Republic of Kenya

THE NATIONAL TREASURY

Medium Term Debt Management Strategy 2015

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FOREWORD

The importance of countries to pay serious attention to management of public debt is evident from the serious consequences on the global economy arising from the recent debt crisis, particularly afflicting the Eurozone. Many African countries also went through a similar experience about ten years ago and they had to be rescued under the Highly Indebted Poor Countries (HIPC) initiative. Fortunately, for Kenya, Public debt has been managed prudently over the years and this trend should be maintained.

The Constitution and the Public Finance Management Act, 2012 (PFMA), provide the requisite framework to ensure our country continues with prudent debt management. The PFMA has provision for the National Treasury to establish a Public Debt Management Office (PDMO). Strict procedures, accountability and reporting requirements on public debt management have also been laid down for both National and County Government.

The Medium Term Debt Management Strategy (MTDS) is one of the important deliverables of the National Treasury as provided under the PFMA. It provides guidance to the National Government on the amount and type of borrowing to undertake over the medium term. It evaluates the costs and risks of various scenarios and recommends an optimal strategy for implementation. The *2015 MTDS* is aligned to the broad strategic priorities and policy goals set out in the Budget Policy Statement to be tabled in Parliament in February 2015.

As the County Governments become more established, caution is required before they consider borrowing. Many of them have inherited substantial liabilities. It should be underscored that even if the National Government takes over to write off the inherited debts and guarantee new borrowing, this will require Kenyans to forego other critical services. It is therefore important to avoid overreliance on borrowing and contract loans only for projects which are beneficial to the counties and which are able to generate income for servicing the debt.

The National Treasury has developed guidelines for county domestic and external borrowing to guide engagement between the

Development Partners, Counties and the National Government to ensure proper co-ordination not only in the area of loans but also in grants and on other forms of Aid. In due course, the staff in the PDMO will carry out workshops and visit the counties to assist in the preparation of the county debt strategies as required by the law.

HENRY ROTICH
CABINET SECRETARY
THE NATIONAL TREASURY
FEBRUARY 2015

ACKNOWLEDGEMENT

This is the seventh Medium Term Debt Management Strategy (MTDS) to be tabled in Parliament. It is however, the second MTDS to be tabled under the requirement of Public Finance Management Act, 2012 (PFMA).

The MTDS sets out the debt management strategy of the National Government over the medium term with respect to actual and potential liabilities for both loans and guarantees given by the National Government.

The preparation of MTDS is a technical process involving use of a tool to analyze data inputs to produce scenarios from which an optimal borrowing strategy is determined. The preparation of MTDS in Kenya and indeed many other developing countries has benefited greatly from the World Bank, International Monetary Fund and Commonwealth Secretariat. These institutions provide support for capacity building as well as constantly improving the tool to produce better results. I take this opportunity to express Government's appreciation for the continued assistance.

As required by the PFMA law the MTDS will be formally tabled in Parliament, submitted to the Commission on Revenue Allocation (CRA) and will be published and publicized.

To ensure wide circulation of the MTDS, it is available in the Treasury Website: www.treasury.go.ke. However, in view of the fact that the document is technical, a brief non-technical summary will also be distributed and posted on the website.

Let me take this opportunity to acknowledge the staff of the Debt Management Department, National Treasury who were involved in

the preparation of the *2015 MTDS*. Specifically, the core team comprising of Charles Kairu, Racheal Njoroge, Benard Gibet and Robert Osudi under the guidance of Esther Koimett, Ag. Director-General, Directorate of Public Debt Management and Felister Kivisi, Ag. Director, Debt Management Department.

DR. KAMAU THUGGE, EBS
PRINCIPAL SECRETARY
THE NATIONAL TREASURY
FEBRUARY 2015

Legal Basis for the Publication of the Debt Management Strategy

The Debt Management Strategy is published in accordance with Section 33 of the Public Finance Management Act, 2012. The law states that:

1) On or before 15th February in each year, the Cabinet Secretary shall submit to Parliament a statement setting out the debt management strategy of the national government over the medium term with respect to its actual liability in respect of loans and guarantees and its plans for dealing with those liabilities.
2) The Cabinet Secretary shall ensure that the medium term debt management strategy is aligned to the broad strategic priorities and policy goals set out in the Budget Policy Statement.
3) The Cabinet Secretary shall include in the statement the following information:-

a) The total stock of debt as at the date of the statement;
b) The sources of loans made to the national government and the nature of guarantees given by the national government;
c) The principal risks associated with those loans and guarantees;
d) The assumptions underlying the debt management strategy; and
e) An analysis of the sustainability of the amount of debt, both actual and potential.

4) Within fourteen days after the debt strategy paper is submitted to Parliament under this section, the Cabinet Secretary shall submit the statement to the Commission on Revenue Allocation and the Intergovernmental Budget and Economic Council, publish, and publicize the statement.

ABBREVIATIONS AND ACRONYMS

ADB	African Development Bank
ADF	African Development Fund
ATM	Average Time to Maturity
ATR	Average Time to Refixing
BoP	Balance of Payments
BPS	Budget Policy Statement
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CPI	Consumer Price Index
CPIA	Country Policy and Institutional Assessment
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
DGIPE	Department of Government Investment and Public Enterprises
DMD	Debt Management Department
DSA	Debt Sustainability Analysis
DX	Domestic currency denominated debt
EAC	East African Community
ECF	Extended Credit Facility
EEC	European Economic Community
EIB	European Investment Bank
EMBI	Emerging Markets Bond Index
ERD	External Resources Department
FX	Foreign currency denominated debt
FY	Financial Year
GDP	Gross Domestic Product
IDA	International Development Association
IFB	Infrastructure Bond

IFC	International Finance Corporation
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Fund
ISB	International Sovereign Bond
Ksh	Kenya Shilling
LIC	Low Income Country
MEFMI	Macroeconomic and Financial Management Institute of Eastern and Southern Africa
MTDS	Medium Term Debt Strategy
NPV	Net Present Value
NSE	Nairobi Securities Exchange
NT	National Treasury
PFM	Public Finance Management
PPP	Public Private Partnerships
PV	Present Value
SBA	Stand-By Arrangement
SCF	Standby Credit Facility
SDR	Special Drawing Rights
US	United States
USD	United States Dollars

The key drivers for the *2014 MTDS* were a desire to minimize overall cost by issuing medium term domestic debt to reduce cost associated with longer dated securities and to further develop and deepen the domestic debt market. **In contrast, *2015 MTDS* envisages a reduced uptake of domestic debt than in previous years to meet the Central Government budget-financing requirement.**

In 2014, the Government also highlighted the need to minimize the degree of foreign exchange rate risk exposure associated with the external debt portfolio by borrowing more concessional debt, while maintaining a limited window for borrowing on commercial terms to minimize costs and refinancing risks. **The *2015 MTDS* emphasizes that financing on non-concessional window will be limited to projects with high-expected risk-adjusted rates of return including critical infrastructure that would otherwise not be undertaken due to lack of concessional financing.**

The *2014 MTDS* reaffirmed Government's commitment in realizing its objective of developing the domestic debt market. Arising from expenditure pressures, the original borrowing target of Ksh 106.7 billion was raised to Ksh 201.7 billion. The performance of the market has demonstrated the depth of the market with over-subscriptions for most of the government securities offered.

While the thrust of the *2014 MTDS* remained unchanged, the increased level of domestic borrowing led to increased refinancing risk. The average time to maturity remained constant at 5.0 years and the proportion of domestic debt to be refinanced within 12 months stood at 8.6 percent at end December 2014.

Managing refinancing risk remains a priority for the *2015 MTDS*. Active debt management operations to smooth the refinancing profile, along with efforts to maintain a wider investor base have been instrumental in mitigating potential fiscal shocks, such as, impact of drought on food security, realization of contingent liabilities, or shortfall in revenues, the country continues to face.

The rapid growth of domestic debt and increase in interest expense on government securities poses significant risk on debt sustainability. To mitigate these risks, there is need to explore the possibility of a switch from domestic to external debt. However, there is also concern that a sudden and aggressive shift from domestic debt could risk reversing some of the gains that previous debt strategies have achieved in terms of market deepening. In addition, while increasing the exposure to exchange rate risk would have a relatively limited budgetary impact in the short-term; it would aggravate the risk that the main fiscal anchor, the PV of Debt/GDP would exceed the ceiling of 74 percent in the event of shocks.

With regard to external borrowing, the Government prefers concessional external financing while maintaining a limited window for borrowing on commercial terms to minimize costs and refinancing risks. Financing on non-concessional terms will be on exceptional basis and will be biased towards projects with high-expected risk-adjusted rates of return including critical infrastructure that would otherwise not be undertaken due to lack of concessional financing. A cautious approach will be adopted in the issuance of external Government loan guarantees to minimize the level of contingent liabilities.

Given aforementioned concerns related to both domestic and external borrowing, the performance of four alternative strategies relative to *2014 MTDS* ("Current") was evaluated. These included a strategy envisaging a switch to external official sector borrowing, accompanied by lengthening of maturities in the domestic market ("S2"). Apriori, this strategy was expected to have very attractive cost and risk characteristics. However, given the potential challenges in achieving the target level of external borrowing, three (3) alternative strategies were also considered - two envisaging relatively more domestic debt ("S3" and "S4"with a bias to medium to long-term debt) and "S5" that proposes contracting of a higher proportion of semi-concessional external financing.

In selecting the optimal strategy, two key indicators were considered – ratio of interest payments to GDP (*Interest/GDP*) and ratio of PV of Debt to GDP (PV *of Debt/GDP*). As anticipated, "S2" **outperforms all other strategies.**

The *2015 MTDS* presents "S2" as the optimal strategy after taking into account both cost and risk considerations, the need to develop the domestic debt markets and the feasibility of implementing the strategy over the medium term. The strategy comprises of the following actions:

- **55% gross domestic borrowing** and **45% gross external borrowing** to finance the central government budget;
- Considering macro-economic and domestic market environment **issuance of medium term domestic debt through benchmark bonds is recommended;**
- External borrowing will comprise of **28% on concessional terms** and, **17% on non-concessional terms**.

The Government is committed to maintain debt within sustainable levels. In December 2013, Kenya concluded a three-year Extended Credit Facility (ECF) arrangement with the International Monetary Fund (IMF). The ECF successor is a Stand-By Arrangement(SBA) and Stand-By Credit Facility(SCF) to support the sustained implementation of our wide-ranging reforms and mitigate the impact of possible exogenous shocks.

The latest Debt Sustainability Analysis (DSA) for Kenya indicates that Kenya's debt is sustainable. The DSA compares debt burden indicators to indicative thresholds over a 20-year projection period. A debt-burden indicator that exceeds its indicative threshold suggests a risk of experiencing some form of debt distress. In the long term, the PV of public debt-to-GDP is expected to be 41.3 percent of GDP in 2017 while the PV of public debt-to-revenue remains below the threshold of 300 percent throughout the period of analysis. Overall, the results from the DSA indicate that Kenya's public debt remain sustainable over the medium term.

Consistent with the principles of public finance in the Constitution of Kenya, 2010 (Section 201), the Government will seek to widen outreach of the *2015 MTDS*. A domestic borrowing plan anchored on government cash flow requirements will be developed for implementation, monitoring and evaluation. The Government will also actively monitor the key macroeconomic indicators and interest rates against those assumed in the analysis. Any significant and sustained change will trigger the need for revision of the strategy. The underlying cost-risk analysis also identifies a range of risk indicators consistent with the adopted strategy. These provide a set of strategic targets against which the portfolio will be assessed on a regular basis to ensure the strategy remains on track.

Availability of comprehensive and accurate information on a regular basis is critical in managing investors' sovereign risk assessment and the cost of debt. The Government will seek to publish public debt information on a regular basis to enhance transparency on debt management in accordance with best international practice.

