



DMF News

Issue 16, April 2014

NEWS

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DMF News

Fifth Annual DMF Stakeholders' Forum, Brussels, April 3-4, 2014



The DMF Forum entitled: "*Debt Management in Developing Countries: New Frontiers and Ongoing Challenges*,"⁴² brought together some 125 participants from disciplines related to public debt management to discuss a varied agenda of items covering new and ongoing developments in the field. Debt management practitioners and policy makers from 53 countries were present at the Forum, with about 18 developed economies represented, and the remainder low-and-middle-income countries. Moreover, there were international and regional technical assistance providers in attendance, representatives of civil society organizations, bilateral donors and multilateral development banks, as well as private sector representatives from investment banks and credit rating agencies.

Participants discussed challenges faced by developing countries with respect to their sovereign borrowing and debt management decisions in the current international environment, amid changing domestic circumstances. The Forum fostered knowledge exchange among participants including sharing of key lessons and debt management solutions.

Highlights of the DMF Stakeholders' Forum

The launch of a new phase of the DMF, introducing a new partnership with the IMF.

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The World Bank and IMF have released new guidelines that provide more clarity on roles for debt managers, suggestions for greater transparency, and more details on risk mitigation strategies, among other changes.

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Looking for Suggestions!

We are looking for interesting debt management topics that could serve as agenda items for 2014 **Debt Managers Network (DMN) Webinars**. Please email your suggestions to (eriodan@worldbank.org).

Highlights of the Fifth Annual DMF Stakeholders' Forum, Brussels, April 3-4, 2014



• Keynote address

- Mr. Klaus Rudischhauser, Deputy Director-General, Directorate General for Development and Cooperation, Policy and Thematic Coordination, European Commission, was the keynote speaker. He underscored challenges facing developing countries with large financing gaps to meet the MDGs and bridge infrastructure gaps that are linked to rapidly rising debt levels--including non-concessional borrowing in several LICs. He offered a package of solutions to address this, with a key being to strengthen debt management and ensure careful selection of investment projects. At the same time, he viewed domestic revenue mobilization as a more stable, sustainable source of financing, especially for many natural resource-rich countries.
- Mr. Phillip Anderson, Senior Manager, the World Bank, chaired a Session on **"Risk Management for Debt Managers."** The session discussed the importance of risk awareness in management of government debt portfolios and emphasized the need for increased risk management analysis. When risks of sovereigns are high and increasing sharply, it unavoidably affects the financial sector adversely, and raises exposure to both high costs and unsustainable debt portfolios.
- A session on **"Recent Changes in the Debt Sustainability Framework and Non-concessional Borrowing"** was chaired by Ms. Sirpa H. Jarvenpaa, Director, Asian Development Bank. The IMF is currently analyzing new policies to make concessional borrowing more flexible, in order to keep incentives strong for concessional-term lending, as there is a declining trend in concessional flows over the last years. In Africa, the

number of countries issuing bonds is increasing all over the continent (13 countries from 2009 to 2013).

- Mr. Paul Wolfteich, United States Department of the Treasury, chaired a session on **"Debt Management Strategy and the Legal Framework."** Common challenges in government debt management underscore the importance of the introduction of a sound legal framework.

Debt Management Facility II launched in Brussels on April 3



A [new phase in debt management technical assistance](#)² was launched at the DMF Stakeholders' Forum on April 3, with current commitments from donors of close to \$20 million. The current donors to DMF II include Austria, Germany and Switzerland, with commitments from the Netherlands and Norway, and the European Union likely to join in due course. The DMF II builds on the first DMF, launched in November 2008 as a multi-donor trust fund designed to strengthen the capacity of developing countries to manage their public debt. Through DMF I, experts from the World Bank, the IMF and implementing partner organizations have reached out to more than 70 countries, to assess and improve their debt management practices, plan for future debt transactions, and strengthen their capacity to manage their debts effectively. The Facility has supported training for more than 600 client country officials.

Through [DMF II](#),³ the World Bank, in closer collaboration with the IMF, will expand the program and offer new services--needed especially as the landscape in which developing countries borrow has changed a great deal since the beginning of the DMF. Developing countries now have access to many sources of credit—not just concessional loans from multilateral

organizations. Increasingly, countries are issuing bonds on international capital markets, a process that brings with it a new level of complexity. And governments are also looking to borrow additional funds domestically. In recognition of these trends, DMF II will offer assistance and training in access to international markets and domestic debt market development, as well as debt sustainability and enhanced debt portfolio risk assessment.

