DEBT MANAGEMENT FACILITY

DMF News

Issue 21, July 2015

2015 DMF Forum: Adapting and Innovating Debt Management in a Rapidly Changing World

Over June 3rd and 4th, the Debt Management Facility organized their sixth DMF Stakeholder's Forum. Over 140 participants from across 70 countries attended the forum, which was held in Manila, Philippines and co-organized with the Asian Development Bank. The objective of this yearly Forum is to provide the opportunity for discussion of a policy-relevant agenda on debt management; to discuss current challenges faced by developing countries with respect to debt management, and to foster knowledge exchange among participants. (cont. p.2)

In this issue

The participants, including policy-makers and debt managers from developing countries, international and regional technical assistance providers, representatives of civil society organizations, as well as bilateral donors and multilateral development banks, had the opportunity to attend multiple sessions on the challenges faced by developing countries with respect to debt management within a dynamic world.

Mr. Y.V. Reddy, Chairman of the 14th Finance Commission of India and ex-governor of the Reserve Bank of India, led a dynamic discussion on the policy coordination challenges experienced by debt managers and policy makers in the midst of the global financial crisis and changing global conditions. Invited panelists from the International Monetary Fund (IMF), Georgia's Deputy Minister of Finance, and Portugal's Chief Economist from the Treasury and Debt Management Agency discussed how the global financial crisis highlighted the increasing strong relationship between financial/fiscal stability and debt sustainability. Therefore, having an impact on debt management and policy coordination. Additionally, the specific cases of Portugal and Georgia were presented.

Mr. Noritaka Akamatsu, Senior Advisor to the Regional Development Department of the Asian Development Bank, chaired a session on Domestic Debt Markets. The panelists, from the World Bank Group, the Asian Development Bank, and the Ministry of Finance Thailand, discussed a general overview of the benefits and challenges of developing domestic debt market, and the experience in Asia of developing regional debt markets. Furthermore, there was a presentation of Thailand's experience in domestic market development.

Other presentations included subnational debt and fiscal management as a resource for equitable infrastructure development; current revisions to the DeMPA tool, and coping with commodity price fluctuations. **Hon. Cassiel Ato Forson**, Deputy Minister of Finance, Ghana highlighted the challenges faced because of the variability in commodity prices and suggested the need for effective debt management and building fiscal buffers to weather such vulnerabilities.

The closing remarks, given by **Mr. John Panzer**, Director of Macroeconomics and Fiscal Management Global Practice at the World Bank Group not only highlighted the relevance of debt management as an issue for development, but also as a core element to managing ongoing challenges and risks. In addition, Mr. Panzer acknowledged that debt is evolving and that debt management requires evolving skills, institutions and capacities to respond to the rapidly changing world. He also recognized the value of the DMF and stated: "The DMF today is a truly global partnership".

Contingent Liabilities in the MEFMI Region

Contingent liabilities have become a big fiscal risk to governments the world over. While most countries in the Eastern and Southern Africa region could be holding significant amounts of contingent liabilities, the amounts are either not clearly known or well documented. Where the amounts are known, it is not clear how governments plan to deal with such liabilities. This situation prompted MEFMI to collaborate with the Organization for Economic Cooperation and Development (OECD) to undertake a study on contingent liabilities in the region, with the broad objective of assessing governments' approaches to managing contingent liabilities.

The study, conducted in 2013, aimed at determining the stock of contingent liabilities (both explicit and implicit) as well as assessing legal and institutional arrangements. The study is expected to inform the design of a standardized framework for recording, monitoring and managing risks arising from contingent liabilities. Eight MEFMI member countries participated in the survey, including Kenya, Lesotho, Malawi, Mozambique, Namibia, Rwanda, Uganda, and Zambia proceeded by way of field surveys using a structured questionnaire to collect data. The study findings are being consolidated and a summary follows below.

