



# **New Trends and Challenges in Government Debt Management in Low Income Countries**

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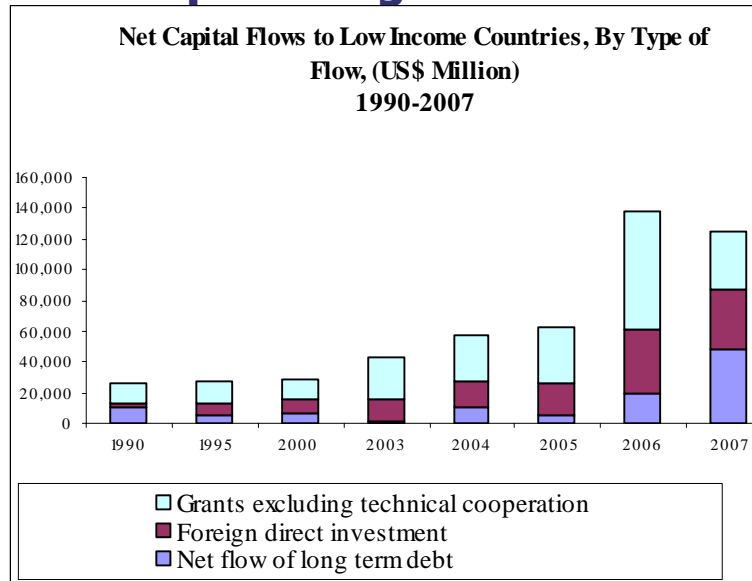
**Progress and Challenges**

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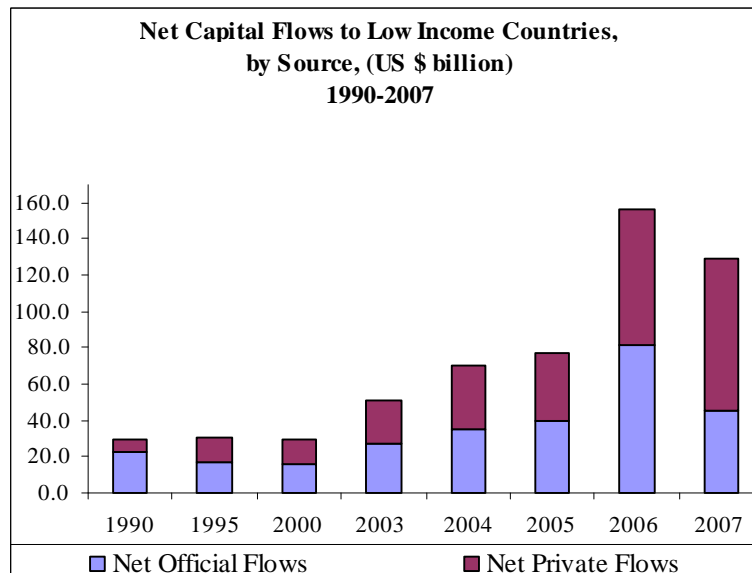
**Scaling up**



## Changing financial landscape facing LICs recent increases in net capital flows...



Source: GDF 2008, World Bank

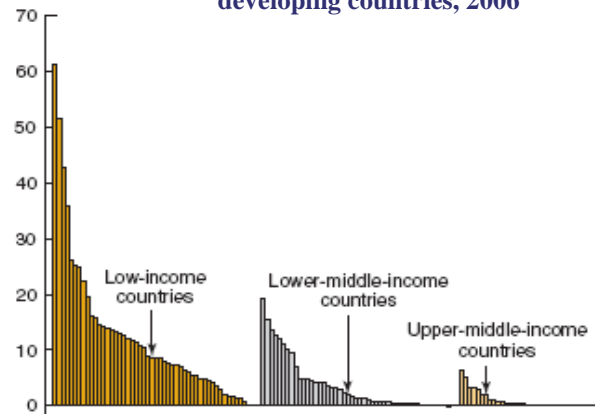


Source: GDF 2008, World Bank



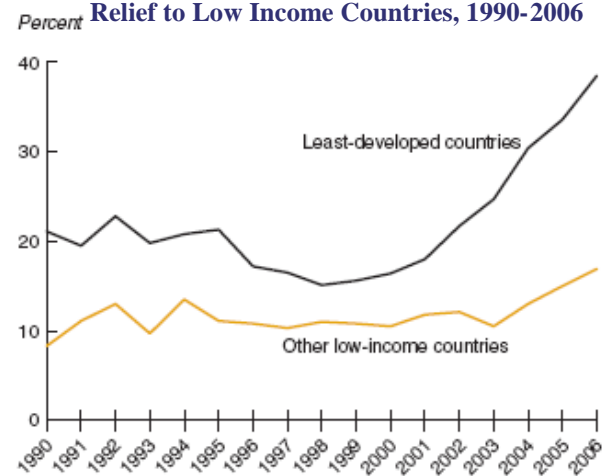
## Net ODA Disbursement as a share of GDP in developing countries including LICs

Percent Net ODA Disbursements as a Share of GDP in developing countries, 2006



Source: OECD Development Assistance Committee (DAC).

