REPUBLIC OF KENYA

THE NATIONAL TREASURY AND PLANNING

ANNUAL PUBLIC DEBT MANAGEMENT REPORT

2018

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FOREWORD

The tenets of public debt management in Kenya are enshrined in the Constitution and the Public Finance Management (PFM) Act (2012) and the Public Finance Management Regulations. The legal framework is meant to promote prudent and sound debt management practices for both national and county governments with the aim of enhancing public finance effectiveness and transparency in management of public resources. The 2018 Annual Public Debt Management Report is part of the reporting requirement under the legal framework.

The National Treasury is implementing fiscal consolidation with a view to improving the balance between public revenues and expenditures aimed at reducing the rate at which Kenya accumulates debt. Under the fiscal consolidation programme, the fiscal deficit is projected to narrow to 3.0 per cent of GDP over the medium term. Implementation of Fiscal consolidation will ensure that public debt remain within sustainable levels. It is gratifying to note that great strides have been made in bridging the country's infrastructure gap while ensuring that Kenya's public debt remained within sustainable levels. During 2017/18 Financial Year, Kenya's public debt remained below within the 50 percent to Gross Domestic Product (GDP) in Net Present Value terms and within sustainable levels.

The National Treasury will continue to adhere to the provisions of the Public Finance Management (PFM) Act (2012) and the PFM Regulations to ensure that cost of public debt remains low and affordable and the risks of public debt stock are actively monitored and managed. In doing so, the National Treasury will continue to diversify fiscal funding sources and the mix of currencies so as to manage currency risks, while at the same time lengthening the maturity profile of public debt to reduce refinancing risks.

Readers will find the Annual Debt Management Report 2018 useful in providing insights into Kenya's debt stock, composition, costs, and sustainability.

HENRY K. ROTICH, EGH
CABINET SECRETARY/THE NATIONAL TREASURY

ACKNOWLEDGEMENT

This is the thirteenth edition of the Annual Public Debt Management Report. Consistent publication of Annual Debt Management Report demonstrates Governments commitment to both transparency in reporting and accountability in the management of public debt.

Prudent public debt management and ensuring sustainability of public debt over the medium term is one of the key functions of the National Treasury. One of the key strategies of public debt management the National Treasury is implementing is sustained reduction of the fiscal deficits to ensure that debt accumulation remains at prudent rates and that public debt remains within sustainable levels. The current level of Kenya's public debt is within sustainable levels as reflected in the contents of the Annual Public Debt Management Report 2018.

The preparation of this Report involved collaborative efforts and material inputs from the National Treasury and the Central Bank of Kenya. I thank the Report preparation team at the Department of Debt Policy, Strategy and Risk Management, Directorate of Public Debt Management Office, National Treasury and the Central Bank of Kenya for their dedication to the exercise. Likewise, I thank the staff from other collaborating departments from the National Treasury and the Central Bank of Kenya.

I take this opportunity to welcome the public to read this report and it is my I hope that it will provide valuable insights that will augment understanding of all aspects of public debt management in Kenya.

The Report will be available on the National Treasury website: www.treasury.go.ke.

DR. KAMAU THUGGE, CBS
PRINCIPAL SECRETARY/ THE NATIONAL TREASURY

Legal basis for the publication of the Annual Public Debt Management Report

The Annual Public Debt Management Report is published in accordance with:

- Section 64 (2) (c) of the Public Finance Management Act(PFMA) which states that the PDMO shall prepare statistical and analytical reports on debt and borrowing and submit to the Cabinet Secretary and the Commission on Revenue Allocation.

- Section 200 of the PFMA Regulations which states that not later than three months after the end of each financial year, the Cabinet Secretary shall prepare and submit an annual report to Parliament on public debt in the format set by the Cabinet Secretary. The annual public debt report shall include the following information:

  - Review of previous year's financing of budget deficit;
  - Composition of External debt;
  - Publicly guaranteed debt;
  - On-lent loans and contingent liabilities;
  - Debt strategy and debt sustainability
  - Outlook for the Medium Term; and
  - Any commitment fees and penalties paid on any undisbursed amounts of a loan.

ABBREVIATIONS AND ACRONYMS

ADF	African Development Fund
ADB	African Development Bank
A-I-A	Appropriation in Aid
ATM	Average Time to Maturity
BPS	Budget Policy Statement
CBK	Central Bank of Kenya
CCN	City Council of Nairobi
CPIA	Country Policy and Institutional Assessment
DSF	Debt Sustainability Framework
DSA	Debt Sustainability Analysis
EAC	East Africa Community
FCCL	Fiscal Commitments and Contingent Liabilities
FY	Financial year
GBP	Sterling Pound
GDP	Gross Domestic Product
GoK	Government of Kenya
IDA	International Development Association
IFB	Infrastructure Bond
IMF	International Monetary Fund
IPPs	Independent Power Producers
ISB	International Sovereign Bond
KBC	Kenya Broadcasting Corporation
KenGen	Kenya Electricity Generating Company
MTDS	Medium Term Debt Management Strategy
NBFI	Non-Bank Financial Institution
NCC	Nairobi City County
NSSF	National Social Security Fund
PDMO	Public Debt Management Office
PFMA	Public Finance Management Act
PRG	Partial Risk Guarantees
PPG	Public and Publicly Guaranteed
PFF	Project Facilitation Fund
PPP	Public Private Partnership
PV	Present Value
SGR	Standard Gauge Railway
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TEDS	Total External Debt Service
UK	United Kingdom
USA	United States of America
USD	United States Dollar

EXECUTIVE SUMMARY

Kenya's Gross Domestic Product (GDP) expanded by 4.9 per cent in 2017 compared to 5.9 percent in 2016. The economy remained resilient despite multiple shocks arising from prolonged drought, prolonged elections and global economic slowdown. Growth was mainly attributed to improved weather conditions, stable business environment and consumer confidence.

As at end June 2018, the outstanding total public debt, including publicly guaranteed debt, was Ksh 5,047,234 million, an increase of 14.5 per cent from Ksh 4,406,863 million at end June 2017. Domestic debt increased by 17.3 per cent to Ksh 2,478,835 million while external debt increased by 12.0 per to Ksh 2,568,398 million at end June 2018 from June 2017. In nominal terms and as a per cent of GDP, total public debt stood at 57.1 per cent as at end June 2018 slightly lower than 57.5 per cent as at end June 2017. Of this, domestic debt was 28.0 per cent of GDP marginally higher than 27.6 per cent in June 2017 while external debt was 29.0 per cent of GDP down from 30.0 per cent of GDP in June 2017.

As at June 2018, the stock of Treasury bills and bonds accounted for 35.4 per cent and 61.0 per cent of total domestic debt, respectively. Banking sector was the major holder of domestic debt with 55.6 per cent (comprised of CBK at 4.5% and Commercial banks at 51.1 percent) down from 56.7 percent in June 2017, followed by non-bank (Non-residents and non-bank Financial Institutions including insurance companies, pensions funds, SACCOs and individuals) holding 44.4 per cent as at June 2018 a higher share than 43.4 per cent in June 2017. The share of non-residents remained stable at 1.0 per cent as was in June 2017.

Of Kenya's total external debt, commercial banks and multilateral agencies held 35.3 per cent and 32.3 per cent, respectively, while bilateral creditors held 31.7 per cent. Suppliers' credit holding remained constant at 0.7 per cent as at June 2018 as it was in June 2017.

The currency composition of the Kenya's external debt stock comprised of the United States Dollar (USD) at 71.7 per cent, Euro at 14.9 per cent, Chinese Yuan at 6.17 per cent, Japanese Yen at 4.3 per cent and the Sterling Pounds (GBP) at 2.6 per cent, while other currencies accounted for 0.3 per cent of the portfolio.

The total public debt service payments in 2017/18 was Ksh 460,135 million with external debt service standing at Ksh 220,638 million while domestic debt service was at Ksh 239,497 million. As a percentage of the total public debt service, external and domestic debt service were 47.9 per cent and 52.1 per cent, respectively, by June 2018 compared to 31.0 per cent and 69.0 per cent, respectively, as at end June 2017. The ratio of debt service to revenues stood at 33.8 per cent by end June 2018.

The outstanding debt stock for all on-lent loans to Parastatals stood at Ksh 823,178 million as at the end June 2018 having increased by Ksh 11,806 million (or 1.5 per cent) from Ksh 811,372 million at end June 2017. This increase is mainly due to new on-lent loans issued to Northern Water Service Board. Total repayments to Government from on-lent loans was Ksh 2,778 million during FY2017/2018, out of which Ksh 2,265 million was principal and Ksh 513 million was interest.

Overall, Kenya's public debt remain sustainable over the medium term and well within the limit of 50 in NPV terms as per cent of GDP in line with PFMA regulations. Public Debt to GDP is expected to come down gradually as the Government implement fiscal consolidation commitments aimed at reducing the fiscal deficits.

CHAPTER ONE
NATIONAL GOVERNMENT'S FISCAL DEFICIT FINANCING AND PUBLIC DEBT IN 2017/2018

1.1 Economy

Kenya's Gross Domestic Product (GDP) expanded by 4.9 per cent in 2017 from to 5.9 percent in of 2016. The economy has remained resilient despite multiple shocks arising from prolonged drought, lengthy general elections and global economic slowdown. The stable economic growth was mainly attributed to improved weather conditions and restoration of business and consumer confidence following political stability in the country.

Annual average inflation stood at 5.2 percent in 2018. The month on month inflation rate stood at 4.3 percent in June 2018 from 9.2 percent in June 2017. The overall balance of payments position was a deficit of US$ 496.6 million (0.6 per cent of GDP) in the year to June 2018 close to US$ 413.2 million (0.6 percent of GDP) in the year to June 2017. The current account balance had a deficit of US$ 4,820.8 million in the year to June 2018 compared to US$ 4,638.5 million in the year to June 2017.

1.2 Fiscal Balance

The overall actual FY 2017/18 fiscal balance was Ksh 607,974 million (6.9 per cent of GDP) and was financed through external borrowing of Ksh 331,641 million (3.7 per cent of GDP), net domestic financing of Ksh 273,710 million (3.1 per cent of GDP) and other domestic financing of Ksh 2,623 million (Table 1-1).

Table 1-1: Kenya Financing Fiscal Balance (Ksh million)

Financing item	2015/16		2016/17		2017/18	
	Ksh million	As % of GDP	Ksh million	As % of GDP	Ksh million	As % of GDP
Net Foreign Financing	269,924	4.2	385,745	5.0	331,641	3.7
Net Domestic financing	202,257	3.1	309,760	4.0	273,710	3.1
Other Domestic Financing[1]	2,389	0.0	1,751	0.0	2,623	0.03
Total	474,570	7.3	697,256	9.0	607,974	6.9

Source: *National Treasury, QEBR Q4, 2018*

1.3 Total Public Debt

As at end June 2018, the outstanding total public debt, including publicly guaranteed debt, stood at Ksh 5,047,234 million (Table 1-2) compared to Ksh 4,406,863 million at end June 2017. Domestic debt increased from Ksh 2,112,710 million at end June 2017, to Ksh 2,478,835 million in June 2018.

On the other hand, external debt (including guaranteed debt) increased by 12.0 per cent from Ksh 2,294,153 million at end June 2017 to Ksh 2,568,398 million at end June 2018. The increase was largely on account of Kshs 200 billion of International Sovereign Bond (ISB) borrowed during the fiscal year 2017/18. Domestic and external debt accounted for 49.1 per cent and 50.9 per cent of total public debt respectively at end of June 2018 compared to 47.9 percent and 52.1 percent for June 2017 respectively.

[1] Same as Domestic Loan Repayments(Receipts). Reference: QEBR fourth quarter 2018

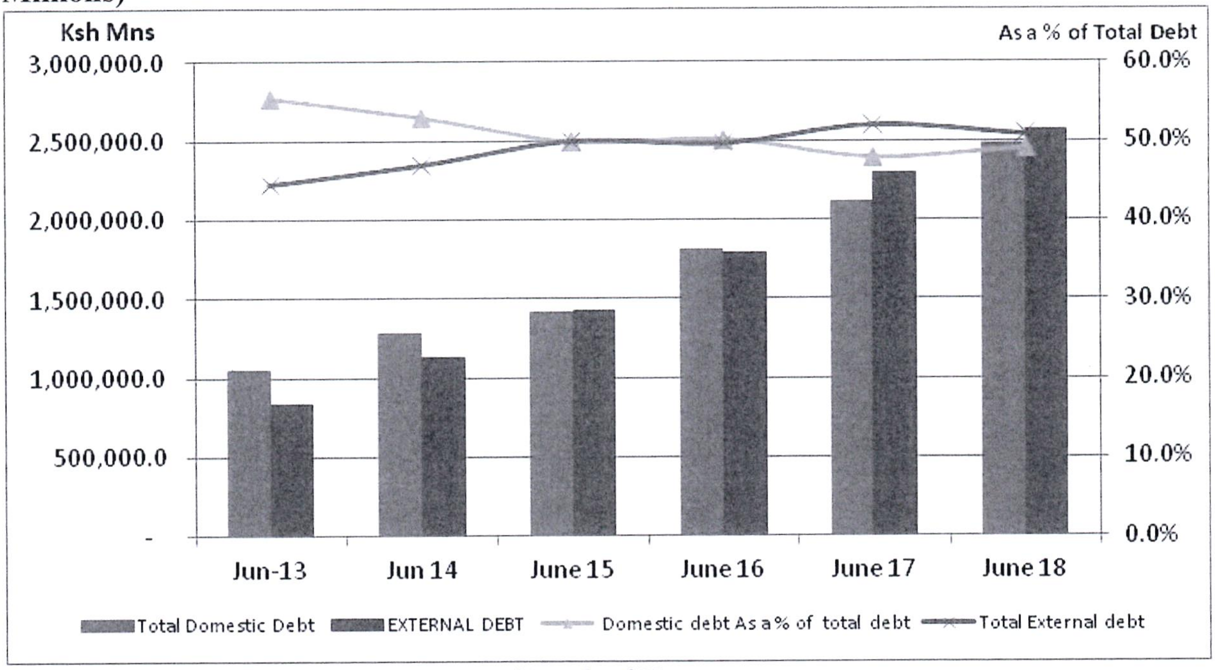
Table 1-2: Trends in Kenya's Total Public Debt in (Ksh million)

DEBT TYPE	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17	June-18
DOMESTIC DEBT						
Central Bank	39,170	65,700	63,335	99,856	54,506	110,782
Commercial Banks	524,505	617,221	730,419	927,307	1,142,889	1,266,457
Sub-total: Banks	563,675	682,921	793,754	1,027,163	1,197,395	1,377,239
Non-bank Financial Institutions	486,880	601,406	626,690	787,970	915,315	1,101,596
Total Domestic	**1,050,555**	**1,284,327**	**1,420,444**	**1,815,133**	**2,112,710**	**2,478,835**
As a % of GDP	23.4%	25.5%	24.4%	27.1%	27.6%	28.0%
As a % of total debt	55.5%	53.0%	50.0%	50.3%	47.9%	49.1%
EXTERNAL DEBT						
Bilateral	217,970	248,636	405,562	491,864	669,839.70	759,016.70
Multilateral	507,920	593,397	680,192	794,797.50	839,721.70	825,298.70
Commercial Banks	58,928	234,799	276,937	432,377	634,108.90	830,652.10
Suppliers Credits	15,207	16,452	16,628	16,628	15,303.10	16,725.20
Sub-Total	800,025	1,093,284	1,379,319	1,735,667	2,158,973.4	2,431,692.7
GUARANTEED DEBT						
Bilateral	39,667	41,278	39,495	56,487	52,728.80	56,371.20
Multilateral	3,870	3,943	4,439	4,044	4,667.00	4,547.30
Commercial	0	0	0	0	77,783.80	75,787.50
Sub-Total	**43,537**	**45,221**	**43,934**	**60,531**	**135,179.60**	**136,706**
Total External debt	**843,562**	**1,138,505**	**1,423,252**	**1,796,198**	**2,294,153**	**2,568,398.7**
As a % of GDP	18.8%	22.6%	24.4%	26.8%	30.0%	29.0%
As a % of total debt	44.5%	47.0%	50.0%	49.7%	52.1%	50.9%
GRAND TOTAL	**1,894,117**	**2,422,832**	**2,843,696**	**3,611,331**	**4,406,863**	**5,047,234**
Total debt As a % of GDP	42.1%	48.0%	48.8%	53.8%	57.5%	57.1%
Memorandum item						
GDP (in Ksh million)	4,496,000	5,044,236	5,831,528	6,709,671	7,658,138	8,845,854

Source: *National Treasury and Central Bank of Kenya*

In nominal terms, total public debt was 57.1 per cent as a per cent of GDP as at end June 2018 compared to 57.5 per cent as at end June 2017 (Table 1-2 and Fig. 1-1). As at end June 2018 domestic debt was 28.0 per cent of GDP compared to 27.6 per cent in 2017, while external debt stood at 29.0 per cent of GDP, compared to 30.0 per cent of GDP in June 2017.

Figure 1-1: Kenya's public and publicly guaranteed debt stock: June 2013-2018 (Kshs Millions)



Source: *National Treasury and Central Bank of Kenya*

1.4 Debt Service

The total public debt service payments as at end June 2018 amounted to Ksh 459,455 million, an increase of Ksh 150,967.00 million from Ksh 308,488 million in June 2017. The ratio of debt service to revenues increased to 33.8 per cent by end June 2018 from 23.6 per cent by end June 2017 (Table 1-3 and Figure 1-2). This was as a result of higher stock of external commercial debt maturing in 2017/18.

The increase was largely on account of more repayments done during the year on external syndicated debt.

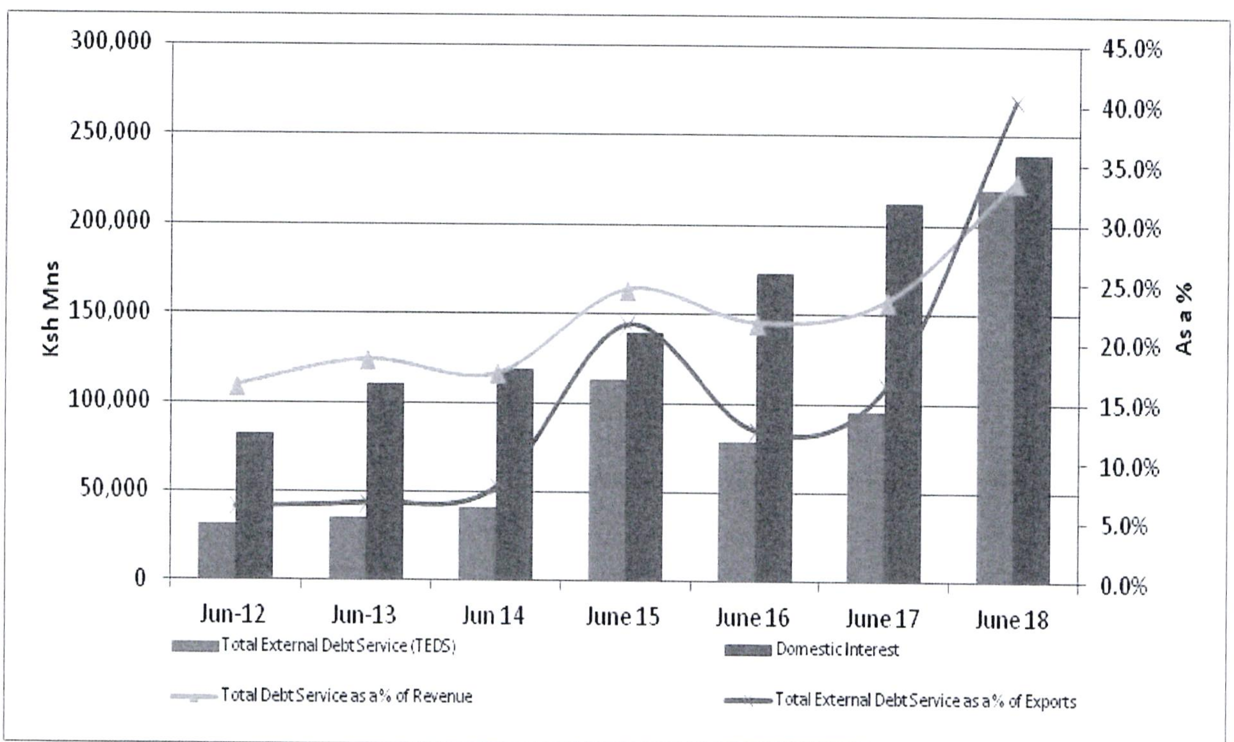
External and domestic debt service stood at Ksh 220,638 million and Ksh 239,497 million, respectively, as at end of June 2018. As a percentage of the total public debt service, external and domestic debt service was 47.9 per cent and 52.1 per cent by June 2018 compared to 31.0 per cent and 69.0 per cent respectively as at end June 2017.

