Rt. Hon. Speaker
You may approve for tabling
J. M. Nyegenye, C.B.S.,
Clerk of the senate/ secretary, PSC
Date: 12/03/25

REPUBLIC OF KENYA

THIRTEENTH PARLIAMENT | FOURTH SESSION

12/03/25

THE SENATE

APPROVED
RT. HON. SEN
AMASON J. KINGI

STANDING COMMITTEE ON FINANCE AND BUDGET

REPORT ON THE 2025 MEDIUM TERM DEBT MANAGEMENT STRATEGY

PAPERS LAID	
DATE	12·03·2025
TABLED BY	Majority Whip
COMMITTEE	Finance and Budget
CLERK AT THE TABLE	Ms. Kavata

Clerk's Chambers,

Parliament Buildings,

NAIROBI.

MARCH, 2025

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LIST OF ABBREVIATIONS/ACRONYMS

BPS	-	Budget Policy Statement
CBC	-	Competency Based Curriculum
CBR	-	Central Bank Rate
DSA	-	Debt sustainability Analysis
ESG	-	Environmental, Social and Governance
GDP	-	Gross Domestic Product
IFMIS	-	Integrated Financial Management Information System
IMF	-	International Monetary Fund
(LMOs)	-	Liability Management Operations
MDAs	-	Ministries, Departments and Agencies
MTDS	-	Medium Term Debt Management Strategy
NPL	-	Non-Performing Loans
OTC	-	Over the Counter
PDMO	-	Public Debt Management Office
PDPC	-	Public Debt and Privatization Committee
PFMA	-	Public Finance Management Act
PPG	-	Public and Publicly Guaranteed Debt
PV	-	Present Value
SHIF	-	Social Health Insurance Fund

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, scrutinize 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 to 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

The Standing Committee on Finance and Budget was constituted by the Senate of the Thirteenth (13th) Parliament on Thursday, 13th October, 2022 during the First Session. The Committee was later reconstituted on Wednesday, 12th February, 2025, during the Fourth Session. The Committee 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. Mohamed Faki Mwinyihaji, CBS, MP - Member
5. Sen. Richard Momoima Onyonka, MP - Member
6. Sen. Shakila Abdalla Mohamed, MP - Member
7. Sen. Eddy Gicheru Oketch, MP - Member
8. Sen. Mariam Sheikh Omar, MP - Member
9. Sen. Esther Okenyuri, MP - Member

CHAIRPERSON'S FOREWORD

The Medium-Term Debt Management Strategy (MTDS) provides a framework for informed decision-making on public borrowing and debt management. It guides the national government in structuring the public debt portfolio to minimize costs and risks while ensuring sustainability and supporting the development of the domestic debt market.

The 2025 MTDS has been prepared pursuant to section 33 of the Public Finance Management Act, Cap. 412A. It was tabled in Parliament on February 13, 2025, and subsequently committed to the Standing Committee on Finance and Budget for consideration.

The submission of the MTDS aligns with section 33(1) of the Public Finance Management Act (2012), which mandates the Cabinet Secretary responsible for Finance to submit to Parliament a statement outlining the National Government's debt management strategy.

Accordingly, this report adheres to the provisions set out under section 33(3) of the Act and encompasses the following key elements-

a) the stock of public debt as at the date of the tabling of the statement;
b) the sources of loans acquired by the national government and the nature of guarantees issued by the national government;
c) principal risks associated with these loans and guarantees;
d) assumptions underpinning the debt management strategy; and
e) an analysis of the sustainability of both actual and potential public debt.

The resolution of the House on the report on the Medium-Term Debt Management Strategy shall serve as the foundation for determining the appropriate limits on proposed domestic and external borrowing. Additionally, it shall inform the approval of the Budget Policy Statement Report.

The 2025 MTDS outlines the following financing strategy-

a) a gross financing ratio of 25:75 for external and domestic borrowing, respectively; and
b) a net financing strategy of 35:65 for external and domestic financing, respectively.

This underscores the continued reliance on the domestic market as the primary source of financing for fiscal deficits over the medium term.

As of the end of January 2025, the total stock of public and publicly guaranteed debt stood at Ksh. 11.02 trillion (65.7% of GDP), up from Ksh. 10.58 trillion (65.7% of GDP) in June 2024. This figure is projected to rise further to Ksh. 13 trillion by June 2027.

Consequently, debt servicing costs are expected to increase to Ksh. 1.97 trillion by June 2025 and further to Ksh. 2.4 trillion by June 2027. Additionally, debt service payments-including interest and redemption payments-are projected to remain elevated, averaging 60% of total revenue. This underscores the tightening fiscal space and highlights the urgent need for a robust Debt Management Strategy aimed at minimizing costs and mitigating the risks associated with high debt distress levels.

Examination of the 2025 Medium-Term Debt Management Strategy

In reviewing the 2025 MTDS, the Committee engaged with key stakeholders, including Commission on Revenue Allocation, the Institute of Certified Public Accountants of Kenya, the Council of Governors, the County Assembly Forum, Bajeti Hub, the Institute of Public Finance, the Institute of Social Accountability, Office of the Auditor-General, Okoa Uchumi, Mr. Kelvin Ronyo and the Institute of Economic Affairs. The Committee held a total of 10 sittings while processing the 2025 MTDS-*(Annex 1: Minutes of Committee proceedings attached)*

Additionally, in adherence to Article 201(a) of the Constitution, the Senate conducted public participation on the 2025 MTDS through a call for submission of memoranda.

Committee Key Recommendations

Arising from consultative engagements, the Committee made several recommendations including-

a) Noting that as of June 2024, Kenya's public debt stood at Kshs. 10.58 trillion, equivalent to 63% in Present Value (PV) terms, exceeding the Public Finance Management Act (PFMA) framework's PV-to-GDP threshold of 55% by 8 percentage points, the National Treasury should submit quarterly reports to Parliament detailing the progress made towards compliance with the set threshold in PFMA.

b) That, the National Treasury, Central Bank of Kenya, and Controller of Budget should fully automate the withdrawal of debt service payments from the Consolidated Fund by 31st May, 2025. Additionally, an interagency report on the implementation status of this recommendations should be submitted to Parliament 15 days after the 31st May, 2025.

c) That, to enhance financial controls, improve the accuracy and timeliness of public debt statistics, and strengthen decision-making for greater transparency and accountability, the National Treasury should integrate the Public Debt Management System with the Integrated Financial Management System (IFMIS) by May 31, 2025, and submit a report to Parliament within 15 days of implementation.

d) That, to enhance transparency and accountability in the anticipated increase in domestic borrowing, the National Treasury should, within 60 days-

   i. Establish a working committee to develop criteria for assessing the effective utilization of borrowed funds by Ministries, Departments, and Agencies (MDAs) and establish the Registrar of Government Securities in accordance with Section 55 of the Public Finance Management PFMA Act.

   ii. Ensure that the debt register records comprehensive details on the utilization of borrowed funds, including a specific breakdown of projects financed through the proceeds of Infrastructure Bonds.

e) That, the National Treasury should establish a multi-agency committee comprising representatives from the National Treasury, the Central Bank of Kenya, and the Controller of Budget to review the public debt procurement process and assess the utilization of borrowed funds. The committee should submit a report to the Senate within 60 days.

f) To mitigate the impact of high debt service costs, the National Treasury should ensure efficient resource utilization, prioritize investments in high-impact sectors, and enhance the timely implementation of projects and programs

Financial Recommendations

g) That, the fiscal deficit target for the medium term is approved and set at 4.6% of GDP for the FY 2025/26; 3.8% of GDP for FY 2026/27 and 3.5% of GDP for 2027/28, in line with the fiscal consolidation path; and

h) That, the country's borrowing strategy is approved at 35% for net external borrowing and 65% for net domestic borrowing as contained in the 2025 Medium Term Debt Management Strategy.

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 2025 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 2025 Medium Term Debt Management Strategy.

Signature……………………… **Date..12/03/2024**

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 2025 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. Mohamed Faki Mwinyihaji, CBS, MP	Member	
5.	Sen. Richard Momoima Onyonka, MP	Member	
6.	Sen. Shakila Abdalla Mohamed, MP	Member	
7.	Sen. Eddy Gicheru Oketch, MP	Member	
8.	Sen. Mariam Sheikh Omar, MP	Member	
9.	Sen. Esther Okenyuri, MP	Member	

CHAPTER ONE

OVERVIEW OF MEDIUM-TERM DEBT MANAGEMENT STRATEGY

1.0 Introduction

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 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 required to include the following information in the MTDS-
    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 Macro-economic Assumptions

7. The 2025 MTDS is anchored on the macroeconomic assumptions outlined in the 2025 Budget Policy Statement (BPS). The key assumptions underpinning the selection of the optimal borrowing strategy for FY 2025/26, as outlined in the 2025 Budget Policy Statement, include a real GDP growth rate of 5.3%, an inflation rate of 5.0%, projected revenue at 17.6% of GDP, expenditure at 22.1% of GDP, and a fiscal deficit of 4.3% of GDP.

1.2 The Fiscal Framework

8. Total revenue, including Appropriation-in-Aid (A-i-A), is projected at Ksh. 3,385.8 billion (17.6% of GDP) in FY 2025/26, while total expenditure and net lending are projected at Ksh. 4,263.1 billion (22.1% of GDP), resulting in a fiscal deficit of Ksh. 831.1 billion (4.3% of GDP).

1.3 The Projected 2025 MTDS borrowing strategy

9. The Medium-Term Debt Strategy (MTDS) for financing the fiscal deficit in FY 2025/26 includes a gross borrowing ratio of 75% domestic and 25% external financing, with a net borrowing mix of 65% domestic and 35% external. Over the medium term, the targeted public debt composition aims for a net borrowing ratio of 55% domestic

and 45% external. Net financing is projected at Ksh. 146.8 billion from external sources and Ksh. 684.2 billion from domestic sources.

1.4 Sources of Funding

10. External borrowing will be sourced through concessional loans from multilateral and bilateral lenders, with limited reliance on commercial loans such as international bond issuances. Domestic borrowing will be undertaken through the issuance of Treasury bonds and bills.

11. This proposed financing mix does not include any funding from the International Monetary Fund (IMF). If the government successfully negotiates a funded programme with the IMF, then this would change by increasing external financing and reducing domestic borrowing.

12. The MTDS 2025 further aims to diversify funding sources by exploring emerging instruments such as debt swaps, diaspora bonds, sustainability-linked bonds, and Environmental, Social, and Governance (ESG) debt instruments to finance the budget deficit and manage public debt.

1.5 The risks and challenges

13. The MTDS 2025 highlights several risks in the implementation of the proposed debt strategy. These include-
    a) Unpredictable weather conditions;
    b) Tight fiscal space;
    c) Uncertainties in the global economic outlook;
    d) Constrained access to concessional financing;
    e) Underperformance of Government Securities auctions;
    f) Failure to absorb external financing;
    g) Underperformance in revenue collection;
    h) Depreciation of the Kenya shilling;
    i) Fiscal risks from state-owned enterprises; and
    j) Risk of credit rating downgrades.

14. To address these challenges, the MTDS 2025 outlines the following approaches-
    a) Establish a platform to improve post-trade transparency and enhance price discovery.
    b) Operationalize the sinking fund to support Liability Management Operations.
    c) Improve cash flow management to reduce reliance on costly overdrafts.
    d) Sustain fiscal consolidation to curb deficits and slow public debt accumulation.
    e) Strengthen government securities issuance and trading framework.
    f) Enhance efficiency in the Over The Counter (OTC) market for government securities.

1.6 Review of previous MTDS performance

15. A review of past borrowing strategies reveals a consistent reliance on domestic borrowing over external financing. For instance, the 2024 Medium-Term Debt Strategy (MTDS) targeted a 50:50 borrowing ratio between domestic and external sources, yet the actual composition stood at 73:27, highlighting a continued shift towards domestic borrowing. This trend reflects limited access to external financing, driven by factors such as global financial market conditions and Kenya's sovereign debt rating, which have constrained the country's ability to secure external loans at favorable terms.

1.7 Public Debt Stock

16. Public and publicly guaranteed debt increased from Ksh.10,278.90 billion in June 2023 to Ksh.10,581.98 billion in June 2024, amounting to a Ksh.303.2 billion (2.9%) rise between the two periods. The Ksh. 10,581.98 billion comprises external debt of Ksh.5,171.70 billion (48.9% of total debt) and domestic debt stock of Ksh.5,410.28 billion (51.1% of total debt).

17. As a percentage of GDP, the debt level stood at 63% in Present Value (PV) terms, exceeding the 55% threshold set in the PFM Act by 8 percentage points. Notably, at the end of January 2025, the total stock of public and publicly guaranteed debt was Ksh.11.02 trillion, equivalent to 65.7% of GDP.

1.7.1 External Debt

18. The net value of external debt in Kenya shillings declined by 5%, reducing from Ksh.5,446 billion in June 2023 to Ksh.5,171 billion in June 2024. The external debt portfolio comprised concessional loans from multilateral lenders (54%), bilateral loans (22%), commercial loans (23%), and supplier credit (0.3%).

19. The largest creditors include the World Bank (35%) and China (14%), followed by the African Development Bank/Fund (10%) and the IMF (8%). Notably, loans from the World Bank and IMF are concessional, helping to mitigate the costs and risks associated with external commercial debt and domestic borrowing.

1.7.2 Domestic Debt

20. Domestic debt grew by Ksh.526.28 billion, rising from Ksh.4,832 billion (June 2023) to Ksh.5,410 billion (June 2024), reflecting a 12% increase. The composition of domestic debt includes Treasury bonds (Ksh.4.63 trillion), Treasury bills (Ksh.616 billion), and other instruments (Ksh.166 billion). Notably, in recent years, the stock of Treasury bonds has been on the rise, while the stock of Treasury bills has been declining. This trend reflects a strategic shift towards lengthening the maturity profile of domestic debt by prioritizing the issuance of medium- to long-term securities (Treasury bonds) while reducing reliance on short-term securities (Treasury bills) for improved cash management.

21. Banking institutions remained the largest holders of domestic debt, accounting for 47% of total domestic debt holdings as of June 2024. However, this marks a notable decline from 55% in June 2023. The shift is attributed to increased holdings by trust funds, pension funds, and other investors. This trend is largely driven by innovative policies implemented by the Central Bank of Kenya through the DhowCSD platform, which has expanded access to government securities and diversified the ownership of government debt.

1.7.3 Guaranteed Debt

22. The stock of Government guaranteed debt decreased to Ksh.100.2 billion as at end June 2024 from Ksh.170.2 billion in June 2023 on account of novation of Kenya Airways debt and repayment of called-up guaranteed debt. Guarantees totaling Ksh.43.13 billion were given to Kenya Ports Authority, Ksh.29.13 billion to Kenya Airways and Ksh.27.89 billion to Kenya Electricity Generating Company (KenGen), all of which were in operation.

23. In line with Article 213 of the Constitution and section 58 of the PFM Act, Cap 412A, the National Treasury is authorized to extend loan guarantees to private entities, county governments, or other borrowers on behalf of the National Government, subject to parliamentary approval.

24. The key changes to guaranteed debt include- i) Exclusion of the Ksh.9 billion guarantee to Kenya Power and Lighting Company, which was previously included in the 2024 MTDS, and ii) Addition of a Ksh.29.14 billion guarantee to local banks that financed the Aircraft Finance and Leasing Agreement for Kenya Airways. This adjustment increases the government's exposure to the full Ksh.29.14 billion in the event of a default by Kenya Airways. An estimated Ksh.156 billion will be utilized to fully settle Kenya Airways PLC's debt obligations under the government guarantee by June 2027.

25. As stipulated in section 61(1) of the PFM Act, Cap 412A, any payments made under a guarantee are considered a debt to the national government and should be recovered from the borrower. However, legislative gaps in implementing this provision, particularly in defining timelines for enforcement remain a challenge.

1.8 Debt service

26. Public debt service grew by Ksh.63.9 billion, rising from Ksh.1,199.4 billion in June 2023 to Ksh.1,563.3 billion in June 2024. This increase pushed the debt service-to-revenue ratio to 68.3%, up from 58.8% in June 2023. The rise in debt servicing costs was driven by increase in both interest and principal repayments across the external and domestic debt portfolios.

27. Domestic debt remains the primary contributor to rising debt service costs. As of June 2024, domestic debt service stood at Ksh.801.15 billion (51.45% of total debt service), comprising Ksh.622.54 billion in interest payments and Ksh.178.60 billion for Treasury bond redemptions.

28. The significant share of domestic debt service is largely driven by high domestic interest rates and investor preference for short-term securities, increasing both interest rate and refinancing risks.

29. In contrast, external debt service amounted to Ksh.755.97 billion (48.54%), including Ksh.537.78 billion in principal repayments and Ksh.218.18 billion in interest payments.

30. Debt service (interest and redemptions) is projected to reach Ksh.1.87 trillion in FY 2024/25 and rise further to Ksh.2.47 trillion by FY 2026/27, primarily driven by domestic debt servicing and interest payments. Over the medium term, debt service will continue to account for more than 60% of total revenue. A high debt service-to-revenue ratio indicates a significant reduction in resources available for critical development and recurrent expenditures, as debt servicing takes priority as the first charge on the Consolidated Fund.

1.9 Risks to Debt and Debt Sustainability Indicators

31. The domestic debt portfolio carries higher costs and risk characteristics compared to the external debt portfolio. This is evident in its shorter average repayment period of approximately 6.6 years, compared to 9.5 years for external debt. Additionally, the MTDS indicates that 17.6% of domestic debt falls due within one year, significantly higher than the 5.2% of external debt, increasing refinancing pressure and liquidity risks.

32. The average interest rate on domestic debt is significantly higher at approximately 13.2%, compared to 3.7% for external debt. This makes domestic borrowing substantially more expensive, assuming a stable exchange rate. However, the MTDS highlights a decline in debt-related risks, driven by falling domestic and international interest rates, a stable exchange rate, and an extension of debt repayment periods.

33. A review of total public debt shows that the Present Value (PV) of the debt-to-GDP ratio declined from 68.7% in June 2023 to 63% in June 2024. However, this remains above the 55% threshold set in the PFM Act, Cap 412A. The 2025 MTDS projects the ratio to peak at 64% in June 2025 before gradually declining through 2029.

34. The projection indicates that the PV of debt-to-GDP ratio will remain above the 55% threshold set in the PFM Act beyond 2028. This implies sustained pressure on Kenya's revenue due to high debt servicing obligations, with liquidity risks expected to remain elevated until 2028. The PV of debt service to revenue and grants ratio will peak between 2025 and 2026, exceeding 60%. This significantly reduces the share of tax revenues available for essential government services such as health and education.

35. External debt sustainability remained stable despite significant exchange rate shocks between June 2023 and June 2024. The PV of Public and Publicly Guaranteed (PPG) external debt to GDP ratio is the only indicator currently within its threshold of 40, standing at 29.8 as of June 2024, with projections indicating further improvement over the long term. However, the PV of PPG external debt to exports ratio (threshold: 180) and the PV of PPG external debt service to exports ratio (threshold: 15) remain above their respective thresholds and are expected to stay elevated over the medium term. This underscores the need to increase exports to enhance debt sustainability.

CHAPTER TWO

2.0 OVERVIEW OF SUBMISSION FROM STAKEHOLDERS

36. 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. Additionally, the Committee published an advert in two daily newspapers inviting members of the public to submit their views on the 2025 MTDS-*(Annex 3-Public Advert).*

37. Consequently, the Committee received submissions -*(Annex 2-Stakeholders submissions)* from the following Stakeholders
    a) The Commission on Revenue Allocation (CRA);
    b) The Institute of Certified Public Accountants of Kenya (ICPAK);
    c) Bajeti Hub;
    d) The County Assembly Forum (CAF);
    e) The Institute of Public Finance (IPF);
    f) The Institute of Economic Affairs (IEA);
    g) Mr. Ronyo Kelvin;
    h) Office of Auditor General (OAG); and
    i) Okoa Uchumi.

2.1 Submissions by the Commission on Revenue Allocation

38. The Commission on Revenue Allocation appeared before the Committee and submitted as follows-
    a) That the pre-1997 government debt of Ksh.17.23 billion had remained outstanding for nearly three decades, raising concerns over fiscal prudence. The Commission questioned the measures the National Treasury was undertaking to settle the debt.
    b) The Commission acknowledged the government's efforts in shifting domestic debt composition from short-term Treasury Bills to long-term Treasury Bonds, which

accounted for over 80% of total domestic debt by June 2024, stating that it will help manage refinancing risks.

c) CRA commended the Treasury for its adherence to prioritizing long-term domestic debt instruments and concessional external debt. However, they urged the Senate to ensure continued compliance. The CRA also highlighted that 67% of external debt was denominated in US dollars, posing a risk in case of currency depreciation and therefore recommended that Parliament should legislate an upper ceiling for external debt in any single currency.

d) On debt sustainability, CRA noted that Kenya's public debt-to-GDP ratio stood at 68.7% in 2023, surpassing the 55% benchmark set by the International Monetary Fund (IMF) and the Public Finance Management (Amendment) Act 2023. The government was granted a five-year compliance period to reduce this ratio. The Commission stressed the need for stringent parliamentary oversight to manage debt accumulation, especially with the approaching Eurobond repayments in 2029, 2030, and 2031.

e) The Commission also raised concerns over the rising debt service-to-revenue ratio, which increased from 56% in 2022 to 60.6% in 2023. It warned that this trend strained revenue allocation between national and county governments and delayed service delivery. It, therefore, recommended enhanced revenue collection and control over public borrowing.

f) Lastly, CRA pointed out that Kenya had breached key external debt sustainability thresholds, particularly in the present value (PV) of public and publicly guaranteed (PPG) debt-to-exports ratio and PPG debt service-to-exports ratio. This placed the country at high risk of debt distress. To mitigate this, they urged Parliament to enforce strict compliance with external debt composition, favouring multilateral over commercial debt.

