

IMPROVING TRANSPARENCY OF SOVEREIGN DEBT

Session 2

*WANGA CIBI: ACTING CHIEF DIRECTOR LIABILITY
MANAGEMENT
CABRI Policy Dialogue on Negotiating Fair and
Balanced Contracts - 05 October 2021*



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA

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DEBT TRANSPARENCY: BUDGET PROCESS

Budget transparency refers to the full disclosure of all relevant fiscal information in a timely and systematic manner. It is a multi-dimensional concept addressing the clarity, comprehensiveness, reliability, timeliness, accessibility and usability of public reporting on public finances, as well as citizen engagement in the budget process.

In February of every year, the South African government through the Minister of Finance tables the budget speech and in October tables the Medium term budget speech.

In South Africa, despite path-breaking strides since the new state was established in 1994, the consolidation of democracy is an on-going challenge. Budget transparency and participation are critically important to the development of democracy. The current budget process, in particular, allows for little input by the legislatures and the public, and in certain respects remains opaque.

The following developments were essential to this dramatic transformation in the budget process:

- The new Constitution, enacted in 1996, calls for specific measures to translate transparency and participation principles into practice.
- In 1997, the executive embarked on a drive to reform budget management in the public sector to improve service delivery. The reforms are based on a world-wide trend towards more performance-oriented management, including the devolution of power with increased accountability and transparency.
- The introduction of a Medium Term Expenditure Framework (MTEF) for the 1998/99 fiscal year brought forward projection of macro-economic assumptions, revenue and expenditure over two years beyond the fiscal year, illustrating how revenue and spending will develop over the medium term.

DEBT TRANSPARENCY: PRE-BUDGET CONSULTATION

- South Africa is one of the five pilot countries that participate in the Fiscal Openness Accelerator (FOA) project that was launched in 2019 by the International Budget Partnership (IBP) and the Global Initiative for Fiscal Transparency (GIFT). The project's overall objective is to build the technical capacity of selected governments, enhance fiscal transparency and to support the implementation of a public participation pilot in the national budget cycle.
 - To enrich the national budget process and/or policy/ies with inputs from nongovernment stakeholders, and other relevant sectors towards better alignment of national government fiscal policies with citizens' needs and concerns
 - To improve government practice and policy/ies on public participation and closing the feedback loop on the budget process (i.e. ensure documentation of inputs from citizens and government response for stronger accountability), increased government responsiveness and public accountability

South Africa solicits public's views on South Africa's Fiscal Policy specifically:

- What improvements can be made to the Budget to deal with the challenge of long-term fiscal sustainability
- In light of limited resources, how should South Africa finance key priorities.

Process:

- National Treasury accepts written submissions on the topics and hosts a one-day virtual public consultation meeting to discuss the ideas put forward. The online format for making submissions may be found on the following Link on the National Treasury website. Written submissions of not more than three pages may only be made online
- Following National Treasury's review of submissions, selected stakeholders may be invited to present their views on a panel of speakers for the virtual public meeting.

DEBT TRANSPARENCY: CHAPTER 7 OF THE BUDGET REVIEW

| Action | Detail |
|--|---|
| Financing of national government gross borrowing requirement | <ul style="list-style-type: none"> - Chapter 7 of the budget review details governments gross borrowing requirement: <ul style="list-style-type: none"> • Report on borrowing performance and projections. • How the borrowing requirement will be funded, which instruments will be utilised and split between the various instruments and between domestic and foreign borrowing. |
| Strategic portfolio risk benchmarks | <ul style="list-style-type: none"> - Government’s strategic portfolio risk benchmarks help to ensure that the debt structure is configured to minimise risk. - Report on the performance against the risk benchmarks per funding instruments - Report on the risks to the financing strategy. |
| Government debt and debt service costs | <ul style="list-style-type: none"> -Report on the distribution and stock of national government debt <ul style="list-style-type: none"> • Total national government debt (as a percentage of GDP etc.) • Analysis of annual increase in gross loan debt • National government debt service costs (split between short term and long term debt and the medium term estimates) |

DEBT TRANSPARENCY: AUCTION CALENDARS

- Publication of the auction calendar which specifies the following:
 - Announcement, auction and settlement dates