### Share of ODA Disbursements Excluding Debt Relief to Low Income Countries, 1990-2006

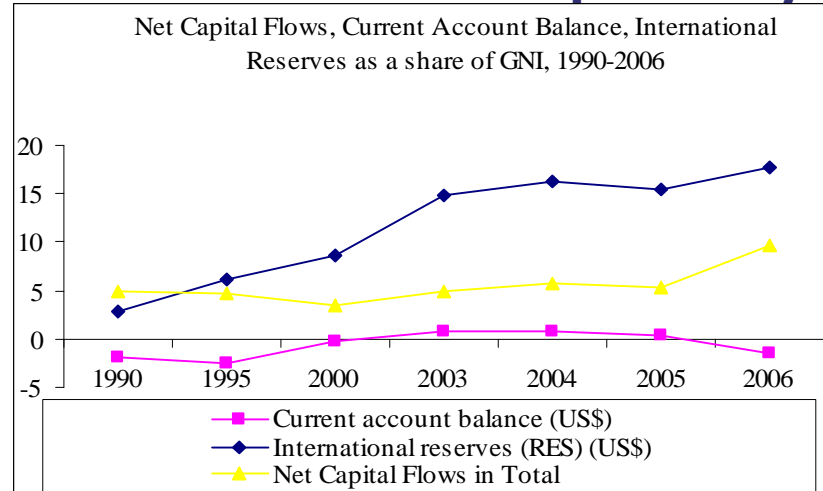


Source: OECD Development Assistance Committee.

Source: GDF 2008, World Bank

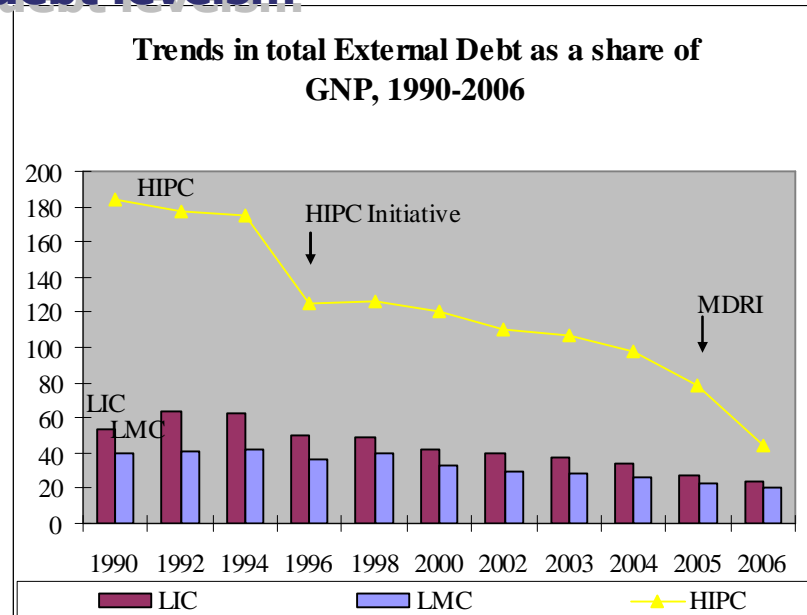


## Net capital inflows have been accompanied by reserve build-up...



Source: GDF 2008, World Bank

## ... And falling debt levels...



(in HIPC's)

