MEFMI
Macroeconomic and Financial Management Institute of Eastern and Southern Africa
UPDATE
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MEFMI appoints New Director Debt Management Programme

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Mr Stanislas Nkhata is the new Director of the MEFMI Debt Management Programme. Mr. Nkhata joined MEFMI in 2012 as Programme Manager and was appointed Director in September 2017. He has succeeded Mr Raphael Otieno who returned to the Central Bank of Kenya after the end of his tour of duty at the MEFMI Secretariat. Mr Nkhata holds a Master of Arts Degree in Economics and a Bachelor of Social Sciences Degree (majoring in Economics) from the University of Malawi. He has vast experience in economic and public debt management, spanning over 15 years.

His responsibilities as Director will involve management and supervision of all aspects of the Debt Management Programme. This includes contributing to the enhancement of human and institutional capacity in sovereign debt management through improved policies, systems, databases and awareness creation in MEFMI member countries.

Prior to joining MEFMI, Mr Nkhata held various positions in the Debt and Aid Management Division in the Ministry of Finance in Malawi. While working for the Malawi Government, he was attached to the World Bank under the Debt Management Practitioners Programme. Mr Nkhata is also a MEFMI Accredited Fellow having undergone rigorous training and attachments on debt strategy formulation and analysis during 2004-2009. As a Fellow, he participated in several MEFMI missions and facilitated at in-country and regional capacity building activities on debt management.

Zimbabwe Develops a Medium-Term Debt Management Strategy and the First Annual Borrowing Plan

The Government of Zimbabwe has made significant progress in building and strengthening public debt management capacity since 2011. This includes setting up a dedicated Public Debt Management Office (PDMO), adoption of a modern public debt management legislation, preparation and adoption of debt management procedures manuals, regular reconciliation of public debt database, installation of frameworks for debt data back-up, as well as staff recruitment and training. The Public Debt Management Act promulgated in 2015 provides a comprehensive framework for public debt management, including requirements to develop and publish a formal medium-term debt management strategy based on public debt management objectives, an annual borrowing plan, and conducting annual debt sustainability analyses.

As part of efforts to ensure government debt management operations are guided by a formal debt management strategy as provided for in the Act, the Ministry of Finance and Economic Development requested the MEFMI Secretariat for technical assistance in developing the country's Medium-Term Debt Management Strategy (MTDS) and an Annual Borrowing Plan. A medium-term debt management strategy is a plan that the government intends to implement over the medium term to achieve a desired composition of the debt portfolio, which captures the government's preferences regarding cost-risk trade-off. It operationalizes the debt management objective of ensuring government's financing needs and payment obligations are met at the lowest possible cost consistent with a prudent degree of risk. An annual borrowing plan outlines how the desired strategy will be financed over the next budgetary period.

In response, a joint MEFMI-World Bank team provided the technical assistance through an in-country workshop held from 26 June to 7 July 2017 at Cutty Sark Hotel in Kariba. The objective was to assist officials prepare an MTDS covering the period 2017 to 2021, an annual borrowing plan for 2017, as well as enhancing the analytical capacity of officials to develop an Annual Borrowing Plan and MTDS.

The team comprised Mr. Stanislas Nkhata and Tiviniton Makuve (MEFMI Secretariat), Mr. Marko Kwaramba (World Bank Zimbabwe Country Economist), and two MEFMI Fellows – Mr. Michael Tukacungurwa (Bank of Uganda) and Leonard Thotho (Central Bank of Kenya). The team worked closely with over 30 officials from key institutions and departments involved in public debt management processes, namely the Accountant-General's Office, PDMO, International Cooperation, Financial and Capital Markets, Internal Audit, Legal Services, Fiscal Policy and Advisory Services, National Budget, Public Sector Investment Programme and Reserve Bank of Zimbabwe.

