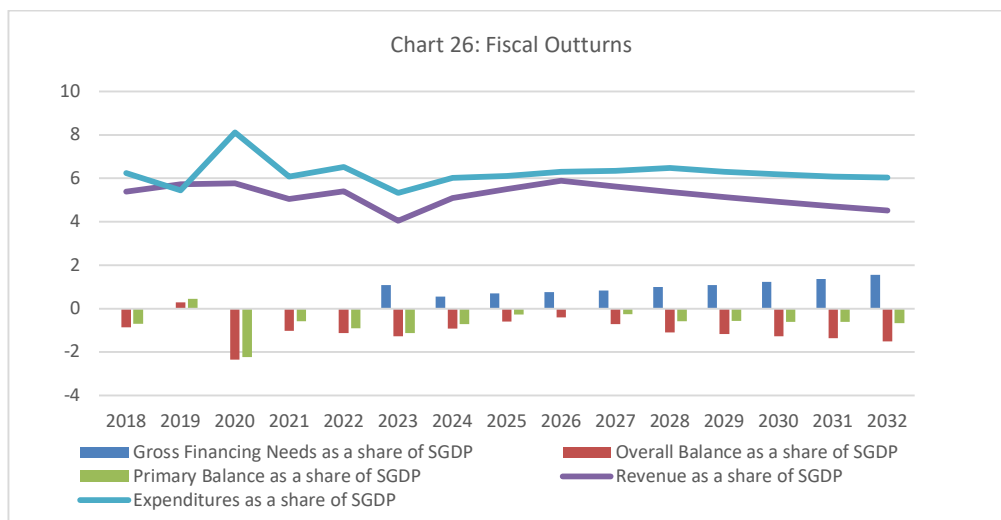
Figure 24 above presents the indicative threshold of Ebonyi State’s personnel cost as a share of the State’s revenue to be 60% (represented by the dotted line). However, the bars in the figure show that throughout the projected period of 2023 – 2032 fiscal years, the personnel cost of Ebonyi State Government will not exceed 24% of the State’s revenue. At such level,

the projected performance of Ebonyi State Government on this indicator is lower than half of the threshold level.



As previously shown in table 1 above, there are some indicators for measuring the sustainability of State’s debt but they do not have any particular indicative threshold. The indicators are collectively presented in figure 25 above. From the figure above, debt service as a share of the Gross FAAC Allocation of Ebonyi State is projected to decrease to 11% in 2024 from its level of 15% in 2023 and also projected to take an upward movement from 2025 up to 2032 fiscal year when it will settle at a peak of 33%.

Figure 26 below shows some of the fiscal outturns of the State Government based on information supplied in the baseline scenario. From the figure, Ebonyi State’s projected total expenditures as a share of the State’s GDP will move from the ratio of 5% in 2023 to 6% in 2024 and hovered at that 6% between 2024 - 2032 fiscal years. On the other hand, the State’s revenue to GDP ratio will move from 4% in 2023 to 5% in 2024 and hover at 6% between 2025 - 2027 fiscal years. The ratio will decline to 5% between 2028 - 2032 fiscal years. As a result of the situations of revenue and expenditure in the State, primary balance and overall balances will turn negative from 2023 – 2024 and also between 2028 – 2032 fiscal years creating room for borrowing to fill up the fiscal gap. However from 2025 to 2027 fiscal years, the balance will be at zero level.



Conclusion of the Baseline Scenario

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

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 2023 – 2032. Some of such deviations may be exogenous (i.e. caused by external factors). Interestingly, out of the four shocks that are discussed here, only one of the shocks (expenditure shocks) may be considered to be entirely endogenous, though it may sometimes be considered to be exogenous. The rest of the shocks (revenue shocks, exchange rate shocks, and interest rate shocks) are mainly exogenous shocks that the State Government may only consider means and strategies for adapting to them.

