



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-going consulting assignments, primarily in the Asia-Pacific region and the inaugural Asian Regional Public Debt Management Forum hosted jointly by the Asian Development Bank (ADB) and Bank Negara Malaysia in Kuala Lumpur from 3 to 5 November 2009.

In this Newsletter, there are articles covering:

- World Bank Public Financial Management Reform Project training course for fifteen officials from the Government of Vietnam.
- An IMF publication on "Modernizing Cash Management" prepared by Ian Lienert.
- Prerequisites for introducing debt management hedging activities.

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 implementing the debt management performance assessment (DeMPA) tool across low-income countries.

- Asian Regional Public Debt Management Forum hosted jointly by the ADB and Bank Negara Malaysia in Kuala Lumpur.

We are assisting the ADB and IMF with consulting assignments in the area of government cash management, which is gaining much more significance in many developing and middle income countries. While this has primarily been focused on central government, the People's Republic of China is also looking to reform local government cash management. Therefore, it is timely that the IMF has published a technical guidance note on "Modernizing Cash Management". Effective cash management is certainly absent in most countries and we expect this will become an increasing focus of PFM reform programs.

- continued to assist the Government of Samoa, through World Wide Project Management Services in Adelaide, funded by AusAID/NZAID.
- continued to assist the ADB with the Asian Regional Public Debt Management Forum.
- continued to assist the Commonwealth Secretariat to document public debt management business processes and workflows.

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Special points of interest:
The Public Debt Management (PDM) Network Secretariat is to launch a newly redesigned website www.publicdebt.net.org with an overall public and private area enhancement which will allow users easier access to any information or document, in particular to a new Forum Area.

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Training Course for Officials from Vietnam

Storkey & Co Limited was contracted by the World Bank Public Financial Management Reform Project to provide training assistance to fifteen officials from the Government of Vietnam. The "Developing Medium Term Debt Management Program" training course was held in Wellington, New Zealand from 5 to 16 October 2009. The objective was to provide two 1-week modules covering the following:

- **Effective Debt Management for Vietnam:** introduction to best international practices for Public Debt Management and facilitate discussions on the

applicability of the best practices to Vietnam.

- **Developing a Medium Term Debt Management Program (MTDMP):** introduction to MTDMP techniques and facilitating excises, including developing a prototype MTDMP for Vietnam in order that at the end of the training course, a detailed draft MTDMP for Vietnam would be developed.

The Vietnam delegation included a Vice Minister and officials from the Ministry of Finance, primarily from the newly established Debt Management and External Fi-

nance Department and State Treasury.

Course director, Ian Storkey, was supported by 10 presenters with 3 from the New Zealand Debt Management Office and 7 other prominent public sector and debt management specialists. In addition, two staff from the World Bank ran sessions on the Medium-Term Debt Management Strategy (MTDS) toolkit.

Throughout the training, case studies/practical examples from a range of countries were used to better understand the concepts and international practices.



Public Financial Management Reform Project

"Developing Medium Term Debt Management Program" training course was held in Wellington, New Zealand from 5 to 16 October 2009 for fifteen officials from the Government of Vietnam.

Modernizing Cash Management

The International Monetary Fund (IMF) has published "Modernizing Cash Management" prepared by Ian Lienert from the Fiscal Affairs Department. This is an update of an earlier version that was published as part of a series of technical notes on the IMF's Public Financial Management Blog (<http://blog-pfm.imf.org>).

The Note has five sections:

1. Definitions and Objectives of Cash Management
2. Key Features of Modern Cash Management
3. Cash Planning and Projections
4. Cash Management Challenges in Developing and Middle Income Countries
5. Sequencing of Cash Management Reforms

The Note, which provides references including previous papers/notes by Ian Storkey and Mike Williams, will be a very useful reference for countries that plan to reform government cash management whether at central or local government level. A copy can be downloaded from:

www.imf.org/external/pubs/ft/tnm/2009/tnm0903.pdf



Introducing Debt Management Hedging Activities

As was noted in July 2008 Newsletter, we are aware that some sovereigns have already undertaken swaps. Recently, we have been asked by several sovereigns to outline the process for introducing swaps and other hedging instruments. Often there are problems with the legal framework and the accounting or budget treatment for such activities.

