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Debt Management Offices: New Developments and Challenges

by

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



Ministry of Finance

Directorate General of Debt Management

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Indonesia Debt Management Vision & Missions

Vision and Missions

Vision

To be a professional institution delivering efficient budget financing, prudent risk management and fiscal sustainability

Missions

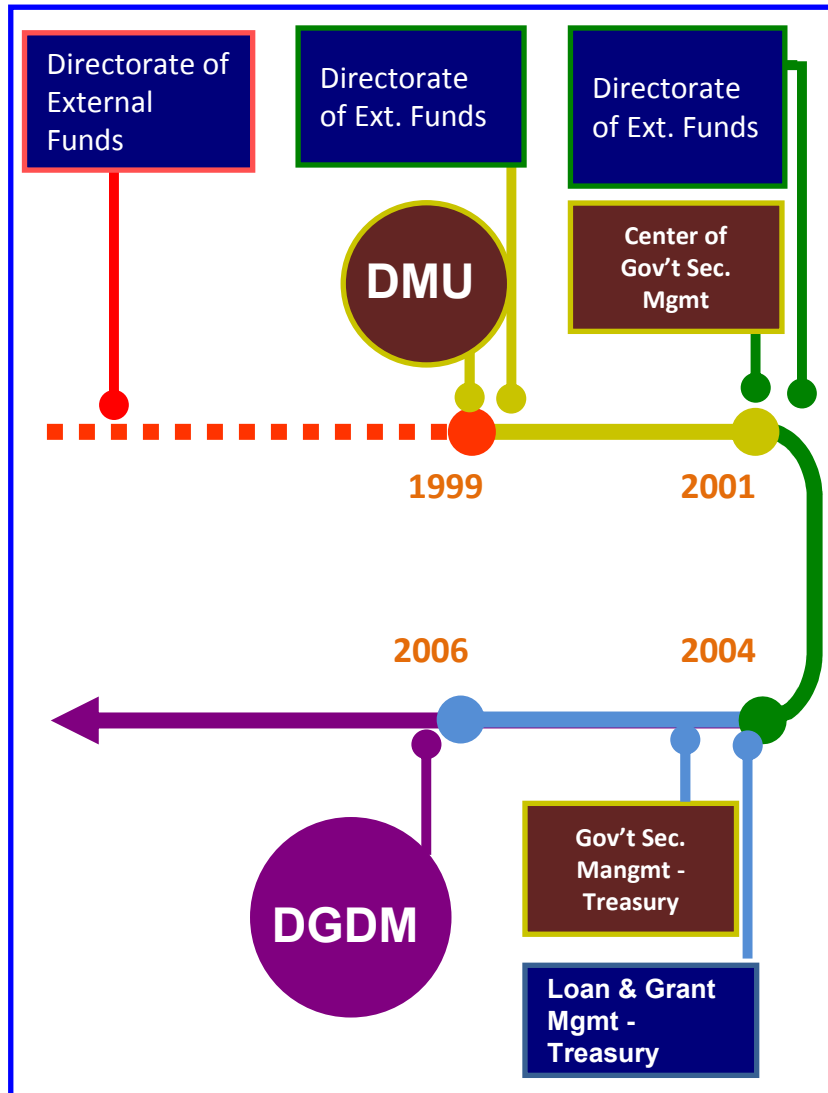
- 1. To establish government debt portfolio management in an effective, transparent and accountable manner**
- 2. To control debt issuance and procurement by maintain a borrowing capacity that supports fiscal sustainability**
- 3. To establish development financing independence by prioritizing domestic financing sources and developing an efficient and stable domestic market**
- 4. To establish international cooperation in obtaining alternative financing sources as well as supporting regional financial market stability**





