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THE CRISIS AND DEVELOPING COUNTRIES: BEYOND THE G20

The global financial crisis is having a devastating impact on developing country growth and livelihoods. This issue of Strategies for Financing Development therefore focuses on this impact, with particular reference to the effects on financial flows for development.

The crisis has affected developing countries through various channels, depending on their links to the global economy. Middle-income countries were hit in mid-2008, because of closer trade and finance linkages with OECD suppliers of private flows. However, by the fourth quarter of 2008, low-income countries also faced cuts in financial and capital flows (see pages 14-15) as well as public sector access to capital markets (see pages 3-4).

The latest growth forecasts for developing regions for 2009 are sharply down from earlier numbers. Africa is expected to grow by 2.5%, LAC by 0.3%, and Asia by 4.5%. The African Development Bank, CEPAL, IMF and World Bank estimate the additional financing needs for low-income countries at between US$25 billion and US$71 billion.

This will push hundreds of millions of people into poverty. For example, Mexico's growth is projected to fall by around 8% (from +5.5% in 2008 to -3.5% in 2009), which could increase formal unemployment by more than 300,000 and drive more than a million citizens into poverty. Layoffs in the mining sector in Africa are approaching half a million workers. The rise in unemployment will be greatest among the poorest and women, whose work is concentrated in precarious and informal jobs. Middle-income countries with skewed income distribution, and low-income countries, will suffer the most, because their social safety nets are inadequate.

Trade has been stifled by weakening international demand. Virtually all commodity prices have collapsed, with countries dependent on oil and mining especially affected. Manufacturing exports are also falling fast, as are tourism revenues. Reserves are falling rapidly in many countries. Government revenues will also decline sharply, especially in less diversified (eg mineral and petroleum-dependent) economies, cutting scope for government spending. Many countries will move from budget surplus to deficit.

G20 reaction: what is the trillion dollar package?

In this context, what has been the G20 reaction at the London Summit? The measures are:

- An increase of US$500 billion (a trebling) in IMF non-concessional funding, through lending by OECD countries to the IMF. This can then be onlent to middle-income countries, with each country able to "access "three times as much as before.
- A doubling (by US$6 billion) of IMF concessional funding through the PRGF and ESF, funded by an already-planned sale of IMF gold reserves (which had previously intended to be spent on supplementing the IMF income, in the pre-crisis period when it was not lending much to anyone!) as well as use of surplus income, with the IMF due to present firm proposals at its forthcoming Spring Meetings.
- An issue of US$250 billion of IMF Special Drawing Rights (SDRs), which can be used without conditionality to supplement reserves worldwide. Of these, around US$90 billion are for developing countries, and US$19 billion for low-income countries. However, OECD economies can choose to "reallocate" their SDRs to low-income countries, providing them with much more conditionality-free financing.
- Trade credits of US$250 billion, of which around US$12 billion is likely to reach low-income countries. Much of this has already been pledged by the multilateral development banks and bilateral export credit agencies.
- US$100 billion of accelerated MDB lending to developing countries, around US$13 billion of which will go to low-income countries. Most of this is not additional money (except for less than US$1 billion of pledges to the World Bank's Vulnerability Fund and other funds for infrastructure, safety nets and small business and microfinance). Instead it represents accelerated disbursement of MDB funds (see pages 3-4). While the G20 have pledged new MDB capital increases (which will allow them to carry on lending non-concessionally), they have not pledged to accelerate new replenishments of the MDB's concessional windows in order to stop them from running out of money in the next 12-18 months, apparently because of concerns that asking for more concessional money now might risk shortfalls due to the recession.
- Commitments to accelerate or deepen the governance reforms already recommended by the Manuel Commission, or under way, in the IMF and the World Bank, largely designed to increase "voice" for emerging market economies, as well as to work under Gordon Brown's leadership on further reforms to improve the "responsiveness and adaptability of the IFIs".
- A review of the Debt Sustainability Framework by the IMF and World Bank, to make it more flexible in time for the IMF/WB Annual Meetings;
- The UN and ILO to monitor the impact of the crisis on the poor and measures to build fair and family-friendly labour markets, urging the MDBs to contribute to "green recovery", and an agreement to fight climate change in Copenhagen in December.
- Restating commitments to the MDGs and the aid/debt relief pledges of Gleneagles.

Overall, a good step forward. The total amount of funding available for LICs to confront the crisis could be as high as US$50 billion, not far short of their probable needs. However, the summit did not mention conditionality reforms for low-income countries – either the reduction of the overall burden of conditionality, or eliminating conditionality for anti-shock financing (as has been done through the Flexible Credit Line for middle-income countries such as Mexico), or providing "fiscal space" for all LICs to spend more to combat the recession (as the Fund has done for Tanzania which has sufficient donor and own resources to spend more). The IMF is reviewing all its instruments and conditionalities for LICs during the next 6 months, and the World Bank is undertaking similar reviews. The outcome of those reviews in terms of conditionality will be vital to LIC ability to overcome the crisis.

In addition, much of the impact will depend on how rapidly the IMF and MDBs deliver the additional funding to countries, how quickly concessional MDB funds are replenished, how flexible the LIC-DSF becomes, and whether donors live up to their Gleneagles pledges. There is a lot of work left for the Spring Meetings, the G8 and the Annual Meetings – and the Stiglitz Commission has just produced its preliminary report in preparation for the UN meeting on the Financial Crisis and Development in May. As Barack Obama said in the final press conference, "this is an historic summit, but our problems are not going to be solved in one meeting".

FINANCIAL CRISIS: IMPLICATIONS FOR LIC EXTERNAL FINANCING POLICY

This article assesses the potential impact of the financial crisis on low-income countries' public debt policies. As described in the previous article, the financial crisis will widen low-income developing countries' balance of payments and fiscal deficits, in turn generating additional funding needs. The key question is – where will this additional funding come from?

One option is to seek additional external resources. The financial crisis is undoubtedly cutting availability of external resources for developing countries' private sectors (see pages 14-15). But is it likely to have the same effect on public sectors? This article looks in detail at the outlook for various types of external resource flows to the public sector.

Bilateral Concessional Sources

- In terms of aid flows, even before the financial crisis started, developed countries were likely to fall behind their Gleneagles commitments to increase aid by US$50 billion by 2010, by about US$39 billion. They were also far below their pledge to double aid to Africa, to reach US$50 billion a year by 2010.
- Since the crisis arrived, France, Ireland and Italy have cut their pledges (reducing planned flows for 2010 by US$2 billion).
- Even for those OECD countries pledging to maintain their aid budgets as a percentage of GDP, lower GDP in developed countries implies less aid in nominal terms. Even if other donors stick to their commitments as a percentage of their Gross National Income, the recession could cut annual aid flows by US$7 billion.
- However, most other donors have reiterated their commitment to earlier pledges, and some major donors (notably Japan and the US) have pledged increased aid flows amounting to US$13 billion for 2009. Going forward, it will be essential to measure donor delivery in USD terms, not as a percentage of GNI – because it is the USD which are needed for pro-growth and MDG spending.
- In addition, the volatility in international exchange rates makes it harder to predict the value of aid commitments. For example, the weakening of the SDR, UK£ and Euro in US$ terms in recent months means disbursements in these currency are worth less in US$ terms. However, there will be a positive impact when reporting the debt stock in US$ terms, as for example, the US$ value of Euro loans will be lower.
- Depreciation of donor currencies against local currencies can also have an impact. For example the depreciation of the UK pound against the Malawi kwacha has reduced the value of UK budget support from 2% to 1.5% of the budget, and exchange rate variations in Mozambique reduced the value of UK aid by 30%.
- Loans and grants from non-OECD bilateral countries may also start to decline as the financial crisis and economic recession starts to affect these countries as well. For example the economic downturn is affecting China, India and other non-OECD countries, just as it is OECD countries. So large amounts of new money from these donors may not necessarily be forthcoming, although China has recently pledged not to cut back its aid to Africa. In addition, oil exporting nations and OPEC have been hit by the sharp fall in oil prices and financial losses in sovereign wealth funds.
- Nevertheless, overall, while donors are unlikely to deliver all their earlier promises, there will be a continuing large increase in donor aid through to 2010 and beyond. Scares about "aid falls" are not warranted – though of course the aid flows will be insufficient to fund attainment of the MDGs.

Multilateral Concessional Sources

- The demand for ***IMF*** resources has increased dramatically, albeit from historically low levels, as more developed country, emerging market and low-income economies borrow from the Fund. In terms of low-income countries, demand for Fund financing is also growing rapidly. Comoros, DRC, Ethiopia, Kyrgyz, Malawi and Senegal have borrowed from the External Shocks Facility (ESF). In addition, the Fund has augmented existing PRGF programmes for a number of countries. However, until the G20 meeting (see page 2) it looked as though the IMF could face a major shortfall of lending resources compared to the needs of all types of countries, especially because of the strict quota-related ceilings on the amount ir could lend to each country.
- Most ***multilateral development banks*** have recently received large replenishments of their concessional lending windows for low-income countries. Pending new replenishments, all multilateral development banks except the IADB are working to accelerate and front-load disbursements of concessional funds for low-income countries.
  - ***World Bank*** funding of low-income countries under IDA-15 is guaranteed to June 30, 2011. However negotiations between the IDA and its major OECD donors for the IDA-16 replenishment start in 2009 (so that disbursements can begin in 2011) and it is not clear how the recession will impact on future commitments to IDA. The World Bank has a new Fast Track Facility to speed up the delivery of US$2 billion of IDA-15 allocations by expediting the IDA-15 approval process for funding health, education, safety net and infrastructure projects – to add to its earlier Food Crisis facility. It is also moving more resources to fast-disbursing policy-based loans away from slower projects.
  - The ***African Development Bank*** received a 40% increase in lending capacity in its last replenishment, but will also be asking its major donors for renewed funding in the coming year as the current AfDF-11 replenishment runs until the end of 2010. The African Development Fund (AfDF) has set up three financial initiatives to assist member states: an Emergency Liquidity Facility (ELF) of US$1.5 billion; a Trade Initiative Facility (TIF) of US$ 1 billion to enable commercial banks and development financing institutions in Africa to use AfDB resources to boost trade financing; and a framework for accelerating the transfer of AfDB resources for budget support and infrastructure financing.
  - The ***Asian Development Bank*** concluded its most recent AsDF-X replenishment round for 2009-12 last year, and so the economic situation may have changed by the time it next seeks renewed commitments.
  - On the other hand, the ***Inter-American Development Bank*** has not asked

(Continued on page 4)

shareholders to replenish its Fund for Special Operations (FSO) concessional window, even though many OECD donors would be prepared to fund this and its lower-income members need concessional funds to avoid accumulating new unsustainable debts.

