



**A REPORT OF THE REGIONAL MULTI-STAKEHOLDER CONFERENCE ON
DOMESTIC DEBT MANAGEMENT**

**JOINTLY ORGANIZED BY AFRICAN FORUM AND NETWORK ON DEBT AND
DEVELOPMENT (AFRODAD) AND KENYA DEBT RELIEF NETWORK (KENDREN)**

SILVER SPRINGS HOTEL, NAIROBI, KENYA

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Wahu Kaara- Coordinator, KENDREN

She started by indicating that all participants present are global citizens meeting in Nairobi-Kenya to discuss matters that are local but with global ramifications and influence. She said KENDREN, a National affiliate member network of the regional network AFRODAD was both honored and privileged to be hosting this important conference. She opined that this particular conference had offered a space for regional participants to discuss issues on debt at a critical historical moment. She linked the growing debt levels to the challenges of economic governance inherent in governments and the influence of the changing realities of the global financial and economic architecture.

Describing herself both as a debt specialist and activist, she lauded the activists for their role in pushing and convincing a more often more cynical technocrat environment that policy frameworks especially as adopted by governments and pushed by the international financial institutions seem to be unraveling and are not working, indicating that these leaves our governments exposed and severely challenged in their ability to meet the nations needs and enhance pro-people development. She made an appeal to the participants to use their intellectual and comprehensive thought process and conceptualization in broadening the idea of how governments need to work in service for the people. She challenged AFFRODAD to take the leadership in re-energizing and re-engineering the spirit of African people on issues of debt with critical and concrete solutions to the debt problem. Noting that there is need for harnessing of the great wealth of intellectual activism to locate issues on debt since debt is not an economic issue but a political question that requires a political solution as to who controls and allocates the resources.

She congratulated KENDREN and AFFRODAD for nurturing best talents/ brains and intellectual thinkers on issues of economic governance and debt. She finished by challenging the participants to use the workshop in re-energizing the debate on public debt insisting that together we can bring an end to the debt question that not only undermines our development pursuits, dignity and commonwealth, but bluntly stunts our expressive capacity and leads to death.

1.1 Preliminaries: Introduction & Welcome Remarks.

Facilitator: Kiama Kaara, Programmes Coordinator, KENDREN

The facilitator welcomed all participants to the regional multi stakeholder workshop on Domestic Debt. Appreciating both the local and outside participants for finding time to travel for this important conference he requested that in light of more expected arrivals for the meeting, it was prudent to commence and those joining later will be equally accommodated. The facilitator presented the agenda of the day. He then requested participants to introduce themselves stating their names, countries of origin, organizations they represent and programmes and their expectations from the workshop. After the introductions, he welcomed the Director of AFFRODAD and the Coordinator of KENDREN to give their opening remarks.

1.2 Welcome Remarks

Collins Magalasi, Executive Director, AFRODAD

The Executive Director started by welcoming all the participants to this very important consultation. Conveying AFRODAD's great appreciation for all those present, he thanked KENDREN, the local national affiliate of AFRODAD for taking time and resource to organize, coordinate and offer logistical support that had made the meeting a reality. He then moved on to give a brief background of AFRODAD for the purpose of the participants acquainting themselves with the organizations broad outlook and programmatic intervention. AFRODAD he pointed out is a regional network that commenced its activities since 1994 and was registered in 1996 with its headquarters in Harare-Zimbabwe. Currently AFFRODAD runs three (3) portfolios namely:

- i) Debt: Domestic and External
- ii) Economic Governance
- iii) DevelopmentAid

Specific to this meeting he pointed out that with an increased demand on national budgets on the basis of their service delivery and provisions mandate and in light of a shirking ODA budget riding on the tails of the Global Financial Crisis and the attendant roll back on donor support especially for budget deficits, African governments' are under excessive pressures to plug budget deficits and they have now resorted to borrowing from the domestic market. With this hindsight, AFRODAD is equally working on the post HIPC-MDRI mechanism on foreign debts with the African Union to have a fair and transparent process on debt management. As relates to the domestic debt scenario that is emerging as a key issue of focus, AFRODAD has commissioned five cross country studies in Senegal, Malawi, Kenya, Zambia and Ghana informed by a keen interest in the linkages of domestic debt and the role it plays in the African economies as an important monetary facility for development.

The studies were conducted by researchers who were interested in exploring the various mechanisms, structures of debt management including policy frameworks and instruments in various countries as well as the role of stakeholders in these countries. It was his humble expectation that this conference would greatly enhance and inform the way forward in implementing the recommendations. Related to the major outputs in this regard, two validation workshops were carried out in Malawi and Zambia with input from the respective governments. Individual organizations held validation workshops in Ghana and Senegal and he thanked them for their efforts towards this exercise. The Kenyan report he noted is due to undergo the validation process. He went further to thank all the organizations that participated through the research, proof readers, and validation process for making the process a success. He thanked the presenters of the case studies (in-advance) for agreeing to give an in-depth analysis of the research reports.

2.0 Presentations

2.1 Rationale Behind the Focus on Domestic Debt. By: Taurai Chiraerae, AFRODAD

In highlighting what domestic debt is and the instances that inform governments to borrow domestically the presenter pointed out the rise of budgetary demands in relation to low resource revenues, low output growth, high inflation rates etc. A key feature of domestic debt is that it attracts expensive interest rates in terms of servicing.

Reasons why Government borrow:

- Deficit financing
- Alternative Avenue for investments

Major arguments against Domestic Debt Borrowing:

- Crowding out the domestic investors
- Reduces banks drive to mobilise deposits and lending to other sectors
- Liquidity risk

On the basis of this rationale, AFRODAD decided to commission studies that were geared towards linking domestic debt and development financing; assessing the regulatory and institutional framework; and assessing the role of various stakeholders in debt management.

Snapshots of the research Findings

- I) **Zambia** - Legal and institutional framework for debt contraction, management and monitoring lacks a broad-based consultation of relevant stakeholders such as parliament and CSOs.
- ii) **Senegal**- Domestic debt is unsustainable as its economic growth has been slowed down due to lack of cash flows (crowding out the private sector).
- iii) Malawi- Deficit in national budget necessitating borrowing.
- iv) Ghana – Debt levels have been on the increase since 2000 and this brings problems of sustainability. The government lacks a comprehensive domestic debt strategy.

Conclusion:

- Domestic debt should be given keen attention and especially on the lingering effect of crowding out the private sector.
- A Domestic debt management policy should be developed.
Prudent Debt management is critical to avert the recurring debt burden.

2.2 Country Case Studies

1. Malawi By: Vitalice Meja

The emphasis of the study was on domestic debt and not the general public debt. He discussed the findings in the following structure:

Purpose of domestic borrowing

- It is purely used in deficit financing
- Monetary tool

Trends in Domestic Debt

- Before 2004, Malawi ran large fiscal deficits of more than seven per cent of GDP yearly that were financed largely by domestic borrowing.
- Domestic debt increased significantly between 1999 and 2005 from K13.7 billion to over K80 billion representing over 480 per cent in the seven year period.
- Between 2007 and 2008, domestic debt grew by 40 per cent and this was mainly caused by fertiliser and fuel shocks.

Why the Domestic Debt Crisis?

A number of factors have contributed and these include:

- Weak expenditure control including both weak forecasting of the wage bill and of the interest bill
- Inability to keep expenditures in line with the budget.
- Unpredictability of donor budget support.
- Lack of mechanisms to cope with the occurrence of shocks including both financial losses by domestic parastatals and the impact of external shocks.
- Withholding of donor funding.

Composition of Domestic Debt

- Treasury Bills (T-Bills) that are short term with maturity of less than a year
- Notes and Bonds which are long-term with maturities between 2 and 29 years
- Ways and Means advances made to Government by the Central Bank
- Central Bank bills and some arrears
- Proportion of T-Bills has grown from 56 per cent of the domestic debt stock in 1999 to 94 per cent in 2008.
- Bank Bills and Ways and Means grew at an increasing rate on average up to 2006
- The Treasury Notes and Bonds have stagnated.
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Domestic Debt Service

- As domestic debt stock grew over the period, so did domestic interest rates and the domestic interest rate payments.
- Domestic debt grew from 10.2 per cent of GDP in 2001 and peaked in 2003 at 24.8 per cent of GDP beyond the Brettonwoods Institutions (BWI's) threshold of 15-20 per cent.
- Interest payments also grew to 7.9 per cent and 8.4 per cent in 2003 and 2004 respectively from 3.9 per cent in 2001.

Legal and Institutional Framework

- Responsibility for domestic debt management lies with the Exchange Control and Debt Management Department in the Reserve Bank of Malawi
- Within the Debt and Aid Management Division in the Ministry of Finance, there is supposed to be a unit Responsible for domestic debt but since the division's establishment in 1997, the unit has failed to take

off hence the government's continued reliance on the Central Bank.

- Debt Management activities are guided by the Public Finance Management Act (PFMA) of 2004 and the Reserve Bank of Malawi Act (RBM) of 1989.
- The RBM Act gives the mandate to the Reserve Bank to issue and manage domestic debt on behalf of the government.

