



Borrowing and Related Financing Activities

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Borrowing and Related Financing Activities

DPI-8 Domestic Borrowing

DPI-9 External Borrowing

DPI-10 Loan Guarantees, On-Lending, and Derivatives

- Policies and procedures for borrowing through domestic and external sources



DPI-8 Domestic Borrowing

Issuers

- Meet financing needs in a cost-effective manner through domestic sources while minimizing risks
- Increased choice of funding sources
 - Reduce dependence on captive sources
 - Develop stable funding sources in domestic currency
 - Access non-inflationary borrowing from private sector rather than from CB financing
 - Lead to independence of monetary policy and DeM policy
- Lower transaction costs
- Reduce currency risk
- Additional degrees of freedom to respond to shocks



DPI-8 Domestic Borrowing: Objectives

Investors

- Externalities for private sector
 - Greater predictability and increased competition – government's benchmark yield curve useful pricing reference
 - Lessen price uncertainty
 - Financing and investment decisions reflect true cost of capital for institutions concerned

Both require

- Transparency and predictability lower transaction costs
 - Competitive market process
 - Level of disclosure – documented procedures



Dimensions to Assess

DIMENSIONS TO BE ASSESSED:

1. The extent to which market-based mechanisms are used to issue debt, the publication of a borrowing plan for T-bills and T-bonds, and the preparation of an annual plan for aggregate amount of local currency borrowing in the domestic market, divided between the wholesale and retail markets
2. The availability and quality of documented procedures for local currency borrowing in the domestic market



Setting the Scene

- **What** is currently being done?
 - Primary market - wholesale versus retail,
 - Process of borrowing – auctions at market rates, syndications or tap issuance, retail securities at fixed rates

- **Who** does what?
 - Central Bank (CB), treasury/budget department, market participants - primary dealers

- **How** is the information disseminated?
 - Primary market operating procedures publicly available, in print or electronic form, borrowing plan publicly available
 - Dialogue with the market participants

- **When** is it done?
 - One month, three months in advance, annual plan, before each issuance

