



DeMPA – New Tool to Improve Sovereign Debt Management Capacity

Debt Management Stakeholders'
Conference

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Context

Historically, Sovereign Debt Management was Funding,

which led to:

- several borrowing units (front offices)
- system support limited to debt recordings
- several debt databases
- bad quality of data
- no systematic analysis of cost/risk in the debt portfolio
- narrow scope of the legal framework
- no clear separation of government borrowings and monetary policy

Today, Focus on Risks and Strategy Development

- sovereign debt management is seen as a separate public policy area with its own objectives
- much more focus on risk analysis, strategy development, and accountability
- development of the domestic debt market has become a common DeM objectives
- execution of the strategy (borrowings and other transactions) should be left to professional staff

Sovereign Debt Management is now defined as

“the process of establishing and executing a strategy for managing the government’s debt in order to raise the required amount of funding, achieve its risk and cost objectives, and to meet any other sovereign debt management goals the government may have set, such as developing and maintaining an efficient market for government securities.”

Source: Guidelines for Public Debt Management (2001)

How to build up sovereign
debt management capacity –
what have we learnt?

Previous World Bank Projects

- 2001: Guidelines for Public Debt Management (jointly with IMF)
- 2003: Accompanying Document and Selected Case Studies (jointly with IMF)
- 2004: Sound Practice in Government Debt Management (Wheeler)
- 2002-2005: Pilot project on designing a reform plan in 12 selected countries across the regions
- 2007: Managing Public Debt – From Diagnostics to Reform Implementation

Integrated Approach is Needed!

- The main building blocks are:
 - accurate, timely and comprehensive debt data, and a well-functioning back office
 - an organizational structure that is conducive to debt portfolio analysis and strategy development
 - a legal framework that includes clear DeM objectives, strategy development, and accountability
 - skilled staff, including risk analytical skill, and active human resource management
 - good cash flow forecasts

DeMPA

DeMPA is Modeled after the PEFA Measurement Framework

- DeMPA measures sovereign debt management capacity through a comprehensive set of indicators by the use of a standardized metric
- May be applied in all developing countries
- Assessment result presented in a concise and confidential report

Main Objective is to Improve Debt Management Capacity

- DeMPA will:
 - assess sovereign debt management capacity
 - enable design of a detailed and sequenced capacity building program
 - facilitate monitoring of progress in capacity building
 - focus policy attention on the need to improve debt management capacity, particularly in LICs
 - enhance donor harmonization based on common understanding of needed building blocks

Sovereign Debt Management and Closely Related Functions

- The scope is sovereign (central government) debt management and following functions:
 - issuance of loan guarantees
 - on-lending of borrowed funds
 - cash flow forecasting
 - cash balance management

Reflecting Lessons Learnt = Integrated Approach

- 15 indicators, broken down into 35 dimensions, covering the following main areas:
 - governance and strategy development
 - coordination with macroeconomic policies
 - borrowing and related financing activities
 - cash flow forecasting and cash balance management
 - operational risk management
 - debt records and reporting

	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

Example of Scoring – Legal Framework Indicator

- *Score C (indicates the minimum requirement)*
 - Clear authorization to borrow and issue loan guarantees (Parliament → Executive branch → Implementing entity)
- *Score B*
 - In addition, primary legislation includes specified borrowing purposes, reporting requirement to Parliament/Congress, and external audit requirement
- *Score A*
 - In addition, primary legislation includes clear DeM objectives, mandatory evaluation of outcomes against the stated objectives, and requirement to develop a DeM strategy

Broad Collaborative Effort

- Core Bank team supported by two consultants
- Technical Working Group with members from different parts of the Bank and IMF
- Peer review process
- Early draft field tested in five countries
- Comments received from IMF, DRI, DMFAS team, ComSec, US Treasury OTA Division, and participants in international meetings

DeMPA Toolkit

- Indicators complemented by a Guide:
 - background information and rationale on each indicator
 - list of supporting documentation
 - indicative questions
 - references
- Frequent workshops on the use of DeMPA
- The DeMPA tool and Guide can be found on Web site: <http://go.worldbank.org/W7V1F1A6S0>

Thank you!

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