POLICY DIALOGUE ON MANAGING CONTINGENT LIABILITIES PROCESSES POST COVID-19

Practices in Kenya and Rwanda

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ALTERNATIVE UTILIZATIONS OF GOVERNMENT GUARANTEES
Supporting Credit Rating Outcomes as a Catalyst for Growth

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CONTENTS

ABSTRACT

CLMP: Contingent Liabilities Management Processes

- Understand the link between Contingent Liabilities and the country's Constitution
- CLMP must support national priorities (socio-economic transformation)
- CLMP is rationalised by seeking to correct market failure. Also, when in the interest of:
  - Income Redistribution
  - International Competitiveness
- CLMP are compromised when it leads to rising and unsustainable fiscal risks.
- Sovereign Guarantees the category of contingent liabilities with which DMOs mostly engage.

INTRODUCTION – EAST AFRICAN EXPERIENCE

CLMP managed primarily by the country's DMO. Alternatively:

- The PPP Unit
- National Budget Office
- Office of the Accountant-General

Benefits of Contingent Liabilities Management Processes (CLMP):

- Access to funding and reduced need for recapitalisation
- Project cost reduction
- Improving SOE performance
- Financing and supporting developmental projects
- Improving public infrastructure investment
- Preference for direct loans rather than government funding

INTRODUCTION – EAST AFRICAN EXPERIENCE

While COVID-19 resulted in contingent liabilities leading to an increase fiscal risk profile

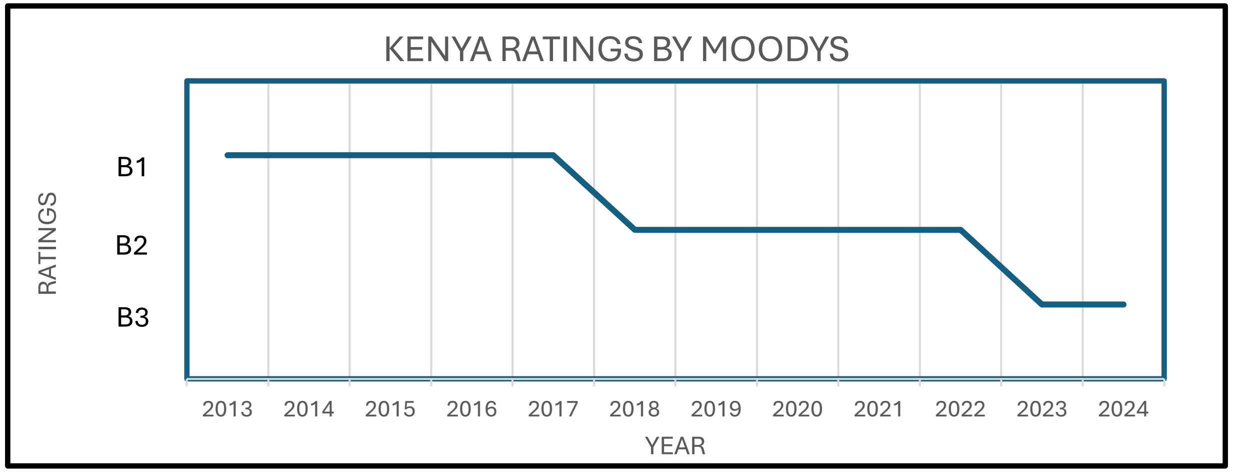
Contingent Liabilities Management Processes (CLMP) were already poor prior to COVID-19

Poor CLMP is characterised by:

- Non-adherence to issued guidelines
- Ad hoc reporting and late monitoring
- Inconsistencies in expectations between governments (state) and SOEs
- Lack of centralization of CLMP

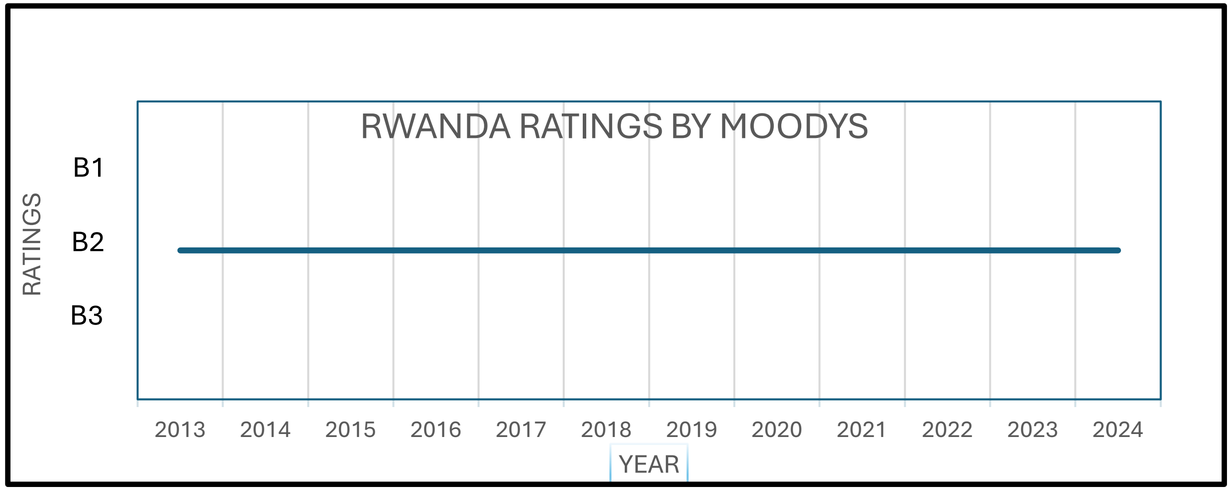
Sovereign Ratings Trend – Kenya and Rwanda

Figure 1: Sovereign Credit Ratings of Kenya by MOODY's Credit Rating Agency



Source: MOODY's CRA (https://www.moodys.com)

Figure 2: Sovereign Credit Ratings of Rwanda by MOODY's Credit Rating Agency



Source: MOODY's CRA (https://www.moodys.com)

RELEVANT LITERATURE REVIEW

OBJECTIVE 1: LEGAL FRAMEWORK

1994

Key Public Administration Reform Objectives (Basu)

- Reconciling the many competing and conflicting interests
- Achieving socio-economic transformation
- Applying the law in a detailed and systematic manner

2018

'Robust Regulatory Frameworks' to inform proper institutional arrangements and operating processes (CABRI)

- Corporate Governance Practices
- Mandates (including relationships)
- Reporting Structures
- Standardization Information
- Disclosure Policies

OBJECTIVE 1: LEGAL FRAMEWORK

Public Finance defined (Bailey, 2004):

- "Any revenue or expenditure that flows through government budgets reflecting a multidisciplinary constitutional relationship between the state and its citizens, dominated by the political philosophy existing in that country. Its objectives are equity, efficiency, economy, and effectiveness in its pursuit of economic growth, in the manner that national income and wealth are distributed, and society's living standards are affected".

