

**AN INVESTIGATION INTO THE IMPLEMENTATION OF THE SOVEREIGN  
DEBT MANAGEMENT STRATEGY IN NAMIBIA**

**A THESIS SUBMITTED IN PARTIAL FULFILMENT  
OF THE REQUIREMENTS FOR THE DEGREE OF  
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**BY**

**MARTEN ASHIKOTO**

**STUDENT NO: 200924079**

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**SUPERVISOR: PROF. J P S SHEEFENI (UNAM)**

## **Abstract**

The Sovereign Debt Management has become an important practice in many developing countries and emerging market economies. The debt crisis in 1982 and the recent European debt crisis has triggered interest of many governments in developing countries to develop capacity in Sovereign Debt Management. Many developing countries had failed to honor their debt obligations and had applied for debt relief from the World Bank and International Monetary Fund. Namibia had no exception that it has to develop its debt management, this was implanted in 2005. This study attempts to explore the challenges experienced in implementing the Sovereign Debt Management Strategy in the Ministry of Finance since its inception in 2005.

A quantitative research method was used in this study. The primary data was gathered through structured questionnaires. Secondary data from related literature and official documents reviews such as Debt Management Strategy and guideline for effective debt management from the Ministry of Finance, Bank of Namibia, MEFMI, IMF and World Bank were used in gathering the necessary information for this study.

The quantitative analysis of the data collected by structured questionnaires showed that the government Debt Management practices have demonstrated weaknesses that need urgent attention. The noted concerns are the legal framework and institutional arrangement that need to meet the international best practices. Debt management objectives and coordination, though well defined, require serious attention. Risk management framework need to be setup as well the periodic debt sustainability review need to be undertaken at all time. The development and maintenance of an efficient domestic market for government securities also need to be enhanced. The use of structured questionnaires for data collection is a significant departure from the methods used in other studies in this area. The rich and contextual data gathered from the structured questionnaires justified this choice and contributed to the identification of issues not mentioned in the literature.

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## **List of acronyms**

<b>AG</b>	Office of the Attorney General
<b>BON</b>	Bank of Namibia
<b>CDM</b>	Cash & Debt Management
<b>CSD</b>	Central Securities Depository
<b>DFIS</b>	Development Finance Institutions
<b>DMO</b>	Debt Management Office
<b>DSA</b>	Debt Sustainability Analysis
<b>DVP</b>	Delivery Versus payment
<b>IMF</b>	International Monetary Fund Employment
<b>GDP</b>	Gross Domestic Product
<b>IRS</b>	Internal Registered Stock
<b>JSE</b>	Johannesburg Stock Exchange
<b>MOF</b>	Ministry of Finance
<b>MTEF</b>	Medium Term Expenditure Framework
<b>NDP4</b>	Fourth National Development Plan
<b>NPC</b>	National Planning Commission
<b>SDMS</b>	Sovereign Debt Management Strategy
<b>SOES</b>	State-owned Enterprises
<b>TIPEEG</b>	Targeted Intervention Programme for Employment & Economic Growth
<b>WB</b>	The World Bank

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- I hope that this vital document will be of good use to the debt management community.
- To my fellow students your opinions and support made me strong throughout the preparation of this study.

## **Dedication**

This study is dedicated to the Ministry of Finance, Bank of Namibia and all employees of Debt Management field.

## **Declaration**

I, Marten Ashikoto, hereby declare that this study is a true reflection of my own research, and that this work or part thereof has not been submitted for a degree in any other institution of higher education. No part of this may be reproduced, stored in any retrieved system, or transmitted in any form or by means (e.g. electronic, mechanical, photocopying, recording or otherwise) without the prior permission of the author or the University of Namibia in that behalf.

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Ashikoto Marten

Date-----

## **CHAPTER ONE: INTRODUCTION**

### **1.1 Introduction**

This study conducted an investigation into the implementation of the Sovereign Debt Management Strategy in Namibia for the period 2005-2015. The Sovereign Debt Management has become an important practice in many developing countries and emerging market economies with a focus to minimise the cost of government borrowing, monitoring of risk associated with government borrowing and that of establishing the international and domestic capital markets, (MEFMI, 2006). The international debt crisis in 1982, the 1997 Asian debt crisis, and most recently the 2008 global financial crisis serve as cases in point, requiring stiffer control of debt management globally (IMF, 2012).

The most recent European sovereign debt crisis has also driven countries to implement measures aimed at managing sovereign debt effectively. Like any other developing country, Namibia is no exception to these emerging global trends, at the same time, the country is confronted by persistent challenges of social inequalities prevalent since independence coupled with continuing high incidences of unemployment that is currently estimated at 37.6% as well as poverty (NPC, 2008). These challenges suggest significant levels of spending on social and economic development programmes and thus, the increased spending resulted in recurrent budget deficits and building up of debt.

The pace of debt accumulation in the past three years, particularly the foreign debt, has raised concerns about the long-term debt sustainability (IMF, 2015).

In line with global developments, Namibia introduced a Sovereign Debt Management Strategy (SDMS) in 2005. The objectives of the SDMS were to ensure that Government debt is managed in a manner that minimise the cost of government borrowing, consistent with an acceptable degree of risk while subsequently developing the domestic capital market. In addition to the above mentioned objectives, the strategy also proposes changes to the institutional arrangement, the legal framework, and proposed the uses of fiscal rules and debt management strategic benchmarks as guiding principle to the management of overall Government debt. One of the critical fiscal rules set out in the SDMS 2005, is that the growth of debt should not exceed the growth of GDP in order to sustain the ratio of debt to GDP at a target level. However, the expansionary fiscal policy stance since 2012 and the projections thereof, portray a sharp increases of Government debt to 40% by the end of Medium Term Expenditure Framework 2016 – 2019 (MTEF 2016-19), which is above the maximum target of 35% (MTEF, 2016-2019).

Though, Namibia has maintained fiscal prudence since independence, with a view to promote macro-economic stability and to lay the foundation for sustainable economic development. During 2011/12, the government embarked on a Targeted Intervention Program for Employment and Economic Growth (TIPEEG), which saw the budget deficit rising to unprecedented levels.

As a result of the above mentioned adopted policies, Namibia's debt has increased rapidly since 2012, to date, due to expansionary budget owed to the introduction of TIPEEG program and infrastructure development agenda. This practice raises questions whether the Debt Management Strategy implemented in 2005, is still relevant and is being adhered to.

## **1.2 Statement of the problem**

Although the SDMS 2005, identifies areas for improvement for Namibia to meet its best practices in debt management, the lack of fully implementing the Debt Management Strategy have been widely considered as one of the major obstacles in achieving the appropriate legal framework, the institutional set up or arrangement, the management of risk and cost associated with government debt portfolio, and the appropriate development of the domestic market.

There are lots of studies covering the topic of Sovereign debt management and the problems experienced by the debt management offices which ultimately lead to the existence of government debt management challenges. The down side of this is that most of the studies focus on the overall Sovereign debt management, thus overlooking the implementation of debt management policies that are responsible for setting out appropriate debt management procedures and guidelines. This, give the researcher therefore the opportunity to look at the challenges observed during the implementation of the Sovereign Debt Management Strategy since 2005. Hence, the decision to conduct the study at Cash and Debt Management Division, in the Ministry of Finance.

### **1.3 Objective of the study**

The objective of this study was to explore the challenges experienced in implementing the Sovereign Debt Management Strategy in the Cash and Debt Management Division at the Ministry of Finance, in a view of improving the Legal Framework, Institutional Arrangement, Strategic benchmarks, Risk and Cost Management, Debt Sustainability and the Domestic debt market development.

### **1.4 Specific objective**

The study focused on the following specific objectives:

- a) To explore and describe the demographic data of the stakeholder responsible for the implementation of the Sovereign Debt Management Strategy.
- b) Assess the implementation of the Sovereign Debt Management Strategy in the Ministry of Finance, CDM division, since 2005 focusing on the scope of:
  - Legal Framework
  - Institutional Arrangement
  - Risk and Cost Management
  - Debt Sustainability
  - Domestic debt market development
- c) To investigate the challenges experienced in implementing the SDMS in the Ministry of Finance, CDM division with the focus on the SDMS 2005 strategic action plan as listed below:

- Legal Framework
- Institutional Arrangement
- Risk and Cost Management
- Debt Sustainability
- Domestic debt market development

### **1.5 Significance of the study**

The debt management strategy is one of the most essential components of government financial operations, because it helps determine how indebted the country is. The government's debt portfolio is usually the largest financial portfolio in the country. It often contains complex and risky financial structures, and can generate substantial risk to the government's balance sheet and to the country's financial stability. In this regard, the Ministry of Finance needs to have strong institutional arrangements in order to carry out these important functions. Furthermore, a well-developed market for government debt securities can create a reliable foundation for government to meet its borrowing needs to finance the budget deficit and infrastructure projects that are important for economic development. Given that it will be critical to understand the challenge and obstacle to the successful implementation SDMS since 2005. The results of this study would contribute toward enhancing and improving the management of overall government debt. The study would further enable the management of Ministry of Finance to be aware of the challenges that are preventing the smooth implementation of the SDMS objectives. Furthermore, the research findings would inform further researchers and development efforts as a reference and empirical evidence.

## 1.6 Conceptual framework

There are several models or theories guiding Sovereign debt management, however, the conceptual framework that underpins this study is based on the model of, trends and challenges in implementing the Sovereign Debt Management Strategy (Mike and Ian 2006): CBP Morgan Stanley, 2006 which has been adopted by the researcher and adapted to clearly underpin the study.

The concepts are described/defined as follow:

- ❑ **Sovereign Debt Management:** As defined by (Mike and Ian, 2006, the Sovereign Debt Management is the process of establishing and executing a strategy for managing the government's debt in order to raise the required amount of funding at the lowest possible cost over the medium to long run term, consistent with a prudent degree of risk. It should further meet other debt management goals such as developing and maintaining an efficient market for government securities.
- ❑ **Government Debt:** occurs when a government borrows money and agrees to repay the money with interest at a later time. This practice is similar to when an individual borrows money to pay for a house and then makes monthly mortgage payments.
- ❑ **Government Debt Securities:** are essentially IOU declarations (or debt instruments) by the government in terms of the State Finance Act of 1991. The Namibian government securities are issued in the form of Treasury Bills (TB's) and Internal Registered Stock (IRS) or (Bond's). They are used by the government to borrow

money from the public and agree to repay the money with interest at a later time or maturity.

- **Cost and Risk in Debt Management:** A monitoring process that is developed to enable debt managers to identify and manage the trade-offs between expected cost and risk in the government debt portfolio.
- **Debt Management Legal Framework:** Government borrowing from either domestic or external sources requires that there is a well-established legal basis for contracting debt. The executive arm of government, usually Ministry of Finance is authorized by legislation to contract debt, (Williams and Storkey 2006).
- **Institutional Arrangement:** The international best practices suggest that CDM division should be structured in such form that it include; **Front Office** that will focus on issuing the debt securities to markets, a **Midle Office** to be in charge of risk management and analysis and, a **Back Office** to maintain detailed records on all government debt transactions.
- **Debt Sustainability:** can be defined as the fiscal position that maintains debt at a level that can be serviced without an undue burden of adjustment. Wheeler 2004 define debt sustainability of a country as its ability and willingness to meet current and future debt service obligations in full, without recourse to debt rescheduling or accumulation of arrears and without comprising growth.
- **Domestic debt market development:** defined as a process of creating and efficient market for government securities. This is done to enhance the liquidity of the

domestic bond market and on approaches to promptly identify and address impediments to the development of domestic government bond markets, such as limited diversification of the investor base.

### **1.7 Limitations of the study**

The present study was reliant on the willingness of the subjects to take part and the findings of the study depended on the integrity of the responses provided by the participants. Due to time and administrative constraints, the study did not evaluate the international best practices even though such analysis could have provide valuable insights on some aspects to consider when managing government debt.

### **1.8 Organization of Research**

The research is divided into the following 7 chapters: • Chapter 1 is introduction, Chapter 2 provide an overview or evolution of debt dynamic in Namibia since 2005, Chapter 3 is literature review, whereby the researcher reviews the related theoretical literature and concepts of the study; Methodology will be presented in Chapter 4, while Chapter 5 deals with the empirical findings, Chapter 6 deal with Discussion of finding, while the conclusion and recommendations of the study are presented in Chapter 7.

## **CHAPTER TWO: AN OVERVIEW OF GOVERNMENT DEBT 2005-2015**

### **2.1 Introduction**

This chapter provides an analysis of the trends and developments in central government debt since the implementation of the Sovereign Debt Management Strategy in 2005. The chapter is divided into 13 sections. Section 2.2 discusses the institutional setup and legal framework, while sections 2.3 to section 2.10 discusses the development in the debt dynamic over the period of 10 2005. The domestic market development is discussed in section 2.11 and finally the conclusion in section 2.12.

### **2.2 Institutional and Legal Framework**

Since the implementation of the first SDMS in 2005, little has changed in terms of the key institutions involved in Sovereign Debt Management. In Namibia, Sovereign Debt Management is the responsibility of the Ministry of Finance (MoF), which is tasked with the authority on matters regarding the management of public debt. In carrying out its duties in this regard, the Ministry is assisted by the Bank of Namibia (BoN), the National Planning Commission Secretariat (NPC) and the Office of the Attorney General (AG). The discussions below outline the operations and functions of these institutions in the context of Sovereign Debt Management Strategy since 2005.

### **2.2.1 Ministry of Finance (MOF)**

The State Finance Act, 1991 (Act 31 of 1991) grants the Minister of Finance (MOF) the authority for public borrowing, both domestically and externally. As set out in Section 29 (1)(2) the power to borrow is entrusted in the Minister of Finance or any person authorized by the Minister of Finance in writing, to borrow and sign all loan agreements entered into by the Namibian government in this case Cash and Debt Management Division (State Finance Act, 1991 (Act 31 of 1991)).

### **2.2.2 Bank of Namibia**

As a fiscal agent for government, Bank of Namibia Act, 1997, in terms of section 44, provides financial advices on borrowing related activities as well as opinion on all external borrowing by the Namibian government and statutory bodies before a loan is contracted. As set out in the Memorandum of Agreement between the bank and Ministry of finance, the bank is also entrusted with the overall administration of the domestic debt for Government.

### **2.2.3 National Planning Commission**

In accordance with the National Planning Commission Act, 1994 (Act 15 of 1994), the NPC Secretariat is tasked to make recommendations in connection with proposed capital and development projects and programs, and to appraise, monitor and evaluate such

projects and programs and recommends to Ministry of Finance for Funding(NPC Act 15 of 1994).

#### **2.2.4 Office of the Attorney General**

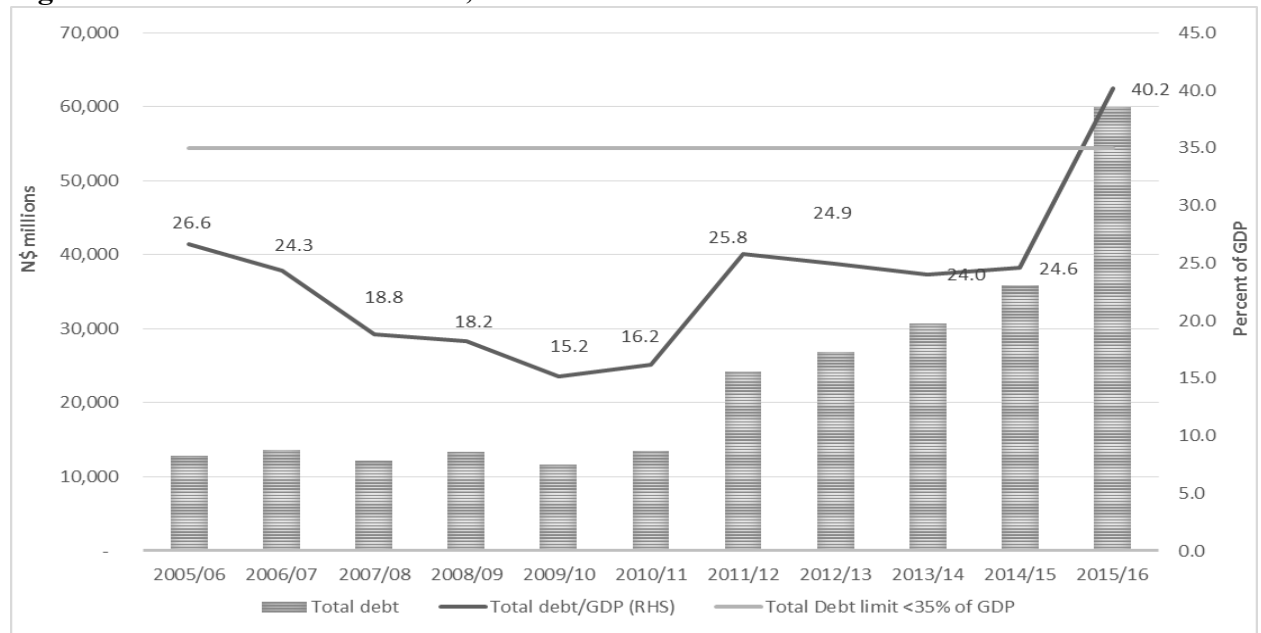
Article 87(b) of the Namibian Constitution mandates the Attorney-General to be the principal legal advisor to the president and government. As the state's principal legal adviser, the Office of the Attorney General is involved in drafting and scrutinising legal documents related to borrowing and lending transactions as well as the furnishing of guarantee agreements.

### **2.3 The Evolution of Government Debt Stock and Debt Sustainability**

The accounting approach to fiscal sustainability states that, in order to sustain the ratio of debt to GDP at a targeted level over the long-term, the central government debt should not grow faster than nominal GDP (Martin 2007). The underlying logic is that expenditure, for which debt has been incurred, should positively contribute to GDP growth and thereby induce a concomitant increase in government revenue to service the debt (Mike and Ian, 2006). With regard to this rationale, Namibia performance was however the opposite, since the growth of GDP between 2005/06 fiscal year and 2015/06 fiscal year averaged 5.5%, while the average growth rate of government debt stood at 12% of similar period.

In nominal figures, the central government debt stock has grown steadily between 2005/06 and 2015/16. As at the end of the 2015/16 fiscal year, the total nominal stock of central government debt amounted to N\$59.6 billion or 40% of GDP (Figure 1). This is almost triple the stock of N\$12.8 billion or 26.6% of GDP outstanding central government debt at the end of 2005/06, when the SDMS was put in place in 2005, (MOF –MTEF 2015-2016), (Figure 1). It is understood that the increase in debt has largely been driven by the need to finance recurring budget deficits and the issuance of Eurobond on international market that are US\$ denominated and have direct negative effect from the exchange rate fluctuation, (MOF, 2015). With such growth, the key question is whether the guidelines and procedures set out in the SDMS are still effective.

**Figure 2.1: Namibia’s Debt Stock, 2005/06 – 2015/16 and Current MTEF forecast**

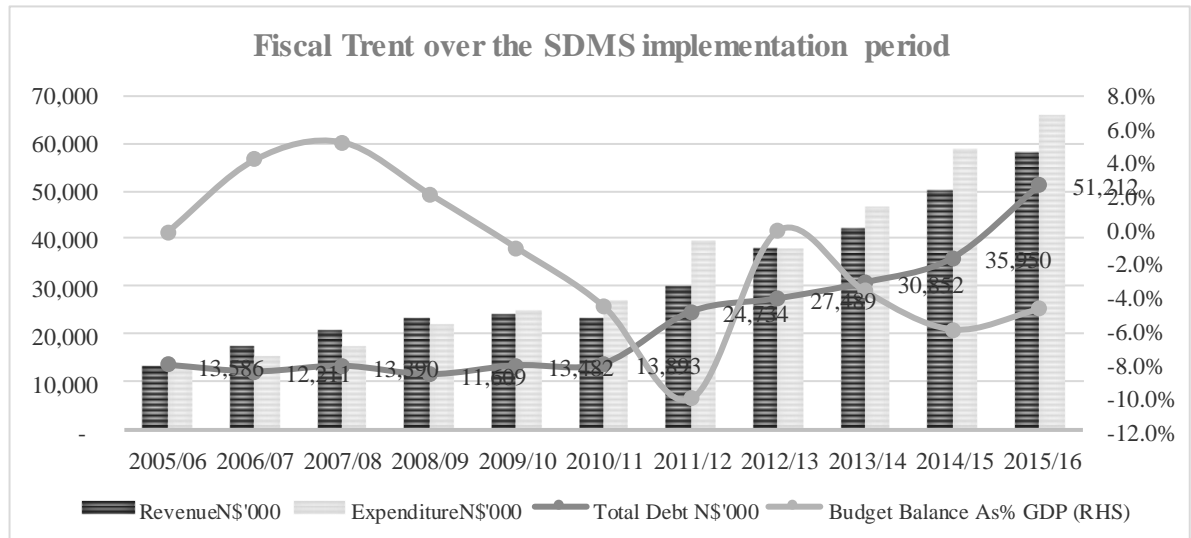


Source: Ministry of Finance

Reading from Figures 2.1 in-conjunction with Figure 2.2, historically low levels of public debt were due to prudent fiscal policies that have contributed to macroeconomic

stability. During the decade and one half prior to the 2011 fiscal stimulus, overall fiscal deficits averaged less than 3% of GDP Figure 2.2 and debt usually fell below 20% of GDP Figure 2.1.