REPUBLIC OF SOUTH AFRICA

Fixed Rate Bond Auction Calendar - 2014/2015

| April 2014 | | | | | | | May 2014 | | | | | | | June 2014 | | | | | | | July 2014 | | | | | | |
|------------|----|----|----|----|----|----|----------|----|----|----|----|----|----|-----------|----|----|----|----|----|----|-----------|----|----|----|----|----|----|
| S | M | T | W | T | F | S | S | M | T | W | T | F | S | S | M | T | W | T | F | S | S | M | T | W | T | F | S |
| | | 1 | 2 | 3 | 4 | 5 | | | | | 1 | 2 | 3 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | | | 1 | 2 | 3 | 4 | 5 |
| 6 | 7 | 8 | 9 | 10 | 11 | 12 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 6 | 7 | 8 | 9 | 10 | 11 | 12 |
| 13 | 14 | 15 | 16 | 17 | 18 | 19 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 13 | 14 | 15 | 16 | 17 | 18 | 19 |
| 20 | 21 | 22 | 23 | 24 | 25 | 26 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 20 | 21 | 22 | 23 | 24 | 25 | 26 |
| 27 | 28 | 29 | 30 | | | | 25 | 26 | 27 | 28 | 29 | 30 | 31 | 29 | 30 | | | | | | 27 | 28 | 29 | 30 | 31 | | |

| August 2014 | | | | | | | September 2014 | | | | | | | October 2014 | | | | | | | November 2014 | | | | | | |
|-------------|----|----|----|----|----|----|----------------|----|----|----|----|----|----|--------------|----|----|----|----|----|----|---------------|----|----|----|----|----|----|
| S | M | T | W | T | F | S | S | M | T | W | T | F | S | S | M | T | W | T | F | S | S | M | T | W | T | F | S |
| | | | | | 1 | 2 | | 1 | 2 | 3 | 4 | 5 | 6 | | | | 1 | 2 | 3 | 4 | | | | | | | 1 |
| 3 | 4 | 5 | 6 | 7 | 8 | 9 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 2 | 3 | 4 | 5 | 6 | 7 | 8 |
| 10 | 11 | 12 | 13 | 14 | 15 | 16 | 14 | 15 | 16 | 17 | 18 | 19 | 20 | 12 | 13 | 14 | 15 | 16 | 17 | 18 | 9 | 10 | 11 | 12 | 13 | 14 | 15 |
| 17 | 18 | 19 | 20 | 21 | 22 | 23 | 21 | 22 | 23 | 24 | 25 | 26 | 27 | 19 | 20 | 21 | 22 | 23 | 24 | 25 | 16 | 17 | 18 | 19 | 20 | 21 | 22 |
| 24 | 25 | 26 | 27 | 28 | 29 | 30 | 28 | 29 | 30 | | | | | 26 | 27 | 28 | 29 | 30 | 31 | | 23 | 24 | 25 | 26 | 27 | 28 | 29 |
| 31 | | | | | | | | | | | | | | | | | | | | | 30 | | | | | | |

| December 2014 | | | | | | | January 2015 | | | | | | | February 2015 | | | | | | | March 2015 | | | | | | |
|---------------|----|----|----|----|----|----|--------------|----|----|----|----|----|----|---------------|----|----|----|----|----|----|------------|----|----|----|----|----|----|
| S | M | T | W | T | F | S | S | M | T | W | T | F | S | S | M | T | W | T | F | S | S | M | T | W | T | F | S |
| | 1 | 2 | 3 | 4 | 5 | 6 | | | | | 1 | 2 | 3 | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 1 | 2 | 3 | 4 | 5 | 6 | 7 |
| 7 | 8 | 9 | 10 | 11 | 12 | 13 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 8 | 9 | 10 | 11 | 12 | 13 | 14 |
| 14 | 15 | 16 | 17 | 18 | 19 | 20 | 11 | 12 | 13 | 14 | 15 | 16 | 17 | 15 | 16 | 17 | 18 | 19 | 20 | 21 | 15 | 16 | 17 | 18 | 19 | 20 | 21 |
| 21 | 22 | 23 | 24 | 25 | 26 | 27 | 18 | 19 | 20 | 21 | 22 | 23 | 24 | 22 | 23 | 24 | 25 | 26 | 27 | 28 | 22 | 23 | 24 | 25 | 26 | 27 | 28 |
| 28 | 29 | 30 | 31 | | | | 25 | 26 | 27 | 28 | 29 | 30 | 31 | | | | | | | | 29 | 30 | 31 | | | | |

Auction
Announcement
Settlement
Auction plus settlement

Actual bonds and amounts to be auctioned will be published on announcement dates.