National and International Oversight and Regulatory Bodies can help reduce fiscal risk associated with CLMP.

- Fostering information transparency and dissemination to all relevant stakeholders.

OBJECTIVE 2: POLICY/STRATEGY FRAMEWORK

A country's national competitiveness is determined by its level of institutional development (Tatyana Palei, 2015).

- Infrastructure investments, Macroeconomic environment, Market Size, Technological readiness

Fiscal cost of govt guarantees a major source of fiscal distress (Bova, 2016)

- Contingent liabilities (including government guarantees) to SOEs often lead to significant costs to the State (Bin Liu, 2016)

Projects in the extractive industries sector require special attention (Leonard and Grovogui, 2017)

Eric Leeper (2010): Public infrastructure projects serve as a useful counter-cyclical fiscal instrument to promoting economic growth, provided that such projects are productive.

OBJECTIVE 3: PRICING CREDIT RISK

Guaranteed SOE debt tend to be lower than non-SOE borrowing

- Raises moral hazard for governments (Bin Liu, 2016)

Guarantees to SOE require greater vigilance.

- More effective risk mitigation strategies are required.

If purpose of contingent liabilities (CL) is to correct market failure:

- Then better to shift the cost of the CL to the beneficiary.
- If a ‘subsidy’, then take on government balance sheet.

Government subsidy policies may improve project delivery efficiencies.

- When government intervene to increase and realize expected societal benefits from public infrastructure investments.
- This requires an integrated sovereign guarantee management policy that combines performance guarantees and government subsidies.

OBJECTIVE 4: MANAGING GUARANTEES AND OTHER LIABILITIES

The SALM framework takes a broader view of sovereign risk management (Togo, 2002)

- Beyond debt and contingent liability management
- Includes the integrated management of state financial assets and liabilities.

SOE shareholder value and public infrastructure investments are state financial assets:

- Contingent Liabilities Management Processes (CLMP) must achieve the 4Es of public finance (see literature review) to mitigate fiscal risks.

SALM frameworks allow for a sovereign risk analysis (Curry and Velandia, 2000).

- It seeks to reduce the budgetary risk to the fiscus
- Allows for a framework within which various sub-portfolios of cost and risk trade-offs can be analysed.

OBJECTIVE 5: INSTITUTIONAL FRAMEWORK

Katarzjna Klimczak, 2017, on accounting, reporting and monitoring of contingent liabilities, makes a strong case of transparency

- Open access to all relevant information by all relevant stakeholders at all relevant times
- Therefore, an integrated sovereign guarantee management approach to public infrastructure investments by SOEs
- SOEs work on accrual (IFRS) accounting, while governments work on 'modified cash' accounting

Therefore: First line of defence is a strong regulatory framework

This exists in most East African countries (certainly in Kenya and Rwanda)

Two basic pillars:

- *Ex-ante regulation*: (prior to decision) control over the behaviour of the institution (SOE)
- *Ex-post insolvency mechanisms*: to enforce hard budget constraints (create clear risk sharing expectations) to mitigate moral hazard.

OBJECTIVE 6: COUNTRY PRACTICES

Polackova (1999) suggests that effective public sector risk management must include all types of risks that may impact the national budget.

Source: government revenues, assets, contingent liabilities, direct liabilities, fiscal policies, nature of implementation, natural disasters, changes in commodity prices.

Ian Storkey (2004) sets out a conceptual framework of the sovereign balance sheet.

Intention: to explore whether financial features of financial assets offer insights for cost and risk management of liabilities.

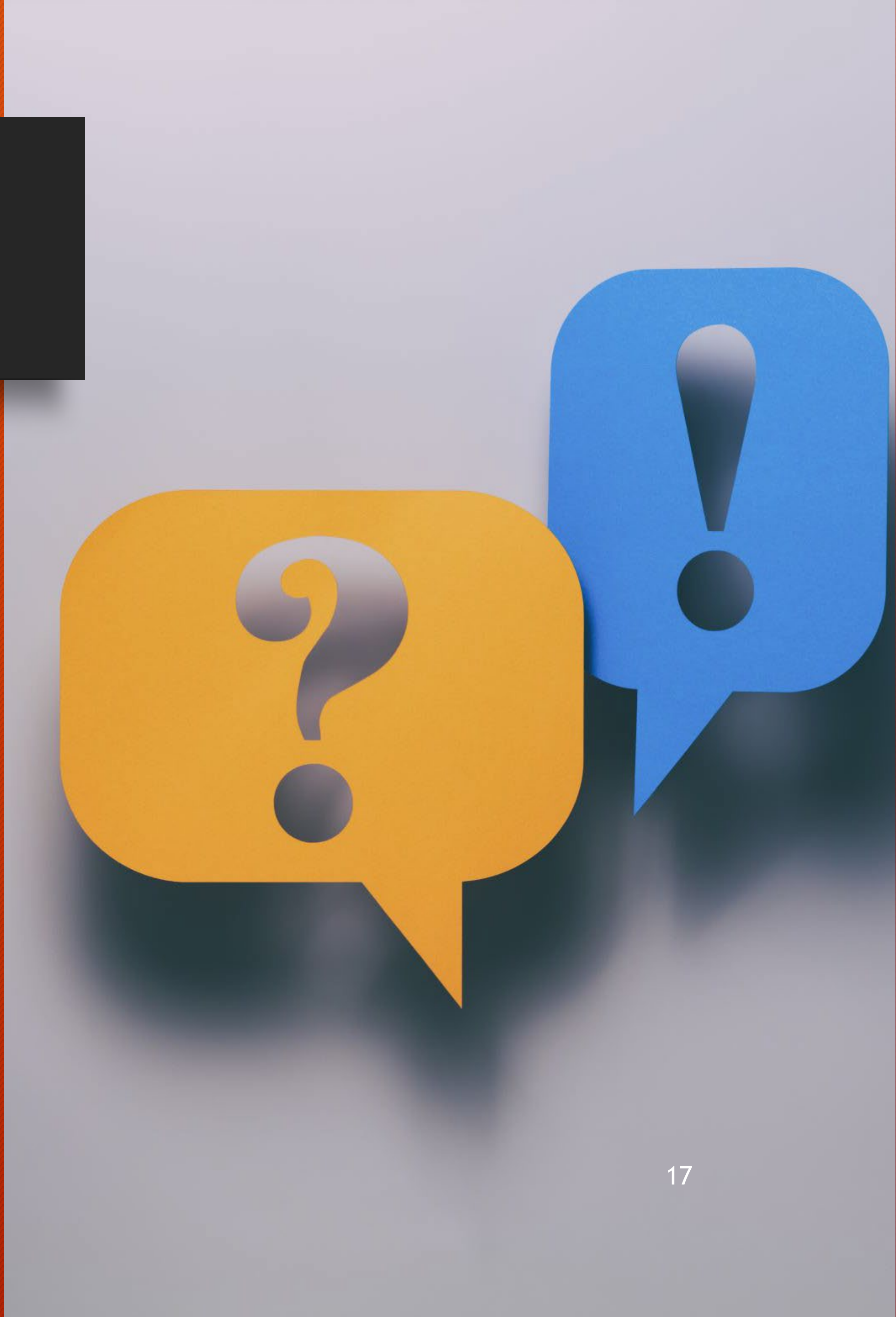
Finding synergy like this mitigates the budget against adverse developments.

