Key messages

Managing contingent liabilities

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Panel discussion: key messages

1. Optimism bias: failure to recognise huge fiscal risk
2. Efficient management of contingent liabilities involves holistic risk management
3. The private sector’s participation is dependent on policy certainty and consistency
4. Political buy in for reserves funds is critical
5. How do we limit the potential moral hazard arising from knowledge of contingency funds?

Regulation of contingent liabilities: key messages

1. Effective regulation depends on implementation and punitive measures.
2. A robust legal framework ensures sustainability.
3. Robust regulation ensures that guarantees are issued cautiously and risk of default is mitigated.
4. How can the legal framework reduce the risk associated with implicit contingent liabilities if beneficiaries are undefined?
5. A strong regulatory framework limits political influence.

Institutional arrangements to facilitate coordination: key messages

1. Coordination between government stakeholders is crucial for fostering risk awareness amongst SOEs and ensuring their financial viability.
2. SOE functionality is impeded by the lack of consistency in government policy.
3. How does government develop its bargaining power in its PPP negotiations to ensure that risk is shared fairly and priced appropriately?
4. Central government's risk exposure and the pressure on the fiscus is reduced when SOEs are able to generate independent revenue streams.
5. It is important that decision makers are strong enough to counter political interference.

Measurement: key messages

1. You can’t manage if you can’t measure.
2. Measurement facilitates informed decision making and an appropriate balance between cost and risk.
3. Accurate measurement helps bring about risk sharing and value for money in PPP agreements.
4. Know your limitations in light of your availability to information and technical capacity.
5. Measurement can be improved through collaboration and exchanges with peers in other countries.
6. Measurement requires data, which may be unavailable, and is often inconsistent between departments.

The five steps of contingent liability management

1. Contingent liability management is strengthened through the involvement of the debt office.
2. For the minister to make informed decisions, proper evaluation processes must be in place and reviewed regularly.
3. A credit risk framework ensures that risk methodology is context appropriate and cognisant of technical limitations.
4. Credit risk assessment cannot be guided solely by technical tools.
5. Timely and accurate information sharing allows for proactive steps to be taken to limit defaults.

Disclosure and reporting on contingent liabilities

1. Greater provision of information about contingent liabilities increases fiscal credibility and decreases external perception of risk.
2. The definition of contingent liabilities varies across institutions and time, leading to measurement, reporting and auditing disputes.
3. Open communication between auditors and government ensures proper disclosure and relevant recommendations.
4. Accountability and predictability is increased when parliament has constant access to information from guaranteed entities.
5. The onus is on the state-owned entity to provide full and accurate information.

Thank you

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