- ***EU*** commitment ceilings are likely to rise by around 5% a year during the next EDF replenishment period (2008-13). While earlier initiatives to increase budget support and flexibility of conditionality may accelerate disbursements, no additional frontloading initiatives are expected.
- Other multilateral agencies such as ***IFAD and some UN agencies*** have also benefited from larger than expected replenishments, partly in order to confront the food, fuel and financial crises.

Non-Concessional Funding Sources

- Bond market funding has practically dried up for debut low income entrants and some emerging market sovereign borrowers, which have been finding it very difficult and expensive to rollover maturing debt. In addition, credit rating agencies have been downgrading ratings of some sovereign borrowers because they are seen as vulnerable in the current financial crisis (See box for some key issues).
- Syndicated bank loans to emerging and developing economies fell by 60% in the fourth quarter of 2008, and spreads rose sharply, but relatively few LICs have been using this type of financing.
- Export credit funding is still available, but lenders are very cautious reflecting the global financial environment and banks reduction in all types of lending. In addition, the spreads have widening to 500 basis points over Libor in November 2008 compared with 80 basis points a year earlier. Furthermore some export credit agencies have been downgrading their emerging market and developing country risk ratings because of the impact of the economic downturn.
- To reinvigorate emerging market trade, multilateral organisations have been accelerating or enhancing trade financing facilities. All of the multilateral development banks have been accelerating non-concessional infrastructure and trade financing disbursements, to private sector borrowers and creditworthy parastatals which can afford them, in low-income countries.

CONSIDERATIONS FOR DEBUT SOVEREIGN BONDS

In recent years, international capital markets were becoming a new source of funding for low income countries (for example Ghana and Sri Lanka in 2007). However with the advent of the international financial crisis access to such funding has practically dried up and countries which had been planning to issue debut international bonds (for example Kenya, Tanzania, Uganda and Zambia) have had to postpone their plans, while for those already in the market, rollover and liquidity risks have risen and sovereign spreads have increased by about 6.5%.

While access to international capital markets can be a potentially beneficial to low income countries, there are some drawbacks which can arise if the government has not fully and comprehensively prepared for issuing a bond.[1] The main pitfalls to avoid are:

- Size of the debut bond should be consistent with maintaining debt sustainability and debt service payments should not create budgetary difficulties, substantially reduce other spending for growth or the MDGs, or increase the refinancing risk (repayment or rollover risk) on maturity. The size should nevertheless be large enough to provide market liquidity (a minimum of USD 100 million). In the current crisis, size of the bond becomes even more important to gauge very carefully, given that OECD government bonds are absorbing more liquidity.
- Prior to issuing the new bond, the government has to know how it will use the proceeds of the bond. If the spending plans are not fully finalised at the time of issuance and the net proceeds (face value of the bond less the issue discount and fees) are deposited in reserves, interest earnings on these proceeds, at current US interest rates of less than 1%, will be significantly below the interest payable on the bond, which for Ghana was 8.5% and for Sri Lanka 8.25% (and which in the current crisis would be even higher).
- If the government has not negotiated a structured amortisation schedule or established a sinking fund for bullet repayment bonds, the repayment or rollover risk is enhanced as the government will need to repay the full face value of the bond, if it cannot be rolled over on maturity. These risks have increased substantially with the financial crisis, as investors are reluctant to rollover.
- National currency depreciation can lead to significantly higher budgetary debt service payments. The Seychelles, which has a large Eurobond issue of US$ 230 million, equivalent to 27% of GDP, defaulted on the October 2008 coupon payment, as it had experienced a large currency depreciation and had virtually no foreign exchange reserves, and it is now having to seek restructuring of all its external debts.
- As part of the process, debtor countries will have to obtain a credit rating from one or more of the international credit rating agencies (Fitch, Moody's or Standard and Poor's). This is an issuance requirement in certain markets (such as the US and Eurobond markets). Studies have shown that the pricing of an international bond is highly correlated to the grade received by the country. Thus one issue to consider for first time bond issuer is the timing of obtaining such a rating. In the current crisis, most ratings have been lower than before, and ratings are notoriously slow to be upgraded, meaning that countries gaining ratings now could be stuck at low levels and therefore paying higher debt service costs.

[1] See also Das, US, MG Papaioannou, M Polan (2008), Strategic Considerations for First-Time Sovereign Bond Issuers, IMF Working Paper WP/08/261, Washington DC, November.

NEW PUBLIC TOOLS SHOW STRONG COUNTRY PROGRESS

COUNTRY PROGRESS

The CBP has had a strong system for monitoring progress in developing country capacity since 1998. From 2001 this consisted of a results-based management system with a logical framework which determined all activities. However, for phase 4, the Programme Implementing Partners deepened this framework to ensure that the CBP meets its goals and capacity building objectives (see article in issue 27). The CBP has been conducting analysis to track progress, which shows major improvements since 1998 (see earlier article in issue 34). As presented to the 2008 Steering Committee, this progress is:

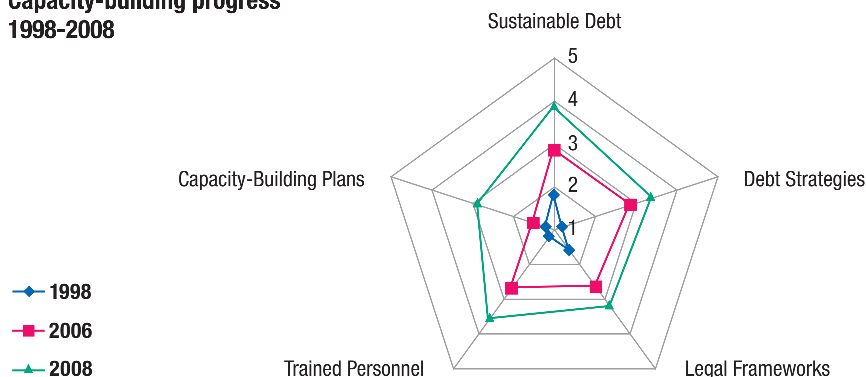
- ***Long-term result 1: sustainable public debt.*** The average score was 3.84 (5 being the top score), with MEFMI and WAIFEM showing the highest levels because most of their members are post-HIPC/MDRI. However, there is stagnation for some countries at sub-optimal levels, due to their "high risk" of unsustainable debt as judged by the LIC-DSF, and to continuing high domestic debt burdens.
- ***Medium-term result 2a: capacity to design, approve and implement a debt strategy.*** Most countries started the CBP with virtually no strategy analysis capacity, and have seen a large increase in this score. In phase 4, average scores have risen from 2.87 to 3.40. However, while countries' technical capacity to conduct strategy analysis and produce national policy documents is very high, and these documents have a major influence on government policy, formal approval of the documents by cabinet and parliament has been lagging behind (though now improving), as has dissemination to wider stakeholders. In addition, until 2008, the CBP did not include risk management analysis in debt strategies, because HIPCs decided their risk exposure was minimal. This has now changed at HIPC request, so risk analysis is now included.
- ***Medium-term result 2b: high-quality legal and institutional frameworks.*** Average scores remain relatively low, partly because the CBP placed less emphasis on these issues until phase 4, but also reflecting the long period needed to make legal and institutional changes. However, they have improved considerably in phase 4, from 2.65 to 3.23, though parameters and processes for contracting new financing remain weak in many national laws, and CBP efforts are currently focused on updating these.
- ***Short-term result 3a: availability of trained personnel to formulate/execute strategies.*** This is one of the strongest indicators, at 3.59 (up from 2.69 in 2007), reflecting CBP success in training national officials in debt strategy. In most countries there are at least 2 trained staff members in each technical area (portfolio analysis, external debt and new borrowing strategy, domestic debt strategy, macroeconomic forecasting and budget expenditure forecasting), but there is an ongoing need to train more staff, to overcome the risk of rotation. As discussed elsewhere in this newsletter, this training now includes the LIC-DSF, but capacity there is weaker because not all countries have yet received DSF training, and regional trainers have not been trained.
- ***Short-term result 3c: design/implementation of high-quality capacity building plans.*** This is the weakest overall area, because the CBP has only recently focused on helping countries to design these, and many do not sufficiently detail individual training needs. Scores however have improved from 1.51 to 2.87 under phase 4.

COUNTRY BRIEFS

From 2007, CBP partners have also been submitting to donors a "country brief" which shows progress since the country joined the CBP. It consists of four sections:

- ***Section 1: Debt Relief and Sustainability.*** This describes country progress in the HIPC initiative, its debt sustainability indicators (based on the indicators chosen by the country – HIPC, DSF or other nationally or regionally agreed indicators) and key actions needed to enhance debt sustainability.
- ***Section 2: CBP Support and Capacity-Building Progress.*** This covers all support provided since the country joined the CBP, and key results achieved, with a particular focus on the results during phase 4. It then provides a brief analysis of progress on all the CBP's intended results since 1998, concentrating on progress in debt strategy.
- ***Section 3: Planned Work Programme and Impact.*** This is a forward-looking description of the work plan for the country and its intended impact on results. For example, if a country is lagging in institutional arrangements then planned activities will include institutional missions to recommend reinforcement, or sensitization seminars to ensure political priority is given to improving the framework, so that the country can reach the target scores for that result established at the start of phase 4.
- ***Section 4: Country Capacity Progress Table.*** The last section of the document is a table showing the country's progress since joining the CBP, on all five results.

