



Sovereign Debt Management Newsletter

Storkey & Co Limited
WN/1111791

What's New

The main focus of activity over the past three months has been the ongoing involvement in assisting the World Bank to develop a debt management performance assessment (DeMPA) tool to assess debt management capacity in low and middle income countries (LICs and MICs). DeMPA has been field tested in five LICs (Malawi, The Gambia, Albania, Guyana and Nicaragua) and is expected to be formally signed off by the World Bank and the Technical Working Group within the next few months. It should then be available for public use by international & regional agencies and donors involved in debt management capacity building.

In this Newsletter, there are articles covering:

- Government-wide risk management and the increasing role of debt

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.
- completed assistance to the World Bank in the preparation of a performance assessment tool to assess debt management capacity in low income countries—this in-

management offices to manage wider government risks.

- Recent additions to our network of consultants.
- Review of "The Debt Office and the Effective Debt Management Functions: An Institutional and Operational Framework" written by Enrique Cosio-Pascal for the IADB LAC Debt Group.
- The Central Banking Publications (CBP) course on "Government Debt Management: New Trends and Challenges" to be held in Cambridge, UK from 4-7 September 2007—Company Director, Ian Storkey, will be travelling to Cambridge to lead a session on what markets need from debt managers, to be held on 4th September.

involved field testing in Malawi, The Gambia, Guyana and Nicaragua.

- completed the debt review for the Government of Nauru under the AusAID project.
- begun assisting the Asian Development Bank under the Cambodia Support to the Public Financial Management Reform Program— involving a review of the legal and institutional framework to enhance public debt management.

Volume 7, Issue 2
July 2007

Special points of interest:

- Trema Suite, which is used by a number of DMOs, has been formally integrated into Wall Street Systems and now called the Wallstreet Suite.
- SimCorp has completed the sale of the Group's IT2 business to the Nordic private equity investor CapMan. It will now focus 100% on SimCorp Dimension.

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Government-wide Risk Management

Recently, we have noted that some debt management offices (DMOs) have been required to advise their government on risks associated with activities beyond public debt and increasingly are assisting in mitigating some of these risks with hedging strategies to limit budget or fiscal risk.

This "Government-wide Risk Management" approach follows what has been standard "Firm-wide Risk Management" in financial institutions for nearly 20 years.

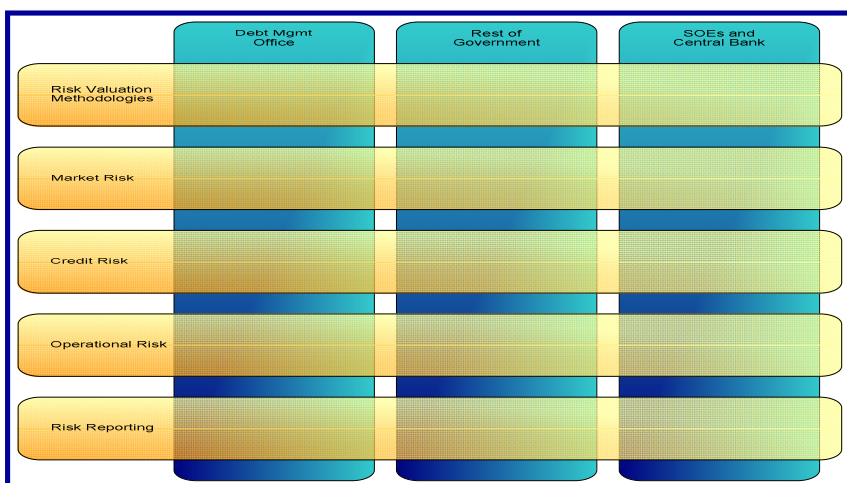
For example, we noted in our last Newsletter that NZDMO has the role in providing FX services for

the NZ Superannuation Fund, and in hedging the foreign currency risk associated with the Government's contribution to the 2011 Rugby World Cup, Ministry of Defence helicopter purchases, and similar transactions for a number of public sector entities.

This approach requires establishing a government-wide risk management framework and risk measures or valuation methodologies that can be applied across the whole-of-government. These are essentially horizontal requirements—risk management policies and reporting requirement which will overlap not only

across the business units in the DMO but also across all government ministries/departments and even SOEs and the central bank.

In this way, market, credit and possibly operational risks can be consolidated across the whole-of-government to enable the DMO to enter into hedging activities needed to reduce the risk of significant adverse impact on the government budget (for the fiscal year and over the medium-term). As governments move to an integrated balance sheet management approach, DMOs in developed countries may find this role added to their mandates.



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Additions to Our Network of Consultants

In the July 2006 Newsletter, we announced the formation of a network of consultants with considerable international experience in financial markets and public sector debt and cash management. The network now has 15 consultants and is managed by a Senior Management Group (Ian Storkey, Mike Williams and Sanga Sangarabalan).

