



# Impact Report

2021



**frontclear**  
financial market development

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# Introduction

Frontclear is a development finance company dedicated to building stable and inclusive money markets. Its investors are largely European development financial institutions and governments.

Frontclear unlocks access to global and local interbank markets for frontier market institutions by providing guarantees to cover counterparty credit risk. Complementarily, Frontclear provides technical assistance focused on regulatory reform, legal enforceability, industry training and market structures and system development – all targeting the development of healthy money markets.

“

*“The market challenges of 2021 demand reflection, learning and action. Sometimes it’s useful to take a step back, analyse and better prepare for improved money and bond markets.”*

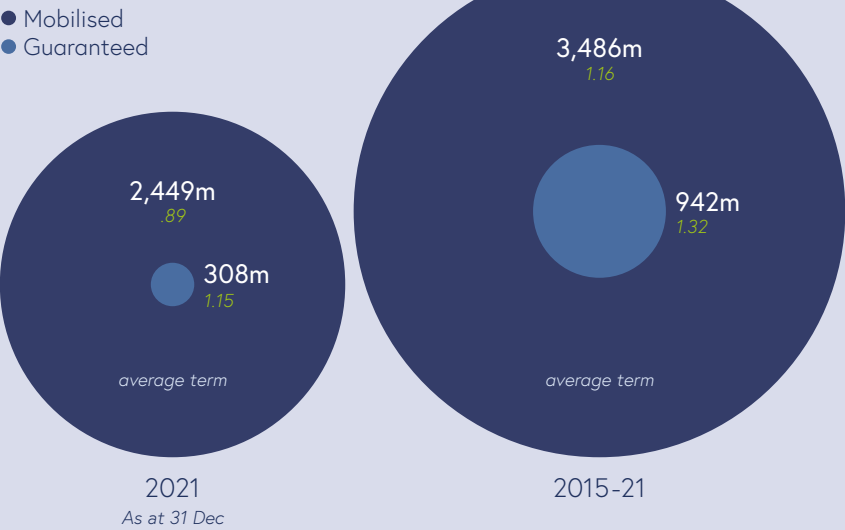
Ingrid Hagen | Senior Vice President - Frontclear



Defining Interbank Impact Indicators  
Frontclear Policy Brief  
SCAN OR CLICK TO READ

# In short

## Money market credit (USD)<sup>1</sup>



Money market systems	As at 31 Dec 2021	2015-21
Financial knowledge trainings	7	55
Legal and regulatory reviews	5	24
Market structures and system studies	5	30
	17	109

	Countries	Projects	Network partners <sup>2</sup>
As at 31 Dec 2021	2	14	51
2015-21	25	63	140

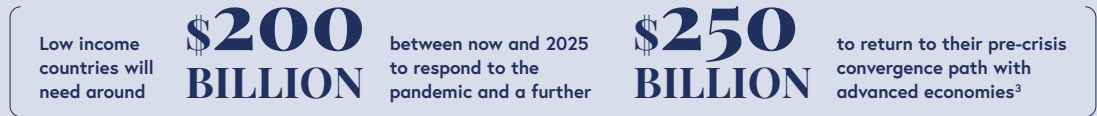
# Effective change begins with effective diagnostics



Message from the Supervisory Board Chair  
Axel van Nederveen



The COVID-19 pandemic and resulting economic crisis pushed governments the world over to increase public debt to unprecedented levels. While this ensured that deeper negative economic consequences were staved off, many developing countries are now left in a precarious position. 2021 saw the positive impact of vaccinations, yet both their inequitable access and the prolonged impact of the pandemic on global supply chains is aggravating inflation and forcing higher interest rates across many frontier markets. Much of the progress made towards achieving the Sustainable Development Goals has been erased. The IMF estimates low-income countries need up to USD 450 billion in funding in the coming years to return to their pre-crisis convergence path with advanced economies. Maintaining access to global capital markets, and deepening domestic capital markets, remains as urgent as ever.



Frontier market regulators face increasingly complex and compounded challenges. Continued market access to diversified sources of domestic and international funding is central to managing heavy debt burdens and ensuring optimal allocation of capital in the economy. A starting point for regulators, such as central banks, is effective diagnostics. Last year, Frontclear supported several countries with extensive diagnostic reviews of money market policies, governance and management, regulation and/or structures, such as those detailed in the country cases of this Impact Report.

While Frontclear remains a small actor among development finance institutions, it has made great strides in partnering with central banks and regulators to better understand the market complexities and solutions. In the process, Frontclear has gained the support of new partners, including the International Finance Corporation (IFC) and the United Nations Economic Commission for Africa (UNECA).

As Chair of the Frontclear Supervisory Board, I would like to express my appreciation on behalf of my fellow Board members, the Investment and Donor Committees, to the Frontclear staff for their creativity and commitment to local market counterparties.



Message from the CEO  
Philip Buyskes



While Frontclear experienced a COVID-19 induced lull in activity in the early months of 2021, we saw a strong acceleration and expansion of our impact activities in the second half of the year. Frontclear issued new guarantee contracts totaling a record USD 308 million with an average tenor of 1.15 years, mobilizing funding of USD 2,449 million across 10 countries. Frontclear's guarantees facilitated access to global markets in a difficult global environment for frontier market banks, characterized by risk aversion amid unprecedented government debt issuance and slow economic growth. More importantly, several transactions were groundbreaking and paved the way for the emergence of a market where one previously did not exist, as illustrated by the Dominican Republic case study detailed in this report.

Frontclear technical assistance activities, delivered in cooperation with global partners and local market participants and regulators, continue to bring about real progress. As highlighted throughout this report, Frontclear's Money Market Diagnostic Framework (MMDF) has been deployed in multiple countries and is providing in-depth analysis and recommendations to local regulators looking to remove barriers to market development. The launch of the MMDF portal has allowed regulators to deep-dive and compare issues and solutions across markets.

As demonstrated by the case studies in this report, Frontclear's Impact Strategy is based on a long-term commitment in its countries of operations with the goal of achieving systemic change. The strategy requires a long-term commitment from our funding partners, without which much of the progress would not be possible. 2021 saw Frontclear significantly widen its source of technical assistance funding, having received funding commitments from Financial Sector Deepening Africa, Cardano Development's JODEA fund as well as the International Finance Corporation / World Bank Group and the United Nations Economic Commission Africa for this first time. We are truly grateful and inspired by these partnerships, which will allow us to accelerate activities in 2022 and beyond.

The 2021 achievements reported in this Impact Report have only been made possible through the commitment of our staff under on-going, difficult circumstances. On behalf of the Management Board, we wish to thank them and our investors for their continuing support of Frontclear. Lastly, we invite frontier market policymakers to work with us and our network of partners to lay a stronger money market foundation, better capable of absorbing shocks to the financial system.

