2021

Medium Term Debt Management Strategy, 2021

The United Republic of Tanzania

Ministry of Finance

THE UNITED REPUBLIC OF TANZANIA

MINISTRY OF FINANCE AND PLANNING

MEDIUM TERM DEBT MANAGEMENT STRATEGY

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1. INTRODUCTION

1. The Government borrowing and debt management process is governed by the Government Loans, Guarantees and Grants Act Cap. 134 and its Regulations. Section 17 of the Act requires the Government to prepare a Medium-Term Debt Management Strategy (MTDS) and Annual Borrowing Plans consistent with the overall fiscal framework for the purpose of ensuring macroeconomic stability over the medium term. The main objective of MTDS as stipulated in the Act is to ensure that government's financing needs and settlement are met at the lowest-possible costs, while maintaining prudent risk exposure.

2. The scope of 2019 MTDS is the Central Government debt and a time horizon of three years (2019/20 - 2021/22). The strategy is formulated using the MTDS Analytical Tool developed by the World Bank and International Monetary Fund (IMF). The Analytical Tool assesses the cost and risk characteristics of the existing debt and alternative financing strategies. The MTDS of 2019 was prepared by the Ministry of Finance and Planning (URT) in collaboration with the Ministry of Finance and Planning Zanzibar, Bank of Tanzania and National Bureau of Statistics.

3. The 2019 MTDS formulation is an integral of the Five-Year Development Plan (FYDP II), Medium Term Expenditure Framework (MTEF) and National Development Vision cognizant with the social and economic impacts of corona virus disease (COVID-19). Furthermore, the MTDS ensures that the projected borrowings are consistent with the overall fiscal and debt sustainability analysis.

4. The increase in the country's desire to implement major infrastructure projects to nurture industrialization drive that are necessary to transform the economy into

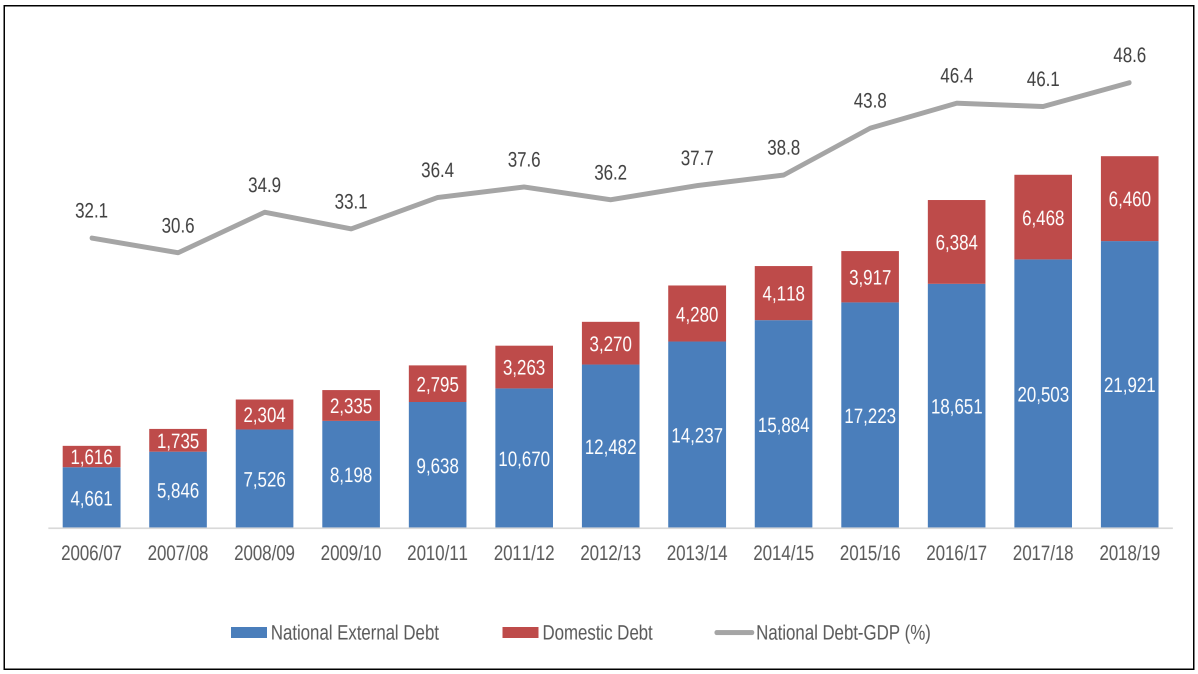
middle income status by 2025, necessitated borrowing from non-concessional sources. This is happening at a time when concessional window of financing is gradually declining and domestic revenue are likely to be affected adversely in the short-run following the outbreak of COVID-19. To the extent possible, the Government will continue maximizing concessional and semi-concessional financing while commercial borrowing being a residual and limited to projects with higher economic returns or those that directly promotes exports.

5. The 2019 MTDS provides an optimal financing mix among and within external and domestic sources. To the extent possible, external sources of financing development expenditure will continue to be concessional and semi-concessional, mostly from Export Credit Agencies (ECAs) and where necessary from commercial sources at limited level. With regards to domestic debt financing, all maturities will be used with preference on the long-term bonds, particularly the 15- and 20-year Treasury bonds. This is premised on the assumption that the recorded investors' preference towards long term government securities will persist in the medium term, despite the outbreak of COVID-19.

2. REVIEW OF EXISTING DEBT AS AT END JUNE 2019

6. National debt stock as at end of June 2019 was USD 28,380.60 million (48.62 per cent of GDP in nominal terms). Out of total national debt, external debt (public and private) was USD 21,920.9 million, equivalent to 37.52 percent of GDP in nominal terms and domestic debt was 11.07 percent of GDP. The stock of national debt increased by 5.23 percent from USD 26,970.98 million recorded at the end of June 2018 (**Chart 1**).

