AKWA IBOM STATE GOVERNMENT OF NIGERIA

2022 DEBT SUSTAINABILITY ANALYSIS AND DEBT MANAGEMENT STRATEGY (DSA-DMS) REPORT

PUBLISHED BY

AKWA IBOM STATE DEBET MANAGEMENT OFFICE (AKS DMO)

DECEMBER, 2022

TABLE OF CONTENT

CHAPTER ONE
INTRODUCTION

The Akwa Ibom State Debt Sustainability Analysis highlights historical trends and patterns in the State's Public Finance during the period 2017 to 2021 and evaluates the debt sustainability in 2022 to 2031 (the long term). This analysis highlights the following: current trends in revenue, expenditure, public debt and the related policies and programmes adopted by the State. The Akwa Ibom State Debt Sustainability Assessment is conducted, including scenario and sensitivity analysis, in order to evaluate the prospective performance of the State's public finances. The Debt Sustainability framework provides an objective assessment of debt sustainability in a given macro-economic context that outlines the State's Fiscal and Monetary stance under assumptions and conditions.

The main objective of the debt strategy is to ensure that the government financing needs and payment obligations are met at the lowest possible cost, consistent with a prudent degree of risk. In other words, for the State to achieve her development goals while minimizing the risk of experiencing debt distress. Consequently, the four debt management strategies calculate costs of carrying public debt; measure the risks associated with macroeconomic and fiscal shocks; realistically set fiscal targets and effectively allocate resources to strategic priorities using elements of the Medium-Term Expenditure Framework (MTEF). These are the Economic and Fiscal Update (EFU); Fiscal Strategy Paper (FSP) and Budget Policy Statements (BPS). The latest edition of the MTEF covers the period 2023-2025.

Akwa Ibom State intends to finance its deficit budget through commercial bank loans with maturity of 1 to 5 years including Agriculture loans, Infrastructure loans as well as Commercial Bank Loans (Maturity of 6 years or longer). The State also intends to borrow from the Capital market by issuing State Bonds with maturity of 6 years or longer.

External Financing will be sourced through concessional loans, e.g., World Bank, Africa Development Bank and Bilateral Loans.

CHAPTER TWO
THE STATE FISCAL AND DEBT FRAMEWORK

2.1 FISCAL REFORMS:

Akwa Ibom State has implemented the following fiscal reforms in the last 3 – 5 years.

1) Broadening and diversification of the State's resource base through improvements in the collection of Internally Generated Revenue (IGR) and the development of other internally generated revenue sources in the maritime sector and in the coastal and inland water ways as well as harnessing revenue on landed properties.
2) Pursuing of foreign exchange revenue from airplane Maintenance and Other Aviation Repairs and Overhaul (MRO) facility at Ibom International Airport.
3) Boosting production by local businesses through the promotion of trade, commerce and foreign tourism between the State and the rest of the world.
4) Encouraging and sustaining small and medium-scale enterprises through the development of an efficient and sustainable micro-credit framework as part of wealth creation and employment generation.
5) Developing of Ibom Industrial City to complement Government efforts in the creation of enduring structure for employment and revenue generation.
6) Developing the agricultural sector through supply of improved agricultural inputs, credit and extension.

2.2 2023-2025 MTEF AND 2022 BUDGET

Akwa Ibom State 2022 Budget aims at reducing dependence on statutory allocations as the main source of revenue to the State. This will be pursued by establishing more industries, improving internally generated revenue and providing the enabling environment which will encourage private investment in the State. The State Government will also create employment opportunities and improve the living standards of the people by providing basic infrastructures, enhancing security, developing human capital and continuing to boost services in education and healthcare.

The State has in the last two years embarked on the preparation of Medium-Term Expenditure Framework (MTEF). The document serves as a tool for Multi-year Fiscal Planning and Budget formulation process aimed at enabling the State Government realistically set fiscal targets and effectively allocate resources to strategic priorities.

The main elements of the MTEF are:

1. **The Economic and Fiscal Update (EFU),** which provides economic and fiscal analyses which form the basis for the budget planning process. It is aimed primarily at guiding policy and lawmakers in the State Government. The EFU also provides an assessment of budget performance (both historical and current) and identifies significant Global, National and State level factors affecting implementation.
2. **The Fiscal Strategy Paper (FSP),** which determines the resources available to fund Government programs and projects from a fiscally sustainable perspective.
3. **The Budget Policy Statement (BPS),** which states the overarching policy goals that will guide the Government's budget decisions and how the budget aligns with the Government's short-term intentions. It also states any changes to the government's long and short-terms fiscal objectives and assesses how changes in the long-term fiscal objectives and short-term fiscal intentions situates with the principles of responsible fiscal management.

The latest edition of the MTEF covers the period of 2023-2025. As a principle, the MTEF only recognizes approved budget figures as source data.

CHAPTER THREE

REVENUE, EXPENDITURE, FISCAL AND DEBT PERFORMANCE (2017-2021)

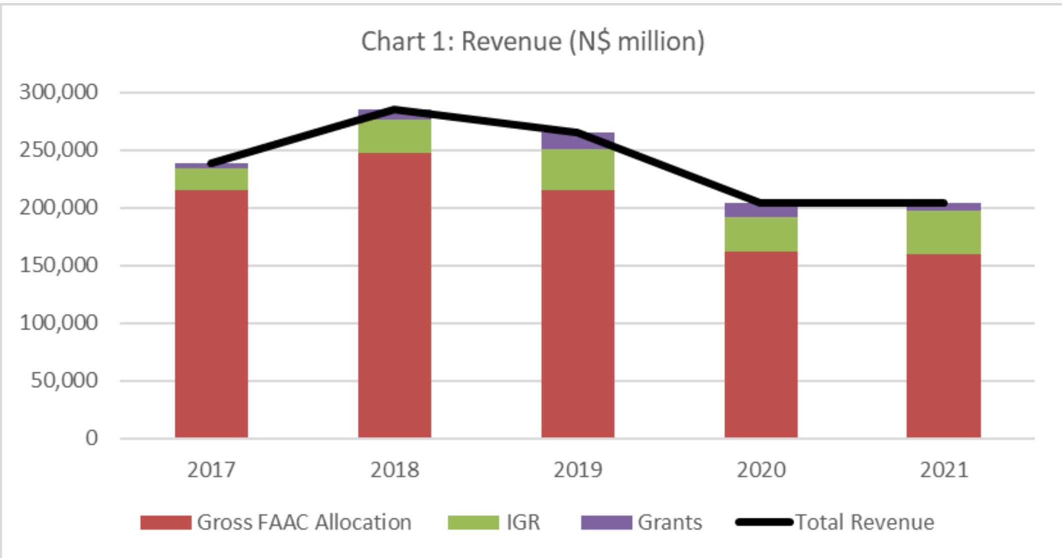
3.1 Revenue, Expenditure and Fiscal Performance, 2017-2021

3.1.1 Revenue Performance

Akwa Ibom State's Revenue stood at ₦204.6b in 2021 compared to ₦203.6b in 2020, which represents an increase of ₦0.96b or 0.47%, showing that the economy is slowly recovering from adverse effects of the Coronavirus Pandemic. The Revenue recorded improvements from 2017 to 2018, due to the growth in the financial resources to the real sector of the economy, and effective implementation of the Economic Policies in the State.

Table 1: Five Years Revenue Data

	2017	2018	2019	2020	2021
Total Revenue (N' Billion)	**238.787**	**285.049**	**264.985**	**203.612**	**204.573**
Gross FAAC Allocation	215.090	247.824	214.845	161.448	159.427
IGR	19.513	28.213	35.504	30.611	37.897
Grants	4.184	9.012	14.636	11.553	7.249



Source: Audited Financial Statements

3.1.2 FAAC Allocations

The Gross FAAC allocations that comprises the Statutory allocation, derivations, VAT allocation, exchange rate gain, augmentation among others, decreased from ₦161.4b in 2020 to ₦159.4b in 2021, which represents a decline of ₦3b or 1.8. Akwa Ibom State in 2018 was at its peak with ₦247.8b Gross FAAC Allocations.

Table 2: Summary of Five Years' FAAC Allocation in N'Billion

	2017	2018	2019	2020	2021
Net Statutory Allocation	28.507	42.751	41.399	34.079	35.601
Derivation	93.268	149.055	118.505	91.073	91.155
Other FAAC transfers	82.659	43.755	41.598	20.481	7.192
VAT Allocation	10.655	12.262	13.342	15.814	25.476
Total FAAC Allocations	**215.090**	**247.824**	**214.845**	**161.448**	**159.427**

Source: Audited Financial Statements

Other factors leading to the improved Statutory Allocation include the Federal Government's zeal to improve the non-mineral revenue to reduce its over-dependence on oil and gas as its major revenue sources. Significant reforms were introduced mainly in Federal Inland Revenue Service (FIRS) and Nigerian Custom Service which yielded positive results. We experienced a decline in the Statutory Allocation at the end of the first quarter through to the second quarter of 2020 due to the supply glut in the global oil market and the effect of the Novel COVID-19 pandemic which caused global oil prices to crash below $20/barrel.

3.1.3 VAT

VAT has constantly surged since the country exited recession in 2017 from ₦10.655billion to ₦25.476billion in 2021 representing ₦14.815billion or 139.8% being increase due to high level of Consumer Price inflation. This trend is expected to continue, following the signing into law of the Finance Bill 2019 which effectively raised the VAT rate from 5% to 7.5%, and will potentially increase revenue that will accrue to Government. Although the lockdown caused by the COVID-19 Pandemic slowed down economic activities, however VAT revenue did not drop. Recently, the Nigerian Senate approved the funding of the North East Development Commission (NEDC) from VAT realised in the Country. A total of 3% deductions from VAT will be deducted monthly for a period of ten years. This will also affect the projected amount for VAT in Akwa Ibom State over the period – 2022 to 2031.

3.1.4 IGR

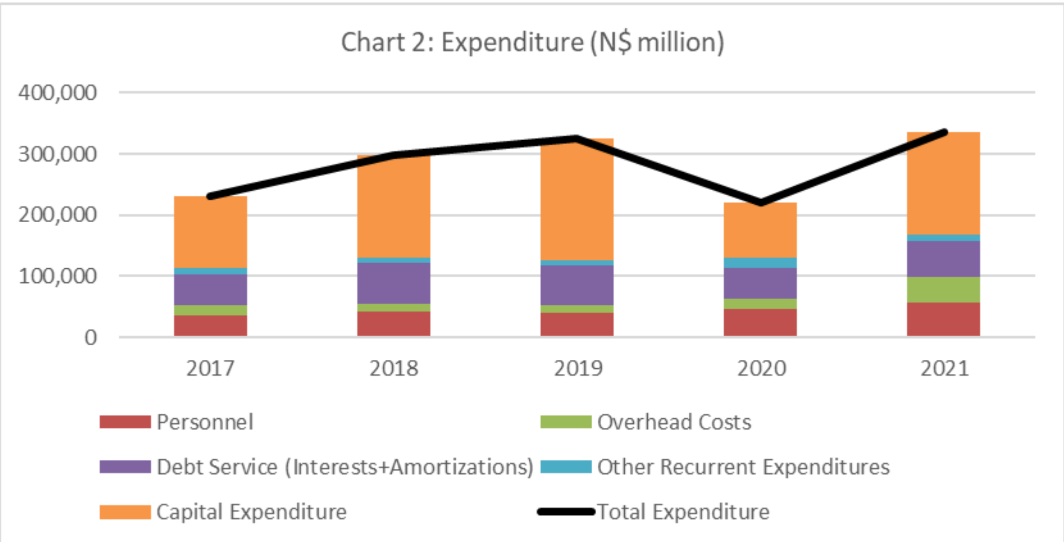
Akwa Ibom State's Internally Generated Revenue (IGR) shows a growth during the period under review, the IGR shows a significant growth from ₦19.5b in 2017 to ₦37.9b in 2021 representing ₦18.4 or 93% increase. The improvement in IGR was mainly because of tax administration reforms. These reforms covered legal, institutional, and operational frameworks. Accordingly, several reform activities were instituted to strengthen the IGR collection. Specifically, as a bedrock for other reforms, a new Revenue Administration law was passed, among other things, to consolidate State revenue code covering all State IGR sources. Collections were thereafter enhanced with improvement on all electronic platforms and payment gateways used by the State Internal Revenue Service. The State also expanded its Taxpayer database and developed an electronic tax-payer database system. Revenue sources were expanded to include Introduction of Land Use Charge and all revenue leakages were blocked through automation processes.

3.1.5 Expenditure Performance

The Akwa Ibom State's Total Expenditure includes Capital expenditure, Personnel costs, Overhead costs, other recurrent expenditure, and Debt service (interest payment and principal repayment). In 2021, the State's total expenditure amounted to ₦329.6b compared to about N230b as at end of December 2017, which represents a growth of ₦99b or 43%. The Total debt service that comprises of the interest and principal repayments stood at ₦58.7b as at end-December 2021 compared to ₦51.8b as at end-December 2017, which represents an increase of ₦6.9b or 13.3%.

Table 3: Summary of Five Years' Total Expenditure in N'Billion

	2017	**2018**	**2019**	**2020**	**2021**
Total Expenditure	229.974	298.750	324.913	220.897	336.139
Personnel	35.108	41.374	39.616	46.834	57.670
Overhead Costs	17.188	13.704	13.058	15.666	41.642
Debt Service (Interests+Amortizations)	51.824	67.583	65.235	51.977	58.777
Other Recurrent Expenditures	8.764	7.919	9.172	14.970	10.266
Capital Expenditure	117.090	168.170	197.833	91.450	167.783



Source: Audited Financial Statements

3.1.6 Main Expenditure Variations

Personnel: Remunerations due to employees of the State which is paid centrally through the Treasury Single Account (TSA) make up the overall Personnel Cost.

The personnel cost stood at ₦35.1b in 2017, ₦41.4b in 2018, ₦39.6b in 2019, ₦46.8b in

2020 and ₦57.7b in 2021. There is an increase in personnel cost from ₦35.1b in 2017 to ₦57.7b in 2021, which represents an increase of ₦22.6b or 64.4%. This increase is as a result of promotion and employments in key Ministries such as Health, Hospitals Management Board and Education, the implementation of the N30,000 Minimum Wage among others.

Overhead: Overhead Costs, often referred to as overhead or operating expenses are those expenses associated with running the government that cannot be linked to creating or producing a product or service. They are the expenses incurred in the day-to-day running of the government.

