

Sovereign Debt Management Forum 2014

Background Note for Breakout Session 2

Transparency and Stakeholder Relationship Management

Introduction

Management of public debt has significant implications for a government's budget and balance sheet. Therefore, debt managers must report and be accountable to the finance minister and other senior policy-makers, the internal and external auditors, the legislature, and the country's citizens, all of whom need to have a clear picture of the debt managers' performance. Lenders, both commercial and official, will also have data requirements. In addition, if governments borrow in the domestic and international financial markets, investors, intermediaries and rating agencies will also require detailed information on the government's performance in managing debt, as well as the broader macroeconomic and political context, among others. In the domestic market, where a government's securities usually create a yield curve that acts as a benchmark for the entire financial sector, transparency about the government's activities supports a more efficient market.

The World Bank-International Monetary Fund Revised Guidelines for Public Debt Management¹ emphasizes that enhanced communication with investors is essential – especially during crises- with information on debt composition and related risk indicators being periodically provided to minimize uncertainty. Legal documentation relevant to PDM should be easily accessible. Rules covering the licensing of primary dealers and other designated intermediaries in government securities, including the criteria for their selection and their rights and obligations, should also be publicly disclosed.

Similarly, the *Code of Good Practices on Transparency in Monetary and Financial Policies: Declaration of Principles* (MFP Transparency Code) makes a case for PDM transparency, on the grounds that i) the DMO's effectiveness is strengthened if the policy goals and instruments are known to the public and if the authorities can credibly commit to meeting them; and ii) transparency can enhance good governance through greater accountability of public entities involved.

The Stockholm Principles² advocate the need for proactive and timely market communication strategies, which should be maintained to support a transparent and predictable operational framework for PDM. The WB Debt Management Performance Assessment (DeMPA) toolkit³ has various indicators that evaluate a DMO's performance in terms of reporting and transparency. The International Institute of

¹ WB- IMF (2014): "Revised Guidelines for Public Debt Management",

² IMF (2012): "Guiding Principles for Managing Sovereign Risk and High Levels of Public Debt. 10th IMF Annual Consultations on Policy and Operational Issues facing Public Debt Management". Debt managers and central bankers from 33 advanced and emerging market countries attended. They agreed that effective debt management requires that objectives, rationale, strategies, methods of implementation, and outcomes be communicated in a clear and timely manner.

³ WB Debt Management Performance Assessment (DeMPA) toolkit.

Finance (IIF)⁴ has established a methodology for annually evaluating governments' management of investor relations and data transparency practices.

Elements of PDM Transparency and Management of Stakeholder Relationships

This session examines how DMOs implement the vital function of communication and stakeholder relations management (CSR), as well as lessons learned and challenges. It discusses the experience of two countries that successfully manage their investor relations and data dissemination function,⁵ and explores an international credit rating agency's perspective on information flows with DMOs. It also summarizes the findings of WB research⁶ on how leading DMOs implement their information dissemination and dialogue with stakeholders.

The research found that most of these leading DMOs lack a dedicated investor (or stakeholder) relations office. Instead, the activities are shared among existing staff⁷, along with participation of senior DMO staff and the finance minister in the most important activities (e.g. roadshows and meeting with key investors). The function is implemented by front office staff –primarily with domestic and foreign financial market counterparts- and with middle office staff for producing reports and managing the relation with the rating agencies, among others⁸. Other public sector units (e.g. central bank or statistics office) may be involved with some of the transparency functions.

The CSR activities can be mandated to the DMO through regulation, but this is not always the case. The more market driven communication can be strengthened due to changes in the economic context, domestic and international, the trend in funding needs and strategic decisions such as the need to diversify investors. Various DMOs interviewed strengthened this function after 2008, and similar results were found in the OECD survey.

These activities require planning, prioritization and coordination, which will also take into account budgetary and time constraints. It is helpful for DMOs to systematically identify the information needs of significant stakeholders when planning a communications strategy or plan. In addition, debt managers will also seek to maintain a dialogue with stakeholders so as to obtain their feedback, and this must be worked into the annual plan. The latter will be input for debt management in general, as well as for the design of the communications strategy.

⁴ The Institute of International Finance (IIF) makes annual assessments of investor relations and data dissemination practices of 39 active emerging markets.

⁵ The IIF 2014 assessment gave high scores to both Hungary and Uruguay.

⁶ Involving review of literature and in-depth interview of leading OECD and non-OECD debt management offices (Brazil, Chile, Colombia, Denmark, France, New Zealand, Poland, South Africa, and Turkey).

⁷ Draft WB paper (Cabral et al) and OECD Working papers on Sovereign Borrowing and Public Debt Management No.6. Apart from the countries interviewed by the WB, a survey of 26 OECD countries found that most DMOs integrate these functions with other areas of the business, or consider broader communications as serving an adequate role.

⁸ The 2013 survey of 26 OECD countries showed similar findings.

