
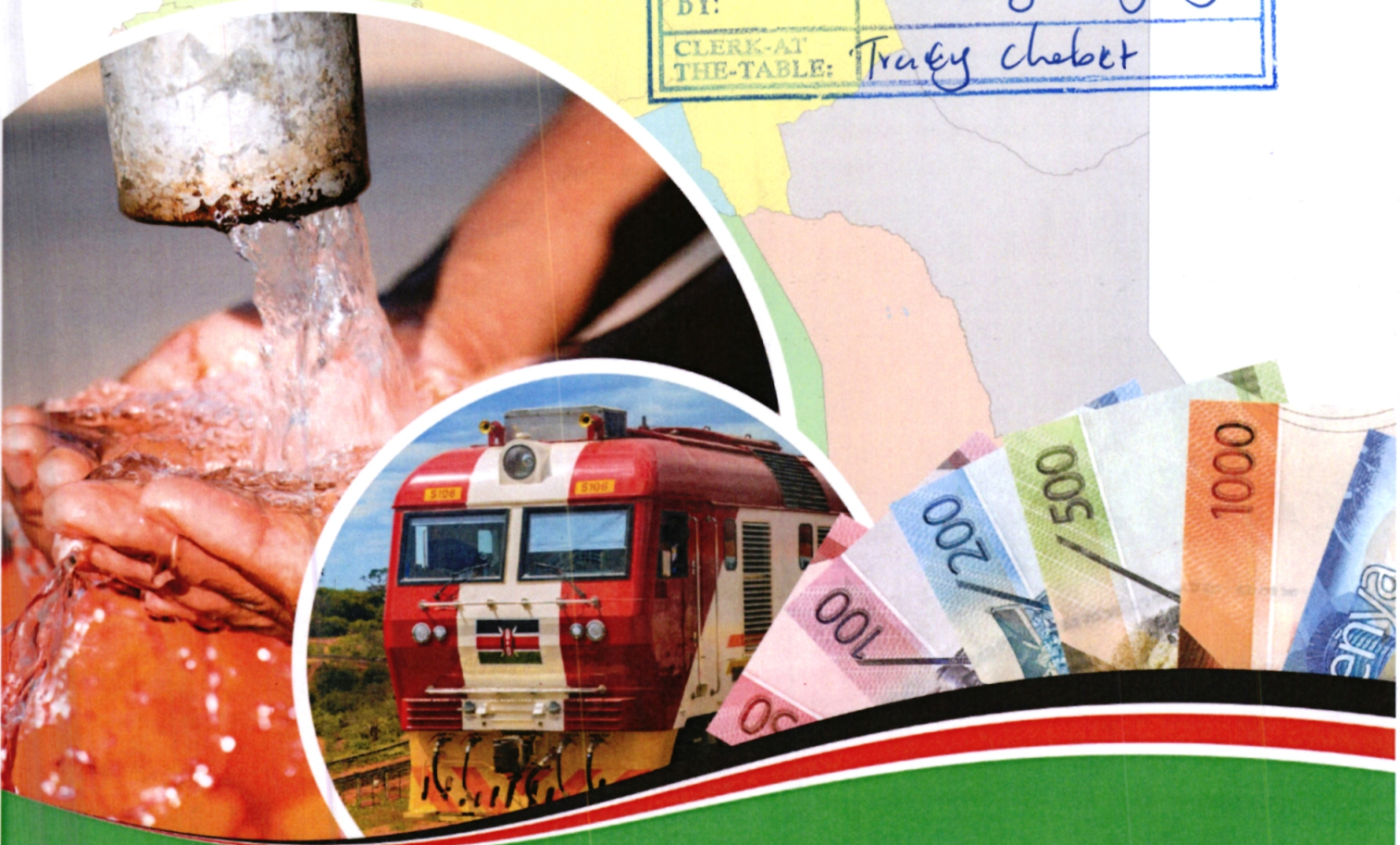




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AUDITOR-GENERAL'S REPORT ON MANAGEMENT OF ON-LENDING ACTIVITIES IN KENYA

JULY 2025



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FOREWORD

I am pleased to present this Performance Audit Report on the Management of On-lending Activities in Kenya by The National Treasury. My Office carried out the audit under the mandate conferred on me by Article 229(6) of the Constitution of Kenya, 2010 and Section 36 of the Public Audit Act, 2015. The Act mandates the Auditor-General to examine the economy, efficiency and effectiveness with which public money has been expended, pursuant to Article 229 of the Constitution of Kenya, 2010.

Performance, financial and compliance audits form the three-pillars of the audit assurance framework that I have established to give focus to the varied and wide scope of the audit work done by my Office. The framework is intended to provide assurance to stakeholders that public resources are not only correctly disbursed, recorded and accounted for, but their use results in positive impacts on the lives and livelihoods of the citizens.

The main goal of our performance audits on public debt is to ensure effective use of public resources and promote service delivery to the citizens. The audits assess whether public borrowing is done lawfully, sustainably, transparently, and in a manner that benefits the citizens. I am hopeful that corrective action will be taken, in line with the recommendations in this report.

This report is submitted to Parliament in accordance with Article 229(7) of the Constitution of Kenya, 2010 and Section 39(1) of the Public Audit Act, 2015. I have also submitted copies of the report to the Chief of Staff and Head of Public Service and the Principal Secretary, The National Treasury.


FCPA Nancy Gathungu, CBS

AUDITOR-GENERAL

17 July, 2025

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List of Abbreviations

Abbreviation	Description
AFD	Agence Française de Développement
AWWDA	Athi Water Works Development Agency
CRA	Credit Risk Assessment
CWWDA	Coast Water Works Development Agency
DeMPA	Debt Management Performance Assessment
D-GIPE	Department of Government Investment and Public Enterprises
IDA	International Development Agency
KPA	Kenya Ports Authority
KRC	Kenya Railways Corporation
LVNWWDA	Lake Victoria North Water Works Development Agency
LVSWWDA	Lake Victoria South Water Works Development Agency
MEFMI	Macroeconomic and Financial Management Institute
NIA	National Irrigation Authority
NWHSA	National Water Harvesting and Storage Authority
PDMO	Public Debt Management Office
SGR	Standard Gauge Railway
SLA	Subsidiary Loan Agreement
SOEs	State-Owned Enterprises
TNT	The National Treasury
TWWDA	Tana Water Works Development Agency
WWDA	Water Works Development Agency
WSP	Water Service Provider

Definition of Terms

Term	Meaning
Credit Risk Assessment	The process of evaluating the likelihood that a borrower will fail to repay a loan or meet financial obligations as agreed. It involves financial analysis to determine the creditworthiness of the borrower and the potential risk of default.
Debt Sustainability	A country's public debt is considered sustainable if the government is able to meet all its current and future payment obligations without exceptional financial assistance or going into debt distress or default.
Department	In this report, Department refers to the Department of Government Investments and Public Enterprises (D-GIPE).
Fiscal Risk	This is the possibility of negative deviations in government financial outcomes (revenues, expenditures, fiscal balance, and assets/liabilities), compared to what was anticipated in the budget or other fiscal forecasts, potentially impacting government's finances.
Non-Revenue Water	The amount of water which is not billed and does not earn revenue.
On-lending	On-Lending is when a government or a domestic financial institution borrows money with the aim of lending the funds to public sector entities.
State-Owned Enterprises	These are legal entities established through various Acts of Parliament, and which the government holds all or majority of shares.

EXECUTIVE SUMMARY

Background of the Audit

1. The National Treasury's Annual Public Debt Report, 2024 states that the External Debt Sustainability Analysis for Kenya indicates a high risk of debt distress. The stock of the external debt comprises loans on-lent to State-Owned Enterprises. On-lending occurs when a government borrows money with the aim of lending the funds to public sector entities.
2. The total on-lent loans disbursed as at 30 June, 2024, to thirty-five (35) State Owned Enterprises (SOEs) in the Agriculture, Energy, Finance, Health, Transport and Water Sectors amounted to Kshs.874,911 million. This amount represents approximately 17% of the total external debt amount of Kshs.5,171,704 million.
3. State-Owned Enterprises are legal entities established by the Government through various Acts of Parliament, and which the Government holds all or majority of shares. The entities implement priority government policies, projects and programmes. As legal entities, SOEs finance their operations through internally generated revenues, borrowings and government transfers from the exchequer.
4. The National Treasury (TNT), through the Department of Government Investments and Public Enterprises (D-GIPE), is responsible for developing the strategic objectives and policies on fiscal and financial oversight, and the management of SOEs. The oversight involves monitoring the performance of on-lent loans advanced to SOEs in the Country.
5. State Owned Enterprises have over the years defaulted on repayment of on-lent loans, resulting in accumulation of unpaid principal, interest, and penalties. This has not only deteriorated the financial health of these entities, but also shifted the repayment burden to the National Government, and ultimately increased fiscal pressure on public debt servicing.

Motivation for the Audit

6. The principal amount of on-lent loans as at 30 June, 2024, amounted to Kshs.153,790 million, out of which only Kshs.1,602 million, representing 1.04%, had been repaid. This resulted in the loans attracting penalties totalling Kshs.197,674 million. The

default on repayment of on-lent loans by SOEs presents the risk of shifting the debt repayment burden to the National Government.

7. The audit is a follow-up to assess the implementation of the recommendations in the Report of the Parliament Public Accounts Committee (PAC) for the financial year 2006/2007. The Report recommended that the Permanent Secretary, The National Treasury, should enforce compliance on repayment of loans by SOEs in order to ensure that all loans in arrears were fully recovered by 31 December, 2011. However, as at the time of the audit, in May 2025, SOEs had not complied with the recommendations and no measures had been taken by D-GIPE to recover the arrears or instil fiscal discipline.
8. There has been public outcry, through mainstream media outlets, on the increased default of government's loans to SOEs. For instance, an article in the Business Daily dated 24 May, 2023, highlighted that the value of government loans to SOEs had crossed the Kshs.1 trillion mark. This was despite the slow rate of repayment of on-lent loans by SOEs, which in some instances led to write off of the loans. Further, the article stated that thirty-one (31) SOEs did not make any repayments on on-lent loans in the financial year ended 30 June, 2022.
9. The default in repayment of on-lent loans has constrained the National Government's budget, resulting in the government sourcing additional financing through borrowing and budget cuts across government entities. A performance audit on on-lent loans was therefore, necessary in order to assess the management and recovery of the loans.

Audit Objective

10. The main objective of the audit was to assess whether credit risk assessment and monitoring activities by The National Treasury, through D-GIPE, ensure repayment of on-lent loans by State-Owned Enterprises.

Audit Scope

11. The audit focused on The National Treasury's, through D-GIPE, credit risk assessment and loan monitoring practices for on-lent loans to SOEs in the Country. The audit covered a period of six (6) years, from the financial year 2018/2019 to financial year 2023/2024. This was the period during which about 60% of the sampled

loans matured, and therefore, the six (6) year period was considered suitable for assessing the effectiveness of D-GIPE's loan management strategies.

Sampling

12. During the period under review, on-lent loans were advanced to the Energy, Transport, Agriculture, Finance, Health and Water Sectors. The audit team applied non-probability sampling method to select the Water and Transport Sectors. The Water Sector had the highest number of on-lent loans, fifty-eight (58) out of the ninety-five(95) loans advanced as at 30 June, 2024. The Kenya Railways Corporation (KRC), under the Transport Sector, had approximately 58.7% of the total amount of on-lent loans disbursed.

Summary of Audit Findings

Achievements in On-lending Activities

13. As at the time of audit in May 2025, it was established that D-GIPE was in the process of developing the Government Investments Regulations, 2024 (Draft). Once finalized, the Regulations will guide the development of a framework for assigning responsibilities for monitoring of financial and operational oversight of SOEs, their restructuring and evaluating loan applications. Further, D-GIPE was involved in the initiation of the draft Government Owned Enterprises Bill, 2024. The Bill aims at enhancing efficiency, governance and accountability in SOEs, while ensuring transparency and a clear ownership structure.
14. In addition, D-GIPE had developed Draft Guidelines for Determination of Interest Rates to be Charged in Subsidiary Loan Agreements of On-lent Loans, 2023. As at the time of the audit, the guidelines were awaiting approval by the Cabinet Secretary, The National Treasury.
15. However, despite the above efforts, the audit revealed the following inefficiencies in the management of on-lending activities by D-GIPE: -

A. Credit Risk Assessment Prior to Advancement of On-lent Loans

i. Non-Involvement of the Department of Government Investment and Public Enterprises in Loan Negotiations

16. Review of loan files revealed that D-GIPE was not involved in the pre-negotiations and negotiation processes for sourcing loans. For instance, invitations to nominate representatives for the negotiation of the Water and Sanitation Development Project, dated 14 March, 2017, revealed that D-GIPE was not invited to nominate its representatives to the Committee.
17. Further, interviews with the Director, D-GIPE and analysis of responses of the questionnaire administered to the Senior Deputy Accountant General, D-GIPE, established that D-GIPE was not involved in any of the loan pre-negotiation and negotiation processes. D-GIPE was therefore, not playing a role in determining the SOEs eligible for on-lent loans. The Department was only involved in drafting the subsidiary loan agreements, which was done after negotiations and securing of loans. This resulted in financing agreements being negotiated without adequate risk assessment, and consideration of the financial capacity of the borrowing entities to repay on-lent loans.
18. The non-involvement of D-GIPE in determining the SOEs eligible for on-lent loans was occasioned by the Department's lack of representation in the loan pre-negotiation and negotiation committees. The audit also established that there was no legal mandate or documented policies and procedures for the Department's involvement in the negotiation committees, and consequently the determination of SOEs eligible for on-lent loans. This resulted in loans being advanced to SOEs not eligible for on-lent loans, leading to default on loan repayment.

ii. Non-Assessment of the Financial Capacity of State-Owned Enterprises Prior to Advancement of On-lent Loans

19. Review of loan files at D-GIPE revealed that there was no credit risk assessment conducted to assess the financial capacity of SOEs prior to the advancement of on-lent loans. In addition, interviews held with the Director and the Senior Deputy Accountant-General, D-GIPE, confirmed that the Department did not conduct credit risk assessment prior to advancing on-lent loans to SOEs. The audit established that

the Negotiation Committees for sourcing funds relied on the information provided in the Project Appraisal Documents (PADs). However, the information in PADs focused on the project viability, and did not assess the SOEs' creditworthiness.

20. Failure to assess the financial capacity of SOEs prior to advancement of on-lent loans was attributed to the lack of documented policies and procedures on financial assessments of SOEs. As a result, loans were advanced to SOEs with weak financial standing and history of default, leading to increased risk of non-repayment and accumulation of on-lent loan arrears.

B. Monitoring Activities to Ensure Timely Repayment of On-lent Loans

21. On-lent loans should be monitored regularly in order to identify how risk exposure changes over time, and allow governments to react to deteriorating situations, including proposing corrective measures to beneficiaries, to enable them fulfill their contractual obligations¹. The monitoring activities include; monitoring loan disbursements, project implementation and status, repayment projections and repaid amounts. In this regard, D-GIPE was required to monitor the on-lent loans advanced to SOEs in order to ensure timely repayment. The audit established that there was inadequate monitoring of on-lending activities by D-GIPE, as detailed below: -

i. Discrepancy in Loan Disbursement Records

22. A comparative analysis of loan disbursement records from the Resource Mobilization Department (RMD), against the sampled D-GIPE loan ledgers revealed a variance of Kshs.2,952 million. An interview held with the Director, D-GIPE revealed that the Department could not access real-time information on loan disbursements to SOEs. The Department relied on data provided by the Resource Mobilization Department. D-GIPE therefore, received schedules of all disbursements made to SOEs from the Resource Mobilization Department, in order to update loan disbursement records.
23. A comparative analysis of loan records revealed discrepancies between the records maintained by D-GIPE and those at SOEs. For instance, as at 30 June, 2024, D-GIPE records indicated that the National Irrigation Authority (NIA) had an outstanding on-lent loan amount of Kshs.1,128,486,779, for the Natural Resource Management (NRM) Project. However, an internal memo dated 13 April, 2018, from NIA, referenced

¹ MEFMI's Guidelines on Managing On-lending. Para. 3.4

NIB/HQ/NI/8A Vol. XIII, on Background Information for the Kenya Natural Resources Management Project, indicated that the total amount drawn down as at the completion of the Project amounted to Kshs.1,148,442,375. Out of this amount, only 39%, translating to Kshs.447,892,526, was on-lent, with the balance being a grant. Out of the on-lent amount, NIA had refunded Kshs.19,955,596 to The National Treasury at the end of the loan period in 2013, resulting to an on-lent loan balance of Kshs.427,936,930.

24. Further, an analysis of loan repayment records for the Lake Victoria North Water Works Development Agency (LVNWWDA) revealed that an amount of Kshs.64,098,629 had been remitted to The National Treasury on various dates, with the last instalment being on 9 November, 2021. The repayment was towards the Water and Sanitation Services Improvement Project loan, funded by the International Development Association (IDA). However, the repayment had not been updated in D-GIPE's loan ledger.
25. Additionally, review of the Lake Victoria South Water Works Development Agency (LVSWWDA) bank statements revealed that an amount of Kshs.22,000,000 had been remitted by the Agency on 13 October, 2021, towards repaying the Kisumu Water and Sanitation Project loan, funded by the Agence Française de Développement (AFD). However, as at the time of audit, the amount had not been updated in D-GIPE's loan records.
26. The discrepancies in records were as a result of ineffective coordination and communication, between D-GIPE and The National Treasury's Cash Office, on SOEs repayment records. This resulted in misstatement of the amount of outstanding on-lent loan balance. As a result, there were unreconciled loan records, leading to ineffective tracking and management of on-lent loans by D-GIPE.

ii. Inadequate Monitoring of Projects Funded through On-Lent Loans

27. Monitoring of projects funded through on-lent loans ensures that the projects are implemented in a timely manner. Regular monitoring enables early identification of risks and delays, allowing for timely corrective actions.

28. The roles of D-GIPE include overseeing SOEs and appraising their projects.² This includes liaising with line ministries and SOEs to implement mechanisms for regular project monitoring and evaluation. This is aimed at identifying emerging risks during project implementation and ensuring timely intervention, for successful completion of projects.
29. Physical verification and review of Projects Status Reports established that the following projects were incomplete or had stalled.

Incomplete Projects

- The Natural Resource Management (NRM) Project, funded by International Development Agency (IDA) at a cost of Kshs.1,667 million, was incomplete. The incomplete status was attributed to insufficient credit to support the five (5) proposed irrigation schemes; Mwea, Perkerra, Ahero, Bunyala, and West Kano. By the end of the disbursement period in 2013, only the Mwea Scheme had been implemented.
- The Second Mombasa and Coastal Water Supply, Engineering and Rehabilitation Project, financed by IDA in 1992 with loan amount of Kshs.567 million, was also incomplete. The audit could not determine the reason why the project was incomplete, as the relevant project documents were not availed for audit.

Stalled Projects

- The Changanwe Re-pooling Secondary Sewer Project, valued at Kshs.204 million had stalled. The audit established that only 66 out of 303 manholes had been constructed as at the time of the audit. This was attributed to the contractor's poor performance, financial constraint and site abandonment.
- The Mandera Water Supply Project was initiated in January 2017 and had a contract value of Kshs1,420 million. The audit established that the project had stalled due to disputes with contractors; and

² Functions of D-GIPE. The National Treasury website (accessed in July 2024) at <https://www.treasury.go.ke/government-investment-and-public-enterprises/>

- The Maraba Sewerage Project in Kakamega was initiated in 2008 and had stalled in June 2010. This was as a result of a court injunction, following land compensation disputes.

30. The audit established that loan repayments for the incomplete and stalled projects were already due as at the time of the audit. This was despite the projects failing to fulfill their intended objectives. As a result, the projects did not generate the revenue required for repayment of loans.

31. Review of D-GIPE's detailed annual budgets of for the period under review established that the Department did not allocate funds for monitoring the implementation and performance of projects, despite this being part of its responsibilities. Additionally, the audit revealed that project monitoring activities were not included in the Department's work plans, and consequently, no budget was allocated for this purpose. The budgets mainly covered staff costs, transport allowances, and administrative expenses.

32. Review of D-GIPE's organizational structure revealed that the Department had a Monitoring and Supervision Division. Interviews with the Director and the Senior Deputy Accountant, D-GIPE, confirmed that the Department had not been monitoring the implementation of projects funded through on-lent loans. This omission was attributed to lack of documented policies and procedures for monitoring the performance of on-lending agreements. The Department could therefore, not confirm the status of projects. This led to continued demand for repayment of loans from SOEs, despite their inability to generate revenue due to incomplete or stalled projects.

iii. Non-Repayment of On-Lent Loans by State-Owned Enterprises

33. The audit established that D-GIPE did not adequately monitor the repayment of on-lent loans by SOEs. The Department could therefore, not take timely corrective action on SOEs that had defaulted on repayment of on-lent loans. The defaults were attributed to insufficient revenue collection and non-adherence to loan remittance requirements by SOEs, as detailed below: -

a) Insufficient Revenue Collection by State-Owned Enterprises

Water Sector

34. Review of loan ledgers at D-GIPE and interviews with the Chief Executive Officers of the sampled State-Owned Enterprises (SOEs) in the Water Sector revealed that the main reason for their failure to meet loan repayment obligations was insufficient revenue generation. This was attributed to sector reforms introduced in 2002 and 2016, which transferred the operation of water assets from SOEs to Water Service Providers (WSPs). While SOEs retained ownership of the assets until the loans were fully repaid, it was expected that WSPs would collect revenue from the use of these assets and remit funds to the SOEs, in order to facilitate repayment of loans. However, this arrangement did not generate the expected revenue flows.
35. For instance, in 2002, the National Water Harvesting and Storage Authority, a beneficiary of on-lent loans, had its mandate shifted from service delivery to focus on infrastructure development. As part of the sector reforms, its assets, including those funded through on-lent loans, were handed over to regional agencies. However, this transfer was done without formal agreements, and the associated loan liabilities were not transferred. As a result, the Authority experienced challenges in collecting revenue from the regional agencies, hence defaulted in its loan obligations. The Authority also experienced challenges related to asset management, such as land encroachment at Shanzu Wells and Nyali Wells. As at the time of audit, guidelines for transfer of assets and liabilities to WSPs had not been developed. The unclear ownership of liabilities increased the risk of default on the loans.
36. In addition, the Coast Water Works Development Agency (CWWDA), which was the only revenue generating SOE in the Water Sector as at the time of audit, did not generate sufficient revenue for loan repayment. This was as a result of high electricity costs in the production of water.
37. Furthermore, review of financial statements for WSPs and interviews held with their respective Managing Directors revealed that there were gaps in the transition of the assets and liabilities, due to absence of transfer agreements, leading to lack of ownership of liabilities. In addition, WSPs faced persistent challenges in collecting sufficient revenue, as detailed below:

- High rates of Non-Revenue Water;
- Lack of Last Mile Connectivity;
- Delays in renewal of tariffs by the Water Services Regulatory Board and non-inclusion of the loan repayment component in the tariff;
- Underutilized water projects; and
- Lack of documented information on loan obligations; and
- High operational costs.

38. Despite D-GIPE's responsibility to coordinate and steer The National Treasury's approvals on policy matters and reforms related to SOEs, the Department did not coordinate with the line ministry to provide timely advisory input on transferring assets and liabilities. In addition, the Department had a Reforms Division under their structure, but did not advise on policy issues and reforms affecting SOEs. As a result, there was no coordinated process for Water Service Providers (WSPs) to remit the revenues collected to SOEs.

Transport Sector

39. Review of loan records and interviews held with the Managing Director, Kenya Railways Corporation (KRC), revealed that the Corporation was not meeting its loan obligations for three (3) on-lent loans totaling Kshs.569,329 million. The loans were advanced in 2014 and 2015 for the Standard Gauge Railway (SGR) Project implementation for four(4) Phases³. Further, the interview revealed that the Corporation was not generating sufficient revenue for repayment of its on-lent loans. This was partly because as at the time of audit, the objective of the Project was yet to be fully realized, as was envisioned in the feasibility study. As at 30 June, 2024, only Phase 1 and Phase 2(a) had been implemented.

40. In addition, KRC did not meet its loan repayment obligations due to monthly revenue retention by the Kenya Ports Authority (KPA). The Authority was responsible for collecting and remitting SGR freight revenue to an Escrow Account on behalf of KRC, as provided in the Take or Pay Agreement (TOPA). The audit established that from July 2023 to December 2024, KPA collected USD 162 million, approximately Kshs.22,620 million. Out of this amount, KPA transferred USD 116 million,

³ Phase 1 (Nairobi-Mombasa), Phase 2(a) (Nairobi-Naivasha), Phase 2(b) (Naivasha-Kisumu) and Phase 2(c) Kisumu-Malaba)

approximately Kshs.16,212 million, to the Escrow Account and retained USD 45 million, approximately Kshs.6,277 million.

41. The audit also established that the retained revenues catered for potential refund claims arising from tariff disputes and discounts, despite lack of a provision for the retention in the Take or Pay Agreement. This unauthorized revenue retention deprived KRC of sufficient funds required for loan repayment. Further, this indicated KPA's non-compliance with the agreement and adversely affected KRC's financial obligations towards repayment of on-lent loans.

b) Non-Adherence to Loan Remittance Requirements for Loan Repayment

42. In the Water Sector, three (3) Water Service Providers (WSPs) were sampled in order to establish the status of repayment of on-lent loans. The sampled WSPs were within the jurisdiction of the Lake Victoria North Water Works Development Agency (LVNWWDA), namely: ELDOWAS⁴, KACWASCO⁵, and BUWASSCO⁶. The audit revealed that while ELDOWAS and KACWASCO remitted Kshs.145 million and Kshs.10 million, respectively, BUWASSCO made no remittances to LVNWWDA. Out of the amount of Kshs.156 million received by LVNWWDA, only Kshs.64 million was remitted to The National Treasury, leaving Kshs.91 million unaccounted for. As at the time of the audit, only Kshs.752,506 was in the bank, as evidenced by the Bank Confirmation Certificate dated 17 December, 2024.
43. Further review of the audited financial statements at the Coast Water Works Development Agency revealed that its revenue collection had been increasing, from Kshs.490 million in the financial year 2019/2020 to Kshs.846 million in the financial year 2023/2024. However, despite the increased revenue collection from sale of bulk water, the agency had not remitted any proceeds to The National Treasury for loan repayment.
44. Similarly, in the Transport Sector, the audit established that , as of December 29, 2023, the Mombasa-Nairobi Standard Gauge Railway (SGR) Escrow Account had a balance of USD 261,804,905, approximately Kshs.41,103,370,085. This was USD 11,804,905,

⁴ Eldoret Water and Sanitation Company Limited

⁵ Kakamega County Water and Sanitation Company Limited

⁶ Busia Water and Sewerage Services Company Limited

approximately Kshs.1,853,370,085, more than the required minimum reserve of USD 250 million, approximately Kshs.39,250,000,000. However, the excess funds were not used to repay the loan, as required by the Escrow Agreement. The failure to remit the surplus revenue contributed to KRC's inability to meet its loan obligations and the accumulation of penalties.

45. The audit established that D-GIPE did not adequately assess the ability of SOEs to repay their on-lent loans. Instead of carrying out regular financial reviews to understand each SOE's actual financial status, D-GIPE relied on the SOEs' responses to demand letters. The responses indicated that SOEs could not afford to repay the on-lent loans. This was attributed to D-GIPE's lack of documented procedures for monitoring the performance of SOEs. This led to continued non-repayment of on-lent loans by SOEs, leading to increased fiscal risks to the National Government.

iv. Inadequate Debt Recovery Mechanisms

46. Review of loan correspondence files established that Subsidiary Loan Agreements (SLAs) for loans on-lent to SOEs included penalty clauses for defaults, but lacked provisions for remedial or enforcement measures to recover loan outstanding amounts. Further, the audit established that D-GIPE's only recovery mechanism was the issuance of annual demand letters, with no structured follow-up or proactive engagement.
47. This has been occasioned by the lack of enforcement measures, as required by the Debt and Borrowing Policy, 2020. The dependency on demand letters as the only recovery mechanism and lack of follow up to ensure repayment of on-lent loans has rendered the penalties ineffective. Further, this has resulted in increasing the amount of arrears, and shifting the debt servicing burden to The National Government.

Conclusion

48. The Department of Government Investments and Public Enterprises did not conduct Credit Risk Assessments prior to the advancement of on-lent loans to State-Owned Enterprises (SOEs). As a result, loans were on-lent to SOEs that did not meet the eligibility criteria. This has increased the risk of defaults and undermined the sustainability of the on-lending framework.

49. The Department of Government Investments and Public Enterprises did not adequately monitor on-lending activities, resulting in unreconciled loan records and lack of assurance on the status of the on-lent funded projects. In addition, the Department was unable to provide timely advisory input on emerging issues, such as the transfer of assets and liabilities in the Water Sector. Further, the Department did not ascertain the financial position of State-Owned Enterprises in order to assess their capability to service on-lent loans. These weaknesses contributed to challenges in revenue generation by SOEs, and thereby increased the risk of loan default.

Recommendations

50. In view of the findings and conclusion of the audit, the following recommendations are issued for implementation by The National Treasury in order to enhance the management of on-lending activities in the Country.
51. The National Treasury, through the Department of Government Investments and Public Enterprises (D-GIPE), should develop and enforce policies and procedures for the management of on-lending activities in order to ensure that the Department:
- i. Is included in all loan pre-negotiations and negotiations for on-lent loans to be advanced to State-Owned Enterprises (SOEs). This will enable D-GIPE to oversee financing agreements in order ascertain the modes of financing, and advise on whether to on-lent, on-grant or otherwise.
 - ii. Conducts credit risk assessment on SOEs before granting on-lent loans in order to evaluate their financial health and ability to repay on-lent loans. This will ensure that on-lent loans are advanced to eligible SOEs and therefore, reduce risk of default.
 - iii. Conducts regular assessment of SOEs throughout the entire duration of on-lent loans. This will enable the Department to evaluate the capabilities of State-Owned Enterprises in revenue generation towards repayment of on-lent loans.
 - iv. Plans for regular monitoring of SOEs with on-lent loans in order to ensure the successful implementation of the funded projects and timely repayment of on-lent loans. The Department should also liaise with line ministries and SOEs to implement regular and periodic project monitoring and evaluation

mechanisms in order to identify emerging risks during implementation of projects. This will ensure that timely intervention measures are taken in order to enhance the successful completion of projects.

52. For efficient management of on-lent loans, D-GIPE should set up a clear framework for coordination with the Resource Mobilization Department and The National Treasury's Cash Office. In addition, the Department should strengthen its loan recording systems, implement regular reconciliations, and ensure full operationalization of the Government Investment Management Information System (GIMIS). This will ensure that the Department maintains accurate and complete documentation of loan transactions.
53. The Department of Government Investments and Public Enterprises should advise on policy issues and reforms affecting SOEs. This will enhance efficiency in the operations of SOEs and promote fiscal discipline.
54. To ensure explicit responsibilities in the transfer agreements of assets and liabilities, D-GIPE should coordinate with the key Water sector stakeholders on legal reforms.
55. To strengthen financial discipline among State-Owned Enterprises, in relation to loan repayment, D-GIPE should advise the government on the need for debt recovery mechanisms, as envisioned in Paragraph 109 of the Debt and Borrowing Policy, 2020.

1.0 INTRODUCTION

Background of the Audit

- 1.1 The National Treasury's Annual Public Debt Report, 2024 states that the External Debt Sustainability Analysis for Kenya indicates a high risk of debt distress. The stock of the external debt, part of which is on-lent to State-Owned Enterprises (SOEs), has been increasing over the years. The stock of the external debt increased from Kshs.2,863,733 million in the financial year 2018/2019 to Kshs.5,171,704 million in the financial year 2023/2024.
- 1.2 The total on-lent loans disbursed as at 30 June, 2024, to thirty-five (35) State Owned Enterprises (SOEs) in the Agriculture, Energy, Finance, Health, Transport and Water Sectors amounted to Kshs.874,911 million. This amount represents approximately 17% of the total external debt amount of Kshs.5,171,704 million.
- 1.3 On-lending is when a government borrows money with the aim of lending the funds to public sector entities. The loan proceeds are provided through an on-lending agreement, to a third party in the country of the borrower (State-Owned Enterprises and Agencies), with the previous agreement of the foreign creditor.⁷
- 1.4 State-Owned Enterprises (SOEs) are legal entities established by governments through various Acts of Parliament, and which the government holds all or majority of shares. The entities implement priority government policies, projects and programmes. As legal entities, they finance their operations through internally generated revenues, borrowings and government transfers from the exchequer. Kenya has 248 State Corporations, out of which 46 are commercial enterprises, and 202 are non-commercial entities.⁸
- 1.5 The National Treasury (TNT), through the Department of Government Investments and Public Enterprises (D-GIPE), is responsible for developing the strategic objectives and policies related to fiscal and financial oversight and the management of SOEs. The oversight involves monitoring the performance of on-lent loans advanced to SOEs in the Country.

⁷ Audit of Public Debt Management – A Handbook for Supreme Audit Institutions, Version 1, August 2020

⁸ The National Treasury's Statement on Fiscal Risks arising from the State Corporations' Sector

- 1.6 State Owned Enterprises have over the years defaulted on repayment of on-lent loans, resulting in accumulation of unpaid principal, interest, and penalties. This not only deteriorated the financial health of these entities, but also shifted the repayment burden to the National Government, and ultimately, increased fiscal pressure on public debt servicing.

Motivation of the Audit

- 1.7 The audit was motivated by the following factors: -
- i. In Kenya, on-lending is one of the major sources of financing investment projects. The total on-lent loans disbursed as at 30 June, 2024 amounted to Kshs.874,911 million, as detailed in [Appendix 1](#). The principal amount due as at 30 June, 2024, amounted to Kshs.153,790 million, with only Kshs.1,602 million, representing 1.04% having been repaid. This resulted in SOEs attracting penalties of Kshs.197,674 million, as shown in [Appendix 2](#).⁹ The default on on-lent loans by SOEs has consequences of shifting the debt repayment burden to the National Government.
 - ii. The audit is a follow-up to assess the implementation of the recommendations in the Report of the Parliament Public Accounts Committee (PAC) for the financial year 2006/2007. The Report recommended that the Permanent Secretary, The National Treasury, should enforce compliance on repayment of loans by SOEs to ensure that all loans in arrears were fully recovered by 31 December 2011. The Committee further recommended that The National Treasury should take severe disciplinary measures against Chief Executive Officers who misappropriate public funds and fail to exercise financial prudence in their operations. However, as at the time of audit, in May 2025, SOEs had not complied with the recommendations and no measures had been taken by D-GIPE to recover the arrears or instil fiscal discipline.
 - iii. There has been public outcry, through mainstream media outlets, on the increased default of government's loans to SOEs. For instance, an article in the Business Daily dated 24 May, 2023, highlighted that the value of government loans to SOEs had crossed the Kshs.1 trillion mark. This was despite the slow

⁹ OAG Analysis of D-GIPE Data as at the time of Audit

rate of repayment of on-lent loans by SOEs, which in some instances led to write off of the loans. Further, the article stated that thirty-one (31) SOEs did not make any repayments on on-lent loans in the financial year ended 30 June, 2022.

- 1.8 The default in repayment of on-lent loans has constrained the National Government's budget, resulting in the government sourcing additional financing through borrowing and budget cuts across government entities. A performance audit on on-lent loans was therefore, necessary in order to assess the management and recovery of the loans.

2.0 DESIGN OF THE AUDIT

Audit Objective

- 2.1 The main objective of the audit was to assess whether credit risk assessment and monitoring activities by The National Treasury, through D-GIPE, ensure repayment of on-lent loans by State-Owned Enterprises.
- 2.2 To enable the audit team to effectively address the specific audit objectives, detailed questions and sub-questions were developed as follows: -
1. **Have the credit risk assessment mechanisms used by D-GIPE to assess risk profiles of SOEs ensured that on-lent loans are granted to eligible SOEs?**
 - i. To what extent is D-GIPE involved in determining SOEs that fulfill the criteria to be on-lent?
 - ii. Is the financial and operational capacity of SOEs assessed during the risk assessment process?
 2. **Have D-GIPE's monitoring activities ensured that SOEs repay on-lent loans in a timely manner?**
 - i. To what extent do monitoring activities by D-GIPE ensure timely disbursements to SOEs for implementation of projects?
 - ii. To what extent do mechanisms for recording on-lent loans by D-GIPE ensure accuracy, completeness and reliability of the loan portfolio data?
 - iii. To what extent have SOEs utilized on-lent loans to achieve the intended purpose?
 - iv. To what extent do monitoring activities by D-GIPE detect and address delays in loan repayment?
 - v. To what extent have debt recovery mechanisms by D-GIPE ensured loan repayment?

Assessment Criteria

- 2.3 Section 42(a) of the Public Finance Management (PFM) Act, 2012 provides that debt service payments shall be a first charge on the Consolidated Fund and the Accounting Officer shall ensure this is done to the extent possible to ensure that the government does not default on debt obligations.
- 2.4 Paragraph 108 of the Debt and Borrowing Policy, 2020 provides that the National Government may borrow, as and when requested, and on-lend to a County Government or a National Government-owned public entity. On-lent loans will be repaid in accordance with the terms and conditions set in the subsidiary loan agreements and the relevant laws. Paragraph 109 further indicates that the National Government entity or County Government shall demonstrate that it is financially capable of meeting debt service obligations, as and when they fall due.
- 2.5 The Debt Management Performance Assessment Methodology (DeMPA) Tool, 2015 and 2021 evaluates the on-lending activities within DPI-10 (Loan Guarantees, On-lending and Derivatives). Dimension 2 of the performance indicator assesses the government's on-lending activities by looking at the availability and quality of the documented policies and procedures for approval and issuance of central government on-lending. To guarantee the sound management of on-lending transactions, regular credit risk assessment and analysis of the financial impact is conducted in order to ensure that the on-lending beneficiary repays the loan.
- 2.6 The Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) Conceptual Framework of Contingent Liabilities and Guidelines for Managing Loan Guarantees and On-lending in the MEFMI Region provides guidelines aimed at assisting countries build frameworks for managing loan guarantees and on-lending. The guidelines outline standard structures and processes driven from sound practices, at regional and global level.
- 2.7 The United Nations Conference on Trade and Development (UNCTAD) Principles on "Promoting Responsible Sovereign Lending and Borrowing" emphasizes that both lenders and sovereign borrowers are accountable for their respective roles in financial transactions. While lenders have a duty to conduct due diligence, sovereign borrowers also maintain independent responsibilities to ensure the soundness and legality of the projects they undertake.

Audit Scope

2.8 The audit focused on The National Treasury's, through D-GIPE, credit risk assessment and loan monitoring practices for on-lent loans to SOEs in the Country. The audit covered a period of six (6) years, from the financial year 2018/2019 to financial year 2023/2024. This was the period during which about 60% of the sampled loans matured, and therefore, the six (6) year period was considered suitable for assessing the effectiveness of D-GIPE's loan management strategies.

Sampling Method

2.9 During the period under review, on-lent loans were advanced to the Energy, Transport, Agriculture, Finance, Health and Water Sectors. The audit team applied non-probability sampling method to select the Water and Transport Sectors. The Water Sector had the highest number of on-lent loans, fifty-eight (58) out of the ninety-five(95) loans advanced as at 30 June, 2024. The Kenya Railways Corporation (KRC), under the Transport Sector, had approximately 58.7% of the total amount of on-lent loans disbursed.

Audit Methodology

2.10 The audit was conducted in accordance with the Performance Auditing Standards, ISSAI 3000, issued by the International Organization of Supreme Audit Institutions and audit policies and procedures established by the Office. The Standards require the auditor to design the audit procedures to be used for gathering sufficient and appropriate audit evidence that respond to the audit objective(s) and question(s).

Methods of Data Collection

2.11 The following methods were used to gather audit evidence: -

Document Review

2.12 Various documents were reviewed in order to understand the measures in place for the assessment and eligibility of SOEs to be on-lent and how the monitoring activities by D-GIPE ensured repayment of on-lent loans. Further, SOE documents were reviewed in order to confirm the total on-lent loans disbursed and repaid, their

financial position and the challenges faced. The documents reviewed are as detailed in [Appendix 3](#).

Interviews

- 2.13 To understand the key processes in on-lending activities, interviews and discussions were conducted with key officers from D-GIPE. The interviews assessed the extent to which credit risk assessment and monitoring activities have ensured timely repayment of on-lent loans. Additionally, the audit team interviewed the management of SOEs to understand the challenges faced in repayment of on-lent loans, and any emerging issues. Interviews were also held with key officers from Water Service Providers and the Kenya Ports Authority in order to corroborate the data gathered from the respective SOEs. The list of persons interviewed is detailed in [Appendix 4](#).

Field Verification

- 2.14 Physical verification was conducted in order to establish the existence and implementation of projects funded from on-lent loans. The audit team verified project sites to evaluate the projects' completion status and whether funds were being used for the intended purpose. The list of the sampled projects was generated from the scope of works of on-lent funded programs, and is detailed in [Appendix 5](#).

Methods of Data Analysis

- 2.15 The data collected was analyzed using both qualitative and quantitative methods. Quantitative data from documents reviewed was compiled, organized, and summarized using excel spreadsheets and presented as descriptive statistics in tables. Qualitative data obtained through interviews and site visits was categorized according to the subject matter of each audit question and analyzed as summarized text.

3.0 DESCRIPTION OF THE AUDIT AREA

Background

- 3.1 On-lending involves a government borrowing from external sources and then lending these funds to State-Owned Enterprises (SOEs) and Agencies. The government secures loans directly from international creditors and on-lends them through Subsidiary Loan Agreements to public sector entities, which are responsible for utilization and repayment. This exposes the government to the credit risk of the corporation's ability to meet its obligations hence risk management is critical.
- 3.2 On-lending involves two agreements; a Primary Loan Agreement (PLA) between the government and the creditor, and a Subsidiary Loan Agreement (SLA) between the Government and the State Corporation. Governments may use on-lending for several reasons, including legal restrictions, creditor preferences, and access to lower borrowing costs. On-lending is commonly used to support public investments and SOEs, especially in less economically developed countries.
- 3.3 State-Owned Enterprises implement priority government policies, projects and programmes in social, business and commercial sectors of the economy. As legal entities, they finance their operations through internally generated revenues, borrowings and government transfers from the exchequer.

Policy and Legal Framework

- 3.4 Section 5(2) of the State Corporations Act, 2012, gives the SOEs power to borrow money in Kenya or elsewhere. SOEs have the legal authority to borrow independently, but their typically weak financial positions may hinder them from obtaining favorable lending terms. On-lending therefore, allows entities to leverage on the government's strong balance sheet and access to concessional financing. Further, on-lending enables the implementation of government development projects, contributing to economic improvement.¹⁰
- 3.5 The Department of Government Investment and Public Enterprises (D-GIPE), which is under the Public Investment and Portfolio Management (PIPM) Directorate, within The National Treasury (TNT), is charged with oversight and ownership functions in

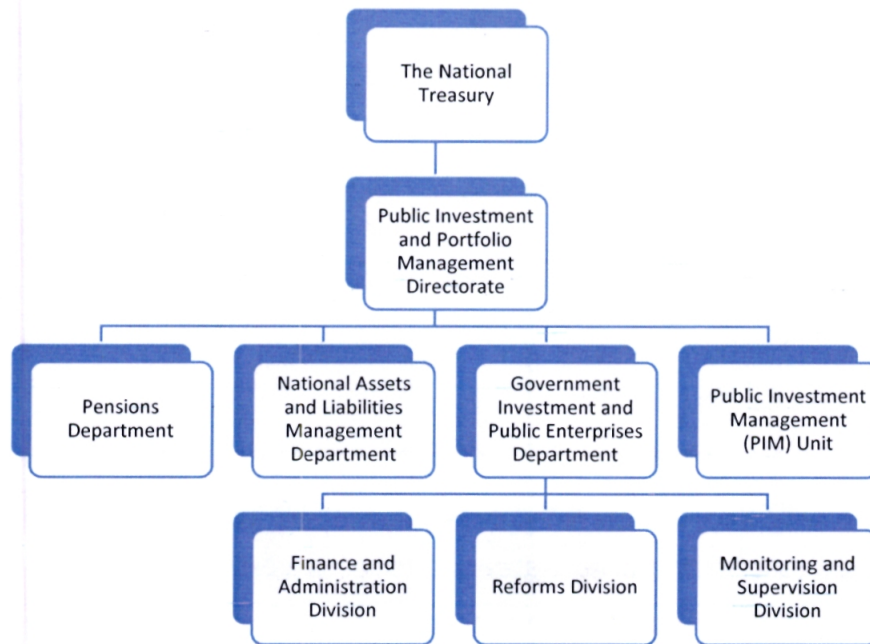
¹⁰ Audit of Public Debt Management – A Handbook for Supreme Audit Institutions, Version 1, August 2020, pg. 80.

SOEs and other Government investments. The Department draws its mandate from the legal framework of TNT, as outlined under Article 225(1) of the Constitution of Kenya, 2010, which gives TNT, among others, the functions of Public Investment and Policy Oversight.

Organizational Structure

- 3.6 The National Treasury sets borrowing policies and strategies. It ensures SOEs align their financial planning with national economic goals. It also acts as the primary borrower on behalf of the government. The Cabinet Secretary, TNT, upon project approval, constitutes in each case, a negotiation committee for each external loan and grant.
- 3.7 The National Treasury has six (6) Directorates namely:
- i. Accounting Services and Quality Assurance;
 - ii. Administrative and Support Services;
 - iii. Budget, Fiscal and Economic Affairs;
 - iv. Public Investment and Portfolio Management;
 - v. Public Private Partnerships; and
 - vi. Public Debt Management.
- 3.8 The Public Investment and Portfolio Management (PIPM) Directorate is charged with the responsibility of monitoring the management and performance of the finances of public enterprises, including SOEs and investments by the National Government and its entities.
- 3.9 The Public Investment and Portfolio Management (PIPM) Directorate, like other Directorates, is headed by a Director General, who reports to the Principal Secretary. It has four (4) Technical Departments, as follows:-
- i. Government Investment and Public Enterprises (GIPE);
 - ii. National Assets and Liabilities Management (NALM);
 - iii. Pensions Department; and
 - iv. Public Investment Management (PIM) Unit.

Figure 1: Excerpt of the Directorate's Organogram



Source: The National Treasury and Economic Planning Website

Department of Government Investment and Public Enterprises

3.10 The Department of Government Investment and Public Enterprises, on behalf of the Cabinet Secretary, TNT, exercises the oversight and ownership functions in State-Owned Enterprises and other Government investments.

3.11 There are three(3) divisions within D-GIPE, as outlined below¹¹: -

- i. Monitoring and Supervision;
- ii. Reforms; and
- iii. Finance and Administration.

Functions of the Department of Government Investment and Public Enterprises

3.12 The Department of Government Investment and Public Enterprises, on behalf of the Cabinet Secretary, TNT, is responsible for¹²: -

¹¹ The National Treasury Website (accessed in July 2024) at <https://www.treasury.go.ke/government-investment-and-public-enterprises/>

¹² The National Treasury website (accessed in July 2024) at <https://www.treasury.go.ke/government-investment-and-public-enterprises/>

- i. Developing the strategic objectives and policies relating to the fiscal or financial oversight and management of SOEs;
- ii. Appraisal of SOEs' strategic or corporate plans, projects, other investments and annual budgets, as per the State Corporations Act, 2012;
- iii. Coordinating and steering The National Treasury's approvals, with respect to policy issues, reforms and restructuring of SOEs, including financial (balance sheet cleaning, debt restructuring, write-offs, rescheduling and refinancing), legal and organizational restructuring, mergers and acquisitions;
- iv. Coordinating negotiations and vetting of performance contracts for SOEs;
- v. Coordinating and spearheading The National Treasury's approvals with respect to financing agreements. This is in relation to SOEs borrowings, direct Government loans and on-lent loans, and budget proposals;
- vi. Monitoring contingent liabilities and other fiscal risks relating to SOEs; and
- vii. Preparing and consolidating reports relating to SOEs, as may be required from time to time; and prepare Annual Reports on Government Investments.

Stakeholders Involved in On-Lending Activities

Internal Stakeholders

Public Debt Management Office

- 3.13 The Public Debt Management Office, within The National Treasury, is responsible for the day-to-day operations of public debt management. This includes sourcing the required funds, negotiating and processing loan contracts, disbursements and settlement of debt service obligations accurately and timely.
- 3.14 The Public Debt Management Office is organized into three (3) departments:
- i. The Resource Mobilization Department (Front Office), which mobilizes resources;
 - ii. The Debt Policy, Strategy and Risk Management Department (Middle Office), which provides financial analysis and reporting; and
 - iii. The Debt Recording and Settlement Department (Back Office), which maintains the debt records and handles the settlement of debt service transactions.

External Stakeholders

Line Ministries

3.15 Line ministries oversee sector-specific SOEs receiving on-lent funds, as well as participating in the loan negotiation process for financing projects under their mandate. The ministries also ensure that SOEs comply with all relevant laws governing optimal utilization of proceeds from loans, in order to ensure value for money. Further, they ensure funds from on-lent-loans are utilized for their intended purpose and align with sectoral policies. They also provide technical support and guidance on project implementation. Line ministries monitor SOE performance and ensure adherence to financial and operational standards.

State Departments and Agencies

3.16 State Departments and Agencies are the beneficiaries of on-lent loans and implementers of the loan funded projects. They are also responsible for the repayment of the on-lent loans.

Controller of Budget

3.17 Article 228 of the Constitution of Kenya, 2010, establishes the Office of the Controller of Budget. The Office is responsible for authorizing withdrawal of funds for debt management operations and preparing reports on public debt and borrowing.

Parliament

3.18 Prior to any consideration of request for borrowing by the Government and its agencies, approval of the Budget Policy Statement, Medium Term Debt Statement and the Annual Budget Estimates must be obtained annually from the National Assembly. Parliament also sets the public debt ceiling and annual government borrowing limit. Additionally, the Parliamentary Accounts Committee (PAC), and the Parliamentary Investment Committee (PIC), provides oversight on how the funds have been utilized.

Office of the Attorney-General

3.19 The Office of the Attorney-General is established under Article 156 of the Constitution of Kenya, 2010, and is the principal legal adviser to the Government. Paragraph 63 of the Debt and Borrowing Policy, 2020, provides that the Attorney-General is responsible for giving legal opinions on loan negotiations and liaising with

implementation agencies. This is to ensure that conditions precedent are fulfilled in time in order to save government from undue costs on commitment fees.

Lenders

3.20 External lenders, such as international institutions, foreign governments, and private entities play a vital role by providing financial support through loans, grants, and investments. These lenders, including the International Development Association (IDA), KFW Development Bank, African Development Bank (AfDB), Agence Française de Développement (AFD), and China Exim Bank have played a crucial role in development of infrastructure projects, social programs, and economic development initiatives through on-lent loans.

The Process Description of On-Lending Activities

3.21 In the absence of a guiding policy and procedural framework for D-GIPE, the process of on-lending activities was based on best practice of MEFMI's Guidelines on Management of On-lending, in which Kenya is a member country¹³, the DEMPA Tool, 2015 and the Debt and Borrowing Policy, 2020. The Authority to negotiate guarantee contracts and on-lending activities is the responsibility of the ministry of finance. The detailed process description is as follows;

a) Credit Risk Assessment of the Beneficiary Prior to Advancement of On-lent Loans

3.22 Credit Risk Assessment (CRA), which is an integral part of the credit risk monitoring process, seeks to determine the credit quality of the different beneficiaries of on-lending by determining their ability and willingness to service their on-lent debt. This is a crucial step as it informs on the mitigation strategies and the risk management tools to be applied.

3.23 In deciding whether to on-lend, certain criteria have to be fulfilled, such as¹⁴:

- i. The projects or programmes for which a loan is sought should be within the priority list of a National Development Plan;
- ii. The loan should be within debt sustainability considerations and overall debt limits;

¹³ MEFMI; Conceptual Framework of Contingent Liabilities and Guidelines for Managing Loan Guarantees and On-Lending in the MEFMI Region

¹⁴ Ibid, pg. 37

- iii. The public entity or project to be funded should generate sufficient cash flows to service the debt;
- iv. The terms and conditions of the loan should be satisfactory and in accordance with the legislative framework;
- v. The applicant should not have any unpaid arrears with The National Treasury;
- vi. The financial position of all potential beneficiaries should be sound; and
- vii. Alternative financing arrangements should have been investigated.

3.24 Credit Risk Assessment is conducted to determine whether the beneficiary is revenue generating and whether the revenues generated are sufficient to fund the debt service obligations. The assessment also checks whether the beneficiary has alternative sources of funds, with which to finance debt service obligations, in case of an adverse event, such as default.

b) Drafting and Signing of Loan Agreements

- 3.25 The ministry of finance is expected to mobilize a primary loan from external or domestic creditors. Before signing the primary loan agreement, the ministry of finance should obtain a legal opinion from the Attorney-General, check the beneficiary is creditworthy and decide what recourse should be taken in case of default.
- 3.26 The primary loan agreement is then signed between the international financial institution (lender), and the ministry of finance (borrower), and kept by the debt management department.
- 3.27 Having secured the loan, the ministry of finance will prepare an on-lent loan agreement (Subsidiary Loan Agreement), which stipulates the terms and conditions for the on-lent loan. The Subsidiary Loan Agreement (SLA) may have terms and conditions that are different from the primary loan.
- 3.28 The ministry of finance will share the loan details with the beneficiary or line ministry, and when all parties are satisfied, the ministry of finance will formally prepare a final draft of the subsidiary loan agreement.
- 3.29 The subsidiary loan agreement is then signed between the ministry of finance (lender) and the beneficiary (borrower) with both parties maintaining their own copies.

c) Disbursements

- 3.1 Once the subsidiary loan agreement is signed, funds are disbursed according to the terms and conditions in the agreement. The terms of disbursement are aligned with the project's financial needs and milestones.

d) Monitoring of On-Lent Loans

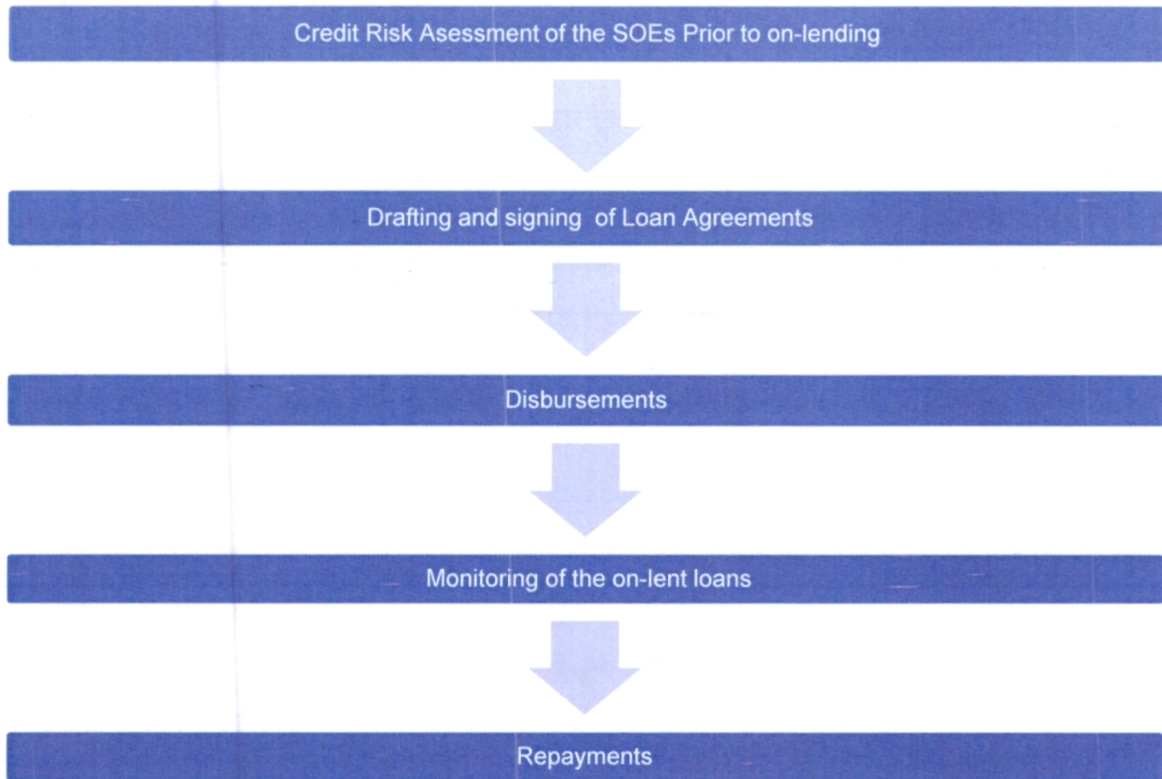
- 3.30 The beneficiary of the on-lending, through its line ministry, is required to provide the ministry of finance with regular progress reports on the on-lent loans, which include disbursements, implementation of projects, repayment projections and repaid amounts, to enable the ministry of finance to monitor all the transactions on the on-lent loans¹⁵.

e) Repayments

- 3.31 Paragraph 108 of the Public Debt and Borrowing Policy, 2020 provides that the on-lent loans will be repaid in accordance with the terms and conditions set in the subsidiary loan agreements and the relevant laws. The Cabinet Secretary, The National Treasury, will institute recovery mechanism for any on-lent loan, in the event of default by any entity.
- 3.32 The process of on-lending activities is summarized in **Figure 2**.

¹⁵ MEFMI; Conceptual Framework of Contingent Liabilities and Guidelines for Managing Loan Guarantees and On-Lending in the MEFMI Region, pg. 29

Figure 2: Process of On-lending Activities



Source: OAG Analysis

Sources of Funds

D-GIPE receives its budget allocation from The National Treasury and Economic Planning. The allocation for the six-year period, (FY 2018/2019 to 2023/2024) is summarised in **Table 1**.

Table 1: The Department's Budget

Year	Budget Estimates (Kshs.)	Supplementary Estimates (Kshs.)	Approved Budget Estimates (Kshs.)	Actual Expenditure (Kshs.)	Unutilized Budget (Kshs.)
2018/2019	128,677,833	14,145,810	142,823,643	135,283,803	7,539,840
2019/2020	118,647,143	(3,136,239)	115,510,904	102,090,834	13,420,070
2020/2021	114,061,619	(13,136,580)	100,925,039	99,647,330	1,277,709
2021/2022	97,944,894	37,496,559	135,441,453	134,178,239	1,263,214
2022/2023	115,830,475	694,887	116,525,362	113,084,149	3,441,213
2023/2024	137,350,024	22,286,488	115,063,536	105,164,546	9,898,990

Source: OAG Analysis of D-GIPE's Annual Budget Estimates for FYs 2018/2019 to 2023/2024

3.33 The actual expenditure on these budgets were mainly on staff costs, transport allowances and administration expenses. Review of the budgets shows a decline in the approved budgets due to unspent balances from the previous years.

4.0 AUDIT FINDINGS

4.1 This chapter presents the audit findings on the performance of the Department of Government Investment and Public Enterprises (D-GIPE) in the management of on-lending activities in Kenya. The findings address the two(2) audit questions on credit risk assessment and monitoring of on-lent loans advanced to State Owned Enterprises.

Achievements in On-lending Activities

4.2 The audit established that D-GIPE was in the process of developing the draft Government Investments Regulations, 2024, as at the time of audit in May 2025. Once finalized, the Regulations will guide the development of a framework for assigning responsibilities for monitoring the financial and operational oversight of State-Owned Enterprises (SOEs), their restructuring and evaluating loan applications. Further, D-GIPE was involved in the initiation of the draft Government Owned Enterprises Bill, 2024. The Bill aims at enhancing efficiency, governance and accountability in SOEs, while ensuring transparency and a clear ownership structure.

4.3 In addition, D-GIPE had developed Draft Guidelines for Determination of Interest Rates to be Charged in Subsidiary Loan Agreements of On-lent Loans, 2023. As at the time of the audit, the guidelines were awaiting approval by the Cabinet Secretary, The National Treasury.

4.4 However, despite the above efforts, the audit revealed the following inefficiencies in the management of on-lending activities by D-GIPE:-

A. Credit Risk Assessment Prior to Advancement of On-lent Loans

i. Non-Involvement of D-GIPE in Loan Negotiations

4.5 Paragraph 105 of the Debt and Borrowing Policy, 2020, provides that upon project approval, the Cabinet Secretary will constitute in each case, a negotiation committee for each external loan and grant. The Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) Guidelines further provides that, in deciding whether to on-lend, the applicant should not have any unpaid arrears with the Ministry of Finance.

4.6 Review of loan files revealed that D-GIPE was not involved in the pre-negotiations and negotiation processes for sourcing loans. For instance, invitations to nominate

representatives for the negotiation of the Water and Sanitation Development Project dated 14 March, 2017, to the Permanent Secretary, Ministry of Water and Irrigation, the State Law Office, the Council of Governors and internal memos to The National Treasury's Budget, Intergovernmental and Fiscal Relations and Middle Office Departments revealed that D-GIPE was not invited to nominate its representatives.

- 4.7 An interview held with the Director, D-GIPE and analysis of responses of the questionnaire administered to the Senior Deputy Accountant General, D-GIPE, revealed that the Department was not involved in any of the loan pre-negotiation and negotiation processes. D-GIPE was therefore, not playing a role in determining the SOEs eligible for on-lent loans. The Department was only involved in drafting the subsidiary loan agreements, which was done after negotiations and securing of loans. This resulted in financing agreements being negotiated without adequate risk assessment and consideration of the financial capacity of the borrowing entities to repay on-lent loans.
- 4.8 The non-involvement of D-GIPE in determination of SOEs eligible to be on-lent was occasioned by the Department's lack of representation in the loan pre-negotiation and negotiation committees. The audit also established that there was no clear legal mandate or documented policies and procedures for the Department's involvement in the committees, and consequently the determination of SOEs eligible for on-lent loans. This resulted in loans being advanced to SOEs that had already defaulted on previous loans, leading to continued defaults, as shown in **Table 2**.

Table 2: Loans Advanced to Defaulting Water Works Development Agencies

No	Agency	Project Name	Date of 1st Repayment	No. of Subsequent loans given after Default	Loan Amount Defaulted as at 30 June, 2024 (Kshs.)
1	Athi Water Works Development Agency	Nairobi Water Distribution Network	30-09-11	8	35,403,326,848
2	Central Rift Valley Water Works Development Agency	Improvement of Water Supply and Sanitation Services within the jurisdiction of the Board	25-05-10	3	2,794,696,332
3	Coast Water Works Development Authority	Water and Sanitation Services Improvement	30-03-13	3	2,481,050,569
4	Lake Victoria North Water Works Development Agency	Water Supply and Sanitation Programme Nzoia Cluster, Phase I	30-11-15	3	4,411,632,576
5	Lake Victoria South Water Works Development Agency	Extension of the Water and Sanitation Services Network	30-09-15	2	4,110,158,056
6	National Water Harvesting & Storage Authority	Second Mombasa and Coastal Water Supply, Engineering and Rehabilitation Project	15-11-97	2	1,893,634,897
7	Tana Water Works Development Agency	Water Services Boards Support Project	30-04-13	1	3,719,185,236

Source: OAG Analysis of loan records of D-GIPE and SOEs

ii. Non-Assessment of the Financial and Operational Capacity of State-Owned Enterprises Prior to Advancement of On-lent Loans

- 4.9 Paragraph 3.1.3.3 of the MEFMI Guidelines on On-lending Operations recommends that Credit Risk Assessments (CRAs) be carried out for all on-lending applications in order to ascertain the financial soundness of the borrowing entities. Additionally, the Debt Management Performance Assessment (DeMPA) Tool, 2021, under DPI-10 requires that governments establish clear procedures for evaluating the financial viability and debt-servicing capacity of SOEs prior to on-lending.
- 4.10 In addition, the United Nations Conference on Trade and Development (UNCTAD) Principles on "Promoting Responsible Sovereign Lending and Borrowing" emphasizes that both lenders and sovereign borrowers are accountable for their respective roles in financial transactions. While lenders have a duty to conduct due

diligence, sovereign borrowers also maintain independent responsibilities to ensure the soundness and legality of the projects they undertake.

- 4.11 Review of loan files at D-GIPE revealed that there was no credit risk assessment conducted to assess the financial capacity of SOEs prior to the advancement of on-lent loans. Further, interviews held with the Director and the Senior Deputy Accountant General, D-GIPE, confirmed that the Department did not conduct credit risk assessment prior to advancing on-lent loans to SOEs. The audit established that the Negotiation Committees relied on the information in the Project Appraisal Documents (PADs). The information in PADs was on the financial, economic and social viability of projects, in order to determine the mode of financing; whether to on-lend, on-grant or otherwise. However, the information in PADs focused on project viability but did not assess the SOEs' creditworthiness, leading to on-lent loans being advanced to SOEs with weak financial standing and history of default.
- 4.12 This was attributed to lack of documented policies and procedures stipulating how and when the Department should conduct financial and performance risk assessment, prior to advancement of on-lent loans to SOEs.
- 4.13 As a result, loans were advanced to SOEs with weak financial standing and history of default, as shown in **Table 2**, leading to increased risks of non-repayment and accumulation of on-lent loan arrears.

B. Monitoring Activities to Ensure Timely Repayment of On-lent Loans

- 4.14 Paragraph 3.4 of MEFMI Guidelines provide that on-lent loans should be monitored regularly in order to identify how risk exposure changes over time, and allow governments to react to deteriorating situations, including proposing corrective measures to beneficiaries, to enable them fulfill their contractual obligations. The monitoring activities include; monitoring loan disbursements, project status, repayment projections and repaid amounts. D-GIPE, on behalf of the Cabinet Secretary, f The National Treasury, exercises oversight and ownership functions in SOEs and other Government Investments. D-GIPE is therefore, required to monitor these on-lending activities. However, the audit established that there was inadequate monitoring of on-lending activities by D-GIPE, as detailed below: -

i. Discrepancy in Loan Disbursements Records

- 4.15 Paragraph 3.5 of MEFMI Guidelines provides that recording is an integral part of the framework for the management of on-lending. This is for the effective identification of the government's exposure, which improves the effectiveness of the Credit Risk Management Framework. Comprehensive registers of government's on-lending must be developed and kept up to date in order to ensure the effective management of exposure.
- 4.16 A comparative analysis of the disbursement records from the Resource Mobilization Department (RMD), against the sampled D-GIPE loan ledgers revealed a variance of Kshs.2,952 million relating to the disbursed amounts, as detailed in [Appendix 6](#).
- 4.17 An interview held with the Director, D-GIPE, revealed that the Department could not access real-time information on loan disbursements to SOEs. The Department relied on data provided by the Resource Mobilization Department that had a Disbursement Unit in charge of disbursements. Consequently, D-GIPE received schedules of all disbursements made to SOEs from RMD, in order to update the loan disbursement records.
- 4.18 Further, comparative analysis of loan records revealed discrepancies between the records maintained by D-GIPE and those at SOEs. For instance, document review at both D-GIPE and the National Irrigation Authority (NIA) revealed a discrepancy on the total outstanding amount of an on-lent loan. According to D-GIPE records, NIA had an outstanding on-lent amount of Kshs.1,128,486,779 for the Natural Resource Management (NRM) Project. However, NIA, through its internal memo Ref: NIB/HQ/NI/8A Vol. XIII, on Background Information on the Kenya Natural Resources Management Project, dated 13 April, 2018, indicated that the total amount drawn down as at the completion of the Project amounted to Kshs.1,148,442,375. Out of this amount, only 39%, translating to Kshs.447,892,526, was on-lent, with the balance being a grant. Out of the on-lent amount, NIA refunded Kshs.19,955,596 to The National Treasury at the end of the loan period in 2013, resulting to on-lent loan balance of Kshs.427,936,930.
- 4.19 Further, an analysis of loan repayment records for the Lake Victoria North Water Works Development Agency (LVNWWDA) revealed that an amount of Kshs.64,098,629 had been remitted to The National Treasury on various dates, with the last instalment being on 9 November, 2021. The repayment was towards the

Water and Sanitation Services Improvement Project loan, funded by the International Development Association (IDA). However, the repayment had not been updated in D-GIPE's loan ledger.

- 4.20 In addition, review of the bank statements for the Lake Victoria South Water Works Development Agency (LVSWWDA) revealed that an amount of Kshs.22,000,000 had been remitted by the Agency on 13 October, 2021 towards loan repayment of the Kisumu Water and Sanitation Project, funded by Agence Française de Développement (AFD). However, as at the time of audit, the amount had not been updated in D-GIPE's loan records.
- 4.21 The discrepancies in records were as a result of ineffective coordination and communication between D-GIPE and the Cash Office at The National Treasury on SOE repayment records. This resulted in misstatement of the amount of outstanding on-lent loan balances of Kshs.64,098,629 and Kshs.22,000,000 for LVNWWDA and LVSWWDA, respectively.
- 4.22 This led to unreconciled loan records, resulting to ineffective tracking and management of on-lent loans by D-GIPE.

ii. Inadequate Monitoring of Projects Funded through On-Lent Loans

- 4.23 Paragraph 3.4 of MEFMI Guidelines provides that on-lent loans should be monitored regularly at both instrument and portfolio level. Monitoring of projects funded through on-lent loans ensures that the projects achieve their overall objective.
- 4.24 The roles of D-GIPE include overseeing SOEs and appraising their projects. This includes liaising with line ministries and SOEs to implement mechanisms for regular project monitoring and evaluation. This is aimed at identifying emerging risks during project implementation and ensuring timely intervention, for successful completion of projects.
- 4.25 Physical verification and review of Projects Status Reports established that the following projects were incomplete or had stalled.

Incomplete Projects

- i. The Natural Resource Management (NRM) Project, funded by International Development Agency (IDA) at a cost of Kshs.1,667 million, was incomplete. The incomplete status was attributed to insufficient credit to support the five (5)

proposed irrigation schemes: Mwea, Perkerra, Ahero, Bunyala, and West Kano. By the end of the disbursement period in 2013, only the Mwea Scheme had been implemented.

- ii. The Second Mombasa and Coastal Water Supply, Engineering and Rehabilitation Project, financed by IDA in 1992 with loan amount of Kshs.567 million, was also incomplete. The audit could not determine the reason why the project was incomplete, as the relevant project documents were not availed for audit.

Stalled Projects

- i. The Changamwe Re-pooling Secondary Sewer Project, valued at Kshs.204 million had stalled. The audit established that only 66 out of 303 manholes had been constructed as at the time of the audit. This was attributed to the contractor's poor performance, financial constraint and site abandonment.

Picture 1: Manhole Constructed under a Sewer Project



One of the manholes constructed under the Changamwe Re-pooling Secondary Sewer Project turned into a dumping site (photo taken on 23 January, 2025 by OAG auditors)

- ii. The Mandera Water Supply Project was initiated in January 2017 and had a contract value of Kshs1,420 million. The audit established that the project had stalled due to disputes with contractors; and
- iii. The Maraba Sewerage Project in Kakamega was initiated in 2008 and had stalled in June 2010. This was as a result of a court injunction, following land compensation disputes.

Picture 2: Stalled Sewerage Pond under the Maraba Sewerage Project



Stalled Sewerage Pond under the Maraba Sewerage Project in Kakamega turned into a playground (photo taken 17 December, 2024 by OAG auditors)

- 4.26 The audit established that loan repayments for the incomplete and stalled projects were already due as at the time of the audit. This was despite the projects failing to fulfill their intended objectives. As a result, the projects did not generate the revenue required for repayment of loans. The details for the incomplete and stalled projects are elaborated in [Appendix 7](#).
- 4.27 Review of D-GIPE's detailed annual budgets for the period under review established that the Department did not allocate funds for monitoring the implementation and performance of projects, despite this being part of its responsibilities. Additionally, the audit revealed that project monitoring activities were not included in the Department's work plans, and consequently, no budget was allocated for this purpose. The budgets mainly covered staff costs, transport allowances, and administrative expenses.
- 4.28 Review of D-GIPE's organizational structure revealed that the Department had a Monitoring and Supervision Division. Interviews with the Director and the Senior Deputy Accountant, D-GIPE, confirmed that the Department had not been monitoring the implementation of projects funded through on-lent loans. This omission was attributed to lack of documented policies and procedures for monitoring the performance of on-lending agreements. The Department could therefore, not confirm the status of projects. This led to continued demand for repayment of loans from SOEs, despite their inability to generate revenue due to incomplete or stalled projects.

iii. Non-Repayment of On-lent Loans by State-Owned Enterprises

- 4.29 Paragraph 3.4 of MEFMI Guidelines provides that on-lent loans should be monitored regularly, at both instrument and portfolio level, in order to aid in demonstrating how risk exposure is changing over time, and allow governments to react to deteriorating situations, including proposing corrective measures to beneficiaries and planning for the potential materialization of risks. Further, Paragraph 3.2.14 of MEFMI Guidelines provides that the public entity or project to be funded should generate sufficient cash flows to service the debt.
- 4.30 One of D-GIPE's functions is to coordinate and steer The National Treasury's approvals with respect to policy issues, reforms and restructuring of SOEs. The audit established that D-GIPE did not adequately monitor the repayment of on-lent loans by SOEs. The Department could therefore, not take timely corrective action on SOEs that had defaulted on repayment of on-lent loans. The defaults were attributed to insufficient revenue collection and non-adherence to loan remittance requirements by SOEs, as detailed below: -

a) Insufficient Revenue Collection by State-Owned Enterprises

Water Sector

- 4.31 Review of loan ledgers at D-GIPE and interviews held with the Chief Executive Officers of the sampled SOEs in the Water Sector revealed that the main reason for their failure to meet loan repayment obligations was insufficient revenue generation. This was attributed to sector reforms introduced in 2002 and 2016, which transferred the operation of water assets from SOEs to Water Service Providers (WSPs). While SOEs retained ownership of the assets until the loans were fully repaid, it was expected that WSPs would collect revenue from the use of these assets and remit funds to the SOEs, in order to facilitate repayment of loans. However, this arrangement did not generate the expected revenue flows.
- 4.32 For instance, in 2002, the National Water Harvesting and Storage Authority (NWHSA), a beneficiary of on-lent loans, had its mandate shifted from service delivery to focus on infrastructure development. As part of the sector reforms, its assets, including those funded through on-lent loans, were handed over to regional agencies. However, this transfer was done without formal agreements, and the associated loan liabilities were not transferred. As a result, the Authority experienced

challenges in collecting revenues from the regional agencies, hence defaulted in its loan obligations. This lack of clear ownership of assets resulted in the land previously owned by NWHSA in Shanzu and at Nyali Wells being encroached by private developers. As at the time of audit, the Cabinet Secretary, Ministry for Water, Sanitation and Irrigation had not developed guidelines for the transfer of assets and liabilities to the WSPs, as provided for in Section 142(2)(i) of the Water Act, 2016. The unclear ownership of liabilities increased the risk of default on the loans.

- 4.33 In addition, the Coast Water Works Development Agency (CWWDA) which was the only revenue generating SOE in the Water Sector as at the time of audit, did not generate sufficient revenue for loan repayment. This was as a result of high electricity costs in the production of water, as shown in **Table 3** and detailed in [Appendix 9](#).

Table 3: Analysis for Bulk Water Sales and Operational Costs

Year	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024
OPERATION REVENUE					
Billed/Sales (Kshs.)	849,760,568	784,271,796	787,320,840	790,421,418	1,203,730,688
Revenue Collected from WSPs	490,369,595	521,289,333	564,182,220	605,946,684	846,456,9
Collection Efficiency	58%	66%	72%	77%	70%
OPERATIONAL COSTS					
Electricity – Operations	448,155,747	497,029,745	511,878,621	601,049,741	740,930,707
Water use Charges	22,287,038	21,122,838	21,122,838	5,560,710	0
Electricity Nguu Tatu	0	0	78,793		
Baricho Emergency Repairs	40,938,713	20,607,897	17,029,950	9,978,846	4,071,553
Conditional Liquidity Support Grant Expenses	0	0	82,431,586	27,938,177	0
Cost of Specialized Materials	28,395,785	15,808,269	6,434,550	34,023,415	22,512,549
Bulky Water Operations	0	0	2,742,635	3,3896	2,446,240
Maintenance/ Operations of Water Assets	64,606,687	62,310,515	65,218,403	69,378,501	89,077,378
Total Operational Costs	604,383,970	616,879,264	706,937,376	751,230,285	859,038,427
% Electricity Costs to Total Operational Costs	74%	81%	72%	80%	86%

Source: OAG Analysis of Audited Financial Statements for FYs 2019/2020 – 2023/2024

- 4.34 Furthermore, review of financial statements for Water Service Providers (WSPs) and interviews held with their respective Managing Directors revealed that there were gaps in the transition of the assets and liabilities, due to absence of transfer agreements, leading to lack of ownership of liabilities. In addition, WSPs faced persistent challenges in collecting sufficient revenue. These included:

- i. High rates of Non-Revenue Water;
- ii. Lack of last Mile Connectivity;
- iii. Delays in renewal of tariffs by the Water Services Regulatory Board and non-inclusion of the loan repayment component in the tariff;
- iv. Underutilized water projects;
- v. Lack of documented information on loan obligations; and
- vi. High operational costs.

4.35 The challenges experienced by WSPs are detailed in [Appendix 8](#).

4.36 Despite D-GIPE's responsibility to coordinate and steer The National Treasury's approvals on policy matters and reforms related to SOEs, the Department did not coordinate with the line ministry to provide timely advisory input on transferring assets and liabilities. In addition, the Department had a Reforms Division under their structure, but did not advise on policy issues and reforms affecting SOEs. As a result, there was no coordinated process for Water Service Providers (WSPs) to remit the revenues collected to SOEs.

Transport Sector

4.37 The audit established that the Kenya Railways Corporation (KRC) was not meeting its loan obligations. Review of loan records revealed that the Corporation received three (3) on-lent loans in 2014 and 2015 for the implementation of the Standard Gauge Railway (SGR) Line Project. The on-lent loans totaling to Kshs.569,329 million, which consists of the principal and capitalized interest accrued during the grace period of the loans.

4.38 An interview conducted with the Managing Director, KRC indicated that the Corporation was not generating sufficient revenue for repayment of its on-lent loans. The Project was being implemented in four Phases; Phase 1, Phase 2(a), Phase 2(b) and Phase 2(c)¹⁶. As at 30 June, 2024, only Phase 1 and Phase 2(a) had been implemented. The objective of the Project was yet to be fully realized to enable the Project generate sufficient revenue as anticipated in the feasibility studies.

4.39 Paragraph 6(b) of the Take or Pay Agreement (TOPA), dated 30 September, 2014, between KRC and the Kenya Ports Authority (KPA) requires that KPA shall, on behalf

¹⁶ Phase 1 (Nairobi-Mombasa), Phase 2(a) (Nairobi-Naivasha), Phase 2(b) (Naivasha-Kisumu) and Phase 2(c) Kisumu-Malaba)

of KRC collect the rates and charges payable for the transportation of goods using the SGR Line. This is in return for an administrative fee to cover administrative costs for collecting and remitting the rates and charges payable to KRC and remit to the Escrow Account on a monthly basis. An interview conducted with the Managing Director, KRC revealed that the Corporation had not been receiving all the revenues collected by KPA from the freight charges, for the transportation of cargo through SGR.

- 4.40 Review of SGR Revenue Collection Reconciliation Reports for a period of eighteen (18) months revealed that the cumulative freight revenue collected by KPA for the months of July 2023 - December 2024 was USD 162 million, approximately Kshs.22,620 million. Out of this amount, KPA transferred revenue amounting to USD 116 million, approximately Kshs.16,212 million, to the SGR Escrow Account. This was after deducting its monthly administration fees of 0.8% ,amounting to USD 940,708,approximately Kshs.130 million. This resulted in retained revenue amounting to USD 45 million, equivalent to Kshs.6,277 million for the eighteen (18) months, as shown in **Table 4** and detailed in [Appendix 10](#).

Table 4: Analysis of Monthly Revenue Collection Reconciliation Statements

Period	Total SGR Revenue As per Monthly Reconciliation Reports (USD)	Transfer to Escrow Account (USD)	Administration Fees at 0.8% (USD)	Unremitted/Retained Revenue by KPA (USD)	Unremitted/Retained Revenue by KPA in Kshs.
Jul-Dec 2023	58,356,059.26	41,824,954.80	337,298.03	16,193,806.43	2,410,813,077.31
Jan-Dec 2024	104,396,484.93	74,823,047.25	603,410.69	28,970,026.99	3,866,355,710.81
Total	162,752,544.19	116,648,002.05	940,708.72	45,163,833.42	6,277,168,788.12

OAG analysis of monthly reconciliation reports by KPA

Additionally, review of the Monthly Revenue Reconciliation Reports revealed that the retained revenue by KPA caters for expected refunds arising from tariff disputes and discounts. However, there was no clause in the Take or Pay Agreement providing for KPA to unilaterally deduct and retain monthly revenue collections for payment of future claims that may be lodged by customers. Further, the audit established that monthly revenue retentions by the Kenya Ports Authority deprived KRC of sufficient funds required for repayment of its on-lent loans.

b) Non-Adherence to Loan Remittance Requirements for Loan Repayment

4.41 Paragraph 108 of the Public Debt and Borrowing Policy, 2020 provides that on-lent loans should be repaid in accordance with the terms and conditions set in the Subsidiary Loan Agreements (SLAs) and the relevant laws. Further, the Policy requires the Cabinet Secretary, TNT to institute recovery mechanisms for any on-lent in the event of default by any entity.

Water Sector

4.42 The audit sampled three (3) Water Service Providers (WSPs) within the jurisdiction of Lake Victoria North Water Works Development Agency (LVNWWDA) namely ELDOWAS,¹⁷ KACWASCO¹⁸ and BUWASSCO¹⁹ in order to establish the status of loan repayment. It was noted that two out of the three WSPs (ELDOWAS and KACWASO) had remitted loan repayments proceeds to the agency amounting to Kshs.145 million and Kshs.10 million respectively, except for BUWASSCO that had not remitted any amount.

4.43 As at the time of audit, it was established that an amount totaling Kshs.156 million had been received by LVNWWDA but only Kshs.64 million had been remitted to The National Treasury for repayment of on-lent loans. The Management of LVNWWDA could not account for the remaining balance of loan repayment proceeds amounting to Kshs.91 million as evidenced in the Bank Confirmation Certificate of Balance for the Bank Account Number 110XXXXXXX dated 17 December, 2024 which revealed an available bank balance of only Kshs.752,506. This is summarized in **Table 5** and detailed in [Appendix 11](#).

¹⁷ Eldoret Water and Sanitation Company Limited

¹⁸ Kakamega County Water and Sanitation Company Limited

¹⁹ Busia Water and Sewerage Services Company Limited

Table 5: Summary of Receipts of Loan Repayment Proceeds

Source of Revenue	Amount (Kshs.)
Eldoret Water and Sanitation Company	145,914,824
Kakamega County Water and Sanitation Company	10,300,000
Busia Water and Sewerage Services Company Ltd	0
Total	156,214,829.24
Less: Transfers to The National Treasury	(64,092,629)
Less: Available bank balance as per bank certificate dated 17/12/2024	(752,506)
Unaccounted for Loan Repayment Proceeds (Receipts) from WSPs	91,369,694

OAG Analysis of Receipts of Loan Repayment Proceeds of the Sampled 3 WSPs within LVNWWDA Jurisdiction

4.44 In addition, the audit established that Coast Water Works Development Agency's approved bulk water tariff had a loan repayment component to enable the Agency make loan repayments to The National Treasury. Review of audited financial statements for the period under review revealed that the Agency had been generating revenues from the sale of bulk water to WSPs within its jurisdiction as shown in **Table 6**. However, the Agency did not remit any amounts to The National Treasury for repayment of on-lent loans.

Table 6: Trend Analysis for Bulk Water Sales

Year	2019/2020	2020/2021	2021/2022	2022/2023	2023/2024
OPERATION REVENUE					
Billed/Sales (Kshs)	849,760,568	784,271,796	787,320,840	790,421,418	1,203,730,688
Revenue Collected from WSPs	490,369,595	521,289,333	564,182,220	605,946,684	846,456,9

Source: OAG Analysis of Audited Financial Statements for FYs 2019/2020 – 2023/2024

Transport Sector

4.45 Paragraph 3.2.1.2 of the Escrow Agreement for the Mombasa-Nairobi Standard Gauge Railway Line dated 6 November, 2014 provides that the minimum amount to be maintained in the Payment Account when a loan is within its repayment period should be a minimum of USD 250 million. Further, Paragraph 3.2.1.6 provides that KRC may make an application to the Escrow Bank to transfer the credit balance from the Escrow Payment Account to The National Treasury. This is for the purpose of discharging KRC's payment obligations under the on-lending agreement.

- 4.46 Review of the SGR Escrow Revenue Bank Statement, Account Number 116XXXXXX, revealed that on 29 December, 2023, there was a balance of USD 261,804,905, approximately Kshs.41,103,370,085, which was an excess of USD 11,804,905, approximately Kshs.1,853,370,085, over and above the required minimum amount, required to repay the on-lent loans to The National Treasury.
- 4.47 The inadequate monitoring by D-GIPE of the revenue collection by the Kenya Railways Corporation in the SGR Escrow Account resulted in the Department not detecting surplus revenue that could have been used to settle debt obligations.
- 4.48 The audit established that D-GIPE did not adequately assess the ability of SOEs to repay on-lent loans. Instead of carrying out regular financial reviews to understand each SOE's actual financial status, D-GIPE relied on the SOEs' responses to demand letters. The responses indicated that SOEs could not afford to repay the on-lent loans. This was attributed to D-GIPE's lack of documented procedures for monitoring the performance of SOEs.
- 4.49 The inadequate monitoring of the repayment of on-lent loans by D-GIPE led to the Department not detecting and mitigating against non-adherence to loan remittance requirements for loan repayment.
- 4.50 Failure to remit the revenue collected for the repayment of on-lent loans resulted in SOEs accumulating penalties on on-lent loans, thereby undermining the principles of fiscal discipline and increasing the country's overall fiscal risks.

iv. Inadequate Debt Recovery Mechanisms

- 4.51 Paragraph 109 of the Debt and Borrowing Policy, 2020 provides that the Cabinet Secretary, The National Treasury, will institute recovery mechanisms for any on-lent or guaranteed debt in the event of default by any entity.
- 4.52 Subsidiary Loan Agreements (SLAs) for loans advanced to the sampled SOEs provided for penalties to be charged in case of default. However, the SLAs did not provide for remedial measures for D-GIPE to recover the principal, interest and penalties due. Further, review of loan records revealed that the only recovery attempt made by D-GIPE was circulating demand letters on an annual basis to SOEs that had defaulted on loan repayments.
- 4.53 The audit established that Subsidiary Loan Agreements had a provision for penalties. However, the penalties were ineffective due to the absence of enforcement mechanisms. Further, there was no evidence of D-GIPE's proactive follow-up or

structured engagement with SOEs on the reasons cited for non-repayment of on-lent loans. This was attributed to lack of recovery mechanisms for handling disputes on the amount of on-lent loans that were in default. The lack of oversight and enforcement mechanisms limited the efficiency of debt recovery efforts, leading to the accumulation of arrears, therefore, burdening The National Government with the obligation of debt servicing.

5.0 CONCLUSION

- 5.1 The Department of Government Investments and Public Enterprises did not conduct Credit Risk Assessments prior to the advancement of on-lent loans to State-Owned Enterprises (SOEs). As a result, loans were on-lent to SOEs that did not meet the eligibility criteria. This has increased the risk of defaults and undermined the sustainability of the on-lending framework.
- 5.2 The Department of Government Investments and Public Enterprises did not adequately monitor on-lending activities, resulting in unreconciled loan records and lack of assurance on the status of the on-lent funded projects. In addition, the Department was unable to provide timely advisory input on emerging issues, such as the transfer of assets and liabilities in the Water Sector. Further, the Department did not ascertain the financial position of State-Owned Enterprises in order to assess their capability to service on-lent loans. These weaknesses contributed to challenges in revenue generation by SOEs, and thereby increased the risk of loan default.

6.0 RECOMMENDATIONS

- 6.1 In view of the findings and conclusion of the audit, the following recommendations are issued for implementation by The National Treasury in order to enhance the management of on-lending activities in the Country.
- 6.2 The National Treasury, through the Department of Government Investments and Public Enterprises (D-GIPE), should develop and enforce policies and procedures for the management of on-lending activities in order to ensure that the Department:
- i. Is included in all loan pre-negotiations and negotiations for on-lent loans to be advanced to State-Owned Enterprises (SOEs). This will enable D-GIPE to oversee financing agreements in order ascertain the modes of financing, and advise on whether to on-lent, on-grant or otherwise.
 - ii. Conducts credit risk assessment on SOEs before granting on-lent loans in order to evaluate their financial health and ability to repay on-lent loans. This will ensure that on-lent loans are advanced to eligible SOEs and therefore, reduce risk of default.
 - iii. Conducts regular assessment of SOEs throughout the entire duration of on-lent loans. This will enable the Department to evaluate the capabilities of State-Owned Enterprises in revenue generation towards repayment of on-lent loans.
 - iv. Plans for regular monitoring of SOEs with on-lent loans in order to ensure the successful implementation of the funded projects and timely repayment of on-lent loans. The Department should also liaise with line ministries and SOEs to implement regular and periodic project monitoring and evaluation mechanisms in order to identify emerging risks during implementation of projects. This will ensure that timely intervention measures are taken in order to enhance the successful completion of projects.
- 6.3 For efficient management of on-lent loans, D-GIPE should develop a clear framework for coordination with the Resource Mobilization Department and The National Treasury's Cash Office. In addition, the Department should strengthen its loan recording systems, implement regular reconciliations, and ensure full operationalization of the Government Investment Management Information System

(GIMIS). This will ensure that the Department maintains accurate and complete documentation of loan transactions.

- 6.4 The Department of Government Investments and Public Enterprises should advise on policy issues and reforms affecting SOEs. This will enhance efficiency in the operations of SOEs and promote fiscal discipline.
- 6.5 To ensure explicit responsibilities in the transfer agreements of assets and liabilities, D-GIPE should coordinate with the key water sector stakeholders on legal reforms.
- 6.6 To strengthen financial discipline among State-Owned Enterprises, in relation to loan repayment, D-GIPE should advise the Government on the need for debt recovery mechanisms, as envisioned in Paragraph 109 of the Debt and Borrowing Policy, 2020.

7.0 APPENDICES

Appendix 1: Summary of Outstanding On-Lent Loans as at 30 June, 2024

	Project Name	Creditor	Implementing Agency	Currency	Loan Amount	Total Disbursement (As at 30 June, 2024) in Loan currency	Total Disbursement (As at 30 June, 2024) in Kshs.
AGRICULTURE							
1	Enable Youth Kenya Program	African Development Bank/Fund (ADB/ADF)	Agricultural Finance Corporation	USD	5,000,000	1,151,688	138,530,453
2	Enable Youth Kenya Program	IDA/World Bank	Agricultural Finance Corporation	USD	6,000,000	1,510,109	181,642,992
	Total						320,173,445
WATER							
1	Nairobi Water Distribution Network	Government of Germany (KfW Germany)	Athi Water Works Development Agency	EURO	25,000,000	25,000,000	2,881,503,852
2	Water & Sanitation Services in Peri-Urban areas	Government of Germany (KfW Germany)	Athi Water Works Development Agency	EURO	28,000,000	23,983,712	2,823,674,268
3	Additional Financing for Water & Sanitation Services Improvement Project	International Development Association (IDA)(World Bank)	Athi Water Works Development Agency	USD	146,421,482	146,421,482	14,523,822,592
4	Water & Sanitation Services Improvement Project	International Development Association	Athi Water Works Development Agency	USD	69,961,876	69,961,879	5,744,366,614
5	Nairobi Rivers Basin Rehabilitation and Restoration Program Sewerage Improvement Project	ADB	Athi Water Works Development Agency	USD	54,608,050	54,608,050	4,338,713,893
6	Kenya Towns Sustainable Water Supply & Sanitation Programme	Africa Development Bank (ADB)	Athi Water Works Development Agency	USD	59,888,368	44,982,513	5,068,954,006
7	Northern Collector Phase 1	Government of France (AFD)	Athi Water Works Development Agency	EURO	100,000,000	83,403,904	10,027,985,446
8	Nairobi Rivers Basin Rehabilitation & Restoration Program-Sewerage Improvement Project Phase II	African Development Bank	Athi Water Works Development Agency	EURO	59,407,000	38,212,972	4,861,989,119

	Project Name	Creditor	Implementing Agency	Currency	Loan Amount	Total Disbursement (As at 30 June, 2024) in Loan currency	Total Disbursement (As at 30 June, 2024) in Kshs.
9	Nairobi Water Distribution Network	Government of France	Athi Water Works Development Agency	EURO	13,000,000	13,000,000	1,425,204,840
10	Complementary Support to the Nairobi & Kisumu Water and Sanitation Projects	Government of France	Athi Water Works Development Agency	EURO	18,000,000	17,831,638	1,984,759,066
11	Nairobi Rivers Basin Rehabilitation & Restoration Program: Sewerage Improvement Project Phase 11	African Development Bank/Fund (ADB/ADF)	Athi Water Works Development Agency	EURO	3,589,340	889,032	115,225,678
12	The Nairobi Water and Sanitation Project	AFD- France	Athi Water Works Development Agency	EURO	100,000,000	13,081,189	1,812,054,109
13	Kenya Towns Sustainable Water Supply	African Development Bank/Fund (ADB)	Central Rift Valley Water Works Development Agency	USD	1,076,514	1,215,217	135,820,782
14	Kenya Towns Sustainable Water Supply and Sanitation Programme	African Development Bank (ADB)	Central Rift Valley Water Works Development Agency	USD	381,181,000	3,379,445	3,050,185,724
15	Improvement of Water Supply & Sanitation Services within the jurisdiction of the Board	African Development Fund	Central Rift Valley Water Works Development Agency		13,040,000 UA (Kshs. 1,362,012,306)		1,362,012,306
16	Improving Sanitation Services in Nakuru Town and Surrounding uareas and Biodiversity Conservation of the Lake nakuru Ecosystem	KfW	Central Rift Valley Water Works Development Agency	EURO	3,710,268,700	692,030	86,503,804
17	Kenya Towns Sustainable Water Supply	African Development Bank (ADB)	Coast Water Works Development Authority	USD	11,135,912	3,715,215	390,626,306
18	Mombasa WASSIP	AFD	Coast Water Works Development Authority	EURO	28,500,000	41,671,356	4,598,282,871
19	Water and Sanitation Development Project	IDA	Coast Water Works Development Authority	EURO	37,800,000	24,324,105	2,936,191,081
20	Water and Sanitation Services Improvement	IDA	Coast Water Works Development Authority	USD	45,203,760	44,620,916	3,720,762,019

	Project Name	Creditor	Implementing Agency	Currency	Loan Amount	Total Disbursement (As at 30 June, 2024) in Loan currency	Total Disbursement (As at 30 June, 2024) in Kshs.
21	Additional financing for Water and Sanitation Improvement Project	IDA	Coast Water Works Development Authority	USD	14,782,190	83,475,398	8,173,439,313
22	Mwache Dam	AFD	Coast Water Works Development Authority	EURO	120,000,000	5,515,688	791,353,509
23	Eldoret II Water Supply Project	KFW	Eldoret Water & Sanitation Company Limited	Kshs.	1,058,673,824.12 (Restructured to 372,496,364.39, after write off of 686,177,459.61)	1,058,673,824	1,058,673,824
24	Water and Sanitation Project(To Improve Water Supply & Sanitation Services in Kilifi)	International Development Association /World Bank	Kilifi Mariakani Water & Sewerage Company Limited	USD	10,480,000		924,381,780
25	Water and Sanitation Project(To Improve Water Supply & Sanitation Services in Kwale County)	IDA/World Bank	Kwale Water & Sewerage Company Limited	USD	20,200,000		1,372,770,642
26	Kenya Towns Sustainable Water Supply and Sanitation	African Development Bank (ADB)	Lake Victoria North Water Works Development Agency	USD	45,727,982	22,482,617	2,591,494,337
27	Kenya Towns Sustainable Water Supply and Sanitation	African Development Fund	Lake Victoria North Water Works Development Agency	USD	2,348,759	908,873	101,504,353
28	Additional Financing Water and Sanitation Services Improvement Project	International Development Association (World Bank)	Lake Victoria North Water Works Development Agency	USD	15,248,996	15,248,996	1,451,174,487
29	Water and Sanitation Services Improvement Project	International Development Association (World Bank)	Lake Victoria North Water Works Development Agency	USD		39,207,288	3,290,135,920
30	Water Supply and Sanitation Programme Nzoia Cluster, Phase I Stage 1	KfW Frankfurt am Main	Lake Victoria North Water Works Development Agency	EURO	9,500,000	8,850,345	707,991,492
31	Water Supply and Sanitation Programme Nzoia Cluster, Phase I Stage 2	KfW Frankfurt am Main	Lake Victoria North Water Works Development Agency	EURO	9,500,000	8,850,345	871,304,817

	Project Name	Creditor	Implementing Agency	Currency	Loan Amount	Total Disbursement (As at 30 June, 2024) in Loan currency	Total Disbursement (As at 30 June, 2024) in Kshs.
32	Water Supply and Sanitation Programme Nzoia Cluster, Phase II, Stage 1	KfW Frankfurt am Main	Lake Victoria North Water Works Development Agency	EURO	9,500,000	4,984,346	772,199,602
33	Water Supply and Sanitation Programme Nzoia Cluster, Phase II, Stage 2	KfW Frankfurt am Main	Lake Victoria North Water Works Development Agency	EURO	27,960,000	19,013,843	2,310,367,641
34	Vihiga Cluster Water Supply Project	Commerzbank AG, Brussels Branch	Lake Victoria North Water Works Development Agency	EURO	15,500,000	15,039,405	1,721,054,595
35	Water Sector Development Program - LVS	KFW	LVSWSB	EURO	33,000,000	30,475,453	3,498,202,337
36	The Kisumu Water and Sanitation Project	AFD	LVSWSB	EURO	4,800,000	4,343,895	495,242,720
37	Kenya Small Town and Rural Water Supply and Sanitation Project	AFD	LVSWSB	USD	19,904,317	25,680,760	2,191,942,698
38	Kenya Towns Sustainable Water Supply and Sanitation Program - Implementation of Bomet, Mulot, Kilgoris, Lolgorian, Nandi Hills, Oyugis, Kendubay, Ugunja, Ukwala, Sega Water Supply and Sanitation Projects	ADB	LVSWSB	USD	72,312,204	32,371,938	3,634,395,019
39	Lake Victoria Water and Sanitation Project in Kisumu City - To complement and extend the drinking water distribution and sanitation network in Kisumu	AFD	LVSWSB	EURO	10,000,000	3,947,933	475,763,037
40	Extension of the Water and Sanitation Services Network	AFD	LVSWSB	EURO	14,000,000	14,045,072	1,602,296,386

	Project Name	Creditor	Implementing Agency	Currency	Loan Amount	Total Disbursement (As at 30 June, 2024) in Loan currency	Total Disbursement (As at 30 June, 2024) in Kshs.
41	Migori Waver Service Board Support Project	AFDB	LVSWSB	EURO	17,141,440	17,141,440	1,815,199,645
42	Water and Sanitation project (water & sanitation infrastructure in Kilifi County)	IDA/World Bank	Malindi Water, Sewerage and Sanitation Co. Ltd	USD	10,470,000		1,127,324,454
43	Water and Sanitation Project(To Improve Water Supply & Sanitation Services in Mombasa County)	IDA/World Bank	Mombasa Water & Sanitation Company limited		17,710,000		1,163,071,155
44	Sabaki Wellfield Rehabilitation project	KFW	National Water Harvesting & Storage Authority	DM	5,000,000	5,000,000	978,445,030
45	Second Mombasa & Coastal water supply, engineering & rehabilitation project	IDA/World Bank	National Water Harvesting & Storage Authority	USD	17,400,000	17,400,000	567,240,000
46	Improvement of the operational conditions of Drinking Water transmission & distribution system	AFD	National Water Harvesting & Storage Authority	EURO	9,146,941	9,146,941	915,189,867
47	Kenyan towns sustainable water supply and sanitation programme	African Development Bank	Northern Water Services Board	USD	51,956,361	34,310,650	3,711,213,996
48	Water and Sewerage Services in Nyeri	KFW	Nyeri Water and Sewerage Company	EURO	39,000,000	39,000,000	1,159,592,738
49	Kenya Towns Sustainable Water Supply and Sanitation	African Development Bank	Tana Water Works Development Agency	USD	55,675,511	42,218,083	5,012,755,747
50	Kenya Small Town and Rural Water Supply and Sanitation Project	African Development Fund	Tana Water Works Development Agency	USD	12,540,300	21,912,907	1,876,688,293
51	Water Services Boards Support Project	African Development Fund	Tana Water Works Development Agency	UA	8,020,000	11,619,053	1,472,627,472
52	Kenya Towns Sustainable Water Supply and Sanitation	African Development Fund	Tanathi Water Works Development Agency	USD	51,003,844	13,095,182	1,550,588,347

	Project Name	Creditor	Implementing Agency	Currency	Loan Amount	Total Disbursement (As at 30 June, 2024) in Loan currency	Total Disbursement (As at 30 June, 2024) in Kshs.
53	Kenya Small Town and Rural Water Supply and Sanitation Project	African Development Fund	Tanathi Water Works Development Agency	USD	53,913,490	50,992,733	5,375,086,602
54	Natural Resource Management(NRM)Project	IDA/World Bank	Water Resources Authority	USD	6,185,000	6,185,000	362,607,995
55	Natural Resource Management(NRM)Project	IDA/World Bank	National Irrigation Authority	Kshs.	1,667,932,000		1,128,486,780
56	Water and sanitation development Project	IDA/World Bank	TAVEVO	EUROs	14,900,000		963,550,417
57	Construction of Mombasa Water Supply		Mombasa Pipeline Board	Kshs.	20,000,000		20,000,000
58	Construction of Mombasa Water Supply		Mombasa Pipeline Board	Kshs.	43,400,000		43,400,000
	Total						139,167,395,424
FINANCE							
1	Development of SMEs	EXIM INDIA	IDB Capital	USD	15,000,000	5,005,367	531,394,000
2	Affordable Housing Fainance Project	IBRD	Kenya Mortgage Refinance Company	EURO	219,000,000	91,235,852	11,657,418,653
3	Affordable Housing Fainance Project	African Development Fund	Kenya Mortgage Refinance Company	EURO	90,000,000	70,899,995	9,272,022,442
4	Smallholder Irrigation Program Mt. Kenya Region	KFW	Equity Bank	EURO	2,256,126	2,256,126	255,643,327
5	To Finance Profit	IFAD	Faulu Kenya Deposit Taking Micro-Finance Ltd	Kshs.	200,200,000	200,200,000	200,200,000
6	To Finance Profit	IFAD	SMEP Deposit Taking Micro-Finance Ltd	Kshs.	100,400,000	100,400,000	100,400,000
	Total						22,017,078,422
HEALTH							
1	Kenyatta University Teaching Research and Referral Hospital Project	People's Republic of China	Kenyatta University	CHINESE YUAN	744,560,000	744,560,000	10,774,498,010
TRANSPORT							
1	Mombasa-Nairobi SGR Project	China Exim Bank	Kenya Railways Corporation	USD	2,003,584,029	2,003,584,029	197,374,645,722
2	Mombasa-Nairobi SGR Project	China Exim Bank	Kenya Railways Corporation	USD	1,600,000,000	1,600,000,000	153,749,674,286

	Project Name	Creditor	Implementing Agency	Currency	Loan Amount	Total Disbursement (As at 30 June, 2024) in Loan currency	Total Disbursement (As at 30 June, 2024) in Kshs.
3	Nairobi-Naivasha SGR Project	China Exim Bank	Kenya Railways Corporation	USD	1,397,927,373	1,397,927,373	142,985,870,390
4	Northern Corridor Transport Improvement Project	IDA/World Bank	Kenya Airports Authority	USD	34,820,000	34,000,875	2,820,846,868
5	Kenya Transport Sector Support Project	IDA/World Bank	Kenya Airports Authority	USD	15,040,000	1,551,890	127,684,383
6	Norther Corridor Transport Improvement Project	IDA/World Bank	Kenya Civil Aviation Authority	USD	10,030,000	10,069,723	780,530,969
7	Kenya Transport Sector Support Project	IDA/World Bank	Kenya Civil Aviation Authority	USD	21,040,000		1,945,145,050
	Total						499,784,397,668
ENERGY							
1	Construction of Olkaria I & IV Power Plant	World Bank	Kenya Electricity Generating Co.	USD	120,000,000	120,000,000	10,422,873,837
2	Construction of Olkaria 1 Unit 4& 5 and OLkaria IV	Agence Française de Développement (AFD)	Kenya Electricity Generating Co.	EURO	150,000,000	86,973,335	10,004,971,435
3	Construction of Olkaria 1 Unit 4 &5 and Olkaria IV	European Investment Bank (EIB)	Kenya Electricity Generating Co.	EURO	119,000,000	77,171,051	8,954,469,385
4	Drilling of 80 Wells and Materials	Export-Import Bank of China	Kenya Electricity Generating Co.	USD	382,500,000	382,500,000	35,612,872,300
5	Implementation of 13.6MW Ngong II Wind Power project	Government of Kingdom of Spain	Kenya Electricity Generating Co.	EURO	19,993,616	19,993,616	2,361,047,244
6	Wind Power Generation Turbine Projects	Government of Kingdom of Belgium	Kenya Electricity Generating Co.	EURO	6,078,000	6,078,000	713,744,447
7	Construction Of Olkaria Iv and I Project	IDA	Kenya Electricity Generating Co.	USD	54,859,155	53,020,016	5,462,427,219
8	Construction Of Olkaria V Power Plant	Japan International Cooperation Agency (JICA)	Kenya Electricity Generating Co.	JPY	45,690,000,000	29,918,660,106	27,592,723,403
9	Olkaria I Unit 6	EIB	Kenya Electricity Generating Co.	EURO	113,828,949	70,697,853	29,390,280,896