The November 2008 HIPC CBP Steering Committee decided that country briefs will be posted on a Country Reports page of the public section of the CBP website at **www.hipc-cbp.org**.



LINKS BETWEEN PUBLIC DEBT AND TREASURY MANAGEMENT

This article covers the links between public debt management and treasury management, which constitute two key aspects of public finance management. It begins by presenting the objectives of public debt and treasury management, to highlight linkages. Then it examines the advantages of strong debt and treasury management for public finance management.

1. Public Debt and Treasury Management: Aims and Links

Public debt is traditionally defined as all the public financial obligations resulting from State financial commitments, and the **public treasury** as all the flows at the State's disposal to meet its financial obligations as they mature. They are therefore the liabilities and assets of the State's financial operations.

The **objective of public debt management** is to mobilise the State's financing needs at the lowest possible long-term cost, while keeping risk down to acceptable levels. The objective of public treasury management is to allow the State to meet all its financial obligations on their maturity dates. These objectives also seem interdependent and complementary.

Debt management helps treasury management by mobilising financing to fill any financing gaps and thereby allowing treasury managers to pay financial obligations on schedule. Treasury management instruments are in fact debt instruments (Treasury bills and bonds). In reverse, treasury management helps debt management by reducing debt costs insofar as efficient treasury management avoids financing gaps and allows the design of a clearly-timetabled public debt issuance calendar, allowing the debt manager to issue minimum volumes of debt at the right time and with the right maturities. In addition, any earnings from investment of treasury surpluses can be used to reimburse debts and reduce servicing costs. Indeed, in countries where debt and treasury management are conducted by the same agency (eg France), such earnings are generally used in first priority to reduce public debt costs. Finally, insofar as good treasury management avoids debt arrears, it reduces the costs and risks of debt management, by avoiding moratorium interest on arrears, and higher risk premiums on new bills or bonds when the government next goes to the market.

2. Advantages of Efficient Debt and Treasury Management

Given the links described above, it is obvious that efficient treasury management can have a clear positive effect on public debt management. It will allow much more precise forecasting of financing needs, as well as of the characteristics of debt (amounts, periods of grace/maturity, and issuance dates) which are most suited to these needs. This allows debt managers to mobilize only:

- the amounts of financing needed, avoiding mobilisation of excessive resources which would be used less efficiently and increase debt service costs, thereby undermining the debt manager's long-term cost reduction objectives;
- the financing when it is needed, thereby avoiding paying debt interest when resources are not yet being used productively (rather than placed in lower-interest instruments).

On the other hand, efficient debt management, mobilizing appropriate financing instruments (in terms of amounts, currencies, and dates of borrowing and maturity) makes treasury management more efficient by:

- mobilising the right level of resources, avoiding the need to invest them before spending;
- Choosing the most appropriate currencies, avoiding the need for currency exchanges and reducing exchange rate risks to the treasury;
- issuing debt when funding is needed and for reimbursement when the treasury will have the necessary resources, thereby ensuring that resources and obligations are balanced.

The advantages of efficient public debt and treasury management can also be seen through the Framework used by the Public Expenditure and Financial Accountability (PEFA) programme to measure performance in public financial management. This has been developed by a working group on public expenditure including experts from OECD DAC countries, the World Bank, the IMF and the PEFA Secretariat. It is based on the principle that a strong system of public financial management is essential for attaining national development goals, and consists of 28 "high-level indicators" recognised as essential to strong public financial management in all countries. More than half of these indicators refer to debt and treasury management, showing how vital these are to improving public financial management. It is this PEFA framework on which the World Bank's DeMPA debt management assessment tool is largely based.[1]

[1] For more details, see PEFA Secretariat, Public Financial Management Performance Measurement Framework, available at www.pefa.org.

SOVEREIGN BONDS IN THE MEFMI REGION: THE CASE OF KENYA

The public debt environment has been transformed by HIPC and MDRI relief to countries that were previously classified as highly indebted poor countries. In the MEFMI region, all the countries that benefitted from HIPC relief and MDRI saw their debt levels fall to very low levels. One of the consequences of this was the creation of some additional fiscal opportunity for new borrowing. However, having agreed with the IMF on conditionality that they can only borrow on concessional terms, many countries realized that concessional loans available were insufficient for financing infrastructure development and meeting the Millennium Development Goals (MDGs).

In this context, countries have two other options for filling the financing gap:

- Efforts to attract more external grants. However, external grants are not expected to live up to earlier expectations as the global financial crisis takes its toll on some donor countries' aid budgets. In addition, many donors have shown themselves reluctant to finance infrastructure expenditures.
- Government securities issuance. Countries are therefore looking more favourably at securities issuance in their domestic markets.

One of such countries is Kenya. Kenya has benefited from HIPC CBP support because it was originally on the HIPC-eligible list, and received debt relief from the Paris Club. It is the first debt relief recipient in the MEFMI region to implement large scale infrastructure financing by issuing a domestic infrastructure bond.

To start the process, the Minister for Finance in his Budget Speech of 2008-09, proposed to raise KSh 18.5 billion (US$232 million) and KSh 33 billion (US$415 million) through infrastructure bonds issuance, in domestic and international markets respectively. Thereafter, government of Kenya organized a very successful Infrastructure Bond Conference on October 27–28 2008, to sensitise the public and private sectors in raising funds through capital markets to finance critical projects.

In the Information Supplement for the domestic infrastructure bond, issued on 28 January 2009, the authorities cite the need for infrastructure development as the driver for the decision, because this is a priority area for the country's economic development agenda. In its Vision 2030 document, Kenya aspires to be firmly interconnected through sophisticated network of roads, railways, ports, airports, water and sanitation facilities, and telecommunications. These sectors require huge capital outlay, which the government alone cannot provide, particularly from the existing stream of budget revenue. Therefore, apart from infrastructure bond issuance the government of Kenya will be considering sovereign bond issuance in the international market, in addition to initiating Public Private Partnerships to hasten infrastructure development. The authorities also indicate that the Infrastructure Bond will act as a benchmark for designing future project-specific bonds issued in the capital markets by both private and public enterprises. The bond has been structured to give investors full benefits by bearing incentives such as: total withholding tax exemption on interest income, listing for trading in the stock market, and qualification as a liquid instrument which can be used as collateral against loans from commercial banks.

The 12-year Infrastructure Bond that was launched on 23rd February 2009 will fund a number of projects identified in the Energy, Roads and Water, Sewerage and Irrigation Sectors. The specific projects targeted are (i) Roads costing KSh 6.4 billion; (ii) Energy including drilling geothermal steam production wells, rural electrification programme, and improvement of national grid power transmission lines, totalling KSh 7.9 billion; and (iii) Water, Sewerage and Irrigation including rural and urban water supplies and sewerage; construction of dams and irrigation infrastructure, totalling KSh 4.2 billion.

Domestic demand for the bond was high and the issue was 45% oversubscribed, with a redemption yield of 13.5% and a coupon rate of 12.5%. The Government has also indicated that will undertake an international Eurobond issue in March.

Other countries in the region have contemplated issuing either international or domestic bonds, and the HIPC-CBP has repeatedly undertaken analysis with these countries during National Debt Sustainability Analysis workshops to assess the viability of such actions. In all the analyses, issuance of a sovereign bond in reasonable sizes does not lead to unsustainable debt levels, using the BWI CPIA-linked benchmarks. However, there are some serious risks that need to be taken into account. These include the country's capacity to absorb the funds and spend them rapidly, responsibly and transparently; the impact on fiscal sustainability and availability of funds for other priority government expenditure (which can be substantially reduced by the interest costs and eventual amortization of the bond), and the tradeability of the bond. In addition, for domestic bonds key considerations should be the impact on domestic interest rates and the role of the bond in a well-designed medium-term strategy for developing local bond and treasury bill markets; and for international bonds key current issues are the global financial situation and its impact international demand for the bonds, and the costs of global bond issuance. For all these reasons, the existence of high-quality analytical capacity in government debt management units is mandatory so that countries can ensure all analysis is undertaken before issuance is contemplated (see also article on page 16 for some more generic considerations).

DAC DONORS/INTERNATIONAL ORGANISATIONS BEST PRACTICE ON PARIS DECLARATION INDICATORS

At the end of 2008 the OECD released detailed numbers showing how each DAC and multilateral donor has been doing in meeting the aid effectiveness targets agreed in the Paris Declaration in 2005.

The table below shows for each donor the three countries in which it performed best (with the percentage reached in brackets). We are publishing this so other aid recipient countries can try to achieve the same level of progress.

