DEBT MANAGEMENT FACILITY

Newsletter
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Issue 29

In this Issue

I. Debt Sustainability Framework For Low-Income Countries: Revised and Improved

In late September 2017, the Boards of the World Bank and International Monetary Fund approved reforms to the Debt Sustainability Framework for Low-Income Countries (LIC DSF) that will be effective as of July 1, 2018. These reforms render the framework more comprehensive, transparent, simpler, easier to use and better able to capture the risks of debt distress.

Why Now?

The LIC DSF was introduced in 2005 jointly by the World Bank and International Monetary Fund. Since then, it has remained the cornerstone of assessments of risks to debt sustainability in LICs, with important operational implications for multilateral institutions and other creditors. Since 2005, the economic environment in which many LICs operate has changed significantly. These changes, along with the availability of additional country data, and requests to improve and simplify the framework from external consultations informed the reforms that were approved. The 2017 LIC DSF review was the fourth review, the latest having been undertaken in 2012. Neither, IDA's Non-Concessional Borrowing Policy (NCBP) nor the Fund's Debt Limits Policy (DLP) will be changed by the new DSF methodology.

What has Changed?

Despite extensive reforms, the core DSF architecture will be preserved. Countries are still classified in 3 groups according to their debt-carrying capacity (i.e., weak, medium and strong.) The assessment is based on macro projections under baseline and alternative scenarios. Debt burden indicators are compared to country specific thresholds. And the final risk ratings are based on rules that provide mechanical signals plus judgment. The main changes to the framework are captured in the table below (see next page).

What is Next?

World Bank and IMF staff is in the process of updating the LIC DSF Guidance Note, template, and training materials with a view to finalize by end-2017. Sixteen trainings are planned until end-June 2018. These include high-level two-day seminars that describe the conceptual changes to the framework and week-long workshops that will delve into the new materials and template. These offerings are organized by the World Bank and IMF in collaboration with the DMF's implementing partners and the IMF's technical assistance centers. Do consult the calendar of training events continuously for the latest trainings offered across regions.

Proposed changes **to the Debt**
Sustainability Framework
for low Income Countries
(LIC DSF)

	Existing DSF	Reformed DSF
Core debt **distress** model	Identifies only severe debt distress episodes. Few country-specific explanatory variables.	Enhanced methodology to identify alldebt distress episodes. Expanded specification including key country-specific fundamentals to improve predictive capacity.
Country classification	Relies exclusively on the CPIA. Backward-looking classification.	Based on a composite measure covering the CPIA, growth, reserve coverage, remittances, and world growth. Incorporate forward-looking elements (enhancing engagement with country authorities).
Realism **tools**		To support stronger baseline projections and implementation of new classification (e.g., realism of projected fiscal adjustment and the investment growth nexus).
Debt indicators and thresholds	Complex: five debt indicators and 24thresholds. Thresholds are derived individually without regard to the information of other debt indicators to predict debt distress (introducing conservative bias).	Significant simplification: four debt indicators and 12 thresholds. Thresholds are derived jointly in line with the DSF's aggregation rule (eliminating a source of conservative bias).
Standardized **stress tests**	16 stress tests, lack of macro-linkages, and non-common testing across the external and public DSA.	8 common re-calibrated and re-designed stress tests across the external and public DSA, incorporating macro-linkages.
Tailored **stress tests**		To better evaluate scenario risks of relevance for some countries (e.g., natural disasters).
Assessment of other **potential risk** factors	Tools to assess: Domestic debt vulnerabilities.	Tools to assess: Domestic debt vulnerabilities. Market-financing pressures. Diversity of debt vulnerabilities in countries rated as moderate risk.
Enhanced guidance for the application of judgment		On marginal/transitory breaches. On severe domestic-debt vulnerabilities and exposure to external market-financing pressures, among other factors.

II. Debt Management Practitioners Program

Since its inception, the Debt Management Practitioners Program (DMPP) has provided an outstanding opportunity for debt managers around the world to strengthen their skills by means of engaging in a range of activities from the DMF's work program (i.e. participating in missions, trainings, etc.) as well as peer-to-peer knowledge exchange with World Bank staff and debt management experts. Since 2009, 41 participants from 39 DMF-eligible countries in East Asia and the Pacific (EAP), Europe and Central Asia (ECA), Latin America and the Caribbean (LAC), Middle East and North Africa (MENA), South Asia Region (SAR), as well as Sub-Saharan Africa (SSA) have come to Washington DC for a three-month special assignment at the Macroeconomics and Fiscal Management Global Practice.

