

# Sound Practices of Public Debt Management

## Building the DMO

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# Building the DMO: Outline

The  
Challenges

Some  
Techniques

Capacity  
Building

Some  
Lessons from  
the UK and  
elsewhere

# The Task...

## ...is Challenging...

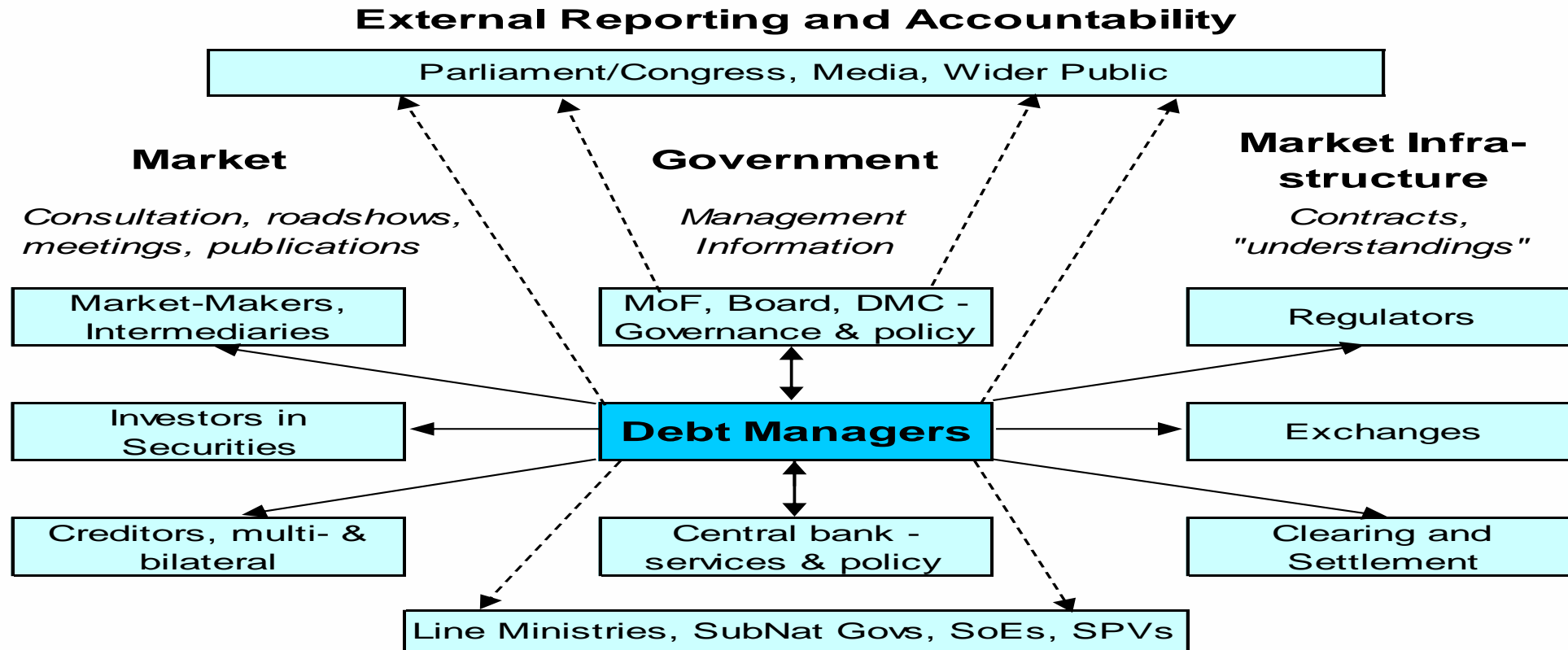
- Finding good people; building the “team”, establishing HR principles
- Understanding the “business”; establishing processes
- Finding premises
- Planning, procuring and testing IT
- Establishing an operational risk framework, designing controls, writing manuals, developing business continuity plan
- Documenting MoUs, SLAs etc

## ...and Complex

- Transition must be “seamless”
  - ▶ financing the borrowing requirement throughout
  - ▶ avoiding market disruption
- While managing external relationships
  - ▶ Government (policy and services)
  - ▶ Central Bank (policy and services)
  - ▶ Financial market – both intermediaries and investors
  - ▶ Other stakeholders – exchanges, regulators

