

**REPUBLIC OF KENYA**



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**THE NATIONAL TREASURY AND ECONOMIC PLANNING  
PUBLIC DEBT MANAGEMENT OFFICE**

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**ANNUAL PERFORMANCE REPORT  
FY 2023/2024**

**DECEMBER 2024**

For comments and clarifications, please contact:

**Public Relations Office**

The National Treasury and Planning

Treasury Building

P. O. Box 30007-00100

**NAIROBI, KENYA**

Tel: +254-20-2252-299

Email: [pstnt@treasury.go.ke](mailto:pstnt@treasury.go.ke)

The document is also available on the website at: [www.treasury.go.ke](http://www.treasury.go.ke)

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## FOREWORD

The Public Debt Management Office (PDMO) Annual Performance Report for FY 2023/24 has been prepared pursuant to Section 64 (2) (d) of the Public Finance Management Act, 2012 which requires preparation and submission of the Annual Performance Report to both the Cabinet Secretary responsible for finance and the Commission on Revenue Allocation every financial year.

The Public Debt Management Office (PDMO) Annual Performance Report provides highlights of PDMO performance in the context of Kenya's legal and institutional responsibilities for public debt borrowing. The report makes disclosures on public debt stock and debt service performance viz-a-viz the debt management objectives set out in the Budget Policy Statement, the Medium-Term Debt Management Strategy and the Annual Borrowing Plan for FY 2022/23.

The Report presents the performance of PDMO as assessed against its mandate in the context of legal and institutional responsibilities for public debt borrowing. The Report covers public debt stock and assesses performance against debt management objectives and the parameters set out in the Medium-Term Debt Management Strategy, institutional frameworks and the operating environment. The Report also highlights the Public Debt Management Reform Initiatives, Challenges and Opportunities.

The economic environment in the previous fiscal year (2022/23) was characterized by global economic slowdown underpinned by the Russia-Ukraine conflict, elevated global inflation, persistent supply chain disruptions, the drought effects that created vulnerabilities on food security and negatively impacted economic performance. This notwithstanding, PDMO was able to mobilize adequate resources to finance the budget deficit and refinance maturing debt. The deficit financing requirements for FY 2023/2024 was estimated at KSh 861.3 billion (5.3 percent of GDP) and was financed by net external borrowing of KSh 412.06 billion (2.6 percent of GDP) and net domestic borrowing of KSh 449.21 billion (2.8 percent of GDP) representing a financing mix of 47.8 per cent from external and 52.2 per cent from domestic sources.

During the year under review, the total debt service amounted to Ksh 1,668,364 million consisting of Ksh 827,632 million and Ksh 840,732 million as principal and interest payments respectively.

Over the years, Kenya has maintained public debt within sustainable levels and this is expected to be maintained through active fiscal consolidation and liability management operations. The PDMO will continue to undertake reforms aimed at reducing the cost and minimize the risk of public debt while improving the institutional structure and policies to ensure efficient and effective debt management operations. Further, the PDMO will continue to implement reforms aimed at promoting development of domestic debt market to create a market structure that provides affordable debt with lower risk of crowding out private sector borrowers.

The PDMO recognizes the increased desire for public debt information by the general public

and will endeavour to provide accurate and timely public debt information to promote transparency and accountability in line with the legal framework and in accordance with international best practice.

I would like to appreciate the strategic leadership of the Cabinet Secretary for the National Treasury and Economic Planning and the Principal Secretary, the National Treasury in developing this Report. I also wish to sincerely thank the Directors of the three departments for providing technical guidance and collaborative effort of officers from the Front, Middle and Back offices within the PDMO for their tireless efforts towards the preparation of the FY 2023/24 PDMO Annual Performance Report.

This Report and other public debt related reports and publications can be accessed on the National Treasury website: [www.treasury.go.ke](http://www.treasury.go.ke).

**RAPHAEL O. OTIENO**  
**DIRECTOR GENERAL/PUBLIC DEBT MANAGEMENT OFFICE**

## **ABBREVIATIONS AND ACRONYMS**

ABP	- Annual Borrowing Plan
AFD	- Agence Francaise de Development
AfDB	- African Development Bank
APDMR	- Annual Public Debt Management Report
ATS	- Automated Trading System
BETA	- Bottom-Up Economic Transformation Agenda
CBK	- Central Bank of Kenya
CBS	- Central Bureau of Statistics
CPIP	- Country Portfolio Improvement Plans
CRA	- Commission on Revenue Allocation
CS	- Cabinet Secretary
DEG	- Development Effectiveness Group
DeMPA	- Debt Management Performance Assessment
Dhow CSD	- Dhow Central Securities Depository
DP	- Deputy President
DPF	- Development Partnership Forum
DPSRM	- Debt Policy Strategy and Risk Management
DR&S	- Debt Recording and Settlement
FY	- Financial Year
GDP	- Gross Domestic Product
IBRD	- International Bank for Reconstruction and Development
ICT	- Information and Communication Technology
IDA	- International Development Association
IFMIS	- Integrated Financial Management Information System
IIF	- Institute of International Finance
IMF	- International Monetary Fund



KENGEN	- Kenya Electricity Generating Company
KPA	- Kenya Ports Authority
KQ	- Kenya Airways
MTDS	- Medium-Term Debt Strategy
MTP	- Medium-Term Plan
NGOs	- Non-Governmental Organizations
NT	- National Treasury
OTC	- Over the Counter
PDMO	- Public Debt Management Office
PFM Act	-Public Finance Management Act
QEBR	- Quarterly Economic Budget Review
S&P	- Standard and Poor's
SDRs	- Special Drawing Rights
SLB	- Securities Lending and Borrowing
SOEs	- State-owned Enterprises
WBG	- World Bank Group

## EXECUTIVE SUMMARY

Preparation and production of the Annual Performance Report is in line with the Public Finance Management Act, 2012 which requires Public Debt Management Office (PDMO) to prepare and submit the Annual Performance Report to the Cabinet Secretary for the National Treasury and Economic Planning and Commission on Revenue Allocation (CRA). The Report also forms an integral component of transparency and accountability in the management of public debt.

