



OFFICE OF THE DEPUTY
PRIME MINISTER
& MINISTRY OF FINANCE



Reforms in Public Finance Management



Joseph Kinyua, PS Treasury

CONTEXT

Government of Kenya launched a comprehensive programme - the Public Financial Management Reform Programme (PFMR) - to strengthen public financial management systems in 2006. The programme supported reforms and capacity building in ministries and agencies central to implementation of the broader economic reforms in Kenya. The objective of the programme was to make public financial management more transparent, accountable, and responsive to policy priorities. Essentially, it was a response to the realization that governance challenges in the public sector had for many years impacted negatively on Kenya's economic growth and development contributing to increased cost of doing business in the country, discouraging private investment, and was an obstacle to addressing widespread poverty and improving the quality of life of citizens. Previous reform initiatives to deal with these problems yielded only modest results, but starting after election in 2002, reform programmes became more effective. Several components undertook reforms to improve fiscal discipline, bring resource allocations in line with development priorities, improve budgeting preparation and execution as well as financial reporting and evaluation processes. Development Partners, including the World Bank, European Commission, JICA, DFID, DANIDA, Sweden, CIDA, GIZ, USAid and Norway worked closely with the Kenya Government in implementing the reforms. The first phase of the programme ended in June 2011.

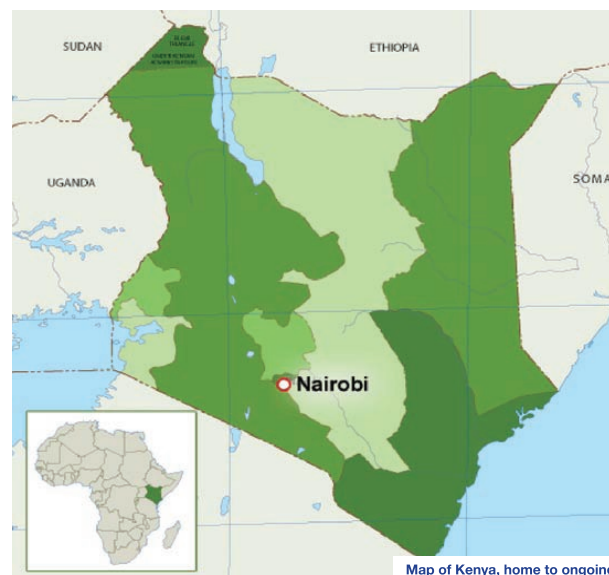
This Dissemination Note reviews the programme's reform interventions and achievements in Public Debt Management.

PUBLIC DEBT MANAGEMENT IN KENYA

Good public financial management practice prescribes that public borrowing and the level of public debt have to be consistent with the overall fiscal framework to ensure macro-economic stability. Since 2004, Kenya's Treasury has been working with the Public Financial Management Reform Programme and the Financial and Legal Sector Technical Assistance Project (FLSTAP) to actualize its commitment to pursue prudent debt management strategies so as to ensure that public debt remains within sustainability thresholds.

The Treasury's objective is to transform the Debt Management Department (DMD) to a Debt Management Office (DMO) at the Ministry of Finance anchored on an effective staff retention framework to effectively perform public debt management functions in accordance with best practice. A Debt Management Department has been established at the Ministry of Finance and is currently the focal point of all matters on public debt management.

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Map of Kenya, home to ongoing PFM Reforms.

DISSEMINATION NOTES [4]

This is the fourth note as part of a series of notes on Public Finance Management Reforms in Kenya

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The Department provides policy guidance to the Central Bank of Kenya in its role as an agent of the Government in borrowing in the domestic market as well as externalization of payments for external loans; guides the External Resources Department (ERD) in cost and risks in the mobilization of external loan resources; and liaises with the Department of Government Investments and Public Enterprises (DGIPE) on on-lending and contingent liabilities for State Owned Enterprises.

Production of an Annual Public Debt Management Report forms one of the deliverables of the Department. The Report is aimed at disseminating information on public debt during the relevant period.

Reforms within the Public Debt Management Department

Background to the reforms

Public debt management in Kenya

over the years was characterized by weak institutional arrangements with debt functions spread across departments at the Ministry of Finance (MoF) and the Central Bank of Kenya (CBK). Besides the Debt Management Department, the other departments/institutions involved in public debt management activities included the External Resources Department, the CBK, the DGIPE, the Attorney General's, the Accountant General's and the Controller and Auditor General's Offices.

At the same time, the debt management functions within MoF and CBK were guided by weak debt policy framework and ad hoc debt management strategies. Under-staffing and high staff turnover was evident particularly within the DMD thus undermining operational efficiency. The external debt database was incomplete and unreliable. There were no operation manuals documenting business processes including workflows while the public debt registry lacked complete public debt records.



John Murugu, Director of Debt Management

We have strengthened our back office operations by installing CS-DRMS, established the debt registry and rolled out the medium term debt management strategy.