Preliminary Findings

i. Legal and Institutional Framework

Most MEFMI countries have legislation governing contingent liabilities, particularly those arising from state guarantees. Five countries have enacted laws on PPPs, though a considerable number are still implementing PPPs without explicit legal provisions. There are also weaknesses in institutional frameworks, where contingent liabilities are managed on an ad hoc basis.

ii. Measurement of Contingent Liabilities

State-Owned Enterprises and private companies regularly provide financial balance sheets along with details of the amount of guaranteed loans, including outstanding balances. It has, however, been noted that there are no formalized structures for collecting information on contingent liabilities. The available data are mainly estimates. A few countries compile explicit guarantees data in the same manner as other debt instruments, for example Lesotho records them in computer-based debt management systems in the same way as other loans. Explicit guarantees are recorded on face value at the time the guarantee is issued and does not require further quantifications. However, there are data challenges for other types of contingent liabilities, particularly on implicit liabilities including those arising from litigation.

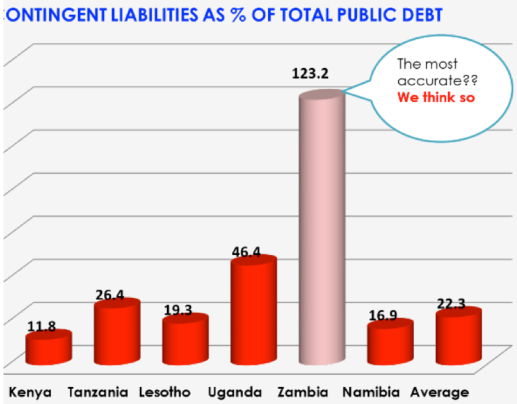
iii. Budgeting for Contingent Liabilities

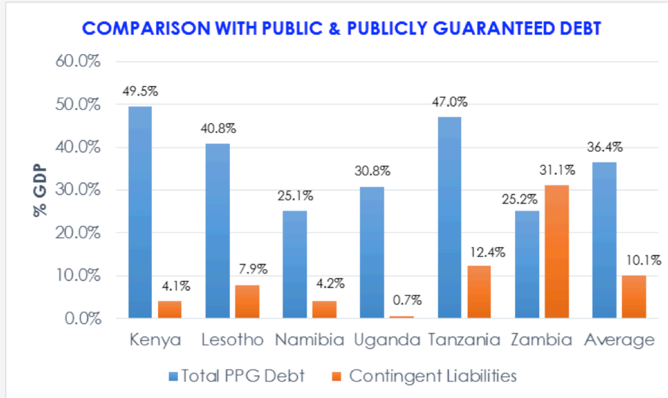
In some cases, Ministries of Finance make budget provision for likely defaults, particularly on loan guarantees. The amounts are projected based on the repayment schedule and the historical performance of the affected entity. In other cases, there is no clear disclosure of all implicit contingent liabilities; however, a minimal amount of contingency is budgeted for under the Ministry of Finance e.g. in Namibia and Zambia.

iv. Reporting of Contingent Liabilities

In general, there are no specific laws on reporting of contingent liabilities. Reporting is mainly guided by organic laws for public institutions and done through financial statements. Some institutions report on existing contingent liabilities through their publications such as Central Bank Reports and debt management reports, but these do not provide comprehensive coverage of contingent liabilities apart from central government guarantees.

v. Magnitude of Contingent Liabilities as of June 2014





The following are some recommendations of the study:

- Review of legislation to include all forms of contingent liabilities and procedures for managing/monitoring them;
- The need to take explicit contingent liabilities as an integral part of public debt management. These should also be considered when conducting debt sustainability analysis;
- Governments need to make provisions for contingent liabilities in their annual budgets;
- Institutional reforms and capacity building for debt managers towards active management of contingent liabilities.

Source: MEFMI and OECD

Activities for the period April- June 2015

DMF Missions

Debt Management Performance Assessments (DeMPA)

1 DeMPA Mission was undertaken

>>Cote d'Ivoire. A World Bank team visited Abidjan, Cote d'Ivoire, over June 11-19, 2015, to conduct a second DeMPA exercise. Cote d'Ivoire has achieved a major progress in governance thanks to the prpeparation of a debt management strategy for two years in succession, as well as in the execution of debt operations due to the implementation of sound procedures for domestic and external borrowing.

