



AKWA IBOM STATE DEBT SUSTAINABILITY ANALYSIS (AKS DSA)

AKWA IBOM STATE DSA REPORT

DEVELOPED BY THE

AKS DEBT MANAGEMENT OFFICE

IN COLLABORATION WITH

DEBT MANAGEMENT OFFICE, ABUJA

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AKWA IBOM STATE 2019 DEBT SUSTAINABILITY ANALYSIS (DSA)

1.0 Introduction

1.1 Background of the State

The conduct of the Debt Sustainability Analysis (DSA) exercise is undertaken on an annual basis. It examines the movements in the State's public finances during the period 2015-2019, using the State's five years historical macro-economic data and assesses the debt sustainability of the State in the long-term (2020-2029), using ten years projected data.

The analysis highlights recent trends in revenue, expenditure, and public debt, and the related policies adopted by the State. 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. This exercise ensures that the State's total Public Debt Portfolio is annually subjected to appropriate qualitative and quantitative analysis, by evaluating the State's repayment capacity for its current and future debt obligations in order to ensure the level of risk of debt distress.

The DSA assessment is usually in two parts - External and Fiscal. The External Debt Sustainability Analysis (DSA) covers the External debt of Akwa Ibom State Government, including government agencies borrowings that are guaranteed by the State. The Fiscal DSA covers the total Public Debt - External and Domestic - of the State and the agencies. The DSA assessment also includes Stress Tests, which is an in-built mechanism that subjects some of the key assumptions in the Baseline Scenario to various shocks.

1.2 Summary of Findings

The conclusion from this year's DSA exercise showed that Akwa Ibom State's debt position experienced low growth. The DSA is predicated on assumptions concerning the State's Revenue and Expenditure projections, as well as the level and terms of outstanding and new public debt (external and domestic). It is also hinged on the forecasts made for the National economy, since the State is a part of the Nation and is affected by the macro-economic outlook.

Given the State's own forecasts for the economy and rational assumptions concerning the State's revenue and expenditure policies, it is safe to conclude that the long-term position for the public debt is sustainable.

1.3 Overall Results

Baseline Scenario

(A) EXTERNAL DEBT SUSTAINABILITY

The External Debt Analysis covers the external debt of the State. The outcome of the analysis under Baseline Scenario reveals that Akwa Ibom State's External Debt Portfolio remains at a low risk of Debt Distress. The Debt ratios are well below all of their respective thresholds throughout the projections period as shown in Table I below.

With Indicative Thresholds	Percentage (%)
Debt/GDP (25%)	2%
Debt Revenue (200%)	183%
Debt Service/Revenue (40%)	35%
Personnel Cost/ Revenue (60%)	12%

Table 1: Ratios with Indicative Thresholds

External Borrowing is projected to rise marginally between 2019 and 2029. Economic activities as measured by the GDP is projected to grow with increases in oil prices and production levels which will impact positively on the revenue to government. It is also expected that infrastructural

investments and various structured reforms that the government is implementing in the key sectors of the economy will support oil revenue and boost productivity and economic growth.

This DSA will be considered using the 3 main Scenarios adopted at the National level, namely: Baseline, Optimistic and Pessimistic.

2.0 Akwa Ibom State Fiscal & Debt Framework

2.1 Fiscal Reforms in the Last 3 to 5 Years

The fiscal reforms that the State has been implementing in the last 3-5 years aims at gradually transforming Akwa Ibom State from a "Civil Service" State to an industrialized and largely Private Sector-driven State, reducing dependence on statutory allocation as the main source of revenue to the State. This will be achieved by strengthening existing industries and establishing new ones, attracting more Foreign Direct Investments as well as improving the IGR processes and drive. More job opportunities will be created and enabling environment will be provided to encourage private Investment in the State.

It is expected that these, as well as the provision of basic infrastructures, enhancement of security, development of human capital and boosting services in education and healthcare will lead to an overall improvement in the living standard of our people.

2.2 2021-2023 MTEF, 2020 Appropriation Act (Budget)

The Akwa Ibom State 2020 budget was prepared using \$57/b as the oil price benchmark. However, the sharp drop in International Oil Prices to below \$20/b, as well as a global shutdown in all sectors of the economy as a result of the COVID-19 pandemic created havoc in economic activities globally. As a leading oil producing State in the nation, the State was and still is adversely affected because this has resulted in reduced Federal allocations as well as internally generated revenues and non-oil revenue, largely made up of taxes.

With the drop in the price and production of Crude Oil, devaluation of the Naira, reduced trade, lockdown/restrictions in movements affecting local economies and other factors, it became necessary to adopt significant short-term fiscal adjustments, the first being a downward review of the State's 2020 budget.

In the year 2020 a provision of N81.8 billion was made for personnel cost and payment of pensions to deserving retirees. Under personnel cost, provision was also made for employment of qualified personnel into various cadres, but due to the economic down turn as a result of COVID-19 Pandemic which led to a drop in the expected revenue of the state, the earlier proposal for recruitment was suspended and attention now focussed on payment of pensions to avoid pension arrears. This warranted the downward review of the personnel cost component from the sum of N61.0 billion to the sum of N55.0 billion.

An original provision of N50.2 billion was made for overhead costs, but this was later reviewed due to the COVID-19 Pandemic to N46.2 billion. Certain non-essential cost items were dropped, while adequate provision was made for essential overhead costs meant to respond to COVID-19 Pandemic such as, provision of consumables in Health Institutions, provision of hand washing points in readiness for reopening of schools, fumigation of the entire state, provision of palliative etc.

