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REPUBLIC OF KENYA

THE NATIONAL ASSEMBLY

THIRTEENTH PARLIAMENT (THIRD SESSION) - 2024

PUBLIC DEBT AND PRIVATIZATION COMMITTEE

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# REPORT ON THE CONSIDERATION OF THE EXPENDITURES OF THE CONSOLIDATED FUND SERVICES FOR THE SUPPLEMENTARY ESTIMATES II FOR FY 2023/24 AND THE BUDGET ESTIMATES FOR FY 2024/25



JUNE 2024

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## LIST OF ACRONYMS & ABBREVIATIONS

| | |
|---|---|
| ABP | Annual Borrowing Plan |
| CBK | Central Bank of Kenya |
| CFS | Consolidated Fund Services |
| EURIBOR | Euro Interbank Offered Rate |
| GDP | Gross Domestic Product |
| IBRD | International Bank for Reconstruction & Development |
| IDA | International Development Association |
| IFB | Infrastructure Bond |
| IMF | International Monetary Fund |
| LIBOR | London Interbank Offered Rate |
| MSMEs | Micro-, Small and Medium-Sized Enterprises |
| MTDS | Medium-Term Debt Management Strategy |
| OCOB | Office of the Controller of Budget |
| PSSS | Public Service Superannuation Scheme |
| SOFR | Secured Overnight Financing Rate |
| USA/PEFCO | United States of America/Private Export Funding Corporation |
| USD | United States Dollar |

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## CHAIRPERSON'S FOREWORD

Pursuant to Articles 221 and 223 of the Constitution, and Sections 37 and 44 of the Public Finance Management Act, 2012, the National Treasury submitted the Supplementary Estimates II for FY 2023/24 and the Budget Estimates for FY 2024/25 to the National Assembly.

The estimates for the Consolidated Fund Services (CFS) are incorporated within each estimate of expenditure and encompass mandatory government expenditures such as debt service payments, pension obligations, and others. These expenditures are projected to total Kshs. 1.99 trillion and Kshs. 2.06 trillion for FY 2023/24 and FY 2024/25, respectively. As the largest expenditures in their respective fiscal years, they underscore persistent fiscal constraints indicating that it is imperative to implement measures to curtail these expenditures and create fiscal space for development expenditure.

The Committee noted a projected improvement in the fiscal deficit from 5.6 percent of GDP to 2.9 percent between FY 2023/24 to FY 2024/25. Achieving a lower deficit-to-GDP ratio is vital for sustaining fiscal health, ensuring economic stability, attracting investment, and securing better economic prospects for subsequent generations. Despite the optimism, it is crucial to maintain realism and adhere closely to this target, even if it necessitates stringent fiscal discipline.

In this context, reducing expenditure on public debt service is essential. These expenditures, which on average constitute 88 percent of CFS expenditures, indicate an escalation in largely non-productive expenditures, causing liquidity constraints and increasing vulnerability to macroeconomic shocks. This level of expenditure reflects a growing rigidity in our fiscal framework, as evidenced by interest expenditures in FY 2024/25 amounting to Kshs. 1.01 trillion, or 5.6 percent of GDP. Addressing this issue is critical in enhancing budget flexibility and ensuring efficient resource allocation.

Beyond fiscal management, effective management of macroeconomic factors is crucial. The depreciation of the Kenyan Shilling against the US Dollar in FY 2023/24 led to an increase of up to Kshs. 1.2 trillion in external debt stock, and the rise in interest rates escalated the cost of the overdraft facility by Kshs. 4.2 billion to Kshs. 12.6 billion. Although this was mitigated by the subsequent appreciation of the exchange rate, it highlights the significant cost implications of some macroeconomic policies. Going forward, fiscal and monetary policies must operate synergistically to mitigate the financial burden of external debt and reduce interest costs.

A thorough review of debt operations under CFS expenditures is also warranted. In FY 2023/24, the National Treasury assumed debtor responsibilities for external debt owed by Kenya Airways PLC, resulting in additional financial commitments without corresponding assets, thereby increasing the financial burden. The fact that these expenditures are a direct charge to the Consolidated Fund and do not require appropriation does, not exempt them from oversight by the National Assembly.

There is an urgent need to enact legislation regulating CFS expenditures. The Committee has noted that there are no provisions under the Public Finance Management Act, 2012 regulating the CFS expenditures, despite being the largest expenditures of the Government thus creating a loophole in their management.

## Examination of the Consolidated Fund Service Expenditures (CFS), Supplementary Estimates II for FY 2023/24, and Budget Estimates for FY 2024/25

The Committee has examined the proposed changes to the Consolidated Fund Services (CFS) Expenditures in line with its mandate and has prepared this report for consideration by this House. In reviewing the CFS expenditures, the Committee held 5 sittings during which, it held productive deliberations with key stakeholders and received their submissions. These include the Office of the Controller of Budget, National Treasury, and the Central Bank of Kenya.

## Key Recommendations

Arising from these consultative engagements, the Committee has made the following recommendations:

i. That, within sixty (60) days of the adoption of this report, the National Treasury should conduct a comprehensive review of all CFS expenditures to identify areas where spending can be reduced or made more efficient and prioritize expenditures that directly contribute to national development goals and critical government functions.

ii. That, subject to Section 64(1) of the PFM Act, 2012, the National Treasury should within sixty (30) days, appoint the Head of the Public Debt Management Office as an Accounting Officer in order to improve operational efficiency of the Office in the management of public debt servicing expenditures.

iii. That, upon adoption of this report, the National Treasury and the Central Bank of Kenya should undertake quarterly macroeconomic reviews in order to ensure that fiscal and monetary policies operate synergistically to mitigate the financial burden of external debt and reduce interest costs. The results of these deliberations should be submitted to the National Assembly within 15 days of the end of each quarter.

iv. That, the National Treasury should undertake a review of the cost of the overdraft facility and submit a report to the National Assembly within thirty (30) days of the adoption of this report. The report should review the use of the facility, the cost structure of the overdraft facility and make proposals to manage and reduce interest payments.

v. That, the National Treasury should submit regulations to the National Assembly within ninety (90) days of the adoption of this report, that will guide the use of the overdraft facility.

vi. That, within sixty (60) days of the adoption of this report, the National Treasury should submit to the National Assembly, a comprehensive report of the use of the Kshs. 200 billion allocated for the Redemption of Treasury Bills Shortfall in FY 2023/24.

vii. That, the National Treasury should, within thirty (30) days of the adoption of this report, submit to the National Assembly the full details, including contracts between itself and all parties, that resulted in the assumption of Kenya Airways PLC guaranteed debt.

viii. That, within thirty (30) days of the adoption of this report, the National Treasury should undertake an impact assessment of the assumption of debtor responsibilities for Kenya Airways PLC guaranteed debt, and submit a report to the National Assembly covering the cost-benefit analysis of the transaction to the country.

ix. That, within thirty (30) days of the adoption of this report, the Kenya Airways PLC should submit to the National Assembly, a realistic and comprehensive report on its turnaround strategy, and measures in place to replenish the public resources utilized in the payment of guaranteed debt, cash bailouts, and expenses relating to the debt assumed by the National Treasury.

x. That, the National Treasury should submit to the National Assembly an appropriate draft legislation to regulate the expenditures under the Consolidated Fund Services (CFS), by the end of Quarter three (3) of FY 2024/25.

