The Guidelines, 10 Years on…

Their Impact and Effectiveness:
a Personal Perspective

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Some Initial Assertions

- The Guidelines created common objectives…
  - Focus on the structure of the aggregate portfolio; on strategy; on risk; and on professionalism
- …and a shared language
  - Gave practitioners (and consultants) much more confidence to do the "right thing"
- But
  - Detail is confusing for newcomers, and irrelevant for many LICs – *"Sound Practice in Government Debt Management" is* more complete
  - Struggles to break into unfriendly governance structures
  - Overtaken by MTDS guidance, DeMPA - more practical and user friendly

The Guidelines' 6 "Building Blocks"

1. Debt Management Objectives
Objectives, priorities and Coordination with Monetary and Fiscal Policy

2. Transparency and Accountability
Clarity of roles; open process; publication of information; integrity

3. Institutional Framework
Governance, legal and decision-making framework, organisation and management of operations

4. Debt Management Strategy
Monitoring and evaluating risks

5. Risk Management Framework
Trading off costs and risks; taking account of contingent liabilities

6. Development and Maintenance of an Efficient Market for Government Securities

1. Debt Management Objectives

Impact and Benefits

- ✓ Greater clarity about objectives and policies
- ✓ Ensuring attention given to the whole debt portfolio
  - and market development
- ✓ Importance of "...medium to long term…" and "…prudent degree of risk…" well embedded in thinking

Some Qualifications

- ? Confusion about central government or public sector
  - The public debt guidelines focus mainly on central government debt
  - Clarified in MTDS guidance
- ? Confusion with debt sustainability
  - 2003 amendment a useful clarification, but still some misunderstanding
  - Certainly in LICs but also by commentators in eg Eurozone

2. Transparency and Accountability

Impact and Benefits

- ✓ Much greater openness about policies
- ✓ Basic data widely published
- ✓ Need for separate website (or website page) understood

Some Qualifications

- ? Continues to be resisted in naturally secretive countries
- ? Accountability not well tested
  - External audit often weak outside core OECD
  - Parliament/Congress more concerned with debt sustainability or fiscal responsibility
  - Commentators lack skills or resources to talk about risk; and criticise with benefit of hindsight

3. Institutional Framework

Impact and Benefits

- ✓ Many new and improved public debt laws
  - Notably in transition countries
- ✓ Front, middle and back office concepts well established
- ✓ Widely quoted section of guidelines

Some Qualifications

- ? Some debt offices given too much autonomy = principal/agent problems
- ? Integration of all debt management functions not always worked well
  - Resistance – turf wars, silos, baronies…
  - Execution of loans and credits very different from securities
  - Powerful treasury functions often untouched – with damaging consequences [2 front offices etc]
- ? Patchy separation policy and execution
  - Ministers insist on making decisions!
- ? Struggled to find and keep good staff

4. Debt Management Strategy

Impact and Benefits

- ✔ The heart of modern debt management
  - Recognition of the need for a strategy possibly the main outcome of the Guidelines
- ✔ Introduces concept of ALM and balance sheet [although follow through is complex]

Some Qualifications

- ? Not enough on how to develop strategy
  - Cost-risk trade off presented as part of risk management but not strategy?
  - Far too complicated for many LICs – and assumes good data
  - Subsequently had to emphasise that strategy does not necessarily require quantitative analysis
  - Superseded by MTDS guidance
- ? Weak on cash management
  - and importance of integration with debt management

5. Risk Management Framework

Impact and Benefits

- ✓ Good on some of the details
  - Definitions of risk; risk categorisation widely quoted
  - Relevance of contingent liabilities
  - Importance of stress tests
- ✓ Warns about risks of active portfolio management

Some Qualifications

- ? Confusion between risk management framework and strategy
- ? Confusion about strategic and target benchmarks
  - Geared to active debt managers with a performance benchmark
- ? Fails to separate high-level risk strategy from control environment and managing day to day risks
- ? Insufficient awareness of operational risk weaknesses (outside core OECD countries)

6. Developing the Securities Market

Impact and Benefits

- ✓ Importance of domestic market development widely recognised
- ✓ The main challenge for many countries

Some Qualifications

- ? Progress often disappointing
  - Poor secondary market even where primary market is strong
- ? Where lies responsibility?
- ? IFIs' messages to LICs often confusing
  - Imperative of concessionality not compatible with domestic market development
- ? External issuance more fun
  - Siren calls of investment banks

Some Cross-Country Thoughts

- Guidelines a useful cross check for developed countries
- Hugely beneficial in transition countries starting afresh, with good administrative cadre
- Less good where
  - Inflexible legislative environment
  - Unwillingness to embrace concepts or to break habits
    - Lack of senior management/ministerial support
    - Wrong appointments to head debt management units
  - Impossible to create structures in thin administrative environment
  - Do not bite on concerns of LICs dominated by managing loans and credits, not securities, and poorly maintained data
  - Debt sustainability is seen more concerning than debt structure

Some Final Assertions

- Guidelines brought timely focus on strategy, professionalism and portfolio risk
  - Arguably contributed to relative resilience of many MICs during financial crisis
- We have changed the language – we now need to tackle new challenges – which will need different approaches – examples:
  - Market development
  - Strategy in an constrained environment
  - Interaction with domestic banking system
  - Governance, inc audit and accountability
  - Reform plans and follow-up; embedding sound practice
  - Sub-national debt
  - Cash management
  - Operational risk

Thank You!