Sida Evaluation 96/2

Debt Management

Swedish Support to the Ministry of Finance, Kenya

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Department for Democracy and Social Development,
Section for Public Administration

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EXECUTIVE SUMMARY

Project Background

1. The economic hardships resulting from the developing countries´ foreign debt overhang can be alleviated through debt relief (Paris Club etc), less new borrowing and more effective debt management leading to substantial cost savings.

2. Kenya´s foreign debt rose by alarming proportions in the mid-80´s. The relevance of the debt management project is demonstrated by the fact that Kenya´s public foreign debt reached the high level of USD 5.1 billion by the end of 1993, equivalent to 113 per cent of the gross domestic product.

3. In 1986, Kenya embarked upon an impressive economic policy programme called "Economic Management for Growth". In the first stage, and in support of this programme, UNDP and the World Bank , with SIDA as a cofinancier and participant, initiated extensive technical assistance for a comprehensive planning and economic policy programme for Kenya, including better debt management. In the period 1986-89 this was effected through a cost-sharing arrangement between UNDP, the World Bank and SIDA, with the World Bank acting as executing agency. Also the Commonwealth Secretariat (ComSec) played a major role in the first phase by improving the debt recording systems and by providing, in 1989-91, an experienced resident debt manager.

4. In the second stage, from 1990 onwards, SIDA took sole responsibility for the debt management part of the project, because it was considered administratively cumbersome to work with many multilateral agencies and because one wanted to demonstrate a high Swedish know-how assistance profile. Administratively this was easier for SIDA, but at the same time one lost the direct support of UNDP and the World Bank and their ample staff resources and political and financial clout.

5. The project´s main purpose was to assist in minimizing Kenya´s debt outlays, by building up capacity and competence within the Debt Management Division (DMD) established specifically for the purpose within the Ministry of Finance (MOF).

6. SIDA´s assistance included short-term policy consultancies to build up DMD´s activities, a resident debt management adviser in 1986-87, and extensive special training of DMD staff both in Kenya and abroad (particularly in the Swedish National Debt Office, World Bank and ComSec) . In addition, there were twinning arrangements between Kenya´s and Sweden´s ministries of finance, refinancing operations of earlier expensive debt, broad-based annual debt seminars and compilation of an Annual Report on Debt Management in Kenya.

7. The DMD is responsible for debt recording and monitoring, as well as analysis and assistance in debt management and in controlling new borrowing. It has been instrumental in the formulation and execution of public debt policies.

8. In Kenya, a number of different operational units play a role in debt management: four departments in MOF, i.e. the Fiscal and Monetary Affairs Department (in which DMD is located), the External Resources Department (which negotiates new foreign loans and aid), the Accounts Controllers Department (servicing government debt) and the Department of Government Investment and Public Enterprises (handling parastatal debt). Also the Central Bank of Kenya (CBK) is involved in debt management and handles the government's domestic debt. With so many parties involved in the debt field internal rivalries and lack of cooperation may complicate the task of debt management, partly also due to the prestige related to foreign loan negotiations and training and other trips abroad.

9. In the period 1987-95 SIDA budgeted SEK 13.3 million on the debt management project. The actual disbursements were considerably lower. From 1990 until October 1995, total disbursements were SEK 7.6 million. In 1991-95 42 per cent of the disbursed amounts were mainly for the debt data project, 31 per cent for debt management consulting including the Annual Report on Debt Management, 14 per cent for training trips and study tours abroad and 13 per cent for the debt seminars held in Kenya.

10. SIDA decided in 1993 to phase out the debt management project over 1994-95, primarily because it was considered that it had largely reached its objectives. The Swedish country frame for Kenya had been reduced substantially, and in addition SIDA felt that it was short of administrative resources and consultants. Finally, there was some concern about Kenya's own internal support for the project.

11. The purpose and focus of this evaluation is twofold: to summarize the results of the 10-year long project , and to collect the record of experience for the benefit of similar new projects in Kenya or elsewhere.

12. For the evaluation, a total of nine working weeks in June-December were used although the ToR envisaged only five weeks. Interviews were conducted in Stockholm and Nairobi with former and current officials of SIDA, Swedish National Debt Office, Swedish Embassy, Kenyan MOF, CBK, World Bank, UNDP, IMF and ESAIDARM, as well as various Swedish and Kenyan consultants. Extensive written material was collected in Stockholm and Nairobi.

13. The ToR of the evaluation were overambitious, partly due to the short time period allocated for the one-man study and partly due to the far-reaching questions posed. Some of the questions in the ToR seem to request quantitative answers on unquantifiable phenomena. Ideally, an evaluation of this scope should be undertaken by a team, using at least twice as much man-weeks as agreed for the project.

Main Findings

14. The project can be divided into three different stages: the buildup period 1985-89, the dynamic stage 1990-94, and the exit stage 1995.

15. During the first period (with the World Bank, UNDP, SIDA and ComSec involved) it turned out to be impossible to reach the envisaged staffing levels within DMD, and the training effort was still in its take-off stage. Clearly, the expectations regarding the staff build-up had been too optimistic on all sides. In the dynamic stage of the debt management project (when SIDA was solely involved) one achieved the full staff number of 12 persons and the trained personnel was able to

perform the necessary debt management functions, such as debt data recording, debt management advice including refinancing of expensive old loans (with Swedish assistance), preparations for the crucial Paris Club round to renegotiate its non-concessional bilateral debt of close to USD 600 million, and creation of a national debt strategy . In the exit stage (autumn 1994-1995) a large part of the trained staff regrettably left DMD for more highly remunerated posts outside , partly aided by their extensive training. The danger of increasingly well-trained staff leaving the DMD should have been anticipated earlier. Now additional new young staff (a total of four economists) had to be employed in 1995 and internal training restarted almost from square one . In Kenya the hiring by the newly established ESAIDARM of both the head of DMD and another senior staffer in 1994 has been criticised. It was felt that the sponsors of ESAIDARM could have programmed in more non-regional staff in the initial stages until the regional capacity was sufficient to sustain a well-functioning institution such as ESAIDARM.

16. The project's objectives were, with certain qualifications, fulfilled rather far, particularly in the dynamic stage 1990-94. The project constituted a satisfactorily prepared and executed innovative third-generation type of project with high expertise contents and major potential yields and spin-offs.It was widely regarded as one of the most succesful SIDA technical assistance projects, except for the staff hiring delays in the beginning and the unexpected departure of much trained staff towards the end.

17. The main achievements were capacity building, human resource development, debt analysis, monitoring and control, creation of the national debt strategy, the reinforcement of the awareness of Kenya's debt problem and the highlighting of the interdependence between macroeconomic policy and debt management. This helped in all likelihood to avoid some future debt problems.

18. The main target group was the staff of the DMD, but the project also affected other top management in MOF, other ministries, parastatals, and the CBK.

19. The role of SIDA was instrumental, and it appears unlikely that any other donor source would have had the willingness alone to take the same broad long-term responsibility for the debt management project. Also some women received equal training in the DMD itself, through the debt seminars and abroad.

20. Some , partly unexpected, side effects were that a certain jealousy developed in the MOF towards DMD officials traveling abroad for training, the emergence of considerable career expectations after the training effort, positive regional spin-offs in the form of study visits to DMD by neighbouring country debt management officials (particularly Tanzania and Uganda) and, finally, that ESAIDARM and ComSec were able to benefit by hiring well-trained DMD staff.

21. An attempt to estimate the project's cost-effectiveness and multiplier effects requires certain rough assumptions, as in all financial calculations, about opportunity costs/savings. These estimates have to be treated with a great deal of caution. The total budgeted costs in 1987-95 were SEK 13.3 million. The two Swedish-engineered refinancings of expensive loans will save an estimated SEK 30 million during the loan period. In addition, it is assumed that better financial expertise, and the Paris Club deal whose presentations were largely prepared through the DMD, may result in 1-2 per cent lower new financing costs than otherwise for an additional USD 100-200 million in new credits. This gives additional savings of SEK 40-

160 million during five years. Under these assumptions , the total estimated net benefit of the DMD project (deducting savings over a period of five years from total project costs) falls within a wide fork of minimum SEK 57 million and maximum SEK 177 million, depending on the amount of interest rate reductions achieved and the amount taken in new loans.

22. After SIDA had taken over from 1990 onwards, the project´s total costs were on a continuous basis supervised by the DCO office on an A-in-A basis (appropriation-in-aid). The reliance , to a large extent , on short-term consultants including local ones rather than on resident expatriate experts kept down overall costs . However, SIDA´s detailed computerised cost-accounting is available only from 1991 onwards.

23. The project implementation appears passable in general. The project was relatively unstructured originally and interestingly enough no major SIDA project appraisal was made before it commenced, because one could rely on World Bank and UNDP appraisals. This allowed for great flexibility in execution but may have caused some inefficiencies.

24. The high turnover of top management in the MOF contributed to the abovementioned delays in fulfilling earlier staffing promises. A major setback was that the Swedish resident debt management adviser, who had been planned to stay for three years, left prematurely after only nine months of service in 1986-87. More recently there have been substantial problems with the debt recording data base, largely due to staff departures. Also, the first Annual Report on Debt Management prepared under the project required ample time to be finalized, was rather costly at an estimated SEK 0.8 million and its circulation was in an unacceptable way delayed for almost 1/2 year. SIDA´s limited expertise in the financial field also complicated the running of and decision-making under the project.

25. The multitude of multilateral agencies (World Bank, UNDP, ComSec, SIDA, permanent and short-term advisers and SNDO) caused some coordination problems. It was impossible for SIDA to find an executing agency from 1990 onwards, to replace the World Bank. This created problems in the continuity of the supervision and put a great responsibility on the SIDA DCO office.

26. The project contains several elements which ensure a certain degree of sustainability, despite the regrettable departure of trained staff in late 1994 described above. The institution created in the beginning of the project, the DMD, is still in place, including 2-3 of the originally trained employees. New staff has been employed and is being trained and run in. The institutional memory remains (debt management techniques, interministerial debt bodies, portfolio review papers, Paris Club presentation frameworks, Annual Report on Debt Management etc). The debt recording system is there, although it needs updating and correcting (which is being done by a MOF/CBK task force). The staff that received training under the project remain in Kenya or in the region and their expertise may be drawn upon again. Finally, the project and notably the broad-based debt seminars reinforced the awareness of the problems that may be associated with debt, and may have helped to avoid some economic policy mistakes.

Some lessons learnt, in addition to the above-mentioned ones , are:

27. To avoid overoptimism and a reactive rather than a proactive assistance policy, a thorough initial project appraisal should be made

28. Projects should be supported by a firm, written and unequivocal commitment by the local authorities to deliver their contribution even if top management changes. The Kenyan authorities should more forcefully have stuck to their commitment to staff a priority outfit and more forcefully resisted the departure of staff. The Kenyan MOF's own Programme for Strengthening Economic and Financial Management dated August 1994 (supported by a thorough World Bank/UNDP team report in 1995) did, however, not place a high priority on developing the debt management function, in contrast to the World Bank/UNDP report.

29. SIDA did not in advance fully recognise the rather evident risk of loosing the main asset of the project, the trained staff, whose " market value" increased rapidly as a result of the project . Too abrupt and extensive staff departures should be counteracted , mainly through a major civil service reform concerning especially MOF as one of the key ministries , and perhaps through some additional fringe benefits for particularly strategic talented staff. In addition, there should be continuous training of some extra staff (in the CBK, World Bank, private banks, ESAIDARM etc) to replace the losses of other staff members.

30. In projects of this type, one should try to create an organisation more embedded institutionally, by establishing clearer routines, handbooks for debt recording and debt management, better career planning , continuous broad-based internal and external training and a stronger position within the administration etc.

31 SIDA could more easily than large bureucratic multilateral agencies handle the project needs in a nimble tailor-made way, but

- an executing agency should ideally be appointed, in order to ensure continuous professional supervision and somebody retained (even a consultant, as in the early stages) having an ongoing responsibility for maintaining the standards of the project. The lack of an executing agency put in 1991-94 much more pressure on the SIDA office as regards the contents of the project and the specific donor-recipient relationship than in the first phase. An executive agency or a part-time consultant could also have ensured more rapid alert when problems arose.

- expatriate consultants should have experience of working in developing countries, to avoid unnecessary cultural clashes and too long running-in times

- the backing of any project by the national authorities may change rather rapidly, partly due to changes among top management , and in any case the debt management project seems to have been less of a priority in recent years within MOF, as indicated above.

Strategies for the future:

32. In order to create a firm basis for debt management, debt recording must be put on an accurate, better coordinated and regularly updated networking basis

33. The staff involved in Kenya's debt management must clearly be strengthened, otherwise the DMD's role will weaken and the project's sustainability be eroded and there may be a return to square one

34. The necessary organisational strengthening of the debt management function might be undertaken in either of four ways: (i) by establishing a semi-autonomous Kenya National Debt Office under the supervision of the MOF, (ii) or by delegating these tasks to a Government Debt Office in the CBK, (iii) or by creating a separate Government Debt Department in MOF, or (iv) by, as a minimum, strengthening the current staff and position of the DMD within the Fiscal and Monetary Affairs Department, including direct reporting to the Financial Secretary and secondments from CBK (as in the current debt data task force). The most attractive alternative seems to be alternative iii). This idea was supported also by the World Bank/UNDP team in its report of June 1995 on the strengthening of MOF.