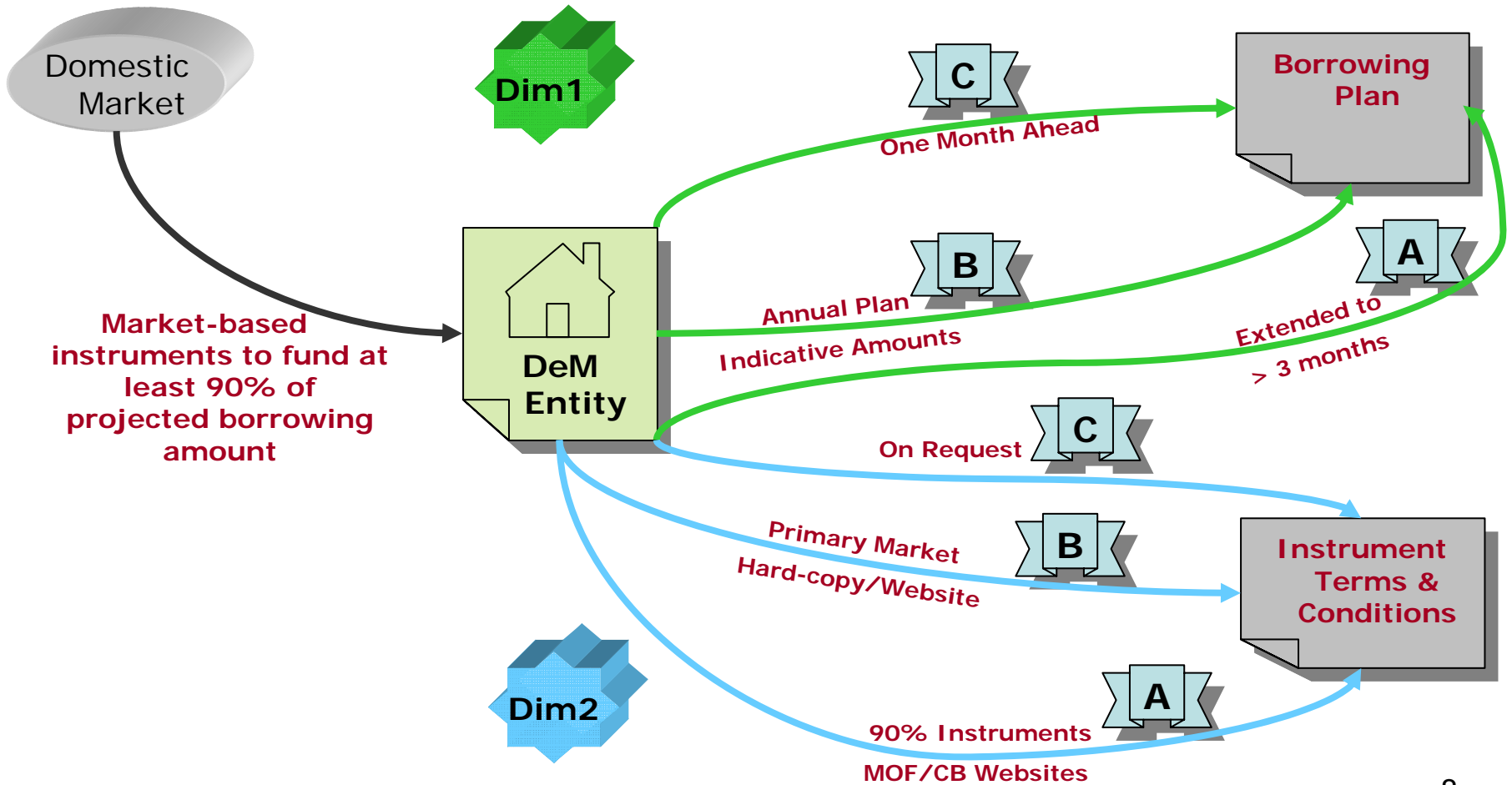


Scores Summary

- **Dimension 1:** Moving from C to A reflects the degree of predictability, transparency and capability of government to borrow from domestic market
- **Dimension 2:** Moving from C to A reflects the transparency (ease and public availability of procedures) for participants to access domestic markets



Domestic Borrowing





Evidence

- Method of domestic borrowing, amounts issued through retail securities, copy of borrowing program, calendar, process of conducting an auction
- Information memorandum or prospectus, announcement of T-bills/bonds in print or electronic media, information on the primary dealers, meeting with market participants



DPI-10 External Borrowing



External Borrowing

- Borrowing activities from external sources
 - Multilateral and/or bilateral sources at concessional or market-based interest rates
 - Access international capital markets
- Key objective is:
 - To contract at beneficial and cost-effective terms
 - Regular evaluation of the 'all-in-cost' of each borrowing (including complimentary benefits, TA, grants etc. for concessional loans)
 - Terms include – lender or source of funds, currency, maturity and interest rate
- To accomplish this must have:
 - Well documented procedures in place
 - Sound legal documentation



Dimensions to Assess

DIMENSIONS TO BE ASSESSED:

1. Degree of assessment of the most beneficial/cost-effective borrowing terms and conditions (lender or source of funds, currency, interest rate, and maturity)
2. Availability and quality of documented procedures for borrowing in foreign markets
3. Availability and degree of involvement of legal advisors.



Setting the Scene

- **What** is currently being done?
 - Access to external concessional financing – MLT, Bilateral, non-concessional, foreign markets
- **Who** does what?
 - DMO/MOF for loan negotiation, DMO for loan documentation, legal advice
- **How** does this take place?
 - Assessment of loan terms, record of loan terms
- **When** is it done?
 - Loan assessment/documentation: frequency



Scores Summary

- **Dimension 1:** Moving from a C to an A reflects the frequency (timing) of assessment of most cost-effective terms for borrowing
- **Dimension 2:** Moving from a C to an A reflects the availability and quality of documented procedures for external borrowing
- **Dimension 3:** Moving from a C to an A reflects the degree of involvement of legal advisors



Evidence

- Sources of external borrowing, basis for choosing creditor/currency and other terms
- Documented procedures for borrowing in foreign markets, copy of sample terms sheet prepared after completing a loan contract
- A copy of recent analysis of the cost-effective terms and conditions



DPI-11 Loan Guarantees, On-Lending, and Derivatives



Key Requirements for Practitioners

- **Control and monitoring of loan guarantees and on-lending**
 - Clear operational guidelines for risk monitoring, especially credit risk
 - Risk mitigation strategies (charging guarantee fee or on-lending premium)
- **Derivatives used as hedging instruments**
 - Clear decision-making and delegation to transact
 - Systems to record, monitor, settle, and account for derivative transactions
 - Appropriate documentation
 - legal - master derivatives agreement;
 - preparation of terms sheet (physical or electronic) for all financial terms



Dimensions to Assess

DIMENSIONS TO BE ASSESSED:

1. Availability and quality of documented policies and procedures for approval and issuance of central government loan guarantees
2. Availability and quality of documented policies and procedures for on-lending of borrowed funds
3. Availability of a debt management system with functionalities for handling derivatives, as well as availability and quality of documented procedures for the use of derivatives

