

I. Contingent Liabilities: Managing Fiscal Risks

The current COVID-19 pandemic has once again reminded us of unforeseen risks that could potentially have devastating impact of fiscal position of the Government and lead to a sudden increase in borrowing needs. Fiscal risks are defined as deviations from fiscal outcomes expected at the time of budget formulation. These deviations might create significant impact on government finances and impair the capacity of governments to use fiscal policy to stabilize economic activity and support long-term growth.

The World Bank has developed a collection of resources to provide capacity-building to emerging and developing economies on assessing and managing a variety of fiscal risks. An extensive program of on- and off-site technical assistance, in-person and virtual workshops, knowledge products, and analytical tools help deliver these advisory services. More information about the World Bank Collection of Resources and Program is [here](#).

These resources are grounded in following the pillars:

Fiscal Risk Assessment (FRA)

A framework to identify and assess the fiscal risks to which a country is exposed, FRA is diagnostic tool to identify direct and contingent liabilities and map them into a fiscal risk matrix. Such mapping helps countries capture the big picture and develop a broad understanding of their exposure to fiscal risks. The FRA framework also assists the



prioritization of risks by quantitative and qualitative assessment where possible, considering likelihood and impact.

Ultimately, FRA findings allow for customized reform actions around the necessary building blocks (e.g., governance arrangements, coordination among government policies, capacity and management of internal operations, fiscal risk management strategy development, fiscal risk evaluation methodologies) and developing Contingent Liability Management Strategies to monitor and mitigate specific fiscal risks. Based on these strategies, countries can develop various policy measures that take into account the direct, contingent, explicit, and implicit nature of the exposure (e.g., whether to issue guarantees to state-owned enterprises instead of being exposed to the implicit contingent liabilities from them).

Technical assistance tailored to individual types of fiscal risks, including risks related to government guarantees, PPPs, etc.

For each fiscal risk arising from a debt-related liability, risk-management strategies are developed to implement tools to mitigate and monitor risks. Such tools help to raise awareness about risks (e.g., risk disclosure and accounting); mitigate risks (e.g., through financial hedges, and insurance); and increase preparedness in case risks materialize (e.g., through fee revenues; contingency funds; and budgeting). The set of analytical tools used to monitor these risks includes a Framework for Managing Government Guarantees, the Public-Private Partnerships Fiscal Risk Assessment (PFRAM) Model, and a stochastic fiscal sustainability assessment.

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II. Medium-Term Debt Management Strategy (MTDS): The Analytical Tool Interactive Manual is Published

The World Bank and International Monetary Fund have developed a systematic and comprehensive framework to help countries develop an effective Medium-Term Debt Management Strategy (MTDS). The framework is discussed in the Guidance Note for Developing a Medium Term Debt Management Strategy (February 2019), which is accompanied by the Analytical Tool (AT) that can be used to assist governments in their decision making on how financing needs can be met, taking into account macroeconomic constraints and potential sources of financing.

In 2020, the World Bank developed an Interactive Manual to complement the Guidance Note and improve users' learning experience through a self-paced course. The course guides government officials through concepts and steps covered by the framework and the AT, by illustrating each of its inputs, analysis and outputs.



More about the Interactive Manual [here](#)

III. Staff Corner

Meet the Team

Cigdem Aslan joined the World Bank in 2010 with more than 15 years of experience in sovereign debt management. In her current position, Cigdem contributes to World Bank capacity building activities and advisory services on public debt and risk management. She also works on training and research activities related to government



Cigdem Aslan, Lead Debt Specialist

debt management strategy, risk management, governance, contingent liabilities and domestic debt market development.

Prior to her move to the World Bank, Cigdem was part of the core team that designed and implemented debt management reforms at the Turkish Treasury. Her last position was Head of Credit Risk Management department where she was responsible for a range of policy issues and risk management activities mainly associated with the government's contingent liabilities, sub-nationals, and public-private partnerships.

IV. DMF Missions and Regional Trainings

During this period, all missions were conducted remotely due to COVID-19

Cash Management, Debt Reporting and MTDS Missions

TITLE	Cash Management Technical Assistance
OBJECTIVE	Technical assistance to strengthen cash management with an emphasis on preparing and monitoring reliable annual and monthly cash plans well-coordinated with expenditure plans.
COUNTRY	Haiti, July 15–31, 2020
ORGANIZERS	IMF
HIGHLIGHTS	The mission advised the authorities on cash management and held two virtual workshops to present appropriate techniques for the preparation and monitoring of cash and commitment plans.