35. The role and activity of the coordinating interministerial debt committees should be reinforced

36. Kenya should activate its refinancing of expensive debt and seriously consider the possible use, as in Uganda and possibly Tanzania, of foreign debt buy-backs at considerable savings

37. Kenya could benefit by turning to donors for further training and technical assistance via ESAIDARM, which constitutes an effective regional debt advicing organisation with strong Kenyan expertise on board

38. The key words in developing debt management in any country are: professionalism, accountability, transparency, coordination and creation of confidence both domestically and abroad in the country's creditworthiness

39. A well structured debt management involves potentially high financial rewards in terms of cost savings.

40. "Debt management by crisis" is the most expensive strategy in any country.

EVALUATION REPORT

SWEDISH ASSISTANCE TO THE DEBT MANAGEMENT DIVISION, MINISTRY OF FINANCE, KENYA

EXECUTIVE SUMMARY

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I. PROBLEM ANALYSIS AND PROJECT DESIGN

General Background

In their understandable efforts to speed up economic growth and improve the standard of living, most developing countries have incurred excessive external debts. The economic hardships imposed by the pressures of servicing this debt overhang can be addressed through a multi-pronged strategy involving both official debt relief, curtailment of new borrowing, refinancing of expensive old commercial loans and, finally, improved debt management.The debt management options and financing strategies must be integrated into the macro-economic decision-making process.

In 1986, Kenya adopted an ambitious economic policy programme called "Economic Management for Renewed Growth". It highlighted a macro-economic framework for development. The underlying policies were aimed at promoting economic growth through efficient management of resources, including the management of domestic and external debt, to keep public debt at a manageable level. The Kenyan authorities stressed that prudent debt management is central to rational fiscal, monetary and balance of payments strategies.

The external debt issue took the center stage in Kenya in 1987 when the public debt had risen to alarming proportions. Several important measures were taken to remedy the situation and establish coordinated debt management policies. Fortunately, Kenya's international creditworthiness has been maintained throughout most periods. Kenya continues to be creditworthy for external financing on a variety of terms, including grants from bilateral sources, export and suppliers credits, commercial bank loans as well as IDA credits. However, the public and publicly guaranteed foreign debt has risen to the high level of about USD 5,1 billion by the end of 1993. This amounted (incl. parastatal debt) to some 113 per cent in relation to the gross domestic product (GDP).

Developed debt management policies constitute a relatively new field, which has evolved rapidly in the wake of the global debt crises and the new avenues opened up by the emergence of new financial technology. The sheer size of Kenya's debt and the potential benefits deriving from various debt management measures makes it a particularly interesting but technically demanding area of economic management.

Sound debt management focuses, firstly, on minimizing the cost of new loan financing, by negotiating the lowest possible interest rates and the longest possible debt maturities and the most favorable other terms. Secondly, it involves reducing the financial burden of existing old debt, both by handling debt service on a timely basis in order to avoid expensive penalty charges , by refinancing existing expensive loans by retiring old high-interest loans and replacing them with new more advantageous loans, such as those offered by IDA.

Programme actors

Sweden has granted financial support to Kenya since 1986 for debt management within the Ministry of Finance in Nairobi. The programme discussions were inititiated already in 1984, in close cooperation with UNDP and the World Bank.

In the first phase, the Kenyan government requested formally, in 1985, UNDP/World Bank/ SIDA assistance for the project KEN/84/009. There was for the period 1986-89 a cost-sharing arrangement between them. The World Bank was acting as executing agency. In this first stage the role of SIDA was more of a cofinancier and participant. UNDP's share was USD 1,7 million, while the SIDA contribution was USD 1,0 million (maximum SEK 7.5 million). Also the Commonwealth Secretariat ComSec was involved in an important way.

One of the major elements of the programme was the establishment in 1987, on the proposal of the then Director General of the Swedish National Debt Office, Mr. Lars Kalderen, of a special Debt Management Division (DMD) in the Ministry of Finance. Within the overall framework, SIDA focused particularly on technical assistance for debt management and a twinning arrangement between the Ministries of Finance in Nairobi and Stockholm. This twinning arrangement concerned the coordination between macroeconomic analysis and fiscal and monetary policy, fiscal management, budget procedures, tax administration. In the period 1987-89 SIDA budgeted, under KEN/84/009, an average of SEK 1.6...2.1 million per annum for the debt project.

The second phase of the project started in 1990, when SIDA took sole responsibility for the debt management project on the donor side.(The other parts of the original broader project, the economic planning and policy-making as well as budget and tax reform, continued to be financed by UNDP, with the Harvard Institute of International Development (HIID) as executing agency). In particular, the objective was a systematic strengthening of the Debt Management Division and the integration of debt management with the macro-economic policy. In the period 1990-94 , the annual budgeted project expenditure was SEK 1 1...2.1 million. The actually disbursed expenditure in the same period was SEK 0.6...2.5 million per year.

Obviously, it was administratively easier to handle the project --also for MoF-- with only one donor in it, SIDA. However, the project then lost the direct support of UNDP and the World Bank with their vast staff resources and their involvement with the Kenyan government in a range of related projects. At the same time, one lost the financial and political clout of these institutions.

Objectives

In the first phase of the project in 1986-90, the programme objectives were defined in rather general terms in order to provide maximum flexibility while gaining additional experience. Interestingly enough, no detailed project appraisal was prepared on the part of SIDA in that early stage. The explanation for this was that SIDA relied on the preparatory work undertaken by UNDP and the World Bank, and by the SNDO which was negotiating with the World Bank to become a subcontractor for the project (this eventually did not materialize) .

The general objective of the debt management project in the first stage was:

- to build up the capacity and the competence of the staff within the DebtManagement Division in order to improve debt management, with the aim of minimizing debt service outlays, and to reinforce the awareness of the debt problem in Kenya

The support has taken many different forms, including

- various short-term consultancies in the DMD
- a permanent debt management adviser in the DMD (in 1986-87)

- specialist training of DMD staff both in Kenya and abroad (Sweden, World Bank, India,Thailand, Jamaica, and the ComSec)
- refinancing operations involving expensive commercial loans
- compilation of an Annual Report on Debt Management
- annual debt seminars

SIDA also provided some technical appliances such as a Reuter financial screen system, telefax and some PC's.

In 1990, when SIDA decided to take sole responsibility for the project , the medium and short-term objectives were clarified as follows, through the services of a Swedish management consultant (Mr. Peter Gisle):

1. build up the DMD organization to support the new debt information system
2. develop a capacity to analyze the debt portfolio and propose actions aimed at reducing the debt service
3. develop a capacity to provide policy advice to decision makers on debt issues
4. integrate debt management into the economic management process, including:
    - creation of functional links between the DMD information system and other debt- related computer systems (central bank and the government investment center);
    - develop an awareness of debt management issues in other parts of government;
    - develop an awareness in DMD about the activities in other parts of government responsible for activities which have an impact on debt management and related policies; and
    - revitalize the External Debt Management Committee

Project Outline

The main vehicle of the SIDA project, the Debt Management Division in the Ministry of Finance, is responsible for the recording and monitoring of debt data and for assisting in the management of the domestic and external public debt of Kenya. It acts as a control unit of borrowing and performs staff functions of the debt policy bodies. It shall analyse debt issues and participate in active debt management, on the basis of the existing debt recording system. This involves, for instance, scrutinizing all loan proposals made to Kenya and advising loan negotiation teams and top decision makers on the best financial terms and conditions for new borrowing. The division has been instrumental in the formulation and execution of public debt policies.

All in all, four departments in the Ministry of Finance are actually involved in debt management:
- the Fiscal and Monetary Affairs Department through its Debt Management Division
- the External Resources Department , responsible for negotiating new loans and grants
- the Department of Government Investment and Public Enterprises, managing onlent loans to parastatals
- the Accounts Controllers Department, which has the primary function of servicing all government debt , both domestic and external. It has a close working relationship with DMD.

The Central Bank of Kenya is involved in debt management through its National Debt Office and the Research Department

As indicated above, the Kenya government loans from abroad are, however, in practice negotiated by another department in MOF, the External Resources Department (ERD). The DMD may participate in loan negotiations and assist that Department (which has limited experience in loan matters and, it was claimed, did not cooperate very actively with DMD as regards information flows and DMD's participation in loan negotiations). The DMD should advise ERD, with the support of the Attorney General's office, on the legal terms of new loans. The DMD again has sole responsibility for the negotiations regarding the rescheduling and refinancing of existing loans. In total, the DMD had about 1300 individual loans recorded on its books.

The multitude of different units involved in Kenya's debt management is administratively cumbersome and difficult to handle in practice. By necessity the cooperation is complicated by internal rivalries and/or lack of cooperation and even by the sheer work effort required to cooperate with and pass on information to others.

A Budget Steering Committee (BSC) is the senior-most economic policy making committee and chaired by the Minister of Finance. Its members include various high officials. It was established in 1987 to discuss national economic policies including debt management policies. A Debt Management Committee (DMC) was also established, chaired by the Permanent Secretary of the Ministry of Finance. Its task is to analyse recommendations by the Debt Management Technical Working Group (DMTWG) and advise the BSC on matters related to the management of government external and domestic debt. The DMTWG is chaired by the head of the DMD. Both the DMC and the DMTWG were reportedly meeting almost every month. However, the activity and importance of these organs seems to have decreased, especially after 1994.

As mentioned earlier, in the intital stage the debt management project was carried out through the close cooperation between several multilateral agencies (the World Bank, the UNDP, the ComSec) and SIDA until 1990 . UNDP was an active participant under the cost-sharing agreement, the World Bank acted as executive agency.

ComSec did a major contribution by focusing its assistance on the computerisation of the debt recording function, and by providing a resident debt management adviser in 1989-91as well as extensive training in debt data management.

In the second stage after 1990 SIDA became the only donor to the DMD project.. The reasons for this were at least twofold. Firstly, already in the early stages of the project there was within SIDA a desire to make it a bilateral project, in order to highlight the Swedish profile in high-level financial technical assistance. Secondly, as time went by it turned out to be administratively cumbersome to work with several multilateral agencies. In particular, the need for the World Bank to refer decisions to headquarters in Washington often meant that decision-making was complicated and slow.

When the DMD was established in 1987 as a specialized organ to intensify and expand the work of a former small understaffed debt unit , the Ministry of Finance committed itself to provide it with a staff of 10 officials. They would receive extensive training and support in establishing the debt recording system. However, rather soon it turned out that the staff could not be increased as envisaged during 1987-89. Even in the spring of 1990, only six of 12 positions were filled. The permanent debt adviser, who had been planned to stay for a three year period, left in February 1987, after only nine months of service.

Within SIDA the assistance to DMD was allocated from the Personnel and Consultancy Fund. The Swedish assistance in this project was funded through the **Appropriation in Aid - system**, meaning that the concrete assistance was targeted and paid directly to the specific purpose. In this case it meant in particular that payments were made directly, in the case of Kenya's MoF, to the persons to be trained (e.g. travel tickets issued and per diems), and not to the general funds of the MOF. In this way, SIDA made a practical by-pass of the general revenue system (for some 25 per cent of other SIDA projects, funds were transferred through the revenue system).

SIDA decided in 1993 to phase down the DMD project. The reasons for this were:

- most importantly, that the DMD project had reached its objectives: a reasonably well-functioning DMD had been established, with well-trained staff, and effective leadership
- on the Swedish side there were problems in identifying new suitable consultants and the administrative resources, including those within the SIDA Development Cooperation Office DCO in Nairobi, were limited and increasingly charged with other obligations
- the Swedish country frame for Kenya had been considerably reduced, by SEK 45 million during 1991-93

SIDA reportedly appeared a little concerned about the somewhat lower priority that the DMD project seemed to receive from the MOF leadership in 1993-94. It was felt that if the MOF did not strongly prioritize a project which saved substantial sums of money and provided special training for a number of people, then one was hesitant to continue spending too much further assistance money on it. Besides, the cooperation with MOF was complicated and required considerable time and administrative efforts from the Swedish side, due to the limited higher staff resources of the MoF, the multitude of matters at hand in the MoF and a many delays and a certain inefficiency in the decision-making.

Surprisingly enough, the MOF's own organizational report in August 1994 (Programme for Strengthening Economic and Financial Management) does not note the debt management function as one of the high-priority areas. On the other hand, the World Bank/UNDP, in their evaluation of the MOF report, "highly recommended" stronger efforts in the field of debt management, through the establishment of a separate Public Debt Department within MOF.

UNDP undertook in 1989 an evaluation of the broader group of projects (of which the joint debt project with SIDA was only one part). The evaluation concerned the creation of systems for coordinating the budget process, managing the external debt, coordinating project financing, strengthening data management, and the provision of high-level advice to senior policy makers. The main conclusions were:

- the overall programme was most succesful in capacity building, human resource development, build-up of systems and in high-level policy advice.
- it was less succesful in sustaining the activity, although important elements of it still remain

- in the early period 1986-90, it was least succesful in establishing a debt management information system and the corresponding operational and managerial capacity (this was before the ComSec debt recording system was in place).