Major opportunities for improvement remain in the preparation of annual reports and statistical bulletins, as well as in audit and cash management areas.

Medium Term Debt Management Strategy (MTDS)

2 MTDS missions were undertaken.

>>Bosnia and Herzegovina. A joint World Bank-UNCTAD mission visited Bosnia-Herzegovina between June 10 and June 19, 2015 to provide technical assistance to the State of Bosnia and Herzegovina (BiH), the Federation of Bosnia and Herzegovina (FBiH), Republika Srpska (RS) and District of Brcko (DB) on developing medium-term debt management strategies (MTDS). The mission worked closely with the entities to explore agreement regarding the content and process for a state-level MTDS to be developed by the BiH Ministry of Finance based on the aggregation of MTDSs produced by FBiH, RS, and DB. There was agreement that this will have to be a bottoms up approach, with each entity preparing their own unconstrained strategy, and that the indicators of the preferred strategy will be consolidated to prepare an aggregate.

The mission also held trainings in Sarajevo, Banja Luka and Brcko on the MTDS framework, analytical tool and related topics, aimed at enhancing capacity of design and implementation of a medium-term debt management strategy. The workshops included hands-on exercises on the analytical tool and were attended by officials from state and entity governments. A successful outcome was the preparation of draft strategies by the two entities and DB that were presented to their respective policy makers.

At the end of the mission, the team held a wrap-up meeting with the authorities to present and discuss main findings. A key success is the inclusion of certain variables from all the preferred strategies into one consolidated table for BiH. As the next step, the authorities requested that for the next fiscal year, the WBG field a short mission to determine the pricing scenarios and shocks for the MTDS and a general overview of the MTDS. It was also suggested that the WBG should hold webinars, by end-July 2015, to brief on the financial products and options available with IBRD lending.

>>Ghana. Following a request by the Ministry of Finance, Ghana, a joint IMF-World Bank team visited Accra over April 27 through May 2 to provide technical assistance on developing a Medium-term Debt Management Strategy (MTDS). The team was comprised of staff from the World Bank, IMF and WAIFEM. Discussions were held on the MTDS process and a process for MTDS finalization was agreed.

The team also conducted training on the MTDS framework, analytical tool and related topics, aimed at enhancing capacity of design and implementation of a medium-term debt management strategy. The workshop included hands-on exercises on the analytical tool and was attended by officials from the debt management unit, budget unit, and macroeconomic unit of the Ministry of Finance and specialist staff from the Bank of Ghana.

The authorities requested a Debt Management Reform Plan follow-up mission to recalibrate the recommendations of the existing Debt Reform Plan. This mission is expected to occur towards the end of 2015.

Debt Management Reform Plans

1 Reform Plan mission was undertaken.

>>Kyrgyz Republic. A World Bank technical assistance mission visited Bishkek, Kyrgyz Republic over May 6 to 15, 2015, to assist the authorities in developing a reform plan in the area of public debt management. The main objective of the mission was to work together with the debt management department of the Ministry of Finance, to develop a detailed and sequenced reform plan for debt management.

The team also discussed potential ways of supporting the implementation of the reform plan that is expected to span 2-3 years. Among the possible alternatives is the inclusion of a debt management component in the Public Finance Management (PFM) project that is being planned, or as a separate donor-sponsored activity. The World Bank will work jointly with the authorities to explore the options available.

Following the mission a request for a Debt Management Performance Assessment (DeMPA) has been received. This mission is expected to take place during early October 2015. The DeMPA scores will allow a detailed tracking of progress under the reform plan.

DMF Trainings

>>Brasilia, Brazil. A regional training workshop on Debt Management Performance Assessment (DeMPA) for debt managers was conducted over April 4-10, 2015 at Brazil Escola de Administracao Fazendaria (ESAF) /Ministry of Finance of Brazil. Since the training was delivered in Portuguese, participation was concentrated on Portuguese speaking countries more widely, including Angola and Mozambique. Several World Bank staff also attended the training.

