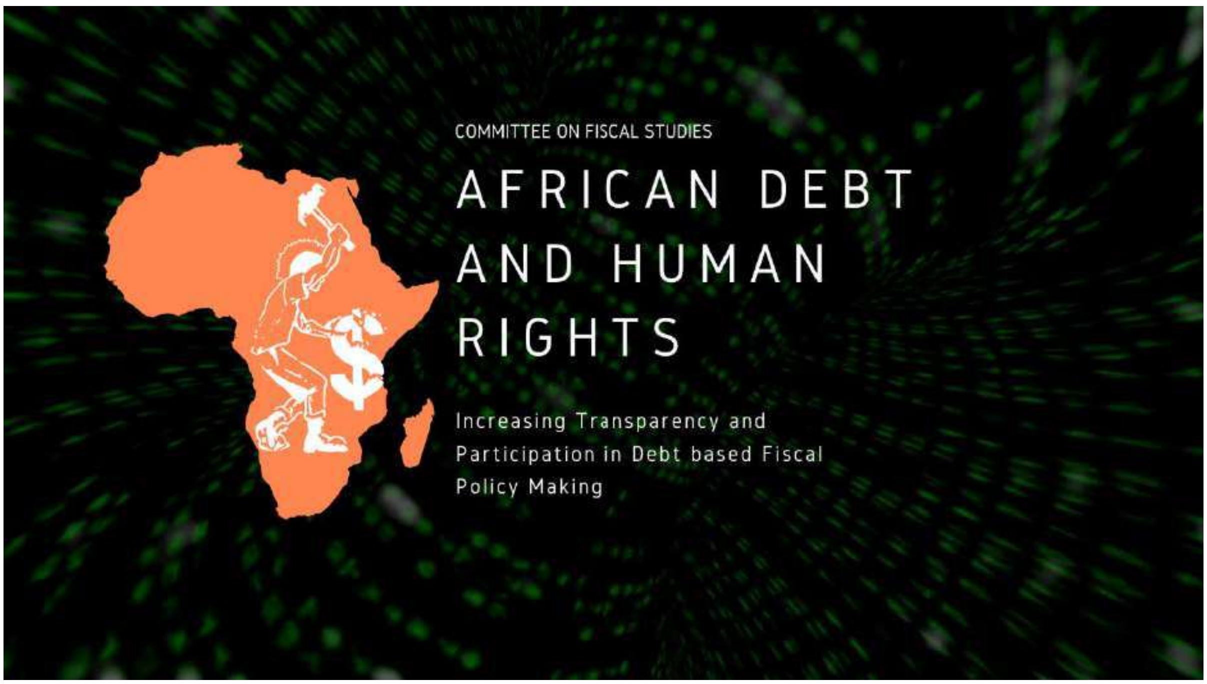
Working Paper 2 (July 2022)
Committee on Fiscal Studies, ADHR

RESOLVING THE DEBT SUSTAINABILITY ISSUES FROM A LEGAL AND INSTITUTIONAL PERSPECTIVE: A FOCUS ON EAST AFRICA



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Resolving The Debt Sustainability Issues from A Legal and Institutional Perspective: A Focus on East Africa

Summary

This paper examines debt sustainability in eastern Africa. Four objectives guide the investigation focused on these countries. First, to carry out a situation analysis of debt sustainability. Second, to review the legal and institutional perspectives which promote debt sustainability. Third, to assess public debt composition, and fourth, to review the measures that have been undertaken to enhance public debt sustainability. Generally, the argument is made that public debt is sustainable in Uganda, Kenya, Tanzania and Rwanda. But these countries are exposed to risks such as foreign exchange, refinancing risks and liquidly risks, which may negatively impact on their debt sustainability.

Key words: East Africa Community, fiscal risks, institutions, legal framework, public debt

1. INTRODUCTION

A country's debt is sustainable if the country can pay its external and domestic debt obligations when they fall due.[1] Most countries contract debt to finance their budget deficits. A budget deficit arises when the total amount of revenue collected is not adequate to cover the total expenditure. Regular borrowing to finance budget deficits has left many governments with huge debts leading to debt distress.[2] While proper public debt is a key element to rapid economic growth, over borrowing without effective investment leads to massive debt burden and unsustainable debt levels.[3] In a situation where the cost of public debt is higher than the country's total expenditure, the country's efforts to its fiscal and monetary policy objectives may not be realized. In addition, increased debt burden may limit the country's ability to pursue high value investments such as education, health, and social protection.[4] Thus debt sustainability is important in achieving macroeconomic stability, better delivery of critical services and improved performance of economic variables.

In 1999, the treaty that established the East African Community (EAC) was signed by Tanzania, Uganda and Kenya. Rwanda and Burundi joined the EAC in 2007 whereas South Sudan

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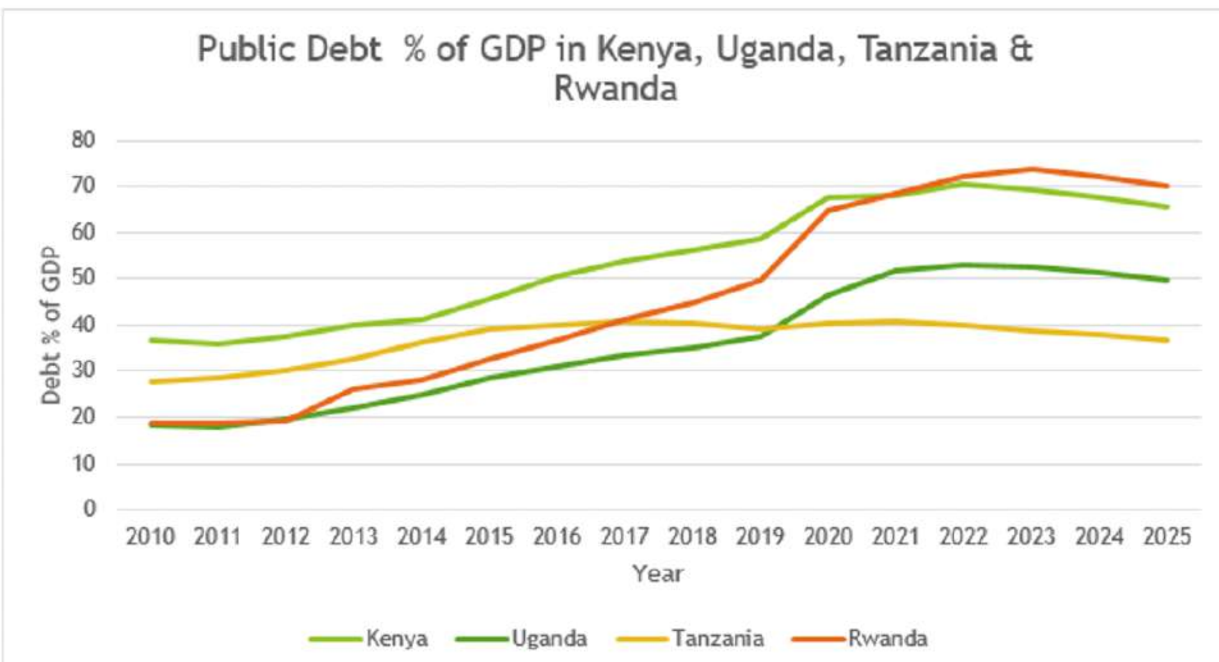
[1] Greiner, Alfred, and Bettina Fincke. *Public debt, sustainability and economic growth*. Springer International Pu, 2016.
[2] Blommestein, Hans J., and Philip Turner. "Interactions between Soverign Debt Management and Monetary Policy Under Fiscal Dominance and Financial Instability." *Available at SSRN 1964627* (2011)
[3] Yusuf, Abdulkarim, and Saidatulakmal Mohd. "The impact of government debt on economic growth in Nigeria." *Cogent Economics & Finance* 9, No. 1 (2021).
[4] Ortiz, Isabel, Matthew Cummins, and Kalaivani Karunanethy. *Fiscal space for social protection: Options to expand social investments in 187 countries*. Geneva: ILO, 2015.

joined in 2016. In April 2022, the Republic of Congo also joined the EAC membership. EAC aspires to achieve one political federation and in pursuit of that objective, the Member States signed an EAC convergence criteria on 13 November 2013. The EAC convergence protocol requires its members to achieve a head inflation ceiling of 8%, which implies that the total inflation rate should not exceed 8% thus reducing volatility in prices as a result of economic shocks. The EAC protocol also requires that member countries should maintain a fiscal deficit ceiling of 3% of GDP by 2021. This implies that the fiscal deficit which is the difference between revenue and expenditure should not exceed 3% of GDP in order to reduce public debt which will finance the fiscal deficit.

Additionally, the protocol requires the EAC Member States to maintain a gross public debt ceiling of 50% of GDP in order to ensure public debt sustainability. Lastly, the EAC protocol criterion requires that each member country should maintain an import cover of 4.5 months implying that that the foreign exchange reserves available in a county's central bank should cover imports for a period of 4.5 months.[5] Despite the fact that EAC has a gross public debt convergence of 50%, as at 2021 only Tanzania was within the limit. Uganda, Kenya and Rwanda have breached the EAC gross public debt convergence threshold of 50% (see figure 1).