Cost Structure

In general, the budgeted funds for the project were substantially higher than their actual utilization. According to the estimates of the DMD (memo dated 13 May 1994) the total budgets involved were as follows:

Budgeted SIDA Funds for the Debt Management Project, 1987-95

		SEK
1987	consultancy	1,700,000
	seminars	140,000
		1, 840,000
1988	consultancy	1,500,000
	seminar	140,000
		1,640,000
1989	short-term consultancies	1,500,000
	seminar	280,000
	study tour	100,000
	purchase of Reuter´s screen	70,000
	course	140,000
		2,090,000
1990	seminar	500,000
	purchase of fax	15,000
	study tours	200,000
	short-term consultancy	400,000
		1,115,000
1991	seminars	650,000
	study tour World Bank	250,000
	short-term consultancies	400,000
	course	100,000
		1,400,000
1992	visits to World Bank	200,000
	seminars	500,000
	study tours	200,000
	courses	100,000
	consultancies	200,000
		1,200,000
1993	seminar/workshops	915,000
	courses	150,000
	consultancies	300,000

	study tour	100,000
		1,465,000
1994	short-term consultancy	300,000
	Annual Report consultancy	960,000
	refinancing excercise consultancy	425,000
	training and study tour	245,000
	seminars	125,000
		2,055,000
1995	seminar, evaluation (estimate)	500,000
		500, 000
Grand total budgeted		**13,305,000**

As can be gathered from the table, the total budgeted funds for the project in 1987-94 varied between SEK 1. 1 and 2.1 million annually. The phasing-down of the project led to much reduced costs in 1995. The total cost in the period 1987-95 was about SEK 13.3 million.

These data are of course quite different from SIDA´s own ADP-records regarding the actual spending. However, such actual disbursement figures were available from the ADP-records only from 1991 onwards. Before that, lump sums were paid to UNDP which handled the actual processing of the expenditure; for instance, in 1990, the final lump sum payment to UNDP from SIDA for the debt project was 2 070 000 SEK, not specified by activity.

The actual expenditure could be broken down as follows:

SIDA Disbursements for the Debt Management Project, 1991-X/1995
(rounded figures)

		SEK
1991	consultancy	165 000
	debt seminars	397 000
	study tours	77 000
	data project (Programator)	1 828 000
		2 467 000
1992	consultancy	545 000
	debt seminars	159 000
	study tours	35 000
		739 000
1993	consultancy	126 000
	debt seminars	79 000
	study tours	358 000
	data equipment (PC)	17 000
		580 000
1994	consultancy (mainly debt report	800 000
	debt seminars	10 000
	study tours	320
		1 130 000
I-X/1995	consultancy	111 000
	debt seminar	76 000
	study tours	38 000
		225 000
Total in 1991-X/1995		**5 141 000**
	Other expenditure in 1991-95	367 000
	UNDP final payment in 1990	2 070 000
Grand total 1990-X/1995		**7 578 000**

A comparison between the budgeted and actually disbursed costs in the period 1991-1995 shows that the expenditure was generally considerably overbudgeted. For instance in 1993 consultancy was budgeted at 300 000 and actual disbursement less than half of that. The seminars were budgeted at 915 000 and the actual was 79 000 . The large payments to Programator was for the CBK debt recording project, which was booked by SIDA under the debt management project. The substantial consultancy expenditure in 1994, a total of 800 000, was largely for Swedish (and partly for local) short-term consultancy related to the Annual Report on Debt Management.

Despite the 1993 decision to phase out the assistance to DMD, SIDA decided to continue with some support still during 1994 and 1995., including substantial assistance for the Annual Report on Debt Management. SIDA also indicated its willingness to support a ComSec-engineered consultancy project to refinance a package of maximum USD 75 million of Kenya's high-cost commercial foreign debt. For 1993/94 a total of SEK 2.5 million were budgeted for the Annual Report, a debt seminar, restructuring/refinancing of debts, training activities and certain other minor activities. The actual expenditure in calendar 1994 were however much lower, 1 1 million SEK and only 0.2 million in 1995 until October.

The breakdown of the budgeted and actually disbursed costs for the debt management project could be calculated as follows:

	Budgeted costs 1987-9		5Disbursed costs 1991-X/1995	
	Per cent	SEK Million	Per cent	SEK million
-Consultancy	47.4	6.3	30.9	1.7
-Seminars	24.1	3.2	12.7	0.7
-Study tours abroad	13.5	1.8	14.5	0.8
-Others	15.0	2.0	41.9	2.3
Total	**100.0**	**13.3**	**100.0**	**5.5**
			add UNDP final payment in 1990	2.1
			Total	**7.6**

Some of the consultancy expenditures quoted were for preparation of the various debt seminars.

II. EVALUATION METHODOLOGY

The main reason for the evaluation was the decision by SIDA in 1993 to phase out the project during 1994-95 and the desire to obtain a summary of the results and experiences under this 10- year long project. Another reason for the evaluation was to generate knowledge and collect the record of experience for the implementation of similar projects in other recipient countries as well as in other parts of the Kenyan public administration.

The evaluation was undertaken along the lines of the Terms of Reference (see appendix), in a slightly modified form. As can be gathered, the **ToR were overambitious, partly because of the tight time limits allocated for the one-man study** and especially because of the limited actual possibilities to satisfactorily answer the far-reaching questions posed. The time limits were too tight , given the need to research the vast documentation prepared during the long 10-year project period , make four trips to Sweden and one to Kenya and numerous interviews (which consumed almost half of the time available) , and write the report, all within five weeks. Normally extensive evaluations of this type are made by a full project team, whose individual members focus on different segments of the ToR. For instance, the recent evaluation of Finland's development assistance to Tanzania was undertaken by a team of eight persons, and the UNDP study of its assistance to Kenya (Strengthened Economic Management for Renewed Growth, May 1989) was prepared by three consultants and required about twice as much time, some 10 man-weeks, compared with the five weeks allocated for this study. The evaluation at hand required some eight weeks in actual practice.

The major problem was that many of the questions posed in the ToR would **require quantitative answers regarding unquantifiable phenomena, although the cause-and-effect relationships are obscure.** Examples of such questions which are impossible to answer in an exact and proper way are:

-" were the costs reasonable in relation to the short- and long-term achievements?"
-"compare the effects of the DMD support to the effects of other projects of a similar nature"
-"are the results and effects really related to the project activities or can there be other factors behind them?"

However, these are **problems which probably are encountered in most assessments of technical assistance projects, and probably not unique for this evaluation.** One may of course also raise the question whether it after all is better to have a highly ambitous ToR than a very narrow more standard-format ToR which presumably results in a descriptive and less analytical report.

The evaluation and the compilation of the report was carried out in the period June-December 1995, utilizing a total of nine working weeks.The one-man evaluation team deployed the following evaluation method:

- four trips from Helsinki to Stockholm in June-November 1995 to interview public officials and consultants who had been involved in the project, notably within SIDA, the Swedish National Debt Office, and as short- or long-term consultants during the project period. During these visits substantial amounts of project-related material , as well as comments on various drafts, were collected. The visits were complemented by long telephone interviews with certain Swedish officials/consultants whom it was not possible to meet personally

- one trip to Nairobi in the period August 18-September 1, 1995.The main focus was to study project documents, plans of operation and agreements, and to interview current and former officials of the Ministry of Finance, the Central Bank of Kenya and the Embassy of Sweden/SIDA. In addition, interviews were organized with representatives of the World Bank, the IMF and the UNDP, as well as ESAIDARM (Eastern and Southern African Initiative in Debt and Resources Management). Finally, the evaluator participated in the 1995 debt seminar in Nairobi, organized by the Debt Management Division and financed by SIDA.

- before departing from Nairobi, a brief highly preliminary oral summary of the main findings was provided to the SIDA representatives in the Swedish Embassy, and also to the head of the Debt Management Division.

The evaluation report was prepared along the lines of the standardized format of the SIDA evaluation reports. The evaluation does not have the nature of an audit.The list of the persons interviewed is in the appendix, as is the CV of the evaluator.

III. MAIN FINDINGS

The main findings are presented below. They proceed from the project's relevance and external changes , achievement of objectives and cause and effect analysis to target groups, side effects, and cost-effectiveness . Thereafter, the effectiveness of project implementation and its sustainability are analyzed. After that , the interchangeability and the lessons learnt are outlined. Finally, possible strategies for the future are presented.

The Project's Relevance and External Changes

An initial analysis of Kenya's debt management was carried out in 1984-86 by the head of the Swedish National Debt Office, Mr. Lars Kalderen. At that time, also SIDA, other multilateral agencies such as the World Bank, UNDP and ComSec, and Mr. Kalderen as a short-term consultant became involved in the project , in close cooperation with the Kenyan Ministry of Finance and the Central Bank of Kenya . The main thrust of the programme was to build up the **national debt management capacity by training local officials, and thereby achieve sustainability, and to increase the awareness of Kenya's debt problem.**

It was widely recognized that the project was highly relevant and could lead to substantial savings in Kenya's debt service outlays which by 1988 had risen to around 10 billion Kenyan shillings. From the very beginning it received high-level support from the Ministry of Finance. However, one important unexpected factor influencing the project was the departure of the Permanent Secretary H. Mule, who was a strong supporter of the project in the MOF. Particularly since 1993, changes within the chain of MOF superiors appear to have resulted in a somewhat lower priority for the DMD--and a gradual decline in its relative importance, as evidenced by the 1994 MOF Programme (see section on Project Outline). These changes may partly also be a result of the less precarious debt service situation of Kenya, following the recovery of the economy and agreements within the Paris Club with the most important non-concessional creditors.

The project developed differently than envisaged also because the permanent debt adviser hired for the three-year period 1987-89 left already in February 1987, after only nine months of service.His departure highlighted the need to build up stronger domestic capacity, through more training and more active use of short-term specialized consultants. In Kenya there was a rather clear preference for short-term consultants , instead of permanent expatriate advisers who easily were forced into a top staff function pursuing tasks that should be handled by domestic officials.

The initial recruitment difficulties mentioned earlier resulted in a much slower staff buildup within the Debt Management Division than one had agreed upon and envisaged. In 1987 DMD had still only 2-3 officials compared with a target of ten. Although SIDA and notably the short-term consultant Mr. Lars Kalderen directly and through the debt seminars strongly emphasized the need for sufficient (and already promised) debt management staff, theMoF's internal rigidities, the lack of appropriate staff elsewhere in MoF and perhaps some slippage in the MoF's degree of commitment (after the departure of Permanent Secretary Mule in 1986) seriously delayed the recruitment. Only later in 1991 were the required staffing levels achieved and the training could be pursued at full speed. with a sufficient critical mass of personnel.

Finally, the project developed differently than envisaged in the sense that a number of the trained staff departed in 1994. In that year , the head of the DMD, and several of his colleagues left for other jobs outside the Ministry. In 1995, the chief economist, who had received extensive training, left. Although it was clear from the beginning that there would be some drain on highly trained staff, departures on this scale caused a major surprise.

Achievement of Objectives

From the point of view of achieving the objectives , the debt management project may be divided into **three different stages:**

- build-up period 1984-89 (UNDP/World Bank/ComSec/SIDA)
- dynamic stage under sole SIDA management 1990-94
- exit stage 1995

The project's objectives appear to have been fulfilled only partly in the build-up period (due to the shortfalls in recruitment of the envisaged staff, and the departure of the Swedish resident debt advisor)) , but in a rather satisfactory way during the dynamic stage once staff levels and the training effort were fully effective. The project , after it hade taken off,

- was generally prepared and executed in a satisfactory way, constituting innovative third-generation type development aid with high expertise contents and excellent potential yields and spin-offs for the receiving country

-was widely regarded as one of the most succesful SIDA technical assistance projects

-appeared largely to have had realistic objectives, except for the staff hiring target in the beginning (and the unexpected departure of staff in 1994-95)

Gradually, the activity picked up and the prestige of the DMD as an expert organ was well established by 1992-93. The concrete achievements in the period 1984-94 can be divided into three important areas: capacity building, debt monitoring and control, and the creation of a national debt strategy.

1. Capacity Building and Human Resource Development

The project's main thrust was on capacity building, by **creating a core of national expertise** in the technically demanding field of debt management through training of civil servants on the spot, study visits abroad and notably in Sweden, debt seminars and advise by short-term consultants. The gender implications of this human resource development are described later in the report. With the assistance of SIDA, the Kenyan authorities were able to build up , until 1994, a gradually more and more well-functioning institution. With ComSec and, to some extent, SIDA assistance, one was able to build up the necessary base for a succesful and active debt management, the data base and the debt recording system. The DMD constituted the institutional base for analyzing debt figures, the cost of overall debt, the indebtedness of the large parastatals (the magnitude of which was not well known earlier), and the costs of new borrowing.

The DMD also built up **a capacity for refinancing** expensive commercial loans (with SIDA expert help) . The DMD became deeply involved in the **preparations for the crucial 1994 Paris Club deal** between Kenya and its creditors to renegotiate its bilateral non-concessional foreign debt

2. Debt Monitoring and Control

In order to achieve more systematic debt management **two new important inter-ministerial monitoring and coordinating organs** were created in 1987, the Debt Management Committee (DMC), and its technical advisory body , the Debt Management Technical Working Group (DMTWG). Their functions are described earlier in the report. The idea to create these committees was actively pursued by SIDA consultants and their terms of reference were proposed by the Swedish short-term consultant Lars Kalderen to the Kenyan authorities..These committees met regularly and proved valuable in coordinating the debt management effort in the dynamic stage 1990-94; however, lately, it appears that they have not been as active and functional as before.

The DMD also could develop a capacity for **identifying and monitoring future payments** of principal and interest on foreign loans, as a basis for managing the foreign exchange budget and the convertible foreign exchange reserves..