2.2 Submissions by the Institute of Certified Public Accountants of Kenya

39. ICPAK appeared before the Committee and made the following submissions-

a) ICPAK observed that Kenya's public debt remained a significant challenge, with the debt-to-GDP ratio at 65.7%, surpassing the 55% sustainability benchmark. It noted that public debt servicing had escalated, with repayment costs increasing from Ksh.1.18 trillion in the 2023/24 financial year to Ksh.1.35 trillion in 2024/25. Additionally, it highlighted that 49.3% of total public debt was in foreign currency, making Kenya vulnerable to exchange rate fluctuations. The Institute recommended reducing short-term borrowing by issuing long-term domestic bonds, conducting a risk assessment on government-guaranteed loans, and diversifying external financing sources through diaspora bonds and sustainability-linked financing.

b) On the cost and risks of existing public debt, ICPAK warned that Kenya faced large debt repayments over the next nine years, particularly Eurobonds and syndicated loans. It expressed concerns over exchange rate fluctuations, noting that short-term foreign currency debt constituted 27.5% of reserves. To mitigate these risks, the Institute recommended prioritizing local currency borrowing, implementing hedging strategies, and restructuring existing debt to extend repayment periods and ease fiscal pressure.

c) That the government's financing approach had deviated significantly from its planned 50:50 split between external and domestic sources, instead leaning heavily on domestic borrowing at 73:27. They warned that this reliance crowded out private sector credit and increased interest costs, and emphasized the need for concessional financing and a liability management strategy, recommending continuous monitoring and periodic reviews to mitigate emerging risks.

d) On debt sustainability, ICPAK acknowledged that Kenya's external debt remained below the 40% sustainability threshold in relation to GDP. However, it flagged concerns over the country's Public and Publicly Guaranteed (PPG) external debt-to-exports ratio, which exceeded the 180% threshold and was projected to remain high until 2029. It warned that this indicates significant repayment risks and recommended enhancing export competitiveness, strengthening trade agreements, prioritizing concessional loans, and improving foreign exchange reserves.

e) Regarding challenges to debt management, the Institute identified low domestic revenue mobilization, inadequate debt transparency, and slow progress in public debt legal reforms as critical issues. It noted that Kenya's narrow tax base and low compliance rates exacerbated fiscal deficits, necessitating external borrowing. It urged the government to implement tax reforms, improve debt transparency through regular reporting, and expedite legal reforms to clarify the roles of fiscal agents and the National Treasury.

f) ICPAK further highlighted macroeconomic risks, warning that global economic uncertainties could affect Kenya's access to concessional financing and increase fiscal pressure. It recommended developing risk mitigation strategies such as currency hedging and enhanced market monitoring. Additionally, it urged the government to make the domestic debt market more inclusive by reducing investment thresholds for retail investors and integrating mobile-based investment platforms.

g) The Institute noted that while the 2025 MTDS allocated 75% of borrowing to domestic sources, it lacked a detailed focus on planned reforms in the domestic debt market. It called for the inclusion of a clear framework for attracting investors, strengthening market infrastructure, and reinforcing debt sustainability measures. It also emphasized the need for a comprehensive monitoring and evaluation framework to track the implementation of the strategy effectively.

2.3 Submissions by Bajeti Hub

40. Bajeti Hub appeared before the Committee and made the following submissions-

a) Bajeti Hub called for strengthening the autonomy and operational capacity of the Public Debt Management Office (PDMO) within the National Treasury. They recommended amendments to the Public Finance Management (PFM) Act to provide fiscal and operational independence for the PDMO, aligning with the Office of the Auditor General's recommendations. Additionally, they proposed a clear separation of responsibilities between the Central Bank of Kenya (CBK) and the PDMO to prevent conflicts between monetary and debt management policies.

b) They recommended the establishment of a legislative ceiling on the annual fiscal deficit to enforce discipline in public borrowing. While they acknowledged the projected reduction of the fiscal deficit by 4% in the 2025/26 financial year, they argued that a formal budget deficit limit, whether absolute or as a percentage of GDP, would encourage continued fiscal consolidation. They cited Germany's "debt brake" model as an example of effective deficit control.

c) Regarding oversight, Bajeti Hub highlighted that the government had consistently borrowed more domestically than planned, attributing this to limited access to external financing. They recommended enhancing the role of the Public Debt and Privatization Committee (PDPC) in approving and monitoring loans. They supported previous recommendations from the Auditor General and PDPC that any deviation from the approved borrowing strategy should require Parliament approval.

d) Bajeti Hub called on the Senate to clarify the status of the ongoing forensic audit of public debt by the Auditor General. While acknowledging efforts to enhance debt transparency, they highlighted gaps in reporting on the debt's nature, size, and guarantees. They recommended that the National Treasury simplify key debt documents to improve public accessibility and suggested involving civil society to enhance public understanding and participation in debt management.

e) Bajeti Hub proposed the inclusion of an analysis in the MTDS 2025 on how the borrowing strategy would impact key economic indicators. They noted the plan to source 65% of borrowing domestically and 35% externally but warned that excessive domestic borrowing could raise borrowing costs and interest rates, negatively affecting businesses and individuals.

2.4 Submissions by the County Assembly Forum (CAF)

41. CAF appeared before the Committee and submitted as follows. That-

a) CAF observed that Kenya's public debt remained high, with the debt-to-GDP ratio exceeding 65%, well above the 55% target. They noted that the MTDMS aimed to stabilize this ratio by 2028 through fiscal consolidation and prudent borrowing. However, they cautioned that over-reliance on domestic borrowing had led to high interest costs, currently around 5.4% of GDP. To address this, they recommended prioritizing concessional external loans and establishing a sinking fund mechanism to ease the growing interest burden.

b) Regarding the borrowing mix, CAF noted that the MTDS proposed a 25:75 external-to-domestic financing ratio while phasing down short-term domestic debt. They supported efforts to diversify external funding sources and suggested introducing a Kenya-shilling-denominated diaspora bond to mobilize remittances while reducing exposure to currency fluctuations.

c) CAF acknowledged the Treasury's plan to restructure high-cost, short-term debt to ease liquidity pressure. However, they emphasized that any borrowing affecting devolved mandates should be negotiated in consultation with county governments. They stressed on the need to align such borrowing with constitutional provisions and local development priorities, particularly through county assemblies.

d) CAF further highlighted key recommendations on debt governance. They insisted that funds borrowed for devolved functions must strictly follow the "funding-follows-functions" principle, ensuring county governments have a role in project prioritization and oversight. They raised concerns that some borrowed funds were still being used for recurrent expenditures despite legal prohibitions under the Public Finance Management Act. CAF therefore urged the enforcement of clear protocols to ensure all borrowing was directed towards development projects with measurable socio-economic impact.

e) To enhance transparency, CAF called for regular debt updates, including monthly or quarterly disclosures and detailed annual reports. That there should be comprehensive reporting on debt composition, repayment schedules, and the performance of debt-financed projects. Additionally, the government should explore alternatives to Eurobonds, such as diaspora bonds and other local currency market instruments, to mitigate exchange rate risks.

f) CAF underscored the importance of inclusive consultations before introducing new debt instruments that could affect devolved functions. That county assemblies should be actively involved in reviewing debt stock, project performance, and debt servicing plans to strengthen public finance oversight at the local level.

2.5 Submissions by the Institute of Public Finance

42. The Institute of Public Finance (IPF) submitted as follows-

a) IPF pointed out that the MTDS used public debt data up to June 2024, which might not reflect debt changes between July and December 2024. It recommended that the National Treasury provide updated records up to December 2024 to give a more accurate picture of the country's debt status.

b) Regarding State-Owned Enterprises (SOEs), IPF acknowledged improvements in debt reporting, particularly the inclusion of loan guarantees for Kenya Airways, Kenya Ports Authority, and Kenya Power and Lighting Company. However, it emphasized that additional details such as the duration, nature, and risk assessment of these guarantees were necessary to enable Parliament to make informed decisions when approving loan guarantees.

c) IPF noted that while the MTDS required the Public Debt Management Office (PDMO) to prepare borrowing plans, it did not mandate clear disclosure of how borrowed funds, especially short-term debt, would be used. They recommended that borrowing plans specify the projects or investments to be funded, particularly for infrastructure bonds. They also observed delays and inconsistencies in the publication of debt management reports and urged the government to ensure regular and timely reporting.

d) On the proposal to introduce debt swaps and Environmental, Social, and Governance (ESG) debt instruments as alternative financing mechanisms, IPF acknowledged their success in other countries but cautioned that they were not a guaranteed solution. They called for full disclosure of associated risks, including potential community displacement, before implementing such financing options.

e) That there's inconsistency between the Budget Policy Statement (BPS) and the MTDS. The MTDS proposed a net borrowing mix of 35:65 for external-to-domestic borrowing, while the BPS suggested an 18:82 ratio. IPF warned that this misalignment could create uncertainty in debt planning and market expectations. They stressed on the importance of ensuring that both documents had a consistent approach to fiscal deficit financing to enhance fiscal sustainability.

f) IPF criticized the government's increasing reliance on domestic borrowing, which carried high-interest costs and crowded out private sector investment. That frequent supplementary budgets exacerbated the problem by introducing additional expenditures without clear revenue sources, leading to further borrowing. To address this, IPF recommended fully integrating the MTDS into the BPS to guide borrowing decisions effectively and reducing the frequency of supplementary budgets through improved planning and forecasting.

2.6 Submissions by the Institute of Economic Affairs

43. The Institute of Economic Affairs (IEA) made the following submissions; That-

a) Rising debt servicing costs resulted from accumulating public debt and higher interest rates. It attributed this to the Central Bank of Kenya's tight monetary policy, which aimed to curb inflation but inadvertently slowed private sector credit growth, hindering economic expansion.

b) IEA noted that despite rising foreign exchange reserves, Kenya's shilling remained at risk of depreciation due to a persistent current account deficit. It stressed the need for stable reserves to manage external debt and currency fluctuations. The institute recommended prudent fiscal management by reducing wasteful spending and securing loans with lower interest rates and longer grace periods for sustainability.

c) IEA expressed concern over Kenya's fiscal challenges under the MTDS, highlighting its poor credit rating and heavy reliance on domestic borrowing. Despite Moody's upgrading Kenya's outlook from 'negative' to 'positive,' the Caa1 rating signalled continued high borrowing costs. It warned that the projected Ksh 812 billion fiscal deficit (4.2% of GDP) would largely rely on domestic borrowing, potentially straining the economy.

d) The Institute raised concerns about the crowding out of private sector investment due to increased government borrowing. It observed that government debt had dominated domestic credit markets, reducing the availability of funds for private enterprises. This trend, according to IEA, negatively impacted employment levels and tax revenue collection, ultimately affecting Kenya's long-term economic stability.

e) IEA highlighted a mismatch between economic growth projections and fiscal realities, noting that government expectations for tertiary sector growth were overly optimistic. It warned that unrealistic projections could weaken revenue collection and worsen Kenya's debt distress. The institute urged the government to prioritize expense management, reduce corruption, and ensure realistic revenue forecasts for sustainable debt management.

f) The IEA recommended that the National Treasury diversify borrowing sources by prioritizing concessional financing while strengthening the domestic debt market. However, it raised concerns over high domestic borrowing costs and interest rates. It also emphasized the need for robust fiscal consolidation measures to ensure long-term debt sustainability.

2.7 Submissions by Mr. Ronyo Kelvin

44. Mr. Ronyo submitted the following;

a) He highlighted major economic challenges, including unsustainable public debt, high unemployment, excessive taxation, poor healthcare and education systems, corruption, mismanagement of public funds, and wasteful government spending. He emphasized that addressing these issues was crucial for achieving sustainable economic growth, improving service delivery, and providing financial relief to ordinary Kenyans.

b) Regarding public debt and borrowing, Mr. Ronyo pointed out that a significant portion of revenue was being used for debt servicing instead of development projects. He criticized continued borrowing without proper utilization of funds and poor negotiation of loan terms, which had led to an expensive debt burden. He recommended establishing strict debt ceilings, renegotiating costly loans, prioritizing concessional borrowing, and ensuring public participation in debt decisions.

c) Mr. Ronyo highlighted high unemployment among qualified Kenyan youths, attributing it to ineffective government policies in key sectors like manufacturing, agriculture, and technology. He proposed incentivizing local industries, investing in youth entrepreneurship, offering tax holidays for start-ups, and revamping agriculture to create jobs and enhance food security.

d) Mr. Ronyo criticized rising taxation, including VAT increases and salary deductions for the Affordable Housing Project, which he argued made life unaffordable and discouraged investment. He recommended reducing VAT, introducing tax breaks for small businesses, lowering income tax for middle-class earners, and eliminating the housing tax deduction.

e) Mr. Ronyo opposed the Social Health Insurance Fund (SHIF), calling for its abolition due to poor structuring. He recommended reinstating NHIF with strict reforms to eliminate corruption, increasing budgetary allocation to public hospitals, and improving access to essential medicines and equipment.

f) He criticized the new university funding model for increasing students' financial burden and highlighted inadequate implementation and funding of the Competency-Based Curriculum (CBC). He recommended abolishing the new model, reinstating affordable higher education, increasing resources for learning infrastructure, and fully funding CBC for effective implementation.

g) He highlighted corruption and mismanagement of public funds, noting that budget allocations were often lost to embezzlement, ghost workers, and fake contracts. He proposed banning politicians from government tenders, strengthening the EACC to prosecute corrupt officials, creating a digital portal for tracking expenditures, and enforcing strict penalties for fund misappropriation.

h) Regarding wasteful government spending, Mr. Ronyo criticized the Affordable Housing Project as a misallocation of funds and called for its abolition. He also recommended stopping bursary allocations to MPs and governors to prevent misuse. He proposed cutting foreign travel by government officials by 50%, halting the creation of the Prime Minister's office, reducing the State House budget by 50%, and scaling down protection details for elected leaders, including the president.

i) Mr. Ronyo also addressed government inefficiencies and overstaffing, arguing that all Principal Secretaries (PSs) should be removed as they were unnecessary. He recommended reducing the number of Cabinet Secretaries (CSs) to eight, with strict qualifications based on expertise. Additionally, he suggested establishing an independent Government Efficiency Department led by professionals from the private sector to enhance policy implementation.

2.8 Submissions by the Office of Auditor General (OAG)

45. OAG submitted as follows. That-

a) The OAG observed a misalignment between the MTDS and the Budget Policy Statement (BPS) regarding the proposed financing of the Kshs. 831 billion fiscal deficits for FY 2025/26. The BPS indicated that net external financing would amount to Ksh. 146.8 billion (0.8% of GDP), while net domestic financing was set at Ksh. 684.2 billion (3.6% of GDP). This financing mix meant that 82% of the deficit would be covered through domestic borrowing, while only 18% would come from external sources, directly contradicting the MTDS proposal of a 65% domestic and 35% external borrowing structure.

b) The OAG expressed concerns regarding the cost of domestic borrowing, which had been a longstanding issue over the past three years. In FY 2023/24, interest payments on domestic borrowings amounted to Kshs. 533.7 billion, accounting for 70% of total interest payments, while interest on external debt was Ksh. 218.6 billion (30%).

c) Despite domestic debt making up 51% (Ksh. 5.41 trillion) of the total public debt of Kshs. 10.582 trillion, its cost is more than twice that of external borrowing. The high cost of domestic borrowing continued to place significant fiscal pressure on the government, increasing the debt-servicing burden and limiting fiscal space for development expenditures.

d) The OAG further warned that the ability of both national and county governments to achieve their strategic priorities and policy goals in the upcoming financial year and the medium term might be jeopardized by borrowing strategies that failed to adequately consider the trade-off between macroeconomic stability and sustainable debt levels. A failure to align debt strategies with macroeconomic realities could exacerbate debt vulnerabilities, increase borrowing costs, and weaken fiscal sustainability over the long term.

2.9 Okoa Uchumi

46. Okoa Uchumi submitted as follows-

a) Okoa Uchumi observed that Kenya's public debt-to-GDP ratio had reached 65.7% as of June 2024, far exceeding the 55% target. They noted that the government had increased the fiscal deficit projection from 3.9% to 4.3% of GDP in the Budget Policy Statement (BPS), a figure that contradicted the MTDS projection of 57.8% debt-to-GDP ratio, while the BPS had projected 63.6%.

b) The coalition proposed reduction of the FY 2025/26 budget to Ksh. 3.28 trillion (excluding Ksh. 63.6 billion in grants, which they deemed unreliable due to shifting donor priorities such as USAID cuts and potential EU restrictions). They also proposed realistic revenue projections of Ksh. 2.73 trillion, lower than the government's estimate of Ksh. 2.83 trillion, to prevent unnecessary deficit expansion.

c) Okoa Uchumi warned that if current borrowing trends continued, the fiscal deficit could reach Ksh. 1.13 trillion due to inflated expenditure estimates. They urged the government to implement serious fiscal consolidation measures and avoid overambitious borrowing to stabilize the economy.

d) Regarding public debt and borrowing strategy, Okoa Uchumi noted that the MTDS 2025 proposed a financing mix of 65% domestic and 35% external borrowing, while the BPS suggested sourcing 75% of new debt from domestic markets. The coalition strongly opposed this strategy, arguing that excessive domestic borrowing had led to higher interest rates, discouraged private sector investment, and increased the cost of credit. They recommended that Parliament develop a debt retirement strategy to reduce reliance on Treasury bonds and bills, which had become costly. Additionally, they urged the government to lower interbank rates to single digits to encourage private sector lending instead of banks prioritizing government securities.

e) Okoa Uchumi highlighted that interest payments had increased from 5.2% of GDP in 2023 to 5.4% in 2024 due to high domestic debt costs. They pointed out that while the MTDS projected a decline to 4.6%, the BPS projected an increase to 5.9%, raising concerns about inconsistencies in fiscal planning. The coalition cautioned that unrealistic revenue projections, combined with reduced donor funding, would exacerbate fiscal pressures, forcing the government to borrow more at high interest rates.

f) They urged Parliament to align interest payment projections across the BPS, Budget Review and Outlook Paper (BROP), and MTDS to ensure consistency. They also called for a clear strategy to reduce the interest rate burden and avoid unnecessary debt accumulation.

g) Okoa Uchumi criticized the removal of a provision advocating for an independent Public Debt Management Office (PDMO) from the final MTDS 2025 document, noting that references to it had been replaced with the National Treasury. They viewed this as an attempt to weaken debt oversight and urged Parliament to reinstate the recommendation for PDMO independence. Additionally, they proposed establishing a fully autonomous PDMO through constitutional reforms to shield debt management from political influence.

h) Okoa Uchumi further pointed out that the draft MTDS had included measures for monitoring guaranteed debt and contingent liabilities from State-Owned Enterprises (SOEs). However, they noted that this section had been removed from the final document, raising concerns about transparency and accountability in Kenya's debt management.

i) They urged Parliament to reinstate provisions on SOE debt oversight to prevent mismanagement and ensure that public guarantees were properly monitored. Given that SOE debt often became a liability for taxpayers, they called for greater scrutiny of fiscal commitments made on behalf of these enterprises.

CHAPTER THREE

COMMITTEE OBSERVATIONS AND FINDINGS

47. Arising from the consideration of 2025 MTDS and submissions from the stakeholders, the Committee made the following observations-

    a) The financing strategy for FY 2025/26, as outlined in the 2025 MTDS, consists of a gross borrowing distribution of 75% domestic and 25% external financing, with a net borrowing structure of 65% domestic and 35% external. This indicates a continued reliance on domestic borrowing as the primary source of funding in the medium term.

    b) Following the preferred strategy of increased domestic borrowing, the domestic debt portfolio is expected to expand further. Notably, domestic debt carries higher costs and risks compared to external debt, primarily due to shorter repayment periods and higher interest rates.

    c) The 2025 MTDS seeks to expand funding sources by exploring innovative instruments such as debt swaps, diaspora bonds, sustainability-linked bonds, and Environmental, Social, and Governance (ESG) debt instruments to finance the budget deficit and manage public debt. However, the proposed instruments have intrinsic costs and risks that need to be carefully evaluated.

    d) The continued reliance on costly commercial financing to bridge the fiscal deficit risks exacerbating debt accumulation. To curb the rising public debt and its associated costs and risks, it is crucial to explore alternative non-debt financing options for government expenditures.

    e) As of June 2024, public debt stood at Ksh.10.58 trillion, with a Present Value (PV) debt-to-GDP ratio of 63%, exceeding the 55% (+5%) threshold set in the PFM Act, which is expected to be attained by 2028. Achieving this target will require strict fiscal discipline and the adoption of well-structured consolidation measures.

f) The current stock of public and publicly guaranteed debt stands at Ksh. 11.02 trillion, equivalent to 65.7% of GDP as at end of January 2025, reflecting an increase from Ksh. 10.58 trillion (65.7% of GDP) in June 2024. The debt comprises a mix of domestic and external borrowing, with domestic debt amounting to Ksh. 5.93 trillion and external debt standing at Ksh. 5.09 trillion.

g) The composition of domestic debt holders is becoming increasingly diverse, with broader access to government securities driven by initiatives from the Central Bank of Kenya, such as the DhowCSD platform. This shift is reflected in the decline of banking institutions' share of domestic debt holdings from 55% in June 2023 to 47% in June 2024. The diversification helps minimize concentration risk, enhancing the resilience and stability of government debt markets.

h) Debt service (interest and redemptions) is projected to reach Ksh.1.87 trillion in FY 2024/25 and rise further to Ksh.2.47 trillion by FY 2026/27, primarily driven by domestic debt servicing and interest payments. Over the medium term, debt service will continue to account for more than 60% of total revenue. A high debt service-to-revenue ratio indicates a significant reduction in resources available for critical development and recurrent expenditures, as debt servicing takes priority as the first charge from the Consolidated Fund.

i) All Liquidity Debt Sustainability Analysis (DSA) thresholds have been breached. MTDS indicates that liquidity risks will persist until 2027. This constrained fiscal space will limit the government's capacity to finance priority programs while increasing its exposure to macroeconomic and fiscal shocks.

j) Kenya's debt register remains partially automated and is not integrated with the IFMIS payment system. Notably, there is reliance on parallel manual processes which limits operational efficiency.

k) The 2025 Medium-Term Debt Management Strategy (MTDS) proposes a borrowing strategy with 25% gross borrowing from external sources and 75% from domestic sources, while net borrowing for fiscal deficits is structured at 65% from domestic sources and 35% from external sources. However, the Budget

Policy Statement proposes a different approach, with 82% from domestic sources and 18% from external sources, highlighting a misalignment in financing proposals.

l) The Medium-Term Debt Strategy (MTDS) 2025 proposes the centralization of trade through a single Trade Repository platform to enhance post-trade transparency and improve price discovery.

m) The effectiveness of the Central Bank Rate (CBR) in transmitting monetary policy remains a concern due to delayed adjustments by commercial banks, indicating a lag in monetary policy transmission. The slow responsiveness undermines the intended impact of monetary policy interventions.

n) Between January and November 2024, Kenya experienced a significant decline in private sector credit growth, with growth contracting to 1.1% year-on-year in November, according to the Central Bank of Kenya (CBK). The lowest point was recorded in September 2024 at 0.4%, marking the weakest level of private sector credit growth since 2002. The slowdown was primarily attributed to the rise in Non-Performing Loans (NPLs), which peaked at 16.5% in September 2024. The Committee further noted that a key driver of the ballooning NPLs is the issue of pending bills by both National and county governments, which remains a major concern affecting private sector credit growth.

o) Domestic interest rates are declining, supported by a stable exchange rate, requiring banks to lower/adjust their lending rates. This is expected to have a positive impact to the private sector credit growth.

