



**IPSAS & PFM CONFERENCE**  
**THEME: EFFECTIVE REPORTING AND SUSTAINABILITY IN**  
**UTILIZATION OF PUBLIC RESOURCES**

**Day 3 Wednesday 16<sup>th</sup> June 2021**

**Plenary Session 3: Off Balance Sheet Financing Options**

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# CONTENT



## OFF-BALANCE SHEET



1. Off Balance  
Sheet Financing  
Concepts

2. Implication for  
Public Debt

# 1. Off Balance Sheet Financing– Background



## Off-Balance-Sheet Financing

### Basics of Off-Balance-Sheet Financing

**Off-Balance-Sheet Financing** is the non-recording of financing obligations

#### **Motivation**

To keep debt off the balance sheet—part of ever-changing landscape, where as one accounting requirement is brought in to better reflect obligations from a specific off balance-sheet financing transaction, new and innovative means are devised to take its place


#### **Transactions sometimes used as off-balance-sheet financing:**

- Operating leases that are indistinguishable from capital leases
- Through-put agreements, where a company agrees to run goods through a processing facility
- Take-or-pay arrangements, where a company guarantees to pay for goods whether needed or not
- Certain joint ventures and limited partnerships
- Product financing arrangements, where a company sells and agrees to either repurchase inventory or guarantee a selling price
- Sell receivables with recourse and record them as sales rather than liabilities
- Sell receivables as backing for debt sold to the public
- Outstanding loan commitments



# 1. Off Balance Sheet Financing – Operating Leases



	IAS 17 / Topic 840		IFRS 16 / FASB model <sup>6</sup>
	Finance leases	Operating leases	All leases
Assets	✈️ 🏠	---	✈️ ✈️ 🚗 🚌 🏠 🏠 🏠
Liabilities	\$\$	---	\$\$\$\$\$\$\$\$
Off balance sheet rights / obligations	---	<div>              \$\$\$\$\$\$         </div>	---

	IAS 17 / Topic 840 / FASB model		IFRS 16
	Finance leases	Operating leases	All leases
Revenue	x	x	x
Operating costs (excluding depreciation and amortisation)	---	Single expense	---
EBITDA			↑ ↑
Depreciation and amortisation	Depreciation	---	Depreciation
Operating profit			↑
Finance costs	Interest	---	Interest
Profit before tax			↔



# 1. Off Balance Sheet Financing – Operating Leases



Group	At 1 January 2019 (as previously reported) KShs million	Adjustment KShs million	At 1 January 2019 (as restated) KShs million
<b>ASSETS</b>			
<b>Non-current assets</b>			
Right-of-use assets	-	75,725	75,725
Return conditions asset	2,587	(598)	1,989
<b>EQUITY AND LIABILITIES</b>			
<b>Non-current liabilities</b>			
Lease liabilities	-	(69,399)	(69,399)
Return condition provision	(2,382)	(488)	(2,870)
Asset retirement provision	-	(13)	(13)
Onerous lease provision	(30)	30	-
<b>Current liabilities</b>			
Lease liabilities	-	(13,660)	(13,660)
Trade and other payables	(30,038)	1,152	(28,886)
Onerous lease provision	(701)	701	-
<b>Capital and reserves</b>			
Accumulated loss	(60,688)	(6,550)	(67,238)

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# 1. Off Balance Sheet Financing– Central Gov Consolidated FP.



		Financial Year
		2015/2016
	Notes	Kshs
<b>FINANCIAL ASSETS</b>		
<b>Cash and Cash Equivalents</b>		
Bank Balances	9.3.18	125,849,228,362
Cash Balances	9.3.19	339,830,344
<b>Total Cash and Cash Equivalents</b>		<b>126,189,058,707</b>
Accounts Receivables - Outstanding Imprest and Clearance Accounts	9.3.20	17,456,868,434
<b>TOTAL FINANCIAL ASSETS</b>		<b>143,645,927,140</b>
<b>LESS: FINANCIAL LIABILITIES</b>		
Accounts Payables – Deposits	9.3.21	42,666,819,860
<b>NET FINANCIAL ASSETS</b>		<b>100,979,107,280</b>

