Managing Public Debt in Middle-Income Countries
A partnership with the Swiss State Secretariat for Economic Affairs (SECO)

April 2019

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This report was prepared by the World Bank Treasury – Government Debt and Risk Management Program (GDRM) team, drawing on inputs from World Bank country teams, Swiss State Secretariat for Economic Affairs (SECO) country teams, and government counterparts from the countries participating in the GDRM Program. Çiğdem Aslan, Sébastien Boitreaud, Rodrigo Cabral, and Banu Turhan Kayaalp led the preparation of the report under the guidance of M. Coşkun Cangöz. Mats Filipsson, Leandro Puccini Secunho, Antonio Velandia, Amira Amat, Herawaty Anderson, and Andrew Lee delivered input on the data, and editing was done by Lisa Ferraro Parmelee. The report was designed by Ria Henares Garrett.

The team thanks government counterparts from Azerbaijan, Colombia, Egypt, Ghana, Indonesia, North Macedonia, Peru, Serbia, South Africa, Tunisia, and Vietnam for their invaluable insights and experiences, and SECO for the great partnership. The team further acknowledges the contributions from former team members Phillip Anderson, Fritz Bachmair, Elizabeth Currie, and Lars Jessen for the first phase of the GDRM Program.
### List of Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Full Form</th>
<th>Description</th>
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<tbody>
<tr>
<td>ALM</td>
<td>asset and liability management</td>
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<td>CB</td>
<td>central bank</td>
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<tr>
<td>CL</td>
<td>contingent liability</td>
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<td>CSA</td>
<td>Credit Support Annex</td>
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<tr>
<td>DeMPA</td>
<td>Debt Management Performance Assessment</td>
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<tr>
<td>DMFAS</td>
<td>Debt Management and Financial Analysis System</td>
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<td>DGCPTN</td>
<td>General Directorate of Public Credit and National Treasury (Colombia)</td>
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<td>DGFRM</td>
<td>Director General of Fund and Risk Management (Indonesia)</td>
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<td>DMF</td>
<td>Debt Management Facility</td>
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<td>DMO</td>
<td>debt management office</td>
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<td>DMS</td>
<td>debt management strategy</td>
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<td>DPI</td>
<td>debt management performance indicator</td>
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<tr>
<td>ETF</td>
<td>exchange-traded fund</td>
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<td>ETP</td>
<td>electronic trading platform</td>
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<td>EU</td>
<td>European Union</td>
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<td>FPC</td>
<td>Fonds de Péréquation des Changes (Tunisia)</td>
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<tr>
<td>FX</td>
<td>foreign exchange</td>
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<tr>
<td>GDP</td>
<td>gross domestic product</td>
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<td>GDRM</td>
<td>Government Debt and Risk Management</td>
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<td>GOV</td>
<td>Governance Global Practice of the World Bank</td>
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<td>IBRD</td>
<td>International Bank for Reconstruction and Development</td>
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<td>ICR</td>
<td>Internal Credit Rating (Indonesia)</td>
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<td>IDA</td>
<td>International Development Agency</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>ISDA</td>
<td>International Swaps and Derivatives Association</td>
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<tr>
<td>IT</td>
<td>information technology</td>
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<tr>
<td>LIC</td>
<td>low-income country</td>
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<tr>
<td>MIC</td>
<td>middle-income country</td>
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<tr>
<td>MOF</td>
<td>ministry of finance</td>
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<td>MTDS</td>
<td>Medium-Term Debt Management Strategy</td>
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<td>ORM</td>
<td>operational risk management</td>
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<td>PD</td>
<td>primary dealer</td>
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<td>PDA</td>
<td>Public Debt Administration (Serbia)</td>
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<td>PDD</td>
<td>Public Debt Department (North Macedonia)</td>
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<td>PDM</td>
<td>public debt management</td>
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<td>PEFA</td>
<td>Public Expenditure and Financial Accountability</td>
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<td>PFM</td>
<td>public finance management</td>
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<td>PPP</td>
<td>public-private partnership</td>
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<td>QSA</td>
<td>Quantitative Solutions, Strategic Asset Allocation</td>
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<td>SALM</td>
<td>sovereign asset and liability management</td>
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<td>SECO</td>
<td>Swiss State Secretariat for Economic Affairs</td>
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<td>SOE</td>
<td>state-owned enterprise</td>
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<td>TA</td>
<td>technical assistance</td>
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<td>TD</td>
<td>Tunisian dinar</td>
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<td>TESCO</td>
<td>Treasury Bills (Colombia)</td>
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<td>TESM</td>
<td>Treasury Bonds issued for monetary control purposes (Colombia)</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
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<tr>
<td>VRA</td>
<td>Volta River Authority (Ghana)</td>
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The portfolio of public debt is often a country’s largest liability, generating substantial risk to its balance sheet. Sudden moves in interest rates, currencies, and market access can badly derail fiscal frameworks and, with them, growth and development. That was the lesson of the global financial crisis of 2008/9—especially for governments in middle-income countries (MICs).

Ten years later, those governments face another period of uncertainty and volatility. This time, global debt levels are historically high, the U.S. dollar is unusually strong, interest rates are starting to rise, capital is flowing out of emerging markets, and geopolitical peril is spreading. In parallel, policymakers are asked to make good on their “Sustainable Development Goals” and fund widening deficits in physical infrastructure and human capital. They are called upon to somehow turn billions into trillions.

All this makes sound public debt management critical, and the role of the Government Debt and Risk Management (GDRM) Program more vital than ever. Created and funded by Switzerland’s State Secretariat for Economic Affairs and executed by the World Bank Treasury, GDRM has, since 2011, been the go-to source of technical assistance and capacity building for public debt managers in MICs. These managers are at the core of the program: they own the vision, set the priorities, sequence the reforms, and drive the implementation. Their results, measured by the efficiency, effectiveness, stability, and overall quality of their management, have been outstanding.

For the World Bank Treasury, partnering with GDRM has been central to our mission of connecting capital markets to economic development. It has also been a way to share our capacity with our clients—and to learn from them. We are super-high-frequency issuers—on average, we issue bonds in the international market two and a half times a day, in more than 20 currencies, for an annual volume of around US$50 billion. We specialize in managing cash reserves in a high-liquidity, capital-preserving way—about US$150 billion of them. And we are massive payers—our banking operation handles US$7 trillion in payments per year, in some 130 currencies. The GDRM team draws on this expertise, turning the program into a network of actual practitioners.

As the first phase of GDRM comes to an end, this report celebrates its achievements. From Colombia, South Africa, and Vietnam to Ghana, Indonesia, and Serbia, we have seen our clients develop sophisticated skills and tools to manage their debts in a more strategic, less volatile, less risky, less costly, and more transparent way. We are proud to have contributed to that.
The second phase of GDRM will build on those achievements. Among the new priorities, we will be expanding the scope of support to subnational governments; introducing a component on asset and liability management (ALM); and developing and delivering training on emerging, cutting-edge themes. Surely, new and unexpected challenges and opportunities will also emerge; GDRM will work with our clients to identify, analyze, address, and seize them.

A final thought. While its direct beneficiaries are public debt offices, the value of GDRM goes well beyond the public sector and its private financiers. In fact, it is the citizens of our client countries—especially future generations—who most need and deserve stable fiscal and macroeconomic frameworks. These are the pillars on which growth, development, and, ultimately, shared prosperity are constructed.

Marcelo Giugale
Director
Financial Advisory and Banking
The World Bank Treasury
Development objective

The Government Debt and Risk Management (GDRM) Program assists countries in developing sustainable debt and risk management frameworks to reduce vulnerability to financial shocks. With a focus on middle-income countries, the program provides customized technical advisory services to strengthen public debt and risk management capacity and institutions, with a programmatic approach\(^1\).

The GDRM Program is based on a three-way partnership among the beneficiary country, Swiss State Secretariat for Economic Affairs (SECO), and the World Bank Treasury, with the beneficiary country at its very core. The program requires firm commitment from the authorities for a country to become a member. Each country is responsible for indicating priorities, sequencing the reforms, and driving the implementation of the reform agenda, thus helping to ensure sustainability, achievement of outcomes, and efficient use of resources. The country’s ownership of the program determines the pace of its transformation.

Please visit www.worldbank.org/gdrm for more information.

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\(^1\) Programmatic approach refers to the GDRM Program offering step-by-step, comprehensive support in the debt management field, from assessment to implementation.
The GDRM Program IMPACT

11 Economies

Tunisia
- GDP: US$40 b
- Population: 12 m
- Debt: US$28 b
- GDRM Projects: 3

Serbia
- GDP: US$41 b
- Population: 7 m
- Debt: US$25 b
- GDRM Projects: 4

Colombia
- GDP: US$315 b
- Population: 49 m
- Debt: US$150 b
- GDRM Projects: 6

Peru
- GDP: US$211 b
- Population: 32 m
- Debt: US$52 b
- GDRM Projects: 5

Ghana
- GDP: US$59 b
- Population: 29 m
- Debt: US$42 b
- GDRM Projects: 3

IMPACT

The GDRM Program

Economies
Managing Public Debt in Middle-Income Countries

US$1.2 trillion Public Debt
654 million People Affected

Focus on middle-income countries

Focusing on middle-income countries (MICs), which are home to 75 percent of the world’s poor, the GDRM Program supports governments in improving their technical capacity to manage public debt and strengthens related institutions.

MICs face a unique set of challenges that affect their capacity to manage public debt and risks:

- The MIC category spans a wide range of gross national income, and this is reflected in the resources available for public financial management. In addition, the quality of institutions is a significant factor that is not solely determined by income levels. Hence, the level of capacity to internalize reform plans and implement them varies a great deal.

- Compared to the broad-based support needed by low-income countries (LICs), the support required by MICs is more specialized and tends to focus on particular areas. The more developed a MIC is, the higher the likelihood for its institutions to require specialized support.

- Developed countries typically meet most of their funding needs by issuing long-term, fixed-rate securities in the domestic market, and they have access to a wide range of liability management tools, such as swaps, buybacks, and exchanges, to manage risk. They have strong institutions and capacity to develop and implement prudent risk management strategies. In contrast, LICs have more limited choices in debt instruments and are often restricted to the financial terms and currencies offered by bi- and multilateral lenders or by terms accepted by a small base of investors. Developing and maintaining institutional capacity is frequently a significant challenge.

- MICs span a wide range of income but, in general, they lie between these extremes, both in terms of financial choices and institutional capacity. In general, the support they require is therefore more specialized to support their transitions from one stage to another. Technical assistance carefully tailored for MICs allows their debt management operations to move to a higher level of competency. Given the size of public debt portfolios relative to countries’ gross domestic product (GDP), even marginal improvements can translate into considerable gains to the budget and/or reduced risk to public finances.

- However, customized technical assistance for MICs in the debt and risk management field is limited. To be effective, the assistance needs to be tailored to the country-specific needs and constraints. The GDRM Program is designed to fill this gap.
A tailor-made program for each middle-income country ensures results

As MICs are at very different levels of technical and institutional development, the GDRM Program team develops a deep understanding of each country’s context and recommends tailor-made solutions, specific to the country’s needs and national priorities.

The GDRM Program’s dedicated engagement managers build and manage long-term relationships with partner countries’ executive and technical teams to ensure implementation of reform plans. Supporting their counterparts in all debt management–related issues, they give trusted advice, act as a sounding board, and provide much-needed continuity, and, sometimes, the institutional memory for the beneficiary country’s staff.

“Adoption of the reforms requires time and government consensus; hence, countries that have partnered with the GDRM Program have achieved remarkable results in the medium term.”

M. Coşkun Cangöz, Head of Debt and Risk Management, The World Bank Treasury
The programmatic approach: From diagnostics to implementation

The key feature of the GDRM Program is the programmatic approach that has resulted in sustainable impact since its establishment in 2011. Unlike many other technical assistance (TA) programs, GDRM supports partner countries, from upstream diagnostic work and development of reform plans to downstream implementation of the plans. The program has a strong focus on outcomes. The nature of the program—a medium-term approach combined with tailored downstream assistance—is fundamental to achieving such outcomes, which have supported the GDRM countries in increasing their resilience to financial shocks and improving the efficiency of debt management operations.