During the period under review, the PDMO executed its mandate and achieved various milestones through implementation of the planned activities. These include mobilizing resources to finance the budget deficit; preparation of statutory documents and reports; implementation of debt management reforms; engagement with the relevant stakeholders; and consistently servicing debt on a timely manner without incurring any arrears.

During the period under review, the PDMO mobilized KSh 816.3 billion (5.3 per cent) of the GDP against the financing requirement of KSh 925.0 billion (5.7 per cent of GDP). The total disbursements were KSh 760.5 billion comprising KSh 155.8 billion in project loans, KSh 317.8 billion in programme loans, and KSh 286.9 billion in commercial loans against a target of KSh 815.8 billion. Net external financing in the FY 2023/2024 was KSh 222.7 billion, against a target of KSh 259.3 billion with principal repayments of KSh 537.8 billion. On the other hand, the net domestic financing for FY 2023/24 was KSh 595.57 billion against a target of KSh 665.69 billion. During the period under review, the actual net domestic borrowing through government securities amounted to KSh 596.56 billion against a revised target of KSh 662.42 billion.

The National Treasury is mandated to publish a report detailing the guarantees provided by the National Government not later than two months after the end of each financial year. During the financial year under review, no new loan guarantees were issued by the National Government.

During the financial year ending June 2024, public debt service under the Consolidated Fund Services budget was KSh 1,782,391 million for both domestic and external debt. However, the actual amount paid during the fiscal year was KSh 1,668,364 million, giving a positive deviation of KSh 114,027 million. This was due to the fact that the assumed exchange rate at budgeting stage was higher than the actual rate at which payment was done.

The PDMO has implemented several reform initiatives to strengthen public debt management in Kenya. These included undertaking partial prepayment of Eurobond in February 2024 before its June 2024 maturity. In the domestic debt market, a major market infrastructure transformation was implemented with the introduction of DhowCSD which ushered in great efficiencies and convenience to investors in the domestic debt market.

During the FY 2023/24, the PDMO prepared and submitted to relevant oversight Authorities and publicized the following reports: Annual Public Debt Management Report (APDMR); Medium-Term Debt Management Strategy; Statistical and Analytical Reports; Report on New loans contracted by the Government; Annual Borrowing Plan; External Resources Estimates Handbook; and Public Debt Register.

PDMO's Investor Relations Unit facilitated investor relations engagement with creditors, financial intermediaries, credit rating agencies and other stakeholders. This was aimed at promoting fiscal transparency which is important for establishing the Government's credibility of fiscal plans and ensuring market confidence.

The PDMO encountered some challenges that impeded its performance. Some of the challenges were: Institutional capacity gaps; Inadequate budget allocation; absence of integration of the various Management Information Systems and Lack of a project management information system.

The PDMO will continue to work closely with key stakeholders such as the Central Bank of Kenya, Parliament, investors and Development Partners to ensure efficient and effective delivery of its mandate.



# **CHAPTER ONE: LEGAL AND INSTITUTIONAL FRAMEWORK OF PUBLIC DEBT MANAGEMENT OFFICE**

## **1.1 Legal Framework**

Kenya's public debt management is guided by Chapter 12, Articles 211 to 214 of the Constitution, the Public Finance Management Act, 2012 and its attendant regulations. The laws enshrine the principles of public finance in which the Government is obligated to ensure responsible financial management and clear reporting.

The Annual Performance Report is prepared in line with the provisions of Public Finance Management Act, 2012 which requires the PDMO to prepare and submit to the Cabinet Secretary for the National Treasury and Commission on Revenue Allocation (CRA) an Annual Performance Report. The report forms an integral component of the National Treasury's commitment to uphold transparency and accountability in the management of public debt.

## **1.2 Institutional Framework**

There are various institutions involved in public debt management in Kenya. Parliament plays a crucial role in public debt management by ensuring that fiscal, and debt policies are aligned with national policies and sustainability objectives in addition to enacting legislation and providing oversight on public debt.

The PFM Act, 2012, Section 62 provides for the establishment of the Public Debt Management Office (PDMO) while Section 64 and Regulation 194 of the PFM (National Government) Regulations, 2015 assigns the roles and responsibilities of the PDMO and the Cabinet Secretary.

Further, in Article 229 of the Constitution, the Office of the Auditor General is mandated to audit and report on effectiveness of management of public funds thereby reinforcing transparency and accountability in public debt management. In addition, the Controller of Budget oversees implementation of Government budgets through timely authorization of withdrawals from Public Funds and reporting on utilization.

