6 - 1
Government Debt Management in Low-Income Countries
Phillip Anderson, Francis Rowe and Eriko Togo*

Government debt management as a distinct policy activity, with a focus on managing risk, developed in the late 1980s in a number of small OECD countries with high levels of public debt. Following the crises of the 1990s, the majority of OECD countries and many emerging market economies have embarked on similar reforms. These reforms have taken place for both institutions and policy, with institutional arrangements trending toward the establishment of a consolidated debt management office, which manages its internal operations in the same manner as a well-run financial organization. Policy reforms have been aimed at separating debt management policies from fiscal and monetary policies, with independent policy objectives, instruments, and targets for each. Central to these reforms has been the importance of prudent risk management when developing strategies for managing public debt. The publication of the *Guidelines for Public Debt Management* by the World Bank and the International Monetary Fund in 2001, with input from debt managers in thirty countries, codified these practices and distilled a set of guidelines for sound debt management.

The *Guidelines* have been valuable in setting the broad direction of reform efforts for practicing debt managers in developing countries, but they were not intended to provide a blueprint for reform in particular countries. The World Bank has been developing new tools and initiatives to support developing countries in the design and implementation of debt management reforms. One such initiative was a twelve-country pilot program for managing public debt and developing a domestic government debt market, from which a number of insights can be drawn. The importance of developing a debt management strategy, based on analysis of cost and risk, to guide the government's borrowing activities is one such insight; a connected finding is the importance of policy coordination, in the context of underdeveloped domestic debt markets and policy interdependencies, to prevent inconsistencies in the overall policy mix. Another finding is that the challenges faced by middle income and low incomes countries are similar in type, but that the degree and severity are greater in low income countries.

Low income countries face particular risks, with limited tools to manage them. Their economies are highly vulnerable to external shocks, such as terms of trade and weather related shocks, aid volatility, and shocks arising from the realization of contingent liabilities. The presence of these risks underlines the importance of risk management in overall macroeconomic management. Debt management capacity has strengthened in many low income countries, but significant challenge remain: while there has been some move to centralize debt management responsibilities in the ministry of finance, in many countries debt management operations are still fragmented across a number of government agencies. Such fragmentation, explains, in part, the low quality of debt recording and reporting, pointing to different priorities in the capacity building efforts in low income countries relative to those of more advanced emerging markets. However, systematic baseline data on debt management practices in low income countries is missing.

A recent initiative is a tool designed to assess debt management performance in low income countries – the Debt Management Performance Assessment (DeMPA) methodology. Based on the *Guidelines* and the lessons learned from the twelve-country pilot study, and tailored to low income countries characteristics, DeMPA identifies strengths and weaknesses in debt management operations through a comprehensive set of indicators spanning the full range of government debt management functions. The indicators were developed with a view to designing actionable reform programs, and to provide a set of benchmark data that would allow a clear understanding of strengths and weaknesses in country debt management operations and compare them across

---

* Phillip Anderson and Eriko Togo (Banking and Debt Management Department of the Treasury Vice Presidency, the World Bank) and Francis Rowe (Economic Policy and Debt Department, The World Bank).
The views expressed in this paper are those of the author(s) and do not necessarily reflect the views or official policies of the World Bank's management, Board of Executive Directors, or member states.

countries. The methodology would also permit monitoring progress in debt management operations in a country over time. With DeMPA assessments now completed in twenty countries, there are sufficient data for analyzing some of the principal challenges facing government debt management in a sample of low income countries.

The paper presents a preliminary analysis of this unique dataset, paying particular attention to what the results have to say about the stage countries have reached in their reform of both institutions and policies for debt management. A comparison can then be made with the *Guidelines* to determine where the low income countries in the sample stand relative to sound practice. This comparison will also allow documentation of the unique challenges faced by low income countries relative to OECD and advanced emerging economies. The analysis concludes with specific suggestions for planning debt management reform in low income countries.

Across the full range of debt management functions, the DeMPA results indicate that, for the majority of countries in the sample, risk management is ineffective. The lack of strong operational controls and well-articulated responsibilities for staff can expose the government to the risk of errors, policy breaches, and fraudulent behaviors that lead to significant losses. Business continuity planning is also mostly lacking, and cash flow forecasting and cash flow management are weak in the majority of the sample, implying that debt management is not effectively supporting the governments' ability to meet their financial obligations with a high degree of certainty. About half of the sample effectively record and report total public debt in a timely and comprehensive manner.

The analysis found that, although there is a good understanding of the importance of implementing debt management policy objectives that are distinct from, but coordinated with fiscal and monetary policies, very few countries in the sample have a debt management strategy that is published, has formal approval from policymakers, is developed through a coordinated process among relevant government agencies, and is underpinned by sound cost-risk analytics. For institutional arrangements, debt management operations in the majority in the sample are fragmented across a number of government agencies, although coordination among the various agencies and effective workarounds have been devised to carry out some basic functions. An important message is that while institutional fragmentation may not prevent the effective operation of basic debt management functions, the risk will remain high that debt management, lacking a separate policy mandate underpinned by a clear medium-term strategy, will provoke inconsistencies in the government's overall policy mix.