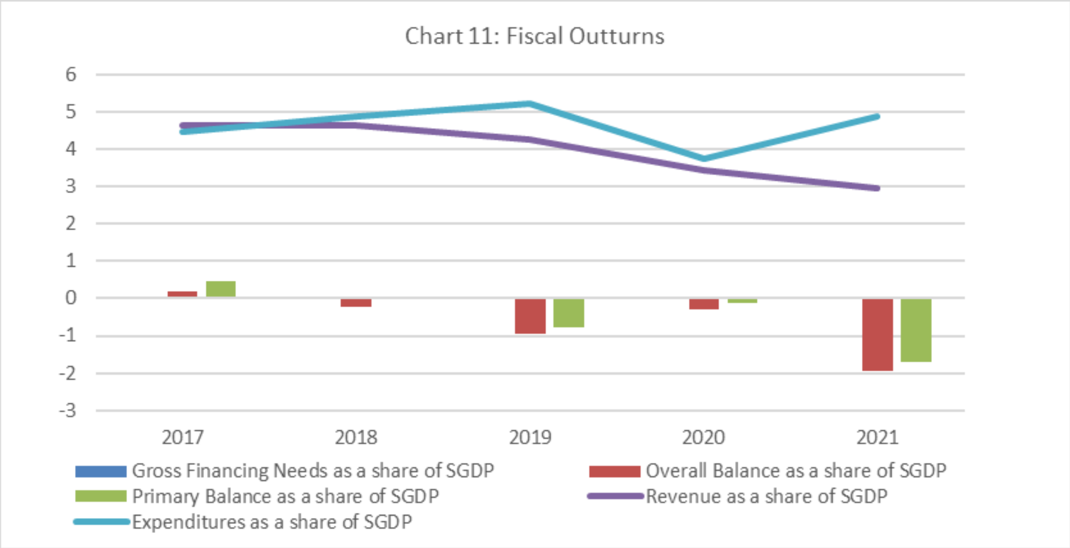
The overhead cost stood at N41.6b in 2021 compared to N17.2b in 2017, which represents an increase of N24.5b over the period under review. This increase is due to increase in government activities over the years, and inflationary trend in the economy.

Furthermore, the implementation of IPSAS is another reason for the sharp increase which takes away gratuity as personnel component to overheads. Once this backlog is cleared, it is expected that the Overhead cost should decline drastically.

Capital Expenditure: Capital expenditure amounted to ₦167.8b in 2021, ₦91.4b in 2020, ₦197.8b in 2019, ₦168.2b in 2018 and ₦117.1b in 2017. Capital Expenditure has been on constant increase from 2017 to 2019 from ₦117.1b in 2017 to ₦197.8b in 2019, which represents an increase of ₦80.7b or 68.96%. This was due to increased Government activities in the area of infrastructure; in 2020 there was a drop due to the debilitating effects of the COVID-19 pandemic but in 2021 there was an increment showing the State's increased investment in developmental projects.

3.1.7. Fiscal Outturns

The Primary Balance Trend revealed that the Gross Financing Needs of the State was at its height in 2018. This is as a result of the Economic Transformation Programme for Result (PforR) facility.



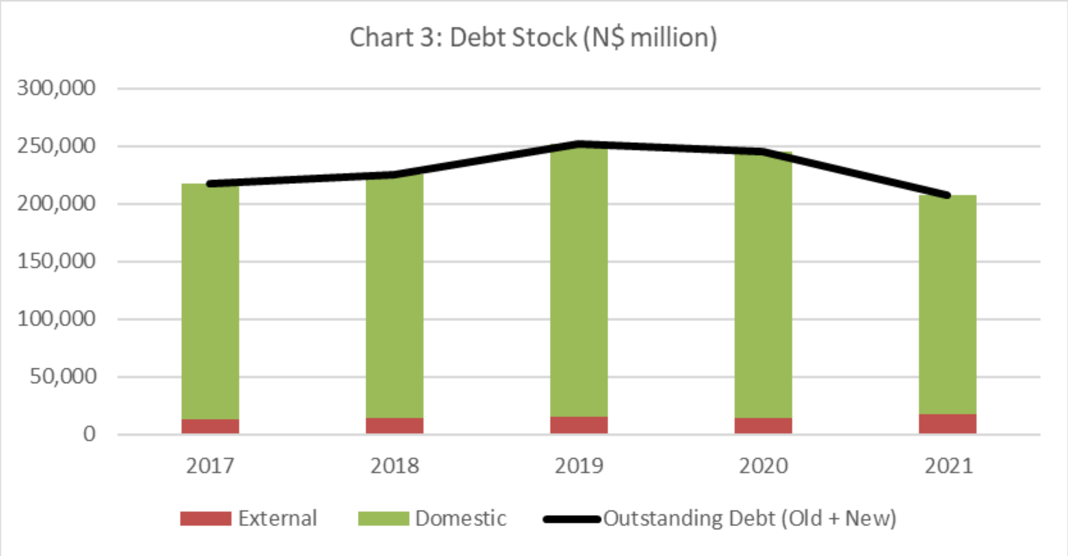
Source: Audited Financial Statements

The overall balance trend shows a diminishing outcome in years 2018 to 2021 while noticing an increasing trend and reaching a climax in 2017, this coincided with larger than usual overall balance deficits.

3.2 Akwa Ibom State Debt Portfolio, 2017-2021

The public debt includes explicit financial commitments – like loans and securities – that have paper contracts instrumenting that government promises to repay. The State shall use this standard definition of public debt, which considers non-contingent debt and thus the obligation to repay them is independent of the circumstances, as well as excludes contingent liabilities (i.e. guarantees, state owned enterprises non-guaranteed liabilities).

Total Debt, broken into Domestic and Foreign (External) for the period 2017 - 2021 is shown in the graph below.



Source: Audited Financial Statements

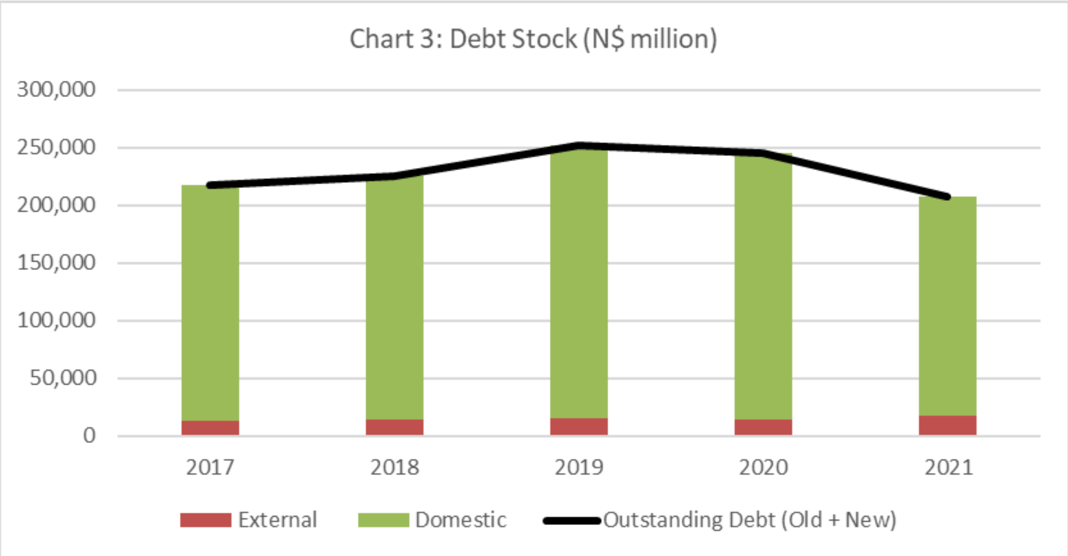
3.2.1 Total Debt Stock

The Total Debt of the State rose by 15.77% between 2017 and 2019, but in 2021, there was a drop in the total debt stock by 15.56%, over the 2020 figure due to a decrease in the domestic and external borrowing in 2021.

Table 4: Summary of Five Years' Total Debt Stock in N'Billion

	2017	2018	2019	2020	2021
Outstanding Debt (Old + New)	218,028	225,166	252,423	245,204	207,050
External	12,791	13,962	14,706	14,396	17,442
Domestic	205,237	211,204	237,718	230,807	189,609

Source: Audited Financial Statements



3.2.2 Debt Composition

The composition of External to Domestic debt as at end of 2021 was 8.4% to 91.6%, respectively, with almost 40% of the Domestic debt accruing to Contractors Arrears, Pensions and Gratuities, while 14% of the Domestic debt is due to Commercial Banks, and 46% of the Domestic debt is for various loans from Federal Government (including the Budget Support, FGN Bond, FGN Loan Support, AADS, MSMEDF and Excess Crude account).

The 2021 closing debt stock by item is summarized in the table below:

Table 5: State Debt Portfolio

Item	Currency	Denomination	2021 YearEnd
Total External Debt - Stocks	US Dollars	Million	**46.03**
World Bank (WB) (including International Development Association (IDA) and IBRD)	US Dollars	Million	37.01
African Development Bank (AfDB) [including African Development Fund (AfDFP) and Africa Growing Together FUND]	US Dollars	Million	8.71
Multilateral Creditor (1) IDB and BADEA	US Dollars	Million	0.3
Total Domestic Debt - Stocks	Naira	Billion	**189.61**
Budget Support Facility	Naira	Billion	17.03
Restructured Commercial Bank Loans (FGN Bonds)	Naira	Billion	58.07
Excess Crude Account Backed Loan	Naira	Billion	6.49
Contractors' Arrears	Naira	Billion	40.68
Pension and Gratuity Arrears	Naira	Billion	33.89
Commercial Bank Loans	Naira	Billion	27.67
AADS (Accelerated Agric. Development Scheme)	Naira	Billion	0.75
Micro Small Medium Enterprise Development Fund (MSMEDF)	Naira	Billion	2.00
FGN Loan Support	Naira	Billion	3.01

CHAPTER FOUR

DEBT SUSTAINABILITY, ASSUMPTIONS, RESULTS ANALYSIS AND FINDINGS

4.0 Introduction: Concept of Debt Sustainability

A Debt Sustainability Analysis (DSA) assesses how a State or Nation's current level of debt and prospective borrowing affects its present and future ability to meet debt service obligations. It is a consensus that a key factor for achieving external and public debt sustainability is macroeconomic stability. The concept of debt sustainability refers to the ability of the government to honor its future financial obligations. Since policies and institutions governing spending and taxation largely determine such obligations, debt sustainability ultimately refers to the ability of the government to maintain sound fiscal policies over time without having to introduce major budgetary or debt adjustments in the future. Conversely, fiscal policies are deemed unsustainable when they lead to excessive accumulation of public debt, which could eventually cause the government to take action to address the unwanted consequences of a heavy debt burden. Government therefore should endeavor to strike a balance between revenue and expenditure, so that any debt incurred will not impact negatively on the State, leading to serious financial crisis.

To assess Akwa Ibom State debt sustainability position, a comparison shall be made between the projections and acceptable threshold in key performance indicators. The table that follow, presents the State's average forecasted debt burden indicators over a 10-year period (2022 – 2031).

Table 6: Akwa Ibom State Debt Burden Indicators

Indicators	Thresholds	Ratio
Debt as % of GDP	25%	5%
Debt as % of Revenue	200%	195%
Debt Service as % of Revenue	40%	30%

Personnel Cost as % of Revenue	60%	22%
Debt Service as % of FAAC Allocation	Nil	57%
Interest Payment as % of Revenue	Nil	24%
External Debt Service as % of Revenue	Nil	0.1%

4.1 Medium-Term Budget Forecast

Debt Sustainability Analysis of Akwa Ibom State is predicated on the continuation of recent efforts to grow the IGR of the State annually by 20% in the medium-term. The State's macroeconomic framework in the medium term is predicated on the National Bureau of Statistics' data as well as the 2022 - 2025 Federal Fiscal Framework (see Table 7 below).

Table 7: Akwa Ibom State Macroeconomic Framework Assumptions

Items	2022	2023	2024	2025
National Inflation	16.11%	17.16%	16.21%	17.21%
National Real GDP Growth	3.55%	3.75%	3.30%	3.46%
Oil Production Benchmark (MBPD)	1.60	1.69	1.83	1.83
Oil Price Benchmark	$73.0	$70.0	$66.0	$62.0
NGN: USD Exchange Rate	410.15	435.57	435.92	437.57

The economy is expected to gradually recover from the COVID-19 pandemic between 2022 - 2025, with National Real GDP growing at an average annual rate of 3.52%, While on the average, domestic inflation is pegged at 16.67%. The moderate recovery will be supported by economic growth through diversification and increase in the share of VAT. The Tax Administration reforms adopted by the State Government will also strengthen resources provided by IGR, as well as numerous industries that are being attracted to the State through industrialization drive, which are expected to continue in the next few years. This will benefit the economy immensely.

The State has put in various Tax Administration reforms to strengthen its IGR in order to sustain its debt, these include the enactment of new Revenue Administration Law and Land Use Charge Administration Law. With these new reforms adopted by the State Government, the IGR of the State is expected to grow in the next few years and this will benefit the state towards overall economic recovery. On the other hand, is the Civil Service Reform Policies being implemented with regard to personnel and overhead cost, which are likely to decline from their historical trends. Personnel audit and biometric data capturing of serving and retired staff in the State employ had been undertaken by the State Government to reduce the incidence of ghost workers/retirees.

State revenue is expected to experience a sporadic increase in the medium term (2022 – 2025) as a result of the Payments by the Federal Government of 13% oil derivation arrears and IGR boost from property taxes with the ongoing Akwa Geographical Information System (GIS).

Table 8 below presents the Medium Term Expenditure Forecast covering 2023 to 2025 with the 2022 approved budget provisions as the basis for projections.

Table 8: Akwa Ibom State Indicative Three Year Fiscal Framework (MTEF 2023 – 2025)

Items	2022 (N'Million)	2023 (N'Million)	2024 (N'Million)	2025 (N'Million)
Revenue				
Statutory Allocation	45,000	51,000	61,112	60,864
Derivation	120,000	200,000	167,004	166,328
VAT	25,000	30,000	27,592	27,480
IGR	43,854	50,000	53,603	53,386
Other FAAC Receipts	40,000	62,000	12,182	12,132
Capital Receipts	224,869	137,000	150,700	165,770
Expenditure				
Personnel Cost	70,583	80,100	60,492	60,247

Overheads	119,481	160,000	100,150	99,744
Other Recurrent Expenditure	21,700	35,000	19,293	19,215
Capital Expenditure	324,918	389,000	332,445	331,098

4.2 Borrowing Options

4.2.1 Option A (S1)

Under the reference debt strategy, S1, it is projected that the current borrowing trend by the State, of meeting financing needs through borrowing from domestic sources, shall be maintained within periods 2022 to 2031. The key assumptions on the planned borrowings for Option A is that 40% of the financing needs will be met by commercial bank borrowing (1-5 years) while 60% will be gotten from Other Domestic Financing sources. However, in year 2028, State bond (1 – 5 years) should be floated to raise 25% of the financing needs.

The borrowing needs under S1 is projected to be at a minimum figure of N50.2 billion, in year 2022 and at the peak (N208.8 billion) in year 2031.

