



**Standing Committee
for Economic and Commercial Cooperation
of the Organization of Islamic Cooperation (COMCEC)**

Proceedings of the 8th Meeting of the COMCEC Financial Cooperation Working Group

“Improving Public Debt Management in the OIC Member Countries”



COMCEC COORDINATION OFFICE

May 2017



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**PROCEEDINGS OF THE 8TH MEETING OF THE
COMCEC FINANCIAL COOPERATION WORKING GROUP
ON**

**“IMPROVING PUBLIC DEBT MANAGEMENT
IN THE OIC MEMBER COUNTRIES”
(March 30th, 2017, Ankara, Turkey)**

**COMCEC COORDINATION OFFICE
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Introduction

The 8th Meeting of the COMCEC Financial Cooperation Working Group was held on March 30th, 2017 in Ankara, Turkey with the theme of "Improving Public Debt Management in the OIC Member Countries ". The Meeting was attended by the representatives of 19 Member States, which have notified their focal points for the Financial Cooperation Working Group. Representatives of COMCEC Coordination Office, IDB, SESRIC, World Bank, OECD, IIFM, Secretariat of OIC Member States' Stock Exchanges Forum and Secretariat of the COMCEC Capital Markets Regulators Forum have also attended the Meeting.¹

At the outset, the representative of the COMCEC Coordination Office informed the participants about the financial outlook of the OIC Member Countries. It was followed by the presentation made by representatives of ifo Institute on public debt management in the World with a special focus on the OIC Member Countries.

The participants considered public debt management through focusing on the research report titled "Improving Public Debt Management in the OIC Member Countries" commissioned by the COMCEC Coordination Office specifically for the Meeting.

The Representatives of the Member States shared their experiences, achievements, and challenges regarding public debt management in their respective countries. The participants had the chance to discuss the policy options for enhancing the cooperation in this important field in a moderation session. The Room Document based on the findings of the research report submitted to the Financial Cooperation Working Group Meeting and the answers of the Member Countries to the policy questions sent to the Member States by the COMCEC Coordination Office were the main inputs for the discussions during moderation session.

The efforts exerted by international institutions on public debt management were also reflected the discussions.

¹ The list of participants is attached as Annex 1.



1. Opening Session

In line with the tradition of the Organization of the Islamic Cooperation (OIC), the Meeting started with the recitation from the Holy Quran. At the outset, Mr. M. Metin EKER, Director General of the COMCEC Coordination Office introduced the COMCEC and the Programme of the meeting briefly.

Mr. HAYRETTİN DEMİRCAN, Deputy Undersecretary, Undersecretariat of Treasury of Turkey, as the Chairperson of the Meeting, introduced himself and thanked all the participants and made a short opening speech.

2. The Financial Outlook of the OIC Member Countries

Mr. Alper BAKDUR, Financial Sector Specialist at the COMCEC Coordination Office, presented the main findings of the Financial Outlook of the OIC Member Countries 2016. He emphasized that Financial Outlook is prepared to show the main picture of financial institutions and markets in the OIC Member Countries. Also, he mentioned that due to data limitations, the report does not cover all aspects of financial institutions and markets for the OIC Member Countries.

In the first part of the presentation, Mr. BAKDUR provided an evaluation of banking sector in the OIC member countries. In this context for six specializations of banks, Commercial Banks, Cooperative Banks, Investment Banks, Islamic Banks, Real Estate & Mortgage Banks, and Savings Banks, and for each member country, the data for selected indicators were collected for 968 banks in total. Mr. BAKDUR emphasized that banking data depends on the capacity of Bankscope database. Therefore he stated that they surveyed the focal points to see what extent Bankscope has representative data on the member countries. Two more responses, Malaysia and Nigeria, in total seven responses have been used to check the data coverage capacity of Bankscope. Mr. BAKDUR provides figures on total assets and the figures reveal that there is high concentration among countries and Turkey and Malaysia are leading countries.

Mr. BAKDUR also mentioned that the data allow computing Herfindahl-Hirschman Index, which is used to indicate the degree of concentration in the member countries. The index shows that Bangladesh, Indonesia, and Malaysia have the most competitive banking sectors.

Further findings on two more indicators explained in the presentation: Net Loans over Total Assets and Impaired Loans over Gross Loans. For the banking sector, top 5 countries in terms of total assets of their banking systems cover about 60 percent of all assets in OIC member countries. (Top 10 cover 80 per cent) This indicates different needs or policy agenda of top 10 and the rest of the OIC member countries.

In the second part of the presentation, Mr. BAKDUR provides an assessment of capital markets. He stated that in this chapter the OIC Member States' Stock Exchanges Forum Integrated Statistics Report 2015 was utilized. The report is the result of the effort by the Stock Exchanges' Forum led by Borsa İstanbul and it presents individual and aggregate capital markets data, which is primarily provided by the Members who participate in the annual survey. Not all OIC member countries have organized stock exchanges and the report covers the data for 19 stock exchanges from 17 countries. According to the report market capitalization in US dollars, top 3 exchanges represent 58 percent of the total market capitalization, and top 10 exchanges represent 75 percent of the total market capitalization.

In the third part of the presentation, Mr. BAKDUR provided an evaluation of characterization and functioning of financial systems in the OIC member countries. In this part, World Bank's Global Financial Development Database is used. The database is initiated by the work of Cihak, M., Demirgüç-Kunt, A., Feyen, E., & Levine, R. (2012), titled "Benchmarking financial systems around the world". This study provides measures over four broad characteristics of the financial systems and presentation follows this classification. These four broad characteristics are: (1) Financial Access: the degree to which individuals can and do use financial institutions and markets, (2) Financial Depth: the size of financial institutions and markets, (3) Financial Efficiency: the efficiency of financial institutions and markets in providing financial services, and (4) Financial Stability: the stability of financial institutions and markets.

Measures were chosen in a way that a measure has data for as many countries as possible and it has also direct interpretation regarding four broad characteristics. Even with this procedure,

data for individual countries may not exist. To overcome this issue, Mr. BAKDUR explained that the member countries are categorized into four groups considering the income brackets of World Bank. According to this categorization, 15 countries are in OIC-Low Income Group (OIC-LIG); 19 are in OIC Lower Middle Income Group (OIC-LMIG); 16 are in OIC-Upper Middle Income Group (OIC-UMIG), and 7 are in OIC-High Income Group (OIC-HIGH). The presentation covered 12 measures for four characteristics and it reveals that OIC-UMIG and OIC-HIGH groups are equal to or above world averages whereas OIC-LIG and OIC-LMIG are below world averages. Trends from 2011 to 2014 in measures, in general, indicate improvements in the functioning of the financial systems in the member countries.

Fourth and the last part of the presentation Mr. BAKDUR expressed information about Islamic finance. Data used in this chapter collected mainly from International Financial Services Board's (IFSB) reports. The first graph in this part provide figures on Islamic banking share in total banking assets as of the first half of 2015. Iran and Sudan have full-fledged Islamic finance environment and Islamic banks in nine other countries also have systematic importance, measured by having 15 percent or more share in their banking systems. In terms of shares of global Islamic Banking Assets as of the first half of 2015, top 15 countries are from the OIC member countries. However, looking at Islamic Finance Country Index rankings, which mainly list the countries in terms of their size in Islamic finance and their capacity to affect the development of Islamic finance in other countries, top 20 countries include 17 OIC member countries. Three other countries are UK, USA and Sri Lanka.

Question(s) and Comment(s):

Comments:

- A delegate from OIC Stock Exchange Forum mentioned that collecting financial data from different sources is a challenging issue because there are a lot of institutions, especially in capital markets. Also, he expressed that centralized data collection would be useful and establish a center for this purpose in the OIC countries or in COMCEC will present a solution.

3. Improving Public Debt Management in the OIC Member Countries – Global Practices

Professor Dr. Siegfried SCHOENHERR, who is the expert of international policy consulting at Germany's leading economic think-tank, the ifo Institute, and a senior lecturer at the University of Nuremberg, and Dr. Marina RIEM, who is a senior economist at the ifo Institute, held the first presentation titled "Improving Public Debt Management in the OIC Member Countries – Global Practices" which is based on chapters 3, 4 and 5 of the commissioned report.

Prof. SCHOENHERR first extended his acknowledgments to the COMCEC officials and thereafter briefly introduced the ifo Institute. He then shed light on the scope of the study by elucidating the research goal of analyzing practices of public debt management globally as well as specifically for the OIC Member Countries. Subsequently, Prof. SCHOENHERR explained the methodology of the study: First, it included the quantitative analysis of public debt databases of the IMF and World Bank, as well as the assessment of national public debt statistics and documents. Secondly, the CESifo World Economic Survey (WES), a quarterly survey of over 1,000 experts in ca. 100 countries about the current and expected economic situation in their country, was amended for the purpose of this study. Thirdly, the COMCEC-ifo Country Survey was carried out in the OIC member states, which included country-specific questions on public debt management practices. Finally, individual field visits to the Islamic Republic of Iran, the Sultanate of Oman, the Republic of Indonesia and the Republic of Kazakhstan were conducted to validate and complement the information through interviews with local experts.