Country/Number of Recipients Reported	Indicator 3: Aligned on national priorities (%)	Indicator 4: Coordinated technical assistance (%)	Indicator 5: Use of national PFM systems (%)
AfDB (25)	Tanzania (100) Uganda (100) Mali (100)	Kenya (100) Uganda (100) Chad (100)	Cameroon (100) Kenya (100) Morocco (71)
AsDB (10)	Indonesia (100) Philippines (100) Bangladesh (100)	Vietnam (100) Afghanistan (100) Kyrgyz R (100)	Afghanistan (100) Bangladesh (100) Nepal (96)
Australia (9)	Indonesia (100) Laos (100) Papua NG (89)	Philippines (100) Bangladesh (100) Afghanistan (100)	Vietnam (11) Papua NG (3) Indonesia (1)
Austria (10)	C.Verde (90) Albania (81) Uganda (80)	Kosovo (75) Ethiopia (75) C.Verde (52)	Uganda (74) C.Verde (33) Albania (0)
Belgium (20)	Cambodia (100) Cameroon (100) DRC (96)	Peru (100) Niger (100) Cambodia (100)	Uganda (100) Ethiopia (93) Morocco (87)
Canada (36)	Benin (100) CAR (100) Ghana (99)	Nigeria (100) Mali (100) Morocco (100)	Ethiopia (100) Afghanistan (100) Nicaragua (99)
Denmark (21)	Cambodia (100) Kosovo (100) Egypt (95)	Bangladesh (100) Cambodia (100) Nicaragua (100)	Afghanistan (100) Nepal (100) Bolivia (97)
EBRD (2)	Albania (100) Kyrgyz (0)	Albania (100) Kyrgyz (0)	Albania (0) Kyrgyz (0)
EC (54)	Niger (100) Senegal (100) Ghana (100)	Uganda (100) Mali (100) Chad (100)	Bolivia (90) Zambia (78) Benin (75)
Finland (14)	Vietnam (100) Laos (100) Tanzania (95)	Vietnam (100) Ethiopia (100) Afghanistan (100)	Afghanistan (100) Nepal (100) Tanzania (92)
France (36)	Mali (100) Ghana (100) Laos (100)	Mali (100) Burundi (100) DRC (100)	Indonesia (91) Cameroon (87) Nicaragua (76)
Germany (47)	Morocco (100) Indonesia (100) Vietnam (100)	Indonesia (100) Bolivia (100) Mali (100)	Egypt (92) Nicaragua (73) Indonesia (66)
Greece (5)	Jordan (94) Sudan (86) DRC (79)	Jordan (95) Albania (90) Sudan (46)	Jordan (47) DRC (0) Egypt (0)
IADB (9)	Nicaragua (99) Domin Rep (98) Honduras (97)	Bolivia (100) Nicaragua (100) Colombia (93)	Haiti (100) Colombia (90) Nicaragua (0)
IFAD (26)	Kenya (100) Senegal (100) Mozambique (100)	Philippines (100) Bangladesh (100) Ghana (100)	Kenya (100) Rwanda (100) Peru (100)
IMF (15)	CAR (100) Niger (100) Cameroon (8)	Cambodia (100) Tanzania (100) Gabon (99)	Niger (100) Mauritania (100) Rwanda (92)
Ireland (7)	Mozambique (100) Uganda (96) Tanzania (88)	Tanzania (100) Mozambique (100) Zambia (100)	Vietnam (100) Ethiopia (99) Tanzania (98)
Italy (21)	DRC (100) Vietnam (100) Yemen (100)	Vietnam (100) Honduras (100) Mali (100)	Morocco (89) Kenya (60) Mozambique (19)
Japan (49)	Vietnam (100) Laos (100) Colombia (100)	Indonesia (100) Vietnam (100) Philippines (100)	Indonesia (92) Vietnam (92) Philippines (91)
Luxembourg (7)	Laos (100) Senegal (98) C.Verde (96)	Kosovo (32) Vietnam (30) Laos (16)	Senegal (15) Laos (0) B.Faso (0)
Netherlands (30)	Bolivia (100) CAR (100) B.Faso (97)	Zambia (100) Bolivia (100) Rwanda (100)	Uganda (96) Benin (94) C.Verde (91)
New Zealand (7)	Indonesia (97) Philippines (87) Vietnam (60)	Philippines (100) Vietnam (65) Cambodia (53)	Vietnam (61) Papua NG (17) Indonesia (0)
Norway (19)	Vietnam (100) Madagascar (100) CAR (100)	Kenya (100) Madagascar (100) Sudan (88)	Colombia (100) Malawi (99) Nepal (81)
Portugal (2)	C.Verde (99) Mozambique (92)	C.Verde (8) Mozambique (0)	Mozambique (11) C.Verde (0)
Spain (25)	Morocco (100) Ghana (100) Egypt (94)	Morocco (100) Bolivia (100) Domin Rep (100)	Afghanistan (100) Haiti (100)
Sweden (28)	Afghan (100) Laos (100) Malawi (100)	Vietnam (100) Nicaragua (100) Afghanistan (100)	Mali (100) Bolivia (100) Malawi (100)
Switzerland (29)	Vietnam (100) Mongolia (100) Burundi (100)	Mali (100) Madagascar (100) B.Faso (100)	Madagascar (100) Benin (100) Ghana (91)
United Kingdom (32)	Nigeria (100) Kosovo (100) Albania (100)	Bangladesh (100) Vietnam (100) Zambia (100)	Uganda (100) Nepal (100) Tanzania (98.8)
United Nations (55)	Nigeria (100) C.Ivoire (100) Burundi (100)	Nigeria (100) Mongolia (100) Indonesia (99.6)	Jordan (100) Bangladesh (75) Bolivia (38)
USA (48)	Rwanda (100) Indonesia (100) Mali (100)	Nigeria (100) Ghana (100) Philippines (100)	Haiti (100) Honduras (28) Zambia (23)
World Bank (51)	Vietnam (100) Bangladesh (100) Tanzania (100)	Indonesia (100) Morocco (100) Tanzania (100)	Indonesia (100) Morocco (100) Kenya (100)

For more details of donor policies and procedures, see the latest edition of the DFI Donor Profiles, which have just gone on the public page of the HIPC CBP website at **www.hipc-cbp.org**

Indicator 6: Number of parallel project implementation units	Indicator 7: Aid delivered as scheduled (%)	Indicator 9: Programme-based support (%)	Indicator 10a: Joint missions (%)	Indicator 10b: Joint analysis (%)
Ethiopia (0) Morocco (0) Rwanda (0)	Uganda (107) CAR (100) Tanzania (88)	Madagascar (90) Senegal (74) Tanzania (68)	Cameroon (50) Benin (46) CAR (28)	Uganda (86) Benin (46) Egypt (44)
Indonesia (0) Bangladesh (0) Philippines (0)	Papua NG (111) Philippines (101) Cambodia (93)	Papua NG (100) Indonesia (79) Philippines (78)	Papua NG (100) Afghanistan (35) Laos (23)	Papua NG (100) Kyrgyz (100) Laos (63)
Afghan (0) Laos (0) Bangladesh (0)	Cambodia (105) Bangladesh (102) Papua NG (100)	Papua NG (42) Laos (36) Indonesia (35)	Philippines (100) Afghan (100) Vietnam (78)	Vietnam (100) Indonesia (100) Nepal (100)
Moldova (0) Uganda (1) Ethiopia (2)	Uganda (155) C.Verde (104) Albania (80)	C.Verde (66) Uganda (63) Moldova (50)	All (0)	C.Verde (100) Mozambique (100) Uganda (60)
Burundi (0) Senegal (0) Afghan (0)	Rwanda (104) Afghan (100) Ethiopia (100)	Cambodia (100) Uganda (78) Tanzania (52)	Mali (67) Rwanda (50) Ethiopia (3)	B.Faso (100) Benin (100) Cameroon (100)
Afghanistan (0) Ethiopia (0) Ghana (0)	Benin (100) CAR (100) Ghana (101)	Ghana (81) Tanzania (77) Ethiopia (76)	Colombia (81) Honduras (67) Nepal (44)	Ghana (100) Bangladesh (100) Tanzania (100)
Ghana (0) Afghan (0) Sudan (0)	Egypt (102) Bangladesh (95) Niger (92)	Nicaragua (96) Uganda (96) Cambodia (92)	Kenya (93) Benin (64) Tanzania (62)	Uganda (100) Bangladesh (100) Nicaragua (100)
Albania (0) Kyrgyz (0)	Albania (82) Kyrgyz (0)	Albania (0) Kyrgyz (0)	Albania (16) Kyrgyz (0)	Kyrgyz (100)
Afghan (0) B.Faso (0) Mali (0)	Ghana (101) Laos (99.9) Kosovo (99)	Jordan (92) B.Faso (84) Ethiopia (83)	Afghanistan (86) Mauritania (67) S.Leone (67)	Zambia (100) Madagascar (100) Mali (100)
Mozambique (0) Vietnam (0) Nicaragua (0)	Mozambique (103) Nepal (100) Nicaragua (100)	Nicaragua (92) Tanzania (90) Mozambique (81)	Nepal (100) Kenya (100) Zambia (100)	Zambia (100) Kenya (100) Tanzania (100)
Mali (0) Mauritania (0) Kenya (0)	Chad (101) C.Verde (100) Laos (100)	Ghana (76) Morocco (65) Mali (65)	CAR (100) Yemen (94) Benin (46)	Cambodia (100) Domin Rep (100) Senegal (100)
Morocco (0) Afghanistan (0) Mozambique (0)	Colombia (111) Madagascar (98) Mali (98)	Tanzania (97) Honduras (71) Mozambique (62)	Afghanistan (47) Ghana (34) Mozambique (6)	Tanzania (97) Honduras (71) Mozambique (62)
Albania (0) Egypt (0) Sudan (0)	Egypt (669) Jordan (338) Albania (314)	Sudan (86) Jordan (74) Egypt (8)	Jordan (0) Egypt (0) Albania (0)	Jordan (0) Egypt (0) Sudan (0)
Nicaragua (0) Honduras (0) Bolivia (0)	Domin Rep (98) Honduras (92) Bolivia (82)	Domin Rep (98) Honduras (24) Nicaragua (19)	Bolivia (100) Domin Rep (100) Colombia (100)	Honduras (100) Colombia (100) Bolivia (100)
Ethiopia (0) Bangladesh (0) Burundi (0)	Ethiopia (100) Bangladesh (100) Kyrgyz (100)	Ethiopia (100) Rwanda (100) Ghana (100)	Ghana (100) Senegal (100) Ethiopia (100)	Burundi (100) Benin (100) Rwanda (100)
CAR (0) Malawi (0) Niger (0)	CAR (100) Cameroon (100) Mauritania (100)	CAR (100) Niger (100) Mauritania (100)	Ukraine (100) Bolivia (100) CAR (100)	Bolivia (100) Tanzania (100) Ukraine (100)
Mozambique (0) Ethiopia (0) Tanzania (0)	Tanzania (111) Uganda (103) Mozambique (100)	Mozambique (100) Uganda (97) Vietnam (72)	Zambia (100) Ethiopia (40) Tanzania (0)	Uganda (100) Tanzania (100) Vietnam (100)
Kenya (0) Vietnam (0) Tanzania (0)	Afghanistan (100) Yemen (100) C.Verde (100)	C.Verde (100) Yemen (87) Mali (86)	Yemen (100) Ethiopia (67) DRC (50)	Honduras (100) Yemen (100) Gabon (100)
Indonesia (0) Vietnam (0) Philippines (0)	Colombia (100) DRC (100) Moldova (100)	Vietnam (98) Mauritania (98) Ethiopia (91)	Madagascar (51) Cameroon (33) Honduras (33)	Ghana (100) Malawi (100) Madagascar (100)
Senegal (0) Laos (0) C.Verde (1)	Laos (103) Senegal (100) Vietnam (97)	Senegal (100) All Others (0)	Laos (100) Kosovo (100) Senegal (25)	Vietnam (100) B.Faso (100) Senegal (0)
Ghana (0) Mozambique (0) Afghanistan (0)	Albania (100) Burundi (100) CAR (100)	C.Verde (94) Mali (93) Nicaragua (88)	Afghanistan (100) Zambia (100) Mozambique (100)	Burundi (100) Tanzania (100) Colombia (100)
Vietnam (0) Afghanistan (0) Laos (0)	Vietnam (115) Laos (97) Indonesia (88)	Vietnam (64) Cambodia (53) Afghanistan (26)	Afghanistan (100) Cambodia (100) Vietnam (40)	Cambodia (0) Papua NG (0)
Zambia (0) Mozambique (0) Uganda (0)	Vietnam (100) Sudan (100) Madagascar (100)	Sudan (93) Madagascar (68) Zambia (60)	Kenya (100) Indonesia (100) Zambia (48)	Zambia (100) Tanzania (100) Nicaragua (100)
C.Verde (0) Mozambique (0)	Mozambique (957) C.Verde (225)	Mozambique (11) C.Verde (0)	Mozambique (0) C.Verde (0)	C.Verde (0)
Morocco (0) Nicaragua (0) Afghanistan (0)	Egypt (123) Bolivia (100) C.Verde (91)	Albania (97) Morocco (79) Sudan (72)	Vietnam (100) Haiti (100) Mauritania (100)	Haiti (100) Honduras (100) DRC (100)
Mozambique (0) Afghanistan (0) Uganda (0)	Sudan (100) CAR (100) Tanzania (99)	Mali (93) Ethiopia (78) Malawi (72)	Laos (100) Bangladesh (100) Indonesia (100)	Uganda (100) Mozambique (100) DRC (100)
Tanzania (0) Mozambique (0) Ghana (0)	Albania (106) Moldova (97) Chad (91)	Mongolia (92) B.Faso (66) Nicaragua (60)	B.Faso (100) Nicaragua (83) Tanzania (57)	Honduras (100) Kosovo (100) Nicaragua (100)
Ghana (0) Bangladesh (0) Mozambique (0)	Nigeria (100) Yemen (100) Albania (100)	Nicaragua (100) Tanzania (99) Yemen (93)	Ghana (100) Ethiopia (100) Kyrgyz (100)	Ukraine (100) Bangladesh (100) Mozambique (100)
Mozambique (0) S.Leone (0) Mali (0)	Laos (101) Togo (99) Egypt (98)	Niger (88) C.Verde (75) Togo (74)	C.Ivoire (100) Benin (100) Philippines (100)	C.Verde (100) Burundi (100) Papua NG (100)
Afghanistan (0) Egypt (0) Tanzania (0)	Haiti (100) Sudan (100) S. Leone (100)	Haiti (1000 Ghana (100) Liberia (100)	Ethiopia (100) B.Faso (100) Ghana (67)	Zambia (100) Jordan (100) Sudan (100)
Indonesia (0) Vietnam (0) Bangladesh (0)	Uganda (102) DRC (102) Madagascar (102)	Morocco (93) Niger (83) Kenya (80)	Domin Rep (100) Afghanistan (100) Albania (91)	Honduras (100) Madagascar (100) Cambodia (100)