<b>REPRESENTED BY</b>		
Fund balance brought forward	9.3.22	78,188,471,002
Operating balance for the year		96,494,603,865
Prior year adjustments	9.3.23	(74,391,058,959)
Accrual to cash adjustments	9.3.24	687,091,373
<b>NET FINANCIAL POSITION</b>		<b>100,979,107,280</b>

Description of error	FY 2015/16
	KShs
Adjustments on bank accounts balances	20,257,929,991
Adjustments on cash in hand	(51,098,660)
Adjustments on receivables- Outstanding imprests	(94,599,064,802)
Adjustments on payables- Deposits	1,174,512
<b>Total</b>	<b>(74,391,058,959)</b>

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# 1. Off Balance Sheet Financing– SC & SAGA Consolidated FP.



		FY 2015/2016
NON CURRENT ASSETS	Notes	Kshs
Investments	12	744,695,621,582
Property, plant and equipment	13	2,398,098,265,617
Intangible assets	14	10,612,212,949
Investment property	15	90,461,023,739
<b>TOTAL NON CURRENT ASSETS</b>		<b>3,243,867,123,887</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	16	721,058,831,401
Inventories	17	74,553,658,979
Trade and other receivables	18	591,769,745,097
<b>TOTAL CURRENT ASSETS</b>		<b>1,387,382,235,477</b>
<b>TOTAL ASSETS</b>		<b>4,631,249,359,364</b>

<b>EQUITY AND LIABILITIES</b>		
<b>Capital and Reserves</b>		
Ordinary share capital		278,475,868,171
Revaluation reserve		283,442,361,682
Fair value adjustment reserve		143,666,896,262
Retained earnings		606,307,269,746
Minority interest		11,695,220
Capital Funds		939,402,680,481
Capital Reserves		5,248,985,754
<b>TOTAL CAPITAL AND RESERVES</b>		<b>2,256,555,757,316</b>
<b>NON CURRENT LIABILITIES</b>		
Borrowings	19	515,949,984,787
Deferred tax liability	20	82,978,133,687
Employee benefit obligation	21	14,710,606,965
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>613,638,725,439</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	22	1,392,045,567,842
Finance lease obligation	23	46,727,514
Deferred income	24	234,039,142,048
Employee benefit obligation	21	1,096,786,881
Taxation	20	5,020,111,118
Borrowings current portion	25	128,806,541,206
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,761,054,876,609</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>4,631,249,359,364</b>

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# 1. Off Balance Sheet Financing– County Gov Consolidated FP.



	Note	FY 2019/2020
		KShs
<b>Financial assets</b>		
Cash and cash equivalents		
Bank balances	3.7.19A	43,563,819,112
Cash balances	3.7.19B	16,221,709
<b>Total cash and cash equivalents</b>		<b>43,580,040,821</b>
Accounts receivable	3.7.20	1,379,244,892
<b>Total financial assets</b>		<b>44,959,285,713</b>
<b>Financial liabilities</b>		
Accounts payable	3.7.21	4,633,207,679
<b>Net financial assets</b>		<b>40,326,078,034</b>

<b>Represented by</b>		
Fund balance b/fwd	3.7.22	64,644,733,564
Prior year adjustments	3.7.23	(7,851,434,577)
Surplus for the year		(16,467,220,952)
<b>Net financial position</b>		<b>40,326,078,034</b>

## Prior year adjustments

These comprise of adjustments proposed by the auditors during the audit of FY 2018/2019 financial statements and adjustments made by the entities in FY 2019/2020 to correct bank balances and imprests. Imprest adjustments related to adjustment for unaccounted for imprests that had not been reported in the previous year. The adjustments on bank and cash balances were as a result of the recording of balances as per the bank statement instead of the reconciled cash book balances.



# 2. Off Balance Sheet Financing—Operating Leases in Public Sect

IPSASB<sup>®</sup>



## What Changes Does ED 75 Propose for Lessee Accounting?

ED 75 proposes a right-of-use model for lessees, which distinguishes the right to use an underlying asset (which the lessee controls) and the underlying asset itself (which the lessee does not control).