Table 9: Summary of Strategy 1 projected borrowings

Borrowing Sources		**Years**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**
New Domestic Financing in Million of Local Currency												
Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)	Naira	Million	20,088.63	55,398.65	44,006.84	41,906.16	76,813.92	75,186.73	46,951.13	70,915.64	79,448.04	83,533.03
Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)	Naira	Million	-	-	-	-	-	-	-	-	-	-
State Bonds (maturity 1 to 5 years)	Naira	Million	-	-	-	-	-	-	83,602.04	-	-	-
State Bonds (maturity 6 years or longer)	Naira	Million	-	-	-	-	-		-	-	-	-
Other Domestic Financing	Naira	Million	30,132.94	83,097.97	66,010.27	62,859.25	115,220.89	112,780.09	56,341.36	106,373.46	119,172.06	125,299.55
New External Financing in Million US Dollars												
External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	US Dollars	Million	-	-	-	-	-	-	-	-	-	-
External Financing - Bilateral Loans	US Dollars	Million	-	-	-	-	-	-	-	-	-	-
Other External Financing	US Dollars	Million	-	-	-	-	-	-	-	-	-	-
			-	-	-	-	-	-	-	-	-	-
Total Planned Borrowing	Naira	Million	**50,221.57**	**138,496.61**	**110,017.11**	**104,765.41**	**192,034.81**	**187,966.81**	**187,804.53**	**177,289.10**	**198,620.09**	**208,832.58**

<u>Borrowing-Terms (interest rate, maturity and grace period)</u>

The projected borrowing options and terms available for the State (which can be utilized under Strategy 1 and other Alternative Strategies) are given below:

Table 10: Borrowing Terms of New Debt (issued/contracted from 2022 onwards)

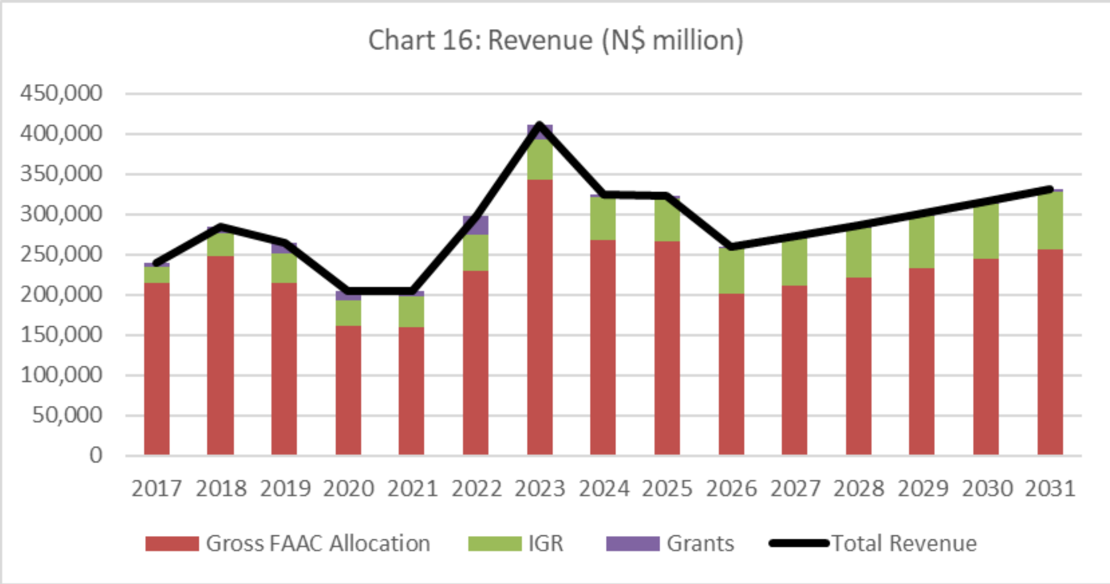
Borrowing Terms for New Domestic Debt (issued/contracted from 2022 onwards)	Interest Rate (%)	Maturity (# of years)	Grace (# of years)
Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans,	15.00%	4	0.5
Commercial Bank Loans (maturity 6 years or longer, including Agric Lo	15.00%	8	0.5
State Bonds (maturity 1 to 5 years)	15.00%	5	1
State Bonds (maturity 6 years or longer)	15.00%	15	3
Other Domestic Financing	15.00%	15	3
Borrowing Terms for New External Debt (issued/contracted from 2022 onwards)	**Interest Rate (%)**	**Maturity (# of years)**	**Grace (# of years)**
External Financing - Concessional Loans (e.g., World Bank, African De	5.00%	20	1
External Financing - Bilateral Loans	5.00%	30	1
Other External Financing	5.00%	20	1

4.3 DSA Simulation Results and Findings

This section shall present the Baseline Scenario under the State's reference debt strategy (S1) as indicated in the State's DSA-DMS Template, in terms of projected revenue, expenditure, primary and overall balance, and debt / debt service indicators and thresholds.

State Revenue Profile

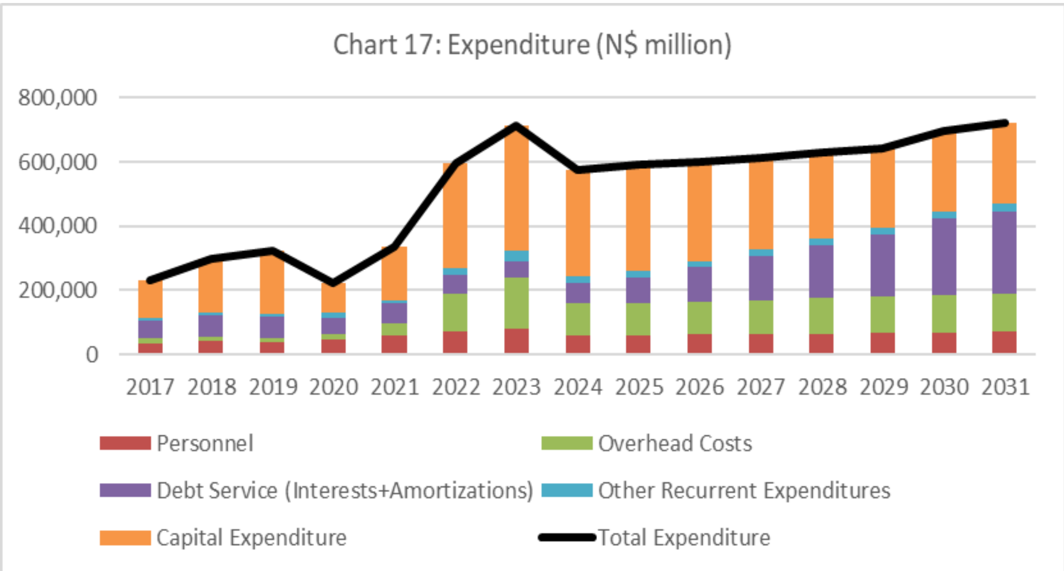
Revenue (as shown in Chart 16 below) will fluctuate in the projection years, with the least expected revenue of N260.1billion in year 2026. The average annual nominal growth over the period is 2.4%. FAAC is forecasted to grow proportionately higher than the other revenue sources (IGR, Grants), being outside the control of the State, prudence should be applied.



<u>State Expenditure Profile</u>

Total Expenditure, from the baseline scenario, will grow on average by 10 per annum (as shown in Chart 17 below). It is noteworthy that a greater percentage of State expenditure is projected to be on Capital projects, however, in view of the paucity of funds within the projection period an average annual decline of 2.5% is envisaged.

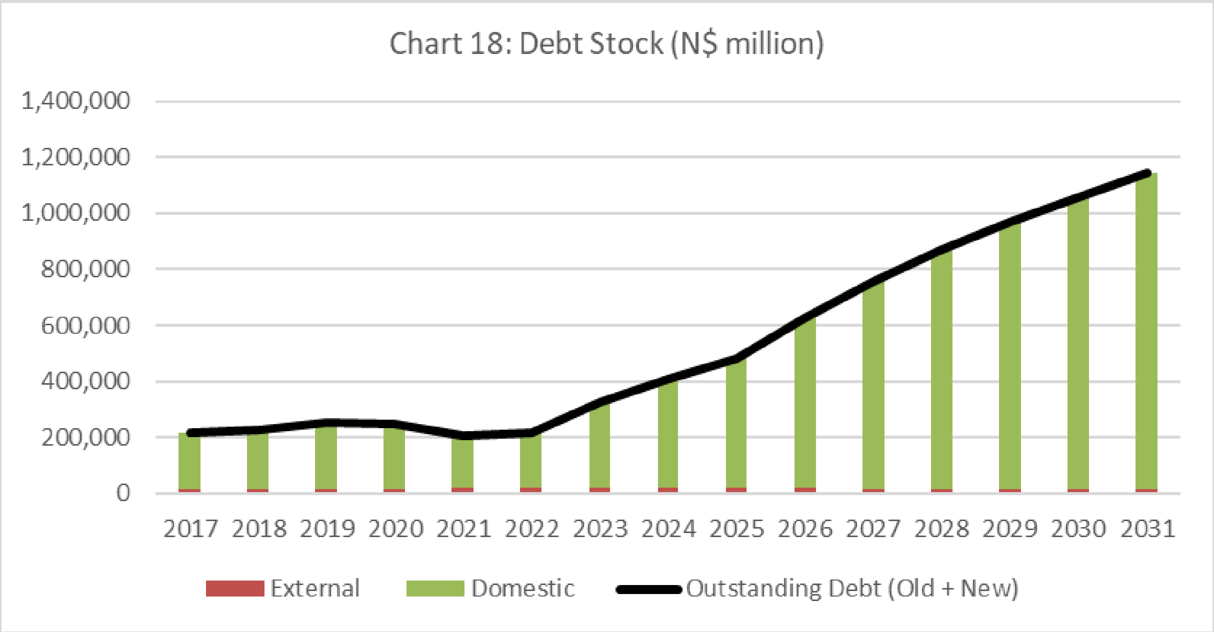
Debt servicing is estimated to grow on average, at the rate of 18.7% over the 10-year period). Other expenditure components are expected to increase annually by 3% between 2026 and 2031. The highest level of expenditure is expected in year 2031 (nominal value of N719.7b).



State’s Projected Debt Stock

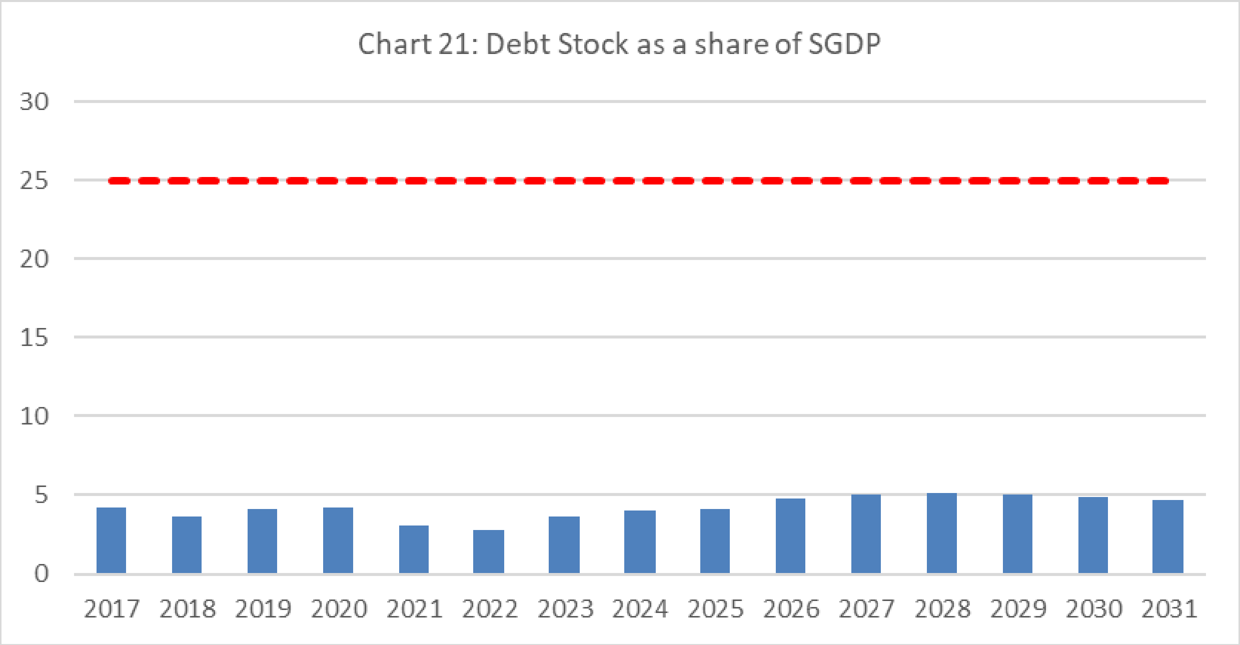
Chart 18 gives a picture of the State’s debt stock in the historical (2017 – 2021) and projected (2022 – 2031) years. The reference debt strategy will result in an annual increment of 21.6% in the State’s total debt stock. In nominal terms, debt stock will rise from N214.2b in 2022 to N1,134.1b in 2031. Domestic debt account for a greater percentage of the constituent, growing at the rate of 22.8% over the 10-year period. External debt is however expected to decrease annually by 2.7%

The projected State debt stock profile is quite alarming, thus concerted efforts and policies need to be put in place immediately to stem the tide.



Debt Stock as Share of State Gross Domestic Product (GDP)

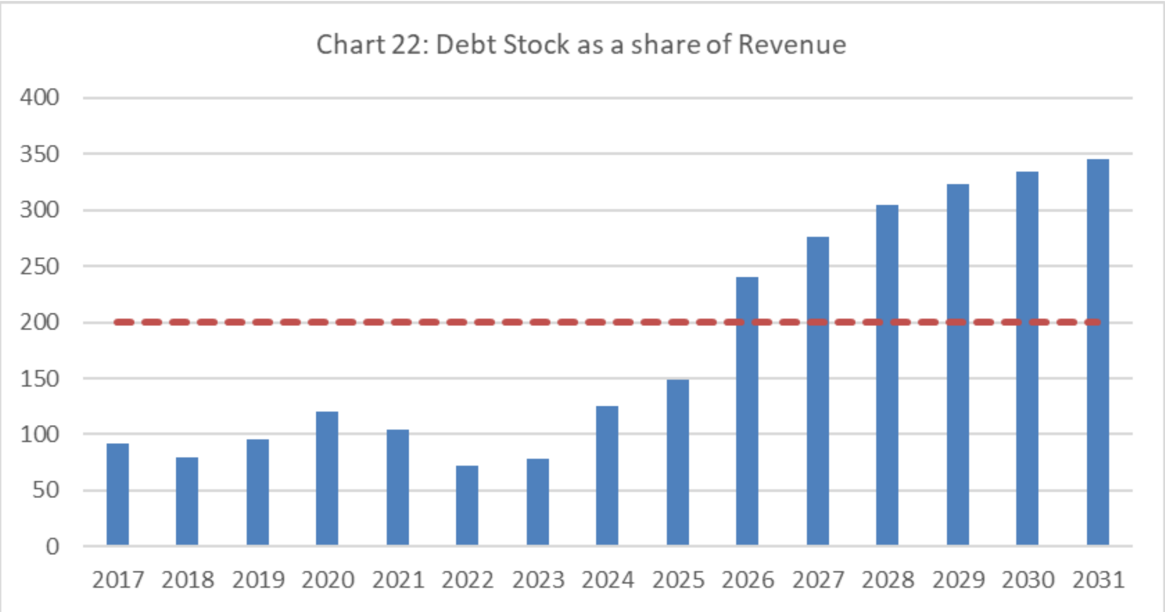
Chart 21 shows the Debt stock as a percentage of State GDP (with indicative threshold of 25%). The sustainability position of the State’s debt portfolio in the fiscal block shows a gradual descending trend from 2017 to 2022, while it shows a gradual ascending trend from 2023 to 2031. Even though the ratio has almost been constant over the period under review, peaking at a value of 5% between 2026 - 2031, it is well within the threshold insinuating room for additional further borrowing under the right circumstances. Based on this, the State’s GDP has potentials for growth and can also accommodate the State’s debt stock, with minimal effect on the State economy.