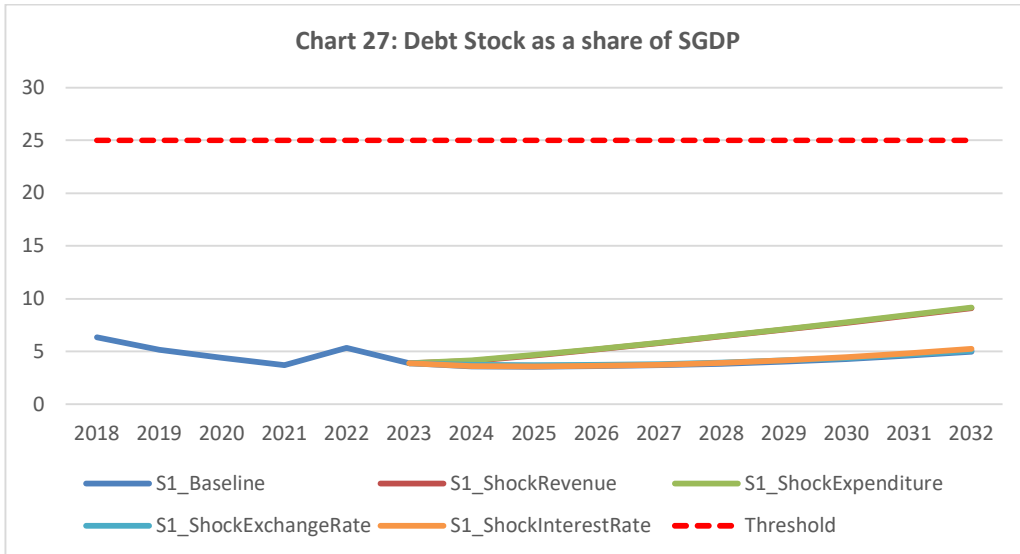


Chart 21 earlier shows that Ebonyi State Government’s projected debt stock as a share of the State’s GDP will remain much lower than threshold of 25% throughout the projection period of 2022 – 2031 fiscal years. Similarly, Chart 27 above shows that even with interest rate and exchange rate shocks, the performance of this indicator remains sustainable throughout the projected period of 2023 – 2032 fiscal years. It is a common knowledge that the volatility of exchange rate can greatly affect the total debt stock of the State Government (especially if the proportion of external debt in the total debt stock of the State is significantly high). However, based on the graphs presented in Chart 27 above, it is a clear knowledge that even the historical trend of Strategy S1 (S1 financing option) can’t make this indicator to go beyond the threshold between 2023 and 2032 fiscal years.

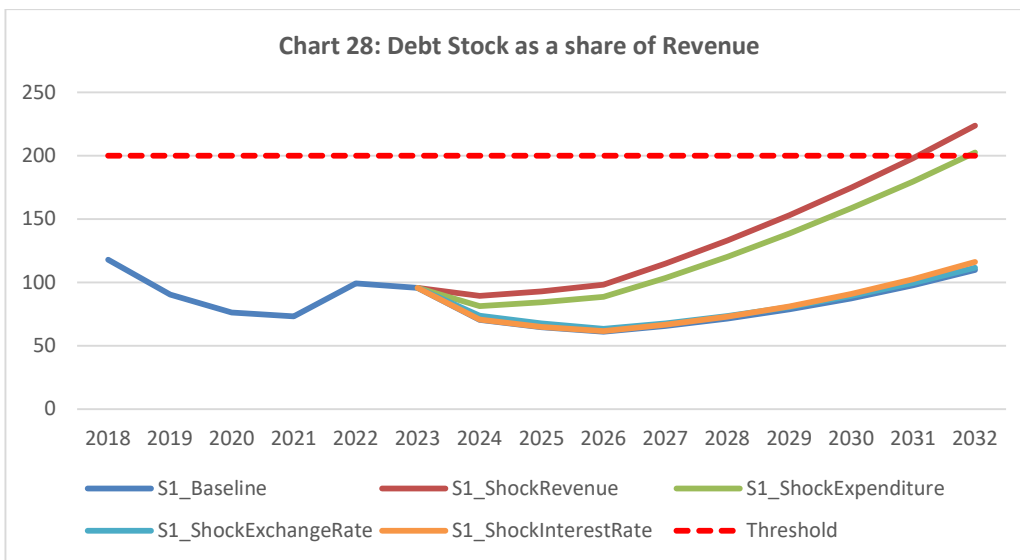
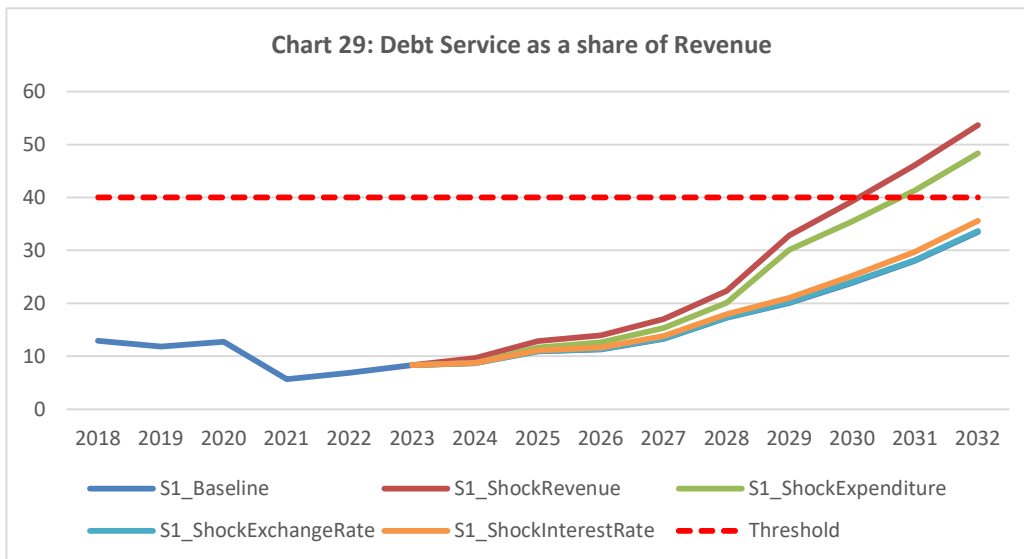


Chart 22 earlier shows that Ebonyi State debt stock as a share of the State’s revenue will remain much lower than threshold of 200% throughout the projection period of 2023 – 2032

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 2023 – 2030 fiscal years. However, shock revenue went above the threshold from 2031 – 2032 while shock expenditure will be on the threshold, indicating that at that point there is danger signal though the State would definitely improve on its revenue before that period. When the historical trend of Strategy 1 (S1 financing option) is introduced, the performance of the State on this indicator goes even lower than the other four shocks.