The Government continues to strengthen capacity in public debt management. A new Treasury structure is being set up with a reorganized Public Debt Management Office (PDMO) with adequate skilled staff posted to DMD while training in debt management techniques will be scaled up. The debt recording system will be upgraded from CS-DRMS 2000+ version 1.3 to 2.0.

I. OUTLINE OF THE 2015 MTDS

Objective of Debt Management in Kenya

1. The next section (II) outlines the basis on which the *2015 MTDS* is prepared. It provides the intention of the Government for the FY 2015/16.

Recent Developments

2. Section III provides an overview of the recent economic developments in both the domestic and external front.

Characteristics of Kenya's Public Debt

3. Section IV describes the salient features of Kenyan's outstanding public and publicly guaranteed debt. It establishes the starting point and provides guidance on the direction in which the Government should move with regards to the cost and risk of public debt portfolio.

***2015 MTDS:* Key assumptions**

4. Section V outlines the fiscal framework that aims at supporting rapid economic growth while at the same time ensuring that public debt is sustainable. It also highlights the future financing and pricing assumptions.

Outcomes of Analysis of Strategies

5. Section VI gives the performance of the four alternative strategies in terms of their relative cost and risk.

Debt Sustainability

6. Section VII provides the debt sustainability thresholds for Kenya which is currently ranked as a strong policy performer using the World Bank's *Country Policy and Institutional Assessment* (CPIA) index.

Implementing the *2015 MTDS*

7. Section VIII outlines the commitment of Government in implementing the *2015 MTDS*. It also provides the engagements the Government intends to undertake.

Conclusion

8. Section IX concludes.

II. OBJECTIVE OF DEBT MANAGEMENT IN KENYA

9. **The principal objective of Government debt management is to meet the Central Government financing requirements at the least cost with a prudent degree of risk.** The secondary objective is to facilitate Government's access to financial markets and support development of a well-functioning vibrant domestic debt market.

10. **In 2014, the National Treasury (NT) through the Debt Management Department (DMD) prepared a formal debt management strategy, the *2014 MTDS*, which outlined the Government Medium Term Debt Strategy for the period FY2014/15-2016/17.** The *2014 MTDS* was the Government's sixth formal and explicit strategy and was an important step towards enhancing transparency of the Government's debt management decisions. The MTDS was presented to Parliament as part of the Budget Documents by the Cabinet Secretary for the National Treasury. To institutionalize the production of the debt strategy, the requirement to publish the MTDS has been provided for under the Public Finance Management Act, 2012.

11. **The *2015 MTDS* will guide the Government debt management operations in the FY2015/16.** The strategy seeks to balance cost and risk of public debt while taking into account Central Government financing needs. In addition, the strategy incorporates initiatives to develop the domestic debt market, seek new funding sources, support macroeconomic stability and achieve debt sustainability.

III. RECENT DEVELOPMENTS

a) Development in the Domestic Debt Market

12. **The government has continued to pursue the twin objectives of developing a deep and liquid domestic market since the development of the first MTDS in June 2009.** The development of the *2014 MTDS*, reaffirmed the government's commitment in realizing its objective of deepening the domestic debt market.

13. **The interbank interest rates dropped to 7.2 percent in December 2014 from 12.19 percent in December 2013.** The dip in short-term interest rate reflects decreased inflationary expectation and availability of liquidity in the financial system. The 91-day Treasury bill rate declined by 280 basis points from 11.4 percent in June 2014 to 8.6 percent in December 2014.

14. **The CBK policy rate (CBR) has remained stable at 8.5 percent from May 2013 to December 2014 down from 11 percent in December 2012.** This has led to a reduction in short term interest rates, save for the commercial banks' lending rates which have remained at about 16 percent. The high spread between the lending and deposit rates has led to an increased investment in Government securities by retail investors. Meanwhile, the Government borrowing programme has progressed as planned with the cost declining as evidenced by the marginal decline in Treasury bill rates.

15. To confront the challenges of revenue shortfall and expenditure pressures, the Government will step up efforts on tax administration and mobilization of revenue to eliminate leakages and increase revenue collection as targeted in the FY 2014/15, as well as cut and rationalize expenditure so as to remain within the domestic borrowing ceiling of Ksh. 118.8 billion.

b) External Financing

16. **The Government policy on external borrowing is to be analyzed in light of the ever-changing domestic and international macroeconomic conditions.** In the *2014 MTDS*, the Government's preference remained for concessional external financing and provision of a limited window for borrowing on commercial terms to minimize costs and refinancing risks. Financing on non-concessional terms is restricted to projects with high-expected risk-adjusted rates of return including critical infrastructure such as energy.

17. **Performance of external financing, on a net basis, has been below target in recent years.** In addition, the Government has seen new external commitments entered on relatively harder terms, that is, closer to the 35 percent grant element threshold for 'soft' loans. However, the overall concessionality has remained relatively unchanged given the high grant element of IDA loans, the leading source of multilateral loans.

18. The domestic debt market has proved an effective source for providing longer-dated funds for investment for the private sector through corporate Infrastructure Bonds (IFBs).

19. **The Republic of Kenya issued its debut USD 2 billion International Bond on 16th June, 2014.** The issue comprised of USD 500 million at an interest rate of 5.875 percent with a five year maturity and USD 1.5 billion at an interest rate of 6.875 percent with a maturity of 10 years.

20. **Further, the Government in November 2014 reopened the Euro Bond to raise USD 750 million**. Between the bond components, the 5 year was reopened for USD 250 million at a yield of 5.0 percent while the 10 year was tapped for USD 500 million at a yield of 5.90 percent.

21. One of the objectives of the Euro Bond issued in FY 2013/14 and the reopening in FY2014/15 is to act as a benchmark for the corporates who may wish to access external funding.

22. The following is a summary of the key terms of the issue:

Nominal Value	**USD 2,750 million**	
Issuer	Kenya	
Ratings	S&P / Fitch B+ (stable)	
Issue format	144A / Reg S	
Pricing date	June 16, 2014	
Settlement date	June 24, 2014 (T+6)	
Governing law	English	
Listing	Irish Stock Exchange	
Issue Size	**USD 750 million**	**USD 2,000 million**
Maturity date	June 24, 2019	June 24, 2024
Coupon	5.875%	6.875%

Source: National Treasury

IV. CHARACTERISTICS OF KENYA'S PUBLIC DEBT

a) Actual Versus Projections in 2014 *MTDS*

The Overall Fiscal Balance

23. The actual cumulative overall fiscal balance amounted to a deficit of Kshs. 326.2 billion (6.1 per cent of GDP), as at end-June 2014, against a target of Ksh 444.6 billion (8.9 per cent of GDP) during the revised budget estimates.

External Financing

24. External financing amounted to a net borrowing of Kshs. 106.1 billion (2.1 percent of GDP) compared to a target of Kshs. 290.9 billion (5.9 percent of GDP) for the period ending 30th June 2014.

Net Domestic Borrowing

25. Net domestic financing amounted to KShs. 201.7 billion (4.0 percent of GDP) in the period ending 30th June, 2014, compared to a target of Kshs. 99.1 billion (2.0 percent of GDP) for the period ending 30th June 2014.

Domestic Debt

26. Total gross domestic debt stock increased as at end June 2014 to Kshs. 1,284.3 billion (25.4 percent of GDP) compared to a target of Kshs. 1,225.5 billion (29.4 percent of GDP).

External Debt

27. The total external debt stock stood at Kshs. 1,138.5 billion (22.5 percent of GDP), compared to a target of Kshs. 995.8 billion (23.9 percent of GDP) for the period ending 30th June 2014. The debt stock comprised of multilateral debt (54.7 per cent), bilateral debt (27.1 per cent), Export Credits (1.5 per cent), Commercial banks (0.6 per cent) and International Sovereign Bond (16.1 per cent)

Guaranteed Loans

28. Stock of guaranteed debt stood at Ksh 45.2 billion (1.1 percent of GDP) against the *2014 MTDS* target of Ksh 51.8 billion (1.3 per cent of GDP). The difference was because of lower actual average exchange rate than assumed at the time of developing the *2014 MTDS*.

b) Projected Stock of Debt

29. **The actual stock of public and publicly guaranteed debt as at end June 2014, December 2014 and projected position at end June 2015 is shown in Tables 1(a), 1(b) and 1(c) respectively.** As at end June 2015 the projected stock of public and publicly guaranteed debt is Ksh 2,675.2 billion or 46.8 percent of GDP in nominal terms. In addition, the structure of the debt portfolio is projected to be 48.7 percent external debt and 51.3 percent domestic debt, respectively **(Tables 1(a)-1(c) and Figure 1, Chart 1).**

Table 1(a): External and Domestic Debt, End June 2014

	USD Billion	Ksh Billion	Percent of GDP	Share of total debt (%)	Weighted average interest rate (%)
Domestic debt (gross)	14.7	1,284.3	25.4	53.0	4.0
External debt	13.0	1,138.5	22.5	47.0	1.1
o/w Guarantees	0.5	45.2	0.9	1.9	0.1
Total debt	27.7	2,422.8	47.9	100	2.9

Source: National Treasury and IMF/WB estimates
GDP: Ksh5,051.6 billion

Table 1(b): External and Domestic Debt, End December 2014

	USD Billion	Ksh Billion	Percent of GDP	Share of total debt (%)	Weighted average interest rate (%)
Domestic debt (gross)	14.4	1,307.9	23.2	52.8	4.6
External debt	12.9	1,170.7	20.8	47.2	1.3
o/w Guarantees	0.4	40.0	0.7	1.6	0.1
Total debt	27.3	2,478.6	44.0	100.0	3.2

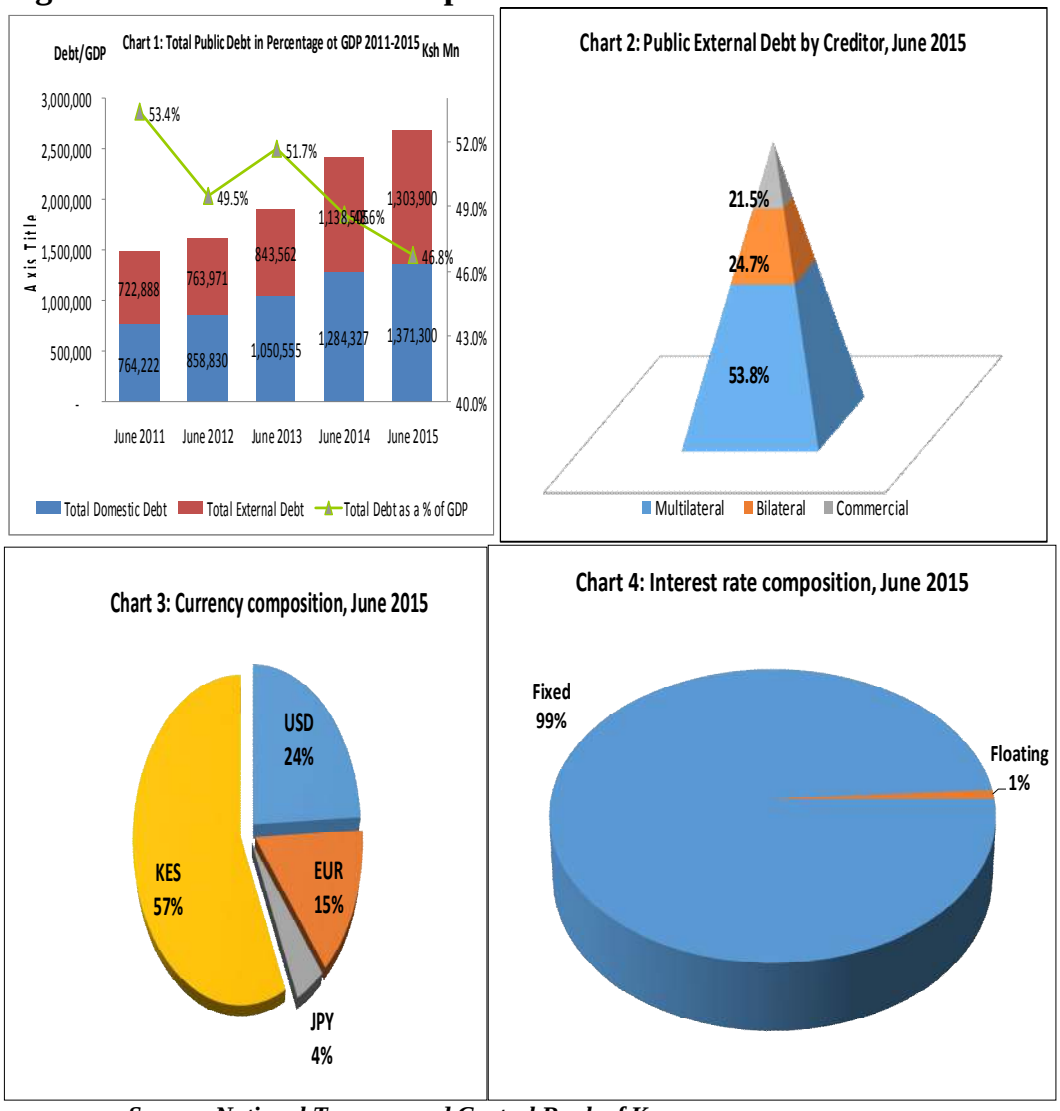
Source: National Treasury and IMF/WB estimates
GDP: Ksh 5,629.0 billion

