



national treasury

Department:
National Treasury
REPUBLIC OF SOUTH AFRICA



UNITED NATIONS
UNCTAD



MEFMI
Macroeconomic & Financial Management
Institute of Eastern & Southern Africa

Workshop on Asset and Liability Management

30 September - 3 October 2013

**Centre for African Public Debt Management and Bond Markets
Midrand - South Africa**

Organized by: UNCTAD, National Treasury of South Africa and MEFMI

Participants: Debt Management Officials in the African Region

OBJECTIVES OF THE WORKSHOP

The aim of the workshop is to show how a sovereign ALM approach can be implemented by presenting the experience of the National Treasury of South Africa. The workshop will highlight the benefits of the ALM approach for sovereigns, and will discuss the problems that arise in carrying out such an approach as well as the solutions that the National Treasury of South Africa has devised. The training is aimed at strengthening the capacity of the Debt Management Offices (DMOs) in the region to manage the public debt within an ALM framework.

The workshop is organized by UNCTAD, the National Treasury of South Africa and MEFMI as one of the activities of the UNCTAD Development Account project "Strengthening Capacity for Effective Asset and Liability Management in National Debt Management Offices". The objective of the project is to strengthen the institutional capacity at the national level in developing countries from the Africa and Latin America and Caribbean regions to manage their public debt and developing the capacity to move to a debt management approach based on an integrated ALM framework.

WORKSHOP OUTLINE

The workshop will present sovereign asset and liability management (ALM) in South Africa focusing on its practical implementation. The aim is to show that an ALM approach can effectively complement public debt management in monitoring risk and reducing debt vulnerabilities. The benefits of the ALM approach and the problems encountered in its implementation in South Africa will be discussed in order to derive lessons which can be useful for other African DMOs that want to move to a debt management based on an integrated ALM framework.

The first part of the workshop presents the main concepts, objectives and instruments of sovereign ALM. It shows that a proper assessment of the assets and liabilities of the public sector and of the risks to which such positions are exposed is useful to minimize fiscal and financial vulnerabilities. The study reviews the role of the public sector's balance sheet for risk minimization and the principles of hedging and risk diversification. A particular attention is dedicated to the analysis of contingent liabilities, the management of foreign reserves and the monitoring of local governments and public enterprises.

The second part of the workshop focuses on ALM in South Africa. First, it discusses institutional aspects such as the legal framework and the organization of ALM in South Africa. A particular attention is dedicated to the issue of coordination between the Government and the Central Bank and between the Central and Local Governments. Then, the study shows how the National Treasury manages the assets and liabilities of the public sector. The focus is on the instruments, methods and procedures that are used for risk analysis and management of the public sector's financial position. The main problems in adopting an ALM are illustrated with 'case study' examples and an emphasis is given to policy solutions to such problems.

The workshop shows that ALM helps monitor the various risks affecting the public sector and provides evidence of the potential benefits of moving to a debt management based on an integrated ALM framework.

TARGET PARTICIPANTS

- Senior/mid-level officials working in Debt Management Offices whose responsibilities include risk monitoring, the assessment of risk exposure and portfolio risk analysis.
- Senior officials working in Debt Management Offices who use information on debt and risk analysis to decide debt strategies regarding the choice of funding instruments.

