Under the agreement signed between the National Office of Public Credit (NOPC) of the Ministry of the Popular Power of Economy and Finance of the Bolivarian Republic of Venezuela and UNCTAD, a debt management training program was carried out in May 2019. This training was delivered by Mr. Andrés Blondet, an international expert from UNCTAD, and was attended by 30 officials of the NOPC (front, middle and back office).

This training program was part of the efforts to update knowledge and undertake continuous learning of the NOCP staff in charge of the DMFAS based on international best practices, with the objective of allowing the country's financial authorities to receive timely and reliable information on debt. The training took place over a period of one month in three phases: 1) basic, 2) intermediate and 3) advanced functional training, designed in line with the needs and experience of the NOCP staff.

The basic training targeted the back and middle office staff, as part of the NOCP efforts in the organizational process of staff renewal. This group was mostly composed of users that had little or no experience with DMFAS software. This constituted a challenge for the participants since they had two weeks to acquire knowledge related to the software required to fulfill their debt management responsibilities.

(Continued on page 2)
With a very active participation and intensive training, many officials exceeded expectations and were able to take part in the intermediate training.

During the intermediate training, more experienced NOCP staff in DMFAS learned how to present debt data and perform analysis taking into account debt management challenges in the context of the current Venezuelan economy. Practical exercises were carried out and allowed officials to: a) improve the use of predefined reports and user-defined reports created by the analysts (debt balance, debt service, debt projections) using DMFAS, and b) correct and validate database after conducting a review and rectification of anomalies in the records. The training also helped integrating the more experienced staff with the new DMFAS users.

The Directors General of National Public Debt, Evaluation and Risk, Legal Consulting and Financial Operations participated in the advanced functional training. They led a management-level discussion on the use of DMFAS which clarified NOCP management’s questions about the functionalities and how to optimize the quality and timeliness of information needed for the country to take innovative decision for the benefit of the national economy.

The UNCTAD training generated positive impact on the daily work of the NOCP thanks to the discussions that were promoted between the different Directorates of this office. In addition, it allowed NOCP staff visualize a global solution. Despite the difficulties they present, the country’s finances may be favored with a transparent debt management that follows the highest international standards.

Côte d’Ivoire requested support from the DMFAS Programme on Public Private Partnerships (PPPs) and debt management as part of the current technical assistance project. The first activity took place from 27 to 30 May with experts from Côte d’Ivoire and DMFAS.

In the last 30 years, PPPs have been rising as a mechanism to finance public projects particularly for infrastructure, and have financial, legal and social implications which can affect the countries’ public debt.

PPPs represent an alternative to traditional government-financed project by transferring the financing and operation costs to a private partner in exchange for profits gained through exclusive rights of exploitation. While traditionally publicly financed projects have an initial high cost for the government, PPPs postpone or redistribute the repayments in the future as shown in the figure on the left. Hence, PPPs allow projects to get started with limited initial public investment, not requiring raising funds through new loans or taxes.

However, there are risks involved that could offset the benefits, especially when a PPP agreement is not well designed and implemented. These agreements may benefit from a government guarantee and can contain clauses triggering compensation from the government to the private partner in case of events affecting expected profits. The PPP is considered a contingent financial liability outside the control of the government, and yet, can cause concern for the debt offices if the clauses expose the government to fiscal risks, hence to potential new debt.

Despite these challenges, PPPs are widely used and constitute a growing concern that was raised by member countries during the last DMFAS Advisory Group Meeting in November 2017.

During one week, experts from the DMFAS Programme and the debt office of Côte
d’Ivoire explored debt management concerns with PPPs. The group discussed key topics including risk allocation, stakeholders mapping, and project monitoring. Producing information and systematizing it is key for identifying risks and monitoring them for timely action and creating sound policies by the authorities.

In particular, the experts explored the following questions:

- What type of data related to PPP implementation is needed to monitor risks that can impact public debt? How to collect this data? How to systemize data for the DMO to monitor and analyze risks?
- Are governments comparing PPPs with general procurement using loans? Are stakeholders in a PPP fully identified? Which standards to be used to record potential liability? Are debt managers prepared to face these challenges?

A more detailed questionnaire is being prepared to get the views of the DMFAS Advisory Group in November.

Contingent liabilities workshop in Honduras

As in other countries in the region, Honduras has an important degree of fiscal risk exposure arising from a variety of potential obligations due to government guarantees, parastatal debt, municipal debt, Public-Private Partnerships (PPPs), and litigation processes.

As part of a technical assistance project with the Secretary of Finance of Honduras (SEFIN) and the Central Bank of Honduras financed by the Inter-American Development Bank, UNCTAD organized a workshop on contingent liabilities in Tegucigalpa from 15 to 24 July 2019. Twenty participants from both institutions actively contributed to the discussions on the different risks and their potential impact on the Honduran public finances.

