DEBT MANAGEMENT OFFICE
NIGERIA

States Fiscal Transparency, Accountability and Sustainabilty

ANAMBRA STATE DEBT SUSTAINABILITY ANALYSIS (STATE DSA)

DEVELOPED BY THE

DEBT MANAGEMENT DEPARTMENT

IN COLLABORATION WITH

ANAMBRA STATE BUDGET OFFICE
ANAMBRA STATE INTERNAL REVENUE SERVICE
MINSITRY OF FINANCE
OFFICE OF THE ACCOUNTANT GENERAL

DECEMBER, 2020

1. Introduction

The Anambra State Debt Sustainability Analysis report analyzes trends and patterns of Anambra State's public finances during the period 2015-2019, and evaluates the debt sustainability in 2020-2029 (the long-term). 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 scenario and sensitivity analysis, in order to evaluate the prospective performance of the State's public finances…".

The findings of S-DSA show that Anambra *State exhibits a solid debt position that appears* sustainable in the long term (second paragraph of Section 4.3). This solid debt position results from the State's strong performance in terms of mobilizing IGR—underpinned by the successful tax administration reforms introduced recently—, its control of recurrent expenditure growth and its low level of public debt (second paragraph of Section 4.1 and first paragraph of Section 3.2). Given the State's own forecasts for the economy and reasonable assumptions concerning

2. The State Fiscal and Debt Framework

Since after the recession of 2016 brought about by a fall in Crude oil price from $112 per barrel in 2014 to below $50 in 2016, Anambra State has introduced measures to grow its Internally Generated Revenue (IGR) to complement the statutory allocation from Federal Government. The state also has been implementing other strategies aimed at reducing recurrent expenditure, thus, reducing the need to borrow. Some of the measures include: enrolling Ndi Anambra into the Tax net through the Anambra State Social Identity Number (ANSSID), eliminating cash-based payment for revenue receipts, automating tax administration processes, introduction of Treasury Single Account and linking of Pay roll of both workers and pensioners to their Bank Verification Numbers to eliminate ghosts. These measures contributed in increasing the Internally Generated Revenue (IGR) figure from a monthly figure of N1.2 billion in 2016 to approximately N1.7 billion in 2019, and the State was on course to achieving N2.5 billion monthly before the onset of COVID-19 pandemic.

Following the COVID-19 pandemic which caused a fall in crude oil price, and the national and state-wide lockdown of businesses, Federal and State Governments were left with no option but to review their approved budgets downwards in line with the expected reductions in revenue. Other assumptions such as exchange rate, volume of oil production, inflation, GDP growth rate etc. were also adversely affected. The 2020 budget was revised from N137,135 billion to N114,971 billion indicating a reduction of 16.1%. Internally Generated Revenue (IGR) figure was reviewed downwards from N30 billion in the original budget to N27 billion representing a 10% reduction in IGR collections. Also, projection for loan receipts was reduced by 60%, in the revised budget from initially budgeted N16 billion to N10 billion. This revision was as a result of more conservative projections across external loan programs as a result of COVID-19.

