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**PROJECT ON AFRICAN PUBLIC DEBT
MANAGEMENT AND BOND MARKETS**

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3rd Forum on African Debt Management and Bond Markets

FROM DEBT RECORDING TO STRATEGIC DEBT MANAGEMENT

Udaibir DAS
International Monetary Fund

This document is circulated as a background paper to Session No. 3 for the 3rd Forum on African Debt Management and Bond Markets, to be held on December 4-5 2008. Questions concerning this document can be addressed to Hans J. Blommestein, Project Manager (hans.blommestein@oecd.org).

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From Debt Recording to Strategic Debt Management

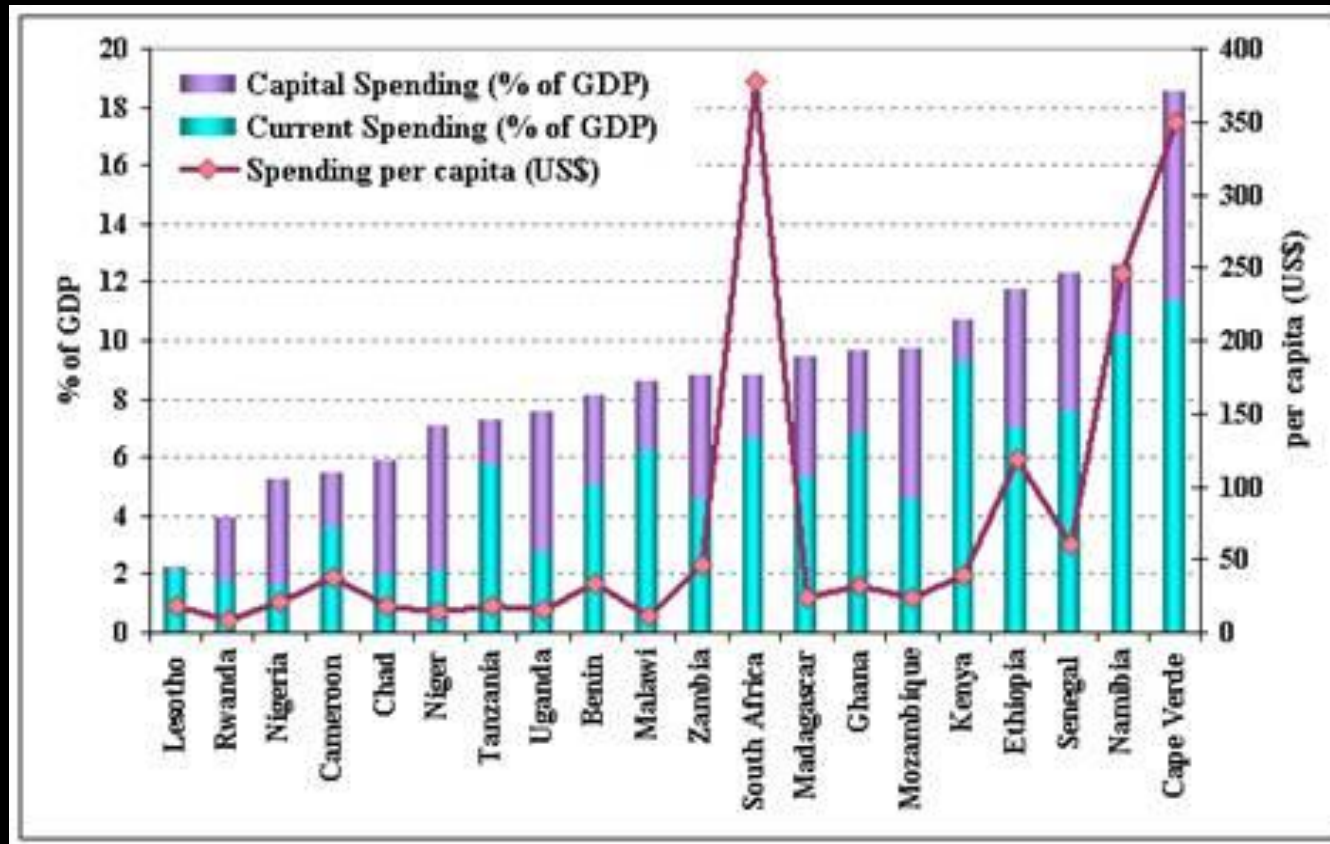
Changing Role of Debt Management function in Africa