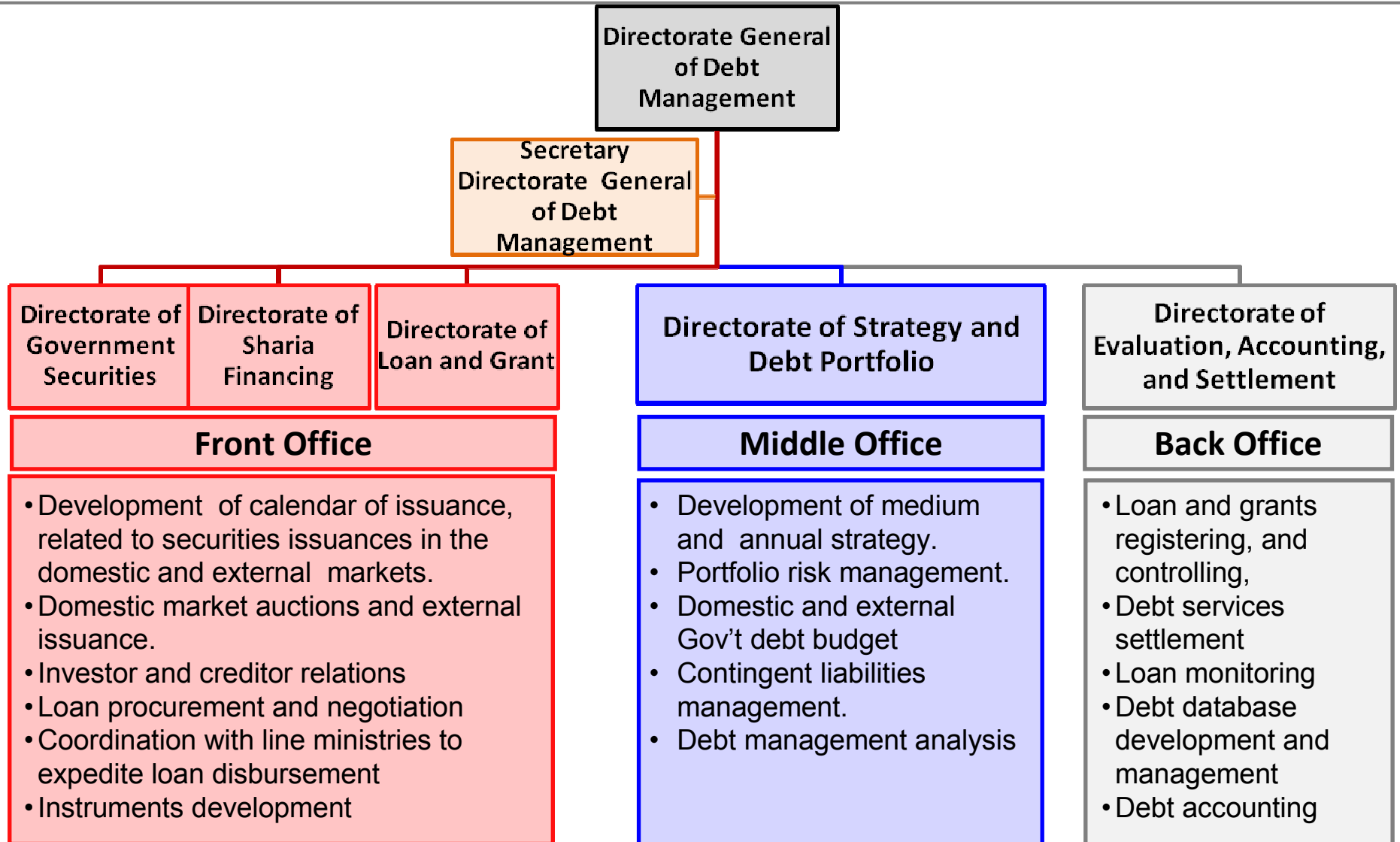
Indonesia Debt Management Evolution and Organization