PROPOSITION AND METHODOLOGY

PROPOSITION

“The absence of an independent and dedicated unit or function, typically a middle-office function, in the Ministry of Finance, to identify, assess and mitigate any threats or uncertainties associated with contingent liabilities management processes (CLMP), will result in poor socio-economic service delivery to citizens”.

- From two conclusions:
    - ➢ Weak and ineffective (CLMP) and systems due to data inadequacies
    - ➢ Inadequate budgetary and fiscal risk mitigation mechanisms.
        - ✓ Poor calculation of risk management default probabilities.



METHODOLOGY

Organizational Level

- **Question**: Are CLMP aligned to the execution of goals?
- Execution Capability Assessment:
  - ➢ *Clarity*: Are the CLMP goals known?
  - ➢ *Commitment*: Is there buy-in into the CLMP goals?

Team Level

- **Question**: How well do CLMP allow for effective execution of objectives?
- Execution Capability Assessment:
  - ➢ *Translation into Action*: Do we know how to achieve the CLMP goals?
  - ➢ *Enabling*: Do bring down barriers linked to CLMPs?

Individual Level

- **Question**: How well do officials practice the disciplines needed for effective CLMP execution?
  - ➢ *Synergy*: Do officials work together to deliver better on CLMP goals?
  - ➢ *Accountability*: Do officials account to each other for CLMP commitments and responsibilities?

Contingent Liabilities Management Processes (CLMP)

ENTERPRISE-WIDE RISK MANAGEMENT SYSTEM

Driver 1: Risk Management Competency on CLMP	***Driver 2:*** Culture and Board/Committee Oversight of CLMP	***Driver 3:*** Periodic Monitoring of CLMP	***Driver 4:*** Ongoing Monitoring of CLMP
Driver 5: Day to Day Operations (Evaluation) of CLMP	***Driver 6:*** Risk Management Strategy in relation to CLMP	***Driver 7:*** Risk Ownership of CLMP	***Driver 8:*** Decision-making ownership in CLMP.

Contingent Liabilities Management Processes (CLMP)

DISCUSSION (on Kenya and Rwanda)

OBJECTIVE 1

LEGAL FRAMEWORK UNDERPINNING THE AUTHORITY TO ISSUE GOVERNMENT LOAN GUARANTEE AND OTHER CONTINGENT LIABILITIES

Organizational Level

Focus: Key successes and challenges in Implementing the Legal Framework for Contingent Liabilities

Commitment: Is there buy-in into the CLMP goals?

