

The National Debt Level and its Implications to County Governments and Assemblies

Dr. Abraham Rugo Muriu,
Country Manager-IBP Kenya

Outline



- What we know
- What we do not know
- What should concern us
- Implications for service delivery at county level

Debt has a place!!



- Public debt is not necessarily bad a means to raise cash for essential long term capital investments
- To be able to invest today for returns tomorrow. Borrowing is in essence future tax.
- But, do we borrow because we have a deficit or do we create a deficit because we can borrow? Shall we be able to pay back tomorrow?
- Investing in the economy through local borrowing!!

Debt Growing....fast!!



- Our debt has grown over three fold in the last 7 years. What can explain this?

| Year | Domestic | External | Total (KES. M) |
|------|--------------|---------------------|---------------------|
| 2010 | 720,207.97 | 599,930.46 | 1,320,138.43 |
| 2011 | 799,880.06 | 685,607.92 | 1,485,487.98 |
| 2012 | 971,265.44 | 821,972.82 | 1,793,238.26 |
| 2013 | 1,189,182.59 | 922,369.15 | 2,111,551.74 |
| 2014 | 1,307,748.71 | 1,170,696.28 | 2,478,444.99 |
| 2015 | 1,540,579.13 | 1,615,184.20 | 3,155,763.33 |
| 2016 | 1,930,855.01 | 1,896,443.05 | 3,827,298.06 |
| 2017 | 2,220,345.35 | 2,349,284.44 | 4,569,629.79 |

What we know



- The composition of debt changed to mostly external debt. This could be an indication of a slowdown in domestic borrowing and growth.
- Short term commercial loans that are much more expensive for government to repay.
- There has not been sufficient consultation on how borrowing is happening

Treasury Concerns



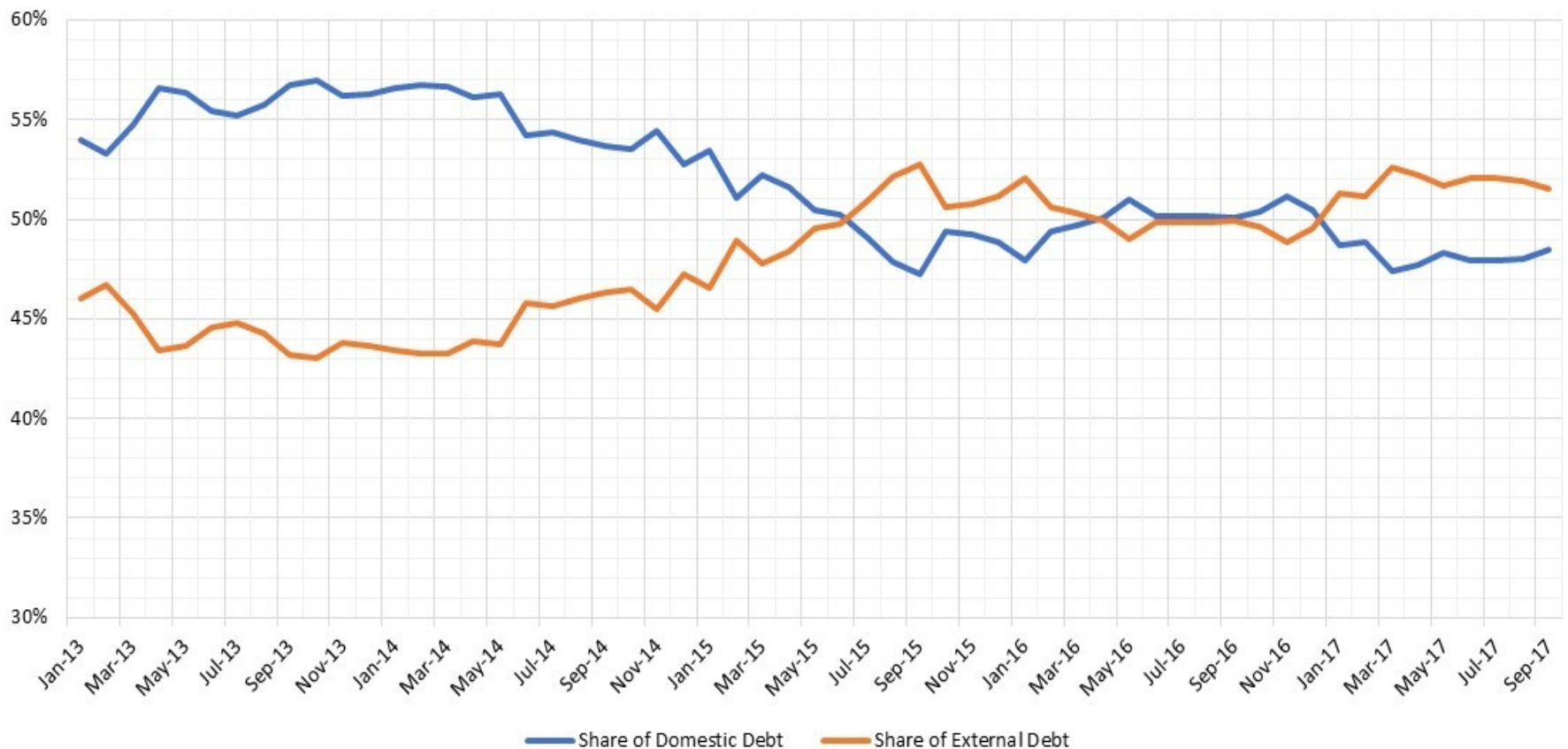
“18. The sustainability of Kenya’s debt depends on macroeconomic performance and prudence debt management. In addition, increased external financing on both concessional and non-concessional terms pose an inherent foreign exchange risk which may worsen the PV of debt and therefore increases the risk of debt distress.

