AIST Thematic Seminar

11 -13 July 2016

Port-au-Prince/ Haiti

The role of Treasury Services in the management of public debt

I. Context

Budgetary difficulties, resulting from the decline in public income due to falling raw material prices (mining, hydrocarbons…), low growth, and the significant cost of public policies lead States to resort to public debt to finance their operations.

II. Key issues

Public debt generally covers the State's debt as well as that of local authorities, public institutions and welfare programs. This seminar will essentially focus on the State, an actor common to every country as well as the most active. Local authorities do not often intervene on markets. However, the rules for a proper budgetary and cash management apply to them as well.

Total debt are made up of a non-negotiable share (loans granted by international funders who may be bilateral or multilateral, Treasury bonds, non-dematerialized loans, loans granted by the Central Bank or direct loans granted by banking institutions) and a negotiable share of securities, issued and negotiable on a mature active market with several actors. The share of non-negotiable and negotiable debt varies according to countries. Historically, opening debt markets has reduced the share of non-negotiable debt in favor of negotiable debt.

Debt management is part of a more general policy of public financial management. It includes, on the the one hand, the strict management of budgets to generate revenues to cover planned spending and reduce financing needs; on the other hand, it involves active cash management by focusing on a single treasury account, and the use of funders and markets to cover its needs.

Public debt securities may be issued in various ways of which the most common are public subscription, syndication (a bank syndicate of financial institutions who purchase and park government securities), and invitation to tender.

To develop a debt market, it is necessary to make changes within the legal organization of debt operators through the following measures: institutional changes, tax incentives to encourage saving, developing banking facilities and specialized operators to buy standard government securities trusted by investors. Non-negotiable debt management mobilizes Treasury services as well. It is important to know the amount of this debt and its main funders. These loans are meant for investments: therefore, the State must ensure that it turns to the most suited funder to carry out the project.

Some funders wish these funds to be managed by an independent authority (such as a debt redemption
fund) endowed with specific bank accounts.

Without an appropriate information system, this debt is not always accounted for in the State's accounts.

These provisions do not allow for an optimal management of the State Treasury since its liquid assets are not centralized in a single account. This non-negotiable debt is the object of debt relief programs (e.g. HIPC) with implications on the management of public expenditure, accounting, and cash flows.

Investment must remain high in developing countries. Simultaneously, the capacity to intervene on the markets remains limited and public funders maintain specific and constraining conditions before granting loans. Other means of funding complement these conventional means. For example, Islamic finance allows countries to raise funds and expand their range of investors. States use Public-Private Partnerships (PPP) as well, but despite their benefits, these operations can be more expensive than conventional financing.

III. Expected results

The seminar will allow us to share best debt practices and to understand the current issues of cash and debt management. Recommendations may be made regarding:

A. Relevant and clear guidelines for debt and cash management
B. Best debt practices.