Debt Management Unit Evolution

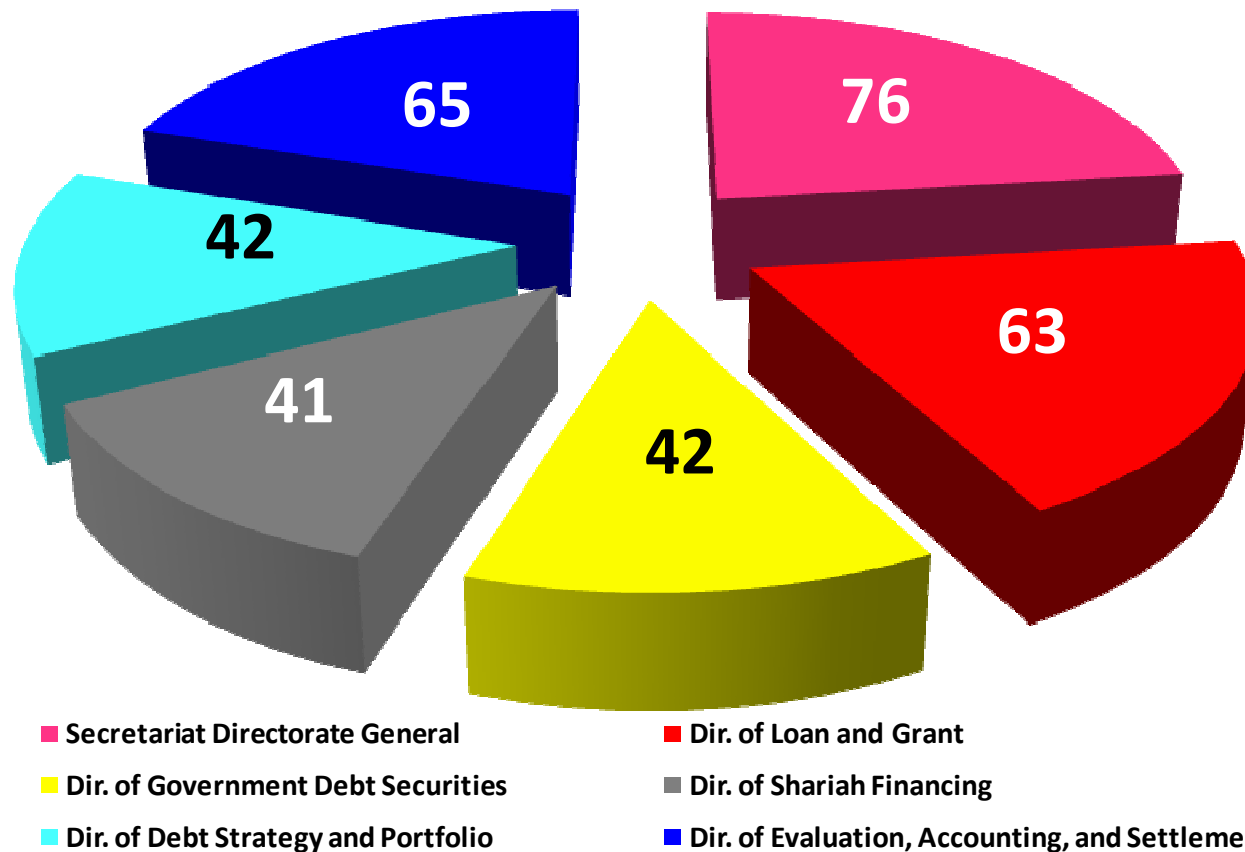


- Before 2000:
 - Borrowing was mainly from multilateral/ bilateral institutions
 - Lack of clarity and responsibility among the institutions
 - Front office also acted as back office, while no clear middle office function existed
- 2001
 - Center of Government Securities Management was established under Secretariat General MoF to manage the issuance of government securities
 - The establishment of this unit followed the international best practice and consisted of front, middle and back office functions.
 - Loan management continued to operate under the Directorate General of Budget.
- 2004 - 2006
 - Unification of the two separate units dealing with debt -the Directorate of External Funds and Center of Government Securities Management - under Directorate General of Treasury
 - First global securities issuance
- 2006 – present
 - The establishment of debt management office that in line with international best practice.
 - Consists of front, middle, back office and a supporting unit.
 - 2007: establishment of primary dealer system
 - 2008 : Diversification of instruments including sharia compliant securities and domestic loans
 - 2010 : improvement of external loan management through the enactment of Government regulations concerning external loan procurement

