3rd Forum on African Debt Management and Bond Markets

WORLD BANK PROGRAMS AND AFRICAN DEBT MANAGEMENT

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World Bank
World Bank Programs and African Debt Management

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The World Bank
Third OECD Forum On African Public Debt Management
4-5 December 2008
1. Changing Debt Situation in Africa
2. Uncertainties in Current Environment
3. Implications for Debt Management
4. World Bank Advisory Services
5. DMF: Cooperation and Information Sharing
Africa’s debt situation post-debt relief: falling external debt ratios

Sub-Saharan Africa (SSA) debt to official creditors fell significantly in the 2000s
– in part due to rapid growth, debt relief and debt repayment by Nigeria, Angola, Malawi and others
Debt relief has created “borrowing room” and changed debt composition

- Increased access to non-traditional creditors and sources of financing
  - Access to commercial borrowing - Ghana and Gabon issued Eurobonds

- Increased proportion of domestic debt to total debt
  - Ethiopia, Guinea-Bissau, Mauritania and Zambia

- Increase in foreign holding of domestic debt
  - Kenya, Nigeria, Malawi, Ghana

- Extension of domestic maturities in several countries
  - Ranging from 5 to 15 years (Ghana, Zambia, Nigeria, etc.)
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Financial crisis impact: issues to consider

- **Initial conditions:**
  - Domestic financial sector (including links to international markets through private and sovereign borrowing)
  - Fiscal imbalances (taking account of official financing commitments)
  - External imbalances (including reliance on portfolio inflows)

- **Crisis impact:**
  - Growth prospects (dependence on commodities whose prices are falling or sectors where external demand is likely to fall)
  - Fiscal revenues (dependence on commodity exports)
  - External account (terms of trade shocks)
  - Domestic financial sector (links to international markets)
  - Financing – official and private (borrowing by corporates, sovereign borrowing in private markets, aid, remittances)
Global financial crisis and increased uncertainties

- Potential negative impact on inward remittances, donor/aid and private flows
- Reinforces role of prudent debt management practices and rigorous cost-risk considerations while undertaking borrowing decisions

Remittances are significant mainly for the smaller poorer countries

Source: World Bank, IMF, J.P. Morgan

FDI to Africa: USD 31 billion last year, but region remains at bottom of investor preferences, little prospects of improvement in next three years

Source: IMF Regional Economic Outlook, April 2008

UNCTAD’s World Investments Prospects Survey 2008-10
Development finance flows to SSA

- ODA allocated to SSA increased significantly ($11.5 billion in 2000 to $39 billion in 2006 in real terms)
  - Much of increase came in the form of debt relief
  - Excluding debt relief, SSA received 37.5 percent of total ODA in 2006 (34 % in 2006, 38 % in 2004)

Source: OECD Development Assistance Committee.
Impact of crisis on investor base and debt market

Impact on banking system

(+)

Low risk as banks do not rely extensively on complex derivative instruments

(-) But high levels of foreign ownership (i.e., alternative channels of “contagion”)

Impact on capital markets

• International bond issues, that were growing rapidly, dried up in 2008
  • Growing risk aversion among investors led to postponement of sovereign issues

<table>
<thead>
<tr>
<th>Share of banking assets held by foreign banks (%)</th>
<th>Largest Foreign Banks</th>
<th>Home Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>Angola</td>
<td>Banco BPI</td>
<td>Portugal</td>
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<tr>
<td>Botswana</td>
<td>Barclays Bank</td>
<td>UK</td>
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<tr>
<td>Mozambique</td>
<td>Banco Comercial Portugues</td>
<td>Portugal</td>
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<td>Swaziland</td>
<td>Standard Bank</td>
<td>South Africa</td>
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<td>Uganda</td>
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<td>Zambia</td>
<td>Barclays Bank</td>
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<td>Ghana</td>
<td>Standard Chartered Bank</td>
<td>UK</td>
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<td>Cote d'Ivoire</td>
<td>Barclays Bank</td>
<td>UK</td>
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<td>Madagascar</td>
<td>Societe Generale</td>
<td>France</td>
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<td>Cameroon</td>
<td>Calyon</td>
<td>Benin</td>
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<td>Bank of Africa</td>
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<td></td>
<td>BFBP</td>
<td>France</td>
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</tbody>
</table>

Source: Global Development Finance, 2008
1. Changing Debt Situation in Africa

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Implications for Debt Management

- Borrowing environment for SSA is increasingly complex - made even more challenging by the evolving global financial crisis
  - Potential for rollover risk is high
  - Need to avoid costly mistakes, reaccumulation of unsustainable debts

- Current situation underscores importance of strengthening debt management capacity, institutions and practices
  - To address concerns about the growing risk of debt distress, and
  - Contribute to improved public financial management in developing countries

- Scaling up in provision of technical assistance and capacity building efforts
  - Need for coordinated work programs to provide concerted capacity building and TA
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The WB advisory services on public debt management for developing countries include…

- Diagnostic for public debt management (including DeMPA) and for debt market development

- Advisory services to sovereign and sub-sovereign clients grounded on international sound practices and hands-on expertise in the areas of:
  - governance
  - debt strategy (MTDS, in partnership with the IMF) and risk management
  - capacity and management of internal operations
  - coordination with cash management and macro-economic policies

- Public Goods: publications on international sound practices, training in strategy design and execution, MTDS and DeMPA

- Treasury (BDM) offers intensive, one-week workshops in designing and implementing public debt management strategies. These are not specifically targeted at countries in Africa, but are appropriate for any country with market access.