The objective of the course was to familiarize participants with the framework for assessing the debt management capacities and institutions in countries based on the DeMPA methodology developed by the World Bank. The course was delivered in Portuguese and English through a mix of presentations and hands on exercises of DeMPA assessment and Reform Plan formulation.. Each country team made a presentation of the country specific practices in the selected areas of debt management. In addition, participants had a chance to visit the National Treasury of Brazil and familiarize with the institutional arrangements of the debt management office.

>>Harare, Zimbabwe. At the request of the Ministry of Finance, Zimbabwe, the World Bank, in partnership with MEFMI, provided a Debt Management Performance Assessment (DeMPA) and reform strategy training for Zimbabwe over April 22 through 30. The training was attended by 28 participants from across the departments of the Ministry of Finance and Reserve Bank of Zimbabwe. It covered application of the DeMPA tool including self-assessment using the tool. Participants were able to discuss the self-assessment findings and compared results. They were also able to provide inputs for the production of the draft Debt Management Reform Plan for the Government of Zimbabwe.

The workshop was timely as the Zimbabwe Debt Management office (ZDMO) is still new and capacity building is their highest priority. Since Zimbabwe was assessed in 2011, they were able to use the 2011 DeMPA report to review areas that need reforms and come up with a Debt Management Reform Plan. This will strengthen Zimbabwe debt management systems and prepare them for the next DeMPA assessment.

>>Arusha, Tanzania. MEFMI, in collaboration with the World Bank and the IMF, organized a regional training in Medium Term Debt Management Strategy (MTDS) in Arusha, Tanzania from May 4 – 13, 2015. The Workshop was attended by 40 participants from 14 MEFMI member countries, including 2 invited participants from Sudan.

The objective of the workshop was to familiarize participants with the MTDS framework developed by the World Bank and the IMF. The program was comprised of the eight steps of the MTDS methodology. It consisted of presentations on the various steps and hands-on exercises. Participants also learned about useful Excel functions and were asked to build a data base compatible with the MTDS tool. At the end of the workshop, participants were divided into five groups and presented a portfolio review, cost-risk analysis, and their strategy recommendations based on a case study.

>>Mexico City, Mexico. World Bank and IMF staff, joined by CEMLA, conducted a Low-income Debt Sustainability Analyses workshop in Mexico City over May 25 through 29, 2015.

The workshop was attended by 26 government officials from 14 countries - Bolivia, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Paraguay, and Saint Lucia. The main purpose of the event was to provide a solid understanding of the DSF.

The first part of the workshop was focused on the background of the DSF, with emphasis on its theoretical and empirical foundations as well as its operational implications for debt analysis. During the second part, participants were divided into groups to prepare a debt sustainability analysis for a case study. At the end of the workshop participants presented the key findings of the case study.

>> Basseterre, St. Kitts. The World Bank together with the IMF and the Eastern Caribbean Central Bank (ECCB), fielded a team over June 29- July 8, 2015, to provide training in the MTDS- and its recently revised toolkit for a group of regional debt managers gathered in St. Kitts. The revised method of presenting the Framework and toolkit (model) seems to be producing some positive results by allowing participants to become familiar with key concepts in advance of the workshop. Before the sessions three exercises were sent, along with reading materials to attendees, allowing both facilitators and attendees to assess areas of greater challenge and place additional emphasis on these. The joint team also highlighted the importance of understanding the relationship between debt management and the macroeconomic framework, the budget and debt sustainability analysis. Participants commended the revisions to the toolkit.

Forthcoming Mission Activities (July 2015 onward)

- Rwanda: Second DeMPA, July 8 – 16, 201
- Grenada: Second DeMPA, July 27 – 31, 2015
- Sierra Leone: MTDS Second, Aug 1 – 7, 2015
- Democratic Republic of Congo, Second DeMPA, August 24 – Sept. 4, 2015
- Vietnam, Second MTDS, Sept. 9 – 22, 2015
- Federation of Bosnia and Herzegovina, Follow up Reform Plan, September 15-24.

