The Sovereign Debt Redemption Fund, Ltd

Washington-based GRAVITAS proposes a financial toolkit for effective sovereign liability management, and capital markets access strategies, that could make a difference. We caught up with the principals behind the launch of this new instrument.

Euromoney (EM): What is the Sovereign Debt Redemption Fund, Ltd (DRF)?

Eric-Vincent Guichard, MD/CIO (Guichard): The DRF is a debt repayment provisioning tool, structured to assist Governments in meeting their obligations at term. In addition, DRF provides, pro bono, Debt Management Technical Assistance to Ministries of Finance and Central Banks. The idea is to provide a comprehensive Sovereign Asset-Liability Management framework that is inclusive of Sovereign Risk Modeling, definition of Liability Management Benchmarks, Debt Restructuring and Provisioning and Effective Capital Market Access Strategies.

EM: So, DRF is one component of a comprehensive Asset-Liability Management framework GRAVITAS is proposing to Ministries of Finance and Central Banks?

Guichard: That is correct. Our focus up to now had been exclusively on providing comprehensive Asset (Reserves) Management frameworks to our central bank clientele. We noticed that the other side of the balance sheet (Liability) lacked similar widespread use of industry best-practice risk management tools, yet impacted quite significantly the profile of reserves. Hence, we thought, the need for a comprehensive approach. The idea is to provide our clients with the financial tools and executive decision-making processes that enable them to better control risks, instill confidence in the marketplace and take advantage of that confidence to directly access capital markets to finance their activities.

EM: The ALM Framework is provided on a pro bono basis?

Guichard: Yes, the process begins with GRAVITAS (and later, DRF's own staff) conducting a Due Diligence of the client's current situation (e.g.: domestic/external debt position; debt characteristics; financial situation, decision-making infrastructure...). This 12-18 week process results in a Current Status presentation to Senior Management (Ministry of Finance or Central Bank) detailing our findings and proposing an ALM framework as part of a comprehensive Plan of Action. Once consensus is achieved, we conduct Risk Modeling analyses to define tailored Liability Benchmarks against which the liability portfolio will be measured; we identify Debt Restructuring opportunities and propose an execution plan; we help define levels of Debt Provisioning and finally propose a Pathway to Effective Capital Markets Access or propose a comprehensive sovereign debt issuance plan. Essentially, all this Technical Assistance is provided pro bono. Our view is that providing these tools enhances our ability to deliver results to our clients.

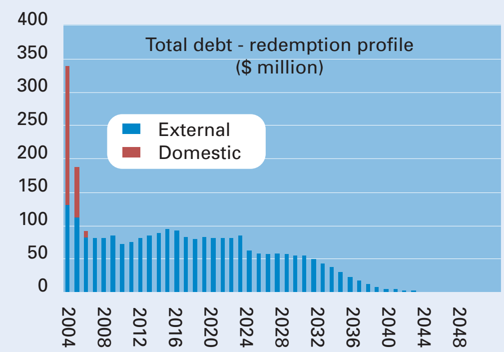
EM: Describe how the DRF works.

Guichard: DRF principally enhances income on debt repayment set-aside funds. The idea is that current debt sinking funds, if they exist, provide little contribution to National Budget's ability to meet external (or internal) obligations. Part of that has to do with how they are structured. DRF essentially neutralizes those risks to generate an enhanced sustainable income profile. That income is essentially used to make payments – in some cases, in the stead of National Budget – thereby reducing the burden. So, DRF acts as a more effective sovereign debt sinking fund with the objective of assisting National Budgets via active debt repayment provisioning. Keep in mind, however, that DRF is part of a comprehensive Sovereign ALM framework delivered to each client.

"The idea is to provide our clients with financial tools and executive decision-making processes"

Eric-Vincent Guichard, CIO and James L. Fleming, SIO

Total debt picture of typical IDA Country



Source: World Bank

GRAVITAS

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