Organizational Structure of Debt Management Office



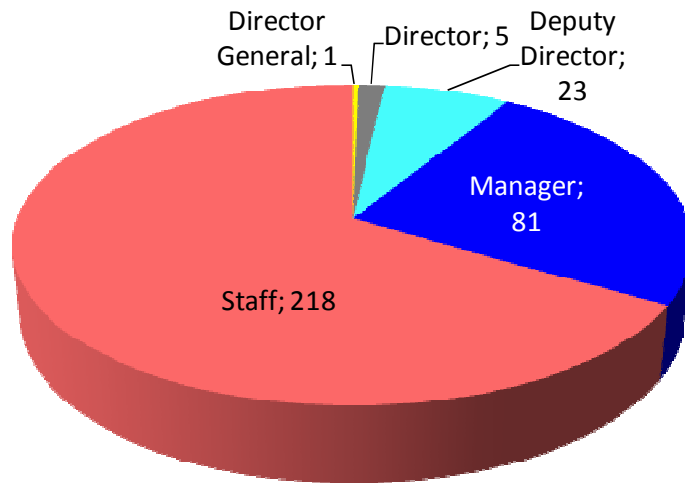
Staff Composition



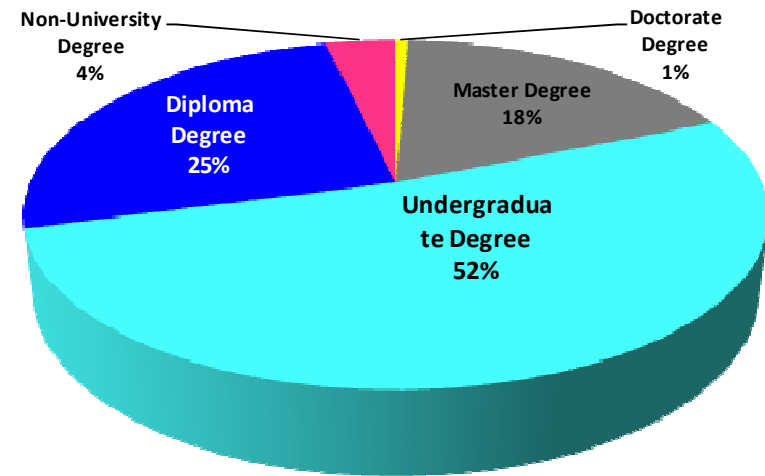
- Presently, DMO has 329 staff,
- By the end of 2014 the number of staff should increase to 359.
- The skills required for each position are diverse, for example:
 - Administrative/ clerical
 - Financial management
 - Accounting and treasury
 - Mathematic and statistic
 - Legal
 - International cooperation
 - Communication, etc

