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THIRTEENTH PARLIAMENT | THIRD SESSION

Rt. Hon. Speaker
You may approve for tabling
J. M. Nyegenye, C.B.S.,
Clerk of the senate/secretary, PSC
Date: 06/03/24

THE SENATE

STANDING COMMITTEE ON FINANCE AND BUDGET

REPORT ON THE 2024 MEDIUM TERM DEBT MANAGEMENT STRATEGY

PAPERS LAID	
DATE	15/02/2024
TABLED BY	Majority Whip
COMMITTEE	Finance & Budget
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Clerk's Chambers,
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NAIROBI.

DC (EG)

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LIST OF ABBREVIATIONS/ACRONYMS

BPS	-	Budget Policy Statement
DSA	-	Debt sustainability Analysis
FY	-	Financial Year
GDP	-	Gross Domestic Product
IMF	-	International Monetary Fund
MTDS	-	Medium Term Debt Management Strategy
PDMO	-	Public Debt Management Office
PFMA	-	Public Finance Management Act
PPG	-	Public and Publicly Guaranteed Debt
PV	-	Present Value
SDR	-	Special Drawing Rights
US	-	United States
USD	-	United States Dollar

PRELIMINARIES

ESTABLISHMENT AND MANDATE OF THE COMMITTEE

Article 124 (1) of the Constitution of Kenya provides that each house of Parliament may establish committees and shall make Standing Orders for the orderly conduct of its proceedings, including the proceedings of its committees.

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

The Senate Standing Committees on Finance and Budget is established pursuant section 8 (1) of the Public Finance Management Act, Cap.412A and standing order 228 of the Senate Standing Orders. The Fourth Schedule to the Senate Standing Orders outlines the subject matter assigned to each specific Committee. The Standing Committee on Finance and Budget is mandated to-

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

MEMBERSHIP OF THE COMMITTEE

Following the constitution of Standing Committees of the Senate of the Thirteenth (13th) Parliament on Thursday, 13th October, 2022, the Senate Standing Committee on Finance and Budget as currently constituted is comprised of the following Members-

- | | | |
|---|---|-------------------------|
| 1. Sen. (Capt.) Ali Ibrahim Roba, EGH, MP | - | Chairperson |
| 2. Sen. Maureen Tabitha Mutinda, MP | - | Vice-Chairperson |
| 3. Sen. (Dr.) Boni Khalwale, CBS, MP | - | Member |
| 4. Sen. Tabitha Karanja Keroche, MGH, MP | - | Member |
| 5. Sen. Joyce Chepkoech Korir, MP | - | Member |
| 6. Sen. Mohamed Faki Mwinyihaji, EGH, MP | - | Member |
| 7. Sen. Richard Momoima Onyonka, MP | - | Member |
| 8. Sen. Shakila Abdalla Mohamed, MP | - | Member |
| 9. Sen. Eddy Gicheru Oketch, MP | - | Member |

CHAIRPERSON'S FOREWORD

The 2024 Medium Term Debt Management Strategy (MTDS) was submitted to Parliament by the National Treasury on 15th February, 2024 pursuant to section 33 of the Public Finance Management Act, Cap.412A. The Act provides that *'On or before the 15th February in each year, the Cabinet Secretary shall submit to Parliament a statement setting out the debt management strategy of the national government over the medium term with respect to its actual liability and potential liability in respect of loans and guarantees and its plans for dealing with those liabilities'*.

The 2024 MTDS was tabled in the Senate at the sitting held on 15th February, 2024. Thereafter, it was referred to the Standing Committee on Finance and Budget for consideration, facilitation of public participation and consequent tabling of a report in the Senate.

Pursuant to section 33(2) of the PFMA, the MTDS should be aligned to the broad strategic priorities and policy goals set out in the Budget Policy Statement. Section 33(3) of the Act provides that *'the Cabinet Secretary shall include in the statement the following information-*

- a) *the total stock of debt as at the date of the statement;*
- b) *the sources of loans made to the national government and the nature of guarantees given by the national government;*
- c) *the principal risks associated with those loans and guarantees;*
- d) *the assumptions underlying the debt management strategy; and*
- e) *an analysis of the sustainability of the amount of debt, both actual and potential."*

The MTDS covers the period between FY 2024/25 to FY 2026/27 and it outlines the strategies and initiatives to be implemented, aimed at minimizing costs and risks of debt management.

Public and publicly guaranteed debt in nominal terms as at the end of June, 2023 was Kshs.10.278 trillion (70.8% of GDP). This comprised an external debt stock of Kshs.5.446 trillion and domestic debt stock of Kshs.4.832 trillion. The National Treasury indicated

that the stock of public and publicly guaranteed debt as at February 2024 stood at Kshs.11.248 trillion (69.7% of GDP) in nominal terms. Present value of public debt to GDP is 67.2%. This comprises external debt stock of Kshs.6.1899 trillion and domestic debt stock of Kshs.5.05804 trillion.

The National Treasury committed to bringing down the Present Value (PV) of debt as a percentage of GDP from 67.2% to 55% over a period of five (5) years in accordance with the requirements of section 50 of the PFMA Cap.412A.

External public debt comprises; multilateral, bilateral and commercial creditors-

- a) Kshs.3.118 trillion as multilateral debts (accounting for 50% of total external debt);
- b) Kshs.1.399 trillion bilateral debts (23%); and
- c) Kshs.1.671 trillion commercial debts (27%) of which Eurobonds account for Kshs.1.141 trillion (18%).

Domestic debt mainly comprises Treasury bonds and bills as follows-

- a) Kshs.4.272 trillion in Treasury Bonds (accounting for 85% of total domestic debt);
- b) Kshs.565.63 billion Treasury Bills (11%); and
- c) Kshs.220.16 billion (4%) as others (Overdrafts from Central Bank of Kenya, IMF Special Drawing Rights (SDR) Allocation and Bank advances.

Government guaranteed debt at the end of June 2023, to Kenya Power and Lightning Company (KPLC), Kenya Ports Authority (KPA), Kenya Electricity Generation (KenGen) and Kenya Airways (KQ) amounted to Kshs.170.2 billion. The called-up guarantee loan of Kshs.88.2 billion relates to KQ guaranteed debt.

The proposed fiscal deficit for FY 2024/2025 is Kshs.703.87 billion which will be financed through Kshs.362.12 billion as net foreign financing and Kshs.377.75 billion as domestic financing.

Regarding optimal borrowing strategy- The MTDS aims to optimize access to external concessional borrowing to minimize costs and refinancing risks in the debt portfolio. The optimal borrowing strategy assumes a mix of 45% domestic and 55% external financing

over the medium term. In gross borrowing terms, external and domestic financing accounts for 37% and 63%, respectively.

Total Debt Sustainability Analysis- According to the National Treasury, the Debt Sustainability Analysis (DSA) conducted in December, 2023 indicates that Kenya's public debt remains sustainable but with a high risk of debt distress. The PV of debt to GDP ratio is projected to remain above the 55% threshold until 2029. This is projected to decline steadily to 48.1% in 2033 because of fiscal consolidation.

The External Debt Sustainability Analysis indicates that-

- a) External debt sustainability indicates that PV of public and publicly Guaranteed (PPG) external debt to GDP ratio remains below 40% threshold throughout projection period.
- b) The PV of PPG external debt to exports (solvency indicator) remains above the threshold (180%) through 2029.
- c) The debt service to exports (liquidity indicator) exceeds its threshold (15%) in the medium term on account of Eurobond repayments in 2024 and 2028, and rollover of external bank loans (2025-26).
- d) The breaches in the debt thresholds in terms of exports indicate increased vulnerability of public debt to export and financing shocks.

Regarding the cost and risks analysis of existing public debt portfolio, its evident that-

- a) Depreciation of Kenya shilling against major currencies increased the nominal debt to GDP ratio to 70.8% in June 2023 from 67% in December, 2022.
- b) The total interest payments as a share of GDP increased to 5.5% as at June, 2023 from 5.3% as at end of December, 2022.
- c) The weighted average interest rate of external debt increased to 4.5% in June 2023 compared to 3.9% in December 2022.
- d) Average Time to Maturity of the total portfolio declined from 8.8 years in December 2022 to 8.5 years in June 2023.
- e) The projected debt redemption profile is characterized by large maturities in 2028, 2029, and 2030 on account of Eurobond and bank syndicated debts.

Some salient observations made by the Committee include-

- a) The stock of public and publicly guaranteed debt is KSh 11.248 trillion; comprising of domestic debt of KSh 5.058 trillion (45%) and external debt of KSh 6.89 trillion (55%). This is an increase of Ksh. 970 billion from Kshs. 10.278 trillion by the end of FY 2022/23 and is attributed to exchange rate movements and additional borrowing, among other factors.
- b) The present value (PV) of debt to GDP stands at 67.2% against the recommended benchmark of 55% as provided in section 50 of the PFM Act, 2012. Whereas this is a breach against the benchmark, the National Treasury projects that the present value of debt will be aligned with the benchmark by FY 2028/29 through a defined fiscal consolidation path including revenue mobilization targeted at 20.2% of GDP by 2028. This requires regular reporting to Parliament to enhance continuous oversight and ensure compliance.
- c) Although the debt-carrying capacity declined from strong in 2021 to medium as at December 2023 and the National Treasury indicates that the overall debt levels remain sustainable, the risk of debt distress is high due to global shocks that can potentially exacerbate macroeconomic vulnerabilities and subdue economic performance.
- d) The recent liquidity management measures undertaken in February 2024 involving partial buy-back (USD 1.5 billion) of the USD 2 billion Euro bond maturing in June 2024, addressed the settlement risk associated with the Bond and has consequently influenced key macro variables such exchange rate dynamics and investor sentiments.
- e) The proposed fiscal deficit for FY 2024/2025 of Kshs. 703.9 billion is to be financed through net foreign financing (55%) and net domestic financing (45%), targeted at optimizing the cost and risk indicators of debt. Despite the National Treasury indication that the national government will favour concessional borrowing, there is a proposed commercial borrowing in FY 2024/25 of Kshs. 151.00 billion which has the potential of worsening the debt position as commercial loans have higher interest rates

The Committee made several recommendations including-

- a) That, consistent with the financing requirements underpinning the 2024 Budget Policy Statement, the proposed fiscal deficit target of Ksh. 703.9 billion (3.9% of GDP) for FY 2024/25 be approved. This is broadly in line with the proposed fiscal consolidation path, progressing to 3.1% of GDP by FY 2027/28.
- b) That, the proposed borrowing strategy in the 2024 MTDS of 55% for net external borrowing and 45% for net domestic borrowing be approved for FY 2024/25 and the medium term.
- c) That, going forward, the National Treasury should in subsequent budget cycles, ensure that the MTDS submitted to Parliament for consideration and approval contains the most recent data on the stock of public and publicly guaranteed debt as at the date of the statement in line with section 33(3) of the PFM Act, Cap.412A.

Acknowledgment

I take this opportunity to commend the Members of the Committee for their devotion and commitment to duty, which made the consideration of the 2024 Medium Term Debt Management Strategy successful.

I also wish to thank the Offices of the Speaker and the Clerk of the Senate for the support extended to the Committee in undertaking this important assignment.

Lastly, I wish to thank the stakeholders who submitted written memoranda and who appeared before the Committee to present their comments.

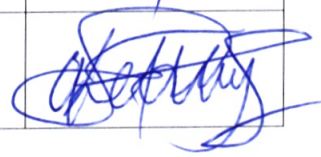
It is now my pleasant duty, pursuant to standing order 223(6) of the Senate Standing Orders, to present the Report of the Standing Committee on Finance and Budget to the Senate on the 2024 Medium Term Debt Management Strategy.

Signature.......... Date.....06/05/2024

SEN. CAPT. ALI IBRAHIM ROBA, EGH, MP.
CHAIRPERSON,
STANDING COMMITTEE ON FINANCE AND BUDGET

ADOPTION OF THE REPORT OF THE STANDING COMMITTEE ON FINANCE AND BUDGET ON THE 2024 MEDIUM TERM DEBT MANAGEMENT STRATEGY

We, the undersigned Members of the Senate Standing Committee on Finance and Budget, do hereby append our signatures to adopt this Report-

	Name	Designation	Signature
1.	Sen. (Capt.) Ali Ibrahim Roba, EGH, MP	Chairperson	
2.	Sen. Maureen Tabitha Mutinda, MP	Vice-Chairperson	
3.	Sen. (Dr.) Boni Khalwale, CBS, MP	Member	
4.	Sen. Tabitha Karanja Keroche, MP	Member	
5.	Sen. Joyce Chepkoech Korir, MP	Member	
6.	Sen. Mohamed Faki Mwinyihaji, CBS, MP	Member	
7.	Sen. Richard Momoima Onyonka, MP	Member	
8.	Sen. Shakila Abdalla Mohamed, MP	Member	
9.	Sen. Eddy Gicheru Oketch, MP	Member	

CHAPTER ONE

1.0 OVERVIEW OF MEDIUM-TERM DEBT MANAGEMENT STRATEGY

1. Article 201 of the Constitution read together with Section 62 (3) (c) of the Public Finance Management (PFM) Act, Cap 412A gives the basis for prudent and responsible use of public finances. Particularly, the law requires that the burdens and benefits of the use of resources and public borrowing shall be shared equitably between present and future generations. Prudent and responsible use of public resources entails management of debt levels and borrowing as well as minimization of the cost of debt.
2. The Medium-Term Debt Management Strategy is submitted to Parliament pursuant to section 33 (1) of the PFM Act, Cap 412A on or before the 15th February in each year. The document sets out the debt management strategy of the National Government over the medium term with respect to its actual and potential liability in respect of loans and guarantees and its plans for managing the liabilities.
3. The Debt Management Strategy is submitted alongside the Budget Policy Statement (BPS) hence the law requires that the medium-term debt management strategy be aligned to the broad strategic priorities and policy goals as set out in the Budget Policy Statement. Section 64(2)(a) of the PFM Act, Cap 412A requires the Medium-Term Debt Strategy (MTDS) to be consistent with the Budget Policy Statement (BPS).
4. The Cabinet Secretary responsible for matters relating to finance is tasked to include in the MTDS information on the following-
 - a) The stock of public debt as at the date of the statement.
 - b) The sources of loans made to the national government and the nature of guarantees given by the national government.
 - c) Principal risks associated with these loans and guarantees,
 - d) Assumptions underlying the debt management strategy.
 - e) An analysis of the sustainability of the amount of debt, both actual and potential.

5. Section 62 of the PFM Act, Cap 412A provides for the establishment of a Public Debt Management Office (PDMO) domiciled within the National Treasury. The core objective of the office is to ensure minimization of the cost of public debt management and borrowing over the long-term taking account of risk; to promote the development of the market institutions for Government debt securities and to ensure the sharing of the benefits and costs of public debt between the current and future generations.
6. The PDMO is also mandated to assist County Governments in debt management and borrowing. Consequently, County Treasuries are required to furnish the PDMO with any information that shall enable it to execute its mandate efficiently. This points to the role of the County Governments in the management of public debts.

1.1 Stock of Public Debt and Debt Service Expenditures

7. Public and publicly guaranteed debt increased by Ksh.1.64 trillion from Ksh.8.63 trillion in June 2022 to Ksh.10.278 trillion by the end of June, 2023. By the close of FY 2022/23, the composition of debt indicates that Ksh.5.446 trillion was attributable to external debt and Ksh.4.832 trillion was from domestic sources. This represented a 26% (Ksh.1.117 trillion) and 12% (Ksh.527 billion) increase respectively. The significant increase in the external debt stock was exacerbated by the depreciation of the Kenya Shilling against major world currencies especially the US dollar which accounts for the largest share of the loan portfolio.
8. According to the National Treasury the Public and publicly guaranteed debt stood at Ksh.11,248.01 billion. This was equivalent to 69.7% of GDP in nominal terms. The debt mix shows that Kshs. 6,189.97 billion (55.07%) was due to external creditors and Kshs. 5,058.04 billion (44.93%) due to domestic lenders.
9. There was Kshs. 170.2 billion in outstanding government-guaranteed debt as of June, 2023. Guarantees totaling Kshs.9.0 billion were given to Kenya Power & Lighting Company, Kshs.50.5 billion to Kenya Ports Authority, and Kshs.22.4 billion to Kenya Electricity Generating Company (KenGen), all of which were performing. The MTDS analysis included a guaranteed debt of Kshs 88.2 billion owed by Kenya Airways which was called up.

10. In financing the budget, revenue collection including Appropriation-in-Aid (A.i.A) is estimated to be Ksh. 3,435.0 billion (19.1% of GDP) against estimated overall expenditure and net lending of Ksh.4,188.2 billion (23.2% of GDP) in FY 2024/25. Consequently, the fiscal deficit (including grants), is projected at Ksh.703.9 billion (3.9 % of GDP), and further to 3.1% of GDP by FY 2026/27.

1.2 Cost and Risk Profile of Public Debt Portfolio

11. With regards to the cost of the public debt portfolio, the 2024 MTDS indicates the weighted Average Interest rate on the total debt portfolio was 7.6% in June 2023 compared to 7.7% in June 2022.
12. The Average Time to Maturity (ATM) of the domestic debt declined from 7.8 years to 7.5 years while that of external debt declined from 9.8 years to 9.3 years between June 2022 and June 2023. Moreover, the ATM for total debt portfolio reduced to 8.5 years from 8.8 years during the same period. Partly, the implication could result in more credit instruments maturing within a shorter period and thus leading to liquidity constraints.
13. The composition of external debt by currency as at June 2023 comprised of USD (67.2%), Euros (21.3%) Japanese Yen (3.9%), GBP (2.3%), Chinese Yuan (5.1%) and others (0.2%). The implication is that total external debt is subject to exchange rate volatility mainly the US Dollar.

1.3 The 2024 Proposed Borrowing Strategy

14. The 2024 BPS highlights the assumptions underpinning the selection of the optimal borrowing strategy for FY 2024/25, which are: real GDP growth rate of 5.5 % , inflation target of 5.0%, revenue of 19.1% of GDP and fiscal deficit rate of 3.9 % of GDP.
15. In addition, climate-related shocks, exchange rate volatility and depreciation of the Kenya shillings, performance of exports and investor preference for short-term

instruments could potentially impact refinancing risks as well as risks of contingent liabilities under SOEs and PPPs.

16. The indicated borrowing strategy for deficit financing for FY 2024/25 is a gross borrowing ratio of domestic and external financing of 63: 37, and a net borrowing ratio of 45:55, respectively. The strategy intends to maximize concessional loans and reduce commercial borrowing on the external component while utilizing more of medium to longer-term bond instruments.
17. However, actual performance of past approved strategies indicates deviation from the projected borrowing strategies due to market realities or conditions. For FY 2022/23, external sources contributed 22% while domestic sources contributed 78% as compared to the approved ratio of 25% from external and 75% from domestic sources putting more pressure on the domestic market.

1.4 Public debt sustainability analysis

18. The reported present value of public debt to GDP stands at 67.2 % against the recommended benchmark of 55 %. The National Treasury projects that the present value of debt will be aligned with the benchmark by 2029 through a defined fiscal consolidation path as well as revenue mobilization. This requires regular reporting to Parliament to enhance continuous oversight and ensure compliance.
19. The debt carrying capacity has declined from strong in 2021 to medium as at December 2023; and although overall debt levels remain sustainable, the distress level remains high. However, the Committee was informed by the National Treasury that the successful liquidity management involving partial buy-back (USD 1.5 billion) of the USD 2 billion Euro bond maturing in June 2024, addressed and removed the settlement risk associated with the Bond.

CHAPTER TWO

2.0 OVERVIEW OF SUBMISSION FROM STAKEHOLDERS

20. Pursuant to the provisions of Article 118 of the Constitution and the Senate Standing Orders, the Committee sent invitations to key Stakeholders inviting them to a meeting and submit their comments on the Medium-Term Debt Management Strategy.
21. The Committee received submissions from the following Stakeholders-
- a) The National Treasury and Economic Planning;
 - b) The Commission on Revenue Allocation;
 - c) The Institute for Social Accountability;
 - d) The Institute of Certified Public Accountants-Kenya (ICPAK); and
 - e) The International Budget Partnership-Kenya (IBP-K).

2.1 The National Treasury and Economic Planning

22. The National Treasury appeared before the Committee and made the following submissions-
- a) The current stock of public and publicly guaranteed debt stands at Kshs. 11,248.01 billion or 69.7 percent of GDP in nominal terms. The current Present Value of public debt to GDP is 67.2 percent. It comprises a mix of external debt of Kshs. 6,189.97 billion; and domestic debt of Kshs. 5,058.04 billion.
 - b) External debt, which has risen relative to domestic debt due to depreciation of the Kenya shilling against foreign currencies, is largely from official creditors and on concessional terms. It is composed of: Kshs. 3,118.57 billion as multilateral debts (accounting for 50% of total external debt); Kshs. 1,399.72 billion bilateral debts (23%); and Kshs. 1,671.68 billion commercial debts (27%) of which Eurobonds account for Kshs 1,141.33 billion (18%).

- c) Domestic debt is mainly held in the form of Government debt securities as follows: Kshs. 4,272.25 billion in Treasury Bonds (accounting for 85% of total domestic debt) Kshs. 565.63 billion Treasury Bills (11%); and Kshs 220.16 billion (4%) as others (That is, Overdrafts from Central Bank of Kenya, IMF SDR Allocation and Bank advances).
- d) The proposed FY 2024/2025 fiscal deficit of Kshs. 703.9 billion is to be financed through Net Foreign financing of Kshs 326.12 billion (Commercial Borrowing -Kshs. 151.00 billion, Programme loan -Kshs. 210.48 billion, Project Loans & A-I-A-Kshs. 308.54 billion, External Repayment -Ksh (343.90) billion) and Net Domestic Financing of Kshs. 377.75 billion.

Assessment of the cost and risk characteristics of the current debt portfolio

- e) Under the current revenue driven multi-year fiscal consolidation program, the National Treasury commits to bring down the Present Value of debt as a percentage of GDP from 67.2 percent to 55% over a period of five years as per the recent amendment of the Public Finance Management Act on the debt anchor.
- f) The weighted average interest rate of the total debt portfolio was 7.7 percent per annum in June 2023, of which domestic debt was 11.4% per annum. The weighted average interest rate of external debt increased to 4.5% in June 2023 compared to 3.9% in December 2022.
- g) The rise in interest rates in the public debt portfolio is attributed to the tight liquidity conditions both in the domestic and international financial markets.
- h) Average Time to Maturity of the total portfolio declined from 8.8 years in December 2022 to 8.5 years in June 2023 on account of reduced performance of long tenor bonds and issuance of more short-term domestic debt attributed to tightness of liquidity in the market.
- i) The 2024 Medium-Term Debt Strategy aims to optimize access to external concessional borrowing and undertake liability management to minimize costs and refinancing risks in the debt portfolio. On a net basis, the strategy assumes a mix of 45% domestic and 55% external financing over the medium

term. In gross borrowing terms, external and domestic financing accounts for 37% and 63%, respectively.

- j) The 2024 Medium-Term Debt Strategy identifies key actions to guide borrowings in addition to fiscal consolidation during FY2024-25 to 2026-2027, which include-
 - i. Use of long tenor Treasury bonds for refinancing of maturing domestic debt and raising of new deficit funding resources along with reduction in the proportion of short-term domestic debt (Treasury bills) to minimize refinancing risks and lengthening Average Time Maturity for domestic and total debt.
 - ii. Issuance of more medium to long-term instruments as the main source of domestic financing to deepen the domestic bond market.
 - iii. Maximize use of concessional borrowing as opposed to commercial debt to lower costs and risks.
 - iv. Minimize interest rate risk in terms of average time to re-fixing.
- k) The latest Debt Sustainability Analysis Report indicates that;
 - i. Public debt remains sustainable though the distress level is elevated due to the adverse effects of multiple shocks experienced by the country since 2020.
 - ii. The Debt Carrying Capacity has declined from strong to medium since 2021 to date.
 - iii. External debt vulnerability has increased as a result of subdued growth in exports.
 - iv. Recently, Kenya successfully executed a liability management operation targeting the 2024 Eurobond. The operation permanently removed settlement risk on the USD 2 billion Eurobond maturing in June 2024 by partially buying-back USD 1.5 billion of the Bond.
- l) In collaboration with other financial sector players including the Capital Market Authority and the Central Bank of Kenya, the National Treasury will sustain domestic debt markets reforms to improve performance of the

primary issuance and promote vibrancy of the secondary market to develop a credible yield curve for Government securities.

m) These reforms include-

- i. Publication of an issuance calendar;
- ii. Separation of the Retail and Wholesale Market for Government Securities;
- iii. Re-engineering Retail-Bond Issuance;
- iv. Establishment of the Over-The-Counter (OTC) Market for Government Debt Securities;
- v. Establishment of an Efficient Horizontal Repo Market and Securities Lending and Borrowing (SLB).
- vi. The National Treasury & Economic Planning has engaged the IMF/World Bank to assist the PDMO in the domestic market development.

