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Transparency and Stakeholder Relationship Management in Public Debt Management

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Introduction

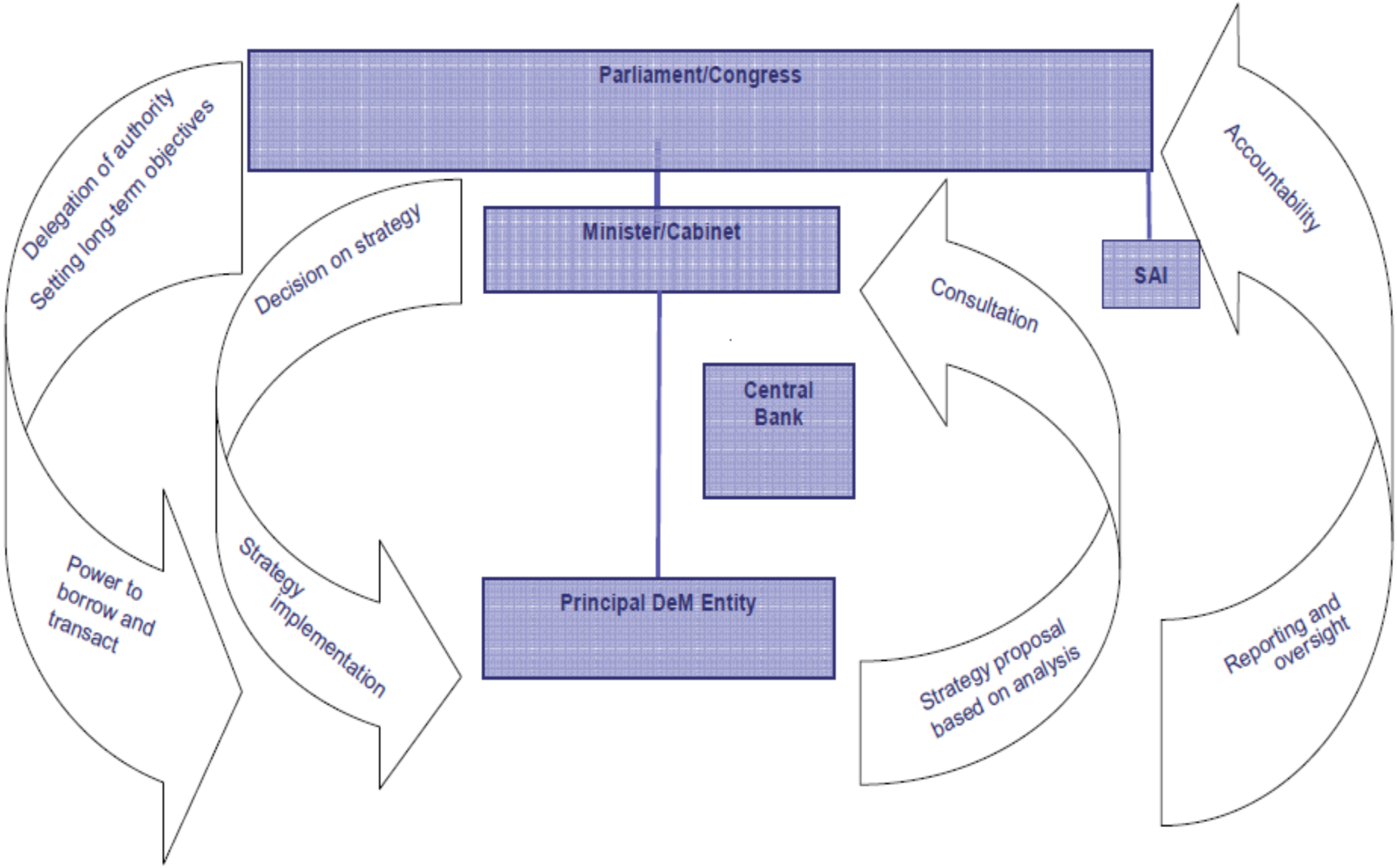
- Forthcoming paper on Transparency and Stakeholder Relations Management (TSRM) in public debt management (PDM):
  - **Transparency**, as an element of accountability within the PDM governance framework;
  - **Management of stakeholders relations,** or the need to create and maintain a dynamic dialogue.

  - Co-authored with Rodrigo Cabral (WB) and Otavio Medeiros (Tesoro Brazil).

