



Governance and Accountability

DeMPA Workshop
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Governance and Accountability = one third of the total indicators

- Legal framework (DPI-1)
- Managerial structure (DPI-2)
- DeM strategy (DPI-3)
- Evaluation of DeM operations (DPI-4)
- Audit (DPI-5)

Outline

- Why so much focus on Governance and Accountability?
- What does DeMPA require?

Why so much focus on
Governance and Accountability?

Historically, government DeM was limited to funding,

which lead to:

- One policy goal → ensuring the central government's financing needs
- Several borrowing units (front offices)
- Several debt databases
- No systematic analysis of cost/risk in the debt portfolio (no middle office)
- Narrow scope of the legal framework

In the 90's, new approach to government DeM

“The most pressing issue confronting governments is the need to reform the institutional arrangements governing debt policy, so that the technical expertise and experience required to manage the risks of external debt competently and transparently can be applied. Professionalism and accountability can best be achieved when debt management is assigned to an agency that is separate and autonomous from the political process.”

Cassard and Folkerts-Landau: “Sovereign Debt: Managing the Risks” (F&D December 1997)

World Bank/IMF Guidelines for Public Debt Management

“Sovereign debt management is 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.”

Guidelines for Public Debt Management (2001)

Consequently, new issues are at the center

- **Policy goals:** What are the long-term objectives
- **Strategy:** How do we achieve these objectives
- **Depolitization:** What should be decided on the political level, and what is best left to professional debt managers
- **Organizational changes:** Should we set up a DMO
- **Regulatory changes:** What should the DeM legislation contain
- **Accountability:** How to train auditors in this new environment, and how do we evaluate DeM performance

Policy goals

- Common DeM objectives
 - Ensuring the central government's financing needs
 - Minimizing borrowing costs, at least in the long term
 - Keeping risks at an acceptable level
 - Supporting domestic debt markets (subsidiary goal)

OECD: Debt Management and Government Securities Markets in the 21st Century (2002)

Strategy

- Strategy development is focused on the trade-off between cost and risk in the medium term (3-5 years)
 - Interest rate and rollover risks: Shall we borrow short to reduce costs, or long to reduce risk?
 - Foreign currency risk: Shall we borrow in foreign currencies to reduce costs, or in our local currency to reduce risk?
 - What is the right balance?

Strategy (cont'd)

- Strategy development is normally based on sensitivity and scenario analyses of the present and future debt portfolio
 - Key requirements are good debt data and risk analytical skill
- Based on the strategy, yearly plans on borrowing and debt management activities are prepared

Depolitization

- Growing consensus that DeM objectives and strategy should be decided at the political level, while preparation of yearly borrowing plans and execution of these plans should be left to professional debt managers
- Common to use the risk analytical skill of the debt managers, and their knowledge of the credit markets, to prepare strategy proposal(s)
- Compare with the governance structure for monetary policy!

Organizational changes

- Increasing demand for debt management offices (DMOs), or a Principal DeM Entity with overall responsibility for government DeM activities
- Government DeM is moved out from the central banks

Accountability

- Before: Audit limited to the financial accounts, and reports limited to debt statistics
- Now: Performance audit, and reports that include evaluation of outcomes against stated objectives, the chosen strategy and the rationale behind it, and compliance with the determined strategy

See INTOSAI: Guidance for Planning and Conducting an Audit of Internal Controls of Public Debt (2000), and the Mexico Accords (2007)

Regulatory changes

- Traditional functional approach: Clear mandate to borrow, but limited to certain markets and instruments, and common with Parliament's approval for all borrowings abroad
- Now policy-based approach: More focus on objectives, strategy development, and accountability

What does DeMPA require?

Legal framework

Score C (indicates the minimum requirement)

Clear authorization to the DeM entity(ies) to borrow and undertake debt-related transactions, and to the guarantee issuing entity(ies) to issue loan guarantees

Score B

+ Primary legislation includes specified borrowing purposes, annual reporting requirement to Parliament on DeM activities and loan guarantees, and requirement for external audits of DeM activities, policies, and operations

Score A

+ Primary legislation includes clear DeM objectives, mandatory annual reporting to Parliament that includes evaluation of outcomes against the stated objectives, and requirement to develop a DeM strategy

Managerial structure

Score C

1. DeM: Borrowings and debt-related transactions are undertaken by either a Principal DeM Entity, or several DeM entities that need to regularly exchange debt information and closely coordinate their respective activities
2. Loan guarantees: Loan guarantees are prepared and issued by either one issuing entity, or several issuing entities that need to closely coordinate their respective activities both between themselves and with the Principal DeM Entity, if any

Managerial structure (cont'd)

Score B

1. + Borrowings and debt-related transactions are steered by a formalized DeM strategy, and undertaken “without undue political influence”
2. + Loan guarantees are prepared and issued by one entity that closely coordinates with the Principal DeM Entity, if any

Score A

1. + Borrowings and debt-related transactions are undertaken by a Principal DeM Entity
2. + Loan guarantees are prepared and issued by the Principal DeM Entity

Debt management strategy (decision-making process)

Score C

The strategy proposal is prepared either by a Principal DeM Entity, if any, or jointly by the DeM entities, views on the strategy proposal are obtained from Central Bank, and the strategy is finally approved by the Cabinet/Minister, and made public