CHAPTER FOUR

RECOMMENDATIONS

48. Arising from the observations made above, the Committee recommends the following-

3.0 Non-Financial Recommendations

a) Noting that PV to GDP threshold has been breached and compliance is required by 2028, the National Treasury should publish and submit quarterly reports to Parliament for monitoring of compliance. These reports should provide a detailed debt stock analysis, key debt sustainability indicators, mitigation strategies, and updates on new borrowing and compliance plans. Additionally, they should highlight potential risks, such as exchange rate fluctuations and rising interest rates, along with measures to address them.

b) That, the National Treasury, should fully automate the withdrawal of debt service payments from the Consolidated Fund by May 31, 2025. Additionally, they should submit a comprehensive interagency (National Treasury, CBK and CoB) report to Parliament within 15 days after the deadline to provide updates on implementation progress and outline specific accountability measures taken.

c) That, to enhance financial oversight, ensure precise and timely public financial data, and improve decision-making for greater transparency and accountability, the National Treasury should integrate the Public Debt Management System with the Integrated Financial Management System (IFMIS) by May 31, 2025. Additionally, a report on the implementation status should be submitted to the Parliament within 15 days of completion after integration.

d) That, to reduce domestic borrowing costs, including those from short-term loans and overdraft facilities, National Treasury should efficiently access, consolidate, and utilize idle bank balances and Appropriation-in- Aid resources held by MDAs to meet short-term exchequer needs. To curb the rising domestic debt interest payments and minimize the government's reliance on borrowing funds already held by public entities, the National Treasury should expedite the full implementation of the Treasury Single Account (TSA) for all MDAs, parastatals, and public funds by July 1, 2025.

e) That, to strengthen oversight and ensure greater transparency and accountability in the management of rising domestic borrowing, the National Treasury should, within 60 days-

    i. Establish a working committee to develop criteria for evaluating the effective utilization of borrowed funds by MDAs and create a government securities register in accordance with section 55 of the PFM Act; and
    ii. Ensure that the debt register contains detailed information on the utilization of borrowed funds, including a comprehensive list of projects financed through the proceeds of infrastructure bonds.

f) That, to enhance oversight and accountability in public debt management, the National Treasury, in collaboration with the Central Bank of Kenya and the Controller of Budget, should establish an inter-agency committee to review the public debt procurement process and assess debt utilization. The committee should submit a report to the Parliament by 31st May 2025.

g) The National Treasury should carefully assess the newly proposed innovative financing instruments such as debt swaps, diaspora bonds, sustainability-linked bonds, and Environmental, Social, and Governance (ESG) debt instruments to minimize costs and associated risks. Further, ensure thorough evaluation of their financial implications, contractual terms and explore possible hedging options available.

h) That, the National Treasury should ensure coherence between borrowing strategies in the MTDS and the BPS which is crucial in improving the predictability of medium-term financing needs and strengthening debt management. Aligning these strategies will enhance budget execution and contribute to the long-term sustainability of public debt.

i) To mitigate the impact of high debt service costs, the National Treasury should ensure efficient resource utilization, prioritize investments in high-impact sectors, and enhance the timely implementation of projects and programs.

j) The implementation of the proposed Trade Repository system should be aligned with the existing mandates of both the Central Bank of Kenya (CBK) and the Capital Markets Authority (CMA) to promote well-functioning markets. Additionally, the regulators should ensure the development of a transparent, liquid, and efficient secondary market.

k) The Central Bank should review and propose measures to enhance the effectiveness of the CBR by considering global best practices. These measures should include clear interest rate pass-through frameworks, enhanced financial sector supervision, and forward guidance policies to ensure seamless transmission of monetary policy to lending rates and economic activity. The Central Bank should submit a report to Parliament on this matter within **60 days**, detailing proposed reforms and a time-bound implementation framework to improve monetary policy transmission and ensure financial sector responsiveness.

l) The Central Bank should submit to Parliament within 60 days after the approval of this report, a report detailing the proportion of Non-Performing Loans (NPLs) attributed to public sector pending bills.

3.1 Financial Recommendations

a) That, the fiscal deficit target for the medium term be approved at 4.6% of GDP for the FY 2025/26; 3.8% of GDP for FY 2026/27 and 3.5% of GDP for FY 2027/28, in line with the fiscal consolidation path; and

b) That, the borrowing strategy be approved at 35% for net external borrowing and 65% for net domestic borrowing as contained in the 2025 Medium Term Debt Management Strategy.

LIST OF APPENDICES

Appendix 1: Minutes of the Committee Proceedings

Appendix 2: Copies of stakeholders' submissions

Appendix 3: Public Advert

Annex 1-Minutes of the Committee Proceedings

MINUTES OF HUNDRED AND NINETY-FOURTH (194TH) MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON WEDNESDAY, 12TH MARCH, 2025 IN GROUND FLOOR BOARDROOM, COUNTY HALL, PARLIAMENT BUILDINGS AT 8.00 A.M.

PRESENT

1. Sen. (Capt.) Ali Ibrahim Roba, EGH, MP - **Chairperson**
2. Sen. (Dr.) Boni Khalwale, CBS, MP - Member
3. Sen. Mohamed Faki Mwinyihaji, CBS, MP - Member
4. Sen. Shakila Abdalla Mohamed, MP - Member
5. Sen. Eddy Oketch Gicheru, MP - Member
6. Sen. Mariam Sheikh, MP - Member
7. Sen. Esther Okenyuri, MP - Member

ABSENT WITH APOLOGY

8. Sen. Maureen Tabitha Mutinda, MP - **Vice-Chairperson**
9. Sen. Richard Momoima Onyonka, MP - Member

SECRETARIAT

1. Mr. Christopher Gitonga - Clerk Assistant
2. Ms. Beverlyne Chivadika - Clerk Assistant
3. Ms. Lucy Radoli - Legal Counsel
4. Mr. Solomon Alubala - Fiscal Analyst
5. Mr. Kiminza Kioko - Fiscal Analyst
6. Mr. Constant Wamayuyi - Research Officer
7. Ms. Hamun Mohamud - Research Officer
8. Ms. Rose Ometere - Audio Officer
9. Mr. Stanley Gekore - Media Relations Officer

MIN/SEN/SCF&B/1123/2025 PRELIMINARIES

The Chairperson called the meeting to order at 8:30 a.m. This was followed by a word of prayer, and a round of introduction.

MIN/SEN/SCF&B/1124/2024 ADPOTION OF THE AGENDA

The agenda was adopted after being proposed by Sen. Mariam Sheikh, MP, and seconded by Sen. Shakila Abdalla Mohamed, MP, as listed below-

1. Prayer;
2. Introduction;
3. Adoption of the Agenda;
4. Confirmation of Minutes of 181st, 182nd, 183rd, 184th, 188th, 189th, 190th, 191st, 192nd and 193rd Sittings;
5. Matters arising from the minutes of the previous sitting;
6. Resumption of consideration and adoption of the report on the Medium-Term Debt Management Strategy;
7. Consideration and adoption of the report on 2025 Budget Policy Statement;
8. Any Other Business; and
9. Adjournment and Date of the Next Meeting

MIN/SEN/SCF&B/1125/2025 CONFIRMATION OF MINUTES OF THE PREVIOUS SITTING

a) The Minutes of Hundred and Eighty-Ninth (189th) meeting held on Monday, 10th March, 2025 at 9:00 a.m. were confirmed as a true record of the proceedings of the Committee having been proposed by Sen. Shakila Abdalla Mohamed, MP, and seconded by Sen. Mariam Sheikh, MP.
b) The Minutes of Hundred and Ninetieth (190th) meeting held on Monday, 10th March, 2025 at 2:00 p.m. were confirmed as a true record of the proceedings of the Committee having been proposed by Sen. Mariam Sheikh, MP, and seconded by Sen. Shakila Abdalla Mohamed, MP.
c) The Minutes of Hundred and Ninety-First (191st) meeting held on Monday, 10th March, 2025 at 4:30 p.m. were confirmed as a true record of the proceedings of the Committee having been proposed by Sen. Shakila Abdalla Mohamed, MP, and seconded by Sen. Mariam Sheikh, MP.
d) The Minutes of Hundred and Ninetieth (192nd) meeting held on Tuesday, 11th March, 2025 at 9:00 a.m. were confirmed as a true record of the proceedings of the Committee having been proposed by Sen. Mariam Sheikh, MP, and seconded by Sen. Shakila Abdalla Mohamed, MP.
e) The Minutes of Hundred and Ninety-Third (193rd) meeting held on Tuesday, 11th March, 2025 at 11:30 a.m. were confirmed as a true record of the proceedings of the Committee having been proposed by Sen. Shakila Abdalla Mohamed, MP, and seconded by Sen. Mariam Sheikh, MP.

MIN/SEN/SCF&B/1126/2025 MATTERS ARSING FROM MINUTES OF THE PREVIOUS SITTINGS

Ex. Min/Sen/SCF&B/1121/2025 Any Other Business

The Committee was informed that National Treasury and Economic Planning submitted written submissions on the 2025 Budget Policy Statement (BPS) and the 2025 Medium-Term Debt Management Strategy (MTDS) after failing to appear before the Committee to provide clarification on the issues that had been identified as well as those raised by stakeholders during public participation. The Committee noted that written submissions cannot provide clarifications matters that Committee may raise or raised by stakeholders

Following deliberations, it was resolved that the submissions were not admissible and that Cabinet Secretary should appear before the Committee, as earlier resolved and provide information required.

MIN/SEN/SCF&B/1127/2025 RESUMPTION OF CONSIDERATION OF THE DRAFT REPORT ON MEDIUM-TERM DEBT MANAGEMENT STRATEGY

The Committee resumed consideration of the report on the 2025 Medium Term Debt Management Strategy. The Committee also noted the need to make an observation on the lowered Central Bank Rate (CBK) and the interest rate charged by commercial banks.

MIN/SEN/SCF&B/1128/2025 ADOPTION OF THE DRAFT REPORT ON MEDIUM-TERM DEBT MANAGEMENT STRATEGY

Having considered the report on the 2025 MTDS, the Committee unanimously adopted the report having been proposed by Sen. Shakila Abdalla Mohamed, MP, and seconded by Sen. Eddy Oketch Gicheru, MP, with the following financial recommendations-

a) That, the fiscal deficit target for the medium term be approved at 4.6% of GDP for the FY 2025/26; 3.8% of GDP for FY 2026/27 and 3.5% of GDP for FY 2027/28, in line with the fiscal consolidation path; and
b) That, the borrowing strategy be approved at 35% for net external borrowing and 65% for net domestic borrowing as contained in the 2025 Medium Term Debt Management Strategy

MIN/SEN/SCF&B/1129/2025 CONSIDERATION OF THE REPORT ON THE 2025 BUDGET POLICY STATEMENT

The Committee considered the report on the 2025 Budge Policy Statement. The report comprised of the following: overview of the 2025 BPS (macroeconomic and fiscal framework), submission from various stakeholders, submissions by Standing Committees, submissions from constitutional Commissions and Independent Offices, observations and recommendations.

MIN/SEN/SCF&B/1130/2025 **ADOPTION OF THE REPORT ON THE 2025 BUDGET POLICY STATEMENT**

Having considered the report on the 2025 BPS, the Committee unanimously adopted the report having been proposed by Sen. Mohamed Faki Mwinyihaji, CBS, MP, and seconded by Sen. Mariam Sheikh, MP, with the following recommendations-

a) That equitable share be distributed as follows-
   i) That the national government's equitable share for FY 2025/26 be Ksh. **2,359,449,965,860.**
   ii) That the county equitable share for FY 2025/26 be Ksh.**465,001,459,673.**
b) That the Equalisation Fund be allocated Ksh. **10,589,554,076.**
c) That Additional Allocations to counties be Ksh.**69,802,409,624** billion.
d) Following receipt of requests for additional funding from the Constitutional Commissions and Independent offices amounting to Ksh.43.72 billion for various unfunded and underfunded needs, the Committee recommends that the National Treasury should consider an extra allocation of **Ksh.2.4 billion** to cater for critical expenditure needs within the FY 2025/26

MIN/SEN/SCF&B/1131/2025 **ADJORNMENT AND THE DATE OF THE NEXT MEETING**

The meeting adjourned at 9:30 a.m. Next meeting will be held on Thursday, 13th March 2025 at 9.00 a.m.

SIGNATURE: .... **DATE:** *12th March, 2025*

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

(CHAIRPERSON)

MINUTES OF HUNDRED AND NINETY-SECOND (192ND) MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON TUESDAY, 11TH MARCH, 2025 IN GROUND FLOOR BOARDROOM, COUNTY HALL, PARLIAMENT BUILDINGS AT 9.00 A.M.

PRESENT

1. Sen. (Capt.) Ali Ibrahim Roba, EGH, MP - **Chairperson**
2. Sen. (Dr.) Boni Khalwale, CBS, MP - Member
3. Sen. Mohamed Faki Mwinyihaji, CBS, MP - Member
4. Sen. Richard Momoima Onyonka, MP - Member
5. Sen. Shakila Abdalla Mohamed, MP - Member
6. Sen. Eddy Oketch Gicheru, MP - Member
7. Sen. Mariam Sheikh, MP - Member
8. Sen. Esther Okenyuri, MP - Member

ABSENT WITH APOLOGY

1. Sen. Maureen Tabitha Mutinda - **Vice-Chairperson**

SECRETARIAT

1. Mr. Christopher Gitonga - Clerk Assistant
2. Ms. Beverlyne Chivadika - Clerk Assistant
3. Ms. Lucy Radoli - Legal Counsel
4. Mr. Solomon Alubala - Fiscal Analyst
5. Mr. Kiminza Kioko - Fiscal Analyst
6. Mr. Constant Wamayuyi - Research Officer
7. Ms. Hamun Mohamud - Research Officer
8. Ms. Rose Ometere - Audio Officer
9. Mr. James Ngusya - Sergeant-At-Arms
10. Ms. Angelica Wangeci - Protocol Officer
11. Mr. Stanley Gekore - Media Relations Officer
12. Mr. Enock Chelal - Intern

IN ATTENDANCE

Office of the Controller of Budget

1. FCPA (Dr.) Margaret Nyakang'o, CBS - Controller of Budget (CoB)
2. CPA Jacinta Masila - Director, Corporate Services
3. CPA (Dr.) Charles Njoroge - Chief Fiscal Analyst
4. CPA Theodora Ochichi - Chief Fiscal Analyst/ PA to CoB
5. Dr. Brian Mutie - Director Legal Services

MIN/SEN/SCF&B/1113/2025 PRELIMINARIES

The Chairperson called the meeting to order at 9.30 a.m. This was followed by a word of prayer from Sen. (Dr.) Boni Khalwale, CBS, MP, and a round of introduction.

MIN/SEN/SCF&B/1114/2024 ADPOTION OF THE AGENDA

The agenda was adopted with amendments after being proposed by Sen. Mohamed Faki Mwinyihaji, CBS, MP, and seconded by Sen. Eddy Oketch Gicheru, MP, as listed below-

1. Prayer;
2. Introduction;
3. Adoption of the Agenda;
4. Confirmation of Minutes of 181st, 182nd, 183rd, 184th, 185th, 186, 187th and 188th Sittings;
5. Matters arising from the minutes of the previous sitting;
6. Meeting with the Cabinet Secretary for National Treasury and Economic Planning to deliberate on the 2025 Budget Policy Statement and Medium-Term Debt Management Strategy- *(Committee Paper No.127B)*
7. Consideration of the draft report on Medium-Term Debt Management Strategy
8. Meeting with the Controller of Budget, Ethics Anti-Corruption Commission and the Commission on Administrative Justice to deliberate on the 2025 Budget Policy Statement and Medium-Term Debt Management Strategy- *(Committee Paper No.127C)*
9. Any Other Business; and
10. Adjournment and Date of the Next Meeting.

MIN/SEN/SCF&B/1115/2024 CONFIRMATION OF MINUTES OF THE PREVIOUS SITTINGS

a) The Minutes of Hundred and Eighty-Fifth (185th) meeting held on Tuesday, 25th February, 2025 at 9:00 a.m. were confirmed as a true record of the proceedings of the Committee having been proposed by Sen. Esther Okenyuri, MP, and seconded by Sen. Eddy Oketch Gicheru, MP.
b) The Minutes of Hundred and Eighty-Sixth (186th) meeting held on Tuesday, 4th March, 2025 at 9:00 a.m. were confirmed as a true record of the proceedings of the

Committee having been proposed by Sen. Shakila Abdalla Mohamed, MP, and seconded by Sen. Mariam Sheikh, MP.

c) The Minutes of Hundred and Eighty-Seventh (187^{th}) meeting held on Thursday, 6^{th} March, 2025 at 9:00 a.m. were confirmed as a true record of the proceedings of the Committee having been proposed by Sen. (Dr.) Boni Khalwale, CBS, MP, and seconded by Sen. Esther Okenyuri, MP.

MIN/SEN/SCF&B/1116/2025 MEETING WITH THE CABINET SECRETARY FOR NATIONAL TREASURY AND ECONOMIC PLANNING TO DELIBERATE ON THE 2025 BPS AND MTDS.

The Committee noted with concern that, despite the strict timeline provided for Parliament to process BPS and MTDS, the Committee invited the National Treasury to a meeting to deliberate on this budget documents on Thursday, 6^{th} March, 2025, however, the Cabinet Secretary failed to appear. Afterwards, following CS request for rescheduling, and after consultations, the Committee resolved the meeting be held on Tuesday, 11^{th} March, 2025. The CS did not appear nor send his representatives to this second meeting.

The Committee expressed displeasure with the action of the CS and resolved to issue a re-invitation to a meeting scheduled Tuesday, 18^{th} March, 2025. The CS will be expected to appear and substantiate the failure to appear for deliberations on matters which are time bound and critical to budget and funding of government entities.

MIN/SEN/SCF&B/1117/2025 CONSIDERATION OF THE DRAFT REPORT ON MEDIUM-TERM DEBT MANAGEMENT STRATEGY

The Committee considered Chapter One (overview) of the 2025 report of the Medium-Term Debt Management. The Chapter entailed the legal underpinnings, macro-economic assumptions, the proposed borrowing strategy, sources of funding, stock of public debt, debt service and risks to debt sustainability indicators.

Noting that the stakeholders had arrived, after consideration of chapter one, the Committee resolved to proceed with Agenda item 7 and resume consideration of the report in the subsequent meeting.

MIN/SEN/SCF&B/1118/2025 MEETING WITH THE CONTROLLER OF BUDGET TO DELIBERATE ON THE 2025 BPS AND MTDS- *(COMMITTEE PAPER NO.127B)*

Upon invitation, the Controller of Budget submitted the following on the 2025 BPS-

a) During the FY 2025/26 budget preparation, the OCOB tabled a budget of **Kshs1.6 billion** to the Public Administration and International Relations (PAIR) sector. The figure was subsequently revised downwards to **Kshs.777.5 million** as per the 2025 Budget Policy Statement.
b) A summary of the Budget for the period from July to 31st December, 2024 indicated that out of the approved budget of Kshs.704,251,879, the Office had utilized Kshs.245,213,813. Out of Kshs.12,046,896 for domestic travel, the Office had utilized Kshs.10,030,700 (83%).
c) Budget utilization is usually high in the third and fourth quarter after the office had accumulated enough resources.
d) Procurement process was ongoing for most of the budget items.
e) The main programme undertaken by the Office is control and management of public finances with the following sub-programmes-
    i. Authorization of withdrawal from public Funds
    ii. Budget implementation and Monitoring
    iii. General Administration Planning and Support Services
    iv. Research and Development
f) Key policies underlying the expenditure ceilings in the 2025 BPS included-
    i. Policy on management of pending bills
    ii. Policy on management of public sector wage bill
    iii. Policy on implementation of Development projects.
g) The Controller of Budget requested for approval of additional funding of Kshs.579.3 million in the FY 2025/2026 to be expended on the following-
    i. Personal emoluments-Kshs.182.8 million
    ii. Publishing and printing services-Kshs.52.9 million
    iii. Monitoring and Evaluation-Kshs.75.8 million
    iv. Public sensitization role-Kshs.61.1 million
    v. Rendering of advisories, litigations, mediation to various state organs-Kshs.15.4 million
    vi. Public participation on the amendments to CoB Act, 2016 and development of CoB regulations-Kshs.102 million
    vii. Automation of CoB Management Information System and exchequer requisitions-Kshs.50 million
    viii. Periodic capacity building-24 million
    ix. Foreign travel-Kshs.15.3 million.

The Committee observed the following-

a) The Office of the CoB is understaffed, and officers leave due to poor remuneration. There is only one officer attached to each County which impacts performance on oversight, monitoring and evaluation.
b) The OCOB was engaging the Salaries and Remuneration Commission on review of remuneration and re-evaluation of job grades to improve retention of skilled employees since there was high turnover of staff.
c) The Office of the Controller of Budget has not been allocated any funds towards-
    i. automation of systems and deployment of the CoB Management Information System to reduce turnaround time on the exchequer approval and reporting.
    ii. Foreign travel for benchmarking on global best practices;
    iii. Capacity building through specialized training to staffs from MDAs and county governments.
d) Public sensitization on budget implementation, research and publication of quarterly popular versions of the national and county governments Budget Implementation cannot be undertaken as a result of the lack of funding or budgetary constraint.
e) Monitoring and evaluation on budget implementation were conducted in 14 counties in the second quarter of the FY 2024/2025. The counties included: Turkana, Baringo, Makueni, Machakos, Bomet, Kitui, Lamu, West Pokot, Tana River, Mandera, Wajir, Garissa, Kajiado and Narok.