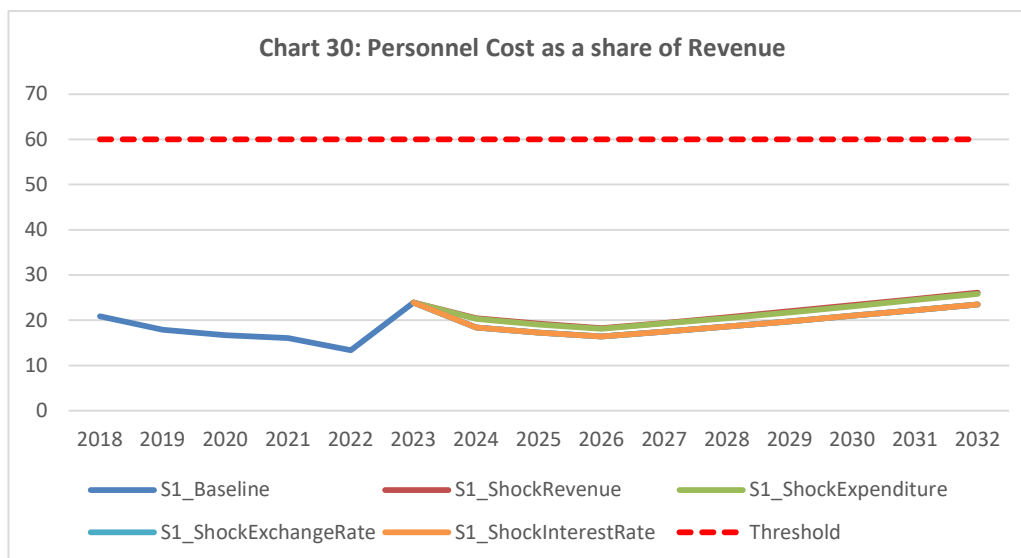
Chart 23 earlier shows that without any shocks, Ebonyi State debt service as a share of the State’s revenue is sustainable and well within the threshold of 40%, throughout the projection period. Chart 29 below shows that with some shocks (revenue shocks, expenditure shocks, exchange rate shocks and interest rate shocks), Ebonyi State debt service as a share of the State’s revenue will be sustainable within the threshold of 40% from 2023 – 2029. However, from 2030 – 2032 the state will witness an adverse shock effects on its revenue and expenditure. Chart 29 further shows that while the historic trend remains very low, revenue shocks will exert the greatest influence on the overall performance of the State on this indicator of debt service to revenue ratio within the projection period of 2030 – 2032 fiscal years.



It becomes absolutely necessary for the revenue and expenditure shocks to be placed on serious check as the State approaches 2030 fiscal year to avoid having these adverse effects, by working hard to improve on the State internal revenue generation.

In Chart 30 below, the presence of all the shocks (revenue, expenditure, interest rate and exchange rate shocks) may not exert any significant influence on the performance of Ebonyi

State on the indicator of personnel cost to revenue ratio. Even with the historical trend that is seen not to exert substantial effects on other indicators, it may not change this indicator as much also. Therefore this indicator remains sustainable and even more sustainable than the rest of the indicators even when the shocks are introduced. In fact, the performance is projected to be below 30% throughout the projection period of 2023 – 2032 fiscal years. On the other hand, the threshold is set at 60%. This means that the projected performance is lower than half of the threshold throughout the projection period of 2023 – 2032 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 favorable balance for capital expenditure through restraining the increasing trend in recurrent expenditure;
- d. Ensuring that the budget process is pursued with a framework that supports strategic prioritization and rational resource allocation and under the overall development policy objectives of the State; and
- e. Ensure strict adherence to due process in budget execution as well as accountability, transparency and prudence in the entire public financial management process.
- f. The State is also embarking on various reforms to block revenue leakages
- g. Staff Verification Exercise is being done to reduce personnel cost and by extension recurrent expenditure

5. DEBT MANAGEMENT STRATEGY

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

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

5.1 Alternative Borrowing Options

Strategy 1 (S1) – Domestic (Commercial Bank Loans)

There are several options for domestic borrowing, but the first option to be considered within the projected period is a combination of the two major options (Commercial bank loans, and Other Domestic Financing), where other domestic loans will constitute about 30% of the financing needs. Commercial bank loans will be the major source of this financing strategy.

In this report, Commercial Bank Loans are mainly made up of short-term loan that usually come at ***interest rate of 22% per annum and maturity period of 5 years*** and long term loans that are usually contracted with ***25% Interest rate and 10 years maturity*** period, that does not necessarily need many procedures to facilitate as the need for deficit financing arises. This category will account for up to about 40% of the entire borrowing needs of the State within the forecast period. The main advantage of this source of financing is the ease with which it can be secured. This ease arises from the fact that it can even be facilitated through informal relationship with commercial bank operators. The requirements and conditions for this domestic borrowing to take place are not usually very stringent. However, the downside of borrowing internally lies in the costs (interest rates and maturity period) of it, which are usually higher than those of external loans. It may actually be easier and faster to borrow from domestic sources, but may not be cheaper to do so. Apart from having relatively shorter maturity period, domestic commercial bank loans also come with shorter grace period (if any).

