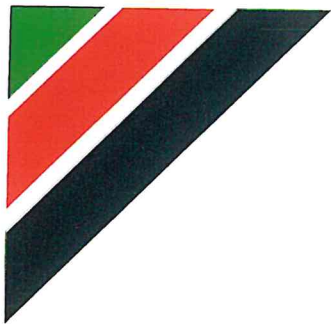


Approved  
SNA  
29/6/23



REPUBLIC OF KENYA

THE NATIONAL ASSEMBLY

THIRTEENTH PARLIAMENT (SECOND SESSION)

PUBLIC DEBT AND PRIVATIZATION COMMITTEE

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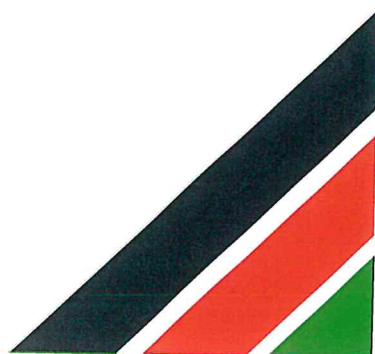
REPORT ON THE CONSOLIDATED FUND SERVICE  
EXPENDITURES UNDER THE FY 2022/23 SUPPLEMENTARY II  
ESTIMATES

JUNE 2023

THE NATIONAL ASSEMBLY

DATE: 20 JUN 2023 THURSDAY

TABLED BY:	Hon. Abdi Shurie, MP chairperson
CLERK-AT-THE-TABLE:	A. Shibuko





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## **CHAIRPERSON'S FOREWORD**

The Supplementary II Estimates for FY 2022/2023 were submitted to the House on 14<sup>th</sup> June 2023. Pursuant to Standing Orders 207(A), the Public Debt & Privatization Committee has considered the Estimates of the Consolidated Fund Services (CFS) Expenditures under the Supplementary II Budget Estimates and submits this report for the attention of the House. Consolidated Fund Services (CFS) Expenditures comprise of expenditures that are a charge to the Consolidated Fund (subject to the Constitution and various Acts of Parliament) and are therefore mandatory expenditures. It is important to note that these expenditures are excluded from the appropriations Act pursuant to Article 221(7) of the Constitution.

This is the third report by this committee on the Consolidated Fund Services expenditures. The Committee has noted that lack of a guiding legal framework is impeding effective oversight of these expenditures due to lack of reporting requirements. This is a concern as these expenditures are not only mandatory expenditures, but have become the largest expenditures for any financial year and reduce the fiscal space available to implement other critical budgetary expenditures.

The revised Consolidated Fund Services (CFS) Expenditures for FY 2022/2023 under the Supplementary II estimates will amount to Kshs. 1.577 trillion; an increase of Kshs. 24.8 billion, from Kshs. 1.55 trillion under the Supplementary I Estimates. In line with the mandate of the Committee to oversight Consolidated Fund Services, the Committee has examined the Consolidated Fund Services (CFS) expenditures and has prepared a report to the House for consideration and adoption.

### ***Key Recommendations***

*The Committee recommends as follows:*

1. There are large in year deviations in CFS expenditures occasioned by Supplementary Budget estimates that can cause inflexibility in budget implementation process. The National Treasury should enhance its forecasting methodologies to minimize deviations under Supplementary Estimates. Furthermore, appropriate measures should be undertaken to minimise the use of Article 223 of the Constitution in relation to CFS expenditures.
2. That the Controller of Budget should submit a report on performance of Salaries and Allowances for Constitutional office over the past 5 years and submits its report with appropriate recommendations for consideration by the House.





## ACKNOWLEDGEMENTS

The Committee extends its gratitude to the Office of the Speaker and the Office of the Clerk of the National Assembly for the support extended in fulfilling its mandate of reviewing the Consolidated Fund Service Expenditures (CFS) for FY 2022/23.

Finally, the Committee would like to appreciate the Parliamentary Budget Office and the Directorate of Appropriations, Audit, and other Select Committees for the extensive technical assistance 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 to this House and recommend it for adoption.