### Recognition and Measurement of Leases—General Guidance

ED 75 proposes that lessees recognize:

- (a) A right-of-use asset because they control the right to use the underlying asset, compared with IPSAS 13, where the lessee recognizes the underlying asset when the lease is classified as a finance lease, but not when it is classified as an operating lease.
- (b) A lease liability because they have a present obligation to make future lease payments in accordance with the lease contract (once the underlying asset has been made available, and the lessee has the right use it). Under IPSAS 13, a lease liability is not recognized when the lessee classifies the lease as operating lease.

ED 75 proposes measuring the right-of-use asset and the lease liability at cost (the present value of the future lease payments).

### Recognition Exemptions

ED 75 proposes two recognition exemptions for:

- (a) Short-term leases; and
- (b) Leases for which the underlying asset is of low value.

ED 75 proposes that leases, which qualify for the recognition exemptions, be accounted for consistent with how operating leases are treated in IPSAS 13 (expenses recognized on a straight-line basis over the lease term or another systematic basis). IPSAS 13 does not provide recognition exemptions.

## 2. Off Balance Sheet Financing Public Debt: Due to Deficits



**Table 5.16: Consolidated<sup>1</sup> General Government<sup>2</sup> Statement of Operations, 2014/15 – 2018/19**

KSh Million

	2014/15	2015/16	2016/17	2017/18*	2018/19*
<b>Revenue</b>	<b>1,396,517.75</b>	<b>1,512,828.19</b>	<b>1,661,784.65</b>	<b>1,804,761.93</b>	<b>2,042,968.98</b>
Tax revenue.....	1,021,597.03	1,147,236.09	1,286,814.89	1,350,988.58	1,557,817.34
Social contributions.....	24,327.98	41,551.71	45,704.32	55,354.32	15,558.25
Grants:					
International organisation.....	28,117.49	29,596.68	25,903.99	27,600.14	47,483.00
Other revenue.....	322,475.25	294,443.71	303,361.46	370,818.89	422,110.39
Sale of Goods & Services.....	130,735.55	119,079.23	122,583.60	122,292.96	230,556.31
Property income.....	36,115.03	45,873.89	53,892.51	52,965.75	43,445.92
Ministerial AIA.....	56,705.93	62,398.11	75,881.13	139,056.53	99,379.85
Fines, Penalties & Forfeits.....	47,223.77	12,443.68	17,555.26	18,414.57	3,018.68
Other transfers NEC.....	51,694.96	54,648.79	33,448.97	38,089.08	45,709.63

## 2. Off Balance Sheet Financing - Public Debt: Deficits



Expense	1,374,151.43	1,615,033.25	1,945,116.67	2,136,855.82	2,585,590.43
Compensation of employees.....	565,049.02	622,268.55	670,762.20	784,526.08	851,682.87
Use of goods and services.....	385,918.19	415,166.74	408,853.15	439,545.94	348,579.16
CFC/Depreciation.....	12,553.52	13,914.36	14,537.86	15,029.16	17,455.53
Interest.....	173,186.76	225,287.27	243,616.09	329,429.36	382,705.62
Subsidies.....	31,153.46	42,568.02	53,950.42	64,547.92	61,259.19
Grants:					
International Organisation.....	2,807.70	2,744.44	2,619.73	3,517.71	3,858.25
Other General Government.....	145,439.43	188,534.89	366,841.75	335,856.36	372,481.38
Social benefits.....	46,681.82	87,974.91	104,527.19	117,296.33	136,476.37
Other expense.....	11,361.54	16,574.08	79,408.29	47,106.97	411,092.05
<b>Net Operating Balance</b>	<b>22,366.32</b>	<b>-102,521.65</b>	<b>-283,332.02</b>	<b>-332,093.89</b>	<b>-273,941.90</b>