**...even for a partially-established DMO [e.g. DMEF]**

# There are Many External Relationships!



- Publish key elements of more formal relationships: with MoF, Central Bank, Primary dealers
- Consult and inform ministries, market, central bank, Parliament

# Initial Perspectives

DMO must be backed, and be seen to be backed, by senior management and Ministers – and also by the central bank

It will take time and resources. Short cuts risk costly mistakes; sound practice is developed over a period of years

The external and internal governance frameworks are important – inc operational risk management

Manage as a project – identify tasks and dependencies, long-lead items, priorities, responsibilities, etc

# The Project

Different Work  
Streams

- Within the DMO
  - Business plan, Cross-cutting policies, Building the team
- With Ministry of Finance
  - Legislative framework: review and amendments
  - Policy – delegations, coordination/consultation arrangements
  - Services – IT, accounting etc
- With Central bank
  - Policy – MoUs
  - Services – SLAs
- With financial market and other stakeholders
  - Intermediaries, investors, regulators, exchanges

Require...

- A dedicated project manager
- A timeline....phasing the process
- Consultation and communication

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# Role of the Business Plan

Develop the goals and tasks over the medium term (the next 3 years or so); and shorter-term targets

- Ensure a common understanding across all those involved
- Encourage thinking about the future, not just current pressures
- Provide a basis for identifying priorities

Build the internal management structures, including for communication and operational risk management

Identify capability gaps and – the “projects” needed to close them

Develop the capacity building plan – covers IT and staff

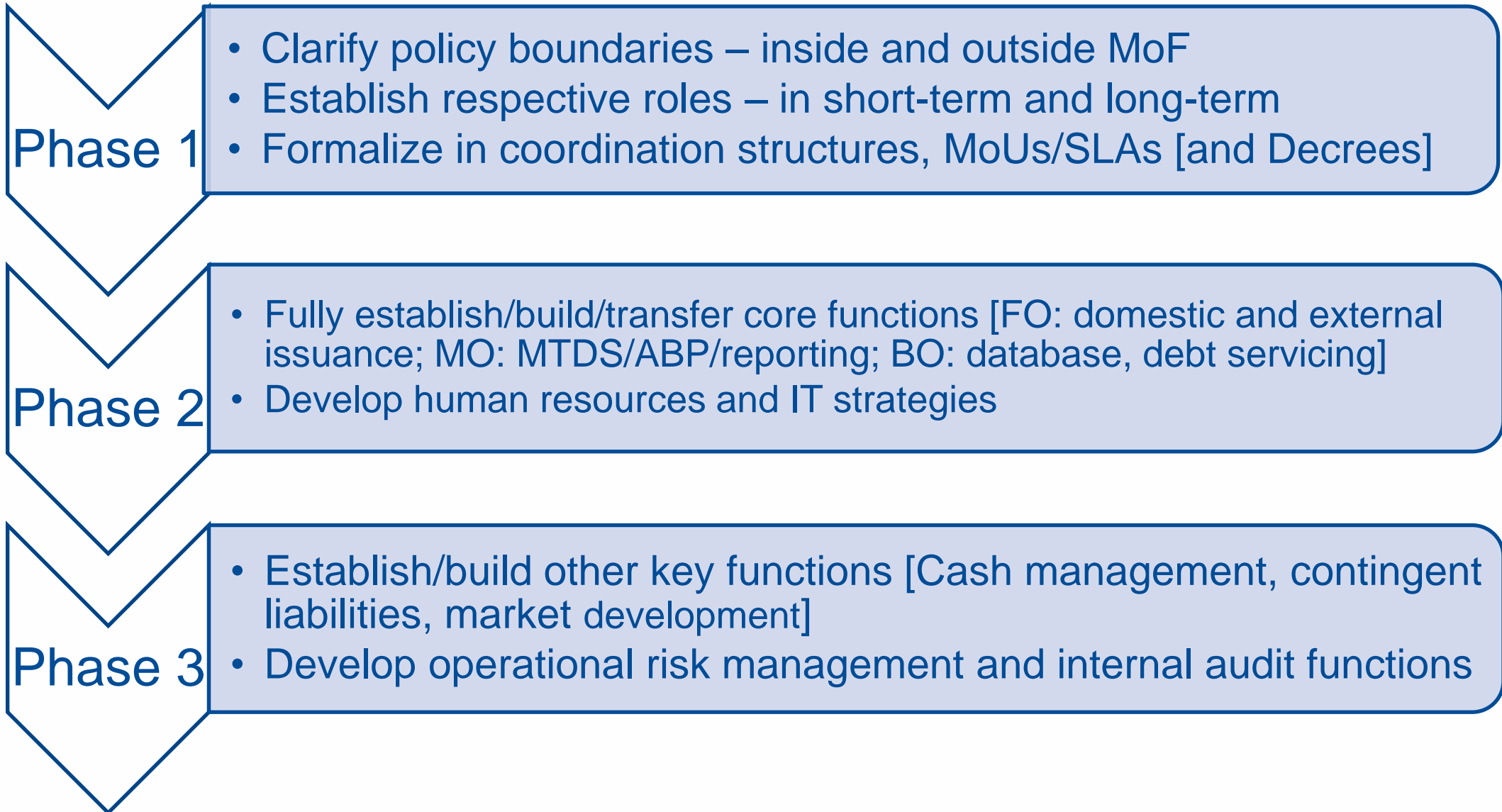
Contributes to building a common culture across the debt management unit, including through the business planning process itself

