

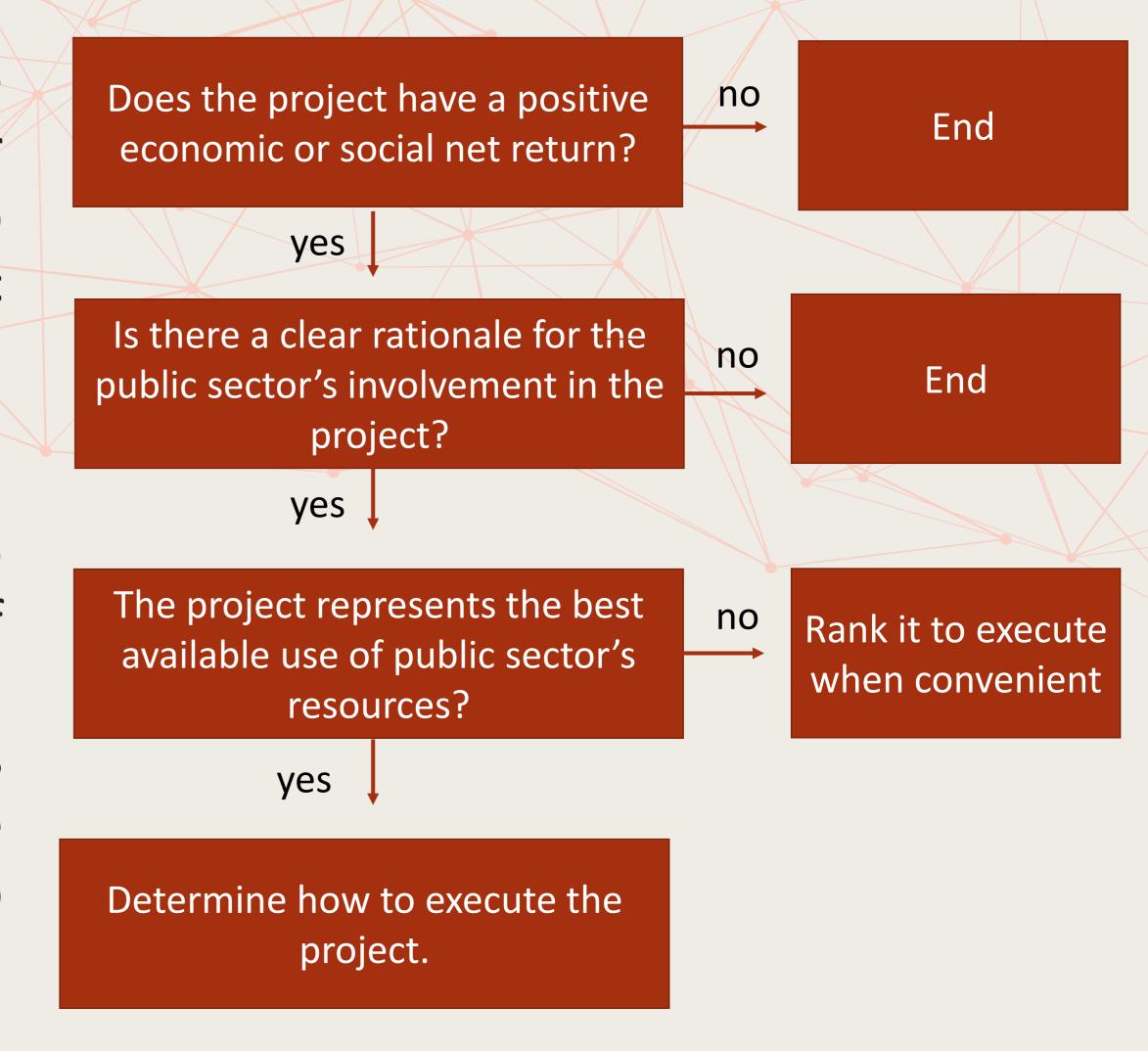
Determinants of the public's sector participation in an investment project and financing options

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Determinants of the public's sector participation in an investment project



At a project-level, the first determinant should be if the analyzed project has a positive economic or social net return. The second determinant is to evaluate if there is a clear rationale for the public sector's involvement in the project, either in support of the private sector or doing it by itself. The third determinant is to verify if, given preferences and resources constraints, the project represents the best available use of resources. In this sense, to determine which investments should be carried out first, it is important to prioritize projects based on the highest economic/social net return, relative to the size of the required investment.



Financing options



- Determine if the selected investment should be financed with the public sector's own resources or if it needs to borrow to cover the unmet requirements.
- Need to consider the opportunity cost of using the resources, which is part of the cost-benefit analysis of the project selection process.
- If borrowing is needed, evaluate the available options to select the most convenient one.
- The debt management strategy requires covering the funding needs at the minimum borrowing costs with an acceptable level of risk.
- This requires selecting a debt portfolio according to preferences considering the cost-risk trade-off.

Outside financing options:

Characteristics	Option 1	Option 2
Instrument type	Loans	Bonds
Supply of funds	Domestic	International
Conditions	Concessionary	Market
Use of funds	Restricted	Unrestricted

- Fiven the 4 characteristics and 2 options per characteristic, there are 16 (= 2⁴) combinations, for example unrestricted concessionary loan obtained in international markets or restricted market-based bonds issued in domestic markets.
- Analyze if borrowing is in line with the Debt Management Strategy and if it complies with Debt Sustainability.
- ➤ Borrowing could have different characteristics regarding market, restrictions, tenor, currency, etc.