Table 1-3: Total Public Debt Service (Ksh million)

	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18
External Principal	23,954	23,993	25,800	80,214	36,015	37,256	138,989
External Interest	7,351	11,051	15,600	33,330	42,568	58,367	81,649
Total External Debt Service (TEDS)	31,305	35,044	41,400	113,544	78,583	95,623	220,638
TEDS as a % of Total Debt Service (TDS)	27.5%	24.1%	25.8%	44.8%	31.3%	31.0%	47.9%
Domestic Interest	82,339	110,184	119,200	139,727	172,857	212,865	239,497
Domestic Interest as a % of TDS	72.5%	75.9%	74.2%	55.2%	68.7%	69.0%	52.1%
Total Debt Service (TDS)	**113,644**	**145,228**	**160,600**	**253,271**	**251,440**	**308,488**	**460,135**
Ordinary Revenue	690,733	779,436	918,990	1,031,819	1,152,972	1,306,568	1,362,786
Export Earnings (goods only)	499,737	528,900	523,059	524,992	615,125	583,219	544,666
Total Debt Service as a % of Revenue	16.5%	18.6%	17.5%	24.5%	21.8%	23.6%	33.8%
Total External Debt Service as a % of Exports	6.3%	6.6%	7.9%	21.6%	12.8%	16.4%	40.5%

Source: *National Treasury and Central Bank of Kenya*

Figure 1-2: Kenya Domestic and External Debt Service, (Ksh million)



Source: *National Treasury and Central Bank of Kenya*

1.5 Cost and Risk Characteristics of Public Debt

The cost and risks indicators of the public debt have been analysed in the 2018 MTDS National Government debt and called up guaranteed debt. It excludes CBK overdraft, commercial bank advances and Tax Reserve Certificates and supplier's credit debt.

Total annual interest payment was 3.9 per cent of GDP, with interest payment on external and domestic debt accounting for 1.0 per cent and 2.9 per cent of GDP in FY 2017/18 respectively (Table 1-4).

The weighted average interest rates of external and domestic debt portfolios were 3.8 percent and 11.4 percent with an overall weighted average interest rate on total debt portfolio of 7.5 percent. Out of the total debt, 23.0 per cent fell due in FY 2017/18

The average time to maturity (ATM) for domestic and external debt was 4.4 years and 9.7 years in FY 2017/18 respectively (Table 1-4). The wide average maturity disparity between external and domestic debt is because of a large concessional component of the external debt with long maturity, while a third of the domestic debt are short term securities. The ATM for the total public debt portfolio was 7.1 years.

Table 1-4: Kenya: Cost and risk indicators of existing debt, as at end FY 2017/18

Risk Indicators		External debt	Domestic debt	Total debt
Amount (in millions of KSH)		2,205,826	2,169,809	4,375,635
Amount (in millions of USD)		21,368	21,019	42,386
Nominal debt as % GDP		25.6	25.2	50.8
PV as % of GDP		21.2	25.2	46.4
Cost of debt	Interest payment as % GDP	1.0	2.9	3.9
	Interest payment as % Total Revenue	4.5	13.3	17.9
	Weighted Av. IR (%)	3.8	11.4	7.5
Refinancing risk	ATM (years)	9.7	4.4	7.1
	Debt maturing in 1yr (% of total)	8.5	37.7	23.0
	Debt maturing in 1yr (% of total revenue)	10.2	44.2	54.4
	Debt maturing in 1yr (% of GDP)	2.2	9.5	11.7
Interest rate risk	ATR (years)	8.0	4.4	6.2
	Debt refixing in 1yr (% of total)	36.5	37.7	37.1
	Fixed rate debt (% of total)	66.6	100.0	83.1
FX risk	FX debt (% of total debt)			50.4
	ST FX debt (% of reserves)			19.4
Funding risk	Gross financing needs (% of GDP)			16.0

Source: MTDS 2018

The foreign exchange risk is high since 50.4 per cent of the total debt is denominated in foreign currency.

CHAPTER TWO
DOMESTIC DEBT

Domestic debt is composed of stock of Government securities (Treasury Bills and Bonds), Pre-1997 Government debt and Government Overdraft facility at the Central Bank of Kenya.

2.1 Total Domestic Debt

The stock of domestic debt stood at Ksh 2,478,835 million as at end June 2018. This translates to an increase of 17.3 per cent from June 2017 position or Ksh 2,112,710 million (Table 2-1 and Figure 2-1). The increase in the stock was attributed to a net domestic borrowing of Kshs 366,125 million during the fiscal year to fund the government budget.

Table 2-1: Outstanding Domestic Debt (Ksh million)

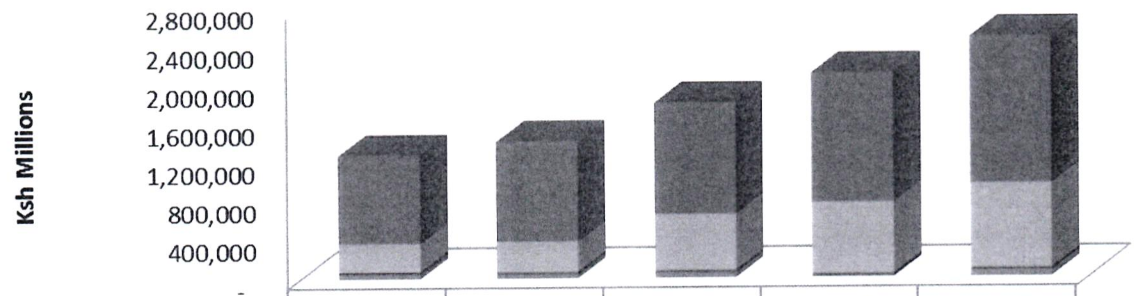
	Instrument	**Jun-15**		**Jun-16**		**Jun-17**		**Jun-18**	
		Ksh	**% of stock**	**Ksh**	**% of stock**	**Ksh**	**% of stock**	**Ksh**	**% of stock**
	Total Stock of Domestic Debt (A+B)	**1,420,444**	**100**	**1,815,133**	**100**	**2,112,710**	**100**	**2,478,835**	**100**
A	Government Securities(1-3)	**1,381,267**	**97.2**	**1,765,688**	**97.3**	**2,101,579**	**99.5**	**2,414,388**	**97.4**
1)	Treasury Bills	318,929	22.5	588,088	32.4	744,155	35.2	878,622	35.4
	Banking Institutions	217,742	15.3	382,447	21.1	436,511	20.7	502,606	20.3
	Others	101,187	7.1	205,641	11.3	307,644	14.6	376,016	15.2
2)	Treasury Bonds	1,035,662	72.9	1,152,041	63.5	1,332,418	63.1	1,511,872	61.0
	Banking Institutions	510,228	35.9	569,781	31.4	725,372	34.3	786,361	31.7
	Others	525,434	37	582,260	32.1	607,603	28.8	725,511	29.3
3)	Pre-1997 Government Debt	26,676	1.9	25,559	1.4	24,449	1.2	23,894	1.0
B.	Others*	**39,177**	**2.8**	**49,446**	**2.7**	**11,132**	**0.5**	**64,447**	**2.6**
	Of which CBK Overdraft	36,494	2.6	44,204	2.4	0	0	56,849	2.3

Source: Central Bank of Kenya

**Others consist of CBK Overdraft to GoK, cleared items awaiting transfer to PMG, commercial bank advances and Tax Reserve Certificates*

The level of domestic debt was partly offset by repayments of Ksh 1,110 million for the Pre-1997 Government debt.

Figure 2-1: Stock of Domestic debt



	Jun 14	Jun 15	Jun 16	Jun 17	Jun 18
Treasury Bonds	914,762	1,035,662	1,152,041	1,332,418	1,511,873
Treasury Bills	299,406	318,929	588,088	744,155	878,622
Pre-1997 Overdraft	28,334	26,676	25,559	24,449	23,894
Others	41,825	39,177	49,446	11,132	64,447

Source: Central Bank of Kenya

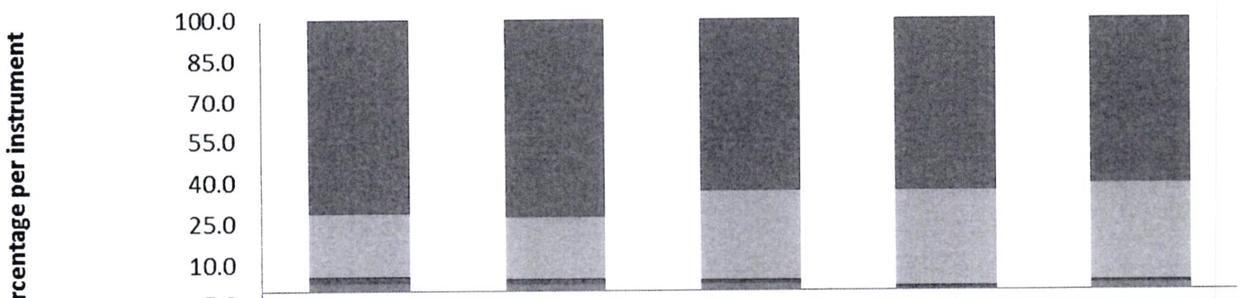
**Others consist of CBK Overdraft to GoK, cleared items awaiting transfer to PMG, commercial bank advances and Tax Reserve Certificates*

2.2 Domestic Debt by Instrument

The stock of Treasury bills and bonds accounted for 35.4 per cent and 61.0 per cent respectively, of total domestic debt as at end June 2018 compared to 35.2 per cent and 63.1 per cent as at end June 2017, respectively (Figure 2-2).

The proportion of Pre-1997 CBK advances to Government dropped to 1.0 per cent of total domestic debt due to repayment of Ksh 1,110 million during the year compared to 1.2 per cent in June 2017.

Figure 2-2: Domestic Debt by Instrument



	Jun 14	Jun 15	Jun 16	Jun 17	Jun 18
Treasury Bonds	71.2	72.9	63.5	63.1	61.0
Treasury Bills	23.3	22.5	32.4	35.2	35.4
Pre-1997 Overdraft	2.2	1.9	1.4	1.2	1.0
Others	3.3	2.8	2.7	0.5	2.6

Source: *Central Bank of Kenya*

2.3 Domestic Debt by Holder

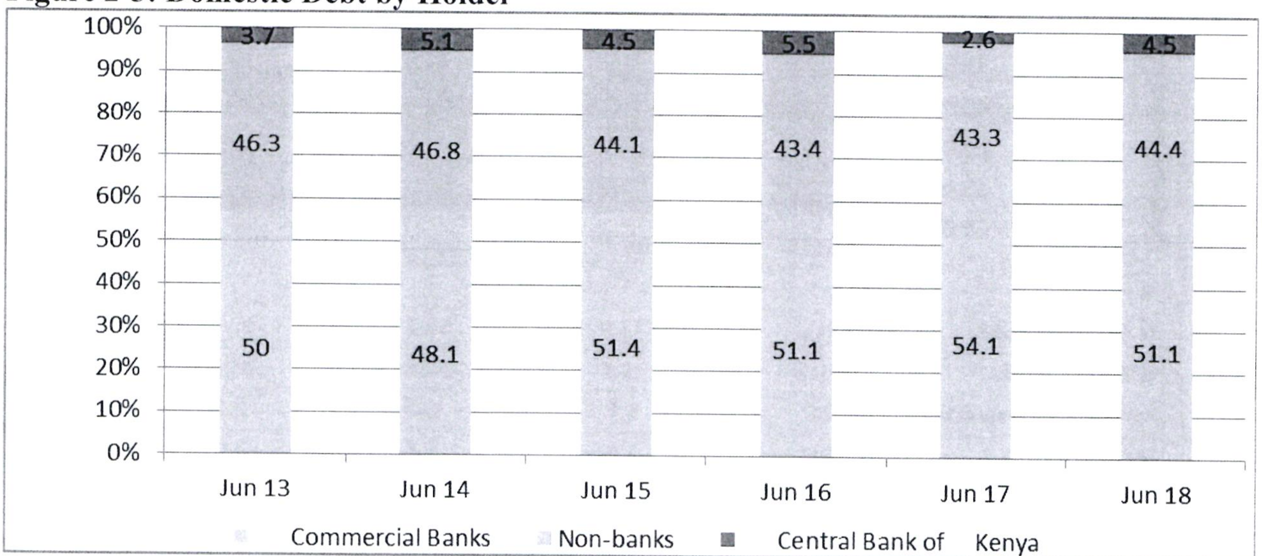
The share of domestic debt held by banks decreased marginally to 55.6 per cent of the total domestic debt as at end June 2018 compared to 56.7 per cent in June 2017 composed of Central Bank of Kenya 4.5 per cent and Commercial banks at 51.1 per cent. The Non-bank (Non-residents and non-bank Financial Institutions including insurance companies, pensions funds, SACCOs and individuals) held 44.4 per cent as at June 2018 from 43.4 per cent in June 2017 with non-residents stable at 1.0 per cent in the same period. (Table 2-2 and Figure 2-3).

Table 2-2: Domestic Debt by Holder (Ksh Million)

Description		Jun-14	Jun-15	Jun-16	Jun-17	Jun-18
Total Banks	**Ksh**	**682,921**	**793,754**	**1,027,163**	**1,197,395**	**1,377,239**
	% of total	**53.2**	**55.9**	**56.6**	**56.7**	**55.6**
Of which Central Bank of Kenya	Ksh	65,700	63,335	99,856	54,506	110,782
	% of total	5.1	4.5	5.5	2.6	4.5
Commercial Banks	Ksh	617,221	730,419	927,307	1,142,889	12,66457
	% of total	48.1	51.4	51.1	54.1	51.1
Total Non-banks	**Ksh**	**601,406**	**626,689**	**787,970**	**915,315**	**1,101,596**
Of which	% of total	**46.8**	**44.1**	**43.4**	**43.3**	**44.4**
Non residents	Ksh	14,925	10,664	13,027	22,100	25,308
	% of total	1.2	0.8	0.7	1.0	1.0
Non-bank Financial Institutions	Ksh	586,481	616, 025	774,943	893,215	1,076,288
	% of total	45.6	39.9	42.7	42.3	43.4
Total	**Ksh**	**1,284,327**	**1,420,444**	**1,815,133**	**2,112,710**	**2,478,835**
	% of total	**100**	**100**	**100**	**100**	**100**

***Source:** Central Bank of Kenya*

Figure 2-3: Domestic Debt by Holder



Source: *Central Bank of Kenya*

2.4 Treasury Bills and Bonds by Holder

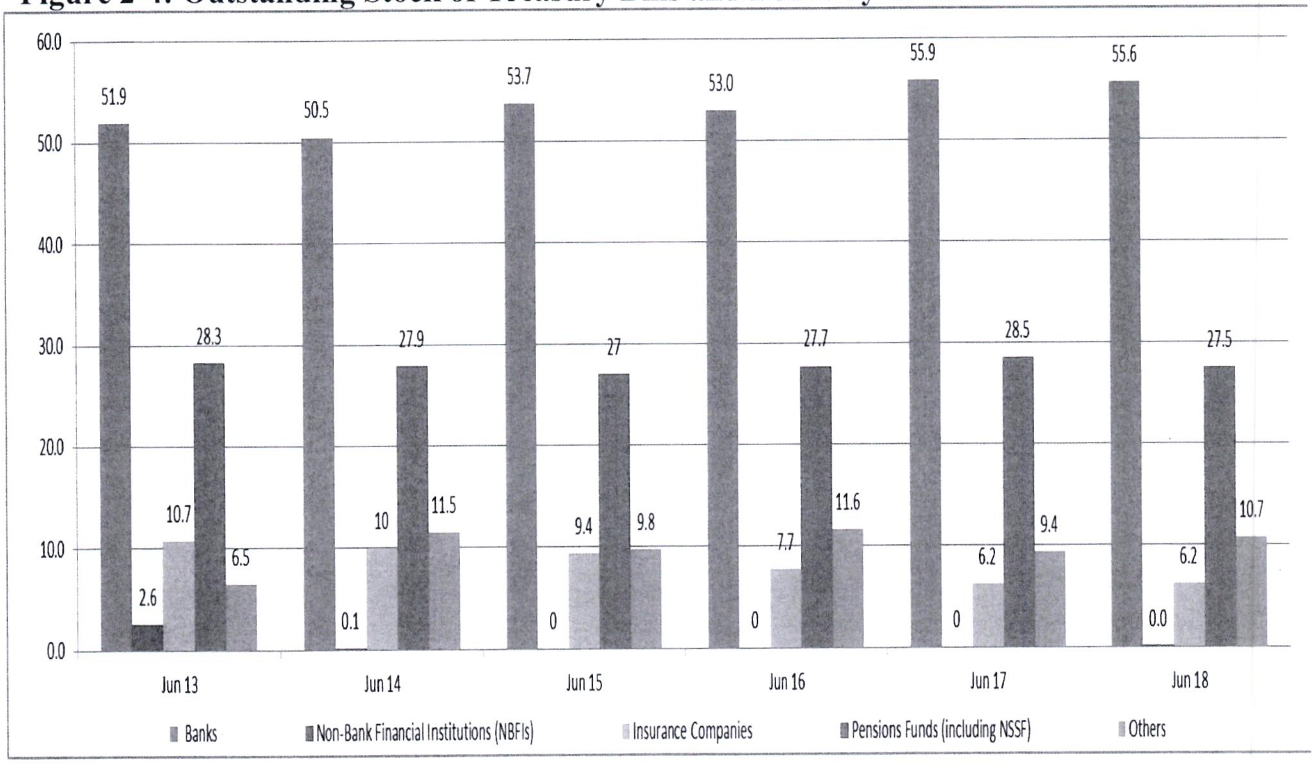
Of the total Treasury bills and bonds, banks were the major holders with 55.6 per cent in June 2018 compared to 55.9 per cent in June 2017. Pensions Funds (including NSSF) accounted for 27.5 per cent of Treasury bills and bonds in June 2018 compared to 28.5 per cent in June 2017 (Table 2-3 and Figure 2-4).