Following deliberations, the Committee resolved as follows Controller of Budget to-

a) prepare and submit written submissions on the 2025 Medium Term Debt Management Strategy;
b) prepare and submit a report on the extent of usage of CoB Information Management System (system for withdrawal of public funds) by government agencies, challenges and recommendations to the Senate.

MIN/SEN/SCF&B/1119/2025 ADJOURNMENT AND THE DATE OF THE NEXT MEETING

The meeting adjourned at 11.30 a.m. Next meeting will be held on 11th March 2025 at 11.40 a.m.

SIGNATURE: .... **DATE:** *12th March, 2025*

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

(CHAIRPERSON)

MINUTES OF HUNDRED AND NINTY FIRST (191ST) MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON MONDAY, 10TH MARCH, 2025 IN FOUR POINTS BY SHERATON, JOMO KENYATTA INTERNATIONAL AIRPORT, NAIROBI AT 4.30 P.M.

PRESENT

1. Sen. (Capt.) Ali Ibrahim Roba, EGH, MP - **Chairperson**
2. Sen. (Dr.) Boni Khalwale, CBS, MP - Member
3. Sen. Shakila Abdalla Mohamed, MP - Member
4. Sen. Mariam Sheikh, MP - Member
5. Sen. Mohamed Faki Mwinyihaji, CBS, MP - Member

ABSENT WITH APOLOGY

1. Sen. Maureen Tabitha Mutinda, MP - **Vice-Chairperson**
2. Sen. Eddy Oketch Gicheru, MP - Member
3. Sen. Richard Momoima Onyonka, MP - Member
4. Sen. Esther Okenyuri, MP - Member

SECRETARIAT

1. Mr. Boniface Lenairoshi - Deputy Director, DSEC
2. Ms. Lucy Makara - Deputy Director, PBO
3. Mr. Christopher Gitonga - Clerk Assistant
4. Mr. Victor Bett - Clerk Assistant
5. Ms. Lucy Radoli - Legal Counsel
6. Mr. Solomon Alubala - Fiscal Analyst
7. Mr. Kioko Kiminza - Fiscal Analyst
8. Mr. Constant Wamayuyi - Research Officer
9. Mr. Joseph Lekisima - Fiscal Analyst
10. Ms. Rose Ometere - Audio Officer

IN ATTENDANCE- Constitutional Commissions and Independent Offices

1. The Commission on Revenue Allocation (CRA)
2. The National Gender and Equality Commission (NGEC)
3. The Office of Auditor General (OAG)

(*Detailed list of attendance attached*)

MIN/SEN/SCF&B/1108/2025 **PRELIMINARIES**

The Chairperson called the meeting to order at 4.30 p.m. This was followed by a word of prayer, and a round of introduction.

MIN/SEN/SCF&B/1109/2025 **ADPOTION OF THE AGENDA**

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

1. Prayer;
2. Introduction;
3. Adoption of the Agenda;
4. *Resumption*- Meeting with constitutional commissions and independent offices to deliberate on the 2025 Budget Policy Statement (BPS) and Medium-Term Debt Management Strategy (MTDS)- *(Committee Paper No.127C);*
5. Any Other Business; and
6. Adjournment and Date of the Next Meeting.

MIN/SEN/SCF&B/1110/2025 **MEETING WITH CONSTITUTIONAL COMMISSION AND INDEPENDENT OFFICES TO DELIBERATE ON THE 2025 BUDGET POLICY STATEMENT AND MEDIUM-TERM DEBT MANAGEMENT STRATEGY *(COMMITTEE PAPER NO. 127C)***

The Commission on Revenue Allocation (CRA)

After Chairpersons remarks, and upon invitation, the Commission submitted as follows concerning 2025 BPS-

a) The Commission outlined their budget priorities for the 2025/2026 financial year and the medium term, emphasizing the preparation of recommendations on revenue sharing. They plan to develop proposals for the equitable division of revenue between the national and county governments for the financial years 2025/2026 to 2027/2028. These recommendations are required to be submitted at least six months before the beginning of the financial year in accordance with Section 190 of the Public Finance Management Act (PFMA), 2012.
b) The CRA's activities include stakeholder engagement with the public, civil society, the National Treasury, and county governments to ensure the adoption of a fair revenue-sharing formula.
c) The commission also plans to finalize and disseminate the Fourth Basis for revenue-sharing among counties, which would be used for five financial years from 2025/2026 to 2029/2030. This process requires consultations with the Senate and National Assembly, publication of the approved formula, and the preparation of a simplified version for public understanding.

d) Additionally, the CRA sought to assess the impact of devolution on service delivery by collecting data from all 47 counties to evaluate how resources had been utilized in key sectors such as health, agriculture, water, roads, education, and urban services.
e) Another priority area is the development of a framework for financing cities and urban areas. More than a decade after devolution, counties are yet to adopt an objective approach for funding urban centers. The CRA plans to guide county governments in developing financial allocation criteria in line with Section 173 of the PFM Act. The Commission also aims to strengthen prudent financial management by setting recurrent expenditure ceilings for counties, reviewing county financial documents, and enhancing transparency through an online portal for budget reporting.
f) In addition, the CRA plans to promote fiscal responsibility by developing a ranking system to assess county governments' financial management performance. They plan to implement a market-based county borrowing framework to help counties access alternative financing sources while ensuring compliance with borrowing regulations. The Commission also aims to enhance county own-source revenue (OSR) by developing revenue forecasting models, supporting revenue collection efforts, and facilitating the adoption of an integrated county revenue management system.
g) Furthermore, the CRA will introduce a policy and model bill for county entertainment tax as an additional revenue stream.
h) The Commission highlighted the need to support revenue enhancement from natural resources. That they intend to conduct studies on potential revenue sources from natural resource exploitation and develop frameworks for benefit-sharing between the national and county governments. Moreover, the CRA plans to prepare a third policy for identifying marginalized areas eligible for the Equalization Fund, reviewing past policies and conducting assessments to improve the effectiveness of the fund.
i) The Commission has also prioritized strengthening its institutional resilience by investing in cybersecurity, disaster recovery planning, and digital transformation initiatives. They sought funding to modernize its ICT infrastructure, improve data security, and implement a robust records management system. Additionally, the CRA plans to expand public awareness on its mandate through education campaigns targeting citizens and policymakers.
j) For the 2025/2026 financial year, the CRA had requested Ksh. 1.11 billion but was allocated only Ksh. 409 million, leaving a budget shortfall of Ksh. 701.9 million.
k) The Commission identified several unfunded priorities, including stakeholder consultations on revenue-sharing, assessments of county financial management, and revenue enhancement initiatives. That they also face funding gaps in personnel

emoluments, ICT infrastructure, operations and maintenance, and capital expenditures.

l) The CRA therefore requested an additional Ksh. 702 million to bridge the funding gap and enable it to execute its mandate effectively. The Commission emphasized that its recommendations played a crucial role in shaping public finance policies at both the national and county levels. Without adequate funding, they warned the commission's ability to provide informed guidance on revenue allocation and fiscal responsibility would significantly be undermined

The Committee appreciated the Commission for appearing and contribution into the deliberations on the BPS.

The National Gender and Equality Commission (NGEC)

After Chairpersons remarks, and upon invitation, the CEO and his team submitted as follows concerning 2025 BPS-

a) The commission reported that they had been allocated Ksh. 476.7 million for FY 2025/26, which was significantly lower than its requested Ksh. 1 billion, leaving a Ksh. 523 million shortfalls. They explained that the allocated budget would not be sufficient to effectively implement the commission's strategic objectives, which had been outlined in its 2025–2029 Strategic Plan. To bridge the funding gap, the commission requested an additional Ksh. 595 million, detailing specific areas that required immediate intervention.
b) That underfunding would hinder the commission's ability to address pressing issues such as gender-based violence (GBV), femicide, social inclusion, and equitable representation in governance.
c) The commission highlighted three critical areas requiring urgent financial support; Ksh. 175 million to combat GBV and femicide, Ksh. 76 million to establish four new regional offices in Western, Central, North Rift, and Lower Coast regions and Ksh. 85 million to align staff salaries and Ksh. 36 million to hire additional personnel.
d) Additionally, the commission stated that they have 107 staff members, which is only 54% of the approved establishment of 197, thus limiting their operational efficiency. They also requested an additional Ksh. 100 million to establish a staff mortgage and car loan scheme, arguing that improved staff welfare would enhance motivation and service delivery.
e) The commission further provided a status update on the implementation of the FY 2024/25 budget as of 31st December 2024. They reported that they had spent Ksh. 291.2 million out of the Ksh. 636.5 million allocated, reflecting an absorption rate of 46%. That by 17th February 2025, the total expenditure had risen to Ksh. 350.1 million, increasing the absorption rate to 55%.

f) That key achievements included handling 3,064 public complaints, out of which 1,468 cases were resolved; determining 99 access to information applications; and engaging 3.5 million people through awareness campaigns. Additionally, the commission had expanded its services by opening a new branch office in Makueni County and had trained 370 government agencies and counties on complaint resolution under the public sector performance contracting framework.

g) The commission highlighted several challenges that had hindered its progress. They cited budgetary constraints as the most significant issue, noting that inadequate funding had overstretched its staffing capacity and limited outreach programs. It also reported challenges in accessing funds for advertising, which had affected its ability to conduct public education and awareness campaigns.

h) Additionally, that outdated ICT infrastructure had slowed down the automation of complaints handling, and manual record management in public institutions had hindered the efficient retrieval of information. The commission further noted that pending bills amounting to Ksh. 3.1 million from the 2023/24 financial year had placed additional strain on its current budget.

i) To address these challenges, the commission urged Parliament to increase their budget allocation by Ksh. 595 million to ensure the effective implementation of gender equality programs. They called for enhanced ICT funding to complete the automation of its Complaint Management Information System (CMIS) and modernize its service delivery.

j) They also emphasized the need for greater investment in public education and awareness programs, particularly on GBV, access to justice, and economic empowerment for marginalized groups. Furthermore, they recommended that county governments should receive support in digitizing their record management systems to improve information accessibility and response times.

k) The commission also outlined key performance targets linked to the 2025 Budget Policy Statement as follows; increasing public engagement on gender equality issues, strengthening compliance with gender inclusion policies, and enhancing monitoring of affirmative action initiatives such as the Access to Government Procurement Opportunities (AGPO) program.

l) Additionally, that they plan to conduct audits on gender representation in sports federations, the tea and sacco sectors, and government employment policies to ensure compliance with constitutional requirements

The Committee appreciated the Commission for appearing and contribution into the deliberations on the BPS.

The Office of Auditor General (OAG)

After Chairpersons remarks, and upon invitation, the Deputy AG and his team submitted as follows concerning 2025 BPS-

a) The OAG highlighted that despite its crucial role in ensuring accountability in the use of public resources, they had been allocated Ksh. 8.65 billion, which fell short of its estimated requirement of Ksh. 10.48 billion. This funding gap of Ksh. 1.83 billion would hinder critical operations, including personnel emoluments, audit-related travel, acquisition of motor vehicles, and ICT infrastructure.
b) To address these challenges, the OAG appealed for an additional Ksh. 1.2 billion to bridge the shortfall and enhance its operational capacity.
c) The OAG reported a significant increase in its audit universe over the past five years, growing from 1,440 entities in 2019/2020 to an estimated 12,800 in 2024/2025. This expansion was attributed to the inclusion of public secondary schools, TVET institutions, level 4 and level 5 hospitals, and political parties. Despite the increased workload, the Office's budgetary allocations had not kept pace, limiting its ability to recruit additional staff and conduct thorough audits.
d) Furthermore, the OAG pointed out that they carried out specialized audits such as performance audits, forensic audits, and public debt audits, often requested by Parliament. However, resource constraints had made it difficult to complete these audits efficiently, thus affecting the overall effectiveness of public financial oversight.
e) That a recent High Court ruling reinforced the requirement for the OAG to adhere strictly to constitutional audit timelines. This ruling underscored the legal risk associated with delayed audits, as reports issued outside the mandated period could be challenged. The OAG, however, argued that compliance with these timelines was increasingly difficult due to delays in financial statement submissions by public entities and inadequate resources to handle the growing audit scope.
f) The Office had previously proposed an amendment to the Public Finance Management Act (PFMA) to reduce the period allowed for public entities to submit their financial statements from three months to one month. However, this proposal had not been implemented, exacerbating the risk of non-compliance with constitutional deadlines.
g) The implementation of audit recommendations remained a persistent challenge due to the absence of enforcement mechanisms. The OAG observed that despite making numerous recommendations to improve accountability and efficiency in public financial management, many of these suggestions were ignored. The lack of sanctions for non-compliance had led to recurring audit queries, misallocation of funds, and fiscal indiscipline. To address this issue, the OAG proposed amendments to the PFM Act that would introduce penalties for non-implementation of audit recommendations, ensuring greater accountability in public sector financial management.
h) The OAG also expressed concern over the lack of parliamentary action on performance of audit reports. Although they had submitted 57 performance audit reports over the years, only one had been discussed in Parliament. Performance audits play a critical role in evaluating government programs' effectiveness, efficiency, and economic impact.
i) The failure to deliberate on these reports meant that valuable insights and recommendations were not being utilized to improve service delivery and governance.

The OAG called on Parliament to prioritize the review of these reports to ensure their findings contributed to national development and resource optimization.

j) That to strengthen its independence and operational efficiency, the OAG supports the Public Audit (Amendment) Bill, 2023 which seeks to clarify the Office's mandate, enhance its autonomy, and establish the OAG Fund, which would provide financial stability by reducing reliance on the National Treasury. Additionally, the OAG advocated for a one-line budget system, which would allow it to manage its funds independently without frequent approvals from the Treasury. This financial autonomy is crucial in enabling the Office to respond swiftly to emerging audit needs and parliamentary requests for special audits.

k) In an effort to diversify their funding sources, the OAG proposed the implementation of an audit fees policy. The Public Audit Act allows the Office to charge audit fees, but only a small fraction of entities currently pay. The proposed policy aimed to make audit fees a mandatory budget item for all audited entities, potentially covering up to 50% of the OAG's budget. This initiative would reduce reliance on exchequer funding and strengthen the Office's financial independence. However, the OAG noted that the successful implementation of this policy would require support from Parliament, government agencies, and other stakeholders to ensure compliance.

l) The transition to International Public Sector Accounting Standards (IPSAS) accrual accounting poses another challenge for the OAG. One of the major hurdles in this transition is the valuation of government assets, which require significant financial resources. The OAG cautioned that hiring private valuers to assess all government assets would impose a heavy fiscal burden. They urged Parliament to lead discussions on developing a cost-effective approach to asset valuation that would minimize expenses while ensuring compliance with IPSAS requirements.

m) Therefore, the OAG requested an increase in its budget allocation by Ksh. 1.1 billion to cover critical operational needs and an additional Ksh. 100 million for the construction of the Mombasa regional office.

n) They also called for amendments to the PFM Act to introduce sanctions for non-implementation of audit recommendations and to shorten the timeline for public entities to submit financial statements. Furthermore, they urged Parliament to support the Public Audit (Amendment) Bill, prioritize performance audit reports, and facilitate the implementation of a one-line budget to enhance financial independence. The OAG also sought parliamentary support for the adoption of the proposed audit fees policy and the development of a viable framework for government asset valuation under IPSAS accrual accounting.

The Committee appreciated the Commission for appearing and contribution into the deliberations on the BPS.

Due to time constraints and following consultations, it was resolved that the following institutions to appear before the Committee on Tuesday, March 11, 2025.

a) The Office of Controller of Budget- 10:30 am.
b) The Ethics and Anti-Corruption Commission- 11:00 am
c) The Commission on Administrative Justice- 11:30 am

MIN/SEN/SCF&B/1111/2025 ANY OTHER BUSINESS

The Chairperson informed the meeting that the Cabinet Secretary (CS) for the National Treasury and Economic Planning had been invited to a meeting of the Committee on Thursday, 6th March, 2025. However, he failed to appear and sent a letter requesting for rescheduling, with no specific proposed date.

Aware that the business before the Committee was time bound, the Chairman contacted the CS and they agreed that he will send the Principal Secretary and technical officers to appear before the Committee on Tuesday, 11th March, 2025 at 9:30 am.

MIN/SEN/SCF&B/1112/2025 ADJORNMENT AND THE DATE OF THE NEXT MEETING

The meeting was adjourned at 7.05 p.m. Next meeting will be held on Tuesday, 11th March, 2025 at 9.00 am.

SIGNATURE: .... **DATE:** *12th March, 2025*

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

(CHAIRPERSON)

Detailed List of Attendance

CRA

1. Mr. Koitamet Olekina – Vice Chair,
2. Mr. Jonas M. Kuko – Commissioner
3. Ms. Linet Oyugi- Director, Economic Affairs

NGEC

1. Dr. Purity Ngina – CEO
2. Mr. Jillo Bidu – SFO
3. Ms. Roy Muthomi – Accountant
4. Ms. Beatrice Cheruiyot - Ass. Director of Finance
5. Ms. Emmah Orua – DCS
6. Ms. Halima Gaima – Finance Officer
7. Ms. Salome Wangari – Finance Officer

OAG

1. Mr. Isaac Ng'ang'a Kamau – Deputy Auditor General
2. Mr. J.M. Njiru – DAF
3. CPA Cheboiwo Philip – Director
4. CPA David Momanyi – Audit Association
5. Ms. Rosemary Ogwago – Director SCM

MINUTES OF THE HUNDRED AND EIGHTY-EIGHTH (188TH) MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON THURSDAY, 6TH MARCH, 2025 IN GROUND FLOOR BOARDROOM, COUNTY HALL, PARLIAMENT BUILDINGS AT 11.15 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

ABSENT WITH APOLOGY

1. Sen. Eddy Oketch Gicheru, MP - Member
2. Sen. Shakila Abdalla Mohamed, MP - Member
3. Sen. Richard Momoima Onyonka, MP - Member
4. Sen. Mariam Sheikh, MP - Member
5. Sen. Mohamed Faki Mwinyihaji, CBS, MP - Member
6. Sen. Esther Okenyuri, MP - Member

SECRETARIAT

1. Mr. Christopher Gitonga - Clerk Assistant
2. Ms. Beverlyne Chivadika - Clerk Assistant
3. Mr. Mitchell Otoro - Legal Counsel
4. Mr. Solomon Alubala - Fiscal Analyst
5. Mr. Kioko Kiminza - Fiscal Analyst
6. Mr. Constant Wamayuyi - Research Officer
7. Ms. Hamun Mohamud - Research Officer
8. Ms. Rose Ometere - Audio Officer
9. Mr. Enock Chelal - Intern

IN ATTENDANCE

The Commission on Revenue Allocation (CRA)

1. Mr. Koitamet Olekina - Vice Chairperson
2. Dr. Isabel Waiyaki - Commissioner
3. Commissioner Jonas Kuko - Commissioner
4. CPA Roble Said Nuno - Ag. CEO
5. Ms. Lineth Oyugi - Director, Economic Affairs

MIN/SEN/SCF&B/1095/2025 PRELIMINARIES

The Chairperson called the meeting to order at 11.18 a.m. This was followed by a word of prayer, and a round of introduction.

MIN/SEN/SCF&B/1096/2025 ADPOTION OF THE AGENDA

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

1. Prayer;
2. Introduction;
3. Adoption of the Agenda;
4. Confirmation of Minutes of 181st, 182nd, 183rd, 184th and 185th Sittings;
5. Matters arising from the minutes of the previous sitting;
6. Meeting with the following stakeholders-
    a) The Commission on Revenue Allocation (CRA); and
    b) The National treasury and Economic Planning.

    to deliberate on the 2025 Budget Policy Statement (BPS) and Medium-Term Debt Management Strategy (MTDS)- *(Committee Paper No.127B);*
7. Any Other Business; and
8. Adjournment and Date of the Next Meeting.

MIN/SEN/SCF&B/1097/2025 MEETING WITH STAKEHOLDERS TO DELIBERATE ON THE 2025 BUDGET POLICY STATEMENT AND MEDIUM-TERM DEBT MANAGEMENT STRATEGY *(COMMITTEE PAPER NO. 127B)*

Meeting with the Commission on Revenue Allocation (CRA)

Upon the invitation of the Chairperson, CRA representatives submitted as follows concerning the 2025 BPS and MTDS-

Submission on BPS

1. Budget for FY 2025/26 and the Medium Term- There are two figures for estimated ordinary revenue for 2024/25 Ksh. 2.575 trillion (paragraph 219) and Ksh. 2.54 trillion (paragraph 314). The estimate for 2024/25 is crucial in computing growth for FY 2025/26. There is need to harmonise the projection for FY 2024/25.
2. County Governments' compliance with Fiscal Responsibility Principles is provided in the main document however, a similar analysis for national government is provided, as an annexure. In future, the analysis of national government's compliance with fiscal responsibility principles should be provided in the main the BPS and not an annexure.
3. Pending bills- the analysis of pending bills for both levels of government should be provided in the main documents and not as annexure. This will inform on adherence to Section 94(1)(a) of PFM Act 2012 by the national government.

4. Division of Revenue for FY 2025/26- The 2025 BPS projects the shareable revenue to increase from Ksh. 2,575.9 billion for FY 2024/25 to Ksh. 2,835.0 billion in FY 2025/26. In absolute terms, the ordinary revenue is projected to increase by Ksh. 259.1 billion.
5. An analysis of allocation to two levels of government as a percentage share of total revenue reveals a decline in funding of county level of government from 10.4 percent to 9.3 percent and an increase in the allocation to the national executive from 56.7 percent to 57.5 percent. This decline in the share of allocations to county government has a negative impact in the ability of governments to offer quality service delivery to the citizens.
6. The BPS indicates that after considering all the mandatory expenditures under Article 203(1) of the Constitution, the balance left for sharing between the two levels of Government is Ksh 353.4 billion and the balance left for the national government is Ksh. (64,522 billion). This is misleading since items of national interest and national obligations are implemented by the national government through the respective MDAs and therefore not entirely factual to state that the national government is left with a negative balance.
7. Further that, National interest is not synonymous to national government priorities. The national interests can be implemented by either level of government based on the law of subsidiarity.
8. County governments have conditional financial obligations that were meant to commence in financial year 2024/25. However, due to the downward revision of projected ordinary revenue for the financial year 2024/25, implementation of specific programmes and projects estimated at Ksh.25.03 billion have not been fully financed. These include- County Aggregation and Industrial Parks estimated at Ksh11.75 billion; compensation to Community Health promoters estimated at Ksh.3.23 billion; county contributions towards the Housing Levy estimated at Ksh 4.05 billion and enhanced contributions to NSSF estimated at Ksh 6.0 billion, provision of Social Health Insurance for the vulnerable groups; Pay for doctors CBA, and provide for annual salary increments to their workforce.

