ENUGU STATE GOVERNMENT

REPORT OF THE

2021 DEBT SUSTAINABILITY ANALYSIS-DEBT MANAGEMENT STRATEGY

DECEMBER, 2021

TABLE OF CONTENT

PREFACE

The 2021 Debt Sustainability Analysis (DSA)-Debt Management Strategy is the second official detailed debt sustainability analysis of Enugu State Government to be documented.

The document is a product of the Enugu State Debt Management Office assisted by the offices of the State Accountant General, Ministry of Budget and Planning, Ministry of Finance and Economic Development at large, State Internal Revenue Service, and Enugu State Bureau of Statistics.

The inputs from these Ministries, Departments and Agencies contributed immensely in making the Enugu State 2021 Debt Sustainability Analysis –Debt Management Strategy a complete whole and a veritable tool for the state fiscal planning.

ACRONYMS

AFDI Agence Francais du Development Internationale (French Agency for International Development.

DSA	Debt Sustainability Analysis
DMS	Debt Management Strategy
FAAC	Federal Accounts Allocation Committee
FGN	Federal Government of Nigeria
FMFBNP	Federal Ministry of Finance Budget &National Planning
GDP	Gross National Product
GIS	Geographical Information System
IDA	International Development Association
IGR	Internally generated Revenue
MDA	Ministries, Departments and Agencies
MSMEDF	Micro, Small and Medium Enterprises Development Fund
NGN	Nigeria Naira
NEWMAP	Nigeria Erosion and Water Shed Management Project
PPP	Public Private Partnership
SFTAS	States Fiscal Transparency Accountability and Sustainability
USD	United States of America Dollar
VAT	Value Added Tax

I. INTRODUCTION

The Enugu State 2021 Debt Sustainability Analysis (DSA)- Debt Management Strategy analyses trends and patterns in the state's public finances during the period 2016– 2020 and evaluates the debt sustainability in 2021-2030. The analysis highlights recent trends in revenue, expenditure and public debt and the related policies adopted by the State. A debt sustainability assessment is conducted including scenarios and sensitivity analysis in order to evaluate the prospective performance of the state's public finances.

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

From the result of the Debt Sustainability Analysis –Debt Management Strategy and given the State's own forecasts for the economy and reasonable assumptions concerning the State's revenue and expenditure policies the 2021- 2030 outlook for public debt exhibits a solid profile that appears sustainable. This solid debt position results from the state's strong performance in terms of mobilization of Internally Generated Revenue (IGR) underpinned by the successful tax reforms introduced recently by the State Internal Revenue Service and enhanced by the State Fiscal Transparency Accountability and Sustainability (SFTAS) encouraged property tax collection mechanism.

Also are the State's control of recurrent expenditure growth, moderation of capital expenditure measures and its low level of carrying-public debts.

The state pursues a prudent debt management strategy that maintains an adequate cost of carrying debt and an admissible exposure to risks. This prudent debt management stems from the state's reliance on a mix of sources of finance, including external concessional loans and domestic low low-cost financing.

Given the state's own forecasts for the economy derived from the Federal Government Medium Expenditure Framework, and reasonable assumptions concerning the state's budget and financing policies going forward, the medium-term cost-risk profile of public debt portfolio appears consistent with debt management objectives.

2. STATE FISCAL AND DEBT FRAMEWORK

For the past five years, 2016-2020, the State has designed and implemented an aggressive Internally Generated Revenue (IGR) policy which has been yielding dividends while holding expenditure almost constant. This is evidenced by the consistent growth witnessed in IGR within the last five years. It is expected that the growth in the IGR will continue in future having into bear the current on-going application of Geographical Information System (GIS) by the SFTAS programme to improve state property records for taxation.

However, the recent national minimum wage increase implemented in 2021 with it's consequential adjustment is likely to affect personnel expenditure pattern from 2021 onwards.

The State fiscal and debt framework is based on key macroeconomic indicators which are usually used to evaluate the performance of an economy. The macroeconomic framework exhibits the benchmarks (oil production, price, real GDP growth, national Inflation and NGN: USD exchange rate) as laid down in the Federal Government Medium Term Expenditure Framework for the period 2022-2024.

The FGN figures represent a prudent macroeconomic framework from which the Enugu State Medium Term Fiscal Framework is drawn. The table below shows the forecast of the National Macroeconomic indicators which are also applicable to Enugu State Government.

Table I Key Macroeconomic Indicators

INDICATORS	2020 Budget	2020 Actual	2021 Budget	2021 Reversed Forecast	2022	2023	2024
GDP Growth%	-4.15	-1.90	3.00	2.50	4.20	2.30	3.30
Inflation %	14.15	13/20	11.95	15.00	13.00	11.00	10.00
Exchange Rate(NGN:USD FX Rate)	360.00	379.00	379.00	410.15	410.15	410.15	410.15
Oil Price(USD/b)	28.0	43.0	40.0	40.0	57.0	57.0	55.0
Oil Production Volume(mbpd)	1.80	1.79	1.86	1.86	1.88	2.23	2.22

Source: Nigeria 2022-2024 MTEF

Enugu State Fiscal Policy, Objectives and Targets

The State Government's Medium Term Fiscal Policy aims at:

i. improving the efficiency and effectiveness of spending through better expenditure supervision and control

ii. gradual fiscal consolidation through improved prioritization of public expenditures, including focusing capital expenditure on critical infrastructure administration

iii. achieving a better balance between capital and recurrent expenditure

iv. boosting revenue receipts by reviewing tax policy and strengthening tax administration, including identifying and plugging revenue leakages and

v. borrowing at lowest cost and lowest risk to achieve overall macroeconomic stability and debt sustainability.

In order to achieve the above, the State Government has a set of determined specific fiscal policy objectives and targets which includes:

a. IGR growth rate increased to meet IGR target of 50% of the total resource envelope by 2015.

b. Maintain budget performance of not less than 90% (budget: actual).

c. Debt service charge to total revenue maintained at below 10%.

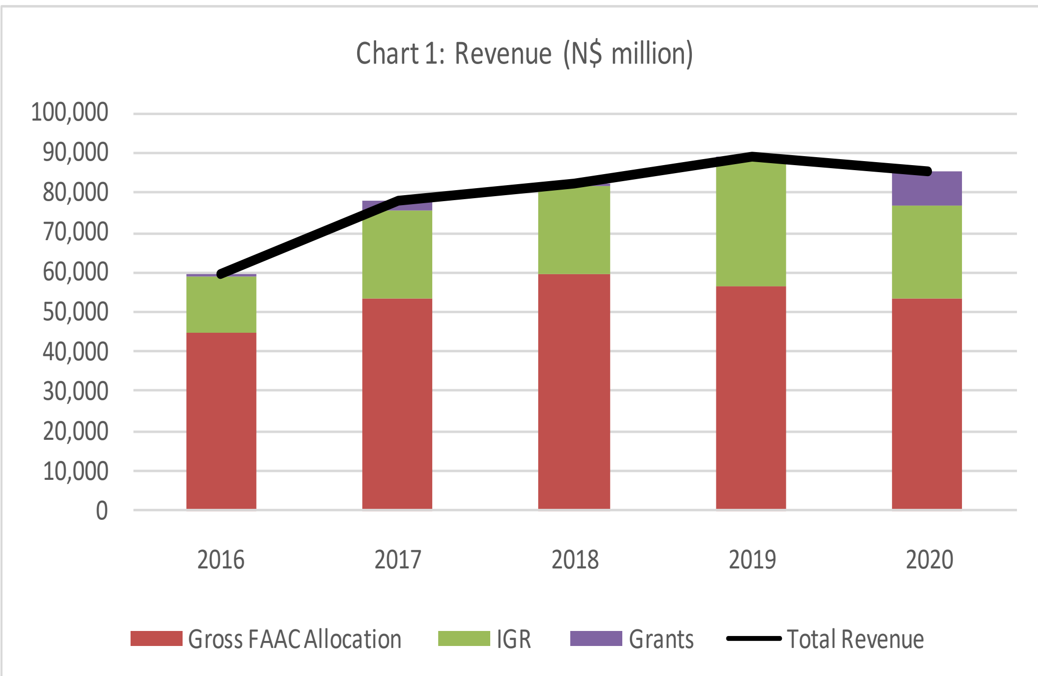
d. Maintain the capital expenditure to recurrent expenditure ratio at 60:40.

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

3.1. REVENUE, EXPENDITURE, OVERALL AND PRIMARY BALANCE

Revenue:

The State revenue profile in the period under review (2016-2020) is as represented in **Chart1** below.



From the Chart, aggregate revenue increased in 2017 and 2019 respectively and dropped in year 2020 due to sharp decline in receipts from Federal allocation- (N42,410m in 2019 to N34,088m in 2020).

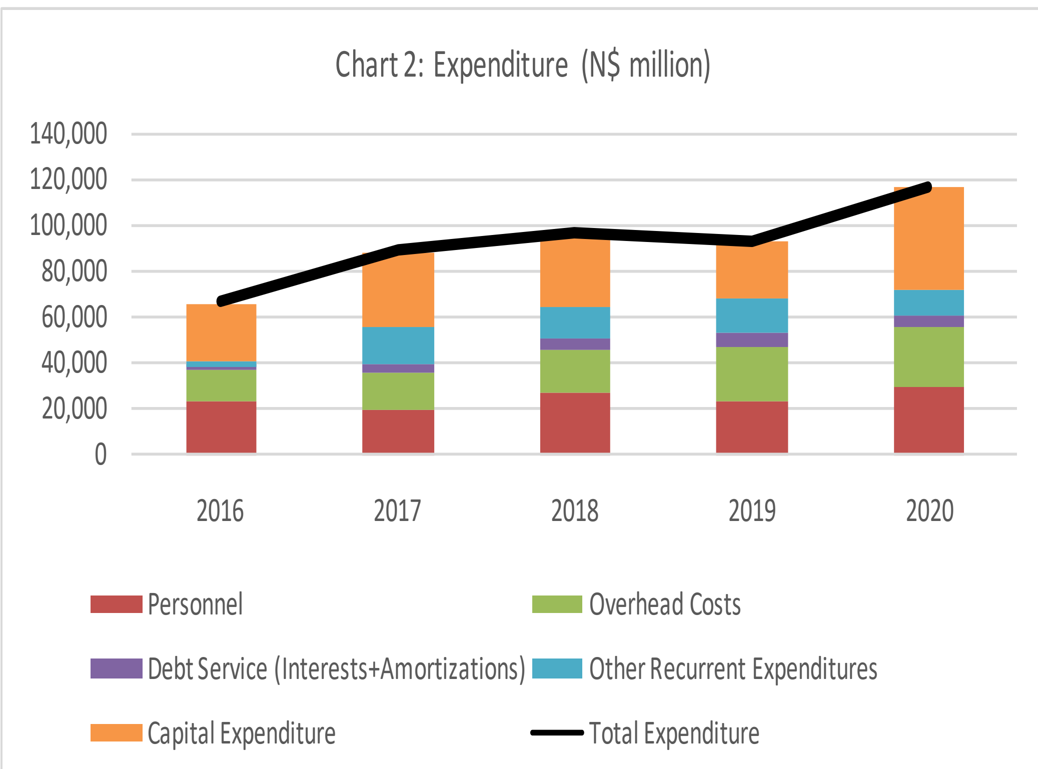
The total revenue was N70,616.5m in 2016 which increased by 37% to N96,424.5m in 2017. This amount reduced to N87,095.6m or by 10% in 2018. The total revenue progressively increased to N103,136.1m in 2019 or by 19% over 2018 figure. The decrease from N103,136.1m to N101,998.6m (or by 2%) in 2020 due to sharp decrease in Federal transfers.

While Federal transfers contributed on the average 40.4% to the total revenue in the period under review, there was a sharp decline in FAAC transfers in 2020(34% of total revenue) due to lower crude oil receipts occasioned by the COVID- 19 pandemic.

The average contribution of IGR to the total revenue in the period under review is 24.8%. However, while the IGR yearly contribution increased progressively from 21% in 2016 (23% in 2017, 25% in 2018) to 31% in 2019 , it dropped to 24% in 2020 due to COVID-19 pandemic. Though the IGR growth rate in the period under review have not been even, 55% in 2017, -2% in 2018, 44% in 2019 and -24% in 2020, the improvement in tax administration reforms, effective and efficient tax collection system and plugging of revenue leakages, which started yielding dividends in 2019 will increase IGR generation going forward.

Expenditure

The State expenditure trend in the period under review is as depicted in **Chart 2** below.



From Chart 2 above, aggregate expenditure increased progressively over years from 2016 to 2018 with a drop in 2019. This increased again in 2020 to N116749.1m or by 275% in 2020. Recurrent expenditure (personnel and overhead costs plus interest payments) has been on increase over the analyzed period maintaining 60%, 62%, 66%,72%% and 61% of the total expenditure in the consecutive years with a growth rate of 15% in 2020.

