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PUBLIC DEBT REPORTING IN DEVELOPING COUNTRIES

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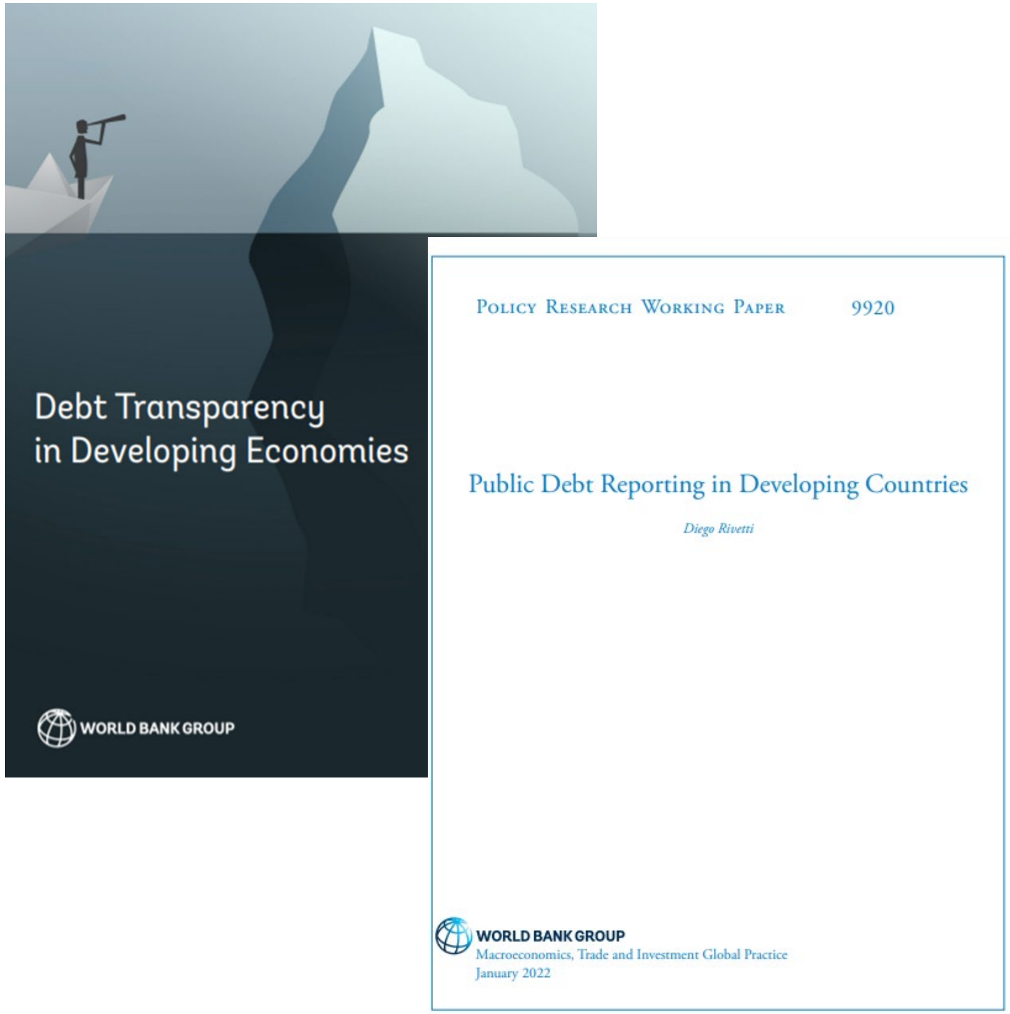
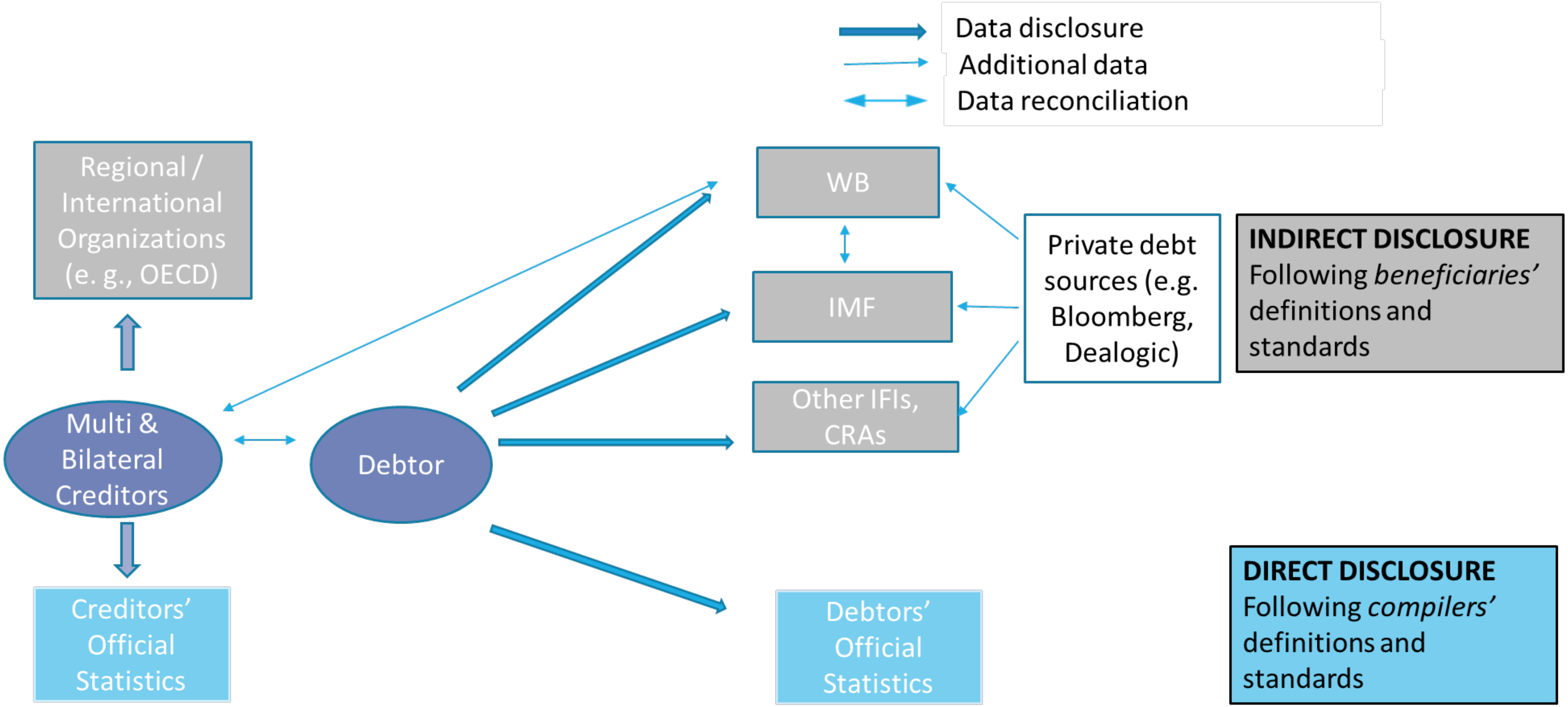
PRESENTATION OUTLINE