Table 1(c): Projected External and Domestic Debt, June 2015

	USD Billion	Ksh Billion	Percent of GDP	Share of total debt (%)	Weighted average interest rate (%)
Domestic debt (net)	15.7	1,371.3	24.0	51.3	1.5
External debt	14.3	1,303.9	22.8	48.7	5.0
o/w Guarantees	0.5	45.8	0.8	1.7	0.1
Total debt	30.0	2,675.2	46.8	100	3.7

Source: National Treasury (BPS 2015) and IMF/WB estimates
GDP: Ksh 5,719.1 billion

Figure 1: Evolution and Composition of Public Debt



Source: National Treasury and Central Bank of Kenya

c) Existing Sources of Loans made to the National Government

i. Domestic Debt

30. **Government domestic sources of loans consists of Government securities and Government Overdraft at Central Bank of Kenya.** Government securities comprise of Treasury bills, Treasury bonds, Infrastructure bonds and the Pre-1997 Government Debt. The stock of outstanding Treasury Bonds increased from Ksh 914,762 million in June 2014 to Ksh 955,000 million in December 2014 while Treasury Bills decreased from Ksh 299,406 million to Ksh 291,404 million over the same period as shown in **Table 2 and Figure 3**. As at end December 2014, the ratio of Treasury Bills to Bonds stood at 23:77 which is in accordance with the

domestic debt borrowing strategy, which seeks to achieve and maintain the ratio of Treasury Bills and Treasury Bonds at 30:70.

Table 2: Domestic Debt Stock, Ksh Million

Instrument	June 2014		December 2014		Change in stock
	Amount	*% of stock*	Amount	*% of stock*	
Total Stock of Domestic Debt (A+B)	**1,284,327**	**100.0**	**1,307,749**	**100.0**	**23,422**
A. Government Securities (1-3)	**1,242,502**	**96.7**	**1,273,636**	**97.4**	**31,134**
1.Treasury Bills	**299,406**	**23.3**	**291,404**	**22.3**	**(8,002)**
Banking Institutions	176,450	13.7	191,196	14.6	14,746
Others	122,956	9.6	100,208	7.7	(22,748)
2.Treasury Bonds	**914,762**	**71.2**	**955,001**	**73.0**	**40,239**
Banking Institutions	436,381	34.0	455,554	34.8	19,173
Others	478,381	37.2	499,447	38.2	21,066
3. Pre-1997 Government Debt	**28,334**	**2.2**	**27,231**	**2.1**	**(1,103)**
B. Others[1]	**41,825**	**3.3**	**34,113**	**2.6**	**(7,712)**
Of which CBK Overdraft	37,238	2.9	30,929	2.4	(6,309)

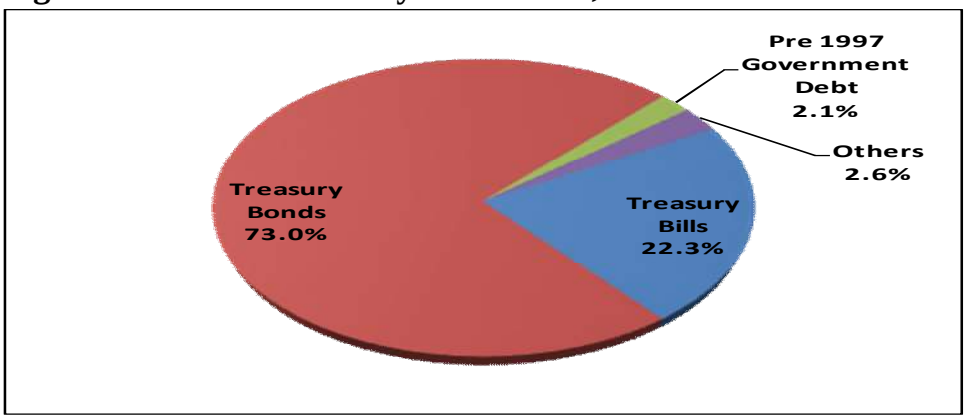
Source: Central Bank of Kenya

Table 3: Domestic Debt by Holder, Ksh Million, End December 2014

Holder	June 2014		December 2014	
	Amount	%	Amount	%
Banks	**682,921**	***53.2***	**708,025**	**54.2**
Central Bank	65,700	*5.1*	58,286	4.5
Commercial Banks	617,221	*48.1*	649,739	49.7
Non-Banks	**601,406**	***46.8***	**599,724**	**45.9**
Non- Residents	14,925	*1.2*	13,806	1.0
Non-Bank Sources	586,481	*45.7*	585,918	44.8
Total	**1,284,327**	***100***	**1,307,749**	**100**

Source: Central Bank of Kenya

Figure 3: Domestic Debt by Instrument, December 2014



Source: Central Bank of Kenya

[1] ***Others consist of CBK Overdraft to GoK, cleared items awaiting transfer to PMG, commercial bank advances and Tax Reserve Certificates.***

ii. External Debt

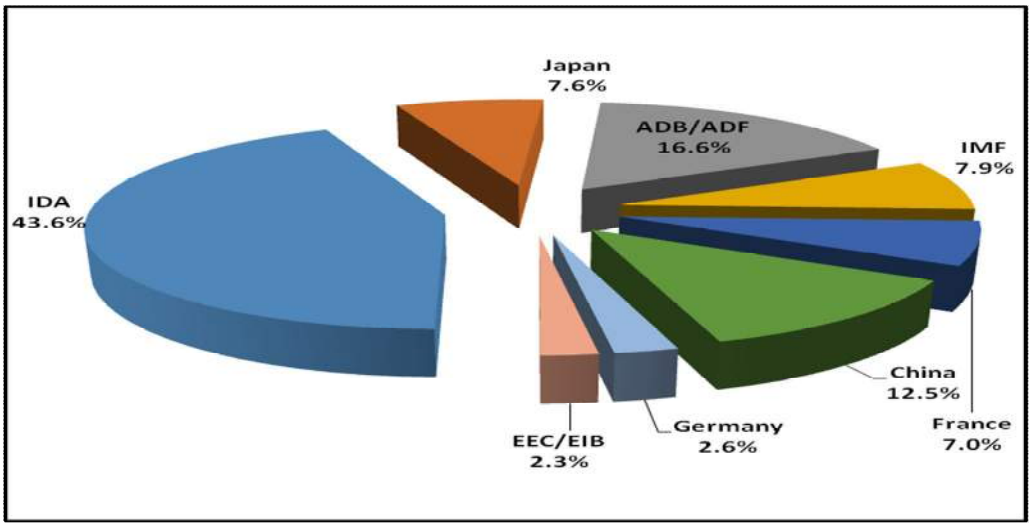
31. **The main sources of financing are multilateral and bilateral creditors.** As at end December 2014, multilateral concessional debts accounted for 52.3 percent of total external debt while bilateral creditors accounts for 24.5 percent. Commercial debt represents 21.8 percent of total external public debt.

32. **The currency composition of external debt is relatively diverse.** However, the largest share of foreign debt is denominated in USD and Euro (24 percent and 15 percent, respectively), with the Japanese Yen accounting for 4 percent (Figure 1, Chart 3). Kenya Shilling denominated debt accounts for 57 percent of total debt.

33. The interest rate composition of total debt stands at 99 percent fixed interest rates (Figure 1, Chart 4).

34. **IDA, ADB/ADF and EEC/EIB are the main multilateral creditors as shown in Figure 4, accounting for 84.4 percent of outstanding multilateral debt as at end December 2014.** IDA is the single biggest source of external resources, accounting for 62.3 percent of outstanding multilateral debt. In terms of bilateral creditors, Japan, France, China and Germany are the main creditors accounting for 91.3 percent of bilateral creditor. China is the largest bilateral donor, accounting for 37.0 percent of bilateral debt.

Figure 4: External Debt by Major Creditors, End June 2015



Source: National Treasury

35. **To facilitate financing of the expenditures that ordinarily would not be funded through multilateral and bilateral sources, the Government may resort to alternative financing sources including official Export Credit Agencies (ECAs).** These agencies, which are state-owned assist their countries' exporters by providing them with financial and insurance services. The services offered by ECAs can be categorized as either buyer's or supplier's credits and their lending terms are mostly semi-concessional. Recent examples of ECA lending to Kenya include the financing of Biometric Voter Registration (BVR) kits for the March 2013 general elections by Standard Chartered Bank, London. The BVR kits were sourced from Canadian Commercial Corporation and the semi-concessional financing facility of USD 85 million was guaranteed and insured by the Canadian Export Credit agency, Export Development Canada (EDC). Others include commercial portion of the Standard Gauge Railway (SGR) loan from Exim Bank of China, Geothermal Development loan from Germany and Magnetic Resonance Imaging equipment loan from China Development Bank. In the *2015 MTDS*, this type of financing, is catered for under the semi-concessional and commercial categories and will be considered within the non-concessional window.

iii. Guarantees

36. **The National Government has not issued any standard explicit loan guarantees since the new constitution came into effect in August 2010 (Appendix 1).** However, the energy sector has been the primary driver for the rise in contingent liabilities in form of government guarantees. The government, in collaboration with its development partners has increased its efforts towards promotion of Public Private Partnership (PPP) arrangements in the energy sector and encouraged use of non-state guarantees from multilateral agencies like MIGA to minimize the level of explicit guarantees to maintain public debt within sustainable levels. Under the agreed framework, the World Bank and African Development Bank have been issuing Partial Risk Guarantees to provide payment security to the investors and lenders and backstopped by Government Letter of Support. More than five Independent Power Producers have been provided with security under this framework (Appendix 2). The key advantage under this framework is that the level of contingent liabilities reported for public debt statistics is reduced to 25 percent compared to 100 percent if the government were to issue a guarantee.

37. **The demand for explicit guarantees is likely to increase in the medium term as the country implements a devolved system of governance**

under the Constitution of Kenya, 2010. It is required under the PFM Act that in order to borrow, County governments must be issued with a National Government guarantee and hence the level of guarantees is expected to rise as devolved units continue to develop. However, it is expected that county governments will exercise fiscal restraint in borrowing. Many of the counties have inherited debts, which may prove difficult to pay, and hence the PFM Act requires elaborate procedures before a guarantee is issued to prevent contracting of debts that prove difficult to pay later. Towards mitigating risks associated with contingent liabilities, the National Government, in liaison with County Governments has developed a county domestic and external borrowing framework.