3. Creation of a National Debt Strategy

The collection of revealing debt data and the broad-based debt seminars highlighted **Kenya's debt problem** for the important economic-policy decision-makers. The signals that were emitted among others from the DMD may have prevented (together with the IMF debt ceilings) excessive borrowing from abroad during the economically difficult years in the early 90's. The intensive training of the DMD staff and the debt seminars financed by SIDA in the period 1986-95 turned out to be particularly useful in creating a general awareness of the debt problem and in providing elements to be included in the **national debt strategy**. The seminars had participation by **all the important actors** in the Kenyan debt field such as representatives of the Ministry of Finance, Ministry of National Planning and Development) , the CBK, the parastatals such as Kenya Airways, Kenya Posts Authority, Kenya Post and Telecommunications, Industrial Development Bank, Tana & Ahti River Development Authority, Keri Valley Development Authority, supranational development institutions such as the World Bank, IMF, ComSec, UNDP as well as by SIDA, SNDO, occasionally Riksbanken, resident and expatriate consultants, and the academic world.

The intensified debt analysis, monitoring and control and the debt strategy facilitated more orderly debt servicing and the maintenance of Kenya's international creditworthiness. If there were problems or new windows of opportunity in borrowing or debt servicing, DMD could bring those to the attention of the Permanent Secretary, or other high officials.

Through all these joint efforts, it was also possible to emphasize the **inter-relationship between macroeconomic policy and debt management.** Inter alia, it was emphasized that

- prudent debt management is central to rational fiscal, monetary and balance of payments strategies,
- the too low level of tax income in Kenya has made some central government borrowing from external and domestic sources essential in order to achieve higher economic growth, employment and income.

- in order to decrease the reliance on foreign borrowing, the domestic money and capital markets have been developed by the government (also with SIDA assistance)

- curtailment of the budget deficit is necessary in order to avoid overborrowing and subsequent debt crises
- the pressure on the balance of payments through debt servicing must be alleviated through longer more concessionary borrowing , in order to reduce the external debt service ratio

Cause and Effect Analysis

In the early stages of the project it might have been possible for the other agencies involved to achieve the objectives without SIDA assistance . UNDP was actively involved, and ComSec made its major contribution by establishing the debt data recording system CD-DRMS in 1989-90. The World Bank also played an important role in the project until 1990, as the executing agency for the project. Also the IMF provided an adviser to the Research Department of the CBK, which has been involved particularly in domestic debt matters.

However, the original idea to create the nucleus of the project, a strong Debt Management Division, came up through the early 1987 debt seminar and in subsequent discussions with the Kenyan high authorities carried out by the project's main instigator as short-term consultant, Mr. Lars Kalderen. Without all these initiatives and the performance pressures generated by SIDA and its consultants, Kenya would hardly have proceeded to create a gradually full-fledged DMD, but would either have limited itself to maintaining the original narrow-based debt unit or then been even more cautious in staffing the DMD.

After 1990, when the project came to the dynamic stage, it's results and effects may largely be attributed to the SIDA assistance . It appears **unlikely that any other donor source would have had the willingness and/or capacity to continue** to provide financial assistance and technical support of this magnitude for developing the debt management project. SIDA also financed a part-time financial adviser (Dr. Bo Karlström) , who was involved in an important way in developing debt awareness, the domestic capital markets and the committee infrastructure on debt issues, although he was generally not focusing on the DMD project.

Target Groups including Gender Implications

The main target group was the Debt Management Office. Another instrumental target group was the top management in the Ministry who supervised the DMD, notably the Permanent Secretary, the Financial Secretary and the Head of the Fiscal and Monetary Affairs Department. Important training efforts were also directed at certain civil servants in the other departments involved, i.e. the External Resources Department, the Accounts Controllers Department (Loan Section) and the Department of Government Investments and Public Enterprises.

Finally, a broader target group were civil servants from the Central Bank of Kenya, various other ministries (notably the Ministry for National Planning and Development) and parastatals, who were invited to the annual debt seminars. The seminars reinforced the debt morale and the respect for debt, provided important know-how and contributed towards closer contacts between various parts of the civil service and parastatals.

The main target group DMD has been highly affected by the project.They obtained extensive training in debt management, borrowing techniques, data processing and debt recording. In general the capacity, expertise , productivity and output of this staff increased dramatically. On the other hand, their "market value" rose correspondingly, as shown by the fact that most of those that received training left in 1994-95.

There were certain **gender diversification implications:** it appears that women benefited to the same degree as men from the training activities. Within DMD the only woman professional up until 1994 received as intensive training in Kenya and abroad (inter alia a five weeks' training course in ComSec/London in 1988, and two other training trips in 1991 and in 1994) as all the male professionals. According to her, there was no discrimination in the training effort. Special training was extended also to another woman lawyer from the Attorney General's Office assisting in debt documentation. At the beginning of September 1995 almost half of the DMD's professional staff were women: three out of a total of seven posts filled. In addition, there are four women secretaries in the DMD. In the annual debt seminars, some 3--5 per cent of the participants have been women. There was no reason to assume that participation by equally qualified women in the debt seminars had been discouraged. The women professionals participated actively in the seminar proceedings.

Side effects

Various side effects related to the DMD project are

- the intensive training effort of DMD and its collaborators in the Account Controllers Department and in some other departments **created some jealousy** within the MOF, particularly since there was much training abroad involved

- once a number of staff members had received good training, this led to **considerable expectations regarding careers** and restructuring of positions and/or the DMD, and partly laid the ground for the departures

- an ability of DMD (and through the debt seminars) to provide technical advice and information to some neighbouring countries on debt managment techniques, debt recording etc. For this purpose, the DMD received visits by civil servants from **Tanzania, Lesotho and Uganda.** Thus, the project also had a **positive regional spin-off,** which was not anticipated in the beginning

- three Kenyan officials trained through the DMD project **obtained expert positions in the regional debt management organs like ESAIDARM and ComSec.** The cooperation between Kenya and ComSec had developed quite well during many years, whereas unfortunately Kenya has has not yet activated it membership in the ESAIDARM, although it was one of its founders

- **integration of debt management into the macroeconomic policy framework.** This was described above in the section Achievement of Objectives. Also such questions were also included inter alia into the agendas of the top-level committees

Cost-Effectiveness

Development assistance can be regarded as cost-effective or efficient if it achieves a given objective at the lowest possible cost or , alternatively, when it achieves the greatest result for a given cost.

The measurement of cost-effectiveness in this type of technical assistance project is particularly complicated because many of the actual financial results and savings facilitated through better know-how and training, may materialize only after a substantial time lag. Also the possibilities of measuring the overall benefits of , for instance, the debt seminar-promoted "debt problem awareness ", which contributed towards the avoidance of new expensive borrowing, can hardly be measured accurately in a constantly changing financial environment affected by many other factors, such as confidence in the government and its economic policy. Also the effects of the advice of many other multilateral organisations and consultants are hard to isolate in these comparisons. By necessity, therefore, the measurement of cost-effectiveness remains partly qualitative.

Two illustrative examples of the magnitude of the direct potential cost savings involved can be given . In 1989, a refinancing of an expensive U.S. loan was carried out with the assistance of SIDA experts. The initial loans had interest rates of 10.8 to 13.2 per cent per annum. The new loan carried interest of only 8.375 per cent, resulting in savings of USD 1.61 million during the 5-year loan period.

Another refinancing (also carried out with the assistance of SIDA experts) in 1993 of an initial 8.71 per cent loan resulted in a reduction of the rate of interest to 4.82 per cent, resulting in expected savings of USD 2.0 million during the life of the loan . The **total savings of these two operations amounted to about USD 3.6 million.**

In addition, the **Paris Club deal** with non-concessional bilateral creditors, regularizing debt repayments in arrears postponed debt repayments of USD 564 million over 8 years, with one year's grace period and 7 years' repayment period. Without a well-functioning well-trained DMD, it would evidently have been hard to present Kenya's case to the Paris Club and carry out the negotiations properly.

A summarized cost/benefit estimate can be established as follows (the figures are rounded):

- Total budgeted costs for the project in 1987-95	SEK 13 million
- Total savings for two debt refinancing operations	SEK 30 million
- Additional estimated savings following the Paris Club deal and better debt management	SEK 40--160 million
Estimated Net Benefit, Grand Total	**SEK 57--177 million**

Obviously, these are **extremely rough estimates** that have to be treated with a great deal of caution. The latter estimate is based on the assumption that Kenya on all new government and parastatal loans in the period 1992-97 was/will be able to obtain a 1-2 per cent lower cost than otherwise, partly through better financial expertise in the loan selection and negotiation stage and partly because of its improved creditworthiness as a result of negotiating the orderly settlement within the Paris Club deal for USD 564 million. Through this deal Kenya showed a responsible attitude towards creditors (which obviously facilitates future borrowing and lowers costs), and it might be able to obtain USD 100-200 million more in new more advantageous credits at interest rates which are as much lower as mentioned above. Taken together this would result in overall savings during 5 years of USD 5-20 million. On top of this, Kenya may probably be able to refinance other expensive credits, with additional savings over and above those two refinancing cases mentioned above.

Could the same results have been achieved at even lower costs? This does not seem too likely because:

- after 1990, there was **continuous close cost supervision** from the DCO on a pay-as-you-go basis against detailed documentary evidence of actual costs

- the project mainly relied on **short-term consultants, rather than vastly more expensive permanent expatriate advisors residing** in Kenya. The short-term consultants could in a targeted and cost-effective way deliver timely advice and generate goal-oriented activity in the national debt administration, without permanent cost accruals. The use of some **local short-term consultants** turned out to be particularly cost-effective and efficient, since that involved no travel costs, hotels etc and since they had vast local knowledge and knew their way around (see, however, below the costs for the Annual Report).

- the study trips abroad for local officials were rather short but highly focused on practical work , generating practical skills more rapidly than long secondment or general training

- the technical assistance for the **refinancing of expensive loans** was very cost-effective

- the **debt seminars were of short duration and effectively structured.** They were always organized in Kenya rather than in high-cost locations abroad in the international financial centers--and lately only in Nairobi

However, the following section discusses the high costs for the Annual Report.

In an effort to minimize the costs, the seminars could naturally from the very beginning have been organized only in Nairobi and not occasionally in Mombasa and Lake Naivasha. This would obviously have saved some per diem, lodging and travel costs (although the seminars were organised with low-season discounts from hotels) . However, in the build-up stage that would probably have resulted in lower participation rates, and a less effective **spirit of team cooperation and receptiveness** in a "retreat" environment away from the busy atmosphere of the Nairobi office and home. This was a generally held view of the Kenyan participants.

Overall, the input/output ratio in this type of know-how-intensive financial technology involves a **high multiplier effect** both from the point of view of the donor and the recipient. This may be called the **"biggest-bang-for-the -buck"-phenomenon.**

Effectiveness of Project Implementation

Project implementation appears **generally to have been reasonably effective.** SIDA regularly reviewed project developments and kept in close touch both with the Ministry of Finance in Nairobi, with the other multilateral agencies, the SNDO and the short-term consultants, especially Mr. Kalderen. The **consultants seem to have been carefully chosen, and they displayed a high level of professionalism.** The programmes of the debt seminars were professionally well structured , and their effectiveness was enhanced through the use of working groups. Elaborate summaries of the conclusions were passed on to the donors and the Kenyan authorities, and in some cases this led to fast official action..

However, in certain aspects the project implementation may be questioned:

- the DMD project design was kept **relatively unstructured** from the beginning , which allowed for great flexibility in its execution but may also have caused some inefficiencies. According to the UNDP, the primary weaknesses in 1986-90 in the broader project's administration (see below) were essentially three: (i) action delays, due partly to misunderstandings concerning procedures which the World Bank and UNDP applied to the project; exacerbated by the fact that virtually all approvals and decisions had to come from Washington ; (ii) inadequate information about the project within the Kenyan government and (iii) failure to monitor the project's progress, particularly in institution-building, and to take corrective measures. These UNDP evaluation team conclusions concerned, however, a much wider complex of projects including the budget process, project financing , policy advice to senior offiacials in the MOF etc, and not only debt management--the specific comments were cited earlier in this report.

- the **high turn-over of top management** in the Ministry of Finance (permanent sercretaries, financial secretaries, head of department) meant that commitments already made regarding support for the project had to be reviewed again, causing delays and even only partial fulfillment of earlier agreements. For this reason, it was regarded rather complicated for SIDA to cooperate administratively with the Ministry

- as indicated above, the **permanent debt management advisor** left prematurely in February 1987. He was reportedly frustrated by the slow build-up of staff of the DMD in the early stages in 1987-88, inadequate support and lax working morale. One reason for the disappointment may also have been a personal lack of experience of work in developing country surroundings, with a public administration still being built up and seeking its way. However, although he was able to achieve , during his short tenure, relatively little in terms of building up the MOF's debt management capacity, he was regarded as instrumental in raising the awareness of MOF's top management of the importance of debt management, and development of the domestic bond market (together with the financial advisor B. Karlström, also financed by SIDA). The timing of the arrival of the debt advisor was probably somewhat premature, since it almost coincided with the departure of the Permanent Secretary H. Mule who had committed MoF resources for the DMD project, and which led to substantial staff recruitment delays. Perhaps there also was a "cultural clash"-- the advisor was too qualified a banker to come into the process at this early stage and might have fitted in better later. Despite a wide-ranging search in Sweden, Ireland and the other Nordic countries SIDA was not able to provide a new resident debt management adviser in his stead. However, the void in the work input was largely filled in 1989-91 by the resident ComSec expert , an experienced debt manager from the Indian MoF focusing particularly on the debt recording function. In addition, there was active work by short-term consultants and increased efforts of the gradually better and better trained local staff . It should, however, be noted that not all of the DMD staff had particularly suitable background training for these functions or then that they were seconded from other ministries, with possible dangers of career interruptions.