- Public Debt Reporting ecosystem
  - Direct reporting
  - Indirect reporting
- Implications
- Recommendations



A COMPLEX PUBLIC DEBT REPORTING ECOSYSTEM



DIRECT REPORTING

DIRECT REPORTING: WB'S HEATMAP

1. Public Debt Statistics						2. Public Debt Management		3. Other debt statistics / contingent liabilities (CLs)
Data accessibility	***Completeness***			***Timeliness***		**Debt Management Strategy (DMS)**	**Annual Borrowing Plan (ABP)**	
	Instrument coverage	Sectoral coverage	Information on recently contracted external loans	Periodicity	Time lag			
No publicly available / incomplete / outdated debt reports	N.A. or incomplete coverage	N.A. or incomplete CG	N.A.	N.A.	N.A.	No DMS published	No ABP published / ABP partial and with delay > 3 months	N.A. or incomplete reporting of explicit CLs
Multiple websites	Limited coverage: external or domestic debt only	Limited coverage : complete CG	Limited information: lender name and/or purposes of the borrowing	> 1 year	> = 6 months	Published without targets	Partial: only for domestic or external debt or full coverage with delay > 3 month	Limited reporting: guaranteed debt by beneficiary (if applicable)
Single website & multiple docs	Partial coverage: external and domestic debt (if applicable)	Partial coverage: complete general government (GG) or complete public corporations	Partial information: lender name and amount; no financial terms	Annual basis	< 6 months	Published with targets for total debt	Full coverage within 3 month from the fiscal/calendar year start	Partial reporting: audited/recognized fiscal arrears and collaterilized debt (if applicable)
Single document	Full coverage: external and domestic debt and guarantees (if applicable)	Full coverage: GG and public corporations	Full information: lender name, amount and financial terms	< 1 year	< = 3 months	Published with targets for domestic and external debt	Full coverage before the fiscal/calendar year start	Comprehensive reporting: publication of a CLs' framework