## **1.3 Objectives of Public Debt Management Office**

Section 62 (3) of the PFM Act, 2012 provides that the objectives of the Public Debt Management Office are to—

- a. Minimise the cost of public debt management and borrowing over the long-term taking account of risk;
- b. Promote the development of the market institutions for Government debt securities; and
- c. Ensure the sharing of the benefits and costs of public debt between the current and future generations.

## **1.4 Functions of Public Debt Management Office**

Section 63 of the PFM Act, 2012, and the Public Finance Management (National Government) Regulation 194 provides for the functions of the Public Debt Management Office which include—

(a) Carrying out the government's debt management policy of minimizing its financing cost over the long-term taking account of risk;

(b) Maintaining a reliable debt data base for all loans taken by the national government, county governments and their entities including other loans guaranteed by the national government;

(c) prepare and update the annual medium-term debt management strategy including debt sustainability analysis;

(d) Prepare and implement the national Government borrowing plan including servicing of outstanding debts;

(e) Acting as the principal in the issuance of Government debt securities on behalf of the National Treasury;

(f) Monitor and evaluate all borrowing and debt-related transactions to ensure that they are within the guidelines and risk parameters of the debt management strategy;

(g) Process the issuance of loan guarantees including assessment and management of risks in national Government guarantees.

(h) Transact in derivative financial instruments in accordance with best international practices benchmarked to the debt management offices of other governments that are internationally respected for their practices.

## **1.5 Organization Structure of Public Debt Management Office**

The PDMO is organized into three functional departments namely: Resource Mobilization (Front Office); Debt Policy, Strategy and Risk Management (Middle Office); and Debt Recording and Settlement (Back Office).

### **1.5.1 Resource Mobilization Department (Front Office)**

The Department is charged with domestic and foreign borrowing management, preparation and implementation of the national Government borrowing plan, processing of Government Guarantees, Coordinate missions and technical assistance from cooperating Development Partners, undertaking investor relations activities, road shows, net shows, liaison and coordination with creditors and market participants as well as the principal in the issuance of Government debt securities on behalf of the National Treasury.

### **1.5.2 Debt Policy, Strategy and Risk Management (Middle Office)**

The Department is mandated to minimize financing costs taking into account risks through preparation, implementation and review of the Medium-Term Debt Strategy, formulation, advisory on debt policies and management of debt-related risk.

### **1.5.3 Debt Recording and Settlement Department (Back Office)**

The Department is mandated to record debt transactions through maintaining a reliable debt data base for all loans contracted by the national Government and guaranteed debt. In addition, it ensures accurate and timely settlement of debt obligations.

## **1.6 PDMO Capacity Development**

Section 62 of the PFM Act, 2012 establishes the Public Debt Management Office within the National Treasury, and specifies that the PDMO shall be headed by a Director General. Section 63 expounds the functions of PDMO while Section 64 (1) (b) requires the Cabinet Secretary to delegate to the Head of the Public Debt Management Office the operational decisions on borrowing and debt management and the day-to-day management of the Office.

The delegation of authority from the Cabinet Secretary to the Head of PDMO is meant to enhance the responsibilities of the latter. The input of these statutory mandates is that the PDMO head is a de-facto accounting officer and should have close control over the staffing, procurement /contracting, information technology and legal processing among others to ensure the PDMO remain accountable on the legal functions assigned to it.

During the review period, PDMO undertook staff training in areas relevant to public debt policy, risk management, resource mobilization, debt management performance, debt sustainability, loan analysis, monitoring and evaluation among others. These trainings are expected to build staff capacity and develop skills in order to achieve operational efficiency and effectiveness of the PDMO.

## **1.7 Technical Assistance**

The Government of Kenya in partnership with Development Partners including Agence Francaise de Development (AFD), Government of Japan, the African Development Bank (AfDB) and World Bank Group (WBG) jointly provided technical assistance in form of Grants, Technical Assistance, ICT Equipment and Office furniture. The technical assistance and trainings aimed at strengthening skills capacity by sponsoring staff to undertake emerging training programmes and provision of requisite office equipment for efficient service delivery.

## **CHAPTER TWO: PERFORMANCE CONTRACT, ANNUAL WORK PLANS AND OTHER PLANS**

Being one of the Directorates in the National Treasury and Economic Planning, the PDMO contributed to the overall achievements of various deliverables as contained in the Ministerial Strategic Plan, Performance Contract, Annual Work Plan and other plans.

During the FY 2023/2024 Ministerial Performance Contract, the PDMO committed to implement the following targets:

### **2.1 Resource Mobilization Activities**

The performance targets in resource mobilization from external and domestic sources included:

1. Mobilize External and Domestic resources to bridge the budget deficit to the tune of Ksh. 925 billion;
2. Prepare the Annual Borrowing Plan (ABP) for the FY 2023/2024;
3. Prepare Resources Estimates Handbook for FY 2023/2024; and
4. Undertake stakeholder engagements and dialogues within the FY 2023/2024

The above targets were all achieved. It is worth noting that during the period under review, the Government mobilized Ksh 818.3 billion against the financing requirement of Ksh 925.0 billion. This comprised net external financing of Ksh 222.7 billion and net domestic financing of Ksh 595.6 billion.

