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THE NATIONAL ASSEMBLY

THIRTEENTH PARLIAMENT (THIRD SESSION) - 2024

PUBLIC DEBT AND PRIVATIZATION COMMITTEE

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# REPORT ON THE EXPENDITURES OF THE CONSOLIDATED FUND SERVICES FOR THE SUPPLEMENTARY ESTIMATES (NO. 1) FOR FY 2024/25

THE NATIONAL ASSEMBLY
PAPERS LAID
DATE: 24 JUL 2024
DAY. Wednesday
TABLED BY: Chair, Public debt & Privatization committee Hon. Abdi Shune, MP
CLERK-AT THE-TABLE: Moses Lomale

JULY 2024

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## LIST OF ACRONYMS & ABBREVIATIONS

| | |
|---|---|
| **ABP** | Annual Borrowing Plan |
| **CBK** | Central Bank of Kenya |
| **CFS** | Consolidated Fund Services |
| **GDP** | Gross Domestic Product |
| **MTDS** | Medium-Term Debt Management Strategy |
| **TSA** | Treasury Single Account |

## ANNEXURES

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## CHAIRPERSON'S FOREWORD

The Supplementary Estimates (No. 1) for FY 2024/25 were submitted to the National Assembly on Friday, 12th of July 2024 for consideration, pursuant to Article 223 of the Constitution and Section 44 of the PFM Act, 2012. According to the estimates, the Consolidated Fund Services (CFS) expenditures which contain mandatory expenditures that are a direct charge to the Consolidated Fund, will increase by Kshs. 23.78 billion to Kshs. 2.08 trillion and will remain the largest expenditure of the government.

The change is attributed the increase in pension expenditures related to a) ordinary pensions by Kshs. 5.7 billion, b) Commuted pensions by Kshs. 15.5 billion and the Public Service Superannuation Scheme by Kshs. 2.57 billion. The increase in pension expenditures underscores the importance of policy measures aimed at pension reforms and efficient resource allocation to manage the fiscal pressures stemming from rising pension liabilities. There were no changes to the debt servicing expenditures which will remain at Kshs. 1.85 trillion and account for 89 percent of total CFS expenditures.

Despite being the largest expenditure component, the Committee continues to observe the lack of regulatory parameters for these expenditures, especially with the growing risk that they cause to the sustainability of the fiscal framework. It is estimated that the liquidity pressures this fiscal year will be acute given the lack of additional revenue-raising measures and the increase in mandatory expenditures. This therefore calls for prudent cash management.

According to submissions received, the fiscal framework underpinning the Supplementary Estimates increases the fiscal deficit by Kshs. 164 billion, from Kshs. 597 billion (or 3.3 percent of GDP) to Kshs. 761 billion (4.2 percent of GDP) due to a larger reduction of revenues (by Kshs. 285.8 billion) and Kshs. 121.8 billion reductions in total expenditures and net lending. The resultant fiscal deficit will therefore increase the public debt stock and will be financed by additional borrowing and in particular, an increase in net domestic borrowing worth Kshs. 141.4 billion and net foreign financing worth Kshs. 22.6 billion. Overall, the supplementary budget does not provide any policy solution to reducing the accumulation of public stock of debt.

Furthermore, the Committee also observed that the fiscal framework shows a disproportionate reduction in development expenditures (by Kshs. 122.4 billion) compared to recurrent expenditures (Kshs. 10.3 billion). It was noted that this imbalance in resource rationalization could result in resource allocation that could impede capital formation, which is crucial for GDP growth and as a consequence affect the ability to service long-term debt. Given the rising public debt stock and associated risks, it is imperative to establish an expenditure prioritization mechanism to enhance long-term debt repayment capacity.

## Examination of the Consolidated Fund Service Expenditures (CFS), Supplementary Estimates (No. 1) for FY 2024/25

The Committee has examined the proposed changes to the Consolidated Fund Services (CFS) Expenditures in line with its mandate and has prepared this report for consideration by this House. In reviewing the CFS expenditures, the Committee held 3 sittings during which, it held productive deliberations with the National Treasury.