Debt Management Policy and Strategy

§ Malawi does not have an adopted policy to govern domestic debt operations at present.

§ Efforts were however made in 2004 when a draft Debt and Aid Policy, which included external and domestic debt and aid, was presented to policy makers for review and adoption.

§ This process did not fully materialise hence the policy document has been not implemented although the proposed guidelines still generally guided the debt operations.

§ There also seems to be no debt management strategy.

Roles and Responsibilities

§ Domestic debt seem to be a government affair with limited involvement of non state actors including CSOs and parliament.

§ However there is closer working relations with regard to IMF on debt sustainability levels that also include domestic debt.

§ Information dissemination is targeted to government officials and it is meant for analytical purpose and not for public consumption.

Recommendations

- It is recommended that Government should continue exercising fiscal prudence in the central government budgetary operations as this has already started to yield benefits in the economy.
- Government should set an umbrella ceiling on domestic borrowing for a chosen period of time and this should be embedded in the national debt strategy – this could be reviewed periodically (annually) to ensure that they are still meaningful in the current economic circumstances.
- A debt issuance calendar should be issued at the beginning of the year to enable financial institutions plan properly and to minimise rollover and interest rate risk.
- Ministry of Finance should establish a division to co-ordinate with the RBM.
- There should be no political interference on domestic debt management.
- The institutions responsible for domestic debt management should ensure that updated data/ information should be put on the website .
- Since there are still no internationally agreed thresholds for assessing domestic debt sustainability, it is important that the BWI's should work together with other research institutions and come up with thresholds that can be used to determine sustainability.

Plenary Discussions

This was felt to be an informative presentation.

On the issue of budget deficit levels it emerged that the agreed budget deficits of 5 per cent of GDP was on the basis that most governments pursue case budgets where all revenues are collected to cover the recurrent expenditure and capital expenditure to be funded by borrowing. It was also noted that there did exist an extension of credit both to government and private sector. There existed a process of annual budget speeches where expenditures are presented and the Minister states on how they are supposed to fill the estimates. Clarifying the issue of case management, this is connected to the short term nature of government borrowing which gives rise to T-Bills to show that government borrowing is sustainable or the borrowing in this case is to fund short term gaps. As such under budget deficits, what is crucial is examining what the government is doing with deficit financing itself. In this regard, CSOs need to check if the government is compliant with cash-case expenditure. The problems in Malawi has not reached a point of cash-fund raising from short-term financing to long term financing to generate capital for development

/ or capital financing.

In terms of borrowing to smoothen expenditure the triggers for the government to contract domestic debt in Malawi is the budget deficit. Due to this, the government will continue borrowing. Corruption and bad economic governance resulting to over-expenditures is a marked feature of many governments and the only way to check this is to enhance the prudent management of public resources. As such, CSOs need to engage in the audit of domestic debt that captures the governments needs to strike a balance between less spending amidst huge demands.

It's not debatable that corruption leads to bad economic and political governance. But with a more transparent and accountable framework, there is need to deepen and diversify domestic markets to bring other players on board. Diversifying the market will be crucial if the citizens were to participate and for the government to put the necessary structures in place for engagement. As such the role of CSOs engagement in this process cannot be gainsaid.

Transparency in the management of domestic debt is key and the Malawi CSOs role need to be stepped up. What motivates governments to borrow is always guided by vested interests i.e. getting the money to win votes. It is proper to recommend to governments on ways to improve tax collection locally. In terms of the recommendations highlighted in the report, if adopted they might not on the face value address the issue of debt. What we need is to come up with pro-active solutions to these problems. Most of the recommendations presented in the report are pragmatic and if well executed will lead to a proper management of debt.

On the issue of lack of knowledge on T-Bills, projects funded by the World Bank and the public general understanding on debt issues/projects the study shows that basically there is no engagement of CSOs or the general public on debt issues. The Government of Malawi only disseminates information to experts for their own consumption. In Malawi, all the money mopped up locally is used to plug budget deficits and not for capital or development expenditure indicating that the government does not live within its own means. It is also used to cushion citizens from inflationary problems. As such, causes of domestic debt and the attendant problems are intricately linked to this. Notably, an attempt to come up with a debt policy in Malawi has not succeeded yet. Foreign debt management at the end of the day has influenced the management of domestic debt. This is worsened by the lack of an enabling law on access to information.

2. ZAMBIA By: William Chilufya

The presenter discussed the finding in the following structure:

Understanding Domestic Debt

- Domestic public debt in Zambia constitutes total debt the local, provincial, public enterprise and the central Govt owes domestically.
- Comprises all outstanding payments for Government Securities such as bonds and treasury bills, parastatals debts, Loans and Advances from the Central Bank, Local Govt debt and other domestic liabilities such as awards and compensations.

Objectives

- To carry out an in-depth analysis of country cases' domestic debt through the lenses of economic development, monetary policy stabilization and debt sustainability.
- To expose the regulatory and institutional framework inherent in the domestic debt management and how they affect national debt strategy.
- To give recommendations on appropriate measures in addressing domestic debt burden in the countries under study.
- To constitute a national multi stakeholder conference on the impact of domestic debt in national development : Prospects and challenges.

Methodology

- Qualitative approach by reviewing debt management practices of the Govt through the review of various documents and reports, CPs, CSOs' reports and academic literature.
- Interview – govt officials & CSOs.
- Debt management case studies review.
- Research on the web.

Limitations

- Unavailability of major stakeholders to interview and validate secondary information.
- Difficult to get hold of parliamentarians & government.
- Conflicting data.
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Major Findings

- Zambia's legal and institutional framework for debt contraction, management and monitoring lacks a broad-based consultation of relevant stakeholders such as parliament and Civil Society.
- Domestic Debt Management and Reduction Strategy that was developed in 2006, including many other commitments made by the Government, have not been implemented.

Debt Management and Reduction Strategy

- Debt Co-ordination Committee (political level) and the Debt Co-ordination Technical Committee (technical level).
- Committees would be created and formalized through appropriate regulations and be given detailed terms of reference.
- Role of Parliament in debt contracting, management and monitoring.
- Global Financial Crisis of 2008/9 has had serious implications on government revenues in many LICs including Zambia.
- Massive decline in commodity prices has resulted in the deterioration of fiscal revenues, confirmed by Zambia's 2010 National Budget that has projected domestic borrowing at 2.5 percent of GDP as opposed to the FNDP targeted of 1.8 percent.

- Total domestic debt has been steadily increasing from K5,186.17 billion as at end-2003 to K8,517.70 billion as at end-2008, representing a 60.9 percentage increase over the same period.
- Domestic arrears declined from K578 billion in 2003 to K197.9 billion in 2008 largely on account of settlements of all principal amounts by government, particularly with respect to money owed to road contractors.
- It is worth noting that the total domestic debt stock as at end-2008 represents 1.5 percent of Zambia's Gross.

Domestic Product (GDP)

- The legal framework of debt management is not exhaustive and does not encompass all types of financing such as direct and guaranteed debt of central government, public enterprises, sub-national governments, private external debt, external and domestic public debt, and grants..

Recommendations

- Government should exhibit exemplary political will in avoiding the accrual of unsustainable domestic debt.
- Implementing the National Domestic Debt Management and Reduction Strategy policy
- Need to reform both the legal and institutional arrangement governing the current debt acquisition.
- As economies recover from the 2008/9 Financial Meltdown, Govt must be cautious and consider Revising the projected domestic debt from 2.5 percent to the targeted 1.8 percent of GDP.
- Broaden tax base.
- Civil Society should work with the private sector to study the danger of lending to the government as opposed to putting resources in large domestic investment
- Civil Society in collaboration with the private sector from which most of domestic debt is sourced, must ensure that government borrows for capital expenditure and that these debts are settled on as per agreements.
- CSOs with private sector should study the danger of lending government

Conclusions

- Domestic debt in Zambia has, in the past five years, been increasing at a high rate.
- This study has revealed that a huge portion (94%) of it constitute Government Securities while domestic arrears have generally reduced.
- This study has shown that Zambia's legal and institutional framework for debt contraction, management and monitoring lacks a broad-based consultation of relevant stakeholders such as parliament and civil society.

Plenary Discussions

On the issue of access to information in Zambia it was pointed out that there exists no laid down procedure to facilitate this. Currently, CSOs are still pushing to have the policies on debt management implemented. In most cases organizations use unconventional methods to get it and at times it's too late for any meaningful action or engagement.

Most organisations have been working on the Freedom of Information Bill to make it easy for citizens to access information held by the State. CSOs have been pushing for the passing of an access to information law. CSOs in Zambia have for a long time have not been taking a keen interest on management of domestic debt but now there has been a more positive attention to addressing this. On the basis that there is a study by CSOs on this subject is proof enough that the information is still there. Again in Zambia like in the case of Malawi, the government did participate in the validation workshop an indication that the contents of the research findings are in line with the official data, figures and policy framework.

In the case of Zambia, there is a marked difference in the role of various actors i.e. the Parliament's role in external debt is different from the one on domestic debt. This in essence points out that the case studies differ from one country to another. As such it is important to isolate and identify these marked divergences and similarities issues as we analyse different country reports as to have a document that government and other actors can act on.