ASSET AND LIABILITY MANAGEMENT WORKSHOP

WORKSHOP AGENDA

Day 1 - Monday ~ 30 September 2013

- 9:00-9:30 **Registration**
- 9:30-10:15 **Welcome Address**
Opening address: Alessandro Missale (Senior Economic Affairs Officer, Debt and Development Finance Branch, UNCTAD)
Thuto Shomang (Head, Asset and Liability Management -ALM- division, National Treasury, South Africa)
Raphael Otieno (Director, MEFMI Debt Management Programme)
- 10:15-10:45 **The UNCTAD Project "Strengthening Capacity for Effective Asset-and-Liability Management in National Debt Management Offices"**
Presenter: Kristine Forslund (Economic Affairs Officer, Debt and Development Finance Branch, UNCTAD)
This section provides a brief introduction of the UNCTAD Project on ALM; it presents the objectives of the project and a summary of the main activities and accomplishments.
- 10:45-11:00 **Coffee Break**
- 11:00-12:30 **An introduction to Asset and Liability Management (ALM) - The benefits of integrating Public Debt Management (PDM) into an ALM framework**
Presenter: Alessandro Missale (Senior Economic Affairs Officer, Debt and Development Finance Branch, UNCTAD)
What is ALM? What are the benefits and costs of Sovereign ALM? This section will provide an overview of ALM and discuss how this approach to debt management may reduce a country's vulnerability to debt crises.
- 12:30-14:00 **Lunch Break**
- 14:00-15:30 **ALM - Concepts and definitions - The Sovereign Balance Sheet**
Presenters: Lindy Bodewig and Karen Maree (Chief Directors, Accountant-General's Office, National Treasury, South Africa)
This section will introduce the broad components of the sovereign balance sheet. In particular, the financial assets and liabilities will be highlighted for purposes of risk minimization and diversification with regard to the role of the Public Debt Manager. The analysis shows that the vulnerability to debt crises depends on the structure of a country's asset and liability positions.
- 15:30-15:45 **Coffee Break**
- 15:45-17:00 **The objectives of ALM - The minimization of risk and fiscal/financial vulnerabilities**
Presenter: Jim Matsemela (Director Market Risk, ALM division, National Treasury, RSA)
This section will discuss the main objectives of ALM, how risk minimization can be achieved and fiscal and financial vulnerabilities reduced. It shows that a proper assessment of the assets and liabilities of the public sector, of their risk exposures and their joint management are useful to minimize fiscal and financial vulnerabilities.
- 17:00- **Cocktail Reception**
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Day 2 - Tuesday ~ 1 October 2013

- 9:00-10:15 **Contingent Liabilities**
Presenters: Mkhulu Maseko and Lebogang Madiba (Director Credit Risks and Director Country Risks, ALM division, National Treasury, South Africa)
Government balance sheets are exposed to the risks of explicit and implicit contingent liabilities, such as guarantees for state-owned enterprises, sub-national debt and PPPs, as well as implicit contingent liabilities, such as natural disasters and bailouts of financial institutions. This section will discuss how to monitor and report contingent liabilities and make provisions for the risks that they imply.
- 10:15-10:30 **Coffee Break**
- 10:30-11:45 **MEFMI study on Contingent Liabilities**
Presenter: Cornilious Deredza (Programme Officer, MEFMI Debt Management Programme)
This section will provide an overview of the study on Contingent Liabilities in Eastern and Southern Africa and of other activities related to ALM undertaken by the Debt Management Programme of MEFMI.
- 11:45-12:30 **General Discussion on Monitoring and Reporting Contingent Liabilities**
Floor Discussion by participating Debt Management Officials
- 12:30-14:00 **Lunch Break**
- 14:00-15:30 **Monitoring Local Governments**
Presenter: Elsabe Rossouw (Chief Director Intergovernmental Relations, National Treasury, South Africa)
Local Governments are a potential source of contingent liabilities either arising from explicit guarantees or the need to avoid systemic failures. This section will discuss how the ALM approach allows for monitoring subnational debt and liabilities and whether it favors the regulation of such entities.
- 15:30-15:45 **Coffee Break**
- 15:45-17:00 **Monitoring Public Enterprises**
Presenters: Rudzani Mandiwana and Lloyd Ramakobya (Director Corporate Governance and Director Investment Analyses, ALM division, National Treasury, South Africa)
The management of assets and liabilities of different institutions and the complexity of an ALM framework poses several challenges in terms of legislation, monitoring, reporting, etc. This section will discuss institutional aspects of ALM, focusing on the framework for monitoring public enterprises in South Africa.
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Day 3 - Wednesday ~ 2 October 2013

