

MEFMI FORUM

Issue 17

2014

Contents

Guidelines for MEFMI Forum	1
Foreword	3
Status of Legal Frameworks and Institutional Arrangements for Public Debt Management in the MEFMI Region	5
Financial Intermediation in MEFMI Countries: Perspectives	17
Where Do Funds to Finance the African Debt Market Come from?	30



MEFMI

Macroeconomic and Financial Management
Institute of Eastern and Southern Africa

Occasional papers published by MEFMI

The Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) publishes the MEFMI FORUM in English.

EDITOR-IN-CHIEF

Caleb M. Fundanga (PhD)

EDITORIAL COMMITTEE MEMBERS

Raphael Otieno – Chairperson

Amos Cheptoo

Tiviniton Makuve

Michelle Mutinda

Jane-Rose Lutaya

Gladys Siwela – Editor

EDITORIAL ADVISORS

Sehliselo Mpofo (PhD)

Patrick Mutimba

Please direct contributions, comments and enquiries to:
The Publications & Networking Officer
MEFMI FORUM Editorial Committee
P O Box A1419

Avondale

Harare

Zimbabwe

Tel: +263-4-745988/9/91-94

Fax: +263-4-745547/8

Email: capacity@mefmi.org
gladys.siwela@mefmi.org

Website: www.mefmi.org

Twitter: [@mefmiorg](https://twitter.com/mefmiorg)

The views expressed in this publication are those of the authors and do not in any way reflect the official position of MEFMI or the authors' employers.

No part of this publication can be reproduced or copied in part or whole without the prior written approval of the Editor-in-Chief.

©MEFMI 2014

ISSN 2073 - 0055

Guidelines for the MEFMI Forum

1. Preamble

The MEFMI Forum is a bi-annual newsletter of the Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI). The Institute is a regionally owned capacity building organization that is headquartered in Harare - Zimbabwe. Its current country membership includes: Angola, Botswana, Burundi, Kenya, Lesotho, Malawi, Mozambique, Namibia, Rwanda, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. MEFMI's mandate entails fostering best practices through strengthening of sustainable human and institutional capacities in key identified priority areas of debt management, financial sector management and broader macroeconomic management. Sharing and dissemination of pertinent information and experiences is one of the modes of delivery employed by the Institute. The Forum, among other traditional and new information technology-driven mechanisms, plays a pivotal part in this regard.

2. Objectives

The overall aim of the Forum is to provide a widely accessible and informative media for the regular regional and international exchange of pertinent ideas, issues, speeches, experiences, new developments and sound or best practice.

Within this context, these guidelines are designed to:

- Inform stakeholders of the legal and institutional framework within which the Forum is published and disseminated;
- Provide editorial policy guidelines that set the required quality standards for the Forum; and,
- Lay down procedures for the sourcing and submission of contributions for publication in the Forum.

3. Editorial Guidelines

- The Forum shall be published twice a year for the benefit of all MEFMI stakeholders;
- Contributions should be made in the English language;
- Contributions shall ordinarily be published on a continuous first-come-first-served basis, thus allowing for the deferring of some successful articles received late to subsequent issues of the Forum;
- Contributions shall be published on a voluntary or pro-bono basis, with modest honoraria being paid to only defray personal expenses incurred;

- The terms of reference of MEFMI resource persons shall provide for customization of their presentations into short background papers for the MEFMI Forum articles;
- Special contributions may be occasionally commissioned on an exceptional case-by-case basis;
- Contributions submitted for publication should be related to capacity building in macroeconomic and financial management;
- The contributions should be incisive, informative and as far as possible original, with proper acknowledgement of the work of others used, so as to avoid plagiarism;
- Contributions will only be published with the authors' consent and their acceptance of liability for content and implications of their contributions;
- Personal details, such as authors' names, titles, designations, name of employers and recent photographs may be inserted into respective contributions for ease of identification and reference;
- The MEFMI website versions of the Forum issues shall have been appropriately adapted for ease of access by all stakeholders under varying information technology capabilities;
- The Editor-In-Chief shall reserve the right to decline to publish articles that are inconsistent with the above guidelines and / or to annul part or all of any honoraria that may be due to the affected contributions

4. Legal and Institutional Frameworks

The authors of articles published in the Forum are deemed to accept personal liability for the content and implications of materials they submit for publication;

MEFMI shall not under any circumstance be held liable for contributions published through the Forum, and a disclaimer to this effect shall be inserted into every issue of the Forum;

The MEFMI Forum shall be published and disseminated through the office of the Editor-In-Chief, which is supported at various stages by the Editorial and Tender Committees and a Networking and Publications function from within the MEFMI Secretariat;

Prior written permission and /or acknowledged reference to the relevant issue of the Forum should be cited for any use of materials published in the Forum.

5. Target Audience and Contributors

The Forum shall be open for contributions and readership from a wide, diverse and expert stakeholder base from within the relevant MEFMI client institutions, member States, partners and other regional and international peers and networks;

The Forum shall be distributed to stakeholders and other relevant parties in hard copy and / or in electronic form, including through posting on the MEFMI website.

6. Eligibility Criteria

In addition to complying with the editorial guidelines as set out in section 3 above, contributions should meet the following specific criteria for eligibility for publication:

- Contributions should be relevant to macroeconomic and financial management;
- The contributions should be topical, analytical and applied than being of a purely research or theoretical slant;
- Contributions should be concise and brief, within a maximum limit of 5000 words, excluding diagrams and other necessary illustrations;
- Contributions need to properly acknowledge others' work, including appending of relevant bibliographies, references, etc;
- Where appropriate, prior clearance or authentication by employers or relevant authorities should be sought in cases where country-sensitive or country-specific information is involved;
- Contributions should adhere to the following lay-out:
 - o Title
 - o Author and Designation
 - o Overview / Executive Summary / Preamble
 - o Introduction
 - o The issues
 - o Purpose / objective/s
 - o Methodology
 - o Scope
 - o Body
 - o Facts
 - o Analysis
 - o Interpretation
 - o Conclusion / Recommendations
 - o Bibliography Harvard Style

There should be adherence to the following submission procedures:

- Meeting submission deadlines,
- Submission of contributions in MS-Word.

Foreword

By The Editor-In-Chief

It is my great pleasure and honour to present to you my first issue of MEFMI Forum as the Institute's Executive Director and Editor-In-Chief. I take over the role of publisher of this very important bi-annual technical publication, which for years has given MEFMI Fellows, staff and other researchers the opportunity to share their knowledge and expertise in the dynamic and critical area of macroeconomic and financial management in order to enhance the growth and development of the MEFMI region.

The lead article in this issue was authored by Messrs Raphael Otieno and Lekinyi Mollel who are Director and Programme Officer respectively in the MEFMI Debt Management Programme. The thrust of their co-authored article is based on the initiatives that countries in the MEFMI region are taking as they strive to strengthen their public debt management functions. The article is based on the results of studies on countries' performance against requirements for effective debt management. The results show that improvements have been made with respect to institutional arrangements with 80 percent of the ten (10) assessed countries meeting minimum requirements, including one country that had its managerial structure rated best, under Debt Management Performance Assessment. However, the legal system remains weak in the region as only three countries amongst the assessed countries met the minimum legal requirement for effective debt management. The main weaknesses in the legal framework are on the incompleteness of the legislation as there are no provisions on the purpose of borrowing, debt management objectives, debt management strategy and lack of clear delegation of authority especially between the executive arm and the central banks. In addition, the legal framework for public debt management for some countries is spread across various pieces of legislation that compromise its comprehensiveness. Despite the higher score under the managerial structures, fragmentation of debt management functions is among the major challenges that MEFMI countries face. In this regard, this paper argues that countries should continue with reforms that harmonize their laws and ensure there is institutional coordination in debt management. The initiatives, among others, should include reformulating and updating the outdated legal frameworks and establishing institutional arrangements for sound public debt management.



The paper on Financial Intermediation in MEFMI Countries: Perspectives which was written by Mr Patrick Mutimba, MEFMI Director Financial Sector Management Programme, explores the challenges that financial markets in the MEFMI region face. It highlights the glaring idiosyncrasies and anomalies that should not be expected to persist in the medium term. He looks at the Central Banks rationale for targeting the interest rate instead of volume of money. Many Central Banks in our region now use a key policy rate in the implementation of monetary policy. He also takes a look at the private sector player and examines the interrelationships between Banker and Customer as well as the role of other institutional players in our regional financial markets. Using publicly available data, he builds an argument that there are some risk adjusted arbitrage opportunities which only subsist due to information asymmetry. The author concludes by posing a few questions targeted at eliciting debates about what regulators can do to catalyse the development of the markets.

The last article in this issue (Fastest-Growing Countries in the World Will Be in Africa), is one that I contributed to The Banker Magazine of the IMF/World Bank in 2012. The issues raised in the paper are relevant today as

much as they were back then, particularly as we look at the fact that the majority of the ten (10) fastest-growing countries in the world are in Africa. This is a far cry from the 1980s and 1990s and also from when Africa was labelled “the hopeless continent” by The Economist a decade ago.

The African turnaround has mainly been attributed to improved economic management and the Highly Indebted Poor Countries (HIPC) initiative, although high commodity prices in recent years have also played a part. I trust that as the major stakeholders in this publication you will find these papers enlightening and relevant to your operations. I would also like to urge you to contribute papers to this publication in order for us to ensure that there is continued discourse on the various aspects of economic development of our region. I also look forward to your comments on how you would like to see the content of this publication improved going forward.



Caleb M. Fundanga

Status of Legal Frameworks and Institutional Arrangements for Public Debt Management In The MEFMI Region

By Lekinyi Mollel MEFMI Programme Officer, and Raphael Otieno MEFMI Director, Debt Management Programme

Abstract

The last decade has witnessed a growing number of developing countries, including those in the MEFMI region, initiating a series of governance reforms such as strengthening of public debt management. The initiatives followed a number of studies that support legal and institutional reforms as key to sound debt management and ultimately debt sustainability. Evaluation of the status in the MEFMI region shows improvements have been made with respect to institutional arrangements with 80 percent of the ten assessed countries meeting minimum requirements, including one country that had its managerial structure rated best, under Debt Management Performance Assessment.

However, the legal system remains weak in the region as only three countries amongst the assessed countries met the minimum legal requirement for effective debt management. The main weaknesses in the legal framework are on the incompleteness of the legislation as they lack provisions on the purpose of borrowing, debt management objectives, debt management strategy and lack of clear delegation of authority particularly the principal - agency agreements between the executive arm and the central banks. In addition, the legal framework for public debt management for some countries is spread across various pieces of legislation that compromise its comprehensiveness. Despite the higher score under the managerial structures, fragmentation of debt management functions is among the major challenges.

Legal weaknesses, institutional fragmentation and weak coordination among the institutions managing public debt are some of the challenges that countries need to address in the region. In some countries, laws and regulations governing management of public debt are spread across different pieces of legislation. Some debt laws are also incomplete in terms of coverage. Countries therefore need to continue with reforms, harmonize their laws and ensure there is institutional coordination in debt management.

1. Introduction

The last decade has witnessed a growing number of developing countries initiating public sector reforms that included strengthening public debt management through appropriate strategies and policies. The initiatives involved among others, reformulating and updating the outdated legal frameworks and reinstituting sound arrangement for public debt management (Roy and Williams, 2010). These followed a number of studies including a survey by the World Bank and the IMF (2002) which revealed that several and very important weaknesses continue to exist in key aspects of debt management in the HIPC's, notably in the design of their legal and institutional frameworks. The survey also found that while most HIPC's have an explicit legal instrument governing the debt offices and its functions, the legal framework is not always clearly defined and adequately implemented. Thus, the main challenge to the instituted reforms is the transparent implementation

of legal and institutional frameworks. To speed up the reforms, the World Bank and International Monetary Fund (IMF) developed a Debt Management Performance Assessment tool (DeMPA) that assesses debt management functions in a holistic approach. In most countries including the assessed MEFMI countries, DeMPA identified the legal framework as one of the weak areas among the 15 indicators used to measure a country's debt management performance.

