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Capacity Building Needs in Debt Management: Responses from International Organisations

by

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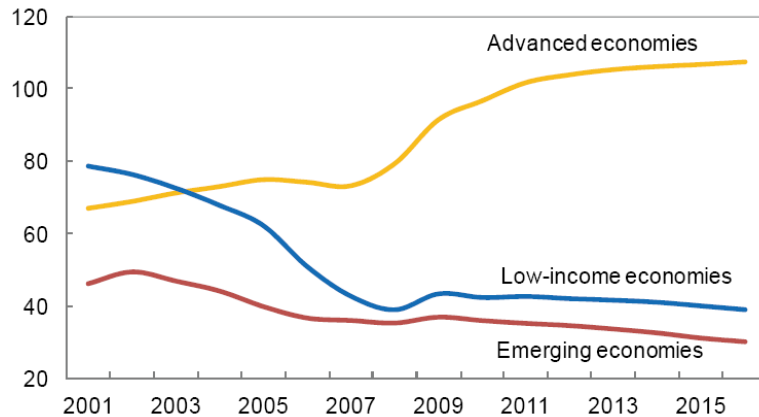
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World Bank

1. Developing countries
 - i. Past trends
 - ii. Current prospects
2. World Bank Response
 - i. Programmatic Approach
 - ii. Products and services
3. Key Lessons
4. Going Forward

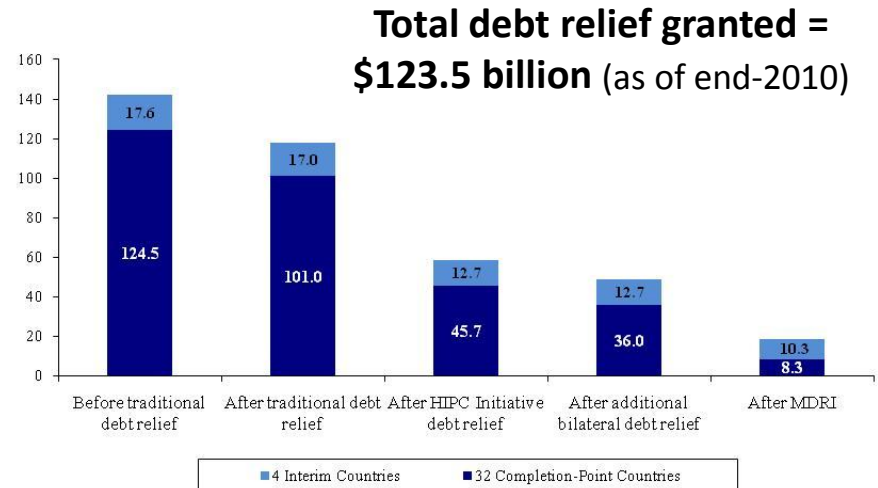
This decade has witnessed significant declines in debt levels of low-income countries

General government gross debt ratios (% of GDP)



Source: IMF Fiscal Monitor, WEO

Debt burdens reduced by 87% in the HIPC completion point countries

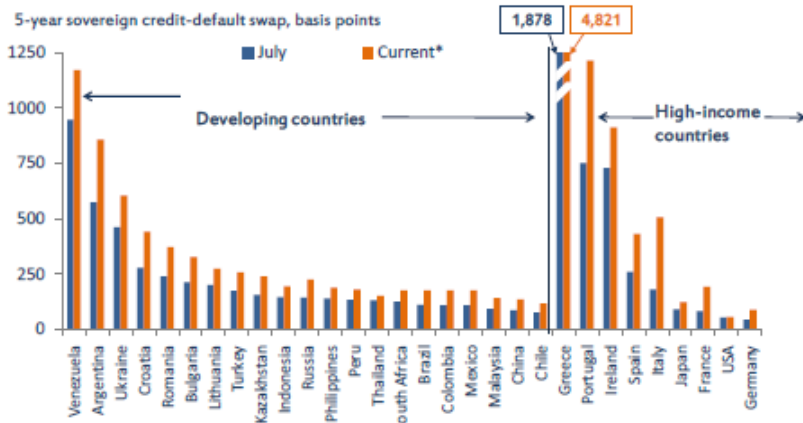


Note: HIPC = Heavily-indebted poor countries.

In the past decade, improved macroeconomic and debt management efforts, coupled with stronger economic growth led to lower debt burdens. For several low-income countries (LICs) debt relief also has helped.