The next cycle for the DMPP will start in 2018. Debt management specialists from Georgia and Somalia will be joining the World Bank in Washington D.C. for a three month period

Mr. Irakli Katcharava
Head of Domestic Public Debt Instruments' Development Division
Ministry of Finance of Georgia

Mr. Mohamed Ahmed
Head of Debt Management Unit
Ministry of Finance of Somalia

News from past DMPPs

This time, we have asked DMPP alumni to share with us recent developments, once back to their respective countries. We are glad to know that the effort of putting in place the DMPP has thus far contributed to promote sound debt management practices. Next, there are some testimonies received from our colleagues to whom we also thank for sharing.
We will keep updating this section in the future.

Thin Thin Su

Debt Management Division
Treasury Department
Ministry of Planning and Finance, Myanmar

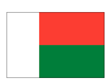
"Currently I handle debt reporting and analysis, including MTDS, DSA and securities issuance. The DMPP experience and benefits remain invaluable for me".

Riyadh Farea Rajab

Manager of DMFAS Department
Central Bank of Yemen

"The greatest value from the DMPP is that I could design the MTDS report for Yemen".

Volatantely Randrianjanaka



Chef de Service de l'Analyse
Direction de la Dette Publique
Ministère des Finances et du Budget, Madagascar

"The DMPP experience reinforced me to well and truly carry out my duties, and to shed a new light on the situation in my department in order to meet the international standards. Currently, we publish as MTDS report, public debt bulletin on regular basis".

Stanislas Nkhata

Director of the Debt Management Programme
Macroeconomic and Financial Management Institute of Eastern and Southern Africa

"Upon return to Malawi I shared my knowledge and experiences with workmates through in-house training programs. I left the Debt Management Office in Malawi in 2012 to join MEFMI where I share my knowledge and skills on Debt Management to 14 member countries in Eastern and Southern Africa ".

Edwin Chihava

Responsible for MTDS, DSA and Risk Assessments
Ministry of Finance of Zimbabwe

"Upon my return to Zimbabwe, I led a two-week workshop in which I presented my findings and came up with the first MTDS. I also assisted in coming up with a Risk Framework for assessing and monitoring contingent liabilities. I mastered the MTDS during my DMPP stay in Washington DC".

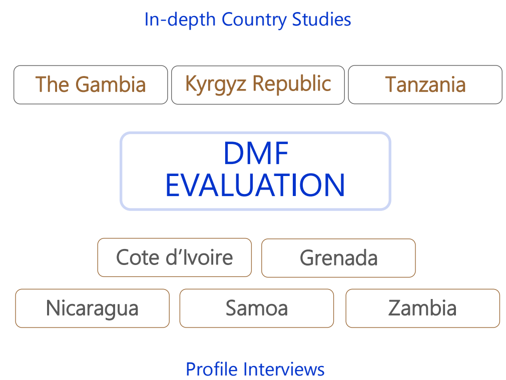
Yasantha Weerasinghe

Deputy Superintentdent of Public Debt
Public Debt Department
Central Bank of Sri Lanka

"Upon reporting back from the DMPP work I submitted my suggestions for a Hybrid Auction System of Government securities issuances at the Central Bank of Sri Lanka (CBSL). After certain further adjustments, CBSL introduced a new issuance methodology for Treasury Bonds in July 2017 ".

III. DMF Mid-Term Evaluation

The external mid-term evaluation of the DMF II is underway, and is expected to be finalized in February 2018. The evaluator, Universalia, is undertaking in-depth country studies in the Kyrgyz Republic, the Gambia, and Tanzania. These country studies will be supplemented by profile interviews with Samoa, Grenada, Nicaragua, Cote d'Ivoire, and Zambia. In addition, IPs, staff from the World Bank and the IMF, members of the SC, etc. will be interviewed. The objectives are to: evaluate whether DMF II is on track to achieve its objectives and goals; evaluate whether the new activities in DMF II have added value; and to provide specific advice on how to improve the program design and implementation.



IV. DMF Work Program: Activities For The Period July – September, 2017

Medium-Term Debt Management Strategy

Banjul, The Gambia

In response to a request from the Ministry of Finance and Economic Affairs (MoFEA) of the Government of the Gambia (GoTG), a Joint IMF and World Bank technical assistance (TA) mission visited Banjul, from July 7-20, 2017, to assist in refining The Gambian authorities MTDS and highlighting debt sustainability and financial sector risks.