Chart 1: Evolution of National Debt (USD Millions)



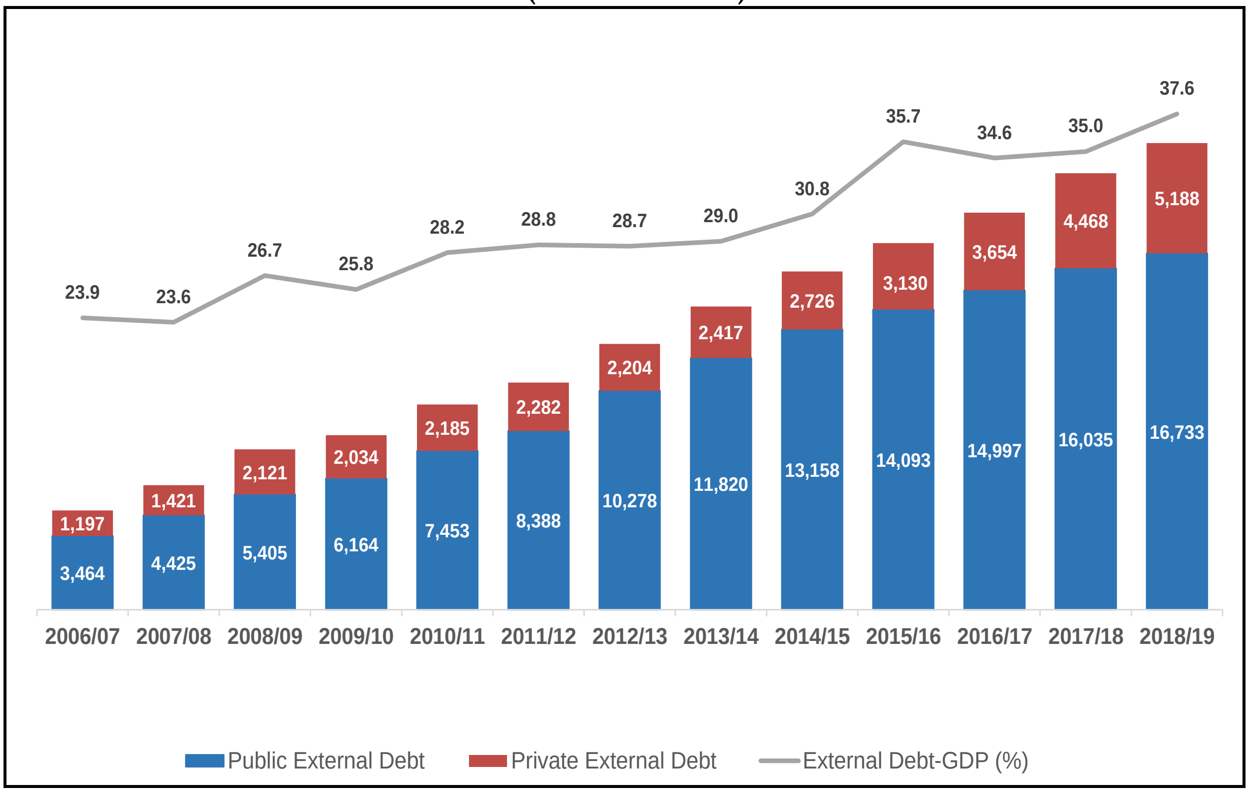
Source: Ministry of Finance and Planning, and Bank of Tanzania

2.1 Evolution of External Debt

7. Total external debt stock as at end of June 2019 was USD 21,920.9 of which public sector external debt was USD 16,732.70 million and private sector debt was USD 5,188.20 million. Both public and private sector external debt stock increased by 4.35 and 16.13 percent, respectively from the levels recorded end of June 2018

(Chart 2). The increase was mainly due to net inflows and depreciation of the USD against other currencies in which the external debt is denominated.

Chart 2: Evolution of External Debt (USD millions)



Source: Ministry of Finance and Planning, and Bank of Tanzania

2.1.1 External Debt Stock by Creditor Category

8. Despite the recent changes in development financing landscape, the proportion of debt owed to multilateral institutions remained dominant at end June 2019, accounting for 45.6 percent of the external debt stock, followed by debt from commercial creditors, export credit, and bilateral accounting for 34 percent, 11.5 percent and 8.9 percent, respectively (**Table 1**).

