Macroeconomic and Financial Management Institute of Eastern and Southern Africa

HIGHLIGHTS OF THE

2019 MEFMI REGION DEPUTY PRINCIPAL / PERMANENT SECRETARIES AND DEPUTY GOVERNORS FORUM

THEME: GOVERNANCE

7 – 8 May 2019
The Kingdom Hotel
Victoria Falls, Zimbabwe

HIGHLIGHTS OF THE
2019 MEFMI REGION DEPUTY PRINCIPAL / PERMANENT SECRETARIES AND DEPUTY GOVERNORS FORUM

7 – 8 May 2019

The Kingdom Hotel

Victoria Falls, Zimbabwe

RAPPORTEUR:
Patrick Mutimba, Director Financial Sector Management Programme

REVIEWERS:
Gladys Siwela, Public Relations Manager

APPROVED BY:
Michael Atingi-Ego, Executive Director

Editorial comments should be addressed to:
The Public Relations Manager
MEFMI
9 Earls Road
Alexandra Park
Harare
Zimbabwe
Tel: +263-4-745988/9/91-94
E-mail: capacity@mefmi.org
Web: www.mefmi.org
Twitter: @mefmiorg

TABLE OF CONTENTS

FOREWORD

The 2019 MEFMI Deputy Principal / Permanent Secretaries and Deputy Governors' Forum was held from 7 to8 May 2019 in Victoria Falls, Zimbabwe.

The event was held under the 2019 Executive Fora theme of Governance, which was identified in an effort to support member countries as they strengthen their macro and financial institutional governance frameworks to navigate the challenges posed by the intensifying risks amidst elevated policy uncertainty both domestically and globally. MEFMI intends that future capacity building efforts take into account the findings and recommendations arising from Fora such as this one.

The Forum, explored the theme in the context of four topics:

i. Governance and Independence of Central Banks

ii. Governance of Reserves Management

iii. Governance Framework for Effective Management of Debt Issues including Sovereign Contingent Liabilities

iv. The IMF Enhanced Framework for Engagement on Governanceand Corruption

The outcomes of the Forum discussions are to be considered in drawing up an agenda on capacity building in the region. These will also inform MEFMI on which partners to work with given the different levels of expertise vested with its technical partners.

I would like to acknowledge Crown Agents Investment Management for supporting MEFMI Secretariat in hosting the Deputy Governors' and Deputy Permanent Secretaries' Forum for three years running now. I would also like to appreciate the Forum Steering Committee chaired by Dr. Louis A. Kasekende for their continued support and guidance to the Secretariat in the organisation of this Forum.

Michael Atingi-Ego

MEFMI Executive Director

EXECUTIVE SUMMARY

It is believed that addressing governance vulnerabilities in sovereign institutions reaps benefits of strengthening their structures, decision making processes, and information flow which is used in directing, overseeing and controlling management, accountability and operations. This in turn enhances public trust in these institutions and in this context, those that manage public resources to deliver the necessary goods and services.

The discussions at the 2019 MEFMI Deputy Principal / Permanent Secretaries and Deputy Governors' Forum focused on the role of good governance. This report thus provides a synopsis of the deliberations made during the Forum and the recommendations thereof.

In his keynote address, Mr. Mohammed Nyaoga, who is the Chairman of the Board of Directors of the Central Bank of Kenya(CBK) shared best practices from the Bank's approach to governance. The discussion by Ms. Jennifer Johnson-Calari covered institutional safeguards to uphold the objectives of effective management of reserves as one part of the sovereign asset liability management. The second part of this dichotomy - debt management - formed the basis for the third session by Ms. Stella Illieva, who outlined the necessary legal framework, pillars and best practices in sovereign debt management. The fourth session by Mr. Ceda Ogada, presented the highlights of IMF's Enhanced Framework for Engagement on Governance and Corruption and its implications for MEFMI member countries.

The presentations and discussions brought out the following key lessons for MEFMI:

1. Consider institutional capacity building initiatives including those aimed at the legislature.

2. Consider training countries on the merits of building foreign reserves buffers to strengthen the liquidity provision in addition to identifying ways of enhancing the return objectives mindful of capital preservation.