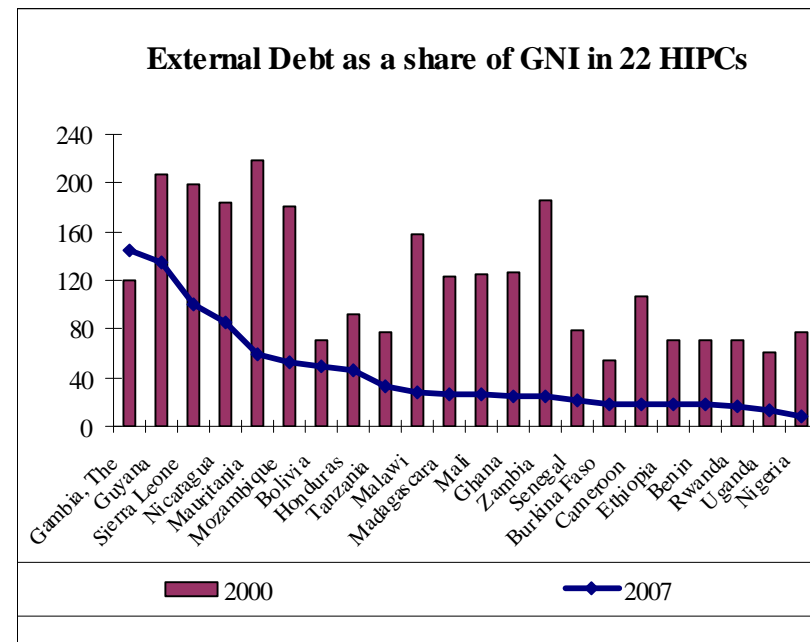
Source: GDF 2008, staff estimates, World Bank



## Situation in HIPC: Post MDRI

- Substantial reduction in public sector external debt
- For 22 post completion point - HIPC countries the external debt to GNI has reduced to the median level of 26% of GNI from 129% of GNI for the same countries in 2000

## External debt to GNI in 22 HIPC

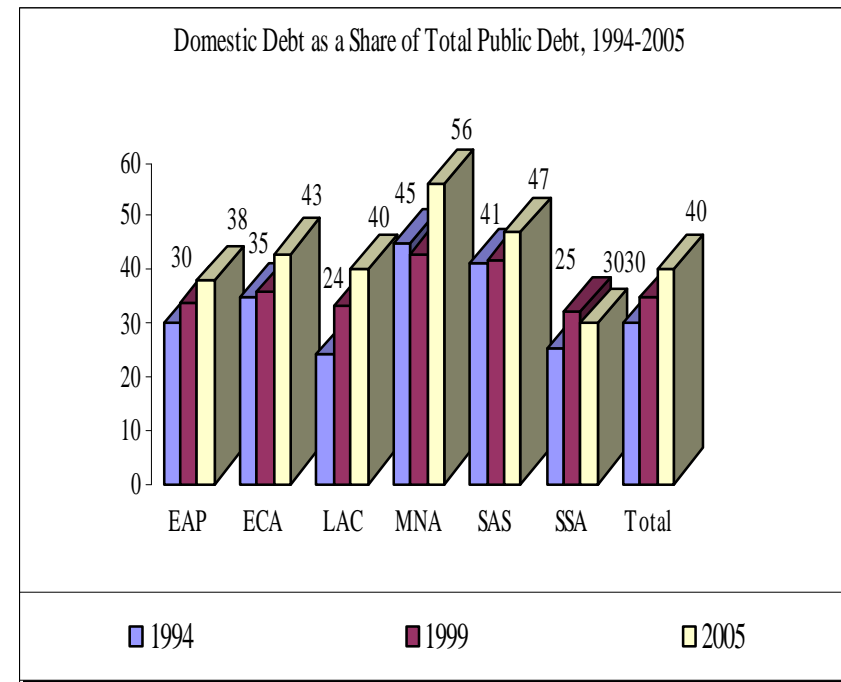


Source: GDF 2008, World Bank



## And changing debt composition ...

- Increase in market access
  - reflected by increase in domestic debt;
- Domestic debt/GDP ratio increased in 33 LICs
  - Exceeded 25% of total debt in 19 LICs
  - 50% in Cameroon, Ethiopia, Guinea-Bissau, Mauritania and Zambia
- Concentration of holders
  - Mainly commercial banks
  - Increased share of non-resident holdings ([slide](#))
- Mainly skewed towards short-term
  - Although longer tenors seen for Ghana (5 yrs), Kenya (15), Nigeria (10), Zambia (15)