2.2 The Commission on Revenue Allocation

23. The Commission appeared before the Committee and made the following submissions-

- a) That there is inconsistency in figures of the public debt stock between the 2024 MTDS and the 2024 BPS. According to CRA, the MTDS provides the debt stock as at end of June 2023 as Ksh. 10,278.7 billion, comprising of Ksh. 5,446.6 billion in external debt and Ksh. 4,832.1 billion in domestic debt while the BPS provides the debt stock as at end of June 2023 as Ksh. 10,189.5 billion, comprising Ksh. 5,357.4 billion in external debt and Ksh. 4,832.1 billion in domestic debt.
- b) Further, the stock of domestic debt as Ksh. 4,832.1 billion and External Debt Ksh. 5,446.5 billion are inconsistent with the figure of Ksh. 4,741.9 billion and Ksh. 5,349.1 billion, respectively. The Commission recommended for harmonisation of the two figures and also with the figures presented in the BPS 2024 on external debt indicated at Ksh. 5,357.4 billion

- c) CRA noted that the figure of pre-1997 government loans of Ksh. 17.8 billion is always acknowledged in the current and previous MTDS, yet no explanation is provided on why it has never been paid. They submitted that there should be an explanation of the pre-1997 government loans of Ksh. 17.8 billion and why this loan is still outstanding.
- d) On debt sustainability analysis, the Commission indicated that Section 6 of the Public Finance Management (Amendment) Act 2023, amended the debt sustainability thresholds to 55 percent in PV terms with a compliance period of not later than five years from 17th October 2023-the date of coming into force of the Act. The national government is required only in exceptional circumstances to exceed the threshold by not more than 5%. Therefore, the PV of debt to GDP ratio projected at 56.9% in 2028 is above the 55% benchmark and thus against the PFMA (Amendment) Act 2023.

2.3 Institute of Certified Public Accountants- Kenya (ICPA-K)

24. ICPA-K appeared before the Committee and submitted that the growth of Kenya's public debt in the last ten years has raised concern on the sustainability of the government's fiscal path given the increasing impact of debt service repayments on service delivery and the economy.

25. The institute recommended the following-

- a) Establish and operationalize a Sinking Fund to enable the country set aside funds in the years leading to debt maturity.
- b) Establish and operationalize a Kenyan Sovereign Wealth Fund through policy and legislation.
- c) Prioritize projects independently assessed for financial viability and consider absorptive capacity constraints within the investment timelines.
- d) Consider Public Private Partnerships (PPPs) as a form of financing development expenditure.
- e) Gradually retire expensive commercial loans for long-term concessional loans.

- f) Publish core public and publicly guaranteed debt statistics at the general government level annually, including information on individual debt instruments contracted.
- g) Develop and adopt strict analytical and monitoring processes for approval and implementation of resource-backed loans.
- h) Parliament should demand regular reports on capital projects financed through debt from the National Treasury to enhance openness and transparency. The reports should include the corresponding feasibility studies, details of commitment fees, if any and project implementation status.
- i) Enhance prudent financial management and accountability in implementation of development projects.

2.4 The Institute for Social Accountability

26. TISA appeared before the Committee and submitted the following-

- a) The government revised the fiscal deficit from Ksh. 718 billion to Ksh. 785 billion in the supplementary budget I for FY 2023/24. Given the trends in the previous fiscal years, TISA noted with concern the upward revision of fiscal deficit in the supplementary budgets.
- b) From the Controller of Budget report for FY 2022/23 which highlighted that interest payments on domestic debt (Ksh. 527.93 billion) were three times higher than interest payments on external debt (Ksh. 154.94 billion), TISA pointed out the cost of domestic debt to the economy, indicating that it would result in a crowding-out effect on the private sector.
- c) The latest Controller of Budget report on the national government budget implementation indicates a possibility that the country's public borrowing does not necessarily finance development needs as envisioned. A case in point is the Eurobonds, whereby oversight reports could not trace their utilization by MDAs.
- d) The National Treasury should contemplate actively pursuing debt restructuring initiatives in both the short and medium term to mitigate the current trend of rising interest rates. The government should also put in debt

restructuring efforts focused on current expensive loans, whose fiscal risk is high.

- e) That there is a notable improvement in the domestic debt maturity profiles. Debt with maturity of less than 1-year decreases from 19.5% in Dec 2022 to 16.7% in June 2023 and those with maturity of 4 - 5 years increases from 8.7% to 16.0%. This needs to be scaled up to minimize the cost of public debt management and borrowing over the long term.
- f) The high debt-to-GDP ratio (70.8) raises concerns about default risk, potentially affecting Kenya's ability to borrow at favourable interest rates. This has consistently seen debt servicing divert resources away from critical investments in basic services like education, and healthcare. This is also against the IMF program which prescribed 55.0% target that should be achieved by 2027. The interest payment as a share of GDP also increased by 1.2% due to accumulation of debt and increase in interest rates by Central banks in the domestic and international markets.
- g) While the anticipated decrease of the fiscal deficit to 3.9% of GDP is positive, there is room for further improvement. There is also need for a cost-benefit analysis for the government's tax exemptions amounting to nearly 400 billion, especially in light of ongoing fiscal consolidation efforts.
- h) TISA lauded the National Treasury's decision to diversify funding sources by incorporating Kenyan Shilling syndicated debt. However, they expressed concern on the proposal to float domestic bonds which come at very high interest in foreign currency, saying that it will deal a double blow to Kenyans in the form of deferred taxation.
- i) They noted that the interest rates for the infrastructure bond continue to have a crowding out effect on other producers (manufacturers, farmers and MSMES) who would be pivotal in supporting the expansion of the tax base.
- j) That the National Treasury should give clear and deliberate commitment on green and blue bonds as part of development financing. The green bond market offers opportunities for national and subnational governments to

invest in climate change related projects while contributing towards climate resilience and sustainable development.

- k) The government's plan to involve the private sector especially in infrastructure financing through Public-Private Partnerships should follow the transparency and accountability mechanisms spelt out in the constitution, which have previously been disregarded.
- l) TISA recommended that the National Treasury should expedite the operationalization of a sinking fund which was part of the commitments outlined in the 2023 MTDS, to help stem default in times of economic distress, such as the ongoing global financial crisis, the depreciation of the shilling as well as the current drought facing most Kenyan counties.
- m) That PFM Act 2012 seeks to establish PDMO within Treasury but with some degree of autonomy. TISA proposed for fast tracking of the development of a Policy, Financial and Administrative Framework within which PDMO would operate.
- n) TISA commended the government's commitment to expand coverage in reporting of public debt to include non-guaranteed debt owed by SOEs, saying that this will improve transparency and accountability in public debt management. Further, that it will ensure they are subjected to budgetary oversight reducing the possibility of poor quantification of Contingent Liabilities and the possibility of large unplanned expenditures if the guarantee materializes. Guaranteed debt has been rising over the years closed at Kes 19.02 billion by June 2023 which expose taxpayers to risks of hefty bailouts in the event of default.
- o) TISA suggested that MTDS should delve into the question of increased borrowing to repay loans which is a deviation from section 15(2)(c) of the PFM act that requires public debt to be used for development. The government should liaise with the OAG, COB, EAC and Parliament to create proactive plans to improve debt. There should be transitional justice for the economic extraction, abuse and near slavery to the Kenyan people who continue to pay for debt that was not properly utilized.

2.5 The International Budget Partnership-Kenya (IBP-K)

27. The International Budget Partnership-Kenya (IBP-K) appeared before the Committee and submitted as follows-

- a) That MTDS should provide an opportunity for visibility of the state of the debt and options to manage it. The MTDS contains data as at June 2023 yet there are sufficient details up to December 2023.
- b) The MTDS should play a proactive role in debt management over the medium term. It should also be an opportunity for robust public discourse on deficit financing. Its short-term nature means that there isn't much consideration of the long-term effects of the different options and mix of borrowing. This then means that it's difficult to tell what different options would mean in the long run.
- c) Develop a public debt policy on which the MTDS will be anchored. This will consider the developmental needs of the country and set a direction of how the country will handle both public and publicly guaranteed debt.
- d) The BPS of 2024 should align with the proposed financing strategy in the MTDS to ensure sustainable and optimal borrowing in the next financial year.
- e) IBP submitted that since growing fiscal deficit is a key driver of public debt burden, the government should reduce the fiscal deficit as a percentage of GDP to consolidate the existing fiscal deficits. Further, the National Treasury should employ realistic revenue targets and ensure adherence to the proposed fiscal deficit in FY 2024/25.
- f) Beyond fiscal consolidation measures, the national government must seek more affordable borrowing options over the medium term given the projected resource envelope and cost of borrowing. This includes reducing the prominence of commercial and domestic debt in the debt portfolio and exploring alternative sources of financing that are lower.
- g) IBP noted that expenditure on public debt obligations continues to pose a risk to the timely delivery of public services. They recommended that debt repayments be restructured in the medium term to create less pressure on the available tax revenues.

CHAPTER THREE

3.0 COMMITTEE OBSERVATIONS AND FINDINGS

28. Having considered the 2024 MTDS and submissions from the stakeholders, the Committee made the following observations and findings. That-

- a) The stock of public and publicly guaranteed debt is Ksh 11.248 trillion; comprising of domestic debt of Ksh 5.058 trillion (45%) and external debt of Ksh 6.89 trillion (55%). This is an increase of Ksh. 970 billion from Ksh. 10.278 trillion by the end of FY 2022/23 and is attributed to exchange rate movements and additional borrowing, among other factors.
- b) The 2024 MTDS indicates the stock of public debt as at 30th June 2023 instead of indicating the status as at the date of statement as required by the PFM, Cap.412A.
- c) The present value (PV) of debt to GDP stands at 67.2% against the recommended benchmark of 55% as provided in section 50 of the PFM Act, 2012. Whereas this is a breach against the benchmark, the National Treasury projects that the present value of debt will be aligned with the benchmark by FY 2028/29 through a defined fiscal consolidation path including revenue mobilization targeted at 20.2% of GDP by 2028. This requires regular reporting to Parliament to enhance continuous oversight and ensure compliance.
- d) Although the debt-carrying capacity declined from strong in 2021 to medium as at December 2023 and the National Treasury indicates that the overall debt levels remain sustainable, the risk of debt distress is high due to global shocks that can potentially exacerbate macroeconomic vulnerabilities and subdue economic performance.
- e) The recent liquidity management measures undertaken in February 2024 involving partial buy-back (USD 1.5 billion) of the USD 2 billion Euro bond maturing in June 2024, addressed the settlement risk associated with the Bond and has consequently influenced key macro variables such exchange rate dynamics and investor sentiments.

- f) The proposed fiscal deficit for FY 2024/2025 of Ksh. 703.9 billion is to be financed through net foreign financing (55%) and net domestic financing (45%), targeted at optimizing the cost and risk indicators of debt. Despite the National Treasury indication that the national government will favour concessional borrowing, there is a proposed commercial borrowing in FY 2024/25 of Ksh. 151.00 billion which has the potential of worsening the debt position as commercial loans have higher interest rates.
- g) There is a notable deviation in the approved borrowing strategies under the MTDS and the actual borrowing outturn that necessitates in-year reporting to Parliament. To illustrate, the approved strategy in the 2022 MTDS for FY 2022/23 (in gross terms), was 25:75 percent external to domestic financing, compared to actual borrowing of 22:78 external to domestic financing. This trend has been observed over the last three financial years, with the tendency to favour domestic borrowing.
- h) The debt service has been on an upward trajectory since June 2018 and stood at Ksh. 1.199 trillion as at June 2023 (59% of revenue). This has significantly reduced the fiscal space available to fund other critical expenditure needs.

CHAPTER FOUR

4.0 RECOMMENDATIONS

The Committee makes the following recommendations-

- a) That, consistent with the financing requirements underpinning the 2024 Budget Policy Statement, the proposed fiscal deficit target of Ksh. 703.9 billion (3.9% of GDP) for FY 2024/25 be approved. This is broadly in line with the proposed fiscal consolidation path, progressing to 3.1% of GDP by FY 2027/28.
- b) That, the proposed borrowing strategy in the 2024 MTDS of 55% for net external borrowing and 45% for net domestic borrowing be approved for FY 2024/25 and the medium term.
- c) That, going forward, the National Treasury should in subsequent budget cycles, ensure that the MTDS submitted to Parliament for consideration and approval contains the most recent data on the stock of public and publicly guaranteed debt as at the date of the statement in line with section 33(3) of the PFM Act, Cap.412A.
- d) That, to enhance monitoring and transparency on in-year borrowing operations, at the end of every quarter of the financial year, the National Treasury should submit to the Senate a status report on any deviation from the approved borrowing strategy indicating the reasons for the deviation.
- e) That, pursuant to section 50 of the Public Finance Management Act, Cap.412A, the National Treasury should submit a report to the Senate by end of 30th April, 2024, on the specific measures being taken to ensure that the National Government complies with the 55% debt threshold within the timelines provided in the Act.

LIST OF APPENDICES

Appendix 1: Minutes of the sittings of the Committee

Appendix 2: Copies of submissions



MINUTES OF THE ONE HUNDRED AND FIRST (101ST) HYBRID MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON MONDAY, 19TH FEBRUARY, 2024 AT COUNTY HALL IN GROUND FLOOR BOARDROOM FROM 1:30 P.M.

PRESENT

- | | | |
|---|---|-----------------------------|
| 1. Sen. (Capt.) Ali Ibrahim Roba, EGH, MP | - | Chairperson |
| 2. Sen. Maureen Tabitha Mutinda, MP | - | Vice-Chair (Virtual) |
| 3. Sen. (Dr.) Boni Khalwale, CBS, MP | - | Member |
| 4. Sen. Mohammed Faki Mwinyihaji, MP | - | Member (virtual) |
| 5. Sen. Eddy Gicheru Oketch, MP | - | Member |

ABSENT WITH APOLOGY

- | | | |
|--------------------------------------|---|--------|
| 1. Sen. Richard Momoima Onyonka, MP | - | Member |
| 2. Sen. Shakila Abdalla Mohammed, MP | - | Member |
| 3. Sen. Tabitha Karanja Keroche, MP | - | Member |
| 4. Sen. Joyce Chepkoech Korir, MP | - | Member |

SECRETARIAT

- | | | |
|----------------------------|---|-------------------------|
| 1. Ms. Lucy Makara | - | Deputy Director, PBO |
| 2. Mr. Christopher Gitonga | - | Clerk Assistant |
| 3. Ms. Gloria Wawira | - | Clerk Assistant |
| 4. Ms. Beverlyne Chivadika | - | Clerk Assistant |
| 5. Ms. Lucy Radoli | - | Legal Counsel |
| 6. Ms. Millicent Makina | - | Fiscal Analyst |
| 7. Mr. Gorod Abdirahman | - | Fiscal Analyst |
| 8. Dr. Abel Nyagwachi | - | Fiscal Analyst |
| 9. Mr. Kiminza Kioko | - | Fiscal Analyst |
| 10. Mr. Constant Wamuyuyi | - | Researcher |
| 11. Mr. Elijah Ichwara | - | Audio Officer |
| 12. Mr. Daniel Kirwa | - | Searjant-at-arms |
| 13. Mr. Nandemu Barasa | - | Media Relations Officer |
| 14. Mr. Oliver Otieno | - | Intern |

MIN/SEN/SCF&B/590/2024**PRELIMINARIES**

The Chairperson called the meeting to order at 1:30 p.m. This was followed by a word of prayer and a round of introduction.

MIN/SEN/SCF&B/591/2024**ADOPTION OF THE AGENDA**

The agenda was adopted after it was proposed by Sen. Mohammed Faki Mwinyihaji, MP and seconded by Sen. Boni Khalwale, MP as listed below-

1. Prayer;
2. Introduction;
3. Adoption of the agenda;
4. Confirmation of Minutes of the 91st, 92nd, 93rd, 94th, 95th, 96th, 97th, 98th and 99th Sittings;
5. Matters arising from Minutes of the previous meeting;
6. Consideration of the Medium-Term Debt Management Strategy and Medium -Term Revenue Strategy (*Committee paper No.78*);
7. Consideration of pending legislative business (*Committee Paper No.77*);
8. Letter from the Council of the Governors on construction of County headquarters
9. Any other business; and
10. Date of the next meeting and Adjournment.

MIN/SEN/SCF&B/592/2024**CONFIRMATION OF MINUTES OF THE PREVIOUS SITTINGS**

Confirmation of Minutes of the 91st, 92nd, 93rd, 94th, 95th, 96th, 97th, 98th and 99th sittings were deferred to the subsequent meeting.

MIN/SEN/SCF&B/593/2024**CONSIDERATION OF THE MEDIUM-TERM DEBT MANAGEMENT STRATEGY AND MEDIUM-TERM REVENUE STRATEGY.**

Upon invitation, the Parliamentary Budget Office presented to the Committee the following regarding the 2024 Medium-Term Debt Management Strategy-

1. Section 33 of the PFM Act, 2012, requires the Cabinet Secretary of the National Treasury to submit to Parliament a statement setting out the debt management strategy of the National Government over the medium term.

Stock of Public Debt, Debt Service Expenditures.

2. Public and publicly guaranteed debt increased from Kshs.8,634 billion in June 2022 to Kshs.10,278 billion by June 2023, amounting to a Kshs.1,643 billion rise.
3. The amount of external debt increased to Kshs.5,446 billion from Kshs.4,329 billion in June 2022, a 26% increase.
4. The amount of domestic debt increased by Kshs.526.278 billion, from Kshs 4,305 billion to Kshs.4,832 billion, a 12% rise.
5. There was Kshs.170.2 billion in outstanding government-guaranteed debt as of June 2023. Guarantees totaling Kshs.9.0 billion were given to Kenya Power & Lighting Company, Kshs.50.5 billion to Kenya Ports Authority, and Kshs.22.4 billion to Kenya Electricity Generating Company (KenGen), all of which were performing.
6. The MTDS analysis included a guaranteed debt of Kshs.88.2 billion owed by Kenya Airways which was called up.
7. The analysis of the Medium-Term Debt Management strategy took into account Kshs.10,091 billion debt stock, excluding Kshs.187 billion in bank overdrafts, advances, and performing guaranteed loans.
8. Public debt service grew by Kshs.281.65 billion from Kshs.917.778 billion in June 2022 to Kshs.1,199 billion as at June 2023.
9. The ratio of debt service to revenue has been on an upward trend over the past decade with the increase in stock of Public Debt.
10. With the increase in Public Debt stock, elevation of interest rates and depreciation of the Kenya shillings, this rate is likely to increase over the medium term.
11. An increase in the proportion of revenues going towards Public Debt Service, which is a first charge on the Consolidated Fund, signifies an increasing crowding out of other budget expenditures which are recurrent expenditure which may curtail service provision as well as development expenditure.

Financing of the 2024/25 Budget and Fiscal Deficit Outlook

12. The total expenditure for the FY 2024/25 is estimated to be Kshs.4,198.8 billion against a revenue estimate of kshs.3,445.6 billion resulting in a fiscal deficit (excluding grants) of Kshs.753 billion and fiscal deficit including grants to be financed of Kshs.704 billion (3.9% of GDP). This is expected to decline to Kshs.666.7 billion in 2025/26 and start climbing in 2026/27 to reach Kshs.771 billion (3.1% of GDP)

Cost and Risk Profile of Public Debt Portfolio.

13. These are highlighted below-

- i. **Interest rate risk.**

Between June 2022 and June 2023, the Weighted Average Interest rate on the total debt portfolio decreased by 0.1% from Kshs.7.7% to Kshs.7.6%.

However, there was an overall increase in interest rates for both external loans and domestic loans by 0.2% from 3.8% to 4.0% and 11.5% to 11.7% respectively.

ii. Refinancing Risk.

- The Average Time to Maturity (ATM) for both domestic and external debt declined between December 2022 and June 2023. Domestic debt declined from 7.8 years to 7.5 years while external debt declined from 9.8 years to 9.3 years.

iii. Exchange Rate Risk

- Exchange rate risk refers to the vulnerability of the Public Debt portfolio to exchange rate volatility. This mainly applies to foreign currency denominated debt which stood at Kshs.5.4 trillion (53%) as at the end of June 2023.
- The currency composition of external debt as at June 2023 comprised of United States Dollars(67.2%), Euro(21.3%) Yen(3.9%), Great British Pound(2.3%) , Yuan(5.10) and others at 0.2%.
- There was an increase in the stock of external debt from by Kshs.1117 billion of which Kshs.883,459 billion are resultant of exchange rate fluctuation.

The 2024 Proposed Borrowing Strategy

14. The optimal borrowing strategy is arrived at after evaluation of different borrowing scenarios to arrive at a financing composition of domestic and external debt that minimizes cost and risks after applying moderate shocks to the baseline assumptions.
15. The assumptions underpinning the selection of the optimal borrowing strategy for FY 2023/24 are outlined in the 2024 BPS include real GDP growth rate of 5.5%, inflation target of 5.0%, revenue of 19.1% of GDP and fiscal deficit rate of 3.9%.

Public Debt Sustainability Analysis.

16. The objective of Debt Sustainability Analysis (DSA) is to evaluate a country's capacity to finance its development goals, and service the ensuing debt obligations without large adjustments that may compromise its macroeconomic stability.
17. The DSA framework consists of two complementary assessments of the sustainability-
 - **Total Public Debt Sustainability**
18. The total debt portfolio as at December 2023 of Kshs.10.258 trillion remains above the debt sustainability threshold of 55 % at 68.2% having increased from 63.9 at the end of 2022.
19. This breach is expected to start declining from 2024 to reach 48.1 by 2033. The decline is to be driven by fiscal consolidation.

- **External Debt Sustainability.**

20. The Present Value of Public and Publicly guaranteed external debt to exports as is breached as at the end of December 2023 and is projected to remain beyond the threshold of 180. This is however projected to decline and converge towards the threshold.

Committee observations.

a) Debt Anchor

21. The recent debt sustainability analysis reveals that Present Value of debt to GDP ratio (currently at 68.2%) is projected to remain above the limit of 55% as required by law up to 2029. It is projected to be at 56.9% in 2028 and then at 48% in 2029. There was a concern therefore as to whether the required threshold of 55% will be achieved within 5 years.

b) Domestic Debt

22. Domestic debt continues to exhibit elevated interest rate and refinancing risk and materialization of these risks could result in repayment challenges as well as affect implementation of the Budget.
23. Local interest rates have been rising leading to increase in domestic debt service costs.

c) External Debt

24. The interest rate on external debt has increased between June 2022 and June 2023 signifying elevation cost in this portion of debt.
25. There is an increase in Short- Term External debt as a portion of reserves which is likely influenced by the upcoming settlement of the international Sovereign bond in June 2024.
26. Kenya still faces a significant risk of debt distress despite a (\$1.5 billion) new Eurobond.

d) Borrowing strategy.

27. The strategy has not clearly explained how the debt management objective on ensuring intergenerational equity in benefits and costs of borrowing has been addressed.
28. The strategy has not clearly elucidated how the previous shortfall in achievement of the required external financing will be achieved in the next financial year.

e) Debt Sustainability Analysis.

29. Three of the External Debt sustainability indicators are breached in the medium term showing the increasing risk of contracting external debt especially at a time when the Kenya Shilling is facing volatility against major currencies.

MIN/SEN/SCF&B/594/2024

**CONSIDERATION OF PENDING LEGISLATIVE
BUSINESS**

The agenda was deferred to the next meeting.

MIN/SEN/SCF&B/595/2024

**LETTER FROM THE COUNCIL OF
GOVERNORS ON CONSTRUCTION OF
COUNTY HEADQUARTERS**

- a) The Committee considered a letter from Council of Governors requesting the Committee to convene a meeting on Thursday, 22nd February, 2024 to deliberate on the way forward regarding handover of implementation and management of projects funded by conditional grant on supplement for construction of county headquarters to respective beneficiary counties.
- b) Following deliberations, the Committee resolved to convene the meeting on Friday, 23rd February, 2024. Further, the Committee resolved to invite the National Treasury and Economic, State Department of Public Works, and Intergovernmental Relations Technical Committee to the said meeting.

MIN/SEN/SCF&B/596/2024

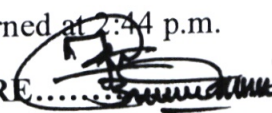
ANY OTHER BUSINESS

- a) The Committee resolved to undertake a capacity building workshop in public finance management in Arusha, Tanzania.
- b) Following requests by respective stakeholders, Committee resolved to reschedule meeting with IBP-Kenya and ICPAK from Tuesday, 20th February, 2024 to Wednesday, 21st February, 2024.
- c) The meeting was reminded about the planned breakfast meeting with the Senate Liaison Committee to be apprised on the 2024 BPS, MTDMS and MTRS prior to consideration of sector specific areas by each individual Committee on Tuesday, 20th February, 2024 from 7:30 a.m.

MIN/SEN/SCF&B/597/2024

**DATE OF THE NEXT MEETING AND
ADJOURNMENT**

The meeting adjourned at 2:44 p.m.

SIGNATURE.......... DATE.....29/02/2024.....

SEN. (CAPT.) ALI IBRAHIM ROBA, EGH, MP
(CHAIRPERSON)



MINUTES OF ONE HUNDRED AND SECOND (102ND) MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON TUESDAY, 20TH FEBRUARY, 2024 AT THE SENATE CHAMBERS FROM 8:30 A.M.

MEMBERS PRESENT.