38. A World Bank funded management mechanism under the Public Private Partnership framework is ongoing under PPP Unit in the Directorate of Portfolio Management. The Transition Authority is also working to establish the assets and liabilities held in the counties.

a. Cost/Risk Characteristics of Public Debt

39. **The cost and risk indicators of the existing debt are illustrated in Table 4 below.** Domestic debt remains the most costly and risky, with the domestic debt weighted average interest rate almost four times higher compared to external. Refinancing and interest rate risks are also higher for domestic debt as shown in Table 4 under average time to maturity (ATM), debt maturing in 1 year, and average time to refixing (ATR). Although external debt is associated with exchange rate risk less than fifty percent of Kenya's debt is denominated in foreign currency.

Table 4: Cost and risk indicators for existing debt as at end 2014

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in billions of KES)		1,170.7	1,307.9	2,478.6
Amount (in billions of USD)		15.7	14.3	30.0
Nominal debt as % GDP		22.0	28.8	50.8
PV as % of GDP		15.6	25.1	40.7
Cost of debt	Interest payment as % GDP	0.4	1.8	2.2
	Weighted Av. IR (%)	1.7	6.2	4.2
Refinancing risk	ATM (years)	12.8	5.0	8.4
	Debt maturing in 1yr (% of total)	2.4	13.4	8.6
	Debt maturing in 1yr (% of GDP)	0.5	3.9	4.4
Interest rate risk	ATR (years)	12.8	5.0	8.4
	Debt refixing in 1yr (% of total)	2.4	13.4	8.6
	Fixed rate debt (% of total)	100.0	100.0	100.0
FX risk	FX debt (% of total debt)			47.5
	ST FX debt (% of reserves)			0.0

Source: National Treasury

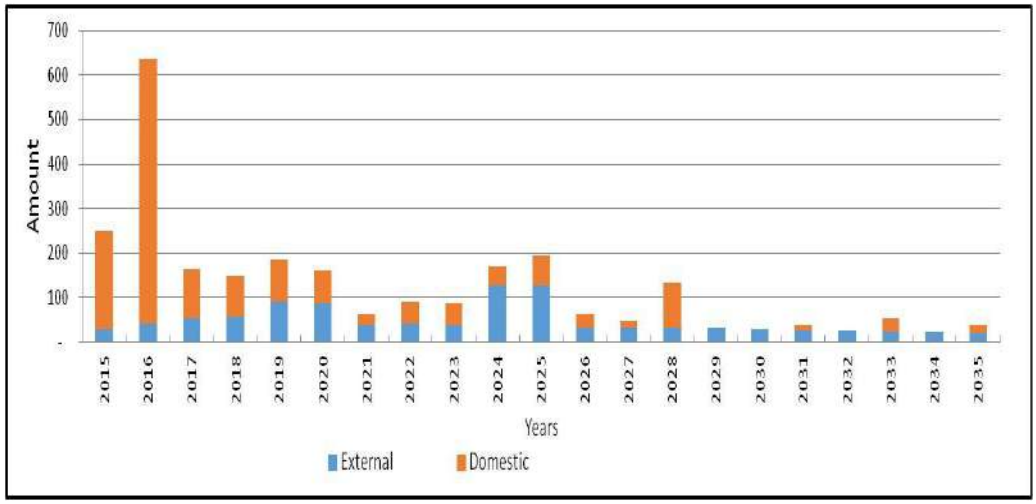
40. **Table 5 is a summary of the cost and risk consideration.** Refinancing risk in the debt portfolio remains significant but within tolerable limits. The Average Time to Maturity (ATM) of the total debt portfolio is projected at 8.9 years in June 2015 up from 8.4 years at end 2014, with that of the domestic debt portfolio at 5.0 years. The average maturity profile for external debt is expected to be 12.8 years in June 2015 consistent with the hardening of terms on new external commitments. A close examination of the repayment profile indicates 8.6 percent of the total debt stock will mature in the next 12 months which poses refinancing risk (See Figure 5). The huge redemption spike noted in 2016 is attributed to the redemption of short term domestic debt contracted in FY 2013/14, mainly Treasury bills and 2 year Treasury Bonds issued in 2014, as well as IFBs issued in FY 2009- 2012 with six year maturities.

Table 5: Cost and Risk Considerations of Debt Portfolio, End June 2015

Characteristics of Existing Portfolio	Ex ante Risks	Ex ante Cost
Currency composition (FX = 43%; DX=57%)		
External, mostly concessional	Exchange rate risk	Low
Domestic	No exchange rate risk	High
Maturity profile (ATM = 8.9 years)		
External, mostly concessional (ATM =12.8 years)	Low refinancing risk	Low
Domestic (ATM = 5.0 years)	Medium refinancing risk	High
Interest rate composition (Fix=99%; Float=1%)	Low interest rate risk	

Source: National Treasury and Central Bank of Kenya

Figure 5: Total Debt Repayment Profile, End-June 2015 (Ksh billion)



Source: National Treasury and Central Bank of Kenya

b. Strategies to Deal with the Existing Public Debt

41. **Going forward, the composition of the debt portfolio suggests that reducing refinancing risk should remain a priority for the *2015 MTDS*.** In addition, although the extent of exchange rate risk is partially mitigated by the currency composition of external debt, given the sensitivity of the PV of Debt/GDP to exchange rate shocks, this suggests that the overall proportion of external debt should be carefully monitored. In particular, the current situation where the government has entered the international capital markets and contracted bonds with bullet payment.

42. **Possible materialization of potentially large and unreported contingent liabilities has been identified as posing additional risk to the sustainability of public debt**. Borrowing by state-owned entities with or

without Government guarantees constitutes potential contingent liability to the Government. In the event of default on on-lent loans and guaranteed or non-guaranteed loans, Central Government will bear the cost of the debt. With the implementation of a devolved system of Government, the extent of contingent liabilities is expected to increase as liabilities of County Governments are taken into account. To mitigate this potential risk, the government will continue monitoring both explicit and implicit liabilities to ensure they are maintained within sustainable levels.

V. 2015 MTDS: KEY ASSUMPTIONS

a) Objectives and Scope

43. **In the *2015 MTDS*, the Government will continue pursuing the same broad objectives of funding the Central Government Budget while maintaining a prudent level of risk taking account of costs.** This will be achieved through the diversification of external sources of financing and further lengthening the average time to maturity of the domestic debt portfolio.

44. **The scope of the analysis of *2015 MTDS* is based on the combined Central Government debt and publicly guaranteed debt serviced by the Government.** Guaranteed debt currently serviced by the Government amounts to USD 42.0 million or 0.3 percent of total public and publicly guaranteed (PPG) external debt.[2]

b) Macroeconomic Environment and Risks

45. **The macroeconomic framework underpinning the MTDS is consistent with projections included in the *2015/16 Budget Policy Statement (2015 BPS).*** The 2015 Medium-Term Fiscal Policy aims at supporting rapid economic growth and ensuring the debt position remains sustainable. Specifically, over the medium term the National Government's borrowings shall be used only for financing development expenditure. It is the Government's policy to procure external financing only for development projects. Public debt obligations shall be maintained at sustainable level as approved by Parliament (National Assembly) and County Assembly. External financing will be largely on concessional terms. Fiscal risks shall be managed prudently taking into account fiscal risks arising from contingent liabilities and the impact of the Public Private Partnership projects and Financial Sector Stability.

46. **The medium term outlook for FY2012/13 - FY2014/15 assumes a real GDP growth to increase from 5.1 percent in FY2012/13 to 7.1 percent in FY2016/17 in Table 6**. The overall fiscal balance (including grants) is projected to decrease from 8.0 percent of GDP in 2014/15 to a sustainable level of about 5.4 percent of GDP over the medium term. This will have the effect of allowing public debt to decline from about 43.9 percent of GDP in

[2] Total guaranteed debt amounts to USD 441 million (at end December 2014).

June 2015 to 42.6 percent in FY2016/17. Inflation is expected to decline from 7.5 percent in FY2012/13 to 6.4 percent in FY2016/17. The current account deficit is expected to decline gradually from about 8.5 percent of GDP in 2012/13 to 7.2 percent of GDP in 2016/17. Gross international reserves are assumed to reach 4.6 months of imports by FY2016/17. The risk to the medium-term outlook include continued weak growth in advanced economies, that will impact negatively on our exports and tourism. Further, geopolitical uncertainty on the international oil market will slow down the manufacturing sector.

Table 6: Baseline Macroeconomic Assumptions

Baseline macroeconomic assumptions	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Real GDP growth (%)	5.1	5.5	6.1	7.0	7.1	7.0
Inflation (average, %)	7.5	6.2	6.7	6.5	6.4	6.2
External Sector						
Current account (% of GDP)	-8.5	-8.5	-8.0	-7.2	-7.2	-7.4
Exports value, goods and services	20.5	19.8	20.1	20.5	20.5	20.5
Imports value, goods and services	33.6	32.9	32.4	31.5	31.3	31.2
Gross official reserves (months of next year's imports)	3.6	3.8	4.2	4.3	4.6	4.8
Central government budget						
Overall balance (in billions of Ksh)	-239.3	-299.2	-456.1	-479.7	-398.2	-341.2
Overall balance (% of GDP) including grants	-5.3	-5.9	-8.0	-7.4	-5.4	-4.0
Total revenue and grants (in billions of Ksh)	868.2	1,001.3	1,212.8	1,401.1	1,654.4	1,910.1
Total revenue and grants (% of GDP)	19.3	19.8	21.2	21.5	22.3	22.6
Total expenditure and net lending (in billions of Ksh)	1,107.3	1,300.6	1,669.0	1,880.8	2,052.6	2,251.4
Total expenditure and net lending (% of GDP)	24.6	25.7	29.2	28.8	27.6	26.6
Primary deficit (in billions of Ksh)	-111.2	-164.4	-308.9	-316.3	-215.5	-134.9
Primary deficit (% of GDP)	-2.5	-3.3	-5.4	-4.9	-2.9	-1.6
Nominal GDP (Market prices, in billions of Ksh)	4,506.2	5,051.6	5,719.1	6,520.5	7,430.2	8,448.2
Total public debt (% of GDP)	45.9	44.1	43.9	43.7	42.6	41.3

Source: National Treasury, BPS 2015

47. **Debt financing needs are determined by the primary deficit, interest costs and principal payments/redemptions.** Under the baseline

macroeconomic assumptions, the primary deficit is expected to increase from Ksh 164.4 billion in FY2013/14 to Ksh 308.9 billion in FY2014/15 and decrease to Ksh 215.5 billion by FY2016/17. The *2015 MTDS* guides on the preferred borrowing mix to close the resource gap in the budget.

48. **The macroeconomic outlook carries substantial uncertainty. In particular, the September/October 2014 *Joint World Bank-IMF LIC Debt Sustainbility Analyis (DSA)* highlights the sensitivity of Kenya's debt sustainability to shocks in economic growth.** Lower growth will negatively affect the primary deficit through both lower revenue collection and increased outlays to protect the most vulnerable. Overall, growth will depend on the pace of global economic growth, weather patterns and international fuel prices that impact negatively on revenues and hike expenditure demands.

49. **Increased investment in infrastructure might require an increase in the level of guarantees while the implementation of the new Constitution (including County administrative units) may need the Government to take in more debt and take over liabilities of counties**. The increase in contingent liabilities would represent a significant increase in risk to the current debt burden.

50. **Overall, the risk priorities for the existing public debt portfolio has not changed since June 2014**. Thus, the thrust of the *2015 MTDS* is similar to *2014 MTDS*: - to maintain a diversified source of financiers, prudently manage the debt amortization profile to absorb fiscal shocks (for example, the impact of drought on the budget), and manage the external exposure of the portfolio taking into account the vulnerability to balance of payments shocks.

