

# UNCTAD's Seventh Debt Management Conference

9-11 November 2009

## Capacity Building Needs: Response from the World Bank

by

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The views expressed are those of the author and do not necessarily reflect the views of UNCTAD

# Capacity Building Needs: Response from the World Bank

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7<sup>th</sup> UNCTAD Debt Management Conference

# Outline

1. Why strengthening debt management?
2. What does the World Bank offer?
3. The World Bank's assistance with a focus on Low Income Countries, under the Debt Management Facility
4. The World Bank's assistance with a focus on Middle Income Countries
5. Going forward

# 1. Why Strengthening Debt Management?

## **Development needs of developing countries are large**

How to finance these needs at low cost with a prudent degree of risk, especially at a time when conditions in financial markets are severely constrained?

## **Domestic debt markets are often shallow in developing countries**

How can potential benefits from developing domestic markets be exploited at a low cost and prudent degree of risk?

## **Many governments strengthened their balance sheets over the past decade**

How to protect these sounder public debt structures and avoid exacerbating the crisis?

## **After debt relief under the HIPC Initiative and MDRI, developing countries attracted new creditors and reached new markets**

How to build debt management capacity needed to manage new risks?

## **Improved debt management practices:**

Help to address these questions; Contribute to macroeconomic stability; Facilitate maintaining debt sustainability; Protect government's reputation;

## 2. What does the WB offer?

*Economic Policy and Debt Department, the Treasury, and the Securities Markets Group of the Global Capital Markets Development Department offer **a wide range of debt management advice and support***

**Diagnostic tools** for public debt management assessment and debt market development

**Advisory services** grounded on international sound practices & expertise in the areas of:

- Governance
- Debt strategy design and risk management
- Debt sustainability analysis
- Capital market access strategy and implementation
- Domestic government debt market development
- Design of sequenced reform plans

**Global public goods:** Debt Management Performance Assessment (DeMPA) tool; Medium Term Debt Strategy (MTDS) toolkit; Debt Sustainability Framework (DSF) for Low Income Countries (LICs); publications on international sound practices

**Other services:** Training, outreach events, including conferences & seminars

# 3. WB's Assistance with a Focus on LICs

# WB's Assistance under the Debt Management Facility (DMF)

The DMF is a **multi-donor trust fund** that:

- provides grant-based technical assistance (over an initial 4-year operational period)
- with a view to strengthen debt management capacity and institutions
- via the supply of global public goods and the delivery of technical assistance, while facilitating knowledge sharing and coordination among debt management providers

The DMF focuses on **low-income countries**, is **demand-driven**, and most DMF-financed activities carried out with our **Implementing Partners**, including CEMLA, Commonwealth Secretariat, DRI, DMFAS Programme of UNCTAD, MEFMI, Pôle Dette and WAIFEM

# DMF Activities

DMF finances technical assistance to strengthen debt management capacity and institutions through:

- Systematic application of the Debt Management Performance Assessment(DeMPA)
- Medium-term debt management strategies (MTDS), developed in partnership with the IMF
- Design of reform programs
- Training of regional debt management providers and country authorities
- Knowledge sharing and peer learning initiatives, such as the Debt Management Practitioners' Program and the Debt Managers Network
- Analytical work and development



# What is Debt Management Performance Assessment (DeMPA)?

- DeMPA is a methodology for assessing public debt management performance through a comprehensive set of performance indicators spanning the full range of government debt management functions
  - It is firmly grounded in the Public Expenditure and Financial Accountability (PEFA) methodology and offers a “drill down” on debt management
- It may be applied in all developing countries
- Covers all Central Government DeM and connected activities
- Flexible application in sub-national context
- Scoring methodology: quantifiable scores (A to D), where
  - ✓ Minimum requirement = Score C  
Important for effective debt management
  - ✓ Absence of minimum requirement = Score D  
Signals an area of priority attention
  - ✓ Sound practice = Score A (B intermediate for more granularity)
  - ✓ Not rated – if process/system does not exist (e.g., derivatives)

# DeMPA

## Objective

- Assess public debt management performance capacity
- Monitor performance
- Design reform program
- Donor harmonization

## Methodology

- 15 Performance Indicators (PI)
- 35 Dimensions
- Covers six core DM functions

## Implementation

- Assessment missions
- Performance Report
- No conditionality
- Report release at the authorities' discretion
- Demand-driven



# Reform Plans

## Objective

- Strengthen public debt management performance capacity, by preparing country-specific, detailed, and sequenced plans