EWRM Driver 2: Culture and Board/Committee Oversight of CLMP

GOVERNMENT OF KENYA

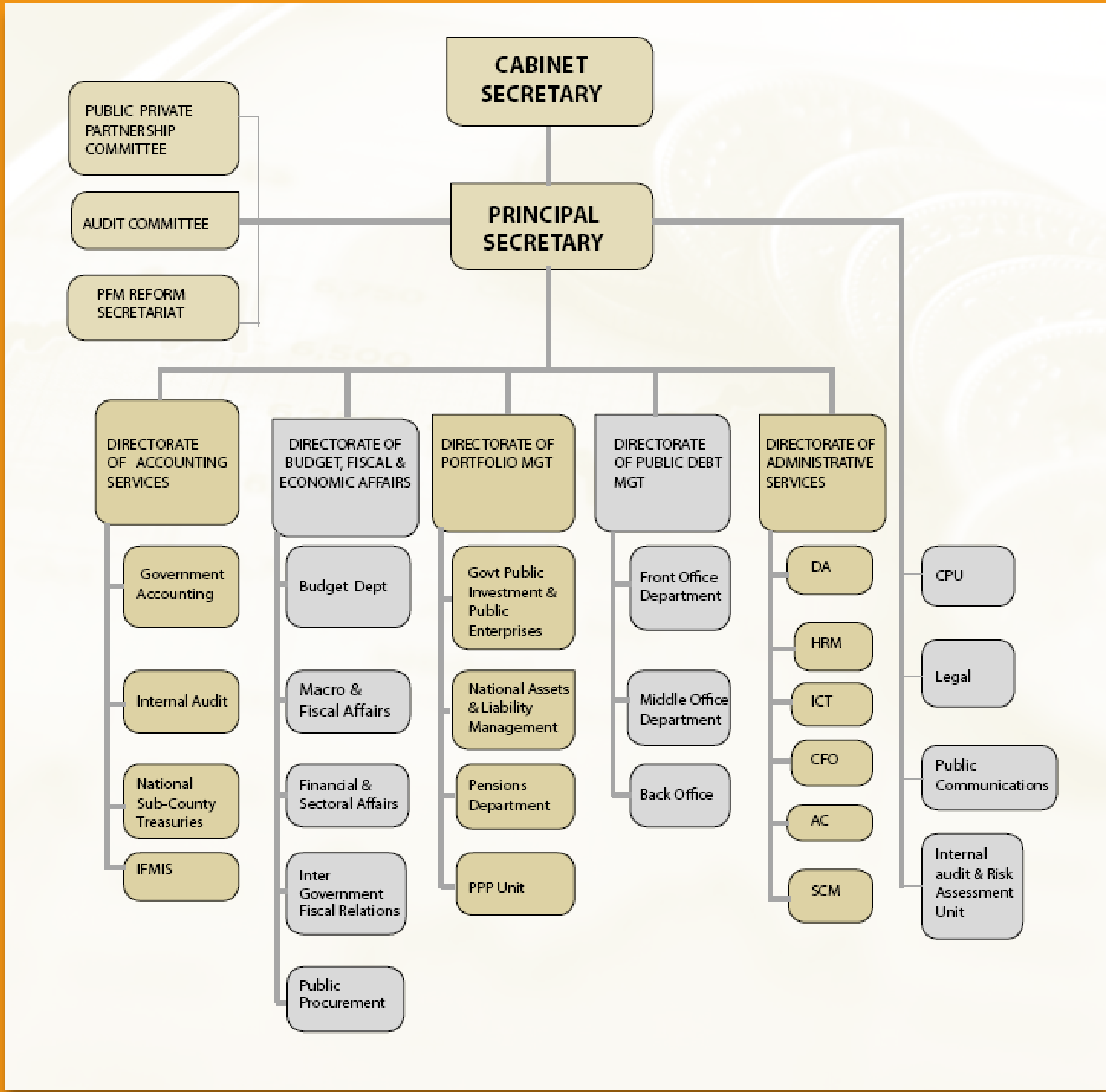
The legal framework:

- Constitution of Kenya, 2010 (Article 214 (2) and 213 (1)
- the Public Finance management Act, 2012
- Public Finance Management Regulations, 2015
- Public Debt and Borrowing Policy
- Public Private Partnerships Act, 2013.
  - ➢ The Cabinet Secretary may, in consultation with the Debt Management Office and the Committee, issue a guarantee, undertake, or enter binding letters of comfort in relation to a project.

'Big Four' Agenda and Vision 2030

GOVERNMENT OF KENYA

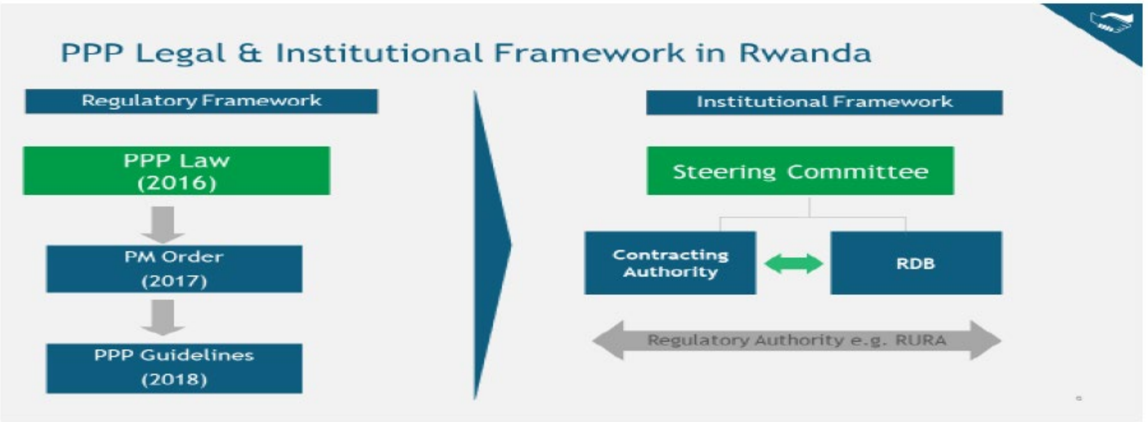
Figure 3: Kenya's Legal and Institutional Context



Source: Presentation by Dr. Ulwodi Wafula, Public Debt Management, National Treasury, Kenya, 22-23 September 2020

GOVERNMENT OF RWANDA

Figure 4: PPP Legal and Institutional Framework in Rwanda



Source: RDB

Publication Source: Rwanda Fiscal Risk Statement, FY 2023/24

GOVERNMENT OF RWANDA

Key Success: The Implementation of a strong Legal and Institutional Framework for CLMP.

- Good legal framework for PPP infrastructure projects

The 2023/24 Fiscal Risk Statement the 4^{th} produced to date

- Shows commitment to fulfil international agreements

Worldwide Governance Indicators

- World Bank Policy and Institutional Assessment Score are exceptional (best in Africa).

Need to understand whether the high-level Steering Committee perform rigorous cost-benefit analysis.

- This requires institutional and organizational capabilities in CLMP.

OBJECTIVE 2

GOVERNMENT'S BROAD POLICY (STRATEGY) FRAMEWORK TO ISSUE LOAN GUARANTEES, ON-LENDING OR OTHER CONTINGENT LIABILITIES.

Organizational Level

Focus: An Examination of broad CLMP Policy Objectives to meet Developmental Objectives

Clarity: Are the CLMP Goals known?

EWRM Driver 2: CLMP Culture and Board/Committee Oversight

EWRM Driver 6: CLMP Risk Management Strategy

GOVERNMENT OF KENYA

From the African Development Bank (AfDB) Country Strategy paper for Kenya (2019-2023):

- Public infrastructure investments include, amongst others, targets on ‘universal electricity access’, connecting urban, rural and regional markets and increasing water supply and sanitation (industrial, household and irrigation uses).

→

COVID-19 led to substantially increased financing requirements.

- Stimulus package announced in May 2020.