**Figure 2.2: Fiscal Trend, 2005/06 – 2015/16**



*Source: Ministry of Finance*

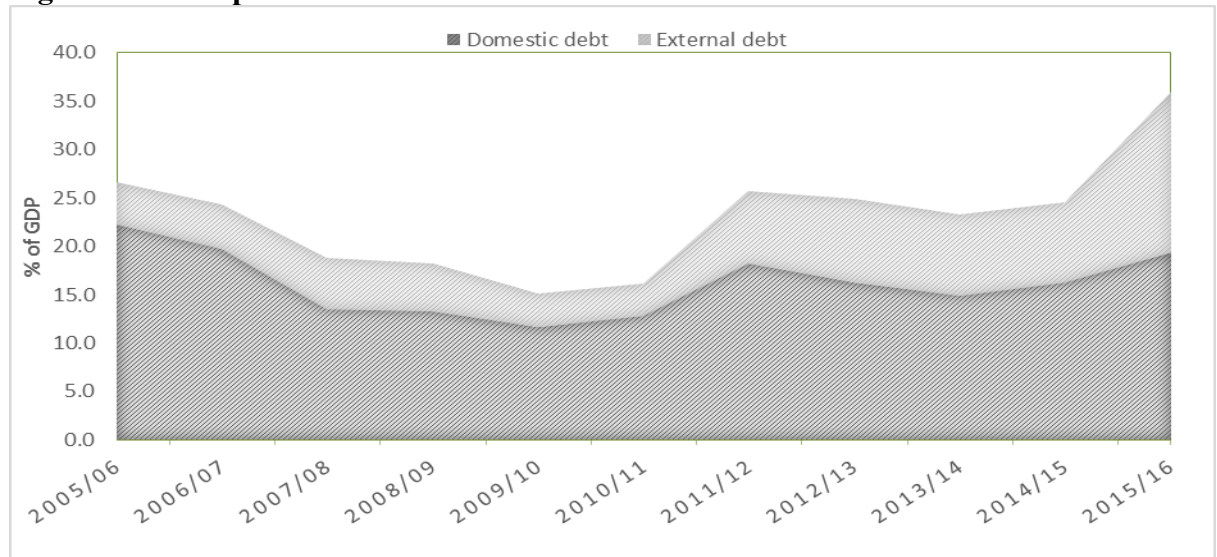
However, the budget tabled in 2011 and 2015 pushed spending up to an unprecedented 40% of GDP at a time when revenues had barely recovered from the global economic crisis. The increase in the fiscal deficit and consequently on public debt was due to the fiscal stimulus and the decline in government mineral revenues that followed the global financial crisis MOF, 2015/16.

### 2.3.1 Government Debt Portfolio: Domestic Debt vs. External Debt

The SDMS, set the benchmark for domestic debt against foreign debt at 80:20 respectively. Over the period of 10 years this level has been maintained. However, the

issuance of the Eurobond in 2011 and 2015 has shifted the ration significantly to 54:46 to ward domestic debt and foreign debt, against the threshold set out in the SDMS.

**Figure 2.3: Composition of Namibia’s Debt Stock 2005/06 – 2015/16**



Source: Ministry of Finance

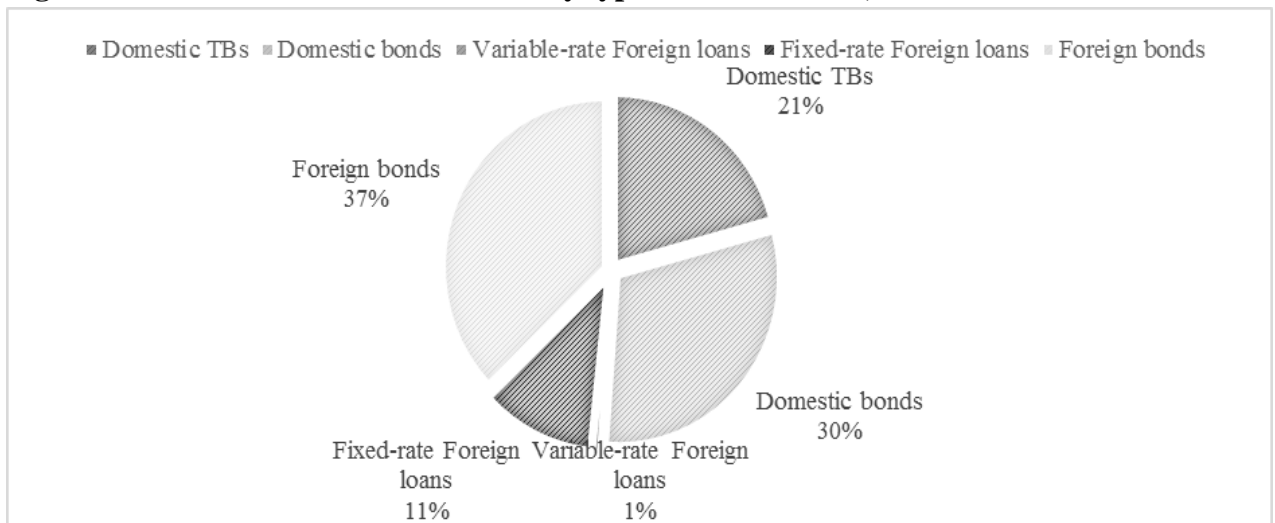
In nominal terms, Namibia’s domestic debt increased from N\$10.7 billion or 22.3% of GDP in 2005/06 to N\$32.1 billion or 19% of GDP in 2015/16. Foreign debt rose from N\$2 billion or 4.5% of GDP to N\$27 billion or 18% of GDP over the similar period. The SDMS of 2005 stipulates that domestic debt to GDP should not surpass 20% and the foreign debt should not exceed 5% of the GDP (SDMS 2005). Though the benchmark of 20% of GDP and 5% of GDP for domestic debt and foreign debt was maintained till 2010/11 fiscal year, this level could not be achieved since 2011/12 fiscal year.

### 2.3.2 Government Debt Structure

Figure 2.4 below indicates the overall debt portfolio structures of the central government is dominated by domestic bonds that consist of 38%, followed by the treasury bills worth

of 22%. Foreign bonds are stood at 30%, while foreign bilateral and multilateral loan account for 10% only. In total foreign borrowing stands at 46%, and domestic borrowing stands at 54% of total debt, (MOF, 2015).

**Figure 2.4: Government debt structure by types of instruments, March 2016**

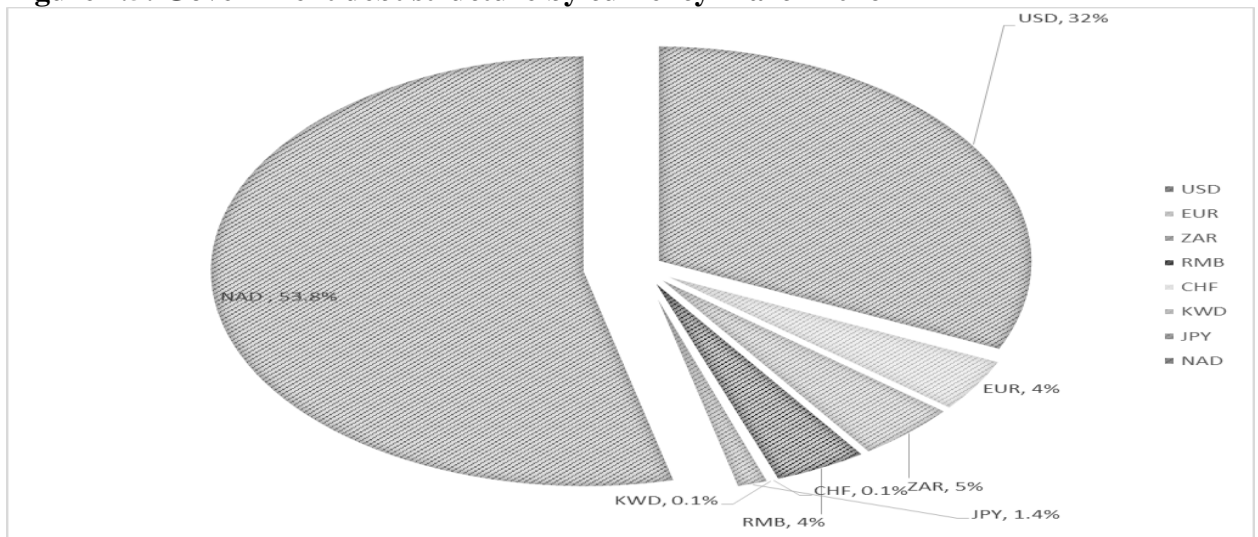


*Source: Ministry of Finance*

### 2.3.3 Currency Composition

As depicted in Figures 2.5 below, as at end of 2015/16 fiscal year, the Namibia dollar denominated debt represents 54% of the debt portfolio, while USD denominated debt stood at 32%. The ZAR account for 5% while RMB and Euro both shares 4%. Other currency falls below 2%. Given that the South Africa rand and the Namibia dollar are pegged to one another, the exchange rate exposure is somehow minimised at 59%.

**Figure 2.5: Government debt structure by currency March 2016**

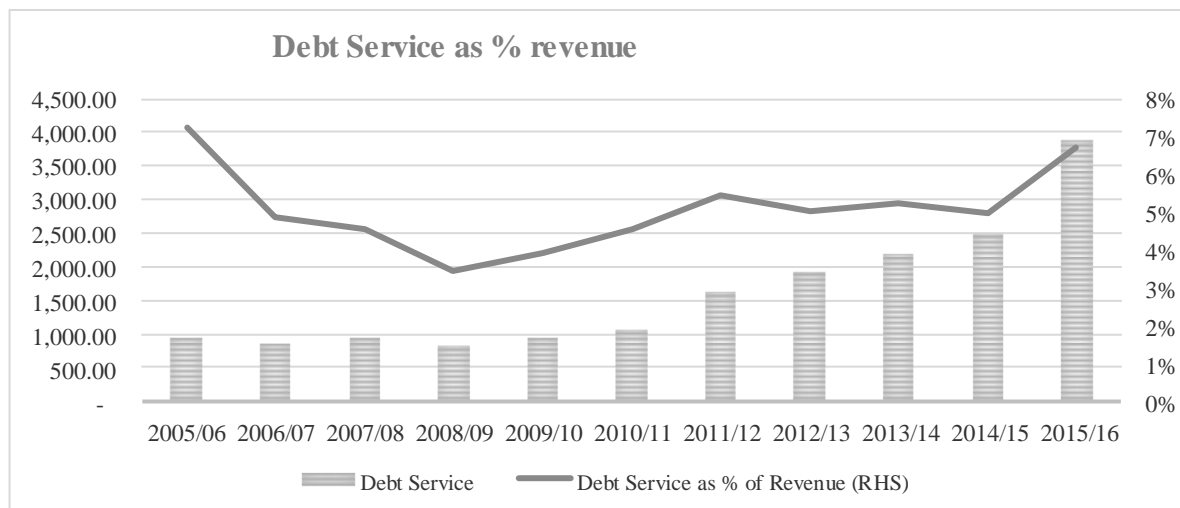


*Source: Ministry of Finance*

### **2.3.4 Cost of borrowing**

One important aspect is that, the debt manager has to watch closely the cost of borrowing. Thus, at whatever borrowing level, the borrower should always maintain sufficient revenue buffer to guarantee the repayment of all debt obligations as they become due, (IMF/World Bank, 2014). As set out in the SDMS of 2005, debt service should not exceed 10% of total revenue. Though the debt services to revenue declined during the early years of SDMS, the debt services picked up significantly during 2011, and 2015 to 5% and 7.2%, respectively. However, the level of debt service to revenue is still below 10%.

**Figure 2.6: Debt Service to revenue**



*Source: Ministry of Finance*

## 2.4 Conclusion

This chapter provided an analysis of the trends and developments in central government debt since the implementation of the Sovereign Debt Management Strategy in 2005, in light of debt management guidelines set out by the IMF/World bank, covering six components: Debt Management Objectives and Coordination, Institutional and Legal Framework, Debt, Risk Management Framework, Development and Maintenance of an Efficient Market for government securities.

## **CHAPTER THREE: LITERATURE REVIEW**

### **3.1 Introduction**

In this chapter, the theoretical background against which the study was conducted is explored and reviewed to determine the aspects that have been proven and applied regarding implementation of the Sovereign Debt Management Strategy, particularly borrowing from previous studies done by the International Institutions. The chapter is divided into two sections. Section 3.1 covers the theoretical framework with a focus on Legal Framework Institutional, Arrangement Strategic Benchmarks, Debt Sustainability and the Domestic Debt Market Development and Maintenance of Efficient Market. Section 3.2 covers empirical studies with a focus on Slovenia, Poland and South Africa. The experience and key lessons for Namibia from the above selected countries is also discussed in this chapter.

### **3.2 Theoretical Framework**

The main objective of debt management is to ensure that the governments financing needs and its payment obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk, and to develop a robust domestic debt market, (Martin 2007). Furthermore, according to the revised IMF, WB 2014, guidelines a Sovereign Debt Management is the process of establishing and executing a strategy for managing the government's debt in order to raise the required amount of funding, and achieve its risk and cost objectives. It further states that meeting other Sovereign Debt Management objectives, that are geared toward attaining the objective of borrowing the

required funding at the lowest possible cost within a given risk tolerance is highly advisable, (IMF, WB 2014). This objective presumes clarity with regard to the responsibility of the fiscal authorities for compliance with debt ceilings and the conduct of the periodic Debt Sustainability Analysis (DSA), (Martin, 2007).

Williams, Stokey, 2006, urges that lack of laws, regulations and policies governing sovereign debt, inadequate institutional set up or structures and poorly structured debt in terms of maturity, currency, interest rate and improper management of contingent liabilities have been factors in inducing or propagating economic crises in many countries throughout history. Supported by Wheeler (2004) or Togo (2007). Missale (2000) they argues that the objectives of minimizing the expected cost of debt servicing and minimizing risk are of little help operationally. According to Missale the objectives are also un-useful as principles on which one can construct benchmark portfolios against which the performance of debt managers could be evaluated.

Against this background and without dwelling much into the different objective of debt management, for the purpose of this study refer to the Namibian debt management objective as set out in the Ministry of Finance's Sovereign Debt Management Strategy 2005. Thus, the objective of sovereign debt management in the Republic of Namibia "*is to minimise the cost of Government borrowing, consistent with an acceptable degree of risk while subsequently developing the domestic capital market*". The strategy document was intended to serve as an action plan for enhancing the legal framework, setting the institutional as per the best international best practices, the management and monitoring

of costs and risks associated with Namibia's sovereign debt since 2005, conducting debt sustainability and finally to foster the development of the domestic debt market. Though a well-crafted Sovereign debt management Strategy, aimed at safe guarding the overall debt management operations, the implementations of its action plan is however, questionable. In this study, the theoretical framework follows the topic as outlined in the next section.

### **3.2.1 Legal Framework**

According to MEFMI (2006) the government borrowing from either domestic or external sources requires a well-established legal basis for contracting debt. It is further stated that the executive arm of government, usually Ministry of Finance should be the only institution authorized by legislation to contract debt. The legislative arm of government should approve each loan before it is contracted and ensure that the contracting of loan is within the established guidelines and laws, and can be serviced within the national budget, (IMF, WB, 2014).

Williams, Stokey, 2006, reveals in the government Debt Management Policy hand book, that a clear legal framework governing the mobilization, management and monitoring of resources that have been raised through borrowing should be put in place. The handbook further outlines that countries should ensure that they have the laws, regulations and policies governing debt management with respect to mandates of institutions or individuals who should approve or manage loans (Williams, Stokey, 2006). Richard and Moyeen (2003), have indicated that laws, regulations and policies governing debt

management with respect to mandates of institutions involved or individuals with power to approve or manage loans should be well established. The MEFMI (2006) argues that laws, regulations and policies stipulating government debt limit during a particular period should be determined, mandated and adhered to. Williams, Stokey 2006, further argues that debt management activities should be supported by an accurate and comprehensive management information system with proper safeguards and supported by the law and regulations.

### **3.2.2 Institutional Arrangement**

The international best practices suggest that debt management offices should be structured in three offices (MEFMI, 2006). This consist of Front office that focus on issuing the debt securities to markets, a Middle office that is responsible for risk management and analysis and, a Back office that maintain detailed records on all government debt transactions (MEFMI, 2006). Williams, Stokey, (2006) suggests that the Debt Management offices (DMO) should employ a better institution that will translate into a better debt management, which translates in the long-run to lower borrowing cost and minimal risk.

Furthermore, a recent survey by staff of the World Bank and the IMF in developing countries indicate that weaknesses in debt management need to be improved as a matter of urgency. The noted concern include the design of legal and institutional frameworks, coordination of debt management with macroeconomic policies, new borrowing policy, and the human and technical requirements for performing basic debt management

functions (IMF, WB 2004). Blumenstein (2010), IMF, WB (2014), and MEFMI (2006) debated whether debt office should be an autonomous office, 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. This debate has been going on for quite some time now and no consensus has yet emerged. Blumenstein and Gok (2009) argue that wherever the debt office is located, there is a need to manage debt in a functional framework that is, Front office, Middle office and Back office.

### **3.2.3 Cost and Risk in Debt Management**

According to Richard and Moyeen (2003), sound risk management practices are essential given that government's debt portfolio is usually the largest financial portfolio in the country and can contain complex and risky financial structures, which have the potential to generate substantial risk to the government's balance sheet and overall financial stability. A sound risk management on public debt is essential for risk management by the private sector (Richard & Moyeen, 2002). Richard & Moyeen, (2002) further state that debt managers should monitor the impact of risks associated with the contingent liabilities on the government's balance sheet including the overall liquidity condition for government to meet the guarantee claim as they become due.

Williams (2003), argues that the goal and basic principles of the central government debt portfolio management is to manage the financial risks of the central government debt portfolio. The central government debt portfolio management approach should be precautionary and aimed at hedging and prevention of the financial risks in accordance

with the optimum central government debt portfolio structure taking into account the potential financial risks including the foreign exchange risk, interest rate risk, debt refinancing risk, liquidity risk (Williams, 2003).

In its debt management manuals, MEFMI (2006) states that the sovereign debt strategic risk benchmarks debt indicators are basically used to measure the indebtedness level of a country. Different analysts give different weights to these indicators; hence there is no single indicator or set of indicators that can be used to assess the overall situation of an economy (Blumenstein, 2010). The ratios simply offer various measures of the cost of, or potential capacity of servicing debt.

The Exports criterion is used because exports provide the foreign exchange to service debt while the GNP criterion is used because it is the broadest measure of the income generating power of the economy. A high ratio indicates a greater burden of debt servicing with the magnitude of the burden depending also on the difference between the interest rate and the growth rate of exports, GDP and revenue. A debt growing ratio that is greater than GDP, especially if the level of debt is already high, may suggest that a country is on an unsustainable path (Williams, 2003).

Blommestein (2010), argues that risk cannot be monitored without setting up appropriate benchmark, to control risk. Using the strategic benchmark as a management tool requires the government to specify both its risk tolerance and other portfolio preference concerning the trade-off between expected cost and risk (Williams and Storkey 2006).