51. The principal risks to the baseline are summarised below in **Table 7.**

Table 7: Macro-Risks and Implications for Debt Management Strategy

Implications for Debt Strategy Preferences				
Macroeconomic Factors	**Impact**	**Target source**	**Currency**	**Other comments**
Balance of Payment Risks				
Terms of trade shock	Exchange rate	Domestic	DX	Improve market capacity
FDI/Private capital flow volatility	Exchange rate	Domestic	DX	Improve market capacity
Remittance dependence	Exchange rate	Domestic	DX	Improve market capacity
Tourism receipts dependence	Exchange rate	Domestic	DX	Improve market capacity
Low foreign exchange reserves	Exchange rate		FX	Diversify trading partners
Fiscal Risks				
Potential volatility (revenues)	Expenditure volatility	Market	DX/FX	Create fiscal space, prioritize expenditure and improve efficiency
Capital spending aid dependent	Growth volatility		DX/FX	Improve relationship with donors, improve absorptive capacity and implementation efficiency
Contingent liabilities	Debt level increase	Market	DX/FX	Create fiscal space and strengthen overall PFM framework
Monetary Risks				
High inflation	Impede market development, higher interest costs			
Negative real interest rate	Impact real money investors and deposit growth			Increase credibility of monetary policy, improve monetary operational framework and monetary transmission mechanism to reduce inflation premium
Natural Disasters				
Natural Disasters	Growth volatility	Market	DX/FX	Diversify economy and explore the possibility of commodity hedge
Political Stability	Growth volatility Exchange rate		DX/FX	Ensure political stability

Source: National Treasury

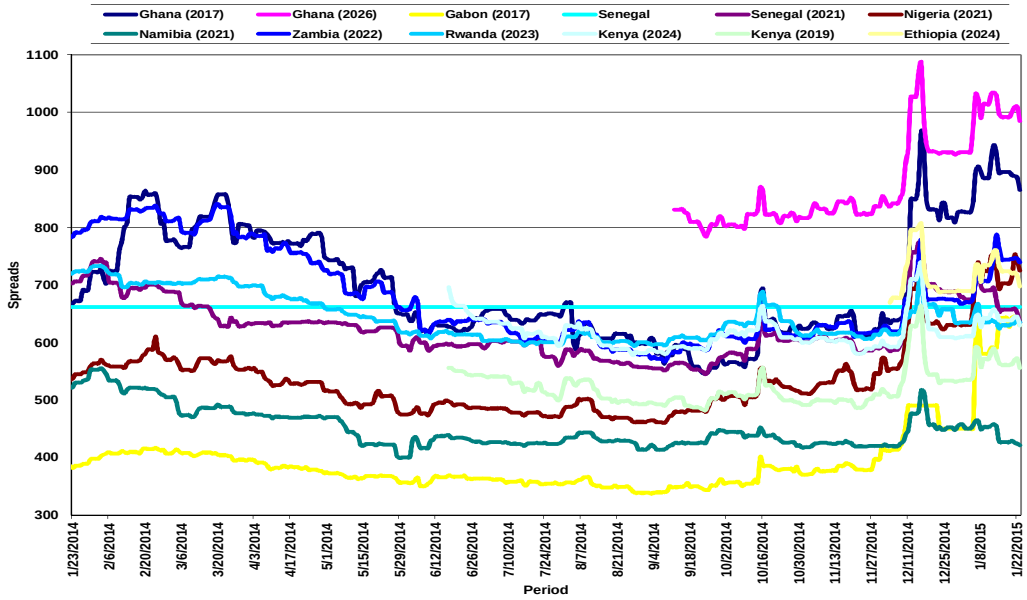
c) Potential Financing Sources

52. **Official external sources remain the preferred option for the Government to source financing on concessional terms**. However, it has been observed that borrowing terms have increasingly hardened, with new loans often contracted on terms very close to the 35 percent grant element threshold.

53. **The Government issued the debut USD 2 billion International Bond successfully in FY2013/14**. The Bond was futher reopened for USD 750 million in November 2014 with an oversubcription of 394 percent. Figure 7 shows the performance of Kenyan peers sovereign bond issues. The size of non-concessional borrowing limit in the medium term including the International Sovereign Bond and guarantees under the IMF Standby Credit Facility/Standby Arrangement is set at USD 1,100 million for the year

2015/16. This ceiling is consistent with the Government's strategy to safeguard debt sustainability levels.

Figure 7: Performance of Peer Debut Sovereign Bond Issues



Source: National Treasury and IMF/WB estimates

54. **On domestic borrowing, the Government will seek to issue medium to long term securities to lengthen the maturity structure of the public debt portfolio, and thus reducing refinancing risk.** The issuance program will be biased towards Benchmark Bonds. The effort to shift towards longer dated instruments supports development of the yield curve for government debt securities and the overall growth of domestic debt market.

55. **The overall uptake of domestic debt will be reduced to cut-back on rises in interest costs and the rapid growth of the debt stock.** This action is consistent with the strategy to shift the portfolio towards external debt dominance and also to safeguard debt sustainability over the medium term.

d) Future Financing and Pricing Assumptions

External sources

56. **The following pricing assumptions underlie the *2015 MTDS*.**

- Concessional external loans are priced at a fixed rate of 0.75 percent, with a 40-year tenor and a 10-year grace period. These loans are assumed to be denominated in SDR.

- Semi-concessional loans are assumed to be contracted from official creditors These loans have a fixed interest rate of 2.5 percent, a maturity of 20 years including a 5-year grace period.[3] These loans are denominated in Euros and USD.

- The Government will maintain non-concessional financing including guarantees at about USD 1,100 million in the medium term. This is targeted for investment projects that demonstrate revenue streams and high social returns. These loans have market-based terms and are denominated in Euros and USD.[4]

- Accessing the international capital market is priced-off the assumed effective yield curve, which is based on the underlying forward US Treasury curves plus an assumed credit spread. The analysis assumes that international capital markets could be accessed to finance infrastructure development, or if concessional resources fall below target. Alternatively, domestic borrowing could increase.

57. The **net external borrowing** for financial year 2015/16 is **4.1 percent of GDP** and is projected to decline to 2.0 percent of GDP in the financial year 2017/18.

Domestic market sources

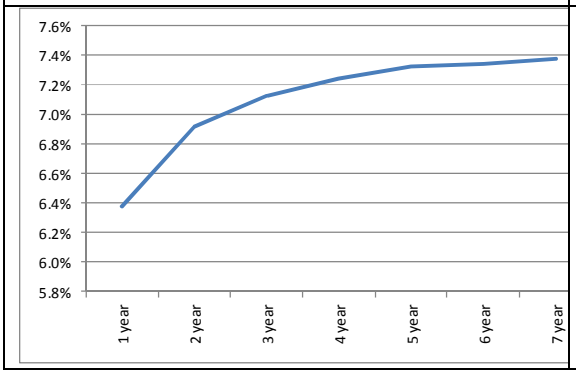
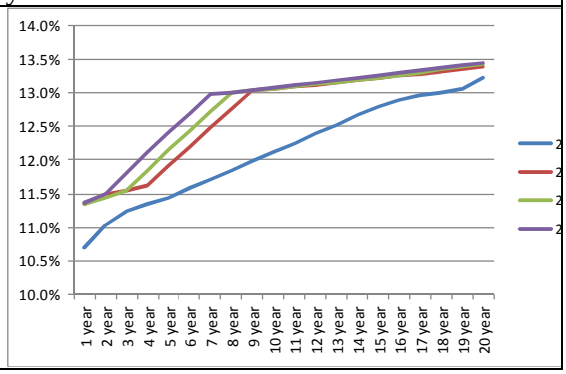
58. **The pricing of new domestic borrowing is based on the underlying forward US Treasury curves.** The assumed credit premium is taken into account, and the anticipated inflation differential is used to adjust for the baseline exchange rate depreciation rate consistent with the macroeconomic framework. This is then adjusted for an additional risk premium, which can be assumed to capture liquidity, inflation risk, and other risk effects. This premium is identified by determining the necessary premium required to fit today's observed yield curve.[5] The applicable Ksh curves are shown in Figure 8.

[3] These terms are consistent with loans that have been contracted in the last two years from bilateral sources.

[4] These terms are consistent with loans contracted for the health sector in 2014.

[5] The NSE yield curve is taken as the basis for the current Ksh curve.

Figure 8: Assumed USD and Ksh Yield Curves

USD denominated 10 year Eurobond forward rates	Treasury domestic observed and forward yield curves
	

Source: National Treasury and IMF/WB estimates

59. **Domestic borrowing will be through issuance of Treasury Bills and Treasury Bonds at the ratio of 30:70.** This will ensure that the maturity structure of the existing portfolio is lengthened to minimize refinancing risk.

60. In addition, Treasury Bonds will be issued around Benchmark Bonds of 2, 5, 10, 15 and 20-year tenors to build liquidity. However, to avoid bunching of maturities particularly with the Eurobond, the 10-year domestic debt will be issued in moderation going forward.

61. **Net domestic borrowing** for financial year 2015/16 is **3.2 percent of GDP** and is projected to decline to 2.0 percent in financial year 2017/18.

e) Description of Stress Scenarios

62. **The robustness of each alternative strategy is assessed on the basis of the baseline scenario for interest and exchange rates**. While a number of standard shocks are generally applied in the context of the DSA, it is important to also consider what might constitute a typical shock in the Kenya-specific context. To determine the appropriate size of these shocks, the historical performance of the relevant exchange rate and short-term interest rates in the relevant markets was considered. In particular, the size of the interest rate shock to be applied to the Kenya shilling interest rates was determined on the basis of the past 10 years, which includes periods when interest rates declined (and increased) sharply. Consequently, the implied annual deviation of interest rates is quite large at over 2 percent[6]. For the

[6] However, it appears that there were no particular structural factors that would argue for excluding that particular period from the analysis.

purposes of the analysis, it is assumed that shocks materialize in FY 2016/17, and are sustained through the remainder of the simulation horizon[7]**:**

- Scenario 1: *Upward shift of the Ksh yield curve.* The cost of borrowing at all tenors increases by two standard deviations (equivalent to a 4.5 percent interest rate increase) calculated on the basis of the historical change in the interest rates on Treasury Bills.

- Scenario 2: *Flattening of the Ksh yield curve.* This scenario corresponds to the impact of a switch in the monetary policy stance, which would increase short-term rates, but where the market's longer-term expectations remain unchanged (that is, inflation expectations remains anchored to the 5 percent target). In this scenario, the interest rate of the 364-day Treasury Bill increases by two standard deviations, as in Scenario 1, but interest rates on long-term bonds increase proportionally less, with the interest rate of the bond with the longest maturity (30 years) unchanged from the baseline scenario.

- Scenario 3: *Extreme depreciation of the Ksh*. The Ksh depreciates by 30 percent vis-à-vis the other currencies in FY 2015/16.

- Scenario 4: *A combination of previous Scenarios 1 and 3.* In this scenario, the Ksh depreciates by 15 percent above the baseline depreciation rate vis-à-vis the other three currencies, while all interest rates increase by one standard deviation at all maturities. This reflects the likelihood that interest rates would likely react to an external shock that affects the exchange rate.

f) Description of Alternative Financing Strategies

63. **The analysis compares a number of alternative strategies with *2014 MTDS*.** In particular, this analysis assesses the relative performance of a strategy aiming to maximize external concessional financing (corresponding to Strategy 2 below). However, in light of the possibility of significant shortfall in external disbursements, as experienced in the recent past, and the

[7] Basically, this presumes that the baseline macroeconomic outlook and financing assumptions are highly uncertain. A more specific risk scenario could be considered on the basis of known future events, such as an election. The quantification of the shocks reflects the historical standard deviation over the last 10 years, except for Scenario 3 where an extreme shock to the nominal exchange rate is simulated.

contracting of commercial financing, the analysis also evaluates the costs and risks associated with alternative strategies that assume relatively higher domestic borrowing (Strategy 3 and 4).