Table 2-3: Outstanding Stock of Treasury Bills and Bonds by Holders (Ksh million)

Holder	Jun-14		Jun-15		Jun-16		Jun-17		Jun-18	
	Ksh	%	Ksh	%	Ksh	%	Ksh	%	Ksh	%
Banks	612,772	50.5	727,931	53.7	922,214	53.0	1,161,883	55.9	1,377,239	55.6
Non-Bank Financial Institutions (NBFIs)	662	0.1	320	0	183	0.0	183	0.0	183	0.0
Insurance Companies	121,024	10	127,889	9.4	134,392	7.7	128,570	6.2	154,509	6.2
Pensions Funds (including NSSF)	339,041	27.9	366,303	27.0	481,693	27.7	591,758	28.5	681,783	27.5
Others	140,669	11.5	132,154	9.8	201,648	11.6	194,885	9.4	265,121	10.7
Total	1,214,168	100	1,354,597	100	1,740,130	53.0	2,077,280	100	2,478,835	100

Source: *Central Bank of Kenya*

Figure 2-4: Outstanding Stock of Treasury Bills and Bonds by Holders



Source: *Central Bank of Kenya*

2.5 Treasury Bills by Holder

In June 2018, the outstanding stock of Treasury bills increased by 18.1 per cent to Ksh 878,622 million from Ksh 744,155 million in June 2017, while the proportion held by banks increased marginally by 15.1 per cent to Ksh 502,606 million from Ksh 436,511 million respectively (Table 2-4). Holdings by pension fund institutions increased by 0.4 per cent while proportion held by insurance companies increased to 2.4 per cent from 1.8 per cent in the same period.

Table 2-4: Outstanding Stock of Treasury Bills by Holder (Ksh million)

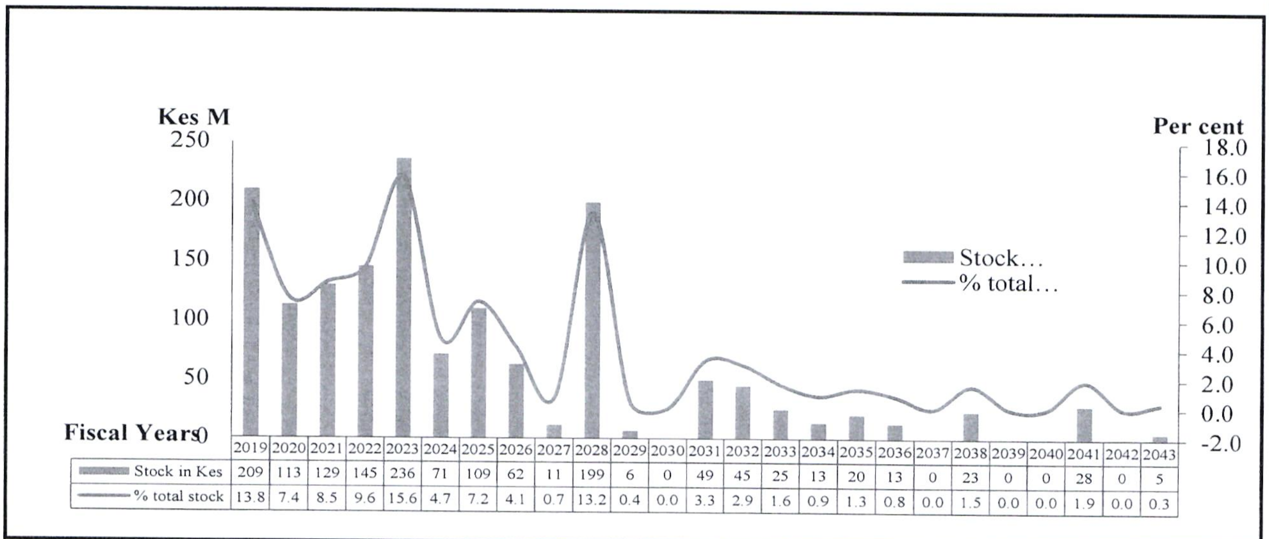
Holder	Jun-14		Jun-15		June 16		June-17		June-18	
	Ksh M	%	Ksh M	%	Ksh M	%	Ksh M	%	Ksh M	%
Banks	176,437	58.9	217,742	68.3	361,859	61.5	436,511	58.7	502,606	57.2
NBFIs	0	0	0	0	0	0	0	0.0	0.0	0.0
Insurance companies	19,856	6.6	20,849	6.5	18,356	3.1	13,747	1.8	21,172	2.4
Pensions Funds (including NSSF)	67,803	22.6	40,946	12.8	117,948	20	179,456	24.1	180,140	20.5
Others	35,310	11.9	39,392	12.4	89,924	15	114,441	15.4	174,705	19.9
Total	**299,406**	**100**	**318,929**	**100**	**588,088**	**100**	**744,155**	**100**	**878,622**	**100**

Source: *Central Bank of Kenya*

2.6 Outstanding Treasury Bonds

As shown in Figure 2-5, the outstanding stock of Treasury bonds amounted to Kshs 1,511,873 million in June 2018 compared to Ksh 1,332,417 million in June 2017. Heavy maturities are expected in financial years 2018/19 (13.8% of outstanding bond stock), 2022/23 (15.6%) and 2027/28 (13.2%).

Figure 2-5: Outstanding Treasury Bonds



Source: *Central Bank of Kenya*

2.7 Treasury Bonds by Holder

Outstanding Treasury Bonds increased by 13.47 per cent from Ksh 1,332,417 million in June 2017 to Ksh 1,511,873 million in June 2018. The holdings by all holders increased in nominal terms but as a percentage of the total, pension funds increased to 33.2 per cent from

30.9 per cent while banks declined to 52.0 per cent from 54.4 per in the previous fiscal year (Table 2-5).

Table 2-5: Outstanding Stock of Treasury Bonds by Holder (Ksh million)

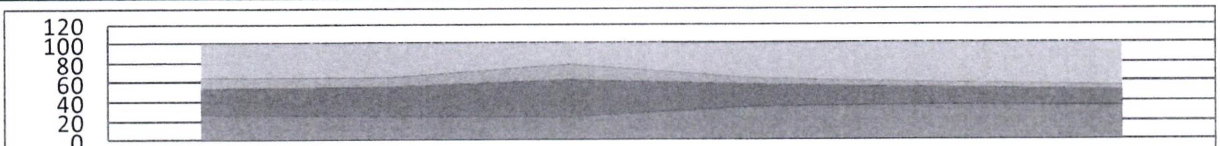
Holder	Jun-14		Jun-15		June 16		June-17		June-18	
	Ksh M	%	Ksh M	%	Ksh M	%	Ksh M	%	Ksh M	%
Banks	436,335	47.7	510,228	49.3	560,335	48.6	724,814	54.4	786,361	52.0
NBFIs	662	0.1	320	0	183	0	322	0.0	183	0.0
Insurance companies	101,168	11.1	107,040	10.3	116,035	10.1	114,673	8.6	133,337	8.8
Pensions Funds (incl. NSSF)	271,238	29.7	325,357	31.4	363,745	31.6	412,303	30.9	501,643	33.2
Others	105,359	11.5	92,717	9	111,723	9.7	80,306	6.0	90,348	6.0
Total	**914,762**	**100**	**1,035,662**	**100**	**1,152,041**	**100**	**1,332,417**	**100**	**1,511,873**	**100**

Source: *Central Bank of Kenya*

2.8 Treasury Bills and Bonds by Tenor

As a proportion of total domestic stock of Treasury bonds and bills, Treasury bonds accounted for a larger percentage compared to Treasury Bills. As at end June 2018, Treasury bonds accounted for 65.2 per cent while Treasury bills accounted for 34.8 per cent. Bonds with tenor of 1-5 years, 6-9 years and 10 years or more accounted for 16.5 per cent, 4.9 per cent and 43.8 per cent respectively reflecting more preference for medium to long term instruments by investors (Figure 2-6).

Figure 2-6: Outstanding Government Securities by Tenor



	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18
Bonds (>=10 years)	35.1	35.1	21.6	36.1	40.8	43.8
Bonds (6-9 years)	10.9	9.6	16.2	6.7	5.2	4.9
Bonds (1-5 years)	27.6	30.6	38.5	23.1	18.2	16.5
Treasury bills (<1 year)	26.4	24.7	23.7	34	35.8	34.8

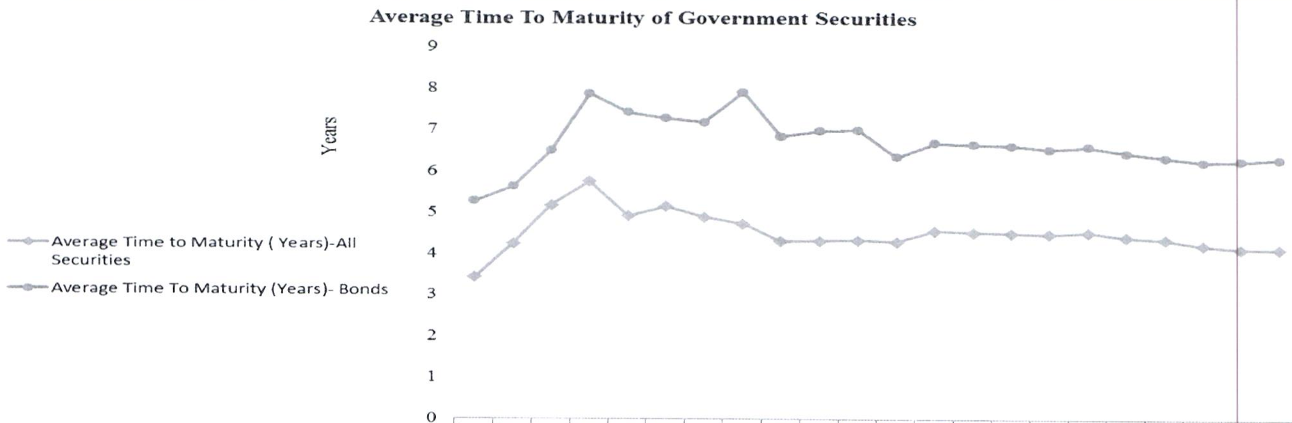
Source: *Central Bank of Kenya*

2.9 Treasury Bills and Bonds by Time to Maturity

Lengthening the maturity of domestic debt has been the government`s priority. This has been achieved through issuance of long term tenors with high volumes to increase liquidity in the secondary market.

In terms of refinancing risks, the average maturity of Kenya shilling denominated securities as at June 2018 was 4.13 years while for treasury bonds only was 6.31 which is in line with the Medium Term Debt Strategy (MTDS) of issuing medium to long term bonds (Figure 2 7).

Figure 2-7: Average Time to Maturity of Government Securities



	Jun-08	Jun-09	Jun-10	Jun-11	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jun-18
Average Time to Maturity (Years)-All Securities	3.417	4.255	5.167	5.754	4.917	5.14	4.89	4.73	4.31	4.32	4.34	4.3	4.57	4.53	4.51	4.49	4.53	4.42	4.36	4.22	4.14	4.13
Average Time To Maturity (Years)- Bonds	5.27	5.62	6.49	7.87	7.42	7.28	7.18	7.91	6.84	6.97	7	6.35	6.69	6.65	6.63	6.54	6.6	6.45	6.34	6.24	6.26	6.31

Source: *Central Bank of Kenya*

2.10 Infrastructure Bonds (IFBs) Program

Occasionally the government issues Infrastructure Bonds to raise funds for development. Since inception this government security has been popular among the investors due to its structure. Since FY 2008/09, thirteen (13) IFBs have been issued raising funds for infrastructure development; totaling to Ksh 413,017 million but the total stock outstanding as at end June 2018 stood at Ksh 302,750 million due to amortization on some of the bonds. (Table 2-6).

Table 2-6: Primary Market Auction Performance of Infrastructure Bonds (Ksh Million)

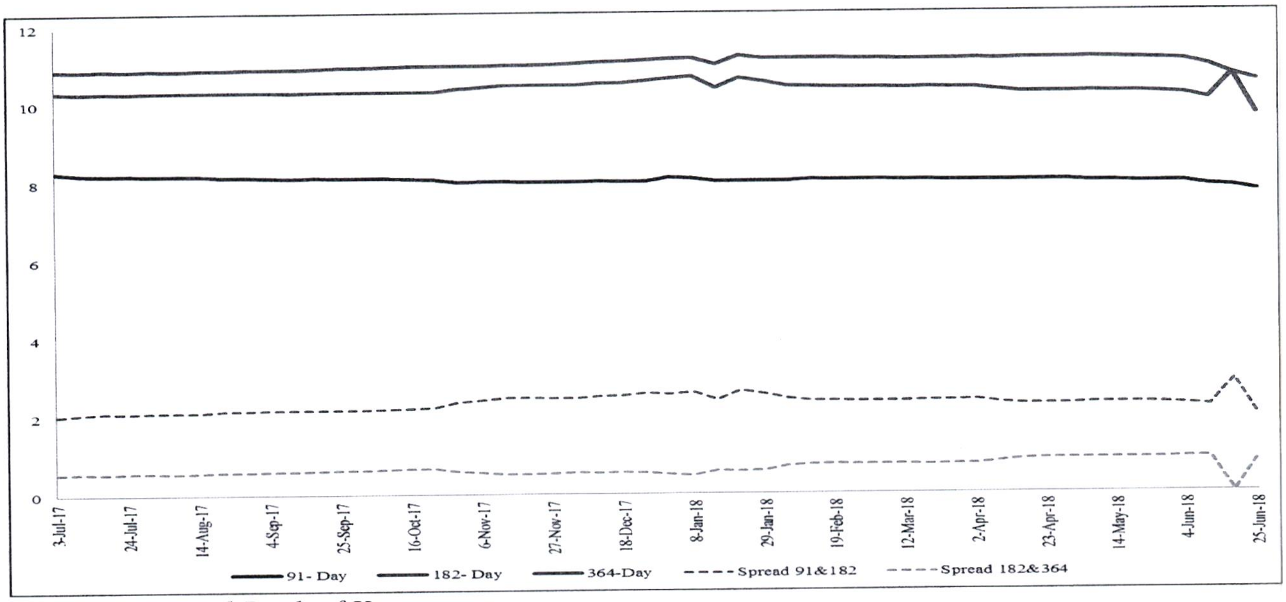
Issue number	Issue Date	Amount accepted	Weighted average	Coupon rate
IFB 1/2009/12	2/23/2009	18,568	13.5	12.5
IFB 2/2009/12	12/7/2009	18,417	12.5	12
IFB 1/2010/8	3/1/2010	16,264	9.6	9.8
IFB2/2010/9	8/30/2010	30,590	7.3	6
IFB 1/2011/12	3/10/2011	11,626	16.6	12
IFB 1/2013/12	9/30/2013	19,924	12.4	11
IFB 1/2014/12	10/27/2014	15,805	11.3	11
IFB 1/2015/12	3/30/2015	25,695	11.6	11
IFB 1/2015/9	12/14/2015	13,965	14.8	11
IFB 1/2016/9	5/23/2016	34,902	13.3	12.5
IFB 1/2017/12	2/27/2017	5,997	13.6	12.5
IFB 1/2017/12 (Tap)	3/6/2017	7,631	13.6	12.5
IFB1/2017/7	11/27/2017	42,020	12.2	12.5
IFB1/2018/15	1/29/2018	5,042	12.5	12.5
IFB1/2018/15 (Tap)	2/5/2018	36,304	12.5	12.5
Totals		**302,750**		

Source: *Central Bank of Kenya*

2.11 Average Interest Rates on Treasury Bills

Figure 2-8 shows that the average interest rate for the 91-day, 182-day and 364-day Treasury bills declined by 47 basis points, 37 basis points and 8 basis points to 7.83 per cent, 9.93 per cent and 10.82 per cent in June 2018 from 8.3 per cent, 10.3 per cent and 10.9 per cent in June 2017 respectively. Treasury bills interest rates were stable throughout the year due to stable macroeconomic characterized by stable exchange rate and the law of interest rates capping.

Figure 2-8: Treasury Bills Interest Rates

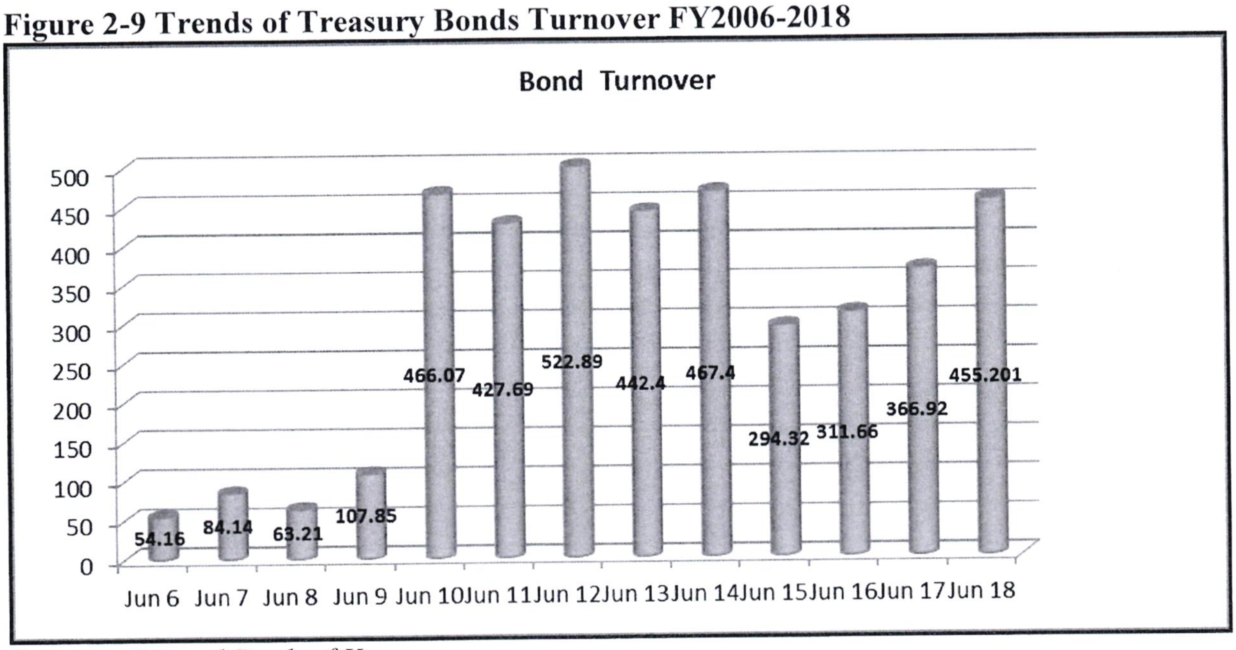


Source: *Central Bank of Kenya*

2.12 Government Securities Trading

As shown Figure 2-9, trading of Government bonds has been increasing steadily since FY 2014/15, thus improving liquidity in the secondary market.

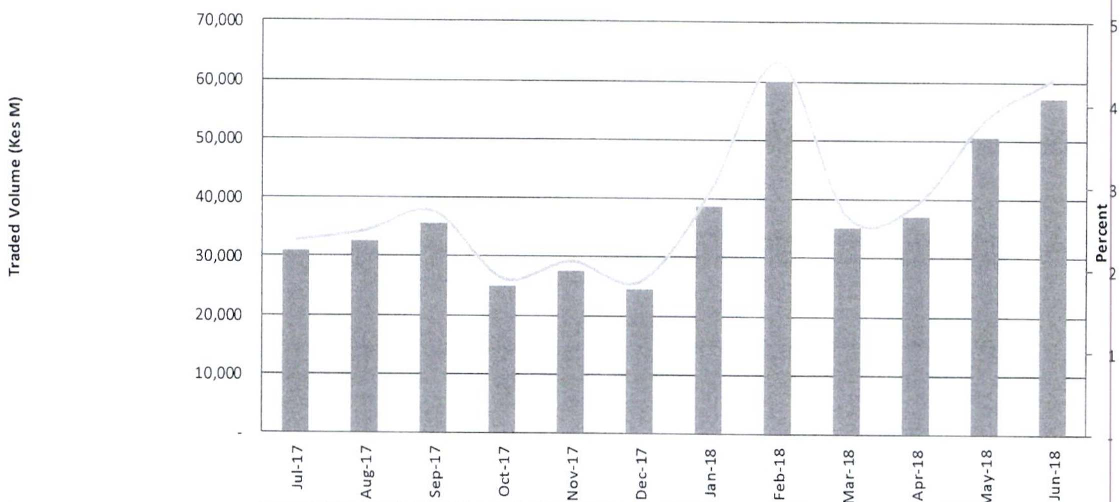
Figure 2-9 Trends of Treasury Bonds Turnover FY2006-2018



Source: *Central Bank of Kenya*

Turnover increased to Ksh 455,201 million in FY 2018 compared to Ksh 366,923 million in FY2017.