With regard to the debt strategy, it is important to note that there exists a Medium Term Debt Strategy (MTDS) tool that was launched by the IMF in Malawi, Kenya, and Zambia which has an "aide memoire" that is secretive and is meant only for government consumption/ use. There should be a deliberate effort to try and understand the contents or the state of play in this regard. In overall, Zambia has requested for assistance to reform its public debt management and this is an ongoing process. As relates to the question of access to information, it is important to note that when the budget making process is ongoing, we tend to focus a lot on the taxes etc instead of the perceived emergent budget deficit and how the government plans to fill the budget gaps. We ought to be asking for a borrowing plan. Most of this information can be accessed on the websites of Central bank and Ministry of Finance.

A key emergent issue is that focus on debt policy is much on external and not domestic debt. Domestic borrowing in most cases is a preserve of the Central Bank. The MTDS is a noble idea but it is treated as an informal instrument. Not unless we make it an official document to allow CSOs to interrogate it then it can't make any meaningful impact. There is need to focus on the international financial architecture especially since the problem with borrowing and lending is located in a big way here. As such CSOs will need to define the "meeting" ground in this regard. One way to explore is the intensification of public literacy on issues of economic policies. This is one area that CSOs have the relevant competencies and capacities. Whether through official channels or others, to a certain degree there is access to information and the major issue is what we can do with what is available to expand the spaces.

3). KENYA By: Kiama Kaara

The Kenya case study was presented in the following structure.

Background, Why Debt?

- Function of a Capitalist System.
- Cycle of crisis: Financial and Global in character.
- Political/Ideological Underpinnings.
- Ability to keep the system going.
- Responsibility shifted to future generations – Governments competition edge.
- Underpins a sense of distributive/equity in the economy.

Current Figures

- Current total external debt stands at US\$ 6.2 billion.
- About 60 percent of this debt is owed to multilateral creditors (including 47 percent owed to the World Bank) followed by the African Development Bank Group (6 percent) and the European Investment Bank (3.1 percent).
- About 39 percent of the debt was owed to bilateral creditors (largely the Paris Club). Japan (18.4 percent) remains the leading bilateral creditor, France and Germany were the leading bilateral creditors over the same period.
- A large proportion of external loans were used to finance roads, water and sewerage, energy, education and health projects and programmes.
- A small share (under 2 percent) is owed to commercial creditors, some of which was for disputed security-related contracts, and in arrears (IDA & IMF 2009).
- Domestic debt increased from Ksh 120 billion in 1996 to Ksh 620 billion in 2009. This represented an increase of Ksh 500 billion or a growth of 510 percent in domestic debt during the same period.

- The stock of Government securities increased by Ksh 210 billion in 1995 or 229.9 percent during the period from Ksh 91 billion to Ksh 302 billion 2005.
- Other forms of domestic debt which include Government overdraft at the CBK, clearing items, advances from commercial banks and tax reservation certificates, decreased by Ksh 15 billion during the period to stand at Ksh 13 billion from Ksh 28 billion.
- In particular, the level of Government overdraft at the Central bank declined by 78.2 percent during the period to Ksh 5 billion from Ksh 24 billion.
- The stock of Treasury bills (excluding Repos) decreased by Ksh 6 billion or 8.3 percent from Ksh 78 billion in June 1996 to Ksh 71 billion in June 2005.
- Similarly, outstanding Government long-term stocks fell by Ksh 3 billion during the period to stand at Ksh 1 billion at the end of June 2005.
- However, the stock of Treasury bonds increased by Ksh 184 billion or 2,154.9 percent in the period to stand at Ksh 193 billion at the end of June 2005 from Ksh 8,575 million at the end of June 1996.

Key Figures of the Kenyan Scenario.

- Domestic debt has increased in importance in Kenyan economy
- Domestic interest payments have been rising at a higher rate than growth in ordinary government revenue and GDP.
- Domestic debt borrowing is not strictly internal borrowing.
- Appropriation of domestic debt has been largely based on complementing the resource gap.
- Kenya has no comprehensive debt management policy
- There exists fragmentation and lack of harmonisation at policy level.
- No legal requirements for an inclusive procedure for domestic debt management
- Some corrective measures at the institutional level have been undertaken.

Challenges to Economic Development

- Principally rooted in the VISION 2030 – Previous plans (ERS).
- Key Source of Development Finance
- Top – Down (Market Bias).
- Towards MDGs
- Crowding Domestic Investors.
- Commercial Banks Influence – Foreign Ownership (Sovereign).
- Local Elite Capture – Political/Economic.
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Legal Framework

- Currently, there exist four different but related Acts of Parliament governing public debt management in Kenya, namely: the External Loans & Credits Act (Cap 422), Internal Loans Act (Cap 420), Guarantee Loans Act Cap 461 and the Central Bank of Kenya Act (Cap 491).
- The Internal Loans Act (Cap 420) provides the legal framework for the Minister for Finance to borrow on behalf of the government from the domestic market through issuance of Treasury bills and Treasury bonds. According to this Act., “the government sets a target for domestic borrowing annually through the budget and has the option of revising the figure through the revised budget in the second half of the fiscal year. The Act also allows the Government access to an overdraft at the CBK when there is a mismatch between revenue receipts and expenditures. As a measure of checking inflationary pressures resulting from use of the overdraft facility, the Act sets a limit to the use of the overdraft to a 5 percent level of the latest audited Government revenue. The government overdraft at the Central Bank of Kenya is the only aspect of domestic debt borrowing that seems to be limited by law.
- Domestic borrowing through Treasury bills and bonds do not have a limit in law. This is different from external borrowing where the External Loans and Credit Act, CAP. 422 of the laws of Kenya limits the total indebtedness in respect of principal amount to Ksh 500 billion or such higher sum as the National Assembly may by resolution approve. The minister of Finance, according to the Act, is required by provisions of the Internal Loans Act to “report to the National Assembly in writing, the amount of indebtedness outstanding at the end of each financial year in respect of each manner of borrowing

specified in section 3” of the Internal Loans Act. This, however, is hardly done promptly and with the necessary regularity.

Main Principles of Government Debt Management

- The overall objective of Government debt management policy is to meet the Central Government's financing requirements at most optimal borrowing costs with a prudent degree of risk. It also aims at Facilitating the Government's access to the financial markets as well as supporting development of a well functioning domestic financial market.
- Consistent with the stated policy objectives, Government borrows externally on concessional terms. As a strategy for minimising borrowing costs, external loans must have a minimum grant element of 35 percent to be considered for borrowing.
- The strategy of domestic debt issuance is reviewed on a continuous basis and agreed upon between the Treasury and CBK. To ensure transparency and credibility of Government debt policy, the annual net domestic borrowing target is announced in the Budget Speech each year in June. The CBK issues Treasury bonds and Bills as determined by the Government's current revenue and expenditures. To meet temporary shortfalls in cash-flows, the Government may access the overdraft facility at the CBK up to the statutory set limit of 5 percent of the latest audited Government annual ordinary revenue.
- The Government plans to issue project specific or infrastructure bonds to finance projects in the roads, water and energy sectors, all of which impact positively on the economy. It will also contribute to the deepening of the domestic financial markets.
- In its continued efforts in restructuring domestic debt, the Government plans to address bond market fragmentation by implementing a well structured benchmark bond programme. This will be done through reopening benchmark bonds as well as consolidating small illiquid bonds or issues.
- The Government may consider issuing a sovereign bond when global markets stabilize. The rationale for the bond issuance include supplementing domestic savings with external resources, diversify funding sources and provide a benchmark for corporate borrowing.
- The Government undertakes borrowing within limits set by Parliament. Under the External Loans and Credits Act (Cap 422), the limit set in January 2009 for external debt is Ksh 800 billion. Under the Guarantee Loans Act (Cap 461), the limit for all guaranteed loans set in 1993 is Ksh 80 billion. The domestic borrowing is contracted under the Internal Loans Act (Cap 420). The Central Bank of Kenya Act (Cap 491) provides for the Government overdraft at the CBK.
- The Minister for Finance is empowered by law to mobilise resources on behalf of the Government. However, the Permanent Secretary, Treasury has the overall responsibility over the national debt management functions which are operationalized through the Debt Management Department. The Central Bank of Kenya borrows on behalf of the Government in the domestic market under an agency agreement. An important element of Government debt management is to promote transparency in its operations. To this end, the Government publishes various reports in its efforts to disseminate information to the public on debt management operations. A wide range of information is currently published in the CBK's *Monthly Economic Review and Weekly Bulletin*, *MoFs Annual Public Debt Management Report*, *Monthly Debt Bulletin*, *Quarterly Budget Review*, *Budget Outlook Paper and Budget Strategy Paper* and in the *Annual Economic Survey* published by the Kenya National Bureau of Statistics. This information may also be downloaded from the respective websites.

