

Institutional Challenges to Effective Debt Management in the Caribbean

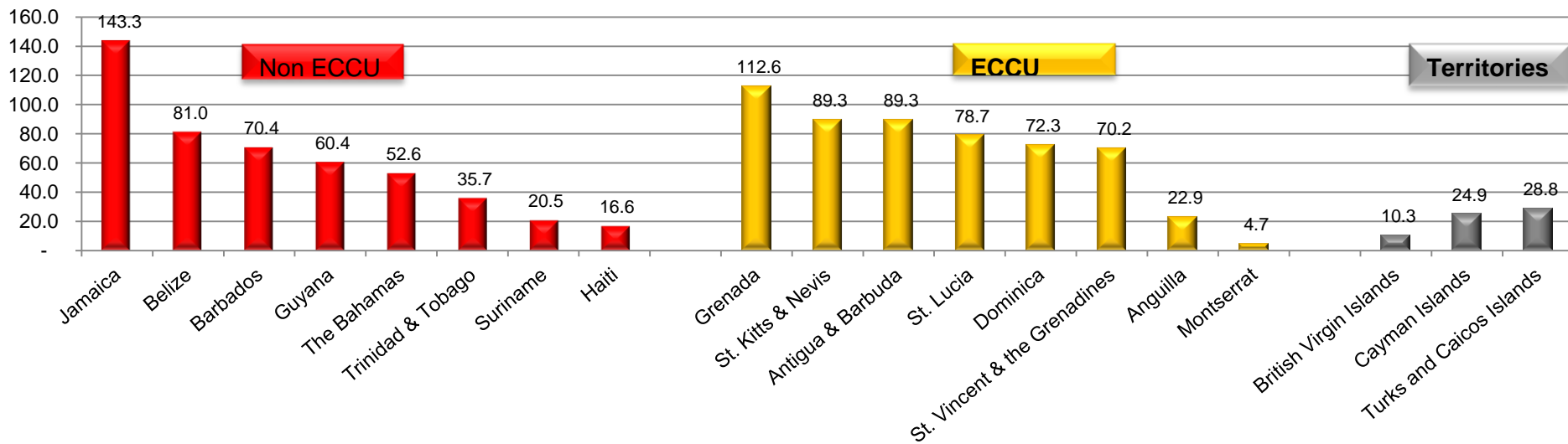
3rd Annual Meeting of the Caribbean Association of Debt Managers

Montego Bay, Jamaica WI

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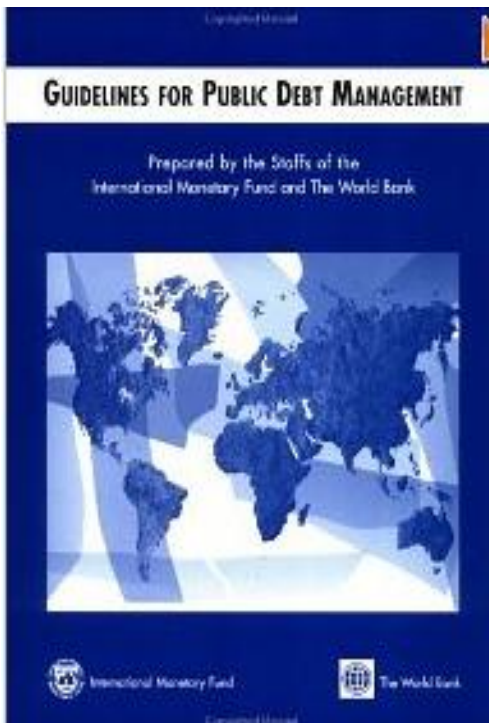
Caribbean Public Debt-to-GDP (end 2012)



Current environment :

- Caribbean countries among the most highly indebted in the world
- Six Caribbean countries among the ten most heavily indebted middle income countries
- Economies characterised by persistent public deficits
- Rise in number of debt restructurings with debt still unsustainable in many countries
- Marked change in many countries' debt structure and composition
- Inadequate institutional arrangements for public debt management

Debt Management Objective



“Ensure that financing needs and payment obligations are met at the lowest possible cost over medium to long run, consistent with a prudent degree of risk”

Supporting Framework for Debt Management

Legislative Framework

Medium term debt
strategy

Policy Coordination and
Oversight

Organisational structure



Staff Capability

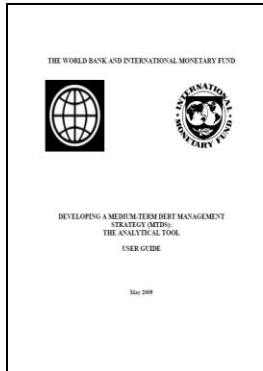
Debt Recording and
Reporting

Audit and compliance

Operational Risk
Management

Medium-Term Debt Strategy

- Sound practice requires:
 - Development and implementation of a medium-term debt strategy
 - Development of a risk management framework to:
 - Identify and manage cost and risk trade-offs
 - Consider the impact of contingent liabilities