Given the important role of legal framework and institutional arrangement in debt management, this article assesses the situation in the MEFMI region with a view of exposing the strengths and weaknesses and ultimately proposing remedies to the weaknesses. In the process, the methodology of evaluation was based on;

- (i) DeMPA country reports,
- (ii) Countries Policy and Institutional Assessments (CPIA) by African Development Bank (AfDB), and

(iii) Informal feedback from participants of the MEFMI regional workshop on legal framework and institutional arrangement for public debt management held in Mombasa, Kenya in 2012.

Under each methodology, 10 out of 13 MEFMI member states were assessed. Nevertheless, analysis was not restricted to the assessed countries as some examples have been cited even for the other countries.

This article is organized into four sections. The following section gives summary of sound legal framework and institutional arrangement for public debt management drawing examples where necessary. Section three evaluates the situation in the MEFMI region with respect to legal and institutional arrangement for public debt management. The last section concludes and makes recommendations on the way forward.

2. Sound Legal and Institutional Framework for Public Debt Management

2.1 Legal Framework

Ideally, the legal framework for public debt management comprises both primary legislation (laws enacted with the approval of parliament or congress) and secondary or delegated legislation (executive orders, circulars, decrees, ordinances, standing orders, and other statutes) determined by the executive branch of Government. While it is common in most countries to have a dedicated Act governing debt management activities, there are also cases where the legislation is spread across a number of Acts.

Irrespective of whether it is a single dedicated primary Act or several provisions spread in various pieces of legislation, sound debt legislation should at minimum: set out the authority to borrow; specify borrowing purposes; set clear debt management objectives; specify borrowing limits; require the preparation of a debt management strategy; specify mandatory (at least annual) reporting to parliament/congress on debt management activities; and determine audit requirements. The requirement to include certain key provisions in the primary legislation is guided by constitutional principles.

2.1.1 Authority to Borrow

In several jurisdictions, the primary legislation (such as in India and Rwanda) is enshrined in the mother

law – the Constitution - specifying explicitly, the authority to borrow on behalf of the Government and the delegation process. From the primary legislation, borrowing delegation comes from parliament¹ down to the executive branch. The delegation can be to the president, cabinet or directly to the minister of finance. Most countries assign the role to the minister responsible for finance. The executive, with the approval of parliament undertakes liability management operations or other debt-related transactions (such as debt restructuring and potential swaps) and issues loan guarantees.

There may be further delegation (possibly in secondary legislation) within the executive branch of Government to one or more debt management entities. This is the case when the executive (Ministry of Finance or Cabinet) delegates to the central bank the authority to issue Government securities in the domestic markets. For accountability purposes, the delegation requires formal principal - agency agreement between the executive and the central bank, against which performance can be assessed. Nonetheless, as a rule of thumb, accountability requires that the borrowing powers are exclusively vested in a single borrowing authority, usually the Minister for Finance.

2.1.2 Debt Management Objectives

Accountability requires that formal objectives of debt management are well spelt out in the primary legislation against which the Government's performance can be assessed. In most countries the following are spelt out as key debt management objectives:

- To finance Government budget deficit at the lowest possible cost over the medium to long-term consistent with a prudent degree of risks; and
- To develop and maintain efficient domestic debt markets in the medium to the long-term.

There are however, few jurisdictions, for example India that includes keeping total debt at sustainable levels as an objective of debt management.

2.1.3 Debt Management Strategy

The requirement for a medium term debt management strategy (MTDS) has increasingly been included as one of the reforms adopted in debt management legislation. Including the requirement for MTDS in the primary legislation is a practical expression of the high-level commitment towards implementation of debt management objectives. The MTDS provides the strategic path in the medium-term to

¹In most countries, Parliament approves borrowing as an integral part of Government budget on annual basis. However, there are cases where the parliament scrutinizes and approves every borrowing by the Government. Either of the approaches has its advantages and disadvantages depending on legal and institutional set-ups.

meeting debt management objectives consistent with macroeconomic policies. Although the MTDS is usually approved by the executive (mostly the cabinet) as a formal document, it is often submitted to parliament for endorsement as part of the Medium Term Expenditure Framework and annual Government budget.

2.1.4 Mandatory Reporting

Sound debt management legislation establishes the necessary governance structures including reporting debt management activities to parliament at least annually. In addition, there should be an annual public debt management report or bulletin, which would include a discussion on policy developments and an evaluation of outcomes against stated objectives as set out in the strategy, as well as the latest comprehensive debt data. International good practice also requires regular reporting to parliament on contingent liabilities of the Government.

2.1.5 Audit Requirements

External audit is usually a responsibility of the country's supreme audit institution, popularly termed as Controller and Auditor General in most of the Anglophone countries. Although experience shows that audit is included in other statutes or secondary legislation, sound practice requires inclusion of a provision in the primary debt management legislation. The provision may include the timetable for the submission of accounts to the supreme auditors and subsequent presentation to parliament or parliamentary committee responsible for public finance or accounts. Emphasis is put on performance audit because most of the financial audit queries originate from performance weaknesses.

2.1.6 Debt Scope

Sound debt management legislation shapes and directs operations of debt managers (Roy and Williams, 2010). Thus, in order to correctly guide debt managers, the debt management legislation needs to be complete and comprehensive in terms of coverage. The legal framework is therefore expected to cover all categories of debt, that is: central Government debt (external and domestic); publicly guaranteed debt; public non-guaranteed debt; on-lending loans and grants².

2.1.7 Purposes of Borrowing

To guard against the risk of abuse, best practice

requires that the purpose of borrowing be stated in the legislation. This ensures borrowing is done for a predetermined need and borrowed proceeds are utilized in accordance with the intended purposes. Conventionally, loans are raised for the purpose of: financing budget deficits; treasury and / or monetary policy management purposes; obtaining foreign currency for balance of payments support; build reserves (foreign and local); refinancing – to pay off expensive loans and on-lending.

2.1.8 Borrowing Limits

To guard against the risk of abuse, the delegation of the borrowing power is often restricted by a statement in the laws³, regulations and policies of the limit on the annual net borrowing or the outstanding debt (or both) as well as the quantitative and qualitative limits of Government guarantees. The limits differ across countries ranging from the commonly used ratios of key economic aggregates⁴, fiscal rules and nominal amounts (eg USA). Depending on the limit provision(s) in the legislation, the borrowing limits can be fixed in the legislation or allowed to be reviewed and approved by parliament on an annual basis. The scope of the limits may apply to central Government debt, sub-national debt, publicly guaranteed, and publicly non-guaranteed debt.

The borrowing limits are often picked by individual countries to underpin their fiscal consolidation plan. The limits are also increasingly being used as convergence criteria in most of the regional economic and political groupings, for example the Maastricht criterion that requires debt/GDP ratio of not more than 60 percent for the European Union. The debt limits can be applied with respect to a single indicator or multiple indicators and they may apply to gross or net of debt stock or flows. Nevertheless, it is advisable that quantitative debt limits expressed in legislation are realistic, as an adequate political commitment and a compliance mechanism.

2.2 Sound Institutional Arrangement

Sound debt management requires clear coordination that ensures smooth flow of debt data and information across the institutions involved in debt management. Thus, appropriate arrangement of the institutions, which include location of debt management office and its organization, as well as institutional roles, is critical.

²Although grants are not loans, they are included due to the thin line between grants and loans particularly for the financing from concessional sources, and by the fact that they both bridge the difference between domestic revenue and expenditure.

³For the pros and cons of including debt limits in the primary law see Roy and Williams (2010) pages 11 & 12.

⁴Typically, debt limits are expressed as ratios of debt-to-GDP, debt service to revenue receipts and borrowings to capital expenditure.

2.2.1 Location of a Debt Office

The debate of where a debt office should be located and whether it should be an autonomous office⁵, a department under the Ministry of Finance or the Central Bank or whether the functions should be distributed in various ministries and departments of Government and the central bank has been going on for quite some time in the region. Experience in both the developed and the developing world suggests that there is a range of institutional alternatives for locating the sovereign debt management functions across one or more agencies, including in one or more of the following: the ministry of finance (*Belgium, New Zealand, Australia, France, the Netherlands, the United States of America, Canada and Poland*), central bank (*the case of Denmark*⁶), autonomous debt management agency (*Austria, Ireland, Portugal, Sweden, Germany, Hungary, United Kingdom and Nigeria*), and central depository. In other countries, such as Turkey, South Africa, Lebanon, Lesotho, Kenya, Ghana, Liberia, Sierra Leone, Zimbabwe and Malawi the debt management functions have been consolidated into a standard ministerial department within the Ministry of Finance headed by a Director or Director General. In countries like Tanzania, Uganda and Zambia, the functions are spread across departments in the ministries of finance and central banks. The spreading of functions across departments and institutions often creates coordination challenges.

2.2.2 Organization of the DMO

Regardless of the DMO location, the key requirement is to ensure that the organizational framework

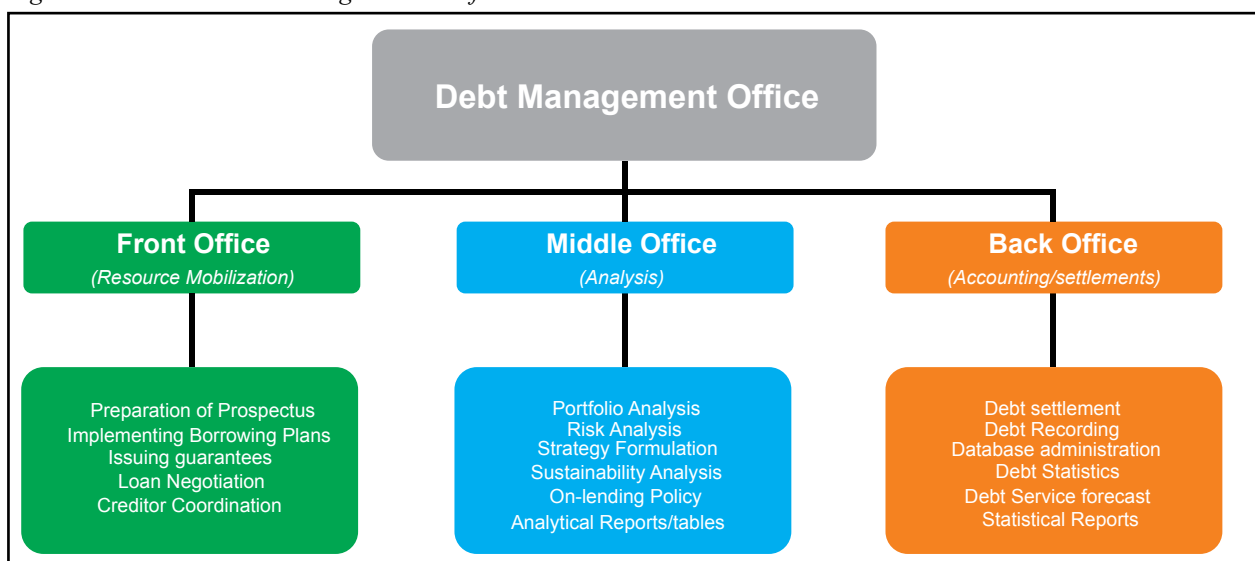
surrounding debt management is clearly specified, coordinated, information shared, and that the mandates of the respective players are clearly defined and adhered to. What is important is that a debt management office should be consolidated and centralized to the extent possible and organized according to functional roles, that is, Front Office, Middle Office and Back Office as indicated in Figure 1. In such an arrangement, the Front Office has the responsibility of mobilizing funding for Government within the legal and policy frameworks. This involves contracting loans (external and domestic) in line with the approved borrowing plans, issuing guarantees, and coordinating with creditors.

The **Middle Office** undertakes analytical functions that enable Government to meet its financing needs and its debt service obligations at the lowest possible cost with a prudent degree of risk exposure. The activities include portfolio and risk analysis, debt strategy formulation, debt sustainability analysis, and preparation of various debt policies. Middle office also monitors the front office's performance in terms of compliance with the chosen strategy.

The **Back Office** is responsible for maintaining a high quality database (*complete, accurate and consistent*) of the debt portfolio. The Back Office also confirms debt settlements and payments and prepares reports on debt flows and stocks.

In large debt management offices or directorates, establishment of a unit dealing with operational risk management issue is becoming a common practise.