Within this Strategy 1 (S1), the first source of financing would be commercial bank loans at an ***interest rate of 22% per annum and maturity period of 5 years*** while the second source of financing for the strategy would be commercial bank loans with a ***maximum of 25% interest rate, with 10 years maturity period***. Therefore, going by the interest rates and maturity periods, this financing option of Strategy 1 (S1) should have been the best component and have constituted 100% of the entire financing needs. The reason for choosing these two sources of financing is to make sure that the State is not stranded of a source of finance, so that if one fails, the other one will be available.

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

This second Strategy (S2) considers financing all the fiscal gaps from commercial bank loans of a maximum of 22% per annum and 5 years maturity period. This source of financing option has already been described in S1 above. Strategy (S2) is also projected to have an alternative source of financing which is Commercial bank loans that are facilitated by the Federal Government of Nigeria as budget intervention funds (e.g. the Agric loan, MSMEDF, etc) only. This domestic borrowing option, though channeled through commercial banks, is usually coordinated by the Central Bank of Nigeria on behalf of the Federal Government of Nigeria. As a result, their interest rates are usually at ***maximum of 10% per annum, with maturity periods of up to 30 years*** and sometimes may give up to 2 year grace period. Given its relatively lower costs (interest rate and maturity period), this should have been the first

option to be considered by Ebonyi State Government for deficit financing. This implies that the State will have ample time to invest the borrowed funds and expect returns from the investment to be able to cover for the debt service obligations. However, this 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 option in this strategy given its uncertainties.

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

This strategy is projected to source the financing of Ebonyi State financial gap from two sources like other Strategies as follows: 1. Commercial bank loans with a maximum of **25% interest rate per annum and 10 years maturity period**. This has already been described in (S1) alternative source of financing above. 2. Another financing option projected for (S3) is borrowing from external sources. As inversely explained under domestic borrowing options, external borrowing may be more difficult and take a slightly longer time to facilitate. External borrowing may be the most suitable for augmenting deficit arising from medium term budget forecast. The costs (interest rates and maturity period) of borrowing externally are usually lower than those of internal/domestic loans. In this report, the external loans are projected to be facilitated by multilateral financial institutions at **2% interest rate with maturity period of up to 30 years** and 2 years grace period. This strategy should have been the best strategy given the relatively lower interest rate and long maturity period; external loans also come with longer grace period. However, it may actually be more difficult and even take longer time to facilitate an external loan, though it is usually cheaper to do so. In addition, most external loans are tied to specific projects/programmes and affected by fluctuating interest rates.

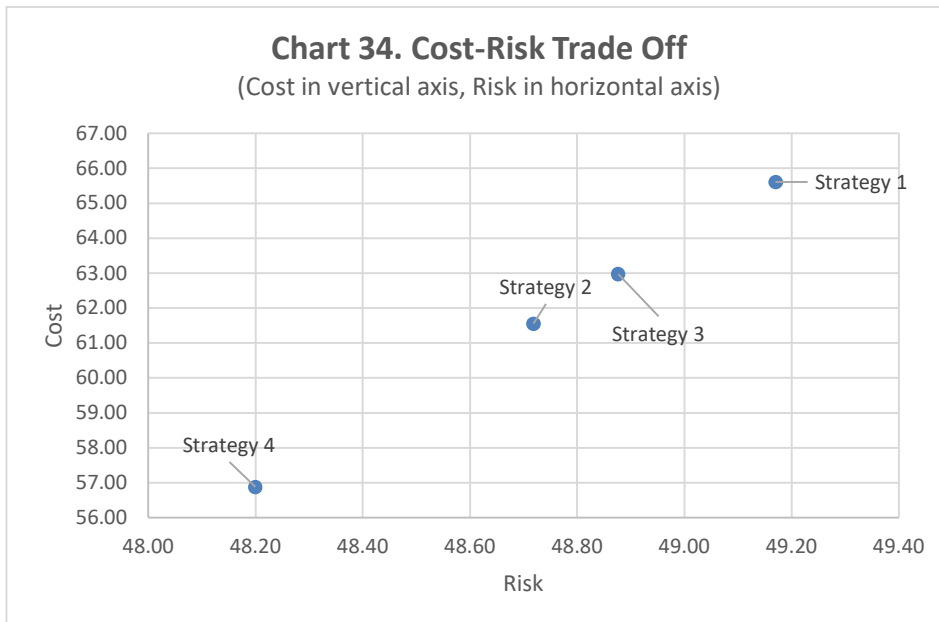
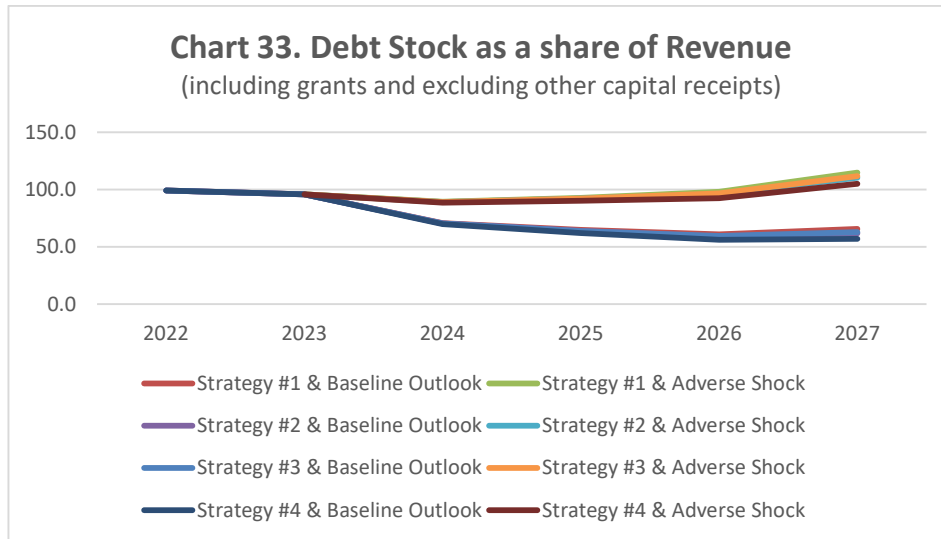
Strategy 4 (S4) – Domestic (Other Domestic Financing) & External (Concessional Loans – World Bank, AfDB, etc)