64. **The candidate strategies are described below and in Table 8.**

a) *Strategy 1 (Current MTDS).* This is the preferred strategy in *2014 MTDS*, which has been implemented in the past year. It assumes that 40 percent of the gross financing needs would be met by external borrowing, mainly from concessional creditors, and 60 percent from the domestic market, mainly through medium tenor Treasury Bonds. The concentration of issuance with 5- and 10-year maturities assumes a significant initiative to reduce cost of domestic debt associated with longer dated securities.

b) *Strategy 2 (S2. More concessional external borrowing).* External and domestic borrowing would amount to 45 percent and 55 percent of gross financing needs respectively. There is concentration to more concessional external debt to reduce cost.

c) Strategy 3 (S3. Medium to long-term domestic borrowing). This strategy maximizes domestic borrowing, assuming 60 percent of gross financing needs are met through these sources. The financing is concentrated on the issuance of medium to long-term debt securities. External financing would be 40 percent of Government gross financing needs.

d) *Strategy 4 (S4. More domestic borrowing).* It assumes domestic borrowing would amount to 65 percent while 35 percent of the gross financing needs would be met by external borrowing, from concessional and semi-concessional creditors.

e) *Strategy 5 (S5. Semi-concessional external borrowing).*Under this strategy domestic debt is 65 percent and external debt 35 percent mainly semi-concessional sources.

Under all strategies, it is assumed that over 35 percent of all official sector external borrowing is on less concessional terms, in line with recent experiences.

Table 8: Alternative Debt Management Strategies

		Current(S1)	S2	S3	S4	S5
External		**40%**	**45%**	**40%**	**35%**	**35%**
Concessional	FX	26%	28%	21%	19%	8%
Semi-concessional	FX	8%	11%	13%	9%	21%
Commercial	FX	6%	6%	6%	6%	6%
Domestic		**60%**	**55%**	**60%**	**65%**	**65%**
Fixed_1Yr	DX	9%	6%	5%	5%	10%
Fixed_2Yr	DX	10%	8%	10%	11%	11%
Fixed_5Yr	DX	14%	13%	14%	15%	15%
Fixed_10Yr	DX	4%	4%	5%	5%	5%
Fixed_15Yr	DX	15%	13%	14%	15%	14%
Fixed_20Yr	DX	7%	11%	13%	14%	10%

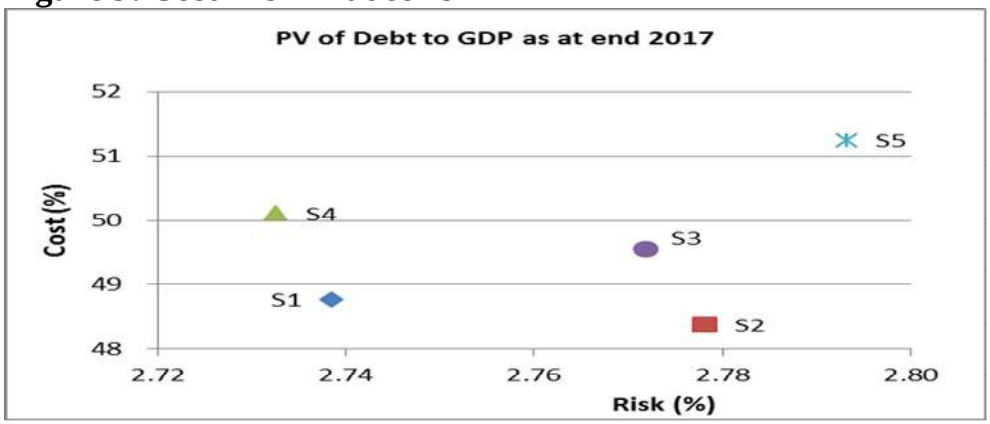
VI. OUTCOMES OF ANALYSIS OF STRATEGIES

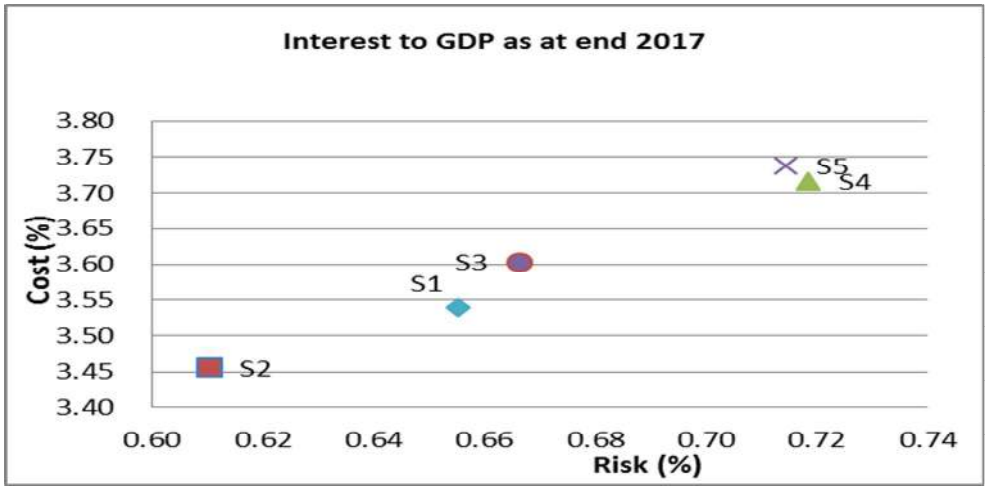
65. **The performance of the five alternative strategies was assessed under the four identified market stress scenarios in terms of their relative cost and risk**. Consideration focuses on performance in terms of the cost-risk tradeoff reflected in three key indicators, that is, Interest/GDP, PV of Debt/GDP, Total Debt Service/GDP. The first two are relevant as they indicate the amount of budgetary resources required to service the debt and which is, consequently, not available for other uses; the latter is relevant as the government has set an overall ceiling of 50 percent of GDP for the PV of Debt/GDP under the East African Community convergence criteria. The results of this cost-risk tradeoff are shown in Table 9 and Figure 9.

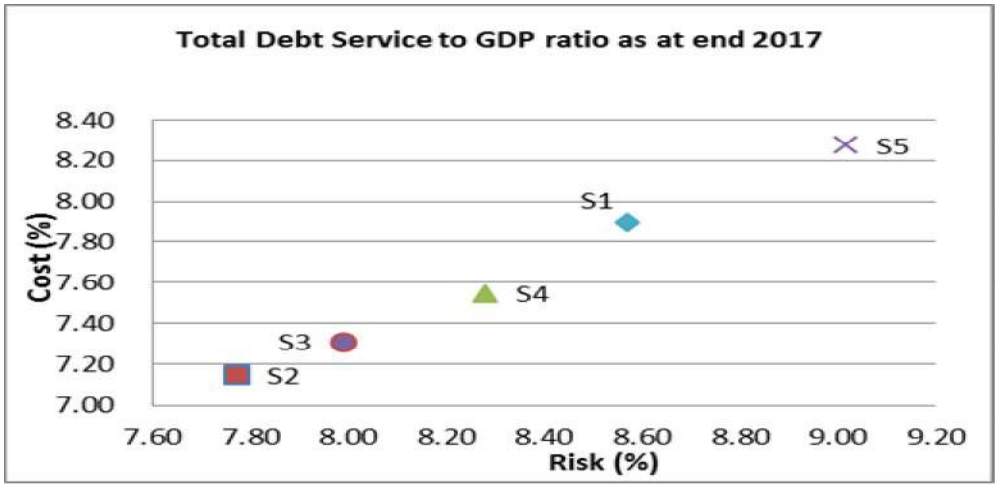
Table 9: Cost-Risk Tradeoffs

Interest Payments to GDP Ratio as at end 2017	**Current(S1)**	**S2**	**S3**	**S4**	**S5**
Baseline	3.54	3.46	3.60	3.72	3.74
Exchange rate shock (30%)	3.64	3.56	3.71	3.82	3.85
Interest rate shock 1 (4.5% parallel shift of yield curve)	3.86	3.76	3.93	4.07	4.09
Interest rate shock 1 (flattening of yield curve)	4.20	4.07	4.27	4.43	4.45
Combined shock (20% depreciation and interest rate shock 1)	3.90	3.80	3.97	4.11	4.13
Max Risk	0.66	0.61	0.67	0.72	0.71
PV of Debt to GDP Ratio as at end 2017(%)	**Current(S1)**	**S2**	**S3**	**S4**	**S5**
Baseline	48.77	48.39	49.57	50.12	51.24
Exchange rate shock (30%)	51.51	51.17	52.34	52.85	54.04
Interest rate shock 1 (4.5% parallel shift of yield curve)	49.14	48.72	49.95	50.53	51.67
Interest rate shock 1 (flattening of yield curve)	49.52	49.07	50.34	50.97	52.12
Combined shock (20% depreciation and interest rate shock 1)	50.10	49.69	50.91	51.49	52.65
Max Risk	2.74	2.78	2.77	2.73	2.79

Figure 9: Cost-Risk Tradeoffs







66. **As anticipated, the strategy assuming the largest amount of official sector external borrowing (S2) has the most beneficial cost and risk attributes.** This suggests that the government should target a slight increase in the amount of external official sector borrowing to 28 percent relative to S1 (*2014 MTDS*). However, given the potential challenges in achieving this strategy in practice, it is prudent to consider what the appropriate contingency

should be in the event that there is a shortfall in disbursements. In that context, the choice is between relatively more domestic borrowing (as represented by S3 and S4) or the contracting of higher external borrowing on semi-concessional terms (S5).

67. **However, there is a clear ranking between S3 and S4 in terms of Interest/GDP and Total Debt Service/GDP.** Given the relatively greater weight of more domestic debt in S3 and S4, S2 is less costly and less risky. On the other hand, S3 and S4 are costly and risky due to the increased uptake of medium to long-term domestic debt. **However, when PV of Debt/GDP is considered, S2 is also the lowest cost compared to all strategies but is higher risk than S1, S3 and S4.** It has higher risk because it has the most external debt and therefore the exchange rate risk dominates. The choice here is a tradeoff but also looking at scaling, the PV cost advantage of S2 is 0.4 percent of GDP (relative to S1), and the PV additional risk (relative to S1) is 0.04 percent of GDP. So the benefit outweighs the additional risks. S3 and S4 are more costly on account of a higher proportion of domestic debt. S5 is an outlier in all the three measures.

68. **A range of other key indicators (Table 10) were also closely analyzed.** The results consider S2 as the most optimal strategy that effectively mitigates refinancing risk. This risk has become increasingly relevant for debt managers in light of the continued turmoil in the recent global debt crisis and given that Kenya has now ventured into the international capital markets. In addition, S2 will likely have a higher success rate of execution given the bias towards more concessional financing (Table 10, S2).

Table 10: Other Key Indicators

Risk Indicators		2014	As at end FY2017			
		Current (S1)	S2	S3	S4	S5
Nominal debt as % of GDP		50.8	59.5	59.6	59.6	59.5
Present value debt as % of GDP		45.6	48.8	48.4	49.6	50.1
Interest payment as % of GDP		2.2	3.5	3.5	3.6	3.7
Implied interest rate (%)		4.2	7.1	6.9	7.2	7.4
Refinancing risk	Debt maturing in 1yr (% of total)	8.6	7.3	6.2	6.4	6.7
	Debt maturing in 1yr (% of GDP)	4.4	4.4	3.7	3.8	4.0
	ATM External Portfolio (years)	12.8	15.3	15.5	14.9	14.6
	ATM Domestic Portfolio (years)	5.0	7.8	8.5	8.7	8.8
	ATM Total Portfolio (years)	8.4	12.2	12.7	12.3	12.0
Interest rate risk	ATR (years)	8.4	12.2	12.7	12.3	12.0
	Debt refixing in 1yr (% of total)	8.6	7.3	6.2	6.4	6.7
	Fixed rate debt (% of total)	100.0	100.0	100.0	100.0	100.0
FX risk	FX debt as % of total	43.3	58.6	60.7	57.8	55.1

Implied net borrowing (% of GDP)					
(Average over simulation period)	S1	S2	S3	S4	S5
Net external borrowing	4.0%	4.5%	3.9%	3.4%	2.3%
Net domestic borrowing	2.0%	1.5%	2.1%	2.7%	1.6%

69. **Other factors may also be relevant if the government were to consider further tapping the international capital markets.** Investors continue to focus on issues relating to fiscal transparency, quality of statistics and effectiveness of public financial management and expenditure control. The Kenyan Government is committed to strengthen public financial management and expenditure frameworks coupled with continued improvements in data quality and transparency that will help to secure best pricing on any issue.

