DEBT MANAGEMENT DEPARTMENT.

2020

REPORT OF THE STATE DEBT SUSTAINABILITY ANALYSIS (S - DSA).

MINISTRY OF FINANCE

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UMUAHIA

ABIA STATE, NIGERIA.

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FOREWORD

It is with much pleasure that I present to you the Abia State Debt Sustainability Analysis (S-DSA) Template which is to serve as a guide in our financial operations.
This template provides detailed framework for sustainable, efficient and effective management of the state's financial resources.

It has become very crucial as a result of the reform agenda of the Federal Government through the Debt Management Office (DMO) Abuja, in collaboration with the World Bank and the commitment of the Abia State Government of the present Administration to ensure healthy fiscal Administration, analysis and projections with a view of guaranteeing healthy fiscal policies in meeting all current and capital obligations of Abia State.

In order to achieve this objective, the consolidation of the implementation of Treasury Single Account (TSA) framework has become imperative.

The major objective of this Debt Sustainability Analysis Tool-kit is to provide an effective backing and basis for all Government income and expenditure patterns to inform better fiscal management through reliable internal control mechanism.

Finally, I thank the Abia State Government, Okezie Victor Ikpeazu (PhD) and all members of the Executive Council for the approval and adoption of this robust Debt Sustainability Analysis Tool-kit.

I also commend all members of the technical team drawn from vital MDA's for their resilience and commitment to duty.

May I equally appreciate the commitment of the management of Ministry of Finance, the Accountant-General's Office and Abia State Planning Commission including members of the State Fiscal Transparency, Accountability and Sustainability (SFTAS) Program for Results(PfR) for all their valued contributions.

May God bless Abia State.

Dr. Aham Uko

Hon. Commissioner for Finance.

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CHAPTER ONE: INTRODUCTION

Abia State of Nigeria, with Umuahia as capital was created on 27th August, 1991 out of the old Imo State. It is one of the five States in the South-East geo-political zones of Nigeria.

Abia State lies between longitude $04^{0}45^{1}$ and $06^{0}17^{1}$ North and latitude $07^{0}00^{1}$ and $08^{0}10^{1}$ East. The state shares close boundaries with Anambra, Enugu, Ebonyi States in the North-West, North and North-East respectively. In the East and South-East, it is bounded by Cross River and Akwa Ibom States, and by Rivers State in the South. The State occupies a land mass of 5,833.77 square kilometres. Abia state is located in the forest belt of Nigeria and the temperature ranges between $20^{o}C$ and $36^{0}C$.

Abia state had a total population of about 1,913,917 in 1991 according to the 1991Nigerian population census. With annual population growth rate of about 2.83%, the state total population was 3.2 million in the year 2004(**NDDC Report**).

Like every other state in Nigeria today, the state is confronted with the reality of sustaining and servicing her debt portfolio, which has been growing over the years due to the need for infrastructural development, Technological inputs and human capacity development needs. The imperatives and advantages of this debt sustainability analysis (**DSA**) cannot be over-emphasized. The debt sustainability analysis has the capability of measuring the state's fiscal progress since the DSA aims at evaluating critical developments in the state's fiscal activities from 2015-2019; with a view to ascertaining her capacity to discharge debt obligations going forward from 2020-2029. Therefore, attempt will be made through debt sustainability analysis to guard against (***insolvency***) over-borrowing and inability to service that debt as they fall due.

1.1 BACKGROUND

This debt sustainability analysis, analyses the trends and patterns in the state's public financial management (PFM) during the period 2015-2019 and evaluates the debt sustainability in the long-term of 2020-2029.

The Analysis highlights trends in the revenues, expenditures and the public debt as well as the related policies adopted by the state in this respect.

A Debt Sustainability Assessment is equally conducted alongside scenarios and sensitivity analysis in order to ascertain the performance of the state's public finances over the years. This S-DSA has the latest Tool-kits developed by the Debt Management Office (DMO) Nigeria in collaboration with the World Bank, released in November, 2020 which uses data from the published state's financial statements, Appropriation Acts (Budget), Revenue reports of the state's Board of Internal Revenue, Reports from Account General's Office Abia State and Reports of the State Debt Management Office, Ministry of Finance for Analysis.

The Abia State Total Public Debt which appears sustainable in the long-run stood at ₦48,726,992,337.46 in 2015 and rose to ₦97,326,263,203.59 at the end of 2019 and projected to increase slightly to ₦ 295,752,998,480.60 by December, 2029.

However, relative to Abia state's repayment capacity, the Public Debt management position will improve; since repayments are expected to appreciate to 3.5 % of revenue collections in 2019 to 56.2 % by 2029.

This basic projection is predicated on the state's strong performance in terms of her ability to mobilize all Internally Generated Revenue resources blocking all revenue leakages, ensuring the implementation of a high technologically-driven Treasury simple Account (TSA) programme for effective monitoring, employment and training of more revenue officers to increase tax revenues and tax assessments via electronic platforms, electronic payments and filing systems (e-services); to cover e-payments, e-filing, e-registration. The diversification of Abia economy and her control of recurrent expenditures with implementation of policies governing operating expenses will ensure the desired fiscal management.

1.2 SUMMARY OF FINDINGS

Revenue and expenditure were analyzed to determine how sustainable Abia state debts are. Emphasis was placed on inflows from Internally Generated Revenue (IGR) and the Federal Allocations to extrapolate for solvency of the state in the long-run. Furthermore, and in this respect too, personnel enrollments, overhead cost and other expenditure heads were considered also in reaching the following conclusion:-

a. Total revenue received within the period 2015-2019 was ₦477,917,620,840.94 while total expenditure incurred was ₦478,737,108,582.47 leaving a negative balance of ₦819,487,741.53. .

1.3 OVERALL RESULTS

The Internally Generated Revenue (IGR) shows signs of improvements from ₦11,840,705,013.17 in 2015 to ₦15,499,929,260.76 in 2019. This is expected given that the state started the implementation of Treasury Single Account (**TSA**) and International public sector Accounting Standards (IPSAS) over the period. The aggregate expenditure of the state will hopefully reduce going forward; in view of implementation of new payroll control procedures and cash management strategies being put in place. Again, Biometric capturing processes and use of BVN for salary payments which are in place may likely reduce the state’s wage bill by a reasonable percentage. The outcomes of these acceptable fiscal measures will rub-off on the capacity of the state to manage her debt obligations and developmental efforts.

Given this state's positive economic forecasts based on realizable revenues and expenditure assumptions with the projections, Abia state public debts sustainability is expected to be high in the long term.

CHAPTER TWO: ABIA STATE FISCAL AND DEBT FRAMEWORK.

2.1 FISCAL REFORMS IN THE LAST 3 TO 5 YEARS

The growth of the state's Internally Generated Revenue (IGR) and expenditure pattern in Abia State may be attributable to the following reforms and other factors:-

a. **The Procurement act:-**

Abia state Government assented to this act in 2012 and began its implementation, which is major boost in her fiscal administration and procurement processes. Furthermore, the establishment of the Abia state Bureau of Public procurement with the appointment of a Director General has ensured better procurement system, and services through competitive processes. This has eliminated or reduced drastically the practice of using Government contracts as a conduit pipe for defrauding the government, making it easier for the state to increase her spending on reasonable ventures.

b. **The cash Management Strategy Paper**:-

   A number of cash management strategies were in place in Abia state but were probably not coordinated to ensure proper implementation. The Government of Abia state passed this strategy policy paper via the Executive Council as cash management strategy in the year 2019.

   The implementation of this strategy paper has had a positive impact on cash management including improvements on revenue and expenditure management. The Treasury Single Account(**TSA**) system has brought with it consolidation of all state's accounts into one, thereby eliminating revenue leakages and related payroll frauds as well as improving access to account balances by the authorities.

Again, the profiling of revenues and expenditure as contained in the cash management strategy paper has helped the state to address her fiscal and debt obligations more effectively and efficiently.

c. **Abia State Fiscal Responsibility Law No 4 of 2012:-** This covers the establishment, functions and powers of the fiscal responsibility commission. This law provides for prudent management of the states resources; ensue long term macro-economic stability of the state's economy, secure greater accountability and transparency in fiscal operations within a medium term fiscal policy frame work.

d. Abia State Fiscal Responsibility Law № 4 of 2012:

This covers the establishment, functions and powers of the fiscal Responsibility Commission; the medium-term expenditure framework, Public Revenues and Expenditure, Borrowing, Transparency& Accountability issues as well as issues of Debt and indebtedness.

e. Abia State Debt Management Law:-

The passage into law of the state's debt management processes on the 26th August, 2020 has further deepened the readiness of the state to upgrade her public debt management efforts, thereby ensuring better public financial management of the states resources.

f. **Tax Codification Law №7 2020:-**This was assented to on 26th August, 2020 making the Board of Internal Revenue (**BIR)** sole Agency on Revenue collection.