SIGNED



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

29 June 2023

DATE



## **PREFACE**

### **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. For critical oversight over matters relating to public debt and debt guarantees, public-private partnerships and privatization of national assets, standing order 207A establishes the Public Debt and Privatization Committee with specific mandates among which is to:

- i. Oversight 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 public-private partnership programmes by the national government in respect of 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.

### **Membership of the Committee**

The Public Debt and Privatization Committee as currently constituted, comprises of 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**  
**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. Suleka, H. Harun. M.P  
Nominated  
**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**

### **Committee Secretariat**

In the preparation of this report, the committee was facilitated by the following staff:

Mr. Chacha Machage  
Fiscal Analyst I/ Lead Clerk

Mr. Job Mugalavai  
Fiscal Analyst III/ Assistant Clerk

Ms. Fridah Ngari  
Media Relations Officer III

Mr. Eugene Luteshi  
Audio Officer III

Ms. Yasmin Hassan  
Assistant Serjeant-at-Arms

Ms. Florence Mbuthi  
Protocol Officer III

Ms. Audrey Ogutu  
Legal Counsel III

Mr. Sidney Lugaga  
Senior Legal Counsel

### **Parliamentary Budget Office**

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

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

Mr. Robert Nyaga  
Deputy Director, Parliamentary Budget Office (PBO)

Ms. Millicent Makina  
Fiscal Analyst I

Ms. Julie Mwithiga  
Fiscal Analyst I





**A. OVERALL CHANGES UNDER SUPPLEMENTARY II ESTIMATES UNDER FY 2022/23**

3. The Consolidated Fund Services (CFS) Expenditures for FY 2022/2023 under the Supplementary II Estimates amount to Kshs. 1.577 trillion; an increase of Kshs. 24.8 billion from Kshs. 1.55 trillion under the Supplementary I Estimates. This is a significant increase which can cause inflexibility in budget implementation. The first Supplementary budget for FY 2022/2023 reduced CFS expenditures by Kshs. 14.5 billion from the FY 2022/23 Approved Budget. The second Supplementary budget has reversed this by an increment of Kshs. 24.8 billion. Overall, the in-year change is a Kshs. 10 billion increment from the Approved Budget.
4. The increase in CFS expenditures is primarily caused by an increase of Kshs. 7.04 billion and Kshs. 17.02 billion in public debt interest payments and redemption payment, respectively. Furthermore, payment for guaranteed debt has increased from Kshs. 14.68 billion to Kshs. 16.1 billion, while salaries and allowances for constitutional and independent offices are projected to reduce from Kshs. 4.62 billion to Kshs. 3.92 billion.
5. CFS expenditures comprise of: Public debt service expenditures, pension expenditures, salary and allowances for constitutional and independent offices, expenditures for guaranteed debt.

**B. PUBLIC DEBT SERVICE**

6. Public debt service expenditures, which account for 88% of CFS expenditures, are expected to increase by Kshs. 24.06 billion under the Supplementary II estimates to amount to Kshs. 1.39 trillion. The increase is primarily due to increased redemption expenditures (principal payments) which account for 71 percent of the increase, while interest expenditures account for 29 percent. Specifically, these relate to Kshs. 16.5 billion increase in external interest payments, Kshs. 10.74 billion increase in external debt redemption and Kshs. 6.28 billion increase in domestic debt redemption. Notably, domestic debt interest expenditures are projected to decline by Kshs. 9.45 billion.