Table 1: External Debt Stock by Creditor Category

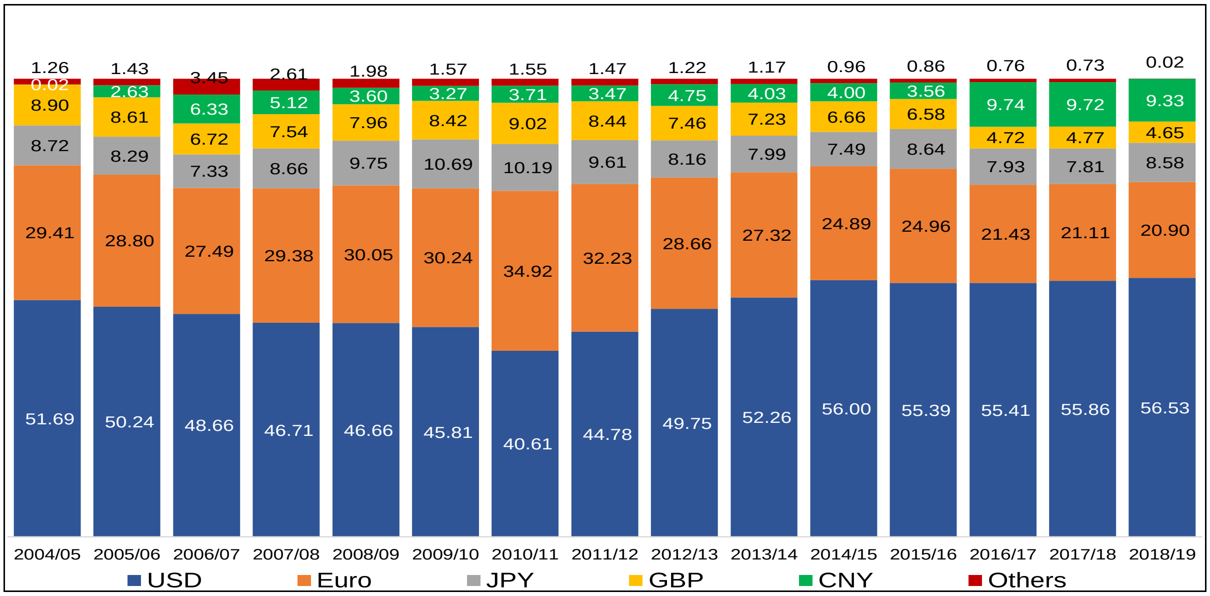
Creditor category	Jun-17		Jun-18		Jun-19	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
Multilateral	8,726.0	46.8%	9,538.6	46.5%	9,991.60	45.6%
Bilateral	1,940.7	10.4%	1,822.6	8.9%	1,958.50	8.9%
Commercial	6,245.5	33.5%	6,858.4	33.5%	7,459.00	34.0%
Export credit	1,739.0	9.3%	2,283.4	11.1%	2,511.90	11.5%
External debt stock	**18,651.1**	**100.0**	**20,503.0**	**100.0**	**21,920.90**	**100.0**

Source: Ministry of Finance and Planning and Bank of Tanzania

2.1.2 External Public Debt by Currency Composition

9. The currency composition of the outstanding public external debt shows that a large proportion of debt was denominated in USD, at 56.5 percent in June 2019 followed by Euro and Chinese Yuan that accounted for 20.9 percent and 9.3 percent, respectively (**Chart 3**). The debt portfolio is, therefore, exposed to risks associated with USD exchange rate fluctuations. Chart 4 further shows that, over recent years, the share of CNY has been increasing with declining in shares of Euro and GBP reflecting changes of borrowings from traditional lenders to non-traditional as well as inclusion of CNY in the SDR basket of currencies.

Chart 3: Composition of Disbursed Outstanding Debt by Currency (Percent)



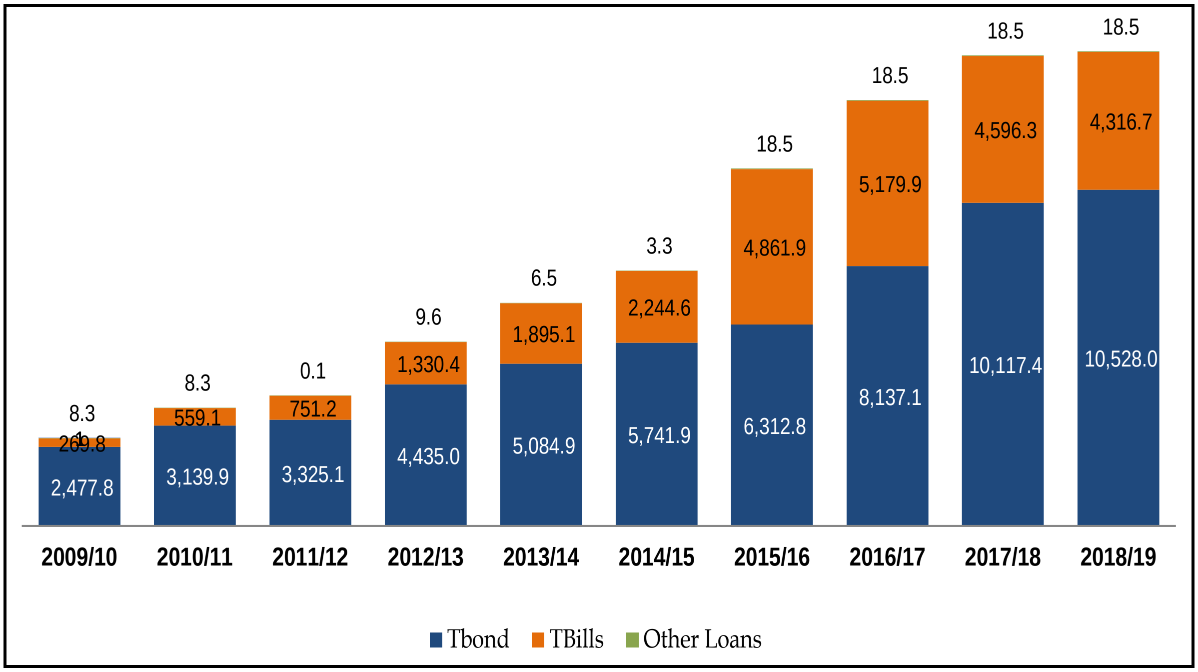
Source: Ministry of Finance and Planning, and Bank of Tanzania

2.2 Evolution of Domestic Debt

10. The stock of domestic debt at the end of June 2019 was TZS 14,863.1 billion equivalent to 11.1 percent of GDP in nominal terms. The debt stock has declined by 1.0 percent from TZS 14,732.2 billion recorded at end June 2018 **(Chart 5),** mainly due to less usage of the overdraft facility which declined from TZS 1,937.3 billion to TZS 1,241.6 billion

11. The profile of domestic debt by instrument shows that, the share of Government bonds has been increasing gradually from 50 percent recorded in June 2010 to 62 percent recorded in June 2019. The increase is consistent with implementation of Government's strategy of lengthening maturity profile of domestic debt through gradual leveraging of long-term instruments for financing.