But now the recent financial turmoil is changing the landscape facing developing countries

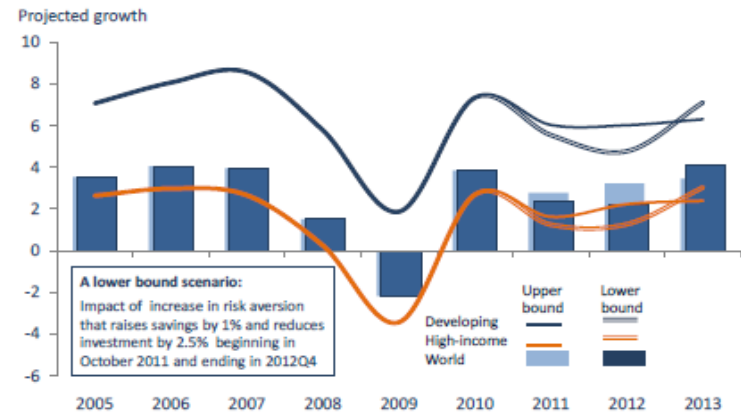
Contagion has increased sovereign credit default swap rates worldwide



* As of September 12, 2011.

Sources: Bloomberg and World Bank DEC Prospects Group

Wealth and confidence effects could result in a pronounced global slowdown



Source: World Bank DEC Prospects Group

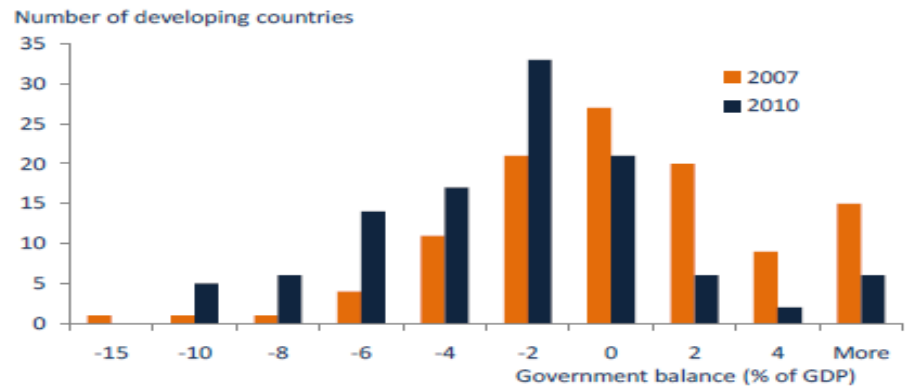
Credit default swap rates for developing countries, previously unaffected, have now risen by more than 70 bps,

Next year's economic growth prospects uncertain : High-income countries could range between 1.2 to 2.2 % , while Developing countries, between 4.8 to 6%.

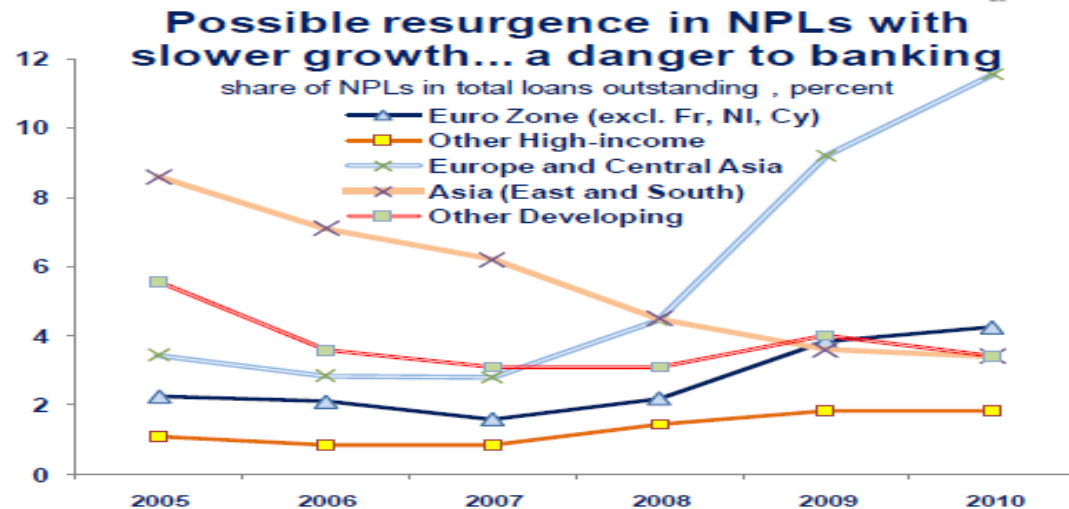
Developing countries are now more vulnerable to an unfavorable outturn