Figure 1: Sound Functional Organization of the DMO



Source: Summarized from various documents including the DeMPA Guide and Roy and William (2010)

⁵An autonomous debt office is favoured due to its advantage of establishing its own remuneration packages outside the normal civil service scale. Low remuneration has been the cause of high staff turn-over in Government departments.

⁶The Central Bank as an agent for the Ministry of Finance, but accountability to Parliament for Government borrowing remained with the Ministry of Finance.

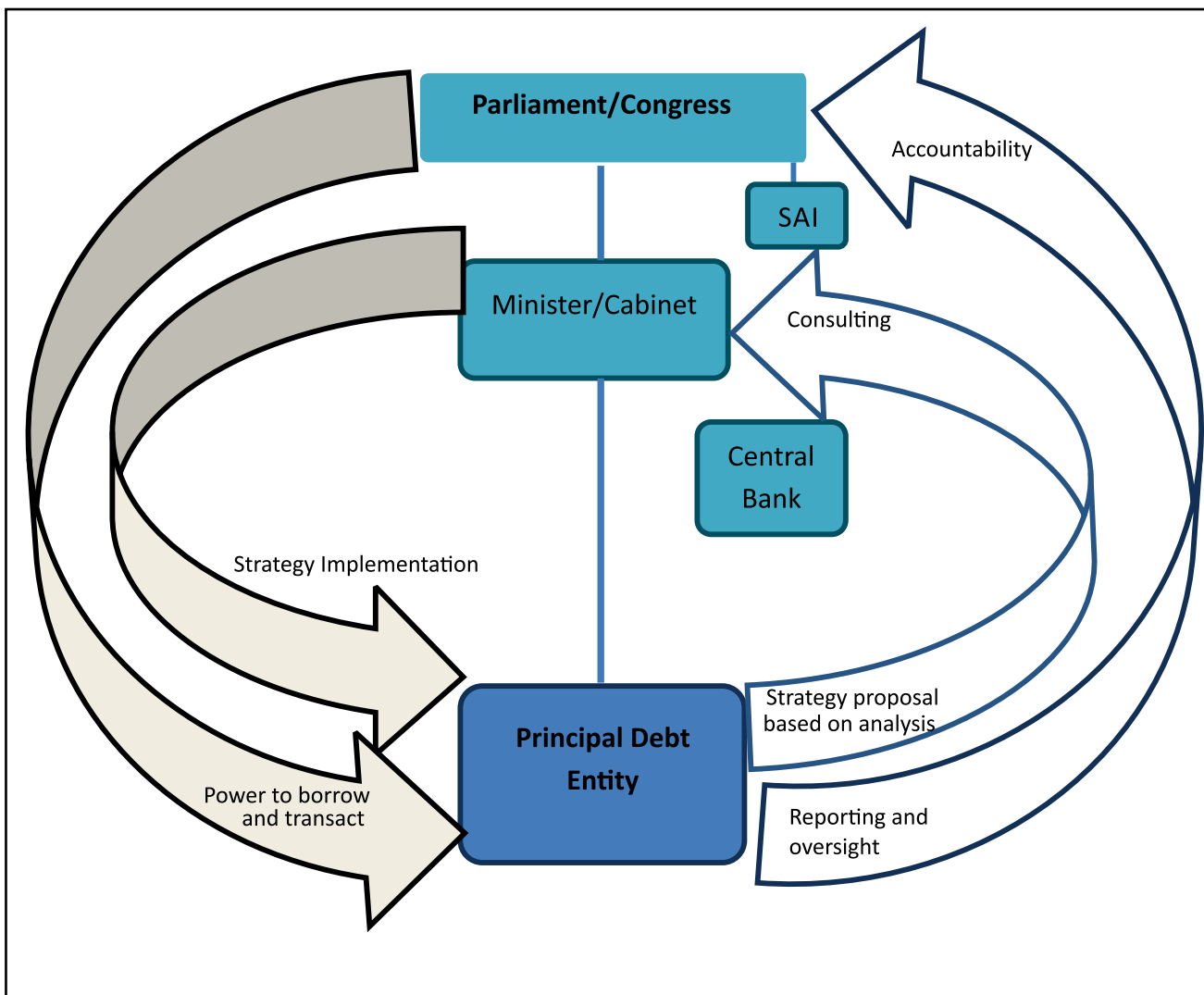
2.2.3 Institutional Roles

Sound governance in debt management advocates for clearly defined functions and responsibilities of institutions and departments involved in debt management. The institutions involved may differ from country to country depending on legal frameworks, institutional set-up, and historical aspects of governance. Nevertheless, sound debt management suggests the involvement of Parliament, Ministry of Finance, Central Bank, Attorney General's office, Cabinet, Auditor General, line ministries and where applicable quasi Government agencies. Figure 2 summarizes coordination in a sound public debt management framework.

Parliament / Congress: Parliament is the supreme legislative organ in a country charged with the responsibility of enacting legislation. Parliament is

also charged with the responsibility of approving Government borrowings - a role that needs to be explicitly stated in primary legislation. The approval process differs across countries: some require that parliament (or parliamentary committee) approves every single loan and in others approval is done in aggregate annually as part of Government budget approval processes⁷. These approaches are both acceptable. However, experience has shown that parliament involvement in approval of every loan may delay project implementation. In addition, it may not necessarily improve the quality of loans being contracted. Parliament is also supposed to endorse audited reports of debt management at least on an annual basis as a means of holding the executive arm accountable for the debt management strategy and its execution.

Figure 2: Debt Management Governance Structure



Source: DeMPA Tool (Figure 1 Pg 11 December 2009)

⁷For more detail on the role of Parliament see Roy and Williams (2010) Pg 4 & 5.

Ministry of Finance: The Ministry of Finance is charged with the responsibility of ensuring that Government finance (revenue and expenditure) is managed efficiently. The functions of the Ministry of Finance are normally spread across various departments / units depending on its organizational structure. The Ministry of Finance performs the following among other functions:

- Formulates national development plans, prioritizes projects in line with Government's social-economic objectives and identifies ways and means of closing the budget deficit by borrowing either externally or domestically;⁸
- Determines and presents financing requirements to the executive and to parliament for authorization or approval as may be necessary in accordance with the laws, regulations and policies in force;
- Supervises the Government finances to ensure that full account thereof is made to parliament and that its financial control is maintained. This includes monitoring and reporting of loans disbursements as well as processing debt service payments;
- Signs loan agreements, indemnity or security in respect of any financial commitment incurred or to be incurred on behalf of the Government;
- Assesses and approves guarantees and on-lending applications in line with the governing laws, regulations and policies;
- Integrates debt variables into broad macroeconomic and financial aggregates including computing the financial assets of the Government and country's net debt position; and
- Submits annual debt strategies (including public debt statement and gross funding plan), and quarterly debt reports to cabinet / parliament for information.

Auditor General: In order to ensure diligent adherence to debt management best practice, the Supreme Audit Office or Auditor General conducts both financial and performance audits. The debt audits are meant to ensure compliance with set benchmarks of financial transactions in debt management. The Auditor General is also expected to present audited reports directly or through the Minister of Finance to Parliament or parliamentary sub-committee.

Attorney General: As legal advisor to the Government, the Attorney General's Office / Chamber plays a critical role in public debt management. Conventionally, the Attorney General:

- Participates actively in all loan negotiations and gives legal opinion on all borrowings that the Government commits;
- Drafts and scrutinizes legal documents related to borrowing, lending transactions and guarantees; and
- Ensures that Government borrowings are not contradicting with any of the other laws and regulations.

The Central Bank: As a fiduciary and advisory agent of the Government, the central bank ensures that the Government is liquid enough to expedite at least the recurrent operations. Thus, central banks perform the following roles relating to public debt management:

- Maintains financial accounts of the Government including those of projects and programmes financed through borrowing. Thus, it facilitates settlement/externalization of debt service payments on instructions of the debt management office;
- Issues domestic debt instruments on behalf of the Government⁹. This is in line with development of financial markets;
- Provides expert advice to Government on debt management activities in accordance with the Central Bank Act and other governing laws and regulations;
- Depending on the laws and regulations of the country and central bank, provides advances to the Government as a means of bridging temporary shortfalls between revenue and expenditure; and
- Monitors implicit contingent liabilities particularly private sector (non-guaranteed) external borrowings.

Line ministries, quasi-Government agencies and private enterprises: Being beneficiaries and implementers of most of the projects and programs financed using borrowed funds, these institutions are involved in the following aspects of debt management:

- Initiate project proposals for prioritization and approval by Ministry of Finance / planning;
- Prepare expected disbursements profiles, initiate loan disbursements applications and confirm received disbursements to the debt and treasury offices;
- In the case of guarantees and on-lending arrangements, ensure prompt payment of their debts;
- Participate in all consultations and negotiations of all loan agreements for projects and programmes falling under their jurisdictions; and

⁸In some countries planning is a mandate of a full-fledged ministry while in others it is a department in the Ministry of Finance or an autonomous department/commission under the president's office.

⁹Since in most countries, all borrowings are tasked to the Ministry of Finance, sound practice requires for a formal agency agreement that delegates domestic borrowing to the central bank.

- Implement, monitor, evaluate and provide regular progress reports on all projects and programmes under their implementation.

3. Situation in the MEFMI Region

3.1 Legal Frameworks

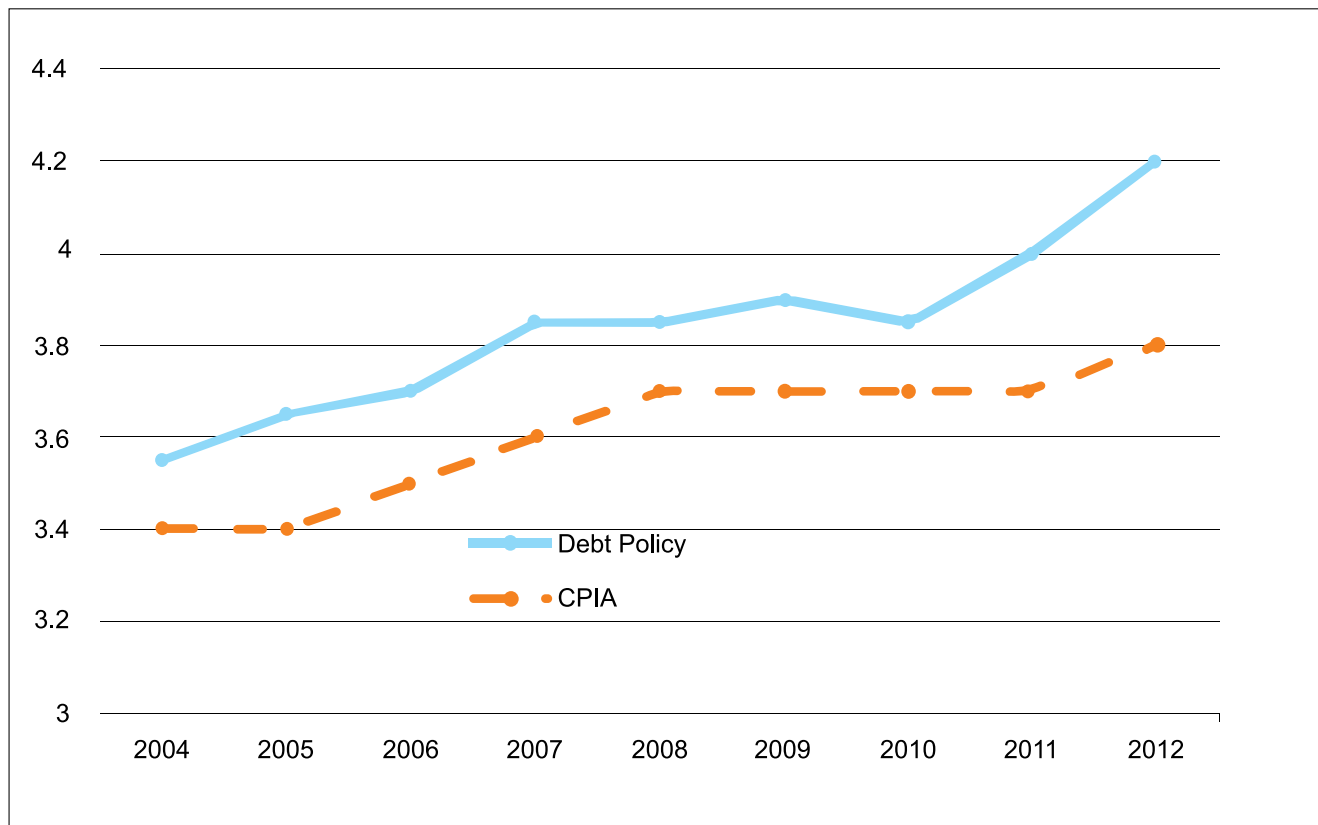
- The post-HIPC era has witnessed improvements in the management of public debt within the MEFMI region. This follows commitments of the countries' Governments coupled with assistance of Bretton Wood Institutions and MEFMI in instituting and implementing the reforms. Most of the reforms emanated from the needs assessments that include DeMPA missions. In gauging soundness of the legal framework and institutional arrangements in the MEFMI member countries, a review was done

based on AfDB Country Policy and Institutional Assessment (CPIA) ratings, DeMPA reports, publications as well as feedback from participants of the regional workshop held in Mombasa, Kenya in 2012.