Forthcoming DMF Training Events (July 2015 onward)

- JVI, Vienna - Advanced MTDS training, July 13 – 24, 2015
- ECCB, St. Kitts and Nevis - DeMPA Pilot training revised methodology, July 20 – 24, 2015
- JVI, Vienna – 2015 DeMPA training, August 10 – 14, 2015
- Zimbabwe – MTDS/DSA training, August 10 – 24, 2015
- JVI, Vienna – Joint DSA training, Sept. 14 – 18, 205
- Mexico – MTDS training (CEMLA), Sept. 21 – 25, 2015

Innovations in Technical Assistance

Workshop: Medium-Term Debt Management Strategy (MTDS), Development and Implementation

The World Bank and the International Monetary Fund (IMF) have conducted a workshop on **Medium-Term Debt Management Strategy (MTDS) Development and Implementation** from July 13-24, 2015 at the Joint Vienna Institute (JVI), Vienna, Austria. The workshop's objective was to provide an understanding of: development of a debt management strategy based on qualitative and quantitative analysis; *and issues relating to strategy implementation including preparation of domestic borrowing plans*. This pilot workshop differs from MTDS trainings offered in the past, as it has a much stronger focus on implementation aspects of debt management strategies. More weight is also given to peer-to-peer and hands-on learning approaches using actual country data rather than hypothetical country datasets typically used in the MTDS trainings. Participants, central bank and ministry of finance officials, from a few DMF- eligible countries developed a draft debt management strategy based on detailed analysis of cost and risk using their own country data. In addition, there were sessions focused on strategy implementation and government securities market development.

This pilot workshop has been designed in response to serious challenges faced by many countries relating to both preparation and implementation of debt management strategies as identified by debt management performance assessments. In particular, it is observed that challenges are amplified when it comes to translating the MTDS analysis and debt management strategy into regular borrowing plans. Thus, the workshop attempts to link more closely the application of the MTDS analytical tool with the subsequent actual development and implementation of debt management strategies. The training format includes presentations and hands-on exercises, group discussions and country presentations on MTDS analysis, the strategy document and strategy implementation. As part of the pre-workshop (off-site) component, participants worked with the staff of the World Bank, IMF and the DMF Implementing Partners, in particular CEMLA, MEFMI, UNCTAD and WAIFEM on data preparation and aggregation, macro- and market assumptions, and identification of potential future funding sources.

Joint WB-IMF Domestic Debt Market Development.

A joint WBG-IMF Assessment mission to Tanzania will take place late in 2015 (dates to be confirmed with the Tanzanian authorities). The objective of the mission is to take stock of the Tanzanian government's securities market to identify priority areas for reform of the domestic debt market, and to develop a comprehensive debt market development action plan. During the assessment mission, the team will interact with government officials and private financial sector participants to assess debt market issues.

The joint WBG-IMF team will draft an assessment report covering the major building blocks of government securities market development including (i) money market, (ii) primary market, (iii) secondary market, (iv) investor base, (v) market infrastructure, and (vi) regulatory environment.

In order to test the Government Securities Market Development (GSMD) Toolkit on a pilot basis, the team will also produce an evaluation of the domestic market based on the draft Toolkit. The toolkit is in the final stage of development and targets countries at the early stages of local debt market development. It provides a framework for assessing the existing level of market development in order to identify, prioritize, and guide implementation of reforms.

Second Offering of the e-Learning Course on Debt Management Performance Assessment, March 2-30, 2015

The Debt Management Facility (DMF) Secretariat has completed a second offering of the e-learning course on Debt Management Performance Assessment (DeMPA). The course was provided via World Bank's e-Institute's website during March 2-30, 2015. This online course comprised core readings on the topic, as well as multi-media presentations summarizing key messages, a set of interactive quizzes, series of hypothetical case-based assignments and a final assignment that builds on these cases.

In total, 245 applications were received and 109 participants were selected, targeting the audience from government debt offices and central banks. Most of the course participants were from Sub-Saharan Africa. The second and third largest share of participants represented Latin America and the Caribbean and Europe and Central Asia, respectively (see Figure 1). The audience size was kept limited to provide adequate level of online facilitation, which includes engaging with the participants through e-discussion forums on a daily basis and grading and evaluating participants' performance. 51 percent of participants successfully completed all coursework and required assignments and earned certificates of completion, which is a very high rate for the online course.

