Overcoming obstacles to building public debt management capacity

The case of Moldova

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OUTLINE

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GDP growth rate in 2011 was 6.4%, 2012 projected at 3.0%
- Budget deficit in 2011 2.4% of GDP
- Public Debt/GDP is 29.2%
- Central Government Debt/GDP in 2011 was 23.4%
- By residence of the creditor: External-69.6%; Domestic-30.4%;
- Debt Service/Budget Revenues – 8.8%
- Debt Service/Budget Expenditures -8.4%
- External Central Government Debt/Exports – 51.5%
- Debt Strategy starting 2011
- Well performed under PEFA 2011 review
- PFM reforms in implementation
- Country Policy and Institutional Assessment-3.8 (average IDA Borrowers 3.3) for Debt Policy and Management 4.0 (Y2011);
**Legal & Institutional framework**


MoF is responsible for monitoring and reporting of public debt

MoF is responsible for management of central government debt, issues guarantees on behalf of the state and on-lending

The responsible institution for the management of debt within the Ministry of Finance is the Public Debt Department created in October 2001.
Currently, the DMO is structured according to products and not core functions.

Legal & Institutional framework

Public Debt Department (18)

- External Financing and Debt Division (5)
- Domestic Debt Division (5)
- On-lending division (5)
- Monitoring and Evaluation Unit (2)
Relation between DMO of Moldova and other bodies

**Internal**
- **State Treasury** (cash & debt management, processing of payment orders, disbursements of budget loans etc.);
- **Budget Department** (proposals related to the budgeting of debt ceilings, debt service, financing sources of the budget deficit etc.);
- **Subordinated institutions of the MoF** (control of correctness of public debt reporting, maintenance of DMFAS).

**External**
- **Prime minister’s office** (identification of new financing sources,);
- **Parliament** (ratification of loan agreements);
- **Line ministries/PIU** (forecast of loan disbursements, request for disbursements, reporting of disbursements);
- **National Bank of Moldova** (acting as fiscal agent of the state, the forecast of international reserves related to debt service, reporting of public debt);
- **Public institutions** (local authorities, municipal and state companies) – reporting of public debt.
Project support to public debt management 2004-2008, financed by SIDA

DeMPA, 2008 (WB)

MTDS mission, 2008-2009 (WB&IMF)

US Treasury, 2009

MTDS and DSA training jointly with Reform plan mission, 2011

DO staff have participated in trainings, seminars organized by IMF and WB
DeMPA findings & recommendations

- Overall score is high
  - managerial structure
  - coordination with monetary policy
  - policies and procedures for domestic borrowing
  - debt records
  - Legal framework
  - Debt reporting

- Need improvement
  - Debt management strategy
  - Operational risk management
The way to debt management reforms, MTDS mission

- **Main objective**
  - to provide support to the government in their ongoing efforts to develop a MTDS

- **Recommendations**
  - Existing formal DMS provides limited guidance regarding the risk exposure of the debt
  - Reestablishment the division responsible for development of MTDS and cost-risk analysis
  - Description of shock scenarios and alternative financing strategies
DeMPA and MTDS missions were the basis for making the Reform Plan.
Reform Plan

- 17 actions
- Duration 2011-2014
- 10 actions to be implemented internally
- 7 actions – using external assistance
Reform Plan

I. Legal framework
-Amend the law to include
  • Debt management objectives
  • Requirement to develop debt management strategies with regular updates report to parliament and Government
- Develop regulations for local government borrowing

II. Organization of effective debt management
 Restructure the DO according to functions
 Hire or transfer within the DO one additional staff to ME
 Transfer legal adviser or hire young law graduate
 Annual training plans
 Rotate staff within DO

III. Debt Management Strategy and Risk Management
 Publish debt management strategy as stand alone document and update annually
 Develop framework to assess financing options
Reform Plan

IV. Reporting
Introduce monthly short reports
Review content of quarterly reports and introduce strategy follow-up in the annual report

V. Operational Risk
Initiate internal project to identify and develop plans for managing operational risk
Ensure there is a back-up staff for all core functions
Introduce a separate risk monitoring and control function in the DO

VI. Debt Recording
Introducing a unified debt recording system

VII. Domestic Securities Market Development
Analyze the options for gradually extending maturities
Prepare action plan for government securities market development
Implementation of Reform Plan

In implementation - 3 actions

Implemented - 6 actions

Delays - 3 actions (need external assistance)
Lessons learned

Country ownership and commitment to reform

Link to on-going PFM reform plan

Experience of different DO

Appropriate legal support

Information system

Sufficient and well trained staff