**How is the IMF assisting this
transition through TA?**

Changing Environment for TA

- HPIC and MDRI changed environment for LICs significantly
 - Restored debt sustainability in many countries
 - Improved fiscal positions, although under pressure now
- New borrowing opportunities emerging (international market access)
- Scope/need for more borrowing (PSIPs, MDGs)

Capital Spending Remains Low Absorption? Implementation?



Changing Environment for TA

- Concessional funding may not grow fast enough
- Investor interest in LICs up
- Market conditions not favorable now, but these tend to revert
- *Task ahead:*
 - Maintain debt sustainability in such a new environment
 - Continue improving macroeconomic performance

What should
countries focus on?

Develop a Medium Term Debt Strategy

- Embedding decisions in sound MTDS framework can mitigate risk of poor choices on financing
- Fund/Bank have developed 8 step MTDS framework plus quantitative tool
- MTDS framework forces sound assessment of
 - Macro vulnerabilities
 - Coordination of DM with other aspects of macro policy
 - Strong analysis of cost and risks at portfolio level
 - Capacity to compare and contrast specific instruments

Develop Domestic Markets

- Macro linkages key
 - A floating exchange rate regime reduces roll-over risks associated with domestic debt
 - Policies to support low inflation essential to develop longer term domestic markets
- Closely linked with development of domestic financial sector
 - Steps to encourage greater savings/facilitate financial sector deepening

Build Skills in DSA and Strategy Formulation

- Ability to undertake DSA on your own
- Skills to set MTDS, and make adjustments as macroeconomic vulnerabilities and market conditions change
- Institutionalize role for the debt manager as a key economic functionary

What is the IMF's
approach to help
out?

Focus of Fund TA in Debt Management

- **Assist member countries to:**
 - Reduce vulnerability to external shocks
 - Improve balance sheet resilience for crisis prevention
 - Promote financial stability and macroeconomic development

TA in Africa: Some Examples

- MTDS (Cameroon, Ghana, Tanzania, Kenya, Nigeria)
- Regional Debt Markets and Debt Management (Central Africa)
- Related work done in Tanzania, Gabon, Malawi
- Increasing focus also on asset management issues (reserves, commodity wealth)
- Support from AFRITACs

TA Approach

- *Recognize* key policy linkages
- *Eliminate* potential conflicts
- *Mitigate* risks to other macro policy objectives
- Extension of country and capital market surveillance
 - Founded on macroeconomic, financial, and institutional factors

TA Approach

- Link with DSA framework
- Should capture more fully
 - Debt composition
 - Market structure
 - Good practices (applicable for LICs)
 - Monetary policy

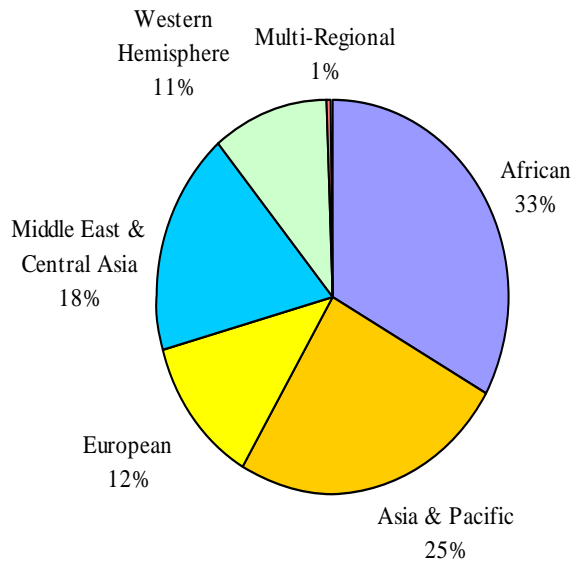
Cognizant of Key Gaps in Delivery

- Prioritization and overlaps with major TA providers
- Partnership with cooperating international organizations
- Diverse and rapid modalities of delivery
- Quality control and consistency
- Consistency in advice