- 9:00-10:15 **Foreign Reserves and Funds - Managing international risk**
Presenters: Zafar Parker (Head of Reserves Management, South African Reserve Bank) and Johan Redelinghuys (Chief Director Financial Operations, ALM division, National Treasury, South Africa)
A large stock of foreign reserves provides a self-insurance against the volatility of foreign capital and aid flows and valuable resources to implement counter-cyclical policies in response to a global recession. This section will address foreign-reserve management within an ALM framework, focusing, in particular, on the scope, benefits and problems of a joint management of foreign reserves with public debt.
- 10:15-10:30 **Coffee Break**
- 10:30-11:45 **The organization of ALM in South Africa - Coordination of Institutions**
Presenter: Johan Redelinghuys (Chief Director Financial Operations, ALM division, National Treasury, South Africa)
This section discusses institutional aspects related to the issue of coordination between the Government and the Central Bank and between Central and Local Governments. The analysis will focus on the coordination problems arising from the joint management of assets and liabilities of different Institutions and the solutions that have been adopted within the ALM framework in South Africa.
- 11:45-12:30 **General Discussion on Reserve Management and Coordination Issues**
Floor Discussion by participating Debt Management Officials
- 12:30-14:00 **Lunch Break**
- 14:00-15:30 **ALM in South Africa - Practical aspects of ALM implementation**
Presenter: Tshepiso Moahloli (Director Foreign Debt Management, ALM division, National Treasury, South Africa)
This section describes how the National Treasury of South Africa manages the assets and liabilities of the public sector. The presentation moves from the main objectives and challenges of ALM in South Africa to focus on how the ALM approach is implemented in practice.
- 15:30-15:45 **Coffee Break**
- 15:45-17:00 **ALM in South Africa - Risk monitoring and management**
Presenter: Anthony Julies (Chief Director Risk Management, ALM division, National Treasury, South Africa)
This section will present and discuss the specific strategy devised by the South Africa National Treasury to monitor and manage the various risks affecting the Government Balance Sheet. The discussion will start from the issues of the choice of the assets to consider in the balance sheet, the measurement of assets with no market price to focus on more advanced management strategies.
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Day 4 - Thursday ~ 3 October 2013

- 9:00-10:35 **ALM in South Africa - Risk management with benchmarking**
Presenters: Jim Matsemela, Lebogang Madiba and Mkhulu Maseko (Director Market Risks, Director Country Risks and Director Credit Risks, National Treasury, South Africa)
This section examines the instruments, methods and procedures that are used by the National Treasury of South Africa for risk analysis and management of the public sector's financial position. The focus is on indicators, models and procedures that are used to minimize the exposure of the government financial position to various risks affecting its assets and liabilities.
- 10:35-10:50 **Coffee Break**
- 10:50-12:30 **The South African experience and lessons learnt in implementing prudent debt and risk management strategies and policies, within a Fiscal and Monetary framework.**
Presenters: Johan Krynauw and Phumzile Maseko (Director Debt Operations and Director Domestic Debt Management, ALM division, National Treasury, South Africa)
The main problems that a country faces in adopting an ALM framework are illustrated with 'case study' examples and an emphasis is given to the policy solutions that the SA National Treasury has devised. Relevant lessons from the South African experience are derived for other countries in the region.
- 12:30-14:00 **Lunch Break**
- 14:00-15:30 **The potential benefits from integrating PDM in ALM - General Discussion**
Panelists: Debt Management Officials discussing the introduction of ALM in their countries
This section will summarize the main finding of the workshop and Debt Management Officials will be invited to discuss what they think would be the potential benefits for their countries of moving to a debt management based on an integrated ALM framework and the costs and/or obstacles that may prevent such integration.
- 15:30-15:45 **Coffee Break**
- 15:45-17:00 **Closing Discussion - The way forward and action plans for PDM and ALM**
Introduction by:
Anthony Julies (Chief Director Risk Management, ALM, National Treasury, South Africa)
Raphael Otieno (Director, MEFMI Debt Management Programme)
Gabor Piski (Project Manager, DMFAS Programme, Debt and Development Finance Branch, UNCTAD)
General Discussion: Debt Management Officials
The final panel will discuss the introduction of an ALM framework, the plan of actions to be undertaken, whether a partial introduction would still be beneficial and what should be the priorities for the countries in the African region. After the panelists' introduction, Debt Management Officials will be invited to discuss the situation of their countries and the way forward.
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