

# Reforming Public Debt Governance in Kenya

Good public financial management practice prescribes that public borrowing and the level of public debt have to be consistent with the overall fiscal framework to ensure macro-economic stability

We had a one on one chat with National Treasury Public Debt Management Office (PDMO) Deputy Director, Livingstone Bumbe, to find out more about the reforms being implemented by the directorate, find out the progress and milestones achieved through these reforms.

**As we come to the end of the PFM reforms strategy 2018-2023, Please highlight the reforms achievements realized by the Public Debt Management Office as far as your area in the strategy is concerned?**

1. Debt and borrowing policy in place, which formalizes the framework for debt management
2. Public Debt Management Office structure approved
3. Enhanced capacity to negotiate debt
4. Diversification of borrowing instruments - Borrowing beyond commercial banks such as issuances of Eurobonds in 2021 and enhanced reduction of cost of borrowing
5. Business process manual developed
6. Broadening and deepening of the domestic market

**PDMO Structure which was approved by PSC sets out a clear framework for sustainable borrowing, broadening & deepening of domestic markets and diversification of borrowing instruments. What steps have been made to realize this objective?**

1. Launch of Over-The-Counter (OTC) for Treasury bonds and Treasury bills is progressing well with the appointment of a CEO for the OTC exchange (EABX Ltd). The CBK is in the process of setting up a new Central Securities Depository (CSD) system to support OTC trading.
2. Reforms in the Government Domestic Debt Market: The 7-Point Reform Plan

In 2016, the National Treasury pronounced itself on several reforms dubbed the 7-point reform plan aimed at removing bottlenecks identified as constraints to Kenya's domestic

debt market development. The debt market reforms included:

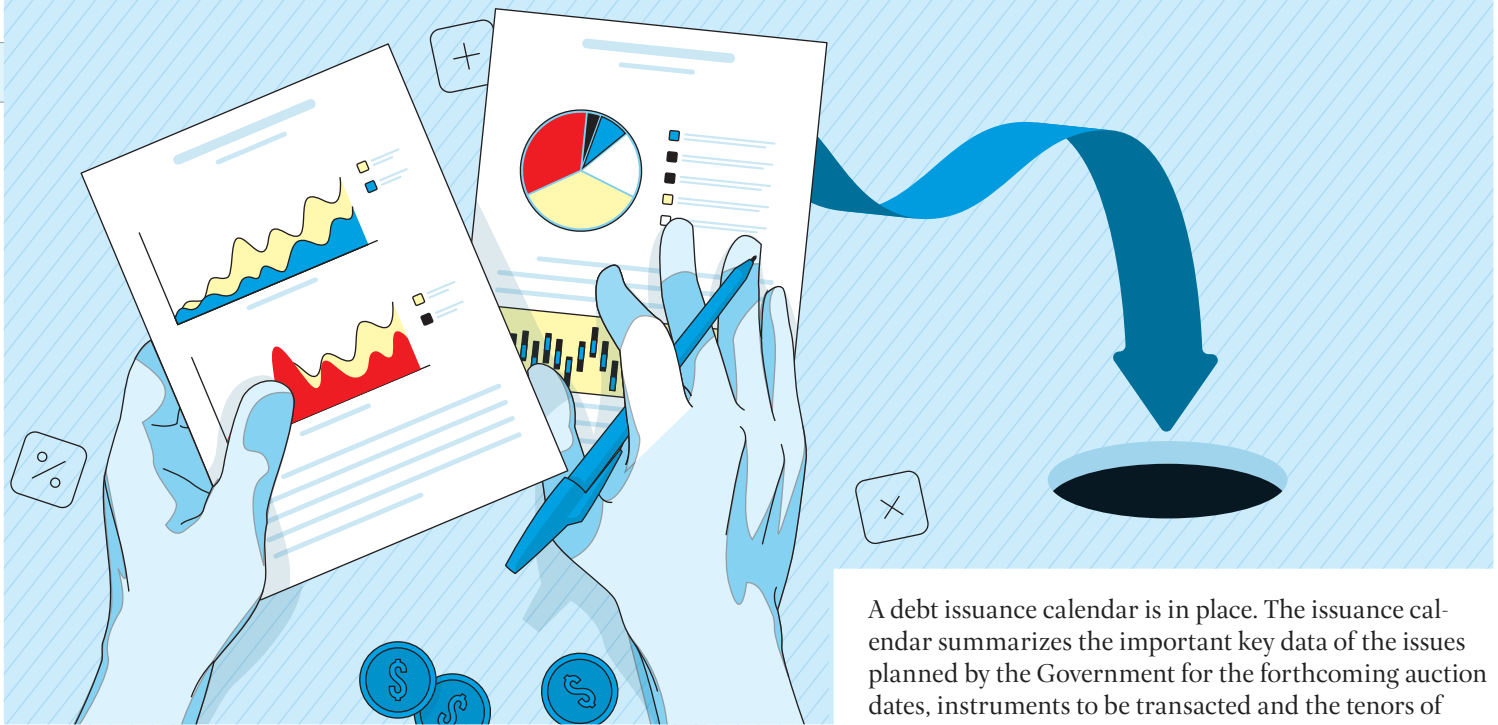
- Facilitation of an electronic bond auction;
- Separation of the retail and wholesale markets;
- Establishment of an Issuance calendar;
- Establishment of an Over-The-Counter market for Government Securities;
- Market enabling initiatives such as:
  - a. The establishment of an efficient horizontal repo market;
  - b. Introducing securities lending and short-selling.
- Formalize monthly stakeholders meeting and feedback.