2.2 2021-2023 MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF), 2020 APPROPRIATION ACT (BUDGET):

The Abia State Revised budget for 2020 has a total Expenditure of ₦102,660,432,904 against the original Budgeted Expenditure of ₦137,440,123,116.

In the original Budgeted Expenditure, Total Recurrent Expenditure was ₦67,038,217,116 (49%) while Total Capital Expenditure was ₦70,381,400,000 (51%).

The Revised Budget has a Total Recurrent Expenditure of ₦55,280,341,384 (54%) against the Revised Total Capital Expenditure of ₦47,380,091,520 (46%).

This revised Budget plan of the expenditure favors Recurrent Expenditure (54%) against the Budgeted Capital expenditure of 46%. The reasons behind this position are issues related to taking care of the outcomes of the COVID-19 pandemic.

In 2020, Abia State intended to spend a total of ₦137.419 Billion. Of this, ₦137.418 Billion was to be sourced from statutory Allocation, Independent Revenues and Grants which results in ₦0.6 Million in Budget Deficit. The deficit was to be resolved by ₦15.730 Billion of Total financing. Hence, no financing gap.

Furthermore, the opening balance of ₦15.108 Billion was also to aid financing. However, the 2020 Revised Budget intended to spend ₦87.1 Billion sourced from statutory Allocation, Independent Revenues and Grants which results in ₦15.5 Million in Budget Deficit. The deficit was to be resolved by ₦15.5 Billion of the Total financing, hence no financing gap. The opening balance of ₦15.1 Billion was to aid the financing.

The table below shows the Macro-Economic framework assumptions as given by the Abia State Budget office in the State's Planning Commission.

TABLE 2.1 MACRO-ECONOMIC ASSUMPTIONS FOR ORIGINAL AND REVISED 2020 BUDGET AND 2021-2023 MTEF ASSUMPTIONS.

S/N	INDICATORS	ORIGINAL 2020 BUDGET	REVISED 2020 BUDGET	2021-2023 MTEF
1	OIL PRICE(U$$/bbl)	$57	$25	$57
2	Oil production	2.18mbpd	1.7mbpd	2.11
3	NGN-USD Exchange Rate	₦305/U$$1	₦360/U$$1	₦360
4	Inflation	10.8%	14.3%	11.3%
5	GDP Growth	3.16%	-4.6%	3.84%
6	State's Nominal GDP (₦bn)	3,580,778	3,580,778	4,816,200

The Revised Abia State 2020 Budget gives a reduction in oil selling price from $57 to $25 in line with federal Government medium term expenditure framework (MTEF) and approved by National Assembly. The same is with oil production which was cut from 2.18mbpd to 1.7mbpd as OPEC production rules. An exchange rate of ₦360 to U$$1 was used for the revised Budget. Furthermore, Annual inflation is assumed to be at 14.3% compared to 10.81% in the original Budget. A decline in the National Economy of -4.42% is assumed against the estimate of 3.16% growth in the original Budget of 2020.

It is the belief of the State to rely heavily on Recurrent Revenue in order to finance the 2020 Budget as this contributed to over

₦54,323,835,341 of the total Revenue of ₦87,136,592,306. IGR to a chunk of the recurrent revenue which is attributable to the implementation of the Treasury Single Account (TSA) project in the State.

The table below gives the revenue sources as depicted in the 2020 budget

TABLE 2.2 REVENUE COMPONENTS AND SOURCES (IN THE REVISED BUDGET)

S/N	DISCRIPTION	AMOUNT(₦)	PERCENTAGE %
1	Recurrent Expenditure	55,280,341,384	43.1
2	Personnel Cost	6,969,696,720	5.4
3	Overhead Cost	13,031,908,641	10.2
4	Other recurrent Expenditure (with Debt Service)	5,611,712,077	4.4
B	CAPITAL EXPENDITURE	47,380,091,520	36.9
1	TOTAL (A+B)	128,273,750,342	100

For Budget Financing, the Abia State 2020 Revised Budget relied on Recurrent Revenues from the following sources:-

a. Internally Generated Revenue (12.3%).
b. Statutory Allocation (25.7%).
c. Value Added Tax (VAT) (11.2%).

d. Other Statutory Revenues (3.7%).

This implies that the Revised Budget relied heavily on inflows from statutory Allocation, as this contributed to 25.7% of her Revised Budgeted Revenue.

Internally Generated Revenue (**IGR**) took 12.3% as a proportion of the recurrent revenue which may be majorly attributable to the implementation of the **Treasury Single Account (TSA) in the state.**

There may have been low loan financing in the year 2020 due largely to the global coronavirus pandemic and lockdowns which affected major Government Economic Activities. The debt position in the state in 2020 was also affected as a number of projects and measures were embarked upon to ameliorate the negative impacts of COVID-19 in the state. Hence, the recurrent expenditure increased by ₦ 3,491,123,400 as COVID-19 Recurrent Expenditure with the sum of

₦ 27,981,839,456 as COVID-19 capital expenditure, making a total of

₦ 31,472,962,856 appropriated to fight COVID-19 pandemic.

The 2021 budget titled Budget of Local Content and Sustainable Development took cognizance of these impacts including the Revised Budget.

The 2021 budget policies favour aggressive revenue collection processes both for Internally Generated Revenue and External Revenues. It is hoped that with the gradual ease of COVID-19, the state shall access funds from grants, and loans to finance her budget for any gap.

The state hopes to reduce recurrent expenditure by maintaining the centralization of payments and use of Bank Verification Numbers (BVN) for the payment of salaries and pensioners with proper monitoring as over sight functions. Believably, the budget performance for the year

2021 as it affects expenditure will be strongly favourable in view of the efficient and robust mechanisms put in place as well as efficient fiscal policies enunciated to drive the process in the state.

CHAPTE THREE: THE STATE REVENUE, EXPENDITURE AND PUBLIC DEBT TRENDS (2015-2019).

3.1 REVENUE AND EXPENDITURE PERFORMANCE AND FISCAL OUTLIERS 2015-2019.

Abia state's trend performances under the different categories of revenue, expenditure and public debt 2015-2019 are examined here critically.

a. Aggregate Total Revenue Trend in the last 5years and its Composition in 2019:-

The state's aggregate revenue which is a composition of FAAC, Internally Generated Revenue and Grants grew reasonably steady within the period under review from ₦96,487,318,414.72 in 2015 to ₦112,641,563,423.06 in 2019 at an average growth rate of about 16.7 % due majorly to Gross FAAC transfers.

b. FAAC Allocations Trend in the last 5years:-

Transfers from FAAC moved up year by year. In 2015, total FAAC collected was ₦40,848,398,633.70. This amount increased steadily up to about ₦59,339,361,494.87 in 2019 though with a peak receipt of ₦63,598,112,907.35 in 2018. This dropped in 2019 probably due to decline in crude oil prices at the international market.

c. Internally Generated Revenue Trend in the last 5years:-

The internally generated revenue of the State obviously rose steadily within the period. In 2015, it was ₦11,840,705,013.17 and was on gradual rise until its highest rise of ₦15,830,928,367.24 in 2018 and a drop to ₦15,499,929,260.76 in 2019.

The rise in internally generated revenue (IGR) in 2018 is attributable to the introduction of Treasury Sustainability Account and other robust revenue collection mechanisms put in place by the State Government.

d. Aggregate Expenditure Trend in the last 5years and its Composition in 2019:-

Apart from the year 2109 when aggregate expenditure was quite high at ₦113,769,382,469.43, other years were lower. The figure in 2019 was attributed mainly to the Debt service of ₦27,538,742,719.48 and capital expenditure of ₦113,769,382,469.43.