Financial preparatory work for issuing sovereign bonds in international markets



Mauro Mecagni, Jorge Ivan Canales Kriljenko, Cheikh Anta Gueye, Yibin Mu, Masafumi Yabara, and Sebastian Weber (2014). Issuing International Sovereign Bonds: Opportunities and Challenges for Sub-Saharan Africa. IMF African Department Working Paper 14/02. Udaibir S. Das, Michael G. Papaioannou, and Magdalena Polan (2008). Strategic Considerations for First-Time Sovereign Bond Issuers. IMF Working Paper 08/261.

S. Ali Abbas, Alex Pienkowski and Kenneth Rogoff, editors, (2020). Sovereign Debt: A Guide for Economists and Practitioners, Oxford University Press.

Analyse incorporating sovereign bonds within the multi-year debt management strategy, considering the benefits and costs in terms of effects on debt cost, risk, structure, management, and sustainability. Consider macroeconomic, structural, and debt management aspects.

Develop institutional capacity by assigning personnel within the Debt Management Office for the front-middle-back-office activities of sovereign bonds.

Develop the necessary legal framework.

Request the necessary approvals for the issuance.

Appoint legal and financial advisers and lead managers.

Carefully select timing of debut issuances in international markets. It is advised to seek favourable external conditions with a combination of low interest rates, ample liquidity, and strong risk appetite that led investors to search for higher yields and weak competition of alternatives. A positive global growth outlook with moderate inflation also represents favourable external conditions for debut issuance.

Conduct road shows in advance of the planned issuance that could contribute to build a network of potential investors

Based on market sounding and consultation with financial advisers, determine the bonds' characteristics and issuance plan

Acquire ratings by several rating agencies. Domestic preconditions that contribute to positive credit ratings include: i) a record of good economic performance over the preceding years, maintaining a positive medium-term outlook, and that debut issue is part of a debt management strategy in line with debt sustainability, ii) robust growth, low inflation, and sustainable current account deficits, iii) prudent fiscal stances, consistently servicing debt, and sustainable debt strategy, iv) progress in data dissemination, transparency in the conduct of macroeconomic policy, and v) political stability.

Development of the sovereign bond market

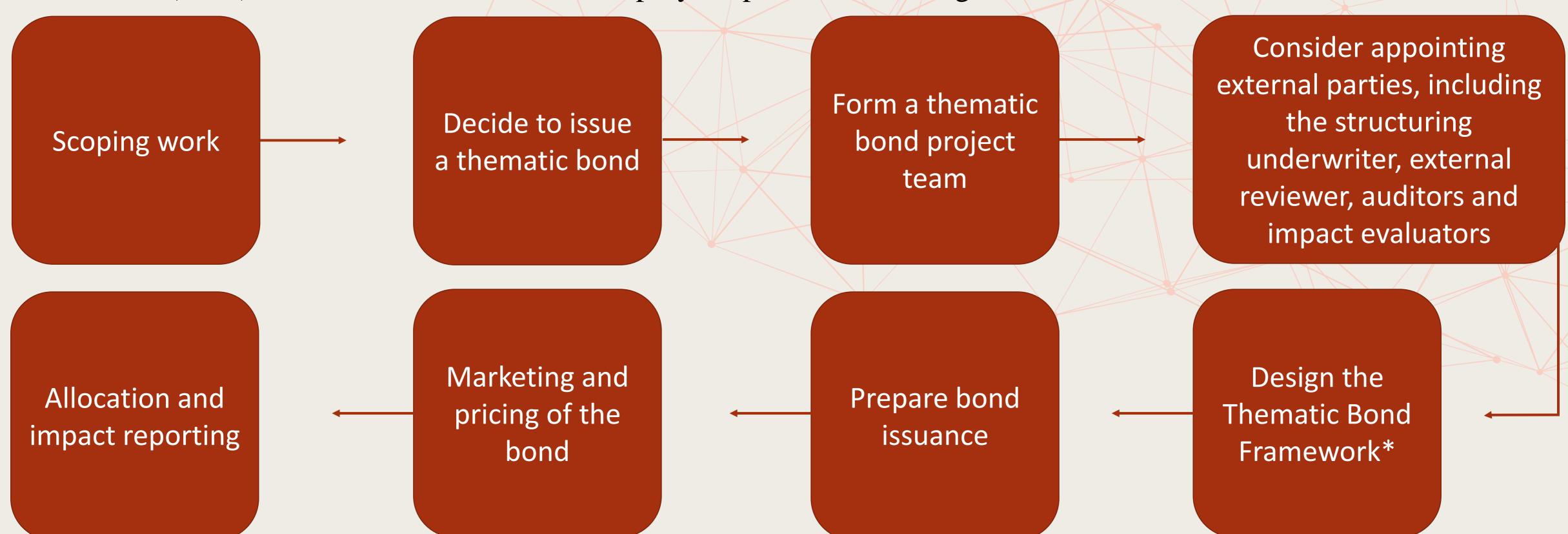


- 1. <u>Initial stage</u>: focused on establishing the primary market and creating the preconditions for secondary market development.
- 2. <u>Deepening stage</u>: the basic elements of the primary and secondary market are established and functioning, and focus should be on improving liquidity on the secondary market.
- 3. <u>Maturing stage</u>: with a well-functioning primary market and a liquid secondary market, focus should be on developing more sophisticated instruments and segments, such as derivatives, and making the bond instruments internationally competitive.

Preparatory steps to issue thematic bonds



From IFC (2022). Green Bond Handbook: A Step-by-Step Guide to Issuing a Green Bond.



^{*} The Thematic Bond Framework is a document that sets out the "green / sustainable development characteristics" of the bond to be issued, the process to be follow in the evaluation and selection of eligible projects, and the reporting commitments of the issuer towards investors. Structure this document around the following four pillars: 1) use of proceeds, 2) project evaluation and selection, 3) management of proceeds, and 4) reporting on allocation and impact.