Before the government begins any hedging activity, it is recommended that **ALL** of the following five criteria be met:

1. Laws and regulations are in place, along with the necessary delegated authorities to enter into hedging activities.
2. Policies and procedures to monitor and manage hedging have been established and formalised in policy/procedure manuals.
3. Risk limits and controls have been established for each hedging instrument and limit monitoring processes are in place (counterparty and risk limits).
4. Systems to price, record, settle, value (fair value or market basis),

report, and account for hedging activities have been developed, tested and implemented.

5. Staff have been trained in the use of hedging instruments.

Accounting policies should adhere to international standards:

- IPSAS 15—Financial Instruments: Disclosure and Presentation
- IAS 39—Financial Instruments: Recognition and Measurement
- FAS 133—Accounting for Derivative Instruments and Hedging Activities

Asian Regional Public Debt Management Forum

The Asian Development Bank (ADB) held the inaugural Asian Regional Public Debt Management Forum hosted jointly with Bank Negara Malaysia in Kuala Lumpur from 3-5 November 2009.

The Forum was attended by 135 debt managers, speakers, moderators and resource persons of which 88 were Ministry of Finance officials and central bankers from 44 ADB member countries with the balance from six international agencies, commercial/investment

banks, rating agencies and other financial institutions. Feedback from participants clearly supported this ADB initiative and there was strong support for the Forum to be held annually.

This should provide a much needed opportunity for Asia-Pacific debt managers to meet annually and ultimately build a regional network. The Forum also highlighted a number of issues that were important for debt managers across the region

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Recent Developments or Announcements

The Indian Ministry of Finance has published the annual External Debt Status Report for 2008-09. This is not only a very comprehensive debt statistical bulletin covering government and private sector external debt but also a report that covers external debt management. A copy can be downloaded from the website:

<http://finmin.nic.in/reports/index.html>

The OECD has published two documents:

1. New Challenges in the Use of Government Debt Issuance Procedures, Techniques and Policies in OECD Markets by Hans J. Blommestein
2. OECD Sovereign Borrowing Outlook 2009 by Hans J. Blommestein and Arzu Gok

The first provides a survey of debt issuance in the OECD area and the challenges faced in the current global financial crisis. The second sets out the challenges OECD governments are facing to finance the significantly higher budget deficits. Copies can be downloaded from:

<http://www.oecd.org/daf/publicdebtmanagement>

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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, Brazil, Canada, Cambodia, China, Ethiopia, Fiji, Ghana, Guyana, Hungary, India, Indonesia, Laos, Lithuania, Malaysia, Malawi, Mauritius, Mongolia, Nauru, New Zealand, Nicaragua, Nigeria, Papua New Guinea, Philippines, Samoa, Solomon Islands, Thailand, The Gambia, Uzbekistan and Vietnam.

Debt Management Unit Publications & Websites

Key publications released by DMUs over the past 3 months:

- **Australia** AOFM Annual Report 2008-09
- **Bulgaria** Government Debt Review 2008
- **Czech Republic** Quarterly Review Sep 2009
- **Greece** Public Debt Bulletin No 54 & 55
- **Hungary** Government Securities Report 3rd Qtr 2009
- **Hungary** ÁKK Annual Report 2008
- **Japan** Japanese Government Bonds Oct 2009
- **Jordan** Public Debt Bulletin Sep 2009
- **Lithuania** General Government Debt 2008
- **Lithuania** Government Securities Annual Report 2008
- **Macedonia** Public Debt Management Strategy for the period 2009-11
- **Netherlands** DSTA Quarterly Outlook Sep 2009
- **New Zealand** Crown Financial Statements 2008-09
- **New Zealand** Treasury (including NZDMO) Annual Report 2008-09
- **Portugal** Economic Outlook and Debt Management Strategy Jun 2009
- **Sri Lanka** Public Debt Management 2008
- **Sweden** Central Government Borrowing 2009:3
- **Sweden** SNDO Guidelines for 2010
- **Turkey** Public Debt Management Reports Aug, Sep, Oct 2009
- **UK** DMO Guide to the roles of the DMO and Primary Dealers
- **UK** DMO Quarterly Review Jul-Sep 2009
- **UK** DMO Official Operations of the Gilt-edged Market

Also Released:

- **ComSec** Debt Management Section Newsletter Jun 2009
- **DMFAS** Annual Report 2008