Source: AKS DSA-DMS Template

<u>Debt Stock as Share of State Revenue</u>

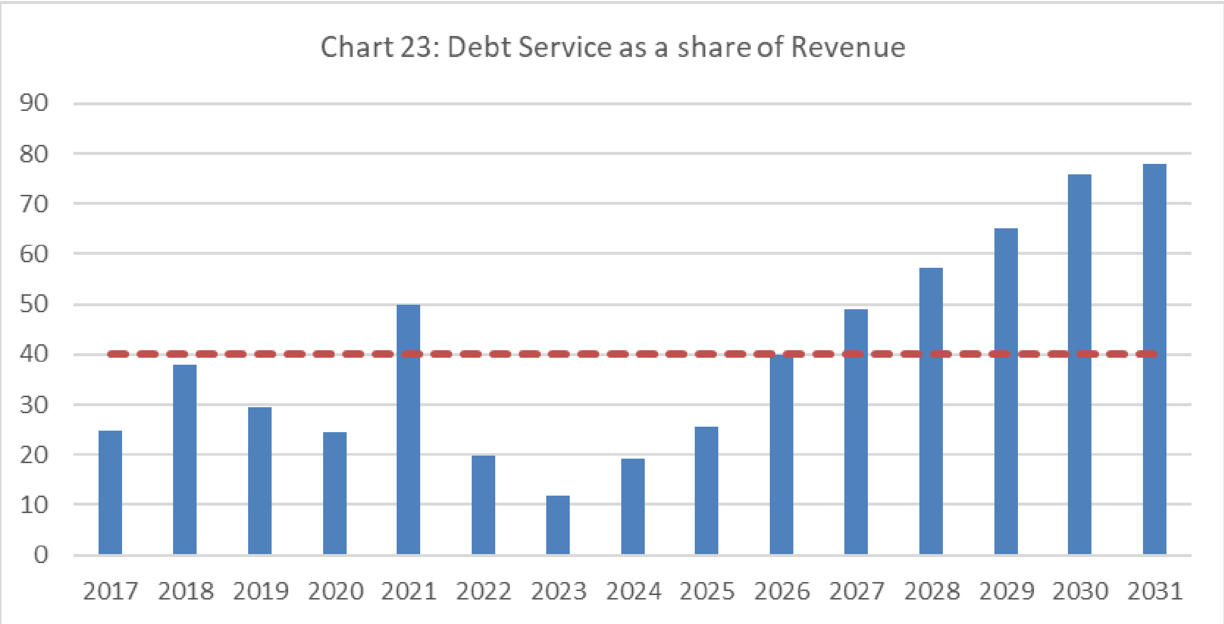
Chart 22 shows the Debt Stock as percentage of Revenue (with indicative threshold of 200%), the percentages from 2022 to 2025 are below the threshold while 2026 to 2031 are above. Thus signifying that the State's debt stock from 2026 will be above 200% of total expected revenue.



Source: AKS DSA-DMS Template

Debt Service as Share of State Revenue

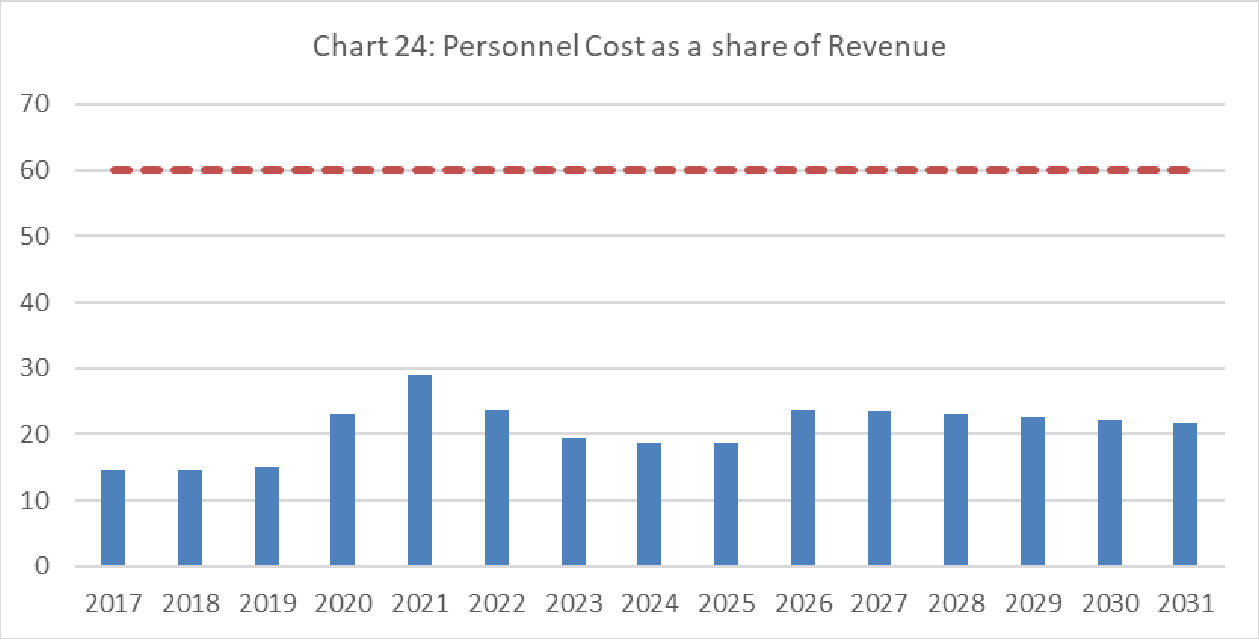
Chat 23 presents the Debt Service as a percentage of Revenue (with indicative threshold of 40%). From 2026, the State will utilize 41% and above of her total revenue in debt servicing. The chat revealed that the maximum exposure of the State revenue to debt service will be in year 2031 at the rate of 77%. This calls for prudent financial management to avert debt distress. The State should ensure that recurrent expenditure are controlled effectively (possibly maintained at not more than 40% of total expenditure), expenditure on capital projects are reduced significantly to the most basic needs in the medium term and increase internally generated revenue.



Source: AKS DSA-DMS Template

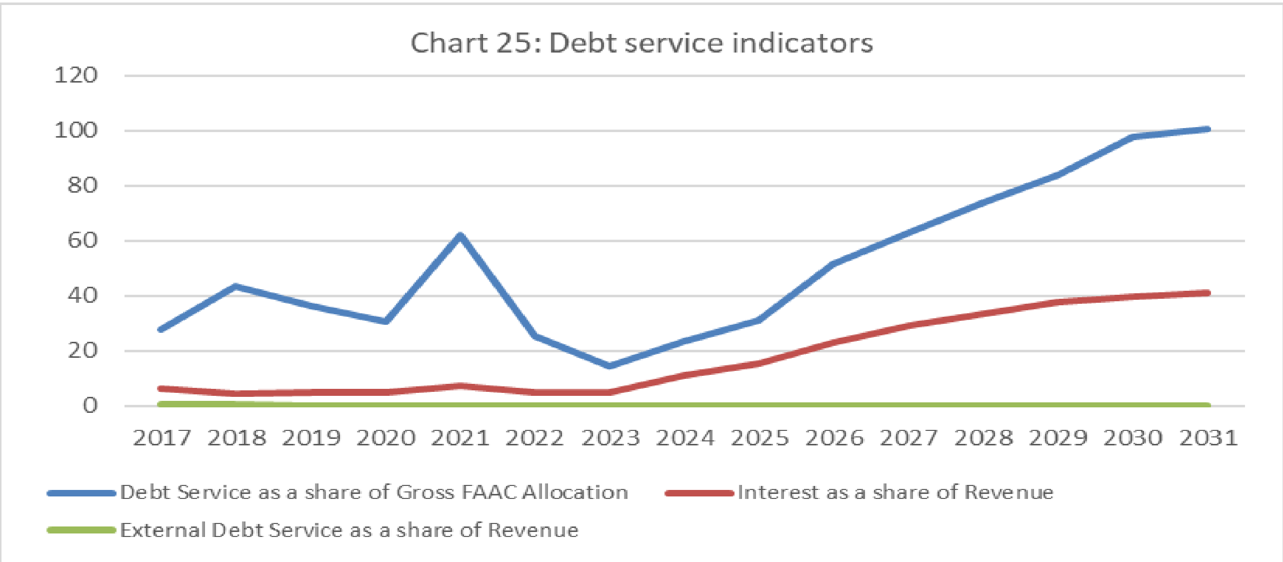
Personnel Cost to Revenue

The State's personnel cost under the baseline scenario indicates that on the average, 10.6% of total revenue shall be expended on personnel cost over the 10-year projection period. It further reveals that compared to the 60% threshold, the State has no threat in meeting future obligations to its staff force. This position is presented in Chart 24 that follows.



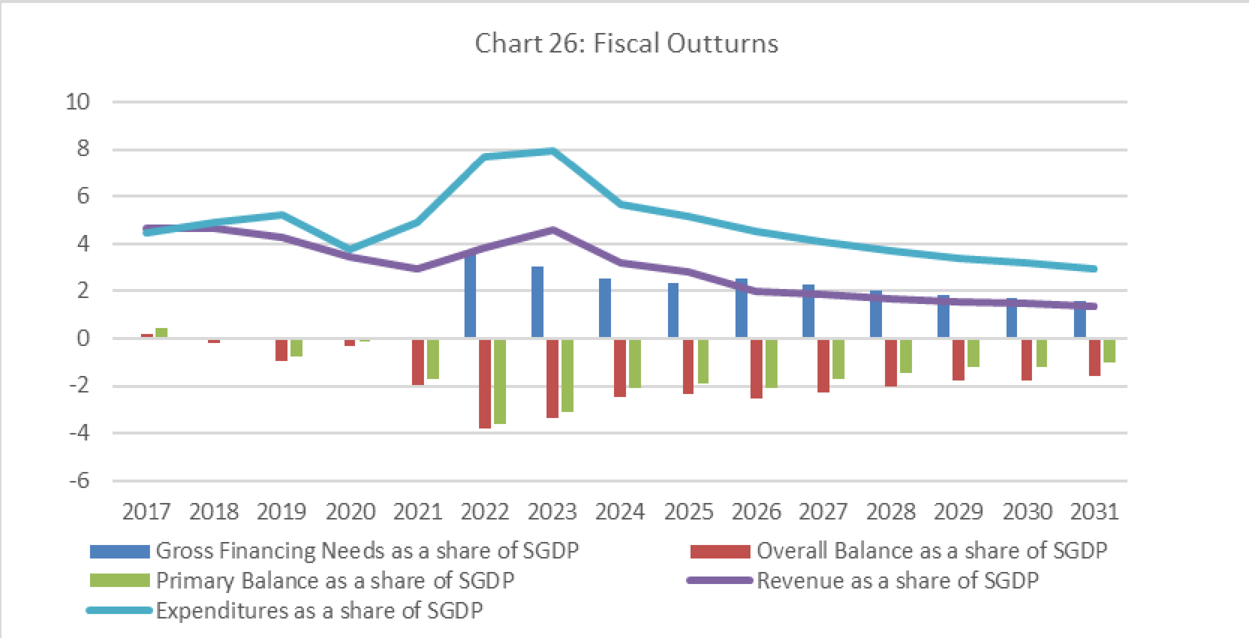
<u>Debt Service Indicators</u>

As IGR takes a less prominent place in the State's revenue portfolio, the increasing debt service to FAAC ratio is alarming. Growing at an average rate of 21.2% annually, the State's Debt service ratio to FAAC collections is projected to grow from 25% in 2022 to 99.6% in 2031. And interest costs as share of revenue will rise from 5% in 2022 to 40% in 2031 while the External Debt Service is below 2% over the period. These dynamics are shown in Chart 25 below.



Fiscal Indicators

The resultant impact on the fiscal out-turns is positive after a spike (negative) in primary and overall balance in 2020 and 2021, and associated spike in deficit financing. From peaks in 2020 – 2021 of -2.9% (primary and overall balance) and 2.7% gross financing these are all substantially reduced year on year through to 2031. The peaks in the period 2020 – 2021 are based both on the increased access to finance and desire to invest in infrastructure and the financing sort during the COVID-19 pandemic. This is shown in Chart 26 below.



4.4 DSA Sensitivity Analysis (Shock Analysis)

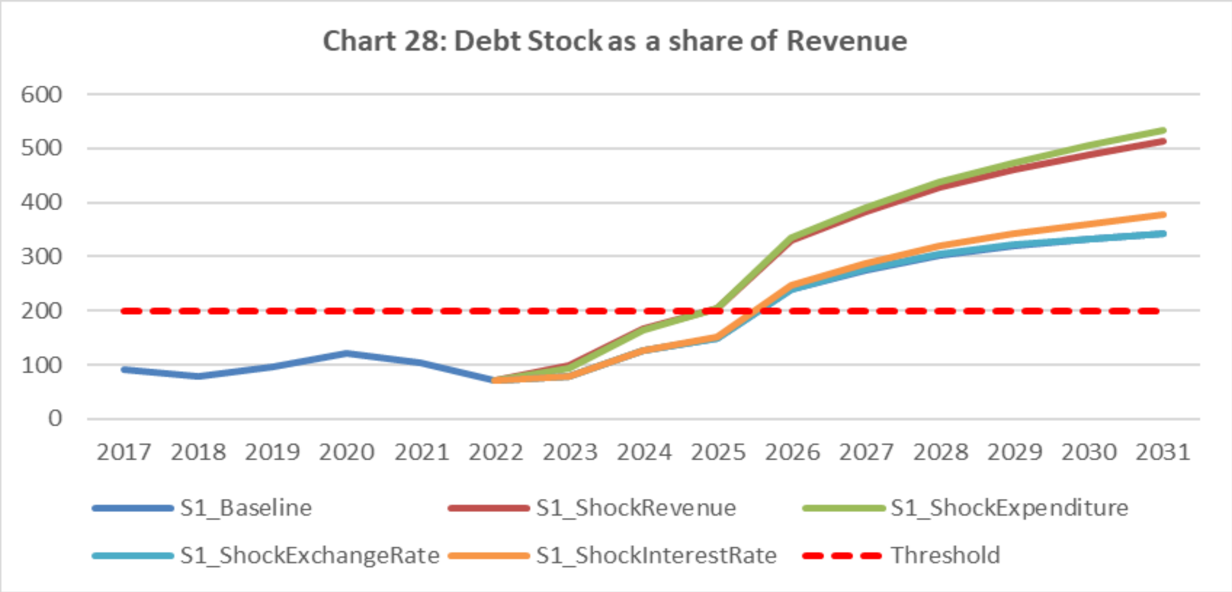
Nigeria as a country and most of the 36 states, including Akwa Ibom State, are relatively susceptible to external shocks (as experienced for example in 2020) due to the dependency of governments on crude oil-based revenues.