Dr. RIEM continued by stating the definition of public debt management and explaining the main risks associated, namely the refinancing risk which implies that maturing debt cannot be rolled over, the interest rate risk of rising servicing costs of debt, and the currency risk that the value of foreign currency-denominated debt expressed in local currency changes due to exchange rate volatility. Moreover, she showed evidence from the WES survey implying that the currency risk is considered the main risk for public debt management in OIC countries.

Afterward, she visually demonstrated the dynamics in global public debt developments in the past. Overall, the worldwide gross public debt ratio relative to GDP has been stable or even declining due to the strong economic growth in the past three decades. However, this trend has been reversed since the global financial crisis in 2007. Dr. RIEM continued that this reversed trend can also be seen by the almost constantly negative average government budget balances in recent years. Nevertheless, she showed that the average nominal interest rate on public debt has been steadily declining and that spreads between country income groups have decreased, arguing that this is likely to be a result of the monetary policy practice of quantitative easing performed in many markets around the world. Concerning the creditor structure of public debt, Dr. RIEM presented a relatively stable development with a slight increase of domestic investors. Finally, she pointed out that the importance of the US Dollar and the Euro increased with regards to foreign currency-denominated public debt, while the Japanese Yen has lost its influence over the last 25 years.

Hereafter, Dr. RIEM evaluated the institutional frameworks of public debt management. She presented a WES survey finding that a higher share of experts in OIC member countries evaluates their country's public debt management as not efficient, compared to the global average. In the following, she stated global best practices in governance and strategy development of public debt management. This includes a sound legal framework with an independent, clearly mandated and legally accountable Debt Management Office, a centralized

managerial structure, a medium-term debt management strategy which structures portfolio decisions and states risk management procedures, transparent audits and information availability with forwarded-guided communications and finally policy coordination on the macroeconomic level. Regarding the last point, Dr. RIEM clarified that this still means a clear separation between fiscal and monetary policies, and the avoidance of direct fiscal financing or interest rate decisions by the Central Bank which are driven by fiscal needs. Finally, she pointed out the importance of domestic debt markets as a significant source of financial resources and an additional opportunity for investor diversification, both leading to lower financing risks. However, she stated that, according to the WES survey, domestic debt markets in OIC member countries perform rather unsatisfactorily and should be further developed.

Dr. RIEM concluded by presenting a global best practice model of public debt management. She highlighted the importance of a reliable long-term strategy, legal accountability and efficient task delegation, a strong investor relationship and debt market building as well as a modern data management, analysis, and operation system. She introduced the World Bank DeMPA Performance Indicators as a way to measure progress. Finally, Dr. RIEM explained each of the 5 indicator groups, which evaluate, among others, the governance and strategy development, borrowing and related financial activities, cash flow management, debt recording and operational risk management and the coordination of other fiscal and monetary policies.

Question(s) and Comment(s)

Question: Does the policy recommendation of extending average maturities only address long-term loans?

Answer: Dr. RIEM clarified that this suggestion targets the whole maturity mix of a portfolio, and that both the short-term liquidity management as well as sufficient medium-term loans are integral components of a sound public debt management.

Question: Are concessional loans driving the average interest rate for low-income countries?

Answer: Dr. RIEM confirmed that the high share of concessional loans is responsible for the lower average interest rates of these developing countries.

Question: Are secondary markets important for public debt? Should commercial banks and especially market makers be involved?

Answer: Prof. SCHOENHERR agreed that a secondary market is of high importance, as it lowers debt issuance costs. Countries should support the involvement of market makers to support the establishment of a secondary market and its overall liquidity. However, he stated that countries should first establish a functioning domestic (primary) debt market. Moreover, many countries show a high dependency on private bank financing of their public debt and thus should avoid conflict of interests if banks are tilted towards the role of market makers.

4. Improving Public Debt Management in the OIC Member Countries – Selected Case Studies and Policy Options

Prof. SCHOENHERR and Mr. Martin MOSLER, who is a junior economist at the ifo Institute, gave a second presentation on “Improving Public Debt Management in the OIC Member Countries – OIC Country Studies” which is based on chapters 3, 4 and 5 of the commissioned report. The introductory part of the presentation highlighted the heterogeneous levels of gross public debt relative to GDP in the OIC member states while highlighting the generally positive correlation between government net lending and oil price movements, which can be explained by the dependency of public revenues on the sale of natural resources in many OIC member states.

Mr. MOSLER continued by presenting findings from the country-specific COMCEC-ifo questionnaire on public debt management. Overall, 2/3 of OIC member countries have a formal debt management strategy, with a Debt Management Office and transparent legal frameworks defining the main institutional characteristics. Out of the countries which have a formal strategy, 2/3 use strategic risk targets. The consultant showed that the average interest rates in OIC member states mirror the global declining trend, while the average credit extension period, especially by private investors, remains low at 4 to 5 years. Finally, Mr. MOSLER explained that the creditor composition of public debt has remained relatively stable over the past, with higher-income countries exhibiting a higher share of domestic creditors.

He then evaluated the role of Islamic finance instruments in public debt management. After explaining the general definitions of Islamic finance and sukuks, he highlighted the strong twentyfold growth of total Islamic finance assets globally between 2000 and 2015. Mr. MOSLER visually presented the exponential growth of the outstanding sukuk volume since 2003 and showed the rising share of international investors in new issuances. By showing the increasing share of sovereign issuers in the past, he stated that a 2/3-majority of OIC member states already uses this instrument. Mr. MOSLER concluded with a case study of Malaysia, which has been a leader in public sukuk financing and accounts for half of the sukuk volume worldwide.

Mr. MOSLER then presented case studies of public debt management practices in selected OIC member states. First, the Islamic Republic of Iran was introduced as an innovator in Islamic finance. The mechanisms of Islamic Treasury Bills, which are non-taxable zero-coupon bonds with a 1-year maturity sold at a discount to face value, and Operating Ijarahs, which are comparable to a leasing contract, were explained. By showing the impact of the international sanctions, represented by a rapid change in creditor composition and net lending rates, he highlighted the importance of public debt strategies. Thereafter, he showed the negative correlation between net public debt and the oil price using the example of the Sultanate of Oman. Moreover, he presented the country’s new medium-term public debt strategy, which includes the promotion of non-oil economic sectors, privatization of state-owned enterprises, a modernized data management system and a centralized debt management office.

Mr. MOSLER then presented the sophisticated division of management tasks in the Republic of Kazakhstan, where strategic decisions are taken at the highest political level and operational functions are divided between concerned ministries as a way to mitigate commodity price shocks. In addition, the governance structure of the Republic of Indonesia was taken as an example of best practice. Besides clear regulatory laws and the institutionalized development of annual as well as medium-term debt management strategies, the debt issuing process is bounded by budgetary and parliamentary processes. The country’s centralized Debt

Management Office with specialized departments coordinates their policy with other ministries and publishes important documents and data in Indonesian and English.

The case study section was concluded by two special cases. First, statistics from the Lebanese Republic were presented. Mr. MOSLER showed that although the country has had a mostly positive primary budget balance in the past, net lending was negative due to high-interest payments gave a public debt-to-GDP ratio of over 150% and an associated high roll-over risk. He then explained the procedure of the Lebanese currency swap, in which the Central Bank of Lebanon handed out newly issued Eurobonds in exchange for domestically denominated debt. Finally, Mr. MOSLER demonstrated the importance of transparent communication by quoting/alleging/referring to the developments in the Republic of Mozambique last year, when the announcement of previously undisclosed government debt prompted the IMF, the World Bank and bilateral donors to stop financial aid programs. Overall, this led to a default on government bonds and high fiscal stress.

The general policy recommendations derived from the study's main findings were then presented by Prof. SCHOENHERR. He recommended that the institutional framework shall be strengthened and that competencies shall be centralized at a dedicated Debt Management Office. Important steps include the development of a medium-term public debt strategy which incorporates quantitative targets, as well as an increase of transparency, including but not limited to the provision of debt data and reports, debt issuance procedures, and management strategies. Thereafter, Prof. SCHOENHERR highlighted the role of domestic debt markets. He stated that a profound legal and regulatory framework with clear accountabilities strengthens such markets, and shall be accompanied by improved information availability on debt operations. Technically, the introduction of Islamic finance instruments, as well as a reduced reliance on debt financing on the private domestic banking sector, may prove to be beneficial.