## ACKNOWLEDGEMENTS

The Committee extends its gratitude to the Office of the Speaker of the National Assembly and the Office of the Clerk of the National Assembly, for the support extended in fulfilling its mandate of reviewing the expenditures of the Consolidated Fund Services under the Supplementary Estimates II for FY 2023/24 and the Budget Estimates for FY 2024/25. Sincere gratitude is also extended to the National Treasury, the Office of the Controller of Budget, and the Central Bank of Kenya, for honoring the invitation and providing critical information.

Finally, the Committee would like to thank the Parliamentary Budget Office and the Directorate of Audit, Appropriations, and other Select Committees for the invaluable support provided in the review of the Consolidated Fund Service Expenditures and the finalization of this report.

It is therefore my pleasant undertaking, on behalf of the Public Debt and Privatization Committee, to table this report and recommend it for adoption by this House.

**SIGNED**

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**HON. ABDI SHURIE, MP.**
**CHAIRPERSON, PUBLIC DEBT & PRIVATIZATION COMMITTEE**

4th June 2024
…………………………………………………………………..

**DATE**

## PREFACE

### a) Establishment and Mandate of the Committee

The powers of each House of Parliament to establish committees and to make Standing Orders for the orderly conduct of its proceedings are provided for under Article 124 of the Constitution of Kenya, 2010. To ensure effective oversight on matters concerning public debt, debt guarantees, public-private partnerships, and the privatization of national assets, the National Assembly Standing Order 207A establishes the Public Debt and Privatization Committee, which is tasked with specific mandates such as:

i. Oversight of public debt and guarantees, pursuant to Article 214 of the Constitution
ii. Examine matters relating to debt guarantees by the National government;
iii. Oversight Consolidated Fund Services excluding audited accounts;
iv. Examine reports on the status of the economy in respect of the public debt;
v. Oversight of public-private partnership programs by the national government with respect of the public debt; and
vi. Oversight privatization of national assets

This Committee is therefore mandated, among other functions, to examine the Consolidated Fund Service Expenditures and propose recommendations to the House for adoption.

### b) Membership of the Committee

The Public Debt and Privatization Committee as currently constituted, comprises the following Members of Parliament: -

**CHAIRPERSON**
**Hon. Abdi Shurie, M.P.**
**Balambala Constituency**
**Jubilee Party**

**VICE-CHAIRPERSON**
**Hon. (Dr.) Makali Mulu M.P**
**Kitui Central Constituency**
**Wiper Party**

Hon. Junet, Mohamed S.N. CBS. M.P
**Suna East Constituency**
**ODM Party**

Hon. Mohamed, Abdikadir Hussein, M.P
**Lagdera Constituency**
**ODM Party**

Hon. Omboko Milemba M.P
**Emuhaya Constituency**
**ANC Party**

Hon. (CPA) Suleka, H. Harun. M.P
**Nominated MP**
**UDM Party**

Hon. (Dr.) Irene Kasalu M.P
**Kitui County**
**Wiper Party**

Hon. Chege Njuguna M.P
**Kandara Constituency**
**UDA Party**

Hon. Kwenya, Thuku Zachary, M.P
**Kinangop Constituency**
**Jubilee Party**

Hon. Abdi Ali Abdi, M.P
**Ijara Constituency**
**NAP-K**

Hon. Kipkoros, Joseph Makilap M.P
**Baringo North Constituency**
**UDA Party**

Hon. Letipila, Dominic Eli, M.P
**Samburu North Constituency**
**UDA Party**

Hon. Aden Daud, EBS, M.P
**Wajir East Constituency**
**Jubilee Party**

Hon. Kirwa, Abraham Kipsang, M.P
**Mosop Constituency**
**UDA Party**

Hon. (Dr.) Daniel Manduku, M.P
**Nyaribari Masaba Constituency**
**ODM Party**

### c) Committee Secretariat

The Committee was supported by the following staff in the preparation of this report:

Mr. Leonard Machira
**Principal Clerk Assistant II & Head of Secretariat**

Mr. Chacha Machage
**Fiscal Analyst I/ Clerk Assistant**

Mr. Job Mugalavai
**Fiscal Analyst III/ Clerk Assistant**

Ms. Audrey Ogutu
**Legal Counsel II**

Mr. Edwin Gathogo
**Research Officer III**

Ms. Edith Chepngeno
**Media Relations Officer III**

Ms. Mwanasha Juma
**Assistant Serjeant-at-Arms II**

Mr. George Mbaluka
**Office Assistant**

Mr. Eugene Luteshi
**Audio Assistant**

### d) Parliamentary Budget Office

The Committee also received technical support from the following staff of the Parliamentary Budget Office:

FA (Dr.) Martin Masinde
**Director, Parliamentary Budget Office (PBO)**

Mr. Robert Nyaga
**Ag. Senior Deputy Director, Parliamentary Budget Office (PBO)**

Ms. Julie Mwithiga
**Fiscal Analyst I**

## 1) INTRODUCTION

1. Pursuant to Articles 221 and 223 of the Constitution, and Sections 37 and 44 of the Public Finance Management Act, 2012, the National Treasury submitted the Budget Estimates for FY 2024/25 and the Supplementary Estimates II for FY 2023/24 to the National Assembly on 30th April 2024 and 2nd May 2024, respectively.
2. Subsequently, the Public Debt and Privatization Committee is mandated to examine the estimates of the Consolidated Fund Service (CFS) Expenditures in accordance with the National Assembly Standing Orders (S.O. 207A-1(c)), and table its report to the National Assembly (S.O. 207A(4)).
3. The Consolidated Fund Service (CFS) Expenditures constitute mandatory expenditures that are a charge to the Consolidated Fund[1] and do not form part of the annual Appropriations Bill[2]. These expenses include a) Public debt servicing expenditures, b) Pension payments, and b) salary and allowances for independent offices and constitutional commissions, among other expenditures.
4. This report examines the expenditure alterations in Consolidated Fund Services (CFS) expenditures as outlined in Supplementary Estimates II for FY 2023/24, and the Budget Estimates for FY 2024/25 and the medium term. The expenditures are summarized as follows:
   a. Supplementary Estimates II for FY 2023/24 – revised to Kshs. 1.99 trillion; and
   b. Budget Estimates for FY 2024/25 – projected to reach Kshs. 2.06 trillion.