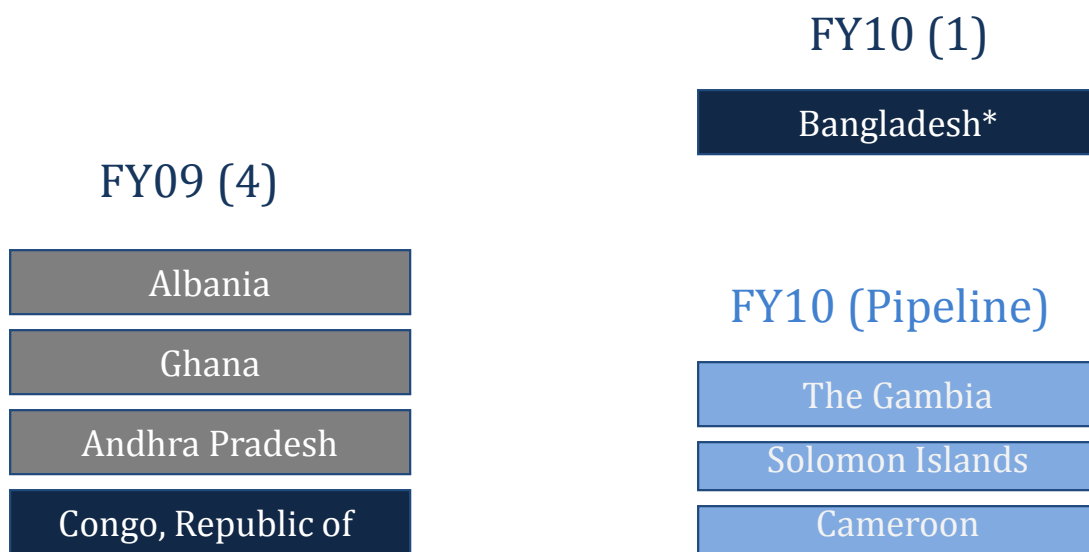
## Methodology

- Build upon DeMPA results
- Depend on the priorities articulated by the authorities and the ground-level assessment
- Focus on governance and institutional arrangements, staff capacity, cash management, operational risk management
- Could be tailored to include additional aspects of DeM

## Implementation

- Reform plan missions
- Develop a log-frame analysis with a detailed Activity \*Output\* Sequence\*Costing and Outcome Matrix
- Demand-driven

# Reform Plan implementation to date: 5 countries, of which 2 under the DMF



\* Missions undertaken in collaboration with DMF Implementing Partner(s).

# What is an MTDS?

- MTDS developed and being implemented jointly with the International Monetary Fund
- MTDS focuses on developing a financing strategy over the medium-term planning horizon of the government (usually 3-5 years), consistent with macro-economic settings and related debt objectives
- The MTDS defines
  - desired public debt composition and
  - a plan to achieve this composition

# MTDS

## Objective

- Provides guidance on the process for developing a plan that the government intends to implement over the medium-term to achieve a desired composition of government debt portfolio
- Evaluates the cost-risk tradeoffs associated with different strategies

## Methodology

(developed in partnership with the IMF)

- Guidance Note provides practical guidance on the process of developing an MTDS.
- The Analytical Tool (AT) allows to undertake a cost-risk analysis to guide the MTDS decision-making process.
- A Handbook explains the use of the AT.