The fourth strategy for financing Ebonyi State fiscal deficit within the projection period of 2023 – 2032 also has two alternative sources. The first one is borrowing from **Federal Government Intervention Fund** which is Commercial bank loans facilitated by the Federal Government of Nigeria and disbursed by the Federal Ministry of Finance and the Central Bank of Nigeria which fall under other domestic financing as described in the second source of financing in strategy 2 above and borrowing from **External Sources** as described in the second source of strategy 3 above.

5.2 DMS Simulation Results

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

5.2.1 Debt/Revenue



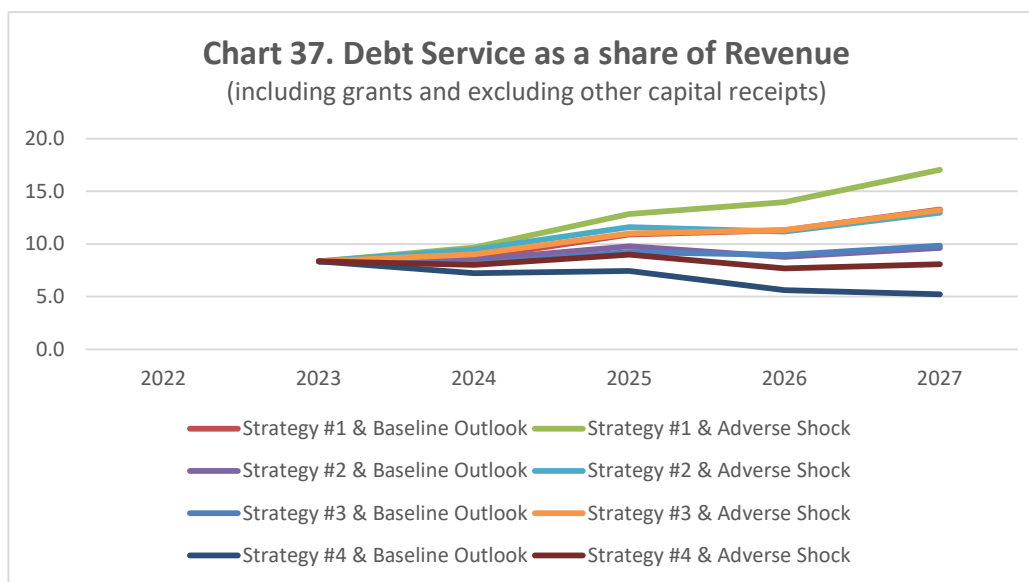
In Chart 33 above, it is clear that with all the four Strategies (S1 – S4), debt stock to revenue ratio stood at 99.2% in 2022. Going by baseline scenario, the projected debt stock to revenue ratio of the State Government will remain within sustainable level across each of the four Strategies (S1, S2, S3 and S4) for the medium term period of 2023 – 2027 fiscal years. Precisely, the baseline

scenario ratio is projected to hover far below 150% (which is lower than the threshold of 200%) for the medium term period of 2023 – 2027 fiscal years. However, with adverse shocks associated with each of the four Strategies (S1, S2, S3 and S4), the ratio is projected to still be below 200% between 2023 – 2027. This is showing that the State is still sustainable even when adverse shock is applied.

Chart 34 equally shows that though the cost of Strategy 1 is the highest across board, it also has the highest risk in 2027. On the other hand, Strategy 4, which has the lowest comparative cost, also comes with the lowest risks (including exchange rate volatility risk). Strategies S3 and S2 come in between Strategies S1 and S4 (both in terms of risks and costs).

