

## **Public debt management**

### **Establishment of the Debt Management Office (DMO) in Kenya**

The **Debt Management Office (DMO)** in Kenya is established under the **Public Finance Management Act, 2012** and operates within the **National Treasury**. It is responsible for the formulation, implementation, and oversight of public debt policies to ensure sustainable borrowing and effective debt management.

### **Key Functions of the Debt Management Office**

- 1. Formulating and Implementing Debt Management Strategy**
  - Develops a **Medium-Term Debt Management Strategy (MTDS)** to guide borrowing decisions.
  - Ensures public debt remains within sustainable levels and aligns with economic growth goals.
- 2. Managing Public Debt Portfolio**
  - Oversees both **domestic and external debt** to optimize borrowing costs and risks.
  - Ensures a balanced mix of concessional, commercial, and domestic loans.
- 3. Issuing and Managing Government Securities**
  - Administers **Treasury Bills and Bonds** to raise funds for government operations.
  - Works with the **Central Bank of Kenya (CBK)** to facilitate public investment in government securities.
- 4. Debt Recording and Monitoring**
  - Keeps a detailed database of all government debt obligations.
  - Monitors debt repayment schedules to prevent defaults and ensure timely servicing.
- 5. Negotiating and Managing Loan Agreements**
  - Engages with international lenders, development partners, and financial institutions.
  - Reviews loan agreements to secure favorable borrowing terms for Kenya.
- 6. Conducting Debt Sustainability Analysis (DSA)**
  - Assesses Kenya's debt levels to determine the country's ability to meet its debt obligations.
  - Identifies risks and recommends measures to maintain a sustainable debt profile.
- 7. Providing Advisory Services to the Government**
  - Offers expert advice on borrowing decisions and debt restructuring.
  - Helps in designing policies that minimize debt-related risks.
- 8. Ensuring Compliance with Legal and Regulatory Frameworks**
  - Ensures all borrowing adheres to the **Public Finance Management Act** and other legal provisions.
  - Aligns debt management practices with international best practices and agreements.
- 9. Enhancing Transparency and Public Reporting**

- Publishes **quarterly and annual public debt reports** for accountability.
  - Provides Parliament and the public with updates on Kenya's debt situation.
10. **Coordinating with Stakeholders**

- Works closely with **CBK, IMF, World Bank, development partners, and credit rating agencies**.
- Engages with investors and financial markets to boost confidence in Kenya's debt management policies.

### **key Objectives of Public Sector Debt Management**

1. **Ensure Debt Sustainability**
  - Keeps public debt levels manageable to avoid excessive borrowing.
  - Prevents financial distress and the risk of default.
2. **Minimize Borrowing Costs and Risks**
  - Secures financing at the lowest possible interest rates.
  - Balances short-term and long-term debt obligations to reduce risks.
3. **Support Economic Growth and Development**
  - Ensures borrowed funds are used for productive investments (e.g., infrastructure, healthcare, education).
  - Promotes job creation and social welfare.
4. **Enhance Transparency and Accountability**
  - Provides clear and accurate public debt reports.
  - Ensures compliance with legal and regulatory frameworks.
5. **Diversify Funding Sources**
  - Maintains a balanced mix of **domestic and external borrowing**.
  - Reduces reliance on a single funding source to mitigate financial risks.
6. **Improve Government Creditworthiness**
  - Maintains a positive credit rating to attract investors.
  - Builds confidence in the country's ability to meet debt obligations.
7. **Manage and Mitigate Financial Risks**
  - Identifies and addresses risks such as currency fluctuations, interest rate volatility, and economic shocks.
  - Uses risk management tools like debt restructuring and refinancing.
8. **Ensure Timely Debt Servicing**
  - Ensures regular payment of principal and interest to avoid penalties.
  - Avoids accumulation of arrears that could damage the country's financial reputation.
9. **Promote Fiscal Discipline and Policy Coordination**
  - Aligns debt management with overall fiscal and monetary policies.
  - Prevents excessive government spending beyond available resources.
10. **Enhance Public Confidence and Stakeholder Engagement**
  - Involves citizens, investors, and policymakers in debt-related decisions.

- Publishes periodic reports on debt status and borrowing plans.

## **Sources of Public Debt in Kenya**

Public debt in Kenya arises from **borrowing by the government** to finance budget deficits, infrastructure projects, and economic development programs. The debt is classified into **domestic debt** (borrowed within Kenya) and **external debt** (borrowed from foreign lenders).

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### **1. Domestic Sources of Public Debt**

These are funds borrowed from **within Kenya's economy** through various financial instruments.

#### **a) Treasury Bonds and Treasury Bills**

- Issued by the **Central Bank of Kenya (CBK)** on behalf of the government.
- Treasury Bills (short-term, less than 1 year) and Treasury Bonds (long-term, over 1 year) are sold to investors.
- Main investors: commercial banks, pension funds, insurance companies, and individuals.