Capital expenditure on the other hand has been volatile over the review period contributing on the average 35.6% of the total expenditure over the period or 40%, 38%, 34%, 27% and 39% of the expenditure in each individual year (2016-2020).

Over the review period, the cost of running Government activities (overhead) has been on a steady increase culminating on a growth rate of 7% in 2020. The main expenditure variations in the period under review were in personnel cost and capital expenditure. Personnel cost showed variability over the review period with a marked increase of 31% in 2020 over the 2019 figure due to the implementation of the national minimum wage. The personnel cost decreased by 15% in 2017 and increased by 35%, in 2018 and decreased again by 16% in 2019.

Capital expenditure has not showed any definite pattern over the review period. However, there was a marked increase by 82% over 2019 figure showing the State Government new policy to focus on the provision of critical infrastructure in the State.

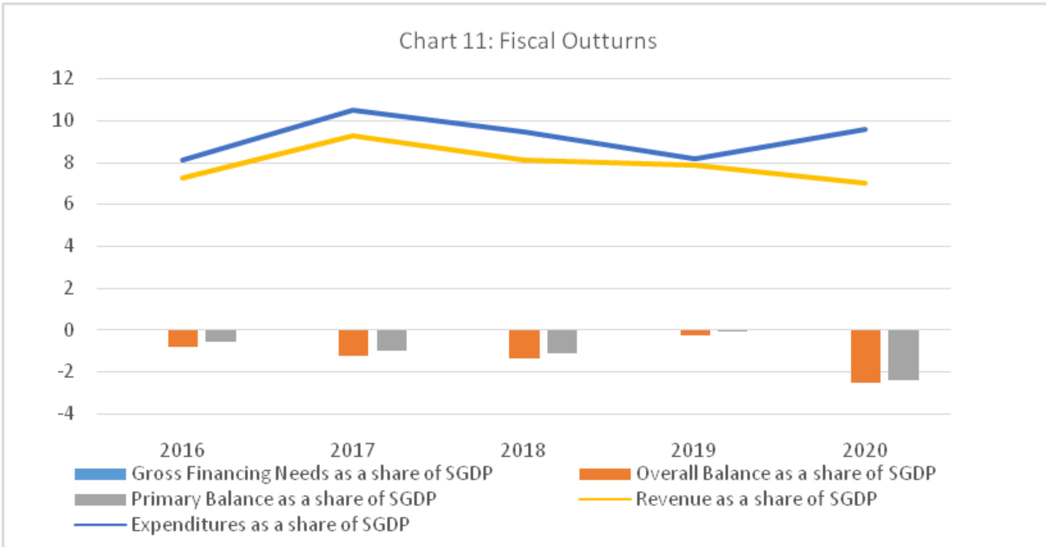


Chart 11 above shows the position of overall and primary balances over the review period. On the average, the overall balance continues decreasing during the period under review from N3697.3m or .5% of State GDP to .9% of the State GDP or N7991.5m in absolute term in 2017. This went into deficit of 1.13 of SGDP in 2018 decreased sharply in 2018 but increased marginally in 2019 only to revert to deficit of 1.2% of the State GDP in 2020. The primary balance followed the same trend with the overall balance during the period under review.

3.2. EXISTING PUBLIC DEBT PORTFOLIO

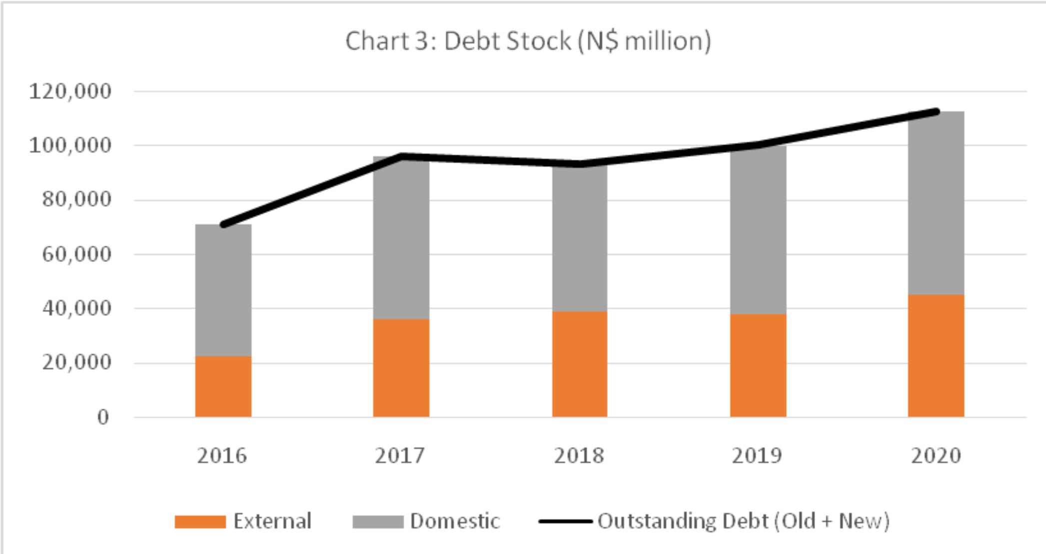
The State public debt includes the explicit financial commitments like loans and securities that have paper contracts instrumenting the government promises to repay.

The State public debt came into being due to fiscal deficits which exists over period 2016 to 2020. Total revenue (including federal transfers, grants and IGR) has been in shortfall compared to State Government aspirations to provide needed services to the people. The decrease in Federal transfers was aggravated by the recession of 2016 in the which affected FAAC allocations and hence increased need for borrowing.

Below is the historical debt stock table II, 2016 to 2020, reflected in the accompanying Chart 3.

TABLE II HISTORICAL DEBT STOCK

S/Nº	DESCRIPTION	2016 ₦'00,000	2017 ₦'000,000	2018 ₦'000,000	2019 ₦'000,000	2020 ₦'000,000
1.	External Debt	18,635.52	36,114.98	38,680.30	40,880.40	44,725.90
2.	Domestic Debt	48,417.54	59,746.1	54,612.6	61.928.7	67,676.20
3.	TOTAL	67,053.06	95,861.08	93,292.90	102,809.10	112,402.10
4.	% of Domestic Debt	72.21	62.45	58.54	60.24	60.20
5.	% of External Debt	27.79	37.55	41.46	39.76	39.80
6.	$ Exchange Rate as in Template	253	306	307	326	379



As can be seen from the debt stock table and **Chart 3**, the State public debt has been on the increase from 2016 (with a drop in 2017) culminating in a total debt stock of N112,402.10m by the year 2020. At year-end, external debt stood at N44,725.90mor39.80% of the outstanding public debt while domestic debt was N67676.2m, or 60.20 %of the total debt which increased by 9.3% of 2019 figure.

The public debt growth in the period under review was caused mainly by Federal Government guaranteed loans due to the collapse of oil prices. These loans include: salary bailout, excess crude facility and the budget support facility whose draw down spread through the years.

By end of the year 2020, the outstanding public debt comprised largely of domestic loans 60.2% and external debt 39.80%. This is further broken down into AFD loan 1.92% of the total loan outstanding and IDA loans 37.87 %.

Details of the domestic loans are: budget support facility 18.93% of total debt, excess crude loan 8.03%, restructured commercial bank loan 4.90%, salary bail – out facility 3.38%, commercial bank loans .19% and micro, medium and small enterprises fund .11%

Out of the N67,676.20m domestic debt 99.69%% is Federal Government guaranteed loan with average interest rate of 9% in 2019-2020 and average maturity period of 18 years. Thus, Enugu State holds low cost, low risk debt portfolio as at end of 2020 and debt service represented 4.6% of the State total revenue in 2020. Though the debt portfolio is narrowly exposed to currency fluctuations, such exposure is limited because the foreign currency -denominated loans are only 39.8% of the total loan stock.

About 99.7% of internal loans and all external loans are fixed –rate obligations, thus not affected by changes in interest rates. Because the loan stock principally comprised external loans have maturities running from 15-35 years and financing from Federal Government, rollover risk associated with potential deterioration of domestic financial conditions is negligible.

4. DEBT SUSTAINABILITY ANALYSIS

The concept of debt sustainability refers to the ability of the government to honour 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 actions to address the unwanted consequences of a heavy debt burden.

Table III Debt Burden Indicators and Enugu State Government Performances (historical only).

	Debt Burden Indicators	Threshold	Enugu State Performances				
			2016	2017	2018	2019	2020
1.	Debt/SGDP	25%	9%	12%	10%	9%	10%
	Debt/Revenue	200%	95%	100%	108%	100%	111%
3.	Debt Services/Revenue	40%	3.00%	3.24%	13.62%	4.82%	3.61%
4.	Personnel Cost/Revenue	60%	33.70%	21.21%	32.66%	22.50%	29.69%
5	Debt service/FAAC Allocation	-	7.33%	8.79%	27.85%	12.00%	10.81%
6	Interest Payment/Revenue	-	.29%	.29%	.39%	.35%	.18%
7	External debt service/Revenue	-	.75%	.57%	.74%	.82%	.56%

Table **III** represented graphically in Charts 6-above shows the debt burden indicators with and without thresholds over the review period 2016-2020, and Enugu State performances. Given the performances and the trend to continue in subsequent years, Enugu State public debt is sustainable.

The analysis of the projections (forecast period) is as presented in chapters 4.3 and 4.4 respectively.

Chart 6: Debt Stock as a share of SGDP

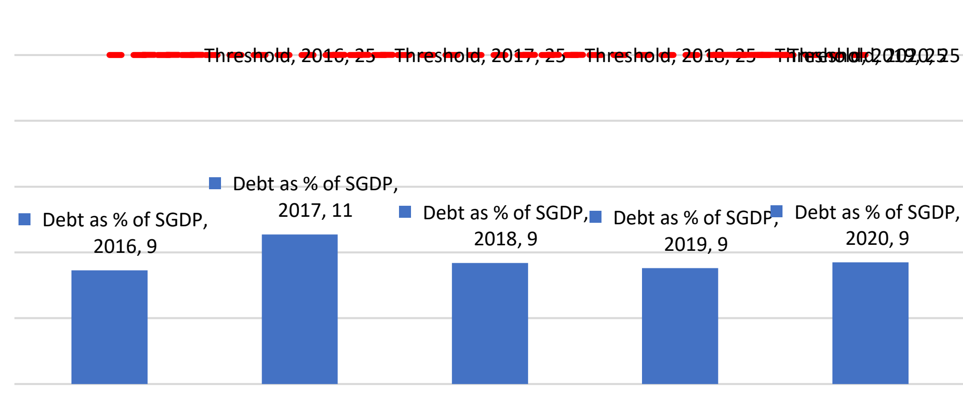
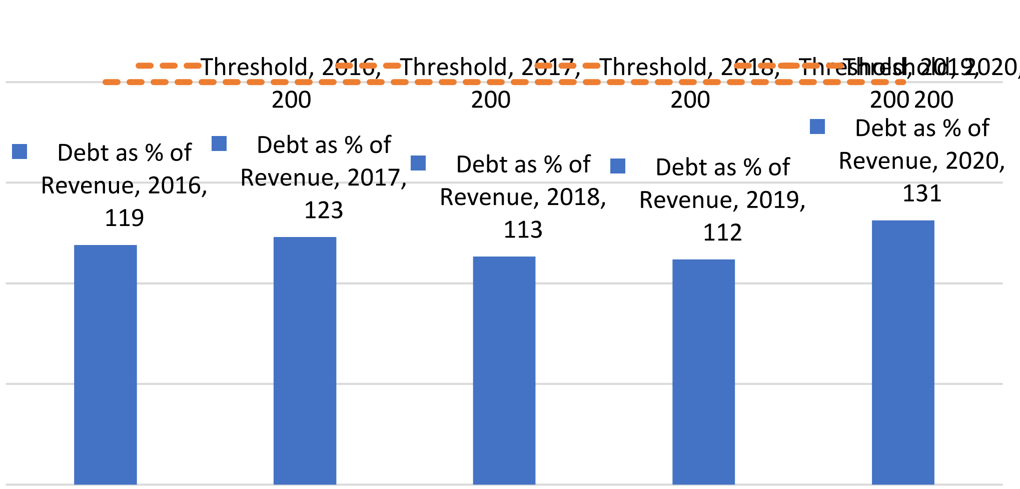