Figure 1: Public Debt % of GDP in 4 EAC Countries



Source: Various sources[6]

[5] African Forum & Network on Debt development AFRODAD, *Assessment of National Financing and Financing Policies in EAC and DADC Countries Against Regional Protocols*. AFRODAD (2019).
[6] World Bank and International Monetary Fund, *Joint World Bank and IMF Debt Sustainability Analysis for Kenya.* IMF (2022), World Bank and International Monetary Fund*, Joint World Bank and IMF Debt Sustainability Analysis*

Figure 1 shows that EAC countries have not abided by the protocol and are likely fall in unsustainable debts in the future. The increased public debt in EAC has majorly been to finance infrastructural projects and finance budget deficits.[7] Notably, EAC debt service affects budget execution and expenditure on pro-poor sectors such as education, social protection and agriculture since debt service is taking up a huge share of governments resources. The major question is whether the infrastructural projects will result in the repayment of the loans. The aim of this paper is to review public debt sustainability issues from a legal and institutional framework in EAC. The specific objectives are:

a. To undertake a situation analysis of debt sustainability issues from a legal and political framework in EAC.
b. To review the legal, and institutional framework that promote debt sustainability in EAC.
c. To assess EAC's debt composition.
d. To examine the different measures which have been undertaken by EAC countries to address debt sustainability issues and their effectiveness.
e. To provide recommendations based on the findings.

The paper employed a mixed methods approach that involves both qualitative and qualitative research design to review national treasuries' budgets and public debt reports, debt management strategies, budget statements and Constitutions of the EAC states. Additionally, Article IV of IMF as well as World Bank publications on public debt sustainability in EAC were reviewed. Mixed methods approach is preferred because it utilizes both numerical data and qualitative data.[8] As such, the paper therefore, starts the discussion by providing a situation analysis of public debt sustainability in EAC highlighting the level of debt distress and the need for debt sustainability. Its subsequent section provides a review of the legal and institutional framework of public debt in EAC followed by a section on debt composition in EAC. Thereafter, the paper provides various measures undertaken to promote public debt sustainability. Lastly, the paper provides recommendations based on the findings.

2. A SITUATION ANALYSIS OF DEBT SUSTAINABILITY IN EAC

EAC countries debt has been rising over time and it has affected their debt sustainability indicators. In 2022 and 2021 the joint debt sustainability analysis by the IMF and World Bank

for Rwanda IMF (2022), World Bank and International Monetary Fund, *Joint World Bank and IMF Debt Sustainability Analysis for Tanzania* IMF (2021) & World Bank and International Monetary Fund, *Joint World Bank and IMF Debt Sustainability Analysis for Uganda.* IMF (2021).

[7] Gu, Jing, and Richard Carey. "China's Development Finance and African Infrastructure Development." *China-Africa and an Economic Transformation* 147 (2019).

[8] Teddlie, Charles, and Abbas Tashakkori. *Foundations of mixed methods research: Integrating quantitative and qualitative approaches in the social and behavioral sciences*. Sage, 2009.

indicated that Kenya's risk of debt distress has worsened from a moderate level to a high level of external and overall debt distress. In comparison, Tanzania, Rwanda and Uganda have a moderate rate of external and overall debt distress. The 2020 joint IMF World Bank Debt Sustainability Analysis also indicated that Rwanda, Tanzania and Uganda were at a low risk of debt distress. Previously, these countries were considered as low risk. The transition from low to moderate risk of debt distress in Rwanda, Uganda and Tanzania reflects the collapse of the tourism exports during the coronavirus pandemic. A summary of the debt risk levels for EAC is shown in Table 1.

Table 1: Risk of External and Overall Debt Distress

EAC Member State	Debt Carrying Capacity	Risk of External Debt Distress	Risk of Overall Debt Distress	External Debt Sustainability
Kenya	Moderate	High	High	Sustainable
Rwanda	Strong	Moderate	Moderate	Sustainable
Uganda	Moderate	Moderate	Moderate	Sustainable
Tanzania	Medium	Moderate	Moderate	Sustainable

Source: Various sources[9]

In 2020, Kenya's risk of debt distress worsened from moderate to high. This is also due to the impact of the COVID-19 pandemic which led to slow down of economic activities within the country and also across the world thus worsening Kenya's existing debt vulnerabilities. This implies that if Kenya experiences a domestic or an external shock, it is likely to fall in a debt distress position whereby its public debt will no longer be sustainable, and it may not be able to repay its debt obligations when these dues mature. An in-depth analysis of debt sustainability concerns in EAC Member States is considered next.

2.1. Tanzania Debt Sustainability Analysis

The Debt Sustainability Analysis (DSA) indicates that Tanzania's debt is sustainable and its debt carrying capacity is medium. Its risk of external risk debt distress and risk of overall debt distress has increased from low to moderate.[10] This is because of negative effects of the pandemic on exports that weakened Tanzania's ability to service its external debt. Tanzania has limited space to absorb such fiscal and economic shocks that followed the pandemic's impact on the tourism sector which was a major source of foreign exchange earnings. This led to high uncertainty. From

[9] World Bank and International Monetary Fund: *Joint World Bank and IMF Debt Sustainability Analysis for Kenya* (2021), World Bank and International Monetary Fund: *Joint World Bank and IMF Debt Sustainability Analysis for Rwanda*. (2022), World Bank and International Monetary Fund: *Joint World Bank and IMF Debt Sustainability Analysis for Tanzania* (2021) & World Bank and International Monetary Fund: *Joint World Bank and IMF Debt Sustainability Analysis for Uganda* (2021).

[10] World Bank and International Monetary Fund: *Joint World Bank and IMF Debt Sustainability Analysis for Tanzania* IMF (2021).

this it can be argued that in case of an internal or external shock, Tanzania is likely to experience debt vulnerabilities. With exception of breaching the debt to service ratio, all other public debt indicators have not been breached as indicated in Table 2. Tanzania profited from the Debt Service Suspension Initiative (DSSI) in 2020/21 amounting to USD 102 million from the Exim Bank of China and USD 2.6 million from French Development Agency. The DSSI received in Tanzania in the year 2021 reduced debt service payments in the year but reflects the higher debt service over the period 2022-27 to repay the rescheduled debt.[11]

Table 2: Tanzania's Debt Sustainability Analysis

Indicators	2020	2021	2022	2023	2024	2025	Threshold
PV of public debt to GDP	28.4	28.7	30.5	30.4	30.1	29.9	55
PV of external debt to GDP	17.6	17.9	18.8	19.0	18.5	17.9	40
PV of debt to exports	117.6	135.1	140.4	140.0	132.8	126.0	180
PV of debt service to exports	13.4	14.4	15.1	13.0	12.8	13.4	15
PV of debt service to revenue	13.7	14.3	14.9	12.2	12.2	13.1	18

Source: Various sources[12]

2.2. Kenya Debt Sustainability Analysis

Kenya's risk of debt distress is high, its debt carrying capacity is moderate which is a downgrade from its previous strong debt carrying capacity position. But its external debt sustainability is stable. The present value of debt to GDP is above its indicative threshold of 50. The present value of external debt as a percentage of GDP remains below its threshold of 40 as shown in Table 3. This is an indication that the borrowing mix which Kenya has undertaken favors concessional borrowing and fiscal consolidation efforts are underway to reduce the fiscal deficit gap. Kenya has breached its solvency indicator, the present value of external debt to export ratio and liquidity indicator, the external debt service to exports ratio. The breach of the present value of external debt to exports ratio and external debt service to exports ratio is attributed to slow growth in exports and contraction of the economy due to the COVID-19 pandemic.[13]

[11] World Bank and International Monetary Fund: *Joint World Bank and IMF Debt Sustainability Analysis for Tanzania* IMF (2021).
[12] World Bank and International Monetary Fund: *Joint World Bank and IMF Debt Sustainability Analysis for Tanzania* (2021).
[13] World Bank and International Monetary Fund: *Joint World Bank and IMF Debt Sustainability Analysis for Kenya* (2021),

Table 3: Kenya's Debt Sustainability Analysis

Indicators	2020	2021	2022	2023	2024	2025	Threshold
PV of public debt to GDP	62.4	63.0	64.2	63.4	62.9	61.1	50
PV of external debt to GDP	28.7	28.7	28.3	27.3	26.3	25.5	40
PV of debt to exports	288.3	255.8	239.2	219.2	204.2	193.6	180
PV of debt service to exports	26.5	19.1	22.7	20.1	29.7	18.4	15
PV of debt service to revenue	15.5	13.0	15.8	14.0	21	13.1	18

Source: Various sources[14]

2.3. Uganda Debt Sustainability Analysis

In the medium term, Uganda's public debt continues to be sustainable with medium debt carrying capacity. The country's risk of external and overall debt distress has shifted from low to moderate with limited space to absorb shocks. All external public and publicly guaranteed debt and total public debt burden indicators are below their respective indicative thresholds and benchmarks over the medium term under the baseline scenario as shown in Table 4.

Table 4: Uganda's Debt Sustainability Analysis

Indicators	2020	2021	2022	2023	2024	2025	Threshold
PV of public debt to GDP	41.1	44.1	43.7	42.5	41.1	39.2	55
PV of external debt to GDP	24.2	25.1	24.6	23.9	23.6	23.2	40
PV of debt to exports	148.2	152.9	147.8	144.0	143.1	143.1	180
PV of debt service to exports	9.5	14.5	13.4	13.5	13.1	14.41	15
PV of debt service to revenue	11.6	17.5	15.7	15.2	14.0	14.4	18

Source: Various sources[15]

[14] World Bank and International Monetary Fund: *Joint World Bank and IMF Debt Sustainability Analysis for Kenya* (2021),
[15] World Bank and International Monetary Fund: *Joint World Bank and IMF Debt Sustainability Analysis for Uganda* (2021),

2.4. Rwanda Debt Sustainability Analysis

Rwanda's external debt is sustainable with a moderate risk of external and overall public debt distress. A granular analysis of the moderate risk rating shows that Rwanda has limited space to absorb shocks. Rwanda maintains a strong debt carrying capacity in the region and for the year 2022 all the public debt indicators are within the indicative threshold under the baseline scenario as shown in table 5. However, a temporary deterioration of liquidity indicators in 2021 reflects that Rwanda may still face liquidity pressures due to adverse market conditions, as pointed to by a breach of the debt service to revenue ratio in 2021.