## Key Recommendations

Arising from these consultative engagements, the Committee recommends that:

i. Within thirty (30) days of the adoption of this report, the National Treasury drafts the FY 2024/25 Annual Borrowing Plan pursuant to Section 63(d) PFM, Act 2012 and Regulation 186 of PFM (National Government) Regulation, 2015 and submits the plan to the National Assembly. The plan should also be published on the National Treasury website for transparency purposes.

ii. The National Treasury develops an expenditure prioritization mechanism before the issuance of the FY 2025/26 Budget Circular to increase resources towards capital development by 100 percent over the medium term and target capital projects with greater impact on capital formation and GDP growth to improve the country's long-term debt repayment capacity.

iii. To ensure a smooth transition from cash-based accounting to accrual-based accounting the National Treasury should:

   a. Create a detailed and time-bound transition plan for ensuring that the transition from cash accounting to accrual accounting is completed by the end of FY 2024/25; and

   b. Provide quarterly updates to the National Assembly and other relevant stakeholders on the progress of the transition to ensure accountability and transparency.

iv. To expedite the establishment of the Treasury Single Account (TSA) required to mitigate liquidity risks and ensure timely implementation of Cabinet and House Resolutions, the National Treasury should:

   a. Ensure that the Treasury Single Account (TSA) is established and fully operational by the end of FY 2024/25 and submit a progress report to the National Assembly by 31st December, 2024; and

   b. Conduct awareness campaigns within government entities to highlight the benefits of the TSA and ensure smooth adoption.

v. The National Treasury diversifies the fiscal deficit financing strategy by enhancing the use of grants from development partners and decreasing reliance on borrowing.

vi. The National Treasury reduces the volume of carryovers by ensuring that pension payments are made promptly, thereby providing consistent financial support to retired civil servants and their dependents.

vii. To enhance transparency in the management of pensions in Kenya, the National Treasury publishes the following reports:

a. Quarterly reports on the management of the country's pension. These reports should be published and submitted to the National Assembly at least thirty (30) days after the end of each quarter;

b. Medium-Term Pensions Management Strategy. This strategy should be published submitted to the National Assembly by the 15th of February each year; and

c. Annual Pension Management Report. This report should be published and submitted to the National Assembly within two (2) months of the end of each financial year.

## ACKNOWLEDGEMENTS

The Committee extends its gratitude to the Office of the Speaker of the National Assembly and the Office of the Clerk of the National Assembly, for the support extended in fulfilling its mandate of reviewing the expenditures of the Consolidated Fund Services under the Supplementary Estimates (No. 1) for FY 2024/25. Sincere gratitude is also extended to the National Treasury for honouring the invitation and providing critical information.

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

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

**SIGNED**

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

24th July 2024
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**DATE**

## PREFACE

### a) Establishment and Mandate of the Committee

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

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

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

### b) Membership of the Committee

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### c) Committee Secretariat

