



AKWA IBOM STATE GOVERNMENT OF NIGERIA

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

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CHAPTER ONE

INTRODUCTION

The Akwa Ibom State Debt Sustainability Analysis highlights historical trends and patterns in the State's Public Finance during the period 2018 to 2022 and evaluates the debt sustainability in 2023 to 2032 (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 current edition of the MTEF covers the period 2024 - 2026.

In preparing the debt sustainability analysis, assumptions are made concerning the State's revenue generation and expenditure over a ten-year period. Other assumptions are on the level and terms of outstanding as well as new public debt. It is recommended that Akwa Ibom State finance her deficit budget through commercial bank loans with maturity of 1 to 5 years including Agriculture loans, Infrastructure loans. The State should also borrow from the Capital market by issuing State Bonds with maturity of 6 years or longer, raise finance from other domestic sources. External financing should equally 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 2024 - 2026 MTEF AND 2023 BUDGET

Akwa Ibom State 2023 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. Akwa Ibom 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-term fiscal objectives and assesses how changes in the long-term fiscal objectives and short-term fiscal intentions situate with the principles of responsible fiscal management.

The current edition of the MTEF covers the period of 2024 - 2026. As a principle, the MTEF only recognizes approved budget figures as source data.

Table 1: Overview of 2024 – 2026 Medium Term Budget Forecast

Items	2024 (N'Million)	2025 (N'Million)	2026 (N'Million)
Recurrent Revenue			
Statutory Allocation	60,000	70,000	70,000
Derivation	290,000	295,000	300,000
VAT	50,000	55,000	57,000
IGR	70,000	72,000	73,000
Excess Crude /Other Revenue	126,500	140,000	145,000
Total Recurrent Revenue	596,500	632,000	645,000
Recurrent Expenditure	376,500	362,000	459,000
Personnel Cost	110,000	136,000	140,000
Social Contribution and Social Benefit	50,000	50,000	52,000
Overheads	150,000	175,000	180,000

Grants, contributions and Subsidies	1,500	2,000	2,000
Public Debt Service	65,000	85,000	85,000
CAPITAL RECEIPTS			
Opening Balance	60,000	70,000	70,000
Transfer to Capital Account	220,000	270,000	190,000
Grants	23,000	25,000	25,000
Other Capital Receipts	25,000	45,000	46,000
Total Capital Receipts	281,500	325,000	327,000
Financing (Loans)	170,000	170,000	170,000
Total Capital Expenditure	501,500	495,000	497,000
Ratios			
Growth in Recurrent Revenue	23%	5.95%	2.06%
Growth in Recurrent Expenditure	6.8%	3.9%	2.68%
Capital Expenditure Ratio	57.1%	52.55%	51.99%
Deficit (Financing) to Total Expenditure	19.36%	18.05%	17.78%

Source: Ministry of Economic Development & IDSP

ASSUMPTIONS

The assumptions underlying Akwa Ibom State MTEF 2024 – 2025 are

Statutory Allocation - The estimate for statutory allocation is based on an elasticity forecast taking into consideration the macroeconomic framework (National) and the mineral assumptions.

Derivation - Estimate for derivation is based on elasticity forecast using the macroeconomic assumptions stated above.

VAT – is also based on elasticity forecast using national Real GDP and inflation data as the explanatory variables for VAT growth.

Other FAAC transfers - are based on the actual receipts for 2021, 2022 and January to May 2023

Internally Generated Revenue (IGR) – own percentage adopting the growth rate: minimum of 15% in 2024, 12.5% in 2025 and 2026.

Grant – External grants are based on signed grant agreements with the World Bank Programmes, UNICEF, USAID, UNDP and others.

Other Capital Receipts – are based on expected exceptional incomes, ecological fund from FGN and investment incomes.

Financing (Net Loans) – based on signed agreement with World Bank for NEWMAP, RAMP, ANRIN as well as commercial bank short term loans.

Personnel – 5% growth annually, there are prospects for increases in 2024, 2025 and 2026.

Overheads – 5% growth annually.

Social Contribution and Social Benefit – own percentage on the assumption that pension and gratuity will increase annually by 5%.

Grants and Contributions – 2.5% annually based on three years moving average growth rate 2020 – 2022.

Public Debt Service – Calculation based on the memorandum with the creditors.

Capital Expenditure – essentially calculated as a residual from the recurrent account plus capital receipts.

CHAPTER THREE

REVENUE, EXPENDITURE AND PUBLIC DEBT TRENDS (2018-2022)

3.1 Revenue, Expenditure and Overall Primary Balance

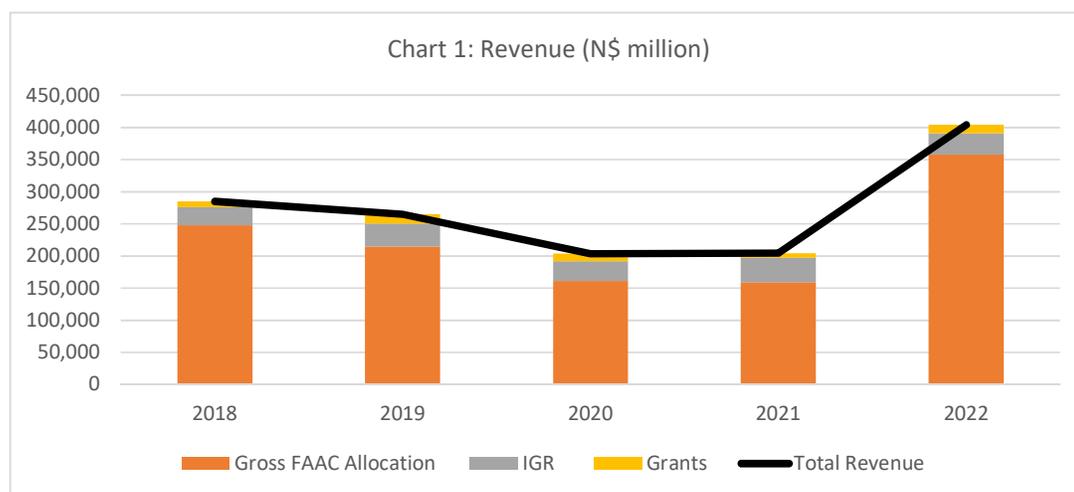
3.1.1 Revenue Performance

Akwa Ibom State's Total Revenue in year 2022 stood at ₦403.9b compared to ₦204.6b in 2021, which represents a significant increase of ₦199.4b or 49.3%. The improvements recorded in Revenue profile from 2021 to 2022 is attributable to a 124% or N198.2b increment in the State's Gross FAAC allocations.

Over the 5-year historical period, the State's total revenue recorded a 41.7% nominal growth rate, the trend is presented in Table 1 and the Chart that follow:

Table 2: Five Years Revenue Data

	2018	2019	2020	2021	2022
Total Revenue	285,049	264,985	203,612	204,573	403,939
Gross FAAC Allocation	247,824	214,845	161,448	159,427	357,598
IGR	28,213	35,504	30,611	37,897	33,419
Grants	9,012	14,636	11,553	7,249	12,921



Source: Audited Financial Statements

3.1.1.1 FAAC Allocations

The Gross FAAC allocations that comprises Statutory Allocation, Derivation, VAT Allocation and Other FAAC Transfers (exchange rate gain, augmentation, etc), increased from ₦159.4b in 2021 to ₦357.6b in 2022. Comparative performance of each component part between years 2021 and 2022 show 10% increment in Statutory Allocation; 198% increment in Derivation; 152% increase in other FAAC Transfers and a 10.8% increase in VAT Allocation. Total FAAC allocations accounted for 88.5% of the State's Total Revenue in year 2022 as against the 86.9% recorded in 2018.

As a percentage of State GDP, FAAC Allocation dropped from 7.8% in 2018 to 6.1% in 2022

Table 3: Summary of Five Years' FAAC Allocation in N'Billion

	2018	2019	2020	2021	2022
Net Statutory Allocation	42.751	41.399	34.079	35.601	39.193
Derivation	149.055	118.505	91.073	91.155	272.024
Other FAAC transfers	43.755	41.598	20.481	7.192	18.141
VAT Allocation	12.262	13.342	15.814	25.476	28.239
Total FAAC Allocations	247.823	214.844	161.447	159.424	357.596

Source: Audited Financial Statements

3.1.1.2 IGR

There was an 11.8% decrease in Akwa Ibom State's Internally Generated Revenue (IGR) in 2022 which stood at ₦33.4b compared to ₦37.9b in 2021. However, the nominal growth rate of IGR over the 5-year historical period was 18.4%.

IGR generation provided 8.3% of the State's Total Revenue in 2022 compared to 9.9% in year 2018. As a share of State GDP, IGR decreased from 0.9% in 2018 to 0.6% in 2022.

It is expected that there will be improvement in IGR in the future (projection years) because of tax administration reforms which have been instituted to strengthen IGR collection. These reforms cover legal, institutional, and operational frameworks. 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.

3.1.2 Expenditure Performance

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 2022, the State’s total expenditure amounted to ₦436b compared to ₦298.7b as at end of December 2018, which represents a nominal growth of ₦137.3b or 45.9%. This significant increase can be attributed high level of inflation in the economy, implementation of new minimum wage for workers in 2021 and employment of more staff into the State Civil Service.

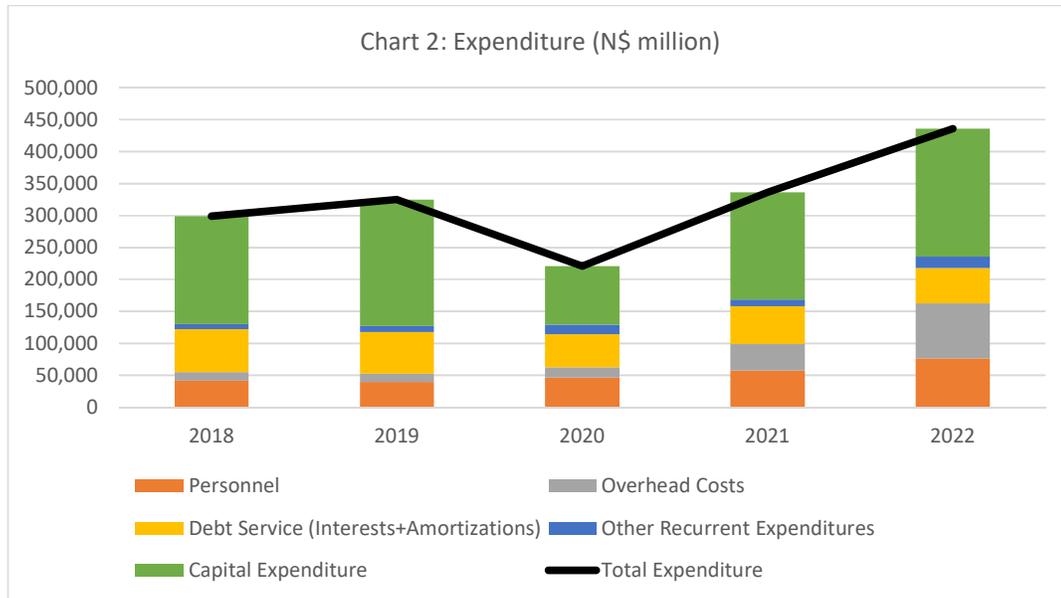
The nominal growth rate of the different expenditure items between 2018 and 2022 were: Personnel Cost – 85.9%; Overhead cost – 526.9%; Capital expenditure – 19.1%. Total debt service (interest and principal repayments) stood at ₦55b as at end of December 2022 compared to ₦67.6b as at end of December 2018, which represents a reduction of ₦12.5b or 18.5%.

Comparatively, the respective expenditure items as percentage of total expenditure in 2022 were: Personnel cost – 17.6%; Overhead cost – 19.7%; Capital Expenditure – 45.9% and Debt service – 12.6%.

