REPUBLIC OF KENYA

KENYA NATIONAL ASSEMBLY

ELEVENTH PARLIAMENT – SECOND SESSION

REPORT OF THE DEPARTMENTAL COMMITTEE ON FINANCE, PLANNING & TRADE ON THE CONSIDERATION OF THE SESSIONAL PAPER NO.14 OF 2014

NAIROBI

NOVEMBER, 2014

PREFACE

Mr. Speaker, Sir

The Committee on Finance, Planning & Trade is a Departmental Committees of the National Assembly established under Standing Order No. 216 and mandated to:

(a) To investigate, inquire into, and report on all matters relating to the mandate, management, activities, administration, operations and estimates of the assigned ministries and departments;

(b) To study the programme and policy objectives of ministries and departments and the effectiveness of the implementation.

(c) To study and review all legislation referred to it;

(d) To study, assess and analyse the relative success of the ministries and departments as measured by the results obtained as compared with their stated objectives;

(e) To investigate and inquire into all matters relating to the assigned ministries and departments as they may deem necessary and as may be referred to them by the House;

(f) To vet and report on all appointments where the Constitution or any law requires the National Assembly to approve, except those under Standing Order 204 (*Committee on Appointments*); and

(g) Make reports and recommendations to the House as often as possible, including recommendation of proposed legislation.

Mr. Speaker, Sir

The Committee on Finance, Planning & Trade was constituted by the House on Thursday 16th May, 2013 comprising of the following members:

1. The Hon. Benjamin Langat, MP **(Chairman)**
2. The Hon. Nelson Gaichuhie, MP **(vice Chairman)**
3. The Hon. Jones M Mlolwa, MP
4. The Hon. Anyanga, Andrew Toboso, MP
5. The Hon. Timothy M .E. Bosire, MP
6. The Hon. Ahmed Shakeel Shabbir Ahmed, MP
7. The Hon. Joash Olum, MP
8. The Hon. Dr. Oburu Oginga, MP
9. The Hon. Patrick Makau King'ola, MP
10. The Hon. Abdullswamad Sheriff, MP
11. The Hon. Sumra Irshadali, MP
12. The Hon. Ogendo Rose Nyamunga, MP
13. The Hon. Iringo Cyprian Kubai, MP
14. The Hon. Dennis Waweru, MP
15. The Hon. Tiras N. Ngahu, MP

16. The Hon. Sakaja Johnson, MP
17. The Hon. Jimmy Nuru Angwenyi, MP
18. The Hon. Ronald Tonui, MP
19. The Hon. Mary Emase, MP
20. The Hon. Joseph Limo, MP
21. The Hon. Lati Lelelit, MP
22. The Hon. Kirwa Stephen Bitok, MP
23. The Hon. Sammy Mwaita, MP
24. The Hon. Daniel E. Nanok, MP
25. The Hon. Eng. Shadrack Manga, MP
26. The Hon. Abdul Rahim Dawood, MP
27. The Hon. Sakwa John Bunyasi, MP
28. The Hon. Alfred W. Sambu, MP
29. The Hon. Sammy Koech, MP

Mr. Speaker, Sir,

On 18th November, 2014, the Leader of Majority Party tabled a Sessional Paper No. 14 of 2014 from the National Treasury and gave a Notice of Motion that the House approves the increase of total indebtedness by the National Government, for the time being outstanding in respect of principal amount of money borrowed or credit obtained from US$14 billion (Kenya shillings one trillion two hundred billion) to US$23 billion (Kenya shillings two trillion).

Mr. Speaker, Sir,

The Committee held three sittings to deliberate on the matter and noted that the ceiling of the Ksh. 2 trillion indicated in the Motion was inconsistent with the Ksh. 2.5 trillion in the Sessional paper. That matter was however, later corrected by the by the Cabinet Secretary for the National Treasury during his appearance before the Committee on 20th November, 2014. He confirmed the correct figure as Ksh. 2.5 trillion.

Mr. Speaker, Sir,

In his submission to the Committee, the Cabinet Secretary for the National Treasury underscored the need for the government to borrow to finance the various development projects which include; implementing the Standard Gauge Railway Project, funding the ongoing activities under the LAPSSET Project; 10,000 kilometers of roads; the 5000+ MW in energy sector and irrigation among others. He further indicated that he intends to tap (increase) the recently issued sovereign bond for the amount not exceeding USD$750 Million.

The Cabinet Secretary assured the Committee that the request for enhancing the ceiling was meant for planning purposes only and the loans to be contracted would be subjected to scrutiny by the National Assembly as provided for in Section 50 of the Public Finance Management Act, 2012.

Mr. Speaker, Sir,

In considering the requested external debt ceiling the Committee was guided by the following critical observations:

1) One, that the request to raise the debt ceiling to Ksh. 2.5 trillion was as a result of increased requirement for external resources to fund major infrastructure projects in the country. Indeed, the envisaged external borrowing will help finance implementation of most of the Medium Term Plan II infrastructural projects to a tune of Khs 5.762 trillion in coming three years. These projects include: The Standard Gauge Railway, The LAPSSET Project, Generation of 5,000 MW of electricity, the Galana irrigation projects, 10,000 km ongoing road projects, and expansion and modernization of the Kenya Ports Authority. Further, feasibility studies on the projects to be financed indicate favourable return on investments, as reported by the Cabinet Secretary, National Treasury.
2) Two, current Kenya's debt to GDP ratios are favourable. Moreover, despite the setting of the external debt ceiling, the mandate of approving specific external borrowing amounts and plans every financial year is vested in the National Assembly through the annual budget.

The Committee was therefore convinced that the review of the external debt ceiling was essential to help the government achieve its developmental objectives especially to enhance the delivery of critical infrastructure projects in the roads, railways, energy and the ports sector.

It was however imperative on the part of the National Treasury to regularly ensure the following: that the total public debt is within acceptable fiscal sustainability ratios; that the debt ratios are consistent with the EAC Monetary Union convergence criteria; and, that new borrowing remains within the approved medium term fiscal framework so as to maintain macroeconomic stability.

Mr. Speaker, Sir,

It is therefore the opinion of the Committee that the ceiling should be enhanced from Ksh. 1.2 trillion to Ksh. 2.5 trillion as requested in the Sessional Paper.

Mr. Speaker, Sir,

The Committee is thankful to the Offices of the Speaker and the Clerk of the National Assembly for the logistical and technical support accorded to it during its sittings. The Committee wishes to thank all the stakeholders for their participation in scrutinizing the the Sessional paper. Finally, I wish to express my appreciation to the Honourable Members of the Committee who sacrificed their time to participate in the activities of the Committee and preparation of this report.

Mr. Speaker, Sir,

It is therefore my pleasant duty and privilege, on behalf of the Departmental Committee on Finance, Planning & Trade, to table this report in the House on the consideration of the Sessional Paper No. 14 for consideration of the House and adoption Pursuant to Standing Order 127

Signed ....

(HON. BENJAMIN LANGAT, MP)

CHAIRPERSON,

DEPARTMENTAL COMMITTEE ON FINANCE, PLANNING & TRADE

Date: 26th November 2014

1.0 INTRODUCTION

1. The Sessional Paper No. 14 of 2014 was prepared by the Cabinet Secretary, National Treasury pursuant to Section 50(2) of the Public Finance Management Act, 2012 which states as follows: "*The national government my borrow money in accordance with this Act or any other legislation and shall not exceed a limit set by Parliament.* "

2. The Sessional Paper, thus, seeks the National Assembly's approval to increase the total indebtedness for the time being outstanding in respect of principal amount of money borrowed from Ksh. 1.2 trillion to Ksh. 2.5 trillion.

3. The external debt ceiling was last amended in January 2013, whereby the National Assembly raised the ceiling from Ksh. 800 billion to Ksh. 1.2 trillion. Traditionally, this ceiling has been set in nominal terms but there are proposals to set the debt ceiling as a percentage of the GDP.