Chart 7: Debt Stock as a share of Revenue



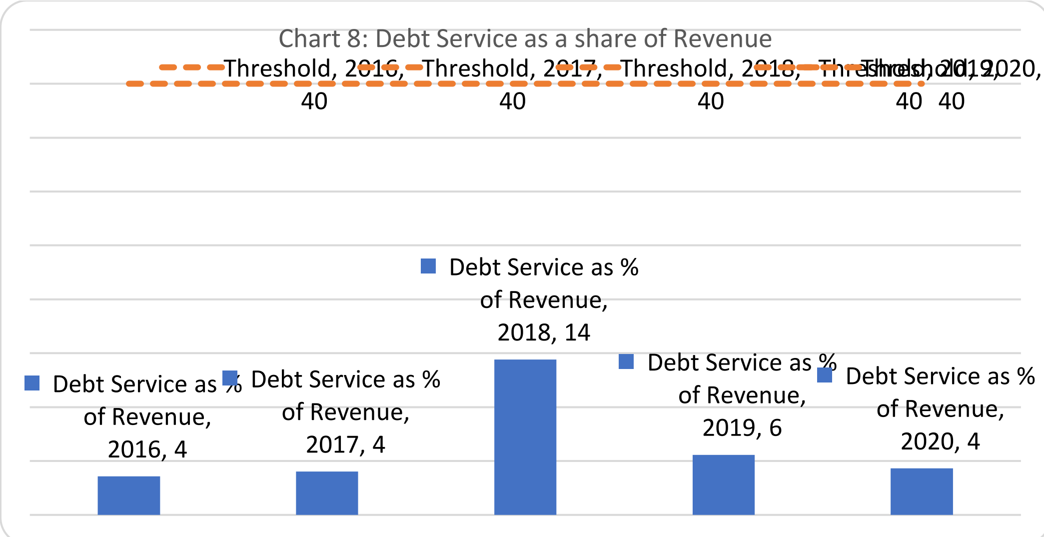


Chart 8: Debt Service as a share of Revenue

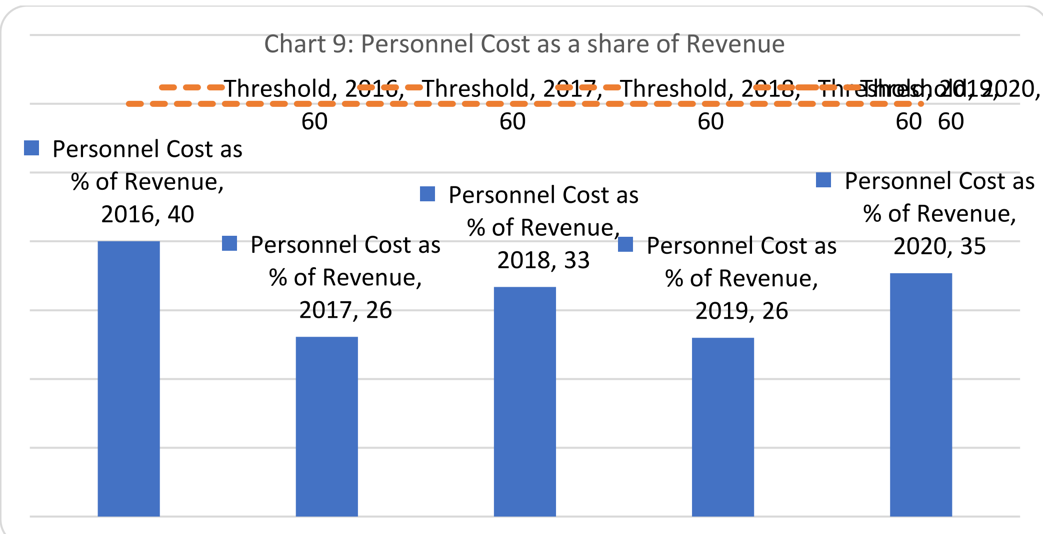


Chart 9: Personnel Cost as a share of Revenue

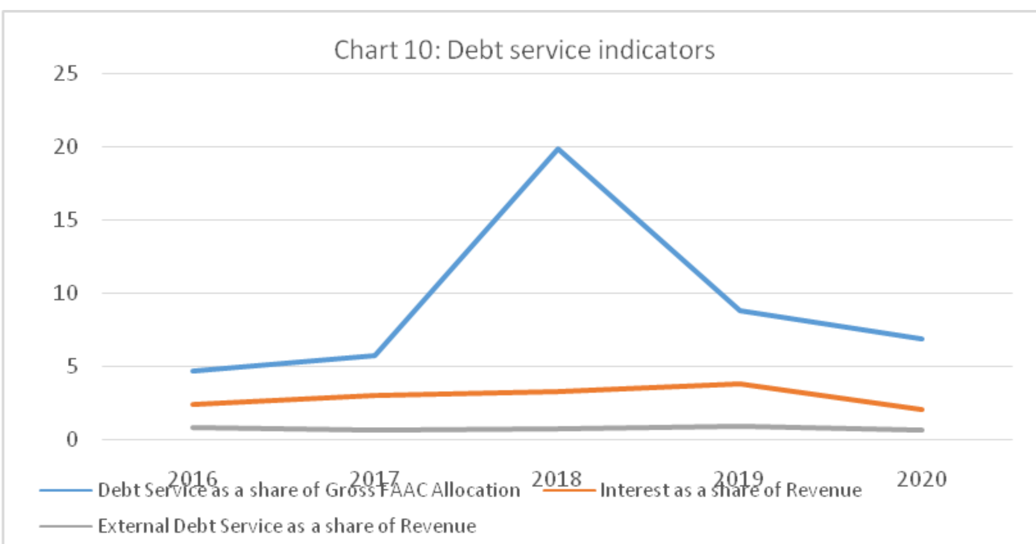


Chart 10: Debt service indicators

4.1. MEDIUM – TERM BUDGET FORECAST

The state’s medium-term debt sustainability is predicted upon a gradual recovery of the Nigerian economy that will increase FAAC statutory allocation. According into the Federal Government and State own forecasts, the Nigerian economy is expected to gradually recover in the period 2022-2024, with real GDP expanding at an average annual rate of 3% and domestic inflation decreasing below 10% by 2023. Such a moderate recovery will be supported by higher oil prices in the global market, an increase in domestic production, prudent fiscal policy, and higher stabilization of the exchange rate relevant for international public sector financial transaction at its current level. Oil and gas revenue, as well as shared resources such as custom duties and VAT, would then increase relative to the depressed levels observed in 2020, thus improving the State’s revenue position.

Assumptions

The assumptions underlying the State Medium Term Budget forecasts are basically premised on the national key macroeconomic indicators. The national revenue projections are usually predicted on fiscal projections, which also have major effect on revenue projections accruable to the States and Local Governments. Thus, the Federation Allocation accounts for about 70% of the aggregate resources envelope of the State.

Accordingly, reliance was made on the assumptions by the Debt Management Office/World Bank on key variables in the suggested figures for GDP, FAAC and VAT for states to use in the forecast period. These projections are consistent with the nominal GDP forecast for 2021-2030 and the Federation DSA 2020 and Enugu State used those figures.

However, assumptions for the State MTEF, derived from that of the Federal Government on IGR and other items in the forecast are valid.

Table **IV** below highlights Enugu State key macroeconomic framework, for the forecast period.

Table IV Enugu Macroeconomic framework

ITEM	2022	2023	2024
National real GDP growth	4.20%	4.30%	3.30%
National inflation	13%	11%	10%
NGN:USD Exchange Rate	410.15	410.15	410.1557
Oil Price Benchmark	57	57	57
Oil Production Benchmark	1.88	2.23	2.22

FAAC& VAT

Revenues: The State revenue projections comprise 70% (i) Gross statutory Allocation and (ii) Value Added Tax (VAT), as Enugu State has no share in Derivation. Projections start from the aggregate Federation projection that are consistent with the nominal GDP forecast for 2021-2030 and the Federation DSA 2020. State allocations for each of these components are estimated using formulas based on fixed shares (Gross Statutory allocation) or historical shares (VAT).

IGR

In recent years, efforts have been made by the State Government to diversify its sources of revenue in order to ensure adequate resources to deliver dividends of democracy o the people. This culminated to the State IGR, hitting N32bn in 2019 – the highest ever. This was made possible by the efforts of the present administration, which includes total overhaul of the structure of the State Internal Revenue Service, as well as its staff followed by full digitalization of the revenue collecting system of the State and the adoption of treasury single account to plug revenue leakages. Investments in key state economy were also pivotal to the IGR growth and these scenarios are expected to continue over the forecast period to boost IGR in the State.

Personnel Cost

The personnel cost included in the forecast period is derived from analysis of the actual personnel cost incurred due to the implementation of the recent minimum wage by the State and the expected personnel cost 2021-2030 including wages for new recruits and officers to replace retired personnel. The State assumed that the regime of the current minimum wage will continue throughout the plan period.

Overhead costs

Overhead expenditure is the operational and maintenance cost of running Government activities. It has been the policy of the present Government to scale down expenditure on overhead to make available resources for developmental projects as reflected in State. Thus, forecast overhead moderates over the review period in relation to total revenue accruable per year.

Capital Expenditure

The capital expenditure forecast over the period 2022-2030, was after a careful review and analysis of the actual capital expenditure trend 2016-2020, the Government policy to focus more on developmental projects than recurrent expenditure (personnel and overhead). More importantly, reliance on forecast revenue by the FGN (based on projection that are consistent with the nominal GDP forecast for 2021-2030), that will accrue to the State over the forecast period.

Enugu State Medium Term Fiscal Framework.

FISCAL FRAMEWORK	2021 Approved Budget	2022 Projection	2023 projection	2024 projection
	₦'000	**₦'000**	**₦'000**	**₦'000**
Opening Balance	**15,000,000**	**15,000,000**	**15,000,000**	**15,000,000**
Recurrent Revenue				
Statutory Allocation	42,800,000	44,300,586.703	45,333,775.828	46,832,623.094
VAT	20,100,000	20,638,541.783	23,174,368.930	26,055,813.255
IGR	29,200,000	29,429,208.016	31,585,052.881	34,811,508.416
Excess Crude/Other Revenue	2,980,000	2,980,000	1,000,000	1,000,000
Total Recurrent Revenue	**95,080,000**	**97,348,336.503**	**101,093,197.639**	**108,699,944.766**
Recurrent Expenditure				
Con. Rev Fund Charges	12,591,400	12,569,403.443	12,141,852.102	11,781,818.344
Personnel	31,110,360	33,071,039.054	34,063,170.225	35,085,065.332
Overheads	25,009,240	24,785,615.351	25,033,471.504	23,030,793.784
Total	**68,711,000**	**70,426,057.849**	**71,238,493.832**	**69,897,677.461**
Transfer to Capital Account	**41,369,000**	**41,922,278.654**	**44,854,703.806**	**48,802,267.305**
Capital Receipts				
Grants	19,040,000	16,140,000	16,565,097	17,400,000
Other Capital Receipts	2,500,000	2,500,000	2,202,000	2,202,000
Total	**21,540,000**	**18,640,000**	**18,767,097**	**19,602,000**
Reserves				
Planning Reserve		5,331,736.719	5,449,308.048	5,706,256.038
Total Reserves		**5,331,736.719**	**5,449,308.048**	**5,706,256.038**
Capital Expenditure	**101,134,758.5**	**83,530,541.935**	**85,372,492.758**	**89,398,011.266**
Discretional Funds		57,390,541.935	58,705,395.758	62,896.011.266
Non Discretional Funds		26,140,000	26,667,097	26,502,000
Net Financing	**38,225,758.5**	**28,300,000**	**27,200,000**	**26,700,000**
Total Budget Size	**169,845,758.5**	**159,288,336.503**	**162,060,294.639**	**165,001,944.766**
Ratios				
Growth in recurrent Revenue		2.39%	3.85%	7.52%
Growth in recurrent Expenditure		2.50%	1.15%	-1.88%
Capital Expenditure Ratio		55.79%	56.04%	57.64%

NOTE: The Medium-Term Budget (MTB) is an expression of the State Government's public policy for the near future taking into consideration the necessary underlying assumptions. There are few instances where the MTB forecast above slightly differs from the figures adopted for the baseline projections.

It is largely due to the adjustments made in relation to inflation and rising crude oil prices in the global market.

From the analysis of the MTB forecast the State preserves debt sustainability throughout the period under review, and in order to ensure the availability of resources to implement the MTEFthe State shall adopt the following:

i. Improve Accountability and Transparency: Running a transparent government that ensures accountability and reduce opportunistic behaviour as a result of information availability and information sharing.

ii. Increase Public Revenue: Creation of a sustainable system of revenue generation for the State by increasing internally generated revenue and improving the viability of the State as a "stand alone" entity that can on the back of it'sown revenue, raise capital and receive support from development institutions.

iii. Rationalize Public Expenditure: Rationalize every Naira of public expenditure by establishing and implementing systems aimed at improving efficiency, reducing costs and plugging leakages.

4.2. BORROWING OPTIONS

Enugu State borrowing options 2021 -2030 are based on the assumptions made in 4.1 above and the result of the State forecast revenue and expenditure over the review period using suggested revenue variablesin the forecast period.

Borrowing Terms.