3.1.1 Country Policy and Institutional Assessment Results

- The Country Policy and Institutional Assessment by African Development Bank show improvement for all clusters. Average performance by ten¹⁰ MEFMI member states improved from 3.4 in 2004 to 3.8 in 2012. The total CPIA improvement seems to be driven by high performance in the Debt Policy, a sub cluster of CPIA, which improved relatively faster from 3.6 to 4.2 during the same period as indicated in **Figure 3**.

Figure 3: Trends of the Country Policy and Institutional Assessments



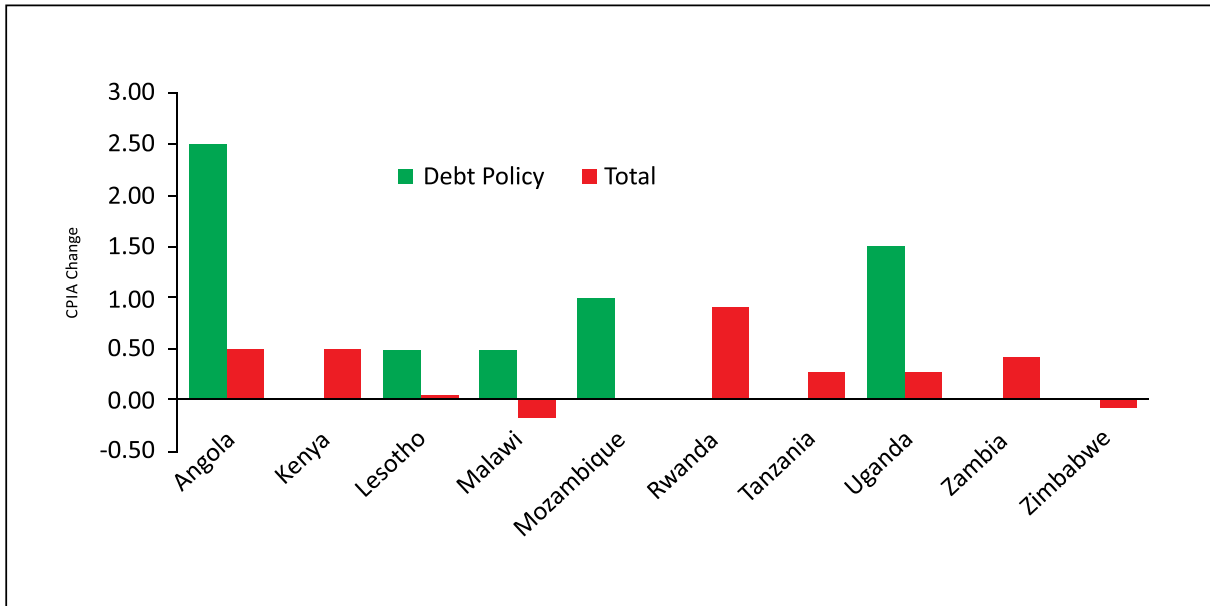
Source: Compiled using AfDB CPIA scores

While the CPIA results show average improvement for the region, individual country ratings vary with a few deteriorating. Rwanda had its CPIA rating increased by 0.9 points between 2004 and 2012, followed by Angola and Kenya that improved by 0.5 each, between the same years. However, deterioration has been observed for Malawi and Zimbabwe, which

is a reflection of political and economic challenges the two countries faced. In the cluster of Debt Policy of the CPIA Angola, Rwanda and Mozambique had their ratings improved by 2.5, 1.5 and 1.0, respectively between 2004 and 2012 (Figure 4), reflecting improvements in debt management policy during the period.

¹⁰The CPIA rating is for low income countries, hence Botswana, Swaziland and Namibia that are classified as lower middle income are not rated.

Figure 4: Changes in the CPIA of the MEFMI Member States between 2004 and 2012



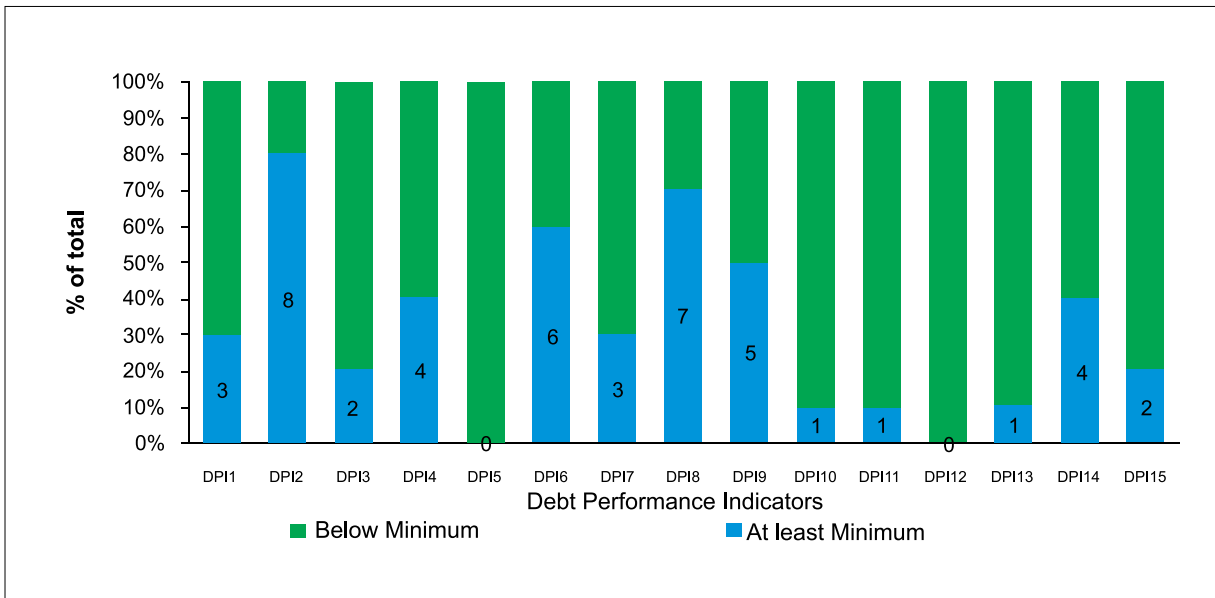
Source: Compiled from ADB statistics.

3.1.2 DeMPA Results

Assessment using the DeMPA Tool¹¹ shows varying performance in different Debt Performance Indicators (DPIs¹²) of debt management in the region. While remarkable improvements have been made under debt managerial structures (DPI 2), domestic borrowing (DPI 8), coordination with fiscal policy (DPI 7) and

external borrowing (DPI 9), the challenges remain with the legal framework where only three countries (30 percent), out of the ten (10) MEFMI member states assessed under DeMPA¹³, met the minimum requirements (Figure 5). Of the three countries that met minimum requirements, none scored beyond the minimum (that is C as per the DeMPA scoring criteria).

Figure 5: Summary of DeMPA Results as at end of September 2013



Source: Compiled from Country's DeMPA Reports

Note: The numbers in the chart reflect the number of countries meeting the criteria under the respective DPI

¹¹DeMPA tool identifies the legal framework as one of the 15 indicators in judging a country's performance against internationally recognised standards.

¹²For a complete list of DPIs and their full meaning see DeMPA tool guide.

¹³The DeMPA results presented herein may not be the best comparative measure across countries as assessments were done during different years between 2008 and 2012.

3.1.3 Completeness of Legal Provisions

In determining the completeness of legal provisions, nine requirements for sound legal framework for public debt management were considered. These are: authority to borrow; purpose of borrowing; debt management objectives; debt management strategy; borrowing limits; debt scope (comprehensiveness in covering all categories of debt e.g. external, domestic, guarantees, on-lending, etc); mandatory reporting; audit requirements; and institutional responsibilities. Due to data unavailability, legal framework for ten (10) MEFMI countries out of 13 were evaluated (Table 1). Numeric value 1 (one) is assigned when the provision is included in the legislation and 0 (zero) where it is missing. Evaluation was based on various sources of data including DeMPA country reports and information collected during the MEFMI Legal Framework and Institutional Arrangement Regional Workshop conducted in July 2012, in Mombasa, Kenya.

The assessment methodology in this section focuses on the content of the legal framework and not what is implemented in the countries. It is common to find countries having a good and comprehensive legislation (primary and secondary) but not implemented accordingly. In this case the legal framework is regarded complete. Unfortunately, some countries are implementing best practice that is not included in the legislation which penalizes them in this evaluation. The basis for this approach is based on the fact that, inclusion of all key provisions in the primary legislation gives them prominence, increases transparency and prevents ad hoc changes in borrowing operations due to short term expediencies.

The evaluation of the legal framework completeness shows that none of the MEFMI member states has a comprehensive legal framework covering all the nine key aspects of public debt management. While debt management legislation for Tanzania, Zimbabwe, Uganda and Lesotho are relatively comprehensive, the legislation in Rwanda and Swaziland seem weak.

Cross country evaluations show that out of the ten member states whose legislation was evaluated, only one has no clear provision on the authority to borrow. The evaluation also shows that 80 percent of the countries' legislation has clauses that are comprehensively covering all categories of debt. The findings further show that mandatory reporting is provided in 60 percent of the member states legislation. Half of the evaluated legislation includes the clauses on institutional responsibilities and purpose of borrowings.

Contrary to expectations, only one country has the provisions on debt management objectives and requirement for formulating debt management strategies in the legislation. As pointed out earlier, the evaluation focuses on the inclusion of the provisions in the law, as almost all the countries evaluated have developed debt management strategies but is not included in the pieces of legislation. As with DeMPA findings, performance audit of public debt particularly is not included in the 70 percent of the evaluated legislation. It is also worth noting that despite the inclusion of the clause in the three countries, none of them is conducting performance audit.

Table 1: Legal Framework Completeness

	Authority to Borrow	Purpose of borrowing	Debt Management Objectives	Debt Management Strategy	Borrowing Limits	Debt Scope (Comprehensiveness)	Mandatory Reporting	Audit Requirements	Institutional Responsibilities	Total	%
Lesotho	1	1	0	0	1	1	0	1	0	5	56
Malawi	1	0	0	0	0	1	1	0	0	3	33
Mozambique	1	0	0	0	0	1	1	0	1	4	44
Namibia	1	1	0	0	0	1	0	0	1	4	44
Rwanda	0	1	0	0	0	0	0	0	0	1	11
Swaziland	1	0	0	0	0	1	0	0	0	2	22
Tanzania	1	0	1	1	1	0	1	1	1	7	78
Uganda	1	1	0	0	0	1	1	0	1	5	56
Zambia	1	0	0	0	1	1	1	0	0	4	44
Zimbabwe	1	1	0	0	0	1	1	1	1	6	67
Total	9	5	1	1	3	8	6	3	5		
%	90	50	10	10	30	80	60	30	50		

Source: Compiled from Country's DeMPA reports and pieces of legislation (2013)

3.1 Institutional Arrangement

Evaluation of Institutional Framework considered presence or absence of a debt management office with three distinct but coordinated functional units namely Front, Middle and Back Office, and coordination among the units. Ideally, the three functional units are supposed to be located in the same institution. Nevertheless, with strong coordination, the functional units can be spread across departments or institutions and even in different buildings.