 **Towards Recovery and Resilience in Frontier Markets**  
Frontclear Policy Brief



SCAN OR CLICK TO READ

## Impact strategy

Frontclear seeks to achieve its mandate of promoting the development of stable and inclusive financial markets through the combined provision of technical assistance and guarantees. The guarantees aim to overcome transaction risks to encourage liquidity while the technical assistance aims to remove barriers to market development, typically focused on legal and regulatory challenges, infrastructure issues (such as Central Securities Depository (CSD) system development) and capacity building.

## Limited Demo - Money Market Diagnostic Framework (MMDF)

A vital tool in Frontclear's impact strategy is standardised market diagnostics through the Money Market Diagnostic Framework (MMDF). The MMDF is applicable at any phase in the Impact Strategy.

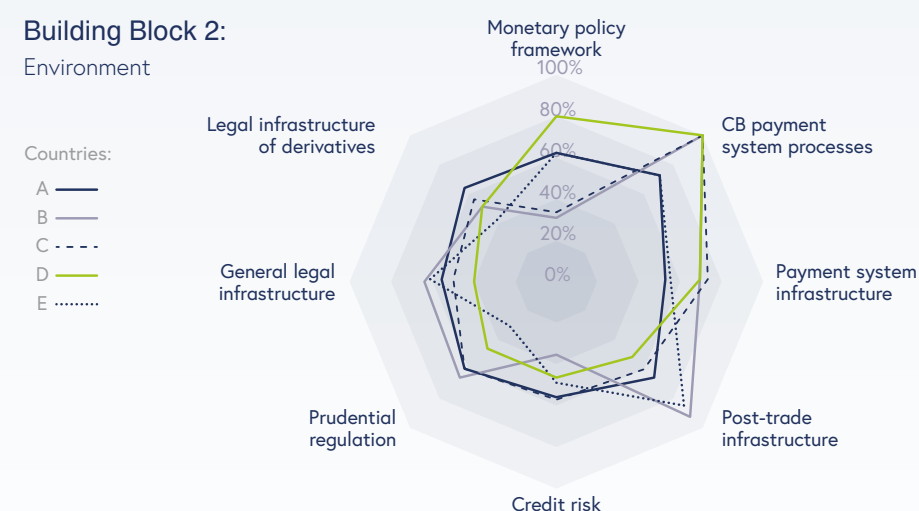
The MMDF is a diagnostic tool for regulators and money market development stakeholders. It provides a comprehensive analysis of the state of the local money and interbank market, setting a baseline against which to review market

development over time. The MMDF diagnostic results in both a report with visualisations (e.g. building block 'Environment') and prioritised reform recommendations.

The MMDF portal is an online, password protected and secure facility wherein participating central banks can access MMDF reports, interactive and searchable common issues drawn from MMDF results. It also allows for country comparison.

## Building Block 2:

## Environment



LOGIN

quest

PASSWORD  
questquest

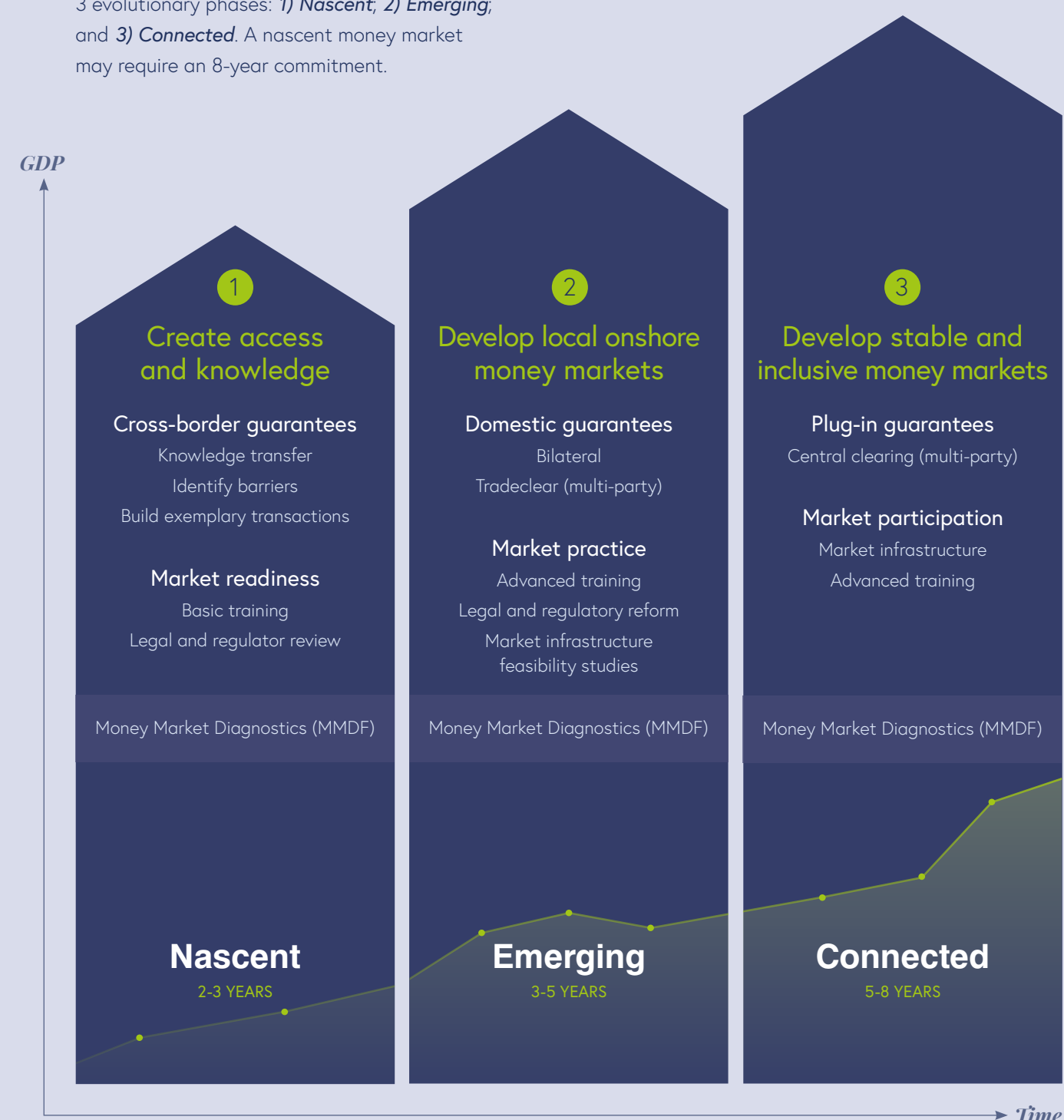


For a glimpse of the MMDF portal and country results, a limited anonymised demo is publicly available.

