

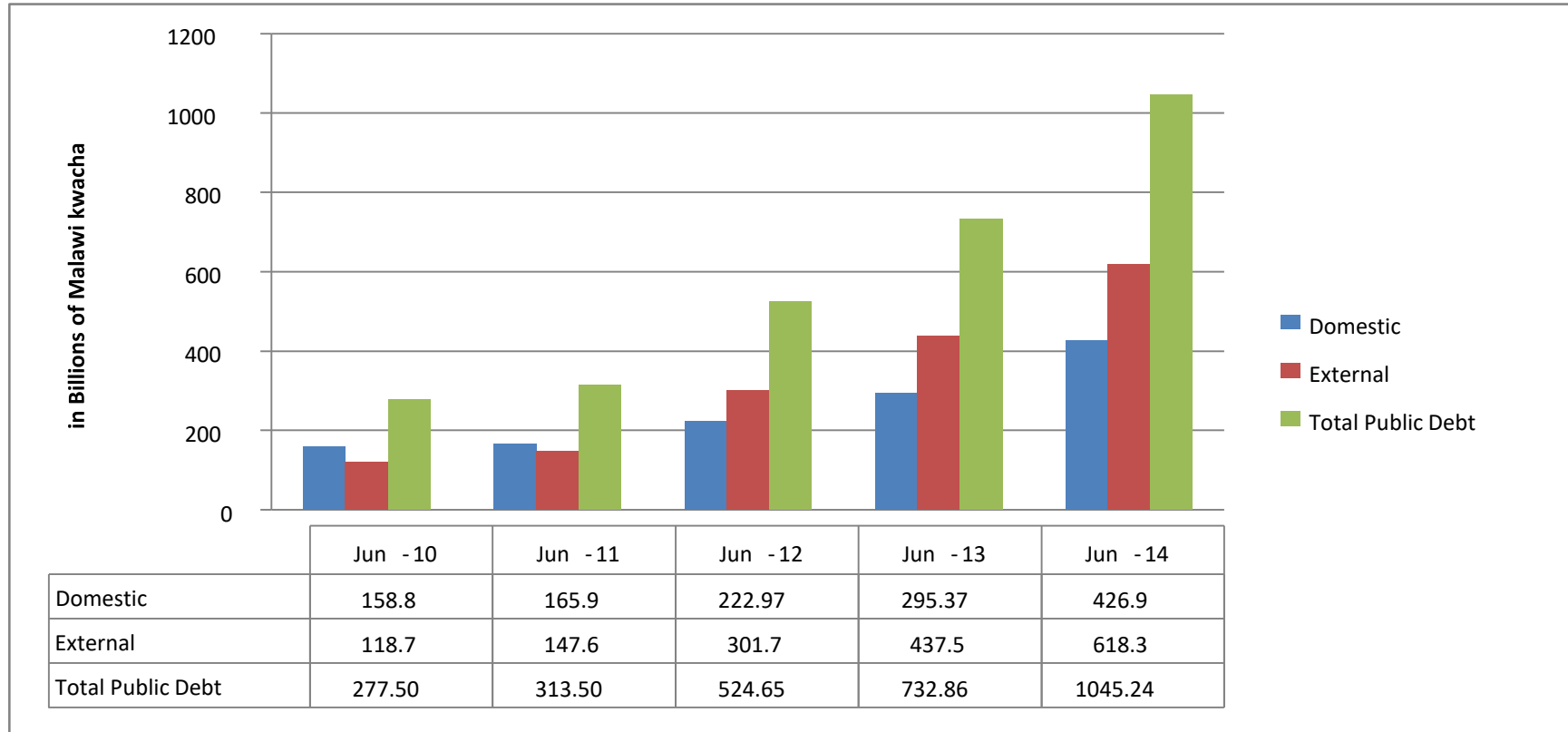
# Policy dialogue – importance of diversifying the government's debt portfolio – Session 3

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## Why is diversification important?

- Diversification is the most important component of reaching long-term financial goals while minimising risk
- Diversification is the practice of spreading your risks by not limiting your exposure to one type of debt
- Not only diversifying between different instruments, but also important to diversify amongst different borrowing options

# Public Debt Composition of Malawi



# Examples of Public Debt Composition of other developing countries

Countries	Comp of external debt	Main source of external debt	Comp. of domestic debt	Main source of domestic debt	External to domestic debt ratio	Gross public debt to GDP ratio %
Bulgaria	54% USA 30% Euro 63% floating	30% brady bonds 30% market 40% loans (Multi- and bilateral)	70% fixed 70% local 18% USA 12% Euro 5% < 12m	Tradable	88.12%	56.0%
Sri Lanka	41% SDR 30% yen 93% concess	50% multilateral 43% bilateral	27% <12m	60% inst. invest 18% banks	44.56%	103%
Zambia	Long fixed concess	Multilateral + Bilateral	Short	70% Banks + pens funds + BoZ	85.15%	187%