The engagement under the GDRM Program with each country is constructed around a project fiche, which contains a detailed and concrete action plan for the country, typically with three to five project components, based on the results of a needs assessment and in line with the policymakers’ priorities. The GDRM Program uses a three-stage process model:

1. Needs assessment. Based on a comprehensive analysis of the full spectrum of debt management operations and public debt management capacity, combined with an understanding of the authorities’ priorities, the team makes recommendations for desired reforms and their outcomes.

2. Action plan. With the outcomes in mind, the team produces a project fiche, mapping out a set of actions and deliverables to make the desired improvements, along with timelines, responsibilities, and budgets that all parties agree on.

3. Implementation. The team delivers extensive support involving a specific set of activities described in the project fiche, against which progress is measured and tactical adjustments may be made, until the outcome is achieved.

The components are then delivered in a sequence and at a pace that can be sustainably absorbed by the country practitioners in terms of capacity and timing. The advice is based on international sound practices, for which the World Bank has established itself as a key leader. One of the key intervention strategies of the program is to provide demand-driven, tailored TA in order to ensure relevance of the services as well as ownership by the program countries. Unlike TA programs limited to short-term or one-off engagements, GDRM works like a membership program, where the country beneficiaries (or members) have continuous and just-in-time support throughout the membership duration. The mix between onsite and remote support ensures that beneficiaries can have a sounding board, corroborate, and confirm the direction the technical staff is following.
The right span of debt management services

The scope of the tailored country engagements spans all dimensions required to improve public debt, risk management and related functions for which the debt management office has responsibility.

The GDRM Program supports countries to improve capacity and institutions through activities ranging from broad governance arrangements to borrowing transactions at the operational level. Furthermore, to ensure sustainability and increase the impact, each partner country receives tailored technical assistance related to national priorities.

Potential areas covered by the program

The areas cover the full spectrum of debt management and debt-related activities, as established in the Guidelines for Public Debt Management.

- **Governance.** Focuses on the legal framework, institutional arrangements, and accountability and transparency mechanisms that shape and direct the operations of government debt and risk managers.

- **Policy coordination.** Focuses on establishing efficient coordination mechanisms among debt management and monetary policy, fiscal and budget planning processes, and cash management.

- **Capacity and management of internal operations.** Focuses on the skill mix of staff, internal management processes, procedures, and systems in a debt management office.

- **Debt management strategy and risk management.** Focuses on management of the public debt portfolio, based on the preferred portfolio composition, and management of the contingent liabilities and other fiscal risks where market-based mitigation measures may be possible (for example, commodity price risk).

- **Borrowing, related financing, and risk management activities.** Implementation of the debt management strategy by accessing international capital and derivatives markets, developing the domestic market for government securities, and executing the domestic borrowing program and implementation of strategies to manage contingent liabilities and other fiscal risks.
Practitioner-to-practitioner

World Bank Treasury: A pragmatic approach to implementation

Tapping the resources of the staff in charge of the entire World Bank Treasury, the GDRM Program team is able to provide practical, pragmatic advice to beneficiaries.

Debt Management Experience

The world’s largest source of development finance and expertise

- US$200 billion Debt Portfolio
- Issuing Debt Since 1947
- Triple-A Rating Since 1959
- High Frequency Issuer
  - 2.5 Times a day
  - >20 Currencies
  - ~US$50 billion Annual Volume

Asset Management Experience

- Managing US$150 billion in assets
- Provided to 67 Institutions across the world
  - central banks
  - pension fund
  - sovereign wealth funds
  - other multilateral organizations
- Outstanding execution services backed by market insight and global coverage
- The clients trust the World Bank Treasury to manage a portion of their assets on their behalf.
“I believe that it is very important that people who were part of the team are practitioners or have been practitioners. They have done this in the past. So, for them, it is not just theory, it is practice.”

Carlos Blanco, General Director of Public Debt and Treasury, Ministry of Economy and Finance, Peru

Lending Operations Experience

IBRD’s lending operations to >80 Countries

Tailored and market-based assistance

Innovative financial solutions for risk reduction

Asset and Liability Management Experience

70 years of experience in managing the balance sheet of the International Bank for Reconstruction and Development (IBRD)

Balance Sheet Structure

Key Balance Sheet Items (as of June 30, 2018 in billions US$)

- Loans Outstanding (a) US$1564
- Investments (b) US$973
- Other (c) US$146
- Borrowings US$1204
- Equity US$142
- Other (d) US$1163
- Assets US$403
- Liabilities & Equity US$403

For countries ready for the next phase of sound debt and risk management support.
The GDRM Program Team

Public debt management practitioners

Every debt management expert on the team worked in a public debt management office of a member country prior to joining the GDRM Program’s delivery team. As seasoned practitioners, speaking the same technical language as their country partners, they provide pragmatic solutions in advanced areas, such as issuance in international capital markets, use of derivatives, market-, credit-, and operational-risk management, and contingent liabilities management.

M. Coşkun Cangöz, Head of Debt and Risk Management at the World Bank Treasury: Twenty-five years of practitioner experience in different areas of public debt management, including the development of bond markets, risk management, internal operations, and cash management. Designed and led debt management reform and restructured cash management in Turkey. Previous practitioner position: Director General for Public Finance at the Undersecretariat of the Turkish Treasury.

Çiğdem Aslan, Lead Financial Officer and GDRM Program Manager from 2011 to 2017: Fifteen years of practitioner experience in public debt management, including design and implementation of government debt management strategies, governance, credit risk management regarding contingent liabilities, subnationals, and public-private partnerships. Previous practitioner position: Head of the Credit Risk Management Department at the Undersecretariat of the Turkish Treasury.

Rodrigo Cabral, Senior Financial Officer and current GDRM Program Manager: Eighteen years of practitioner experience in debt management, including risk management, strategy development, investor relations, international market access, and market development. Previous practitioner position: Deputy Head of the Public Debt Strategic Planning Department and Head of Risk Management at the Brazilian National Treasury.

Mats Filipsson, Senior Financial Officer: Twenty-five years of practitioner experience in public debt management, including institutional framework, strategy development, risk and portfolio management, and market development. Previous practitioner position: Chief Risk Officer at the Swedish National Debt Office.

Leandro Puccini Secunho, Senior Financial Officer: Fifteen years of practitioner experience in public debt management, including strategy development and implementation, domestic and international market issuances, dealership systems, and market development. Previous practitioner position: Head of Front Office and Deputy Head of Debt Management Office at the Brazilian National Treasury.

Antonio Velandia-Rubiano, Lead Financial Officer: More than twenty years of practitioner experience in public debt management, including government debt risk management, design and implementation of debt management strategies, governance, and credit risk management. Previous practitioner position: Vice President for International and Monetary Affairs at the Central Bank of Colombia.
Overview of the Program Implementation

Sustainable results

Between 2011 and 2017 in Phase I, the GDRM Program supported 11 middle-income countries—Azerbaijan, Colombia, Egypt, Ghana, Indonesia, North Macedonia, Peru, Serbia, South Africa, Tunisia, and Vietnam—with combined gross domestic product (GDP) of US$2.54 trillion and public debt of approximately US$1.18 trillion.

Overall, 32 outcomes were achieved.¹ To attain them, the program team produced 50 reports and knowledge instruments targeting specific technical knowledge gaps, conducted 11 onsite trainings and workshops, and provided support through numerous missions, as well as continuous remote assistance through video conferences, calls, email exchanges, and other means.² This has set the foundation for developing comprehensive national-level strategies, which have strengthened governments’ capacity to make informed decisions.

Each country progresses at its own pace, reflecting its needs, its national priorities, and the institutional environment that governs its public debt and risk management. Tailored technical assistance under the program has taken a variety of forms, from broad support for governance or debt management strategy design to detailed arrangements for borrowing activities at the operational level. The program spanned 39 project activities across the 11 beneficiaries in Phase I; their highlights of their implementation are summarized below.

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¹ See Annex 1: Consolidated Log Frame.
² As per the program’s semi-annual report for July–December 2017. Reports and knowledge instruments include technical assistance (TA) reports produced, decrees drafted, reform plans devised, models developed, and presentations delivered. Trainings include World Bank Treasury debt management workshops and webinars, as well as onsite trainings delivered by GDRM team members.
Increasing capacity in the debt management offices of the GDRM countries across the board

The technical teams were able to make use of increased capacity in the countries’ debt management offices to achieve such tangible results as submission of revised debt management legislation to parliaments (Azerbaijan, Colombia, North Macedonia, and Vietnam), debt management strategy development (all GDRM countries), improved transparency of public debt management (Colombia, Indonesia, Serbia, and South Africa), strengthening of the internal organization of the debt management offices (Colombia and Serbia), measurement and management of the foreign currency exposure from state-owned enterprises, or SOEs (Indonesia and Tunisia), enhanced coordination between debt and cash management (Colombia), enhanced systems for identifying risks to the government balance sheet (Indonesia), legal and operational framework design for derivatives transactions (Serbia), and support for the issuance government bonds in the international capital markets (Vietnam).

The benefit of the technical assistance offered by the GDRM Program extended beyond the increased capacity provided directly to its project beneficiaries, however. Officials in countries directly benefitting from that particular project involved in program activities were, in turn, able to contribute as consultants with in-depth knowledge and experience to a task force of debt and risk management serving other member countries. Recently, for example, South African National Treasury officials supported Ghana in a direct peer-to-peer learning experience in the contingent liability (CL) management workshop in Accra. The Ghanaian technical team then built a framework for managing the CL for state-owned enterprises and implemented it for the Volta River Authority (VRA), an SOE supporting not only Ghana, but West Africa.

“Experience gained by the debt management office through the [GDRM] Program can be shared with other debt management offices…. It also gives the staff different types of soft skills—communication, confidence—that help in presenting the outcomes of these projects to the senior management of the Treasury. We get to present the outcomes to the Minister of Finance, as well—work that goes to the Parliament—which helps with our communications and presentations to the rating agencies and investors. The team who did the work gains the ability and sufficient confidence… to explain to these agencies and investors why this work is done, how it helps to achieve debt sustainability, and why it is important and necessary to grow the economy through the work of these offices.”

Anthony Julies, Deputy Director-General, Asset and Liability Management, National Treasury of South Africa
Improving beneficiaries’ ability to design, publish and implement debt management strategies

The development of a debt management strategy is at the heart of debt management. As outlined in the Revised Guidelines for Public Debt Management (2014), public 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 at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk. It should also meet any other public debt management goals the government may have set, such as developing and maintaining an efficient market for government securities.

In all the GDRM countries, the program collaborated with the authorities to increase their capacity to achieve the desired level of risk at an acceptable cost. The program supported the countries in the whole process of strategy development by supporting the strengthening of the analytical underpinnings through cost-risk analysis, links with macroeconomic policy, and degree of domestic market development—as well as the approval process and/or publication of revised debt management strategies. Eight countries—Azerbaijan, Colombia, Indonesia, North Macedonia, Peru, Serbia, South Africa, and Vietnam—have revised, approved, and published their debt management strategies.

The debt management strategies and the means for disseminating them in program countries—two proxy indicators for increased debt management capacity—are beginning to compare well in quality with those of the developed countries. This increased capacity could be verified in three ways—first, by improving analytical underpinnings to debt management activities, as, for instance, in South Africa, where the GDRM Program built capacity for computing the next series of benchmarks, and in Indonesia, which developed its own strategy development tool; second, by producing better-quality strategy documents, as in Peru, where the latest document provides concrete benchmarks and directions for short-term reforms, covering both assets and liabilities; and, third, by increasing participation of staff in technical discussions, as in Serbia, whose debt management office was prepared for a robust discussion with key macroeconomic policymakers in the ministry of finance, like the treasury administration, macro team, state secretaries, and Serbian central bank.

“The lower [the] interest bill we pay for our debt obligations, the more money [we have] for social projects in the country and for the improvement of health protection and education and [to address other social needs].”

Branko Drčelić, Deputy Director of Public Debt Administration, Ministry of Finance, Serbia
Helping to develop domestic debt markets and improve international market activities

Developing domestic debt markets enhances the ability to implement cost- and risk-efficient strategies. Doing so may reduce vulnerability to external shocks through lower exposure to currency risk and external funding; reduce the rollover risk through longer maturities and a reliable domestic investor base; lengthen maturities in a cost-effective way through lower liquidity premiums; and provide flexibility in different fiscal cycles. Furthermore, development of the domestic debt market lays the foundation for overall development of the capital markets, which is essential to promoting efficient allocation of funds and economic growth.