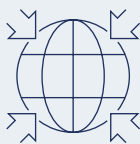
SCAN OR CLICK TO VISIT

The Frontclear Impact Strategy is a long-term effort in many country contexts. As a conceptual guideline stemming from Frontclear's experience to-date, our Impact Strategy can be divided into 3 evolutionary phases: **1) Nascent**; **2) Emerging**; and **3) Connected**. A nascent money market may require an 8-year commitment.

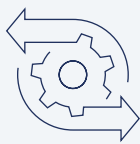
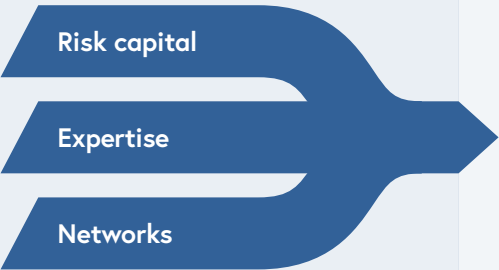
The Impact Strategy reflects the complementarity and interoperability of Frontclear's two key activities: 1) *financial guarantees*; and 2) *capacity development (technical assistance)*.



Theory of Change *(ToC)*



Inputs



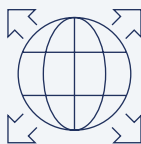
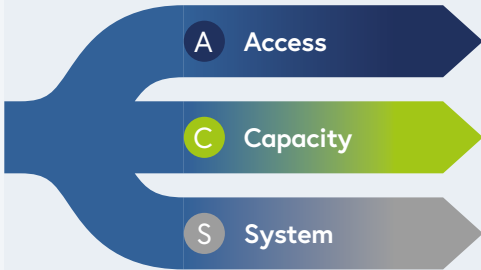
Activities

Connecting local & global market participants

- 1

By issuing financial guarantees to absorb credit, market and country risk
- 2

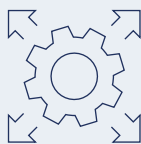
By removing markets hurdles through money market expertise and advisory



Outputs

Increased readiness of counterparties & stakeholders

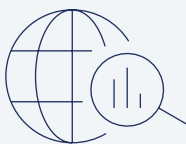
IMMEDIATE	
# of local banks onboarded	A
# of regional and global banks onboarded	A
# of knowledge partner agreements	C
# of agreements with central banks and local banking associations	S
FINAL	
Volume funding guaranteed	A
# and type of transactions closed (cross-border, principal, onshore, multi-party, plug-in)	A
Funding diversity (country tier, currency)	A
# of money market trainings	C
Training satisfaction	C
Training diversity (country, tier, participant [bank or regulator], topic)	C
# of and areas identified advisory and feasibility review	S
Volume in-kind contribution knowledge partners ( <b>mobilised</b> )	C



Outcomes

Increased utilisation of local money market for participants

Volume funding <b>mobilised</b>	A
Shifts in counterparty funding volume	A C
Shifts in counterparty funding types	A C
Shift in counterparty funding sources (relationships)	A C
Use of derivatives	A C
Increased knowledge (bank and/or regulator)	C S
# legal reforms achieved	C S
# market infrastructure solutions achieved	C S



Impact

A more stable & inclusive money market

<b>Inclusive:</b>	
Shifts in # bank interbank participation (tier) ( <b>multiplied</b> by plug-in/multi-party transaction)	A C S
# bank participation in repo and swap markets ( <b>catalysed</b> )	A C S
% access banks to interbank markets	A C S
Interbank market volume/GDP growth	A C S
<b>Stable:</b>	
Shifts in bid/offer spreads	A C S
Effectiveness monetary policy transmission	A C S



# Diagnostic-driven Change

## Impact in Uganda<sup>4</sup>



In 2021, Frontclear Technical Assistance Programme (FTAP) revisited its 2016 Donor Committee approved Uganda country strategy and incorporated the extensive added-value projects agreed to with the Bank of Uganda (BOU) as part of the Memorandum of Understanding (MOU) signed in 2019. Consistent with an emerging market, Phase II, the work programme is strong on diagnostics, market practice and a commitment to deepen investor participation.

It reflects three key projects:

- 1 Money Market Diagnostic Framework (MMDF)
- 2 Full review of the legal and regulatory framework and reform
- 3 Implementation of the Tradeclear® platform supported by the Frontclear Academy.

Shortly after the signing of the MOU, Frontclear held a Regulators' Roundtable on Money Markets and Bond Market Governance. The event conclusions laid the foundation for a two-part diagnostic project called Bond Market Governance (BMG) and Oversight, with joint beneficiaries being the BOU and the Capital Markets Authority (CMA) Uganda. The project is a diagnostic effort to both distill lessons from other African market experience with bond market governance and based on these lessons, work with Ugandan regulators to develop a model tailored to the local context.

### Key Indicators

- Agreement with central bank
- Agreement with pension funds regulator
- Agreement with local banking association
- # of knowledge partner agreements
  - ISDA contribution to legal & regulatory framework development
  - ICMA contribution to legal & regulatory framework development

- # of money market training
  - 7 trainings and 1 Regulatory Roundtable
  - Frontclear Academy licenses activated
- Training diversity
  - 227 participations (189 bank staff, 38 regulators)
  - 50 Frontclear Academy licensees (revolving)



Dennis Lwamafa  
Acting Team Leader, Debt Market Development  
BOU

### Diagnostic: Bond Market Governance and Oversight

“The coordination of all stakeholders, bringing them on board and furnishing a comprehensive approach to developing the market's liquidity, government securities and corporate debt markets, has been a significant achievement. We are working together to improve and de-segregate the market.

Historically, the central bank has been working largely with the commercial banks when developing bond market development initiatives. This is only natural given our supervisory role. Yet, the broker-dealers, supervised by the CMA, have often been left out of these initiatives despite their important contribution to market development. We needed to understand how other jurisdictions develop their bond markets, especially where stakeholders report to different regulators.

The BOU and the CMA reached out to Frontclear to conduct a targeted project and formalised this request as part of the existing MOU. The project's result – a diagnostic study based on a 5-country analysis – furnished solid insights into how different countries govern their bond market and its development. We learned that it is possible to have a governance and oversight function that can activate

all involved regulators within their existing regulatory mandate and still be productive in a manner suited to our stage of market development. The project fitted our needs like a glove.