- | | | |
|---|---|-------------------------|
| 1. Sen. (Capt.) Ali Ibrahim Roba, EGH, MP | - | Chairperson |
| 2. Sen. Maureen Tabitha Mutinda, MP | - | Vice Chairperson |
| 3. Sen. (Dr.) Boni Khalwale, CBS, MP | - | Member |
| 4. Sen. Mohammed Faki Mwinyihaji, MP | - | Member |
| 5. Sen. Richard Momoima Onyonka, MP | - | Member |
| 6. Sen. Joyce Chepkoech Korir, MP | - | Member |
| 7. Sen. Eddy Gicheru Oketch, MP | - | Member |

ABSENT WITH APOLOGY

- | | | |
|-------------------------------------|---|--------|
| 1. Sen. Mohamed Shakila Abdala, MP | - | Member |
| 2. Sen. Tabitha Karanja Keroche, MP | - | Member |

OTHER SENATORS PRESENT.

- | | |
|---------------------------------------|------------------------------------|
| 1. Sen. Abass Sheikh Mohamed, MP | 12. Sen. Adan Dulo Fatuma, MP |
| 2. Sen. Anyeni Esther Okenyuri, MP | 13. Sen. Cheruiyot Aaron, MP |
| 3. Sen. Chesang Allan Kiprotich, MP | 14. Sen. Kamar Margaret, MP |
| 4. Sen. Kamau Joseph Kithuku, MP | 15. Sen. Lemaletian Hezena, MP |
| 5. Sen. Maanzo Daniel Kitonga, MP | 16. Sen. Maina Veronica, MP |
| 6. Sen. Mandago Jackson Kiplangat, MP | 17. Sen. Montet Betty Bantuli, MP |
| 7. Sen. Mumma Catherine Muyeka, MP | 18. Sen. Murango James Kamau, MP |
| 8. Sen. Ogola Beatrice Akinyi, MP | 19. Sen. Okoiti Andrew Omtatah, MP |
| 9. Sen. Orwoba Gloria Magoma, MP | 20. Sen. Seki Lenku Ole Kanar, MP |
| 10. Sen. Syengo Beth Kalunda, MP | 21. Sen. Thangwa Paul Karungu, MP |
| 11. Sen. Wakili Hillary Sigei, MP | 22. Sen. Wamatinga Wahome, MP |

SECRETARIAT

1. Dr. Martin Masinde	- Director, PBO
2. Ms. Lucy Makara	- Deputy Director, PBO
3. Mr. Christopher Gitonga	- Clerk Assistant
4. Ms. Gloria Wawira	- Clerk Assistant
5. Ms. Beverlyne Chivadika	- Clerk Assistant
6. Ms. Lucy Radoli	- Legal Counsel
7. Ms. Millicent Makina	- Fiscal Analyst
8. Mr. Gorod Abdirahman	- Fiscal Analyst
9. Dr. Abel Nyagwachi	- Fiscal Analyst
10. Mr. Kiminza Kioko	- Fiscal Analyst
11. Mr. Constant Wamuyuyi	- Researcher
12. Mr. Elijah Ichwara	- Audio Officer
13. Mr. Daniel Kirwa	- Seargent-at-arms
14. Mr. Nandemu Barasa	- Media Relations Officer
15. Mr. Oliver Otieno	- Intern

MIN/SEN/SCF&B/598/2024 **PRELIMINARIES.**

The Chairperson called the meeting to order at 8:45 a.m. This was followed by a word of prayer and a round of introduction.

MIN/SEN/SCF&B/599/2024 **OPENING REMARKS BY COMMITTEE CHAIRPERSON**

The Chairperson welcomed the Members present to the meeting. Thereafter, he informed the meeting that the Committee on Finance and Budget had convened the breakfast meeting for Senators to be briefed on general macroeconomic issues in the 2024 Budget Policy Statement (BPS) and Medium-Term Debt Management Strategy (MTDMS). This would enable them to interrogate the policy adequately on sector-specific areas at respective committee level.

MIN/SEN/SCF&B/600/2024 **THE UNPACKING THE BUDGET POLICY STATEMENT 2024 AND THE MEDIUM-TERM DEBT MANAGEMENT STRATEGY.**

a) Budget Policy Statement

Upon invitation, the Parliamentary Budget Office briefed the meeting on the 2024 BPS as follows-

1. BPS was submitted pursuant to section 25 of the PFM Act, 2012. It sets out broad strategic priorities and policy goals to guide the national and county governments in the preparation of their budgets for 2024/25.

2. The theme of the 2024 BPS is “sustaining bottom-up Economic Transformation Agenda for Economic Recovery and Improved livelihood.

Highlights of the macro framework.

3. Economic growth to expand by 5.5% in 2024, supported by rebound in agriculture, services sector, government investment, increased household consumption, robust private sector investment.
4. Inflation to remain within the target band of 5 (+ or - 2.5 percent) in the medium term.

Risk to the outlook

5. Exchange rate outlook has improved but some risks remain.
6. Private sector firms surveyed have expressed pessimism in business expectations for 2024.
7. Household consumption could be affected by reduced incomes, high product costs.
8. Agriculture- address lack of affordable working capital, unreliable extension services, poor post-harvest handling and unsustainable land use practice.

Highlights of the Fiscal Framework

9. Ordinary revenue as a share of GDP would increase from 14.3 percent in 2022/23 FY to 17 percent in 2026/27
10. Strategies underpinning MTRS:
 - Reduction of the corporate rate of income tax to boost Kenya's competitiveness and enhance investment;
 - review of PAYE bands to improve progressivity;
 - rationalization of exempt and zero-rated supplies;
 - review of VAT rates downwards;
 - introduction of VAT on services such as education and insurance.;
 - Expand tax base through taxation of informal sector, the digital and agricultural sector; and
 - Revenue administration reforms.
11. The current projected revenue growth of 14 percent is pegged on the assumption that revenue projection of 2022/23 will be realized.
12. Given the shortfall in tax revenue collection in FY 2023/24 is approaching Ksh. 200 billion, it is estimated that revenue collection for 2024/25 FY will be below Ksh. 2,700 billion.

Expenditure outlook

13. Expenditure and net lending (% of GDP) maintained at approx. 24% between 2013/14 and 2022/23.
14. Expenditure rationalization strategies that have been highlighted in the BPS are aimed at reducing total expenditure and net lending to around 23 percent in 2024/25 and over the medium term.

15. Specific measures similar to those in past BPSs - scaling up of PPPs, eliminating non-priority expenditures, privatization of SOEs, rolling out of e-government procurement, and implementation of PIMIS.

Key Policies Interventions

16. The key policy interventions highlighted in the 2024 BPS include:

- Transforming the Micro, Small and Medium Enterprises (MSME) economy
- Healthcare

17. Housing and settlement

- Agricultural Transformation and Inclusive Growth
- Digital Superhighway and Creative Economy

County financial management and division of revenue

18. Compliance with Fiscal Responsibility Principles

- Out of the 47 counties, only seven (7) meet the threshold of the PFMA requirement that development expenditure be at least thirty percent (30%) of total expenditure;
- In FY 2022/23 only six Counties (Migori, Kilifi, Mandera, Kwale, Turkana and Tana River) had their expenses on wages and salaries below 35 percent of their total revenue threshold as stipulated in Regulation 25 (1) (b) of the Public Finance Management (County Governments) Regulations, 2015.

Enhancement of Own Source Revenue (OSR)

19. The National Treasury proposes the following-

- National Rating Bill for imposition of property taxes on land and buildings by county governments. The Bill is under consideration in the Senate.
- County Government (Revenue Raising Process) Bill. The Bill is at second reading in the Senate, However, the Committee on Finance and Budget recommended that the Senate does not approve the Bill.

Fiscal Risks

20. As at 30th September, 2023, counties accumulated pending bills amounting to Ksh. 163.2 billion.
21. Pending bills by County Governments are owed to various pension funds (LAPTRUST, LAPFUND and County Pension Fund) amounting to Ksh.73.4 billion not factored by some County Governments in their pending bills stock.
22. County Governments owe the Kenya Power & Lighting Company (KPLC) Ksh.3, 492,122,613.47 as outstanding electricity bills over the years; with Nairobi City County owing the highest amount of Ksh.2,171,944,344.79.

Proposals for the Division of Revenue.

23. The 2024 BPS proposed the following-

- County Governments Equitable share- Kshs.391.117 billion.
- Additional allocations to counties- Kshs.54.7 billion (19.06 billion from the national government's share of revenue and 35.66 billion from loans and grants from development partners).
- Equalization Fund- Kshs.11.4 billion (Ksh. 7.867 billion as 2024/25 allocation and Kshs.3.533 as partial payment of arrears).

Issues for further consideration

- Transfer of library services- Not included in the BPS.
- Whether the last audited accounts of revenue for 2019/20 is Kshs.1,573.418 billion or Kshs.1,673.715 billion.
- Settlement of pending bills especially pensions pending bills.

The Medium-Term Debt Management Strategy

The Parliamentary Budget Office briefed the Committee as follows regarding the 2024 MTDMS-

Stock of Debt as per end of December 2023

- a) The nominal public debt stock (including guaranteed debt) stood at Kshs.11.1 trillion, approximately 69.1% of GDP.
- b) The debt composed of the following-
 - Domestic debt of Kshs.5.05 trillion with Treasury Bond to Treasury Bills ratio of 85:11 (note government overdraft at CBK accounts for 2.5% and IMF special Drawing Rights (SDR) allocation estimated at 2.1%); and
 - External debt of Kshs.6.09 trillion, which is approximately 55% of total public debt as at December 2023.
- c) Depreciation of the Kenya Shilling against major currencies is one of key factor contributing to the increase in debt stock through a rise in external debt stock.

Outstanding Government Guaranteed Debt (End of December, 2023)

- d) Kshs.170.2 billion is the outstanding government-guaranteed debt as of June 2023, out of which Kshs.81.9 billion were performing.
- e) Guaranteed debt of Kshs.88.2 billion owed by Kenya Airways was called up.

Public Debt Sustainability Analysis (DSA)

- f) The total debt portfolio as at December 2023 of Kshs.10.258 trillion remains above the debt sustainability threshold of 55 % at 68.2% having increased from 63.9 at the end of 2022.
- g) This breach is expected to start declining from 2024 to reach 48.1% by 2033. The decline is to be driven by fiscal consolidation.

Financing of the 2024/25 Budget and Fiscal Deficit Outlook.

- h) Total expenditure is estimated to be Kshs.4.198.8 trillion against a revenue estimate of Kshs.3.445 trillion resulting in a fiscal deficit (Short fall):
 - excluding grants of Kshs.753 billion; and
 - including grants of Kshs.704 billion (or 3.9% of GDP)
- i) Fiscal Deficit expected to decline to up to -3.1% of GDP.

Conclusion and issues to follow up

- Disclosure on the total stock of public debt to facilitate decision making;
- Interrogate the realism and practicality of the key macro-economic assumptions underpinning the proposed fiscal path and other fiscal objectives.
- Some of the External Debt sustainability indicators are breached without substantial corrective measures thus increasing risk of contracting external debt
- The Present Value of debt to GDP ratio is projected to remain above the limit of 55% up to 2029, indicating a longer period of non-compliance.
- Domestic debt continues to exhibit elevated interest rate and refinancing risk. Local interest rates have been rising leading to increase in domestic debt service costs.
- The interest rate on external debt has increased between June 2022 and June 2023 signifying elevation cost in this portion of debt.

Observations from the meeting

- a) The National Treasury indicated that the last audited revenue amount for 2019/20 is Ksh.1,573.418 billion and not the Ksh. 1,673.715 billion. This affects the Division of Revenue. The National Treasury attributes this to a double counting error of approximately Ksh. 100 billion. To provide clarification, the Auditor General has written and submitted a letter to Parliament and has agreed with the position of the National Treasury.
- b) Funds for transfer of library services to 33 county governments with libraries were not included in the 2024 BPS.
- c) As per the 2023 BPS, the funds for transfer of library services were to be allocated to beneficiary counties for the subsequent three financial years. The allocation was to cater for salaries of staff and operations of the library.
- d) Exchange rate is a major component of external debt. It increases the debt service cost.
- e) Ordinary revenue collection is projected to grow by approximately 14% in the next FY while equitable share to counties by paltry 1.5% (Kshs.16.6 billion). County equitable share will grow from Kshs.385.425 billion to Kshs.391.1 billion.
- f) The recent appreciation in the Kenyan currency to USD was noted. However, the concern was, would it last or would it just be temporary.

- g) Accumulation of pending bills in counties can be attributed to over projection of Own Source Revenue. There is need for a legislation to curb this. For instance, automation of revenue collection and a centralized revenue collection system.
- h) The total stock of public debt does not include the recently floated Eurobond of USD.1.5 billion.

Following deliberations, the Chairperson informed the meeting that the Committee will engage the National Treasury on the above issues. Further, the Chairpersons of Standing Committees were encouraged to extensively interrogate sector specific areas as proposed in the BPS and submit their reports to the Finance Committee within the stipulated timeline.

MIN/SEN/SCF&B/601/2024 **ADJOURNMENT**

The meeting adjourned at 10:45 a.m.

SIGNATURE  DATE 04/03/2024...

SEN. (CAPT.) ALI IBRAHIM ROBA, EGH, MP

(CHAIRPERSON)



MINUTES OF THE HUNDRED AND THIRD (103RD) MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON WEDNESDAY, 21ST FEBRUARY, 2024 AT COUNTY HALL IN GROUND FLOOR FROM 8:00 A.M.

MEMBERS PRESENT

- | | | |
|---|---|-------------------------|
| 1. Sen. (Capt.) Ali Ibrahim Roba, EGH, MP | - | Chairperson |
| 2. Sen. Maureen Tabitha Mutinda, MP | - | Vice Chairperson |
| 3. Sen. (Dr.) Boni Khalwale, CBS, MP | - | Member |
| 4. Sen. Mohammed Faki Mwinyihaji, CBS, MP | - | Member |
| 5. Sen. Richard Momoima Onyonka, MP | - | Member |
| 6. Sen. Eddy Gicheru Oketch, MP | - | Member |

ABSENT WITH APOLOGY

- | | | |
|-------------------------------------|---|--------|
| 1. Sen. Mohamed Shakila Abdala, MP | - | Member |
| 2. Sen. Joyce Chepkoech Korir, MP | - | Member |
| 3. Sen. Tabitha Karanja Keroche, MP | - | Member |

SECRETARIAT

- | | | |
|----------------------------|---|-------------------------|
| 1. Ms. Lucy Makara | - | Deputy Director, PBO |
| 2. Mr. Christopher Gitonga | - | Clerk Assistant |
| 3. Ms. Gloria Wawira | - | Clerk Assistant |
| 4. Ms. Beverlyne Chivadika | - | Clerk Assistant |
| 5. Ms. Lucy Radoli | - | Legal Counsel |
| 6. Ms. Millicent Makina | - | Fiscal Analyst |
| 7. Mr. Constant Wamuyuyi | - | Researcher |
| 8. Mr. Elijah Ichwara | - | Audio Officer |
| 9. Mr. Daniel Kirwa | - | Seargent-at-arms |
| 10. Mr. Nandemu Barasa | - | Media Relations Officer |
| 11. Mr. Oliver Otieno | - | Intern |

IN ATTENDANCE

THE INTERNATIONAL BUDGET PARTNERSHIP-KENYA

- | | | |
|------------------------|---|------------------------|
| 1. Mr. Elias Kipchumba | - | Finance and Operations |
| 2. Mr. Abraham Ochieng | - | Programs Officer |
| 3. Mr. Cuba Houghin | - | Programs Officer |
| 4. Ms. Nancy Ndanu | - | Programs Officer |

MIN/SEN/SCF&B/602/2024 **PRELIMINARIES.**

The Chairperson called the meeting to order at 8.24 a.m. This was followed by a word of prayer and a round of introduction.

MIN/SEN/SCF&B/603/2024 **ADOPTION OF THE AGENDA.**

The agenda was adopted after it was proposed by Sen. Mohammed Faki Mwinyihaji, MP and seconded by Sen. Boni Khalwale, MP as listed below-

- a) Prayer;
- b) Introduction;
- c) Adoption of the agenda;
- d) Confirmation of Minutes of the 91st, 92nd, 93rd, 94th, 95th, 96th, 97th, 98th, and 99th;
- e) Matters arising from Minutes of the previous meeting;
- f) Meeting with International Budget Policy (IBP)- Kenya to deliberate on the 2024 Budget policy statement, medium term debt management policy and Medium-term Revenue Strategy for FYs 2024/2025 To 2026/27 (*Committee Paper No.78A*);
- g) Consideration of pending legislative business (*Committee Paper No.77*);
- h) Any other business; and
- i) Date of the next meeting and Adjournment.

MIN/SEN/SCF&B/604/2024 **CONFIRMATION OF MINUTES OF THE PREVIOUS SITTINGS**

Confirmation of Minutes of the 91st, 92nd, 93rd, 94th, 95th, 96th, 97th, 98th, 99th and 100th sittings were deferred to the subsequent meeting.

MIN/SEN/SCF&B/605/2024 **MEETING WITH IBP-KENYA TO DELIBERATE ON THE 2024 BUDGET POLICY STATEMENT MEDIUM -TERM DEBT MANAGEMENT**

Upon invitation, the team from the IBP-Kenya submitted their comments on the 2024 BPS and MTDMS as summarized below-

The 2024 Budget Policy Statement

- a) The proposed budget for 2024/25 shows a larger increase to the Consolidated Fund Services (CFS) while the increment on county governments allocation remains relatively small.

- The BPS 2024 proposes a 4% rise in total government expenditure of Kshs.162 billion, increasing expenditure from Kshs.3.98 trillion as approved in 2023/24 to Kshs.4.14 trillion in the 2024 BPS.
- The difference in allocation highlights the increasing pressure that debt service repayments are placing on the delivery of public services.
- The BPS of 2024 also highlights a very slight Kshs.5.69 billion increase in allocations to county governments equivalent to 1% of the 2023/24 allocation.

Recommendation- The National Treasury should devise ways to service debt obligations in a manner that enables more substantial additional allocations to national and county governments.

- b) Under performance in revenue is affecting county disbursements and throws into doubt revenue projections for FY 2024/25.
- The tax reforms introduced in FY 2023/24 sought to raise Kshs.2.571 trillion in ordinary revenue, a significant 26% increase over the FY 2022/23 target of Kshs.2.041 trillion.
 - Between July and November 2023, the government had only raised Kshs.0.879 trillion against its goal of Kshs.0.977 trillion over the same period, a 10% deviation of Kshs.0.098 billion. The underperformance is cause of concern.
 - In FY 2024/25, the national government plans to collect Kshs.2.948 trillion in ordinary revenue. The target is a 15% increase over the targeted revenue collection in FY 2023/24.

Recommendation- Given the underperformance in tax revenue collection as of Nov. 2023, particularly on income tax, the National Treasury should clarify the basis upon which the targeted revenue collection has been increased by 15% in the FY 2024/25.

Overall Sector Ceilings

- c) The maximum budget cap has increased from Kshs.2.25 trillion in FY 2023/24 to Kshs.2.51 trillion in FY 2024/25.
- d) the Education and energy, infrastructure and ICT sectors received the highest budget allocation of Kshs.667.5 billion and Kshs.505.7 billion respectively, and the Social Protection, Culture and Recreation and General Economic and Commercial Affairs sectors received lowest allocations of KShs.72.2 billion and Kshs.56.7 billion respectively.
- e) The BPS 2024 proposes increased allocation to the National Security and PAIR sectors, while social sectors such as social protection, education and ARUD have reduced allocations.
- There was a percentage increase in the Proposed allocations made to National Security and PAIR sectors of 23% and 17 % in the allocations of FY 2023/24 from those in FY 2024/25.

- The 2024 BPS proposes a decrease in allocation to social sectors in FY 2024/25. This includes a 1% cut to the SPCR sector of Ksh. 652 million, a 3% cut to Education of Kshs.23 billion and a 10% cut to agriculture of Kshs.10.2 billion.

f) Pending bills is an impediment to service delivery.

County government pending bills data

- As at 30th September, 2023 Counties reported accumulated pending bills amounting to Kshs163.2 billion as per the Office of the Controller of Budget. In relative terms, this amounts to 43% of the county equitable share.
 - Despite numerous interventions aimed at verifying and settling pending bills in counties, accumulation of pending bills has been increasing since the advent of devolution.
 - According to 2024 BPS, county governments owe money to several pension funds such as the Local Authorities Provident Fund (LAPFUND), Local Authorities Pension Trust (LAPTRUST), and County Pension Fund (CPF DC), which belong to county employees who are at risk of retiring without a pension.
 - According to OAG, National Treasury circular found that the county executive owed several pension systems a total of Kshs.34,552.943 as of 2019.
- g) Accumulation of pending bills could translate into a stalled or delayed project, bankruptcy, or high probability of defaulting on loan repayments and contractors languishing in poverty.
- h) Pending bills impact on business and tax collection (national and county governments)
- i) Some of the pending bills accrued by county governments are as result of non-consideration of cash brought forward from previous financial years which then implies a deficit budget.
- j) Counties should prepare budgets with correct opening balance amounts and with respective expenditures to ensure a balanced budget and avoid unplanned pending bills.
- k) County governments should settle eligible pending bills as a first charge as required by the PFM (County Governments) 2015.

Medium Term Debt Management Strategy

- a) Development of a public debt policy on which the MTDMS is anchored is needed as this would consider the developmental needs of the country and set a direction of how the country would handle both public and publicly guaranteed debt.
- b) Deviation between the proposed debt mix in the BPS and the proposed mix in the MTDMS

- In contrast to the 45:55 domestic to external debt mix proposed in the MTDMS, the BPS proposes domestic to external financing mix of 54:46
- While both options are affected by significant decrease in the maturity ages of the debts, the domestic borrowing has a greater interest risk while the external has greater forex exchange risk
- the proposed BPS 2024 mix may be more costly in the medium term due to the high interest rate on domestic borrowing and the low interest rate on external borrowing.
- there was a deviation between the borrowing mix the BPS and MTDMS of 2023. The MTDMS of 2023, proposed 50:50 net external and domestic borrowing mix, while the BPS of 2024 borrowing mix 78:27, domestic to external.
- In addition, this proposal was later changed by the national government to a greater emphasis on external financing.

c) Growing Deficits as key drivers of Public Debt Burden

- The BPS 2024 proposes a decrease in the fiscal deficit (excluding grants) from Kshs.761.1 billion to Kshs.753.2 billion. Including grants, the deficit is expected to fall from Kshs.718.9 billion to Kshs.703.9 billion equivalent to 2% decrease.
- The intended decrease in the deficit is in line with the national government efforts to narrow the fiscal deficit (including grants) to 3.9% of GDP in FY 2024/25.
- The achievement of this target will be affected by in-year increases in expenditure and under performance of revenue through supplementary budgets.
- There needs to be a commitment by the government to reduce the fiscal deficit as a percentage of GDP in the effort to consolidate the existing fiscal deficits.

Recommendation- The National Treasury should employ realistic revenue targets and ensure adherence to the proposed fiscal deficit in FY 2024/25.

d) Kenya's public debt continues to be unsustainable, warranting more prudent borrowing practices over the medium term.

- Kenya's public debt stock stood at Kshs.11.14 trillion as at the end of December 2023. Of this, domestic and external debt stock accounted for 45.3% and 54.7% respectively.
- Kenya's public debt burden has become increasingly unsustainable shown by its gradually worsening Risk of Debt distress rating.
- Kenya is currently at a high risk of debt distress, exceeding 3 out of 4 of its external debt substitutability indicators.

- To refinance its 2014 debut sovereign bond due in June of 2024, Kenya issued a new Eurobond worth \$1.5 billion at a 9.85% interest rate, notably higher than the 2014 Eurobond rate of 6.85%.

Recommendation- Beyond fiscal consolidation measures, the national government must seek more affordable borrowing options over the medium term. This includes reducing the prominence of commercial and domestic debt in our debt portfolio, exploring alternative sources of financing that are lower cost e.g. Samurai and Panda bonds, and attached to specific development objectives e.g. green and blue bonds.

- e) Expenditure on public debt obligations continues to pose a risk to the timely delivery of public services, demanding restructuring of public debt payments
 - 2024 BPS shows a rise in the proportion of expenditure on CFS.

Recommendation

IBP-Kenya proposed that debt repayments be restructured in the medium term to create less pressure on available tax revenues.

- f) There is need for a closer focus on Government Owned Enterprises and Corporations. This is of concern since a huge portfolio of public and public guaranteed debt is held by these institutions.

Committee Observations

- a) The 2024 BPS does not contain a component on gender budgeting.
- b) National Treasury is custodian of the public debt register thus can report on the total stock of debt. Institutions such as IBP-Kenya rely on data published by the KNBS, Central Bank and National Treasury.
- c) There is no transparency on the quantum of debt in the country.
- d) Debt to GDP ratio may not a good indicator of debt sustainability. The amount of money used on debt service can be used to ascertain debt sustainability.

The Chairperson extended appreciation to the team from IBP-Kenya for honouring Committee's invitation to present the invaluable views that will improve Committee's report.

MIN/SEN/SCF&B/606/2024

ANY OTHER BUSINESS

- a) The meeting was informed that the Speaker had not approved request by the Committee to hold a meeting from 11:00 a.m. during Plenary Sitting. The Committee resolved to reschedule the 11 o'clock meeting to 1:00 p.m. Thus, hold a meeting with the Institute of certified Public Accountants of Kenya (ICPAK) and The Institute of Social Accountability (TISA). The Institute of Economic Affairs (IEA) be requested to submit written memoranda.