- Following recent fiscal stimulus packages, developing countries have less fiscal space today than in 2007
- Over 40% of developing countries have fiscal deficits greater than 4% today
- With slower growth, there will be declines in revenues and a squeeze in capital markets forcing spending cuts.
- Vulnerabilities in some financial sectors may rise (e.g. IMF data suggests that NPLs in ECA region have risen from 3.8% in 2007 to 12% in 2010).

42% of developing countries have a government deficit greater than 4% of GDP in 2010, versus only 18% in 2007



Source: World Bank DEC Prospects Group



Source: International Monetary Fund.

Developing countries face more complex risks as the composition of their debt becomes more sophisticated

Key Risk Indicators of Existing Debt Portfolio, 6 Sample Countries

	A	B	C	D	E	F
Outstanding debt to GDP(%)	48%	71%	23%	33%	43%	12%
Exchange rate risk						
Share of domestic debt in total debt (%)	46%	42%	36%	29%	51%	58%
Refinancing risk						
ATM Domestic debt (Years)	1.6	3.9	1.04	5.3	4.3	2.7
ATM External debt (Years)	16.2	15.8	12.48	20.6	11.5	10.9
Share of domestic debt maturing in next 12 months in total domestic debt (%)	38%	21%	54%	12%	39%	33%
Interest rate risk						
Share of fixed rate debt in total debt (%)	95%	99%	79%	100%	100%	98%
ATR Total debt (Years)	8.6	10.9	8.35	14.7	7.7	5.9
Share of debt that will refix interest rate in next 12 months in total debt(%)	39%	11%	56%	9%	25%	24%

Source: Weist, Togo, Prasad and O'Boyle, 2010, *Crisis Preparedness and Debt Management in Low-income countries: Strengthening Institutions and Policy Frameworks*, Policy Research Working Paper, World Bank