Submission on MTDS

9. There has been an outstanding pre-1997 government debt in the debt reports for almost thirty years. In adherence to fiscal prudence, it is important that clarity is provided on what measures the National Treasury is undertaking towards settling of this debt.
10. On debt composition, the government has made efforts at shifting the domestic debt composition from short term Treasury Bills in favour of the long-term Treasury Bonds.
11. The composition of external debt has shifted from commercial debt to concessional multilateral financing in line with the government's policy of reducing refinancing risk. Multilateral lenders held 53.9 percent of the total external debt to June 2024, commercial debt which attracts high interest rates and stringent repayment terms constituted 22.8 percent.
12. External debt analysis by currency shows that US Dollar denominated debt is dominant at 67 percent of the external debt as at June 2024. The Euro denominated debt is at 22.5 percent of the total external debt.

13. The high composition of external debt in US Dollar increases the cost of external debt servicing in the event of high depreciation of the Kenya Shilling against the US Dollar. Parliament therefore need to legislate an upper ceiling within which external debt composition in any currency should not surpass.
14. 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 percent. However, the medium term projects indicate that by 2029 Treasury will still be yet to adhere to the approved threshold.
15. The continued increase of debt service puts a strain on the balance of revenues available for sharing between the two levels of government, further the increase has a negative effect on the timely disbursement of funds to either level of government which delays service delivery.
16. The external debt sustainability thresholds show a breach of the PV of debt-to-exports ratio and the Public and Publicly Guaranteed (PPG) debt service-to-exports ratio.
17. The breach of the external on two indicators namely: PV of PPG external debt-to-exports ratio and PPG debt service-to-exports ratio put the country at high risk of debt distress. Parliament should exercise its oversight role in ensuring that strict compliance with external debt composition in favour of multilateral debt is adhered to.

Following deliberations, it was observed as follows-

a) The issues relating to county governments own Source revenue should be considered extensively but should not be pegged on the division of revenue between the two levels of government.
b) The Committee was seized of the CRA's recommendations on the fourth basis for division of revenue among the counties and it will be prioritised, however, noting that the principle of *win- win* is upheld.
c) CRA should expedite sensitisation on Tariffs and Pricing Policy and ensure its adopted by county governments for implementation and consequent impact in OSR performance.

The Committee appreciated the Commission for appearing and contribution into the deliberations on the BPS and MTDS.

MIN/SEN/SCF&B/1098/2025 ANY OTHER BUSINESS

a) The Committee was informed about a letter co-signed by the Senate Leader of Majority and Leader of Minority regarding the Senate resolution on engagement of Constitutional Commissions and independent offices during consideration of BPS. The Committee considered the matter and in view of the time constraints resolved to invite all the constitutional commissions and independent offices to a meeting on Monday, 10th March, 2025 from 9:00 am.

b) The Committee noted that the National treasury and Economic Planning had not honoured the invitation to a meeting. The Committee resolved to await response from the Cabinet Secretary and possible indicative date for the meeting.
c) The Committee noted that after meeting the Commissions, it will proceed to consider the BPS and MTDS reports.

MIN/SEN/SCF&B/1099/2025 ADJOURNMENT AND THE DATE OF THE NEXT MEETING

The meeting was adjourned at 12.53 p.m. The next meeting will be held on Monday, 10th March, 2025 at 9.00 am.

SIGNATURE: .... **DATE:** ....

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

(CHAIRPERSON)

MINUTES OF HUNDRED AND EIGHTY-SIXTH (186TH) MEETING OF THE SENATE STANDING COMMITTEE ON FINANCE AND BUDGET HELD ON TUESDAY, 4TH MARCH, 2025 IN GROUND FLOOR BOARDROOM, COUNTY HALL, PARLIAMENT BUILDINGS AT 9.00 A.M.

PRESENT

1. Sen. (Capt.) Ali Ibrahim Roba, EGH, MP - **Chairperson**
2. Sen. Maureen Tabitha Mutinda - **Vice-Chairperson**
3. Sen. Mohamed Faki Mwinyihaji, CBS, MP - Member
4. Sen. Shakila Abdalla Mohamed, MP - Member
5. Sen. Mariam Sheikh, MP - Member
6. Sen. Esther Okenyuri, MP - Member

ABSENT WITH APOLOGY

1. Sen. (Dr.) Boni Khalwale, CBS, MP - Member
2. Sen. Richard Momoima Onyonka, MP - Member
3. Sen. Eddy Oketch Gicheru, MP - Member

SECRETARIAT

1. Mr. Christopher Gitonga - Clerk Assistant
2. Ms. Beverlyne Chivadika - Clerk Assistant
3. Mr. Mitchell Otoro - Legal Counsel
4. Mr. Solomon Alubala - Fiscal Analyst
5. Mr. Constant Wamayuyi - Research Officer
6. Ms. Hamun Mohamud - Research Officer
7. Ms. Rose Ometere - Audio Officer
8. Mr. Enock Chelal - Intern

IN ATTENDANCE

Institute of Public Accountants of Kenya (ICPAK)

1. CPA. Philip Kakai - Chairperson
2. FCPA Hesbon Omollo - Council Member
3. FCPA (Prof.) Nicholas Letting - Council Member
4. FCPA Andrew Rori - Legislative Affairs Co-convenor
5. CPA. Hillary Onami - Director of Public Policy
6. CPA. Elias Wakhisi - Senior Manager, Public Policy

Bajeti Hub

1. Dr. Abraham Rugo - Country Manager
2. Ms. Sandra Cherotich - Program Officer
3. Mr. Cuba Houghton - Program Officer

County Assemblies Forum (CAF)

1. Hon. Lantano Nabaala - Speaker, Laikipia County Assembly
2. Hon. Seth M. Kamanza - Speaker, Kwale County Assembly
3. Mr. Austin Munene - Legal Counsel
4. Mr. Nzangi Philip - MCA, Embu County
5. Ms. Grace Sundukwa -
6. Mr. Jeremy Mutunga -

MIN/SEN/SCF&B/1087/2025 PRELIMINARIES

The Chairperson called the meeting to order at 9.30 a.m. This was followed by a word of prayer, and a round of introduction.

MIN/SEN/SCF&B/1088/2024 ADPOTION OF THE AGENDA

The agenda was adopted after being proposed by Sen. Esther Okenyuri, MP, and seconded by Sen. Mariam Sheikh, MP, as listed below-

1. Prayer;
2. Introduction;
3. Adoption of the Agenda;
4. Confirmation of Minutes of 181st, 182nd, 183rd, 184th and 185th Sittings;
5. Matters arising from the minutes of the previous sitting;
6. Meeting with the following stakeholders-
    a) County Assemblies Forum;
    b) Bajeti Hub;
    c) Institute of Public Finance; and
    d) Institute of Certified Accountants of Kenya

    to deliberate on the 2025 Budget Policy Statement and Medium-Term Debt Management Strategy- *(Committee Paper No.127A);*
7. Any Other Business; and
8. Adjournment and Date of the Next Meeting.

MIN/SEN/SCF&B/1089/2025 MEETING WITH STAKEHOLDERS TO DELIBERATE ON THE 2025 BPS AND MTDS *(COMMITTEE PAPER NO. 127A)*

Meeting with Institute of Certified Accountants of Kenya (ICPAK)

Upon invitation, the ICPAK submitted the following concerns and recommendations on various sectors of the 2025 BPS-

1. **Agriculture Transformation for Inclusive Green Growth**:
   Agriculture contributes about 20% of Kenya's GDP (July 2024 CBK survey). However, there are challenges facing the sector including low productivity, poor incentives, low mechanization, inadequate inputs, and weak infrastructure.

Recommendations

a) Implementation of policies to improve farmer incentives, mechanization, and access to quality inputs.
b) Diversify agricultural exports beyond traditional products like tea and coffee.
c) Invest in agricultural research for innovative farming techniques and high-yield crops.
d) Strengthen agricultural extension services to boost production.

2. **Transforming the Micro, Small and Medium Enterprise (MSME)**
   There are uncertainty on whether Hustler Fund loan amounts are sufficient for capital-intensive MSME projects.

Recommendations

a) Implementation of financial literacy programs to help MSMEs improve their credit history.
b) Review Hustler Fund loan amounts to assess their adequacy for capital-intensive businesses.
c) Consider increasing loan amounts or extending repayment terms for businesses in these sectors.

3. **Housing and Settlement**
   It was noted that ffinancial accessibility remains a major challenge for low-income households.

Recommendations

Introduce targeted subsidies and low-interest loans to improve access to affordable housing for low-income groups.

4. **Healthcare**
   There are several concerns including-

a) Taifa Care Expansion -Transition from NHIF raises concerns about financial sustainability and accurate costing.
b) Uneven Healthcare Access in Rural Areas- Infrastructure gaps and medical staff shortages persist.
c) Free Primary Healthcare and Emergency Services- Effectiveness and reach remain challenging, especially in remote areas.

Recommendations

a) Strengthen financial planning for Taifa Care and explore alternative funding, including public-private partnerships.
b) Improve rural healthcare access through mobile clinics, incentives for medical staff, and local partnerships.

c) Invest in health facility infrastructure and ensure efficient use of the Facility Improvement Fund (FIF) for timely resource allocation.

5. **Infrastructure gap**

Recommendations

a) Strengthening the PPP legal and institutional framework to attract more private investments.

b) Mobilizing private capital which will help reduce fiscal burden on the government.

6. **Water and Irrigation**

There is limited access to sustainable water resources for rural and marginalized areas. Additionally, land degradation and insufficient land reclamation initiatives are need to be considered.

Recommendations

a) Investment in renewable water solutions like rainwater harvesting and solar-powered water systems for marginalized regions.

b) Fast-track implementation of Land Reclamation Policy, 2024.

7. **Roads and Bridges**

A 2023 report by the African Development Bank (AFDB) highlighted that the rural road development in Kenya led to a 12% increase in agricultural productivity and a 15% reduction in poverty level.

Recommendation

a) Improving connectivity and accessibility to reduce regional inequalities and stimulate local businesses.

b) Adoption of a holistic and inclusive infrastructure development.

8. **Manufacturing Sector: Agro-Processing**

Recommendations

a) Accelerate rollout of County Aggregated Industrial Parks (CAIPS) to all 47 counties and improve rural road networks.

b) Develop farmer training programs in collaboration with research institutions to improve post-harvest handling, storage, and value addition.

9. **The Services Economy: Financial Services**

Recommendations

a) Promote adoption of advanced risk management within banks to handle financial shocks.

b) Strengthen regulations governing Digital Credit Providers (DCPs).

10. **Strengthening Devolution**

Delayed disbursement of county equitable share funds hinders county operations.

Recommendations

a) National Treasury should ensure strict adherence to disbursement under Article 219 of the Constitution.

b) Government should establish emergency fund for counties to bridge shortfalls during delays.

Sector Specific Recommendations

11. **Domestic Economic Performance: Primary Sector-** To promote the growth of both the agriculture and mining sectors, the National Treasury-
   a) Allocate a larger portion of the budget to infrastructure projects that support climate resilience in agriculture.
   b) Provide tax incentives and subsidies for research and development sectors.
   c) Increase funding for vocational training institutions that specialize in agricultural and mining technologies.
12. **Industrial sector**
   a) National Treasury should prioritize investments in renewable energy projects, particularly in geothermal, wind, and solar power generation.
   b) Need for energy efficiency programs to reduce costs for industrial producers, particularly in manufacturing.
   c) Special tax incentives and subsidies for energy-efficient technologies should be introduced to drive down operational costs for industrial businesses.
13. **Services sector**
   a) National Treasury should allocate funding for the expansion and modernization of tourism infrastructure, and digital platforms for promoting Kenya's tourism.
   b) Funding should be directed toward enhancing financial literacy.

14. **Annual Real GPD Growth Rates-** The growth projection of 5.3% in 2025 up from 4.6% in 2024 is ambitious.

   Recommendation

   National Treasury should consider revising the projections further, taking into account external shocks such as geopolitical developments in the Middle East, the Ukraine-Russia conflict, and possible trade protectionist policies from developed nations such as the United States, particularly with Trump's administration, which is more inward-looking.

15. **Inflation Developments-** Government should consider reduced taxation to improve the purchasing power for the majority of Kenyans.

16. **Private Sector Credit:** The Government should consider measures to increase private sector credit-
   a) Reduction in domestic borrowing to free resources for private sector to mitigate crowding out effect.
   b) Incentivize banks through targeted monetary policy mechanisms to provide credit to the private sector.
17. **Revenue performance**-Government should undertake initiatives to expand tax base.
18. **Expenditure management** -Institute proposed adherence to fiscal responsibility principles under section 15 of PFM, Act.
19. **Accrual accounting**-National Treasury should strictly adhere to transition roadmap to accrual accounting.
20. **Deficit Financing Policy**- institute recommended-

a) Implementation of the PFM (Sinking Fund) Regulations 2021, establishing sinking fund to set aside funds for debt maturity.
b) Government should consider public private partnerships as a form of financing development expenditure.
c) Government should move away from expensive commercial loans.

21. **Health sector-** The Government should develop and enforce a strong policy and regulatory framework to support the effective functioning of SHIF.
22. **Pending Bills-** County governments should ensure pending bills are prioritized as first charge in the budget cycle.
23. **Division of Revenue for FY 2025/26-** There is need to expedite the approval of audited accounts to give a clear reflection of the total government's collection. And Implementing robust fiscal consolidation to help the government bridge the deficit gap.
24. **Equalization Fund**
    a) The government should bridge the implementation gap through 100% allocation of the entitled funds.
    b) The Equalization Fund Advisory Board should establish project implementation units (PIUs) at the divisional level.

Regarding the **2025 Medium Term Debt Management Strategy,** the Institute submitted that debt repayment has steadily increased over the years, reaching Kshs.1.35 trillion in FY 2024/25.

Recommendations

The Government should-

a) Reduce short-term borrowing- issue longer-tenor domestic bonds to ease refinancing pressure.
b) Evaluate guaranteed loans for financial health, establish clear debt management frameworks, and explore restructuring or privatization for distressed entities.
c) Diversify financing sources- Prioritize diaspora bonds, sustainability-linked financing, and concessional loans to reduce reliance on high-risk external debt.
d) Prioritize borrowing in local currency - reduce reliance on foreign currency debt to minimize exchange rate risks.
e) Restructure existing debt by extending repayment periods to ease fiscal pressure and improve sustainability.
f) Increase access to concessional financing -shift towards cheaper external funding to reduce domestic borrowing pressure.
g) External borrowing - Prioritize concessional loans over costly commercial debt to reduce repayment pressure.
h) Enhance debt transparency- National Treasury should regularly publish detailed and comprehensive debt reports.
i) Inclusion of other forms of debt instruments such as Islamic bonds (Sukuk), green bonds to attract ethical and climate-conscious funding.

Following deliberations, the Committee requested the ICPAK to prepare and submit a professional researched paper on the performance of the government using globally acceptable parameters. This should include challenges, identified gaps and appropriate recommendations. The document will enrich Committee's reports on the 2025 BPS and MTDS.

Meeting with the County Assemblies Forum and Bajeti Hub

After introduction, the Committee noted time constraints and other work exigencies that urgently required attention of the members. Thus, the Committee resolved to receive written submissions from the County Assemblies Forum (CAF) and Bajeti Hub.
The meeting was informed that the Committee will review the written submissions during consideration of the reports on the BPS and MTDS. Additionally, all their views will be included in the reports.

The Committee thanked the stakeholders for honouring Committee's invitation to submit views on the 2025 BPS and MTDS. Further, the Committee committed to continue with collaboration.

MIN/SEN/SCF&B/1090/2025 ADJOURNMENT AND THE DATE OF THE NEXT MEETING

The meeting adjourned at 10.58 a.m. Next meeting will be held on Thursday 6th March, 2025 at 9.00 am.

SIGNATURE: .... **DATE:** *11th March, 2025*

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

(CHAIRPERSON)

Annex 2 - Stakeholders submissions

Promoting an Equitable Society

COMMENTS ON THE 2025 MEDIUM TERM DEBT MANAGEMENT STRATEGY

SECTION II: REVIEW OF THE EXISTING PUBLIC DEBT STOCK

i. The Medium-Term Debt Strategy (MTDS) presents the public and publicly guaranteed debt as at the end of June 2024. The composition of domestic debt comprises of a pre-1997 government debt of Ksh. 17.23 billion as at end June 2024.

The Commission takes issue with the pre-1997 government debt since it has remained outstanding in the debt reports for almost thirty years. In adherence to fiscal prudence, it is important that clarity is provided on what measures the National Treasury is undertaking towards settling of this debt.

ii. On debt composition, the government has made efforts at shifting the domestic debt composition from short term Treasury Bills in favour of the long-term Treasury Bonds as shown in Table 1. Treasury Bonds constituted over 80 per cent of the total stock of domestic debt between June 2022 and June 2024. The longer maturity periods for the Treasury Bonds spreads their redemption over many years which is in line with the government's objective of managing refinancing risks.

Table 1: Domestic Debt Composition (%) as at June 2020 to June 2024

Domestic Debt*	June 2020	June 2021	June 2022	June 2023	June 2024+
Treasury Bonds	69.8	77.1	82.4	83.1	85.5
Treasury Bills	27.9	20.7	14.5	12.7	11.4
Others (CBK Overdraft)	1.5	1.6	1.4	1.6	1.1
IMF SDR Allocation	0	0	0.9	2.0	1.5

Source of data: Central Bank of Kenya;
**Excludes Pre-1997 government debt; +Provisional*

iii. The composition of external debt has shifted from commercial debt to concessional multilateral financing in line with the government's policy of reducing refinancing risk as shown in Table 2. Multilateral lenders held 53.9 per cent of the total external debt to June 2024, commercial debt which attracts high interest rates and stringent repayment terms constituted 22.8 per cent.

Table 2: External Debt Composition (%) June 2020 to June 2024

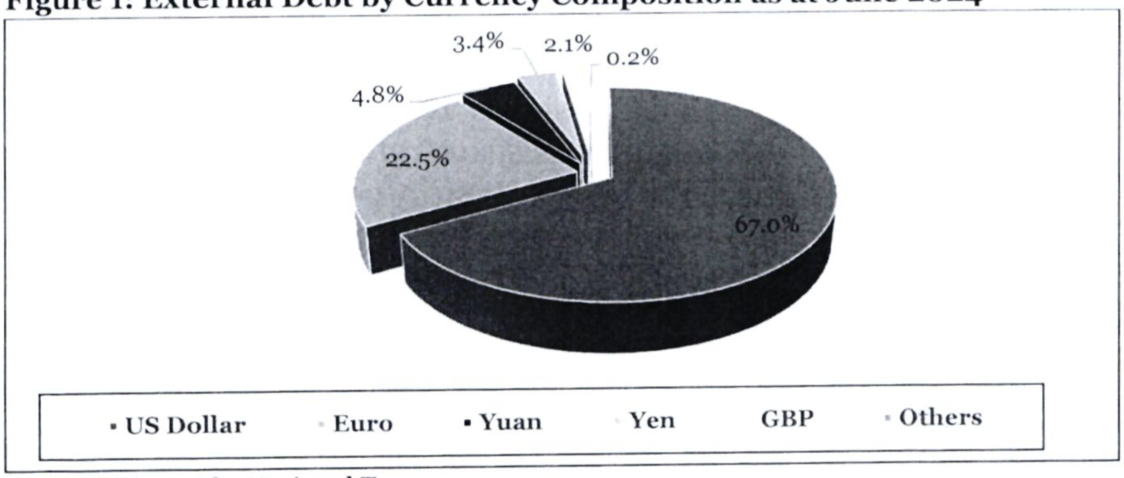
External Debt	June 2020	June 2021	June 2022	June 2023	June 2024+
Multilateral	37.6	41.5	44.7	48.7	53.9
Bilateral	30.6	28.5	27.2	24.6	21.1
Commercial	31.4	29.7	27.8	26.4	22.8
O/w ISB holders	*18.5*	*19.2*	*19.4*	*18.3*	*16.5*
Guaranteed				1.6	1.9
Suppliers' Credit	0.5	0.3	0.3	0.3	0.3

Source of data: The National Treasury; +Provisional
ISB-International Sovereign Bond (Euro Bond)

The National Treasury is commended for ensuring that the domestic debt composition in favour of long-term instruments and external debt composition in favour of multilateral lenders is adhered to. Parliament however need to ensure the continued compliance.

iv. External debt composition by currency shows that the dominant currency-the US Dollar denominated debt constituted 67 per cent of the external debt as at June 2024. The Euro denominated debt comprised of 22.5 per cent of the total external debt, while other currencies accounted for 0.2 per cent as shown in Figure 1.

Figure 1: External Debt by Currency Composition as at June 2024



Source of data: The National Treasury

The high composition of external debt in US Dollar increases the cost of external debt servicing in the event of high depreciation of the Kenya Shilling against the US Dollar. Parliament therefore need to legislate an upper ceiling within which external debt composition in any currency should not surpass.

SECTION IV: KENYA'S DEBT SUSTAINABILITY

i. The public debt sustainability as presented in Table 3, shows that the PV of debt-to-GDP ratio was 63.9 percent in 2022 and 68.7 in 2023. The current ratio of PV of debt to GDP of 68. 7 per cent is above the 55 per cent benchmark for Kenya which is rated as medium debt-carrying capacity by the International Monetary Fund. Further, 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.

Table 3: Public Debt Sustainability Analysis

Indicators	Benchmark	2022	2023	2024	2025	2026	2027	2028	2029	2024	2044
		Actual		Projection							
PV of debt–to-GDP ratio	55	63.9	68.7	63.0	64.0	63.7	61.2	58.6	56.2	49.7	35.5
PV of public debt-to-revenue and grants ratio	n/a	370.3	406.2	356.2	348.4	334.3	313.8	296.0	282.9	249.9	179.4
Debt service-to-revenue and grants ratio	n/a	56.0	60.6	63.7	62.5	61.4	58.1	55.7	49.0	47.1	29.4

Source: National Treasury

For the country to comply with the 55 per cent threshold in the medium-term, Parliament need to exercise stringent oversight measures on further debt accumulation following the repayment of the upcoming Euro Bond in 2029, 2030 and 2031.

ii. The debt service-to-revenue and grants ratio presented in Table 3 shows a continued increase from 56 percent in 2022 to 60.6 per cent in 2023.