The high level engagements and dialogues included:

- i. The Cabinet Secretary of the National Treasury and Economic Planning led Kenyan delegation to the 2024 IMF/World Bank Spring Meetings held in Washington DC Between April 15-20, 2024, under the theme “Vision to Impact”. The meetings showcased the progress Kenya has made in transformation, speeding up delivery, and working with partners to achieve greater scale
- ii. Hosting of the IDA Summit of the Heads of State and Government held in Nairobi Between April 28-29, 2024. The Summit provided an opportunity for Africa’s leaders to inspire unwavering commitment, strategic innovation, and a united front to mobilize the international community towards investing in sustainable prosperity in the world’s most vulnerable societies and Least Developed Countries. The Summit highlights were;
  - a. Resolved to meet regularly at State level to provide the necessary stewardship for IDA implementation and results
  - b. Reiterated the commitment to build national capacities and strengthen country systems to expand absorption for impact in the implementation of IDA investments.
  - c. Renewed the commitment to transforming our economies through robust governance and economic strategies that prioritize private sector development as the key engine of growth.



- d. Undertook to continue efforts to mobilize domestic resources, to use the resources transparently and efficiently, and to strengthen governance.
  - e. Called on the World Bank Group to continue to innovate and simplify its instruments and processes to accelerate funds disbursements and increase impacts.
  - f. Affirmed the pledge to deliver on the climate commitments contained in the Paris Agreement and the African Leaders Nairobi Declaration on Climate Change & Call to Action.
  - g. Encouraged IDA partners/donors to step up and meet the challenges of our times by playing their part to ensure financial sustainability of IDA and a robust replenishment for IDA21 to help meet SDGs and the global challenges including those of Africa as set out in this communique and beyond.
- iii. Hosting of the 59th Annual Meetings of the Board of Governors of the African Development Bank and 50th Annual Meetings of the Board of Governors of the African Development Fund Held in Nairobi between May 27-31, 2024. The theme of the 2024 Annual Meetings was “Africa’s Transformation, the African Development Bank Group, and Reform of the Global Financial Architecture”. The highlights of Nairobi Summit were;
  - a. Substantial 17th replenishment of the African Development Fund by at least USD 25B to increase its capacity to continue providing concessional financing to the least developed African countries
  - b. Reforms of the Global Financial Architecture to ensure provision of concessional funding that is long term, low interest, financing at scale, financing that’s agile and flexible and sensitive to sustainability
  - c. The need for a financial architecture that integrates the issues of climate change and public finance
  - d. Strong support to the proposal to re-channel Special Drawing Rights (SDRs) through the African Development Bank
  - e. Establishment of an independent African Credit Rating Agency is necessary to provide unbiased risk assessments, countering current biases in credit ratings of African sovereigns and non-sovereigns
- iv. Portfolio Reviews and joint supervision missions
 

Joint Portfolio performance reviews, supervision missions, fiduciary clinics and field visits were held to review the project implementation status, disbursement levels, financial and procurement management of projects funded by the Development Partners. The outcome of the portfolio reviews and missions included;

  - a. Assessed the portfolio performance and analysed key implementation-related problems
  - b. Reviewed the implementation status of projects and evaluated progress made toward implementing the recommendations of the 2023 Country Portfolio Improvement Plans (CPIP)

- c. Unlocked challenges that may have affected the smooth implementation of the projects including disbursement related issues, delay in tax exemptions and inadequate Counterpart funds

- v. **Multilateral and Bilateral Meetings**

The Cabinet Secretary held several Multilateral and Bilateral meetings with various Development Partners including World Bank, African Development Bank, United Nation Agencies, Arab and Middle East Agencies, Germany, France, Japan, Belgium, China, Sweden, Italy to discuss development cooperation matters between the Government of Kenya and the respective Development Partners as outlined above. The outcomes of the meetings included:

- a. Strengthened multilateral and bilateral relations with the Development Partners
- b. Discussions on the financing envelopes and pipelined projects with the Development Partners

## **2.2 Debt Policy, Strategy and Risk Management Activities**

During the fiscal year under review, the PDMO committed to implement the following targets:

1. Prepare Medium Term Debt Management Strategy (MTDS) with a view of Minimizing costs and risks of public debt;
2. Prepare Annual Public Debt Management Report;
3. Prepare Annual Performance Report; and
4. Promote debt transparency through publication of monthly debt bulletins

The above targets were all achieved. In addition to the above targets, there were other key deliverables achieved which included;

- i. Successful Liability Management Operation on domestic debt, 2024 Eurobond maturities and a new Eurobond issuance
- ii. Developed a Public Debt Risk Management Framework
- iii. Prepared and submitted 2024 Guarantee debt report
- iv. Sensitised Parliamentary committees on public debt
- v. Trained Staff on Liability Management Operations (LMO)
- vi. Evaluated Public Debt Management under the Debt Management Performance Assessment (DeMPA) tool
- vii. Developed Regulations to operationalize sinking fund
- viii. Provided advisory on various financing proposals and other emerging debt policy issues

## **2.3 Debt Recording & Settlement Activities**

The PDMO committed to improve efficiency in debt recording and settlement through the following specific targets:

1. Capacity building of various stakeholders on Common Wealth-Meridian System, a web-based system;
2. Update the back office procedures manual;
3. Prepare 3 Statutory Financial and Debt reports; and
4. Interface IFMIS with Meridian for straight through debt payment processing

The above targets were all achieved. In addition to the above targets, the following key deliverables were also achieved;

- i. Digitisation of Financing Agreements;
- ii. Timely and accurate payment of debt obligations without incurring any arrears;
- iii. Introduction of horizontal Repo Market and Securities Lending and Borrowing (SLB); and
- iv. The FY 2022/2023 financial statements for the department had an unqualified audit opinion from the Office of the Auditor General