IMPACT OF THE CRISIS ON WAIFEM REGION DEBT MANAGEMENT

The financial crisis raging across the globe has resulted in a downturn in global growth featuring tighter credit and declines in most commodity prices. It is already exerting major negative effects on the economies of WAIFEM member countries.

The Gambia, Ghana, Liberia Nigeria and Sierra Leone all enjoyed robust economic growth in the five years prior to the onset of crisis in the fourth quarter of 2007. This reflected the impact of relatively sound economic policies, increased inflows of aid and debt relief, and favourable commodity price trends. However, the food and fuel price shocks of 2007-08 weakened the external position of these countries and accelerated inflation, depreciated exchange rates and dampened growth prospects. The global financial crisis compounds the policy challenges confronting the region as it strives to consolidate its economic gains and reach the MDGs.

Like other countries in sub-Saharan Africa, as a result of the financial crisis, WAIFEM economies are facing much lower growth. A March 2009 update of MF forecasts projects global GDP to fall from 3.2% in 2008, to 0.5-1% in 2009. Emerging economies are nevertheless expected to grow by 1.5-2.5%, with Africa at the high end of the range (but zero in per capita terms, and well below the 7% needed to reach the MDGs). Emerging economies are expected to grow by 3.5-4.5% in 2010, but the slump in global growth could persist longer and the impact of the slowdown could be more pronounced, negatively affecting WAIFEM countries' internal and external balances. According to the IMF, African fiscal balances are likely to decline by 6%, and current account deficits by 4% in 2009.

Implications for External and Domestic Debt Management

Since 2008, the global slowdown in economic activity has pushed commodity prices down resulting in major terms of trade deterioration, reducing export earnings, fiscal revenues, and household incomes, and widening external current account deficits. The implications for external and domestic debt are as follows:

External Debt

- Due to their increasing financial links with the global economy, Nigeria and Ghana were hit first by the crisis, through falling equity markets, capital flow reversals, and pressures on exchange rates. Nigeria's stock exchange index, which stood at 53,000 in July 2008, collapsed to 22,000 in the 6 months to January 2009, in spite of assurances that economic fundamentals were strong. The decline was triggered by the withdrawal of around US$4 billion by foreign hedge fund managers faced with recession at home. The Nigerian Naira fell from 117 to 150 to the USD during October 2008-March 2009. Ghana's stock exchange fell by 11% in the twelve months following 1 March 2008, and its currency fell from 1.16 to 1.41 to the US dollar.
- The two countries also had to postpone planned borrowing of bonds from international capital markets in 2009 (in Nigeria's case a debut bond, and in Ghana's a follow-up to the successful bond issue of 2008). In addition, external financing for corporations and banks is becoming scarce, and new investment in petroleum and non-gold minerals is threatened.
- Fragile states such as Liberia, Sierra Leone and The Gambia, with vulnerable political and social situations, and which are dependent on very concessional financing, may be adversely affected. In addition, prospects for foreign investment in their minerals deposits (notably in iron ore in Liberia) have fallen sharply. However, they were not planning access to bond markets, so there has not been any negative effect on their access to that form of capital.
- It is not at all clear whether the international community will provide sufficient ODA flows to offset the negative impact of the crisis. While it looks likely that global grants will continue to grow, any shortfall could negatively affect public finances in Ghana, Liberia, Sierra Leone and The Gambia.
- Weaker growth and reduced trade taxes are likely to cut into government revenues and, unless concessional financing compensates for these shortfalls, will reduce governments' ability to invest to meet key national development goals including the education, health and gender MDGs.
- Currency depreciation is increasing the servicing burden of external debt.
- Overall external debt and servicing costs could rise if governments turn to non-concessional sources in the absence of concessional funding.

Domestic Debt

- If external finance is not available in sufficient quantities, countries may need to issue more domestic debt in order to be able to finance their fiscal spending needs.
- Benchmarking of domestic debt at reasonable and stable prices may be made more difficult by current volatilities in financial markets as well as shortages of liquidity to buy government debt. Indeed issuance of domestic debt (except to cover rollovers) may well be inappropriate at this time for benchmark purposes.
- Interest rates on domestic debt may edge upwards, as government is pushed to allow them to rise in order to induce the private sector to hold larger amounts of instruments, at the same time as the public sector is short of liquidity.
- At the same time, in order to offset liquidity shortage, the central bank might have either to increase money supply, or to buy government paper itself.
- Given financial market uncertainty, investors would prefer to invest short-term, thus inhibiting restructuring of the domestic debt portfolio towards longer maturities with healthy yield curves.
- Contingent liabilities could rise beyond the expectations of authorities, especially if there are any crises in local financial institutions (provoking a need for bailing out institutions and depositors), unless criteria for providing government guarantees are critically reviewed and strengthened.
- The increase in domestic debt financing could result in crowding out of private sector financing through domestic capital markets (notably issuance of corporate bonds).

Overall, the crisis provokes major risks for both external and domestic debt management. Debt managers in the WAIFEM region will need to be even more on their guard in order to keep debt costs and risks down in line with their national debt strategies.

HIPC CBP RECENT AND FORTHCOMING ACTIVITIES

Advocacy and Liaison

BWI Debt Strategy Initiatives
HIPC-CBP Partners liaised extensively with the Bretton Woods Institutions on their Debt Strategy-related Initiatives. This included liaison with the IMF on the Medium-Term Debt Strategy tools; and with the World Bank as members of the Debt Management Facility Technical Advisory Group and partners in implementation of the DMF diagnostic and debt management reform planning missions; on preparation of Training for Trainers events linking CBP and LIC-DSF methodology; and participation in various DeMPA missions.

Commonwealth Secretariat/OIF Ministerial Debt Sustainability Forum

DRI and CEMLA have also been contracted by Government of Guyana (funded by DfID) to prepare several analytical papers for this forthcoming forum meeting due on April 23 in Washington (on debt strategy capacity-building, information-sharing to improve participation in debt relief; diversifying sources of financing for development; the fiscal burden of debt; and debt relief to combat climate change).