The Government of **Okezie Victor Ikpeazu (PhD**) of course embarked on aggressive and massive job creation, road construction and reconstruction including urbanization policy programme which has a huge borrowing coefficient in period under review.

e. Main Expenditure Variations in the last 5 years by Economic Classification:-

The variations in consideration among the components of total expenditure are: Personal Cost, overhead cost, other recurrent expenditures, capital expenditures and Debt service which occurred at different amounts under the analyzed period 2015-2019. The variation that was highest looking at the period was Debt service which stood out in 2015 but drastically reduced to ₦   in 2019.

f. Overall and Primary Balance Trend in the last 5 years:-

This is not applicable because presently there is no official state's GDP now.

3.2 **ABIA STATE PUBLIC DEBT PORTFOLIO 2015-2019**

Abia state's Public Debts includes her financial commitments such as loans and other paper contracts necessitating the government's promises to repay. These debts can be categorized into **External and Domestic (Internal) Debts**.

a. Public Debt Stock Amount or its shares on Total Revenue as at December, 2019 and its growth rate in the last 5 years:-

The state's public debt stood at ₦40,685,027,779.47 in 2015 and rose to ₦98,367,387,622.03 at the close of 2019. The percentage of Debt to Revenue was 42% in 2015 and climaxed to 86.4% by 2019. Excess crude Account backed loans in 2016, Budget support facility in 2018 and an addition of contractors' arrears including pensions and gratuity arrears explain the significant surge in the public debt stock of the state at the end of December, 2019.

b. The Existing Public Debt Portfolio Composition as at December,2019:-

The Debt Stock Portfolio of Abia state majorly consists of External and Domestic loans. The External Debts is made of loans from ***IDA, EDF, IFAD and AFDF***.

The Domestic loans comprises of:-

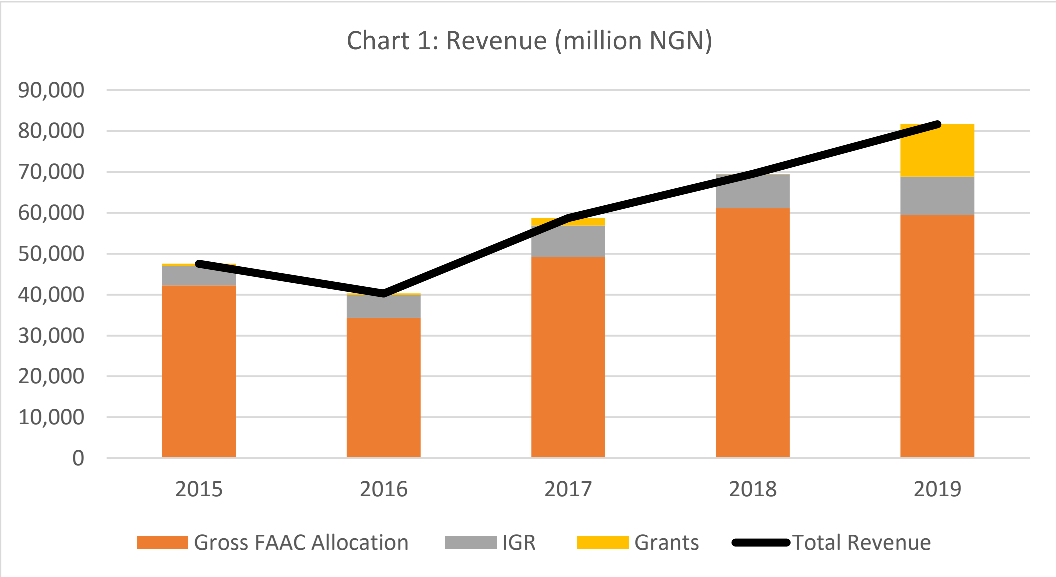
i. Budget Support Facility.
ii. Restructured Commercial Bank Loans.
iii. Excess Crude Account Loans.
iv. Salary Bail-out Funds.
v. Contractors Arrears.
vi. Pensions and gratuity arrears.
vii. Salaries and other staff claims.
viii. Commercial Agric. Development Scheme Loans.

c. Cost and Risk Exposure of the Existing Public Debt Portfolio 2015-2019:-

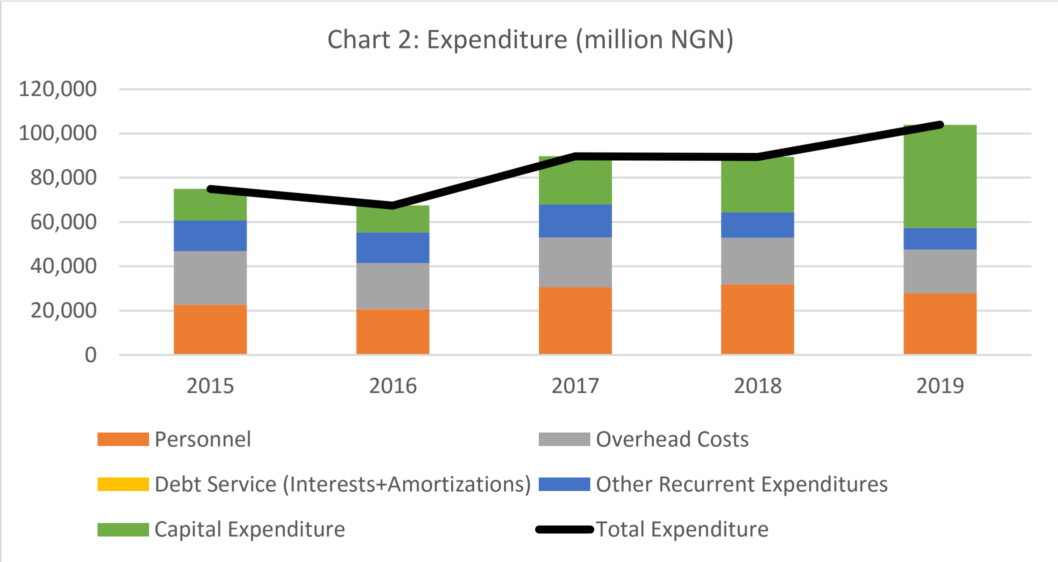
The debt portfolio has an average inherent interest rate of 11% in 2019 and the interest payments represented 10% of Total Expenditure. Therefore, the Debt portfolio is narrowly exposed to current interest rate and roll-over risks. Exposure to currency fluctuations is limited because the foreign currency denominated liabilities is only 11% of the total stock.

Most domestic loans and all external loans have fixed rate obligations; hence, they are not affected by changes in interest rate. This is because these loans have maturities running between 10 to 40 years and include financing from the Federal Government and the multilateral organizations. Additionally, the roll-over risks associated with the potential deterioration of domestic financial obligation conditions are negligible.

LISTS OF CHARTS



Sources: State's Financial Statements



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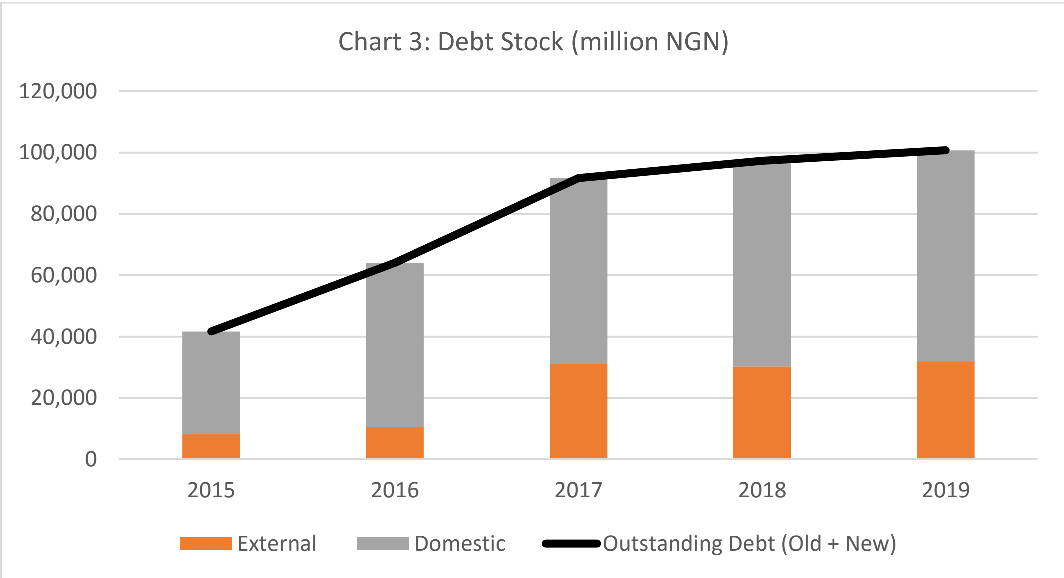