Borrowing Terms of New Debt (issued/contracted from 2021 onwards)

Borrowing Terms for New Domestic Debt (issued/contracted from 2021 onwards)	Interest Rate (%)	Maturity (# of years)	Grace (# of years)
Commercial Bank Loans (maturity 1 to 5 years, including Agric Loans, Infrastructure Loans, and MSMEDF)	14.00%	5	0
Commercial Bank Loans (maturity 6 years or longer, including Agric Loans, Infrastructure Loans, and MSM	9.00%	7	0
State Bonds (maturity 1 to 5 years)	12.00%	5	1
State Bonds (maturity 6 years or longer)	11.00%	7	1
Other Domestic Financing	15.00%	3	0
Borrowing Terms for New External Debt (issued/contracted from 2021 onwards)	**Interest Rate (%)**	**Maturity (# of years)**	**Grace (# of years)**
External Financing - Concessional Loans (e.g., World Bank, African Development Bank)	1.00%	35	7
External Financing - Bilateral Loans	3.00%	30	7
Other External Financing	3.00%	25	7

Borrowing Projections (baseline scenario)

Years	2021	2022	2023	2024	2025
	N'000,000	N'000,000	N'000,000	N'000,000	N'000,000
Borrowing Rqmt	4,850.2	27,713.9	15,643.6	15,533.7	22,266.5
Debt Stock	110,140.3	106,970.4	103,711.7	100,448	97,109.5
Debt/Revenue	90.90	107.05	110.54	107.53	111.07
Debt Service /Revenue	4.79	6.61	7.66	9.94	12.06
Debt /SGDP	7.92	8.61	8.43	8.2	8.08

Years	2026	2027	2028	2029	2030
	N'000,000	N'000,000	N'000,000	N'000,000	N'000,000
Borrowing Rqmt	17,160.6	5,004.9	8,302.0	8,013.2	3,357.7
Debt Stock	94,055.9	191,003.3	188,026.5	85,010.8	81,957.2
Debt/Revenue	109.19	103.61	92.85	80.22	72.04
Debt Service /Revenue	12.19	13.20	11.94	10.41	9.38
Debt /SGDP	7.67	6.72	5.98	5.30	4.58

Under baseline scenario debt strategy (S1), and on yearly basis, there is a fiscal deficit, which the State intends to fund through borrowing. Aside year 2021, where the required borrowing will sourced only from commercial banks, the required borrowings for the subsequent years, throughout the planned period are expected to come from commercial bank loans at 14% (maturity 1-5 years), issuance of State bonds at 11% (maturity 6 years and above with a grace period of 1 year) and draw-down from concessional external loans in USD at 1% (maturity 35 years with a grace period of 7 years).

2021 deficit of N4,850.2m will be funded entirely by borrowing from commercial banks. In 2023, the deficit of N27,713.9m will be funded by issuance of State bond to the tune of N15,000m, draw dawn of USD33.00m from external loans and N206.9m from commercial bank. There is N15,643.60m in2024 which will be funded through commercial bank loan N643.6m and issuance of State bond of N15,000m. N 15,533.7m in the year 2024 will be funded by draw down of USD27.00m from external loan agreement already signed and N5,300.70m from commercial banks.

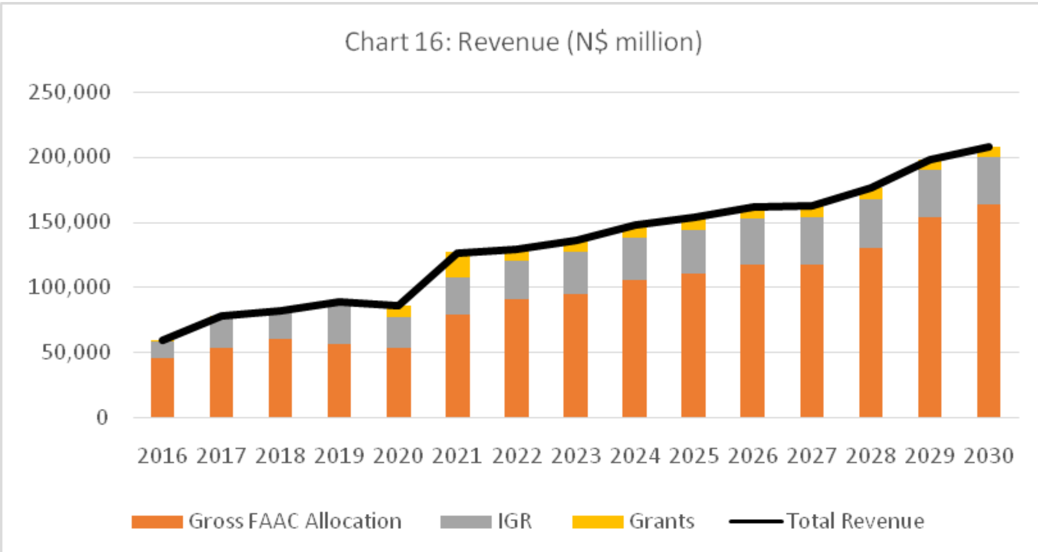
It is expected that in 2025, there will be a deficit of N22,266.5m, to be financed through the issuance of State bonds N10,000m, draw-down from external loan USD27.00m and facilities from commercial bank N3,549.50m. In 2026, N17,160.6m will crystallize as the fiscal deficit which will be finance d by draw-down from external loans USD26.00m and commercial bank loans of N7,306.60m. 2027 is to witness a shortfall of N5,004.90m. This amount will be funded by draw down from external loan USD8.00m and N1,972.90m from commercial banks.

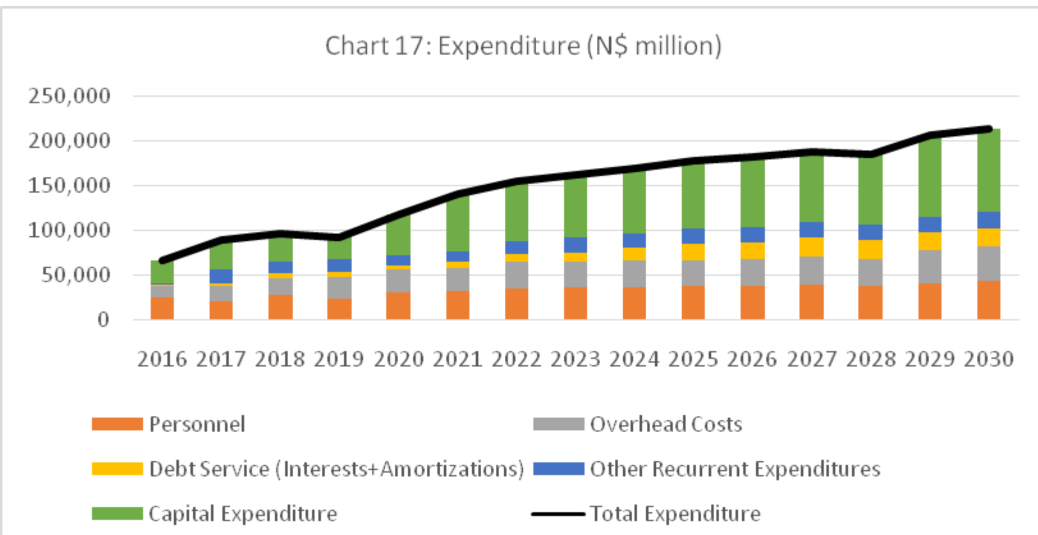
In 2028, there will be a deficit of N8,302.00m. This will be financed by the issuance of N5000.00m State bond, USD6.00m from external loan draw- down and N1,028.0m from commercial banks.In 2029 N8,013.20m will be the fiscal deficit, to be financed by USD4.00m and N6,497.2m from commercial banks.2030 shall witness a reduced deficit of N3,357.70m which will be financed entirely by loans from commercial banks at 14% as well.

4.3. DEBT SUSTAINABILITY ANALYSIS SIMULATION RESULTS

As shown in **Chart 16** and **Chart 17** below, in the baseline scenario under the reference debt strategy (S1), Enugu State preserves debt sustainability. The total revenue (including grants and excluding other capital receipts) is expected to increase from N101,998.60 million in 2020 to N206,523.00 million by 2030 (Chart 16). In same manner, total expenditure will expand from N116,749.10 million in

2020 to N193,100.00 million by 2030 **(Chart 17)**. Therefore, the fiscal deficit – computed as the difference between revenue and expenditure is expected to remain within a range of N14,750.50 million to N13,423.00 million in nominal terms as compared to the 2020 deficit of N14,750.50 million.





Below are **Charts 18, 22** and **23.**

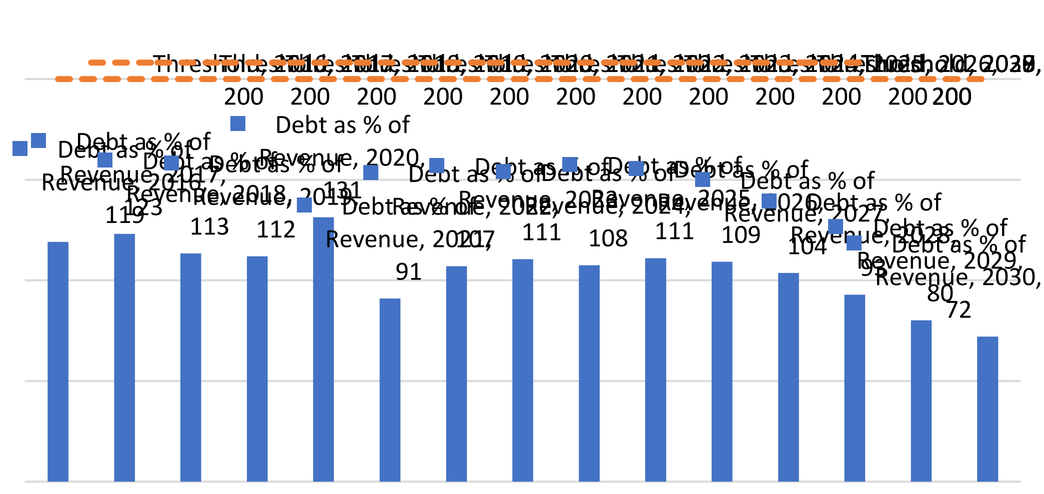
As evidenced by Chart 22 and Chart 23, due modest increase in investment and external borrowings, the State public debt will decline and debt stock to total revenue ratio will improve **(Chart 22)**. The state repayment capacity will rise.

Debt is projected to rise from N112,402.10 million as of end 2020 to about N145,000.00 million by 2030**(Chart 18)**. However, relative to the states repayment capacity, the public debt position will improve. It is expected to improve from 111% in 2020 to 70.21% in 2030 with debt service as a share of revenue of about 8% by the year 2030 (Chart 23), a huge deviation from the threshold of 40%.

Though personnel cost as a share of revenue has no specific threshold, the analysis shows that the personnel cost as a share of total revenue will reduce from 38% in 2020 to 20% by 2030.

As the fiscal deficit stabilizes in nominal terms over the projected period and the public debt ratio improves, the analysis of the baseline scenario under the reference debt strategy (S1) suggests that the State will be able to preserve the sustainability of its debt in the medium term.

