Second Assessment of State DSA-DMS Report 2023

Cross River State

1. Introduction.

The State Debt Sustainability Analysis & Debt Management Strategy Report (SDSA-DMSR) must fulfill ALL minimum requirements detailed in the Verification Protocols (VP) for SFTAS DLI 7.2 Component of SDSA-DMSR for the year 2022s. The requirements for year 2023 are the same as year 2021 and 2022 and are presented in column 1 of Table 2. The SDSA-DMSR must be published on the state's official website by December 15, 2023.

Please note that the SDSA-DMSR is an official document that is expected to communicate pertinent information concerning the State's finances and related fiscal, debt policies and debt management strategy. In this regard, the SDSA-DMSR should exhibit an adequate level of technical quality, logical consistency, and editorial style.

Section 2 provides an assessment of the SDSA-DMSR against 2023 minimum requirements. **Table 1** provides an overall assessment if the SDSA-DMSR met all the minimum requirements. **Table 2** provides the detailed assessment and feedback on each of the minimum requirement elements across the three dimensions: i) The SDSAR must include the following: 1) medium-term budget forecasts; 2) detailed description of the debt portfolio and borrowing options; and 3) analysis of the debt and fiscal figures in the preceding calendar year.

2. Overall and detailed assessments

Table 1: Overall assessment of the SDSA-DMSR component for DLI 7.2 in 2023

Assessment	**Requirement: Met/Not met**	**Assessment**
Overall S-DSA Assessment:	**Not met** **Met**	The first draft presents a clear and comprehensive analysis, but some issues need to be addressed for approval. The second draft fully meets the minimum requirements established in the Verification Protocols (VP) for SFTAS DLI 7.2.

Table 2: Detailed assessment of the SDSA-DMSR component for DLI 7.2 in 2023

Detailed Minimum requirement (as in the verification protocols): ***All requirements need to be satisfied to meet the SDSA - DMSR requirement for the SFTAS DLI 7.2***	**Requirement: Met/Not met**	**Assessment**
The SDSA-DMSR for 2023 must include:		
4.1 For *1)* ***medium-term budget (MTB) forecasts,*** **the SDSA-DMSR 2023 must contain:**	**Not met** **Met**	
4.1.1 **Presentation of MTB forecasts in either a table OR chart(s) (OR both table and chart(s)) with projected annual figures from 2023 to 2026 for the following variables:** - Revenues: Total Revenues, FAAC, Derivation (if applicable), IGR, Capital Receipts, and Grants. - Expenditures: Total Expenditures, Personnel Costs, Overhead Costs, Interest Payments, Capital Expenditures, and Amortization Payments.	**Met** **Met**	

	- Budget Balance. **AND**		
4.1.2	**Description of assumptions underpinning the MTB forecasts from 2023 to 2026: either a table with assumptions OR corresponding explanations in writing (OR both) for the following variables:** - Revenues: Total Revenues, FAAC, Derivation (if applicable), IGR, Capital Receipts, and Grants. - Expenditures: Total Expenditures, Personnel Costs, Overhead Costs, Interest Payments, Capital Expenditures, and Amortization Payments. - Budget Balance. **AND**	**Met** **Met**	
4.1.3	**A summary analysis of MTB forecasts and their implications for fiscal and debt policies throughout the period 2023-2026: analysis (in writing) of whether and how the MTB forecasts inform the prospective fiscal and debt policies to be adopted at least in 2023** (for example, a commentary on whether fiscal adjustments should be adopted to preserve debt sustainability, or whether there is sufficient fiscal space to adopt expansionary policies or support public investment). **AND**	**Met** **Met**	
4.1.4	**The presentation and analysis in the entire forecast period need to be of adequate quality**, and do not contain: i) negative figures for revenue, expenditure or debt variables (budget balance can be negative); ii) contradictory or illogical statements or arguments (for example, the written text contains wrong assertions such as ‘sustainability is strengthened when the fiscal indicators deteriorate’); iii) inconsistencies between the written assessment and the data, assumptions and projections presented in the	**Not met** **Met**	Macroeconomic assumptions need to be reviewed for consistency. 1. Three different inflation assumptions are mentioned in page 20 for 2023 (below 10%, 16.11%, 14.93%) 2. The last paragraph of page 20 contradicts table 4.3 on page 20 for real GDP growth assumptions

document (for example, the written text refers to figures and projections significantly different from those reported in the tables and charts).		The MTEF is referred to as covering 2023-2025, 2023-2026, 2024-26 in different paragraphs (see for example page 20). Please ensure that the appropriate period is mentioned. The MTFF table is presented twice, on pages 9 and 21. Addressed.
4.2 For *2)* ***detailed description of the debt portfolio and borrowing options*****, the SDSA-DMSR 2023 must contain:**	**Not met** **Met**	
4.2.1 **Presentation of debt and borrowing projections *in the baseline scenario*: either a table OR charts (OR both) with projected figures from 2023 to 2032 for the following variables:** - Debt Stock. - Debt as % of Revenues. - Debt Services as % of Revenues. - Borrowings (requirements and/or sources). - Debt stock as % of State GDP, *ONLY for states for which the official State GDP figures have been published by the National Bureau of statistics.[1] Other states, can do this on an optional basis.* **AND**	**Met** **Met**	
4.2.2 **Description of assumptions underpinning the borrowing options presented: either a table with assumptions OR corresponding explanations in writing (OR both) for the following variables:**	**Met** **Met**	