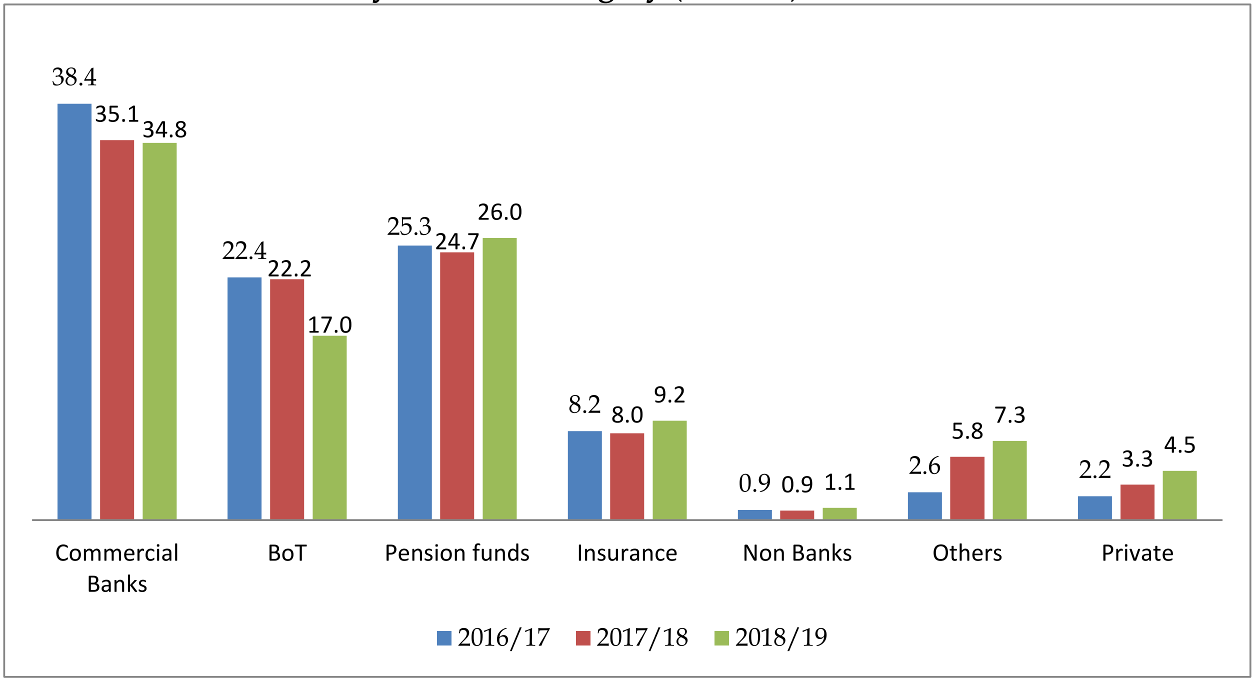
Chart 4: Evolution of Domestic Debt (TZS billions)



Source: Ministry of Finance and Planning, and Bank of Tanzania

12. Commercial banks remained the leading investors, accounting for 34.8 percent of total domestic debt followed by Pension funds, which accounted for 26.0 percent. Private individuals' participation in the market has been growing from 2.2 percent to 4.5 percent in a pace of 3 years, as presented in **Chart 6**. The increase is a result of Government sensitization campaign through various channels

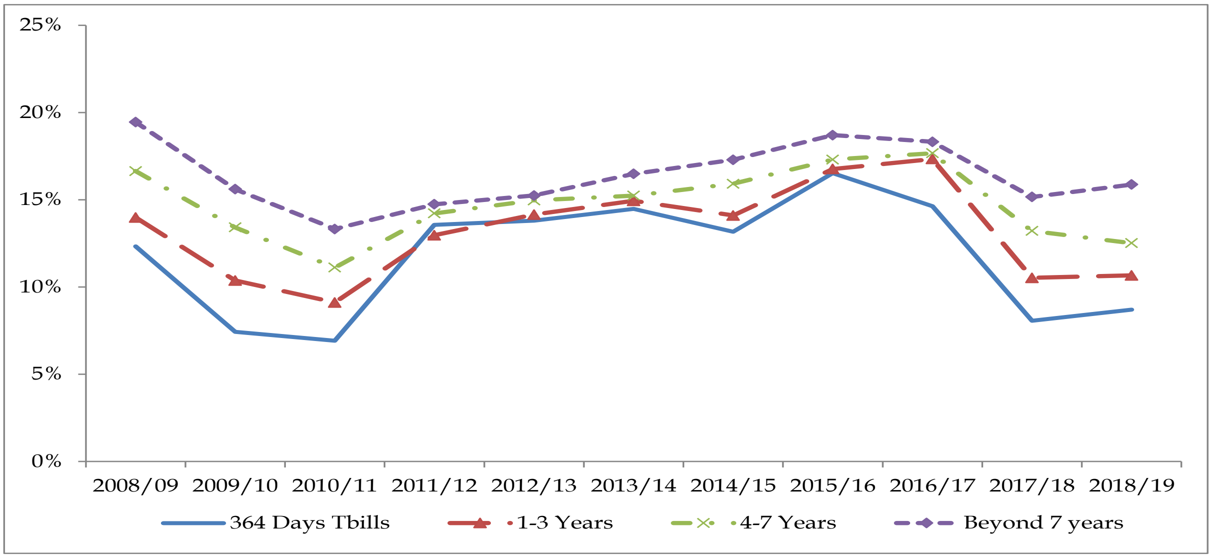
Chart 5: Domestic Debt by Holder's Category (Percent)



Source: Ministry of Finance and Planning, and Bank of Tanzania

13. The yields for the past two consecutive years have declined across all maturities as compared to previous years (**Chart 7**). The decrease reflects increased competition that emanated from broadened investors base following Government's sensitization programs.