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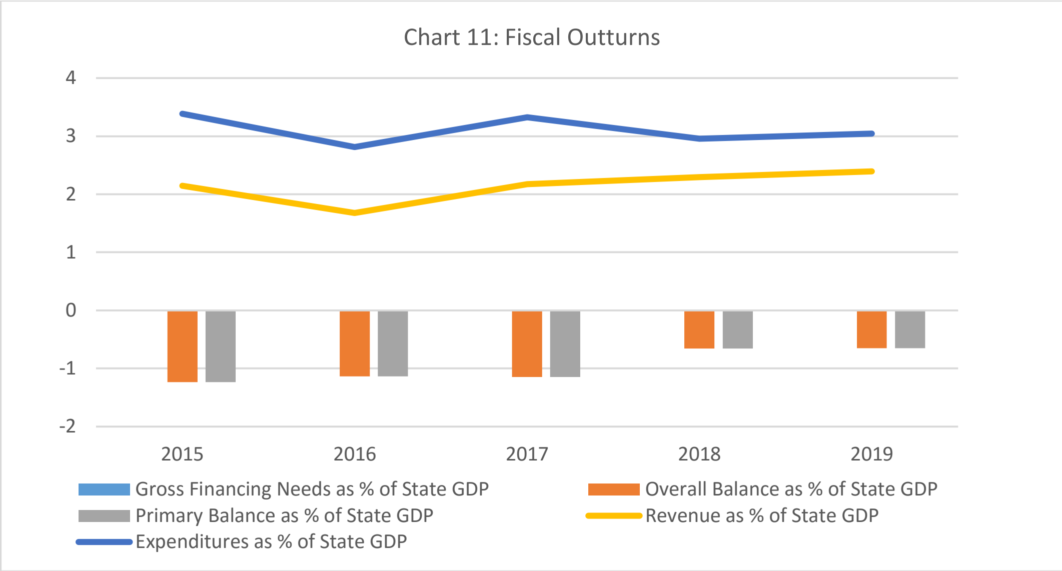


Sources: State’s Financial Statements

CHAPTER FOUR: THE CONCEPT OF DEBT SUSTAINABILITY ASSUMPTIONS, RESULTS, ANALYSIS AND FINDINGS.

4.0 **INTRODUCTION: Concept of Debt Sustainability:-**

Debt sustainability as a concept refers to the ability of the Government to honour its future financial obligations.

Now, since policies and institutions governing spending and taxation largely determine such obligations, debt sustainability will therefore refer to the ability of Governments to maintain sound fiscal policies over time without introducing major budgetary or debt adjustments in the future.

Fiscal policies are also deemed unsustainable when they lead to excessive accumulation of public debts which may eventually cause the Government to take action to address the ugly consequences of the heavy **Debt Burden.**

Hence, to assess the Abia state's debt sustainability, the following debt burden indicators were computed:-

a. **Solvency threshold for the fiscal block** (I.**e. combined External and Domestic debts**); which is the **Present Value (PV)** of the **Total-Public-Debt-To-Revenue**; the Ratio set at 200% for states.

b. Liquidity threshold for the (PV) of the Debt-Service-To-Revenue; the Ratio set at 40%.

c. **Additionally, other indicators measured include Personnel-Cost-To-Revenue;** the ratio set at 60%.

d. Debt service as a Percentage of Gross FAAC Allocation.

e. **Revenue Percentages**.

f. **External Debt Service as Percentage of Revenue**.

4.1 MEDIUM-TERM BUDGET FORECAST.

The Nigerian economy actually has been growing since 2015. It grew to 2.3% in 2019, a slight improvement over 1.9% in 2018.

The growth was majorly in transport, an improved oil sector, information, communication and technology. Agriculture was hit by sporadic flooding disasters in many Agricultural areas of the country including clashes between herdsmen and farmers.

The manufacturing sub-sector continues to suffer from lack of financing and power supply issues.

Household consumption was however the key growth area in year 2019 while reinforcing its 1.1% contribution to real country's GDP in 2018.

Furthermore, the efforts made to lower inflation to between 6% and 9% range, faced both structural and macro-economic constraints such as raising food prices and arrears payments, resulting to an inflation rate estimated at 11.3% for year 2019 and with fiscal revenues below 7% of the country's GDP. This, increased public spending widened the deficits which are mainly financed by borrowing with total public debt of $83.9 billion as at June, 2019. **Debt-To-GDP** moved from 17.5% in 2018 to 20.1%.

High debt Service payments, estimated at more than half of federally collected revenues created fiscal risks.

Furthermore, current account surplus declined due to increased imports, lower oil revenues and smaller movements in capital flows. The poverty rate in over half Nigeria's 36 states is above the National average of 69% of which Abia state is among.

High level of poverty reflects rising unemployment, estimated at 23.1% in 2018, up from 14.2% in the year 2016 and low skills limit opportunities for employment in the formal sector of the Nigerian Economy.

It is expected going forward, that the real GDP growth will rise to about 2.9% at the close of 2020 and 3.3% in 2021 but this depends largely on the implementation of the **Federal Government Economic Recovery and Growth Plan(ER&G) 2017-2020; which emphasizes economic diversification.**

Again, the Central Bank of Nigeria's recent policy that banks hold loan deposit ratios of 60% means well for increasing lending to the real sector.

Furthermore, the retrenchment of Government borrowings and easing of the associated risks of lending to micro, small and medium businesses could lower interest rates and unlock bank lending to the private sector.

All other things to shore up revenues include increase in the **Value Added Tax (VAT**) from 5% to 7.5%.

Additionally, oil exports will also improve while driving up the foreign exchange reserves.

Leaning on the above, **the Abia state Medium-Term Debt Sustainability** is predicated on a gradual recovery of the Nigerian economy that will increase FAAC Statutory Allocation. Going by the Federal government and state's own forecasts, the Nigerian economy is expected to gradually recover within the period 2021-2023; with real GDP expanding at an average annual rate of 3% and domestic inflation decreasing below 10% by the year 2022. This moderate recovery will be supported by higher oil prices in global markets, an increase in domestic production, economic diversification, prudent fiscal policy and stabilization of the exchange rate relevant for international public sector financial transactions at its current level.

Oil and gas revenues including shared resources such as custom duties and VAT would hopefully increase relative to the depressed levels being observed in year 2020, thus improving the state's revenue expected from the Federal Government.

The Abia state's debt sustainability analysis is also built on the continuation of current efforts to mobilize local revenue sources by blocking all known revenue leakages, ensuring the use of high technologically-driven Treasury Single Account(TSA) for effective monitoring, training and retraining of more revenue officers in order to shore up Internally Generated Revenue as well as further implementation of the ***'One-stop shop' project*** aimed at improving revenue and ease of doing businesses in Abia state. Among other things to shore up Revenue is the increase in Value Added Tax (VAT) from 5% to 7.5%. Oil export is projected to improve the Nation's foreign exchange reserves.

The implementation of E-services to cover payments, filing and registrations including the diversification of the Abia economy with commitment to adhering to policies directed at improving the economy would be pursued vigorously.

The tax administration of the state will be strengthened now that a law has been passed and assented to on Abia State Tax codification and consolidation on the 26th, August,2020 in order to streamline taxes holistically and give the Revenue Board authority over all revenue collections. This law aims to strengthen resources collection processes and tax administration. The new minimum wage of ₦30,000 in the state has long been adopted as Government's policy on staff emoluments. Regarding overheads. There is no new policy on it and it is not expected to likely change in the short-run and hence we preserved their historical trends in the total state revenue.

TABLE 4.1 DEBT BURDEN INDICATORS (2015-2023)

S/N	INDICATORS	2015	2016	2017	2018	2019	2020	2021	2022	2023
1	Debt/SGDP-25%	2	3	3	3	3	4	0	-5	-11
2	Debt/Revenue-200%	88	159	156	140	123	173	-8	-271	-600
3	Debt Service/Rev-40%	32	21	15	14	9	11	-137	-285	-351
4	Personnel Cost/Rev-60%	48	51	52	46	34	41	30	35	32
5	Debt Service/FAAC	36	24	18	16	12	14	-205	-301	-374
6	Interest Payment/Revenue	1	2	1	2	2	6	-142	-292	-372
7	External Debt Service/Revenue	0	0	0	0	0	0	343	67	82

4.2 Borrowing Assumptions (Options):-

Abia state **Total Average Public Debt Stock** is lower than the state's inflows. Increased funding requirements are needed to sustain economic recovery, address the huge infrastructural deficits and as well as meeting the budget financial requirements. This however requires a huge funding resource including borrowings for capital projects based on the state's economic blue-print/policy and the 2021 budget vision/theme of pursuing local content and sustainable development.