### 1.1) Underpinning Fiscal Frameworks & Fiscal Path

#### a) Fiscal framework underpinning the Supplementary Estimates II – FY 2023/24

5. The fiscal framework underlying the Supplementary Estimates II reveals an expansion in the fiscal deficit. For FY 2023/24, the fiscal deficit will increase by Kshs. 33 billion, rising from Kshs. 887 billion in Supplementary Estimates I to Kshs. 920 billion in Supplementary Estimates II. Consequently, the fiscal deficit for FY 2023/24 will represent 5.6 percent of GDP, surpassing the target fiscal deficit of 4.4 percent. This 1.2 percentage point escalation in the debt-to-GDP ratio corresponds to an additional Kshs. 201 billion in the fiscal deficit, leading to a proportional increase in debt accumulation for the fiscal year.
6. The financing of the expanded fiscal deficit will predominantly shift towards foreign borrowing. Net foreign borrowing is anticipated to increase by Kshs. 370 billion from the original estimates for FY 2023/24, driven by over 700 percent increase in Program Loans thus indicating a greater reliance on concessional and semi-concessional loans. In contrast, net domestic borrowing is expected to be reduced by Kshs. 180 billion from the original estimates. This strategy, while increasing exposure to exchange rate risk, may ultimately lower the overall cost and risk of public debt

[1] Article 206
[2] Article 221(7)

due to a decrease in domestic borrowing and an increased dependence on concessional and semi-concessional loan terms.

### b) Fiscal framework underpinning the Budget Estimates - FY 2024/25

7. The FY 2024/25 Budget Estimates propose a more ambitious fiscal strategy. The fiscal framework for the next year targets a fiscal deficit of Kshs. 515 billion. This fiscal deficit reduces the fiscal deficit for FY 2023/24 (Kshs. 909 billion) by Kshs. 394 billion and a reduction of Kshs. 188 billion from the 2024 Budget Policy statement worth Kshs. 703.9 billion. This target is underpinned by an increase in projected total revenues to Kshs. 3.35 trillion and a constrained increase in total expenditures and net lending to Kshs. 3.92 trillion.
8. It is important to note that this is the lowest fiscal deficit target since 2013/14 when it amounted to Kshs. 359.2 billion and may be an indicator of intent to adhere to fiscal consolidation designed to slow debt accumulation. The FY 2024/25 fiscal deficit will be financed by Kshs. 257 billion and Kshs. 258 billion, in net external borrowing and net domestic borrowing respectively.
9. If achieved, this fiscal deficit will result in a low cost and risk impact from borrowing. Whilst this deviates from the MTDS-approved strategy, it is expected to have a lower cost and risk impact due to the 43 percent reduction in the fiscal deficit target. As a share of Gross Domestic Product (GDP), the fiscal deficit target for FY 2024/25 is set at 2.9 percent of GDP, representing the lowest target in the past decade.
10. Furthermore, this ambitious target surpasses the 3.9 percent fiscal deficit to GDP goal that underpins the debt management strategy under the 2024 Medium-Term Debt Strategy (MTDS). This will require fiscal discipline, realistic budgeting, minimizing the impact of unforeseen expenditures during the year, and mitigating debt-related shocks which occasionally cause the fiscal deficit deviate from the annual target by an average of 2 percent.
11. The fiscal trajectory for FY 2024/25 continues to strive toward reducing the disparity between actual and target fiscal deficits. With a lower projected primary balance, this plan aims to stabilize the Debt to GDP ratio, curb the growth of public debt, and enhance fiscal and debt sustainability. Achieving the FY 2024/25 deficit target hinges on increasing the Revenue to GDP ratio to 18.6 percent (from 17.9 percent in FY 2023/24) and reducing the expenditure and net lending/GDP ratio from 23.8 percent in FY 2023/24, to 21.8 percent in FY 2024/25.

## 1.2) Stock of Public & Publicly Guaranteed Debt

12. Public debt[3] stock amounted to Kshs. 10.54 trillion as of April 2024 and comprised of External Debt and Domestic debt amounting to Kshs. 5.2 trillion and Kshs. 5.3 trillion, respectively. This follows a decline of Kshs. 598 billion from Kshs. 11.4 trillion due to the appreciation of the Kenya shilling against the USD and the Euro which together, account for up to 88 percent of the denomination of the debt stock. At this level, public debt stock equates to 65 Percent of Gross Domestic Product (GDP), in nominal terms

[3] Defined under Article 214 of the Constitution as "all obligations attendant to loans raised or guaranteed and securities issued or guaranteed by the national government

and remains above 60 percent in Present Value (PV) terms and therefore remains above the 55 Percent (+5) PFM Act, 2012, prescribed debt threshold. The debt-to-GDP indicators suggest that increased economic effort and income capacity are necessary to meet public debt obligations.

## 2) CONSOLIDATED FUND SERVICES EXPENDITURES, FY 2020/21 - FY 2024/25

13. Significant increase in CFS expenditures was experienced from FY 2020/21 to FY 2024/25, more than any other period. In FY 2024/25, CFS expenditures reached Kshs. 2.06 trillion after an addition of Kshs. 987 billion, making it the largest expenditure outlay. The increase was mainly due to public debt servicing expenditures, which accounted for an average of 88 percent of CFS expenditures. Several factors contributed to the increase of debt service costs, including:
    a. The increase in market interest rates for both domestic and external markets.
    b. Refinancing pressure from maturing domestic and external commercial debt.
    c. Exchange rate fluctuations impacted the cost of servicing external debt.
14. Public debt servicing was largely concentrated between FY 2022/23 and FY 2023/24, with service expenditures increasing by Kshs. 407.4 billion due to the maturity of the Debut International Eurobond in June 2024. In contrast, the transition to FY 2024/25 shows one of the slowest increases in debt service during the 5-year period, with an increase of Kshs. 60.7 billion. Despite this slowdown, public debt servicing will remain at its peak and, according to expenditure estimates, will not revert to pre-Eurobond levels due to maturity continued maturity of other commercial debts. This situation highlights the urgent need for strategic long-term fiscal planning to manage the cost associated with public debt servicing.
15. Pension expenditures will reach Kshs. 199.4 billion in FY 2024/25. These expenditures which remain critical for the support to a wide range of retired civil servants and their dependents after years of service to the country, comprise of a) ordinary pensions, b) commuted pensions, and c) the Public Service Superannuation Scheme. Overall, these expenditures see minimal shocks and have consistently grown from Kshs. 35.4 billion in FY 2013/14. The Committee continues to push for the timely disbursement of pension benefits and will be undertaking a review of any pending bills that arise from the disbursements.
16. In FY 2023/24, the National Treasury assumed the role of the primary debtor for debt owed by the Kenya Airways PLC[4]. Supplementary Estimates II indicate that in FY 2023/24 the payment of Kenya Airways PLC guaranteed debt, was converted to the main-stream external public debt stock and a subsequent entry of a new external commercial loan owed to Exim Bank USA / PEFCO, was captured. Interest payments and principal payments for this new loan amounted to Kshs. 14.3 billion and Kshs. 20.9 billion in FY 2023/24 and FY 2024/25, respectively, with further Kshs. 21.3 billion and Kshs. 10.7 billion to be incurred in FY 2025/26 and FY 2026/27, respectively.

[4] Collaborated by both the National Treasury and the Controller of Budget

17. It is important to note that between FY 2020/21 and FY 2022/23, the company received Kshs. 83.1 billion in cash bailouts or payment for guaranteed debt to remain operational during a period of losses. While the payments made regarding guaranteed debt are recoverable subject to Section 54 of the PFM Act, 2012, the conversion of this guarantee to mainstream debt, recoverability seems less likely. A further impact is that this transaction leads to the creation of liability, without its corresponding asset thus increasing the burden of repayment.