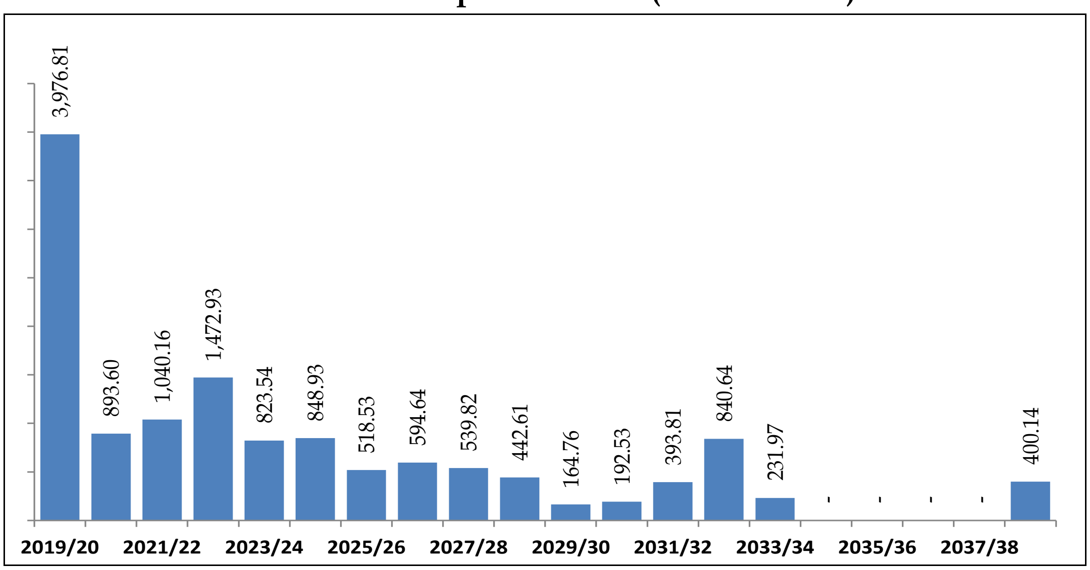
Chart 6: Yields Trend



Source: Ministry of Finance and Planning. and Bank of Tanzania

14. Domestic debt redemption depicts that large proportion matures in the next twelve months, owing to Treasury bills amounting to TZS 2,828.9 billion, which are expected to be rolled over. The recently introduced 20-year bond will mature in 2038/39 (**Chart 8**).

Chart 7: Domestic Debt Redemption Profile (TZS Billions)



Source: Ministry of Finance and Planning, and Bank of Tanzania

3. REVIEW OF THE 2018 MTDS

15. The 2018 MTDS aimed at reducing refinancing risks through lengthening maturities of domestic instruments as well as tapping into semi-concessional external loans. Consequently, the cost and risk characteristics of the debt portfolio improved. The cost and risks of the debt portfolio as at end of June 2019 (**Table 2**) were as follows: -

3.1 Cost of debt

16. **Interest payment:** The overall interest payment was 1.7 percent of GDP, of which external debt is 0.6 percent and domestic debt 1.1 percent.

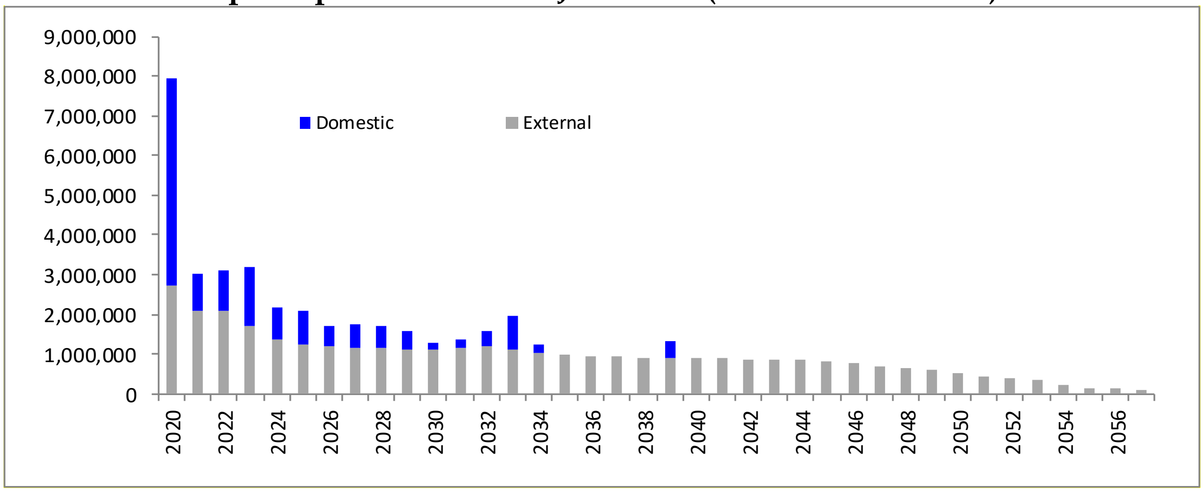
17. **The Weighted Average Interest Rate**: The total debt portfolio weighted average interest rate was 4.4 percent. The weighted average interest rate for external debt was 2.0 percent, relatively low compared to 10.4 percent of domestic debt. The weighted average interest rate for domestic debt increased to 10.4 percent from 9.8 percent recorded in 2018 MTDS. This outturn reflects the strategy of lengthening maturities of domestic instruments.

