OVERVIEW OF PROGRAMMATIC APPROACH FOR DEBT MANAGEMENT IN LICs: The Case of Nigeria

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Overview of DMO Nigeria

• Established Administratively in the year 2000 as a separate Debt Management entity
• Backed by DMO Establishment Act, (2003)
• Had various TA Missions and Programmes from the World Bank, The IMF, DFID and The US Treasury in the last ten years
• Had DeMPA assessment mission in September 2008
• Had MTDS Mission in February 2010
• Yet to have a formal DeMPA Reform Plan Mission
Prior to DeMPA Mission

• DeMPA generally provided useful guide on the standardization of debt management practice in DMO Nigeria

• Prior to DeMPA there was:
  - Appropriate legal and governance framework
  - Proper structural configuration of Front, Middle, and Back operations.
  - National Debt Policy and Strategy Document
  - Annual Debt Sustainability Analysis Reports
  - Coordination between fiscal and monetary policy
  - Appropriate policies and procedures for domestic and external debts.
Major Highlights of DeMPA

• Nigeria meets the minimum requirements for effective debt management under the DeMPA tool on the following aspects:
  – Legal framework
  – Evaluation of debt operations
  – On-lending
  – Operational Risk

Areas identified as requiring further strengthening are:
- Quality of Debt Strategy
- Cash management and cash flow forecasting
- Reporting on total non-financial public sector debt
Implementing DeMPA

• Departments and units whose functions needed strengthening from DeMPA assessment were identified and time lines were set for implementing necessary reforms.

• A separate Unit- Monitoring & Compliance (M&C) uses a tracking grid for unit by unit monitoring and enforcement of DeMPA and other TA recommendations.

• Quarterly reports on implementation levels are rendered by units and departments to the M&C unit. This forms a basis for a consolidated report to management by the M&C Unit.
Benefits of Implementing DeMPA

• Implementing DeMPA in the last two years has significantly improved debt management performance in the DMO. The following areas have been further strengthened post-DeMPA

  – Legal framework
  – Debt Administration and data security
  – Reviewing of debt strategy: MTDS
  – Evaluation of DeM operations: Inclusion of a debt strategy evaluation in Annual Report of the DMO
  – Developing of appropriate framework for assessing credit risk of Guarantees and on-lending transactions (on-going)
Benefits of Implementing DeMPA

• Debt management performance would be significantly improved in DMO Nigeria by the time the following major areas identified by DeMPA are fully addressed:

  – **Cash Mgt and Cash flow Forecasting**: Would improve efficiency in managing Government’s idle cash balances and affect debt issuance volumes within the short and medium term.

  – **Non Financial Public Sector Debt**: Reliable data and good monitoring framework for contingent liabilities would mitigate default and counter-party risk.

  – **Debt/Risk Mgt Strategy**: Full implementation of the MTDS model would significantly assist in improving the quality of Medium Term Debt Strategy of the DMO based on Cost-Risk trade-off, going forward.
Major Constraints

– Lack of appropriate framework for assessing, recording and tracking of non-financial public sector debt (contingent liabilities).

– Paucity of reliable data on contingent liabilities, especially from sub-national entities.

– Lack of proper coordination between the Federal and State governments in the management of contingent liabilities
Major Constraints (Ctn’d)

- Cash management function is yet to be ceded to the DMO by the Office of the Accountant General of the Federation (OAGF) due to inadequate capacity and lack of operational framework in the DMO to effectively execute that function.

- The Treasury Single Account (TSA) Initiative is yet to fully take off in Nigeria

- DMO’s cash flow function is only limited to commitments on its bond portfolio as there is no integrated cash management with the OAGF for now
Reform Plan

• Nigeria is yet to have a formal DeMPA Reform Plan mission

• However the M&C unit of the DMO has been performing a reform plan role on an on-going basis based on the DeMPA tool kit

• A detailed report on DeMPA indicator tracking grid with timelines for 2009-2010 is available on request.

• Areas highlighted for improvement in the 2008 DeMPA report have been slated for necessary action in the M&U reform plan document.
Recent Developments

• The following initiatives are currently on-going to improve observed areas under:

- Government Integrated Financial Management Information system (GIFMIS) under the FASTA programme, for cash flow forecasting and TSA.

- WB programme for managing contingent liabilities and fiscal commitments under PPP (Peter Moseley)

- Proposed TA for Sovereign Risk Management Unit in the Ministry of Finance to improve sovereign risk management strategy (Lars Jessen)
Medium Term Debt Strategy (MTDS)

• Nigeria had first MTDS Mission in February 2010.
• Visit was a fallout of identified inadequate debt management strategy by an earlier DeMPA mission.
• Prior to MTDS Cost-at-Risk (CaR) model for risk management was being used.
• MTDS introduced cost-risk trade-off as against cost focus of CaR
• The Sovereign portfolio for the first time was analysed along indices like:
  – Average Term to Maturity (ATM)
  – Average Term to Refixing (ATR)
  – Government’s desired debt composition consistent with its preferences with for cost-risk tradeoff within 3-5 yrs horizon
  – Need to adopt new borrowing strategy as concessional funding dries up with time
Benefits of MTDS

• The MTDS tool facilitated the analysis of the DMO portfolio along interest rate and refinancing risks using:
  
  – **Average Time to Refixing (ATR)** and
  
  – **Average Time to Maturity (ATM)**

These concepts would significantly guide market risk analysis in the **Middle Office**, securities structuring in the **Front Office** and fiscal policy management in the **Ministry** within the context of cost-risk trade-off.
Constraints in Implementing MTDS

- MTDS is yet to be fully implemented in debt strategy due to the following reasons:
  - Lack of full coordination between risk management functions and Front Office operations
  - Inadequate time spent on actual hands-on training on the template during MTDS mission
  - Model quite complex and less user-friendly
  - Integrating results of model into issuance strategies and debt policy formulation
  - No proper provision for constant user support and feedback, leading to sub-optimal use of the tool
Conclusion and Recommendations

• Programmatic approach to Technical Assistance in Debt management remains the best method of capacity building in LICs as it is structured, cost-effective and time-bound.

• The following are observations and recommendations for improvement:
  – **Time Constraint:** There is always a rush against time to complete mission assignments within stipulated time. This does not allow for optimal effect on trainees. More time should be allocated to major assignments like DeMPA and MTDS to allow for effective delivery.

  – **Residency of TA providers:** At least one TA provider should be resident with recipient country for a maximum period of one month after regular mission, to see to full implementation of major programmes.
Conclusion & Recommendation Ctn’d

- **User Support and Feedback:** There is need for constant user support and feedback on tool kits and templates. A dedicated offsite desk in the form of a web portal could be put up to attend to constant queries on such programmes from users on a regular and timely basis.

- **DeMPA Missions:** After the first DeMPA mission there is need for making subsequent DeMPA assessment a continuous web-based template-driven scoring exercise by interested countries. This would make for effective and continuous reform exercise by countries without necessarily hosting a mission team.
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