Setting strategic goals and tasks is a familiar practice in Vietnam



# Identify Phases

(Illustrative only – based on practice elsewhere)



# Document Coordination Structures: Some Examples

Formal “remit” from MoF – in Decree?

High-level decision-making committees etc

- e.g. Public Debt Steering Committee, Cash Management Committee
- Details in Decrees, Circulars

Memorandums of Understanding or Service Level Agreements

- Central Bank – information exchange, policy understandings
- Auction platforms (in Vietnam: HNX, also SBV) and Depository (in Vietnam: VSD)
- Other MoF directorates (e.g. SBD, BFID, VST depending on relationship with DMO; also IT); other Ministries (MPI in Vietnam)
- Other service suppliers

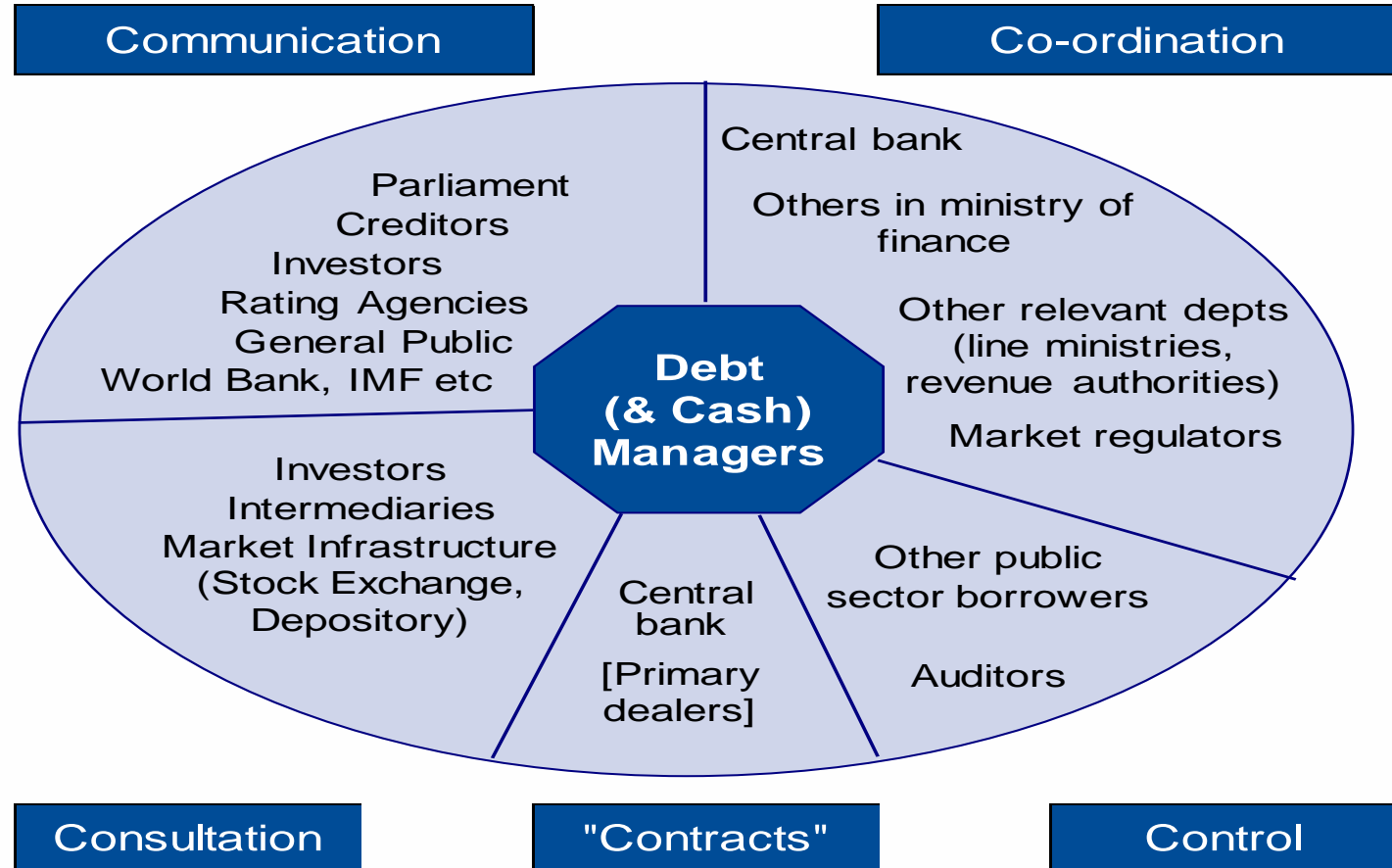
Publish where possible – to ensure transparency in financial market