Staffing Structure

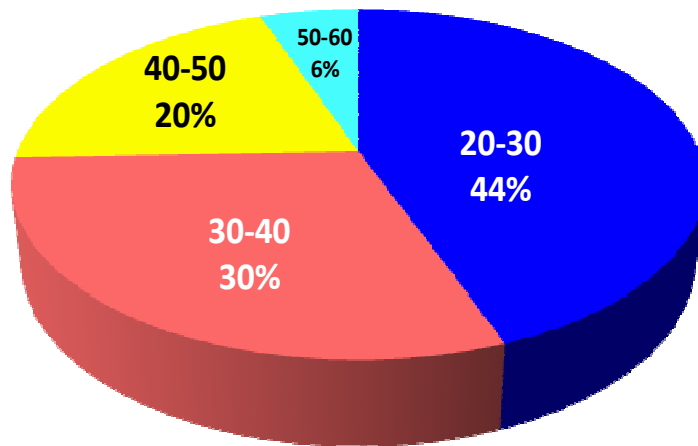
Job Level/ Position



Educational Background



Age Composition



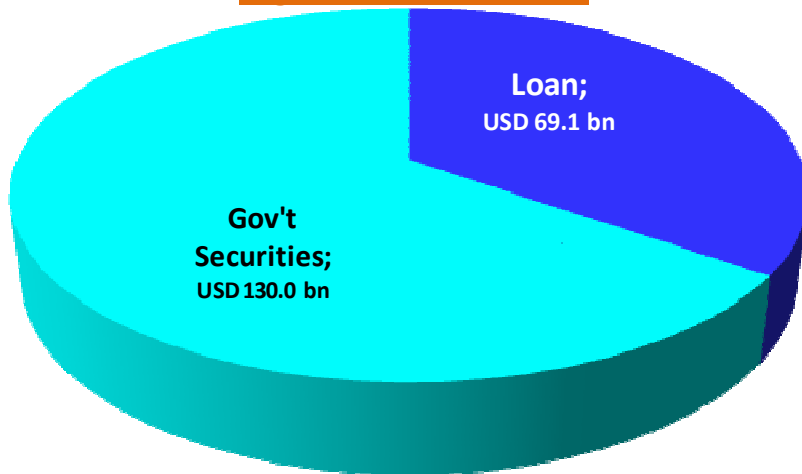
- Most of the staff hold undergraduate degrees
- Each staff member is encouraged to pursue higher education that fits the organization's requirement.
- Capacity building is conducted through in-house training, internships, workshops/ seminars, etc.
- Most of the staff are still below 40, this provides opportunities for further human capital development



