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Debt Management and Integrated Public Financial Management: Experiences and Implications for the Debt Manager?

by

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DEBT MANAGEMENT AND INTEGRATED PFM: EXPERIENCES AND IMPLICATIONS FOR THE DEBT MANAGER

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INTRODUCTION AND BACKGROUND

- Development Finance International/Debt Relief International = nonprofit organisation assisting developing countries to formulate and implement strategies for debt management and financing development – www.development-finance.org
- Presentation based on working with more than 50 (mainly low-income) countries for more than 20 years
- But not at all expert in public financial management – rather in public FINANCING management (loans, grants, bonds, PPPs/PFIs, guarantees) and government monitoring and management of private flows (FDI, portfolio, bonds, loans etc)
- So presentation from perspective of financing manager, may seem slightly "unconventional" – clearly vital and logical DM-PFM linked but want to stress complexities

MANDATES - EXPERIENCES

- Debt Manager (DM) Mandate:
  - Narrow: mobilise financing at lowest cost and risk
  - But other options for financing (eg grants or PFIs/PPPs) not in the control of debt managers
  - And this assumes debt managers have the major say in cost and risk - other factors impact, beyond control of DM
    - cost/value for money: eg tying loans to exports of lender – can raise cost by 50% - but sources decided by aid management unit
    - high risks of loans: eg slow disbursement, volatility/unpredictability – may depend on wider relations between government and lenders
    - risk spent on poor investments – key causes of crises as undermine ability to repay - but “matching” financing to projects often not really done proactively
  - Wider: coordination with macroeconomic policy (fiscal, monetary, external sector); and with private sector financing (this morning)

MANDATES - EXPERIENCES

- Public Financial Manager (PFM) Mandate
  - Much broader – covering all aspects of revenue, expenditure and overall budget management
  - Often analysed mainly in terms of processes, rather than key policy variables and whether working successfully to achieve expenditure/revenue/financing goals
  - Therefore
    - debt management often seen as very small part of PFM - for example, part of one criterion only in the PEFA assessment system
    - stress in broader PFM placed on undertaking debt management actions – eg recording/ reporting, servicing, cash management in Treasury, conducting debt sustainability analysis – rather than outcomes

IMPLICATIONS FOR DEBT MANAGERS

- Back office:
  - Recording: systems generally assumed link to accounts/budget systems. UNCTAD and Comsec systems do but often not funds to implement links fully; other debt systems often do not, or focus on needs of PFM > reporting and analytical needs of debt managers if discussion dominated by PFM
  - Reporting: often hard to get time/approval for separate debt reporting beyond budget – and when happens, tends to focus on debt portfolio analysis > complete gvt financing picture
- Middle office:
  - Often risk that not sufficiently detailed focus on strategy formulation and execution, seen as part of broader risk management and longer-term focus for budget
  - Limited to public debt or sustainability analysis without integrating wider public financing/links to private
  - Hard to get space to present financing strategy to parlt/public

IMPLICATIONS FOR DEBT MANAGERS

- Front office:
  - Mobilisation of financing given little emphasis – often assumed to be market-based, reality for LICs/LMICs is complex negotiation with multiple official and commercial funders, need to assess relative priorities going way beyond cost and risk
- Institutional structures:
  - If based in MoF, DM may be only Treasury function (record, manage cash, service, report) – seen as fulfilling PFM needs but reduces or eliminates impact on quality/cost/risk of financing/projects
  - In many countries, DM assigned to DMOs or many functions fulfilled by central banks – increases focus on monetary and debt issues, but often leads to reluctance to participate fully in integrated PFM ?

IMPLICATIONS FOR DEBT MANAGERS

- Coordination:
  - Focus on coordination with PFM may be at expense of broader coordination with other units mobilising financing, designing projects, or macroeconomic policy
  - Therefore debt management located in Treasury > financing or investment departments, macroeconomic policy departments
  - If these functions based in other ministries/central bank, may be very little coordination among agencies
  - Negative implications for sustainability of strategies and debt management – for example conflicting issuance of fiscal and monetary instruments, insufficient attention paid to PPP risk/loan volatility or aid/export credit value for money issues

IMPLICATIONS FOR REFORMS/CAPACITY-BUILDING

- PFM reform programmes
  - Massive needs, tendency to focus on expenditure management, procurement, anti-corruption, revenue
  - Examining PFM reform programmes, until recently <7% of steps envisaged related to government financing including debt (in many cases none at all)
  - Rapid growth of PFM reform funding by ODA, more than US$5 billion spent on PFM annually, of which 63% on expenditure-related issues, 33% on revenue-related issues and <4% on financing (incl. 1%? DM)
  - Often treated in very segmented way with different providers therefore complicating eg recording/accounting system links

IMPLICATIONS FOR REFORMS/CAPACITY-BUILDING

- DM reform programmes
  - Sometimes assumed separate programmes for managing financing (eg debt and aid) but very often not the case
  - Volatility of support – “fads” eg in many countries scale of support for DM depends on scale of debt burden – “abolish DM dept when debt cancelled” – no long-term vision
  - Debt management assistance often not asked by governments and funders to link to PFM assistance
- Continual efforts by providers to enhance debt management assistance - UNCTAD, Comsec, World Bank, regional organisations (eg MEFMI, WAIFEM, CEMLA, Pole-Dette), HIPC CBP etc - most recently DeMPA/DMF of WB, IMF MTDS etc

IMPLICATIONS FOR REFORMS/CAPACITY-BUILDING

- Certainly better than 1980s where little global attention to DM, mostly on institutional structures and back office
- But vast increase in focus on diagnosis, upstream assistance ie helping design of reform programmes (risk that becomes conditionality ?), and TA
- Much less on downstream assistance and building sustainable capacity in developing country governments, therefore major accumulation of needs being patchily fulfilled depending on country-specific donor priorities
- Many donors scaling back assistance for DM – no debt crisis
- Cost-effectiveness, appropriateness (capacity-building) and sustainability of regionally-provided, country-adapted assistance in Africa and Latin America – but sharp recent fall in their donor funding
- **Key need: more DM funding, downstream for in-country capacity-building, decentralise to regional organisations – countries' own PFM programmes must have DM as key element – spend US$50m on DM now > US$100bn on cancellation in 20 years**