Chart 22: Debt Stock as a share of Revenue



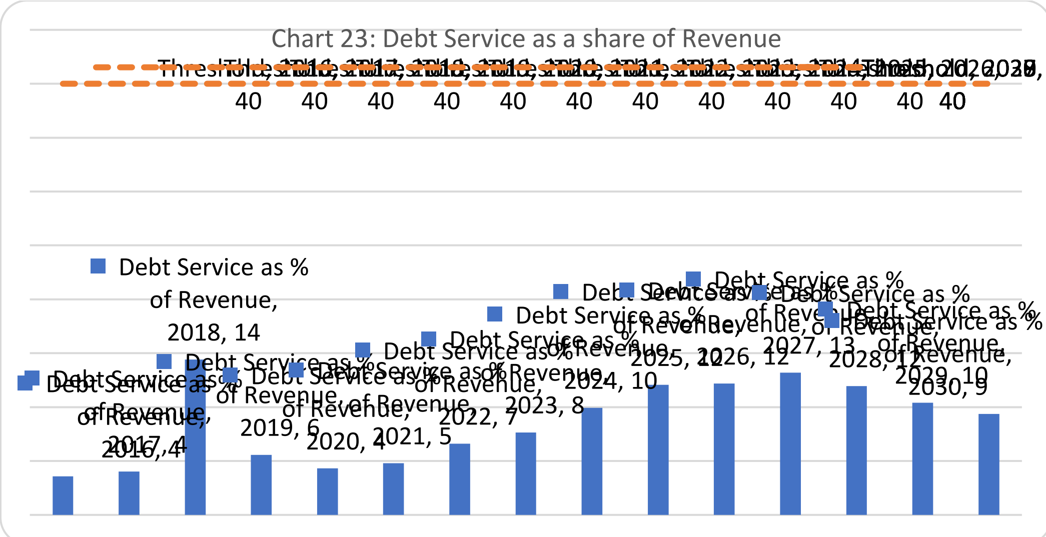


Chart 23: Debt Service as a share of Revenue

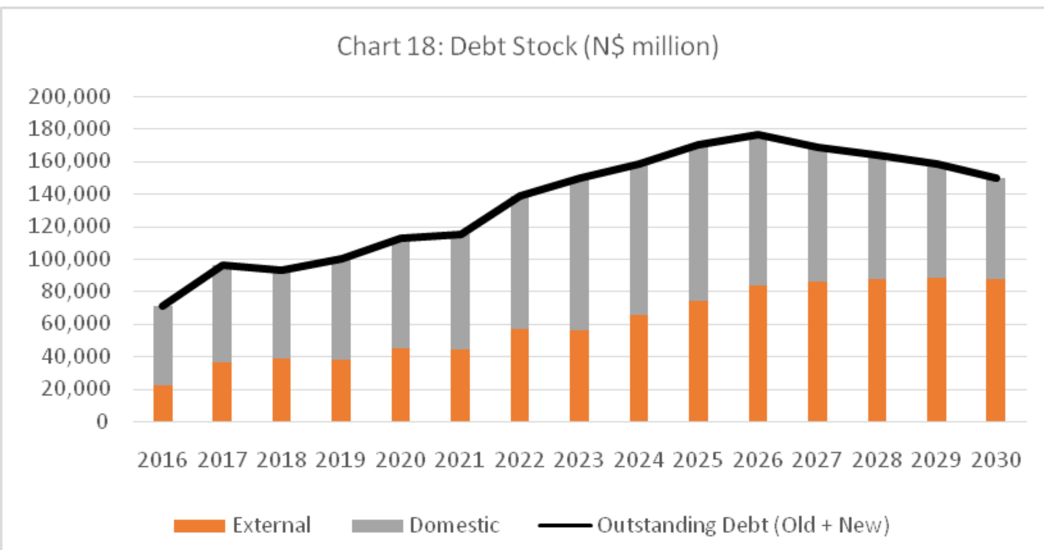


Chart 18: Debt Stock (N$ million)

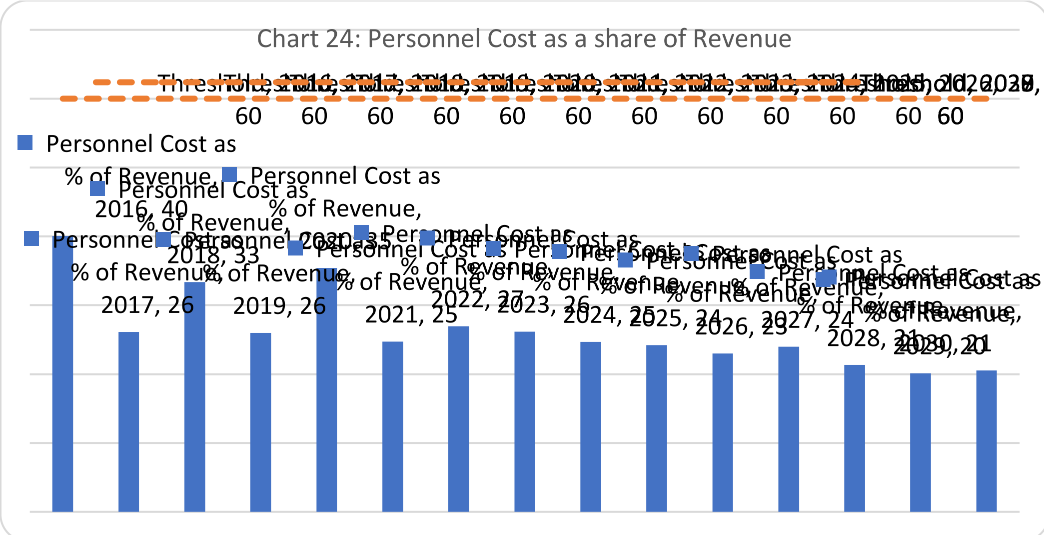


Chart 24: Personnel Cost as a share of Revenue
60
Personnel Cost as % of Revenue, 2016, 40
Personnel Cost as % of Revenue, 2017, 26
Personnel Cost as % of Revenue, 2018, 33
Personnel Cost as % of Revenue, 2019, 26
Personnel Cost as % of Revenue, 2020, 35
Personnel Cost as % of Revenue, 2021, 25
Personnel Cost as % of Revenue, 2022, 27
2023, 26
2024, 25
2025, 24
2026, 23
2027, 24
2028, 21
2029, 20
2030, 21

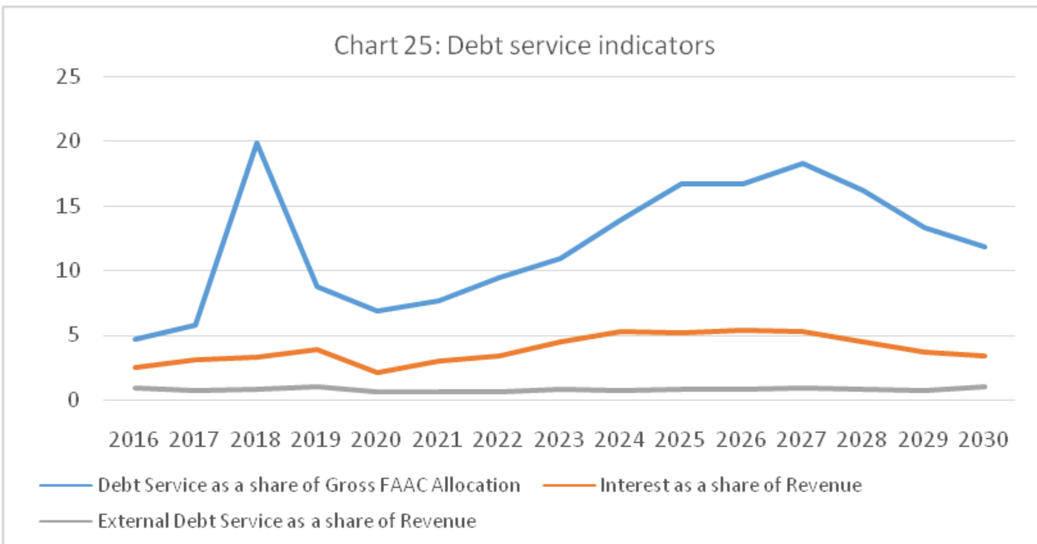
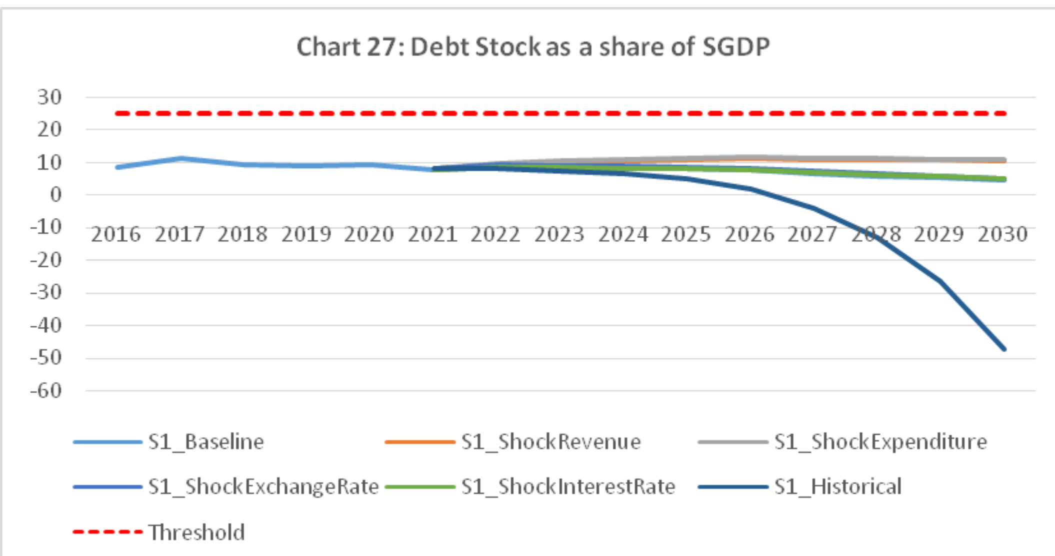


Chart 25: Debt service indicators
25
20
15
10
5
0
2016 2017 2018 2019 2020 2021 2022 2023 2024 2025 2026 2027 2028 2029 2030
Debt Service as a share of Gross FAAC Allocation
Interest as a share of Revenue
External Debt Service as a share of Revenue

4.4. DEBT SENSITIVITY ANALYSIS

The sensitivity analysis was carried out to determine the effects of shocks on macroeconomic conditions that influence the state fiscal deficits and hence debt sustainability in juxtaposition with the baseline debt strategy (S1). These shocks are: exchange rate increase by 20%, interest rate increase by 2%, revenue decrease by 10% and expenditure increase by 10% over the projected period. Also considered is the baseline position if the historical trends were to continue.

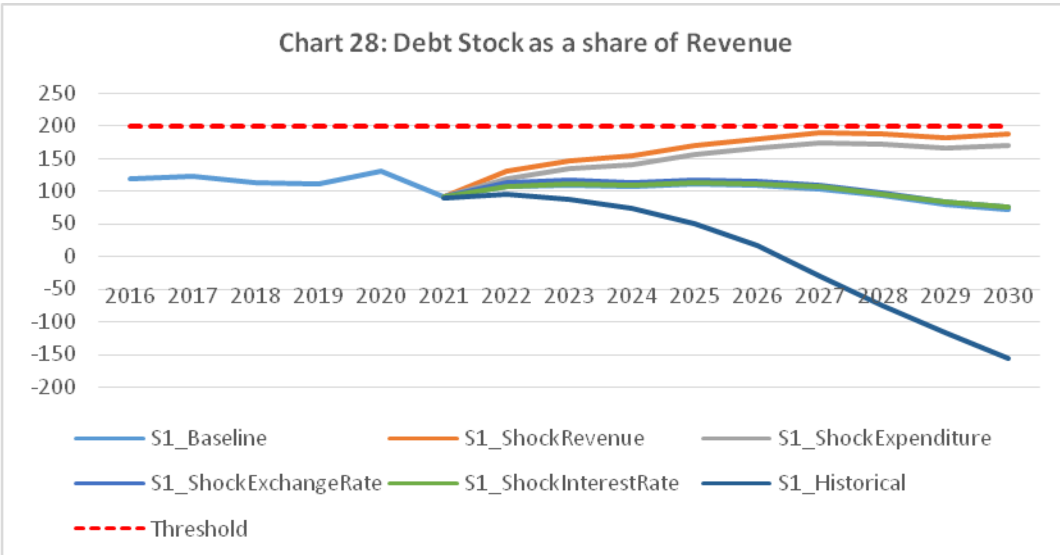
The outcome of the analysis show that the States debt sustainability would deteriorate moderately if the exchange rate, interest rate, revenue and expenditure shocks materialize under the reference debt strategy(S1)as shown below in Charts 27, 28, 29 and 30 with the accompanying descriptions.



With a shock in exchange rate, the State debt stock in 2022 from the baseline status will deviate from N106,970.40 to N115,748.04. In 2025 the deviation will be N8,466.86or 8.7% and by 2030, the total debt stock will change from N81,957.20 to N89,916.20.

The State total debt stock to State GDP will rise from 8.61% in the baseline (S1) to 9.17 % in 2022 and from 8.08% in 2025 to 8.49% without crossing the threshold. Total debt to total revenue which was 107.50% in 2022 under the baseline will turn to 113.96% and in 2025 the same ratio which was 111.07% in S1 will change to 116.68% and will continue to 74.86% instead of 72.04% under the baseline debt strategy (S1).

Total debt service to total revenue in 2022 under the baseline was 6.61% which increased to 6.74% with the shock in the same year. Coincidentally, personnel cost to total revenue appears to have the same ratios n both the baseline and the exchange rate shock in debt strategy (S1).



Shock in revenue may be occasioned by dwindling receipts from sale of crude oil and hence reduced transfers to states from the Federal Government (FAAC Allocation, VAT and other transfers from the Federal Government).