With regard to the SDMS, various strategic benchmark or ceilings were stipulated in the 2005 SDMS to ensure that the appropriate composition of the debt portfolio in terms of currencies, maturities and interest rate type are attained. As set out in chapter 2 of this study, the current benchmark performance versus the 2005 SDMS benchmarks, a number of the cost and risk indicators seems to have been exceeded between the fiscal years 2005/06 and 2015/16, hence the need to conduct this study looking at the challenges observed during the implementation of the SDMS since 2005.

### **3.2.4 Debt Sustainability**

Debt sustainability is defined as the position that maintains debt at an acceptable level where it can be serviced without any undue burden of adjustment, Blanchard (1993). Debt sustainability resurfaced as an issue during the 1980s and 1990s. In what came to be a leading contribution to the field of fiscal sustainability, Blanchard (1993) states that the key issue is whether the current course of fiscal policy can be sustained without Central Government exploding or imploding. If debt threatens to explode, Government will have to increase taxes, reduce expenditure, monetise or even repudiate debt. Thus, the central issue is the tendency of Central Government over time. If it is stable and does not explode or implode, fiscal policy is sustainable.

The IMF and the World Bank (2004) state that sustainability of debt of a country is measured by its ability to meet the current and future debt service obligations in full, without recourse to debt rescheduling or accumulation of arrears and without comprising growth. There are three key determinants of debt sustainability (IMF, WB 2001). These

are: (a) the existing stock of debt and its repayment terms; (b) development of a country's repayment capacity including growth, exports, and fiscal revenues, and (c) growth and terms of new borrowing. These determinants are in turn closely inter-related and are linked to domestic and external policies.

In a broader macroeconomic context for public policy, governments should seek to ensure that both the level and rate of growth in their public debt are on a sustainable path and that the debt can be serviced under a wide range of circumstances, including economic and financial market stress, while meeting cost and risk objectives, (Edwards 2002). While the responsibility for compliance with debt ceilings and for conducting Debt Sustainability Analysis (DSA) lies with the fiscal authorities, public debt managers should share fiscal and monetary policy authorities' concerns that public sector indebtedness remains on a sustainable path, (Edwards 2002).

The Ikhide (1998) covered the period 1995 to 1999 on the trends and sustainability of domestic central government in Namibia, concluded that the primary (non-interest) deficit was sustainable and the conventional deficit was clearly unsustainable. If this study could be repeated during the current economic condition could have very interesting outcome. According to MTEF (2015-19) there was a rapid rise in both domestic debt and foreign debt particularly 2015/16 fiscal year. Domestic debt was highly skewed towards short-term maturity. This could have some negative implications if such borrowing was used mainly for long term or capital expenditure. Increased debt service payments, implied that a proportion of current revenue be set aside to service

these debts, thereby limiting the amount of resources available to finance needed development projects (BON 2013).

### **3.2.5 Domestic Debt Market Development**

The theory regarding the Development and Maintenance of the market for government securities focuses on the overall debt management, a function which entails the debt securities issuance and administrations of government instruments. The theory is used by Blumenstein, Guzzo, Holland and Yibin (2010) when they setup the IMF policy guideline that is currently used by many countries as framework for public debt management. The theory has been used in a number of studies such as; New Challenges in government debt issuance, procedure, techniques and policies in the Euro markets (Blumenstein, Guzzo, Holland & Yibin, 2010). The theory illustrates how the issuance and administration of government debt securities are important components of government debt management. The theory emphasises on how government debt issuance procedure should be designed in a way that they take into accounts the interests of both issuers and the investors.

Williams and Storkey, (2006) reveals in the government debt management: new trends and challenges that maintain investor relations have become more important than before with many ce Debt Management offices' (DMOs) reporting greater urgency for organizing road shows for large foreign investors. In the current circumstances with high borrowing needs, many DMOs observed that a broad and diverse foreign investor base remains essential in maintaining a diversified and liquid domestic government debt

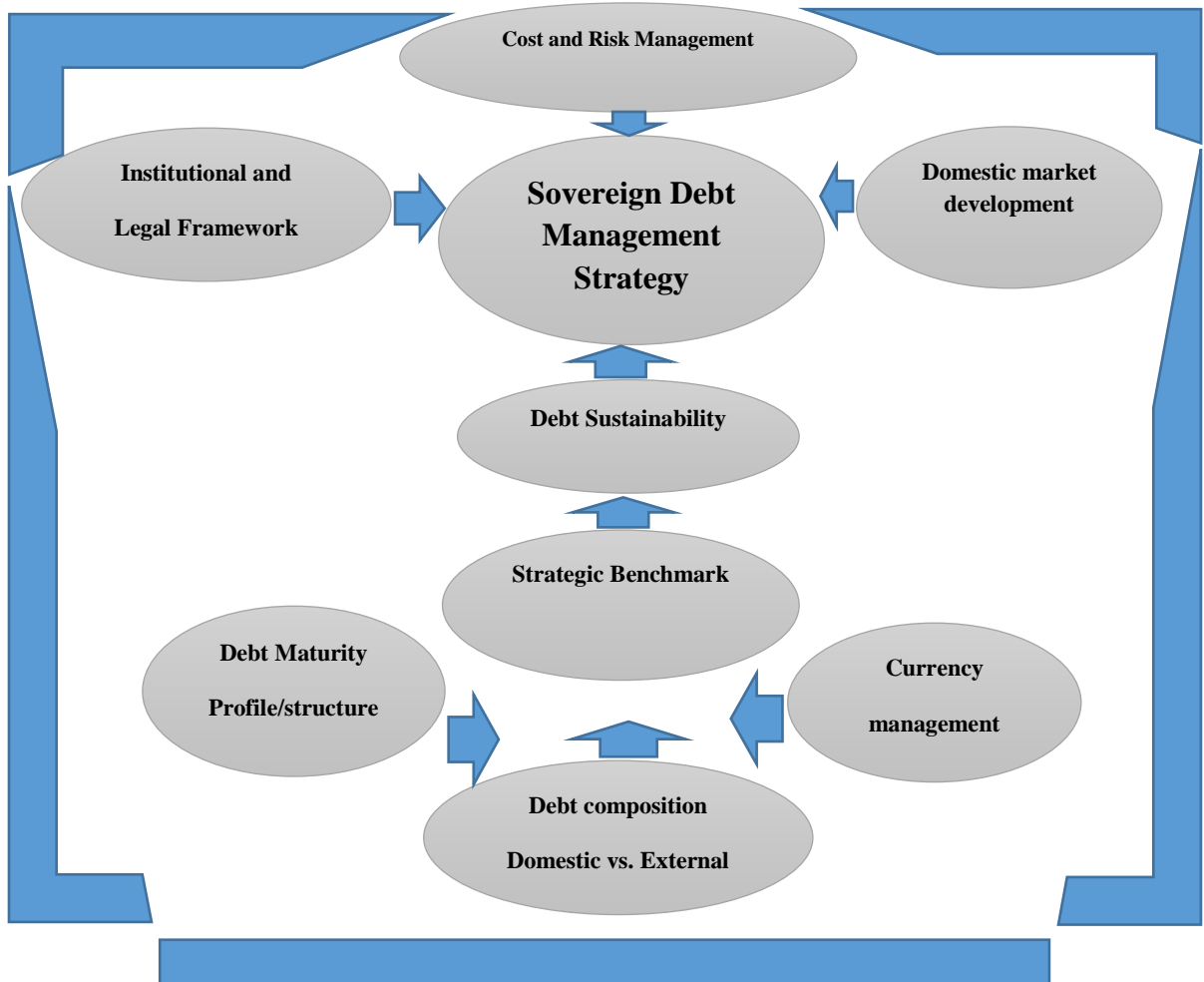
market (Blumenstein & Arzu, 2009). This means that it is important that the preferences of foreign and domestic investors are taken into account when making changes in issuance procedures and techniques (Ndove, 2007).

A survey by Gill and Pinto (2005), in Eastern European country on government debt management best practices, confirmed that there has been extensive emphasis to strengthen the processes of issuing debt securities in the euro area. The emphasis was to improve the auctions procedure and be able to access the large market electronically. For the government debt instrument issuance and administration to be effective, several very important weaknesses need to be seriously considered, notably in the design of legal and institutional frameworks, coordination of debt management with macroeconomic policies, new borrowing policy, and the human and technical requirements for performing basic debt management functions (IMF, WB 2004).

Ndove (2007), expressed that fostering the development of the domestic financial market in order to create opportunities to borrow on favorable terms and conditions at the same time complying with the basic principles of the central government debt portfolio management. Ndove further states that, it will improve the country's borrowing capability in the financial markets and create an excellent borrower image. Williams and Storkey (2006), argues that ensuring transparency and consistency in debt operations in the domestic and international financial markets, fulfilling the contractual obligations, as well as promoting gradual integration of the domestic financial market with international markets.

Blumenstein, Guzzo, Holland and Yibin, (2010) provide a conceptual model that the central government borrowing management approach has to be aimed at ensuring borrowing opportunities, liquidity, favorable terms and conditions of borrowing. Attention should not be focused on the borrowing conditions of each specific transaction but rather on development of the long-term conditions of the financial market and promotion of relationships with the participants of the financial market.

**Figure 3.1: Schematic diagram of the theoretical framework: showing the phenomenon**



*Source: Ministry of Finance*

### **3.3 Empirical Studies**

In this section, the empirical studies against which the study is conducted is explored and reviewed to determine those aspects that have been proven and applied regarding the implementation of the Sovereign Debt Management Strategy, particularly borrowing from the literature work done by the International Institutions. The literature focuses on the implementation of the Sovereign Debt Management Strategy in selected countries below.

#### **3.3.1 Case Studies of Selected Countries**

The Sovereign Debt Management is undeniable getting a lot of attention lately, especially in developing countries. The cases of Slovenia, Poland, and South Africa are presented here for Namibia to draw from their invaluable insights and experiences in debt management. The case studies are heavily drawn from the study undertaken by (Martin 2007), focusing on steps taken by developing countries to improve public debt management practices in relation to the IMF and World Bank guidelines MEFMI Debt Manual for Public Debt Management. The case studies of these countries were chosen based mainly on the path they have taken to set up their debt management offices and strategy employed in fostering the improvement of sovereign debt management practices of those respective countries. This is relevant to Namibia government to draw from the international best practices of debt management and could help to resolve the challenges experienced in implementing the Sovereign Debt Management Strategy in the Ministry of Finance Cash and Debt Management Division.

### 3.3.1.1 Slovenia

**Background and Macroeconomic Conditions:** Slovenia achieved independence in 1991, a year after the independence of Namibia. The country experienced budget surpluses before 1997, however, had also been characterized by hyperinflation (Broker, 1993). It was only in 1998 that debt instrument were issued, denominated in local currency (Christensen, 2004). Issuance of these instruments before 1997 was infrequent due to the surplus recorded on the fiscal position of the government and they were indexed to inflation given the hyperinflation in the economy, (ibid).

Debt management activities began, when the government started issuing debt instrument to the domestic market in 1997 (Christensen, 2004). With regard to the Sovereign Debt Management Strategy, and a sound governance and institutional framework, the objectives for debt management in Slovenia are: (a) to minimize the borrowing costs over the long term with the maturity structure which ensures a sustainable level of risk in refinancing the debt and; (b) to create a currency and interest rate structure that minimizes the exposure to exchange rate, interest rate and other risks (Broker, 1993).

With regard to Institutional Framework, the Ministry of Finance is exclusively responsible for issues relating to borrowing and debt management on behalf of the central government, (Christensen, 2004). These responsibilities are clearly stated in the Public Finance Act. Within MoF, there is a Public Debt Management Department (PDMD) divided in three division responsible for debt management, namely, Front

Office, Middle office and Back Office, (Christensen, 2004). The (PDMD) is tasked with the execution of the annual borrowing program and managing central government debt (Christensen, 2004). The PDMD within the Treasury also exercises central administrative and control functions over debt of public sector entities, whose debts are contingent liabilities of the central government.

The three departments responsible for debt management co-ordinate issues among themselves and share information on regular basis and communicate in various forms such as through internal committees, and common work (Broker, 1993). In a view of proper coordination, the MoF is contemplating the idea of establishing a separate autonomous debt office responsible with all issues related to the debt management (Broker, 1993).

The strategic objectives identified include the provision of sufficient and timely financing of the budget, cost minimization, maximum reliance on financing in the domestic market, broadening the domestic and foreign investors' base, and foreign currency risk, just to mention a few, (Broker, 1993) . The operational objectives comprises of a review of the mix between short-term versus long-term, foreign borrowing against domestic, floating versus fixed interest rates (Christensen, 2004). This was done aimed at developing the domestic market for government debt securities.

Developing the domestic market for debt became very important for Slovenia in order to ensure timely financing in domestic currency and minimize risk associated with

financing the budget deficit with external debt (Christensen, 2004). The domestic debt market has been growing and recently the authorities allowed the undertaking of active debt management operations to reduce the overall cost of the portfolio. Improvement on issues such as tradability of instruments, building of a yield curve and transparency are given priority with a view to deepen and enhance liquidity of the secondary market (Ndove, 2007).

Despite this progress, there are some problems constraining the domestic market developments. These include among others, the capital controls, although finally lifted in 2002. Portfolio inflows were subject to some prohibitive costs that applied to both long-term and short-term securities without exception. As a result, foreign investors were discouraged to participate in the government securities market (Broker, 1993).

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### **3.3.1.2 Poland**

**Background and Economic Conditions:** Poland experienced difficult years following the exogenous shocks of Russia in 2000 and downturn in Germany in later years (Martin, 2007). This has taken a toll on employment levels, the fiscal deficit had also widened and the stock on non-performing loans also rose (Martin, 2007). Although inflationary pressures were low, allowing cuts in interest rates, the real exchange rate appreciated. However, the growth prospects for Poland remain strong (Martin, 2007).

The objectives for debt management were incorporated in the strategy of debt management and the shift is putting emphasis on the goal of cost minimization, from reducing the cost burden in the three-year time horizon to long-term. The goal of minimizing debt service cost is achieved through an optimal selection of debt management instruments, their structure and issue dates. In the new objective, there is also emphasis to minimize exchange rate risk and the risk of refinancing in foreign currencies (Broker, 1993). This is undertaken mainly via lessening the share of foreign obligations.

The Public Debt Department (PDD), a unit responsible for debt management, is located in the MoF. The PDD manages day-to-day debt policy, prepares the strategy of debt management, and cooperates with the Policy and international financial markets in spheres of borrowing and the development of treasury securities market (Broker, 1993). At the early stages of the development of the financial market in Poland, the PDD has enough instruments to support the development of the market and prepare efficient legal and infrastructure environments. However, due to the further development of the market in terms of sophistication of market participants, the securities' base increased and various hedging instruments are available as the new challenges have emerged (Broker, 1993). These new challenges needed to be addressed with innovative risk management of debt, more flexibility and active approach of debt management. Given the bureaucratic structure in MoF, the active debt management approach was hampered. Many countries, especially the OECD (Organisation for Economic Co-operation for Developed Countries) countries managed to overcome the bureaucratic in government

by creating separate and independent debt offices outside government (Broker, 1993). The experience from OECD countries indicate that a separate debt office avoid direct intervention in the borrowing policy and able to minimize debt service cost on the medium and long-terms.

The strategies and policies are implemented to ensure that the Public Debt Management is undertaken in a prudent and predictable way, with the ultimate objective of minimizing possible threats to public finances and to the economy of the country (Martin, 2007).

Poland is no exception to that golden rule. To ensure that the country does not become heavily indebted, a limit on the public debt to GDP ratio was imposed, including special procedures of what is to be done and limit the debt beyond certain levels. The upper limit of 60% was set by the Constitution of Poland (Martin, 2007).

The debt management strategy of Poland for 2010-15, stipulates that government borrowing should be sought mainly in the domestic market. Borrowing in the foreign market is limited to the refinancing maturing debt and project that requires large importation of foreign content. This was done purposely to fast track the development of their domestic market (Broker, 1993).

### **3.3.2 Special Case Study of a CMA Member - South Africa**

**The background and macroeconomic conditions:** of the South African government Debt Management Strategies begun during the 1990s, when the government of South Africa was experiencing high budget deficits and naturally, the debt servicing costs shot up (Christensen, 2004). This situation led to a debate in the country on the sustainability of the government's debt servicing costs. Furthermore, the interest was also high and the average maturity of the government debt portfolio was due within five years (National Treasury of Republic of South Africa, 2002). There was a great fear of South Africa falling into a debt trap, and thus, the urgency for prudent debt management (National Treasury of Republic of South Africa, 2002).

The announcement to review the entire debt management policy was announced during the budget review in 1996 (Christensen, 2004). As a result, a framework on philosophies and principles to manage public debt, cash, and risk was developed and approved by parliament. This framework identified strategies to be followed to achieve the prudent debt management (Biepke, 2004). Following suggestions in the framework, a public debt office was established, named Asset and Liability Management in the National Treasury. The objective of debt management shifted as well from strategic to tactical debt management. Christensen (2004) further states that tactical debt management focuses on active debt management, whereby the outstanding stock of debt and its composition is actively managed to reduce the cost of debt to within acceptable risk limits (Biepke, 2004).

The objective of debt management in South Africa since 1996 was based on strategic debt management policy. The strategic debt management focuses at the overall design and the implementation of the debt management program. This issues ranges from the design of primary issuance and debt instruments and the provision of liquidity (National Treasury of Republic of South Africa, 2002). So far, the practice in South Africa with regards to the strategic objectives has been accomplished and the needs in Government securities market evolved. The focus was aimed at tactical debt management, an active management of the existing portfolio with a view to reduce debt servicing costs, avoiding unwanted bundling across the yield curve and consolidate illiquid securities when the chance presents itself.

The total South African debt increased from 36% of GDP to 50% of GDP by end of 2015 (National Treasury of Republic of South Africa, 2015). The yield curve is well developed and the bonds are issued over the maturity horizon of the curve. The introduction of the new debt management approach also resulted in a diversification of fixed income instruments, including floating, variable, fixed variable and inflation-linked bonds. Other notable achievements include the transfers of market making, trading and investment risks to the appointed Primary Dealers, active cash management, the establishment of institutions such as BESA (Biepke, 2004). The appointment of the primary dealers reduced refinancing risk for the government, improves liquidity and efficiency of the government bond market and also created clear and transparent price formation. Other benefits of the primary dealership in South Africa are the improved analysis and research in the government bond market (Biepke, 2004).

**Developing Sound Governance and Institutional Framework:** The public debt office was established and referred to as the Asset and Liability Management, located in the National Treasury (Biepkke, 2004). This office is empowered with all the resources and was given a new structure. The office is able to recruit the best skills available in the South African financial markets. The new debt office was divided into new identified priority areas namely, liability management, asset management, financial operations and the strategy and risk management.

The National Treasury and SARB established a good relationship with the investors, both at home and internationally. Maintaining this relationship with the investors is one of the top priorities in promoting the South African bond market (National Treasury of Republic of South Africa, 2002). Given its significance, the investor relations' program is run by the top management at the National Treasury and SARB (Biepkke, 2004). The tactical debt management approaches introduced include debt consolidation (switches), of bonds, debt buy backs, inflation-linked bonds, stripping of government bonds and swaps.

The National Treasury as well focused on reducing the debt service costs in the medium and long-term. The small, illiquid, high-coupon bonds of less than R1 billion and exhomeland bonds were purchased back from the market. The government also realized the need to reduce the long-run cost of debt, subsequently, responded by introducing inflation-linked bonds. These bonds matches well the institutional investors long-term

liabilities, provides as well an objective measure for inflationary expectations. In addition, act as benchmark for other issues.

**Achievements in South African Secondary Government Securities Market:** The implementation of a new debt management approach in South Africa brought in some remarkable successes. The liquidity in the bond market improved significantly, reaching new high record levels. The comprehensive reforms introduced in the domestic markets managed to make the government debt securities in South Africa among the most sophisticated and developed bond markets in the emerging market economies (Biepke, 2004). The development of the market for the private sector was done jointly with the development of government debt securities market. Institutions established to this effect are for instance Bond Exchange of South Africa and Universal Exchange Corporation (Biepke, 2004).

### **3.3.3 Experiences Reviewed and Key Lessons for Namibia**

#### **3.3.3.1 Slovenia**

Slovenia is a young, small and open economy similar to Namibia in many ways. Although Slovenia is one year younger than Namibia, there is a lot to learn from Slovenia experience in debt management.