On the other hand, improving a debt management office’s capacity to tap into international financial markets supports broadening of the investor base and increases the government’s flexibility in looking for the most advantageous cost-risk financing. Equipping government officials to interact at the same level with international investment banks and investors is fundamental to these efforts.

The program received significant demand from beneficiaries for borrowing and related financing and risk management activities, especially related to domestic market development. With the program’s assistance, member countries accomplished, for example, the following:

- Colombia revamped its borrowing plan with a new benchmark creation strategy and started issuing formal borrowing plans in 2013. Authorities are now in the process of implementing, with TA support, a securities lending facility and revising the primary dealers’ regulation.

- The Serbian debt management office prepared its draft annual borrowing plan for 2016 in line with the latest adopted strategy. Furthermore, significant staff capacity was built in Serbia, particularly on International Swaps and Derivatives Association Credit Support Annex (ISDA/CSA) documentation, the pricing of derivatives, and pre- and post-trade transaction processes.

- Peru made substantial progress on the implementation of its debt management strategy (for issuance of treasury bills and treasury bonds and primary dealer system improvements). As of the end of 2017, the bid-offer spreads of benchmark bonds in the secondary market showed a compressing trend, indicating securities were becoming more liquid, a sound indicator that the stage was being set for a reliable secondary market and a very tangible outcome of the program.

- Vietnamese authorities’ understanding of and capacity to undertake international market operations effectively increased as a result of the assistance of the GDRM Program. The program supported the debt management office in undertaking a successful liability management operation (switch tender offer) in the international market in November 2014.

“We implemented a lot of the measures we discussed and shared with the GDRM Program—things such as setting caps to our weekly auctions or trying to get feedback on a more frequent basis from our market players.”

Carlos Blanco, General Director of Public Debt and Treasury, Ministry of Economy and Finance, Peru
Enhancing contingent liability risk management

Sovereign guarantees (for loans and public-private partnership projects) and government on-lending can help public- and private-sector institutions become catalysts for investments and fulfill specific policy objectives. At the same time, however, they expose the government to credit risk or the materialization of such contingent liabilities as guarantees being called or payment defaults by on-lent beneficiaries. A number of other contingent liabilities, such as legal demands against the state, the financial sector, or natural disasters, may also impose significant risks for the sovereign.

As one of the most in-demand services of the GDRM Program, contingent liability risk management, five countries improved their capacities, methodologies, and principles to develop strategies for managing fiscal risks from contingent liabilities linked to government guarantees or other fiscal risks. The program helped the countries develop risk evaluation frameworks, such as credit scoring\(^3\) methodologies to assess the creditworthiness of guarantee beneficiaries or financial models\(^4\) to quantify the expected losses from these guarantees. Having first developed these models for South Africa in 2015–17, the program introduced them to other countries and fine-tuned them to cover sector- and institution-specific needs. Ghana, Indonesia, and South Africa improved their methodologies and principles to manage contingent liabilities from SOEs; Colombia established new units for SOEs and PPPs and improved processes and procedures; and Peru improved the management of the contingent liabilities arising from legal proceedings against the state.

“Legislative and policy frameworks are the cornerstone to ensure efficient management of contingent liabilities. It is important to have an institutional framework that ensures a thorough review of all transactions to advice principals accordingly, and the credit risk assessment methodology has to be robust [and] objective and consider sectorial peculiarities.”

Mkhulu Maseko, Head of Credit Risk Team, Asset and Liability Management Division, National Treasury of South Africa

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3 A credit score is an evaluation of the credit risk of an entity, aimed at assessing its ability to service debt. To arrive at an entity’s overall credit rating, key rating factors are identified, scored, and aggregated. Scoring factors are chosen based on their impact on an entity’s ability to service its financial liabilities. Risk factors commonly used include the operating environment, the regulatory environment, management quality, diversification, market power, and financial ratios, such as profitability, solvency, liquidity, and others. Risk factors are usually industry specific.

4 Financial models can be constructed to simulate a guarantee beneficiary’s finances and deduce the ability to service debt under alternative scenarios. A financial model essentially consists of (a) scenarios, (b) modeling of the entity’s finances (cash flows), and (c) outputs, such as the amount of cash available to service the debt.
Financial execution

The total budget for Phase I was US$4.39 million for the period 2011–17. Annex 2 details the amounts disbursed per country and per component. The program disbursed resources in accordance with the areas in which beneficiary countries demanded reform implementation and in line with the plans outlined in the project fiches. Tailored debt management strategy and risk management support accounted for half of the disbursement amount, followed by borrowing and related financing activities that mainly included support on domestic market development.

The burn rate during Phase I was steady and paced, achieving 100 percent by the end of 2017. As the program progressed to absorb more countries, initial stages of expenditure with earlier members decreased to accommodate the incoming ones. (See country-specific burn rate analysis in Country Highlights)
GDRM Program efficiency

The flexibility offered by GDRM, combined with its approach, form of delivery, and commitment from all involved parts, was fundamental to ensuring the program’s efficiency—in particular, as compared to other initiatives:

- **The ability to reallocate resources over time and across countries.** This ability allowed the countries to adjust to changes in priorities and differences in implementation capacities.

- **The reactivity of the GDRM team.** Ad hoc missions could be organized rapidly to adhere to each country’s own agenda.

- **The scope and means of delivery of the TA.** Once a country becomes a member of the program, it has access to continuous support, ranging from missions in the field, remote support from World Bank headquarters in Washington, DC, exchanges with peers, and so on.

- **The flexibility to form specific mission teams to address individual needs.** Although the mission teams consisted of one or two members for general debt management topics, the size of the teams varied to accommodate the expertise needed for specific missions. The program team was able to pull out the most relevant experts for each topic for efficient use of resources—for example, using the market-based experience of the World Bank Treasury, the broad experience in other units of the World Bank, and top international experts in specific fields, always under the leadership and supervision of the GDRM lead for that country.

- **The ability to provide a resident advisor, for the duration needed, to support implementation.** Colombia in particular benefitted from the support of a long-term resident advisor to achieve institutional change. Its success in improving macroeconomic policy by strengthening coordination among different government units—its treasury, macro policy directorate, budget directorate, and central bank—can be attributed to the program’s ability to commit to providing a long-term resident advisor.

- **The opportunity for beneficiary countries to participate in workshops.** A regional workshop (Workshop on Pricing Risks Related to State Credit Guarantees and On-Lending) was held in Istanbul, Turkey, and workshops on the global level (Government Debt Management Design and Implementation) are held annually in Vienna, Austria.
Complementarity with other technical assistance providers

The GDRM Program team is unique in the debt management technical assistance field, especially with respect to middle-income countries. As part of the World Bank Treasury, the program has access to the special technical expertise the Treasury gains through its daily operations in the markets and shares its know-how with the MICs, delivering to them the tailored implementation support they require.

Thus, GDRM’s activities complement those of other donor-funded TA efforts, such as the Debt Management Facility (DMF), which is primarily targeted to lower-income countries. While DMF delivers the standardized and broad-based support the LICs need, particularly through the Debt Management Performance Assessment (DeMPA) and the Medium-Term Debt Management Strategy (MTDS), the GDRM Program has pioneered the targeting of MICs with a tailored downstream approach more suited to the diversity of these countries in the debt management spectrum. In the few cases where countries are eligible for both kinds of technical assistance, GDRM and DMF teams have coordinated to bring the best possible sequencing of activities to the client, as observed in Azerbaijan, Ghana, and Vietnam.

The program’s complementarity with other technical assistance providers is also demonstrated through the World Bank Treasury’s longstanding collaboration with the other World Bank Group teams providing debt management technical assistance: Macroeconomic, Trade, and Investment Global Practice; Finance, Competitiveness, and Innovation; and Governance Global Practice. The collaboration extends to other debt management TA providers, as well, such as the International Monetary Fund (IMF), and other multilateral and bilateral agencies, such as the United Nations Conference on Trade and Development (UNCTAD) and The Commonwealth Public Debt Management Programme. The collaboration includes joint delivery of technical assistance missions, capacity building, and knowledge development, including the development and revision of the MTDS framework, DeMPA, and subnational DeMPA.
Country Highlights

Membership starting year

- 2011: Colombia, Serbia
- 2012: Indonesia, Peru, South Africa
- 2014: Azerbaijan, Tunisia, Vietnam
- 2015: Egypt, Ghana
- 2016: North Macedonia

Managing Public Debt in Middle-Income Countries
After the global financial crises, the Colombian government embarked on a series of reforms aimed at reducing the vulnerability of the government's balance sheet to financial shocks. In 2011, the medium-term debt management strategy (DMS) had not been updated in over a decade. The Congress approved the National Development Plan: 2011–2014, assigning the design and implementation of a DMS to the ministry of finance. As a result, there was a need for a new organizational setup, without overlap of functions among different institutions of the government. As a separate concern, although Colombia updated its legislative framework to accommodate the contingent liability issue better and to improve the risk management of government guarantees, it needed to fine tune the risk assessment.

The challenge was to strengthen public debt and cash management, achieve more solid legislation for debt management, improve contingent liability management, and help the ministry of finance implement specific reforms in public debt management, in line with international sound practices.

Results

Colombia has benefited from the GDRM Program of 2011–16 with remarkable results. Focusing on five main pillars of the debt management spectrum, Colombia and the GDRM Program team designed and implemented in-depth reforms in five areas:

1. Governance. (a) improved management of contingent liabilities, through an enhanced central government policy on the issuance of guarantees; (b) further formalization of the institutional framework of the debt management strategy (DMS); and (c) discussions and proposals to improve the role in borrowing of nonfinancial public-sector entities

2. Policy coordination. (a) improved coordination between the ministry of finance and the central bank, as evidenced by the ministry of finance’s resuming issuance of treasury bills and the central bank’s discontinuing of issuance of competing securities; (b) strengthened coordination among different departments of the ministry of finance, leading to better flow of information and improvement in the inputs to the cost-at-risk model; and (c) enhanced coordination between debt and cash management, through the establishment of an investment policy for the excess of liquidity in U.S. dollars and the development of a manual of procedures for treasury operations

3. Capacity building and management of internal operations. (a) reorganization of the General Directorate of Public Credit and National Treasury (DGCPTN) with the creation of the General Directorate of State Holdings outside the DGCPTN and the Deputy Directorate of Public-Private Partnerships (PPPs); (b) revision of the mission, vision, and objectives of the General Directorate of Public Credit and the National Treasury, as well as creation of a proposal for a new business model; and (c) development of the market risk manual and the book on the formulation of the debt management strategy

4. Debt management strategy and risk management. (a) medium-term debt management strategy proposed by the Risk Unit and approved and published; (b) annual debt report published on the ministry website and a new and more comprehensive report drafted; (c) a quarterly report drafted on compliance with the DMS; (d) cost-at-risk model developed and documented
5. **Borrowing, related financing, and risk management activities for implementation of debt management strategy.** (a) diversification of the investor base, which increases resilience against shocks and fosters market development; (b) reduction of yield curve distortions, providing the market with a better benchmark that helps reduce borrowing costs and promote the private market; and (c) improvement in liquidity and the debt portfolio profile using liability management operations.

**Next steps in GDRM II**

1. Improving the functioning of the domestic debt market
2. Revising and documenting the strategy for managing the government debt
3. Revising the methodologies for estimating demand risk in ongoing PPP projects
4. Revising the strategy for liquidity management by the Treasury

![COLOMBIA GDRM Program Burn Rate (2012-17)](chart)

Scan to view the GDRM Program Video for Colombia
Impact Story

Colombia

Improving the Management of Contingent Liabilities

Project challenge
Finding a quantitative risk model to determine the right fees, set aside a contingency fund, and define the right collateral from public entities that want government guarantees.

Context
For a state-owned enterprise to survive and thrive, it needs to raise stable, low-cost financing. The central government can play an essential role in making this happen by issuing guarantees. But, as with any financial underwriting, when a government issues a guarantee for a loan to one of its agencies, it assumes risk as the co-signer, as the agency may not be able to meet its financial obligation and pay the loan. In Colombia, an economic recession in the late 1990s triggered several government guarantees, leading to cumulative payments of up to 2 percent of gross domestic product by 2004. The materialization of these contingent liabilities generated a financial shock to an economy already under pressure from the recession.