Table 5: Rwanda's Debt Sustainability Analysis

Indicators	2020	2021	2022	2023	2024	2025	Threshold
PV of public debt to GDP	51	55.7	56.7	56.5	55.5	53.4	70
PV of external debt to GDP	33.9	38.4	41.0	42.9	43.8	44.0	55
PV of debt to exports	181.4	171.9	159.4	154.7	148.5	141.9	240
PV of debt service to exports	10.8	27.1	8.0	12.2	7.7	8.2	21
PV of debt service to revenue	10.8	31.9	10.9	17.7	11.6	12.5	23

Source: Various sources[16]

3. REVIEW OF THE LEGAL FRAMEWORK AND INSTITUTIONS PROMOTING DEBT SUSTAINABILITY IN EAC COUNTRIES

This section provides an analysis of public debt laws, policies and medium-term strategies that have been put forward by various countries to manage their public debt. Additionally, the section describes the various institutions that have been mandated to ensure that the public debt laws are adhered to.

3.1.Uganda

The legal framework for management of public debt in Uganda is enshrined in the Constitution of the Republic of Uganda, 1995 (as amended to 2018), and several Acts of Parliament which include: the Treasury Bills Act 1969, the Bank of Uganda Act 1993 (as amended

[16] World Bank and International Monetary Fund: Joint World Bank and IMF Debt Sustainability Analysis for Rwanda (2022)

to 2018), the Budget Act 2001, and in the Public Finance and Accountability Act (PFAA) 2003 and the Public Finance Management Act of 2015 (PFM)[17]. Article 159 of the Constitution authorizes the Government of Uganda to borrow from any source provided such borrowing is expressly approved by Parliament. Section 1 of the Treasury Bills Act, 1969 gives the Minister in charge of Finance the authority to borrow by issue of government treasury bills. Section 4(2)(e) of the Bank of Uganda Act, 1993 (as amended to 2018) authorizes Bank of Uganda to manage public debt. Section 42 of the PFM Act provides that the Minister of Finance is responsible for debt management and public debt reporting. It points out that by 1st April, the minister shall provide a report on public debt guarantees and other financial obligations of the government.[18] The institutional framework for public debt in Uganda comprises of the Ministry of Finance, Planning and Economic Development (MoFPED), Central Bank of Uganda, Parliament, Cabinet, Ministry of Justice and Constitutional Affairs through office of the Solicitor General and the Attorney General.

The Ministry of Finance Planning and Economic Development (MoFPED) through the debt management office identifies the overall budget financing needs, manages public debt portfolio and ensures debt sustainability. The Central Bank of Uganda provides on public debt management in accordance with the Bank of Uganda Act, 1993. The role of the cabinet is to review individual loans contracted in line with the National Development Plan (NDP), government priorities and the ruling party manifesto. Parliament approves loans as provided in Article 159 of the Constitution of Uganda 1995. Ministries, Departments and Agencies (MDAs), through their sector working groups identify programs and projects to be funded and make submissions to the MoFPED. The Solicitor General provides legal support and advice throughout the loan contracting process and forms part of the loan negotiations team. Lastly, the Attorney General provides a legal opinion on the loan agreements after parliamentary approval and signing of the agreement. The legal opinion is a no objection on behalf of the. Government of Uganda on the terms of the signed agreement and it is against this opinion that the loan becomes effective.[19]

Despite the availability of laws and institutions to manage public debt, Uganda still experiences high debt burden. For instance, the 2021/2022 budget indicated that the government would spend 97% of its total revenue to repay debt service. This implies that what is left after debt has been paid annually is 3%.[20] To meet the deficit, the government borrows internally and externally and repeats the cycle year after year. The law provides that debt service should be 35% of total revenue but the government was going to spend 97 percent of its revenue on debt

[17] Republic of Uganda, *Public Debt & Other Financial Liabilities Management Framework FY 2018/19 – FY 2022/23*. Ministry of Finance, Planning and Economic Development (2022).
[18] Republic of Uganda, *Constitution of the Republic of Uganda* (1995) as amended to (2018).
[19] Republic of Uganda*: Public Debt & Other Financial Liabilities Management Framework FY 2018/19 – FY 2022/23*. Ministry of Finance, Planning and Economic Development (2022).
[20] Barigaba Julius, *Uganda to spend 97pc of domestic revenue on debt repayments*. The East African (2021).

repayment. This indicates that as much the legal and institutional framework are in place, they are not adhered to.

It is important to note that the Republic of Uganda has political will to reduce its public debt to sustainable levels. The government proposes to reduce its domestic borrowing over the medium term to an average of 2.2% of GDP and later restructure it to 1.0% in the long run. Other measures indicated by the government include use of concessional loans. Furthermore, under the Charter of Fiscal Responsibility, the government intends to reduce its public debt by 50% between 2022 and 2026.[21] Besides, the medium-term debt management 2022/23-2025/26 implements a strategy which has increased external debt financing. The strategy undertakes a gradual shift to external borrowing. Concessional financing is maintained and there is an increase in commercial borrowing at 24.9% in the medium term from 18.8% and it eliminates the Euro-bond entirely under external financing. Thus, this strategy exhibits low cost of debt in terms of interest payments to GDP at 3%, nominal debt to GDP at 47.6% and interest rate at 6.6%.

In addition, this strategy offers a low refinancing risk but a high foreign exchange risk.[22] The high foreign exchange risk is attributed to increase in external debt. It is important to note that contracting concessional loans is an effective strategy which provides low cost due to low interest rates and also it gives the country a long repayment period thus reducing the refinancing and rollover risk. On the contrary, use of commercial loans may not be effective because it is likely to increase refinancing and exchange rate risk thus increasing the cost of external debt.[23]

3.2. Kenya

The legal framework of public debt in Kenya is provided in the Constitution of Kenya 2010. Chapter 12 of the 2010 Constitution outlines the principles of public finance and stipulates provisions on public debt. Other laws that ensure proper management of public debt include the Public Finance Management Act of 2013. The PFM Act provides guidelines for effective management of public finances and national and county levels of government. Section 11 of the PFM Act establishes the National Treasury and the Cabinet Secretary of the National Treasury. According to section 11 of the Public Finance Management Act 2012, the Cabinet Secretary is mandated to contract domestic and external debt and provide issuance of guarantees with approval from parliament. Section 62 of the PFM Act establishes the Public Debt Management Office (PDMO) within the National Treasury with an aim of minimizing the cost of debt and reducing the risk of public debt borrowing in Kenya**.** Regulations relating to the PFM Act vide Legal Notice

[21] Oketch Martin, *WE SHALL REDUCE BORROWING TO AVOID DEBT DISTRESS – KASAIJA.* The Monitor (2022).
[22] Republic of Uganda, *Medium Term Debt Management Strategy FY 2022/2023*. Ministry of Finance, Planning & Economic Development (2022).
[23] Essl, Sebastian Michael, Sinem Kilic Celik, Patrick Kirby, and Andre Proite. "*Debt in low-income countries: Evolution, Implications, and remedies*." World Bank Policy Research Working Paper 8794 (2019)

No. 34 of 2015 sets the overall debt limit at the present value of 50% of the GDP for the national government while the debt limit for the county government is set at 20% of the audited total county government revenue collected within a year and approved by the county assemblies.[24] The Public Debt and Borrowing Policy of 2020 provides guidance on raising resources through borrowing to finance the budget and managing the public debt portfolio at minimum cost and prudent level of risk while ensuring public debt remains within sustainable level over the long term. The policy also seeks to promote the development of the domestic market for Government debt securities.[25]

In Kenya, the institutions mandated to manage public debt are; the National Treasury, Public Debt Management Office (PDMO), Office of the Auditor General, Parliament and the Senate. The National Treasury being led by the Cabinet Secretary effectively manages composition and level of public debt. The Cabinet Secretary is mandated under section 46 of the PFM Act to borrow and issue sovereign guarantees on behalf of the government. National Treasury also develops a Medium- Term Debt Management Strategy (MTDS) to ensure that public debt is sustainable. The PDMO which is established under section 62 of the PFM Act ensures that the cost of debt is minimal and mitigates risks associated with public debt The office of the Auditor General audits and reports on various aspects of debt contracting. Parliament enacts laws, approves budget estimates, sets debt ceiling and debt threshold for National and County governments. Further, Parliament and Senate provide an oversight on public debt management in Kenya.[26]

The Government of Kenya through its institutions has promoted political good will in proper management of public finances. For instance, in 2020, following the revelations of the COVID-19 millionaires' documentary,[27] the health committee of the Senate together with Parliament ordered the Auditor General to undertake a special audit on utilization of COVID-19 funds by KEMSA for the period 13th March – 31st July 2020. The report found that KEMSA had used universal healthcare funds for COVID-19 procurement. KEMSA also used its capital budget which the audit found was in contravention of the PFM Act that requires Accounting Officers to ensure resources are used in a lawful, effective, efficient, economical and transparent manner.[28]

3.3. Tanzania

The legal basis for debt management of Tanzania is in the Constitution of Tanzania 1977 with amendment through 2005. The terms of borrowing and debt management processes in Tanzania is governed by the Government Loans, Guarantees and Grants Act Cap. 134 and its

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[24] Republic of Kenya, *The Constitution of Kenya 2010*. Kenya Law Reforms (2010).
[25] Republic of Kenya*, Public Debt and Borrowing Policy*. The National Treasury (2020)
[26] Republic of Kenya, *Annual Public Debt Report. The National Treasury (2021).*
[27] Igunza Immanuel, *Coronavirus corruption in Kenya: Officials and businesspeople targeted.* BBC News (2020).
[28] Republic of Kenya, *Special Audit Report on Utilization of COVID-19 Funds by Kenya Medical Supplies Authority (KEMSA) For the Period 13th march -31st July 2020.*Office of the Auditor General (2020).