4. The total external debt stock by end of September 2014 stood at Ksh 1.045 trillion as shown in Table 1). The table shows that most of Kenya's current debt is owed to multilateral lenders such as the International Development Agency, the Africa Development Bank and the International Monetary Fund. Using current US dollar exchange rates, the amount owed to multilateral lenders amounts to Ksh. 608.022 billion. These multilateral institutions provide loans at concessional terms: at very low interest rates and long repayment periods.

5. The second category of lenders are friendly nations or bilateral creditors, who are owed Ksh. 278. 547 billion. Kenya's largest bilateral donors include Japan, France and China. Further, the amount owed to commercial banks increased significantly in FY 2013/14 following the issuance of the USD 2 billion sovereign bond. Commercial banks are currently owed Ksh. 185.163 billion following the repayment of the syndicated loan.

6. Annual external borrowing target for 2014/15 according to the latest Quarterly Economic and Budgetary Review released by the National Treasury amounts to Ksh. 165.758 billion. The government budgeted to pay Ksh 24.5 Billion in interest payments on external debt during the 2014/15 financial year. By 30th September 2014, the government had made interest payments amounting to Ksh. 3.8 billion, which leaves Kshs. 20.7 billion due to the end of the financial year.

7. Apart from the stock of external debt, the government has also accumulated domestic debt amounting to Ksh. 1.26 trillion. Thus, as at 30th September 2014, the overall stock of public debt amounted to Ksh.2.305 trillion. In terms of the

rebased GDP, the National Treasury states that the overall public debt to GDP ratio is 46%.

8. Owing to rising development spending, and favourable borrowing rates in the international debt markets, the government floated a highly successful sovereign bond, raising in excess of US dollar 2 billion. The Sessional paper cites the favourable international markets and large planned infrastructure projects as the primary reason why a review of the external debt ceiling.

Table 1: Kenya's External Stock of Debt for FY 2008-09 to 2013-14 (Ksh. billion)

Creditors	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	Sep-14
Bilateral	185.933	196.347	256.965	246.240	257.637	289.914	278.547
Multilateral	331.105	352.333	440.882	462.963	511.791	597.340	608.022
Commercial Banks	-	-	-	50.540	58.928	234.799	185.163
Suppliers Credit	23.837	20.458	25.041	14.812	15.207	16.451	16.096

Source: National Treasury

2.0 ANALYSIS OF THE SESSIONAL PAPER

9. The Treasury is seeking a review of the external debt ceiling from Ksh. 1.2 trillion to Ksh. 2.5 trillion due to recent developments regarding external loans disbursements and planned borrowing to finance the SGR and other large infrastructure projects contained in the medium term expenditure plan and the Vision 2030. To achieve the required financing National Treasury will explore increased commercial borrowing externally, riding on the success of the recently issued international sovereign bond. To support its borrowing needs, and the need for revised ceilings, Treasury has provided two scenarios summarized in Table 2. The Table indicates that the current stock of external debt is very close to the debt ceiling.

10. In Scenario 1, which involves increasing commercial borrowing to finance development expenditure (Ksh. 67.014 billion at current exchange rates), increased disbursements of already planned Standard Gauge Railway funds, the required borrowing by December 2014 would exceed the ceiling by Ksh. 30 billion. Scenario 2 which is fairly similar to scenario 1, with the only variation being the reduced borrowing through the sovereign bond (Ksh. 44.676 billion relative to Ksh. 67.014 billion), also breaches the ceiling by Ksh. 8 billion.

11. Based on this analysis, which shows that under the two scenarios expected external borrowing will lead to a breach of the statutory limit set by Parliament, the National Treasury is seeking a review of the statutory external debt limit from Kshs. 1.2 trillion to Kshs. 2.5 trillion.

Table 2: Analysis of Scenario 1 and 2

	SCENARIO 1		SCENARIO 2	
ITEM	Amount in USD (Millions)	Amount Kshs.[1] (billions)	Amount in USD (Millions)	Amount in Kshs (billions)
Current external debt stock		1,045		1.045
Increase(tapped) from the Bond	750	67.014	500	44.676
Disbursement of SGR (Civil Works)	736	65.763	736	65.763
Disbursement of SGR(Locomotives & Rolling stock)	459	41.013	459	41.013
Absorption[2]		11.210		11.548
Total required external debt stock		1,230		1,208
Statutory Ceiling		1,200		1,200

Source: Sessional paper No. 14 of 2014

3.0 MEETING WITH THE CABINET SECRETARY FOR THE NATIONAL TREASURY

12. To further interrogate the issue of the review of external debt ceiling, the Committee met the Cabinet Secretary in charge of the National Treasury Mr. Henry Rotich on 20th November, 2014. The Cabinet Secretary (CS) highlighted the planned review of external debt ceiling and also supplied the Committee with additional information on the rationale for the proposed review which included the planned medium term infrastructure spending planned by the government.

13. The CS noted the last adjustment was done in January 2013, raising the ceiling from Kshs. 800 billion to 1.2 trillion. The current proposed review was to enhance the capacity of the government to borrow more funds for development and to accommodate already planned debt inflows under the SGR projects.

[1] Assumed exchange rate 1 USD= 89.3522 in both Scenarios

[2] Absorption is assumed to be the excess of total required external debt stock and sum of all other items

14. The Cabinet Secretary noted that the current debt ceilings were based on nominal terms (in Kenya shillings value) while most external borrowing was based on foreign currencies such as the US dollar. Thus, the ceiling was not responsive to the variations in foreign exchange rates. Thus, the Ministry will be seeking to have the ceiling pegged as a percentage of the country's GDP in line with East African Community Monetary Union that the House ratified recently.

15. The increased requirement for borrowing according to the CS was to fund major infrastructure developments in the country. Indeed, the envisaged external borrowing will finance implementation of most of the Medium Term Plan II infrastructural projects to a tune of Khs 5,762 billion. These projects include: The Standard Gauge Railway, The LAPSSET Project, Generation of 5,000 MW of electricity, the Galana irrigation projects, 10,000 km ongoing road projects, and expansion and modernization of the Kenya Ports Authority. Feasibility studies on the projects to be financed point out to favourable return on investments. A summary of the listed projects for the period 2013-2017 is shown in Table 3 (*see details in Appendix 1*).

Table 3: MEDIUMTERM PLAN DEVELOPMENT PROJECTS BY SECTOR, 2013-2017

Sector	Cost (Ksh Billion)
Energy sector	1,773
Railway Transport	1,246
Roads Transport	767
Expansion and Modernization of Aviation Facilities	68
Ports Shipping and Maritime	68
Development of Oil Pipelines and Storage Facilities	1,155
Agriculture and rural development	539
ICT Sector	146
Total	**5,762**

Source: National Treasury

16. Further, the CS stated that as a result of the revision of the country's GDP, the current debt to GDP ratio is 46% against 50% recommended under the East African Community Monetary Union macro economic convergence criteria.

17. The CS stated that the government has been engaging with development partners such as the World Bank, European Union, and African Development Bank regarding the borrowing. The country is planning to re-enter the bond market and leverage the favourable rates being offered currently. This is largely informed by the low interest rates in the international debt markets and that Kenya's inaugural

Eurobond is trading at a premium. Further, the Cabinet Secretary noted that the Kenyan government was moving away from domestic borrowing, which is more expensive.

18. The CS reported that 40% of the Ksh. 327 billion for the SGR project is expected in the next one month. To deal with these increased inflows, the government has put sound macroeconomic fundamentals to ensure continued economic stability. Notably, the Central Bank of Kenya has accumulated more foreign currency reserves and is well positioned to deal with possible inflationary pressures and exchange rate dynamics that may arise. The government is also negotiating for a hedge facility to cushion itself against any exchange rate shocks associated with the capital inflows.