# Keep Stakeholders informed of the plans...

- Their status will vary



- But keeping them in touch reduces uncertainty and improves credibility



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# Designing the DMO: Staff Numbers

International comparisons a poor guide

Depends on boundaries & responsibilities

- Roles and extent of fiscal agents
- Borrowing via loans and credits is much more staff intensive than securities
- Services bought in or developed in-house

Functions develop over time

- UKDMO at launch <25 staff
- Grew to c.50 with cash management and some other functions
- Rose to >100 during financial crisis (now 129 inc contractors)
- Some other designs
  - Starting designs: India 29 staff, Oman 17 staff
  - Turkey currently: FO 34, MO 18, BO 63 = 115 [usually slightly more in BO than in FO & MO]

Also important is the level of expertise available to the DMO (and budget availability!)

# Designing the DMO: Skills and Systems

## Mix of Skills required

- Most professionals need economics or related skills (finance, statistics); an understanding of role of data & IT; and a appreciation of public policy requirements
- FO must also include an understanding of financial markets and financial analysis – and ideally relevant market experience
- MO skills are more diverse; most need some macro-economics (inc modelling), and risk management expertise; communications skills are also important for reporting and dealing with stakeholders
- BO needs staff who can work to high standard of thoroughness and care – ideally an understanding of settlement systems and procedures; IT systems and databases; accounting reports and debt statistics

## Identify different sources

- Some skills may have to be bought in (especially risk management, some FO), others can be acquired
- Benefit from a mix of backgrounds (central bank, MoF, private sector; UKDMO was 40:40:20 at launch)

## IT systems

- A potential force multiplier; but design, development and implementation can be challenging and costly

# The Challenge of Building the Team

## The Aim

- Building a professional and committed team; with high standards
  - ▶ Capability
  - ▶ Best practice
  - ▶ Responsiveness
  - ▶ Innovation
- Collective understanding and focus
- Rewarding the right behaviours
  - ▶ Public sector ethos [role of “profit”]
  - ▶ Open (learn from errors; ‘no blame’)
  - ▶ What comprises good performance