The workshop was organized around a series of case studies and guided hands-on exercises to prepare debt and other relevant macroeconomic data for the MTDS and Issuance Plan Analytical Toolkits. Two main strategies were considered and assessed under a set of macroeconomic assumptions. These are: (i) continued accumulation of arrears; and (ii) arrears clearance through bridge financing. The latter reflects Government's existing strategy to resolve the country's debt burden. The arrears clearance strategy was tested under alternative domestic and external financing scenarios using the IMF/World Bank Medium Term Debt Management Strategy analytical tool. The analysis indicated that the arrears clearance strategy would significantly reduce the country's external debt burden in the medium term. This is premised on the successful implementation of an IMF supported economic programme, a prerequisite for securing comprehensive external debt relief from the Paris Club and other creditors. While increasing the share domestic debt is an option, its feasibility largely depends on demand side constraints. Hence, clearance of arrears is key to unlocking and ensure stable access to external sources of financing required to implement the desired strategy.

Government's medium-term debt strategy and annual borrowing plan, marks an exciting new chapter in the management of Zimbabwe's sovereign debt. Nevertheless, transition towards the envisaged debt portfolio structure may take time to be fully realized due to the country's limited access to stable sources of external financing and the modest size of its domestic capital market relative to the size of government's gross financing requirements.

MEFMI Participates in Training Public Sector Debt Data Statistics

As part of ongoing efforts to assist member countries prepare public sector debt statistics in line with international standards and address the demand for reliable debt data for policy, economic analysis, credit assessment and regional integration processes, the Institute of Capacity Development (ICD) of the International Monetary Fund (IMF) organised a training on Public Sector Debt Statistics (PSDS) from 21 August to 1 September 2017 in Washington DC, USA.

Participants to the workshop were drawn from forty-two countries and regional organizations from around the world, working in relevant departments, particularly in Ministries of Finance (or equivalent institutions) and Central Banks, and whose responsibilities include compilation and dissemination of government finance and public-sector debt statistics. Two (2) of the participants were from the MEFMI region - Malawi and Uganda; and the Institute was represented by Mr. Tiviniton

Makuve, Programme Manager in the Debt Management Programme.

The training was delivered through lectures and discussions, which were followed by group work involving application of the concepts learnt. Each participant made a country presentation on the status of compilation and dissemination of debt statistics in their country or region. In addition, participants discussed the status of PSDS development, and gave views on capacity development requirements in their countries and regions. In this regard, Mr. Makuve delivered a presentation focusing on progress and challenges faced by countries in the region, and discussed the Institute's efforts to address these challenges. He highlighted the need for continued collaboration between MEFMI and the IMF in strengthening member countries' capacity. While only four countries in the MEFMI region (Kenya, Uganda, Tanzania and Malawi) have reported statistics to the joint World Bank/IMF Public Debt Statistics Database, there are "low-hanging fruits" within the region, as evidenced by results of Debt Management Performance Assessments (DeMPA) conducted in the past five years, showing that at least eight countries already have debt databases that meet international standards.

The workshop enhanced participants' capacity to collect, compile and disseminate public sector debt statistics based on existing international standards and conventions. For MEFMI, the knowledge acquired by its staff member is expected to enhance the Institute's capacity to support member countries' efforts towards improving accuracy, coverage and availability of data on public sector debt statistics. In addition, Mr. Makuve forged networks with peers from other regions, which is important in facilitating continuous knowledge sharing going forward.

Comprehensive Macroeconomic Data Essential for Policy Makers

Evidence-based policy making remains at the helm of most developing countries' agenda, and the MEFMI region is no exception. To support this agenda, there is need for consistent, accurate, timely and comprehensive macroeconomic data based on the System of National Accounts 2008 (2008 SNA), the sixth edition of the Balance of Payments and International Investment Position Manual (BPM6) and the Government Finance Statistics Manual 2014 (GFSM 2014). In this regard, the need for capacity building in the area of macroeconomic statistics continues to be a priority in the MEFMI Phase V strategic plan. It is against this background that MEFMI offered a six (6) week introductory course on the Monetary and Financial Statistics (IMFS) from 5 June to 14 July 2017.

The course was conducted using the MEFMI E-learning platform, in order to expand training outreach to member countries. Evaluations from previous E-learning courses conducted by the Institute have been positive and encourage the Institute to continue with this mode of delivery, as it offers full advantages and benefits of information and communication technology, which is in line with Pillar 4 of the Strategic Plan.

The course was the first e-learning activity in this area and the content was mostly based on the IMF Monetary and Financial Statistics Manual and the Monetary and Financial Statistics: Compilation Guide (MFSMCG). This course is part of MEFMI's effort to build capacity in the compilation/reporting and usage of macroeconomic statistics in line with international best practice.

