A Programmatic Approach to Debt Management Capacity Building in LICs

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Outline

I. Unique debt management (DM) challenges faced by low-income countries (LICs)

II. World Bank efforts to strengthen DM capacity
   - Programmatic approach to DM capacity building
   - DM analytical tools and country implementation
   - Building capacity through Implementing Partners (IPs) and regional trainings
   - Outreach and knowledge activities

III. Takeaways for LICs from DeMPA and MTDS analyses

IV. Next Steps
I. LICs face unique DM challenges

- Structure of LIC debt differs markedly from MICs
- In general, LIC debt is highly concessional and dependent on multilateral and official bilateral flows

External Public & Publicly Guaranteed Debt Composition
(by Instrument – end 2009)

External Debt Composition by Creditor – end 2009

Source: World Bank Quarterly External Debt Statistics

Source: Development Data Group, *includes publicly non-guaranteed debt from private creditors
Private capital flows

Net Private Capital Flows to Developing Countries

- LICs’ already small share projected to decrease further

Official flows

Net Disbursed Aid from Crisis and Non-Crisis Affected Donor Countries (1977-2007, crisis=0)

- ODA flows from crisis affected donor countries likely to stagnate for prolonged period

Source: Dang, Knack and Rogers (2010)
II. World Bank efforts to strengthen DM: The Debt Management Soup

- Debt sustainability
- Debt management
  - DeMPA (process)
  - MTDS (debt composition)
- Long term debt sustainability
  - DSA/DSF (debt level)
Available analytical tools to help LICs build capacity and reduce vulnerability

• Suite of products give prospective country clients a clear view of their optimal “path”

For IDA-only countries

Gov’t/IMF/WB jointly do annual DSAs

LIC DSA

Risk of Debt Distress Rating

Non-concessional borrowing policies of IMF/WB

For non-IDA-only countries

MIC DSA

Fiscal Sustainability

Fiscal Reform

Subnational debt & fiscal management
Sequencing tailored to country-specific needs

DeMPA

Cape Verde
Malawi
Moldova
Mozambique
Nicaragua
Nigeria
Zambia

Reform Plan

Bangladesh
Congo, Rep.
Ghana
Sierra Leone
Solomon Islands

Cameroon
Bangladesh
Ghana
Tanzania

MTDS
Activity Summary

• DeMPA:
  - 5 pilots and 44 missions completed to date
    - 18 of which DMF financed
    - 26 completed with support of IPs
    - 9 DeMPA missions in pipeline

• Reform Plan:
  - 3 pilots and 5 missions completed
    - All missions were DMF financed
    - 3 completed with support of IPs
    - 7 Reform Plan missions in pipeline

• MTDS:
  - 5 pilots and 10 missions completed to date
    - 8 of which DMF financed
    - 6 completed with support of IPs
    - 10 MTDS missions in pipeline

• Trainings:
  - DeMPA: 15 trainings delivered since November 2007 (8 DMF financed)
  - MTDS: 8 trainings delivered since May 2009 (5 DMF financed)
Building capacity within regional IPs has been a key priority

### Trainings since January 2010 (8)

- MTDS, JVI, August 2010
- MTDS, AFR Pole Dette July 2010
- DeMPA, JVI, April 2010 (LIC clients, including Reform Plan module)
- DeMPA, PREM Week April 2010
- MTDS, LAC with CEMLA, April 2010
- MTDS, PREM Week April 2010
- DeMPA, EU, March 2010
- MTDS, Bank-Fund Staff, February 2010

### Pipeline (5)

- DeMPA, MEFMI November 11-14, 2010
- DeMPA, CEMLA February 28-March 4, 2011
- DeMPA, JVI April 4-8, 2011
- DSA at Subnational Level Level November 1-5, 2010
- Subnational Fiscal and Debt Management, December 2010, Shanghai
Outreach and Knowledge Activities

• The Annual Stakeholder’s Forum in March 2010:
  - Provided opportunity for discussion of policy-relevant research on the current risks associated with sovereign debt in the wake of the financial crisis
  - Over 120 participants attended, including policymakers, regional technical assistance providers, civil society organizations, and representatives from bilateral and multilateral donors
  - Conference papers were published as an edited volume—*Sovereign Debt and the Financial Crisis*—in October 2010

• The establishment of the Debt Management Practitioners Program (DMPP):
  - Two debt managers from Bhutan and Uzbekistan were in residence with PRMED for 6 months from January to July 2010

• The launch of the Debt Managers’ Network (DMN) has been scheduled for fall 2011

• Research and development efforts are ongoing in the development of a Subnational DeMPA tool
III. Lessons from DeMPA and MTDS analyses: DeMPA

DeMPA: Country Performance by Indicator

Source: Authors’ calculations using aggregate DeMPA data from 44 finalized DeMPA reports
Joint IMF/WB MTDS findings