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

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

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

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

Ms. Audrey Ogutu
**Legal Counsel II**

Mr. Edwin Gathogo
**Research Officer III**

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

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

Mr. George Mbaluka
**Office Assistant**

Mr. Eugene Luteshi
**Audio Assistant**

### d) Parliamentary Budget Office

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

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

Mr. Robert Nyaga
**Ag. Senior Deputy Director**

Ms. Julie Mwithiga
**Senior Fiscal Analyst**

## 1. INTRODUCTION

1. The Supplementary Estimates (No. 1) for FY 2024/25 were submitted to the National Assembly on Friday, 12th of July 2024 for consideration pursuant to Article 223 of the Constitution and Section 44 of the PFM Act, 2012. These estimates of expenditure seek to rationalize the approved budget estimates for FY 2024/25 to: a) align with the revised fiscal framework and b) realign the approved budget to cater for FY 2023/24 carryovers.
2. The Consolidated Fund Service (CFS) Expenditures constitute mandatory expenditures that are a direct charge to the Consolidated Fund and include: public debt servicing expenditures, pension payments, salary and allowances for independent offices and constitutional commissions, among other expenditures. Subsequently, the Public Debt and Privatization Committee examined the estimates of the Consolidated Fund Service (CFS) Expenditures in accordance with the National Assembly Standing Orders (S.O. 207A-1(c)), and table its report to the National Assembly (S.O. 207A(4)).
3. Under the Supplementary Estimates, the total CFS expenditures are estimated to increase by Kshs. 23.78 billion to Kshs. 2.08 trillion and as such, they will remain the largest expenditure component of government. The increase in CFS expenditures is attributed to increases in pensions expenditures only and there are no changes effected on debt service expenditures and other expenditures.
4. The projected increase in Consolidated Fund Services (CFS) expenditures for FY 2024/25 highlights a significant increase in liquidity constraints. Given that CFS expenditures include mandatory obligations, their increase, when combined with reduced projected revenues in FY 2024/25 indicates an elevated liquidity risk exposure for FY 2024/25. The Committee further noted that this risk is exacerbated by the involvement of pension liabilities that are long-term commitments and necessitate precise forecasting and management at the beginning of the fiscal year in order to mitigate against shocks, risks, and costs. Furthermore, this requires Structural reforms in fiscal policy and expenditure management to the align overall resource base in light of the fiscal impact of mandatory expenditures.

### 1.1. Macroeconomic Environment (June – July 2024)

5. One month into FY 2024/25, downside risks to economic growth emerged due to uncertainty from social unrest related to the proposed revenue-raising measures in the 2024 Finance Bill. The impact of this will depend on several factors: the effect of social unrest on private investment, the resilience of key sectors driving economic growth, the ability of public investment to spur economic growth without additional revenue measures, and the progress of ongoing public service sector reforms. Additionally, the insurance sector is expected to see increased claims during FY 2024/25, potentially affecting profitability.
6. Thus far, the macroeconomic indicators continue to remain stable. This is indicated by:
   a) Inflation rate: The annual headline inflation rate was 4.6 percent in June 2024, having declined from 5 percent in May 2024 and lower than 7.9 percent as

observed in June 2023. The inflation rate therefore remains within the Central Bank of Kenya's target range of 5 percent (± 2.5 percent) and marks the lowest level since June 2020. The decline is attributed to lower food, fuel inflation, and exchange rate stability.

b) Exchange rates: Between June to July 2024, the Kenya Shilling remained stable against regional currencies, and the US dollar (appreciated from 129.7 to 129.6 between June and July 2024) depreciated against the Euro (from 138.6 to 139.2 between June and July 2024) and Sterling Pound (from 163.7 to 164.7 between June and July 2024). This provided a predictable and stable environment for public debt service expenditures.

c) Interest rates: the yield for the 10-year Eurobond benchmark bond declined from 10.39 percent as of the end of June 2024 to 9.93 percent as of 15th July 2024 thus creating a stable environment for external borrowing. The domestic interest showed marginal increases between the end of June and mid-July 2024 and reached 91 T-Bill (15.995 percent), 182 Day T-Bill (16.82 percent), and 364 Day T-Bill (16.88 percent). This showed the increased cost of borrowing from the domestic market.

d) Foreign Exchange Reserves (FER): As of mid-July 2024, FER equated to 4.1 months of import cover (or USD 7.896 billion) and was above the statutory requirement of at least 4 months of import cover. This is supported by improved remittances (USD 404.45 million as of May 2024) and, a decline in the current account balance following a decline in oil prices.

## 1.2. Fiscal Framework underpinning the Supplementary (No. 1) for FY 2024/25

7. The total projected revenues for FY 2024/25 have been revised downward from Kshs. 3.34 trillion to Kshs. 3.06 trillion, marking a reduction of Kshs. 285.78 billion. This decrease is mainly attributed to reduced Ordinary Revenue, with significant declines in: a) import duty by Kshs. 27.4 billion, b) excise taxes by Kshs. 104.8 billion, c) income tax by Kshs. 49.9 billion, and d) Value Added Tax (VAT) by Kshs. 88.45 billion. While this adjustment stems from the rejection of the Finance Bill, it could lead to more realistic revenue projections for FY 2024/25 which when paired with fiscal discipline, could enhance policy credibility, improve fiscal efficiency, ensure expenditure predictability, and prevent further mid-year resource reallocations/rationalization.