The GoTG has sought to develop an MTDS that seeks government financing at lowest possible cost while reducing gross financing needs and mitigating key interest, exchange rate and rollover risks over the period 2017-2020.

Meeting between Government of the Gambia, IMF, WAIFEM and World Bank staff

Dushanbe, Tajikistan

At the request of the Government of Tajikistan, a joint World Bank and IMF mission visited Dushanbe from July 25-August 4, 2017, to assist the government in developing a medium-term debt management strategy (MTDS), and in analyzing the possible implications of financing through the sovereign bond issuance. The team assisted the debt department through inhouse training and capacity building to develop a medium-term debt management strategy based on cost-risk analysis, following on the Debt Management Reform Plan delivered to the authorities in December 2016 and the second Debt Management Performance Assessment (DeMPA) evaluation conducted in October 2015.
In addition, considering the request of the authorities, the MTDS mission concentrated on analyzing the possible implications of alternative financing options through the international bond issuance.

Debt Management Performance Assessment

Pristina, Kosovo

At the request of the Government of Kosovo (GoK), a World Bank mission, visited Kosovo during September 26–October 04, 2017 to conduct a debt management performance assessment (DeMPA). The mission assessed the strengths and areas of development. Discuss the immediate needs for reform plan activities. The mission worked with government officials from Cash and Debt Management Department (CDMD) of the Treasury, an agency of Ministry of Finance (MoF), as the main counterparty. Meetings were also held with the Central Bank of Kosovo (CBK), National Audit Office (NAO), Kosovo Pension Savings Fund (KPSF), and three primary dealer banks, as well as with various units of the MoF, including human resources, legal office and internal audit. This was the second evaluation of the government debt performances for the country. The first DeMPA assessment was conducted in 2012.

Reform Plan

Maputo, Mozambique

In response to the request from the Government of Mozambique to provide technical assistance to the Ministry of Economy and Finance (MEF) in the area of government debt management, a World Bank/MEFMI mission visited Maputo during September 27-October 6, 2017, following the Debt Management Performance Assessment (DeMPA) evaluation of February 2017. The team worked closely with the officials in the MEF and Bank of Mozambique (BoM) and summarized its recommendations at a closing meeting with the Minister of Finance. The reform areas were agreed with the MEF beforehand and included reforms in the legal and regulatory framework. The proposed actions focus on improvement of back, middle and front office efficiency, as well as the cash management function of the MEF's Treasury. A follow up review mission will be planned during 2018.

Trainings and Capacity Building Activities

Dakar, Senegal

A joint Medium Term Debt Management Strategy (MTDS) workshop was organized during September 11-15 in cooperation with Agence UMOA-Titres (AUT), the central agency issuing treasury bills and bonds on behalf of the West Africa Economic and Monetary Union (WAEMU) governments. The workshop was attended by 16 technical-level officials from the treasury departments of the Ministries of Finance of the eight WAEMU countries: Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo. The workshop was aimed at building capacity in analyzing the cost and risk characteristics of a government debt portfolio and in developing a MTDS. A range of issues were discussed, including: the objectives and scope of a debt management strategy, market developments in the WAEMU region and documentation and dissemination of the MTDS document.

Group Discussion at the MTDS Training in Senegal

Gaborone, Botswana

A joint WB/IMF and Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) organized a regional training on sovereign liabilities risk analysis and debt strategy formulation during July 22-August 4, 2017. The team (WBG/IMF/MEFMI) jointly delivered full MTDS training to forty participants from Central Banks and Ministry of Finance government officials coming from Angola, Botswana, Kenya, Lesotho, Malawi, Mozambique, Namibia, Swaziland, Uganda, Zambia and Zimbabwe. In addition to the lectures, participants from Kenya, Uganda and Zimbabwe shared experiences on debt strategy formulation, highlighting challenges and key success factors. The training targeted middle-level officials responsible for middle and front office functions of debt management in Ministries of Finance and Economic Planning as well as from Central Banks. Participants were drawn from 11 out of the 14 MEFMI member countries.