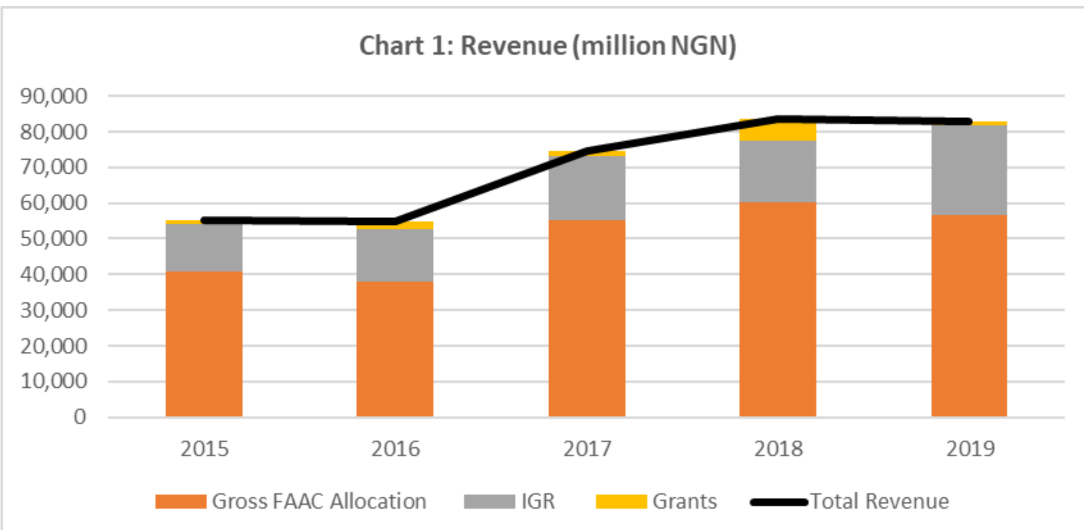
For 2021 fiscal year, we have proposed a budget size of N143.65 billion. out of which recurrent expenditure is projected to gulp 39.5% of the total budget size, translating to N56.77 billion, the remaining 60.5% which translates to N86.88 billion is for capital expenditure. To finance the budget, N36.6 billion would be raised internally by optimizing our IGR windows through automation as well as strengthening our enforcement initiatives and sustaining the growth of our tax database. N88.65 billion will be sourced externally from Statutory Allocations, VAT allocations and grants. N11 billion will be borrowed (N8billion from External and N3billion from Domestic sources) to cover for the deficit of N8.72 billion. Total expenditure, IGR and debt are projected to grow in the MTEF by 7.5% yearly till 2023

3. The State Revenue, Expenditure, and Public Debt Trends (2015 – 2019)

3.1 Revenue and Expenditure

This subsection should have **six paragraphs**. In this subsection the State should describe the performance of the revenues and expenditure between 2015 and 2019 in terms of nominal growth rate, variation of the total as a percentage of State-GDP, and variation of the most important categories as a percentage of the total revenue and expenditure[1].