During the financial year under review, the National Treasury in conjunction with the Central Bank of Kenya under the Bond Market Forum (BMF) initiative was instrumental in providing market insights, views about instruments proposed for issuance and input to market development in liaison with market participants and stakeholders. The forum successfully held monthly meetings aimed at aligning the participants on domestic debt management and market developments. The achievements are highlighted in Table 1 below:

**Table 1: Performance Contract Targets and Achievements**

S/NO.	Target	Status/Achievement
<b>Resource Mobilization</b>		
1.	Mobilize External and Domestic resources	The PDMO mobilized Ksh 818.3 billion against the financing requirement of Ksh 925.0 billion. This comprised net external financing of Ksh 222.7 billion and net domestic financing of Ksh 595.6 billion.
2.	Prepare the Annual Borrowing Plan (ABP)	The ABP was prepared and publicized
3.	Prepare Resources Estimates Handbook	Resource Estimates Handbook was prepared and published in January 2024
4.	Undertake stakeholder engagements and dialogues	High level engagements and dialogues were conducted that included IMF/World Bank, AfDB, UN Agencies, Arab and Middle East Agencies, Germany, France, Japan, Belgium, China, Sweden, Italy, Portfolio Reviews and joint supervision missions
<b>Debt Policy, Strategy and Risk Management</b>		
5.	Prepare Medium Term Debt Management Strategy (MTDS)	2024 MTDS prepared and submitted to Parliament on 15 <sup>th</sup> February 2024

6.	Prepare Annual Public Debt Management Report	Prepared and submitted to Parliament on 30 <sup>th</sup> September 2023
	Publish monthly debt bulletins	Published 12 monthly bulletins
7.	Prepare Public Debt Risk Management Framework	Prepared Public Debt Risk Management Framework in September 2023
8.	Issue new Eurobond (As part of LMO to pay off the maturing Eurobond)	Successfully issued \$1.5billion Eurobond in February 2024
9.	Prepare Guarantee debt report	Prepared Guarantee debt report in December 2023
10.	Sensitize Parliamentary committees on public debt	Sensitized Parliamentary committee for Public Debt and Privatization on Public and Public guaranteed debt
11.	Develop Regulations to operationalize sinking fund	Draft Regulations developed
12.	Evaluate Public Debt Management under the Debt Management Performance Assessment (DeMPA) tool	Public Debt evaluated under DeMPA tool to strengthen public debt management framework
13.	Provide advisory on financing proposals and other emerging debt policy issues	Advisories on financing proposals provided on request
<b>Debt Recording &amp; Settlement</b>		
14.	Issue Infrastructure Bond (IFB)	Successfully issued an 8.5-year IFB (Issue No. IFB1/2024/8.5y in February 2024) that received a subscription rate of 412 percent, attracting bids worth KES 288.6 billion from the KES 70 billion advertised. KES 240.9 billion (USD 1.6 billion) was accepted at a weighted yield of 18.46 percent which was also the coupon rate
15.	Stabilize the yield curve	Stabilized the yield curve through the BMF supported issuance of large size bonds through and re-opening of benchmark tenors.

16.	Review Bid limits in Government Securities Auctions	Reviewed Bid limits in Government Securities Auctions by leveraging the DhowCSD and following feedback from the BMF and the investors
17.	Introduction of horizontal Repo Market and Securities Lending and Borrowing (SLB)	The introduction of repo market and securities Lending and Borrowing (SLB) transactions through the DhowCSD system continued to strengthen liquidity distribution among market participants increasing the uptake of Government securities.
18.	Stabilize local investor base	The domestic investors dominated the market (95%) with participation of foreign investors at 5%. Holdings of outstanding domestic debt by local institutional investors during the FY were as follows- banks (47%), pension firms (38%) and insurance companies (8%). A deep and diversified investor base ensures demand for government securities, strengthening the resilience of the market in times of market stress.

*Source: The National Treasury*

## CHAPTER THREE: DEFICIT FINANCING

During the fiscal year ending in June 2024, Kenya's public and publicly guaranteed debt rose 2.7%, on the back of a 12.0% increase in domestic debt. The public debt comprised 49.0% in external debt and 51.0% in domestic debt. The public debt to GDP ratio was at 65.5%, down from 72.0% in June 2023. During the period under review, the Government mobilized KSh.818.3 billion (5.1 per cent) of the GDP against the financing requirement of KSh.925.0 billion (5.7 per cent of GDP). This comprised net external financing of KSh.222.7 billion (1.4 per cent of GDP) and net domestic financing of KSh.595.6 billion (3.7 per cent of GDP).

### 3.1 External Borrowing

Total external disbursements were KSh.760.5 billion comprising KSh.155.8 billion in project loans, KSh.317.8 billion in programme loans, and KSh.286.9 billion in commercial loans against a target of KSh.815.8 billion. Net external financing in the FY 2023/2024 was KSh.222.7 billion, against a target of KSh.259.3 billion with principal repayments of KSh.537.8 billion. Kenya's public and publicly guaranteed external debt dropped by 5.4% to ksh. 5,150.8 billion in June 2024 from ksh. 5,446.6 reported by the end of June 2023. This was attributed by appreciation of shilling against the dollar, euro, and sterling pound to a considerable extent. The proportions of bilateral and commercial debt fell by 2.2 and 2.9 percentage points, respectively, while the percentage owed to multilateral lenders increased by 5.1 percentage points, demonstrating the government's ongoing efforts to reform the external debt structure.