Regulations.[29] Further, section 17 of the Act requires the government to prepare a Medium-Term Debt Management Strategy (MTDS) and Annual Borrowing Plans consistent with the overall fiscal framework for the purpose of ensuring macroeconomic stability over the medium term.[30]

The institutional set up for public debt management in Tanzania comprises, the Central Bank of Tanzania, Ministry of Finance, Attorney General, Parliament, Planning Commission and other sector ministries, parastatals and private firms involved in the loan contracting cycle. The Ministry of Finance borrows and negotiates on behalf of the government. The Central bank of Tanzania is responsible for advising the ministry on the best interest rates. Parliament approves the loan and also plays an oversight role in debt contracting. The Republic of Tanzania through the Ministry of Finance produces medium term debt management strategy annually to ensure that public debt is contracted at a minimum cost and low risk. For the year 2021, Tanzania's medium term debt management strategy adopted a combination of two tactics.[31]

The first one assumes a gradual increase in gross domestic borrowing from 49.7% to 53%. This approach seeks to use more treasury bonds with an aim of developing domestic debt market and reduce refinancing risk/ rollover risk. Nonetheless, this approach is likely to increase the cost of debt consistent with interest rates of Tanzania's currency. The second tactic assumes an increase in external borrowing from 50.3% to 55%; whereby the Government of Tanzania will contract a higher percentage of semi-concessional loans.[32] This strategy has low refinancing and cost risks. This strategy was implemented because of declining concessional loans. However, the second tactic is not without limitations since it has high exchange rate risks. Tanzania has political good will on ensuring the country borrows prudently thus ensuring that is debt is sustainable. For instance, in December 2021, Tanzania was criticized about the ballooning National debt to finance the Standard Gauge Railway (SGR). The government's response indicated that the debt contracted was low risk and cost.[33]

3.4. Rwanda

In Rwanda, the legal basis for public debt management is the Constitution of Rwanda 2003 (with amendments through 2015). Other supplementary laws include the National Bank of Rwanda of 1997, National Organic Law of State Finances and Property (OBL) of 2006 and the Financial Regulations of 2007.[34] The Minister of Finance of Rwanda is authorized to contract public debt and issue public guarantees. In addition, the Minister is mandated to delegate public debt functions

[29] United Republic of Tanzania, *Medium Term Debt Management Strategy*. Ministry of Finance & Planning (2021).
[30] United Republic of Tanzania, *Medium Term Debt Management Strategy*. Ministry of Finance & Planning (2021).
[31] United Republic of Tanzania, *Medium Term Debt Management Strategy*. Ministry of Finance & Planning (2021).
[32] Republic of Tanzania, *Annual Report FY 2020/21*. Bank of Tanzania (2021).
[33] Owere Paul, *President Samia answers Critics on Ballooning National Debt.* The Citizen (2021).
[34] Republic of Rwanda, *The Constitution of Rwanda 2003 with Amendments through 2015.* Republic of Rwanda (2003).

to other institutions. The Ministry of Finance and Economic Planning, the National Bank of Rwanda, Cabinet, Office of the Auditor General and Parliament ensure proper management of public debt in Rwanda. The National Bank of Rwanda advises the Ministry of Finance and Economic Planning on the risk and cost implications on the different types of loans. The office of the Auditor General ensures that the total debt contracted has been effectively utilized and performs audit on all public finances in Rwanda. The Cabinet and Parliament approve loans and play an oversight role on debt management.[35]

Rwanda's Medium Term Debt Management Strategy (MTDMS) for the period 2019/20-2021/22 indicates that the debt strategy which has been implemented for the period assumed a larger share of concessional external debt was a cost effect strategy. Further, the strategy ensured that the debt contracted had longer maturity periods thus reducing the rollover risk but on the other hand exposed the country to high foreign exchange rate risk. On domestic debt, the strategy seeks to issue treasury bond as opposed to treasury bills in order to lengthen the debt maturity period thus reducing rollover risk on domestic debt.[36] Particularly, the proportion of Rwanda's treasury bills is higher than that of treasury bonds and thus the choice to reduce treasury bills is an effective debt management strategy.

4. DEBT COMPOSITION IN EAC COUNTRIES

This section outlines the composition of debt contracted from external sources (external debt) and that which is contracted from within a country (domestic debt). External debt is sourced from multilateral lenders, bilateral lenders and commercial loans. Domestic debt is sourced from the public in form of treasury bills and treasury bonds. The section also provides an assessment of risks that the existing debt poses to debt sustainability in EAC.

4.1. Uganda

Over the years, Uganda's proportion of domestic debt contracted is lower than the proportion of external debt contracted. In 2020/2021 total domestic debt accounted for 36.6 percent of total debt whereas external debt accounted for 63.4 percent of total debt. Uganda's domestic debt comprised of 19 percent treasury bills (364 days, 182 days and 91 days' bills) while 81 percent of domestic debt was held in treasury bonds. The 10 year and 15-year treasury bonds constituted the largest share of domestic debt which is in line with Uganda's target of reducing refinancing

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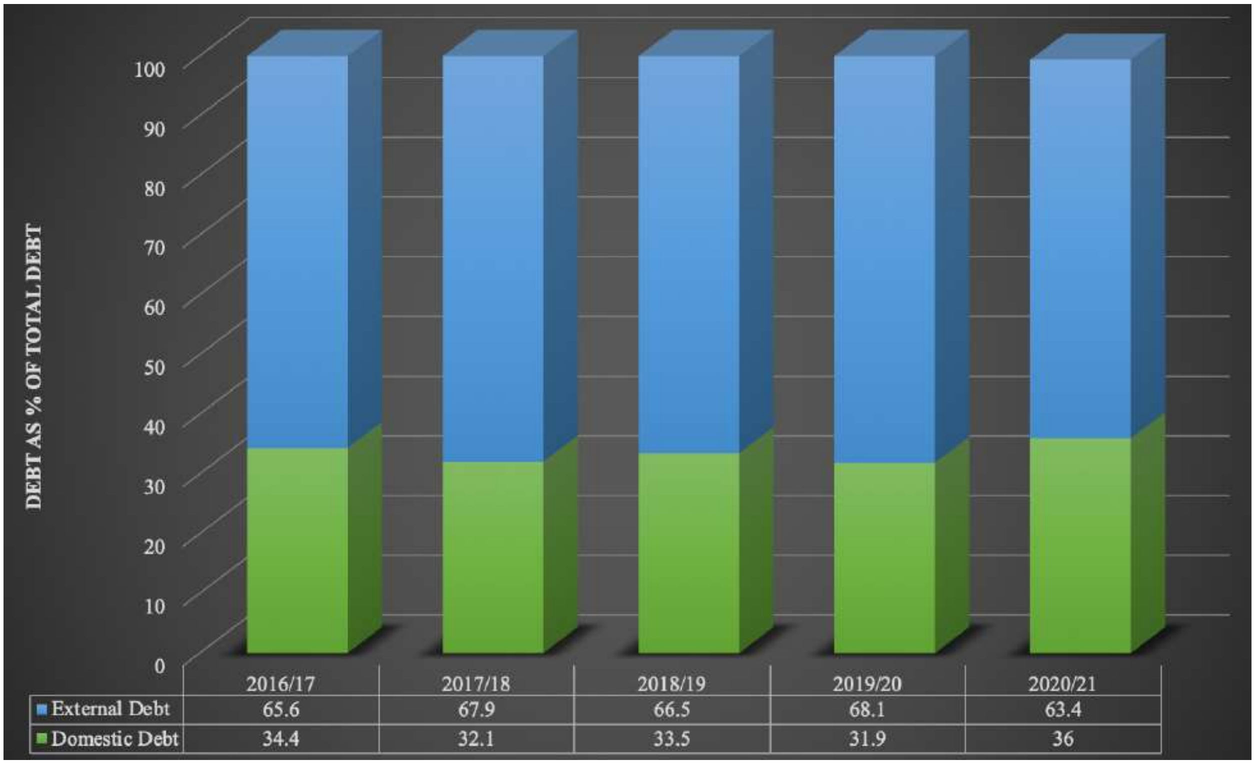
[35] Republic of Rwanda, *The Constitution of Rwanda 2003 with Amendments through 2015.* Republic of Rwanda (2003).
[36] Government of Rwanda, Medium Term Debt Management Strategy FY 2019/20-2021/22. Ministry of Economics & Finance (2021).

risk through issuance of longer-term domestic debt instruments.[37] This strategy is effective in managing sustainable public debt in Uganda.