3. Continue to work on Debt sustainability frameworks with a view to minimising projections optimism that appear to be driving borrowing beyond sustainable levels.

4. Enhance partnership with IMF in helping countries close gaps related to economic institutions governance.

1. WELCOME AND OPENING REMARKS

1.1 WELCOME REMARKS: Mr. MICHAEL ATINGI-EGO, EXECUTIVE DIRECTOR, MEFMI

The MEFMI Executive Director, Michael Atingi-Ego, introduced the theme for the Forum, "Governance". He gave a brief background of the iterative and consultative process through which the theme was identified. The theme was informed by mounting challenges faced in managing risks amidst elevated policy uncertainty both domestically and globally.

In his welcome remarks, Mr Atingi-Ego acknowledged the special support from Crown Agents, the IMF, World Bank and the Central Bank of Kenya. Each of the four institutions provided a speaker.

1.2 ABOUT CROWN AGENTS: MR. ALBERT MAASLAND, GROUP CEO CROWN AGENTS BANK

Mr. Albert Maasland who is the Group CEO of Crown Agents Bank spoke about the role of Crown Agents Bank in the Forum. He stated that the theme was relevant to the MEFMI region policy makers because the breadth of governance challenges in the region spans a wide berth, ranging from institutional oversight and central bank independence, better governance framework for financial sector surveillance, to legal framework for effective management of contingent liabilities. He further explained that it was Crown Agents' expectation that the Forum would ignite discussions as part of the process of extracting policy imperatives from the senior officials.

1.3 ABOUT THE FORUM AND THE THEME

The Chairman of the Steering Committee for the MEFMI Deputy Principal / Permanent Secretaries and Deputy Governors Forum, Dr. Kasekende, observed that the discourse to be generated should assist in enhancing governance frameworks in both central banks and finance ministries to address the related vulnerabilities. He stated that of particular concern was the issue of the growing external debt vulnerabilities and the extent to which these are consistent with the central banks' objectives of building foreign exchange reserve buffers.

2. FORUM PRESENTATIONS

2.1 SESSION 1: GOVERNANCE AND INDEPENDENCE OF CENTRAL BANKS

Presenter: Mr Mohammed Nyaoga, Chairman, Board of Directors, Central Bank of Kenya **Moderator:** Dr. Louis Kasekende, Deputy Governor,Bank of Uganda.

Main points in the presentation

Using previous court cases as reference points, the session explored the experience from the Central Bank of Kenya with respect to governance. Governance has become a topical issue partly due to the important role played by central banks in national economic recoveries after the 2008 global financial crisis. It has also been noted that rapid changes in technology have spawned renewed attention to cyber security and anti-money laundering and countering the financing of terrorism.

The practice in Kenya so far has been supported by three key pillars namely:

a) Strong Legal frameworks. There are specific provisions governing the independence and mandates of the Central Bank of Kenya as stipulated in the Constitution of Kenya, and by the Central Bank of Kenya Act. At the Central Bank of Kenya, the Board Chairman is separate from the Central Bank Governor.

b) Strong institutional arrangements. Collaboration and coordination between the Central Bank of Kenya and other regulators in the financial sector is seen as an engine of economic and financial stability. A common element is regular consistent consultations on policy developments.

c) Benchmarking to international best practices. In a bid to remain competitive and cognisant of the increasing integration of the financial sector and the economy into the global space, there is effort towards aligning laws, policies and operations to international standards.

He concluded by reiterating the common duty to pursue strong governance practices anchored on strong institutional and legal frameworks which would support independent central banks and the achievement of their primary and broader objectives.

Key Discussion Points:

The key note address elicited interventions and further discussion on the following:

1. The many angles to central bank independence were debated and clarified. These focused on the continued motivation to shield central banks from political influence in the delivery of their mandate.

2. With respect to goal independence versus instrument independence, the need to have a nationally agreed goal of price stability, with the central banks given freedom and independence to choose instruments to pursue this goal was emphasised.Broadening the goals beyond price stability should be accompanied with additional instruments. Increased mandates without instruments would be a difficult position to take.