TITLE	Reform Plan Technical Assistance
OBJECTIVE	Provide input for debt management reforms, including addressing the staffing of the Public Debt Management Office.
COUNTRY	Kenya, July 20–24, 2020
ORGANIZERS	World Bank/IMF
HIGHLIGHTS	The mission highlighted the need for the authorities to create an enabling framework for effective TA intervention in debt management. The main constraints to the effectiveness of TA include coordination challenges due to the seeming lack of an agreed understanding regarding envisaged reforms and the implied changes in respective roles of institutions involved; and modest progress in strengthening the organizational structure and the requisite staff complement of the PDMO, which would impair knowledge transfer and capacity building.

TITLE	MTDS and Annual Borrowing Plan
OBJECTIVE	Technical assistance to the Public Debt Directorate to design a Medium-Term Debt Management Strategy (MTDS) and an Annual Borrowing Plan (ABP).
COUNTRY	Togo, September 28–October 9, 2020
ORGANIZERS	World Bank/IMF
HIGHLIGHTS	The mission provided detailed inputs to the draft strategy document which are expected to be captured in the revised strategy document. A debt strategy is updated annually, annexed to the budget and discussed at the parliament on annual basis.

TITLE	MTDS Development Technical Assistance
OBJECTIVE	The Medium-Term Debt Management Strategy (MTDS) technical assistance for Cameroon aimed to strengthen the capacity of Debt Management Offices (DMO) to formulate and implement a robust debt management strategy.
COUNTRY	Cameroon, August 10–21, 2020
ORGANIZERS	World Bank/IMF in Collaboration with the AFRITAC Center
HIGHLIGHTS	The virtual workshop strengthened coordination on debt issues by bringing together government entities involved in public debt management including the technical commission of the national public debt committee (CNDP), the Autonomous and Amortization Fund (CAA) and the General Directorate of the Treasury, Financial and Monetary Cooperation (DGTCFM). It has contributed to assessing the implementation of the previous DMS, discussed the shortcomings and challenges in current DMS and proposed remedial actions.

TITLE	Debt Reporting and Monitoring
OBJECTIVE	Improve the comprehensiveness, consistency, and formats of debt reporting in Sierra Leone, with the ultimate objective to improve transparency and reduce arrears. In this mission the focus was on current debt compilation and reporting practices.
COUNTRY	Sierra Leone, August 24–28, 2020
ORGANIZERS	IMF
HIGHLIGHTS	The mission reviewed the institutional arrangements for debt reporting, analyzed debt reporting processes and systems in use, and examined the formats, coverage and statistical practices underlying the various debt reports.

Regional Training

2 TRAINING WORKSHOPS  38 PUBLIC OFFICIALS TRAINED 

TRAINING ACTIVITY	International Bond Issuance
OBJECTIVE	In 2019 the World Bank published “International Bond Issuance: A Guidance Note”. While not recommending countries to issue international bonds, it focused on putting the issuer instead investment banks in the driver’s seat when issuing. Based on the note, an online training course was developed. The course guides participants through the issuance process in six steps and provides guidance on operational as well as issues related to pricing of international bonds.
COUNTRY	Virtual, July 7–15, 2020
ORGANIZERS	World Bank
PARTICIPANTS	Attended by 18 participants from Angola, Ethiopia, Kenya, Tanzania, Uganda and Zambia.
TRAINING ACTIVITY	Regional DeMPA Training
OBJECTIVE	Familiarize the participants with the debt management performance assessment methodology and the 2015 DeMPA update.
COUNTRY	Vienna, Austria August 17–21, 2020
ORGANIZERS	World Bank
PARTICIPANTS	Twenty participants from Armenia, Belarus, Cabo Verde, Ethiopia, Kyrgyz Republic, Lesotho, Rwanda and Uzbekistan attended the training.