	- Borrowing Sources (for example, external and domestic borrowings). - Financing Terms (for example, maturity, interest rates, currency).		
4.2.3	**A summary analysis of the debt projections and their implications for debt sustainability and fiscal policies throughout the period 2023-2032: analysis (in writing) of:** I). whether debt projections and thresholds suggest the State debt is sustainable (or not) over the medium- to long-term; AND II). what fiscal policies can help preserve (or restore) debt sustainability (for example, a commentary—based on comparisons between debt projections and thresholds in the baseline scenario and shock scenarios—on (i) whether the State debt is sustainable (or not), and (ii) what fiscal and debt policies should be adopted to preserve (or restore) debt sustainability). **AND**	**Met** **Met**	
4.2.4	**A summary analysis of the projections of performance indicators used to assess DMS throughout the period 2023-2027, and their implications for cost-risk profile of State debt portfolio in 2027.** The analysis (in writing) should describe: (i) whether DMS-related performance indicators suggest the State debt is affordable and resilient to shocks (or not) over the medium-term, and (ii) what debt-management policies can help preserve (or restore) an adequate balance between cost of carrying debt and the exposure to risks. For example, a commentary—based on comparisons between projections of DMS-related performance indicators in the baseline scenario and most-adverse shock scenarios—on (i) whether the cost-risk profile of the State debt under the reference strategy is acceptable (or not), and (ii) what	**Met** **Met**	

	debt-management policies should be adopted to mitigate the cost and risk of the State debt portfolio. **AND**		
4.2.5	**The presentation and analysis in the entire forecast period need to be of adequate quality**, and do not contain: i) negative figures for revenue, expenditure or debt variables (budget balance can be negative); ii) contradictory or illogical statements or arguments (for example, the written text contains wrong assertions such as 'sustainability is strengthened when the fiscal indicators deteriorate'); iii) inconsistencies between the written assessment and the data, assumptions and projections presented in the document (for example, the written text refers to figures and projections significantly different from those reported in the tables and charts).	**Not met** **Met**	The statements about debt sustainability need to be reviewed for consistency. The document says: 1. "the State exhibits a solid debt position that appears not too sustainable in the medium to the long term" (page 3) 2. "the debt sustainability position of the State is solid especially for projection years" (page 4) 3. ~~"The debt and debt service indicators for Cross River State for the historical and projection years shows that the debt levels are not sustainable" (page 18)~~ (are sustainable) 4. "the projected debt levels in the State is favourable and sustainable subject to continued implementation of its fiscal policies" (page 18) 5. table 4.1 shows no breaches of sustainability indicator thresholds beyond 2023 (page 18) 6. "This shows a solid debt sustainability position for the State from 2024 to 2032" (page 29) 7. "Cross River State DSA result shows that the State remains at Low Risk of Debt Distress in the future years" (page 29) 8. ~~"The 2023 DSA analysis shows that Cross River State remains at medium risk of debt distress under sensitivity analysis" (page 30)~~ (low risk) 9. the baseline indicators under the reference debt Strategy (S1) suggest that the debt sustainability position of the State is not

		threatened in the medium and long term (page 28) The characterization of debt as sustainable or not, or the risk of unsustainability, must be unique. Different indicators might give different signals, but the analysis must take all of them into consideration and produce a single consistent assessment. The same goes for the sensitivity analysis. It would seem that according to the projections a correct assessment would be of medium risk, as some relevant indicators are breached over several years for common shocks under the sensitivity analysis. Ok.
4.3 **For *3) analysis of the debt and fiscal annual figures in the preceding calendar year*, the SDSA-DMSR 2023 must contain:**	**Met** **Met**	
4.3.1 **Presentation of revenue, expenditure, budget balance, and debt information, at least for 2022: either a table OR charts (OR both table and chart(s)) with historical figures for at least 2022 (but can extend to years preceding 2022) for the following variables:** - Revenues: Total Revenues, FAAC, Derivation (if applicable), IGR, Capital Receipts, and Grants. - Expenditures: Total Expenditures, Personnel Costs, Overhead Costs, Interest Payments, Capital Expenditures, and Amortization Payments. - Budget Balance. - Debt Stock. - Debt as % of Revenues.	**Met** **Met**	

4.3.2	**A summary analysis of the information presented on revenue, expenditure, budget balance, and debt in 2022: analysis (in writing) of fiscal and debt situation in 2022** (for example, a commentary on budget and debt outcomes and economic trends, what may have affected them).	**Met** **Met**	
4.3.3	**A summary analysis (in writing) of the consistency between:** (i) the fiscal and debt information for 2022 presented in the SDSA-DMSR 2023 and (ii) the fiscal and debt information presented in the 2022 Financial Statement and the 2022 Q4 State Debt Report**.**	**NA**	**Not assessed**
4.3.4	**The presentation and analysis in the entire historical period need to be of adequate quality**, and not contain: i) negative values for revenue, expenditure, debt service or debt stock figures; ii) contradictory or illogical statements or arguments (for example, the written text contains wrong assertions such as 'sustainability is strengthened when the debt indicators deteriorate'); iii) inconsistencies between the written assessment and the data, assumptions and projections presented in the document (for example, the written text refers to figures significantly different from those reported in the tables and charts).	**Not met** **Met**	On page 14 the report states that "the overall balance as a share of State GDP has been decreasing". It would be more appropriate to say that the overall deficit has been decreasing, or that the balance has been increasing (it is a less negative value than in prior years). Also on page 14, "it moved from -1.33% in 2018 to 0.65% in 2022". Notice that a minus is missing before 0.65%. Ok.