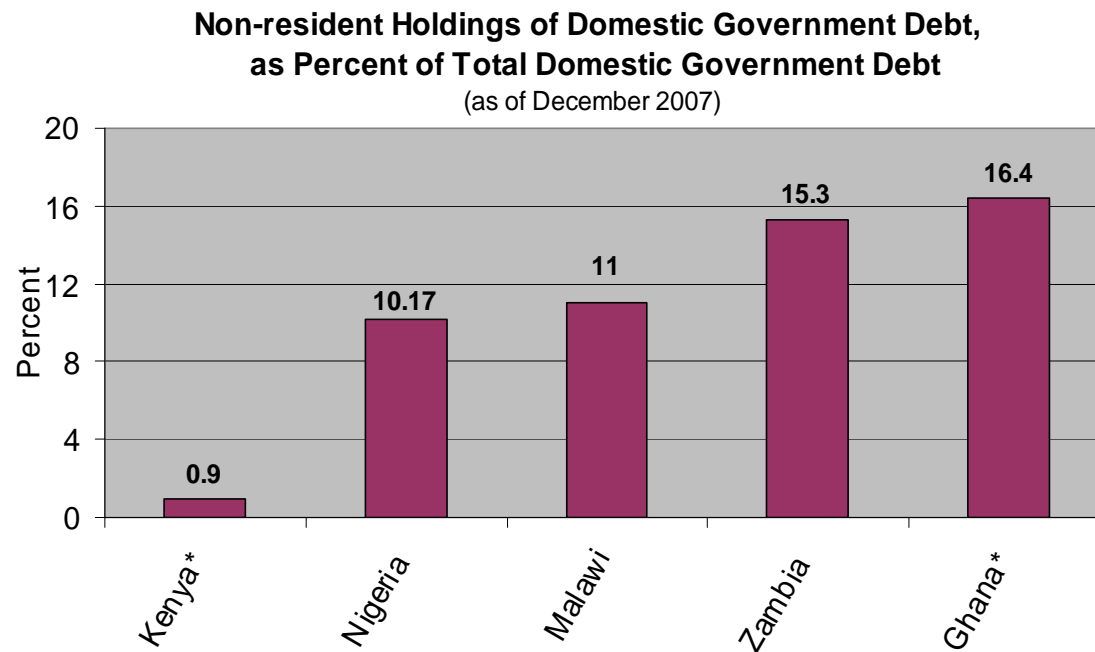


Source: UN, 2008



## And changing debt composition ...

- increased non-resident holdings of domestic debt in select African countries



Source: Government authorities

\*As on October 2007



## And new sources of financing

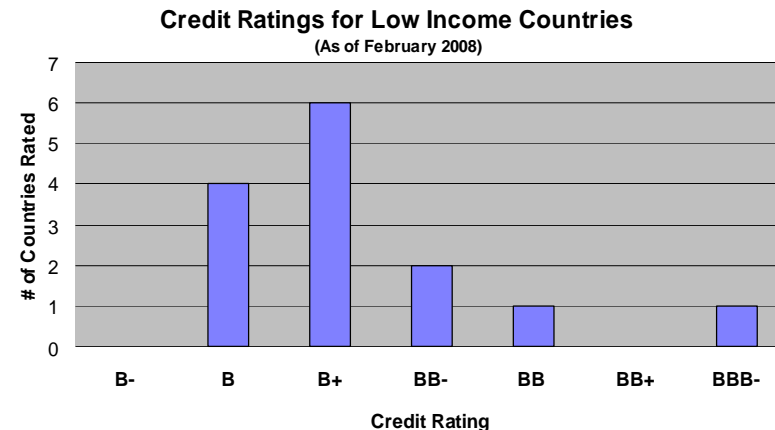
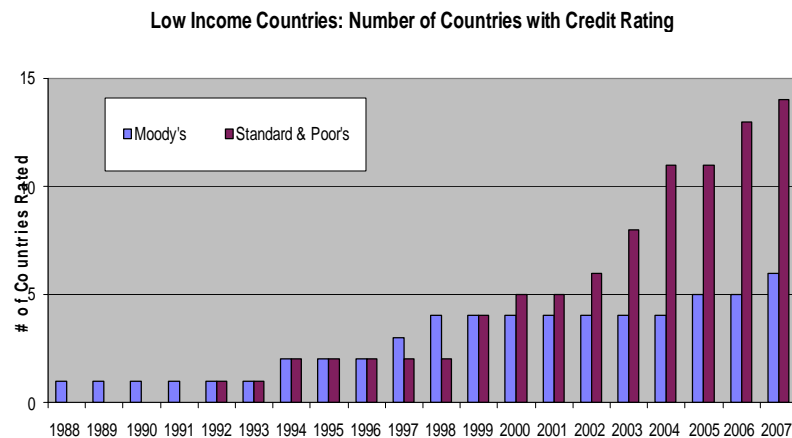
### Emergence of new creditors:

- In 2005, lending from China at USD 2-3 billion and India at USD 1 billion
- Grant element from such creditors is 33 percent (GDF, 2008)

### Issuance of sovereign bonds in LICs

- Ghana in September 2007 (USD 750 million, yield=8.68, 10 years rated B+)
- Gabon in December 2007 (USD 1000 million, yield=7.85, 10 years rated BB-)

