

# Small States - Performance in Public Debt Management

Jeffrey D. Lewis

Director

Economic Policy, Debt and Trade Department

World Bank

Small States Forum

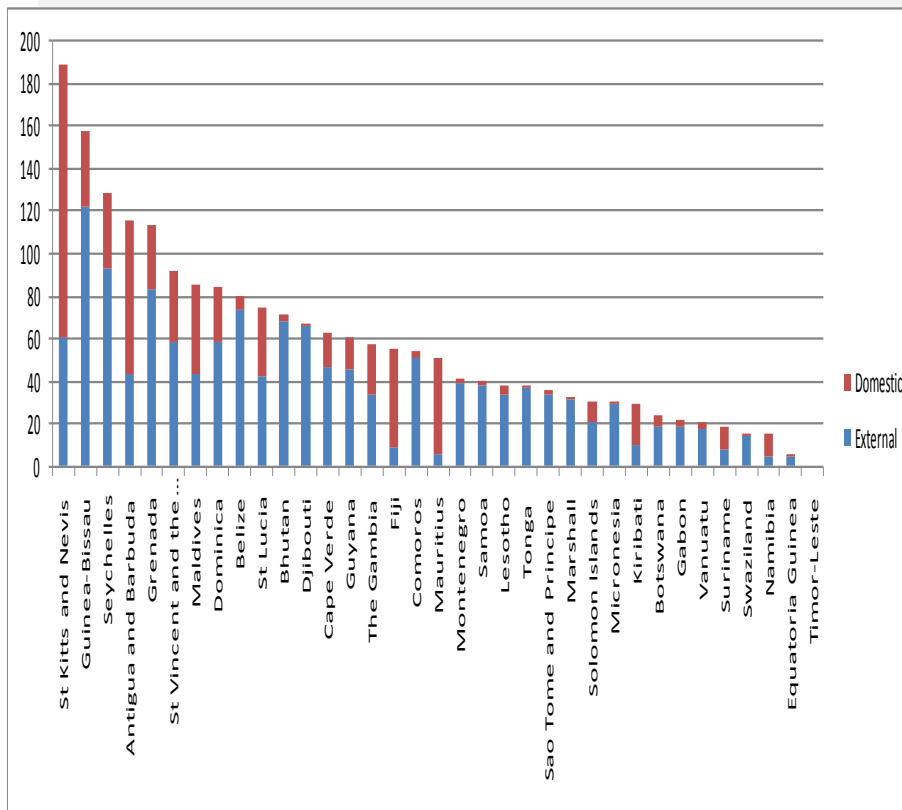
October 12, 2013, Washington DC

# Outline

1. The small state context
2. Assessing public debt management with the DeMPA
3. Key findings
4. Recommendations

# Small States Face Special Difficulties

## High public debt levels AND slow growth



### GDP Growth and Volatility

(Based on real GDP growth rates (PPP) 1971-2009)

Countries	Number	Average Growth	Average Std. Dev
Caribbean	13	2.2	4.7
ECCU	6	4.3	4.2
Latin America	17	3.4	4.5

Sources: WEO, IMF Staff Calculations and World Bank Staff Calculations

\*1980-2010

1/share of years (%) with growth lower than -5.1 percent (which corresponds to the 5th percentile of all country/years growth)

# Small States Debt-Growth Dynamics

## High Vulnerability to External Shocks and Fiscal Deficits

- Greater frequency / magnitude of natural disasters
- High debt service burden diverts public resources away from critical social and productive capital expenditures
- High debt levels increase cost of new borrowing through augmented perceived market risk of newly issued debt
- Limited fiscal space for counter-cyclical spending can exacerbate crises
- Limited financial capacity to respond to and recover from natural disasters
- Constrained ability to borrow limits government ability to leverage private investment through public private partnerships

# Debt & Fiscal Management Links

## Debt Management

### **DeMPA**

(Process and functions)

### **Reform plans**

(from diagnosis to action)

### **Medium-term debt management strategy (MTDS)**

(composition of borrowing; linked with sustainability)

### **Debt sustainability (DSA)**

(level of debt; fiscal policy)

# What is DeMPA

## Objective

- Assess public debt management performance capacity
- Monitor performance
- Design reform program