The Debt-Stock-To-Revenue for the Period 2020-2029 is expected to be high on the average. Therefore, the proposed debt financing is expected to fall in line with the state's debt management strategy/policy which aligns with the National debt management strategy; thereby achieving an optimal mix and restructuring of the state's debt portfolio for both domestic and external debts.

The proposed funding gap plan indicates a gradual increase in the share of foreign financing relative to domestic financing. This is believed to reduce drastically the overall cost of borrowing as well as addressing the challenges of crowding out the private sector from the domestic debt market.

Table 4.2 below shows the State's Macro-Economic projections for 2021-2023 medium term expenditure framework on yearly basis.

TABLE 4.2: MACRO-ECONOMIC ASSUMPTIONS FOR 2021-2023 MTEF

S/N	INDICATORS	2021	2022	2023
1	Oil price(U$$1/b)	57	40	40
2	Oil production(mbpd)	1.86	2.09	2.38
3	NGN-U$D Exchange Rate(₦)	360	379	379
4	Inflation (%)	11.95	10.94	11.02
5	GDP-Growth	3	4.68	3.86
6	State's Nominal GDP (₦bn)	3,935,121	4,350,465	4,816,200

The State's Debt Sustainability Analysis is predicated on the continuation of the State's current efforts at mobilizing revenues and plugging all revenue leakages.

4.3 MEDIUM TERM BUDGET FORECAST

S/N	**DESCRIPTION**	**2021(₦MILLONS)**	**2022(₦MILLONS)**	**2023(₦MILLONS)**
A	**RECURRENT REVENUE**	54,323,835,341	57,040,027,108.05	59,892,028,463.45
1	IGR	31,295,182,225	32,859,941,336.25	34,232,938,403.06
2	Gross Statutory (FAAC)	35,291,727,112	37,056,313,467.6	38,909,129,140.98
3	VAT	12,158,233,322	12,766,144,988.1	13,404,452,237.50
4	13% Derivations	5,229,421,948	5,490,893,045.4	5,765,437,697.67
5	Other FAAC Transfers	300,000,000	315,000,000	330,750,000

B	**CAPITAL RECEIPTS**	500,000,000	600,000,000	650,000,000
1	Loans	10,571,528,813	11,100,105,253.65	11,655,110,516.3
2	Dev. Partners	18,409,391,813	19,329,860,602.5	20,296,353,632.6
3	Other Non-Debt Creating	18,409,391,050	14,469,282,712.5	15,192,746,848.1
C	TOTAL REVENUE	87,136,592,306	91,493,421,921.3	96,068,093,017.37
D	**RECURRENT REVENUE**	62,624,512,746	65,755,738,383.3	69,043,525,302.47
1	Personnel cost (pension& grat.)	31,169,346,730	32,727,814,066.5	34,364,204,761.83
2	Overheads	16,262,279,725	17,075,393,711.25	17,929,163,396.81
3	Other recurrent exp.(subvention& CRFC)	15,192,886,291	15,952,530,575.55	16,750,157,104.33

4.4 DSA Sensitivity Analysis (Shock Analysis):-

The 2020 S-DSA covers five major scenarios which are:-

a. Four shock scenarios of Revenue, Expenditure, Exchange Rate and Interest Rate including one Historical scenario and they are related in terms of their deviations from the baseline scenario.

Now, while the baseline scenario is harped on the evaluation of some macro-economic variables, current and projected fiscal data, it is highly imperative to mention that this is faced with challenges of sources of fiscal risks associated with the possibility of adverse National macro-economic conditions and the possibility of the reversal of the state's revenue and expenditure policies.

To this end, Abia state has undertaken a sensitivity analysis taking cognizance of the macro-economic shocks as well as policy shocks to evaluate the robustness of the sustainability assessment for the baseline scenarios outlined earlier.

Furthermore, considering the macro-economic and policy shocks, the domestic and external borrowings cover any revenue shortfall and additional expenditures relative to our baseline scenario.

SHOCK SCENARIO:-

Beginning from 2021, the impact of 10% decline of all revenue sources including grants was measured. The obtained result under this scenario will shows a higher need for total Gross borrowing. The increment will cuts across all the years of the projection.

The state's debt sustainability is however expected to dwindle if the revenue shock were to occur as the percentage of **debt-to-revenue** which may be within or a bit above the threshold of 200% but may be also below thresholds in both debt service and **personnel cost-to-revenue.**

Abia State should sustain the current revenue drive while expenditure patterns should be under check.

SHOCK EXPENDITURE SCENARIO:-

With a 10% increase in personnel, over-heads, recurrent and capital expenditures beginning from 2021, as revenue sources remain constant, the **state's Total Gross Borrowing may likely increase in 2021 as against the Baseline scenario**. Other projected years equally may increase and hence the state's debt sustainability may be is expected to moderately deteriorate if expenditure shock were to occur since percentage of Debt-to-Revenue may fairly shoot up above the threshold of 200% but may also be below thresholds in both Debt Service And Personnel Cost-To-Revenue.

Therefore going forward, the current expenditure patterns should be kept under check in order to ensure sustainability of the Abia state economy.

SHOCK EXCHANGE RATE SCENARIO:-

Here, a 20% increase in exchange rate or the devaluation of Naira from 2021 may make a small impact on the state's total Gross Borrowing need as it is reflected against the baseline scenario. This is because the external borrowing is kept below 40% and hence the state's sustainability will sustainable in all the three indicators.

SHOCK INTEREST RATE SCENARIO:-

The effect of the 2% yearly interest rate increment on domestic borrowing may shows a projected fiscal deficit in 2021 as against the baseline scenario.

Other projected years' deficits may probably be at the baseline figures. The state's Debt Sustainability indicators would therefore be below the threshold levels.

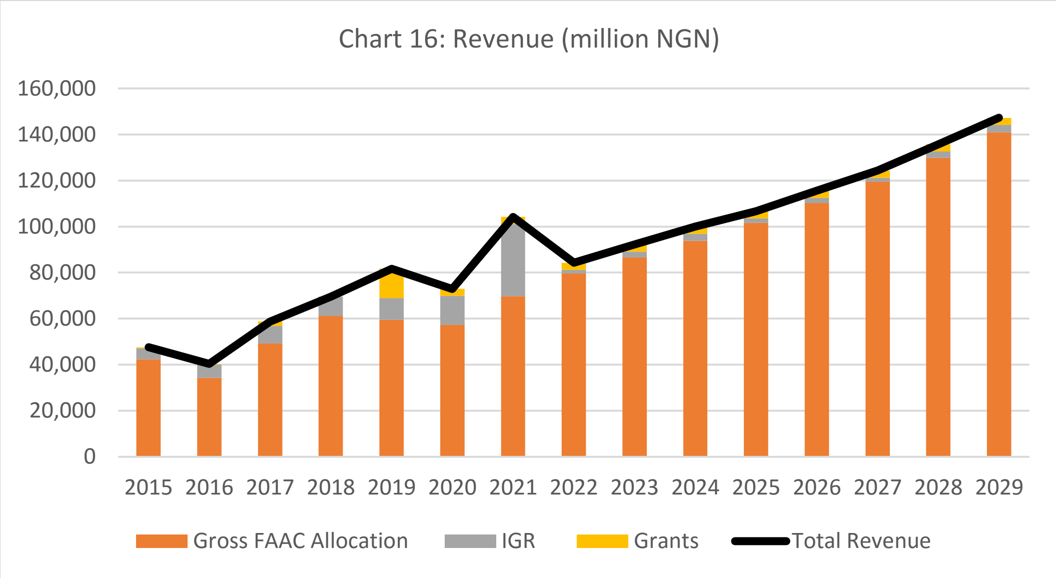
HISTORICAL SCENARIO:-

With the use of the historical average growth of the revenue components (excluding capital receipts) and the expenditure components (excluding interest rate and principal payments), the projected fiscal amount was ₦2,106.07 (converted to million) in 2021 with outrageous deficits from 2022 to 2029, while the personnel Cost-To-Expenditure indicator was on the decline. Furthermore, personnel cost as a percentage of revenue was about 40% which is below the threshold of 60%.