Following the crisis, Colombia updated its legislative framework to improve the risk management of government guarantees, and, in 2011, its government partnered with the Government Debt and Risk Management (GDRM) Program to fine-tune risk assessment and the management of contingent liabilities.

Approach
The GDRM Program supported the Colombian ministry of finance in two primary ways: first, by supplying a technical expert who served as a consultant onsite and provided direct support for research and development of the new methodology; and, second, by fostering peer-to-peer dialogue with other countries at each stage of the risk management process.
The team of practitioners included Sweden, a developed country with years of experience in issuing guarantees; Turkey, an emerging country with a solid framework for issuing guarantees and managing on-lending practices; South Africa, whose experience in managing government guarantees most closely matched Colombia’s; and Indonesia, a nation just starting down the path of government guarantee risk management.

The work entailed a series of virtual dialogues via WebEx, comprising five half-day sessions over two months, during which practitioners from the different countries asked questions specific to their needs and benefited from the shared expertise of the others. Later, the group had the unique opportunity to meet in person and present ideas at a fiscal conference dedicated to their issues, facilitated by the World Bank Treasury in Istanbul.

Results

The partnership between Colombia and the World Bank Treasury GDRM Program resulted in better risk management for issuing guarantees that support public borrowing while protecting the government’s credit rating. Understanding and proactively managing these risks helped to guard against a recurrence of the shocks of early 2000s. Specific outcomes included the following:

Refined methodology: Colombia’s Public Credit and Treasury Directorate—the equivalent of a debt management office—improved its methodology for determining the appropriate fees and collateral required for the government to issue guarantees; these fees are set aside in a contingency fund that belongs to the central government.

Revised legal framework: The national comptroller requested that the ministry of finance produce a written policy on government guarantees for nonfinancial public sector borrowing. In 2015, the Public Credit and Treasury Directorate approved a ministerial resolution on government guarantees.

Changes implemented: The Public Credit and Treasury Directorate applied the new methodology to external loans from multilateral organizations obtained by three public agencies: Findeter, Icetex, and Bancoldex. All three loans were covered by central government guarantees.

“Colombia and the GDRM Program’s partnership resulted in better risk management while issuing guarantees. This will help make the economy more resilient to financial shocks.”

Rodrigo Cabral, Senior Financial Officer, The World Bank Treasury
Serbia

Member since 2011

Serbia has been hit hard in the past eight years. First the global economic crisis of 2008 and then the damage caused by floods and landslides in 2014 caused shocks to the fledgling financial system. The Serbian Ministry of Finance was under pressure to fund government operations through extensive borrowing and reducing borrowing costs to create space in the public budget. But having recently graduated from International Development Association (IDA) loans, the concessional sources of funding were scarce. One of the first countries to join the GDRM Program, Serbia has significantly benefitted from the knowledge transfer and support provided by the program.

The challenge for Serbia was to build a robust debt management organization with comprehensive debt and risk management skills and sound practices. Specifically, it needed to improve its debt management strategy and risk management, build the internal organization and staff capacity that would allow efficiently managing public debt, and contain operational risk. In addition, it needed to develop the domestic market to become a more reliable and sustainable source of financing.

Results

1. **Capacity and management of internal operations.** Serbia significantly improved the organizational framework of the debt management office, integrating all the borrowing functions under the Public Debt Administration (PDA). Subsequently, the country issued legislation to back up the new borrowing structure. The organizational restructuring established some separation of functions, leading to higher proficiency in the debt management operation and reduction of operational risks. The PDA also achieved greater levels of transparency and accountability, sharing debt management information with investors on a regular basis.

2. **Debt management strategy and risk management.** Serbia increased its capacity to manage the cost and risk tradeoffs of the public debt portfolio. It built capacity in scenario analysis models where the impacts of economic shocks in a number of alternative debt management strategies could be assessed, supporting the government in choosing the desired level of cost and risk. The strategy has been translated into clear benchmarks (risk indicators), and the team developed the capacity for sound discussions with key macroeconomic policymakers. The PDA team, with support from GDRM, developed annual borrowing plans in line with the debt management strategy, translating the medium-term guidelines into short-term funding goals.

3. **Borrowing and related financing and risk management activities.** Serbia made progress in building a sound derivatives framework. The support addressed specific elements of undertaking derivatives transactions and how these might be aligned with common market practices. These included (a) the preparation of legal documentation (by-laws and negotiations of International Swaps and Derivatives Association [ISDA] master agreements and credit support annexes); (b) establishing procedures around credit- and market-risk management, including, as recommended by the mission, using collaterals; and (c) managing operational activities (preparing a rulebook for transaction execution, internal organization, and controls). The ability to use derivatives can support countries in separating their funding strategies from their risk management frameworks and allow for potential cost savings through access to other markets.
Next steps in GDRM II

1. Supporting the implementation of the derivatives framework; drafting internal rules; training in risk assessment, pricing, execution, and so on.

2. Supporting the implementation of a primary dealer (PD) system; improving the function of the domestic government securities market by setting up a PD system; supporting the PDA in drafting needed agreements, rules, and regulations, as well as in setting up needed supervisory and risk management frameworks in collaboration with the International Monetary Fund (IMF).

3. Supporting the new in-house debt recording system; supporting the development of enhancements of the recently introduced new debt recording system in, for example, producing reports and risk indicators.

**SERBIA**

**GDRM PROGRAM BURN RATE (2012-17)**

**CUMULATIVE AMOUNT SPENT IN %**

- 35% 2012
- 46% 2013
- 68% 2014
- 79% 2015
- 99% 2016
- 100% 2017

Scannable QR Code to view the GDRM Program Video for Serbia
Project challenge

Building a best-in-class, market-competitive public debt management operation, despite a fiscal environment of austerity measures

Context

When Branko Drćelić was appointed to head the Serbian Public Debt Administration (PDA) in 2012, he had his work cut out for him. He was determined to build a best-in-class, market-competitive public debt management operation. “Public debt had reached over 75 percent of GDP,” he recalled. “We needed structural reforms.”

Achieving the ideal organizational structure with separate offices within the PDA was a difficult task. Spillover effects from the international financial crisis forced Serbia to take severe austerity measures. Civil service salaries were reduced by 10 percent and all public hiring put on hold. Serbia joined the GDRM Program to receive technical assistance to build institutional capacity for debt management.

The initial mission revealed the need for reorganizing the internal structure and formally assessing PDA staff capacity. The GDRM Program team brought in an international consultant to help. The team started by running a diagnostic assessment, not only to determine the discrepancies between the current model and sound practice, but to assess the role and capacity of PDA staff members.

Approach

In-depth interviews of each staff member revealed that separating the units based on prototype organizational charts would not work, due to the inadequacy of resources and the ambition to create a structure in line with best practices in a small debt management office, like the PDA. Therefore, in actuality, the daily operations of each staff member did not comply with that separation of functions.
The team further evaluated each PDA staff member’s capacity, commitment level, and area of interest against the functional job description. The findings were that Serbia’s PDA was made up of a hardworking, young, and motivated staff. They were ready to learn and fill the ranks of a reorganized PDA, in line with sound practice. The World Bank team, joining efforts with the head of the PDA, crafted a new, ideal organizational structure with sound practice functionalities, tailor-made for Serbia. The team also proposed two new committees: a debt management committee and a domestic market development committee. The aim was to strengthen the PDA’s coordination with the market and other stakeholders.

The team brought the Project Finance Group under the PDA umbrella, consolidating all public debt operations and building capacity. Finally, World Bank Treasury debt managers trained PDA staff on the best practices of running a debt management operation. They organized multiple missions to Serbia and invited different countries to share their experiences on operational practices and topical subjects. All members of the Serbian PDA were invited to World Bank technical workshops on designing and implementing debt management strategies.

Results

Today all the borrowing functions are integrated under the PDA. Serbia issued legislation to support the new borrowing structure. The organizational restructuring established some separation of functions, leading to higher proficiency in the debt management operation. The PDA achieved transparency and accountability, sharing information with investors on a regular basis. Although the reorganization is not complete yet, whenever an opportunity to reform the PDA arises, the World Bank team’s original recommendations provide a useful roadmap.

“The economic environment in Serbia is really progressing.... In the last two years, [we have carried out] good fiscal consolidation and structural reforms.”

Branko Drčelić, Deputy Director of Public Debt Administration, Ministry of Finance, Serbia
Indonesia

Member since 2012

The largest economy in Southeast Asia, Indonesia—a diverse archipelago nation of more than three hundred ethnic groups—has charted impressive economic growth since overcoming the Asian financial crisis of the late 1990s and the subsequent rapid increase in the domestic public debt level. The crisis has led to the establishment of a strong debt management office.

The challenge for the government was further strengthening risk management capacity—specifically, focusing on cost-risk analysis as an input to strategy development and reporting, managing risks related to contingent liabilities, and broadening the risk management scope to include asset and liability management.

Results

1. Debt management strategy and risk management. (a) A Matlab-based tool that combines stochastic and deterministic analysis was developed to support strategy design. (b) The Debt Management Strategy 2015–18 has been updated and approved, and a borrowing plan has been published. Regular updates of the debt management strategy have followed.

2. Borrowing and related financing and risk management activities. (a) An internal credit-scoring methodology to evaluate risk related to guarantees has been introduced. Reporting on risks from guarantees to water systems included results from internal credit-scoring methodology for the first time in 2015. A ministerial regulation on guarantee risk management (including guarantee approval) has been approved by the Minister of Finance. (b) A detailed analysis of the foreign currency positions of the general government was undertaken, and a framework for monitoring introduced, as part of the sovereign asset and liability management (SALM) work. (c) The ministry of finance decided to establish a subdirectorate responsible for asset liability management and signed a memorandum of understanding with the central bank (Bank of Indonesia) to cooperate on the SALM framework.

Next steps in GDRM II

1. Continuing the implementation work on SALM
2. Improving investor relations practices, including potential use of big data analysis for retail investors
3. Further strengthening risk management methodologies, in particular, interest rate and foreign exchange rate models, as well as the strategy development module
4. Strengthening the links between the debt management strategy and borrowing operations through the annual borrowing plan; developing capacity to undertake liability management operations
INDONESIA
GDRM PROGRAM BURN RATE (2012–17)
CUMULATIVE AMOUNT SPENT IN %
Project challenge
Developing a risk-sharing model so SOEs can benefit from government-backed lower borrowing costs without exposing the national budget to undue fiscal burden

Context
With over 260 million people spread across 17,000 islands, a modern and efficient infrastructure is vital for connecting its people to Indonesian and global markets. Improving Indonesian infrastructure is the top policy priority for the Indonesian government, per the 2015–20 medium-term development plan.

With over 24 state-owned enterprises (SOEs) across different sectors, Indonesia is well positioned to fund individual infrastructure projects, since each SOE can potentially borrow from the financial markets.

But borrowing can be costly, especially when an SOE issues a bond without the backing of a government guarantee. The challenge for the Indonesian Ministry of Finance was to develop a risk-sharing model so SOEs could benefit from government-backed lower borrowing costs without exposing the national budget to undue fiscal burden. Specifically, it needed to find a robust way of measuring and managing the risks that could materialize should an SOE default on its debt before issuing a guarantee agreement.

Approach
The Indonesian Ministry of Finance, based on its longstanding relationship with the World Bank, partnered with the Government Debt and Risk Management (GDMR) Program of the World Bank Treasury to build capacity to assess and manage the risks of providing government guarantees.
The first step in the partnership was bringing together practitioners from around the world in a forum where they could learn about the approaches used in other countries. The GDRM team conducted in-person, peer-to-peer workshops, hosted a seminar, and led online sessions. Countries like Colombia, South Africa, and Sweden also shared their experiences with Indonesia in these workshops. The Indonesian debt management office evaluated the lessons learned from these other country examples and compared them against the characteristics and limitations of their debt portfolio. Then they developed a new methodology specific to Indonesia with the support of the World Bank.

The new methodology, called the Indonesian Internal Credit Rating (ICR) scorecard system, is akin to scorecards used by international credit rating agencies, like Moody’s or Standard & Poor’s. The basic premise is to assess each entity on several factors, such as management quality, financial performance, business environment, and capital expenditure plan, and produce a single score. The score determines the credit risk of a given entity’s not paying back the borrowed amount in full and on time.