## Methodology coverage

- 15 Performance Indicators (DPI)
- 35 Dimensions
- Covers six core debt management functions
- Central government debt management

## Implementation

- Assessment missions
- Performance Report – diagnostic
- Report released at the authorities' discretion
- Demand-driven

# Debt Performance Indicators

	<b>Governance and Strategy Development</b>
DPI-1	Legal Framework
DPI-2	Managerial Structure
DPI-3	Debt Management Strategy
DPI-4	Evaluation of Debt Management Operations
DPI-5	Audit
	<b>Coordination with Macroeconomic Policies</b>
DPI-6	Coordination with Fiscal Policy
DPI-7	Coordination with Monetary Policy
	<b>Borrowing and Related Financing Activities</b>
DPI-8	Domestic Borrowing
DPI-9	External Borrowing
DPI-10	Loan Guarantees, On-lending and Derivatives
	<b>Cash Flow Forecasting and Cash Balance Management</b>
DPI-11	Cash Flow Forecasting and Cash Balance Management
	<b>Operational Risk Management</b>
DPI-12	Debt Administration and Data Security
DPI-13	Segregation of Duties, Staff Capacity and Business Continuity
	<b>Debt Records and Reporting</b>
DPI-14	Debt Records
DPI-15	Debt Reporting

# Scoring methodology

## Scoring method - Quantifiable scores (A to D)

i) Meet minimum requirement = Score C

✓ Important for effective debt management

ii) Absence of minimum requirement = Score D

✓ Signals an area of priority attention

iii) Sound practice = Score A (B intermediate score)

iv) Not rated – if process/system does not exist (e.g., derivatives)



# DeMPAs in over 70 developing countries

## FY07 – pilot (5)

- **The Gambia**
- Malawi
- Albania
- **Guyana**
- Nicaragua

## FY08 (13)

- Burkina Faso (RO)
- CAR (RO)
- Ghana
- Mali (RO)
- Mozambique
- Togo
- **Sao Tome Principe**
- **Swaziland (RO)**
- Zambia
- Bangladesh
- Honduras (RO)
- Moldova
- Mongolia

## FY09 (14)

- Burundi (RO)
- Uganda (RO)
- **St Kitts & Nevis (ECCB)**
- **Solomon Islands (RO)**
- **Cape Verde**
- Cameroon (RO)
- Congo, Brazzaville (RO)
- Guinea (RO)
- Nigeria (RO)
- Rwanda (RO)
- Congo, DRC (RO)
- Cote d'Ivoire (RO)
- **Grenada**
- **Antigua**

## FY10 (15)

- Benin
- Mauritania
- Tanzania
- **Djibouti**
- Pakistan
- Nepal (RO)
- **Samoa (RO)**
- **The Gambia, second (RO)**
- Cambodia (RO)
- **Maldives (RO)**
- Malawi (**second**)
- Liberia (RO)
- **Guinea-Bissau (RO)**
- Senegal (RO)
- Sierra Leone (RO)