Table 3 and the chat that follow present a summary of the State’s 5-year expenditure performance.

Table 4: Summary of Five Years’ Total Expenditure in N’Billion

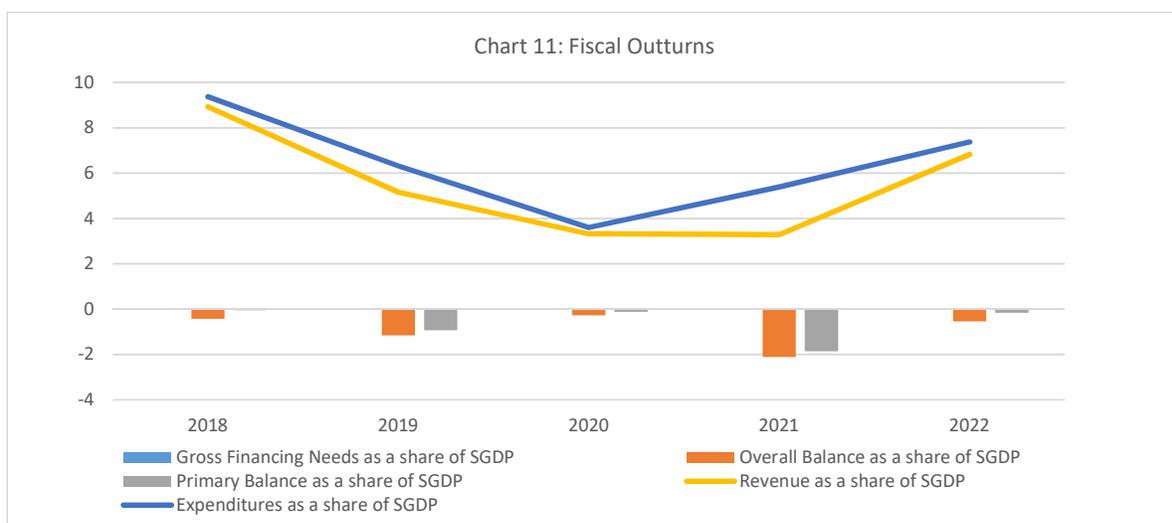
	2018	2019	2020	2021	2022
Total Expenditure	298,750	324,913	220,897	336,139	436,047
Personnel	41,374	39,616	46,834	57,670	76,902
Overhead Costs	13,704	13,058	15,666	41,642	85,910
Debt Service (Interests+Amortizations)	67,583	65,235	51,977	58,777	55,048
Other Recurrent Expenditures	7,919	9,172	14,970	10,266	17,907
Capital Expenditure	168,170	197,833	91,450	167,783	200,281



Source: Audited Financial Statements

3.1.3 Overall and Primary Balance

The Primary Balance which is the difference between the State's revenue and non-interest expenditure can be measured as a percentage of State GDP. The trend over the historical period revealed negative ratios thus: -0.04%, -0.93%, -0.12%, -1.86% and -0.16% for years 2018 to 2022 respectively. The overall balance trend also shows diminishing outcome in years 2018 to 2022. Year 2021 had the largest overall balance deficit of -2.11.

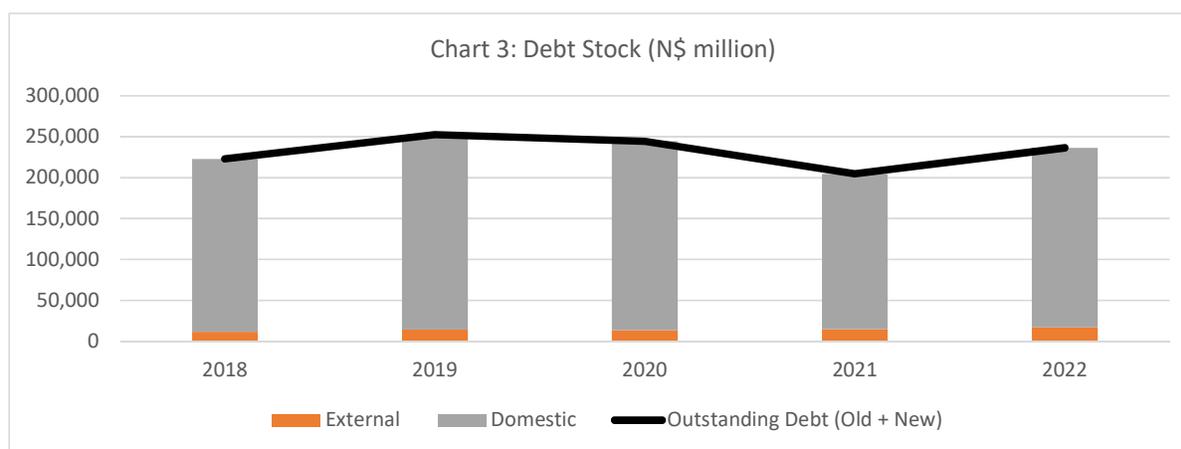


Source: Audited Financial Statements

3.2 Akwa Ibom State Existing Public Debt Portfolio, 2018-2022

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 2018 – 2022 is shown in the graph below.



Source: Audited Financial Statements

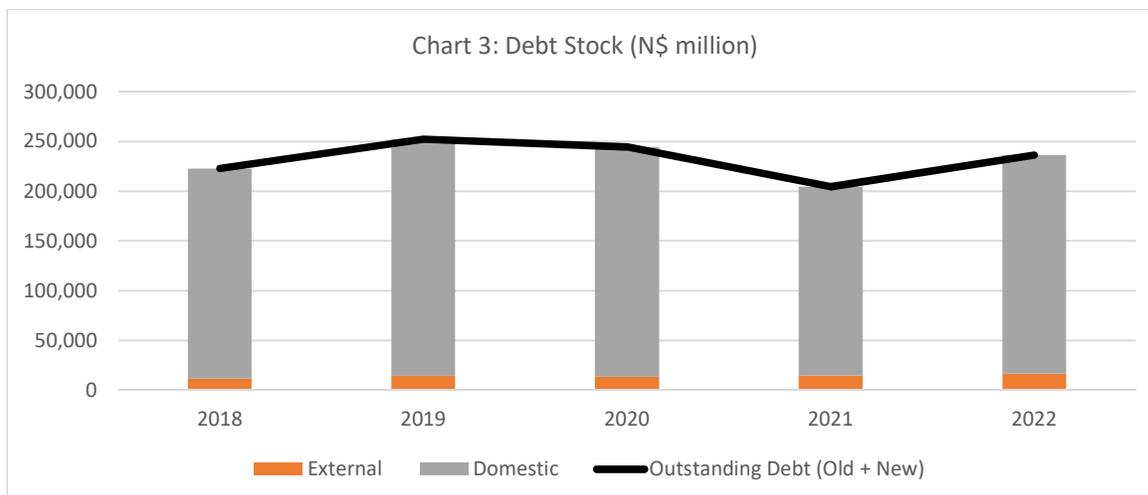
3.2.1 Total Debt Stock

The Total Debt of the State rose by 13.30% between 2018 and 2019, but in 2021, there was a drop in the total debt stock by 16.26%, over the 2020 figure due to a decrease in the domestic borrowing in 2021. However, in 2022, the total debt stock grew by 15.5% over 2021 closing balance. Nominal rate over the historical period was 6.1%.

Table 5: Summary of Five Years' Total Debt Stock in N'Billions

	2018	2019	2020	2021	2022
Outstanding Debt (Old + New)	222,765	252,389	244,342	204,611	236,263
External	11,561	14,672	13,535	15,003	16,998
Domestic	211,204	237,718	230,807	189,609	219,265

Source: Audited Financial Statements



3.2.2 Debt Composition

The composition of External to Domestic debt as at end of 2022 was 7.19% to 92.81%, respectively, with 16% of the Domestic debt accruing to Contractors Arrears, 16.6% Pensions and Gratuities, while 19.9% of the Domestic debt is due to Commercial Banks, and 47.4% 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 2022 closing debt stock by item is summarized in the table below:

Table 6: State Debt Portfolio

Item	Currency	Denomination	2022 YearEnd
Total External Debt - Stocks	US Dollars	Million	44.9
World Bank (WB) (including International Development Association (IDA) and IBRD)	US Dollars	Million	37.4
African Development Bank (AfDB) [including African Development Fund (AfDFP) and Africa Growing Together FUND]	US Dollars	Million	7.2
Multilateral Creditor (1) IDB and BADEA	US Dollars	Million	0.2
Total Domestic Debt - Stocks	Naira	Billion	219,265.3
Budget Support Facility	Naira	Billion	16,896.4
Restructured Commercial Bank Loans (FGN Bonds)	Naira	Billion	56,359.7
Excess Crude Account Backed Loan	Naira	Billion	5,492.5
Contractors' Arrears	Naira	Billion	35,262.5
Pension and Gratuity Arrears	Naira	Billion	36,504.5

Commercial Bank Loans	Naira	Billion	43,652.8
AADS (Accelerated Agric. Development Scheme)	Naira	Billion	358.3
Micro Small Medium Enterprise Development Fund (MSMEDF)	Naira	Billion	1,695.6
FGN Family Home Loan Support	Naira	Billion	5,000.0
FGN Bridging financing	Naira	Billion	18,043.1

CHAPTER FOUR
DEBT SUSTAINABILITY ANALYSIS

4.0 The 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, present the State’s average forecasted debt burden indicators over a 10-year period (2023 – 2032).

Table 7: Akwa Ibom State Debt Burden Indicators

Indicators	Thresholds	Ratio
Debt as % of SGDP	25%	7.82%
Debt as % of Revenue	200%	183.28%
Debt Service as % of Revenue	40%	41.34%
Personnel Cost as % of Revenue	60%	19.72%
Debt Service as % of FAAC Allocation	Nil	48.25%
Interest Payment as % of Revenue	Nil	21.43%
External Debt Service as % of Revenue	Nil	0.74%

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 by 13%, on average, annually in the medium-term. The State's macroeconomic framework in the medium term is predicated on the National Bureau of Statistics' real GDP growth and inflation forecasts including, oil price, production and NGN : USD exchange rate, as well as the 2024 -2026 Federal Fiscal Framework.

Table 8: Akwa Ibom State Macroeconomic Framework Assumptions

Items	2023	2024	2025	2026
National Inflation	17.16%	21.40%	20.30%	18.0%
National Real GDP Growth	3.75%	3.76%	4.22%	4.78%
Oil Production Benchmark (MBPD)	1.720	1.78	1.80	1.81
Oil Price Benchmark	\$75.0	\$73.96	\$73.76	\$69.9
NGN: USD Exchange Rate	700 : 1	700 : 1	665.61 : 1	669.79 : 1
Mineral Ratio	30%	31%	32%	32%

Table 9: Akwa Ibom State Indicative Three Year Fiscal Framework (MTEF 2024 – 2026)

Items	2023 (N'Million)	2024 (N'Million)	2025 (N'Million)	2025 (N'Million)
Revenue				
Statutory Allocation	51,000	60,000	70,000	70,000
Derivation	200,000	290,000	295,000	300,000
VAT	30,000	50,000	55,000	57,000
IGR	50,000	70,000	72,000	73,000
Other FAAC Receipts	62,000	126,500	140,000	145,400
Capital Receipts	137,000	220,000	270,000	190,000
Expenditure				
Personnel Cost	80,100	110,000	135,000	140,000
Overheads	160,000	150,000	175,000	180,000
Other Recurrent Expenditure	35,000	50,000	50,000	52,000
Capital Expenditure	389,000	501,500	495,000	497,000

The economy is expected to gradually recover from the COVID-19 pandemic between 2023 - 2026, with the expectation of a higher than modest economic growth rate as indicated by the National Real GDP growing from 3.75% in 2023 to 4.78% in 2026. The domestic inflation is expected to be at its peak in 2024 (21.1%) and thereafter gradually reduce in the next two years. Most of the growth in GDP during the period will be driven by the anticipated increase in domestic oil refining capacity, telecommunications, crop production, slight growth in investment and employment, with the bulk of projected growth coming from the non-oil sector.