How will the scorecard help Indonesia? The primary benefits of having a sound methodology to compare different projects across multiple sectors before underwriting a government guarantee are transparency and objectivity. The decision on whether or not to issue a guarantee now takes into account an analysis of the creditworthiness of the potential guarantee beneficiary.

Results

Over a four-year period, leveraging World Bank expertise and resources, the GDRM team transferred the necessary know-how to help the Indonesian debt management office develop scorecards for the electricity and clean water sectors. In 2016, the Minister of Finance signed a regulation specifying the actions when a guarantee claim is triggered or when a guarantee is requested by an SOE. As a last step in the implementation, the debt management office is now taking the scorecard and rolling it out to other sectors, like toll roads, railways, bridges, ports, and other infrastructure sectors. This is just one more step in making the Indonesian economy more resilient to financial shocks.
Between 2002 and 2013, Peru was one of the fastest growing countries in Latin America, with an average GDP growth rate of 6.1 percent annually. Peru was affected less than other countries in the region by declines in international commodity prices after that period and continued to grow, albeit at a slower pace (3.1 percent). This was partly due to prudent fiscal policy management by the government. After the global financial crisis, however, one area of concern for the Peruvian government was improving economic resilience to external shocks. This included seeking advice on economic structural reforms, including advice on strengthening the capacity to design debt management strategies and improving the functioning of the domestic bond market. For the latter it was critical to revise the debt issuance policy and improve the coordination between the Ministry of Economy and Finance and the Central Bank of Peru.

Results

1. **Debt management strategy and risk management.** Some of the recommendations on the medium-term strategy were implemented in the document for 2016–19. Later on, the strategy issued for 2018–21 embraced more broadly the program’s advice in terms of form and substance. The latest strategy is simpler and has clearer directions focused on the variables the debt manager can control. It will help make the economy more resilient to financial shocks and give domestic and foreign investors clearer guidance on the plans of the issuer, which should translate to lower funding costs, opening fiscal space for other government expenditures.

2. **Borrowing, related financing, and risk management activities.** Implementation of debt management strategy and management of fiscal risks resulted in improved secondary market liquidity. Assessment of the domestic borrowing practices was completed. The authorities took account of several recommendations for issuance of T-bills and T-bonds and for the rules of the primary dealer system. Thanks to the substantial increase in the size of benchmark bonds, the bid-offer spreads compressed significantly, indicating that securities are more liquid and the secondary market is gaining in depth. There is still room for further improvement by continuing to reduce the number of securities offered, determining more explicitly the “on-the-run” securities and sizes of benchmark bonds, and adopting a regular program for liability management operations. Nonetheless, there is no question that Peru is on the right track for deepening the domestic debt market.

Next steps in GDRM II

1. Improving efficiency in managing the government’s assets and liabilities by publishing an asset and liability strategy, updating it annually, defining a prudential cash buffer, and increasing the return on foreign exchange (FX) assets

2. Increasing the capacity to borrow in the domestic market by improving the issuance policy, revisiting the coordination with the central bank, and setting up the preconditions for an exchange-traded fund (ETF) of government securities (which is also being supported by SECO and implemented by the World Bank Group’s Finance, Competitiveness & Innovation Global Practice
3. Enhancing the investor relations functions of the debt management office to improve transparency and promote dialogue with stakeholders (investors, credit rating agencies, media, the public, and so on)

4. Continuing to improve the management of the contingent liabilities arising from legal proceedings against the state and public-private partnerships (PPPs)
Project challenge

Improving the implementation of the debt management strategy

Context

Peru’s sound macroeconomic and debt management allowed its credit rating to improve, and its sovereign bonds are now rated investment grade (Moody’s, A3, and S&P, BBB+, as of 2018). Government securities are, thus, considered safe investment options for both residents and nonresidents. Consistent sound stewardship of the government’s debt and risk management operations remains key for building resiliency to financial shocks.

After the global financial crisis, one area of concern for the Peruvian government was improving government’s debt and risk management operations. As a long-term partner of the World Bank, Peru sought advice on economic structural reforms and joined forces with the World Bank Treasury’s GDRM Program. The program team worked with the Peruvian Ministry of Finance and Economy on improving the debt management strategy—a rolling medium-term plan that outlines the preferred composition of the government debt portfolio. Peru’s debt management office was already publishing a three-year rolling-strategy document but required an assessment of the quality of the strategy and expertise to improve some areas.

Approach

The GDRM Program team started its assessment of the 2014–17 debt management strategy by mobilizing world-class peer reviewers, including the first director general of the United Kingdom’s debt management office. The review pointed to two key areas for improvement: the policy signals on the foreign currency versus domestic currency mixture were ambiguous and could be better supported by a sound analysis of costs and risks, and there was a need to provide more clarity and transparency in the domestic issuance of government securities.
to investors. This is because when investors have reliable information on future government issuances, there is a more competitive process and lower interest rates, which ultimately lower the cost of funding for the taxpayer.

One of the key tasks of the GDRM team was to run cost-risk tradeoff simulations and train Peru’s debt management office’s middle office to run the simulations themselves to ensure sustainability once the GDRM team left. Through interviews with domestic investors, such as pension funds and banks, the GDRM team uncovered problems related to the type of auctions, the auction calendar, and the number and size of benchmarks that impaired the functioning of the primary and secondary markets. Today, the preparation and quality of the debt management strategy document are significantly improved.

**Results**

In 2016, the debt management office issued a new strategy document for 2016-19, which is much simpler and has clearer directions than the previous one; it is now 43 pages, down from 149. Today, with the support of the GDRM Program, the Peruvian debt management office has the sound capability to design a medium-term debt management strategy. The new strategy document will help make the economy more resilient to financial shocks and give investors, such as private pension funds, clearer guidance for improving pension investment options for the benefit of citizens.

“We have changed our strategy document into a much more concise one, placing emphasis on the forward-looking aspect of the strategy. We expect with this to better inform markets and citizens, making it much more transparent and effective.”

Rossana Polastri, Vice Minister of Finance at the Ministry of Economy and Finance, Peru
South Africa

Member since 2012

South Africa not only has the dominant economy in Africa, it also has the most developed domestic debt market in the region. Of the total government debt (around 30 percent of GDP), 85 percent has been borrowed in the domestic market, denominated in rand. The South African treasury has a passion to meet the highest standard in its debt management operations and to share its expertise with both its neighboring countries and other developing countries.

Still, South Africa has faced several challenges: (a) although the country had a debt management strategy in place developed by a third party, the treasury wanted to develop its own capacity to design a strategy based on sound cost-risk analysis and revise the funding benchmarks; (b) the government needed to improve the transparency of the secondary market and the access rules for all market participants; and (c) in addition, the country wanted to refine its methodologies for management of the risks stemming from contingent liabilities, in line with international sound practices.

Results

1. Debt management strategy and risk management. (a) South Africa revised the funding benchmarks in the national budget for 2014–15 based on its desired level of risk at an acceptable cost. These benchmarks are in line with international practice, allowing the National Treasury to increase its credibility and accountability. The GDRM Program built capacity for developing the cost-risk analysis and deriving the new benchmarks. South Africa is in a better position to make well-informed decisions in its effort to absorb fiscal shocks, thanks to improved risk management of the country’s public debt portfolio. (b) South Africa improved the management of its explicit contingent liabilities by improved quantification methodologies and better risk management tools. The country has made significant strides in moving from a more qualitative monitoring system toward a more analytical and sector-specific system for assessing and managing its government’s contingent liabilities.

2. Borrowing, related financing, and risk management activities. The program paved the way for the establishment of an electronic trading platform (ETP) by proposing a more transparent market model, with the objective of improving the secondary market trading. By providing a world-class operating trading environment, the ETP should help South Africa make significant strides in further developing its capital markets.

3. Led South-to-South dialogue. The program helped the South African National Treasury promote South-to-South dialogue among the MICs. South African National Treasury officials supported Ghana in a direct peer-to-peer learning experience in the contingent liability (CL) management workshop in Accra.
Next steps in GDRM II

1. Evaluating risks in PPPs based on the development of internal credit scores for the special purpose vehicle companies; associating these scores with probabilities of default; designing a method to compute the risk exposure from the PPP projects and the expected recovery amount in case of default

2. Revising the debt management strategy; building internal capacity in assessing cost and risk associated with the debt portfolio, including quantitative as well as qualitative analysis

3. Improving the retail debt market; conducting an overview of the retail market program and listing the retail bonds on the exchange

4. Assessing the institutional framework; strengthening the institutional setup to be in line with other advanced debt management offices

5. Assessing investor relation activities; conducting an overview of investor relation activities, with focus on the website
Project challenge

Developing improved benchmarks for managing South Africa’s risk exposure and finding a more suitable modeling tool to analyze the cost and risk factors in its debt portfolio.

Context

After the global economic crisis of 2008, when the gross domestic products of advanced economies fell by 3.4 percent, emerging market economies became a viable outlet for investors, who flooded these markets with capital. But in the last three years there has been growing volatility in emerging market countries, with vast outflows to other currencies and investment options. This instability has also affected the South African economy.

South Africa is a fiscally conservative, upper-middle-income country, borrowing 90 percent of its public debt from its well-developed domestic market, in local currency; however, more than one-third of domestic market debt actually comes from foreign investors, exposing South Africa to financial risks and capital fluctuations.

To mitigate its financial risks, South Africa partnered with the World Bank’s Government Debt and Risk Management (GDRM) program. In 2012 they started collaborating to develop better benchmarks for managing South Africa’s risk exposure and find a more suitable modeling tool to analyze the cost and risk factors in its debt portfolio.

Approach

By defining and following strategic benchmarks, the government can clarify cost-risk preferences and promote transparency, and it can systematize the analysis process and add structure to the operational side of debt management. Although South Africa had three published risk exposure management benchmarks, those needed further clarity. Inflation-linked bonds (ILBs) needed to be distinguished from floating debt. South Africa also needed separate benchmarks for different risk exposures, including inflation and refinancing risks.
In 2014, the South African debt management office, with the GDRM team, used the right model to augment and revise the previous benchmarks to make the risk exposure more resilient to financial shocks. Separate benchmarks linked to ranges were created for (a) the share of the treasury bills, (b) the share of fixed-rate bonds and ILBs, and (c) nominal and inflation-linked debt for average time to maturity. The teams developed a more suitable modeling tool for running different debt-risk exposure scenarios to arrive at the right numbers. The challenge was finding exactly the right modeling software for South Africa.

South African authorities and the GDRM advisors decided to go with a tailor-made approach that would build a model just right for South Africa’s debt management needs. The GDRM Program brought in a consultant from the Danish debt management office to explain the theoretical framework behind the cost and risk analyses. The joint team was able to develop a tailor-made tool for South Africa. The tool is a powerful, medium-term model to conduct “what if” scenarios to analyze the cost and risk tradeoffs of alternative strategies under shock scenarios. The South African authorities has used the output of the model to select the new set of benchmarks since 2014.

Results

During the last three years, South Africa has stayed within its benchmark ranges, despite the volatility. The benchmarks are in line with international sound practice, allowing increased credibility and accountability for the South African National Treasury. The partnership continues, and the GDRM team is there for South Africa as a sounding board and for any questions. The new benchmarks enable better management of debt portfolio risks, creating a better shock absorber.

“Just after the crises of 2008–9, the size of our portfolio of debt increased, and also we had new instruments that we introduced to our debt portfolio and needed to have a review of the benchmarks. The World Bank has expertise. It is not just the expertise within the bank itself [that is valuable] but also the relationships that the bank has through member states and the debt offices around the world.”

Anthony Julies, Deputy Director-General, Asset and Liability Management, National Treasury of South Africa
Azerbaijan, with a population of just under 10 million, was one of the countries most affected by the global oil price decline after 2014. The reduction of oil revenue caused a domino effect in the economy, leading to the devaluation of the local currency and subsequent fiscal adjustment, together with ongoing banking sector distress.

The Azerbaijan government needed structural reforms to improve the business environment, reduce the state’s economic footprint, and advance the rule of law. Against this backdrop, Azerbaijan set out a number of strategic roadmaps for sectors of the economy. As a part of these structural reforms, Azerbaijan needed support in developing a public finance strategy for the medium term.

**Results**

1. **Debt management strategy and risk management.** The ministry of finance, with support from the GDRM Program and the World Bank’s Macroeconomics and Fiscal Management team, developed a public finance strategy for the medium term, providing policy guidance for sustainable and sound public debt management for all stakeholders.