### 2.1) CFS Expenditures - Supplementary Estimates II for the FY 2023/24

#### a. Overall CFS expenditures

18. The Consolidated Fund Services (CFS) expenditures under Supplementary Estimates II will amount to Kshs. 1.99 trillion, depicting a decline from Kshs. 2.08 trillion indicated in Supplementary Estimates I. The decline is is attributed to the appreciation of the exchange rate, resulting in a total decrease in debt service expenditure by Kshs. 66.2 billion. Therefore, debt servicing expenses will amount to Kshs. 1.8 trillion or 90 percent of overall CFS expenditures.

19. The CFS expenditures also contain Pension Expenditures amounting to Kshs. 187.6 billion, will account for 10 percent of overall CFS expenditures. The are no allocations to meeting the called-up guarantee to Kenya Airways PLC as the debt service payments have been reallocated to the external debt servicing portfolio following the assumption of Kenya Airways PLC debt by the National Treasury and as such, the Government of Kenya will become the primary debtor to the external creditors.

#### b. Public Debt Servicing Expenditures

20. The Supplementary Estimates indicate that debt servicing expenses are expected to decrease from Kshs. 1.87 trillion to Kshs. 1.79 trillion, marking a reduction of Kshs. 73.57 billion (4 percent) in the cost of debt. This reduction is attributed to a general decrease in external debt servicing costs as a result of the strengthening of the USD and Euro January and April 2024, by 17.8 percent and 18.2 percent, respectively, between . Together, these two currencies account for over 88 percent of the external debt stock.

21. The changes are as follows:

    a. **External debt service –** The service for external debt is set to reduce by Kshs. 65.7 billion to Kshs. 773.44 billion, comprising of Kshs. 55.5 billion reduction in interest servicing and Kshs. 10.2 billion net reductions in redemption expenditure (Kshs. 32 billion of which is related to the maturing Debut Sovereign bond), and;

    b. **Domestic debt service –** The service for domestic debt is set to decline marginally by Kshs. 7.6 billion to Kshs. 1.019 trillion. This is a result of a reduction in interest expenditure by Kshs. 16.99 billion which will offset the Kshs. 9.13 increase in redemption expenditure. `

22. As such, as at the end of FY 2023/24, domestic debt servicing will continue to account for the largest share of debt servicing expenditures (56 percent) compared to external debt (43 percent), indicating a sustained high cost of domestic borrowing.

**23.** Major changes under Supplementary Estimates II that will affect both external and domestic debt, include the following:

i. **External Debt redemption:** The introduction of a new maturing loan of Kshs. 14.3 billion owed to Exim Bank USA / PEFCO. Increases in redemptions to loans owed by Italy (by Kshs. 1.9 billion) IDA (by Kshs. 3.02 billion) and France (by Kshs. 5.5 billion). Reduction in redemption to Debut Int. Sovereign Bond (by Kshs. 32.5 billion) and Trade Development Bank SYD (by Kshs. 2.54 billion).

ii. **External debt interest payments:** The introduction of a new maturing loan of Kshs. 3. 11 billion owed to Exim Bank USA / PEFCO. Increase in interest payments to loans owed to; ADB/ADF (by Kshs. 2.8 billion), 2018 Synd. Bond (by Kshs. 1.5 billion), Standard Bank Synd. (by Kshs. 1.5 billion). Reduction in interest payments to loans owed to; IMF (by Kshs. 7 billion), Debut Sovereign bond (by Kshs. 7.5 billion), IDA & IBRD (by Kshs. 3 billion), TDB (by Kshs. 3.94 billion).

iii. **Domestic Debt redemption:** The introduction of a new bond maturity (IFB1/2017/12, 2024/02) worth Kshs. 5.1 bn and increase in IMF On Lent Loan (by Kshs. 4 billion) to Kshs. 10 billion.

iv. **Domestic Debt interest payments:** Increase in interest payments for government overdraft (by Kshs. 4.2 billion) to Kshs. 12.6 billion and interest payments for IFB12023/6.5 bond by Kshs. 12.3 billion. Reduction in: a) Short-term borrowing for T-Bills by Kshs. 7.46 billion, as well as b) FXD1/2019/20 bond by Kshs. 3.4 billion. Lastly, an amount of Kshs. 22.58 billion towards the cancellation of interest for projected new loans.

### c. Pension Expenditures

24. Pensions expenditures under the Supplementary Estimates II amount to Kshs. 187.6 billion and is a decline of Kshs. 1.5 billion, from Kshs. 189 billion in Supplementary I Estimates. This is a result of net changes as follows: increase in civil servant pensions and gratuities by Kshs. 12.3 bn & Kshs. 3 bn respectively whilst Pension to MPs and Military reduced by Kshs. 2.5 bn and Kshs. 6.9 bn, respectively. The changes also involved reallocations of Kshs. 4.5 billion to the Public Service Superannuation Scheme by non-funded May to June 2023 carryovers.

### d. Expenditures on Salary and Allowances

25. The Supplementary Estimates II FY 2023/24 indicate that salaries and allowances will be reduced by Kshs. 702.98 million to Kshs. 4.03 billion, following readjustments of expenditures from possible areas of over-budgeting. The intuitions largely affected include: the Judicial Department (reduction of personal allowances by Kshs. 409.3 million, the National Cohesion & Integration Commission (a reduction of salaries by Kshs. 37.4 million and personal allowances by 28.7 million), and the National Land Commission (reduction of salaries by Kshs. 11.2 million and Personal allowances by Kshs. 53 million).

### e. Guaranteed Debt

26. The Supplementary Estimates II indicate that the are no allocations to meeting the called-up guarantee to Kenya Airways PLC. This follows the assumption of Kenya Airways PLC guaranteed debt by the National Treasury and the Government of Kenya will become the primary debtor to the external creditors. As such, a new loan owed to the Exim Bank USA / PEFCO has been introduced with interest and principal payments worth Kshs. 17 billion will be payable in FY 2023/24.

## 2.2) CFS Expenditures – Budget Estimates for the FY 2024/25

### a. Overall CFS expenditures

27. Overall CFS expenditures for FY 2024/25 is projected to amount to Kshs. 2.06 trillion or 11 percent of nominal GDP forecast for FY 2024/25 (Kshs. 18.015 trillion)[5]. The CFS expenditures will be composed of debt servicing expenditures (Kshs. 1.83 trillion or 90 percent) and Pension, salary, allowances, and other miscellaneous expenditures (Kshs. 203.6 billion or 10 Percent). The cost of domestic debt (Kshs. 1.3 trillion) continues to drive CFS expenditures by accounting for 61 percent of total CFS expenditures.

28. CFS expenditure continues to remain the largest fiscal expenditure as it equates to 135 percent of the Recurrent Budget and 284 percent of the Development Budget for FY 2024/25. When compared to Ministerial expenditures, pension expenditures alone exceed all vote allocations except for the Teachers Service Commission. As a share of revenues, CFS expenditure (net of principal payments) will account for 50 percent of ordinary revenues. Combined, these ratios indicate an increasing level of inflexibility in the fiscal framework, liquidity constraints, and the increase of largely non-productive expenditures.

