STRENGTHENING INSTITUTIONS TO MANAGE PUBLIC DEBT: DESIGN AND IMPLEMENTATION

NIPFP / DEA CONFERENCE ON FISCAL REFORM, GOA, INDIA

THE WORLD BANK

Treasury

Phillip Anderson

Senior Manager

Financial Advisory and Banking Department

December 13, 2014

CONTENTS

- Definition of public debt management
- Main elements of governance and accountability framework
- International experience: differences and similarities
- Towards establishing a debt management office (DMO): tasks and decisions required

What do we mean by public debt management?

"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"

Revised Guidelines for Public Debt Management, 2014

Debt management is distinct from fiscal policy

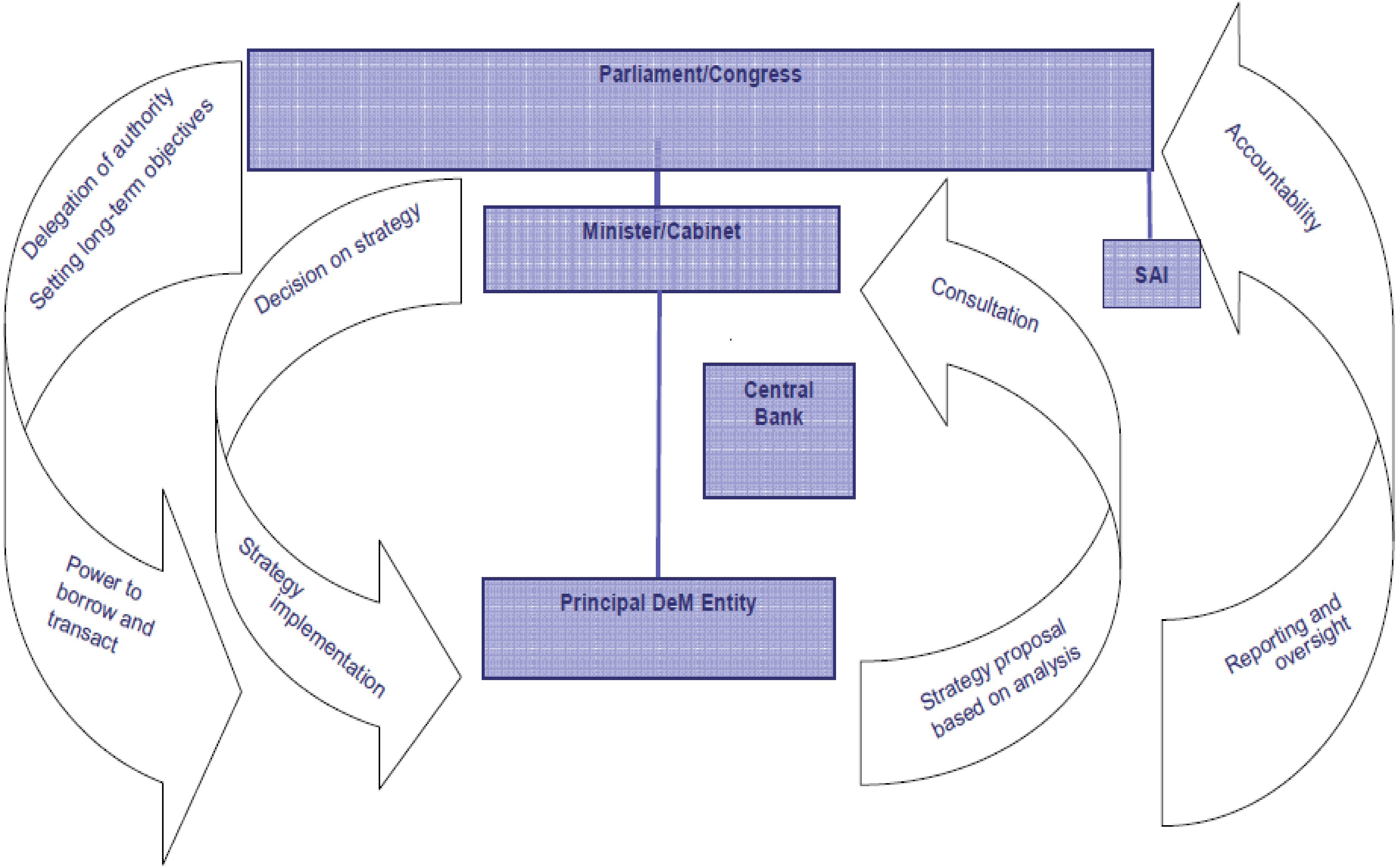
- **Fiscal Policy –** Aggregate government expenditure and taxation; microeconomic impact of individual tax and spending policies. Determines the <u>level</u> of debt

- **Debt management –** structure of the debt, cost and risk of the debt portfolio within acceptable tolerances. Determines the <u>composition</u> of the debt

But an important relationship between the two:

- *Need projected primary balances (and risk ranges around these) to plan the PDM strategy*
- *Debt managers provide fiscal authorities with information on risks in debt portfolio and any emerging debt sustainability concerns*

Governance structure and accountability



Benefits of consolidation of activities into one entity

There has been a strong trend over the last 25 years to consolidate public debt management in one entity (in many countries, across the income spectrum, this had been organized by source of borrowing)

This brings a number of benefits:

- Facilitates the development of a medium-term debt management strategy to guide all borrowing
- Promotes efficient execution across all types of transactions, e.g. impartial and faster decisions across different funding sources, or use of derivatives for arbitrage
- Facilitates reporting on public debt

A range of institutional forms seen across countries

These can be categorized based on the degree of operational independence from central government:

1. A department or division within a finance ministry or treasury (e.g. Brazil, Colombia, Italy, Japan, New Zealand, South Africa, Turkey)
2. Agencies established by executive decision (e.g. Australia, France, United Kingdom)
3. Agencies established under specific laws (e.g. Austria, Ireland, Portugal and Sweden)
4. Agencies established under general company law (e.g. Germany, Hungary)

Some caveats:

- Categorization is simplistic and masks detail of institutional arrangements, both within and across these categories
- Ignore the terms “agency”, “office” in titles: are not indicators of how entities are constituted

THE WORLD BANK
Treasury

Pros and cons of each: countries determine best fit

An agency approach may better support:

- Specialized operational requirements of the business: transacting in financial markets, e.g. IT systems, security, risk and control environment, financial market skills
- Accountability arrangements, through the need for an agency agreement

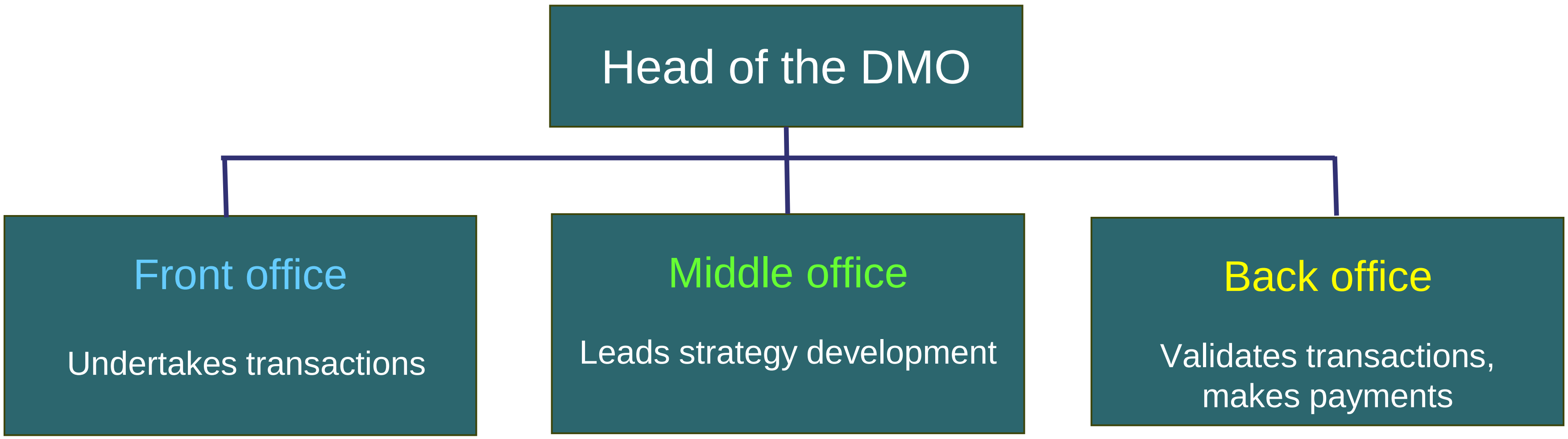
Embedding within a ministry has advantages in terms of:

- Closer links with the fiscal and budget planning (for strategy development), as well as overall balance sheet management, e.g. facilitating ALM
- A cadre of finance and financial market specialists being available to support other activities, e.g. development of regulation, capital markets advice.

Governments tend to adopt a form that is well established in that country

Main point is to understand the core requirements and address them

Internal organization of the DMO reflects core demands of the business



Other functions organized in a range of ways:

- *internal risk monitoring and compliance* (MO, to head, to higher level)
- *stakeholder relationships, communication* (FO, MO, shared service)
- *financial reporting* (BO, MO, shared service)
- *legal services* (to head, shared service)
- *specialized IT* (MO, BO, to head)
- *general administration, general IT* (to head, shared service)
- *broader advisory services* (optional function)

Towards establishing a DMO

Based on experience in other countries, some observations can be made:

- The business of managing public debt can not be compromised, so the initial phases of institution building tend to rely on bringing together existing teams
- A period of two years of design and planning could be expected
- Appointment of the first head of the new entity at an early date supports the establishment process
- Not all envisaged roles of the PDMA need to be included from the start; phased approach is common

THE WORLD BANK
Treasury

Tasks to undertake in the establishment of a DMO

The main tasks to undertake are:

1. Define scope and roles of the DMO
   - Core business is financing the government
   - Inclusion of cash management? Contingent liabilities? Retail debt? Services for states? Other services?

2. Design governance arrangements and institutional set-up
   - Accountability to the executive, parliament and the public
   - Legal framework
   - Reporting and communication
   - Contract out of some functions? (then need agency agreements)
   - How to shift functions from current entities; how will the interface operate in the future?

Tasks to undertake (2)

3. Develop a human resources plan
   - Analysis of skill sets of current staff; identify areas for supplementation
   - Terms and conditions of employment for staff; relationship with core public service
   - Code of conduct for staff

4. Develop an information technology platform
   - Diagnostic of existing IT systems
   - Integrate/ extend existing platforms? New build? Off-the-shelf?

5. Design processes and procedures for operations
   - Transaction execution and processing can draw on private sector practices
   - Management of operational risk is critical
   - Policy and strategy procedures will be linked to fiscal and budget

6. Physical infrastructure and support services
   - Location and sourcing of premises
   - Arrangements for support services, e.g. HR, legal, general IT

CONTACTS

SECTION TITLE

Phillip Anderson	Senior Manager	World Bank Treasury	+ 1 202 473 4328	prdanderson@worldbank.org