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

Udaibir S. Das
Division Chief
International Monetary Fund
June 11, 2008
**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...
Overall volume of debt issuance has been increasing in Sub-Saharan Africa

Debt and Capital Market Volume in Sub-Saharan Africa

(in million USD)

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)
- “Sovereign Watch”, new MCM publication
- “Sovereign Issuers: Entering International Markets. A Cross Country Study” (by Blitzer)
- EMTA Africa Workshop Report, 2007