Challenges that still remain in most countries - including those with good coordination - are that debt management functions are spread across various institutions. This fragmentation compromises some key functions as well as duplicating resources. Countries like Tanzania and Uganda, for instance have debt management offices in both ministries of finance and in the central banks¹⁴. In some countries, where centralized debt offices have been established, coordination is not sound, for example in Mozambique the functional units are operating with minimum coordination. In Lesotho, the functions are overlapping as there is no separation of duties among the functional units.

The DeMPA findings showed that out of the ten evaluated MEFMI countries, eight met the minimum requirement under managerial structures, where institutional arrangement is included (Figure 5). In general, the results suggest that the region has relatively strong debt management managerial structures.

Some MEFMI countries have established debt management committees to enable effective coordination especially where debt management and aid coordination functions are separated. In some countries, for instance Tanzania, the committees are in two stages, the national debt management committee that comprise heads of the ministries and institutions at the apex, under which there is an advisory technical debt management committee comprised of technical staff. The main objective of these committees is to advise the executive (Minister for finance) in securing financing for Government as well as in providing guarantees and on-lending. The committees form a strong platform necessary for coordinating debt management activities and policy with fiscal and monetary policies. For instance, domestic financing and liquidity management are coordinated through these committees.

Some countries have also established and operating

debt management committees but lack formal institution and/or legal backing, for example Lesotho, Malawi and Rwanda. In this regard, many countries in the region are considering formation of these committees as part of their reforms.

4. Conclusion and Recommendation

4.1 Conclusion

From the preceding analysis, it is clear that MEFMI member states have made improvements in the area of policy and institutional reforms as indicated in the CPIA ratings by AfDB. Significant improvement has been witnessed in the Debt Policy cluster of the CPIA. Nevertheless, the performance has not been uniform across the countries as per the ratings. Countries like Angola, Uganda and Mozambique have registered more improvements compared to the rest.

Results with debt management performance assessments also show that eight countries out of the ten MEFMI countries assessed had their debt managerial structures meeting minimum requirements under the DeMPA scoring criteria with Namibia scoring best in this indicator. However, legal framework is generally weak in the region. Only three countries had their legislation meeting utmost minimum requirements. The major weaknesses in the legal frameworks include absence of provisions on: borrowing purposes, debt management objectives, debt management strategies, performance audit, reporting; and lack of principal agency agreement that delegates borrowing authority to the central banks.

In addition, it has been noted that in some countries, the primary legislation governing public debt management is scattered across various statutes relating to public financial management. The consequence of this is the likelihood of omitting important provisions of debt management. Some legislation also lack clearly defined and comprehensive debt limits comprising limit for guarantees to be issued at a given period including defining eligibility criteria and modality. Some limits are nominal and/or defined on an annual basis and included in the Government budget, which do not limit explicitly debt accumulation over years. The on-lending arrangements and procedures are not clearly stated in most of the legislation.

Fragmented debt management functions are also in place. In the absence of well-established and centralized debt management office in line with best

¹⁴As part of reforms, with the help of the World Bank, Tanzania is expected to establish a centralized debt management office before end of FY 2013/14.

practice, internal controls are compromised. Even in countries with centralized debt offices, segregation of duties and alignment of job descriptions is not fully institutionalized in line with the sound practice.

4.2 Recommendations

The coverage of the debt legislation is ideally expected to be broad enough and may vary across countries depending on: the innovations and sophistication in domestic financial markets, external environment (depending on the level that domestic market is integrated to the global markets), and changes in the Government's fiscal stance. The recommendations drawn here are considered basic and necessary for the MEFMI region.

Countries should use the DeMPA results as a basis for instituting sound reforms in debt management. Thus, with the assistance of the Bretton Wood Institutions and MEFMI, countries can review their legislation to align with debt performance indicators of the DeMPA tool. Countries should not only target the minimum requirements but the highest. In doing so, countries need to borrow the Nigerian experience of drawing a matrix of the key weaknesses and assign the tasks to institutions/individuals with clear performance

benchmarks and deadlines. This has the advantage of making sure that all key issues are addressed. While addressing the identified weaknesses, countries need to request for follow-up DeMPAs to gauge the direction and magnitude of the reform outcomes. Countries may also conduct self-assessments basing on DeMPA performance indicators.

Where primary legislation is spread across various statutes, countries need to consider drafting an explicit debt management act. This helps among other things, to make the legislation comprehensive and easy reference for debt managers. In short, the legislation needs to cover: authority to borrow; purpose of borrowing; debt management objectives; debt management strategy; borrowing limits; debt scope; mandatory reporting; audit requirements; and institutional responsibilities.

In cases where debt management is fragmented, countries need to consider consolidating the debt management functions in debt management offices divided into Front, Middle and Back Office functional units with clear segregation of duties. The functional units should be coordinated well to ensure smooth operation of debt management. Establishment of DMO should be provided in the primary legislation.

References

- IMF & World Bank, (2001); Guidelines for Public Debt Management (Amended in 2003).
- IMF & World Bank, (2002); External Debt Management in Heavily Indebted Poor Countries (HIPCs). Board Discussion Paper, IDA/ Sec M2002-0148, Washington D.C., 2002.
- INTOSAI (2011); Auditing Public Debt Management: A Practical Guide (Draft as of June 6, 2011).
- MEFMI, (2000); Public Debt Management Procedure Manual Vol. 1 ISBN: 0-7974-3095-4.
- Mwankenja & Lalika, (2001); The Institutional and Legal Framework for Public Debt Management in Tanzania. Paper presented at MEFMI/UNITAR workshop on legal Aspects of Public Debt Management from 23rd to 27th July, 2001 at Maseru Sun Hotel, Lesotho.
- Roy, A. and Williams, M., (2010); Government Debt Management: Guidance Note on the Legal Framework - A guide for countries in reviewing, updating and developing their legal framework relating to Government debt management (Prepared for COMSEC). Available at <http://www.csdrms.org/uploads/public/documents/publications/Legal%20Guidance%20Note%20electronic%20version.pdf>.
- World Bank, (2009); Debt Management Performance Assessment (DEMPA) Tool: Revised December 2009.
- Wheeler, Greener, (2004); Sound Practice in Government Debt Management. The World Bank Publication No: 27988 available at http://www-wds.worldbank.org/external/default/WDSContentServer/WDSP/IB/2004/05/21/000090341_20040521153506/Rendered/PDF/289880PAPER0So1Government0debt0mgmt.pdf.

Financial intermediation in MEFMI countries: perspectives

By Patrick Mutimba, MEFMI Director Financial Sector Management Programme

This paper explores the challenges that financial markets face, such as concentration of liquidity at the short-end of the maturity spectrum. It highlights the glaring idiosyncrasies and anomalies that should not be expected to persist in the medium term. It also poses questions about policy interventions by regulators.

Many writers have illustrated the difficulty faced by a central bank if it were to maintain a fixed exchange rate mechanism, and exercise independent monetary policy in an environment that allows free flow of international capital from and into the domestic economy. Moreno (2011), Adam (2009), Aizenman & Ito (2011), Kelilume (2014), all found that this challenge has implications on monetary policy. As a result of this background, some central banks have decided to let the exchange rate float freely, and allow free movement of international capital. The focus of their intervention is on the cost of money. They do this through the key rate at which they are able to transact with commercial banks on a regular basis. Kelilume (2014) observes that interest rate is a key economic variable which is guided as a means of achieving economic stability. The banks are expected to factor this cost of funding into their balance sheets and in their activities. This is a mechanism through which the market finds the equilibrium.

The question therefore is whether the changes in this rate are transmitted effectively. One way to objectively assess this mechanism is to explore the relationship between the central bank rate and the market rates. In an environment where bank loans and bank deposits are interest rate sensitive, the volumes of savings (deposits) would also be affected by a change in the central bank's key rate.

A key rate rise would be associated with a restrictive monetary policy. It would lead to a rise in loan rates as well as an adjustment on old loan rates (where they were advanced on a floating rate basis). A similar rise in deposit rates on savings would also be expected, both for new deposits as well as for old deposits which may have an adjustable interest rate component. The result of this would be a reduction of new loans

advanced. An increase in loan prepayments and new deposits would happen if there are borrowers and depositors who are interest rate sensitive. This would reduce the velocity of money in circulation, and also decrease the effective demand in terms of aggregate purchasing power, leading to downward pressure on aggregate inflation. In the absence of other intervening factors that would lead to cost push inflation, one would expect a moderation of inflationary pressures. However, if borrowers are not interest rate sensitive a different scenario may play out. In that case they may fail to reduce their dependence on bank credit which is now more expensive. That higher financing cost would simply be factored into their market prices without a reduction in aggregate credit.

A reduction in key rate would also be expected to lead to a reduction in loan rates through the interbank money markets as well as an adjustment on old loans rates (where they were advanced on a floating rate basis). A similar reduction in deposit rates on savings would also be expected, both for new deposits as well as for old deposits which may have an adjustable interest rate component. The result of this would be an increase of new loans advanced, a decrease in loan prepayments would happen if there are borrowers who are interest rate sensitive and a decrease in new deposits as savers consider other alternatives for their savings. This would spur the velocity of money in circulation, and also increase the effective demand in terms of aggregate purchasing power, leading to upward pressure in price levels. However if the borrowers do not factor in the reduced cost of funding to their products, or if banks do not immediately adjust their lending rates downwards, or if they do not reduce it in tandem, a different scenario would play out from the one intended by the regulator.

The central bank, in pursuit of its price stability and macroeconomic objectives makes adjustments to the key interest rate. This is the interest rate channel of the monetary transmission mechanism. The mechanism has been disaggregated into the interest rate channel, the credit channel, the asset price channel, the expectations channel as well as

the exchange rate channel. (Ncube, Kitiibwa & Havugimana 2013).

Hadar, Sood & Fox (2013), suggest that despite the growing complexity of financial products and decisions, issues to do with financial resources allocation are among the most important decisions people have to make on a regular basis. So perhaps one could explore the possible processes of the players.

The perspective of the regulated commercial banker is considered first. Commercial banks are business enterprises with the interests of their shareholders being high on their agenda. This could be summed up to be profit optimization in the medium term. There could be variants where shareholders are only interested in short term profit maximization (as with hedge fund that may have a short turnaround period), or long term view of value. For instance, with institutional investors, gaining market share is judged to be quite important, and possibly ranked ahead of short term profit maximization. One also notes that with the resurgence of state capitalism and foundations, the assumption that all business could be after making profit is not really water tight. Suffice to say that profit making objectives put the firm in a better position to execute its other goals, so one could take that as an ultimate objective.

The regulator, for good reason, is concerned that a bank should have adequate capital to cover the risks that the business is likely to face. This is always stipulated in terms of minimum capital requirements. The regulators' concern is that on a risk weighted basis, assets are supported by adequate capital buffer. But the banker seeks to deploy as little capital, for the level of business they are likely to generate, as absolutely necessary. The commercial banks seek to maximize return on capital. This can be captured as absolute return, or profit. But in financial terms the Return on Equity takes into account the profit made as well as the amount of initial capital deployed. It is even more stringent than Return on Assets, which does not capture the effect of leverage. Capital is a scarce resource and if not required in a business could be better deployed elsewhere.

Banks deploy capital and they look to optimize return. When the risk associated with a certain activity is perceived to be higher than historical average, one expects a higher average return as well. This higher minimum return would compensate the investor over time from variations in return. As it is, not all assets have the same perceived risk

exposure. This risk may be quantified in terms of the standard deviation of historical returns, the coefficient of variation or the range of potential outcomes of returns. Again here there may be a difference between historical risk parameters which will always be supported by actual data, and forward looking measures of risk, (e.g those generated with Monte Carlo simulations and value at risk (VaR) approaches) which will incorporate probability distributions. The objective here is not to draw debate on which risk measurement approach is more appropriate, but to observe that higher perceived risk is associated with higher expected return. And we also remember that Government issued securities are accepted as generally less risky than other assets in an economy. In fact, Government securities have been understood to have a zero default risk.