→

Financing of social infrastructure projects – On Budget

→

Financing of economic infrastructure projects – Government Guarantees to SOEs

→

Primary source of contingent liability risk:

- SOEs (at times requiring bailouts)

→

Key challenge: low ranking in ‘enabling environment’ and ‘human capital’

GOVERNMENT OF KENYA

Figure 5: Trends in Kenya Total Public Debt in (KSh. Million)

Debt Type	Jun-18	Jun-19	Jun-20	Jun-21	Jun-2022*
DOMESTIC DEBT					
Central Bank	110,782	109,607	98,878	87,575	85,141
Commercial Banks	1,266,457	1,414,275	1,653,194	1,814,199	2,003,387
Sub-total: Banks	1,377,239	1,523,882	1,752,072	1,901,774	2,088,528
Non-Banks	1,101,596	1,261,601	1,425,454	1,795,319	2,199,805
Total Gross Domestic	**2,478,835**	**2,785,483**	**3,177,526**	**3,697,093**	**4,288,333**
As a % of GDP	29.2	29.7	31.2	32.7	33.6
As a % of total debt	49.1	48	47.5	48	49.9
EXTERNAL DEBT					
Bilateral	759,017	917,980	993,696	1,064,272	1,105,737
Multilateral	825,299	909,791	1,316,835	1,659,411	1,923,444
Commercial Banks	830,652	1,019,030	1,022,402	1,106,476	1,113,256
Suppliers Credits	16,725	16,932	17,631	12,162	12,154
Sub-Total	**2,431,693**	**2,863,734**	**3,350,564**	**3,842,322**	**4,154,591**
GUARANTEE DEBT					
Bilateral	56,371	78,079	80,562	76,257	67,533
Commercial	75,788	76,724	79,892	80,963	77,824
Sub-Total	**136,706**	**159,406**	**165,248**	**157,220**	**145,357**
Total External debt	**2,568,399**	**3,023,139**	**3,515,812**	**3,999,542**	**4,299,948**
As a % of GDP	30.2	32.3	34.6	35.4	33.7
As a % of total debt	50.9	52	52.5	52	50.1
GRAND TOTAL	**5,047,234**	**5,809,076**	**6,693,338**	**7,696,635**	**8,588,281**
Total debt as a % of GDP	59.4	62	65.8	68.1	67.3
Memorandum item					
Nominal GDP at Market Price (in Ksh million)	8,500,582	9,367,317	10,175,226	11,304,100	12,752,164

**Provisional*

Source: National Treasury and Central Bank of Kenya

Publication Source: The National Treasury and Planning, 2021/2022: “Annual Public Debt Management Report for the Financial Year 2021/2022”, Nairobi, Kenya

GOVERNMENT OF RWANDA

Economic Recovery Plan Objective:

- Return to the pre-COVID 19 growth path
- Improve the resilience of the economy
- Maintain sustainable public finances.

Manages 'Discreet Fiscal Risks'

- Significant consequences for value of financial assets and liabilities.
- Proactive debt and fiscal risk management

Loan guarantees largely to PPP economic infrastructure projects

- Objective: address the socio-economic challenges in the country.

Source of Fiscal Risk: Guarantees to SOEs, Pension Liabilities, Natural Disasters, Financial Sector and Local Government.

- SALM framework may be useful instrument to mitigate fiscal risks in Rwanda.

OBJECTIVE 3

PRICING THE CREDIT RISK (RISK-BASED GUARANTEE FEES) AND CREDIT RISK ASSESSMENT (TACTICAL) FRAMEWORK

Team Level

Focus: Do Pricing of Loan Guarantees Deter Entities from Seeking a Government Guarantee?

Enabling: Do we bring down the CLMP Barriers?

EWRM Driver 1:Risk Management Competency on CLMP

EWRM Driver 5: Day to Day Operations/Evaluation of CLMP

GOVERNMENT OF KENYA

Government guarantees largely to SOEs in the infrastructure sector.

- These contribute to ‘moral hazard’ and a rise in payments to the private sector.

Source of fiscal risk:

- Inadequate financial risk management models to price government guarantees
- Inadequate information systems to perform rigorous debt sustainability analysis
- Staffing challenges in the DMO.

***Result*: Size of contingent liabilities being under-estimated.**

GOVERNMENT OF RWANDA

- Public Corporation have a significant role in delivering infrastructure facilities, especially in the water and energy sectors
- Undertakes sectoral credit risk analysis, targeting the transport and infrastructure sectors.

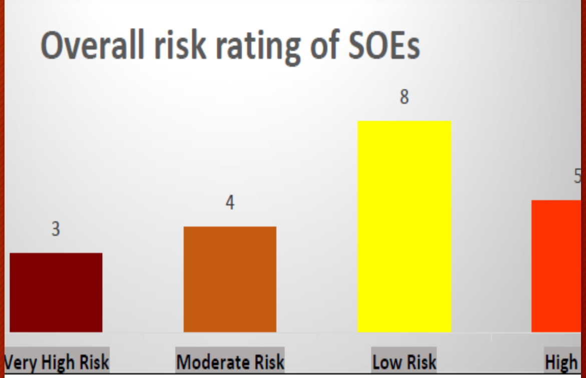
Figure 6: State-Owned Enterprises Sectoral Analysis

		Profitability		Liquidity		Solvency	
Sector	SOE	Return on Assets	Return on Equity	Current Ratio	Quick Ratio	Debt to Assets	Debt to Equity
Transportation	RwandAir	13.5%	-31%	23.3%	23.1%	144%	-327%
Infrastructure/Utility	REG	-0.02%	-101%	112%	87%	104%	-5520%
	WASAC	0.01%	0.03%	214%	250%	83%	480%