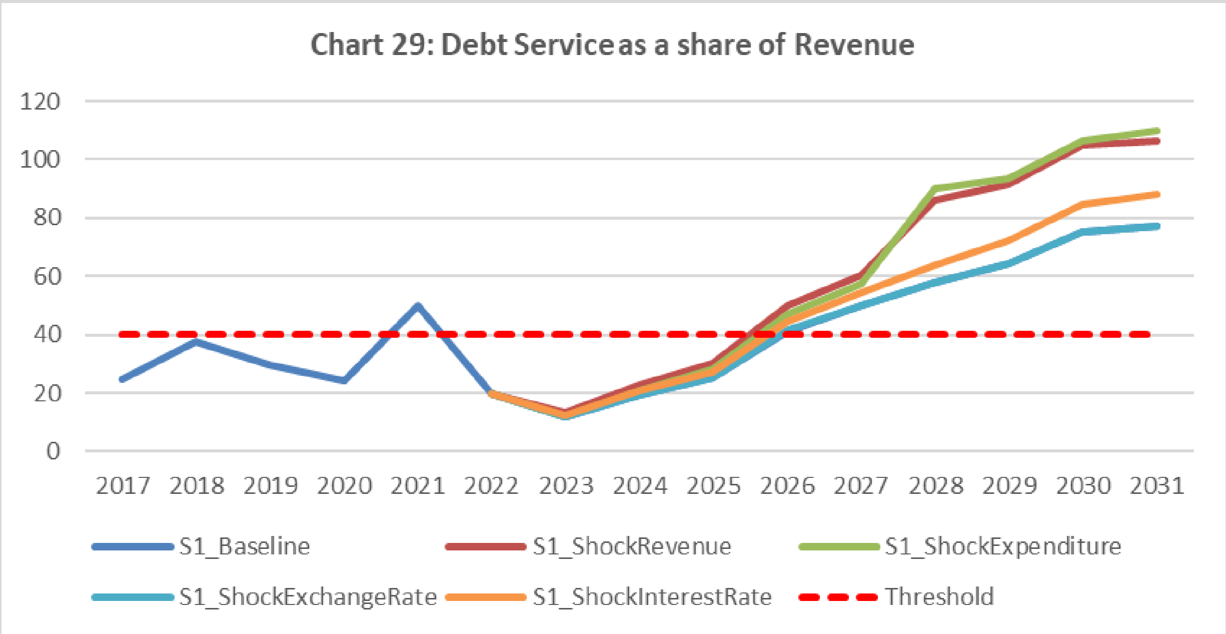
Akwa Ibom State faces important sources of fiscal risks associated to the possibility of adverse country wide macroeconomic conditions and the reversal of the State's revenue and expenditure policies. A sensitivity analysis is undertaken considering macroeconomic shocks and policy shocks to evaluate the robustness of the sustainability assessment for the baseline scenarios discussed in the previous sub-sections. When considering both macroeconomic and policy shocks, it is assumed that external and domestic borrowings cover any revenue shortfall and additional expenditure relative to the baseline scenario discussed earlier.

4.4.1 Revenue Shock

The 10% revenue shock related to aggregate of Recurrent Revenues (FAAC and IGR) and Grants. It is unlikely that a specific shock would have a uniform impact across revenue types (for example in 2020 as a result of COVID-19, aggregate revenues under these definitions would have fallen, probably by more than 10%, but some elements by less than others. Grants for example are likely to have increased.

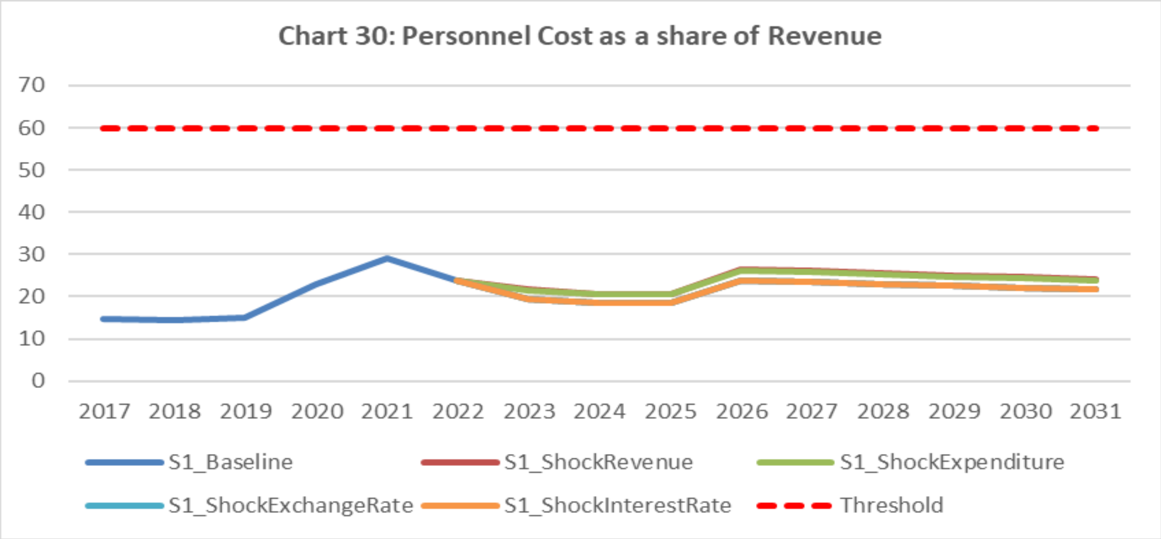
The impact of the shock might be an increased need to borrow, or reduced capacity to service existing debts, amongst other things. Three of the four indicators used to assess the shock have revenue as the denominator, meaning the shock will have a direct impact. As shown in charts 27-30, the impact of this shock will increase each of the four ratios, but most significantly the debt to revenue and debt service to revenue, with the former taking the trajectory of State debt further and further above the 200% threshold. By 2031, the ratio would have reached 514%. This implies a worsening of solvency ratios. The Debt Service ratio would also be approaching 107% by that year.





4.4.2 Expenditure Shock

This shock has a similar impact to the revenue shock, with the Debt to GDP and Personnel expenditure ratios not being materially affected, but the debt to revenue and debt service to revenue deviating from the baseline substantially as other expenditures may crowd out debt service and cause the need for more borrowing. Again, this shock caused the debt to revenue to take the trajectory of state debt further above the 200% threshold. By 2031, the ratio will have reached 534%. The Debt Service ratio would also be above 40% by 2031, at 110 %. Again, this implies a worsening of solvency ratios and debt position of the State.



4.4.3 Exchange rate Shock

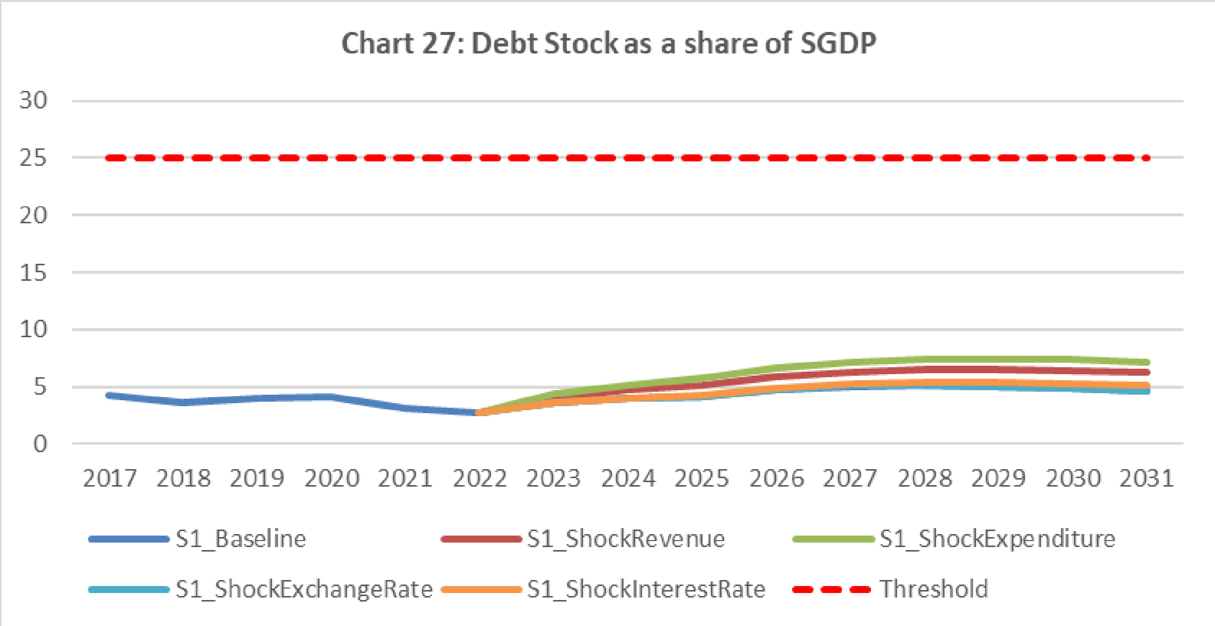
Exchange Rate shocks will impact the value and servicing costs of foreign debt. As Akwa Ibom State has taken on considerably more foreign debt over the last five years, this shock has the potential to impact and is the type of shock experienced regularly over the last five years given rising exchange rates.

Due to grace periods and low interest rates, the impact on most ratios is minimal over the period analyzed (i.e. to 2029) although it does have the risk of crowding out some other expenditures. The most concerning would be the debt to revenue ratio where the ratio takes longer to move back below the 200% threshold than under the baseline scenario. It would not move back below 200% under 2028, and as above represents a slight worsening of the debt position of the State when compared to the baseline.

The magnitude of this shock is obviously key to the above matrix (as are all the shocks), and potential contagion to other variables. In the instance of an Exchange Rate shock, the Naira value of crude oil revenues would increase, meaning potential increase in Statutory Allocation to States which may offset some negative effects of the shock in nominal terms. The impact may also be harder felt after the assessment period (i.e. beyond 2031).

4.4.4 Interest Rate Shock

The interest rate shock has impact largely on the debt service to GDP ratio as debt service (interest component) costs will increase. The impact would be an increase in the ratio from 15% under the baseline to 16% under this shock – this is still within the 40% threshold.

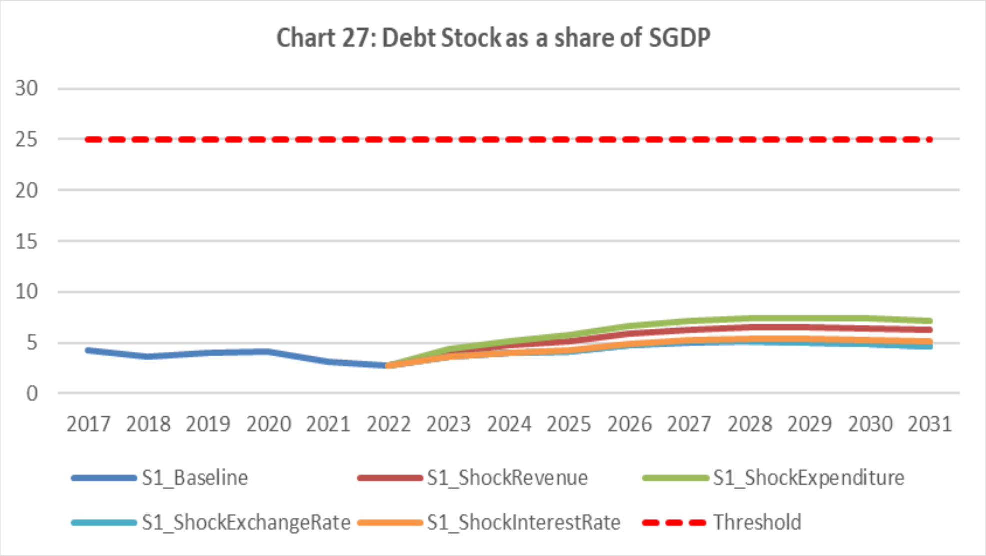


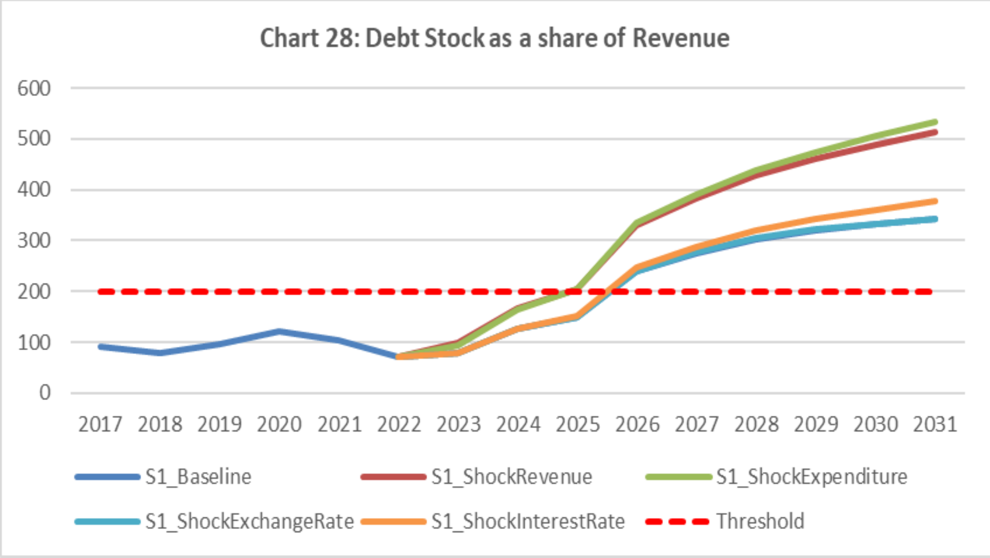
The Debt to GDP ratio, from the table above, is impacted negatively when compared to the baseline. It reaches 9% in 2031, though that is still considerably below the 25% threshold.

