

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: SEOC

TA No., Country and Name		Amount Approved: \$720,000	
TA 4717-PHI : Debt and Risk Management Project		Revised Amount: n/a	
Executing Agency Department of Finance (DOF)	Source of Funding TASF	Amount Undisbursed: \$35,000	Amount Utilized: \$685,000
TA Approval Date: 7 Dec 2005	TA Signing Date: 25 Apr 2006	Fielding of First Consultants: 21 June 2006	TA Completion Date Original: 28 Feb 2007 Actual: 28 Sep 2007 Account Closing Date Original: 28 Feb 2007 Actual: 13 Nov 2007
<p>Description: In 2003, the Philippines' total public sector debt had risen to an estimated 137.5% of GDP, and debt service payments consumed more than a third of government revenues, squeezing out spending on essential government services and dampening investor sentiment. A systematic assessment of the government's contingent liabilities, including those related to government-owned-and controlled corporations (GOCCs), private sector participation (PSP) contracts, and unfunded liabilities of social security institutions (SSIs), was absent. A comprehensive institutional process for managing the government's debt and associated risks was also lacking, with several agencies involved in distinct aspects of debt monitoring and approval and only informal coordination among them. Against this background, the Government of the Philippines requested the Asian Development Bank (ADB) to provide advisory technical assistance (TA) for improved national government debt and risk management (DRM). The TA was included in the 2005-2007 country strategy and program for the Philippines.</p> <p>Expected Impact, Outcome and Outputs: The TA was designed to support the government's fiscal consolidation effort with sounder management of risk exposure in government debt obligations and in contingent liabilities. The expected outcome of the TA was an improved and more comprehensive Government DRM function. The TA's expected outputs were (a) analytical studies, including the Government's options regarding risk tolerance and debt management objectives; current profile of debt and contingent liabilities; and a study of contingent liabilities arising from build-own-operate (BOT) and other PSP agreements; (b) a report presenting options for restructuring and strengthening the Government's DRM function; (c) design of DRM debt and contingent liability database; (d) proposed DOF risk management systems and procedures; (e) training plan for staff of all core government agencies involved in DRM; and (f) training programs for staff of core government DRM agencies.</p> <p>Delivery of Inputs and Conduct of Activities: The formulation of the TA and the consultants' terms of reference were broadly adequate to support its rationale and purpose. The TA was programmed to finance some 12 person months of international and 38 person months of national consultants with expertise in government debt and credit management, government-owned enterprise finance, public finance economics, fiscal policy, national government accounting, and public administration law. The consultants were engaged through a firm in consultation with the EA. The firm's overall performance is rated as satisfactory. The team of international and national consultants was generally of high caliber, and they worked well together.</p> <p>During implementation, a few elements of the TA proved to be overly ambitious in terms of resources and time. Originally expected to be completed in 12 months, the TA was completed in 19 months. There was overall strong commitment to the project from the main counterparts at the EA. However, the amount of time required to obtain data and information took longer than anticipated, reflecting partly a lack of adequate staff below the level of the main counterparts and partly the inadequacy of IT systems. Coupled with the change in high-level officials in key agencies (including the Treasurer and the Undersecretary of Corporate Affairs Group/DOF) during implementation, the lack of adequate staff also contributed to a delay in receiving the EA's feedback on TA reports. The Government's feedback on its preferred organizational setup for a more comprehensive DRM was also delayed somewhat, but this was perhaps less surprising considering its complex nature in terms of its implications for the roles and responsibilities of different agencies involved in DRM.</p> <p>Evaluation of Outputs and Achievement of Outcome: The majority of outputs expected under the TA were completed, with additional work in some areas, e.g. data systems and domestic debt market development. The analytical studies and the training of staff in relevant agencies were generally comprehensive and of good quality, and were completed on time. The EA was generally satisfied with the TA outputs, which were as follows:</p> <p>(i) Options for restructuring and strengthening the Government's DRM function. The existing governance and organizational structures, including the legal framework, were described and assessed against sound international practice. A number of possible options for the development of the debt management function, comprising both direct and contingent liabilities, were considered. Their</p>			

