



# **Debt Management Strategy: Governance and Transparency**

Based on Presentation prepared with  
the World Bank for a Client  
Workshop, March 2004

# Outline

- Governance: principles and objectives
- Three levels of governance
  - High-level policy formation
  - “External” governance of the Debt Office
  - “Internal” governance of the Debt Office
- What it means in practice

Principles and structures apply whether or not a separate office (although practice may be different)

# Principles of Governance

- Clear roles and objectives
  - Setting out respective roles and responsibilities
  - Efficient information sharing and effective co-ordination
- Stable and predictable decisions
  - Enabling market participants to transact with confidence
- Transparent and accountable processes
  - Open to scrutiny
  - Giving all interested parties confidence in the process
- Best professional practice
  - Building confidence and capacity
  - Managing risk

# Economic Benefits

- Clarity and accountability
  - Challenge and benchmarking improve effectiveness
  - Strengthens credibility
- Transparency, stability and predictability
  - Reduces market uncertainty, and hence interest rates
- Professionalism
  - Improves responsiveness and effectiveness
  - Minimises costs
  - Builds capacity
  - Reduces operational risk

# Governance: Three Levels

High-level policy formation

- Setting the debt (and cash) management strategy
- Delegations to the Debt Office for meeting that strategy – and its accountability

“External” governance of the Debt Office

- Information flows – reporting to Ministers, officials and the Parliament or Congress
- Performance assessment and external audit

“Internal” management and governance structures

Facilitated by (or subject to) the domestic legal framework

# High-level Policy Formation

- Development of the debt management strategy
  - Taking account of relevant views & responsibilities (inc Central Bank?)
  - Benefits of a formal Debt Management Committee
  - Strategy set for the year ahead, with explicit provision for review
- Approved by Ministers
  - Published
  - (as necessary) approved by Parliament or Congress
- Implemented within the agreed institutional framework by the responsible body (the Debt Office)
  - Agreed co-ordination arrangements with other bodies, including fiscal agent
  - Operating within the same framework supported by memoranda of understanding (MOUs) etc

# Delegating Operational Policy

- Ministers delegate implementation to Debt Office
  - Specified parameters or objectives, e.g. portfolio or duration benchmarks, targets for cash balances
  - Related objectives (e.g. for Treasury bills, contingent liabilities)
- Identifying
  - Decisions that
    - Must be taken by Ministers
    - Can be taken by officials
  - Circumstances that require a revision, e.g. unanticipated changes in fiscal position or wider economy
- Parameters of delegation widen as confidence and capacity builds

# Delegating Managerial Policy

- Policy delegation backed by:
  - Longer term management objectives (capacity, administrative costs, investment)
  - Preparation of an annual business plan
  - Agreed operational and managerial delegations – subject to legislation and government service practice
  - Management reports, publications and other information
- Benefits from defined delegation in terms of
  - Transparency and accountability
  - Faster decision-making
  - Less risk of challenge from other bodies
  - Increase sense of purpose and authority within State Treasury, contributes to capacity building