### b. Budget Estimates FY 2024/25 Debt Servicing Expenditures

29. The Budget Estimates indicate that debt servicing expenditures are projected to rise to Kshs. 1.85 trillion in FY 2024/24, up from Kshs. 1.792 trillion, reflecting a Kshs. 60.7 billion (or 3 percent) increase. This increase is primarily driven by a 20 percent (Kshs. 163.6 billion) rise in interest payments to Kshs. 1.01 trillion. In contrast, redemption expenditures are expected to decline by 11 percent (Kshs. 102.9 billion) to Kshs. 330.7 billion from Kshs. 556.5 billion.

30. Notably, interest expenditure will account for 36 percent of total recurrent expenditure, 35 percent of Ordinary Revenues, and 5.6 percent of GDP. This significant portion of the budget dedicated to interest payments underscores the growing burden of debt servicing on the national finances. The increase in debt servicing costs is driven by higher interest payments, reflecting rising borrowing costs and existing debt obligations. Concurrently, the reduced redemption expenditure indicates a lower refinancing requirement, suggesting that fewer debts are maturing in FY 2024/25 compared to the previous fiscal year.

[5] FY 2024/25 Budget Summary

31. Domestic debt service is the largest component of public debt service and the Consolidated Fund Expenditures in general. Total domestic debt service will amount to Kshs. 1.26 trillion in FY 2024/25, thus accounting for 68 percent of public debt servicing expenditures. Domestic debt service is driven by expenditure on interest payments (Kshs. 749.97 billion) which account for, on average, over 74 percent of total interest servicing over the medium term thus reflecting the high cost of high cost of borrowing from the domestic market

32. External debt service is projected to amount to Kshs. 590.6 billion in FY 2024/25, representing a decrease of Kshs. 182.8 billion (or 24 percent) from Kshs. 773.4 billion in FY 2023/24. This reduction is primarily attributable to a 50 percent decline in external debt redemptions, following the repayment of the principal component of the Debut International Sovereign Bond (Kshs. 279.1 billion) in 2024. Conversely, interest payments are expected to rise by 20 percent, reaching Kshs. 259 billion. This accounts for only 32 percent of the interest expenses for the entire public debt stock and reflects the concessional nature of Kenya's external debt stock.

33. A review of the creditor composition indicates that the Exim Bank of China is a key driver of debt servicing expenditures. The creditor, alone, accounts for 25 percent (Kshs. 147 billion) of total external debt servicing expenditures. This is followed by numerous commercial loans which together account for 35 percent of total external debt servicing expenditures. Leading Multilateral lenders, the World Bank (through the International Development Association -IDA & the International Bank for Reconstruction and Development - IBRD), African Development Bank/Fund (ADB/ADF), and International Monetary Fund (IMF) will require Kshs. 84.5 billion, Kshs. 83.9 billion and Kshs. 14.8 billion to meet both interest and redemption/principal payments, respectively. The components are summarized as follows:

| | |
|---|---|
| 1. Exim Bank of China | Kshs. 147.9 billion |
| 2. TDB Synd. | Kshs. 84.5 billion |
| 3. IDA & IBRD | Kshs. 83.8 billion |
| 4. 2018, 2019 (USD 1.2 bn), 2021 & 2024 Int. Sovereign Bonds | Kshs. 69 billion |
| 5. 2019 (USD 900 bn) Int. Sovereign Bond | Kshs. 54.5 billion |
| 6. ADB/ADF | Kshs. 27.1 billion |
| 7. Exim Bank USA/PEFCO | Kshs. 20.9 billion |
| 8. France | Kshs. 14.8 billion |
| 9. IMF | Kshs. 14.7 billion |

34. Major changes (Estimates FY 2024/25) will affect both external and domestic debt. These include:

i. **External Debt redemption:** Increases in principal payments for loans owed to; IDA - by Kshs. 4.62 billion, ADB/ADF by Kshs. 1.23 billion, Exim Bank USA / PEFCO – by Kshs. 3.9 billion and TDB Synd. – by Kshs. 803.3 million.

ii. **External debt interest payments:** Increase in interest payments for loans owed to: IDA & IBRD by Kshs. 5.84 billion, ADB/ADF by Kshs. 1.13 billion, AFREXIM Bank by Kshs. 2.34 billion and 2024 International Sovereign Bond by Kshs. 21.94 billion.

iii. **Domestic Debt redemption:** Increase principal payments for domestic bonds including FXD/2022/3 worth Kshs. 60.61 billion, IFB1/2020/9 worth Kshs. 72.6 billion and FXD1/2020/5 worth Kshs. 104.52 billion.

iv. **Domestic Debt interest payments:** This increase is primarily driven by interest for projected new loans that will cumulatively require Kshs. 54.31 billion.

### c. Pension Expenditures

35. Pension expenditures are projected to increase in the FY 2024/25. The budget estimates indicate that these expenditures will increase by Kshs. 11.8 billion to Kshs. 199.4 billion. The increases are primarily due to: a) allocation of Kshs. 6.5 billion over the medium term to meet accrued benefits for early exit by members of the Public Service Superannuation Scheme (PSSS), b) increase in pension for Members of Parliament and Military by Kshs. 2.8 billion & Kshs. 3.03 billion, respectively, and an increase in military gratuities by Kshs. 809 million.

### d. Expenditures on Salary & Allowances

36. In the fiscal year 2024/25, there will be a 3 percent increase of Kshs. 122.6 million in Salaries and allowances, bringing the total to Kshs. 4.16 billion. It has been noted that the rise is due to a partial reduction in salaries, offset by a general increase in personal allowances and gratuities. Notable changes in various entities include: a) Public Service Commission - Kshs. 67 million (83 percent increase), b) Salaries and Remuneration Commission – Kshs. 68.9 million (77 percent increase), c) National Police Service Commission – Kshs. 43.5 million (80 percent increase), d) Commission on Administrative Justice – Kshs. 28.3 million (103 percent increase), and e) Independent Electoral & Boundaries Commission – Kshs. 66.7 million (305 percent increase).

## 3) SUBMISSIONS BY THE NATIONAL TREASURY

**The Committee was informed that:**

37. As of 30th April 2024, Kenya's public stock of debt amounted to Kshs. 10.54 trillion or 65.3 percent of GDP in nominal terms. This reflects a decline of Kshs. 598 billion from Kshs. 11.14 trillion or 69.1 percent of GDP in nominal terms as of the end of December 2023.

38. Public debt comprises Kshs. 5.196 trillion (or 49.3 percent of total debt) in external debt mostly owed to multi-lateral creditors on highly concessional terms while Kshs. 5.35 trillion (50.7 percent of total debt) is domestic debt largely held in Treasury Bonds.

39. The Fiscal deficit for the FY 2023/24 was revised from Kshs. 886.6 billion in the approved Supplementary I Budget Estimates to Kshs. 908.6 billion under Supplementary Estimates II. The deficit is planned to be financed through net borrowing of Kshs. 592.8 billion from domestic sources and Kshs. 315.8 billion from external sources.

40. Public debt service comprises of interest payments and principal repayments or redemptions. Under Supplementary Estimates II for FY 2023/24, interest payments

on domestic debt have been revised downwards to Kshs. 629.4 billion, from Kshs. 646.4 billion due to a slight change in the structure of domestic debt. Interest payments on external debt was also revised downward to Kshs. 224.3 billion from Kshs. 272.5 billion due to the strengthening of the Kenya shilling exchange rate. The breakdown of the CFS estimates.

