

REPUBLIC OF KENYA



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TO	Sen. Farhiye Ali
FROM	Finance & Budget
CLASS	Kenya m.

TWELFTH PARLIAMENT (FIFTH SESSION)

THE SENATE

STANDING COMMITTEE ON FINANCE & BUDGET

REPORT ON THE STATUS OF KENYA'S STOCK OF PUBLIC DEBT

Rt. Hon. Speaker
You may approve
for tabling.
12/10/21

APPROVED
13/10/2021

Clerk's Chamber,
First Floor,
Parliament Buildings,
NAIROBI

OCTOBER 2021

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PREFACE

Mandate and Functions of the Committee

Article 124 of the Constitution of Kenya, provides for the establishment of Committees by either House of Parliament. Committees are central to the workings, roles and functions of Parliament as set out in Article 94 and more specifically in Article 96 of the Constitution as regards the Senate.

Parliamentary Committees consider policy issues, scrutinize the workings and expenditure of the national and county governments and examine proposals for legislation. The end result of any process in Committees is the report, which is tabled in the House for consideration.

The Standing Committee on Finance and Budget is established under Section 8(1) of the Public Finance Management, 2012 and Standing Order 218(3) of the Senate *Standing Order* and is mandated-

- a) *To investigate, inquire into and report on all matters relating to coordination, control and monitoring of the county budgets and to examine –*
 - i. *the Budget Policy Statement presented to the Senate;*
 - ii. *report on the Budget allocated to Constitutional Commissions and independent offices;*
 - iii. *the Division of Revenue Bill, County Allocation of Revenue Bill, and cash disbursement schedule for county governments.*
 - iv. *to consider all matters related to resolutions and Bills for appropriations, share of national revenue amongst the counties and all matters concerning the National Budget, including public finance and monetary policies and public debt, planning and development policy; and*
- b) *To pursuant to Article 228 (6) of the Constitution, to examine the report of the Controller of Budget on the implementation of the budgets of county governments.*

Membership of the Committee

The Standing Committee on Finance and Budget was constituted by the House on Thursday 14th December, 2017 during the First Session of the Twelfth Parliament. The Committee was later reconstituted on Wednesday, 24th June, 2020, during the Fourth Session of the Twelfth (12th) Parliament. The Committee as currently constituted, comprises the following Members-

- | | | |
|----|---------------------------------------|--------------------|
| 1. | Sen. Charles Kiburu, M.P. | - Chairperson |
| 2. | Sen. (Dr.) Ochillo Ayacko, EGH, MP | - Vice Chairperson |
| 3. | Sen. Wetang'ula Moses Masika, EGH, MP | - Member |
| 4. | Sen. Mutula Kilonzo Junior, CBS, MP | - Member |
| 5. | Sen. Aaron Cheruiyot, MP | - Member |
| 6. | Sen. Kimani Wamatangi, MP | - Member |
| 7. | Sen. Rose Nyamunga, CBS, MP | - Member |
| 8. | Sen. CPA Farhiya Haji, MBS, MP | - Member |
| 9. | Sen. Millicent Omanga, MP | - Member |

CHAIRMAN'S FOREWORD

It is the objective of every country to achieve high and equitable economic growth, and to generate wealth that can be transferred to subsequent generations. This forms the basis of the journey of a nation from a developing country to a developed country. This development path, however, should be undertaken in a cost effective manner that safeguards the sustainability of its financial, human and capital resources.

A country may choose to borrow additional finances if it seeks to accelerate its development process or if the available financial resources are insufficient. Debt finance is therefore critical to budgetary finance and enables a country undertake development activity beyond constraints set by its resource capacity.

Borrowing however, should be applied alongside prudent fiscal and debt management practices, as it can be detrimental to a country's wellbeing, especially if it reaches high levels and/or requires a high amount of taxation to be sustained. As such the regulation of borrowing, its risk and cost characteristics, is a key part of safeguarding household incomes, the resource envelope and promoting equitable economic growth.

As such, and on the basis of Article 201(c) of the Constitution, that stipulates that the burdens and benefits of the use of resources and public borrowing shall be shared equitably between present and future generations; the Committee was tasked to inquire on the status of public stock of debt in Kenya and its implication on Kenya's development agenda.

This is a risk assessment report meant to keep the House at par with information from key stakeholders in relation to sustainability of public financial resources available to finance both National and County Governments.

EXECUTIVE SUMMARY

Kenya's public debt has increased considerably on account of persistent fiscal deficits, driven primarily by public expenditure related to an aggressive infrastructure development plan designed to address infrastructural bottlenecks; among other major expenditure priorities. The increase in debt accumulation has resulted in a number of fiscal management concerns, including-

1. The Public Finance Management Act (PFM) 2012 sets the public debt ceiling currently at Kshs 9 trillion. As of June 2021, Kenya's stock of debt amounted to Kshs. 7.71 trillion. Furthermore, there are additional undisbursed loan commitments amounting to Kshs. 1.31 trillion and bringing the amount of disbursed and undisbursed loan commitments to Kshs 9.02 trillion.
2. The rising stock of debt has resulted in high debt servicing expenditures amounting to Kshs. 1.17 trillion in FY 2021/22. High debt service reduces the equitable share available to both levels of government which in turn affects service provision due to delays in disbursement of resources to county governments and MDAs. They are also likely to crowd out expenditures in key sectors such as health, social protection and other development spending.
3. Stock of debt is projected to reach Kshs. 8.7 trillion by the end of FY 2021/22 on account of the projected fiscal deficit of Kshs. 952.9 billion. This will bring it to Kshs. 337 billion short of the Kshs. 9 trillion debt ceiling and will result in the shortage of borrowing space required to finance medium term expenditures.
4. The contravention of section 15(2)(c) of the PFM Act 2012, which stipulates that borrowed funds shall only be used to finance development expenditure. In FY 2020/21 the National Treasury utilized Kshs. 61.5 billion of the Kshs. 70.17 billion from the Sovereign Bond Proceeds¹ on payment of recurrent expenditure.

¹ This was meant to finance development budgets for State Departments for Infrastructure, State Department for Water, Sanitation and Irrigation, the State Department for Housing and Urban Development and Statement for ICT & Innovation.

5. The under absorption of borrowed resources- In FY 2019/20, Kshs. 74.06 billion of loans acquired remained unutilized. This indicates inefficient use of debt resources in the maximization of returns since such loans continued to accrue interest.

In consideration of this matter, the Committee held several meetings with stakeholders including; The National Treasury, Central Bank of Kenya, Commission on Revenue Allocation, Controller of Budget and Auditor General in order to develop a comprehensive report and made several recommendations including-

1. That the National Treasury should submit, within Six (6) months, a legislative proposal setting out the appropriate fiscal consolidation measures required to reduce the public debt stock to sustainable levels, over the medium term
2. That the National Treasury should within six (6) months operationalize the IFMIS Debt Management Module
3. That within 28 days, the National Treasury should provide a status report on the restructuring of the public debt stock as indicated during the review of the debt ceiling in October 2019.
4. The Office of the Auditor General should undertake a special audit on the utilization of all Commercial loans in Kenya to ascertain adherence to section 15(2)(c) of the PFM Act, 2012 and submit a report to Parliament.
5. Given the constrained fiscal space all accounting officers should prioritize the consolidation and protection of the available financial resources from misappropriation, in order to enhance efficiency and effectiveness of budget implementation.

ACKNOWLEDGMENTS

The committee acknowledges the National Treasury, Central Bank of Kenya, the Controller of Budget, then Commission on Revenue Allocation, and the Office of the Auditor General for their cooperation and contributions during the preparation of this report.

Furthermore, the Committees appreciates the Offices of the Speaker, the Clerk of the Senate and the Parliamentary Budget Office, for the continued and steadfast support extended to it during the consideration of this Report.

It is now our pleasant duty, pursuant to Standing Order 232(2), to present the Report of the Standing Committee on the Status of Public Debt Stock in Kenya.

Signed...  _____

Date ...12th October, 2021...

SEN. CHARLES KIBIRU, MP

CHAIRPERSON

STANDING COMMITTEE ON FINANCE AND BUDGET

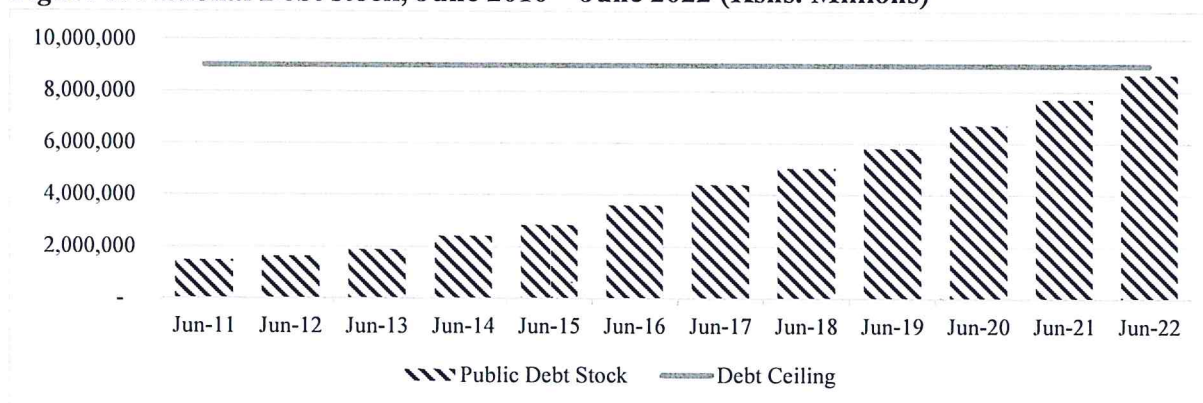
CHAPTER ONE

1. BACKGROUND

1.1. Debt stock, Government Expenditure and Fiscal Deficit

1. Kenya's public stock of debt amounted to Kshs. 1.49 trillion at the end of June 2011, and accounted for 53 percent of Gross Domestic Product (GDP). Within a decade, this has grown by over 400 percent to reach Kshs. 7.71 trillion² by the end of June 2021 equating to 69 percent of GDP³. This growth rate was sustained by persistent fiscal/budgetary deficits related to the implementation of an aggressive expenditure driven development strategy, against an insufficient revenue generation capacity.

Figure 1: National Debt stock, June 2010 – June 2022 (Kshs. Millions)



Source: Annual Debt Management Report

2. Fiscal deficit, occurs when total expenditure, (in this case attributed to both national and county governments) exceeds total revenues. The country has always been in a vicious circle of fiscal deficits, having achieved a budget surplus once, in FY 1999/00 when it amounted to Kshs. 3.3 billion or 0.4 percent of GDP. For the current fiscal year (FY 2021/22) total expenditures amounted to Kshs. 3.05 trillion, whilst total revenues amounted to Kshs. 2.04 trillion resulting in a fiscal deficit of Kshs 952.9 billion⁴ (or 7.7 percent of Gross Domestic Product).

² CBK, June 2021 & Quarterly Economic and Budgetary Review (QEBR) – August 2021

³ Based on Budget Summary the GDP forecast for June 2021 of Kshs. 11.17 trillion

⁴ Fiscal Balance (Including grants) - Budget Summary for FY 2021/22

Table 1: Summary Fiscal Framework FY 2021/22

ITEM	AMOUNT (KSHS. BILLIONS)
<i>Total Revenue & Grants</i>	2,101
<i>Total Expenditure & Net Lending</i>	3,054
<i>Of Which County Transfers:</i>	409.9
<i>Deficit (including grants)</i>	(952.9)

Source: Budget Summary the GDP forecast for June 2021

3. The growing trend in Kenya's fiscal deficit indicates a lack of fiscal discipline required to maintain the budget deficit within the range of the fiscal consolidation path. Fiscal consolidation parameters are set out by annual Budget Policy Statements. The overall target is that of bringing the fiscal deficit down to 3 percent⁵ of Gross Domestic Product (GDP) and bringing other fiscal parameters to sustainable levels.
4. If current fiscal deficit is taken into account, the total public debt stock is estimated to reach Kshs. 8.7 trillion by the end of FY 2021/22. This will bring the debt stock amount to Kshs. 337 billion short of the Kshs. 9 trillion debt ceiling. The ceiling was emended to Kshs. 9 trillion in 2019, to in order to create the fiscal space required to restructure the debt stock and bring debt down to sustainable levels.
5. It is important to note that as debt rises it should be outpaced by economic and revenue growth. If these parameters are not met, complexities of debt management will arise such as requiring higher taxation to be sustained, lowering of future incomes, and creating intergenerational wealth inequity.

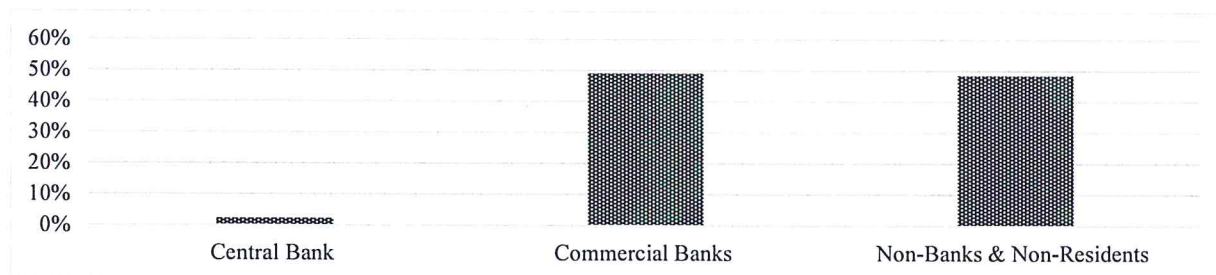
1.2. Debt Stock Composition

6. Kenya's debt is composed of domestic debt worth Kshs. 3.698 trillion and accounts for 48 percent of the total debt stock. This is largely owed to Commercial Banks (49 percent) with Non-Banks institutions (Pension funds & Insurance companies) making up 48 percent, and the Central Bank accounting for 2 percent. This indicates the risk exposure of the domestic financial market should debt servicing concerns arise. Domestic debt is critical for cash

⁵ Benchmarked to the East African Community Convergence Criteria

flow management; maintaining depth of domestic financial markets; and for cushioning the economy against erratic external vulnerabilities.

Figure 2: Composition of Domestic Debt Stock



Source: Quarterly Economic and Budgetary Review, August 2021

7. Kenya's debt is also composed of External debt which amounts to Kshs. 4.015 trillion, accounting for 52 percent of total debt stock. It comprises of bilateral, multilateral and commercial debt at the ratio of 28 percent, 41 percent and 30 percent, respectively. The key creditors, who together account for 77 percent of external debt, include: China (19 percent), International Development Association⁶ (27 percent) and Sovereign Bond holders and Commercial Banks (30 percent)⁷. External debt finance has the benefits of increasing foreign exchange reserves and preventing the crowding out of private investment. However, it also increases vulnerability to external conditions and if contracted at high interest rates (through use of commercial debt as opposed to concessional debt), could increase in debt servicing expenditure – especially when coupled with exchange rate volatility.

Figure 3: Composition of External Debt Stock

⁶ World Bank

⁷ Bilateral, Multilateral and Commercial debt amount to Kshs. 1.14 billion, Kshs. 1.66 billion and Kshs. 1.195 Billion (Quarterly Economic and Budgetary Review (QEBR) – August 2021)



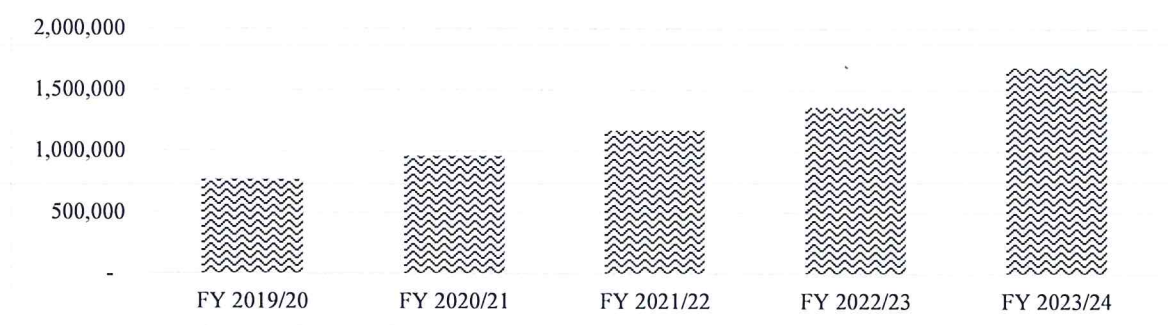
Source: Quarterly Economic and Budgetary Review, August 2021

1.3. Debt Servicing Expenditures

8. The accumulation of public debt has resulted in the increase in debt servicing expenditures, which will amount to Kshs. 1.17 trillion in FY 2021/22 and account for 66 percent of ordinary revenues. Given that they are mandatory expenditures (First charge to the Consolidated Fund⁸); debt servicing expenditures negatively impact the fiscal space by decreasing the resources available for other budgetary expenditures and create general budgetary inflexibility (capacity of fiscal policy to respond to economic shocks).
9. This can be illustrated in FY 2021/22 whereby less than 34 percent of revenues will be available to financing other critical budgetary activities. Furthermore, these expenditures have outpaced the allocations for national government development expenditure (for which debt is meant to finance) by up to 188 percent and transfers to county governments by Kshs. 285 percent.
10. Over the medium term, these expenditures are projected to grow from Kshs. 1.17 trillion in FY 2021/22 to reach Kshs. 1.36 billion (16 percent increase) in FY 2022/23. This indicates a constrained fiscal space for the next Fiscal Year (FY 2022/23) as the revenue generated will have to cater for the increase in debt servicing, parallel to an insufficient borrowing space (Kshs. 337 billion) and might therefore necessitate an amendment of the Kshs. 9 trillion debt Ceiling.

Figure 4: Debt Servicing Expenditures FY 2019/20 to FY 2023/24, (Kshs.)

⁸ Article 214(1)



Source: FY 2021/22 Approved Budget

1.4. Kenya's Public Debt Management concerns

11. The modest adherence to the constitutional requirements of openness and accountability have arisen as a matter of concern. Whilst the quantification of stock of debt is known, there exists lacuna relating to the level of transparency on project information (feasibility, evaluation, status of implementation). This creates avenues for misappropriation of resources and curtails effective national resource oversight. The primary concern is that the resources borrowed for General Budgetary Support are usually; i) expensive commercial debt, and ii) not project specific and could be utilized to finance financing Recurrent Expenditure, contrary to Section 15(2)(c) of the PFM Act 2012.
12. The capacity to undertake prudent management of Kenya's public debt is also a concern. This is indicated by;
 - a) Deviations from the provided borrowing strategy set under the Medium term debt strategy which is designed to keep borrowing costs and risks at a minimum and,
 - b) Continued incurrence of commitment fees- between June 2016 and June 2021, Kshs. 14.3 billion has been incurred in the form of commitment fees for loan agreements entered into but have not been undisbursed. This points to a weak debt management policy, poor regulation, and weak institutional framework.
13. A rise in debt stock subsequently increases debt servicing expenditures. Given that they are mandatory expenditures (first charge to the Consolidated Fund), they directly reduce the amount of resources available for other budgetary activities. Therefore, the resultant constrained fiscal space affects budget implementation and delivery of public sector goods and services, due to shrinking availability of exchequer releases and unreliable cash flow.

14. This has resulted in disbursement of resources lower to those appropriated, delayed exchequer disbursement to counties, national government budget implementing agencies, delayed completion of projects (therefore deferment of intended benefits of public investment) and increase in pending bills (which amounted to Kshs. 359.5 billion as of June 2021 on the part of the national government alone).
15. It has also resulted in recurrent revision of budgets through Supplementary Appropriations both National and County Governments on the basis of Article 223. The impact of supplementary changes includes; i) deviation from the development agenda set out under the actual approved budget, and ii) the distortion of key performance indicators for implementing agencies, with those who have not been part of the debt financing program, inadvertently affected.
16. Furthermore, concerns have been raised surrounding sustainability for Kenya's debt stock. At present, a number of key debt sustainability indicators have been breached thus indicating vulnerability to fiscal shocks into the long-term. Coupled with low economic growth rate, Kenya's debt stock is currently classified by the International Monetary Fund (IMF), as being at a high risk of debt distress and the debt carrying capacity has been revised from strong to medium. The Public debt benchmark (Present Value of Debt to GDP ratio) initially at 70 percent was revised downwards to 55 percent. Kenya's PV of public debt to GDP ratio⁹ is 62.4 percent and therefore above the 55 percent threshold.

⁹ IMF Country Report No. 21/72 – April 2021

CHAPTER TWO

2. PRESENTATION BY THE PARLIAMENTARY BUDGET OFFICE

During the presentation, it was noted that:

17. At the end of June 2021, the Public debt stock amounted to Kshs. 7.71 trillion composing of Kshs. 3.697 trillion (48 percent) and Kshs. 4.015 trillion (52 percent) in domestic debt and external debt, respectively. This accounted for approximately 69 percent for Gross Domestic product (GDP) and 86 percent of the Kshs. 9 trillion debt ceiling. Public debt stock has grown over the years as a result of persistent fiscal deficit.
18. If the debt stock is takes into consideration the fiscal deficit for FY 2021/22 amounting to Kshs. 952.9 billion, the debt stock, it is estimated to reach Kshs. 8.7 trillion leaving borrowing space estimated at Kshs. 337 billion against the ceiling. The general impact is the constrained space for mobilization of borrowed resources leading to an overall pressure on tax revenue to meet increasing expenditure demand.
19. Domestic debt, which amounts to Kshs. 3.697 trillion accounts for 48 percent of total debt stock. Substantial amounts are in the form of Treasury Bonds (77 percent) followed by Treasury bills (20 percent). The country has been borrowing more of treasury bonds than treasury bills (that mature within 1 year) in order to reduce the rate of refinancing pressure and pushing repayment further into the medium term.
20. A review of the composition of domestic debt creditors indicated that commercial banks account for approximately 49 percent of domestic debt followed by Pension Funds (48 percent). While this promotes a healthy domestic financial system sit also indicates that risk exposure debt distress would largely affect banks and pension funds.
21. External debt on the other hand, amounted to Kshs. 4.015 trillion (accounting for 52 percent of total debt stock) and composed of Bilateral debt, Multilateral debt and commercial debt at 28 percent, 41 percent and 30 percent, respectively. The level of External debt, goes hand in hand with exchange rate risk exposure.
22. The review of external Debt by Creditor indicated that the International Development Assistance (World Bank) was the largest creditor and the largest source of concessional

financing to Kenya. Whilst China is the second largest creditor overall, it is the largest bilateral creditor, owing to implementation of multiple infrastructural projects in the country.

23. Currency Composition of external debt indicated that up to 65 percent of external debt was dollar dominated, followed by the Euro (20 percent). This indicated that the levels exchange rate risk exposure of the external debt was highly dependent on exchange rate volatility of the US dollar and the Euro.
24. A review of debt Servicing Expenses indicated that they had grown from Kshs. 230.4 billion (June 2014) to reach Kshs. 1.17 trillion (June 2021) and estimated to reach Kshs. 1.69 trillion by June 2024¹⁰ indicating a growth of 409 percent. As of June 2014 it only accounted for 25 percent of total ordinary revenues and 66 percent as of June 2021. This indicated an increasingly constrained fiscal space and the need to undertake debt restructuring in order to release resources for other budgetary needs.
25. That Debt Sustainability Analysis¹¹, indicated that key number of indicators, more so those related to liquidity availability, had been breached. This indicated lasting vulnerability risks related to liquidity shortages. These thresholds include; Present Value (PV) of Public debt to revenue & grants ratio, Debt service to revenue & grants ratio, PV of Debt to exports ratio, Public & Publicly Guaranteed (PPG) Debt service - to - exports ratio.
26. Kenya was part of the Debt Servicing Suspension Initiative (DSSI). An engagement between the World Bank, the IMF and other creditors to allow the suspension of debt repayment in order to create fiscal space for safe guarding social and other critical expenditures. As a participant in this initiative, Kenya was expected to have deferred USD 639 million of 2021 first half debt service to later years¹².

¹⁰ FY 2021/22 Approved Budget

¹¹ Compares debt burden indicators to thresholds over 20 year projection period. If a debt burden indicator exceeds its indicative threshold, it suggests that a risk of experiencing some form of debt distress exists.

¹² IMF Country Report No. 21/72 – April 2021

27. Initiative will be able to support debt management under the ongoing International Monetary Fund programs (Extended Fund Facility – ECF, and under the Extended Credit Facility- EFF) by use of structural benchmarks.
28. Lack of resources indicate the need to devolved governments to undertake serious measures to improve efficiency of their Own Source Revenue (OSR) and that relevant sections of IMF ECF/EFF policies could be replicated, where possible, to county fiscal management guidelines.
29. Due the increased fiscal constrained environment, increase efficiency of use of resources should be a priority. This could be achieved by,
- a) Matching resource absorption rate with project completion rate
 - b) Undertaking through project feasibility and evaluation during the budgeting process
 - c) Reduction of resource leakages i.e. corruption, and rationalization of budgets
 - d) Adherence to Fiscal discipline and following the planned fiscal consolidation path,
 - e) Enhancing the rights of the tax payer through prompt provision of public goods and services,
 - f) Full implementation of recommendations from audit reports and creating appropriate counter measures to prevent recurrence of audit issues
 - g) Enhanced application of the oversight roles of Parliament provided for under Article 95(4)(c) and Article 96(3) of the Constitution.

2.1. SUBMISSIONS BY STAKEHOLDERS

2.1.1. Submission by the National Treasury

During the submission, the following was indicated:

30. As at the end of June 2021, the nominal public debt stock (including guaranteed debt) stood at Kshs 7.74 trillion (USD 71.52 billion) equivalent to 69.07 per cent of GDP. This comprises of 52.1 per cent or Ksh 4.04 trillion External debt of total debt and 47.9 per cent Ksh 3.70 trillion Domestic debt.
31. Kenya's public debt accumulation is on account of running high fiscal deficits (i.e. public-expenditure driven debt accumulation) and exchange rate movements. The Public Finance

Management Act (PFM) 2012 sets the public debt ceiling currently at Kshs 9 trillion. As at end June, 2021, total loan commitments (disbursed and undisbursed debts) stand at Kshs 9.04. trillion.

32. Borrowing has been necessitated by the increased national expenditure and challenges of raising revenue to finance spending. This has led to finance deficit that has had to be financed through borrowing. During the period, borrowed resources were used to financing major infrastructural projects i.e. roads, water, and as a result, the debt returns are expected in the long-term. Against the debt ceiling of Kshs. 9 trillion is the Kshs. 7.71 trillion stock of debt as well as an additional undisbursed debt amounting to Kshs. 1.31 trillion.
33. Because of drop in exports and low economic growth, the Debt Sustainability Analysis indicators deteriorated and the country's debt carrying capacity was revised from strong to medium. However good revenue performance is expected to facilitate the revival of the Debt Sustainability Ratios.
34. Debt Servicing Suspension Initiative (DSSI) enabled the deferral of payment of debt servicing to over 4 to 5 years. First phase created relief worth Kshs. 38.3 billion and a further Kshs 80 billion will be paid depending on the bilateral repayment agreements. DSSI is intended to create savings are to be targeted at investment into the social sector.
35. There is a Debt Management Policy adopted by Parliament that will guide the sustainability of debt stock. In the course for the medium term, it aims to reduce the deficit down to 3 percent, cut on expenditure and reduce on borrowing. The strategy also aims to reduce the stock of treasury bill and undertake liability operations to reduce on the impact of external debt.
36. Kenya has joined an International Monetary Fund (IMF) program of disbursement for 3.5 years and there are agreed targets of revenues and agreed on close regulation of state agencies to control wastage. Close corporation with the IMF will be key in ensuring that fiscal sustainability will be reached.
37. The National Treasury was closely monitoring the debt stock, its composition, risks in order to ensure that Kenya's debt position remains sustainable. As such the government

has been undertaking austerity measures on non-essential expenditure i.e. travels etc. in a manner that does not affect stimulus.