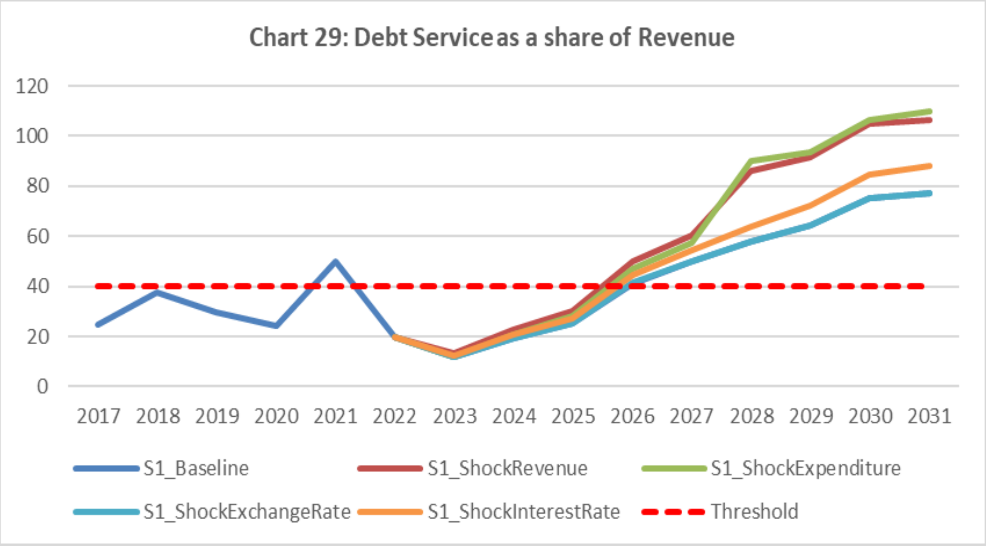
4.4.5 Summary of Findings

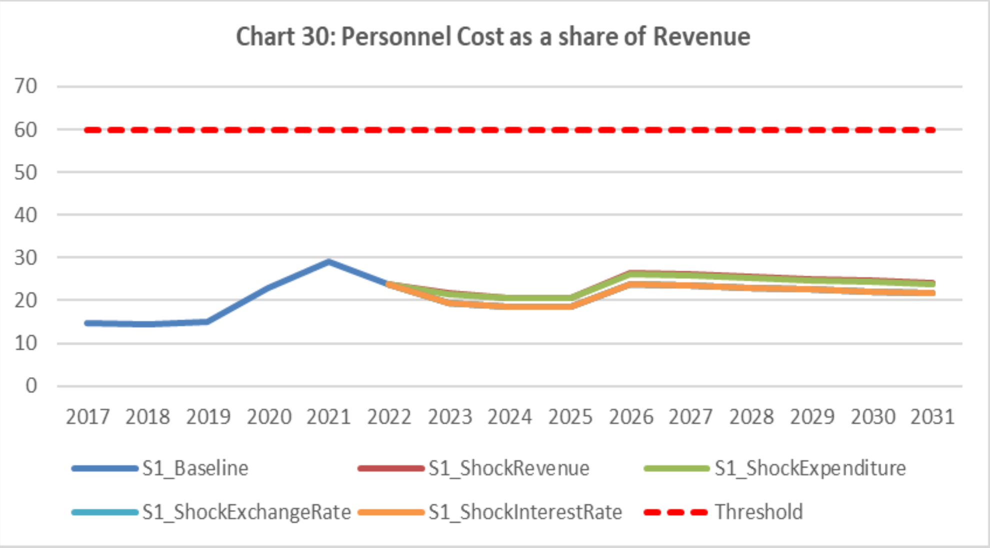
The 2021 DSA analysis shows that Akwa Ibom State is at a high risk of debt distress in the future years, under sensitivity analysis. The Akwa Ibom State DSA analysis shows deterioration related to revenue shocks, expenditure shocks, exchange rate shocks, interest rate shocks, that would lead to increased Gross Financing Needs over the projection period. The shocks applied breached the threshold under debt as percentage of GDP from 2026 to 2031 under historical shocks. The debt as percentage of Revenue breached the benchmarks from 2025 to 2031 through Revenue and Expenditure shock. Debt service as a percentage of Revenue breached the threshold under revenue and Expenditure Shocks from 2026 to 2031. There is an urgent need for the authorities to fast-track efforts aimed at further diversifying the sources of revenue away from crude oil (FAAC), as well as implement far-reaching policies that will bolster IGR in the state. This has become critical, given the continued volatility in the FAAC allocation.

CHARTS ON SHOCK ANALYSIS









CHAPTER FIVE
DEBT MANAGEMENT STRATEGY

Debt management strategy is a possible framework that can be put in place to manage public debt. Public debt management refers to 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 term, consistent with a prudent degree of risk.

The performance indicators that shall be employed in assessing the debt management outcomes are: Debt Stock to Revenue, Debt Services to Revenue and Interest to Revenue.

5.1 Alternative Borrowing Options

In this section, other options that the State can utilize in raising resources to meet her financing deficit are discussed. These alternative debt management strategies are presented as S2, S3 and S4.

Option B (S2)

Strategy 2 proposes raising an equal percentage (50% each) of new debt using both Domestic and External financing sources. Under this option, commercial bank borrowing (1-5 years) and the remaining will be gotten from Concessional loans. Utilising this strategy, the highest financing needs will arise in year 2026 (N190.3b) while the least (N50.2b) will be experienced in 2022.

Table 11: Summary of Strategy 2 projected borrowings

Borrowing Sources		Years	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
New Domestic Financing in Million of Local Currency												
Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)	Naira	Million	25,110.79	68,444.76	53,286.97	52,252.94	95,160.62	88,013.12	84,442.56	74,287.80	71,233.90	66,756.89
Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)	Naira	Million	-	-	-	-	-	-	-	-	-	-
State Bonds (maturity 1 to 5 years)	Naira	Million	-	-	-	-	-	-	-	-	-	-
State Bonds (maturity 6 years or longer)	Naira	Million	-	-	-	-	-	-	-	-	-	-
Other Domestic Financing	Naira	Million	-	-	-	-	-	-	-	-	-	-
New External Financing in Million US Dollars												
External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	US Dollars	Million	61.25	166.94	129.97	127.45	232.10	214.67	205.96	181.19	173.74	162.82
External Financing - Bilateral Loans	US Dollars	Million	-	-	-	-	-	-	-	-	-	-
Other External Financing	US Dollars	Million	-	-	-	-	-	-	-	-	-	-
Total Planned Borrowing	Naira	Million	**50,221.57**	**136,889.52**	**106,573.94**	**104,505.88**	**190,321.24**	**176,026.25**	**168,885.12**	**148,575.59**	**142,467.81**	**133,513.78**

Option C (S3)

Under Strategy 3, 90% of the financing needs will be met through domestic sources and 10% from external (concessional) financing. Under the domestic financing options, commercial bank borrowing (1-5years) will bring in 20%; commercial bank borrowing (6 – 10 years), 15% while 55% will be gotten from Other Domestic Financing. In 2024, state bonds (6 – 10 years) should be floated to raise 80% of the financing needs. Total planned borrowings of alternative debt strategy 3 (S3) is ₦50.22b in 2022 and peaks at ₦178.8b in 2026.

Table 12: Summary of Strategy 3 projected borrowings

Borrowing Sources		Years	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
New Domestic Financing in Million of Local Currency												
Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)	Naira	Million	10,044.31	27,613.95	21,351.85	19,763.07	35,756.82	34,378.64	34,551.91	31,478.94	32,305.07	34,378.13
Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)	Naira	Million	7,533.24	20,710.46	-	14,822.30	26,817.62	25,783.98	25,913.94	23,609.20	24,228.80	25,783.60
State Bonds (maturity 1 to 5 years)	Naira	Million	-	-	-	-	-	-	-	-	-	-
State Bonds (maturity 6 years or longer)	Naira	Million	-	-	85,407.39	-	-	-	-	-	-	-
Other Domestic Financing	Naira	Million	27,621.86	75,938.35	-	54,348.44	98,331.26	94,541.25	95,017.76	86,567.08	88,838.94	94,539.87
New External Financing in Million US Dollars												
External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	US Dollars	Million	12.25	33.68		24.10	43.61	41.93	42.14	38.39	39.40	41.92
External Financing - Bilateral Loans	US Dollars	Million	-	-	-	-	-	-	-	-	-	-
Other External Financing	US Dollars	Million	-	-	-	-	-	-	-	-	-	-
Total Planned Borrowing	Naira	Million	**50,221.57**	**138,069.73**	**106,759.24**	**98,815.35**	**178,784.11**	**171,893.18**	**172,759.57**	**157,394.68**	**161,525.34**	**171,890.67**

Option D (S4)

Under Strategy 4, 30% of the financing needs will be met by commercial bank (1 – 5years) borrowing while 50% will be gotten from Other Domestic Financing. External financing will provide 20% of the financing needs. Total planned borrowings of alternative debt strategy 4 (S4) is ₦50.2b in 2022 and peaks at ₦178.1b in 2026.

Table 13: Summary of Strategy 4 projected borrowings

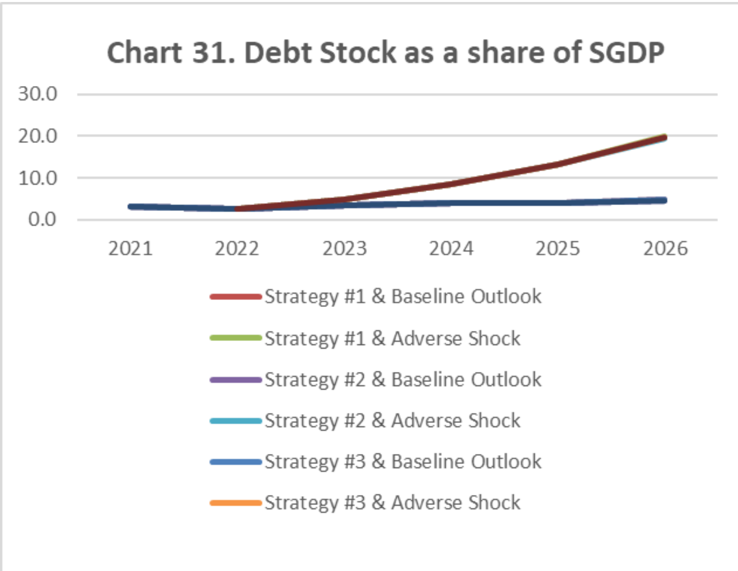
Borrowing Sources		Years	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
New Domestic Financing in Million of Local Currency												
Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)	Naira	Million	15,066.47	41,292.85	31,741.34	28,741.64	53,452.54	50,394.65	48,644.20	42,857.28	42,772.65	43,845.54
Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)	Naira	Million	-	-	-	-	-	-	-	-	-	-
State Bonds (maturity 1 to 5 years)	Naira	Million	-	-	-	-	-	-	-	-	-	-
State Bonds (maturity 6 years or longer)	Naira	Million	-	-	-	-	-	-	-	-	-	-
Other Domestic Financing	Naira	Million	25,110.79	68,821.42	52,902.23	47,902.73	89,087.57	83,991.08	81,073.67	71,428.81	71,287.75	73,075.91
New External Financing in Million US Dollars												
External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	US Dollars	Million	24.50	67.14	51.61	46.73	86.91	81.94	79.10	69.69	69.55	71.29
External Financing - Bilateral Loans	US Dollars	Million	-	-	-	-	-	-	-	-	-	-
Other External Financing	US Dollars	Million	-	-	-	-	-	-	-	-	-	-
Total Planned Borrowing	Naira	Million	**50,221.57**	**137,642.85**	**105,804.47**	**95,805.47**	**178,175.15**	**167,982.16**	**162,147.34**	**142,857.61**	**142,575.50**	**146,151.81**

5.2 DMS Simulation Results

Analysis of strategies & outcomes of the analysis: The cost / risk trade-off charts illustrate the performance of the alternative strategies with respect to four debt burden indicators.

5.2.1 Debt stock as a share of Revenue:

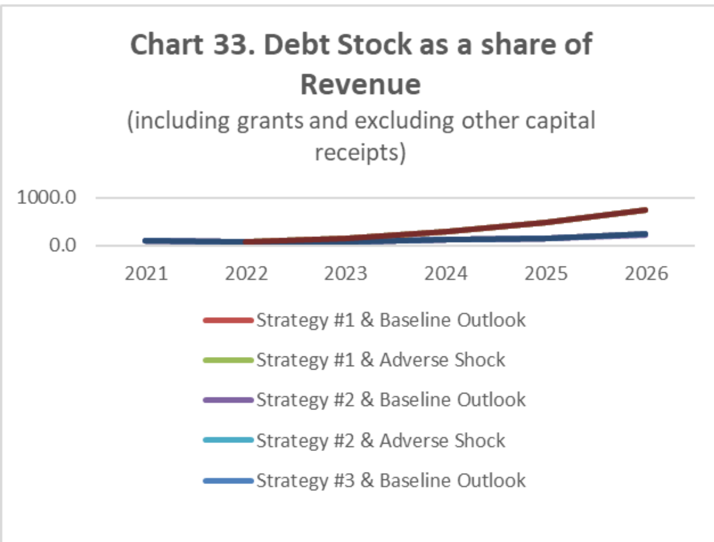
						COST	RISK measured only in 2026
Debt Stock as % of SGDP	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	
Strategy #1 & Baseline Outlook	3.1	2.8	3.6	4.0	4.1	4.7	15.1
Strategy #1 & Adverse Shock		2.8	4.9	8.6	13.3	19.8	
Strategy #2 & Baseline Outlook	3.1	2.8	3.6	3.9	4.0	4.5	15.0
Strategy #2 & Adverse Shock		2.8	4.9	8.5	13.1	19.5	
Strategy #3 & Baseline Outlook	3.1	2.8	3.6	4.0	4.1	4.7	15.1
Strategy #3 & Adverse Shock		2.8	4.9	8.6	13.3	19.8	
Strategy #4 & Baseline Outlook	3.1	2.8	3.6	3.9	4.1	4.6	15.0
Strategy #4 & Adverse Shock		2.8	4.9	8.6	13.2	19.6	

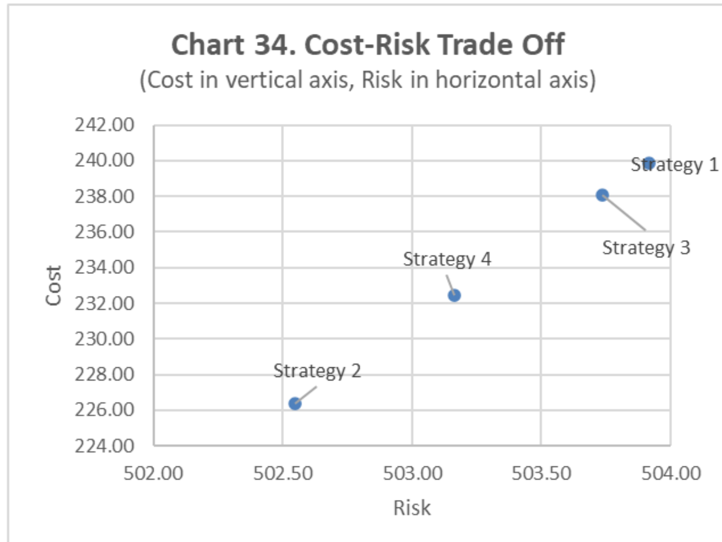


- ❖ In the Baseline scenario, the projected percentage of the State's debt stock to Gross Domestic Product (SGDP) between 2022 to 2026 are expected to grow from 2.8% to 4.7%.
- ❖ Under this performance indicator, the baseline outlook in 2026 indicates that adverse shock stems from historical data for all the debt management strategies.
- ✓ Strategies 1 and 3 offer the highest cost of borrowing – 4.7% with an Adverse Shock of 24.3%, with a risk of 15.1%.
- ✓ Strategy 2, has the least the cost of borrowing of 4.5%, the Adverse Shock is 19.5% and the risk component is 15.0%.
- ✓ Under Strategy 4, the baseline outlook indicates that the cost of borrowing is 4.6% while the Adverse Shock is 19.6% and the risk component is 15.0%.