3.2 Refinancing risk

18. **Average Time to Maturity (ATM):** The average time to maturity for external debt portfolio was 13.6 years while that of domestic was 4.7 years. ATM of external debt profile has slightly declined compared to previous MTDS reflecting a shift from concessional loans to semi and commercial loans which have relatively shorter tenure. Though there is a notable improvement in the tenure of disbursed domestic instruments, redemption of issued longer securities as well as Treasury bills have contributed to a slight decline in the ATM for domestic debt when compared with previous MTDS. The ATM for the total debt portfolio is 11.0 years.

19. In addition, the redemption profile in **Chart 9** shows significant exposure to refinancing risk in the first year of projection due to existence of significant share of treasury bills and thereafter the redemption profile smoothens in the entire years of projection.

Chart 9. Redemption profile as at end June 2019 (in Millions of TZS)



20. **Debt Maturing in 1 year:** As at the end of June 2019, the debt maturing in a year was 15.6 percent of total debt and was equivalent to 6.0 percent of GDP. The share of domestic debt maturing in a year was 35.7 percent compared to 7.5 percent of external debt. Declining ATM and increasing debt maturing in one year compared to previous MTDS poses refinancing risks which 2019 MTDS will seek to address.

3.3 Interest rate risk

21. **Interest Rate Risk:** The debt portfolio is well shielded against interest rate risk as about 88 percent, mostly owed to multilateral and bilateral creditors, of total debt is on fixed rate. Nonetheless, about 20.0 percent of external debt will be re-fixed within one year which reflects relatively small proportion of variable rate external loans in the debt portfolio, while domestic debt re-fixing within one (1) year is 35.7 percent.

3.4 Foreign external debt risk

22. **Foreign Exchange Risk**: About 71 percent of the debt was foreign currency denominated which makes it prone to exchange rate risk. The main exposure of the external debt portfolio is to the USD and EUR which accounts for 56.53 percent and 20.90 percent, respectively of the total external debt.

Table 2: Cost and Risk indicators for existing debt as at end June 2019

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of TZS)		36,186,714.5	14,863,814.0	51,050,528.5
Amount (in millions of USD)		15,727.2	6,460.0	22,187.2
Nominal debt as % GDP		27.4	11.0	38.4
PV as % of GDP		17.9	11.0	28.9
Cost of debt	Interest payment as % GDP	0.6	1.1	1.7
	Weighted Av. IR (%)	2.0	10.4	4.4
Refinancing risk	ATM (years)	13.6	4.7	11.0
	Debt maturing in 1yr (% of total)	7.5	35.7	15.6
	Debt maturing in 1yr (% of GDP)	2.1	3.9	6.0
Interest rate risk	ATR (years)	13.2	4.7	10.8
	Debt refixing in 1yr (% of total)	20.0	35.7	24.5
	Fixed rate debt (% of total)	83.2	100.0	88.0
FX risk	FX debt (% of total debt)			71.4
	ST FX debt (% of reserves)			27.0

Source: Ministry of Finance and Planning

4. AN OVERVIEW OF ECONOMIC PERFORMANCE

4.1. Recent Economic Development

23. The economy continued to perform strongly with GDP growing at an average of 7.0 percent in the past five years. During the first three quarters of 2019, GDP grew by 6.9 percent, same as in the corresponding period in 2018. The performance was on account of continued increase in public investment and steady private sector activity, stable consumption, expenditure growth and export. The main contributors to growth were: construction; agriculture; and transport and storage activities.

24. Headline inflation averaged 3.7 percent in the first seven months of 2019/20 compared with 3.2 percent in the corresponding period of 2018/19. The level was below the medium-term target of 5 percent, as well as within the EAC and SADC convergence criteria of not more than 8 percent and the range of 3.0 to 7.0 percent, respectively. The outturn of inflation was supported by prudent monetary and fiscal policies, stability of the exchange rate, moderate oil prices in the world market and adequate supply of food in the country and in the neighbouring countries.

25. Broad money supply (M3) grew at an annual rate of 9.6 percent in December 2019 which is within the projected growth path of 10.0 percent by the end of June 2020. Credit to the private sector grew at an annual rate of 11.1 percent in December 2019, with much credit absorbed by agriculture, building and construction, mining and quarrying activities. The growth of credit to private sector reflects sustained accommodative monetary policy pursued by the Bank of Tanzania, coupled with ongoing measures to improve the business environment.

26. In 2018/19, the Shilling was fairly stable against the US dollar, largely explained by fiscal consolidation and monetary policy measures. On average, annual rate of depreciation of the shilling was 0.6 percent consistent with inflation differential between Tanzania and trading partners. During the first half of 2019/20, the Shilling traded in a narrow range of TZS 2,299.3 and TZS 2,300.95 per US dollar compared with TZS 2,276.43 to TZS 2,292.58 per US dollar in the first half of 2018/19.

27. Fiscal policy remained streamlined in 2018/19, with expenditures aligned with the available resources and priorities. The overall fiscal deficit was 3.1 percent of GDP which was within the target of 3.2 percent, though slightly above the EAC convergence criteria of 3 percent. This was attributable to delays in receiving programmed grants from development partners.

28. The external sector remained sustainable whereas the balance of payments recorded a surplus following improvement in the current account during the period. The current account balance improved to a deficit of USD 193.8 million from a deficit of USD 1,215.8 million, largely due to higher exports of goods, particularly non-traditional goods. Gross official reserves amounted to USD 5,567.6 million at the end of December 2019 sufficient to cover 6 months of projected import of goods and services.

