



MEFMI

Macroeconomic & Financial Management Institute of Eastern and Southern Africa

***CAPACITY BUILDING IN PUBLIC DEBT
MANAGEMENT:ISSUES IN THE MEFMI REGION***

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***7-8 DECEMBER,2006
AMSTERDAM***

Development Of Public Debt Management.And Government Securities Markets In The MEFMI Region. Capacity Building Challenges

1. Relationship Between (Existing And New) Debt Management And The Macroeconomic Framework

- For most MEFMI HIPC's, public debt and its management are increasingly being seen in the context of **fiscal sustainability and the socio-economic linkages** between debt relief and poverty reduction. Countries have **medium term expenditure frameworks and annual budgeting** within which borrowing levels are considered. They also consider the **price effects**, on inflation, exchange rate, and interests rate, that may arise from both domestic and external borrowing, as reflected in the macroeconomic consistency frameworks of financial programming, reserve money programming and in a few cases complete macroeconomic modeling.
- Countries' domestic and external **debt sustainability analyses** have also brought together inputs from debt management, fiscal and social sector analysis and balance of payments forecasting, and sought to forge the necessary consistency between debt strategies and these macro components
- In this regard, the **coordination of fiscal and monetary policies and sovereign cash management with public debt management** are becoming increasingly important. MEFMI has undertaken two country case studies centering on the inter-linkages between these areas and sovereign debt management. Need has been expressed by some MEFMI stakeholders for training in cash forecasting and these need to be addressed.
- Most MEFMI member states (especially the HIPC's) also continue to be guided by **Fund-supported macroeconomic frameworks and national debt sustainability strategies** in determining the levels and costs of public debt. Non HIPC's have also attempted to develop debt strategies with assistance from MEFMI. Training in the newly developed Debt Sustainability Framework is of urgent need to all MEFMI member countries.
- The **level of development of domestic debt markets**, need for **macro-stability and vulnerability to exogenous shocks** also constrain the level and character of countries' public debt.

2. Access To New Sources Of Funding

- External funding for most MEFMI countries depend on the **individual countries' traditional development partners** who have a history of supporting the countries (budget support), on the basis of an internationally approved socio-economic policy framework. The external funding sources and terms therefore tend to be

stable but un-diversified, with little influence on the terms provided to the borrower countries

- For most member states, **domestic public debt tends to fund the budget deficit on a residual and gap-filling basis**, after all forms of grants and concessional external borrowing have been exhausted. Recourse to domestic debt also tends to increase when there are exogenous shocks, such as aid short falls that may prompt the countries to obtain local bridging loans for the government.
- The **few exceptions are the lower middle-income countries, which tend to rely more on their domestic debt markets** for government borrowing. Their non-IDA status means they can only borrow non-concessional.
- **Development of national and regionalized domestic debt markets** would help provide a deeper, more liquid and diversified complementary or alternative source of borrowing, with lower costs and no currency risks for the MEFMI countries.
- Other non-debt creating avenues of new funding for consideration, in addition to **foreign direct investment**, include **private-public partners (PPPs)** that promote the participation of domestic and foreign entities in the provision of infrastructure and other developmental spending.

3. Capacity Issues (Human And Institutional)

- In debt management, **human resources are suffering from relatively inadequate staff levels and lacking in skills**, especially in the public service (as distinct from the more endowed central banks). Low remuneration, high brain drain and attrition rates, are among the leading contributory factors to this trend
- There are **legal and institutional bottlenecks** to effective debt management. For instance, the legislation for debt management has become outdated in majority of MEFMI countries. Institutionally, countries in the region are yet to embrace best practice in terms of the professional segregation of duties into front, middle and back offices. Debt management functions themselves are still both fragmented and weakly coordinated among various institutions, or are embedded in central banks or ministries of finance departments with lots of overlapping responsibilities.
- **MEFMI was created to address the recognized human and institutional capacity gaps** that exist in debt management and other macro and financial spheres. The capacity challenge transcends various institutional, operational, policy-related, legislative and executive dimensions. Some decent strides have been made in capacity building, but much more still remains to be done, to strengthen capacity ownership at the individual country levels. Sensitisation seminars at different levels have assisted in creating awareness on the existing bottlenecks and how some of the issues can be addressed for national benefit.
- **Capacity Building considered more sustainable compared to Technical Assistance:** A number of countries in the MEFMI region have received technical assistance in the past in key areas including debt management. This has not been

sustained due to the fact that the situation deteriorates once TA is withdrawn. Channeling TA through regional institutions could provide longer term solutions as these are owned by the respective countries.

4. Quality Of Information

- Although the information exists in various forms (e.g. IMF Book Entry Systems housed in central banks), **domestic debt databases are only just beginning to be integrated into the debt management systems** used in the region (CS-DRMS and DMFAS). The developers of the soft wares are also responding through development of dedicated modules for monitoring domestic debt.
- The ultimate overall challenge for debt information would be to **create centralized data consolidation points** in designated institutions for consistent reporting and for analytical purposes.

5. Developing The Local Market For Government Securities

- Most debt markets in the MEFMI regional are **underdeveloped, un-diversified, illiquid and so do not provide a cheaper and lower risk alternative source** of government funding.
- There is **little secondary market activity**, owing to lacking infrastructure, few institutional investors non-existence of appropriate instruments and regulatory instruments that do not allow for establishment of certain instruments.
- Limited skills in the people who are responsible **for designing the instruments**.
- **Regional harmonization, cross listing and integration** should also be pursued as part of long term regional economic convergence, where public debt levels are traditionally part of the macro convergence criteria
- **MEFMI** has contributed through awareness creation and encouraging countries to prepare strategic documents for Financial Sector Reforms MEFMI has worked with other institutions in most of these areas and will continue doing so in the future on the understanding that all those interested in assisting MEFMI member countries are willing to coordinate Technical assistance with a view to avoid duplication of efforts.