- Efficient Securities Markets Institutional Development - ESMID
  - The ESMID initiative aims to address shortcomings in local securities markets with a particular focus on non-government bond markets to improve long-term financing for housing and infrastructure development, provide long-term investment instruments to institutional investors, and enable private sector development. ESMID is a partnership among Swedish International Development Cooperation Agency (Sida,) the World Bank, and IFC, with Sida providing the initial $5.5 million grant.
  - The program focuses primarily on lower income emerging market countries, with ESMID Africa, a pilot operation, underway in Sub-Saharan Africa. The intention is to expand the program to a few other African countries and overtime, to other regions globally. ESMID Africa has projects underway in East Africa (Kenya, Tanzania, Uganda, and Rwanda) and will soon be launching operations in Nigeria.
What is DeMPA?

- DeMPA is a methodology for assessing public debt management performance through a comprehensive set of performance indicators spanning the full range of government debt management functions.
- Assess the strengths and weaknesses in debt management operations.
- Enable design of actionable reform programs.

http://go.worldbank.org/G6ZOVH8ZO0
DeMPA Work Program: Focus Africa

**To date** DeMPA exercise carried out in 23 developing countries; of which 16 in Africa

<table>
<thead>
<tr>
<th>FY08 (Africa 9)</th>
<th>FY09 (Africa 5)</th>
<th>Pipeline</th>
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<tbody>
<tr>
<td>Burkina Faso (RO)</td>
<td>Cameroon (RO)</td>
<td>Tanzania</td>
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<td>CAR (RO)</td>
<td>Congo, Brazzaville (RO)</td>
<td>Cape Verde</td>
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<td>Ghana</td>
<td>Guinea (RO)</td>
<td>Solomon Islands</td>
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<td>Mali (RO)</td>
<td>Nigeria (RO)</td>
<td>Tonga</td>
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<td>Mozambique</td>
<td>Rwanda (RO)</td>
<td>Congo, DRC</td>
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<td>Togo</td>
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<td>Uganda</td>
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<td>Sao Tome Principe (RO)</td>
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<td>Burundi</td>
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<td>Cote d’Ivoire</td>
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<td>Zambia</td>
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<td>Seychelles</td>
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<td>Bangladesh</td>
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<td>Honduras (RO)</td>
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<td>Moldova</td>
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<td>Mongolia</td>
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**FY07 (Africa 2)**

- The Gambia (Pilot)
- Malawi (Pilot)
- Albania (Pilot)
- Guyana (Pilot)
- Nicaragua (Pilot)

**RO = Regional Organizations. Missions undertaken in collaboration with regional TA providers - Pole Dette, MEFMI, WAIFEM, and CEMLA**
Areas requiring improvements in debt management…

Early Results of the DeMPA, 2008 (10 African Countries*)

*Results that have been finalized
What is a Medium-Term Debt Management Strategy?

- A framework to fully assess relevant costs and risks associated with a government’s *desired composition of debt*
- It is a document that describes the *plan* that the government intends to implement to achieve this composition
- Medium-term planning horizon of the government (usually 3-5 years)
- Bank and Fund staffs have designed a toolkit
  1. A **Guidance Note** on the process of designing and implementing an MTDS
  2. A **Template** for strategy documentation; and
  3. A preliminary version of the **Analytical tool**

Piloted in 5 countries so far: Bangladesh, Ghana, Cameroon, Nicaragua and Moldova
Disseminated to external collaborators, Formal Outreach at SDM Forum, Oct. 08
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What is the Debt Management Facility (DMF)?

- Grant-based technical assistance facility for funding upstream activity through a *demand-driven* work program
- Builds on *comparative advantages* of existing service providers, networks of debt practitioners and Bretton Woods institutions
- *Joint implementation* of work program and ‘open platform’
- Focus on provision of *public goods*: — Tools, harmonized approaches, performance monitoring, help set international standards, dissemination & training
- Donor support to DMF will *complement funding* currently provided to existing debt management service providers & programs
- Should have a *catalytic* effect, but will not fund ‘downstream’ work
- Will *strengthen co-ordination* in service delivery...
  - ...and *build links* to existing national development strategies and global programs
- Country coverage focus on LICs, with provision for support to MICs
Scale up in work program on debt management in LICs

Debt Management Facility – launched October 2008
DMF Program- Activity

Program period: Four year

- Systematic application of DeMPA tool
- Programs for reform & capacity building
- Country-led design of medium-term debt management strategies (MTDS) in cooperation with IMF
- Debt Management Practitioners’ Program
  - Peer-to-peer technical network for LIC debt managers in Africa
- Knowledge management and training
- Knowledge sharing
  - Annual Stakeholders’ Forum, PDM publications, research and interactive external website
How can DMF contribute to the co-operation and info-sharing agenda?

- Platform for enhanced collaboration among service providers through
  - Joint implementation of work program
  - Harmonized approaches to performance assessment and service delivery

- Strong focus on knowledge sharing and peer-to-peer techniques
  - Extensive training and outreach program
  - Annual Stakeholders’ Forum
  - Debt Management Practitioners’ Program
  - PDM-centric technical publications & research
  - Interactive, external website
Who are the players and what happens next?

- **Implementing Partners**
  - CEMLA, ComSec, DMFAS, DRI, MEFMI, Pôle Dette, UNCTAD & WAIFEM at this stage

- **Steering Committee (SC), financial contributors**
  - Austria, Belgium, Canada, The Netherlands, Norway, Switzerland... (critical mass of commitments >> $12 million)
  - Overall strategic guidance

- **Technical Advisory Group (TAG)**
  - Representatives of IMF, OECD, TA agencies & LICs
  - Review work programs & provide expert advice

- **Program Implementation Unit (PIU)**
  - Bank to manage DMF work program on behalf of SC
  - Responsible for day-to-day operational decisions, quality assurance, and coordination among ‘implementing partners’

- **Annual work plan for 2009 under preparation**

- **Implementation commences in 2009!**

Thank You!

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