JICA and World Bank co-host public debt and risk management seminar in Tokyo

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This spring, from May 15 to June 1, JICA and the World Bank co-hosted an insightful training seminar aimed at strengthening the capacity of middle-level and senior civil servants from 15 African, Asian, and Middle Eastern countries to manage public debt as well as the potential hazards brought on by government loans and sovereign guarantees.[1] Timely as it was substantive, this course aptly conveyed the importance and means of enhancing disclosure, assessment, and monitoring of so-called contingent liabilities arising from such transactions.

For an increasing number of countries, access to official development assistance (ODA) is dwindling while new forms of financing are readily taking its place. Consequently, besides having an expanded set of options for mobilizing much-needed capital, they must remain vigilant of novel vulnerabilities to which this momentous change gives rise—especially in relation to public debt. Nonetheless, many developing countries lack the administrative arrangements and resources needed to exhaustively examine and control fiscal risks known as contingent liabilities that most often emerge when they lend to and guarantee the debts of state-owned enterprises (SOEs) or, in the context of Public-Private-Partnerships, extend debt and revenue guarantees or provide compensation for early contract termination. Contingent liabilities are particularly problematic because they can precipitate a significant deterioration in fiscal outcomes even though the government itself has no control over the exact event, or series of events, compelling it to assume responsibility for the financial obligation underlying these kinds of deals.

In taking on this salient issue, the workshop that JICA's Public Governance and Financial Management Team and Tokyo Center co-hosted alongside the World Bank's Treasury Department featured expert lectures, guest presentations, group assignments, and site visits highlighting how Japan's government handles contingent liabilities pertaining to its earthquake reinsurance program.[2] Through a careful blending of theoretical instruction and practical application, participating officials learned the essential components of robust public debt management and sovereign guarantee governance frameworks, strategies for classifying contingent liabilities, technical methods for quantifying or otherwise evaluating them, along with tools to mitigate their impact once they materialize.

Seminar participants, instructors, and organizers
Photo credit: Sakurako Marukawa, JICA Tokyo Center

[1] Cameroon, Cape Verde, Egypt, Ghana, Indonesia, Mongolia, Myanmar, Nepal, Sri Lanka, Tanzania, Timor-Leste, Uganda, Vanuatu, Vietnam, and Zambia were represented. Stace Nicholson of the JICA USA office also took part in the seminar as an observer, and he would like to extend his gratitude to colleagues from JICA's Public Governance and Financial Management Team, JICA Tokyo Center, and the World Bank Treasury Department for the opportunity.

[2] Natural disasters, such as earthquakes, are another example of a contingent liability since they pose downside risks to government expenditures and revenues but the government's actions generally have no bearing on their occurrence.

Significantly, as a platform for knowledge co-creation, the seminar also afforded attendees ample time to share relevant personal experiences and collectively troubleshoot difficulties foreseen in applying to their home settings the lessons it conveyed. To round out the classroom portion of the workshop, the participants presented recommendations for improving how their governments treat specific contingent liabilities. For Tanzania, one group of trainees favored changes allowing for more rigorous review of credit risks assumed by the government when guaranteeing SOE borrowings—so that determinations whether to do so in the future are as informed as possible. Peers then rendered reactions to each other's proposals. In the case of Tanzania, they offered advice on ways of apportioning roles within the Ministry of Finance and Planning to streamline appraisal procedures and suggested how to increase transparency in a bid to make SOEs more accountable.

Capacity-building interventions like this one are vital at a time when developing countries are no longer obliged nor able to rely on ODA to attain sustained economic growth. For them to navigate this transition effectively, their frontline functionaries need to be equipped with a greater appreciation of the perils posed by weak oversight of national and parastatal finances plus available remedies. To that end, JICA is committed to serve as a steadfast, trusted partner.