On the macroeconomic front, Slovenia experienced hyperinflation in the 1990s and in order to provide security for investors seeking protection against inflation, the government started issuing inflation-linked bonds (ILBs). Inflation-linked bonds,

however, are not only issued to guard inflation, but these days are integral part of active debt management strategies. Experience indicated that countries that introduced ILBs managed to reduce the cost of borrowing since the yields on these instruments are substantially lower in comparison with nominal bonds. The long-term overall financing cost for the government could therefore be lowered. This will augur well for the government which is trying to reduce high spreads between the nominal bonds of Namibia and their respective benchmark instruments in South Africa. These instruments are also renowned for their capability to diversify funding sources as it increases the investors' base, one thing that the government has been working to improve since independence.

As the case of Namibia, Slovenia also funds its budgetary requirements from the domestic markets and minimizes risk associated with funding the budget deficit with external debt. This undertaking helped to develop the domestic market and reduce reliance on foreign financing. The African countries that want to develop and deepen their domestic debt markets should learn from this experience, but of course, the analysis has to be carried out to determine the right mix between domestic and foreign funding. Christensen (2004) argues that the extensive use of domestic borrowing might not be desirable, especially when domestic interest rates are higher than foreign rates. This can as well get complicated by shallow financial markets and narrow investor base. Therefore, countries which want to rely on domestic financing have to be wary of the potential repercussion to the economies. Namibia like Slovenia is already funding its borrowing requirements from the domestic markets and has taken the necessary steps to

avoid severe implications on the economy. The important lesson here is the broadening of investors' base via the development pension, insurance and retirement funds, where in Namibia these institutions are well developed, accounting for about 90% of GDP.

This lesson from Slovenia is one of the most important best practices of debt management that a country like Namibia can immensely benefit from. So far, Namibia has only used debt consolidation in 1998 to lengthen maturity structure, enhance liquidity in these bonds and create local benchmark instruments.

### **3.3.3.2 Poland**

**Institutional Framework:** The Public Debt Department located in the Ministry of Finance is faced with some new challenges. Due to sophistication of market participants new needs have emerged and require to be addressed with innovative, flexible and active debt management approaches. The location of the debt unit at MoF hampers this office to address the challenges effectively, given the bureaucratic structure at the ministry. The experiences from some countries indicate that the creation of separate and independent office is a best way to overcome bureaucratic structure.

In Namibia, the debt unit, Cash & Debt Management division is in the Ministry of Finance. However, at the moment this office is also faced with challenges and a plan is underway to restructure the office in line with international best practices. The SDMS

proposes to divide the debt unit into three sub-divisions: a Front Office, a Middle Office and a Back Office an action plan that has never been implemented since 2005.

**Active Debt Management Strategies:** As the case of Slovenia, Poland exercises some active debt management strategies to manage the existing debt portfolio. Among these strategies undertaken includes debt buyback, switch auctions, some swap auctions and derivatives. Namibia has undertaken some of these active debt management strategies as indicated under the discussion for the case of Slovenia.

**Developing the Market for Government Securities:** In the process of developing the government debt securities market, the Polish government has committed itself to the development of domestic financial markets. The policy directive was therefore, to finance the government budgetary requirements from the domestic market. This decision bore fruits as the country today has a large and stable domestic debt market which enables the reduction of exposure to foreign currency crises and other undesirable external shocks.

Poland also participates in the international capital markets, but because of very low funding needs, the MoF executes very limited transactions per year. The reasons for the participation in the international capital markets is not because Poland needs funding but to maintain access to the most important segments of the international capital market and to create a benchmark for issues of the corporate sector.

The path Poland chooses to develop the markets for government debt securities is the same that Namibia has committed itself to. For example, it is also a policy directive by the Namibian government to finance budgetary requirements from the domestic markets. This process also has worked well for Namibia since currently the country has a stable and reliable domestic market where the government can reliably finance its requirements. Namibia has, nevertheless, a lot to learn from the experience of Poland especially with regard to what determines the issuance of short and long-term instruments. In Poland, this is driven by market conditions and the predicated future shape of the yield curve.

The presence of Poland in the international capital markets is also another similarity that Namibia has as a country with a BBB- Secondary Market Developments, various measures were introduced by MoF and the central bank in Poland to develop the secondary markets. However, the notable one, where Namibia can draw lessons from is the introduction of the primary dealer system in government debt securities. The main reasons for the primary dealer system is to improve liquidity in Government debt securities (in particular), improve the secondary trading by quoting continuous two way prices that could lead to the price discovery process in the market and prepare the foundation for transparent continuous trading in the future. The government of Namibia is also considering introducing the Primary Dealer System in order to develop deep and liquid markets for government securities. This is of critical importance to the government since it could reduce the cost of government debt.

### **3.3.3.3 South Africa**

**The location of a Public Debt Office:** The South African government adopted a framework of philosophies and principle to manage debt, cash and risk. This framework recommended the debt office to be located in the Ministry of Finance, referred to as the National Treasury. The new office, Asset and Liability Management (ALM) is empowered with resources it requires to operate effectively. The debt office is tasked with a variety of functions, which is divided into front, middle and back offices. The ALM is endowed with the best skills available in the South African markets. The public debt office in Namibia also falls under the Ministry of Finance. The Cash and Debt Management (CDM) division within the Asset, Cash and Debt Management Directorate is proposed in the SDMS to be restructured in line with the international best practice. Namibia has learnt a great deal from the South African case study especially because of historical connections, membership to CMA and proximity. As in South Africa, the public debt office in Namibia is proposed to be divided into three sub-divisions: a Front Office, a Middle Office and a Back Office.

## **3.4 Conclusion**

In this chapter, different theories on government debt management practices have been discussed including assumptions, definition of concept of reference related to the debt overall debt management strategies. The theoretical framework and the empirical study focusing on selected countries experienced was discussed. A comparison based on key lesson for Namibia was also addressed in this chapter.

## **CHAPTER FOUR: RESEARCH METHODOLOGY**

### **4.1 Introduction**

The aim of this chapter is to describe the research design and methods used in identifying the challenges experienced in implementing the SDMS in the Ministry of Finance, particularly in the Cash and Debt Management Division. The chapter covers about 12 sections. Section 4.2 discusses the research design, while sections 4.3 to 4.8 cover the study's population, the sample, and research methods. The data analysis is discussed in section 4.9. The ethical consideration is also covered in section 4.12 and finally the conclusion is outlined in section 4.13.

### **4.2 Research design**

A qualitative research, exploratory research, descriptive and conceptual design was used in order to allow the researcher to investigate the challenges experienced in implementing the SDMS in the Ministry of Finance, Cash and Debt Management Division. The study also incorporated a desk review that entails international best practices for the Sovereign Debt Management Strategy and procedures.

#### **4.2.1 Qualitative design**

A quantitative approach was used in order to explore and describe the observation of the employee perception over the implementation of the debt management strategy in the

Ministry of Finance. This design was chosen, because it is regarded as a systematic approach that allows the researcher to identify the challenges experienced in implementing the Sovereign Debt Management Strategy. The reason why qualitative design was used is because of rich descriptions, data synthesis and abstraction. Thus, qualitative enquiry is a process of documentation, description, identification of concepts, identifying relationships between concepts, and creating theoretical explanations that explains reality (Burns & Grove, 1993).

#### **4.2.2 Exploratory design**

The rationale to choose an exploratory design is to determine the facts and obtain the understanding as to the challenges experienced in implementing the Sovereign Debt Management Strategy in the Ministry of Finance in the debt management context. Burns & Grove, (1993) identifies the advantages of an exploratory design, that are also applicable in this study, as:

- Enable the researcher to assemble a broader range of data with a richness of details. Such data helped the researcher to develop and describe challenges experienced in implementing the first Sovereign Debt Management Strategy since 2005.
- Help the researcher to view all the findings holistically that involved describing, comparing and classifying data.

This study facilitated the gathering of new ideas, this assisted the researcher to obtain an overview of what is actually happening in the debt management practices in the Ministry of Finance where the research was executed (Mouton, 1996; De Vos, 2002). The researcher explored the perceptions of the participants at different institutions such as the Ministry of Finance, Bank of Namibia and National Planning Commission in Windhoek. The extensive literature explored during the identification of the concepts, include categories and sub – categories, and identification of the central statement.

#### **4.2.3 Descriptive design**

Descriptions were used in order to gather knowledge of sovereign debt management. Polit and Hungeler (1991:186) define descriptive research as a non-experimentally study in which the researcher gather data from a portion of a population in a defined community in a real life situation, as they currently exist. The researcher chose this design to produce scientific knowledge that is based on rigor, objectivity and control in order to avoid bias, to have control over variables to be researched on, and limit the effects of outside variables that are not being studied. This allowed the researcher to use control instrument that will generate numerical data. Statistical analyses are conducted to reduce and organize data to determine the difference amongst groups so that findings can be generated (Bruns & Grove, 1997:29).

#### **4.2.4 Contextual design**

The aim of using the contextual design in this study was to study the perception of the employees experienced over the implementation period of the Sovereign Debt Management Strategy since 2005, in the Ministry of Finance. This was done purposively not to disturb the natural setting of the phenomenon being studied. This ensured getting true, valid and accurate information without the influence of the external factors. This design allowed the researcher to study the perceptions on the phenomenon of participation of employees in government debt management in Ministry of Finance, Cash and Debt management which indicated the fundamental and immediate contextual significance of the study (Mouton, 1996).

#### **4.3 Study population**

The study population comprised of employees from the Ministry of Finance, and Bank of Namibia who are in charge of managing the central government debt portfolio, as well as implementing the Sovereign Debt Management Strategy since 2005. The data was collected from the Ministry of Finance and Bank of Namibia. The selected personnel that deal directly with debt management practices in the two institutions have been selected from the following respective divisions. Thus, the study population entailed Cash and Debt Management (CDM), the Budget Management, Economic Policy Advisory Services (EPAS) as well as top officials from the Ministry of Finance who are part and parcel of the decision making in undertaking borrowing. The Financial

Market Department, the Research department and Finance and Administration from Bank of Namibia also formed part of the population for this study.

Due to the relative small size of the population, the study sought to collect data from only 45 members of the target population. A sample of thirty (35) individual employees or 76% of the targeted population was drawn from the above mentioned institutions. The distribution is as follow: (a) a total of (25) employees made up the Ministry of Finance's Cash and Debt Management (CDM); (b) Economic and Policy Advisory Services (EPAS) and Budget Management were selected. The employees amounting to (10) were from Bank of Namibia's Financial Market Department (FMD), Research Department (RD) and Finance and Administration (FA); these are the employees who are expert in public debt management, and were targeted in order to assist in investigating the challenges experienced in implementing the SDMS since 2005. Though, the size looks small, the researcher further collected most of the relevant information that has been published in various reports.

#### **4.4 Sample**

The Sovereign Debt Management practices in the government consist of 2 institutions, with a record of 35 employees from four (4) directorates and departments made up of the Ministry of Finance and Bank of Namibia, respectively. The targeted sample consists of 25 employees from the Ministry of Finance and 10 employees from Bank of Namibia.

The selected employees are those directly involved on the management of government debt.

#### **4.5 Sampling technique**

The researcher has used judgmental techniques and a purposive sampling method to select the sample for this study. These techniques provided the opportunity to focus on specific individual with the understanding of the subject matter, which is the Sovereign Debt Management. The researcher selected judgmental techniques and purposive techniques because they work better with very small samples, and are very useful in selecting cases that are particularly informative to the subject. A composition of the sample comprises three institutions that is, the Ministry of Finance (MoF) and Bank of Namibia (BON).

#### **4.6 Research instrument**

The questionnaire was used to obtain quantitative data. A self-complete questionnaire was drawn and used to collect data from the Ministry of Finance, Bank of Namibia National Planning Commission. Due to practical considerations such as time and funding, the questionnaires were distributed to the participants via electronic mail and the participants were given at least two (2) weeks to complete the questionnaire and send it back. Face to face informal interview was also conducted. The objective of the interview was to obtain views and opinions on challenges experienced in implementing the SDMS.

The researcher also employed a desktop review that incorporates international best practices for the debt management strategy and procedures of a selected sample of SADAC member states. This was to ensure that Namibia's SDMS conformed to the best practice as recommended by the international standard. Institutional documents were reviewed to corroborate empirical data that was collected. The IMF and World Bank debt management guidelines and the MEFMI debt procedure manual were also reviewed in conjunction with the Ministry of Finance debt management guidelines in order to identify gaps in debt management strategy. A questionnaire was used as a method of data collection since it is inexpensive to administer.

#### **4.7 Research procedure**

The researcher had, in writing, requested the Permanent Secretary of the Ministry of Finance for permission to conduct this study. As indicated above, the second stage of this study was the desk top review, the researcher collect data from secondary sources. Institutional documents were reviewed to corroborate collected empirical data. The primary source of data collection used was questionnaires. These were administered amongst the institutions of the target population. A semi-structured interview schedule was developed and administered after signing of the consent letters. An individual appointment was made with the focal persons in key section of the Ministry of Finance and Bank of Namibia to conduct interviews in order to enrich the study. The objective of the interviews was to obtain the employers views and opinions on the successes, failures and challenges experienced with the implementation of the SDMS.

#### **4.8 Research tool**

The questionnaire consisted of four sections (See Annexure 1).

**Section A:** This section focused on demographic data of the personal details of the selected personal like the type of institutions they work for, the years of experience with government debt management and the position that they hold in the current employment structure, as well as the understanding of the debt management functions.

**Section B:** This part of the questionnaire elicited information about the challenges experienced in implementing the Sovereign Debt Management Strategy in the Ministry of Finance. The Ministry of Finance is the responsible organ for debt management with the assistance of Bank of Namibia as the executing agency. Hence the involvement of these institutions is crucial in these practices. The participants were asked to express themselves as to how they feel about the bank, being the administrator of government debt securities.

**Section C:** Questions covering aspects of the debt management were asked to determine the level of implementation of the Sovereign Debt Management Strategy. A number of statements covering the range of activities over the Sovereign Debt Management were developed and the employees were asked to rate debt management practices in the Ministry of Finance.

**Section D:** This section covers a complete assessment of the current debt portfolio, which include the analysis of costs and risks associated with current government debt portfolio and the sustainability analysis as provided for by the IMF/World bank and the Medium Term Debt Strategy analytical model. A rating criteria of: 5- Strongly Agree, 4- Agree, 3 – natural, 2- Disagree and 1- Strongly Disagree were used in both Section C and Section D.

#### **4.9 Analysis of data**

Data analysis is a process of organising and giving meaning to data (Burns & Grove, 1993:766). In this study, data were analysed by means of computer utilising the Microsoft Excel. The quantitative data collected was organized into frequency distribution tables and graphs showing the responses from the number of persons employed by the Ministry of Finance, National Planning Commission and Bank of Namibia. The frequency distribution data above was then analysed to determine the challenges experienced in implementing the Sovereign Debt Management Strategy in the Ministry of Finance.

The data collected using the questionnaire was organized into categories according to the main themes covered by the main debt management operational themes as prescribed by the Namibian Debt Management Strategy of 2005. The data was then analyzed to determine the distribution and range of responses as well as the relationship between the variables represented by the themes. Bar graphs and pie charts were used to show high

and low values of measurements of different categories. Furthermore, as quoted above, the Excel based IMF/World Bank debt analytical tool was used to analyse the strategic debt management indicators in order to determine the government debt cost and risk exposure as well as sustainability as presented in Chapter two. Historical, data ranging from 2005 till 2015 was collected from the Ministry of Finance and Bank of Namibia.

#### **4.10 Reliability**

The data collection exercise took six (6) weeks to complete. Thus, reliability coefficients were higher for a shorter period of time. The questionnaire was administered to the respondent once. Items on the rating scale were 24 questions and the split - half technique could also be applied too. The odd items were measuring the same attribute as the even items, to ensure internal consistency (Polit & Hunger, 1995).

#### **4.11 Validity**

In this study, content validity on the rating scale instrument was measured to assess the employee's knowledge to the debt management practices, whether the best practices as set out by the IMF and World Bank has been effectively applied in managing government debt.

#### **4.12 Ethical considerations**

The researcher collected primary data in Windhoek at the Ministry of Finance, Fiscus Building National Planning Commission and Bank of Namibia. Permission to conduct the research from both Permanent Secretaries and Deputy Governor of the central bank has been obtained. Through the process of conducting this study, efforts were made to ensure that the study met the procedures for ethical conducts. Complete discretion and confidentiality regarding information obtained from the Ministry of Finance, Bank of Namibia and any other involved institutions and individuals was maintained. A respect of intellectual property is very important and thus the study only used data that was granted permission to, and acknowledge all the sources of contribution. Lastly, a research paper which is free from plagiarism will be assured by the researcher.

Confidentiality is the management of private data in the research so that subject's identities are not linked with their responses, while anonymity, subjects' identity would not be linked even by the research with his/her individual response (Burns & Grove, 1993:99).

The researcher had the responsibility to protect the anonymity of the subjects and to maintain the confidentiality of data collected, during this project; this was done as follows:

- Anonymity of the participants as well as institutions that took part in this research project was protected in the report by making it impossible to link the specific data to a specific person or institution.
- The researcher also planned writing the research report in such a way that individual or group cannot be identified through their responses.
- For the institutions that took part in this project no name was mentioned in the report, the researcher kept a master list of the subject's name and their code number in a locked place.
- The master list of the subject's name and code number was kept separate from the data collected in order to protect the subject's anonymity.
- The consent forms were not stapled to the instrument or data collection tools. This was done in order to be impossible to identify the participants and their responses.
- Data collected was analysed in groups so that individuals cannot be identified by their writing. (Burns & Grove, 1993: 99)

The researcher ensured privacy of the participants by ensuring that, no one was allowed or accessed to the record except the researcher and the supervisor. The participants were ensured that no private information would be shared without the individual's knowledge or against his/her will. It is very essential to get consent from the participant in order to conduct the ethical research (Buns & Grove, 1993: 103). Therefore, informed consent was obtained from the manager and supervisors who are working under them.

The researcher informed the participants that the research process was clear and understandable to them, and the questionnaires include the following information:

- The aim and objective of the research
- The method and the procedure of the research
- The duration of the study and confidentiality
- Privacy maintained
- The type of the participants

An individual has been granted permission to withdraw if she/he saw that the project no longer adheres to the standard set in planning, implementation and reporting or something infringing upon his/her right was mentioned above.

#### **4.13 Conclusion**

A descriptive and explorative survey design was used to explore the challenges experienced in the implementation of the Sovereign Debt Management Strategy. Data was gathered through the use of self-structured questionnaires. The reliability, validity and ethical considerations are also covered in this chapter.

## **CHAPTER FIVE EMPIRICAL FINDINGS**

### **5.1 Introduction**

This chapter covers detail and descriptive analysis of relevant data reflecting frequency, and percentage for relevant variables. The chapter is divided into 3 sections. Section A covers the demographic data of the study. Section B and C covers analysis of the overall implementation of The Sovereign Debt Management Strategy and the challenges experienced in implementing the SDMS in the context of institutional arrangement, strategic benchmarks, risk and cost management, debt sustainability, and domestic debt market development, respectively.

### **5.2 Section A: Demographic data**

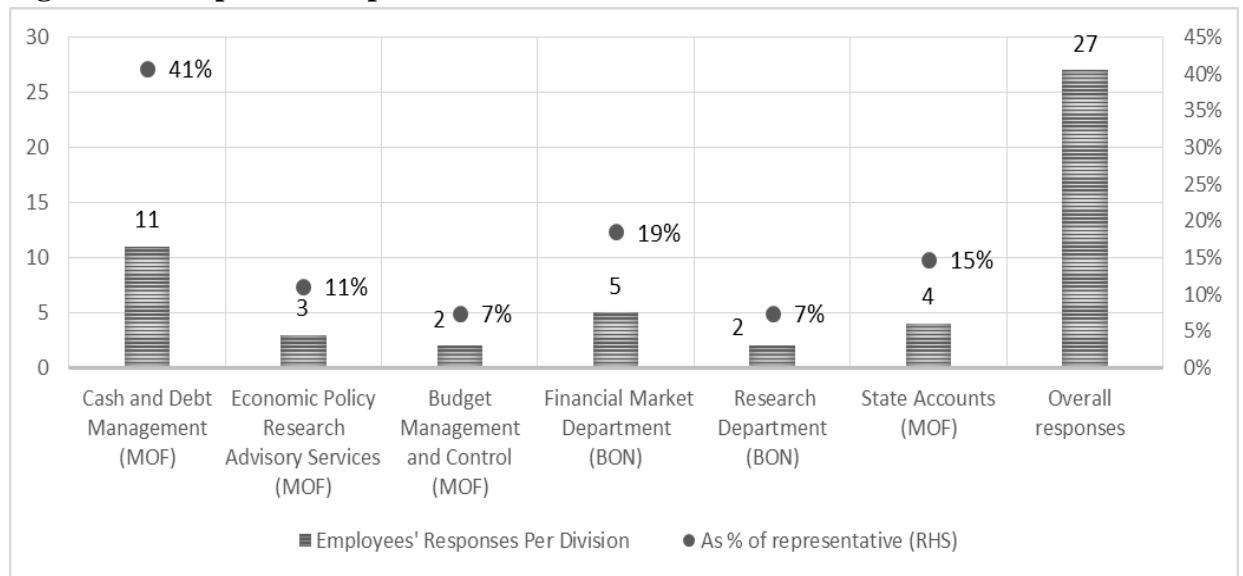
A total number of 27 employees of the Ministry of Finance and Bank of Namibia who are directly working on debt management related activities were questioned and the results were based on the answers obtained from the questions asked.

