BREAKOUT SESSION 2 - Overcoming obstacles to building public debt management capacity

As the global financial crisis has demonstrated, debt management plays a critical role in reducing developing countries’ vulnerability. Good debt management encompasses good governance, sound risk management, effective coordination with fiscal and monetary policy, and adequate institutional and staff capacity. Reforming debt management practices and systems often takes place over an extended period of time, and, in some cases, the reforms are triggered by specific events such as financial crises, or very high debt levels and risky debt structures. The focus of the session was how to reform public debt management in light of common constraints faced by many governments, such as low technical capacity, high staff turnover, and limited access to analytical tools.

Ms. Matveeva presented the Moldova experience with debt management reforms. Initially, support was provided by the Swedish International Development Cooperation Agency (SIDA), including a resident advisor in the Debt Management Department. Moldova had benefitted from the programmatic support provided through the World Bank Debt Management Facility, including Debt Management Performance Assessment (DeMPA) and Medium Term Debt Management Strategy (MTDS) missions. These provided the basis for the development of a reform plan in 2011 that had a broad debt management focus, including the legal framework, organization of debt management, and the debt management strategy. Out of 17 individual actions to be undertaken between 2011 and 2014, six have been implemented without external assistance. The fact that external support included training and capacity building for staff was highlighted as important for successful reform implementation. Also, the close links with ongoing Public Finance Management reforms was stressed as an important factor in assuring the focus of senior management on the debt management reforms. An important outcome of the debt management reforms in Moldova is the development and publication of a medium term debt management strategy that is updated annually.

Mr. Widjanarko offered insights from the Indonesian experience with debt management reforms that were triggered by the Asian financial crisis in 1997. The crisis response by the government led to a substantial increase in debt levels related to bailing out of the banking sector. Initially, reforms were partial in the sense that they focused on domestic debt management, but over time they were expanded and deepened. The main accomplishments included the creation of a unified debt management office, and the development and publication of a medium term debt management strategy. While reforms have been gradual and have taken place over the last decade or more, Mr. Widjanarko emphasized the importance of external support in providing country examples and input regarding sound practices. A challenge during the reforms had been the very different capacity levels among the units that became the debt management office.

The reform experiences of Jamaica, presented by Ms. Robinson, provided details of reforms that were initiated in 2010 in the wake of a severe debt crisis. These reforms had widespread multilateral and bilateral support in the form of both technical assistance and financial support. The areas of reform that were highlighted were the legal framework and the organizational set-up for debt management. For the
legal reforms a main challenge was to ensure political support for legislative changes. Remuneration of staff remains a challenge, as limitations in moving beyond standard civil service salaries has implied that the middle office has open positions. Robinson concluded her presentation by stressing that successful debt management reform is an ongoing process rather than an event.

Common themes among the three countries were:

- **Scope and speed of reforms**: In Indonesia, reforms had been very gradual with focus on specific areas of reforms rather than all-encompassing reform plans. For Moldova and Jamaica the approach was built on broad reforms linked to other public finance management reforms. An important point here was to see reforms as organic plans that have to be adjusted over time.

- **Staff turnover and staff capacity**: There was general agreement that staffing and staff capacity are key to successful reforms. While none of the three countries had any additional flexibility in remuneration, Indonesia, by providing access to training and ensuring an attractive working environment, had experienced very little turnover over time. A similar story applied to Moldova, although their staff numbers had been low throughout the reform period. Jamaica, in an attempt to jump-start the creation of a strong-capacity debt office had opened all positions in the debt office for applicants. Rather than solving the problem of staffing the middle office with high-capacity staff, this approach had highlighted the problems in attracting such staff in a public sector setting in Jamaica. The best approach seemed to be one of providing the best possible working conditions for debt management staff within a very constrained government salary structure.

- **Country examples and best practice**: Examples from peer countries and sound international practice are important drivers of debt management reforms. All presenters highlighted country examples as important in identifying the issues and outlining possible solutions.

- **External assistance**: In all three countries external technical assistance providers have been playing important roles in helping define and sequence reforms. However, as was demonstrated by Moldova and Indonesia, implementation of reforms can often be undertaken internally without much external support. In this regard Robinson highlighted the importance of having reform plan champions to drive implementation and to ensure governmental backing.