VI. Debt Management Events and Publications

Upcoming Mission Events:

COUNTRY	REMOTE ACTIVITY	NAME	DATES
Togo	Technical Assistance	MTDS Strategy Development	September 28–October 9, 2020
Cape Verde	Technical Assistance	Debt Related Contingent Liabilities and Fiscal Risks	October 1–15, 2020
Bhutan	Technical Assistance	MTDS Strategy Development	October 5–12, 2020
Democratic Republic of Congo	Technical Assistance	MTDS Strategy Development	October 12–23, 2020

Upcoming Training Events:

COUNTRY	REMOTE ACTIVITY	NAME	DATES
Virtual	Regional Training	DSA-LIC DSF-MOOC	October 1, 2020
Virtual	Regional Training	Legal Aspects of External Debt Obligations	October 19–22, 2020
Virtual	Regional Training for East Africa Group	DSA-LIC DSF	December 7–11, 2020

Past Debt Publications:

Understanding Global Debt: Relieving the COVID-19 Impact on the Most Vulnerable

In an effort to mitigate the impact of the pandemic, the World Bank Group (WBG) and the International Monetary Fund (IMF) stepped up to financially support developing countries. In response to a joint call for action by the WBG and IMF, the G20 finance ministers announced that official bilateral creditors will allow IDA countries that request forbearance to suspend their debt service payments, beginning May 1, for the remainder of 2020. More about the Publication [here](#)



London Interbank Offered Rate Transition

The World Bank has been working to facilitate a smooth and orderly transition to new reference rates since 2018, after the decision to discontinue LIBOR was announced. The transition will affect



various workstreams which are coordinated and governed across the World Bank. The institution has already taken several measures so that when a suitable alternative reference rate becomes available and it is appropriate to do so, the World Bank will be able to transition its existing IBRD and IDA loan portfolios that use LIBOR as a reference rate to the alternative reference rates. More about the Publication [here](#).

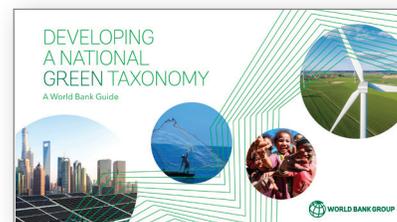
A “Debt Standstill” for the Poorest Countries: How Much is at Stake?

Developing countries are already suffering from the health, social and economic consequences of the coronavirus. A looming debt crisis would be catastrophic. On 15 April, G20 finance ministers agreed to a debt “standstill” for 2020. This policy paper aims to illustrate the impact of this decision on donors and developing countries, including an assessment of the countries that will bear the burden of immediate debt service suspension. While successful at alleviating immediate liquidity pressures, this policy should be followed by country-by-country analyses of sustainability. A “debt standstill” for the poorest countries: How much is at stake? More about the Publication [here](#).



Developing a National Green Taxonomy: A World Bank Guide

In recent decades, the challenges of a rapidly warming planet and other aspects of environmental degradation have motivated a call for all actors in society, including the financial sector, to take responsibility for environmental sustainability. The funding will have to come from both the public and private sectors, leveraging all asset classes, including bank credits, bonds, and secured assets, and involving a wide range of actors, including international financial institutions, central banks and financial regulators, banks, and institutional investors. More about the Publication [here](#).



Investor Sentiment, Sovereign Debt Mispricing, and Economic Outcomes

Occasionally, countries consider themselves lucky when they can borrow at rates which are considered low given their fundamentals. This may for example happen when investors are optimistic



about the country’s future – a sentiment which then often spills over to the country’s government and its citizens. In sharp contrast to these expectations, however, we find that episodes of sovereign spreads dropping to inexplicably low levels, are often harbingers of future economic difficulties. More about the Publication [here](#).

Managing Fiscal Risks from State-Owned Enterprises

Governments must navigate many fiscal risks: one area where the stakes are high are state-owned enterprises (SOEs). In many countries, the portfolio of SOEs remains large, diversified, and complex to assess. SOEs can represent a large cost to the budget when governments have to bail out the company and may even affect the credit rating of the country. But financial difficulties in SOEs may also imply that core public services fail, such



as the provision of water and electricity, or impact the financial sector if they default. SOEs may also undermine economic growth if their efficiency is poor especially as they operate in network sectors. In some cases, they manage a large share of the wealth of the country, such as national oil companies. More about the Publication [here](#).

Sovereign Investor Relations: From Principles to Practice

This paper defines sovereign investor relations (IR) and places it in the context of modern debt management theory. It highlights the role that improvements in IR and debt transparency can play in improving the cost-risk tradeoff in debt management, supporting market access and acting as a first line of defense in times of crisis. It sets out a policy framework and institutional arrangements for effective IR, as well as discussing the various practices, publications and strategies that underpin an IR program. More about the Publication [here](#).



DMF III Donors as of end–September 2020

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The DMF Newsletter is published quarterly by the DMF Secretariat. The newsletter is distributed to debt management practitioners from developing countries, donors, DMF implementing partners, civil society organizations and private sector firms. The newsletter aims to share DMF work plans, lessons learned, and news and developments related to debt management.