The policy thrust of the 2021 Budget is to focus on the rapid industrialization of the State and opening up of new areas of growth and development, while creating employment and wealth opportunities for the people. This will be done through intense and coordinated efforts to increase internally generated revenues so that the State is less dependent on Allocations from the Federal Government.

2.3 Medium Term Debt Management Strategy

The State will achieve this by employing the following strategies:

1. Broaden and diversify the State's revenue base through development of other internal revenue generating sources in the maritime sector and in the

coastal and inland water ways as well as harnessing revenue on landed properties.

2. Pursue increased Foreign exchange revenue from air plane maintenance and other aviation services by completing the cargo and maintenance repairs and overhaul (MRO) facility of Ibom International Airport.
3. Encourage and sustain Small and Medium Scale enterprises through the development of an efficient and sustainable Micro-Credit Framework as part of the wealth creation and employment generating strategies.
4. Develop agriculture through the supply of improved agricultural inputs, credit and extension services.
5. Ensure accountability and transparency and the enthrone of best practices in all arrears of governance as an enduring standard of Public Sector Administration.
6. Pay priority attention to the completion of all on-going projects in the key sectors of the state economy
7. Institutionalize debt policy aimed at reduction the level of debt in the State.
8. Ensure that Education, as a key component of Human Capital Development, is given a pride of place through the implementation of the Government Policy of Free and Compulsory Qualitative Education
9. Reduce morbidity and mortality from communicable and non-communicable diseases by investing in Health care delivery through the construction and commissioning of the General Hospitals and other health infrastructure. This will guarantee a healthy and active populace.

3.0 The State Revenue, Expenditure and Public Debt Trends (2015-2019).

During the period the revenue included the following:

		2019 (N'm)
i)	Gross Statutory Allocation	= 41,399.00
ii)	Derivation	= 118,505.00
iii)	Other FAAC Transfer	= 47,998.97
iv)	FAAC Allocation	= 13,342.00

v) IGR	=	35,504.00
vi) Capital Receipt	=	218993.00
vii) Grants	=	14,636.00
viii) Sale of Government Assets	=	2,775.00

The Expenditure items:

i) Personnel Cost	=	39,616.00
ii) Overhead Cost	=	13,057.00
iii) Interest payment	=	12,200.75

Other recurrent expenditure excluding

Personnel cost, overhead cost and interest
Payment.

iv) Capital Expenditure	=	197,832.00
v) Amortization	=	65,401.55

Existing Public Debt Portfolio:

Budget Support Facility	=	17,003.54
Restructure Commercial Bank Loan	=	60,821.61
Excess Crude	=	7,245.99
CBN Commercial Agriculture	=	40,121.83
Commercial Agriculture credit Scheme	=	727.25
Contractors Arrear	=	83,362.16
Pension and Gratuity	=	28,207.43
External Loans	=	15,641.48

DESCRIPTION OF CHARTS

3.1 Revenue & Expenditure Performance & Debt Performance (2015-2019)

Chart 1: Revenue

This chart depicts the aggregate State Total Revenue between 2015 and 2019, which comprises Gross FAAC allocations, IGR and Grants. The Chart indicates the following that FAAC formed the major composition of revenue

earning in the State closely followed by IGR; Grants formed a minor part of the State earning.

Apart from the Grants which started at zero in 2015 and rose steadily till 2019, the other components move in the same pattern. The chart shows a decline in revenue between 2015 and 2016, after which there is a rise for 2 consecutive years before recording another drop in 2019. This trend was due to fluctuations in the oil market and the resultant effects.

Chart 2: Expenditure

This chart shows the total expenditure pattern, comprising Personnel and Overhead costs, Debt Service, other Recurrent and Capital expenditure. While Personnel costs fluctuated over the years, Overhead costs dropped sharply in 2016, increased in 2017, then decreased in 2018 and 2019. Debt Service followed the same trend but increased by about 45% in 2018 before dropping by 28% in 2019. Capital expenditure declined in 2016, but thereafter rose steadily till 2019. This can be attributed to the massive construction and industrialization embarked on by the State Government. Though a decline was recorded in the total expenditure pattern between 2015 and 2016, it thereafter showed a rise until 2019.

Chart 11: Fiscal Outturns

This chart examines the gross financing needs, overall balance, primary balance, revenue and expenditure as percentages of the State GDP.

3.2 Akwa Ibom State Debt Portfolio (2015-2019)

The Public debt includes the explicit financial commitments like loans and securities that have paper contract instruments stating government's commitment to pay.