Debt service increased gradually from 2020-2023 and declined in 2024 but climbed up again from 2025-2027. In 2028, another decline was experienced while in 2029 it went up again. However, projected revenue increased from 2020-2025 and declined in 2026. The revenue rose again from 2027-2029.

The debt-to-revenue percentage is kept above the threshold level indicators with the figures rising to as high as about 81.5% in 2029 which is quite unsustainable.

LIST OF CHARTS



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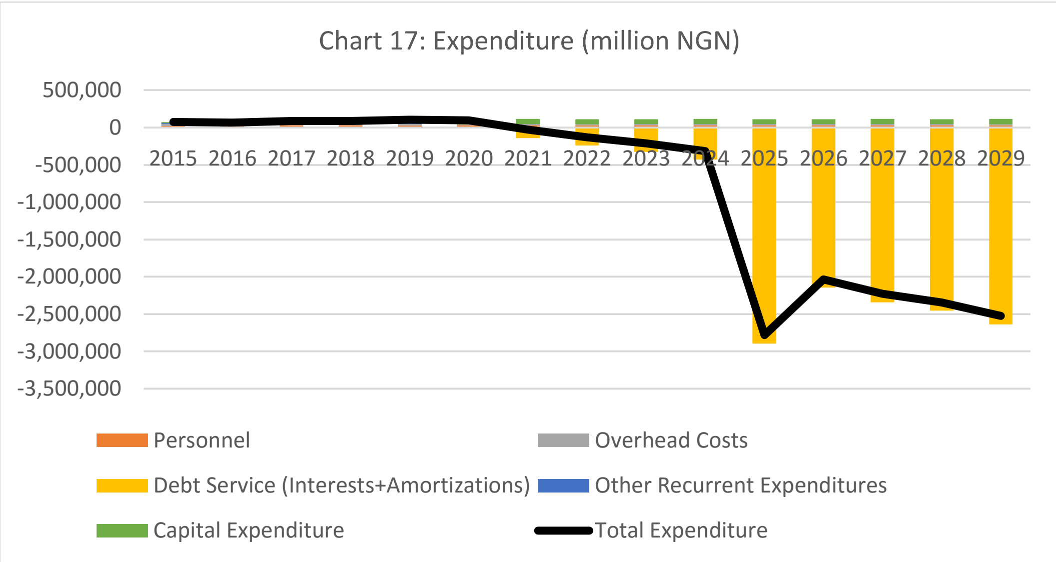

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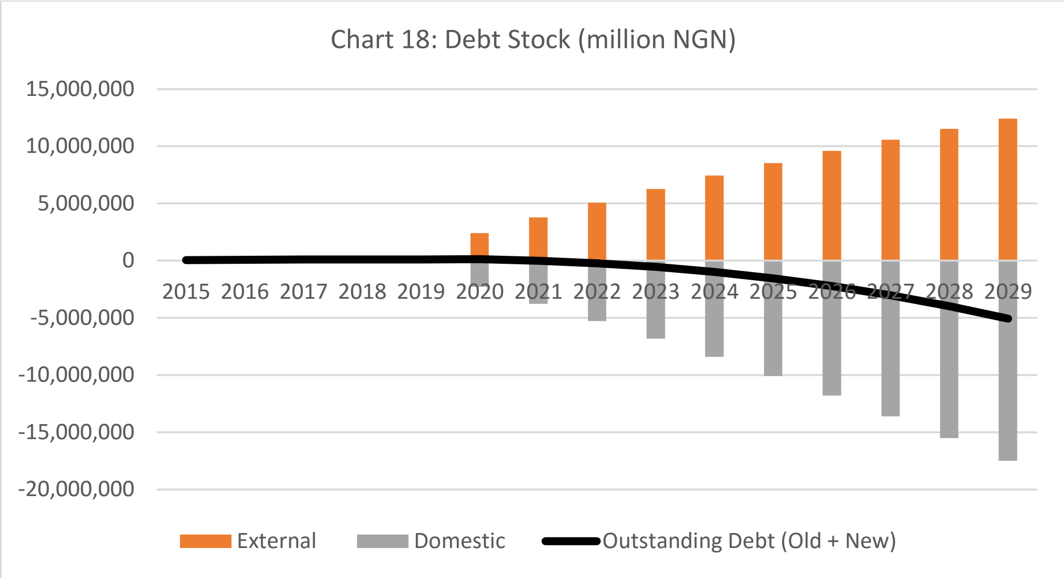

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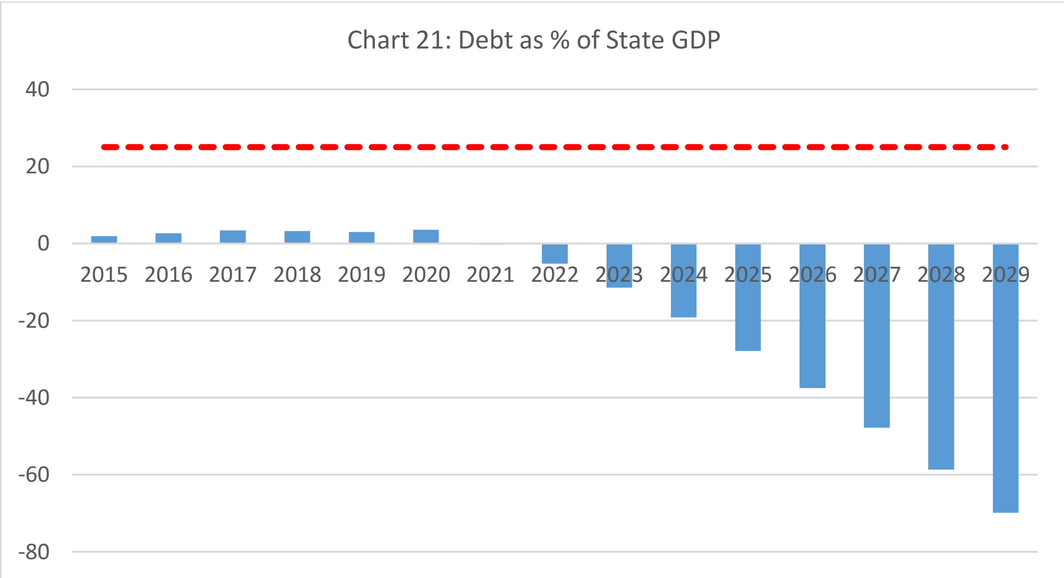

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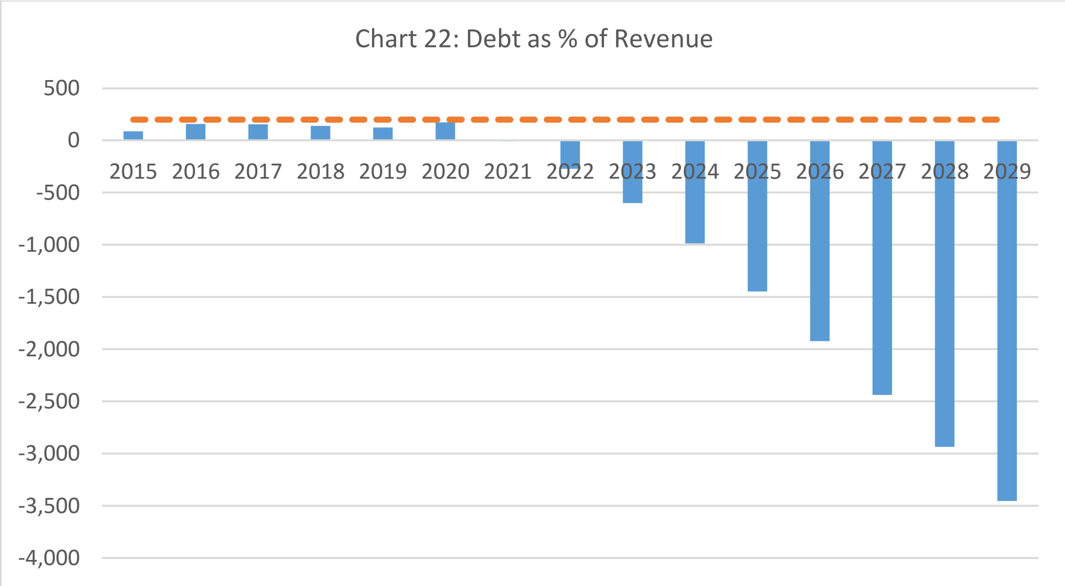