2. **Strengthening the legal framework for debt management.** The World Bank assisted the authorities in drafting a public debt management law in line with sound practice. They also increased awareness among authorities and delivered trainings about debt and risk management. The collaborative approach and the presentations on country practices helped develop the capacity of the legal and debt management teams in learning about the key principles and drafting primary legislation.

**Next steps in GDRM II**

1. Further supporting the government on the public finance strategy for the medium term

2. Revising the draft debt management law and continuing to support the authorities in order to improve debt and risk management legislation that will support modern debt management

3. Revising the internal organization of the debt management office, staff capacity, and skill set to manage public debt and related risks efficiently and sustainably

4. Developing the domestic bond market in line with the government’s strategic objective of building a yield curve

5. Supporting the government for more efficient policy coordination among debt management, cash management, and monetary policy, with the objective of attaining a holistic understanding of the fiscal risks of the government
AZERBAIJAN
GDRM PROGRAM BURN RATE (2012–17)
CUMULATIVE AMOUNT SPENT IN %

<table>
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© Allison Kwesell | The World Bank
Project challenge

Supporting Azerbaijan in developing a public finance strategy, consisting of debt management, macroeconomic, and fiscal framework and debt sustainability analysis, for the medium term.

Context

Over the last two decades, oil has been the defining factor for Azerbaijan, not only for its economic growth, but for its development. During the first 10 years of the millennium, Azerbaijan experienced an explosion in wealth. As oil GDP, comprising half of the sectoral share of the economy, grew by an average of 21 percent per year, fueled by a global upsurge in oil prices and increased production, total GDP grew more than tenfold, from US$6 billion to US$66 billion. This was accompanied by a rapid decline in poverty, from 49.6 percent to 7.6 percent, an increase in real wages, and middle-class growth.

However, after the decline in global oil prices in 2014, nearly by half, the reduction of oil revenue caused a domino effect in the economy. The double devaluation of the Azerbaijani manat in 2015 erased half of the manat’s value against the U.S. dollar, and subsequent fiscal adjustment, together with ongoing distress in the banking sector, led to a 3.8 percent contraction in GDP in 2016. This was accompanied by the rising of traditionally low levels of government debt (from 8.5 percent in 2014 to 22 percent in early 2018), primarily due to the devaluation of the manat.
Approach

Under very tight deadlines, the Azerbaijan Ministry of Finance started working on a roadmap that would reform the economy, which had been impaired by a number of negative shocks, such as lower oil prices, weak regional growth, currency devaluations among Azerbaijan’s main trading partners, and a contraction in hydrocarbon production. The GDRM Program worked on the debt management portion of the issue. The Macroeconomics, Trade, and Investment Global Practice advised on macroeconomic and fiscal framework and debt sustainability analysis.

The Ministry of Finance and World Bank Group joint teams had a thorough review of the macro-fiscal and borrowing conditions and focused on three interlinked issues: (i) the need for sustainable financing: while the level of direct debt was expected to remain modest, the sharp increase in the issuance of public guarantees would lead the public and publicly guaranteed (PPG) debt trajectory to be higher in the next five years; (ii) fiscal rules: Azerbaijan was exploring fiscal rules involving the use of the country’s oil assets, based on recommendations from the IMF; and (iii) the country was facing high exchange-rate and interest-rate risks, due to 98 percent of the central government debt being in foreign currency and two-thirds in variable interest rates.

The teams tested different borrowing strategies to cover the 2017–21 period under baseline and different shock scenarios, analyzing debt sustainability and the composition of the public debt portfolio, weighing it against the national risk tolerance. They also recommended several measures to better enable the debt management operations: revising and submitting the Debt Management Law to parliament; improving the reporting system; improving the coordination among the Ministry of Finance, the central bank, and the Sovereign Oil Fund; developing a credit risk assessment capacity in the ministry; improving the IT (information technology) system; and, eventually, looking at developing a domestic debt market.

Results

Azerbaijan prepared for the first time a “Medium to long term debt management strategy for Azerbaijan Republic’s public debt” to further strengthen the country’s financial sustainability, meet the financial needs of the government by reducing costs but also managing risks and upgrade oversight mechanisms.
Years after the December 2010 Arab Revolution, Tunisia continues to face a tough economic outlook. Since then, the country has been facing limited GDP growth, averaging 2.4 between 2012 and 2017. This landscape is accompanied by high unemployment and accelerated inflation close to 8 percent—the highest level in a generation. This has led, in turn, to a sustained fall in the value of the dinar—63 percent between January 2012 and December 2017—and elevated fiscal and external imbalances. The government has needed to implement structural reforms; however, the social tensions emerging from the economic and political environment have continued to reinforce the barriers to reform and feed the vicious circle, imposing a heavy burden on economic activity.

At the same time, it has been essential for the government to ensure the necessary funding and to meet all its outstanding obligations in a timely manner. Debt and cash management practices are vital to allow the government to remain functional. It must ensure that debt costs are reduced to the extent possible while maintaining control over risk and managing cash efficiently. The validation of the government borrowing strategy to determine the amount that can be safely financed in dinars, more active cash management, and the revision of the issuance program could all contribute to the better functioning of the domestic debt and financial markets. The challenge is doing all these against a backdrop of a poorly performing economy.

Results

1. **Debt management strategy and risk management.** (a) Tunisia produced a revised version of the debt management strategy, including a significant revision of the macroeconomic fundamentals. It was the first time that Tunisia prepared a proper debt strategy document in line with international sound practice. (b) The GDRM team built capacity for the Tunisian debt management office to compute and manage the foreign currency exposure to the debt of financial entities and state-owned enterprises (SOEs), contributing to a broader view of the risk of implicit contingent liabilities.

2. **Capacity and management of internal operations.** The GDRM team built capacity within the ministry of finance for revised alternative institutional frameworks that could help improve the governance and effectiveness of debt management—for example, by evaluating the organizational arrangement of the debt management office.

Next steps in GDRM II

1. Preparing a framework and risk assessment strategy for the issuance of guarantees and on-lending
2. Improving the borrowing operations in the domestic market
3. Supporting the revision of the debt management strategy
4. Revising the organizational framework and responsibilities of the debt management office
5. Strengthening the legal framework for debt management
TUNISIA
GDRM PROGRAM BURN RATE (2012–17)
CUMULATIVE AMOUNT SPENT IN %

© Arne Hoel | The World Bank
Project challenge

Developing a sound methodology to understand, compute, and manage foreign currency exposure for government debt operations

Context

Tunisia’s government continues to face challenges, not only socially but economically, after the Arab Spring. It has to keep the financial system afloat by bringing budget and current account deficits under control, as well as by reassuring investors. This is not an easy task, given that in 2015, the Tunisian economy experienced more financial shocks to the system. The terrorist attacks against the tourism sector and workers’ strikes in the phosphate sector—key sources of foreign currency income—caused foreign currency reserves to drop by 20 percent in the same year, leading to a major 24 percent depreciation in the Tunisian dinar (TD) by the end of 2016.

One of the adverse effects of depreciation is the increase in the cost of foreign currency denominated debt, which is 65 percent of the total public debt. To offset the scarcity of credit in the local market, the Tunisian authorities borrow from external financial institutions and lend back to Tunisian entities in dinars by the mechanism of on-lending. In practice, this is done through the Fonds de Péréquation des Changes (FPC), a vehicle created by the government to absorb any gain or loss arising from these operations. However, as a consequence of the Tunisian dinar depreciation, the on-lending resulted in negative cash flows, and the FPC had to be replenished, both of which put an additional burden on the Tunisian budget.
Approach

Tunisia joined the GDRM Program in 2014. After the major depreciation of the dinar, one of the priority areas quickly became understanding, computing, and managing foreign currency exposure.

The GDRM Program team found the right expertise within the World Bank Treasury itself. The QSA department (Quantitative Solutions, Strategic Asset Allocation), which helps Treasury practitioners manage approximately US$150 billion in assets for the World Bank and other investors, was a perfect fit to provide the consultancy.

In the absence of a market for swapping hard currency into TD, the team had to develop a tailored methodology to come up with an estimated fair price. Analysis showed that the TD exchange rate is linked to a basket of hard currency comprising dollars, euros, and yen. Further discussions with Tunisian commercial banks revealed this to be at the core of Tunisian foreign currency risk management. The team then developed a robust methodology with two basic components: (a) a statistical analysis, estimating the basket composition for a given time frame, and (b) calculations for the fair price that is related to this basket of currencies.

The Tunisian debt management office received several customized training sessions in Tunis about the methodology. The debt management officers followed up remotely with data analysis and discussions until they were comfortable using the methodology.

Results

Now the Tunisian debt management office has a sound methodology to measure the fair value of these swaps and the fee that should be charged for these operations. It is up to the government to choose the interest rate to pass on to the Tunisian financial system. Budget provisions and adjusting the fees charged on these operations can go a long way toward mitigating further financial shocks, such as foreign currency exposure, to the government finances.

“We started by asking ourselves the question: If this operation were intermediated by a commercial entity, instead of the Tunisian government, how much would they charge to the end beneficiary?”

Antonio Velandia-Rubiano, Lead Financial Officer, The World Bank Treasury
Vietnam

Member since 2014

Unprecedented economic growth and development have transformed Vietnam from one of the world’s poorest nations to a lower-middle-income country. With the annual GDP growth rate never dipping below 5 percent for the last 20 years, Vietnam has benefitted from robust job creation and income growth, leading to broad-based welfare gains and poverty reduction. As a result of becoming a middle-income country, though, Vietnam now has less access to concessional financing and has to compete in the financial marketplace with other developed economies and emerging markets.

The challenge was to support the debt management office in this transition and to help it build an “enabling” institutional and operational environment, as well as sound debt management practices.

Results

1. Governance. The authorities revised primary legislation—the public debt management law—with the National Assembly’s approval by the end of 2017 and are now revising the secondary legislation. The country is now equipped with a modern and robust governance framework to face the new reality of market-based borrowing and lower availability of concessional financing sources.

2. Capacity and management of internal operations. (a) An assessment of key processes and procedures and the underlying operational risks was undertaken. Authorities prioritized key processes (development of the debt management strategy and annual borrowing plan, for example) and started drafting a manual of procedures for them. Such analysis and manuals will lead to reduced operational risk in debt management operations. (b) Fragmentation of debt management operations was reduced. The program also increased the authorities’ awareness of sound international practices regarding the institutional framework for debt management, and authorities took actions in consolidating functions that were within the State Bank of Vietnam. However, fragmentation still remains within the ministry of finance.

3. Debt management strategy and risk management. Vietnam has developed and regularly updated a medium-term debt management strategy. The reform in the debt law provides backup for the strategy to work as concrete guidance for debt operations, fostering coordination and efficiency.

4. Borrowing and related financing and risk management activities. (a) GDRM not only built capacity in the Vietnamese team on accessing the international capital markets, but also provided just-in-time support for a successful liability management operation, executed in 2014. The operation raised needed funds and reduced the refinancing risk of the government. (b) The program also increased authorities’ awareness of all steps that would be prerequisites for the government to enter into derivative contracts, supporting maintenance of sound risk management.
Next steps in GDRM II

1. Supporting the revision of the secondary legislation; supporting the revision of processes and procedures to be performed under the new public debt management (PDM) law, which came into force on July 1, 2018; providing advice on regulations and internal instructions (as a part of the secondary legislation drafting, publishing, and compiling process)

2. Supporting the debt management roadmap at the federal level; enabling the identification of priorities and avoiding overlaps with other technical assistance support from other donors, adhering to the main goal of the roadmap, which is to have an overview of a short-, medium-, and long-term development plan beyond the period of 2019–21

3. Supporting subnational governments on their debt and risk management efforts; supporting Ho Chi Minh City in creating a debt management office under its Department of Finance and strengthening debt and risk management capacity as a separate pillar on the abovementioned roadmap; paving the way for possible extension to other provinces, as Ho Chi Minh City will serve as a pilot for the first GDRM Program for a local government
Vietnam

Building a Framework for Mobilizing Development

**Project challenge**

Building a stronger legal and operational framework for public debt management to support Vietnam’s fast growth as it becomes a middle-income country.

**Context**

Vietnam is growing fast. In the past 30 years, it has become one of the world’s great development success stories, rising from the ranks of the poorest countries on the strength of a nearly 7 percent average growth rate and targeted government policies.