19. The Cabinet Secretary assured the Committee that the Country's debt burden is sustainable. Currently the debt to GPD ratio is 46% against the maximum limit of 74% recommended by World Bank.

4.0 COMMITTEE OBSERVATIONS

20. The Committee observed the following with regard to the request for enhancement of external borrowing ceiling from Kshs 1.2 trillion to kshs 2.5 trillion:

    i. From the two scenarios presented in the Sessional Paper, scenario 1 surpasses the ceiling by Kshs 30 Billion while Scenario 2 surpasses the ceiling by Kshs. 8 Billion. Therefore the expected borrowing and disbursements under the two scenarios would lead to a breach of the statutory limit set by Parliament. It is for this reason that National Treasury wants to increase the statutory limit from Kshs. 1.2 trillion to Kshs. 2.5 trillion.

    ii. Parliament has traditionally grown the external borrowing ceiling in nominal terms at a rate of about 50%. The last increment that was done in January 2013 raised the ceiling from Kshs 800 billion to Kshs 1.2 trillion. However, the current request of Ksh. 2.5 trillion represents more than 100% increment; a break from past trends.

    iii. With regard to Article 201(c) of the Constitution that obligates the state to observe that the burdens and benefits of the use of resources and public borrowing shall be shared equitably between the present and the future generations, the Committee felt that these principles should guide the management of public finances.

iv. Given the increased borrowing, The Committee noted that effective debt servicing will require the economy to grow at higher rates, a so as to meet expected debt service requirements. In the 2014/2015 budget, a total Ksh. 147 billion was approved for interest payment (both domestic and external interest payments). The interest payment rate for domestic debt accounts for 2.21% of the GDP while the external debt is 0.4% of GDP. Owing to increased external borrowing, external debt repayments are likely to increase in the medium term.

v. The Committee noted the need to take into account the current stock of domestic borrowing to fully appreciate the extent of Kenya's public debt. Currently, Kenya's debt stock stands at Ksh. 2.305 trillion comprising of: Ksh. 1.26 trillion of domestic debt, and Ksh. 1.045 trillion of foreign debt. The current stock of debt represents 46% of the revised GDP against the world Bank's maximum of 74%. Further, the Committee noted that the current ratios were below the East African Community Monetary Union protocol convergence criteria of public debt-to-GDP ratio of 50%.

vi. Despite the rebased GDP and the current favourable debt ratios, the Committee cautioned against excessive borrowing on account of the proposed debt ceiling. Thus, additional borrowing should be guided by favourable return of proposed investment and observance of the set debt sustainability criteria: that is, debt should not exceed the set proportions of GDP and the borrowing should be within the annual limits approved in the annual budgets.

vii. In addition, the expected huge capital inflows into the country including the the Ksh. 327 billion resources meant for SGR may affect Kenya's macroeconomic stability. If not properly checked, inflation may increase sharply considering that part of the SGR resources, 40% in the first tranche, will be received next month.

21. In deliberating on the requested review of the external debt ceiling the Committee was guided by the following specific observations:

a. One, that the request to raise the debt ceiling to Ksh. 2.5 trillion was as a result of increased requirement for external resources to fund major infrastructure projects in the country. Indeed, the envisaged external borrowing will help finance implementation of most of the Medium Term Plan II infrastructural projects to a tune of Khs 5.762 trillion in coming three years. These projects include: The Standard Gauge Railway, The LAPSSET Project, Generation of 5,000 MW of electricity, the Galana irrigation projects, 10,000 km ongoing road projects, and expansion and modernization of the Kenya Ports Authority. Further, feasibility studies on the projects to be financed indicate favourable return on investments, as reported by the Cabinet Secretary, National Treasury.

b. Two, Kenya's current debt to GDP ratios are favourable. In addition, despite the setting of the external debt ceiling, the mandate of approving specific external borrowing amounts and plans every financial year is vested in the National Assembly through the annual budget.

22. The Committee was therefore convinced that the review of the external debt ceiling was essential to help the government achieve its developmental objectives especially in rolling out critical infrastructure projects in the roads, railways, energy and ports sector.

23. It was however imperative on the part of the National Treasury to ensure the following: that total public debt is within acceptable fiscal sustainability ratios; that the debt ratios should be consistent with the EAC Monetary Union convergence criteria; and, that new borrowing will remain within the approved medium term fiscal framework so as to maintain macroeconomic stability.

.0 COMMITTEE RECOMMENDATION

24. Having considered the evidence presented by the Cabinet Secretary, National Treasury and through its own analysis, the Committee recommends that:

The House approves the increase of total indebtedness for the time being outstanding in respect of principal amount of money borrowed **from Ksh. 1.2** trillion to Ksh. 2.5 trillion.

Annex 1: MEDIUMTERM PLAN PROJECTS, 2013-2017

Project	Implementing Agency	Time-frame	Cost (Ksh Billion)
Energy sector			
Development of geothermal in Olkaria, Menengai and Silali-Bogoria- 3,085 MW installed	KenGen	2013-2017	754
Coal Plant at Kilifi	KenGen	2013-2017	102
Drilling of wells at Olkaria, Menengai and Silali-Bogoria- 620 Wells drilled	KenGen	2013-2017	413
Development of wind power projects-690.4 MW	KenGen	2013-2015	165
Extension and rehabilitation of electricity transmission lines	KETRACO	2013-2017	135
Ethiopia- Kenya Transmission Line	KETRACO	2013-2016	65
High Grand Falls	MOEP	2013-2017	139
Railway Transport			
Mombasa - Malaba – Kisumu Standard Gauge Railway	KRC	2013-2017	652
Development of new transport Corridor from Lamu to Ethiopia and South Sudan (LAPSSET) –Rail Transport	KRC	2013-2017	594
Roads Transport			
Rehabilitation, reconstruction and maintenance of county roads - 1,075km rehabilitated and constructed; 1,735 km maintained.	KeRRA/KURA	2013-2017	121
Improve Road Network Country wide- 1,236 Km improved	KeNHA/KURA/KeRRA	2013-2017	532
Lamu Port South Sudan Ethiopia Transport Corridor – LAPSSET- 640 km	KeNHA/KURA	2013-2017	58
East Africa road network project-322 km	KeNHA	2013-2017	30
Roads 2000 program -4700 km	KeRRAA/KURA	2013-2017	26
Expansion and Modernization of Aviation Facilities			
Construction of Green Field Terminal and Second Runway	KAA	2013-2017	68
Ports Shipping and Maritime			

Second container terminal -KPA	KPA	2013-2017	26
Construction of 3 berths at Lamu - LAPSSET	KPA	2013-2017	42
Development of Oil Pipelines and Storage Facilities			
LAPSSET oil pipelines and port facilities	GoK /PPP	2013-2017	900
Oil exploration and exploitation	GoK/IOC	2013-2017	255
Agriculture and rural development			
Development and rehabilitation of water harvesting and irrigation infrastructure	GoK /PPP	2013-2017	160
National livestock insurance scheme	GoK	2013-2017	12
Irrigated Agricultural programs	GoK, World Bank/ China	2013-2017	320
Fisheries Development	GoK/PPP/DP	2013-2017	47
ICT Sector			
Establishment of Konza Technology	GoK/PPP	2013-2017	68
Provide ICT Infrastructure	GoK	2013-2017	78
Total			5762

SOURCE: National Treasury

MINUTES OF THE 63RD SITTING OF THE DEPARTMENTAL COMMITTEE ON FINANCE, PLANNING & TRADE HELD ON THURSDAY 20TH NOVEMBER, 2014 IN 5TH FLOOR, CONTINENTAL HOUSE, PARLIARMENT BUILDINGS, AT 10.00AM