Figure 2-10: Treasury Bonds Trading, FY 2017/18

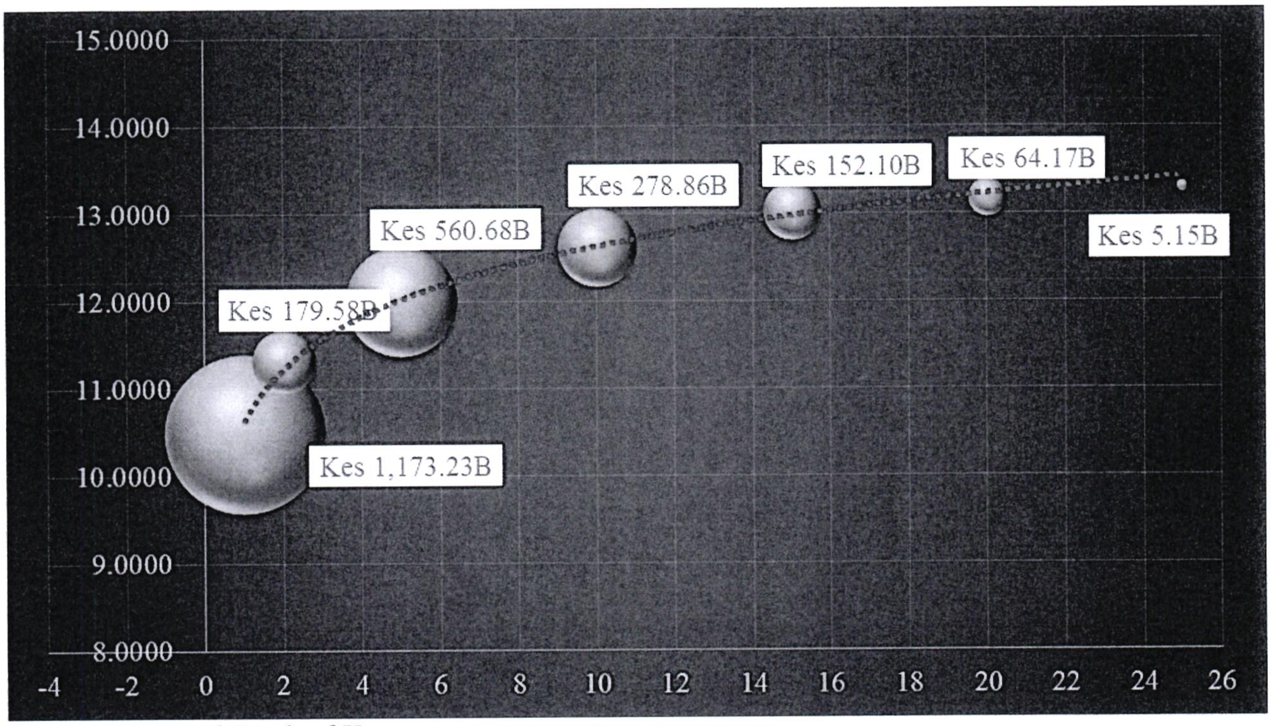


	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18
Turnover (Ksh Mn)	31,017	32,558	35,648	24,885	27,683	24,467	38,781	59,993	35,202	37,060	50,674	57,233
Turnover as % of Tradable Stock	2.34	2.45	2.69	1.88	2.09	1.84	2.92	4.52	2.65	2.79	3.82	4.31

Source: *Central Bank of Kenya*

Figure 2-10 shows that trading activity was concentrated in the medium to long segments of the yield curve with the bulk of it in benchmark tenors of 5 and 10 years. This outcome is a reflection of positive gains from increased liquidity of the benchmark bonds and infrastructure bonds programs.

Figure 2-11: Bond Trading along the FY2017/18 Average Yield Curve (Ksh Billion)

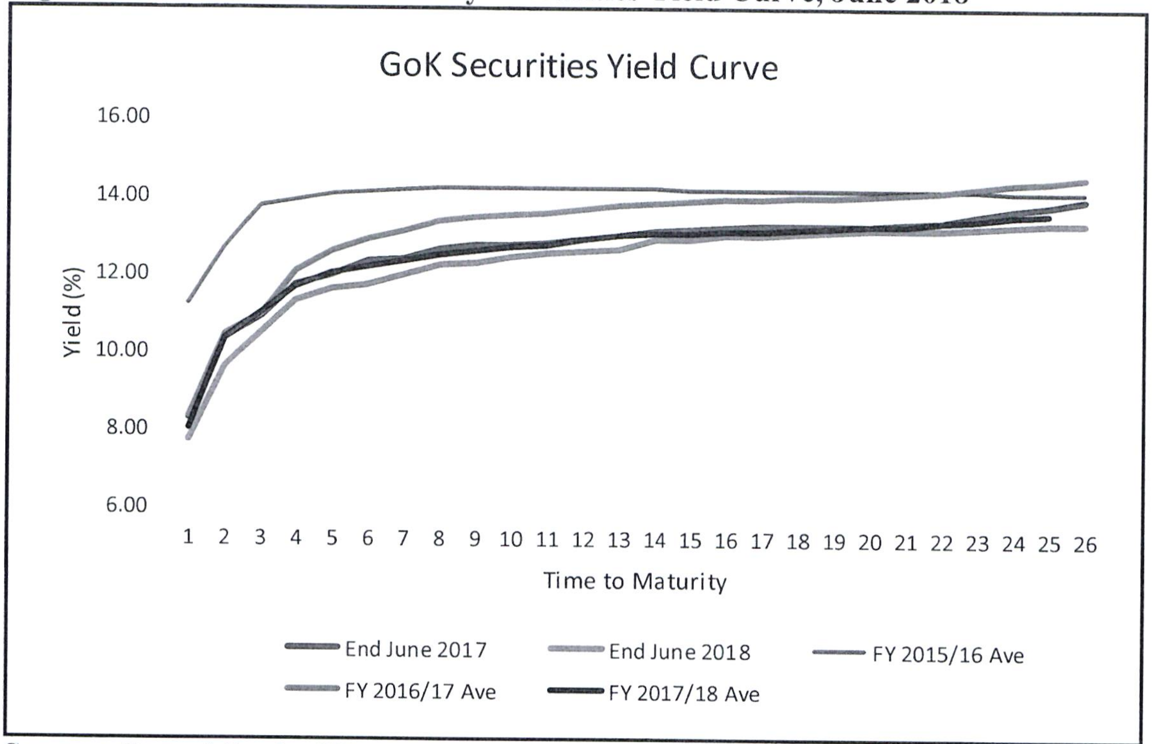


Source: *Central Bank of Kenya*

2.13 Government Securities Yield Curve –

The market demand for Treasury bonds was robust throughout the year. Stable financial market environment and increased liquidity led to a stable lower yield curve during the year to June 2018 from the June 2017 level (Figure 2-11). Based on the average year yields, the Government securities yield curve shifted downwards in FY 2017/2018 from the position in 2016/2017, with a larger spread on the short segment than the long end, and reflecting stability in the longer tenor segment (Figure 2-12).

Figure 2-12: Government of Kenya Securities Yield Curve, June 2018



Source: *Central Bank of Kenya*

A stable and reliable yield curve for government securities provides a pricing reference to all issuers of fixed income securities. Issuance of benchmark longer dated tenors has helped indeed in reducing refinancing risks of total outstanding debt and lengthening the maturity profile.

2.14 Interest Payments on Domestic Debt

As at June 2018, the total interest payments and other charges on the overall domestic debt stood at to Ksh 239,497 million. This is an increase of Ksh 26,632 million from the previous fiscal year position (Table 2-7). Treasury bills and bonds interest accounted for 28 per cent and 70 per cent respectively as a proportion of total domestic debt service as at end June 2018. There was a marginal increase in the ratios of domestic interest payment to domestic revenue and total public expenditure during the period under review while as a percentage of GDP and total interest, the ratios declined.

Table 2-7: Interest Payments on Domestic Debt (Ksh Million)

Type of Debt	June 2014	June 2015	June 2016	June 2017	June 2018
Treasury Bills	26,897	24,714	37,491	66,270	66,545
Treasury Bonds	85,758	108,948	127,496	144,566	167,030
CBK Commission	3,106	3,000	3,000	3,000	3,000
Pre - 1997 Debt	1,138	825	794	759	725
Others (Overdraft)	2,301	2,240	4,077	1270	2,197
Total	**119,200**	**139,727**	**172,857**	**212,865**	**239,497**
Ratios (Per cent)					
Domestic Interest/Revenue	13	13.5	14.9	15.2	17.6
Domestic Interest/Total Public Expenditure	9.2	8.5	9.7	10.1	11.3
Domestic Interest/GDP	2.4	2.4	2.6	2.8	2.7
Domestic Interest/Total Interest	88.4	80.7	80.2	78.5	74.6

Source: *Central Bank of Kenya*

CHAPTER THREE
EXTERNAL DEBT

3.1 Total National Government External Debt

National government external debt stock mainly from official development agencies and commercial creditors stood at Ksh 2,431,693 million in June 2018 from Ksh 2,158,973 million in June 2017, a rise of 12.6 percent (Table 3.1 and Figure 3-1). The increase was attributed to disbursements from international sovereign bonds, commercial syndicated loans and bilateral creditors as well as foreign exchange rate movements.

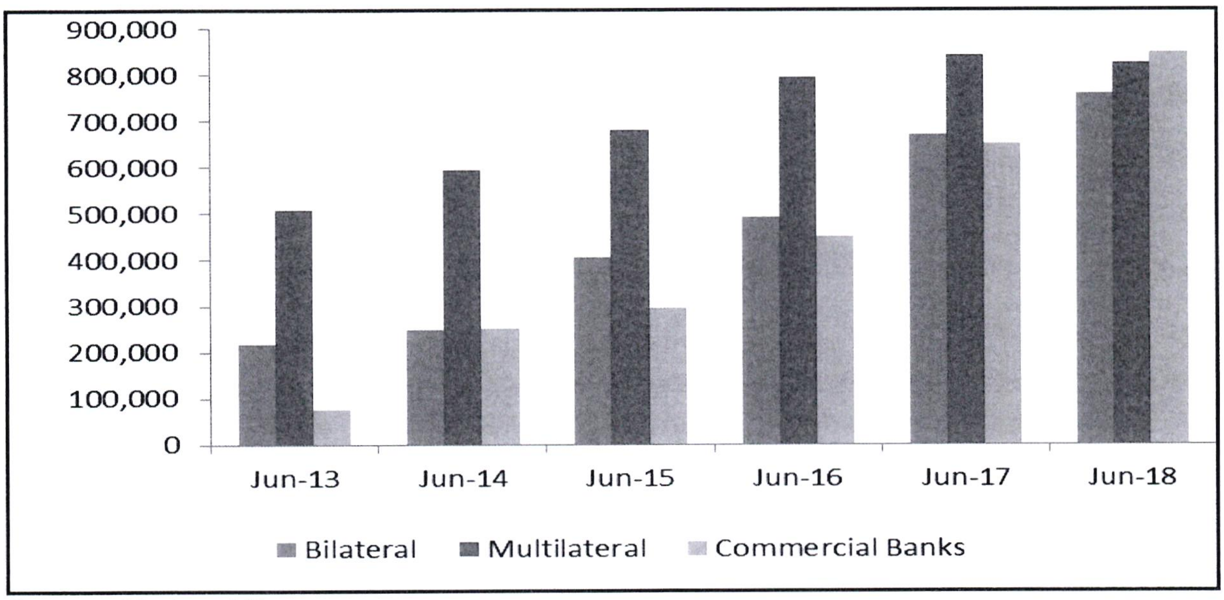
Table 4-1: External Debt by Creditor Type (Ksh Million)

Creditor type	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18*
External Debt						
Bilateral	217,970	248,636	405,562	491,864	669,840	759,017
Multilateral	507,920	593,397	680,192	794,797	839,721	825,299
Commercial Banks	58,928	234,799	276,937	432,377	634,109	830,652
Suppliers Credits	15,207	16,452	16,628	16,628	15,303	16,725
Sub-Total	**800,025**	**1,093,284**	**1,379,319**	**1,735,667**	**2,158,973**	**2,431,693**

*Provisional

Source: *National Treasury*

Figure 4-1: National Government External Debt by Creditor Type (Ksh Million)



Source: *National Treasury*

3.2 Structure of National Government External Debt

a. Classification by Creditor Category

Stock of commercial debt has gradually increased since the debut Eurobond of 2014/15.Over the same period, there has been gradual increase in Multilateral debt while Bilateral debt has been declining.

Table 3-2: Classification by Creditor Category

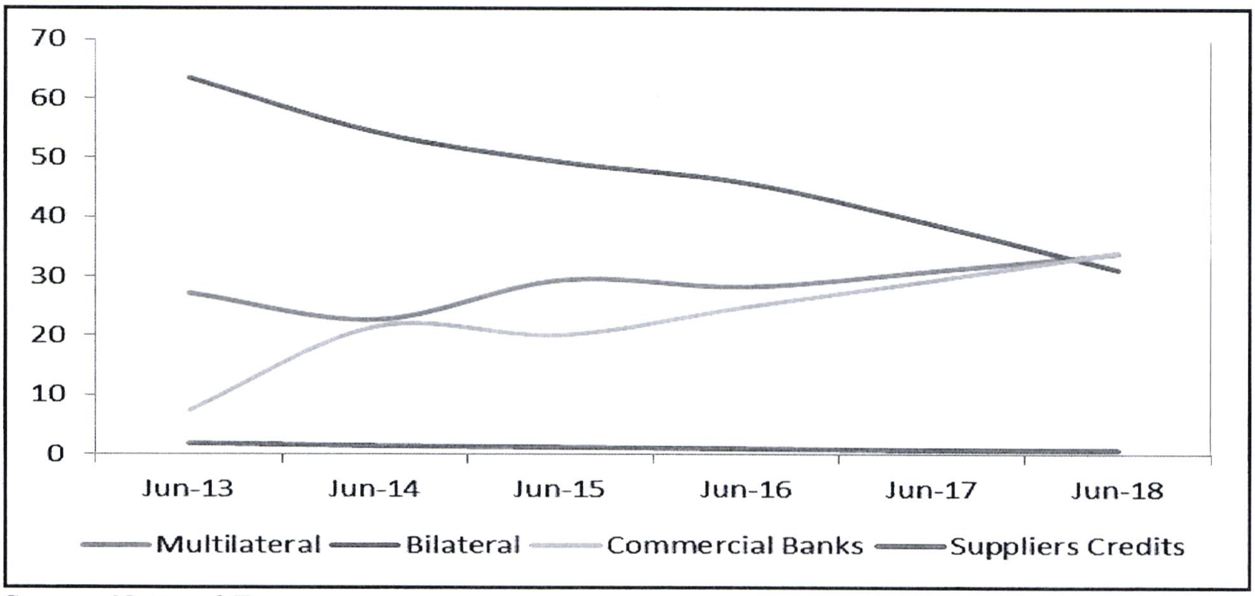
Category	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18*
Multilateral	27.2	22.7	29.4	28.3	31	33.9
Bilateral	63.5	54.3	49.3	45.8	38.9	31.2
Commercial Banks	7.4	21.5	20.1	24.9	29.4	34.2
Suppliers Credits	1.9	1.5	1.2	1	0.7	0.7

*Provisional

Source: *National Treasury*

As shown in Table 3-2 and Figure 3-2, the share of commercial banks and multilateral increased from 29.4 per cent and 31 per cent as at end June 2017 to 34.2 per cent and 33.9 per cent while bilateral creditors declined from 38.9 per cent as at end June 2017 to 31.2 per cent as at end June 2018 respectively. Suppliers' credit remained constant at 0.7 per cent in June 2018.

Figure 3-2: National Government External Debt by Creditor Category



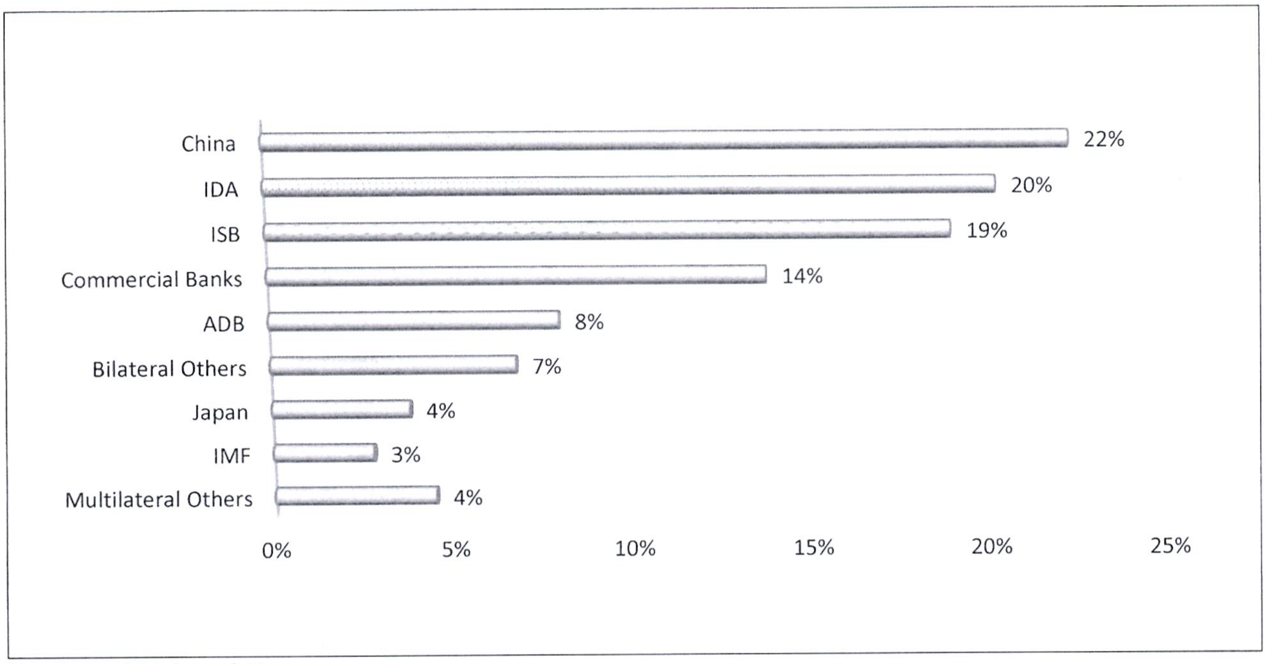
Source: *National Treasury*

b. Classification by Major Creditors

As at June 2018, Kenya`s lenders including Commercial Banks, China and World Bank (IDA) were the main sources of debt at 33 per cent, 22 per cent and 20 per cent respectively. Japan is a major bilateral creditor (Figure 3-3).

Other Bilateral include USA, Saudi Arabia, Denmark, Kuwait, Spain, France, Germany, Belgium, Switzerland, Austria, Netherlands, Finland, UK, Sweden, Italy, Canada, Korea, India, Poland, and Suppliers Credit.

Figure 3-3: Classification by Major Creditors

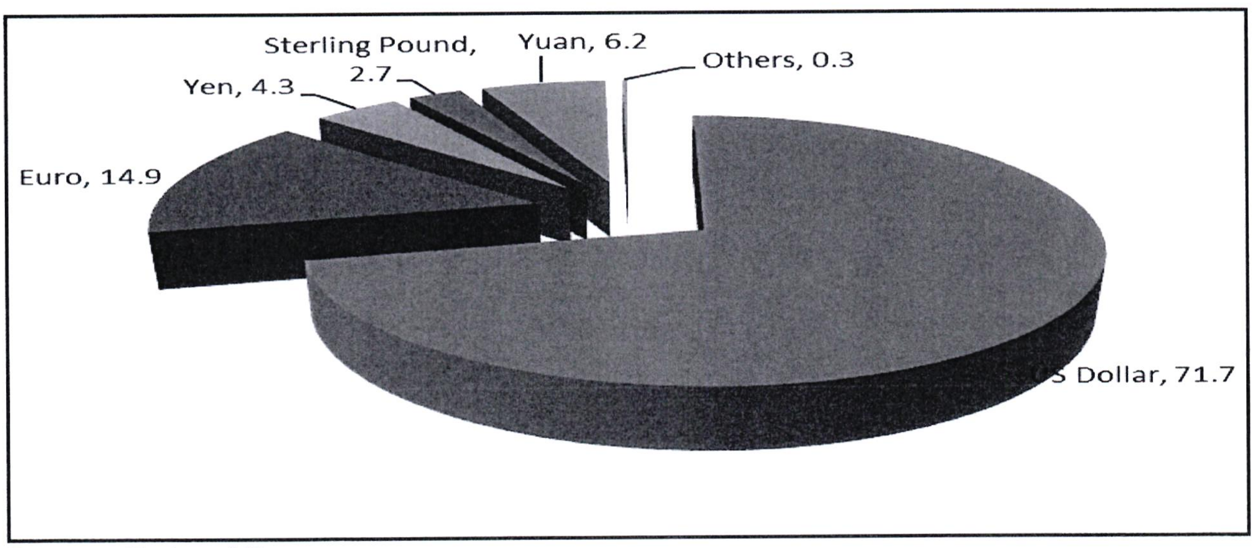


Source: *National Treasury*

c. Classification by Currency

As at end of June 2018, the external debt stock mainly comprised the United States Dollar (USD), Euro, Chinese Yuan, Japanese Yen and the Sterling Pounds (GBP) accounting for 71.7 per cent, 14.9 per cent, 6.2 per cent, 4.3 per cent and 2.7 per cent respectively while other currencies accounted for 0.3 per cent of the portfolio (Figure 3 4). The currency mix reflects source of funding. A diversified currency mix would mitigate against exchange rate risks on external debt.

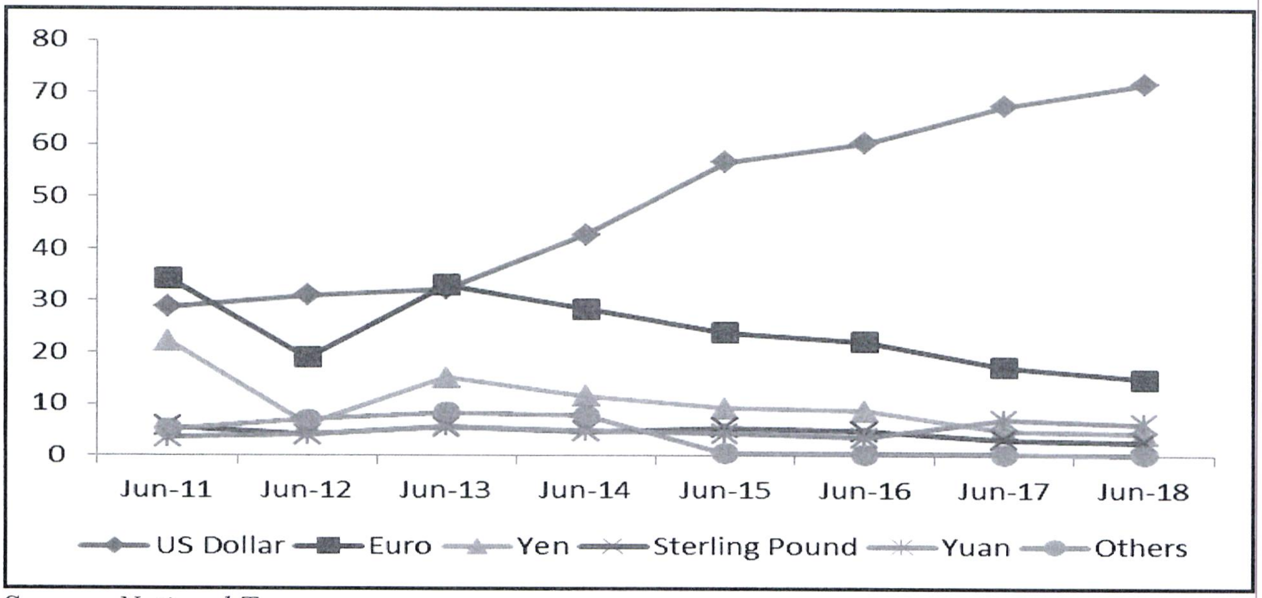
Figure 4-4: Currency composition of National Government External Debt, end June 2018



Source: *National Treasury*

As shown in Figure 3-5, the dominant currency in 2011 was the Euro at 34.4 per cent while the USD dominated in 2018 at 71.6 per cent due to various USD denominated loans contracted during the period.

Figure 4-5: Trends in Currency Composition of External Debt

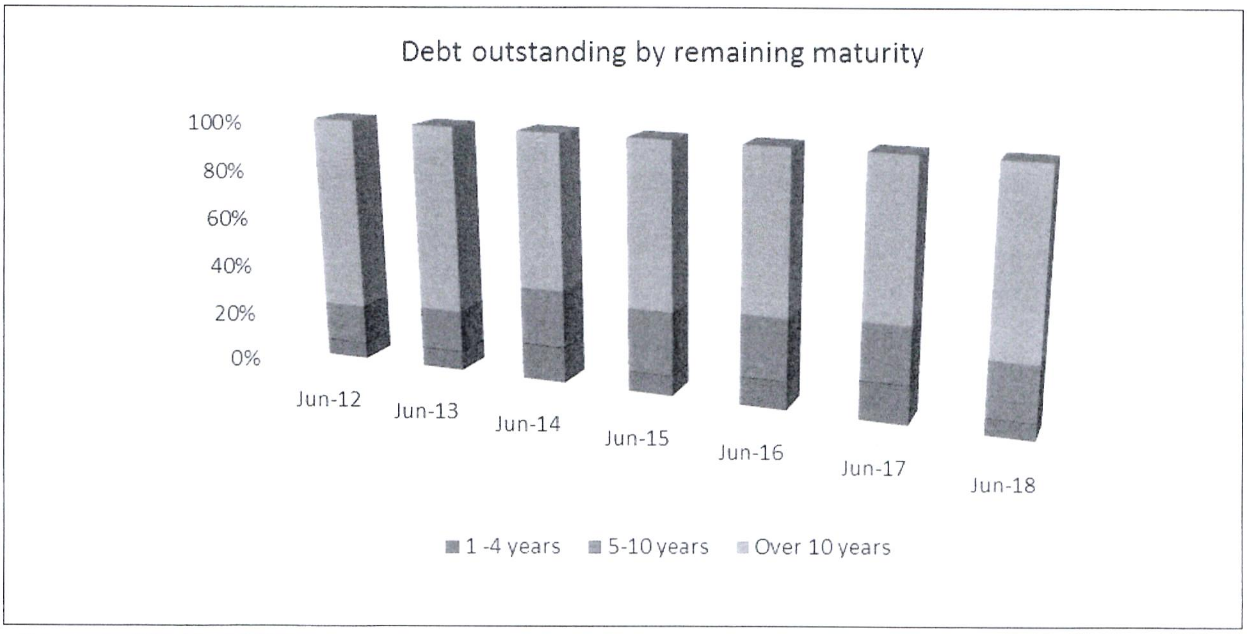


Source: *National Treasury*

3.3 Maturity Structure

By end of June 2018, over 71 per cent of the debt had maturity longer than 10 years and only 22 per cent maturing within 4 years (Figure 3-6). Table 3-3 shows that the external debt with maturity of more than 10 years has improved while category of debt between 1-4 years has declined, indicating an improved average external debt terms. Longer average term-to-maturity of loans minimizes refinancing risks by allowing the government more time to repay its obligations.

Figure 4-6: Outstanding External Debt by Maturity Structure, end June 2018



Source: *National Treasury*

Table 4-3: Outstanding External Debt by Maturity Structure

Remaining Maturity	June 2012	June 2013	June 2014	June 2015	June 2016	June 2017	June 2018
1 -4 years	6.6	7.9	14.7	8.2	11.4	15.4	6.7
5-10 years	15.8	16.9	22.9	25.5	24.7	22.5	21.9
Over 10 years	77.6	75.3	62.4	66.3	63.9	62.1	71.4

Source: *National Treasury*

3.4 External Debt Service

The total principal and interest payments on public external debt increased to Ksh 219,220 million by end June 2018 from Ksh 94,180 million by end June 2017, on account of high principal payments to commercial and bilateral creditors (Table 3-4)._Commitment fees paid on undisbursed loans was Ksh 1,745 million during FY 2017/2018.

Table 4-4: External Debt Service Payments by Creditor Category (Ksh million)

Creditor		Jun-12	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18*
Multilateral	Principal	12,560	12,210	11,550	13,349	15,424	15,821	16,205
	Interest	3,781	3,702	5,580	4,881	5,641	5,764	6,038
	Sub Total	**16,341**	**15,912**	**17,130**	**18,230**	**21,065**	**21,585**	**22,243**
Bilateral	Principal	11,394	11,783	13,419	13,097	19,789	19,329	21,357
	Interest	3,570	5,012	6,640	10,574	15,270	22,613	30,255
	Sub Total	**14,964**	**16,795**	**20,059**	**23,671**	**35,059**	**41,942**	**51,613**
Commercial	Principal	0	0	831	53,768	802	771	100,083
	Interest	0	2,337	3,380	17,875	21,657	29,882	45,281
	Sub Total	**0**	**2,337**	**4,211**	**71,643**	**22,460**	**30,653**	**145,364**
Grand Total	Principal	23,954	23,993	25,800	80,214	36,015	35,921	137,645
	Interest	7,351	11,051	15,600	33,330	42,568	58,259	81,574
	Total	**31,305**	**35,044**	**41,400**	**113,544**	**78,583**	**94,180**	**219,220**
Percentage Distribution								
Multilateral		52.20%	45.40%	41.40%	16.10%	26.80%	22.60%	10.10%
Bilateral		47.80%	47.90%	48.50%	20.80%	44.60%	45.40%	23.54%
Commercial		0.00%	6.70%	10.20%	63.10%	28.60%	32.10%	66.10%
Total		100.00%	100.00%	100.00%	100.00%	100.00%	100. %	100.00%

*Provisional

Source: *National Treasury*

3.5 Average Terms of New External Loan Commitments

Average maturity is one of the measures of refinancing risk. As at end of June 2018, the average maturity, grace period and average interest rate on new external loan commitments were 21 years, 10 years and 4 per cent respectively (Table 3-5). Overall, these are favourable borrowing terms in line with the Government's external debt strategy of contracting loans on highly concessional or "soft" terms. Lengthening time to maturity is a debt management strategy as it reduces refinancing risk.

Table 4-5: Average Terms of New External Loan Commitments

Terms	Jun-12	Jun-13	Jun-14	Jun-15	Jun-16	Jun-17	Jun-18
Average Maturity (years)	26.3	33.7	18.1	21.0	20.3	17.6	20.8
Grace Period (years)	6.2	8.0	6.2	6.4	6.2	4.5	10.3
Average Interest Rate (%)	0.8	1.2	2.6	2.5	2.6	2.6	3.9

Source: *National Treasury*

3.6 External Loans Disbursements

As at end June 2018, total disbursements on external project loans and A-I-A grew by 5 per cent to Ksh 441,086 million from Ksh 421,667 million in June 2017 mainly due to increased disbursements for infrastructure projects (Table 3-6).

Table 4-6: External Loans Disbursements (Ksh million)

Type of disbursement	Jun-14		Jun-15		Jun-16		Jun-17		Jun-18	
	Ksh M	**%**	**Ksh M**	**%**	**Ksh M**	**%**	**Ksh M**	**%**	**Ksh M**	**%**
Project Cash Loans	28,432	21.6	8,600	2.8	43,654	14.3	30,908	7.3	24,214	5.5
Project loans A-I-A	68,420	52	151,400	49.6	55,369	18.2	86,322	20.5	162,872	36.9
Project loans A-I-A, SGR	-	-	-	-	52,357	17.2	111,367	26.4	54,000	12.2
Commercial Financing	34,600	26.3	145,000	47.5	145,031	47.6	186,303	44.2	200,000	45.3
Programme loans	-	-	-	-	8,574	2.8	6,767	1.6	-	-
Total	**131,452**	**100**	**305,000**	**100**	**304,986**	**100**	**421,667**	**100**	**441,086**	**100**

Source: *National Treasury*

3.7 Publicly Guaranteed Debt

Publicly guaranteed debt refers to the debt owed by National Government public entities and County Governments to both foreign and local creditors but guaranteed by National Government. The debts may be denominated in domestic or foreign currency. As at end June 2017, the National Government had not guaranteed any County Government debt.

a. Stock of Publicly Guaranteed Debt

As shown in Table 3-7 the total outstanding Government guaranteed debt increased by Ksh 1,525 million to Ksh 136,705 million by June 2018 from Ksh 135,180 million by end June 2017. This increase is mainly attributed to fluctuations in foreign currency.

Table 3-7: Stock of Publicly Guaranteed External Debt by Creditor Category

Creditor Category	Jun 13	Jun 14	Jun 15	Jun 16	Jun 17	Jun 18*
Commercial	-	-	-	-	77,784	75,787
Bilateral	39,667	41,278	39,495	56,487	52,729	56,371
Multilateral	3,870	3,943	4,439	4,044	4,667	4,547
Total	**43,537**	**45,221**	**43,934**	**60,531**	**135,180**	**136,705**

*Provisional

Source: National Treasury

b. Payments by the Government on Publicly Guaranteed Debt

The PFM Act, 2012 section 61 and the regulations to the PFMA Section 201 require that any money paid by the National Treasury in respect of a guarantee shall be a debt to the National Government and is recoverable from the borrower whose loan was guaranteed. During the FY 2017/2018, Government paid Ksh 1,419 million as called up guarantee debts owed by public enterprises that were in financial distress. As shown in Table 3-8 Tana and Athi River Development Authority (TARDA), East Africa Portland Cement (EAPC) and Kenya Broadcasting Corporation (KBC) accounts for 21.2 percent, 26.7 per cent and 52.1 per cent respectively of the payments made in 2017/18.

Table 3-8: Payments by the Government on Guaranteed Debt (Ksh million)

Year	Borrower	Quarter I	Quarter II	Quarter III	Quarter IV	Total
2014/15	CCN	39	-	40	-	79
	TARDA	142	-	130	-	273
	KBC	-	325	-	339	664
	Total	181	325	170	339	1,015
2015/16	CCN	-	-	-	-	-
	TARDA	148	-	149	-	297
	KBC	-	356	-	398	753
	Total	148	356	149	398	1,050
2016/17	EAPC	-	199	188	-	387
	TARDA	164	-	146	-	309
	KBC	-	366	-	382	747
	Total	164	565	333	382	1,443
2017/18	EAPC	187		192		379
	TARDA	147		154		301
	KBC		369		370	739
	Total	334	369	346	369	1,419

Source: *National Treasury*

3.8 Disputed External Commercial Debt

Kenya's disputed external commercial debt is estimated at Ksh 16,725 million or 0.2 per cent of total public debt as at end June 2018. In August 2004, the Government suspended payments pending verification of the amount due on each of the eighteen (18) suppliers' credit contracts which constitutes external commercial debt. Soon after the suspension, the Controller and Auditor General undertook a special audit on eighteen (18) suppliers' credit contracts, among these, 11 are in dispute.

Four (4) of the eleven (11) suppliers' credit contracts in dispute, the creditors had sought legal re-dress in courts or arbitrations in UK, The Hague and Switzerland for breach of contract. In response, the Government engaged reputable and experienced international law firms to represent its interest.

In February 2005, the Ethics and Anti-Corruption Commission (EACC) began investigations on these contracts. Although some progress has been made, the pace has been slowed down by court orders that have prohibited EACC from prosecutions in some areas.

a. Audits on External Commercial Debts

The Controller and Auditor General's Special Audit Report was tabled in Parliament in May 2006. The findings indicated that procurement laws and regulations were violated in the contracting process, that the projects were overpriced and in most cases, no credit was extended by the creditors. The Report recommended that professional valuation of works, goods and services be carried out to determine value for money.

In January 2007, the National Treasury contracted PricewaterhouseCoopers (PwC) to conduct forensic audit and valuation. PwC submitted the forensic audit and valuation report on 31st July, 2007. The PwC Report established that those contracts were procured in an irregular manner and that the pricing, financing, and other terms of the contract do not reflect terms obtained on arm's length commercial transactions.

Specifically, the PwC Report cited:

i) Significant overpricing
ii) Serious contraventions of Kenya public expenditure law
iii) Circumstantial evidence that these contracts were corruptly procured
iv) Evidence of pre-financing (i.e. upfront payments) by the Government but paying interest on own funds.
v) Under-delivery of supplies provided under the contracts

As a precautionary measure, the Government sought to eliminate financial risk exposure on Promissory Notes issued under seven (7) contracts. The Minister for Finance, in consultation with the Attorney General, issued a Caveat Emptor in December 2007 informing all parties that the underlying contracts were fraudulent and hence the Promissory Notes were illegal and the Government would not honor them. The Caveat Emptor was circulated to banks worldwide through Society for Worldwide Interbank Financial Telecommunication (SWIFT) and placed in the local dailies.

b. Lessons Learnt from External Commercial Debt

Some key lessons have been learnt on this matter referred to by the media as the "Anglo Leasing" scandal. First, weak institutional arrangement of public debt management undermined accountability and transparency in the contracting, disbursement and payment processing of external loans.

Secondly, inadequate public financial management system weakened budget formulation and implementation. This partly explains payment of suppliers' credit contracts against under-deliveries. Public Financial Management Reforms have been undertaken to strengthen the budget, accounting and control systems in National Government.

Third, weak legal framework on public procurement permitted single sourcing on account of national security concerns. Whereas restricted tendering system or single sourcing is not wrong per se, it can be subject to abuse in absence of robust framework of checks and balances. This matter has to a large extent been addressed in the Public Procurement and Asset Disposal Act.

Lack of transparency in the procurement and contracting of security related contracts can be summed up as to the reasons the government found itself with these contracts. However, this has been cured by the strict adherence of the Public Financial Management Act, 2012 and Public Financial management Regulations 2015 and coupled with multi agency consultations and due diligence during the procurement and contract negotiations of security related contracts.

CHAPTER FOUR

ON-LENT LOANS

4.1 Introduction

In regard to the Public Finance Management Act, Section 57, the National Government through the National Treasury has been contracting loans from either external or domestic sources and in turn lends to state corporations. On- lending to a state corporation is only applicable and eligible under the following conditions:

i) The Corporation plays a strategic role;
ii) Has weak balance sheet and cannot attract competitive funding; and
iii) s performing a social project that would be more efficiently executed on behalf of the Government.

4.2 Stock of On-Lent Loans

The outstanding debt stock for all on-lent loans to Parastatals stood at Ksh 823,178 million as at the end June 2018 with a marginal increase of Ksh 11,806 from Ksh 811,372 by end June 2017, translating to 1.5 per cent rise. Under the Water and Irrigation sector, new on-lent loans were issued to Northern Water Service Board (Table 4-1).

Table 4-1: Stock of On-Lent Loans in (Ksh million)

Sector	June 2015	June 2016	June 2017	June 2018*
Education	11,089	11,108	11,108	11,089
Finance	1,088	1,236	3,868	3,050
Water and Irrigation	49,388	56,251	61,782	105,069
Tourism	181	181	188	175
Energy and Petroleum	114,053	123,133	212,493	187,502
Transport and Infrastructure	3,583	363,179	501,383	500,180
Planning and Devolution	8,757	8,757	8,877	8,069
Agriculture, Livestock and Fisheries	7,267	7,241	10,286	7,568
Trade and Industry	454	454	457	0
Cooperative	993	729	931	476
Total	**196,853**	**572,249**	**811,372**	**823,178**

*Provisional
Source: *National Treasury*

4.3 On-Lent Loans (including Arrears)

The outstanding stock together with arrears on the on-lent loan portfolio as at end June 2018 was Ksh 860,563 million of which the outstanding stock, principal arrears and accrued interest accounted for Ksh 823,178 million, Ksh 11,475 million and Ksh 25,910 million, respectively (Table 4-2).

Table 4-2: On-Lent Loans (including Arrears) as at June 2018 (Ksh million)

Ministry/Sector	Outstanding loans	Principal Arrears	Accrued interest	Total *
Education	11,089	169	32	11,290
Finance	3,050	-	-	3,050
Water & Irrigation	105,069	1,883	1,545	108,97
Tourism	175	128	556	859
Energy & Petroleum	187,502	1,262	3,149	191,913
Transport and Infrastructure	500,180	-	73	500,253
Planning & Devolution	8,069	4,844	10,716	23,629
Agriculture, Livestock & Fisheries	7,568	3,116	9,838	20,522
Trade and Industry	-	-	-	-
Cooperative	476	73	-	549
Total	**823,178**	**11,475**	**25,910**	**860,563**

*Provisional

Source: *National Treasury*

Table 4-2: shows that arrears on on-lent loans (including accrued interest) had accumulated to Ksh 37,385 million by end June 2018.

4.4 Receipts from On-Lent Loans

The total receipts by Government from on-lent loans was Ksh 2,778 million during the FY2017/2018, out of which Ksh 2,265 million was principal and Ksh 513 million was interest (Table 4-3).

Table 4-3: Receipts from On-Lent Loans, by End June 2018 (Ksh million)

Organization	Principal Receipts	Interest receipts	Total*
Agricultural Finance Corporation	501	201	702
Kenya C-operative Creameries	10	13	23
Industrial & Commercial Development Corporation	128	3	131
Kenya Fisheries Industries Limited	3	1	4
Kenya Industrial Estate	1	1	2
Coffee Board of Kenya	476	133	609
Meru Central Farmers Co-op Limited	320	160	480
Pyrethrum Board of Kenya	820	-	820
Agricultural Settlement Fund and Central Land Board	4	-	4
Kenya Civil Aviation Authority	3	-	3
Total	**2,265**	**513**	**2,778**

*Provisional

Source: *National Treasury*

CHAPTER FIVE
FISCAL COMMITMENTS AND CONTINGENT LIABILITIES

5.1 Recognizing Potential Fiscal Risks

Kenya is cognizant of debt accumulation to fund infrastructure development as a catalyst to foster economic growth. To minimize exposure and risks associated with debt accumulation the Government has embraced new innovations in financing infrastructure development off the balance sheet without impacting heavily on the debt portfolio. Towards this end Kenya has increased private financing of public investments through the Public Private Partnership (PPP) initiatives. The PPP model initiative is evident in the energy sector through the provision of power by Independent Power Producers (IPP) and health sector through provision of medical equipment services.

The PPP project comprises roles and responsibilities for both the public and private sector. the public sector's contributions to the "partnership" of PPPs would typically include the use of instruments of support and credit enhancement measures such as project development funding, availability payments, upfront capital grants, operational grants, revenue guarantees, Partial Risk Guarantees (PRG), etc. A policy on the issuance of Government support measures with an objective to provide a clear structure and process for the issuance of Government support instruments is in place. This policy also acts as a monitoring tool.

In accordance with section 7(1) of the PPP Act, the PPP Committee has adopted a Fiscal Commitment and Contingent Liability (FCCL) Management Framework to ensure approval of, and fiscal accountability in the management of, financial and any other form of Government support granted in the implementation of the country's PPP program.

The Directorate of the Public Debt Management Office (PDMO) of the National Treasury is responsible for: mandatory evaluation of all proposed PPP projects for financial risks and contingent liabilities as a condition of project approval; confirmation of this initial approval at feasibility stage based on preferred submission and final negotiated project structure; regular monitoring of all support measures for any amendment(s) or variation(s) to a project agreement's terms and conditions, project outputs or any waivers in the project agreement.

All guarantees and other security instruments provided under the PPP, together with all other contingent liabilities are integrated into the debt management process. The PDMO continues to routinely assess contingent liabilities and is establishing systems for monitoring these projects with a view of ensuring continuous risk management, disclosure and reporting of all fiscal risks associated with PPPs. In addition, as part of increasing accountability and transparency within the PPP, the government is in the process of finalizing a PPP disclosure framework.

To mitigate the FCCL risks, the PPP Project Facilitation Fund (PFF) a multi-purpose revolving fund was established under the PPP Act to provide good governance framework to manage direct liabilities and contingent liabilities once it is operational.

To entrench better outcomes in fiscal risk management, the National Treasury is also placing a lot of emphasis in project financial models, with the view of ensuring that project debt repayment is front-loaded, while equity pay-out is back-loaded. This way, overall fiscal exposure is potentially lowered.

CHAPTER SIX
PUBLIC DEBT STRATEGY AND DEBT SUSTAINABILITY

6.1 Public Debt Strategy

a. The Medium Term Debt Management Strategy

The Government through the National Treasury prepares the Medium-Term Debt Management Strategy (MTDS) in line with Section 33 of the Public Finance Management Act (PFMA), 2012. The aim of the MTDS is to achieve the debt management objectives enshrined in the PFMA as (a) to minimize the cost of public debt management and borrowing over the long-term taking account of risk; (b) to promote the development of the market institutions for Government debt securities; and (c) to ensure the sharing of the benefits and costs of public debt between the current and future generations.

Box 1: FY 2017/18 MEDIUM TERM DEBT MANAGEMENT STRATEGY (MTDS)

I. Alternative Borrowing Strategies

The FY 2017/18 MTDS evaluated the following four (4) possible debt financing strategies (Table 6-1):

1. Strategy 1 (S1) was the preferred strategy in 2017 with an increase in share of external debt. Although in terms of gross financing, the weight is greater on domestic borrowing, the picture is reversed in net financing.
2. Strategy 2 (S2) More semi-concessional loans each year. This strategy increases the size of external borrowing by increasing the amount of loans from the semi concessional sources in each of the three years, as compared to S1. The increase in semi concessional external borrowing will help in reducing the issuance of T-Bills and T-Bonds volumes as in S1.
3. Strategy 3 (S3) Increased issuance of domestic medium term debt. As opposed to S2, this strategy reduces the volume of external semi concessional and commercial borrowing every year. The resulting financing gap is to be met mainly by T-Bonds, keeping their share in net domestic borrowing to around 70 percent and to reduce exchange rate exposure.
4. Strategy 4 (S4): Increased Issuance of commercial borrowing. This strategy assumes accelerated borrowing from capital market or other commercial sources, while maintaining presence in the domestic market through issuance of T bills and T-Bonds, maintaining their share in net domestic financing at 59:41 percent in FY2017/18 of the strategy.

Composition of Debt by Instrument under Alternative Debt Management Strategies as at end FY2018/19 (in per cent of outstanding portfolio)

Envisaged New debt	*2016/17 MTDS Existing debt*	S1	S2	S3	S4
Domestic	**49**	**44**	**37**	**46**	**41**
Treasury Bills	17	18	13	16	16
Treasury Bonds	32	26	24	29	25
External	**51**	**56**	**63**	**54**	**59**
Concessional	23	22	22	22	22
Semi-concessional	11	13	22	16	13
Commercial	17	21	19	16	24

II. FY 2017/18 MTDS

After analysing the strategies, S2 was identified as the optimal strategy which entails:

- The domestic borrowing will be on medium term basis;
- External borrowing will comprise of outstanding concessional debt of 20%, 30% on semi concessional terms while 10% will be contracted on commercial terms.

***Source:** FY 2017/18 MTDS, National Treasury*

b. Implementation of the FY 2017/18 MTDS

As shown in Table 6-1, there were deviations of actual financing mix outturn compared to MTDS plan in FY2017/18.

Table 6-1: Planned Net Financing under MTDS and Actual Outturn (Per cent)

Financing source		2014/15	2015/16	2016/17	2017/18
External	MTDS	45	45	60	60
	Actual	64	61	55	55
	Deviation	-19	-16	5	5
Domestic	MTDS	55	55	40	40
	Actual	*36*	*39*	45	45
	Deviation	19	16	-5	-5

Source: *National Treasury*

6.2 Debt Sustainability

The Government through the National Treasury endeavours to maintain public debt and obligations at sustainable levels in line with section 15 (2) (d) of the Public Finance Management (PFM) Act 2012. Public debt sustainability is the ability of a country to service its debt obligations as they fall due without disrupting its budget implementation.

In the Debt Sustainability Framework (DSF), countries are classified into one of three policy performance categories (strong, medium, and poor) using the World Bank's Country Policy and Institutional Assessment (CPIA) index which uses different indicative thresholds for debt burdens depending on the quality of a country's policies and institutions. Kenya is rated a strong policy performer and being a lower middle-income country it is subject to public debt sustainability threshold of 70 percent to PV of Debt/GDP.

Kenya's External Debt

a. Kenya's External Debt

Under the baseline scenario, Kenya's external debt ratios listed in Table 6-2 indicates that external debt is within sustainable levels for a country rated as a strong performer. The debt sustainability indicators show that Kenya faces a low risk of external debt distress. This is attributed to the high level of concessionality of current external debt and the positive outlook in other macroeconomic indicators.

In the FY 2017/2018, the Government's debt management strategy was to borrow 60 per cent of its financing needs from external sources and 40 per cent from domestic sources focusing on medium term instruments. External borrowing was composed of 20 per cent concessional, 30 per cent semi concessional and 10 per cent on commercial terms. This strategy was arrived at after considering alternatives as presented in Box 1 below.

Table 6-2: Kenya's External debt sustainability

Indicators	Thresholds	2017	2018	2019	2026
PV of debt–to-GDP ratio	**50**	22.6	22.5	21.4	18.3
PV of debt-to-exports ratio	**200**	137.9	132.2	124.1	103.5
PV of debt-to-revenue ratio	**300**	108.7	104.7	98.9	82.8
PPG Debt service-to-exports ratio	**25**	15.2	9.2	13.8	12.2
PPG Debt service-to-revenue ratio	**22**	12.0	7.3	11.0	9.8

Source: *IMF Country Report No. 17/25, February 2017*

b. Total Public Debt

Kenya's total public debt sustainability threshold on Present Value (PV) of Debt/GDP as a strong performer and a lower middle-income country is 70 percent2.

Under the baseline scenario shown in Table 6-3, the PV of public debt-to-GDP, decreases from 49.0 percent in 2017 to 47.1 percent of GDP by 2019. In the long term, the PV of public debt-to-GDP is expected to decline to about 35.6 percent by 2026. Given Kenya's relatively strong revenue performance, the PV of public debt-to-revenue ratio would gradually decline from 235.7 percent in 2017 to about 217.4 percent in 2019. Going forward, the debt service-to-revenue ratio is expected to decline from 35.8 percent in 2017 to about 24.3 percent in 2026. Overall, the results from the DSA indicate that Kenya's public debt remain sustainable over the medium term.

Table 6-3: Public debt sustainability

Indicator	Threshold	2017	2018	2019	2026
PV of public sector debt to GDP ratio	**70**	49.0	48.6	47.1	35.6
PV of public sector debt-to-revenue ratio	**300**	235.7	226.6	217.4	161.4
Debt service-to-revenue ratio	**30**	35.8	30.5	33.4	24.3

Source: IMF Country Report No. 17/25, February 2017

[2] The EAC public debt convergence criterion for PV of Debt/GDP is 50 percent.

CHAPTER SEVEN
OUTLOOK FOR THE MEDIUM TERM

7.1 Public Debt Stock in the Medium Term

The total public debt in nominal terms rose to Ksh 5,047,234 million in June 2018 and is further projected to increase to Ksh 6,092,000 million in June 2020 (Table 7-1). However, as a proportion of nominal GDP, public debt is projected to decrease to 50.3 per cent in June 2021 from 57.1 per cent in June 2018.

As a proportion of GDP, external debt is projected to decrease to 25.4 per cent in June 2021 from 29.0 cent in June 2018. The domestic debt will decrease to 24.9 per cent in June 2021 from 28.0 per cent in June 2018.

Table 7-2: Projected Public Debt Stock in (Ksh million)

Debt Stock	2017/18 *	2018/19	2019/20	2020/21	2021/22
External Debt	**2,568,399**	**2,832,700**	**3,065,400**	**3,294,900**	**3,273,800**
% of GDP	29.0%	29.1%	26.8%	25.4%	22.2%
Domestic Debt	**2,478,835**	**2,774,800**	**3,026,600**	**3,220,900**	**3,428,100**
% of GDP	28.0%	28.5%	26.5%	24.9%	23.3%
Total Public Debt	**5,047,234**	**5,607,500**	**6,092,000**	**6,515,800**	**6,701,900**
% of GDP	57.1%	57.6%	53.2%	50.3%	45.5%
Memoranda items					
Nominal GDP	8,845,854	9,726,649	11,439,963	12,956,802	14,718,817
Ordinary Revenue	1,362,786	1,672,629	1,870,384	2,154,751	2,478,590

*Provisional
Source: *National Treasury*

7.2 Debt Service in the Medium Term

In nominal terms, the total debt service as a proportion of revenue is projected to decrease to 28.3 per cent in 2020/21 from 33.8 per cent in 2017/18 (Table 7-2). As a percentage of GDP, total debt service is projected to decrease to 4.7 per cent in 2020/21 from 5.2 per cent in 2017/18.

Domestic interest is projected to increase to Ksh 271,794 million in 2019/20 from Ksh 239,470 million in 2017/18. However, as a percentage of revenue, domestic interest is projected to decrease to 14.5 per cent in 2019/20 from 17.6 per cent in 2017/18. As a ratio of GDP, domestic interest will decrease to 2.4 per cent in 2019/20 from 2.7 per cent 2017/18.

Interest on external debt is projected to increase to Ksh 112,081 million in 2019/20 from Ksh 81,689 million in 2017/18. As a ratio of GDP, interest on external debt will rise to 1.0 per cent in 2019/20 from 0.9 per cent in 2017/18.

Principal repayments on external debt is projected to decrease to Ksh 148,462 million in 2019/20 from Ksh 138,989 million in 2017/18. As a ratio of GDP, the external repayments will decrease to 1.3 per cent in 2019/20 from 1.6 per cent in 2017/18.

Table 7-2: Projected Debt Service (Ksh million)

Debt Service		2017/18*	2018/19	2019/20	2020/21	2021/22
Domestic interest	Amount (Ksh million)	239,470	285,607	271,794	314,980	359,447
	% of GDP	2.7%	2.9%	2.4%	2.4%	2.4%
	% of Revenue	17.6%	17.1%	14.5%	14.6%	14.5%
External Interest	Amount (Ksh million)	81,689	114,374	112,081	118,806	131,637
	% of GDP	0.9%	1.2%	1.0%	0.9%	0.9%
	% of Revenue	6.0%	6.8%	5.9%	5.5%	5.3%
Total Interest payments	Amount (Ksh million)	321,159	399,981	383,875	433,786	491,084
	% of GDP	3.6%	4.1%	3.4%	3.4%	3.3%
	% of Revenue	23.6%	23.9%	20.5%	20.1%	19.8%
External Principal Repayments	Amount (Ksh million)	138,989	250,283	148,462	176,527	204,839
	% of GDP	1.6%	2.6%	1.3%	1.4%	1.4%
	% of Revenue	10.2%	15.0%	7.9%	8.2%	8.3%
Total Debt service	Amount (Ksh million)	460,148	650,264	532,337	610,313	695,923
	% of GDP	5.2%	6.7%	4.6%	4.7%	4.7%
	% of Revenue	33.8%	38.9%	28.5%	28.3%	28.1%
Ordinary Revenue	Amount (Ksh million)	1,362,786	1,672,629	1,870,384	2,154,751	2,478,590
Nominal GDP	Amount (Ksh million)	8,845,854	9,726,649	11,439,963	12,956,802	14,718,817

*Provisional

Source: *National Treasury*

GLOSSARY

• Bond Re-opening

This involves opening up or offering the same paper to the primary market on a date other than its original issue date with a view to increasing its outstanding size.

• Concessionality

A measure of the softness of a credit reflecting the benefit to the borrower compared to a loan at market rate. Technically, it is calculated as the difference between the nominal value and the present value of the debt service as of the date of disbursement, calculated at a discount rate applicable to the currency of the transaction and expressed as a per centage of the nominal value.

• Debt Relief

Agreements by creditors to lessen the debt burden of debtor countries by either rescheduling interest and principal payments falling due over a specified time period, sometimes on concessional basis, or by partially or fully cancelling debt service payments falling due in a specified period of time.

• Debt Service

The amount of funds used for repayment of principal and interest of a debt.

• Debt Sustainability

Sustainable debt is the level of debt which allows a debtor country to meet its current and future debt service obligations in full, without recourse to further debt relief or rescheduling, avoiding accumulation of arrears, while allowing an acceptable level of economic growth.

• Debt Sustainability Analysis

This is conducted in the context of medium-term scenarios. These scenarios are numerical evaluations that take account of expectations of the behaviour of economic variables and other factors to determine the conditions under which debt and other indicators would stabilize at reasonable levels, the major risks to the economy, and the need and scope for policy adjustment. In this analysis, macroeconomic uncertainties, such as the outlook for the current account, and policy uncertainties, such as for fiscal policy, tend to dominate the medium term outlook.

• Disbursement

The actual transfer of financial resources or of goods or services by the lender to the borrower.

• Domestic Borrowing

Government borrowing through issuance of local Government securities and direct borrowing from the Central Bank.

- **Export Credit**

Loans for the purpose of trade and which are not represented by a negotiable instrument. They may be extended by public or private entity. If extended by the private entity, they may be supported by an official government guarantee.

- **External Borrowing**

Government borrowing from both official (Government or Government agencies) and private institutions domiciled outside the country.

- **Government Securities**

Financial instruments used by the Government to raise funds from the primary market.

- **Grant Element**

It measures the concessionality of a loan, in the form of the present value of an interest rate below the market rate over the life of a loan.

- **Present Value**

The present value (PV) is defined as the sum of all future cash flows (interest and principal) discounted at the appropriate market rate. For a loan, whenever the interest rate on a loan is lower than the market rate, the resulting PV is lower than its face value.

- **Official Development Assistance**

Loans from official development agencies to countries received by the public sector, for promotion of economic development and welfare as the main objective and, extended at concessional financial terms (with minimum grant element of 25 per cent). Loans and credits for military purposes are excluded in this definition.

- **Primary Market**

This is a market where financial instruments are originated through initial issuance.

- **Public Debt**

This refers to outstanding financial obligations of the Government arising from past borrowing. It includes Government guaranteed debts to State Corporations and Local Authorities.

- **Public Domestic Debt**

Part of the overall debt owed by the Government to creditors domiciled in the economy. The debt includes money owed to commercial banks, non-bank financial institutions, individuals among others.

• **Public External Debt**

Part of the overall debt owed by the Government to creditors domiciled outside the economy. The debt includes money owed to private commercial banks, other governments, or international financial institutions such as the IMF and World Bank.

• **Secondary Market**

This is a market where already issued financial instruments are traded.

• **Sovereign Bond**

A debt security issued by a national government within a given country and denominated in a foreign currency. The foreign currency used will most likely be a hard currency.

• **Suppliers' Credit**

An arrangement under which a supplier or exporter agrees to allow the customer to defer payment under a sales contract.