Prof. SCHOENHERR further recommended that the investor base should be diversified. Countries should grant pension funds, insurance companies, retailers, and strategic investors access to local debt markets. Moreover, public debt managers shall balance their creditor structure and consider issuing Eurobonds or foreign currency-denominated sukus if global financial markets permit and the domestic market is still developing. Moreover, he suggested mitigating refinancing risks by increasing the share of long-term bonds over short-term bills to lengthen the average maturity in a portfolio. Moreover, countries may consider modern financial instruments such as currency swaps or debt exchange operations to gain access to foreign currency-denominated debt with a generally longer maturity. Finally, Prof. SCHOENHERR recommended the implementation of macroeconomic risk management based on early warning indicators to complement a country's debt management strategy.

Question(s) and Comment(s)

Question: How can you practically implement the policy recommendations? What can you do if politicians do not prioritize implementing new debt management policies?

Answer: Prof. Dr. SCHOENHERR acknowledged that public debt management offices do not have a legislative character. However, he suggested that debt managers should constantly inform responsible politicians about recommendable policy changes, highlighting the advantages of such innovations for the stability and well-being of the country and the general public.

Question: What are examples for macroeconomic risk management tools?

Answer: Prof. SCHOENHERR stated that such tools include the ifo Signal Approach method, the Financial Soundness Indicators developed by the IMF, the Scoreboard Approach by the European Union or the Business Tendency Surveys by the OECD.

Question: Is the currency debt exchange of Lebanon a suitable policy recommendation?

Answer: Mr. MOSLER stated that the Lebanese case shows the possibilities of using modern financial instruments, but should not be misunderstood as a generally recommendable practice.

5. Policy Options for Improving Public Debt Management in the OIC Member Countries

The policy debate session was moderated by Dr. Kelly Mua KINGSLEY, Director at General Directorate of Treasury, Finance and Monetary Cooperation. At the beginning of the session, Mr. Selçuk KOÇ, Director at the COMCEC Coordination Office, made a brief presentation on the responses of the Member Countries to the policy questions on public debt management sent to the Financial Cooperation Working Group focal points by the CCO. In his presentation, Mr. KOÇ gave brief information on policy questions. He stated that the purpose behind these policy questions was to get preliminary information about the policy environment in the Member Countries concerning Public Debt Management. He underlined that the policy questions was shared with the member countries registered to the COMCEC Financial Cooperation Working Group. After presenting the questions and responses of the Member Countries, he introduced the draft policy advices included in the Room Document.

After the CCO presentation, Dr. KINGSLEY gave the floor to all delegations asking their opinions and comments for each policy advices as well as the experience of their respective countries in this regard. After extensive discussions, the Working Group has come up with the following policy recommendations.

- **Policy Advice 1:** Strengthening/Setting up an independent Public Debt Management Unit with well-defined functions and a dedicated debt management strategy
- **Policy Advice 2:** Developing/improving domestic debt market.
- **Policy Advice 3:** Broadening and diversifying the creditor base.
- **Policy Advice 4:** Lengthening the average maturity of the public debt.
- **Policy Advice 5:** Applying macroeconomic risk management methods.

6. Utilizing the COMCEC Project Funding

Mr. Burak KARAGÖL, Director at the COMCEC Coordination Office, made a presentation on the COMCEC Project Funding introduced by the COMCEC Strategy.

At the outset, Mr. KARAGÖL mentioned that COMCEC Project Funding (CPF) is one of the implementation instruments of the COMCEC Strategy. He underlined that the CPF enables member countries and the OIC Institutions to transform their ideas into projects with concrete activities, budget, and timeline. He highlighted that CPF Enhances solidarity among OIC Member Countries by bringing at least 3 member countries together (1 project owner + 2 partners).

Mr. KARAGÖL shared the main characteristics, purpose, and function of the CPF as well as CPF cycle. He shared information regarding the actors and their roles in CPF. He continued his presentation by underlining the link between working groups and CPF. He expressed that COMCEC Project Funding provides an operational instrument to realize policy recommendations produced by the Working Groups and adopted in the COMCEC Ministerial Session. He also gave information regarding the basic requirements to submit a project.

He underlined the project types and project topics which are eligible for financing under the CPF and give brief information about the theme. He touched upon the major steps of the CPF and preparation process for the project submission.

After highlighting the common characteristics of successful project proposals, Mr. KARAGÖL shared some statistics about the project proposals in the past three-year period as well as project proposals in the fourth call. At the last part of his presentation, Mr. KARAGÖL focused on the COMCEC Project Funding web page.

7. Stories of the Member States

7.1. Afghanistan

Mr. Ahmad Saeed ASLAM, Senior Financial Management Specialist, Ministry of Finance made a presentation on the public debt management in Afghanistan.

At the outset of his presentation, Mr. ASLAM gave general information about Afghanistan Economy. Mr. ASLAM Stated that since 2002 GDP has grown 14 times and per capita has increased 70 percent. He added that revenue collection doubled compared to last year. He stressed that Afghanistan government budget is highly reliant on foreign aid. In 2015, 70% of the operation budget and 100% of development budget was supported through ODA. He mentioned that the reliance on international aid is being reduced. In 2015, 17% of GDP was made by ODA with a 4% reduction from 2014.

He stated that over the last decade Afghanistan took important steps. Afghanistan Public Debt Management Strategy was developed in September 2015. Afghanistan became a part of Highly Indebted Poor Countries Initiatives in 2007. A debt and Asset Management Unit (DAMU) was established. Afghanistan adopted the Commonwealth Secretariat's Debt Recording Management system (CS-DRMS).

He shared some information on the external debt of Afghanistan. He underlined that according to the rule established by the Government the loans can only be used for infrastructure development and microfinance. Moreover, according to IMF, loans that are to be taken by the government are subject to IMF conditions:

- Grace period
- Service cost
- Repayment term
- Grant element

Mr. ASLAM informed the participants that the total gross debt is \$2.5 billion which of 98% is provided in SDR. He stated that external debt to GDP is 12.9% in 2016. In the last part of his presentation, he shared some information about the responsibilities of DAMU.

7.2. Iran

Mr. Mehdi ASHOURI, the representative of Ministry of Economic Affairs and Finance, made a presentation on the public debt management in Iran. At the outset of his presentation, Mr. ASHOURI underlined that in 2015 Ministry of Economic Affairs and Finance perceived the importance of the public debt management. He expressed the reasons behind the establishment of the Debt Management Unit as:

- awareness and record the amount of debt and receivables of government
- organize to government debt
- use from debt instruments

He mentioned that comparative studies have been conducted by Ministry of Economic Affairs and Finance. He underlined that after in May 2015 a law for establishment of Debt management Units was passed at parliament and the Debt Management Unit (DMU) with clear objectives and well defined mission was established.

At the last part of his presentation Mr. ASHOURI highlighted the goals and duties of the DMO. MR ASHOURI shared the names of the department of the DMO and briefed the participants regarding the responsibilities of the mentioned departments.

7.3. Nigeria

Mr. Joe UGOALA, Director at Debt Management Office (DMO), made a presentation on public debt management in Nigeria. In his presentation, Mr. UGOALA started his presentation by giving an outline.

He stated that DMO was established in 2000. He addressed the challenges of Public Debt Management prior to the establishment of the DMO and added that before the establishment of DMO there was a grossly underdeveloped and weak domestic debt market characterized by structural and systemic defects.

He stated that DMO has been driven by a well-articulated set of Strategic Plans in the discharge of its mandate:

- ✓ First Strategic Plan, 2002-2006
- ✓ Second Strategic Plan, 2008-2012
- ✓ Third Strategic Plan, 2013-2017

The current Strategic Plan, 2013-2017, is hinged on the need to consolidate on the gains of the previous Plans, finalize on-going initiatives, explore new areas and maintain a steady focus on the delivery of the Office's mandate. Mr. UGOALA gave some information about analytical and policy initiatives namely: "Conduct of the annual Debt Sustainability Analysis (DSA)", "National Debt Management Framework (NDMF), 2013-2017" and "Nigeria's Medium-Term Debt Management Strategy (MTDS), 2016-2019".

He continued his presentation by sharing information regarding domestic bond market development. He explained Nigeria's pursuit of aggressive domestic debt market transformation initiatives and shared some statistical information.

He also shared some information on sub-national Debt Management Development Initiatives. He underlined that in recognition of Nigeria's Fiscal Federalism and the need to maintain macroeconomic stability, the DMO commenced the implementation of the strategic objective of: "assisting the States of the Federation to develop debt management institutions and capabilities", as part of its 5-year Strategic Plan (2008 – 2012). He expressed the major milestones achieved under the Subnational Debt Management Development Initiatives. At the last part of his presentation, he briefed the house on the total public debt stock and sustainability ratios as of end-December 2016.

7.4. Sudan

Mr. OSMAN ELATAMANI, Manager at Ministry of Finance, made a presentation on the experience of Sudan in issuing and managing Islamic financial instruments. At the beginning of his presentation, he shared the content of his presentation.

