



Sovereign Debt Management Newsletter

Storkey & Co Limited
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What's New

The main focus of activity over the past three months has been our continuing involvement in debt management capacity building consulting assignments in the Asian region, with a focus on the legal and institutional framework for effective debt management in each country.

In this Newsletter, there are articles covering:

- The distinguishing features that set aside six of the best DMOs.
- An assessment of DMO websites.
- UK DMO's consultation process for possible issuance of sterling Islamic financial instruments or 'sukuk'.
- IMF working paper on the concept of a risk-based debt sustainability framework.

Storkey & Co Update

Over the past 3 months, we have:

- continued to assist with the Debt Management and Fiscal Risk component of the World Bank and DFID Public Financial Management Reform Project (PFMRP) for the Ministry of Finance in Vietnam.
- continued to assist the World Bank in developing and now implementing the debt management performance assessment (DeMPPA) tool across low-income countries.

We have updated our website with debt management courses in 2008 for each training provider that we have identified, namely Crown Agents, Central Banking Publications, IMF Institute, MEFMI, UNITAR and WAIFEM.

The World Bank Public Debt Management Group initiated a survey during 2007 to identify debt management training providers. When this is completed and details disseminated, it will provide a valuable resource base as there is an increasing need for experienced public debt management trainers, both for central and sub-national governments.

Many DMOs have published their debt strategy and borrowing program for 2008. Details can be found in the list of Debt Management Unit Publications & Websites on page 4.

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Special points of interest:

The World Bank has published two further policy research working papers:

- *A Cross-Country Analysis of Public Debt Management Strategies* by Martin Malecky (wps4287)
- *The Growth in Government Domestic Debt: Changing Burdens and Risks* by James A. Hanson (wps4348)

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Six of the Best Debt Management Offices

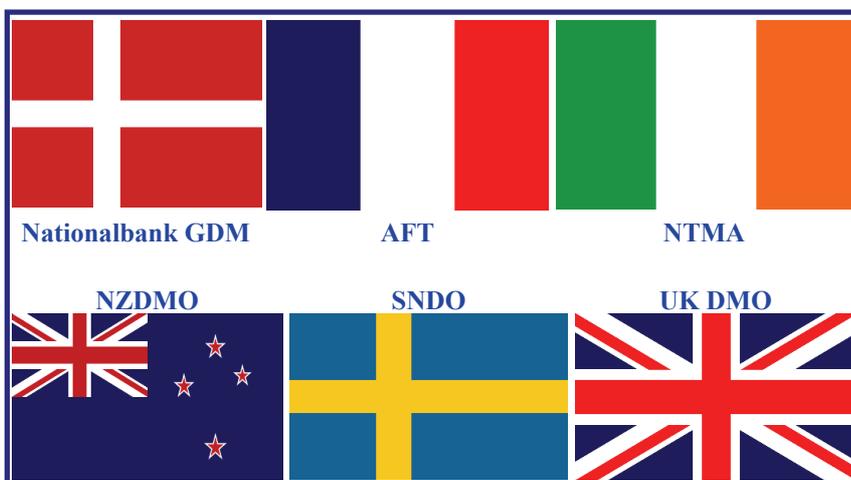
In delivering training or during discussions on capacity building programs, the question is often asked as to which DMOs are the 'best in the world'. While it is clearly very difficult to accurately make comparisons across DMOs, we have identified six DMOs that fulfil criteria that we see as critical for a high-performance DMO.

The distinguishing features or criteria that we look for include contribution to the global development of government debt management, adherence to sound practice, and open disclosure including publication of a debt strategy and annual report.

The six best DMOs and the reasons for their inclusion are:

- **Denmark Nationalbank Government Debt Management (GDM):**
GDM has demonstrated that a central bank can effectively manage the role of debt manager. Also, GDM has pioneered many developments with the Cost-at-Risk (CaR) framework.
- **Agency France Trésor (AFT):**
AFT has developed one of the most comprehensive approaches to debt and cash management and created one of the most extensive websites which is available in 7 languages.
- **Ireland National Treasury Management Agency (NTMA):**
NTMA has pioneered the provision of treasury services and developed a wider role for the debt managers.

- **New Zealand Debt Management Office (NZDMO):**
NZDMO was instrumental in many of the early developments in debt management and more recently with developing the integrated balance sheet management approach.
- **Swedish National Debt Office (SNDO):**
SNDO has always been the benchmark for other DMOs having pioneered the development of debt management benchmarks and guidelines and the use of external managers.
- **UK Debt Management Office (DMO):**
DMO in conjunction with HM Treasury pioneered the concept of a remit for debt and cash management and has created a framework for full disclosure with many publications made available on the DMO website.



Distinguishing features include contribution to the development of government debt management, adherence to sound practice, and open disclosure including publication of a debt strategy and annual report

Debt Management Office Websites

A valuable source for government debt management developments and practices can be the many DMO websites. However, the quality of websites, the information that is available, and the use made by DMOs of their websites varies considerably.

Many DMO websites are not updated regularly and/or are only available in their local language.

The key elements of a good website are, at a minimum:

- Regular updating
- Have at least an English version (the language of finance)
- Publish the debt strategy, borrowing program and other debt activities
- Publish an annual debt report
- Provide debt statistics
- Set out institutional/contact details

Ten DMO websites that set a high standard or benchmark are:

- www.allampapir.hu
- www.ardal.sk
- www.debtagency.be
- www.dmo.gov.uk
- www.dutchstate.nl
- www.francetresor.gouv.fr
- www.igcp.pt
- www.lanasysla.is
- www.ntma.ie
- www.riksdagen.se



UK DMO Sukuk Issuance Consultation

The UK Debt Management Office (DMO) released a consultation document in November 2007 to seek views on the potential for the Government to become an issuer of sterling Islamic financial instruments, referred to as Sharia'a-compliant 'investment certificates' or 'sukuk'.