Current Situation:

- One of 13 Caribbean countries (Jamaica,) publishes a medium-term debt strategy
 - St. Lucia to publish soon
- Few countries undertake and publish rigorous portfolio analysis (Antigua and Barbuda , Jamaica, Montserrat)
- Few countries develop and use a risk management framework

Issues Arising

- Risky portfolio structures evident in many countries
- Passive management of portfolio composition

Legislative Framework



- Sound debt management requires legal framework that:
 - Sets clear debt management objectives
 - Requires the preparation of a debt management strategy
 - Requires mandatory reporting to parliament on debt management operations especially debt strategy performance



Current Situation

- Only two Caribbean countries (Jamaica, Suriname) have modern debt management legislation
- Reluctance to include provisions for performance measurement, increased reporting

Issues Arising

- Limits flexibility in portfolio management
- Limits domestic capital market development
- Adds to debt service costs
- Limits transparency and accountability

Policy Coordination and Oversight



- Sound debt management practice requires policy coordination to:
 - Ensure a common understanding of debt management, fiscal and monetary policy objectives
 - Provide oversight to debt strategy implementation and debt management operations
 - Allows an exchange information between principal debt management entities



Current Situation

- Only Barbados, Grenada, Jamaica have high-level public debt management committees

Issues Arising

- Irregular information exchange among principal debt management agents
- Little oversight of medium-term debt strategy performance
- Prevents proper decision process for developing/updating strategy

Borrowing Activities

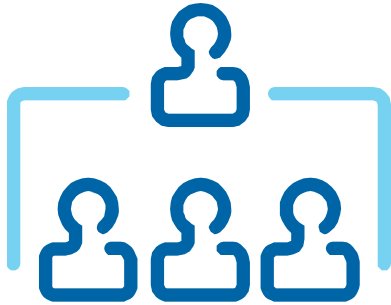


- Sound debt management practice requires:
 - Policies and operations consistent with an efficient government securities market
 - External funding that is secured on the most cost effective terms
 - An annual borrowing plan / domestic issuance calendar
 - Involvement of legal advisors in the negotiation process from the outset



- Current Situation
 - Limited reliance on auctions for sale of government securities
 - RGSM used primarily by St. Lucia
 - Limited documentation and evaluation of external borrowings
 - Few documented guidelines for approving/issuing guarantees
 - Few countries prepare, publish and adhere to a borrowing plan (Jamaica, St. Lucia)
- Issues Arising
 - Borrowings no cost effective
 - Curtails development of domestic capital market

Organisational Structure



- Sound debt management practice requires:
 - Office organised along functional lines
 - Segregated job functions
 - Well articulated job descriptions



Current Situation

- Few offices organised along functional lines
- Operations fragmented
- Job descriptions not clearly related to core debt management objectives
- Lack of weight given to back office functions
- Little provision for middle office (analytical) functions

Issues Arising

- Existing structures do not facilitate focus on core debt management objective
- Structures do not foster expertise in specialist areas
- Structure does not provide for focus on middle office operations
- Accountabilities and reporting lines not clearly delineated

Staff Capacity



- Sound debt management practice requires:
 - Well trained and highly skilled staff
 - Clearly articulated job descriptions
 - Individual training and development plans



Current Situation

- Limited middle office capability within most debt offices
- Capacity in back office often limited to payments monitoring and data entry
- Limited knowledge of debt statistics compilation and methodology
- Government budgets constrain hiring of skilled staff (Jamaica)
- Much training, limited follow-through or application

Issues Arising

- Limited resources to undertake risk analysis and debt strategy formulation
- Debt offices operationally challenged

Operational Risk Management



Sound operational risk management requires:

- Development of operational risk policies and procedures
- Maintenance of loan documentation in secure environment
- Routine payment confirmation against internal records
- Two person authorisation processes
- Regular internal and external audits



Current Situation

- Two Caribbean countries (Guyana, Jamaica) have comprehensive operational procedures manual
- Few, if any, debt offices have business continuity or disaster recovery plans
- Limited auditing - confined to narrow financial audits
- Little, if any, compliance monitoring with existing policies and procedures

Issues Arising

- Exposed to negligence, malpractices, fraud, corruption, reputational risk
- Operations vulnerable to natural disaster, business disruptions, systems failures

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"Next time be more careful where you put the decimal point!"