Figure 2: External and Domestic Debt Composition in Uganda



Source: Various sources[38]

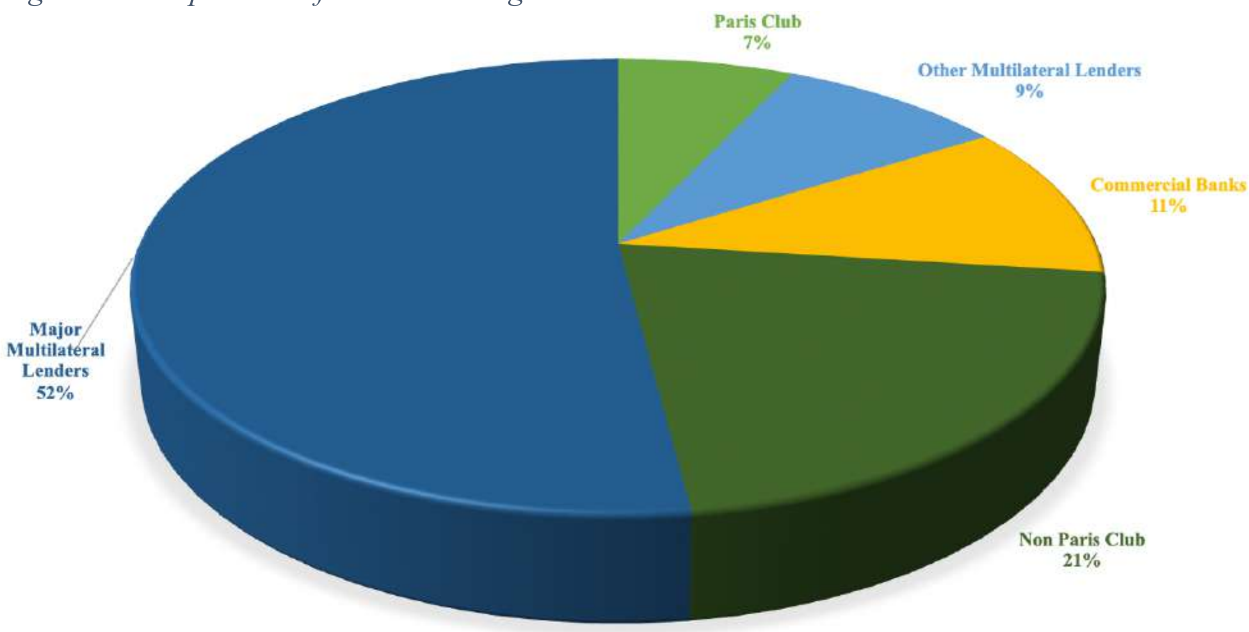
External debt was 63.4 percent of total debt. The highest external debt was obtained from major multilateral lenders including International Development Association (IDA) of the World Bank, other multilateral lenders contributed 9.0% of total external debt, bilateral lenders: non-Paris club members contributed 20.1 percent while Paris club members contributed 7 percent of the total debt; and commercial banks contributed 11 percent of total external debt as shown in figure 3. It is important to note that while most of Uganda's debt is still held in concessional and semi concessional terms, the share of commercial debt significantly rose from 7.58 percent in 2020 to 11.2 percent in 2021.[39] The rise is commercial external debt is likely to pose an exchange rate risk because it is held in foreign currency. The debt contracted over the years by the government of by Uganda has been used for substantial investments in the Sustainable Development of Petroleum, Integrated Transport, Sustainable Energy Development, Infrastructure Services, Natural

[37] Republic of Uganda, *MEDIUM TERM DEBTMANAGEMENT STRATEGY 2022/23 - 2025/26.* Ministry of Finance, Planning and Economic Development (2022).
[38] Republic of Uganda, *MEDIUM TERM DEBT MANAGEMENT STRATEGY 2022/23 - 2025/26.* Ministry of Finance, Planning and Economic Development (2022).
[39] Republic of Uganda, *MEDIUM TERM DEBTMANAGEMENT STRATEGY 2022/23 - 2025/26.* Ministry of Finance, Planning and Economic Development (2022).

Resources, Environment, Climate Change, Mineral Development, Land and Water Management, and Resources programs well as to Mitigate the COVID-19 measures.[40]

Uganda's Public Debt Composition

Figure 3: Composition of External in Uganda



Source: Various sources[41]

4.2. Kenya

Kenya has sustained a near balance between domestic and external debt. As illustrated in figure 4 in 2015 the domestic debt was 50% and so was the external debt. The external debt has been rising overtime and in 2020, the total external debt was 52.5% while domestic debt accounted for 47.5% of total debt. According to the 2021 annual debt report, domestic debt in Kenya largely comprised of treasury bonds and bills with a proposed debt strategy of treasury bills to Treasury bonds ratio of 30:70 that the government has maintained since 2010.[42] Treasury bills are short-term domestic debt instruments that mature in 91, 182 or 364 days while treasury bonds are medium-term to long-term domestic debt instruments with maturities ranging from 1 year to 30 years. The proportion of treasury bills to the total treasury instruments slightly increased from 22.5 per cent in 2015 and then rose to 27.9 per cent in 2020, having reached a high of 35.0 percent in

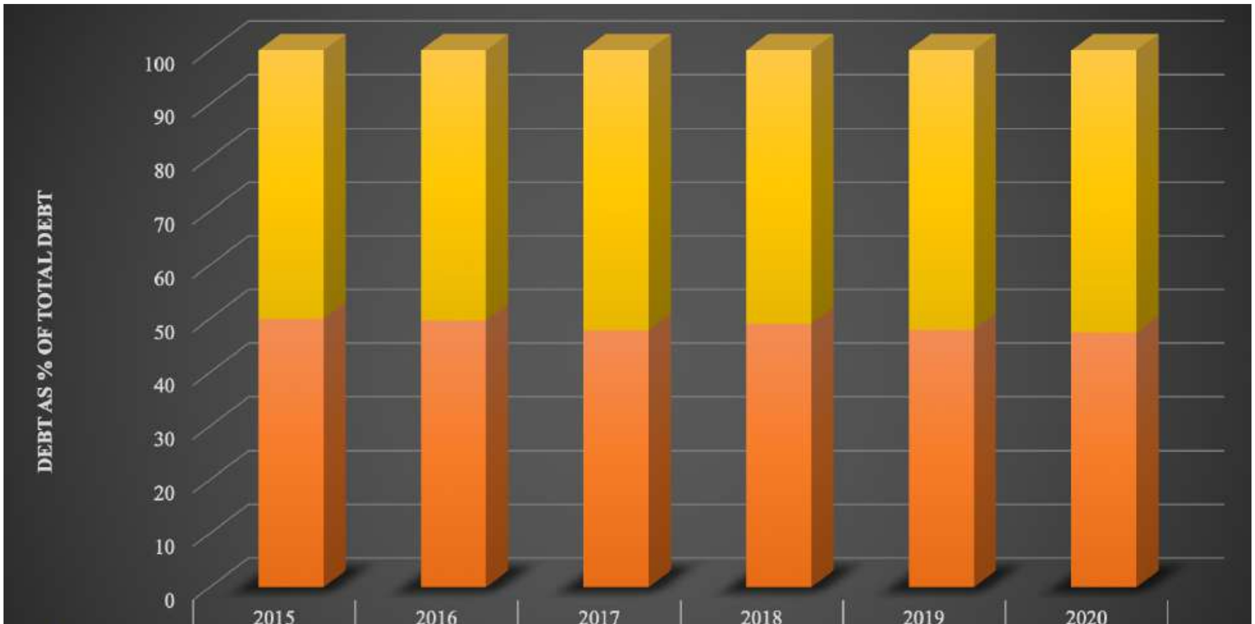
[40] Republic of Uganda, REPORT ON PUBLIC DEBT, *GUARANTEES, OTHER FINANCIAL LIABILITIES AND GRANTS FOR FY 2019/20 AND THE MEDIUM-TERM DEBT MANAGEMENT STRATEGY 2020/21 – 2023/24.* Ministry of Finance, Planning and Economic Development (2020).

[41] Republic of Uganda, *MEDIUM TERM DEBTMANAGEMENT STRATEGY 2022/23 - 2025/26.* Ministry of Finance, Planning and Economic Development (2022).

[42] Republic of Kenya*, Public Debt Management Report 2020/2021*. The National Treasury and Planning (2021).

the period between 2017 and 2019 as shown in figure 4. Notably, treasury bonds constituted the largest proportion of domestic debt in Kenya between 2010 and 2020.[43] The strategy was adopted to extend debt maturities thus reducing rollover risk.

