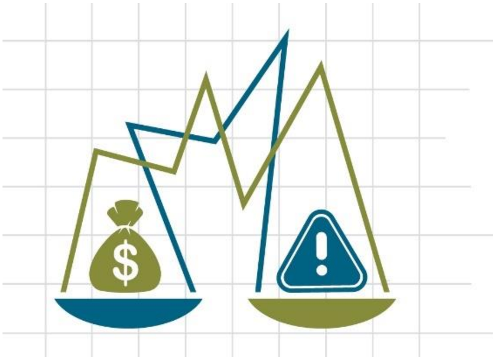

Policy Dialogue

Balancing cost and risk in the midst of fiscal pressures

3–4 October 2017
Abidjan, Côte d'Ivoire

The need for greater fiscal space, while revenue continues to contract, has led to larger fiscal deficits and increases in public debt throughout Africa. While these debt levels remain sustainable, most of this borrowing has been in foreign currency. With higher interest rates and stronger currencies expected in the Eurozone and United States, countries face 'rollover' risks and higher debt service costs. Rising debt levels, if not managed carefully, will crowd out public expenditure and compromise long-term growth and financial stability.

This policy dialogue will facilitate peer exchange and learning on how best debt officials can plan and adjust their borrowing strategies to deal with these challenges and execute a funding plan that balances cost and risk.

Tuesday 3 October 2017	
09:00 – 09:30	**Arrival and registration**
09:30 – 10:15	**Welcome, expectations and overview of the programme** Neil Cole (Executive Secretary of CABRI) Bernard Akpess (Deputy Director of Cabinet, Ministry of Economy and Finance, Côte d'Ivoire)
10:15 – 10:45	Tea and coffee
Session 1 10:45 – 12:00	**Executing the funding plan amid ordinary and extraordinary budgetary pressures** The debt office, like the budget office, is impacted by both known and unforeseen fiscal pressures. This implies that the debt manager must be prudent, yet adaptable, when executing the funding strategy. What are the risks and challenges they face when executing the annual funding plan? **Objective**: To learn about the public debt manager's role in the broader budget process and to understand how he/she prioritises risk when executing the annual funding plan. **Format:** Presentations by Côte d'Ivoire, The Gambia and CAR *(10 minutes each)* Discussion *(45 minutes)* **Moderator**: Neil Cole (Executive Secretary, CABRI)

12:00 – 13:00	Lunch
Session 2 13:00 – 14:30	**Improving risk awareness** An important responsibility of the debt manager is to identify and manage the trade-offs between expected cost and risk in the debt portfolio. This involves identifying risks timeously, assessing their magnitude, and developing a preferred strategy for mitigating and managing risk. Such strategies may include carefully selecting the composition of the portfolio, managing rollover risk, and lowering borrowing costs. **Objective**: To learn from countries how they manage the above risks in their respective debt portfolios. Introduction to exercise *(10 minutes)* Country teams to describe their current risk management practices, the composition of their debt portfolio, how they manage rollover risks and limit borrowing costs *(80 minutes)*
14:30 – 15:00	Tea and coffee
Session 3 15:00 – 16:30	**Risk management component #1: appropriate composition of the debt portfolio** In developing a borrowing strategy, debt managers tend to focus on levels of debt. The composition of debt, in terms of currency make-up and nature of the investor base, are, however, critical for spreading risk across the portfolio. **Objective:** To assist debt officials to diversify their risk by learning from experts and their peers about prioritising the composition of the debt portfolio and selecting appropriate sources of financing. **Format:** Presentation on the importance of diversifying the debt portfolio by Johan Krynauw (Programme manager: Public Debt Management, CABRI) *(15 minutes)* Country contributions on the mix of their debt portfolios, what they intend the composition to be in the medium and long term and feedback from peers *(75 minutes)*

Wednesday 4 October 2017	
09:30 – 9:45	Key messages of the previous day
Session 4 9:45 – 11:15	**Risk management component #2: optimal management of rollover risk** Despite increases in bond issuances, the bulk of transactions in Africa remain treasury-bills (government paper one year and shorter). This implies that the average maturity of most countries' debt portfolios is short, and the debt stock must be rolled over frequently. This requires a large portion of domestic debt to be repriced at higher costs or repaid, increasing refinancing risk. **Objective:** To compare countries' refinancing risks, facilitating peer learning and strategy development including diversifying funding instruments and extending the yield curve. **Format:** Presentation on limiting refinancing risk by Jim Matsemela (Director: Market Risk, Asset & Liability Management, National Treasury of South Africa) *(15 minutes)* Participants will discuss the maturity of their portfolios and possible rollover risks. Peers will provide feedback *(75 minutes)*
11:15– 11:45	Tea and coffee
Session 5 11:45 – 13:00	**Risk management component #3: limiting escalations in borrowing costs** Local-currency interest rates are high throughout Africa and the investor base is limited. This discourages governments from borrowing in local currency and therefore the local-debt capital markets remain underdeveloped. Borrowing in hard currency at cheaper rates seems an attractive option, but exposure to currency risks will not necessary lead to lower borrowing cost. To reduce the costs of borrowing over the medium to long term, development of local-currency debt capital markets should be a priority. As debt offices improve their capabilities and credibility, the investor base will widen as institutional investors recognise investment opportunities. **Objective**: For countries to learn about their own and their peers' approaches to reducing borrowing costs and strategies to develop local-currency debt markets and diversify the investor base and instruments. **Format**: Presentation on reducing borrowing costs by strengthening capabilities, developing local-currency debt markets, and implementing stable macroeconomic policies by Mustapha Ait Lhaimair (Head of Middle Office, Ministry of Economy and Finance, Morocco) *(15 minutes)* Participants will discuss the causes of high borrowing costs in their respective countries and possible ways to reduce these costs. Peers to provide recommendations based on their experiences *(60 minutes)*

13:00 – 14:00	Lunch
Session 6 14:00 – 16:00	**Reflecting on risk in the debt portfolio** Dialogue between peers should have provided participants with increased understanding of the risks in their debt portfolios. This session will ask participants to review their written inputs incorporating what they have learnt from experts and each other. **Objective:** To increase awareness of where the risks are in the debt portfolio; to consider what next steps can be taken to address these risks; and to consider how this new insight can be presented to authorities to increase their buy in for more proactive risk management strategies. **Format:** Participants to review earlier inputs, highlighting three areas of risk they have identified and intend to focus on over the next six months *(60 minutes)* Facilitated discussion on newly discovered sources of risk; strategies delegates will put in place to address these; and how they will present their findings to their authorities *(60 minutes)*
16:00 – 16:15	Closing remarks
18:00 –	Excursion

CABRI thanks GIZ's Programme for Good Financial Governance and the Swiss State Secretariat for Economic Affairs for supporting its work.

Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Embassy of Switzerland
Swiss Cooperation Office in South Africa

german cooperation
DEUTSCHE ZUSAMMENARBEIT

Implemented by:
giz Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH