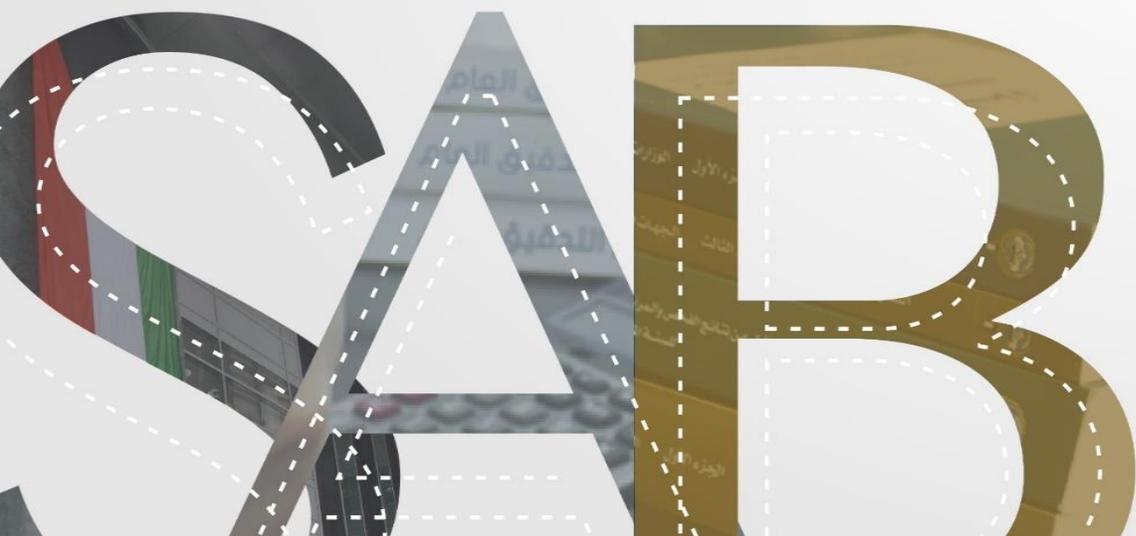


# The Role of the State Audit Bureau in Auditing Public Debt



ديوان المحاسبة  
State Audit Bureau

Since 1964م . منذ عام 1964م . الكويت





**What do you know  
about Kuwait?**



# About Kuwait

<b>Location</b>	Middle East, bordering the Persian Gulf, between Iraq & Saudi Arabia
<b>Total land</b>	17,820 sq km
<b>Climate</b>	Dry desert; intensely hot summers; short, cool winters
<b>Natural Resources</b>	Petroleum, Natural gas
<b>Population</b>	4.4 m. with immigrants accounting for more than 69.5%
<b>Median age</b>	29.4 years
<b>Literacy</b>	96 %
<b>GDP</b>	KD 40 Billion
<b>Industries</b>	Petroleum, Petrochemicals



# Main Topics

1

Introduction

2

History of the deficit in the general budget of Kuwait.

3

The legal framework and mechanisms regulating domestic and external borrowing

4

Reasons for resorting to direct borrowing and its impact on the State budget

5

The Role of the State Audit Bureau in auditing public debt.

# Introduction

The nature of financing the State  
general budget and its relation to the  
general reserve



ديوان المحاسبة  
State Audit Bureau

الكويت 1964م . منذ عام



# The State's revenues

The State general budget is financed from the collection of the oil revenues and other income, and part of that revenue is transferred to the Future Generations Fund (FGF).

**Oil revenues**  
Sales of crude oil, natural gas, oil products, & income taxation

**Non Oil revenues**

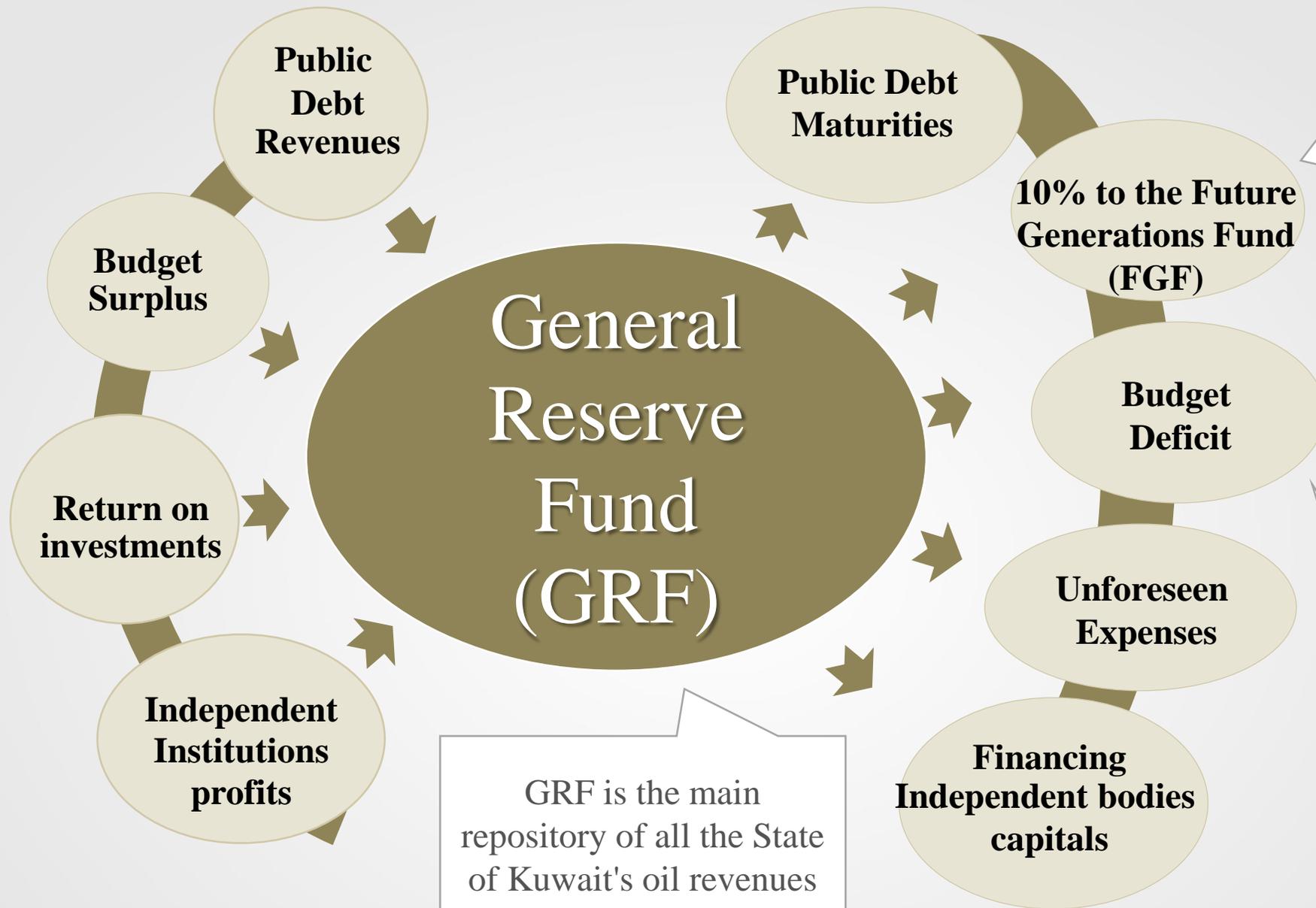
Income taxation from non-oil companies, taxes and fees on properties, goods, services, trading activities, capital revenues and other fees.