- b) The Committee resolved to postpone the capacity building workshop that was scheduled to be held between 2nd to 11th March, 2024 to a later date in April 2024 during recess.

MIN/SEN/SCF&B/607/2024 **DATE OF THE NEXT MEETING AND**
ADJOURNMENT

The meeting was adjourned at 9:25 a.m. The next meeting to be held on Wednesday, 21st February, 2024 at 1:00 p.m.

SIGNATURE.......... DATE. 04/03/2024.....

SEN. (CAPT.) ALI IBRAHIM ROBA, EGH, MP
(CHAIRPERSON)



MINUTES OF THE HUNDRED AND FOURTH (104TH) MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON WEDNESDAY, 21ST FEBRUARY, 2024 AT COUNTY HALL IN GROUND FLOOR FROM 1:00 P.M.

MEMBERS PRESENT

- | | | |
|---|---|-------------------------|
| 1. Sen. (Capt.) Ali Ibrahim Roba, EGH, MP | - | Chairperson |
| 2. Sen. Maureen Tabitha Mutinda, MP | - | Vice Chairperson |
| 3. Sen. (Dr.) Boni Khalwale, CBS, MP | - | Member |
| 4. Sen. Mohammed Faki Mwinyihaji, CBS, MP | - | Member |
| 5. Sen. Richard Momoima Onyonka, MP | - | Member |
| 6. Sen. Joyce Chepkoech Korir, MP | - | Member |
| 7. Sen. Eddy Gicheru Oketch, MP | - | Member |

ABSENT WITH APOLOGY

- | | | |
|-------------------------------------|---|--------|
| 1. Sen. Mohamed Shakila Abdala, MP | - | Member |
| 2. Sen. Tabitha Karanja Keroche, MP | - | Member |

SECRETARIAT

- | | | |
|----------------------------|---|-------------------------|
| 1. Mr. Christopher Gitonga | - | Clerk Assistant |
| 2. Ms. Gloria Wawira | - | Clerk Assistant |
| 3. Ms. Beverlyne Chivadika | - | Clerk Assistant |
| 4. Ms. Lucy Radoli | - | Legal Counsel |
| 5. Ms. Millicent Makina | - | Fiscal Analyst |
| 6. Mr. Kioko Kiminza | - | Fiscal Analyst |
| 7. Mr. Constant Wamuyuyi | - | Researcher |
| 8. Mr. Elijah Ichwara | - | Audio Officer |
| 9. Mr. Daniel Kirwa | - | Searjant-At-Arms |
| 10. Mr. Nandemu Barasa | - | Media Relations Officer |
| 11. Mr. Oliver Otieno | - | Intern |

IN ATTENDANCE

A. THE INSTITUTE OF CERTIFIED ACCOUNTANTS OF KENYA

- | | | |
|-------------------------|---|-------------|
| 1. CPA. Dr. Grace Kamau | - | CEO |
| 2. CPA. Philip Kakai | - | Chairperson |

- | | | |
|-----------------------|---|---------------------------------------|
| 3. CPA. Hillary Onami | - | Director, Public Policy, and Research |
| 4. Ms. Nancy Moraa | - | Policy Analyst |
| 5. Mr. Nelson Ogallo | - | Communications officer |

B. THE INSTITUTE OF SOCIAL ACCOUNTABILITY

- | | | |
|------------------------|---|-----------------------------|
| 1. Ms. Angela Wangechi | - | Program Officer |
| 2. Ms. Vyrone Ochola | - | Research and Policy Officer |
| 3. Ms. Mulayi Muni | - | Communications Officer |

MIN/SEN/SCF&B/608/2024 PRELIMINARIES.

The Chairperson called the meeting to order at 1:22 p.m. This was followed by a word of prayer and a round of introduction.

MIN/SEN/SCF&B/609/2024 ADOPTION OF THE AGENDA.

The agenda was adopted after it was proposed by Sen. Mohammed Faki Mwinyihaji, CBS, MP and seconded by Sen. Boni Khalwale, MP as listed below-

1. Prayer;
2. Introduction;
3. Adoption of the agenda;
4. Meeting with the Institute of Certified Accountants of Kenya (ICPAK), and The Institute of Social Accountability (TISA) to deliberate on the 2024 Budget Policy Statement, Medium-Term Debt Management Strategy and Medium-Term Revenue Strategy for FYs 2024/25 to 2026/27 (*Committee Paper No.78A*)
5. Consideration of pending legislative business (*Committee Paper No.77*); and
6. Any Other Business; and
7. Date of the Next Meeting and Adjournment.

MIN/SEN/SCF&B/610/2024 MEETING WITH ICPAK AND TISA TO DELIBERATE ON THE 2024 BUDGET POLICY STATEMENT, MEDIUM-TERM DEBT MANAGEMENT STRATEGY AND MEDIUM-TERM REVENUE STRATEGY (COMMITTEE PAPER NO.78A)

Meeting with Institute of Certified Public Accountants of Kenya (ICPAK)

Upon invitation, the team from the ICPAK submitted the following comments and recommendations on the 2024 BPS, MTDMS, and MTRS-

1. Agricultural Transformation and Inclusive Growth

- a) Maputo Declaration stipulates that allocation to the agriculture sector should be at least 10% of the total Country budget.

- b) Institute recognized government efforts including provision of subsidized fertilizer at a cost of Kshs.2,500, increased maize acreage under production by an extra 200,000 acres and enhanced maize production by an additional 18 million bags.

Recommendations

- Increase spending to 10% of the total budget. Currently, allocation to the Agriculture, Rural and Urban Development sector is projected at 3.5% of total Ministerial expenditure as per the BPS 2024.
- there is need for the country to gradually move from rain-fed agriculture by adopting cutting-edge technologies.
- Enhance value addition chains and diversify trading partners across the globe.
- Zero Rate- agro-inputs, Seeds, Machinery, Irrigation Equipment and farm implements
- Deploy more Agricultural Extension Officers to the ratio of 3 per constituency.

2. Transforming the Micro, Small and Medium Enterprise (MSME) Economy

- c) Support given to MSMEs include establishment of the Financial Inclusion Fund, or the Hustlers Fund in November 2022 among others. However, there are two concerns:
- Kenya has a narrow taxbase with majority of informal sector players not within the tax net.
 - The Multiplicity of taxes for MSMEs might in the long run cripple the sector.

Recommendations

- Leverage and utilize technology and data management to identify potential taxpayers.
- Enhance credit worthiness of sectoral MSMEs through formalization and taxpayer education.
- Adopt a simplified, easy to administer non disruptive taxation system that is easily understandable to MSME actors and lower tax rates to maximum 25%.
- Address the run-away cost of energy now at Kshs.35 per KW and cost of fuel that is discouraging use of electric and motorized equipment to improve production efficiency.

3. Housing and Settlement

- d) Affordable housing levy requires a mandatory monthly deduction of 1.5% from the gross monthly salary of every formal employee and employer match with equal amount.
- e) The levy is imposed on gross income whereas PAYE is also imposed on gross income amounting to double taxation.

Recommendations

Alternative Development Approaches which include-

- Parliament should set aside funds for housing since employees are already paying PAYE.
- The government ought to pursue more Public-Private Partnerships (PPPs)
- As part of leveraging on PPPs, getting to utilize the climate action funding towards affordable housing developments.
- Provide Capital Gains Tax waiver relief for land transaction acquired for affordable housing incentivize landowners to avail land.

4. **Healthcare**

- f) An Act established three new Funds including the Primary Healthcare Fund (PHF), Social Health Insurance Fund (SHIF), and the Emergency, Chronic and Critical Illness Fund (ECCIF).
- g) To implement universal healthcare programmes, the Sector has been allocated Ksh 147.5 billion, Ksh 155.5 billion and Ksh 160.1 billion in the FY 2024/25, 2025/26 and 2026/27 respectively. This translates to 4.1%, 4.32% and 4.4% respectively of the total budget of 3.6 trillion, way below the threshold prescribed threshold of 15% as per the Abuja Declaration.
- h) Regulations operationalizing the Social Health Insurance Act 2023 propose the rate of 2.75% of the gross salary for salaried beneficiaries.

Recommendations

- There is need to increase the health budgetary allocation to the recommended 15% of the total annual budget as recommended by the AU under the Abuja declaration.
- The primary funding mechanism of 2.75% is too high should be reduced.
- Consider retaining the original voluntary NHIF contribution of Kshs.500 and cap NHIF maximum contributions to Kshs.5,000 since employers match up contributions for employees.
- There is need to address the classification of medical services providers under the new Health Insurance Scheme

5. **Environment and Climate Change**

- i) the government target of planting 15 billion trees is being implemented by every government department.
- j) efforts aimed at implementation of climate adaptation and mitigation including green energy, smart agriculture, decarbonized manufacturing, e-mobility and green building, all aimed at the attainment of zero carbon by 2050.

Recommendations

- Support and monitor implementation of the National Green Climate Fund Strategy.
- Need to engender environmental and climate change aspects in the education.
- Adopt the Country Climate Change and Development Reports (CCDR) recommendations.

6. **Education and Training**

- k) Some of the challenges facing education sector include-
- Lack of proper investment in Education infrastructure:
 - Increase per capita allocation and capitation grants towards education sector in line with international standards.
 - High pupil teacher ratios especially in public schools.

Recommendations

- Invest in construction of more primary and secondary schools in the regions with a high average school sizes to ensure provision of quality education to the students.
- There is a need to revise capitation for instructional materials and projects based on an informed analysis,
- Recruit more teachers on permanent and pensionable terms to bridge the gap created in the current adoption JSS system and reduce teacher-pupil ratio.

7. Medium Term Revenue Strategy

- l) The implementation of MTRS is expected to among others-
- raise revenue to GDP ratio from 14.3% in FY 2022/23 to 20% by end of the FY 2026/27;
 - increase tax compliance rate from 70% in FY 2022/23 to 90% by FY 2026/27; and
 - increase investment to GDP ratio from 19.3% in FY 2022/23 to 25.7% in FY 2026/27.
- m) MTRS proposes an embrace of technology and data sharing between County governments, third parties, and the Kenya Revenue Authority (KRA).
- n) The strategy also suggests a final withholding tax of not more than 5% on the value of produce delivered to cooperatives or other organized groups.

Recommendations

The government should-

- Produce, as standard practice, tax incidence analysis for the different tax measures;
- Give an annual progress update on the implementation of measures in the MTRS;
- Publish a consultation draft of the MTRS for public feedback before it is finalized and published for implementation.

8. Recommendations on the National Tax Policy

- Expedite implementation of the national tax policy.
- Publish, publicize and capacity build the public on the policy.
- Finalize the formulation and enhance the implementation of the National tax policy.
- Harmonize various laws to facilitate the registration of a single identifier to ensure all potential taxpayers are registered with the KRA.
- Harmonize taxes, levies, and charges to reduce their multiplicity at National and county government levels.

9. Deficit Financing & Issues around Public Debt

- o) According to the 2024 MTDMS, Public and publicly guaranteed debt in nominal terms as at end June 2023 was Kshs.10,278.7 billion (70.8% of GDP). This comprises external debt stock of Ksh.5,446.5 billion and domestic debt stock of Ksh.4,832.1 billion.

Recommendations

- Establish and operationalize a Sinking Fund.
- Establish and operationalize a Kenyan Sovereign Wealth Fund through policy and legislation.
- Consider Public Private partnerships as a form of financing development expenditure.
- Gradually retire expensive commercial loans for long-term concessional loans.
- Parliament should demand regular reports on capital projects financed through debt from the National Treasury to enhance openness and transparency.
- Enhance prudent financial management and accountability in implementation of development projects.

10. Enhancement of County Governments' Own-Source-Revenue

- The Institute proposes the automation of OSR systems (use of a common system across all counties) to address leakages and enhance visibility.
- Capacity-build all critical players and cadres of county staff on revenue administration.
- Professionalize revenue officers to ensure qualified staff handle the revenue function.

11. Pending Bills

- p) As of September 30, 2023, the pending bills owed to various service providers by the devolved units stood at Kshs.168.62 billion.
- q) The National Treasury Cabinet Secretary via Gazette Notice 13355 of September 20th, 2023 appointed the Pending Bills Verification Committee to scrutinize and analyze existing national pending bills that have been accrued from the period 2005 to June 2022.

Recommendations

- The Government should expedite shifting its budgeting and financial reporting from the current cash basis to an accrual basis.
- Through realistic budgets, proper oversight by the Controller of Budget and prudent spending and planning by the devolved units would significantly reduce further accumulation.

Committee observations

- a) Realistic projection of Own Source Revenue by counties contributes to accumulation of pending bills in counties. It is imperative to implement accountability mechanisms, such as a centralised revenue collection system.
- b) To ascertain the total stock of debt in the country, an audit of the public register is required.

- c) Gender budgeting is not included in the 2024 BPS. ICPAK will provide more details on gender budgeting.
- d) Present Value of debt to GDP ratio (currently at 68.2%) is projected to remain above the limit of 55% up to 2029. It is projected to be at 56.9% in 2028 and then at 48% in 2029. There was a concern therefore as to whether the required threshold of 55% will be achieved within 5 years.

Meeting with The Institute of Social Accountability (TISA)

After introductions, the Chairperson expressed gratitude to the team from TISA for honouring committee's invitation to submit views on 2024 BPS, MTDMS and MTRS. However, the Committee noted that at 2. 30 pm Members were required to be in the chamber for the afternoon plenary. Thus, the Committee resolved to receive TISA's written submissions due to time constraint and also members' obligation to attend the afternoon Plenary session of the Senate.

MIN/SEN/SCF&B/611/2024 ADJOURNMENT AND DATE OF THE NEXT MEETING

The meeting adjourned at 2:27 p.m. The next meeting to be held on Thursday, 22nd February, 2024 at 9:00 a.m.

SIGNATURE.......... DATE..04/03/2024..

SEN. (CAPT.) ALI IBRAHIM ROBA, EGH, MP
(CHAIRPERSON)



**MINUTES OF THE HUNDRED AND EIGHTH (108TH) MEETING OF THE SENATE
STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON FRIDAY, 23RD
FEBRUARY, 2024 IN THE SENATE CHAMBER 12:30 P.M.**

MEMBERS PRESENT

- | | | |
|---|---|-------------------------|
| 1. Sen. (Capt.) Ali Ibrahim Roba, EGH, MP | - | Chairperson |
| 2. Sen. Maureen Tabitha Mutinda, MP | - | Vice Chairperson |
| 3. Sen. Mohammed Faki Mwinyihaji, CBS, MP | - | Member |
| 4. Sen. Richard Momoima Onyonka, MP | - | Member |
| 5. Sen. Mohamed Shakila Abdala, MP | - | Member |
| 6. Sen. Joyce Chepkoech Korir, MP | - | Member |

ABSENT WITH APOLOGY

- | | | |
|--------------------------------------|---|--------|
| 1. Sen. (Dr.) Boni Khalwale, CBS, MP | - | Member |
| 2. Sen. Eddy Gicheru Oketch, MP | - | Member |
| 3. Sen. Tabitha Karanja Keroche, MP | - | Member |

SECRETARIAT

- | | | |
|----------------------------|---|-------------------------|
| 1. Mr. Christopher Gitonga | - | Clerk Assistant |
| 2. Ms. Lucy Makara | - | Deputy Director, PBO |
| 3. Ms. Gloria Wawira | - | Clerk Assistant |
| 4. Ms. Beverlyne Chivadika | - | Clerk Assistant |
| 5. Ms. Lucy Radoli | - | Legal Counsel |
| 6. Ms. Millicent Makina | - | Fiscal Analyst |
| 7. Mr. Gorod Abdirahman | - | Fiscal Analyst |
| 8. Mr. Constant Wamuyuyi | - | Researcher |
| 9. Mr. Elijah Ichwara | - | Audio Officer |
| 10. Mr. Fredrick Ouma | - | Searjant-at-arms |
| 11. Mr. Nandemu Barasa | - | Media Relations Officer |
| 12. Mr. Oliver Otieno | - | Intern |

IN ATTENDANCE

THE NATIONAL TREASURY AND ECONOMIC PLANNING

- | | | |
|-------------------------------|---|--|
| 1. Prof. Njuguna Ndung'u, CBS | - | Cabinet Secretary |
| 2. Mr. Albert Mwenda | - | Director General, Budget, Fiscal and
Economic Affairs |
| 3. Mr. Samuel Kiptorus | - | Director, Intergovernmental Fiscal Relations |

- | | |
|---------------------------|--|
| 4. Mr. Livingstone Bumbe | - Deputy Director, Public Debt Management Office |
| 5. Mr. Joseph Ngugi | - Director-Macro Planning |
| 6. Mr. John Njora | - Director for Planning |
| 7. Mr. Martin Ngugi | - Director- Liaison |
| 8. Mr. Benard Kibet | - Principal Economist |
| 9. Ms. Catherine Kalachia | - Principal Economist |
| 10. Ms. Mary Nguli | - Economist |

MIN/SEN/SCF&B/624/2024 **PRELIMINARIES.**

The Chairperson called the meeting to order at 12:40 p.m. This was followed by a word of prayer and a round of introduction.

MIN/SEN/SCF&B/625/2024 **ADOPTION OF THE AGENDA**

The agenda was adopted after it was proposed by Sen. Maureen Tabitha Mutinda, MP, and seconded Sen. Richard Momoima Onyonka, MP, as listed below-

1. Prayer;
2. Introduction;
3. Adoption of the agenda;
4. Meeting the National Treasury and Economic Planning to deliberate on the 2024 Budget Policy Statement, Medium-Term Debt Management Strategy and Medium-Term Revenue Strategy for FYs 2024/25 to 2026/27 (*Committee Paper No.78C*);
5. Any Other Business; and
6. Date of the Next Meeting and Adjournment

MIN/SEN/SCF&B/626/2024 **MEETING THE NATIONAL TREASURY AND ECONOMIC PLANNING TO DELIBERATE ON THE 2024 BUDGET POLICY STATEMENT, MEDIUM-TERM DEBT MANAGEMENT STRATEGY AND MEDIUM-TERM REVENUE STRATEGY FOR FYS 2024/25 TO 2026/27**

Upon invitation by the Chairperson, the Cabinet Secretary for National Treasury and Economic Planning submitted the following regarding each of the budgetary documents-

The 2024 Medium-Term Debt Management Strategy

- a) the current stock of public and publicly guaranteed debt stands at Kshs.11,248.01 billion or 69.7 percent of GDP in nominal terms. The current Present Value of public debt to GDP is 67.2 percent.
- b) The public debt comprises a mix of External debt of Kshs.6,189.97 billion; and Domestic debt of Kshs.5,058.04 billion.
- c) In the recent months, external debt has risen relative to domestic debt due to depreciation of the Kenya shilling against foreign currencies.
- d) External debt is largely from official creditors and on concessional terms. It is composed of-

- Kshs.3,118.57 billion as multilateral debts (50% of total external debt);
 - Kshs.1,399.72 billion bilateral debts (23%); and
 - Kshs.1,671.68 billion commercial debts (27%) of which Eurobonds account for Kshs.1,141.33 billion (18%).
- e) Domestic debt is mainly in held in form of Government debt securities as follows-
- Kshs.4,272.25 billion in Treasury Bonds (85% of total domestic debt)
 - Kshs.565.63 billion Treasury Bills (11%); and
 - Kshs.220.16 billion (4%) as others (*Overdrafts from Central Bank of Kenya, IMF SDR Allocation and Bank advances*).
- f) the proposed FY 2024/2025 fiscal deficit of Kshs.703.87 billion is to be financed as follows.
- i. Net Foreign financing - Kshs.326.12 billion
 - Commercial Borrowing - Kshs.151.00 billion
 - Programme loans - Kshs.210.48 billion
 - Project Loans & A-I-A - Kshs.308.54 billion
 - External Repayment - Kshs.(343.90) billion
 - ii. Net Domestic financing - Kshs.377.75 billion
- g) Assessment of the cost and risk characteristics of the current debt portfolio-
- The National Treasury commits to bring down the Present Value of debt as a percentage of GDP from 67.2 percent to 55% over a period of five years as per the recent amendment of the PFM, Act on the debt anchor.
 - The weighted average interest rate of the total debt portfolio was 7.7 percent per annum in June 2023, of which domestic debt is 11.4 percent per annum.
 - The weighted average interest rate of external debt increased to 4.5% in June 2023 compared to 3.9% in December 2022.
 - The rise in interest rates in the public debt portfolio is attributed to the tight liquidity conditions both in the domestic and international financial markets.
 - Average Time to Maturity of the total portfolio declined from 8.8 years in December 2022 to 8.5 years in June 2023 on account of reduced performance of long tenor bonds and issuance of more short-term domestic debt attributed to tightness of liquidity in the market.
 - The projected debt redemption profile is characterized by large maturities in 2028, 2029 and 2030 on account of Eurobond and bank syndicated debts.
- h) The 2024 Medium-Term Debt Management Optimal Strategy
- 2024 MTDMS aims to optimize access to external concessional borrowing and undertake liability management to minimize costs and refinancing risks in the debt portfolio.
 - On a net basis, the strategy assumes a mix of 45% domestic and 55% external financing over the medium term.
 - In gross borrowing terms, external and domestic financing accounts for 37% and 63%, respectively.
- i) The key attributes of the 2024 Medium Term Debt Management Strategy: key actions to guide borrowings during FY2024-25 to 2026-2027 include-
- Use of long tenor Treasury bonds for refinancing of maturing domestic debt.

- Deepening the domestic bond market through issuance of more medium to long-term instruments as the main source of domestic financing.
 - Maximize use of concessional borrowing as opposed to commercial debt to lower costs and risks;
 - Minimize interest rate risk in terms of average time to re-fixing.
- j) Highlights of Kenya's Debt Sustainability: The latest Debt Sustainability Analysis Report indicates that-
- Public debt remains sustainable though the distress level is elevated ;
 - The Debt Carrying Capacity has declined from strong to medium since 2021 to date;
 - Subdued growth in exports has increased external debt vulnerability.
 - Kenya successfully executed a liability management operation targeting the 2024 Eurobond. The operation permanently removed settlement risk on the USD 2 billion Eurobond maturing in June 2024 by partially buying-back USD 1.5 billion of the Bond.
- k) Domestic Debt Market Reforms: These reforms include:
- Publication of an issuance calendar;
 - Separation of the Retail and Wholesale Market for Government Securities;
 - Re-engineering Retail-Bond Issuance;
 - Establishment of the Over The Counter (OTC) Market for Government Debt Securities;
 - Establishment of an Efficient Horizontal Repo Market and Securities Lending and Borrowing (SLB).
 - The National Treasury has engaged the IMF/World Bank to assist the Public Debt Management Office (PDMO) in the domestic market development.

The 2024 Budget Policy Statement (BPS)

- a) The theme for the 2024 BPS Sustaining Bottom-Up Economic Transformation Agenda for Economic Recovery and Improved Livelihoods.
- b) The economic growth for 2024 is projected to remain strong at 5.5 percent equivalent to growth of 5.5 percent in 2023, driven by improvement in aggregate demand supported.
- c) The Central Bank of Kenya gradually raised the Central Bank Rate (CBR) by 550 basis points from 7.50% in May 2022 to 13.0% in February 2024 to maintain price stability consistent with inflation target of $5 \pm 2.5\%$.
- d) As a result, overall inflation rate declined to 6.9% in January 2024 from a peak of 9.6 percent in October 2022.
- e) The Kenya shilling exchange rate has strengthened against major international currencies.
- f) By 20th February 2024, the Kenya Shilling Strengthened by 10.8 percent against the US Dollar, 10.9 percent against the Sterling Pound and 10.8 percent against the Euro, compared to 9th February 2024.
- g) The strengthening of the Kenyan shilling is attributed to forex inflows from the Government infrastructure bond which was oversubscribed by 412.4%, and the impact of

de-risking the 2024 Euro bond through US\$ 1.5 billion received from international investors.

FY 2023/24 Budget Execution

- h) By end January 2024, revenue collection amounted to Ksh 1,499.7 billion and was below target by Ksh 195.4 billion mainly on account of a shortfall in ordinary revenues of Ksh 232.6 billion.
- i) During the implementation of the FY 2023/24 Budget, a number of challenges were faced including-
 - The year began with expenditure carryovers and fuel subsidy arrears amounting to Ksh 102.2 billion;
 - closed the FY 2022/23 with an ordinary revenue shortfall of Ksh 104.3 billion; and
 - Because of exchange rate movements and elevated domestic interest rates, debt service costs were significantly above the budget levels.

Fiscal Policy and Budget for FY 2024/25

- j) The medium-term budget aims to support BETA through friendly fiscal consolidation plan.
- k) Fiscal policy focuses on reducing the deficit from 5.6 percent of GDP in FY 2022/23 to 4.7 percent of GDP in FY2023/24 and further to 3.9 percent of GDP in FY 2024/25.
- l) In the FY 2024/25 budget, revenue collection including Appropriation-in-Aid (A.I.A) is projected at Kshs.435.0 billion (19.1% of GDP). Of this, ordinary revenue is projected at Kshs.2,948.1 billion (16.4% GDP).
- m) On the other hand, total expenditure is projected at Kshs 4,188.2 billion (23.2% of GDP).
- n) The fiscal deficit including grants of Kshs.703.9 billion (3.9% of GDP) in the FY 2024/25 will be financed by a net external financing of Kshs.326.1 billion (1.8% of GDP) and a net domestic financing of Kshs.377.7 billion (2.1% of GDP).
- o) Total budget for FY 2024/25 is Kshs.4,143.7 billion which is allocated as follows:
 - National Government share - Kshs.2,511.5 billion (60.6% of total expenditure) which comprises of Executive (Kshs.2,438.9 billion); Parliament (Kshs.41.6 billion) and Judiciary (Kshs.23.7 billion).
 - Consolidated Fund Services - Kshs 1,241.1 billion (30% of total expenditure), and
 - County Governments' share - Kshs.391.1 billion (9.4% of total expenditures)

MEDIUM-TERM REVENUE STRATEGY(MTRS) FOR FY 2024/25 TO FY 2026/27

- a) Since 2016, over twenty-five countries globally have formulated (MTRS) geared towards boosting tax revenues and improving efficiency of tax systems.
- b) In Kenya, revenue as a percentage of GDP has been declining over the years from 18.1 percent in FY 2013/14 to 14.3 percent in FY 2022/23.
- c) Expenditure pressure has been rising resulting in increased borrowing to bridge the revenue gap.
- d) The Government with the support of development partners, in 2021, embarked on the development of the MTRS to enhance domestic revenue mobilization.

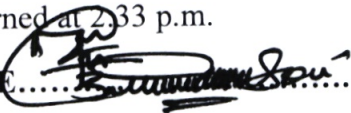
- e) The MTRS is aligned to the National Tax Policy and will guide tax administration to improve efficiency.
- f) The MTRS is expected to hasten the fiscal consolidation process thus reducing the fiscal deficit to facilitate the achievement of the EAC target of 3.0 percent of GDP.
- g) The objectives of the MTRS are to-
 - improve efficiency in revenue administration;
 - ensure equity and fairness in the tax regime;
 - enhance tax-payer compliance with tax obligations;
 - expand the tax base;
 - create certainty in the tax regime to attract investment; and
 - promote investment across various sectors by removing market distortions.
- h) The implementation of MTRS is expected to among others-
 - raise revenue to GDP ratio from 14.3 percent in FY 2022/23 to 20.0 percent by end of the FY 2026/27;
 - increase tax compliance rate from 70% in FY 2022/23 to 90% by FY 2026/27; and
 - increase investment to GDP ratio from 19.3% in FY 2022/23 to 25.7% in FY 2026/27.
- i) The MTRS will be implemented three years from FY 2024/25 to FY 2026/27. Tax policy reforms will be implemented through the Finance Acts, commencing with the Finance Act, 2024 while revenue administration reforms begin from January 2024 as per the implementation matrix annexed to the MTRS.

Committee Observations

- a) The 2024 BPS does not have allocation for transfer of library services as provided for in the approved 2023 BPS. National Treasury will provide clarification regarding the matter.
- b) Ordinary revenue collection is expected to grow by 14% in 2024/25 while equitable share to counties to grow by a paltry 1.5%, from Kshs.385.425 to Kshs.391.1 billion.
- c) There is need to expedite the process of establishing the proposed Integrated County Revenue Management Systems (ICRMS), this will assist the counties in enhancing OSR performance.
- d) As at December, 2023, parastatals, MDAs and counties had accumulated pending bills totaling Kshs.447 billion, Kshs.91.4 billion and Kshs.164 billion respectively. This trend has an adverse effect on the economy. Further, it negatively affects the livelihood of the citizens.
- e) The National Treasury should ensure more efforts are put in place to ensure PV of debt to GDP ratio is in compliance with the threshold provided in the PFM Act.

MIN/SEN/SCF&B/627/2024 **ADJOURNMENT**

The meeting was adjourned at 2:33 p.m.

SIGNATURE.......... DATE.....04/03/2024.....

SEN. (CAPT.) ALI IBRAHIM ROBA, EGH, MP

(CHAIRPERSON)



MINUTES OF THE HUNDRED AND TWELFTH (112TH) MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON WEDNESDAY 6TH MARCH, 2024 AT THE GROUND FLOOR BOARDROOM, COUNTY HALL, PARLIAMENT BUILDING AT 8:00 A.M.

PRESENT.

1. Sen. (Capt.) Ali Ibrahim Roba, EGH, MP	-	Chairperson
2. Sen. Maureen Tabitha Mutinda, MP	-	Vice-Chairperson
3. Sen. (Dr.) Boni Khalwale, CBS, MP	-	Member
4. Sen. Shakila Abdalla Mohamed, MP	-	Member
5. Sen. Joyce Chepkoech Korir, MP	-	Member
6. Sen. Eddy Oketch Gicheru, MP	-	Member

ABSENT WITH APOLOGY.

1. Sen. Mohamed Mwinyihaji Faki, CBS, MP	-	Member
2. Sen. Richard Momoima Onyonka, MP	-	Member
3. Sen. Tabitha Karanja Keroche, MGH, MP	-	Member

SECRETARIAT

1. Mr. Christopher Gitonga	-	Clerk Assistant
2. Ms. Beverlyne Chivadika	-	Clerk Assistant
3. Ms. Lucy Makara	-	Deputy Director, PBO
4. Ms. Lucy Radoli	-	Legal Counsel
5. Ms. Millicent Makina	-	Fiscal Analyst
6. Mr. Abdirahman Gorod	-	Fiscal Analyst
7. Mr. Kiminza Kioko	-	Fiscal Analyst
8. Mr. Elijah Ichwara	-	Audio Officer
9. Mr. Constant Wamayuyi	-	Research officer
10. Mr. Godana Mamo	-	Seargent-At-Arm
11. Mr. Oliver Onyango	-	Intern

MIN/SEN/SCF&B/645/2024

PRELIMINARIES

The Chairperson called the meeting to order at 8:21 a.m. This was followed by a word of prayer and a round of introduction.

MIN/SEN/SCF&B/646/2024**ADPOTION OF THE AGENDA**

The agenda was adopted after being proposed by Sen. (Dr.) Boni Khalwale, CBS, MP, and seconded by Sen. Maureen Tabitha Mutinda, MP. as listed below-

1. Prayer;
2. Adoption of the agenda;
3. Confirmation of Minutes of the 105th, 110th, and 111th.
4. Matters arising from Minutes of the previous meeting;
5. Consideration of the Medium-Term Debt Management Strategy (*Committee Paper No. 78E*);
6. Any Other Business; and
7. Adjournment and Date of the Next Meeting.

MIN/SEN/SCF&B/647/2024**CONFIRMATION OF PREVIOUS MEETINGS.**

Confirmation of the Minutes of the 105th, 110th and 111th were deferred to subsequent meeting.

MIN/SEN/SCF&B/648/2024**CONSIDERATION OF THE DRAFT REPORT
ON 2024 MEDIUM-TERM DEBT
MANAGEMENT STRATEGY (COMMITTEE
PAPER NO. 78E)**

The Committee considered the report on the 2024 Medium Term Debt Management Strategy and unanimously adopted the report having been proposed by Sen. Joyce Chepkoech Korir, MP, and seconded by Sen. Shakila Abdalla Mohamed, MP, with the following recommendations-

- a) That, consistent with the financing requirements underpinning the 2024 Budget Policy Statement, the proposed fiscal deficit target of Ksh. 703.9 billion (3.9% of GDP) for FY 2024/25 be approved. This is broadly in line with the proposed fiscal consolidation path, progressing to 3.1% of GDP by FY 2027/28.
- b) That, the proposed borrowing strategy in the 2024 MTDS of 55% for net external borrowing and 45% for net domestic borrowing be approved for FY 2024/25 and the medium term.
- c) That, going forward, the National Treasury should in subsequent budget cycles, ensure that the MTDS submitted to Parliament for consideration and approval contains the most recent data on the stock of public and publicly guaranteed debt as at the date of the statement in line with section 33(3) of the PFM Act, Cap.412A.
- d) That, to enhance monitoring and transparency on in-year borrowing operations, at the end of every quarter of the financial year, the National Treasury should submit

to the Senate a status report on any deviation from the approved borrowing strategy indicating the reasons for the deviation.

- e) That, pursuant to section 50 of the Public Finance Management Act, Cap.412A, the National Treasury should submit a report to the Senate by end of 30th April, 2024, on the specific measures being taken to ensure that the National Government complies with the 55% debt threshold within the timelines provided in the Act.

MIN/SEN/SCF&B/649/2024

**ADJOURNMENT AND THE DATE OF THE
NEXT MEETING.**

The meeting adjourned at 9:27 a.m. The next meeting to be held on Thursday, 7th March 2024 at 9 am.

SIGNATURE..... DATE.....

**SEN. (CAPT.) ALI IBRAHIM ROBA, EGH, MP
(CHAIRPERSON)**



REPUBLIC OF KENYA
THE NATIONAL TREASURY AND ECONOMIC PLANNING

BRIEF FOR THE CABINET SECRETARY FOR USE DURING THE
MEETING WITH THE SENATE STANDING COMMITTEE ON
FINANCE AND BUDGET TO DELIBERATE ON THE 2024
BUDGET POLICY STATEMENT AND THE MEDIUM-TERM
REVENUE STRATEGY

I. INTRODUCTION

1. Hon. Chairperson and Hon. Members, thank you for inviting us to this meeting to consider and deliberate on the 2024 Budget Policy Statement and the Medium-Term Revenue Strategy for the period FY 2024/25 to FY 2026/27.

II. THE 2024 BUDGET POLICY STATEMENT

2. The 2024 Budget Policy Statement (BPS), the second to be prepared under the Kenya Kwanza Administration, reaffirms the priority policies and strategies under the **Bottom-Up Economic Transformation Agenda (BETA)** as prioritized in the Fourth Medium Term Plan of the Vision 2030.

3. The Agenda recognizes the importance of managing the cost of living through well-functioning markets to enhance income generation, productivity, availability and affordability of goods and services for all citizens. The interventions target five core

priority areas namely: i) Agricultural Transformation and Inclusive Growth; ii) Micro, Small and Medium Enterprise (MSME) Economy; iii) Housing and Settlement; iv) Healthcare; and v) Digital Superhighway and Creative Industry.

4. The Agenda places special focus on increased employment, more equitable distribution of income, social security while also expanding the tax revenue base, and increased foreign exchange earnings. To realize these objectives, the Government has targeted **9 value chains** with the largest impact on jobs creation and economic recovery as follows: (i) Leather; (ii) Cotton; (iii) Dairy; (iv) Edible Oils; (v) Tea; (vi) Rice; (vii) Blue Economy; (viii) Natural Resources Including Minerals & Forestry; and (ix) Building Materials.

5. In this respect, and in order to capture the aspirations of the Government, the theme for the 2024 Budget Policy Statement (BPS) is: *Sustaining Bottom-Up Economic Transformation Agenda for Economic Recovery and Improved Livelihoods.*

Recent Economic Developments

6. Hon. Chairperson, the 2024 BPS is framed against a backdrop of an improved outlook for global growth, moderating international oil prices, and heightened geopolitical tensions particularly in the Middle East. Global growth is estimated at **3.1 percent for 2023** while that of **2024** has been revised upwards in the January 2024 World Economic Outlook (WEO), from **2.9 percent to 3.1 percent**. This growth outlook for 2024 reflects stronger-than-expected growth in the United States, continued strengthening of the Chinese economy, and strong growth in several large emerging market and developing economies.

7. Against this background, there has been significant success following the various interventions rolled out during the past one year by the Government. Specifically, the Kenyan economy remained strong and resilient in the first three quarters of 2023 despite the challenging external environment and significant losses and damages due to frequent extreme weather events. The economic growth averaged 5.6 percent (5.5 percent in Q1 and Q2 and 5.9 percent Q3) primarily driven by a rebound in agriculture activities and a continued resilience of the service sector.

8. Growth for 2024 is projected to remain strong at 5.5 percent from the estimated growth of 5.5 percent in 2023, which is a further pick up from the 4.8 percent growth in 2022. This growth outlook will be driven by improvement in aggregate demand supported by: household private consumption driven by the easing of inflationary pressures which will result in strong household disposable income; robust private sector investments coupled with ongoing Government investments in Affordable Housing programme, PPP infrastructure projects and the ongoing work on building and maintaining public infrastructure; and improvement in the external account supported strong exports and resilient remittances.

9. Over the next four years, the Government will scale up efforts on policy and structural reforms under the BETA in order to navigate the global turbulence, accelerate economic recovery, and address overarching development challenges namely creating jobs, eradicating poverty and mitigating climate change. As part of the process, the Government will accelerate investments in: (i) human capital development; (ii) reforming markets that are in

disarray; (iii) domestic resource mobilization and application of those resources to development projects; (iv) reform and restructure of institutions; and (v) digitization so as to coordinate all the other four areas.

10. **Hon. Chairperson**, the coordination between monetary and fiscal policies continues to support macroeconomic stability. The Central Bank of Kenya tightened monetary policy by gradually raising the Central Bank Rate (CBR) by 550 basis points from 7.50 percent in May 2022 to 13.0 percent in February 2024 in order to maintain price stability consistent with our inflation target of 5 ± 2.5 percent. This monetary policy action was complemented by Government interventions aimed at lowering the cost of production, easing of global food prices and favourable weather conditions that increased food supply. As a result, overall inflation rate declined to 6.9 percent in January 2024 from a peak of 9.6 percent in October 2022.

11. The Kenya shilling exchange rate has strengthened against major international currencies since 9th February 2024. By 20th February 2024, the Kenya Shilling Strengthened by 10.8 percent against the US Dollar, 10.9 percent against the Sterling Pound and 10.8 percent against the Euro, compared to 9th February 2024. The strengthening of the Kenyan shilling is attributed to forex inflows from the Government infrastructure bond which was oversubscribed by 412.4%, and the impact of de-risking the 2024 Euro bond through US\$ 1.5 billion received from international investors

FY 2023/24 Budget Execution

12. Hon. Chairperson, budget execution for the first seven months of FY 2023/24 has been hampered by challenges in raising resources. By end January 2024, revenue collection amounted to Ksh 1,499.7 billion and was below target by Ksh 195.4 billion mainly on account of a shortfall in ordinary revenues of Ksh 232.6 billion. However, this revenue performance represented a growth of 14.4 percent compared to a growth of 9.8 percent in the same period in FY 2022/23. Over the course of the fiscal year, revenue performance is anticipated to improve in light of improved tax administration.

13. Expenditures were below target by Ksh 350.4 billion on account of below target disbursements towards both recurrent expenditure and development expenditures. The below target performance in expenditures is largely explained by the shortfalls in revenue performance as well as underperformance in external and domestic financing.

14. Fiscal operations of the Government by end of January 2024 resulted in an overall deficit including grants of Ksh 310.7 billion (1.9 percent of GDP) against a target of Ksh 461.2 billion (2.9 percent of GDP). The deficit was funded with net domestic financing of Ksh 203.1 billion or 1.3 percent of GDP and net foreign financing of Ksh 84.5 billion or 0.5 percent of GDP.

Emerging Challenges in the Implementation of the FY 2023/24 Budget

15. Hon. Chairperson, during the implementation of the FY 2023/24 Budget we faced several challenges:

- We began the year with expenditure carryovers and fuel subsidy arrears amounting to Ksh 102.2 billion;
- We closed the FY 2022/23 with an ordinary revenue shortfall of Ksh 104.3 billion; and
- Because of exchange rate movements and elevated domestic interest rates, debt service costs were significantly above the budget levels.

16. In order to address these challenges, the approved Supplementary 1 introduced rationalization of non-primary expenditures to take into account the carryovers and upward adjustment to interest payments. This allowed the overall fiscal deficit to widen to Ksh 886.6 billion (5.5 percent of GDP) from Ksh 718.9 billion (4.4 percent of GDP) in the budget estimates.

17. As the FY 2023/24 progressed, the National Treasury has observed the following:

- Ordinary revenue collection has experienced shortfalls since July 2023 with the total cumulative shortfalls in ordinary revenue collections as at end January 2024 amounting to Ksh 232.6 billion;
- Borrowing from the domestic market have also lagged behind target to January 2024 with the cumulative net domestic borrowing below target by Ksh 264.7 billion; and
- Outstanding exchequer requests amounted to Ksh 294.1 billion cumulatively by end January 2024. The liquidity challenges are expected to ease in the second half of the FY as the resources from external sources come in. This will address the outstanding exchequer requests.

18. The combination of revenue underperformance and the underperformance in the raising resources from the domestic borrowing market has compromised our ability to timely fund the FY 2023/24 budget. In order to ensure smooth implementation of the budget, a **Supplementary II Budget** need to be finalised by rationalizing expenditures further to increase the primary surplus and reduce the fiscal deficit to **4.7 percent of GDP** in line with the IMF program.

Fiscal Policy and Budget for FY 2024/25

19. Hon. Chairperson, the fiscal policy stance for the FY 2024/25 and the medium term budget aims to support the Bottom-Up Economic Transformation Agenda (BETA) through a **growth friendly fiscal consolidation plan**. The consolidation will be supported by enhanced revenue mobilization and rationalization of non-priority expenditure while protecting essential social and development spending.

20. Our fiscal policy path recognizes the pressing need for debt trajectory to be firmly put on a downward path over the medium term to reduce debt vulnerabilities while recognizing the difficult tradeoffs exerted by Kenya's limited fiscal space and continued financing constraints. Accordingly, the focus of our fiscal policy remains on reducing the deficit from **5.6 percent of GDP** in FY 2022/23 to **4.7 percent of GDP** in FY2023/24 and further to **3.9 percent of GDP** in FY 2024/25.

21. To realize these objectives, we continue to focus on aggressive domestic resource mobilization through the continued implementation of the **Medium-Term Revenue Strategy (MTRS)**. In addition, tax administration by the Kenya Revenue Authority

X will be strengthened through scaling up use of technology to seal leakages. In part, this will involve enhancements of iTax and Integrated Customs Management System (iCMS) and usage of Tax Invoice Management System (e-TIMS).

22. In the FY 2024/25 budget, revenue collection including Appropriation-in-Aid (A.i.A) is projected at Ksh 3,435.0 billion (19.1 percent of GDP). Of this, ordinary revenue is projected at Ksh 2,948.1 billion (16.4 percent of GDP). On the other hand, total expenditure is projected at Ksh 4,188.2 billion (23.2 percent of GDP); comprising of recurrent expenditure of Ksh 2,859.3 billion (15.9 percent of GDP); development expenditure of Ksh 887.8 billion (4.9 percent of GDP); transfer to County Governments of Ksh 446.0 billion (includes Ksh 391.1 billion for equitable share and Ksh 54.9 billion in additional allocations); and Ksh 5.0 billion for Contingency Fund.

* Deficit of 143.7 *
23. The resulting fiscal deficit including grants of Ksh 703.9 billion (3.9 percent of GDP) in the FY 2024/25 will be financed by a net external financing of Ksh 326.1 billion (1.8 percent of GDP) and a net domestic financing of Ksh 377.7 billion (2.1 percent of GDP).

24. Total budget for FY 2024/25 is Ksh 4,143.7 billion which is allocated as follows:

- National Government share - Ksh 2,511.5 billion (60.6% of total expenditure) which comprises of Executive (Ksh 2,438.9 billion); Parliament (Ksh 41.6 billion) and Judiciary (Ksh 23.7 billion).
- Consolidated Fund Services - Ksh 1,241.1 billion (30% of total expenditure), and

- County Governments' share - Ksh 391.1 billion (9.4% of total expenditures)

III. MEDIUM TERM REVENUE STRATEGY (MTRS) FOR THE PERIOD FY 2024/25 TO FY 2026/27

25. Hon. Chairperson, domestic resource mobilization is a major source of long-term financing for sustainable development and has been a concern of many developing countries. To address this, a number of countries have embarked on the development of a framework for guiding tax reforms to enhance domestic revenue mobilization. Since 2016, over twenty-five countries globally have formulated Medium Term Revenue Strategy (MTRS) and are at various stages of implementation geared towards boosting tax revenues and improving efficiency of tax systems.

26. In Kenya, revenue as a percentage of GDP has been declining over the years from 18.1 percent in FY 2013/14 to 14.3 percent in FY 2022/23 while expenditure pressure has been rising resulting in increased borrowing to bridge the revenue gap. In this respect, the Government with the support of development partners, in 2021, embarked on the development of the MTRS to enhance domestic revenue mobilization.

27. The MTRS is aligned to the National Tax Policy and will guide tax administration to improve efficiency in the administration of tax laws, close loopholes for tax evasion, and enhance voluntary tax compliance. The MTRS is expected to hasten the fiscal consolidation process thus reducing the fiscal deficit to facilitate the achievement of the EAC target of 3.0 percent of GDP.

28. The additional resources raised from the MTRS will facilitate the implementation of the Government's Bottom-up Economic Transformation Agenda geared towards economic turn-around and inclusive growth through the Fourth Medium Term Plan (MTP IV) of the Vision 2030, as well as the Medium-Term Expenditure Framework (MTEF).

29. Hon. Chairperson, the objectives of the MTRS are to: (i) improve efficiency in revenue administration; (ii) ensure equity and fairness in the tax regime; (iii) enhance tax-payer compliance with tax obligations; (iv) expand the tax base; (v) create certainty in the tax regime to attract investment; and (vi) promote investment across various sectors by removing market distortions.

30. The implementation of MTRS is expected to among others: (i) raise revenue to GDP ratio from 14.3 percent in FY 2022/23 to 20.0 percent by end of the FY 2026/27; (ii) increase tax compliance rate from 70 percent in FY 2022/23 to 90 percent by FY 2026/27; and (iii) increase investment to GDP ratio from 19.3 percent in FY 2022/23 to 25.7 percent in FY 2026/27.

31. The MTRS will be implemented within a three-year period beginning from FY 2024/25 to FY 2026/27. Tax policy reforms will be implemented through the Finance Acts, beginning with the Finance Act, 2024, while revenue administration reforms will begin from January 2024 as per the implementation matrix annexed to the MTRS.

32. Hon. Chairperson, the implementation of the Strategy will involve Ministries, Departments and Agencies; the Legislature, Judiciary; County Governments; private sector players and development partners.

IV. CONCLUSION

33. I thank you once again, Hon. Chairperson and Hon. Members, for giving us this opportunity to engage with you on the 2024 Budget Policy Statement and the Medium-Term Revenue Strategy. We remain available to support the Committee when called upon during this approval process.



PROF. NJUGUNA S. NDUNG'U, CBS
CABINET SECRETARY

23rd February 2024



Commission on Revenue Allocation
Promoting and Equitable Society

SUBMISSIONS ON THE 2024 MEDIUM TERM DEBT MANAGEMENT STRATEGY

Paragraph/ Section	Issue	Recommendation
I: Background to Medium Term Debt Strategy		
Paragraph 11,14	Inconsistent figures of the public debt stock between the 2024 MTDS and the 2024 BPS	- The MTDS provides the debt stock as at end of June 2023 as Ksh. 10,278.7 billion, comprising of Ksh.5,446.6 billion in external debt and Ksh.4,832.1 billion in domestic debt. - The BPS provides the debt stock as at end of June 2023 as Ksh.10,189.5 billion, comprising Ksh.5,357.4 billion in external debt and Ksh.4,832.1 billion in domestic debt
Paragraph 14	Paragraph 14 gives the stock of domestic debt as Ksh. 4,832.1 billion and External Debt Ksh. 5,446.5 billion. These are inconsistent with the figure of Ksh. 4,741.9 billion and Ksh.5,349.1 billion, respectively given in Table 1 on page 4	Harmonise the two figures and also harmonise with figures presented in the BPS 2024 on external debt indicated at Ksh. 5,357.4 billion

Paragraph 17	The figure of pre-1997 government loans of Ksh. 17.8 billion is always acknowledged in the current and previous MTDS. However no explanation is provided on why it has never been paid	• MTDS should provide an explanation of the pre-1997 government loans of Ksh. 17.8 billion and why this loan is still outstanding
V: Debt Sustainability Analysis		
Paragraph 52 and Table 12	Debt sustainability analysis	• Section 6 of the Public Finance Management (Amendment) Act 2023, amended the debt sustainability thresholds to 55 percent in PV terms with a compliance period of not later than five years from 17th October 2023-the date of coming into force of the Act. The national government is required only in exceptional circumstances to exceed the threshold by not more than five per cent. • The MTDS notes that the PV of debt to GDP ratio is projected at 56.9% in 2028. This is above the 55 percent benchmark And therefore against the PFMA (Amendment) Act 2023.



COMMISSION ON REVENUE ALLOCATION

Promoting an Equitable Society

SUBMISSION ON THE MEDIUM-TERM REVENUE STRATEGY FOR FY 2024/25 - 2026/27

Paragraph/ Section	Issue	Recommendation
Section 5.2, page 39	Non-recognition of Commission on Revenue Allocation as key stakeholder in overseeing implementation and evaluation of the strategy	- Commission on Revenue Allocation to be included as a key actor in overseeing implementation and evaluation of the Medium-Term Revenue Strategy Rationale: - Article 216 (3) (b) - The mandate to define and enhance the revenue source of the national and county governments Roles and responsibilities: - to review laws touching on revenue sharing and financial matters as per Article 205 - The Commission to review the new sources of revenue and revenue enhancement strategies.