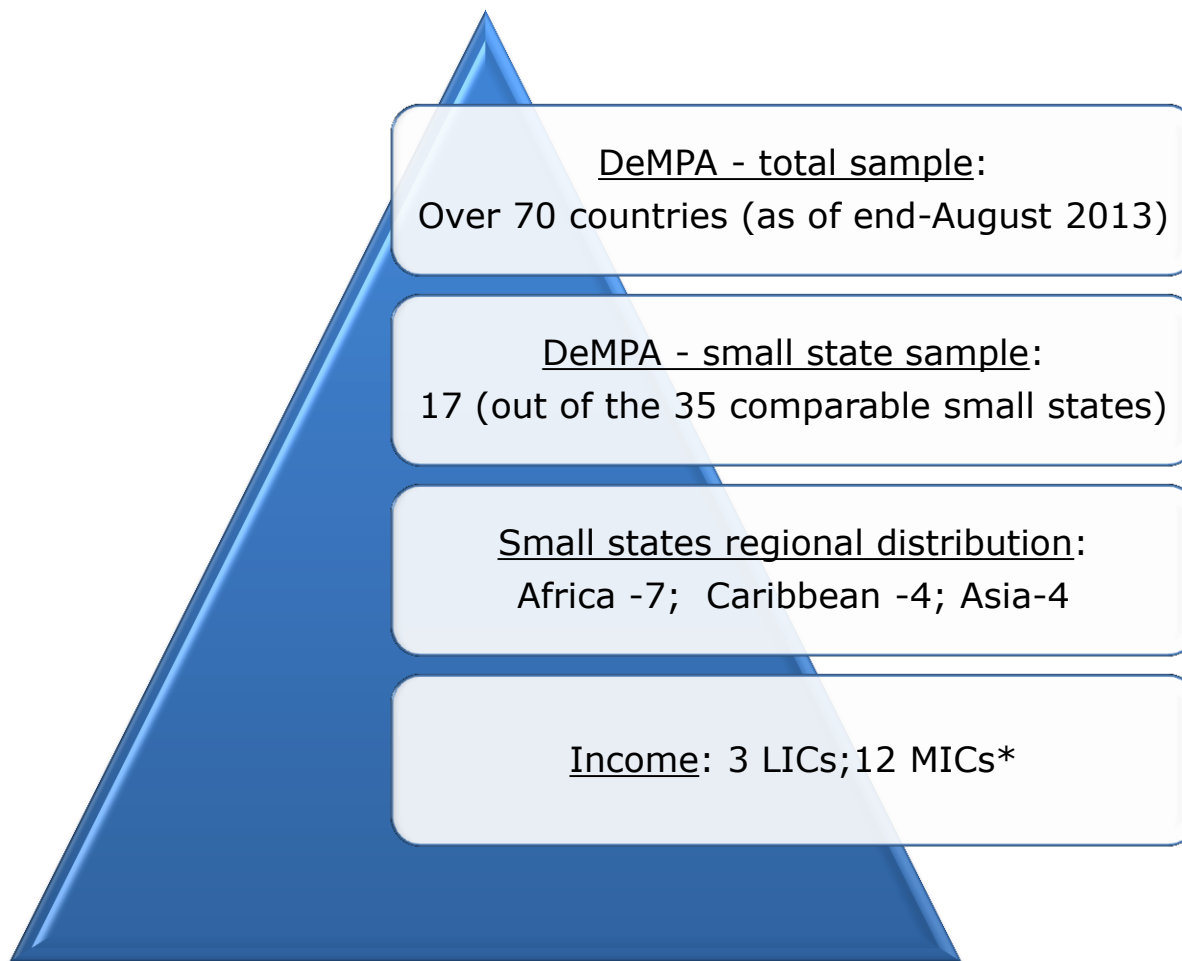
## FY11 (18)

- Papua New Guinea
- Albania, **second**
- Yemen (RO)
- Nicaragua, **second** (RO)
- Togo, **second** (RO)
- Kazakhstan
- Mongolia, **second** (RO)
- **Bhutan (RO)**
- **Comoros (RO)**
- Zambia **second** (RO)
- Lagos
- Burkina Faso, **second** (RO)
- **Swaziland**
- Rio de Janeiro
- Tajikistan (RO)
- Belarus
- Afghanistan (RO)
- **Sao, Tome & Principe second (RO)**