Institutional Framework

Section 45 of the Central Bank of Kenya (CBK) Act provides the legal framework for the Bank to manage public domestic debt on behalf of the government. This includes contracting domestic debt through sale of Treasury Bills and Bonds, extending overdraft facilities to the Government, maintaining domestic debt register and making payments of domestic debt. As a Banker to the Government, CBK effects payments to external creditors on specific instructions from the Treasury. A clear separation of duties and responsibilities is required in order to benefit from a highly rationalised and articulated policy framework.

- The Attorney General's Office: Principal legal adviser to Government and is responsible for Reviewing draft loan agreements to ensure conformity with the relevant legislation.
- Accountant General's Department: Responsible for cash management and in particular the use of the Government overdraft facility at CBK. The institution could benefit from increased institutionalization in order to put paid to the image of a one-man-show syndrome.
- Controller & Auditor General: Responsible for issuance of authority to debit the Consolidated Fund Service account to settle Government debts. It undertakes periodic audits of public debt Roles and Responsibilities.
- Central Bank of Kenya. Enhance Back ward- Forward linkage with Treasury
- Civil Society Organizations..
- Parliament. (Fiscal Management Act 2008, Standing Orders, Dec 10 2008).
- Medium Term Debt Strategy.

Recommendations

- A clear Debt management Policy that has to rationalize relation between Domestic and External Borrowing.
- Legal Reform Measures. Direct borrowing with relevant ceilings/caps.
- Increased Treasury Capacity in the key areas of Analysis, Research, Management,

Expertise/Retention

- Parliament Oversight Mandate.
- Debt Register and tied to the Public Access of information ideally through the passing of a Freedom of Information Act (FIA)
- Continuous Monitoring and Evaluation.

Plenary Discussions

- 1.A lot needs to be done to ensure transparency and accountability in monitoring debt management
- 2.Freedom of information is very key to a successful and sound debt management framework
- 3.Oversight role in loan contraction from parliament. It will be interesting to see on what has been included in the new constitution

Response:

The new constitution in place is just a shell and what is required is the “meat.” For instance Cabinet Secretaries will be appointed from outside parliament and there will be presentations to parliament on debt levels and who the creditors are.

4). GHANA By: Vitalice Meja

Purpose for Domestic Debt

- As a monetary policy tool – control of inflation .
- To finance higher than projected deficit and inadequate external financing.
- The worsening terms of trade of cocoa and gold, the country's major exports,
- The hike in crude oil prices.
- Huge infrastructural Development financing.

Trends in Domestic Debt

- Domestic debt had been growing steadily from the 2000 position of GH¢784.2 million to about GH¢4.8 billion by end of 2008.
- The sharp rise is mainly attributed to the floatation of more indexed medium term instruments especially the 2-year Fixed Treasury Notes, 3-year Fixed Rate Bond and the 5-year GOG Bond.
- By July 2007 interest payments on public debt had already exceeded its budget ceiling by 30 percent.
- Interest payments on domestic debts over the study period are an average of 75 per cent of total interest payments.

Composition of Domestic Debt

- The proportion of the 91-day Treasury bill in the overall domestic debt reduced from the 2000 level of 45.5 per cent to 20 per cent in 2004. It however increased sharply in 2008 to 17.6 per cent and declined to 10.7 per cent in 2009
- The objective is to restructure the government of Ghana holdings of short-term debt instrument (91-day bills) into long-term in order to give the government a respite on its high interest burden and also make some savings on interest payments
- Short-term instruments accounted for more than 60 per cent of domestic debt stock in 2000 (fig 3.1), and remained the largest until 2004
- There has been however a shift since then towards the medium term and longer-dated securities

Holders of Domestic Debt

- The main holders of domestic include the commercial banks.
- Non banking sector.
- Bank of Ghana.

Crowding Out Effect

- The commercial banks have been holding an average of 38.2 per cent of the debt over the period under review, with holdings of over 40 per cent recorded in 2002, 2005, and 2009
- funds could have been made available to the private sector for investment!!!
- However, the study does not establish any crowding out of credit to the private sector. During the study period, as total debt held by the banks increase, credit to the private sector even increase faster. The effect was an upward adjustment in lending rates to the private sector. The lending rates have been about 10 percentage points above the Treasury bill rates.

Debt Management Strategy

- There is no formal debt management strategy in operation, but an informal medium term debt management strategy document will be in place in December 2010. This is a requirement of the IMF.
- The strategy among other things will contain issues around.
- Sustainability levels,

- Realignment of maturity profiles and
- Diversification of investor base.
- Debt management strategy is however not anchored on any legal framework nor an overall debt management policy.
- Overall debt sustainability is not closely linked with domestic debt with most indicators favouring external debt.

Legal and Regulatory Framework

- The constitution confers the contraction of domestic debt is the sole responsibility of the ministry of finance through the Bank of Ghana
- The act among other things sets the limit to domestic debt, i.e it (1) shall not exceed 10 per cent of the total revenue of the fiscal year in which the advances were made”.
- Management of the public debt is entrusted in the hands of the Bank of Ghana under Section 31 of the BOG Act (612) which states that,

Role of CSOs

- While CSOs are actively engaged with policy issues including budget making process, their contributions to the debate on domestic debt and domestic borrowing is non-existent since this is a preserve of the finance ministry and the bank of Ghana

Plenary Discussions

It seems monitoring of domestic debt in Ghana is behind schedule. There seems to be improvement in debt policies but the debt levels are rising yearly. From the report itself, laws that govern leadership and integrity in Ghana are wanting. In terms of borrowing, who benefits?. Banks crowding effect- borrowing more for monetary policy and not financing essential priorities.

On the issue of crowding out, the research indicates that Ghanaian government does not focus on short-term but long-term borrowing. The government makes the long term borrowing much attractive to investors. The non-bank sector is playing a crucial role just like Bank of Ghana i.e. social security funds. With regard to the debt policy, contracting domestic debt is not a bad idea but what you do with it matters a lot. Lack of political will to implement and drive policies ahead is the problem. In Ghana, the media is at the forefront of measuring the capacity of parliament and publishing their score card in the print media. On a comparative basis, it is emergent that in some countries like Ghana they prefer long-term financing while in Malawi they prefer short-term borrowing. But its important to note that the Ghana and Senegal reports are not currently tabled as there are some issues that need clarification i.e. crowding out the private sector in Ghana has raised a lot of questions. As such it will be good to wait for the reports to come out first before authoritatively commenting on them especially on the case of crowding out of domestic/private sector. Again, it is prudent in the case of domestic debt, where there is no existent template to avoid comparing countries as they operate in different scenarios or spheres and in their own circumstances.

In terms of policy coherence around institutional and legal framework, it is important to note that having the law in statute books is one thing and having the same laws implemented is another. The actual operation might be different from what is written down hence the need to look at the scenarios independent of each other. After validating these studies it is important to engage national partners on discussing the way forward. On the other hand, there is need to support public debt audit for the citizens to sanction whether debt contracted has served its purpose or not, or even worse if it has been lost through corruption.

5). SENEGAL By: Vitalice Meja

Purpose of Domestic Debt

- To fill the gap left by the dwindling concessional external financing.
- To fill the gap left by foreign direct investment (FDI).
- The increase in domestic debt is also linked to the new policy aimed at avoiding a new external debt buildup.
- Fill the budget deficit gap.
- Public infrastructure development.

Domestic Debt Crisis

- In 2008 the accumulation of arrears on domestic debt by the government severely affected many private banks and companies, especially in the construction and public works sector.
- Non respect by the Ministry of Economy and Finance of the legal and regulatory requirements; i.e. funding elections and raising civil servant salaries to gain votes
- The passivity of the Parliament and
- Weakness of the domestic private sector and public regulatory bodies.
-

The Structure of Domestic Debt

- Direct short and long-term borrowing from domestic banks – Treasury bills.
- Treasury bonds on the regional financial market located.

Debt to private companies providing goods and services to the government and/or its entities (local governments; government agencies; public services).

Composition of Domestic Debt

- The main domestic debt creditors are the commercial banks and non companies.
- Companies in the building construction and public works sector.
- Service providers.
-

Legal and Regulatory Framework

- Domestic debt contraction is anchored within the constitution under the budget law
- The ministry of finance has the sole responsibility of borrowing on behalf of the government
- There is a national debt policy from which the national debt strategy has been developed
- The strategy among other things seek to keep:-

- 1) Ratio of external debt to GDP less than or equal to 40%.
- 2) Ratio of external debt service to exports of goods and services less than or equal to 20%.
- 3) Ratio of domestic debt service to government revenues less than or equal to 30%.
- 4) Ratio of interests on domestic debt to revenues less than or equal to 5%.

Structures for overseeing Debt Policy

National Committee on Public Debt (NCPD)

Mission:

The Committee has the following mission:

- Propose and coordinate public debt strategy and monitor its implementation.
- Make sure the strategy is consistent with the country's overall development objectives and the State's Financial capacity.

The Committee is composed of:

- All major Directorates of the Ministry of Economy and Finance (7 Directorates).
- The Director of the national branch of the Central Bank.
- The committee has two commissions and a permanent secretariat .