Source: MININVEST

Publication Source: Rwanda Fiscal Risk Statement, FY 2023/24

Figure 7: Rwanda Public Corporations Risk Rating

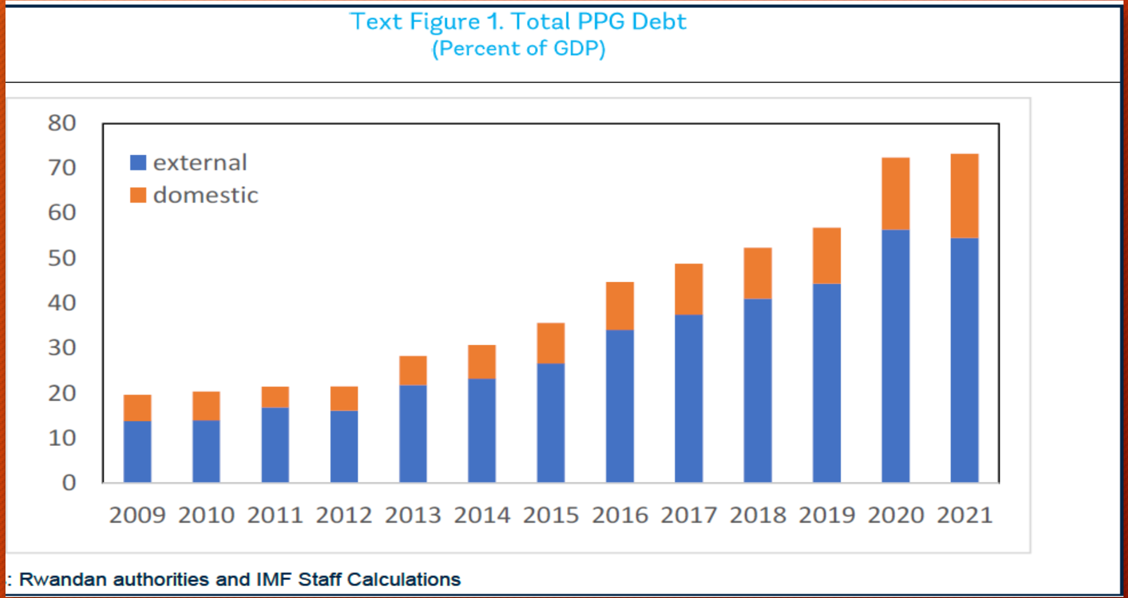


Publication Source: Rwanda Fiscal Risk Statement, FY 2023/24

GOVERNMENT OF RWANDA

- Government keeps a close watch on fiscal risk exposures
  - Particularly foreign currency risks
- Well-developed and improving internal institutional structures to price loan guarantees
- Caution: Government of Rwanda must keep a watchful eye on 'specific risks'
  - Causal links to macroeconomic risks

Figure 10: Rwanda Public Debt as a % of GDP



Publication Source: Rwanda Joint World Bank-IMF Debt Sustainability Analysis, Dec 2022

Figure 11: Rwanda 2020 Fiscal Risk Framework

peconomic risks	External risks Forecast performance • Nominal GDP • Budget balance • Revenue • Expenditure
fic risks	• Nonfinancial public corporations • Government guarantees • Pension liabilities • Local government • Financial sector • Natural disasters

Source: Rwanda Fiscal Risk Statement 2020, June 2020

OBJECTIVE 4

MANAGING LOAN GUARANTEE EXPOSURES WITH GOVERNMENT'S OTHER DIRECT DEBT

Team Level

Focus: Management of contingent liabilities alongside government's direct liabilities

Translation into Action: Do we know how to achieve the CLMP goals?

EWRM Driver 1:Risk Management Competency on CLMP

EWRM Driver 3: Periodic Monitoring of CLMP

EWRM Driver 4: Ongoing Monitoring of CLMP

GOVERNMENT OF KENYA

- The Public DMO in Kenya is made up of three Departments each with its distinct roles:
  - ➢ The Resource Mobilization Department (RMD),
  - ➢ Debt Policy, Strategy and Risk Management Department (DPSRMD) and
  - ➢ Debt Recording and Settlement Department (DRSD).
- Public Debt and Borrowing Policy, 2020
  - ➢ Improving trend in reporting on contingent liabilities.
- PPP Act 2013
  - ➢ Analyses Fiscal Commitments and Contingent Liabilities (FCCL)
    - ✓ Undertaken by the Middle Office (DPSRM).
- The FCCL unit requires specialized human resource fiscal risk management capabilities.
  - ➢ AfDB argues for a coordinated EWRM framework to assess fiscal risks through financial risk modelling.

GOVERNMENT OF RWANDA

The 2023/24 Rwanda Fiscal Risk Report expands the analysis of contingent liabilities using the Public Fiscal Risk Assessment Model (PFRAM)

Rwanda's energy and transport infrastructure sectors (Rwanda Energy Group, RwandAir, and Water and Sanitation Corporation) are the major beneficiaries of government subsidies.

The Ministry of Finance (Debt Management Directorate) analyses the major risks associated with Rwanda's public debt portfolio. It covers:

Debt Sustainability Risk, Refinancing Risk, Interest Rate Risk and Foreign Currency Risk.

GOVERNMENT OF RWANDA

- Rwanda's total SOE debt amounts to FRW 465bn or 3.4% of GDP as at the end of 2022.
- An increase from FRW 372 bn as at the end of 2021
- Mainly due to the expansion of debt data coverage to include both guaranteed and non-guaranteed SOE debt (i.e., explicit and implicit contingent liabilities).

Figure 12: Rwanda Government Guarantees as of December 2022

STATE OWNED ENTREPRISES EXTERNAL DEBT STOCK (USD million)		
Entity	Guaranteed Amount at end December, 2022 (USD Million)	**Billion FRW**
Rwandair	Guaranteed	44.7
Bugesera Airport Company (BAC)	Guaranteed	1.4
SUB-TOTAL		**46.1**
STATE OWNED ENTREPRISES DOMESTIC DEBT STOCK (FRW billion)		
Entity	Guaranteed Amount at end December, 2022 (FRW Billion)	**Billion FRW**
Ultimate Concept Ltd (UCL)	Guaranteed	152.4
EWASA		48.5
SONARWA	Guaranteed	4.0
Bugesera Airport Company (BAC)	Guaranteed	153.4
Horizon Groups	Non-Guaranteed	13.2
WASAC	Non-Guaranteed	13.7
Bella Flowers	Non-Guaranteed	1.1
Rwandair Domestic	Non-Guaranteed	31.1
EAX	Non-Guaranteed	1.9
SUB-TOTAL		**419.4**
TOTAL		**465.5**
Norminal GDP		13716.0
EOP Echange rate		1070.7
Guarantees % of GDP		**3.4**

Publication Source: Rwanda Fiscal Risk Statement, FY 2023/24

OBJECTIVE 5

INSTITUTIONAL FRAMEWORK FOR THE APPROVAL OF LOAN GUARANTEE AND OTHER BORROWING REQUESTS

Individual Level

Focus: The Existence of a High-Level Advisory Committee

Synergy: Do officials work together to deliver on CLMP goals in a better manner?