Figure 4: Composition of External and Domestic Public Debt



	2015	2016	2017	2018	2019	2020
External Debt	50	50.3	52.1	50.9	52	52.5
Domestic Debt	50	49.7	47.9	49.1	48	47.5

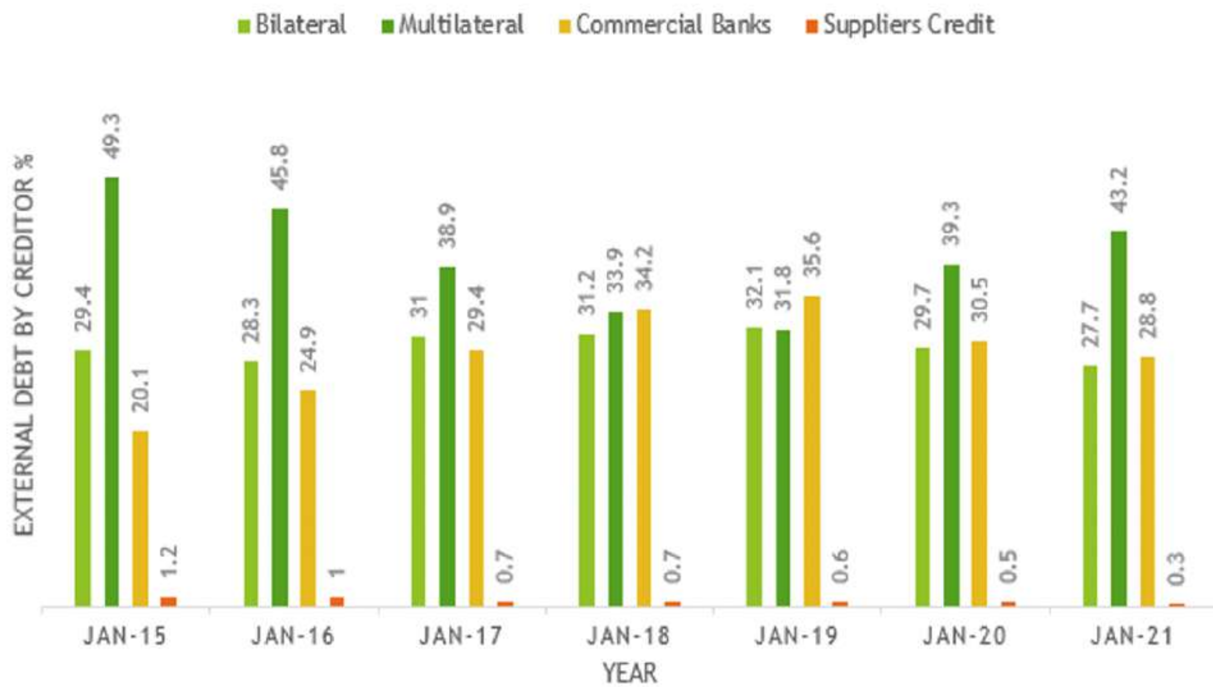
Source: Various sources[44]

In Kenya, external debt is mainly obtained from multilateral lenders, bilateral lenders, commercial banks and suppliers credit as shown in figure 5. At the end of 2021 Kenya's multilateral creditors and bilateral creditors, accounted for approximately 43.2 percent and 27.7 percent of external debt respectively. Of Kenya's multilateral debt, International Development Assistance (IDA) is the main multilateral lender with a total contribution of 28 percent of total external debt. On the other hand, China is the largest multilateral lender contributing 19.9 percent of total external debt. Loans from China are used for infrastructure development purposes, particularly construction of the Standard Gauge Railway (SGR) project. Commercial debt mainly exports credits and Eurobonds accounted for 28 percent of external public debt. It is important to note that Eurobond accounted for 64 percent of commercial debt, while syndicated debt represented about 30 percent of commercial debt.[45] Between 2015 and 2021, the multilateral loans have declined whereas the commercial loans have increased. The commercial loans in Kenya have

[43] Republic of Kenya, *2022Medium Term Debt Management Strategy*. The National Treasury and Planning (2021)
[44] Republic of Kenya, *ANNUAL PUBLIC DEBT REPORT 2020/2021*.The National Treasury and Planning (2021).
[45] Republic of Kenya, *ANNUAL PUBLIC DEBT REPORT 2020/2021*.The National Treasury and Planning (2021).

increased from 20.1 percent to 28.8 percent. The highest commercial loans were attained in 2019 and they contributed to 35.6 percent of total external debt as shown in figure 5.

Figure 5: External Debt by Creditor in Kenya



Source: Various sources.[46]

4.3. Rwanda

The largest share of Rwanda's external debt is held in multilateral debt at 69 percent, followed by commercial debt at 20 percent and the least is bilateral debt at 11 percent as shown in figure 6. During the period 2014/15 to 2018/19, Rwanda's total external debt stock increased tremendously due to a large portion of concessional loans with long grace period. Multilateral debt from International Development Association (IDA), and International Fund for Agricultural Development (IFAD) held the largest proportion of the debt stock from around USD 1.24 billion in 2014/15 to around USD 3.70 billion, representing an increase of USD 0.61 billion on average annually.[47] In 2014/15, commercial debt was USD 0.49 billion including Eurobond of USD 0.34 billion and guaranteed debt of USD 0.05 billion. Total commercial debt further increased in 2016/17 due to purchase of two new airbuses costing USD 0.17 billion and the contracting of USD 0.13 billion for completion of Kigali Convention Centre (KCC) in 2016. Bilateral debt increased

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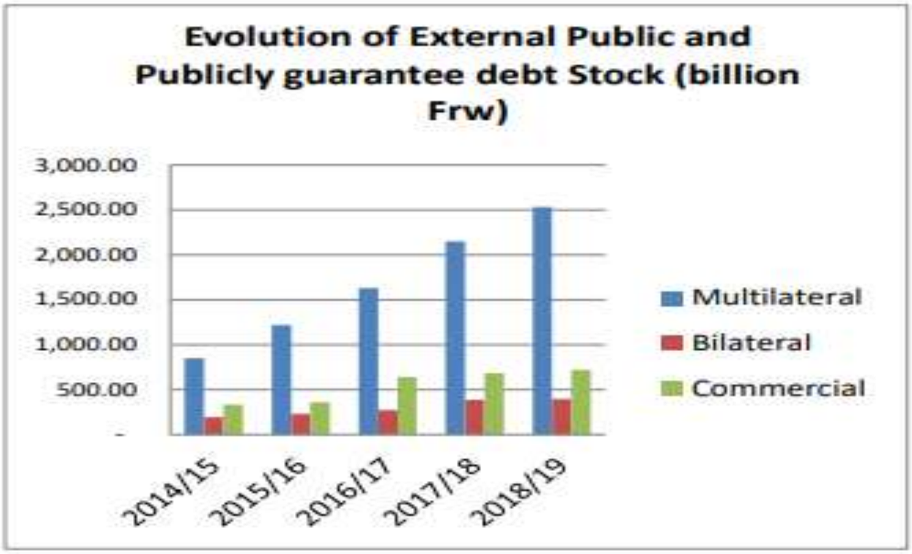
[46] Republic of Kenya, *ANNUAL PUBLIC DEBT REPORT 2020/2021*.The National Treasury and Planning (2021).
[47] Republic of Rwanda, *Rwanda Medium Term Debt Strategy*. Ministry of Economics and Finance of Rwanda (2019).

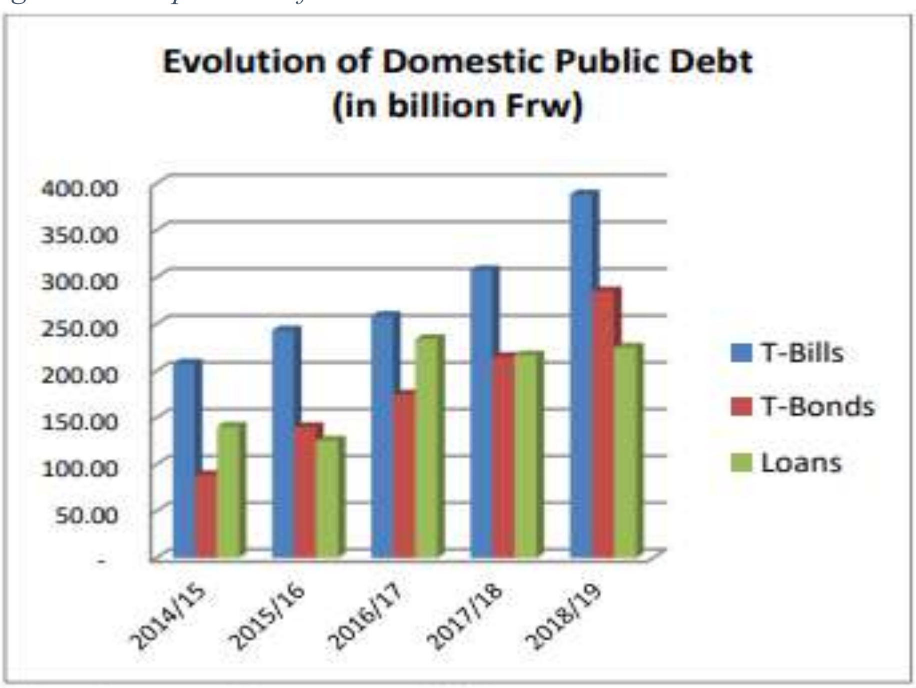
by USD 0.22 billion between 2014/15 to 2018/19. The increase in bilateral debt is driven by increased debt from EXIMINDIA, JICA and EXIMINDIA.

Figure 6: Composition of External Public Debt in Rwanda



Source: Various sources[48]

Figure 7: Composition of Domestic Public Debt in Rwanda



Source: Various sources[49]

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[48] Republic of Rwanda, *Rwanda Medium Term Debt Strategy*. Ministry of Economics and Finance of Rwanda (2019).
[49] Republic of Rwanda, *Rwanda Medium Term Debt Strategy*. Ministry of Economics and Finance of Rwanda (2019).