38. National Treasury has established a project investment unit that undertake a thorough assessment of projects and streamline the project management costs. Furthermore, it has engaged the Peoples Republic of China on reduction of projects to be implemented as the projects are no longer key priorities and overburden the fiscal framework.

2.1.2. Submission by the Central Bank of Kenya

During the Submission, it was noted that:

39. The Debt/GPG ratio has increased from 38 percent to 69 percent between 2001/02 and FY 2021/22. This had resulted in the increase of total debt service to total revenues from 17 percent for 43 percent as at the end for FY 2020/21 indicating a reduction of resources available for development purposes.
40. Multilateral debt which is the main source of concessional debt and includes the World Bank's International development association, has not undergone major shifts in the past 10 years. Bilateral debt on the other hand, Japan (and other G7 countries) was a significant creditor before 2006. However, by June 2020 China accounted for more than two-thirds or 67 percent of total external debt.
41. The increase indebtedness is as a result of, i) fiscal deficit (due to expenditures on infrastructural development) and increased guaranteed debt, ii) worsening terms of new loans i.e. lower concessionality in the borrowing framework and therefore increases burden of repayment, iii) standard economic shocks i.e. drought, COVID-19, which divert expenditure and requires additional financing.
42. There is a concern as to whether Kenya enjoys all the returns from public sector investment such as increased infrastructural investment is leading to increased export capacity, or whether there are still other unknown bottlenecks that need to be addressed without the increase of taxes.

43. There is no quick fix policy to be applied during fiscal consolidation derived at the reduction of debt stock. However, the earlier the fiscal policy begins to take corrective measures, the better the outcome.
44. In September, Kenya national bureau of statistics released revised GDP numbers owing to rebasing of the GDP that indicated that the economy was slightly larger than before. As such, Debt/GDP ratio is expected to have declined to 67.5 percent and there was an improvement on the deficit/GDP ratio as well.
45. Kenya's debt ratios should not be compared to other countries debt ratios without taking into consideration the underlying macroeconomic factors and conditions. As such, it was noted that developed countries can sustain larger debt ratios compared to emerging and sub-Saharan countries, that still depend on the commodity market.
46. All countries within the East African Community have had significant reduction of their debt stock. However, this was as a result of multilateral debt relief initiatives whereby external debt were written off for highly indebted poor countries.
47. Kenya has never defaulted on its debt servicing obligation despite not receiving debt relief. The Debt Servicing Suspension Initiative is intended to provide control pressures emanating from debt servicing by lengthening maturities and consolidating payments. Nevertheless, Kenya needs to plan the repayments of loans appropriately and in a timely manner.
48. The CBK undertakes its own Debt Sustainability Analysis which indicates a general concern also raised by the International Monetary Fund (IMF) of the breach of debt thresholds over significant period.
49. There are economic consequences of high stock of debt i.e. Narrowing of the fiscal space, narrowing of the fiscal buffer (limited space to undertake stimulus expenditure in case of a negative economic shock) leading to increased volatility and lower growth rates, increased interest rate of sovereign and the private sector which stifles innovation and economic growth.
50. In order to control the debt burden, the following should be considered:

- a) Stay course on the fiscal consolidation path over the long term
- b) Utilize non-debt financing options for public investment
- c) Increase value for money or efficiency of public spending – there is a public investing to efficiency gap
- d) Increase transparency on debt management through increased frequency of reporting and monitoring
- e) Undertake refinancing operations geared at replacing expensive debt with concessional debt that has more favorable borrowing terms

2.1.3. Submissions by the Commission on Revenue Allocation

During the submission, it was indicated that:

- 51. Kenya's debt has increased from 49 percent of GDP in 2013 to 68 percent of GDP in 2020 and that Kenya's debt dynamics needed to be understood in the context of the fiscal deficits. The country had been financing expenditure through high fiscal deficits in excess of 6 percent.
- 52. Parliament plays a critical role in the approval of the budget and this is where vigilance is required to ensure that fiscal deficits are sustainable at the budget approval stage.
- 53. The share of commercial debt has increased from 22 percent to 36 percent of total debt. Commercial debt attracts higher interest rates and shorter maturity profile compared to concessional and multilateral debt. This change in composition increases budget pressure on debt service.
- 54. The composition of domestic debt had also changed over time as the share of long-term treasury bonds in total domestic debt declined from 71 percent in 2013 to a low of 61 percent in 2018. Long-term maturity debt (bonds) eases the pressure on debt service compared to short-term treasury bills.
- 55. The rising debt and changing composition has seen a rise in debt service as a share of revenue from 16 percent in 2013 to a high of 37 percent in 2018 and now stands at 32 percent. This could trigger a vicious cycle of debt dynamics and Parliament needs to be vigilant in its budget making and oversight role

56. High debt service reduces the equitable share available to both levels of government which in turn affects service provision due to delays in disbursement of resources to county governments and MDAs. High interest payments are also likely to crowd out expenditures in key sectors such as health, social protection and other development spending. For instance, in FY 2020/21 interest payments at 495 billion are much higher than health expenditure at Kshs. 207 billion and social protection at Kshs. 34.8 billion.

57. The commission recommended that:

- a) There is need to enhance revenue forecasting capability and alignment of expenditures to available resources
- b) To reduce fiscal deficits fiscal expenditure requires a deeper haircut to adhere to the EAC thresholds on budget deficits in the medium term
- c) Lengthen the maturity profiles and restructure borrowing towards concessional external debt to reduce the amounts paid in debt service. This however can take a very long time particularly for commercial lenders. The restructuring should include Treasury Bills to lower refinancing and rollover risk.
- d) Debt problems are correlated with several other problems and it will be important to be vigilant and proceed cautiously particularly with regard to commercial debt. To mitigate the risk of debt distress Parliament could
 - i. Set the bar for transparency and more openness in debt management, interrogate the annual borrowing plans question the plans and the interest rates at which the government is borrowing.
 - ii. Interrogate the use of debt and ensure that the loans are for productive and tangible expenditures.
 - iii. Operationalize the Sinking Fund to manage debt maturities.
 - iv. Given the increased constrained fiscal environment, counties need to put in place measures to enhance sustainability of Own Source Revenues.

2.1.4. Submission by the Controller of Budget

During the submission, it was indicated that:

58. The gross public debt stood at Ksh. 7.71 trillion million as at 30th June 2021 and comprised of 52.1 percent external and 47.9 percent domestic. The total estimated borrowing during the FY 2020/2021 was Kshs. 1.3 trillion while actual receipt during the same period was Kshs. 1.2 trillion i.e. 90.9 percent of the target.
59. During the financial year FY 2020/21 the Controller of Budget authorized a total of 81 Public Debt exchequer requests totaling Kshs. 862.8 billion from the consolidated fund. The amount approved was 30.9 percent of the total exchequer approved.
60. The estimated borrowing during the FY 2021/2022 is Kshs. 1.42 trillion. As at 31st July, 2021 actual receipt into the Consolidated Fund was Kshs. 67.85 billion or 4.8 percent of the annual target.
61. As at 31st August, 2021, the COB had authorized a total of Kshs. 162.4 billion from the consolidated fund towards debt servicing against annual budget of Kshs. 1.17 trillion, representing 13.9 percent of the total exchequer issues. It was noted that this is the highest component of budget and recommend the need to lower public debt.
62. During the FY 2020/2021 the total tax collected was Kshs. 1.49 trillion while the total public debt exchequer issues amounted to Kshs. 862.83 billion, and constituted 58.0 percent of the total tax collected. Between July and August 2021, the total tax collected amounted to Kshs. 253.46 billion while the total public debt exchequer issues stand at Kshs. 162.37 billion, constituting 64.1 percent of the total tax revenue collected.
63. This shows that, 64.1 percent of tax revenue collected is spent towards public debt leaving less funds towards other budget votes. The COB therefore recommended renegotiation of debt repayment agreements and slowing down of borrowing to ensure tax revenue collected is geared towards financing other components of the budget.
64. There are instances where National Treasury has borrowed from domestic market to repay foreign debt. For instance, on 16th August, 2021 PD:010/2021/2022 - Public Debt

Repayment Request amounting to Kshs.15 billion was of which substantial amount (98 percent) is towards syndicated loans repayments.

65. In FY 2020/21 a total of Kshs. 70.17 billion from the Sovereign Bond Proceeds relating to the State Department for Infrastructure, the State Department for Water, Sanitation and Irrigation, the State Department for Housing, Urban Development and the State Department for ICT & Innovation, the National Treasury then made a request totaling Kshs. 61.5 billion. This was in contravention of Article 201(c) and section 15(2)(c) of the PFM Act, 2012 which states that *“over the medium term, the national government’s borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure”* National Treasury should therefore ensure all request are in line with Article 201(c) and section 15(2)(c) of the PFM Act, 2012.
66. Payments of commitment fees (a fee that a lender may charge a borrower to whom it has agreed to extend credit. Generally charged for lines of credit not yet used, the commitment fee is a way of guaranteeing the bank will keep the funds available.) This shows the in efficiency of the implementing agency that has been granted the loan in their effective absorption of the funds in completion of their projects. The Government has to ensure that funds borrowed have to be utilized immediately to prevent loss of income in such payments.
67. As at June 30th 2021 the Government paid Kshs.1.66 billion on Commitment fees on Loans that have not been utilized but loan agreements had been signed. It was therefore recommended that these loans should be canceled in order to reduce the loan book balance and consequently save tax payers payments on the commitment fees.

2.1.5. Submission by the Auditor General

During the submission, it was indicated that:

68. In relation to public debt, the Office of the Auditor General audits and reports on the financial statements of the Consolidated Fund Services (CFS) which are prepared and submitted annually by the National Treasury;

69. The CFS Public Debt reports and financial statements are prepared in the format prescribed by the Public Sector Accounting Standards Board (Kenya) of Cash Basis Accounting Method under International Public Sector Accounting Standards (IPSAS);
70. The CFS Public Debt reports and financial statements comprise of the following statements;
- a) Statement of assets and liabilities as at year end,
 - b) Statement of receipts and payments,
 - c) Statement of cash flows,
 - d) The statement of appropriation – recurrent,
 - e) Summary of significant accounting policies and other explanatory information,
 - f) Summary statement of public debt.
71. The National Treasury is the custodian and manager of the Public Debt portfolio through the Public Debt Management Directorate. The Directorate is headed by a Director General, reporting to the Cabinet Secretary. The objectives of the Directorate are to;
- a) Minimize the cost of public debt management and borrowing over the long-term taking account of risk;
 - b) Promote the development of the market institutions for Government debt securities
 - c) Ensure the sharing of the benefits and costs of public debt between the current and future generations as required by Article 201 of the Constitution.
72. The Directorate is organized into three (3) Technical Departments namely; Resource Mobilization, Debt Policy, Strategy and Risk Management and the Debt Recording and Settlement.
73. The Office finalized the audit of the statement of public debt as at 30 June, 2020. The preliminary records on public debt as at 30 June 2021 has been received and the office is in the planning stage of the audit as the current audit cycle is set to begin 1 October, 2021 after the statutory deadline for submission of financial statements by all public institution is reached.
74. Under the unaudited preliminary report, the National Treasury indicated that:

- a) The outstanding amount of public debt has increased from Kshs. 3.39 trillion in FY 2015/2016 to reach Kshs. 7.63 trillion in FY 2020/2021. This represents an increase of Kshs.4.25 trillion (or 125 percent) over the five (6) year period.
- b) The outstanding amount of public debt of Kshs. 77.6 trillion as at 30 June, 2021 represents 84 percent of the maximum ceiling of Kshs. 9 trillion approved by Parliament through Legal Notice No.155 of 26 September, 2019
- c) The expenditure on public debt increased from Kshs. 421.46 billion reported in FY 2015/16 to Kshs. 867.28 incurred in FY 2020/21.
- d) Consolidated Fund Services total expenditure of Kshs. 765.67 billion comprising of Kshs. 704.79 billion or 88.6 percent for Public Debt Servicing, Kshs. 87.57 billion or 11 percent for Pension and Gratuities, Kshs. 3.31 billion or 0.4 percent for Salaries, Allowances and Miscellaneous Services, and a Nil expenditure for Subscriptions to International Organizations.

75. During the audit of the financial statements for the year ended 30 June, 2020 the following observations were made.

- i. The growth in public debt is attributed to disbursements of new loans to the Government by various Development Partners and additional borrowings from the domestic market through Treasury Bonds and Treasury Bills to fund the budget.
- ii. Further analysis on budget absorption on public debt indicates an under absorption of Kshs. 74.06 billion from the budgeted amount of Kshs. 778.85 against the actual amount of Kshs. 704.79 billion.
- iii. That there were audit issues raised pertaining to the maintenance of the public debt records and unexplained variances between various records for the year 2019/2020 which includes;
 - a) Unexplained difference of Kshs. 1.814 billion between the bank balance of Kshs. 4.54 billion reflected in the statement of assets and liabilities and the bank balance of Kshs. 6.35 billion reflected in the trial balance.
 - b) Unexplained variance of Kshs. 2 Billion between the internal loans - short-term borrowing balance of Kshs. 887.14 billion reflected in the summary

statement of public debt and the re-computed closing balance of Kshs. 885.14 billion. The over-redemption of Kshs.2 Billion was not acknowledged by the Central Bank of Kenya and may therefore not be recoverable.

- c) Unexplained variance of Kshs. 26.22 trillion between the Treasury Bonds balance of Kshs. 2.22 trillion reflected in the summary statement of public debt and the re-computed Treasury Bonds closing balance of Kshs. 2.19 trillion.
- d) Non-disclosure of public debt procured during the year – 2019/2020.

76. The office is currently conducting a comprehensive performance audit specifically on two topics namely;

- a) Public Debt Servicing Activities which will aim to confirm whether the transactions are recorded accurately and completely, the amounts in the debt register are accurate and whether there is timely payment of the debt to avoid attracting penalties,
- b) Determination of Borrowing Needs Activities – this will focus on assessing whether the Government has documented borrowing plans aligned with public debt goals and strategy; and whether the Government has adopted the best practice approach on borrowing activities such as the Debt Management Performance Assessment, (DeMPA).

CHAPTER THREE

3. COMMITTEES FINDINGS / OBSERVATIONS

77. The Committee having considered the submissions from the stakeholders, made the following observations-

- a) As at the end of Financial Year 2020/21 the stock of public debt amounted to Kshs. 7.71 trillion (69 percent of the Gross Domestic product) and is composed of Kshs. 3.697 trillion (48 percent) domestic debt and Kshs. 4.015 trillion (52 percent) external debt.
- b) There is also an additional undisbursed loan commitments amounting to Kshs. 1.31 trillion. This brings the total loan commitments (disbursed and undisbursed debts) to Kshs 9.02. trillion against the approved ceiling of Kshs. 9 trillion.
- c) Kenya has maintained high levels of fiscal deficit due to imbalanced interaction between national revenues and expenditures. The average for the last 5 years, (since FY 2017/18 to FY 2021/22) has been Kshs. 799.2 billion. The fiscal deficit for FY 2021/22 amounts to Kshs. 952.9 billion.
- d) Whereas the fiscal deficit may be undertaken with the aim of spurring economic growth, it has not followed fiscal sustainability principles and the country has consistently missed its Fiscal consolidation targets. This is indicated by the deviation of the fiscal deficit from the Medium term 3 percent target set annually by the Budget Policy Statement and the East African Community Convergence Criteria.
- e) The accumulation of public debt has resulted in considerable increase in debt servicing expenditures, constraining fiscal space and causing budget inflexibility due to diminishing revenues available for other critical government expenditures.
- f) The resultant constrained fiscal environment could jeopardize the allocation and disbursement of equitable shareable revenue, which forms a significant budget financing for both national and devolved governments. This is evidenced by the inconsistency in release of exchequer resources that are critical for budget planning and implementation by both levels of governments.
- g) The total commitment fees for loans signed but not utilized between June 2016 and June 2021, cumulatively amounted to Kshs. 14.3 billion (of which Kshs. 1.66 billion was

incurred in FY 2020/21). This indicates an inefficient and costly debt acquisition procedures, inconsistent with debt management requirements set under the PFM Act 2012.

- h) The regulatory framework for enforcing prudent public debt management in Kenya is insufficient. Factors such as lack of transparency and accountability, incurrence of commitment fees and poor risk assessment practices, are all indicative of outdated legal framework, institutional inefficiencies, lack of adherence to code of ethics in the public sector.
- i) Fiscal uncertainty is likely to negatively affect private sector investment and lower countrywide confidence in fiscal management. Adequate changes to fiscal policy is required to boost confidence of domestic and external investors.
- j) During the review of the debt ceiling in October 2019, the National Treasury indicated that the increased borrowing space would be utilized to restructure the debt stock and bring it to a sustainable level. This has however not been undertaken and raises concerns on commitment by the National Treasury to statements made before Parliament.
- k) Pending bills are dues owed to a people and their businesses and even though they do not form part of the debt stock, they are a current liability owed to providers of goods and services. The continuous increase in pending bills indicates weaknesses within the cash disbursement system, which adversely affects credit to the private sector and profitability.
- l) Section 9(4) of the Controller of Budget Act, 2016 provides that *“for avoidance of doubt, the reports submitted under subsection (1)¹³ shall not include reports on recent economic developments and outlook, including revenue, grants and loans forecast and receipts.”* This section limits the power of the Controller of Budget to undertake appropriate analysis on the status of the economy in relation to national resources (revenue, loans and their sustainability) for which it safeguards.
- m) That Kshs. 61.5 billion out of the Kshs. 70.17 billion proceeds from the International Sovereign Bond were utilized to meet recurrent expenditure contrary to Section 15(2)(c) of the PFM Act, 2012 that stipulates that *“over the medium term, the national government’s*

¹³ (1) The Controller of Budget shall, in accordance with Article 228(6) of the Constitution, submit to Parliament quarterly budget implementation reports for the national and county government within thirty days after the end of each quarter

borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure”

- n) Arising from Auditor General reports, the following were noted:
- i. Under absorption of public debt resources by Kshs. 74.06 billion in FY 2019/2020.
 - ii. There were audit issues raised pertaining to the maintenance of the public debt records and unexplained variances between various records for the FY 2019/2020 which includes;
 - a) Unexplained difference of Kshs. 1.81 billion between the bank balance of Kshs. 4.54 billion reflected in the statement of assets and liabilities and the bank balance of Kshs. 6.35 billion reflected in the trial balance.
 - b) Unexplained variance of Kshs. 2 Billion between the internal loans - short-term borrowing balance of Kshs. 887.14 billion reflected in the summary statement of public debt and the re-computed closing balance of Kshs. 885.14 billion. The over-redemption of Kshs. 2 Billion was not acknowledged by the Central Bank of Kenya and may therefore not be recoverable.
 - c) Unexplained variance of Kshs. 26.22 billion between the Treasury Bonds balance of Kshs. 2.22 trillion reflected in the summary statement of public debt and the re-computed Treasury Bonds closing balance of Kshs. 2.19 trillion.
 - d) There is Non-disclosure of public debt procured during the year – 2019/2020.

CHAPTER FOUR

4. COMMITTEES' RECOMMENDATIONS

78. The Committee recommends that-

- a) In order to control the increasing debt burden, the National Treasury should-
 - i. Within Six (6) months of the adoption of this report the National Treasury shall submit to Parliament a legislative proposal setting out the appropriate fiscal consolidation measures required to reduce the public debt stock to sustainable levels, over the medium term;
 - ii. Utilize non-debt financing options for public investment and submit a report to Parliament on a quarterly basis; and
 - iii. Restructure the public debt stock by undertaking refinancing operations by either retiring or replacing expensive debt with debt that have more favorable borrowing terms such as concessional loans.
- b) To address transparency concerns, the National Treasury should-
 - i. Within six (6) months operationalize the IFMIS Debt Management Module and grant access to the Central Bank of Kenya, Office of the Controller of Budget and Office of the Auditor-General for monitoring;
 - ii. Submit to Parliament the debt register and publish the same on a quarterly basis on the Kenya gazette and its website for scrutiny by the public.
- c) Pending bills, even though not forming part of the debt stock, these are current liabilities owed to providers of goods and services. As such, the National and County treasuries should update the public expenditure recording system to ensure that the payment of pending bills is prioritized. This will improve investor confidence.
- d) Empower the Controller of Budget to be able to provide reports related to recent economic developments, outlook, revenue, grants and loans and submit these reports to Parliament of a quarterly basis for scrutiny.

- e) Within 28 days the National Treasury should submit to Parliament a status report on the restructuring of the public debt stock as indicated during the review of the debt ceiling in October 2019.
- f) Section 15(2)(c) of the PFM Act 2012, stipulates that; “*over the medium term, the national government’s borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure*”; therefore, the Auditor General should, within six (6) months, undertake a special audit on the utilization of all Commercial loans in Kenya (up to the first quarter of FY 2021/22) and submit a report to Parliament.
- g) In order to enhance public sector investment and increase efficiency of public spending, National and County Treasuries should apply best practices in project appraisal and selection.
- h) The National Treasury shall publish and submit to parliament, every 3 months a comprehensive report on Debt Servicing Expenditures.
- i) In addressing the recurrence of commitment fees, the National Treasury should renegotiate undisbursed loans with the aim of either;
 - i. cancelling undisbursed loans,
 - ii. suspending the commitment fee clauses to give time to the Kenyan government to address factors that affect loan disbursement.
- j) The National Treasury should: i) desist from undertaking projects or entering into loan agreements that could lead to payment of commitment fees, ii) provide for mechanisms to deter incurrence of commitment fees in future.
- k) That National Assembly and the Senate, should constitute joint committees to review and improve the legal framework underpinning use of public finances in Kenya. The committee(s) should undertake wide sectoral engagement in order to strengthen and revitalize the fiscal management framework against rising and evolving public finance management malpractices.
- l) Given the constrained fiscal space, all accounting officers should prioritize the consolidation and protection of the available financial resources, from misappropriation in order to enhance efficiency and effectiveness of budget implementation.

Appendices

1. Submissions from the stakeholders
2. Minutes of the Committee

REMARKS BY THE CABINET SECRETARY, NATIONAL TREASURY
AND PLANNING TO THE STANDING COMMITTEE ON FINANCE
AND NATIONAL PLANNING

I. THE SIZE OF PUBLIC DEBT

Hon. Chair, as at end June 2021, the nominal public debt stock (*including guaranteed debt*) stood at Kshs 7.71 trillion (USD 71.52 billion) equivalent to 69.07 per cent of GDP.

Hon Chair, this comprises of 52.1 per cent or Ksh 4.01 trillion External debt of total debt and 47.9 per cent Ksh 3.70 trillion Domestic debt.

Kenya's public debt accumulation is on account of running high fiscal deficits (i.e. public-expenditure driven debt accumulation) and exchange rate movements.

Hon Chair, the *Public Finance Management Act (PFM) 2012* sets the public debt ceiling currently at Kshs 9 trillion. As at end June, 2021, total loans outstanding is Kshs 7.71 trillion while undisbursed commitments stand at Kshs 1.3 trillion.

a. *Domestic debt*

Hon Chair, the Domestic debt stands at Kshs 3.70 trillion and attracts an average interest rate of 11 percent per annum. The goal is to hold more domestic debt in Treasury bonds than bills.

Hon Chair, the current ratio of Treasury bonds and bills stands at 79:21 an improvement from the previous year position of 71:29. This is as a result of a deliberate government strategy to reduce the stock of Treasury bills which has been posing rising *settlement and rollover risk*.

b. **External debt**

Hon Chair, the External debt stands at Kshs 4.01 trillion at an average interest cost of 4.2 per cent per annum and guaranteed debt stands at Kshs 162.58 billion mainly to *Kenya Airways, Kenya Power & Lighting Company, KenGen, Kenya Railways* and *Kenya Ports Authority*.

Hon Chair, the external debt composition currently is distributed as follows;

- Multilateral (41.33%), bilateral (28.44%) commercial (29.78%) and other creditors (0.44%). The World Bank (26.65 % of total external debt) China (19.04%) and Eurobonds (19.07%) are Kenya's major external creditors.

Hon Chair, the goal of the current medium-term debt strategy is to do a liability management operation aimed at reprofiling or refinancing the commercial external debt at a lower interest rate cost and spread the maturities to the future to reduce the fiscal pressure.

II. **PUBLIC DEBT SUSTAINABILITY**

Hon Chair, as at April 2021, the IMF *Debt Sustainability Analysis* (DSA) report on Kenya indicates that public debt remains sustainable. But, due to the impact of the global COVID-19 crisis which worsened debt vulnerabilities, the country's risk of debt distress has moved to high from moderate.

Hon Chair, Kenya's external and public debt vulnerabilities also reflect the high deficits in the past, partly due to large infrastructure projects. This has led to breaches of both *solvency and liquidity* indicators.

In addition, **Hon Chair**, the COVID-19 crisis globally has led to a sharp decline in export growth and Kenya's economic growth prompting the Government strong fiscal response has also increased the budget deficit worsening the debt indicators.

Kenya generally has enjoyed strong access to the international capital markets, and our projections assume that existing Eurobonds will be rolled

successfully and the debt indicators are expected to improve as exports rebound after the global economy recovers.

Hon Chair, the public debt sustainability outlook is expected to improve on the basis of implementation of the Post Covid-19 Economic Recovery Strategy (ERS), commitment to fiscal deficits reduction/consolidation and growth in exports thus improving the debt ratios.

III. DEBT RESTRUCTURING

Hon Chair, on debt restructuring, Kenya has not approached any external multilateral. The Government has taken steps to implement the G20 Debt Service Suspension Initiative and is currently finalizing the January to June 2021 DSSI deferral agreements for eligible loans individually with the lenders.

Participation in the DSSI was majorly to free up resources for Covid intervention spending. The first phase is almost done, after which the Government will embark on the second phase covering July to December 2021. The first phase free up resources approximately KES 38.3 billion and the second phase amounts is expected to free up to about KES 41.1 billion.

Hon Chair, the suspended repayments and payments are

- The suspension will be NPV- neutral.
- The repayment period will be six (6) years, including a one-year grace period.
- Treatment will be achieved either through rescheduling or refinancing.
- Perimeter of maturities and cut-off date: A cut-off date protecting new financing in case of possible future restructuring was set on March 24, 2020.

Hon Chair, the National Treasury in the process of having a Liability Management Operation in this financial year 2021/22, aimed at refinancing and reprofiling the a few identified external commercial debt. This will create some fiscal space and ensure the debt remains within sustainable levels.

IV. 2021 Medium Term Debt Strategy:

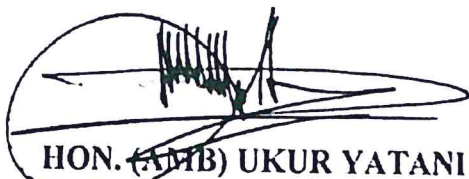
Finally, Hon Chair, the MTDS 2021 has identifies the Government's desired composition of debt consistent with its preferences with regard to the cost-risk trade-off,

It provides for policy, institutional, legal and other reforms needed to remove obstacles that limit development of debt markets thus constraining debt management.

Hon Chair, the 2021 MTDS key actions to minimize cost and risk include:

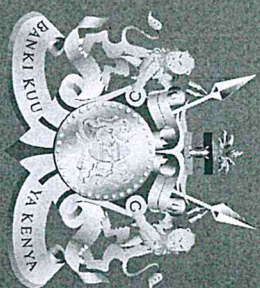
- a) Reduce stock of Treasury Bills to lower refinancing and rollover risk.
- b) Perform Liability Management operation for external commercial debts to reduce the refinancing risk.
- c) Operationalize the Sinking Fund to manage debt maturities.
- d) Approach commercial financing with caution

Hon Chair, this is our submissions.



HON. (AMB) UKUR YATANI
CABINET SECRETARY, NATIONAL TREASURY AND PLANNING

10TH AUGUST, 2021



Central Bank of Kenya

KENYA'S PUBLIC DEBT STATUS PRESENTATION TO THE SENATE COMMITTEE ON FINANCE AND BUDGET

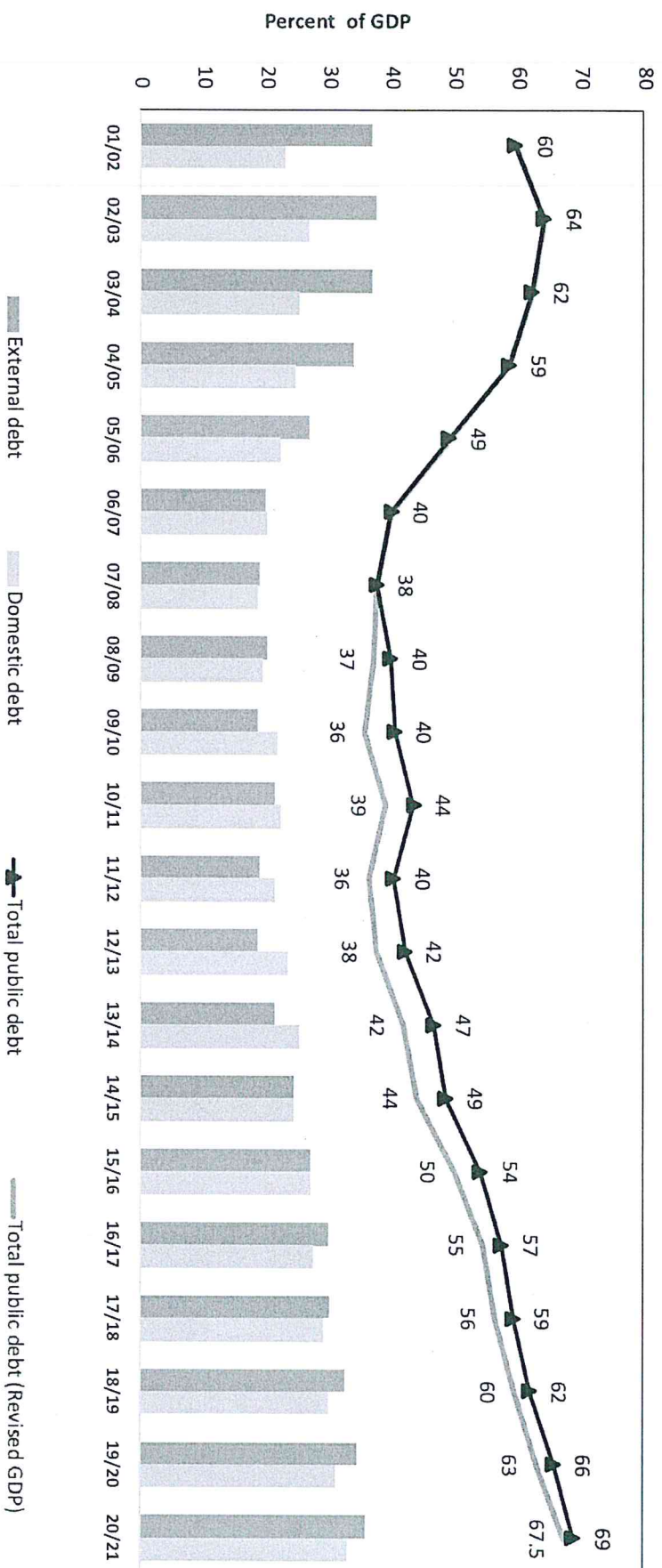
September 15, 2021

Dr. Patrick Njoroge

WWW.CENTRALBANK.GO.KE

Evolution of Kenya's Public Debt...

Debt to GDP ratio



- Kenya's public debt to GDP ratio declined from 64.1 percent in June 2003 to 38.1 percent in June 2012, but increased thereafter driven largely by spending on infrastructure and more recently, COVID-19 related spending.

2.

Evolution of Kenya's Public Debt...

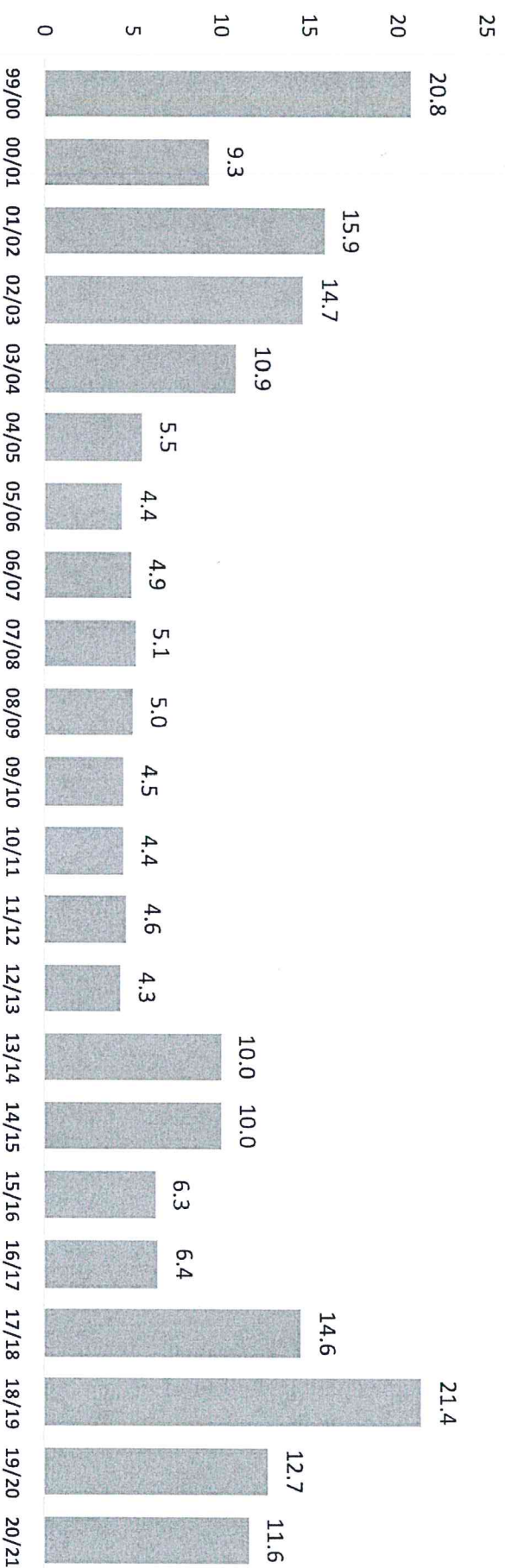
➔ External Debt Service to Exports ratio



- External debt service to exports ratio declined from 19.2 percent in June 2000 to 3.5 percent in 2010, then rose to a high of 31 percent in June 2019.
- The high ratio in 2019 was mainly on account of a one-off USD 750 million Eurobond repayment.
- The ratio has been declining in the last 2 years also due to an improvement of the terms on new external loans.

Evolution of Kenya's Public Debt...

➤ External Debt Service to Revenues ratio

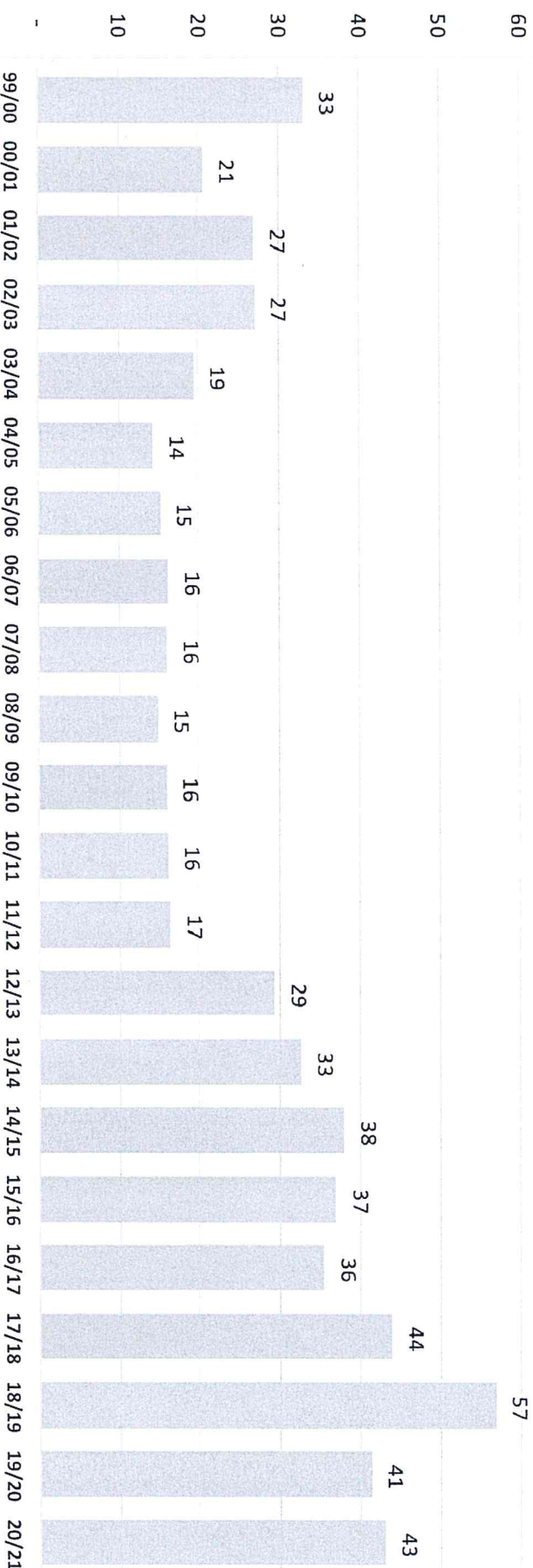


- External debt service to revenues ratio declined from 20.8 percent in June 2000 to 4.3 percent in June 2013, then rose to a high of 21.4 percent in June 2019.
- The high ratio in June 2019 was mainly on account of a one-off USD 750 million Eurobond repayment
- The ratio has been declining in the last 2 years also due to an improvement of the terms on new external loans.

4.

Evolution of Kenya's Public Debt...

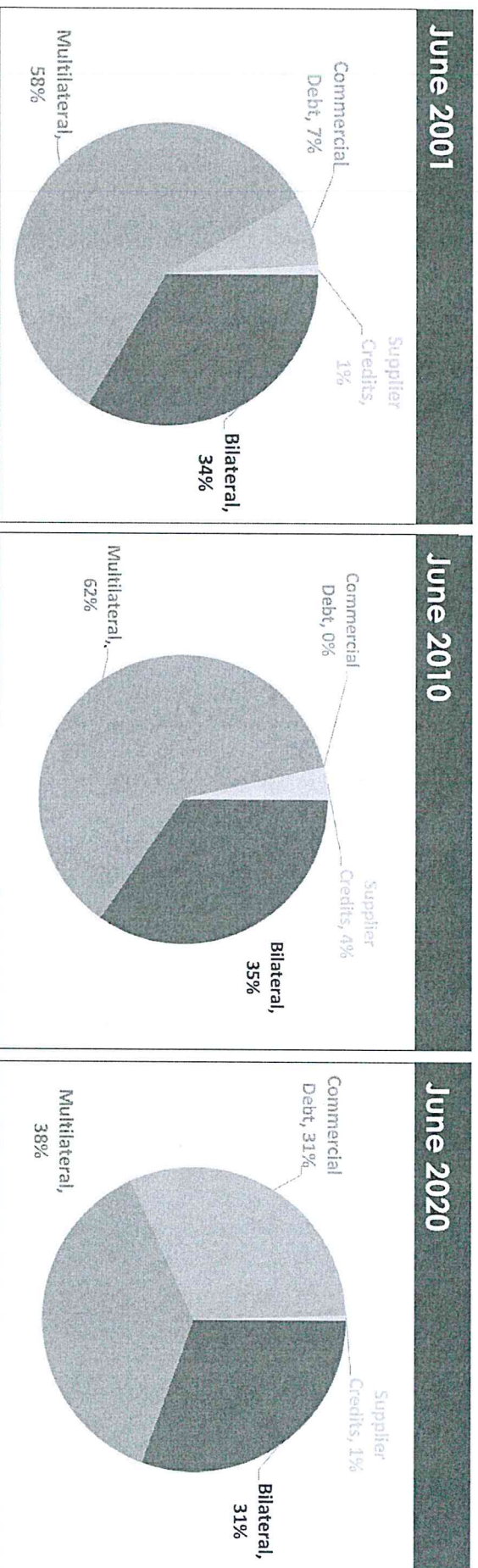
➔ Total Debt Service to Revenues ratio



- Total debt service to revenues increased to 57 percent in 2019 from 17 percent in 2012 due an increased debt stock and changing terms on new loans including one-off repayment of syndicated loans and Eurobonds in 2019.

- This trend is expected to reverse in the medium term due to improving terms on new loans, and the restructuring of external commercial loans that have heavy maturities and high interest cost.

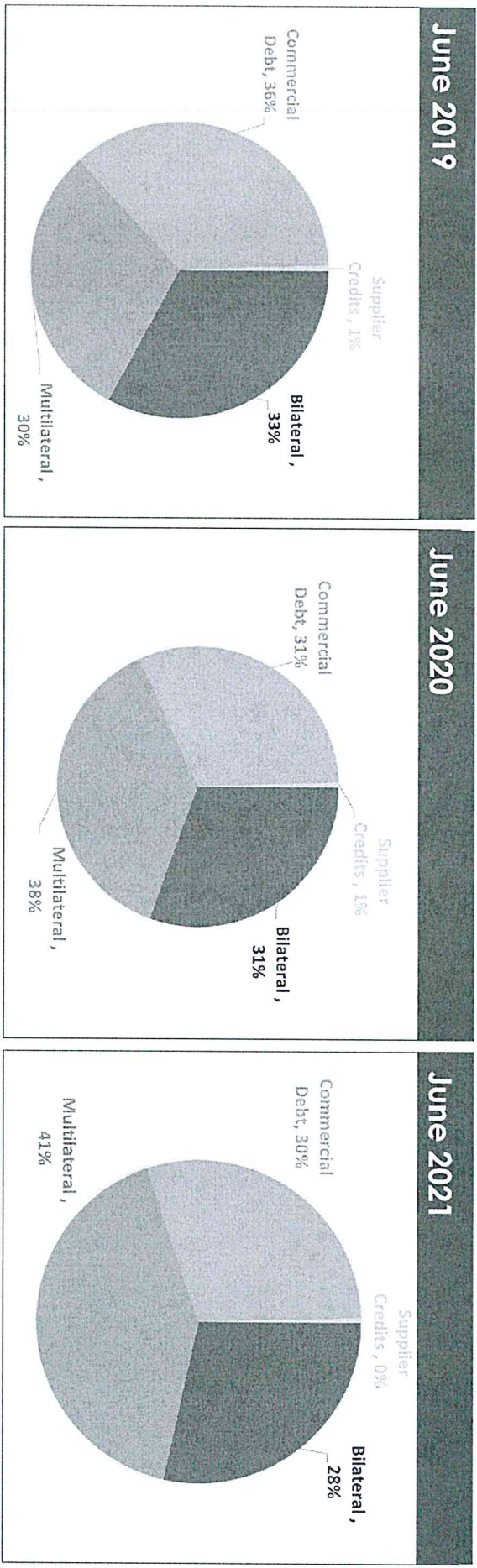
Composition of External Debt by Lender Category



- The structure of Kenya's external (public and publicly guaranteed) debt changed significantly between 2010 and 2020, with increased uptake of commercial debt to improve Kenya's presence in the international financial markets to diversify Kenya's sources of external financing.

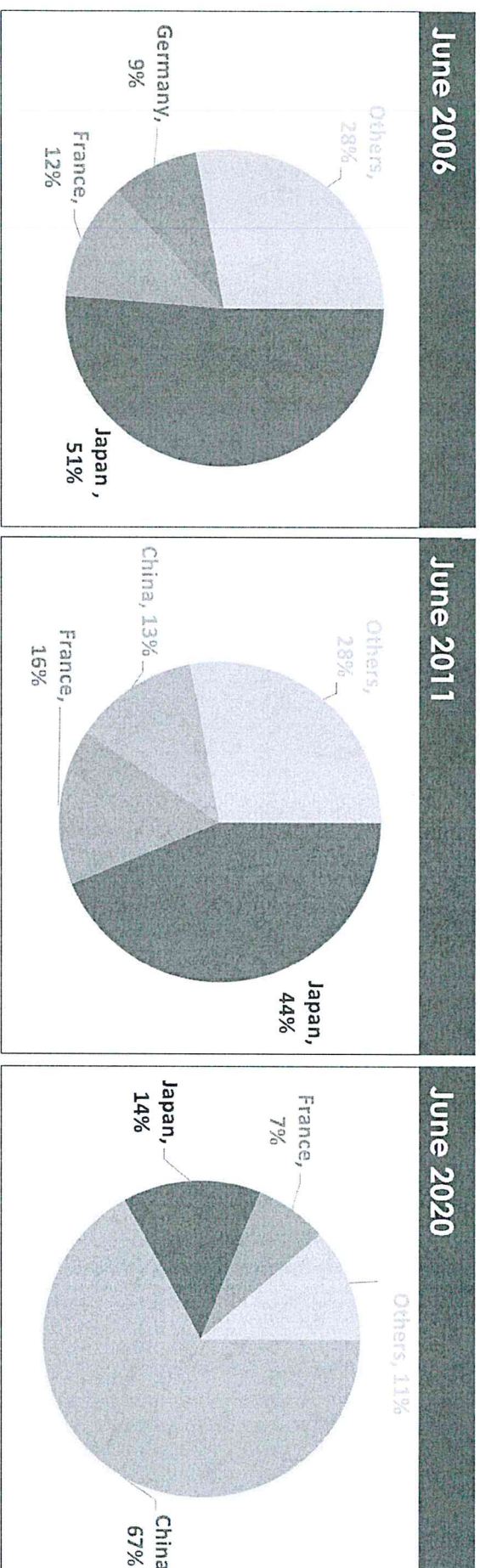
6.

Composition of External Debt by Lender Category



- Recent efforts to increase Kenya's concessional public debt led to a 10.1 percentage points increase in the proportion of multilateral debt from 30.2 percent in June 2019 to 41.3 percent in June 2021

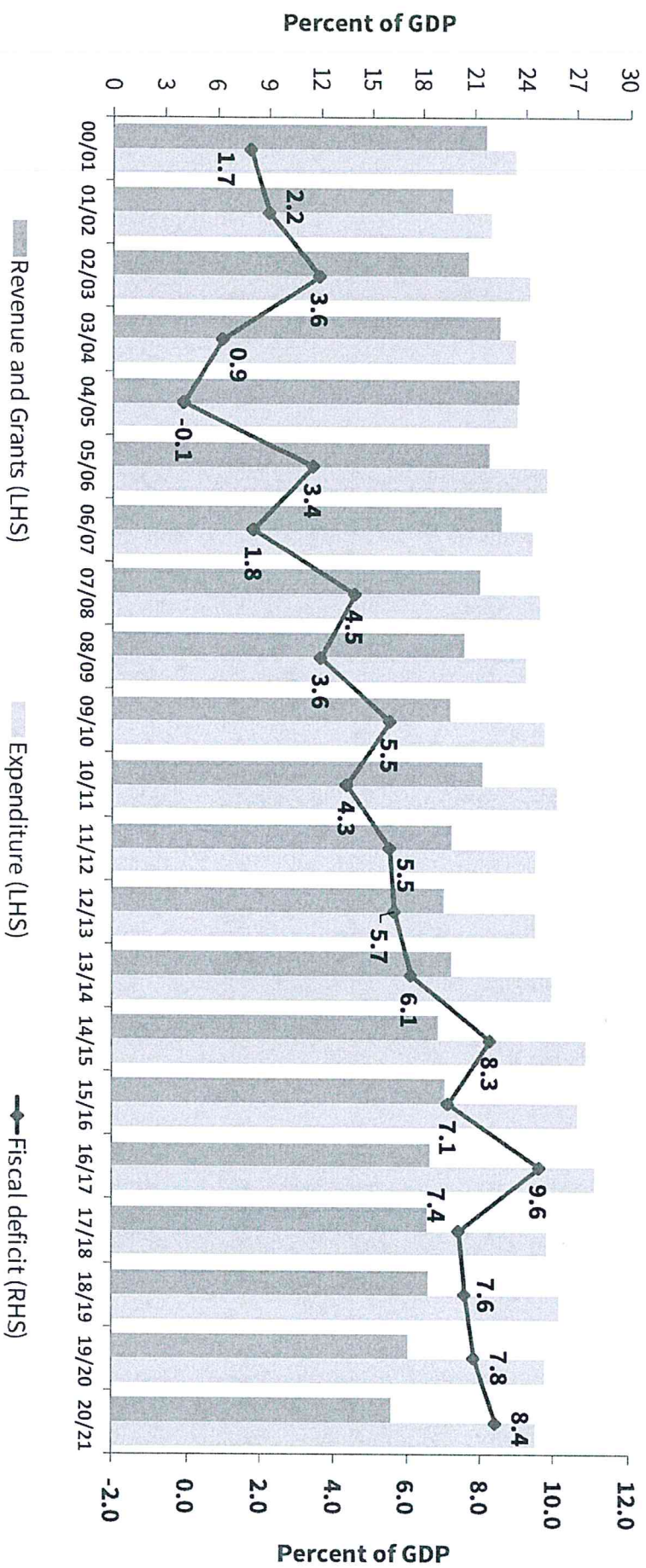
Composition of Bilateral Lenders of External Debt



- The leading bilateral lender shifted from Japan to China between 2011 and 2020

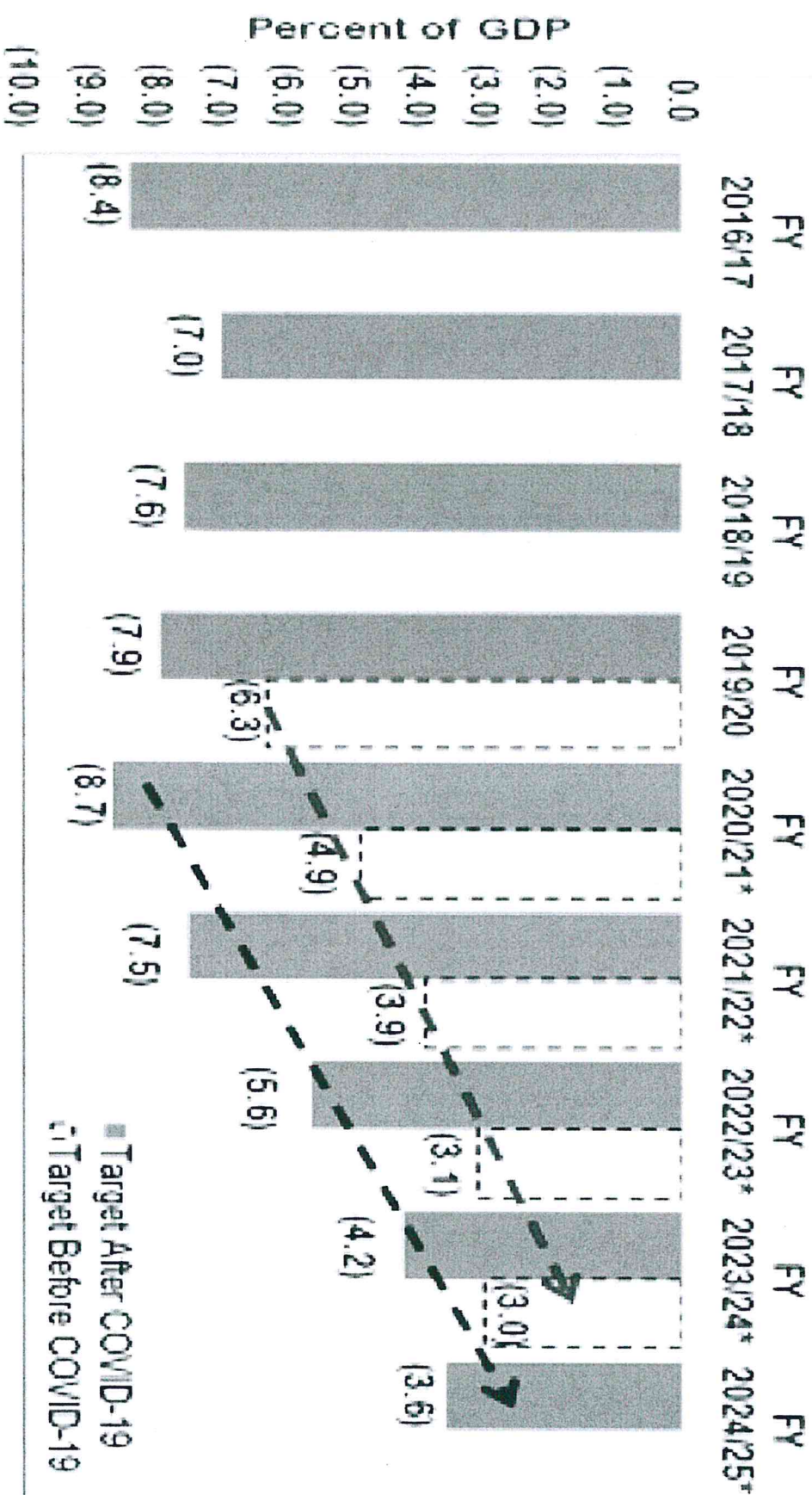
- Increased fiscal deficit largely due to development expenditure (e.g, infrastructure) but also recurrent (e.g, education, health), and increased guaranteed debt
 - Worsening terms on new loans, such as lower concessionality and increased commercial loans
 - Exogenous economic shocks, such as drought or COVID-19
- ➔ Overarching concern is limited capture of the returns from expenditures (investments) through increased exports, taxes, and faster economic growth

Overall Fiscal Performance



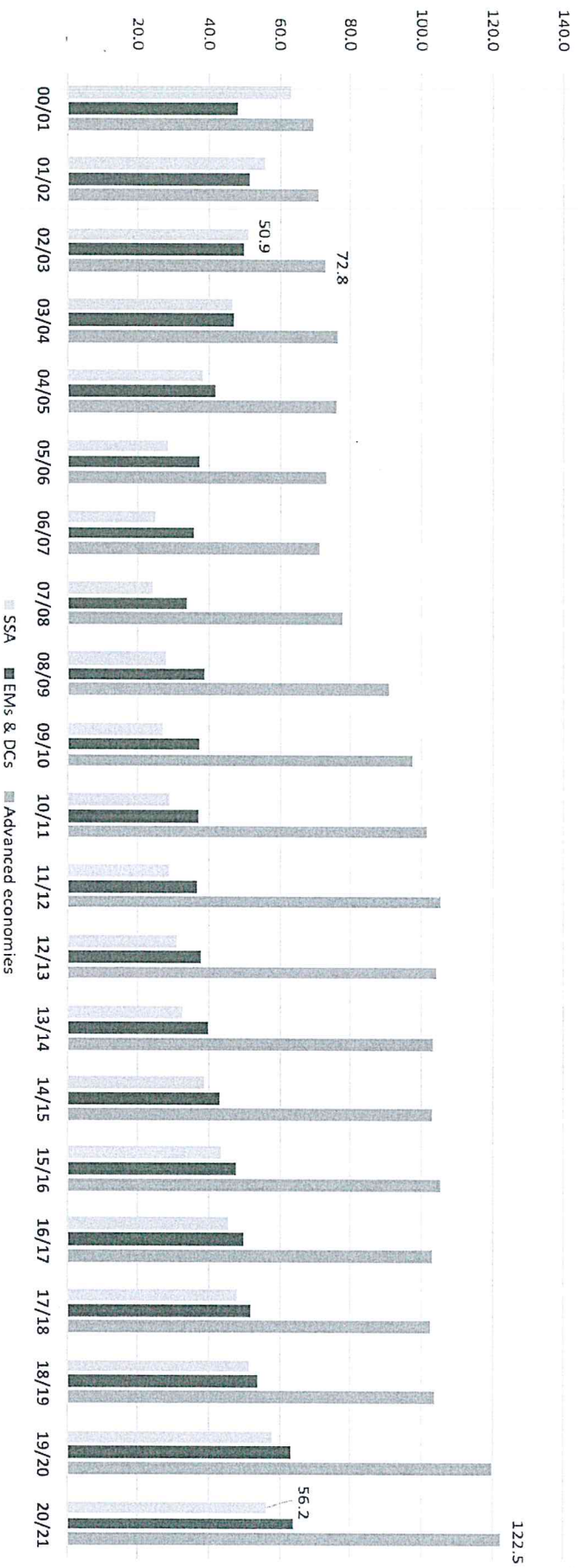
10.

Projected Fiscal Consolidation Path



Source: National Treasury BPS February 2021

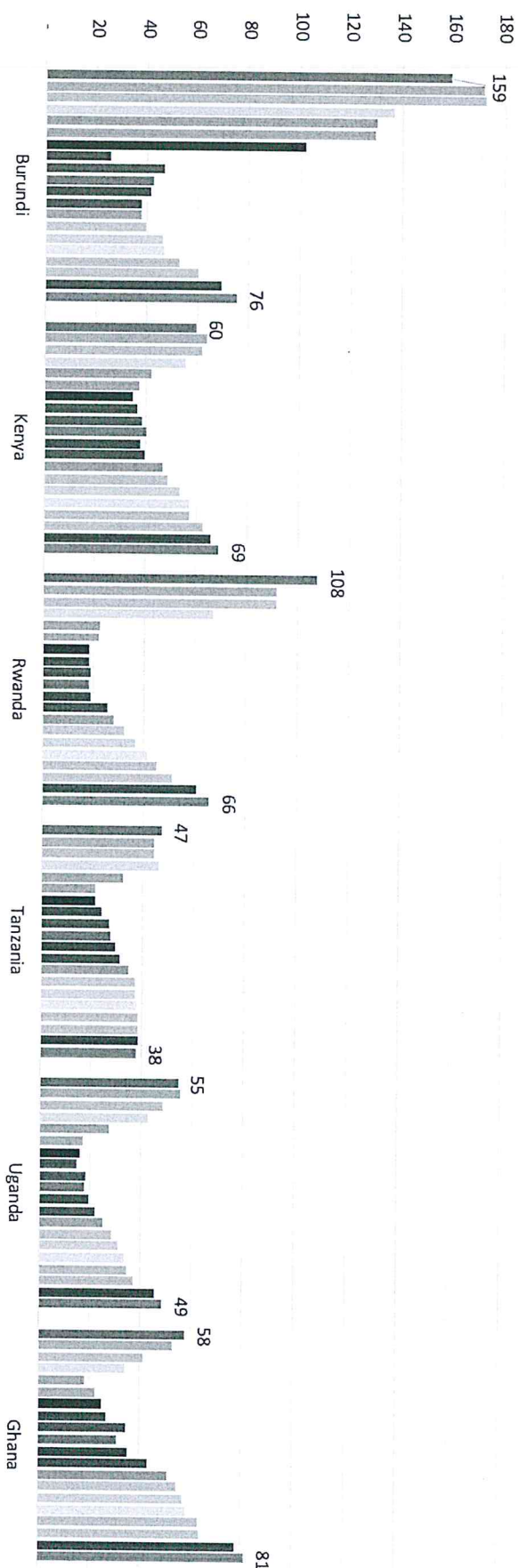
Government Debt to GDP Ratio Trends in SSA, EMs & DCs and AEs



- Government debt to GDP ratio in Advanced Economies (AEs), Emerging Markets and Developing Countries (EMs & DCs) and Sub-Saharan Africa (SSA) has been on an upward trend in the last decade.
- The Sub-Saharan Africa debt to GDP ratio decreased during 2000 - 2010 as several countries in the region benefitted from Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI) debt relief programmes.

12.

Government Debt to GDP ratio; EAC & Ghana

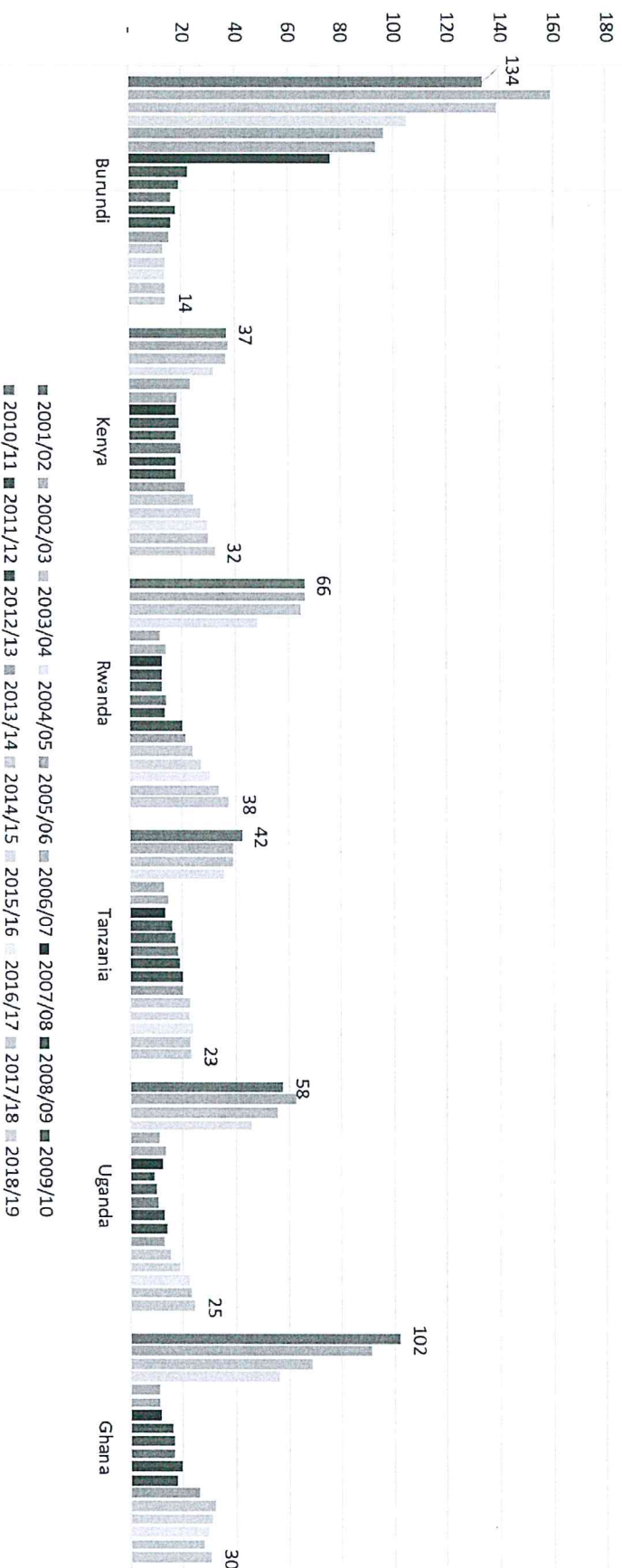


Public and publicly guaranteed debt
Source: WEO April 2021

- General government debt to GDP ratio decreased in early 2000s for all the countries under analysis.
- The decrease was on account of HIPC debt relief, other than Kenya whose decline was driven by improved economic growth.
- With increased fiscal space, the countries embarked on an infrastructural upgrade programme that resulted to increased debt to GDP ratio.

13.

External Debt to GDP ratio: EAC & Ghana



Public and publicly guaranteed debt

Source: World Bank

- With the HIPC debt relief, external debt to GDP ratio decreased significantly in Ghana, Burundi, Tanzania, Rwanda and Uganda
- The recent upward trend is associated with the countries' increased access to international financial markets

- DSA is an assessment of the impact of a country's current debt level and prospective borrowing on its present and future ability to meet debt service obligations.
- Kenya's DSA is assessed using the Low Income Debt Sustainability Framework Tool despite being a lower middle income country due to the high concessionality of its external debt.
- The tool focuses on external DSA which has two broad categories of indicators related to solvency and liquidity;
 - **Solvency indicators**
 - Present Value of PPG external debt to GDP ratio
 - Present Value of PPG external debt to exports
 - **Liquidity indicators**
 - External debt service to revenues ratio
 - External debt service to exports ratio

DSA Risk Rating Criteria

Low

- All debt indicators are below their relevant thresholds, including under stress tests
- Use judgement in cases where only one indicator is above its benchmark

Moderate

- Baseline scenario does not indicate a breach of thresholds
- Stress tests result in a significant rise in debt-service indicators over projection period (nearing thresholds) or a breach of debt or debt-service thresholds

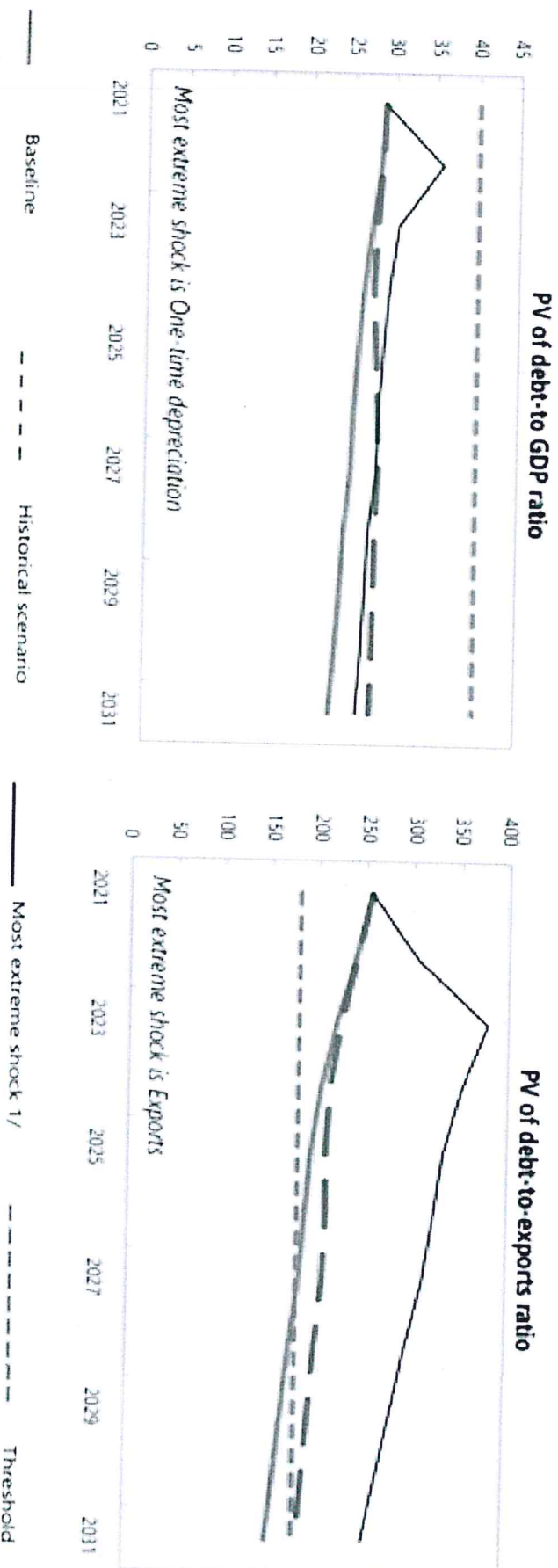
High

- Baseline scenario results in a breach of one or more thresholds, but the country does not currently face any payment difficulties
- This is exacerbated by the alternative scenarios or stress tests

Distress

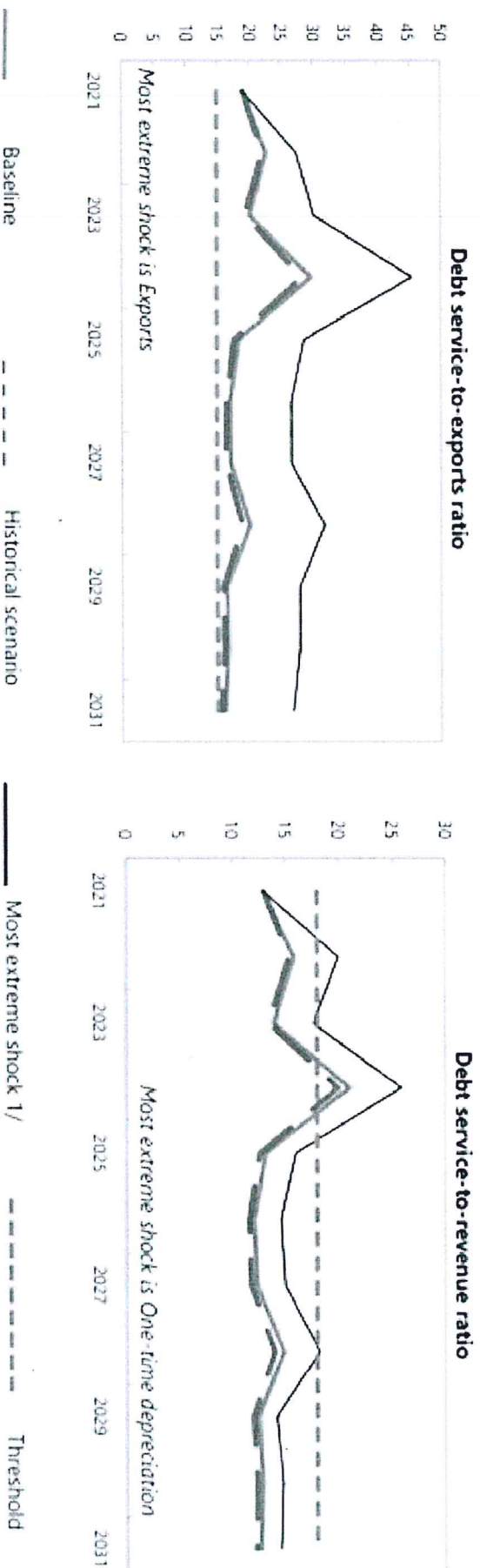
- Current debt and debt service ratios are in significant or sustained breach of thresholds
- Actual or impending debt restructuring negotiations
- Existence of arrears, would generally suggest that a country is in debt distress

External DSA: Solvency Indicators



Source: IMF

- The Present value of PPG external debt to GDP ratio remains within the threshold.
- However, historical and shocks scenarios reveal major risks, in case of suppressed growth in exports



Source: IMF

- The debt service to exports ratios have prolonged breaches in baseline, historical and shock scenarios while the debt service to revenue ratio reveal short lived breaches associated with heavy maturities of Eurobond procured in June 2014

- In March 2021, the IMF assessed Kenya's public and publicly guaranteed debt as **sustainable but with high risk of debt distress**
- Kenya's debt was subjected to **lower thresholds and benchmark** during this assessment due to a downgrade in the debt carrying capacity from strong to medium debt carrying capacity majorly due to subdued world growth driven by the COVID-19 pandemic
- Main factors driving this assessment were;
 - high deficits from the past and the COVID-19 shock,
 - sharp decline in exports and economic growth caused by the pandemic
- The assessment highlighted the following as the main risks to Kenya's DSA outlook
 - Financial weaknesses in State Owned Enterprises (SOEs),
 - subdued export growth,
 - and economic impact of COVID-19 pandemic
- Kenya's debt sustainability is expected to improve as fiscal consolidation progresses and exports and output recover from the global shock

- **It narrows the fiscal space**, therefore limited resources for development and recurrent expenditure
- **Narrows the fiscal buffers**, thus limited space to pursue countercyclical fiscal policy leading to increased volatility and lower growth rates
- **Increases the interest rate structure for the sovereign and the private sector**, thus stifling innovation and productivity and eventually reducing the economy's growth potential

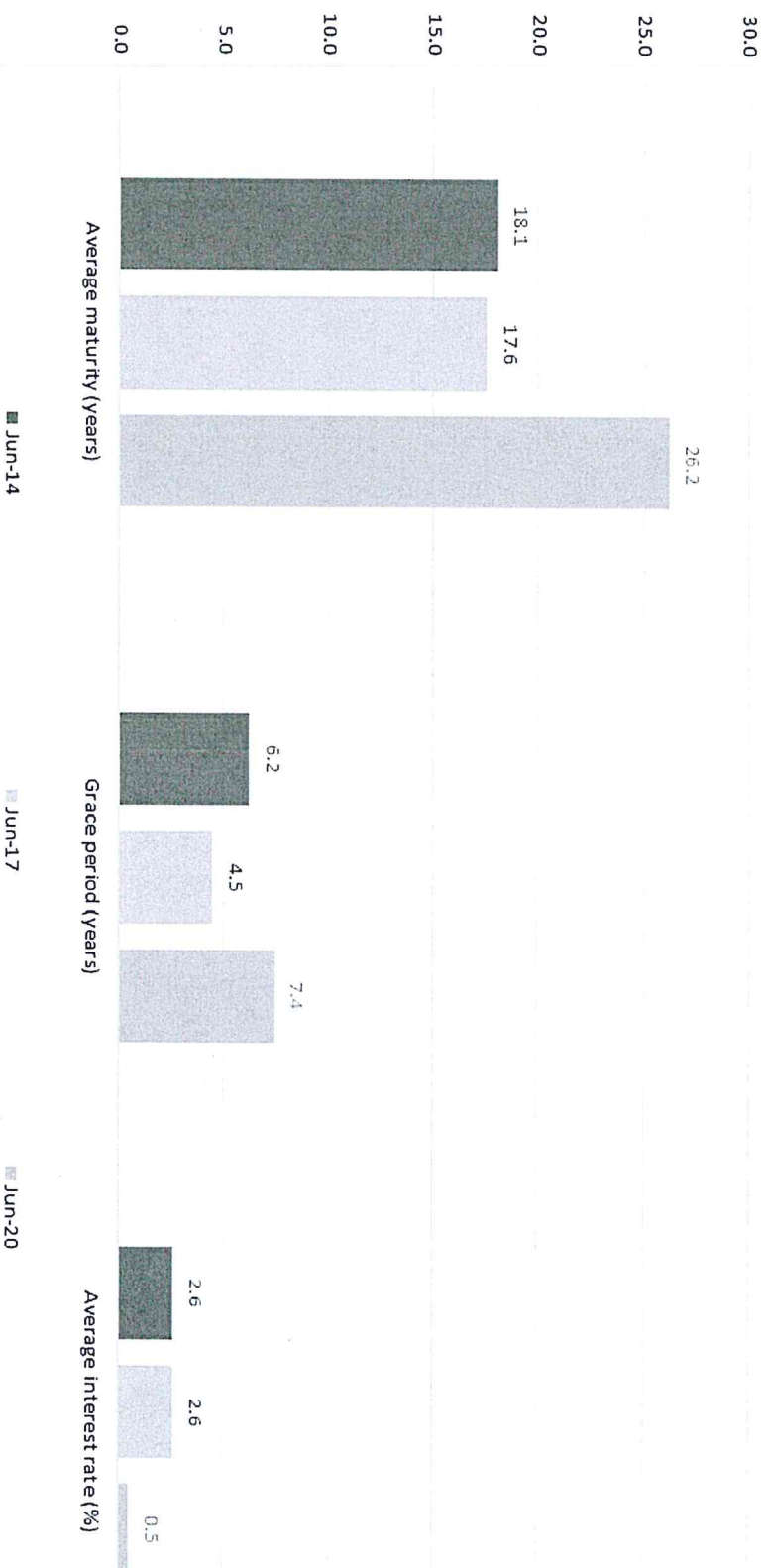
How Do We Reduce the Debt Burden?

- Stay the course on the fiscal consolidation path
- Explore non-debt creating financing options for public investments
- Increasing efficiency of public spending
- Refinancing operations; refinancing expensive debt with debt on more favorable terms
- Frequent reporting and monitoring

Thank You!

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Annex 1: Terms on New External Loan Contracts

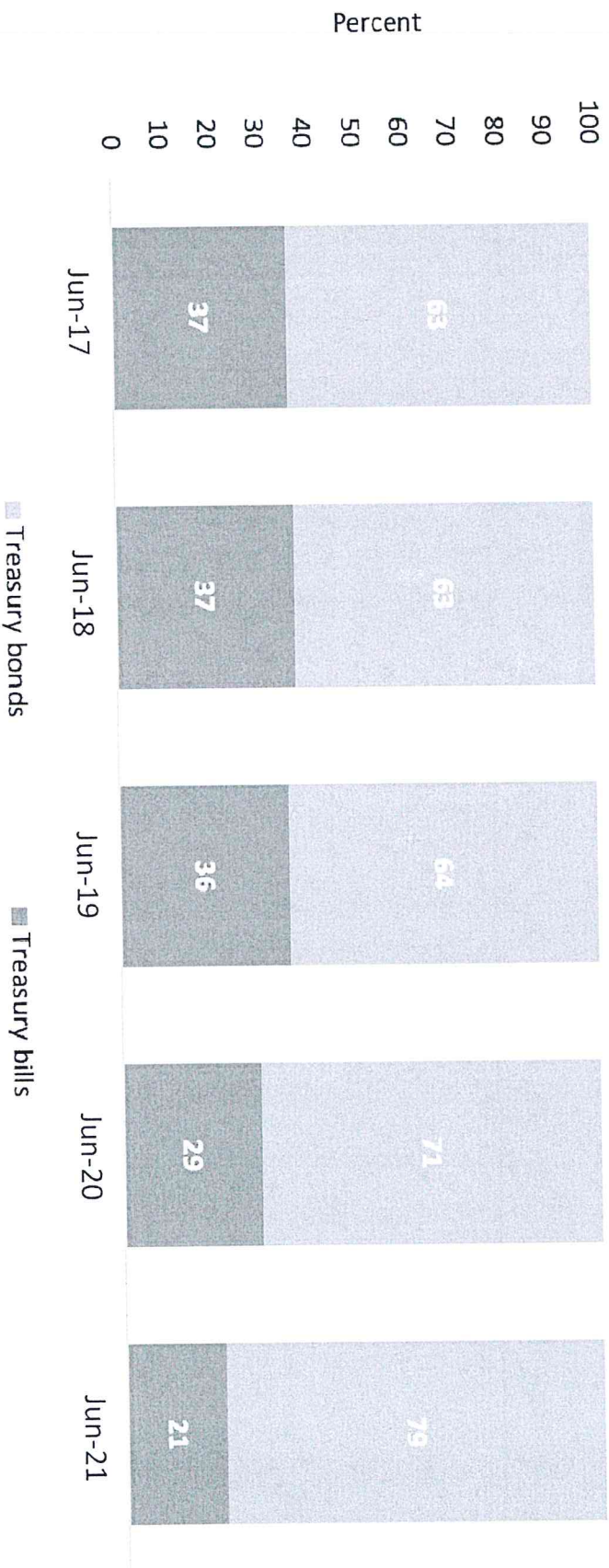


- Average terms on new loan contracts improved between 2014 to 2020
- Average interest rates reduced to 0.5 percent in 2020 from 2.6 percent in 2014
- Average grace period increased to 7.4 years in 2020 from 4.5 years in 2017
- Average time to maturity increased to 26.2 years from 17.6 years in 2017

Annex 2: Terms on New External Loan Contracts

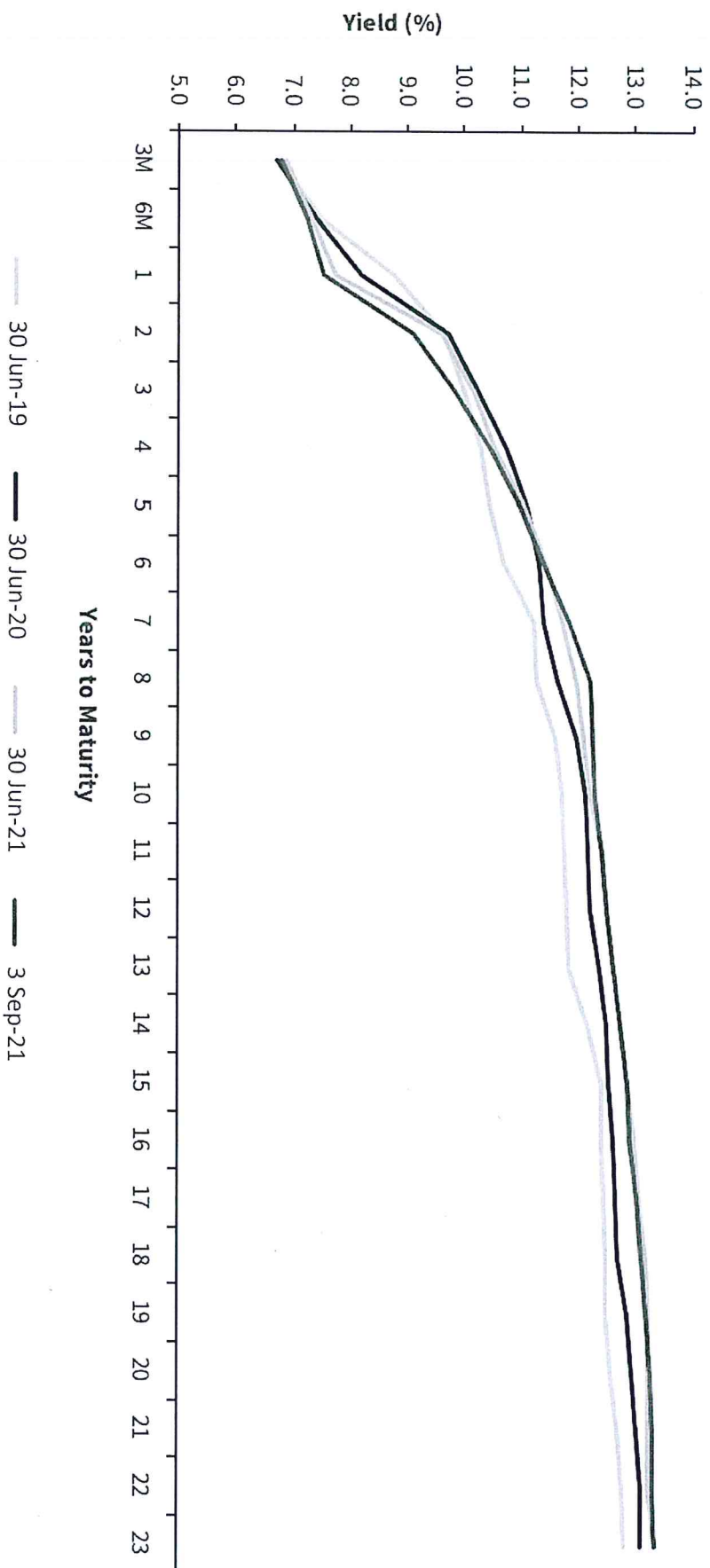
TERMS	JUN-14	JUN-15	JUN-16	JUN-17	JUN-18	JUN-19	JUN-20	JUN-21
AVERAGE MATURITY (YEARS)	18.1	21.0	20.3	17.6	20.8	15.3	26.2	23.3
GRACE PERIOD (YEARS)	6.2	6.4	6.2	4.5	10.3	5.6	7.4	7.4
AVERAGE INTEREST RATE (%)	2.6	2.5	2.6	2.6	3.9	3.9	0.5	2.1

Annex 3: Composition of Government Domestic Debt Securities



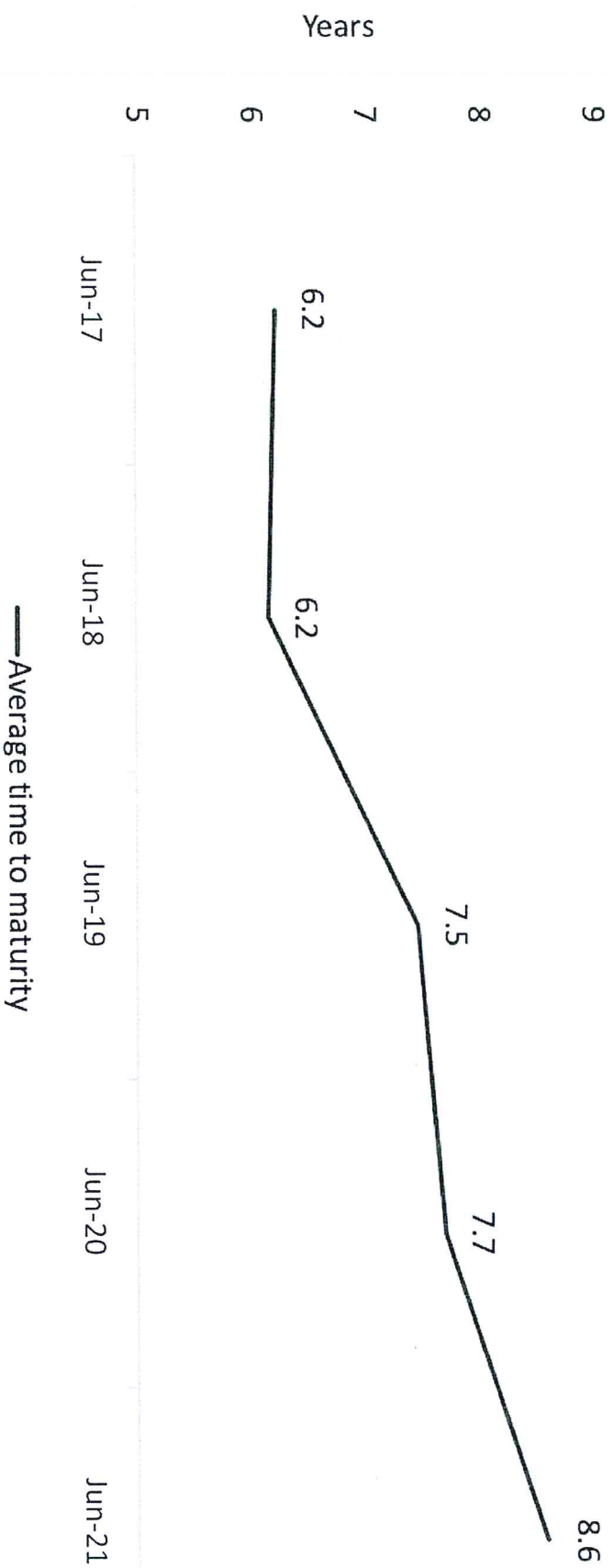
- The refinancing risk on domestic debt profile has decreased with increasing proportion of Treasury bonds by 16.2 percentage points from 63 percent in June 2017 to 79 percent in June 2021.
- This improvement reflects recent efforts to issue medium and long term Treasury bonds surpassing the government medium term target of 70:30 Treasury bonds: bills.

Annex 4: Government Securities Yield Curve

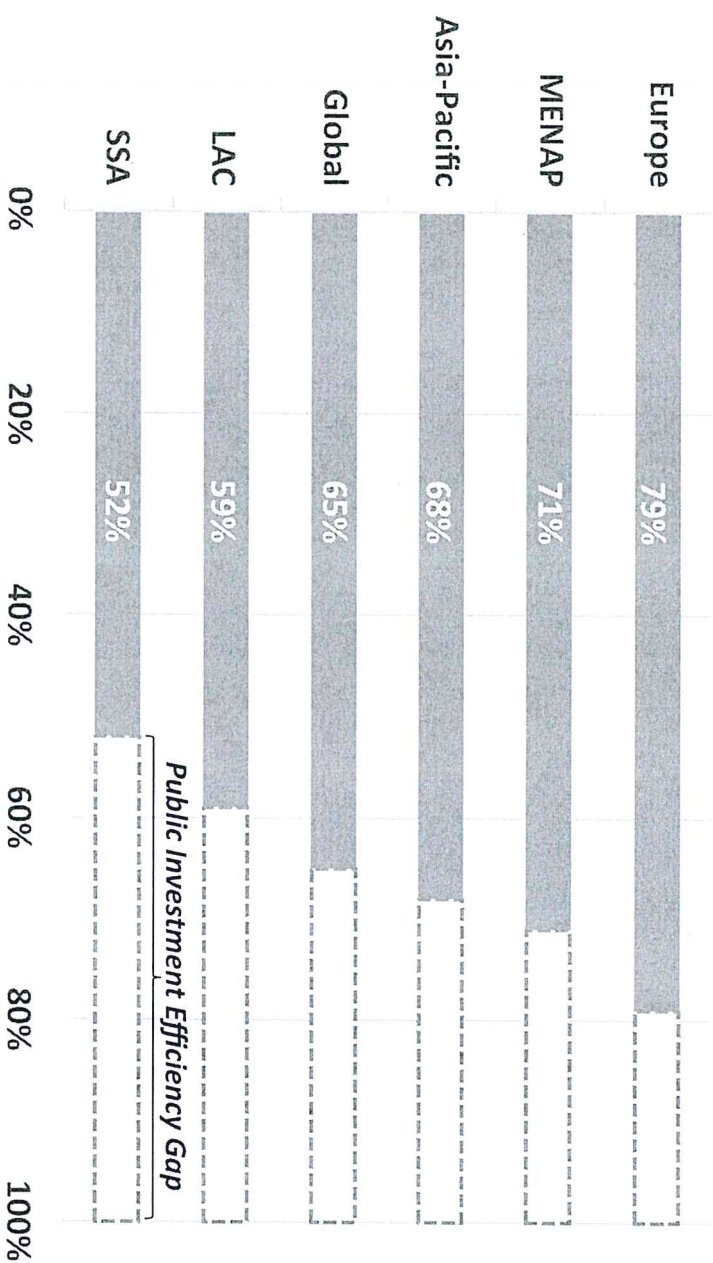


25.

Annex 5: Average Time to Maturity of Government Treasury Bonds



Annex 5: Average Public Investment Efficiency Score by Region, 2018



Source: Baum A., T. Mogues and G. Verdier, "Getting The Most From Public Investment" in *Well Spent*, by Schwartz G., M. Fouad, T. Hansen and G. Verdier (eds), 2021.

OFFICE OF THE CONTROLLER OF BUDGET



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30 August 2021

VIEWS ON THE STATUS OF PUBLIC DEBT IN KENYA PRESENTED TO SENATE STANDING COMMITTEE ON FINANCE AND BUDGET

1. Introduction

This briefing is prepared in response to a request by the Senate Standing Committee on Finance and Budget to the Controller of Budget on 23rd August 2021 requesting the Controller of Budget to give views on the status of Public Debt in Kenya to the Committee on 2nd September 2021.

The preparation of this briefing faces two main challenges; First, Latest data on public debt is not available and up to date.

Secondly, the Controller of Budget Act, 2016 limits reporting on Public debt specifically, the Section 9(4) of the Controller of Budget Act 2016 states *'For the avoidance of doubt, the reports submitted under subsection (1) shall not include reports on recent economic developments and outlook, including revenue, grants and loans forecasts and receipts'*

This briefing gives information on public debt particularly receipts, exchequer issues and expenditure for the financial year 2020/2021 and the first two months financial year 2021/2022.

2. Total Loan Portfolio

The gross public debt stood at **Ksh.7,713,961.55** million as at 30th June 2021. The stock of debt comprises **52.1** percent external and **47.9** percent domestic (Annex 1).

3. Receipts from Public Debt FY 2020/21

The total estimated borrowing during the FY2020/2021 is Kshs.1,320,314,119,550.06 while actual receipt during the same period was Kshs.1,200,470,646,894.59. This was 90.9 per cent of the target. Table 1 shows receipts from public debt borrowing in the FY 2020/21

Table1: Receipts from Public borrowing FY 2020/21

Receipts	Revised Estimates	Actual Receipts	%
	Kshs.	Kshs.	
Domestic Borrowing	875,089,568,008.00	790,577,923,686.10	90.3
External Loans and Grants	422,413,389,278.85	377,149,967,766.70	89.3
Other Domestic Financing	22,811,162,263.21	32,742,755,441.79	143.5
Total	1,320,314,119,550.06	1,200,470,646,894.59	90.9

Source: *National Treasury*

4. Exchequer issues to Public Debt FY 2020/21

During the financial year 2020/2021 the Controller of Budget authorized a total of 81 Public Debt exchequer requests totaling Kshs.862,833,158,921.65 from the consolidated fund. The amount approved was 30.9 per cent of the total exchequer approved. See table 1

Table 2: Exchequer issues to Public Debt FY 2020/21

Exchequer Issues			
Details	Budget	Exchequer	% of Total Exchequer
Public Debt	958,402,990,622.00	862,833,158,921.65	30.90

Source: *Office of Controller of budget*

5. Receipts from Public Debt FY 2021/22

The estimated borrowing during the FY 2021/2022 is Kshs.1,417,380,685,182.12. As at 31st July, 2021 actual receipt into the consolidated fund was Kshs.67,854,482,831.25, representing 4.8 per cent of the annual target. Table 3 shows receipts from the borrowing as at 31st July, 2021.

Table.3: Receipts from Public Borrowing in the FY 2021/22

Receipts	Revised Estimates	Actual Receipts	%
	Kshs.	Kshs.	
Domestic Borrowing	1,008,428,584,928.72	67,854,482,831.25	6.7%
External Loans and Grants	379,659,517,890.95	-	0.0%
Other Domestic Financing	29,292,582,362.45	-	0.0%
Total	1,417,380,685,182.12	67,854,482,831.25	4.8%

Source: *National Treasury*

6. Exchequer issues to Public Debt FY 2020/21

As at 31st August, 2021, the COB had authorized a total of Kshs.162,374,959,793.20 from the consolidated fund against annual budget of Kshs.1,169,165,030,917.00, representing 13.9 per cent of the total exchequer issues.

Table 4 presents exchequer issues towards servicing public debt in the FY 2021/22.

Table 4: Exchequer issues to Public Debt FY 2021/22

Exchequer Issues			
Details	Budget	Exchequer	% of Total Exchequer
Public Debt	1,169,165,030,917.00	162,374,959,793.20	13.9

Source: Office of Controller of budget

7. Key Issues and Recommendations

1. During the FY 2020/2021 the total tax collected was Kshs.1,487,519,775,689.25 while the total public debt exchequer issues was Kshs.862,833,158,921.65, and constitutes 58.0 per cent of the total tax collected. In the month of July to August, 2021, the total tax collected amounts to Kshs.253,462,749,512.92 while the total public debt exchequer issues stands at Kshs.162,374,959,793.20, constituting 64.1 per cent of the total tax revenue collected. (see annex II).

This shows that, 64.1 per cent of tax revenue collected is spent towards public debt leaving less funds towards other budget votes. The COB recommends renegotiating debt repayment agreements and slowing down of borrowing so as to ensure tax revenue collected is geared towards financing other components of the budget which include; Recurrent, Development, Pensions and County Governments.

2. There are instances where National Treasury has borrowed from domestic market to repay foreign debt. For instance, on 16th August, 2021 PD:010/2021/2022 - Public Debt Repayment Request amounting to Kshs.15,035,407,020.70

The National Treasury borrowed (T-Bonds of Kshs.15,035,407,020.70) from domestic market to repay foreign debt of which substantial amount (98 %) is towards syndicated loans repayments as follows;

Amount (Kshs)	Date of requisition	Amount requisitioned for Foreign Payment	Beneficiaries	Category	%
73,890,702.50	16-08-21	73,890,702.50	African Dev Fund, USAID & BADEA	Concessional Loans	0.5
128,324,287.79	16-08-21	128,324,287.79	USAID, EUROPEAN INV Bank, Kuwait Fund for Arab Economic Dev, Exim Bank of Korea	Concessional Loans	0.9
104,779,903.10	16-08-21	104,779,903.10	KBC Bank, European Inv Bank, Raiffeisen Bank Intl	Concessional Loans	0.7
14,728,412,127.27	16-08-21	14,728,412,127.27	Eastern & Southern African Trade & Dev	Syndicated Loans	98.0
<u>15,035,407,020.66</u>		<u>15,035,407,020.70</u>			<u>100.0</u>

As a best practice government should not borrow to repay loans.

3. On 30th June 2020 a total of Kshs.70,167,610,083.00 was from Sovereign Bond Proceeds relating to the State Department for Infrastructure, the State Department for Water, Sanitation and Irrigation, the State Department for Housing, Urban Development and the State Department for ICT & Innovation. National Treasury then made a request totaling Kshs.61,523,634,326.30 as follows;

Request	Amount (Kshs)	Percentage
RE.185	18,158,971,684.65	29.52

DE.151	120,951,111.60	0.20
PD.79	367,584,701.55	0.60
PG.029	15,973,626,828.50	25.96
C/REQ.057/20/21	26,902,500,000.00	43.73
Total	61,523,634,326.30	100.00

Source: OCoB

This contravenes Article 201(c) and section 15(2)(c) of the PFM Act, 2012 which states that *“over the medium term, the national government’s borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure”* National Treasury should therefore ensure all request are in line with Article 201(c) and section 15(2)(c) of the PFM Act, 2012.

- During the FY 2021/2022 repayments towards Public debt is budgeted at Kshs.1,169,165,030,917.00 (36.6 per cent of FY 2021/22 budget). This is the highest component of budget. We recommend need for lowering public debt. See table below

Category	Budget (FY 2021/2022)	% of Total Budget
Recurrent	1,106,555,313,426.00	34.7
Development	389,229,477,396.00	12.2
Public Debt	1,169,165,030,917.00	36.6
Pensions and Gratuities	153,639,593,168.00	4.8
SAM	4,414,944,135.00	0.1
Subscriptions to International Orgs	500,000.00	0.0
County Governments	370,000,000,000.00	11.6

- Payments of commitment fees (a fee that a lender may charge a borrower to whom it has agreed to extend credit. Generally charged for lines of credit not yet used, the commitment fee is a way of guaranteeing the bank will keep the funds available.) This shows the in efficiency of the implementing agency that has been granted the loan in their effective absorption of the funds in completion of their projects. The Government has to ensure that funds borrowed have to be utilized immediately to prevent loss of income in such payments.

As at June 30 2021 the Government paid Kshs.1,657,544,758.23 on Commitment fees on Loans that have not been utilized and loan agreement have been signed. The loans that have not yet been disbursed and not utilized are in annex II detailing the loan amount and the implementing agency on which the loan was borrowed on its behalf. We recommend that these loans should be canceled and this will reduce the loan book balance and consequently save tax payers payments on the commitment fees.

Annex I: Overall public and publicly guaranteed debt position for end June 2021

	Amounts*	%
External Debt	(Kshs. Millions)	
Bilateral	1,142,121.52	14.8%
Multilateral	1,659,680.68	21.5%
Commercial Banks	1,195,646.48	15.5%
Suppliers Credits	17,850.70	0.2%
Sub-Total External Debt	4,015,299.38	52.1%
Domestic Debt		
Central Bank	88,129.96	1.1%
Commercial Banks	1,815,143.8	23.5%
Sub-total: Banks	1,903,273.79	24.7%
Non-bank	1,764,302.07	22.9%
Others (Non-residents)	31,086.30	0.4%
Sub-Total Domestic	3,698,662.16	47.9%
Grand Total	7,713,961.55	100.0%

Annex II: Commitment Fee

#	LOA N_ID	PROJECT NAME	FILE REFERENCE	FINANCE D AMOUNT (FOREIGN)	CUR RR	COMMIT MENT FEE PAID (KES)	OTHER FEE PAID (KES)	TOTAL (KES)	Implementing Agency
A	B	C	D	E	F	G	H	I	K
1	20140 07	Kenya Nairobi 132 KV & 66KV Net Work Upgrade and Reinforcement Project Phase 11	AC 37/199/02 7	660,000,000 .00	CN Y	68,503,044. 73	-	68,503,044. 73	Kenya Power & Lighting Co Ltd
2	20170 26	EAC Kenya South Sudan Regional Corridor	AC 37 /141/113	90,000,000. 00	EUR	153,367,665 .76	114,323.5 5	153,481,989 .31	Kenya National Highway Authority
3	20170 27	Regional Mombasa Port Road Access Project	AC 37/141/11 4	50,000,000. 00	EUR	88,216,112. 50	150,020.1 3	88,366,132. 63	Kenya National Highway Authority
4	20170 31	Ruiru Phase II -BPIAE Facility	AC 37/141/11 6	27,633,375. 00	EUR	64,614,533. 71	239,973,6 91.66	304,588,225 .37	Athi Water Services Board
5	20170 37	Kamburu- Embu - Kibirigwi - Thika - 220KV Transmission Line and Associated 220-132KV Substation Works and 132/66KV Substations	AC 37/199/04 2	90,286,383. 39	USD	-	46,407,20 1.38	46,407,201. 38	Ministry of Energy

#	LOA N_ID	PROJECT NAME	FILE REFERENCE	FINANCE AMOUNT (FOREIGN)	CURR	COMMIT MENT FEE PAID (KES)	OTHER FEE PAID (KES)	TOTAL (KES)	Implementing Agency
A	B	C	D	E	F	G	H	I	K
6	20170 38	Mombasa Port Area Development Project- Phase II	AC 37/174/04 9	12,466,000. 00	JPK	-	23,600,63 1.20	23,600,631. 20	Ministry of Road and Public Works
7	20170 41	Kenya National Wide Remote Sensing Airborne Geophysical Survey Project	AC 37/199/04 3	438,000,000 .00	CN Y	108,123,523 .95	207,322.8 0	108,330,846 .75	Ministry of Mining
8	20170 42	Kenya Nairobi Underground Electric Power Distribution Network in Kilimani, Hurlingham, Ngong Road, State House and Lavington	Ac 37/199/04 4	1,200,000,0 00.00	CN Y	295,820,000 .26	97,980,00 0.00	393,800,000 .26	Kenya Power & Lighting Co Ltd
9	20170 43	Kenya Nairobi Underground Electric Power Distribution Network in Kileleshwa, Westlands, Parklands, Ngara and Riverside Area Proje	AC 37/199/04 5	685,000,000 .00	CN Y	169,156,659 .27	55,930,25 0.00	225,086,909 .27	Kenya Power & Lighting Co Ltd
10	20170 60	Regional Mombasa Port Access Road	AC 37/205/03 9	50,000,000. 00	EUR	49,716,733. 80	-	49,716,733. 80	Kenya National Highway Authority

#	LOA N_ID	PROJECT NAME	FILE REFERENCE	FINANCE D AMOUNT (FOREIGN)	CUR RR	COMMIT MENT FEE PAID (KES)	OTHER FEE PAID (KES)	TOTAL (KES)	Implementing Agency
A	B	C	D	E	F	G	H	I	K
1 1	20180 01	Jomo Kenyatta International Airport, Airfield Expansion Project- 2nd Runway Development	AC 37/169/09 7	-	USD	21,447,599. 65	-	21,447,599. 65	Kenya Airports Authority
1 2	20180 02	Olkaria 1 Units 1, 2 and 3 Geothermal Power Plant Rehabilitation Project	AC37/174 /050	10,077,000. 00	JPK	-	18,598,11 1.20	18,598,111. 20	Kenya Electricity Generating Company
1 3	20180 10	Mwache Dam Project	AC 37/208/05 5	120,000,000 .00	EUR	76,208,600. 04	12,656,84 3.74	88,865,443. 78	Coast Water Services Board
1 4	20190 15	Nairobi River Basin Rehabilitation & Restoration Program- Sewerage Improvement Project Phase II	AC 37/169/10 0	2,910,000.0 0	AU A	2,630,865.6 2	-	2,630,865.6 2	Athi Water Services Board
1 5	20200 05	Nairobi Water & Sanitation Project	AC 37/208/05 8	100,000,000 .00	EUR	5,753,332.7 6	-	5,753,332.7 6	Athi Water Services Board, Ministry of Water
1 6	20200 18	Bagamoyo-Horohoro- Lunga Lungu-Malindi Road Project -Phase I	AC37/169 /109	108,000,000 .00	EUR	21,716,775. 00	35,318,70 0.00	57,035,475. 00	Ministry of Road and Public Works

#	LOA N_ID	PROJECT NAME	FILE REFERENCE	FINANCE D AMOUNT (FOREIGN)	CUR RR	COMMIT MENT FEE PAID (KES)	OTHER FEE PAID (KES)	TOTAL (KES)	Implementing Agency
A	B	C	D	E	F	G	H	I	K
1 7	20210 02	Ithanga Water Supply Project-Phase III	AC 37/207/04 8	8,300,579.1 5	EUR	1,332,215.5 3	-	1,332,215.5 3	Ministry of Water
TOTAL (KES)				3,652,673.3 37.54		1,126,607.6 62.57	530,937.0 95.66	1,657,544.7 58.23	

Annex III: Summary exchequer issues Position as at 30 August 2021:

No.	Category	Budget	% of total Budget	Issues to Date Kshs.	% of exchequer issues to budget	% of exchequer issues to total exchequer
A	B	C	D	E	F=E/C*100	G
1	Recurrent	1,106,555,313,426.00	34.7	156,097,159,127.1	14.1	38.58
2	Development	389,229,477,396.00	12.2	32,425,079,884.25	8.3	8.01
3	Public Debt	1,169,165,030,917.00	36.6	162,374,959,793.2	13.9	40.13
4	Pensions and Gratuities	153,639,593,168.00	4.8	23,264,483,573.40	15.1	5.75
5	SAM	4,414,944,135.00	0.1	487,446,117.20	11.0	0.12
6	Subscriptions to International Orgs	500,000.00	0.0	0	0.0	0.00
7	County Governments	370,000,000,000.00	11.6	29,599,999,999.97	8.0	7.32
8	Article 223 - Rec	-		0.00	-	0.00
9	Article 223 - Dev	-		362,964,524.00	-	0.09
Total		3,193,004,859,042.00	100.00	404,612,093,019.1	12.7	100.00

	Expected	Achieved to date	% Achieved
Revenue			
1 Ordinary Revenue	1,707,432,569,865.77	253,462,749,512.9	14.8

Annex IV: Actual Debt Service for the FY 2020/21

	Principal (Kshs. Millions)	Interest (Kshs. Millions)	Total* (KSh. Millions)
External debt	128,278	106,312	234,590
Domestic debt	157,208	374,114	531,322
Grand Total	285,486	480,426	765,912

* Provisional

Source: *The National Treasury*

Annex V List of guaranteed loans and balances as at 30th June, 2021

Agency	Year	Purpose of the loan	Creditor	Amounts*
Nairobi City County	1985	Umoja II Housing Project	USA	-
Kenya Broadcasting Corporation	1989	KBC Modernization Project	Japan	-
Tana and Athi River Development Authority	1990	Tana Delta Irrigation Project	Japan	-
East African Portland Cement	1990	Cement Plant Rehabilitation Project	Japan	-
Kenya Railways	2008	Kenya Railways Concessioner	IDA	4,853.25
KenGen Ltd	1995	Mombasa Diesel Generating Power Project	Japan	1,662.95
	1997	Sondu Miriu Hydropower Project	Japan	1,818.18
	2004	Sondu Miriu Hydropower Project II	Japan	7,779.46
	2007	Sondu Miriu Hydropower Project – Sang'oro Power Plant	Japan	3,667.17
	2010	Olkaria Unit 4 and 5 Geothermal Power Project	Japan	18,570.57
	2010	Rehabilitation and Expansion of the Hydropower Plant Kindaruma	Germany	1,791.14
	2011	Rehabilitation and Upgrade of the Geothermal Plant Olkaria	Germany	3,346.96
Kenya Ports Authority	2007	Mombasa Port Modernization Project	Japan	22,437.04

Kenya Ports Authority	2015	Kenya Port Development Project Phase 2	Japan	15,962.20
Kenya Airways	2017	Kenya Airways	Various Banks	80,693.40
Total				162,582.32

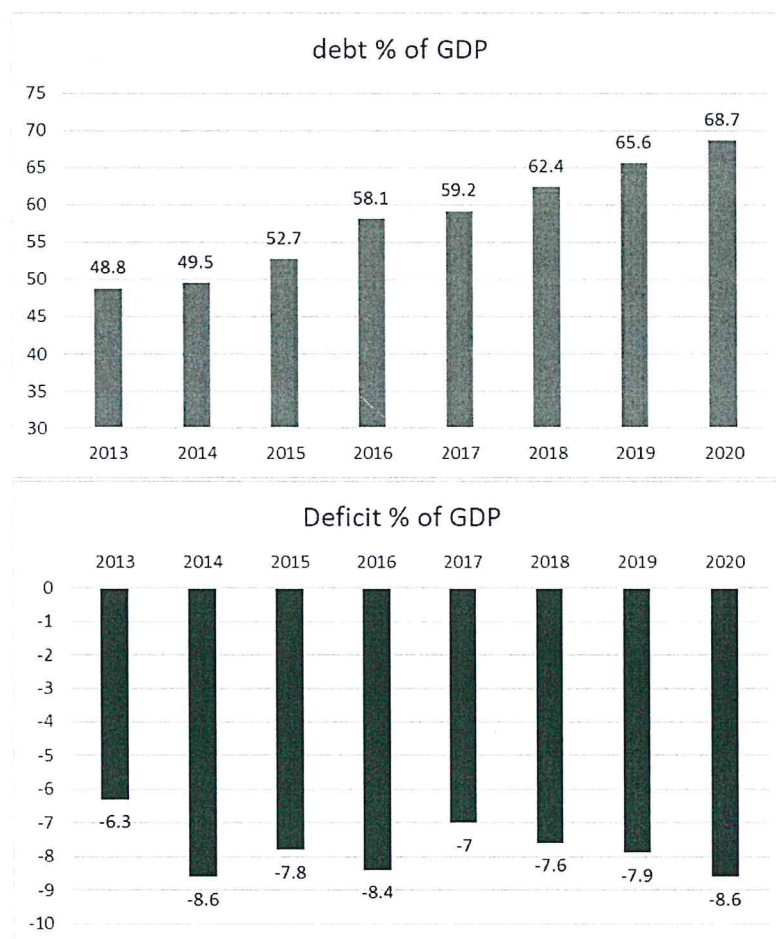
SUBMISSION FROM CRA

Submission to the Senate on the Debt

16th September 2021

1. Kenya's debt has increased from 49 % of GDP in 2013 to 68% of GDP in 2020 . Kenya's debt dynamics need to be understood in the context of the fiscal deficits. The country has been financing expenditure through high fiscal deficits in excess of 6%. Rising debt mirrors the fiscal deficit. The current debt position reflects our cumulative fiscal policy stance (Fig 1). Parliament plays a critical role in the approval of the budget and this is where vigilance is required to ensure that fiscal deficits are sustainable at the budget approval stage.

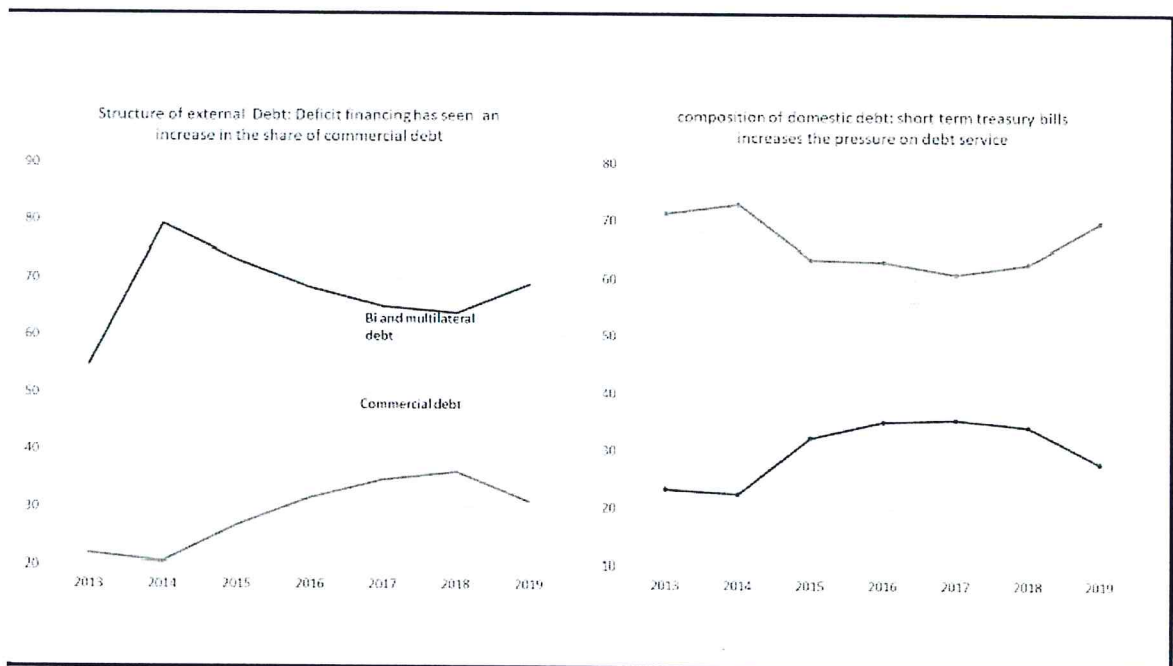
Figure 1. Budget deficits drive debt: Parliament should be vigilant at budget approval stage.



2 The composition of external and domestic debt has changed and increased pressure on debt service: The share of commercial debt has increased from 22% to 36 % of total debt. Commercial debt attracts higher

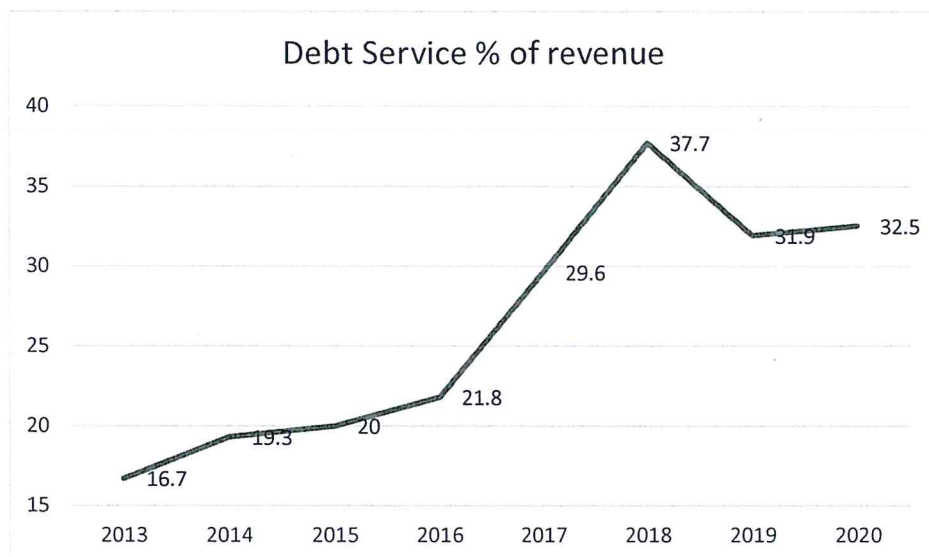
interest rates and shorter maturity profile compared to concessional multilateral debt. This change in composition increases budget pressure on debt service. **The composition of domestic debt has also changed.** The composition of domestic debt is important and has also changed over time. The share of long-term treasury bonds in total domestic debt declined from 71% in 2013 to a low of 61% in 2018. Long-term maturity debt (bonds) eases the pressure on debt service compared to short term treasury bills.

Figure 2. The share of Commercial debt in deficit financing has increased



3 The rising debt and changing composition has seen a rise in debt service as a share of revenue from 16% in 2013 to a high of 37% in 2018 and now stands at 32%. The current scenario can trigger a vicious cycle of debt dynamics and parliament needs to be vigilant in its budget making and oversight role

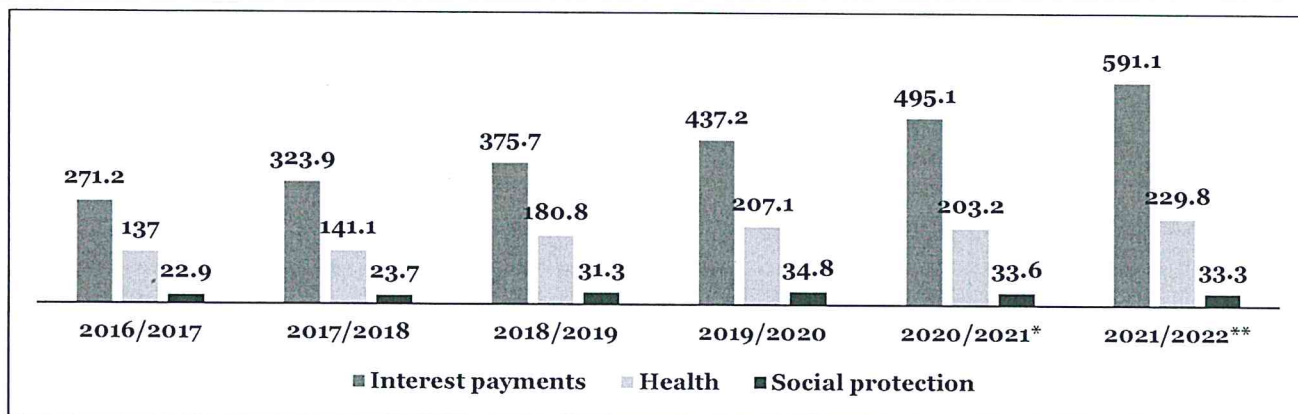
Figure 3 Debt Service as a share of revenue



3 Debt service crowds out social and development expenditure and can have serious social consequences. Debt repayment is a first charge when determining the shareable revenue between the two levels of government. For Instance, Interest payments in the FY 2020/2021 absorbed 31.7 percent of ordinary revenue up from 27.8 percent in the FY 2019/2020 as shown in Figure 3. Interest payments also took up 4.4 percent of the total economic output in the country in the FY 2020/2021.

4 When debt service is high there is fewer resources for other types of spending: High debt service reduces the equitable share available to both levels of government which in turn affects service provision due to delays in disbursement of resources to county governments and MDAs. High interest payments are also likely to crowd out expenditures in key sectors such as health, social protection and other development spending. For instance in FY 2020/21 interest payments at 495 billion are much higher than health expenditure at 207 billion and social protection at 34.8 billion.

Figure 4: debt service is now higher than expenditures in key social sectors.



Source: National Treasury *Prel.Actual ** Projected

5. Conclusion: Debt is not bad and can fill important financing gaps. The CoK 2010, 211, 95 (b), (c), 214(1) gives parliament a critical role in budget making. Although Kenya is not in debt distress the risk has increased from moderate to high. To mitigate this risk we offer some proposals for consideration;

1. Enhance the revenue forecasting capability and align expenditures to available resources to reduce fiscal deficits our expenditure requires a deeper haircut to adhere to the EAC thresholds on budget deficits in the medium term
2. Lengthen the maturity profiles and restructure borrowing towards concessional external debt to reduce the amounts paid in debt service. This however can take a very long time particularly for commercial lenders. The restructuring should include Treasury Bills to lower refinancing and rollover risk.
3. Debt problems are correlated with several other problems and it will be important to be vigilant and proceed cautiously particularly with regard to commercial debt. To mitigate the risk o debt distress Parliament could
 - (i) Set the bar for transparency and more openness in debt management, interrogate the annual borrowing plans question the plans and the interest rates at which the government is borrowing.
 - (ii) Interrogate the use of debt and ensure that the loans are for productive and tangible expenditures
 - (iii) Operationalize the Sinking Fund to manage debt maturities.

SUBMISSION OF VIEWS ON THE STATUS OF PUBLIC DEBT IN KENYA

OFFICE OF THE AUDITOR GENERAL

1.0 Mandate of the Office of the Auditor-General

The Auditor-General's mandate as stipulated in Article 229 of the Constitution is to audit the accounts of the National and County Governments, Parliament and County Assemblies, Commissions and Independent Offices, all funds and authorities of National and County Governments, accounts of all Courts, Public Debt, accounts of political parties funded from public funds and accounts of any entity that legislation may require the Auditor-General to audit.

Article 229(6) goes further to provide that the Auditor-General shall confirm whether or not public money has been applied lawfully and in an effective way.

Article 249(1) assigns the following responsibilities to the Auditor-General as an independent office;

- (a) protect the sovereignty of the people
- (b) secure the observance by all State organs of democratic values and principles
- (c) promote constitutionalism

Article 252 of the Constitution grants the Auditor-General powers to:

- (a) Conduct investigations on her own initiative or on a complaint made by a member of the public;
- (b) Reconciliation, mediation and negotiation;
- (c) Perform any functions and exercise any powers prescribed by legislation, in addition to the functions and powers conferred by this Constitution.

Consequently, the Auditor-General's mandate extends beyond accounts certification and is key in influencing the development of our nation by ensuring delivery of quality sustainable services to the people of Kenya through an enhanced accountability framework.

In recognition of the importance of the issue on the status of public debt in Kenya, I wish to make my submissions as follows: -

- i. My Office audits and reports on the financial statements of the Consolidated Fund Services (CFS) Public Debt which are prepared and submitted annually by the National Treasury;
- ii. The CFS Public Debt reports and financial statements are prepared in the format prescribed by the Public Sector Accounting Standards Board (Kenya) of Cash Basis Accounting Method under International Public Sector Accounting Standards (IPSAS);
- iii. The CFS Public Debt reports and financial statements comprise of;
 - 1) statement of assets and liabilities as at year end,
 - 2) statement of receipts and payments,
 - 3) statement of cash flows
 - 4) the statement of appropriation - recurrent,
 - 5) summary of significant accounting policies and other explanatory information,
 - 6) a summary statement of public debt.

2. Management of Public Debt

The National Treasury is the custodian and manager of the Public Debt portfolio under the Public Debt Management Directorate. The Directorate is headed by a Director General, reporting to the Cabinet Secretary. The objectives of the Directorate are to;

- a. Minimise the cost of public debt management and borrowing over the long-term taking account of risk;
- b. Promote the development of the market institutions for Government debt securities and
- c. Ensure the sharing of the benefits and costs of public debt between the current and future generations as required by Article 201 of the Constitution.

The Directorate is organized into three (3) Technical Departments namely; Resource Mobilization, Debt Policy, Strategy and Risk Management and the Debt Recording and Settlement.

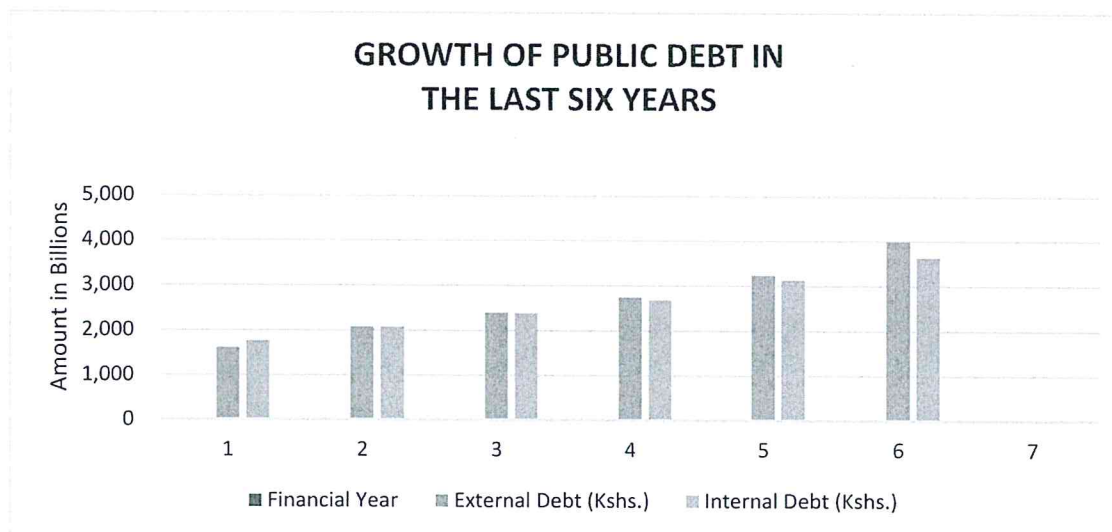
3.0 Debt Status as at 30 June, 2021

- 3.1. The Office finalized the audit of the statement of public debt as at 30 June, 2020. We have currently obtained preliminary records on public debt as at 30 June 2021. However, we are in the planning stage of the audit and the current audit cycle is set to begin 1 October, 2021 after the statutory deadline for submission of financial statements by all public institution, The National Treasury included.
- 3.2 The outstanding amount of public debt has increased over the years from Kshs.3,385,910,449,825 reported in the year 2015/2016 to Kshs.7,634,174,036,240 reported in the year 2020/2021. This represents an increase of Kshs.4,248,263,586,415 or approximately 125% over the five (6) year period as shown below.

Financial Year	External Debt (Kshs.)	Internal Debt (Kshs.)	Total Debt (Kshs.)
2015/2016	1,620,222,817,126	1,765,687,632,700	3,385,910,449,825
2016/2017	2,083,279,300,924	2,085,664,601,653	4,168,943,902,577
2017/2018	2,403,899,102,184	2,397,517,749,298	4,801,416,851,482
2018/2019	2,752,467,840,668	2,698,685,962,748	5,451,153,803,416
2019/2020	3,240,193,767,182	3,128,600,060,451	6,368,793,827,633
(unaudited) 2020/2021	3,988,954,891,289	3,635,219,144,951	7,634,174,036,240

Table 1: Public Debt 6-year Trend

The findings are graphically presented in the chart below:



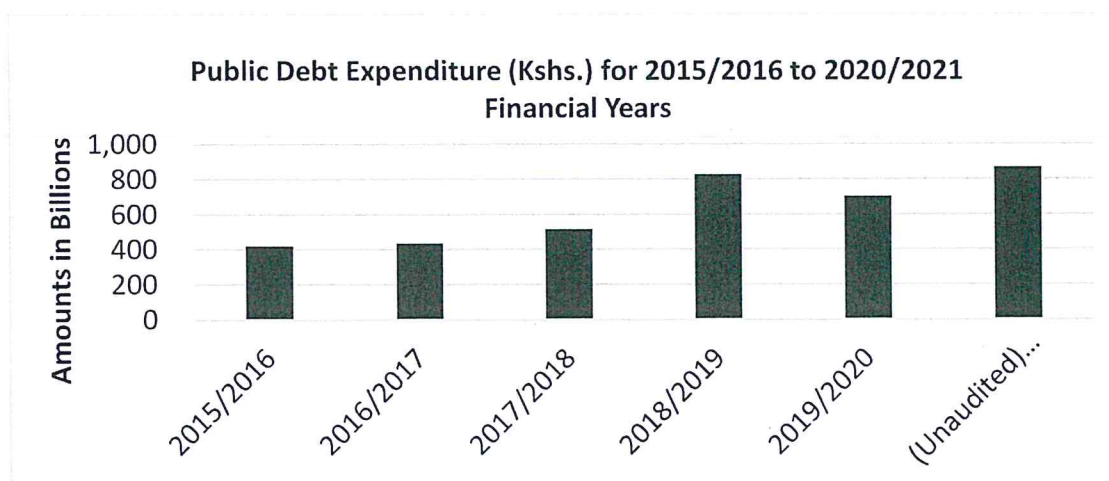
The outstanding amount of public debt of Kshs.7,634,174,036,240 as at 30 June, 2021 represents 84% of the maximum ceiling of Kshs.9,000,000,000,000 approved by Parliament through Legal Notice No.155 of 26 September, 2019.

4.0 Public Debt Expenditure

4.1. The expenditure on public debt increased from Kshs.421,457,575,047 reported in 2015/2016 to Kshs.867,279,586,755 incurred in 2020/2021 financial year as shown below:

Financial Year	Public Debt Expenditure (Kshs.)
2015/2016	421,457,575,047
2016/2017	435,717,114,376
2017/2018	516,935,293,342
2018/2019	827,036,163,185
2019/2020	704,789,802,097
2020/2021 (Unaudited)	867,279,586,755

Table 2: Public Debt Expenditure



5.0. Debt Servicing through the Consolidated Fund Services

5.1 Consolidated Fund Services total expenditure of Kshs.795,665,888,344 comprised Kshs.704,789,802,097 or 88.6% for Public Debt, Kshs.87,568,675,632 or 11% for Pension and Gratuities, Kshs.3,307,410,615 or 0.4% for Salaries, Allowances and Miscellaneous Services, and a Nil expenditure for Subscriptions to International Organizations as tabulated below:

Details	Estimated Expenditure (Kshs.)	Actual Expenditure (Kshs.)	Percentage (%) of Actual Expenditure on Total CFS Actual Expenditure
Public Debt	778,847,892,157	704,789,802,097	88.6%
Pension and Gratuities	86,988,896,250	87,568,675,632	11.0%
Salaries, Allowances and Miscellaneous Services	4,643,737,060	3,307,410,615	0.4%
Subscriptions to International Organisations	500,000	0	0.0%
Total	870,481,025,467	795,665,888,344	100.0%

Table 3: Consolidated Fund Services Expenditure

6.0 Audit Finding Pertaining to the Maintenance of the Public Debt Records

During the audit of the financial statements for the year ended 30 June, 2020 the following observations were made.

- 6.1 The growth in public debt is attributed to disbursements of new loans to the Government by various Development Partners and additional borrowings from the domestic market through Treasury Bonds and Treasury Bills to fund the budget.
- 6.2. Further analysis on budget absorption on public debt indicates an under absorption of Kshs.74,058,090,060 from the budgeted amount of Kshs.778,847,892,157 and the actual amount of Kshs.704,789,802,097.
- 6.3. I have also raised various issues pertaining to the maintenance of the public debt records and unexplained variances between various records for the year 2019/2020 which includes;
 - i) Unexplained difference of Kshs.1,814,918,677 between the bank balance of Kshs.4,537,769,205 reflected in the statement of assets and liabilities and the bank balance of Kshs.6,352,687,882 reflected in the trial balance.
 - ii) Unexplained variance of Kshs.2 Billion between the internal loans - short-term borrowing balance of Kshs.887,141,500,000 reflected in the summary statement of public debt and the re-computed closing balance of Kshs.885,141,500,000. The over-redemption of Kshs.2 Billion was not acknowledged by the Central Bank of Kenya and may therefore not be recoverable.
 - iii) Unexplained variance of Kshs.26,216,318,554 between the Treasury Bonds balance of Kshs.2,220,339,804,765 reflected in the summary statement of public debt and the re-computed Treasury Bonds closing balance of Kshs.2,194,123,486,211.
 - iv) Non-disclosure of public debt procured during the year – 2019/2020.

7.0 Performance Audit of Public Debt

My Office is currently conducting a comprehensive performance audit specifically on two topics namely;

- 1. Public Debt Servicing Activities:** - This entails confirming whether;
 - i. the transactions are recorded accurately and completely,
 - ii. the amounts in the debt register are accurate and
 - iii. whether there is timely payment of the debt to avoid attracting penalties

- 2. Determination of Borrowing Needs Activities:** -This will focus on;
 - i. Assessing whether the Government has documented borrowing plans aligned with public debt goals and strategy
 - ii. Whether the Government has adopted the best practice approach on borrowing activities such as the Debt Management Performance Assessment, (DeMPA)

The reports will be issued in due course after the finalization of the audits.

8.0 Current Debt Status as at 30 June, 2021

According to the unaudited financial statements for the year ended 30 June 2021 gross public debt stood at Kshs 7.634 billion. This comprised of external debt of Kshs 3.998 billion being 52.1% and Kshs 3.635 billion or 47.9% under domestic debt. The current status for the 2021 financial year is based on unaudited draft financial statements balances. We are however waiting for the submission of the financial statements at the end of this month after which we shall embark on the audit.

Further, during the year the public external public debt increased by Kshs 274,897,389,394 representing the drawn amount on new loans signed in the financial year 2020-2021.

9.0 Conclusion

The need to undertake prudent sovereign debt management is paramount for any nation to register positive economic development through debt financing. The integration of the formulation and implementation of a debt management strategy within a risk management framework while supporting governments to undertake debt operations to meet core debt management objectives, should therefore, be the hallmark of any decision-making process seeking for debt-financing.

MINUTES OF THE 239TH MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON WEDNESDAY, 11TH AUGUST, 2021 AT 9.00 A.M IN BARAZA 1 CONFERENCE ROOM AT SAROVA WHITESANDS BEACH RESORT-MOMBASA

PRESENT

- | | |
|--|--------------------|
| 1. Sen. Charles Kiburu, MP | - Chairperson |
| 2. Sen. Moses Wetang'ula Masika, EGH, MP | - Member |
| 3. Sen. CPA Farhiya Haji, MBS, MP | - Member |
| 4. Sen. Rose Nyamunga, CBS, MP | - Member |
| 5. Sen. Mutula Kilonzo Junior, CBS, MP | - Member (Virtual) |

ABSENT WITH APOLOGY

- | | |
|---------------------------------------|---------------------|
| 1. Sen. (Dr.) Ochillo-Ayacko, EGH, MP | - Vice- Chairperson |
| 2. Sen. Kimani Wamatangi, MP | - Member |
| 3. Sen. Aaron Cheruiyot, MP | - Member |
| 4. Sen. Millicent Omanga, MP | - Member |

SECRETARIAT

- | | |
|----------------------------|---------------------------|
| 1. Mr. Christopher Gitonga | - Clerk Assistant |
| 2. Ms. Beverlyne Chivadika | - Clerk Assistant |
| 3. Mr. William Wambiru | - Fiscal Analyst |
| 4. Mr. Chacha Machage | - Fiscal Analyst |
| 5. Ms. Yunis Amram | - Fiscal Analyst |
| 6. Ms. Sharon Rotino | - Research Officer |
| 7. Mr. Ian Otieno | - Audio Officer |
| 8. Mr. Daniel Kirwa | - Serjeant-at-arms |
| 9. Ms. Brendah Michira | - Legal Pupil |
| 10. Mr. Frank Mutulu | - Media Relations Officer |

IN ATTENDANCE

A. THE NATIONAL TREASURY

- | | |
|----------------------------|---|
| 1. Hon. (Amb.) Ukur Yatani | -Cabinet Secretary |
| 2. Mr. Daniel Ndolo | -Director, Debt Policy Strategy and Risk management |
| 3. Ms. Isabella Kogei | -Assistant Director in Budget |
| 4. Ms. Ester Gitoni | - Debt Settlement Officer |

B. THE COUNCIL OF GOVERNORS (COG)

- | | |
|--------------------------|--|
| 1. Hon. Ndiritu Muriithi | - Chairperson, Technical Committee on Finance, Planning and Economic Affairs |
| 2. Mr. Kizito Wangalwa | |

3. Ms. Mercy Wangui

MIN. NO. 2034/08/2021: PRELIMINARIES

The Chairperson called the meeting to order at 09.06 a.m. and thereafter followed by a word of prayer.

MIN. NO.2035/08/2021: ADOPTION OF AGENDA

The agenda of the meeting was adopted after it was proposed by Sen. Rose Nyamunga, CBS, MP and seconded by Sen. CPA Farhiya Haji, MBS, MP.

MIN. NO.2036/08/2021: STATUS OF PUBLIC STOCK OF DEBT IN KENYA

After introductions, the Chairperson welcomed everyone to the meeting. He then informed the meeting that the National Treasury was invited to apprise the Committee on the status of public stock of debt in Kenya; the latest public debt register and loans contracted in the last financial year.

Upon invitation, the Cabinet Secretary (CS) informed the Committee as follows-

1. At the end of June 2021, the nominal debt stock including guaranteed debt stood at Kshs7.71 trillion which is equivalent to 69.09 per cent of Gross Domestic Product (GDP). He compared Kenya's national debt to GDP ratio with other economies like Japan which is at 250 per cent, United States of America (USA) is 110 per cent, United Kingdom (UK) is 95 per cent, Angola is 110 per cent and Italy 120 is per cent.
2. Kenya's public debt comprises of 52.1 per cent or Kshs 4.04 trillion External debt of total debt and 47.9 per cent Kshs 3.70 trillion Domestic debts.
3. Kenya's public debt accumulation is on account of running high fiscal deficits and exchange rate movements.
4. As at end June, 2021, total loan commitments (disbursed and undisbursed debts) stood at Kshs 9.04. trillion.
5. Domestic debt attracts an average interest rate of 11 per cent per annum. The current ratio of Treasury bonds and bills stands at 79:21 an improvement from the previous year position of 71:29. The goal is to hold more domestic debt in Treasury bonds than bills.
6. Guaranteed debt stands at Kshs162.58 billion mainly to Kenya Airways, Kenya Power & Lighting Company, KenGen, Kenya Railways and Kenya Ports Authority
7. The external debt composition currently is distributed as follows;
 - a) Multilateral (41.33%),
 - b) bilateral (28.44%),
 - c) commercial (29.78%) and
 - d) other creditors (0.44%).

8. The major external creditors were- the World Bank loans was at 26.65 % China 19.04% and Eurobonds (19.07%) of the total external debt.
9. The Medium-term debt strategy is aimed at reprofiling or refinancing the commercial external debt at a lower interest rate cost although the process is slow.
10. Due to the impact of global COVID-19 and reduction in exports, debt sustainability has moved to high from moderate. However, IMF Debt Sustainability Analysis (DSA) report on Kenya indicated that public debt remains sustainable.
11. Kenya had borrowed heavily to carry out targeted infrastructural development projects such as Standard Gauge Railway (SGR), water, roads, and support to institutions like Technical and Vocational Education and Training (TVET).
12. The Government is committed to reduction of fiscal deficit through fiscal consolidation.
13. The Government had taken steps to implement the G20 Debt Service Suspension Initiative (DSSI) and was finalizing the January to June 2021 (1st phase) DSSI deferral agreements. The second phase was to take place from June to December.
14. The first phase freed up resources approximately Kshs 38.3 billion and the second phase amounts is expected to free up to about Kshs 41.1 billion to be paid in the next 5 or 6 years.
15. The 2021 MTDS key actions to minimize cost and risk include:
 - a) Reduce stock of Treasury Bills to lower refinancing and rollover risk.
 - b) Perform Liability Management operation for external commercial debts to reduce the refinancing risk.
 - c) Approach commercial financing with caution.
16. The National Treasury is in the process of having a Liability Management Operation in the financial year 2021/22, aimed at refinancing and reprofiling the few identified external commercial debt.

The Committee noted that-

1. When the CS appeared before the Committee in 2019, part of immediate concern and need to review debt ceiling was to create fiscal space to allow retirement of expensive commercial debts. This however had not been done.
2. Debt service suspension transfers debt liability into medium term. The list of these specific debts were not listed.
3. The CS compared Kenya's debt ratio to GDP to other jurisdictions like USA, Japan, Germany, UK and Angola. The Committee cautioned comparing Kenya's GDP to those of advanced countries with huge economic bases and international investments.

4. Corruption, resource wastage and leakage that needs to be dealt with especially on project appraisals and implementation.
5. There is need for increased accountability threshold by The National Treasury to ensure funds borrowed are invested in revenue generating projects.
6. The public register presented to the Committee was not up to date.
7. Kenya recently borrowed USD1 billion through Eurobond and this matter was not reflected in the debt register presented.
8. Pending bills owed to Kenyans and businesses do not form part of public stock of debt.
9. Repayment of debt goes through IFMIS. However, it was difficult to get report on debt status from IFMIS.

The Committee directed the CS to submit the following documents within seven (7) days-

- a) a) A summary of the public debt register indicating the lender (countries or institutions), principal amount, interest rate and expected period of repayment.
- b) A schedule indicating the commercial external debts earmarked for retiring based on the justification advanced during the debt ceiling review in 2019 and expected date for the same;
- c) A schedule showing specific public debts earmarked for consideration under Debt *Service Suspension Initiative* (DSSI);
- d) The expected timelines for linking IFMIS to public debt contacting and servicing; and
- e) A list of Public guaranteed debt indicating the public institutions, the principal amount, interest rate and expected repayment period.