Unlike bonds, which are debt-based instruments that pay interest, sukuk are asset-based instruments and represent the ownership (actual or beneficial) by the sukuk holders in the underlying

asset. Returns are paid to investors in line with their proportional ownership in that asset.

The objectives of such financial instruments are to entrench London as a global gateway for Islamic finance and to ensure that all British citizens, regardless of their faith, have access to competitive financial services. The primary focus of the consultation is on the potential for Government issuance of wholesale sterling denominated sukuk either in 'bond-like' or 'bill-like' form.

Written responses are due at HM Treasury by 21 February 2008. Following the consultation, the Government will announce its decision and next steps including the timetable for any primary legislation.

National Savings & Investments is separately assessing the feasibility of becoming an issuer of retail Islamic financial products.

The outcome of these consultations will be posted on UK DMO's website: www.dmo.gov.uk

Risk-Based Debt Sustainability Framework

The IMF has just released a working paper (WP/08/40) that proposes a new debt sustainability framework (DSF) that uses concepts and methods from modern practice of contingent claims to develop a quantitative risk-based model of sovereign credit risk.

The risk-based framework introduces the concept of distress (default) into public debt sustainability analysis (DSA). Distress is defined as the risk that the sovereign borrower does not have sufficient

resources to meet outstanding debt service obligations on time, because its assets have fallen below promised payments on liabilities. Thus, the new framework explicitly takes into account the uncertain evolution of sovereign assets and liabilities, to provide for a risk adjusted sovereign balance sheet.

The motivation in developing this framework is to provide a clear and workable complement to traditional DSA which suffers from

The IMF has released the working paper "A Risk-Based Debt Sustainability Framework: Incorporating Balance Sheets and Uncertainty" (WP/08/40)

the inability to measure risk exposures, default probabilities and credit spreads. A copy of the paper can be downloaded from:

<http://www.imf.org/external/pubs/ft/wp/2008/wp0840.pdf>

Recent Developments or Announcements

The New Zealand Controller and Auditor-General released a performance audit report of the "Effectiveness of the New Zealand Debt Management Office" in June 2007. This is an excellent example of a performance audit of a government debt management operation or office. A copy can be downloaded from:

www.oag.govt.nz/2007/nzdm

Eurodad has published a commentary by Jürgen Kaiser on the draft World Bank paper "The Concept of Odious Debts: Some Considerations" which was covered in our October 2007 Newsletter. A copy of the commentary which is critical of the World Bank paper can be downloaded from:

<http://www.eurodad.org/debt/?id=114>

The final agenda and documentation of proceedings along with presentations made at the 6th UNCTAD Debt Management Conference and DMFAS Advisory Group Meeting held in Geneva from 19-23 November 2007 are now available and can be downloaded from the UNCTAD website:

www.unctad.org/dmf

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Storkey & Co Limited is an international management consultancy providing independent specialist advice on government debt management to central and sub-national governments.

The company employs or works in partnership with recognised experts who have considerable international experience in the finance markets and in public sector debt, cash and risk management. With their extensive project and change management expertise, they have developed an international reputation for delivering the highest quality practical solutions.

These experts have gained practical experience from working in a government debt office and on technical assistance projects internationally for all the major donor agencies.

Since the company was established in early 2001, assignments have been undertaken in Australia, Canada, Cambodia, Ethiopia, Fiji, Guyana, India, Indonesia, Lithuania, Malawi, Mauritius, Mongolia, Nauru, New Zealand, Nicaragua, Papua New Guinea, Philippines, Solomon Islands, Thailand, The Gambia and Vietnam.

Debt Management Unit Publications & Websites

Key publications released by DMUs over the past 3 months:

- **Belgium** Review 2007 Outlook 2008
- **Belgium** Borrowing Plan 2008
- **Bulgaria** Govt Debt Review 2006
- **Canada** Debt Management Report 2006-07
- **Canada** Govt Securities Jan 2008
- **Czech Republic** Financing and Debt Strategy 2008
- **Czech Republic** Quarterly Review Sep and Dec 2007
- **Denmark** Government Debt Management Strategy 2008
- **France** AFT Annual Report 2006-07
- **Hungary** ÁKK Annual Report 2006
- **Hungary** Government Securities Report 3rd Qtr 2007
- **Iceland** Annual Prospect 2008
- **Italy** Debt Management Guidelines 2008
- **Jordan** Public Debt Bulletin Sep 2007
- **Latvia** Debt Management Strategy 2007
- **Mexico** Borrowing Plan 2008
- **Netherlands** Dutch Annual Outlook 2008
- **Netherlands** DSTA Quarterly Outlook January 2008
- **PNG** Medium Term Debt Strategy 2008
- **Poland** Annual Debt Report 2006
- **Slovakia** ARDAL Annual Report 2005-06
- **Spain** Issuance Strategy for 2008
- **Sweden** SNDO Guidelines 2008-10

- **Turkey** Public Debt Management Reports November, December, January 2008

- **UK** DMO Annual Report 2006-07

Also Released:

- **Crown Agents** Newsletter Qtr1 2008
- **DRI** strategies for Financing Development #33

A full list of DMO/DMU websites is on our website.