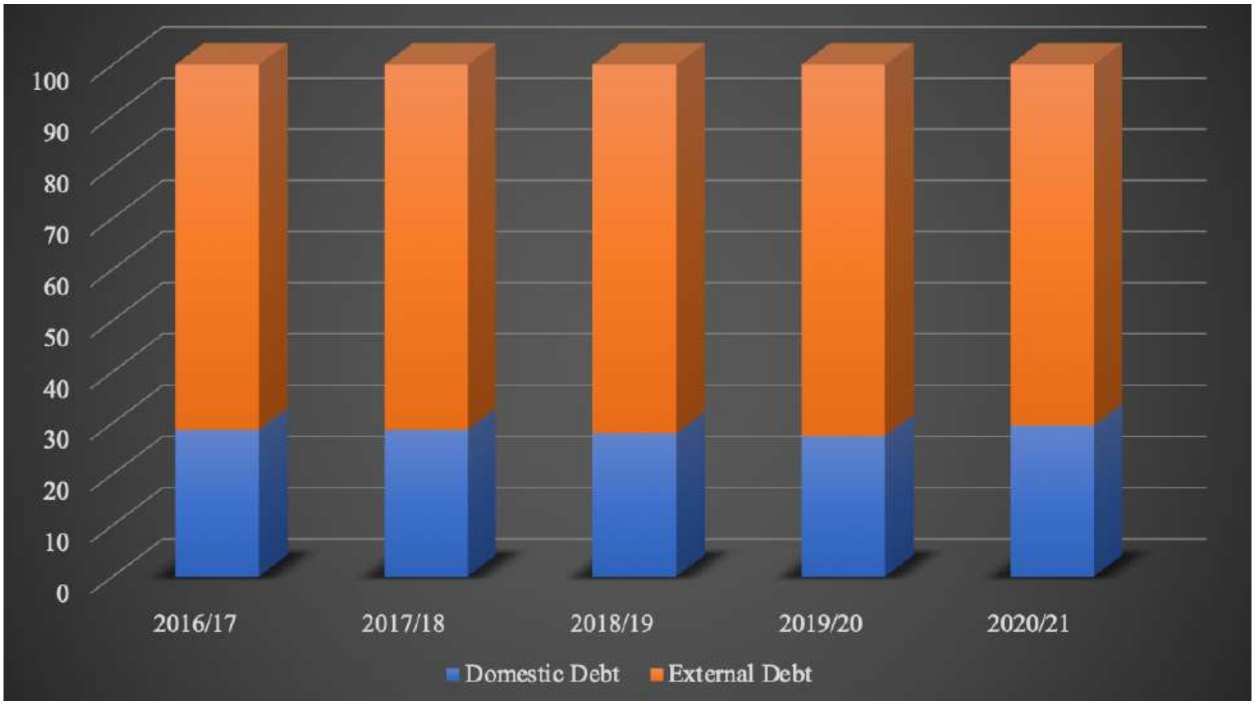
On domestic debt, Rwanda's major source of domestic debt is issuance treasury bills, followed by treasury bonds and the least is issuance of loans from State Owned Enterprises as shown in figure 7. The Government of Rwanda implemented a debt policy that aimed at increasing long term domestic securities which are treasury bonds. As indicated in the figure, there is an increasing trend of treasury bonds from USD 0.12 billion in June 2015 to USD 0.31 billion in June 2019, a substantial increase of 222 percent which is attributed to quarterly bond issuance and reopening mechanism which begun in 2017/18. The stock of treasury bills has been also increased from USD 0.29 billion in June 2015 to USD 0.43 billion in 2018/19 an increase of 87 percent explained by the cash flow needs.[50] It is important to note that the high proportion of treasury bills in Rwanda is likely to increase the rollover risk because the maturity period of treasury bills is 91, 182 or 364 days. It is thus important for the Rwandan government to issue a higher proportion of treasury bonds with longer maturity periods to mitigate the rollover risk.

4.4. Tanzania

The Government of Tanzania has maintained an average of 28.5 percent of domestic debt and 71.5 percent of external debt between 2016/17 to 2020/21 as shown in figure 8. At the end of 2021, total external debt was 70.5 percent of total debt while domestic debt amounted to 29.5% of total debt. The domestic debt constituted treasury bonds and treasury bills. However, treasury bonds constituted 70.2 percent of total domestic debt whereas treasury bills constituted 29.8 percent of total domestic debt. Tanzania's Medium Term Debt Strategy of 2021 indicates that treasury bonds will increase to 72 percent in 2022/23 from 70.2 percent and treasury bills will reduce to 28 percent of total domestic debt.[51] This strategy is expected to reduce Tanzania's refinancing risk thus developing the domestic market. However, this strategy is likely to raise the cost of debt.

[50] Republic of Rwanda, *Rwanda Medium Term Debt Strategy*. Ministry of Economics and Finance of Rwanda (2019).
[51] United Republic of Tanzania, *Medium Term Debt Management Strategy.* Ministry of Finance and Planning (2021).

Figure 8: Composition of External and Domestic Debt in Tanzania



Source: Various sources[52]

In 2021, multilateral debt constituted the highest proportion of external debt at 56.6 percent followed by bilateral debt at 22.1percent, commercial debt followed at 13.2 percent and export credit constituted 8.1 percent of total external debt as shown in figure 9. It is important to note that the continuous declining trend of financing from concessional creditors and government's commitments to finance development projects, necessitated increased access to non-concessional sources in recent years Tanzania.[53] As a result, the share of non-concessional debt increased from 7.2 percent in June 2011 to 44.5 percent of external debt in June 2020. The increase in non-concessional financing in Tanzania is likely to expose the country to greater liquidity risks as well as rise its interest rate burden which may reduce Tanzania's fiscal space.

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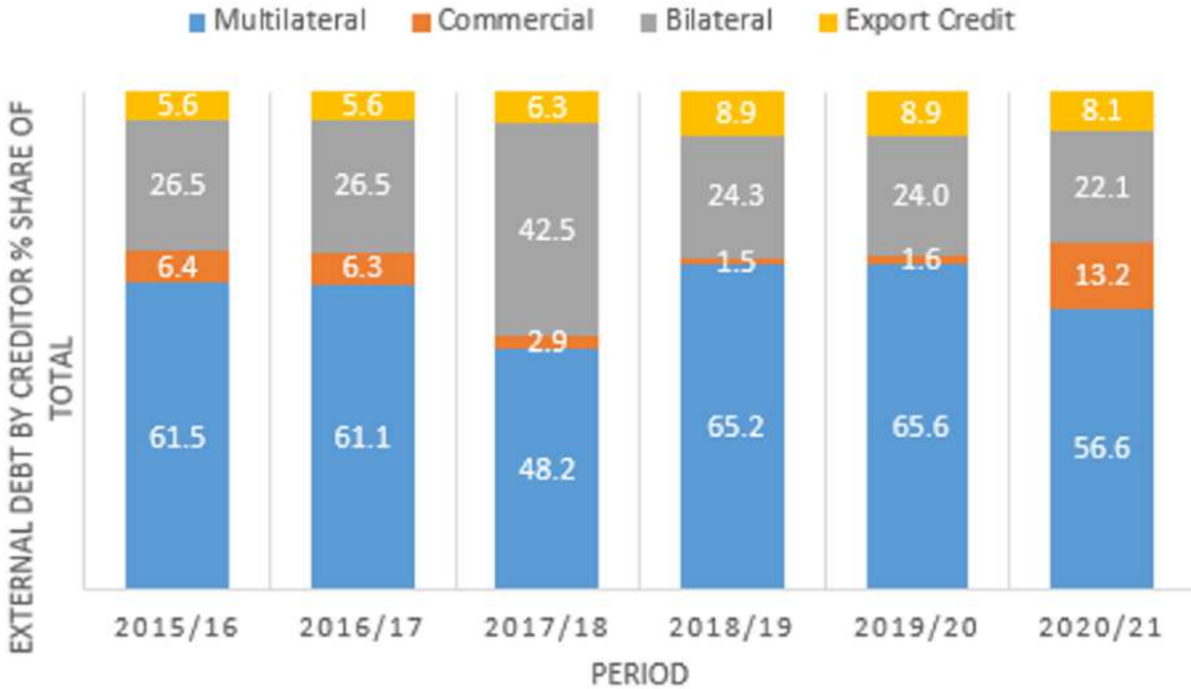
[52] Bank of Tanzania, *Annual Report 2020/21*. Bank of Tanzania (2021), Bank of Tanzania, *Annual Report 2019/20*. Bank of Tanzania (2020), Bank of Tanzania, *Annual Report 20218/19*. Bank of Tanzania (2019), Bank of Tanzania, *Annual Report 2017/18*. Bank of Tanzania (2018), Bank of Tanzania*, Annual Report 2016/17.* Bank of Tanzania (2017).
[53] United Republic of Tanzania, *Medium Term Debt Management Strategy.* Ministry of Finance and Planning (2021).

Figure 9: Composition of External Debt by Creditor in Tanzania



Source: Various sources[54]

5. MEASURES UNDERTAKEN BY EAST AFRICAN COUNTRIES TO MANAGE PUBLIC DEBT TO ENSURE DEBT SUSTAINABILITY

This section contains measures that East African countries have adopted to ensure that their public debt is sustainable.