Despite COVID-19 slowing the Project implementation, the political economy is aligned and that is already a solid achievement. The CMA and the BOU have joined together in the approach to seek 'no objection' from the MOFPED to further articulate and detail the proposed structural solution. The BOU/CMA coordinated effort is expected to bear fruit by putting in place a governance framework by the close of 2022.

The major initiatives with Frontclear are contributing to these achievements and have strengthened the dialogue between the BOU and the banking sector. It's visible in the increased number of bank invites to meet and discuss and overall increased two-way communication. We would not have been able to realise the changes in the short-term without Frontclear support. The extra diagnostics have helped the BOU pinpoint why some initiatives have not delivered the desired results and what needs to happen to change that.

### Key Indicators

- # of and areas identified for advisory and feasibility review
  - Legal and Regulatory Review and Reform
  - Umbrella Guarantee Facility (Tradeclear)
  - Money Market Diagnostic Framework (MMDF)
  - Bond Market Governance and Oversight
- Volume in-kind contribution knowledge partners (mobilised)
  - USD 6950 equivalent
- Increased knowledge regulators
- Increased knowledge banks
- # Legal reforms achieved
  - Financial Institutions (Preference and Appraised Book Value) Regulations 2021 approved by BOU SMT and with FPC for final drafting
- # Market structure solutions achieved
  - BOU SMT and CMA approve an in-principle Ugandan governance model



**Dickson Ssembuya**  
Director Research & Market Development  
CMA



**Terrence Tumwine**  
Senior Research & Market Development Officer  
CMA

“We at the CMA had a different view of the project purpose at inception. The project result – the Bond Market Governance and Oversight study – was a more diagnostic result than foreseen. But it has become the basis for a joint, aligned CMA/BOU presentation to the Ugandan Treasury. It was helpful to have a neutral party produce a project result that has become a common rallying point.

From the CMA perspective, the rationale for the project was grounded in the need to develop the corporate bonds market. What we've seen is a dearth of issuance, with the last corporate bond dated 2014. We are cognisant of the fact that a more vibrant corporate bond market is dependent on a solid and efficient government bond market that sets the benchmark pricing for other financial instruments. Uganda's government bond market has tremendously improved over time but been structurally hindered by an inefficient and ineffective bond market governance function.

In trying to ensure that there is an efficient market, Ugandan regulators have made efforts to establish a conducive legal framework. Yet sometimes these resulted into overlapping clauses. The project output – the BMG study – has become a common rallying point. The proposed solution is a truly shared goal that respects one another's expertise and mandate. The project created a stronger sense of urgency and ensured that we as involved parties and regulators, are all on the same page, with a clearer goal and common objective.

Fixing our bond market organisational challenges is an investment in economic development. A better functioning bond market will allow the use of repo's whereby banks can apply bond holdings to access liquidity and manage the risks of long-dated loan portfolios effectively.



 **Bond Market Governance and Oversight**  
Frontclear Policy Brief  
[SCAN OR CLICK TO READ](#)





# 2016

S

## Country Strategy FTAP

Market wide interviews  
and due diligence

SEP

# 2017

C

## Understanding and Implementing ISDA

30 BSPs

FEB

C

## MoU with Uganda ACI

Interbank market development

MAR

C

## Understanding and Implementing GMRA

24 BSPs 3 Rs

MAR

C

## Derivatives Deep-Dive

29 BSPs 1 Rs

APR

C

## Derivatives and Bond Accounting

29 BSPs 1 Rs

MAY

C

## Fixed Income Boot Camp

25 BSPs 1 Rs

JUL

C

## Basel II/III

18 BSPs

NOV

# 2018

S

## Primary Dealer Review Regulators' Review

6 Rs

JUL

C

## Repo Product and GMRA Basics

37 BSPs 15 Rs

JUL

# 2019

S

## Signing Event: MoU Frontclear and BoU

Work Programme:

- Legal and Regulatory Review and Reform
- Money Market Diagnostic Framework (MMDF)
- Tradelclear implementation

MAY

C

## Repo and the GMRA

29 BSPs 8 Rs

MAY

S

## Regulators' Roundtable Money Market Matters and Bond Market Governance

12 Rs

OCT

S

## Legal and Regulatory Review and Reform

ISDA and GMRA enforceability

OCT

S

Tradelclear workshops  
and trainings

H2 19

# 2020

S

## Legal and Regulatory Drafting

Qualified contracts and FIA

MAY

S

## Market Infrastructure

Bond Market Governance Study

MAY

S

Tradelclear workshops  
and trainings

H1 20

# 2021

S

## Legal and Regulatory Review and Reform

- Clarified Financial Institutions (Preference and Appraised Book Value) Regulations approved by BOU SMT
  - In-process drafting with First Parliamentary Council
- Netting Act remains target

2021

S

## Market Infrastructure

- Bond Market Governance Study
- Results discussed widely among regulators and market actors
  - BOU SMT approved proposed Uganda model
  - CMA and BOU joint approach to MOFPED

2021

S

## MOU Frontclear & URBRA

Work programme:

- Legal and Regulatory Review and Reform
- Training
- Market operational guidelines

APR

S

Tradelclear workshops  
and trainings

2021

# Uganda

Impact strategy in practice

- A Access
- C Capacity
- S System
- BSPs Banking Sector Participants
- Rs Regulators
- Other Other Participants

PHASE 1: NASCENT  
2—3 YEARS

PHASE 2: EMERGING  
3—5 YEARS

# Diagnostic-driven Change

## Impact in Dominican Republic

The Dominican Republic is a core country in Frontclear's LATAM strategy and was first approved by the Frontclear Investment Committee (IC) in 2018 with a country limit of USD 60m and eligible collateral being USD cash, Eurobonds, local bonds in USD and Dominican Republic Pesos (DOP). In that same year, FTAP held an Executive Roundtable attended by the local market's major financial sector participants. The Roundtable focused on the legal and regulatory as well as accounting obstacles to repo market development. The country falls into Phase II of the Frontclear Impact Strategy: An emerging market.

In 2016, the Central Bank of the Dominican Republic introduced the guidelines for Repo transactions. In 2019, the Securities Market Superintendence included a regulatory framework for the Repo Operation and featuring:

- 1 Issuance of new repo regulations that allow for true repo with full title transfer to be achieved
- 2 Requirement that all broker/dealers switch from local accounting guidelines to IFRS.

Prior to these changes, the initial leg of repo transactions was considered a taxable sale, greatly dampening market potential. While the local secondary market for government bonds in USD and DOP has been relatively active, banks have not been able to utilise their government bonds to access global capital markets and USD liquidity with DOP bonds as collateral. With the regulatory changes, Frontclear cross-border guarantees could now furnish a demonstration effect – setting the example as to how to access international markets using locally issued collateral and develop best-practice knowledge and experience.