• **Tap sale**

It is a continued issuance of a security after its original auction where there was an under subscription.

• **Treasury Bills**

It is a short-term borrowing instrument issued by the Government to finance the budget.

• **Treasury Bond**

This is a medium to long-term term debt instrument issued by the Government to finance the budget.

• **Yield Curve**

It is the relationship between the interest rate and maturity of bonds. A normal yield curve shows interest rates for short-term securities lower than interest rates for long-term securities.

APPENDICES

Appendix I: Stock of Publicly Guaranteed Debt by June 2018 (Ksh Million)

Agency	Year	Purpose of the loan	Creditor	Jun-14	Jun-15	Jun-16	Jun-17	Jun- 18
Nairobi City County	1985	Umoja II Housing Project	USA	75	-	-	-	-
Kenya Broadcasting Corporation	1989	KBC Modernization Project	Japan	3,584	2,404	2,224	1,386	1,035
Telkom Kenya Ltd	1990	Purchase of Microwave Telephone System	Canada	351	375	-	-	-
Tana and Athi River Development Authority	1990	Tana Delta Irrigation Project	Japan	1,526	1,172	1,156	811	673
East African Portland Cement	1990	Cement Plant Rehabilitation Project	Japan	1,896	1,457	1,438	1,008	836
KenGen Ltd	1995	Mombasa Diesel Generating Power Project	Japan	4,048	3,393	3,767	3,325	2,923
	1997	Sondu Miriu Hydropower Project	Japan	3,950	3,372	3,827	3,422	3,099
	2004	Sondu Miriu Hydropower Project II	Japan	8,981	8,005	9,534	8,753	8,404
	2007	Sondu Miriu Hydropower Project – Sang'oro Power Plant	Japan	3,660	3,416	4,218	3,972	3,827
	2010	Olkaria Unit 4 and 5 Geothermal Power Project	Japan	42	44	55	51	51
	2010	Rehabilitation and Expansion of the Hydropower Plant Kindaruma	Germany			3,514	3,302	2,970
	2011	Rehabilitation and Upgrade of the Geothermal Plant Olkaria	Germany			4,656	4,875	4,510
Kenya Ports Authority	2007	Mombasa Port Modernization	Japan	13,167	15,856	22,099	21,211	23,808

Agency	Year	Purpose of the loan	Creditor	Jun-14	Jun-15	Jun-16	Jun-17	Jun- 18
		Project						
Kenya Railways	2008	Kenya Railways Concessioning	IDA	3,943	4,439	4,044	4,667	4,547
Kenya Ports Authority	2016	Kenya Port Development Project Phase 2	Japan				614	6333
Kenya Airways	2017	Kenya Airways	Afrexim	0	0	0	77,784	75,787
Kenya Farmers Association	2005	Revival of KFA	Local banks	Unutilized	Unutilized	Unutilized	Unutilized	Unutilized
National Cereals & Produce Board (GSM-102)	2009	Importation of maize under GSM-102	USA	Unutilized	Unutilized	Unutilized	Unutilized	Unutilized
Total				**45,221**	**43,933**	**60,530**	**135,179**	**138,803**

Source: *National Treasury*

Appendix II: Public and Publicly Guaranteed External Debt by Creditor, Ksh Million

CREDITOR	Jun 14	Jun 15	Jun 16	Jun 17	June 18
1. BILATERAL					
AUSTRIA	717	743	1,030	513	578
BELGIUM	8,096	6,142	7,469	9,938	10,208
CANADA	1,349	1,270	809	538	409
DENMARK	1,992	1,437	1,541	1,356	1,175
FINLAND	94	71	269	1,712	1,642
GERMANY	26,571	22,559	-	31,669	34,655
ITALY	1,716	1,101	622	654	125
JAPAN	84,515	79,017	-	91,456	101,886
NETHERLANDS	2,702	1,960	2,350	1,753	1,079
UK	1,841	1,467	992	650	463
USA	4,542	4,462	4,035	3,497	2,947
CHINA	80,859	252,039	313,127	478,607	559,071
OTHERS	13,341	13,756	31,385	36,963	53,822
TOTAL	**289,914**	**445,056**	**798,841**	**722,568**	**829,846**
ADB/ADF	102,118	161,532	179,227	197,490	204,776
EEC/EIB	20,657	20,625	21,073	20,399	19,455
IDA/IFAD	371,374	407,294	488,330	540,515	516,774
IMF	83,282	86,150	84,847	77,637	71,588
OTHERS	9,057	9,030	9,204	8,347	2,795
TOTAL	**597,340**	**320,871**	**492,908**	**844,389**	**815,388**
3. COMMERCIAL BANKS	**234,799**	**276,937**	**432,377**	**711,893**	**906,389**
4. EXPORT CREDIT	**16,452**	**16,628**	**16,628**	**15,303**	**16,725**
GRAND TOTAL	**1,138,505**	**1,423,252**	**1,796,198**	**2,294,153**	**2,568,299**

Source: *National Treasury*

Appendix III: Outstanding Treasury Bills and Bonds (KShs million) by Tenor, Kenya

Security	Jun -14		Jun-15		Jun-16		Jun-17		Jun-18	
Treasury Bills (Days)	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
91	54,660	4 5	18,554	1.4	81,784	4.7	92,168	4.4	46,855	2.0
182	88,949	7 3	75,251	5 6	191,841	11.1	234,255	11 3	241,506	10.5
364	155,797	12.8	225,123	16 8	314,464	18 2	417,733	20.1	573,477	24.9
Sub totals	**299,406**	**24.7**	**318,928**	**23.7**	**588,088**	**34.0**	**744,156**	**35.8**	**861,838**	**37.5**
Treasury Bonds (Years)								0 0		0 0
1	-	-	165,912	12.3	34,502	2.0	-	0.0	-	0.0
2	166,679	13.7	109,936	8.2	122,087	7.1	75,850	3 7	57,284	2.5
3	-	-	89,515	6 7	-	-	150	0 0	398	0.0
4	29,891	2 5	102,622	7.6	10,770	0.6	10,770	0 5	-	0.0
5	175,296	14 4	49,123	3.7	232,840	13.5	289,610	13 9	298,402	13.0
Sub totals	**371,866**	**30.6**	**517,108**	**38.5**	**400,199**	**23.2**	**376,380**	**18.1**	**356,084**	**15.5**
6	40,653	3 3	46,038	3 4	21,332	1 2	9,186	0 4	-	0.0
7	16,970	1.4	44,462	3.3	24,313	1.4	21,185	1.0	57,082	2 5
8	40,866	3.4	61,025	4.5	26,580	1.5	26,787	1.3	26,787	1.2
9	18,177	1.5	65,528	4.9	44,010	2 5	50,130	2.4	30,327	1.3
Sub totals	**116,665**	**9.6**	**217,053**	**16.2**	**116,235**	**6.7**	**107,288**	**5.2**	**114,197**	**5.0**
10	148,511	12.2	31,757	2.4	183,543	10.6	256,910	12.4	275,964	12.0
11	4,031	0.3	28,718	2.1	4,031	0.2	4,031	0 2	-	0 0
12	45,411	3.7	26,630	2 0	136,582	7 9	147,875	7.1	122,804	5 3
15	125,498	10 3	100,975	7.5	177,806	10.3	286,741	13 8	386,792	16.8
20	60,451	5 0	74,140	5.5	74,308	4 3	104,854	5 0	128,116	5.6
25	20,193	1.7	28,145	2.1	20,193	1 2	20,193	1.0	25,345	1.1
30	22,136	1.8	-	-	28,145	1.6	28,145	1.4	28,145	1 2
Sub total	**426,231**	**35.1**	**290,365**	**21.6**	**624,607**	**36.1**	**848,749**	**40.9**	**967,165**	**42.1**
Grand Total	**1,214,168**	**100**	**1,343,454**	**100**	**1,729,129**	**100**	**2,076,573**	**100**	**2,299,283**	**100**

Source: *Central Bank of Kenya*

Appendix IV: Treasury Bonds stock as at June 30, 2018

Issue Number	Tenor	Face Value Amount	Cost Amount	Maturity Date	Issue Date	Time to Maturity
FXD2/2008/10	10	882,000,000	847,391,381	16-Jul-18	28-Jul-08	118.95
FXD2/2008/10	10	12,622,700,000	11,889,719,842	16-Jul-18	27-Jul-09	118.95
FXD1/2006/12	12	3,900,950,000	3,823,671,232	13-Aug-18	28-Aug-06	119.02
FXD3/2008/10	10	4,151,600,000	3,910,958,677	17-Sep-18	29-Sep-08	119.12
FXD3/2008/010	10	14,723,700,000	14,612,421,511	17-Sep-18	24-Apr-17	119.12
FXD3/2008/010	10	3,252,100,000	3,227,676,729	17-Sep-18	1-May-17	119.12
IFB1/2014/12	12	4,060,892,084	4,005,099,516	22-Oct-18	27-Oct-14	119.22
IFB1/2014/12	12	2,735,614,987	2,703,635,648	22-Oct-18	3-Nov-14	119.22
IFB1/2014/12	12	1,797,701,805	1,772,821,612	22-Oct-18	10-Nov-14	119.22
IFB1/2014/12	12	404,102,174	398,497,277	22-Oct-18	17-Nov-14	119.22
FXD3/2013/5	5	7,830,150,000	7,842,834,843	19-Nov-18	3-Apr-17	119.29
FXD3/2013/5	5	11,868,900,000	11,888,067,444	19-Nov-18	27-Mar-17	119.29
FXD3/2013/5	5	14,937,800,000	14,938,051,950	19-Nov-18	25-Nov-13	119.29
IFB2/2009/12	9	5,361,889,815	4,746,053,149	26-Nov-18	7-Dec-09	119.31
FXD3/2016/2	2	1,354,000,000	1,353,823,980	17-Dec-18	2-Jan-17	119.37
FXD3/2016/2	2	13,609,900,000	13,608,947,307	17-Dec-18	26-Dec-16	119.37

FXD3/2016/2	2	10,513,650,000	10,513,703,210	17-Dec-18	19-Dec-16	119.37
FXD1-2009-010	10	18,537,600,000	18,146,846,220	15-Apr-19	24-Apr-17	119.70
FXD1/2009/010	10	4,009,600,000	3,925,558,784	15-Apr-19	1-May-17	119.70
FXD1/2009/10	10	4,966,850,000	4,688,234,330	15-Apr-19	27-Apr-09	119.70
FXD1/2014/5	5	17,511,200,000	17,508,206,205	22-Apr-19	28-Apr-14	119.72
FXD1/2014/5	5	8,222,500,000	8,028,777,490	22-Apr-19	26-Jan-15	119.72
FXD1/2007/12	12	4,864,600,000	4,999,039,736	13-May-19	28-May-07	119.77
FXD2/2014/5	5	13,080,100,000	12,957,709,064	17-Jun-19	27-Mar-17	119.87
FXD2/2014/5	5	7,623,800,000	7,552,974,898	17-Jun-19	3-Apr-17	119.87
FXD2/2014/5	5	14,285,600,000	14,286,912,005	17-Jun-19	23-Jun-14	119.87
FXD2/2014/5	5	2,132,650,000	2,137,360,010	17-Jun-19	30-Jun-14	119.87
IFB2/2010/9	9	15,874,483,887	9,306,922,044	19-Aug-19	30-Aug-10	120.04
FXD1/2017/2	2	20,679,800,000	20,679,816,578	23-Sep-19	25-Sep-17	120.14
FXD1/2017/2	2	11,126,600,000	11,125,932,404	23-Sep-19	2-Oct-17	120.14
IFB1/2011/12	8	14,399,101,836	12,147,630,582	23-Sep-19	3-Oct-11	120.14
MAB1/2017/3	3	150,050,000	150,050,000	6-Apr-20	10-Apr-17	120.68
FXD1/2010/10	10	12,052,600,000	12,178,301,620	13-Apr-20	26-Apr-10	120.70
FXD1/2010/10	10	7,341,550,000	5,894,844,502	13-Apr-20	30-May-11	120.70
FXD1/2015/5	5	12,461,700,000	11,994,737,943	22-Jun-20	27-Jul-15	120.89
FXD1/2015/5	5	12,928,150,000	12,611,454,530	22-Jun-20	29-Feb-16	120.89
FXD1/2015/5	5	5,566,200,000	5,566,405,887	22-Jun-20	29-Jun-15	120.89
MAB2/2017/3	3	247,750,000	247,750,000	7-Sep-20	11-Sep-17	121.10
FXD2/2010/10	10	5,200,100,000	4,800,056,307	19-Oct-20	29-May-17	121.22
FXD2/2010/10	10	1,111,650,000	1,085,650,371	19-Oct-20	31-Jan-11	121.22
FXD2/2010/10	10	13,847,900,000	14,462,477,148	19-Oct-20	1-Nov-10	121.22
FXD2/2010/10	10	9,337,900,000	8,532,672,633	19-Oct-20	22-May-17	121.22
FXD2/2010/10	10	3,890,350,000	3,112,570,889	19-Oct-20	25-Jul-11	121.22
FXD2/2015/5	5	30,673,850,000	30,678,670,084	23-Nov-20	30-Nov-15	121.31
IFB1/2015/9	5	822,238,500	694,437,970	7-Dec-20	28-Dec-15	121.35
IFB1/2015/9	5	1,625,415,750	1,369,331,499	7-Dec-20	21-Dec-15	121.35
IFB1/2015/9	5	5,709,387,750	4,811,306,996	7-Dec-20	14-Dec-15	121.35
IFB1/2015/9	5	509,202,750	431,131,784	7-Dec-20	4-Jan-16	121.35
IFB1/2009/12	12	7,868,365,500	6,352,929,358	8-Feb-21	23-Feb-09	121.52
IFB1/2015/12	12	10,565,607,880	10,260,647,786	22-Mar-21	30-Mar-15	121.64
IFB1/2015/12	12	9,876,461,424	9,590,735,395	22-Mar-21	13-Apr-15	121.64
FXD1/2016/5	5	19,544,200,000	19,544,465,145	19-Apr-21	25-Apr-16	121.72
IFB1/2016/9	5	8,249,902,200	7,930,657,565	17-May-21	23-May-16	121.79
FXD2/2016/5	5	24,395,300,000	24,396,503,759	19-Jul-21	25-Jul-16	121.97
IFB 1/2013/12	8	5,494,159,495	5,173,025,872	20-Sep-21	28-Oct-13	122.14
IFB1/2013/12	8	6,894,206,979	6,432,966,187	20-Sep-21	30-Sep-13	122.14
FXD3/2016/5	5	23,051,050,000	23,051,192,178	20-Sep-21	26-Sep-16	122.14
IFB2/2009/12	12	4,749,160,185	4,702,177,296	22-Nov-21	7-Dec-09	122.31
IFB1/2017/12	12	1,258,160,000	1,193,446,783	21-Feb-22	27-Feb-17	122.56
IFB1/2017/12	12	1,607,920,000	1,524,147,368	21-Feb-22	6-Mar-17	122.56
FXD1/2007/15	15	3,654,600,000	3,568,804,284	7-Mar-22	26-Mar-07	122.60
FXD2/2007/15	15	7,236,950,000	7,489,082,428	6-Jun-22	25-Jun-07	122.85
FXD2/2007/15	15	25,445,650,000	26,343,788,249	6-Jun-22	26-Jun-17	122.85
FXD1/2012/10	10	18,469,950,000	17,292,772,641	13-Jun-22	29-Feb-16	122.87
FXD1/2012/10	10	5,298,850,000	5,038,005,087	13-Jun-22	30-Jul-12	122.87
FXD1/2012/10	10	11,061,750,000	10,828,896,262	13-Jun-22	25-Mar-13	122.87
FXD1/2012/10	10	443,150,000	443,286,861	13-Jun-22	25-Jun-12	122.87
FXD1/2017/5	5	12,109,150,000	12,109,259,549	22-Aug-22	28-Aug-17	123.06

FXD1/2017/5	5	17,490,000,000	17,488,775,700	22-Aug-22	4-Sep-17	123.06
FXD2/2017/5	5	7,220,000,000	7,219,061,400	17-Oct-22	6-Nov-17	123.22
IFB1/2014/12	12	3,363,018,721	3,323,705,032	17-Oct-22	3-Nov-14	123.22
IFB1/2014/12	12	4,992,243,486	4,923,655,088	17-Oct-22	27-Oct-14	123.22
IFB1/2014/12	12	496,781,595	489,891,234	17-Oct-22	17-Nov-14	123.22
IFB1/2014/12	12	2,209,998,429	2,179,412,050	17-Oct-22	10-Nov-14	123.22
FXD2/2017/5	5	13,492,100,000	13,492,194,153	17-Oct-22	23-Oct-17	123.22
FXD3/2007/15	15	14,927,900,000	14,284,884,779	7-Nov-22	28-Nov-16	123.27
FXD3/2007/15	15	7,841,100,000	7,434,415,955	7-Nov-22	26-Nov-07	123.27
FXD3/2007/15	15	10,189,100,000	9,547,609,463	7-Nov-22	25-May-09	123.27
IFB1/2017/7	7	20,734,725,000	20,965,645,695	21-Nov-22	27-Nov-17	123.31
IFB1/2015/9	7	766,621,692	647,465,682	5-Dec-22	28-Dec-15	123.35
IFB1/2015/9	7	798,225,421	672,465,006	5-Dec-22	21-Dec-15	123.35
IFB1/2015/9	7	5,323,200,625	4,485,866,704	5-Dec-22	14-Dec-15	123.35
IFB1/2015/9	7	474,759,907	401,969,718	5-Dec-22	4-Jan-16	123.35
FXD1/2008/15	15	7,380,900,000	6,998,561,232	13-Mar-23	31-Mar-08	123.62
FXD1/2008/15	15	20,021,100,000	20,146,005,757	13-Mar-23	30-Apr-18	123.62
FXD1/2008/15	15	2,692,550,000	2,683,126,075	13-Mar-23	1-Jan-18	123.62
FXD1/2008/15	15	4,695,250,000	4,678,712,460	13-Mar-23	18-Dec-17	123.62
FXD1/2018/5	5	7,739,750,000	7,739,208,218	20-Mar-23	2-Apr-18	123.64
FXD1/2018/5	5	23,055,800,000	23,055,680,104	20-Mar-23	26-Mar-18	123.64
IFB1/2016/9	7	8,249,913,817	7,930,668,732	15-May-23	23-May-16	123.79
FXD1/2013/10	10	9,958,400,000	9,063,651,466	19-Jun-23	21-Mar-16	123.89
FXD1/2013/10	10	521,700,000	531,424,488	19-Jun-23	26-Aug-13	123.89
FXD1/2013/10	10	12,121,350,000	12,123,458,664	19-Jun-23	1-Jul-13	123.89
FXD1/2013/10	10	11,909,050,000	11,654,470,022	19-Jun-23	23-Feb-15	123.89
FXD1/2013/10	10	4,737,700,000	3,980,251,064	19-Jun-23	25-Jan-16	123.89
IFB1/2011/12	12	10,283,098,164	8,675,213,160	18-Sep-23	3-Oct-11	124.14
FXD1/2014/10	10	15,030,150,000	15,030,284,061	15-Jan-24	27-Jan-14	124.47
FXD1/2014/10	10	15,587,650,000	15,494,820,028	15-Jan-24	29-Sep-14	124.47
FXD1/2014/10	10	5,234,350,000	5,042,660,437	15-Jan-24	25-May-15	124.47
IFB1/2017/12	12	2,264,688,000	2,148,204,209	19-Feb-24	27-Feb-17	124.56
IFB1/2017/12	12	2,894,256,000	2,743,465,262	19-Feb-24	6-Mar-17	124.56
IFB1/2015/12	12	9,441,011,663	9,167,883,195	18-Mar-24	13-Apr-15	124.64
IFB1/2015/12	12	10,099,773,891	9,808,259,382	18-Mar-24	30-Mar-15	124.64
FXD1/2009/15	15	10,725,050,000	10,402,547,747	7-Oct-24	29-May-17	125.20
FXD1/2009/15	15	11,806,950,000	11,452,054,561	7-Oct-24	22-May-17	125.20
FXD1/2009/15	15	9,420,450,000	8,704,400,015	7-Oct-24	26-Oct-09	125.20
IFB1/2017/7	7	20,734,725,000	20,965,645,695	18-Nov-24	27-Nov-17	125.31
IFB1/2015/9	9	491,987,343	416,555,844	2-Dec-24	4-Jan-16	125.35
IFB1/2015/9	9	794,439,808	670,960,029	2-Dec-24	28-Dec-15	125.35
IFB1/2015/9	9	2,287,708,829	1,927,280,303	2-Dec-24	21-Dec-15	125.35
IFB1/2015/9	9	5,516,361,625	4,648,643,679	2-Dec-24	14-Dec-15	125.35
FXD1/2010/015	15	357,650,000	317,979,462	10-Mar-25	5-Mar-18	125.62
FXD1/2010/015	15	5,000,000,000	4,444,238,970	10-Mar-25	26-Feb-18	125.62
FXD1/2010/15	15	10,206,450,000	10,419,787,590	10-Mar-25	29-Mar-10	125.62
FXD1/2010/15	15	12,129,800,000	10,617,279,605	10-Mar-25	24-Nov-14	125.62
IFB1/2016/9	9	19,803,383,983	19,037,056,826	12-May-25	23-May-16	125.79
IFB1/2013/12	12	8,461,742,280	7,895,629,204	15-Sep-25	30-Sep-13	126.14
IFB 1/2013/12	12	6,743,366,108	6,349,216,359	15-Sep-25	28-Oct-13	126.14
FXD2/2010/15	15	7,329,350,000	6,316,191,993	8-Dec-25	27-Dec-10	126.37
FXD2/2010/15	15	6,183,750,000	4,782,536,624	8-Dec-25	25-Apr-11	126.37