KEY RESULTS AT A GLANCE

<i>Before reforms</i>	<i>After reforms</i>
<i>Debt functions were spread across departments such as the External Resources, the Central Bank, the Attorney and the Accountant General's Departments etc</i>	<i>Functions consolidated under the Debt Management Department with clear structures and functions.</i>
<i>Weak debt policy framework and ad hoc strategies</i>	<i>The Medium Term Debt Strategy is in place.</i>
<i>Under staffing and high staff turnover</i>	<i>Staffing has been enhanced and a new scheme of service is to be implemented</i>
<i>External debt database was incomplete and unreliable</i>	<i>New CS-DRMS 2000+ software was installed and has significantly improved reliability of external debt data.</i>
<i>Use of manual debt payment process which resulted in delays, inaccuracies, accumulation of arrears and penalty payments was the norm</i>	<i>An in-house developed system – the Payments Advice Data Entry System (PADES) – is currently used in external debt payment increasing efficiency in payment procedures.</i>
<i>Poor records management and documentation</i>	<i>A comprehensive Public Debt Registry was established and records appropriately filed and archived.</i>

But starting in 2004, the Government with the support of the World Bank and other Development Partners began to implement a five year public debt management reform project, the Financial and Legal Sector Technical Assistance Project (FLSTAP). Key components of the project included the establishment of a comprehensive and reliable public debt database supported by an effective back office, consolidation of debt management functions and capacity building, among others. Two years later in 2006, the Public Financial Management Reform Programme joined FLSTAP in supporting reforms at the DMD.

Major Reforms

With the support of the PFMR Programme and the FLSTAP, the Debt Management Department undertook several activities aimed at strengthening the management of public debt. The activities focused on reorganization of the Debt Management Department into three distinct but interrelated functions of Front, Middle and Back office operations in accordance with best practice. Development of the Medium Term Debt Strategy was top on the Department's reform agenda.

Concerning consolidation of Debt Management functions, the DMD organizational structure was set up and the various functions clearly defined. The structure is expected to be complemented by the envisaged development of a Treasury Scheme of Service. Further, staffing and staff training at the Department has been enhanced, work plans are developed, implemented monitored and evaluated annually while a DMD Service Charter has been put in place to enhance service delivery to clients.



John Mutua, Programme Officer (Budget Information) - Institute of Economic Affairs



Great strides have been made in providing information on the country's debt situation. The Annual Debt Management Reports, the Treasury website (www.treasury.go.ke), the Treasury Library and the Government Printer are useful sources of information on debt. However, the Department needs to clearly prescribe the threshold for recurrent and development expenditure in line with the new Constitution.

In terms of strengthening Back Office operations, new CS-DRMS 2000+ software was installed and undergoes periodic upgrades. Updated and validated external debt data is regularly fed in the CS-DRMS database while the CS-DRMS 2000+ is the platform of choice in Back office operations in computing debt service forecasts for the annual Budget and other debt statistics.

To further bolster Back Office work, external debt service Payment Advice (PA) has been computerized and is currently executed through an in-house developed system, the Payments Advice Data Entry System (PADES). The process was previously done manually, resulting in delays, inaccuracies and

subsequent accumulation of arrears and resultant penalty payments. In order to guide all processes in the Back Office, a Back Office operations manual has been developed.

Further reforms were effected in the area of records management and documentation. The Department initiated the establishment of a comprehensive Public Debt Registry. An inventory of loan agreements and files was also carried out and records appropriately filed/archived.

The Department has also recently recorded critical progress by basing its operations on a Strategy (the Medium Term Debt Strategy) reviewed from time to time. The Strategy presents a logical framework for evaluating the

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financing options of the annual Budget. The MTDS not only guides Government borrowing decisions on the basis of costs but also help identify, monitor and manage key financial risks in the debt portfolio to ensure that debt remains at sustainable levels. Among its key highlights, the Strategy provides for the grant element to be retained at 35%, external and domestic borrowing to be pegged at 30% and 70% of total financial needs respectively.

NEXT PHASE OF REFORMS

The Public Financial Management bill 2012 proposes the establishment of the Public Debt Management Office within the National Treasury. In line with requirements of the bill, the department shall channel increased resources to establish the Debt Management Office (DMO).

The objectives of the DMO shall include minimizing the cost of public debt and borrowing over the long-term taking account of risk, promoting the development of markets for Government debt securities and ensuring the sharing of the benefits and costs of public debt between the current and future generations.

Further automation of the external debt payment process shall be a major activity for the department in the ensuing phase. The department plans to seek ways of replacing the Payment Advice with a fully automated system of settling the external debts. It is envisaged that the new system will be



Felister Kivisi, Senior Assistant Director - Debt Management Department

We plan to establish the Debt Management Office as per the new Constitution, deepen automation of external debt payment process and accomplish full digitization debt records.

linked to the existing systems like CSDRMS 2000+, Integrated and Financial Management Information System (IFMIS) and the Society for Worldwide Interbank Financial Telecommunication (SWIFT). The change to an automated system will require re-engineering of the process which will be achieved through a Business Process Re-engineering (BPR) initiative.

The main debt management system in government, CS-DRMS 2000+, is not linked to other financial management systems in government like IFMIS or GPAY. The department plans to achieve full integration with both IFMIS and SWIFT systems. Linkage with the IFMIS system will eliminate double entries of data

and also ensure availability of data between the two systems on a real-time basis.

The department also plans to further deepen digitization of records. Currently, the department is heavily reliant on paper records, which negatively impacts on timeliness of settlement of public debts. Once all the agreements are digitized, processing of payments will become easier and faster compared to the manual system since the scanned copies will be available within the CS-DRMS 2000+.

To achieve the above plans, the department will require to recruit and build capacity of its staff, equipment in terms of computers and other office machines, consultancies and undertake benchmarking/study visits to other DMOs ■

For further information on reforms, please visit;

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