## An increasing number of low income countries are being rated



Source: Bloomberg



## To summarize the changing context in LICs...

- Sharp declines in debt burdens in HIPC/MDRI countries
- Newly creditworthy LICs now attracting non-concessional creditors
- Increase in domestic debt in several LICs
- Current context two more issues
  - Financial market turmoil
    - So far limited direct contagion in developing countries, but impact through lower global growth and lower capital flows could increase later in 2008 (may result in higher debt, higher costs of borrowing)
  - Rising oil and food prices
    - Has led to tensions and macroeconomic imbalances in some LICs, and is likely to raise requirements for higher borrowing (increased debt)
- Coupled with these is the weak debt management performance in many LICs:
  - despite debt relief
  - because its not a priority



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## New Architecture for PDM in LICs

### Progress: Aid Flows

- Gleneagles commitments
  - Increasing ODA by \$50 billion and doubling ODA to Africa by 2010 at constant 2004 prices
  - DAC donors provided **\$103.7b. in net ODA disbursements in 2007**
    - Down from \$104.4b. in 2006 and \$107.1b. in 2005.
    - The decline reflects debt relief grants reverting to more normal levels
- Aid volumes lag commitments
  - Only modest increases so far in aid to Africa excluding debt relief
  - Meeting MDG targets requires that development aid must pick up pace
    - Need to access alternative financing sources
- Aid flows are often volatile and capacity to manage shortfalls and lack of predictability is limited
  - Underdeveloped domestic debt markets
  - Bunching of inflows often poses policy challenges
- New donors and modalities promise more resources and innovation
  - Increased complexity
  - Challenge of ensuring effectiveness and coherence of aid and, in turn, debt management



## Progress: Debt Relief

HIPC Initiative and the MDRI provided debt relief to reduce debt burdens

Status as of July 2008  
(End-2007 NPV terms, in billions of U.S. dollars)

Country	World Bank Group Debt Relief			Total Debt Relief		
	HIPC	MDRI	HIPC and MDRI	HIPC	MDRI	HIPC and MDRI
<b>All HIPCs</b>	14.3	18.3	32.6	71.2	28.1	99.3
<b>23 Post-Completion-Point HIPCs</b>	9.3	14.5	23.8	34.9	22.6	57.5
<b>10 Interim HIPCs</b>	2.7	1.9	4.6	16.1	2.8	19.0
<b>8 Pre-Decision-Point HIPCs</b>	2.3	1.9	4.2	20.1	2.7	22.8

- While debt relief has significantly reduced the debt burden in HIPCs, achieving long-term debt sustainability ([chart](#)) and effective debt management ([table](#)) remains a challenge

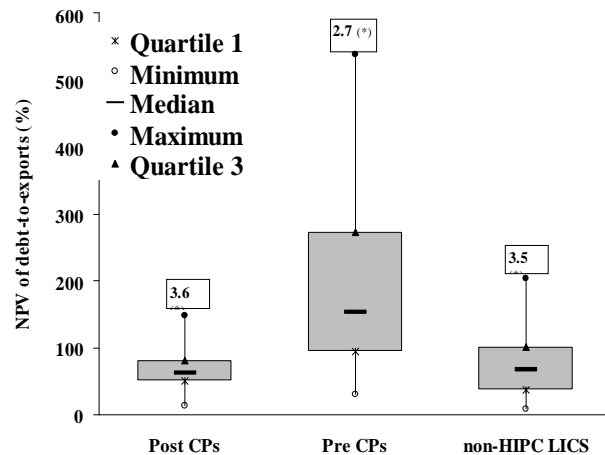


## Debt sustainability Post-debt Relief



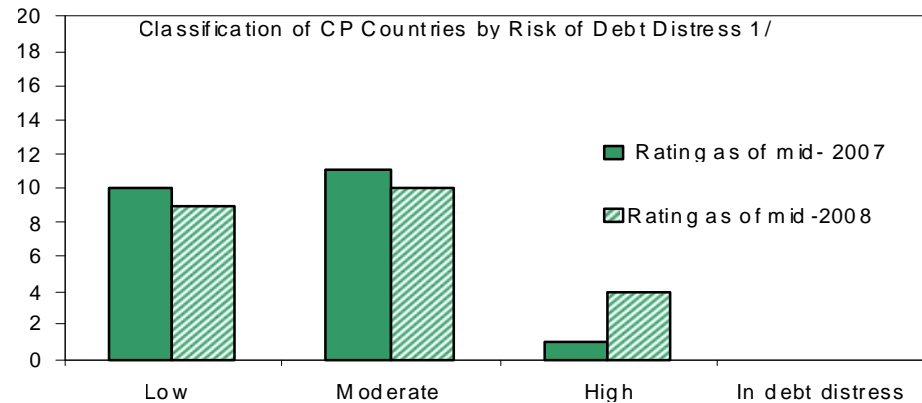
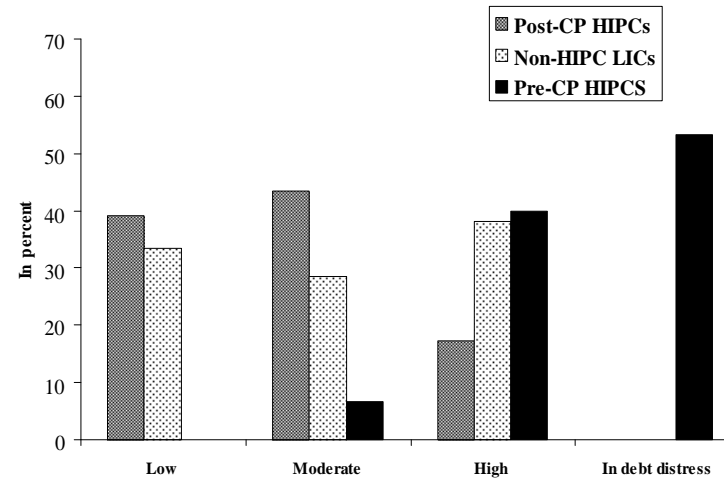
- Elevated risk of debt distress in several post-completion-point HIPCs
- Only 9 have low risk of debt distress