Increased use of longer-term domestic debt instruments would help mitigate exposure of the Government debt portfolio to foreign currency risk and contribute to reducing domestic rollover”, BPS 2018, Pg. 80

Debt Mix is Changing



Share of Domestic and External Debt as a Share of Total Public Debt (2013-2017)



What we do not know



- The full extent and conditions attached to the various loans
- The utilization of the loan proceeds
- The return on investments from the debt and how we shall pay in the future
- The equity with which the resources are applied across the country

What must concern us/1



Debt service to revenue ratio is very high and the BPS 2018 estimates it was higher than the threshold of 30 percent in 2017 at 36 percent. That level of performance remains high going into 2019.

Table 1.1: Kenya's Public Debt Sustainability Indicators

| Indicator | Threshold | 2016 | 2017 | 2019 | 2026 |
|---|------------------|-------------|-------------|-------------|-------------|
| PV of public sector debt to GDP ratio | 74 | 48.7 | 49.0 | 47.1 | 35.6 |
| PV of public sector debt-to-revenue ratio | 300 | 247.2 | 235.7 | 217.4 | 161.4 |
| Debt service-to-revenue ratio | 30 | 32.8 | 35.8 | 33.4 | 24.3 |

Source: IMF Staff Report for Kenya, February 2017

What must concern us/2



Allocations to debt service are rising at a much faster rate than the growth in ordinary revenue excluding Appropriation in Aid (AIA).

| Year | Ordinary Revenue (excluding AIA) | Public Debt Service | Growth in Ordinary Revenue | Growth in Public Debt Service |
|---------|-------------------------------------|------------------------|----------------------------------|----------------------------------|
| 2014/15 | 1,031.82 | 250.97 | | |
| 2015/16 | 1,152.97 | 250.39 | 12% | 0% |
| 2016/17 | 1,305.79 | 307.16 | 13% | 23% |
| 2017/18 | 1,486.29 | 453.36 | 14% | 48% |
| 2018/19 | 1,688.49 | 687.57 | 14% | 52% |

What must concern us/3



As debt service grows from one year to the next the allocations to counties have been dropping. In addition, the sharable revenue has also not grown by much.

| Year | Public Debt Service | Sharable Revenue | Counties' allocation | Growth in Public Debt Service | Growth in Sharable Revenue | Growth in County Allocation |
|---------|---------------------|------------------|----------------------|-------------------------------|----------------------------|-----------------------------|
| 2014/15 | 250.97 | 1,031.82 | 229.93 | | | |
| 2015/16 | 250.39 | 1,152.97 | 273.07 | 0% | 12% | 19% |
| 2016/17 | 307.16 | 1,305.79 | 294.02 | 23% | 13% | 8% |
| 2017/18 | 453.36 | 1,486.29 | 314.21 | 48% | 14% | 7% |
| 2018/19 | 687.57 | 1,688.49 | 331.23 | 52% | 14% | 5% |
| Average | | | | 30% | 13% | 10% |

Implications for County Service Delivery



- With proper planning capital investments can be deployed to facilitate counties in matters of economic and social development
- Growth in debt repayment means there is less to be shared between the national and county governments. That has direct implications on the level of funds that counties can commit to improvement service delivery in their jurisdictions
- Fiscal strain may push counties to borrow, increase rates, or scale down their services. To what effect?
- The possibility for take over of county functions back by the national government because counties are unable to deliver and there is public outcry
- Rethinking investments at county level to make the most of available cash

What to do?



- IBEC as a good opportunity for deliberation on public debt implications
- Criteria for Division of revenue that ensure that county allocation is stable moving forward
- Public pressure for this debate to be made public with all details
- Equity in distribution of projects financed by debt

Interactive Session