Debt Data Recording



- Sound debt management practice requires:
 - Compilation of accurate, timely and reliable debt statistics
 - Completeness of debt records



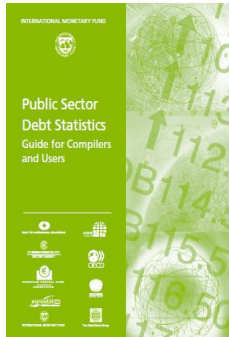
Current situation

- Few consolidated databases (external/domestic/guarantees)
- Little use of analytical tools
- Data validation irregular
- Few countries consistently use two person verification

Issues Arising

- Difficult evaluating entire portfolio
- Difficult monitoring debt strategy performance
- Low confidence in integrity of debt
- Unreliability of data impedes information sharing

Debt Reporting



- Sound debt management practice requires:
 - Comprehensive reporting on public debt
 - Wide dissemination of debt data to inform policy and strategy development
 - Publication of a high quality and timely debt statistics bulletin

Current situation

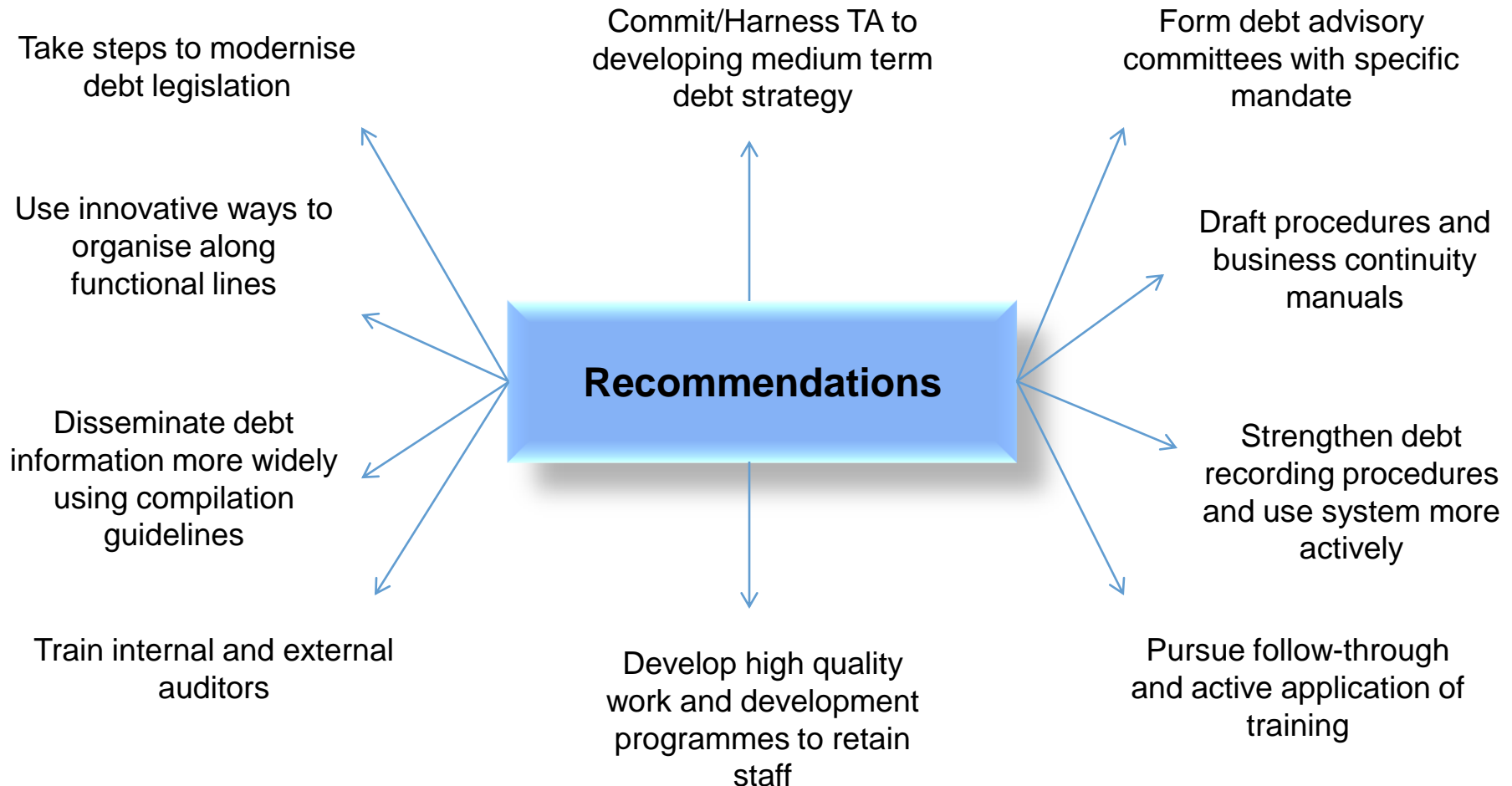
- Few Caribbean countries disseminate comprehensive debt statistics
- Compilation not consistent with international reporting standards
- Few countries have a dedicated website/webpage (Jamaica)
- No Caribbean country publishes a debt statistics bulletin