FXD1/2016/10	10	18,306,450,000	18,307,083,380	17-Aug-26	29-Aug-16	127.06
IFB1/2014/12	12	692,516,231	682,911,031	12-Oct-26	17-Nov-14	127.22
IFB1/2014/12	12	4,688,066,292	4,633,262,797	12-Oct-26	3-Nov-14	127.22
IFB1/2014/12	12	6,959,214,430	6,863,601,832	12-Oct-26	27-Oct-14	127.22
IFB1/2014/12	12	3,080,749,767	3,038,112,190	12-Oct-26	10-Nov-14	127.22
IFB1/2015/12	12	5,415,726,913	5,259,049,934	15-Mar-27	13-Apr-15	127.64
IFB1/2015/12	12	5,793,618,230	5,626,394,310	15-Mar-27	30-Mar-15	127.64
FXD1/2017/10	10	624,700,000	620,801,872	19-Jul-27	2-Oct-17	127.99
FXD1/2017/10	10	5,388,400,000	5,351,414,345	19-Jul-27	18-Dec-17	127.99
FXD1/2017/10	10	5,172,450,000	5,137,432,514	19-Jul-27	1-Jan-18	127.99
FXD1/2017/10	10	6,307,250,000	6,267,976,975	19-Jul-27	25-Sep-17	127.99
FXD1/2017/10	10	7,014,300,000	7,031,274,606	19-Jul-27	7-Aug-17	127.99
FXD1/2017/10	10	5,488,450,000	5,458,794,377	19-Jul-27	28-Aug-17	127.99
FXD1/2017/10	10	5,178,850,000	5,179,274,227	19-Jul-27	31-Jul-17	127.99
FXD1/2012/15	15	6,004,150,000	4,898,804,933	6-Sep-27	20-Jun-16	128.12
FXD1/2012/15	15	21,089,450,000	19,525,726,150	6-Sep-27	24-Sep-12	128.12
IFB1/2018/15	15	14,492,460,000	14,486,952,865	17-Jan-28	5-Feb-18	128.49
IFB1/2018/15	15	1,981,460,000	1,980,836,762	17-Jan-28	29-Jan-18	128.49
FXD1/2013/15	15	13,172,850,000	11,910,586,791	7-Feb-28	22-Dec-14	128.54
FXD1/2013/15	15	15,582,800,000	14,431,264,050	7-Feb-28	24-Feb-14	128.54
FXD1/2013/15	15	5,875,700,000	4,986,659,185	7-Feb-28	25-Feb-13	128.54
FXD1/2013/15	15	7,507,100,000	6,686,702,803	7-Feb-28	29-Jul-13	128.54
FXD2/2013/015	15	9,186,600,000	8,719,489,939	10-Apr-28	26-Feb-18	128.72
FXD2/2013/15	15	17,385,850,000	15,560,859,558	10-Apr-28	29-Apr-13	128.72
FXD2/2013/15	15	9,615,400,000	8,034,876,908	10-Apr-28	21-Mar-16	128.72
FXD2/2013/015	15	3,688,750,000	3,501,324,613	10-Apr-28	5-Mar-18	128.72
FXD1/2008/20	20	10,834,800,000	10,878,059,346	5-Jun-28	28-Dec-09	128.87
FXD1/2008/20	20	8,100,800,000	7,870,437,168	5-Jun-28	28-Nov-16	128.87
FXD1/2008/20	20	1,912,250,000	1,791,767,495	5-Jun-28	30-Jun-08	128.87
FXD1/2008/20	20	9,683,350,000	9,100,180,813	5-Jun-28	25-Jul-16	128.87
FXD1/2008/20	20	7,613,900,000	7,197,877,061	5-Jun-28	29-Jun-09	128.87
IFB1/2017/12	12	3,537,424,000	3,353,124,210	12-Feb-29	6-Mar-17	129.56
IFB1/2017/12	12	2,767,952,000	2,625,582,922	12-Feb-29	27-Feb-17	129.56
FXD1/2011/20	20	8,138,500,000	5,984,553,393	5-May-31	30-May-11	131.79
FXD1/2011/20	20	1,227,300,000	870,315,400	5-May-31	27-Jun-11	131.79
IFB1/2016/15	15	4,722,850,000	4,424,035,281	6-Oct-31	31-Oct-16	132.22
IFB1/2016/15	15	2,633,350,000	2,432,636,063	6-Oct-31	7-Nov-16	132.22
IFB1/2016/15	15	32,673,450,000	30,563,289,038	6-Oct-31	24-Oct-16	132.22
FXD1/2012/20	20	4,956,500,000	4,488,730,203	1-Nov-32	28-Jan-13	133.29
FXD1/2012/20	20	13,857,500,000	12,358,824,822	1-Nov-32	26-Jan-15	133.29
FXD1/2012/20	20	3,461,350,000	3,095,343,271	1-Nov-32	26-Nov-12	133.29
FXD1/2012/20	20	10,882,700,000	10,132,095,728	1-Nov-32	27-May-13	133.29
FXD1/2012/20	20	9,363,050,000	8,588,473,088	1-Nov-32	23-Jun-14	133.29
FXD1/2012/20	20	2,060,550,000	1,889,866,999	1-Nov-32	30-Jun-14	133.29
IFB1/2018/15	15	21,738,690,000	21,730,429,298	10-Jan-33	5-Feb-18	133.49
IFB1/2018/015	15	2,972,190,000	2,971,255,142	10-Jan-33	29-Jan-18	133.49
FXD1/2018/15	15	13,223,850,000	12,856,128,133	9-May-33	28-May-18	133.81
FXD1/2010/25	25	13,184,350,000	15,029,468,783	28-May-35	26-Jul-10	135.87
FXD1/2010/25	25	7,008,150,000	7,497,638,187	28-May-35	28-Jun-10	135.87
FXD1/2016/20	20	12,761,200,000	12,268,051,962	1-Sep-36	26-Sep-16	137.14
FXD1/2018/20	20	8,564,250,000	8,483,659,000	1-Mar-38	26-Mar-18	138.64
FXD1/2018/20	20	7,841,300,000	7,766,807,650	1-Mar-38	2-Apr-18	138.64

FXD1/2018/20	20	6,856,600,000	6,794,171,284	1-Mar-38	30-Apr-18		138.64
SDB1/2011/30	30	3,376,800,000	2,481,796,760	21-Jan-41	29-Aug-11		141.54
SDB1/2011/30	30	853,100,000	746,172,446	21-Jan-41	29-Sep-14		141.54
SDB1/2011/30	30	712,400,000	623,136,280	21-Jan-41	22-Sep-14		141.54
SDB1/2011/30	30	2,003,350,000	1,752,650,781	21-Jan-41	1-Sep-14		141.54
SDB1/2011/30	30	1,752,500,000	1,533,238,531	21-Jan-41	25-Aug-14		141.54
SDB1/2011/30	30	19,000,000	16,620,250	21-Jan-41	15-Sep-14		141.54
SDB1/2011/30	30	667,900,000	584,278,920	21-Jan-41	8-Sep-14		141.54
SDB1/2011/30	30	8,718,100,000	8,097,583,054	21-Jan-41	28-Feb-11		141.54
SDB1/2011/30	30	10,041,550,000	9,033,178,377	21-Jan-41	28-Mar-11		141.54
FXD1/2018/025	25	5,152,600,000	5,133,748,343	25-May-43	25-Jun-18		143.89
SFX1/2007/15	15	6,000,000,000	6,000,000,000	13-May-22	1-Jun-07		122.79
		1,511,872,824,249	**1,450,311,640,464**				

Source: *Central Bank of Kenya*

Appendix V: Public Private Partnership (PPP) Projects and termination terms – Kenya

No.	**Project Name**	**Project Description**	**Project Value ($ Mn)**	**Status**	**Type/ Value /State Guarantee**	**Amount of Termination Payment (Default by GoK)**	**Obligation for fixed Capacity Payments (Annual)**	**Call on Guarantee (Y/N)**
1.	Africa Geothermal International 140 MW	25year Power Purchase Agreement on a Build, Own, Operate (BOO) basis at Longonot geothermal power project adjacent to Olkaria, Kenya	760	Financial Close: 3rd April, 2014 Status: Under Construction	Letter of support issued	1. Total Project cost depreciated at 5% per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10%	US$ 77.3 Mn	NO
2.	Gulf Power – 80.32 MW	The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, in the Athi River region, on a 20-year PPA with KPLC.	108	Financial Close: 18th November, 2013 Status: Under Construction	Letter of support covering political risks issued on 2nd July 2012 Indemnity Agreement covering PRG payments was signed on 14th March 2013. PRG amount US$ 35 Mn and Euros	1. Total Project cost depreciated at 5% per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10%	Euros 16.3 Mn	NO

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/ Value /State Guarantee	Amount of Termination Payment (Default by GoK)	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
					7 Mn			
3.	Triumph Power – 82 MW	The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, at Kitengela near the Athi River area of Mavoko, on a 20- year PPA with KPLC.	156.5	Financial Close: 7th August 2013 Status: Under construction	Letter of support covering political risks issued on 2nd July 2012 Indemnity Agreement covering PRG payments was signed on 5th December 2012. PRG Amount US$ 45 Mn	1. Total Project cost depreciated at 5% per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10%	US$ 24.5Mn	NO
4.	Thika Power - 87MW	The Heavy Fuel Oil (HFO) power plant is being developed on a BOO basis, at Kitengela near the Athi River area of Mavoko, on a 20- year PPA with KPLC.	146	Financial Close: 11th October 2012 Status: operational from August 2013	Letter of support covering political risks issued on 2nd July 2012 Indemnity Agreement covering PRG payments was signed on 28th August 2014. PRG Amount US$ 35 Mn and Euros 7.7 Mn	1. Total Project cost depreciated at 5% per annum 2. Expenses incurred by the seller as a result of termination 3. Net Present Value of 5 Years profits at 10%	Euros 17.1Mn	NO
5.	Orpower 150MW** Olkaria III Geothermal power plant (1st plant 48MW,2nd Plant 36MW,3rd plant 16MW and 4th Plant 29MW)	Description: 20 year - BOO	558***	Financial Close: Jan, 1999 Status: Operational	Letter of support covering political risks issued on 16th April, 2015 Indemnity Agreement LC covering PRG	1. Total Project cost depreciated at 5% per annum 2. Expenses incurred by the seller as a result of termination 3. Losses incurred by the Seller	US$70.98 Mn	NO

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/ Value /State Guarantee	Amount of Termination Payment (Default by GoK)	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
					payments of Amount US$ 31Mn			
6.	Rabai Power Plant – 90 MW	20 year - BOO	155	Financial Close: October, 2008 Status: Operational	Indemnity Agreement LC Account	Net Present Value of Non- Escalabe Capacity Charges for the remaining period to the expiry of the term discounted at 12% per annum	Euros 19.7Mn	NO
7.	Mumias Power Plant – 35MW	10 Years- BOO	50	Financial Close: July, 2008 Status: Operational	None	None	US$ 5.3Mn	NO
8.	Kipevu III, 120MW	Located at Kipevu in Mombasa, the diesel power plant is on a BOO basis for a 20-year period	134	Financial Close: None Status: Operational	None	None	Ksh 2,209Mn	NO
9.	Kipevu II 74MW	Located in Mombasa next to Kilindini seaport, the Heavy Fuel Oil (HFO) power plant is on BOO basis over a 20-year period	85	Financial Close: Sept, 1999 Status: Operational	Indemnity Agreement	1. Net Present Value of Non-escalabe Capacity Charges for the remaining period to the expiry of the term discounted at 10% per annum. 2. Expenses incurred by the Seller as a result of termination.	US$9.62 Mn	NO

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/ Value /State Guarantee	Amount of Termination Payment (Default by GoK)	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
						3. The value of the stock of fuel and other consumables and spare parts at the Plant		
10.	Imenti tea Factory Limited 0.28MW	Feed in Tariff Power Plant on a BOO basis	-	Operating	None	None	None	NO
11.	Power Technology Solutions Ltd. Gikira Kianjora Small Hydro Power Stations 0.514MW	Feed in Tariff Power Plant on a BOO basis	-	Operating	None	None	None	NO
12.	1050 MW Lamu Power Project	Located in Manda Bay, the Lamu Coal Power Plant is on a BOO basis over a 25 - year concession period	2,000	Status: Financial Close Impending	Letter of support covering political risks issued on 4th August, 2017	1. Total amount outstanding and unpaid to all Financing Parties – Debt & Equity 2. NPV of 5 years profits at 10% discount rate 3. Redundancy payments/ Termination & Breakage costs 4. Value of unpaid construction works as at termination	US$ 360 Mn	NO

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/ Value /State Guarantee	Amount of Termination Payment (Default by GoK)	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
13.	100 MW Kipeto Wind Power	Feed in Tariff Power Plant on a BOO basis	323	Status: Financial Close Impending	Letter of support covering political risks issued	1. Total amount outstanding and unpaid to all Financing Parties – Debt & Equity 2. NPV of 5 years profits at 10% discount rate 3. Redundancy payments/ Termination & Breakage costs 4. Value of unpaid construction works as at termination	US$ 60 Mn	NO
14.	Akiira Geothermal 70 MW Power Project (Phase I of 140	Feed in Tariff Power Plant on a BOO basis	333	Status: Financial Close Impending	Letter of support covering political risks issued	1. Total amount outstanding and	US$ 37.4 Mn	NO

No.	Project Name	Project Description	Project Value ($ Mn)	Status	Type/ Value /State Guarantee	Amount of Termination Payment (Default by GoK)	Obligation for fixed Capacity Payments (Annual)	Call on Guarantee (Y/N)
	MW project)					unpaid to all Financing Parties – Debt & Equity 2. NPV of 5 years profits at 10% discount rate 3. Redundancy payments/ Termination & Breakage costs 4. Value of unpaid construction works as at termination		
15.	35MW Geothermal Quantum Power Project	Located in Nakuru County, the Quantum Power project is based on BOO arrangement over 25 years	90	Status: Financial Close Impending	Letter of support covering political risks issued		US$ 14.27 Mn	NO
16.	35 MW Geothermal Sosian Power Project	Located in Nakuru County, the Sosian Power project is based on BOO arrangement over 25 years	79	Status: Financial Close Impending	Letter of support covering political risks issued		US$ 14.27 Mn	NO
17.	40 MW Cedate Solar Power	Feed in Tariff Power Plant on a BOO basis	77	Status: Financial Close Impending	Letter of support covering political risks issued		US$ 12.5 Mn	NO
18.	40 MW Selenkei Solar Power	Feed in Tariff Power Plant on a BOO basis	84	Status: Financial Close Impending	Letter of support covering political risks issued		US$ 12.5 Mn	NO
19.	40 MW Malindi Solar Power Project	Feed in Tariff Power Plant on a BOO basis	82	Status: Financial Close Impending	Letter of support covering political risks issued		US$ 11.2 Mn	NO
20.	40 MW Alten Solar Power Project	Feed in Tariff Power Plant on a BOO basis	105	Status: Financial Close Impending	Letter of support covering political risks issued		US$ 13.8 Mn	NO

Source: *National Treasury*

Appendix VI: PPP projects under procurement stage

	Project name	Sector	Stage	Contracting Authority	Value USD Million
1	Nairobi Mombasa Highway Project	Transport and Infrastructure	Procurement	Kenya National Highways Authority (KeNHA)	2,350.00
2	Roads Annuity Programme Lot 18: select urban roads in 4 Counties; Kakamega, Vihiga, Bungoma and Busia.	Transport and Infrastructure	Procurement	Ministry of Transport and Infrastructure (MOTI)	52.37
3	Roads Annuity Programme Lot 8: Bomas – Kiserian – Magadi (C58), Bomas - Karen - Dagoreti - Ruiru (Bomas - Dagoretti Market)(C63), Uplands - Githunguri – Ngewa-C65 and other link Roads.	Transport and Infrastructure	Procurement	Kenya National Highways Authority (KeNHA)	256.75
4	Roads Annuity Programme Lot 15: Select urban roads in 6 Counties; Nyeri, Kirinyaga, Murang'a, Embu, Tharaka Nithi and Laikipia	Transport and Infrastructure	Procurement	Kenya Urban Roads Authority (KURA)	65.81
5	Roads Annuity Programme Lot 32: Illasit – Njukini – Taveta Road	Transport and Infrastructure	Procurement	Kenya National Highways Authority (KeNHA)	65.52
6	South Eastern Kenya University (SEKU) PPP Hostel Project	Education	Procurement	South Eastern Kenya University (SEKU)	38.10
7	University Of Embu PPP Hostel Project	Education	Procurement	The University of Embu (UoEm)	18.10

8	140MW Geothermal PPP project at Olkaria	Energy and Petroleum	Procurement	Kenya Electricity Generating Company (KenGen)	637.30
9	2nd Nyali Bridge Project	Transport and Infrastructure	Procurement	Kenya Urban Roads Authority (KURA)	200.00
10	Development of Murangá Town/Mukuyu Water Supply	Water and Sanitation	Procurement	Murang'a County Government	15.30
11	Development of Nanyuki Bulk Water Supply	Water and Sanitation	Procurement	DBSA	20.00
12	Likoni Crossing Aerial Cable Car	Transport and Infrastructure, Privately Initiated Investment Proposals (PIIPs)	Procurement	Kenya Ferry Services Limited (KFSL)	141.10
13	Moi University PPP Hostels Project	Education	Procurement	Moi University	21.10
14	Mombasa Petroleum Trading Hub	Transport and Infrastructure	Procurement	Ministry of Energy	1,000.00
15	Nairobi – Nakuru – Mau Summit Highway Project	Transport and Infrastructure	Procurement	Kenya National Highways Authority (KeNHA)	700.00
16	Nairobi City Council Car Park Project	Transport and Infrastructure	Procurement	Nairobi City County Government	68.20

Source: *National Treasury*