The State's fiscal policy is aimed at ensuring sound budgetary processes including fiscal discipline, allocative efficiency, and high impact spending. Some of the key targets/objectives include:

1. Growing IGR annually by a minimum of 15% in 2024, 12.5% for 2025 and 2025;
2. Effective management of personnel and overhead expenditure to create additional fiscal space for capital development;
3. Long term target of funding all recurrent expenditure through revenue of a recurrent nature (IGR, VAT and Non-mineral component of Statutory Allocation);
4. Preference for long term borrowing

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.

State revenue is expected to experience a sporadic increase in the medium term (2023 – 2026) as a result of the Payments by the Federal Government of 13% oil derivation arrears and IGR boost from property taxes with the Akwa Geographical Information System (GIS).

4.2. Borrowing Options/Borrowing Strategies (S)

4.2.1 Option A (S1)

Under the reference debt Strategy 1 (S1), it is projected that the current borrowing trend by the State in meeting financing needs from domestic and external sources, shall be maintained within periods 2023 to 2032. The key assumptions on the planned borrowings for Option A is that the State can raise projected financing needs for the ten-year period as follows:

- (a) 60% from commercial bank borrowing (1-5 years), and 40% from other domestic financing sources except, for years 2024 and 2026
- (b) For year 2024, funding would be raised from commercial banks (1-5years maturity – 25%; 6 years and above maturity – 50%) and the balance of 25% from other domestic sources.
- (c) In year 2026, 40% of projected financing needs would be raised from Commercial banks (1-5years maturity), 30% from other domestic sources and 30% external concessional loans.

The borrowing needs under S1 is projected to be at a minimum figure of ₦32.17 billion, in year 2023 and at the peak - ₦767.11billion in year 2032.

Table 10: Summary of Strategy 1 projected borrowings

Borrowing Sources		Years	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
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	19,305.27	54,283.29	147,905.88	113,090.94	213,893.07	245,341.38	291,636.73	352,920.65	392,950.49	460,266.30
Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)	Naira	Million	-	108,566.57	-	-	-	-	-	-	-	-
State Bonds (maturity 1 to 5 years)	Naira	Million	-	-	-	-	-	-	-	-	-	-
State Bonds (maturity 6 years or longer)	Naira	Million	-	-	-	-	-	-	-	-	-	-
Other Domestic Financing	Naira	Million	12,870.18	54,283.29	98,603.92	84,818.20	142,595.38	163,560.92	194,424.48	235,280.44	261,966.99	306,844.20
New External Financing in Million US Dollars												
External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	US Dollars	Million	-	-	-	194.73	-	-	-	-	-	-
External Financing - Bilateral Loans	US Dollars	Million	-	-	-	-	-	-	-	-	-	-
Other External Financing	US Dollars	Million	-	-	-	-	-	-	-	-	-	-
Total Planned Borrowing	Naira	Million	32,175.45	217,133.14	246,509.80	282,727.34	356,488.46	408,902.30	486,061.21	588,201.09	654,917.48	767,110.50

Borrowing-Terms (interest rate, maturity and grace period)

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 11: Borrowing Terms of New Debt (issued/contracted from 2023 onwards)

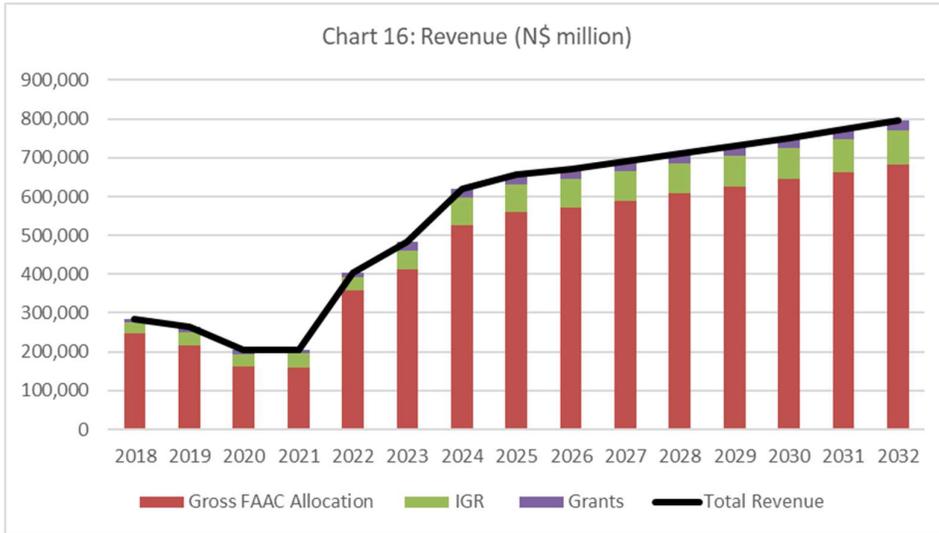
Borrowing Terms for New Domestic Debt (issued/contracted from 2023 onwards)	Interest Rate (%)	Maturity (# of years)	Grace (# of years)
Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)	21.00%	3	0.25
Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)	22.00%	6	0.5
State Bonds (maturity 1 to 5 years)	18.00%	5	0.5
State Bonds (maturity 6 years or longer)	18.00%	10	1
Other Domestic Financing	10.00%	15	1
Borrowing Terms for New External Debt (issued/contracted from 2023 onwards)	Interest Rate (%)	Maturity (# of years)	Grace (# of years)
External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	5.00%	15	2
External Financing - Bilateral Loans	5.00%	10	1
Other External Financing	5.00%	5	0.5

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

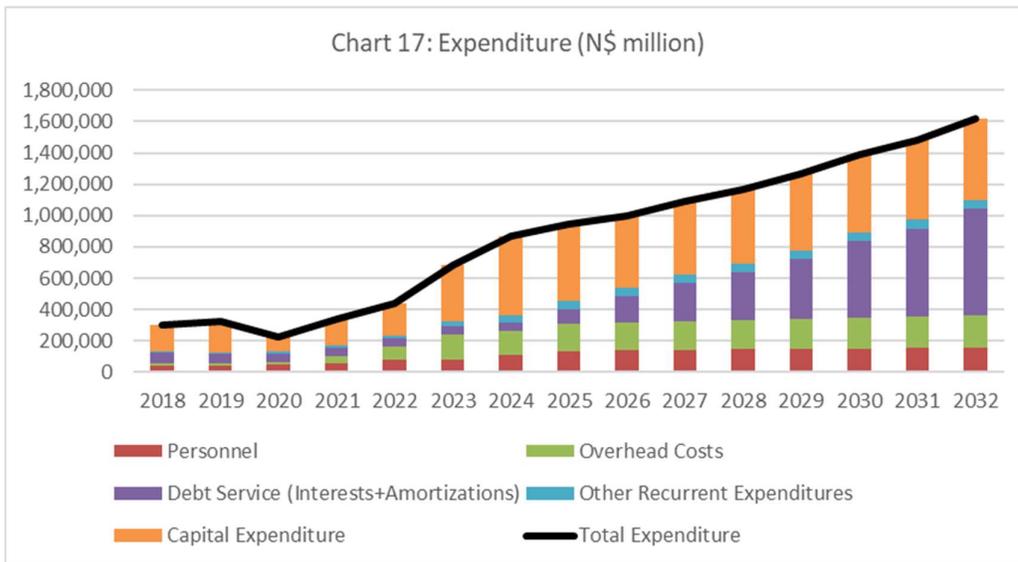
Revenue (as shown in Chart 16 below) is expected to gradually rise in the projection years, from N483.89.6billion in year 2023 to N795.64 in 2032. The average annual nominal growth rate over the period is 7.8%. IGR is forecasted to grow proportionately higher (11.2% on the average) than the other revenue sources (FAAC, Grants). The State must take proactive measures to build up and sustain her IGR potentials to realise this feat.



State Expenditure Profile

Total Expenditure, from the baseline scenario, will grow on average by 14.8% per annum (as shown in Chart 17). It is noteworthy that a greater percentage of State expenditure is projected to be on Capital projects with an average growth rate of 12.2% over the 10-year period. Personnel cost and overhead are proposed to increase by 8% and 11%.

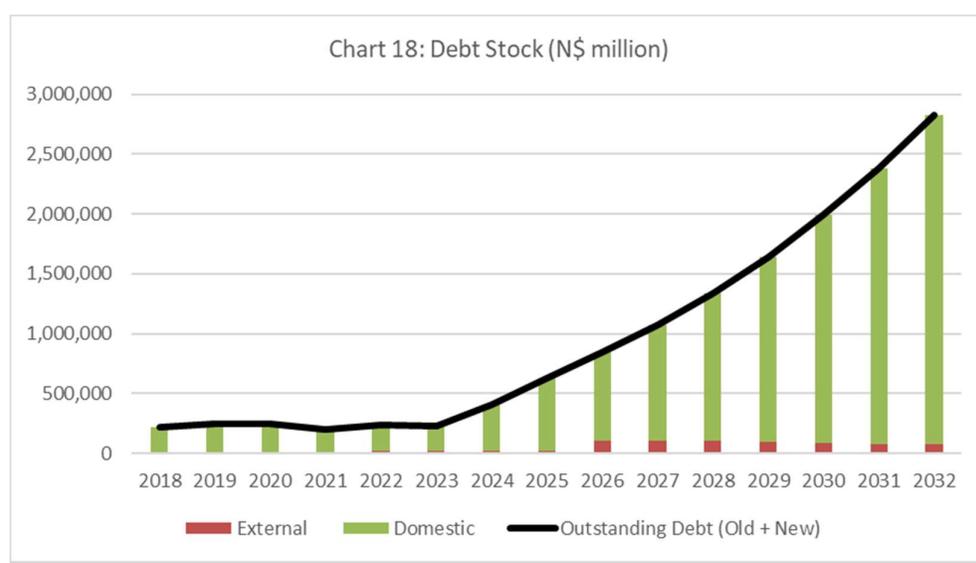
Debt servicing is estimated to grow astronomically over the 10-year period as a result of contracting new debt which would further increase the State’s debt burden. Other expenditure components are expected to increase annually by 3% between 2027 and 2032. The highest level of expenditure is expected in year 2032 (nominal value of N1,617.7b).