  - From perspective of broad understanding of transparency and SRM (not only in terms of investor relations)
    - In depth interviews of countries with sound practice debt management, both advanced and EM.
    - Review of relevant literature e.g. 2013 OECD survey on Investor Relations practice in 26 OECD countries;
    - International Institute of Finance annual evaluation of EM practice in data dissemination and investor relations.
    - Various papers and guidelines on sound practice.

Concepts

Transparency is a key element of accountability in the governance framework of public debt management



Transparency is also a key element for the financial markets, with reporting on key data to allow due diligence by investors and other stakeholders.

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Objectives of transparency

- Internally, provide PDM senior staff and policy-makers with timely information for making decisions and for monitoring performance.
- Promote good governance and accountability by demonstrating:
  - legal/regulatory compliance, contractual compliance (e.g. WB debt reporting), and compliance in reporting according to international standards.
- Develop and maintain a deep/liquid domestic debt market by providing transparent rules that promote a level playing field
- Provide timely, reliable information to potential/current investors, enabling sound investment decisions in a competitive environment
  - avoid asymmetric information, and minimize uncertainty for investors, which leads to increased risk premia.
- Reduce possibility of misinformation (e.g. with rating agencies, which could potentially impact the score).
- IIF: build trust & long-term relationships with investors during calm markets.

Most important requirements for investors (IIF)

Out of 20 criteria used for IR practices and data transparency, eight have the greatest weight:

1. Existence of formal IR unit with dedicated staff, identifiable & reachable
2. Subscription to IMF's Special Data Dissemination Standards (SDDS)
3. Effective transparency of market-related data
4. Availability of forward-looking policy information
5. Central bank and government website(s) available in English
6. Active investor contact list
7. Archives of investor presentations & conference call material available on website(s)
8. Investor feedback reflected in policy decisions (* per country)

Out of 23 assessment criteria for data dissemination practices, six have the highest weight, including:

1. Availability of time series data
2. Adoption of accrual accounting for central government finance statistics (GFSM)
3. Availability of central government amortization schedule disseminated at least every 3 months
4. External debt time series availability, and amortization schedule disseminated at least every 6 months