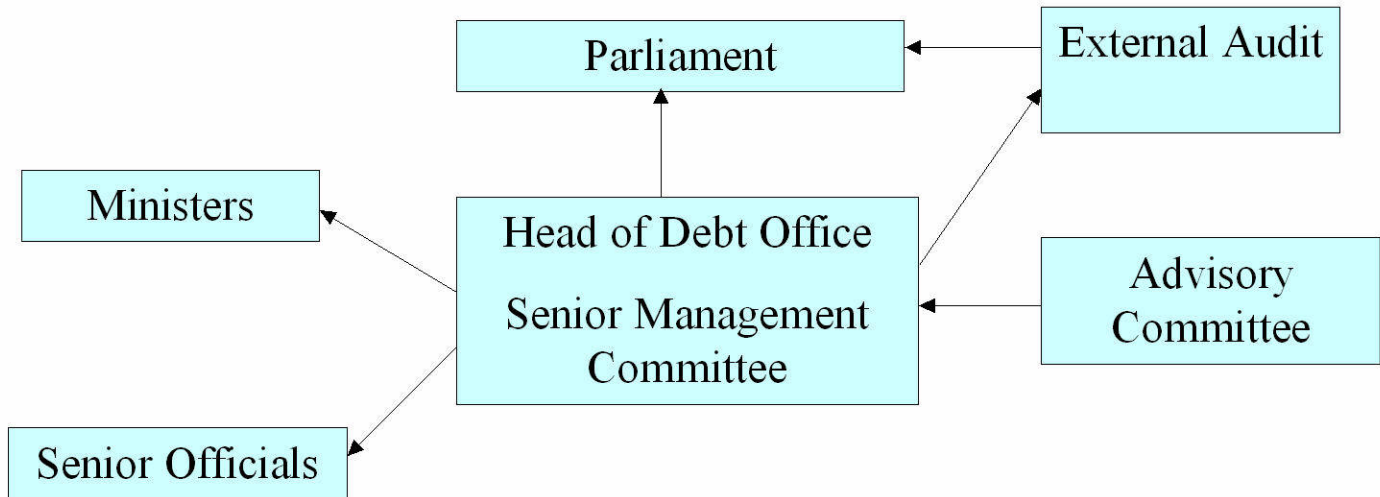
# External Accountability

- Reporting outturns against the published objectives
- Managerial and operational reports
  - Within the Ministry of Finance
  - Formally to Parliament
  - To market, on website etc
- Performance assessment
  - High-level – is it the right objective
  - Achievement of portfolio objectives
  - Meeting management objectives
- External Audit
  - Both propriety and cost-effectiveness

# Role of External Advisory Committee

- Assurance to Minister (& Parliament?)
- Relevant expertise – support to Head of Office
- Oversight of internal control framework (e.g. Chair of Audit Committee)
- Alternative structures
  - Appointed by officials or ministers
  - Public or private reporting
  - Formal or informal decision-making responsibilities
- Beware of conflicts of interest

# External Governance Structure



# Internal Governance and Operational Risk Management

- Principles
- Structures
- Control strategies
- Processes and Documentation

# Internal Governance: Principles

- Ensuring that everyone within the office
  - Knows and understands the aims of the office as a whole
  - Understands how their work contributes to those aims
  - Works together collectively to achieve them.
- Organising for specialisation & development of expertise
- Setting risk management policies and procedures, consistent with business objectives and best market practice
- Establishing arrangements for internal policy making & delegation, operational risk monitoring & control, and audit.
- Addressing resource needs and building capacity
  - Personal performance assessment and incentive policies
  - Staff needs, training, IT and further capacity building

# Making Decisions

- Horizontal communication and decision making structures
  - Senior management committee, taking key operational and managerial decisions, setting priorities and communicating to staff
  - Supported by policy committees (e.g. debt and cash), making best use of expertise, collective understanding of (recorded) decisions
  - Allows for specialist committees (e.g. credit risk policy)
- Delegation to individuals within agreed policy parameters, linked to
  - Internal accountability and control frameworks
  - Personal performance assessment