Mr. ELATAMANI briefed the house on the historical evolution of Sudan money market. He underlined that up to 2005 there has been dual banking system; Islamic banking and finance in the north of Sudan and conventional banking and finance in the south of Sudan:

- Up to 1977 conventional banking and interest bearing financial instruments.

- 1977-1983 conventional and Islamic banking and interest bearing financial instruments.
- 1983-1998 full-fledged Islamic banking and finance.
- 1998-2005 Islamic banking non-interest bearing financial instrument

He shared information on the development of sukuk in Sudan in terms of the maturity, tendering, asset structure and mechanism, return on investment and contractual relationship. He also shared information on regularity framework and infrastructure bodies.

He continued his presentation by briefing the participants on the mutual Islamic fund. He underlined that the legal structures for investment funds are the instruments of the law in 1995. He stated the areas of work of the funds as investing in government securities, stocks, industry funding, water and real estate. Mr. ELATAMANI expressed that there is five types of funds: mixed fund, reconstruction fund, stocks, industry fund and water fund. The overall maturity is 2-6 years and profit is 15-18%.

Before concluding his presentation with the recommendation for improving money market, Mr. ELETAMANI argued the challenges that limit money market development as:

- Lack of regularity support
- Illiquid secondary market due to the absence of market makers and underwriters in sukuk
- Limited availability of benchmark to the pricing of sukuk (e.g. yield curve).

7.5. Turkey

Mr. H. Hakan YAVUZ, Head of Department at the General Directorate of Public Finance in the Undersecretariat of Treasury, made a presentation on public debt and risk management practices in Turkey.

At the beginning of his presentation, he presented the organizational structure and legal framework of Turkish debt and risk management. In this regard, he mentioned the importance of the law which constitutes the main legal background of debt management activities in Turkey. He noted that this law defined the borrowing authority, specified the limits on borrowing and guarantees, defined procedural rules, assured transparency and accountability and defined the structure of the debt management organization.

Regarding the organizational structure, Debt and Risk Management Committee is referred as the main decision making the body with the authority to take final decisions on debt and risk management issues. The Committee consists of the Deputy Prime Minister, Treasury Undersecretary and high-level debt managers and meets regularly. Other important components of the organizational structure are mentioned as the front, middle and back offices.

After the organizational structure, Mr. YAVUZ talked briefly about the main principles of public debt management. Two main principles of debt management are defined as follows:

- to follow a sustainable, transparent and accountable debt management policy considering macroeconomic balances as well as monetary and fiscal policies
- to meet financing needs of the government considering the costs, risks and international market conditions

After that accountability, transparency and predictability are noted as key factors for establishing an efficient market for government securities. Regarding this issues, Mr. YAVUZ mentioned that Turkish Treasury announces the general framework of strategic benchmarks,

annual financing program, borrowing strategy, auction calendar, and weekly details of the auctions. Moreover, it is noted that Treasury makes briefings to the parliament, discloses statistics and publishes public debt management reports. Mr. YAVUZ also stated that in order to move towards a predictable and transparent position in the primary and secondary markets, Treasury is trying to maintain an ongoing dialogue with market participants and providing information about its borrowing plans, projections, and strategies by:

- Having a regular meeting with the Primary Dealers as well as local and foreign investors.
- Applying a security benchmarking policy for establishing an efficient yield curve
- Sharing views with the market participants about new instruments which aim to diversify the available financial instrument set.

Mr. YAVUZ also provided information about the government debt securities that are used by the Treasury. In that regard, he underlined that 2.5 and 10 year fixed rate bonds, 7-year floating rate notes, 5 and 10-year CPI-indexed bonds and zero-coupon bonds are major borrowing instruments in the domestic market. Moreover, in order to broaden the investor base and to diversify the borrowing instruments, lease certificates have also been issued since 2012. In international markets, Treasury issues Eurobonds and lease certificates with different maturities. Based on the borrowing strategies framed by the strategic benchmarks, Treasury no longer issues FX denominated bonds in the domestic market since 2010. Regarding the Islamic finance instruments, Mr. YAVUZ mentioned that these instruments are relatively new in Turkey in comparison the conventional bonds. Ijara sukuks were issued for the first time both in domestic and international markets in 2012 to increase domestic savings, diversify the borrowing instruments and broaden the investor base.

At the second part of the presentation, Mr. YAVUZ briefly touched upon the risk management practices, which is an integral part of public debt management activities in Turkey.

For the management of credit risks, Mr. YAVUZ provided information about the guarantees and on-lent credit limits, guarantee/on lent fees and the risk account. Regarding the management of direct liabilities, Mr. YAVUZ noted that the Monte Carlo simulation technique is the main tool for measuring the cost and risks of several borrowing strategies and referred to another model which is used to determine the level of cash reserve to cope with possible liquidity strains in the market. The results of these analyses are used to construct strategic benchmarks. In addition to strategic benchmarks, several other measures are used in order to smooth redemption profile and improve the composition of the debt stock.

Mr. YAVUZ mentioned that the objectives of the risk-based debt management strategies are to reduce the risk exposure of debt stock and improve the structure of debt portfolio. In order to minimize the interest rate, foreign currency, liquidity and re-financing risks strategic benchmarking policy is carried out since 2003.

After defining the Strategic Benchmarks as forward-looking medium-long term borrowing policy to guide front offices in the context of debt management's overall risk/cost preferences, Mr. YAVUZ spoke about the strategic benchmarks of Turkish Treasury for the period 2017-2019. These benchmarks are stated as follows:

For Interest Rate Risk:

- To use fixed rate instruments as the major source of TL borrowing and to decrease the share of TL debt stock with interest rate re-fixing period of fewer than 12 months.

For Exchange Rate Risk:

- To decrease the share of FX-denominated instruments in borrowing.

For Liquidity Risk:

- To increase the average maturity of domestic cash borrowing by taking market conditions into account and decreasing the share of domestic debt maturing within 12 months.
- To keep a certain level of cash reserves so as to reduce the liquidity risk associated with cash and debt management.

At the last part of the presentation, Mr. YAVUZ provided some statistics regarding the developments achieved as a result of aforementioned debt and risk management activities in Turkey.

Question(s) and Comment(s)

Question: What does the debt assumption mean?

Answer: Turkish delegate expressed that the debt assumption commitment limit is basically related with Public Partnership Projects (PPP). He underlined that there is a limit that the amount of burden can be assumed by Treasury in each year in order to keep the level of PPP contracts under control.

Question: How do you quantify the risk account?

Answer: Turkish delegate stressed that the level of risk account is not set with any kind of quantitative analysis. It has some earmarked revenues such as a fee on the guarantees which is 1 %.

8. International Institutions' Perspective on Improving Public Debt Management

8.1. Advances in Sovereign Debt Management in OECD Countries

Ms. Fatoş KOÇ, Head of Public Debt Management Unit in the OECD made a presentation on advances in sovereign debt management in OECD countries under the following sub-titles: i) Organisational and governance structure, ii) Debt management objectives and principles, iii) Debt management policies and, iv) Recent trends.

Ms. KOÇ mentioned that with regards to the governance structure of the sovereign debt, an important global trend in recent decades is the emphasis on more autonomy for the execution of debt management policies by debt management offices (DMO). Separation of debt management responsibilities is a key element to achieving PDM objectives. Additional arguments in favor of operational autonomy are i) greater transparency, ii) more accountability, iii) better career opportunities to attract and retain highly specialized staff (in light of competition from the private sector).

She argued that it is generally accepted that operational responsibility within the DMO should be separated between the front (FO) and back office (BO). In addition, a number of key functions, particularly for risk management, may be situated in a separate middle office (MO). She underlined that the risk management function is a central feature of modern DMOs. In several cases, MO unit has responsibility for a wide range of tasks, including the development of alternative medium-term debt strategies as well as monitoring and risk management of the stock of outstanding sovereign debt (which requires the development and use of risk metrics). In order to strengthen the co-operation among the relevant institutions, it is international good practice to create committees between DMOs, CBs and fiscal authorities on public debt policy.

She highlighted that as noted in the OECD book titled "Advances in Risk Management of Government Debt", the main objective of government debt management is to ensure that the government's financing requirements and its payment obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk. She touched upon that this main objective implies that government debt managers need to assess the trade-offs between cost and risk when determining how to finance the government's borrowing requirements. In parallel to the main objective, there is a common understanding among debt managers concerning the basic principles of a sound and prudent debt management, which is often described with three words "transparency, accountability, and predictability".

Ms. KOÇ stressed that public debt stock, as any other financial portfolio, is exposed to a wide range of risks including liquidity, market, credit and operational risks. Therefore, effective risk management is crucial for a sound debt management practice. Debt management policies should adopt a long-term perspective and focus on reducing risk exposure taking into account some factors such as debt level, debt composition, budget deficit projections, and monetary policy.