## Some Tools

- Limited pay flexibility: but
  - ▶ Combination of greater authority and accountability can improve job satisfaction.
  - ▶ Delegation allows greater flexibility to respond to changes in the economic environment - improving the office’s sense of purpose.
  - ▶ Importance of “branding” [inc. the T-shirt!]
- Visibility as a centre of excellence, with the support of Ministers, helps improve the status of staff
- Making skills available to others in MoF or wider Government; helps attract and retain staff and supports professionalism
- Training – may be the only way to close gaps - improves efficiency and morale, helps recruitment
  - ▶ Must allow for training in staff complement

# Retaining Staff: International Experience

Widespread  
concern  
internationally

- Legislative constraints, civil service regulations
- “Rotation” policies
- Low salaries, high turnover
- Lack of structured training

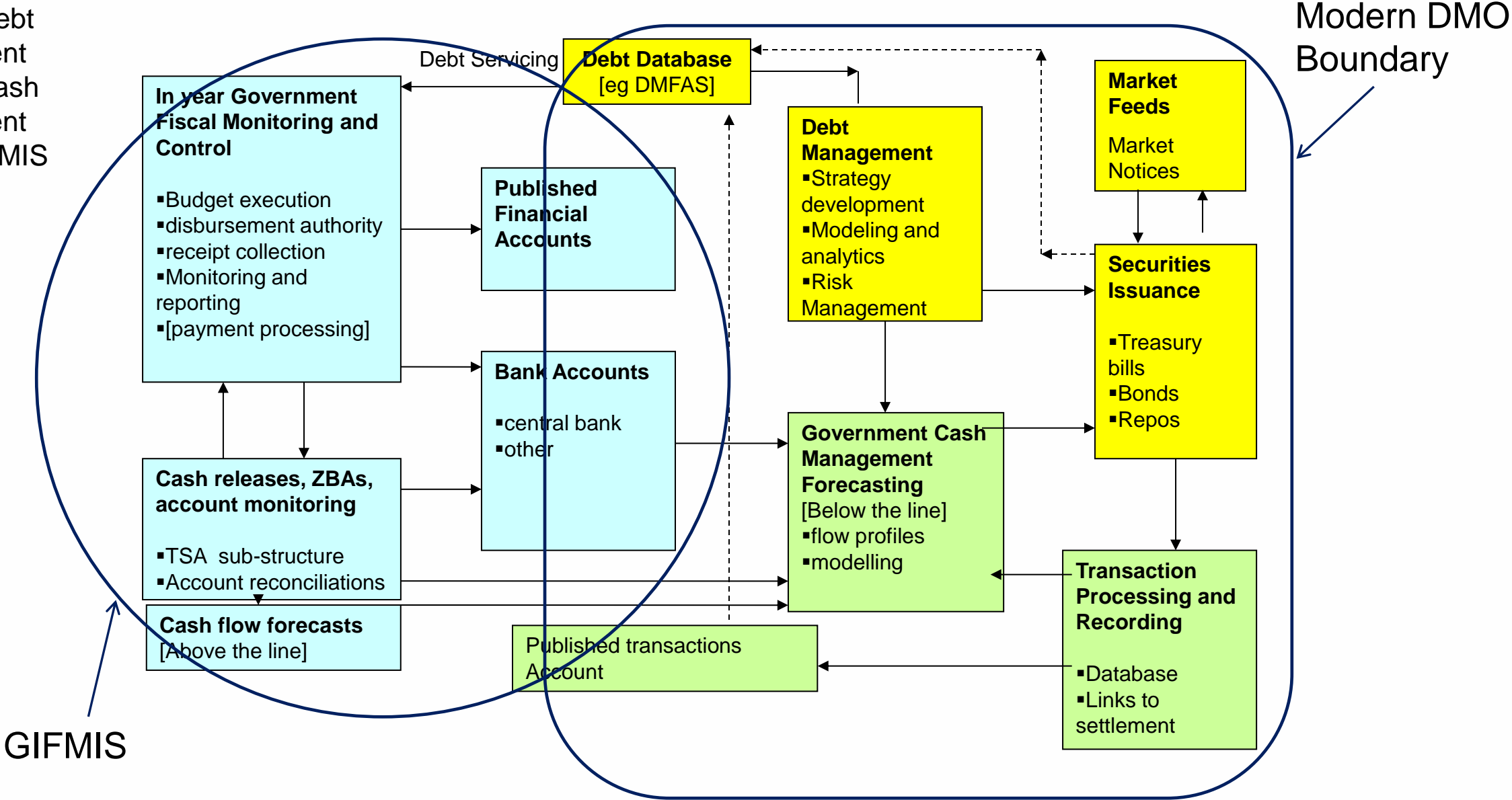
Responses

- Extra pay, cash bonuses – although often not available
- “Well being” schemes: gym membership, crèches, occupational health
- Structured training, including
  - International support networks (conferences, twinning, study tours)
  - Scholarships abroad
- Internships from local universities
- Establish recognised centre of excellence
  - Embed good practice (clear goals, risk management, formal procedures)
  - Varied training
  - Team spirit, branding!
  - Skills “lent” elsewhere (in MoF)



# Systems: identify lead times of any enhancement

**Yellow** = Debt Management  
**Green** = Cash Management  
**Blue** = GIFMIS



# **DMO will need access to other Services – either supplied from MoF or developed in-house**

❖ **Note:** The DMO's ability to access these services may depend not only on their availability but also on the DMO's status and the extent to which DMO senior management are given delegated authority

