CONTINGENT LIABILITY MANAGEMENT PRACTICES IN WEST AFRICA

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PRESENTATION OUTLINE

I- Background	III-Contingent Liability Management Practices and Fiscal Risks: Practices and Inadequacies
II-Type of Contingent Liabilities in the Region	IV-Recommendations

INTRODUCTION

As part of this workshop, CABRI commissioned a study on contingent liability management practices in West Africa.

In order to carry out the work, a survey was submitted to managers from the different countries in the region. Of the 15 countries, information from eight countries was actually collected.

In view of the sensitivity of the information for managers, some of the data was kept anonymous. This is the moment to thank everyone involved for their availability and the efforts made.

These results will allow everyone to appreciate their level and performance in this area and learn from the experience of others.

I- BACKGROUND

WEST AFRICA

1. 16 countries, including 15 in the ECOWAS economic integration of which 8 countries are members of a monetary and economic union (WAEMU)
2. Sustained economic growth- 5% on average
3. Strong population growth
4. 7 fragile and conflict affected countries
5. Ebola and COVID-19
6. Political and institutional instability
7. Socio-economic investment challenges
8. Growth in debt following debt cancellations
9. Increased use of PPPs
10. A significant number of state-owned enterprises
11. Implementation of the new harmonized public finance framework for WAEMU countries
12. There are convergence criteria between ECOWAS and WAEMU

Debt situation

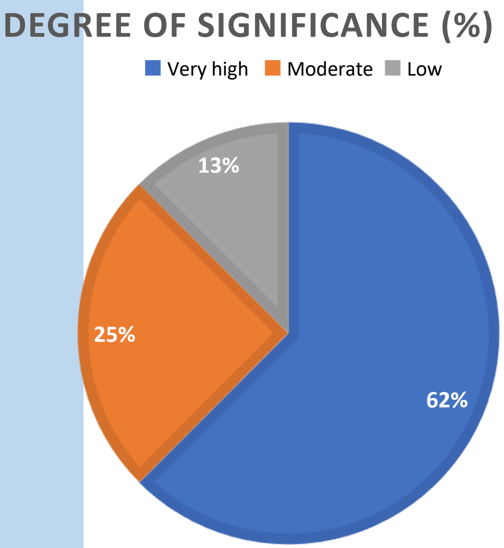
- 5 countries have a high risk of indebtedness
- 9 countries have a moderate risk of over-indebtedness
- 1 country has a low risk of over-indebtedness

Countries	Risk of debt Distress
Benin	Moderate
Burkina Faso	Moderate
Cape Verde	High
Côte d'Ivoire	Moderate
Gambia (The)	High
Ghana	High
Guinea	Moderate
Guinea Bissau	Moderate
Liberia	High
Mali	Moderate
Niger	Moderate
Nigeria	
Senegal	Moderate
Sierra Leone	High
Togo	Moderate