Issues Arising

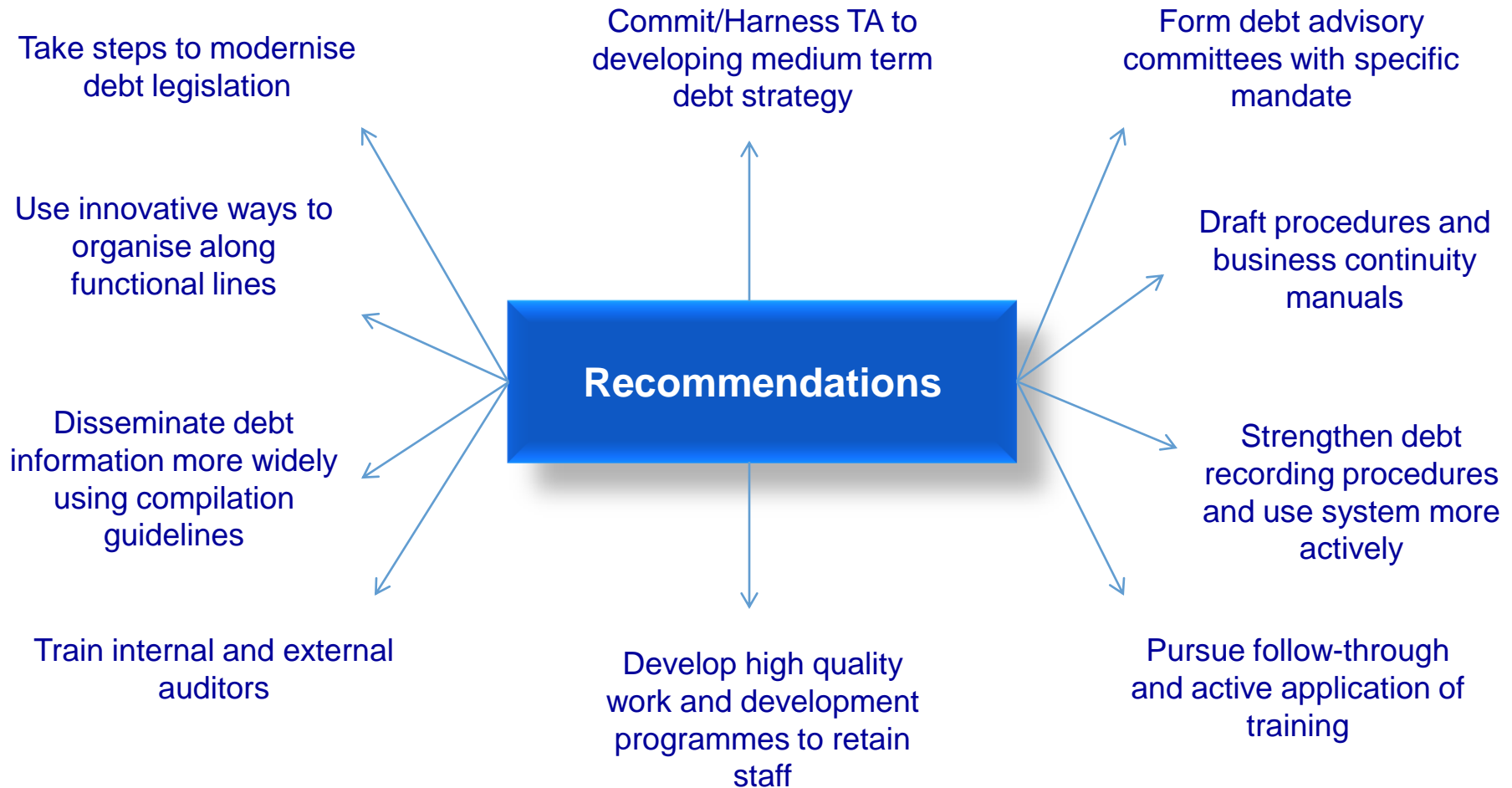
- Debt operations opaque
- Limits rigorous debt analysis
- Limits domestic capital market development



Progress has been made, but much more needs to be done...



CARADEM - Think about and implement a 10 point plan



CARADEM – Continue to **actively** network



THANK
YOU

The image features the words "THANK YOU" in a bold, 3D, light blue font. The letters are arranged in two lines: "THANK" on top and "YOU" below it. The text is set against a black, slightly tilted rectangular background. The 3D effect is achieved through shading and perspective, giving the letters a sense of depth and volume.