The main aim of the course was to enhance participants' understanding of the methodology for compilation/reporting and usage of monetary and financial statistics, in accordance with international best practices. Amongst other things, the course focused on issues such as the characteristics and classification of financial instruments, principles of sectorisation and valuations, as well as other accounting issues that are relevant for the analytical accounts of central banks, other depository corporations and the entire depository corporations sector.

Specifically, the IMFS course was intended to equip participants with knowledge and practical skills to:

- Understand monetary and financial statistics framework;
- Describe institutional units and classification of financial assets and liabilities;
- Give a detailed account of compilation, source data and dissemination of monetary statistics;
- Describe and interpret stocks, flows, accounting rules, money, liquidity, credit, and debt; and
- Understand financial Statistics.

The course was divided into five (5) modules as follows:

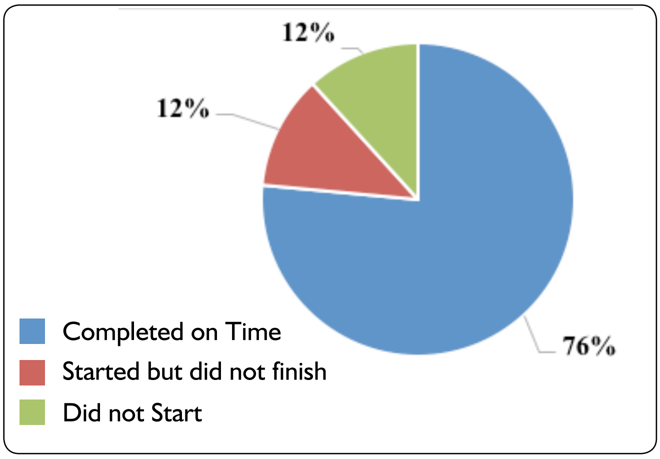
- **Module 1:** Introduction and overview of the monetary and financial statistic framework;
- **Module 2:** Institutional units and classification of financial assets and liabilities;
- **Module 3:** Stocks, flows, accounting rules, money, liquidity, credit, and debt;
- **Module 4:** Compilation, source data, and dissemination of monetary statistics; and
- **Module 5:** Financial Statistics.

The modules were complemented by weekly discussion fora which allowed participants to share their views and experiences on the issues covered. In addition, participants were required to complete mandatory quizzes aimed at assessing their knowledge and understanding of the subject matter.

A total of 34 applications from eight (8) MEFMI member countries were enrolled into the course as indicated in **Chart 1**. Female applicants accounted for 41% of the total, while male applicants accounted for 59%. However 26 Participnats successfully completed the course, of which 35% were female and 65% were male as indicated in **Table 1**.