MIN. NO.2037/08/2021: SUBMISSION BY THE COG ON THE PUBLIC PRIVATE PARTNERSHIP BILL

The Chairperson invited the Chairperson of the COG Technical Committee on Finance and Economic Planning to present COG's memorandum on the Public Private Partnership Bill as follows-

1. Sub-Clause 6 (1) on Public private partnership committee be amended to read "two persons nominated by the Council of County Governors" to ensure better representation of 47 County Governments in the Committee.
2. Clause 33 on approval of the feasibility study be amended to include a timeline of 14 days for execution of Public Private Partnerships projects.
3. Clause 40 (1) on privately initiated proposals be amended by adding "a local or foreign" before the word private.

4. Clause 54 (1) on proposal evaluation Committee be amended to read “A contracting authority shall constitute a proposal evaluation team for the purpose of evaluating bids submitted under this Act”.
5. Clause 54 (3) be amended by including guidance on composition and size of the Committee for uniformity and maintaining standards.
6. Clause 57(1) be amended to read contracting authority shall constitute a negotiating committee.
7. Sub-Clause 57(3) be amended to include guidance on the composition and size of the Committee for uniformity and maintaining standards. Clause 74(2)(c) be amended to read as follows-
“The Petition Committee shall consist of the following persons appointed by the Cabinet Secretary-
(c) two persons, not being a member of county executive committees, and possessing such relevant knowledge and experience as the Cabinet secretary shall consider appropriate, nominated by the Council of County Governors to ensure better representation of 47 County Governments in the Committee”.
8. Clause 74- The Bill should also make provision for accountability of the Committee to both levels of government but ensuring that it does not lose its independence as a tribunal to resolve disputes that may even involve the two levels of government.

MIN. NO.2038/08/2021: ANY OTHER BUSINESS

The Committee was informed that the National Government plans to seize control of more than Sh60 billion pension fund for county workers. The governors’ concerns were on the National government un-procedurally and irregularly classifying pension schemes for all civil servants, including Laptrust and County Pension Fund (CPF) that handles county workers, as state corporations.

The Committee advised the COG to Petition the Senate stating facts on the two funds. Thereafter, the Committee will take up the matter.

MIN. NO.2039/08/2021: ADJOURNMENT

The meeting was adjourned at 12.22 p.m. Next meeting, Wednesday, 11th August, 2021 at 2.00 p. m.

SIGNATURE: 

(CHAIRPERSON: SEN. CHARLES KIBIRU, MP.)

DATE: 22nd September, 2021

MINUTES OF THE 247TH MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON WEDNESDAY, 15TH SEPTEMBER, 2021 AT 9.00 A.M VIA ZOOM ONLINE PLATFORM

PRESENT

- | | |
|--|---------------|
| 1. Sen. Charles Kiburu, MP | - Chairperson |
| 2. Sen. CPA Farhiya Haji, MBS, MP | - Member |
| 3. Sen. Aaron Cheruiyot, MP | - Member |
| 4. Sen. Moses Wetang'ula Masika, EGH, MP | - Member |
| 5. Sen. Mutula Kilonzo Junior, CBS, MP | - Member |
| 6. Sen. Millicent Omanga, MP | - Member |
| 7. Sen. Rose Nyamunga, CBS, MP | - Member |

ABSENT WITH APOLOGY

- | | |
|---------------------------------------|---------------------|
| 8. Sen. (Dr.) Ochillo-Ayacko, EGH, MP | - Vice- Chairperson |
| 9. Sen. Kimani Wamatangi, MP | - Member |

SECRETARIAT

- | | |
|----------------------------|---------------------------|
| 1. Mr. Christopher Gitonga | - Clerk Assistant |
| 2. Ms. Beverlyne Chivadika | - Clerk Assistant |
| 3. Ms. Lucy Radoli | - Legal Counsel |
| 4. Ms. Sharon Rotino | - Research Officer |
| 5. Mr. Chacha Machage | - Fiscal Analyst |
| 6. Ms. Amram Yunis | - Fiscal Analyst |
| 7. Mr. William Wambiru | - Fiscal Analyst |
| 8. Mr. Ian Otieno | - Audio Officer |
| 9. Mr. Daniel Kirwa | - Serjeant-at-arms |
| 10. Ms. Brendah Michira | - Legal Pupil |
| 11. Mr. Frank Mutulu | - Media Relations Officer |

IN ATTENDANCE THE CENTRAL BANK OF KENYA (CBK)

- | | |
|------------------------|-------------------------------|
| 1. Dr. Patrick Njoroge | - Governor |
| 2. Mr. David Lussa | - Director, Financial Markets |
| 3. Mr. Kennedy Abuga | - General Counsel |
| 4. Mr. Robert Mdida | - Director, Research |
| 5. Ms. Carol Wanjiku | - Researcher |

MIN. NO. 2069/09/2021: PRELIMINARIES

The Temporary Chairperson called the meeting to order at 9.16 a.m. and thereafter followed by a word of prayer from Sen. Aaron Cheruiyot, MP.

MIN. NO. 2070/09/2021: ADOPTION OF AGENDA

The agenda of the meeting was adopted after it was proposed by Sen. Aaron Cheruiyot, MP and seconded by Sen. Moses Wetang'ula Masika, EGH, MP.

MIN. NO. 2071/09/2021: PRESENTATION ON THE STATUS OF PUBLIC DEBT BY CENTRAL BANK OF KENYA

After introductions, the Temporary Chairperson acknowledged the team from Central Bank of Kenya (CBK) for honouring the Committee's invitation and invited the Governor, Central CBK to make a presentation on the status of public debt in Kenya. The Governor informed the Committee as follows-

1. Total public Debt to GDP ratio

- i. Kenya's public debt to Gross Domestic Product (GDP) ratio declined from 64.1 per cent in June 2003 to 38.1 per cent in June 2012, but increased thereafter to 69 per cent in June 2021, driven largely by spending on infrastructure and more recently, COVID-19 related spending.
- ii. Total public debt is composed of external and domestic debt.
- iii. Revised total public debt to DGP ratio is 67.5 per cent after the Economic Survey 2021 issued new rebased GDP numbers.

2. External Debt Service to Exports ratio

- i. External debt service to exports ratio declined from 19.2 percent in June 2000 to 3.5 per cent in 2010, then rose to a high of 31 percent in June 2019 and was 18.8 per cent in June 2021.
- ii. The high ratio in 2019 was mainly on account of a one-off USD 750 million Eurobond repayment.
- iii. The ratio has been declining in the last 2 years also due to an improvement of the terms on new external loans; are more concessional.

3. External Debt Service to Revenues Ratio

- i. External debt service to revenues ratio declined from 20.8 per cent in June 2000 to 4.3 percent in June 2013, then rose to a high of 21.4 per cent in June 2019.

4. Total Debt Service to Revenues Ratio

- i. Total debt service to revenues increased to 57 percent in 2019 from 17 percent in 2012 due to an increased debt stock and changing terms on new loans including one-off repayment of syndicated loans and Eurobonds in 2019.
- ii. Total debt service to revenues ratio declined to 43 per cent in June 2021.

5. Composition of External Debt by Lender Category

Category	June 2001	June 2010	June 2019	June 2020	June 2021
Multilateral	58	62	30	38	41
Commercial	34	0	36	31	30
Bilateral	7	34	33	31	28
Supplier credits	1	4	1	1	0

- i. Multilateral debts tend to be highly concessional. These includes loans from World Bank, International Monetary Fund (IMF), African Development Bank (ADB) *et cetera*. They have low interest rates and long repayment period.
- ii. The structure of Kenya's external debt (public and publicly guaranteed) debt changed significantly between 2010 and 2020, with increased uptake of commercial debt.
- iii. Recent efforts to increase Kenya's concessional public debt led to a 10.1 percentage points increase in the proportion of multilateral debt from 30.2 percent in June 2019 to 41.3 percent in June 2021.

6. Composition of Bilateral Lenders of External Debt in percentages.

Lender	June 2006	June 2011	June 2020
Japan	51	44	14
France	12	16	7
Germany	9	-	-
China	-	13	67
Others	28	28	11

The leading bilateral lender shifted from Japan to China between 2011 and 2020.

7. Leading Causes of Increased Indebtedness

- i. Increased fiscal deficit largely due to development expenditure on infrastructure recurrent expenditure (for instance, education, health), and increased guaranteed debt.
- ii. Worsening terms on new loans, such as lower concessionality and increased commercial loans. Burden in interest rate and repayments costs have increased.
- iii. Exogenous economic shocks, such as drought or COVID-19.

- iv. Overarching concern is limited capture of the returns from expenditures (investments) through increased exports, taxes, and faster economic growth.

8. Overall Fiscal Performance

- i. Fiscal deficit rose to 9.6 per cent of GDP in the FY 2016/2017, and was at 8.4 per cent in June 2021.
- ii. The main cause of increased fiscal deficit is decline in revenues and increased expenditures.

9. Projected Fiscal Consolidation Path

- i. Before COVID-19, the target was to bring down fiscal deficit from 7.9 per cent in FY 2019/2020 to 3.0 per cent of GDP by 2024/2025.
- ii. After COVID-19, target budget deficit rose to 8.7 per cent of GDP, but actual fiscal deficit was 8.4 per cent of GDP.

10. Government Debt to GDP Ratio Trends in SSA, EMs & DCs and AEs

- i. Government debt to GDP ratio in Advanced Economies (AEs), Emerging Markets and Developing Countries (EMs & DCs) and Sub-Saharan Africa (SSA) has been on an upward trend in the last decade.
- ii. The Sub-Saharan Africa debt to GDP ratio decreased during 2000 - 2010 as several countries in the region benefitted from Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI) debt relief programmes.
- iii. Kenya had not benefitted from the debt relief programmes.

11. Government Debt to GDP ratio; East African Community (EAC) & Ghana

- i. General government debt to GDP ratio decreased in early 2000s for Burundi, Kenya, Rwanda, Tanzania, Uganda and Ghana.
- ii. The decrease was on account of HIPC debt relief, other than Kenya whose decline was driven by improved economic growth.
- iii. With increased fiscal space, the countries embarked on an infrastructural upgrade programme that resulted to increased debt to GDP ratio.
- iv. With the HIPC debt relief, external debt to GDP ratio decreased significantly in Ghana, Burundi, Tanzania, Rwanda and Uganda.
- v. The recent upward trend is associated with the countries' increased access to international financial market.

12. Debt Sustainability Analysis (DSA)

Tools focuses on external solvency and liquidity indicators.

13. DSA Risk Rating Criteria

- i. Low- All debt indicators are below their relevant thresholds, including under stress tests

- ii. Moderate- Baseline scenario does not indicate a breach of thresholds.
- iii. High- Baseline scenario results in a breach of one or more thresholds, but the country does not currently face any payment difficulties.
- iv. Distress- Current debt and debt service ratios are in significant or sustained breach of thresholds.

14. Recent DSA Assessment on Kenya

In March 2021, the IMF assessed Kenya's public and publicly guaranteed debt as sustainable but with high risk of debt distress.

15. Economic Consequences of High Debt Levels

- i. It narrows the fiscal space, therefore limited resources for development and recurrent expenditure.
- ii. Narrows the fiscal buffers, thus limited space to pursue countercyclical fiscal policy leading to increased volatility and lower growth rates.
- iii. Increases the interest rate structure for the sovereign and the private sector, thus stifling innovation and productivity and eventually reducing the economy's growth potential.

16. How Do We Reduce the Debt Burden?

- i. Stay the course on the fiscal consolidation path.
- ii. Explore non-debt creating financing options for public investments.
- iii. Increasing efficiency of public spending. Get value for money from investments.
- iv. Refinancing operations; refinancing expensive debt with debt on more favourable terms.
- v. Frequent reporting and monitoring.

The Committee noted that-

- a. China is the largest Bilateral external lender to Kenya at 67 per cent, which shifted from Japan between 2011 and 2020.
- b. Kenya's Standard Gauge Railway (SGR) accounted for 11 per cent of Kenya's external debt. The terms of lending have pushed the debt burden.
- c. Significant part of SGR debt was external commercial loans and CBK was not involved in discussions that led to construction of SGR.
- d. Between 2010 and 2020, there was increased uptake of expensive commercial loans.
- e. Feasibility study on projects ought to have been done to find out whether the infrastructural projects had any economic or social gains or returns including alternative financing options and the viability of the project before borrowing and implementation.

- f. Parliament is not supplied with adequate information or reports on debt for better decision making.
- g. Lack of public participation. For instance, CBK was not involved in some of the decisions on infrastructure like the SGR.
- h. The CBK has access to domestic debt register. They borrow for Government through Treasury bills and bonds.
- i. The National Treasury is the sole manager of the external debt register and CBK does not have access to external debt register. However, CBK has access to information on external debt since CBK repays debts for Government.
- j. The CBK as advisor to Government was involved in some of the loan discussions like the last Eurobond discussions.
- k. Kenya has a very elaborate mechanism of borrowing at the National Treasury, approvals needed to be granted by various agencies, including monitoring. The controls we have are adequate if used accurately and effectively.
- l. The CBK should consider offering overdraft facilities to county governments for purposes of sharable revenue so that money disbursement to counties is not delayed and services are rendered to citizens as tax collections proceed.

MIN. NO. 2072/09/2021: ANY OTHER BUSINESS

The Chairperson resolved that the Committee should hold a retreat to go through detailed presentations from Institute of Certified Public Accountants of Kenya (ICPAK) on Integrated Financial Management Information System (IFMIS) and submissions from stakeholders on status of public debt in Kenya before the Senate proceeds on recess in October.

The Committee was to meet with the Auditor-General to deliberate on Kenya's public debt status, but the Auditor-General apologized and requested the meeting be postponed to a later date.

MIN. NO. 2073/09/2021 ADJOURNMENT

The meeting adjourned at 10.15 a.m. until Thursday, 16th September, 2021 at 9.00 a.m.

SIGNATURE: _____



(CHAIRPERSON: SEN. CHARLES KIBIRU, MP.)

DATE: 22nd September, 2021

MINUTES OF THE 248TH MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON THURSDAY, 16TH SEPTEMBER, 2021 AT 9.00 A.M VIA ZOOM ONLINE PLATFORM

PRESENT

- | | |
|--|---------------|
| 1. Sen. Charles Kiburu, MP | - Chairperson |
| 2. Sen. CPA Farhiya Haji, MBS, MP | - Member |
| 3. Sen. Aaron Cheruiyot, MP | - Member |
| 4. Sen. Moses Wetang'ula Masika, EGH, MP | - Member |
| 5. Sen. Mutula Kilonzo Junior, CBS, MP | - Member |
| 6. Sen. Millicent Omanga, MP | - Member |
| 7. Sen. Rose Nyamunga, CBS, MP | - Member |

ABSENT WITH APOLOGY

- | | |
|---------------------------------------|---------------------|
| 8. Sen. (Dr.) Ochillo-Ayacko, EGH, MP | - Vice- Chairperson |
| 9. Sen. Kimani Wamatangi, MP | - Member |

SECRETARIAT

- | | |
|----------------------------|---------------------------|
| 1. Mr. Christopher Gitonga | - Clerk Assistant |
| 2. Ms. Beverlyne Chivadika | - Clerk Assistant |
| 3. Ms. Lucy Radoli | - Legal Counsel |
| 4. Mr. Chacha Machage | - Fiscal Analyst |
| 5. Ms. Amram Yunis | - Fiscal Analyst |
| 6. Mr. William Wambiru | - Fiscal Analyst |
| 7. Mr. Ian Otieno | - Audio Officer |
| 8. Mr. Daniel Kirwa | - Serjeant-at-arms |
| 9. Ms. Brendah Michira | - Legal Pupil |
| 10. Mr. Frank Mutulu | - Media Relations Officer |

IN ATTENDANCE

A. THE CONTROLLER OF BUDGET (COB)

- | | |
|------------------------|------------------------|
| 1. Dr. Magret Nyakango | - Controller of Budget |
|------------------------|------------------------|

B. THE COMMISSION ON REVENUE ALLOCATION (CRA)

- | | |
|----------------------|----------------|
| 1. Dr. Moses Sichei | - CEO |
| 2. Dr. Jane Kiringai | - Commissioner |
| 3. Ms. Irene Asienga | - Commissioner |

- | | |
|------------------------|----------------|
| 4. Ms. Fauza Abdikadir | - Commissioner |
| 5. Mr. Peter Gachuba | - Commissioner |
| 6. Ms. Linet Oyugi | - Director |

MIN. NO. 2074/09/2021: PRELIMINARIES

The Chairperson called the meeting to order at 9.12 a.m. and thereafter followed by a word of prayers.

MIN. NO. 2075/09/2021: ADOPTION OF AGENDA

The agenda of the meeting was adopted after it was proposed by Sen. Mutula Kilonzo Junior, CBS, MP, and seconded by Sen. Millicent Omanga, MP.

MIN. NO. 2076/09/2021: KENYA'S PUBLIC DEBT STATUS

The Chairperson welcomed the members, Controller of Budget and the Representatives from the Commission on Revenue Allocation (CRA). After introductions, the Chairperson invited Commission on Revenue (CRA) to make a presentation on status of public debt in Kenya.

Presentation by Commission on Revenue Allocation (CRA)

The CRA representative informed the Committee as follows-

1. Kenya's debt has increased from 49 per cent of Gross Domestic Product (GDP) in 2013 to 68 per cent of GDP in 2020.
2. Kenya's debt dynamics need to be understood in the context of the fiscal deficits.
3. The country has been financing expenditure through high fiscal deficits in excess of 6 per cent.
4. Parliament plays a critical role in the approval of the budget and this is where vigilance is required to ensure that fiscal deficits are sustainable at the budget approval stage.
5. The composition of external and domestic debt has changed and increased pressure on debt service.
6. The share of commercial debt has increased from 22 per cent to 36 per cent of total debt.
7. Commercial debt attracts higher interest rates and shorter maturity profile compared to concessional multilateral debt.
8. The share of long-term treasury bonds in total domestic debt declined from 71% in 2013 to a low of 61% in 2018.
9. Long-term maturity debt (bonds) eases the pressure on debt service compared to short term treasury bill.

10. The rising debt and changing composition has seen a rise in debt service as a share of revenue from 16 per cent in 2013 to a high of 37 per cent in 2018 and now stands at 32 per cent.
11. Debt service crowds out social and development expenditure and can have serious social consequences.
12. Debt repayment is a first charge when determining the shareable revenue between the two levels of government.
13. Interest payments in the FY 2020/2021 absorbed 31.7 per cent of ordinary revenue up from 27.8 per cent in the FY 2019/2020.
14. When debt service is high there is fewer resources for other types of spending.
15. High debt service reduces the equitable share available to both levels of government which in turn affects service provision due to delays in disbursement of resources to county governments and Ministries, Departments and Agencies (MDAs).
16. High interest payments are also likely to crowd out expenditures in key sectors such as health, social protection and other development spending.
17. Kenya's debt distress risk has increased from moderate to high. To mitigate this risk, some proposals for consideration are-
 - a) Enhance the revenue forecasting capability and align expenditures to available resources to reduce fiscal deficits and adhere to African Community (EAC) thresholds in the medium term.
 - b) Lengthen the maturity profiles and restructure borrowing towards concessional external debt to reduce the amounts paid in debt service.
 - c) To mitigate the risk of debt distress Parliament could-
 - i. Set the bar for transparency and more openness in debt management, interrogate the annual borrowing plans, question the plans and the interest rates at which the Government is borrowing.
 - ii. Interrogate the use of debt and ensure that the loans are for productive and tangible expenditures.
 - iii. Operationalize the Sinking Fund to manage debt maturities.

The Chairperson thanked the team from CRA for their presentation and allowed them to leave the meeting. He then invited the Controller of Budget to make a presentation on the same matter.

Presentation by the Controller of Budget

The Controller of Budget (CoB) informed the Committee as follows-

- a) The Controller of Budget Act, 2016 limits reporting on Public debt specifically, the Section 9(4) of the Controller of Budget Act, 2016 states that; 'For the avoidance of doubt, the reports submitted under subsection (1) shall not include reports on recent economic developments and outlook, including revenue, grants and loans forecasts and receipts.'
- b) The gross public debt stood at Kshs7,713,961.55 million as at 30th June 2021. The stock of debt comprises 52.1 per cent external and 47.9 per cent domestic.
- c) The total estimated borrowing during the FY 2020/2021 is Kshs1,320,314,119,550.06 while actual receipt during the same period was Kshs1,200,470,646,894.59. This was 90.9 per cent of the target-

Table1: Receipts from Public borrowing FY 2020/21

Receipts	Revised Estimates	Actual Receipts	%
	Kshs.	Kshs.	
Domestic Borrowing	875,089,568,008.00	790,577,923,686.10	90.3
External Loans and Grants	422,413,389,278.85	377,149,967,766.70	89.3
Other Domestic Financing	22,811,162,263.21	32,742,755,441.79	143.5
Total	1,320,314,119,550.06	1,200,470,646,894.59	90.9

Source: *National Treasury*

- d) During the financial year 2020/2021 the CoB authorized a total of 81 Public Debt exchequer requests totalling Kshs862,833,158,921.65 from the Consolidated Fund. The amount approved was 30.9 per cent of the total exchequer approved-

Table 2: Exchequer issues to Public Debt FY 2020/21

Exchequer Issues			
Details	Budget	Exchequer	% of Total Exchequer
Public Debt	958,402,990,622.00	862,833,158,921.65	30.90

Source: *Office of Controller of budget*

e) The estimated borrowing during the FY 2021/2022 is Kshs1,417,380,685,182.12. As at 31st July, 2021 actual receipt into the Consolidated Fund was Kshs67,854,482,831.25, representing 4.8 per cent of the annual target.

Table.3: Receipts from Public Borrowing in the FY 2021/22

Receipts	Revised Estimates	Actual Receipts	%
	Kshs.	Kshs.	
Domestic Borrowing	1,008,428,584,928.72	67,854,482,831.25	6.7%
External Loans and Grants	379,659,517,890.95	-	0.0%
Other Domestic Financing	29,292,582,362.45	-	0.0%
Total	1,417,380,685,182.12	67,854,482,831.25	4.8%

Source: *National Treasury*

f) As at 31st August, 2021, the COB had authorized a total of Kshs162,374,959,793.20 from the Consolidated Fund against annual budget of Kshs1,169,165,030,917.00, representing 13.9 per cent of the total exchequer issues.

Table 4: Exchequer issues to Public Debt FY 2021/22

Exchequer Issues			
Details	Budget	Exchequer	% of Total Exchequer
Public Debt	1,169,165,030,917.00	162,374,959,793.20	13.9

Source: *Office of Controller of budget*

Key Issues and Recommendations

- i. During the FY 2020/2021, the total tax collected was Kshs1,487,519,775,689.25 while the total public debt exchequer issues was Kshs862,833,158,921.65, and constitutes 58.0 per cent of the total tax collected.
- ii. In the month of July to August, 2021, the total tax collected amounts to Kshs253,462,749,512.92 while the total public debt exchequer issues stand at Kshs162,374,959,793.20, constituting 64.1 per cent of the total tax revenue collected.
- iii. The CoB recommends renegotiating debt repayment agreements and slowing down of borrowing so as to ensure tax revenue collected is geared towards financing other components of the budget which include; Recurrent, Development,

Pensions and County Governments.

- iv. There are instances where National Treasury has borrowed from domestic market to repay foreign debt. For instance, on 16th August, 2021 PD:010/2021/2022 - Public Debt Repayment Request amounting to Kshs15,035,407,020.70
- v. The National Treasury borrowed (T-Bonds of Kshs15,035,407,020.70) from domestic market to repay foreign debt of which substantial amount (98 %) is towards syndicated loans repayments as follows

Amount (Kshs)	Date of requisiti on	Amount requisitioned for Foreign Payment	Beneficiaries	Category	%
73,890,702.50	16-08- 21	73,890,702.50	African Dev Fund, USAID & BADEA	Concessional Loans	0.5
128,324,287.79	16-08- 21	128,324,287.7 9	USAID, EUROPEAN INV Bank, Kuwait Fund for Arab Economic Dev, Exim Bank of Korea	Concessional Loans	0.9
104,779,903.10	16-08- 21	104,779,903.1 0	KBC Bank, European Inv Bank, Raiffeisen Bank Intl	Concessional Loans	0.7
14,728,412,127 .27	16-08- 21	14,728,412,12 7.27	Eastern & Southern African Trade & Dev	Syndicated Loans	98.0
<u>15,035,407,020 .66</u>		<u>15,035,407,02 0.70</u>			<u>100.0</u>

- vi. As a best practice government should not borrow to repay loans.
- vii. On 30th June, 2020 a total of Kshs70,167,610,083.00 was from Sovereign Bond Proceeds relating to the State Department for Infrastructure, the State Department for Water, Sanitation and Irrigation, the State Department for Housing, Urban Development and the State Department for ICT & Innovation. National Treasury then made a request totalling Kshs61,523,634,326.30.

- viii. During the FY 2021/2022 repayments towards Public debt is budgeted at Kshs1,169,165,030,917.00 (36.6 per cent of FY 2021/22 budget). This is the highest component of budget. We recommend need for lowering public debt.

Category	Budget (FY 2021/2022)	% of Total Budget
Recurrent	1,106,555,313,426.00	34.7
Development	389,229,477,396.00	12.2
Public Debt	1,169,165,030,917.00	36.6
Pensions and Gratuities	153,639,593,168.00	4.8
SAM	4,414,944,135.00	0.1
Subscriptions to International Orgs	500,000.00	0.0
County Governments	370,000,000,000.00	11.6

- ix. Payments of commitment fees (a fee that a lender may charge a borrower to whom it has agreed to extend credit. Generally charged for lines of credit not yet used, the commitment fee is a way of guaranteeing the bank will keep the funds available.)
- x. As at June 30 2021 the Government paid Kshs1,657,544,758.23 on Commitment fees on Loans that have not been utilized and loan agreement have been signed.
- xi. CRA recommended that these loans should be cancelled or actualize the borrowing and this will reduce the loan book balance and consequently save tax payers payments on the commitment fees.

Annex I: Overall public and publicly guaranteed debt position for end June 2021

	Amounts*	%
External Debt	(Kshs. Millions)	
Bilateral	1,142,121.52	14.8%
Multilateral	1,659,680.68	21.5%
Commercial Banks	1,195,646.48	15.5%
Suppliers Credits	17,850.70	0.2%
Sub-Total External Debt	4,015,299.38	52.1%
Domestic Debt		
Central Bank	88,129.96	1.1%
Commercial Banks	1,815,143.8	23.5%
Sub-total: Banks	1,903,273.79	24.7%

Non-bank	1,764,302.07	22.9%
Others (Non-residents)	31,086.30	0.4%
Sub-Total Domestic	3,698,662.16	47.9%
Grand Total	7,713,961.55	100.0%

The Committee noted that-

1. 64.1 per cent of tax revenue collected spent towards public debt servicing is quite worrying.
2. In June, 2020, out of Kshs70.167 billion from Sovereign Bond Proceeds to state departments for Infrastructure, Water, Housing and ICT, Kshs61.523 billion was used on recurrent expenditure. This contravened Article 201 (c) of the Constitution and Section 15 (2) of PFM Act, 2012.
3. The CoB had written a letter to the National Treasury to prevent gross violation of the Constitution and any other law in future although the National Treasury had not responded yet.
4. Counties can now borrow for development and recurrent expenditure. However, this raised concerns over their capacity to absorb the money, misuse and could lead counties into debt crisis in future when they will be unable to repay.
5. Part of reason and need to review debt ceiling was to create fiscal space to allow retirement of expensive commercial debts. This however has not been done. Expensive commercial loans have continued to grow.
6. The Government has been paying commitment fees on Loans that have not been utilized since the year 2017. The CoB informed the Committee that she had written a letter to the National Treasury recommending that the loans should be cancelled or the actualize the borrowing, but the National Treasury had not responded yet.
7. Strengthening Own-Source Revenue can improve fiscal autonomy and would allow county governments to have greater control over their development agenda.

