



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 on the project to assist the World Bank to develop a diagnostic tool or performance measurement framework (PMF) to assess debt management capacity in low and middle income countries (LICs and MICs). This has involved the development of a draft set of performance indicators covering all aspects of government debt management and preparation for the next phase where the PMF will be pilot tested in six LICs.

In this Newsletter, there are articles covering:

- Cost-at-Risk modelling for developing countries—this is the first article that we have included that has been prepared by two of our global network, Dr Sanga Sangarabalan and Per-Olof Jönsson.

- Introduction of new debt management products by the Asian Development Bank.
- Two recent publications from the World Bank.
- Series of regional workshops on Domestic Debt Management held by the Commonwealth Secretariat.

We have significantly updated the SDM References, Other References, and Training sections on the website—refer to page 3 for more details.

Finally, we have noted an increasing number of governments that are publishing a debt management strategy, which from experience has been most welcomed by the international financial institutions and rating agencies. This is certainly a very positive outcome of recent global initiatives.

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Special points of interest:

- *Starting in 2007, all online courses will be conducted by UNITAR on a cost recovery basis. This will involve a fee of US\$400 per participant per course to cover operating costs and allow UNITAR to expand its content development activities and offer new courses relevant for debt and finance managers.*

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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 for the Ministry of Finance in Vietnam.
- continued to assist the World Bank in the preparation of a performance measurement framework to assess debt management capacity in low income countries.
- continued assisting AusAID with a debt review for the Government of Nauru.
- assisted the Commonwealth Secretariat with delivery of training during a Domestic Debt Management Workshop for Caribbean nations, held in Grenada from 15 to 21 November, which was followed by a 3-day debt management workshop arranged by CARTAC, ComSec, CaPFA and the IMF.

Cost-at-Risk Modelling

The Guidelines for Public Debt Management state that debt managers should seek to minimise the cost of debt at a prudent level of risk in the medium term. This has prompted many countries to look at their debt strategy in terms of financing the gap at minimum cost and prudent level of risk.

Given this objective, how does a Government especially in a developing or newly emerging market country formulate a framework or model that will allow it to make decisions about cost and risk levels? Simply adopting methodologies and models that are

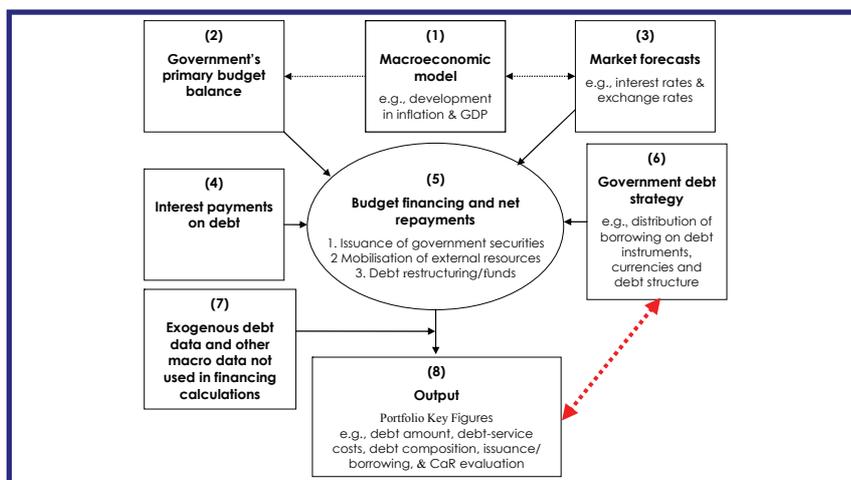
developed in advanced countries will not be appropriate and likely to result in poor decision making. Countries therefore must take a cautious approach in developing and implementing a relevant framework to suit their own circumstances.

In a paper prepared by Dr Sanga Sangarabalan and Per-Plof Jönsson, the key issues to consider are outlined when designing a cost-at-risk model. It shows that such a model, if well formulated will help to prepare a sound debt strategy for the country. In preparing a debt strategy, they suggest that many of the developing and

newly emerging countries need to carry out at least two important exercises; Debt Sustainability Analysis (DSA) and Cost-at-Risk (CaR) modelling.

The paper highlights the basic steps and issues in CaR modelling and suggests that low income and newly emerging market countries that are eager to start on developing a CaR model should be advised to take a step-by-step approach rather than using sophisticated models. A copy of the paper can be downloaded from our website:

www.storkeyandco.com/Library/S_C_Documents/s_c_documents.html



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ADB Introduces New Debt Management Products

ADB has recently approved a new set of Debt Management products for developing member countries, which complement the features embedded in their LIBOR-based loan (LBL) products and include interest rate and currency swaps. They will be available for third-party liabilities of sovereign or sovereign guaranteed borrowers.

Enhancements have also been made to the ADB's main lending instrument the LIBOR-based loan (LBL) product. They include a wider range of currencies, more flexibility in repayment terms, simplified rebate/surcharge calculations, and an option for borrowers of ADB's legacy pool to convert their loans to the new LBL product at prevailing market rates.