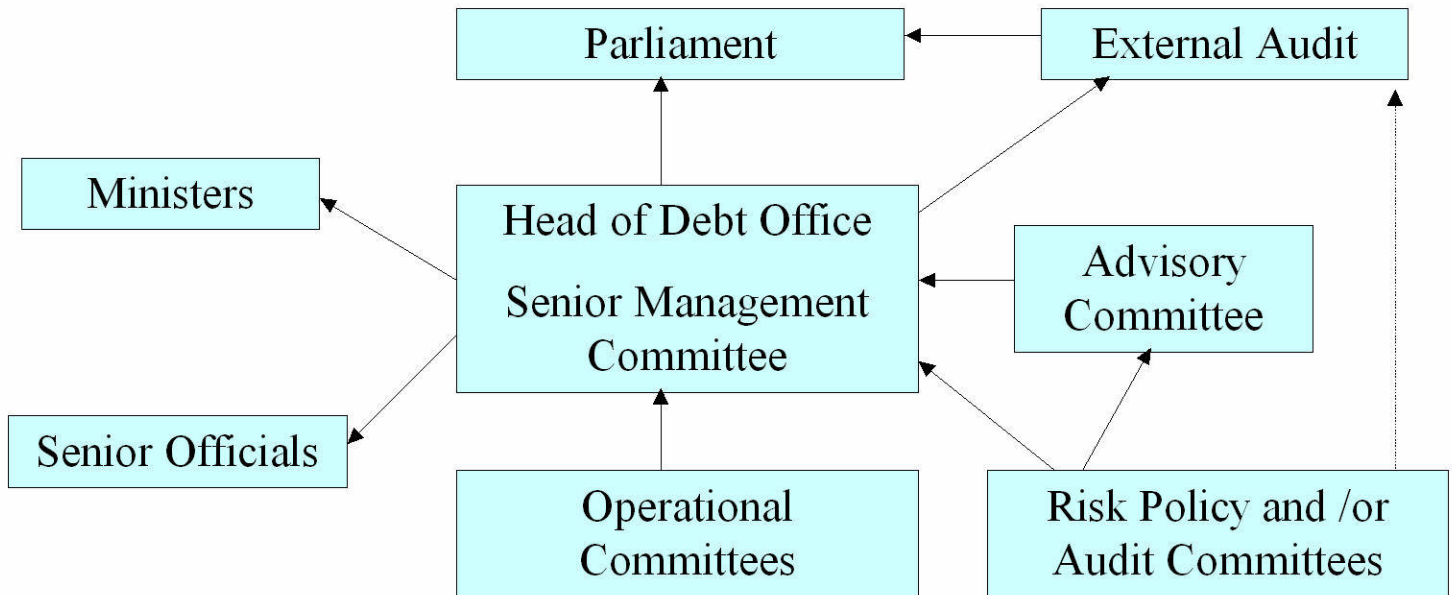
# Internal Specialisation

- Separate front, middle and back-office
  - Allows specialisation
  - Avoids duplication
  - Contributes to risk management
- Distinguish between key responsibilities
  - Senior management
  - Front Office: primary issuance and execution, internal and external, secondary market transactions (debt and cash)
  - Middle office: policy and portfolio strategy development and accountability reporting
  - Middle office: risk management: policies, processes and controls
  - Back-office: transaction recording, reconciliation, confirmation and settlement
  - Internal audit and compliance – reporting to Head of Office

# Internal Control Structures

- Risk Committee
  - Risk appetite
  - Credit limit approvals and control policies
- Risk management expertise in middle office
  - Analytical capability
  - Control advice and monitoring
  - Role of “risk champion”
    - developing common control framework
    - providing advice and co-ordinating reports
- Ideally...internal audit and compliance functions, supported by Audit Committee
  - Internal Auditor reports to Head of Debt Office
  - Independent chairman of Audit Committee (e.g. also on Advisory Board)

# Internal Governance Structure



# Internal Control Strategies

- Culture
  - Public sector ethos; open ('no blame') culture
  - No personal financial targets ('profit' not an objective)
- Best Market Practice
  - Policy and operational control of transactions and projects
  - Risk polices and appetite regularly reviewed
  - Separation operational and processing areas – front office transactions confirmed by back office ("4 eyes principle")
  - Processes documented
  - Embedded monitoring, "exception logs"
  - Management "certification"

# Control Documentation

- Procedure and control manuals “owned” by line managers – review by middle office
- High-level risks agreed by Management Committee – risk\*impact = exposure
- Line managers identify risk in own area
  - cascade from high level risks
  - development of risk registers (with support from middle office)
  - identify priorities and mitigation strategies
  - report regularly to Management Committee
- Individual job descriptions identify key risks and risk management responsibilities

# Conclusion

- Good governance is hard work.....
  - Requires processes, structures, reports etc
- Challenges but also supports Head of Debt Office and other senior officials
- Brings benefits from
  - Better decisions, greater clarity and transparency
  - More confidence in decision-making processes
  - Greater responsiveness and predictability
- Operational and managerial delegation improves professionalism, staff morale and performance