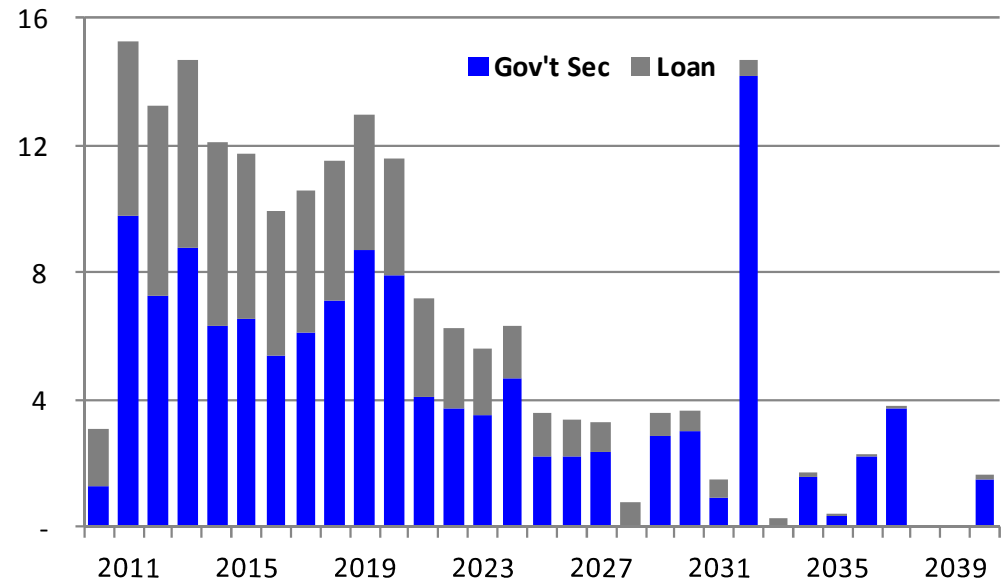
Indonesia Debt Profiles

Debt Profiles

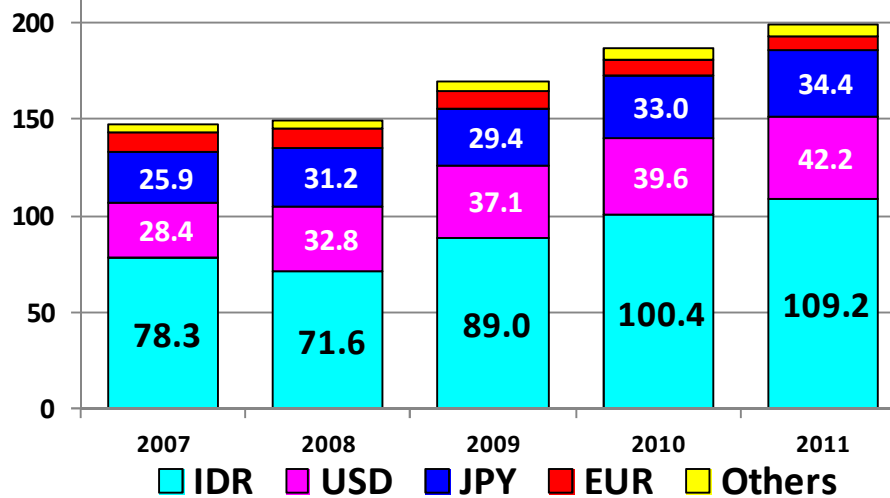
By Instruments



Maturity Profiles (billion USD)



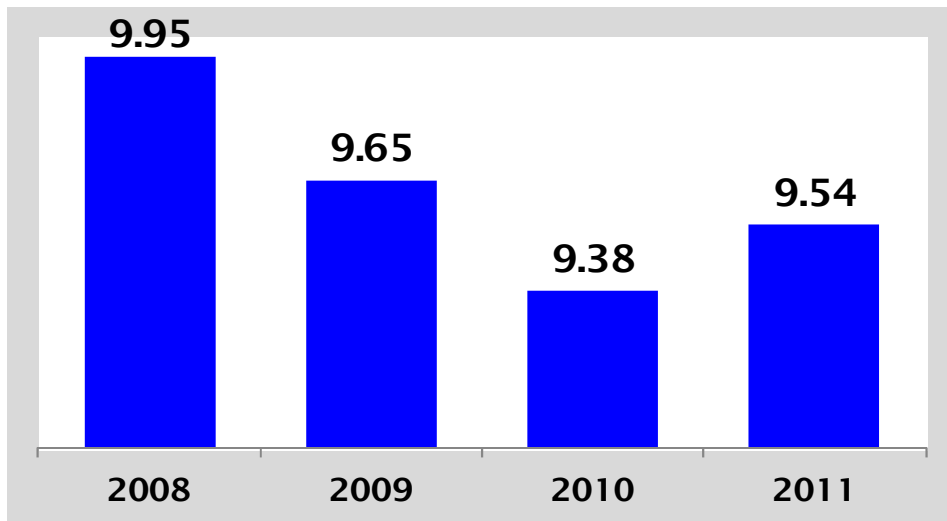
By Currencies (billion USD)