2014 ASSESSMENT OF INVESTOR RELATIONS AND DATA TRANSPARENCY PRACTICES (Prioritized)

10/14/2014

INVESTOR RELATIONS PRACTICES CRITERIA		Investor Relations Office/Staff		Investor Relations Website			Dissemination of Macroeconomic Data and Policy Information						Investor Relations Contact List	Feedback and Communication Channels							Regular Self-Assessment	
		Presence of institution-alized investor relations activities	Investor relations staff identifiable and reachable through website(s)	Central bank and government agency website(s) available in English	Reciprocal links to Central Bank, Ministry of Finance, and other government agency websites	Investors able to register for website sub-scription	Country subscribes to SDDS	Effective data tran-sparency of market relevant data	Macro-economic data presented in market-friendly format	Historical policy information available	Forward-looking policy information available	Structural (legal, regulatory) information available	Active investor contact list	Web-based communicatio n with investors	Bilateral meetings with investors	Non-deal roadshow(s)	Investor conference call(s)	Archives of investor presentations and conference call materials available on website(s)	Investor feedback reflected in policy decisions, *per country	Senior policymakers accessible to investors	Regular self-assessment of investor relations activities	
	WEIGHT	2	3	3	1	1	3	3	2	2	3	2	3	2	1	1	1	3	3	2	1	
COUNTRY	SCORE																					COUNTRY
Belize	7	0	0	3	0	0	0	1	0	0	0	2	0	0	1	0	0	0	0	0	0	Belize
Brazil*	41	2	3	3	1	1	3	3	2	2	3	2	3	2	1	1	0	3	3	2	1	Brazil*
Brazil (Gerin)	41	2	3	3	1	1	3	3	2	2	3	2	3	2	1	1	0	3	3	2	1	Brazil (Gerin)
Brazil (National Treasury	41	2	3	3	1	1	3	3	2	2	3	2	3	2	1	1	0	3	3	2	1	Brazil (National Trea:
Bulgaria	23	0	0	3	1	0	3	3	2	2	3	2	0	0	1	0	0	0	3	0	0	Bulgaria
Chile	41	2	3	3	1	1	3	3	2	2	3	2	3	2	1	1	0	3	3	2	1	Chile
China	10	0	0	3	0	0	0	0	2	0	0	2	0	2	1	0	0	0	0	0	0	China
Colombia	35	2	3	3	1	1	3	2	0	2	3	2	0	2	1	1	0	3	3	2	1	Colombia
Costa Rica	16	0	3	0	1	1	3	1	0	0	0	0	0	0	1	0	0	0	3	2	1	Costa Rica
Croatia	15	0	0	3	1	0	3	3	2	0	0	2	0	0	1	0	0	0	0	0	0	Croatia
Dominican Republic	36	2	3	3	1	1	0	3	2	0	3	2	3	2	1	1	0	3	3	2	1	Dominican Republic
Ecuador	6	0	0	0	0	0	3	2	0	0	0	0	0	0	1	0	0	0	0	0	0	Ecuador
Egypt	15	0	0	3	0	0	3	2	0	2	0	2	0	0	1	0	0	0	0	2	0	Egypt
Gabon	2	0	0	0	0	0	0	1	0	0	0	0	0	0	1	0	0	0	0	0	0	Gabon
Ghana	8	0	0	3	0	0	0	0	0	2	0	2	0	0	1	0	0	0	0	0	0	Ghana
Hungary	35	2	3	3	0	1	3	3	2	2	3	2	3	0	1	1	0	0	3	2	1	Hungary
Indonesia	42	2	3	3	1	1	3	3	2	2	3	2	3	2	1	1	1	3	3	2	1	Indonesia
Kenya	10	0	0	3	1	0	0	1	0	2	0	2	0	0	1	0	0	0	0	0	0	Kenya
Korea	28	2	0	3	1	0	3	2	2	2	3	2	0	0	1	1	0	0	3	2	1	Korea
Lebanon	27	0	0	3	1	1	0	2	2	2	3	2	3	0	1	1	0	0	3	2	1	Lebanon
Malaysia	19	0	0	3	1	0	3	2	2	2	0	0	0	0	1	0	0	0	3	2	0	Malaysia
Mexico	42	2	3	3	1	1	3	3	2	2	3	2	3	2	1	1	1	3	3	2	1	Mexico
Morocco	23	2	3	3	1	1	3	1	2	0	0	0	3	2	1	0	1	0	0	0	0	Morocco
Nigeria	11	0	0	3	0	0	0	0	0	0	3	2	0	2	1	0	0	0	0	0	0	Nigeria
Pakistan	21	0	0	3	1	1	0	2	2	2	1	2	0	0	1	1	0	0	3	2	0	Pakistan
Panama	32	2	3	1	1	1	0	2	2	0	1	2	3	2	1	1	1	3	3	2	1	Panama
Peru	41	2	3	3	1	1	3	3	2	2	3	2	3	2	1	1	0	3	3	2	1	Peru
Philippines	38	2	3	3	1	1	3	2	0	2	3	2	3	2	1	1	0	3	3	2	1	Philippines
Poland	38	2	3	3	1	1	3	3	2	2	3	2	3	2	1	1	0	0	3	2	1	Poland
Romania	20	0	0	3	0	0	3	1	0	2	3	2	0	0	1	0	0	0	3	2	0	Romania
Russian Federation	26	0	0	3	1	1	3	3	2	2	3	0	0	0	1	1	0	3	0	2	1	Russia
South Africa	41	2	3	3	1	1	3	3	2	2	3	2	3	2	1	1	0	3	3	2	1	South Africa
Tanzania	4	0	0	3	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	Tanzania
Thailand	23	0	0	3	1	1	3	2	0	2	0	2	3	0	1	0	0	0	3	2	0	Thailand
Tunisia	8	0	0	0	0	0	3	2	0	0	0	2	0	0	1	0	0	0	0	0	0	Tunisia
Turkey	42	2	3	3	1	1	3	3	2	2	3	2	3	2	1	1	1	3	3	2	1	Turkey
Ukraine	10	0	0	0	0	0	3	1	0	0	0	2	0	0	1	0	0	0	3	0	0	Ukraine
Uruguay	42	2	3	3	1	1	3	3	2	2	3	2	3	2	1	1	1	3	3	2	1	Uruguay
Venezuela	6	0	0	0	1	1	0	2	0	0	0	0	0	2	0	0	0	0	0	0	0	Venezuela
Vietnam	6	0	0	0	0	0	0	0	0	0	0	2	0	0	1	0	0	0	3	0	0	Vietnam
Zambia	4	0	0	3	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	Zambia

*Reflects a combined score of the Gerin office at the Banco Central do Brasil and the IRU office at the National Treasury.