Pedro Vazquez Dietsch  
Director Treasury  
Parval

### Diagnostic: USD 20m Cross-Currency Repo Transaction

The transaction was a market breakthrough – the first of its kind. The regulatory changes created a timely moment to engage with CEVALDOM (Central Securities Depository) to create the repo product. Parval and Frontclear persevered with CEVALDOM to determine the process reforms required for a cross-border repo market based on title transfer.

Frontclear and Parval began collaborating in 2018, with a shared purpose to figure out how to transact cross-border repo against a backdrop of changing regulation. At that moment, the market was transitioning to IFRS from a previous accounting system. Both Frontclear and Parval tasked themselves with diagnosing how to structure the transaction under global best-practice GMRA standard documentation. The investigations focused on understanding the IFRS implications for a classic repo versus buy/sell-back product. The biggest challenge was working to develop the product in the market while the regulations were being amended and in transition.

Ultimately, the 2021 transaction had a significant demonstration effect and would not have been possible without Frontclear. Frontclear was able to assume the risk through the guarantee on a mix of USD and otherwise ineligible DOP-denominated bonds. Perhaps most importantly, Frontclear set-up a local custody account. The latter was essential to enter into a true repo transaction and hold the securities onshore. In this way, Frontclear (through FCC Securities) acted as an intermediary between Parval and Credit Suisse. Without this, the custody restrictions to international clients would have proven to be too costly and cumbersome to transact.

The local market demand for cross-border repo made possible through CEVALDOM, remains underutilised. Following on this transaction, our expectation is that the horizontal interbank market and cross-border repo will gain traction. True repo under GMRA documentation offers significant benefits including best-practices like margining and no need to go through the liquidation process in the case of default. Parval will be offering their funding structure to provide liquidity through repo's to their regulated clients. It has been a collaboration to creatively identify and tackle obstacles and to persevere.

### Key Indicators

- Onboarded global bank
- Onboarded local bank
- Volume funding guaranteed:
  - USD 20m Cross-Currency Repo (April 2021)
- Increased knowledge bank
- Increased knowledge regulator



Obstacles to creating a successful repo market  
ICMA Insights  
SCAN OR CLICK TO READ

# Dominican Republic

Impact strategy in practice

- A** Access
- C** Capacity
- S** System
- BSPs** Banking Sector Participants
- Rs** Regulators

## 2017

**S**

### Legal and Regulatory Review and Reform

OCT

Accounting treatment for cross-border repo under IFRS

**S**

### Executives' Roundtable Repo and GMRA Enforceability

NOV

9 BSPs 1 Rs

## 2020

**C**

### Understanding and Implementing GMRA

NOV

21 BSPs

## 2021

**A**



**PARVAL**  
PUERTO DE BOLSA  
Afiliado a la BVRD

### USD 20 m

Cross-currency repo transaction under GMRA

USD cash against DOP and USD Bonds

**Financier:** Credit Suisse  
**Originator/Guarantor:** Frontclear

PHASE 1: NASCENT  
2—3 YEARS

PHASE 2: EMERGING  
3—5 YEARS

# Performance 2021

## Guarantee portfolio<sup>5</sup>

The year-end 2021 guarantee portfolio of USD 278 million reflects a 5% increase over 2020, showing a relatively good performance despite volatile global market circumstances. A record year with USD 308m in closed guarantee contracts brought the cumulative amount of guarantees issued to USD 942m. Nonetheless, the 2021 production pattern clearly showed signs of COVID-19 stress (see Understanding the impact of COVID-19).

Frontclear mobilised USD 2,449m across 10 countries and 18 transactions, reaching 70% of the cumulative 6-year mobilised funding figure (USD 3,486m). The significant increase in mobilised funding (277%) is attributable to Frontclear increasingly being invited by global capital market beneficiaries to participate in large transactions in countries with a relatively better position pre-pandemic. The effect is that for each USD guaranteed in 2021, Frontclear mobilised USD 8.8 in additional private capital funding.

Notwithstanding the heightened risk environment, not in the least due to the start of the Ukraine war after the end of the reporting period, Frontclear remains cautiously optimistic about the outlook to grow the portfolio.

### TRANSACTION TYPES

Frontclear connects frontier market banks to global interbank markets and unlocks domestic markets by providing credit guarantees to cover a transacting institution's counterparty credit risk, on the condition that local currency assets can be used for collateral management purposes.

There are 5 transaction structures:

- 1 **Cross-border:** guarantee to the global beneficiary bank transacting with a local bank
- 2 **Principal:** guarantee to the global beneficiary bank with Frontclear as principal to the local bank
- 3 **Onshore:** guarantee to the local beneficiary bank transacting with a local bank
- 4 **Multi-party:** guarantee to all local banks transacting with one another bilaterally as part of platform (Tradeclear®)
- 5 **Plug-in:** guarantee to a Central Clearing Party for transactions by clearing members or CSD for transactions by participants.

### Takeaway

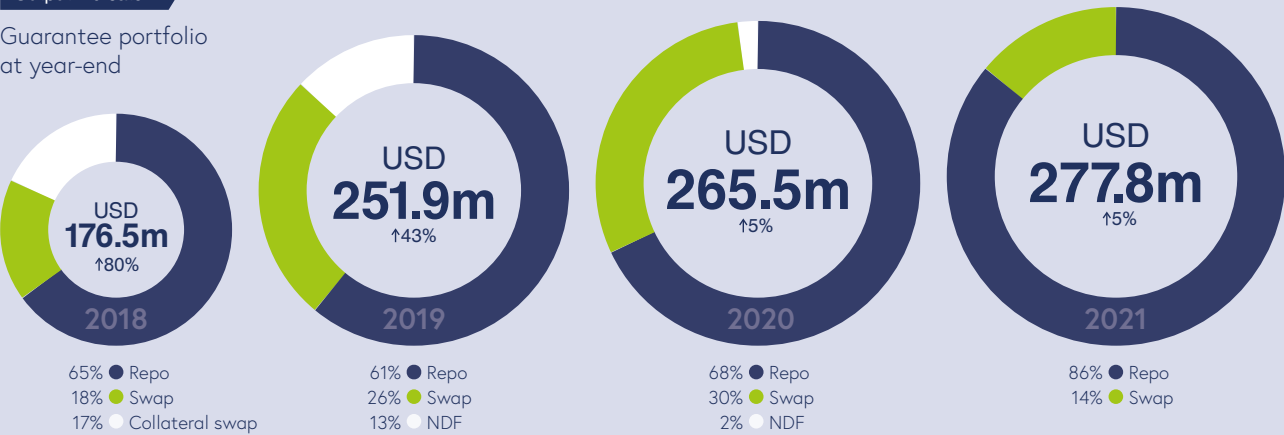
#### Frontclear had a record annual production as it responded to local market needs

The impact of COVID-19 was felt throughout the year and has left many EMDC markets in a weaker position. The 18 transactions closed in 2021 have a different regional split compared to 2020. Both Sub-Saharan Africa (SSA) and the Middle East and North Africa (MENA) represent 34% and 31% respectively. On the 6-year cumulative, SSA remains the largest slice at 43%.