Source: IMF 2020 DSA report

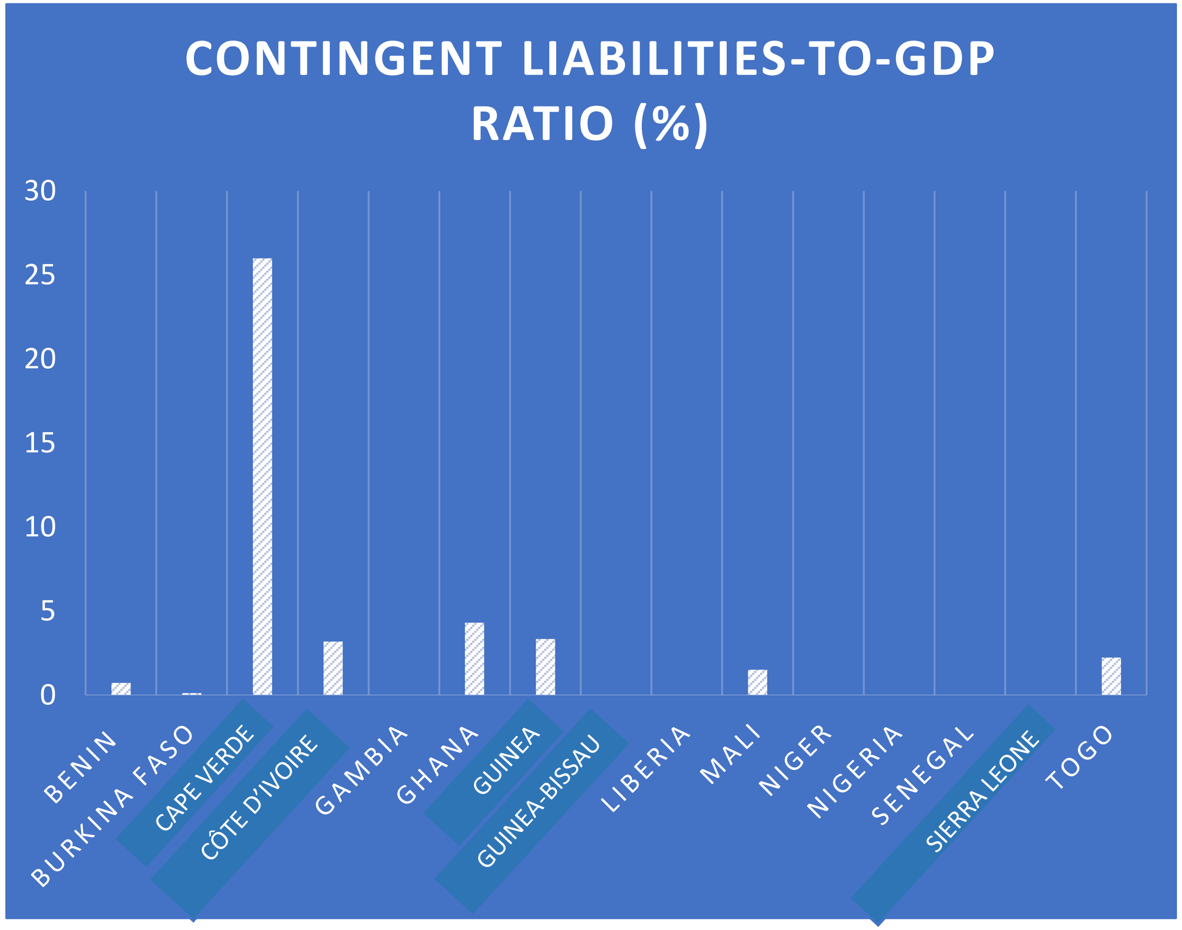
II-TYPES OF CONTINGENT LIABILITIES

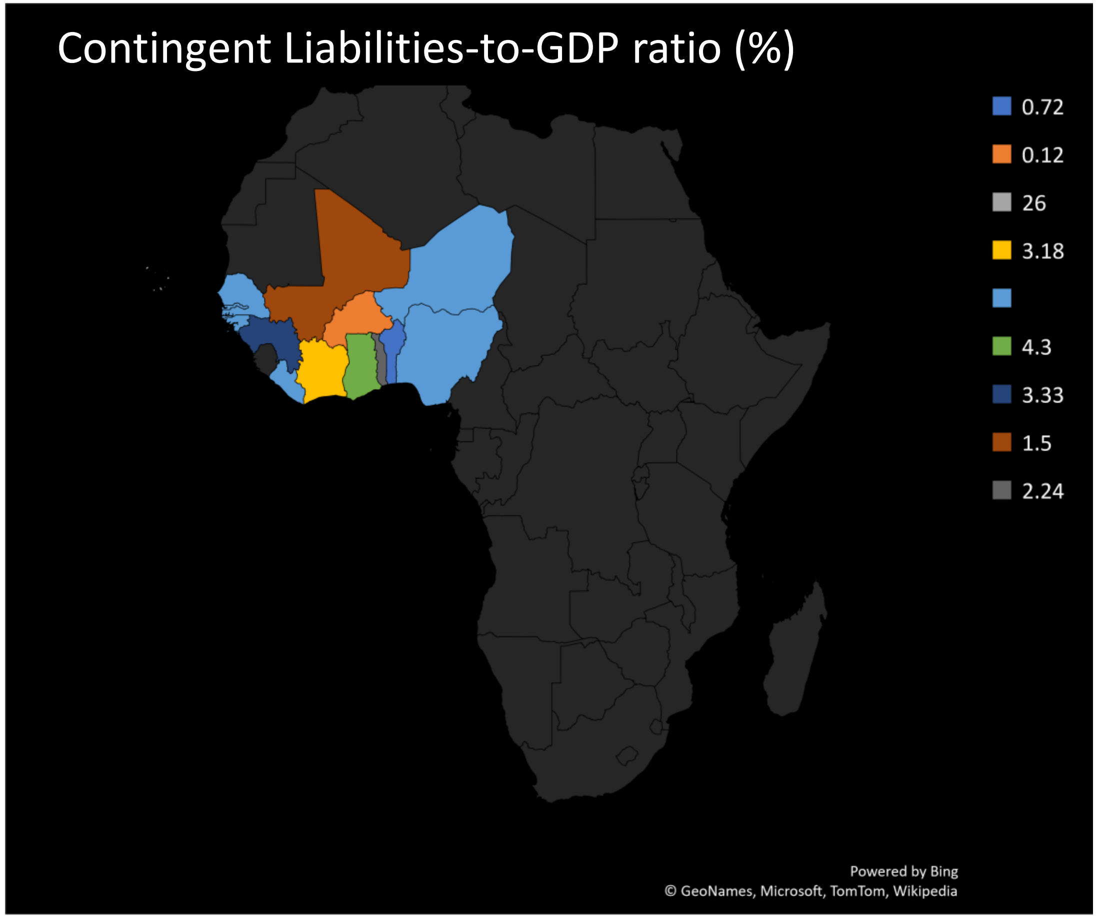
EXPLICIT CONTINGENT LIABILITIES	IMPLICIT CONTINGENT LIABILITIES
• Guarantees to State-owned enterprises or other subnational government entities (local authorities) for loans and bonds • PPP guarantees and other commitments • The risk of compensation for damages related to legal state disputes	• Payment defaults on unguaranteed debts and bonds by state-owned enterprises and local authorities • Liabilities of privatised SOEs • The collapses (bankruptcies) of financial institutions, including microfinance institutions • Disasters and natural disasters • Epidemics (Ebola, Covid19)