## 2. Off Balance Sheet Financing - Public Debt: Deficits



Acquisition of Non-Financial Assets.....	545,267.39	405,355.54	421,070.30	378,082.48	477,674.91
Acquisition of fixed assets.....	540,839.45	399,957.63	425,753.35	373,873.01	522,107.19
Inventories.....	9,806.33	6,185.47	7,630.78	12,636.56	10,567.26
Non-produced Assets and Land.....	18,312.92	18,381.65	10,452.73	9,380.32	10,684.18
Disposal of non-financial assets.....	-23,691.30	-19,169.21	-22,766.56	-17,807.40	-65,683.72
<b>Net lending/ Borrowing.....</b>	<b>-522,901.08</b>	<b>-507,877.19</b>	<b>-704,402.33</b>	<b>-710,176.38</b>	<b>-751,616.81</b>

### MEMORANDUM ITEMS:

8. Public debt redemption ... ..	222,896.68	216,943.22	344,334.90	470,634.98	255,073.01
8.1. External .. .. .	35,633.36	44,839.00	150,282.37	250,282.53	131,382.47
8.2. Internal .. .. .	187,263.32	172,104.23	194,052.52	220,352.45	123,690.54



# 2. Off Balance Sheet Financing- Public Debt: Balances



**Table 5.10: National Government Outstanding Debt by Source, 2015-2019**

	KSh Million				
Outstanding as at 30 <sup>th</sup> June	2015	2016	2017	2018	2019*
<b>EXTERNAL DEBT:</b>					
<b>Total (bilateral).....</b>	<b>445,056.63</b>	<b>548,350.69</b>	<b>722,568.48</b>	<b>815,387.92</b>	<b>996,059.24</b>
<b>International Organisations:</b>					
IDA/IFAD.....	418,596.27	504,490.39	526,579.50	524,854.74	591,253.15
EEC/EIB.....	20,624.97	21,073.19	20,399.45	19,544.23	17,240.62
IMF.....	86,149.90	84,847.00	77,637.37	71,588.41	49,208.15
ADF/AfDB.....	150,229.35	179,226.58	197,490.09	204,706.87	229,638.40
Other multilateral.....	9,030.22	9,204.40	22,282.33	9,151.67	27,054.50
<b>Total (multilateral).....</b>	<b>684,630.72</b>	<b>798,841.56</b>	<b>844,388.74</b>	<b>829,845.91</b>	<b>914,394.81</b>
Commercial Banks.....	5,678.32	154,346.23	426,685.45	426,452.14	471,733.98
International Sovereign Bond.....	271,258.35	278,031.05	285,207.18	479,987.50	624,019.63
Suppliers' Credit.....	16,628.21	16,628.00	15,303.14	16,725.20	16,931.81
<b>TOTAL EXTERNAL.....</b>	<b>1,423,252.24</b>	<b>1,796,197.52</b>	<b>2,294,152.98</b>	<b>2,568,398.68</b>	<b>3,023,139.47</b>
<b>INTERNAL DEBT:</b>					
Treasury Bills <sup>1</sup> .....	318,928.15	587,478.70	744,154.90	878,621.65	954,250.00
Treasury Bonds .....	1,035,706.68	1,152,041.17	1,331,975.09	1,511,872.67	1,748,602.57
Non Interest bearing debts <sup>2</sup> .....	26,615.00	25,559.00	24,448.76	23,338.76	22,228.76
Others (includes stocks) .....	39,194.54	50,391.63	11,131.70	64,447.02	60,854.77
Less government deposits <sup>3</sup> & on-lending ..	-242,264.49	-408,389.00	-434,475.22	-509,038.00	-507,429.01
<b>TOTAL INTERNAL (net) ..</b>	<b>1,178,179.89</b>	<b>1,407,081.50</b>	<b>1,677,235.21</b>	<b>1,969,242.09</b>	<b>2,278,507.09</b>
<b>TOTAL DEBT .....</b>	<b>2,601,432.13</b>	<b>3,203,279.02</b>	<b>3,971,388.20</b>	<b>4,537,640.77</b>	<b>5,301,646.57</b>