Online discussion forums were particularly rich and became a true lifeblood of the course connecting debt managers across the globe with each other and facilitators. Below we provide a few examples of thoughtful posts and facilitator-participant interactions that contributed to great learning experience.

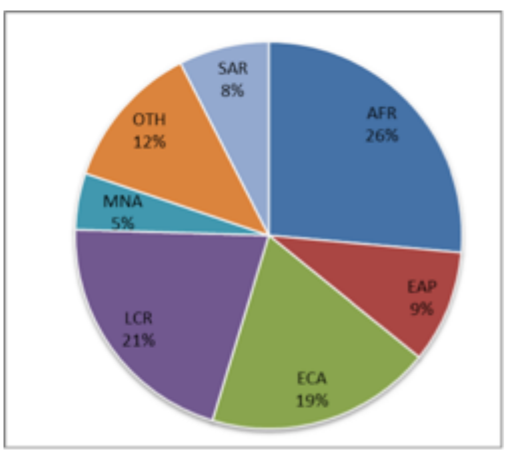


Figure 1. Regional Distribution of DeMPA

The next offering of the course will be scheduled once recent revisions to DeMPA methodology are reflected in the course content. Please check e-Institute's website for updates. DeMPA e-Course Team takes this opportunity to welcome your suggestions on future collaboration. Please contact us at: uhimid@worldbank.org.

What did participants have to say about their e-learning course?

Forum 1. Why DeMPA is important for your country and / or developing countries?

Participant 1 reply (Tuesday, March 3, 2015, 3:32 PM): "DeMPA is a useful tool to evaluate which areas of debt management need to be strengthen. Therefore, governments can use this assessment to help them in prioritizing interventions and sequencing reforms to be undertaken. Personally, I consider the (cont. next page)

evaluation of the coordination between debt management and macroeconomic policies is very important to help government in determining reforms' sequencing."

Participant 2 reply (Wednesday, March 4, 2015, 9:54 AM): "Sound debt management is vital for a country's macroeconomic management. The recent debt crisis experienced by a number of European countries (and the other episodes in the developing world since the early 1980's) has once more highlighted the high economic and social costs of debt defaults and bailouts. By regularly assessing its debt management capacity with the DeMPA, a country can ensure that has an efficient framework in place (including institutions, laws, systems etc.) to manage its debt in a sustainable manner."

Discussion thread from Forum 12. DPI-8: Domestic Market Borrowing

-Participant 3 *(Thursday, March 5, 2015, 10:02 AM)*: "It seems to me that there is very little possibility in most developing countries to use the domestic borrowing. First, there is little development of securities market and regulations that would support this. The methods identified, such as auctions, syndication, etc are probably not available. Retail issuance seems a possibility but this would have to compete with private sector stocks, bonds, etc. for a yield. I would like more information on how widespread the use of domestic borrowing in these developing countries and if this is realistic option for government borrowing."

-Participant 4 (Tuesday, March 10, 2015, 4:34 AM): "I respectfully disagree with your opinion. Domestic borrowing should be the easiest to develop in a new market, because you have the advantage of local agents, investors with knowledge of market and risks. This can first be developed through a mechanism with the Central Bank that should ideally be better connected to the pool of local lenders. Of course the system described above doesn't have to be perfected as a first step, and in a market where internal borrowing is not at all available a short period of albeit, regulated trial and error, can do wonders."

-Ms. Abha Prasad, Course Director (Monday, March 16, 2015, 9:28 AM): "It is very useful to read your discussions. And just to add, domestic debt markets, often, helps to provide a stable funding source for government in domestic currency. It helps to avoid borrowing in currencies in which the government doesn't usually earn its revenues (tax or non-tax other than export earnings). Thus, it helps to allow liabilities to be more closely matched to the revenues (from taxes in local currency) that will service them. In addition, well-developed domestic markets enhance the efficiency and stability of financial intermediation, provide a broader range of assets, and facilitate better risk management. But it is important that such debt issuance should use market-based mechanisms including competitive auctions, tap issues, and syndications.

Note: For additional reading on the topic, please see "Developing the Domestic Government Debt Market", 2007, World Bank."

DMF News

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