5.2.2 Debt service as a share of Revenue:

Debt Stock as % of Revenue (including grants anc	2021	2022	2023	2024	2025	COST 2026	RISK measured only in 2026
Strategy #1 & Baseline Outlook	104.5	71.9	78.7	125.5	148.5	239.9	503.9
Strategy #1 & Adverse Shock		71.9	149.3	289.0	481.0	743.8	
Strategy #2 & Baseline Outlook	104.5	71.9	78.3	123.1	142.5	226.4	502.5
Strategy #2 & Adverse Shock		71.9	148.7	285.9	473.0	728.9	
Strategy #3 & Baseline Outlook	104.5	71.9	78.6	124.9	147.5	238.1	503.7
Strategy #3 & Adverse Shock		71.9	149.1	288.2	479.8	741.8	
Strategy #4 & Baseline Outlook	104.5	71.9	78.5	124.2	145.2	232.4	503.2
Strategy #4 & Adverse Shock		71.9	149.0	287.3	476.6	735.6	

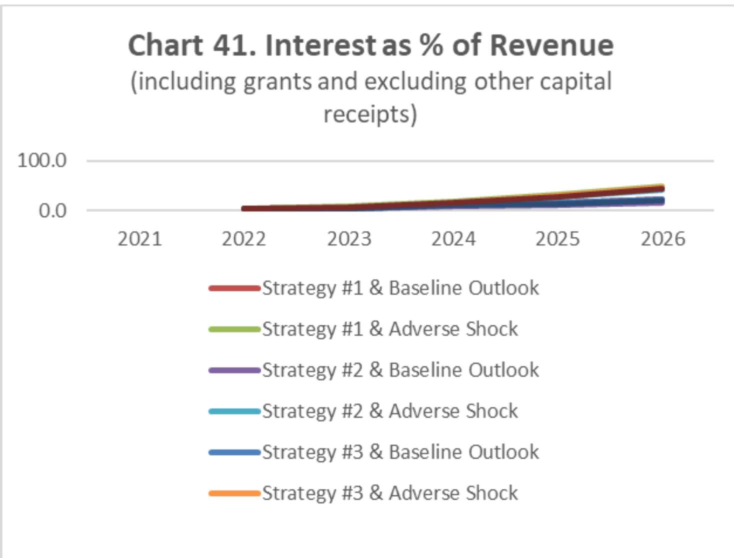


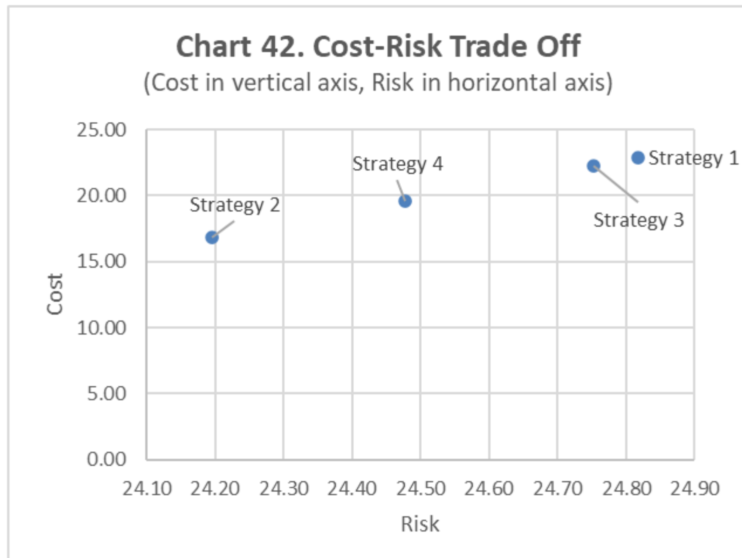


- ❖ In the Baseline scenario, the projected percentage of the State's debt stock to revenue between 2022 to 2026 are expected to grow from 71.9% to 239.9%.
- ❖ Under this performance indicator, the baseline outlook in 2026 indicates that adverse shock stems from historical data for all the debt management strategies.
- ✓ Strategy 1 offers the highest cost of borrowing – 239.9% with an Adverse Shock of 743.8%, with a risk of 503.9%.
- ✓ In Strategy 2, the baseline outlook indicates that the cost of borrowing is 226.4%, the Adverse Shock is 728.9% and the risk component is 502.5%.
- ✓ In Strategy 3 borrowing cost of 238.1%, Adverse Shock of 741.8% and risk is 503.7%.
- ✓ Strategy 4, has the least the cost of borrowing is 232.4% while the Adverse Shock is 735.6% and the risk component is 503.2%.

5.2.3 Interest/Revenue

Interest as % of Revenue (including grants and e)	2021	2022	2023	2024	2025	COST 2026	RISK measured only in 2026
Strategy #1 & Baseline Outlook		4.8	4.9	11.3	15.0	22.5	24.8
Strategy #1 & Adverse Shock		4.8	7.5	17.2	30.7	47.3	
Strategy #2 & Baseline Outlook		4.8	4.5	9.3	11.8	16.8	24.2
Strategy #2 & Adverse Shock		4.8	6.9	14.7	26.4	41.0	
Strategy #3 & Baseline Outlook		4.8	4.7	10.7	15.0	22.3	24.8
Strategy #3 & Adverse Shock		4.8	7.3	16.5	30.8	47.0	
Strategy #4 & Baseline Outlook		4.8	4.6	10.2	13.3	19.6	24.5
Strategy #4 & Adverse Shock		4.8	7.2	15.8	28.4	44.0	





- ✓ The percentage of interest payments on the State's debt to revenue, between 2022 and 2026 increases from 4.8% to 22.5%.
- ✓ Under Strategy 1, this performance indicator reveals that the adverse shock stems from historical. It has the highest borrowing cost of 22.5%, adverse shock of 47.3% and risk of 24.8% compared to the alternative strategies.
- ✓ Cost of borrowing under Strategy 2 is 16.8%, adverse shock is 41.0%, while the risk is 24.2% (the least out of the 4 strategies).
- ✓ Strategy 3 has a borrowing cost of 22.3%, adverse shock is 47.0% and risk of 24.8%.
- ✓ In Strategy 4, the cost of borrowing is 19.6%, adverse shock is 44.0% while the risk component is 24.5%.

5.2.4 DMS Assessment

The major observations on the cost-risk profile of in the four debt management strategies are presented in the table that follow:

Table 14: Cost-Risk Profile of Projected DMS

		Strategy 1	Strategy 2	Strategy 3	Strategy 4
Debt Stock as % of SGDP	Cost	4.7	4.5	4.7	4.6
	Risk	15.1	14.9	15.1	15.0
Debt Stock as % of Revenue	Cost	239.9	226.4	238.1	232.4
	Risk	503.9	502.5	503.7	503.2
Interest as % of Revenue	Cost	22.5	16.8	22.3	19.6
	Risk	24.8	24.2	24.8	24.5

The reference Strategy (S1) has the highest cost and risk in all the three performance indicators. Strategy 2 presents the least borrowing cost and risk in all of the performance indicators. Strategy 3 stands as the second on the rung in terms of high borrowing cost and risk profile in all the indicators, while Strategy 4 is the third on the rung.

From the foregoing, Strategy 2 seems to be the best option for the State in sourcing for funds to meet financing needs. However, considering the fact that the best strategy composes of an equal percentage borrowing from domestic and external sources, and bearing also in mind the stringent conditions that has to be meet in sourcing for funds outside the shores of the country, it may not be optimal or possible to assess external financing. Thus Strategy 2 might be unattainable.

Strategy 4 is hereby recommended as an option for the State to consider in raising needed funds to cover the financing gap as opposed to the reference strategy (S1).

Annexure I
Table of Assumptions

2022

		Projection Methodology	Source
Assumptions:			
Economic activity	State GDP (at current prices)	Expected avergare growth rate in State GDP between 2021 - 2030 is 13.6%	Debt Management Office, Abuja
Revenue	**Revenue**		
	1. Gross Statutory Allocation ('gross' means with no deductions; do no	Budget Figure (2022). MTEF (2023 - 2025). Average increment of 5% annually (2026 - 2031)	2022 Budget; MTEF (2023 - 2025) and DSA Team
	1.a. of which Net Statutory Allocation ('net' means of deductions)		
	1.b. of which Deductions		
	2. Derivation (if applicable to the State)	Budget Figure (2022). MTEF (2023 - 2025). Average increment of 5% annually (2026 - 2031)	
	3. Other FAAC transfers (exchange rate gain, augmentation, others)	Budget Figure (2022). MTEF (2023 - 2025). Average increment of 5% annually (2026 - 2031)	2022 Budget; MTEF (2023 - 2025) and DSA Team
	4. VAT Allocation	Budget Figure (2022). MTEF (2023 - 2025). Average increment of 5% annually (2026 - 2031)	2022 Budget; MTEF (2023 - 2025) and DSA Team
	5. IGR	Budget Figure (2022). MTEF (2023 - 2025). Average increment of 5% annually (2026 - 2031)	2022 Budget; MTEF (2023 - 2025) and DSA Team
	6. Capital Receipts	Budget Figure (2022). MTEF (2023 - 2025). Average increment of 5% annually (2026 - 2031)	
	6.a. Grants	Budget Figure (2022). MTEF (2023 - 2025). Constant (2026 - 2031)	2022 Budget; MTEF (2023 - 2025) and DSA Team
	6.b. Sales of Government Assets and Privatization Proceeds		
	6.c. Other Non-Debt Creating Capital Receipts	Budget Figure (2022). MTEF (2023 - 2025). Average increment of 10% annually (2026 - 2031)	2022 Budget; MTEF (2023 - 2025) and DSA Team
Expenditure	**Expenditure**		
	1. Personnel costs (Salaries, Pensions, Civil Servant Social Benefits, otl	Budget Figure (2022). MTEF (2023 - 2025). Average increment of 3% annually (2026 - 2031)	2022 Budget; MTEF (2023 - 2025) and DSA Team
	2. Overhead costs	Budget Figure (2022). MTEF (2023 - 2025). Average increment of 3% annually (2026 - 2031)	2022 Budget; MTEF (2023 - 2025) and DSA Team
	3. Interest Payments (Public Debt Charges, including interests deducted	Debt Amortization schedules	
	4. Other Recurrent Expenditure (Excluding Personnel Costs, Overhead C	Budget Figure (2022). MTEF (2023 - 2025). Average increment of 3% annually (2026 - 2031)	2022 Budget; MTEF (2023 - 2025) and DSA Team
	5. Capital Expenditure	Budget Figure (2022). MTEF (2023 - 2025). Average reduction of 7% annually (2026 & 2027) and Constant(2028 - 2031)	2022 Budget; MTEF (2023 - 2025) and DSA Team
Closing Cash and Bank Bal	**Closing Cash and Bank Balance**	Budget Figure (2022). MTEF (2023 - 2025). Constant (2026 - 2031)	2022 Budget; MTEF (2023 - 2025) and DSA Team
Debt Amotization and Int	**Debt Outstanding at end-2021**		
	External Debt - amortization and interest	Loans Amortization schedules	Amortization schedules
	Domestic Debt - amortization and interest	Loans Amortization schedules	Amortization schedules
	New debt issued/contracted from 2022 onwards		
	New External Financing		
	External Financing - Concessional Loans (e.g., World Bank, African Dev	External Concessional Loans expected to be raised at 5% interest rate, maturity period of 20 Years with 1 year grace	STATE DMO/DSA TEAM; AG's OFFICE
	External Financing - Bilateral Loans	External Bilateral Loans expected to be raised at 5% interest rate, maturity period of 30 Years with 1 year grace	STATE DMO/DSA TEAM; AG's OFFICE
	Other External Financing	Other External financing expected to be raised at 5% interest rate, maturity period of 20 Years with 1 year grace	STATE DMO/DSA TEAM; AG's OFFICE
	New Domestic Financing		
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, I	The New Domestic Debt Financing is expected to be at 15% interest rate with maturity period of 4 years and 6 months grace period	
	Commercial Bank Loans (maturity 6 years or longer, including Agric Lo	The New Domestic Debt Financing is expected to be at 15% interest rate with maturity period of 8 years and 6 months grace period	
	State Bonds (maturity 1 to 5 years)	Bonds to be floated at 15% interest rate with maturity period of 15 years and 3 year grace period	
	State Bonds (maturity 6 years or longer)	Bonds to be floated at 15% interest rate with maturity period of 5 years and 1 year grace period	
	Other Domestic Financing	New Domestic Debt Financing is expected to be at 12% interest rate with maturity period of 15 years and 3 years grace period	

Proceeds from Debt-Crea	**Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S1**		
corresponding to Debt Str	**New Domestic Financing in Million Naira**		
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, I	40% of the financing needs is expected to be met by borrowing from commercial bank with maturity period of 4 years and 15% interest	STATE DMO/DSA TEAM; AG's OFFICE
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)		STATE DMO/DSA TEAM; AG's OFFICE
	State Bonds (maturity 1 to 5 years)	Bonds to be floated in 2024 and 2028 to meet 30% of the financing needs	STATE DMO/DSA TEAM; AG's OFFICE
	State Bonds (maturity 6 years or longer)		STATE DMO/DSA TEAM; AG's OFFICE
	Other Domestic Financing	60% of the financing needs is expected to be met by borrowing from other domestic sources	STATE DMO/DSA TEAM; AG's OFFICE
	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-Crea	**Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S2**		
corresponding to Debt Str	**New Domestic Financing in Million Naira**		
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, I	50% of the financing needs is expected to be met by borrowing from commercial bank with maturity period of 4 years and 15% interest	STATE DMO/DSA TEAM; AG's OFFICE
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)		
	State Bonds (maturity 1 to 5 years)		
	State Bonds (maturity 6 years or longer)		
	Other Domestic Financing		
	New External Financing in Million US Dollar		
	External Financing - Concessional Loans (e.g., World Bank, African Dev	50% of financing needs to be met through concessional loans	STATE DMO/DSA TEAM; AG's OFFICE
	External Financing - Bilateral Loans		
	Other External Financing		

Proceeds from Debt-Crea	**Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S3**		
corresponding to Debt Str	**New Domestic Financing in Million Naira**		
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, I	20% of the financing needs is expected to be met by borrowing from commercial bank with maturity period of 4 years and 15% interest	STATE DMO/DSA TEAM; AG's OFFICE
	Commercial Bank Loans (maturity 6 years or longer, including Agric Lo	15% of the financing needs to be met by borrowing from commercial bank with maturity period of 8 years and 15% interest	STATE DMO/DSA TEAM; AG's OFFICE
	State Bonds (maturity 1 to 5 years)	Bonds to be floated in 2024 to meet 80% of the financing needs	
	State Bonds (maturity 6 years or longer)		
	Other Domestic Financing	60% of the financing needs is expected to be met by borrowing from other domestic sources	STATE DMO/DSA TEAM; AG's OFFICE
	New External Financing in Million US Dollar		
	External Financing - Concessional Loans (e.g., World Bank, African Dev	10% of financing needs to be met through concessional loans	STATE DMO/DSA TEAM; AG's OFFICE
	External Financing - Bilateral Loans		
	Other External Financing		

Proceeds from Debt-Crea	**Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S4**		
corresponding to Debt Str	**New Domestic Financing in Million Naira**		
	Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, I	30% of the financing needs is expected to be met by borrowing from commercial bank with maturity period of 4 years and 15% interest	STATE DMO/DSA TEAM; AG's OFFICE
	Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)		
	State Bonds (maturity 1 to 5 years)	Bonds to be floated in 2024 to meet 50% of the financing needs	STATE DMO/DSA TEAM; AG's OFFICE
	State Bonds (maturity 6 years or longer)		
	Other Domestic Financing	50% of the financing needs is expected to be met by borrowing from other domestic sources	STATE DMO/DSA TEAM; AG's OFFICE
	New External Financing in Million US Dollar		
	External Financing - Concessional Loans (e.g., World Bank, African Dev	20% of financing needs to be met through concessional loans	STATE DMO/DSA TEAM; AG's OFFICE
	External Financing - Bilateral Loans		
	Other External Financing		