# Borrowing options available to public debt managers – marketable debt

## Domestic

- **Short-term**
  - Treasury bills
  - Floating rates notes
- **Domestic long-term**
  - Fixed-rate bonds
  - Inflation-linked bonds
  - Retail Savings bonds
  - Zero-coupon bonds

## Foreign

- **Marketable loans**
- **Sukuk loans**
- **Export Credit Assurance (ECAs)**

# Borrowing options available to public debt managers: non - marketable debt

- African Development Bank
- World Bank
- French Development Agency
- Chinese Development Bank
- Syndicated loans (Banks)

# BANK (AFDB) GROUP COUNTRY CLASSIFICATION

## ADB Sovereign Operations

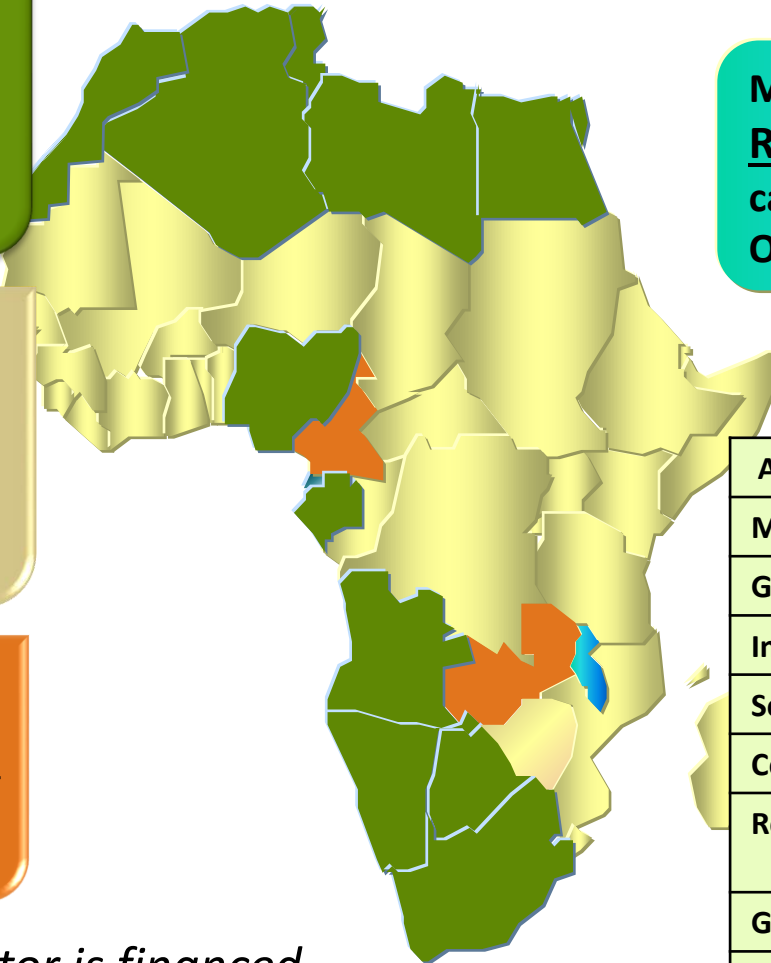
- 17 countries eligible to receive ADB funding
- Nigeria, Congo and Cape Verde are graduating to ADB funding

## ADF Concessional Financing

- 35 low-income countries divided into three sub categories:
  - Advanced
  - Regular
  - Gap

## Blend Countries

- Countries eligible for ADB and ADF Funding: Zambia and Cameroun



Malawi is classified as an **ADF-Only Regular** country as it has a GNI per capita below average among ADF-Only countries

ADF LENDING TERMS For Regular Countries	
Maturity	Up to 40 years
Grace period	Up to 10 years
Interest rate	N/A
Service charge	75 bps
Commitment Fees	50 bps p.a.
Repayment	2%/year for 10years & 4% for 20years
Grant Element	61%
Disbursement Currencies	EUR, USD, GBP, JPY

*Private sector is financed through the ADB window for all countries.*

# ACCESS TO ADB RESOURCES FOR ADF COUNTRIES

*The Bank Group's credit policy has recently been amended in order to allow ADF countries to access the ADB sovereign lending window subject to the fulfilment of some specific criteria.*