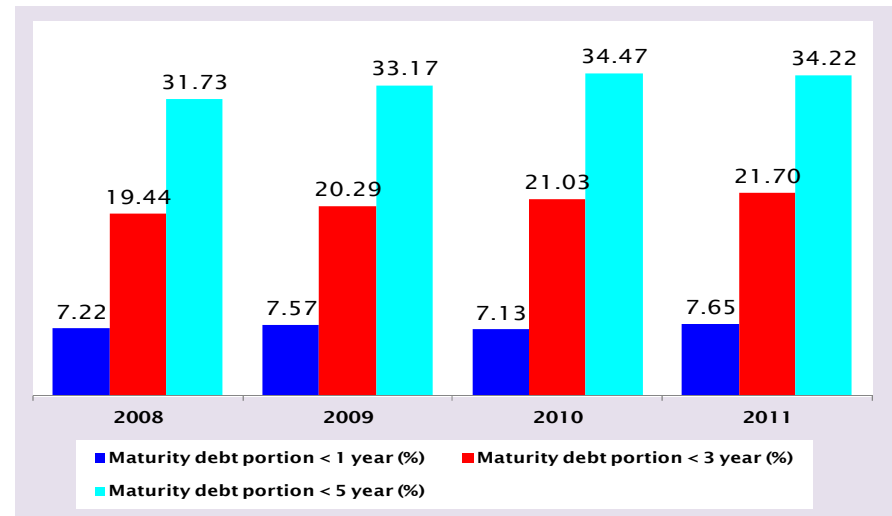
- Indonesia relies on two main sources of financing:
 - Loans
 - Government Securities
- There is substantial paperwork related to loan and grants management (approx. 1,700 documents of active loan agreements).

Risk Profile

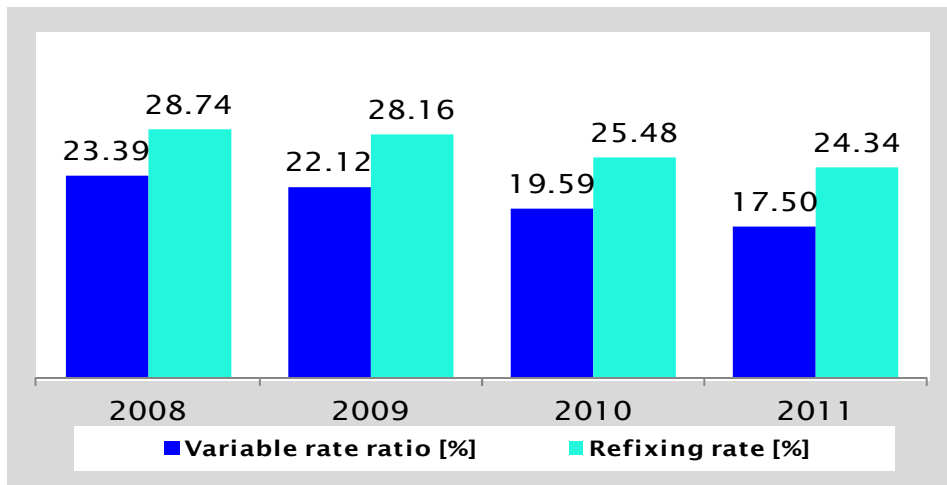
Refinancing Risk (ATM in year)