The continued increase of debt service puts a strain on the balance of revenues available for sharing between the two levels of government, further the increase has a negative effect on the timely disbursement of funds to either level of government which delays service delivery. It is important that Parliament enacts stringent oversight mechanisms on the- supply side to increase the ordinary revenue collection and on the- demand side to curtail the un-proportionate increase in public debt.

iii. The external debt sustainability thresholds show a breach of the PV of debt-to-exports ratio and the Public and Publicly Guaranteed (PPG) debt service-to-exports ratio as shown in Table 4. The PPG debt service-to-revenue ratio breached the threshold in 2024 due to the maturing of the International Sovereign Bond (ISB) which has since been repaid.

Table 4: External Debt Sustainability Analysis

Indicators	Thresholds	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044
		Actual		Projection							
PV of PPG external debt-to-GDP ratio	**40**	29.0	32.1	29.8	30.4	31.0	29.5	28.1	26.8	22.5	16.2
PV of PPG external debt-to-exports ratio	**180**	238.2	274.8	274.2	260.2	241.9	222.3	208.1	195.0	152.5	98.1
PPG debt service-to-exports ratio	**15**	21.4	26.9	40.5	31.9	29.8	27.3	27.0	22.0	16.7	11.6
PPG debt service-to-revenue ratio	**18**	15.4	18.8	25.2	20.6	20.4	18.9	18.6	15.5	12.6	9.8

Source: National Treasury

The breach of the external on two indicators namely: PV of PPG external debt-to-exports ratio and PPG debt service-to-exports ratio put the country at high risk of debt distress. It is therefore important that Parliament exercises its oversight role in ensuring that strict compliance with external debt composition in favour of multilateral debt is adhered to.

SUBMISSION

ON

MEDIUM TERM DEBT MANAGEMENT STRATEGY 2025

MARCH 2025

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 the 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. This submission is therefore in tandem with the Institute's overarching advisory mandate in the realms of financial management.

The Constitution of Kenya 2010 established legal frameworks on public debt management through various legislation such as Public Procurement and Assets Disposal Act 2015, Public Finance Management Act, 2012 which provided a framework for borrowing by the entities of the state and who would guarantee the public loans. It also requires mandatory reporting on public debt management in Kenya.

Section 11 of the PFM Act 2012 establishes the National Treasury which is responsible for handling public finances and establishment of fiscal policies of the country. Section 62 of the Act established a fully-fledged Public Debt Management Office (PDMO) in the National Treasury with specific objectives and functions related to public debt management.

The Public Debt and Borrowing Policy came to effect after Cabinet approved it on 23 March 2020, to fill the ad hoc public debt policy pronouncements gap and enable the country manage cost and risk associated with the growing debt complexities.
To this extent, it is our considered thought that there are adequate legal safeguards to ensure public debt management principles and strategies are adhered to and in addressing the debt scenario in Kenya.

Under the PFMA, 2012 the provisions provide fiscal responsibility principles on how to manage debt and establish appropriate institutions to execute such functions as follows:

Section	Provision
49-65	Prescribes for the receipt & use of grants & loans; guaranteeing loans, lending money; establishes a fully-fledged Public Debt Management Office (PDMO) in the National Treasury
49	Authority for borrowing by the National Government
50	Obligations and restrictions on national government guaranteeing and borrowing- Parliamentary approval. Guarantee of debt shall be done in terms of criteria agreed with the Intergovernmental Budget and Economic Council (IBEC)
55	Establishes the office of the Registrar of the National Government Securities under PDMO. Securities issued by or on behalf of the national government shall be published & publicized

Section	Provision
62 – 63	Establishes and empowers PDMO with objects of minimizing debt financing costs, maintaining reliable debt data, prepare annual and medium-term debt strategy

2.0 Summary of ICPAK Submission on the Medium Term Debt Strategy 2025:

The 2025 MTDS was prepared pursuant to Section 33 of the Public Finance Management Act, 2012. The Strategy recognizes that a diversified public debt structure and deepening of the domestic debt market is necessary to mitigate against exchange rate risks on Kenya's external public debt. However, the October 2024 Debt Sustainability Analysis (DSA) reports Kenya's public debt to be sustainable but with a high risk of debt distress with the present value (PV) of public debt at 63.0 percent of GDP against the benchmark debt threshold of 55 percent.

The Institute reviewed the Draft Medium Term Debt Management Strategy 2025 and developed the following submissions for further consideration:

<table>
<tr><th>S/NO</th><th>KEY IMPERATIVES</th><th>DISCUSSION & ISSUE OF CONCERN</th><th>ICPAK RECOMMENDATIONS</th></tr>
<tr><td>II

Para 7,9, 11</td><td>Review Of The Existing Public Debt Stock</td><td>The existing public debt stock in Kenya presents several challenges. A comprehensive review of the debt portfolio highlights the following key concerns:

1. Public debt service remains a concern, with debt-to-GDP ratios remaining high. Debt repayment took up Sh1.17 trillion in 2021-22 and Sh829.90 billion the year before. In financial year 2024-25, the allocation for payment of public debt related costs increased from Sh1.18 trillion in financial year 2023-24 to Sh1.35 trillion in financial year 2024-25.

<table><tr><td>FY</td><td>Debt repayment (Amounts)</td></tr><tr><td>2020/21</td><td>829,906</td></tr></table></td><td>The Institute recommends the following:

1. Reduce short-term borrowing by issuing longer-tenor domestic bonds to ease refinancing pressure.
2. The government should conduct a risk assessment on the guaranteed loans to evaluate their financial health and repayment capacity. Additionally, establish a clear framework for managing and capping guarantees to prevent excessive exposure. In the cases where these entities face financial distress, the government should also</td></tr>
</table>

<table>
<tr><th>S/NO</th><th>KEY IMPERATIVES</th><th>DISCUSSION & ISSUE OF CONCERN</th><th>ICPAK RECOMMENDATIONS</th></tr>
<tr><td></td><td></td><td>
<table>
<tr><td>2021/22</td><td>1,174,013</td></tr>
<tr><td>2022/23</td><td>930,354</td></tr>
<tr><td>2023/24</td><td>1,187,784</td></tr>
<tr><td>2024/25</td><td>1,352,610</td></tr>
</table>
SOURCE: DORB 2024
2. 49.3% of total public debt is in foreign currency, making Kenya vulnerable to exchange rate fluctuations.
3. The government has guaranteed Ksh. 100.2 billion in loans for Kenya Ports Authority (KPA), KenGen, and Kenya Airways (KQ).If these entities struggle to repay, the government could face additional financial obligations.
</td><td>
prioritize restructuring plans and privatization options where viable.
3. Prioritize diaspora bonds and sustainability-linked financing. Additionally, the government should diversify external financing sources by increasing concessional loans.
</td></tr>
<tr><td>III

Para 13,15</td><td>Analysis Of Costs and Risks of Existing Public Debt</td><td>
Kenya's public debt poses significant risks threatening fiscal sustainability. A review of the analysis of costs and risks of the existing public debt highlights the following key concerns:

1. The public debt-to-GDP ratio is 65.7%, exceeding sustainable levels. The Present Value (PV) of debt-to-GDP is 63.0%, surpassing the 55% benchmark, signaling debt distress risk, thus the debt service-to-revenue ratio is high, reducing the funds available for essential services.
2. Kenya faces large debt repayments over the next nine years, including Eurobonds and syndicated loans. Noting that if economic growth slows the debt service could become unsustainable.
3. 49.3% of Kenya's public debt is in foreign currency, exposing the country to exchange rate fluctuations. Therefore, a weakening Kenya shilling increases debt repayment costs, worsening the fiscal pressure. Short-
</td><td>
The Institute recommends the following:

1. The government can prioritize borrowing in local currency to limit exposure to foreign currency fluctuations.
2. Implement hedging strategies that can help cushion against a weakening shilling, like agreeing on a fixed exchange rate with foreign lenders so that even if the shilling weakens, the repayment amount remains the same.
3. The government should restructure existing debt to lengthen repayment periods to reduce fiscal pressure.
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S/NO	KEY IMPERATIVES	DISCUSSION & ISSUE OF CONCERN	ICPAK RECOMMENDATIONS
		term foreign currency debt as a percentage of reserves is 27.5%, showing moderate risk but still a concern.	
IV **Para 17**	Review of Performance of The 2023 MTDS	The FY 2023/24 MTDMS aimed for a balanced net financing distribution of 50:50 between external and domestic sources. However, the actual 73:27 tilt toward domestic financing marks a significant deviation that requires immediate action. The heavy dependence on domestic borrowing poses critical concerns, including. 1. The crowding out of private sector credit - Heavy government borrowing leads banks to prioritize lending to the state over businesses, restricting private sector credit access and slowing growth. 2. Rising interest costs - Increased borrowing raises credit demand, pushing up interest rates, making loans more costly for both the government and private sector, and straining public finances.	The MTDS 2025 outlines key strategies to address these challenges, including enhancing access to concessional financing and implementing a comprehensive liability management strategy. Ensuring their effective implementation and continuous monitoring is crucial, alongside periodic reviews to evaluate their impact and adjust for emerging risks.
V **Para 23**	Kenya's Debt Sustainability	The Institute acknowledges the government's efforts in maintaining Kenya's external debt at sustainable levels. The Present Value (PV) of external debt (adjusted for concessional terms) remains below 40% of the sustainability threshold, when measured against GDP. This indicates that: 1. The debt burden is manageable relative to GDP. 2. Kenya's economy remains resilient enough to support external debt payments at present.	To mitigate the risks associated with a high external debt-to-exports ratio, the government should: a) 1.Enhance Export Competitiveness: Implement policies that promote export diversification and value addition in key sectors such as agriculture, manufacturing, and services to increase foreign exchange earnings.

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<tr><th>S/NO</th><th>KEY IMPERATIVES</th><th>DISCUSSION & ISSUE OF CONCERN</th><th>ICPAK RECOMMENDATIONS</th></tr>
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However, a key concern arises from the PV of Public and Publicly Guaranteed (PPG) External Debt-to-Exports Ratio, which assesses the extent to which Kenya's external debt, including government-guaranteed debt, is backed by export earnings.
The solvency indicator (PV of Public and Publicly Guaranteed (PPG) external debt-to-exports) and the liquidity indicator (debt service-to-exports) continue to exceed the 180% threshold, with Kenya's ratio projected to remain above this level until 2029.
Table 5: MTDS Targets against Borrowing Outturn (Percent)
<table>
<tr><th>Borrowing</th><th>FY2019/20</th><th>FY2020/21</th><th>FY2021/22</th><th>FY2022/23</th><th>FY2023/24</th><th>source</th></tr>
<tr><td>External</td><td>MTDS</td><td>38</td><td>28</td><td>27</td><td>25</td><td>50</td></tr>
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<tr><td></td><td>Deviation</td><td>10</td><td>9</td><td>12</td><td>3</td><td>23</td></tr>
<tr><td>Domestic</td><td>MTDS</td><td>62</td><td>72</td><td>73</td><td>75</td><td>50</td></tr>
<tr><td></td><td>Actual</td><td>72</td><td>81</td><td>85</td><td>78</td><td>73</td></tr>
<tr><td></td><td>Deviation</td><td>-10</td><td>-9</td><td>-12</td><td>-3</td><td>-23</td></tr>
</table>
Source: National Treasury
Why this is concerning:

Kenya's external debt is significantly high compared to its export revenues, posing substantial repayment risks.
If export growth does not accelerate, the country may struggle to generate sufficient foreign exchange for debt servicing.
A persistently high external debt-to-exports ratio increases the risk of foreign exchange shortages, potentially leading to repayment difficulties.

</td><td>
b) Strengthen Trade Agreements: Expand market access through bilateral and multilateral trade agreements to boost exports and reduce external debt vulnerabilities.
c) Optimize External Borrowing: Prioritize concessional loans with favorable terms over expensive commercial debt to ease repayment pressure.
d) Improve Foreign Exchange Reserves: Strengthen strategies to build and maintain adequate foreign exchange reserves to cushion against external debt repayment shocks
</td></tr>
</table>

S/NO	KEY IMPERATIVES	DISCUSSION & ISSUE OF CONCERN	ICPAK RECOMMENDATIONS
VI. Para: 33,36&38	Challenges to Debt Management: 33.Low Domestic Revenue Mobilization	The Institute notes the following concerns: 1. Kenya's fiscal deficits are worsened by a narrow domestic tax base and low tax compliance, limiting revenue generation capacity. 2. There is over-reliance on external borrowing to bridge the revenue gap raises concerns about long-term debt sustainability.	The following were the recommendations outlined: a) Implement tax reforms to enhance domestic revenue mobilization. b) Strengthen tax administration to improve compliance and broaden the tax base. c) Strengthening domestic revenue mobilization is crucial to reducing fiscal deficits and lowering external debt dependency.
	36.Ineffective Debt Transparency and Reporting	The Institute notes the following concerns regarding transparency and accountability in public debt management in lined with medium term debt management strategy-2025: 1. Kenya's public debt reporting mechanisms have been inadequate, resulting in insufficient visibility on the country's debt profile. 2. The lack of transparency has hindered effective monitoring and creates uncertainty among stakeholders about the sustainability of the debt.	The following were the recommendations: a) The government should improve debt transparency by regularly publishing detailed debt reports. b) There is a need to strengthen public debt oversight institutions for increased accountability.
	38.Slow Progress in Public Debt Legal Reform	The institute commends the government efforts for ensuring that there are specific authorities that are assigned to oversee and formulate legal reforms matters concerning public debt.	Below are the recommendations: a) Expedite the legal reform process to enhance the domestic debt market.

→ Regular publications of info on public debt.

S/NO	KEY IMPERATIVES	DISCUSSION & ISSUE OF CONCERN	ICPAK RECOMMENDATIONS
		However, it was noted that there is an overlap of authority between the fiscal agent and national Treasury with unclear roles and responsibilities which has hindered the deepening of the domestic debt market and thus delays necessary legislative changes.	b) Clearly define roles and responsibilities between fiscal agents and the National Treasury
VII. **Para:** **42(c), 42(h)**	Macroeconomic Assumptions and Key Risks: Addressing Risks From External Shocks	There is uncertainty in the global economic outlook which may lead to depreciation of the Kenyan shilling and thus limited access to concessional financing, which might pose risks of achieving economic growth and inflation targets while increasing fiscal pressure on the government.	There is a need for establishment of risk mitigation strategies for external shocks, including hedging against currency depreciation and securing more stable foreign financing options. The government should also enhance its monitoring of international market trends to be proactive in the market.
VIII **Par. 43**	Potential Sources of Financing	The domestic debt market could be more inclusive, allowing a broader range of investors to participate, including retail investors in order to improve on inclusivity and accessibility of the Domestic Debt Markets	1. To improve inclusivity, the government could; a) Re-valuate the minimum investment amount to encourage the common *mwananchi* to invest. b) Streamlining the investment process for retail investors to encourage purchase of government securities, such as Treasury bonds or bills, through mobile applications and USSD codes. This can democratize access to investment opportunities and expand the investor base.

Inclusivity → Simplicity & enable common mwananchi to invest. *

S/NO	KEY IMPERATIVES	DISCUSSION & ISSUE OF CONCERN	ICPAK RECOMMENDATIONS
			2. The Government should consider Public Private partnerships as a form of financing development expenditure 3. Inclusion of other forms of debt instruments like Islamic bonds (Sukuk) or green bonds to tap into specific investor groups that prioritize ethical investments or climate-conscious funding.
IX **Par. 48**	Debt Management Strategy	The Institute notes the following; 1. From the MTDS, the gross borrowing is 25 percent external and 75 percent domestic. While the strategy acknowledges the importance of domestic debt issuance, there is a lack of detailed focus on the reforms undertaken by the National Treasury in the domestic debt market and the planned reforms for the upcoming fiscal year. 2. Implement a prudent debt sustainability framework that ensures borrowing aligns with the country's repayment capacity. This includes continuous assessment of the debt-to-GDP ratio to avoid excessive debt accumulation.	a) Inclusion of an additional subsection in the MTDS that explicitly outlines the domestic market reforms already undertaken by the National Treasury and those planned for the next fiscal year in order to create opportunities for attracting new investor bases, improving market liquidity, and strengthening market infrastructure, which are all critical for managing the high proportion of domestic debt b) Reinforcement of the current set debt anchor.
X **Para: 76**	Strategy Implementation, Monitoring And Evaluation	Lack of a clear status on the implementation of the work plan.	Provide a column on the status of implementation for each activity.

Bajeti Hub

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Memorandum to the Senate Standing Committee on Finance and Budget Committee on the Medium-Term Debt Management Strategy Paper 2025

Submitted on Wednesday, March 5, 2025

Contact Person:

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Executive Director, Bajeti Hub

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Introduction

Bajeti Hub (formerly 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. Bajeti Hub's 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, Bajeti Hub 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 Bajeti Hub's work.

Article 20(5) of the Constitution emphasizes the State's responsibility to allocate sufficient resources for achieving constitutional rights. Consequently, governments must continually explore alternative funding sources to support public budgets, given the increasing demand for service delivery. Kenya's reliance on borrowing to finance expenditures has led to a substantial increase in its public debt, rising from Ksh. 2.45 trillion in December 2014 to Ksh. 10.58 trillion by September 2023—a remarkable 335% growth. This rapid expansion of public debt has created a cycle where more funds are required annually for debt servicing and repayment, potentially impacting the State's capacity to provide essential services in the medium term.

Effective management of public debt is crucial for ensuring efficient delivery of public services, and the following submissions are presented to the committee to address this challenge. **The submissions bring together the perspectives and views of over 300 Kenyans from across the country who met in an open forum to deliberate on the document.**

Submissions

Legislative Framework for Public Debt Management

1. **To the extent that the Public Debt Management Office (PDMO) has a central role in public debt management, which continues to consume nearly half of all expenditure, its operational capability and autonomy should be strengthened.** The Public Debt Management Office (PDMO) is established within the National Treasury under Section 62 of the PFM Act with three main objectives: to minimize the long-term cost of debt management and borrowing while considering risk, to promote the development of the market for government debt securities, and to ensure the sharing of the benefits and costs of public debt between current and future generations. In line with the recommendation from the Office of the Auditor General, this should include both amendments to the PFM Act to provide for its fiscal and operational autonomy as well as the adequate staffing of its three technical departments.
2. **In line with best international practice, parliament should assess the PFM Act of 2012 and the CBK Act to ensure clear definition and separation of responsibilities for monetary policy and debt management policy between the CBK and PDMO.**[1] This in part has to do with the potential for monetary and fiscal operations to conflict in the pursuit of different policy goals where the roles of agents in both are not clear and distinct. As of now, the National Treasury through the PDMO is responsible for the decisions on borrowing, including domestic deficit financing operations, while the CBK retains a central role in more granular decisions on domestic issuance of government securities. Where the policy goals of both are divergent, debt management operations can become subservient to monetary policy in the end nullifying the contextual factors that inform debt management decisions.

[1] https://www.elibrary.imf.org/display/book/9781557756947/ch007.xml?t

3. **Kenya should institute a legislative ceiling on the annual fiscal deficit to ensure sustainability in public debt management.** While we recognize the projection reduction the fiscal deficit by 4% in FY 2025/26 to KES 831 billion, we contend that to provide a behavioral incentive for continued fiscal consolidation and budget deficit reduction over the medium term, the Public Debt and Privatisation Committee (PDPC) and the National Treasury should develop regulations introducing an annual budget deficit limit (net borrowing) limit. This could be absolute but, to manage the need for adequate infrastructural development for Kenya as a developing country, also could be pegged as a percentage of GDP. This in recognition of the historically proclivity of the national government to increase the budget deficit in-year through supplementary adjustments, precipitating higher than planned to borrow each year. This also would be an adoption of the model of debt management taken on by Germany, in the form of its 'debt brake'.[2]

4. **Kenya's public finance architecture should provide for a stronger role of the Public Debt and Privatization Committee in the contracting and approval of loans.** The MTDS 2025 shows that government has consistently borrowed more domestically than planned. The document explains that in FY 2023/24 where 23% more finance was borrowed domestically by the end of the year, this was due to *'limited access to external financing which resulted to more uptake of borrowing from domestic sources.'*

Table 5: MTDS Targets against Borrowing Outturn (Percent)

Borrowing source		FY2019/20	FY2020/21	FY2021/22	FY2022/23	FY2023/24
External	MTDS	38	28	27	25	50
	Actual	28	19	15	22	27
	Deviation	**10**	**9**	**12**	**3**	**23**
Domestic	MTDS	62	72	73	75	50
	Actual	72	81	85	78	73
	Deviation	**-10**	**-9**	**-12**	**-3**	**-23**

Source: *National Treasury*

[2] Germany's Federal Debt Rule (Debt Brake). Federal Ministry of finance Germany. https://www.bundesfinanzministerium.de/Content/EN/Downloads/Public-Finances/germanys-federal-debt-rule.pdf?__blob=publicationFile&v=1&t

To reduce the impact of this annually, legal amendments should be made to the PFM Architecture to strengthen the oversight role of the PDPC. This aligns with recommendations by the OAG in her 2022 Performance Audit Report On Public Debt Servicing Activities, which prescribe that the NT should involve key stakeholders during pre-loaning and approval process to sensitize on the conditions precedents to drawdowns. This is also in line with the recommendations of the PDPC in the MTDS of 2023, that demand that any deviation from the approved borrowing strategy and plan should require approval by the National Assembly.

b) Financial recommendations

1) **That**, the fiscal deficit target for the medium term is approved and set at no more than 4.4% of GDP for FY 2023/24; 3.9% of GDP for FY 2024/25, and 3.6% of GDP for FY 2025/26 in line with the fiscal consolidation path.
2) **That**, the country's borrowing strategy is approved at 50 percent net external borrowing and 50 percent net domestic borrowing as contained in the 2023 Medium Term Debt Management Strategy.
3) **That**, any deviation from the approved borrowing strategy will require the approval of the National Assembly.