	Project Name	Creditor	Implementing Agency	Currency	Loan Amount	Total Disbursement (As at 30 June, 2024) in Loan currency	Total Disbursement (As at 30 June, 2024) in Kshs.
10	Rehabilitation of olkaria 1 Units 1, 2 and 3 Geothermal Powerplant	Japan International Cooperation Agency (JICA)	Kenya Electricity Generating Co.	JPY	10,077,000,000	167,698,028	146,009,766
11	The Kamburu -Meru 132 KV Transmission Line and the Chemosit -Kisii 132 KV Transmission Line	Export and Import Bank of China	Kenya Electricity Transmission Co. LTD	UA	145,669,690	145,669,690	2,823,136,860
12	Revolving Fund to Reduce Cost of Electricity Connection to Low Income Households	AFD 1053	Kenya Power & Lighting Co.	EURO	32,827,000	29,428,330	3,345,870,325
13	Upgrade of Juja road electricity substation project	NORDEA BANK	Kenya Power & Lighting Co.	EURO	20,651,050	20,258,959	2,302,534,753
14	Kenya Electricity Expansion Project	EIB 23324 KE	Kenya Power & Lighting Co.	EURO	43,000,000	43,097,597	4,578,806,784
15	Energy Sector Recovery Project	ESRP NDF	Kenya Power & Lighting Co.	EURO	10,000,000	10,000,000	1,136,804,337
16	Energy Sector Recovery Project	ESRP AFD	Kenya Power & Lighting Co.	EURO	25,000,000	25,000,000	2,545,477,829
17	Nairobi City centre E.H.V and 66KV Network upgrade a reinforcement Project	China Exim Bank	Kenya Power & Lighting Co.	USD	132,118,046	132,053,234	13,066,380,496
18	Kenya Electricity Expansion Project	IDA 4743	Kenya Power & Lighting Co.	USD	100,000,000	122,107,651	11,468,613,826
19	Energy Sector Recovery Project	IDA 3958 & 4572	Kenya Power & Lighting Co.	USD	116,000,000	115,976,584	9,669,197,507
20	Kenya Electricity Modernisation Project	IDA 5587 KEMP	Kenya Power & Lighting Co.	USD	90,000,000	68,266,159	7,660,139,769
21	The Kamburu -Meru 132 KV Transmission Line and the Chemosit -Kisii 132 KV Transmission Line	China Exim Bank	Rural Electrification & Renewable Energy Corporation	Kshs.	13,578,401,400		13,588,909,363
	Total						202,847,291,782
	Grand Total						874,910,834,751

Source: OAG Analysis of D-GIPE Loan Ledgers as at 30 June, 2024

Appendix 2: Summary of Defaulted Amounts as at 30 June, 2024

Project Name	Implementing Agency	Principal due as at 30 June, 2024	Principal Paid	Outstanding Principal in Arrears	Interest due	Penalty due	Total outstanding amount as at 30/06/2024
Nairobi Water Distribution Network	Athi Water Works Development Agency	576,3,776	-	576,3,776	405,125,117	28,736,613	1,010,162,506
Additional Financing for Water & Sanitation Services Improvement Project	Athi Water Works Development Agency	726,191,130	-	726,191,130	807,180,337	9,816,417	1,543,187,885
Water & Sanitation Services Improvement Project	Athi Water Works Development Agency	4,271,889,128	190,913,413	4,080,975,714	774,478,839	882,655,8	5,738,110,354
Nairobi Rivers Basin Rehabilitation and Restoration Program Sewerage Improvement Project	Athi Water Works Development Agency	216,935,695	-	216,935,695	571,202,572	32,404,506	820,542,773
Nairobi Water Distribution Network	Athi Water Works Development Agency	1,093,173,426	288,304,471	804,868,955	41,763,901	527,241,380	1,373,874,236
Complementary Support to the Nairobi & Kisumu Water and Sanitation Projects	Athi Water Works Development Agency	720,411,709	-	720,411,709	496,234,880	142,211,175	1,358,857,763
Improvement Of Water Supply & Sanitation Services Within the Jurisdiction of the Board	Central Rift Valley Water Works Development Agency	602,463,417	280,420,162	322,043,255	395,327,345	-	717,370,599
Kenya Towns Sustainable Water Supply	Coast Water Works Development Authority	390,645,857	-	390,645,857			390,645,857
Mombasa WASSIP	Coast Water Works Development Authority	1,839,313,149	-	1,839,313,149	943,299,351	560,962,948	3,343,575,447
Water and Sanitation Services Improvement	Coast Water Works Development Authority	2,719,018,399	-	2,719,018,399	420,874,683	544,399,834	3,684,292,916
Additional financing for Water and Sanitation Improvement Project	Coast Water Works Development Authority	460,1,095	-	460,1,095	305,325,727	8,635,802	773,962,624
Eldoret II Water Supply Project	Eldoret Water & Sanitation Company Limited	256,666,667	-	256,666,667			256,666,667
Water and Sanitation Services Improvement Project	Lake Victoria North Water Works Development Agency	79,407,984	-	79,407,984	35,138,033	5,348,955	119,894,973
Water and Sanitation Services Improvement Project	Lake Victoria North Water Works Development Agency	6,587,505	-	6,587,505	731,651,501	112,233,425	1,444,472,431

Project Name	Implementing Agency	Principal due as at 30 June, 2024	Principal Paid	Outstanding Principal in Arrears	Interest due	Penalty due	Total outstanding amount as at 30/06/2024
Water Supply and Sanitation Programme Nzoia Cluster, Phase I Stage 2	Lake Victoria North Water Works Development Agency	188,782,710	-	188,782,710	243,064,252	52,497,930	484,344,893
Water Supply and Sanitation Programme Nzoia Cluster, Phase II, Stage 1	Lake Victoria North Water Works Development Agency	115,795,243	-	115,795,243	138,193,022	32,389,265	286,377,530
Vihiga Cluster Water Supply Project	Lake Victoria North Water Works Development Agency	752,961,385	-	752,961,385	165,167,515	-	918,128,9
The Kisumu Water and Sanitation Project	LVSWSB	181,588,997	-	181,588,997	92,431,275	44,728,348	318,748,620
Kenya Small Town and Rural Water Supply and Sanitation Project	LVSWSB	547,985,674	-	547,985,674	510,487,036	148,449,319	1,206,922,030
Extension of the Water and Sanitation Services Network	LVSWSB	857,774,977	-	857,774,977	306,119,859	187,081,969	1,350,976,805
Sabaki Wellfield Rehabilitation Project	National Water Harvesting & Storage Authority	587,067,018	-	587,067,018	1,043,022,402		1,630,089,420
Second Mombasa & Coastal Water Supply, Engineering & Rehabilitation Project	National Water Harvesting & Storage Authority	567,240,0	-	567,240,0	1,224,380,450		1,791,620,450
Improvement of the Operational Conditions of Drinking Water Transmission & Distribution system	National Water Harvesting & Storage Authority	915,189,867	-	915,189,867	699,522,833		1,614,712,7
Water and Sewerage Services in Nyeri	Nyeri Water and Sewerage Company	705,839,059	705,839,059	-	-	-	-
Kenya Small Town and Rural Water Supply and Sanitation Project	Tana Water Works Development Agency	541,352,392	-	541,352,392	618,678,576	173,849,907	1,333,880,876
Water Services Boards Support Project	Tana Water Works Development Agency	594,714,941	-	594,714,941	472,106,870	254,864,026	1,321,685,836
Kenya Small Town and Rural Water Supply and Sanitation Project	Tanathi Water Services Board	1,137,037,550	-	1,137,037,550	843,2,644	252,267,286	2,232,505,480
Kenyatta University Teaching Research and Referral Hospital Project	Kenyatta University	3,729,633,927	-	3,729,633,927	2,051,298,660	357,730,561	6,138,663,147
To Finance 'Profit	Rafiki Deposit Taking Micro-Finance Ltd	18,094,795	18,094,795	(0)	-	-	(0)

Project Name	Implementing Agency	Principal due as at 30 June, 2024	Principal Paid	Outstanding Principal in Arrears	Interest due	Penalty due	Total outstanding amount as at 30/06/2024
To Finance 'Profit	Smep Deposit Taking Micro-Finance Ltd	118,555,667	118,555,667	-	-	-	-
Mombasa-Nairobi SGR Project	Kenya Railways Corporation	79,436,784,709	-	79,436,784,709	27,8,506,801	10,803,402,720	117,248,694,231
Mombasa-Nairobi SGR Project	Kenya Railways Corporation	20,379,461,161	-	20,379,461,161	6,368,581,613	939,153,502	27,687,196,276
Nairobi-Naivasha SGR Project	Kenya Railways Corporation	24,861,804,379	-	24,861,804,379	9,447,485,664	1,723,751,770	36,033,041,813
Natural Resource Management (NRM)Project	Water Resources Authority	78,565,066	-	78,565,066	156,5,158	9,734,212	244,799,435
Water and sanitation development Project	TAVEVO	749,210,518	-	749,210,518	39,216,791	-	788,427,309
The Kamburu -Meru 132 KV Transmission Line and the Chemosit -Kisii 132 KV Transmission Line	Kenya Electricity Transmission Co. LTD	2,171,598,917	-	2,171,598,917	21,299,482	179,839,370,567	182,032,268,966
Total		153,790,044,888	1,602,127,567	152,187,917,320	57,376,866,187	197,673,918,238	407,238,701,746

Source: OAG Analysis of D-GIPE's Loan Ledgers as at 30 June, 2024

Appendix 3: List of Documents Reviewed

No.	Document	Information obtained
1.	The Constitution of Kenya, 2010	Mandate of The National Treasury
2.	Public Finance Management (PFM) Act, 2012	Legal and Institutional Framework and responsibilities of The National Treasury
3.	PFM (National Government) Regulations, 2015	Legal and Institutional Framework and responsibilities of The National Treasury
4.	Debt and Borrowing Policy, 2020	Operations, emerging issues, development and concerns in management of on-lent loans
5.	Audit of Public Debt Management- A Handbook for Supreme Audit Institutions, 2020	Auditing on-lending activities
6.	MEFMI Guidelines on Managing Guarantees and On-lending	Managing on-lending activities
7.	Debt Management Performance Assessment Methodology (DeMPA) Tool	Assessment of on-lending entity (The National Treasury)
8.	Annual Public Debt Reports	Reporting on total on on-lent loans
9.	Primary and Subsidiary Loan Agreements	Financing details
10.	Loan Disbursement Schedules	Total on-lent loan amounts disbursed
11.	Projects' Status Reports	Scope of works and projects completion status
12.	Loan Repayment Schedules	Total on-lent loans repaid
13.	Approved Annual Budgets	Budget allocation for loan repayment
14.	Audited Financial Statements	Financial position of SOEs

Appendix 4: List of Persons Interviewed

Position of the Interviewee	Purpose of the Interview
Director, D-GIPE	To understand the role and activities of GIPE in management of on-lent loans as well as the challenges faced in recovering on-lent loans.
Assistant Accountant General, GIPE	To understand the role and activities of GIPE in management of on-lent loans, as well as the challenges faced in recovering on-lent loans.
Ag. Director General, Resource Mobilization Department	To understand the involvement of the Department in the on-lending process.
Managing Director, Kenya Railways Corporation and Kenya Ports Authority	To understand the on-lent loans advanced to KRC, current situations, successes and challenges faced in the on-lending process and repayment of the on-lent loans.
Managing Director, Kenya Ports Authority	To understand the Take or Pay Agreement between KRC and KPA, revenue collections on behalf of KRC and challenges faced.
Chief Executive Officer, AWWDA, TWWDA, CRVWWDA, LVNWWDA, LVSWWDA and CWWDA	To understand the on-lent loans advanced to the agencies, current situations, successes and challenges faced in the on-lending process and repayment of the on-lent loans.
Managing Director, NYEWASCO, ELDOWAS, KACWASCO, BUWASCO, MAWASCO, NARWASCO, OLUWASCO, MOWASCO and KIMAWASCO	To understand the operations of projects, their status and challenges faced in generating revenue.
Project Managers for the sampled projects	To understand the implementation of the projects and status of completion.

Appendix 5: List of Sampled Projects

PHASE I	
State-Owned Enterprise	Projects
1. Athi Water Works Development Agency	<ul style="list-style-type: none"> • Kiambu Water & Sewerage Co. Ltd – Water Intake and Treatment Plant, Storage Tank, Pipeline to Kiambu Town • Ruiru Juja Water and Sewerage Company – Treatment Plant
2. Tana Water Works Development Agency	<ul style="list-style-type: none"> • River Chania Water Intake Plant • Kamakwa - Nyeri Water treatment plant • Othaya Water Project • Othaya Sewerage Project • Mukurweini Water Project • Kerugoya Intake and Water Treatment Plant • Kerugoya/ Kutus Sewerage
3. Central Rift Water Works Development Agency	<ul style="list-style-type: none"> • Narok Sewerage Treatment Works • Ol Kalou Water Treatment Plant • Ol Kalou Sewerage Plant • Olbanita Wellfield Water Pump Station
4. Lake Victoria North Water Works Development Authority	<ul style="list-style-type: none"> • Eldoret Water Supply Phase II at Moiben Dam • Moiben Water Treatment Works • Nambacha Intake Works • Maraba Sewerage Treatment Plant • Mumias Water Treatment Plant (New Treatment Plant) • Ekero Water Tank • Shibale Informal Settlement • Mundika Water Treatment Plant
5. Lake Victoria South Water Works Development Authority	<ul style="list-style-type: none"> • Kisumu Water Treatment Works • Kakan Sewerage Treatment • Sigina Water Storage Tank • Nyamninia Water Storage • Yala Water Treatment and Intake Plant
PHASE II	
6. Coast Water Works Development Agency	<ul style="list-style-type: none"> • Kwale County - Mazeras - Rehabilitation & Partitioning of Bulk Water Company Offices • Kilifi County - Augmentation of The Baricho Wellfield & Electromechanical Works • Kilifi County - Construction of Kakuyuni to Gongoni Pipeline • Kilifi County - Construction of Kakuyuni to Kilifi Pipeline • Kwale County - Tiwi - Construction of the Likoni Emergency Works (Tiwi B/Hs) • Kwale County - Marere Pipeline Replacement • Kilifi County - Baricho Wells Works Rehabilitation Project • Mombasa County - Nyali - Improvement of Water Services in Mombasa North Mainland • Kilifi County - Baricho - Drilling and Equipping of the Three Replacement Boreholes

PHASE I	
State-Owned Enterprise	Projects
	<ul style="list-style-type: none"> • Kilifi County - Baricho - Construction of Emergency Protection Works • Kilifi County - Construction of 30km Second Baricho - Kakuyuni Pipeline • Mombasa County - Chagamwe Re-Pooling Secondary Sewer • Kwale County - Pemba Intake and Treatment Works • Kilifi County - Watamu Lot 2A Water Distribution for Malindi Water and Sewerage Company • Kilifi County – Malindi Reticulation Improvement for Malindi Water and Sewerage Company • Kilifi County – Malindi - Extending Services to Informal Settlements Works - Kisumu Ndogo Estate

Appendix 6: Variances in Disbursement Records

Project Name	Financier	Implementing Agency	Disbursements as per RMD (Kshs.)	Disbursements as per D-GIPE (Kshs.)	Variance (Kshs.)
Nairobi Water Distribution Network	Govt of Fed. Republic of Germany - GTZ	Athi Water Works Development Agency	3,021,322,067	2,881,503,855	139,818,212
Mombasa Water and Sanitation Services Improvement Project	Agence Francaise De Development	Coast Water Works Development Agency	4,595,678,698	4,598,282,871	(2,604,173)
Water and Sanitation Service Improvement Project	International Development Association	Athi Water Works Development Agency	12,352,580,528	5,744,366,614	6,608,213,915
Nairobi River Basin Rehabilitation & Restoration Programme: Sewerage Improvement Project Phase II	African Development Bank	Athi Water Works Development Agency	4,519,160,382	4,861,989,119	(342,828,738)
Nairobi Water & Sanitation Project	Agence Francaise De Development	Athi Water Works Development Agency	1,828,038,211	1,812,054,109	15,984,102
Mwache Dam	Agence Francaise De Development	Coast Water Works Development Agency	800,031,481	791,353,509	8,677,972
Sabaki	Govt of Fed. Republic of Germany - GTZ	National Water Harvesting and Storage Authority	243,379,557	978,445,030	(735,065,473)
Nothern Collector Phase 1(Expansion of Nairobi Water Supply)	Agence Francaise De Development	Athi Water Works Development Agency	12,979,852,244	10,027,985,446	2,951,866,798

OAG Comparative Analysis of Disbursement Records of both RMD and D-GIPE

Appendix 7: Details of Incomplete and Stalled Projects

Implementing Agency	Project	On-lent Loan Amount (Kshs.)	Project and Loan Status	Reasons
Incomplete Projects				
National Irrigation Authority	Natural Resource Management Project: The implementation of the Irrigation Sector Reforms and Capacity Development, development of Lower Nzoia Irrigation Project, and the rehabilitation of Mwea, Perkerra, Ahero, Bunyala and West Kano Schemes.	Kshs.1,667,932,000 (out of this, Kshs.19,955,596 was returned to the National Treasury).	Only the Mwea Scheme had been completed. The feasibility studies for Lower Nzoia had been conducted by the close of the disbursement period, in September 2013. The loan fell due on 30 March, 2017 and was unpaid as at the time of audit.	Insufficient credit to cater for all the proposed five (5) schemes. This was because the feasibility studies to assess the cost of the schemes were conducted after the loan had been secured.
National Water Harvesting and Storage Authority (NWHSA) (previously the National Water Conservation and Pipeline Corporation)	Second Mombasa & Coastal Water Supply, Engineering & Rehabilitation Project	Kshs.567,240,000	Only consultancy services were carried out. The loan fell due on 15 November, 1997 and remained unpaid as at the time of audit.	The audit could not confirm why physical works were not carried. This is because the loan documents were destroyed in a fire incidence on 24 September, 2009 at NWHSA offices in Nairobi.
Stalled Projects				
Athi Water Works Development Agency	Changamwe Re-pooling Secondary Sewer Project	Kshs.204,483,295	The Project was a component within the larger Kenya Towns Sustainable Water Supply and Sanitation Programme funded by the African Development Bank (ADB). The Project begun in October 2018 with the Works commencing on 14 December, 2018 with a completion date of January 2022. As at the time of audit in January 2025, only 66 out of 303 manholes had been constructed.	Slow execution of permanent works, lack of mobilization of adequate financial resources, abandonment of site and failure to renew the advance payment guarantee and performance guarantee by the contractor under the contract. The matter was referred to arbitration.