## Implementation

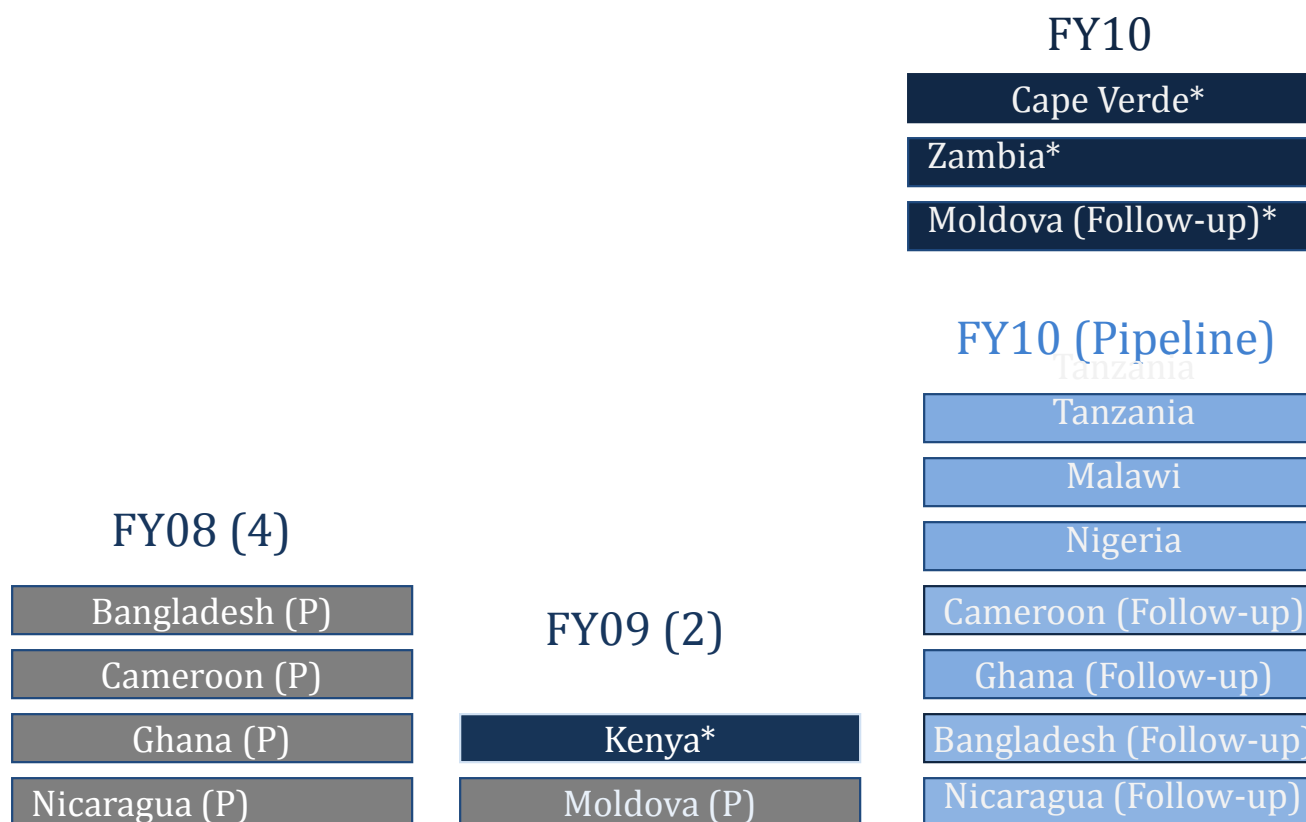
- Implementation mission plus training follow-up missions
- It is implemented jointly with the IMF
- Report release at authorities' discretion
- Demand driven

# Designing an MTDS

1. Identify the objectives for public debt management and scope of the MTDS
2. Identify the current debt management strategy and analyze cost and risk of the existing debt
3. Identify and analyze potential funding sources, including cost and risk characteristics
4. Identify baseline projections and risks in key policy areas — fiscal, monetary, external and market
5. Review key longer-term structural factors
6. Identify the cost-risk tradeoffs, rank alternative strategies
7. Review implications of candidate strategies with fiscal and monetary policy authorities, and for market conditions
8. Submit and secure agreement on the MTDS