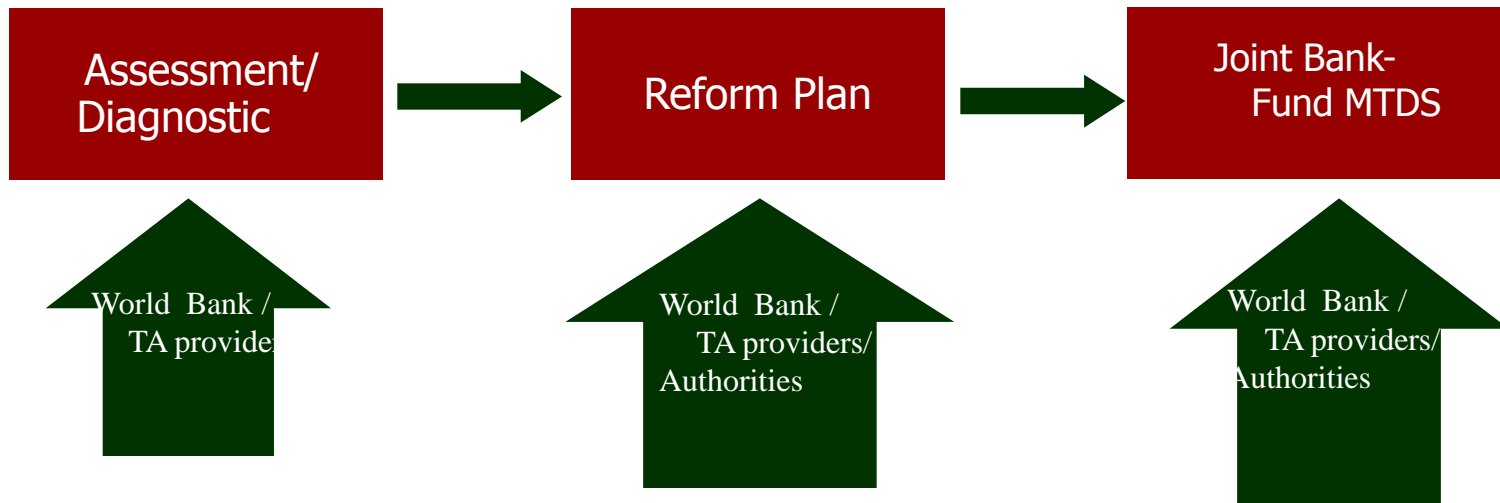
World Bank Response

Efforts to Strengthen and Build Debt
Management Capacity

A Programmatic Approach

- Based on premise that capacity building is a process and takes time, particularly in the context of low-income countries;
- Integrated approach to delivering capacity building program, to ensure continuous and sustained engagement over a number of years;
- Sequencing of activities tailored to country circumstances and achievement of observable results-oriented milestones;
- Demand-driven approach is precondition for country ownership and sustaining reform implementation;
- Importance of partnerships;
- The World Bank-administered **Debt Management Facility (DMF)** was launched in November 2008 as a Multi-donor Trust Fund, supported by Austria, Belgium, Switzerland, Norway, Germany, Netherlands, Canada and the African Development Bank;
- DMF focuses on upstream but recognizes importance of linkages to downstream capacity building activities

3-step programmatic approach to building debt management capacity



- Sequencing is flexible, depending on the country's priorities;
- Sustained and proactive engagement enhances effectiveness of capacity building activities

Debt Management Performance Assessment (DeMPA)

Objective

- Assess public debt management performance capacity
- Monitor performance overtime
- Enable design of reform program
- Fosters donor harmonization based on common understanding of priorities

Methodology coverage

- 15 Debt Performance Indicators (DPI)
- 35 Dimensions
- Covers six core DeM functions
- Complemented by a Guide – provides background material, rationale, indicative questions

Implementation

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

DeMPA implementation: 68 missions of which 30 under the DMF

FY08 (13)	FY09 (14)	FY10 (15)	FY11(18)	FY12(3)
Burkina Faso*	Cote d'Ivoire*	Sierra Leone*	Kazakhstan	Central African Republic (2nd)*
CAR*		Senegal*	Togo*(2nd DeMPA)	
Ghana	Antigua & Barbuda	Guinea Bissau*	Yemen	Zimbabwe *
Mali*	Grenada	Liberia*	Papua New Guinea	Vietnam *
Mozambique	Congo, DR*	Malawi*(2nd DEMPA)	Nicaragua (2nd)	
Togo	Burundi*	Cambodia	Bhutan*	FY12(3) - Pipeline
Sao Tome & Principe	Uganda*	Gambia (2nd DEMPA)	Mongolia(2nd)	Mali (2nd)
Swaziland	St. Kitts & Nevis	Samoa*	Albania (2nd)	Kenya
Zambia	Solomon Islands*	Nepal*	Zambia (2nd)*	Kosovo
Bangladesh		Maldives*	Comoros*	
Honduras*		Pakistan*	Burkina Faso (2nd)*	
Moldova	Cape Verde	Djibouti	Swaziland (2 nd)	FY07 (5) - Pilots
Mongolia	Cameroon*	Tanzania*	Afghanistan	Malawi
	Congo, Republic of	Mauritania*	Sao Tome & Principe (2nd)*	Albania
	Guinea*	Benin*	Tajikistan*	The Gambia
	Nigeria*		Belarus	Nicaragua
	Rwanda*		Lagos	Guyana
			Rio De Janeiro	

Bold Font: DMF financed otherwise funded by BB.

** In collaboration with DMF Implementing Partner(s).*

15 Debt Management Performance Indicators (DPis)

Governance and Strategy Development

- DPI-1 Legal Framework
- DPI-2 Managerial Structure
- DPI-3 Debt Management Strategy
- DPI-4 Evaluation of Debt Management Operations
- DPI-5 Audit

Coordination with Macroeconomic Policies

- DPI-6 Coordination with Fiscal Policy
- DPI-7 Coordination with Monetary Policy

Borrowing and Related Financing Activities

- DPI-8 Domestic Borrowing
- DPI-9 External Borrowing
- DPI-10 Loan Guarantees, On-lending and Derivatives