#### **5.2.1 Response rate**

Research question 1 examines to what extent questions are answered as referrals. Figure 5.1 shows the results of respondent (N=27). An overall response rate of 77 % was achieved in this study. Data was collected from 27 (n=27) people representing different directorates and departments of the Ministry of finance and Bank of Namibia. Only 27

(77%) of the 35 persons sampled responded. Out of a sample 35; eight 8 (23%) respondents could not take part in the study. Given the response rate of 77%, it is believed to be adequate and reliable for the researcher to draw conclusions. Those who could not participate have indicated that the time was too short and that they did not have enough time to complete the questionnaire. It was remarkable to note that the responses were wide-ranging, covering all the selected departments and directorates that are relevant to the management of government debt. Figure 5.1 indicates the responses per department.

**Figure 5.1: Respondent departments and directorates**



*Source: Ministry of Finance*

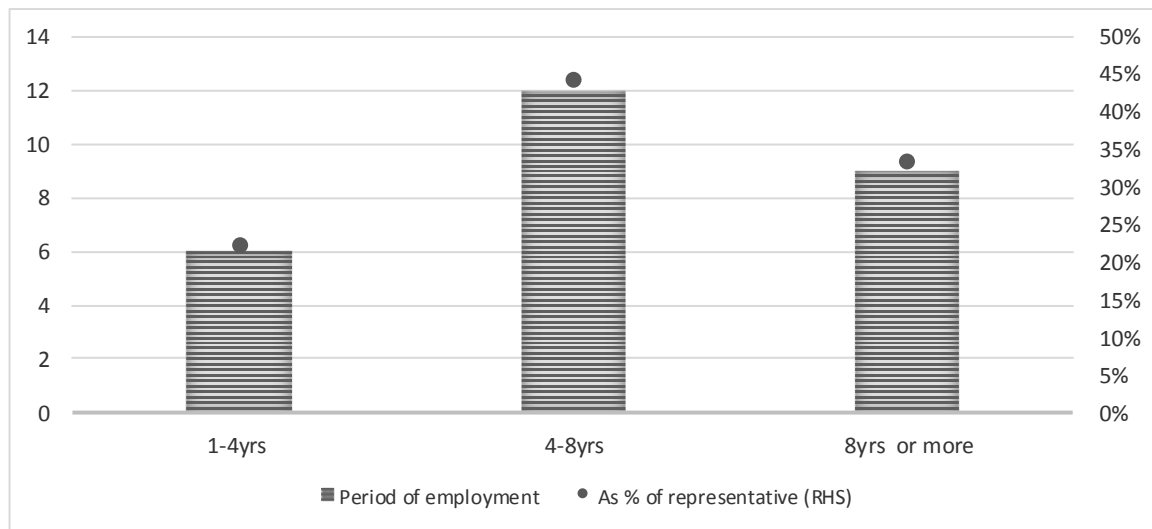
As indicated in Figure 5.1, 41% of the respondents are from Cash and Debt Management division followed by 19% respondents from Financial Market Department (BON). The State Account Department that mainly consists of heard of department and other senior official with a direct involvement in the debt management activities constituted 15%.

The Economic Policy Advisory Services (EPAS) stood at 11%, while the Research Department (BON) consist of 7% and Budget Management and Control (BMC), also account for only 7%.

### 5.2.2 Experience in the Field of Debt Management

It is important to note that 12 (44%) of the responses received indicated that the respondents had worked for 4 to 8 years, while those who worked for more than 8 years were 8(33%). In total, about 78% of the responded possess sufficient experience in the field of debt management. Based on Figure 5.2, the minority of the respondents, 6(22%) were new to the field that is, 1 to 4 years of experience. Figure 5.2 indicate the knowledge in the field debt management.

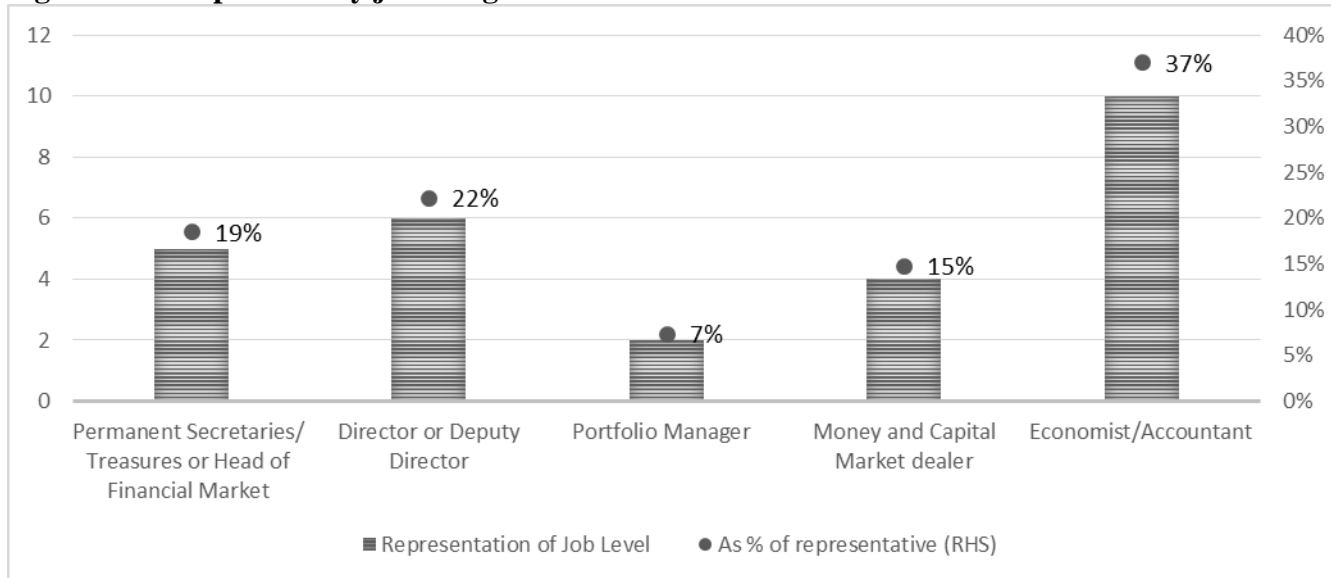
**Figure 5.2: Professional Experience in debt management**



Source: Ministry of Finance

According to Figure 5.3, 37 % of the employees are Economists or Accountants, whereas the second largest group (22%) in terms of job level are either Directors or Deputy Directors. The permanent secretary and head of treasury group stands at the third position with 19% respondents. The Money and Capital Market dealers and portfolio managers, constituted (15%), and (7%) respondents, respectively.

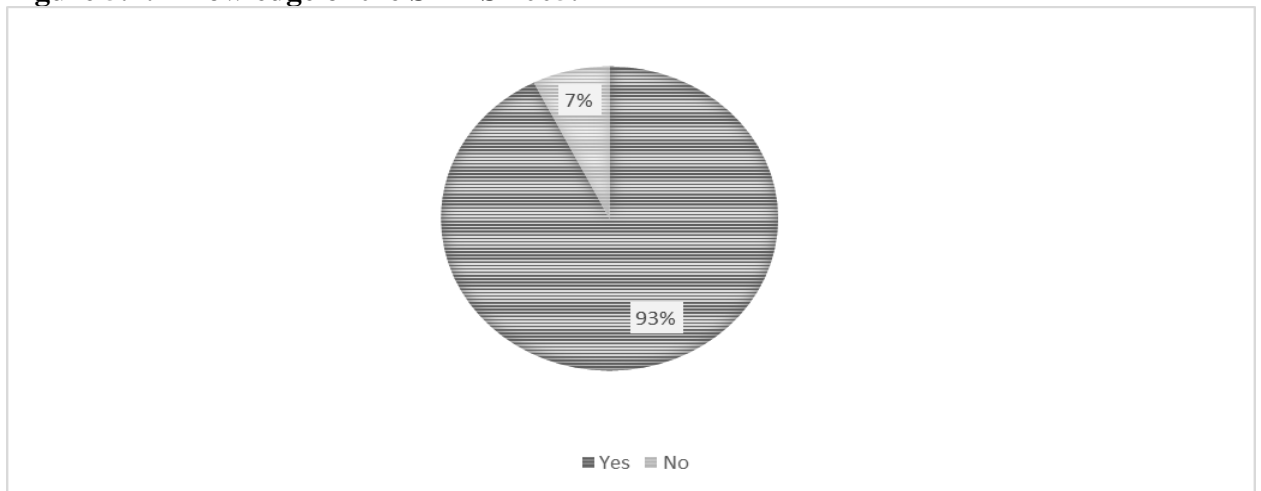
**Figure 5.3: Respondent by job categories**



*Source: Ministry of Finance*

The Economist/Accountant, Director and Deputy Director and top officials of the Treasury department are the co-employee that execute the debt management activities both in the Ministry of Finance and Bank of Namibia. Therefore having such higher representation is a privilege to this study.

**Figure 5.4: Knowledge of the SDMS 2005.**



*Source: Ministry of Finance*

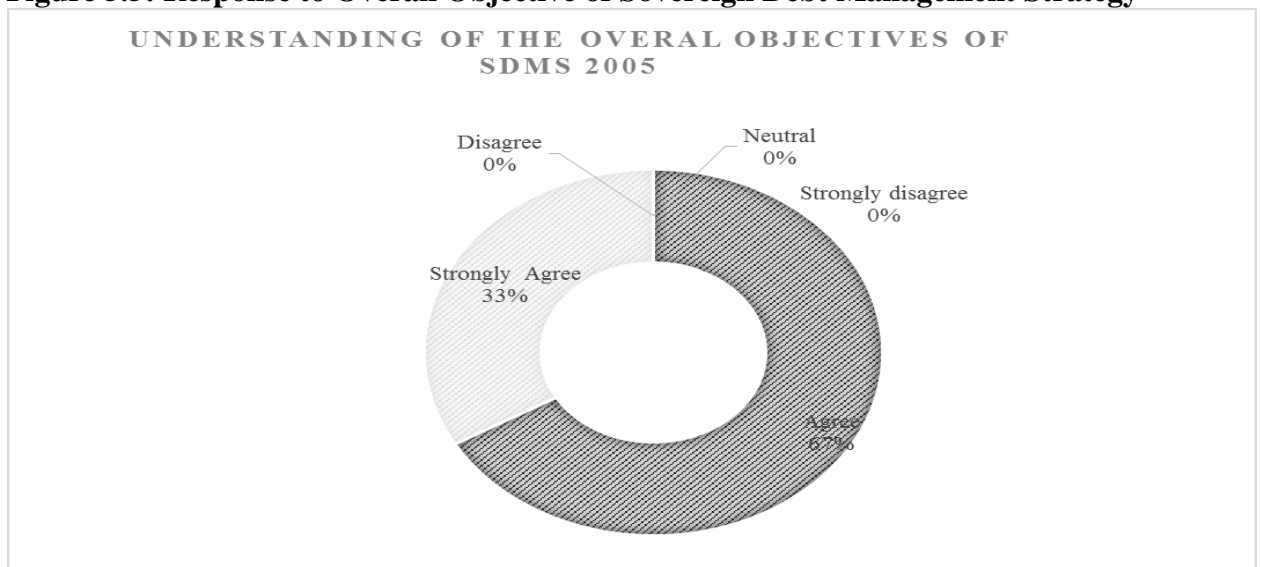
Though, a simple response of yes or no, this question was very important to this study, as it ascertained that the respondents had an understanding about the existence of the Sovereign Debt Management Strategy that was launched in 2005. As indicated in Figure 5.4, the response is very encouraging given that 93% of the respondents possess the necessary skills and understanding of the Sovereign Debt Management Strategy.

### **5.3 Section B: Implementation of the Sovereign Debt Management Strategy**

In this section a profile of statements in the debt management practices is selected based on the recommended action plan as set out in the Sovereign Debt Management Strategy for 2005. The Ministry of Finance is the custodian of implementing the Sovereign Debt Management Strategy, while the Bank of Namibia is entrusted with the custodian and administration of government debt securities. Several positive statements about the implementation of the debt strategy were developed. The respondents were asked to mark the appropriate answers with (X) where relevant.

This was done to gain a reach understanding as to how the employee feels about the progress in implementing the debt management strategy by the Ministry of Finance. Therefore, the representatives were asked to express themselves as to how they feel about the progress regarding the implementation of the SDMS since 2005. A questionnaire consisting of different statements where the employee has to indicate if they strongly agree, agree, neither agree or disagree, disagree and strongly disagree were used to guide the respondents. Figure 5.5 illustrates the employees understanding, about the overall objective of Sovereign Debt Management Strategy for 2005 (SDMS 2005) in Namibia.

**Figure 5.5: Response to Overall Objective of Sovereign Debt Management Strategy**



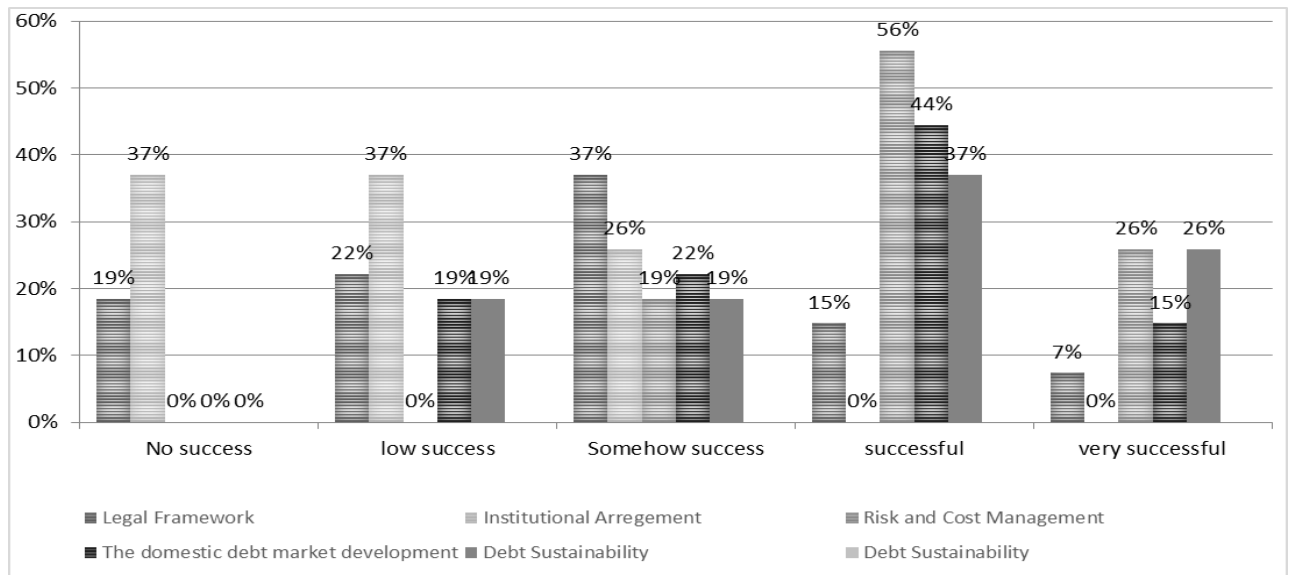
*Source: Ministry of Finance*

As Figure 5.5 depicts, all (100%) respondents agree positively that the main objective of the SDMS is to minimise the cost of government borrowing, consistent with an acceptable degree of risk, and this was successfully achieved since 2005. None of the respondents disagree to this statement.

### 5.3.1 Evaluation of the Sovereign Debt Management Strategy Implementation

Overall, the Sovereign Debt Management Strategy document identifies areas for improvement in debt management practices based on the international best practice. These best practices are set out in the World Bank and IMF guidelines, and MEFMI debt management procedures' manual. These area for improvement include the institutional and legal framework, the restructuring of the debt management office, the monitoring of cost and risk by using strategic benchmarks and the development of the domestic debt market for government debt instruments. An evaluations on the implementation of the identified areas was conducted in order to measure the overall success of the Sovereign Debt Management strategy implementation process of the five-points scale where 1 is "low success", 5 is "very successful". The outcome of the evaluation is as follows:

**Figure 5.6 Successes of the Sovereign Debt Management strategy implementation**



Source: Ministry of Finance

**Legal Framework:** as indicated in Figure 5.6, out of 27 respondents, 10 (37 %) reveal that the implementation of the legal framework is somehow successful, while 6(22 %) of the respondents have indicated that this action plan low success, and no success consisting 5(19%). A total of 4 (15 %) indicated that the implementation of the legal framework is successful. Only 2 (7%) out of 27 respondents have indicated that this action plan is achieved. Overall, 41% of the respondents felt that the legal framework is not successful, while 37% are indecisive.

**Institutional Arrangement:** with regard to the restructuring of debt management office, 20 (74%) respondents reveal that the proposed debt management structure is not successful, while 7(26%) is uncertain. **Rick and Cost Management:** A total 15 (56%) and 7 (26%) of the respondents have indicated that the use of risk and cost management is respectively successful and successfully implemented. However, 5(19%) of the respondents felt that risk management is somehow not employed. **Debt Sustainability:** about 10(37%) felt that the debt sustainability excises is successfully carried out, while 7(26%) reviled that the action plan is very successfully employed. This made up a positive conclusion of 63%. However, the 5(19%) are somehow indecisive, while 5(19%) felt that the debt sustainability analysis are low successful. **Developing of the Domestic Market for Government debt instruments:** Furthermore, as set out in Figure 5.6, 44% and 15% of the respondents stated that the development of the domestic market for government debt securities are successfully and very successfully implemented. A total 6(22%) indicated that the development of the domestic market was

somehow successful, whereas 5(19%) indicated that there was a low success in developing the domestic market.

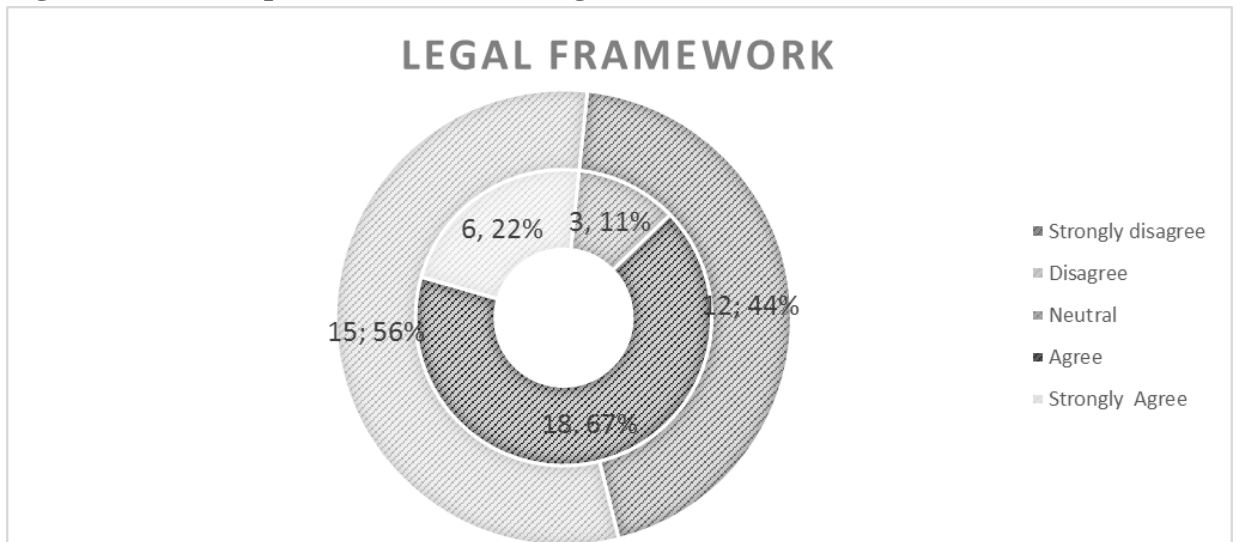
### **5.3.2 Employees perception with the implementation of the SDMS since 2005**

Since 2005, the Ministry of Finance has been entrusted with the implementation of the Sovereign Debt Management Strategy. Given this important role, respondents were asked to rate the implementation of the Sovereign Debt Management Strategy since its implementations in 2005. Questions across the major six implementation and operational categories were developed, and respondents were asked to tick the answers of their choice with an (X) in a sequence of strongly disagree, disagree, natural, agree, and strongly agree.