There are minimum transparency requirements that DMOs must satisfy. The internal analyses on the debt's cost and risk, as well as its general evolution, should be reported periodically to the finance minister ("as the most important stakeholder")⁹, and where relevant, to a debt management committee. The DMOs must prepare a report with details of PDM activities and outstanding government debt and submit it annually to the Legislature. DMOs should issue monthly and/or quarterly statistical bulletins on the debt. When DMOs develop medium-term debt management strategies, reporting to the Legislature should include an evaluation of compliance with the strategy, which ideally would be made publicly available. On-demand reporting to external and internal auditors is necessary. As the DMOs venture into the markets, they should be transparent regarding their strategies, annual borrowing plan and auction calendars, as well as aspects such as the rules/guidelines for participating in auctions. The ministry of finance and/or the central bank can be responsible for preparing and submitting macroeconomic data to the IMF¹⁰. In addition, there are also contractual information needs to be met (e.g. on debt for the World Bank).

To satisfy different stakeholders' information needs, DMOs typically use a wide range of communication tools and mediums involving different levels of organizational resources and effort.¹¹ A considerable amount of transparency can be achieved through low-cost data dissemination. In order to improve efficiency, DMOs can set up a reporting framework where the monthly reports directly feed into quarterly and annual reports, all tied to compliance with strategic targets, and following a cycle of debt management strategy design, approval, execution and monitoring, and review.

The stakeholder relations management function seeks to establish a dialogue via specific channels so as to obtain continuous feedback, such as group meetings with primary dealers, or one-on-one meetings with key investors or rating agencies, so as to hear the stakeholder's point of view.

Staff responsible for CSRM act as the rating agencies' primary contact, at a minimum organizing their visits and providing solicited information. They can tailor presentations to address their specific concerns. Staff can arrange PDM courses for the media, coordinate press releases and maintain lists of press members covering economic and debt issues to inform them of new developments, e.g. significant transactions.

As PDM transparency increases third-party confidence, periodic communication on the debt profile, the annual borrowing plan and the auction calendars is expected to lower the risk/uncertainty premium of investors, allow them to better manage investment decisions, increase demand for government securities and build sounder bases for credit ratings. The dialogue established with key stakeholders

⁹ WB forthcoming paper. Also mentioned in OECD Working Paper on Sovereign Borrowing and Public Debt Management No. 6.

¹⁰ The IMF recently updated the Government Finance Statistics Manual (GFSM 2014) which provides the economic and statistical reporting principles to be used in compiling the statistic and guidelines for the presentations of fiscal statistics. Also, the country may have subscribed to the Special Data Dissemination Standard (SDDS), which was established by the IMF to guide members that have or that might seek access to international capital markets. The *Public Sector Debt Statistics: Guide for Compilers and Users* (2011), the first global guide on public sector debt statistics, was prepared under the joint responsibility of nine organizations – including the WB and IMF- through the mechanism of the Inter-Agency Task Force on Finance Statistics.

¹¹ Tools for data dissemination include: i) website, presenting debt statistics and reports, releases and contact information, and recompilation of the PDM legal/regulatory framework, all translated into English; ii) mailing lists; iii) standard investor presentations, among others.

through various types of mechanisms¹² are important for determining additional information needs, clarifying misconceptions and obtaining feedback for debt management e.g. investor preferences will influence the design of the financing plan.

A good CSRSM function is highly dependent on: i) the capacity of the back office) to produce and release high quality and timely statistics and the middle office to produce the necessary reports; ii) the approval and support of senior policy-makers, and their willingness to take on some of the more important informational roles in specific situations; iii) clear allowance of time for DMO officials to carry out this role and assure that information is kept updated; iv) ideally, some training for DMO staff on media communications and macroeconomic issues; and v) good coordination with other government units that produce information (e.g. central bank) for cross-reference and links.

Few countries have created quantitative targets for measuring the impact of CSRSM activities and many other factors can affect outcome targets. Measurement of outputs (e.g. number of one-on-one meetings with investors) or qualitative evaluations is less difficult. In any case, this function should be reviewed periodically to evaluate its effectiveness and efficiency, as well as whether the communications strategy is still valid in changing environments.

Conclusions

Most DMOs have an active CSRSM function, which tends to be further strengthened when markets are in crisis and/or the government has increased funding needs. Although DMOs consider the transparency and stakeholder relationship management function to be essential, it can be difficult to measure its impact and to convince senior staff and policy-makers of its importance. There are often challenges in obtaining the latter's participation in key events, as well as necessary budget for this function. Given time and budget constraints, these activities should be carefully planned for the year around the mapping of stakeholder's information needs, as well as DMO's events and releases. Lastly, all things equal, DMOs having a clear message on its objectives, strategy and instruments –as well as a good dialogue with its major stakeholders- will enhance its overall effectiveness as a debt manager and ensure good accountability.

Issues for Discussion

- What are the advantages and disadvantages of having a specialized CSRSM unit, versus having the corresponding responsibilities shared among existing staff?
- Does formality (e.g. written CSRSM objectives and strategy) improve this function's efficiency and efficacy, or is it just more bureaucracy?
- Should DMOs provide training to the media, given that any misinterpretation of debt data can shape the public's perceptions?
- How to communicate about public debt management with the general public?
- What are potential ways to measure the impact of the communications and relationship management activities, in terms of quantitative indicators and/or qualitative judgments?

¹² For example, an institutional mailbox for two-way communication; conference calls with Q&A; deal and non-deal roadshows; one-on-one and periodic group meetings with market participants, in particular primary dealers and participation in events, among others.

References

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