# 2. Off Balance Sheet Public Debt: Sustainability and Outlook



Kenya: Composite Indicator and Threshold Tables

Country	Kenya
Country Code	664

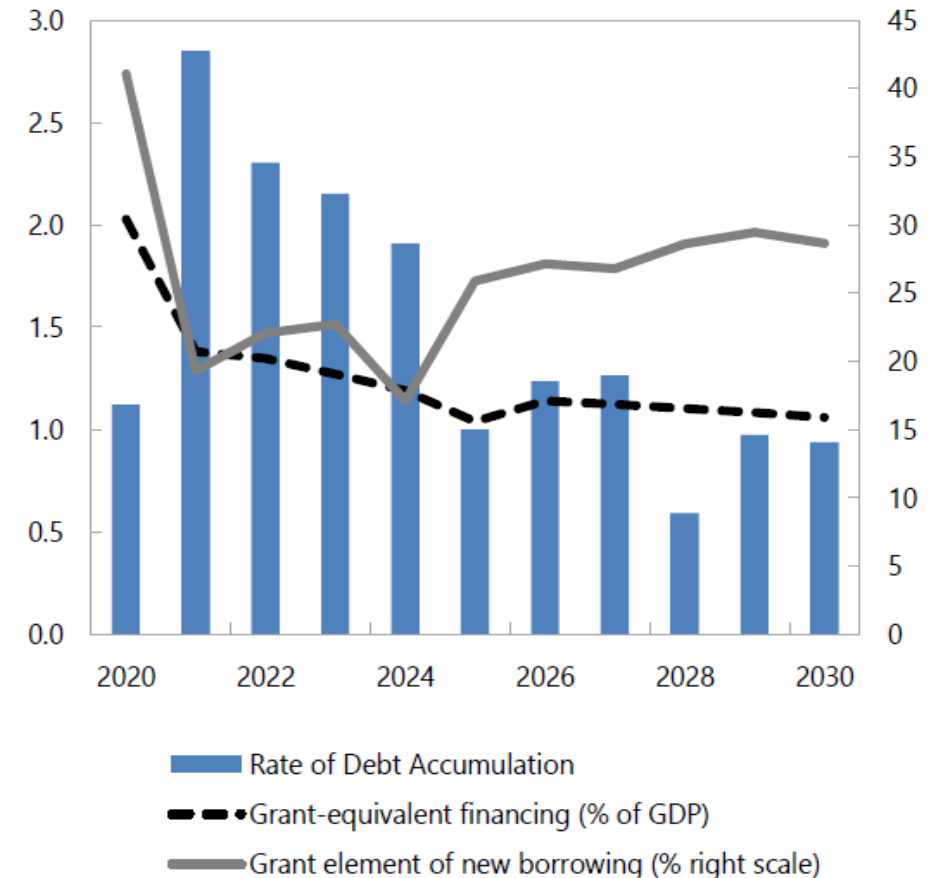
Debt Carrying Capacity	Strong
------------------------	--------

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintages
Strong	Strong 3.12	Strong 3.13	Strong 3.12

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of Exports	240
GDP	55
Debt service in % of Exports	21
Revenue	23