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https://www.worldbank.org/en/topic/debt/brief/debt-transparency-report

RECENT PROGRESS IN DIRECT DEBT REPORTING

- 23% LICs do not publish debt data or data are older than 2 years (down from 40% in 2020)
- Impact of WB's new lending policy: 75% of the countries showing improvements
- Challenges: extending sectoral coverage, disclosing financial terms and contingent liabilities
- Progress in MTDS, less in ABP

Distribution of IDA Countries by Heatmap Rating

(change between 2020 and 2021 in parentheses)

	Data accessibility	Instrument coverage	Sectorial coverage	Recent loans information	Periodicity	Time range	DM Strategy	Borrowing Plan	Other
Insufficient Practice	17 (-13)	17 (-13)	17 (-13)	44 (-5)	17 (-13)	17 (-13)	39 (-4)	61 (12)	35 (-16)
Limited Practice	1 (-2)	2 (-2)	10 (-2)	1 (-4)	0 (0)	7 (-3)	3 (3)	7 (-8)	11 (4)
Partial Practice	7 (1)	9 (1)	25 (1)	12 (3)	21 (5)	15 (5)	1 (0)	0 (-1)	10 (0)
Best Practice	49 (14)	46 (14)	22 (14)	17 (6)	36 (8)	33 (9)	31 (1)	6 (-3)	12 (11)
N/A	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	2 (2)	0 (0)	0 (0)	6 (1)

DEBT REPORTING DRIVERS: ESTIMATION STRATEGY

Dependent variable: Transparency index based on simple average of 5 key dimensions from heatmap (instrument and sectoral coverage, new loan disclosure, MTDS and ABP)

Key determinants:

- Type of debt recording and management system (DRMS): DMFAS / COMSEC / in-house
- Portfolio Composition: presence of collateralized debt or Eurobonds
- External scrutiny: availability of at least one rating
- Debt management capacity, proxied by the share of college graduates among DMO staff
- Reporting requirements in DM Legal framework

Additional controls: income level, LIC-DSA rating, status of fragile/conflict-afflicted country, participation to HIPC, sub-regional fixed effects

DIRECT REPORTING DRIVERS

	I	II
Debt Recording Systems		
COMSEC	0.694**	0.590**
	(0.272)	(0.270)
DMAS	0.475*	0.389
	(0.266)	(0.261)
Portfolio Composition		
Has Eurobond	0.491**	0.337
	(0.245)	(0.243)
Has collateralized debt	-0.164	-0.006
	(0.281)	(0.285)
External scrutiny		
Has rating	0.510**	0.504**
	(0.229)	(0.227)
Capacity		
Percentage of staff with college degree	0.012**	0.009*
	(0.006)	(0.005)
Legal requirements		
Index (statistical bulletin, ABP, and Strategy)		0.747**
		(0.336)
Other factors		
Lower middle income	-0.220	-0.182
	(0.253)	(0.249)
Upper middle income	0.332	0.390
	(0.435)	(0.428)
High DSA risk	-0.751***	-0.758***
	(0.227)	(0.226)
Fragile state	-0.522**	-0.567***
	(0.211)	(0.207)
HIPC	0.180	0.425
	(0.294)	(0.305)
N. of Obs.	74	74
R-squared	0.63	0.65

(continues)

(continued)

Notes: Syria and Yemen are excluded from the analysis since they are currently facing armed conflicts. Standard errors in parentheses, * p<0.10, ** p<0.05, *** p<0.01.
Column 2 in Table 1 adds an index that captures the presence of laws requiring the publication of debt statistics and key DM documents