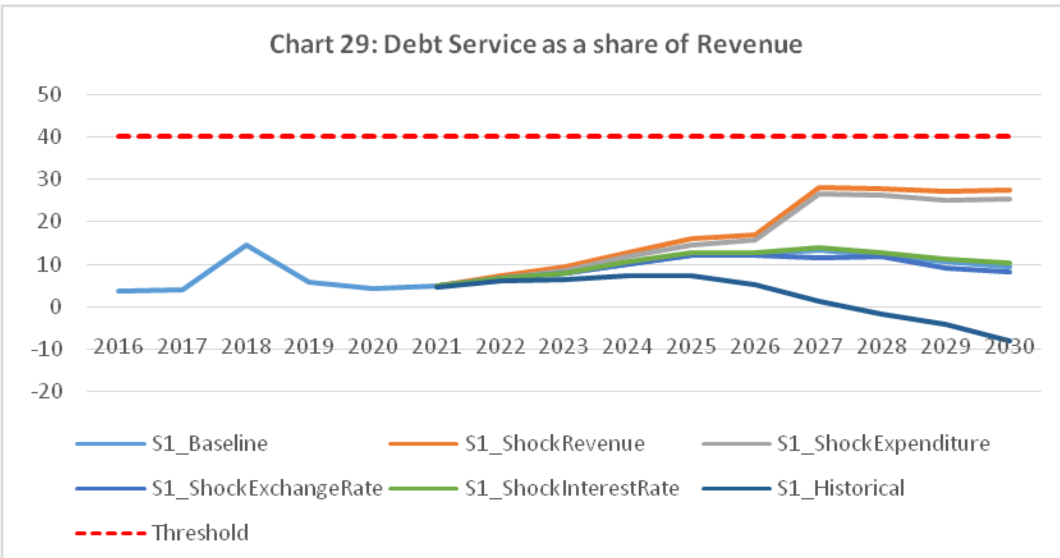
Shock in revenue will in the first instance increase the gross borrowing needs of the State in 2022 under the baseline (N29,813.87m) to N42,758.0m the same year. In the same manner the State borrowing needs of N25,266.97m in 2025 will increase to N44,158.31m and hit N58,175.41 in 2030 instead of N5,357.67m under the baseline debt strategy (S1) in the same year.

The total debt to total revenue ratio of 107.50% in 2022 under the baseline scenario will change to 130.05% and in 2025 the 111.07% ratio will increase to 169.35% and will continue to 186.14% in 2030 instead of 92.855 under the baseline debt strategy.

Under a shock scenario in revenue in the debt strategy (S1), the total debt to State GDP will rise to 9.42% in 2022 as against 8.61% the same year and in 2025, 11.09% as against 8.08%. By 2030, the deviation will be 4.67% (10.65-5.98).

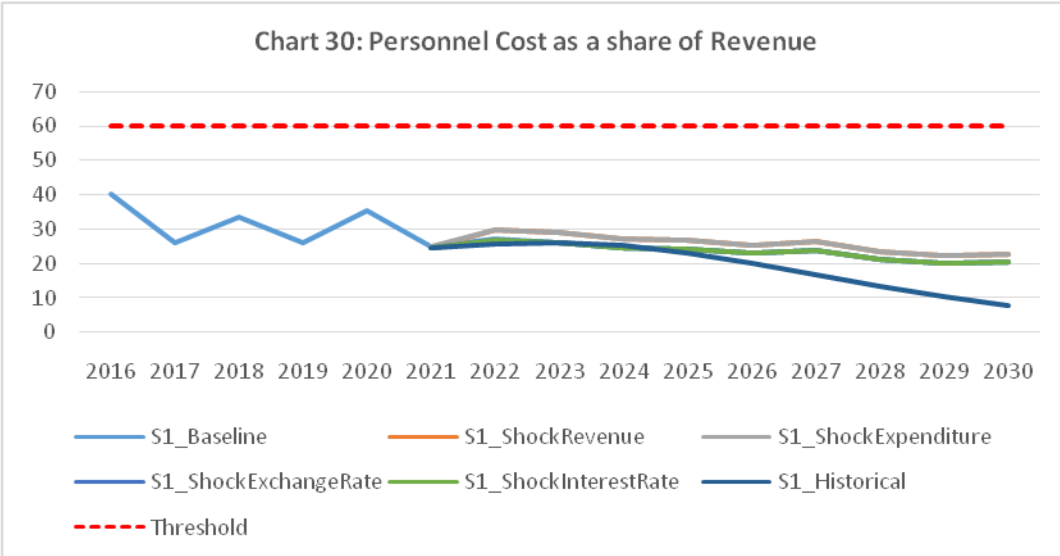
Still in revenue shock, debt service to revenue will be 7.34% in 2022 compared to 6.61% the same year under the baseline scenario. By 2030, the deviation will be15.62% (27.56-11.94) signifying repayment difficulty but has not crossed the 40% thresholds.

From the analysis, personnel cost to revenue will be impacted on, as 26.96% in 2022 under the baseline (S1) scenario will increase to 29.08%. In 2025 the percentage will be 26.89 as against 24.20 under the (S1). By 2030 it will be 22.84% compared to 20.56% under the baseline scenario.



With a shock in expenditure, the initial effect will be noticed in 2023 when the debt service ratio will rise, from 7.66% under the baseline to 8.52%. By 2027 the ratio will hit 26.61% as against 13.20% under the baseline scenario and at the end of the projected period, the debt service ratio will be 25.39% as against 9.38 under the baseline scenario.

The State GDP to total revenue will also be affected should the shock in expenditure materialize. In 2022, the ration will change from 8.61% to 9.52%. In 2025 it will be 11.59% as against 8.08% under baseline scenario and by 2030 which was 4.58% under S1 the percentage ratio will be 10.76%.



Under a shock scenario in expenditure, personnel cost to total revenue will jump to 29.66% in 2022 as against 26.96% under the reference debt strategy S1. In 2025 the ratio will ratio will have a deviation of 2.42% (26.42-24.20) and by 2030 the deviation will be 2.05% (22.61-20.56).

Historical: In all the shock scenarios and Charts 27, 28, 29 and 30, the historical trend approach shows an initial downward positive ratios and negative ratios towards the end of the projected period (with the exception of personnel cost to total revenue). The total debt to State GDP was 8.61% in 2022 and 8.07%, the same year under the historical. In 2025 it was 8.08% and 4.49% for the same historical. By 2030, it turned out to -47.37% as against 5.98% in the baseline debt Strategy (S1). Total debt stock to total revenue was 95.93% in 2022 under historical as against 107.05% under the baseline scenario and by 2025 the same ratio will turn out to 51.28%as against 111.07%and by 2030, total State debt to total revenue will be-156.94% compared to 72.04% under the baseline scenario. Total debt service to total revenue followed the same pattern of initial downward positive ratio and negative ratio towards the end of the projected period.

5. DEBT MANAGEMENT STRATEGY

Public debt management is the process of establishing and executing a strategy for managing government's debt in order to raise the required amount of funding at lowest possible cost over the medium to long run, consistent with a prudent degree of risk.

Debt management strategies are assessed by the outcome of three key performance indicators namely: debt stock/revenue (%), debt service/revenue (%) and interest/revenue (%).
While the cost of any debt management strategy is measured by the expected value of a performance indicator, risk is measured by the deviation from the expected value (as projected in the baseline scenario) caused by un- expected shocks (as projected in the most adverse scenario). A debt management strategy starts with a borrowing option.

5.1. ALTERNATIVE BORROWING OPTIONS

Aside the baseline strategy, the other three alternative Debt Management Strategies (DMS), S2, S3, and S4 have been selected by the state where the same interest rates and other condition stated in the baseline (S1) strategy shall apply.

Under DMS (S2), the State intends to finance the annual fiscal deficits (2021-2030) through borrowing from commercial bank in the country for easy accessibility and to hedge over currency risk. Funds obtained will be used to provide amenities for the people in the State.

In S3, the State proposes to finance the yearly deficits (2021 -2030) through the issuance of State bond of 6 years and above maturity. This will be to obtain funds at a longer maturity for infrastructural development and at reduced interest rate compared to commercial bank rate. Also, to minimize rollover risk and contribute in the development of domestic capital market.

Under S4 the State wishes to cover the gross financing needs in 2021 through 2030 by borrowing 50% of the required funds from commercial banks and the balance from external sources.

Quantitatively under S2, N4,850.20m deficit in 2021 will be financed through borrowing from the commercial banks and in 2022 sN27,713.90m shall also be financed through commercial banks. As already defined under this strategy, the deficits of N23,152.70m in 2023, N25,775.70m in 2024 N35,742.20m in 2025 are also to be financed through commercial banks. In same manner, N38,970.90m in 2026, N34,026.40m in 2027 and N39,585.90m in 2028 will come from commercial banks. The deficits of N44,100.70m in 2029 and N45,591.80m at the end of the planned period will be financed through commercial bank borrowing.

As stated earlier, financing of gross borrowing needs under strategy S3 is entirely through the issuance of State bond. Thus, the deficits of N4,850.20m in 2021, N26,484.40m in 2022, N16,484.40m in 2023 and N18,304.70m in 2024 are all to be financed through the issuance of State bonds. In 2025, the borrowing need of N25,251.90 will come through the issuance of state bonds and this trend will continue throughout the projected period.

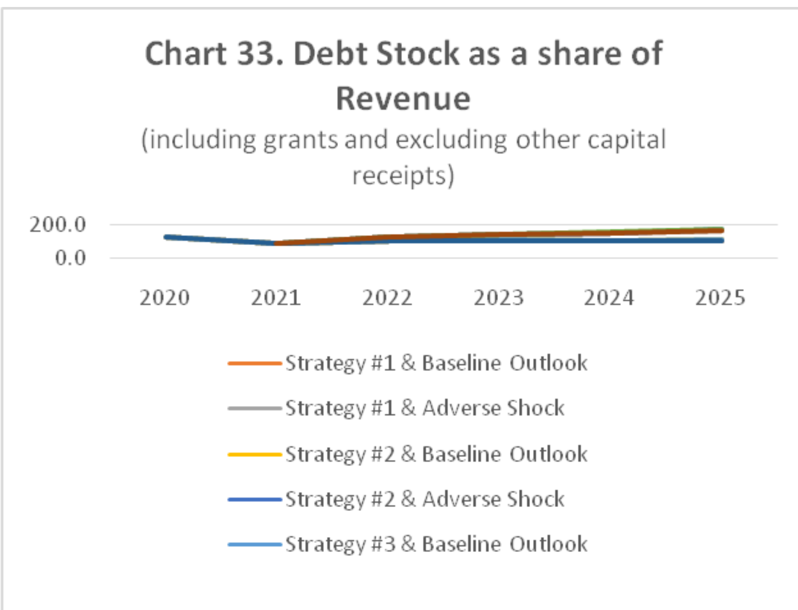
Under S4, the deficit of N4850.20m in 2021 will be financed by borrowing N2,424.6m from the commercial banks and external loan of $6.40m. Out of N26,913.40m deficit in 2023, N14,785.40m are to be sourced through commercial banks while the balance of $32.00m will be sourced externally. In 2024, the total deficit of N16,619.70m will be financed by $20.00m external loan and N9,039.70m from commercial bank. The deficit of N21,785.90m will be covered by N11,363.40 from commercial banks and $27.50m sourced externally.

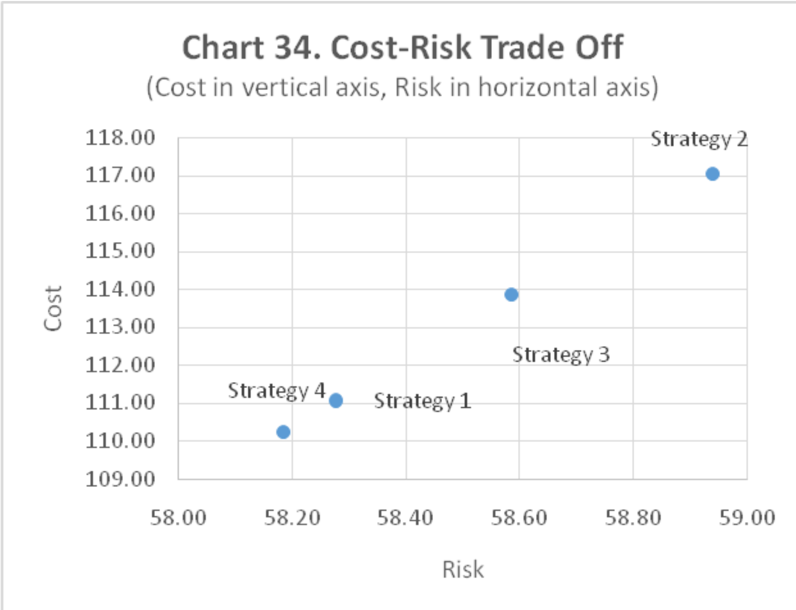
5.2. DEBT MANAGEMENT SIMULATION RESULTS

The focus here is to analyze, the most adverse scenario of each of debt-management performance indicators, in each of the debt strategies S2, S3 and S4 with the reference debt strategy S1. These indicators as earlier mentioned are debt/revenue, debt service /revenue and interest payment/revenue. In addition, the following with respect to the State GDP are also analyzed, making reference to debt strategy S1: total debt / State GDP, debt Service /State GDP and interest payment /State GDP.