41. Principal repayments on domestic debt have been revised upwards to Kshs. 389.7 billion, from Kshs. 380.5 billion due to higher maturities arising from changes in the mix of domestic debt stock. Redemptions on external debt was revised downward to Kshs. 556.5 billion from Kshs. 566.7 billion due to the strengthening of the Kenya shilling exchange rate.

42. The budget estimate for pensions was adjusted to Kshs.187.56 billion. The National Treasury has provided for Kshs. 4.6 reallocations to the Public Service Superannuation Scheme (PSSS) and another Kshs. 2.88 billion to the Monthly Pensions. The amounts have been reallocated from the Commuted Pensions based on expenditure trends.

43. The reallocation to PSSS has been occasioned by the fact that the Government component of contribution to the Scheme for the months of May and June 2023 had not been funded, resulting in a carry-over of a liability totaling to Kshs. 4.59 billion from the FY 2022/2023.

44. The budget for Salaries and allowances for constitutional officeholders was Kshs. 4.74 billion during Supplementary I Budget Estimates. In the Supplementary Estimates II, the National Treasury has allocated Kshs. 4.03 billion based on Payroll expenditure trends and taking into account all the anticipated expenditures on the appointment of Judges in the Judicial Department and delays in appointments of Commissioners in Independent Electoral and Boundaries Commission (IEBC).

45. Following the completion of the Novation of government-guaranteed debt to Kenya Airways, the debt service payments arising from this debt have been reallocated to the budget line for principal and interest payments on external debt.

46. The Fiscal deficit for the FY 2024/25 is projected at Kshs. 514.7 billion. The deficit is planned to be financed through borrowing from both domestic sources (Kshs. 257.9 billion) and external sources (Kshs. 256.8 billion). This is informed by the medium-term debt management strategy, which seeks to minimize the costs and risks of borrowing.

47. The overall public debt service for FY 2024/25 is estimated at Kshs. 1.85 trillion out of which interest payment is Kshs. 1.01 trillion and principal redemptions of Kshs. 843.3 billion.

48. The underlying assumptions of public debt service include a) the achievement of the FY 2023/24 borrowing target; b) the domestic debt borrowing target for the fiscal year 2024/25 is assumed at Kshs. 377 billion as per the 2024 BPS; c) the average interest rate for issuance of Treasury bills and Treasury bonds is at an average of 16.85 percent per annum and 17.23 percent per annum respectively; d) the outstanding stock of treasury bonds stock to be refinanced at prevailing rates at issuance; and the Overdraft facility will be fully utilized at CBR rate of 13 percent.

49. On external debt service, in preparation of external debt service projections for both interest and principal rely on the Debt Management System (Commonwealth Meridian) by extracting the debt service flows in foreign currencies for each individual loan.

i. The projections from the system are then subjected to graduated foreign currency assumptions to convert them into Kenya Shillings. The local currency amounts are then aggregated by the lending country;

ii. Following the partial settlement of the 2024 Eurobond, the Kenya shilling has since appreciated from Kshs. 162 per USD as of 23rd January 2024 to Kshs. 132 per USD as of 27th May 2024. A stronger local currency typically translates to reduced external debt service projections. On average the National Treasury used an exchange rate of Kes 150 per USD

iii. Interest on commercial loans, approximately US$ 1.2 billion (Kshs. 151 billion) are taken care under the budget line on new loans and the interest rates assumed are the prevailing market rates of 13 percent indicated by Commercial Banks for syndicated loans. World Bank budget support of USD 850 million at the interest rate of about 7 percent p.a. (margin of 1.24 Percent plus Secured Overnight Financing Rate (SOFR) of about 5.38 Percent) (as of 4th April 2024); and

iv. Floating exchange rates remain close to the current levels in the medium term. Either the 6 months London Interbank offered Rate (LIBOR) or the Secured Overnight Financing Rate (SOFR) are assumed to remain at the region of 5.5 percent in the medium term, while the Euro Interbank Offered Rate (EURIBOR) will remain at 3.9 percent.

50. The total pension budget estimate for the FY 2024/2025 is Kshs. 199.4 billion broken. The total commuted pension and gratuity for Public Servants, amounting to Kshs. 70.21 billion comprising of:

i. Kshs. 51.92 billion for the 14,564 public servants scheduled to retire in the FY 2024/2025;

ii. An additional Kshs. 18.23 billion for claims from prior periods submitted late by MDAs and those carried over from the preceding financial year; and

iii. A provision of Kshs. 50 million is included for the commuted pension and gratuity of Members of Parliament who opt to be paid based on their terms of service.

iv. The Government's contribution to the PSSS, amounting to Kshs. 34.4 billion, is included in the department's budget. This covers the 15 percent basic salary contribution for each of the 438,000 scheme members.

51. Other Pension Schemes and Provisions include pensioners under the Crown Agents Bank: Kshs. 40 million and refund of Contributions to WCPS: Kshs. 92.1 million.

52. A new budget line item, "Accrued Benefits for PSSS Members Upon Exit," has been introduced with a provision of Kshs. 6.5 billion. This caters to members who exit the service due to death or other early exit reasons before normal retirements, which are not expected until after 2036.

53. In the Budget Estimates for the FY 2024/25, the National Treasury has allocated Kshs. 4.16 billion to Salaries of Constitutional Office Holders. This is an increase of Kshs.122.6 million from what was budgeted for during Supplementary Budget II and is in line with expected expenditures during FY 2024/25.

### 4) SUBMISSIONS BY THE CONTROLLER OF BUDGET

**The Committee was informed that:**

54. The government aims to reduce the fiscal deficit and stabilize public debt growth while ensuring debt sustainability. This will be undertaken by prioritizing revenue generation as opposed to increased borrowing, the government aims to achieve fiscal sustainability and alleviate pressure on public debt levels. This approach signals a shift towards a more balanced and sustainable fiscal policy framework, aligning with efforts to promote economic stability and growth in the long term.

55. The government plans to curtail borrowing, with total net borrowing projected to decrease to Kshs. 514.7 billion in FY 2024/25, down from Kshs. 908.6 billion in the FY 2023/24 Supplementary Estimates II.

56. According to the FY 2024/25 Budget Estimates, total expenditure is anticipated to rise by 2.2 percent to Kshs. 3.9 trillion from Kshs. 3.8 trillion in the Supplementary Budget II FY 2023/24, representing a significant reduction from the earlier projection of Kshs. 4.2 trillion in the budget policy statement for FY 2024/25.

57. The recurrent and development expenditures FY 2024/25 Budget Estimates are expected to increase, with the development expenditure expected to see a larger uptick of 5.9 percent to Kshs. 687.9 billion from Kshs. 649.8 billion, while recurrent expenditure is forecasted to grow by 0.7 percent to Kshs. 2.78 trillion from Kshs. 2.76 trillion in the Supplementary Budget II.