State's Projected Debt Stock

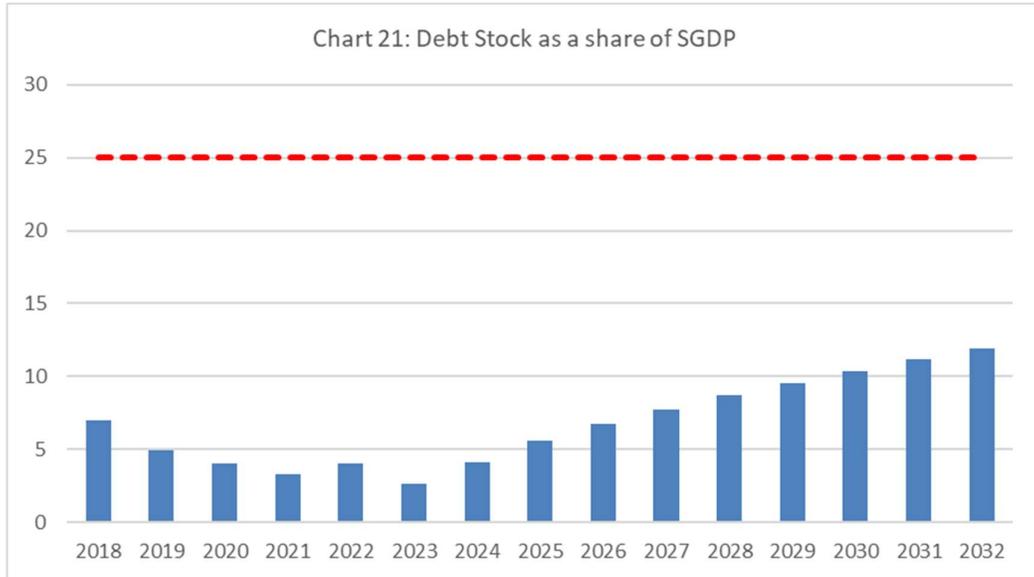
Chart 18 gives a picture of the State's debt stock in the historical (2018 – 2022) and projected (2023 – 2032) years. The reference debt strategy will result in an annual increment of 27% in the State's total debt stock. In nominal terms, debt stock will rise from N229.7b in 2023 to N2,825.6b in 2032. Domestic debt account for a greater percentage of the component, growing at an average rate of 30.6% over the 10-year period. External debt is also expected to increase on average, by 44.5% annually.

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.



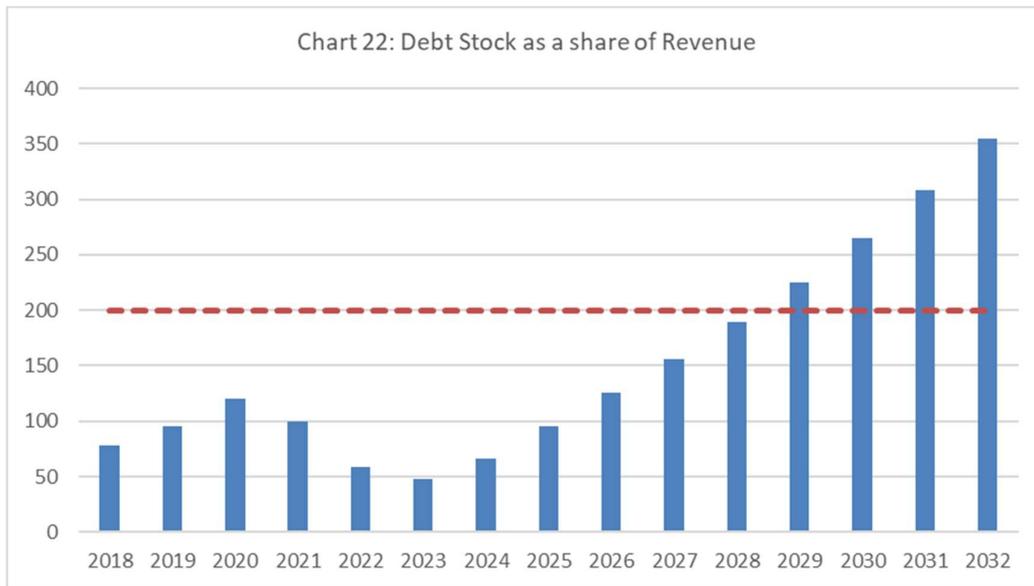
Debt Stock as Share of State Gross Domestic Product (SGDP)

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 ascending trend from 2023 to 2032. The ratio which peaks at 12% in 2032, 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.



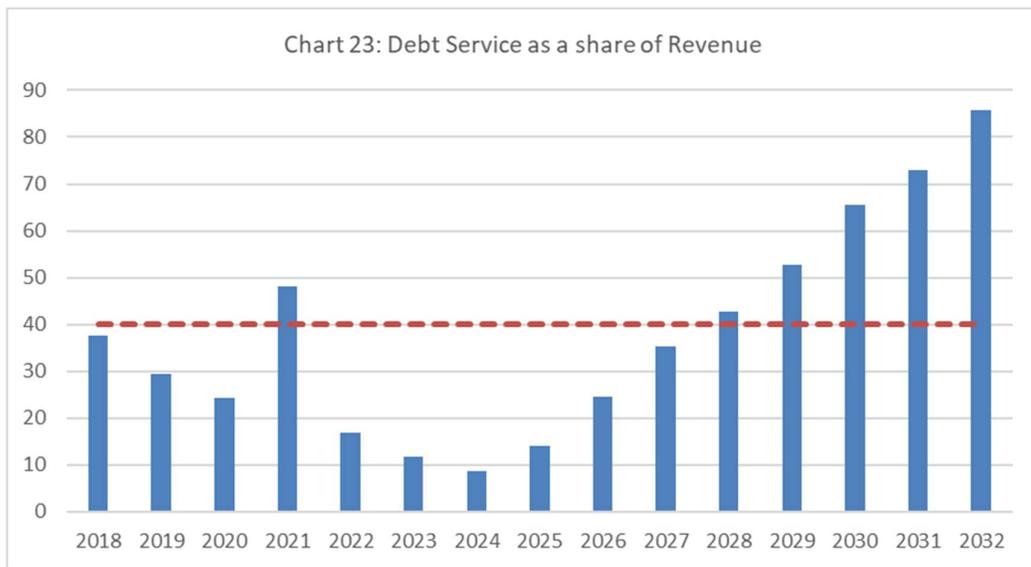
Debt Stock as Share of State Revenue

Chart 22 presents the Debt Stock as percentage of Revenue (with indicative threshold of 200%), the percentages from 2023 to 2028 are below the threshold while 2029 to 2032 are above. Thus, signifying that the State’s debt stock from 2029 will be above 200% of total expected revenue. As such, further borrowing would be extremely risky, except if the State can implement policy measures that will increase her revenue drastically.



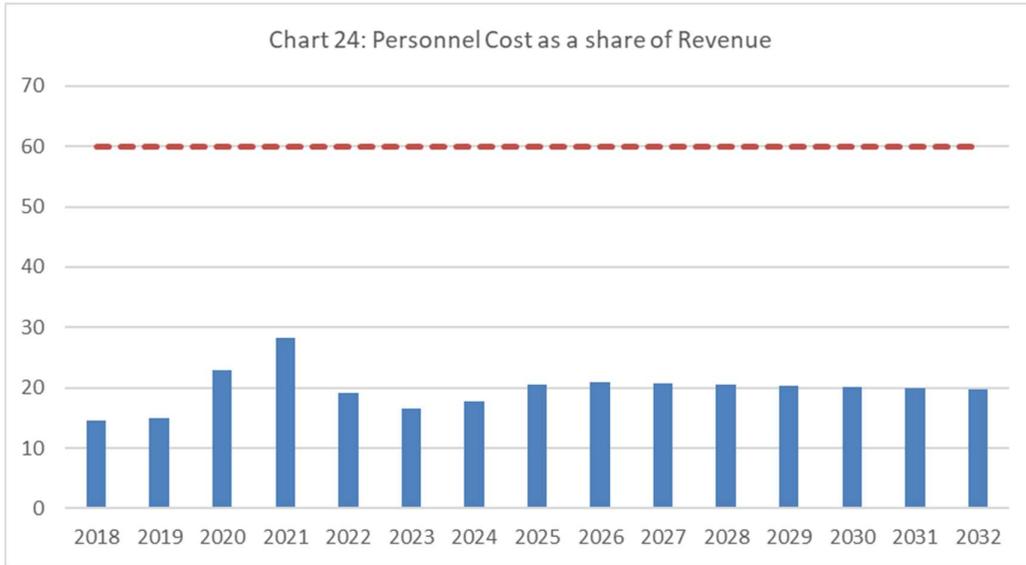
Debt Service as Share of State Revenue

Chat 23 presents the Debt Service as a percentage of Revenue (with indicative threshold of 40%). From 2028, the State will utilize more than 40% (an average of 64% in years 2028 - 2032) 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 2032 (at 86%), which implies that debt service obligations will stress the State’s cash flow significantly in the long term. This calls for prudent financial management to avert debt distress. The State should ensure that recurrent expenditures 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.



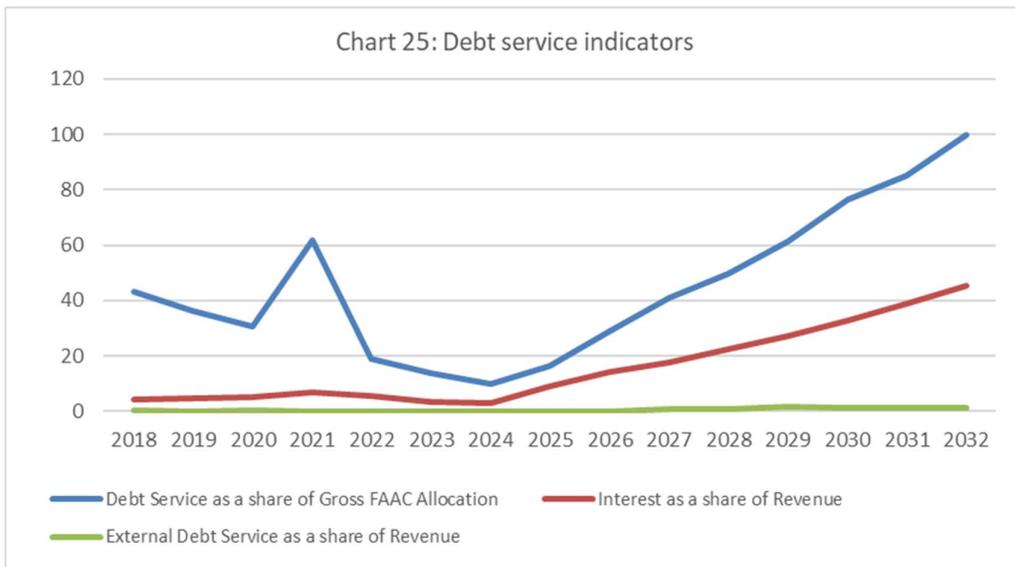
Personnel Cost to Revenue

The State’s personnel cost under the baseline scenario indicates that on the average, 19.72% 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 follow.



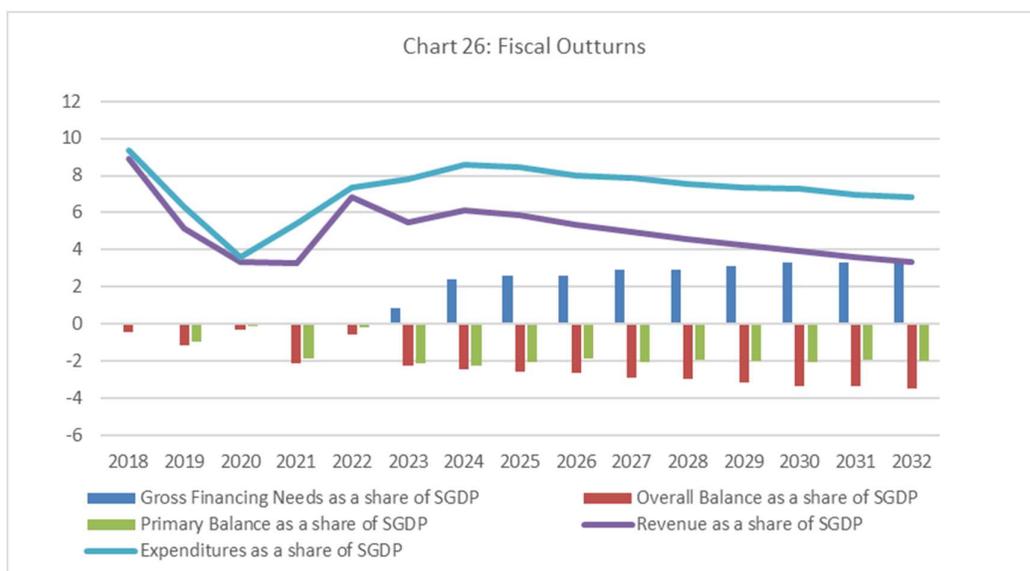
Debt Service Indicators

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 48.25% annually, the State’s Debt service ratio to FAAC collections is projected to grow from 14% in 2023 to 100% in 2032. And interest costs as share of revenue will rise from 3% in 2023 to 45% in 2032 while the External Debt Service will be below 5% over the period. These dynamics are shown in Chart 25 below.



