The Guidelines, 10 Years on...

Their Impact and Effectiveness:
a Personal Perspective

Sovereign Debt Management Forum
World Bank, Washington, October, 2012
Some Initial Assertions

• The Guidelines created common objectives…
  – Focus on the structure of the aggregate portfolio; on strategy; on risk; and on professionalism

• …and a shared language
  – Gave practitioners (and consultants) much more confidence to do the “right thing”

• But
  – Detail is confusing for newcomers, and irrelevant for many LICs – “Sound Practice in Government Debt Management” is more complete
  – Struggles to break into unfriendly governance structures
  – Overtaken by MTDS guidance, DeMPA - more practical and user friendly
The Guidelines’ 6 “Building Blocks”

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<tr>
<td>Objectives, priorities and Coordination with Monetary and Fiscal Policy</td>
<td>Clarity of roles; open process; publication of information; integrity</td>
<td>Governance, legal and decision-making framework, organisation and management of operations</td>
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<td>Monitoring and evaluating risks</td>
<td>Trading off costs and risks; taking account of contingent liabilities</td>
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1. Debt Management Objectives

Impact and Benefits

✓ Greater clarity about objectives and policies
✓ Ensuring attention given to the whole debt portfolio
  ▪ and market development
✓ Importance of “...medium to long term...” and “...prudent degree of risk...” well embedded in thinking

Some Qualifications

? Confusion about central government or public sector
  ▪ The public debt guidelines focus mainly on central government debt
  ▪ Clarified in MTDS guidance

? Confusion with debt sustainability
  ▪ 2003 amendment a useful clarification, but still some misunderstanding
  ▪ Certainly in LICs but also by commentators in eg Eurozone
2. Transparency and Accountability

Impact and Benefits

✓ Much greater openness about policies
✓ Basic data widely published
✓ Need for separate website (or website page) understood

Some Qualifications

? Continues to be resisted in naturally secretive countries
? Accountability not well tested
  ▪ External audit often weak outside core OECD
  ▪ Parliament/Congress more concerned with debt sustainability or fiscal responsibility
  ▪ Commentators lack skills or resources to talk about risk; and criticise with benefit of hindsight
3. Institutional Framework

Impact and Benefits

✔ Many new and improved public debt laws
  - Notably in transition countries
✔ Front, middle and back office concepts well established
✔ Widely quoted section of guidelines

Some Qualifications

? Some debt offices given too much autonomy = principal/agent problems
? Integration of all debt management functions not always worked well
  - Resistance – turf wars, silos, baronies…
  - Execution of loans and credits very different from securities
  - Powerful treasury functions often untouched – with damaging consequences [2 front offices etc]
? Patchy separation policy and execution
  - Ministers insist on making decisions!
? Struggled to find and keep good staff
4. Debt Management Strategy

Impact and Benefits

✓ The heart of modern debt management
  ▪ Recognition of the need for a strategy possibly the main outcome of the Guidelines

✓ Introduces concept of ALM and balance sheet [although follow through is complex]

Some Qualifications

? Not enough on how to develop strategy
  ▪ Cost-risk trade off presented as part of risk management but not strategy?
  ▪ Far too complicated for many LICs – and assumes good data
  ▪ Subsequently had to emphasise that strategy does not necessarily require quantitative analysis
  ▪ Superseded by MTDS guidance

? Weak on cash management
  ▪ and importance of integration with debt management
5. Risk Management Framework

**Impact and Benefits**

- Good on some of the details
  - Definitions of risk; risk categorisation widely quoted
  - Relevance of contingent liabilities
  - Importance of stress tests
- Warns about risks of active portfolio management

**Some Qualifications**

- Confusion between risk management framework and strategy
- Confusion about strategic and target benchmarks
  - Geared to active debt managers with a performance benchmark
- Fails to separate high-level risk strategy from control environment and managing day to day risks
- Insufficient awareness of operational risk weaknesses (outside core OECD countries)
6. Developing the Securities Market

Impact and Benefits

✔ Importance of domestic market development widely recognised
✔ The main challenge for many countries

Some Qualifications

❓ Progress often disappointing
  ▪ Poor secondary market even where primary market is strong

❓ Where lies responsibility?

❓ IFIs’ messages to LICs often confusing
  ▪ Imperative of concessionality not compatible with domestic market development

❓ External issuance more fun
  ▪ Siren calls of investment banks
Some Cross-Country Thoughts

• Guidelines a useful cross check for developed countries
• Hugely beneficial in transition countries starting afresh, with good administrative cadre
• Less good where
  – Inflexible legislative environment
  – Unwillingness to embrace concepts or to break habits
    • Lack of senior management/ministerial support
    • Wrong appointments to head debt management units
  – Impossible to create structures in thin administrative environment
  – Do not bite on concerns of LICs dominated by managing loans and credits, not securities, and poorly maintained data
  – Debt sustainability is seen more concerning than debt structure
Some Final Assertions

• Guidelines brought timely focus on strategy, professionalism and portfolio risk
  – Arguably contributed to relative resilience of many MICs during financial crisis

• We have changed the language – we now need to tackle new challenges – which will need different approaches – examples:
  – Market development
  – Strategy in an constrained environment
  – Interaction with domestic banking system
  – Governance, inc audit and accountability
  – Reform plans and follow-up; embedding sound practice
  – Sub-national debt
  – Cash management
  – Operational risk

Thank You!