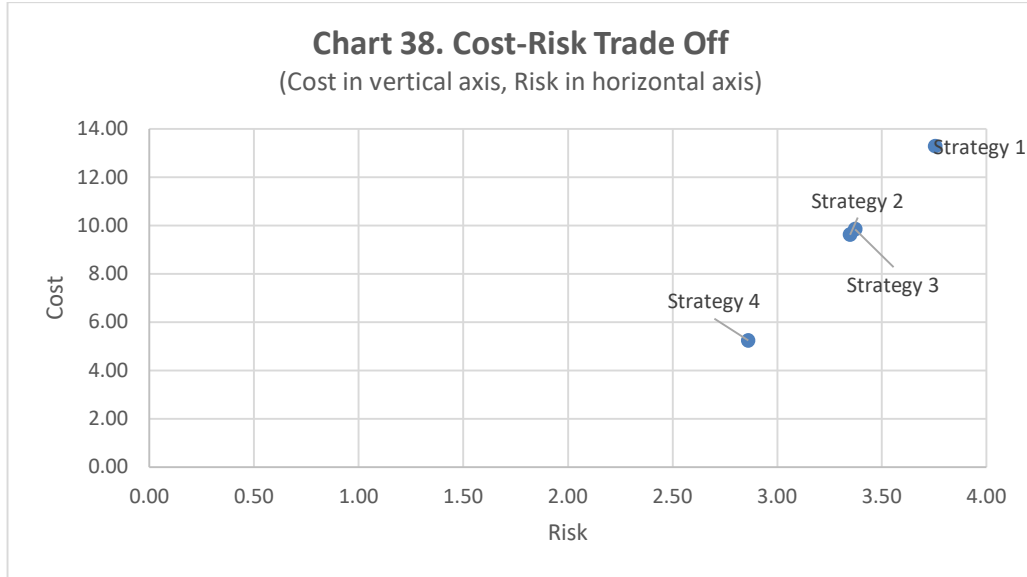
5.2.2 Debt Services/Revenue

From Chart 37 below, it is clear that with the four Strategies (S1 – S4), projected debt service to revenue ratio will remain within sustainable level (i.e. below 40% threshold) throughout the medium term period of 2023 – 2027. Across these four Strategies (S1, S2, S3 and S4), the projected debt service to revenue ratio of the State Government whether by baseline scenario or with adverse shocks will still remain below 20% (which is far lower than the threshold of 40% for this indicator) for the medium term period of 2023 – 2027 fiscal years.

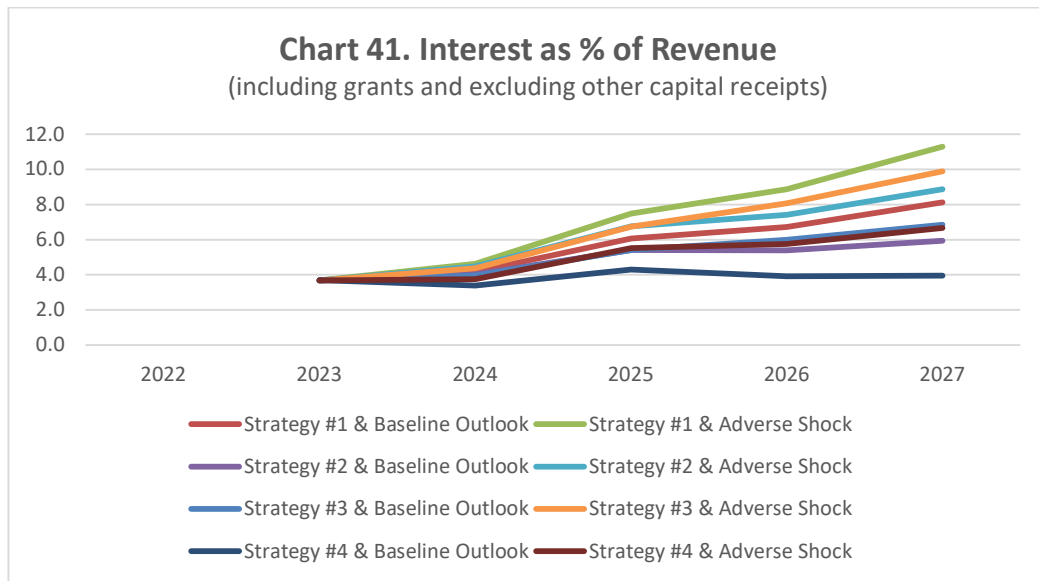


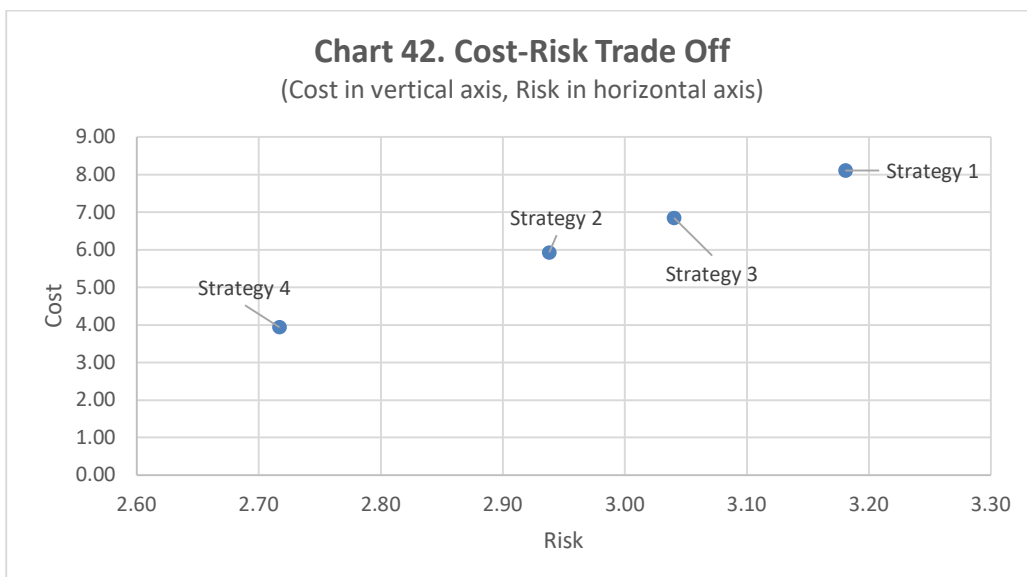
On its own, Chart 38 below shows that the cost and associated risks of Strategy 1 are the highest in 2027 fiscal year. The highest risk may be as a result of the high interest rate and no grace period associated with this source of financing within this strategy and the cost of accessing the short and long term Commercial bank loans. On the other hand, Strategy 4, which has the lowest comparative cost, also comes with the lowest risks (including exchange rate volatility risk). Strategy 2 presents the second lowest cost and risk after Strategy 4.