8. A review of total expenditures and net lending reveals a reduction of Kshs. 121.78 billion, bringing the total down to Kshs. 3.87 trillion from the previously approved Kshs. 3.99 trillion. This decrease will predominantly impact development expenditure, which will be cut by Kshs. 122.35 billion, in contrast to a modest reduction of Kshs. 10.27 billion in recurrent expenditure. The reduction in development expenditures will exclusively affect the domestically financed component, decreasing it by Kshs. 122.35 billion, from Kshs. 309.03 billion to Kshs. 186.68 billion, while the externally financed component remains unchanged.

9. The Committee observed that sustained reductions in development expenditures can significantly impair long-term economic growth by restricting capital formation and

limiting the enhancement of productive capacities. Furthermore, the substantial cut in domestically financed development expenditures is expected to delay or discontinue numerous infrastructure projects.

10. Overall, it was noted that the ongoing rise in public debt could adversely affect fiscal sustainability especially when reduced development spending coincides with increasing debt levels. This could exacerbate the fiscal burden, constrain future budgetary flexibility and minimize capital formation which is the basis for enhancing GDP growth rate and consequently long-term ability to service public debt interest and principal payments.

11. The fiscal deficit has increased from Kshs. 596.99 billion (3.3 percent of GDP) to Kshs. 760.99 billion (4.2 percent of GDP), marking a 27 percent rise. This increase is primarily due to a larger reduction in forecasted revenues (Kshs. 285.78 billion) compared to the reduction in total expenditures and net lending (Kshs. 121.78 billion).

12. To address the revised fiscal deficit of Kshs. 760.99 billion (4.2 percent of GDP), the financing strategy will include Kshs. 404.56 billion in net domestic financing and Kshs. 356.43 billion in net foreign financing. This strategy therefore involves an increase in net domestic financing by Kshs. 141.4 billion, primarily through government securities, and an increase in net external financing by Kshs. 22.6 billion, driven by additional development policy operations from the World Bank.

13. The Committee therefore noted that domestic borrowing will be the mainstay for financing the FY 2024/25 Supplementary Estimates fiscal deficit. This raises the following issues:

    i. Increased reliance on domestic borrowing could elevate the cost and risk profile of the public debt stock. Domestic debt service is the largest component of public debt servicing and the Consolidated Fund Expenditures, amounting to Kshs. 1.26 trillion in FY 2024/25, which constitutes 68 percent of public debt servicing expenditures. Consequently, increased borrowing from the domestic market signifies heightened interest rate risk and refinancing risk.

    ii. The borrowing strategy for financing the revised fiscal deficit deviates from the 2024 Medium-Term Debt Strategy (MTDS). The 2024 MTDS recommends an optimal ratio of 55 percent net external financing to 45 percent net domestic financing. However, the borrowing framework under Supplementary Estimates I proposes a ratio of 53 percent net domestic borrowing to 47 percent net external borrowing. Additionally, there is no revised MTDS to support this decision. To ensure favorable debt indicators in the uncertain FY 2024/25, a revised MTDS will be essential, accompanied by the submission of an Annual Borrowing Plan.

## 2. REVIEW OF THE CONSOLIDATED FUND SERVICE EXPENDITURES

14. The total expenditures under the CFS expenditures are estimated to increase by Kshs. 23.8 billion to Kshs. 2.08 trillion and remains the largest outlay component of National Expenditure. A fiscal year comparison indicates that this is a Kshs. 96.5 billion or 5 percent increase from Kshs. 1.98 trillion in FY 2023/24. The increase in CFS expenditures is attributed to increases in pension expenditures only and underscores the importance of policy measures aimed at pension reforms and efficient resource allocation to manage the fiscal pressures stemming from rising pension liabilities.