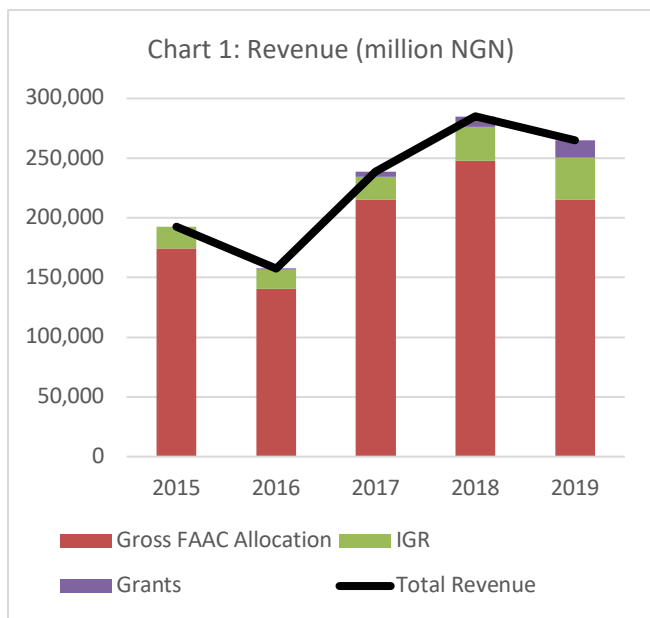
Chart 3: DEBT STOCK

The State outstanding debt stock as shown in the chart 3, revealed as follows:

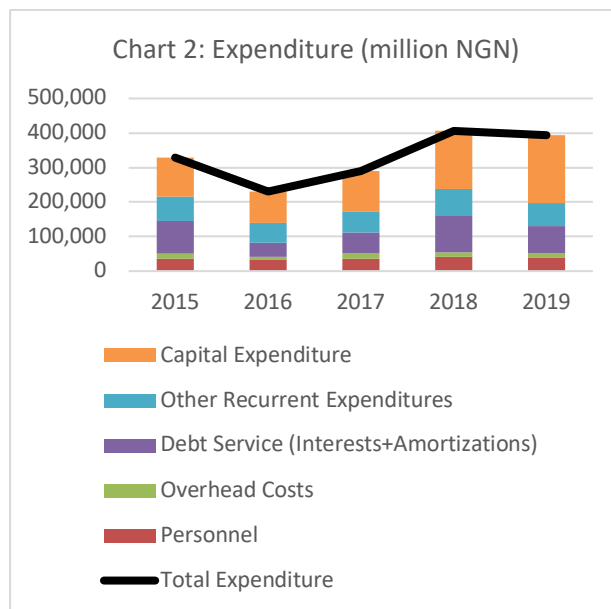
- The bulk of State debt stock comes from domestic debt whereas the external debt is a minor part of the State total public debt.

- Akwa Ibom Total public debt stood at ₦256, 419.81 as at 2019.
- The percentage of Domestic debt stood at 61.74% while that of the external debt stood at 6.09%.
- The State's debt portfolio largely consists of internal debts.

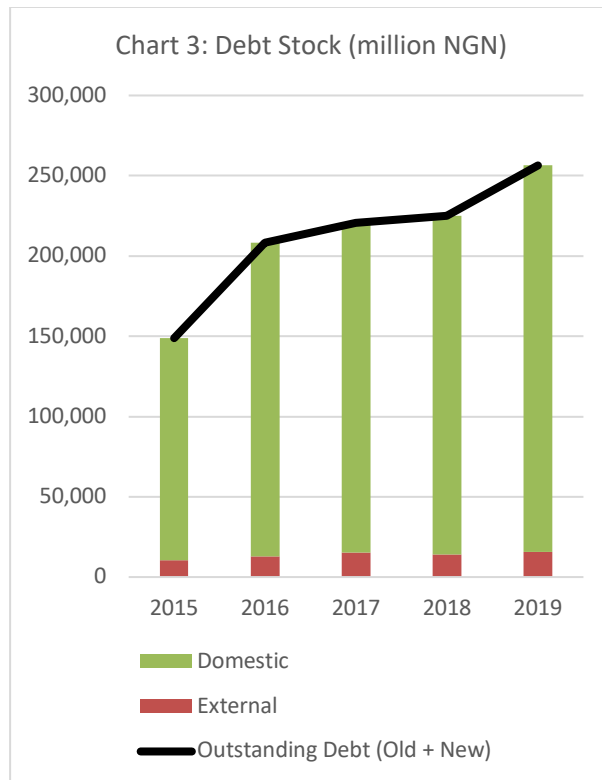
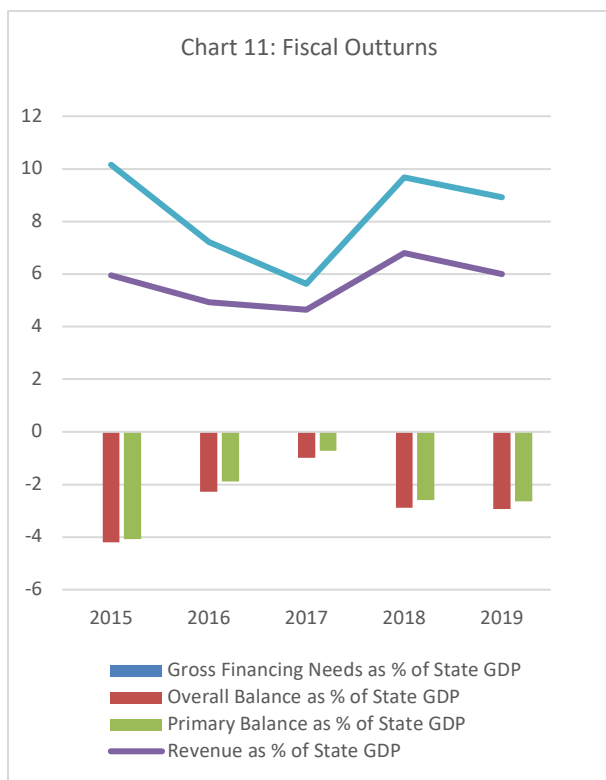
CHARTS



Source: Akwa Ibom State Financial Statements



Source: Akwa Ibom State Financial Statements



Source: Akwa Ibom State Financial Statements

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4.0 Concept of Debt Sustainability, Underlying Assumptions, Results 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 sustainability.