EWRM Driver 8: Decision-making ownership in CLMP

GOVERNMENT OF KENYA

The architecture for public finance management in Kenya at the central and sub-national levels of government is supported by "best-practice" public finance management (PFM) legislation.

Various reforms are underway in Kenya to improve the quality of budgetary and financial management. These include:

- The introduction of the Treasury Single Account (TSA)
- Reforms in strategic planning and budget formulation, and
- The introduction of medium-term expenditure frameworks.

The authorities are working on expanding the reporting of SOEs to cover all 260 entities

And to automate data collection by establishing linkages to the existing electronic reporting system.

GOVERNMENT OF RWANDA

‘Specific risks and contingent liabilities’ in Rwanda are managed as part of a ‘Fiscal Risk Statement’ produced by the Ministry of Finance and Economic Planning (MINECOFIN).

A PPP Steering Committee oversees the functioning of PPP projects

Chaired by the Minister of Finance and the Chief Executive Officer (CEO) of the Rwanda Development Board (RDB), respectively.

Some public corporations are undertaking good efforts to reduce their fiscal exposures on the government budget.

RwandAir, as an example, has been able to reduce fuel expenses and improve lease rates for its aircraft.

In addition, the repayment of costly loans are likely to improve the airlines’ cashflow position and improve its growth potential.

OBJECTIVE 6

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COUNTRY PRACTICES OF MANAGING CONTINGENT LIABILITIES AS PART OF THE FISCAL RISKS.

Individual Level

Focus: Budgetary Process reforms to fully manage CLMP fiscal risks

Accountability: Do officials account to each other for individual commitments on CLMP responsibilities?

EWRM Driver 7: Risk Ownership of CLMP

GOVERNMENT OF KENYA

Preparation and disclosure of contingent liability management reports is done alongside the annual reporting on debt management.

The growth in contingent liabilities necessitates a separate report exclusively for analyzing the fiscal risks emanating from extra-budgetary operations (i.e., contingent liabilities and PPPs).

According to the Kenya Country Fiduciary Risk Assessment, fiscal transparency of extra-budgetary operations remains weak.

Including the timeliness to provide information on the number (amount) of fiscal transfers in subsequent years.

GOVERNMENT OF RWANDA

MINECOFIN publishes annual debt data, covering domestic and external debt of the central government

- This is broken down by multilateral, bilateral and commercial debt
- Including information on both domestic and external guarantees
- Including domestic and external debt held by all SOEs.
- All local government debt is subject to contractual approvals by the MINECOFIN.

Fiscal risk mitigation measures:

- Tax compliance and other administrative measures to expand and diversify the revenue base in the medium-term.
- Revenue mobilization efforts as part of the Medium-Term Revenue Strategy (2021/22-20923/24).

The Ministry of Finance undertakes a 'health check' analysis of Public Corporations to assess the fiscal risk exposure of government business enterprises.

- The Ministry provides a holistic scenario of government investment risk exposure with each corporation analyzed individually, using financial ratios and economic indicators.

GOVERNMENT OF RWANDA

Rwanda has 27 Public Corporations of which 23 are non-financial and 4 are financial corporations:

Figure 13: Public Corporations Classification

Non-Financial Public Corporations	**23**
Non-commercial Public Institution	7
Commercial State-Owned Companies	16
Financial Public Corporations	**4**
Non-commercial Public Institution	1
Commercial State-Owned Companies	0
Special Organs	3
Total	**27**

Source: MININVEST

Publication Source: Rwanda Fiscal Risk Statement, FY 2023/24

FINDINGS AND KEY RESULTS

OBJECTIVE 1: LEGAL FRAMEWORK

$

Kenya has a good legal framework that underpins the issuance of government loan guarantees and other contingent liabilities.

The effectiveness of CLMP in Kenya, however, requires improvement, particularly regarding identifying, collecting, and analyzing fiscal risks.

The legal framework in Rwanda for PPPs is well developed.

Most contingent liabilities fiscal risk exposures emanate from PPPs.

A high-level PPP steering committee may not have adequate insights into more granular detail required to adequately perform rigorous cost-benefit analysis.

OBJECTIVE 2: POLICY FRAMEWORK

The Government of Kenya has clear public infrastructure development plans, both of a social and economic nature.

- Government guarantees are issued to SOEs to support their public infrastructure investments and socio-economic developmental objectives.
- Efforts to improve the effectiveness of CLMP in Kenya must target initiatives to improve human resource capacity in fiscal risk management.

PPP economic infrastructure projects is the mainstay of public infrastructure investments in Rwanda

- It advances socio-economic transformation in the country.
- The Government must be alert to potential fiscal risks embedded in the operations of non-financial public corporations, government guarantees, pension liabilities, natural disasters, the financial sector and in local government.

OBJECTIVE 3: PRICING CREDIT RISK

CLMP in Kenya lacks adequate financial risk management human resource capability to develop effective fiscal risk models.

- Possessing this capability will permit the quantification of potential risks associated with PPP projects.
- A priority therefore is to gather adequate fiscal risk data to perform rigorous debt sustainability analysis.

Price loan guarantees and appropriately leveraging the balance sheets of SOEs in PPP operations, seem well developed and improving in Rwanda.

- Government of Rwanda must keep a watchful eye on 'specific PPP risks', given its causal relation to macroeconomic risks.
- Consideration may be given to 'replicate' the PPP institutional arrangement to effectively address the contingent liabilities associated with government support to SOEs.

OBJECTIVE 4: MANAGING LOAN EXPOSURES

Welcome recent advancements in the reporting on contingent liabilities in Kenya.

This reform, coupled with an existing designated (and dedicated) FCCL Unit, as a Middle-Office function (DPSRM), are steps in the right direction.