The Coordinating Committee –chaired by the Finance minister- has the following responsibilities:

- Adopt the national debt strategy
- coordinate public debt policy and debt management in relation to monetary and budgetary policies
- Coordinate the actions of Central government, local authorities and public entities involved in incurring public debt and in its management.
- Make sure public debt policy is in compliance with the debt sustainability policy.

The Technical Commission is responsible for:

- Collecting statistical data on the level of public debt.
- Making debt statistics available for the Coordinating Committee.
- Help the Permanent Secretariat in the preparation of documents to be submitted to the Coordinating Commission.

The Permanent Secretariat, - chaired by the Directorate of Debt and Investment (DDI)- performs the following duties:

- Prepare documents to be submitted to the Coordinating Committee (CC).
- Prepare quarterly reports and annual report of the CC.
- Design the document that indicates the borrowing procedures and management of public debt.
- Write up the minutes of the meetings of the Coordinating Committee.

Roles and Responsibilities**Parliament**

- Has an important role on oversight but capacity low with regard to debt management and general economic governance.
- Political patronage from the executive limits their ability to influence government decision.
- Domestic debt acquisition seems to be a preserve of the ministry of finance with limited information given to parliament.

Civil Society Organisations

- Have concentrated most of their energies on external debt
- Though have a crucial role in over sight role, lack capacity and interest to engage on domestic debt management
- They are also limited with regard to access to timely information.

IMF

- Plays a crucial in assisting with monitoring the debt sustainability thresholds as well as playing advisory role on the overall debt strategy.

Recommendations

1) Mandatory Parliament Oversight: Improve Control and Participation

- This will require building the capacity of the parliament to strengthen their oversight role.

2) Cap on domestic borrowing

- In light of the current crisis and its impact, we propose that a legal cap be put on the level domestic debt. This way, government knows the limits beyond which it cannot go. This will bring some kind of restraint and discipline to government borrowing from domestic banks and companies.

3) Legal requirement for domestic debt clearance within a limited period

In addition to the above cap, a Law should be passed requiring the repayment of all domestic debt within a given period, say, one year or less. This would compel the government to not only limit its domestic borrowing but also avoid the repeat of the current situation. This would also help restore trust between the domestic private sector (banks and companies) and the government.

4) Priority to domestic debt repayment over external debt

- Another structural change, that may be helpful but probably controversial, would be to require by Law that repayment of domestic debt take precedence over external debt repayment. The rationale behind this is that the accumulation of arrears on domestic debt tends to have a greater negative impact on the entire economy with domestic banks and companies being unable to perform effectively.

5) Overhaul and Strengthen the Role of Regulatory Agencies

- Another important recommendation is the necessity to overhaul the mission and work of existing regulatory bodies. Most of them could perform effectively if they had more freedom of action –more autonomy- and more resources. Some of them should be reorganized, strengthened and given more powers to perform effectively their tasks i.e the General State Inspectorate (GSI),

6) Coordination in Domestic Debt Management across the Agencies

- Domestic debt management is the responsibility of the Ministry of Economy and Finance (MEF). However, there is a necessity to improve coordination in recording and reporting debt statistics between agencies of the MEF and other agencies, such as the national Central Bank

7) Role of CSOs and the Private Sector

- The domestic private sector and CSOs can play an important role in improving transparency and accountability on the part of the government and also the Parliament. CSOs and private sector could team up and establish a Watchdog that would give them the possibility of contributing to a greater monitoring of government policies. This would also contribute to greater transparency of government Actions.

Plenary Discussions

From the feedback given by Members of Parliament in Senegal, there seems a lack of capacity by parliament in executing its oversight role or this is very low. At the pains of comparison, this might be a marked feature across countries though at varying degrees and it's an important area to enhance. CSOs that have capacities and competencies in this regard can take on this. In Senegal there is no political will to implement policies on the basis of the weak capacity of parliament which needs to be addressed as earlier stated. For parliament, this has been affected by the number of years they are in parliament. Building capacity needs to be seen in the context of potential years of service so as to imprint continuity.

Lack of political goodwill can also be discerned by the fact that the governments invest a lot of resources to train personnel who then move to other organisations such as World Bank, IMF, AfDB etc leaving the government institutions incapacitated. There is need to address the issue of both capacity and retention to improve on this.

Government's role as an investor to borrow locally is driven by broader considerations which are not necessarily economic in nature, like placating key voting constituencies. Government borrowing to invest in infrastructure can be a noble idea if it is used wisely. It is a viable option that can be replicated elsewhere.

In terms of the need to strengthen parliamentary oversight roles, it is important to note that parliaments in Sub Saharan Africa region operate on patronage where they are in place to merely rubber stamp i.e. Uganda where the government acting with impunity went ahead to contract a loan that parliament refused to approve. This act in strict sense calls for impeachment of the very government. The need to building capacity of parliament and facilitate information flow between the National Assembly and the Executive remains a vexed issue. If there is a violation of the constitution then this becomes a role for the National assembly and CSOs need to close ranks to censure or impeach the government. There is a need for a closer collaboration that will lead to a high impact in making the executive to account.

DAY TWO: 19/11/2010

Facilitator, William Chilufya, CSPR, Zambia

The facilitator welcomed participants to the second day's program highlighting that this will be a continuation from the first day. He took the participants through the day's program and the expectations there in.

3.0 Commonalities and Emerging Trends in Domestic Debt Management from the Five (5) Country Case Studies. By Vitalice Meja

Domestic Debt and Development in Focus

- Domestic debt is increasingly becoming an important component of public debt and therefore needs closer attention.
- The magnitude.
- The interest rate repayments.
- Domestic debt is becoming an option for financing long terms infrastructural development projects in most of the countries under study.
- Domestic debt has become an important instrument for deficit financing in light of volatility in Official Development Assistance.
- Countries have attempted to diversify the domestic debt portfolio to include short term, medium term and long term instruments for financing.
 - Varied response from investors across the countries with regard to different instruments
- Countries lack country specific approaches to address the domestic debt crisis
 - This is partly due to the mixture of various purpose of financing instruments in domestic debt i.e deficit financing, monetary policy and development financing

Legal and Institutional Framework

- There are Acts covering and assigning the responsibility of domestic debt management.
- Central Banks play an important role.
- The Acts are not comprehensive enough to include issues of ceilings on domestic debt.
- Acts do not guarantee a deeper accountability to parliament.
- There is weak linkage of the Central Bank with the parent ministry – the Ministry of Finance.

Debt Management Policy and Strategy

- There are varied elements of debt management policy in two countries and a debt management strategy in all countries.
- There are however no specific domestic debt management policy in all countries as the policies look at the total public debt .
- Countries with debt strategy without debt policy are yet to develop one.
- Countries with debt policy do not strictly follow it as there is lack of political will to implement it.
- There are no agreed indicators to measure the domestic debt sustainability.
 - Over reliance on external debt indicators.
- The debt management policies do not include the non executive in its structures, investment assessment decisions, impact monitoring in the development financing aspects of the domestic debt.
- There is weak communication strategy in all the policy instruments.
 - The information is not people friendly – too technical.
 - Information is mostly available on I need to know basis and to those who work with the subject matter.
 - No Access or Freedom to Information Acts exists in all the country case studies.

Roles and Responsibilities

- Parliament and CSOs have an important role to play in domestic debt management.
- Parliament need to enact laws to compel compliance with the domestic debt Act as well as oversight role.
- CSOs need to play their oversight role and provide policy alternative.
- Domestic debt remains a preserve of the ministry of finance through the central bank/reserve bank.
- Parliament and civil society organisation have been excluded from the process of domestic debt management.
- There are technical capacity issues that need to be filled at both the parliamentary level and CSO level to facilitate their roles in domestic debt management.

Plenary Discussions

1. Most CSOs have been in budget making process on how governments should allocate resources but not on how to raise revenue to fund their activities. CSOs need to find alternative ways of raising revenue and other alternative policies.

- This is indeed an important and necessary way to guarantee sustainability.

2. Do we have insights when African Countries entered the domestic debt crisis? What was the point of departure?

- The shift occurred when the money started drying up, with reduced foreign assistance in terms of ODA and external borrowing becoming increasingly difficult and conditionality laden this has generated a shift in governments to turn to mobilise resources domestically. Current development requirements need a vast amount of resources that can be mopped up locally and African governments are using domestic borrowing as an exit strategy from aid.

3. In compiling the study resolutions under roles and responsibilities, it only mentions parliament and private sector. Was this done by design or it was a genuine omission?.

- The private sector is grouped under the group on non-state actors.

4. Is domestic debt a preference to external resources?

- Most domestic markets in Africa are not well developed. This provides an opportunity for governments to get money from local banks. This has been used as a monetary tool.

5. Importance of parliament and CSOs in this process cannot be underrated. The challenge is to build capacity of parliament and CSOs to understand the nitty-gritty of the issues and that is the only way we can influence policy change. All organisations should take up this as a challenge.

- Government has become shrewd in handling issues CSOs raise. They want CSOs not only criticize but offer alternatives that will help government in improving tax revenue collections.