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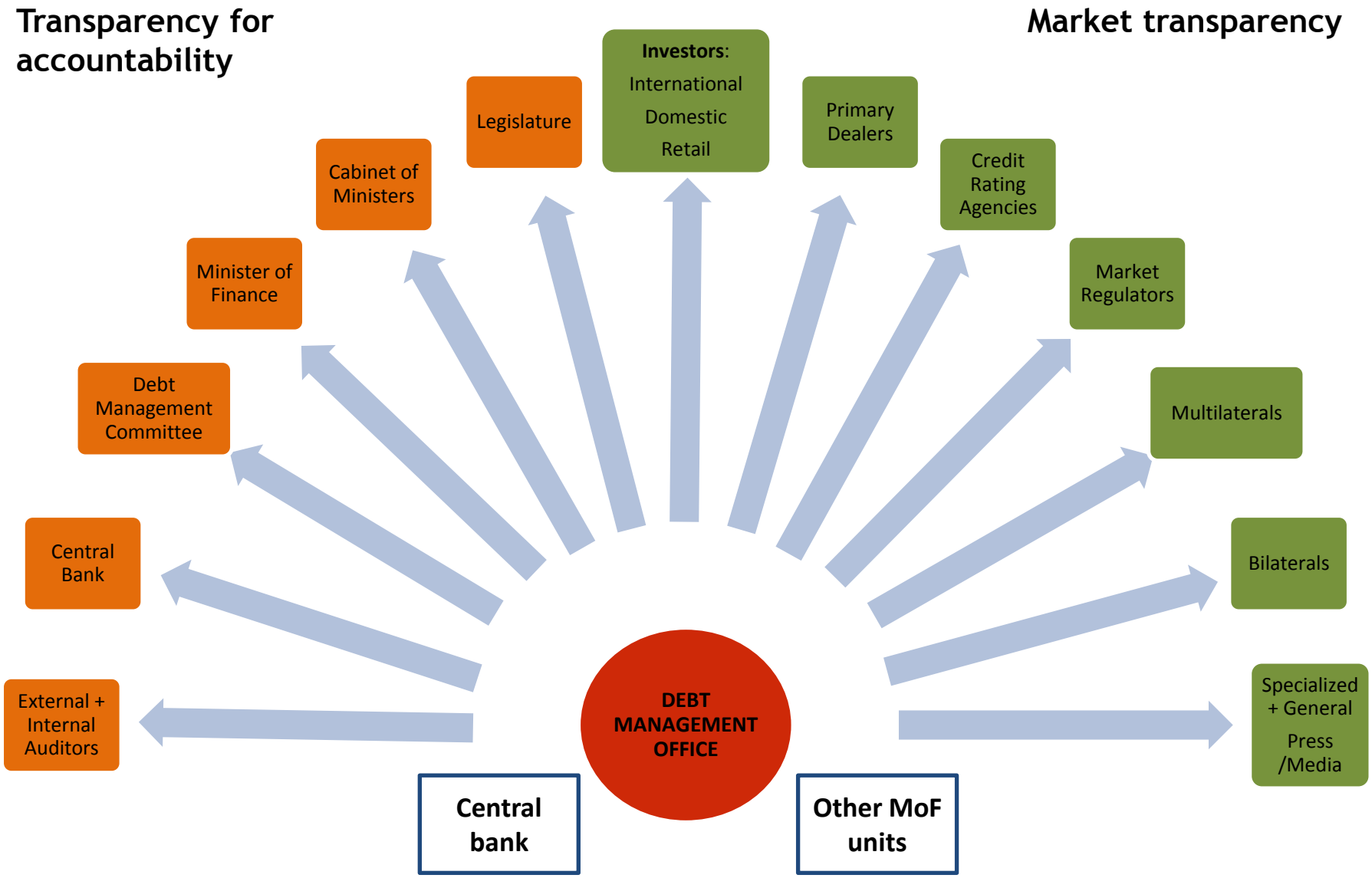
In sum, there are significant requirements for data dissemination from DMOs to ensure transparency for public sector governance and the financial markets.



Some minimum transparency requirements

(A)	(B)	(C)	(D)	(E)
Legal & inside government	**Auditors**	**Contractual reporting IFIs**	**Domestic market**	**International markets**
• Medium-term PDM strategy • Annual borrowing plan • Annual PDM report • Periodic statistical bulletins (debt; on-lending; guarantees on loans)	• Information on different modules, depending on type of audit • Probably (A)	• WB (debt reports) • IMF (e.g. SDDS)	• See IIF list, but also Annual & quarterly auction calendar • Requirement for primary dealers • Periodic auction results, etc.	• See IIF list • Prospectus with macroeconomic data, debt data etc. • Regulators • Rating agencies needs for data

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In addition, the function of PDM Stakeholder Relations Management enables an active dialogue between stakeholders and DMO.