### 3.2 Domestic Borrowing

Net domestic financing for FY 2023/24 was KSh.595.57 billion against a target of KSh.665.69 billion. During the period under review, the actual cumulative increase in Government borrowing amounted to KSh.596.56 billion against a target of KSh.662.42 billion. This indicates an 89.9 per cent performance as detailed in table 1. The total domestic public debt was KSh.5,410.3 billion compared to KSh.4,832.1 representing a 12% increase in the total domestic debt stock.

**Table 2: Net Domestic Financing (KSh.billion)**

	<b>Actual</b>	<b>Target</b>
Government securities	596.6	662.4
Government Overdraft & Others	(28.2)	-
Government Deposits	8.7	-
Domestic Loan Repayments (Receipts)	1.4	4.4
Domestic Loan Repayments CBK	(0.5)	(1.1)
Increase in Other Accounts Payable	17.6	-
<b>Net Domestic Financing</b>	<b>595.6</b>	<b>665.7</b>

*Source: The National Treasury*

There was an increase in domestic debt driven by sustainable borrowing through Treasury bonds by 16.2 percent in the period under review. The ratio of Treasury bonds to Treasury bills was 88:12 as at the end of the June 2024.

## CHAPTER FOUR: LOAN GUARANTEES AND DEBT PAYMENTS

The National Treasury is required to publish a report detailing the guarantees provided by the National Government not later than two months after the end of each financial year. Loan guarantees extended by the national Government to state corporations and other public entities to enhance access to credit for key projects and investments. Guarantees are contingent liabilities to the National Government and are part of public debt. Prudent financial management and monitoring of these contingent liabilities is essential to ensure that they do not materialize and affect Government fiscal space.

### 4.1 Performance of Loan Guarantees

The National Government guaranteed the following State-owned Enterprises (SOEs); Kenya Electricity Generating Company PLC (Kengen), Kenya Ports Authority (KPA) and Kenya Airways (KQ). KPA and KenGen guaranteed debts performed well as per the terms and conditions of the loan agreements. On the other hand, KQ guaranteed debt was non-performing, of which part of the guaranteed debt was called-up and the National Government paid KSh.17 billion. This comprised KSh.14 billion in principal repayment and KSh.3 billion in interest payments. However, the National Government took over part of the guaranteed debt to KQ as the process of novation was finalized in September 2023. During the financial year under review, no new loan guarantees were issued by the National Government. (Annex II - List of Guaranteed Stock Balances in FY 2022/2024 (Kshs Million). The list of guaranteed stock balances for FY 2023/24 is captured in the Table 3 below:

**Table 3: List of Guaranteed Stock Balances in FY 2022/2024 (KSh. Million)**

Agency	Agreement Date/Year	Project	Creditor	Amount
Kenya Electricity Generating Company	1995	Mombasa Diesel Generating Power Plant	Government of Japan	343
	1997	Sondu Miriu Hydropower Project	Government of Japan	819
	2004	Sondu Miriu Hydro Power II	Government of Japan	5,589
	2007	Sondu - Miriu Hydropower Project Sangoro Power Plant	Government of Japan	2,630
	2010	Olkaria 1 Unit 4 and 5 Geothermal Power Project	Government of Japan	15,528
	2011	Rehabilitation and Upgrade of the Geothermal Plant Olkaria	Government of Fed. Republic of Germany - GTZ	1,449
	2021	DSSI Japan for KenGen Loans Phase I	Government of Japan	709
	2021	DSSI Japan for KenGen Loans Phase II	Government of Japan	824
	2007	Mombasa Port Development Programme (Mombasa Port A)	Government of Japan	15,422
	2007	Mombasa Port Development Programme (Mombasa Port)	Government of Japan	1,393
	2015	Kenya Port Development Project - Phase II (Principal I)	Government of Japan	23,271



<b>Kenya Ports Authority</b>	2015	Kenya Port Development Project - Phase II (Principal IIA)	Government of Japan	2,574
	2021	DSSI Japan-Kenya Ports Authority (KE-P25) -Phase I	Government of Japan	219
	2021	DSSI Japan-Kenya Ports Authority (KE-P25) -Phase II	Government of Japan	256
<b>Kenya Airways</b>	2017	Kenya Airways Guarantee (for Local Banks)	MTC Trust & Corporate Services Limited (Security Agent for Local Banks)	29,139
<b>Total</b>				<b>100,165</b>

*Source: The National Treasury*

## 4.2 Debt Payments

Public debt is a first charge under the Consolidated Fund Service. The National Treasury is required under the PFM Act, 2012 to manage public debt by ensuring the debt service obligations are serviced as and when they fall due.

During the financial year ending June 2024, the PDMO budgeted to service public debt under the Consolidated Fund Service to a tune of KSh. 1,782,391 million for both domestic and external debt. However, the actual amount paid during the fiscal year was KSh.1,668,364 million, giving a positive deviation of KSh.114,027 million.

Total public debt service during the year under review period increased from ksh. 1,201,033 million to ksh. 1,668,364 million, representing a 38.9 percent increase in total debt service. This increase was mainly attributed to the bullet maturity of US\$ 2.0 billion 2024 Eurobond.