Ultimately refers to the ability of the government to maintain sound fiscal policies over time without having to introduce major budgetary or debt adjustment in the future correcting fiscal policies are cleared unsustainable whereby 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 to order.

With Indicative Thresholds	Percentage (%)
Debt/GDP (25%)	2%
Debt Revenue (200%)	183%
Debt Service/Revenue (40%)	35%
Personnel Cost/ Revenue (60%)	12%

Table 1: Ratios with Indicative Thresholds

The above table shows that Akwa Ibom State Debt/GDP, Debt/Revenue, Debt Service/Revenue, and Personnel Cost/Revenue are 2%, 183%, 35% and 12% respectively, which implies that the State has a low-risk Debt redress.

4.1 Medium Term Budget Forecast

The States' medium -term debt sustainability is predicated upon a gradual recovery of the Akwa Ibom State economy. Due to the on-going industrialization policy of the State, it is expected that the economy will gradually commence recovery from 2022. Apart from the industrialization efforts, the State is also pursuing an oil-substitution drive, to reduce dependence on oil and FAAC allocations. Employment generation, wealth creation programmes and the continuation of recent efforts to mobilize local revenue sources and reduce other operating expenses, will also ensure that the economy will gradually begin to fend for herself from 2022.

4.2 Borrowing Assumptions (Options)

To facilitate the actualization of the Ibom Deep Seaport and other developmental Projects, the State government may have to raise funds from the capital market, commercial banks, Federal Government and external financial institutions for financing.

4.3 Simulation Results & Findings

Chart 16: Revenue

With the various income and employment generating policies embarked upon by the government, as well as the industrialization drive, all aimed at reducing dependence of government, revenue is projected to begin rising from 2021. This is indicated in the chart.

Chart 17: Expenditure

The chart indicates a projected gradual rise in expenditure, owing to the expected construction works on Ibom Deep Seaport and other projects linked to it, as well as other infrastructural development envisaged.

Chart 22: Debt as a share of Revenue

With the measures put in place to reduce the debt stock and also increase revenue, the chart shows that there will be a gradual reduction of this ratio. As the fiscal deficit stabilizes in nominal terms over the next few years, and the public debt ratio improves, the analysis of the Baseline Scenario suggests the State will be able to preserve the sustainability of its debt in the medium- and long-term.

Chart 23: Debt service as a share of Revenue

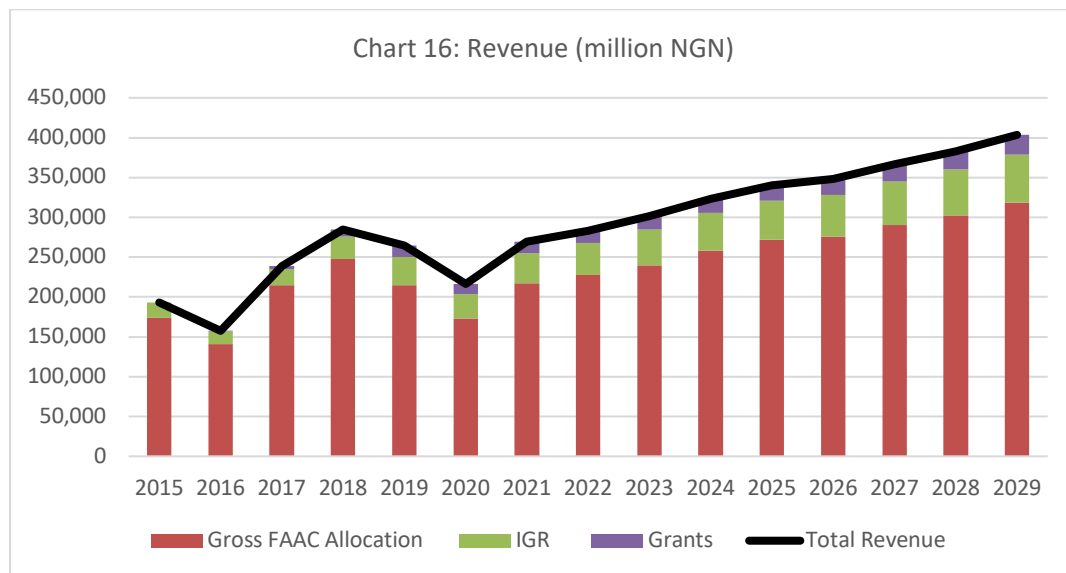
The envisaged increased revenue to the State, as well as the planned debt servicing, the chart indicates that there will be a gradual reduction of this ratio.