Chart 1: Revenue

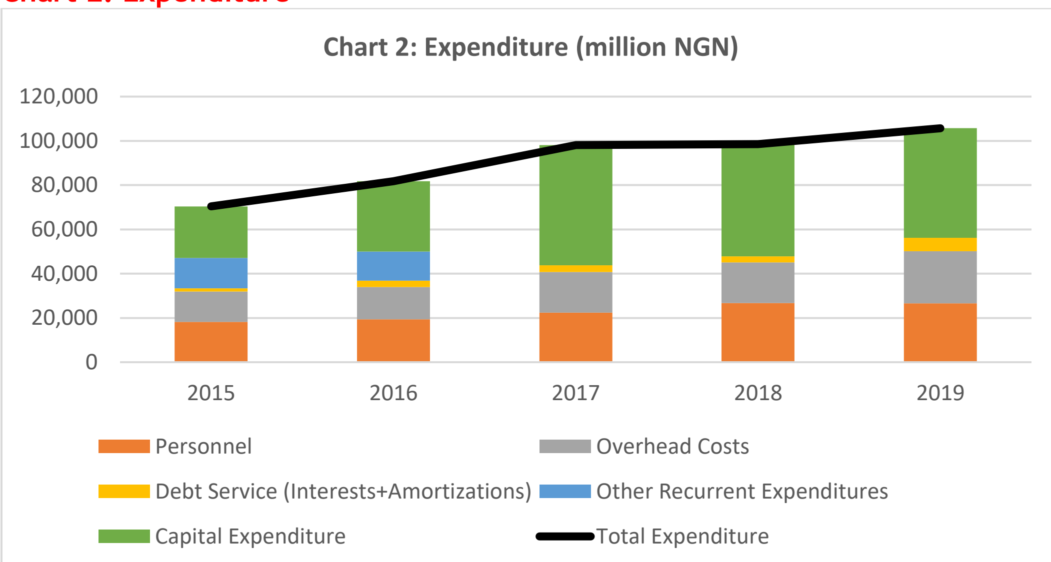


From the Chart above, total revenue has been increasing from N55 billion in 2015 to N83 billion in 2019, indicating a 51% increase. These growth trend were withnessed in other years apart from 2019 where the IGR figure increased by 47% to cover for the shortfall in Gross FAAC receipt brought about by a fall in Crude oil price.

The State exhibited strong IGR growth during the review period. IGR grew by 58 percent between 2015 and 2019, while as a share of aggregate revenue (excluding grants), it also increased from 13% in 2015 to 15% in 2019. The improvement in IGR is mainly a result of tax administration reforms aimed at improving collection rates and broadening the tax revenue base.

The State's federal allocation, including transfers from the excess crude account, increased by over 35% between 2015-2019. The Federal allocation contributed over 67% to the total revenue of Anambra State from 2015 to 2019. The highest share was in 2015 and 2018 when the Gross FAAC allocation contributed 75% and 72% respectively to the Total Revenue. Revenue from Grant was below 3% for the years under review except for year 2018 where the grant figure contributed a share of 7.2% to the total revenue of Anambra State. This as a result increase in grant from World Bank for SEPIP and SLOGOR projects.

Chart 2: Expenditure



In Chart 2 above, the expenditure exhibited a similar trend with the revenue, showing a regular growth rate of 15% in 2016 against 2015 to 19% in 2017 and a slight increase of 0.3% in 2018. This translates to a 50% growth from 2015 to 2019.

Capital expenditure showed more variation over the analyzed period and also took the highest share of the total expenditure, gulping about 30% of the total expenditure in 2015 and 2016 and averaging a share of 50% between 2017 and 2019. The increase in the share of capital expenditure is due to the State Government policy of spending more on capital project in line with budget best practice and to drive sustainable development. This was followed closely by Personnel cost and then overhead cost, each taking similar share of the total expenditure. The figure for debt servicing has the least share for the year under review as a result of the low amount of debt owed by Anambra State.