4.2. Medium-term Macroeconomic Projections and Assumptions

29. The 2019 MTDS is based on medium-term macroeconomic framework as provided in the Guidelines for Preparation of Plans and Budget 2020/21 which reaffirms the priority policies and strategies outlined in the Five-Year Development Plan (2016/17–2020/21-FYDP II). The Government will continue to pursue prudent fiscal and monetary policies that support strong economic growth, ensures price

stability and maintains public debt at sustainable levels. The Government is also cognizant of the short run macroeconomic impact of COVID-19. The MTDS is prepared under the premise that the economy is resilient to the COVID-19 impacts at least in the short run, hence no major impacts on the Government debt.

30. Nonetheless, due to the outbreak of COVID-19, real GDP growth is projected to slow down to around 5.5 percent in 2020 and thereafter maintains an upward trend starting in the medium term. Inflation is expected to remain low, consistent with the medium-term target of 5 percent owing to adequate food supply due to favorable weather, stability of power supply, prudent monetary and fiscal policies and expected subdued oil prices in the world market.

31. Domestic revenue is projected at 14.7 percent of GDP in 2020/21 from projection of 14.0 percent of GDP in 2019/20 while Government expenditure is projected at 22.1 percent of GDP. Overall fiscal deficit is estimated to be below 2.6 percent of GDP in 2020/21 in line with the EAC member states agreement. Gross official foreign reserves are projected to be of not less than four months of imports to cater for Tanzania's imports of goods and services and other foreign obligation backed by the revival of export sector.

4.3. Downside risks to medium term outlook

32. Medium term outlook depends on outturn of key variables including fiscal deficits, interest rate, exchange rate, commodity prices and weather condition. Negative shock to any of those will have detrimental effect on fiscal sustainability. The lengthy and severity of the COVID-19 pandemic is one the key negative shocks factor both in the short and medium term.

33. Existence of large informal and subsistence agricultural sector renders GDP growth projections may be susceptible to shocks. The ongoing efforts by the Government to modernize the agriculture sector under phase two of the Agriculture Sector Development Program (ASDP II) will be sustained to maximize the contribution of agriculture to the economy.

34. Changing financing landscape with traditional creditors being in favour of less concessional loans poses a risk of future debt burden as interest costs increase. The Government is mindful of the risks associated with increased commercial borrowing due to higher costs of debt servicing and has directed all commercial loans to projects that have high multiplier effect on growth of economy.

5. POTENTIAL FINANCING SOURCES

35. The 2019 MTDS considers a mix of concessional and non-concessional loans to be the potential external sources of financing Government budget deficit. With regards to domestic debt financing, all maturities will be used with preference on the long-term bonds. The assumption on longer-term government securities aims at developing domestic market at the same time reduces refinancing risks.

36. Borrowing strategy among EAC Member States is almost similar as they strive to ensure macroeconomic stability. Most of the countries in the regions are prioritizing concessional external borrowing and developing domestic debt markets for longer-term instruments through increasing share of domestic debt. Also, the borrowing instruments are similar amongst the countries in exception of Kenya and Rwanda that have accessed international capital markets through issuance of sovereign bonds.

6. PROPOSED DEBT MANAGEMENT STRATEGY FOR 2019/20 – 2021/22

6.1. Debt Management Strategic Benchmarks

37. In the endeavor to ensure that the medium-term debt management strategy is aligned with the broader debt management objective of financing government deficit at minimum possible cost and prudent degree of risks, the Government set strategic benchmarks (**Table 3**).

Table 3: Debt Strategic Benchmarks

SN	Indicator	Baseline (June 2018)	June 2019	Benchmark
1	Implied Interest rate (%)	4.4	4.4	<7.0
2	Debt maturing in 12 months (% of total)	10.7	11.3	<15
3	Debt maturing in 12 months (% of GDP)	4.3	4.4	<7.5
4	ATM of total debt (years)	11.5	11	>10
5	Fixed rate debt (% of total)	87.9	88	>75
6	Foreign Currency debt (%of total)	70.4	71.4	<75
7	Short-term foreign currency debt (% of official reserves)	12.5	27	<75

Source: Ministry of Finance and Planning

6.2. Alternative Financing Strategies

38. In the process of identifying an optimal medium-term financing strategy, four alternative borrowing strategies were considered. These strategies vary by the mix of borrowing between domestic and external sources, as well as composition of financing terms within domestic and external sources. Key financing terms such as maturity and grace periods, fixed and variable interest rates and currency are the elements considered in the mix of financing options. The alternative strategies were premised on the assumption that concessional sources will continue to decline as the country trends towards attainment of low middle-income country status in the medium term as well as after effects of the COVID-19 pandemic.

6.2.1. Status quo (The 2018 Financing Strategy - S1)

39. The strategy maintains a ratio of concessional loans to total external loans at 39.5 percent and reducing gradually borrowing from foreign sources. External gross financing will decrease from 46.2 percent in 2019/20 to 43.0 percent in the subsequent years. Commercial sources will contribute about 46.5 percent of total external financing and Treasury bills will be maintained at 53 percent of domestic financing in the medium term. The objective of this strategy is to mitigate foreign exchange and interest rate risks. Implementation of the strategy is likely to be impacted by availability of concessional financing amid outbreak of COVID-19.