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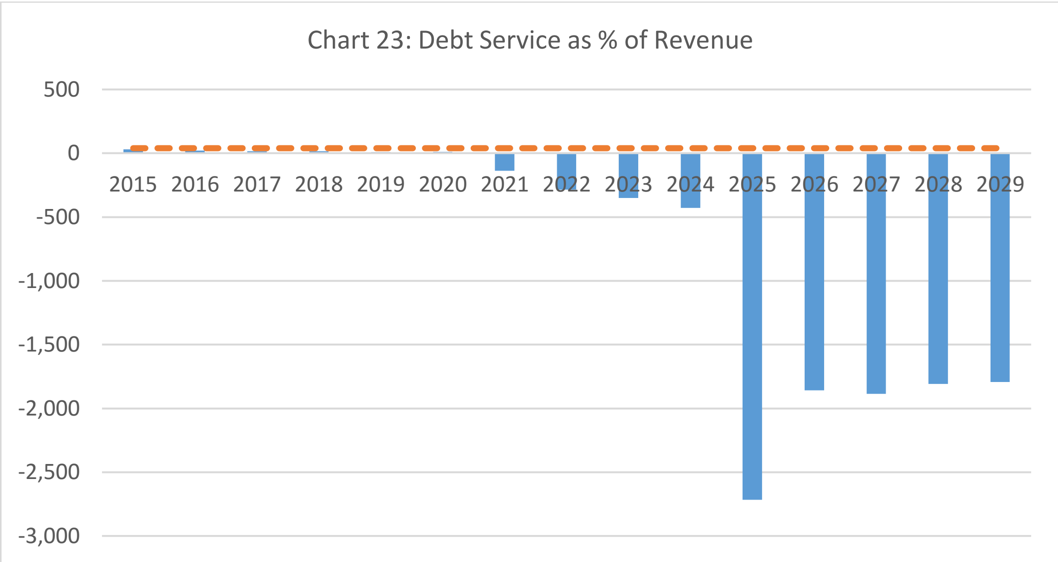

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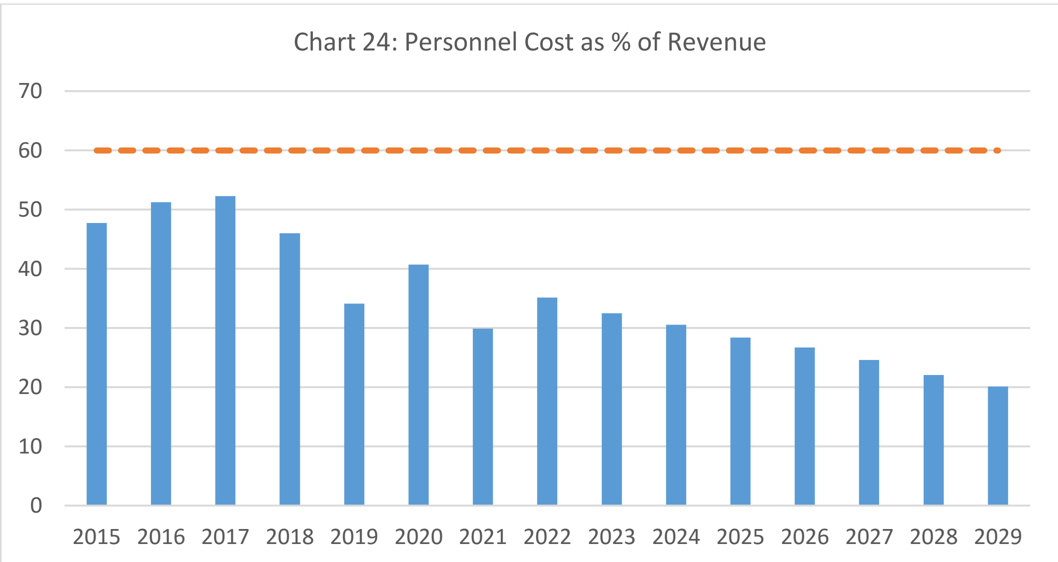

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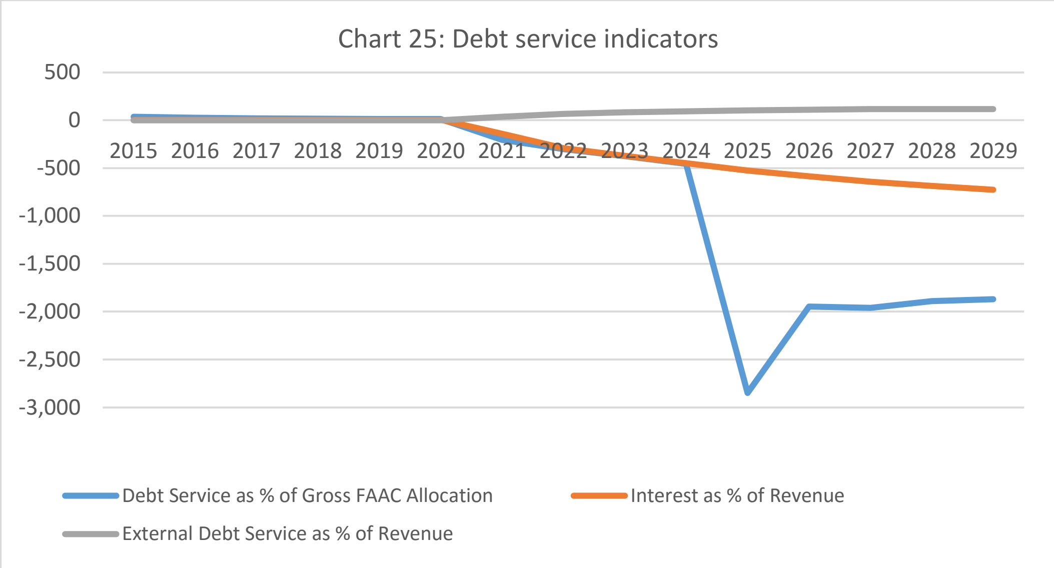

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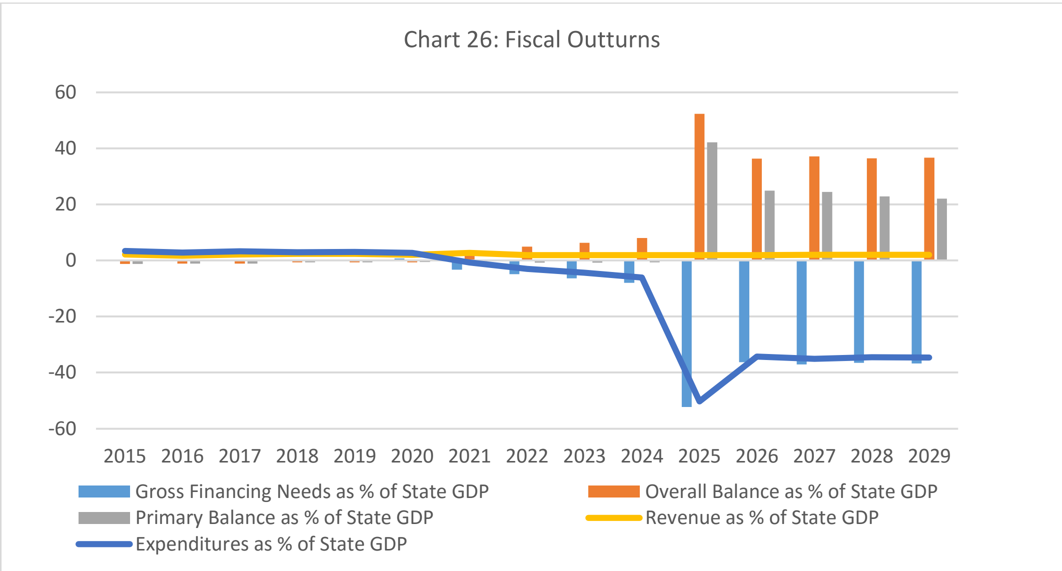