- 10% of the total budget income to be transferred to the Future Generations Fund (FGF).
- The Revenues are used for Budget Financing - Public expenditure

- The budget surplus shall be added to the General Reserve Fund, whereas the deficit gap shall be covered from the general reserve fund (GRF).



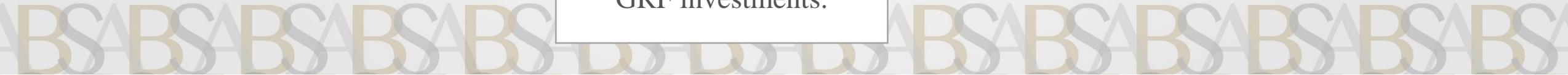




On annual basis a minimum of 10% of State Revenues & 10% of net income of the GRF are transferred to FGF

GRF is the main repository of all the State of Kuwait's oil revenues and income earned from GRF investments.

The GRF bears the implications on the final account for the fiscal years, whether surplus or deficit.



**10% of all  
State  
Revenues**

**10% of the  
net GRF  
income**

**Future  
Generation  
Fund  
(FGF)**

By law, a minimum of 10% of the all State revenues as well as 10% of the net GRF income are transferred to the FGF annually & all investment income is re-invested

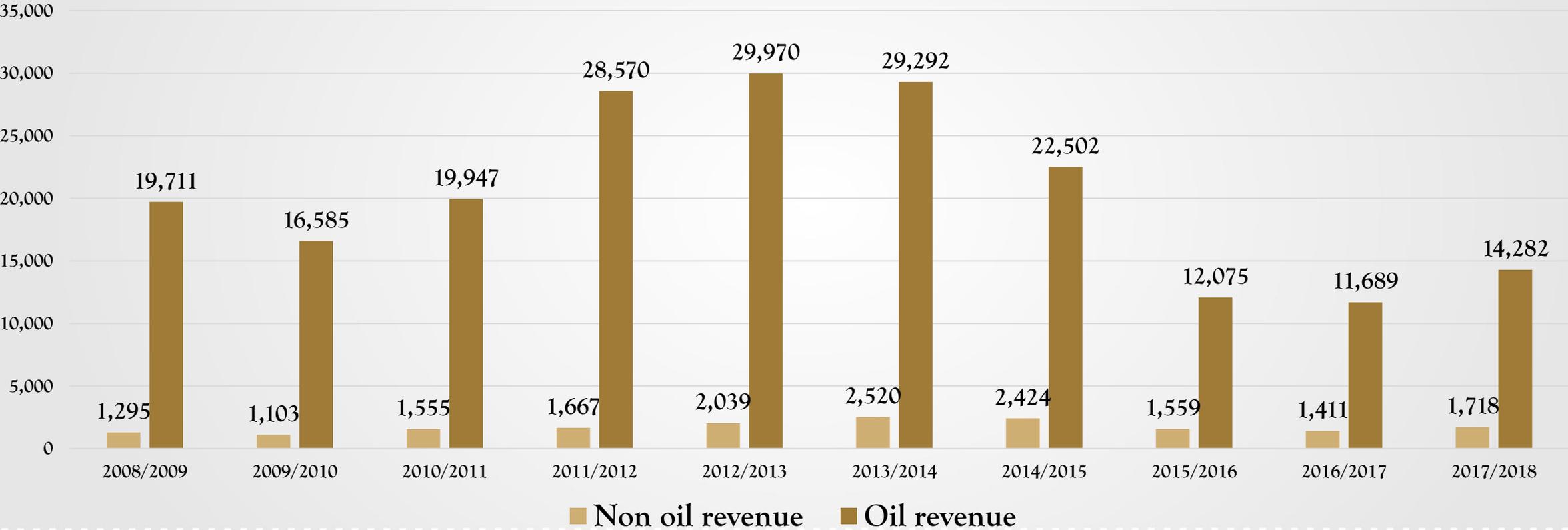
This percentage may NOT be reduced, and NO amounts may be deducted from the FGF

- FGF was created in 1976 by transferring 50% from the GRF at that time.
- It is the intergenerational saving platform managed by the Kuwait Investment Authority.



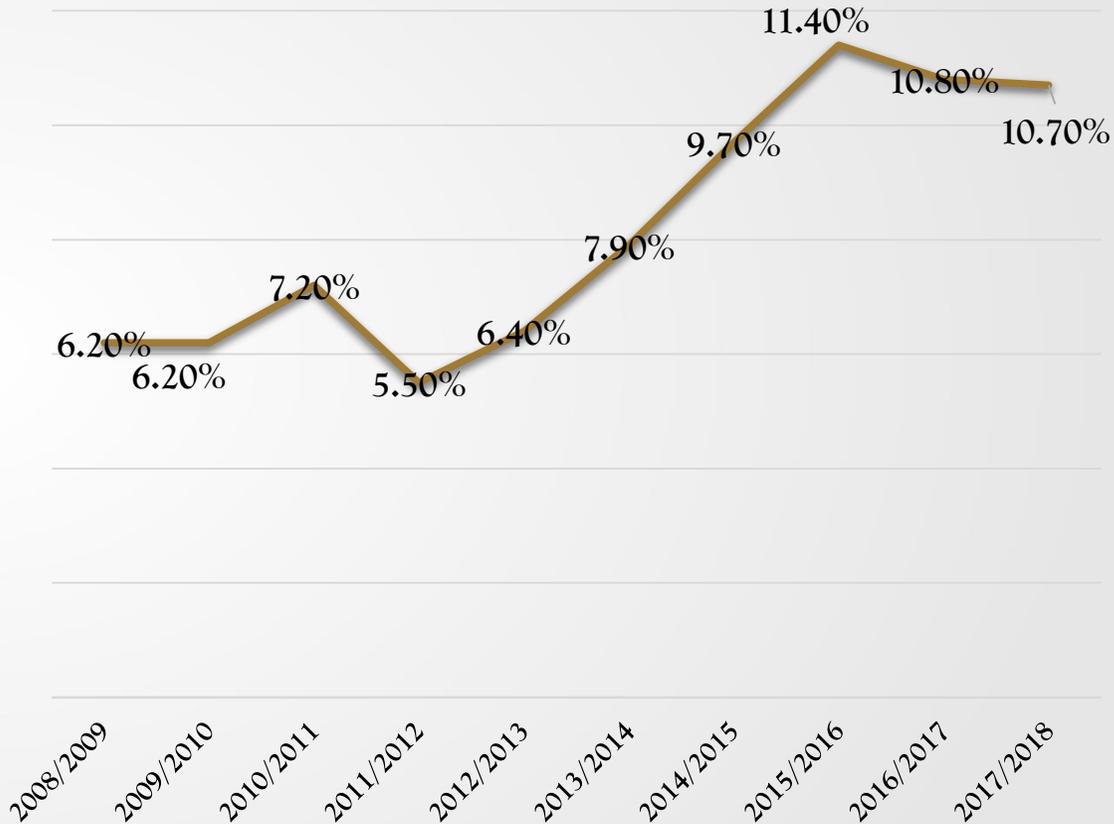
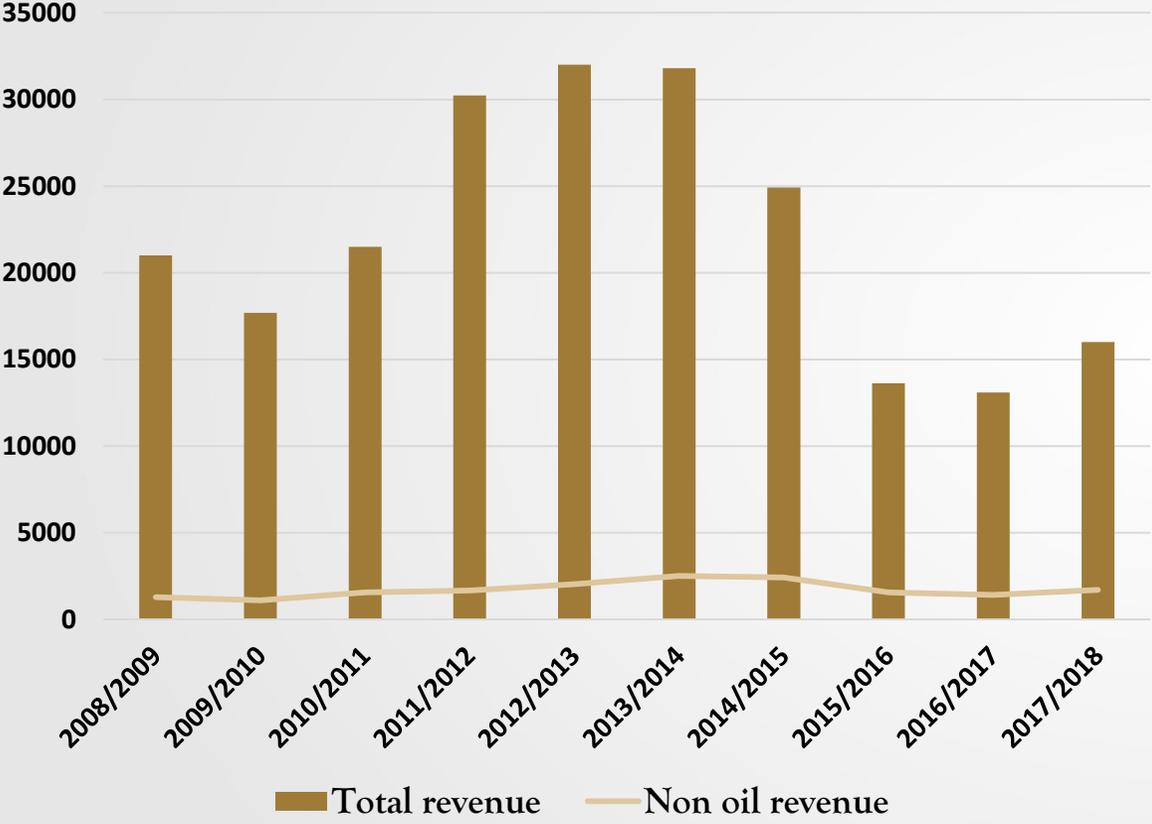
# Oil & Non Oil Revenue

The State budget depends almost exclusively on oil revenues, which represents 89.3% of the State total revenues. And The chart below details actual revenues according to their source:



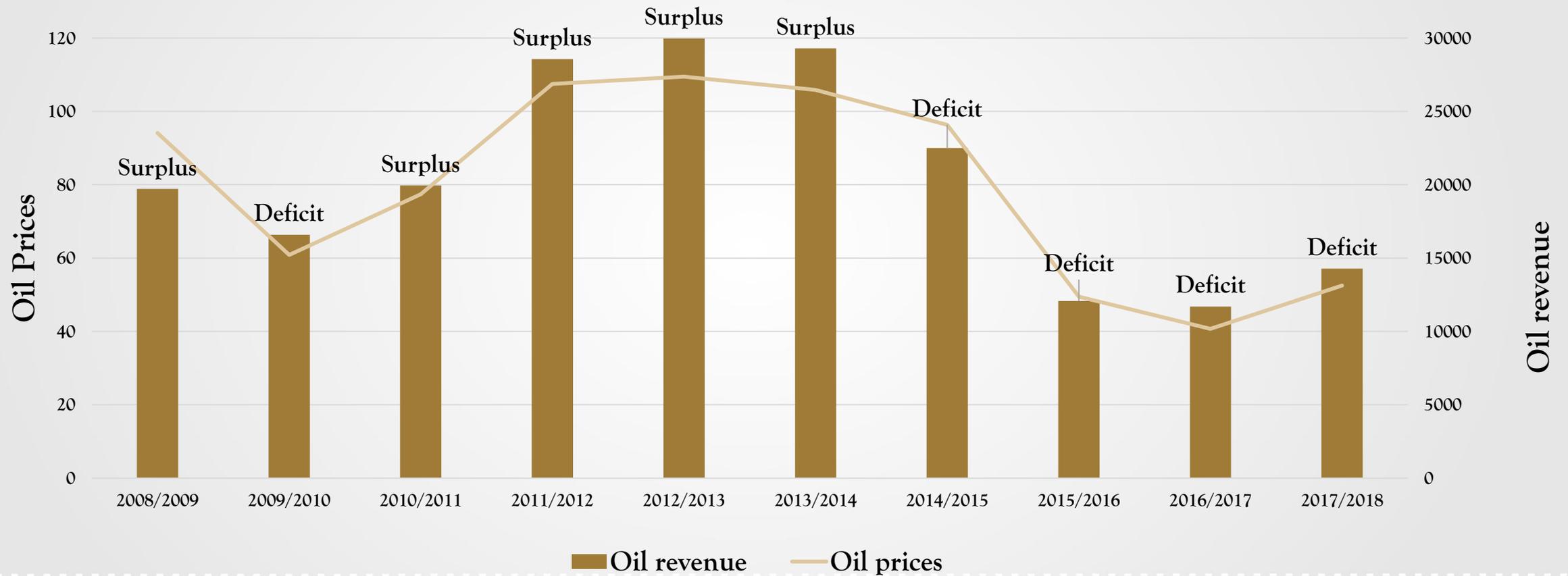
# Non Oil Revenue

The chart below shows the non oil revenue percentage of the total revenue:

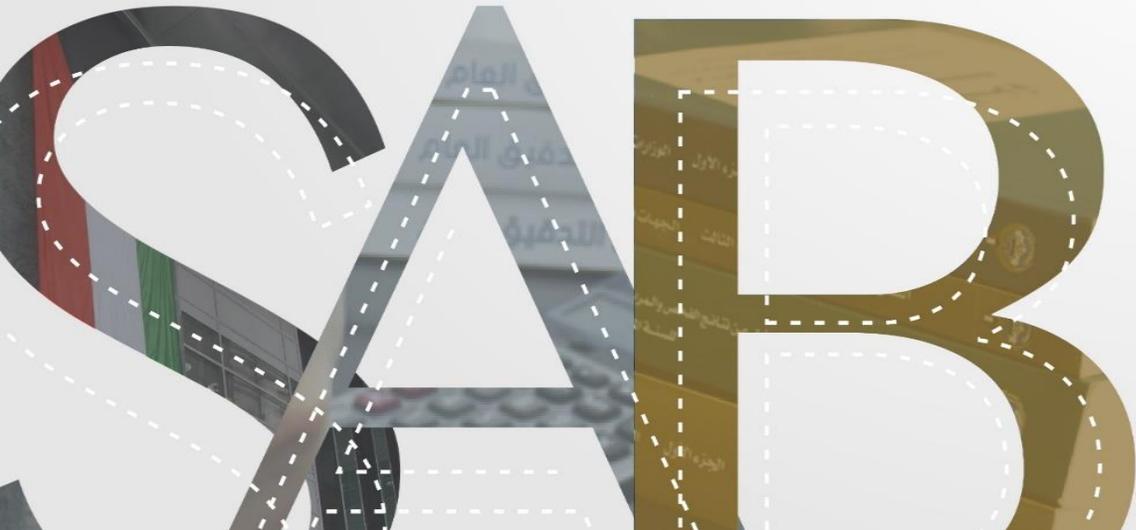


# Oil Prices

Over the last years, Kuwait had a huge financial surplus due to the increase of oil prices. And due to the fall of oil prices today, Kuwait is facing a financial deficits. The chart below explains this issue:



# History of the Deficit in the General Budget of Kuwait

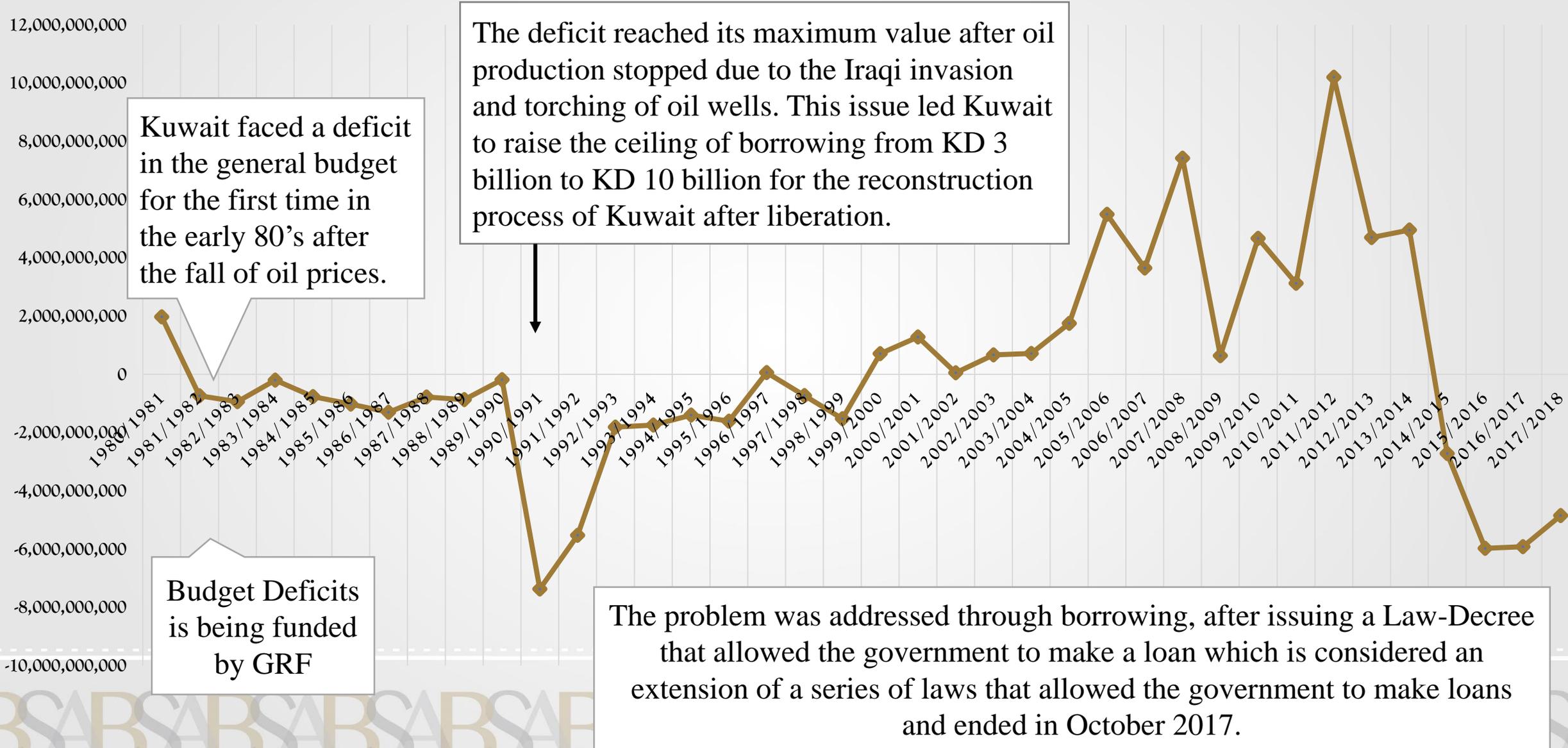


ديوان المحاسبة  
State Audit Bureau

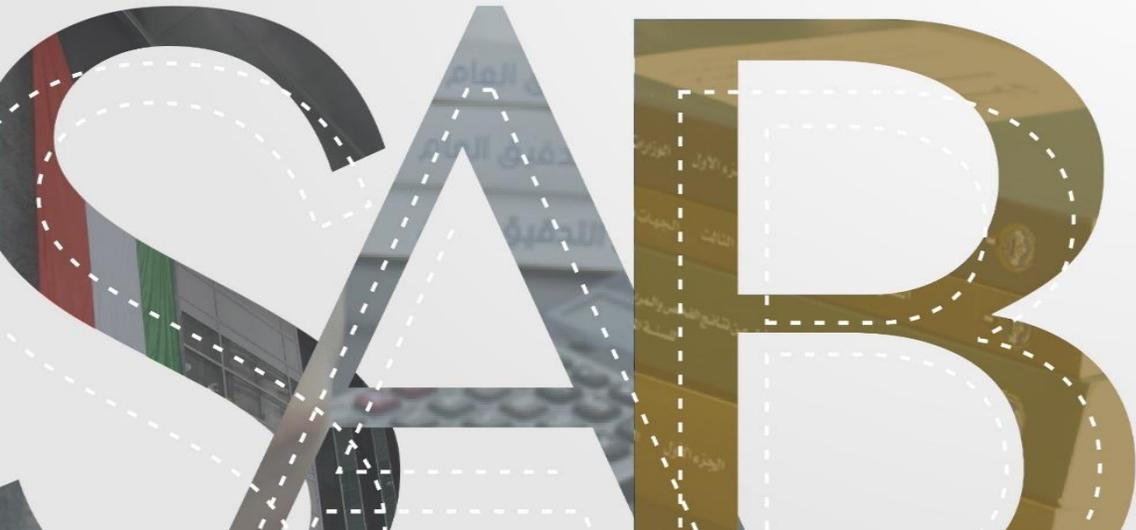
Since 1964م . منذ عام 1964م . الكويت



# ACTUAL HISTORICAL DEFICIT OF BUDGET IMPLEMENTATION RESULTS



# The legal framework and mechanisms regulating domestic and external borrowing



ديوان المحاسبة  
State Audit Bureau

Since 1964م . منذ عام 1964م . الكويت



**Constitutional & Legal Framework for the issuance of Public Debt instruments**

**The constitution of the State of Kuwait**

Public Loans shall be determined by Statute.

**Article No. 136**

The Law authorizes the government to hold a general loan and to borrow an amount not exceeding KWD 1,400 million within a period not exceeding 10 years from the date of the law enforcement.

**Decree-Law No. 50 of 1987**

**Decree-Law No. 13 of 1989**

Several laws were issued to raise the borrowing ceiling to KWD 10 billion or the equivalent in foreign currency as well as extending the validity of the law period. The current law expired in October 2017.

**Decree-Laws**

**Decree-Law No. 7 of 1999**

There are no new laws issued on borrowing, which resulted in the inability to issue new debt instruments & a decrease in the Public Debt due to maturities of some domestic debt instruments.

**Decree-Law No. 3 of 2009**



- **Due to the huge deficit caused by the falling of the oil prices, the government has submitted a new drafted law to raise the ceiling of borrowing to 25 billion K.D for a period of 20 years without a clear strategy.**



**That issue needs monitoring & follow up from the regulatory authorities.**

**And here lies the role of SAB, which is guaranteed by laws.**

# Reasons for Resorting to direct borrowing & its Impact on the State budget:



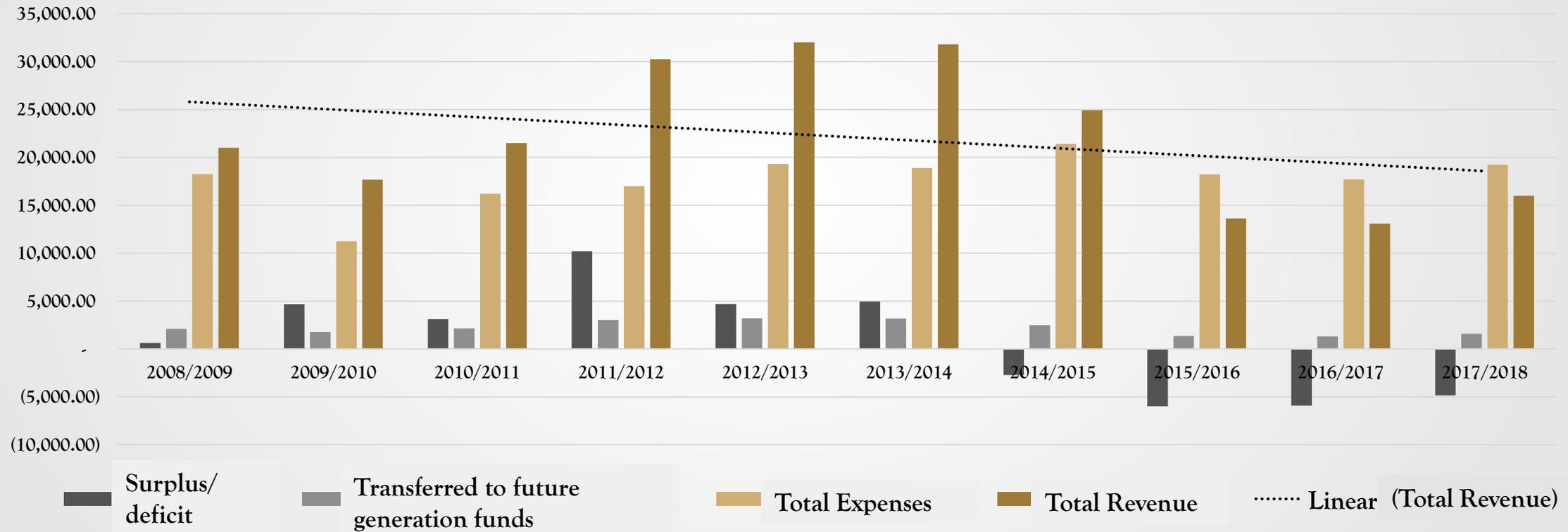
ديوان المحاسبة  
State Audit Bureau

Since 1964م . منذ عام 1964م . الكويت



# Reasons for Resorting to direct borrowing

## 1. The decline in total revenues & the deficits since the fiscal year 2014/ 2015.



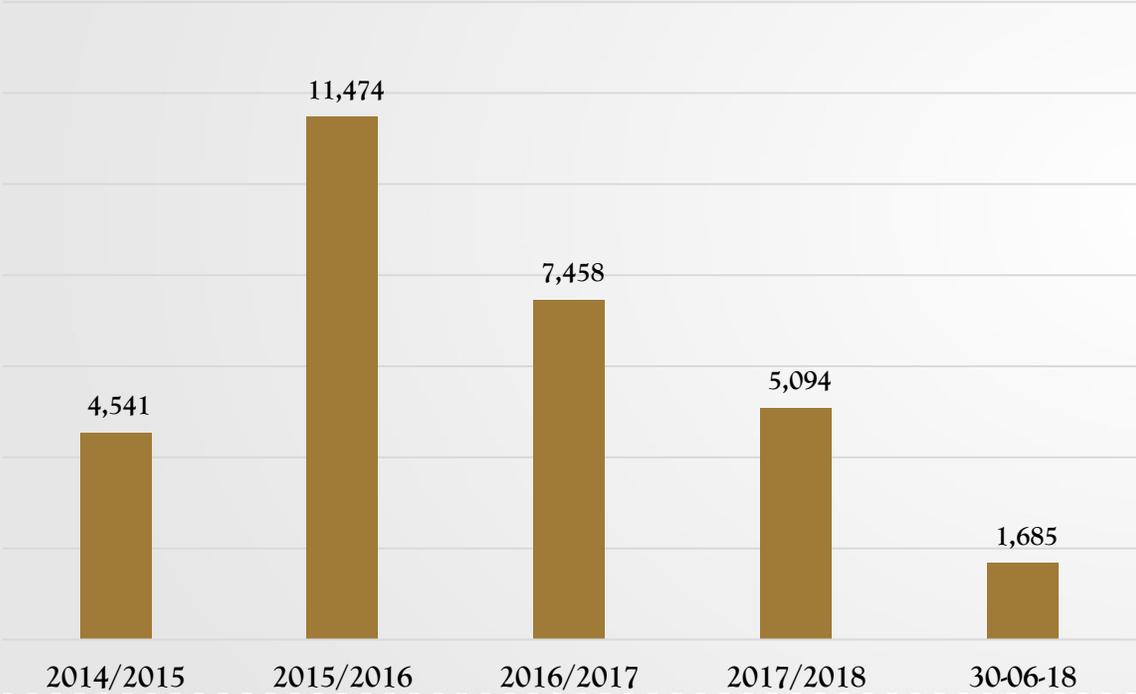


### 3. Deterioration of the general reserve fund, as it bears the implications on the final account for the fiscal years, whether surplus or deficit.

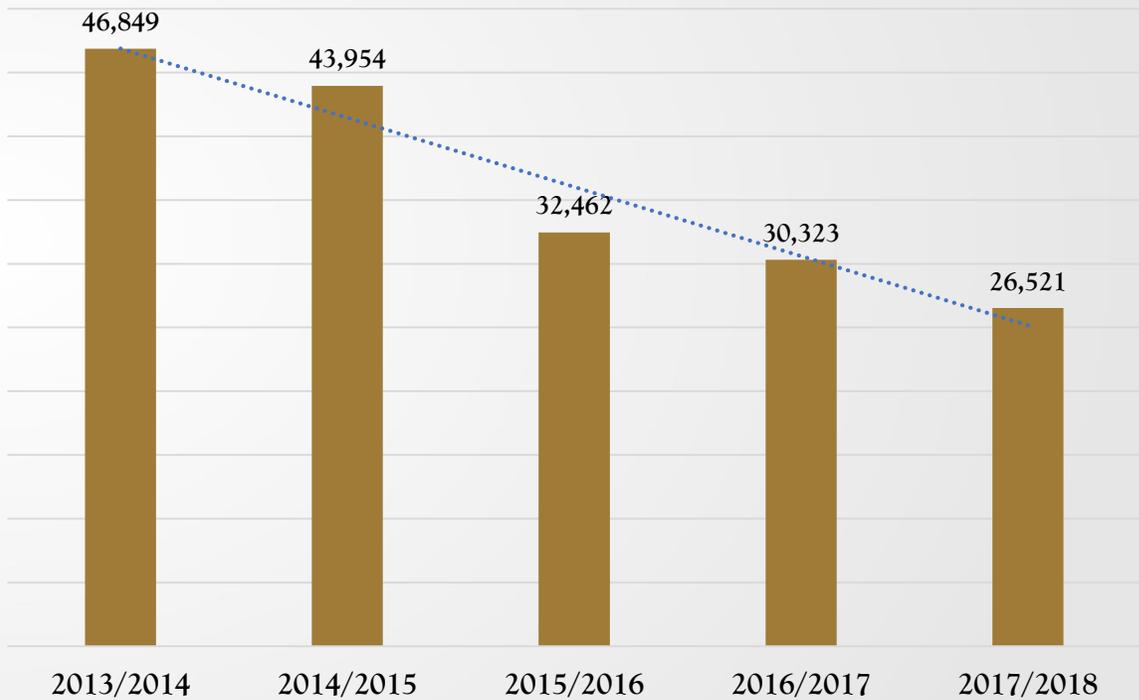
The total amount incurred since the fiscal years 2014/2015 from the General Reserve Fund until 30th June 2018 is nearly KD 30.3 billion.

43.4% Decline rate in net value for the General Reserve Fund (KD 2.3 billion)

Withdrawals from general reserve fund



Net value for the General Reserve fund assets





# The Role of the State Audit Bureau in Auditing Public Debt



ديوان المحاسبة  
State Audit Bureau

الكويت 1964م . منذ عام



# The Role of the State Audit Bureau in Auditing Public Debt

**SAB submitted to the National Assembly a study on the current status of the State's finances with recommendations that are aimed to address the most significant risks & imbalances.**

**SAB issues periodical reports every 6 months- regarding the issuance of Government bonds. These reports were prepared in accordance to the guidelines provided by INTOSAI for the Audit of Public Debt instruments**

**SAB has published a report on “Issues of High-risk”, including the subject of Public Debt.**

**SAB has published a report on “Financial Sustainability” including the subject of Public Debt.**

**SAB has published the Citizen Report & it included the subject of Public Debt.**

**SAB holds training sessions for its auditors & also participates in international meetings & conferences about the Public Debt.**

## The report on “Issues of High-risk” has provided the following:

- The Public Debt was considered as one of the high-risk issues, especially in light of the huge continued decline in oil prices and dependence almost entirely on oil revenues and also entail many risks to the public finances of the state and national borrowing.

Payment of the deficit in the State budget through the issuance of government bonds

**Local Debt amount total :  
4,767.25 Million Kuwaiti  
Dinars.**

**External Debt amount  
total : 2,441.2 Million  
Kuwaiti Dinars.**



# Citizen's Report

SAB issued the Citizen Report 2018, Aiming to raise awareness about SAB role in the protection of public funds.

It also warned of the risks of expanding in borrowing through public debt instruments specially with the decline in oil prices and the continuing deficit in the state budget, pointing out that this may lead to the accumulation of debt, depletion of the state's general reserves, depletion of liquidity without the development of the state, and the risk of reducing the credit rating.



## The most prominent remarks & recommendations of SAB with respect to the general budget of the State:

1. The State has failed to take advantage of the favorable financial conditions of the previous years in order to make substantial changes to the capital expenditures.
2. The considerable burdens of the government sector salaries continue to increase.
3. The State continues to rely on oil as a single source of income, while having a weak and non-diversified non-oil revenue base, which results in further structural problems to the budget.
4. The financial management of the State needs to improve the methodologies employed in developing the general budget and monitoring its execution .



# SAB recommendations to the Risk and Imbalances in the Domestic Economy:

<b>Risks and Imbalances</b>	<b>Recommendations of SAB</b>
1.The provisions for capital expenditures (KD 3.7 billion) have been reduced, whereas the current expenditures are in continuous raise (KD 16 billion) .	Rationalize the current expenditures, while focusing further on capital projects.
2. Poor business climate and weak competitiveness to attract capital according to the international competitiveness indices.	Facilitate government procedures, adopt laws that are attractive to foreign capital.
3. Insufficient community awareness of the seriousness of the current situation, where community members do not believe in the necessity to reduce expenditures, which would therefore affect their receptiveness to certain procedures undertaken by the government to address this imbalance.	Raise public awareness and activate communication channels with the community and the civil society organizations.
4. Decreased rates of the State's dues collection, and poor dues-collection procedures .	Adopt effective procedures & legal policies for dues collection, as well as setting mechanisms that would assist the process of debts collection.

<b>Risks and Imbalances</b>	<b>Recommendations of SAB</b>
5.The enormous expenses incurred by the national government support system (electricity, petrol, Ration)	Rationalize national support services & restructure the adopted system towards serving the targeted group of the society.
6.Insufficient involvement by the sovereign investments (FGF) in the national development and capital projects.	The sovereign funds shall actively engage in developing the domestic economy of the State.
7. Some independent economic institutions continue to rely on the government funding due to their low self-generated revenues as opposed to the increase in the expenses of such institutions (KUNA).	Encourage the independent institutions to improve their self-generated revenues & rationalize their expenditures.
8.Government's commitment to employ its citizens, with 420,000 arrivals entering the labor market over the past 15 years.	<ul style="list-style-type: none"> <li>-Activate the role of the private sector in recruiting citizens.</li> <li>-Align outputs of the educational system with the needs of the labor market.</li> </ul>



Risks and Imbalances	Recommendations of SAB
<p>9. Insufficient involvement by the private sector in supporting the domestic economy.</p>	<ul style="list-style-type: none"> <li>- Adopt a tax system that holds the private sector responsible for supporting the national economy.</li> <li>- Motivate the private sector to adopt social responsibility programs.</li> </ul>
<p>10. Severe weakness in the capacity of the State's executive entities with respect to the achievement of Sustainable Development Plans.</p>	<ul style="list-style-type: none"> <li>- Adopt governance &amp; performance standards to improve the management of the State's executive entities &amp; enforce accountability.</li> <li>- Streamline the work of government entities in order to shorten and facilitate the documentary cycle therein.</li> </ul>



## SAB Key Recommendations

- 1- Consider the risk of expanding the borrowing operations –both at the national and international levels- and strive to avoid any negative impact on the State's finance.
- 2- Borrowing shall not be considered as a long-term solution for paying off the budget deficits; economic reforms shall be undertaken to address such shortfalls.
- 3- It is necessary to maintain the high credit rating of the State of Kuwait and consider the risks of potential downgrade in the future, together with the negative impacts that may arise from the accumulation of debts and the accompanying interests.
- 4-The State must embrace a wide range of applicable legislative, economic, and financial reforms. Such reforms shall be compatible with the needs of the society, and aimed at diversifying the national income resources.
- 5- One of the most significant legislations to be reformed is Law No. 106 regarding the reserves of future generations fund, so that borrowing shall not be intended to finance the Future Generations Fund (FGF). The Law shall allow for not deducting in the case of reaching real budget deficit, and deductions shall be linked to the excess profits rather than a percentage of the revenues.

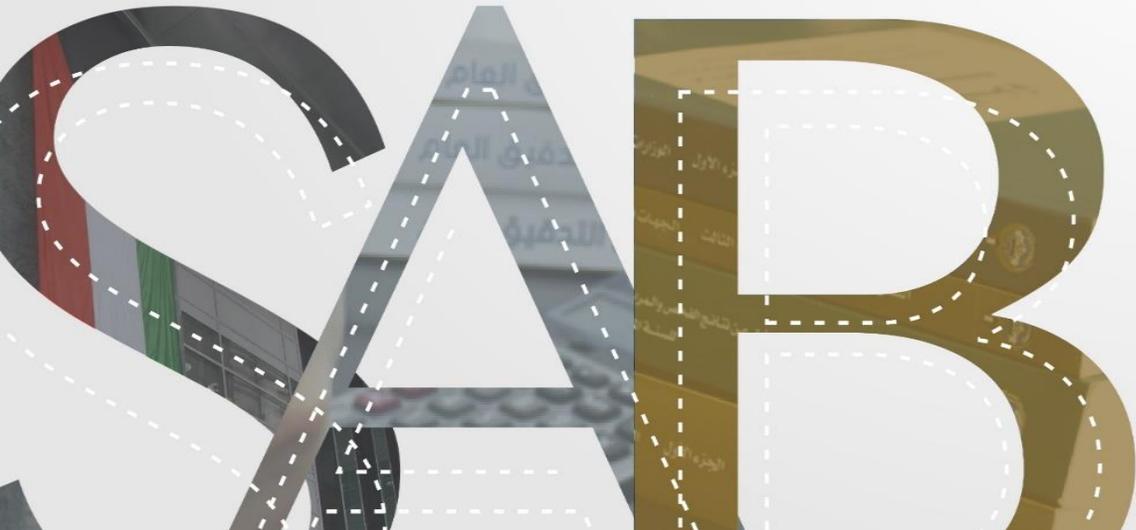
6- Upon enacting any legislation concerning the debt ceiling of the State, it is necessary to define a ceiling with specific percentage of the GDP that shall not be exceeded, as is the case with the borrowing legislation of some developed countries, which is usually recognized as an indicator for monitoring national economies.

7- It is imperative to reform the general finances of the State, where the State's budget shall encompass all revenues and expenditures, including public debt services and their other related expenses.

8- The borrowed funds shall be directed towards funding the capital projects that are included in Kuwait's development plan; the interests of these loans shall be added to the costs of the projects in order to assess how efficiently funds are being utilized.

9- It is necessary to complement the staffing structure of the Debt Management Department with highly qualified personnel. The roles of such cadres shall be clearly defined and activated.