6. Domestic debt has to be put in a political context in areas where it occurs. Every country at independence became a developmental States with external funding. Global financial crisis that led to drying up of foreign sources of finance and has strained external funds hence making leaders resort to domestic borrowing.

In terms of capacity building, AFFRODAD has been running a program on macro-economic capacity building. Currently it lacks the financial capacity to roll it out.

- The challenge in the management of domestic debt is much higher than what we had on external debt because for external debt, the CSOs, Governments, etc had someone to blame while for the domestic debt CSOs have to blame themselves.

7. The focus now should be directed towards offering alternative solutions than focusing too much on

weaknesses of African governments.

4.0 Best Practices In Public Debt Management, By: Cornilious Deredza, MEFMI, Zimbabwe

The presenter started with a by giving a background on the existent convergences that are existent within the whole realm of public debt management and why this should be reinforced as best practices. He felt that in so doing, it is possible to generate working pillars around this issue mostly on a country to country basis, but also within and across regions. Whereas this is a work in progress and open to varied dynamics, he felt that it was important to continuously learn and share the emergent issues.

Key Definitions and Concepts

Broadly defined, debt is the contractual obligation to pay principal and/or interest

- “Public” domestic public debt pertains to what is owed by the public sector (federal / central, state and/or other quasi or lower tiers of government including state-owned enterprises) to corporate or individual residents of same country. To avoid multiple counting, “net” the public debt position
- The medium of exchange (cash or kind) or currency in which domestic debt is borrowed, serviced, denominated or reported (numeraire), while having various important implications, does not change the definition.
- Unlike external debt (which includes domestically issued instruments held by non-residents), domestic debt is not an injection of additional resources into the economy concerned. It merely transfers resources internally between the country's private and public sectors.

Why Borrow (Domestically)?

Public domestic borrowing, hence indebtedness, may arise from one or more of the following reasons:

- To fund **budget deficit** when revenues, foreign grants and public external borrowing are inadequate to meet public sector expenditure. Governments may borrow domestically to “bridge” aid shortfalls or disbursement delays.
- For **monetary policy** implementation. Debt is issued to influence money supply, interest rates and/or inflation for macroeconomic stability. Such debt may also be issued to sterilize local currency appreciation effects (“Dutch disease”) of sizable aid inflows to protect export competitiveness and avoid an influx of cheap imports that substitute local products and stifle local industry.
- Accumulation of public sector **domestic arrears** (exceptional financing), due to cash flow constraints or technical factors, e.g. slow payment process. Rolling over of maturing domestic debt may be seen as a form of debt “rescheduling”.
- To promote **development of domestic primary and secondary markets**, “benchmark” for corporate bonds and savings mobilization.

Best Practice

- Appropriate **legislation** exists, is updated when necessary, and is upheld by all stakeholders, with defined consequences for breaches or non-compliance
- **Institutional arrangements** facilitate the coordinated engagement of all relevant stakeholders market, political, legislative, governmental, civilian, etc.) with their respective roles being clearly defined and adhered to.
- **Policies & strategies** are underpinned by a legislation, cost and risk objectives, are implemented independently of, but consistent with fiscal and monetary policies plus government cash management and debt markets development.
- **Operational functions** are adequately resourced, workflows are interlinked but segregated into front,

, middle and back offices for professionalism that enables specialization, efficiency, non-duplication, comprehensive coverage of all tasks, operational risk management and business continuity.

- There is accountability via regular monitoring and evaluation - including through internal and external auditing - and routine reporting per standards.

Legislation

Best practice requires that existing primary Law (Constitution or at least an Act of Parliament such as States Loans & Guarantees Act, Public Finance Act, Budget Law) explicitly accords the Legislature the ultimate power to borrow or issue guarantees on government's behalf, or to delegate this power to the Executive branch or its agents or officials, e.g. Finance Minister. In line with this:

- Any second-level delegation of borrowing, guaranteeing and debt management powers (e.g. to Central Bank, state/local authorities, or other implementing entities wishing to borrow) should be defined in written executive orders, decrees, agency agreements, etc. that are in line with the primary law.
- Primary legislation should define not only to whom borrowing powers are delegated, but also the limits and purposes for borrowing or issuance of guarantees (e.g. for purposes of implementing a Parliament-approved budget).
- Legal provisions should also outline the due diligence process to be followed when borrowing, spending debt proceeds, processing transactions, accounting, reporting, and complying with internal & external auditing (per Public Audit Act).

Modern legislation also goes further to spell out the objectives and strategies for debt management or guarantees issuance, and may list the specific than generic purposes for borrowing in this regard.

Examples hereunder include:

- Funding an approved budget's deficit or temporary cash shortfalls thereof.
- Refinancing, pre-financing or swapping outstanding debt or guarantees, sometimes with the view to attaining approved cost-risk benchmarks of the announced government policy and strategy Fulfilling the central bank's set monetary policy and foreign exchange objectives.
- Promoting the development of primary and secondary market.
- Funding emergencies and natural disasters.

Institutions

Institutional Arrangements should be consistent with the Legal Framework and Best Practice. The following are the typical stakeholders in public domestic debt management:

- Legislature: Parliament/Senate.
- Government: Solicitor/Attorney General; Ministry of Finance and/or Planning; Line Ministries and Other State/Quasi-Government Borrowing and Reporting Entities, including Central Bank and National Statistical Office.
- Capital Markets Authority or other regulating bodies, including the national Revenue Authority.
- Debt Management Office (if not embedded in Government Ministries).
- Auditors (Internal Audit and External Auditors (General)).
- Primary and Secondary Market Participants (Corporate and Individual) including the Stock Exchange.
- The General Public / Civil Society.
- External Players, e.g. Investors, Rating Agencies, Development Partners.

Parliament/Senate:

- Creates and amends (as necessary) the relevant laws for domestic borrowing, issuance of guarantees and operational processes incidental thereto.
- Approves the national budget within which domestic borrowing and servicing requirements are quantified and subsequently implemented.
- Receives and considers periodic defined reports from the Executive's implementing agencies (Ministry of Finance and Central Bank).
- Considers any compliance issues that may arise, including those in audit reports.

Attorney General:

- Provides legal opinion for public debt operations in relation to existing laws.
- Gets involved on government side in legal cases that may arise from government borrowing and public debt management.

Ministry of Planning/Development:

- Defines the public sector investment programme (PSIP) and related projects for which borrowing will be required, as part of national development planning.
- Evaluates debt-funded projects' consistency with set national priorities.

Ministry of Finance and National Statistical Office:

- Determines and presents (to Parliament for approval) the amount to be borrowed or guaranteed annually as part of the national budgeting process.
- Collaborates with the Central Bank in performing various economic/financial analyses and forecasting (cash management), developing a debt strategy, issuing appropriate debt instruments, and managing and reporting on debt operations.
- Receives and deploys borrowing proceeds for set purposes through disbursement to, and monitoring of spending by the implementing agencies.
- Services and redeems debt falling due, including any debt reorganization.
- Monitors and reports – nationally and internationally - on the debt stock and guarantees/contingent liabilities, in collaboration with national statistical office.

Line Ministries and Other State/Quasi-Government Entities:

- Line Ministries, State/Local Authorities and State-Owned Enterprises present funding needs, borrowing authority and or guarantees as appropriate
- They also report and account for the funds received through Ministry of Finance

Central Bank:

- Manages investor relations, including regulating, informing and interfacing with debt market.
- Determines size, frequency and instruments to issue for its monetary policy (via Monetary Policy or Cash Flow Committee) and, in consultation with ministry of finance, the details for fiscal issues.
- As fiscal agent, performs banking and custodial functions for domestic debt
- Generates back office information – including computerized records - regarding domestic debt sales, servicing /redemptions that is shared with ministry of finance (and debt management office)
- Reports on domestic debt, as part of regular central bank reporting

Capital Markets Authority, Revenue Authority and Stock Exchange:

- Capital Markets Authority licenses and regulates the activities of capital market investors.
- Revenue Authority sets the tax rates applicable to the gains realized in debt markets, and collects the relevant tax receipts.
- Stock Exchange enables trading of government securities as part of secondary market activity.

Debt Management Office (DMO):

- If not embedded in Ministry Of Finance (MOF)/Central Bank structures, the DMO would be (semi)-autonomous entity that is answerable to the Government through a Board.
- Under this setting, DMO would perform all front, middle and back office functions, based on objectives and benchmarks set by central government.
- Its operations would still be coordinated with fiscal and monetary policies and cash management Consistency.

Investors:

- Investors make decisions about buying/selling debt instruments, with some acting as primary dealers who also buy to trade than hold to maturity.
- They base these decisions on market information available (e.g. from rating agencies) plus MOF/DMO borrowing plan and debt strategy.

General Public / Civil Society:

- Influence and monitor public borrowing and debt management through lobbying, campaigning and representation by the Legislature.
- Require access to information and consultation by decision makers to enable effective participation and monitoring for government accountability to the people.

External Players (e.g Foreign investors, Rating Agencies and Development Partners)

- Require access to robust information for investment/lending decisions.
- Monitor and review debt situation, among other indicators, and determine their interventions or Participation.