3. While independence should be accompanied by accountability, this should be enhanced with an appropriate communication strategy easily understood by the broader public. This is exemplified by the challenges of communicating to the Parliamentarians for instance using technical jargon.MEFMI could come up with institutional capacity building initiatives to address the lack of appreciation at those levels of the key principles in the governance of central banks.

2.2 SESSION 2: GOVERNANCE OF RESERVES MANAGEMENT

Presenter: Ms. Jennifer Johnson-Calari, Principal-JJC Advisory and Non-Executive Director Crown Agents Investment Management

Moderator: Ms. Gail Makenete, Deputy Governor, Central Bank of Lesotho.

Main points in the presentation

This session sought to highlight to the participants the growing external debt vulnerabilities and examine the extent to which these are consistent with central banks' objectives of building foreign exchange reserve buffers, noting that reserves are for self-insurance against shocks, supporting monetary and foreign exchange policy management, and servicing external debt or other obligations.

The presentation provided some observations including the following:

a) Most central banks are behind the curve in terms of reserves management, given ongoing evolutions in the global economy. This is attributed to the slow response of the central banks to these developments given their bureaucratic nature.

b) Central banks are not extracting as much value from the reserves as they potentially could.

c) The main investment objectives are capital preservation and liquidity provision. The return objective is considered supplementary to these two.

There was a recap on the institutional safeguards provided for in the IMF sovereign reserves management guidelines. The discussant further led delegates through guidelines that would enhance reserves management, focusing on Board ownership and the need for them to focus on medium term investment returns rather than short term accounting reporting.

Key Discussion Points:

The discussions focused on the following:

1. There is need to align fund manager actions to central bank objectives. For instance, in a bid to demonstrate strong short term returns, it may be possible for a portfolio manager to crystalise a capital gain by rebalancing while at the same time jeopardising future reinvestment income. This happens when one sells bonds at a lower yield than coupon, recognising the capital gain, but at the same time having to face low reinvestment returns going forward. In practice this may be

mitigated by reviewing performance over the medium term or taking a smoothing approach of allocating income.

2. MEFMI should consider the possibility of training its client institutions on the strategies on enhancing income returns of foreign reserves cognisant of capital preservation. Such investment income could contribute to the building of foreign reserves.

2.3 SESSION 3: GOVERNANCE FRAMEWORK FOR EFFECTIVE MANAGEMENT OF DEBT ISSUES INCLUDING SOVEREIGN CONTINGENT LIABILITIES

Presenter: Ms Stella Illieva, World Bank Country Office, Zimbabwe

Moderator: Dr. Jesimen T. Chipika, Deputy Governor, Reserve Bank of Zimbabwe

Main points in the presentation

This session focused on the liability portion of the sovereign asset liability dichotomy building on the preceding session. It drew the delegates' attention to best practice with respect to debt management.

The need for a good legal framework for oversight of sovereign debt liabilities,and an effective debt management strategy were emphasised.

Further dimension covering best practices for managing sovereign debt liabilitieswere also highlighted.

In summary, it was observed that good legislation, good debt management strategy, well-organised Debt Management Offices (DMO) and regular debt reporting are critical elements of an effective institutional framework for debt management. However, the process of putting the right structures in place may take time. Current issues requiring capacity building and the closer attention for DMOs include subnational debt management, contingent liabilities, Public Private Partnerships and realistic macro projections to underpin borrowing plans.

Key discussion points:

The presentation was followed by a discussion which raised the following issues.

1. Recent growth in debt contracted from various sources as well as the challenges of contingent liabilities occasioned by borrowing by state owned enterprises and local authorities, and those that could arise from Public Private Partnerships.

2. The recent growth in the number of creditors and the absence of a common platform for coordinating their actions could make debt restructuring very challenging, should this be required. In addition, the levels of acceptable debt thresholds have gradually drifted over time from the 40% Debt/GDP ratio that was regarded as sustainable in the early 2000's to 50 % in the recent past, which may not be fully explained by policy and institutional capacity improvements.