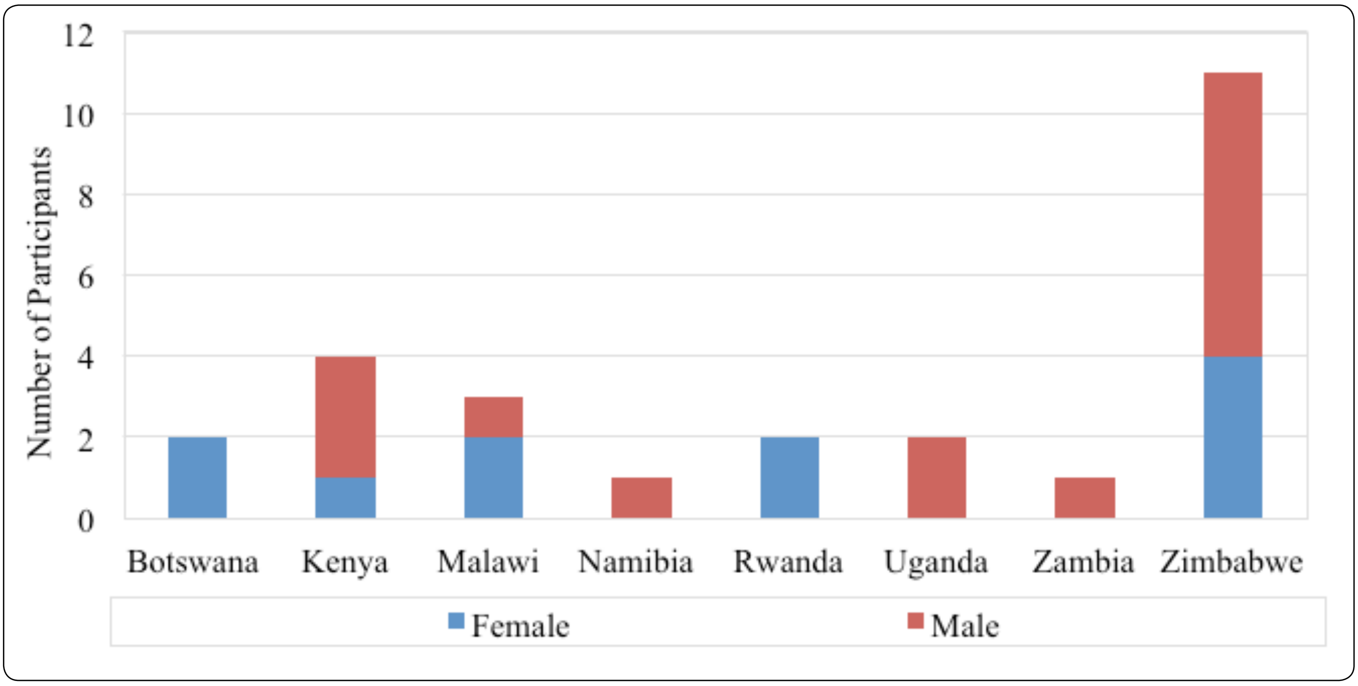
Some participates could not complete the course citing heavy workload and internet connectivity as some of the major challenges. Of the participants who successfully completed the course, 35% were female and 65% male.

Chart 1: Course Completion Rates



Source: MEFMI E-learning portal, 2017

Table 1: Course Completion by Country and Sex



Source: MEFMI E-learning portal, 2017

Zimbabwe Validates its Public Debt Database

Since its establishment in 2010, the Public Debt Management Office (PDMO) in the Ministry of Finance Zimbabwe has prioritized maintenance of complete and accurate public debt database. In 2014, a joint IMF and World Bank mission conducted a reconciliation exercise of Zimbabwe's public and publicly guaranteed external debt owed to multilateral, bilateral, and commercial creditors. The exercise verified debt data received from creditors against records stored in the Debt Management and Financial Analysis System (DMFAS).

A joint MEFMI/World Bank/IMF debt management performance assessment (DeMPA) conducted in December 2015 confirmed that the country's debt records were fairly complete, although some discrepancies existed.

As part of efforts to rectify discrepancies identified in the public debt database, the Government of Zimbabwe, through the Ministry of Finance and Economic Development, requested MEFMI and United Nations Conference on Trade and Development (UNCTAD) for technical assistance in validating the database, as well as enhancing the capacity of officials in the PDMO to undertake formalised validation in the DMFAS. Data validation is the process of ensuring that debt data is complete, accurate and consistent in order to produce reliable and timely information that meets the needs of an institution. In response a validation exercise was conducted at Kadoma Hotel and Conference Centre in Kadoma, from 17 to 28 July 2017.

The mission team comprised Mr. Khaled Ibrahim from UNCTAD; Mr. Tiviniton Makuve of the MEFMI Secretariat; Ms. Susan Nattembo - a MEFMI Candidate Fellow from the Bank of Uganda; and Mr. Tongai Tarubona – a MEFMI Trained-Trainer from the Reserve Bank of Zimbabwe. The team worked closely with over 20 officials from key institutions and departments involved in the public debt management process, namely the Accountant-General's Office, PDMO, Financial and Capital Markets, and Reserve Bank of Zimbabwe.

The primary objective of the mission was to validate Zimbabwe's public and publicly guaranteed domestic and external debt. Specific objectives were to:

- Validate public and publicly guaranteed debt database maintained in the DMFAS;
- Develop a debt database validation calendar and checklist to be used by the debt management office to ensure reliability of data.
- Enhance participants' capacity to undertake formalized debt data quality assessments using standard operational reports in the DMFAS.