## FY12 – (2)

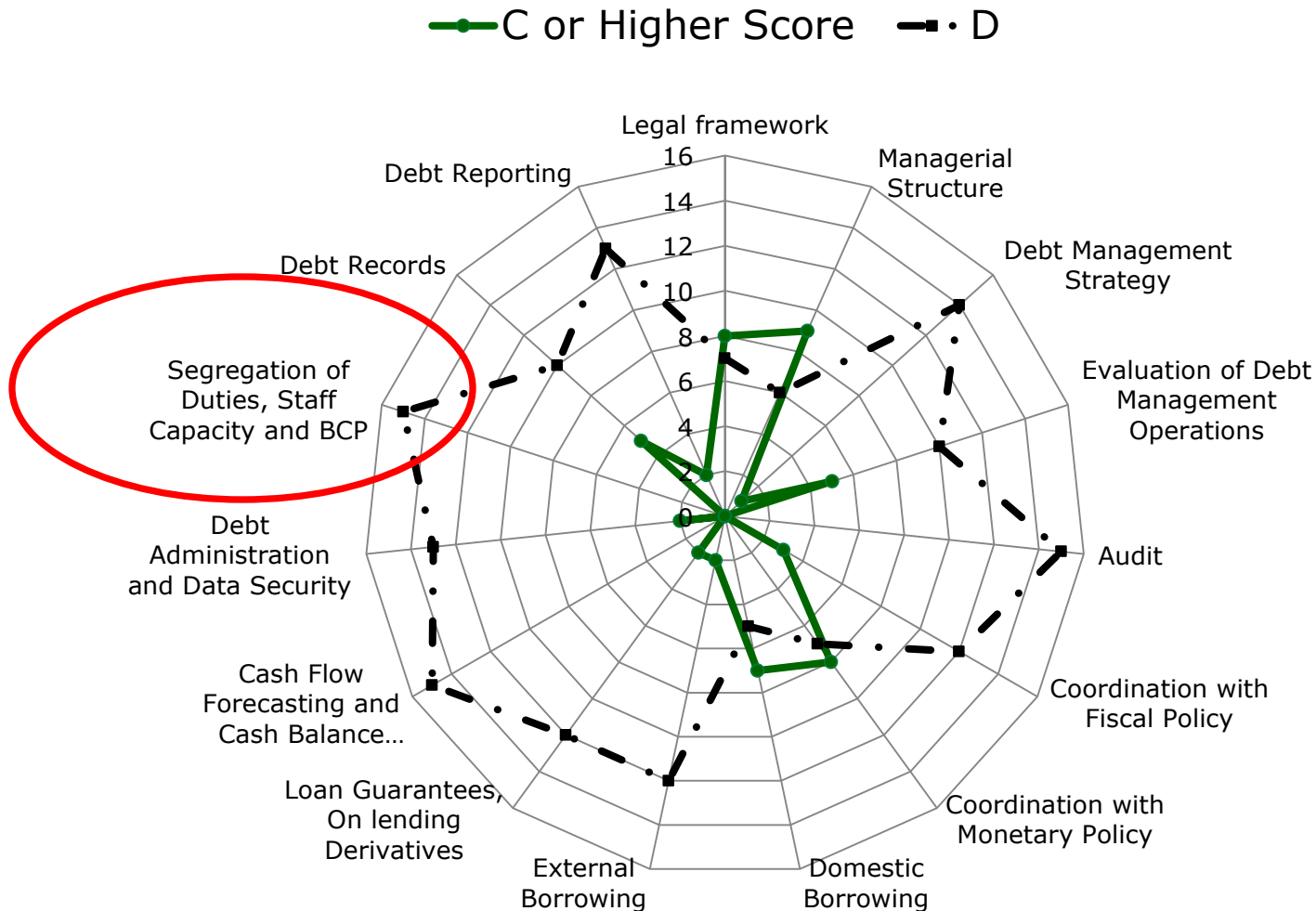
- Central African Republic
- Zimbabwe
- Vietnam
- Mali
- Kosovo
- Kenya
- Equatorial Guinea