**i. Domestic Debt Service**

7. According to supplementary II Estimates, Domestic Debt Service will amount to Kshs. 995.62 billion; a decline of Kshs. 3.17 billion from the supplementary I Estimates amount of Kshs. 998.79 billion. This is due to the following changes:
  - a. Decrease of domestic interest expenditures by Kshs. 9.45 billion to amount to Kshs. 527.93 billion. This is occasioned by the decline in interest expenditure for new loans by Kshs. 11.3 billion, decline in projected interest for reopened 15-year bond amounting to Kshs. 1.8 billion, decline of Kshs. 4.43 billion on interest on short- term borrowing and a decline of Kshs. 66.6 million on the Pre-1997 Government Overdraft.  
Increase of Domestic Debt Redemption by Kshs. 6.28 billion, from Kshs. 461.41 billion to Kshs. 467.69 billion. The projected increase is as a result of inclusion of 3 new bonds payments of Kshs. 11.30, billion, Kshs.20.73 billion and Kshs. 10.11 billion. There is also a new provision of Kshs. 3.20 billion intended to cater for a CBK on-lent Loan from the International Monetary Fund (IMF). On the other hand, there is a decline of





Kshs. 39.06 billion in redemption for a two-year bond that was due in December 2022 from Kshs. 55.85 billion to Kshs. 16.79 billion. This offsets the new payments, resulting in a net increase of Kshs. 6.28 billion.

**ii. External Debt Service**

8. External debt repayment is set to increase by Kshs. 27.23 billion to amount to Kshs. 389.45 billion. This is a significant increase in expenditures given that they are a direct charge to the Consolidated Fund and could reduce the fiscal space to implement/finance other critical budgetary expenditures. Key drivers of external debt servicing include commercial loans used to finance the fiscal deficit, and the increased exposure to exchange rate risk. Indeed, there has been a significant depreciation of the USD which denominates 68 percent of Kenya's external debt. Specific details of the budgetary changes are as follows:
- a. Increase in external debt interest payments by Kshs. 16.50 billion to reach Kshs. 154.9 billion. This is due to increased interest expenditures relating to Exim Bank of China (Kshs. 6.98 billion), Trade Development Bank (Kshs. 4.91 billion) International Development Agency (Kshs. 2.43 billion), International Monetary Fund (Kshs. 1.86 billion). There is also a reduction in expenditures relating to bilateral loans from Italy, France, Germany, Belgium, among others.
  - b. Increase in External Debt redemption expenditures by Kshs. 10.74 billion to amount to Kshs. 234.5 billion. Notable increases relate to redemption payments to International Monetary Fund (Kshs. 1.3 billion), Exim Bank of China (Kshs. 4.4 billion), International Development Association (Kshs. 1.75 billion) and France (Kshs. 733.1 million).

**C. PENSIONS**

9. There is no change on Pension expenses in the Supplementary II Estimates for FY 2022/23. These expenditure estimates therefore remain at Kshs. 172.64 billion.

**D. SALARIES AND ALLOWANCES**

10. Salaries and allowances for Constitutional Office holders are projected to decline by Kshs. 707 million, from Kshs. 4.62 billion to Kshs. 3.92 billion. This decline follows a general reduction of salaries and allowances across the board except for the Kenya National Commission on Human Rights, Commission on Revenue Allocation, National Gender and Equality Commission, Directorate for Public Prosecutions, among others. Salaries for Constitutional office holders are a direct charge on the Consolidated Fund as provided for in the Constitution and various Acts of Parliament.

**E. GUARANTEED DEBT (KENYA AIRWAYS)**

11. The Payment for the Called-Up Kenya Airways Guaranteed loan is projected to increase by Kshs. 1.43 billion (10%) from Kshs. 14.68 billion to Kshs. 16.10 billion. This increase is on account of Kshs. 186.43 million increase in respect of interest payments and increase of Kshs. 1.24 billion for principal payments. This is the Second increase in repayment from an earlier increase of Kshs. 12.41 billion in Supplementary Estimates I for FY 2022/23. Cumulatively, this translates to a single year increase of Kshs. 13.84 billion or 611 percent.



As such, while the government is expected to meet its obligations related to guaranteed debt, these should be planned for in order to avert budget disruptions that may be occasioned by large expenditure increases in the course of the year.