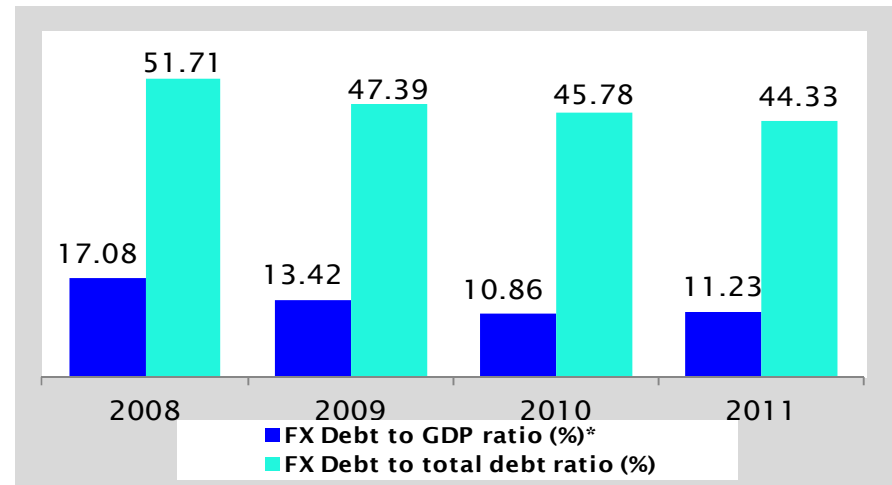
Refinancing Risk



Interest Rate Risk



Currency Risk





Indonesia Debt Management Challenges

Unified Public Debt Management Office

Benefits

- Improvement in the debt profile
- Better portfolio and risk management
- Improvement in debt data consolidation
- Supporting Government debt management objective of lowering down Debt/GDP ratio
- Generating synergy in managing debt financing to cope with market dynamics
- Promoting efficiency in debt management
- Reducing bureaucratic process in terms of financing the budget

Achievements

- Established **risk committee** to supervise market volatility and its impact on the Government Debt market and to supervise daily operational risks of the DMO
- Established integrated debt service settlement for loans and Government securities
- Established integrated portfolio and risk management
- Developed effective communication with lenders, investors and credit rating assessors which led an upgrade in sovereign rating to **investment grade** and an improvement in **Country Risk Classification**
- Established **monitoring systems and legal framework** for contingent liabilities management
- Improvement in **human capital development**

Issues	Purposes	Remarks
Developing a reliable debt database (mainly Loans)	<ul style="list-style-type: none"> • Supporting the formulation of annual and medium term debt management strategy • Supporting policy of budget financing 	<ul style="list-style-type: none"> • An accurate and comprehensive loan database is still in the development process
Establishing the primary dealer system	<ul style="list-style-type: none"> • Managing Gov't securities liquidity in secondary market 	Lack of incentives for primary dealers, for example prioritizing PDs members for global bonds JLM selection
Conducting direct transactions through DMO dealing room	<ul style="list-style-type: none"> • Improving liquidity in secondary market during market turbulence 	Limited availability of funds for direct transactions and long & bureaucratic process to approve the transactions
Diversifying Gov't securities instruments adding retail bonds and shariah compliance Gov't securities	<ul style="list-style-type: none"> • Matching investors preference • Managing portfolio • Widening investor base 	<ul style="list-style-type: none"> • Regulations for new instruments need to be strengthened
Improving business process and SOP for loan procurement (emphasizing on loan negotiation)	<ul style="list-style-type: none"> • Maintaining good governance on loan management 	<ul style="list-style-type: none"> • There are some SOP for front office that overlapped with middle office
Developing benchmark rate	<ul style="list-style-type: none"> • Providing comparison for loan effective rate 	<ul style="list-style-type: none"> • There is a wide gap between loan effective rate and benchmark rate

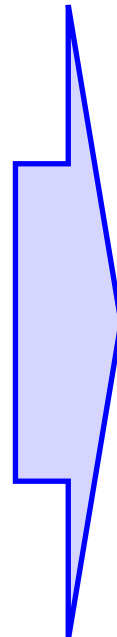
Challenges and Future Developments

Challenges

- ❑ Moving towards IT based debt management
- ❑ Improving effective and efficient risk management
- ❑ Reducing impact of rising cost of debt
- ❑ Developing Government securities market
- ❑ Increasing resiliency of Government securities management
- ❑ Business process leads to inefficiencies in loan execution

Institutional Development

- ❑ Development of IT systems
- ❑ Integrated database to support effective and reliable database
- ❑ Establish consolidated ALM System
- ❑ Development of hedging mechanism
- ❑ Formulating derivative instruments infrastructures
- ❑ Continuous improvement on debt issuance and procurement mechanisms
- ❑ Instruments diversification to match financing needs and investors preference
- ❑ Development of organization capacity to support project-based Government shariah securities
- ❑ Developing crisis management protocol
- ❑ Matching calendar of issuance and cash projections to reduce idle cash
- ❑ Development of instruments to match financing needs and investors preference
- ❑ Close coordination with related parties to improve loan management efficiency



End of Presentation

November 2011
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