The workshop was officially opened by Mrs Lindiwe Tirivanhu, Director in the Back Office of the PDMO. In her opening remarks, Mrs Tirivanhu commended MEFMI for prioritizing development and maintenance of high quality debt databases among other macroeconomic and financial information needed by member states. She also commended the strong partnership between MEFMI and UNCTAD, which has been useful in helping to deliver coordinated interventions in the targeted countries.

Speaking on behalf of MEFMI, the Programme Manager in Debt Management Programme Mr. Tiviniton Makuve, emphasised the need for debt management offices to regularly undertake formalized assessments of their debt databases, based on documented procedures and guidelines, to reduce operational errors and preserve institutional memory even where staff turnover is high. He reiterated the importance of validating all debt information recorded in computer-based debt management systems before internal and external dissemination. He said that data validation is essential in ensuring reliable, comprehensive, and timely debt data that are essential for the formulation of a country's macroeconomic policies and strategies. For this reason, he urged participants to put in place data compilation, recording and validation frameworks.

The workshop combined lectures, participant presentations, and actual validation of the debt database in the DMFAS. The practical debt database validation exercise helped to reinforce concepts and methodologies covered during powerpoint presentations. Priority debt database validation checks were identified, and the frequency for each check was determined.

Under the guidance of the mission team, a table summarizing the specific database validation issues identified and the corrective measures was developed. These include classification of debt instruments and anomalies in the status of some instruments. Almost 95 percent of the inconsistencies and discrepancies identified were corrected, and the remaining 5 percent required further clarification before any action is taken. In addition to validating the debt database, the mission also developed a validation calendar and checklist as well as enhancing officials' capacity to undertake formalized debt data quality assessments using standard operational reports in the DMFAS. The validation calendar and checklist include procedures for assessing anomalies in the database, remedial measures, and a schedule of regular measures of quality control in order to maintain or enhance the quality of the database over the long term.

Thanks to this exercise, the Government of Zimbabwe can integrate dependable debt data in their debt policy-making and strategy formulation processes. It is widely recognized that the availability of reliable and timely debt data is key to prudent risk analysis and elaboration of government strategies aimed at ensuring sustainable debt levels, and hence contributing to economic growth and poverty reduction. With the skills developed, the PDMO is expected to undertake the validation procedures with minimum external support going forward.

Collaborative Regulation Key in Boosting Cross-Border Payments

In recent years, there has been a strong momentum towards regional economic and financial integration as seen by developments in the Regional Economic Communities (RECs) on the African continent. This has been followed by the development and implementation of links and interconnections in payments and market infrastructures. Sound and efficient payment systems significantly contribute to the efficiency of financial systems and enhance financial stability. Consequently, well-developed regional payment systems promote cross-border trade and economic and monetary integration by reducing transaction periods and cost; and supporting safety in transaction processing.

Against this backdrop, MEFMI's Financial Sector Management Programme (FSMP) conducted an East African Community (EAC) sub-regional workshop on cross-border payment systems from 31 July to 4 August 2017 in Kigali, Rwanda. The workshop, the first of its kind, targeted staff from the EAC Central Banks and Ministries of Finance, involved in the operation, oversight, supervision and legal advisory of cross- border payment systems in four (4) MEFMI member countries – Kenya, Tanzania, Uganda and Rwanda.

The seminar aimed to review the current state of cross-border payment linkages in the region and identify constraints to their development and interconnection; proposing ways for creating the conditions needed to improve and integrate payments and market infrastructures. It further intended to contribute in strengthening the capacity of regulators and policy makers, sensitizing them on their role as operators, payment system regulators and users.

The EAC has launched several initiatives for cross-border payment linkages including the regional gross settlement payment system (EAPS), the EAC Central Securities Depository, cross-border mobile money transfer schemes, and other such interconnections. However, it has been noted that despite the efforts, great challenges still exist in the operationalisation and uptake of these systems with consumers still preferring correspondent banking and other informal payment methods that are costly and inefficient. Weak legal and regulatory frameworks, underdeveloped physical and IT infrastructure, lack of interoperability, are some of the challenges facing countries as they interconnect their payments infrastructures. These deterrents, if not promptly or adequately addressed are likely to slow down the on-going efforts by countries to move towards monetary and financial integration. In addition, while efforts to modernise cross-border payment schemes present immense opportunities, they introduce other regulatory concerns; AML/CFT issues, foreign exchange settlements and consumer protection. These call for the harmonisation and strengthening of cross-border payments operations and oversight.