For more information about DMF II, please contact Abha Prasad, DMF Program Manager at the World Bank (aprasad@worldbank.org) or Mick Riordan (eriodan@worldbank.org); at the IMF, Gunnar Magnusson ([gmagnusson@imf.org](mailto:gmagнусson@imf.org)) or Xiangming Li (xli@imf.org). [Countries eligible for DMF I](#) remain eligible for DMF II programs.⁴

Revised World Bank-IMF Guidelines for Public Debt Management

At the February 2013 meeting of G-20 Finance Ministers and Central Bank Governors, the World Bank and IMF were requested to consider revising the Guidelines—first published in 2001—in light of changes in the macro-financial environment (the financial crisis) and debt management practices over the last decade. A working group of experienced debt managers was recruited to assist the Bank-Fund staffs in identifying areas for which there was widespread agreement for needed updates. The team worked on changes to the Guidelines through the first quarter of 2014; and the [revised Guidelines](#)⁵ were presented to the Boards of both institutions- and published in early April. The main changes are as follows:

- Debt management objectives and coordination.** Greater clarity on the roles and responsibilities of debt managers are now included, emphasizing the sharing of pertinent information with fiscal authorities on the amount of debt that can realistically be absorbed by the market.
- Transparency and accountability.** Enhanced communication with investors is essential, with information

² <http://bit.ly/1egWNRt>

³ <http://bit.ly/1kjkL1Z>

⁴ <http://bit.ly/1004KAI>

⁵ <http://bit.ly/1funE2A>

on debt composition/related risk indicators provided periodically to minimize uncertainty.

- **Institutional framework.** Further guidance is provided on collective action clauses, while greater use of these in bond contracts is considered desirable for efficient restructurings.
- **Debt management strategy.** More details are given on risk mitigation strategies, particularly on liquidity and refinancing risk, and on contingency plans, including the building of cash buffers.
- **Risk management framework.** The importance of stress-testing the debt portfolio is emphasized, as is the careful assessment of the use of derivatives in managing portfolio risks, and monitoring and managing the risks arising from contingent liabilities.
- **Development and maintenance of an efficient market for government securities.** Guidance is provided on appropriate debt management policies to enhance the liquidity of the domestic bond market, and on approaches to identify and address impediments that inhibit the development of the domestic bond market, such as limited diversification of the investor base. The revisions also consider in greater depth flexibility in issuance programs, especially during times of crisis.

Practitioners' Corner

We asked three government officials from debt management offices who have been in Washington for three months, participating in the Debt Management Practitioners' Program (DMPP), to provide us with their views of the program (a fourth, Martin Kizito Nsubuga of Uganda, will appear in the June newsletter):



Tiba Eugen Kisonga (Tanzania): "The DMPP has expanded my understanding and experience of several debt management issues which are very relevant to my work as a debt manager. During the program I had the opportunity to participate in an MTDS mission to St. Vincent and the Grenadines, which enabled me to further understand how MTDS tools work, while also appreciating the strong involvement of the authorities and debt managers in the workshop. I attended various training sessions: meetings on debt and fiscal management which were conducted by World Bank staff. I intend to use and transfer the skills and knowledge I

gained to colleagues in my country. And last but not least, I would like to express my gratitude to the staff of PREMD of the World Bank, MTDS mission team members to St. Vincent and the Grenadines from the Bank and IMF; and to my colleague debt practitioners from Rwanda, Madagascar and Uganda for sparing their valuable time to provide technical expertise in debt management during the program".



Mamonjarisoa Volatantely Randrianjanaka (Madagascar): "The DMPP Program has been a valuable and relevant opportunity for me. The program has allowed me to work with experienced

debt managers and economists from PRMED and the Treasury of the World Bank, and to attend various training sessions. My assignment allowed me to be familiarized with analytical tools, such as the MTDS, which will help me to formulate a comprehensive debt management strategy for my country. Sharing knowledge with debt managers from other countries allowed me to learn more from their experiences. Moreover, I joined a DeMPA mission to Haiti with experienced staff from the World Bank and UNCTAD, where I learned how to assess debt management performance and how these contrast with sound international practices. My involvement in this mission will help me to assess the effectiveness of debt management reforms undertaken in my country. Once back to my country, I plan to share my knowledge among my colleagues and apply what I have learned in our debt management practice. I would like to thank the PRMED team and the Treasury of the World Bank for their assistance and support. They were always available for sharing knowledge, but also for any questions on various debt issues".