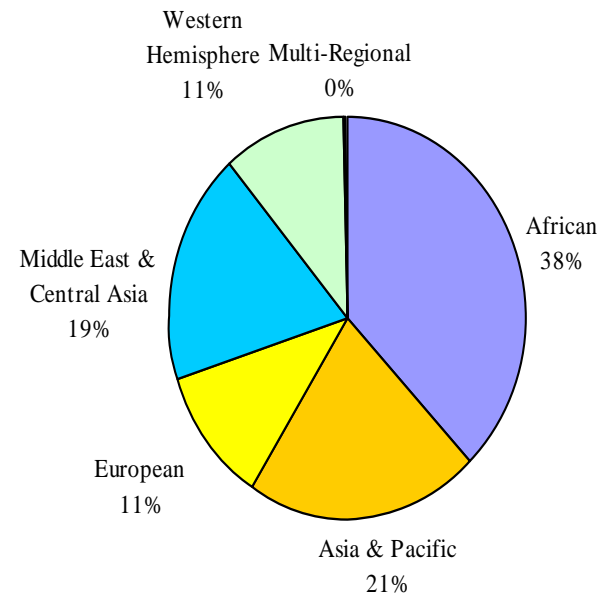
How effective is the
IMF TA?

Share of African countries in MCM's Overall TA delivery is up

by Region, All Financing ^{1,2}
FY2007



by Region, All Financing ^{1,2}
FY2008



Prioritizing TA by Strategic Objectives

- *Key objective:* focus on macro-critical areas (debt) and better integrate TA with surveillance and IMF lending
- *Set TA via:*
 - Regional strategy notes (RSNs) prepared annually to prioritize and align TA with country needs
 - Regional focus improves prioritization across countries and TA subject areas
- RSNs align with broader Fund priorities and enables within-year corrections

Strengthening TA Performance Measurement

- Stronger monitoring, *ex post* and *ex ante*:
 - *Technical Assistance Management System* revamped
 - *TA evaluation program* being strengthened
- Costing of TA to be improved
 - Actual cost billing for donors
- Changes to information systems as well as work and reporting practices underway

TA Strategy and Financing

- Charging to improve TA governance and prioritization, not to raise revenue
 - Graduated scale based on *per capita* country income. High-income countries to pay 100%
 - Not applied for: Program countries; Donor-financed TA
 - Target for implementation with FY 2010
- New topical trust funds to pool donor financing
 - Positive experience with governance structure in pooled arrangements (e.g., RTACs)
 - Some possible topic areas: Fragile states, AML/CFT, Statistics, National resource management, Public debt/asset management
- New donor-financed RTACs

Process Changes

- From the notion of *additionality* to a concept of *decentralization* of TA
- Define as precisely as possible a strategy in the context of a country's need
 - Demand driven
 - Dissemination of know how
 - Stronger alignment with surveillance

A Recent Independent Evaluation Study (preliminary)

- Delivering high quality TA in an effective and efficient manner
- *East AFRITAC*: most successful in supporting the effective implementation of reforms. Commendable outreach efforts.
- *West AFRITAC*: Largest of the centers—delivers consistent and solid performance; needs to improve monitoring and dissemination
- *Central AFRITAC*: Off to a good start; challenging countries with very weak institutional capacity

What do I see as the
key TA related
challenges?

Challenges

- Demand expected to grow
 - Debt data
 - Sound strategies and Risk management
 - ALM approaches
 - Market access and approaches and instruments for new financing
- Demand to continue for
 - Institutional building
 - Market development

TA Challenges

- Paths of key macro-variables uncertain
 - Need a strong policy focus
- Capacity issues
 - Slow level of implementation of recommendations
 - Political and decision maker's buy-in
- Follow-up
 - Building technical skills
 - Commitment
- Multiple TA providers
 - Not to overwhelm