### **5.3.3 Implementation of the Legal Framework**

As presented in Figure 5.7 inner-circle, 18(67%) agree, while 6(22%) strongly agree that State Finance Act (1991) provides the existing legal framework for debt management in Namibia. About 3(11%) could not agree, neither disagree to the statement. However, as presented in the outer-circle of Figure 5.7, 15(56%) disagree, and 12(44%) strongly disagree that Namibia legislation fulfils the requirements related to the existence, coverage and content of the legal framework for Debt Management..

**Figure 5.7: The Implementation of the Legal Framework (N=27)**

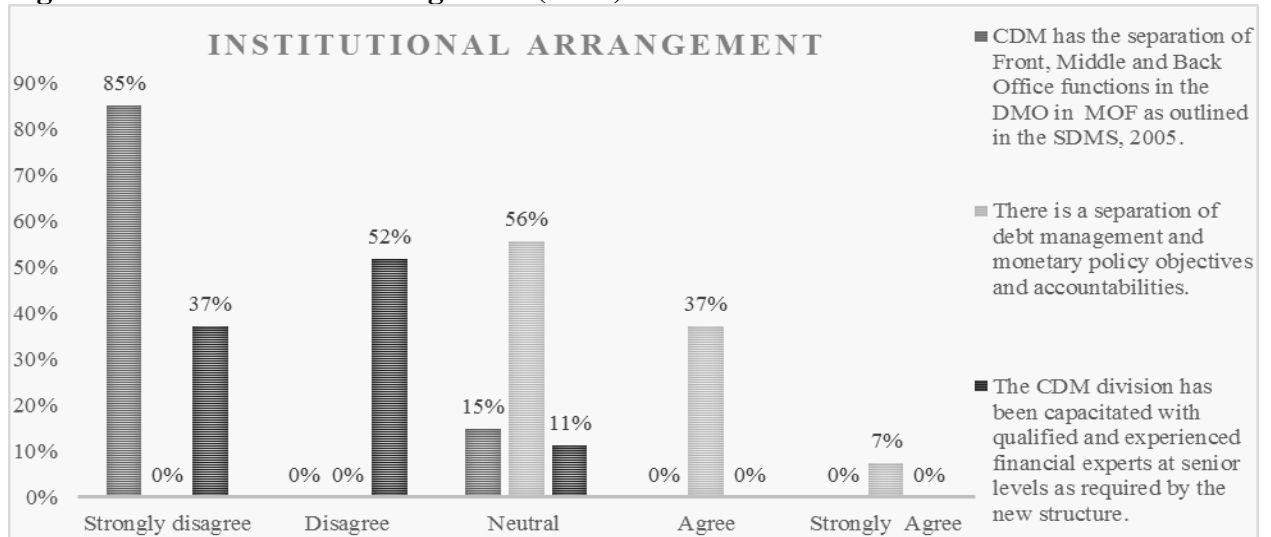


*Source: Ministry of Finance*

#### **5.3.4 Institutional Arrangement**

As Figure 5.9 depicts, 23(85%) of the respondents strongly disagree, while 4(15%) disagree that CDM has the separation of Front, Middle and Back Office functions. Furthermore, with regard to the separation of debt management and monetary policy objectives and accountabilities, 15(56%) of the respondents are natural, 7(37%) agree, and 2(7%) strongly agree to the separation of the statement. Again, as demonstrated by the black bar, 14(52%) of the respondents strongly disagree, 10(37%) disagree, while 3(11%) are neutral that CDM division has been capacitated with qualified and experienced financial experts at senior levels as required by the new structure.

**Figure 5.8: Institutional Arrangement (n=27)**

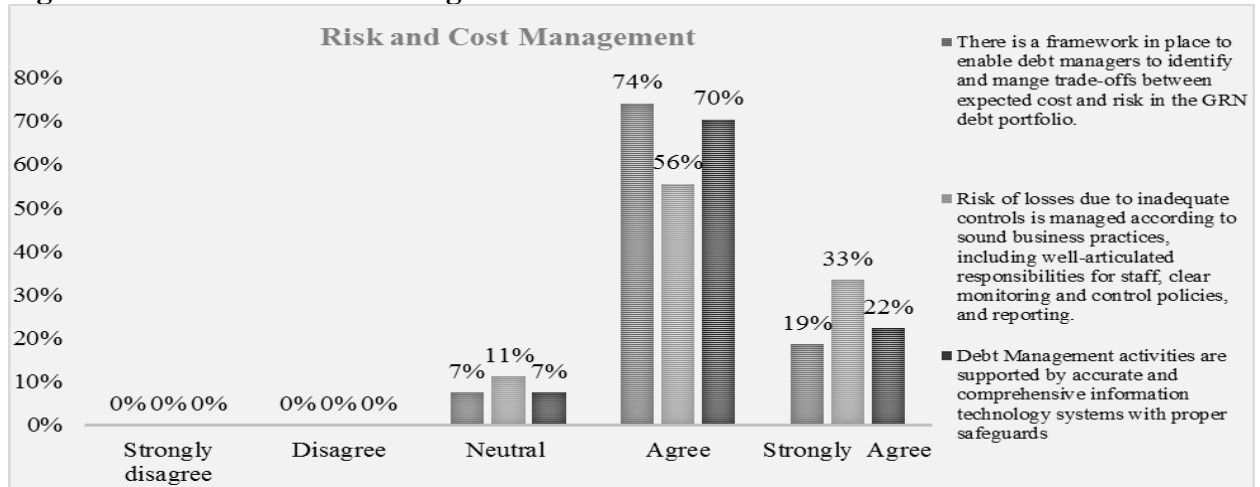


Source: Ministry of Finance

### 5.3.5 Risk and Cost Management

As demonstrated in Figure 5.9, 20(74%) of the respondents agree, while 5(19%) strongly agree that there is a framework in place to enable debt managers to identify and manage trade-offs between expected cost and risk in the GRN debt portfolio. Two (2(7%)) of the respondent chose to be neutral to the above statement. About 15(56%) and 9(33%) of the respondents agree and strongly agree, respectively, that the risk of losses due to inadequate control is managed according to sound business practices, including well-articulated responsibilities for staff, clear monitoring and control policies, as well as reporting. However, 3(11%) did not agree or disagree. With regard to IT system, 19(70%) agree, while 6(22%) strongly agree that debt management activities are supported by accurate and comprehensive information technology systems with proper safeguards, while 2(7%) were neutral.

**Figure 5.9: Risk and Cost Management**

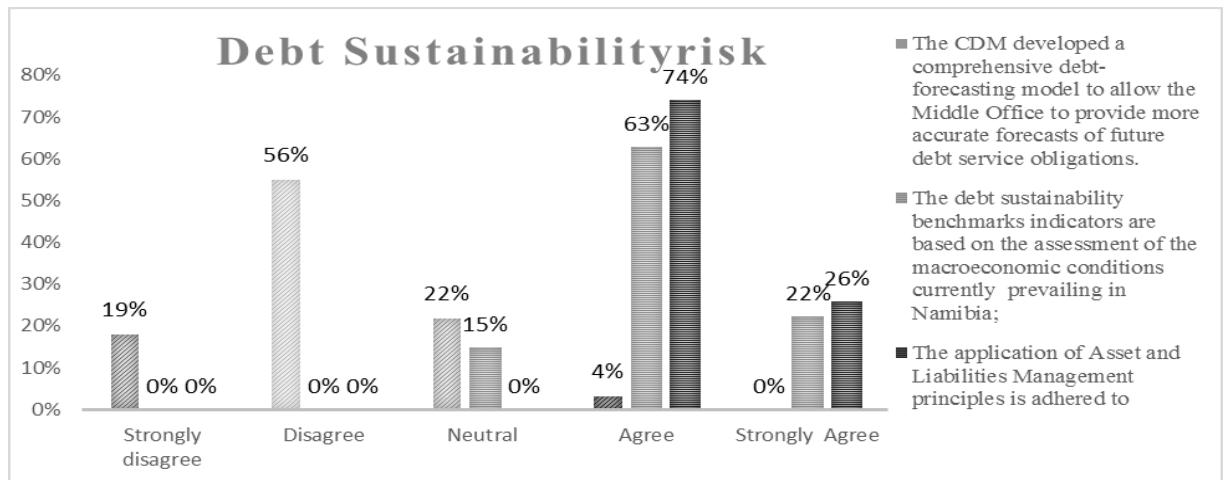


Source: Ministry of Finance

**5.3.6 Government Debt Sustainability**

Figure 5.10 presents the rating level over the implementation of the government debt sustainability technique employed by the Ministry to determine the periodic disered level of government debt.

**Figure 5.10: Government Debt Sustainability**



Source: Ministry of Finance

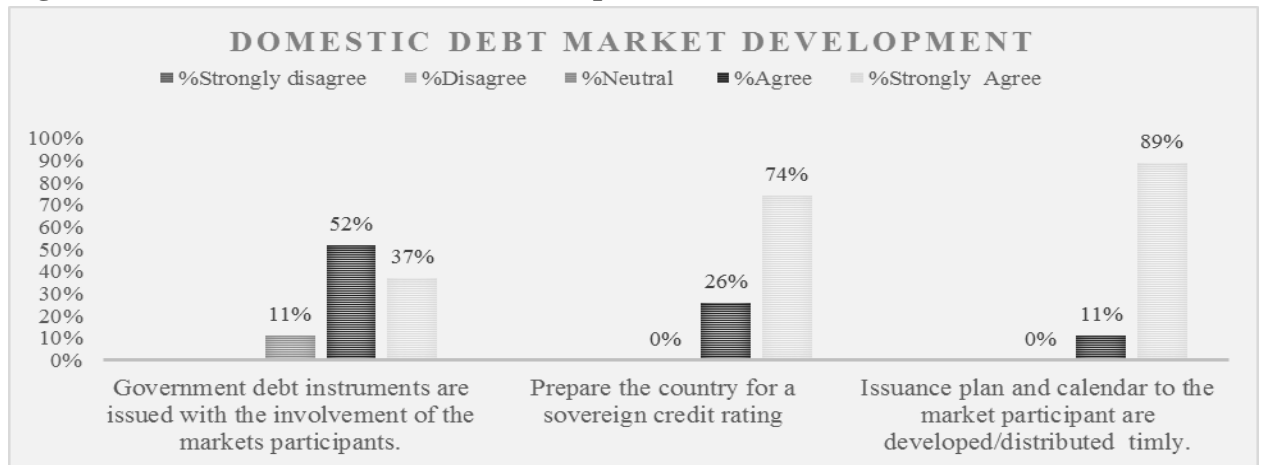
As indicated in Figure 5.11, the overall response from the employees consist of positive results, besides the debt forecasting model. As indicated by the light grey bar, out of 27 respondent, 15(56%) of the respondents disagree, while 5(19%) strongly disagree that CDM has developed a comprehensive debt-forecasting model to allow the Middle office to provide more accurate forecasts of future debt service obligations. A total of 6(22%) chose to be neutral to the statement. As set out by the grey bar, 17(63%) of the respondents agree to the statement, while 6(22%) strongly agree, that the debt sustainability benchmarks indicators are based on the assessment of the macroeconomic conditions currently prevailing in Namibia. A total of 4(15%) of the respondents were however neutral. With regard to the adherence of Asset and Liabilities Management principles, 20(74%) of the respondents agree, complemented by 7(26%) who strongly agree to the statement.

### **5.3.7 Domestic Debt Market Development**

As Figure 5.11 indicates, 52% of the respondents agree, while 37% strongly agree that the government debt instruments are issued with the involvement of the markets participants. Furthermore, about 74% agree and 26% strongly agree that the country was successfully prepared for the rating exercise rated during the SDMS period.

About 24 (89%) strongly agree, and 3(11%) agree that the issuance plan and calendar to the market participant are developed and distributed timely.

**Figure 5.11: Domestic Debt Market Development**



*Source: Ministry of Finance*

#### **5.4 Section C: Challenges Experience in Implementing the SDMS**

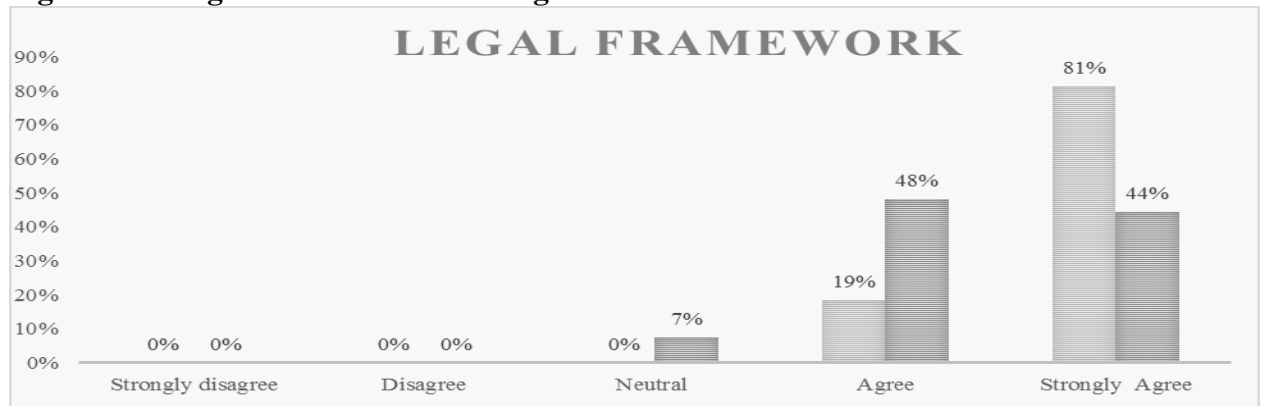
As set out earlier in this study, the study opted to explore the challenges experienced in implementing the Sovereign Debt Management Strategy in the Ministry of Finance. As demonstrated in the responses in section B, regarding the implementation of the SDMS, a number of objective were not attained as planned. To obtain concrete reason as to why those objective were not attained, statements perceived to be challenges to the successfully implementation of the Sovereign Debt Management Strategy were developed. These statements were also enriched and obtained through interviews. Therefore, this section presents the challenges observed during the implementation of the Sovereign Debt Management Strategy since 2005. Again, these statement were developed based on the recommended action plan as set out in the Sovereign Debt Management Strategy for 2005. As tradition for this study, the rating criteria ranging from: strongly agree, agree, neutral, disagree and strongly disagree, were set for the

employee to mark the appropriate answer that fits. The purpose was to assess the challenges observed during the implementation of the SDMS since 2005.

#### 5.4.1 Legal Framework Challenges

Figures 5.12, demonstrates the responses on the understanding of the existing legal framework.

**Figure 5.12 Legal Framework Challenges**



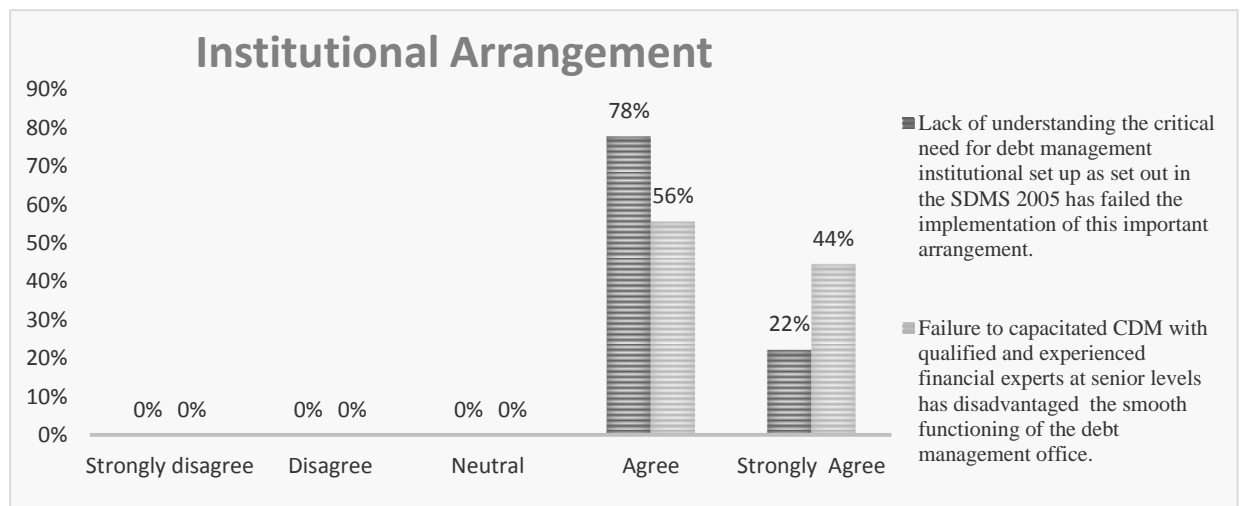
*Source: Ministry of Finance*

As indicated in Figure 5.14, the light grey bar shows that 22 (81%) out of 27 respondents strongly agree that Namibian legislation only fulfils minimum requirements related to the existence, coverage and content of the legal framework for debt management. Furthermore, 5(19%) also agreed to the above statement that the Namibian legislation only fulfils the minimum requirements. About 15 (48%) of the respondents agree, while 12(44%) strongly agree that the amendment to State Finance Act (1991) provides incorporation of government bonds in the book entry System was not achieved. None of the respondents disagree to the statement.

## 5.4.2 Institutional Arrangement Challenges

Figures 5.13, indicates the responses on the perceived challenges regarding the institutional arrangement employed by MOF, CDM.

**Figure 5.13: Institutional Arrangement Challenges**



*Source: Ministry of Finance*

As set out in Figure 5.13, the dark grey, the general consensus amongst respondents, 78% agree and 22% strongly agree, that lack of understanding, the critical need for debt management institutional set up as set out in the SDMS 2005 has failed the successfully implementation of the institutional set up that could meet the best practices. In addition, Figure 5.13, the light grey, show that 56% of the respondents agree, while 44% of the respondents strongly agree that the Ministry has failed to capacitated CDM with qualified and experienced financial experts at senior levels resulting in none smooth functioning of the debt management office.

### 5.4.3 Risk and Cost Management

Figures 5.14, indicates validate the responses on the perceived challenges regarding risk and cost management of the Sovereign debt by MOF, CDM.

**Figure 5.14: Risk and Cost Management Challenges**



*Souce: Ministry of Finance*

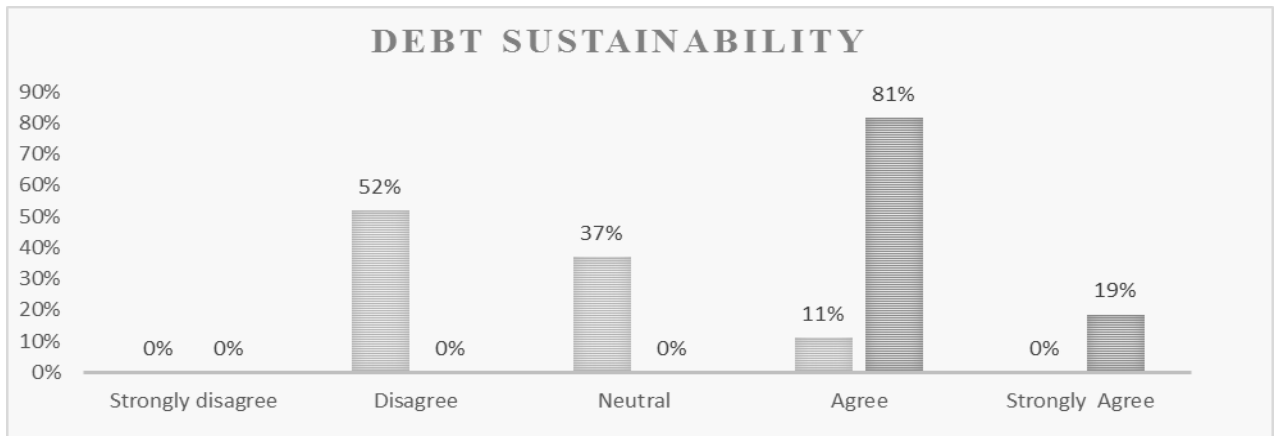
Figure 5.14 indicates that 67% of the respondents strongly agree and 18% agree to the statement that the division has failed to produce regular debt portfolio reports that include key cost and risk indicators that could give the alarm to the decision maker on time. Only 15% of the respondents chose to be neutral about the statement. Though proposed in the SDMS, 56% agree, while 26% strongly agree that there is no vibrant risk management tools and medium term debt forecasting model to measure cost and risk. A total 18% of the respondents could not agree or disagree to the above statement.