Present

1. Hon. Benjamin Langat, MP - **Chairperson**
2. Hon. Sakwa John Bunyasi, MP - **Chairing**
3. Hon. Eng. Shadrack Manga, MP
4. Hon. Sammy Mwaita, MP
5. Hon. Shakeel Shabbir Ahmed, MP
6. Hon. Abdul Rahim Dawood ,MP
7. Hon. Daniel Epuyo Nanok, MP
8. Hon. Iringo Cyprian Kubai, MP
9. Hon. Jones Mlolwa, MP
10. Hon. Joseph Limo, MP
11. Hon. Timothy Bosire, MP
12. Hon. Lati Lelelit, MP
13. Hon. Mary Emase, MP
14. Hon. Jimmy Nuru Angwenyi, MP
15. Hon. Kirwa Stephen Bitok, MP
16. Hon. Dennis Waweru, MP
17. Hon. Sumra Irshadali, MP
18. Hon. Ronald Tonui, MP

Apologies

1. Hon. Nelson Gaichuhie, MP - Vice-Chairperson
2. Hon. Alfred Sambu, MP
3. Hon. Sammy Koech, MP
4. Hon. Dr. Oburu Oginga, MP
5. Hon. Joash Olum, MP
6. Hon. Abdullswamad Shariff, MP
7. Hon. Sakaja Johnson, MP
8. Hon. Patrick Makau King'ola, MP
9. Hon. Anyanga Andrew Toboso, MP
10. Hon. Tiras Ngahu, MP
11. Hon. Ogendo Rose Nyamunga, MP

IN ATTENDANCE

KNA Secretariat

1. Mr. Martin Masinde - Deputy Director, Parliamentary Budget Office
2. Mr. Evans Oanda - First Clerk Assistant
3. Ms. Esther Nginyo - Third Clerk Assistant
4. Mr. Nicodemus Maluki - Third Clerk Assistant
5. Mr. Fredrick Otieno - Third Clerk Assistant
6. Mr. Charles Atamba - Research Officer
7. Ms. Brigitta Mati - Legal Officer
8. Ms. Julie Mwithiga - Fiscal Analyst

MIN.NO. DCF/301/2014 PRELIMINARIES

Hon. Sakwa Bunyasi, MP who was the Acting Chairperson called the meeting to order at 10:30 am followed by a word of prayer. He then informed the Members that the Parliamentary Budget Office would make a presentation on the Sessional Paper No. 14 of 2014 on Increase of GOK External borrowing Ceiling and thereafter meet with the Cabinet Secretary, the National Treasury at 3.00 pm on the same matter.

MIN.NO. DCF/302/2014 PRESENTATION BY THE PARLIAMENTARY BUDGET OFFICE ON THE ANALYSIS OF SESSIONAL PAPER NO. 14 OF 2014 ON INCREASE OF GOVERNMENT OF KENYA EXTERNAL DEBT CEILING.

Mr. Martin Masinde, Deputy Director, Parliamentary Budget Office made a presentation to the Committee on the Increase of GOK External Debt Ceiling as follows;

OVERVIEW

1) The PFM Act 2012, section 50(2), gives Parliament the authority to set the limit or ceiling of national government borrowing. The National Treasury through Sessional Paper No. 14 is seeking to double the ceiling for external debt from USD 14 Billion (Kshs 1.2 Trillion) to USD 28 Billion (Kshs 2.5 Trillion).
2) The last time the external debt ceiling was amended, was in January 2013, when Parliament raised the ceiling from USD 10 Billion (Kshs 800 Billion) to USD 14 Billion (Kshs 1200 Billion).

SITUATIONAL ANALYSIS

Table 1: Kenya's External Stock of Debt for FY 2008-09 to 2013-14 (Kshs Million)

	2008/200	2009/201	2010/201	2011/2012	2012/201	2013/201	Sep-2014
Bilateral	185,933	196,347	256,965	246,240	257,637	289,914	278,547
Multilateral	331,105	352,333	440,882	462,963	511,791	597,340	608,022

Commercial Banks	-	-	-	50,540	58,928	234,799	185,163
Suppliers Cred	23,837	20,458	25,041	14,812	15,207	16,451	16,096

Source: National Treasury

3) From table 1, the trend is that the highest stock of debt is from the multilateral donors, the largest creditors being IDA/IFAD (International Development Agency/ International Fund for Agricultural Development) and (ADF) Africa Development Fund. Further, the amount owed to commercial banks increased significantly in FY 2013/14 as a result of the issued USD 2 Billion Sovereign bond. Kenya's largest bilateral donors are Japan, France and China.
4) The total external debt stock by end of September 2014 stood at Kshs 1,045 Billion against the statutory ceiling of Kshs. 1,200 Billion, leaving a leeway of only Kshs 155 Billion. In the same period, under debt servicing, the interest payments to external creditors amounted to Kshs. 3.8 Billion while the budgeted foreign interest due for FY 2014/15 is Kshs. 24.5 Billion therefore leaving Kshs. 20.7 Billion outstanding. Further, the strain of debt servicing is evident in our national budget, in the 2014/15 budget Kshs. 378 billion has been budgeted for public debt redemption and interest payment making debt repayment one of the largest recurrent expenditure items.

5) In the FY 2014/15, the government plans to borrow externally Kshs 165.758 Billion up from Kshs 106.13 Billion in 2013/14. Further, a ceiling of Kshs. 2.5 Trillion would be estimated at 53% of the rebased GDP and this is excluding domestic debt which currently stands at Kshs. 1.26 Trillion.

RATIONALE OF BORROWING

Table 2: Saving, Investment and Current External Balance in percentage of GDP

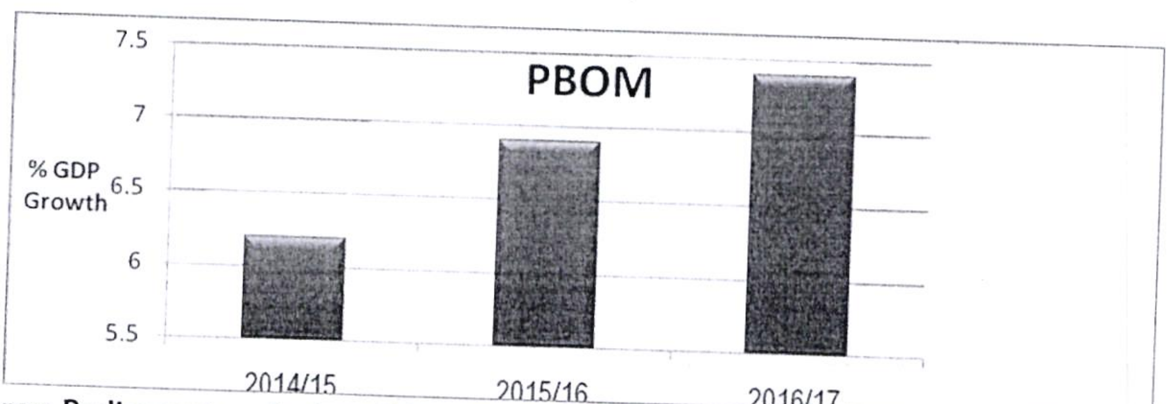
	2013/14	**2014/15**	**2015/16**	**2016/17**
Gross Investment of which	**22.3**	**23.8**	**24.9**	**25.5**
Central Government	11.4	9.5	10.1	10.6
Other	11.0	14.3	14.8	15.0
Gross National Saving of which	**12.7**	**14.9**	**16.9**	**18.0**
Central Government	5.4	7.1	8.0	8.6
Other	7.3	7.8	8.9	9.4

Current External Balance(including official transfers)	-9.6	-8.9	-8.0	-7.5

Source: Budget Policy Statement 2014

6) From table 2, the Saving-Investment gap is equal to the Current External Balance. The savings are low and the investment needs are greater than the available savings, this result to the Government borrowing finances externally to meet the investment needs. Government Investment is done through the development expenditure and this is important to spur economic growth.
7) In FY 2014/15, the Current external balance is 8.9% of GDP or 413 Billion. If for instance, there was a full government investment of the Kshs. 413 Billion, it could result in GDP growth by as much as 11 percent, private final consumption expenditure increases by 7.4%, exports increase slightly but imports (Import of goods to facilitate major development projects in the country) increase more therefore current account worsens. There would also be increased revenue earnings especially from income tax denoting higher employment; increased employment is mostly noted in the private sector. Small reduction of households below the poverty line (by approx. 7%) is noted.