Cash Flow Forecasting and Cash Balance Management

- DPI-11 Cash Flow Forecasting and Cash Balance Management

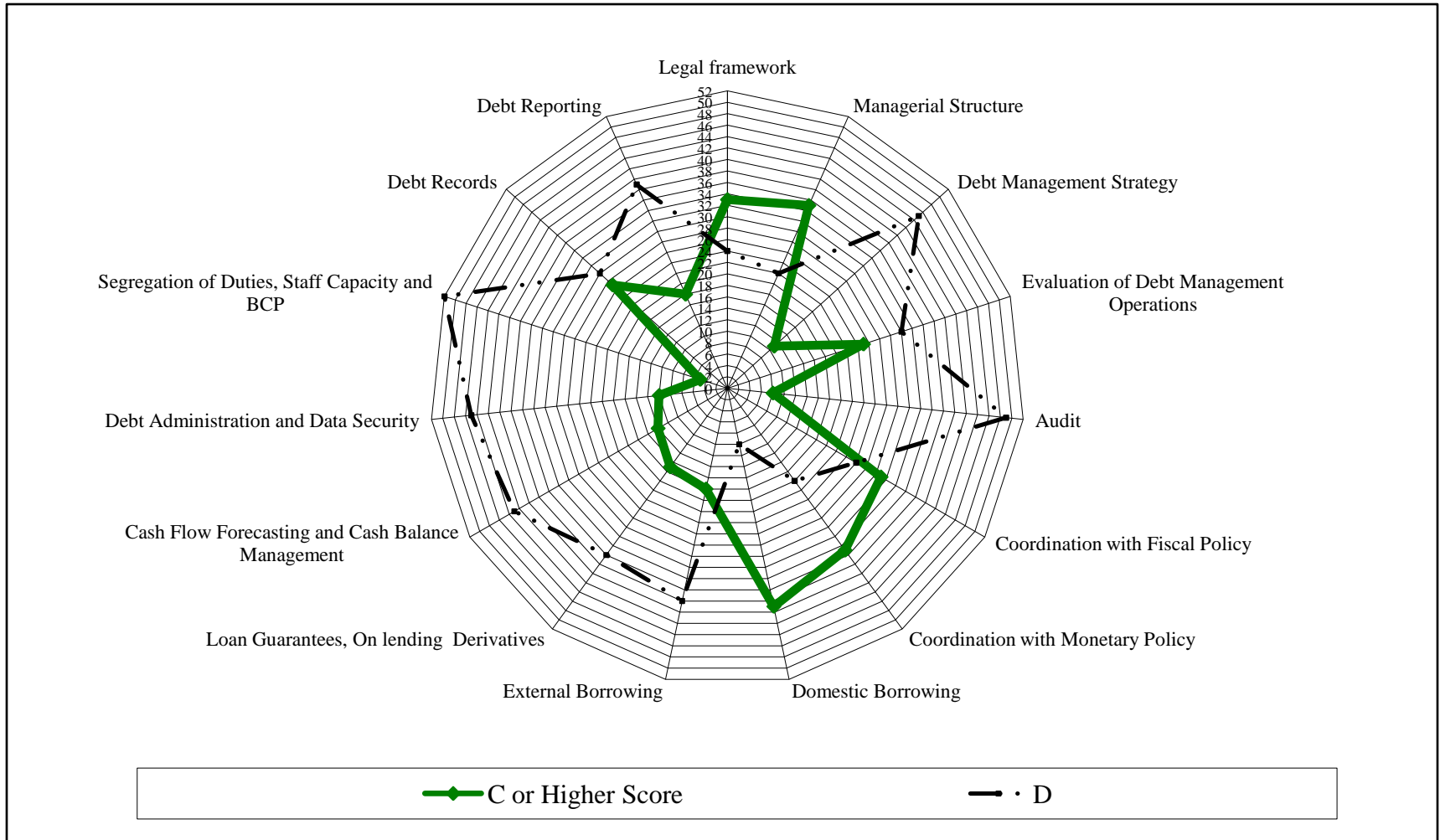
Operational Risk Management

- DPI-12 Debt Administration and Data Security
- DPI-13 Segregation of Duties, Staff capacity and Business Continuity

Debt Records and Reporting

- DPI-14 Debt Records
- DPI-15 Debt Reporting

Preliminary results based on finalized DeMPA reports



Source: World Bank. Note: results aggregated from over 50 finalized DeMPA reports