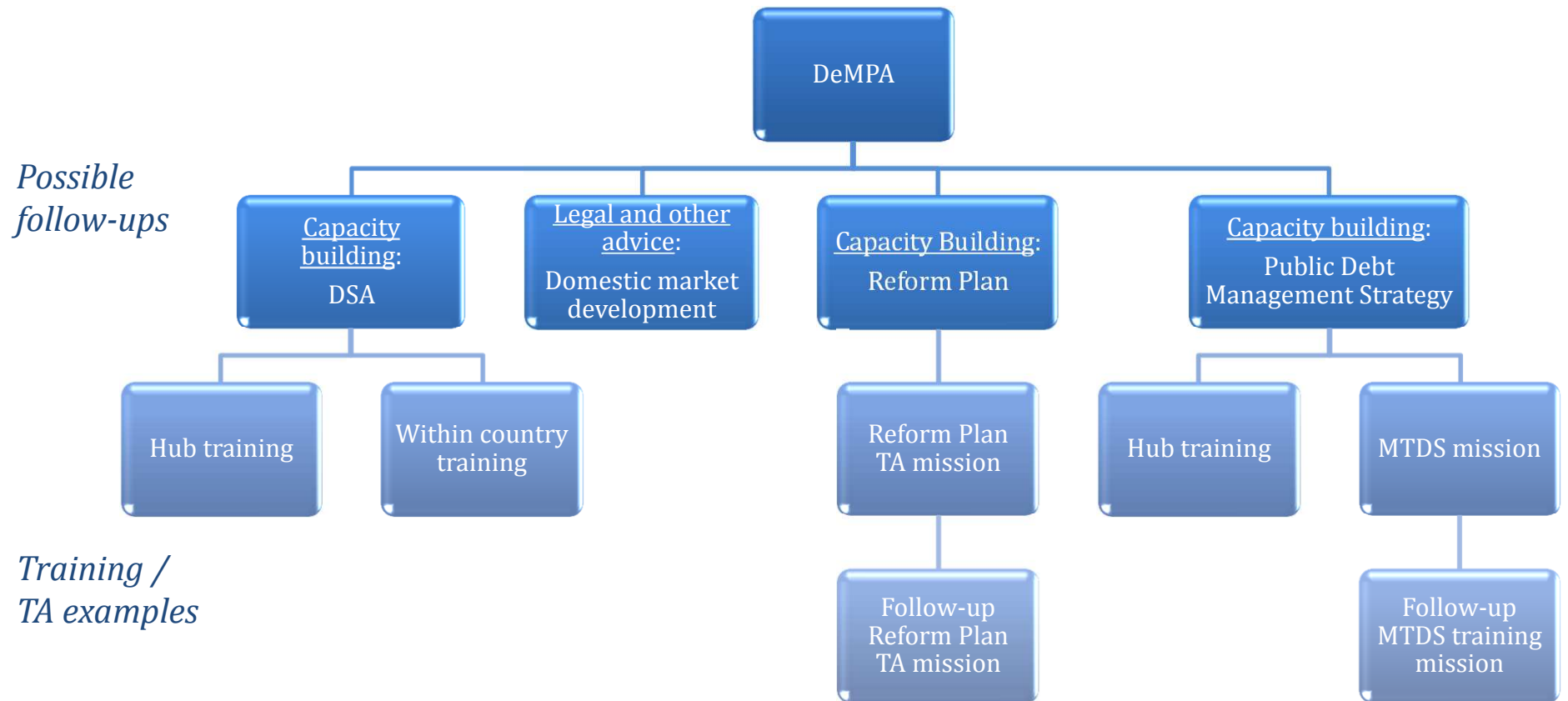


# The MTDS implementation to date: 9 missions, of which 4 under the DMF



\* Missions undertaken in collaboration with DMF Implementing Partner(s).

# Technical Assistance Road Map



# Capacity Building

- Publishes original analysis, most recently *Debt Relief and Beyond: Lessons Learned Challenges Ahead*
- Leads a comprehensive training program and conferences
  - Demand-driven training on DeMPA, Reform Plan, and MTDS
  - Workshops and conferences
    - October 2008 “Debt Relief and Beyond”
    - Upcoming: March 2010 in Tunis, “Sovereign Debt and the Financial Crisis: Will This Time be Different?”
- Debt Managers’ Practitioners Program
  - Two debt managers from Bhutan and Uzbekistan in residence with PRMED for 6 months, working on debt management products and activities

# 4. WB's Assistance with a Focus on MICs

# Areas of Advisory Engagements

The World Bank provides support to individual countries through advisory engagements that are customized to specific needs, typically in the areas of:

- **Governance:** including the legal framework, institutional arrangements, reporting and transparency
- **Debt management strategy and risk management:** determining the composition of public debt
- **Capacity and management of internal operations:** skill mix of staff, processes and procedures, and systems
- **Coordination** with cash management, macroeconomic policy, and debt market development
- **Debt management strategy implementation** and access to the capital and derivatives markets (with input from Treasury staff responsible for managing the World Bank's balance sheet)

# Engagements for Sovereigns

Worked with over 40 countries to support the reform process through:

## **Needs Assessment**

Comprehensive analysis of the current public debt management operation with recommendations for reform:

- Includes analysis of linkages to macroeconomic policy and cash management
- Could include evaluation of domestic debt market development

## **Reform Plan**

Detailed and sequenced reform plan addressing weaknesses identified in the needs assessment:

- Includes expected outputs and outcomes, specific actions, sequencing and milestones, budgeting and resourcing
- May be used to seek support from other partners

## **Reform Implementation**

- Usually in conjunction with development partners and consultants
- WB (PDM group) plays a key role in strategic oversight and ensuring quality control
- In cases, directly responsible for implementation

# Capacity Building

- Publishes original analysis
- Leads a comprehensive training and conference program
  - Debt Management Forum (Bi-annual)
  - Workshops on Debt Strategy Design and Debt Strategy Implementation (multi-country and tailored to specific countries)
- Collaborates with the teams within and outside the Bank to support capacity-building programs

# 5. Going Forward

## Low-income countries

- Under the DMF, the Bank's debt management work program for low-income countries is scaled up to apply per year: MTDS in up to six new countries; Reform Plans in up to six new countries; DeMPAs in up to 20 new countries
- More training activities on DMF related activities will be provided
- Implementation of the DeM Practitioner's program and the Network for Debt Managers

## Middle-income countries

- Work program for middle-income countries will continue at full strength
- In the near term, governments are likely to put priority on assistance in responding to the crisis environment: Accessing international markets and further developing domestic markets; Scaling up operations to manage growing debt stocks and contingent liabilities Staying on track to achieving preferred portfolio compositions, despite a more difficult environment for strategy implementation

## All countries

- Development of global public goods, knowledge products and tools continue



# Thank You

For more information:

<http://www.worldbank.org/debt>

and

[http://treasury.worldbank.org/bdm/htm/advisory\\_services.html](http://treasury.worldbank.org/bdm/htm/advisory_services.html)