### 2.1. Public Debt Servicing Expenditures

15. There are no changes to public debt service expenditures under the Supplementary Estimates. The debt servicing expenditures will remain at Kshs. 1.85 trillion, composed of interest and principal payments worth Kshs. 1.01 trillion and Kshs. 843.29 billion, respectively. However, the Committee noted that this lack of change in debt servicing expenditures did not reflect the anticipated changes in the financing of the revised framework for the Supplementary Estimates (No. 1) for FY 2024/25, which aims to address the revised fiscal deficit by increasing net domestic financing by Kshs. 141.4 billion.

16. The Committee further observed that the increase in the domestic debt service expenditures would depend on the ratio of Treasury Bills to Treasury Bonds. This could be addressed through the submission of an Annual Borrowing Plan that could provide insights into the new loans to be raised, how they have been accounted for under the CFS expenditures and provide policy proposals addressing the revised levels of costs and risks of rising from the adjusted fiscal deficit borrowing strategy.

### 2.2. Changes in Pension Expenditures

17. The principal factor driving the increase in Consolidated Fund Services (CFS) expenditures under the Supplementary Estimates (No. 1) for FY 2024/25 is the escalation of pension liabilities. Pension payments function as a critical social safety net for retired civil servants and their dependents, enhancing household welfare for those lacking alternative income sources.

18. As per the Supplementary Estimates (No. 1) for FY 2024/25, pension liabilities are projected to rise by Kshs. 23.78 billion, reaching Kshs. 223.25 billion, which will constitute 6 percent of total expenditures or 2.3 percent of GDP. This surge reflects a broader trend of increasing pension expenditures, which have grown at an annualized rate of 21.3 percent since FY 2014/15 when they stood at Kshs. 32.4 billion. This trend underscores the necessity for long-term sustainability planning for these largely inflexible expenditures.

19. The Kshs. 23.78 billion increase in pension liabilities is attributed to unaccounted carryovers from FY 2023/24. It was observed that the matter of carryovers and pending bills could be solved if the transition from cash to accrual accounting system, is fully implemented. The pension liabilities affected include:

i. Ordinary Pension: This category will total Kshs. 93.78 billion, reflecting a Kshs. 5.7 billion increase due to carryovers for monthly pensions for retiring civil servants (Kshs. 4.97 billion) and retiring military personnel (Kshs. 691 million).

ii. Commuted Pension: This category will rise to Kshs. 85.76 billion, driven by Kshs. 15.5 billion in carryovers for gratuity payments to retiring civil servants (Kshs. 13.68 billion) and retiring military personnel (Kshs. 1.88 billion).

iii. Public Service Superannuation Scheme: The increase is attributed to an additional allocation of Kshs. 2.57 billion for employer contributions to the pension scheme.

### 2.3. Miscellaneous and Other Expenditures

20. Miscellaneous expenditures, which primarily contain salary and allowances for independent and constitutional office holders, miscellaneous expenditures, and payments for guaranteed debt, remain unchanged and will amount to Kshs. 4.2 billion in FY 2024/25.

## 3. SUBMISSIONS BY THE NATIONAL TREASURY

The Committee was informed that:

21. As of the end of 30th June 2024, public and publicly guaranteed debt stood at Kshs. 10.56 trillion or 65.5 percent of GDP in nominal terms. This reflects a decline in Kshs. 579 billion from Kshs. 11.14 trillion or 69.1 percent of GDP in nominal terms as of the end of December 2023. Public and publicly guaranteed debt comprise Kshs. 5.15 trillion (or 48.8 percent of total debt) in external debt and Kshs. 5.41 trillion (or 51.2 percent of total debt) in domestic debt.

22. Comparing the stock of external debt as of June 2024 and December 2023, it is noted that the external debt stock had reduced by approximately Kshs. 939 billion (15.4 percent) majorly due to the strengthening of the Kenya shilling exchange rate against major currencies during the period.

23. As a result of the rationalization of the approved budget as directed by His Excellency the President following the non-assent of the Financial Bill 2024, the overall fiscal deficit increased from Kshs. 597.0 billion (3.3% of GDP) in the approved budget to Kshs. 761.0 billion (4.2% of GDP), in Supplementary Estimates I.

