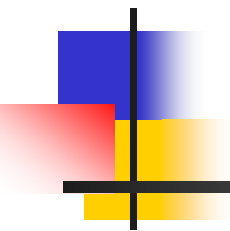


Development, formulation and implementation of debt management strategy : what are the extra (development) challenges, complexities and obstacles faced by African debt managers? What are the key factors behind African countries that have successfully reformed their debt markets (example of the African Franc Zone countries)



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CHARACTERISTICS AND PUBLIC DEBT PRACTICES IN THE FRANC ZONE

- Franc Zone = two monetary zones. The WAEMU region (composed of 8 countries) and the CAEMU region (composed of 6 countries). 12 countries out of 14 are francophone. As a consequence, debt management legal and institutional frameworks are generally similar (in their content and weaknesses) resulting also from the legal, institutional, economic and financial integration in the region.
- Debt portfolio made in majority of concessional, multilateral and bilateral external loans. Low level of commercial loans. Priority given to external debt because of low saving rate in the region, additional to monetary rules firmly limiting the monetization of public deficits.
- Development of domestic debt has started in the WAEMU in 2001 thanks to the adoption of a new regulation on the issuance of treasury bonds. Although a similar regulation was adopted in the CAEMU region, only one issuance has been organised to date.
- 12 countries out of 14 are HIPC. An important group have already reached the HIPC Completion Point and have began receiving Multilateral Debt Relief.

OBSTACLES FACED BY THE REGION DEBT MANAGERS

- Legal and Institutional constrains - important gap according to good international practices :
 - Debt vision : financing public needs # trade-off between costs and risk and debt sustainability ;
 - Lack of a global vision of public debt resulting into debt fragmentation (specific management of external debt, domestic debt and contingent liabilities without coordination and consistent with transparent benchmarks) ;
 - Lack or insufficient regulation on important issues : responsibility of contacting new debt and contingent liabilities, information flow, transparency, quality control and audit, etc..

- Strategy constrains – poor coordination of debt and macroeconomics policies :
 - Debt functions : front and back office prioritised, middle office almost absent in a majority of countries ;
 - No formal debt policies and benchmarks except IMF conditionality on new loans (minimum grant element of 35 %), regional convergence criteria (avoidance of new arrears, total public debt limited to 70 % of GDP) and limits on direct monetary financing of national treasuries (limited to 20 % of fiscal revenue of last fiscal year).

- Debt Culture and moral hazard : a leading feeling in some countries (even in some post HIPC) is that debt should be accumulated to finance development and poverty reduction needs regardless of sustainability of public finance that would, in the future, be obtain by new debt relief.

RECENTS PROGRESS AND CHALLENGES AHEAD

- Increased ownership of good practices in number of countries, in particular thanks to :
 - Reforms in the legal and institutional framework of public debt management : adoption of new regulation on Treasury bonds, development of domestic bonds and monetary markets, updating of rules related to the responsibility of contacting new loans and the provision of public guarantees, updating or institutionalising the existing debt benchmarks ;
 - Creation of National Public Debt Committees in some countries : Committees are in charge of the design of debt strategy and policy as well as their implementation through the prior agreement of future loans before they are signed.

- Capacity Building as the major element in the transformation of debt management systems :
 - Sensitisation of authorities to increase political will for effective debt management ;
 - Recommendation of necessary legal and institutional reforms for effective debt management ;
 - Training on debt strategy formulation consistent with macroeconomic policies and long term sustainability targets ;
 - Strengthening of a regional approach of debt management and sustainability in order to limit national constrains : adoption of regional regulation and a debt crisis prevention approach of the convergence framework.