Findings from follow-up DeMPA assessments indicate observable improvements

DeMPA Performance Indicators	Country	Improvement
1. Legal Framework	A	Minister of Finance only minister to sign loan docs
2. Managerial Structure	A	Created National Public Debt Committee
	C	Improved managerial structure
	B	Improved back office operational framework
3. Debt Management Strategy	F	Improved strategy document, still needs risk factors.
	G	Preparation and regular update of a debt management strategy
	A	Debt strategy discussed with Central Bank, approved by Parliament
	E	Creation of annual strategy document
4. Evaluation of Debt Management Operations	F	Evaluation of Public Indebtedness Policy and Annual Borrowing Plan
	C	Evaluation of debt management operations
5. Audit	D	Internal Audit Department established
	A	External inspection office started audit of debt office
6. Fiscal Policy	A	Debt service on all loans included in budget, but imprecise numbers
7. Monetary Policy	G	Improved coordination between debt management and monetary policy
8. Domestic borrowing	A	Annual T bill issuance calendar with indicative amounts, updated quarterly
9. External borrowing	A	Legal advice involved earlier in negotiations
10. Guarantees, on-lending, derivatives	A	Isolated cases where Nat. Public Debt Comm. rejected requests for guarantees
11. Cash Flow Forecasting	G	Forecasting has improved
12. Debt admin and data security	D	IT Dept. now performs daily back-up or database, kept off site
13. Segregation of duties	G	Some improvement
	B	Improved staffing arrangements
14. Debt Records	A	Improved data on domestic debt, including at Central Bank
	E	Improved debt registry system
15. Debt reporting	A	Better data exchange within government, IMF. Debt Statistical Bulletin produced
	E	Periodic production of a Debt Statistical Bulletin

Note: Country names are hidden

Medium Term Debt Management Strategy (MTDS) Analysis Tool

- Jointly developed and implemented by the Bank and the Fund
- An eight step structured approach to developing a debt management strategy
- A revised simpler and more intuitive analytical tool (no bugs, no crashes)
- Flexible, can be applied to MICs/LICs

Joint Bank-Fund **Medium-Term Debt Management Strategy (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

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

Implementation

- Implementation mission plus training follow-up missions
- Report release at authorities' discretion
- Demand driven

MTDS implementation:

30 missions undertaken to date

FY08 (3) - Pilots	FY10 (9)	FY 11 (10)	FY12 (4)
Bangladesh	Cape Verde*	Malawi	Cape Verde (follow-up)
Cameroon	Zambia*	Nicaragua* (follow-up)	Rwanda
Ghana	Moldova (follow-up)*	Bangladesh(follow-up)	Mongolia
	Tanzania*	Jamaica (follow-up)	Mozambique
	Nigeria*	Ghana*(follow-up)	FY 12 (6) – Pipeline
FY09 (4)	Kenya (follow-up)	Senegal*	Nigeria
Moldova (Pilot)	Jamaica *	Tanzania* (follow-up)	Cameroon (follow-up)
Kenya*	Nicaragua (follow-up)*	Paraguay	Armenia
Nicaragua	Mozambique*	Kyrgyz Republic	Mauritania
Botswana *		The Gambia*	Guatemala
			Pakistan
			Sierra Leone

Bold Font: DMF financed

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Some observed outcomes from MTDS work

Before	After	Outcome
Informal strategy	Formally approved and published	Improved policy coordination, transparency and communication (Kenya, Ghana, Moldova)
Annual financing	Medium-term focus	All MTDS countries
Lack of analytical capacity	Some or strong capacity built	Kyrgyz, Bangladesh, Nigeria, Moldova, Kenya, Ghana, Tanzania
Complex model	More user friendly & transparent model	Achieve greater knowledge transfer and ownership
Ad-hoc decision making; debt management seen more as a residual policy	More informed decision making based on quantitative analysis	DM has become a strategic policy; Countries reconsidering issuance of expensive sovereign bonds (Kenya, Tanzania); triggered other reforms (Bangladesh)

Transparency

- Countries that have published MTDS:
 - Kenya 2009, 2010, 2011
 - Ghana 2010, (2011 planned)
 - Tanzania 2011
 - Malawi 2011
 - Moldova 2011
 - Bangladesh (planned)
 - Kyrgyz Republic (planned)

Debt Management Reform Plan Design

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

Debt Management Reform Plan Design

17 missions to date

FY08 (2)

Albania

Andhra Pradesh

FY09 (2)

Ghana

Andhra Pradesh

FY10 (5)