58. The rise in recurrent expenditure is primarily fueled by increased interest payments, a consequence of the country's high borrowing levels. Interest payments are projected to surge by 18.3 percent to Kshs. 1.01 trillion in FY'2024/25, up from Kshs. 853.7 billion in FY'2023/24 as per the Supplementary Budget II. Despite the 5.9 percent increase in development expenditure, there is a lingering concern regarding the proportion of recurrent expenditure compared to development spending, with the estimates suggesting a ratio of 70.9 percent to 17.5 percent, respectively.

59. The fiscal deficit for FY 2024/25 is forecasted at 2.9 percent of GDP, marking the lowest level in 15 years. This deficit will be financed through a combination of net external borrowing amounting to Kshs. 256.8 billion and net domestic borrowing of Kshs. 257.9 billion. The total new public debt requirement for FY'2024/25 is expected to decrease by 1.8 percent to Kshs. 1.9 trillion from Kshs. 1.8 trillion in FY 2023/24, as per the Supplementary Budget II.

60. In the first nine months of FY 2023/24, the original budget allocation for Consolidated Fund Services (CFS) was revised from Kshs. 1.96 trillion to Kshs. 2.08 trillion in Supplementary Estimates I and is now proposed to be revised to Kshs. 1.98

trillion in Supplementary Estimates II for FY 2023/24 and Kshs. 2.06 trillion in FY 2024/25.

61. The government of Kenya has an overdraft facility managed by the Central Bank of Kenya (CBK). For FY 2023/24, the overdraft limit is set at Kshs. 97.05 billion and is charged at the prevailing CBK rate on the outstanding amount. During the first nine months of FY 2023/24, the total charge on the overdraft facility was Kshs.7.03 billion, an increase of 104.6 percent compared to the same period in FY 2022/23.

62. As of March 31, 2024, the guaranteed debt stock decreased to Kshs. 98.86 billion from Kshs. 170.23 billion on June 30, 2023. This reduction is attributed to the novation process involving Kenya Airways, where the Government of Kenya assumed the airline's guarantee (Tsavo). Consequently, this loan will now be recorded under Public Debt.

63. Allocations for Salaries and Allowances and Miscellaneous Services were Kshs. 4.74 billion in FY 2023/24 and later revised to Kshs. 4.80 billion in Supplementary Estimates II and proposed to be reduced to Kshs.4.03 in Supplementary Estimates II. In FY 2024/25, the allocation towards SAM is estimated at Kshs. 4.16 billion.

64. The allocation for Pensions and Gratuities for FY 2023/24 amounted to Kshs. 189.09 billion. The allocation towards Pensions and Gratuities is proposed to be revised to Kshs.187.56 billion in Supplementary Estimates II and later to Kshs. 199.37 in the FY 2024/25.

65. Total payments towards Pensions and Gratuities in the first nine months of FY 2023/24 amounted to Kshs. 129.21 billion, representing 68.3 percent of the revised gross estimates I, compared to Kshs.112.64 billion (65.2 percent) recorded in FY 2022/23.

66. However, the recent consistent strengthening of the Kenyan Shilling against the US Dollar has indeed had a positive impact on the country's external debt. This trend signifies a favorable position for Kenya, as it enhances the country's purchasing power and reduces the cost of repaying loans denominated in foreign currencies.

67. Following the exchange rate appreciation, calculated at the rate of Kshs. 131.5 to the US dollar, the external debt has declined from Kshs. 6.19 trillion to 5 trillion. This represents a significant reduction of almost Kshs. 1.2 trillion Kenyan Shillings. Consequently, when combined with the unchanged domestic debt, the total debt now stands at 10.1 trillion Kenyan Shillings, as opposed to the previous 11.1 trillion.

68. Overall, the strengthening of the Kenyan Shilling against the US Dollar has resulted in a notable reduction in the country's external debt burden, contributing to improved fiscal stability and debt sustainability. The drop was a result of savings due to the Kenyan shilling strengthening in February and March.

69. In the first 10 months of FY 2023/24, a total of Kshs. 6.37 billion down from Kshs. 8.26 billion, was approved in the first half of the same period to cover shortfalls in external debt payments due to foreign exchange fluctuations.

70. Delays in financing pensions and gratuities, largely due to delays in exchequer requests and employer contributions to the Public Service Superannuation Scheme. These delays hinder budget execution and affect senior citizens' finances.

71. There has been a significant increase in overdraft charges, which more than doubled from Kshs. 3.43 billion in the first nine months of FY 2022/23 to Kshs. 7.03 billion in the same period of FY 2023/24.

**The Controller of Budget made the following proposals to the Committee, that:**

i. Maintaining fiscal discipline and improving expenditure efficiency within the Consolidated Fund Services (CFS).

ii. Adoption of a balanced approach to expenditure allocation, with a focus on prioritizing development spending to drive economic growth and address key developmental challenges.

iii. Prudent debt management practices to ensure debt sustainability and mitigate fiscal risks. This includes monitoring borrowing levels, optimizing debt structures, and exploring alternative financing sources.

iv. Revenue Mobilization and Tax Policy is driven towards enhancement of revenue collection by broadening the tax base, improving tax compliance, and addressing tax evasion and avoidance.

v. The alignment of CFS expenditures with national development priorities and policy objectives. This involves ensuring that expenditure allocations support key government initiatives, such as poverty reduction, job creation, healthcare, education, and infrastructure development.

vi. Management of contingent liabilities effectively, and adopting prudent risk management practices.

### 5) SUBMISSIONS BY THE CENTRAL BANK OF KENYA

**The Committee was informed that:**

72. The Central Bank of Kenya is the fiscal agent of the government in the issuance and redemption of domestic debt – Treasury Bills and Treasury Bonds. CBK also pays external debt service on behalf of the Government. Debt service constitutes 89 percent of the Consolidated Fund Services (CFS) expenditures.

73. There is a need to contain the expenditures under the consolidated fund services through the consolidation of debt service expenditures through the calibration of public debt service expenditures to sustainable levels. Revenue mobilization will be key.

74. The net domestic borrowing target for FY 2023/24 was revised from Kshs. 316.9 billion to Kshs. 471.35 billion due to increased issuance of treasury bonds.

75. The borrowing plan for the FY 2023/24 remains aligned to the 2023 MTDS as it; a) meets the domestic borrowing target, and b) manages the cost of debt by developing and maintaining a well-priced stable yield curve. Furthermore, it minimizes the

maturity risk by extending the bond tenor, ensuring there is stable liquidity flows, and supporting the development of the domestic market.

76. The capacity of the domestic market to finance the deficit in FY 2022/23 and FY 2021/22 was limited due to tight liquidity in the domestic market. CBK raised 94 percent (Kshs. 447 billion) of the FY 2022/23 borrowing target and 89 percent of the FY 2021/22 target.

77. The net-domestic financing for Supplementary Estimates II FY 2023/24, was revised from Kshs. 474 billion to 407 billion while the net foreign financing was increased from Kshs. 412.1 billion to Kshs. 501.6 billion.

78. The appreciation of the USD/Kshs. exchange rate from Kshs. 161.36 billion to Kshs. 130.78 resulted in the reduction of the external debt stock by Kshs. 1.2 trillion resulting in the decrease of the external debt stock from Kshs. 6.2 trillion to Kshs. 5.02 trillion between 23rd January 2024 and 13th May 2024.