Distribution of the NPV of debt-to-exports ratio in Low Income Countries



(\*) Median CPIA

Risk of debt distress in Post-CP HIPCs and Non-HIPC LICs





## Debt Management Capacity – Key Constraint

**Table 1: Evidence on debt management in select HIPC**

Sub-set of Core Indicators	Governance		Coordination		Data	Skills and resources	
	Legal framework and institutional arrangements	Transparency and public availability of information	Inter-agency level	Policy level - cash, budget and macro policies	Recording, reporting & monitoring of debt data	Human Resources capacity	Computers and debt software
Benin	✓	X	✓	✓	✓	✓	X
Bolivia	✓	✓	✓	✓	✓	✓	✓
Burkina Faso	✓	X	✓	✓	X	X	X
Cameroon	✓	X	✓	P	P	P	✓
Ethiopia	P	X	X	X	X	X	X
Eritrea	X	X	P	X	P	X	✓
Ghana	✓	P	✓	P	P	P	✓
Guyana	✓	P	✓	✓	✓	✓	✓
Honduras	✓	✓	P	✓	✓	✓	✓
Madagascar	P	X	P	P	X	X	X
Mali	✓	P	P	P	X	P	P
Malawi	✓	P	X	X	X	X	X
Mauritania	X	X	X	X	X	X	X
Mozambique	✓	X	✓	P	P	P	P
Nicaragua	✓	✓	✓	✓	✓	✓	✓
Niger	X	X	X	X	X	P	X
Rwanda	X	X	X	X	X	X	X
Haiti	X	P	P	P	X	X	X
Sao Tome & Principe	✓	X	✓	X	X	X	X
CAR	P	X	P	X	X	P	X
Senegal	P	NA	P	P	X	X	X
Tanzania	✓	✓	✓	P	✓	✓	P
Uganda	✓	✓	✓	✓	✓	P	✓
Zambia	X	X	X	X	X	P	P