In addition the commitment fee for project loans will be changed from the current 75bp on a progressive structure of undisbursed loan balances to a flat fee of 35bp on the full amount of all undisbursed loan balances. The enhancement will be implemented and available for loan negotiated after 1 January 2007. Refer <http://adb.org/Media/Articles/2006/10998-regional-debt-management/>



Recent World Bank Publications

The World Bank has recently published two volumes of a study on the insights from a 12-country pilot program on public debt management and domestic debt market development—*Managing Public Debt* and *Developing the Domestic Government Debt Market*. The pilot program has been undertaken by a joint team from the World Bank's Banking and Debt Management Group of the Treasury and Corporate Governance and Capital Markets Department.

Both volumes provide a summary of the analysis and findings of a series of country assessment reports and reform plans.

The 12 countries that participated in the pilot program were Bulgaria, Colombia, Cost Rica, Croatia, Indonesia, Kenya, Lebanon, Nicaragua, Pakistan, Sri Lanka, Tunisia and Zambia.

The focus of the pilot program has been on how governments are transitioning from the diagnostic stage to designing and

implementing a reform plan. As such, they are a useful reference for practitioners involved in sovereign debt management reforms in developing countries.

Copies can be purchased from the World Bank for US\$15 each volume, details are available on the following two websites:

http://publications.worldbank.org/ecommerce/catalog/product?item_id=6119558

http://publications.worldbank.org/ecommerce/catalog/product-detail?product_id=6119629&

ComSec Domestic Debt Management Workshops

The Commonwealth Secretariat (ComSec) held the second of three workshops on Domestic Debt Management for Caribbean nations in Grenada from 15 to 21 November, which was followed by a 3-day debt management workshop arranged by CARTAC, CaPFA, ComSec and the IMF.

The workshop covered topics such as developing the domestic market; debt auctions; valuing domestic debt instruments; risk identification, measurement and man-

agement; government guarantees, on-lending, contingent liabilities & fiscal risks; debt sustainability analysis; and integration of debt and cash management.

The first workshop was held in Mauritius covering African and South Asian nations in July 2006. The final workshop for Asian and Pacific nations will be held in Singapore from 26 March to 3 April 2007. For more details, refer to:

www.csdrms.org

Twenty seven attended the ComSec Domestic Debt Management workshop in Grenada in November 2006



Recent Developments or Announcements

The Inter-American Development Bank has released its 2007 Report on Economic and Social Progress in Latin America, *Living with Debt: How to Limit the Risks of Sovereign Finance*. The report focuses on public debt in Latin America and covers international borrowing, the domestic market, debt and the economy, and towards safer debt. A copy can be or-

dered from the IDB Bookstore at a cost of US\$29.98 plus shipping costs:

www.iadb.org/pub

We have updated the Training Section on our website to cover debt management courses scheduled during 2007—refer to:

www.storkeyandco.com/Events/Training/training.html

We have also updated significantly the references in our Library Section. Both the SDM and Other References sections now have a list in a downloadable PDF document which will make it easier to update when required. Refer to **SDM References** and **Other References** under:

www.storkeyandco.com/Library/library.html

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Storkey & Co Limited is an international management consultancy providing independent specialist advice on government debt management to central, state/regional/local governments, and government enterprises.

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 ADB, AusAID, ComSec, DCI, DFID, EU, IMF, NZAID, UNCTAD, UNDP, USAID & World Bank technical assistance projects internationally.

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

Debt Management Unit Publications & Websites

Key publications released by DMUs over the past 3 months:

- **Belgium** Review 2006 Outlook 2007
- **Brazil** Annual Borrowing Plan 2007
- **Bulgarian** Government Debt Review 2005
- **Canada** Debt Management Report 2005-06
- **Canada** Government Securities Jan 2007
- **Czech Republic** Financing and Debt Strategy 2007
- **Czech Republic** Quarterly Review Dec 2006
- **Greece** Public Debt Bulletin Oct 2006
- **Iceland** Prospectus 2007
- **India** External Debt Report 2006
- **Italy** Guidelines for Debt Management 2007
- **Japan** Debt Management Report 2006
- **Japan** JGBs Newsletter Jan 2007
- **Jordan** Quarterly Bulletin Sep 2006
- **Kenya** Central Bank Annual Report 2006
- **Mexico** Public Finance Public Debt Report Nov 2006
- **Netherlands** Annual Outlook 2007
- **Papua New Guinea** Debt Strategy 2007-2011
- **Poland** Annual Report of Public Debt 2005
- **Slovenia** Bulletin of Public Finance Nov 2006
- **Spain** Issuance Strategy 2007
- **Sweden** Guidelines for Central Government Debt Management in 2007
- **Turkey** Public Debt Management Report Dec 2006
- **UK** DMO Gilts Quarterly Review Oct-Dec 2006

The full list of DMO/DMU websites is on our website at:

www.storkeyandco.com/Links/links.html