Guarantees are considered to be the most important in frequency and proportion.

Level of Contingent Liabilities





Source: Data collected by country

Data results

Research shows that:

- ✓ The level of contingent liabilities for most countries that have provided information is less than 4%,
- ✓ One country has a rate of up to 26% and presents a high risk of over-indebtedness
- ✓ Data are often unavailable or incomplete for some countries.

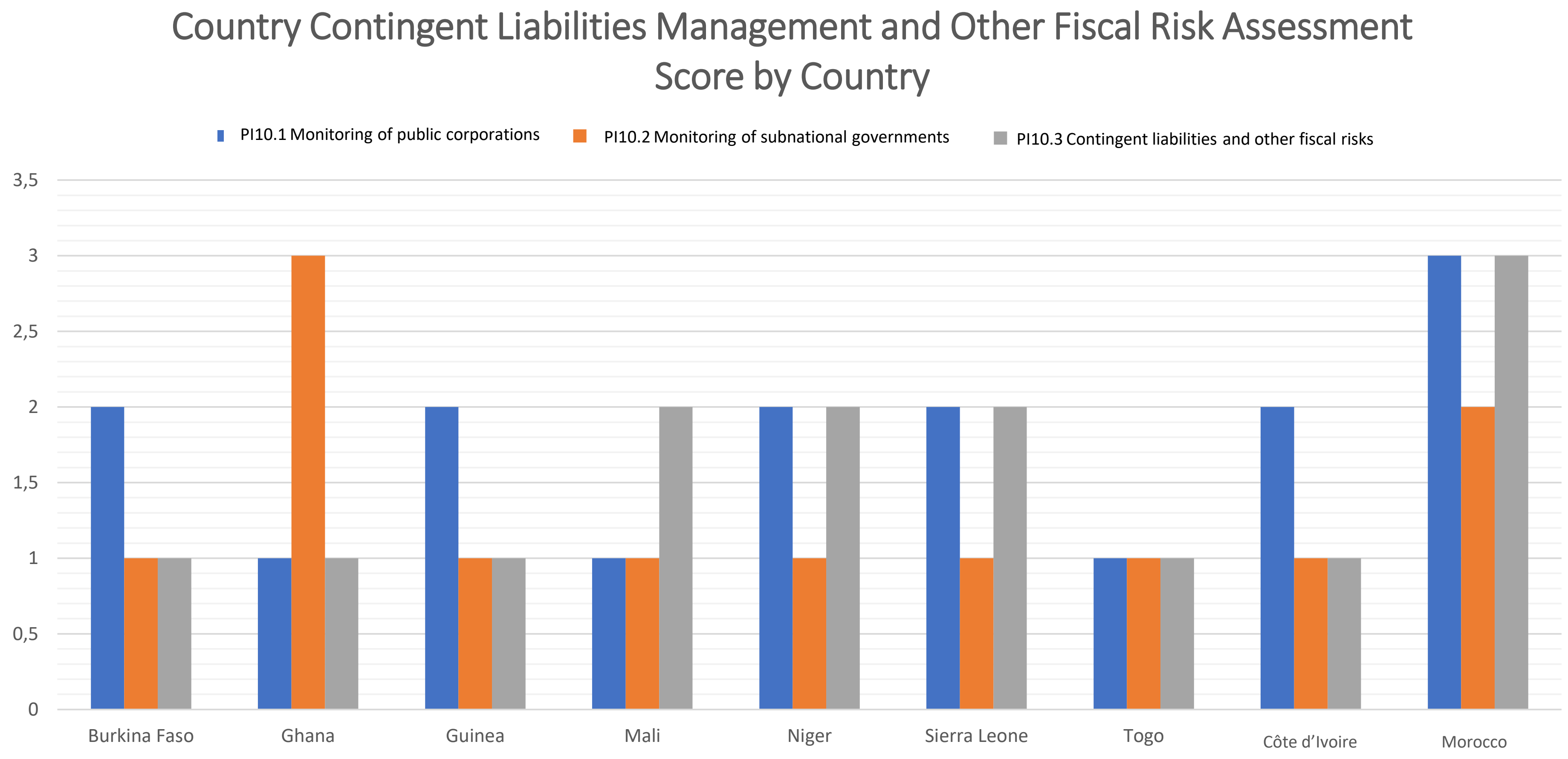
Reasons for the unavailability of the complete or disclosed information are:

- The sensitivity of information on this subject in the eyes of managers;
- The unavailability of data to the managers themselves because of the challenges in coordination faced by the structures involved;
- A lack of ability to identify, evaluate and quantify liabilities;
- A poor capacity to monitor and gather data;
- A desire to conceal or underestimate the risks of liabilities in order not to increase the level and the risk of indebtedness and thereby reduce access to concessional or non-concessional financing;
- a weak culture of transparency.

III-CONTINGENT LIABILITY MANAGEMENT: PRACTICES-STRENGTHS-WEAKNESSES

- *Regulatory and Institutional Framework*
- *Contingent liabilities monitoring*
- *Risk assessment and quantification*
- *Reporting and accounting*
- *Report and publication*
- *External auditing and oversight*

Performance in managing contingent liabilities



Source: PEFA data

Countries' performance in managing contingent liabilities from PEFA assessments:
-most countries have a C or D rating corresponding to an average or low performance (PI10.3)

Regulatory and Institutional Framework

Practices and strengths

- There are texts governing guarantees for most countries
- Increased awareness
- The role of the Minister of Finance is affirmed
- A country has a broader text governing the management of contingent liabilities
- Countries have a department/unit to manage contingent liabilities or fiscal risks
- There is a budget risk monitoring committee in Ghana

Limitations

- Texts with limited coverage
- A majority of the countries do not have a service/department to manage contingent liabilities or fiscal risks
- Several departments/units independently manage certain liabilities
- There is a coordination problem between liability management structures
- Some institutions such as the Parliament and the Court of Auditors, do not fully play their roles

Contingent Liability Monitoring: Prevention

Practices and strengths

- Procedure and conditions for granting guarantees
- Guarantee monitoring database
- Monitoring the performance of state-owned enterprises by departments/units created for this purpose
- Monitoring PPPs by dedicated units

Limitations or inadequacies

- Non-compliance with procedures or conditions
- Does not require authorization from Parliament in several countries
- A non-exhaustive database (domestic and foreign debt)
- Poor monitoring and governance performance of state-owned enterprises
- Poor monitoring performance of PPPs and their risks

State-Owned Enterprise Risk Factors

Progress made

- Establishing a structure to monitor contingent liabilities
- Production of financial statements
- The establishment of a monitoring body
- A large pool of public enterprises and establishments (PEE)