Source: PDPC Report on the MTDS 2023.

Enhancing Debt Transparency and Accountability

5. The Senate should seek clarity from the National Treasury on the status of the announced forensic public debt audit being conducted by the Office of the Auditor General, and the expected date of completion. While we recognize the recent effort made by the National Treasury to avail more information on public debt, key gaps still remain in the nature, size and guarantees given on Kenya's debt historically.

6. In response to the challenge (line 39) highlighted in the MTDS 2025, the National Treasury should begin by providing simplified versions of key public debt management documents for consumption by the public. This is already done by national and county governments through the Citizens or 'Mwananchi' budget and can be replicated across the MTDS, debt register and the Annual borrowing strategy. Simplified debt documents will make debt information more digestible and accessible to the public increasing the effectiveness and applicability public input into budgeting financing decisions during public participation. To do this, the NT can leverage the technical capacity and experience of civil society actors in the public finance space.

Debt Management Operations

7. **The MTDS 2025 should contain an analysis of the proposed borrowing strategy on key economic indicators such as investment, consumption, inflation, among others.** This is recognition of the impact of debt management operations on the economy. For example, the chosen borrowing strategy for FY 2025/26 expects 65% of borrowing to come from domestic sources, and 35% to come from external sources. While this strategy is responsive to the local dynamics, it could also imply higher borrowing costs and higher interest rates on commercial loans for citizens over time.

> 51. The MTDS analytical tool has guided that a net borrowing mix of 65 percent and 35 percent from domestic and external sources respectively will help optimize costs and risks of financing the fiscal deficits for the MTDS period 2025-2028.

Source: MTDS 2025

REPUBLIC OF KENYA

COUNTY ASSEMBLIES FORUM (CAF)

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CAF MEMORANDUM ON THE 2025 BUDGET POLICY STATEMENT (BPS) AND THE 2025 MEDIUM-TERM DEBT MANAGEMENT STRATEGY (MTDMS)

TO: Mr. Jeremiah Nyegenye, CBS, Clerk of the Senate, Parliament of Kenya.

FROM: The County Assemblies Forum.

DATE: 4th MARCH, 2025

CAF MEMORANDUM ON THE 2025 BUDGET POLICY STATEMENT (BPS) AND THE 2025 MEDIUM-TERM DEBT MANAGEMENT STRATEGY (MTDMS)

1. Introduction

1.1 Pursuant to Section 25 of the Public Finance Management Act, 2012 (PFMA), the National Treasury is mandated to prepare and submit the Budget Policy Statement (BPS) each financial year to guide both national and county governments in formulating their annual budgets and medium-term expenditure frameworks. Alongside the BPS, Section 33 of the PFMA requires the preparation of the Medium-Term Debt Management Strategy (MTDMS), which outlines the Government's plan for prudent borrowing and sustainable public debt management over the medium term.

1.2 This Memorandum provides CAF's position on the 2025 BPS and the 2025 MTDMS, highlighting the salient features, achievements, and areas requiring urgent policy interventions to bolster devolution and ensure equitable and sustainable growth.

2. Overview of the BPS 2025/26

The 2025 BPS includes;

a) Assessment of the current state of the economy, including macroeconomic forecasts as well as the priorities of the Government current pillars of growth and strategic directions

b) Financial outlook with respect to Government revenue, expenditures and borrowing for the next financial year and over the medium term

c) Proposed expenditure ceilings for the National Government, including those of Parliament and the Judiciary and indicative transfers to County Governments

d) Fiscal responsibility principles and financial objectives over the medium-term including limits on total annual debt.

e) Statement of Specific Fiscal Risks.

2.1 The Strategic Focus and Priority Areas

2.1.1. The 2025 BPS places special emphasis on scaling up the Government's transformation agenda centred on agricultural productivity, MSME development, housing and settlement, healthcare, and digital superhighway and creative economies.

2.1.2. The BPS pledges to deepen climate-smart agriculture, environmental conservation, and sustainable resource utilisation to foster economic resilience.

2.1.3. The National Treasury intends to sustain expenditure rationalisation and enhance revenue mobilisation. This is projected to stabilise the deficit, align borrowing with development priorities, and reduce the public debt-to-GDP ratio over the medium term.

2.1.4. Highlights of the 2025 Budget Policy Statement

Broad policies

2.1.5. The 2024 BPS titled "consolidating gains under bottom–up economic transformation agenda for inclusive green growth" is the third policy to be developed under the leadership of the Kenya Kwanza Administration.

2.1.6. The 2025 BPS highlights the progress made in the implementation of the strategic interventions articulated in the Bottom-Up Economic Transformation Agenda (BETA) and anchored on the Fourth Medium Term Plan of the Vision 2030.

2.1.7. The five core pillars include Agricultural Transformation and Inclusive green Growth; Transforming the Micro, Small, and Medium Enterprise (MSME) Economy; Housing and Settlement; Healthcare; and Digital Superhighway and Creative Industry.

2.1.8. The priority BETA value chains are: (i) Leather and leather products; (ii) Textile and apparel; (iii) Dairy; (iv) Edible oils (sunflower, canola, palm oil, coconut, soya); (v) Tea; (vi) Rice; (vii) Blue economy; (viii) Minerals including forestry; and (ix) Construction/building materials.

2.1.9. Moving forward, the Government will consolidate the gains realized under the BETA for inclusive green growth with a special focus on the following six (6) objectives: Bringing down the cost of living; eradicating hunger; creating jobs; expanding the tax base; improving foreign exchange balances; and inclusive growth.

Overall fiscal framework

Revenue & Expenditure Projections

2.1.10. The National Treasury has projected a revenue collection of an approximated 3,385.80 billion shillings in the FY 2025/2026 from 3.07 trillion in the previous financial year 2024/2025. Further, the ordinary revenue is expected to increase from 2.58 trillion to 2.84 trillion in the FY 2024/2025.

Expenditure Projections

2.1.11. The overall expenditures and net lending are projected at Ksh.4,263.1 billion in FY 2025/26 from the projection of Ksh.3,978.3 billion in FY 2024/25.

2.1.12. The FY 2025/26 comprise: recurrent expenditure of Ksh.3,096.3 billion (16.1 percent of GDP); development expenditure of Ksh.725.1 billion (3.8 percent of GDP); transfers to County Governments of Ksh.436.7 billion and Contingency Fund of Ksh.5.0 billion, respectively.

2.2. Support for Devolution

Shareable revenue between National & County Governments for FY 2025/26

No.	Details	Approved Est. 2024/25	BPS 2025
1	NG	**2,300,525.7**	**2,562,004.9**
	Executive	2,237,155	2,493,766.9
	Parliament	40,865.5	42.488.2
	Judiciary	22,505.1	25,749.8
2	CFS-Consolidated Fund Services	1,237,233.8	1,368,994.9
3	County Government	387	405,069.4
	Total	**3,948,593.4**	**4,336,069.4**

2.2.1. The BPS reaffirms the Government's resolve to complete the transfer of all constitutionally earmarked functions to counties and ensure that resources are commensurate with the devolved mandates.

2.2.2. The BPS highlights ongoing reforms to help counties strengthen their revenue mobilisation through legal and policy frameworks (e.g., the National Rating Bill and model tariffs). CAF recommends expedited finalisation of these measures, coupled with capacity-building support for counties, to lessen reliance on national transfers.

2.2.3. We urge prompt exchequer releases to counties in line with the County Allocation of Revenue Act, to avert service-delivery disruptions occasioned by delayed disbursements.

3.0. CAF's Position on the Budget Policy Statement

3.1. National Government's Support for Devolution

The BPS reaffirms the National Government's commitment to devolution, including the transfer of all constitutionally devolved functions and adherence to the "funding-follows-functions" principle (Paragraph 127)

CAF Observations

3.1.1. Timely Disbursements: Delays in county fund disbursements persist due to revenue shortfalls (Paragraph 230, BPS). While the MTDMS projects a 7.9% increase in equitable share allocations (Table 6), this remains insufficient against rising county expenditure pressures, including healthcare, agriculture, and pending bills.

3.1.2. Function Transfer Framework: The lack of a clear timeline or budgetary provisions for transferring state-owned enterprises' devolved functions risks perpetuating duplication and underfunding.

Recommendations

a. Expedite the enactment of a legal framework to operationalize function transfers, ensuring alignment with County Governments' budgets.

b. Allocate conditional grants for Medical Equipment Services (MES) and County Aggregation Parks (CAIPs) to alleviate county fiscal strain.

3.2. Agricultural Transformation and Inclusive Growth

The BPS prioritizes maize production through subsidized fertilizer distribution and warehouse investments (Paragraphs 8–10).

CAF Observations

3.2.1. Overreliance on Maize: Limited focus on drought-resistant crops (e.g., sorghum, millet) contradicts climate resilience goals and marginalizes arid counties.

3.2.2. Agricultural Allocation: At 3.1% of ministerial expenditure (Annex Table 4, BPS), Kenya falls short of the Malabo Declaration's 10% target.

Recommendations

a. Diversify agricultural investments to include underfunded value chains (e.g., cassava, sorghum) and allocate 10% of public expenditure to agriculture.

b. Integrate climate-smart practices into subsidy programmes to enhance sustainability.

3.3. Health Sector

The Social Health Insurance Fund (SHIF) and Emergency, Chronic, and Critical Illness Fund (ECCIF) aim to universalize healthcare (Paragraph 119).

CAF Observations

3.3.1. County Burden: County Governments are required to contribute to SHIF and ECCIF without clarity on resource mobilization impacts (Table 6, BPS).

3.3.2. Inadequate Allocations: The Ksh.147.5 billion health budget lacks specificity on county shares, despite devolved responsibilities.

Recommendations

a. Clarify county financing mechanisms for SHIF/ECCIF and allocate direct grants to upgrade county health facilities.

b. Provide Ksh.10 billion for e-Community Health Information Systems (e-CHIS) rollout across all 47 counties

4.0. Division of Revenue for FY 2025/26

The equitable share for counties is set at **Ksh. 405.069 billion**, with **Ksh. 7.85 billion** for the Equalization Fund (Paragraphs 319 & 320). However, since **Ksh. 385.42 billion** was deemed 15% in FY 2023/24, the proposed amount may fall below the constitutional 15% threshold given updated audited revenues.

CAF Observations

4.1.1. Insufficient Allocation- The proposed share fails to address county expenditure pressures (pending bills, MES, CAIPs).

4.1.2. Roads Maintenance Levy Fund (RMLF)- Only 15% of RMLF (Ksh. 10.52 billion) is allocated to counties, contravening devolved road maintenance mandates.

Recommendations

a) **Increase the equitable share to Ksh. 430 billion** to align with county needs.

b) **Amend the RMLF Act** to allocate 30% of levies to counties and fast-track the National Rating Bill to enhance own-source revenue.

5.0. Pending Bills and fiscal accountability

As at 30th June 2024, counties reported accumulated pending bills amounting to **Ksh. 181.98 billion** (Paragraph 298).

5.1. The National Treasury has directed counties to clear outstanding bills, notably **Ksh. 4.375 billion** owed to KPLC.

5.2. As at 31st October 2024, pension pending bills owed to three pension schemes totaled **Ksh. 91.17 billion**, according to the Retirement Benefits Authority.

CAF Observations

1. **Asymmetry**-MDAs owe counties **Ksh. 239.8 million** in land rates (2023), yet there is no circular mandating these national entities to settle such arrears.
2. **Pension Liabilities**-Delayed settlement of pension bills endangers retirees' welfare and strains county liquidity.
3. **Late Disbursements**-Large volumes of county pending bills also stem from **delayed release of funds** by the National Government. These protracted disbursements negatively affect cash flow, forcing counties to defer payments to suppliers and service providers.

Recommendations

1. **Issue a Circular**-Require **MDAs** to clear debts owed to counties within FY 2025/26.
2. **Form a Joint Task Force**-Create a **national-county** task force to comprehensively audit and resolve pending bills, ensuring accountability and timeliness in settling financial obligations.
3. **Ensure Timely Disbursement**-Accelerate the release of county funds by the National Government to prevent the buildup of arrears and stabilize county cash flows.

6.0. Overview of the 2025 Medium-Term Debt Management Strategy

6.1. Debt Sustainability

Kenya's public debt remains high, with the debt-to-GDP ratio surpassing 65 percent, significantly above the 55±5 percent anchor. The MTDMS aims to stabilize this ratio by 2028 through tighter fiscal consolidation, prudent borrowing, and debt management operations.

The Forum is of the view that, relying predominantly on domestic borrowing elevates interest costs (currently around 5.4 percent of GDP). Prioritizing concessional external debt and exploring a sinking fund mechanism are suggested to mitigate mounting interest payments.

6.2. Gross Borrowing Mix

The MTDMS proposes a 25:75 external-to-domestic financing blend, phasing down short-term domestic debt and seeking largely concessional external loans.

Stakeholders encourage diversification of external funding to reduce currency risk. A Kenya-shilling-denominated diaspora bond can mobilise remittances more sustainably while protecting against excessive exchange rate exposure.

6.3. Liability Management Operations (LMOs)

The Treasury intends to restructure shorter-term, high-cost debts. While beneficial to reduce near-term liquidity pressure, CAF emphasises that any borrowing for devolved mandates should be negotiated in consultation with counties to ensure alignment with constitutional provisions and local priorities, particularly county assemblies where devolved functions could be impacted by new debt obligations.

7.0. Key Observations and Reccomendations

7.1. The Any borrowed funds intended for devolved functions must align with the principle of "funding-follows-functions." Counties and county assemblies must be involved in prioritising and monitoring such projects to ensure local ownership and avoid duplication.

7.2. Section 15(2)(c) of the PFMA strictly bars using borrowed funds for recurrent spending. Despite this legal requirement, recent reports indicate some borrowings still leak into operational costs. Clear protocols need to be enforced to align all new borrowings to development outlays with verifiable socio-economic impact.

7.3. Monthly or quarterly debt updates, alongside detailed annual reports, are crucial. These should be timely and comprehensive, disclosing the composition of the debt stock, repayment schedules, and the performance of debt-financed programmes.

7.4. Beyond Eurobonds, the Government can explore diaspora bonds or other market instruments denominated in local currency to mitigate exchange rate risks.

7.5. Periodic, timely public reporting on debt stock, project performance, and debt servicing schedules is crucial. County Assemblies, as custodians of local public finance oversight, seek inclusive consultations when new debt instruments impacting devolved functions are introduced.

Thank you.

Yours sincerely,

<u>HON. SETH KAMANZA</u>

CHAIRPERSON, LEGAL AFFAIRS SUB COMMITTEE, CAF

IPF

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Our Ref: IPF/CEO/02/03-2025

March 4th, 2025

Mr. J.M Nyegenye, CBS
Clerk of the Senate,
Parliament Building,
P.O Box 41842-00200,
NAIROBI, KENYA.

Dear Sir,

RE: MEMORANDUM ON THE 2025 MEDIUM TERM DEBT STRATEGY

The Institute of Public Finance (IPF) is an independent non-profit think tank that furthers the principles of public finance management through generation of Credible Evidence, Advocacy and Technical Assistance. IPF lauds the Public Debt and Privatization Committee of the National Assembly for creating a window for public participation on the 2025 Medium Term Debt Management Strategy (MTDS).

This aligns with the spirit and intention of the Constitution of Kenya 2010 to uphold participation in public finance management, as well as enables Parliament to leverage on insights from stakeholders such as IPF to inform the 2025 MTDS. Ultimately, this enhances transparency, accountability, effectiveness, and efficiency in the utilization of public resources.

Before we move to specific issues, the laid-out strategy uses June numbers which may not include debt dynamics between July and December 2024.

Our submission focuses on the following areas:

1. **Debt Period Provided in MTDS**

We note that the cut-off period for public debt data analyzed in the 2025 MTDS is June 2024.

IPF recommends the Committee requires the National Treasury to provide updated records up to December 2024 on public debt contracted. This will give a true picture of the debt status and will lead to more informed debt decisions.

2. **Report on State Owned Enterprises (SOEs) guaranteed Debt**

There is progressive improvement in debt reporting with the 2025 MTDS, including loan guarantees for three State Owned Enterprises namely Kenya Airways, Kenya Ports Authority and Kenya Power and Lighting

IPF

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Company, where Projects under each SOE and amount guaranteed has been included in (pg. 8 of MTDS). In the spirit of Sec 58 of the PFM Act 2012[1] and to enable Parliament to decide whether to approve draft loan guarantee documents or not, **IPF recommends that the reported guarantees should also include the duration of the guarantee, nature of the guarantee, and a risk assessment.**

3. Transparency and Accountability of the Annual Borrowing Plan

As prescribed under Section 63 (d) of the PFM Act, 2012, and Section 186 of PFM (National Government) Regulations, 2015, the MTDS requires the Public Debt Management Office (PDMO) to prepare domestic and external borrowing plans. The MTDS further requires these plans to indicate the expected disbursements by creditor, the disbursement period and currency of disbursement. However, there is no requirement to provide information as to the purpose of borrowing, more so for the short-term debts. Additionally, MTDS requires that the debt management reports be prepared and published regularly, but there have been notable delays and failures to publish these reports.

Whereas MTDS has defined the scope of the borrowing plans as per the legislation, it would be progressive to provide detailed information to enhance accountability.

IPF recommends the MTDS include a requirement that the annual borrowing plans indicate the investment to be funded by the borrowed funds. Specifically, any infrastructure bond procured should be able to identify infrastructure to be funded by the proceeds.

4. Debt Swaps and ESG Debt Instruments

The 2024 MTDS proposes debt swaps, environmental, social and governance (ESG) debt instruments to fund the budget deficit for the FY2025/26. While these swaps and instruments have been successful in other countries, it is not a bullet solution.

IPF recommends that full disclosure of this type of financing is made, including but not limited to community displacements and risks associated with them.

5. Incoherence between BPS and MTDS

MTDS 2025 proposes a net borrowing mix of 35:65, external to domestic borrowing, to finance a fiscal deficit of Ksh 831 billion as highlighted in the BPS. However, the BPS 2025 proposes the same net borrowing ratio

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to be 18:82, external to domestic. The two documents do not speak to each other, and this would be a problem when it comes to fiscal deficit financing.

The misalignment in the fiscal deficit strategy could create uncertainty in debt planning and market expectations. Additionally, as part of the risk assessment, it is worth considering that missed macroeconomic projections such as GDP growth and revenue projections could further exacerbate fiscal stress, affecting revenue performance and increasing borrowing needs. The PDMO should integrate these risks into the MTDS to enhance fiscal sustainability.

IPF therefore recommends that the two documents (BPS and MTDS) should have a similar proposal to ensure coherence and prudence in borrowing.

The Medium-Term Debt Strategy (MTDS) is designed to provide an optimal framework for borrowing, aiming to ensure the sustainability of national debt. However, this strategy is often not adequately reflected in the Budget Policy Statement (BPS), which results in increased borrowing and deviations from the intended debt management plan.

Consequently, the government increasingly relies on domestic borrowing, which comes with higher interest rates and contributes to the crowding out of private sector investment. Furthermore, the frequent implementation of supplementary budgets worsens the situation by introducing additional expenditures without sufficient public consultation or ensuring that matching revenue sources are identified.

This leads to further borrowing to cover the resulting financing gaps, further escalating the overall debt burden. **To address these issues,** the MTDS must be fully integrated into the BPS to guide borrowing decisions more effectively. The government should also aim to reduce the frequency of supplementary budgets by ensuring more thorough planning and forecasting in the primary budget.

Sincerely,

James Muraguri
Chief Executive Officer
Institute of Public Finance
jmuraguri@ipfglobal.or.ke

Institute of
Economic Affairs

COMMENTS ON 2025 BUDGET POLICY STATEMENT FOR THE MTEF 2025/26 – 2027/28 BUDGET

1.0 Strengthening Devolution

The transfer of county functions from the National Government was gazetted and unbundling of the functions from the National Government was done by the Inter-Governmental Relations Technical Committee (IGRTC), the agency mandated to establish frameworks for consultation and cooperation between the two levels of government. This activity was concluded during the 11th National and County Governments Coordinating Summit in the month of December 2024. The implication is that the necessary funds should accompany functions.

The BPS 2025 projects that the equitable share due to county governments for all revenue raised nationally will increase nominally from Ksh. 380 billion in FY 2024/25 to Ksh. 405.1 billion (6.6% increase) in FY 2025/26 and Ksh. 416.9 billion in FY 2026/27. Table 3.0 shows a summary of budget allocations to both levels of government. The allocation over the medium shows that the projected increase in national government spending will be an average increase of 19.5% while the County Government will have an average increase of only 6.6%. In addition, the share of spending for the county government compared with total spending shows declining trend from 10.4% in FY 2024/2025 to projected figure of 8.2% in FY 2027/28.

Table 1.0: Summary Budget Allocations for the FY2025/26 – 2027/28 (Ksh Million)

S/NO.	Details	Financial Years			
		Supplementary Estimates No.1	BPS Projections		
		FY 2024/25	FY 2025/26	FY 2026/27	FY 2027/28
1.0	National Government	2,300,525.7	2,749,514.0	2,886,887.2	3,194,632.9
	Executive	2,237,155.0	2,681,396.1	2,814,008.4	3,116,725.6
	Parliament	40,865.5	42,488.2	44,612.7	46,087.8
	Judiciary	22,505.1	25,629.8	28,266.0	31,819.5
2.0	Consolidated Fund Services	1,237,233.8	1,331,132.6	1,465,935.8	1,616,667.9
3.0	County Government- Sharable Revenue	410,834.0	405,069.4	416,992.2	429,377.2
	Sharable Revenue	380,000.0	405,069.4	416,992.2	429,377.2
	Arrears	30,834.0			
	Total	**3,948,593.4**	**4,485,716.0**	**4,769,815.2**	**5,240,678.1**
% Share in the Total Allocation					
1.0	**National Government**	58.3	61.3	60.5	61.0
	Executive	56.7	59.8	59.0	59.5
	Parliament	1.0	0.9	0.9	0.9
	Judiciary	0.6	0.6	0.6	0.6
		-	-	-	-
2.0	Consolidated Fund Services	31.3	29.7	30.7	30.8
3.0	County Government	10.4	9.0	8.7	8.2

*Notes****
** Consolidated Fund Services(CFS)is composed of domestic interest, foreign interest and pension& salaries for State Officers*
***County Government allocation is composed of sharable allocation*
**** FY 2024/25 Supplementary Estimates includes Ksh.67.8billion proposed under Supplementary Estimates No.2*

Source of Data: The National Treasury

BPS 2025 also reveals a gradual decline in percentage share of county allocation to the total national government spending declining from 10.4% to 8.7% in FY 2024/25 and FY 2027/28 whereas national government has somewhat maintained. This is despite the fact the national government has been in adherence to the constitutional threshold of transferring at least 15% of resources to the counties based on the most recent audited government revenue accounts. **Given the forgoing on the transfer of further functions to the counties, it's imperative for the national government to ensure balanced spending for the both the National and County Government. It is imperative for the Senate through the standing committee on finance and budget to ensure and push for more timely completion of the discussions and conclusions of the audit reports in order to synchronize the completion with annual budgeting cycle and thereby ensure that the calculation of 15% quantum is meaningful. This will address the decline in share of spending relative transfers to the counties.**

2.0 Estimation of the Ordinary Revenue

The International Monetary Fund (IMF)[1] noted in its sixth review of Kenya Extended Fund Facility/Extended Credit Facility Program (EFF/ECF) that Kenya economic outlook remain promising with projected growth of 5.5 percent in 2024 and the medium term supported by prudent fiscal and monetary policies. Nevertheless, Kenya Treasury has a history of overestimating the amount of revenue to be collected each year despite having clear tax reforms measures and a promising economic outlook. This raises concern of optimism on revenue projections when preparing annual National budgets.