Figure 1: Projected GDP Growth for Kenya



Source: Parliamentary Budget Office Model (PBOM

The projected GDP growth by PBOM is 6.2, 6.9 and 7.4 percent in 2014/15 2015/16 2016/17.

ANALYSIS OF THE SESSIONAL PAPER

8) The National Treasury is seeking further enhanced borrowing, through an increase in the recently issued sovereign bond, for not more than USD 750 Million. Much of the borrowing will be used for Standard Gauge Railway (SGR) project, fund on-going activities under the LAPSSET project, 10,000 KM of roads, energy and

water projects, among others. The National Treasury has estimated that by December 2014, it's highly likely that the USD 1.2 Trillion ceiling will have been exceeded in the following two scenarios:-

Table 3: Analysis of Scenario 1 and 2

	SCENARIO 1		**SCENARIO 2**	
ITEM	**Amount in USD (Millions)**	**Amount Kshs.[1] (Millions)**	**Amount in USD (Millions)**	**Amount in Kshs (Millions)**
Current external debt stock		1,045,000		1,045,000
Increase(tapped) from the Bond	750	67,014	500	44,676
Disbursement of SGR (Civil Works)	736	65,763	736	65,763
Disbursement of SGR(Locomotives & Rolling stock)	459	41,013	459	41,013
Absorption[2]		11,210		11,548
Total required external debt stock		1,230,000		1,208,000
Statutory Ceiling		1,200,000		1,200,000

Source: Sessional paper No. 14 of 2014

9) From Table 3, Scenario 1 surpasses the ceiling by Kshs 30 Billion while Scenario 2 surpasses the ceiling by Kshs. 8 Billion. Therefore the expected disbursements under the two scenarios will lead to a breach of the statutory limit set by Parliament. It is for this reason that National Treasury wants to increase the statutory limit from Kshs. 1.2 Trillion to Kshs. 2.5 Trillion.

[1] Assumed exchange rate 1 USD= 89.3522 in both Scenarios

[2] Absorption is assumed to be the excess of total required external debt stock and sum of all other items

SALIENT ISSUES

i. The Sessional Paper is simply requesting for an increase in the external debt. It should be noted that when it comes to the actual borrowing, there is need to look into a framework in which the burden of debt will be shared equitably throughout the country. Article 201(c) of the Constitution which states that the burdens and benefits of public borrowing shall be shared equitably between the present and the future generation.

ii. It is not clear on what the total estimated amount required external debt stock is for the rest of FY 2014/15, since the scenarios are based on end December 2014.

iii. The National Treasury wants the ceiling doubled from Kshs 1.2 Trillion to Kshs. 2.5 Trillion while the higher of the two scenarios exceeds the current ceiling by Kshs. 30 Billion. The proposed ceiling is therefore too high.

iv. In as much as rebasing of the GDP encourages the country to access more external debt finance, a ceiling of Kshs. 2.5 Trillion would be estimated at 53% of the rebased GDP and this is excluding domestic debt. It would therefore mean that most of the revenue would go to debt servicing.

v. Borrowing need not be a panacea, in the long-term, there is need to look into converging to a balanced budget and country such as Germany have adopted this kind of policy.

vi. With increased net debt attributed to increase in disbursement from external creditors, we need to urgently address the low absorption capacity of development expenditure for Kenyans to enjoy the benefits of development partner funds. Further, there is need to carry out a new debt sustainability analysis in view of the rebased GDP.

MIN.NO. DCF/303/2014 COMMITTEE'S OBSERVATIONS

The Committee made the following observations that;

i. As the government seeks for additional fund, it is also important to ensure that its revenue base is maximized by Kenya Revenue Authority ensuring compliance with GPR enabled ETR receipts for the taxpayers.

ii. With only 4% of the development expenditure released, there is a risk of GDP growth being affected as the completion of development projects intended to open up the economy will be slower.

iii. Proper investment of the borrowed fund is highly recommended to ensure that the country's debt rating, rate of return on investment is not negatively affected. Further, proper investment will promote foreign exchange inflows to mitigate currency risks.

iv. With the Budget Policy Statement expected in mid-February, 2015, a clear strategy on debt management should be stipulated as it was noted that approval for expenditure implicitly approves debts.
v. Government should work towards balanced budgeting like in other developed jurisdiction to reduce reliance on debt.

MIN.NO. DCF/304/2014 ADJOURNMENT

The Chairperson adjourned the meeting at 11.45 a.m.

Signed..
Chairperson

Date..

MINUTES OF THE 64TH SITTING OF THE DEPARTMENTAL COMMITTEE ON FINANCE, PLANNING & TRADE HELD ON THURSDAY 20TH NOVEMBER, 2014 IN 5TH FLOOR, CONTINENTAL HOUSE, PARLIARMENT BUILDINGS, AT 3.00PM

Present

1. Hon. Benjamin Langat, MP - **Chairperson**
2. Hon. Nelson Gaichuhie, MP - Vice-**Chairperson**
3. Hon. Eng. Shadrack Manga, MP
4. Hon. Sammy Mwaita, MP
5. Hon. Abdul Rahim Dawood ,MP
6. Hon. Daniel Epuyo Nanok, MP
7. Hon. Iringo Cyprian Kubai, MP
8. Hon. Jones Mlolwa, MP
9. Hon. Joseph Limo, MP
10. Hon. Timothy Bosire, MP
11. Hon. Lati Lelelit, MP
12. Hon. Sakwa John Bunyasi, MP
13. Hon. Mary Emase, MP
14. Hon. Jimmy Nuru Angwenyi, MP
15. Hon. Kirwa Stephen Bitok, MP
16. Hon. Dennis Waweru, MP
17. Hon. Sumra Irshadali, MP

Apologies

1. Hon. Alfred Sambu, MP
2. Hon. Sammy Koech, MP
3. Hon. Shakeel Shabbir Ahmed, MP
4. Hon. Dr. Oburu Oginga, MP
5. Hon. Joash Olum, MP
6. Hon. Abdullswamad Shariff, MP
7. Hon. Sakaja Johnson, MP
8. Hon. Patrick Makau King'ola, MP
9. Hon. Anyanga Andrew Toboso, MP
10. Hon. Tiras Ngahu, MP
11. Hon. Ogendo Rose Nyamunga, MP
12. Hon. Ronald Tonui, MP

IN ATTENDANCE

FRIENDS OF THE COMMITTEE

1. Hon. David Pkosing, MP	-	Pokot South
2. Hon. Johana Ng'eno, MP	-	Emurua Dikirr
3. Hon. Patrick Ole Ntutu	-	Narok West
4. Hon. Mustafa Idd	-	Kilifi South
5. Hon. Alois Lentoimanga, MP	-	Samburu North
6. Hon. Banticha Abdullahi, MP	-	Isiolo south
7. Hon. Abdullahi Diriye, MP	-	Wajir South
8. Hon. Isaac Shaaban, MP	-	Lafey
9. Hon. James Lomenen, MP	-	Turkana South
10. Hon. Christopher Nakuleu, MP	-	Turkana North
11. Hon. Protus Akujah, MP	-	Loima
12. Hon. Suleiman Dori, MP	-	Msambweni
13. Hon. Gideon Mungaro, MP	-	Malindi