5.2.1. Total Debt Stock As Percentage of Total Revenue

						COST	RISK measured only in 2025
Debt Stock as % of Revenue (including grants and exc	2020	2021	2022	2023	2024	2025	
Strategy #1 & Baseline Outlook	131.4	90.9	107.0	110.5	107.5	111.1	58.3
Strategy #1 & Adverse Shock		90.9	130.1	145.4	153.0	169.3	
Strategy #2 & Baseline Outlook	131.4	90.9	107.0	112.0	110.7	117.0	58.9
Strategy #2 & Adverse Shock		90.9	130.1	147.0	156.6	176.0	
Strategy #3 & Baseline Outlook	131.4	90.9	106.9	111.2	108.9	113.9	58.6
Strategy #3 & Adverse Shock		90.9	129.9	146.1	154.6	172.4	
Strategy #4 & Baseline Outlook	131.4	90.9	106.8	110.4	107.0	110.2	58.2
Strategy #4 & Adverse Shock		90.9	129.8	145.2	152.4	168.4	





From the table page 33 (represented by **Charts 33** and **34**) and from 2022 to 2025, the baseline outlook of debt /revenue, including adverse shock under S1 is as follows: 237.1%,255.9%,260.5% and 280.4% in 2025 with a total risk of 58.3 measured in 2025.

Under S2, and within the same projected period the figures are 237.1%, 259%, 267.3% and 293% with risk element of 58.9 measured in 2025.

S3 baseline outlook and its adverse shock summed up each of the four years to, 236.8%, 257.3%, 263.5%, 286.3% with a risk of 58.9 measured in 2025.

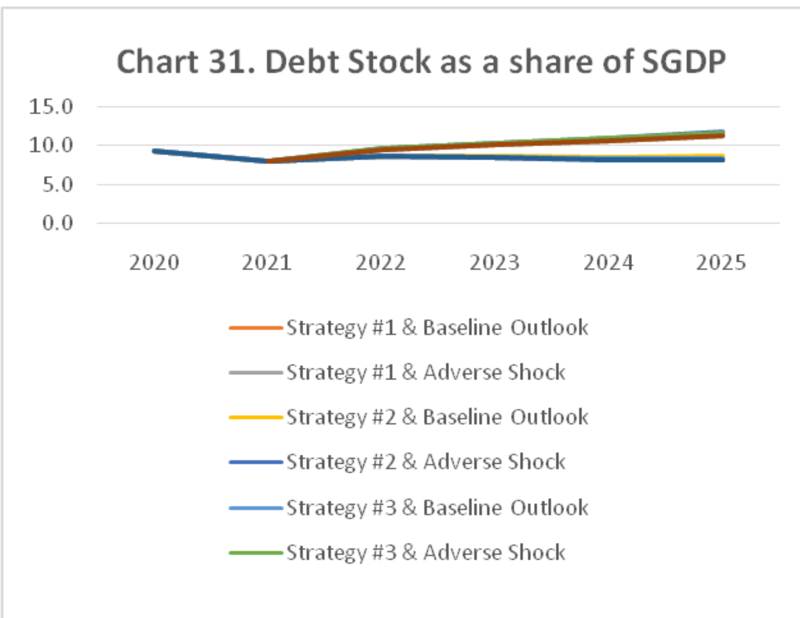
Under S4, and within the same projected period, the baseline outlook with adverse shock figures are 236.6%, 255.6%,259.4%,278.6% with risk element of 58.0 measured in 2025.

Baseline total cost is 1033.9% risk is 58.3 (2022-2025)

Total deviation from baseline: S2, 22.5% risk .6, S3, 10% risk .3 and S4, -3.7%, risk -.1%. Thus strategy with the lowest cost and the lowest risk is S4 (Chart 34 above). However, there are some qualitative issues which should be considered for instance legal authority for states to acquire foreign loans at will, time taken to conclude loan negotiations etc. Taking all these into consideration, and using only debt/ revenue ratio S1 may still be recommended.

5.2.2. Debt Stock As Percentage of State GDP

						COST	RISK measured only in 2025
Debt Stock as % of SGDP	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	
Strategy #1 & Baseline Outlook	9.2	7.9	8.6	8.4	8.2	8.1	3.3
Strategy #1 & Adverse Shock		7.9	9.5	10.2	10.7	11.3	
Strategy #2 & Baseline Outlook	9.2	7.9	8.6	8.5	8.4	8.5	3.3
Strategy #2 & Adverse Shock		7.9	9.5	10.3	11.0	11.8	
Strategy #3 & Baseline Outlook	9.2	7.9	8.6	8.5	8.3	8.3	3.3
Strategy #3 & Adverse Shock		7.9	9.5	10.2	10.8	11.5	
Strategy #4 & Baseline Outlook	9.2	7.9	8.6	8.4	8.2	8.0	3.3
Strategy #4 & Adverse Shock		7.9	9.5	10.2	10.7	11.3	



From the table page 35 (represented by Charts 31 and 32) and from 2022 to 2025, the baseline outlook of debt stock /State GDP, including adverse shock under S1 is as follows: 18.1%,18.6%,18.9% and 19.4% in 2025 with a total risk of 3.3 measured in 2025.

Under S2, and within the same projected period the figures are 18.1%, 18.8%, 19.4% and 20.3% with risk element of 3.3 measured in 2025.

S3 baseline outlook and its adverse shock summed up each of the four years to, 18.1%, 18.7%, 19.1%, 19.8% with a risk of 3.3 measured in 2025.

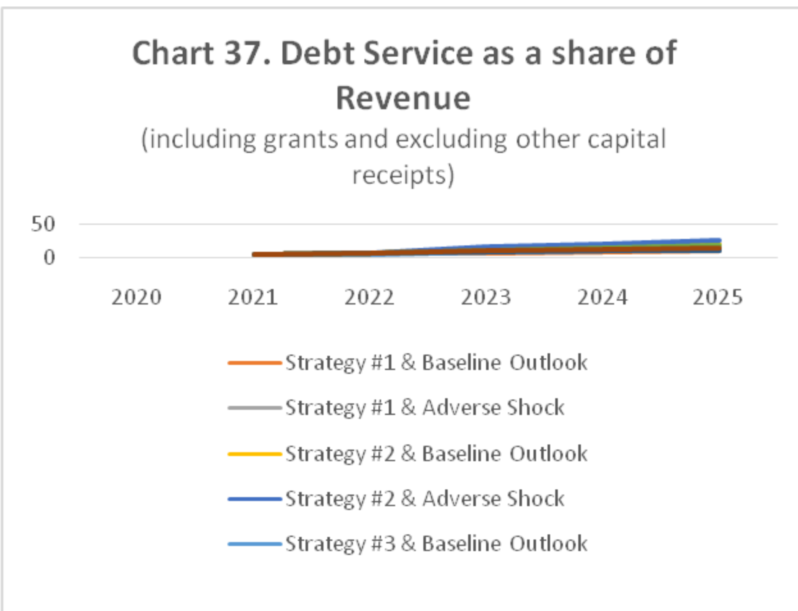
Under S4, and within the same projected period, the baseline outlook with adverse shock figures are 18.1%,18.6%, 18.9%, 18.3% with risk element of 3.3 measured in 2025.

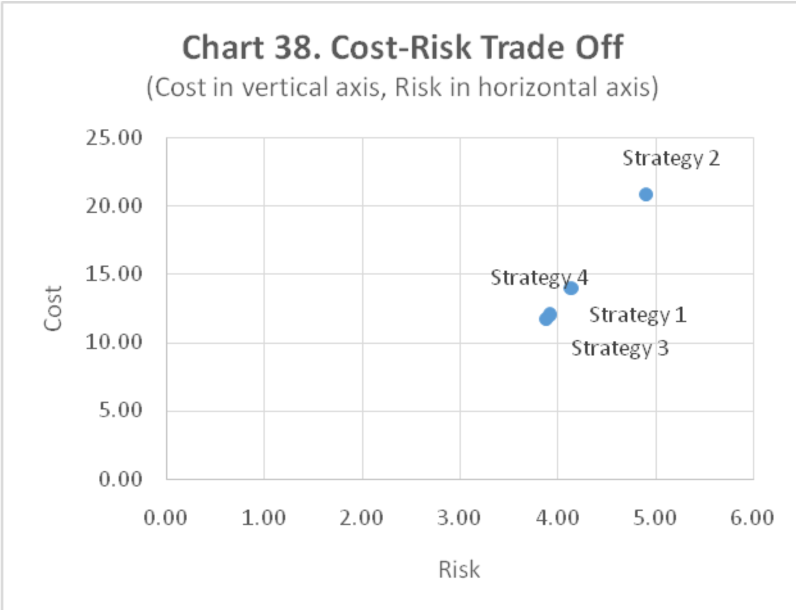
Baseline total cost is 75% risk is 3.3 (2022-2025)

Total deviation from baseline: S2, 1.3% risk 0, S3, .7% risk 0 and S4, -1.1%, risk 0%. Thus strategy with the lowest cost is S4 (Chart 32 above) as all the strategies have the same risk component of 3.3.

5.2.3. Debt Service As Percentage of Total Revenue

						COST	RISK measured only in 2025
Debt Service as % of Revenue (including grants and e	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	
Strategy #1 & Baseline Outlook		4.8	6.6	7.7	9.9	12.1	3.9
Strategy #1 & Adverse Shock		4.8	7.3	9.4	12.7	16.0	
Strategy #2 & Baseline Outlook		4.8	6.6	13.2	16.9	20.8	4.9
Strategy #2 & Adverse Shock		4.8	7.3	15.5	20.4	25.7	
Strategy #3 & Baseline Outlook		4.8	5.7	8.3	11.8	14.0	4.1
Strategy #3 & Adverse Shock		4.8	6.4	10.0	14.8	18.1	
Strategy #4 & Baseline Outlook		4.8	6.0	9.5	10.7	11.7	3.9
Strategy #4 & Adverse Shock		4.8	6.7	11.4	13.5	15.6	





From the table page 37 (represented by Charts 37 and 38) and from the year 2022, debt service/ total revenue baseline outlook cost is added to the adverse shock in each strategy and assigned one risk measured in 2025.

Under strategy S1, the baseline outlook with its adverse shock is 13.9% in 2022, 17.1% in 2023, 22.6% in 2024 and 28.1% in 2025 with 3.9 risk measured in 2025.

For S2, within the same period and in the same order, the combined cost each year is 13.9%, 28.7%, 37.3% and 46.5% with 4.9 risk measured in 2025.

Under S3, the baseline outlook with its adverse shock is 12.1% in 2022, 18.3% in 2023, 26.6% in 2024, and 32.1% in 2025 with 4.1 risk measured in 2025.

For S4, within the same period and in the same order, the combined cost each year is 12.7%, 20.9%, 24.2%, and 27.3% with 3.9 risk measured in 2025.

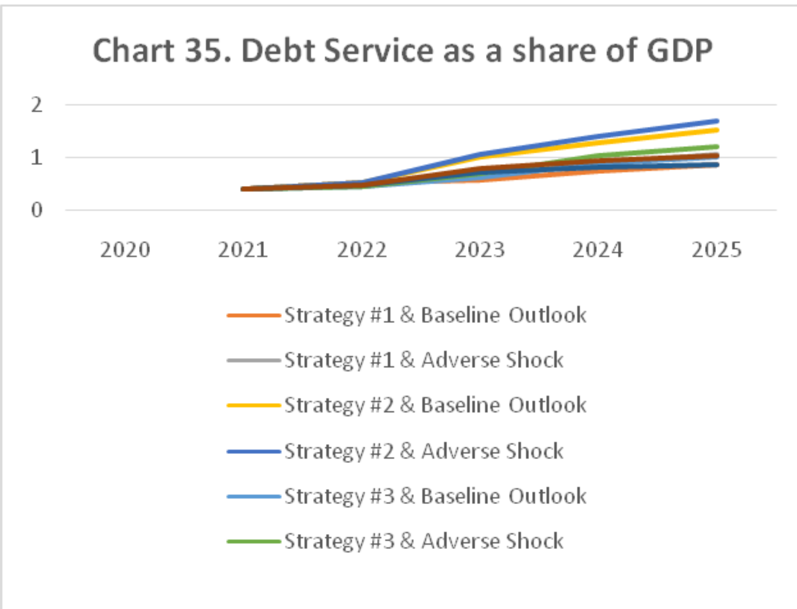
The baseline total cost is 81.70% risk 3.9 (2022-2025)

Total deviation from baseline the same period: S2, 44.7 risk 1, S3, 7.4% risk .2 and S4, 3.4%, risk 0.

The strategy with the lowest cost and lowest risk using debt service /revenue is S1 and is hereby recommended.

