

# EMERGING CHALLENGES IN GOVERNMENT DEBT MANAGEMENT

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# STRUCTURE

- Focus Largely on Debt Strategy and Analysis
- 1. What has Already Been Achieved
- 2. Emerging Technical Challenges
- 3. Emerging Capacity-Building Challenges

# INTRODUCTION AND CONTEXT

- DRI runs HIPC Debt Strategy and Analysis Capacity-Building Programme, in partnership with regional organisations (CEMLA, MEFMI, Pole-Dette, WAIFEM) to build country capacity to design and implement their own debt strategies
- Funded by 6 DAC donors (US\$5m pa) and 36 HIPCs (US\$ 3m pa) – HIPCs paying 37% of total
- Presentation based on views of HIPCs especially (Ministers and debt managers) but also donors/partners as agreed in Steering Committee
- See documents in folder + [www.hipc-cbp.org](http://www.hipc-cbp.org)

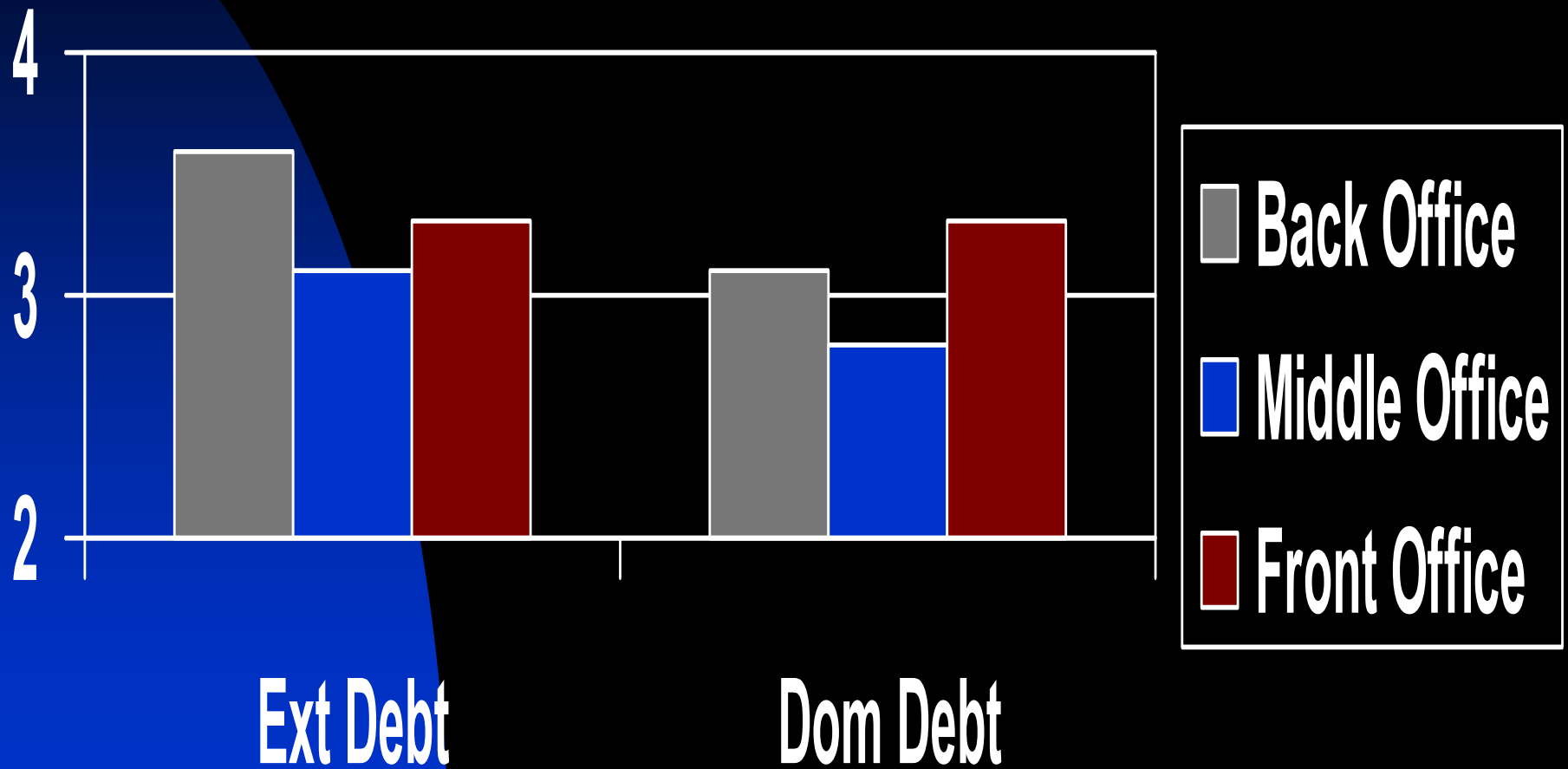
# WHAT HAS BEEN ACHIEVED

- Major increase in HIPC capacity to design and implement debt strategies (validated by 3 independent reviews) without TA
- Helped countries to argue case to get into HIPC, get more relief, decide whether wanted HIPC relief
- Three quarters of countries (all countries where CBP gave significant support) saw major improvement in capacity
- 19 countries have independent capacity to design strategies, 14 approving/implementing annually updated strategies to make or keep debt sustainable (need only refresher training)
- Implementation of capacity-building decentralised to regional organisations mandated, run and funded by HIPCs
- Tapping skills of >120 developing country experts to help one another (“appropriate” and cost-effective)
- Countries assessing their own capacity, and designing and implementing their own capacity-building action plans

# CURRENT CAPACITY LEVELS

- Countries assess own capacity (quality-controlled by regional organisations/DRI, verified as realistic by independent reviewers)
- Split into three main types of capacity:
  - ◆ “Back office” – monitoring and recording
  - ◆ “Middle office” – analysis, design of policy/strategy and evaluation of results
  - ◆ “Front office” – mobilisation/negotiation/disbursement
- Dramatic rise in debt strategy capacity since 1997 – from 1.2/5 to 3.2/5 – many post-HIPC 4/5 or more
- **External Debt:** higher at start, esp recording (back office), big improvement in analysis and strategy design (middle) and negotiation (front) since 2000 but still important needs in strategy implementation
- **Domestic Debt:** improved/improving monitoring (back office) and especially mobilisation/markets but high needs on long-term analysis