# DeMPA in small states: basic statistics

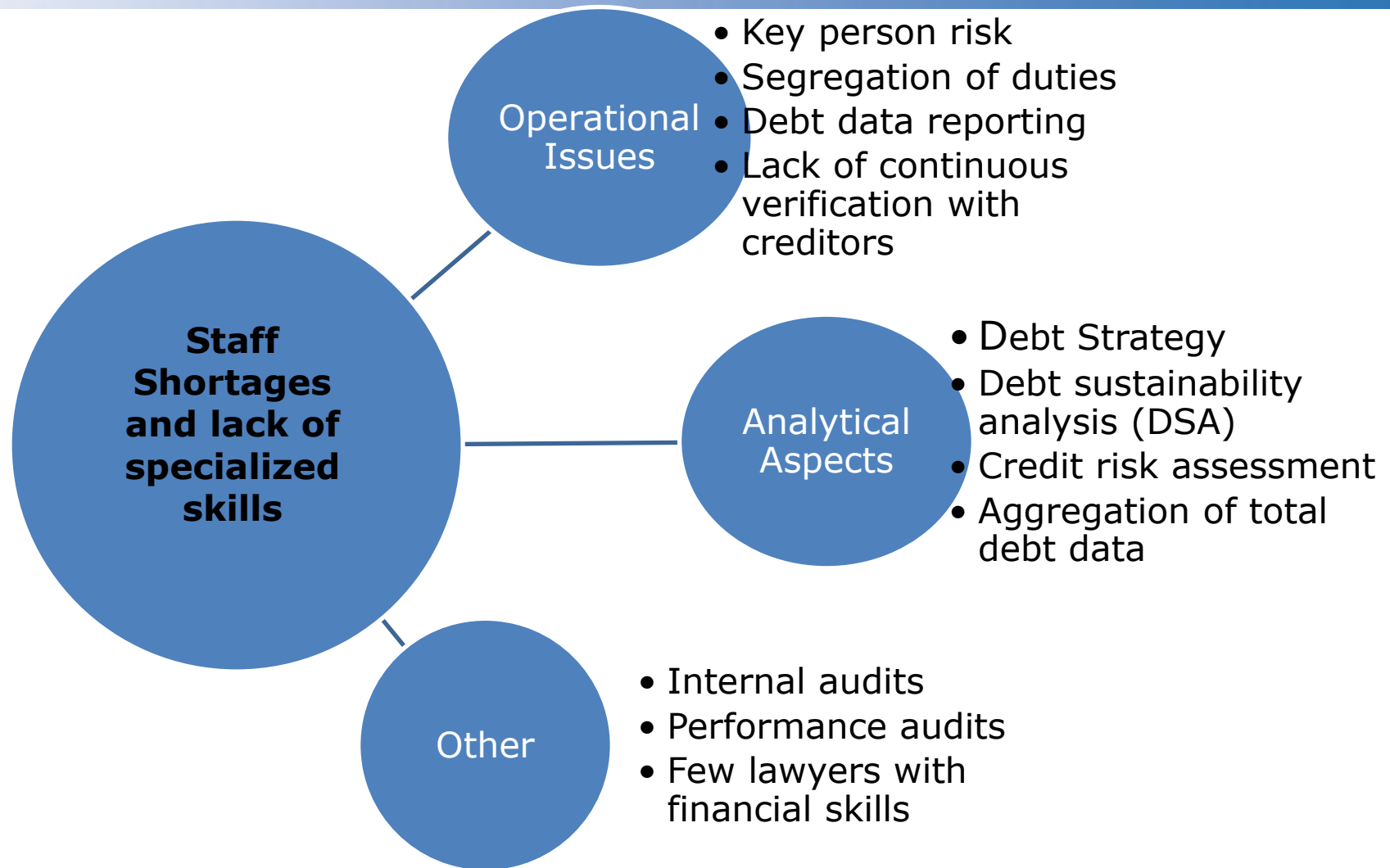


\* FY 12

# Number of Small States Meeting DeMPA Minimum Requirements



# Capacity Constraints



# From diagnosis to reform: the Samoa Reform Plan example

- Samoa exemplifies small state challenges: small population, limited debt capacity, high dependence on external flows, susceptibility to natural disasters
- Samoa Reform Plan (Oct 2012) helped promote active policy discussion, leading to Cabinet-level discussion on debt position, careful scrutiny of future borrowing
- Reform plan recommendations include:
  - Ensuring minimum staffing for DMO
  - Extensive vulnerabilities imply premium on basic analytical work, including more regular review/update of MTDS
  - Initiate work on prerequisites for domestic debt market development
  - Identify possible cost savings from cash management improvements
  - Identify and begin to mitigate operational risks

# Key findings from DeMPA analysis

1. Small states appear similar to other states with regard to level of indebtedness

2. Lack of capacity is a challenge

3. Small size enables close coordination and information exchange among debt management entities

4. But prevents effective segregation of duties and results in key person risk (one person performing multiplicity of tasks)

5. Regional market arrangements help overcome constraints of size

# Improving Debt Management Capacity: Some Recommendations

1. Benefitting from experience of other developing countries
2. Picking the low hanging fruit
3. Pooling resources through regional cooperation
4. Maximizing the gains of information technology
5. Realizing the benefits of staff training
6. Widening financing options, development of domestic debt markets

**Thank you!**

*Results in this presentation based on:*

Prasad, Pollock and Li, "Small States: Performance Public Debt Management"

*available at:*

<http://elibrary.worldbank.org/content/workingpaper/10.1596/1813-9450-6356>