Stella N Rusine (Rwanda): "My experience with the DMPP has boosted my confidence with regard to debt management issues, and made me look at them from a more creative perspective. As a point of illustration, I had the opportunity to take part in a reform plan mission to Madagascar, where I was able to engage with local debt managers on issues that they were facing and the best way to

address them. A wide range of sound practices that were available were used in responding to their needs, but in most cases we had to use tailored solutions that were consistent with the Malagasy context. This experience also gave me a solid understanding of the MTDS tool, and how to get the best out of it. The DMPP is also a great opportunity to broaden my network of debt specialists and economists, who are great assets to have when looking for solutions (in a limited amount of time) to issues that they may have faced in the past."

Note from a Mentor



Abha Prasad is Senior Debt Specialist and DMF Program Manager.

"The DMPP is a flagship program of the DMF—it facilitates sharing of knowledge and cross-country practices among the selected debt practitioners and their mentors. Over time, the program has been designed to focus on the priority debt management issues of the practitioners' country. Mentors are assigned based on their knowledge and comparative expertise, while mission travel and training is customized, keeping in mind the needs of the participant. At the end of their stay the practitioner prepares a paper on his/her chosen topic—under guidance of the mentor and reviewed by other experts—that is presented to the host unit.

Nine cohorts have graduated from the DMPP program over the years, and have prepared papers on, among other topics: the debt situation in their countries, issuance of international bonds, contingent liabilities, debt reporting and recording, debt management strategy, domestic debt market issues etc. They have also been involved in undertakings such as developing the subnational DeMPA tool, and contributing to the Revised Guidelines for Public Debt Management, as also mission reports in which they participate with their mentors.

The program has helped create a bond between DMF teams and practitioners that has proven a substantial resource for both client countries and the DMF. In several countries, pre-mission preparation is now conducted by a DMPP graduate; and some have joined DMF regional implementing partners and technical assistance providers, thus spreading the knowledge from their DMPP days wider among client countries.

For the DMF, the program has helped to garner a better understanding of what client countries need, and prompted improvements in DMF tools and mission processes. It also has provided countries with easier access to DMF experts and materials. As a mentor, I eagerly look forward to the arrival of the next cohort of participants, and to hear from them what debt management issues are proving a concern to their countries!"

New debt management program officer at MEFMI Secretariat

Mr. Raphael O. Otieno, Director of the Debt Management Programme at MEFMI, would like to announce that Mr. Cornilius Deredza ended his tour of duty with MEFMI in December 2013. Subsequently, MEFMI has recruited Mr. Tiviniton Makuve, who joined the organization on March 3, 2014 from the Reserve Bank of Zimbabwe. Mr. Makuve will be responsible for capacity building activities relating to DMFAS, Statistics and Public Debt Database management. His e-mail address is (Tiviniton.Makuve@mefmi.org).

Vietnam: Is it better to Refinance Sovereign Bonds with Domestic Resources or to Issue a new Euro Bond?

Abstract of a paper prepared by DMPP Hien Nguyen, Ministry of Finance, Vietnam. International bonds are long term debt securities that have been used increasingly by developing countries. Such bonds help developing countries meet their financing needs with greater ease. However, the use of sovereign bonds tends to add foreign exchange-and roll-over risks to the debt portfolios of these countries. Vietnam is not different. The Government of Vietnam has tapped the international market twice since 2005. The first bond is due for repayment in early 2016 and the second will be due in 2020. This paper analyses the experiences of other developing countries to discuss how these countries refinanced their sovereign bonds and, in particular, to draw lessons in dealing with the rollover of such bonds. It is hoped that this paper may help the Government of Vietnam to make an appropriate decision between the alternatives, to issue a new sovereign bond in coming years or look for internal resources to rollover the sovereign bond due by early 2016 with the purpose of mitigating rollover risk. [Paper is available upon request].

We asked the experts...

What is a registry for government securities, and why is it not a replacement for a debt recording system? Find answers in the [Debt Management FAQs](#) (frequently asked questions).⁶

DMF Activities for the period January- March 2014

DMF Missions

Medium Term Debt Management Strategy (MTDS) – One mission

>> **St. Vincent and the Grenadines.** The IMF and World Bank, in response to a request from the authorities, and in collaboration with the East Caribbean Central Bank, visited Kingstown, St. Vincent, over March 3–13, 2014 to undertake an MTDS mission. The team worked with debt management staff to understand the eight-step MTDS framework, helping to identify-, analyze-, and quantify the cost-risk trade-offs of current and alternative debt portfolio strategies. One of the key (unexpected) by-products of the exercise was to highlight to the authorities that the status quo fiscal plan might be unsustainable. Consecutive natural disasters have not helped; they have put additional pressures on public finances where government had to delay or divert capital outlays. The workshop was attended by eleven participants from the Ministry of Finance and Economic Planning (MoFEP); while the head of the Debt Management Unit attended the full workshop and gave the final presentation.