THE NATIONAL TREASURY

1. Mr. Henry Rotich	-	Cabinet Secretary
2. Mrs. Esther Koimett	-	Investment Secretary
3. Mr. Charles Kairu		

PRIVATIZATION COMMISSION

1. Mr. Solomon Kitungu	-	MD, Privatization Commission
2. Mr. Wycliffe Temesia	-	Chief Finance and Administration Manager

KNA Secretariat

1. Mr. Martin Masinde	-	Deputy Director, Parliamentary Budget Office
2. Mr. Evans Oanda	-	First Clerk Assistant
3. Ms. Esther Nginyo	-	Third Clerk Assistant
4. Mr. Nicodemus Maluki	-	Third Clerk Assistant
5. Mr. Fredrick Otieno	-	Third Clerk Assistant
6. Mr. Charles Atamba	-	Research Officer
7. Ms. Brigitta Mati	-	Legal Officer
8. Ms. Julie Mwithiga	-	Fiscal Analyst

MIN.NO. DCF/305/2014 PRELIMINARIES

The Chairperson called the meeting to order at 3:30 pm followed by a word of prayer. He called on all present to do self-introduction.

MIN.NO. DCF/306/2014 PRESENTATION BY THE CABINET SECRETARY, THE NATIONAL TREASURY ON THE EQUILIZATION FUND

On request by Members of Parliament from areas that qualify for the Equilization Fund, Mr. Henry Rotich, Cabinet Secretary, the National Treasury made a presentation that the Equilization Fund Regulations had been sent to Parliament a month ago for consideration by the Delegated Legislation Committee. It was however established that the regulations had not been received by the relevant Committee and therefore, he undertook to have them presented to Parliament on Tuesday, 25th November, 2014 when he would be responding to a question on the same matter.

MIN.NO. DCF/307/2014 PRESENTATION BY THE CABINET SECRETARY, THE NATIONAL TREASURY ON THE SESSIONAL PAPER NO. 14 OF 2014 ON INCREASE OF GOK EXTERNAL BORROWING CEILING PURSUANT TO SECTION 50(2) OF THE PUBLIC MANAGEMENT ACT, 2012.

The Cabinet Secretary presented on the Sessional Paper No. 14 of 2014 on Increase of GOK External Borrowing Ceiling as follows that;

i. The Sessional Paper is seeking for Parliament's approval to increase government external debt ceiling from Kshs. 1.2 Trillion to Kshs. 2.5 Trillion.
ii. The last adjustment was done in January, 2013 which moved the ceiling from Kshs. 800 billion to Kshs. 1.2 trillion.
iii. Currently, setting a debt ceiling is based on a nominal value which is prone to the effects of changes in foreign exchange rates. The Ministry will be seeking to have the ceiling pegged to the country's GDP.
iv. With the Government's 2012 – 2017 Medium Term Plan II on infrastructure, some of which will be finance by Development Partners and other bilateral donors, the ceiling is likely to burst with the expected inflows.
v. As a result of the revision of the country's GDP, the current debt to GDP ratio is at 46% against 50% which is recommended regionally for purposes of EAC micro-economic convergence. There is therefore need to raise the ceiling.
vi. The projects that the government expect to finance will include;
    - The Standard Gauge Railway.
    - The LAPSSET Project
    - Generationof 5,000 MegaWatts of electricity
    - Galana Irrigation Projects
    - Crude oil pipeline to evacuate oil from Turkana to Lamu
    - Regional Projects (the Northern Corridor Integration Projects)
    - 2nd Container Terminal and Berth
    - Transmission Lines Projects
    - 10,000 KM ongoing road projects.

A comprehensive list of the projects would be provided to the Secretariat by the National Treasury.

vii. Once the ceiling is approved, the government will venture into external borrowing leaving the domestic borrowing for the private sector. The government will also work towards reducing the infrastructure gap which currently stands at USD 1.2 billion.

viii. The government has been engaging with development partners such as the World Bank, European Union, and African development Bank among others and agreed in principle to borrow. The country is planning to reenter the bond market and leverage on the favourable rates being offered currently. This is hugely informed by the low interest rates and that Kenya's inaugural Eurobond is trading at a premium.

ix. Most of the borrowing Kenya has negotiated for is hugely concessional. However, the government is negotiating for a hedge facility to cushion itself for the exchange rate dynamics that may affect the huge capital inflows from the secondary markets.

x. 40% of the Kshs. 327 billion meant for SGR is expected to come in the next one month. The government has put sound macroeconomic fundamentals to ensure continued stability even when these capital inflows will finally arrive. This is clear with the huge reserves that the CBK has built in the recent past to address any inflationary pressures and exchange rate dynamics that may arise.

xi. The Country's debt burden is sustainable and therefore there is no reason to worry. Currently the debt to GPD ratio is 46% against the maximum limit of 74% recommended by World Bank.

MIN.NO. DCF/308/2014 COMMITTEE'S OBSERVATIONS

The Committee made the following observations that;

i. As the government takes advantage of the low rate external borrowing, care should be taken to ensure that there are no foreign exchange risks and that debt sustainability is maintained.

ii. The export sector should be taken care of by ensuring the loans are put into good use especially in improving the infrastructure in a bid to increase the country's competitiveness.

iii. The various geothermal exploration projects in various parts of the country need to be properly harnessed.

iv. There is need to put more efforts to ensure that the absorption capacity is at reasonable capacity of around 80% by ensuring that the bottlenecks that lead to low absorption rate such as lengthy procurement procedures are properly handled.

MIN.NO. DCF/309/2014 PRIVATIZATION OF THE STATE OWNED SUGAR FACTORIES.

This agenda item was deferred to a later date which would be confirmed.

MIN.NO. DCF/310/2014 ADJOURNMENT

The Chairperson adjourned the meeting at 5.09 p.m.

Signed...
Chairperson

Date...

MINUTES OF THE 65TH SITTING OF THE DEPARTMENTAL COMMITTEE ON FINANCE, PLANNING & TRADE HELD ON TUESDAY 25TH NOVEMBER, 2014 IN COMMITTEE ROOM 9, PARLIARMENT BUILDINGS, AT 3.00PM

Present

1. Hon. Benjamin Langat, MP - **Chairperson**
2. Hon. Nelson Gaichuhie, MP - **Vice-Chairperson**
3. Hon. Sammy Mwaita, MP
4. Hon. Shakeel Shabbir Ahmed, MP
5. Hon. Abdul Rahim Dawood ,MP
6. Hon. Daniel Epuyo Nanok, MP
7. Hon. Iringo Cyprian Kubai, MP
8. Hon. Jones Mlolwa, MP
9. Hon. Joseph Limo, MP
10. Hon. Timothy Bosire, MP
11. Hon. Lati Lelelit, MP
12. Hon. Sakwa John Bunyasi, MP
13. Hon. Mary Emase, MP
14. Hon. Kirwa Stephen Bitok, MP
15. Hon. Ogendo Rose Nyamunga, MP
16. Hon. Ronald Tonui, MP
17. Hon. Joash Olum, MP

Apologies

1. Hon. Alfred Sambu, MP
2. Hon. Jimmy Nuru Angwenyi, MP
3. Hon. Sammy Koech, MP
4. Hon. Dr. Oburu Oginga, MP
5. Hon. Abdullswamad Shariff, MP
6. Hon. Sakaja Johnson, MP
7. Hon. Patrick Makau King'ola, MP
8. Hon. Anyanga Andrew Toboso, MP
9. Hon. Tiras Ngahu, MP
10. Hon. Eng. Shadrack Manga, MP
11. Hon. Dennis Waweru, MP
12. Hon. Sumra Irshadali, MP

IN ATTENDANCE

Kenya National Assembly

1. Mr. Robert Nyagar - Chief Fiscal Analyst
2. Mr. Evans Oanda - First Clerk Assistant
3. Ms. Esther Nginyo - Third Clerk Assistant
4. Mr. Nicodemus Maluki - Third Clerk Assistant
5. Mr. Fredrick Otieno - Third Clerk Assistant
6. Mr. Charles Atamba - Research Officer
7. Ms. Brigitta Mati - Legal Officer

MIN.NO. DCF/311/2014 PRELIMINARIES

The Chairperson called the meeting to order at 3:30 pm followed by a word of prayer.