- there have recently been **major problems with the debt records data base,** partly due to the fact that after the major departures of staff in the latter part of 1994 debt records in MOF were not updated. A task force was put up in May 1995 consisting of staff from CBK and MOF and it was due to complete a full up-date by end-September 1995 in order to make the debt records of the Ministry of Finance and the CBK tally. Unfortunately some negotiated loans have been missing from the debt data base. Also, it seemed difficult to obtain accurate records regarding loan disbursements. Reportedly, CBK had in some cases received instructions to service loans too late (with heavy penalties for the delays--penalty rates may amount to double the actual interest rate, for instance 16 per cent per annum against 8 per cent; thus the total additional penalty cost on a 10 million USD loan whose interest is paid three months late would be 200 000 USD). In other cases CBK had received instructions to service debts that had either been fully repaid already or then not drawn at all. Partly these problems were due to administrative errors relating to the fact that the Accounts Controllers Department of MOF (which issued the payments instructions) did not have an own CS-DRMS facility, as did the DMD. Reportedly the auditor-general Mr. D.G. Njoroge indicated that the government had taken a loan of GBP 20 million which was not shown in the statements on public debt neither in 1991 nor in 1992. Even though the loan was reported in the 1992/93 statement it was not, according to the auditor-general, possible to ascertain how the loan was drawn and whether it was used for the intended purposes. Also according to a ComSec review in 1994, there exists a high level of undisbursed loans in Kenya´s debt portfolio. Loans with a low utilization rate should in the opinion of ComSec be flagged by the DMD for further investigation, especially to determine the reasons for assuming these debts and whether there are genuine reasons for delays in disbursing these loans. The negotiation of loans, also undisbursed ones, often may involve substantial costs in terms of front-end fees and commitment fees, but without further investigation into the details it is not possible to ascertain the facts; in any case, that falls outside the scope of this evaluation.

- the debt recording computer system deployed in the DMD was reportedly not compatible with the computer system proposed under another SIDA central bank assistance project engineered by the Swedish data firm Programator. This was said to have created a great deal of problems.

- the efficiency of the project was partly hampered by the **over-optimistic expectations** (both on the Swedish and the Kenyan side) concerning the recruit-ment of staff were mentioned above. The paucity of remuneration led later on, in 1994-95, to the unexpectedly high rate of departures of many trained DMD staff with a market appeal. This caused severe disturbances in the operation of the DMD from the autumn of 1994 and onwards, both in the form of erroneous or lacking debt data recording and in the general status of DMD and its work efficiency. The staff was reportedly , at least in part, lacking in motivation

- after SIDA took over from 1990 onwards, it was contrary to what one expected **impossible to find and agree on an executing agency** to replace the earlier functions by the World Bank and UNDP. The SNDO was long considered as the natural choice, but it declined the task in 1991 (reportedly, because its staff resources were limited, and it seemed hard to fit the supervision of this project into SNDO's normal agenda). Some other alternatives were considered (such as a small consulting firm), but were not approved, partly because of Kenyan opposition towards having private consulting firms involved in sensitive debt matters. For this reason, the SIDA office in Nairobi had to assume an unproportionately great responsibility for running the programme. However, it appears that the programme rolled on reasonably well through the close cooperation between SIDA, the Kenyan Ministry of Finance and the strong commitment by the Swedish short-term consultant Lars Kalderen, who particularly in the period until the end of 1991 when he was most actively used ensured expertise, drive and continuity in the running of the programme. Until that time, Kalderen undertook to organize workshops and seminars on debt, pushed the establishment of the DMD, and the debt management steering committees. He drew up their draft terms of reference, outlined a set of tasks for the DMD, wrote key job descriptions and terms of reference for a new resident debt management adviser, prepared (in collaboration with the head of the DMD and the Senior Financial Advisor) an overall debt strategy for Kenya and generally kept up the momentum of the project until end-1991. After that, he became more actively involved in the DMD project only from late 1993 onwards , in the context of the drafting of the Annual Report on Debt Management, and some debt seminars. In the interim period the main actors were the head of the DMD and his staff , while SIDA (DCO) and a local resident consultant, the former head of the Fiscal and Monetary Affairs department of the MoF assisted on the DMD project..

- in the early stages of the project, the **multitude of multilateral agencies and other parties** (the World Bank, UNDP, ComSec, SIDA, permanent and short-term advisers, and SNDO) involved directly or indirectly in the debt management project caused some coordination problems and considerable extra work for the responsible authorities in Kenya and elsewhere. In particular, it was regarded that the extensive and massive bureaucracy involved made it cumbersome for the World Bank to work effectively on technical asistance, with a great deal of decisions which had to be submitted to Washington, with long time delays. Also, in some regards it was not entirely easy for SIDA in 1986 to formally join a project which was already up and running

- **within SIDA itself there was limited competence** regarding the financial field, and several changes among the administrators involved. This obviously complicated the running of the project and in particular the explanation of project plans and the approval of various project proposals. In addition to this bureacratic onus, and partly related to the above factors, there were complaints among the advisers that the reporting of the work undertaken, the current work and the future plans required a great deal of time.

- within the MOF and between the MOF and the CBK and other ministeries, there seems to have been **insufficient communication** of the project objectives and institutional possibilities. This may be regarded as a typical problem in many public administrations, particularly since there were cases of **institutional rivalries** that complicated the running of the project (partly because of a clash between a well-staffed well-remunerated central bank and a Treasury ministry with shortage of well-trained staff and with low salaries) . These were, to some extent, alleviated through the joint seminars which created an invisible "**debt management network**".

- one of the recent major SIDA inputs in the project in the phasing-out stage was the financing of the first **Annual Report on Debt Management** in Kenya. The total SIDA expenditure for the work on this report appears quite high, reportedly close to SEK 0.8 million. The report took a great deal of efforts, and several Swedish and local consultants were involved. After long delays the report covering the years 1988 through 1993 was finally completed in March 1995 but was **kept undistributed in the DMD for almost half a year**, until the debt seminar in late August 1995. Such **a long delay in distribution appears completely unacceptable**, particularly since the report was rapidly becoming out-of-date since it concerned a period that ended 18 months earlier. It appears that the work on this project proceeded quite slowly and in an expensive manner. In this work, it might have been possible to rely more heavily on less expensive local short-term consultants.

<u>Sustainability of the Project and Interchangeability</u>

Important prerequisites for sustainability of a technical assistance project are

- adequate recipient government policies
- sufficient recipient government contribution
- effective staffing and management organisation
- local participation
- well-functioning donor/recipient relations

Regarding the first two points, the Kenyan government committed itself in 1986 to an impressive economic policy programme "Economic Management for Growth", which included **efficient management of resources, including sound management of external and domestic debt.** There was indeed, from the very beginning broad support, particularly from the side of the Permanent Secretary, for the establishment of an effective debt management division . However, as indicated already, more lately there seems to have been somewhat less support among the top management of the MOF for the DMD, perhaps partly due to the departure of the former head of the DMD in 1994 and the previous head of the FMAD one year earlier , as well as of a large part of the trained staff in 1994-95. The new leadership of the FMAD has reportedly been able to devote less time for debt management matters. It was also claimed that there was not as strong leadership of the DMD as earlier. In addition, a certain institutional rivalry within MOF and between MOF and CBK seems to have existed. CBK had actually, in the early 90's, proposed to take over the whole debt management function from MOF and transfer the office to CBK, but this did not materialize.

Despite the departure in 1994 of the head of DMD and many staff members trained under the project , several elements ensure a certain continuity of the project's results:

- there has been and remains a **reinforced awareness of Kenya's debt problem and the inherent value of good debt management** , which facilitated improved policies, constructive Paris Club refinancings, and avoidance of the deep "debt trap" of many other African countries

- the **institution created through the project, DMD, remains in place**, including some of the initially trained staffers and four new young economists eomployed in 1995, and can be further developed, as indicated in the final section of this report

- the **institutional memory** (debt management techniques, interministerial cooperative decision-making bodies, the debt portfolio review papers, elaborate Paris Club presentations,and the Annual Report on Debt Management) is there and all the afore-mentioned can easily be updated and put to productive use again. Partly, some of these documents can be regarded as procedural manuals.

- after the debt management project there **is a continuing interest of the World Bank, UNDP , ComSec and the other donors** to ensure good debt management in Kenya , and a willingness to indicate how that can be achieved

- the **benefits of the massive excercise in preparing the Annual Report on Debt Management** go far beyond its information value to the Kenyan political and administrative decision-makers and general public as well as Kenya's creditors and investors. It forced the MoF and the CBK to reconcile their debt figures, which originally were far from each other. It inspired Tanzania and Uganda to embark upon similar excercises and the ESAIDARM to take up debt information on its agenda. It also provided DMD with a structure which it can refer to in continuing to account for its achievements.

- the training effort and the seminars focused largely on local Kenyan officials. Thereby, **substantial human resource development was effected**

- the **debt recording system** (whose installation was mainly engineered by ComSec, as part of the joint effort) remains in place, albeit that it needs updating which is being performed by a task force from MoF and CBK

- the **trained staff who left DMD (a total of 6 people) remain generally in the region** and can put their expertise to use for the benefit of Kenya if needed, through ESAIDARM or ComSec or from elsewhere. In particular.Tanzania and Uganda have followed the example of Kenya in developing their debt management capacity, and on several occasions representatives of these countries were invited to the debt management seminars. Also, study visits by debt management staff from these countries to DMD were made. The former head of DMD, Mr. Kameri, moved over to ESAIDARM and can put all his expertise at the service of other countries (and also eventually Kenya).

Regarding the aspect of interchangeability, a comparison of the DMD project with other projects of a similar nature is impossible without access to and time to review detailed information concerning other projects. However, the DMD project was different from similar projects initiated by SIDA regarding the project design. Normally, thorough project appraisals have been prepared after the project idea has been launched. In the DMD project such overall formal SIDA project appraisals were not undertaken in the beginning, because the World Bank and UNDP had made such appraisals.

Two other projects of a comparable nature were undertaken by SIDA during the same period as the DMD project: the general advisory services provided to the Ministry of Finance through a Senior Financial Advisor, and the CBK data project.

By all accounts, the SIDA-financed Swedish Senior Financial Advisor to the Ministry of Finance (Dr. Bo Karlström) performed an excellent job in the period 1986-90, advising on budgetary matters, development of capital markets, etc.

The other project handled by Programator concerning CBK's data recording and debt data has been criticized, partly because it was claimed that the data system was incompatible with the Ministry of Finance's CS-DRMS system. It was also claimed that the Programator system was "too sophisticated" and that their system developed for large Swedish corporation's needs was not what the CBK wanted: a system for debt management that had been tried and tested in other public institutions and which could be used as a management tool. Programator worked with a large number of short-term advisers who came in for short periods but whose work was not well understood in Kenya.The authorities also complained that there were no subsequent follow-up advising possibilities. In any case, the approach was clearly not particularly suitable for CBK and the result with regard to debt data in the CBK on parastatal and private sector debt was of little use to the MoF.

IV. LESSONS LEARNT

In addition to the various conclusions drawn elsewhere, some lessons learnt are that

- In normal circumstances a **thorough initial appraisal should be undertaken**, in order to avoid overoptimistic expectations about the pace of the build-up of the project. One should on all fronts try to develop a **proactive forward-looking well planned project policy**, rather than a reactive one trying to handle matters on a day-to-day basis and respond to problems mainly as they arise

- In similar technical assistance projects there must be a **firm, written and unequivocal commitment by the local authorities** to deliver their contribution to the project. In the DMD project, it turned out to be impossible to achieve the envisaged staff build-up in the DMD in 1987-90, and it took more than three years to complete the staffing. This slowed down the impetus both in institution-building and training. Also in general one has to count with the likelihood of long delays in appointing sufficient local staff even to priority projects

- It appears that **SIDA did not fully recognise (and that it came as surprise) that the major asset of the project, the best traind staff,** was highly likely to leave, since civil service remuneration was disappointingly meager and the career opportunities limited. In order to **create an organisation less dependent on any individual employees**, the DMD might have been **more heavily embedded institutionally**, by establishing even clearer routines, handbooks for debt recording and debt management, and a stronger internal position within the MOF. Such a large and important institution as the MoF could be expected to have at least some specialized competence in staff recruitment and training in the field of finance (including debt management) . Also, one might have asked the MOF to take countermeasures (by offering some extra benefits to particularly talented staff, bonding, some topping-up) in order to at least try to delay the almost simultaneous departure of many of the staff.

- The fact that one **internationally sponsored institution** like ESAIDARM hired two of the most important staffers from DMD, its former head and a senior person, was criticised in Kenya. ESAIDARM's sponsors could perhaps have programmed in more non-regional staff in the initial period until it was felt that the regional capacity was enough to sustain an entity such as ESAIDARM. However, it is impossible to fully freeze the staff situation , and some mobility is natural in any active organisation. Neither might it in this case have been possible to establish any local Kenyan training institution for debt management over and above the internal and external training and seminars , since these skills are rather unique. In more conventional management fields, such as accounting or general administrative training, special training institutes or longer courses may be warranted.