### Key Risk Indicators of Existing Debt Portfolio – 6 Country Sample

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<tr>
<td><strong>Outstanding debt to GDP</strong></td>
<td>48%</td>
<td>71%</td>
<td>23%</td>
<td>33%</td>
<td>43%</td>
<td>12%</td>
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<td><strong>Exchange rate risk</strong></td>
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<tr>
<td>Share of external debt in total debt outstanding</td>
<td>54%</td>
<td>58%</td>
<td>64%</td>
<td>71%</td>
<td>49%</td>
<td>42%</td>
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<tr>
<td>Share of domestic debt in total debt outstanding</td>
<td>46%</td>
<td>42%</td>
<td>36%</td>
<td>29%</td>
<td>51%</td>
<td>58%</td>
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<td><strong>Refinancing risk</strong></td>
<td></td>
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<td>ATM Domestic debt (Years)</td>
<td>1.6</td>
<td>3.9</td>
<td>1.04</td>
<td>5.3</td>
<td>4.3</td>
<td>2.7</td>
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<tr>
<td>ATM External debt (Years)</td>
<td>16.2</td>
<td>15.8</td>
<td>12.48</td>
<td>20.6</td>
<td>11.5</td>
<td>10.9</td>
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<td>Share of domestic debt maturing in next 12 months in total domestic debt outstanding</td>
<td>38%</td>
<td>21%</td>
<td>54%</td>
<td>12%</td>
<td>39%</td>
<td>33%</td>
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<tr>
<td><strong>Interest rate risk</strong></td>
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<tr>
<td>Share of fixed rate debt in total debt outstanding</td>
<td>95%</td>
<td>99%</td>
<td>79%</td>
<td>100%</td>
<td>100%</td>
<td>98%</td>
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<tr>
<td>ATR Total debt (Years)</td>
<td>8.6</td>
<td>10.9</td>
<td>8.35</td>
<td>14.7</td>
<td>7.7</td>
<td>5.9</td>
</tr>
<tr>
<td>Share of debt that will refix interest rate in next 12 months</td>
<td>39%</td>
<td>11%</td>
<td>56%</td>
<td>9%</td>
<td>25%</td>
<td>24%</td>
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Source: Staff estimates from sample of 6 countries where the MTDS has been applied

- Foreign exchange risk on external debt and refinancing risk on domestic debt dominate
IV. Next Steps

• World Bank activities provide a structured logical framework for countries to systematically address their institutional development and capacity building needs:
  - Combination of demand driven model and regular DSAs allows countries to own the process of improving DM policies and institutions
  - Countries “graduating” from WB products are in a stronger position to identify and address their own DM needs

• WB activities address core areas of debt management vulnerability identified in DSAs and other assessments, providing complementarities with other initiatives and priorities
  - DMF improves regional knowledge sharing and capacity building through regional training and Implementing Partner (IP) development

• Countries should aim to complete all modules to provide a solid foundation for future reform and capacity building efforts
Next Steps (contd.)

• In assessing the effectiveness of the World Bank’s DM capacity building activities and contemplating next steps, one must consider the lessons learned in recent years:
  ➢ Traditionally, the focus of DM activities has been on central government debt; however, the global financial crisis has brought to light other sources of vulnerability:
    • Subnational governments
    • Contingent liabilities (e.g., SOEs, private sector bailouts)
Thank You
# DeMPA: missions and pipeline

## FY07 (5)-Pilots
- Malawi
- Albania
- The Gambia
- Nicaragua
- Guyana

## FY08 (13)
- Burkina Faso*
- CAR*
- Ghana
- Mali*
- Mozambique
- Togo
- Sao Tome & Principe
- Swaziland
- Zambia
- Bangladesh
- Honduras*

## FY09 (14)
- Moldova
- Mongolia
- Cote d’Ivoire*
- Antigua & Barbuda
- Grenada
- Congo, DR*
- Burundi*
- Uganda*
- ST Kitts & Nevis
- Solomon Islands*
- Cape Verde
- Cameroon*
- Congo, Republic of
- Guinea*
- Nigeria*
- Rwanda*

## FY 2010 (15)
- Sierra Leone*
- Senegal*
- Guinea Bissau*
- Liberia*
- Malawi*(2nd DeMPA)
- Cambodia
- Gambia (2nd DeMPA)
- Samoa*
- Nepal*
- Maldives*
- Pakistan*
- Djibouti
- Tanzania*
- Mauritania*
- Benin*

## FY 11(2)
- Kazakhstan
- Togo*(2nd DeMPA)

## FY 11(9)- Pipeline
- Yemen
- Papua New Guinea
- Nicaragua (2nd DeMPA)
- Burkina Faso (2nd DeMPA)
- Bhutan*
- Bolivia
- Gabon
- Haiti
- Albania (2nd DeMPA)

* Missions undertaken in collaboration with DMF Implementing Partner(s).

**DMF Financed**
**Reform Plan: missions and pipeline**

**FY09 (3)**
- Albania
- Ghana
- Andhra Pradesh

**FY10 (5)**
- Bangladesh
- Solomon Islands*
- Cameroon*
- Sierra Leone*
- Congo, Republic of

**FY11 (7) - Pipeline**
- DRC
- Maldives
- Moldova
- The Gambia
- Ghana
- Senegal
- Gabon

DMF Financed

* Missions undertaken in collaboration with DMF Implementing Partner(s)
MTDS: missions and pipeline

FY08 (4) - Pilots
- Bangladesh
- Cameroon
- Ghana
- Nicaragua

FY09 (2)
- Moldova (Pilot)
- Kenya*

FY10 (9)
- Cape Verde*
- Zambia*
- Moldova (follow-up)*
- Tanzania*
- Nigeria*
- Kenya (follow-up)
- Jamaica
- Botswana
- Bangladesh (follow-up)

FY 11 (10) - (pipeline)
- Mozambique*
- Malawi
- Nicaragua* (follow-up)
- Ghana*(follow-up)
- Tanzania (follow-up)
- Jamaica (follow-up)
- Nigeria (follow-up)
- Cameroon (follow-up)
- Senegal
- Vietnam

* Missions undertaken in collaboration with DMF Implementing Partner(s)

DMF Financed