**Memorandum to the Senate Committee on Finance and Budget on the Budget Policy
Statement 2024**

Submitted on February 21, 2024

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Introduction

The International Budget Partnership Kenya (IBP Kenya) is a Kenyan non-profit organization working to advance transparency, accountability, participation, and equity in national and county budgeting processes. The International Budget Partnership Kenya's (IBP Kenya) work is focused on strengthening the impact of civil society advocacy and citizens on budget policies and outcomes at both levels of governance in Kenya. Through deep and sustained engagement, the IBP Kenya provides support to build expertise and skills of civil society actors and citizens involved in budget advocacy. Citizen advocacy, generation of evidence, technical assistance, learning, and networking are all integral components of IBP Kenya's work.

The Budget Policy Statement (BPS) is arguably one of the most important budget documents released by the national government each financial year. The BPS contains a broad exposition of the national government's policy priorities over the medium term and defines its fiscal and monetary stance in relation to these priorities. The BPS also begins to define the budget for the coming financial year, particularly with regards to what the government expects to allocate in expenditure to different sectors and how it expects to finance this expenditure. Furthermore, the BPS speaks to the how devolution as a system of functioning or software for government will play out over the medium term. In this respect, the BPS is a crucial precursor to the successful and equitable delivery of public services at the national and county level, particularly to the extent that it sets out the overall revenue sharing framework between both levels of government.

The submissions contained in this memorandum seek to provide considerations for the Committee to make in deliberation of the Budget Policy Statement of 2024.

Submissions:

1. Devolution as a System of Government

- Chapter 11 of the Constitution of Kenya focuses on the structure of devolved government in Kenya. Followed closely by Chapter 12 that focuses on how public finances will be managed. Devolution is mainly governed by these two chapters together with other laws that have been passed to smoothen the implementation of the Constitution.
- Devolution as the system of government for Kenya informs the organizing of policy, politics and administration of public services.
- Rights of Kenyans established in Chapter 4 (Bill of Rights). The responsibility of delivering these rights is distributed between a National and 47 County Governments through their respective MDAs.
- Schedule 4 of the Constitution further speaks to devolution and focuses on the functions that need to be performed by either level of government. Each level is to be allocated funds based on their functions: *'Finance follows functions'*
 - o Notably, Health is a devolved function with aspects of policy and standards residing with the national government. However, some aspects of the health function are still being performed by the national government. exmaple: CHPs as an exmaple of national government imposition.
 - o In the Agricultural sector, similarly to health, some functions remain at the national level. However, we note that the funding to the Agriculture, Rural and Urban Development sector is proposed to have a reduction of 10% of its budget compared to the approved estimates of the FY2023/24. In particular, crop development and management has a reduction of 33% of the budget.

a) Expenditure and Budget Financing

2. The proposed budget for 2024/25 shows a larger increase to the Consolidated Fund Services (CFS) while the additional allocations to county governments and national governments remain relatively small.

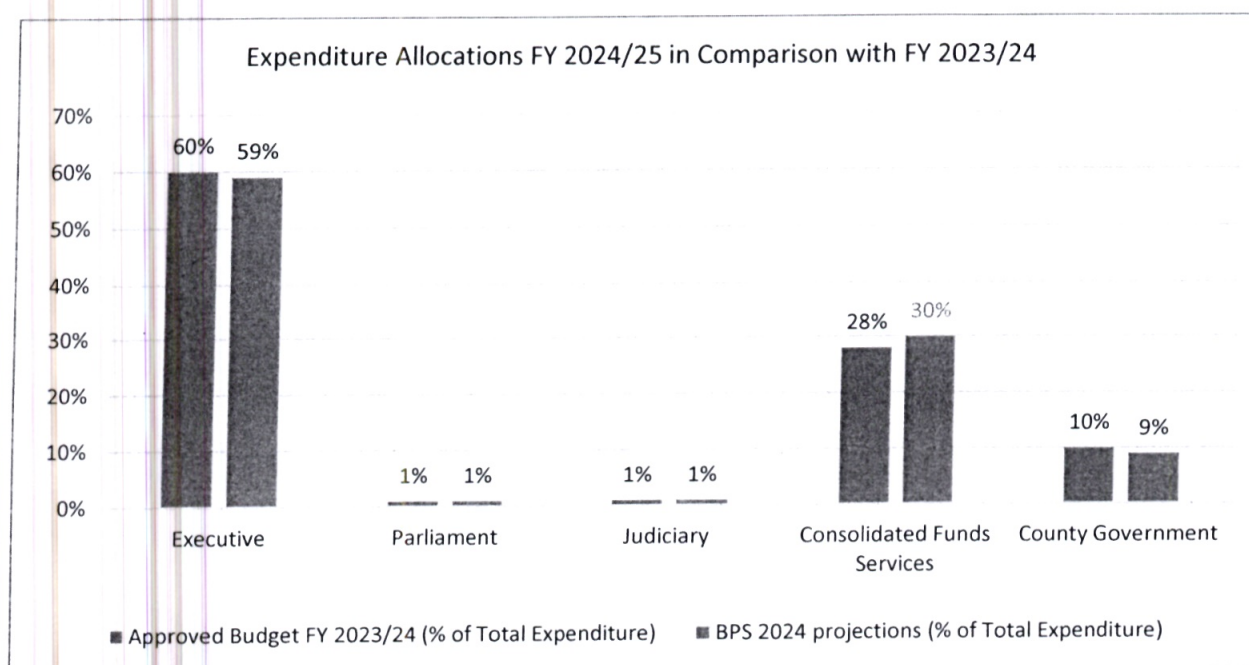
The BPS 2024 proposes a 4% rise in total government expenditure of KES 162 billion, increasing expenditure from KES 3.98 trillion as approved in 2023/24 to KES 4.14 trillion in the 2024 BPS. The projected 10% increase of KES 109.5 billion is heavily driven by a rise in proposed expenditure on the consolidated fund services, which houses debt servicing expenditures and pensions. In comparison to the total allocation, national government expenditure is expected to increase by 2% (KES 46.99 billion) in comparison to the allocation for 2023/24, a mere. This difference in allocation between

CFS and national government expenditure highlights the increasing pressure that debt service repayments are placing on the delivery of public services.

	Approved	BPS Projection	Variation	
	2023/24	2024/25	Absolute	Percentage
Executive	2,400,067	2,438,939	38,872	2%
Parliament	40,742	41,623	881	2%
Judiciary	22,784	23,690	906	4%
National Government Kshs.	2,464,474	2,511,464	46,990	2%
Consolidated Fund Services	1,131,650	1,241,152	109,502	10%
County Government	385,425	391,117	5,693	1%
Total Government Kshs.	3,981,549	4,143,732	162,183	4%

Source: BPS 2024

The BPS of 2024 also highlights a very slight 5.69 billion increase in allocations to county governments equivalent to 1% of the 2023/24 allocation. County governments to play a central role in the delivery of public services in Kenya, following the devolution of governance and public finance outlined in its constitution of 2010. Therefore, relatively low allocations to county governments will affect the delivery of devolved services such as health agriculture and water for Kenyans across the country.



Recommendation: To ensure the continued and effective delivery of services at the national and sub-national level we recommend the national treasury devise ways to service debt obligations in a manner that enables more substantial additional allocations to national and county governments.

b) Revenue

3. Under performance in revenue is affecting county disbursements and throws into doubt revenue projections for FY 2024/25.

The BPS 2023 marked the beginning of an aggressive revenue mobilization plan by national government under its fiscal consolidation program. This saw the introduction of a raft of tax measures as outlined by the Finance Act of 2024, and major tax policy reforms as seen the National Tax Policy and Medium-Term Revenue Strategy FY 2024/25 - 2026/27. The tax reforms introduced in FY 2023/24 sought to raise KES 2.571 trillion in ordinary revenue, a significant 26% increase over the FY 2022/23 target of KES 2.041 trillion.

So far, the national government has struggled to meet this ambitious revenue target. Between July and November 2023, the government had only raised KES 0.879 trillion against its goal of KES 0.977 trillion over the same period – a 10% deviation of KES 0.098 billion. While the collections to November mark an increase over the collection at the same time last year, the underperformance is a cause for concern. Of this under collection of KES 98 billion, KES 76 billion was not collected from income tax, which missed its target by 17%.

	Nov-22	Nov-23			
	Prel. Act.	Target	Prl. Act.	Deviation	
	Ksh. Billion				
1.Ordinary Revenue	786.50	977.10	878.90	(98.20)	-10%
Import duty	54.90	68.80	56.20	(12.60)	-18%
Excise duty	108.90	133.10	116.10	(17.10)	-13%
Income tax	342.50	457.00	380.40	(76.60)	-17%
VAT	222.10	263.90	266.10	2.20	1%
Other Revenue	58.10	54.30	60.10	5.80	11%
2.Ministerial Appropriation in Aid	107.30	133.20	132.70	(0.50)	0%
Road Development Levy	16.80	14.20	13.70	(0.40)	-3%
3.External Grants	3.30	6.50	4.90	(1.60)	-25%
A. Total Revenue including External Gra	897.10	1,116.70	1,016.40	(100.30)	-9%

Source: BPS 2024

Extrapolating this performance to the rest of the financial year, that is, revenue collection of KES 175.5 billion per month, the national government can expect to collect 2.109 trillion by June 30th, missing its target for the FY 2023/24 by 18%. When the national government is unable to collect targeted revenue, this affects the availability of funds for disbursement to counties. Accordingly, the BPS 2024 shows that the disbursement to counties between June and November 2023 was below the targeted amount by KES 62.8 billion or 36.9%.

Aside from the effects of this underperformance on the size of the annual budget deficit (addressed in the section below), this under performance reflects badly on the targeted revenue collection over the medium term. In FY 2024/25, the national government plans to collect KES 2.948 trillion in

ordinary revenue. The target is a 15% increase over the targeted revenue collection in 2023/24 equivalent to KES 377 billion. Worryingly, 33% of this increase is expected to come from income tax revenue – the same revenue source heavily underperforming in FY 2023/24 as of Nov. 2023. This suggests that the basis for the revenue projection for FY 2024/25 deviates from the current revenue performance. This begs the question: What is the true basis for the revenue projections over the medium term?

	2022/23	2023/24	2024/25		
	Prel. Act	Budget Estimates	BPS 2024	Var.	
	Ksh. Billion				%
TOTAL REVENUE	2,361	2,986	3,435	449	15%
Ordinary Revenue	2,041	2,571	2,948	377	15%
Income Tax	942	1,199	1,326	127	11%
Import duty	130	173	199	26	15%
Excise duty	265	353	401	48	14%
Value Add	550	703	805	101	14%
Investment	41	33	40	7	21%
Other	113	110	178	68	62%
Ministerial Appropriation	319	414	487	73	18%

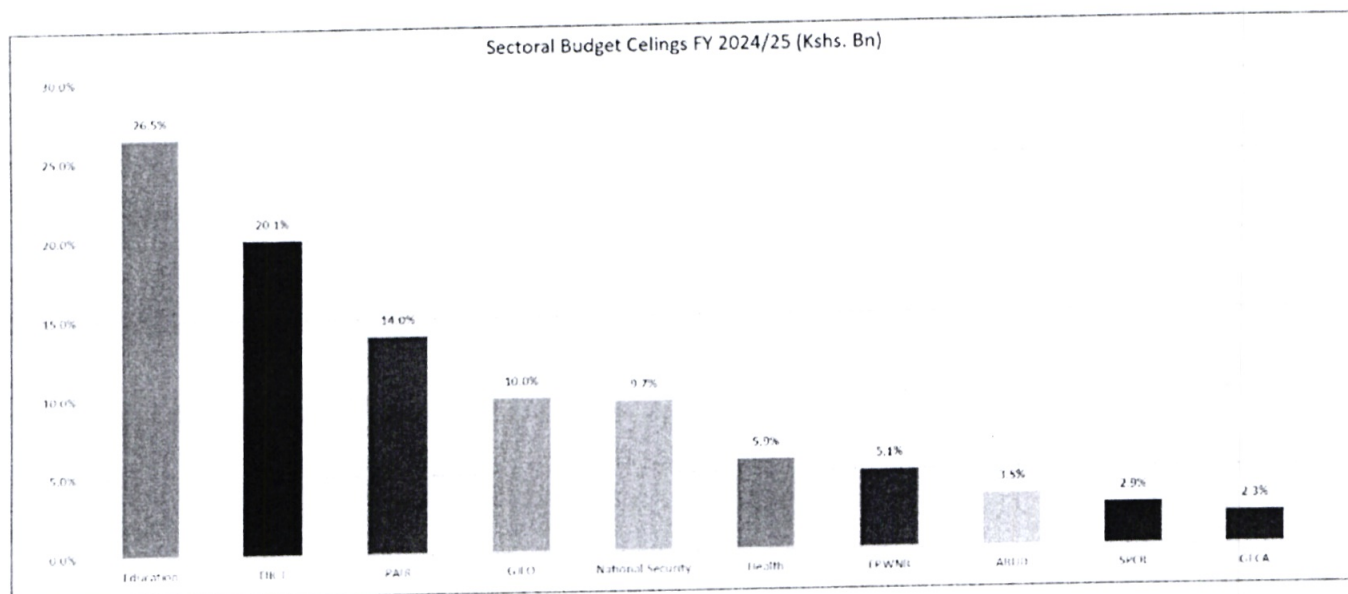
Source: BPS 2024

Recommendation: Given the underperformance in tax revenue collection as of Nov. 2023, particularly on income tax, the National Treasury should clarify the basis upon which the targeted revenue collection has been increased by 15% in the FY 2024/25. This is in recognition of the fact that periodic underperformance in revenue affects the available of revenue for disbursement to counties as intended through the equitable share. Furthermore, the government should indicate how the proposed measures in the Medium-Term Revenue Strategy for FY2024/25 will in reality increase ordinary revenue collections, given the unsatisfactory impact of the Finance Act 2023 measures on tax revenue so far.

Overall Sector Ceilings

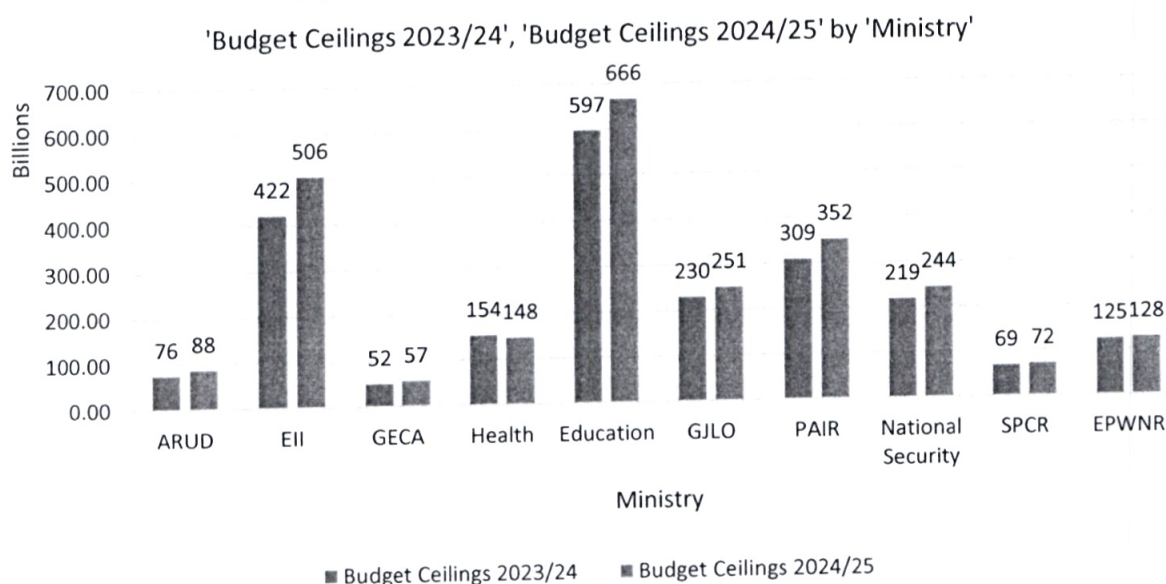
The 2024 BPS has provided budget ceilings that all Sector Working groups and Ministries/Departments/Agencies (MDAs) anticipate preparing their budgets from. The maximum budget cap has increased from KShs. 2.25 trillion in FY 2023/24 to KShs. 2.51 trillion in FY 2024/25. Notably, the Education and Energy, Infrastructure and ICT sectors received the highest budget allocation of KShs. 667.5 billion and KShs. 505.7 billion respectively, and the Social Protection,

Culture and Recreation and General Economic and Commercial Affairs sectors received the lowest allocations of KShs. 72.2 billion and KShs. 56.7 billion respectively.



Source: 2024 BPS

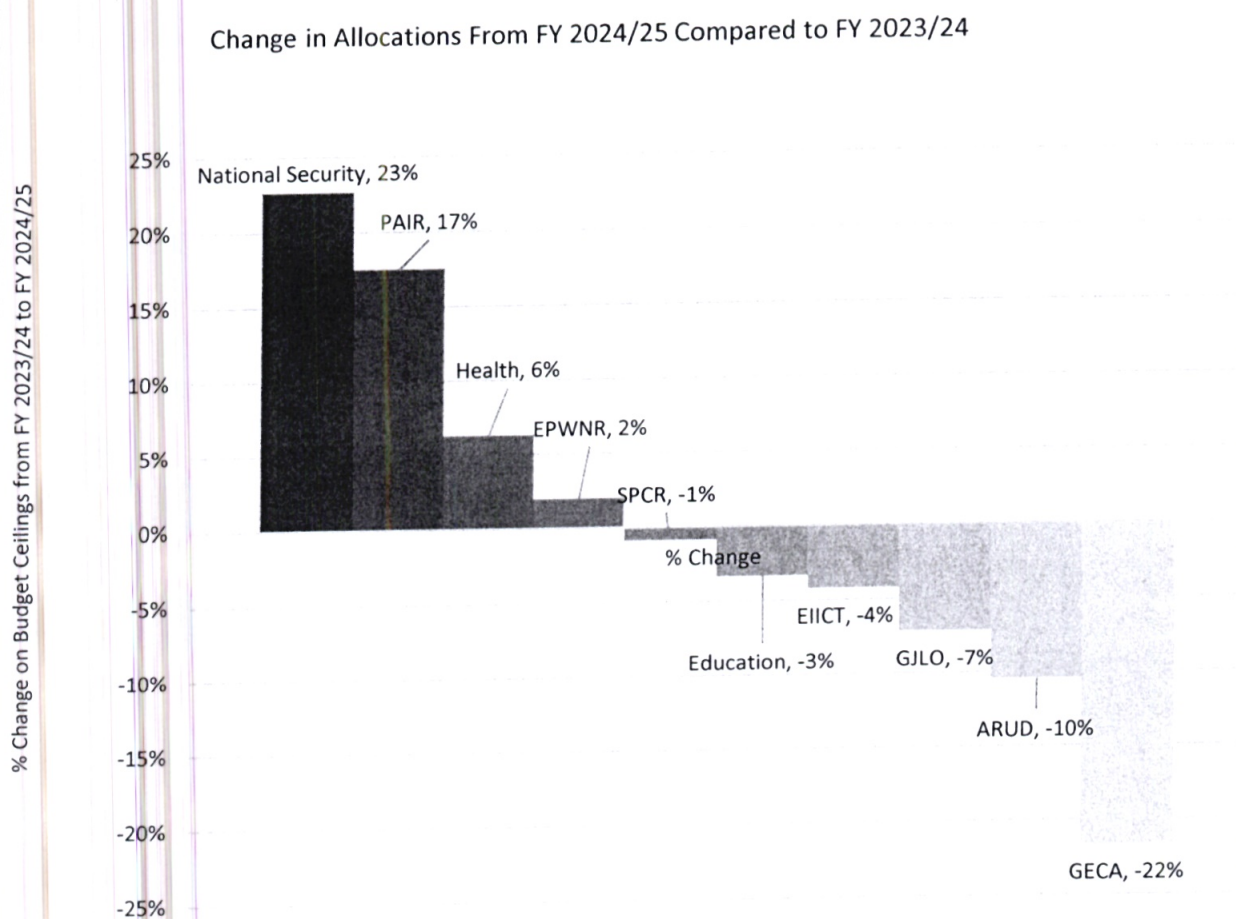
A comparison between 2023 and 2024 budget ceilings shows that all ministries, with the exception of Health, had a significant increment in the proposed budget allocations. Such increments may have a positive impact as far as implementation of development projects and service delivery are concerned but can increase the risk of fiscal deficit and unsustainable debt accumulation.



Source: 2024 and 2023 BPS

4. The BPS 2024 proposes increased allocation to the National Security and PAIR sectors, while social sectors such as social protection, education and ARUD are seeing decreases.

It is important to note that there was a percentage increase in the proposed allocations made to National Security and PAIR sectors of 23% and 17 % in the allocations of FY 2023/24 from those in FY 2024/25. However, the BPs of 2024 proposes a decrease in allocation to social sectors in FY 2024/25. This includes a 1% cut to the SPCR sector of Ksh. 652 million, a 3% cut to Education of Kshs. 23 billion and a 10% cut to agriculture of Ksh. 10.2 billion.



Source: 2024 BPS

Notably, these are sectors for which the functions of government are shared by both national and county government such that the finance that they both input into the delivery of these service is complimentary. Therefore, if less funds flow into the sector from either level of government, there may be a greater financing or service delivery requirement on the other level of government – this case counties.

Recommendation: To ensure the national government does not divest significant from social sectors for which the functions of both levels of government are shared/complementary.

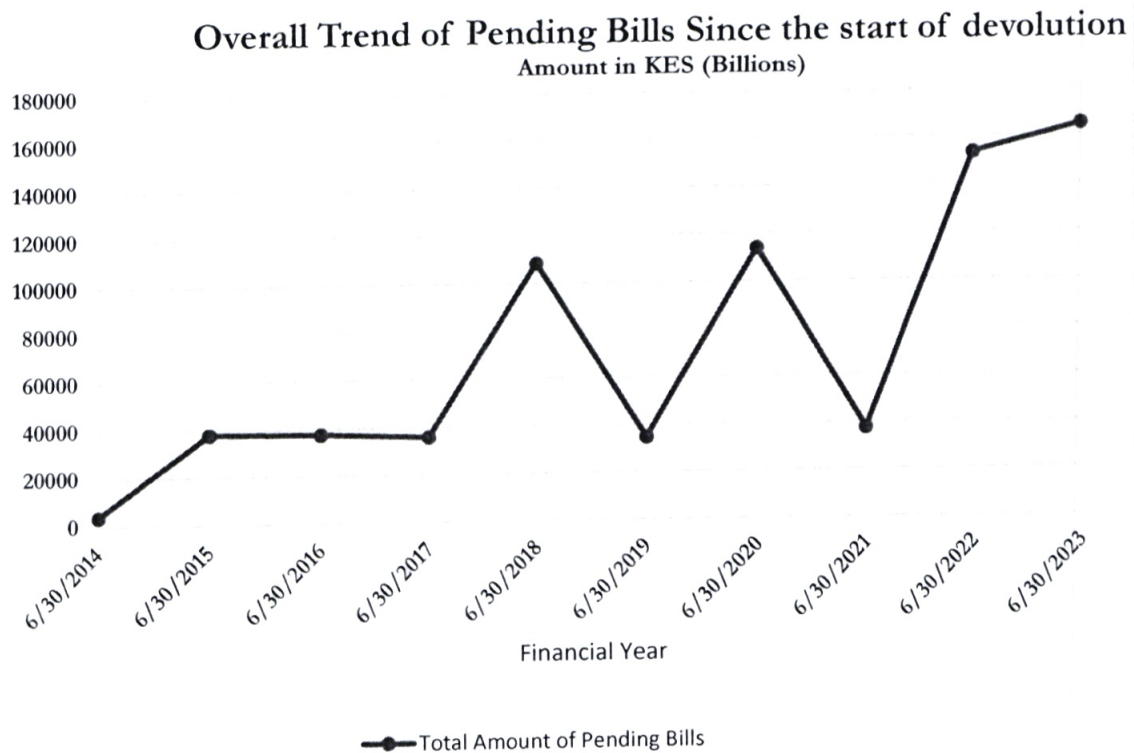
Pending bills as an impediment to service delivery

Pending bills are unsettled financial obligations that arise when counties fail to settle invoice amounts for goods and services properly procured, delivered, or rendered at the end of a financial year.