IT staff – design, development, operations and security [relying on MoF risk losing dedicated support]

- Becomes more demanding as DMO develops (UK DMO had 12 IT staff, over 20% of the total, in initial years)

Premises management and physical security – depends if located separately from DMO

HR – MoF HR might seem too “distant”, if DMO develops its own organisational structure and/or terms and conditions

- Will also need its own code of conduct, performance management and training programs

Internal audit: required skills, knowledge of securities etc, unlikely to be found in MoF IA

Accountancy – may depend on whether DMO is formally responsible for its accounts – alternatively can interface its systems to MoF's accounting system

Procurement and project management – may need to buy in as required

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# What Goes Wrong

Turf wars: lack of agreement between competing baronies

- PDSC often papering over cracks – no desire for collaboration

Semi-independent DMO stretches governance structures

- Little MoF control, lack of accountability
- Some false starts (Kenya, Nigeria)

Running disagreement with central bank

- Role of TBills & issuance decisions (confusing debt & monetary policy)
- Fiscal “agent” acts as the “principal” eg for auctions (Kenya – until recently)
- Unwilling to loose control (Sri Lanka, India)

Poor balance between front, middle and back office

- Front office has the exciting tasks; middle office the cerebral tasks; and back office the humdrum tasks.
- Lack of understanding of operational risk and its importance

Lack of active or sufficient management; timetables lengthen

- Made worse by staff or skill shortages

# There are implementation choices...

Rapid  
change

- Ensures focus on the task at hand
- Signals the change to the market and other stakeholders
- But: potentially disruptive
- Systems, regulations, skills... have to catch up