5.2.4. Debt Service As Percentage of State GDP

Debt Service as % of SGDP	2020	2021	2022	2023	2024	COST 2025	RISK measured only in 2025
Strategy #1 & Baseline Outlook		0.4	0.5	0.6	0.8	0.9	0.2
Strategy #1 & Adverse Shock		0.4	0.5	0.6	0.9	1.1	
Strategy #2 & Baseline Outlook		0.4	0.5	1.0	1.3	1.5	0.2
Strategy #2 & Adverse Shock		0.4	0.5	1.1	1.4	1.7	
Strategy #3 & Baseline Outlook		0.4	0.5	0.6	0.9	1.0	0.2
Strategy #3 & Adverse Shock		0.4	0.5	0.7	1.0	1.2	
Strategy #4 & Baseline Outlook		0.4	0.5	0.7	0.8	0.9	0.2
Strategy #4 & Adverse Shock		0.4	0.5	0.8	0.9	1.0	



From the table page 39 (represented by Charts 35 and 36) and from the year 2022, debt service/ State GDP baseline outlook cost is added to the adverse shock in each strategy and assigned one risk measured in 2025.

Under strategy S1, the baseline outlook with its adverse shock is 1.0% in 2022, 1.2% in 2023, 1.7% in 2024 and 2% in 2025 with 0.2 risk measured in 2025.

For S2, within the same period and in the same order, the combined cost each year is 1.0%, 2.1%, 2.7% and 3.2% with 0.2 risk measured in 2025.

Under S3, the baseline outlook with its adverse shock is 1.0% in 2022, 1.3% in 2023, 1.9% in 2024, and 2.2% in 2025 with 0.2 risk measured in 2025.

For S4, within the same period and in the same order, the combined cost each year is 1.0%, 1.5%, 1.7%, and 1.9% with .2 risk measured in 2025.

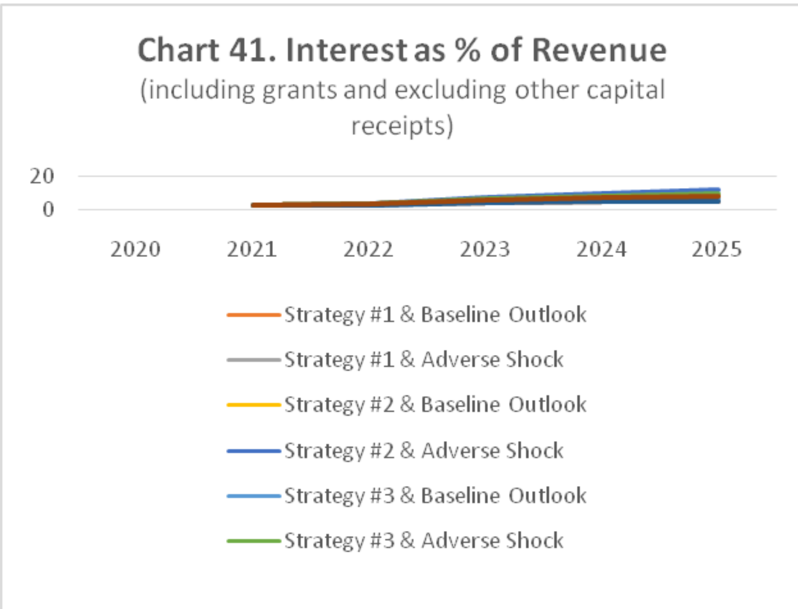
The baseline total cost is 5.9% risk 0.2 (2022-2025)

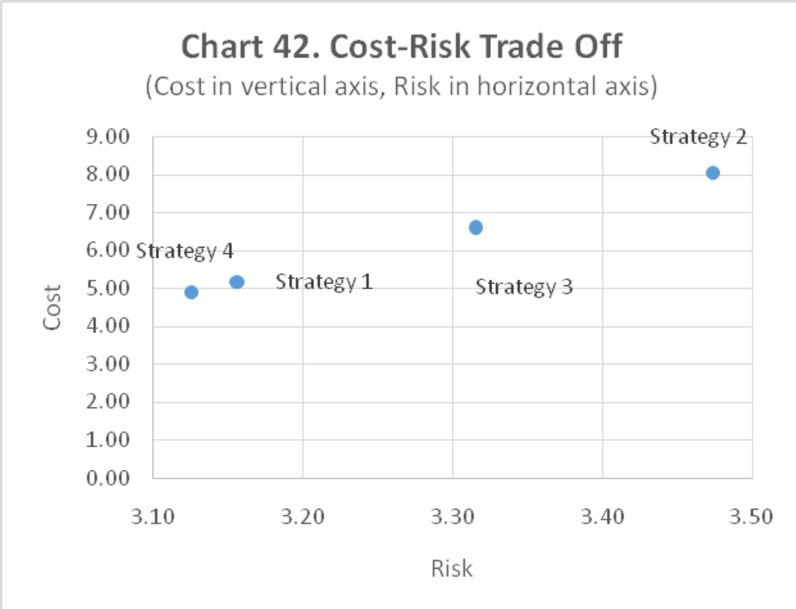
Total deviation from baseline the same period: S2, 3.1risk 0, S3, 0.5% risk 0 and S4, 0.2%, risk 0.

The strategy with the lowest cost using debt service /State GDP is S1(Chart 36) while all the strategies have the same risk of 0.2.

5.2.5. Interest Payment As Percentage of Total Revenue

Interest as % of Revenue (including grants and excluc	2020	2021	2022	2023	2024	COST 2025	RISK measured only in 2025
Strategy #1 & Baseline Outlook		3.0	3.4	4.5	5.3	5.2	3.2
Strategy #1 & Adverse Shock		3.0	3.8	5.9	7.5	8.3	
Strategy #2 & Baseline Outlook		3.0	3.4	6.0	7.1	8.0	3.5
Strategy #2 & Adverse Shock		3.0	3.8	7.5	9.6	11.5	
Strategy #3 & Baseline Outlook		3.0	3.3	5.3	6.0	6.6	3.3
Strategy #3 & Adverse Shock		3.0	3.7	6.7	8.4	9.9	
Strategy #4 & Baseline Outlook		3.0	3.2	4.6	4.8	4.9	3.1
Strategy #4 & Adverse Shock		3.0	3.5	5.9	7.0	8.0	





From the table page 41 (represented by Charts 41 and 42) and from the year 2022, interest payment/ total revenue baseline outlook cost is added to the adverse shock in each strategy and assigned one risk measured in 2025.

Under strategy S1, the baseline outlook with its adverse shock is 7.6% in 2022, 10.4% in 2023, 12.8% in 2024 and 13.5% in 2025 with 3.2 risk measured in 2025.

For S2, within the same period and in the same order, the combined cost each year is 7.2%, 13.5%, 16.7% and 19.5% with 3.5 risk measured in 2025.

Under S3, the baseline outlook with its adverse shock is 7% in 2022,12% in 2023, 14.4% in 2024, and 16.5.% in 2025 with 3.3 risk measured in 2025.

For S4, within the same period and in the same order, the combined cost each year is 6.7%, 10.5%, 11.8%, and 12.9% with 3.1 risk measured in 2025.

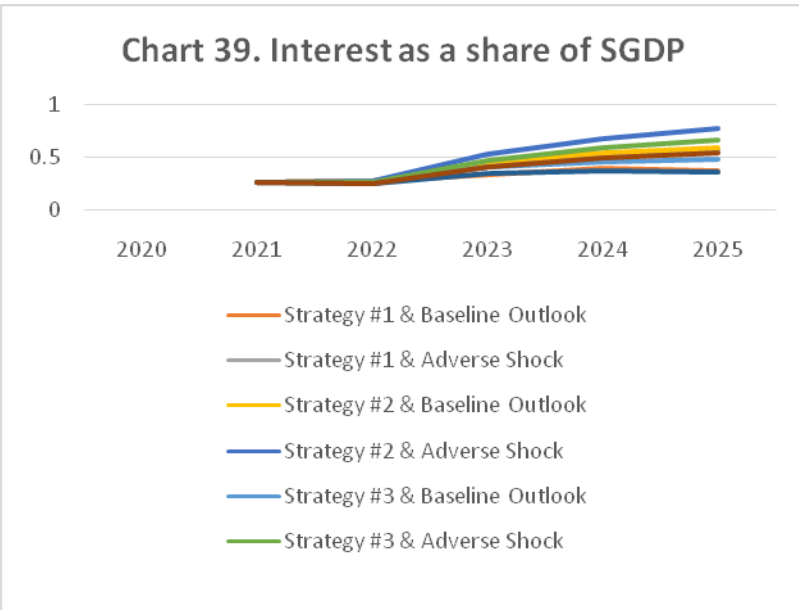
The baseline total cost is 44.3% risk 3.2 (2022-2025)

Total deviation from baseline in the same period: S2, 12.6% risk .3, S3, 5.6% risk .1 and S4, -2.4%, risk -1.

The strategy with the lowest cost and lowest risk using interest payment /revenue is S4 but others considerations are necessary, for instance easy accessibility of the required funds due to legal restrictions on external borrowing and required time for foreign loan negotiation.

5.2.6. Interest Payment As Percentage of State GDP

						COST	RISK measured only in 2025
Interest as % of SGDP	2020	2021	2022	2023	2024	2025	
Strategy #1 & Baseline Outlook		0.3	0.3	0.3	0.4	0.4	0.2
Strategy #1 & Adverse Shock		0.3	0.3	0.4	0.5	0.6	
Strategy #2 & Baseline Outlook		0.3	0.3	0.5	0.5	0.6	0.2
Strategy #2 & Adverse Shock		0.3	0.3	0.5	0.7	0.8	
Strategy #3 & Baseline Outlook		0.3	0.3	0.4	0.5	0.5	0.2
Strategy #3 & Adverse Shock		0.3	0.3	0.5	0.6	0.7	
Strategy #4 & Baseline Outlook		0.3	0.3	0.3	0.4	0.4	0.2
Strategy #4 & Adverse Shock		0.3	0.3	0.4	0.5	0.5	



From the table page 41 (represented by Charts 39 and 40) and from the year 2022, interest payment/ State GDP baseline outlook cost is added to the adverse shock in each strategy and assigned one risk measured in 2025.

Under strategy S1, the baseline outlook with its adverse shock is .6% in 2022, .7% in 2023, .9% in 2024 and 1.0% in 2025 with 0.2 risk measured in 2025.

For S2, within the same period and in the same order, the combined cost each year is .6%, 1.0%, 1.2% and 1.4% with 0.2 risk measured in 2025.

Under S3, the baseline outlook with its adverse shock is .6% in 2022, .9% in 2023, .9% in 2024, and 1.2% in 2025 with 0.2 risk measured in 2025.

For S4, within the same period and in the same order, the combined cost each year is .6%, .7%, .9%, and .9% with 0.2 risk measured in 2025.

The baseline total cost is 3.2% risk 0.2 (2022-2025)

Total deviation from baseline in the same period: S2, 1.0% risk 0, S3, .6% risk 0 and S4, -.1%, risk 0.2

Given that all the strategies have the same risk component of 0.2, the strategy with the lowest cost (3.2%) using interest payment /State GDP is S4.

5.3. DEBT MANAGEMENT STRATEGY ASSESSMENT

The analysis in **5.1** and **5.2** have centred on the best strategy for the State Government to borrow (borrowing options). Four strategies have been identified with strategy S1 as the reference debt strategy. The assessment results using three key debt management- performance indicators (debt/revenue, debt service to/revenue and interest payment /revenue) are used for recommendation.
In all the three performance indicators used and applying elements of qualitative considerations, S1 the reference strategy is better and is consequently recommended.

S2 in all ramifications and outlook has a higher cost and risk in terms of loan procurement. So also is S3. Quantitatively, S4 has the lowest cost and the lowest risk but due legal restrictions for States to easily access foreign loans and the time duration to conclude and disburse external loans, S1 takes precedence.

As a consequence of the borrowings envisaged in the reference debt management-strategy (S1), the interest burden and debt service obligations will be reduced (relative to revenue) as the share of foreign currency debt with very low interest rate will moderate from 39.8% at end of 2020 to 41.4% at end of 2025. The share of public debt maturing in not more than three years will be reduced from 60.2% at end 2020 to 58.6% at end 2025.

Finally, from the analysis and the result of the DMS-related performance indicators in the baseline (S1) and most adverse shock scenarios (revenue, exchange rate, interest rate and expenditure shocks) the state debt is affordable. It is also resilient to shocks and is sustainable over the medium term (2021-2025), without fiscal adjustment, and the cost –risk profile of the State debt under the reference strategy is acceptable.

REFERENCES

1. Enugu State Government audited Financial Statements (2016-2030)

2. Enugu State Government Medium Term Expenditure Framework (2022-2024)

3.DMO/World Bank Developed DSA-DMS Template for States

4. Guidance Note for completing State DSA-DMS Template

5. Outline of the State DSA- DMS Report by DMO/World Bank

……………………………………………

ADAONAH KENE-UYANWUNE (MRS)
HON. COMMISSIONER FOR FINANCE/CHAIRMAN
SFTAS STEERING COMMITTEE