Issued by National Treasury

DEBT TRANSPARENCY: REPORTING OF DEBT

| Action | Enabler |
|----------------------------|---|
| Investor relations Website | <ul style="list-style-type: none"> - The investor relations website was introduced in June 2011 to provide institutional investors with relevant information on but not limited to the following: - Bond auction calendar, policy documents, market data, bond holdings and bond schedules - Outstanding government debt, schedules of domestic debt - Reports published by rating agencies and historical and current ratings - National government debt service cost projections |
| Debt Management Report | <ul style="list-style-type: none"> - National Treasury published an annual report on South Africa's public debt management as part of its commitment to transparency - The government holds South Africa's largest debt portfolio, the debt report details how the portfolio is managed to ensure the acceptable level of rate of growth in public debt is sustainable. - It also provides an overview of the South African market and state owned agencies. |
| National Treasury Website | <ul style="list-style-type: none"> -The National Treasury website has information on National, provincial and municipal budgets and other policy documents relating to the fiscus. |

DEBT TRANSPARENCY: LOAN NEGOTIATIONS

As per section 71 the Public Finance Management act (PFMA) for which Minister may borrow money.—The Minister may borrow for the following purposes only:

- (a) To finance national budget deficits;
- (b) to refinance maturing debt or a loan paid before the redemption date;
- (c) to obtain foreign currency;
- (d) to maintain credit balances on a bank account of the National Revenue Fund;
- (e) to regulate internal monetary conditions should the necessity arise; or
- (f) any other purpose approved by the National Assembly by special resolution.

- The National Treasury with the approval by Minister of Finance negotiates all loans on behalf of the sovereign.
- Included in the negotiations is the terms of the loans, amount, interest rate, grace period etc.
- Once the loan is concluded a media statement is issued with all the terms of the loan. This information can also be found on the budget and Mtbps document.
- All loan agreements, together with the project document and the are required to be perused and approved by Legal prior to Minister approval.

DEBT TRANSPARENCY: LOAN NEGOTIATIONS

National Treasury loans are classified into marketable and non marketable loans.

- Marketable loans are tradeable in the primary and secondary market such raising debt in the domestic and foreign capital markets.
- Non marketable loans are non tradeable or transferable loans such as funding received from multi developmental banks, International financing institutions in the case of South Africa.
- Non marketable loans can either be program based or policy based loans, such as the NDB Covid 19 loan and Sanral SDL loan in the case of South Africa.
- The loans are recorded on an integrated debt recording and servicing system that manages client information, financial instruments, products and rules, general ledger, reconciliation, reports and correspondence, payments, and transactions.
- The negotiation process should not be seen as a once off investor specific event but rather a continuous year long process of providing accurate information in a fair and accessible manner.

DEBT TRANSPARENCY: MONITORING AND REVIEWING OF TERMS OF LOAN

- It should be noted that a detailed assessment was performed on the general conditions (GCs) of various multilateral finance institutions. The assessment which captures concerns regarding the GCs applicable to loan agreements are highlighted.
- The predominant concern with the GCs is that the GCs are often unfavourable and/or onerous to the borrowing SOE. Furthermore, the GCs tend to impose unfavourable conditions on the Government (whether the Government is a Guarantor), which have the effect of usurping Government's processes, which are subject to law and legislation.
- The applicability of the GCs is reviewed on an adhoc basis, this is done to assess the risks of loan/funding terms related to the sovereign.
- International Financing Institutions funding often comes with an option for a fixed or variable interest rate. It is thus important that variable rates although may seem cheaper for the sovereign as they maximise the minimum payoff need to be reviewed on an annual basis so as to consider changing market conditions.

DEBT TRANSPARENCY: INVESTOR RELATIONS

- The National Treasury (NT) has a well-established strategy of engaging with domestic and international investors. The aim of the roadshows is to strengthen relationships with investors and keep them informed of economic, fiscal, political and social developments in the country.
- It is vital that there is regular communication with investors. During a crisis, Investor Relations need to try to calm fears. Investors want reassurance that markets will continue to function and that the government will implement coherent and sensible policies. It is also necessary to articulate the processes and policies that government might be changing or implementing in response to the crisis.
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- During a crisis, there is always a lot of uncertainty. Whilst developments might not be optimal, updates need to be communicated when information becomes available. A positive reputation of the issuer can be built during a crisis. The value of investors' trust should never be underestimated

DEBT TRANSPARENCY: OTHER INITIATIVES

| Action | Enabler |
|---|--|
| Group/bilateral meetings with investors | <ul style="list-style-type: none">- Domestic and international banks organise various investor engagements |
| Credit rating agencies | <ul style="list-style-type: none">- South Africa solicits sovereign credit rating services from Moody's, S&P and Fitch for the purposes of raising relatively cheaper financing in the international capital markets. These agencies are responsible for monitoring, analysing and commenting on the macro economic performance and policies of government, in addition, identifying downside risks that the sovereign should consider.- Sovereign credit ratings play an important role in a country's ability to access global capital markets as they influence investor perceptions regarding the quality of the country's debt- Credit rating agencies perform annual reviews on South Africa's credit worthiness- South Africa continues to solicit rating from Moody's, S & P and Fitch ratings. |

END



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