Implementing Agency	Project	On-lent Loan Amount (Kshs.)	Project and Loan Status	Reasons
Lake Victoria North Water Works Development Agency (LVNWWDA)	Maraba Sewerage Project in Kakamega Town (component within the Water Supply and Sanitation Programme, Nzoia Cluster Phase II stage 2)	Kshs.2,400,213,011	The Maraba Sewerage Ponds had been constructed up to approximately 43% and the Wastewater Collection System constructed up to 70%, certified works amounting to Kshs.184,312,403 before the project stalling in June 2010 and the matter referred to the National Environment Tribunal.	The Project stalled as result of a court injunction stopping the works due to land compensation disputes. The government, through LVNWWDA, acquired and compensated Persons Affected by the Project (PAPs) within 100m of the Project Sewerage Site. However, PAPs 300m away sought compensation, leading to the court stopping the entire project implementation process.
Tana Water Works Development Agency (TWWDA)	Mandera Water Supply Project (a component under Kenya Towns Sustainable Water Supply and Sanitation Program)	Kshs.1,420,417,043	The Project stalled in November 2022.	The financier(KFW) withdrew from financing the Project following closure of the Site by the National Environmental Tribunal, due to a Court injunction.

Appendix 8: Challenges Experienced by Water Service Providers

1. High rates of Non-Revenue Water				
	Name of Water Service Provider	Financial Year 2023/2024	Threshold	Variance
i.	SIBO Water and Sanitation Company Limited	58%	25%	33%
ii.	Kakamega County Water and Sanitation Company Limited	37%	25%	12%
iii.	Narok Water and Sewerage Services Company Limited	33%	25%	8%
iv.	Kisumu Water and Sanitation Company Limited	31%	25%	6. %
v.	Mombasa Water Supply and Sanitation Company Limited	57%	25%	32%
vi.	Eldoret Water and Sanitation Company Limited	37%	25%	12%
vii.	Busia Water and Sewerage Services Company Limited	70%	25%	45%
viii.	Kilifi-Mariakani Water and Sewerage Company Limited	49%	25%	24. %
ix.	Ol-kalou Water and Sanitation Company Limited	34%	25%	9%
x.	Ruiru - Juja Water and Sewerage Company Limited	45%	25%	20. %
i.	Kiambu Water and Sewerage Company Limited	32%	25%	7%
ii.	Malindi Water and Sewerage Company Limited	33%	25%	8%
iii.	Kakamega County Water and Sanitation Company Limited.	37%	25%	12%
2. Lack of Last Mile Connectivity				
	Project	Water Service Provider	Project Status	
i.	Malaba Water Treatment and Supply Project	Busia Water and Sewerage Services Company Limited	The Project, a component within the Kenya Towns Sustainable Water Supply and Sanitation Programme funded by AFD and implemented by the Lake Victoria North Water Works Development Agency was completed and commissioned in 2023. As at the time of audit, the	

			Treatment Plant was non-operational as it was yet to be officially handed over to Busia County due to the pending last mile connectivity, for which the implementing agency is seeking additional funding.
	Ekeru Water Storage Tank	Kakamega County Water and Sanitation Company Limited	The Ekeru Water Storage Tank, with a capacity of 5,000m ³ was implemented under the Water and Sanitation Services Improvement Project by the Lake Victoria North Water Works Development Agency. Physical verification revealed that the tank was significantly underutilized due to lack of last mile connectivity to the consumers.
	Nyamninia and Sigana WaterTanks and Kajulu Water Treatment Plant	Kisumu Water and Sanitation Company Limited	The tanks were constructed by the Lake Victoria South Water Works Development Agency under the Kenya Towns Sustainable Water Supply and Sanitation Project and funded by ADB. As at the time of audit, the tanks, both of 3,000 m ³ capacity, were not in use due to lack of connectivity to consumers. Similarly, the Kajulu Treatment Plant remained unutilized after completion, due to lack of connectivity to consumers.
3.	Delays in Renewal of Water Tariff and Non-Inclusion of loan Repayment Component in the Tariff		
	Water Service Provider	Details	
	Ol-kalou Water and Sanitation Company Limited	<p>Review of the audited financial statements for Ol-Kalou Water and Sanitation Company Limited for the Financial Year 2023/2024 and an interview held with the Managing Director revealed that the company had been operating with a tariff that was approved in 25 January, 2013 for the period 2012/2013 to 2014/2015. In addition, the Company did not have a sewer tariff, and was therefore offering sewerage services for free. This was caused by delays in approval of the company's tariff by the Water Services Regulatory Board.</p> <p>The audit further established that the Company's tariff was approved in Gazette No. 16246, dated 6 December, 2024 for the Financial Years 2024/2025 to 2026/2027. However, the Tariff did not entail a loan repayment component.</p>	
4.	Underutilized Water Projects		
	Project	Water Service Provider	Project Status
i.	Malaba Sewerage Project	Busia Water and Sewerage Services Company Limited	<p>The Project, which was a component within the Kenya Towns Sustainable Water Supply and Sanitation Programme and funded by AFD was implemented by the Lake Victoria North Water Works Development Agency.</p> <p>Review of the Completion Report for the Project and an interview held with the Project Engineer revealed that the Project, though completed, had not been operationalized due to challenges with the effluent discharge point. The original design of the project could not be</p>

			implemented because the intake for the Tororo Water Treatment Plant was located a few meters downstream to the Malaba discharge point. As at the time of audit, the implementing agency was seeking funds to construct an exit pipe that would allow effluent discharge over 1 km downstream off the Tororo intake.
ii.	Mumias Water Treatment Plant	Kakamega County Water and Sanitation Company Limited	<p>The Plant, with a capacity 15,000m³/day was a component within the Water and Sanitation Services Improvement Project (WASSIP). It was implemented by the Lake Victoria North Water Works Development Agency and completed in 2019.</p> <p>Physical verification of the project revealed that the treatment plant was being underutilized with a daily production capacity of approximately 3,000 - 4,000m³/per day, against its designed capacity of 15,000m³/per day. This was occasioned by the closure of the Mumias Sugar Company, which was one of the targeted populations of the Project.</p>
5.	Lack of Documented Information on Loan Obligations by WSPs		
	Water Service Provider	Details	
	<ul style="list-style-type: none"> a) Narok Water and Sewerage Services Company Limited b) Ol-kalou Water and Sanitation Company Limited 	Interviews held with the Managing Directors for both WSPs on 10 December, 2024 revealed that the companies had not been provided with any form of communication by the Projects' Implementing Agency, the Central Rift Valley Water Works Development Agency on their loan obligations. As such, the companies could not budget for on-lent loan repayments to the agency.	
6.	High Operational Costs		
	Interviews held with the Managing Directors of WSPs revealed that water assets were successfully completed and were in use. However, WSPs experienced high operational costs, leading to insufficient revenues. Review of the audited financial statements for the years 2021/ 2022 to 2023/2024 for WSPs revealed that operational costs remained higher than the revenues generated for each financial year, as detailed in Appendix 9.		

Appendix 9: Analysis of Revenues Generated and Operational Costs

No	Name of WSP	Financial Year 2021/2022			Financial Year 2022/2023			Financial Year 2023/2024		
		Operating Revenue (Kshs)	Operating Expenditure (Kshs)	Surplus/(Deficit)	Operating Revenue (Kshs.)	Operating Expenditure (Kshs)	Surplus/(Deficit)	Operating Revenue (Kshs.)	Operating Expenditure (Kshs.)	Surplus/(Deficit)
1	SIBO Water and Sanitation Company Limited	138,417,114	169,078,907	(30,661,793)	137,987,449	190,618,284	(52,630,835)	144,288,125	186,006,776	(41,718,651)
2	Kakamega County Water and Sanitation Company Limited	287,034,862	324,459,718	(37,424,856)	318,638,109	382,389,692	(63,751,583)	357,905,633	369,232,545	(11,326,912)
3	Narok Water and Sewerage Services Company Limited	93,063,731	141,953,866	(48,890,135)	102,869,807	138,600,176	(35,730,369)	136,031,650	165,359,674	(29,328,024)
4	Kisumu Water and Sanitation Company Limited	937,597,019	998,938,083	(61,341,064)	1,012,683,919	1,070,204,004	(57,520,085)	1,069,994,580	1,132,216,468	(62,221,888)
5	Mombasa Water Supply and Sanitation Company Limited			-	764,802,423	816,014,942	(51,212,519)	1,039,951,315	1,060,666,804	(20,715,489)
6	Eldoret Water and Sanitation Company Limited	836,513,411	962,233,117	(125,719,706)	775,942,583	1,061,132,945	(285,190,362)	843,162,788	1,094,484,262	(251,321,474)
7	Busia Water and Sewerage Services Company Limited	34,662,971	65,497,126	(30,834,155)	41,489,046	59,513,530	(18,024,484)	37,421,671	60,390,540	(22,968,869)
8	Kilifi Mariakani Water and Sewerage	599,239,060	749,547,992	(150,308,932)	548,894,965	795,962,751	(247,067,786)	597,326,877	920,410,674	(323,083,797)

No	Name of WSP	Financial Year 2021/2022			Financial Year 2022/2023			Financial Year 2023/2024		
		Operating Revenue (Kshs)	Operating Expenditure (Kshs)	Surplus/(Deficit)	Operating Revenue (Kshs.)	Operating Expenditure (Kshs)	Surplus/(Deficit)	Operating Revenue (Kshs.)	Operating Expenditure (Kshs.)	Surplus/(Deficit)
	Company Limited									
9	Othaya Mukurewini Water and Sanitation Company Limited	165,686,654	203,521,964	(37,835,310)	177,315,367	246,540,396	(69,225,029)	177,771,816	240,165,175	(62,393,359)
10	Olkalou Water and Sanitation Company Limited	37,155,380	47,274,664	(10,119,284)	38,845,525	45,211,152	(6,365,627)	43,121,276	54,964,819	(11,843,543)
11	Nyeri Water and Sanitation Company Limited	621,236,198	638,968,137	(17,731,939)	618,999,120	657,197,326	(38,198,206)	641,813,053	690,307,956	(48,494,903)
13	Ruiru - Juja Water and Sewerage Company Limited	849,642,906	745,464,778	104,178,128	979,425,268	940,427,552	38,997,716	1,171,475,385	1,221,873,751	(50,398,366)
14	Kiambu Water and Sewerage Company Limited	220,689,671	223,949,944	(3,260,273)	255,596,469	259,914,211	(4,317,742)	304,677,160	299,085,300	5,591,860
15	Malindi Water and Sewerage Company Limited	456,455,929	661,619,246	(205,163,317)	499,912,102	612,053,159	(112,141,057)	662,556,547	744,432,834	(81,876,287)

Appendix 10: Detailed Analysis of Monthly Revenue Collection Reconciliation Statements

Year & Month	Total SGR Revenue As per Monthly Reconciliation Reports - (USD)	Transfers to Escrow Account KCB -(USD)	Administration Fees Retained by KPA at 0.8%- USD	Unremitted/ Retained Revenue by KPA in USD	Forex Exchange Rate Kshs/USD	Unremitted/Retained Revenue by KPA in Kshs.
Year 2023						
July	12,872,333.56	9,225,858.91	74,402.09	3,572,072.56	142.2647	508,179,831.13
August	7,803,358.56	5,592,823.15	45,103.41	2,165,432.00	145.3059	314,650,045.65
September	9,409,110.50	6,743,697.68	54,384.66	2,611,028.16	148.0000	386,432,167.68
October	10,704,576.26	7,672,183.90	61,872.45	2,970,519.91	150.4588	446,940,861.03
November	8,657,838.26	6,205,245.84	50,042.31	2,402,550.11	153.0500	367,710,294.34
December	8,908,842.12	6,385,145.32	51,493.11	2,472,203.69	156.5000	386,899,877.49
Sub-Total	58,356,059.26	41,824,954.80	337,298.03	16,193,806.43		2,410,813,077.31
Year 2024						
January	8,983,383.79	6,438,570.83	51,923.96	2,492,889.00	160.6722	400,537,959.99
February	6,286,560.75	4,505,703.82	36,335.32	1,744,521.61	143.6241	250,555,346.17
March	6,774,124.01	4,855,150.16	39,154.44	1,879,819.41	131.8005	247,761,138.15
April	8,932,006.41	6,401,747.63	51,627	2,478,631.78	133.3400	330,500,761.55
May	9,143,044.28	6,553,002.70	52,846.80	2,537,194.78	130.2333	330,427,248.94
June	8,729,809.88	6,256,827.90	50,458.29	2,422,523.69	129.5270	313,782,225.99
July	7,962,657.24	5,706,995.70	46,024.16	2,209,637.38	129.9225	287,081,612.50
August	9,384,995.78	6,726,414.18	54,245.28	2,604,336.32	129.1747	336,414,362.84
September	9,387,488.03	6,728,200.42	54,259.68	2,605,027.93	129.1971	336,562,053.98
October	8,829,508.73	6,328,285.50	51,034.56	2,450,188.67	129.1999	316,564,131.15
November	9,949,920.57	7,131,307.07	57,510.54	2,761,102.96	129.0000	356,182,281.84
December	10,032,985.46	7,190,841.34	57,990.66	2,784,153.46	129.2984	359,986,587.73
Sub-Total	104,396,484.93	74,823,047.25	603,410.69	28,970,026.99		3,866,355,710.81
Total (USD)	162,752,544.19	116,648,002.05	940,708.72	45,163,833.42		6,277,168,788.12

OAG Analysis of Monthly Reconciliation Statements of SGR Revenue Collection Account Operated by KPA

Appendix 11: Analysis of Receipts of Loan Repayment Proceeds

Date	Source of Revenue	Receipt Number	Amount (Kshs.)
1	ELDOWAS		
28/09/2019	Eldoret Water and Sanitation Company	PY00000552	4,468,938.00
28/09/2019	Eldoret Water and Sanitation Company	PY00000553	6,349,767.00
22/11/2019	Eldoret Water and Sanitation Company	PY00000576	4,446,367.00
22/11/2019	Eldoret Water and Sanitation Company	PY00000577	6,317,697.00
08/06/2020	Eldoret Water and Sanitation Company	PY00000645	4,423,797.00
08/06/2020	Eldoret Water and Sanitation Company	PY00000646	6,285,628.00
10/11/2020	Eldoret Water and Sanitation Company	PY00000710	4,401,227.00
10/11/2020	Eldoret Water and Sanitation Company	PY00000711	6,253,558.00
09/06/2021	Eldoret Water and Sanitation Company	PY00000784	6,221,489.00
09/06/2021	Eldoret Water and Sanitation Company	PY00000783	4,378,656.00
17/03/2022	Eldoret Water and Sanitation Company	PY00000826	6,189,419.00
17/03/2022	Eldoret Water and Sanitation Company	PY00000827	4,356,086.00
27/04/2022	Eldoret Water and Sanitation Company	PY00000919	6,157,350.65
10/02/2023	Eldoret Water and Sanitation Company	PY00000920	4,333,515.35
08/11/2023	Eldoret Water and Sanitation Company	PY00001027	4,300,344.95
08/11/2023	Eldoret Water and Sanitation Company	PY00001028	6,125,280.10
05/11/2023	Eldoret Water and Sanitation Company	PY00001082	6,093,211.00
05/11/2023	Eldoret Water and Sanitation Company	PY00001083	4,288,375.00
29/06/2023	Eldoret Water and Sanitation Company	PY00001099	13,137,582.00
21/11/2023	Eldoret Water and Sanitation Company	PY00001142	4,265,804.15
21/12/2023	Eldoret Water and Sanitation Company	PY00001145	6,061,141.05
05/02/2024	Eldoret Water and Sanitation Company	PY00001152	6,568,791.00
24/04/2024	Eldoret Water and Sanitation Company	PY00001164	4,243,233.76
24/04/2024	Eldoret Water and Sanitation Company	PY00001165	6,029,905.88
15/11/2024	Eldoret Water and Sanitation Company	PY00001353	4,220,663.36
04/12/2024	Eldoret Water and Sanitation Company	PY00001359	5,997,001.99
2	KACWASCO		
10/05/2016	Kakamega County Water and Sanitation Company	Bank Transfer	8,500,000.00
29/05/2024	Kakamega County Water and Sanitation Company	Bank Transfer	1,800,000.00
3	BUWASSCO		
	Busia Water and Sewerage Services Company Ltd		0.00
	Total		156,214,829.24
	LESS: Transfers to The National Treasury for Loan Repayment		(64,092,629.00)
17/12/2024	Unremitted Loan Repayment Proceeds (Receipts)		92,122,200.24
17/12/2024	Bank Certificate of Balance Al c No. 110 3686909 (Loan Repayment Deposit Acc)		752,506.06
17/12/2024	Unaccounted for Loan Repayment Proceeds (Receipts)		91,369,694.18

OAG Analysis of Receipts of Loan Repayment Proceeds of the sampled 3 WSPs within LVNWWDA jurisdiction

CONTACTS

3rd Floor, Anniversary Towers, University Way, Nairobi

Phone: +254 020 3214000 ● **Email:** oag@oagkenya.go.ke ● **Website:** www.oagkenya.go.ke



Office of the Auditor-General Kenya



Office of the Auditor-General, Kenya



@OAG_Kenya