6.2.2. Strategy 2 (S2) Domestic Debt Market Development

40. Broadly, strategy (S2) assumes a gradual reduction in the share of short-term debt securities from 53.0 percent of the domestic borrowing in 2019/20 to 42.0 percent by 2021/22. A gradual increase in the proportion of domestic financing is assumed from 53.8 percent in 2019/20 to 60 percent by 2021/22. The strategy aims at mitigating refinancing risk emanating from short term domestic borrowing and exchange rate risks associated with foreign currency fluctuations. Implementation of the strategy is subject to continuation of the current investor's preferences towards longer term instruments.

6.2.3. Strategy 3 (S3): Increase Commercial Borrowing

41. Strategy 3 maintains proportion of external financing at 46 percent in 2020/21 and gradual decline to 43 percent 2021/22. The Strategy assumes an increase in the share of commercial borrowing from 46.5 percent of total external financing in 2019/20 to 58.5 percent by 2021/22. The share of fixed rate commercial borrowing is projected to reach 29 percent in the medium term. The strategy aims at mitigating interest rate risk and reducing cost of borrowing. However, the strategy is expected to raise cost of financing and foreign exchange exposure.

6.2.4. Strategy 4 (S4): Increase Semi-Concessional/ECA

42. Strategy 4 gradual decreases proportion of external financing from 46.2 percent in 2019/20 to 43 percent 2021/22. The strategy aims at reducing financing cost and interest rate risk of borrowing by increasing share of semi-concessional/Export Credit Agency (ECA) loans from 14 percent in 2019/20 to 59 percent by 2021/22 and proportionate decline of variable rate commercial borrowing. The justification for considering this strategy is due to the declining concessional loans amid implementation of strategic projects that requires significant resources. However, implementation of the strategy may be impacted by availability of ECAs if the effects of COVID-19 persists beyond six months.

6.3. Cost-Risk Analysis of Alternative Financing Strategies

43. Analysis of cost and risk of the alternative strategies was conducted using the Medium-Term Debt Management Strategy Analytical Tool developed by the World Bank and IMF. **Tables 4** presents the resultant cost and risk indicators while **Table 5** summarizes interpretation of the indicators. The indicators are presented graphically in **Appendix 1**.

Table 4: Costs and Risks of Alternative Financing Strategies

Risk Indicators		2019	As at end 2022			
		Current	S1	S2	S3	S4
Nominal debt as % of GDP		38.4	36.08	36.11	36.12	36.05
Present value debt as % of GDP		28.9	27.90	27.97	28.11	28.03
Interest payment as % of GDP		1.7	1.72	1.74	1.74	1.68
Implied interest rate (%)		4.4	4.98	5.05	5.05	4.88
Refinancing risk	Debt maturing in 1yr (% of total)	11.3	11.01	10.12	11.02	10.99
	Debt maturing in 1yr (% of GDP)	4.4	3.97	3.66	3.98	3.96
	ATM External Portfolio (years)	13.6	12.96	12.97	12.71	13.21
	ATM Domestic Portfolio (years)	4.7	7.15	8.23	7.15	7.15
	ATM Total Portfolio (years)	11.0	11.43	11.68	11.24	11.61
Interest rate risk	ATR (years)	10.8	11.04	11.31	10.94	10.97
	Debt refixing in 1yr (% of total)	24.5	22.68	21.48	20.91	22.09
	Fixed rate debt (% of total)	88.0	86.14	86.45	87.92	86.70
FX risk	FX debt as % of total	71.4	71.58	70.85	71.57	71.61
	ST FX debt as % of reserves	27.0	18.54	18.54	18.54	18.54

Source: Ministry of Finance and Planning

Table 5: Interpretation of the Alternative Strategies Indicators

Strategy	Rationale	Strength at end of 2022
S1	Mitigation of foreign exchange and interest rate risks	i. Lowest PV of debt to GDP (27.9%)
S2	Mitigation or refinancing risk emanating from short term domestic borrowing and exchange rate risks associated with foreign currency fluctuations.	i. Lowest proportion of debt maturing in 1 year to total debt and GDP at 10.12% and 3.66%, respectively. This mitigates refinancing risk. ii. Highest ATM of total and domestic debt of 11.68 years and 8.23 years, respectively. iii. Highest ATR of total debt (11.31 years). iv. Lowest proportion of foreign exchange debt (70.85%)
S3	Mitigation of interest rate risk and reduction of financing cost	i. Lowest debt re-fixing in 1 year (20.91%). ii. Highest proportion of fixed rate debt (87.92%).
S4	Financing of strategic projects that requires significant resources	i. Lowest nominal debt to GDP (36.05%) ii. Lowest interest to GDP and implied interest rate of 1.68% and 4.88%, respectively iii. Highest ATM of external debt (13.21 years)

Source: Ministry of Finance and Planning

6.4. The Favorable Strategy for Implementation

44. Based on the result of cost and risk analysis of the alternative strategies, Strategy 4 dominates other strategies in terms of cost and risk trade-offs. In addition, Strategy 2 supports the development of domestic debt markets which minimizes refinancing risk. Therefore, a combination of Strategy 4 and Strategy 2 is desirable and feasible in terms of implementation.

6.5. Strategy Implementation Guidelines

45. In the course of implementing the strategy in 6.4, the Government plans to implement the following:

i. Government securities with longer maturities will be assigned more weight so as to minimize refinancing risk in accordance with Strategy two (S2). This complemented by rolling maturing Treasury bills worth TZS 297.11 billion into longer maturities;

ii. Developing domestic bond market including for instance rolling Special Bonds worth TZS 135.19 billion into the marketable securities as well as exploring feasibility of introducing 25-year Treasury bond.

iii. To maximize financing from concessional and semi-concessional sources of financing while restricting non concessional borrowing to projects with high impact on economic growth including those that promote exports.

Appendix 1: Cost and Risk Trade-off of Alternative Financing Strategies