### 5.4.4 Debt Sustainability Challenges

With regard to the debt sustainability, set out in Figure 5.15, 22 (81%) of the respondents agree and 5(19%) strongly agree that none conducting of periodic review of

absence is a critical concern to the establishment of clear benchmarks that could help achieve debt management objectives

**Figure 5.15: Debt Sustainability Challenges**



*Source: Ministry of Finance*

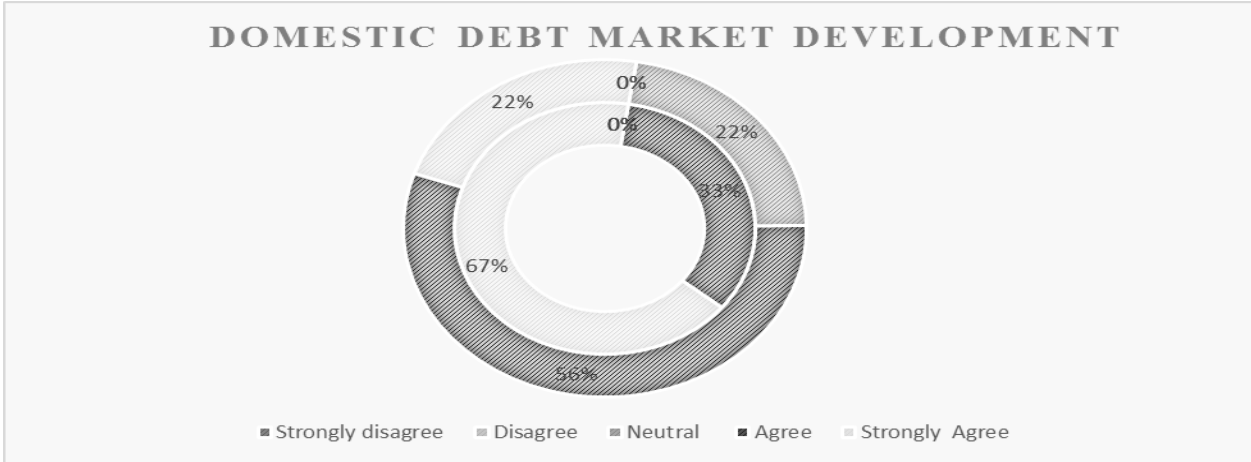
A total of 14(52%) respondents disagree, while 10(37%) are neutral that the absence of a comprehensive debt-forecasting model has prohibited debt management office to provide accurate forecasts of future debt and debt service obligations. About 3(11%) somehow agree to the statement.

#### **5.4.5 Domestic debt market development Challenges**

As indicated in Figure 5.16, 18(67%) of the respondents strongly agree, while 9(33%) agree that the electronic transfer of ownership for government debt securities and the delivery verse payment could not be implementation due to lack of proper systems. The outside circle indicates that 15(56%) agree that lack of proper legal arrangement has failed the successful implementation of the primary dealer. A further 6(22%) also agree to the statement, whereas 6(22%) chose to either agree or to disagree that lack of proper

legal arrangement has failed the successful implementation of the primary dealer, which is part of domestic market development.

**Figure 5.16 Domestic debt market development Challenges**



*Source: Ministry of Finance*

**5.5 Conclusion**

Although there are many conclusive findings to be derived from the responses and data obtained, the discussion outlined in this chapter only highlights some to confirm the aim of the study that there are indeed observed challenges experienced in the implementation of the SDMS in the context of institutional arrangement, strategic benchmarks, and risk and cost management, debt sustainability, and domestic debt market development.

## **CHAPTER SIX: DISCUSSION OF THE FINDINGS**

### **6.1 Introduction**

This chapter discusses the findings and integrates the data analysed in the previous chapter. The chapter covers three sub-sections. The discussion covers the demographic data, the implementation of the Sovereign Debt Management Strategy as well as the challenges experienced in the implementation of the Sovereign Debt Management Strategy.

### **6.2 Discussion of Results**

The discussion of the findings is based on the objective of the study. The main question to be addressed in this study is to explore the challenges experienced in implementing the Sovereign Debt Management Strategy in the Ministry of Finance, Cash and Debt Management. The questions were formulated and findings are discussed as follows: This study employed data analysis of the (N=27) 77% of the respondent to a self-survey questionnaires that were returned.

#### **6.2.1 Objective I– Demographic data**

The demographic characteristic of the respondents are representatives of department and division, years of experience in the filed debt management and the job category of their representation. The mode of the years of experience is 6 with most of the employees

being either Economist/Accountant. The money Directors and Deputy Directors have also made a big fraction of the employees in the field of debt management. The Money and Capital Market dealer have made up a third largest fraction with head of unity making up the fourth smallest fraction. The portfolio manager was insignificant. The response is very encouraging given that 93% of the respondents possess the necessary skills and the understanding of the Sovereign Debt Management Strategy.

### **6.2.2 Objective II: implementation of the Sovereign Debt Management Strategy**

To achieve the above objective, the collected data was analyzed using the Microsoft Excel Spreadsheet. Bar charts and pie charts were used to measure different variables guided by the Sovereign debt management strategy's action plan as listed below:

- **Legal Framework:** Overall, as per the responded, 89% are in support that State Finance Act (1991) provides the existing legal framework for debt management in Namibia. Though, Sate Finance Act (1991) provide the regal frame work, the legislation does not fulfils the requirement related to the existence, coverage and content of the legal framework for Debt Management. The conducted interview revealed that a debt management law could work better for the country rather than fiscal rules that are flexible to changes whenever Cabinet is in support. The MEFMI' debt management procedure manual state that government borrowing from either domestic or external sources requires a well-established legal basis for contracting debt, (MEFMI 2006). Furthermore, the IMF and World Bank guidelines, emphasised that countries should ensure that they have the debt

management law and regulations governing debt management with respect to mandates of institutions or individuals who should approve or manage loans (IMF, WB, 2004). The implementation of the strategy is achieved by the technical-level entities at MoF and BoN. It was further emphasised in an interview that, in future the legislation will need to be revised to include clear debt management objectives and requirements for audits and reporting to parliament. The executive arm of government, should be the Ministry of Finance, and it should be authorised by proper legislation to contract debt and all borrowing should be approved by the Minister before it is contracted in order to ensure that the loan is within the established guidelines and laws, and can be serviced within the national budget (Williams & Storkey, 2006).

- ***Institutional Arrangement:*** Though, one of the SDMS action plan was to structure the debt management offices in Front, Middle and Back Office functions, this structure was never implemented. Nether the skills development was taken into consideration. The majority of the respondents felt that the division was not capacitated with qualified and experienced financial experts at senior levels to successfully implement the SDMS smoothly.

As per the interview, the back office needs revamping including training of more staff, since there is only one staff conversant with the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) that is used to manage external debt. Most of respondents were of the opinion that some administration

procedure need immediate attention in order to meet the international best practices. William, Stokey (2006) argues that a well-structured debt office is important for any country to properly manage the risk and cost associated with the debt portfolio.

- ***Risk and Cost Management:*** With regard to risk and cost management of the debt portfolio, the study found that there is an effective framework in place to enable debt managers to identify and manage trade-offs between expected cost and risk in the GRN debt portfolio. A total of 93% of the respondents are in agreement that the cost-risk characteristics of the existing central government debt portfolio are mostly consistent with the SDMS benchmarks. Furthermore, 89 % of the respondents have indicated that risk of losses due to inadequate controls is managed according to sound business practices, while 92% also agreed that debt management activities are well supported by accurate and comprehensive information technology systems with proper safeguards. According to Richard and Moyeen (2003), debt management activities should be supported by an accurate and comprehensive management information system with proper safeguards.

It is somehow interesting, that the study's findings on this item, contradict the debt portfolio overview as set out in the chapter 2 of this study. Chapter 2 reveals that most of the monitoring set ratios have been breached. For instance, the ratios of total debt to GDP were 40% in March 2016, significantly above the SDMS's

thresholds of 35%. In the wake of 2011 and 2015, Eurobond issue, the ratios of domestic debt and external debt stood at 54:46, as opposed to the benchmark ratios of 80:20 domestic and external debt respectively. In a view of IMF, WB guideline, the international best practices is 70:30 ratios. Therefore, at 54:46 domestic/external debt ratios exposed the government debt portfolio to foreign currency risk. Furthermore, as set out in chapter 2, the large share of short-term domestic debt, particularly treasury bills, which account for about 31.8% of total debt, exposes the debt portfolio to both refinancing and interest rate risks.

- ***Debt Sustainability:*** Despite being one of the critical recommendation of the SDMS 2005, at 76% responded, it appears that the CDM could not develop a comprehensive debt-forecasting model that could enable the Middle office to conduct accurate forecasts on debt contracting and service. The findings further suggest that the debt sustainability benchmarks indicators are assessed based on the current macroeconomic conditions prevailing in Namibia with a majority of 85% agreeing, whereas 100% agree that adherence to the Asset and Liabilities Management principles has been employed. Though, as positive response, according to Williams, & Storkey (2006) the accounting approach to fiscal sustainability states that, in order to sustain the ratio of debt to GDP at a targeted level over the long-term, central government debt should not grow faster than nominal GDP. The underlying logic is that expenditure, for which debt has been incurred, should positively contribute to GDP growth, thereby induce economic growth that will translate into increases of government revenue to service the

debt, (Williams, Storkey, 2006). In addition, as presented in chapter 2, an average growth of GDP was 5.5%, while that of debt was at 12% with highest record being 23% and 42% in 2014 and 2015, respectively. This is contrary to SDMS objective and worrisome.

- ***Domestic Debt Market Development:*** Figure 5.20 in chapter 5, indicates that 52% of the respondents agree, while 37% strongly agree that the government debt instruments are issued with the involvement of the markets participants. Furthermore, about 74% agree and 26% strongly agree that the country was successfully prepared for the rating exercise rated during the SDMS period. About 24 (89%) strongly agree, and (3) 11% agree that the issuance plan and calendar to the market participant are developed and distributed timely.

### **6.2.3 Objective III- Challenges of the Sovereign Debt Management Strategy implementation**

Though the implementation of the Sovereign Debt Management Strategy sounds to have been smooth, it is worth noting that there were several challenges that prohibited the full implementation of the Sovereign Debt Management Strategy since 2005. These challenges were selected based on the outcome of the literature review and interview conducted from the study population. As part of the objectives, below are the challenges found.

- ***Legal Framework:*** At 100%, the study revealed that Namibian legislation fulfils a minimum requirements related to the existence, coverage and content of the legal framework for debt management. However, the proposed ammendment to State Finance Act (1991) to provides incoporation of government bonds in the book entry system was never done. As reveled in the interview, this slowed down the secondary market trading for government debt securities, as trading activities are done over the counter, and the holder of government bonds are provided with a certificate. The fact that bonds are not dematerialized (i.e., they are issued and traded in paper form) prevents non-residents from investing directly in the Namibian market for government debt (SDMS, 2005).
- ***Institutional Arrangement:*** With regards to institutional arrangement, the study concluded (100%) that failure to set up institutional as per the international best practices has failed the successfully implementation of the SDMS. There is also consensus (100%) from the respondents, that the Ministry has failed to capacitated CDM with qualified and experienced financial experts at senior levels resulting in none smooth functioning of the debt management office. The international best practices set out in MEFMI for 2006, and the debt management guidelines suggest that debt management offices should be structured in three offices i.e. Front office, Middle office and Back office. Storkey (2003), suggests that the Debt Management Offices (DMOs) should employ a better institution that will translate into a better debt management, which translates in the long-run to lower borrowing cost and minimise risk exposure.

- ***Risk and Cost Management:*** Despite the risk monitoring, it was concluded that there are no regular debt portfolio reports that include key cost and risk indicators that could give the alarm to the decision maker on time. Though proposed in the SDMS, this study revealed that 82% of the respondents have indicated that there is no vibrant risk management tools and medium term debt forecasting model to measure cost and risk. As stated in chapter 3 of this study, Richard and Moyeen (2000), point that sound risk management practices are essential given the bigger size of debt portfolio that is complex and contains risky financial structures, which have the potential to generate substantial risk to the government's balance sheet and overall financial stability. As set out in the IMF/World Bank guidelines, applying the period analytical tool to several possible debt strategies in the face of plausible economic shocks suggests that a strategy that emphasizes longer maturities in the domestic market, performs better against the GRN's risk priorities than does the current strategy.

While, MEFMI stated that risk is the potential destabilizing impact that financial shocks might have on the budget. Risk analysis therefore is a comparison of the impact of financial variables such as exchange rates, interest rates and commodity prices to debt service. Risk of a liability portfolio is modeled by simulating future debt service cash flows (cost) and the potential deviation of debt service flows from the expected path due to shocks in interest rates, exchange rates and commodity prices (risk). This is generally the function of the

Middle office. Hence, the absence of such office in CDM could compromise this function.

- ***Debt Sustainability:*** With regard to the debt sustainability, all (100%) the respondents have indicated that none periodic conducting of debt sustainability exercises poses critical concerns to the establishment and review of benchmarks. This, setting of appropriate debt management is sometimes misleading. The respondents could however not fully agree that the absence of the debt forecasting model does not necessary have negative effect on the accurate forecasts of future debt and debt service obligations. The MEFMI has indicated that establishing benchmarks for evaluating sustainability of domestic debt is very important, as debt sustainability is achieved if future primary surpluses respect Present Value Budget Constraint (PVBC), i.e. today's government debt is matched by an excess of future primary surpluses over primary deficits in present value terms.
- ***Domestic debt market development:*** This study found that the electronic transfer of ownership for government debt securities and the delivery verse payment could not be implementation due to lack of proper system. Other action plans like the introductions of Primary Dealer could also not be successful implemented. Thus, the lack of proper legal arrangement has failed the successful implementation of the Primary Dealer, which is part of domestic market development. According, to Blumenstein, Guzzo, Holland and Yibin

(2010), enhancing the infrastructure of the market would help broaden the investor base.

The 2011 and 2015 issuance of a Eurobond and recurrent issuance in the South African market clearly show that there is foreign demand for Namibian government bonds. Attracting these investors to the local market could be a way to develop the domestic market while broadening the investor base. In fact, the government could benefit more from the proximity to the South African market, which is a large market with relevant presence of international investors. But, in order to do that, it is necessary to put in place an adequate infrastructure. One example could be creating a Central Securities Depository (CSD) which is an important tool to develop the bond market, (IMF/World Bank, 2015). It would provide an appropriate infrastructure to the bond market, providing more confidence to investors (especially South African and other foreigners). Having a single CSD could also facilitate the monitoring of the trades (price discovery).

The government debt instrument issuance and administration to be effective, very important weaknesses in the process need to be considered very seriously, notably the legal framework need to recognize the electronic trading platform and allow the incorporation of the bonds into the book entry system. Considering the observation from international best practices experience in the literature review, the process of issuing government debt securities and the trading in the secondary market should be guided by powerful electronic system. The payment

systems should also be likened with trading system. Ownership of the securities should be electronically registered. Richard and Moyeen et al. (200?) also argue that the debt management activities should be supported by an accurate and comprehensive management information system.

### **6.3 Conclusion**

Although there are many conclusive findings to be derived from the data obtained, the above discussion only highlights some to confirm the objective of the study that there are indeed challenges experienced in the implementation of the Sovereign Debt Management Strategy and the recommendations will try to steer the management in their decision making in trying to put measures place that will overcome those challenges.

## **CHAPTER SEVEN: CONCLUSIONS AND RECOMMENDATIONS**

### **7.1 Introduction**

Chapter seven is divided into 3 sections. Section 7.2 discusses the conclusion, while section 7.3 covers the recommendation of the study. Potential for future research in order to close the gap left by this study is also addressed in section 7.4 of this chapter. The last section, section 7.5 sums up the study.

### **7.2 Conclusions**

In conclusion, the aim of the study was to answer the main research questions which opt to explore the challenges experienced in implementing the Sovereign Debt Management Strategy in the Ministry of Finance. In general, the 2005 SDMS has achieved its purpose of being, and has provided prudent fiscal policies. The SDMS has helped Namibia manage public debt effectively since its implementation in 2005. However, more is still to be desired in order to achieve all the objectives as set out in the 2005 SDMS. There are a number of sound public debt management initiatives that the MoF should implement in the medium term, namely:

- Though, the State Finance Act (1991) provides the existing legal framework for debt management in Namibia, the study revealed that there is a need to amend the Act to remove restriction that prohibits incorporating government bonds into the Book Entry System or to enable the incorporation of bonds in Book Entry System and the establishment of a Central Security Depository (CSD). This

would enable the abolishment of the current issuance physical certificate to bond holders.

- The MoF needs to build capacity within the CDM division, specifically to establish an organisational structure with functional roles of a Front, Middle and Back Office, in line with international best practices.
- The current employed risk and cost monitoring approaches are found to be in order, however, the CDM division needs to develop a comprehensive cash and debt forecasting model that could allow the risk management office to provide more accurate forecasts of future debt service obligations and conduct scenario analysis to determine the costs and risks associated with different debt portfolios. The Medium Term Debt Management Strategy (MTDS) tool designed by the IMF and World Bank could be an ideal tool for this exercise.
- The CDM will need to undertake the Debt Sustainability (DSA) exercise on an annual basis to ensure proper monitoring of the debt portfolio risks and sustainability concerns. This will help with the timely identification of deviations in the outturns relative to targets or in the assumptions underlying the strategy, to be revised accordingly. The crucial message is that it is essential to repeat this formal analysis regularly to ensure that the SDMS remains consistent with economic conditions and the GRN's policy priorities.
- The CDM should increase publication on debt movements, include more information in the auction calendar, circulate a regular debt bulletin containing

comprehensive information on public and publicly guaranteed debt, and release an annual evaluation of performance against the SDMS benchmarks.

- Improve bond market institutional infrastructure. Dematerializing government bonds, establishing a central securities depository, and requiring that all bond trades be reported and published would enhance debt market efficiency through improved price discovery and reduced transactions costs. The 2005 SDMS identified several legal and regulatory reforms that are prerequisites to undertaking these measures, and require immediate implementation. Furthermore, circulating a regular debt bulletin containing comprehensive information on public and publicly guaranteed debt, and releasing an annual evaluation of the SDMS would contribute to greater transparency and accountability.
- Therefore, incorporating reporting provisions into secondary legislation and submitting the debt strategy to parliamentary review would also strengthen accountability. Further, improving transparency and accountability is highly important for the reduction of investors' uncertainty, which in turn will increase interest in government securities and lower the funding costs.

### **7.3 Recommendation**

Given the above conclusion and the need to overcome the challenges experienced in implementing the Sovereign Debt Management Strategy for 2005, it is recommended that Cash and Debt Management in Ministry of Finance should strive to:

- amend the state Finance act to accommodate the issuance of bonds in an electronic format,
- Structure Cash and Debt Management Office that fit the international best practices, with functional roles of a front, middle and back office or any structure that fit for such purpose.
- Develop a comprehensive debt forecasting model to enhance risk management practices in the debt office.
- Conduct periodic or annual Debt Sustainability (DSA) exercise on to ensure proper monitoring of the debt portfolio risks and sustainability concerns at any given time.
- Improve bond market institutional infrastructure to accommodate modern development that could enhance bonds trading.
- Increase periodic reporting and timely disseminations of debt development to the market or investors as well as decision makers in order to improve transparency and accountability. This will reduce investors' uncertainty, which in turn will increase interest in government securities and lower the funding costs.