Chart 24: Personnel Cost

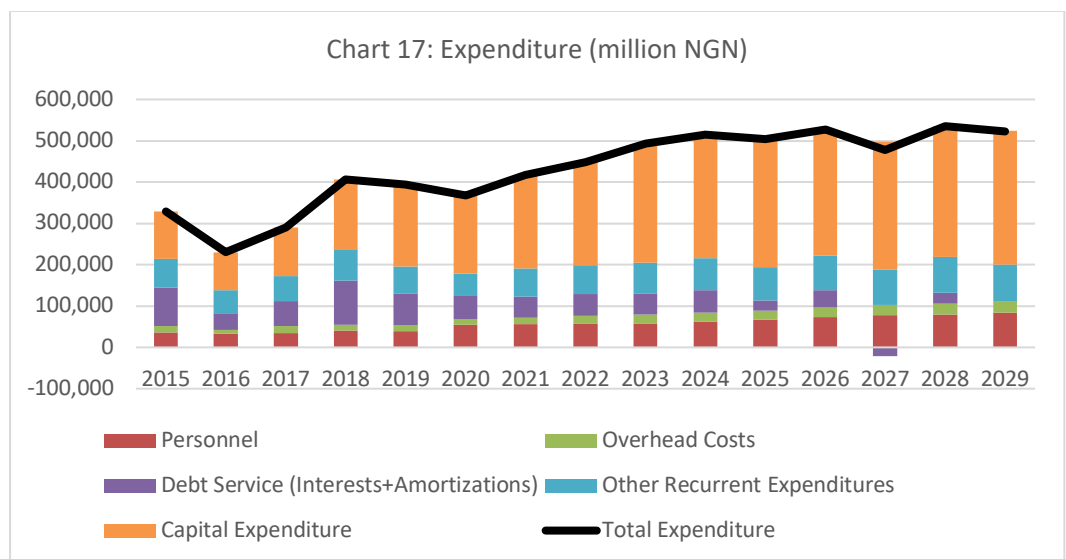
Personnel cost is expected to stabilize, with slight increase in some years. This is because it is predicted that the current efforts by government to turn the State from a "Civil Service" State, to a Private-sector driven State, through industrialisation, employment and income generation will

yield fruits. More people are expected to become entrepreneurs and employers of labour and therefore depend less on public service for jobs.

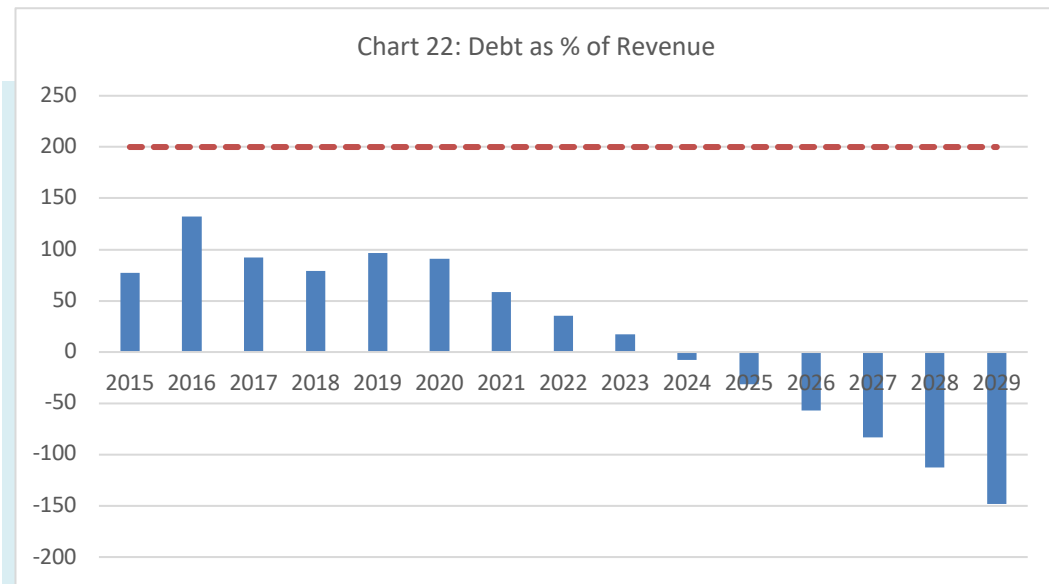
Chart 26: Fiscal Indicators



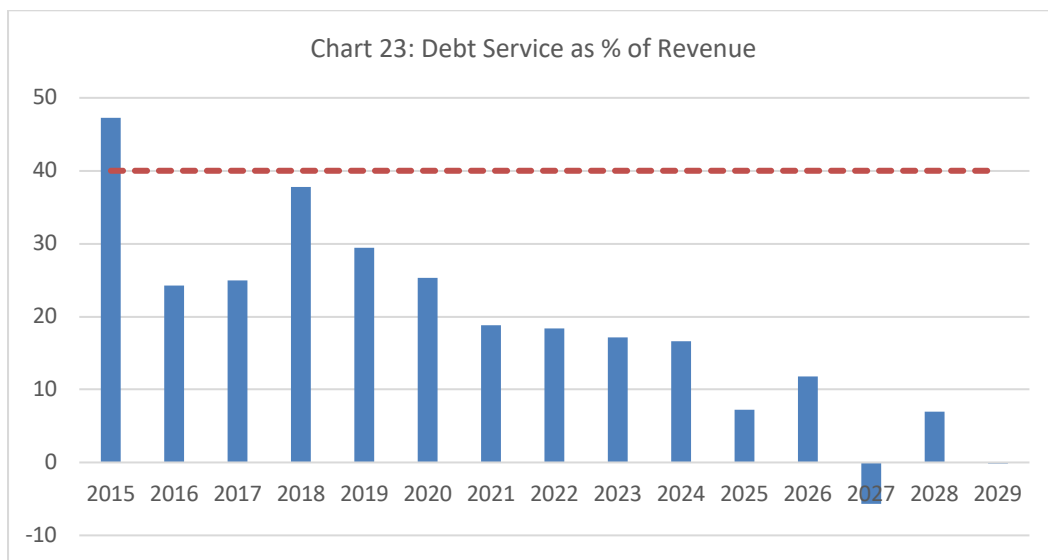
Source: Akwa Ibom State Financial Statements/Forecasts