MIN.NO. DCF/312/2014: CONSIDERATION OF THE REPORT ON SESSIONAL PAPER NO. 14 OF 2014 ON INCREASE OF THE DEBT CEILING.

The Committee considered the report on Sessional Paper No. 14 of 2014 on Increase of the Debt Ceiling which was unanimously adopted and noted the following that;

i. According to the Medium Term Plan II, that include projects in the energy sector, railway transport, road transport, expansion and modernization of aviation facilities, ports and shipping maritime, development of oil pipelines and storage facilities, agriculture and rural development and ICT sector, a total of Kshs. 5.762 trillion is required to implement them.
ii. The government requires to venture into other means of financing the MTP II projects such as Public Private Partnership to avoid relying on debts only.
iii. Considering the total expenditure requirement for the MTP projects, the Committee approved the request by the National Treasury to increase the debt ceiling to Kshs. 2.5 trillion. It was however noted that the National Treasury would need to seek for Parliament's approval for the actual borrowing.

MIN.NO. DCF/313/2014: CONSIDERATION OF THE AMENDMENTS TO THE RETIREMENT BENEFITS (DEPUTY PRESIDENT AND DESIGNATED STATE OFFICERS) BILL, 2013

To address the concerns of the National Treasury, the Committee considered and adopted the following amendments to the Retirement Benefits (Deputy President and Designated State Officers) Bill, 2013:

CLAUSE 2

THAT, clause 2 be amended by—

(a) inserting the following new definitions in their proper alphabetical sequence—

"Chief Justice" means a person and appointed under article 166 of the Constitution;"

"monthly salary" means basic salary excluding all allowances or 60 percent of gross salary where basic salary is not expressly stated;"

(b) inserting a new paragraph (c) in the definition of "Designated State Officer"

"(c) Chief Justice."

(c) deleting the words "and does not include a person who served as Speaker before the commencement of this Act" immediately after the word "Constitution" in the definition of "retired Speaker";

(d) deleting the words "and does not include a person who served as Vice-President before the commencement of this Act" immediately after the word "Constitution" in the definition of "retired Vice President".

CLAUSE 3

THAT, clause 3 is amended by—

(a) deleting the words "after the 15th January, 2008"appearing immediately after "at any time".

CLAUSE 5

THAT, clause 5 be amended—

(a) in subclause (1) by—

(i) deleting the words "A retired Speaker of the National Assembly or the Senate" in subclause (1) and substituting therefor "A Designated State Officer"

(ii) deleting the word "eighty" in paragraph (a) and substituting therefor " sixty five";

(iii) deleting the words " one and half years" in paragraph (b) and substituting therefor "one year";

(iv) deleting the word "four" in paragraph (c) and substituting therefor " eight";

(v) deleting the word "four" in paragraph (d) and substituting therefor "eight"

(vi) deleting paragraph (e) and replacing therefor the following new paragraph—

"(e) a fuel allowance equal to ten percent of the monthly pension calculated under paragraph (a);

(vii) deleting the words " First Schedule" in paragraph (g) and substituting therefor "Schedule."

CLAUSE 6

THAT, clause 6 be amended by—

(a) deleting the word "eighty" in paragraph (a) and substituting therefor " sixty five";

(b) deleting the words " one and half years" in paragraph (b) and substituting therefor "one year";

(c) deleting the word "four" in paragraph (c) and substituting therefor " eight";

(d) deleting the word "four" in paragraph (d) and substituting therefor "eight";

(e) deleting paragraph (e) and replacing therefor the following new paragraph—
"a fuel allowance equal to ten percent of the monthly pension calculated under paragraph (a);"

(f) deleting the words " First Schedule" in paragraph (g) and substituting therefor "Schedule."

CLAUSE 7

THAT, clause 7 be amended by—

(a) deleting the word "eighty" in paragraph (a) and substituting therefor " sixty five;

(b) deleting the words " one and half years" in paragraph (b) and substituting therefor "one year";

(c) deleting in paragraph (c) the word "four" and substituting therefor "six";

(d) deleting the words "four " in paragraph (d) and substituting therefor "six ";

(e) deleting paragraph (e) and replacing therefor the following new paragraph—
"(e) a fuel allowance equal to ten percent of the monthly pension calculated under paragraph (a);

(f) deleting the words " First Schedule" in paragraph (g) and substituting therefor "Schedule."

SCHEDULES

THAT the First, Second and Third Schedules of the Bill be deleted and replaced with the following new Schedule—

SCHEDULE (ss. 5(1) (g), 6(g) and 7(g))

ADDITIONAL RETIREMENT BENEFITS FOR A RETIRED DEPUTY PRESIDENT, A RETIRED PRIME MINISTER, A RETIRED VICE-PRESIDENT OR A RETIRED DESIGNATED STATE OFFICER

(a) two drivers;

(b) one personal assistant;

(c) one secretary;

(d) one senior support staff;

(e) two armed security guards who shall be provided on request by the entitled person;

(f) diplomatic passports for the entitled person and his spouse;

(g) maintenance expenses for the vehicles provided pursuant to this Act;

(h) access to the V.I.P. lounge at all airports within Kenya.

LONG TITLE

THAT, the long title be amended by deleting the words "and Deputy Prime Minister" appearing immediately after "Vice-President"

MIN.NO. DCF/310/2014 ADJOURNMENT

The Chairperson adjourned the meeting at 6.55 p.m.

Signed..
Chairperson

Date..

634

D/LAP

Grateful. Chair to move the amended version

CMA
24/11/14

Mr. E. Owuoth CLA.

Please inform the Committee Members.
24/11

REPUBLIC OF KENYA

THE NATIONAL TREASURY

www.treasury.go.ke
FAX NO. 2213524
Telephone: 2252299
When replying please quote:

THE TREASURY
P.O. Box 30007
NAIROBI

Ref: DMD 4/264 'A'

Date: 20th November, 2014

Mr Justin Bundi
Clerk to the National Assembly
Parliament Buildings
NAIROBI

NATIONAL ASSEMBLY
RECEIVED
21 NOV 2014
CLERK'S OFFICE
P. O. Box 41842, NAIROBI

Dear Mr. Bundi,

RE: NOTICE OF MOTION BY THE CABINET SECRETARY THE NATIONAL TREASURY TO INCREASE EXTERNAL BORROWING FOR THE GOVERNMENT OF THE REPUBLIC OF KENYA UNDER THE PUBLIC FINANCIAL MANAGEMENT ACT, 2012

Reference is made to our letter ref ***DMD 4/264 "A"*** dated 5th November 2014 forwarding the Notice of Motion by the Cabinet Secretary National Treasury to increase Government external borrowing ceiling pursuant to Section 50(2) of the Public Finance Management Act 2012.

We had inadvertently indicated the amount as US$23 Billion (Kenya Shillings two trillion i.e. Kshs 2,000 billion instead of US$ 28 Billion (Kenya Shillings two trillion five hundred billion i.e. Kshs 2,500 billion).

We therefore request to withdraw the Notice of Motion sent vide our letter of 5th November 2014 and replace it with the attached Notice of Motion for US$ 28 Billion (Kenya Shillings two trillion five hundred billion i.e. Kshs 2,500 billion).