# CAPACITY LEVELS AT END-2007



# TECHNICAL CHALLENGES

- Financing development without unsustainable debt
- Domestic debt – need analysis of how to develop domestic savings/investment and financial sectors, rather than micro-structures of domestic debt markets
- Private sector debt – growing burden for LICs
- DSF – already being implemented
- Cost of debt was only one factor (in many countries relatively small) in cause of debt crisis: main problem was “bad money used badly” so key issue is to build capacity to ensure “responsible borrowing” and aid effectiveness
- Risks – but less exchange rate/interest rate than macro/aid
- Gradual pathway back to markets – credit ratings, bonds, export credits, commercial loans

# EMERGING CAPACITY-BUILDING CHALLENGES/LESSONS

- Key principles for any initiative to build sustainable capacity
- Need *genuine coordination* – all stakeholders input on design of proposals, assessments and technical tools, mutually agree work programmes and plan support jointly
- *Joint governance* on an equal basis by representatives of countries (chair), donors and international/regional providers
- In line with the Paris Declaration, all activities should be:
  - ◆ *Genuinely country-led*: based on country assessments of own needs and country-developed capacity-building plans, with countries (and regional organisations) managing funds and choosing providers
  - ◆ *Genuinely capacity-building*: with maximum transfer of skills and responsibilities to countries via institutional support and training, close to zero use of external consultancy missions to write documents for countries, and clear benchmarks for institutional and national capacity-building achievements and their sustainability

# CAPACITY-BUILDING LESSONS (2)

- *Adapted to the needs of low-income countries which have less access to commercial financing* (in assessments and interventions)
- *Build on existing successes* and methodologies in building country capacity (HIPC CBP, Comsec, UNCTAD, regional organisations), rather than duplicating their efforts
- *Maximise peer learning among countries* with similar characteristics, and tap developing country officials to the maximum to ensure cost-effectiveness
- *Ensure maximum competition among providers*, making content 100% relevant to country needs and maximising value for money, by putting countries in charge of deciding needs and providers
- *Extend capacity-building beneficiaries* beyond core economic ministries/central banks (to sector agencies, sub-national agencies, parliaments, auditor-generals, civil society) to ensure better design and transparency of strategies, and to hold the executive accountable