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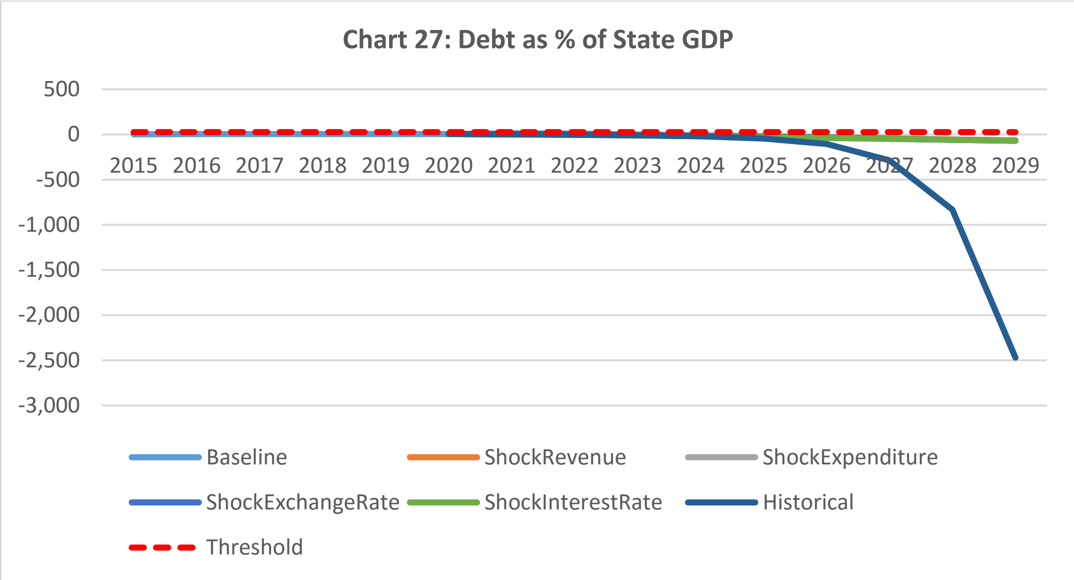

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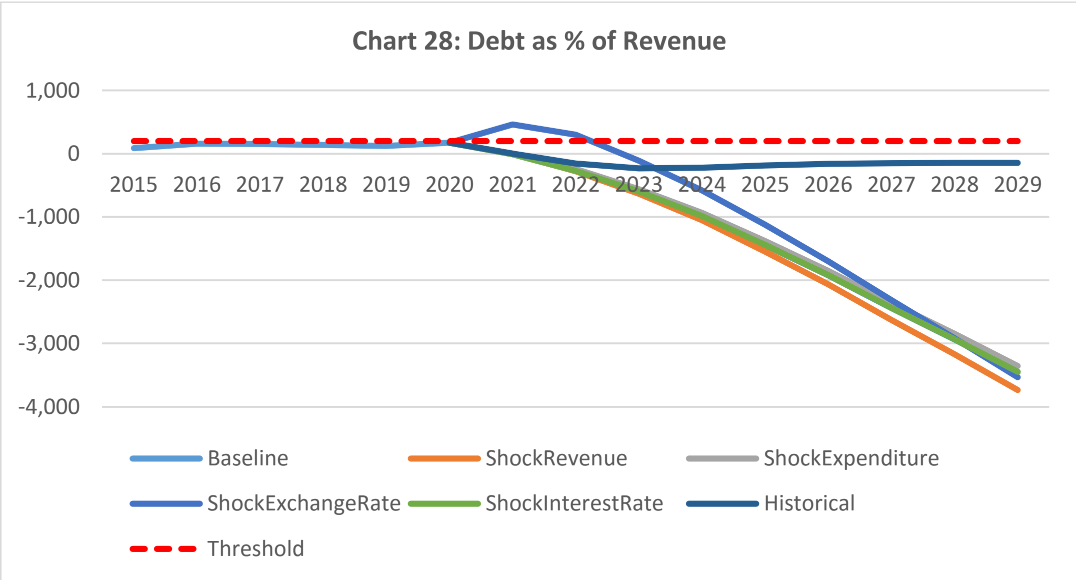

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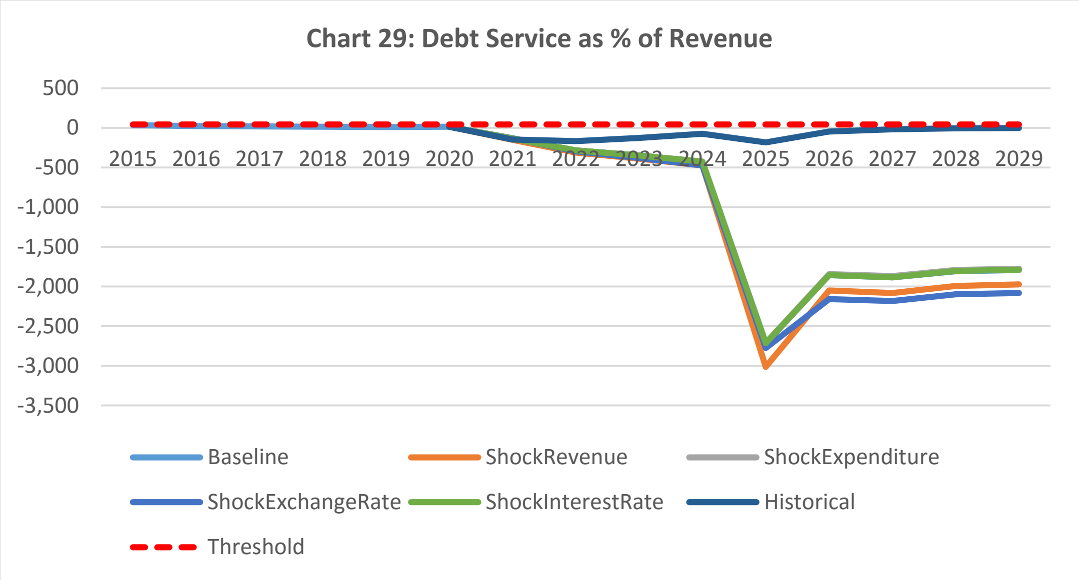

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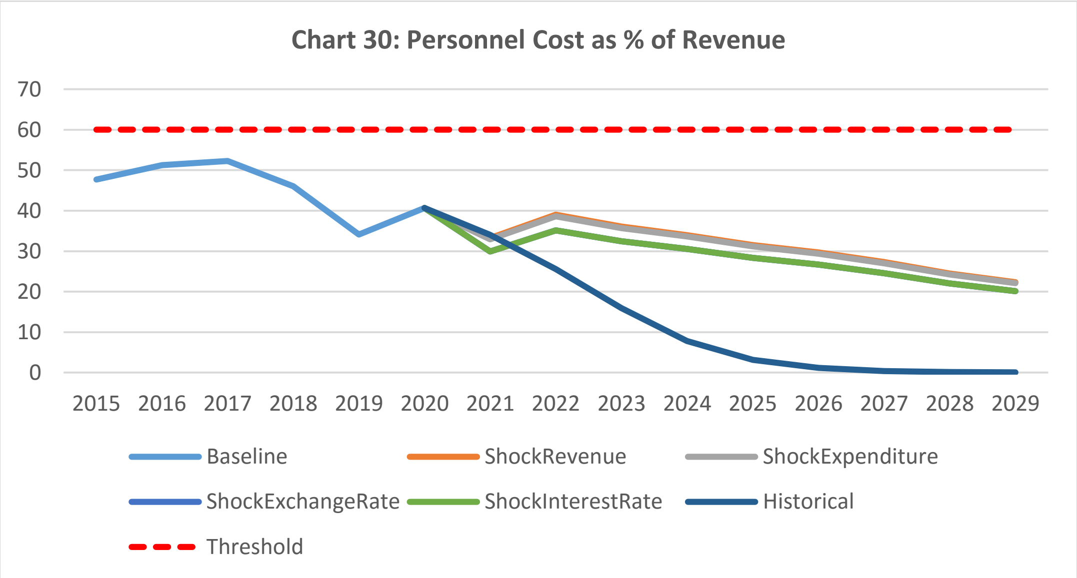

Source: State's Financial Statements

LIST OF ANNEXURES

ANNEXURE 1: TABLE OF ASSUMPTION

ANNEXURE 2: BASELINE SCENARIO

(AS CONTAIN IN THE S-DSA TEMPLATE)