70. **Finally, it is prudent to consider the implied quantities to be borrowed in each instrument type to assess the feasibility of any of the strategies.** As designed, S4 requires the greatest amount of net official sector borrowing at an average of around USD991million a year.

Table 11: Borrowing Quantities by Instrument (Kshs million)

(Average over simulation)	Current (SI)	S2	S3	S4	S5
Net external borrowing	297,130	328,010	286,899	246,827	178,589
Net domestic borrowing	145,481	111,275	158,048	202,462	127,980
Total net borrowing	**442,611**	**439,285**	**444,947**	**449,289**	**306,569**

71. **In conclusion, taking into account both risk and cost trade-offs, the implied quantity of gross borrowing, the need to develop the domestic**

debt market and ability to implement the strategy, the *2015 MTDS* proposes Strategy 2 (S2) as the most optimal strategy. Indeed, the results of the cost and risk analysis (Tables 12 and 13; Figures 10 and 11) reveal that the *2014 MTDS* is less favorable going forward compared to the *2015 MTDS*.

Table 12: Cost and Risk Analysis: *2014 MTDS* vis-à-vis *2015 MTDS:* Interest/GDP ratio

Scenarios	*2014 MTDS*	*2015 MTDS*
Baseline	3.54%	3.46%
Stress Test 1:Exchange rate shock (30%)	3.64%	3.56%
Stress Test 2:Interest rate shock 1 (4.5% parallel shift of yield curve)	3.86%	3.76%
Stress Test 3:Interest rate shock 1 (flattening of yield curve)	4.20%	4.07%
Stress Test 4:Combined shock (20% depreciation and interest rate shock 1)	3.90%	3.80%
Max Risk	0.66%	0.61%
Change under: 45% exchange rate devaluation	0.10%	0.11%
Change under: Exchange rate shock (30%)	0.32%	0.30%
Change under: Interest rate shock 1 (4.5% parallel shift of yield curve)	0.66%	0.61%
Change under: Interest rate shock 1 (flattening of yield curve)	0.36%	0.34%
Maximum under stress	0.66%	0.61%

Figure 10: Cost and Risk Analysis: *2014 MTDS* vis-à-vis *2015 MTDS*

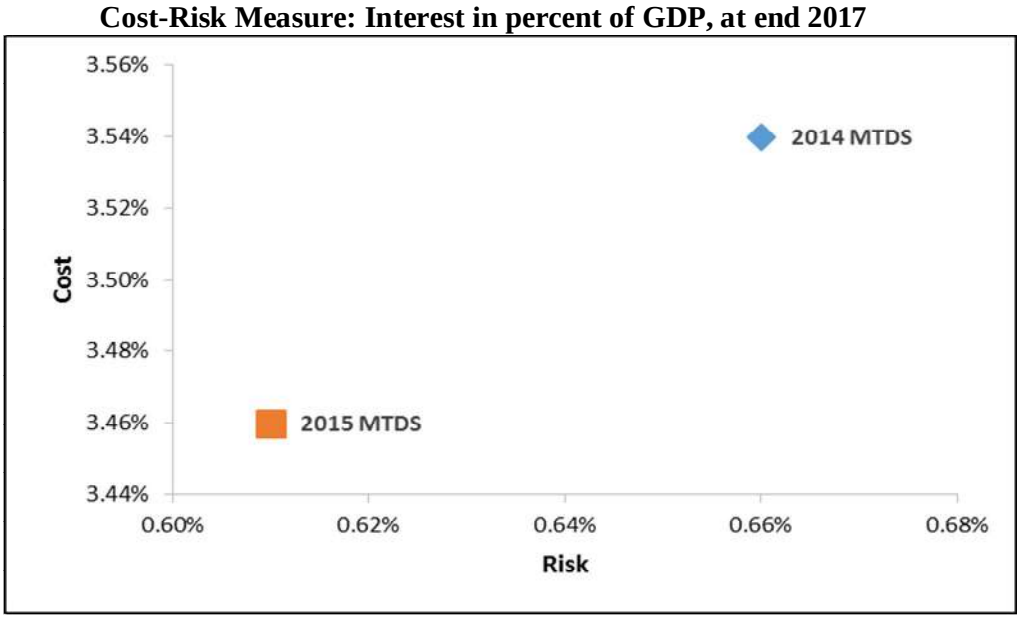
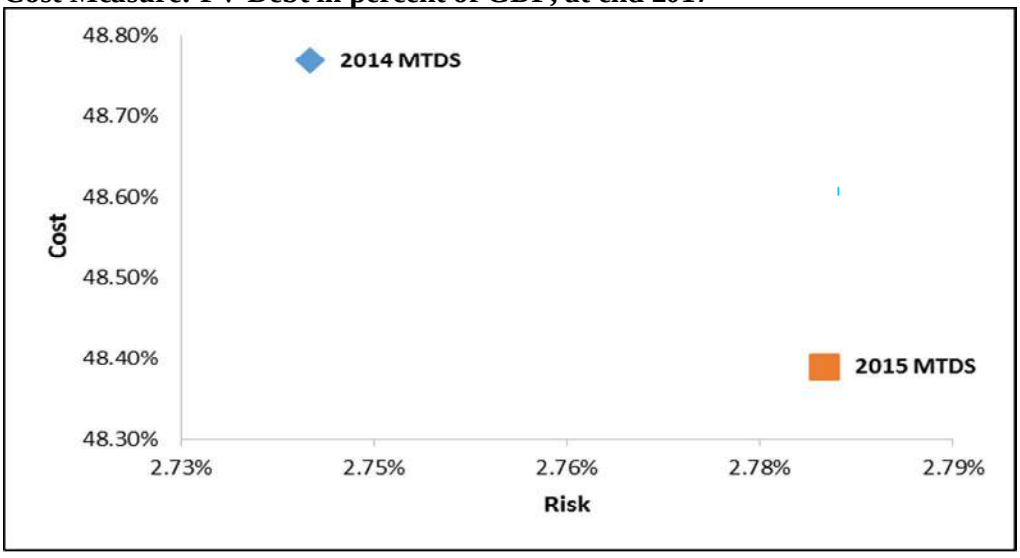


Table 13: Cost and Risk Analysis: *2014 MTDS* vis-à-vis *2015 MTDS*: PV Debt/GDP ratio

Scenarios	*2014 MTDS*	*2015 MTDS*
Baseline	48.77%	48.39%
Stress Test 1: Exchange rate shock (30%)	51.51%	51.17%
Stress Test 2:Interest rate shock 1 (4.5% parallel shift of yield curve)	49.14%	48.72%
Stress Test 3:Interest rate shock 1 (flattening of yield curve)	49.52%	49.07%
Stress Test 4:Combined shock (20% depreciation and interest rate shock 1)	50.10%	49.69%
Max Risk	2.74%	2.78%
Change under: 45% exchange rate devaluation	2.74%	2.78%
Change under: Exchange rate shock (30%)	0.37%	0.33%
Change under: Interest rate shock 1 (4.5% parallel shift of yield curve)	0.74%	0.68%
Change under: Interest rate shock 1 (flattening of yield curve)	1.32%	1.30%
Maximum under stress	2.74%	2.78%

Figure 11: Cost and Risk Analysis: *2014 MTDS* vis-à-vis *2015 MTDS*



VII. DEBT SUSTAINABILITY

72. **The Government recognizes the importance of managing debt prudently to avoid unwarranted debt burden to the future generation and reduce the risk of macroeconomic instability.** Significant effort has been made to improve the institutional arrangement for debt management as well as capacity to assess risks.

73. **The latest (February 2015) Debt Sustainability Analysis (DSA) update for Kenya indicates that Kenya's debt is sustainable.** The DSA compares debt burden indicators to indicative thresholds over a 20-year projection period. A debt-burden indicator that exceeds its indicative threshold suggests a risk of experiencing some form of debt distress. There are four ratings for the risk of external debt distress:

- *Low risk* - when all the debt burden indicators are well below the thresholds;
- *Moderate risk* - when debt burden indicators are below the thresholds in the baseline scenario, but stress tests indicate that thresholds could be breached if there are external shocks or abrupt changes in macroeconomic policies;
- *High risk* - when the baseline scenario and stress tests indicate a protracted breach of debt or debt-service thresholds, but the country does not currently face any repayment difficulties; or
- *In debt distress* - when the country is already having repayment difficulties.

74. **Countries are classified into one of three policy performance categories (strong, medium, and poor) using the World Bank's *Country Policy and Institutional Assessment* (CPIA) index, which uses different indicative thresholds for debt burdens depending on the quality of a country's policies and institutions**. Kenya is rated a strong policy country and as such is subject to the following thresholds:-

Table 14: External Debt sustainability thresholds

Classification	NPV of Debt in percent of:			Debt Service in percent of:	
	GDP	Exports	Revenue	Exports	Revenue
Strong Policy Performer	50	200	300	25	22

Source: Staff report for Request for Stand-By Arrangement and an Arrangement under the Standby Credit Facility– Debt Sustainability Analysis—Update prepared by International Monetary Fund

b. External debt sustainability

75. **Given the above thresholds, under the baseline scenario, Kenya's debt ratios listed in Table 15 indicates that external debt is within sustainable levels for a country rated as a strong performer.** The debt sustainability indicators show that Kenya faces a low risk of external debt distress. This is attributed to the high level of concessionality of current external debt and the positive outlook in other macroeconomic indicators.

Table 15: External debt sustainability

Indicator	2013	2014	2015	2016	2017	2024	2034
PV of debt–to-GDP ratio (50)	13.5	18.0	19.4	20.5	20.3	18.9	17.9
PV of debt-to-exports ratio (200)	69.5	93.1	101.7	108.0	108.5	100.1	88.1
PV of debt-to-revenue ratio (300)	70.5	89.5	92.0	93.3	89.9	79.4	72.9
Debt service-to-exports ratio (25)	4.0	8.7	5.8	7.1	7.9	13.0	7.8
Debt service-to-revenue ratio (22)	4.0	8.4	5.2	6.1	6.5	10.3	6.4

Source: Staff report for Request for Stand-By Arrangement and an Arrangement under the Standby Credit Facility– Debt Sustainability Analysis—Update prepared by International Monetary Fund

c. Public debt sustainability

76. Kenya's public debt sustainability threshold on PV of Debt/GDP as a strong performer and a low middle income country is **74 percent**[8].

77. **Under the baseline scenario shown in Table 16, the PV of public debt-to-GDP, increases from 38.0 percent in 2013 to 44.2 percent in 2014 and to 45.6 percent of GDP by 2015.** In the long term, the PV of public debt-to-GDP is expected to decline to about 44.8 percent by 2017. Given Kenya's relatively strong revenue performance, the PV of public debt-to-revenue ratio would gradually decline from around 219.9 percent in 2014 to be around 198.3 percent in 2017. Going forward, the debt service-to-revenue ratio is expected to decline from 32.7 percent in 2014 to about 25.5 percent in 2017. Overall, the results from the DSA indicate that Kenya's public debt remain sustainable over the medium term.

[8] The EAC public debt convergence criterion for PV of Debt/GDP is 50 percent.