Regional Workshops

MEFMI and WAIFEM Regional DeMPA workshops
Abuja
3-4 December
and Nairobi
8-9 December

Jointly organised with The World Bank, these workshops were aimed at training participants in the rationale for the DeMPA framework, and how to apply the DeMPA tool in assessing a country's debt management performance, through practical understanding of sound practices in the field of debt management. The course format included presentations, hands-on case studies, and a special session on weather-related derivatives for developing countries.

National Workshops

São Tomé
1-11 December

The objective of this workshop, attended by 18 technical staff from three ministries, the Central Bank and the Statistical Institute, was to update the national debt and new financing strategy for the country and to expose Government officials to the LIC-DSF framework. The analysis showed that because of a low IRAI the country will need to use the lowest debt sustainability threshold and therefore its present value of debt over exports will be above the threshold at the beginning of the period. At the end of the workshop, the conclusions and recommendations were presented to The Minister of Finance, the Minister of Foreign Affairs and the Governor of the Central Bank who participated in a debate on how to improve national debt sustainability. Some of the recommendations included focused on improving the quality of aid flowing into the country, improving its export capacity and, improving IRAI scores so that the medium level thresholds are used.

National Missions

Burundi
23-24 February

A BCEAO-BEAC mission visited Bujumbura to meet the national authorities and finalise arrangements for Burundi's membership of BCEAO-BEAC capacity-building programmes, on both debt and macroeconomic management.

Comoros
Moroni, 16-20 February

A Pôle-Dette mission visited to help the national authorities to finalise the draft national capacity-building plan. More specifically, it agreed on the objectives of such a plan as defined in a logical framework, identified the capacity-building activities necessary to ensure these results are reached, and on this basis assessed the numbers of officials needing to participate in regional or national training events, as well as the costs of each capacity-building action. Other similar missions are planned for Q1 to Q2 2009 for all Pôle Dette member states.

Bishkek, Kyrgyz Republic
2-13 February

DRI conducted a two-week advisory mission, funded by SECO, in February 2009. The purpose was to review (1) the external debt position and long-term debt sustainability, and (2) the key issues relating to the international financial crisis and the implications for the debt portfolio and debt management. The Mission ended with a Round Table discussion with Government officials, from the Presidential Administration, Ministry of Finance, National Bank of the Kyrgyz Republic (NBKR) and other institutions.

At the Round Table discussions, DRI made two presentations. The first discussed the implications of the international financial crisis for future external resource mobilisation, including an analysis of the potential impact on debt sustainability of a proposed financial assistance programme from the Russian Federation announced in early February. The proposed assistance consists of (1) US$ 150 million grant to be received in 2009, (2) US$ 300 million loan on highly concessional terms to be disbursed in a lump sum in 2009, (3) US$ 193.5 million write-off and debt-equity conversion of existing Russian debt and (4) US$ 1.7 billion direct investment via a loan to a proposed joint venture hydro-electric power development (without any explicit sovereign guarantee).

The impact on public and publicly guaranteed external debt will be a small increase of $1.2 million, as the PV reduction of the write-off is slightly less than the increase arising from the new concessional loan. As a result the PV of public debt/GDP in 2009 will remain unchanged at 29.2%. However, the impact on total public and private external debt will be more significant, because the US$1.7 billion investment will increase total debt/GDP from 50.7% in 2009 to 60% in 2013.

The second presentation focused on the practicalities of obtaining a sovereign credit rating and the preparation required before launching a debut international bond.
The Mission was also able to share information with officials of the Ministry of Finance and NBKR on technical issues relating to the use of the IMF-World Bank Debt Sustainability Framework (DSF) and DRI's domestic debt template.

Distance Learning and Attachments

Distance Learning Programme Francophone Residential Workshop
Dakar, Senegal
1-11 December

The West African Centre for Banking Training and Research (COFEB) of the BCEAO hosted

(Continued on page 12)

HIPC CBP RECENT AND FORTHCOMING ACTIVITIES *(cont.)*

the residential workshop of the CBP distance learning programme, which concluded the training of 5 experts in debt strategy from francophone African countries. The participants had worked on three pathways: new external financing strategy; domestic debt strategy; and debt data and portfolio analysis. At the workshop, all benefited from training in how to simulate and analyse the results of the strategies they had designed, using the Debt Pro© tool for debt strategy and sustainability analysis. This allowed them to put into practice the skills developed during the distance learning programme. At the end of the workshop, all 5 students graduated, of which 2 with distinction.

The workshop also offered the students the chance to discuss face-to-face with their trainers, their experiences of the DLP. They expressed their satisfaction with the documentation supporting the programme and the very useful role of their mentors in helping them to understand the concepts and analysis techniques. They also underlined that the distance learning programme has been a major success in the Pôle-Dette region, because it is very useful and relevant to country and regional needs for training skills. The participating governments have also indicated their strong satisfaction, which foreshadows a strong demand for DLP support in future years. However the students indicated that there had been considerable difficulties in getting access to data at the start of their study programme, which had delayed their progress.

The final revisions to DLP study modules 9 and 14 for the second student intake are under way and will be ready for the next round of residential workshops, scheduled for the third and fourth quarter of 2009.

At the November 2008 Steering Committee it was agreed that the DLP study modules are the be streamlined and revised on the basis of a generic database and documents for use by CBP partners after the end of the Phase 4 of the HIPC CBP in December 2009. This work by DRI is underway.

MEFMI Staff and Fellows Attachment
16-27 February
Development of Training of Trainers Materials for the DSF

During the next nine months, the HIPC CBP and the BWIs will jointly organise training of trainers' workshops on the LIC-DSF for more than 40 countries. These follow on from a successful round of initial regional and national workshops, funded by the HIPC CBP, in which national debt management officials were introduced to the LIC-DSF tools and concepts, from which one of the main conclusions was the need for the development of training of trainers skills, so that countries can develop sustainable capacity to use the LIC-DSF and discuss their findings with BWI missions, without relying on external assistance.

In order to prepare these workshops, the HIPC CBP partners are designing a set of very detailed training materials to enable country officials to use the template correctly and to its maximum potential, and to train DSF trainers. CEMLA has already produced a technical note that elaborates the DSF data input requirements and sources, on a line item basis as well as how these data are to be entered into DSF. The next steps are attachments of CBP partner staff to DRI to develop training for trainers materials.

The first of these involved MEFMI staff member Leslie Mkandawire, and two MEFMI Fellows, Martin Nsubuga from Uganda and Masebetseli Makhele from Lesotho. The attachment reviewed all details of the DSF templates and documentation, as well as the CEMLA guide. Thereafter it prepared more detailed documents on: 1) DSF data entry, especially data transfer from the HIPC CBP External Assistance Strategy template and Domestic Debt Strategy template; 2) data consistency checks; 3) how to use the DSF for analysis eg what alternative scenarios mean, how to interpret the historical scenario and stress tests, and their relevance for assessing vulnerability to debt distress; and 4) a note on how to use the customised macro assumptions sheet and a sample DSF worksheet using a regional example of a shock. It is expected that the materials will be tested in the upcoming CBP events and included in the next phase of the distance learning programme.

HIPC Website

The country profiles (see page 5) for most of the MEFMI member states and non-ROs countries are now available on the Country Status pages of the public HIPC CBP website.

Future Activities

During the next six months, the HIPC CBP will implement the following activities:

- **Regional Workshops**
  - BCEAO/BEAC Pôle-Dette: Training in Auditing Public Debt; Debt Strategy and LIC-DSF Training for Members of National Public Debt Committees; Generic Procedures Manual Regional Working Group Meeting; CEMLA Training of Trainers on Debt Strategy/LIC-DSF and DeMPA, and Introduction to Medium-Term Debt Strategy Tools;
  - MEFMI Training for Trainers on Debt Strategy and the LIC-DSF, and Introduction to Medium-Term Debt Strategy Tools.
  - PALOP Regional Workshop;
  - WAIFEM Training for Trainers on Debt Strategy and the LIC-DSF.
- **National Workshops**
  Gambia; Guyana; Kenya; Mozambique; Nicaragua (domestic debt); Sierra Leone;
- **Subnational Workshops**
  Bolivia.
- **Institutional/Follow-up Missions**
  Benin; Burkina Faso; Cameroon; Chad; Comoros; Congo; Côte d'Ivoire; Ethiopia; Guinea; Guinea-Bissau; Haiti; Honduras; Liberia; Mali; Niger; RCA; Rwanda; Senegal; Tanzania; Togo.
- **DSA Review and Sensitisation Missions**
  Malawi, Mozambique, Zambia.
- **Attachments**
  CEMLA, Pôle-Dette and Non-RO Regional Experts to develop training manuals for Debt Strategy and LIC-DSF TfT Workshops; Pôle-Dette Fellows on new financing, domestic debt and external debt.
- **Distance Learning Programme**
  English-speaking Residential Schools for the second wave of students under phase 4.
- **Information Products**
  Newsletters 39 and 40, 3 listserves on latest debt management developments, and publications on Best Practices in Debt Management Institutions, and Fiscal Sustainability of Debt.
- **Governance and Liaison**
  Commonwealth Secretariat/OIF Ministerial Debt Sustainability Forum Meetings; Meetings of World Bank Debt Management Facility Technical Advisory Group and Partners; and IMF/World Bank Spring Meetings.

DEVELOPMENT FINANCE INTERNATIONAL

FPC CBP MOVES AHEAD RAPIDLY

Seco extended the third phase of the FPC CBP to end-June, and partners continued planning for post-phase funding and activities. CEMLA prepared its regional seminar on the impact of the financial crisis and the role of the FPC CBP. Many missions were held in the Franc Zone, CEMLA and WAIFEM regions, and MEFMI countries progressed.