In the last part of the presentation, recent trends in sovereign debt markets in OECD countries were provided based on 2017 edition of the *Sovereign Borrowing Outlook*. Fiscal policies in OECD area are shaped by two imperatives: the need to reinvigorate economic growth, including through debt-financed public investment over the short to medium term; and continued pursuit of measured fiscal consolidation over the medium- to long-term. Sovereign

debt burden in OECD area remain high by historical standards and redemption profiles still pose serious challenges. Ms. KOÇ underlined that debt management offices react to these challenges by making redemption profiles somewhat lighter over the short-term. Against this backdrop following key messages were delivered:

- Sovereign gross borrowing needs in the OECD have continued to decline from the peaks attained in 2012. They are expected to be USD 9.5 trillion in 2017, approximately the same level as in 2016. Net borrowing needs have also declined but continue to be positive and are projected to remain flat in 2017 for the OECD, reflecting the fact that underlying fiscal balances are becoming more expansionary.
- While net borrowing requirements are positive and fiscal balances are becoming more expansionary in response to fragile economic growth, outstanding central government debt is expected to increase from USD 41.3 trillion in 2016 to around USD 42.2 trillion in 2017. After surging from 49.8% to 74.6% between 2007 and 2015, the central government marketable debt-to-GDP ratio has started to decline and is estimated to be 73% in 2017. This remains high by historical standards.
- Prolonged ultra-low interest rates have reduced the cost of borrowing in OECD countries considerably. Furthermore, negative-yielding government debt has increased from USD 2.6 trillion in January 2016 to above USD 10 trillion in November 2016 with Japan, France and Germany accounting for well over two-thirds of that amount. While interest rates have declined by more than GDP growth and the decline in interest rates more than offsets the increase in the debt-to-GDP ratio, debt-servicing has been facilitated and debt sustainability concerns have been alleviated in a number of OECD countries.
- Debt managers are reacting to fiscal challenges by lengthening redemption profiles, thus limiting rollover risks. This strategy tends to involve higher debt-servicing costs over the short term but, at the current juncture, such costs are very limited. The weighted ATM of outstanding marketable debt has increased by 1.5 years compared to the pre-crisis period, reaching historic highs for several countries including Belgium, Mexico, the United Kingdom and the United States.
- One reason for this is the growing issuance of ultra-long bonds. As of 2016, the outstanding stock of ultra-long bonds issued since 2006 has reached USD 3.7 trillion which comprises 9% of the central government marketable debt. While ultra-long bonds are still a small component of the government debt market, they are a fast-growing maturity segment. In 2016, six sovereigns sold 50-year bonds (Austria, France, Italy, Spain, Korea and the UK) and two sovereigns (Belgium and Ireland) sold 100-year bonds (so-called "century bonds") with a total volume of USD 27.6 billion.
- Large central banks and public funds have become dominant holders of sovereign debt in major OECD countries, as a result of quantitative easing programs. Central banks in Japan, the United States and the euro area, hold respectively more than a 3rd, a 5th and a 10th of the outstanding local government bonds; and central banks have become major investors in local government debt securities.

- Globally, sovereign debt managers face policy uncertainties ahead: Whether, when, how much and how fast major central banks unwind quantitative easing policies remain unknown, and the same applies to governments' use of fiscal policy tools to support economic activity. Looking forward, these two factors will mainly determine the agendas of sovereign issuers in OECD area.

8.2. World Bank Group Capacity Building Activities on Public Debt Management

Mr. Emre BALIBEK, Senior Debt Specialist at the World Bank, made a presentation on the World Bank Capacity Building Activities on public debt management.

Mr. BALIBEK underlined that for countries seeking to improve their debt and risk management practices, the World Bank Group (WBG) offers a full range of technical assistance (TA) services to support developing countries in strengthening their capacity to manage debt. WB specialists are drawn from senior positions in sovereign debt offices worldwide and are available to provide advice on a range of topics, building on international best practices. The fields of work include:

- **Debt Sustainability Analysis (DSA):** The joint IMF-WBG Debt Sustainability Framework for Low-Income Countries (DSF), developed in 2005, was designed to guide the borrowing decisions of low-income countries in a way that matches their financing needs with their ability to repay debt. A key part of the framework is Debt Sustainability Analysis (DSA), which is a tool to help guide countries and donors in mobilizing critical financing for low-income countries while reducing the chances of an excessive build-up of debt.
- **Debt Management Performance Assessment (DeMPA):** DeMPA is a methodology for assessing public debt management performance through a comprehensive set of indicators spanning the full range of government debt management functions.
- **Debt Management Reform Plan:** A Debt Management Reform Plan lays out a detailed, sequenced, country-owned capacity-building project plan that is based on an analysis of public debt management institutions and operations. The goal of this process is to address the weaknesses identified in the debt management assessments. As such, reform plans often follows and builds on the DeMPA.
- **Medium-Term Debt Management Strategy (MTDS):** The WBG and the IMF have jointly developed a framework to guide country authorities in the process of developing an MTDS.
- **International Capital Market Access:** The TA on international capital market access assists countries to fully assess the consequences of issuance in the international capital markets on the debt portfolio and to raise awareness on the necessary steps to ensure issuance does not take place prematurely, including ensuring that operational systems are in place, credit rating is obtained, and that financial and legal advisors are contracted.
- **Domestic Debt Market Development:** The work program to assist in the development of government securities markets in LICs aims to enhance governments'

access to financing in local currency while increasing the opportunities that are available for the government to implement the debt strategies they choose.

He clustered the Modes of Delivery of TA Activities under the following:

- **The Debt Management Facility (DMF)** trust fund is dedicated to supporting technical assistance on debt management and debt sustainability. The OIC members that received DMF support include Afghanistan, Azerbaijan, Bangladesh, Benin, Chad, Comoros, Djibouti, Ivory Coast, Kyrgyz Republic, Maldives, Mali, Mozambique, Niger, Nigeria, Pakistan, Senegal, Sudan, Tajikistan, Togo, Uganda, Yemen.
- **The Government Debt and Risk Management Program (GDRM)** provide medium-term technical assistance for middle-income countries. Implemented by the World Bank, the program covers 11 countries and is currently supported by Switzerland. Participating OIC members include Azerbaijan, Egypt, Indonesia, and Tunisia.
- **Reimbursable Advisory Services:** The World Bank also works with higher income countries at their request, providing technical advice, analytical services, and implementation support. The Bank is then reimbursed for the costs of delivering these advisory services.

In the last part of his presentation, Mr. BALIBEK briefed the participants on some examples of Work in OIC Countries:

- **Indonesia:** The Bank has a long-lasting engagement with the MoF on debt management. The Focus was initially on building capacity, establishing the DMO, and developing a debt management strategy. Later the focus has shifted to more advanced issues: Risk modeling, ALM, contingent liabilities management.
- **Egypt:** TA focused on capacity building, strategy development, and organizational reforms through a RAS engagement, followed by Egypt becoming part of the GDRM program. The work assisted the authorities in preparation of legislation allowing Sukuk issuance and debt market development
- **Albania:** TA was provided to build the capacity of the DMO staff on the cost and risk analysis leading to the formulation of a new debt management strategy and the corresponding issuance plan,
- A number of countries including **Niger, Nigeria, and Maldives** have received support on MTDS.

8.3. Sovereign Sukuk as a Public Debt Management Instrument

Mr. Ijlal Ahmed ALVI, CEO of International Islamic Financial Market (IIFM), made a presentation on sovereign sukuk as a public debt management.

The first part of the presentation covered domestic and international Sukuk issuances where the share of Domestic Sukuk is far greater than International Sukuk². The major domestic Sukuk market is Malaysia followed by the GCC. He explained that the 2007-2008 global financial crises had an impact on the global (domestic and international) Sukuk market as there was uncertainty surrounding some of the International Sukuk facing default and

² Sukuk issued in hard currency such as US Dollar are considered as International Sukuk while domestic Sukuk are Sukuk issued in domestic currencies such as Malaysian Ringgit, Bahraini Dinar etc.

restructuring (7% of International Sukuk ran into difficulty). However, once successful restructuring of some of the International defaulted Sukuk was completed and the legal implications became clear, the global Sukuk market started showing sign of recovery by 2010 and the following years, 2011 to 2014 witnessed record Sukuk issuances led by the sovereign and quasi-sovereign Sukuk issuers.