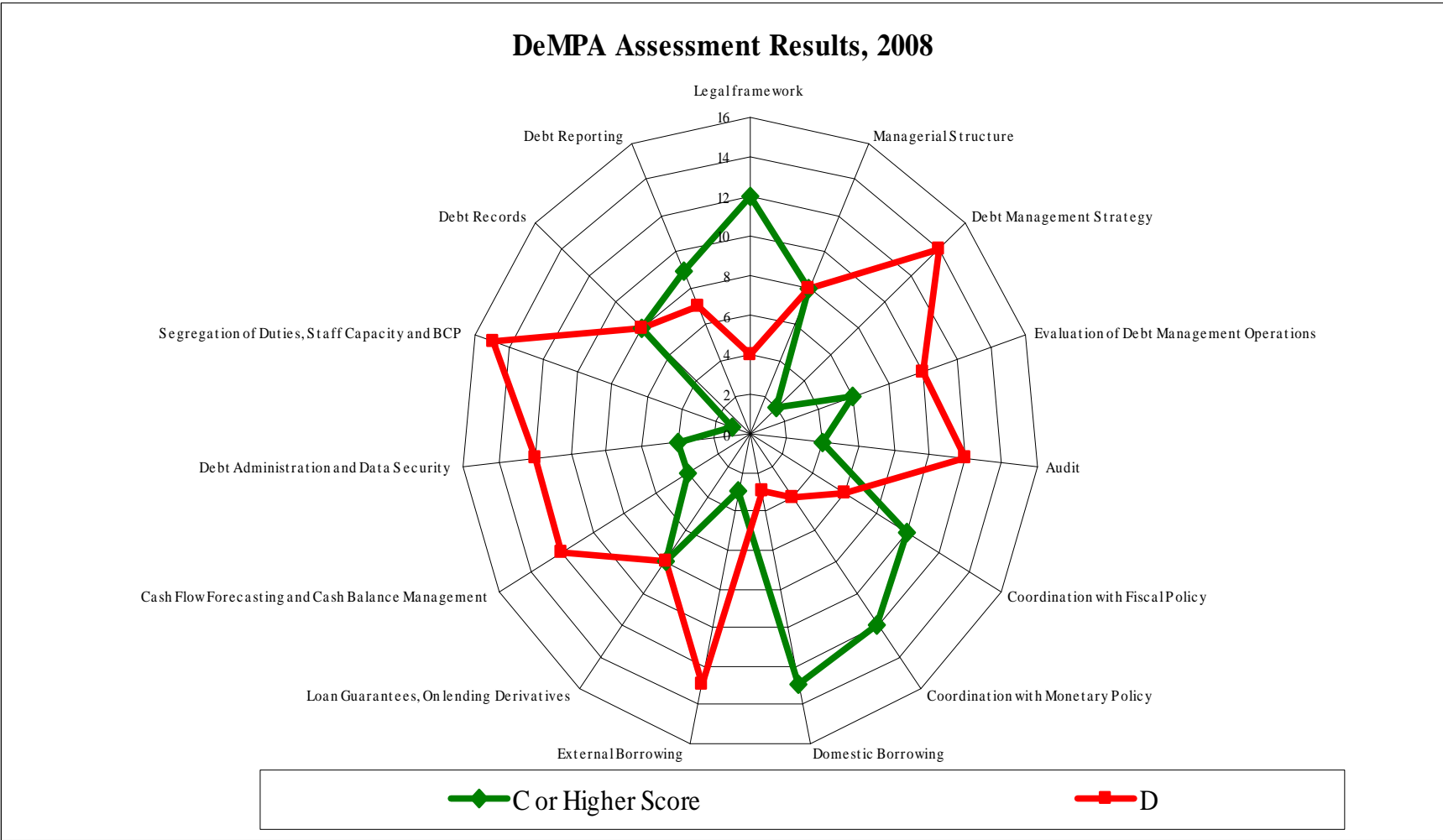
✓: represents meeting adequate levels for efficient and effective debt management; X: represents otherwise and P is partial, NA: Not available

Source: IMF and World Bank Reports on HIPC completion and decision point documents and staff assessment

Desk-based analysis



# Early days in application but similar results supported by DeMPA



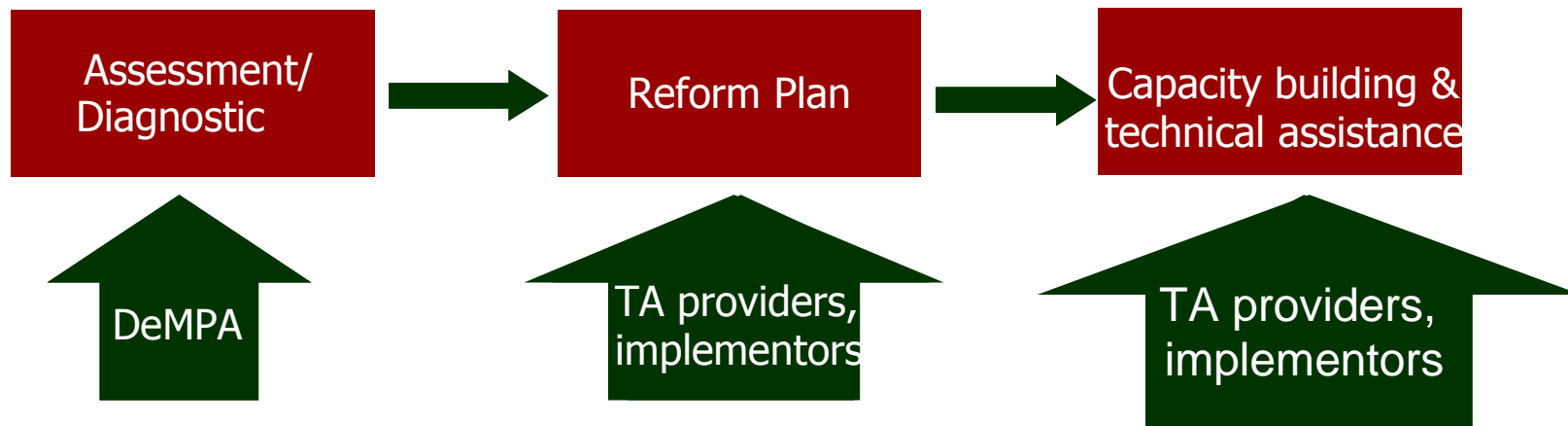


## DeMPA Results – Areas for improvement

DeMPA results signal priority areas for reform in

- Debt Management Strategy
- Segregation of duties, Staff capacity and BCP
- External Borrowings
- Audits
- Debt Administration and Data security