- ✓ Low or moderate risk of debt distress
- ✓ Headroom for non-concessional borrowing
- ✓ IMF's debt sustainability assessment
- ✓ Sustainable macroeconomic position
- ✓ Request for financing approved by the Bank's Credit Risk Committee
- ✓ Viable projects with economic and social return

With in particular a moderate risk of debt distress,  
Malawi can now have access to ADB resources  
under the new credit policy and after assessment by the Bank



# World Bank financing options

## World Bank Group Financial Products & Services



		IBRD	IDA	IFC	MIGA
	ELIGIBILITY	Middle-income country governments Subnational entities with government guarantee	Low-income country governments	Private sector clients	
FINANCING	FINANCING	<ul style="list-style-type: none"> <li>IBRD Flexible Loan</li> </ul>	<ul style="list-style-type: none"> <li>Grant</li> <li>Credit</li> <li>Single Currency Lending Program</li> <li>IDA Scale Up Facility Loan</li> <li>IBRD Enclave Loan</li> </ul>	<ul style="list-style-type: none"> <li>IFC A-Loan</li> <li>Equity finance</li> <li>IFC C-Loan</li> <li>Subnational finance*</li> <li>Local currency loans</li> <li>IFC B-Loan (third parties)</li> <li>Parallel loans (third parties)</li> </ul>	
	CONTINGENT FINANCING	<ul style="list-style-type: none"> <li>Deferred Drawdown Option (DDO)</li> </ul>	<ul style="list-style-type: none"> <li>DDO for IBRD-IDA Blend countries</li> </ul>		
RISK MANAGEMENT	CREDIT ENHANCEMENT	<ul style="list-style-type: none"> <li>Partial Credit Guarantee (Policy-Based and Project-Based)</li> <li>Partial Risk Guarantee (PRG)</li> </ul>	<ul style="list-style-type: none"> <li>Partial Credit Guarantee (Policy-Based and Project-Based)</li> <li>Partial Risk Guarantee (PRG)</li> </ul>	<ul style="list-style-type: none"> <li>Full/partial credit guarantee</li> <li>Credit-linked guarantee</li> <li>Mezzanine investments in securitizations</li> <li>Risk sharing facilities (check with IFC)</li> <li>Guaranteed offshore liquidity facility</li> </ul>	<ul style="list-style-type: none"> <li>Political risk insurance</li> <li>Credit guarantee (Non-Honoring of Financial Obligations)</li> </ul>
	HEDGING PRODUCTS	<ul style="list-style-type: none"> <li>Currency swap</li> <li>Interest rate swap</li> <li>Interest rate cap and collar</li> <li>Commodity price swap</li> </ul>	<ul style="list-style-type: none"> <li>IBRD Hedging Products (IBRD-IDA Blend countries only)</li> </ul>	<ul style="list-style-type: none"> <li>Currency swap</li> <li>Interest rate swap</li> <li>Interest rate cap and collar</li> <li>Commodity price swap</li> <li>Swap guarantee</li> <li>Carbon delivery guarantee</li> </ul>	
	DISASTER RISK FINANCING	<ul style="list-style-type: none"> <li>Catastrophe Deferred Drawdown Option (Cat DDO)</li> <li>Catastrophe bond</li> <li>Disaster risk intermediation platform</li> <li>Insurance pool</li> <li>Catastrophe bond</li> </ul>	<ul style="list-style-type: none"> <li>Disaster risk intermediation platform</li> <li>Catastrophe bond</li> <li>Insurance pool</li> <li>Pandemic Emergency Facility</li> <li>Crisis Response Window</li> <li>Immediate Response Mechanism</li> </ul>	<ul style="list-style-type: none"> <li>Weather hedge</li> </ul>	
	CLIENT ADVISORY SERVICES	<ul style="list-style-type: none"> <li>Asset management</li> <li>Government debt and risk management</li> <li>Asset-liability management</li> <li>Capital market access strategy and implementation</li> </ul>	<ul style="list-style-type: none"> <li>Asset management</li> <li>Government debt and risk management</li> </ul>	<ul style="list-style-type: none"> <li>Access to finance</li> <li>Investment climate</li> <li>Environmental and social sustainability</li> <li>infrastructure advisory</li> <li>Corporate advice</li> </ul>	

For more information:

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# Chinese Development Bank (CDB)

- Foreign currency loans for long-term projects
- Foreign currency liquidity loans
- Offshore RMB loans
- Sovereign loans

## Composition of debt as a risk management tool

- In your experience has the composition or diversification of the debt portfolio reduced cost or minimised risks?
- Bilateral and Multilateral loans come with conditions
- The biggest pool/source of funding is available in marketable space – more liquid + less costly over time
- Why is the local-currency debt market not an attractive funding option yet?

**Any questions?**