INDIRECT REPORTING

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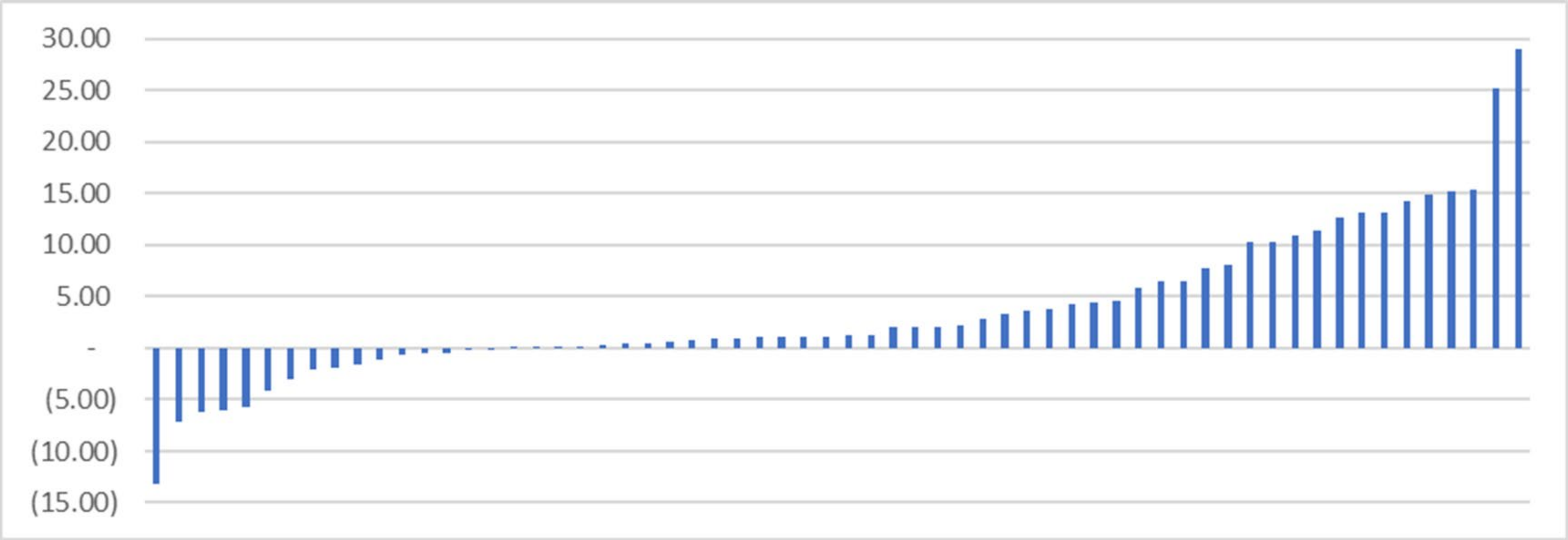
(I) DIFFERENT INSTRUMENT AND SECTORAL COVERAGE

DSA / national authorities' PPG debt stock gap

In percent of 2019 national GDP



The LIC-DSA increases the debt stock that is reported in official statistics by an average of 5 percent of GDP