- Not only one-way information output from the government, but also established channels for dialogue with stakeholders, particularly useful in stressful contexts
- Recognition of two-way influence, based on mutual feedback, e.g.:
  - investor preferences influence debt management actions, instruments and borrowing plans, and likewise publishing government annual borrowing plans will enable better planning by investors
  - IIF:
    - authorities communicate better with investor base
    - address their concerns & questions
    - shape market-informed policies
    - investors are better informed about country's current economic developments and prospects, as well as key economic policies and objectives.
  - This principle also applies to other important stakeholders, in addition to investors (e.g. auditors, press, rating agencies, etc.)

How necessary is it to have a more active dialogue and go beyond the minimum transparency requirements?

- Data dissemination involves costs (e.g. staff time, hard-copy publications, etc.) but may be comparatively inexpensive, in comparison to a more active stakeholder relations management (e.g. roadshows).

- The costs of transparency and data dissemination may be easier to justify.

- However, the DMOs consider that the most useful practices involve encounters between staff and stakeholders, involving a productive dialogue and feedback (next section).

- Ultimately, the answer will also depend on the country's situation: the more difficult it is, the more it will benefit from having built up a good communication with a number of stakeholders.

Some DMO practices & challenges

TSRM market activities are often created/ strengthened due to specific circumstances and/or strategies.

- Accountability/reporting responsibilities of DMO may be specified in the legal/regulatory framework upon creation of the DMO, but not always true.
- Financial markets transparency and stakeholders relations management are often strengthened due to changes in:
  - the economic context, domestic and international
  - the trend in funding needs
  - strategic decisions
- Various of the DMOs interviewed strengthened this function after 2008 (including high-income countries with high credit rating).
- Similar findings in survey of 26 OECD survey (both elements).

Most DMOs interviewed lacked a dedicated, specialized communications unit (e.g. IR unit) but had active communications

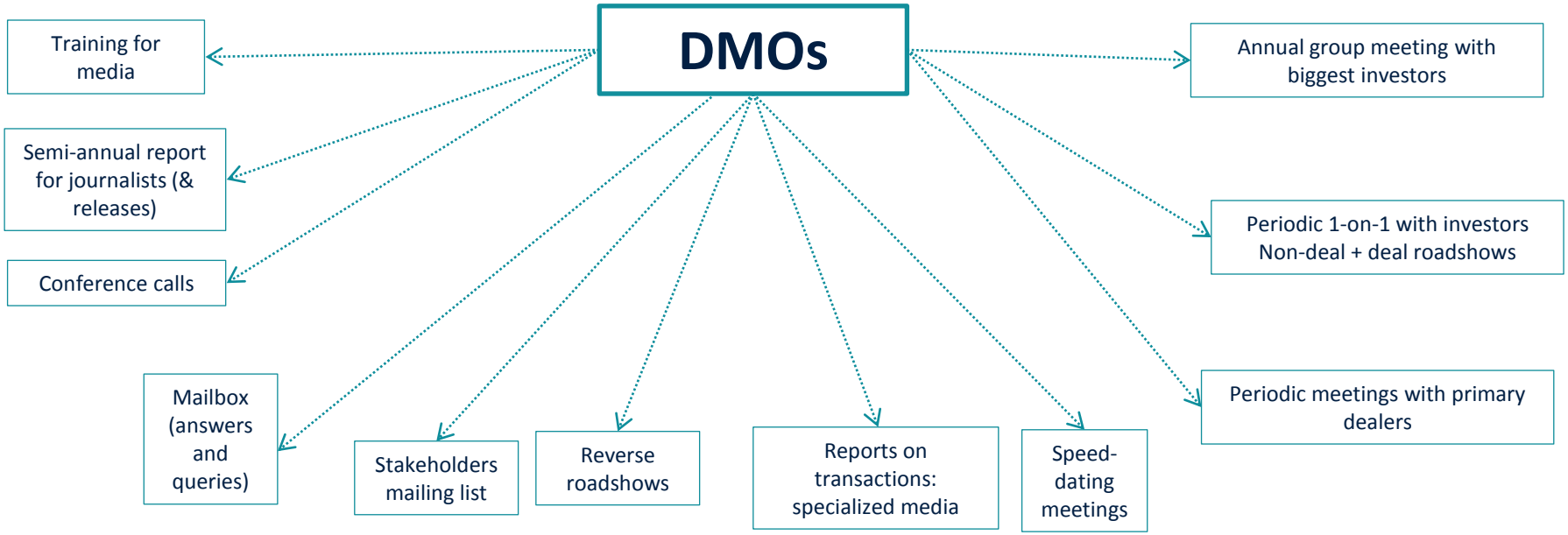
- Most distribute the functions among DMO staff that already have other responsibilities: front and/or middle office staff, plus senior staff.
  - Within this general framework, a few hired an expert in media/investor relations; some hired external advisors to create or strengthen the function
  - The advanced countries tended not to have formal IR units/programs.
- Even with a specialized IR unit, many communication functions are shared, with senior staff & policy-makers playing a key role.
- Some reporting functions are implemented by other department/units in MoF or in central bank (e.g. reporting to IMF, World Bank).
- A similar conclusion arose from the survey of 26 OECD countries(*) where only 3 had a dedicated IR unit.
- IIF found 14/39 EM countries had specialized units (2013).