Policy

- Domestic debt policy should be developed in the **context of total public debt management**.
- Policy should be **consistent with other macroeconomic areas**, notably fiscal and monetary policies as well as government cash management and forecasting.
- It should **address the level, use, cost and risk** of borrowing and indebtedness over the medium-to-long term, within the objectives for debt management.
- A **medium term debt strategy (MTDS)** should be designed and regularly reviewed, as a tool for policy implementation.
- The policy and strategy should be **informed by incisive debt sustainability analysis (DSA)**, based on international tools and techniques, e.g. BWI's debt sustainability framework (DSF).
- High **quality debt, financial and macroeconomic data and projections** should be used for DSA to ensure that analysis is credible for appropriate policy making and strategy formulation.

Debt management functions are best performed under a Debt Management Office (DMO), which may be autonomous, semi-autonomous or embedded with the structures of Ministry of Finance and/or Central Bank. Best practice is to segregate professional functions into front, middle and back office performing the following roles:

Front Office:

- Raises funding through issuance of fiscal and monetary policy securities, ways and means (where applicable), rolling over of maturing debt, and (exceptionally) facilitating supplies to public entities for payment thereafter.
- Also interacts with the debt markets to receive and provide key information for decision making e.g. announcing strategy, borrowing plan and prospectus.

Middle Office:

- Performs technical, strategic and policy analysis, including designing the borrowing plan, debt strategy and analyzing debt sustainability and portfolio.
- Also does cash flow analysis and forecasting that helps to identify short term funding needs that determine the size and structure of securities to be issued.

Back Office:

- Monitors and reports on public debt stocks, flows, and statistics, including through publications and posting to official national and international websites, per international reporting standards
- Processes disbursements and debt service transactions, including registering and validating these in government books and information systems (IT), e.g. CS-DRMS, CSD, BES, UNCTAD-DMFAS
- Secures the manual and electronic debt information and databases, including managing the related IT support function.

Debt Auditing:

- Strictly, auditing is not part of debt management functions. It is an external intervention from internal and external audit departments.
- Debt auditing should cover compliance and performance aspects across all functions of the DMO, Using INTOSAI, statistical and DeMPA guidelines.
- DMO's role is to comply and follow up on identified or reported audit issues.
- Best practice requires that **adapted international standards** are adopted and procedures Documented for total debt for all policy, resourcing, operations, and monitoring and evaluation aspects (via DeMPA and auditing).
- **Legislation that is modern** enough to enable the implementation of monitored best practice is important for domestic debt sustainability.
- Centralized **DMO-based institutional structures** should be pursued, but with due recognition to country circumstances and dynamics over time. Where centralization is not feasible, inter-institutional coordination should be strengthened. Debt management committees thus become more pertinent.
- **Transparency, accountability and timely and wide information dissemination** are critical for credibility of domestic debt management.
- **Policy consistency and coordination** with all other macroeconomic areas based on incisive analysis underpinned by a knowledge of relevant precedents, global trends, availability of quality information, concessionality-cost-benefit considerations, legal and policy ceiling, and a non-explosive debt path
- **Diversify** domestic and external sources within **fiscal prudence**.

5.0 Government Perspective on Domestic Debt Management, the Case of Kenya. By: Rachael Njoroge, Senior Economist, Domestic Debt Department, and Ministry of Finance, Kenya.

The presenter started off by conveying her appreciation for being invited to this important regional conference. She expressed the high value that her department attached to these kind of processes and especially when the CSOs take a proactive role in engaging the government. This she felt was the way to go and out rightly expressed that the government valued such relations and this would be reciprocated in terms of what her department is engaged with.

It was her sincere hope that through her presentation, she would be able to share the government process and progress but most important be able to generate perspectives from the CSOs. As a first attempt, she looked forward to this becoming a lasting engagement process for the mutual benefit of all actors involved. She took the participants through the structure of her presentation, highlighting that while this was a purely Kenyan perspective it might shed light on regional similarities or offer a comparative basis for other countries present.

Kenya's Experience

- The principal debt management objective is to raise adequate levels of financing government budget at minimum costs and prudent risks. All this is done by pursuing strategies that ensure that public debt is maintained at sustainable levels over the medium term (debt sustainability is key).
- Public Domestic debt: Debt incurred by a government's borrowing from its residents.
- The Central Bank of Kenya issues domestic debt as a fiscal agent of the Ministry of Finance.

Legal Framework

Internal Borrowing

- The **Internal Loans Act (Cap 420)** governs direct Government borrowing from domestic sources.
 - Government borrowing from the Central Bank of Kenya is governed by the **Central Bank of Kenya Act Cap 491** that pegs the ceiling of such borrowing to 5% of the most recent current audited Government revenue accounts.
 - * Currently, the overdraft limit is Kshs 23 billion.
 - Central Government issues domestic debt in form of :
 - Treasury bills: 91 days, 182 days and 364-days regularly issued.
 - Treasury bonds range from 2-yr to 25-yr. Bonds types being issued include :–
 - Fixed coupon.
 - Infrastructure Bonds
 - Special/securitized bonds.
 - Bonds and bills issued via auction-based open tender system to encourage price-discovery, critical for secondary trading.
 - The Government instruments dominate the market (90%) with the corporate bonds taking 10%.
- #### Socio-Economic Effects of Debt
- Large amounts of resources used to service debt at the expense of pro-poor expenditures, deepening poverty.
 - When the debt portfolio is very large, (unsustainable) the country may face servicing problems. This forces the country to borrow more to repay old debts and the vicious circle continues (debt overhang).
 - **Increased domestic debt leads to:**
 - Crowding out of the private sector that generates economic growth and employment.
 - Upward pressure on interest rates leading to non performing loans.
 - In situations where debt is well utilized, it can lead to growth and improved living standards.
 - However, in most cases, resources from debt have been ineffectively utilized.

Infrastructure Bond Issue

- A major development debuted in February 2009 - the issuance of the Ksh 18.6 billion IFB.
- Provided a benchmark for corporate issuers, such as KENGEN, Safaricom and HFCK
- More IFBs issued
- Ksh 32.9 billion in FY 2009/10
- Ksh 31.5 billion in FY 2010/11
- Proceeds utilized in roads, water and energy sectors
- Water Conservation and Dam Construction
- Construction of Sewerage and water supplies
- Irrigation and Land Reclamation
- Geothermal and Coal Resource Exploration and Development
- Highways, including Thika Road

Effective Debt Utilization

- To make debt effective, a range of reforms have been implemented in Kenya:
- Development of a Medium Term Debt Strategy (MTDS)
- Improved governance including a focused anti-corruption strategy
- Implementation of financial management reforms
- Implementation of an Integrated Financial Management System (IFMIS)
- Improved Public Expenditure Management Review
- Privatization
- Procurement

Kenya's Debt Strategy

- The overall objective for Government debt management strategy is to **meet the central government's financing requirements at minimal cost** with a prudent degree of risk. It also aims at facilitating the government's access to the financial markets as well as supporting the development of a well functioning domestic financial market.
- External debt portfolio – minimizes the degree of foreign exchange rate risk and minimizes costs by maximizing on concessional borrowing.
- Domestic debt portfolio – minimize refinancing risk by lengthening the maturity profile and developing the domestic debt market further.
- Maintain an overall framework of minimum budget deficits (less than 4 percent of GDP) to ensure that debt/GDP ratio declines significantly in the medium term;
- Maintain net domestic borrowing below 1.8 percent of GDP in the medium term;
- Maintain the Treasury Bill: Treasury Bond ratio at 30:70 to minimize refinancing risk;
- Treasury Bonds issued around benchmark bonds of 2, 5, 10, 15 and 20 year tenors to build liquidity

Other Debt Strategy Measures

- Ensure that both the level and rate of growth of Kenya's domestic debt are fundamentally sustainable over time and can be serviced under a wide range of circumstances at minimum cost and risk.
- Domestic borrowing and monetary policies are closely coordinated to ensure that the government raises the required resources from the financial market without raising interest rates and crowding out the private sector.
- Ensure continued or wider access to the domestic market.
- Minimize borrowing and debt service costs
- Achieve a balanced maturity structure
- Build and promote a liquid and efficient market for government securities.

How Does Debt Management Ensure Economic Sustainability

- To ensure that the borrowing is sustainable and consistent with other economic parameters, it is informed by debt policies and strategies.

Debt Sustainability

- Sustainable debt is the level of debt which allows a debtor country to:
- Meet its current and future debt service obligations in full, without recourse to further debt relief or rescheduling, avoiding accumulation of arrears,
- while allowing an acceptable level of economic growth.