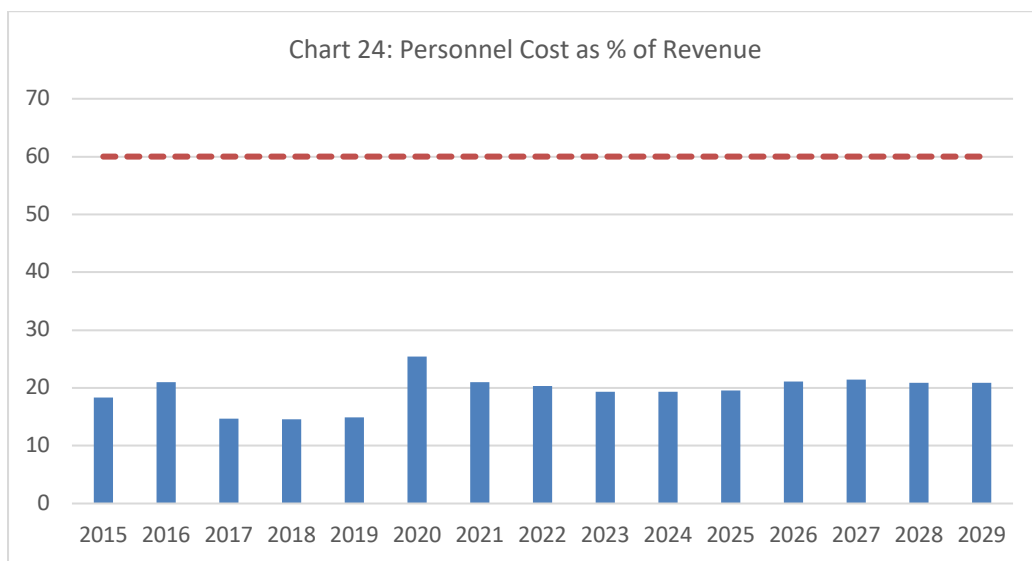
Source: Akwa Ibom State Financial Statements/Forecasts



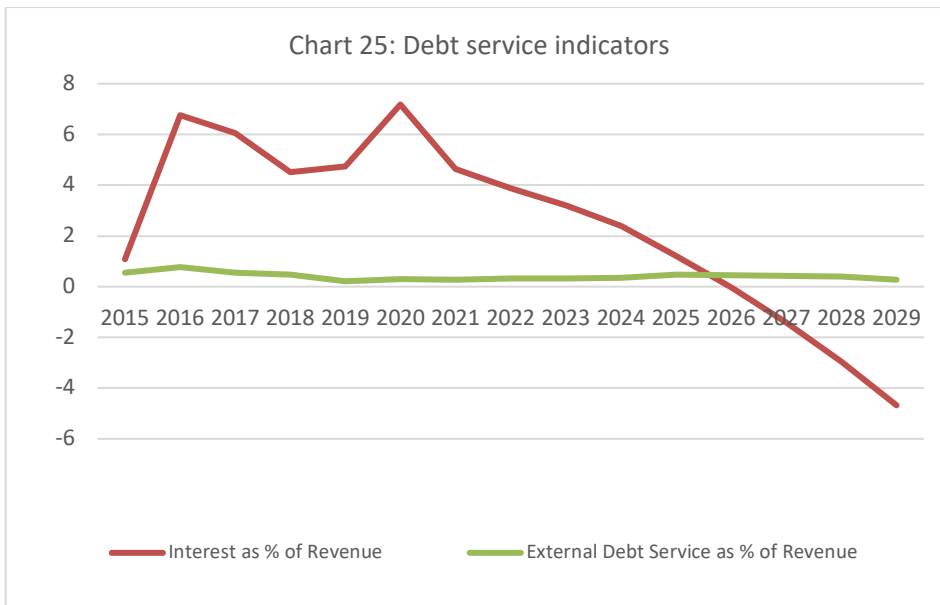
Source: Akwa Ibom State Financial Statements/Forecasts



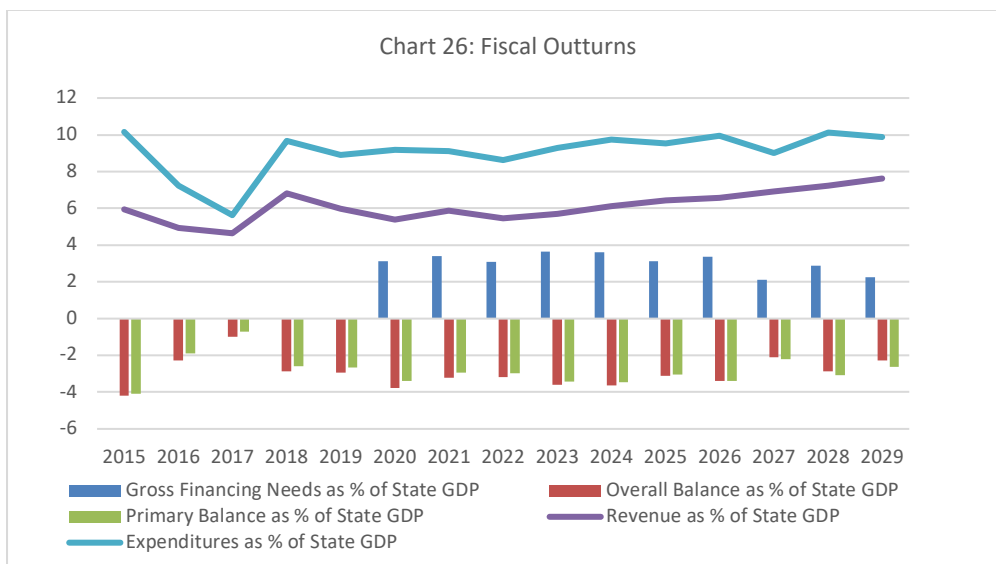
Source: Akwa Ibom State Financial Statements/Forecasts



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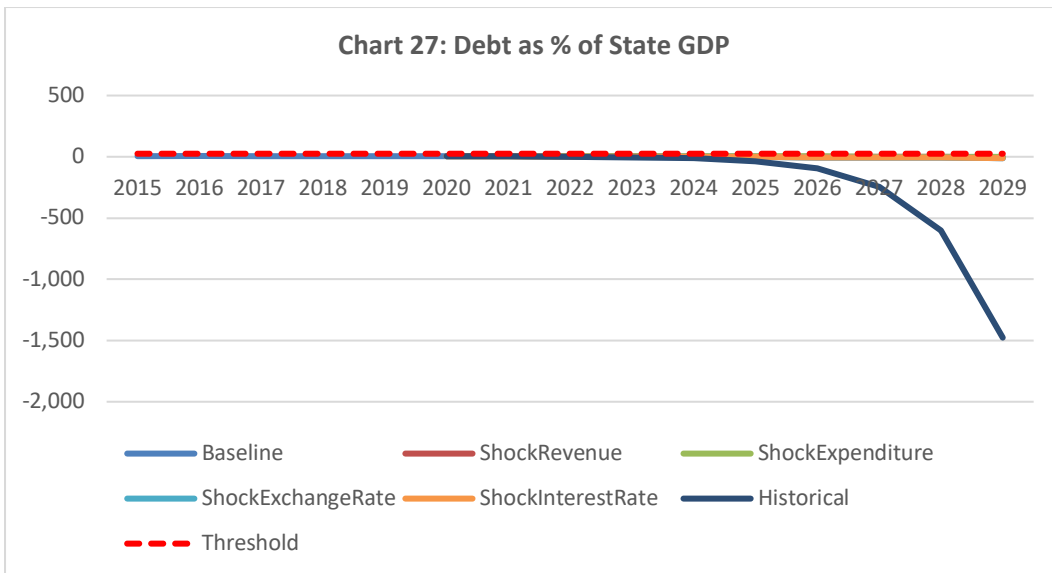


Source: Akwa Ibom State Financial Statements/Forecasts

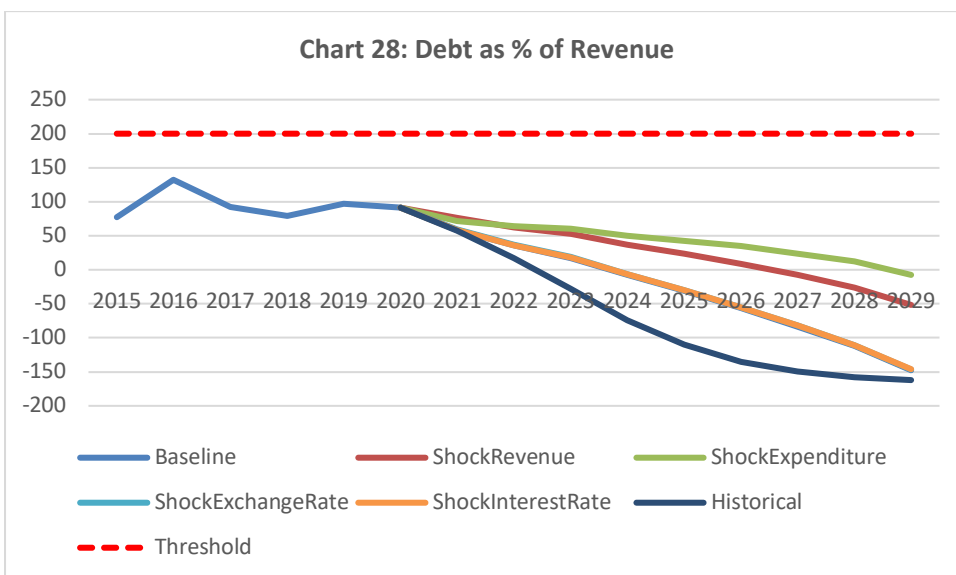
4.4 DSA Sensitivity Analysis (Stock Analysis)

The State Debt Sustainability would deteriorate moderately if the exchange rate/interest rate shocks materialize, mainly as a consequence of a diminished repayment capacity.

