CENTRAL AFRICAN REPUBLIC
MINISTRY OF FINANCE AND BUDGET

The Collaborative Africa Budget Reform Initiative (CABRI)

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The role of the Debt Manager in formulating Budgeting Procedures and how the Central African Republic manages and prioritises risks in implementing the Annual Borrowing Plan.

Presented by the Directorate-General of Treasury and Public Accounts

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Introduction 1/2

As is the case with all other countries, the development of the Central African Republic (CAR) requires the institution of a profitable investment policy as well as economic infrastructure capable of guaranteeing economic prosperity. However, financing a policy of this nature is often problematic in view of the inadequacy of domestic savings relative to the enormous needs in terms of investment.

For this reason, the CAR is often forced to resort to foreign financing. However, when taking on debt, the country needs to take into account its borrowing capacity. This refers to the maximum amount that it is estimated that a country can allocate to its monthly or annual debt repayment instalments, depending on its expense, revenue and “money left over to live”.

Introduction 2/2

- A country's borrowing capacity thus becomes a conditionality for access to financing. Consequently, the Debt and Equity Directorate (*Direction de la Dette et des Participations* or *DDP*) is the body responsible for managing public debt.
- The Directorate falls under the Directorate-General for Treasury and Public Accounts (*Direction Générale du Trésor et de la Comptabilité Publique* or DGTCP) and is responsible for managing the State's public debt by dealing with the various loans from multilateral and bilateral organisations as well as domestic debt.
- In carrying out his task, the debt manager is supposed to perform the mission assigned to him, assess the debt servicing capacity, the opportunities and potential risks associated with debt.

I Institutional Arrangements 1/3

1.1 Legal Framework

- Order N° 82/017 dated 08 April 1982 pertaining to the organisation of the Autonomous Amortization Fund for Public Debt.

- Decree N° 16.356 dated 21 October pertaining to the organisation and functioning of the Ministry of Finance and Budget and the responsibilities of the Minister of Finance and Budget.

- The Decree pertaining to the General Regulation of Public Accounts, Decree N° 09.422 dated 28 December 2009, together with all its classifications.

- A manual on debt management procedures is currently being drafted.

I Institutional Arrangements 2/3

1.2 Fields of coverage

The remit of the debt manager is as follows:

- Coordinating, monitoring and evaluating the activities of his departments;
- Participating in all negotiations and renegotiations on loans taken out by the Central African Republic;
- Carrying out analyses during the process of securing any government loan and ensuring compliance with the borrowing ceiling envisaged in the Finance Act;
- Developing annual borrowing plans and issuance calendars for government securities to be submitted for prior approval to the Minister of Finance and Budget;
- Managing the decision making process during government securities auction sessions;

I Institutional Arrangements 3/3

- Submitting to the Minister of Finance and Budget the terms for the investment of Treasury surpluses, the financing of the deficit of the Single Treasury Account, as well as the minimum and maximum thresholds of liquidity reserves to be established;
- Proposing to the Minister of Finance and Budget securitization operations when necessary;
- Proposing a medium-term debt strategy (3-5 years), updated every year, depending on the cash available.

II-The role of the Debt Manager in formulating Budgeting Procedures 1/2

In spite of these daily tasks, the debt manager plays a very effective role in formulating budgeting procedures. A complex procedure follows the receipt of a loan agreement :

- Recording loan agreements according to the nature of the debt
- Validating this data
- Producing a statistics bulletin
- Checking maturity dates
- Consolidating information according to the category of creditor (official or unofficial), by year, for projecting the servicing of the debt in terms of the principal and the interest
- Sending these data to the Budgeting Department
- Recording these data in the Budget

II-The role of the Debt Manager in formulating Budgeting Procedures

- Once this has been included in the Budget, the debt manager should track and discuss this information during the Budget conference, and, if necessary, correct it before finally including it in the Budget, in order to substantially lower pressure and minimise risks ;
- Settlement without prior payment authorisation is only done in the CAR, i.e. a Treasury transaction;
- At the end of the year a regulation is carried out.

II-The role of the Debt Manager in formulating Budgeting Procedures

The Debt and Equity Directorate considers the following issues before committing the State:

- What is the best way for a State to incur debt? In other words, taking into consideration its economic potential, what is the optimal indebtedness level that a country can allow itself without running the risk of insolvency and without compromising the living conditions of its inhabitants as a result of overly onerous debt servicing requirements?
- What is the link between servicing the debt (the manager) and the occurrence of a debt crisis?

III Risk management in implementing the annual borrowing plan

The following risks are the most frequently encountered in implementing the annual borrowing plan and the Central African Republic is doing its best to avoid these risks, particularly with the help of technical partners, so that it does not become over-indebted:

- Risks related to exchange rate fluctuations;
- Interest rate risk;
- Refinancing risk;
- Operational risks which can also produce a lot of data during consolidation;

Due to reforms initiated by the MoFB in recent years and as a result of Technical and Financial Partners assistance, the DDP (DGTCP) has strengthened its debt management capacity with the aim of controlling the public debt service threshold: a rigorous management, taking all necessary precautions.

III Risk management in implementing the annual borrowing plan

- It is worth noting that investments are of major concern and are important for the country, but risks associated with debt are tremendous.
- To deal with this, the borrowing capacity must be assessed; the MoFB is currently working towards enhancing the business climate for a favourable economic environment, which is a key advantage for the development of domestic financing.
- To avoid over-indebtedness, CAR, in partnership with the IMF (ESF or Exogenous Shocks Facility Programme) during its assessment missions, acts also as an advisor in the context of sustainable public finances and gives preference to donor financing or financing on highly concessional terms and domestic financial market development.

III Risk management in implementing the annual borrowing plan

2 -Difficulties encountered

- The problems faced by debt managers often arise from the fact that decision-makers do not pay sufficient attention to the importance of managing indebtedness prudently and that a poor understanding of macroeconomic management, that is, its maximum capacity to transfer part of its production abroad to service its foreign debt, is costly.
- Default on payment through extension can have two sources: one related to the debt volume and the other associated with the willingness-to-pay, regardless of the loan value.
- In the first case, the indebtedness incurred by the State cannot be honoured because of limited funds available, in terms of the amount due. The country acts in good faith and would like to ensure repayment of its debt but is unable to do so.

Conclusion

Indeed, the analysis is refined and allows to take into account all the dimensions inherent in the overall concept of country risk and vigilance of the debt manager.

It should be kept in mind that, in international economic relations, vigilance is required. The measurable risk – does not eliminate hazards related to uncertainty

- The country (debtor) and creditors should give their opinion about a comprehensive debt management reform, focused on establishing an insolvency of the State framework.
- Nevertheless, there is clearly room for improvement on the speed and timeliness of sovereign debt dispute settlements.
- Knowing that debt management goes hand in hand with cash management, there is a need to have an operational cash flow plan to ensure debt servicing.

THANK YOU FOR YOUR ATTENTION !

D.G.T.C.P

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