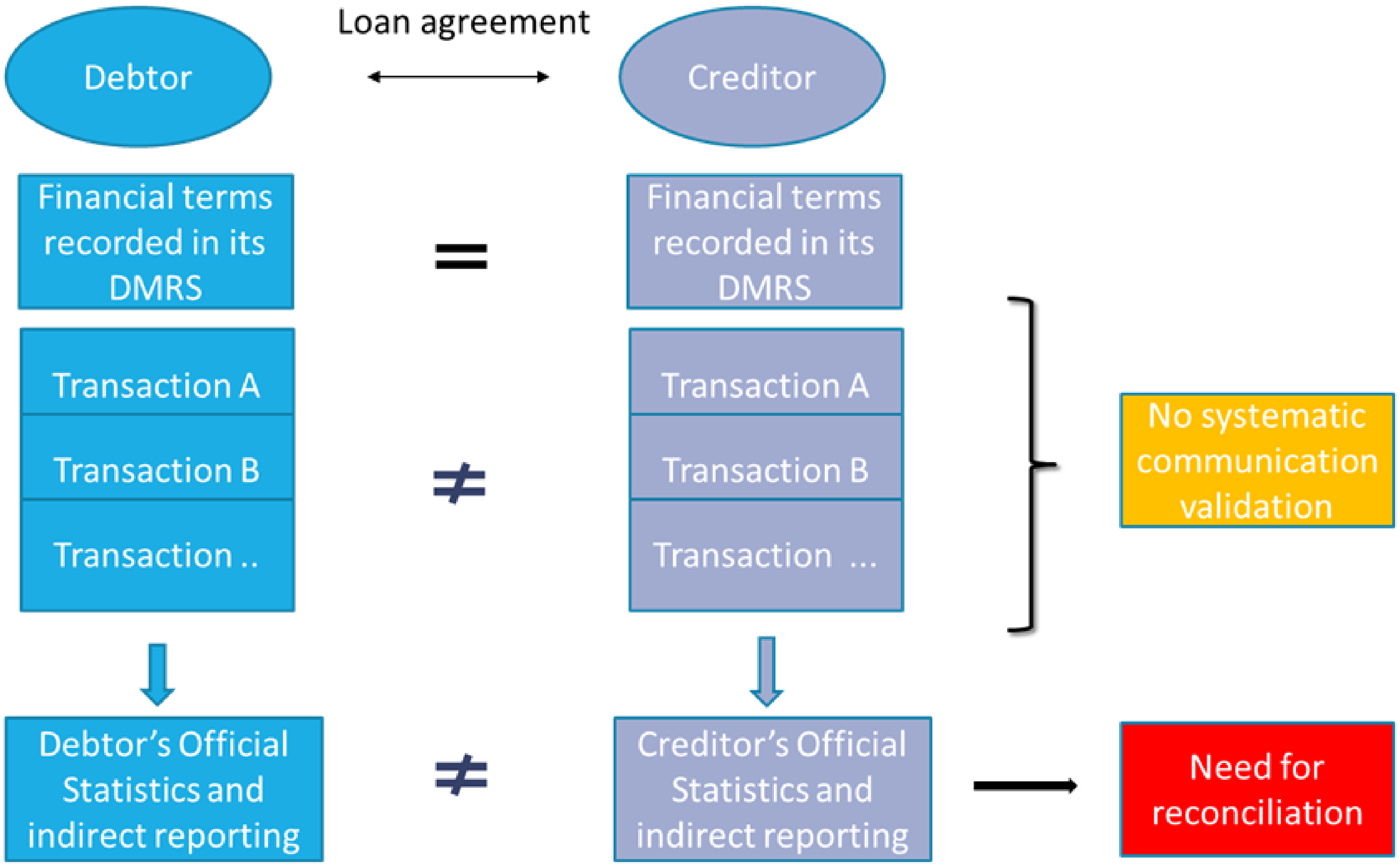
(II) DIFFERENT DEBT DEFINITIONS AND VALUATION METHODS

	Statisticians	Debt Managers	Accountants (IPSAS)
Valuation	Nominal Value (+Market value for securities)	Face value	Fair value

	Statisticians	Debt Managers	Indirect reporting
External / Domestic	Residency based	Currency based	Mixed e.g., 2019 DSAs: 57% by residency; 43% by currency

(III) RECORDING ERRORS

Loan data recording:



- Delays in data sharing or recording of disbursements / payments
- Different computation methods
- Different parameters (FX, Libor, etc.)

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Need for periodic debt reconciliation

On Ad-hoc basis (mail exchanges / missions)

Comprehensive in case of restructuring

IMPLICATIONS OF THE EXISTING DEBT DATA ECOSYSTEM

- **Limited cross-country comparability**
  Expected vs. actual coverage in debt databases

- **Lack of efficiency**
  External agents duplicate efforts, with limited cross-source reconciliation

- **Demanding data reporting requirements on resource strained DMOs**
  DMOs fill in different templates and provide methodological clarifications

- **Disincentives to invest in accurate direct reporting**
  Limited indirect reporting has implications on borrowing (e.g., Mozambique)
  * In IDA countries where direct/indirect debt data are available, the source cited in *The Economist* is indirect in 92% of the cases