- Pointers for scale-up TA and capacity-building activity focussed on





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## Scale up in work program on debt management in LICs

- Objective to **assist countries improve debt management**
  - Keeping in mind the changing context facing LICs and the lessons learnt for capacity building in LICs ([slide](#))
- **Focus on the need to:**
  - Assess debt management performance
  - Monitor progress over time
  - Support design of actionable reform programs
  - Enhance donor harmonization based on common understanding of priorities (knowledge pool, PEFA)
- **Scaling up Work Program**
- Develop global public goods – DeMPA, MTDS and sequenced reform plans
  - Knowledge Products and other offerings
    - Offer trainings – next DeMPA training with WAIFEM and MEFMI in December
    - Focused TA on debt management strategy development
  - Stakeholders events – collaborate in seminars, trainings, missions with CEMLA, Commonwealth Secretariat, DRI, MEFMI, Pole Dette, UNCTAD, US-OTA, WAIFEM, etc.
    - Engage with INTOSAI, OECD, BIS, US-OTA, etc.
    - With donors – AfDB, ADB, Government of Norway, etc.
- Debt Management Facility – being launched in October



### **Key lessons in designing and implementing a reform program**

- Country ownership and commitment to reform is a precondition
- Comprehensive diagnostics necessary prior to undertaking reform – including links with macroeconomic framework
- No one-size-fits-all approach and reform programs need to be tailor-made
  - Country specific circumstances
  - LIC specific issues
- Embodying public debt management reform in broader projects can improve chances of success in implementation
- Coordination with other organizations and governments have improved the quality of public debt management technical support
- Useful to have standardized metric to measure progress over time



## Focused TA offering

- Joint Bank-Fund work to develop a toolkit to support the design of medium-term debt management strategies (MTDS) in low income countries
  - Pilot countries
    - Completed in Bangladesh, Ghana, Cameroon, and Nicaragua
    - Pipeline: Moldova, Kenya, Rwanda
- Toolkit
  - Guidance Note: a step-by-step “how-to” guide on the process of developing a MTDS.
  - Quantitative tool (spreadsheet-based) to compare alternative strategies under different scenarios for future market rates, accompanied by a User’s Guide.



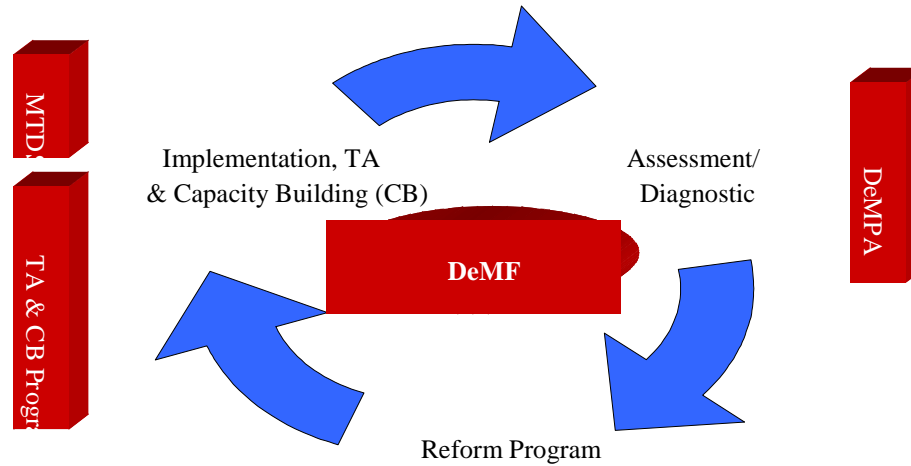
## Next Steps

- Continue to implement DeMPA – based on demand
- Report to Board by early 2009
- Regional workshops, trainings and seminars
  - Abuja, WAIFEM Group, December 3-4
  - Nairobi, MEFMI Group, December 8-9
- DeMPA secretariat
  - Technical support
    - quality assurance services
    - Peer review
  - Web-based services



# Debt Management Facility

## Strengthening Debt Management Capacity



Three Pillar Approach  
Multi-donor Trust Fund facility being launched in October



# Thank You

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