5. County government pending bills data.

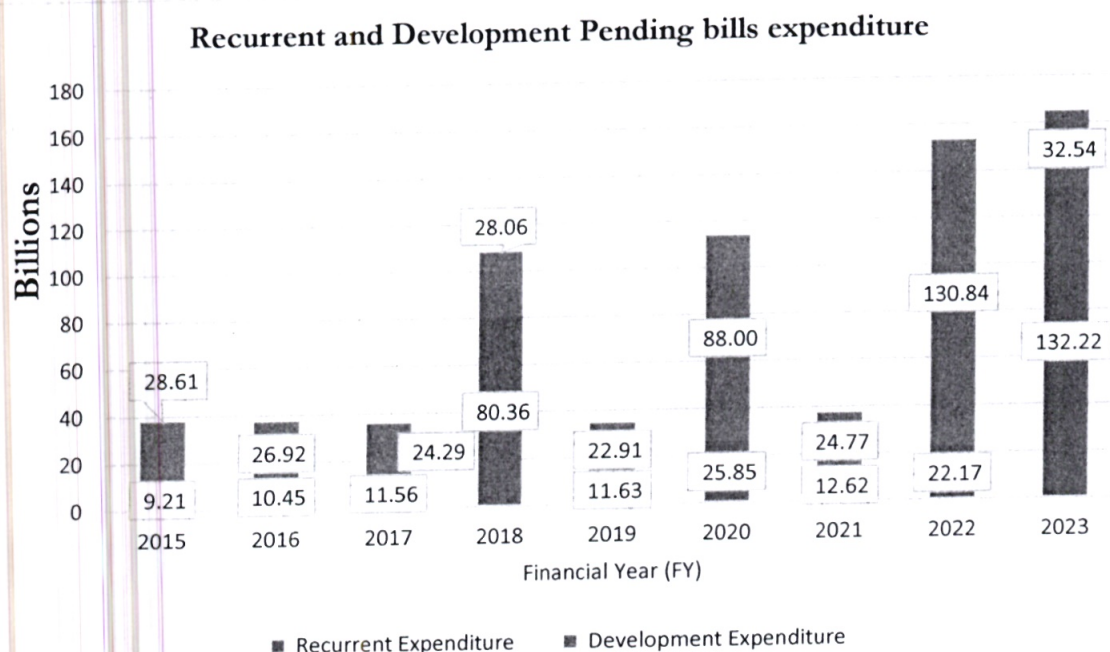
As at 30th September 2023 Counties reported accumulated pending bills amounting to Kshs 163.2 billion as per the Office of the Controller of Budget. In relative terms, this amounts to 43% of the county equitable share.

The graph below shows how pending bills have been accumulated by the counties over time.



Source: Office of the Controller of Budget reports.

Although, there have been numerous interventions aimed at verifying and settling pending invoices in counties. The accumulation of pending bills in counties has been increasing since the advent of devolution, with some extending all the way back to the defunct local government. So, what makes up these pending bills?



Since the beginning of devolution, development expenditure has seen the highest proportion of unsettled debts, accounting for 44%, while recurrent expenditure accounts for 56% of all pending bills ever accrued by County governments.

While both recurring and development expenditures are necessary for effective service delivery within counties. According to the BPS 2024, county governments owe money to several pension funds such as the Local Authorities Provident Fund (LAPFUND), Local Authorities Pension Trust (LAPTRUST), and County Pension Fund (CPF DC), which belong to county employees who are at risk of retiring without a pension. In Kenya, late remittance of pension deductions is punished at the rate of 5% of the outstanding amount for each month that the total remains unpaid.

According to the OAG, a National Treasury circular found that the county executive owed several pension systems a total of Kshs. 34,552.943 as of 2019. There was no legitimate cause for the failure to settle the outstanding debts as first charge for the 2020/2021 financial year.

6. Pending bills impact on service delivery

Areas owed to suppliers of goods and services and contractors is the largest pending bills for county governments. When a contractor does not receive payments, it means the contract is not executed. When bills remain unresolved for too long, investors' confidence is eroded and the counties may lose reliable suppliers and contractors. This could translate into a stalled or delayed project which goes a long way to denying service delivery to the citizenry. It is important to note that some of these services are essential to the public. For example, in FY 2022/23 in a county accumulated pending bills on services such as Early childhood Education and others were related to KEMSA as reported by the OAG in FY 2021.

Due to rising pending bills and areas in both county and national government, some county governments' functions are barely being rendered due to huge amounts of pending bills which continue to accrue. The provision of essential services suffers when county governments are overburdened with debt repayment due to crowding out effect of resources meant to deliver services.

But most importantly, second pending bills is as a result of unsettled statutory deductions. These pending bills belong to the Kenyan men and women who served diligently in public service but then are languishing in poverty. This has led them into bankruptcy or causes a high probability of defaulting on loan repayments. Public servants form a very crucial part of service delivery and when they are working in such an environment then it demoralizes them which in the long run could lead to poor services.

7. Pending bills impact on business and tax collection (national and county governments)

Notably, government's ability to run is predicated on fees and licenses of business and so it basically enables citizens to pursue income generation in order to remit taxes. As a result, when such eligible pending bills are not settled on time it delays revenues to both county and national governments due to some businesses being unable to run due to the pending bills. More and timely revenues to counties means services are delivered efficiently which leads to socioeconomic growth overall due to restored liquidity and stimulation of the private sector and creation of jobs.

Recommendations.

Some of the pending bills accrued by county governments are as result of non-consideration of cash brought forward from previous financial years which then implies a deficit budget that eventually leads to unplanned pending bills at the end of the financial year. For instance, in Isiolo county budgeted for KShs.1.07 billion as cash brought forward from FY 2021/22. However, a cash balance of KShs.84.38 million from FY 2021/22 was reported.

Counties should prepare budgets with correct opening balance amounts and with respective expenditures to ensure a balanced budget and avoid unplanned pending bills.

Change of county administrations has led to delayed settlement of pending bills due to the requirement to undertake a verification process. In some cases, political interference and refusal by successive governments to honor obligations. The delays of settlement of these pending bills is a risk to county projects which gets delayed or completely abandoned at some point bring issues of poor service delivery. Our recommendation is that a Public Sector Accounting Board (PSAB) should provide adequate documentation of pending bills and assets which will facilitate the smooth handover between county government regimes.

Pending bills have been highlighted severally by the OCOB as a challenge to effective budget execution. There have been negative consequences associated with pending bills such as litigation and loss of trust in government. Delay and accumulation of pending bills means most of the county services are not budgeted or given priority due to the prioritizing of settlement of pending bills. There has been an untimely approval of supplementary budget estimates to adopt prior year pending bills in the current budget Leading to payment delays. Counties should ensure that the procure plans align with the disbursement of funds and the expected revenue targets. Additionally, they should adhere to the preparation of credible budgets with realistic revenue targets.

A couple of interventions have been made by the Office of the Controller of Budget, IBEC and Office of the Auditor General to ensure that pending bills are verified and only eligible bills are settled. To be fair the verification of pending bills Committee in FY 2021/22 came up with a breakdown of eligible and ineligible pending bills. From this point on, counties were to prepare payment plans of pending bills The accuracy and completeness of the pending accounts payable is a question that needs close monitoring to ensure that unauthorized and unsupported expenditures are not part of the pending bills. This calls for transparency and accountability of the pending bills and County governments to settle eligible pending bills as a first charge as required by the PFM (County Governments) 2015.



Submissions on The Budget Policy Statement 2024 and Medium Term Debt Management Strategy 2024

Pursuant to the call for public participation and submissions to the National Treasury on 15th February 2024, the following are submissions by The Institute for Social Accountability (TISA) towards the draft Budget Policy Statement (BPS) 2024 for the MTDMSTF 2024/2025 to 2026/2027 budget. The submission reviews the draft BPS based on the need for prudence, transparency, accountability, and public participation in the management of Kenya's public finance and fiscal priorities and policy goals. We recommend the tax policies and measures proposed in ensuring tax compliance. However, a number of concerns emerged from the BPS 2024.

Section of BPS 2024	ISSUE OF CONCERN	TISA RECOMMENDATIONS
Paragraph 3 and Table 2.1: Domestic economic growth – vibrancy, broad-based private sector growth	- BPS suggests that economic vibrancy has started with a projected growth of 5.5% in 2024 – supported by a broad-based private sector growth. - However, we hold the position that the economic vibrancy that the Treasury alludes to have started has not been felt on the ground. - Despite the assumption that economic growth will be supported by broad-based private sector growth, we take note of various private entities that have issued profit warning while others have closed their operations in Kenya.	Whereas this projected growth is within the IMF World Economic Outlook's projections and above the SSA and the global projection, there is need for the government to come to the reality that: - The new taxes introduced in the Finance Act 2023 had and continues to have more negative impact on the economy and households. - The closing of many manufacturing firms begs the question of whether the

TISA Submissions on BPS 2024 & MTDS 2024

Section of BPS 2024	ISSUE OF CONCERN	TISA RECOMMENDATIONS
	At the same time, the Federation of Kenya Employers (FKE) also showed there is massive job losses in the private sector, 70,000 jobs, because of new taxation measures.	government is committed to supporting the manufacturing sector. 3. The rising cost of electricity tariffs as well as 16% VAT levy on petroleum products remains a major area of concern for Kenyans and investors at large.
Paragraph 118: Strengthening leadership accountability	- BPS alludes that the government has been engaging public participation in decision-making processes through public consultations and other forums for citizens to engage and hold the government accountable. - This is not entirely true as has been witnessed in the areas of Finance Act 2023, particularly on the housing levy, change in the higher education funding model, requirement for all government services to paid through e-Citizen, and even the current change of NHIF to SHIF. - In the instances where public participation was allegedly done, citizens' views were not adequately reflected. - Also, we have seen instances where the government rushes to implement some initiatives – housing levy – and then when cornered due to inability to follow the law, now assumes to be conducting public participation.	1. The government should ensure that public consultations are conducted transparently and inclusive – giving clear and timely information and actively seeking input from all Kenyans. 2. Ensure that the outcome of every consultation is informed by and reflect the views of the citizens - this would ensure that citizens' view count in every government initiative and where they say no, the government should respect Kenyan's opinions. 3. Ensure that public participation is conducted in line with ideals of the 2010 Constitution
Paragraph 119: Strengthening devolution	BPS highlights that the government is yet to complete transfer of all functions constitutionally earmarked to counties and	1. Expedite completion of all functions constitutionally earmarked to counties and ensure increased

TISA Submissions on BPS 2024 & MTDS 2024

Section of BPS 2024	ISSUE OF CONCERN	TISA RECOMMENDATIONS															
	develop a framework for ensuring that SOEs carrying out devolved functions adhere to the principles of devolution and governance. • Our concern, however, is the treatment of devolution as a Public Administration function of the Executive wing of the government. • We hold that devolution should be the engine and structure that drives our governance and allocation of finances when it comes to budgeting.	allocation of funds to counties in line with the principles of devolution.															
Paragraph 214 and Table 2.5b: Revenue performance and realistic revenue projections	• BPS project ordinary revenue targets for the FY 2024/25 to increase by 15% (377 billion), from Ksh. 2.571 trillion in FY 2023/24 to Ksh. 2.948 trillion in FY 2024/25. Revenue projections 2022/23 – 2025/26 <table><tr><th>Revenue</th><th>2022/23</th><th>2023/24</th><th>2024/25</th><th>2025/26</th></tr><tr><td>Total revenue + A-I-A</td><td>2,478.6</td><td>3,070.6</td><td>3,435.0</td><td>3,833.1</td></tr><tr><td>Ordinary revenue</td><td>2,145.4</td><td>2,624.6</td><td>2,948.1</td><td>3,294.2</td></tr></table> **Figures are in billions (Ksh.) • A trend analysis of revenue performance is important to inform modest projection. Up to the period of November 2023 for FY 2023/24, ordinary revenue performance stood at Ksh. 878.9 billion against a target of Ksh. 977.1 billion, representing a shortfall of Ksh. 98.1 billion.	Revenue	2022/23	2023/24	2024/25	2025/26	Total revenue + A-I-A	2,478.6	3,070.6	3,435.0	3,833.1	Ordinary revenue	2,145.4	2,624.6	2,948.1	3,294.2	2. Parliament needs to ensure that revenue projections are informed by economic fundamentals. 3. The treasury needs to take a holistic approach of revenue trends over the years backed by macro-economic data and when projecting revenue targets. 4. To ensure the realization of revenue targets: 5. KRA needs to leverage on simplified tax systems and solutions that support integration of taxpayer information and businesses' activities into the system. 6. Ensure tax compliance not by writing to banks to withhold any taxpayers' immediate payments from clients as the first solution but by supporting growth of businesses
Revenue	2022/23	2023/24	2024/25	2025/26													
Total revenue + A-I-A	2,478.6	3,070.6	3,435.0	3,833.1													
Ordinary revenue	2,145.4	2,624.6	2,948.1	3,294.2													

TISA Submissions on BPS 2024 & MTDS 2024

Section of BPS 2024	ISSUE OF CONCERN	TISA RECOMMENDATIONS																														
	- Nearly all broad tax categories except VAT fell short of the respective targets during the period under review. - We are majorly concerned that unrealistic revenue projections have greatly contributed to the accumulation of debt mid-way the financial year, owing to inability to reach venue targets to meet expenditures. This has continued to result in flawed fiscal deficit.	through establishing timeline of clearing tax dues.																														
Paragraph 215 and table 2.5b: Expenditure projections	- BPS projects expenditure to grow to Ksh. 4.188 trillion for FY 2024/25 compared to a projection of Ksh. 3.902 trillion in FY 2023/24. Expenditure projections 2022/23 – 2025/26 <table><tr><th>Expenditure</th><th>2022/23</th><th>2023/24</th><th>2024/25</th><th>2025/26</th></tr><tr><td>Total</td><td>3,366.6</td><td>3,902.9</td><td>4,188.2</td><td>4,553.0</td></tr><tr><td>Recurrent</td><td>2,367.7</td><td>2,760.1</td><td>2,859.3</td><td>3,026.5</td></tr><tr><td>Development</td><td>560.5</td><td>717.8</td><td>877.8</td><td>1,068.7</td></tr><tr><td>County transfer</td><td>436.3</td><td>423.9</td><td>446.1</td><td>452.9</td></tr><tr><td>Contingency fund</td><td>2.0</td><td>1.2</td><td>5.0</td><td>5.0</td></tr></table> **Figures are in billions - The trends indicate that Kenya’s expenditure projections have always been on the rise despite numerous calls to cut spending – particularly around wage bill, unnecessary travels, and on other unproductive projects. - Looking at the projections for FY 2024/25, total expenditure is expected to grow by 4%. - Calls have also been made for/to the Treasury planning team to ensure expenditures are within	Expenditure	2022/23	2023/24	2024/25	2025/26	Total	3,366.6	3,902.9	4,188.2	4,553.0	Recurrent	2,367.7	2,760.1	2,859.3	3,026.5	Development	560.5	717.8	877.8	1,068.7	County transfer	436.3	423.9	446.1	452.9	Contingency fund	2.0	1.2	5.0	5.0	- Rationalize expenditure to ensure that public expenditure grows at the same rate as public revenue to reduce concerns with huge budget deficits. - There is need to implement budget monitoring to establish budget absorption and utilization rates performance as this would help in ensuring that expenditure projections are within the MDAs’ capacity to implement. This would reduce the problems of budget deficits.
Expenditure	2022/23	2023/24	2024/25	2025/26																												
Total	3,366.6	3,902.9	4,188.2	4,553.0																												
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TISA Submissions on BPS 2024 & MTDS 2024

Section of BPS 2024	ISSUE OF CONCERN	TISA RECOMMENDATIONS
	the revenue projections to reduce challenges of fiscal deficits.	
Paragraph 216 and table 2.5b: Deficit financing		

TISA Submissions on BPS 2024 & MTDS 2024

Section of BPS 2024	ISSUE OF CONCERN				TISA RECOMMENDATIONS
	Principal redemptions	234.51	467.69	702.2	
	Interest payments	154.94	527.93	682.87	
	Total	389.45	995.62	1,385.07	
	Source: COB NGBIRR 2023				
	• The implication of this is that domestic borrowing would result in a crowd-out effect, locking out the private sector from accessing funds for business activities. • Going with the latest COB report on the national government implementation budget findings, we are concerned that the county has had instances where public borrowings do not end up financing development needs that were previously envisioned, as in the case of the Eurobonds, where oversight reports could not trace their utilization by MDAs. • Our concern also lies in the fact that each budget deficit contributes to the accumulation of public debt. This is particularly troubling given the acknowledged deficiency in our country’s ability to maintain an accurate and comprehensive debt register. The existence of conflicting debt figures from the National Treasury (NT) and the Central Bank of Kenya (CBK) further compounds this issue, creating uncertainty and challenges in managing our national debt effectively.				
Paragraph 27, 260, and Table 3.2: Healthcare	• With the plans to 1) provide fully public financed primary health care system, 2) set up a fund for improving health facilities, and 3) set up an Emergency Medical Treatment Fund through SHIF for all in line with the Constitution, one				1. Ensure that planned changes in the health sector, particularly from NHIF to SHIF, prioritize 70% of health disbursements to public health facilities and service providers. This

TISA Submissions on BPS 2024 & MTDS 2024

Section of BPS 2024	ISSUE OF CONCERN	TISA RECOMMENDATIONS												
	would have expected the budget allocation for the health sector to go up significantly. <table><tr><td>Health</td><td>2023/24</td><td>2024/25</td><td>2025/26</td></tr><tr><td>Total budget</td><td>138,845.9</td><td>147,599.8</td><td>155,507.7</td></tr><tr><td>% of national budget</td><td>5.71%</td><td>5.88%</td><td>5.69%</td></tr></table> **Figures are in billions • This is even with the evidence that Kenya’s health sector allocation has always been below the recommended 15% of the national budget by the AU and the Abuja declaration, international instruments that Kenya has ratified. • Whereas there is an increase in budget for the health sector from Kshs 138.8 billion in FY 2023/2024 to Kshs. 147.6 billion in 2024/2025, this doesn’t match the recommendation of the 2023 Health Sector Report which estimated that the sector required an estimate of Kshs.371.8 billion.	Health	2023/24	2024/25	2025/26	Total budget	138,845.9	147,599.8	155,507.7	% of national budget	5.71%	5.88%	5.69%	would help in enhancing the capacity of public health institutions to cater for the growing population. 2. Prioritize accountability mechanisms in the disbursement and utilization of SHIF once it is fully reconfigured from NHIF. 3. Sector players to dialogue to end accountability and transparency concerns around moving from NHIF model to SHIF model of health financing, equity, and service delivery. 4. The BPS should be informed by the sector reports to allocate resources to different critical sectors such as health.
Health	2023/24	2024/25	2025/26											
Total budget	138,845.9	147,599.8	155,507.7											
% of national budget	5.71%	5.88%	5.69%											
Paragraph 183: Expenditure reforms	• We welcome the efforts to improve efficiency and ensure value for money through rolling out of an end-to-end e-Government Procurement (e-GP) system to the National and County Governments in the FY 2024/25 where all public procurement and assets disposal transactions will be undertaken online, and that the e-GP will be interfaced with the IFMIS to process payments of contracted suppliers. • It is in our view that if this move is done well and gets adequate political good will, would address	1. Speed up rolling out of this e-GP and interface it with IFMIS for enhanced accountability in public spending, pending bills, and procurement processes.												

TISA Submissions on BPS 2024 & MTDS 2024

Section of BPS 2024	ISSUE OF CONCERN	TISA RECOMMENDATIONS
	challenges related to pending bills in Kenya, as well as the elusive challenge of poor uptake recorded within affirmative action funds such as AGPO among others.	

Analysis on Key Sections within the MTDS

1. We note that the MTDS comes at a time when it is very clear that the government is borrowing from multilateral institutions and from the commercial markets (domestic and foreign) primarily to meet the debt obligations. This is a clear indication that our debt is not sustainable, and it is time for a rethink of how we go about sourcing, investing, and repaying debt. The MTDS projects principles include the fact that we shall invest in longer term loans, lowest interest rate and so on yet the recent Eurobond and infrastructure bonds floated point to very high rates. To begin with, the interest rates on the Eurobond are the highest in sub-Saharan Africa so far. It is especially concerning to see the use of funds underwritten for the bond, and if we are to draw lessons.
2. The National Treasury should contemplate actively pursuing debt restructuring initiatives in both the short and medium term to mitigate the current trend of rising interest rates. The government should also put in debt restructuring efforts focused on current expensive loans, whose fiscal risk is high.
3. There is a notable improvement in the domestic debt maturity profiles. Debt with maturity of less than 1-year decreases from 19.5% in Dec 2022 to 16.7% in June 2023 and those with maturity of 4 - 5 years increases from 8.7% to 16.0%. This needs to be scaled up to minimize the cost of public debt management and borrowing over the long term.
4. A debt-to-GDP of 70.8% raises concerns about default risk, potentially affecting Kenya's ability to borrow at favorable interest rates. This has consistently seen debt servicing divert resources away from critical investments in basic services like education, and healthcare. This is also against the IMF program which prescribed 55.0% target that should be achieved by 2027. The interest payment as a share of GDP also increased by 1.2% due to accumulation of debt and increase in interest rates by Central banks in the domestic and international markets.
5. Section 60: The implementation of growth responsive fiscal consolidation through broadening of the tax revenue base and rationalizing expenditure to reduce fiscal deficits. While the anticipated decrease to 3.9% of GDP is positive, there is room for further improvement. There is also need for a cost-benefit analysis for the government's tax exemptions amounting to nearly 400 billion, especially in light of ongoing fiscal consolidation efforts.
6. Section 76 - TISA welcomes the decision by treasury to diversify funding sources by incorporating Kenyan Shilling syndicated debt. We are, however, very concerned about the proposal to float domestic bonds which come at very high interest in foreign currency. This will deal a double blow to Kenyans in the form of deferred taxation. Overall, we note the interest rates for the infrastructure bond continue to have a crowding out effect on other producers (manufacturers, farmers and MSMES) who would be pivotal in supporting the expansion of the tax base. This needs rethinking.
7. Section 82 - The National Treasury is considering having green and blue bonds as part of development financing going forward but needs to give a clear and deliberate commitment to this. This commitment was outlined in the 2023 MTDS, but it has not been advanced or

implemented to date. The green bond market offers market offers opportunities for national and subnational governments to invest in climate change related projects, while contributing towards climate resilience and sustainable development.

8. Section 83: The government plans to involve the private sector especially in infrastructure financing through Public-Private Partnerships. We urge that this process follows the transparency and accountability mechanisms spelt out in the constitution, which have previously been disregarded.

9. Section 107- We also welcome the move by the National Treasury to develop guidelines for the operationalization of a sinking fund. The sinking fund will help stem default in times of economic distress, such as the ongoing global financial crisis, the depreciation of the shilling as well as the current drought facing most Kenyan counties. We strongly recommend that the government expedite the implementation of this initiative, as it was part of the commitments outlined in the 2023 MTDS.

10. Section 110- PFM Act 2012 seeks to establish PDMO within Treasury but with some degree of autonomy. TISA welcomes the proposal to delegate operational decisions on borrowing and debt management to the Head of PDMO. TISA looks forward to fast tracking of the development of a Policy, Financial and Administrative Framework within which PDMO would operate.

11. Section 111- TISA equally welcomes the government's commitment to expand coverage in reporting of public debt to include non-guaranteed debt owed by SOEs as this improves transparency and accountability in public debt management. This will ensure they are subjected to budgetary oversight reducing the possibility of poor quantification of Contingent Liabilities and the possibility of large unplanned expenditures if the guarantee materializes. Guaranteed debt has been rising over the years closed at Kes 19.02 billion by June 2023 which expose taxpayers to risks of hefty bailouts in the event of default.

12. We hope the MTDS delves into the question of increased borrowing to repay loans and thus a deviation from section 15(2)(c) of the PFM act which requires public debt to be used for development. As the government works with the OAG, COB, EAC and parliament to create proactive plans to improve debt, we must ensure transitional justice for the economic extraction, abuse and near slavery to the Kenyan people who continue to pay for debt that was not properly utilized.

Diana Gichengo
National Coordinator
The Institute for Social Accountability
Email: _____ or _____
CC

1. Chair National Assembly Committee on Finance and National Planning
2. Chair National Assembly Committee on Budget and Appropriations Committee
3. Chair Senate Committee on Finance and Budget



Institute of Certified Public Accountants of Kenya

SUBMISSION
ON
THE DRAFT BUDGET POLICY STATEMENT 2024

February 2024

1.0 INTRODUCTION

The Institute of Certified Public Accountants of Kenya (ICPAK) is a statutory body of accountants with the mandate to develop and regulate accountancy profession in Kenya. The Institute is further mandated under Sec 8 of the Accountants' Act of 2008 to advise the Cabinet Secretary for Finance on matters relating to governance and accountability in all sectors of the economy. The Institute is dedicated to enhancing its contribution and that of its members to the national economic growth and development agenda. It has been instrumental in making contributions that shape the public financial management in Kenya. This submission is therefore in tandem with the Institute's overarching advisory mandate in the realms of financial management.

Like many economies worldwide, the Kenyan economy has faced numerous obstacles and difficulties, such as disruptions to global supply chains brought on by various geopolitical upheavals. Geopolitical threats have increased due to the recent Middle East conflict between Israel and Palestine and the Russian Federation's invasion of Ukraine. Any intensification of these disputes might cause energy costs to skyrocket, which would have larger effects on inflation and global activity.

According to the IMF, other factors include financial strain brought on by high real interest rates, ongoing inflation, China's slower-than-expected economic growth, increased trade fragmentation, and natural disasters linked to climate change.

Despite the challenging environment, the Kenyan economy is demonstrating resilience with growth performance well above the global and Sub-Saharan average. According to a report by the World Bank, most economies—advanced as well as developing—are set to grow more slowly in 2024 and 2025.

The Institute reviewed the Draft Budget Policy Statement 2024 and developed the following submissions for further consideration by Parliament.