Country progress

Countries have progressed as follows:

- Benin (Cycle 1) hosted a Follow Up Mission in February to review progress, is pursuing data collection, and aims to host its results dissemination event in June
- Congo (Cycle 1) is preparing for its first Opening Awareness and Training Workshop during Q2
- Bolivia (Cycle 3) hosted a Follow Up Mission in Q1 to review data time series practices. This website seeks to promote corporate social responsibility in Bolivia. Recent downloadable publications include a study of business impressions about CSR, and their level of implementation. **http://www.coborse.org/**
- Botswana (Cycle 1) is preparing for an Opening Awareness and Training Workshop in Q2
- Burkina Faso (Cycle 2) has a 70% response rate to its enterprise survey, and will host a Follow Up Mission in Q2.
- Cameroon (Cycle 2) reached a 60% response rate, and preparations are underway for a Follow Up Mission in Q2.
- CAR (Cycle 1) hosted its Demand Assessment Mission in February, and is planning to hold its Opening Awareness and Training Workshop in April
- Chad (Cycle 1) hosted its Demand Assessment Mission in February
- Cote d'Ivoire (Cycle 1) held an Opening Awareness and Training Workshop in February, and launched its enterprise survey in March
- Equatorial Guinea (Cycle 1) will host its Demand Assessment Mission in Q2
- Gabon (Cycle 1) will hold its Opening Awareness and Training Workshop during Q2
- Guinea-Bissau (Cycle 1) will receive its Demand Assessment Mission in April
- Gambia (Cycle 3) held a combined Results Dissemination, Awareness and Training Workshop in Q4. It is preparing towards its Follow Up Mission in Q1
- Ghana (Cycle 2) is making strong progress with a small sample survey, and is planning towards its census in Q2. This IMF paper finds that capital account liberalisation has lled to increased private capital inflows. It cautions however that steps need to be taken to reduce economic vulnerability, through better monitoring and policy **http://www.imf.org/external/pubs/ft/scr/2008/cr08332.pdf**
- Malawi (Cycle 3) has secured some local financing, and is preparing to launch with an Opening Awareness and Training Workshop in Q1
- Mali (Cycle 1) achieved a 70% response and held a Follow Up Mission in March.
- Nicaragua (Cycle 2) hosted its second Follow Up Mission in Q4 2008, to review institutional and legal arrangements, debt and portfolio investment monitoring
- Niger (Cycle 1) is preparing for its Opening Awareness and Training Workshop in Q2
- Senegal received a Follow Up Mission in March, focusing on data checking and on preparations for the analytical report and the closing workshop
- Tanzania (Cycle 4) is reviewing recommendations with respect to institutional arrangements, data quality and analysis. This IMF paper looks at how Tanzania might build and maintain its infrastructure: it finds that overall direct investment in infrastructure remains low, and cautions against further public-private partnerships until Government has reinforced its legal framework and analytical capacity. **http://www.imf.org/external/pubs/ft/wp/2008/wp08256.pdf**
- Togo (Cycle 1) hosted an Opening Awareness and Training Workshop in January, and launched its enterprise survey in February.
- Uganda (Cycle 7) has attained 90% response rate and is finalising data quality checks. It aims to launch Cycle 8 during Q2.
- Zambia (Cycle 2) finalized its data editing, and held a retreat to prepare its first draft analytical report, aiming to disseminate in Q2.

Methodology and Liaison

Building on the article on FPC sustainability (Newsletter 37), the FPC CBP commenced a review of methodology and research into the impacts of the financial crisis ahead of the CEMLA Regional Seminar in Q1. DFI also prepared a revised methodology note on using financial statements for checking enterprise survey results, including the outputs which are available from the SYSCOA accounting reports used in the Franc Zone.

Software

Transfer of FPC CBP generic software was completed in Q4 (see Newsletter 36). Existing users (with username and password) are encouraged to download the three modules comprising Version 2.0, together with the accompanying User Manual from EIS. Designers are encouraged to download this together with the completed Manual for Designers from EIS (**www.evinsol.co.uk/software/dfi/**). Please contact DFI with any queries about how to obtain the software (**mail@dri.org.uk**).

Tanzania Follow Up Mission

MEFMI conducted a regional retreat for IT and business experts in Bagamoyo, Tanzania in January, to finalise and test its Private Capital Monitoring Software (PCMS), ahead of official launch by the end of Q1. Participants were from central banks and statistics offices in Botswana, Malawi, Swaziland, Tanzania, and Uganda.

Information products

Newsletter 37 is available for download from the FPC CBP website (visit **www.fpc-cbp.org**, and link to Newsletter). It includes articles on the extension of the FPC CBP, a description of the completed FPC CBP Generic Software and how to obtain it, and analysing the sustainability of foreign private capital.

Briefing #21 was disseminated in February, and may now be downloaded from the website (visit **www.fpc-cbp.org** and link to FPC CBP Briefing). Briefing #22 will be disseminated in April.

Governance

Seco have extended the current phase from September 2008 to 30 June 2009. In the context of the current financial crisis, which enhances the usefulness of the FPC CBP to developing countries in monitoring and analysing foreign private capital, they have indicated their willingness to continue funding some national and regional projects beyond June 2009. As a result, partners are discussing next steps actively.

FPC CBP: MONITORING AND ANALYSING

The financial crisis has hit FPC CBP participating countries in Africa, Latin America, and the Caribbean severely, in terms of private capital flows and trade, as well as wider impact on growth and poverty reduction prospects. This article highlights the main impacts on private capital flows, describes how FPC CBP analysis had foreseen these types of impacts, and reports on planned further FPC improvements in monitoring and analysis, to make sure that countries have "early warning" of such crises.

Impacts

Credit available from international banks (as well as their local subsidiaries), enterprise headquarters in OECD countries, and trading partner companies, has also collapsed in many countries, resulting especially in a strangulation of trade credit. Even transnational corporations have been hit (many FDI projects have been cancelled or postponed due to inability to mobilise bank financing).

Over 90% of trade transactions depend on short-term credit or insurance. The problem is especially acute for developing countries, which have less recourse to other forms of internationally sourced credit. For low-income countries, trade credit dropped 18% in the last quarter of 2008, and the spread for their trade financing widened as customers sought longer repayment periods, and banks tightened up on terms and conditions. Latin America relies extensively on overseas borrowing to finance foreign trade, and the credit crunch has already hid trade levels disastrously.

Letters of credit have traditionally been relatively stable and secure. However, the freeze in inter-bank lending, and commodity price falls, have led banks to question the ability of their correspondent banks to honour an obligation when due, and question the value of dry cargo as security for the credit. Additional pressure is due to the fact that banks, in a desperate rush to cut overall exposure, find trade finance easier to target than longer term, harder to renegotiate assets such as mortgage-backed securities, CDOs and CDSs.

However, the worse impact is on smaller and domestically-owned enterprises: even before the crisis they had trouble getting bank credit, but now transnationals are turning to local banking systems and crowding them out in a rush to replace international credit.

The fall in local banks' share prices illustrates further fragility. Banks with foreign shareholders are seeing investors cash in their equity holdings. Closer integration of the banking sector with local capital markets has exposed banks to market volatility where high equity returns have encouraged borrowing for investment in the stock market (e.g. Nigeria, Kenya). In some countries, concerns arising about banks' exposure to some risky and potentially loss-making ventures are adding to the pressure. Many banks have thus been forced to cut lending. Combined with the increased cost of capital, these factors will constrain banks' potential for growth.

After peaking in 2007, FDI inflows are declining in both regions. Market valuation of existing equity is also falling as profitability is hit and stock exchange prices fall sharply, reducing companies' ability to raise new capital. Many new investment projects are being cancelled or postponed. A brief media survey indicates more than US$30 billion of project financing which has been cancelled or postponed in Africa and Latin America.

The most evident FDI casualties (or perhaps just the best-monitored and reported) are those in the mining and petroleum sectors. Mining and petroleum have suffered additionally due to their high indebtedness accumulated from overpriced mergers and acquisitions in the boom years. Many African countries which had been told that they would soon have oil industries of their own are watching as these projects are mothballed now that prices are close to US$40 per barrel.

However, the third major sector to suffer has been infrastructure. LAC and especially SSA are already infrastructure-deficient – with Africa's infrastructure needs being estimated at US$75 billion a year. Cuts to infrastructure investment, especially through a virtual disappearance of BOT and PPP deals, is extremely detrimental to long-term growth prospects.

However, large and medium-scale enterprises in other sectors (manufacturing, agro-industry, tourism and finance) are also closing (e.g. 14 medium-scale manufacturing enterprises in Uganda in 2008, and 15 more expected in 2009). Cape Verde and the Gambia, for example, are also suffering from slumps in real estate and construction investments. Parent companies are also restricting their lending and provision of new equity capital to their subsidiaries (because they need the money themselves), and demanding faster capital repatriation in the form of loan repayments, profits and dividends.

Huge amounts have been wiped off the value of ***portfolio equity***, witnessed in plunging share prices, and the collapse in the market capitalisation of stock exchanges in both regions. In Africa, the Merrill Lynch Africa Lions Index (covering 15 countries) fell 70% during March-December 2008.

After a shutdown in late 2008, ***corporate bonds*** are showing signs of recovery in terms of international willingness to purchase them (in many countries in recent months there was little investor demand even for these), but only at very high yields (10-12% above pre-crisis levels) which make them a prohibitively expensive option for most enterprises.

Remittances, which in both regions have recently exceeded FDI flows, and have been largely counter-cyclical, helping countries to fight local economic crises, are also taking a pounding as a global crisis hits all regions at once. Initial projections of stagnation (compared to recent 35-40% annual increases) are being revised down further to reflect potential falls, which have already materialised in Guyana, Haiti, Kenya and Mali. Workers overseas are remitting smaller amounts, and less frequently, as they suffer reduced incomes and lost jobs. The impact is greatest where the diaspora is concentrated in sectors and countries suffering most from the crisis (e.g. Mexican unemployment in the US construction sector). The human cost is very high as remittances are mostly used for consumption and subsistence, with many communities depending almost entirely on money relatives send home.