**Elaborate more on the background of the debt and borrowing policy. What are the key highlights, what objective does the policy aim to achieve and what are the expected impact?**

The Public Debt and Borrowing Policy provides guidance on raising resources through borrowing to finance the budget and managing the public debt portfolio at minimum cost and prudent level of risk while ensuring public debt remains within sustainable level over the long term. The policy also seeks to promote the development of domestic market for Government debt securities.

The objectives of the debt and borrowing policy are to:

- i) Ensure Government financing needs and its payment obligations will be contracted at the lowest possible cost over the medium to long term, consistent with a prudent degree of risk. The structure of public debt will mitigate/balance the costs and risks including refinancing risk, foreign exchange risks, size of the economy, public revenues, debt liabilities currency vis-a-vis revenue currency, etc.;
- ii) Ensure public debt remains sustainable and that it does not place unbearable burden on its current and future generation. In this regard, management of public debt will seek to safeguard National Government's ability to service debt without compromising the fiscal capability to fund provision of public services and development projects;
- iii) Ensure regional equity in the distribution of benefits and costs arising from debt funded projects; and
- iv) Promote the development of domestic debt market for Government debt securities.



Sound public debt, fiscal, and monetary policies, and financial policies promote sustained macroeconomic stability, economic growth and development to enhance the general welfare of the citizens. The policy seeks to strengthen coordination in implementation of monetary and fiscal policy operations to minimize costs and risks inherent in the management of public debt and borrowing. Further, the development of domestic debt market for Government securities hinges in part on financial sector reforms, and better coordination in the execution of monetary policy operations and government borrowing activities in the domestic market.

The PDMO prepares the annual Medium-Term Debt Strategies (MTDS) specifying plans on how to finance budget deficits and specific measures to address emerging issues in the public debt portfolio. Notwithstanding the increase in size, cost and risk of the public debt, the country does not have a clear policy on public debt and borrowing. Debt and borrowing policy is required to define the scope and limits within which decisions on borrowing and debt management are taken for effective outcome of borrowing to the country.

**Is the country’s borrowing based on the fiscal framework and cash requirements?**

Yes, the Country’s borrowing is based on the fiscal framework and cash requirements passed by Cabinet and Parliament through the BPS and the MTDS.

**What plans have been made to ensure the country’s debt is sustainable?**

Borrowing is now being anchored on the debt carrying capacity of the country using the Debt to GDP measure. With a moderate ranking of Kenya in terms of her debt carrying capacity, Kenya’s debt to GDP threshold has been set at 55 percent.

**A debt issuance calendar is already in place. Explain to our readers what this entails?**

A debt issuance calendar is in place. The issuance calendar summarizes the important key data of the issues planned by the Government for the forthcoming auction dates, instruments to be transacted and the tenors of each. Bonds are issued monthly: on the first and on the third Thursday of each month, with the exception of January when bonds are issued on the second Thursday

**Actual auction dates have been included on the existing debt issuance calendar. What does this mean and what is the expected transformational effect?**

The actual auction dates have been included on the current debt issuance calendar. This is good for transparency and accountability to the players in the domestic market. It also enhances information flow to investors and guide on when to expect auctions.