2.0 SUMMARY OF ICPAK SUBMISSION ON BPS 2024

S/NO	KEY BUDGET IMPERATIVES	DISCUSSION & ISSUE OF CONCERN	ICPAK RECOMMENDATIONS
1.	1.2.1 Agricultural Transformation and Inclusive Growth Paragraph 13- 16	It is worth noting that agricultural transformation is critical to growing the economy and alleviating poverty. Most countries of the world have achieved tremendous economic growth by modernizing their agricultural sector. Kenya is no exception. Millions of households depend on agriculture for income and food security. The Maputo Declaration stipulates that allocation to the agriculture sector should be at least 10% of the total Country budget. The Institute recognizes and appreciates the ongoing government efforts including provision of subsidized fertilizer at a cost of Ksh 2,500, increased maize acreage under production by an extra 200,000 acres and enhanced maize production by an additional 18 million bags.	1. Increase spending to 10% of the total budget. Currently, allocation to the Agriculture, Rural and Urban Development sector is projected at 3.5% of total Ministerial expenditure as per the BPS 2024. This will enhance agriculture's contribution to GDP as well as export potential for the country. 2. To enhance productivity, there is need for the country to gradually move from rain-fed agriculture by adopting cutting-edge technologies. These have proven to boost productivity while enhancing the climate resilience of food systems in the region. Precision agriculture is an example of productivity-enhancing disruptive technologies. 3. Enhance value addition chains and diversify trading partners across the globe to offer an opportunity to enhance resilience and supply new markets for Kenyan farmers. 4. Zero Rate – agro-inputs, Seeds, Machinery, Irrigation Equipment and farm implements 5. Deploy more Agricultural Extension Officers to the ratio of 3 per constituency for agro-produce growing areas. 6. Provide resources for developing soil testing 3 lab centres within agricultural departments per county and repository of information on results mapping across the nation.

S/NO	KEY BUDGET IMPERATIVES	DISCUSSION & ISSUE OF CONCERN	ICPAK RECOMMENDATIONS
			7. Establish an information centre on demand for diverse foods produce, specialty crops and cash crops across the global markets where farmers, investors can obtain reliable information to engage in farming. 8. Incentivize and promote comparative advantages agricultural output to maximize productivity based on climatic conditions and market linkages. 9. Accordingly, there is need for appropriate policy interventions to promote the growth of livestock sub-sector.
2.	1.2.2 Transforming the Micro, Small and Medium Enterprise (MSME) Economy Paragraph 17- 20	The Institute acknowledges the support given to MSMEs including establishment of the Financial Inclusion Fund, or the Hustlers Fund in November 2022 among other interventions. However, there are two concerns: 1. Kenya has a narrow taxbase with majority of informal sector players not within the tax net. 2. It is important to note that the Multiplicity of taxes for MSMEs might in the long run cripple the sector. Subjecting their income to County and sectoral regulatory taxes, fees, levies and compliance contributions has contributed to over taxation and dampening of their willingness to comply.	1. Leverage and utilize technology and data management to identify potential taxpayers to design an appropriate mechanism for registration. 2. Require every legal person issued with a PIN to keep proper books of account for tax determination and those with annual turnover of over Kshs.15million to be subject to audit and representation by a tax agent. 3. Enhance Taxpayer morale through transparency and openness in public expenditures and efficient service delivery as these will encourage taxpayers to pay their taxes. 4. Enhance credit worthiness of sectoral MSMEs through formalization and taxpayer education. 5. Adopt a simplified, easy to administer non disruptive taxation system that is easily understandable to MSME actors and lower tax

S/NO	KEY BUDGET IMPERATIVES	DISCUSSION & ISSUE OF CONCERN	ICPAK RECOMMENDATIONS
			rates to maximum 25% for both individuals and corporates to remove tax arbitrage. 6. Address the run-away cost of energy now at Kshs 35 per KW and cost of fuel that is discouraging use of electric and motorized equipment to improve production efficiency.
3.	1.2.3 Housing and Settlement Paragraph 21- 26	The Finance Act 2023 introduced a sub-clause (31B) to the Employment Act, 2007, creating the Affordable Housing Levy. This levy requires a mandatory monthly deduction of 1.5% from the gross monthly salary of every formal employee in both the private and public sectors in Kenya. In addition, the levy mandates employers to match the employee's contribution with an equal amount, essentially doubling the funds allocated to affordable housing. The levy is imposed on gross income whereas PAYE is also imposed on gross income amounting to double taxation.	Alternative Development Approaches: 1. Parliament should set aside funds for housing. Funding should not be through the payroll as the employee is already paying PAYE. As such, any other deduction on employment income should not be treated as tax since it amounts to double taxation. 2. The government ought to pursue more Public-Private Partnerships (PPPs) where under such arrangements, the government offers land and leaves construction and financing to developers. These approaches will relieve the government of the responsibility of overseeing construction and subsequently the burden of funding huge infrastructure projects such as housing. 3. As part of leveraging on PPPs, getting to utilize the climate action funding towards affordable housing developments. Here, the country can be able to obtain funding and focus on building green homes which will further contribute to a better standard of living for Kenyans. 4. Provide CGT waiver relief for land transaction acquired for affordable housing purposes in

S/NO	KEY BUDGET IMPERATIVES	DISCUSSION & ISSUE OF CONCERN	ICPAK RECOMMENDATIONS
			designated zones to incentivize landowners to make land available for development of affordable housing
4.	1.2.4 Healthcare Paragraph 27	The Institute acknowledges the efforts by the government in streamlining health in this country. The introduction of various reforms including Social Health Insurance Authority (SHIA) are all geared towards prudent management of funds to and guaranteeing comprehensive and quality healthcare for all. The Act has established three new Funds including the Primary Healthcare Fund (PHF), Social Health Insurance Fund (SHIF), and the Emergency, Chronic and Critical Illness Fund (ECCIF). The Institute lauds the efforts by the Government in initiating reforms that would streamline and transform the healthcare systems in Kenya in tandem with the global healthcare provision prescriptions. The Institute is of the considered view that these measures have the potential to revolutionize healthcare services in Kenya and enhance efficiency and effectiveness for the benefit of all. Nonetheless, there must be robust structures in place to operationalize the reforms without further costs to be borne by the few salaried Kenyans who already bear the brunt of high cost of living. The Institute has the following key concerns. Paragraph 260 1. To implement these programmes, the Sector has been allocated Ksh 147.5 billion, Ksh 155.5 billion and Ksh 160.1 billion in the FY 2024/25, 2025/26 and 2026/27 respectively. This translates to 4.1%, 4.32% and 4.4%	1. There is need to increase the health budgetary allocation to the recommended 15% of the total annual budget as recommended by the AU under the auspices of Abuja declaration. This will go a long way in increasing recruitment and welfare of health personnel to enable efficiency in the health sector. It will also solve the problem of periodic strikes and brain drain that has become a new normal in the health sector by ensuring health workers are well paid, offered proper protective gear that they need to work in a safe environment. 2. The primary funding mechanism of 2.75% is too high should be reduced and supplemented through designated taxation e.g from "sin-tax" or environmental taxes could be channeled to the Fund. 3. Invest more to enhance human resources, build robust infrastructure that supports healthcare delivery. 4. The proposal on the Health Insurance Fund adds to the burden the taxpayer feels—Personal Tax Rates upped to 35%, Housing Levy 1.5% add Health Insurance at 2.75% all on gross income a whopping 9.25%, likely increase in NSSF rates, scrapping of payroll reliefs - Insurance and Mortgage increase with no corresponding improvement of economic

S/NO	KEY BUDGET IMPERATIVES	DISCUSSION & ISSUE OF CONCERN	ICPAK RECOMMENDATIONS
		respectively of the total budget of 3.6 trillion. This allocation is still way below the threshold prescribed threshold of 15% as per the Abuja Declaration. 2. The Regulations operationalizing the Social Health Insurance Act 2023 propose the rate of 2.75% of the gross salary for salaried beneficiaries. Considering the harsh economic times and the ever-diminishing disposable incomes of households, the premium contributions are not sustainable. This calls for robust structures to deal with the issues of inequality and inadequate resource mobilization strategies. 3. A study done by ICPAK on devolution found out that most problems within the healthcare sector lie within human resources, infrastructure, and budget.	environment instead the invasion of high prices of goods and services. This is a recipe for collapsing revenue tax base, declining consumption, declining tax collections, and extinguishing our market competitiveness, and international business flight from doing business in Kenya due to high cost of doing business in country. 5. Consider retaining the original voluntary NHIF contribution of Kshs 500 and cap NHIF maximum contributions to Kshs 5,000 given that employers are required to match up contributions for employees. This should give SHIF/NHIF three times of the collections it used to make previously. 6. There is need to address the classification of Medical services providers under the new Health Insurance Scheme right from Country Health Services, Private Medical Hospitals and Clinics, Faith Based Health Institutions, Community Based Health Service providers regarding accessing medicinal supplies from KEMSA, and pricing of common medicines across all players to ensure access, health caring and integrity of Health Insurance. This will ensure prompt claims settlement, remove risks of medicals services disruption, job losses, business closures on account of failure of government to honor medical claims obligations. Health insurance funds be managed away from government operation

S/NO	KEY BUDGET IMPERATIVES	DISCUSSION & ISSUE OF CONCERN	ICPAK RECOMMENDATIONS
			access hence the need to decouple collection from centralized government activities of comingling funds and avoid risks of government exploiting funds for other needs unrelated to medical services.
5.	1.3.5 Environment and Climate Change Paragraph 87	There are a myriad of interventions to support climate change. For instance, the government target of planting 15 billion trees is being implemented by every government department. There are also other efforts aimed at implementation of climate adaptation and mitigation including green energy, smart agriculture, decarbonized manufacturing, e-mobility and green building, all aimed at the attainment of zero carbon by 2050. Kenya has witnessed devastating effects of climate change including air pollution, disease, extreme weather events, forced displacement, pressures on mental health, and increased hunger and poor nutrition in places where people cannot grow or find sufficient food. The efforts towards sustainable climate change policies require every institution and citizens to be on board.	1. The government should invest more in research and development for targeted policies that seek to improve the environment. 2. Involve professionals such as accountants and train them on the emerging issues and trends on environmental sustainability including carbon credits. 3. Support and monitor implementation of the National Green Climate Fund Strategy. 4. There is need to engender environmental and climate change aspects in the education system, say, through 4K clubs to stimulate awareness and sustainable actions. 5. Adopt the Country Climate Change and Development Reports (CCDR) recommendations including but not limited to: a. Improving management of water, land, and forests to boost climate-resilient agriculture and rural economies. b. Fostering people-cantered resilience with climate informed basic services and urbanization. c. Strengthening Kenya's competitiveness in international markets through shifts in energy, transport, and digital systems.

S/NO	KEY BUDGET IMPERATIVES	DISCUSSION & ISSUE OF CONCERN	ICPAK RECOMMENDATIONS
			d. Improving Integration and coordination of climate action in policy, planning, investments, and decision-making across the economy. e. Implementing policy measures that mobilize climate financing from the private and public sectors.
6.	1.3.6 Education and Training	Government funding for education in Kenya is a significant part of the national budget, reflecting the country's commitment to providing accessible and quality education for its citizens. Some of the challenges facing the sector include: ▪ Lack of proper investment in Education infrastructure: Given the growing school population, there should be a continued emphasis on investment in school infrastructure, teacher enrolment, and caregiver support. This is essential for maintaining and improving the quality of education. ▪ Increase per capita allocation and capitation grants towards education sector in line with international standards. ▪ High pupil teacher ratios especially in public schools.	1. Invest in construction of more primary and secondary schools in the regions with a high average school sizes to ensure provision of quality education to the students. 2. There is a need to revise capitation for instructional materials and projects based on an informed analysis in order to facilitate proper planning and seamless running of schools in general and the sustainability of varied diversities of schools within the country e.g ASAL areas. 3. Recruit more teachers on permanent and pensionable terms to bridge the gap created in the current adoption JSS system and also reduce the Pupil-Teacher ratio especially in public schools 4. Consider direct procurement of learning materials from manufacturers in order to access quantity discounts and economies of scale much like what the government does with medicines via KEMSA.
7.	1.3.11 Governance	According to the European Judicial systems The European Commission for the Efficiency of Justice (CEPEJ) Evaluation Report - 2020, Europe had an average of 21.4 professional judges per 100,000 inhabitants implying one	

S/NO	KEY BUDGET IMPERATIVES	DISCUSSION & ISSUE OF CONCERN	ICPAK RECOMMENDATIONS																								
		judge serving a population of about 5,000 inhabitants. With a population of 48M Kenyans, In Kenya, if one judge would serve 100,000 inhabitants, we will require an establishment of 480 Judges for enhanced access to justice. The USA and India have an average of 21 judges per 1,000,000 people indicating service of 48,000 citizens per judge; in Germany, one judge serves about 4,000 citizens. Case clearance rate of 72% in Kenya and the attendant backlogs indicate a strained judiciary. <i>Budgetary allocation</i> <table><tr><th>FY</th><th>2019/20</th><th>2020/21</th><th>2021/22</th><th>2022/23</th><th>2023/24(Q1)</th></tr><tr><td>Rec</td><td>Kshs.186.6bn</td><td>Kshs.192.01bn</td><td>Kshs.209.0bn</td><td>Kshs.234.06bn</td><td>Kshs.220.53bn</td></tr><tr><td>Dev</td><td>Kshs.10.7</td><td>Kshs.7.09</td><td>Kshs.24.1bn</td><td>Kshs.6.82bn</td><td>Kshs.9.87bn</td></tr><tr><td>Total</td><td>Kshs.197.3</td><td>Kshs.199.1</td><td>Kshs.233.1</td><td>Kshs.240.88</td><td>Kshs.230.4</td></tr></table> <i>Source: National Government Budget Implementation Review Reports</i> From the above table, allocation to Governance, Justice, Law and Order Sector has been increasing over the years with a high allocation to the National Police Service is due to its roles, including enhancing public safety and security, provision of General Administration, planning and support Services to the National Police Administration Services and training of Police Officers. (Controller of Budget Reports) To ensure financial autonomy for the Judiciary as envisaged in the Constitution and sufficient Judicial officers to administer justice, consider: 1. Revising the establishment to 480 Judges to enhance access to justice and prompt delivery of cases. 2. Increase budgetary allocation to the development expenditure kitty.	FY	2019/20	2020/21	2021/22	2022/23	2023/24(Q1)	Rec	Kshs.186.6bn	Kshs.192.01bn	Kshs.209.0bn	Kshs.234.06bn	Kshs.220.53bn	Dev	Kshs.10.7	Kshs.7.09	Kshs.24.1bn	Kshs.6.82bn	Kshs.9.87bn	Total	Kshs.197.3	Kshs.199.1	Kshs.233.1	Kshs.240.88	Kshs.230.4	
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8.	1.4 Medium Term Revenue Strategy	The implementation of MTRS is expected to among others: (i) raise revenue to GDP ratio from 14.3 percent in FY 2022/23 to 20.0 percent by end of the FY 2026/27; (ii) increase tax compliance rate from 70 percent in FY 2022/23 to 90 percent by FY 2026/27; and (iii) increase investment to GDP ratio from 19.3 percent in FY 2022/23 to 25.7 percent in FY 2026/27. MTRS proposes an embrace of technology and data sharing between County governments, third parties, and the Kenya Revenue Authority (KRA). This collaboration aims to cast a wider net on taxpayers within the informal sector. The strategy also suggests a final withholding tax of not more than 5% on the value of produce delivered to cooperatives or	The government should: 1. Produce, as standard practice, tax incidence analysis for the different tax measures proposed in the MTRS. Tax incidence analysis should particularly analyze tax burdens by wealth, income and sex. 2. Give an annual progress update on the implementation of measures in the MTRS. 3. Engage with professional bodies and CSOs on tax policy matters to help ensure that progressive tax policies are integrated into revenue mobilization strategies.																								

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		other organized groups. This move is anticipated to streamline the taxation process within the agriculture sector, ensuring that farmers contribute their fair share to the revenue pool. However, this intervention might be perceived as cutting into the profits that farmers receive against the policy position on MSMEs and agriculture.	4. Publish a consultation draft of the MTRS for public feedback before it is finalized and published for implementation, and where submitted proposals are rejected, justify this to all the stakeholders. 5. Provide relevant data and analytical tax policy reports to the public and other stakeholders to do their own analysis and have regular tax policy forum meetings where taxation issues can be thoroughly discussed. 6. Annual report on policy implementation challenges, learnings and data driven outcomes to inform refining of the policy interventions for subsequent periods.
9.	1.5 National Tax Policy Paragraph 141-143	The National Tax Policy is a step in realizing the country's dream of having an efficient and fair tax system that promotes equity in tax administration and predictable tax environment for business to operate. The Institute is of the considered opinion that the current structure of taxation is not sustainable since there is a continued reliance on a small pool of taxpayers.	1. Expedite implementation of the national tax policy. 2. Publish, publicize and capacity build the public on the policy. 3. Finalize the formulation and enhance the implementation of the National tax policy. 4. Harmonize various laws to facilitate the registration of a single identifier to ensure all potential taxpayers are registered with the KRA from cradle to grave. 5. Harmonize taxes, levies, and charges to reduce their multiplicity at National and county government levels. Specifically, guard against the deleterious effect of levies on primary tax revenues such as income tax.

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10.	Recent economic developments Inflation Outcomes Paragraph and 153	Food inflation remained the dominant driver of overall inflation in December 2023. Fuel inflation has remained elevated reflecting the impact of higher international oil prices. The rising cost of living has a profound impact on people's wallets, affecting their financial stability and overall well-being in several ways including: ▪ Reduced Disposable Income ▪ Increased household and personal debt ▪ Limited Retirement Savings ▪ Stress and Mental Health Impact ▪ Prolonged impact on rising cost of living might lead to massive staff layoff and businesses closures	1. Reduce taxes on fuel, lower tariffs rates of electricity, and expand VAT Zero Rating on food will go a long way to lower cost of living in the country. 2. Consider capping contributions to the Housing Levy for a specified time limit (a maximum of five years) to allow the creation of a revolving fund henceforth.
11.	Fiscal Performance	Revenue grew for the first five months of FY 2023/24 by 13.2% in November 2023 compared to a growth of 10.6% in November 2022. Total revenue recorded a shortfall of Ksh.98.7 billion with ordinary revenue missing the November 2023 target by Ksh.98.2 billion and Ministerial Appropriation in Aid (AiA) recording a shortfall of Ksh.0.5 billion. Revenue collection to November 2023 recorded a slightly higher growth of 13.2 percent compared to a growth of 10.6 percent in November 2022.	1. The government should enhance gradual expenditure rationalization programmes to reduce recurrent expenditure as it could be unsustainable in future. 2. Revenue estimates should be data driven and reflective of prevailing economic circumstances. For example, a growth of 13.2% yet still missing the target is symptomatic of unrealistic revenue targets. Importantly, these revenue raising measures often target the easy to tax sectors which have traditionally borne the brunt of taxation eg income tax for salaried people.
12.	Deficit Financing & Issues around Public Debt Paragraph 187	The growth of Kenya's public debt in the last ten years has raised concern on the sustainability of the of the government's fiscal path given the increasing impact of debt service repayments on service delivery and the economy.	1. Establish and operationalize a Sinking Fund. Establishing a sinking fund will enable the country to set aside funds in the years leading to debt maturity.

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		According to the <i>2024 Medium-Term Debt Management Strategy</i>, Public and publicly guaranteed debt in nominal terms as at end June 2023 was Ksh. 10,278.7 billion (70.8% of GDP). This comprises external debt stock of Ksh.5,446.5 billion and domestic debt stock of Ksh.4,832.1 billion.	2. Establish and operationalize a Kenyan Sovereign Wealth Fund through policy and legislation. 3. Prioritize projects independently assessed for financial viability and consider absorptive capacity constraints within the investment timelines. 4. Consider Public Private partnerships as a form of financing development expenditure. 5. Gradually retire expensive commercial loans for long-term concessional loans. 6. Publish core public and publicly guaranteed debt statistics at the general government level annually, including information on individual debt instruments contracted. 7. Develop and adopt strict analytical and monitoring processes for approval and implementation of resource-backed loans. 8. Parliament should demand regular reports on capital projects financed through debt from the National Treasury to enhance openness and transparency. The reports should include the corresponding feasibility studies, details of commitment fees, if any and project implementation status. 9. Enhance prudent financial management and accountability in implementation of development projects. Additionally, any external borrowing be towards specific development projects as provided for in the PFM Act or impact projects. Consequently, there is need to source for impact investors who

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			offer grants through specific implementation agencies that will be transparent and accountable in reporting on utilization of the borrowed funds.																														
13.	4.1 County Governments' Compliance with Fiscal Responsibility Principles	Management of county finances shall be in accordance with the Constitution, Public Finance Management (PFM) Act, 2012 and the Public Finance Management (County Government) Regulations, 2015. The table below shows expenditure in the county over the years; <table><tr><th>FY</th><th>2019/20</th><th>2020/21</th><th>2021/22</th><th>2022/23</th><th>2023/24(Q1)</th></tr><tr><td>Rec</td><td>Kshs.279.27bn</td><td>Kshs.281.95 bn</td><td>Kshs.302.49bn</td><td>Kshs.330.92bn</td><td>Kshs.60.56bn</td></tr><tr><td>Absorption Rate</td><td>89.6</td><td>89.5</td><td>88.4</td><td>93.3</td><td>17.5</td></tr><tr><td>Dev</td><td>Kshs.104.51bn</td><td>Kshs.116.07 bn</td><td>Kshs.98.47 bn</td><td>Kshs.97.98 bn</td><td>Kshs.6.92bn</td></tr><tr><td>Absorption Rate</td><td>55.6</td><td>62.1</td><td>50.9</td><td>61</td><td>3.7</td></tr></table> Policy considerations: 1. Spending units (MDAs and County Governments) should enhance synchronization of the strategic plans with their procurement plans, the budget and cash flow projections. 2. Revenue forecasting should be based on ambitious but attainable revenue projections to deal with aspects of shortfalls which affect disbursement to spending units. 3. Closely related, National Treasury should strive to release funds to the MDAs, County Governments and other spending units based on their work plans and cash flow projections as presented at the beginning of the financial year. 4. There is need to start tying additional allocation to entities to the real fiscal responsibility issues such as absorption capacity, structural balance between recurrent and capital expenditure and compliance to PFM systems as measured by the report from both internal audit and the Auditor General.	FY	2019/20	2020/21	2021/22	2022/23	2023/24(Q1)	Rec	Kshs.279.27bn	Kshs.281.95 bn	Kshs.302.49bn	Kshs.330.92bn	Kshs.60.56bn	Absorption Rate	89.6	89.5	88.4	93.3	17.5	Dev	Kshs.104.51bn	Kshs.116.07 bn	Kshs.98.47 bn	Kshs.97.98 bn	Kshs.6.92bn	Absorption Rate	55.6	62.1	50.9	61	3.7	
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14.	4.2 Enhancement of County Governments' Own-Source-Revenue	According to the Controller of Budget of Reports, During the reporting period, County governments generated a total of Kshs.10.21 billion from their own-source revenue (OSR), which was 13% of the annual target of Kshs.78.61 billion. Counties that reported the lowest collection against their	1. Capacity-build all critical players and cadres of county staff on revenue administration. 2. Professionalize revenue officers to ensure qualified staff handle the revenue function. 3. The Institute proposes the automation of OSR systems (use of a common system across all																														

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		annual target include; Machakos, Nandi, Kericho, Lamu, and Kajiado at 2.6%, 4.8%, 5.2%, 5.6%, and 5.6%.	counties) to address leakages and enhance visibility.
15.	4.3 Prudent Management of Fiscal Risks Paragraph 308	Pending Bills Section 94 (1) (a) of the PFM Act, 2012, treats failure to make any payments as and when due by a State Organ or a Public Entity as an indicator of a serious material breach or a persistent material breach of its operational and financial commitments. As of September 30, 2023, the pending bills owed to various service providers by the devolved units stood at Sh168.62 billion according to the County Governments Budget Implementation Review Report. The National Treasury Cabinet Secretary via Gazette Notice 13355 of September 20th, 2023 appointed the Pending Bills Verification Committee to scrutinize and analyze existing national pending bills that have been accrued from the period 2005 to June 2022. As at Jan 30th, 2024, the Pending Bills Verification Committee had received 1,537 claims from 38 MDAs amounting to Kes 145.5 billion. The Institute recognizes pending bills as inimical to the growth of the private sector, MSMEs and the economy at large. This is a cause for worry, especially the rate at which counties accumulate pending bills. This could be attributed to over-estimation of the counties' own source revenues (OSR) that some counties have projected at more than twice their prior year actual collections. For	1. The Government should expedite shifting its budgeting from the current cash basis to an accrual basis. The benefit of an accrual basis of accounting is that it prioritizes the payment of trade debts and arrears in all budget allocations on a first in first paid basis, and therefore it will reduce pending bills. 2. Given that in some instances pending bills occur because of procurement and accounting officers' lack of expertise on how to capture pending bills at the beginning of every financial year and make payments from the authorized list of pending bills from subsequent budget allocations, Government institutions should employ accountants who are members of ICPAK with the requisite and continually build their capacity through professional development programs. 3. Through realistic budgets, proper oversight by the Controller of Budget and prudent spending and planning by the devolved units would significantly reduce further accumulation. 4. While the PFM framework permits expenditure to be incurred based on an appropriation, the challenges imposed by the ever-increasing level of pending bills could necessitate the recommendation for a short-

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		instance, In the financial year ended June 30, 2023, the counties collected Sh37.81 billion in own source revenue, against a budgeted projection of Sh57.37 billion.	term measure where expenditure is only incurred based on the availability of funds.