24. This implies that net domestic borrowing through government securities will increase from Kshs. 399.9 billion (2.2% of GDP), in Supplementary Estimates I, up from Kshs. 258.5 billion (1.4% of GDP), in the approved budget. Net external borrowing will increase to Kshs. 356.4 billion (2.0% of GDP) in Supplementary Estimates I, up from Kshs. 333.8 billion (1.8% of GDP) in the approved budget.

25. The 2024 optimal strategy seeks to achieve a gradual reduction of Treasury bills stock with domestic financing mainly sourced from medium to long-term Treasury bonds. Externally, the strategy focuses more on budget financing through concessional borrowing. In terms of net financing, the option assumes 45 percent domestic and 55 percent external borrowing.

26. With the new changes in the deficit, the net financing is 53 percent and 47 percent for net domestic and net external borrowing, respectively, and may or not be optimal in terms of costs and risks. However, the National Treasury will implement the strategy as approved and as the conditions change, if they necessitate a revision in the MTDS, the National Treasury will resubmit it for approval before the end of the fiscal year.

27. The CFS expenditures under the supplementary I estimate were Kshs. 2.08 trillion, an increase of Kshs. 23.78 billion from Kshs. 2.06 billion in the approved budget estimates. The increase is attributed to an increase in pension expenses. The other CFS expenditures remained unchanged.

28. The amount of Kshs. 23.78 billion relates to carryover from FY 2023/24 to Supplementary I Estimates for FY 2024/25. This was the exchequer request to pay pensions claims processed during the period but was not funded during the period due to liquidity challenges.

29. The amount of Kshs. 23.78 billion comprise Kshs. 21.22 billion lump sum due to retirees and Kshs. 2.56 billion employer (GOK) contributions to the Public Service Superannuation Scheme (PSSS).

30. The register of retirees and dependants is in the July 2024 monthly payroll. This comprises 259,222 Principal Pensioners drawing an amount of Kshs. 5.521 billion and 83,615 dependants drawing Kshs. 875.19 million. The current register of pensioners at various processing stages in the PMIS.

31. A register of the projected 13,403 civil servants set to retire during the FY 2024/25 to be paid lumpsum and monthly pension. A total of 1,500 officers of the Defence Forces are estimated to retire in FY 2024/25.

32. The transition from cash accounting to accrual accounting was in process and a gazette notice had been received from the Office of the Attorney General that the National Treasury would proceed to issue a gazettement and that the FY 2024/25 accounts would be prepared based on accrual accounting principles.

33. On the establishment of the Treasury Single Account, the National Treasury requested the Central Bank of Kenya for real-time monitoring of bank balances. Furthermore, an inventory of all bank accounts (43 banks) to determine the amounts contained therein to mop up extra/idle funds. It was also indicated that the complete establishment of the TSA may affect the domestic banking system and negate the benefit of access to credit by some state agencies from banks.

34. There is a low absorption rate of loan financing. The National Treasury is undertaking a review of loans and grants to determine the status of each with the aim of increasing loan disbursement and cancellation of loans that are not disbursed.

## 4. COMMITTEE OBSERVATIONS

Arising from the submissions and deliberations, the Committee made the following pertinent observations, that:

i. The CFS expenditures are projected to rise to Kshs. 2.08 trillion, constituting the largest component of government. Despite this substantial increase, no measures have been provided to address the rise in CFS expenditures and their restrictive impact on the fiscal space.

ii. The borrowing strategy for financing the revised fiscal deficit outlines a 53:47 ratio for net domestic financing to net foreign financing, respectively. This deviates from the 2024 MTDS approved strategy of 55:45 for net foreign financing to net domestic financing, respectively. The National Treasury has indicated that the overall target strategy for FY 2024/25 will remain unchanged. However, the committee observed that without a revised MTDS, this deviation could result in a misaligned policy framework, potentially distorting measures aimed at achieving debt sustainability and adhering to debt thresholds established by the PFM Act 2012.

iii. The FY 2024/25 Annual Borrowing Plan has not been submitted to the National Assembly nor published on the National Treasury website. This document is crucial for boosting investor confidence and ensuring prudent debt management practices.