**F. COMMITTEE OBSERVATIONS:**

*In the Consideration of the FY 2022/23 expenditures, the Committee made the following observations:*

12. There are large in-year deviations in CFS expenditures occasioned by supplementary budget revisions which can reduce the fiscal space to meet other critical budgetary needs. Large components of CFS expenditures are underpinned by contracts. As such, the expenditure estimates should be clear at the beginning of the fiscal year. Coupled appropriate forecasting methodologies, in-year budget deviations can be minimised in order to promote predictability in expenditure.
13. Salaries and allowances for Constitutional Office holders are projected to decline by Kshs. 707 million, from Kshs. 4.62 billion to Kshs. 3.92 billion. This decline follows a general reduction of salaries and allowances across board and may indicate overbudgeting of expenditures under this class of expenditures.

**G. COMMITTEE RECOMMENDATIONS:**

*The Committee recommends as follows:*

14. There are large in year deviations in CFS expenditures occasioned by Supplementary Budget estimates that can cause inflexibility in budget implementation process. The National Treasury should enhance its forecasting methodologies to minimize deviations under Supplementary Estimates. Furthermore, appropriate measures should be undertaken to minimise the use of Article 223 of the Constitution in relation to CFS expenditures.
15. That the Controller of Budget should submit a report on performance of Salaries and Allowances for Constitutional office over the past 5 years and submits its report with appropriate recommendations for consideration by the House.



SIGNED



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

29 June 2023

.....  
**DATE**





**REPUBLIC OF KENYA**

**THE NATIONAL ASSEMBLY**

**13<sup>TH</sup> PARLIAMENT – (SECOND SESSION)**

**MINUTES OF THE 48<sup>TH</sup> SITTING OF THE SELECT COMMITTEE ON PUBLIC DEBT AND PRIVATIZATION, HELD ON 29<sup>TH</sup> JUNE, 2023, AT 12.00 PM, IN SMALL DINING ROOM. PARLIAMENT BUILDINGS (MORNING SESSION)**

---

**MEMBERS OF PARLIAMENT PRESENT.**

- |                                     |                              |
|-------------------------------------|------------------------------|
| 1. Hon. Abdi Shurie M.P.            | – Committee Chairperson      |
| 2. Hon. (Dr.) Makali Mulu M.P.      | – Committee Vice-Chairperson |
| 3. Hon. (Dr.) Daniel Manduku, M.P.  |                              |
| 4. Hon. (Dr.) Irene Kasalu, M.P.    |                              |
| 5. Hon. Aden Daud, EBS. M.P.        |                              |
| 6. Hon. CPA. Suleka H. Harun, M.P.  |                              |
| 7. Hon. Kwenya, Thuku Zachary, M.P. |                              |
| 8. Hon. Joseph Makilap, M.P.        |                              |
| 9. Hon. Letipila, Dominic Eli, M.P. |                              |

**MEMBERS OF PARLIAMENT ABSENT WITH APOLOGY**

1. Hon. Junet, Mohamed S.N, CBS. M.P
2. Hon. Omboko Milemba, M.P
3. Hon. Kirwa, Abraham Kipsang, M.P
4. Hon. Chege Njuguna, M.P
5. Hon. Mohamed, Abdikadir Hussein, M.P
6. Hon. Abdi Ali Abdi, M.P

**THE COMMITTEE SECRETARIAT**

- |                        |  |
|------------------------|--|
| 1. Mr. Chacha Machage  | - Lead Clerk/Fiscal Analyst I          |
| 2. Mr. Job Mugalavai   | - Clerk Assistant / Fiscal Analyst III |
| 3. Ms. Florence Mbuthi | - Public Relations Officer III         |
| 4. Ms. Audrey Ogutu    | - Legal Officer II                     |
| 5. Mr. Edwin Gichane   | - research officer                     |



#### **MIN/NO.NA/PDPC/2023/48.1: PRELIMINARIES**

The Chairperson of the session Hon (Dr) Makali Mulu, MP. Called the meeting to order at 11.20. p.m. and requested Hon. (Dr.) Daniel Manduku M.P, to lead the committee in opening prayers. Afterwards, the Chairperson invited the Committee members and the secretariat to introduce themselves. Thereafter the agenda of the meeting was adopted after being proposed by Hon. Kwenya, Thuku Zachary, M.P, and seconded by Hon. Letipila, Dominic, M.P. He then welcomed the Secretariat to take the Committee through the Consolidated Fund Services (CFS) expenditures supplementary II Draft Report.