The workshop was officially opened, on behalf of the Governor of the National Bank of Rwanda (BNR), by the Director General of Financial Stability, Mrs Peace Uwase Masozera. In her remarks, Mrs. Masozera extolled MEFMI for its commitment in building capacity by designing timely products and services in cognisance of emerging developments. She noted that MEFMI's endeavors promote Central Bank and Ministry of Finance initiatives in building appropriate policy and operational frameworks.

She also commended the central banks in the EAC for the headway made at the national and sub-regional levels to modernize payment systems. She added that the region had seen progression in payment infrastructures, like the Real Time Gross Settlement systems (RTGS), retail payment systems like credit cards and point of sale, and more recently mobile banking services. She added that new models for cross-border remittance transfers had also been launched in various jurisdictions, noting the significant role these remittances play in the growth and development of economies especially in developing countries. Mrs. Masozera added that with the emergence of modern technologies, like online banking and mobile telephony, the potential of remittances was increasing. She said these developments have been inevitably proceeded by the harmonization of regional financial policies, institutions, rules and regulations.

Mrs. Masozera said that market dynamisms and influences as opposed to government interventions, have been the driving force of the emergence and adoption of these new payment services. However, she cautioned that without adequate incentives and strong risk mitigation measures, private players could not be left on their own to penetrate new markets and push the frontiers of the financial services industry. As a regulator and facilitator, the Central bank in collaboration with other policy makers and market authorities needs to provide a level playing field that encourages innovation, competition, interoperability, consumer protection and financial inclusion.

She applauded MEFMI for inviting private players into the dialogue at such forums. This approach provides the platform needed for more collaborative regulation for future market products and services. She stressed BNR's commitment to work with other central banks and authorities in the EAC in ensuring that cross-border payment systems in the region are modern, safe and efficient.

Speaking earlier, Mr Patrick Mutimba, the Director of the FSMP commended the EAC member states for their efforts in modernizing their cross-border payment systems. He said that the MEFMI secretariat continues to align its products and services and adjust its capacity building approach to emerging trends and developments in the region. He encouraged countries to fully utilize MEFMI products to optimally benefit from institute's partnership with its member states. He called attention to the need of harmonized regulatory policies if the goal of regional integration is to be achieved. He commended the BNR for its commitment in spurring cross-border payment systems and the close partnership it has with MEFMI.

The seminar covered various aspects of cross-border payment systems including; technology enablers and emerging trends, AML/CFT considerations for cross-border payments, legal and regulatory issues, lowering the cost of remittances, interoperability in digital financial services; and risks and oversight of cross-border payment systems.

The workshop was attended by 17 participants from seven institutions. The officials were middle-level staff from central banks, ministries of planning and of finance or national treasury.

It was resourced in collaboration with the GSMA, TransferTo, MTN Kigali, SADC and MEFMI. The facilitators, were Mr Brian Muthiora from GSMA, Ms Sandra Yao and Mr Nicolas Vonthron from TransferTo, Mr Norman Munyampundu from MTN Kigali and Mr Josephat Mutepfa from SADC. The MEFMI team comprised of Fellows - Ms Adeline Mukashema and Mr. Amani Itatiro; and from the MEFMI secretariat – Mr Patrick Mutimba and Ms Jackie Kitiibwa. The mix of resource persons helped ensure discussions were multifaceted and was key in drawing out key considerations for creating the enabling environment for cross-border payments to flourish.

The main outcome of the activity was that it helped create the road map on how policymakers, regulators and industry players can join forces to boost cross border payments in the EAC region. A similar event is planned for the SADC member states in 2018.

Editorial comments and contributions to MEFMI Update should be directed to:

Gladys Siwela
The Public Relations Manager
gladys.siwela@mefmi.org

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MEFMI
Macroeconomic and Financial Management Institute of Eastern and Southern Africa

9 Earls Road, Alexandra Park
P. O. Box A1419, Avondale, Harare, Zimbabwe.
Tel: +263 4 745 988/9/91-94 Fax: +263 4 745 547-8
Email: capacity@mefmi.org Web: www.mefmi.org Twitter: @mefmiorg

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