79. The appreciation of the exchange rate also had a positive impact on external debt service expenditures. Overall total interest on external debt at USD/Kshs. exchange rate of Kshs. 161.36, was estimated to amount to Kshs. 1.67 trillion and declined to Kshs. 1.36 trillion with the appreciation of the exchange rate to Kshs. 130.78. This resulted in net savings of Kshs. 316.9 billion.

80. As such, the appreciation of the exchange rate resulted to a total savings of Kshs. 1.49 trillion arising from Kshs. 1.17 trillion in reduction of the external debt stock and Kshs. 316.9 billion reduction in external debt servicing expenditures.

81. The government overdraft facility is intended to provide temporary accommodation to the government by offsetting fluctuations between receipts from budget revenue and payments. It is limited to 5 percent of gross recurrent revenue of the government's previous audited accounts or currently, Kshs. 97.05 billion. The available space as of May 13th May, 2024 was Kshs. 3.9 billion.

## 6) COMMITTEE OBSERVATIONS

82. Arising from the consideration of the estimates and submissions from stakeholders, the Committee made the following pertinent observations:

i. Total Consolidated Fund Services (CFS) expenditures for FY 2024/25 are projected to reach Kshs. 2.06 trillion, equivalent to 135 percent of the recurrent budget and 284 percent of the development budget for the same fiscal year. Consequently, there is a need to align CFS expenditures with national development priorities, given the risk they pose to the effective implementation of critical government expenditures and long-term plans.

ii. The public debt service expenditures will comprise 90 percent of the CFS expenditures and highlights the increasing role that the Public Debt Management Unit in the management these mandatory expenditures. Despite being established under Section 62 of the PFM Act, 2012, does not have operational independence which could impact the efficiency of this Office in meeting their mandate under Section 63 of the PFM Act, 2012.

iii. The strengthening of the Kenyan Shilling against the US Dollar has had a positive impact on the country's external debt. The appreciation of the Kenya Shilling against the USD exchange rate from Kshs. 161.36 to Kshs. 130.78 between January 2024 to May 2024 resulted in the estimated reduction of the external debt stock by Kshs. 1.2 trillion and a reduction in total interest charge by Kshs. 316.9 billion.

iv. The overdraft facility at the CBK is intended to provide temporary financial support to the Government by offsetting fluctuations between receipts from budgeted revenue and payments. In FY 2023/24, the overdraft limit is set at Kshs. 97.05 billion. The Committee is concerned with the increased cost of the overdraft facility whose interest payments increased by Kshs. 4.2 billion to Kshs. 12.6 billion in FY 2023/24.

v. The National Treasury operates an overdraft facility while simultaneously operating a Kshs. 200 billion fund meeting shortfalls of redemption of treasury bills. The Committee noted that the transparency of the use of the Kshs. 200 billion fund needs to be through the submission of periodical reports to the National Assembly.

vi. Supplementary Estimates II indicate that in FY 2023/24, the Kenya Airways guaranteed debt was converted to the main-stream external public debt stock and a subsequent entry of a new external commercial loan owed to Exim Bank USA / PEFCO, was captured. As such, the National Treasury has assumed the responsibility of being the primary debtor, thus bearing the burden of repayment. It is also noted that this transaction, unlike other debt, resulted in the creation of a liability, without a corresponding asset.

vii. Recoverability of public funds used to support entities is a critical element of Kenya's Public Financial Management (PFM) framework, aimed at ensuring the prudent utilization of public resources. From FY 2020/21 to FY 2022/23, Kenya Airways PLC received Kshs. 83.1 billion through cash bailouts or payments to cover guaranteed debts to maintain operations during a period of financial losses. Payments related to guaranteed debts are thus recoverable under Section 54 of the PFM Act 2012, while the cash injections are expected to yield returns comparable to the benefits that would have been realized if the funds were invested in other government expenditures.

viii. There is a need for transparency and accountability in managing CFS expenditures, including conducting regular audits, publishing financial reports, and promoting citizen participation in the budgetary processes. The Committee has noted that such provisions would have been provided under an Act of Law but the resolutions relating to submission of a Bill to the National Assembly to regulate CFS expenditures remain unimplemented.

ix. There are no provisions under the Public Finance Management Act, 2012 regulating CFS expenditures despite being the largest expenditures of the Government thus creating a loophole in their management.

## 7) COMMITTEE RECOMMENDATIONS

83. Arising from these consultative engagements, the Committee recommends:

i. That, within sixty (60) days of the adoption of this report, the National Treasury should conduct a comprehensive review of all CFS expenditures to identify areas where spending can be reduced or made more efficient and prioritize expenditures that directly contribute to national development goals and critical government functions.

ii. That, subject to Section 64(1) of the PFM Act, 2012, the National Treasury should within sixty (30) days, appoint the Head of the Public Debt Management Office as an Accounting Officer in order to improve operational efficiency of the Office in the management of public debt servicing expenditures.

iii. That, upon adoption of this report, the National Treasury and the Central Bank of Kenya should undertake quarterly macroeconomic reviews in order to ensure that fiscal and monetary policies operate synergistically to mitigate the financial burden of external debt and reduce interest costs. The results of these deliberations should be submitted to the National Assembly within 15 days of the end of each quarter.

iv. That, the National Treasury should undertake a review of the cost of the overdraft facility and submit a report to the National Assembly within thirty (30) days of the adoption of this report. The report should review the use of the facility, the cost structure of the overdraft facility and make proposals to manage and reduce interest payments.

v. That, the National Treasury should submit regulations to the National Assembly within ninety (90) days of the adoption of this report, that will guide the use of the overdraft facility.

vi. That, within sixty (60) days of the adoption of this report, the National Treasury should submit to the National Assembly, a comprehensive report of the use of the Kshs. 200 billion allocated for the Redemption of Treasury Bills Shortfall in FY 2023/24.

vii. That, the National Treasury should, within thirty (30) days of the adoption of this report, submit to the National Assembly the full details, including contracts between itself and all parties, that resulted in the assumption of Kenya Airways PLC guaranteed debt.

viii. That, within thirty (30) days of the adoption of this report, the National Treasury should undertake an impact assessment of the assumption of debtor responsibilities for Kenya Airways PLC guaranteed debt, and submit a report to the National Assembly covering the cost-benefit analysis of the transaction to the country.

ix. That, within thirty (30) days of the adoption of this report, the Kenya Airways PLC should submit to the National Assembly, a realistic and comprehensive report on its turnaround strategy, and measures in place to replenish the public resources utilized in the payment of guaranteed debt, cash bailouts, and expenses relating to the debt assumed by the National Treasury.

x. That, the National Treasury should submit to the National Assembly an appropriate draft legislation to regulate the expenditures under the Consolidated Fund Services (CFS), by the end of Quarter three (3) of FY 2024/25.

**SIGNED**

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**HON. ABDI SHURIE, MP.**
**CHAIRPERSON, PUBLIC DEBT & PRIVATIZATION COMMITTEE**

4th June 2024
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**DATE**

THE NATIONAL ASSEMBLY
PAPERS LAID
DATE: 04 JUN 2024 DAY.
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