African Public Debt Management Forum

Kenya's Debt Management Strategies, Investor Base and Operational Risk Management

By Jackson M. Kitili, Director of Monetary Operations & Debt Management Department, CBK during the OECD Meeting, November 26-272009, Paris, FRANCE

Outline

1. Background
2. Debt Management Strategies Formulation and Implementation:
3. Expansion and Maintaining Investor base
4. Operational Risk Management

1. Background

- **Kenya's Domestic Bond Market consists of;**

a) **Government/Treasury Bonds:** 65 issues valued Ksh 389,887.45mn/ USD 5,198.5mn; maturity range from 1-to 20 years; average maturity is 5 years, 4months; include zero coupon, fixed coupon, discounted; infrastructure bonds, restructuring bonds (not tradeable).

b) **Corporate Bonds/Notes:** 11 corporate bonds valued Ksh 43.5bn/USD 580mn; maturity from 3 to 10-years; floating and fixed rate; issuers- banks, agricultural firms, telecommunication, manufacturing, power generation, housing, and microfinance institutions.

c) **Investor base include**; commercial banks, insurance companies, pension funds, SACCOs, individuals, government agencies, non-bank financial institutions, and Others.

- **Bond market fairly well-developed;** active primary and secondary market. Average monthly turnover –from Ksh 1bn in 2001 to Ksh 8.3bn in 2009.

2. Debt Management Strategy Formulation & Implementation

- **Medium Term Debt Strategy (MTDS);**
  - Objective: borrow at the most optimal cost, taking into consideration any potential risks.
  - MTDS is the 1st public debt management strategy.
  - Formulated and published in June 2009. 3-year implementation period to June 2012.
  - Replaced adhoc strategies spelled in annual public debt management reports

- **Under the MTDS, the Government intends to;**
  - Issue project-Specific /infrastructure bonds for development budget
  - Benchmark bonds programme (2,5,10,15 and 20) – reopening, switching, conversions etc, to deepen secondary market, create reliable yield curve and reduce issuance costs.
  - Maintain short to long term domestic debt at a ratio of 30:70- reduces refinancing risks, but minimise costs.

3. Expansion and Maintaining Investor base

- Currently, Investor base in Government domestic debt is;

Table: Investor Group Holdings

INVESTOR CATEGORY	Total GoK Securities as at 30/06/2009(Ksh M)	% Share as at 30/06/2009	Total GoK Securities as at 31/10/2009(Ksh M)	% Share as at 31/10/2009
Commercial Banks	256,519	53.38	293,233	55.94
Co-operatives & Others	20,245	4.21	18,314	3.49
Pension & Trust Funds	131,451	27.35	138,162	26.36
Insurance Companies	54,274	11.29	58,251	11.11
NBFIs	10,219	2.13	7,963	1.52
Individuals	7,830	1.63	8,271	1.58
SUB TOTAL	**480,538**	**100.00**	**524,194**	**100.00**
CBK REPO	**33,883**		**33,328**	
GRAND TOTAL	**514,421**		**557,521.55**	

3….Continuation

- Strategies to expand investor base include;
  - Reduced minimum amount to invest in Treasury bills from Ksh 1mn to Ksh 100,000. Treasury bonds entry amount is Ksh 50,000
  - Ease of opening Central Depository account for Securities (CDS)
  - Agency model-engage institutions like Post Office to sell securities
  - Investor awareness/education – media, participation in trade fairs/shows, seminars
  - Encouragement of Unit Trusts for retail sector
  - Design products that cater for all investor preference
  - Well-developed secondary market –stable and liquid

4. Operational Risk Management

- Automation of all transactions; CDS/Book entry system for all outstanding securities, all settlements are automated, secondary markets transactions also being automated etc
- Audit trail system watertight-independent reconciliation/internal audit section that verifies all processes
- Risk management awareness among staff –training, staff rotation
- Business Continuity –system back-ups, all-round manpower, etc
- Clear-cut procedures with strict timelines

Asante Sana!