UNCTAD’s experts presented the different concepts, potential fiscal impact and mitigation measures of the various contingent liabilities in Honduras. Examples from other countries and best practices on managing contingent liabilities were also shared.

SEFIN’s Fiscal Risk Unit (FRU) and the General Accounting Department actively presented current examples on the different types of contingent liabilities managed by SEFIN including pending lawsuits, debt of parastatal enterprises, municipal debt, debt guarantees and Public-Private Partnerships. In particular, FRU explained in detail how the data on the different liabilities is collected, valued and how the probabilities of coming due are calculated. Discussions also covered how the contingent debt is accounted for and how the reports are presented.

Part of the workshop focused on Public Private Partnerships (PPP) and the risks involved. Honduras has 11 active PPPs mainly in the transportation sector and in the energy sector. The workshop analysed the procedures governing the approval and monitoring of the PPP, risks and problems encountered with actual PPPs and how DMFAS could help in monitoring the potential fiscal risks related to the projects.

As a result of the workshop, participants enhanced their knowledge of contingent liabilities and PPPs and gained a better insight of FRU work, leading to a better understanding of the information needed by the FRU and the back office.

To follow-up, UNCTAD will organize a workshop on debt statistics and how to present contingent liabilities in the statistical bulletin.

“The workshop analysed … how DMFAS could help in monitoring the potential fiscal risks”
A brief history of debt:
Part V — The French Revolution

Along with the downfall of the monarchy in France, the French Revolution brought with it sweeping upheavals in society, culture, law, religion and finance.

Maybe you can recall learning about these radical and often violent events in school. Indeed, countless books and scholarly works offer in-depth analyses, research and observations regarding the causes and consequences of the Revolution.

Because it is impossible to cover such a vast topic in a short article, we will concentrate on just one financial aspect of this period: the assignat, which was the paper currency issued by the revolutionary government from 1789 to 1796. It should be reminded that the Revolutionary ideology imposed no new taxes and no debt redemption.

France at that time had a population of 26 million inhabitants, the most populated country in Europe, resulting from higher standards of living and a reduced mortality rate at the beginning of the 18th century. Of course, a larger population created a greater demand for food and consumer goods. In an overall economic context that was desperate and the permanent State of war against the European monarchies, the government was facing imminent bankruptcy and the population was starving.

In November 1789, Honoré Mirabeau, one of the revolutionary leaders, proposed an answer to the government’s financial difficulties. In the previous month, the National Assembly had seen fit to nationalize all the estates and properties of the Church. Anti-religious sentiment was rife and, as can be expected, the Vatican of Pope Pius VI was furious.

Mirabeau suggested that paper notes be issued by the National Assembly, with the Church lands as collateral. The notes would first pass into circulation as spending for public works and other expenses of the government. Even if they were originally designed as interest bearing bonds, they would be effectively redeemable at face value in the form of a purchase price for Church property.

Initially meant as bonds, the assignats were redefined as currency by the National Assembly in April 1790 to address the liquidity crisis provoked by the instability of the Revolution. That month, 400 million assignats (US$80 million) were placed into circulation. Short of funds, the government issued another 800 million (US$160 million) at the end of the summer.

Assignats were immediately a source of political controversy. Nonetheless, it was argued that they would give a “stimulus” to industry, create jobs, and put money in the pockets of the working class. Later it would be the confiscated lands of the nobility fleeing France that would be used as collateral for the paper money.

In his study of The Assignats (1930), Seymour Harris traces the path of the paper currency’s rapid depreciation. By late 1791, 1.8 billion assignats were in circulation and their purchasing power had decreased by 14 percent. In August 1793, the number of assignats had increased to almost 4.9 billion, their value having depreciated 60 percent. In November 1795, the number of assignats amounted to 19.7 billion but by then their purchasing power had decreased 99 percent since first issued.

In only five years, the money of revolutionary France had become worth less than the paper it was printed on.
The effects of this monetary collapse were horrendous. A huge debtor class was created with a vested interest in the inflation because depreciating assignats meant debtors were repaid in increasingly worthless money. With money becoming more worthless each day, pleasures of the moment took precedence over long-term planning and investment.

Goods were hoarded—thus becoming scarcer—because sellers expected higher prices tomorrow. Soap became so scarce that Parisian washerwomen demanded that any sellers refusing to sell their product for assignats be put to death. In February 1793, mobs in Paris attacked more than 200 stores, looting everything from bread and coffee to sugar and clothing.