- Ultimately, a **major civil service reform in the public sector in Kenya** seems necessary, and particularly in a key ministry as the MOF. This probably should involve a substantial reduction of total civil service staff, and a major increase in the remuneration package for the remaining fewer skilled personnel in order to make it more competitive compared with the outside. An effort should also be made to establish clear career planning in order to enhance the permanency of staff whose market value has risen as a result of the very training effort. Currently, it appears that there is a lack of motivation among many of the staff within MOF's departments and in particular among some of the staff of the DMD. It is worrisome that not much seems to have been done in response to the MOF's own proposal in 1994 for restructuring itself (although that report surprisingly did not give much support to reinforcing DMD). The strengthening of the debt management function was on the other hand strongly supported by the World Bank and UNDP in their report in June 1995.

- **On the positive side, SIDA, as a much smaller institution and with only a few persons responsible for the project, was able in a more nimble tailor-made way** able to respond to the actual needs of the project than some of the huge multilateral agencies like the World Bank and UNDP with a global mandate, heavier administration, highly formal reporting requirements and a need to refer decisions to headquarters, with subsequent delays.

- The expatriate resident advisors , and also the short-term consultants, should have **experience of working in developing countries,** besides having a knowledge of public administration. Otherwise the running-in period may become too long and unnecessary frustrations may develop, as in the case of the debt management advisor in 1987. Also some of the short-term advisors had certain running-in problems because they had little or no experience of operating in developing countries, let alone in Kenya.

- In an effort to try to achieve maximum efficiency in project implementation, a **professional executing agency** should generally be used. Otherwise a project runs the danger of hanging in the air. An executing agency also in 1990-95 would probably have been helpful, by being able to follow the project in a more regular, consistent and professional way and perhaps to alert SIDA when problems arose, and propose corrective action. Without such an agency in this period , the responsibility of the local SIDA/ DCO office, which had no special expertise in debt management , was heavy. The responsible official in the period 1992-95 could devote only some 5-7 per cent of her working hours for these purposes. Unfortunately, the intended executing agency in 1990, the Swedish National Debt Office, decided after long hesitation not to accept the task. (In some statistical projects the Swedish Statistical Office has reportedly, with considerable success, handled the task as executive agency). ComSec might have been another choice, but it was not approached. Fortunately, there were dedicated and active persons in the DCO office who handled the project from 1986 on until today. (It must, however, be admitted that in some cases executing agencies may take too much responsibility for the implementation, which should be shouldered by the actual recipient. In this project, with main reliance on short-term consultants, the danger for this seemed smaller).

- An institution that is being built up must be able to function in the environment in which it is operating. It does not need to be a star performer, but it must be able to fill its own niche. **However, few institutions can normally be better than the environment in which they exist**

- In order to achieve economies of scale and sufficient coordination, an institution of this type should preferably have a **broad mandate. A debt office should preferably handle and/or supervise both the domestic and external financing** of the government. This has in most countries been regarded as the ideal situation. Otherwise, the coordination of overall financing and their costs may develop very differently--one agency may borrow from abroad in a situation where ample cost-effective domestic financing may be available, and vice versa. It is true that the policy committees are supposed to do the coordination, but cooperation bwtween different authorities practically always involves some problems. The task of dealing also with domestic debt has been given to DMD, but it has not been in a position to do anything yet in that field. Also for many other reasons the domestic financing has still been handled exclusively by the CBK.

- A well-functioning debt management office should be able to work and advise **on all aspects of debt management:** the debt recording , debt service projections, developing norms for assessing loan agreements, and various proposals for financing, debt strategy and other new ideas. For purposes of its foreign exchange reserve management, the CBK absolutely needs accurate forecasts of future external debt servicing needs.

- Whenever technical assistance projects are undertaken, the responsible ministry should **organise workshops** for all the staff involved, from the top down. The debt seminars under the project have been very useful in this regard and have created awareness of the project's objectives and contents and strengthened the commitment to implement it.

The potentially high economic rewards and cost-efficiency of improved debt management are self-evident, given the massive debt overhang of Kenya amounting to USD 5 100 million. The examples given in the section on cost-efficiency are highly illustrative. The savings may be tenfold or even more compared with the cost of maintaining a Debt Management Division. Potentially, debt management constitutes, in the early stages, one of the **most high-yielding investments** that an indebted government can undertake.

V. STRATEGIES FOR THE FUTURE

1. To create a firm basis for any debt management , **debt recording must rapidly be put on an accurate and regularly updated basis.** The task force of CBK/MOF should not only bring the debt records up to date but agree on **networking systems between**

MOF and the CBK, to ensure effective debt recording cooperation in the future Most probably close cooperation with the ESAIDARM and its Kenyan experts on the Com-Sec-based debt recording system would facilitate the task. Without a well-functioning debt recording system which accurately records also future debt service obligations there will be unnecessary errors in debt service, penalty charges and less respect for Kenya in international financial circles. The DMD should also be able to advise on the areas in which foreign debt may be used.

2. The **organisation and the staff involved in the debt management effort must clearly be strengthened.** The current situation, with a lower priority for the DMD and with the departure of many trained staff , is highly unsatisfactory. **Today DMD is not far away from where it was five years ago.** The recent history of the DMD shows the urgent need for a broad civil service remuneration reform, by decreasing total staff and selectively increasing salaries and fringe benefits for strategic talented staff over the next 2-3 years.

3. There are several different ways of organizationally strengthening the position of the debt management office:

Alternative i): One might establish a **semi-autonomous Kenya National Debt Office (KNDO)** under the supervision of the Ministry of Finance, partly along the same lines as the national debt offices in Sweden, Ireland, and New Zealand. There is one precedent in Kenya, the Revenue Authority established in 1995. The KNDO should have a professional and well-trained staff of some 15..20 persons, whose recruitment would be facilitated by the fact that it would be easier to remunerate them sufficiently outside the immediate realm of the Ministry. This would also ensure lower staff mobility. The KNDO could handle , on instructions and under the supervision of the Ministry of Finance, government loan negotiations, debt recording , debt refinancings and debt renegotiations including those within the Paris Club , preparation of debt strategies, financial contingency plans, annual debt reports and secretariat functions for the interministerial Debt Management Committee and the chairmanship of the Debt Management Technical Working Group (which would have strong supervisory roles).

Alternative ii): Another alternative is to delegate, under the authorization and supervision of the Ministry of Finance, government debt matters **to a Government Debt Office located in the Central Bank of Kenya(CBK).** This would follow the current practice deployed , for instance, in England and Denmark, where the Bank of England and the Danish central bank handle all government debt matters, under instructions of the Ministry. The Government Debt Office would have the same functions as described in 3 a) above, but in addition it would be responsible for the government's domestic debt and financing (which already is handled by the CBK). The move to the CBK would facilitate the maintenance of professional staff because of the reportedly several times higher remunerations standards in the CBK. It would obviously reduce the staff expenses in the Ministry .

Alternative iii) : One could establish a **separate Government Debt Department within the Ministry of Finance,** and strengthen its staff both quality- and quantity-wise. The functions of the Department would be as described in 3a. One problem relating to this alternative may be the difficulty in retaining ,and granting sufficient remuneration to, the professional staff, whose training makes them attractive in the outside job markets.Therefore, the staffing might have to be reinforced by secondments of staff from the CBK. There are many reasons why the Fiscal and Monetary

Affairs Department within which the DMD is now located, should remain free to concentrate on broad policy issues and not be burdened by the operational tasks of debt management. Similarly, the External Resources Department, which is fully occupied with the management of foreign aid and relationships with donors, should not be forced to be involved in complicated financial technologies.

Alternative iv): As a minimum, as the fourth possibility, one could **maintain the current DMD** within the Fiscal and Monetary Affairs Department, but strengthen its staffing as in iii) and have DMD reporting directly to the Financial Secretary in order to fortify its role. Also, it would be essential to ensure more effective cooperation between the various other MOF departments and DMD.

4. Of the alternatives mentioned above, solution iii) with a separate department for debt management questions, seems to be the most attractive one in practice. Establishing and staffing a semi-autonomous debt office (alternative i)) is always difficult, and institutional rivalries between MOF/CBK might complicate solution ii). Alternative iv) would probably not strengthen the role of DMD sufficiently in line with the priority it should have. Alternative iii) has equally been supported by the World Bank/UNDP report of June 1995 on the strengthening of the MOF.

5. The working of the Debt Management Committee and the Debt Management Technical Working Group should be strengthened compared with the present, in order to give stronger backing to the debt management effort.

6. Kenya should actively investigate further possibilities to refinance some expensive loans (as in 1994 under the SIDA-financed ComSec exercise) , and above all consider some **buy-backs of its foreign debt.** For instance, Tanzania plans to effect debt buy-backs of up to USD 250 million, and Uganda has already done USD 160 million, with considerable savings because these buy-backs can normally be undertaken with large discounts. Kenya might also look into the possibility of using the World Bank/IDA´s buyback facility to retire certain categories of eligible debt.

7. **External technical asssistance should be actively sought** to support further development of the debt management function, notably as regards training, seminars and specific tasks such as refinancing and overall debt strategy. The **ESAIDARM as an effective regional debt advicing institution with several Kenyan experts on board** appears to be highly suitable to assist Kenya in a practical way to strengthen the debt recording system and to develop its debt management module. Therefore, Kenya should activate its membership in ESAIDARM. The effectiveness of donor funding would probably be high through ESAIDARM, since one would achieve some economies of scale in debt management assistance within the region and benefit from its close knowledge of the local problems. Some donors to ESAIDARM might even want to earmark part or all of their assistance for Kenya´s needs.Although joining the ESAIDARM would involve some costs, the prospective benefits to be derived appear much larger.

8. In order to increase transparency in public debt management it seems desirable that the debt management office should prepare annually a **regular budget document covering public debt,** to be discussed by the government and Parliament

The key words in developing an effective debt office and debt management strategy are:

- **professionalism**

-accountability and transparency
-coordination
-confidence creation domestically and abroad in Kenya

The debt management effort in many developing countries operates in cycles--with debt crises, consolidation programmes and restraint and then after 10..15 years new crises. This type of "**management by crisis**" is a high-cost alternative and should be avoided by all means. One of the means of helping to avoid it is by establishing a strong and responsible debt management office. Kenya lives under a threat of a possible debt rescheduling, if the balance of payments and the foreign exchange reserve situation deteriorates substantially. The debt management office must be able to design an overall debt strategy and come up with broad plans for future orderly debt management.

Investments in a technology-intensive know-how area such as debt management clearly involve potentially **high financial rewards in terms of cost savings.** The opportunity costs of not maintaining a well-functioning debt management are high. In addition to handling the large foreign debt cost-effectively , another great challenge in the financial field in Kenya in the future lies in developing the domestic capital markets, including their capacity to intermediate government debt

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PERSONS INTERVIEWED IN THE CONTEXT OF THE EVALUATION

In Sweden

-Mr. Lars Kalderen, Director, DEVFIN AB Advisors in Development, Finance and Industry
-Mr. Lars Sjödahl, Director, Swedish National Debt Office
-Mr. Carl Bertil Lostelius,Senior Adviser, SIDA (former head of SIDA, Nairobi)
-Dr Bo Karlström, Stockholm, former Financial Advisor, Ministry of Finance, Nairobi)
-Mr. Peter Gisle, former short-term advisor for SIDA on the debt management project
-Mrs Karin von Vietinghoff, UNDP (formerly SIDA administrator also for the DMD project in Nairobi)
-Mrs. Cecilia Hermansson, economist, SIDA, Stockholm (formerly SIDA administrator also for the DMD project in Nairobi)
-Mr. Jan M. Olsson, SIDA administrator, Stockholm

Ministry of Finance, Nairobi

-Mr. J.K. Kinyua, Financial Secretary
-Mr. D.R. Ongalo, Director, External Resources Department
-Mr. H. Bagha, Director, Fiscal and Monetary Affairs Department
-Mr. J.K. Ngeno. Head, Debt Management Division
-Mr. W. Kangethe, Head of Loans Section, Accounts Controllers Department
-Mr. P. Abachi, Officer, Loans Section, Accounts Controllers Department
-Mrs. S. N. Kathuka, Debt Manager, Debt Management Division
-Mr. Titus W. Gaichuku, former under-secretary (retired), Debt Management Division

Central Bank of Kenya

-Mr. R.M. Marabii, Chief Banking Manager
-Mr. D.K. Kiangura, Director, Management Information Services
-Mrs. Elly O. Otondi, Deputy Chief banking Manager
-Mr. D.K. Kiangura, Director, Management Information Services

Embassy of Sweden, Nairobi

-Mr. Anders Karlsson, Counsellor (Development Cooperation)
-Mr. James Donovan, Economist

UNDP, Nairobi

-Mr. Frederick J. Lyons, Resident Representative

The World Bank , Nairobi

-Mr. F. Stephen O'Brien, Chief of Mission

IMF

-Mr. Walter Mahler. Resident Representative, Nairobi
-Mr. Ulric von Allmen, Economist, Washington D.C.