- coverage included separation of high-level debt policy objectives from day-to-day implementation; organizational structure of the front, middle, and back offices, and coordination amongst them; appropriate incentives and mechanisms for monitoring; and legislative requirements. The EA opted to establish a Debt and Risk Management Office (DRMO), which it has included in its "rationalization plan" and input into 2008 budget process, as part of a government-wide exercise to streamline public administration. The recommendations also included the establishment of a more formal high-level public debt committee within DOF, and, in the longer term, a full-fledged Debt Management Office.
- (ii) **Analytical studies on risk profile of debt, including contingent liabilities; debt management objectives; and options for modeling trade-offs between cost and risk.** The reports analyzed the current debt portfolio, including contingent liabilities to GOCCs, GFIs, SSIs, and contractual obligations arising from BOT/PSP projects. Since foreign currency exposure was identified as a key risk, an additional paper assessed the current efforts to develop domestic debt markets and delineated the reforms of more immediate importance.
 - (iii) **Design of DRM debt and contingent liability database.** The databases on debt and contingent liabilities are maintained by various agencies. An assessment of the database systems revealed the need for (i) consolidation of data, especially for contingent liabilities, (ii) an upgrade of some database systems, and (iii) an interface mechanism for various sources of data to facilitate comprehensive DRM. For both direct and contingent liabilities, the report discussed a comprehensive list of requirements for recording and reporting data, capturing market data, processing transactions, and analyzing risk and performance. It provided different upgrading options, including an estimate of costs and procurement period, focusing on the development of the existing DMFAS system and middleware-based solutions.
 - (iv) **Proposed DOF risk management systems and procedures.** Proposals for the development of debt management strategy and objectives were set out. DRM tools for the management of debt and contingent liabilities, within the Philippine context, were developed. In the management of contingent liabilities, additional recommendations were provided to make budgetary or reserve provisions, develop policies for new CLs, and reform the current system of advances to GOCCs.
 - (v) **Staff training plan.** The skill requirements of those responsible for DRM in the front, middle, and back offices, associated cash management operations and management of CLs were identified. A training policy statement was drafted, and various options for delivery of training were provided.
 - (vi) **Training programs for staff.** A training program on modern debt and risk management practice, DRM tools, and relevant issues for the Philippines was organized. The program was attended by 17 officials from DoF, Bureau of Treasury, Bangko Sentral ng Pilipinas (BSP), National Economic Development Authority (NEDA), Power Sector Asset and Liability Management, and Department of Budget and Management. The training was well received, although ideally it would have been accompanied by more specific skills training for staff of the DRMO had it been established as originally anticipated. The study tour planned for relevant DRMO staff was thus cancelled.
 - (vii) **Summary report.** Recommendations were summarized in a road map showing the timetable for implementation of key actions to strengthen DRM over the medium-term. The road map sets out the dependencies among the recommendations, and shows how work can proceed in parallel in the medium-term to establish a comprehensive DRM system in the three main areas of organization and governance of the debt management function, management of CLs, and capacity building. The sequencing of actions within the broad categories highlights the importance of specifying priorities, and serves as a guide to the new DRMO in leading the work.

Overall Assessment and Rating: The TA is assessed as successful overall. It was highly relevant to the Philippine context and ADB's country strategy, and continues to be relevant. The EA was generally satisfied with the TA outputs which were of good quality. Full achievement of the TA outcome and its sustainability would depend on the establishment of a DRMO and implementation of the road map. The EA has expressed its interest in continuing the work to establish a comprehensive DRM system. ADB is incorporating several of the TA recommended measures on debt management in the second subprogram of the Development Policy Support Program (DPSP), with positive implications for the achievement and sustainability of the outcome.

Major Lessons: A more thorough diagnostic assessment prior to TA formulation of the existing organizational structure, staffing levels, the quality of data and IT systems would have allowed for a more realistic phasing of the activities involved and allocation of resources, especially when the anticipated outcome largely depends on the establishment of a new office.

Recommendations and Follow-Up Actions: The TA provides a sound basis for ADB's support for capacity development for DRM. It would be important to continue this support in a longer-term framework. The inclusion of the TA results in the DPSP is encouraging and should be pursued further.