# Key Financial Indices, according to INTOSAI's Guidance

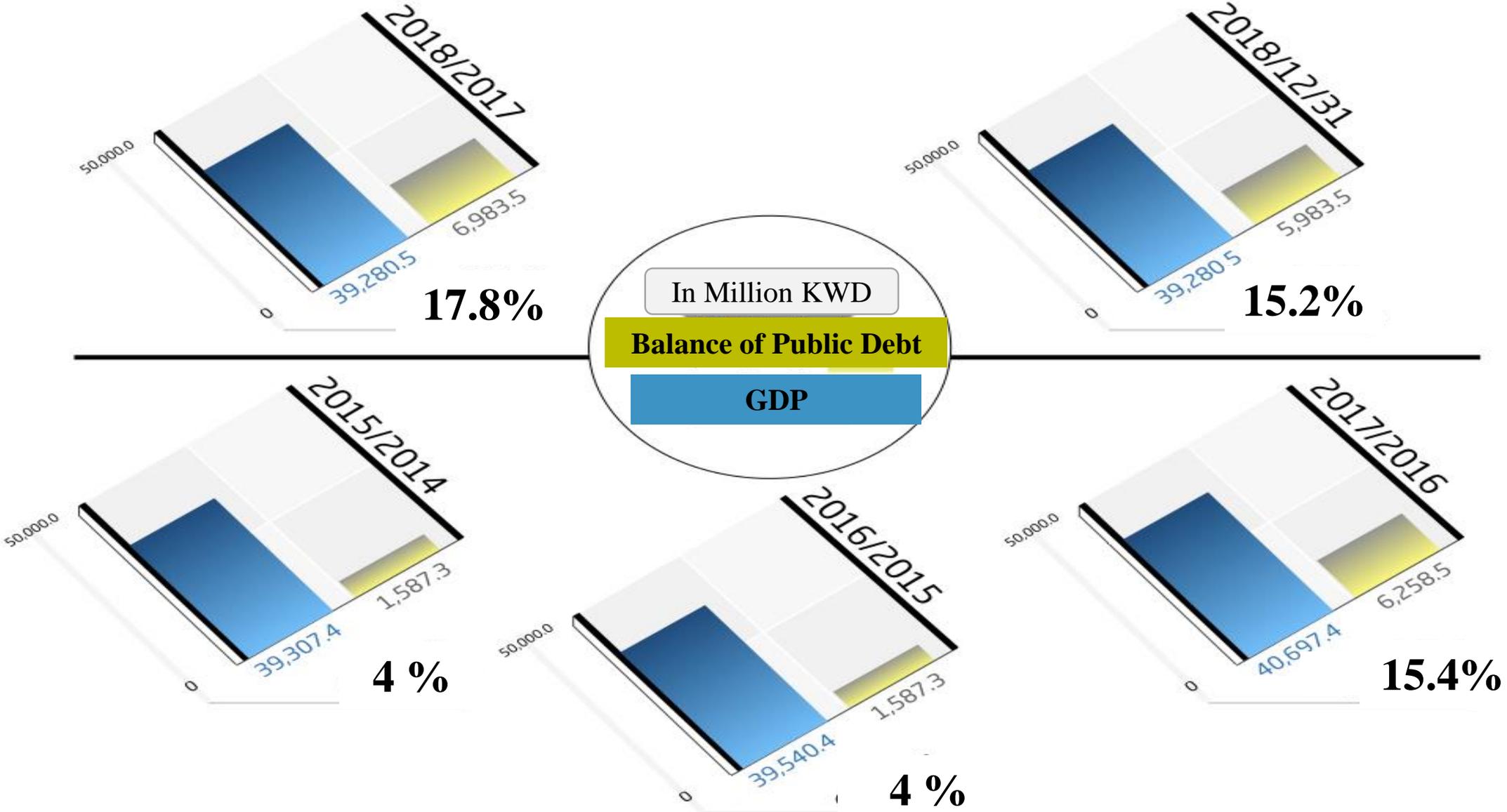


ديوان المحاسبة  
State Audit Bureau

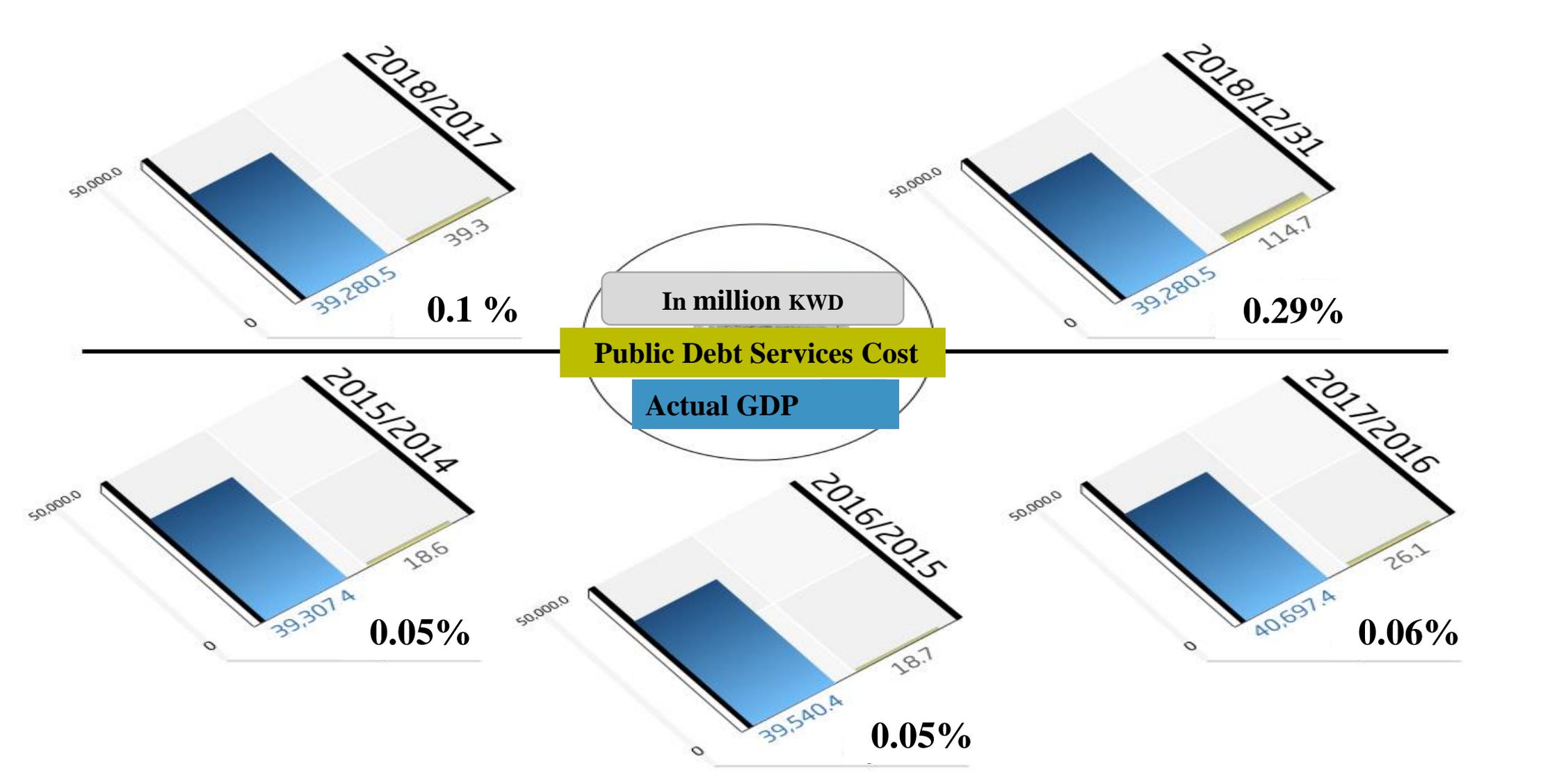
الكويت 1964م . منذ عام

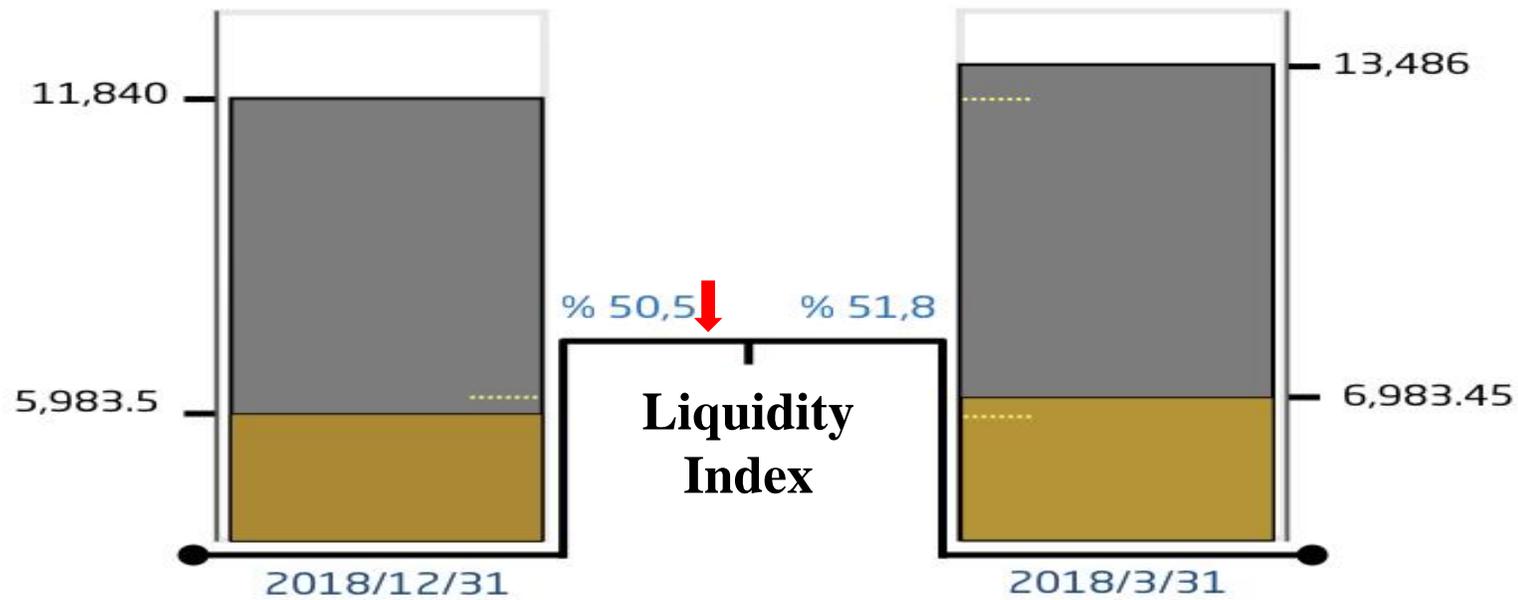


# Gross Public Debt to Gross Domestic Product (GDP)



# Costs of Public Debt Services to the Gross Domestic Product (GDP)



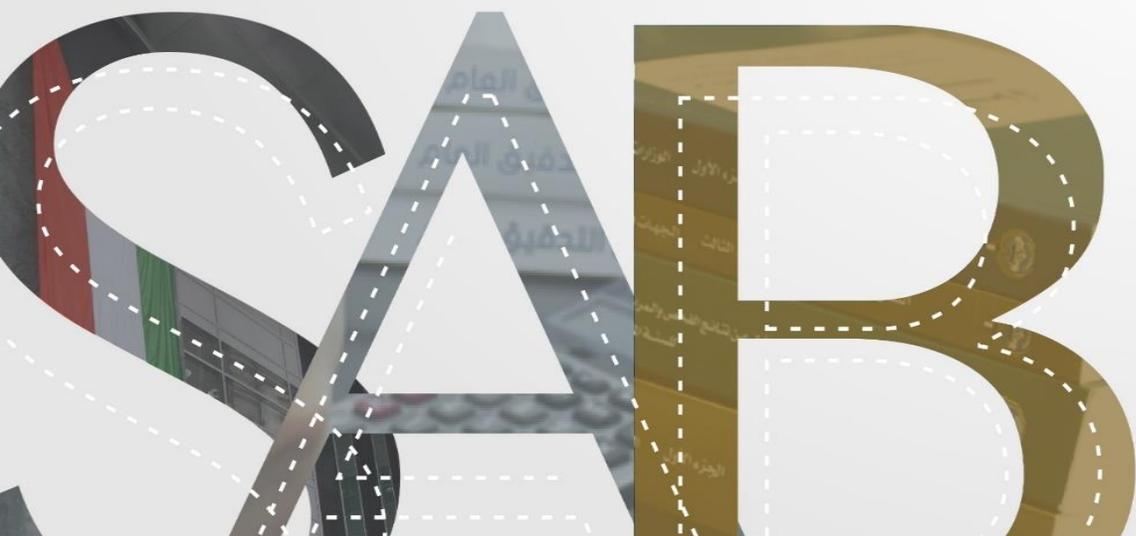


**In Million KWD**

- Liquid and semi-liquid assets of the general reserve**
- Public Debt Balance (Internal & External)**



# Thank you



ديوان المحاسبة  
State Audit Bureau

الكويت 1964م . منذ عام