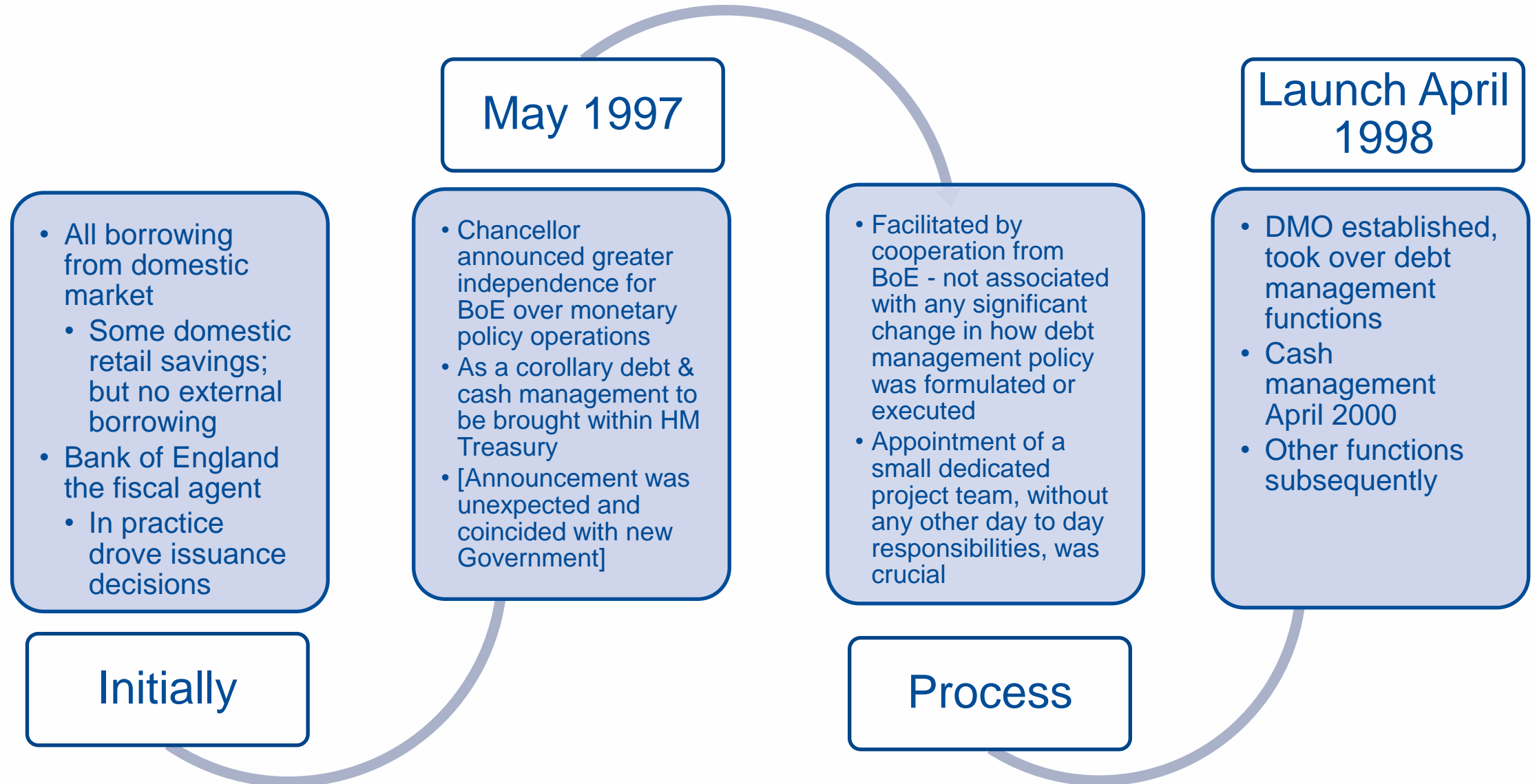
Steady  
progress

- More considered process, run as a planned project
- But: vision may become diluted
- Those opposed have time to mount a rear-guard

Some  
messages from  
international  
experience

- High level support is essential – President/ Prime Minister/ Minister of Finance
- Identify officials who are dedicated to the task and with the authority to deliver

# UK: Key Milestones



# UK Timeline – 11 months and onwards

May 1997	Chancellor announced greater independence for Bank of England; as a corollary debt & cash management to be taken to HM Treasury
July 1997	Agreed that new DMO should be an agency of Treasury Small project team set up – arrangements outlined to market
By end 1997	New premises secured, agreement with Bank of England on staff secondees and IT transfers – initially for debt management only
January to March 1998	Staff recruitment, premises fitted out, business plan prepared and business processes specified, formal “Framework Document” (MoU) agreed with Treasury. Legislation prepared (to establish a new government account and powers to meet objectives of the account)
April 1998	DMO formally established – took over full debt management function
April 1998 – April 2000	Preparation for cash management – required developing policy, recruiting more staff, expanding systems (to deal with many daily transactions), putting in place contracts with market counterparts
April 2000	DMO formally responsible for managing government’s daily cash flow in market – to keep the TSA balance at a low and stable level
Subsequently	DMO took over management of several public sector funds and on-lending to local government

# Some lessons [from the UK but with wide applicability]

Establish respective roles and responsibilities (in relation to rest of Treasury / MoF, Central Bank etc) and publish them

- Agree the internal rules with the MoF, inc scope for delegation to DMO management

Manage stakeholders (Ministers, market, Central Bank, Parliament)

Involve staff

- Horizontal mechanisms
- Branding

Signal what matters

- Delivery and Professionalism
- Risk management, inc operational risk

Project management is crucial

- Initially a dedicated project team – also helped with first business plan
- Continuing internal project management capability is essential