Table 16: Public debt sustainability

Indicator (Threshold)	2013	2014	2015	2016	2017	2024	2034
PV of public sector debt to GDP ratio (74)	38.0	44.2	45.6	45.9	44.8	34.3	25.6
PV of public sector debt-to-revenue ratio	198.7	219.9	216.2	208.8	198.3	143.7	104.1
Debt service-to-revenue ratio	29.4	32.7	27.6	26.5	25.5	21.5	9.9

Source: Staff report for Request for Stand-By Arrangement and an Arrangement under the Standby Credit Facility– Debt Sustainability Analysis—Update prepared by International Monetary Fund

78. **In Table 17, a worst-case scenario, a "borrowing shock" scenario is presented which assumes Government borrowing 10 percent of GDP in FY2015/16**. The results indicate that in the medium term, the debt burden indicators do not breach any of the debt sustainability thresholds.

Table 17: Sensitivity Analysis for Key Indicators of Public Debt

Indicator	Threshold	2015 ratios	*Impact of 10% of GDP increase in borrowing in 2015 on debt indicators in 2017*
PV of Debt as % of GDP	74	46	53
PV of Debt as % of Revenue	300	211	230
Debt Service as % of Revenue	30	27	30

79. **However, in the FY2014/15, the Government plans to borrow, on a net basis amount equivalent to 7.3 percent of GDP to finance the budget**. The net borrowing is expected to decline to 4.0 percent of GDP in FY2017/18.

80. **The sustainability of Kenya's debt depends on macroeconomic performance and a prudent borrowing policy.** Recourse to significant uptake of domestic debt financing could further increase the domestic interest rates, and put pressure on the debt sustainability position. In addition, non-concessional external financing carries an inherent foreign exchange risk, worsens the PV of debt and therefore increases the risk of debt distress. The borrowing envisaged under the *2015 MTDS* will be undertaken with caution taking these factors into account.

VIII. IMPLEMENTING THE 2015 MTDS

81. **The Government will prepare a borrowing plan to accompany the *2015 MTDS* (Strategy 2) and meet the financing requirement for the financial year 2015/16.** The borrowing composition assumed in the MTDS analysis together with the Government cash flow plan provides the basis for the projected annual borrowing plan. The Government will communicate the domestic borrowing plan to the market participants through the *Market Leaders Forum*.

82. **The *2015 MTDS* provides a clear set of assumptions and some information on key risk parameters that are associated with the Strategy (S2) (Table 10).** These provide the basis on which the implementation of the strategy will be monitored and reported. If there is a significant and sustained deviation in the outturn relative to that assumed in the MTDS analysis, the strategy will be reviewed and revised.

83. **Debt management strategy development needs a robust legal framework.** The Government has enacted legislation governing both external and internal borrowing under the Public Finance Management Act, 2012 with provisions that are in line with the requirements of the Constitution of Kenya, 2010 and best international practice. In addition, the institutional arrangement for public debt management will continue to be strengthened taking into account the provisions for the establishment of a Public Debt Management Office (PDMO) and the new system of devolved government.

84. **Comprehensive, accurate and timely information on public debt is critical in managing investors' sovereign risk assessment and the cost of debt.** Public debt information will be published more regularly to enhance transparency on debt management in accordance with best international practice.

85. Continued collaboration with partners, such as the US Treasury, the IMF, the World Bank, IFC, MEFMI and the Commonwealth Secretariat will be encouraged in developing the Government and corporate bond markets and capacity building in debt management. Recent experience in issuance of a Euro bond will enhance capacity in future issuances. The debt recording system will be upgraded and integrated with IFMIS, additional skilled staff posted to DMD while training in debt management techniques will be scaled up.

IX. CONCLUSION

86. **The *2015 MTDS* is a robust framework for prudent debt management.** It provides a systematic approach to decision making on the appropriate composition of external and domestic borrowing to finance the budget in the financial year 2015/16, taking into account both cost and risk. The cost-risk trade-off of the *2015 MTDS* has been evaluated within the medium term context.

87. **The debt strategy complements the DSA, a forward-looking framework concerned with long-term sustainability of debt.** Whereas Kenya's current debt level is sustainable, it is imperative that the Government continues to implement prudent debt management practices and policies supported by sustained macro-economic stability.

88. **The *2015 MTDS* has considered the current macro-economic environment both at the local and international scene and the related vulnerabilities.** The recommended strategy is one that seeks the issuance of medium to long term domestic debt, and contracting of external concessional debt.

89. **This is the seventh time that the Government is formally presenting the Medium Term Debt Strategy and the third time it is being presented in accordance with the PFM Act, 2012.** As required under the Act the Strategy is in line with the Budget Policy Statement and Estimates presented to Parliament. Going forward, the Government will implement measures aimed at enhancing the transparency and accountability in public debt management.

APPENDIX 1: STOCK OF GOVERNMENT GUARANTEES AS AT END JANUARY 2015

Agency	Year Loan Contracted	Purpose of Loan	Creditor	Loan Balance January 2015
Nairobi City County	1985	Umoja II Housing Project	USA	38,961,280.00
Kenya Broadcasting Corporation	1989	KBC Modernization Project	Japan	2,636,749,055.41
Telkom Kenya Ltd	1990	Purchase of Microwave Telephone System	Canada	348,373,300.86
Tana and Athi River Development Authority	1990	Tana Delta Irrigation Project	Japan	1,257,325,024.56
East African Portland Cement	1990	Cement Plant Rehabilitation Project	Japan	1,562,971,205.84
KenGen Ltd	1995	Mombasa Diesel Generating Power Project	Japan	3,473,888,370.67
	1997	Sondu Miriu Hydropower Project	Japan	3,419,984,119.45
	2004	Sondu Miriu Hydropower Project II	Japan	7,940,550,411.45
	2007	Sondu Miriu Hydropower Project – Sang'oro Power Plant	Japan	3,319,748,754.92
	2010	Olkaria Unit 4 and 5 Geothermal Power Project	Japan	43,211,397.08
Kenya Ports Authority	2007	Mombasa Port Modernization Project	Japan	13,181,692,104.36
Kenya Railways	2008	Kenya Railways Concessioning	IDA	4,125,312,000.00
Total				**41,348,767,024.60**

APPENDIX 2: LIST OF ACTIVE PUBLIC PRIVATE PARTNERSHIP (PPP) PROJECTS – KENYA

MINISTRY OF ENERGY AND PETROLEUM

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/Value/ State Guarantee	Amount for Termination Payment (default by GoK)	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
1.	Africa Geothermal International 140 MW	25-year Power Purchase Agreement on a Build, Own, and Operate (BOO) basis at Longonot geothermal power project adjacent to Olkaria, Kenya.	760	Financial Close: 3rd April 2014 Status: Under construction	Letter of Support is being finalized	1. Total Project Cost depreciated at 5% per annum. 2. Expenses incurred by the Seller as a result of termination. 3. Net Present Value of 5 Years profits at 10% discount rate.	USD 77.3Mn	No
2.	Lake Turkana Wind Power - 300MW	The wind turbine farm being developed on BOO basis in Loyangalani, Marsabit West County, on a 20-year PPA with Kenya Power.	847	Financial Close: 24th March 2014 Status: Under construction	Letter of Support covering Political Risks issued on 28th February 2013 Indemnity Agreement LC to be replaced with Escrow Account	1. Total Project Cost depreciated at 5% per annum. 2. Expenses incurred by the Seller as a result of termination. 3. Net Present Value of 5 Years profits at 10% discount rate.	Deemed Generated Energy Payments Euro 110.4Mn	No

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/Value/ State Guarantee	Amount for Termination Payment (default by GoK)	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
3.	Gulf Power - 80.32 MW	The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, in the Athi River region, on a 20-year PPA with KPLC.	108	Financial Close: 18th Nov. 2013 Status: Under construction	Letter of Support covering Political Risks issued on 2nd July 2012 Indemnity Agreement covering PRG payments signed on 14th March 2013. PRG Amount US$ 35Mn and Euros 7Mn	1. Total Project Cost depreciated at 5% per annum. 2. Expenses incurred by the Seller as a result of termination. 3. Net Present Value of 5 Years profits at 10% discount rate.	Euro 16.3 Mn	No
4.	Triumph Power - 82MW	The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, at Kitengela near the Athi River area of Mavoko, on a 20-year PPA with KPLC.	156.5	Financial Close: 7th August 2013 date Status: Under construction	Letter of Support covering Political Risks issued on 2nd July 2012 Indemnity Agreement covering PRG payments signed on 5th December	1. Total Project Cost depreciated at 5% per annum. 2. Expenses incurred by the Seller as a result of termination. 3. Net Present Value of 5 Years profits at 10% discount rate.	USD 24.5Mn	No

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/Value/ State Guarantee	Amount for Termination Payment (default by GoK)	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
					2012. PRG Amount US$ 45Mn			
5.	Thika Power - 87MW	The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, in Thika, on a 20-year PPA with KPLC.	146	Financial Close: 11th October 2012 Status: Operational from Aug 2013	Letter of Support covering Political Risks issued on 2nd July 2012 Indemnity Agreement covering PRG payments signed on 28th August 2014. PRG Amount US$ 35Mn and Euros 7.7Mn	1. Total Project Cost depreciated at 5% per annum. 2. Expenses incurred by the Seller as a result of termination. 3. Net Present Value of 5 Years profits at 10% discount rate.	Euro 17.1Mn	No
6.	Kinangop Power – 60.8MW	The wind power plant is being developed on a BOO basis in South Kinangop, Nyandarua County on a 20-year PPA with KPLC.	150	Financial Close: 31st December 2012 Status: Under construction	Letter of Support covering Political Risks issued on 26th July, 2013	1. Total Project Cost depreciated at 5% per annum. 2. Expenses incurred by the Seller as a result of termination.	Deemed Energy Payment USD 26.8Mn	No

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/Value/ State Guarantee	Amount for Termination Payment (default by GoK)	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
						3. Net Present Value of 5 Years profits at 10% discount rate.		
7.	Orpower Olkaria III Geothermal Power Plant (1st Plant 48MW, 2nd Plant 36MW and 3rd Plant 16MW)	Description: 20 year - BOO	450	Financial Close: Jan, 1999 Status: Operational	Letter of Support covering Political Risks issued on 18th June 2012 Indemnity Agreement LC covering PRG payments of Amount US$ 31Mn	1. Total Project Cost depreciated at 5% per annum. 2. Expenses incurred by the Seller as a result of termination. 3. Losses incurred by the seller	USD 59.2Mn	No
8.	Rabai Power Plant	20 year - BOO	155	Financial Close: Oct, 2008 Status: Operational	Indemnity Agreement LC Account	Net Present Value of Non-Escalabe Capacity Charges for the remaining period to the expiry of the term discounted at 12% per annum	Euro 19.7Mn	No

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/Value/ State Guarantee	Amount for Termination Payment (default by GoK)	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
9.	Mumias Power Plant	10 Years-BOO	50	Financial Close: July, 2008 Status: Operational	None	None	USD 5.3Mn	No
10.	Kipevu III	Located at Kipevu in Mombasa, the diesel power plant is on a BOO basis for a 20-year period		Financial Close: None Status: Operational	None	None	KSh. 2,209Mn	No
11.	Kipevu II 74MW	Located in Mombasa next to Kilindini seaport, the Heavy Fuel Oil (HFO) power plant is on BOO basis a 20-year period	85	Financial Close: Sept, 1999 Status: Operational	Indemnity Agreement LC and Escrow Account	1. Net Present Value of Non-escalabe Capacity Charges for the remaining period to the expiry of the term discounted at 10% per annum. 2. Expenses incurred by the Seller as a result of termination. 3. The value of the stock of fuel and other consumables and spare parts at the Plant	USD 20.1Mn	No

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/Value/ State Guarantee	Amount for Termination Payment (default by GoK)	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
12.	Imenti tea Factory Limited 0.28MW	Feed in Tariff Power Plant on a BOO basis		Operating	None	None	None	No
13.	Power Technology Solutions Ltd. Gikira Kianjora Small Hydro Power Stations 0.514MW	Feed in Tariff Power Plant on a BOO basis		Operating	None	None	None	No