Vietnam’s fiscal needs have also been changing as it leaves the ranks of low-income countries and moves toward a market-based public debt management environment. Funding is becoming costlier as the purely concessional loans from multilateral development banks, such as the World Bank or the Asian Development Bank, become less likely. At the same time, this opens up a wide range of borrowing choices and financial instruments, providing wider options for balancing the cost-risk tradeoffs in the public debt portfolio. Vietnamese authorities recognized the essential need for a more robust legal and operational framework for public debt management in light of its economic transition and started working on the “Five-Year Revision of the Public Debt Law.”

**Approach**

The GDRM Program approached the project with the right mixture of international and national consultancy inputs, access to global knowledge using the Bank’s network, and the hands-on technical knowledge of Bank staff who are based in the country.

Tapping the consolidated experience of other countries that faced the same problem years ago and now have sound legal frameworks, international experts presented the cases of three countries in detail. They also shared worldwide best practices in public debt management legal frameworks.
The GDRM team sought timely support from the World Bank country team for continued policy dialogue with high-level counterparts. With local insights on the technical and political challenges to reform, the team worked closely with the government’s reform champions to define the most effective ways to contribute throughout the consultation and consensus-building processes.

Local consultants familiar with the Vietnamese public debt management system who encapsulated its institutional memory analyzed past challenges in enacting the 2009 law and what worked at that time.

Finally, the GDRM team introduced local experts to advise on the links with other pieces of local legislation: the constitution, budget law, and other particularities of the legal framework in Vietnam as a whole.

Consensus building was important, as no simple top-down approach would work unless consensus was built among multiple players in public debt management in the executive branches, the legislature, think tanks, the media, and the public.

By identifying key stakeholders and involving them in the revision process, through missions and workshops, and by inviting feedback, the team was able to build consensus.

**Results**

The authorities revised the primary legislation—the public debt management law—with the National Assembly’s approval by the end of 2017 and are now revising the secondary legislation.

By building a more robust legal and operational framework for public debt management in light of its economic transition, Vietnam is complementing its growth with sound practice on public debt management, making the country more resilient to economic shocks.

“One key characteristic of reform in Vietnam is the importance of building consensus. Various stakeholders from different institutions have diverse views based on their background.”

Quyen Vu, Senior Economist, The World Bank
The Republic of Egypt and its 97 million inhabitants have been experiencing a volatile political and economic environment since the Arab Spring of 2010. Technical assistance had been sporadic for several years after 2010 due to changes in the government’s priorities and the rotation of senior counterparts. Needs for advice and capacity building were, however, great, as the country was struggling with low growth, a high fiscal deficit, and external vulnerabilities due to a significantly overvalued exchange rate.

As the authorities initiated policy adjustment measures, Egypt joined the GDRM Program at the end of 2015 to receive dedicated advice and support on government debt and risk management; implementation started in 2016. This late start, coupled with fragmented government debt management functions and the absence of formalized coordination, has had an impact on the results achieved so far. Moreover, the recurrent staffing issues in the debt management office have been a major limitation on capacity building and training, as key personnel have been absorbed by immediate tasks, such as the documentation of the various Eurobond issues.

The challenge is supporting the debt management office in the ministry of finance in organizational reforms and further strengthening risk management capacity and to support the development and strengthening of primary and secondary markets for government securities, against a backdrop of political and economic and staffing volatility.

**Results**

1. **Debt management strategy and risk management.** (a) The GDRM team built capacity for the debt management office staff to help update the public debt management strategy and clarify the tradeoffs around issuance in local versus external currencies. The updated strategy has not been published so far due to the resource limitations mentioned earlier. (b) The team has provided information and shared international experience on potential new initiatives, such as a retail debt program and the assessment of the risk from contingent liabilities.

2. **Capacity and management of internal operations.** GDRM provided just-in-time support to the debt management office so that it could share its needs and constraints on its major IT infrastructure project with the central bank. It also facilitated the dialogue between the ministry of finance and the United Nations Conference on Trade and Development (UNCTAD) on the update of the debt recording system (DMFAS).

**Next steps in GDRM II**

1. Implementing an updated and complete debt management strategy
2. Supporting institutional reorganization and coordination arrangements on government debt management
3. Developing internal capacity to better manage debt management operations
4. Further deepening the domestic debt markets, including improving the primary dealer system
### Egypt

**GDRM Program Burn Rate (2012-17)**

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</tr>
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© Dominic Chavez | The World Bank
Ghana

Ghana, with a population of about 29.6 million (2018), has taken major strides toward democracy under a multiparty system over the last two decades, with its independent judiciary winning public trust. The economic performance improved significantly, with an estimated expansion of 8.5 percent in 2017 from 3.6 percent the year before, driven by the mining and oil sectors.

Ghana joined the GDRM Program at a time of severe fiscal stress that led the country to request financial support from the International Monetary Fund (IMF) and other external partners. Its public debt is exposed to financial risk (currency, interest rate, and refinancing) and operational risk (inadequate processes). As a part of the reform agenda, the ministry of finance needed to build its debt and risk management capacity. The more specific challenge was building capacity in areas such as operational risk management, international market operations, and reporting and communication activities.

Results

1. Capacity and management of internal operations. The debt management office strengthened its capacity as a result of extensive training covering a range of topics, from basic topics in finance and debt management concepts to debt management strategy design, implementation, and new debt management instruments. Improved human resources will be fundamental for the development of the debt management office.

2. Debt management strategy and risk management. (a) The debt management office made progress in managing the risks stemming from contingent liabilities, detailing a draft methodology focusing on the energy sector, including the development of a score card and mitigation measures (credit risk assessment methodology and fee policy). Ghana implemented the methodology and conducted credit risk assessments for six entities, namely, the Volta River Authority (VRA), the Electricity Company of Ghana (ECG), the Ghana Water Company Ltd (GWCL), the Ghana National Gas Company (GNGC), the Ghana National Petroleum Company (GNPC), and the Ghana Grid Company (GRIDCo). (b) The debt management office updated the medium-term debt strategy for the period 2018–21 and made progress on the development of an annual borrowing plan. The debt management office is now in a good position to update the strategy annually and comply with the Public Financial Management Act (2016).

Next steps in GDRM II

1. Improving operational risk management (ORM); implementing risk monitoring and compliance functions, Business Continuity and Disaster Recovery Plans, and an ORM framework, as well as training for staff in charge of them

2. Improving transparency and communication of public debt; improving publications on debt statistics, activities, and strategy, following transparency best practices and meeting legal and regulatory requirements and providing training for staff in charge of them

3. Building further capacity in strategy analysis and risk management; training in the principles of sound debt and risk management; delivering tailor-made trainings to support debt management office to build its own training program for new staff
4. Increasing execution capacity to include plain vanilla operations; supporting innovative product issuances on international markets (such as Green Bonds) and a choice of international market operations based on market conditions and cost-risk and asset and liability management (ALM) analyses; revising institutional arrangement for having dedicated and properly trained staff responsible for the activity/process.
Impact Story

Ghana

Catalyzing South-to-South Dialogue for Managing Contingent Liabilities

Project challenge
Developing a method for assessing and managing the risks of contingent liabilities stemming from government guarantees and on-lending practices

Context
As part of an ambitious reform agenda supported by the International Monetary Fund (IMF), the Ghanaian Ministry of Finance was looking for ways to better anticipate and manage fiscal risks in the broader public sector. After Ghana became part of the World Bank Treasury Government Debt and Risk Management (GDRM) Program, the authorities and the program team agreed that assessing and monitoring risks related to contingent liabilities was one of the areas to look at.

The World Bank Treasury catalyzed a South-to-South learning dialogue on contingent liability management by leveraging expertise from South Africa. As a financial powerhouse in the region, South Africa was more advanced in managing contingent liabilities yet shared the same economic environment as the rest of the continent. For Ghana, the GDRM Program team decided to leverage the expertise of the South African National Treasury because it had recently developed a methodology for managing risks stemming from contingent liabilities.

Approach
As Ghana needed technical advice on a pragmatic level, not conceptual lessons, the joint team started with scoring the most prominent Ghanaian state-owned enterprise, the Volta River Authority (VRA), so it could assign a risk-cost profile to this public entity. The team was steered by a seasoned practitioner, Mr. Mkhulu Maseko, the head of the credit risk team at the South African National Treasury, which was supporting the Ghanaian debt management office in its efforts to develop the scorecard. The advice he gave was pragmatic and in-depth;
he shared information on how South Africa assigned financial ratios or ratings, despite a limited availability of data. He demonstrated how to move, step by step, through a maze of institutional constraints—some derived from the relationship between companies, and others from limitations regarding background, quantitative training, or the number of staff.

With the involvement of the South African consultant, the GDRM Program team laid out alternative options, illustrating them with comparable country examples and methodologies.

The Ghanaian debt management office decided to use the credit scoring methodology. Akin to scorecards used by international credit rating agencies, like Moody's or Standard & Poor's, the basic premise is to assess each entity on several factors, such as management quality, financial performance, business environment, and capital expenditure plan, and produce a single aggregated score. This score determines the credit risk of a given entity’s not paying back the borrowed amount in full and on time.

The scorecard methodology is currently in use by Indonesia, as well as South Africa, to assess the contingent liability risk for their state-owned enterprises.

The team held two more workshops in Accra to develop an initial scorecard and another later on for improving the risk quantification of the initial scorecard for the Volta River Authority. It advised on public financial management law and on moving from a theoretical credit score to a practical guarantee fee.

Results

Ghana has put guidelines in place to steer decision making around guarantees and on-lending; these are part of a reform plan to consolidate public finances. When implemented, the guidelines will be one of the contributions toward improving fiscal sustainability and making the country’s economy more resilient to financial shocks.

“We were preparing for our new law that would codify most of our risk management activities. But before the law was passed, we already had a very good idea of how we were going to implement elements of it.”

Samuel Arkhurst, Director of the Debt Management Division, Ministry of Finance, Ghana
Since the government designated accession to the European Union (EU) as the highest strategic priority for the country in 2005, North Macedonia has been restructuring itself steadily to adopt best economic and social practices. This includes public debt management reforms, which are of macro-critical concern. The government debt portfolio is exposed to refinancing and interest rate risk, reflecting the short-term nature of domestic currency debt.

The challenge is to bring North Macedonia’s debt and risk management practices to European Union standards and to reduce vulnerability to financial shocks through strengthened debt and risk management capacity and institutions and deeper domestic debt markets. The government has put the outcomes agreed on within the GDRM Program in its broader strategy for public financial management reform for the medium term.

Results

Although implementation of the GDRM Program fully began only in the second semester of 2017, the program and the Macedonian Public Debt Department (PDD) have made progress beyond expectations.

1. Governance. The PDD was on target with passing the revision of the public debt management law through the Parliament by the end of 2018—a record time for any country to revise primary legislation. The revision will bring up important provisions for sound debt management, such as the requirement to develop a debt strategy, mandatory reporting on strategy implementation, and assessment of credit risk on the issuance of sovereign guarantees, among others.

2. Debt management strategy and risk management. By November 2017, with further training and just-in-time support from the GDRM team, the Macedonian PDD had updated and published the strategy document. The initial focus was on strengthening the analytical underpinnings of the strategy—in particular, the cost-risk analysis, interactions with the macroeconomic policy, and links with the market development policy.

3. Borrowing and related financing activities. The PDD and the GDRM team have started discussing and preparing for the work on improving the domestic market for government securities and the improvements for the debt management information technology (IT) system.
Next steps in GDRM II

1. Amending the public debt management law in line with international sound practices
2. Improving the debt management IT system to improve debt management recording, analysis, and reporting
3. Improving the debt management strategy, analysis, and implementation and reformulation of the document as a standalone strategy with investor-friendly language
4. Building capacity on the use of liability management operations and access to the international markets improving the domestic market for government securities
Project challenge

Supporting the Macedonian Public Debt Department in shaping and maintaining a state-of-the-art public debt department, on par with sound practice

Context

In 2005, the government North Macedonia, a country of two million people, designated accession to the European Union (EU) as its highest strategic priority. Since then, the country has been restructuring itself steadily to adopt best economic and social practices. Ranked among the top five “reformatory states” in 2009 by the World Bank, North Macedonia has made headway in its quest to bring the country to EU standards. That includes the Macedonian Public Debt Department (PDD), a small team of 10 practitioners who are driven to improve and adopt sound practices and to do it fast.