Strategy 3 presents the second highest risk after Strategy 1 and also the second highest cost after Strategy S1.



5.2.3 Interest/Revenue





In Chart 41 above, it is clear that with Strategy 4, projected interest obligation to revenue ratio will be at the lowest level. This is so for both the baseline scenario and the adverse shocks scenario. Strategy S4 presents the lowest level of interest to revenue ratio throughout the projection period of 2023 – 2027 fiscal years. Strategy S2 presents the second lowest projected interest to revenue ratio for the period of 2023 – 2027 fiscal years. On the other hand, Strategies 1 and 3 present the highest level of interest to revenue ratio throughout the projection period of 2023 – 2027 fiscal years. It is not surprising because the interest rates of 2% and 10% of Strategies 4 and 2 really differ from the interest rates of 22% and 25% for Strategies 3 and 1. Following the discussion on Chart 41 above, Chart 42 also follow same trend as Chart 41. It shows that though the cost of adopting Strategy S4 may be the lowest among other Strategies, its associated risks are also the lowest in 2027 fiscal year. On the other hand, Strategies 3 and 1, which present the highest cost (in terms of interest obligations) also, come with the highest level of associated risks. Strategy 2 presents mid-level cost alongside mid-level risks, coming after S1 in both cost and risk.

5.2.4 DMS Assessment

The DMS simulation results presented and analyzed in the previous subsections suggest that Strategy 4 is the best strategy with the lowest costs across various benchmarks. But the Strategy 4 does equally present the lowest level of risk across the benchmarks. In most benchmarks, it presents the lowest level of risks and therefore need to be considered. On the other hand, Strategies 1 and 3, which present the highest levels of risks also present the highest cost for most parts of the projection period. Across the benchmarks, Strategy 2 situates somewhere in mid-level risks and costs and the next preferable in terms of both cost and risk

after S4.

It is important to emphasize that the decision of the Strategy to adopt does not necessarily rely on costs and risks alone, but also on the feasibility and accessibility of the Strategy at the shortest possible time. This is because of the time frame being considered for this report – short to medium term period. S1 should have made the best strategy to consider based on the fact that S1 is the most feasible Strategy at the shortest possible time. But as earlier explained, Strategy 1 is considered the most costly and most risky (based on some benchmarks), but it still remains the easiest to come by at any time of quick financial intervention in the State's fiscal system. The ease comes from the fact that it can be facilitated by existing informal relationships between the State officials and the commercial bank operators. Such level of ease may not be applicable across the other Strategies (3 – 4), but is also applicable to strategy 2. **However, having considered all the benchmarks in the light of the costs and risks involved in each of the Strategy, this report goes with Strategy 2 as the preferred strategy.** The choice of this Strategy (S2) is made strictly on the basis of the Strategy with the **lowest cost, lowest risk more feasible and easily accessible.**

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

Annex I. Table of Assumptions

		Projection Methodology	Source
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 2023 Budget, the State MTEF 2024-2026 for years 2024 to 2026, and then a projection of 5% yearly increase from 2027 to 2032.	State Ministry of Finance & FAAC report
	1.a. of which Net Statutory Allocation ('net' means of deductions)	Projections based on the difference between Gross Statutory Allocation projected and the deduction of loan principal and interest from amortization schedule from 2024 - 2032.	State Ministry of Finance & FAAC report
	1.b. of which Deductions	Deductions are based only on agreed loan principal and interest in the amortization schedule.	Loan agreement amortization schedule & FAAC report
	2. Derivation (if applicable to the State)	Nil derivation for none oil producing State	FG MTEF, extrapolated for 2025 to 2031
	3. Other FAAC transfers (exchange rate gain, augmentation, others)	The State Government is committed to achieving her 2023 budget and 2024 to 2026 MTEF figures. Projected increase of 4% annual growth rate	State Budget and MTEF report and an estimated state annual growth rate
	4. VAT Allocation	Having the 2023 Budget and 2024-2026 MTEF estimates, Projected increase of 11% annual growth rate	State Budget and MTEF report and an estimated state annual growth rate
	5. IGR	Projections based on 2023 budget for 2023, then MTEF figures from 2024 to 2026, yearly increase of 2% from 2027 to 2030, and 5% increase from 2031 to 2032 as a result of expected new	State Budget and MTEF report and an estimated state annual growth rate