#### **b) Loans from Domestic Financial Institutions**

- Borrowing from local **commercial banks, pension funds, and insurance companies**.
- The government takes direct loans to finance budget deficits.

#### **c) Overdraft from the Central Bank of Kenya**

- The government can take a **temporary overdraft** from CBK to cover short-term cash shortages.

#### **d) Infrastructure Bonds**

- Special government bonds issued to finance **major infrastructure projects** like roads, railways, and energy.

#### **e) Public-Private Partnerships (PPPs) Financing**

- Involves collaboration between the **government and private investors** to fund large projects.
  - Private sector provides capital in exchange for revenue-sharing agreements.
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## **2. External Sources of Public Debt**

These are funds borrowed from **foreign entities**, including governments, international organizations, and private lenders.

### **a) Bilateral Loans (Foreign Governments)**

- Kenya borrows from **individual countries** through agreements, such as:
  - China (for infrastructure projects like the SGR railway).
  - Japan, France, Germany, and the USA.

### **b) Multilateral Loans (International Financial Institutions)**

- Borrowing from **global financial institutions** that provide concessional (low-interest) loans:
  - **World Bank (WB)** – Funds development projects in health, education, and infrastructure.
  - **International Monetary Fund (IMF)** – Provides loans to stabilize the economy and address financial crises.
  - **African Development Bank (AfDB)** – Supports infrastructure and economic programs.

### **c) Eurobonds (International Bond Markets)**

- Kenya raises funds by selling **sovereign bonds (Eurobonds)** in international financial markets.
- These bonds attract foreign investors and provide large-scale financing.

### **d) Commercial Loans from Foreign Banks**

- Kenya secures **non-concessional loans** from international banks and private lenders.
- These loans often have **higher interest rates** and **shorter repayment periods**.

### **e) Export Credit Agencies (ECAs)**

- These agencies finance projects by guaranteeing loans to Kenyan businesses or the government.
- Example: Sinosure (China), US EXIM Bank.

## **2. Debt Management by County Governments**

### **a) County Borrowing Framework**

Counties can borrow funds from:

- **The National Treasury** – Counties can access funds through conditional loans from the national government.
- **Domestic Banks and Financial Institutions** – Counties can take **commercial loans** if approved by the National Treasury.
- **Development Partners and Donor Agencies** – Counties may receive loans or grants from international agencies.

#### **b) Debt Sustainability Measures**

- Counties must **not exceed borrowing limits** set by the National Treasury.
- Loans should have **reasonable repayment terms** to prevent financial crises.
- Counties must prioritize **own-source revenue** (local taxes, fees) to reduce overreliance on debt.

#### **c) Debt Reporting and Accountability**

- Counties must **report quarterly and annually** on their debt status to the National Treasury and Controller of Budget.
- The **Senate and Auditor General** monitor county borrowing to prevent misuse.

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### **3. Debt Management by Other Public Entities**

Public entities (state corporations, parastatals, and agencies) must also adhere to **strict debt management guidelines**:

#### **a) Sources of Public Entity Debt**

- **Government-guaranteed loans** – Some state corporations receive loans backed by the national government.
- **Direct commercial borrowing** – Public agencies can borrow directly from banks if allowed.
- **Development financing** – State agencies may receive funding from multilateral partners (e.g., World Bank, IMF).

#### **b) Debt Control and Monitoring**

- The **National Treasury and Parliament** oversee borrowing by public entities.
- Public corporations must conduct **debt sustainability assessments** before borrowing.
- The **Auditor General** audits public institutions to ensure compliance with financial regulations.

### **Roles of the Cabinet Secretary for the National Treasury in Public Debt Management**

The **Cabinet Secretary (CS) for the National Treasury** plays a critical role in managing Kenya's public debt to ensure fiscal sustainability, economic growth, and compliance with legal frameworks. These responsibilities are outlined in the **Public Finance Management (PFM) Act, 2012**, the **Public Debt Management Regulations**, and the **Constitution of Kenya, 2010**.

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## **Key Roles and Responsibilities**

### **1. Formulating and Implementing Debt Management Policies**

- Develops **Kenya's Medium-Term Debt Management Strategy (MTDS)** to guide borrowing.
- Ensures debt policies align with **national economic goals** and fiscal responsibility principles.

### **2. Approving and Overseeing Government Borrowing**

- Determines the **amount, type, and terms** of borrowing by the **national and county governments**.
- Ensures that loans are **used for development projects** and not for recurrent expenditures.
- Seeks **Parliamentary approval** before borrowing, as required by law.

### **3. Managing Public Debt Portfolio**

- Oversees both **domestic and external debt** to optimize cost and risk.
- Ensures **timely debt servicing** (repayment of principal and interest) to avoid default.
- Works with the **Central Bank of Kenya (CBK)** to issue **Treasury Bills and Bonds**.

