

Sovereign Asset and Liability Division

Monetary and Capital Markets Department



Investing in New Markets in
Sub-Saharan Africa:
*Some Policy and Operational
Considerations*

Udaibir S. Das

Division Chief
International Monetary Fund
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Key Messages

● **New developments**

- ◆ Raising new debt-related demands
- ◆ Non-traditional sources of financing
- ◆ Growing investor interest

● **A welcome trend, but risks remain**

- ◆ Preconditions in place?
- ◆ Investors' incentives? differentiation between new markets?
- ◆ Sustainable and cost-efficient borrowing policies?
- ◆ Debt and risk management systems?

● **Several benefits for all, but a better understanding, prudence, and partnership needed**



Several drivers....

- Sounder macroeconomic conditions
- Low inflation
 - ◆ recent pressure from oil and food prices
- Improved growth prospects
- “Borrowing space” with debt relief
- Transparency, institutional and capital market reform



Opportunities growing....

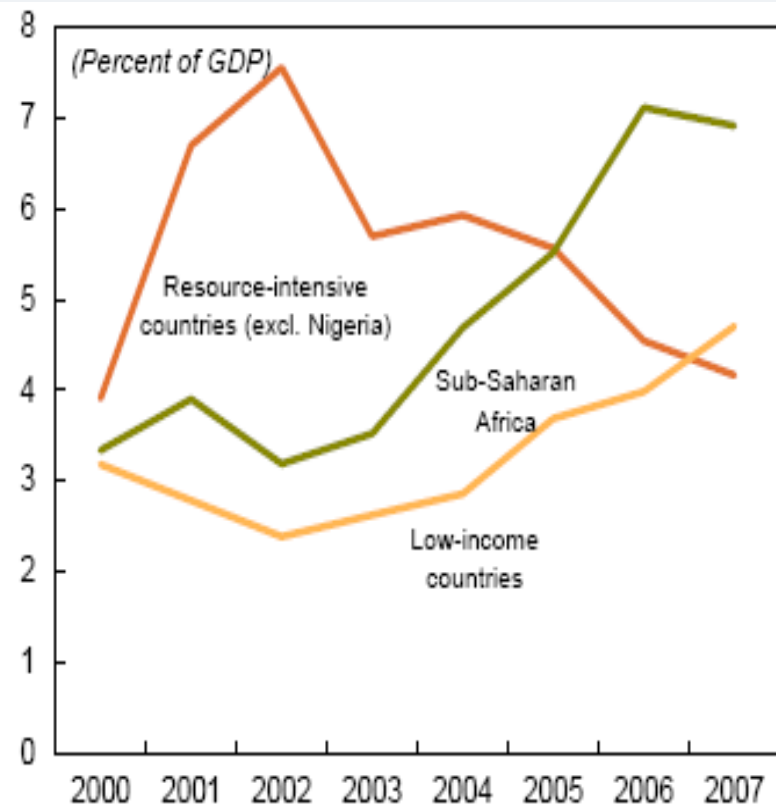
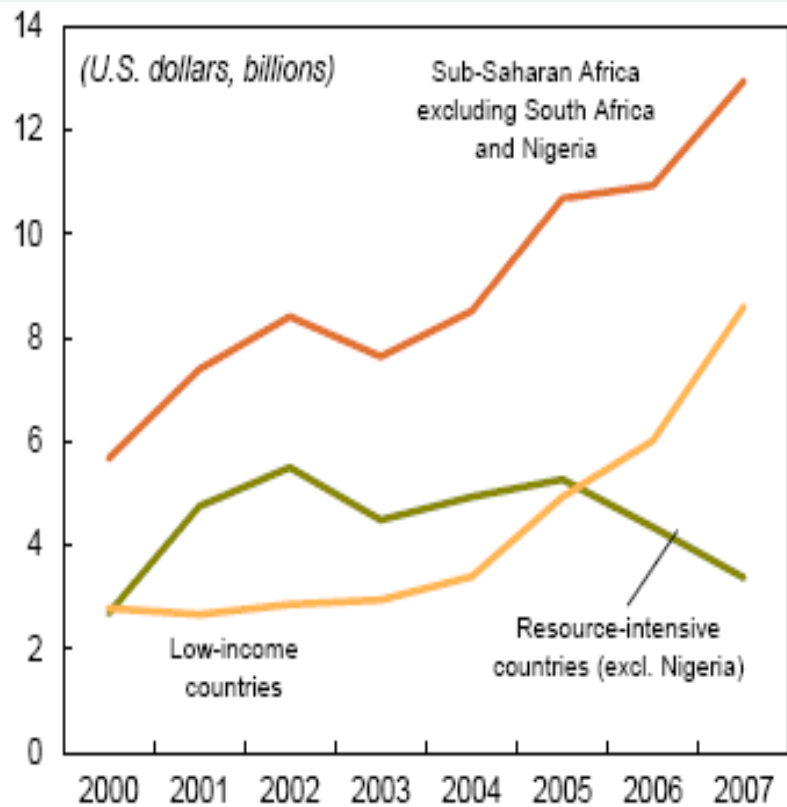
- Higher investor interest
 - ◆ A larger universe of private and official creditors
 - ◆ Rising commodity prices
 - ◆ Appreciating currencies