Debt Management Reform Plans - Four missions

>> **Timor L'Este.** At the request of the government, a World Bank team in conjunction with Debt Relief International visited Dili, Timor-Leste, from February 5-17, 2014 to assist in developing a reform plan in the area of public debt management. And three training workshops were organized, on public debt recording systems, debt management strategy and the main functions of a Debt Management Office. These functions are just being established in the country, and thus far only front-office functions are effectively in place. The reform plan prepared jointly with the authorities builds on findings of previous technical

assistance, in which some areas of debt management were covered and assessed, as well as meetings with relevant entities within and outside the Ministry of Finance to identify areas in need of improvement. Three main pillars for reforms were jointly established: (i) legal and institutional framework; (ii) debt recording, reporting and coordination, and (iii) development of a debt management strategy.

>> **Madagascar.** The World Bank fielded a debt management reform plan mission to Antananarivo, Madagascar, at the request of the authorities, from February 11-20, 2014. The team worked in close cooperation with the Ministry of Finance and Budget, and Central Bank of Madagascar, as well as private sector representatives to work toward identification of priority reform areas. The mission also met with the IMF, French Development Agency, European Commission, UNDP and others to get a consistent picture of debt management areas for reforms. The pillars build on the findings of the 2013 World Bank DeMPA for Madagascar and the discussions held during the mission with central government representatives. The team identified four priority reform areas in Madagascar, including: (i) improvement of the legal framework (ii) formulation of a debt management strategy, (iii) improvement of central government borrowing policies and (iv) operational risk management.

>> **Pakistan (Sindh).** A World Bank mission visited Karachi, Pakistan over March 3-14, 2014 to assist the authorities of Sindh Province, at their request, to design a subnational public debt management reform plan (the mission was funded in part by the DMF and partly by the World Bank's South Asia region). The mission met with officials of the Government of the Province of Sindh, largely from the Finance Department, where the team delivered presentations on sound practice combined with preliminary ideas for reforms, in addition to an initial presentation on reform plan design. A plan was suggested, aimed at building capacity by i) creating a small debt management unit within the Finance Department and mandating it with the main role in the Province's debt management, and ii) modifying the legal framework for the Province's debt management. The reform plan will ideally have financial support from a future World Bank loan; however, other reform activities will be funded internally and can start very soon.

>> **Samoa.** In response to a request from the Samoan authorities, a World Bank debt management reform plan mission visited Apia, Samoa over March 24-28, 2014, to

⁶ <http://bit.ly/1hPVkCg>

undertake a follow-up on progress made since the initial reform plan mission to the country (October 2012), and to update the reform agenda to account for changes in the internal and external economic environment since that time. It was found that substantial progress has been made in several areas, including an update to Samoa's MTDS without outside help in 2013; staff added to the Debt Management Unit, and a debt recording inventory and reconciliation largely completed. Updating of the reform plan agenda included the areas of (i) operational risk; (ii) MTDS monitoring and implementation; (iii) cash management and (iv) DSA capacity building. And progress on debt management reforms has been reinforced by the World Bank's Development Policy Operations—with strengthening debt management in the policy matrix discussion in the DPO planned for later this year.

Debt Management Performance Assessments (DeMPA) – Three missions

>>**Nigeria, Cross River State.** The World Bank conducted a Subnational Debt Management Performance Assessment (SN-DeMPA) mission to Cross River State, Nigeria, at the request of the authorities, over January 28 to February 5, 2014. The mission was joined by two representatives from WAIFEM. The main objective of the SN-DeMPA mission was to assess—jointly with the Debt Management Department (DMD) of Cross River State—the current debt management performance of the State. During the mission, the team worked with the Commissioner of Finance, the Accountant General, the Auditor General, and the Commissioner for State Planning and with Special Advisors to the Governor on Debt Management. And to obtain an independent view on the state's debt management activities, the mission also met with representatives from the three largest commercial banks. It was found that there is strong government commitment-, and close cooperation among units responsible for debt management. Cross River State is now the fourth state in Nigeria to have undertaken an SN-DeMPA exercise.