Fiscal Indicators

The resultant impact on the fiscal out-turns is negative in primary and overall balances throughout the review and projection periods. As the gross financing needs increases (on average, 2.76% of State GDP) between 2023 to 2032, the overall and primary balances measured as a percentage of State GDP will be -2.90% and -2.0%, on average, respectively. The deteriorating position of these indices are induced by increased need to finance fiscal deficit and desire to invest in infrastructure. This is shown in Chart 26 that follow.



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 countrywide macroeconomic conditions and the reversal of the State's revenue and expenditure policies. A sensitivity analysis is undertaken in view of 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.

The impact of these shocks might be an increased need to borrow, or reduced capacity to service existing debts, amongst other things. As shown in charts 27 - 30, the impact of these shocks 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.

4.4.1 Revenue Shock

The 10% revenue shock related to aggregate of Recurrent Revenues (FAAC and IGR) and Grants. Three of the four indicators used to assess shock have revenue as the denominator, meaning the shock will have a direct impact. As earlier stated, the impact of this shock will increase most significantly the debt to revenue and debt service to revenue, more than other ratios. By 2032, the ratio of debt stock to revenue would have reached 516.69% compared to 355.14% under the baseline scenario; while debt service to revenue would be 115.39% against 85.66%. This implies a worsening of solvency ratios.

4.4.2 Expenditure Shock

This shock measures the effect of a 10% increase in expenditure on the State's debt sustainability. It 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 2032, the ratio will have reached 490.84%. The Debt Service ratio would also be above 40% by 2032, at 108.21 %. 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 2032) 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 is significantly higher than the 200% threshold at 355.25% in 2032, which represents a worsening of the debt position. 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 2032).

4.4.4 Interest Rate Shock

The interest rate shock has impact largely on the debt stock to revenue and debt service to revenue ratios as debt service (interest component) costs will increase, thereby necessitating the acquisition of more debt. The impact would be an increase in the ratio to 382.37% and 94.67% respectively— this is well above the 200% and 40% thresholds.

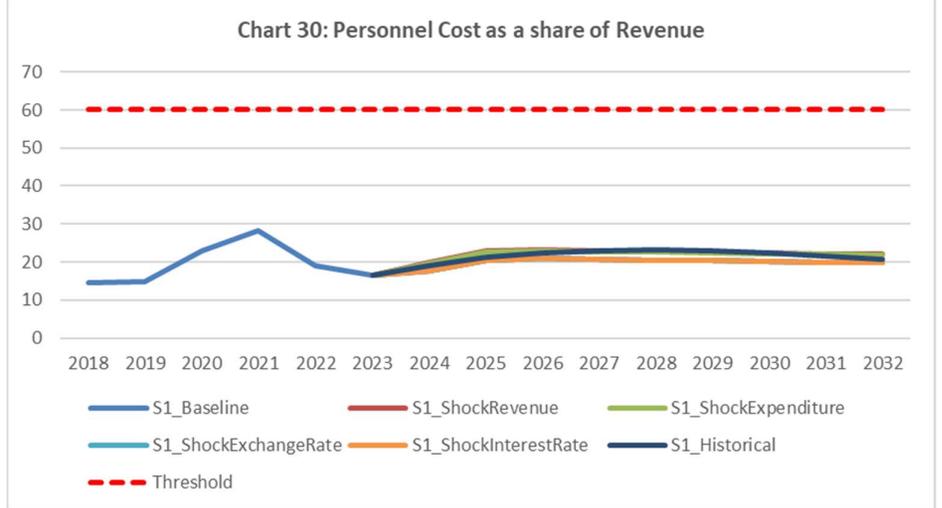
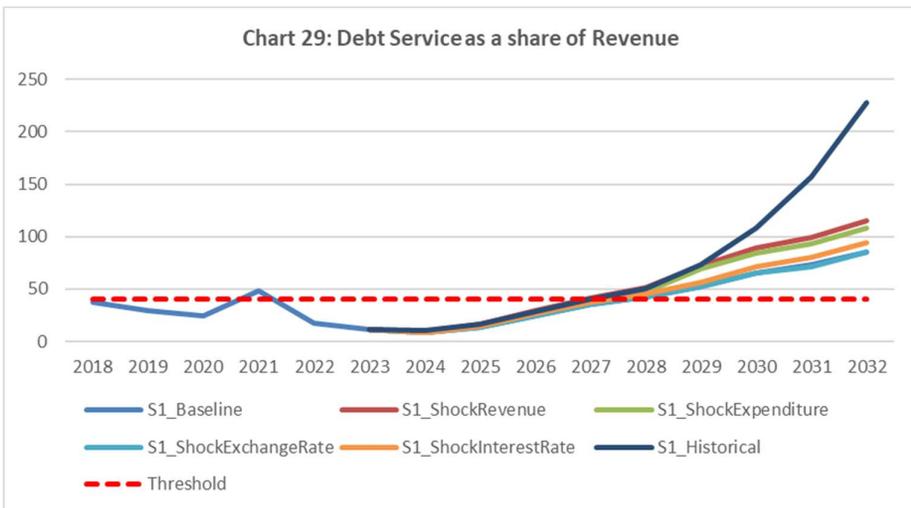
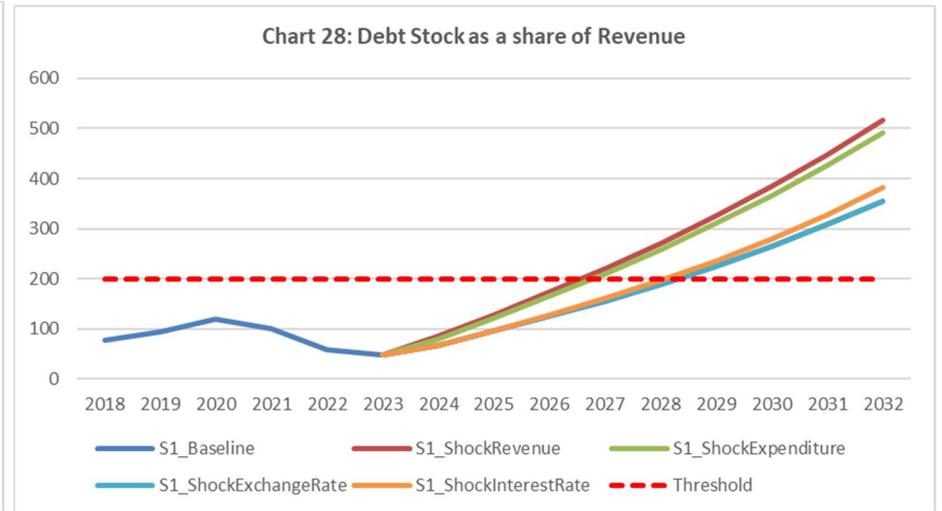
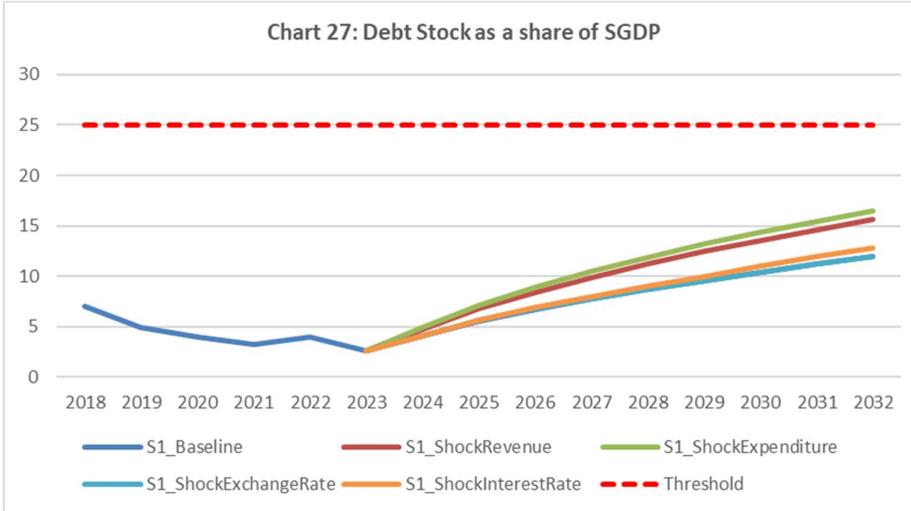
The Debt to GDP ratio, is also impacted negatively when compared to the baseline of 11.93%. It Though the four shock indices (Revenue, Expenditure, Exchange Rate and Interest Rate) are still considerably below the 25% threshold, the historical shock breached the threshold from year 2027.

4.4.5 Summary of Findings

The 2023 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 2027 to 2032 under historical shocks. The debt as percentage of Revenue breached the benchmarks from 2026 to 2032 through Revenue and Expenditure shocks. Debt service as a percentage of Revenue breached the threshold under revenue and Expenditure Shocks from 2026 to 2032. 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)

Under Strategy 2 (S2), The key assumptions on the planned borrowings for Option **B** is that the State can realize her gross borrowing requirements from both domestic and external sources, spread as listed hereunder:

- (i) 50% from commercial bank borrowing (1-5 years), and 50% from other domestic financing sources except, for years 2024, 2025 and 2029
- (ii) For year 2024, 20% funding would be raised from commercial banks (1-5years maturity), 70% from State Bonds (1 - 5 years maturity) and the balance of 10% from other domestic sources.
- (iii) In year 2025, 30% funding would be raised from commercial banks (1-5years maturity), 30% from other domestic sources; and 40% from external sources (concessional loans).
- (iv) For 2029, 30% of projected financing needs would be raised from Commercial banks (1-5years maturity), 55% from state bonds (1 – 5years), and 15% from other domestic sources.

The borrowing needs under S2 is projected to be at a minimum figure of ₦32.17 billion, in year 2023 and at the peak ₦707.29billion in year 2032.

Table 11: Summary of Strategy 2 Projected Borrowings

Borrowing Sources		Years	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
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	16,087.72	43,355.84	72,926.97	136,878.99	162,556.78	198,895.67	142,217.46	261,445.52	308,803.78	353,647.64
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	-	151,745.45	-	-	-	-	260,732.02	-	-	-
State Bonds (maturity 6 years or longer)	Naira	Million	-	-	-	-	-	-	-	-	-	-
Other Domestic Financing	Naira	Million	16,087.72	21,677.92	72,926.97	136,878.99	162,556.78	198,895.67	71,108.73	261,445.52	308,803.78	353,647.64
New External Financing in Million US Dollars												
External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	US Dollars	Million	-	-	223.24	-	-	-	-	-	-	-
External Financing - Bilateral Loans	US Dollars	Million	-	-	-	-	-	-	-	-	-	-
Other External Financing	US Dollars	Million	-	-	-	-	-	-	-	-	-	-
Total Planned Borrowing	Naira	Million	32,175.45	216,779.21	243,089.91	273,757.97	325,113.56	397,791.35	474,058.21	522,891.03	617,607.56	707,295.27

Option C (S3)

Strategy 3 (S3): Under this strategy, the State can assess funding from the different domestic and external sources thus:

- (i) 20% from commercial bank borrowing (1-5 years), 45% from commercial bank borrowing (6 years and above), and 35% from other domestic financing sources except, for years 2024 and 2026
- (ii) For year 2024, 10% funding would be raised from commercial banks (1-5years maturity), 75% from State Bonds (6 years and above) and the balance of 15% from other domestic sources.
- (iii) In year 2026, 30% funding would be raised from commercial banks (1-5years maturity), 20% from other domestic sources; and 50% from external sources (concessional loans).