It lays the basis to develop the necessary human resource capability for more reliable contingent liability fiscal exposure reporting.

CLMP in Rwanda can benefit meaningfully from existing institutional processes involving PPP projects.

Already, fiscal risk analysis associated with the government debt portfolio, is well advanced.

Incorporating contingent liability management fiscal risk processes in current debt management operations within the Ministry of Finance, will allow for a more integrated and holistic approach to national budget formulation.

OBJECTIVE 5: INSTITUTIONAL FRAMEWORK

Several public finance management reforms are underway in Kenya that include debt sustainability analysis.

These involve initiatives aimed at expanding the reporting of SOEs to cover all 260 entities and to automate data collection systems.

These ongoing reform efforts are likely to benefit from the creation of a high-level advisory committee, mandated to advise on loan guarantees.

A Fiscal Risk Statement in Rwanda includes specific risks and contingent liabilities and is proving to deliver positive (reduced) fiscal exposures on the national budget.

The direct participation of the Minister of Finance and the CEO of the Rwanda Development Bank in PPP operations is having desirable outcomes on the fiscal position and socio-economic conditions in the country.

OBJECTIVE 6: COUNTRY PRACTICES

Fiscal transparency on contingent liability exposures in Kenya remain weak.

- The preparation and disclosure of contingent liability management reports is done alongside the annual reporting on debt management
- The growth in contingent liabilities necessitates a separate report exclusively for analyzing the fiscal risks emanating from extra-budgetary operations (i.e., contingent liabilities and PPPs).

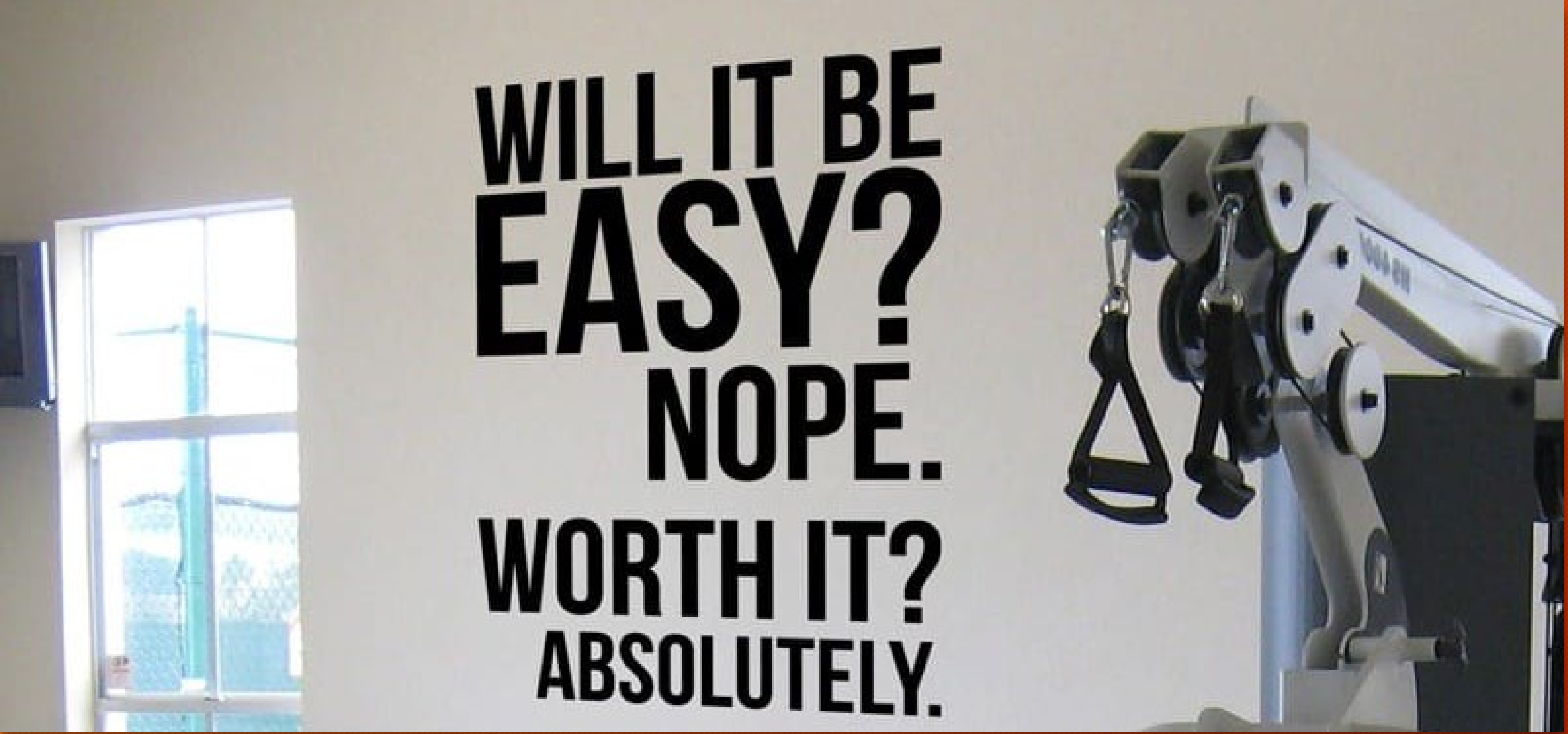
In Rwanda, MINECOFIN publishes annual debt data, and ensures tax compliance with other innovative administrative measures to expand and diversify the revenue base.

- All local debt is subjected to contractual approvals by the MINECOFIN.
- The Ministry of Finance undertakes a ‘health check’ analysis of Public Corporations to assess the fiscal risk exposure of government business enterprises.
- It provides a holistic scenario of government investment risk exposure with each corporation analysed individually, using financial ratios and economic indicators.

CONCLUSION

PROPOSITION CONCLUSION

Information gathered for this discussion paper suggests that a need exists for an independent and dedicated unit or function, typically a middle-office function in the Ministry of Finance, to identify, assess and mitigate any threats or uncertainties associated with contingent liabilities management processes, to improve public finances and to advance socio-economic service delivery in the countries concerned.



THANK YOU

THE FUTURE IS BRIGHT – "THE STARS CAN'T SHINE WITHOUT THE DARKNESS"