## Portfolio growth

### Output indicator

Guarantee portfolio at year-end



### Takeaway

#### At 86% of the 2021 mobilised portfolio, repo has become the dominant instrument

Repo markets are secured interbank transactions, enabling access to funding with key investor protections found in title transfer, regular margining, haircuts and best practice GMRA legal documentation.

## Guarantee results

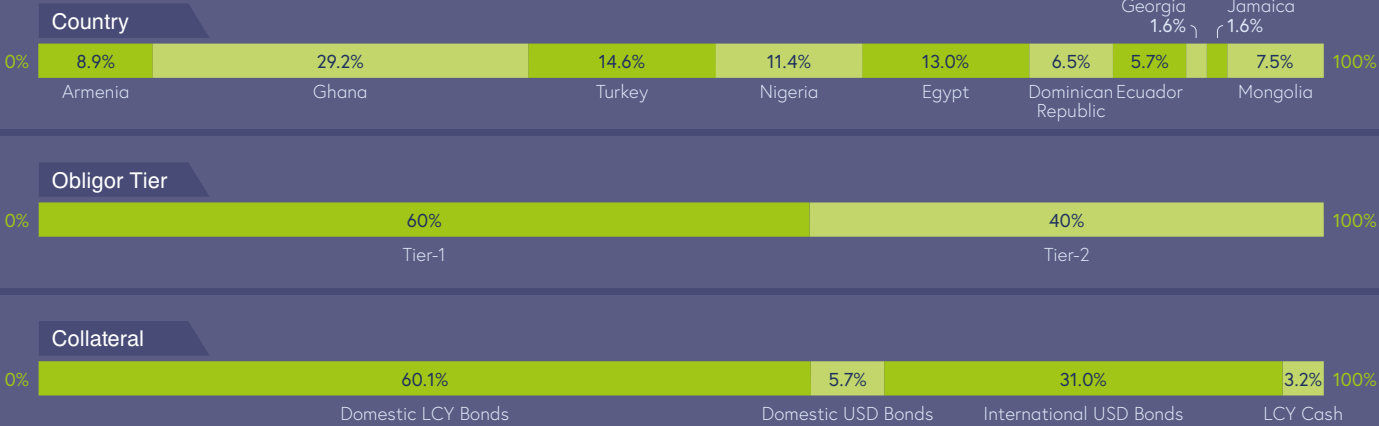
### Output indicators

	2021	2015-21
Local banks onboarded	13	53
Regional and global banks onboarded	8	21

### Takeaway

#### Frontclear reacting to market circumstances

60% of 2021 transacting obligors banks are Tier 1 versus 61% in 2020 and remains the stronger counterparty to support local market liquidity.



### Outcome indicators

	2021	2015-21
Volume funding mobilised	USD 2,449m	USD 3,486m

## Understanding the impact of COVID-19

Two years of the COVID-19 pandemic has clearly impacted international and domestic financial markets. Central banks in EMDC and developed markets alike, provided two key responses to the pandemic: 1) taking a very accommodating stance in monetary policy, and 2) allowing banks to restructure the loan portfolio without classifying clients as non-performing. While these responses have certainly abated the economic impact of the pandemic, to an extent they have also covered up the underlying uncertainties and concurrently rising risks.

The fiscal positions of EMDC governments have deteriorated after providing extensive support for two years. The increased local liquidity has masked real risk levels inadequately reflected in low credit spreads for countries and counterparties. Banks in EMDC markets have shown caution in terms of extending new loans to the private sector. Rather, financial institutions have shored-up their portfolios in government securities, thereby helping local governments to deal with higher deficits (from fiscal

support initiatives) and lower collected revenues (from reduced economic activity). The impact of the pandemic on banks' asset quality will only be known once loan restructuring and debt service grace periods end, when clients are expected to fully perform on their obligations again. As the pandemic's impact on different sectors becomes clear, higher inflation is inevitable.

These uncertainties have led to Frontclear issuing guarantees on transactions that prior to the pandemic, would not have required risk mitigation. These typically larger transactions are reflected in the significant increase in funding mobilised in 2021. Another effect in the 2021 portfolio is attributable to a reduction in the average transaction tenor, with some transactions rolled monthly given a reduced risk appetite on behalf of beneficiaries. Overall, the lower demand for USD funding is reflected in a delay in booking new transactions for Frontclear, with production only really picking up in the fourth quarter of 2021.

# Diagnostic-driven Change

## Impact in Rwanda



In 2021, Frontclear Technical Assistance Programme (FTAP) Donor Committee approved Rwanda for activity based on a reviewed and revised country strategy. The 2021 country strategy reflects a funded partnership with the International Finance Corporation/World Bank Group's Rwanda Capital Market Development (CMD) Project. The primary local beneficiary of the IFC-World Bank-Frontclear collaboration is the Banque National du Rwanda (BNR). The revised country strategy reflects a strong value-add relative to the initial 2016 strategy. The country falls into Phase II of the Frontclear Impact Strategy: An emerging market.

Consistent with an emerging market, the work programme is strong on diagnostics, market practice and a commitment to deepening onshore market participation.

It reflects three key projects:

- 1 Money Market Diagnostic Framework (MMDF)
- 2 Full review of the legal and regulatory framework related to repo markets and enforceability of the Global Master Repurchase Agreement (GMRA)
- 3 Knowledge development through classroom-based delivery of the Frontclear Academy.

### Key Indicators

- |  |   |
|--|---|
| ◦ Agreement with central bank                              | ◦ # of and areas identified for advisory and feasibility review |
| ◦ # of money market training                               | • Money Market Diagnostic Framework                             |
| • 1 training   |   |
| ◦ Training diversity                                       | ◦ Increased knowledge regulators                                |
| • 21 participants (9 bank staff, 9 regulators and 3 other) | ◦ Increased knowledge banks                                     |



Jean Marie Rugambwa  
Domestic Market Analysis and Development  
BNR

### Diagnostic: Money Market Diagnostic Framework (MMDF)

“Our experience is that the diagnostic report gives a clear view. While the MMDF has been to a degree 'confronting', it is leading to good internal discussions. We don't see any challenges to the implementation of the recommendations. Our market is in a good stage of development in the region. The MMDF insights give us direction as to where we are today and to understand the journey.