5.1. Uganda

Given Uganda's relatively low revenue collection, the Government of Uganda has implemented the Medium-Term Domestic Revenue Mobilization Strategy (DRMS) which aims to increase revenue collected by 0.5% per annum. The DRMS outlines key tax policy reforms such as tax administration, strengthened tax compliance and rationalization of exceptions.[55] An increase in revenue collected will reduce the fiscal deficit thus reducing the need to contract debt. On the

[54] Bank of Tanzania, *Annual Report 2020/21*. Bank of Tanzania (2021), Bank of Tanzania, *Annual Report 2019/20*. Bank of Tanzania (2020), Bank of Tanzania, *Annual Report 20218/19*. Bank of Tanzania (2019), Bank of Tanzania, *Annual Report 2017/18*. Bank of Tanzania (2018), Bank of Tanzania, *Annual Report 2016/17.* Bank of Tanzania (2017).
[55] Republic of Uganda, *Domestic Resource Mobilization Strategy FY 2019/20-2023/24.*Ministry of Finance, Planning and Economic Development (2021).

expenditure side, the Ugandan government aims at following a fiscal consolidation path which will reduce total government expenditure in the medium term. Furthermore, the Government seeks to reduce the cost of debt by prioritizing the use concessional financing since concessional loans have a lower interest rate and the repayment period ranges between 3-10 years. Additionally, government is working towards decreasing domestic debt for deficit financing to not more than 1 percent of GDP over the medium term so as to reduce its expenditure on high interest payments arising out of domestic debt and reduce crowding out of private investment.[56]

5.2. Kenya

Kenya's National Treasury has commenced the preparation of the Medium-Term Revenue Strategy (MTRS) which strengthen revenue mobilization.[57] Moreover, the government has implemented a national tax policy that seeks to enhance tax growth. The various objectives outlined in the national tax policy include; enhancement of information sharing and gathering, establishment of coherence in light of amendments of the national tax law, provision of a legal framework to introduce tax incentives and management of tax funds.[58] Furthermore, the National Treasury has developed draft guidelines for the operationalization of the sinking fund in conformity with Regulation 206 (1) of the Public Finance Management (National Government) Regulations, 2015.[59]

The sinking fund will set aside money for gradual debt repayment thus providing timely redemption of government securities and other expenses. The guidelines will be subject to public participation process in conformity to the Section 16 of the Statutory Instruments Act, 2013 before submission to Parliament for consideration and approval. Besides, the Government of Kenya applied to participate in the G20 Debt Service Suspension Initiative (DSSI) during COVID-19 and its impact on the economy. The DSSI yielded debt service suspension of USD 391.9 Million. Further, the Government applied to participate in Phase II of the DSSI for period between July to December 2021.[60] The debt re-arrangement initiative sought to lower the debt servicing ratio over the medium term and improve debt sustainability. To strengthen public debt management, the government has put measures to promote public debt reporting that will mitigate refinancing risks and lengthen debt maturities. Another important measure by the Government of Kenya is the establishment of the Public Debt Management Office (PDMO) to oversee debt management as proposed in the Public Finance Management Act of 2012. The Central Bank of Kenya together

[56] Republic of Uganda, *BACKGROUND TO THE BUDGET 2022/23 FISCAL YEAR.* Ministry of Finance, Planning and Economic Development (2022).

[57] Republic of Kenya, *Medium Term Debt Management*. The National Treasury and Planning (2021)
[58] Republic of Kenya, *National Tax Policy.* National Treasury and Planning (2022).
[59] Republic of Kenya, *PUBLIC DEBT AND BORROWING POLICY.* National Treasury and Planning (2020).
[60] Republic of Kenya, *Annual Public Debt Report*. National Treasury and Planning (2021).

with the national treasury have developed the Central Securities Depository System thus maintaining a smooth yield curve for domestic debt securities such as Treasury Bonds and Bills.[61]

5.3. Rwanda

The Government of Rwanda strengthened its institutional framework to manage fiscal risks by establishing a new Organic Budget Law (OBL). The Organic Budget Law will harmonize financial reporting on public debt for all public institutions, including State Owned Enterprises (SOEs), to the fiscal year, and establish deadlines for the publication of financial statements and sanctions for non-compliance.[62] Rwanda has restructured its debt to mitigate debt risks. For instance, the government issued a Eurobond amounting to USD 620 million. The proceeds were used pay existing Eurobond amounting to USD 400 million that was due to mature in the financial year 2022/2023 and also the repayment of Rwanda Airbus Loans (USD 101million). Additionally, Rwanda restructured its KCC external loan payment using long term domestic debt instrument. On domestic resource mobilization, Rwanda has developed a Medium-Term Revenue Strategy (MTRS) that will be supported by the new tax policy directorate. The tax policy and administration measures under the MTRS are expected to yield 1 percent of GDP effectively by the year 2022/2023.[63] On expenditure rationalization, the Government seeks to follow a fiscal consolidation path to reduce its total expenditure. Increased revenue mobilization and reduced expenditure will reduce fiscal deficits thus reduce the need to borrow. Notably, Rwanda majorly contracts concessional loans with longer repayment period.[64]

5.4. Tanzania

Like other EAC countries, Tanzania also applied for Debt Service Suspension Initiative (DSSI) during the COVID-19 period. The country obtained a debt relief amounting to USD 102 million which constituted of USD 99.5 million from the Exim Bank of China and USD 2.6 million from the French Development Agency.[65] Furthermore, the Tanzanian government offers domestic securities with longer maturities to reduce the refinancing risk and lengthen the repayment period. In the year 2022, the government introduced a 25-year Treasury Bond in line with its medium-term debt management strategy.[66] This strategy seeks to ensure that refinancing risk associated with short term debt are reduced by lengthening the debt repayment. It is important to note that the government of Tanzania has always maximized financing from concessional and semi concessional sources while restricting commercial borrowing to projects that have a higher return

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[61] Republic of Kenya, *Medium Term Debt Management Strategy*. National Treasury and Planning (2022).
[62] The Government of Rwanda, *MINISTRY OF FINANCE AND ECONOMIC PLANNING (MINECOFIN) AUDIT REPORT FOR THE YEAR ENDED 30 JUNE 2017.*Ministry of Finance and Economic Planning (2017).
[63] Government of Rwanda, Rwanda Medium Term Debt Management Strategy
[64] International Monetary Fund. IMF and World Bank (2021).
[65] United Republic of Tanzania, *MEDIUM TERM DEBT MANAGEMENT STRATEGY. Ministry of Finance (2021)*
[66] United Republic of Tanzania, *MEDIUM TERM DEBT MANAGEMENT STRATEGY. Ministry of Finance (2021)*

on economic growth. This is in line with the government debt policy to reduce risks associated with commercial loans such as exchange rate risk and also in order to reduce public debt vulnerabilities.

6. CONCLUSION AND RECOMMENDATIONS

The findings indicate that EAC countries have established legal and institutional frameworks to manage their debt and to ensure it is sustainable. The findings also show that EAC countries have been contracting more external debt as compared to domestic debt thus exceeding the 50% threshold. But contraction of commercial loans has been increasing from the year 2019/2020 to finance the ongoing infrastructure projects and other developmental projects. The results of the analysis show that domestic debt being contracted by Uganda, Kenya and Tanzania is majorly in treasury bonds. On the other hand, in Rwanda a higher proportion of treasury bills have been contracted as compared to treasury bonds. This implies that Rwanda has a higher rollover risk of domestic debt as compared to Uganda, Tanzania and Kenya. The Medium-Term Debt Management Strategy for Rwanda for the period 2018/19 -2020/21 sought to contract more treasury bonds as compared to treasury bills to have debt with a longer maturity period.

EAC countries' debt has been rising steadily over time due to factors such as increased fiscal deficits, financing investment projects and curbing COVID-19 fiscal shocks which made governments borrow to finance emerging expenditures. To ensure debt sustainability in EAC various measures have been adopted. For instance, Tanzania, Kenya, Uganda and Rwanda applied for Debt Suspension Initiative (DSSI) in 2020 to suspend their debt repayments to a later date. Moreover, the countries have developed revenue mobilization strategies like introduction of new taxes, tightening tax measure to avoid tax evasion among others with an aim of increasing revenue collected. Further, EAC countries have established debt management offices to ensure prudent management and reporting on public debt. Besides, the countries have embarked on their fiscal consolidation plans to ensure that their expenditures are prioritized. Domestically, EAC countries have adopted use of long-term domestic securities. For instance, Tanzania has introduced a 25-year treasury bond ensures that domestic debt has a longer maturity period thus reducing rollover risk. Despite the efforts to sustain debt, the EAC countries have breached some of the public debt indicators. For example, Kenya has breached its external debt to exports ratio and external debt service to exports ratio. This implies that its public debt sustainability position is likely to worsen in case of any economic shock.

To address concerns on debt sustainability in EAC, the following recommendations are provided:

1. Parliament should play a key role in the whole debt contracting process including budget planning, execution, approval and oversight of debt to ensure that debt contracted is put in effective use and it is within the legal borrowing framework of a

country. Parliament should approve ready and feasible projects whose return is higher that the debt interest rates.

2. The supreme audit institutions, such as office of the Auditor General in Kenya, Uganda and Rwanda and National Audit office in Tanzania should ensure that measures which are proposed for implementation in the medium-term debt management strategies are adhered to. For instance, in Kenya and Uganda the fiscal consolidation measure has always been proposed but its implementation has not been fully taken into consideration.

3. All EAC countries should adhere to the EAC convergence protocol which requires its members to have a head inflation ceiling of 8%, fiscal deficit ceiling of 3% of GDP, Gross Public Debt ceiling of 50% of GDP and 4.5 months import cover. As of July 2022, none of the EAC countries has attained the EAC convergence protocol yet it was supposed to be achieved by 2021. the Adhering to the convergence protocol will not only help the countries achieve sustainable debt levels but also promote their adherence to country specific public debt laws.

4. The EAC countries should explore alternative financing measures such as private public partnerships (PPPs). The PPPs stimulate domestic capital accumulation, increase efficient use of resources, transfer cost risks to the private sector thus reducing public debt vulnerabilities associated with interest rate accumulation.

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