The Committee resolved that-

- i. Section 9 (4) of Controller of Budget Act, 2016 that limits reporting on Public debt be amended.
- ii. The PFM Act be amended to create Treasury Single Account (TSA) to ensure proper oversight of Government cash flows and to reduce the cost of keeping public money in several commercial banks.
- iii. The CoB should liaise with officers in counties to submit all county revenue accounts to curb pilferage in public money.

MIN. NO. 2077/09/2021: ANY OTHER BUSINESS

The Committee resolved to hold a retreat in the first or second week of October to consider-

- i. Submission from ICPAK on efficacy of Integrated Financial Management Information System (IFIMIS) and its application in disbursement of funds.
- ii. Submissions from stakeholders and report on status of public debt in Kenya.

On 15th September, 2021, the Committee had postponed a meeting with the Auditor-General to deliberate on status of public debt in Kenya. The Committee resolved to reschedule the meeting to Wednesday, 22nd September, 2021.

MIN. NO. 2078/09/2021 ADJOURNMENT

The meeting adjourned at 10.41 a.m.

SIGNATURE: _____



(CHAIRPERSON: SEN. CHARLES KIBIRU, MP.)

DATE: 22nd September, 2021

MINUTES OF THE 251ST MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON WEDNESDAY, 06TH OCTOBER, 2021 AT 9:00 AM VIA ZOOM ONLINE PLATFORM.

PRESENT

- | | |
|---|---------------|
| 1. Sen. Charles Kibiru, MP | - Chairperson |
| 2. Sen. CPA Farhiya Haji, MBS, MP | - Member |
| 3. Sen. Rose Nyamunga, CBS, MP | - Member |
| 4. Sen. Mutula Kilonzo Junior, CBS, MP | - Member |
| 5. Sen. Moses Wetangula Masika, EGH, MP | - Member |
| 6. Sen. Millicent Omanga, MP | - Member |

ABSENT WITH APOLOGY

- | | |
|---------------------------------------|---------------------|
| 7. Sen. (Dr.) Ochillo-Ayacko, EGH, MP | - Vice- Chairperson |
| 8. Sen. Kimani Wamatangi, MP | - Member |
| 9. Sen. Aaron Cheruiyot, MP | - Member |

SECRETARIAT

- | | |
|----------------------------|-------------------|
| 1. Mr. Christopher Gitonga | - Clerk Assistant |
| 2. Ms. Beverlyne Chivadika | - Clerk Assistant |
| 3. Ms. Lucy Radoli | - Legal Counsel |
| 4. Ms. Sharon Rotino | - Researcher |
| 5. Mr. Chacha Machage | - Fiscal Analyst |
| 6. Mr. William Wambiru | - Fiscal Analyst |
| 7. Mr. Daniel Kirwa- | |

IN ATTENDANCE - THE OFFICE OF THE AUDITOR-GENERAL (OAG)

- | | |
|---------------------------|---------------------|
| 1. Ms. CPA Nancy Gathungu | - Auditor-General |
| 2. Mr. Antony Waiganjo | - Director of Audit |

MIN. NO. 2090/10/2021: PRELIMINARIES

The Chairperson called the meeting to order at 9.13 a.m. and thereafter followed by a word of prayer.

MIN. NO.2091/10/2021: ADOPTION OF THE AGENDA

The agenda of the meeting was adopted after it was proposed by Sen. CPA Farhiya Haji, MBS, MP and seconded by Sen. Mutula Kilonzo Junior, CBS, MP.

MIN. NO.2092/10/2021: INVITATION FOR A BREAKFAST MEETING

The Committee was informed of a letter from the Ministry of Agriculture, Livestock and Fisheries inviting the Committee to a consultative breakfast meeting briefing on the draft Marine Fisheries Access Regulations, 2021 on 7th October, 2021 at a venue to be communicated. The Chairperson urged the Members to avail themselves for the meeting.

MIN. NO.2093/10/2021:

**STATUS OF THE STATEMENTS PENDING
BEFORE THE COMMITTEE**

The Committee had noted with concern that the Cabinet Secretary (CS) for National Treasury had persistently failed to respond to letters from the Committee requesting for information concerning various statements pending before the Committee as listed below-

- i. cushioning Kenyans from the negative socio-economic impact of Covid-19 caused by the partial lockdown requested by Sen. Millicent Omanga, MP.
- ii. the merger of government agencies to form the Kenya Transport and Logistics Network (KTLN) requested by Sen. Aaron Cheruiyot, MP.
- iii. the operations of the Privatization Commission of Kenya requested by Sen. Moses Wetangula, EGH, MP.
- iv. imposition of Value Added Tax (VAT) on clean and renewable energy products requested by Sen. Abshiro Halake, MP.
- v. increase of Excise Duty on beer made from sorghum, millet and cassava requested by Sen. Cleophas Malalah, MP.

The Committee was concerned that even after reminding the Cabinet Secretary through a letter to provide information requested within 14 days, no response was obtained.

The Committee therefore resolved to summon the Cabinet Secretary for National Treasury be summoned to appear before the Senate within the next seven (7) pursuant to Sections 18 and 24 of the Parliamentary Powers and Privileges Act. During this meeting, the CS should provide the information requested and substantiate why the Treasury fails to respond to such requests in time.

**MIN. NO.2094/10/2021: MEETING WITH AUDITOR GENERAL TO
DELIBERATE ON THE KENYA'S PUBLIC DEBT
STATUS**

After introductions, the Chairperson welcomed the Auditor-General to the meeting to brief the Committee on Kenya's public debt status. In recognition of the importance of the issue on the status of public debt in Kenya, the Auditor-General made the following submissions-

1. The Office of the Auditor-General audits and reports on the financial statements of the Consolidated Fund Services (CFS) Public Debt which are prepared and submitted annually by the National Treasury;
2. The CFS Public Debt reports and financial statements are prepared in the format prescribed by the Public Sector Accounting Standards Board (Kenya) of Cash Basis Accounting Method under International Public Sector Accounting Standards (IPSAS);
3. The CFS Public Debt reports and financial statements comprise of-
 - a) statement of assets and liabilities as at year end.
 - b) statement of receipts and payments.
 - c) statement of cash flows.
 - d) the statement of appropriation – recurrent.
 - e) summary of significant accounting policies and other

explanatory information.

f) a summary statement of public debt.

4. The Office finalized the audit of the statement of public debt as at 30th June, 2020. As at the date of this meeting, the office was preparing the preliminary report on public debt as at 30th June 2021.
5. The outstanding amount of public debt had increased over the years from Kshs3,385,910,449,825 reported in the year 2015/2016 to Kshs7,634,174,036,240 reported in the year 2020/2021. This represents an increase of Kshs4,248,263,586,415 or approximately 125% over the six (6) year period as shown below-

Financial Year	External Debt (Kshs.)	Internal Debt (Kshs.)	Total Debt (Kshs.)
2015/2016	1,620,222,817,126	1,765,687,632,700	3,385,910,449,825
2016/2017	2,083,279,300,924	2,085,664,601,653	4,168,943,902,577
2017/2018	2,403,899,102,184	2,397,517,749,298	4,801,416,851,482
2018/2019	2,752,467,840,668	2,698,685,962,748	5,451,153,803,416
2019/2020	3,240,193,767,182	3,128,600,060,451	6,368,793,827,633
(unaudited) 2020/2021	3,988,954,891,289	3,635,219,144,951	7,634,174,036,240

Table 1: Public Debt 6-year Trend

6. The outstanding amount of public debt of Kshs7,634,174,036,240 as at 30th June, 2021 represents 84% of the maximum ceiling of Kshs9 trillion approved by Parliament through Legal Notice No.155 of 26 September, 2019.
7. The expenditure on public debt increased from Kshs421,457,575,047 reported in 2015/2016 to Kshs867,279,586,755 incurred in 2020/2021 financial year-

Financial Year	Public Debt Expenditure (Kshs.)
2015/2016	421,457,575,047
2016/2017	435,717,114,376
2017/2018	516,935,293,342
2018/2019	827,036,163,185
2019/2020	704,789,802,097
2020/2021 (Unaudited)	867,279,586,755

Table 2: Public Debt Expenditure

8. Consolidated Fund Services total expenditure of Kshs795,665,888,344 comprised Kshs704,789,802,097 or 88.6% for Public Debt.
9. During the audit of the financial statements for the year ended 30th June, 2020 the following observations were made-

- a. The growth in public debt is attributed to disbursements of new loans to the Government by various Development Partners and additional borrowings from the domestic market through Treasury Bonds and Treasury Bills to fund the budget.
 - b. Further analysis on budget absorption on public debt indicates an under-absorption of Kshs74,058,090,060 from the budgeted amount of Kshs778,847,892,157 and the actual amount of Kshs704,789,802,097.
 - c. The Office raised various issues pertaining to the maintenance of the public debt records and unexplained variances between various records for the year 2019/2020 which includes-
 - i. Unexplained difference of Kshs1,814,918,677 between the bank balance of Kshs4,537,769,205 reflected in the statement of assets and liabilities and the balance of Kshs6,352,687,882 reflected in the trial balance.
 - ii. Unexplained variance of Kshs.2 Billion between the internal loans - short-term borrowing balance of Kshs887,141,500,000 reflected in the summary statement of public debt and the re-computed closing balance of Kshs885,141,500,000. The over-redemption of Kshs.2 Billion was not acknowledged by the Central Bank of Kenya and may therefore not be recoverable.
 - iii. Unexplained variance of Kshs26,216,318,554 between the Treasury Bonds balance of Kshs2,220,339,804,765 reflected in the summary statement of public debt and the re-computed Treasury Bonds closing balance of Kshs2,194,123,486,211.
 - iv. Non-disclosure of public debt procured during the year – 2019/2020.
10. The Office of the Auditor-General is currently conducting a comprehensive performance audit specifically on two topics namely-
- a) **Public Debt Servicing Activities:** - This entails confirming whether;
 - i. the transactions are recorded accurately and completely,
 - ii. the amounts in the debt register are accurate and
 - iii. whether there is timely payment of the debt to avoid attracting penalties
 - b) **Determination of Borrowing Needs Activities:** - This will focus on;
 - i. Assessing whether the Government has documented borrowing plans aligned with public debt goals and strategy.
 - ii. Whether the Government has adopted the best practice approach on borrowing activities such as the Debt Management Performance Assessment, (DeMPA).

The reports will be issued in due course after the finalization of the audits.

11. According to the unaudited financial statements for the year ended 30 June

2021 gross public debt stood at Kshs 7.634 billion. This comprised of external debt of Kshs 3.998 billion being 52.1% and Kshs 3.635 billion or 47.9% under domestic debt.

12. The current status for the 2021 financial year is based on unaudited draft financial statements balances.
13. Further, during the year the public external public debt increased by Kshs 274,897,389,394 representing the drawn amount on new loans signed in the financial year 2020-2021.
14. The need to undertake prudent sovereign debt management is paramount for any nation to register positive economic development through debt financing.
15. There is need for integration of the formulation and implementation of a debt management strategy within a risk management framework while supporting governments to undertake debt operations to meet core debt management objectives.

The Committee noted that-

- a. The comprehensive performance audit report would reveal whether the National Treasury has retired expensive loans and replaced it with concessional loans.
- b. Kenya's overambitious budget contributes to high public debt and corruption.
- c. The Auditor-General has easy access to public debt register. She faces no difficulties obtaining information from the National Treasury as compared to the Committee.
- d. Under absorption of public debt resource by Kshs. 74.06 billion in FY 2019/2020. There is need to come up with measures or strategies to ensure all the funds budgeted are absorbed.
- e. Money borrowed for infrastructural development end up being expended on recurrent expenditure and debt repayment which violates the Constitution.
- f. Most of the Programmes and projects are grossly overpriced.

MIN. NO.2095/10/2021:

ADJOURNMENT

There being no other business the meeting adjourned at 10:44 a.m.

SIGNATURE: _____

(CHAIRPERSON: SEN. CHARLES KIBIRU, MP.)

DATE: 12th October, 2021

MINUTES OF THE 252ND MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON FRIDAY, 08TH OCTOBER, 2021 AT 9:30 AM AT SERENA HOTEL IN MASHUA CONFERENCE ROOM, MOMBASA.

PRESENT

- | | |
|--|-----------------------------|
| 1. Sen. Charles Kibiru, MP | - Chairperson |
| 2. Sen. CPA Farhiya Haji, MBS, MP | - Member |
| 3. Sen. Rose Nyamunga, CBS, MP | - Member |
| 4. Sen. Mutula Kilonzo Junior, CBS, MP | - Member |
| 5. Sen. Millicent Omanga, MP | - Member (<i>Virtual</i>) |
| 6. Sen. Aaron Cheruiyot, MP | - Member (<i>Virtual</i>) |

ABSENT WITH APOLOGY

- | | |
|---|---------------------|
| 7. Sen. (Dr.) Ochillo-Ayacko, EGH, MP | - Vice- Chairperson |
| 8. Sen. Kimani Wamatangi, MP | - Member |
| 9. Sen. Moses Wetangula Masika, EGH, MP | - Member |

SECRETARIAT

- | | |
|----------------------------|---------------------------|
| 1. Mr. Christopher Gitonga | - Clerk Assistant |
| 2. Ms. Beverlyne Chivadika | - Clerk Assistant |
| 3. Ms. Lucy Radoli | - Legal Counsel |
| 4. Ms. Sharon Rotino | - Researcher |
| 5. Mr. Frank Mutulu | - Media Relations Officer |
| 6. Mr. Chacha Machage | - Fiscal Analyst |
| 7. Mr. William Wambiru | - Fiscal Analyst |
| 8. Mr. Daniel Kirwa | - Searjeant-at-arms |
| 9. Mr. Ian Otieno | - Audio Officer |
| 10. Ms. Doreen Kagwiria | - Person Secretary |

MIN. NO. 2096/10/2021: PRELIMINARIES

The Chairperson called the meeting to order at 9.43 a.m. and thereafter followed by a word of prayer.

MIN. NO.2097/10/2021: ADOPTION OF THE AGENDA

The agenda was adopted after it was proposed by Sen. Mutula Kilonzo Junior, CBS, MP and seconded by Sen. CPA Farhiya Haji, MBS, MP.

MIN. NO.2098/10/2021: ADOPTION OF THEE RETREAT PROGRAMME

After introductions, the Chairperson the members to the meeting. The Committee considered the retreat programme adopted it after having being proposed by Sen. Mutula Kilonzo Junior, CBS, MP and seconded by Sen. CPA Farhiya Haji, MBS, MP.

**MIN. NO. 2099/10/2021: CONSIDERATION OF THE REPORT ON THE
STATUS OF KENYA'S STOCK OF PUBLIC DEBT**

The Chairperson welcomed the fiscal analyst from the Parliamentary Budget Office (PBO) who took the Committee through a draft report on Kenya's public debt status.

The report contained stakeholders' submissions from the Auditor-General, National Treasury, Controller of Budget (CoB), Parliamentary Budget Office (PBO), Commission on Revenue Allocation (CRA), and Central Bank of Kenya (CBK).

The Committee considered the draft report and made the following observations-

1. As at the end of Financial Year 2020/21 the stock of public debt amounted to disbursed debt of Kshs.7.71 trillion (69% of the Gross Domestic Product).
2. There is also an additional undisbursed loan commitments amounting to Kshs. 1.31 trillion. This brings the total loan commitments (disbursed and undisbursed debts) to Kshs 9.02. trillion against the approved ceiling of Kshs. 9 trillion.
3. Kenya has maintained high levels of fiscal deficit due to imbalanced interaction between national revenues and expenditures since the country has consistently missed its fiscal consolidation targets.
4. Increase in the debt stock has resulted in considerable increase debt servicing expenditures, constraining fiscal space and causing budget inflexibility through diminishing revenues available for other critical government expenditures.
5. The constrained fiscal environment could jeopardize the amount of equitable shareable revenue, which forms a significant budget financing for both national and devolved governments.
6. The total commitment fees for loans signed but not utilized between June 2016 and June 2021, cumulatively amounted to Kshs. 14.3 billion (of which Kshs. 1.66 billion was incurred in FY 2020/21).
7. Whereas national government enhances mechanisms for revenue collection, devolved governments need to put in place measures to enhance or increase Own Source Revenues.
8. Fiscal uncertainty is likely to negatively affect private sector investment and lower countrywide confidence in fiscal management.
9. During the review of the debt ceiling in October 2019, the National Treasury indicated that the increased borrowing space would be utilized to restructure the debt stock and bring it to a sustainable level. This has however not been undertaken.

10. There are short comings on regulatory framework for public debt management in Kenya. Factors such as lack of transparency and accountability, incurrence of commitment fees.
11. Pending bills are dues owed to a people and businesses, even though they do not form part of the debt stock, they are a current liability owed to providers of goods and services.
12. Section 9(4) of the Controller of Budget Act, 2016 limits the power of the Controller of Budget to undertake appropriate analysis on the status.
13. That Kshs. 61.5 billion out of the Kshs. 70.17 billion proceeds from the International Sovereign Bond were utilized to meet recurrent expenditure contrary to Section 15(2)(c) of the PFM Act, 2012.
14. Arising from Auditor-General's reports, the following were noted-
 - i. Under absorption of public debt resource by Kshs. 74.06 billion in FY 2019/2020.
 - ii. There were audit issues raised pertaining to the maintenance of the public debt records and unexplained variances between various records for the FY 2019/2020 which includes-
 - a) Unexplained difference of Kshs. 1.814 billion between the bank balance of Kshs. 4.54 billion reflected in the statement of assets and liabilities and the bank balance of Kshs. 6.35 billion reflected in the trial balance.
 - b) Unexplained variance of Kshs. 2 Billion between the internal loans - short-term borrowing balance of Kshs. 887.14 billion reflected in the summary statement of public debt and the re-computed closing balance of Kshs. 885.14 billion. The over-redemption of Kshs. 2 Billion was not acknowledged by the Central Bank of Kenya and may therefore not be recoverable.
 - c) Unexplained variance of Kshs. 26.22 trillion between the Treasury Bonds balance of Kshs. 2.22 trillion reflected in the summary statement of public debt and the re-computed Treasury Bonds closing balance of Kshs. 2.19 trillion.
 - d) Non-disclosure of public debt procured during the year – 2019/2020.

The Committee deliberated on the following recommendations, that-

1. In order to control the debt burden, the National Treasury should undertake the following-

- i. Within 6 months, submit to Parliament a Fiscal Consolidation Path Bill, developed with the input of the Central Bank of Kenya, Auditor General, Controller of Budget and the Commission on Revenue Allocation.
 - ii. Sustainably utilize non-debt financing options for public investment and submit a report to Parliament on a quarterly basis.
 - iii. Undertake refinancing operations geared at replacing expensive debt with concessional debt that has more favourable borrowing terms.
2. In order to address transparency concerns, the national and county treasuries should undertake the following-
 - i. Submit public debt register to Parliament on a quarterly basis for scrutiny by the public.
 - ii. Operationalize the public debt management module on IFMIS.
3. On the issue of pending bills, the National and County treasuries should update the public expenditure recording system to ensure that the payment of pending bills is prioritized.
4. Amendment of Section 9(4) the Controller of Budget Act, 2016 to allow the constitutional office to prepare any reports related to recent economic developments and outlook, including revenue, grants and loans forecasts and receipts.
5. Within six (6) months, the Office of the Auditor-General should undertake a special audit on the use of Commercial Debt in Kenya and submit a report to Parliament.
6. In order to enhance public sector investment and increase efficiency of public spending, National and County Treasuries should apply best practices in project appraisal and selection.
7. In addressing the recurrence of commitment fees, the National Treasury should renegotiate undisbursed loans with the aim of either;
 - i. cancelling undisbursed loans,
 - ii. suspending the commitment fee clauses to give time to the Kenyan government to address factors that affect loan disbursement.

The Chairperson informed the Committee that once the report is finalized and adopted by the Committee, it shall be tabled in the House, notice of Motion given, and debated in the House with view of adopting the proposed recommendations.

MIN. NO.3000/10/2021: ADJOURNMENT

The meeting adjourned at 12:57 p.m. to Friday, 8th October, 2021 at 2:10 p.m.

SIGNATURE: 

(CHAIRPERSON: SEN. CHARLES KIBIRU, MP.)

DATE: 12th October, 2021

MINUTES OF THE 255TH MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON TUESDAY, 12TH OCTOBER, 2021 AT 9:00 AM VIA ZOOM ONLINE PLATFORM.

PRESENT

- | | |
|---|---------------|
| 1. Sen. Charles Kibiru, MP | - Chairperson |
| 2. Sen. CPA Farhiya Haji, MBS, MP | - Member |
| 3. Sen. Moses Wetangula Masika, EGH, MP | - Member |
| 4. Sen. Mutula Kilonzo Junior, CBS, MP | - Member |
| 5. Sen. Millicent Omanga, MP | - Member |

ABSENT WITH APOLOGY

- | | |
|---------------------------------------|---------------------|
| 6. Sen. (Dr.) Ochillo-Ayacko, EGH, MP | - Vice- Chairperson |
| 7. Sen. Rose Nyamunga, CBS, MP | - Member |
| 8. Sen. Aaron Cheruiyot, MP | - Member |
| 9. Sen. Kimani Wamatangi, MP | - Member |

SECRETARIAT

- | | |
|----------------------------|---------------------------|
| 1. Mr. Christopher Gitonga | - Clerk Assistant |
| 2. Ms. Beverlyne Chivadika | - Clerk Assistant |
| 3. Ms. Lucy Radoli | - Legal Counsel |
| 4. Ms. Sharon Rotino | - Researcher |
| 5. Mr. Frank Mutulu | - Media Relations Officer |
| 6. Mr. Chacha Machage | - Fiscal Analyst |
| 7. Mr. William Wambiru | - Fiscal Analyst |
| 8. Mr. Daniel Kirwa | - Searjeant-at-arms |

MIN. NO. 3010/10/2021: PRELIMINARIES

The Chairperson called the meeting to order at 9.13 a.m. and thereafter followed by a word of prayer.

MIN. NO.3011/10/2021: ADOPTION OF THE AGENDA

The agenda was adopted after it was proposed by Sen. Mutula Kilonzo Junior, CBS, MP and seconded by Sen. CPA Farhiya Haji, MBS, MP.

MIN. NO.3012/10/2021:

CONFIRMATION OF MINUTES OF PREVIOUS SITTINGS

- a) The minutes of the 249th meeting held on Wednesday, 22nd September, 2021 at 9:00 a.m. were confirmed as a true record of the proceedings of the Committee having been proposed by Sen. CPA Farhiya Haji, MBS, MP and seconded by Sen. Millicent Omanga, MP.
- b) The minutes of the 250th meeting held on Thursday, 30th September, 2021 at 9:00 a.m. were confirmed as a true record of the proceedings of the Committee having been proposed by Sen. CPA Farhiya Haji, MBS, MP and seconded by Sen. Mutula Kilonzo Junior, CBS, MP.
- c) The minutes of the 251st meeting held on Wednesday, 6th October, 2021 at 9:00 a.m. were confirmed as a true record of the proceedings of the Committee having been proposed by Sen. Millicent Omanga, MP and seconded by Sen. Mutula Kilonzo Junior, CBS, MP.
- d) The minutes of the 252nd meeting held on Friday, 8th October, 2021 at 9:00 a.m. were confirmed as a true record of the proceedings of the Committee having been proposed by Sen. Mutula Kilonzo Junior, CBS, MP and seconded by Sen. CPA Farhiya Haji, MBS, MP

MIN. NO.3013/10/2021:

MATTERS ARISING FROM THE MINUTES OF THE PREVIOUS SITTINGS

251st Sitting

Ex. Min. No.2092/10/2021

The consultative breakfast meeting briefing on draft Marine Fisheries Access Regulations, 2021 that was to be held on 7th October, 2021 had been rescheduled to Friday, 15th October, 2021. This will be a virtual meeting, but the Ministry of Agriculture, Livestock and Fisheries has not confirmed whether the meeting will still take place.

Ex. Min. No.2093/10/2021

The Committee had resolved that the Cabinet Secretary (CS) for the National Treasury be summoned to appear before the Committee after persistently failing to provide information requested by the Committee on various statements pending before it. After consultation,

the Chairperson directed that the CS be summoned to appear before the Committee on Wednesday, 21st October, 2021 pursuant to Sections 18 and 24 of the Parliamentary Powers and Privileges Act.

**MIN. NO.3014/10/2021: CONSIDERATION AND ADOPTION OF
REPORT ON KENYA'S PUBLIC DEBT STATUS**

The Committee considered the report on Kenya's public debt status. The Committee unanimously adopted the report having been proposed by Sen. CPA Farhiya Haji, MBS, MP and seconded by Sen. Mutula Kilonzo Junior, CBS, MP with the following recommendations-

- a) In order to control the increasing debt burden, the National Treasury should:-
 - i. Within Six (6) months of the adoption of this report the National Treasury shall submit to Parliament a legislative proposal setting out the appropriate fiscal consolidation measures required to reduce the public debt stock to sustainable levels, over the medium term;
 - ii. Utilize non-debt financing options for public investment and submit a report to Parliament on a quarterly basis; and
 - iii. Restructure the public debt stock by undertaking refinancing operations by either retiring or replacing expensive debt with debt that have more favorable borrowing terms such as concessional loans.
- b) To address transparency concerns, the National Treasury should:-
 - i. Within six (6) months of the adoption of this report, shall Operationalize the IFMIS Debt Management Module and grant access to the Central Bank of Kenya, Office of the Controller of Budget and Office of the Auditor-General for monitoring;
 - ii. Submit to Parliament the debt register and publish the same on a quarterly basis on the Kenya gazette and its website for scrutiny by the public.
- c) Pending bills, even though not forming part of the debt stock, these are current liabilities owed to providers of goods and services. As such, the National and County

treasuries should update the public expenditure recording system to ensure that the payment of pending bills is prioritized. This will improve investor confidence.

- d) Empower the Controller of Budget to be able to provide reports related to recent economic developments, outlook, revenue, grants and loans and submit these reports to Parliament on a quarterly basis for scrutiny.
- e) Within 28 days of the adoption of this report, the National Treasury should provide a status report on the restructuring of the public debt stock as indicated during the review of the debt ceiling in October 2019.
- f) Section 15(2)(c) of the PFM Act 2012, stipulates that; *“over the medium term, the national government’s borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure”*; therefore, the Auditor General should, within six (6) months, undertake a special audit on the utilization of all Commercial loans in Kenya (up to the first quarter of FY 2021/22) and submit a report to Parliament.
- g) In order to enhance public sector investment and increase efficiency of public spending, National and County Treasuries should apply best practices in project appraisal and selection.
- h) The National Treasury shall publish and submit to parliament, every 3 months a comprehensive report on Debt Servicing Expenditures.
- i) In addressing the recurrence of commitment fees, the National Treasury should renegotiate undisbursed loans with the aim of either;
 - i. cancelling undisbursed loans,
 - ii. suspending the commitment fee clauses to give time to the Kenyan government to address factors that affect loan disbursement.
- j) The National Treasury should: i) desist from undertaking projects or entering into loan agreements that could lead to payment of commitment fees, ii) provide for mechanisms to deter incurrence of commitment fees in future.
- k) Given the constrained fiscal space, all accounting officers should prioritize the consolidation and protection of the available financial resources, from

misappropriation in order to enhance efficiency and effectiveness of budget implementation.

MIN. NO.3015/10/2021: ADJOURNMENT

There being no other business, the meeting adjourned at 9:52 a.m.

SIGNATURE: 

(CHAIRPERSON: SEN. CHARLES KIBIRU, MP.)

DATE: 12th October, 2021