- Global liquidity
 - ◆ Search for yield and diversification

- Prompting sovereign interest
 - ◆ Improved market access: opening to foreign investors
 - ◆ International issuance
 - ◆ Broad range of financing instruments (local markets)



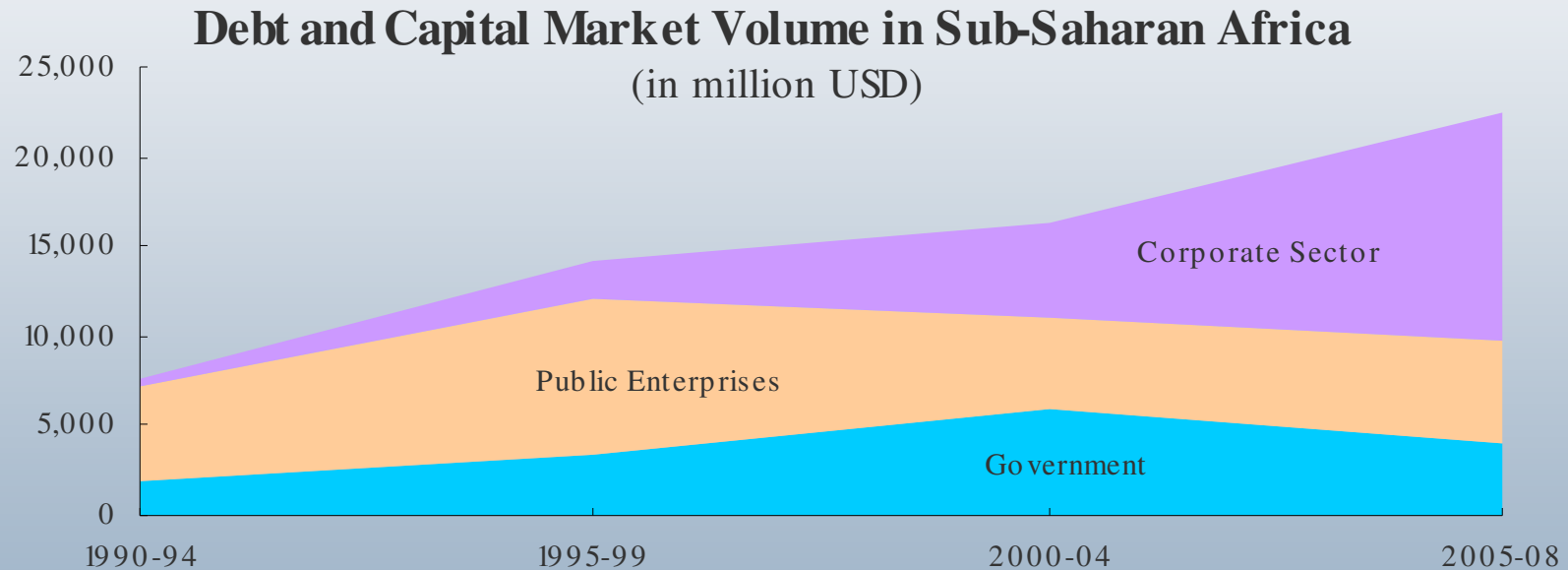
Flows to non-resource-intensive low income countries are increasing...