The borrowing needs under S3 is projected to be at a minimum figure of ₦32.17 billion, in year 2023 and at the peak ₦782.06 billion in year 2032.

Table 12: Summary of Strategy 3 Projected Borrowings

Borrowing Sources		Years	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
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	6,435.09	21,745.49	48,228.29	79,289.05	64,282.89	75,000.60	93,353.14	110,274.40	132,979.44	156,411.07
Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)	Naira	Million	14,478.95	-	108,513.65	-	144,636.50	168,751.34	210,044.57	248,117.40	299,203.73	351,924.91
State Bonds (maturity 1 to 5 years)	Naira	Million	-	-	-	-	-	-	-	-	-	-
State Bonds (maturity 6 years or longer)	Naira	Million	-	163,091.17	-	-	-	-	-	-	-	-
Other Domestic Financing	Naira	Million	11,261.41	32,618.23	84,399.50	52,859.37	112,495.05	131,251.04	163,368.00	192,980.20	232,714.01	273,719.37
New External Financing in Million US Dollars												
External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	US Dollars	Million	-	-	-	303.39	-	-	-	-	-	-
External Financing - Bilateral Loans	US Dollars	Million	-	-	-	-	-	-	-	-	-	-
Other External Financing	US Dollars	Million	-	-	-	-	-	-	-	-	-	-
Total Planned Borrowing	Naira	Million	32,175.45	217,454.90	241,141.44	264,296.83	321,414.43	375,002.98	466,765.72	551,372.00	664,897.18	782,055.35

Option D (S4)

Strategy 4 (S4), here the State can raise 40% of projected financing needs for 8years, 30% in 2024, and 20% in 2025 of the financing needs will be met by commercial bank borrowing (1-5 years) while 60% of financing need would be raised in 2025 from State bonds (maturity 6years and above), 60% of projected financing needs for 7 years, 30%in 2024 and 2028 while 20% in 2025 from Other Domestic Financing sources, Concessional loan facilities would be assessed to raise 40% of financing needs in 2024 and Bilateral loan facilities would be assessed to raise 30% of financing needs in 2024.

- (i) 40% from commercial bank borrowing (1-5 years), and 60% from other domestic financing sources except, for years 2024, 2025 and 2028
- (ii) For year 2024, 30% funding would be raised from commercial banks (1-5years maturity), 30% from other domestic sources and 40% from external sources (concessional loans).
- (iii) In year 2025, 20% funding would be raised from commercial banks (1-5years maturity), 60% from state bonds (maturity of 6 years or longer) and 20% from other domestic sources.
- (iv) In year 2028, 40% funding would be raised from commercial banks (1-5years maturity), 30% from other domestic sources and 30% from external (bilateral) loans.

The borrowing needs under S4 is projected to be at a minimum figure of ₦32.17 billion, in year 2023 and at the peak ₦620.51billion in year 2032.

Table 13: Summary of Strategy 4 Projected Borrowings

Borrowing Sources		Years	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
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	12,870.18	64,927.59	45,533.03	98,800.87	122,767.47	139,340.63	165,237.85	190,895.80	216,708.93	248,205.79
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	-	-	136,599.09	-	-	-	-	-	-	-
Other Domestic Financing	Naira	Million	19,305.27	64,927.59	45,533.03	148,201.30	184,151.21	104,505.48	247,856.78	286,343.70	325,063.39	372,308.69
New External Financing in Million US Dollars												
External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	US Dollars	Million	-	198.75	-	-	-	-	-	-	-	-
External Financing - Bilateral Loans	US Dollars	Million	-	-	-	-	-	239.93	-	-	-	-
Other External Financing	US Dollars	Million	-	-	-	-	-	-	-	-	-	-
Total Planned Borrowing	Naira	Million	32,175.45	216,425.28	227,665.15	247,002.17	306,918.68	348,351.58	413,094.64	477,239.50	541,772.32	620,514.48

5.2 DMS Simulation Results

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

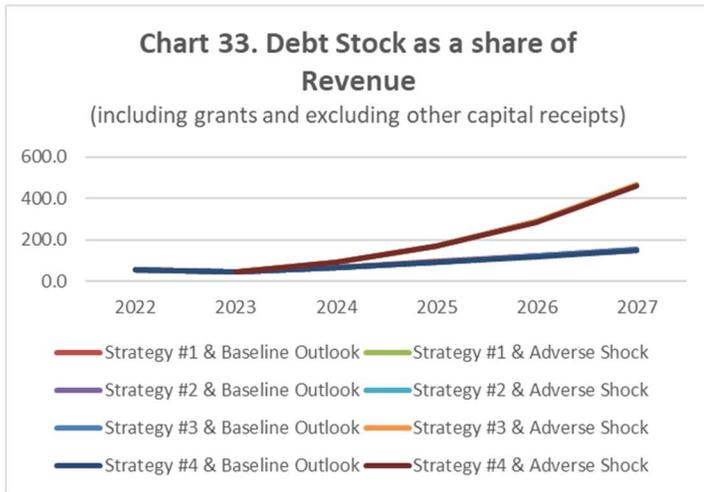
5.2.1 Debt stock as a share of Revenue:

In the Baseline scenario, the projected percentage of the State's debt stock to revenue between 2023 to 2027 are expected to grow from 47.5% to 156.1%.

Under this performance indicator, the baseline outlook in 2027 indicates that adverse shock stems from historical data for all the debt management strategies.

- ✓ Strategy 1 offers the highest cost of borrowing – 156.1% with an Adverse Shock of 466.7%, with a risk of 310.6% (the least risky strategy).
- ✓ For Strategy 2, the baseline outlook indicates that the cost of borrowing is 152.0%, the Adverse Shock is 463.3% and the risk component is 311.3%.
- ✓ In Strategy 3 borrowing cost of 154.8%, Adverse Shock of 465.6% and risk is 310.8%.
- ✓ Strategy 4, has the least cost of borrowing of 148.6% while the Adverse Shock is 460.5% and the risk component is 311.9%.

Debt Stock as % of Revenue (including grants and e	2022	2023	2024	2025	2026	COST RISK measured only in 2027	
						2027	2027
Strategy #1 & Baseline Outlook	58.5	47.5	66.5	95.5	125.6	156.1	310.6
Strategy #1 & Adverse Shock		47.5	94.1	171.7	291.1	466.7	
Strategy #2 & Baseline Outlook	58.5	47.5	66.4	95.1	122.8	152.0	311.3
Strategy #2 & Adverse Shock		47.5	94.1	171.2	288.4	463.3	
Strategy #3 & Baseline Outlook	58.5	47.5	66.5	95.1	124.9	154.8	310.8
Strategy #3 & Adverse Shock		47.5	94.2	171.2	290.5	465.6	
Strategy #4 & Baseline Outlook	58.5	47.5	66.4	92.8	120.1	148.6	311.9
Strategy #4 & Adverse Shock		47.5	94.0	168.7	285.8	460.5	



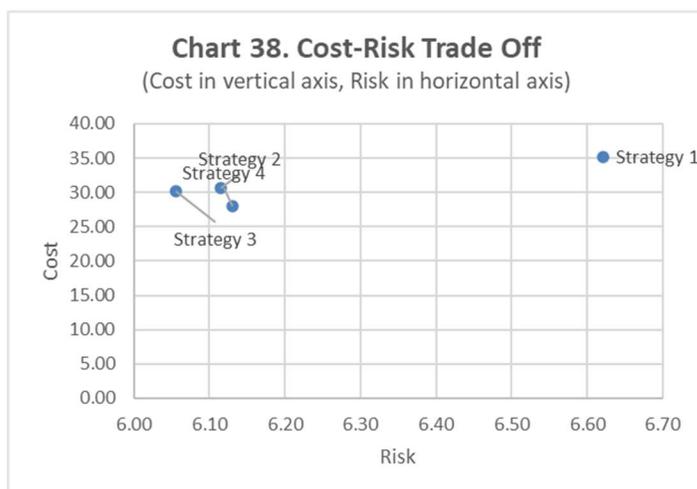
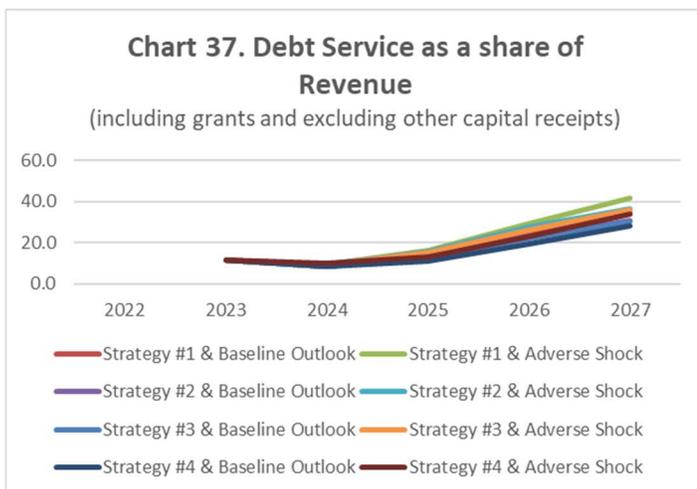
5.2.1 Debt Service as a Share of Revenue:

In the Baseline scenario, the projected percentage of the State’s debt service to revenue between 2023 to 2027 are expected to grow from 11.8% to 35.2%.

Under this performance indicator, the baseline outlook in 2027 indicates that adverse shock stems from revenue for Strategies 1 – 3, while it would be historical for Strategy 4.

- ✓ Strategy 1 offers the highest cost of borrowing – 35.2% with an Adverse Shock of 41.8%, and a 6.6% risk.
- ✓ In Strategy 2, the baseline outlook indicates that the cost of borrowing is 30.6%, the Adverse Shock is 36.8% and the risk component is 6.1%.
- ✓ In Strategy 3 borrowing cost of 30.1%, Adverse Shock of 36.2% and risk is 6.1%.
- ✓ Strategy 4, has the least cost of borrowing (28.0%) while the Adverse Shock is 34.1% and the risk component is 6.1%.

Debt Service as % of Revenue (including grants and	2022	2023	2024	2025	2026	COST RISK measured only in 2027	
						2027	2027
Strategy #1 & Baseline Outlook		11.8	8.6	13.9	24.6	35.2	6.6
Strategy #1 & Adverse Shock		11.8	9.5	16.3	29.1	41.8	
Strategy #2 & Baseline Outlook		11.8	8.5	13.4	23.3	30.6	6.1
Strategy #2 & Adverse Shock		11.8	9.5	15.7	27.6	36.8	
Strategy #3 & Baseline Outlook		11.8	8.6	13.1	21.8	30.1	6.1
Strategy #3 & Adverse Shock		11.8	9.6	15.4	26.0	36.2	
Strategy #4 & Baseline Outlook		11.8	8.5	11.1	19.3	28.0	6.1
Strategy #4 & Adverse Shock		11.8	10.1	13.4	23.1	34.1	

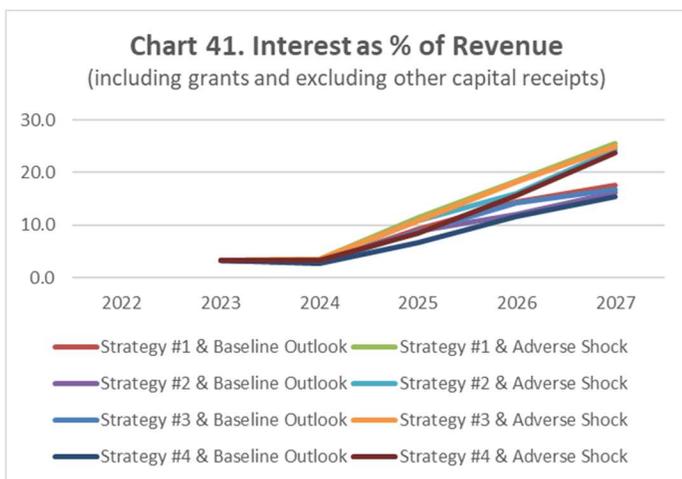


5.2.3 Interest as a share of Revenue

The percentage of interest payments on the State’s debt to revenue, between 2023 and 2027 increases from 3.3% to 17.6%.

- ✓ Under Strategy 1, this performance indicator reveals that the adverse shock stems from historical. It has the highest borrowing cost of 17.6%, adverse shock of 25.6% and risk of 8.0% compared to the alternative strategies.
- ✓ Cost of borrowing under Strategy 2 is 16.1%, adverse shock is 24.4%, while the risk is 8.3%.
- ✓ Strategy 3 has a borrowing cost of 16.9%, adverse shock is 25.0% and risk of 8.1%.
- ✓ In Strategy 4, the cost of borrowing is 15.3%, adverse shock is 23.8% while the risk component is 8.4%.

Interest as % of Revenue (including grants and excluding other capital receipts)	2022	2023	2024	2025	2026	COST RISK measured only in 2027	
						2027	2027
Strategy #1 & Baseline Outlook		3.3	2.9	9.2	14.4	17.6	8.0
Strategy #1 & Adverse Shock		3.3	3.5	11.4	18.3	25.6	
Strategy #2 & Baseline Outlook		3.3	2.9	8.9	12.0	16.1	8.3
Strategy #2 & Adverse Shock		3.3	3.4	11.0	16.1	24.4	
Strategy #3 & Baseline Outlook		3.3	3.0	8.8	14.2	16.9	8.1
Strategy #3 & Adverse Shock		3.3	3.5	10.8	18.1	25.0	
Strategy #4 & Baseline Outlook		3.3	2.8	6.7	11.6	15.3	8.4
Strategy #4 & Adverse Shock		3.3	3.3	8.5	15.6	23.8	



5.2.4 DMS Assessment

The major observations on the cost-risk profile of 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 Revenue	Cost	156.1	152.0	154.8	148.6
	Risk	310.6	311.3	310.8	311.9
Debt Service as % of Revenue	Cost	35.2	30.6	30.1	28.0
	Risk	6.6	6.1	6.1	6.1
Interest as % of Revenue	Cost	17.6	16.1	16.9	15.3
	Risk	8.0	8.3	8.1	8.4

The reference Strategy (S1) has the highest cost in all the three performance indicators, but highest risk in one indicator. Strategy 4 presents the least borrowing cost in the three indicators; but highest risk in two indicators. Strategy 2 stands as the second on the rung in terms of lower borrowing cost (in two indicators), but it is second in terms of risk profile. Strategy 3 is the third on the rung.

From the foregoing, Strategy 4 seems to be the best option for the State in sourcing for funds to meet financing needs. Although it is the riskiest in terms of debt stock to revenue and interest rate to revenue ratios, probably because of the State's reliance on oil revenue, but if concerted efforts are made to diversify revenue and stabilize exchange rate, the State can mitigate the risk considerably. Also, bearing in mind that a proportion of financing is projected to be raised from external sources, the State can take necessary steps in meeting the requirements of foreign finance providers on time.

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

2023		Projection Methodology
Assumptions:		
Economic activity	State GDP (at current prices)	Expected average growth rate in State GDP between 2022 - 2032 is 13.6%
Revenue	Revenue <ol style="list-style-type: none"> 1. Gross Statutory Allocation ('gross' means with no deductions; do not include VAT Allocation here) <ol style="list-style-type: none"> 1.a. of which Net Statutory Allocation ('net' means of deductions) 1.b. of which Deductions 2. Derivation (if applicable to the State) 3. Other FAAC transfers (exchange rate gain, augmentation, others) 4. VAT Allocation 5. IGR 6. Capital Receipts <ol style="list-style-type: none"> 6.a. Grants 6.b. Sales of Government Assets and Privatization Proceeds 6.c. Other Non-Debt Creating Capital Receipts 	<p>For 2023, Budget figures are used. MTEF projections are used for 2024 - 2026 and thereafter, a 3% increment is projected from 2027 to 2032. DSA Team, Ministry of Economic Affairs</p> <p>For 2023, Budget figures are used. MTEF projections are used for 2024 - 2026. From 2027 to 2032, 3% increment is applied to 2026 MTEF projection. DSA Team, Ministry of Economic Affairs</p> <p>Budget figures in 2023, MTEF projections are used for 2024 - 2026. For 2027 - 2032, 3% incremental rate is applied DSA Team, Ministry of Economic Affairs</p> <p>Budget figures in 2023, MTEF figures are used for 2024 - 2026 with a 3% increment from 2027 - 2032. DSA Team, Ministry of Economic Affairs</p> <p>Budget figures in 2023, MTEF figures are used for 2024 - 2026 with a 3% increment from 2027 - 2032. DSA Team, Ministry of Economic Affairs</p> <p>Budget figures in 2023, MTEF projections are used for 2024 - 2026. From 2027 to 2032, the 2026 projection is held constant. DSA Team, Ministry of Economic Affairs</p> <p>Nil</p> <p>Budget figures in 2023, MTEF projections are used for 2024 - 2026. For 2027 - 2032, 3% annual increment is projected. DSA Team, Ministry of Economic Affairs</p>
Expenditure	Expenditure <ol style="list-style-type: none"> 1. Personnel costs (Salaries, Pensions, Civil Servant Social Benefits, other) 2. Overhead costs 3. Interest Payments (Public Debt Charges, including interests deducted from FAAC Allocation) 4. Other Recurrent Expenditure (Excluding Personnel Costs, Overhead Costs and Interest Payments) 5. Capital Expenditure 	<p>Budget figures in 2023, MTEF projections are used for 2024 - 2026 and 2% increment from 2027 to 2032. DSA Team, Ministry of Economic Affairs</p> <p>Budget figures in 2023, MTEF projections are used for 2024 - 2026 and 2% increment from 2027 to 2032. DSA Team, Ministry of Economic Affairs</p> <p>Projections based on facilities' Amortization Schedules</p> <p>Budget figures in 2023, MTEF projections are used for 2024 - 2025 and 2% increment from 2027 to 2032. DSA Team, Ministry of Economic Affairs</p> <p>Budget figures in 2023, MTEF projections are used for 2024 - 2026. For 2027 - 2032, a 2% incremental rate is applied. DSA Team, Ministry of Economic Affairs</p>
Closing Cash and Bank Balance	Closing Cash and Bank Balance	N10B for 2023, N7B for 2024, N9B for 2025, and N12B for 2026 while from 2027 to 2032 is held constant at N15B. DSA Team, Ministry of Economic Affairs
Debt Amortization and Interest Payments	Debt Outstanding at end-2022 <ul style="list-style-type: none"> External Debt - amortization and interest Domestic Debt - amortization and interest New debt issued/contracted from 2023 onwards New External Financing <ul style="list-style-type: none"> External Financing - Concessional Loans (e.g., World Bank, African Development Bank) External Financing - Bilateral Loans Other External Financing New Domestic Financing <ul style="list-style-type: none"> Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEFD) Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEFD) State Bonds (maturity 1 to 5 years) State Bonds (maturity 6 years or longer) Other Domestic Financing 	<p>From Federal DMO schedules Various facilities Amortization Schedules</p> <p>5% interest rate, 15 years maturity and 24 months moratorium.</p> <p>5% interest rate, 10 years maturity and 18 months moratorium.</p> <p>5% interest rate, 5 years maturity and 6 months moratorium.</p> <p>21% interest rate, 3 year tenor and 3 months moratorium.</p> <p>22% interest rate, 6 year tenor and 6 months moratorium.</p> <p>18% interest rate, 5 year tenor and 6 months moratorium.</p> <p>18% interest rate, 10 year tenor and 12 months moratorium.</p> <p>10% interest rate, 15 year tenor and 12 months moratorium.</p>

<p>Proceeds from Debt-Creating Borrowings corresponding to Debt Strategy S1</p>	<p>Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S1</p> <p>New Domestic Financing in Million Naira Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF) Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF) State Bonds (maturity 1 to 5 years) State Bonds (maturity 6 years or longer)</p> <p>Other Domestic Financing</p> <p>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</p>	<p>The State can raise 60% of projected financing needs for 8years, 25% in 2024, and 40% in 2026</p> <p>To provide 50% of financing needs in 2024.</p> <p>nil nil</p> <p>The State can raise 40% of projected financing needs for 8years, 25% in 2024, and 30% in 2026</p> <p>To provide 30% of financing needs in 2026.</p> <p>nil nil</p>
<p>Proceeds from Debt-Creating Borrowings corresponding to Debt Strategy S2</p>	<p>Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S2</p> <p>New Domestic Financing in Million Naira Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF) Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF) State Bonds (maturity 1 to 5 years) State Bonds (maturity 6 years or longer)</p> <p>Other Domestic Financing</p> <p>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</p>	<p>The State can raise 50% of projected financing needs for 7 years, 20% in 2024, 30% in 2025 and 30% in 2029</p> <p>nil</p> <p>To provide 70% of financing needs in 2024 and 55% in 2029.</p> <p>nil</p> <p>The State can raise 50% of projected financing needs for 7 years, 10% in 2024, 30% in 2025 and 15% in 2029</p> <p>To provide 40% of financing needs in 2025.</p> <p>nil nil</p>
<p>Proceeds from Debt-Creating Borrowings corresponding to Debt Strategy S3</p>	<p>Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S3</p> <p>New Domestic Financing in Million Naira Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF) Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF) State Bonds (maturity 1 to 5 years) State Bonds (maturity 6 years or longer)</p> <p>Other Domestic Financing</p> <p>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</p>	<p>The State can raise 20% of projected financing needs in 8 years, 10% in 2024, and 30% in 2026</p> <p>The State can raise 45% of projected financing needs in all the years except 2024 and 2026</p> <p>nil</p> <p>To provide 75% of financing needs in 2024.</p> <p>The State can raise 35% of projected financing needs in 8 years, 15% in 2024, and 20% in 2026</p> <p>To provide 50% of financing needs in 2026.</p> <p>nil nil</p>
<p>Proceeds from Debt-Creating Borrowings corresponding to Debt Strategy S4</p>	<p>Planned Borrowings (new bonds, new loans, etc.) for Debt Strategy S4</p> <p>New Domestic Financing in Million Naira Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF) Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF) State Bonds (maturity 1 to 5 years) State Bonds (maturity 6 years or longer)</p> <p>Other Domestic Financing</p> <p>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</p>	<p>At 21% interest rate, 3 year tenor and 3 months moratorium, the State can raise 40% of projected financing needs for 8years, 30% in 2024, and 20% in 2025</p> <p>nil</p> <p>nil</p> <p>Interest rate 18%, 10 year tenor and 12 months moratorium. 60% of financing need would be raised in 2025</p> <p>Federal Government facilities would be assessed at 10% interest rate, 15 year tenor and 12 months moratorium, to raise 60% of projected financing needs for 7 years, 30% in 2024 and 2028 while 20% in 2025</p> <p>Concesseional loan facilities would be assessed to raise 40% of financing needs in 2024 at 5% interest rate, 15years maturity and 24months moratorium.</p> <p>Bilateral loan facilities would be assessed to raise 30% of financing needs in 2028 at 5% interest rate, 10years maturity and 18 months moratorium.</p> <p>nil</p>