Table 2.0 shows a comparison of revenue projections made a year prior to 2025 indicating there has been significant revenue forecasting errors albeit the year 2024 risk of court challenge to the finance bill which posed an additional risk for achieving the revenue targets. Revenue projection as shown in the BPS report for 2025 shows that an amount of Ksh 3,424 billion was the target amount against previous year 2024 BPS projection of Ksh 3,775.7 billion creating a difference of Ksh 275 billion. There is need for the National Treasury to continue improving accuracy in revenue forecasting as revenue shortfalls often leads budget revisions and implications on intergovernmental transfers.

Table 2.0: Comparison of Ordinary Revenue projections between BPS 2025 and BPS 2026

BPS 2025 report	2022/23	2023/24	2024/25	2025/26	2026/27
	2,041.1	2,288.9	2,641.4	3,018.8	3,424.7

BPS 2024 report	2022/23	2023/24	2024/25	2025/26	2025/26
	2,041.1	2,624.6	2,948.1	3,294.2	3,775.7

Differences in BPS 2024 and BPS 2025	0	(335.7)	(306.7)	(275.2)	(351.0)

[1] https://www.treasury.go.ke/wp-content/uploads/2024/02/IMF-Sixth-Review-2024.pdf

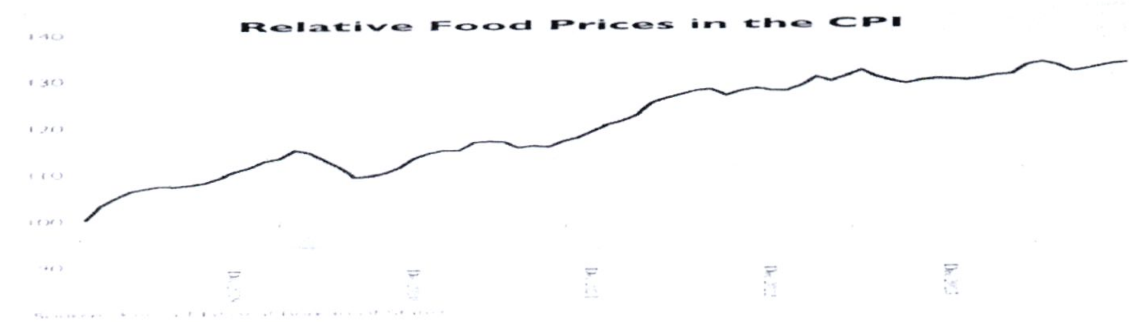
Source: *BPS 2024 and BPS 2025*

The ordinary revenue projection for FY 2025/26 is Ksh3.02 trillion, which represents a 14 percent increase relative to FY 2024/25 projected revenue collection. Despite expected enhanced revenue collection resulting from raft of proposals in the finance bill and implementation of a mix of tax administrative and tax policy measures in order to boost revenue collection efforts by the Kenya Revenue Authority (KRA),Collecting Ksh 4.0 trillion in revenue as indicated in the BPS 2025 may be unattainable. **It is therefore important for the government to endeavor on enhancing the accuracy of the revenue forecast in order to achieve realistic budget deficits.** As a result, the IEA Kenya notes that implementation of the Bottom-Up Transformation Agenda[2] of the new administration may face headwinds thus affecting economic activity in the second half of FY 2024/25. Given that revenue performance is correlated to economic performance, dampened economic activity may adversely affect realization of anticipated revenue collection.

3.0 Enhance Household Resilience, Boost Demand, and Contribute to More Balanced Inflation Path by Preventing Excessive Deflationary Pressures on Non-Food Items

Food inflation decreased to 4.8% in December 2024 from 7.7% in December 2023, underscoring the role of supply-side interventions in price stabilization. This decline was attributed to government-led fertilizer subsidy programs enhancing agricultural productivity, favorable climatic conditions boosting domestic food supply, and global food price moderation easing imported inflation pressures. While vegetable prices increased slightly, non-vegetable food items showed notable price declines, suggesting asymmetric price adjustments across food categories. However, it is notable that relative food prices remain 30% higher than non-food prices, despite the decrease in overall inflation. This discrepancy highlights that food costs remain a major burden for households, particularly low-income groups, exacerbating economic hardship. With relative food prices rising significantly, households are likely shifting spending patterns within food categories, favoring items with lower relative price increases. This behavioral shift should be reflected in periodic revisions to the CPI weights to accurately capture consumer expenditure adjustments.

Chart 1.0: Relative Food Prices in the CPI



Source of Data: Kenya National Bureau of Statistics

[2] Entails 5 pillars: Agricultural transformation; micro, small and medium enterprises (MSMEs) economy; housing and settlement; healthcare and digital superhighway and creative industry

Muted demand remains a key risk to economic recovery. A significant portion of household expenditure is directed toward food, limiting discretionary spending on non-food items and further suppressing inflation in that category. This persistent weak demand points to underlying economic distress, particularly among low-income households, who face rising relative food prices while struggling to afford the non-food items. Given these conditions, expanding social protection programs targeted at the most vulnerable sections of the population is necessary. **Such interventions will enhance household resilience, boost demand, and contribute to a more balanced inflation path by preventing excessive deflationary pressures on non-food items. Moving forward, the policy focus should include supporting private investment growth, ensuring a balanced monetary policy approach, and supporting social protection programs to curb economic vulnerabilities.**

4.0 Improve on Government Fiscal Operations

Table 4.0: Trends in Government Revenue and Expenditure FY 2022/23 – 2025/26 (Ksh Billion)

	2022/23	2023/24	2024/25		2025/26	
	Actual	Actual	Budget Estimates	Suppl 1 Budget	BROP 2024	BPS 2025
Total Revenue	2,355.1	2,702.7	3,343.2	3,0660.0	3,516.6	3,516.6
Ministerial Appropriation in Aid	313.9	413.7	426.0	428.6	497.8	497.8
Expenditure and Net lending	3,221.0	3,605.2	3,992.0	3,880.8	4,329.3	4,329.3
Development and Net lending	493.7	546.4	701.5	599.5	804.7	804.7
County Transfers	415.8	380.4	444.5	451.1	442.7	442.7
Contingency Fund	0	0	4	5	5	5
Fiscal balance (excluding grants)	**-865.9**	**-902.5**	**-648.8**	**-820.9**	**-812.7**	**-812.7**

Source: *National Treasury*

The fiscal deficit is projected to decline by 8.2% from Ksh 820.9 billion in the 2024/25 Supplementary 1 Budget to Ksh 812.7 billion. However, this projection is subject to change due to the following factors :

- Global Economic Risks: Recent executive orders issued by the new administration in the United States, which include a temporary freeze and potential reduction of foreign aid could significantly impact sectors reliant on external funding, particularly the health sector.
- Domestic Economic Slowdown: Economic growth slowed to 4.5% in the first three quarters of 2024, down from an average of 5.6% in the same period in 2023. If this trend continues, the government may face challenges in meeting its revenue targets, increasing the risk of fiscal slippage.

These factors underscore the need for proactive mitigation strategies to safeguard macroeconomic stability.

The IEA-Kenya proposes that the Senate through the standing committee on finance and budget should inform parliament of the need to combined policy action with the aim of

ensuring treasury use sensible revenue mobilization measures and targets and to improve efficiency of spending in order to build adequate fiscal space. By strictly adhering to the measures outlined in the Budget Policy Statement and reinforced by parliamentary resolution, the government can achieve its fiscal consolidation objectives.

The policy actions include:

- Public-Private partnerships (PPP) – attracting private sector investment in public projects through transparent and cost-effective design of projects and rationalization of parastatals informed by OAG and OCoB reports on reduction on wastages.
- Adopting accrual-based accounting for improved financial management.
- Implementing the e-procurement to enhance value for money
- Operationalizing the assets and inventory management modules in IFMIS to track and optimize asset utilization.

5.0 Gender Responsive Budgeting

(For more information on GRB Analysis: https://ieakenya.or.ke/?wpdmdl=3530)

- ***Budget transparency and comprehensive budget information and budget code for Gender***

The **standing committee on finance and budget** committee should compel the National Treasury to improve details of budget information by not only providing disaggregated information on government programmes on women's economic initiatives but explicit gender budget codes to facilitate budget analysis and tracking. This should be provided through the chart of accounts for standardization in order to facilitate comparative analysis.

- ***Prioritization of domestic resource mobilization to address donor dependency and enhance sustainability in the health and education sectors programmes that target women's initiatives***

Education and Health sector have programmes on women initiatives that are donor funded. This programme includes sanitary provision and distribution; training on health and WASH access and utilization; initiatives toward community led total sanitation; procurement and distribution of family planning commodities and procurement and distribution of critical HIV commodities for prevention, treatment and care. Kenya is experiencing donor funding reduction or cessation of funding of public health programmes with Withdrawal of donor funding e.g. (USAID) under the Afya Elimu Fund in the health sector and Kenya being classified as a low middle income country on the road to self-reliance will affect many donors funded programs especially commodities for TB, HIV, Malaria and RMNCAH which the Government is expected to fund from domestic resources. Unavailability of the full budget on this programmes focusing on women's initiatives will lead to reversal of gains made which then calls for the national government to increase government support in terms of domestic funding in the health and education.

COMMENTS ON 2025 MEDIUM TERM DEBT MANAGEMENT STRATEGY

1.0 Kenya's Poor Credit Rating Persists Amidst Rising Refinancing Risks of the Public Debt

On 24 January 2025, Moody's revised Kenya's outlook from 'negative' to 'positive' but reaffirmed its Caa1 rating, citing a potential ease in liquidity risks and improving debt affordability over time[3]. However, it should be noted that given the overall low grade of the credit rating at **Caa1** by the Moodys"[1], Kenya's credit worthiness is still poor. This means the high external borrowing costs are likely to persist given that, as per the Budget Policy Statement (BPS), the government still aims to borrow from the domestic market to finance the large fiscal deficit projected at Ksh 812 billion (4.2% of GDP) out of which Ksh 546 billion (2.8% of GDP) is to be financed through domestic borrowing. **The IEA-Kenya notes that the standing committee on finance and budget should have a proper metric on the primary balance because its an indicator of current fiscal effort, since interest payments are predetermined by the size of previous deficits. Given long growth underperformance in Kenya—derived in significant part from earlier deviations of primary balances from the target band (As shown by IEA-Kenya analysis And Then,Floods....)—the pre-program targets are set to continue that underperformance by undershooting best practice, while those in the program go well beyond what can be justified by such growth optimization.**

It has also been noted with concern that the refinancing risks will persist due to the high debt servicing charges projected at Ksh 2 trillion (68% of the revenue from ordinary taxes and equivalent to 11.4% of GDP), emphasizing the need for expenditure rationalization. This is illustrated in Table 1.0

Table 3.0 : Projected Kenya's Interest and Redemption on Domestic and External Debt

Ksh Billion

	2024/25	2025/26 Estimates
Interest		
External	260	264
Domestic	750	771
Total	1,010	1,035
Redemption		
External	513	519
Domestic	331	500
Total	843	1,020
GRAND TOTAL	**1,853**	**2,055**

as a share of GDP

	2024/25	2025/26 Estimates
Interest		
External	1.5%	1.5%
Domestic	4.3%	4.3%
Total	5.8%	5.7%
Redemption		
External	2.9%	2.9%
Domestic	1.9%	2.8%
Total	4.8%	5.6%
GRAND TOTAL	**10.6%**	**11.4%**

Source of Data: The National Treasury \ Budget Estimates and Budget Policy Statement

The increase in the debt servicing charges is as result of accumulation of debt and increase in the interest rate due to the lagged effect of the tight monetary policy stance by CBK over the last year aimed at containing inflation. Adverse shocks emanating from a tight monetary policy contributed to slowed growth in credit to the private sector.

IEA-Kenya recommends for Prudent fiscal management such as cutting on wastage and effort to negotiate for lower interest rates and longer grace periods on loans should be emphasized in the fiscal consolidation framework.

2.0 Deficit Financing Strategy (FY 2025/26-2027/28)

The 2025 Medium Term Debt Management Strategy (MTDS) indicates that MTDS analytical tool has guided net borrowing mix of 65 percent and 35 percent from domestic and external sources respectively and this will help optimize costs and risks of financing the fiscal deficits for the MTDS period 2025-2028.The draft MTDS 2025 (Table 5) show that, while overall strategy was to minimize costs and risks through a net financing mix of 50 per cent from both external and domestic sources, 23% more finance was borrowed domestically due to restricted availability of outside funding resulting to uptake of more domestic sources. **Following this trend, the IEA -Kenya notes that its important for senate through Senate standing committee on finance and budget to urge the National treasury to diversify borrowing sources, prioritizing concessional financing and focus on domestic debt market while concern remain high domestic costs and interest rates. There is also need for robust fiscal consolidation measures by the national treasury to ensure debt sustainability.**

NB: More information on the shared key points can be accessed via this link to the main document: https://ieakenya.or.ke/?wpdmdl=3569

Submitted to: The Clerk of the Senate

Date: 4/03/2025
From: Ronyo Kelvin

Introduction

This memorandum presents critical concerns and strong proposals regarding Kenya's **2025 Budget Policy Statement** and **2025 Medium-Term Debt Management Strategy**. The country is currently facing serious economic challenges, including **unsustainable public debt, high unemployment, excessive taxation, poor healthcare and education systems, mismanagement of public funds, corruption, ghost workers, lack of government accountability, and wasteful government spending**. These issues must be urgently addressed to ensure sustainable economic growth, better service delivery, and financial relief for ordinary Kenyans.

Key Concerns

Submitted to: The Clerk of the Senate

Date:

4/03/2025

From: Ronyo Kelvin

Introduction

This memorandum presents critical concerns and strong proposals regarding Kenya's **2025 Budget Policy Statement** and **2025 Medium-Term Debt Management Strategy**. The country is currently facing serious economic challenges, including **unsustainable public debt, high unemployment, excessive taxation, poor healthcare and education systems, mismanagement of public funds, corruption, ghost workers, lack of government accountability, and wasteful government spending**. These issues must be urgently addressed to ensure sustainable economic growth, better service delivery, and financial relief for ordinary Kenyans.

Key Concerns

1. **High Public Debt and Unsustainable Borrowing**
   - A large percentage of revenue is going toward debt servicing instead of development.
   - Continued borrowing without proper utilization of funds.
   - Poor negotiation of loan terms leading to expensive debt burdens.
2. **High Unemployment and Economic Hardship**
   - Millions of Kenyan youths remain jobless despite having qualifications.

- Government policies have not stimulated job creation in key industries like manufacturing, agriculture, and technology.

3. **Excessive Taxation and Burden on Citizens**
    - Rising taxation (e.g., VAT increases and new levies) is making life unaffordable.
    - Illegal deductions from government workers' salaries to fund the **Affordable Housing Project.**
    - High fuel prices, PAYE, and corporate taxes are discouraging investment and growth.
4. **Poor Healthcare System**
    - The **Social Health Insurance Fund (SHIF/SHA)** is poorly structured and should be abolished.
    - **NHIF should be reinstated**, but with strong reforms to eliminate corruption and inefficiencies.
    - Public hospitals lack essential medicines and equipment.
5. **Unaffordable and Poor-Quality Education**
    - The **new university funding model should be abolished** because it increases the financial burden on students.
    - The Competency-Based Curriculum (CBC) is not well implemented and lacks proper funding.
6. **Mismanagement of Public Funds and Corruption**
    - Budgetary allocations do not reach intended projects due to corruption.
    - Ghost workers continue to drain public resources.
    - Fake contracts and inflated tenders are used to embezzle public funds.
    - **Politicians should be legally prohibited from receiving government tenders.**
7. **Wasteful Government Spending**
    - **The Affordable Housing Project should be abolished** as it is a misallocation of funds.
    - **Bursaries should no longer be allocated to MPs, governors, or the president** to prevent misuse.
    - Foreign travel by government officials should be **reduced by 50% unless absolutely necessary**.

- The **creation of the Prime Minister's office should be stopped** to avoid additional government expenditure.
- The **State House budget should be reduced by 50%** to curb unnecessary spending.
- The number of **protection details for all elected leaders, including the president, should be reduced**.

8. **Overstaffing and Inefficiencies in Government**
    - **All Principal Secretaries (PSs) should be removed** as they are a waste of public funds.
    - The **number of Cabinet Secretaries (CSs) should be reduced to 8**, with strict qualifications based on expertise.
    - A **Government Efficiency Department** should be created, **fully independent and led by elite professionals**from the business sector, ensuring that only the best and most qualified individuals drive policy implementation.

Proposed Solutions

1. **Debt Management and Fiscal Discipline**
    - Establish strict debt ceilings to prevent excessive borrowing.
    - Renegotiate expensive debts and prioritize concessional loans over commercial loans.
    - Enhance transparency in loan agreements and ensure public participation in debt decisions.
2. **Job Creation and Economic Growth**
    - Introduce incentives for local industries to create employment.
    - Invest in youth entrepreneurship programs and provide tax holidays for startups.
    - Revamp the agricultural sector to create jobs and enhance food security.
3. **Tax Reform and Relief for Citizens**
    - Reduce VAT and introduce tax breaks for small businesses.
    - Lower income tax for middle-class earners to increase disposable income.
    - Remove the **Affordable Housing Tax Deduction** and ensure that salaries remain untouched.

4. **Healthcare Sector Reforms**
   - **Abolish SHIF/SHA and reinstate NHIF with strict reforms** to eliminate corruption.
   - Increase budgetary allocation to public hospitals to improve services.
   - Strengthen NHIF to provide universal healthcare for all Kenyans.
5. **Education Sector Improvements**
   - **Abolish the new university funding model** and reinstate affordable higher education.
   - Allocate more resources to improve learning infrastructure.
   - Fully fund CBC to make it accessible and beneficial.
6. **Anti-Corruption and Accountability Measures**
   - **Prohibit politicians from receiving government tenders to eliminate conflicts of interest.**
   - Strengthen the Ethics and Anti-Corruption Commission (EACC) to prosecute corrupt officials.
   - Introduce a **public digital portal for tracking government expenditures.**
   - Enforce strict penalties for those misappropriating public funds.
7. **Restructuring Government for Efficiency**
   - **Reduce the number of CSs to 8**, each chosen based on expertise in their field.
   - **Abolish the PS positions** to reduce redundancy and save public funds.
   - **Establish an independent Government Efficiency Department**, led by top professionals from the private sector.
   - **Reduce government protection details**, including for the president, to cut costs.
   - **Reduce foreign travel by 50% for all government officials unless absolutely necessary.**

Conclusion

The **2025 Budget Policy Statement and the Medium-Term Debt Management Strategy** should prioritize reducing government wastage, abolishing unnecessary taxation, restoring efficiency in service delivery, and implementing strict accountability measures. The recommendations outlined in this memorandum will help **restore economic stability, reduce the cost of living, and build public trust in government policies**.

Submitted by:
Ronyo Kelvin/ Nile Group
GenZs and millennial Chief of staff

Annex 3- Public Advert

REPUBLIC OF KENYA

THIRTEENTH PARLIAMENT | FOURTH SESSION (2025)

THE SENATE

INVITATION FOR SUBMISSION OF MEMORANDA

Pursuant to sections 25(2) and 33(1) of the Public Finance Management Act, Cap. 412A, the Cabinet Secretary for the National Treasury and Economic Planning submitted the **2025 Budget Policy Statement** and the **2025 Medium Term Debt Management Strategy** for consideration and approval.

The **2025 Budget Policy Statement** and the **2025 Medium Term Debt Management Strategy** were tabled in the Senate on Thursday, 13th February, 2025 and consequently referred to the Standing Committee on Finance and Budget for consideration and facilitation of public participation.

The **2025 Budget Policy Statement** sets out the broad strategic priorities and policy goals that will guide the national government and county governments in preparing their budgets for Financial Year 2025/2026 and over the medium-term.

The **2025 Medium-Term Debt Management Strategy** outlines the strategies and initiatives that will inform Government borrowing, minimize costs and risks of the current public debt portfolio.

In compliance with the provisions of Article 118(1)(b) of the Constitution and standing order 186(6) of the Senate Standing Orders, the Committee now invites interested members of the public to submit any representations that they may have on **2025 Budget Policy Statement** and **2025 Medium-Term Debt Management Strategy** by way of written memoranda.

The memoranda may be submitted to the Clerk of the Senate, P.O. Box 41842-00100, Nairobi, hand-delivered to the Office of the Clerk of the Senate, Main Parliament Buildings, Nairobi or emailed to clerk.senate@parliament.go.ke and copied to financebudgetcomm.senate@parliament.go.ke, to be received on or before **Tuesday, 4th March, 2025 at 5.00 p.m**.

The **2025 Budget Policy Statement** and **2025 Medium-Term Debt Management Strategy** may be accessed on the Parliament website at http://www.parliament.go.ke/the-senate/house-business/papers-laid.

J.M. NYEGENYE, CBS,
CLERK OF THE SENATE.