### **4. Negotiating and Securing External Loans**

- Leads **negotiations with foreign governments, international financial institutions, and commercial lenders**.
- Ensures loans are obtained at **favorable interest rates and repayment terms**.
- Signs loan agreements on behalf of the government, subject to **Parliamentary approval**.

### **5. Regulating Borrowing by County Governments and Public Entities**

- Reviews and approves county governments' borrowing requests.
- Ensures counties **do not exceed borrowing limits** set by the National Treasury.
- Monitors debt levels of **state corporations and government agencies**.

### **6. Debt Sustainability Analysis and Risk Management**

- Conducts **Debt Sustainability Analyses (DSA)** to assess Kenya’s ability to meet debt obligations.
- Develops strategies to **mitigate financial risks** such as interest rate volatility and currency fluctuations.

## 7. Enhancing Transparency and Reporting on Public Debt

- Prepares and submits **annual and quarterly reports** on public debt to Parliament and the public.
- Ensures transparency in **debt contracting, utilization, and repayment.**
- Publishes debt data to **enhance investor confidence** and accountability.

## 8. Coordinating with Development Partners and Financial Institutions

- Engages with the **World Bank, International Monetary Fund (IMF), African Development Bank (AfDB)**, and other lenders.
- Works with international **credit rating agencies** to improve Kenya’s creditworthiness.

## 9. Ensuring Compliance with Legal and Regulatory Frameworks

- Ensures that all borrowing follows the **Public Finance Management Act and the Constitution.**
- Prevents excessive borrowing that could lead to **debt distress.**

## Measures to Reduce Public Debt in Kenya

Reducing public debt is essential for Kenya’s economic stability and long-term growth. To achieve this, the government must adopt **fiscal discipline, revenue enhancement strategies, and responsible borrowing policies.** Below are key measures that can help reduce Kenya’s public debt.

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## 1. Enhancing Revenue Collection

Increasing government revenue reduces reliance on borrowing. Strategies include:

- ✓ **Expanding the tax base** – Bringing more businesses and individuals into the tax system.
- ✓ **Improving tax compliance** – Strengthening enforcement to reduce tax evasion and fraud.
- ✓ **Enhancing efficiency in tax collection** – Using digital systems to curb revenue leakages (e.g., iTax).
- ✓ **Reducing tax exemptions and incentives** – Cutting unnecessary tax waivers that lower government revenue.

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## 2. Reducing Government Expenditure

Controlling spending helps minimize budget deficits and the need for borrowing. Measures include:

- ✓ **Cutting non-essential government spending** – Reducing unnecessary allowances, foreign trips, and luxury projects.
- ✓ **Reducing recurrent expenditure** – Controlling wage bills and improving efficiency in service delivery.
- ✓ **Improving public procurement processes** – Preventing inflated costs and corruption in government contracts.

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## 3. Enhancing Debt Management Strategies

- ✓ **Debt Restructuring and Refinancing** – Renegotiating loan terms to extend repayment periods and lower interest rates.
- ✓ **Shifting to concessional (low-interest) loans** – Prioritizing borrowing from institutions like the World Bank and IMF instead of expensive commercial loans.
- ✓ **Capping borrowing limits** – Ensuring that new loans do not exceed Kenya’s repayment capacity.

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## 4. Promoting Economic Growth to Generate More Revenue

A strong economy boosts revenue collection and reduces debt dependency. Measures include:

- ✓ **Investing in key sectors** – Supporting agriculture, manufacturing, and technology to boost exports and job creation.
- ✓ **Improving infrastructure** – Ensuring roads, ports, and energy projects support economic activities efficiently.
- ✓ **Enhancing local production and reducing imports** – Encouraging domestic industries to reduce foreign exchange outflows.

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## 5. Strengthening Governance and Fighting Corruption

Corruption and financial mismanagement increase public debt. Measures include:

- ✓ **Enhancing accountability in public finance** – Ensuring transparency in loan utilization and project implementation.

✔ **Strengthening anti-corruption laws** – Prosecuting officials involved in misusing public funds.

✔ **Implementing performance-based budgeting** – Linking government spending to measurable economic outcomes.

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## **6. Encouraging Public-Private Partnerships (PPPs)**

✔ **Attracting private sector investment** – Reducing the need for public borrowing in infrastructure projects.

✔ **Leasing instead of direct government spending** – Using private sector financing to develop projects.

✔ **Improving the efficiency of state corporations** – Reducing government subsidies to loss-making parastatals.

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## **7. Promoting Export Growth and Foreign Direct Investment (FDI)**

✔ **Diversifying exports** – Expanding markets for Kenyan goods to earn more foreign exchange.

✔ **Boosting tourism and investment** – Attracting international investors and visitors to generate more revenue.

✔ **Strengthening trade agreements** – Ensuring Kenya benefits from regional and international trade partnerships.