Abuja, Nigeria

A joint World Bank–IMF team, visited Abuja, Nigeria, from July 24-28, 2017 to deliver a workshop on debt sustainability analysis. Participants included technical-level officials from the ministries of finance, debt management units and central banks for the five WAIFEM countries— Gambia, Ghana, Liberia, Nigeria, and Sierra Leone. The workshop was organized by DMF Implementing Partner- WAIFEM. The objective of the training was to build capacity of country officials to prepare and interpret a debt sustainability analysis. A range of issues was discussed, including: (i) key concepts of debt sustainability, (ii) macroeconomic linkages, (iii) external and public debt dynamics, (iv) baseline and shock scenarios, and (v) operational implications of risk ratings, debt ratios, and thresholds.

MAC DSA Training Participants

Vienna, Austria

A World Bank /UNCTAD team conducted a DeMPA training workshop during August 7-11, 2017 at the Joint Vienna Institute (JVI), Austria. The objective of the workshop was to familiarize the participants with the debt management performance assessment methodology and the 2015 DeMPA update. Participants from debt departments and external audit institutions from Armenia, Belarus, Bosnia, India, Georgia, Ghana, Kenya, Kosovo, Moldova, Pakistan, Serbia and Turkey attended the training. This five-day course achieved the following objectives: (i) informed participants about the main areas of performance measurement while evaluating the central government debt activities, (ii) familiarized participants with the application technics for evaluating debt management performances, (iii) informed participants about the cross-country experience and recent trends in sound debt management practices at the central government level. The course format included presentations and hands-on case studies with discussions about operational application of the DeMPA. During the course, five countries' representatives have delivered specific presentations on debt management practices and shared progress in reforms' implementation.

Annual Meetings Seminar on Sovereign Debt in Developing Countries: Rising Vulnerabilities and the Path to Resilience

During the Annual Meetings, the IMF organized a seminar on rising sovereign debt vulnerabilities in developing countries amid a new creditor landscape and increases in non-concessional and collateralized debts. In his introductory remarks, IMF Deputy Managing Director Tao Zhang set the context: a 10 percentage point increase in debt/GDP ratios in LICs over the last three years; a shift in debt structure away from long-term concessional debt and towards external commercial, domestic, and collateralized debts; and the continued high vulnerability of public finances to exogenous shocks, notably commodity price swings but also, for example, natural disasters.

Tao Zhang Deputy Managing Director IMF, Sir Paul Collier Professor of Economics and Public Policy at University of Oxford (Moderator), Keith Mitchell Prime Minister of Grenada, Martyn Parker Chairman of Global Partnerships at Swiss Re, Sonja Gibbs, Institute for International Finance, Alberto Torres García Deputy Undersecretary for Public Credit at Mexico's Ministry of Finance, and Guillaume Chabert Assistant Secretary for Multilateral Affairs, Trade and Development Policies

The ensuing discussion highlighted the need to protect against exogenous shocks via fiscal discipline and local currency markets as first line of defence, along with the development of state-contingent instruments for disaster-prone countries and commodity producers. More work on natural catastrophe insurance remains to be done by the private sector and official creditors to generate a critical mass of such shock-absorptive instruments. In this context, panellists mentioned that international finance institutions could play a bigger role, as they have natural exposure hedges, e.g., loans to both oil importers and exporters.

The panel also addressed the role of creditors and debtors in preventing/resolving over-indebtedness. Private creditors' lending and reporting standards were considered to be robust, but collateralized debts and an unclear boundary between commercial and official claims tend to complicate restructuring hierarchies. Private creditors could assume a larger role in ensuring sound lending (such as by paying greater attention to LICs' distance from debt limits). Official creditors also need to become more accommodative to prudent debt management actions, such as early payments of loans. The seminar was well attended and provided a lively debate to these important topics. A link to the seminar is available here

Keith Mitchell, Prime Minister of Grenada, stated that the scale of damage caused by natural disasters means eschewing insurance is not an option for small states

V. Recommended Reading

Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) - Statistical Update. August 4, 2017

This report provides an update on the status of implementation for the HIPC Initiative and the MDRI and the cost estimates of these Initiatives in end-2015 present value (PV) terms. Updates are also provided to the overall progress made under the Initiative to date. Updated figures and tables refer to: i) trends in poverty-reducing spending and debt service in HIPCs; ii) costs of the initiatives by creditor and country; iii) non-Paris Club bilateral creditor participation; iv) commercial creditor litigation against HIPCs. Reporting on progress made in achieving Millennium Development Goals has been discontinued.

More information about debt relief can be found here. The full report in pdf format can be downloaded here.

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Contact Information

Debt Management Facility
The World Bank Group
1818 H Street, NW
Washington D.C. 20433

www.dmfacility.org
www.worldbank.org/debt
dmf@worldbank.org

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