Source: IMF, African Department database.



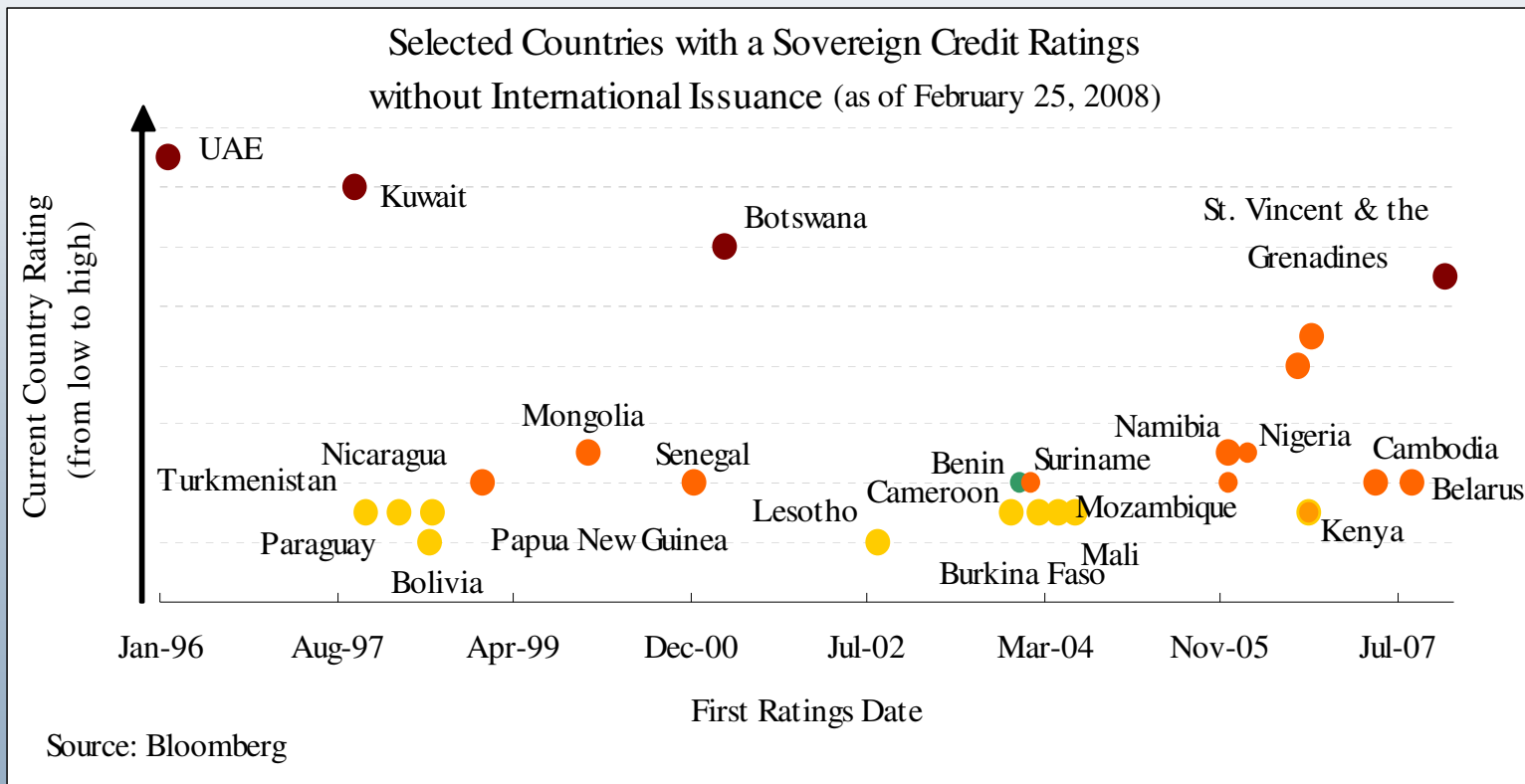
Overall volume of debt issuance has been increasing in Sub-Saharan Africa



Source: Dealogic Database



Interest reflected in new dedicated investment funds, ratings and access to international capital markets...