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		revenue reforms.	
	6. Capital Receipts	Nil as space does not require any input	N/A
	6.a. Grants	As SFTAS winds up in 2023, grants are expected from other sources like UBEB, COPREP, TETfund, PHCDA, INFRASTRUCTURE GRANTS etc. and are projected to grow by 2% per annum from 2024 to 2032.	Expected figures from other sources projected to increase by 2% between 2027 to 2032
	6.b. Sales of Government Assets and Privatization Proceeds	Old and obsolete Assets are expected to be sold off, while new ones to be purchased to replace them are expected to stay till the expiration of 2032. 2023 to 2026 captures the State Budget and MTEF estimated these sales, with a 30% annual increase.	State Ministry of Finance

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	6.c. Other Non-Debt Creating Capital Receipts	Projected to decrease at 30% annually.	State Ministry of Finance
Expenditure	Expenditure		
	1. Personnel costs (Salaries, Pensions, Civil Servant Social Benefits, other)	Projected based on 2023 budget and 2024 - 2026 MTEF with an annual increase of 13% from 2027 to 2032.	State Ministry of Finance
	2. Overhead costs	Projected to increase at the rate of 10% yearly from 2027 to 2032 after budget 2023 and 2024 - 2026 MTEF figures	State Ministry of Finance
	3. Interest Payments (Public Debt Charges, including interests deducted from FAAC Allocation)	Nil as space does not require any input	N/A
	4. Other Recurrent Expenditure (Excluding Personnel Costs, Overhead Costs and Interest Payments)	Projected to grow at about the rate of 2.3% yearly increase from 2027 to 2032 after budget and MTEF	State Ministry of Finance
	5. Capital Expenditure	Estimated to increase at an average rate of 10% yearly from 2027 and 2028, then 2% yearly increase from 2029 to 2030 and 1% increase from 2031 to 2032.	State Ministry of Finance
Closing Cash and Bank Balance	Closing Cash and Bank Balance	This is determined by the difference between total revenue and total expenditure.	State Ministry of Finance
Debt Amortization and Interest Payments	Debt Outstanding at end-2021		

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	External Debt - amortization and interest	As represented in the repayment schedules sent by DMO	Bi Annual reports from DMO
	Domestic Debt - amortization and interest	As represented in the repayment schedules agreed with the disbursing Banks	Quarterly reports to DMO
	New debt issued/contracted from 2021 onwards		
	New External Financing	Insert the Borrowing Terms for New External Debt: interest rate (%), maturity (# years) and grace period (#)	
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	2% interest rate, 30years maturity period and 2years grace period.	State Ministry of Finance
	External Financing - Bilateral Loans		
	Other External Financing		
	New Domestic Financing	Insert the Borrowing Terms for New Domestic Debt: interest rate (%), maturity (# years) and grace period (#)	
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)	22% interest rate, 5years maturity without any grace period.	
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)	25% interest rate, 10 years maturity period and no grace period.	State Ministry of Finance
	State Bonds (maturity 1 to 5 years)		
	State Bonds (maturity 6 years or longer)		State Ministry of Finance
	Other Domestic Financing	10% interest, 30 years maturity period and 2 years grace period.	State Ministry of Finance
Proceeds from Debt-Creating Borrowings	Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S1		
corresponding to Debt Strategy S1	New Domestic Financing in Million Naira		

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	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)	22% interest rate, 5years maturity without any grace period.	State Ministry of Finance
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)	25% interest rate, 10 years maturity period and no grace period.	State Ministry of Finance
	State Bonds (maturity 1 to 5 years)		
	State Bonds (maturity 6 years or longer)		
	Other Domestic Financing		
	New External Financing in Million US Dollar		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)		
	External Financing - Bilateral Loans		
	Other External Financing		
Proceeds from Debt-Creating Borrowings	Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy 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)	22% interest rate, 5years maturity without any grace period.	State Ministry of Finance
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)		

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	State Bonds (maturity 1 to 5 years)		
	State Bonds (maturity 6 years or longer)		
	Other Domestic Financing	10% interest, 30 years maturity period and 2 years 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 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)	25% interest rate, 10 years maturity period and no grace period.	State Ministry of Finance
	State Bonds (maturity 1 to 5 years)		
	State Bonds (maturity 6 years or longer)		
	Other Domestic Financing		
	New External Financing in Million US Dollar		

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	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	2% interest rate, 30years maturity period and 2years grace period.	State Ministry of Finance
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	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	10% interest, 30 years maturity period and 2 years grace period.	State Ministry of Finance
	New External Financing in Million US Dollar		
	External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	2% interest rate, 30years maturity period and 2years grace period.	State Ministry of Finance
	External Financing - Bilateral Loans		
	Other External Financing		

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

Annex II. Historical and projections of the S1_Baseline Scenario

Table with columns for Indicators, years (2018-2022 Actuals, 2023-2032 Projections), and various economic, fiscal, financing, and debt metrics. Includes sub-sections like Economic Indicators, Fiscal Indicators (Revenue, Expenditure, Net Borrowing), Financing Needs and Sources, and Debt Stocks and Flows.

Ebonyi State Technical Team

- | | |
|-------------------------------------|----------------------------------|
| 1. Debt Management Department | - Mrs. Elizabeth Anigor. |
| 2. Debt Management Department | - Mrs. Sandra Igwe. |
| 3. Debt Management Department | - Mrs Chinenye Benedict Coockey. |
| 4. Ministry of Finance | - Bar.(Mrs) Nnenna Unah |
| 5. Office of the Accountant General | - Mr. Omeh Nnanna Agbo |

Approved By



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