Other

-Mr. H. Mule, former Permanent Secretary, Ministry of Finance, Nairobi

-Mr. Arunkant A. Shah, Economic and Financial Consultant (former Director of the Fiscal & Monetary Affairs Department, Ministry of Finance, Nairobi)

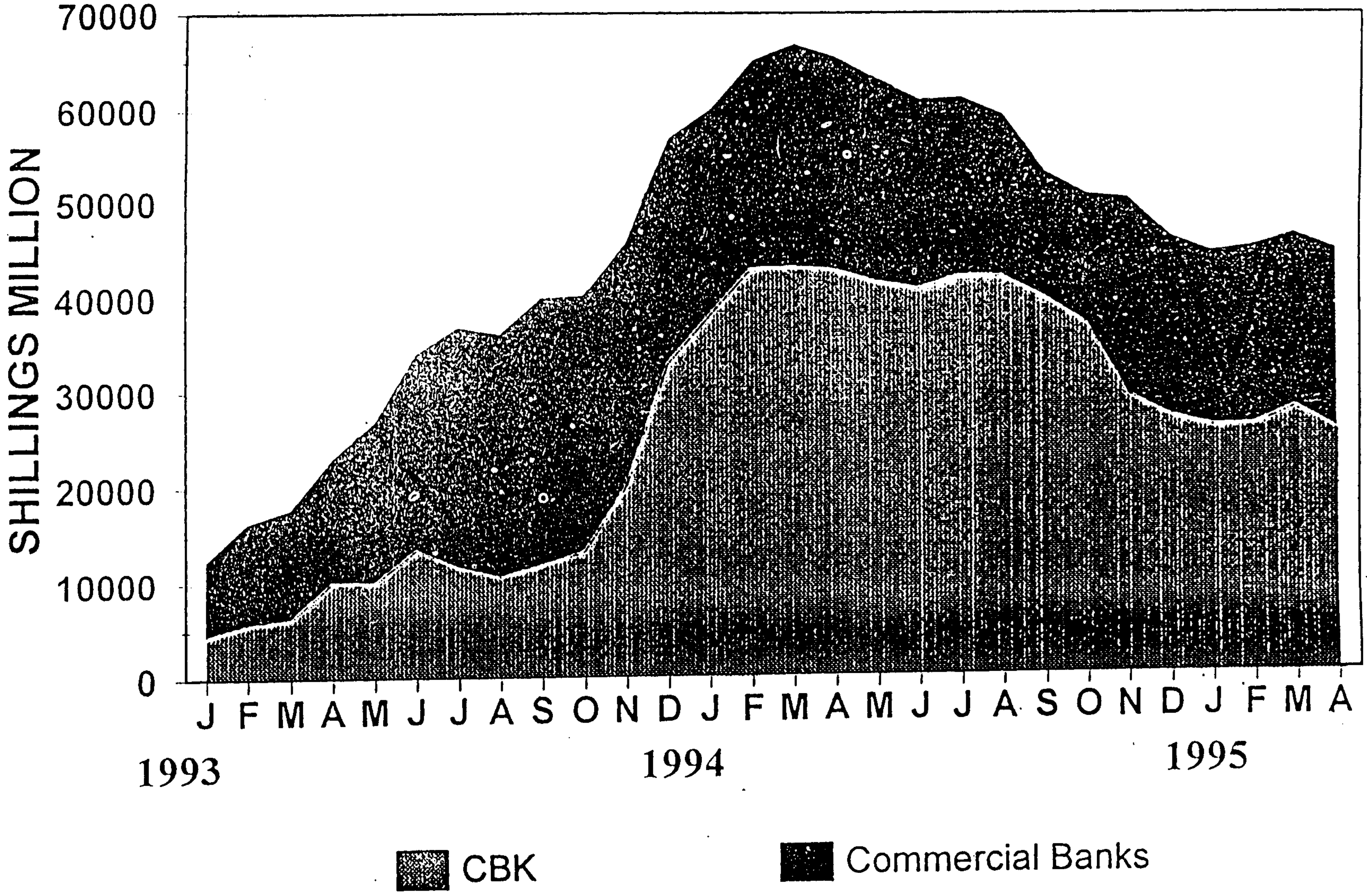
-Mr. Samuel D. Kameri, Chief Technical Officer, ESAIDARM, Harare (former Head, Debt Management Division, Ministry of Finance, Nairobi)

LIST OF ABBREVIATIONS

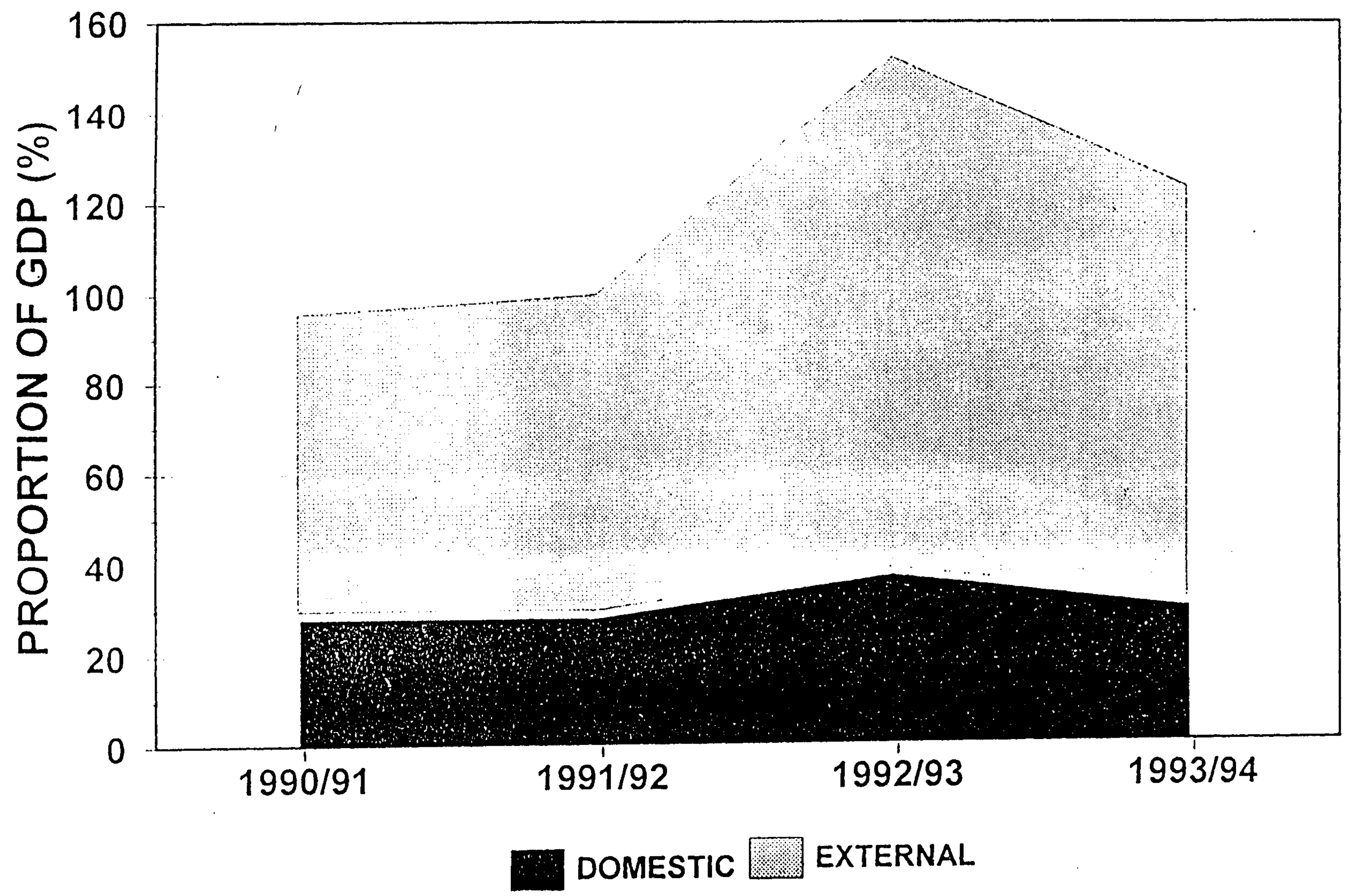
CBK	-	Central Bank of Kenya
COMSEC	-	Commonwealth Secretariat
CS-DRMS	-	Commonwelath Secretariat Debt Recording & Management System
DMD	-	Debt Management Division (of MOF)
FMAD	-	Fiscal and Monetary Affairs Department
HIID	-	Harvard Institute of International Development
GID	-	Government Investment Division
MOF	-	Ministry of Finance
SIDA	-	Swedish International Development Authority
SNDO	-	Swedish National Debt Office
UNDP	-	United Nations Development Programme
BSC	-	Budget Steering Committee
DMC	-	Debt Management Committee
DMTWG	-	Debt Management Technical Working Group
DCO	-	Development Cooperation Office (of SIDA in Nairobi)
ESAIDARM	-	Eastern and Southern African Initiative in Debt and Reserves Management Harare, Zimbabwe
IDA	-	International Development Agency

CHART 4

FOREIGN EXCHANGE RESERVES



TOTAL OUTSTANDING PUBLIC SECTOR DEBT



INTEREST PAYMENTS ON PUBLIC DEBT

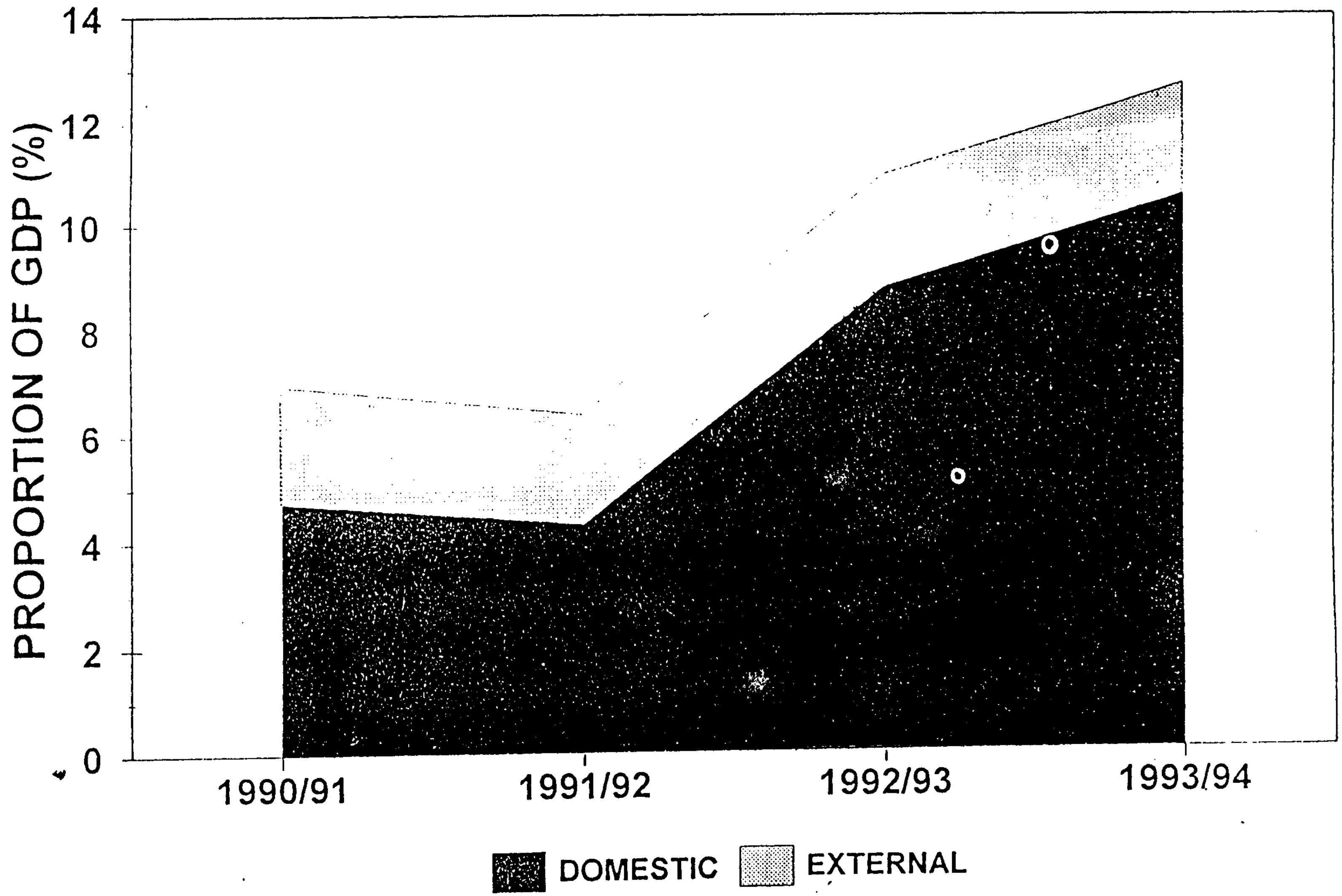


CHART 7

EXTERNAL DISBURSED OUTSTANDING DEBT BY CREDITOR CATEGORY (calendar year)