He summarized challenges emerged during financial crisis under the following titles:

- Asset Backed versus Asset Based Sukuk Issuances
- Quasi-Sovereign Implicit versus Explicit Government Guarantee
- Title Transfer and Ownership Issues in Asset Backed Sukuk
- Availability of Assets
- Sale of Murabahah Sukuk on Discount/Premium

Mr. ALVI argued that from wider Shari'ah acceptability perspective, Sukuk structured on Murabahah cannot be sold on discount/premium. This issue became quite challenging in case of certain Murabahah based Sukuk which went into default and it emerged that in the fixed income secondary market, the international Murabahah Sukuk were purchased on discount by certain investors (hedge funds) and at the time of restructuring of certain Sukuk, the secondary market investors made extraordinary demands to the restructuring group and the "Obligor". Murabahah Sukuk does pose legal and Shari'ah challenges.

Mr. ALVI also explained that domestic sovereign Sukuk market has far greater depth than the international sovereign Sukuk market and its share of the domestic market is USD 429.6 billion versus international market share of USD 48 billion.

He highlighted that in terms of structural breakdown for domestic sovereign Sukuk, there is a heavy reliance on Murabahah structure which has a market share of 69% followed by Ijarah structure with a market share of 17%. He explained that the main reasons for greater sovereign Sukuk issuances in the domestic market on a Murabahah basis could be the availability of assets, regulation preference and the requirement for debt type instrument keeping in view Basel requirements for banks.

He underlined that in the case of international sovereign Sukuk issuances; Ijarah is the most dominant structure with a market share of 71% though in recent years sovereign Sukuk based on Wakalah structure is becoming popular. The sovereign Wakalah Sukuk usually involves a combination of structures, having Ijarah and Murabahah. These structures are generally based on AAOIFI Shari'ah standards. He cautioned that such structure could be light on assets and the over-reliance on Murabahah needs to be monitored.

As per IIFM Sukuk research and yearly Sukuk report, Asia and the Far East has a lions market share of 81.31% of sovereign Sukuk issuances followed by GCC and Middle East market share of 12.36% while Africa (led by Sudan) and Europe plus others markets share of 4.43% and 1.97% respectively. This indicates that sovereign Sukuk market presents a major opportunity for growth in regions where Sukuk issuance is a recent phenomenon.

Mr. ALVI explained that the purpose of OIC sovereign Sukuk issuances varies from one jurisdiction to another. For example, in Malaysia, the government or government-owned entities (quasi-sovereign) issue Sukuk for monetary management, project financing (transport, power etc.), and funding needs for budgetary and balance-sheet purposes of government-owned entities. In the case of GCC countries, Sukuk is generally issued for monetary

management or government funding needs with limited Sukuk issuance for infrastructure projects. The issuance for countries like Turkey and Pakistan are generally for monetary management though there are few Sukuk issued relating to infrastructure projects while in the case of Africa the purpose is mostly monetary management and budgetary purpose.

He reiterated that new sovereign entrants from Europe and Africa region is an encouraging sign and is likely to keep the growth trajectory of the sovereign Sukuk market. He also encouraged the issuance of sovereign Sukuk relating to infrastructure projects where Indonesia stands out as the main driver of infrastructure Sukuk market in addition to its sovereign Sukuk for budgetary needs. Similar issuance needs to be replicated in OIC countries.

Mr. ALVI also highlighted key challenges in sovereign Sukuk issuances as follows:

- Limited availability of tangible assets leads to over-reliance on certain Sukuk structures and these needs to be monitored. The industry backed by OIC sovereigns needs to work with market infrastructure institutions particularly IIFM, AAOIFI, and IFSB.
- The legal system in OIC countries needs to be revamped to resolve issues such as title transfer, insolvency laws etc.
- Sovereign Sukuk market needs to be competitive against well-established conventional sovereign bond market and issues such as structuring, documentation, legal and law reforms need to be developed for all the OIC countries where greater support and involvement of standard-setting organizations particularly IIFM, AAOIFI, and IFSB can assist in the realization of true potential of sovereign Sukuk market.
- Investors preference, mindset and risk appetite towards balance-sheet against risk taking on tangible asset needs to be addressed through education and greater participation led by OIC sovereigns
- Other challenges such as tax neutrality, trust law, transparency in documentation on factors such as type of government guarantee (implicit or explicit) have to be provided
- The role of SPV needs to be redefined as currently SPV is created only for administrative purposes. This became a major issue particularly during Sukuk default and restructuring process. Moreover, investor's legal rights are not entirely protected by SPV.

Mr. ALVI concluded his presentation by providing information on IIFM standards and the key role that IIFM is playing in the unification of the industry which is directly linked to sovereign Sukuk market development. He advised that IIFM has developed 7 standards on hedging to overcome the major challenge of mitigating currency and rate of return mismatch risk and sovereigns can make use of these standards for the creation of an efficient, cost effective, transparent and robust sovereign Sukuk market. He informed the participants that today, 30th March 2017, IIFM has published the Islamic Credit Support Deed to fulfill G20 recent regulatory requirement of Variation Margin for un-cleared transactions.

He further advised that IIFM liquidity management standards particularly Unrestricted Wakalah and Collateralized Murabahah (alternate to conventional repo) are proving to be beneficial to regulators as well as institutions and more importantly these standards are directly helping the development of sovereign Sukuk market as the underlined instrument in these standards is mostly sovereign Sukuk. He mentioned that several regulators such as Central Bank of Bahrain, Saudi Arabian Monetary Agency, Central Bank of UAE and Bank of England are making use of IIFM hedging and liquidity management standards to provide level playing field to the Islamic finance industry.

Mr. ALVI stated that standardized documentation and products help in the creation of a liquid market and in this regard IIFM upcoming Sukuk documentation standardization project will contribute to the further development of sovereign as well as corporate Sukuk market. He urged all OIC countries to benefit from IIFM standards as well as standards by other standard-setting organizations for the creation of Islamic Public Debt market.

Question(s) and Comment(s)

Question: How do you evaluate the issuances of sukuk in a different part of the World in terms of especially being Shariah-compliant?

Answer: Mr. ALVI underlined that regarding the Shariah standards in sukuk, there is AAOIFI Shariah Standards. AAOIFI Standards are very clear guidelines. He stated that there is no difference between the Sukuk Issuance in Hong Kong or any other country in terms of Shariah Compliance.

Question: What was the reason for the decrease in the global sukuk issuance?

Answer: Mr. ALVI mentioned that in 2015, the global Sukuk issuances dropped due to a strategic decision by Malaysia to stop issuing certain investment type short-term Sukuk. The strategic decision involved short-term Sukuk where the government changed its focus to issuing short-term Sukuk for liquidity management rather than investment purpose. However, this tactical and temporary action did not reflect negatively for the Sukuk market. In fact, during 2015 the longer tenor global Sukuk market remained resilient and continued its growth trajectory with the entry of several new European, Far Eastern and African sovereign Sukuk issuers.

8.4. An Institutional Framework for Regular Issuance of Sovereign Sukuk

Mr. Mohamed Amine HILLAL, Specialists, Financial Product Development Center, IDB Group, made a presentation on an institutional framework for the regular issuance of Sovereign sukuk.

In his presentation, Mr. HILLAL proposed an institutional approach for issuing Sukuk. He mentioned that Sukuk Structure addressed mainly the problem of the asset (sovereign assets) ownership transfer and pledged. He mentioned that there are some restrictions on this matter especially in civil law systems jurisdictions as well as common law jurisdictions. He underlined that ijara-sukuk is mainly used for sovereign sukuk issuance. The problem for ijara sukuk is one side asset transfer. He mentioned that the legal framework can restrict the asset transfer. He also added that when the sukuk issued in-secured bet obligation of the government, in fact, it is a non-liquid asset.

He underlined that the objective of the suggested structure is clearly to break with ijara-sukuk. The solution is to have an institutional approach. He stressed that the idea is to create an independent institution which gives finance to the government through Islamic modes of contracts.

At the last part of his presentation, Mr. HILLAL briefly informed the participants regarding the proposed structure of the suggested Sovereign Finance Corporation.



Question(s) and Comment(s)

Question: Is there any other indexes which can be used instead of Libor while calculating the return of the sukuk?

Answer: Mr. HILLAL mentioned that there isn't any other index at the moment and added that the industry definitely needs to work on it.

9. Closing Remarks

The Meeting ended with closing remarks of Mr. HAYRETTİN DEMİRCAN, Deputy Undersecretary, Undersecretariat of Treasury of Turkey and the Chairperson of the Meeting and Mr. M. Metin EKER, Director General of the COMCEC Coordination Office.

In his closing remarks, Mr. EKER informed the participants that the 9th Meeting of the COMCEC Financial Cooperation Working Group will be held on October 26th, 2017 in Ankara with the theme of “Diversification of the Islamic Financial Instruments”. He stated that a research report will also be prepared for the ninth meeting and shared with the focal points and other participants at least one month before the meetings.