The BNR's work with Frontclear is part of the Rwanda Capital Market Development (CMD) Project headed-up by the IFC/WB. The project includes a market-making component while those activities ascribed to Frontclear are more diagnostic. Specifically, the MMDF, legal and regulatory review and the Frontclear Academy. The deployment of the Academy in Rwanda will be based on a market-needs analysis, supporting the overall banking sector to strengthen their knowledge and skills as related to money and interbank transactions.

For the BNR, our target was to get better insight into where we are in terms of market development.

The MMDF is the way to go about it. The assessment furnished solid input into our current stage, the remaining gaps and recommendations on the way forward. For example, input on what we need to do to enforce GMRA and ISDA in our market and to develop the overall interbank and money markets. Our charge is to deepen the interbank volume and participation among banks but also extended to non-bank financial institutions (NBFIs) like pension funds. The goal is to increase the domestic investor base and to facilitate cross-border investment. To do this, we must gain the confidence of investors in-country and globally, by providing for certain and secure legal conditions. We are following the recommendations on our journey to develop our market.

We at the BNR and with colleague regulators, would have gained these insights over time. But with Frontclear and the WB/IFC leadership, it's like putting a 'foot on the gas'. The collaboration has helped to accelerate the process by getting the expert input and technical guidance, supporting us to implement the changes required to develop the market.



# Rwanda

Impact strategy in practice

- A Access
- C Capacity
- S System
- BSPs Banking Sector Participants
- Rs Regulators
- Other Other Participants

2016

S

**Country Strategy FTAP**  
Market-wide interviews and due-diligence

AUG

2017

C

**Fixed-Income Boot Camp**  
9 BSPs 9 Rs 3 Other

FEB

2021

S

**PARTNERSHIP:  
BNR, WB/IFC and Frontclear  
to develop the capital market**  
  
Work programme:

- Money Market Diagnostic Framework (MMDF)
- Legal & Regulatory Review & Reform
- Frontclear Academy (capacity building)

NOV

S

**MMDF report**

DEC

PHASE 1: NASCENT  
2—3 YEARS

PHASE 2: EMERGING  
3—5 YEARS



# Diagnostic-driven Change

## Impact in Ethiopia



In 2020, Frontclear Technical Assistance Programme (FTAP) Donor Committee approved Ethiopia as a new country of operation based on an extensive country strategy. The programme is fully funded by the Foreign, Commonwealth & Development Office (FCDO) in conjunction with Financial Sector Deepening Africa (FSDA). The local beneficiary is the National Bank of Ethiopia (NBE) and the country falls into Phase I of the Frontclear Impact Strategy: A nascent market.

Consistent with a nascent market, the work programme is focused on diagnostics, market awareness and initial structures.

- It reflects three key projects:
- 1 Money Market Diagnostic Framework (MMDF)
  - 2 Full review of the legal and regulatory framework plus initial reforms
  - 3 Knowledge development through classroom-based delivery of the Frontclear Academy
  - 4 Facilitating the establishment of the country's first Central Securities Depository (CSD).
- The programme is wholly aligned to the NBE's mandate to support capital market development, with priority on developing a secondary bond market for government securities. An NBE Capital Markets Development (CMD) Programme is being implemented by a local team (CMPIT).



Assefa Sumoro  
Senior Capital Market Adviser to the  
National Bank of Ethiopia (NBE)

### Diagnostic: Legal and Regulatory Review and Reform

“The full legal and regulatory review provided an excellent diagnostic, identifying the gaps, inconsistencies and preparing us for the required reforms. We have prioritised directives to support the repo and derivative instruments under best-practice legal documentation. Thereafter, we are considering a universal proclamation to confirm netting arrangements.

The NBE Capital Market Development (CMD) Programme is a vehicle to achieving the government's Home-Grown Economic Reform Programme. The latter targets macro-economic reforms with a healthy emphasis on financial market development, structural reforms and sectoral reforms. All combine to correct macro-economic imbalances and ultimately achieve inclusive growth, job creation and poverty reduction.

The National Bank of Ethiopia (NBE) has been mandated to lead the Capital Markets Development (CMD) Programme. The Capital Markets Proclamation (CMP) is an important starting point, laying the foundation for the financial instruments, legal documentation, financial infrastructure, etc, relative to an eventual capital market. To support the CMD process, the NBE needed expert diagnostics on the

current legal and regulatory framework. All regulation must be considered to identify the gaps and overlaps relevant to the money and interbank market as well as bond market and equities.

Frontclear is one of the NBE's development partners, furnishing professional review and technical inputs into the CMP draft, all of which were taken onboard in 2021 to become approved highest-level regulation. In parallel, the Open Market Operations (OMO) Directive went through the same engagement with Frontclear that year. It has also been gazetted and includes the best practice approach to buy/sell, and sell/buy-back as well as repo transactions between the central bank and market practitioners. Frontclear continues to support the NBE with a comprehensive review of all related market regulation and legislation.

The diagnostic work on the legal instruments – the expertise and value-add from Frontclear's partners ICMA and ISDA – is supporting us to become aligned with international best-practice. This work has had a positive impact on the NBE's Capital Markets Project Implementation Team (CMPIT). We have gained significant knowledge and continue to learn.

### Key Indicators

- Agreement with central bank
- # of knowledge partner agreements
  - ISDA contribution to legal & regulatory framework development
  - ICMA contribution to legal & regulatory framework development
- # of money market training
  - 4 trainings and 1 MMDF workshop
- Training diversity
  - 117 participations (multiple trainings attended by 22 bank staff, 13 regulators and 4 other)
- # of and areas identified for advisory and feasibility review
  - Money Market Diagnostic Framework (2020)
  - 3 (CMP, OMO and Commercial Code Book III)

### Key Indicators

- Volume in-kind contribution knowledge partners (mobilised)
  - USD 7500 equivalent
- Increased knowledge regulators
- Increased knowledge banks
- # Legal reforms achieved
  - Capital Markets Proclamation
  - Open Market Operations Directive
  - Commercial Code (Book III)
- # Market structure solutions achieved
  - CSD review

# Ethiopia

Impact strategy in practice

- A Access
- C Capacity
- S System
- BSPs Banking Sector Participants
- Rs Regulators
- Other Other Participants

2020



2021



PHASE 1: NASCENT  
2—3 YEARS

# Performance 2021

## Technical Assistance portfolio

FTAP spent USD 373k in 2021, a near 10% decline relative to the 2020 spend. The lower figure is attributable to a single factor: the bulk of spending on large online delivery (MMDF Platform and Frontclear Academy) had been realised in 2020 compared to 2021. More comparable is the 2019 figure, which is nearly 8% less than 2021. FTAP results in 2021 remain strong with a clear focus on meeting the well-articulated regulator demand for diagnostic work as demonstrated in the case studies featured in this Impact Report.