We have recently added three new consultants to our network:

- Enrique Cosio-Pascal: Senior Consultant on Public Debt and Public Finance and former Chief of the DMFAS Programme from 1979-2001
- Steve Joss: Consultant and former Senior Portfolio Manager at the NZDMO

- Jorge Amado: Director of Public Debt Management, Argentina Ministry of Economy and Production

Our consultants can work together on assignments either as individuals or a team, or sub-contracted under Storkey & Co Limited. For more details on the team of consultants, refer to the Network section of our website.



Debt Office & Effective Debt Management Functions

A paper by Enrique Cosio-Pascal, Senior Consultant on Public Debt and Public Finance and former Chief of the DMFAS Programme from 1979-2001, "The Debt Office and the Effective Debt Management Functions: An Institutional and Operational Framework" has been published by the IADB LAC Debt Group.

The paper differentiates from other papers published on the subject in at mainly two aspects. First, it includes the political relevance that is given to the deci-

sion making process as far as responsibility for fixing a public debt strategy is concerned. Second, the approach has a functional analysis and suggests that there is no need to have a specific structure for a debt office in order to analyse who and where the functions are carried out.

The paper aims to be a useful analytical and managerial support tool for debt practitioners and offers a systematic blueprint in how to establish an efficient debt management office.

The paper has five sections:

- Introduction to the concepts of effective debt management functions
- Description of the executive debt management functions
- Description of the operational debt management functions
- Responsibilities that a DMO may be accountable for
- Major issues on debt management

The paper can be downloaded from the publications section of:

www.publicdebtfinance.com

CBP Government Debt Management Course

Central Banking Publications (CBP) will hold their third annual 4-day conference on Government Debt Management: New Trends and Challenges at King's College Cambridge from 4-7 September.

This is a 4-day intensive residential programme as part of the Autumn Training Course run by CBP. The course is designed to help government debt managers not only be efficient, professional and sophisticated but also responsive to market demands.

CBP has drawn together an impressive group of experts to lead discussions in an informal and confidential round-table format. The course chairman is Mike Williams, Independent Consultant and former Chief Executive of the UK DMO (and member of the Senior Management Group of our network of consultants).

Company Director, Ian Storkey, will lead a session on what markets need from debt managers and how the impact on markets

CBP has drawn together an impressive group of experts to lead discussions in an informal and confidential round-table format

can be incorporated into a debt strategy. Also, Sanga Sangarabalan from our network will lead a session on how to formulate a debt strategy. For course details refer:

www.centralbanking.co.uk

Recent Developments or Announcements

There are now soft-copies available for the two World Bank publications reviewed in the January 2007 Newsletter, *Managing Public Debt* and *Developing the Domestic Government Debt Market*. To download, refer to:

http://treasury.worldbank.org/web/pdf/book_mng_public_debt.pdf

http://treasury.worldbank.org/web/pdf/book_dev_dom_govt_debt_mkt.pdf

Recent publications include:

- Strengthening Debt Management Practices: Lessons from Country Experiences and Issues Going Forward (The World Bank and IMF, March 27, 2007)
- A Cross-Country Analysis of Public Debt Management Strategies by Martin Melecky (The World Bank, July 2007)

Both publications have been posted on the World Bank website: www.worldbank.org

WAIFEM and UNITAR have announce the launch of their first joint e-Learning course on the theme of "Domestic Debt Management" with the course dates from September 27 to October 26. Refer to the WAIFEM website: www.waifem.org

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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 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, Cambodia, Ethiopia, Fiji, Guyana, India, Indonesia, Lithuania, Malawi, Mauritius, 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** Annual Report 2006
- **Canada** Government Securities July 2007
- **Hungary** Debt Management Outlook 2007
- **Ireland** NTMA Annual Report 2006
- **Japan** JGBs Newsletter July 2007
- **Lithuania** General Government Debt 2006
- **New Zealand** Economic and Financial Overview 2007
- **New Zealand** DMO Domestic Debt Programme 2007-08
- **Pakistan** Debt Policy Statement 2006-07
- **Portugal** IGCP Annual Report 2006
- **Slovenia** Bulletin of Public Finance Jun 2007
- **Spain** Annual Report 2006
- **Sweden** Central Government Borrowing 2007:2
- **Turkey** Public Debt Management Reports May, June, July 2007
- **UK** DMO Annual Review 2006-07
- **UK** DMO Quarterly Review April-June
- **UK** DMO Guide to Gilts (Fifth Edition)
- **UK** DMO Guide to the roles of the DMO and Primary Dealers in the UK Government bond market
- **UK** DMO Operational Notice on Official Operations in the Gilt-Edged Market

Also Released:

- **DRI** strategies for Financing Development #30
- **MEFMI** Updates Mar-Apr 2007 and May-June 2007

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