>>**Bhutan.** At the request of the authorities, the World Bank, in cooperation with Debt Relief International, fielded a DeMPA mission to Thimphu, Bhutan, from January 29 to February 8, 2014. This was the second DeMPA exercise in Bhutan, the first undertaken in 2010, followed by a reform plan mission in 2011. The assessment revealed key improvements in: (i) segregation of duties within the DMD; (ii) a step-up in the capacity at the DMD (middle office) to prepare an MTDS, (iii) improved

capacity in the Royal Audit Authority to conduct a performance audit of debt management policies, functions and operations, and, (iv) improvement at the registry at the Royal Monetary Authority. There were, however, several indicators that had not improved and the mission informed the Ministry of Finance that these should be considered for priority reforms going forward. In addition to the DeMPA follow-up, the mission delivered two days of training, on the Joint WB-IMF Debt Sustainability Framework and on the MTDS toolkit.

>>**Haiti.** A World Bank mission in conjunction with UNCTAD, visited Port-au-Prince, Haiti, between 13 and 21 March, 2014, to conduct a Debt Management Performance Assessment at the request of the authorities. The Haitian Ministry of Finance has, in recent months, embarked upon an internal restructuring process, which includes the Debt Management Unit (DMU) accompanied by an effort to reform the legal framework in a number of areas—the effects of which efforts would be to significantly raise the profile of the DMU and require important changes to current public debt management practices in government. At present debt management in Haiti is plagued by serious difficulties, including a high degree of fragmentation of responsibility and lack of clarity regarding basic procedures. Looking forward, the mission identified three overarching challenges for the DMU: (i) ensure readiness to implement the new law on debt; (ii) unify dispersed debt databases and reconcile DMFAS and excel systems, and (iii) strengthen the analytical capacity of the debt unit.

DMF Training – Three missions

>>**China.** (DeMPA). A regional hub-training covering the Debt Management Performance Assessment tool was held from January 6 through 10, 2014, at the Asia-Pacific Finance and Development Center (APFDC), Shanghai, for debt managers from the Central-, South- and East Asia and the Pacific regions. The training was attended by participants from Bangladesh, Bhutan, Cambodia, China, Georgia, Kyrgyz Republic, Laos, Mongolia, Myanmar, Nepal, Samoa, Sri-Lanka, Tajikistan, Vietnam, and by several World Bank staff. The objective of the course was to familiarize participants with the framework for assessing debt management capacities and institutions based on the DeMPA methodology. The course was delivered in English through a mix of presentations and hands-on exercises of DeMPA assessments and Reform Plan formulations. In addition, several participants

made country specific presentations on several areas of debt management.

>>**Austria.** (MTDS). A World Bank team visited Vienna, Austria between March 24 and 28, to conduct training in developing a Medium-term debt management strategy (MTDS) at the Joint Vienna Institute. The training provided participants with an understanding of the MTDS framework through a mix of presentations on conceptual issues and hands-on exercises. The presentations focused on the steps of the MTDS framework that help to understand the rationale and various components of the Analytical Tool. Participants developed, prepared and presented draft medium term strategies using the MTDS tool. And a brief session linking the MTDS to the development of a borrowing plan was conducted at the end of the program. Twenty nine representatives from 16 countries participated in the training, among which, Armenia, Bangladesh, Bosnia and Herzegovina, Ethiopia, Maldives and Somalia.

>>**Austria.** (DeMPA). A World Bank team, in conjunction with Debt Relief International, conducted a hub-training program in debt management performance assessment over April 14 to 18 at the Joint Vienna Institute in Vienna. The course was focused in three areas: (i) informing about the main areas of performance assessment (ii) familiarizing participants with the scope and methodology for the application of the DeMPA tool, and (iii) discuss the other available tools and techniques for improving debt management practices at the central government level. Some 25 participants from 15 countries attended the training, from among Chad, Kosovo, Moldova, Sudan, Tanzania and Uganda.

Forthcoming DMF Missions (from May 2014 onward)

- o Vietnam. MTDS Baseline. May 14-23, 2014
- o Vietnam (HCMC). SN DeMPA. May 20-23, 2014
- o Guinea. MTDS. June 2-12, 2014
- o The Gambia. Follow up DeMPA/RP. June 2014
- o Mozambique. MTDS Baseline. June/July 2014
- o Maldives. MTDS Baseline. July 2014

DMF News

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Debt Management Facility (DMF) Newsletter
Issue 16, April 2014.

The *DMF Newsletter* is published quarterly and is provided to debt management practitioners from developing countries, donors, DMF implementing partners, civil society organizations, and private sector firms. The newsletter aims to share DMF work plans, lessons learned, and news and developments related to debt management.



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