Key Reforms and strategies in the Domestic Debt Management

- **Market Leaders Forum** – Consultative forum for key market players crucial for market development.
- **Issuance Calendar** – Availability of securities issuance calendar has been instrumental in investor planning and offer take-up
- **Benchmark bonds** – Government adopted 2,5,10,15 and 20-year as benchmark maturities in 2007. Reopening started in 2009, further deepening bond market
- **Tax** – Tax exemption to most institutional investors; reduced with-holding tax for bonds maturing after 10yrs to 10% from 15%; and removal of tax on capital gains on trading margins created demand for bonds.
- **Pension and Insurance Sector Reforms** – Created demand for long term bonds
- **Issuance Method and Pricing** – Adoption of Auction-based offers has promoted price-discovery, which is crucial for market development.
- **Automated Trading System (ATS)** – Adopted in 2009, ATS has improved efficiency and safety of secondary trading for bonds, since transactions are on Delivery Vs payment (DvP).
- **Market Awareness** – Investor Education through print and electronic media has created market demand
- **Review of the Securities Law** – Allowed dematerialisation of the Register to facilitate secondary trading.
- **Infrastructure bonds** -Key benchmark to corporate debt issuers besides funding key government projects.
- **Horizontal Repos Transactions (HRT)** - Adoption of HRT platform in 2008 enhanced liquidity Distribution across the financial system and created more demand for government paper used as Collateral.

Outcomes

- Low Refinancing risk – The current 5-years average maturity has significantly reduced refinancing/redemption risk associated with short term debt.
- Yield Curve (YC) –the market has well-established and reliable yield curve. YC is a critical pricing tool for both government and corporate bonds issuers.
- Vibrant Secondary market – Bonds turnover has increased significantly.

Way Forward

- **Benchmark bonds and IFBs** – Continued issuance
- **Market Makers (MM)** – To develop secondary market further, plans are at hand to rollout Market makers window to achieve 2-way price quote and commitment by MMs to make the market.
- **Over-the-Counter (OTC) platform** – OTC trading for bonds will operate alongside the exchange- traded platform.
- **Primary Market structure**
 - introduce online bidding for institutional investors;
 - agency arrangement for retail investors.

- **Financial Literacy Programme** – More structured investor education programme in the pipeline.
- Close co-ordination between Monetary and Fiscal Policy.
- Development of a Bond Index.
- Expand range of products e.g. Sukuk.
- Encourage public and corporate entities to issue bonds.

Plenary Discussions

1. Since capital markets are more attuned to the seasoned investors and the “real” market is the ordinary Kenyan people, what are the efforts of reaching out to broader citizen participation and how do citizens fit within this emergent policy space?
 - The Central Bank of Kenya holds forums to educate investors. To widen its reach, CBK is to sign an agency agreement with Post Bank to act for it at the grass-root levels due to its elaborate network. This will ensure people in the rural areas are not locked in the process. For the Infrastructure bonds, they are funded through the Ministries at the district offices.
2. These are excellent ideas on paper. If the Kenyan government has implemented them why has Kenya not progressed in this field?
 - Kenya is not there yet and still there is room for closer interactions in place. In the financial sector, reforms are being inter-linked and this should be able to move us forward.
3. This was a great presentation but notably citizen participation in the capital market is wanting. Is the process simplified for ordinary citizen to participate?
 - Information can be sourced from CBK offices, satellite offices of CBK in Kisumu and Mombasa and we intend to use Post Bank as agents.
4. Debt Management Strategy looks a bit confusing. Is it an informal or formal strategy?
 - Since June 2009 the government has formulated a formal debt strategy that was approved by the Cabinet. This is in its 2nd year.
5. What is the role of Parliament in scrutiny of debt management? Do you see a role of non-stakeholders to assist on impact assessment or other inputs?
 - Our offices are open to all and all the information is on the website. We are ready to listen and dialogue. Through investor education we urge the citizens to own the development agenda of this country through the projects that are being implemented.
6. Does the government envision bringing on board non-state actors?
 - I will present this proposal to the office though previously we have not. There is room for this before taking policy statements to the cabinet for approval. The roles of Treasury technocrats vis-à-vis CBK are very clear. The debt department was a division and now it is a department. We are looking forward to transform it into a DMO and we envisage a situation where staff of CBK will be seconded to Treasury for closer working relations/links.
7. The debt management policy framework in place is it a policy for the current government in power and will change when a new government comes into power?
 - It is a long term government policy approved by cabinet.

6.0 Civil Society Perspectives on Domestic Debt Management. A Regional Perspective. By: Milward Tobias, MEJN, Malawi.

The presenter highlighted that in his presentation, he would use the case of Malawi, which is what he is exceedingly familiar with, to draw on the perspectives of civil society.

1. Drivers of domestic debt

- Corruption and financial mismanagement
- Donor withholding of support
- Low absorption rates of external resources

2. Concerns about high domestic debt

- High interest payment
- Short maturity thus forcing government to roll over.
- Not earmarked for any specific project thus hard to assess return, risk, cost
- Low participation of ordinary citizens on the market- inadequate sensitization

3. What We are Doing

- MEJN is facilitating development of debt audit strategy.
- Organized a debt audit training for civil society on 7-8 October.
- Is facilitating another debt audit training for members of Budget and Finance Committee on 23-24 November.
- Plans to collaborate with National Audit Office to audit debt supported projects (external debt).

4. Opportunities and Challenges

- Parliament, Government and Central Bank are available to civil society.
- Limited capacity of civil society in numbers and skills to understand and competently offer advice on debt.
- Parliament stifled by party caucuses whose decisions override public interest sometimes
- Resource constraints undermining civil society work in debt auditing.

5. Conclusions

- Domestic debt is declining but still high.
- Budget deficit is order of the day as such debt is indispensable.
- What is needed is to ensure that debt resources are used for the welfare of the people and is sustainable
- Involvement of non state actors –define the stage at which CSOs can intervene (usually during budget deliberations)
- Debt analysis should consider fiscal management, meeting obligations on donor agreement, level of liquidity on the market, and use of debt resources

7.0 Policy Advice, Recommendations and Way Forward.

8.0 Concluding Remarks

8.1 AFRODAD, Executive Director, Collins Magalasi

Emphasizing on the ground that had been covered and the notable input that had emanated especially in regards to the critical feedback on the research findings, the Executive Director felt that the process of unpacking the reality of domestic debt management in African countries, an emerging critical issue of focus had started in earnest.

Thanking the participants for finding time to not only attend the two day conference, but also participate very effectively, he particularly singled out the Malawi for coming with a journalist to the conference and it was his hope that the outcomes would be projected to the larger citizenry in and across countries. While this was a work in progress, he looked forward to seeing real action translated on the ground in the country process.

Once again he thanked KENDREN for being good hosts.

8.2 KENDREN, Coordinator, Wahu Kaara

She started by thanking all for making the workshop a success. She thanked the researchers for making the process easy thus laying a foundation for the future work of implementing the recommendations. She profoundly thanked the government representative for all the insights and showing the future cordial relations of government with CSOs as the government has shifted and started engaging CSOs as shown by their full participation in the conference. She greatly looked forward for a replication of this across countries. She noted that even though the government is concentrated more in resource mobilization and especially in the capital markets, it still does have a monumental role and location in social processes. She challenged AFFRODAD whom she regarded as having the opportunity to take over the mantle of a robust pan African discourse from where Nkrumah left and she re affirmed that throughout this journey, KENDREN will walk with AFFRODAD and other CSOs.

Participants list

		ORGANIZATION	E-MAIL
1	Nancy Ayesua Out	ECASARD, GHANA	notu@ecasard.org
2	Kristie O'neill	University of	Kristie.oneill@utoronto.ca
3	Phyllis Nduva	Makueni Social	nduvaphyllis@yahoo.com
4	Wahu Kaara	KENDREN	Wahu.kaara@kendren.org
5	Collins Magalasi	AFRODAD	Collins@afrodad.co.zw
6	Kiama Kaara	KENDREN	Kiama.kaara@kendren.org
7	Cornilious Deredza	MEFMI	Cornilious.deredza@mefmi.
8	Chilufya William	CSPR	William@cspr.org.zm
9	Chilinga Vladmir	CGD	chilingav@gmail.com
10	Patrick Mucheleke	CSPR	pmucheleke@cspr.org.zm
11	Milward Tobias	MEJN	mtobias@mejn.mw
12	Kofi Ayivor	ISODEC	T_ayivor@hotmail.com
13	Thom Khanje	Blantyre Newspaper	
14	Richard Babu	TARC	Richardbabu57@yahoo.co
15	Beatrice Wacera	Seed Institute	Beatrice@seedinstitute.com
16	Kabazzi Richard	GCAP Kenya	kabazzirichard@yahoo.com
17	Sheikh Ramadhan	Nubian rights	
18	Hilda	4C's	adhiambohilda@gmail.com
19	Showers Mawowa	ZIMCODD	showers@zimcodd.co.zw
20	Cyprian Kwayera	SSMS	Cypriano_cypriano@yahoo.
21	Taurai Chiraerae	AFRODAD	Taurai@afrodad
22	Vitalice Meja	ROA –AFRICA	Vitalice@yahoo.com
23	Tony Moturi	KENDREN	Tony.moturi@kendren.org
24	Hillary Andalo	KENDREN	Hillary.andalo@kendren.org
25	Diana Mochoge	KENDREN	dianamochoge@yahoo.com
26	Rita Obel	KENDREN	assisiobel@yahoo.com
27	Samson Mutinda	KENDREN	mutindasamson@yahoo.co