Annexure II

Akwa Ibom State Baseline Scenario 2023 – 2032

Indicator	Actuals					Projections					
	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
BASELINE SCENARIO											
Economic Indicators											
State GDP (at current prices)	3,189,510.02	5,142,862.45	6,125,776.85	6,226,622.21	5,910,210.71	8,779,377.14	10,086,458.41	11,221,720.77	12,485,567.07	13,891,754.06	15,456,300.00
Exchange Rate NGN/US\$ (end-Period)	253.19	305.79	306.50	326.00	379.00	435.57	435.57	435.57	435.57	435.57	435.57
Fiscal Indicators (Million Naira)											
Revenue	291,700.64	346,070.96	210,709.36	376,784.40	508,562.60	558,072.07	861,633.14	948,509.80	999,127.34	1,093,630.46	1,167,400.00
1. Gross Statutory Allocation ('gross' means with no deductions; do not include VAT Allocation here)	42,751.00	41,399.15	34,079.24	35,601.58	39,192.72	51,000.00	60,000.00	70,000.00	70,000.00	72,100.00	74,200.00
1.a. of which Net Statutory Allocation ('net' means of deductions)	42,751.00	41,399.15	34,079.24	35,601.58	39,192.72	51,000.00	60,000.00	70,000.00	70,000.00	72,100.00	74,200.00
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
2. Derivation (if applicable to the State)	149,055.00	118,505.10	91,073.23	91,155.96	272,023.99	200,000.00	290,000.00	295,000.00	300,000.00	309,000.00	318,200.00
3. Other FAAC transfers (exchange rate gain, augmentation, others)	43,755.64	41,598.96	20,481.94	7,192.91	18,141.75	132,000.00	126,500.00	140,000.00	145,400.00	149,762.00	154,200.00
4. VAT Allocation	12,262.00	13,342.00	15,814.07	25,476.69	28,239.34	30,000.00	50,000.00	55,000.00	57,000.00	58,710.00	60,400.00
5. IGR	28,213.00	35,504.00	30,610.56	37,896.50	33,419.35	47,849.62	70,000.00	72,000.00	73,000.00	75,190.00	77,400.00
6. Capital Receipts	15,664.00	95,721.75	18,650.32	179,460.80	117,545.40	97,222.45	265,133.14	316,509.80	353,727.34	428,868.46	482,700.00
6.a. Grants	9,012.00	14,636.00	11,553.45	7,249.28	12,921.45	23,047.00	23,000.00	25,000.00	25,000.00	25,000.00	25,000.00
6.b. Sales of Government Assets and Privatization Proceeds	0.00	8,359.51	2,496.87	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	24,657.24	0.00	136,289.30	40,350.01	42,000.00	25,000.00	45,000.00	46,000.00	47,380.00	48,800.00
6.d. Proceeds from Debt-Creating Borrowings (bond issuance, loan disbursements, etc.)	6,652.00	48,069.00	4,600.00	35,922.25	64,273.91	32,175.45	217,133.14	246,509.80	282,727.34	356,488.46	408,900.00
Expenditure	298,750.32	324,913.01	220,897.37	336,138.90	436,047.40	682,737.67	864,633.14	946,509.80	996,127.34	1,090,630.46	1,167,400.00
1. Personnel costs (Salaries, Pensions, Civil Servant Social Benefits, other)	41,374.06	39,616.01	46,834.38	57,670.47	76,901.87	80,050.07	110,000.00	135,000.00	140,000.00	142,800.00	145,600.00
2. Overhead costs	13,703.60	13,057.69	15,666.01	41,641.90	85,909.68	157,954.44	150,000.00	175,000.00	180,000.00	183,600.00	187,200.00
3. Interest Payments (Public Debt Charges, including interests deducted from FAAC Allocation)	12,403.66	12,200.75	9,994.30	15,514.71	22,569.34	15,962.73	18,116.87	60,746.55	96,304.55	121,578.47	159,000.00
3.a. of which Interest Payments (Public Debt Charges, excluding interests deducted from FAAC Allocation)	12,403.66	12,200.75	9,994.30	15,514.71	22,569.34	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
4. Other Recurrent Expenditure (Excluding Personnel Costs, Overhead Costs and Interest Payments)	7,919.22	9,171.66	14,969.95	10,266.36	17,906.93	31,500.00	50,000.00	50,000.00	52,000.00	53,040.00	54,100.00
5. Capital Expenditure	168,170.36	197,832.59	91,450.49	167,782.76	200,281.39	355,995.48	501,500.00	495,000.00	459,220.00	468,404.40	477,700.00
6. Amortization (principal) payments	55,179.42	53,034.31	41,982.24	43,262.70	32,478.20	41,274.95	35,016.27	30,763.25	68,602.79	121,207.58	143,500.00
Budget Balance ('+' means surplus, '-' means deficit)	-7,049.68	21,157.95	-10,188.01	40,645.50	72,515.20	-124,665.60	-3,000.00	2,000.00	3,000.00	3,000.00	3,000.00
Opening Cash and Bank Balance	17,584.64	10,534.96	31,692.91	21,504.90	62,150.40	134,665.60	10,000.00	7,000.00	9,000.00	12,000.00	15,000.00
Closing Cash and Bank Balance	10,534.96	31,692.91	21,504.90	62,150.40	134,665.60	10,000.00	7,000.00	9,000.00	12,000.00	15,000.00	15,000.00

Financing Needs and Sources (Million Naira)

Financing Needs	74,175.45	242,133.14	291,509.80	328,727.34	403,868.46	457,700.00
i. Primary balance	-141,603.37	-192,000.00	-198,000.00	-160,820.00	-158,082.40	-155,000.00
ii. Debt service	57,237.68	53,133.14	91,509.80	164,907.34	242,786.06	302,600.00
Amortizations	41,274.95	35,016.27	30,763.25	68,602.79	121,207.58	143,500.00
Interests	15,962.73	18,116.87	60,746.55	96,304.55	121,578.47	159,000.00
iii. Financing Needs Other than Amortization Payments (e.g., Variation in Cash and Bank Balances)	-124,665.60	-3,000.00	2,000.00	3,000.00	3,000.00	0.00
Financing Sources	74,175.45	242,133.14	291,509.80	328,727.34	403,868.46	457,700.00
i. Financing Sources Other than Borrowing	42,000.00	25,000.00	45,000.00	46,000.00	47,380.00	48,800.00
ii. Gross Borrowings	32,175.45	217,133.14	246,509.80	282,727.34	356,488.46	408,900.00
Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)	19,305.27	54,283.29	147,905.88	113,090.94	213,893.07	245,300.00
Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSMEDF)	0.00	108,566.57	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
State Bonds (maturity 6 years or longer)	0.00	0.00	0.00	0.00	0.00	0.00
Other Domestic Financing	12,870.18	54,283.29	98,603.92	84,818.20	142,595.38	163,500.00
External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	0.00	0.00	0.00	84,818.20	0.00	0.00
External Financing - Bilateral Loans	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
Residual Financing	0.00	0.00	0.00	0.00	0.00	0.00

Debt Stocks and Flows (Million Naira)

Debt (stock)	222,764.58	252,389.15	244,342.38	204,611.43	236,263.47	229,701.13	411,818.01	627,564.56	841,689.11	1,076,969.98	1,342,210.00
External	11,560.64	14,671.62	13,535.04	15,002.52	16,998.15	18,983.14	18,447.53	17,927.99	102,242.24	101,770.65	101,300.00
Domestic	211,203.94	237,717.52	230,807.34	189,608.91	219,265.32	210,717.99	393,370.47	609,636.57	739,446.87	975,199.33	1,240,900.00
Gross borrowing (flow)						32,175.45	217,133.14	246,509.80	282,727.34	356,488.46	408,900.00
External						0.00	0.00	0.00	84,818.20	0.00	0.00
Domestic						32,175.45	217,133.14	246,509.80	197,909.14	356,488.46	408,900.00
Amortizations (flow)	94,651.60	65,373.65	39,414.20	84,505.34	46,681.22	41,274.95	35,016.27	30,763.25	68,602.79	121,207.58	143,500.00
External	973.51	421.98	425.73	189.08	495.32	552.17	535.61	519.54	503.95	471.59	490.00
Domestic	93,678.09	64,951.67	38,988.47	84,316.26	46,185.90	40,722.78	34,480.66	30,243.71	68,098.84	120,735.99	143,000.00
Interests (flow)	12,843.36	12,578.23	10,237.48	14,152.64	21,876.00	15,962.73	18,116.87	60,746.55	96,304.55	121,578.47	159,000.00
External	137.90	104.21	90.42	36.15	100.90	110.17	104.66	99.43	94.45	4,330.64	4,300.00
Domestic	12,705.46	12,474.02	10,147.06	14,116.48	21,775.10	15,852.56	18,012.21	60,647.13	96,210.10	117,247.83	154,600.00
Net borrowing (gross borrowing minus amortizations)						-9,099.50	182,116.87	215,746.55	214,124.55	235,280.87	265,300.00
External						-552.17	-535.61	-519.54	84,314.25	-471.59	-490.00
Domestic						-8,547.33	182,652.48	216,266.09	129,810.30	235,752.46	265,700.00

Debt and Debt-Service Indicators

Debt Stock as % of SGDP	6.98	4.91	3.99	3.29	4.00	2.62	4.08	5.59	6.74	7.75	8.75
Debt Stock as % of Revenue (including grants and excluding other capital receipts)	78.15	95.25	120.00	100.02	58.49	47.47	66.48	95.52	125.55	156.14	187.50
Debt Service as % of SGDP						0.65	0.53	0.82	1.32	1.75	2.00
Debt Service as % of Revenue (including grants and excluding other capital receipts)						11.83	8.58	13.93	24.60	35.20	41.25
Interest as % of SGDP						0.18	0.18	0.54	0.77	0.88	1.00
Interest as % of Revenue (including grants and excluding other capital receipts)						3.30	2.92	9.25	14.37	17.63	20.00
Personnel Cost as % of Revenue (including grants and excluding other capital receipts)						16.54	17.76	20.55	20.88	20.70	20.00

Adverse Shock Scenario is defined by the worst performance indicator measured in year 2027

For Debt Stock as % of SGDP the adverse shock is: Historical	Historical					
Debt Stock as % of SGDP		2.62	5.34	10.51	20.02	37.18
For Debt Stock as % of Revenue (including grants and excluding other capital receipts) the adverse shock is: Historical	Historical					
Debt Stock as % of Revenue (including grants and excluding other capital receipts)		47.47	94.14	171.71	291.05	466.69
For Debt Service as % of SGDP the adverse shock is: Historical	Historical					
Debt Service as % of SGDP		0.65	0.58	1.02	1.94	3.19
For Debt Service as % of Revenue (including grants and excluding other capital receipts) the adverse shock is: Revenue	Revenue					
Debt Service as % of Revenue (including grants and excluding other capital receipts)		11.83	9.53	16.31	29.09	41.82
For Interest as % of SGDP the adverse shock is: Historical	Historical					
Interest as % of SGDP		0.18	0.20	0.70	1.26	2.04
For Interest as % of Revenue (including grants and excluding other capital receipts) the adverse shock is: Historical	Historical					
Interest as % of Revenue (including grants and excluding other capital receipts)		3.30	3.47	11.37	18.32	25.63

LIST OF PARTICIPANTS

S/N	NAMES	DESIGNATION	MDA'S
1.	Mr. Xavier Essien	Head	AKS DMO
2.	Mr. Mfon J. Udoma	State Focal Person AKS SFTAS Programmes	Office of the Accountant General
3.	Mrs. Josephine Ebe	Asst. Chief Accountant	Office of the Accountant General
4.	Mrs. Imaobong Ekarika	Principal Accountant	AKS DMO
5.	Mr. Uduak David	Senior Accountant	AKS DMO
6.	Mrs. Uduak Philip	Senior Planning Officer	AKS DMO



Dr. Nsikan L. Nkan
Honourable Commissioner
Ministry of Finance