(*) Mark Dooner, David McAlister (2013) OECD Working Paper on Sovereign Borrowing and Public Debt Management No. 6

Many DMOs use the same means of communication, both for data dissemination and for more active dialogue with stakeholders

Website

- Macroeconomic Reports
- Debt management strategy
  Annual borrowing plan
  Annual debt management report
  Investor presentations
- Statistical bulletins:
  - debt
  - on-lending,
  - guarantees
- Auction calendar,
  Auction results
  Requirements for primary dealers program, rights and obligations, etc.



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Most useful market-driven IR activities involve DMO meeting with stakeholders, exchanging ideas & obtaining feedback (OECD survey)

Rank	No.	Type of market-driven investor relations activities
1	19	**Primary dealers cooperation, feedback & consultation:** e.g. meetings with PD provides feedback for decisions; also formal consultations; help as market-maker and agent that assists in IR activities
2	16	**Road shows:** e.g. one-on-one meetings with investors during roadshows; fuels the decision-making process; relatively costly
3	13	**Publication/distribution of information, including press releases:** e.g. website; monthly bulletins on issuance; publication of PDM strategy and PDM Report, written articles to financial magazines; monthly updated investor presentation on website
4	11	**Meetings with investors/potential investors:** e.g. meetings with investors at DMO offices; face-to-face meetings with CEO attending; annual meetings allows market participants to give input on following year's financing program.
5	5	**Attendance at conferences/round tables:** e.g. panels, conferences, speed-dating at investor/issuer conferences (broader set of investors, inexpensive, but less feedback).

Measurement of impact of communications

- More than half of OECD countries surveyed lacked specific objectives or targets for their IR function.
- The most common criteria used by OECD countries to measure the value/benefits of IR activities are qualitative:
  - dealer commentary/feedback
  - customer feedback
- More quantitative criteria for measuring the impact had about half the mentions, including:
  - Media coverage/commentary
  - IR website traffic (number of hits)
  - Auction performance (coverage, tails)
  - Achievement of defined targets.
- Some DMOs obtained feedback on their IR function by sending out questionnaires, while others depended on feedback from investors and primary dealers.

Challenges identified

DMOs mostly mentioned difficulties in terms of the following interconnected factors:

- Obtaining sufficient budget (including for training in managing media, IR)
- Staff/time constraints
- Convincing senior staff and especially policy-makers of the importance of the communication function
- Measuring function's impact (e.g. on the market, in quantitative terms, and even qualitative terms) although less so in terms of output vs. planned output.

Concluding remarks

Concluding remarks

- Leading DMOs have an active TIRM function, at a minimum with transparency through data dissemination, but also with more active stakeholder dialogue.

- The latter may be strengthened when required, depending on the context and debt management and/or funding strategy, and within budgetary/staffing constraints. Active dialogue and transparency are even more relevant in difficult circumstances.

- DMOs not always have a dedicated unit for this function, and even if they do, for comprehensive communication need coordination and collaboration throughout the DMO and with other public sector entities (e.g. central bank) for smooth information flows.

Concluding remarks (cont).

- Back office output from the debt database is the basis of most communication, certainly transparency and data dissemination, and should not be undervalued.

- Good communication should strengthen public sector accountability, lower the risk/uncertainty premium of investors, allow them to make better investment decisions, increase demand for government securities, allow the DMO to take investor preferences into account in their funding plans and strategies, and build sounder bases for credit ratings, among others.

Thank you.

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