Macedonian PDD asked to join the Government Debt and Risk Management (GDRM) program in November 2016.

Approach

After an assessment, the GDRM-PDD joint team agreed on the components it wanted to tackle during the next five years to bring the Macedonian PDD on par with sound practice. Although accomplishing six major reform components within a period of five years might seem ambitious because of the limited human capacity and having to handle reforms on top of day-to-day operational work, the North Macedonia technical team understood it needed to bring about improvement.

The North Macedonia-GDRM joint team started work on the debt management strategy with a training in January 2017 to build the Public Debt Department’s technical capacity for sound cost and risk analysis. Subsequently, the joint team tackled one project after another.
Results

1. By November 2017 with further training and just-in-time support from the GDRM team, the Macedonian PDD updated and published the strategy document.

2. It immediately started work on two other components: amending the public debt management law and improving the domestic market for government securities.

3. With the GDRM Program’s support, the PDD is on target with passing the revision of the public debt management law through the Parliament.

4. The IT component work also started in 2018, and the joint teams will continue improving the debt management strategy every year until it is on par with sound practice.

North Macedonia’s drive to shape its state-of-the-art Public Debt Department and the constant pursuit to build human capital to make the economy more resilient to fiscal shocks will be the legacy of the self-driven civil servants on this small but effective team. And with the World Bank Treasury to support it along this journey, it is making headway in record time.

“What the GDRM Program offers is to meet other countries with similar experiences, so we can share our experience, listen and understand [other countries’] experiences in debt management.”

Ana Todorovska, Head of Front Office, North Macedonia
Peer learning

The GDRM Program connects countries facing similar issues, providing a platform for an in-depth exchange of ideas and experiences. Peer Group Dialogues provide a cost-effective way to discuss challenges and policy actions on a virtual platform. The positive spillover from the peer-learning setting among countries and, in a broader sense, in the debt and risk management space creates the motivation to progress well within the GDRM group.

The program team facilitates the peer dialogue by cross-sharing implementation experiences among GRDM countries for informal peer-to-peer learning opportunities—for instance, between Azerbaijan and Serbia—regarding the debt management system.

The GDRM Program organized a Workshop on Pricing Risks Related to State Credit Guarantees and On-Lending in Istanbul, Turkey, on June 10–12, 2014. The workshop, fostering South-to-South dialogue among Colombia, Indonesia, and South Africa, provided a platform to exchange knowledge on contingent liability management, particularly with respect to pricing risks related to state credit guarantees and on-lending.

The program nurtures South-to-South dialogue when suitable; a recent example is Ghana, where the program leveraged the expertise of the South African National Treasury to provide technical advice on a pragmatic level.

“Over the past we had engagement with technical assistance. It had been more of a top-down receiving element, like a typical classroom environment. With GDRM, the focus and approach were very different. The way the interaction was; the practical aspect to it.... This is not a consultant who would... provide what is in the textbook or a [preconceived] idea of how we should work, but one who was very clear [and] open with us. In more than 23 years of my work as a public servant, it was a very unique experience.”

Samuel Danquah Arkhurst, Director Debt Management Division, Ministry of Finance, Ghana
GDRM roundtables

Once countries become members of the GDRM Program, they have access to GDRM Roundtable events that bring government debt managers together to share experiences with fellow debt managers. The roundtables also provide a platform for debt managers in GDRM countries to share their work and accomplishments and to engage with their peers in discussions on how further to strengthen debt and risk management. It is also a unique platform for sharing lessons learned in a closed and safe environment.
Roundtable 2016

“What Have We Learned, and Where Do We Go from Here?”

The first in the series, this roundtable brought together 13 debt managers from eight GDRM member countries on October 18, 2016. With significant progress achieved in many countries on various components, the roundtable aimed to reflect on how countries have implemented strategic reforms, lessons learned, and current challenges, as well as how the program would support further reform implementation.

2016 Roundtable and key topics for discussion
Roundtable 2017

“Navigating Debt Markets”

The two-day roundtable, held October 16–17, 2017, brought together 27 government debt managers representing 18 emerging market economies. In addition to GDRM Program countries, guests from program candidate countries, such as Georgia and Ukraine, were invited to have a sneak peek. And subject-specific practitioners gave presentations about discussion topics—for example, Portugal showed its firsthand experience with the use of cross-currency swaps. Consisting of two parts, the roundtable’s first day was open to all participants and featured discussions on themes related to navigating the debt markets. During the second part of the roundtable, GDRM Program participants took stock of the first phase of the program and evaluated achievements and challenges in fully implementing reforms. This dialogue aimed to encourage discussion on the existing and unique strengths of the program, as well as new elements to foster the sustainability of results for Phase II.

2017 Roundtable and key topics for discussion
“The GDRM roundtable event is very useful for countries like Indonesia and for me personally, [in] that we share our experience and learn from other countries how to reform the debt management office, the government, the process, the risk management. I think... learning from other countries... can enrich our knowledge on how to manage debt and risk... better.”

Mr. Heri Setiawan, Deputy Director of Country Risk Management, Ministry of Finance, Indonesia
What Worked Well

“Know Your Partners” approach
Engagement managers of the GDRM Program developed continuous working relationships with their counterparts and accompanied them through all stages of the implementation process. Their understanding of their partner countries’ requirements, priorities, and challenges allowed engagement managers to align technical assistance to the countries’ needs, ensured the relevance of program activities, and secured their counterparts’ full ownership.

Structured implementation support
The nature of implementation support (“downstream assistance”) makes it a long-lasting process that is less exposed to political and institutional changes, such as high staff turnover, new legal and organizational structures, and changing priorities at the senior level. Following the diagnostics, the engagement managers, together with the authorities, identified the areas to be supported, and they kept the authorities engaged by providing that support continuously, both in the field and remotely, to ensure continuous engagement and generate outcomes.

Trusted expert advice
The practitioner-to-practitioner support provided by the seasoned engagement managers of the GDRM Program and associated consultants was very well received, especially by the technical staff of participating countries struggling with capacity gaps. The expert advice was grounded in real-life experiences and solutions that had been implemented successfully in other countries, based on sound practices and going beyond the standard literature.

Resource fungibility
Although country allocations were limited to US$250K–$350K by the constraints of the budget, reallocation of funds across different components and country engagements allowed program management to ensure the most efficient use of resources. Accordingly, the outcomes and the impacts of the program activities went beyond the allocated funds.

Reinforcement of South-to-South dialogue
The program not only provided platforms for countries facing similar issues to learn from each other (for example, by conducting virtual sessions on CL management among Colombia, Indonesia, and South Africa) and fostered networking among individual debt managers (at GDRM roundtables); it promoted South-to-South dialogue when appropriate (as when South Africa supported Ghana in its risk management efforts).
Challenges

Political economy
Changes in the political environment embed risks that cause delays or shifts in countries' priorities. This was highlighted among the risks of the program for participating countries. In most such cases, the GDRM Program’s tailored and flexible approach enabled the team to focus on projects that received traction with the authorities, pause some of the initial log frame projects, or replace the projects with new plans. In cases where the political turbulence did not allow more evident outcomes to materialize, the program built capacity at the technical level.

High staff turnover
Mostly for institutional and professional reasons, loss of high-caliber staff was usual in the debt management offices. Rapid staff and management turnover was one of the main challenges to the effective delivery of debt management technical assistance. The lack of a structured training program for new staff created additional hurdles during the implementation process. Changes in management resulting in change in strategic priorities also presented a challenge in several countries.

Institutional rigidities
In some cases, improvements in debt management practices suggest reorganizations of the debt management office, either to reduce operational risk or to increase efficiency. Although the typical functions of a debt office are well established and grounded in international practices, the fact is that institutional reorganizations are typically difficult and take long to take place in the public sector. Senior management may not have incentives to go through the challenges of institutional changes if their horizon in the institution is one of short term. In the second phase of the program, change management approaches or techniques may be brought into place when and where deemed appropriate.

Intra-governmental coordination
Lack of good intra-government communication and collaboration make it harder to generate outcomes that are related to the links between debt management and other policies (cash management, fiscal policy or monetary policy). Institutions that operate in silos or poor collaboration across institutions are not conducive to harmonization of policies or high-level coordination. The Sovereign Asset and Liability Management (SALM) approach, a new component on the GDRM II, aims to mitigate this risk by providing governance with a holistic approach to risk management.

One important response to these challenges was to maintain the technical trainings (for example, on debt management strategy design and implementation) and always try to include more people in them, such as officials who might not have been currently in charge of those tasks but worked in related activities and could help maintain knowledge when those in charge left the office. Going forward, the GDRM Program team intends to keep the technical trainings and the coaching and mentoring of mid-level and technical staff continuous to maintain the participant countries’ capacity. The continuous support offered by the program and the in-depth knowledge of the country on the part of each team leader will help keep the institutional memory intact when rotation is higher.
Looking Ahead

The expansion of the GDRM Program since its inception (to 14 countries as of August 2018, with two more under discussion), as well as the number of countries that have expressed interest in joining (Algeria, Côte d’Ivoire, Iran, and Paraguay, among others) and the willingness of all participating countries to continue their membership into a second phase speaks for the success of the initiative.

With the successful conclusion of the first phase, SECO and the World Bank Treasury have renewed the GDRM Program partnership for a second phase (2018–21). With a 50 percent increase in funding to support a sustainable program expansion, GDRM will continue to assist middle-income countries in developing sustainable debt and risk management frameworks to reduce vulnerability to financial shocks.

In the first phase, the program achieved significant accomplishments in three areas: (a) developing or improving countries’ ability to design, publish, and implement debt management strategies; (b) developing domestic debt market activities; and (c) improving capacity, methodologies, and principles to develop strategies to manage contingent liabilities and other fiscal risks from government guarantees and public-private partnerships (PPPs). The success of the program has led to an increase in requests from both the current members and other nonmember MICs for capacity building in additional areas of debt management, such as investor relations and access to international markets, cash management, asset and liability management, and subnational debt management. In response to these requests, the GDRM team is investing more in mobilizing resources and identifying synergies for implementation by further collaborating with other teams delivering technical assistance.
Sneak Peek at Phase II of the GDRM Program

Albania
A country of 2.9 million people, Albania advanced from being the poorest nation in Europe to middle-income status in 2008, due to rapid growth. The transition from a centrally planned, low-income country to a market-oriented, middle-income economy went relatively smoothly with ample international aid and other strategic assistance. However, economic growth slowed almost to a halt in 2014 due to the economic crisis in Greece and Italy; public debt surged, arrears accumulated, and the banking system weakened. All of that led Albania to adopt a broad-based reform program that included macroeconomic and fiscal sustainability, financial sector stabilization, energy, pensions, and territorial administration. With the IMF extending the arrangement between 2014 and 2017, the country needed further structural reforms to strengthen its debt and risk management. Albania joined the GDRM Program in the last quarter of 2017, and the engagement actively started in 2018.

Morocco
Due to its robust macroeconomic policies, Morocco has enjoyed a healthy economy in an unstable region, with growth expected to reach 4.5 percent by 2021. The country has strong macroeconomic buffers and comfortable reserves; recently enhanced fiscal, monetary, and financial policy frameworks; alignment of its exchange rate with fundamentals; a low level of foreign currency–denominated public debt; relatively low estimated pass-through of exchange rate movements to consumer prices; and a preexisting market for foreign exchange. Public debt management has been an important contributor to the buildup of macroeconomic buffers, with a debt strategy prepared in 2014. The challenge for the country is to take advantage of this favorable environment to improve the shock absorption capacity of the economy and continue to implement reforms to improve debt management practices. Morocco has joined the GDRM Program in the first quarter of 2018.

Ukraine
Ukraine joined the GDRM Program at the end of 2017. Following a contraction in 2014–15, the GDP has been recovering at a slow pace (2.3 percent in 2016 and 2.5 percent in 2017). The country faces major financing needs and fiscal pressures, which will require mobilizing sizable international financing to maintain macroeconomic stability. Raising the necessary external financing on affordable terms is critical to complete key pending reforms outlined in the Fourth Review of the IMF program. If reforms are delayed, growth could drop below current levels in an uncertain macroeconomic environment as financing risks rapidly increase. Against this backdrop, Ukraine joined the GDRM Program in 2018 to strengthen its debt management capacity and institutions.
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