Annex 1: List of Participants

**LIST OF PARTICIPANTS
8th MEETING OF THE FINANCIAL COOPERATION
WORKING GROUP
30 March 2017, Ankara**

A. MEMBER COUNTRIES OF THE OIC

THE ISLAMIC REPUBLIC OF AFGHANISTAN

- Mr. AHMAD SAEED ASLAM
Senior Financial Management Specialist, Ministry of Finance
- Mr. AHMAD FROUGH KAIFER
Senior Specialist, Ministry of Finance

THE REPUBLIC OF AZERBAIJAN

- Mr. ZAKA MIRZAYEV
Deputy Head of the Department, Ministry of Finance

BURKINA FASO

- Mr. AMIDOU OUEDRAOGO
Director of Bilateral Cooperation, Ministry of Economy, Finance and Development
- Ms. CLAIRE MARIE KABORE
Embassy of Burkina Faso in Ankara

THE REPUBLIC OF CAMEROON

- Mr. KINGSLEY KELLY MUA
Director, Treasury Finance and Monetary Cooperation

THE REPUBLIC OF COTE D'IVOIRE

- Mr. SIAKA FANNY
Adviser to Finance Minister, Ministry of Economy and Finance

THE REPUBLIC OF DJIBOUTI

- Mr. ALMIS MOHAMED ABDILLAHI
Director, Ministry of Budget

The REPUBLIC OF GABON

- Mr. IFOUNGA THIBAUT
Chief of Protocol, Embassy of Gabon in Ankara

THE ISLAMIC REPUBLIC OF IRAN

- Mr. MEHDI ASHOURI
Ministry of Economic Affairs and Finance

The REPUBLIC OF IRAQ

- Ms. IBTISAM KADHUM ALI
Manager, Central Bank of Iraq
- Ms. RAJAA MURAD
Assistant Manager, Central Bank of Iraq
- Mr. THARWAT SALMAN
Commercial Attache, Embassy of Iraq in Ankara

THE HASHEMITE KINGDOM OF JORDAN

- Mr. YOUSEF ABDELGHANI
Deputy Head of Mission, Embassy of Jordan in Ankara

THE STATE OF KUWAIT

- Mr. SAAD ALRASHIDI
Head of the OIC Affairs, Ministry of Finance
- Ms. ASMAA AL HADBAH
Researcher Foreign Affairs, Ministry of Finance

MALAYSIA

- Ms. NOR HANNANAH JIMAN
Assistant Secretary, Ministry of Finance
- Ms. KHADIJAH ABDULHAMID
Principal Assistant Secretary, Ministry of Finance

THE FEDERAL REPUBLIC OF NIGERIA

- Mr. JOE UGOALA
Director, Debt Management Office

THE REPUBLIC OF SENEGAL

- Mr. MAME ALASSANE SENE
Program Officer, Ministry of Economy and Finance

THE FEDERAL REPUBLIC OF SOMALIA

- Mr. ABDULLAHI MOHAMUD
Trade Focal Point, Ministry of Commerce and Industry, Embassy of Somalia in Ankara
- Mr. YUSUF AHMED HASSAN
Commercial Counsellor, Embassy of Somalia in Ankara
- Ms. HABIBA HARUN
Embassy of Somalia in Ankara

THE REPUBLIC OF THE SUDAN

- Mr. OSMAN ELATAMANI
Manager, Ministry of Finance
- Mr. MIRGANI INDELA
Director, Ministry of Finance



THE TOGOLESE REPUBLIC

- Ms. PATCHALIBEMA KOULOUMA
Debt Management Office / MEF, Ministry of Economy and Finance
- Mr. KWAMI MICHEL ADOUVO
Coordinator, Ministry of Economy and Finance

The REPUBLIC OF TURKEY

- Mr. HAYRETTİN DEMİRCAN
Deputy Undersecretary, Undersecretariat of Treasury
- Mr. HAKAN ERTÜRK
Acting Director General, Undersecretariat of Treasury
- Mr. MEHMET ALPER BATUR
Acting Deputy Director General, Undersecretariat of Treasury
- Mr. HÜSEYİN HAKAN YAVUZ
Head of Department, Undersecretariat of Treasury
- Mr. UTKU ŞEN
Expert, Undersecretariat of Treasury

THE REPUBLIC OF UGANDA

- Ms. ISHIMWE COLLINS HERBERT
Economist, Ministry of Finance, Planning and Economic Development

B. THE OIC SUBSIDIARY ORGANS

STATISTICAL, ECONOMIC, SOCIAL RESEARCH AND TRAINING CENTER FOR ISLAMIC COUNTRIES (SESRIC)

- Mr. ONUR CAGLAR
Technical Cooperation Specialist

C. SPECIALIZED ORGANS OF THE OIC

ISLAMIC DEVELOPMENT BANK (IDB)

- Mr. MOHAMED AMINE HILLAL
Specialists, Financial Product Development Center

D. INVITED INSTITUTIONS

SECRETARIAT OF OIC MEMBER STATES' STOCK EXCHANGES FORUM

- Mr. MAHMUT VARLI
Assistant Specialist, Borsa İstanbul

Secretariat of COMCEC Capital Markets' Regulators Forum

- Ms. SEÇİL SAYIN
Chief Expert, Capital Markets Board (SPK)

INTERNATIONAL ISLAMIC FINANCIAL MARKET / IIFM

- Mr. IJLAL ALVI
CEO
- Mr. ISMAIL DADABHOY
Advisor

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD)

- Ms. FATOŞ KOÇ
Head of Public Debt Management Unit

WORLD BANK

- Mr. EMRE BALIBEK
Senior Debt Specialists

CONSULTANT

- Prof. Dr. SIEGFRIED SCHOENHERR
- Dr. MARINA RIEM
- Mr. MARTIN MOSLER

E. COMCEC COORDINATION OFFICE

- Mr. M. METİN EKER
Director General, Head of COMCEC Coordination Office
 - Mr. SELÇUK KOÇ
Director
 - Mr. BURAK KARAGÖL
Director
 - Mr. ALPER BAKDUR
Financial Sector Specialist
 - Mr. CAFER BİCER
Expert
 - Mr. CEZMİ ONAT
Expert
 - Mr. OKAN POLAT
Expert
 - Mr. FAZIL ALATA
Expert
 - Mr. EREN SÜMER
Expert
- -----



Annex 2: Agenda of the Meeting



AGENDA
8th MEETING OF THE COMCEC
FINANCIAL COOPERATION WORKING GROUP
(March 30th, 2017, Ankara)
“Improving Public Debt Management in the OIC Member Countries”

Opening Remarks

1. Financial Outlook of the OIC Member Countries
2. Global Practices in Public Debt Management
3. Public Debt Management in the OIC Member Countries, Selected Case Studies and Policy Options
4. Policy Debate Session on Improving Public Debt Management in the OIC
5. Utilizing the COMCEC Project Funding
6. Member Country Presentations
7. International Institutions' Perspective on Improving Public Debt Management

Closing Remarks

Annex 3: Program of the Meeting



**8th MEETING OF THE COMCEC
FINANCIAL COOPERATION WORKING GROUP
(March 30th, 2017, Crowne Plaza Hotel, Ankara)
“Improving Public Debt Management in the OIC Member Countries”**

PROGRAMME

- 08.30-09.00 **Registration**
- 09.00-09.05 **Recitation from the Holy Quran**
- 09.05-09.15 **Opening Remarks**
- Financial Outlook of the OIC Member Countries**
- 09.15-09.35 - *Presentation: Mr. Alper BAKDUR
Financial Sector Specialist
COMCEC Coordination Office (CCO)*
- 09.35-09.45 - *Discussion*
- Global Practices in Public Debt Management**
- 09.45-10.25 - *Presentation: Prof. Dr. Siegfried SCHOENHERR and Dr. Marina RIEM
Ifo Institute*
- 10.25-10.45 - *Discussion*
- 10.45-11.00 *Coffee Break*
- Public Debt Management in the OIC Member Countries, Selected Case Studies
and Policy Options**
- 11.00-11.50 - *Presentation: Prof. Dr. Siegfried SCHOENHERR and Mr. Martin MOSLER
Ifo Institute*
- 11.50-12.30 - *Discussion*
- 12.30-14.00 *Lunch*



Policy Debate Session on Improving Public Debt Management in the OIC

There will be a moderation session under this agenda item. The participants are expected to deliberate on the policy options/advices for improving public debt management in the OIC Member States. The Room Document was prepared by the CCO, in light of the findings of the analytical study prepared specifically for the Meeting and the answers of the Member Countries to the policy questions which have already been sent by the CCO. This Document was shared with the Financial Cooperation Working Group focal points before the Meeting with a view to enriching the discussions during the Session and coming up with concrete policy advices for the policy approximation among the Member Countries in this important field. At the beginning of the session, CCO will make a short presentation introducing the responses of the Member Countries to the policy questions as well as the Room Document.