Annexure II

Akwa Ibom State Baseline Scenario 2022 – 2031

Indicator	Actuals					Projections									
	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
	BASELINE SCENARIO														
Economic Indicators															
State GDP (at current prices)	5,142,862.45	6,125,776.85	6,226,622.21	5,910,210.71	6,746,370.65	7,774,783.23	8,995,220.92	10,202,891.31	11,565,997.59	13,111,214.87	14,862,873.17	16,848,553.03	19,099,519.71	21,651,215.55	24,543,817.94
Exchange Rate NGN/US$ (end-Period)	253.19	305.79	306.50	326.00	379.00	410.00	410.00	410.00	410.00	410.00	410.00	410.00	410.00	410.00	410.00
Fiscal Indicators (Million Naira)															
Revenue	**239,006.55**	**291,700.64**	**346,070.96**	**210,709.36**	**370,284.45**	**573,112.53**	**686,496.61**	**585,089.10**	**593,593.61**	**595,275.88**	**611,226.55**	**632,083.88**	**643,639.03**	**688,144.14**	**722,689.44**
1. Gross Statutory Allocation ('gross' means with no deductions; do not include VAT Allocation here)	28,507.00	42,751.00	41,399.15	34,079.24	35,601.58	45,000.00	51,000.00	61,111.69	60,864.16	63,907.37	67,102.74	70,457.87	73,980.77	77,679.81	81,563.80
1.a. of which Net Statutory Allocation ('net' means of deductions)	28,507.00	42,751.00	41,399.15	34,079.24	35,601.58	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
1.b. of which Deductions	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2. Derivation (if applicable to the State)	93,268.00	149,055.00	118,505.10	91,073.23	91,155.96	120,000.00	200,000.00	167,004.22	166,327.79	95,713.76	100,499.45	105,524.42	110,800.64	116,340.67	122,157.70
3. Other FAAC transfers (exchange rate gain, augmentation, others)	82,659.55	43,755.64	41,598.96	20,481.94	7,192.91	40,000.00	62,000.00	12,181.70	12,132.43	12,739.05	13,376.00	14,044.80	14,747.04	15,484.40	16,258.62
4. VAT Allocation	10,655.00	12,262.00	13,342.00	15,814.07	25,476.69	25,000.00	30,000.00	27,591.98	27,480.20	28,854.21	30,296.92	31,811.77	33,402.35	35,072.47	36,826.10
5. IGR	19,513.00	28,213.00	35,504.00	30,610.56	31,396.51	43,853.96	50,000.00	53,603.07	53,385.96	56,055.26	58,858.02	61,800.92	64,890.97	68,135.52	71,542.29
6. Capital Receipts	4,404.00	15,664.00	95,721.75	18,650.32	179,460.80	299,258.57	293,496.61	263,596.44	273,403.07	338,006.24	341,093.43	348,444.09	345,817.25	375,431.28	394,340.93
6.a. Grants	4,184.00	9,012.00	14,636.00	11,553.45	7,249.28	24,168.10	18,000.00	2,879.33	2,867.66	2,867.66	2,867.66	2,867.66	2,867.66	2,867.66	2,867.66
6.b. Sales of Government Assets and Privatization Proceeds	0.00	0.00	8,359.51	2,496.87	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
6.c. Other Non-Debt Creating Capital Receipts	0.00	0.00	24,657.24	0.00	136,289.30	224,868.90	137,000.00	150,700.00	165,770.00	143,103.77	150,258.95	157,771.90	165,660.50	173,943.52	182,640.70
6.d. Proceeds from Debt-Creating Borrowings (bond issuance, loan disbursements, etc.)	220.00	6,652.00	48,069.00	4,600.00	35,922.25	50,221.57	138,496.61	110,017.11	104,765.41	192,034.81	187,966.81	187,804.53	177,289.10	198,620.09	208,832.58
Expenditure	**229,974.08**	**298,750.32**	**324,913.01**	**220,897.37**	**329,638.90**	**595,263.43**	**711,496.61**	**575,089.10**	**592,093.61**	**599,775.88**	**613,226.55**	**628,083.88**	**642,639.03**	**695,144.14**	**719,689.44**
1. Personnel costs (Salaries, Pensions, Civil Servant Social Benefits, other)	35,108.40	41,374.06	39,616.01	46,834.38	57,670.47	70,582.84	80,100.00	60,492.38	60,247.36	62,054.78	63,916.42	65,833.92	67,808.93	69,843.20	71,938.50
2. Overhead costs	17,187.54	13,703.60	13,057.69	15,666.01	35,141.88	119,480.57	160,000.00	100,149.80	99,744.18	102,736.51	105,818.60	108,993.16	112,262.95	115,630.84	119,099.77
3. Interest Payments (Public Debt Charges, including interests deducted from FAAC Allocation)	14,281.95	12,403.66	12,200.75	9,994.30	15,514.71	14,162.56	19,938.36	36,515.75	48,487.52	58,480.31	77,695.41	94,631.65	111,574.70	123,403.47	133,429.81
3.a. of which Interest Payments (Public Debt Charges, excluding interests deducted from FAAC Allocation)	14,281.95	12,403.66	12,200.75	9,994.30	15,514.71	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
3.b. of which Interest deducted from FAAC Allocation	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4. Other Recurrent Expenditure (Excluding Personnel Costs, Overhead Costs and Interest Payments)	8,764.12	7,919.22	9,171.66	14,969.95	10,266.36	21,700.00	33,000.00	19,293.35	19,215.20	19,791.66	20,385.41	20,996.97	21,626.88	22,275.68	22,943.95
5. Capital Expenditure	117,089.98	168,170.36	197,832.59	91,450.49	167,782.76	324,917.63	389,000.00	332,444.66	331,098.12	307,921.25	286,366.76	266,321.09	247,678.61	250,000.00	250,000.00
6. Amortization (principal) payments	37,542.09	55,179.42	53,034.31	41,982.24	43,262.70	44,419.83	29,458.26	26,193.17	33,301.23	48,791.38	59,043.95	71,307.09	81,686.94	113,990.94	122,277.41
Budget Balance ('+' means surplus, '-' means deficit)	**9,032.47**	**-7,049.68**	**21,157.95**	**-10,188.01**	**40,646.00**	**-22,150.90**	**-25,000.00**	**10,000.00**	**1,500.00**	**-4,500.00**	**-2,000.00**	**4,000.00**	**1,000.00**	**-7,000.00**	**3,000.00**
Opening Cash and Bank Balance	**8,552.17**	**17,584.64**	**10,534.96**	**31,692.91**	**21,504.90**	**62,150.90**	**40,000.00**	**15,000.00**	**25,000.00**	**26,500.00**	**22,000.00**	**20,000.00**	**24,000.00**	**25,000.00**	**18,000.00**
Closing Cash and Bank Balance	**17,584.64**	**10,534.96**	**31,692.91**	**21,504.90**	**62,150.90**	**40,000.00**	**15,000.00**	**25,000.00**	**26,500.00**	**22,000.00**	**20,000.00**	**24,000.00**	**25,000.00**	**18,000.00**	**21,000.00**

Financing Needs and Sources (Million Naira)

Financing Needs						**275,090.47**	**275,496.61**	**260,717.11**	**270,535.41**	**335,138.58**	**338,225.77**	**345,576.43**	**342,949.59**	**372,563.62**	**391,473.27**
i. Primary balance						-238,658.98	-251,100.00	-188,008.20	-187,246.66	-232,366.89	-203,486.41	-175,637.69	-148,687.95	-142,169.21	-132,766.05
ii. Debt service						58,582.39	49,396.61	62,708.91	81,788.75	107,271.69	136,739.36	165,938.74	193,261.65	237,394.41	255,707.22
Amortizations						44,419.83	29,458.26	26,193.17	33,301.23	48,791.38	59,043.95	71,307.09	81,686.94	113,990.94	122,277.41
Interests						14,162.56	19,938.36	36,515.75	48,487.52	58,480.31	77,695.41	94,631.65	111,574.70	123,403.47	133,429.81
iii. Financing Needs Other than Amortization Payments (e.g., Variation in Cash and Bank Balances)						-22,150.90	-25,000.00	10,000.00	1,500.00	-4,500.00	-2,000.00	4,000.00	1,000.00	-7,000.00	3,000.00
Financing Sources						**275,090.47**	**275,496.61**	**260,717.11**	**270,535.41**	**335,138.58**	**338,225.77**	**345,576.43**	**342,949.59**	**372,563.62**	**391,473.27**
i. Financing Sources Other than Borrowing						224,868.90	137,000.00	150,700.00	165,770.00	143,103.77	150,258.95	157,771.90	165,660.50	173,943.52	182,640.70
ii. Gross Borrowings						50,221.57	138,496.61	110,017.11	104,765.41	192,034.81	187,966.81	187,804.53	177,289.10	198,620.09	208,832.58
Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)						20,088.63	55,398.65	44,006.84	41,906.16	76,813.92	75,186.73	46,951.13	70,915.64	79,448.04	83,533.03
Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
State Bonds (maturity 1 to 5 years)						0.00	0.00	0.00	0.00	0.00	0.00	84,512.04	0.00	0.00	0.00
State Bonds (maturity 6 years or longer)						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other Domestic Financing						30,132.94	83,097.97	66,010.27	62,859.25	115,220.89	112,780.09	56,341.36	106,373.46	119,172.06	125,299.55
External Financing - Concessional Loans (e.g., World Bank, African Development Bank)						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
External Financing - Bilateral Loans						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Other External Financing						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Residual Financing						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Debt Stocks and Flows (Million Naira)

Debt (stock)	**218,027.80**	**225,166.14**	**252,423.39**	**245,203.50**	**207,050.49**	**214,278.85**	**323,317.20**	**407,141.15**	**478,605.33**	**621,848.76**	**750,771.62**	**867,269.06**	**962,871.21**	**1,047,500.36**	**1,134,055.53**
External	12,791.14	13,962.20	14,705.87	14,396.16	17,441.58	18,332.37	17,812.61	17,308.44	16,819.40	16,345.03	15,901.13	15,470.54	15,052.87	14,647.73	14,359.91
Domestic	205,236.66	211,203.94	237,717.52	230,807.34	189,608.91	195,946.48	305,504.60	389,832.71	461,785.92	605,503.73	734,870.49	851,798.52	947,818.34	1,032,852.64	1,119,695.63
Gross borrowing (flow)						**50,221.57**	**138,496.61**	**110,017.11**	**104,765.41**	**192,034.81**	**187,966.81**	**187,804.53**	**177,289.10**	**198,620.09**	**208,832.58**
External						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Domestic						50,221.57	138,496.61	110,017.11	104,765.41	192,034.81	187,966.81	187,804.53	177,289.10	198,620.09	208,832.58
Amortizations (flow)	**44,966.99**	**94,853.84**	**65,374.64**	**39,441.29**	**84,536.08**	**44,419.83**	**29,458.26**	**26,193.17**	**33,301.23**	**48,791.38**	**59,043.95**	**71,307.09**	**81,686.94**	**113,990.94**	**122,277.41**
External	885.66	1,175.75	422.97	452.81	219.82	535.83	519.76	504.17	489.04	474.37	443.91	430.59	417.67	405.14	287.82
Domestic	44,081.34	93,678.09	64,951.67	38,988.47	84,316.26	43,884.00	28,938.50	25,689.00	32,812.19	48,317.01	58,600.05	70,876.50	81,269.27	113,585.80	121,989.59
Interests (flow)	**14,429.62**	**12,872.01**	**12,578.47**	**10,243.23**	**14,158.51**	**14,162.56**	**19,938.36**	**36,515.75**	**48,487.52**	**58,480.31**	**77,695.41**	**94,631.65**	**111,574.70**	**123,403.47**	**133,429.81**
External	181.19	166.55	104.45	96.17	42.03	109.16	103.70	98.51	93.59	88.91	84.46	80.24	76.23	72.42	58.63
Domestic	14,248.43	12,705.46	12,474.02	10,147.06	14,116.48	14,053.40	19,834.66	36,417.23	48,393.93	58,391.40	77,610.94	94,551.41	111,498.47	123,331.05	133,371.18
Net borrowing (gross borrowing minus amortizations)						**5,801.74**	**109,038.36**	**83,823.95**	**71,464.18**	**143,243.44**	**128,922.86**	**116,497.44**	**95,602.15**	**84,629.15**	**86,555.17**
External						-535.83	-519.76	-504.17	-489.04	-474.37	-443.91	-430.59	-417.67	-405.14	-287.82
Domestic						6,337.57	109,558.11	84,328.11	71,953.22	143,717.81	129,366.77	116,928.03	96,019.82	85,034.29	86,842.99

Debt and Debt-Service Indicators

Debt Stock as % of SGDP	**4.24**	**3.68**	**4.05**	**4.15**	**3.07**	**2.76**	**3.59**	**3.99**	**4.14**	**4.74**	**5.05**	**5.15**	**5.04**	**4.84**	**4.62**
Debt Stock as % of Revenue (including grants and excluding other capital receipts)	**91.31**	**78.99**	**95.26**	**120.43**	**104.53**	**71.90**	**78.67**	**125.52**	**148.15**	**239.05**	**275.01**	**302.70**	**320.22**	**331.93**	**342.39**
Debt Service as % of SGDP						**0.75**	**0.55**	**0.61**	**0.71**	**0.82**	**0.92**	**0.98**	**1.01**	**1.10**	**1.04**
Debt Service as % of Revenue (including grants and excluding other capital receipts)						**19.66**	**12.02**	**19.33**	**25.32**	**41.24**	**50.09**	**57.92**	**64.27**	**75.22**	**77.20**
Interest as % of SGDP						**0.18**	**0.22**	**0.36**	**0.42**	**0.45**	**0.52**	**0.56**	**0.58**	**0.57**	**0.54**
Interest as % of Revenue (including grants and excluding other capital receipts)						**4.75**	**4.85**	**11.26**	**15.01**	**22.48**	**28.46**	**33.03**	**37.11**	**39.10**	**40.28**
Personnel Cost as % of Revenue (including grants and excluding other capital receipts)						**23.68**	**19.49**	**18.65**	**18.65**	**23.85**	**23.41**	**22.98**	**22.55**	**22.13**	**21.72**

LIST OF PARTICIPANTS

1.	MR. XAVIER ESSIEN	-	AG. HEAD, AKWA IBOM STATE DMO
2.	MR. MFON UDOMAH	-	SFTAS STATE FOCAL PERSON
3.	MR. VICTOR EDET	-	DG, FISCAL RESPONSIBILITY BOARD
4.	MR. INIEKE UMANAH	-	MINISTRY OF ECONOMIC DEVELOPMENT
5.	MR. EKWERE ESHIET	-	STATE BUDGET OFFICE
6.	MRS. JOSEPHINE EBE	-	ACCOUNTANT GENERAL OFFICE
7.	MRS. IMAOBONG EKARIKA	-	AKS DMO
8.	MR. UDUAK DAVID	-	AKS DMO
9.	MRS. UDUAK PHILIP	-	AKS DMO

APPROVED BY

DR. NSIKAN L. NKAN
HON. COMMISSIONER FOR FINANCE