## 4.3 Public Debt Interest Payments

During the FY 2023/24 the projected public debt interest for both domestic and external debt amounted to ksh. 850,555 million. The actual amount paid was KSh.840,732 million, giving a variance of KSh.9,823 million.

**Table 4: Debt Interests, Projections and Actuals in FY 2023/24 (KSh.Millions)**

Interest Type	FY 2022/23			FY 2023/24		
	Estimates	Actuals	Deviation	Estimates	Actuals	Deviation
<b>Domestic Interest</b>	527,928	533,098	5,170	629,367	622,544	(6,823)
<b>External Interest</b>	154,937	155,907	970	221,188	218,188	(3,000)
<b>Total</b>	<b>682,865</b>	<b>689,005</b>	<b>6,140</b>	<b>850,555</b>	<b>840,732</b>	<b>(9,823)</b>

*Source: The National Treasury*

The cumulative actual domestic interest payments were ksh. 622,544 million against a target of ksh. 629,367 million while the cumulative actual external interest payment was Ksh 218,188 million against a target of ksh. 221,188 million for the financial year 2023/2024.

### 4.3 Public Debt Principal Repayments

During the period under review, the cumulative actual total repayment was KSh.827, 632 million against a budget of ksh. 931,836 million. The Government made a deliberate decision to reduce the refinancing risks emanating from Treasury bills. The optimal strategy for the FY 2023/2024 aimed at achieving gradual reduction in Treasury bills stock and the PDMO provided a budget for net repayment of Treasury bills to implement the strategy. The variance of ksh. 104,204 million was attributed to low absorption in relation to the repayment of Treasury bills.

**Table 5: Principal Repayments (KSh.Million)**

Principal Type	FY 2022/23			FY 2023/24		
	Estimates	Actuals	Deviation	Estimates	Actuals	Deviation
<b>Domestic Principal</b>	467,689	306,024	(161,665)	389,670	289,849	-99,821
<b>External Principal</b>	234,513	248,055	13,542	542,166	537,783	-4,383
<b>Total</b>	<b>702,202</b>	<b>554,079</b>	<b>(148,123)</b>	<b>931,836</b>	<b>827,632</b>	<b>-104,204</b>

*Source: The National Treasury*

## CHAPTER FIVE: DEBT MANAGEMENT REFORMS AND INITIATIVES

Effective public debt management is crucial in a country's economic stability and growth by ensuring the government's financing needs are met at the lowest possible cost and prudent risk levels while ensuring long-term sustainability. Recognizing its significance, the National Treasury has implemented several reform initiatives to strengthen public debt management in Kenya. These efforts are designed to ensure that the PDMO can effectively manage public debt through a structured approach that incorporates liability management operations in line with the national ambition to make Kenya a regional financial hub.

### 5.1 Sinking Fund Regulations

The PDMO prepared Sinking Fund Guidelines which was pivotal in preparation of Sinking Fund Regulations. The Fund's objective was to create certainty of availability of liquidity to service public debts as they fall due.

### 5.2 Public Debt Reporting

The PDMO committed to broaden the scope of public debt reporting to include non-guaranteed commercial debt as outlined in the FY 2023/2024 APDMR. In addition, to promote greater transparency and accountability, the PDMO prepared a guarantee debt report highlighting a record of all guarantees given by the National Government.

### 5.3 Liability Management Operations

In February 2024, the Government successfully completed Eurobond issuance and buyback transaction, refinancing 75 percent of its June 2024 USD 2.0 billion Eurobond. This supported the stabilization of the foreign exchange market and bolstered the Kenyan Shilling, demonstrating the importance of proactive debt management strategies.

### 5.4 Status of Implementation of Other Domestic Debt Reforms

- a. **Issuance Calendar** -The National Treasury prepared and published an issuance calendar for Government securities as annexed in the Annual Borrowing Plan to enhance predictability in the issuance process, supporting investor planning and market stability.
- b. **Separation of Retail and Wholesale Markets**-The launch of the Dhow Central Securities Depository (Dhow CSD) system in July 2023, facilitated wider access to government securities. This system allows retail investors to access Government securities online, eliminating the need for intermediaries and simplifying the investment process.
- c. **Over the Counter (OTC) Market Development**-The establishment of a market-based OTC trading platform marked a great milestone in the Kenyan capital markets landscape. The OTC platform is expected to boost secondary trading transparency and price discovery.

thus enhancing the integrity of the yield curve for Government securities. However, this will require development of a new set of secondary trading regulations to compliment the Securities Issuance Guidelines. Treasury bills already trade on an in-house OTC market platform but will require to be externalized into a market-based platform, providing a foundation for further deepening of Kenyan domestic debt market.

- d. Electronic Platform for Primary and Secondary Markets**-The automation of Government securities trading, through the DhowCSD enhanced efficiency in the primary market. These systems provide secure and user-friendly platforms for both local and diaspora investors.
- e. Horizontal Repo Market and Securities Lending and Borrowing (SLB)** -The introduction of the repo market and Securities Lending and Borrowing (SLB) transactions through the Dhow CSD system continued to strengthen liquidity distribution among market participants, increasing the uptake of Government securities.
- f. Promoting Debt Transparency and Market Engagement**-The National Treasury continues to provide debt transparency and active communication with stakeholders, including investors, credit rating agencies, and the media. Regular updates on public debt activities, alongside investor engagement through fora and conferences facilitated by the National Treasury and its agencies, aims to foster trust and confidence in the government's debt management practices. The monthly bond market forums provide a platform for discussions between the fiscal agent and domestic institutional investors, promoting a deeper understanding of market needs and expectations.