#### **MIN/NO.NA/PDPC/2023/48.2: CONSIDERATION OF THE PUBLIC FINANCE MANAGEMENT (AMENDMENT) BILL, 2023 (NATIONAL ASSEMBLY BILLS NO.16).**

The committee reviewed the amendment Bill and adopted it as follows:

1. There are large in year deviations in CFS expenditures occasioned by Supplementary Budget estimates that can cause inflexibility in budget implementation process. The National Treasury should enhance its forecasting methodologies to minimize deviations under supplementary estimates.
2. That the Controller of Budget submits a report on performance of salaries and allowances for Constitutional office over the past 5 years and submits its report to the House for consideration.


#### **MIN/NO.NA/PDPC/2023/46.3 .ADOPTION OF MINUTES AND REPORT**

1. **The Report** was adopted by the committee after being proposed by the Hon. Hon. Abdi Ali Abdi, M.P and seconded by Hon. Joseph Makilap, M.P.
2. **The minutes** were adopted by the committee after being proposed by Hon. Aden Daud, EBS. M.P and seconded by Hon. Letipila, Dominic Eli, M.P

#### **MIN/NO.NA/PDPC/2023/46.4 ADJOURNMENT**

There being no other business, the meeting was adjourned at 1.30 P.M. The next meeting will be communicated in due course.

DATE.....29 June 2023.....

SIGNED..........

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








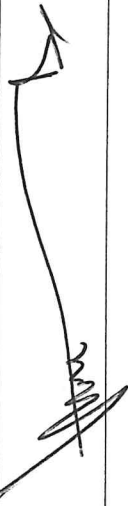

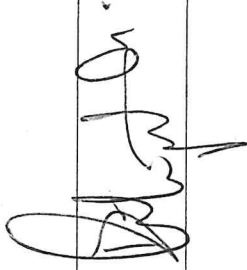
REPUBLIC OF KENYA  
13<sup>TH</sup> PARLIAMENT  
NATIONAL ASSEMBLY – SECOND SESSION - 2023  
PUBLIC DEBT AND PRIVATIZATION COMMITTEE MEMBERS.

ADOPTION SCHEDULE FOR THE REPORT ON CONSOLIDATED FUND SERVICES(CFS)  
EXPENDITURES IN SUPPLEMENTARY II ESTIMATES FOR FY 2022/23.

DATE..27/6/2023..TIME 11:00 AM.. SITTING .....9<sup>TH</sup>.. VENUE..NAROK..K...H.S.T.C.A.....

No.	NAME	SIGNATURE
1.	The. Hon. Abdi Shurie, M.P – Chairperson	
2.	The. Hon. (Dr). Makali Mulu, M.P. – Vice-Chairperson	
3.	The. Hon. Junet Mohamed S. N. CBS, M.P.	
4	The. Hon. Omboko Milemba, M. P	
5.	The. Hon. (Dr). Irene Kasalu, M.P.	



No.	NAME	SIGNATURE
6.	The. Hon. Kwenya, Thuku Zachary, M.P.	
7.	The. Hon. Joseph Makilap, M.P.	
8	The. Hon. Aden Daud, EBS. M.P	
9.	The. Hon. (Dr). Daniel Manduku, M.P.	
10.	The. Hon. Mohamed, Abdikadir Hussein, M. P	
11.	The. Hon. (CPA). Suleka H. Harun, M.P.	
12.	The. Hon. Chege Njuguna, M.P.	
13.	The. Hon. Abdi, Abdi Ali, M.P.	
14	The. Hon. Letipila, Dominic Eli, M.P.	
15	The. Hon. Kirwa, Abraham Kipsang, M.P.	



Committee Clerk .....

Date ..... Signature .....

Dr. Martin Masinde -Director Parliamentary Budget Office

Date ..... Signature .....