Contain laugh

#### **7.4 Suggestion for Future research**

More in-depth study should be conducted to look at the challenges experienced in implementing the Sovereign Debt Management Strategy in the Ministry of Finance

CDM in comparison to other developing countries mostly in Africa, in a view of further improving the Legal Framework, Institutional Arrangement, Strategic benchmarks, Risk and Cost Management, Debt Sustainability and the Domestic debt market development.

## **7.5 Summary**

This chapter has described the overall aim of the study in which three objectives with a focus on the legal framework, institutional arrangement, strategic benchmarks, risk and cost management, the debt sustainability, and the domestic debt market development were evaluated. The conclusions and recommendations with references to challenges experienced in implementing the Sovereign Debt Management Strategy in the Cash and Debt Management Division in the Ministry of Finance were described with empirical data. Suggestion for further research was described.

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## **Appendices**

### **ANNEXURE A: QUESTIONNAIRE**

#### **THE RESEARCH QUESTIONNAIRE**

**Title:** **An Investigation into the Implementation of the Sovereign  
Debt Management Strategy in Namibia**

**Compiled By:** **Ashikoto Marten**

**Student No:** **200924079**

**Course:** **Master of Business Administration-Finance**

**Institution:** **University of Namibia (Namibia Business School)**

**Qualification:** **(1) Postgraduate Diploma: Business Administration  
(University of Namibia)**

**(2) Bachelor of Technology; Accounting and Finance  
(Polytechnic of Namibia)**

**(3) National Diploma; Accounting and Finance (Polytechnic of Namibia)**

**Supervisor: Dr Johannes Sheefeni (Senior Lecturer Department of Accounting, Economics and Finance) (Namibia University of Science and Technology)**

**The aim of this questionnaire is to:**

- To explore the challenges experienced in implementing the Sovereign Debt Management Strategy in the Ministry of Finance and Bank of Namibia, Cash and Debt Management Division and Bank of Namibia, Financial Market Department, Domestic debt unit.

**The objectives of the questionnaire are:**

**Section A:**

- Explore and describe the demographic data of the Debt Management employees.

**Section B**

- Explore the challenges experienced in implementing the Sovereign Debt Management Strategy in the Ministry of Finance.

**Instruction:**

1. Please complete the included questionnaire by making an X in the applicable column
2. Answer all the question in section A and B
3. Be open , honest and objective in your answer, as this will determine the results of this study and the recommendations resulting from this research study
4. Please do not write your name on the questioner to guarantee anonymity
5. This questionnaire will take you approximately ten minutes (10 min) to complete.

**SECTION A: DEMOGRAPHIC DATA OF THE RESPONDENT**

**1.1 Under which division are you employed?**

Cash and Debt Management (MOF)	
Economic Policy Research Advisory Services (EPAS)	
Budget Management and Control (BMC)	
Financial Market Department; (BON)	
Research Department: (BON)	
State Accounts (MOF)	

**1.2 Years of experience in government debt management?**

1-4yrs	
4-8yrs	
8yrs or more	

**1.3 What is your present job title?**

Permanent Secretaries/ Treasures or Head of Financial Market	
Director or Deputy Director	
Portfolio Manager	
Money and Capital Market dealer	
Economist/Accountant	
Others:	

**1.4 Are you familiar with the Namibian Sovereign Debt Management Debt Strategy and its objectives?**

Yes	
No	

**SECTION B: IMPLEMENTATION OF THE SOVEREIGN DEBT MANAGEMENT STRATEGY IN THE MINISTRY OF FINANCE**

1.1 The overall objective of Sovereign Debt Management Strategy in the Republic of Namibia is to minimise the cost of government borrowing, consistent with an acceptable degree of risk. This objective has been successfully achieved since the implementation of the SDMS 2005.

Please mark the answers of your choice with an (X) where relevant

Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
			X	

1.2 The strategy document identifies areas for **improvement in existing debt management processes in Namibia**, based on a review of international best practice and proposes to improve debt management effectiveness in the points below. **Please evaluate the overall success of the Sovereign Debt Management strategy implementation process of the five-point scale where 1 is "low success", 5 is "very successful".**

- The institutional and legal framework      1      2      3      4      5
- The debt management office                      1      2      3      4      5
- The use of strategic benchmarks                1      2      3      4      5
- The domestic debt market development        1      2      3      4      5

1.3 The Ministry of Finance is entrusted with the effective implementation of the Sovereign Debt Management Strategy since 2005. Given the important role that the Ministry is entrusted with, could you please tick the answers of your choice with an (X) where relevant?

**The rating below is applicable:**

- 1- Strongly disagree
- 2- Disagree
- 3- Neither Agree or disagree
- 4- Agree
- 5- Strongly Agree

Statements	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
<b>Legal Framework</b>					
The State Finance Act (1991) provides the existing legal framework for debt management in Namibia.					
Namibia legislation fulfils the requirement related to the existence, coverage and content of the legal					

framework for Debt Management.					
All loan and guarantee agreements are signed by the Minister of Finance as per Section 29 of the State Finance Act, 1991 (Act No. 31 of 1991).					
The financial and legal advices are sourced from Bank of Namibia and Attorney General before the Loan and Guarantee agreement is signed by Minister of Finance.					
Institutional Arrangement					
CDM has the separation of Front, Middle and Back Office functions in the Debt Management Office both in MOF and BON, as outlined in the SDMS, 2005.					
There is a separation of debt management and monetary policy objectives and accountabilities.					
The Debt Management Strategy proposed a number of Inter-Agency Committees that include the Executive Committee, the Advisory Committee and the Debt and Cash Flow Management Working Group to act as advisory bodies to the Minister of Finance. These committees have been established and function as planned.					
Decision-makers and the public are provided with regular and high quality periodic reports on public debt.					
The Cash and Debt Management (CDM) division has been capacitated with qualified and experienced financial experts at senior levels as required by the					

new structure.					
Existing debt management committees have been re-organised to improve efficiency and strengthen accountability					
There are clear and transparent guidelines on Government guarantees, on-lending agreements, and for borrowing by central government and parastatals.					
<b>The use of strategic benchmarks</b>					
The objectives of the strategic benchmarks are transparent and account for the financial and other risks of Government overall liabilities, asset and cash flows, together with other Government policy objectives such as the development of domestic market.					
The procedures on acquisition of external loans by Government ministries, borrowing by parastatals, and the issuing of foreign guarantees, on-lending arrangements and hedging has been adopted.					
<b>Risk And Cost Management in the Debt Portfolio</b>					
There is a framework in place to enable debt managers to identify and manage trade-offs between expected cost and risk in the GRN debt portfolio.					
The activities and performance of					

Government debt are monitored by an appropriate qualified body, subject to external audits.					
Risk of losses due to inadequate controls is managed according to sound business practices, including well-articulated responsibilities for staff, clear monitoring and control policies, and reporting.					
Debt Management activities are supported by accurate and comprehensive information technology systems with proper safeguards					
Staff involved in debt management have the appropriate skills and qualifications and are subject to guidelines on code of conduct and conflict of interest.					
Information on secondary market trading is made available to participants and prospective market participants in order to strive to create liquidity in the secondary market by market making.					
<b>Debt Sustainability</b>					
The CDM division developed a comprehensive debt-forecasting model. This model allow the Middle Office to provide more accurate forecasts of future debt service obligations and conduct scenario analysis to determine the costs and risks that different debt portfolios involve.					
The Inter Agency Committee has established clear benchmarks to help					

achieve debt management objectives.					
The benchmarks indicators are based on: an assessment of the macroeconomic conditions currently prevailing in Namibia;					
The application of Asset and Liabilities Management principles is adhered to					
<b>The domestic debt market development</b>					
Instruments are marketed and increased participation has been observed and has promoted competition and promotes liquidity in the secondary market.					
The State Finance Act has been amended to incorporate IRS into the Book Entry System or to dematerialise bonds.					
Government debt instruments are issued with the involvement of the markets participants.					
Prepare the country for a good sovereign credit rating by reducing macroeconomic level risk. Seek sovereign credit rating when macroeconomic risk sufficiently reduced.					
Created liquidity in the secondary market by making information on secondary market trading available to attract more investors and increase the benchmark issues both in terms of number of securities and the size of issues.					

Issuance plan and calendar to the market participant are developed in time and provided to the market participants					
The Book Entry System has been linked to the settlement system.					
The Government has achieving Delivery Versus Payment in the secondary market for Government debt securities.					
The number of market participants has increased and market liquidity has improved. The Government has obtained intermediaries to act as market makers.					

1.4 Any other comments?

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**SECTION C: SOVEREIGN DEBT MANAGEMENT STRATEGY**  
**CHALLENGES**

1.5 Though the Ministry of Finance is entrusted implementation of the Sovereign Debt Management Strategy since 2005. I observed that the Ministry has experienced

challenges in executing its role over the period of 10 years, could you please tick the answers of your choice with an (X) where relevant?

**The rating below is applicable:**

- 6- Strongly disagree
- 7- Disagree
- 8- Neither Agree or disagree
- 9- Agree
- 10- Strongly Agree

<b>Statements</b>	<b>Strongly disagree</b>	<b>Disagree</b>	<b>Neutral</b>	<b>Agree</b>	<b>Strongly Agree</b>
The Ministry of Finance has a Debt Management Office, with similar institutional set-up as required by the IMF and World Bank.					
The debt management institutional set up is accurate and complete as required in the SDMS.					
The transfer of ownership for Government debt securities has been improved and that there is delivery versus payment in place					
The Government has an accurate and complete debt management system.					
The strategic benchmarks are periodically updated in response to changes in the macroeconomic situation					

or conditions prevailing in the domestic debt market.					
The Government has an accuracy and complete debt recording system for both domestic debt and foreign debt.					
The recommended implementation of primary dealer has been successfully implemented					
The guideline for entering in foreign loans and guarantees has been adopted					

## **ANNEXURE B – INTERVIEW QUESTIONS FOR STAFF**

### **CHALLENGES EXPERIENCED IN IMPLEMENTING THE SOVEREIGN DEBT MANAGEMENT STRATEGY: MINISTRY OF FINANCE, CASH AND DEBT MANAGEMENT DIVISION.**

#### **Personal Experience**

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1. Kindly indicate your age range.

- 20 yrs to 30 yrs
- 30 yrs to 40 yrs
- 40 and more

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2. How long have you been working for Ministry of Finance?

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3. How long have you been working for Ministry of Finance Cash and Debt Management?

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4. What position do you hold in the department?

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#### **Ministry of Finance as Service provider**

5. Does Ministry have a legal framework for Debt Management as a services provider?

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6. Do you think that the debt management was implemented in consistent with the action plan as outlined in the debt management strategy?

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7. The first recommendation in the SDMS, was to build capacity within the CDM division, specifically to establish an organisational structure with functional roles of a front, middle and back office, in line with international practices. Was this recommendation ever implemented?

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8. If yes in question 8, what have been the challenges hindering the setting up of office structures on a back, middle and front as set out in the SDM over the last decade?

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9. From your understanding are all employees at Cash and Debt Management in possession of the required skills in the strategic area of debt management and debt portfolio analysis?

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10. What support does Ministry of Finance provides to assist employees to acquire skill in debt management?

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11. What do you consider to be the main challenges affecting the effective implementation of the debt management strategy in Ministry of Finance and why?

- Lack of Skills in debt management
- Lack of Information System
- Adverse Structure
- Non willingness of Management

12. What methodology Ministry of Finance use to set the bench marks for risk management?

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13. What debt sustainability methodologies are in place, and how often does the Ministry of Finance conduct the debt sustainability analysis

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14. What plans does the Ministry of Finance put in place to promote capital market development?

Thanks for the responses in this regards

## ANNEXURE C      STATISTICAL TABLE OF THE RESULTS

SECTION A: DEMOGRAPHIC DATA OF THE RESPONDENT															
<b>1.1 Under which division are you employed?</b>															
													Emp	As % of re	
Cash and Debt Management (MOF)	1	1	1	1	1	1	1	1	1	1	1	1	11	41%	
Economic Policy Research Advisory Services (MOF)	1	1	1										3	11%	
Budget Management and Control (MOF)		1	1										2	7%	
Financial Market Department (BON)	1	1	1	1	1								5	19%	
Research Department (BON)		1	1										2	7%	
State Accounts (MOF)	1	1	1	1									4	15%	
<b>Totals</b>													<b>27</b>		
<b>1.2 Years of experience in government debt management?</b>															
<b>Years of experience in government debt management</b>															
													Peri	As % of re	
1-4yrs	1	1	1	1	1	1							6	22,2%	
4-8yrs	1	1	1	1	1	1	1	1	1	1	1	1	12	44,4%	
8yrs or more	1	1	1	1	1	1	1	1	1				9	33,3%	
<b>Totals</b>													<b>27</b>		
<b>1.3 What is your present job title?</b>															
													Repi	As % of re	
Permanent Secretaries/ Treasures or Head of Financial Market	1	1	1	1	1								5	19%	
Director or Deputy Director	1	1	1	1	1	1							6	22%	
Portfolio Manager	1	1											2	7%	
Money and Capital Market dealer	1	1	1	1									4	15%	
Economist/Accountant	1	1	1	1	1	1	1	1	1	1			10	37%	
<b>Totals</b>													<b>27</b>		
<b>1.3 Are you familiar with the Namibian Sovereign Debt Management Debt Strategy and its objectives?</b>															
													Kno	As % of re	
Yes	2	2	2	2	2	2	2	2	2	2	2	2	1	25	93%
No	1	1											2	7%	
<b>Totals</b>	3	3	2	2	2	2	2	2	2	2	2	2	1	<b>27</b>	

SECTION B: IMPLEMENTATION OF THE SOVEREIGN DEBT MANAGEMENT STRATEGY IN THE MINISTRY OF FINANCE

Statements		Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Totals					
L F e r w g a o a m r l e k	1.1 The overall objective of Sovereign Debt Management Strategy in the Republic of Namibia is to minimise the cost of government borrowing, consistent with an acceptable degree of risk. This objective has been successfully achieved since the implementation of the SDMS 2005.				18	9	27					
	In %	0	0	0	67%	33%	1					
I A n r s t a i o g u n e t a m n i l e t	1.2 The strategy document identifies areas for improvement in existing debt management processes in Namibia, based on a review of international best practice and proposes to improve debt management effectiveness in the points below. Please evaluate the overall success of the Sovereign Debt Management strategy implementation process of the five-point scale where 1 is "low success", 5 is "very successful".	1	2	3	4	5	Totals	1	2	3	4	5
		No success	low success	Somehow success	very successful	very successful		No success	low success	Somehow success	very successful	very successful
	The institutional and legal framework	10	2	11	6	8	27	0%	7%	41%	22%	30%
	The debt management office	10	10	7			27	37%	37%	26%	0%	0%
	The use of strategic benchmarks			5	15	7	27	0%	0%	19%	56%	26%
The domestic debt market development	5	6	12	4		27	0%	19%	22%	44%	15%	
	10,00	5,67	7,25	11,00	6,33							
1.3 The Ministry of Finance is entrusted with the effective implementation of the Sovereign Debt Management Strategy since 2005. Given the important role that the Ministry is entrusted with, could you please tick the answers of your choice with an (X) where relevant?												
S b r n a c e t h e m g a i r c k s	The State Finance Act (1991) provides the existing legal framework for debt management in Namibia.	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Totals					
	Namibia legislation fulfils the requirement related to the existence, coverage and content of the legal framework for Debt Management.			3	18	6	27					
I A n r s t a i o g u n e t a m n i l e t	CDM has the separation of Front, Middle and Back Office functions in the DMG in MOF as outlined in the SDMS, 2005.	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Totals	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
	There is a separation of debt management and monetary policy objectives and accountabilities.	23	0	4			27	85%	0%	15%	0%	0%
	The CDM division has been capacitated with qualified and experienced financial experts at senior levels as required by the new structure.	10	14	3			27	37%	52%	11%	0%	0%
M a r n a s k e C m a o e n s n d t t	The objectives of the strategic benchmarks are transparent and account for the financial and other risks of Government overall liabilities, asset and cash flows.	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Totals	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
	The procedures on acquisition of external loans by Government Ministries, borrowing by parastatals, the issuance of foreign guarantees, on-lending arrangements and hedging has been adopted.			3	15	9	27	0%	0%	11%	56%	33%
S u s t a i n a b l e i t y	There is a framework in place to enable debt managers to identify and manage trade-offs between expected cost and risk in the GRN debt portfolio.	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Totals	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
	Risk of losses due to inadequate controls is managed according to sound business practices, including well-articulated responsibilities for staff, clear monitoring and control policies, and reporting.			2	20	5	27	0%	0%	7%	74%	19%
	Debt Management activities are supported by accurate and comprehensive information technology systems with proper safeguards			3	15	9	27	0%	0%	11%	56%	33%
	The CDM developed a comprehensive debt forecasting model to allow the Middle Office to provide more accurate forecasts of future debt service obligations.	5	15	6	1		27	19%	56%	22%	4%	0%
D l e i t y	The Inter Agency Committee has established clear benchmarks to help achieve debt management objectives.		2	4	15	6	27	0%	7%	15%	56%	22%
	Decision-makers and the public are provided with regular and high quality periodic reports on public debt.			6	15	6	27	0%	0%	22%	56%	22%
	The benchmarks indicators are based on the assessment of the macroeconomic conditions currently prevailing in Namibia;			4	17	6	27	0%	0%	15%	63%	22%
	The application of Asset and Liabilities Management principles is adhered to		2	4	16	5	27	0%	7%	15%	59%	19%
Statements												
S u s t a i n a b l e i t y	Government debt instruments are issued with the involvement of the markets participants.			3	14	10	27	0%	0%	11%	52%	37%
	Prepare the country for a sovereign credit rating				7	20	27	0%	0%	0%	26%	74%
	Issuance plan and calendar to the market participant are developed/distributed timely.				3	24	27	0%	0%	0%	11%	89%

## SECTION C: SOVEREIGN DEBT MANAGEMENT STRATEGY CHALLENGES

Strategic objectives	Challenges	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree	Totals	Strongly disagree	Disagree	Neutral	Agree	Strongly Agree
Legal Framework	Namibian legislation only fulfils minimum requirements related to the existence, coverage and content of the legal framework for debt management.				5	22	27	0%	0%	0%	19%	81%
	Amendment to State Finance Act (1991) to provides incorporation of Government Bonds into the Book Entry System could not be achieved.			2	13	12	27	0%	0%	7%	48%	44%
Institutional Arrangement	Lack of understanding the critical need for debt management institutional set up as set out in the SDMS 2005 has failed the implementation of this important arrangement.				21	6	27	0%	0%	0%	78%	22%
	Failure to capacitated CDM with qualified and experienced financial experts at senior levels has disadvantaged the smooth functioning of the debt management office.				15	12	27	0%	0%	0%	56%	44%
Strategic benchmarks	Lack of skills and lack of monitoring augmented by market constraints in terms of appetite for the types of Government debt instruments and the size of issuance has been a challenge to successfully adherence to the strategic benchmark.			1	6	20	27	0%	0%	4%	22%	74%
	There has not been a comprehensive framework for regular monitoring and review of annual debt strategies to avoid significant deviations of outturns relative to targets or revised the assumptions underlying the strategy.			3	13	11	27	0%	0%	11%	48%	41%
Risk and Cost Management	None availability of a vibrant risk management tools and medium term debt forecasting model.			7	15	5	27	0%	0%	26%	56%	19%
	Failure to produce regular debt portfolio reports that include key cost and risk indicators that could give the alarm to the decision maker on time.			18	5	4	27	0%	0%	67%	19%	15%
Debt Sustainability	The absence of a comprehensive debt-forecasting model to allow the Middle Office to provide more accurate forecasts of future debt and debt service obligations.		14	10	3		27	0%	52%	37%	11%	0%
	The none conducting of the periodic debt sustainability is a critical concern to the establishment of clear benchmarks that could help achieve debt management objectives.				22	5	27	0%	0%	0%	81%	19%
Domestic debt market development	The electronic transfer of ownership for Government debt securities and the delivery verse payment could not be implementation due to lack of proper system in place		0	0	9	18	27	0%	0%	0%	33%	67%
	Lack of proper legal arrangement has failed the successful implementation of the primary dealer.			6	15	6	27	0%	0%	22%	56%	22%