Bangladesh

Solomon Islands*

Cameroon*

Sierra Leone*

Congo, Republic of

FY11 (4)

DRC*

The Gambia *

Malawi*

Moldova

FY12 (4)

Maldives

Tajikistan*

Sao, Tome and Principe *

Zimbabwe*

FY12 (2) - Pipeline

Bhutan (on-going)

Tanzania*

Comoros

Liberia

Bold Font: DMF financed

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Preliminary results from DM Reform Plan work

Before	After
Institutional gaps with fragmented institutional arrangements for debt management	Coordinated entities with one lead agency (Albania); regular and institutionalized committee structures (Bangladesh), clear understanding and move towards front-middle-back office structures (Malawi, Albania, Andhra Pradesh)
Debt management treated as a residual policy function	Active debt management office contributing informed policy decisions (Bangladesh, Malawi, Ghana, Albania)
Staff capacity weak and losses due to lack of retention policies	Some capacity built through increased staff retention focused HR policies and structured trainings (Bangladesh, Albania, Malawi, Kenya)
Weak cash management and cash-flow forecasting	Improved cash management techniques, set up a cash management unit (Bangladesh)
Lack of a debt management strategy	Implementing MTDS , training staff and formulating rigorous debt management strategy
Fragmented and incomplete legal framework	Modern public debt law (Sierra Leone, Sao Tome and Principe (draft))
Lack of accurate and comprehensive debt data and/or old debt recording system	Improved debt data, upgrading debt recording systems (Bangladesh)

Outreach and Knowledge Management Activities

Debt and Fiscal Sustainability Training/Outreach has intensified

- Include training courses in other Multilateral Development Banks and World Bank's regional training hubs.

Debt Management Practitioners' Program

- Four debt managers from **Malawi, Nicaragua, Liberia** and **Cambodia** in residence at the World Bank for 3 months from February to August 2011, 2 from **Gambia** and **Lesotho** (from November 2011 onwards) working on debt management products and activities. Three from **Bhutan, Uzbekistan** and **Lao PDR** were hosted under the WB's *Voice Secondment Program*
- An additional three debt managers from **Sierra Leone, Senegal** and **Burkina Faso** will be hosted under the DMPP early next year.

Knowledge Management Activities:

- June 2011 Stakeholders' Conference in Berne, Switzerland, "Managing Debt: *Lessons Learnt and Emerging Issues*"
- Training Courses worldwide on DeMPA (17), MTDS (14), DSA (3), DSF (7) and Sub-national Fiscal and Debt Management (3)

Other initiatives

- **Debt Managers' Network** being organized as internet based meetings where debt managers discuss specific issues of interest to them, with specialists on the topic moderating the discussions via, e.g., Sharepoint
- Preparation of **knowledge products** underway
 - *Sovereign Debt and the Financial Crisis*, World Bank (2010)
 - Sub-national DeMPA tool-kit
 - Guidance Note on operational risk management
- **Annual DMF Stakeholders' Forum** next year

Key messages

- Programmatic approach for delivery of DM capacity building efforts, with DeMPA, Reform Plan design work and MTDS missions, and continuous technical assistance engagement is proving useful
- “Upstream” assessment and analytical work triggering “downstream” institutional reforms and capacity building
- Reform momentum has been most sustained when there are strong links between upstream and downstream implementation activities. One which is consistent within the broader PFM reforms
- Importance of maintaining integrity and quality of upstream benchmarking work (through independent assessments, peer reviews, and formal quality control process)
- DMF is proving effective as a coordinating mechanism among providers of technical assistance and donors
- A coordinated and consistent approach among providers of debt management technical assistance reduces transaction cost and adds value to client.

Emerging lessons

- Products require customization for low capacity, fragile or small countries, or in countries where debt management capacity building is still just beginning.
- As sub-national authorities are beginning to consider borrowing directly (rather than getting onlent loans from the Central Governments), DM capacity building at subnational levels is becoming urgent as well (especially in countries with market access)
- Intensify efforts to share knowledge among DM practionners. Role of Debt Managers' Networks crucial here (eg. OECD-Africa DM Network, LAC Debt Group, among others)
- Explore greater synergies with domestic market development work, enhancing debt data, Public Financial Management (PFM) and monitoring of fiscal risks from contingent liabilities of governments
- Strengthening links with downstream DM capacity building activities is imperative