Chart 11: Fiscal Outturns

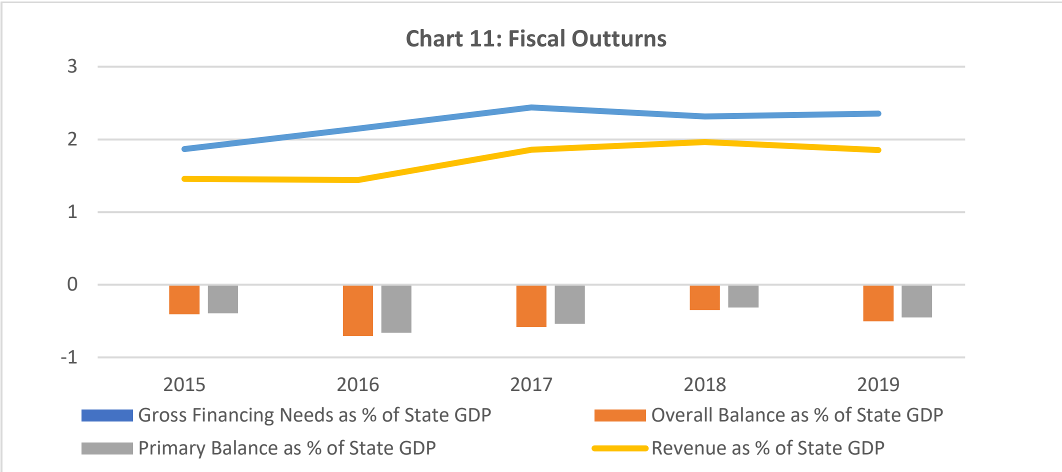


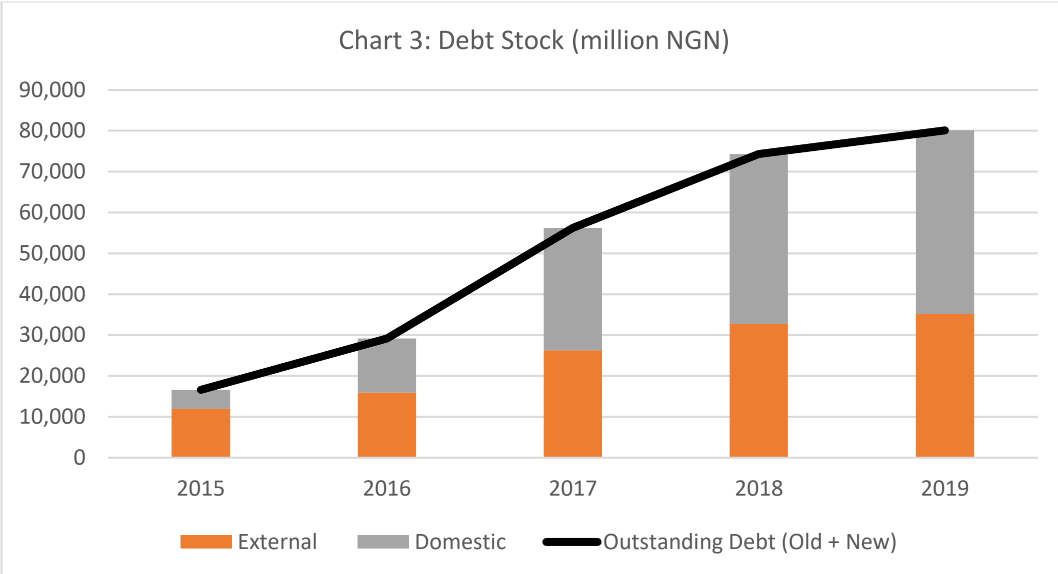
Chart 11 presents a variation of the total revenue and expenditure as a percentage of State-GDP. Total expenditure of the State as a percentage of the State GDP was below 2% in 2015, rose to 3% in 2017 and dropped below 2% in 2019. Also, revenue exhibited a similar trend, taking a 2% share of the GDP in 2015 and 2016, then increasing to 3% share in 2018 before dropping to 2.8% in 2019 despite the increase in IGR in 2019. Since 2014 the overall balance decreases continuously from 0.3% of State GDP in 2015 to 0.5 % of SGDP in 2019, owing to the fall in federal transfers (oil receipts). In 2017 and 2018, overall balance partially recovered to a deficit of 0.5 and 0.3 percent of SGDP, respectively, due to the adjustment of personnel expenditure and of pensions and gratuities and the upturn of federal transfers.

3.2 Existing Public Debt Portfolio

The table below describes the evolution of the State debt stock between 2015 to 2019, in terms of total IGR, the State GDP and growth rate over the period;

	2015	2016	2017	2018	2019	Variance	% Growth B/W 2015 and 2019
State GDP (at current prices) Source: Ananmbra State Bureau of Statistics	3,773,033.44	3,805,868.20	4,023,848.69	4,255,202.69	4,486,260.20	713,226.76	18.90327153
Total External Debt - Stocks	60.78	62.88	85.92	107.04	108.08	47.30	77.8219773
Total Domestic Debt - Stocks	4,666.72	13,280.72	29,942.46	41,529.45	44,860.15	40,193.43	861.2781868
IGR	13,383.35	14,862.63	18,197.79	17,161.53	25,183.56	11,800.21	88.17

The table above shows that in 2015 the State GDP in current price is 3,773,033.44 and 4,486,260.20 in 2019 showing 18.9% increase in growth rate and variance of 713,226.76. The total external for 2015 is 60.78 and domestic is 4,666.72 while, 2019 external and domestic is 108.08 and 44,860.15 respectively with growth rate of 77.8% & 86.1% and IGR of 88.17%