However, new policy issues arising....

- Sustainable debt and avoiding the build-up of balance sheet vulnerabilities
- Potential macro volatility
- Use of inflows and proceeds of bond issues
- Dutch disease-related effects
- Risks of flow reversal
- State of domestic capital markets and institutions
- Capital account framework



Prospects and risks....

- **As macro financial conditions improve, more are likely consider a shift to market financing**
 - ◆ Transition needs to be gradual
 - ◆ Many vulnerabilities and limited capacities

- **Risk of too much commercial financing flowing to LICs at the same time**
 - ◆ Creditors need to exercise prudence
 - ◆ Preservation of debt sustainability a shared responsibility



Strategic access of international capital....

- As a supplement to domestic savings
- Way to diversify external financing
- Longer terms
- Pricing benchmark for others
- Closer international market monitoring



Cognizant of risks encountered by international issuers....

- Exchange rate exposure and debt servicing costs
- Refinancing risk
- Over-borrowing
- Swings in terms of trade



Partnership with the creditors and the private sector

- Not a one-way street. An alliance
- Greater role for markets; right of sovereign choice
- Closer dialogue and partnership with the IMF, and other IFIs on
 - ◆ Prudent and responsible lending (OECD Principles)
 - ◆ Medium-term debt strategy (MTDS) framework
 - ◆ Creative design of infrastructure financing products
 - ◆ Risk-management and market development



Partnership with the creditors/private sector

- Provision of feedback by the private sector to countries on their policies
- Enhanced coordination
 - ◆ Active dissemination of background documentation and training material
 - ◆ Facilitate information sharing, identify operational problems and possible solutions
 - ◆ Development of good practices in liability management practices and training



Partnership with the creditors/private sector

- Awareness of creditors to debt sustainability challenges
 - ◆ Coordination between creditors and debtors, and among creditors
 - ◆ Fill information gap on lending and borrowing transactions
 - ◆ Aware of DSA methodologies and liability management constraints

- A few specific areas
 - ◆ Portfolio risk assessment; debt exchanges and restructurings
 - ◆ Infrastructure for domestic and regional debt markets
 - ◆ Stronger emphasis on debt strategies, statistics and data reporting



IMF view: Four Key Success Factors

- Plan the use of proceeds carefully
- Targeted use of proceeds key
- Link size and structure to use of proceeds – best practice
- Lay the ground-work early to develop a stable investor base



IMF's role

● Debt sustainability

- ◆ Hands-on training on the preparation of debt sustainability analyses (DSAs)
- ◆ “Training the trainers”

● MTDS implementation

- ◆ Improve linkages between debt management and monetary, fiscal and cash management
- ◆ Mitigate risks associated with the structure and composition of the debt portfolio
- ◆ Explore options for prudent access to international markets



IMF's role

- Mitigate risk factors
 - ◆ Policy advice and help improve debt management capacity
 - ◆ Facilitate information sharing through the DSAs and other outreach activities
 - ◆ Engage in a continuous dialogue with the private sector
 - ◆ Monitoring and surveillance of debt markets



Acknowledgements and sources

- African Regional Economic Outlook: Sub-Saharan Africa, April 2008
- World Economic Outlook, April 2008
- IMF Data Mapper ®
- “*Strategic Considerations for First Time Sovereign Bond Issuers*” (IMF WP (forthcoming) by Das, Papaioannou, and Polan)
- “*New Investors in Frontier Markets*” (Comments by Sy at the III and E&E Roundtable)
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- “*Sovereign Issuers: Entering International Markets. A Cross Country Study*” (by Blitzler)
- EMTA Africa Workshop Report, 2007