FPC CBP Lessons

FPC CBP analysis provided many lessons revealing that countries would be highly vulnerable to a global downturn, because capital inflows are potentially very volatile:

- ***Even low-income countries had been experiencing very significant private flows*** in recent years, 2-3 times greater

than earlier estimates, with outflows reaching 40% of inflows in good years and 200% in times of crisis.

- ***Most of what was thought to be FDI equity was actually debt.*** Debt (including intra-company loans) accounted for between 57% and 81% of flows, with especially high debt to equity levels in sectors such as mining and petroleum.
- ***Much equity is not new equity.*** Reinvested earnings have accounted for between a quarter and a third of investment, and can be repatriated overseas in crisis periods.
- ***FDI is not long-term and stable in times of crisis.*** It includes significant volatile components which behave pro-cyclically with shocks (outflows increase during crisis), notably a high proportion of short-term and intra-company borrowing. Companies can also pull out equity suddenly, repatriating rather than reinvesting profits, delaying or cancelling new projects and scaling back existing projects, and even abandoning fixed assets under stress, especially if there are no capital controls.
- ***Portfolio equity and debt investment in low-income countries is significant.*** Data from international portfolio funds and local corporate bond and equity markets indicated that this volatile source of funding could leave countries exposed if global investors retreated.
- ***Private sector external debt is highly significant, and potentially destabilising.*** It adds greatly to national debt service burdens and, in conditions of capital crisis, can destabilise foreign exchange markets and reserves. Trade credits tend to vary with commodity prices, making companies highly vulnerable to price shocks. The cost of debt from unrelated sources is also highly volatile, and domestic SMEs have struggled to raise credit from banks internationally and domestically.
- ***Flows are coming mostly from non-OECD countries, and spread well beyond natural resource sectors.*** More than half of new flows have been from the non-OECD (e.g. China, India, Brazil, Mexico, South Africa, other Asian and Latin American countries). More than half of new flows are also going to other sectors (manufacturing, finance, tourism, real estate and construction, and agriculture. Both of these factors have been important in protecting some countries against the crisis, because non-OECD and non-natural resource investors have been more stable.

Overall, FCP CBP-supported analysis has helped countries to assess what the impact of any crisis might be on foreign private capital, by pointing to the much larger scale and inherent volatility of these flows. It also identified factors linked to the individual types of flows, which have been borne out as exacerbating the current crisis.

The analysis also presaged the major potential negative macro and financial system effects of any crisis, including exchange rate devaluation, widening current account deficits, lack of trade finance, falling reserves, accelerated inflation and local financial sector crashes. Nevertheless, it foresaw variable impacts on fiscal positions in different countries. Many governments had given non-resident investors lengthy tax holidays – so reduced investment has had little fiscal effect. However, some (eg Bolivia) had increased taxation or royalties from investors, and others (eg Zambia) were introducing similar measures, or had always (eg Benin) relied extensively on taxes from cotton companies for revenues. They have been hit heavily by revenue falls due to the crisis.

Implications for CBP Support

The ability of FPC CBP participating countries to foresee the impact of the crisis has reflected their significant recent improvements in capacity to monitor and analyse the flows. But the crisis has highlighted areas in which further improvements are essential.

Monitoring

The priority here must be to improve the timeliness of monitoring and dissemination. Future FPC CBP work will address this via quarterly reporting using smaller scale surveys, more efficient fieldwork, and advance publication of preliminary data. Data quality needs to be improved further through enhanced follow up and validation techniques, to track problematic types of data such as retained earnings and trade credit.

Countries also need to establish or enhance early warning systems. Surveys must ask for estimated future flows, put loan-by-loan debt questions to allow forecasting of repayments, and be quarterly to capture short-term debt. Perception questions need to establish implementation schedules for major projects, their status, financing strategies, challenges and measures taken. There is scope to improve reporting from commercial banks (tracking trade finance and other credit ceilings) and portfolio investors, and complex financial products need to be tracked more closely.

Analysis

CBP countries have already begun to analyse their vulnerability to financial crisis, by

- using vulnerability ratios such as total external debt stock or service compared to exports or reserves
- including intra-company borrowing, short-term and commercial debt which tend to be most volatile, offshore and mega-projects
- total FDI and other equity flows compared to exports or reserves
- disaggregating by country of origin, sector, etc
- analysing investment risks (exchange and interest rate) and implicit costs
- building data series to allow use of formal econometric analysis
- increasing analysis of more sophisticated instruments such as portfolio flows, Build-Operate-Transfer projects, Public-Private Partnerships and derivatives
- relative costs of external compared to domestic financing
- factors which determine sustainability (using economic, FPC and perception data)
- and especially international and regional trends (notably financial market contagion, global market and individual company behaviour).

Of course nothing would have allowed FPC CBP countries to foresee the current global financial crisis, which was largely overlooked by international organisations and OECD analysts. But these steps should allow them to see the impact materialising much more rapidly, and to take preemptive measures to reduce their vulnerability to crisis, such as diversifying source countries and recipient sectors of flows, reinforcing reliance on local finance, and designing comprehensive national development financing strategies.

Conclusion

The crisis has underlined that developing countries need much more support to improve their capacity in monitoring and analysing FPC. They also need support to design policies which can reduce their vulnerability and overcome the impact of such crises – to stop them driving millions of their people back into poverty. The next newsletter will focus on the policy response to the crisis.

DEBT RELIEF TECHNICAL QUESTIONS

What are the main issues to consider before issuing an international or domestic bond?

Although the international financial crisis has put on hold some low income countries' plans to issue a bond on international capital markets, a number of countries are considering, domestic capital market bond issuances instead. Many of the issues that need to be analysed before issuing an international bond, such as size and repayment structure, also apply to domestic bond issuance. While international bonds are targeted at foreign investors, domestic bond issues can be aimed at either or both foreign and domestic investors. CBP partners, the IMF* and other organisations have been preparing guidelines for first time bond issuers, which can be used to prepare for raising capital from either international or domestic markets. The table below presents the main issues.

Amount	The issue size should be consistent with the expected use of the proceeds or financing needs, ability to pay debt service within budgetary capacity, and long-term debt sustainability. Larger bond issues increase repayment risks and for international bonds, have higher exchange rate risks. Bonds should be large enough to provide minimum market liquidity (US$200m – US$250m for an international bond), facilitate secondary market trading, and maybe be included in a bond index (US$500m for an international bond), but not so large as to enhance repayment or rollover risks. Domestic bonds should not be so large as to crowd out other market entrants.
Use of bond proceeds	This needs to be prepared before issuance. Some countries have raised bonds to fund infrastructure projects (Ghana and Sri Lanka), budget deficits (Ecuador and Egypt), repayment of existing debt (Indonesia, Poland, Ukraine) or Paris Club debt (Gabon). Kenya has raised a domestic bond (and Senegal regional bonds) for infrastructure financing.
Net proceeds	The amount the Government receives is not the face value, instead it is the face value x the price of the bond (i.e. including the issue discount or premium) minus the underwriting fees which are calculated on the face value of the bond and paid up-front. For Ghana, the net proceeds were $497.4m on a face value of $500m issued internationally.
Currency	For an international bond, the currency should be consistent with the country's currency risk profile. Most international bonds are in US dollars or Euros, although Yen is an option in Asian markets. The currency chosen should also be consistent with managing the country's foreign exchange reserves, debt portfolio and fiscal policy. Domestic bonds can be issued in foreign currency as well as in domestic currency depending on the targeted investors, however the former carries the same currency risk as an international bond issue.
Repayment structure	The maturity and repayment structure should aim to minimise repayment and rollover risks. The repayment structure options for both international and domestic bonds are: • Bullet repayment (a single repayment on maturity), which has a higher rollover risk. However, depositing annual budgetary contributions towards repayment into a sinking fund, can smooth repayment costs over the life of the bond, thereby guaranteeing bond repayment on maturity and lowering the rollover risk. • Structured repayment, whereby amortisation is paid over a number years, with or without a grace period, reduces the repayment and rollover risks, but investors may require higher yields in return. If the bond is to finance a project, then its grace and maturity periods should reflect the expected timing of the project income/profit. Amortisation should not start until the project will generate sufficient income/profits to pay it. Usually international and domestic investors prefer shorter maturities (as low as 5 years) for first time borrowers with no repayment record.
Interest cost	The coupon rate can be fixed or variable (eg linked to Libor) depending on market conditions and expectations at the time of issue. A fixed rate means the annual interest cost is known and reduces interest rate risk, whereas a variable rate can lower costs if interest rates fall, or raise them if interest rates rise. The rate is usually decided just prior to issue and reflects prevailing market conditions. Semi-annual coupon payments are most common. The bond yield or investors will depend on the issue or trading price as well as the coupon rate.
Jurisdiction	For international bonds, it is usual to have New York or English law governing the bond: the choice depends mainly on the target investors and currency of denomination. For domestic bonds, national law will apply. The jurisdiction and type of bond being issued will affect the level of data disclosure and transparency required.
Selection of lead managers and advisors	For international bonds, the Government will initially require financial and legal advisors to help develop an issuance strategy and legal framework. It will also need to hire a lead manager(s), usually an investment bank, to market the bond. While reputation and experience are important, advisors should be selected through competitive bidding.
Charges	The charges include the fees and out-of-pocket expenses of legal and financial advisors and lead managers, as well as any underwriting fees. Ghana paid fees and expenses totalling 0.77% of the face value of its international bond.
Information disclosure and transparency	Well before the issuance of an international or domestic bond, which is aimed at foreign investors, the Government needs to acquire a credit rating and establish investor demand though road shows or meetings. All of this requires data disclosure and transparency of information.
Consistency of country strategy and IMF programme	The issue should be consistent with the national borrowing policy (ie does not breach any grant element limits) or any IMF programme conditionality on non-concessional borrowing ceilings.

For further details see also Udaibir S. Das, Michael G. Papaioannou, and Magdalena Polan – Strategic Considerations for First Time Sovereign Bond Issuers – IMF Working Paper, WP/08/261, November 2008

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