The State public debt amounted to over N80 billion as of end-2019 and has been increasing since the collapse of oil prices as shown by the graph. The State's debt portfolio largely consists of external loans which is about USD108.08 as at end of 2019 of which 108.2 is sourced from World Bank and 0.6 from Multilateral Creditors. The total domestic loans is N1, 090.94

*II. "**The State holds a low-cost, low-risk debt portfolio**. The debt portfolio carried an average, implicit interest rate of 10 percent in 2018-2019 and the interest payments represented just 7 percent of total expenditure*[2]. *In addition, the debt portfolio is narrowly exposed to currency, interest rate, and rollover risks. Exposure to currency fluctuations is limited because the foreign currency-denominated liabilities are only 20 percent of the total stock. Most internal loans and all external loans are fixed-rate obligations, thus not affected by changes in interest rates. As these loans have maturities running from 10 to 40 years and include financing from the Federal Government and multilateral organizations, 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 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".

4.1 Medium-Term Budget Forecast

The Anambra State's medium-term debt sustainability is predicated upon a gradual recovery of the Nigerian economy that will increase FAAC statutory allocation. According to the Federal Government and State's own forecasts, the Nigerian economy is expected to gradually recover in the period 2021-2023, with real GDP expanding at an average annual rate of 3 percent and domestic inflation decreasing below 10 percent by 2022. Such a moderate recovery will be supported by higher oil prices in global markets, an increase in domestic production, prudent fiscal policy, and the stabilization of the exchange rate relevant for international public-sector financial transactions 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...".

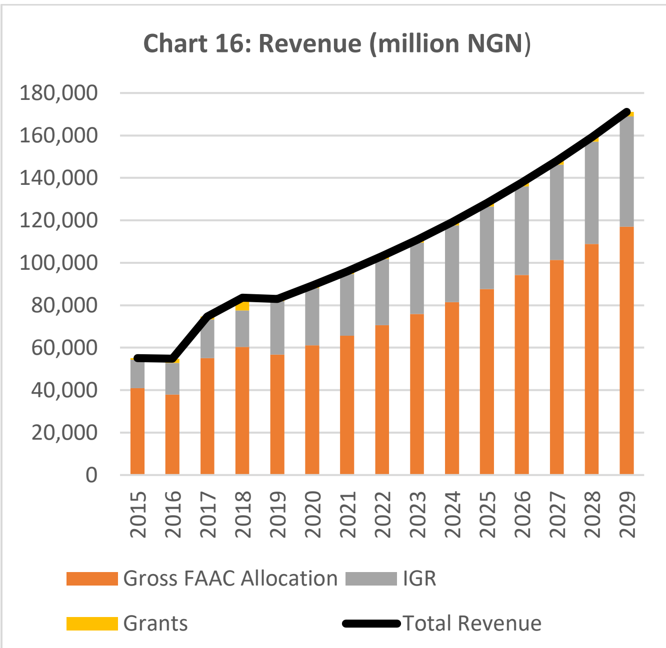
Debt sustainability analysis is also predicated on the continuation of recent efforts to mobilize local revenue sources, and on unchanged policies concerning personnel and other operating expenses. At local level, the tax administration reforms adopted by the State Government to strengthen resources provided by IGR, are expected to continue in the next few years and will benefit from the overall economic recovery. For overhead costs, the State plans to further eliminate unnecessary expense. On the other hand, no new policies are anticipated with regard to personnel cost and it is thus likely to preserve its historical trends.