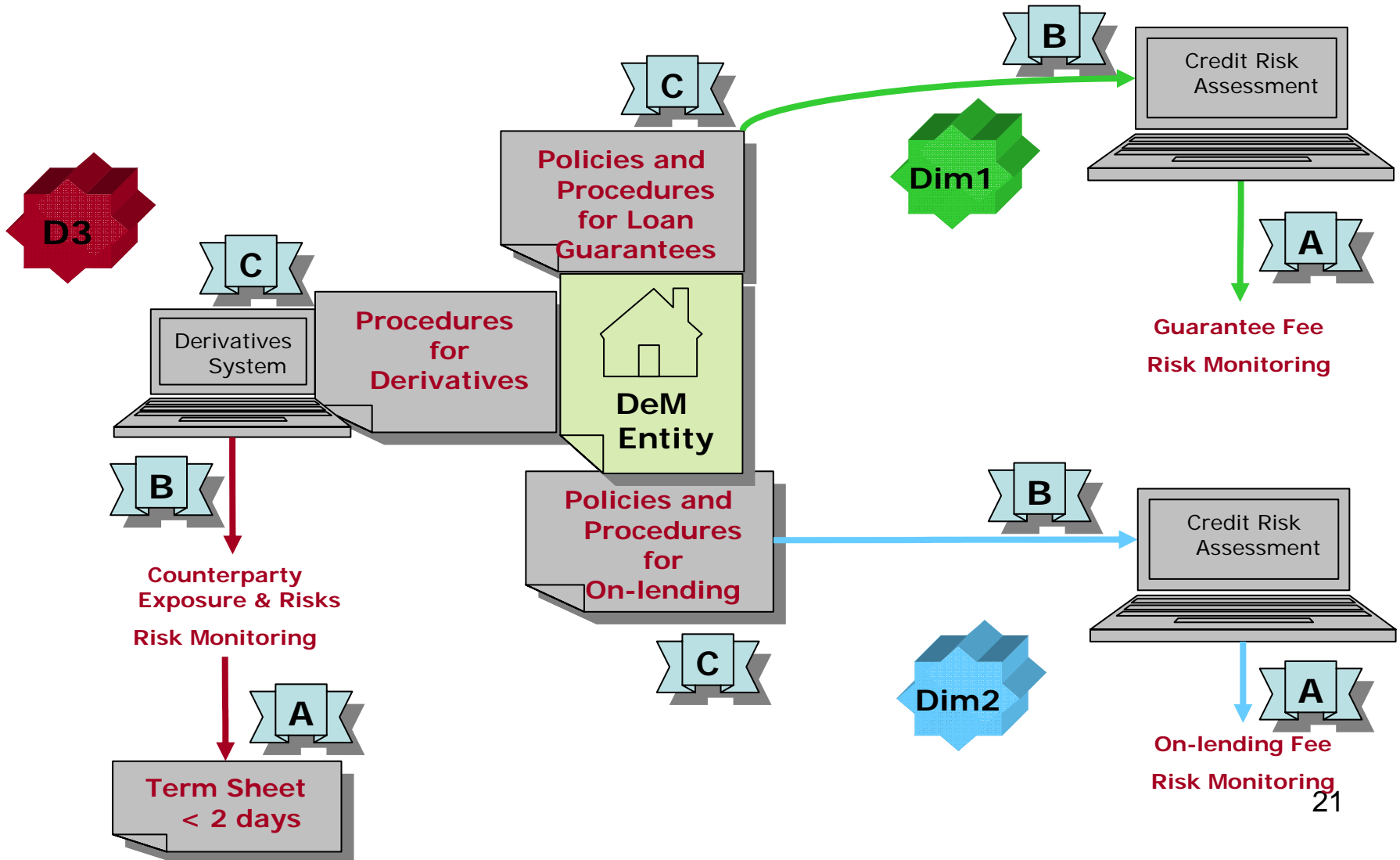


Setting the Scene

- **What** is currently being done?
 - Situation regarding issuance, monitoring and risk assessment for guarantees, on-lending, derivatives
- **Who** does what?
 - DMO/MOF or line ministries
- **How** does it take place?
 - Assessment and record of the transactions, risk-assessment
- **When** is this done?
 - Monitoring of guarantees/on-lent funds/derivatives



Loan Guarantees, On-lending & Derivatives





Scores Summary

- **Dimension 1 & 2: Guarantees and On-lending-**
Moving from a C to an A reflects the ability to assess and monitor credit risk
- **Dimension 3:** Moving from a C to an A reflects the degree of sophistication of the DMO in managing risks associated with derivatives



Evidence

- Copy of the guidelines for loan guarantees & on-lending
- Method for calculating guarantee fees and on-lending charges/fees
- Copy of the risk management framework, master derivatives agreement, terms sheet for derivative transactions



Guarantees – To Score or Not

| <i>Score for DPI 10 dimension1</i> | <i>Legal Framework (DPI 1)</i> | <i>Procedures</i> | <i>Issued</i> |
|------------------------------------|--------------------------------|-------------------|---------------|
| | ✓ | X | X |
| | X | ✓ | ✓ |
| | X | X | ✓ |
| | X | ✓ | X |
| | ✓ | X | ✓ |
| | X | X | X |

Highlights links between indicators



Thank you!

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