A common concept in Finance is that of a risk efficient set of assets. The thrust of MPT (developed & popularised by Harry Markowitz (1952) as well as Lintner (1965) and Mossini (1966)) is that diversification improves the risk–return pay off in aggregate terms. In other words, by combining assets whose correlation is either low or negative, one can optimize a portfolio and reduce risk for the same level of expected return. While each individual security may have its own risk measure, when taken together, the inter-relationship between two or more assets may lead to a reduction in overall risk. This is captured by a reduced overall risk for the combination. The quantum of the effect is dependent on the actual covariance measure (in which the correlation is a component) as well as the relative proportions allocated to each of the assets, since this weight has a direct impact on the portfolio standard deviation. Covariance is the product of the correlation and the standard deviations in a two portfolio population.

$${}^1\text{Covar}_{a,b} = r_{ab} \times \text{StdDev}_a \times \text{StdDev}_b$$

As indicated in Picture 1, if one were to plot various combinations of asset combinations against the standard deviation and return of the combined portfolio, one would get a curved line DAC. This line represents the efficient frontier according to Harry Markowitz.

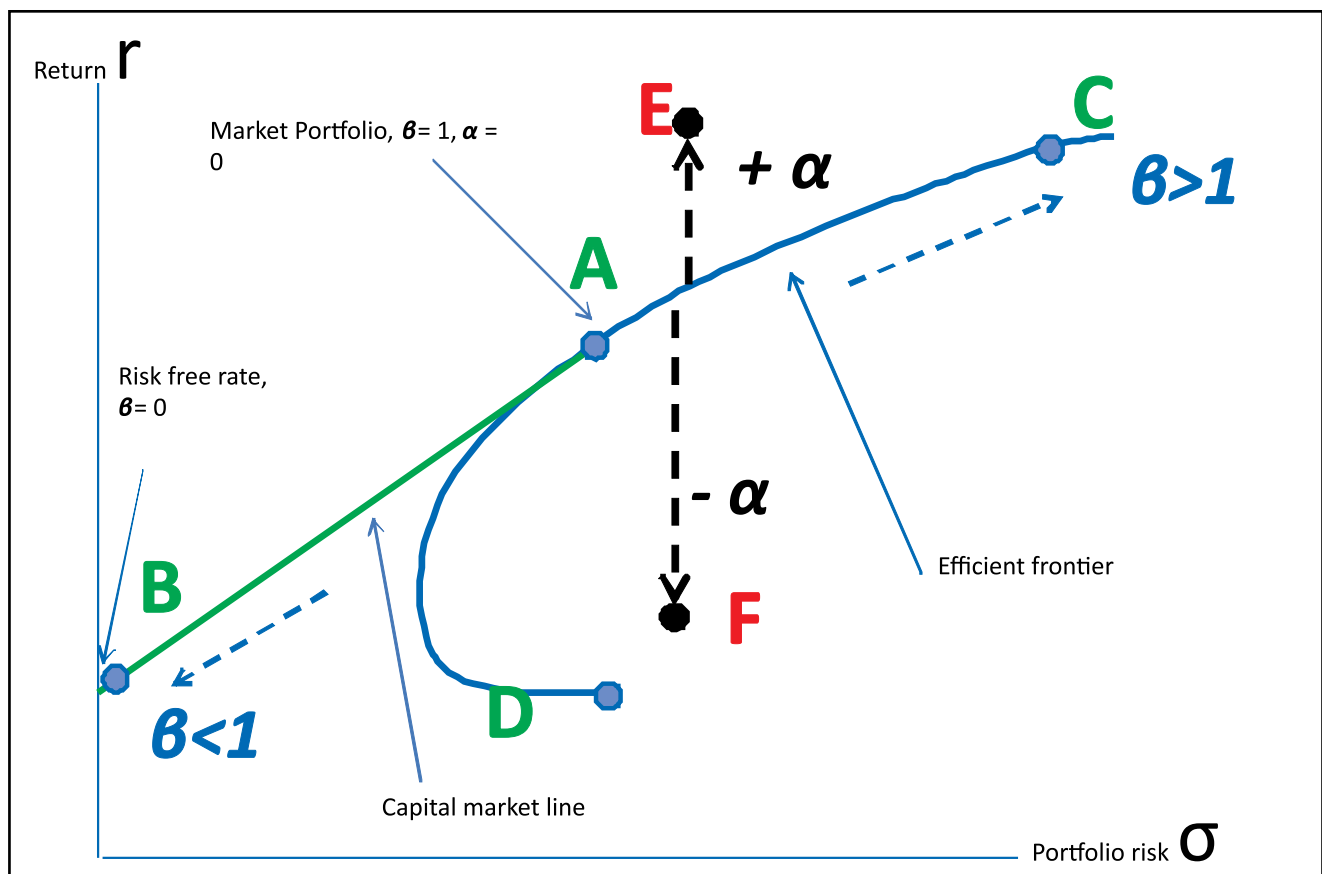
¹The Appendices illustrate how negative correlation among a set of assets in the same portfolio improves the risk- return pay off.

This means that for any combination of the assets under consideration, the curve plots the most efficient combinations of the assets in the portfolio. These are the combinations that maximize return for each level of risk, or that minimize risk for each level of return. The only way one could further improve the risk-return pay off, extending the curve to the right and upwards, is to include another asset. A low covariance between the return of the portfolio and the extra asset introduced enhances the risk return pay off more.

the various assets. It is impossible for one to position above the efficient frontier.

If one sought to get simple market exposure, they would seek a combination that reflects the broad market conditions and they would probably position at point A – in a portfolio replicating the market conditions. The relative risk of such a portfolio is one. It has a beta of one and an alpha of zero. We discuss beta and alpha in the capital asset pricing model below.

Picture 1. The Capital market line, α and β



Sources: Markowitz (1952), Lintner (1965), Mossin (1966) & Sharpe (1964), Jensen (1968)

Adding more assets generally tends to shift the efficient frontier towards the left and upwards. This will be because each new security is expected to improve risk return pay-off since it will not be perfectly correlated to the existing portfolio of securities. If one of the securities has no risk component, it will fundamentally change the efficient frontier. There could therefore be a combination with 100% in the risk free asset at which point, the fund gets the risk free return (point B). Any combination with the risky assets increases the risk and return to generate the capital market line BAC. This then is the new efficient frontier and theoretically we do not expect to have a better combination between

The return for such a combination would be generated as follows:

$$R_p = W_{rf} * R_{rf} + W_m * R_m + \alpha$$

Where

R_p – Weighted return of the whole portfolio

W_{rf} – the proportion of risk free assets in the portfolio

W_m – the proportion of market weight assets in the portfolio

R_{rf} – Return attributed to a risk free security

R_m – Return attributed to the market as a whole

In the search for reasonable return enhancement, they would increase the proportion allocated to riskier investments and increase the portfolio beta beyond 1, possibly positioning at point C. The extra return would come with a higher risk. Similarly, if they were not comfortable with the risk levels at point A, they would reduce allocation to riskier securities in favor of less risky ones, possibly positioning nearer to point B. This move would also imply a shift of the value of the beta coefficient β to less than one.

In the event that they are not impressed with the impact of change in β , they may decide to look for outright mispriced securities, whose return is not reflective of their risk characteristics. That extra return due to mispricing is the alpha α and will remain until other market players take arbitrage profit to return the security to its appropriate risk pricing. A positive alpha is where the return is higher than the risk would imply (point E on the graph). The security is underpriced and would be bid upwards. A negative alpha would imply an overpriced security, whose risk profile suggests it should have a lower return, as in point F on the graph.

The Capital Asset Pricing Model (CAPM) was popularized by William Sharpe (1964). It stipulates that the return of an asset can be derived from the risk free rate, the assets relative sensitivity to market movements and an error term. Jensen (1968) surmised that the error term (alpha) is expected to even out to zero over the long term and this has specific implications for arbitrage.

We capture that as follows:

$$R_s = R_{rf} + \beta(R_m - R_{rf}) + \alpha$$

Where:

R_s – Return attributed to the security

R_{rf} – Return attributed to a risk free security

R_m – Return attributed to the market as a whole

β – security's risk sensitivity relative to market. (σ_s / σ_M) (Security Standard Deviation to Market Standard Deviation)

α – Security earnings not explained by market risk sensitivity. This is expected to be an error term that evens out to zero over the long term. Its existence indicates an asset is mispriced relative to its risk.

The import of the above is that:

- 1) The risk free rate should be the “base case”, for a simple unsophisticated saver. One can generate a return with no business risk.

- 2) Market rates of return in general would be higher than the risk free return rate, because they entail higher risk.
- 3) An asset's required level of return should have factored in that asset's relative risk to the market. This would eliminate any room for arbitrage.

The central bank has an interest because it is creating return opportunities for the commercial banking sector through risk free treasury instruments. As we saw, these securities seem to be most appropriate in the framework of a larger portfolio. What are the implications of this? Lending to the private sector, like depositing with a commercial bank is more risky than lending to Government. So for the same return, a lender or saver could be expected to be more attracted to Government securities rather than other alternatives like bank deposits. But this does not necessarily happen. When mopping up liquidity, central bank intervention is not done directly from the actual surplus spending units (savers) but moped by proxy, from the institutions who have mobilized that excess liquidity. What if through information asymmetry, this proxy introduces inefficiencies?

In many of the MEFMI countries, the banking industry dominates the financial sector in terms of assets. Notable exceptions have been observed in Lesotho, Swaziland, Namibia and Botswana. Developments in Kenya, Tanzania, Uganda and Zambia indicate a trend that is likely to moderate the lop-sidedness, mainly due to the growth of the assets managed by non-bank financial institutions. That said, the interaction between the licensed financial institutions and their customers is a point of interest to policy makers.

Retail customers have found it easier to deposit their money at a bank for a low return rather than go the length of investing in Government Securities, even when they are not likely to require use of the money in the short term. The result is that there are pockets of liquidity that are not directly impacted by the central bank, because they reside in individual and corporate accounts. An example could be current and demand accounts which end up holding funds over the medium term due to frequent “roll over” at the maturity of each short term deposit. Does this impact the effectiveness of the Treasury issuance programs?

The imperfections have to do with financial institution deposit rates being below treasury securities rates in an environment where we expect higher risk to

be associated with higher return. One expects the securities issued by a Government to be risk free, in the sense of security of repayment of the principal sum. Restricting ourselves to nominal values, we are not talking about inflation risk which affects the ultimate purchasing power of the principal sum. The same risk perception, in terms of security of principal repayment, however cannot be said of a commercial bank, which does not issue the currency. Thus lending a Government through buying treasury securities takes on lower risk than depositing money with a commercial bank or similar institution, and should attract lower return. In other words, commercial banks should pay higher rates for deposits than a treasury security yield. This does not always happen as is indicated in the table below.

even a 91 day treasury bill. It may not be necessary to complicate the situation further by imputing the time preference theory. Suffice to say that even the long term deposit rate with a commercial bank over 12 months could be typically lower than the short term 91 day treasury bill rate.

However, depositors may have the opportunity to deploy their excess liquidity for a longer period. The banks are then faced with a prospect of short term deposits, in effect limiting the extent to which they can lend for the long term. The mismatch of liabilities and assets in the ALM framework is core to the functioning of the commercial banking business model. They use short term deposits to fund longer term assets, with roll overs at maturity. Every time

Table I. Average Deposit Rate And T Bill Rate Comparison

Country	91 day T Bill rate (Dec 2013)	Average Deposit rate (2013)	Banking Industry ROE (2013)
* Botswana	2.88%	3.00%	27.40%
Kenya	8.92%	3.80%	29.10%
Lesotho	5.18%	0.84%	
Malawi	29.56%	13.10%	36.3% (2012)
* Mozambique	5.23%	9.13%	36.3% (2012)
Namibia	5.64%	3.96%	20.90%
Rwanda	12.40%	11.50%	9.90%
Swaziland	5.95%	2.97%	
Tanzania	13.62%	3.04%	13.08%
Uganda	9.30%	3.38%	15.20%
Zambia	8.00%	3.6%	18.20%

Source: Various central bank websites

In most of the countries in the region, the average deposit rate on deposits with commercial banks is lower than the average yield on a treasury security,

a bank liability has to be rolled over, it introduces the possibility of interest rate mismatch as well. There is a limit as to how far the bank can stretch its

balance sheet. Being able to access deposits at rates lower than the risk free rate also encourages banks to practice lazy banking, that is, collecting almost free deposits and using the funds to buy treasury bills. The deposit at a rate lower than the risk free rate is a mispriced asset with a negative alpha for its level of risk. Similarly the financial intermediary generates positive alpha for its shareholders through obtaining funding at a cost lower than the risk free rate and then investing it at a risk free rate. There is little motivation for it to take business lending risk. The argument would be moderated if the loan- deposit interest rate spreads had been relatively modest, but we know they are not. The profitability of these banks, measured by return on equity, is usually good, meaning they do a good job for their shareholders. The business opportunity has been identified by some unit trust fund providers. They have encouraged retail savers to buy their money market funds. The proceeds are then invested in treasury instruments to generate a return that can compete favorably with the returns on commercial bank deposits, providing the market with a wider range of options. Perhaps this is one of the reasons some countries in Table 1 like Botswana do not conform to the generic picture illustrated in the paragraph above.