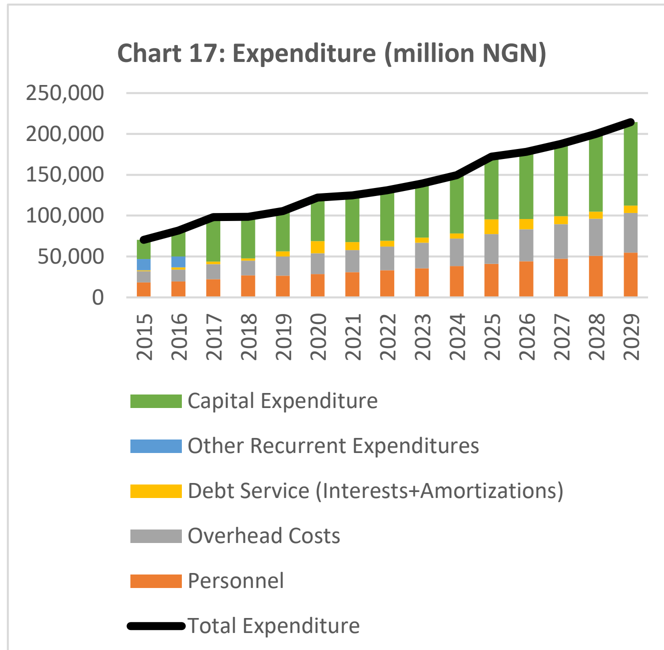
4.2 Borrowing options

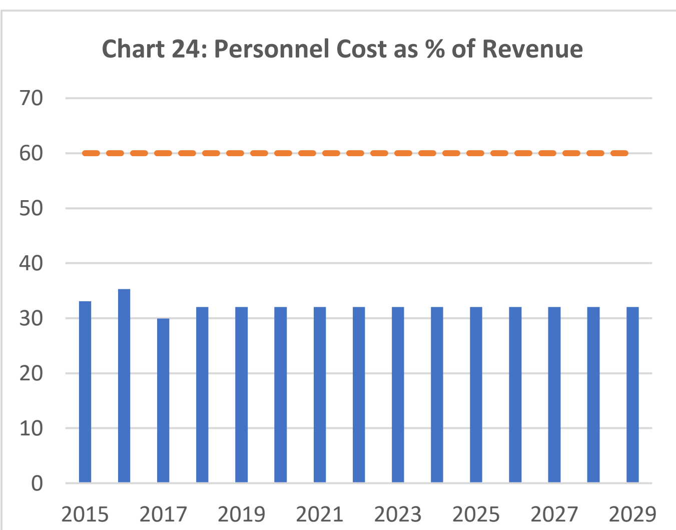
The State does not plan to take new loan but to live within the limit of its earnings.

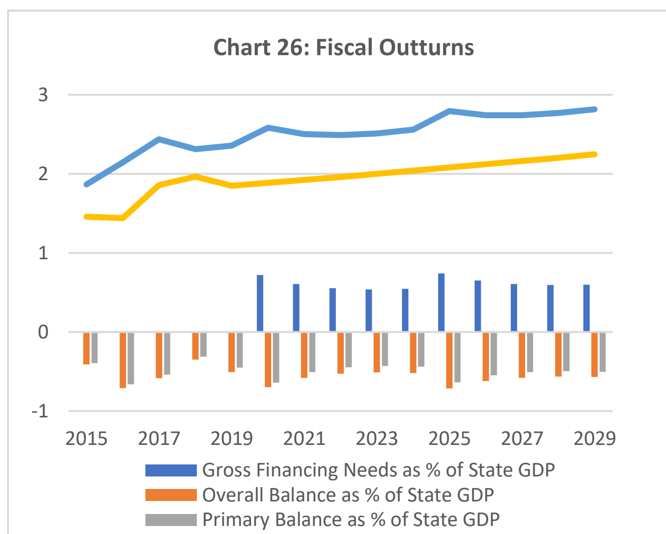
4.3 DSA Simulation Results

Here the States must describe in **two paragraph** the main findings and results of the **Baseline Scenario** in terms of projected revenue, expenditure, primary and overall balance; and Debt and Debt Service Indicators and Thresholds.