iv. An analysis of the fiscal framework indicates a disproportionate reduction in development expenditures (by Kshs. 122.4 billion) compared to recurrent expenditures (Kshs. 10.3 billion). The committee observed that this imbalance in resource allocation could impede capital formation, which is crucial for GDP growth and the ability to service long-term debt. Given the rising public debt stock and associated risks, it is imperative to establish an expenditure prioritization mechanism in order to enhance long-term debt repayment capacity.

v. The carryovers and pending bills are likely due to the delayed implementation of the transition from a cash accounting system to an accrual system. The committee emphasized the need for regular updates on the progress of this transition to ensure accountability and transparency.

vi. The increased liquidity risk in FY 2024/25 could have been mitigated if the Treasury Single Account (TSA) System, which has been mandated by both the Cabinet and numerous House resolutions, had been established. The TSA is essential for consolidating government finances into a single account, facilitating budget execution, increasing transparency, and controlling expenditures. The Committee noted that the National Treasury did not provide a timeline within which the TSA is to be established, resulting in the slow pace of implementation of this critical resolution.

vii. There have been no reports detailing pension payments, the overall performance of pension liabilities at the end of the fiscal year, or their impact on fiscal policy. This lack of transparency is concerning given that pension liabilities amount to Kshs. 223 billion. The Committee noted that this absence of reporting hinders the ability to monitor and disclose performance against objectives and risks, thereby impairing effective fiduciary oversight.

## 5. COMMITTEE RECOMMENDATIONS

Arising from these consultative engagements, the Committee recommends:

i. Within thirty (30) days of the adoption of this report, the National Treasury drafts the FY 2024/25 Annual Borrowing Plan pursuant to Section 63(d) PFM, Act 2012 and Regulation 186 of PFM (National Government) Regulation, 2015 and submits the plan to the National Assembly. The plan should also be published on the National Treasury website for transparency purposes.

ii. The National Treasury develops an expenditure prioritization mechanism before the issuance of the FY 2025/26 Budget Circular to increase resources towards capital development by 100 percent over the medium term and target capital projects with greater impact on capital formation and GDP growth to improve the country's long-term debt repayment capacity.

iii. To ensure a smooth transition from cash-based accounting to accrual-based accounting the National Treasury should:

    a. Create a detailed and time-bound transition plan for ensuring that the transition from cash accounting to accrual accounting is completed by the end of FY 2024/25; and

    b. Provide quarterly updates to the National Assembly and other relevant stakeholders on the progress of the transition to ensure accountability and transparency.

iv. To expedite the establishment of the Treasury Single Account (TSA) required to mitigate liquidity risks and ensure timely implementation of Cabinet and House Resolutions, the National Treasury should:

    a. Ensure that the Treasury Single Account (TSA) is established and fully operational by the end of FY 2024/25 and submit a progress report to the National Assembly by 31st December, 2024; and

    b. Conduct awareness campaigns within government entities to highlight the benefits of the TSA and ensure smooth adoption.

v. The National Treasury diversifies the fiscal deficit financing strategy by enhancing the use of grants from development partners and decreasing reliance on borrowing.

vi. The National Treasury reduces the volume of carryovers by ensuring that pension payments are made promptly, thereby providing consistent financial support to retired civil servants and their dependents.

vii. To enhance transparency in the management of pensions in Kenya, the National Treasury publishes the following reports:

    a. Quarterly reports on the management of the country's pension. These reports should be published and submitted to the National Assembly at least thirty (30) days after the end of each quarter;

    b. Medium-Term Pensions Management Strategy. This strategy should be published and submitted to the National Assembly by the 15th of February each year; and

c. Annual Pension Management Report. This report should be published and submitted to the National Assembly within two (2) months of the end of each financial year.

**SIGNED**

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**HON. ABDI SHURIE, MP.**

**CHAIRPERSON, PUBLIC DEBT & PRIVATIZATION COMMITTEE**

24th JULY 2024

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**DATE**

THE NATIONAL ASSEMBLY
PAPERS LAID

DATE: 24 JUL 2024 DAY: Wednesday

TABLED BY: Chair, Public debt & Privatization committee Hon. Abdi Shurie, MP

CLERK-AT THE-TABLE: Moses Lomale.