Limitations or inadequacies

- Low level of revenue in view of the demand challenges for public services
- Poor SOE monitoring
- Poor governance practices within SOEs
- Political influence, favouritism (patronage),
- Transparency challenges
- Weak accountability
- Unsustainable pricing policy
- Accumulation of social and tax debts
- Low PEE capacity
- Feasability study and project sustainability
- Poor executions of financial transactions

Contingent Liability Assessment

Practices and strengths

- Use of a DSA (Debt Sustainability Analysis) taking into account the debts of SOEs to assess risk for certain countries
- Some countries use various tools to analyse and assess contingent liability risks, such as the credit risk for guarantees and the PFRAM for PPPs or the PPP risk matrix.

Limitations or inadequacies

- Most countries do not use tools to analyse and quantify contingent liability risks
- The DSA does not cover contingent liabilities or guarantees for several countries
- A need to build capacity is evident by all managers

Reporting and Accounting

Practices and strengths

- Reforms relating to accrual-based accounting are under way and take into account guarantees in the opening balance sheet

Limitations or inadequacies

- Most countries do not apply accrual-based accounting
- Identification and quantification of liability risks are not carried out
- The recognition of liabilities in accordance with accounting standards is not carried out for many countries

Report and Publication

Practices and strengths

- Adoption of the Public Finance transparency Code
- Two countries produce and publish a report on contingent liabilities and fiscal risks
- Certain countries carry out a budget risk analysis in budget reports or documentation
- Other countries include this in the government debt report for the guarantees

Limitations or inadequacies

- Low production of specific reports on contingent liabilities and fiscal risks
- Inaccessibility of information on contingent liabilities
- Poor disclosure of informations on PPP contracts and guarantees

External Auditing and Oversight

Practices and strengths

- Existence of texts affirming external auditing

Limitations or inadequacies

- Poor external auditing by Court of Auditors and other auditing/oversight authorities
- Weak capacity of entities
- Lack of priority given to contingent liabilities

75% of countries do not carry out external audits

IV-Recommendations

Strengthening the regulatory and institutional framework

- Specifically including the issue of contingent liabilities in national and regional legislation;
- Creating a fiscal risk (including contingent liabilities) management monitoring and coordination body;
- Establishing an inter-ministerial fiscal risk monitoring committee chaired at the highest level;
- Establish a criterion for the management of contingent liabilities at community level;
- Draw up an action plan to improve the management of contingent liabilities;
- Draw up a management or analysis guide for fiscal risks (contingent liabilities);
- Submit for adoption by Parliament the cap on guarantees granted;
- Introduce a culture of simulation (table-top) exercise or shock test on contingent liabilities and fiscal risks to manage uncertainty

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Reforming contingent liability management practices

- Create a central database to monitor contingent liabilities;
- Institute a culture of sensitivity analyses linked to the materialisation of contingent liabilities;
- Include internal and external debts and guarantees of SOEs in the sustainability analysis and the strategy;
- Analyse and quantify risk, using statistical and econometric models and other tools;
- Develop prevention and mitigation plans
- Include high probability guarantees and risks in the accrual-based accounting system;
- Undertake external auditing and oversight over the management of contingent liabilities;
- Draft and publish a regular report on contingent liabilities

Recommendations (continued)

Strengthening monitoring and management of state-owned enterprises and PPPs

- Strengthen the monitoring of SOEs by instituting accountability, drafting, and issuing of a monitoring and performance report and instituting a dashboard of financial performance, regular auditing;
- Strengthen PPP monitoring through a coordinating structure, capacity building and transparency on PPP contracts;
- Assessing the performance and risk of PPP projects
- Carry out an audit and inventory of debt (internal and external) of SOEs in order to consolidate them.

Capacity-building for role-players

- Build capacity for managers through training and experiential learning ;
- Undertake experience-sharing initiatives (workshop, seminars)
- Undertake advocacy and sensitisation to raise awareness;
- Train the managers of SOEs on managing their debt and the sustainability of their finances;
- Organise workshops and discussions on the subject;
- Involve civil society in debates on the subject to raise awareness in citizens;
- Involve oversight/auditing bodies and Parliament in discussions on liabilities; and,
- Undertake experience-sharing initiatives.

Thank you for your kind attention, sharing and contribution

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