It may well be that commercial banks also prefer the short end of the yield curve as a way of managing interest rate risk in their treasury portfolios. Interest rate risk is captured in what happens to the value of a fixed income security or portfolio due to changes in market interest rates, via the re-pricing (mark to market) mechanism. The higher the duration and convexity of the security, the more susceptible it is to interest rate risk. The protection is through immunization. This is a restructuring of a portfolio to protect it from any changes in value arising from interest rate movements. There are several approaches that can protect the holders from interest rate risk. This can be done in at least one of three ways.

- a) Cash flow matching. The investor seeks to ensure that for each time bucket, the assets held are also matched with a similar liability of the same nature. The change in value from the assets compensate the change on the liabilities leg. However as mentioned earlier, deliberate and careful mismatching is a key component of financial intermediation.
- b) Combination of securities with different duration to arrive at a targeted “weighted duration.” The weighted duration of a portfolio

is the sum of the proportional durations of the components. To arrive at a duration of about three (3) years from a base case with a ten (10) year duration, the portfolio can be combined with securities of a duration lower than three (3) until the aggregate weighted duration reduces to the target level of three (3).

- c) Third approach to immunization is by the use of derivatives. There are various derivatives and not all of them are readily available in our markets. But also many derivatives are of the Over the Counter (OTC) genre. They can be structured in the absence of a derivatives exchange. Those will be of interest. For instance one could have:

- i) Interest rate puts
- j) Interest rate calls
- k) Interest rate swaps (fixed for floating or vice versa)

These can be combined with an underlying portfolio to reduce overall interest rate sensitivity to any target level.

Some institutional players have long term liquidity surpluses that must also be targeted. Institutions like NSSF, CSSR, NSSA, PSPF, NAPSA and other state run social security service providers are more likely to have a long term investment horizon of more than ten (10) years on average. Short term mopping instruments do not affect their surplus liquidity situation in a sustainable manner. If the objective is to meaningfully address liquidity surpluses in their respective maturity buckets, perhaps their investment objectives need to be considered. Central banks have a high value of outstanding Treasury Bills relative to outstanding Treasury Bonds and this could easily be perceived to be a result of market conditions, being that the investors would largely prefer to lend short term to Government and there is no uptake of longer dated securities. Is it true that there is no demand for long term securities in the region?

Pension funds usually have a liability maturity profile that reflects the remaining working life of their contributors. The investment assets held by some of the major pension funds in the MEFMI region indicate heavy allocation to short term bank deposits. As discussed above, one way to immunize their portfolios from interest rate mismatch would be to invest in some instruments whose maturity profile

closely matches the maturity profile of their liabilities. Members' benefits accrue over time with some already drawing down, but many are still in their prime and will be contributing for the next several decades. An average maturity of 10 – 15 years would not be too far-fetched. This is not to discount the need for staggered maturities which can be crucial in meeting ongoing obligations.

because they are collecting more in contributions than they are paying out. The information indicated in Table II above, could provide insights into the behavior of stable long term investors in the region. And they seem to be over weighted on fixed income securities, of a short term maturity. There have been times when the ratio of outstanding treasury bills to Government securities is as high as 42% in some MEFMI countries.

TABLE II. Asset allocation of some social security providers in the region

Country	Fund	Reporting Date	ASSET ALLOCATION						TOTAL
			Bank Deposit	T Bills & T Bonds	Other Bonds	Shares	Real Estate	Others	
Botswana	BPOPF	Mar-12	6.79%	9.10%	8.53%	72.35%	0.39%	2.84%	100.00%
Kenya	NSSF	Jun-13	3.00%	24.00%	2.00%	40.00%	31.00%		100.00%
Lesotho	PODPF	2011	30.10%	4.80%	22.40%	42.70%			100.00%
Namibia	GIPF	Mar-12	0.04%		27.67%	66.62%		5.67%	100.00%
Rwanda	CSSR	Dec-13	36.60%	19.50%	2.20%	20.60%	21.10%		100.00%
Swaziland	PSPF	Mar-13	7.71%		87.53%	2.63%	2.13%		100.00%
Tanzania	PSPF	Jun-13	5.12%	13.00%	47.09%	16.05%	18.74%		100.00%
Uganda	NSSF	Jun-12	26.40%	53.60%		6.00%	14.00%		100.00%

Source: Pension fund websites

There are at least two key observations from Table II:

- i) Namibia's GIPF, Kenya's NSSF and Tanzania's PSFPF had reasonable cash allocations. This is probably made possible because of either vibrant stock market, real estate and other debt alternatives.
- ii) Swaziland's PSFPF, Lesotho's PODCPF and Botswana's BPOPF relied on external fund managers to reduce unnecessary cash allocations. Rwanda's CSSR and Uganda, NSSF seemed to have inordinately high allocations to short term deposits, a sizable portion of financial sector assets.

Pension funds operate in a liability-driven investment environment. Some pension funds are actually facing a dearth of appropriate long term investment avenues in the domestic markets, leading to the temptation to invest offshore, although this is moderated by regulatory limits as well. The pension funds are seeking viable investment vehicles in which to deploy their assets over the medium term. If Governments do not issue securities, they look for the next best vehicle – short term Government instruments and bank deposits maturing in a few months. They end up doing this irrespective of the fact that their assets are growing

So, this raises the following questions:

- Total pension assets in an economy can be captured from the pension regulator. Together with current known holdings by insurance & pension funds, regulatory guidelines and limits on fixed income for pension sectors, it can be combined with other balance sheet data from the regulated banking sector to generate information that can inform the treasury instrument issuance programs. What if the central banks critically reviewed the relative allocation to securities?
- Licensing more commercial banks helps to create competition, which would be expected to improve service delivery. What if the unit trusts that are seeking to exploit a niche are helped to manage their distribution networks through appropriate partnerships with insurance firms and mobile outlets? Would more competition from non-bank financial institutions also help?
- What can be done to develop OTC interest rate derivatives in the region? If commercial banks can easily immunize their portfolios from interest rate risk, as and when deemed appropriate, would they then be more willing to invest further along the yield curve?
- What if the public pension funds (like NSSF, CSSR, NSSF, NAPSA) with currently over weighted short term assets for lack of long term

investment vehicles, are required to report and justify or give reasons for divergence from the maturity spectrum of their liabilities? Would this provide impetus for the critical secondary market

that banks may need some times?

The answers to these questions and more may provide cues in respect of transforming our financial markets.

Appendix A – CORELATION AND RISK OPTIMISATION: Data

Monthly return data obtained from Central Banks of Uganda and Zambia Respectively. The data covers January 2009 to December 2013. It is the average return of holding the 91 day T bill in each country's currency. So the effects of currency movements haven't been factored in here. The raw data used is tabulated here below;

Monthly 91 day Treasury Bill return		
	Uganda	Zambia
Jan-09	12.25%	13.78%
Feb-09	10.19%	14.26%
Mar-09	7.37%	14.00%
Apr-09	6.16%	14.21%
May-09	6.26%	13.87%
Jun-09	6.22%	13.62%
Jul-09	6.41%	15.13%
Aug-09	6.88%	16.08%
Sep-09	8.18%	15.49%
Oct-09	6.77%	14.60%
Nov-09	6.36%	9.99%
Dec-09	5.65%	6.35%
Jan-10	4.93%	5.37%
Feb-10	4.38%	5.24%
Mar-10	3.78%	2.52%
Apr-10	4.15%	1.94%
May-10	4.21%	3.66%
Jun-10	4.40%	4.60%
Jul-10	4.27%	4.86%
Aug-10	4.80%	5.43%
Sep-10	5.14%	5.59%
Oct-10	5.75%	5.08%
Nov-10	6.40%	3.82%
Dec-10	7.97%	6.27%
Jan-11	9.34%	6.74%
Feb-11	9.99%	4.19%
Mar-11	9.07%	5.77%
Apr-11	9.32%	6.10%
May-11	11.12%	5.79%
Jun-11	12.68%	5.99%
Jul-11	14.24%	7.06%
Aug-11	15.95%	7.54%
Sep-11	17.23%	7.73%
Oct-11	21.23%	8.55%
Nov-11	22.24%	8.37%
Dec-11	22.89%	7.11%
Jan-12	23.14%	6.97%
Feb-12	19.70%	6.33%
Mar-12	17.31%	7.08%
Apr-12	18.10%	7.61%
May-12	18.23%	7.03%
Jun-12	18.57%	7.18%
Jul-12	18.65%	7.59%
Aug-12	13.76%	7.05%
Sep-12	11.48%	7.49%
Oct-12	9.68%	7.30%
Nov-12	9.84%	7.86%
Dec-12	9.93%	9.36%
Jan-13	9.75%	7.54%
Feb-13	9.63%	6.24%
Mar-13	9.35%	5.50%
Apr-13	10.08%	5.50%
May-13	9.97%	6.30%
Jun-13	10.12%	6.50%
Jul-13	9.94%	7.62%
Aug-13	9.79%	8.00%
Sep-13	9.97%	8.00%
Oct-13	10.28%	8.00%
Nov-13	10.93%	7.60%

1. The data has the following attributes

	Uganda	Zambia
Number of Observations	59	59
Average return	10.55%	7.84%
Standard deviation	5.25%	3.39%
Correlation between the two	-0.60%	

Appendix B - CORELATION AND RISK OPTIMISATION: Scenarios

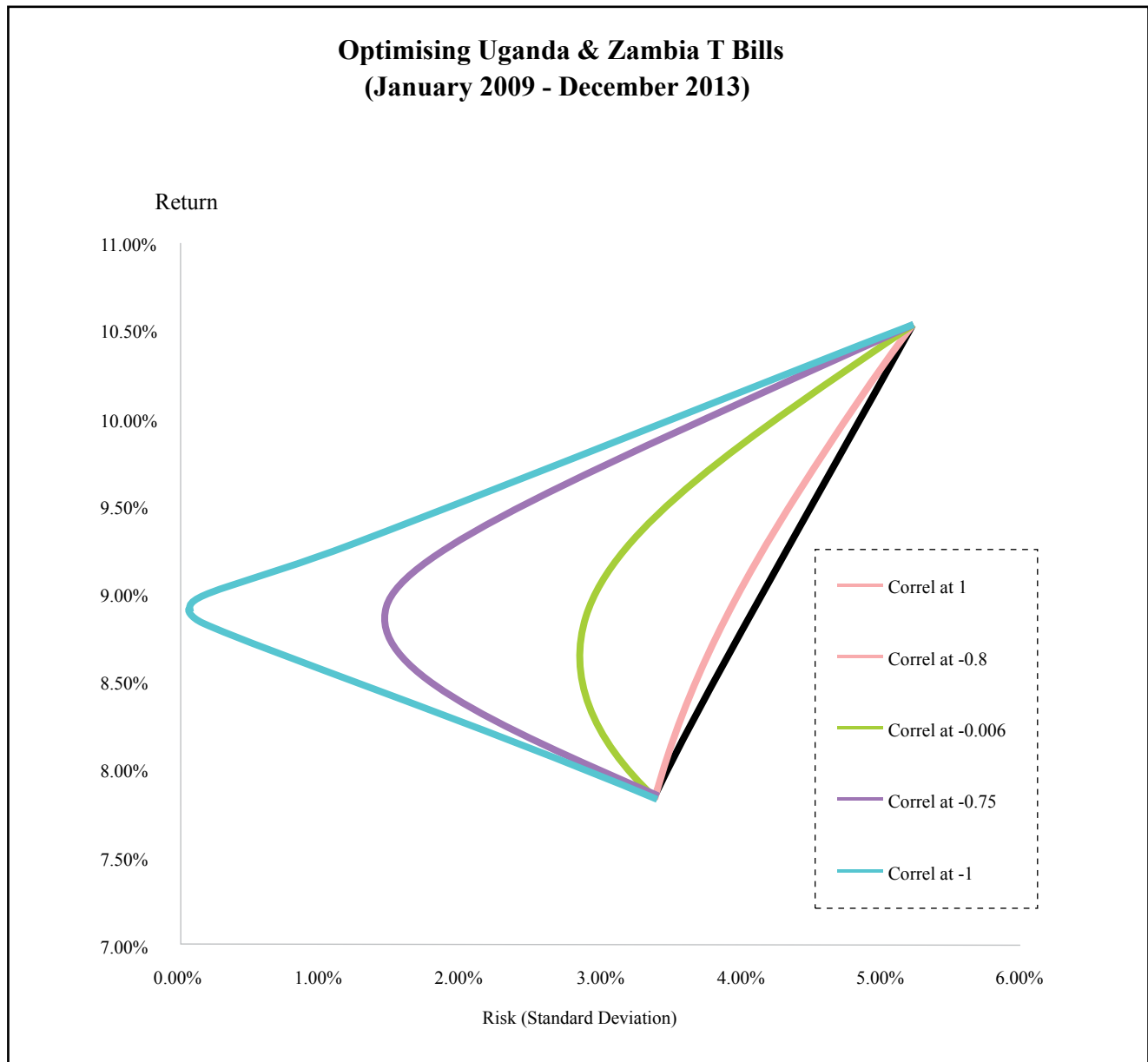
The Data is used to generate a set of scenarios. Each scenario progressively hold more of one T bill and less of the other. In a combination of more than two assets this would be more complicated to generate. For each of the scenarios the weighting is fixed and the return is also derived. What would change is the risk, depending on the covariance. The output is as follows:

Portfolio Scenarios

	Weights		Std Deviation				Return	
	UgTb	ZamTb	Correl at -1	Correl at -0.75	Correl at -0	Correl at 0.8		Correl at 1
			- 1.00	- 0.75	- 0.01	0.80	1.00	
1	100%	0%	5.25%	5.25%	5.25%	5.25%	5.25%	10.55%
2	90.0%	10.0%	4.38%	4.47%	4.73%	5.00%	5.06%	10.28%
3	80.0%	20.0%	3.52%	3.72%	4.25%	4.76%	4.88%	10.01%
4	70.0%	30.0%	2.66%	2.99%	3.81%	4.53%	4.69%	9.73%
5	60.0%	40.0%	1.79%	2.31%	3.42%	4.31%	4.50%	9.46%
6	50.0%	50.0%	0.93%	1.76%	3.11%	4.11%	4.32%	9.19%
7	40.0%	60.0%	0.07%	1.46%	2.91%	3.92%	4.13%	8.92%
8	30.0%	70.0%	0.80%	1.58%	2.84%	3.75%	3.94%	8.65%
9	20.0%	80.0%	1.66%	2.04%	2.90%	3.60%	3.76%	8.38%
10	10.0%	90.0%	2.52%	2.68%	3.09%	3.48%	3.57%	8.11%
11	0.0%	100.0%	3.39%	3.39%	3.39%	3.39%	3.39%	7.84%

Appendix C - CORELATION AND RISK OPTIMISATION: Output

Graphical output: Plotted on a scatter diagram with standard deviation on the x axis and Return on the Y axis. The output is shown below. At a weighting of 40% Uganda T bills and 60% Zambia T bills a perfect negative correlation would generate only 0.07% risk.



References

- Aizenman, J., Ito . H., (2011), The “Impossible Trinity,” the International Monetary Framework, and the Pacific Rim.
- Adam. C., (2009), The Conduct of monetary policy in Uganda: An assessment, EPRC research series No. 65, 1 – 51.
- Hadar. L., Sood. S., Fox. R. C., (2013), Subjective Knowledge in Consumer.
Financial Decisions , Journal of Marketing Research. Vol. L (June 2013), (pp. 303 – 316).
- Jensen,M.,C., (1968), “The performance of mutual funds in the period 1945_1964” , Journal of finance 23, pp 389 – 416.
- Kelilume. I., (2014) , Effects Of The Monetary Policy Rate On Interest Rates In Nigeria The International Journal of Business and Finance Research, Volume 8 , No. 1(2014) pp 45 – 55.
- Lintner. J.,(1965) , “Security Prices, Risk and Maximal Gains from Diversification,” Journal of Finance 20, no. 4 (December 1965): 587 – 615.
- Markowitz. H., (1952). Portfolio-Selection. The American Finance Association. pp. 77 – 91.
- Moreno. R., (2011), Lessons from the “impossible trinity”, BIS Papers No. 68.
- Mossin. J., (1966) , “Equilibrium in a Capital Asset Market,” Econometrica 34, no. 4 (October 1966): 768 – 783.
- Ncube. A., Kitiibwa. J., Havugimana. J, (2013), Instruments and conditions for efficient monetary policy making in support of Economic Growth: Case of African Economies, MEFMI Forum, Issue 14, July 2013, pp40 – 60.
- Sharpe,W. J.,(1964) “Capital Asset Prices: A Theory of Market Equilibrium under Conditions of Risk,” Journal of Finance 19, no. 3 (September 1964): 425 – 442.

Where Do Funds to Finance the African Debt Market Come From?

By MEFMI Executive Director, Caleb Fundanga (PhD)

This article was first published in *The Banker* – an IMF/World Bank publication – in September 2012.

African economies have recently performed well. Real gross domestic product (GDP) growth over the past three years has been robust and projections show that in the next five years the majority of the ten (10) fastest-growing countries in the world will be in Africa. This is a far cry from the 1980s and 1990s and also from when Africa was labelled “the hopeless continent” by *The Economist* a decade ago.

The African turnaround has mainly been attributed to improved economic management and the Highly Indebted Poor Countries (HIPC) initiative, although high commodity prices in recent years have also played a part. HIPC imposed fiscal management criteria on all those countries that sought access to debt forgiveness. But the debt cancellations under HIPC created fiscal space, which in turn enabled African countries to invest in vital infrastructure. Policy reform also required Governments to withdraw from running businesses. In the 1970s and 1980s, most sub-Saharan economies were dominated by state-owned enterprises, the bulk of which were poorly managed and needed subsidies to exist. These subsidies contributed to high borrowing by Governments.

One positive outcome of the recent improvement in economic management has been the accumulation of foreign currency reserves by African central banks. Good management has required that every central bank maintains enough reserves to sustain imports of four to six months.

Reserves are a necessary cover against export earnings volatility, given the dependence of many African countries on one or two commodities, such as oil, metals or agricultural produce. According to the World Bank’s development indicators, foreign currency reserves have been growing rapidly in the past decade, although they dropped in 2010 due to the negative impact of the Arab Spring on North African countries. In 2011, African reserves stood at \$461bn. These reserves are mainly kept at and managed by European and US institutions.

Africa’s central banks have developed very prudent investment policies over the years. These have been guided mainly by safety and liquidity. Safety has required that reserves be invested in the paper of institutions with a high credit rating, thus reducing the prospect for loss. The need for liquidity has necessitated investment in instruments with short tenors. It has been argued that these two attributes cannot be found in African counterparties, hence the need to look to developed economies for the investment of reserves.

Credit Rating Drive

Accompanying the rapid African growth of recent times has been the need for increased investment. More resources are required to finance infrastructure, such as roads, schools, hospitals and electricity. Funds are also required to finance private sector activities, including manufacturing, mining and trade. Traditionally, African Governments have met their financing needs through grants provided by developed countries, loans from multilateral development institutions and loans from commercial banks.

This financing framework was sometimes criticised as it tended to be controlled by dominant Western interests that were accused of imposing conditionality on borrower countries, including requiring access to their resources. With hindsight, some of the conditions were perhaps necessary given the record of poor economic management in the past.

Until recently, African countries could not access international finance through bond issuance as few were regarded as sufficiently creditworthy. This is now slowly changing as more states improve macroeconomic management and subject themselves to sovereign credit ratings.

African multilateral financial institutions, which are rare, are dominated by the African Development Bank (AfDB), the only AAA rated institution on the continent. But they also include the African Export and Import Bank (Afrexim) and a host of regional banks,

such as the East Africa Development Bank, PTS Bank and Ecowas Bank. In recent times, more financial institutions have started to subject themselves to credit ratings, including Afexim and PTS Bank. Although these ratings are not AAA - Afexim is rated BBB - by Fitch - this has nevertheless opened new financing opportunities for them.

Debt Market Funding

The key question has always been: where do funds to finance the African debt market come from? Theoretically, the funds come from developed countries. African central banks refuse to take on African debt instruments and prefer to invest their money in developed country institutions where risk perception is low. But with the recent opening up of markets for African bonds and treasury bills, it is possible that some of the money used to buy the African debt market could come from the continent itself. It is also possible that some of the demand for AfDB bonds could be African.

One has to ask what the consequences of today's funding model have been. Starting with the subprime crisis of 2008 and now the euro crisis, the global debt market has been in turmoil. The cost of borrowing for Africa's entities has shot up. The AfDB, which could sometimes borrow below Libor before 2008, now has to borrow at several hundred basis points above Libor.

The global crisis now appears to be affecting African entities more negatively than the countries that started it. Any issuance of debt instruments by Africa sovereigns is likely to face a similar fate.

Current yields on some of the investments stand at below 0.2%. This can be contrasted with 2% to 3% in the pre-crisis period. This has led to a situation where income from investments of African central bank reserves is coming to almost nothing at a time when those reserves are at historical high.

Africa's opportunity

It is clear that Africa has resources to meet the financial requirements of its development. If one was to concentrate only on the annual borrowing requirements of its multilateral financial institutions - leaving out the sovereigns - perhaps less than \$30bn would be needed, a small fraction of the \$400bn - plus reserves. And such sums would not jeopardise the central banks' need for liquidity. As such, it is this

segment of the market that should be the first target of an effort to develop the African capital market.

The main issue would be the credibility of the counterparties. For the envisaged market to develop, it is important that all potential participants go through a rigorous credit rating process. Only entities attaining a certain threshold should participate. This would also create new opportunities for the rating business.

Africa financial entities need to be rated to determine their creditworthiness. Although credit agencies lost a lot of their shine in the wake of subprime and eurozone crises, their work still has a lot of relevance when properly done and supervised.

But there is also the need for the promotion of local rating agencies with better local knowledge. International rating agencies should partner local agencies to help develop capacity.

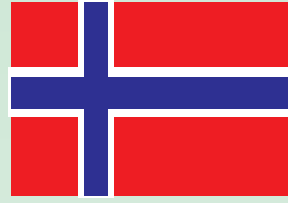
If the reserves of the central banks were put towards African debt instruments, the yields would certainly be much higher than the sub-0.2% levels they currently get in the developed world. Similarly, if African development finance institutions borrowed the reserves of African central banks, the cost of such borrowings would certainly be lower than the current levels. This is undoubtedly a win-win situation. Both borrowers and investors would be better off.

To address the problem of some of the counterparties having poor credit ratings, the AfDB (with its AAA rating) could guarantee the borrowings of some of these institutions. African development would be the real winner.

The case for Africa using its own resources for its development is getting stronger. Already the use of local currency loans by development entities such as the World Bank and AfDB is providing popular and helping to reduce the foreign exchange risk faced by borrowers. And the growth of stock exchanges in Africa, with money coming in from local investors, is opening new funding avenues for African entrepreneurs.

In a similar manner, the use of African central bank reserves to finance African development finance institutions would mean utilising a huge pool of local resources hitherto targeted at developed countries. The real challenge is to establish institutions that can help to make this possible.

Co-operating Partners



9 Earls Road, Alexandra Park, P. O. Box A1419, Avondale, Harare, Zimbabwe
Tel: +263 4 745988/89/91-4 Fax: +263 4 745547-8 Email: capacity@mefmi.org Web: www.mefmi.org
Twitter: @mefmiorg