We regret any inconvenience caused.

Yours Sincerely

Esther Koimett, CBS
FOR: PRINCIPAL SECRETARY/NATIONAL TREASURY

ISO 9001:2008
Certified.

REPUBLIC OF KENYA

THE NATIONAL TREASURY

NOTICE OF MOTION BY THE CABINET SECRETARY THE NATIONAL TREASURY TO INCREASE EXTERNAL BORROWING FOR THE GOVERNMENT OF THE REPUBLIC OF KENYA UNDER THE PUBLIC FINANCIAL MANAGEMENT ACT, 2012

That, pursuant to section 50(2) of the Public Financial Management Act, 2012, this house approves the increase of total indebtedness for the time being outstanding in respect of principal amount of money borrowed or credit obtained from US$ 14 billion (Kenya Shillings one trillion two hundred billion i.e. 1,200 billion) to US$ 28 billion (Kenya shillings two trillion five hundred billion i.e. Kshs 2,500 billion).

Dated this......10th......day of ......November......2014

HENRY ~~ROTICH~~

CABINET SECRETARY/NATIONAL TREASURY

REPUBLIC OF KENYA
THE NATIONAL TREASURY

www.treasury.go.ke
FAX NO. 2213524
Telephone: 2252299
When replying please quote:

THE TREASURY
P.O. Box 30007

NAIROBI

Ref: DMD 4/264 'A' **Date: 21st November, 2014**

Mr. Justin Bundi
Clerk to the National Assembly
Parliament Buildings
NAIROBI

21 NOV 2014
CLERK'S OFFICE

Dear Mr. Bundi,

RE: LIST OF DEVELOPMENT PROJECTS TO BE FINANCED THROUGH EXTERNAL BORROWING IN THE MEDIUM TERM, 2014 - 2017

Reference is made to the briefing session on 20th November, 2014 by the Cabinet Secretary National Treasury to the Finance, Planning and Trade Committee of Parliament on the Notice of Motion to increase Government external borrowing ceiling pursuant to Section 50(2) of the Public Finance Management Act 2012.

The Committee requested the Cabinet Secretary to provide details of development projects to be funded in the medium term, which justify the increase of the borrowing ceiling from Kshs 1,200 billion to Kshs 2,500 billion.

Attached please find the list of projects in various sectors of the economy, estimated to cost Kshs 5,762 billion during the period 2013 - 2017. Please note that the list is not exhaustive and includes only part of the projects earmarked for implementation in the Second Medium Term Plan, 2013 – 2017. The request to enhance the ceiling is for planning purposes only and the loans to be contracted for the individual projects will be subjected to scrutiny by the National Assembly through the budget process.

Please therefore take further necessary action.

Yours Sincerely

Esther Koimett, CBS
FOR: PRINCIPAL SECRETARY/NATIONAL TREASURY

ISO 9001:2008
Certified.

Paper laid

By the Leader of the Majority Party on Tue 18/11/14

REPUBLIC OF KENYA

HARAMBEE

THE NATIONAL TREASURY

SESSIONAL PAPER NO. 14 OF 2014

INCREASE OF GOK EXTERNAL BORROWING CEILING

(PURSUANT TO SECTION 50(2) OF THE PUBLIC FINANCE MANAGEMENT ACT, 2012)

Mr Evans Oanda

urgently deal.
PMM 19/11

SESSIONAL PAPER NO.....OF 2014

INCREASE OF EXTERNAL DEBT CEILING PERSUANT TO SECTION 50 (2) OF THE PUBLIC FINANCE MANAGEMENT ACT, 2012

1. In accordance with the provisions of the PFM act, 2012, the following information is laid before the National Assembly for consideration and approval

2. On 11th January 2013, parliament raised the ceiling for external debt from US$ 10 Billion (Kshs 800 Billion) and set it at US$14 billion (Kshs 1,200 billion).

3. As at 30th September 2014 the GoK's total disbursed outstanding nominal external debt stock stood at Ksh 1,045 billion against the set statutory ceiling of Ksh 1,200 billion. This leaves headroom of Ksh 155 billion.

4. The ceiling was set when dollar/shilling exchange rate was 1 US dollar to Ksh 86 but now it is 1 US dollar to Ksh 89.

5. In the second Medium Term Plan 2013-2017, the Government is seeking massive financing to meet the cost of the country's infrastructure development. This includes; implementing the Standard Gauge Railway project, funding the on-going activities under the LAPSSET, 10,000 kilometres of Roads, the 5000+ MW in the Energy Sector and irrigation among others. The projects will be financed through borrowing.

6. The National Treasury on behalf of the government seeks to tap (increase) the recently issued sovereign bond for an amount not exceeding US$ 750 to finance on-going development projects, further the disbursements of the SGR loans are expected to accelerate having satisfied the conditions precedent to disbursements and thereby paving the way for implementation of the project. This taken together with funding (upcoming disbursements) of other projects loans to finance the

development budget will drive the quantum of external debt beyond the current ceiling of Ksh 1.2 trillion.

7. The Kenya Government is, in the context of the national vision 2030, committed to transforming Kenya to a middle income country by 2030. To realize this objective means among other things, the country must accelerate economic growth to around 10% annually and sustain it at that level for a long period. To achieve and sustain such high growth rates requires massive investments in infrastructural development. For this to happen, we need external assistance in areas of energy, roads and water among others. **Please note that the requested enhanced ceiling is for planning purposes only and the loans to be contracted will be subjected to scrutiny by the National Assembly.**

8. Issues regarding utilization, accountability and transparency of the proceeds from external loans and grants, continue to receive serious attention by the Government. The PFM Act, 2012 now provides elaborate provisions to strengthen management of this resource.

9. The National Treasury is finalizing the PFM regulations which propose to set the External debt ceiling at a present value of 50 percent to GDP, which is also a convergence criterion under the East Africa Community arrangements.

10. The National Treasury has carried out an analysis of the impact of the expected external loan disbursement on the Public Debt portfolio by end December 2014 and based on the following assumptions;

<u>Scenario one</u>

a. Exchange rate remains at 1 USD = 89.3522 its level on 31st October 2014

b. Absorption rate of 6 percent for the other externally funded projects (Source ERD)
c. Amount to be tapped from the Bond will not exceed USD 750 million dollars
d. Disbursement of SGR currently being processed USD 736,000,000 (civil works)
e. Disbursement of SGR currently being processed USD 458,716,403.50 (Locomotives & rolling stock)

The above disbursements of Ksh 185 billion if added to the current external debt stock of Ksh 1,045 billion leads to a total stock of Ksh 1,230 billion. This breaches the ceiling by Ksh 30 billion

Scenario two

a. Exchange rate remains at 1 USD = 89.3522 its level on 31st October 2014
b. Absorption rate of 6 percent for the other externally funded projects (Source ERD)
c. The amount to be tapped from the Bond USD 500 million dollars
d. Disbursement of SGR currently being processed USD 736,000,000 (civil works)
e. Disbursement of SGR currently being processed USD 458,716,403.50 (Locomotives & rolling stock)

The above disbursements of Ksh 163 billion if added to the current external debt stock of Ksh 1,045 billion leads to a total stock of Ksh 1,208 billion. This breaches the external debt ceiling by Ksh 8 billion.

11. The expected disbursements under the two scenarios will lead to a breach of the statutory limit set by parliament. Two options are then available to the Government:

a. Reduce the amount to be tapped from the Bond or
b. Raise the External debt ceiling

12. The National Assembly is requested to consider and approve the **the increase of total indebtedness for the time being outstanding in respect of principal amount of money borrowed from US$14 billion (Ksh 1.2 trillion) to US$ 28 billion (Ksh 2.5 trillion).**

....

HENRY ROTICH
CABINET SECRETARY/NATIONAL TREASURY

DATE:......10/11/2014..