Score B

+ If the proposal is not accepted, the rationale for this must be presented in the strategy document. The strategy is updated at least every third year, following the procedure described in C

Score A

+ The strategy is updated annually, following the procedure described in C

Evaluation of DeM operations

Score C

The Cabinet or the Minister receives an annual report on the DeM activities and details of outstanding debt

Score B

+ The annual report contains an evaluation on how the activities have complied with the DeM strategy

Score A

+ The Parliament receives an annual report on the DeM activities, including an evaluation of outcomes against the stated objectives, the chosen strategy and the rationale behind it, and on how the DeM activities have complied with the strategy. The report is made public

Audit

Score C

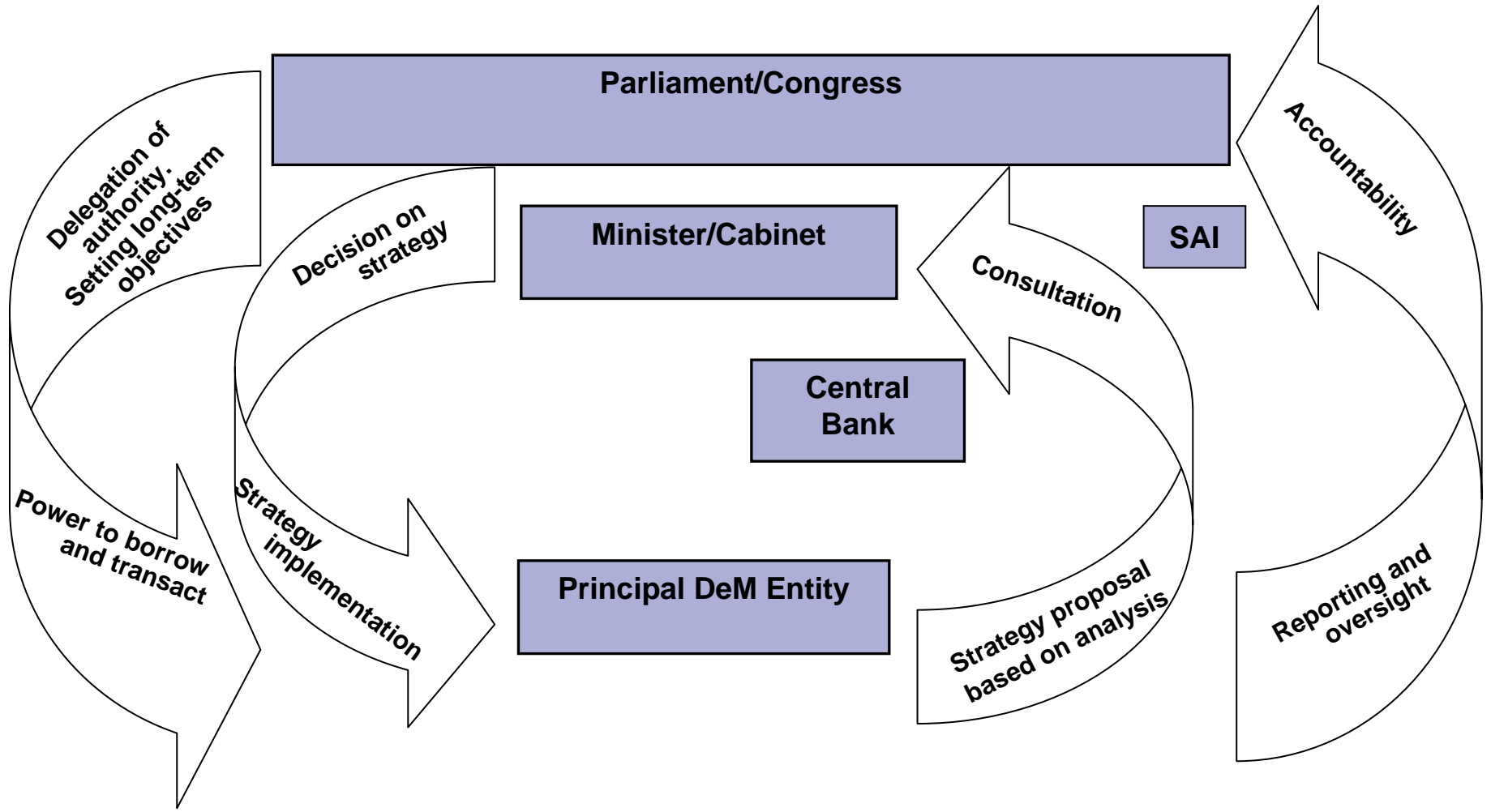
1. Frequency of audit: External audit of DeM activities, policies and operations has been conducted within the past 5 years
2. Commitment to address the outcomes: There is commitment to address audit outcomes

Score B

1. + There are frequent external audits (at least every 3 to 5 years), and, in addition, annual internal audits
2. + The commitment to address audit outcomes is strong

Score A

1. + External audits are conducted at least every 2 to 3 years. The external audit report is made public within 6 months of completion of the audit
2. + The commitment to address audit outcomes is strong and immediate





Thank you!

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