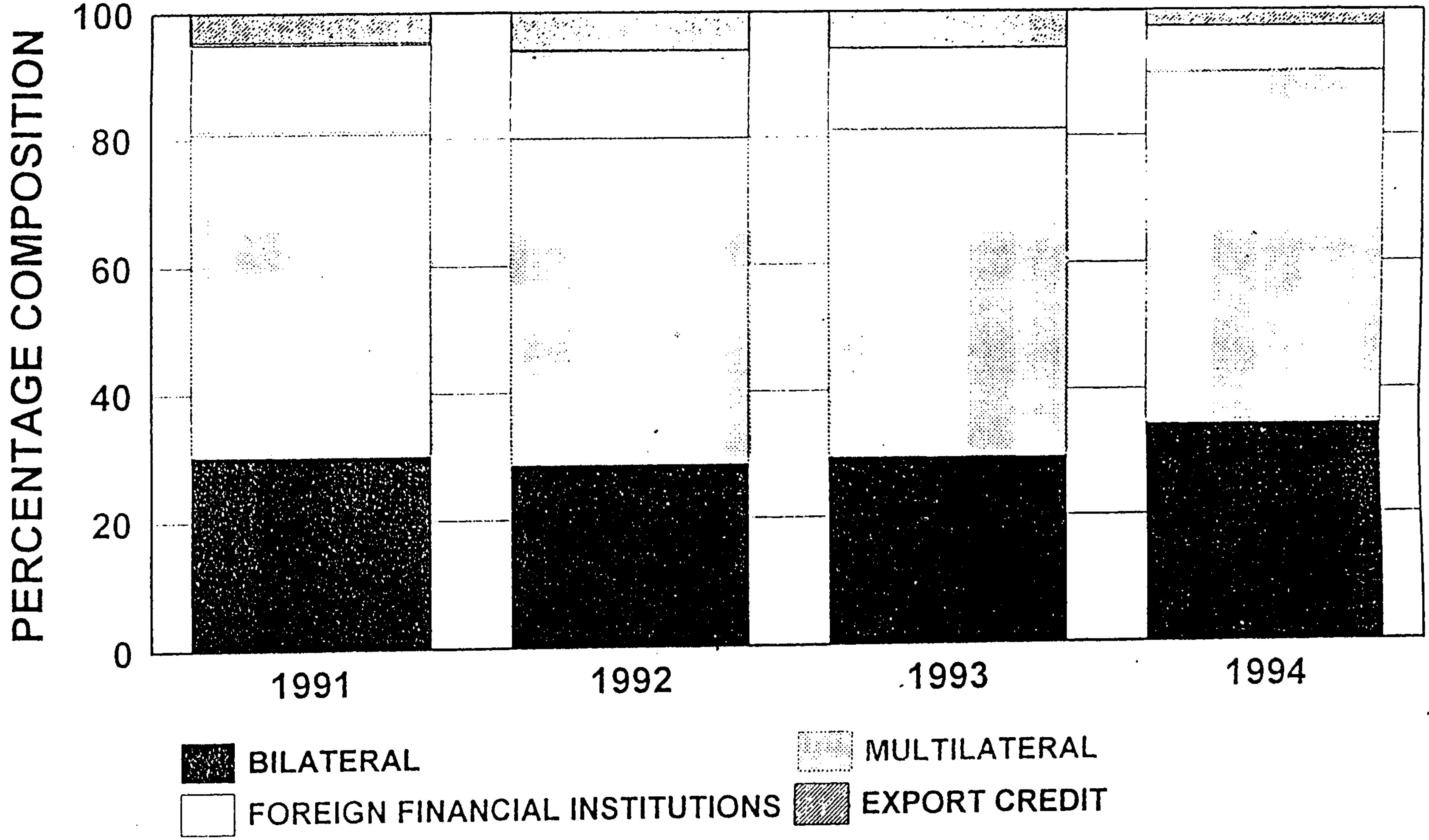
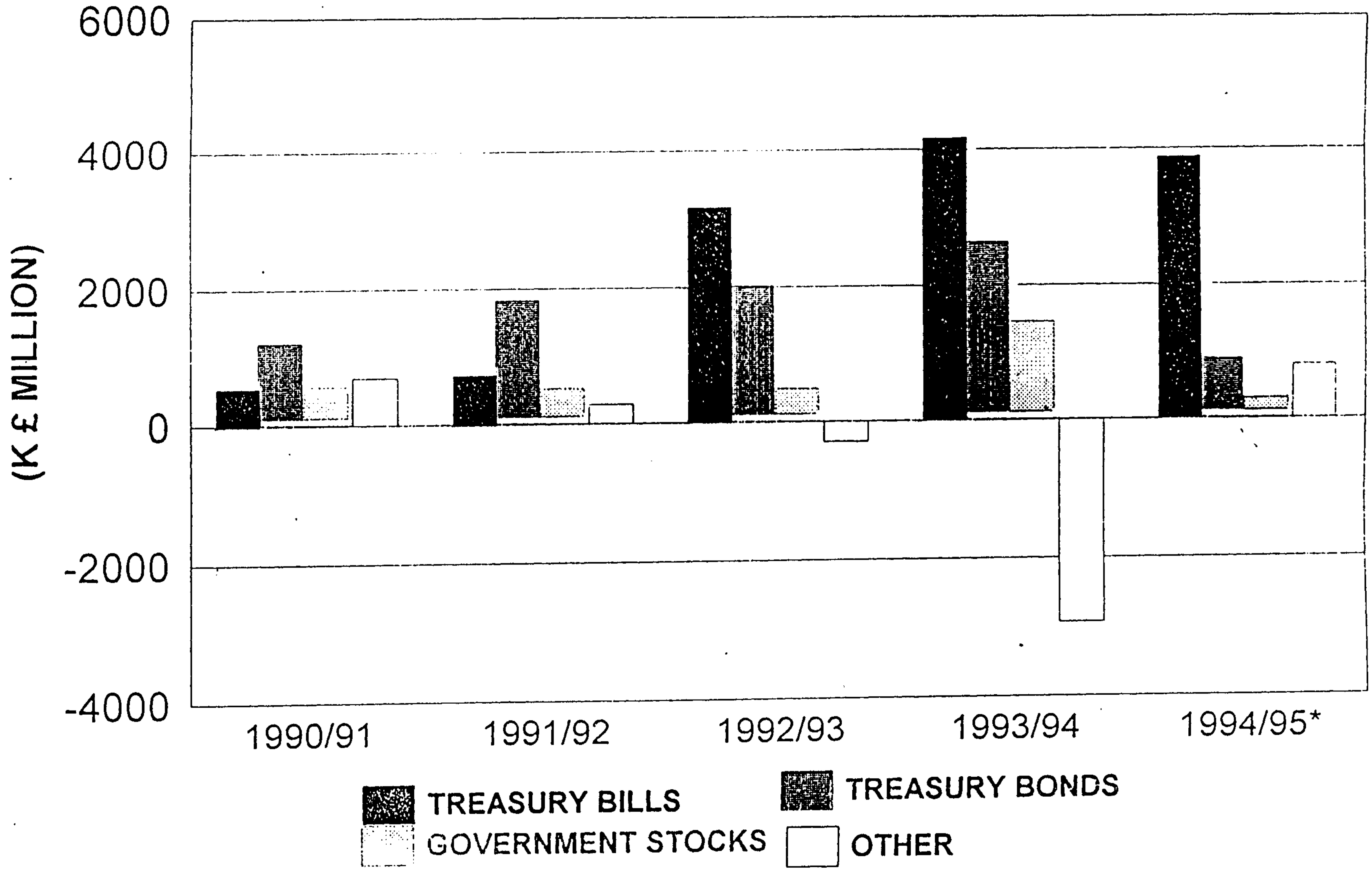


CHART 8

TOTAL OUTSTANDING GOV'T DOMESTIC DEBT



Sida
Swedish Embassy, Kenya / DESO
C. Hermansson

TERMS OF REFERENCE FOR AN EVALUATION OF THE SWEDISH SUPPORT TO THE DEBT MANAGEMENT DIVISION, MINISTRY OF FINANCE, KENYA, 1995

1.0 Background

Since 1986, Kenya has received Swedish support to debt management activities within the Ministry of Finance. A division for debt management was set up in 1987. The division's responsibilities included management of external and internal debt management. The main objective of the support has been to:

- build up the capacity and the competence of the staff within the Debt Management Division (DMD) in order to improve debt management and minimize debt service expenditures.

The support has included consultancies, participation in seminars, travel abroad to understand debt management in other countries, courses and other types of training, production of annual report and refinancing of expensive commercial loans.

Up to 1990 UNDP, World Bank and the Commonwealth Secretariat sponsored the DMD. Their support was mainly concentrated on computerization. Thereafter Sida has been the only donor.

In 1990/91, DMD was staffed with seven officers. The competence with regard to computerization was believed to be in place. The analytical capacity needed to be further developed. The programme was thus focused on the need to organize the operations in order to support the information system, increase the analytical capacity and to integrate debt management in the economic administration within the Ministry of Finance.

In the last phase, the project has focused on seminars to include officers of the civil service and parastatals in order to increase awareness of the importance of debt management, on the production of the first annual report and refinancing of expensive loans.

The total cost of the project has amounted to between 2 and 4 mn SEK annually up to 1993/94. During the years the implementing actors have been the Swedish National Debt Office, independent consultants, Commonwealth Secretariat. During the last phase, the Swedish Development Cooperation Office at the Embassy has administrated the project in cooperation with the DMD.

The status of the DMD has been affected by the fact that some of the officers left the DMD, including the head of the division. The division's cooperation with other departments and bodies also been affected.

2.0 Reasons for Evaluation

The support to the project is currently being phased out. The results and experiences need to be summarized. The main reason for an evaluation is to provide knowledge and experience for the implementation of similar projects in other recipient countries as well as Kenyan public administration projects in general.

The main bodies interested in an evaluation of the debt management project is the Government of Kenya in general and the Ministry of Finance in particular, Sida's Public Administration Division and regional departments, the Swedish Development Cooperation Office in Nairobi, consultants working with this project or other projects within the same field, the new regional secretariat on debt management, Eastern and Southern African Initiative in Debt and Reserves Management (ESAIDARM) in Harare.

3.0 Scope and Focus of the Evaluation

i) The Project's Relevance

- How was the problem analysis and project design formulated?
- Has the project developed otherwise than anticipated?
- Have there been external factors influencing the project?
- Have the surrounding environment changed during the project period?

ii) Achievements of objectives

- Have goals at various levels, i.e. development, sectoral, immediate objectives and outputs been formulated?
- Have the goals been realistic?
- To what extend have the goals been achieved?
- Have the time frames to fulfill the goals at various levels been realistic?

iii) Cause and Effect Analysis

- Are the results and effects really related to the project activities or can there be other factors behind them?

iv) Target group

The primary target group is identified as those civil servants in the ministries.
- How has the primary target group been affected by the project?
- Are there any gender implications, i.e. have women to the same degree as men benefitted from the training activities?

v) Side effects

- Has the project given any negative or positive side effects, i.e. effects other than those anticipated at the planning stage?

vi) Cost-effectiveness

- How do costs and budgets reconcile?
- Are the costs reasonable in relation to short-term and long-term achievements, such as debt service reduction and capacity building respectively?
- Could the same results have been achieved at a lower cost, i.e. are there more cost-effective alternatives? Compare the cost level with the cost level with other similar projects where a cost-effective study has been undertaken.

vii) Impact

Assess the project impact, i.e. regardless of stated objectives.
- Can the project be considered successful or not?

viii) Human Resource Development and Institutional Development

- Has the total mass of knowledge of debt management increased within the Ministry of Finance in general?
- How has capacity/capability level of the Ministry of Finance, in particular the DMD, been affected by the project?
- What major factors have influenced actual capacity building, e.g. career and remuneration structures, training of personnel, institutional change such as the

establishment of DMD, development of the computer systems, new routines and new equipment?

ix) Effectiveness of Project Implementation

- How have the various actors, i.e. Sida, Swedish Embassy, consultants, recipient countries, personnel in the DMD and the Department for Fiscal and Monetary Affairs, performed their roles?
- In what way has the project suffered or gain from the fact that there were difficulties in finding an implementing consultant and that the Swedish Embassy took more responsibility for implementing than in other projects??

x) Sustainability

- Have the preconditions for the sustainability of the project been existing, i.e. good recipient government policies, effective management, organisation and local participation, good donor-GOK relations, sufficient government of Kenya financial contributions both on a development and recurrent basis?
- Have there been external factors affecting the project in a negative or in a positive way, such as political and economic (in)stability and personal conflicts?

xi) Interchangeability

Compare the effects of the DMD support to the effects of other projects of similar nature.
- What are the lessons to be learnt for possible future projects of a similar type?

xii) Strategies for the future

Based on the findings of the above areas, the consultant shall formulate

i) a strategy for the future of the DMD, containing prospects of sustainability or prospects of survival,
ii) a strategy for staff and staff planning of DMD and
iii) recommendations to SIDA with regard to future projects of a similar kind.

4.0 Methodology, Evaluation Team and Time Schedule

The evaluation consultant shall visit and interview relevant officials in the Ministry of Finance and the Central Bank. Other donors, such as UNDP and the World Bank shall also be interviewed.

Interviews would also need to be carried out with the Swedish Embassy, Sida in Stockholm, consultants and other relevant bodies.

The consultant shall study project documents, plan of operations, agreements in order to understand the objectives and the strategies of the project. The Kenya Government will make available relevant documents on the economic situation, in particular the debt situation, economic growth trends, government budgets, etc.

The evaluation consultant must have a sound knowledge of economic policies and experience of macroeconomic management, including debt and reserves management. In addition, experiences of institutional development, organization theory is valuable. Experiences from evaluating similar projects is also an advantage.
The time framework for the evaluation shall not exceed five weeks.

5.0 Reporting

A summary, spoken or in writing, covering the preliminary conclusions shall be delivered to the Swedish Embassy and the DMD before the team leaves Kenya.

The report shall be based on Sida Evaluation Reports - a standardized format, which is attached to the terms of reference. The reporting language is English. The report shall not exceed 40 pages and the Executive Summary may be a maximum of 4 pages.

A draft of the report shall be delivered not later than September 20, 1995. Comments from Sida/Swedish Embassy/ DMD shall be given the authors within two weeks. The finalized report shall be delivered to Sida within two weeks after the receivement of comments.

The report shall be written on a word processor in the programme Microsoft Word or Word Perfect. The authors shall be prepared to present their findings and to discuss the results in a seminar or a similar type of forum.

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