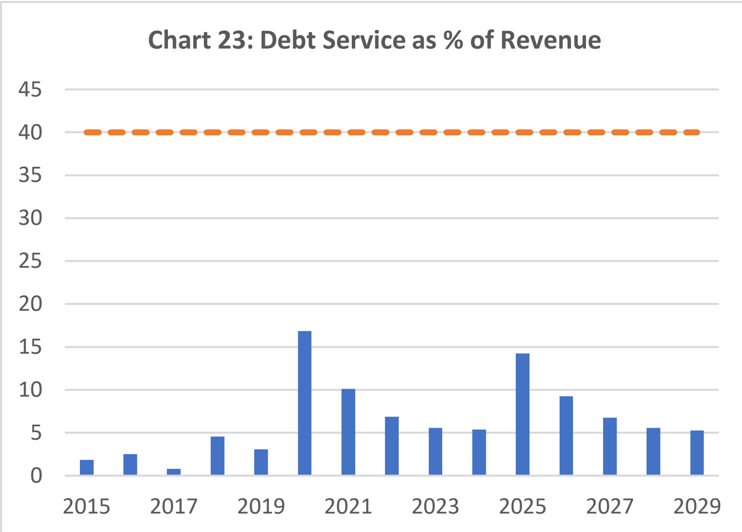


Chart 23: Debt Service as % of Revenue
45
40
35
30
25
20
15
10
5
0
2015
2017
2019
2021
2023
2025
2027
2029

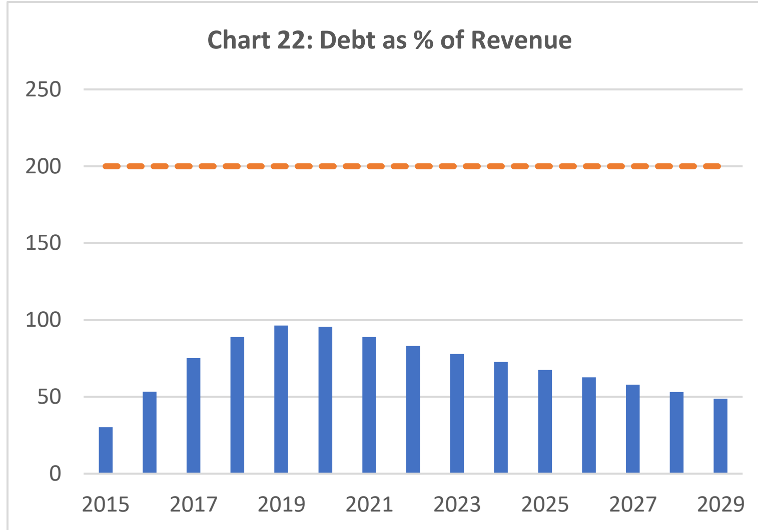


Chart 22: Debt as % of Revenue
250
200
150
100
50
0
2015
2017
2019
2021
2023
2025
2027
2029

In the Baseline Scenario, the State preserves debt sustainability. Total revenue (including grants and excluding other capital receipts) is projected to increase from N83.02 billion in 2019 to N171.11 billion by 2029 (Chart 16). Total expenditure will expand from N105.69 billion in 2019 to N214.43 billion by 2029 (Chart 17). Therefore, the fiscal deficit—computed as the difference between revenue and expenditure—is expected to remain within a range of N40 billion to N43 billion in nominal terms, compared to the 2019 deficit of N22.67 billion.

As a consequence of the modest increase in investment and external borrowings, the public debt will decline and the State's repayment capacity will rise pari passu (Charts 22). Debt is projected to fall from N100 billion as of end-2019 to N49 billion by 2029. However, relative to the State's repayment capacity, the public debt position will improve: it is expected to increase from 110 percent of the Revenue in 2019 to 90 percent by 2029. 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-term.