In May 1793, to stop the inflation, the "laws of the maximum" were passed to control the prices. They failed to achieve their objectives as they varied between areas and applied only to grain. With the price freeze, the peasants were no longer interested to sell their grain at fixed price and these laws were abolished 18 months later.

In 1795, the inflation rate reached 3500 per cent erasing de facto a large portion of public debt. The poorest were most affected by the burden of inflation holding the billions of worthless assignats. Financiers, merchants, and speculators who normally participated in international trade often could protect themselves by accumulating gold, silver, jewellery as well as art and sending it all abroad for safekeeping. Their speculative expertise enabled them to stay ahead of inflation and to profit from currency fluctuations.

Finally, on 22 December 1795, the government decreed that the printing of the assignats would end. Recently banned, gold and silver transactions were again recognized as legally binding. On the morning of 18 February 1796, the printing presses, plates, and paper used to make assignats were taken to an angry Parisian crowd at the Place Vendôme where they were broken and burned.

In 1797, the Directoire, the revolutionary government defaulted and voted a law to cancel 2/3 of the public debt and its Minister of Finance, Dominique Ramel, declared that "I erase the consequences of the errors of the past to give the State the means for its future". He created a new one-time bond with the value of one third of the public debt, known under the name of Consolidated Third.

As the American writer Mark Twain once quipped, “History doesn’t repeat itself, but it often rhymes.” It is important to learn from the past to build the future.

Sources:
The role of the French Assignats during the French Revolution, E. S. Brezis, Brandeis University and F. M. Crouzet, University of Paris Sorbonne
Comprendre la dette publique (2ème édition), J.P. Biasutti, L. Braquet, Thèmes & Débats, Editions Bréal, 2018
The French Revolution and the Assignat, https://www.youtube.com/watch?v=dnsCFwOYuc
https://www.britannica.com/event/French-Revolution

New release of DMFAS 6 : DMFAS 6.1.3.3

A new release of DMFAS 6 (6.1.3.3) was distributed to member countries in August 2019. This release contains around 80 tickets with many enhancements and corrections to problems reported in the use of DMFAS 6.1.3.2. Enhancements include:

Administration :
- A new code for variable rates: the Japanese yen LIBOR interest rate (LIBOR JPY 6Months);
- A new field on the Subscription tab of the Debt Securities module to capture information on accrued interest relating to a reopening;
- A new code "Date Signed" inserted as criteria in the Search facility allows the recording of penalty variable rates that are negative.

Mobilization :
- A new column (effected currency) added in the results of the search facility under loan drawings;
- A new checkbox added ("Include Commission in Next Period?"") to be used to postpone the application of a commission on a real drawing to the next period (after the creditor value date).

(Continued on page 6)
Reports: Four new debt totals were created: two for buyback operations and two debt totals for reopenings.

Utilities: The Maintain Query Files utility was enhanced. It now lets you view the query files that are referenced in reports or delete those that are unused.

Control Panel: A new option, named Display Debt Service Payment Source?, was added in the DMFAS Parameters and is intended for institutions which have linked DMFAS with a system for importing debt service operations.

Moreover, several additional enhancements were implemented on the Web Services including new parameters and options for projections of debt services and exchange rates.

Corrections were also implemented in different modules as described in the release note; the list of fixed tickets is also available in the note in the client area of the DMFAS website.

Current and planned upcoming events

The full list of activities is also available at: http://unctad.org/dmfas.

- DMFAS 6 advanced functional training, La Rioja, Argentina, June 2019
- Data validation workshop, Pakistan, June 2019
- Needs assessment mission, Niger, July 2019
- Workshop on Public Private Partnerships, Honduras, July 2019
- Project coordination mission, Pakistan, August 2019
- DMFAS customized training, Angola, August 2019
- Debt Portfolio Review workshop and follow-up workshop, Zambia, August-September 2019
- Workshop on interface conceptual design, Ethiopia, August-September 2019
- DMFAS installation and maintenance training, Sudan, September 2019
- DMFAS 6 basic functional training, Sudan, September-2019
- DMFAS 6 basic functional training, Ecuador, September-October 2019
- DMFAS customized training, Philippines, October 2019
- DMFAS technical training on database structure, Philippines, October 2019
- Validation of interface workshop, Angola, October 2019
- UNCTAD debt Management Conference, Switzerland, November 2019
- DMFAS Advisory Group Meeting and DMFAS annual donors’ meeting, Switzerland, November 2019

Donors

This newsletter is produced by the DMFAS Programme with the support of the following donors: Germany, Ireland, the Netherlands, Norway, Switzerland and the European Commission.

This newsletter is not an official UNCTAD document and does not reflect official opinion from UNCTAD or any of the donors of the Programme.