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	70

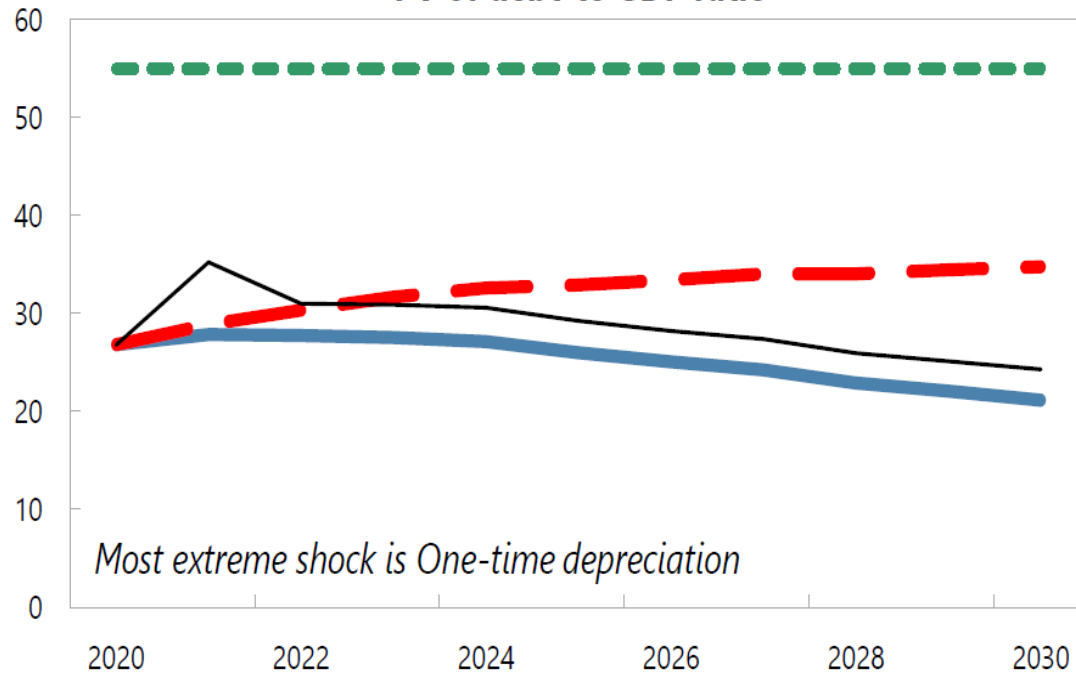
Debt Accumulation



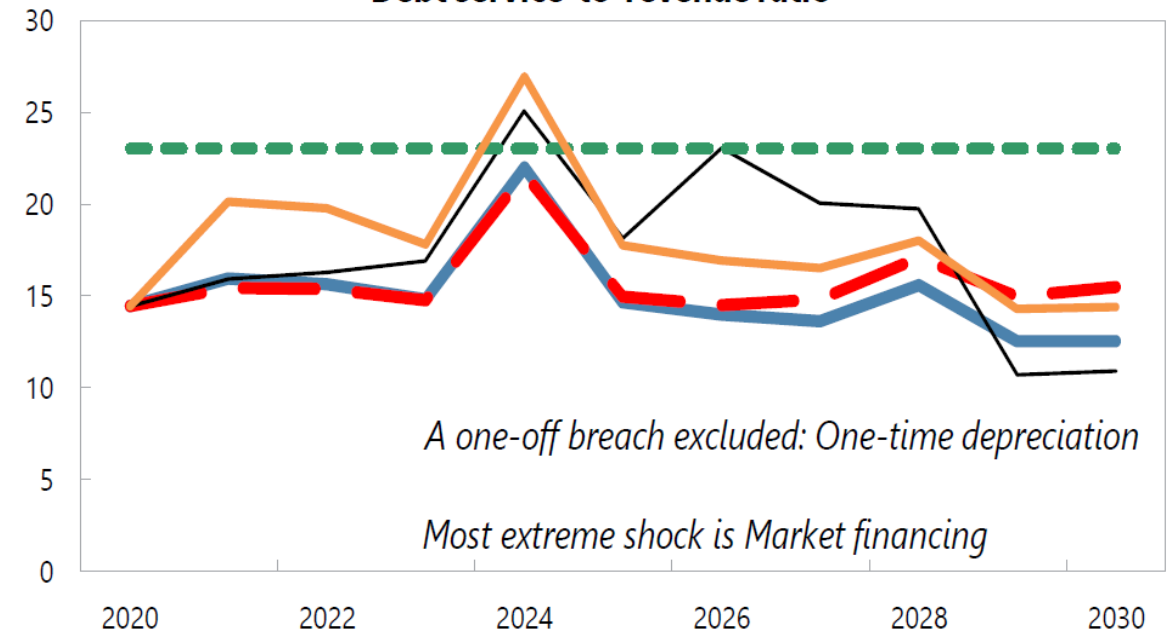
# 2. Off Balance Sheet Public Debt – Sustainability and Outlook



PV of debt-to GDP ratio



Debt service-to-revenue ratio



# Q: Should Public Debt be reported in Consolidated SFP?



## Yes:

1. This is the rationale for the adoption of International Public Sector Accounting Standards and IFRS by public sector entities
2. Leads to a true and fair presentation of the financial statements
3. Enhances transparency and debt management

## No:

1. A challenge of balancing the Statement of Financial Position. (What is the equivalent asset?)
2. Not all public sector entities use the accrual concept. Reporting basis is not uniform.
3. A separate and comprehensive reporting framework could be better??