*Moderated by Dr. Kingsley Kelly MUA
Director
General Directorate of Treasury, Finance and Monetary
Cooperation
Cameroon*

14.00-14.15 - *Presentation: "Responses of the Member Countries to the Policy Questions on Public Debt Management"*

*Mr. Selçuk KOÇ
Director
COMCEC Coordination Office*

14.15-15.30 - *Discussion*

Utilizing the COMCEC Project Funding

15.30-15.45 - *Presentation: Mr. Burak KARAGÖL
Director
COMCEC Coordination Office (CCO)*

15.45-16.00 - *Discussion*

16.00-16.15 *Coffee Break*

16.15-17.15 Member States' Presentations

- *Presentation(s)*

- *Discussion*

International Institutions' Perspective on Improving Public Debt Management

- 17.15-17.30 - *Presentation: "Advances in Sovereign Debt Management in OECD Countries"*
- Ms. Fatoş KOÇ
Head of Public Debt Management Unit
OECD*
- 17.30-17.45 - *Presentation: "World Bank Group Capacity Building Activities on Public Debt Management"*
- Mr. Emre BALIBEK
Senior Debt Specialist
World Bank*
- 17.45-18.00 - *Presentation: "Sovereign Sukuk as a Public Debt Management Instrument"*
- Mr. Ijlal Ahmed ALVI
CEO
IIFM*
- 18.00-18.15 - *Presentation: "An institutional Framework for Regular Issuance of Sovereign Sukuk"*
- Mr. Amine HILLAL
Financial Product Development Specialist
Financial Products Development Center*
- IDB Group*
- 18.15-18.30 - *Discussion*
- 18.30-18.45 **Closing Remarks**

Annex 4: The Policy Recommendations

POLICY RECOMMENDATIONS OF THE 8TH MEETING OF THE COMCEC FINANCIAL COOPERATION WORKING GROUP

The COMCEC Financial Cooperation Working Group (FCWG) held its 8th Meeting on March 30th, 2017 in Ankara / Turkey with the theme of “Improving Public Debt Management in the OIC Member Countries”. During the Meeting, the participants discussed some crucial policy issues in light of the main findings of the research report prepared specifically for the Meeting and the responses of the Member Countries to the policy questions that were sent by the CCO in advance of the Meeting. Accordingly, the working group has come up with the policy advices below.

Policy Advice 1: Strengthening/Setting up an independent Public Debt Management Unit with well-defined functions and a dedicated debt management strategy

Rationale: In several OIC member countries the delineation of competencies between different institutions involved in public debt management remains vague. Especially the partial lack of centralization at a dedicated Public Debt Management Unit (DMU) might prove to be challenging for further management improvements. Therefore, all OIC member countries are encouraged to either set up a new independent DMU or institutionally strengthen an existing one, possibly located at the Ministry of Finance or the Central Bank. Moreover, the development of a formal debt management strategy, including quantitative strategic targets, is recommended. The DeMPA Performance Indicators of the World Bank can serve as an initial reference point. In order to support the transition process, OIC member countries that have already professionalized public debt management practices may advise partner countries in establishing such institutional frameworks. This could include policy recommendations with regards to specific areas of debt management, including but not limited to a long-term strategy development, risk management, debt monitoring or institutional coordination. Besides exemplary institutional settings and public debt management documents, the exchange about challenging experiences and the respective ‘lessons learned’ might prove to be especially helpful during the process.

Policy Advice 2: Developing/improving domestic debt market.

Rationale: Domestic debt markets are important sources of funding for public budgets. A well-functioning, liquid domestic market encourages the investments from domestic creditors due to lower transaction costs and hence provides additional diversification opportunities for the government. As domestic investors tend to react less to the global macroeconomic and financial shocks, refinancing risks may be lowered in addition to a decreased currency risk. However, a number of domestic public debt markets in the OIC member countries still show potential for improvements. Most importantly, strengthening the legal accountability and regulatory frameworks while maintaining political stability is a key aspect for the member countries faced with some political changes in the past few years. Moreover, low and stable inflation rates as well as an independent central bank may help to keep savings in the domestic financial market, which might be especially relevant for the Sub-Saharan countries group. Additionally, governments should reduce their reliance on the domestic banking sector by

encouraging institutional investors such as insurance companies or pension funds to participate in the market. Finally, the introduction or further development of Islamic finance instruments, especially Islamic sukuk bonds, can deepen domestic financial markets and mobilize additional financial resources from both, private and institutional investors. Overall, a high share of marketable securities in total domestic debt, a broad participation of different financial agents and a high ratio of fixed versus floating bonds usually describe a sound domestic bond market.

Policy Advice 3: Broadening and diversifying the creditor base.

Rationale: In many OIC member countries, the limited investor base is perceived to be one of the most relevant challenges for realizing efficient public debt operations. Along with an improvement of domestic debt markets, a further opening towards global markets as well as offering new investment vehicles may address this problem. Generally, the issuance of Islamic sukuk bonds may broaden the credit base as new (international) investors, who are specializing in Sharia-compliant financial instruments, may be attracted. While even non-OIC member countries experience greater popularity of such Islamic sovereign bonds, this development is especially relevant for cross-border investments between OIC countries, particularly through sovereign wealth funds of OIC member states. Moreover, recent innovation efforts such as state contingent debt instruments or Master Collateralized Murabahah Agreements (which are bundled assets based on rent-to-own agreements) might be evaluated in order to broaden the investor base and better management of risks. It should be also noted that to attract international investors, it is crucial to increase the transparency and information availability regarding public debt data, procedures and (predictable) management strategies. It is generally recommended that OIC countries with a yet developing domestic market avoid a large dependence on either domestic or foreign borrowings, but strive for a balanced exposure to both markets to mitigate global macroeconomic as well as country-specific shocks.

Policy Advice 4: Lengthening the average maturity of the public debt.

Rationale: Governments have a tendency to issue short-term rather than long-term bonds. Currently, the average maturity of new external debt commitments of private creditors (excluding official creditors such as the IMF) in the OIC member countries hovers at only 4-5 years, and has even shown a declining trend since 2013. Although interest rates on short-term obligations are usually lower than long-term ones due to an additional maturity premium investors demand for a long tie-up of their capital, a tradeoff arises as short-term debt is subject to a higher refinancing risk. Moreover, the concentration of short-term bonds may prevent the establishment or further development of a domestic debt market which is supposed to satisfy both the investors' preferences and the government's needs for medium- to long-term financing. Hence, OIC member countries which are negatively affected by those factors are encouraged to expand the maturity mix of their public debt portfolio. Especially governments in the high- and median-income group with access to global debt markets may consider increasing bond issuances with longer time horizons relative to short-term bills if the domestic market conditions permit such operations, given the current period of low interest rates in many developed economies. Overall, it is advisable to exploit the benefits of all maturity categories, from short- over medium to long-term, and achieve a sustainable maturity balance without an exclusive dependence on either of one category.



Policy Advice 5: Applying macroeconomic risk management methods.

Rationale: Macroeconomic developments pose a significant risk for public debt management as the respective shocks are often difficult to mitigate in the short-run. Thus, OIC member countries are encouraged to implement quantitative information and analysis systems based on adequate frequency data which provide early warning indications. A basic set of macroeconomic indicators includes the ratio of the net present value of debt relative to GDP and government revenues, external debt servicing costs relative to exports or the consolidated general government net lending relative to GDP. Best practices include the OECD System of Composite Leading Indicators which is designed to provide early signals of turning points in business cycles. OIC countries with a high degree of integration into the global financial system might find the signal approach methods (such as ifo Signal Approach) helpful, which assesses the probability of a currency and banking crisis. Nations which have a high natural disaster risk may consider negotiating standing backup credit lines for immediate release of additional funding. Finally, the public budgets in many OIC the member countries strongly depend on commodities which are prone to global macroeconomic shocks. Especially the recent decline in oil prices has led to a strong increase in newly issued public debt in some member countries. Concerned countries should aim to diversify their economic activities into less volatile sectors, which admittedly differ from case to case. Overall, synergies from macroeconomic risk management may be achieved if the responsible authorities built strong communication and coordination channels with the DMU.

Instruments to Realize the Policy Advices:

COMCEC Financial Cooperation Working Group: In its subsequent meetings, the Working Group may elaborate on the above-mentioned policy areas in a more detailed manner.

COMCEC Project Funding: Under the COMCEC Project Funding, the COMCEC Coordination Office issues calls for project proposals each year. With the COMCEC Project Funding, the member countries participating in the Working Groups can submit multilateral cooperation projects to be financed through grants by the COMCEC Coordination Office. For realizing above-mentioned policy recommendations, the member countries can utilize the COMCEC Project Funding facility. These projects may include organization of seminars, training programs, study visits, exchange of experts, workshops and preparation of analytical studies needs assessments and training materials/documents, etc.