Since inception, FTAP conducted 109 activities stemming from 63 approved projects. 2021 new projects (14) grew by 8% compared to 2020 (13) while activities (17) declined slightly (18) over 2020. These diverging trends again confirm the fact that added-value projects are predominant. At 41% of all 2021 activities volume and at 26% of all 2021 FTAP expenditures, financial knowledge trainings as a proportion of the FTAP portfolio continues to decline relative to work on legal and regulatory frameworks and market structures combined.

Two new countries (Rwanda and Ethiopia) augmented the 2021 portfolio, whereby in both cases FTAP responded to a reverse inquiry from the respective central banks and their development partners. 64% percent of active country programmes are in SSA. The FTAP footprint in SSA continues to build on its position as a solidly established, trusted and knowledgeable adviser on money market development. FTAP built on this base to close partnerships with two additional regulators – Uganda Retirement Benefits Regulatory Authority (URBRA) and the Banque Nationale du Rwanda (BNR).

Across 2021, current partners such as ICMA, ISDA, ABN AMRO Clearing Bank and others, contributed in-kind advisory work valued at a USD-equivalent of 46,500<sup>6</sup>. After 6 years of activities, FTAP can increasingly draw on its own in-house (Frontclear-wide) expertise. While FTAP did not expand the number of knowledge partners in 2021, it did capitalise on its results to-date by closing partnership agreements with new grantors such as IFC/WB and UNECA, and renewing agreements with existing ones (FSDA and JODEA).

### AREAS OF TECHNICAL ASSISTANCE

The Frontclear Technical Assistance Programme (FTAP) spans a wide range of activities, focusing on financial knowledge at the Nascent phase of the Frontclear Impact Strategy and higher value-add in the Emerging and Connected phases.

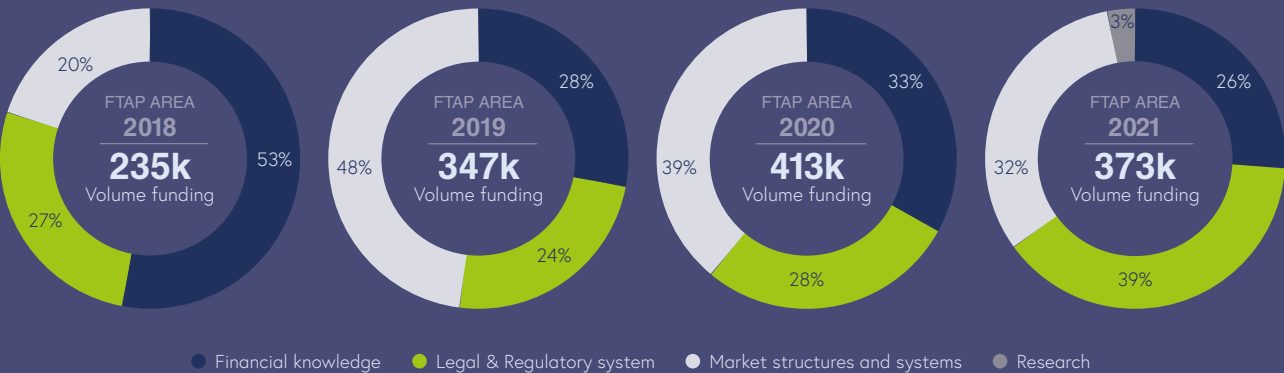
The three FTAP target areas are:

- 1 **Financial knowledge:** basic and medior trainings in money and interbank markets, for regulators and banking industry participants
- 2 **Legal and regulatory system:** roundtables and legal and regulatory reviews, reforms and recommendations and related research
- 3 **Market systems and structures:** in-depth reviews and reform of clearing and settlement, central clearing and primary dealer structures. MMDF and related research.

## Portfolio results

### Output indicators

Annual TA expenditure and % breakdown by area



In absolute figures, FTAP 2021 spending shows a 10% decline over 2020. As stated, the decline reflects the large 2020 spend on online platforms in response to COVID-19. The difference is compounded by the efficiencies. At 26% in 2021, the financial market trainings spend is the lowest to-date while the number of training activities has increased over 2020. Further, just 34% of all 2021 FTAP financial knowledge training participants were regulators (compared to more than 50% in 2020). This decrease is indicative of the expanded banking sector participation through the accessible Frontclear Academy.

### Takeaway

#### Proportionally more funding available for added-value activities

Reaching 74% of all 2021 spending, the efficiencies gained in online training delivery allow for proportionally more funding to be committed to added-value projects.



	2021	2015-21
Financial knowledge trainings	7	55
Training satisfaction	99%	99%
Training participants	298	1912

5 Activities to address legal and regulatory review and reform — 19 Cum

7 Activities to address market structures and systems — 25 Cum

### Takeaway

#### Satisfaction with online training delivery

In the world of online delivery, garnering participant feedback is one additional step removed. FTAP must continue to work to ensure sufficient feedback through completed evaluation forms. Heartening is the solid satisfaction with online delivery expressed by those training participants having shared feedback.

# Outlook 2022

In anticipation of an expansion and scaling of operations and impact activities, Frontclear made considerable investments in its operational and technical infrastructure during 2021. This includes the development of a comprehensive Results Based Measurement Framework based on Frontclear's Theory of Change that will allow the company to measure and operationally audit impact results from 2022.

Management has also, together with the Supervisory Board, conducted an in-depth review and developed a strategic plan to guide the Company's growth ambitions. In this regard, amendments to Frontclear's Investment Objective was approved by Investors in July 2021. The changes signal a strategic focus towards Frontclear's role as principal counterparty, a model that has time and time again demonstrated the ability to overcome transaction barriers and facilitate landmark transactions. At the same time, new guarantee structures are being developed. Tradeclear®, Frontclear's first market wide umbrella guarantee platform, is targeted for launch in 2022. Tradeclear is expected to facilitate the development of truly inclusive and more stable local interbank markets in emerging markets.

Notwithstanding the heightened risk environment, Frontclear remains cautiously optimistic about the outlook to scale the portfolio into new countries. Technical assistance projects are expected to continue to expand, with a particular focus on raising new funding to accelerate the implementation of identified projects in countries outside of Sub-Saharan Africa.



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