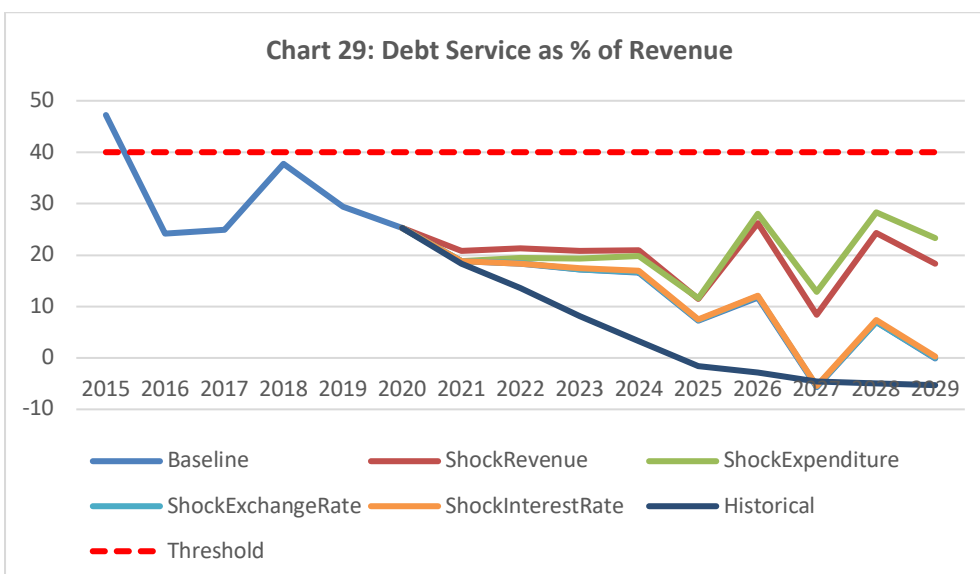
The State debt sustainability is expected to largely deteriorate if the revenue/expenditure shock were to occur.



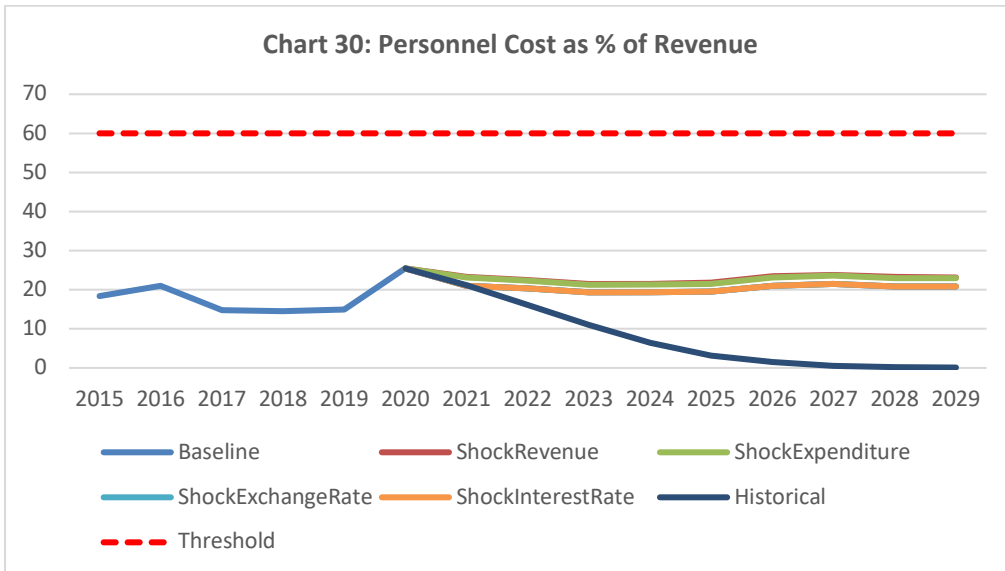
Source: Akwa Ibom State Financial Statements/Forecasts



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Source: Akwa Ibom State Financial Statements/Forecasts

LIST OF PARTICIPATING AGENCIES:

- 1) DMO - AKWA IBOM STATE
- 2) ACCOUNTANT-GENERAL'S OFFICE - AKWA IBOM STATE
- 3) MINISTRY OF ECONOMIC DEVELOPMENT & IBOM DEEP SEAPORT
- 4) STATE BUDGET OFFICE
- 5) MINISTRY OF FINANCE
- 6) INTERNAL REVENUE SERVICE

OFFICIALS

- | | | |
|-----------------------------|---|--------------------|
| 1) MRS. ENOBONG OKPONGKPONG | - | DMO |
| 2) MR. XAVIER ESSIEN | - | DMO |
| 3) PASTOR MFON UDOMA | - | SFTAS FOCAL PERSON |
| 4) MR. VICTOR EDET | - | MOF |
| 5) MR. EKWERE ESHIET | - | BUDGET OFFICE |
| 6) MR. ANIETIMFON UMOH | - | DMO |
| 7) MRS. JOSEPHINE EBE | - | AG's OFFICE |
| 8) MRS. IMAOBONG EKARRIKA | - | AG's OFFICE |
| 9) MR. KUFRE IBOKETTE | - | AKS IRS |
| 10) MR. UDUAK S. DAVID | - | DMO |
| 11) MR. UDOMA SUNDAY AKPAN | - | MIN. OF ECON. DEV. |
| 12) MRS. IDONGESIT ASUQUO | - | MIN. OF ECON DEV. |
| 13) MISS ELIZABETH INWANG | - | DMO |