3. Juxtaposed with the growing debt problem, there have been cases of lower than expected returns from infrastructural development projects calling for a thorough assessment of the productivity of these investment and the sustainability of the associated debt. Issues reviewed in this discussion included the responsibility of lenders to avoid reckless lending which brought into focus the concept of odious debt.

4. The need for MEFMI to continue capacity building for debt management offices and strengthening Debt Sustainability Frameworks was called for. In addition, finding ways of improving macro-economic forecasts underpinning debt sustainability analysis was also emphasised.

2.4 SESSION 4: IMF ENHANCED AGENDA ON GOVERNANCE

Presenter: Mr. Ceda G. Ogada,Deputy General Counsel, International Monetary Fund

Moderator: Dr. Bwalya Ng'andu, Deputy Governor, Bank of Zambia

Main points in the presentation:

The session highlighted IMF's recent framework that aims at helping its membership to address governance and corruption issues. This new framework revises the policy on governance detailed in the 'The Role of the IMF in Governance Issues: Guidance Note' of 1997.

While it was observed that the IMF had engaged its membership quite well through its 1997 Governance Policy, several areas were identified in which engagement on governance and corruption issues could be enhanced. These included the unevenness in policy implementation and the perception that it targeted smaller developing economies seeking financial assistance from the IMF as an instrument of conditionality.

The ability of the 1997 Policy to diagnose governance issues in a clear way and concretise these for policy advice needed to strengthen governance structures in the membership was found wanting. As a result, in 2017the IMF undertook a review of the 1997 Policy to address the highlighted gaps with a view to promoting a more systematic, effective, candid, and even-handed engagement with member countries regarding governance vulnerabilities.

In addressing these weaknesses;

a) The IMF has sought to enable assessment of the nature and severity of governance vulnerabilities.

b) The identified governance vulnerabilities are expected to guide IMF's assessment of economic impact of governance and corruption vulnerabilities.

c) The assessment of governance weaknesses is expected to guide policy advice to make it more tailored, concrete, and granular.

For MEFMI region, consideration should be on how more countries can volunteer to be assessed of their governance vulnerabilities with a view to comprehensively address the identified gaps and weaknesses in the governance framework of MEFMI client institutions.

Key discussion points:

In the ensuing discussions, the following issues were raised:

1. With respect to supply side corruption, some western economies have legislation that seeks to address corruption overseas. For instance, the US Foreign Corrupt Practices Act, the OECD anti bribery convention for OECD member countries, and the United Nations Convention Against Corruption (UNCAC) which covers corruption and non OECD Countries. Going forward their effectiveness will be assessed as part of the surveillance for this group of countries.

2. Two recurring problem areas in this agenda of strengthening governance and the fight against corruption have been identified. One is with respect to the regulation of markets which includes exchange restrictions, transparency, complexity, enforcement, product market regulation, trade facilitation, ease of doing business and lack of data. The other problem area is the rule of law, specifically covering enforcement of contract and property rights and investor protection. MEFMI and IMF member countries should seek ways of addressing these gaps.

3. Over regulation and limited competition are some of the ways governance vulnerabilities can build up. Consequently, liberalisation of economies and move towards privatisation ought to be considered. In addition, economic policy that minimises rent seeking behaviors also reduces governance vulnerabilities and corrupt practices.

4. Political corruption was identified as fertile ground for state and regulatory capture of government institutions which undermines efforts to reduce poverty, inequality and growth in general.

3. SOME RECOMMENDATIONS FROM THE FORUM

The following are some recommendations for the MEFMI Secretariat summarised as:

1. Consider institutional capacity building initiatives including those aimed at the legislature, presented in a simple rather than technical manner.

2. Consider training countries on merits of building foreign reserves buffers to strengthen liquidity provision in addition to identifying ways of enhancing the return objectives mindful of capital preservation.

3. Continue to work on Debt sustainability frameworks with a view to minimising projections optimism that appears to be driving borrowing beyond sustainable levels.

4. Enhance partnership with IMF in helping countries to close gaps related to economic institutions governance.

@mefmiorg

www.mefmi.org

capacity@mefmi.org

+263 242 745 988/9/91-94

9 Earls Road, Alexandra Park,
P. O. Box A1419, Avondale, Harare, Zimbabwe