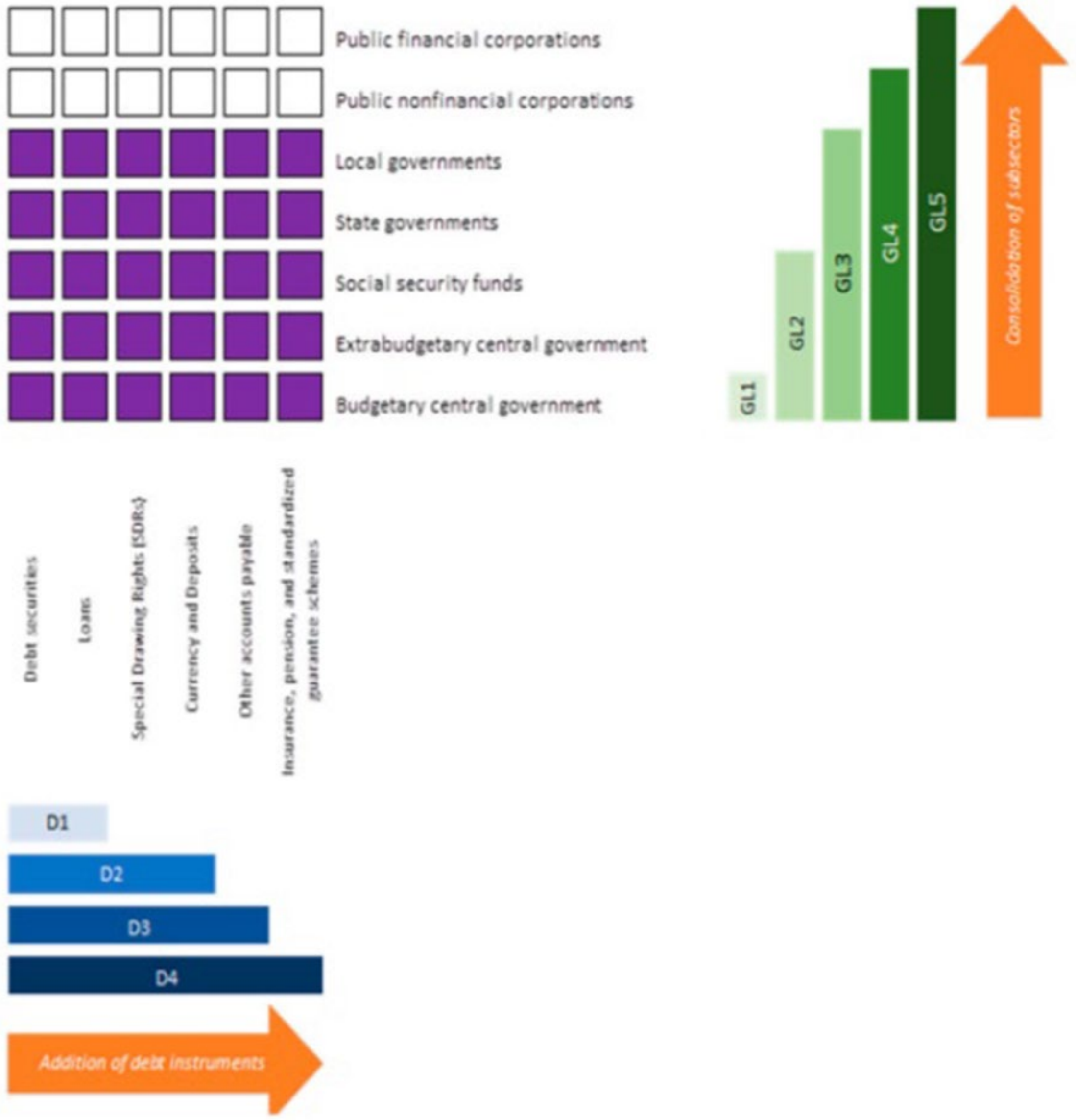
RECOMMENDATIONS

RECOMMENDATIONS (I)

- **Develop clear metrics to assess and track debt statistics coverage**
  Databases should explicitly mention the country-specific sectoral and instrument coverage

- **Streamline existing IFIs' data collection exercises and consolidate resulting databases**

- **Promote direct reporting**



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RECOMMENDATIONS (II)

- **Improve debt recording systems.** Current limitations:
  - Stand-alone software, not integrated with IFMIS;
  - Inability to record more complex instruments;
  - No automatic reconciliation with creditors;
  - Poor reporting capacity;
  - International community subsidizing two alternative systems with similar features (developed by UNCTAD and COMSEC)
- **Close the "capacity gap" with creditors**

  Select and retain staff with the adequate skills at the DMO
- **Strengthen the legal framework to include strict reporting requirements**

RECCOMANDATIONS (III): INTERNATIONAL LOAN REPOSITORY

ILR is a centralized digital system serving as:

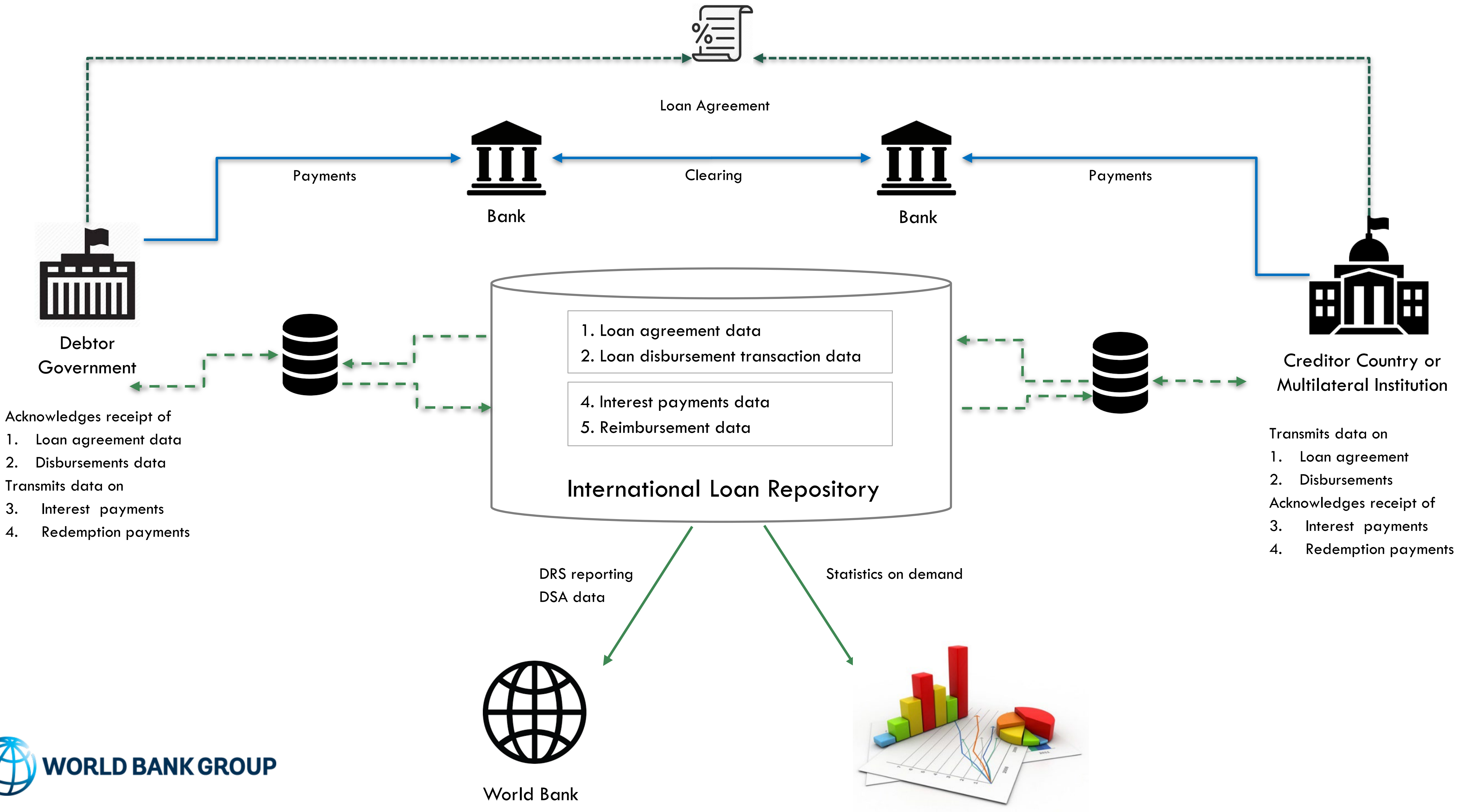
- **global loan repository**, to be used for public reporting purposes;

- **platform to reconcile debt records** between creditors and debtors, thus improving the accuracy of debt records and limiting operational risk

- **debt recording system** for low-capacity countries

Each participant would have access only to its own loan portfolio to ensure data ownership and confidentiality.

ILR: DIGITALIZING AND CENTRALIZING LOAN DATA TRANSMISSIONS



BENEFITS OF AN INTERNATIONAL LOAN REPOSITORY

1) Use of creditors' records to fill borrowers' gaps
2) Synergies in recording of parameters: e.g., FX rates, reference rates, etc.
3) Use of standardized debt definitions
4) Replacement of ineffective, time-consuming, costly reconciliation processes
5) Data synchronization after debtor/creditor validation -> real-time statistics
6) Better tracking of debt arrears or "hidden defaults" (Horn et al., 2022)
7) Temporary debt recording solution for unsophisticated LICs

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THANK YOU

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