**Plans are underway to develop an electronic auction system. Tell us more about the system and the present status of its development?**

Plans are at an advanced stage to introduce the electronic platform for Primary and Secondary market. This is aimed at improving efficiency in Government securities market by automating the processes in both Primary and Secondary market for Government securities. By doing this the Government will reduce auction cycle in the primary market, improve pricing transparency in the secondary trading of Government bonds and government securities in the primary market, reduce cost of investor participation in the market and attract major local and international players in the market

**There are plans to enhance automation of debt management systems which automate PDMO business processes? Tell us more about this plan and its present status, Will the systems be integrated to other key systems?**

The debt management systems have been automated and currently debt recording and settlement has been enhanced using the new web-based Meridian debt recording and settlement system. Officers dealing with debt re-

ording and settlement can now access the system remotely since its now web based. This has enhanced prompt recording and settlement of debt thereby reducing any chances of debt defaults and or misrepresentations. Transparency in debt data and information has been greatly improved which is a key objective of public debt management.

### **What could be done to improve, or at least prevent deterioration, of the Government Sovereign Credit Rating?**

The following approaches can be applied to help maintain or improve good Sovereign Credit Ratings.

- Ease of doing business – ensure thriving of local economy like low cost of doing business which encourages diversification in investment as well as foreign direct investments and encourage exports
- Trading blocs – encourage regional trading blocs which lowers cost of transactions and tariff barriers (blocks in existence are not working as recommended hence inefficiencies)
- Sound macro-economic policies – the policies have managed to stabilize largely the economy hence need sustenance in curbing shocks in the economy
- Institutionalize framework for International Credit Rating Agency (ICRA) Liaison teams – coordinate from the treasury with the task force already in place to oversee the implementation including IRU and teams from the agencies (\*Need for a standing task force to coordinate improvement in Kenya's sovereign credit rating)
- Develop comprehensive National Strategy – which will engage with the different agencies to guide the government on specific focus areas to improve credit ratings, mechanisms for periodic monitoring, risk exposures and all stakeholders on how they respond to issues raised by the ICRA's in previous reviews and how relevant government MDAs are addressing them
- Regularize periodic engagement with the ICRA's – the liaison team with IRU to periodically engage the agencies in case of any perceptions which is unlikely to be true
- Enhanced regulation on credit rating services – in act these regulations to be in line with international regulations to merge the magnitude of subjectivity

### **What has been done to improve human resource capacity in public debt management?**

Human resource gaps have been a major setback in public debt management. The number of staff in for example the Middle office is low at 7 measured against the approved establishment of 28. Capacity building has been ongoing and hence improvement in service delivery has been felt. At least three officers have been recruited to join the department although two also left during the period bringing a net differ-

ence of positive one.

### **There are plans to migrate from Commonwealth Secretariat Debt recording & Management System**

(CSDRMS) to Meridian. Explain the rationale informing the migration, the differences between the two systems and timeline set for complete migration?

This has been affected and is in final stages. The advantage of meridian over the Commonwealth Secretariat Debt recording & Management System is that Meridian is web based and can be accessed anywhere. This has speed up operations in debt recording and settlement since officers can now access the system remotely and work efficiently.

### **What could be done to further improve monitoring of contingent liabilities?**

Very few staff in PDMO understand monitoring of contingent liabilities. More staff should be trained on this very important aspect of public debt management especially with the influx of diversification of projects implementation using the PPP model.

### **Are there plans to incorporate the County Governments on Borrowing?**

Yes, county governments will be incorporated into borrowing. Section 175-176 of the PFM (County Government) Regulations, 2015 prescribes the borrowing by the county. County borrowing guidelines are already developed and will guide counties in their borrowing endeavors.

### **Is PDMO carrying out its objective & performance as envisaged in the law?**

Yes, the PDMO is carrying out its objectives and performance as envisaged in the law. They include;

- Minimise the cost of public debt management and borrowing over the long-term taking account of risk – MTDS ensures the borrowing is in line with the BPS and also takes account of risks and costs of debt by proposing the best funding mix from borrowing
- Promote the development of the market institutions for Government debt securities; - Reforms currently ongoing to ensure the deepening and widening of the domestic debt market for government securities and,
- Ensure the sharing of the benefits and costs of public debt between the current and future generations – Projects funded through loans must be of benefit to the current and future generations to bring about the intergenerational equity among Kenyans.