## **CHAPTER SIX: REPORTING AND DISSEMINATION**

The Constitution of Kenya and Public Finance Management Act, 2012 and the PFM Regulations envisages clear, transparent and accountable management of public finances. The PDMO is required to prepare and disseminate the following reports:

- i. The Medium-Term Debt Management Strategy;
- ii. Annual Public Debt Management Report;
- iii. The Annual Borrowing Plan;
- iv. The Statistical and analytical reports on debt and borrowing;
- v. External Resources Estimates Handbook;
- vi. Public Debt Register; and
- vii. The Annual Performance Reports.

During the FY 2023/24, the following reports were prepared, submitted to relevant oversight Authorities and publicized.

### **6.1 Medium-Term Debt Management Strategy**

During the FY 2023/24, the PDMO prepared the 2024 MTDS and submitted to Parliament, Commission on Revenue Allocation and the Intergovernmental Budget and Economic Council on 15<sup>th</sup> February 2024. The Strategy sought to guide borrowing activities for the period 2024/25. It proposed an optimal approach for achieving a gradual reduction in domestic borrowing. Externally, the strategy focused more on budget financing through concessional sources. The strategy recommended a 45 per cent domestic financing and 55 per cent external financing mix. The MTDS was published and publicized on the National Treasury website (<https://www.treasury.go.ke/medium-term-debt-management-strategy/>).

### **6.2 Annual Public Debt Management Report (APDMR)**

The APDMR provided a broad analysis of the developments in public debt management during the FY 2023/24. The report was prepared and submitted to Parliament on 30<sup>th</sup> September 2024. The published and publicized APDMR can be assessed from the National Treasury website (<https://www.treasury.go.ke/annual-debt-management-reports/>).

### **6.3 Annual Borrowing Plan**

The Annual Borrowing Plan (ABP) is prepared pursuant to section 63 (d) of the Public Finance Management Act, 2012 to implement the National Government borrowing plan including servicing of the outstanding debt. The report was prepared and disseminated to all the relevant stakeholders and publicized on the National Treasury website (<https://www.treasury.go.ke/annual-borrowing-plan/>).

## **6.4 Statistical and Analytical Reports**

The PDMO provided key inputs to the Quarterly Economic Budget Review (QEBR) highlighting the movements in debt levels and debt service. During the period under review, four (4) QEBR reports were prepared and can be accessed in the National Treasury website (<https://www.treasury.go.ke/quarterly-economic-budgetary-review-qebr/>).

The PDMO prepared and publicized monthly bulletins highlighting the movement in debt stock, external debt currency composition, debt service, Government domestic borrowing performance and sovereign credit rating. These bulletins are published in the National Treasury Website (<https://www.treasury.go.ke/monthly-bulletins/>).

In addition, weekly policy performance briefs were prepared highlighting the overall performance of the domestic borrowing. The briefs also provided interest rate movement, Government securities yield, outstanding Government securities stock and new domestic debt development that required policy guidance.

## **6.5 External Resources Estimates Handbook**

The External Resources Estimates Handbook informs the Public, Ministries, Counties, Departments and Agencies and Kenya's Development Partners about programmes and projects funded in each financial year. The handbook promotes transparency and accountability in implementation of externally funded projects. The handbook also ensures that the stakeholders are updated on fiscal and policy changes in relation to Government financing. The Handbook was prepared and publicized on the National Treasury website (<https://www.treasury.go.ke/kenya-external-resources-policy/>).

## **6.6 Public Debt Register**

The public debt register itemizes the extent of the total indebtedness by way of principal and accumulated interest, the purpose of the loan, the provision for servicing of the loan and the actual repayment of the loan. The statement of public debt stock as at 30<sup>th</sup> June 2024 highlighted a total debt stock of ksh. 10,581.99 billion of which external debt of ksh. 5,071.54 billion, domestic debt ksh. 5,410.28 billion and guaranteed debt of KSh.100.17 billion.

## **6.7 Report on New loans contracted by the Government**

The PDMO prepared and submitted quarterly reports on new loans contracted by the Government in accordance to section 31 (3) of PFM Act,2012. The Government contracted 36 new external loans for KSh.897.877 billion.

## CHAPTER SEVEN: INVESTOR RELATIONS ACTIVITIES

Investor Relations function facilitates communication with investors, creditors, financial intermediaries, credit rating agencies and other stakeholders aimed at promoting fiscal transparency which is important for establishing the Government's credibility on fiscal plans and ensuring market confidence.

### 7.1 Engagement with Credit Rating Agencies

Kenya has a formal engagement with Fitch and S&P Global rating agencies to conduct credit rating assessments on the Country's credit worthiness to the global debt market while Moody's issue unsolicited ratings for Kenya. Credit rating measure the Country's financial reliability, highlighting the risks involved in lending to that nation. It serves as a tool for investors to assess the risk of investing in the nation's financial instruments, such as bonds, and can affect the country's borrowing costs and ability to access global capital markets. A higher rating indicates lower risk, while a lower rating signals a greater chance of default. During the period under review, Kenya was rated at B with a negative outlook by both S&P Global and Fitch, and B3 with negative outlook by Moody's as illustrated in Table 6.

**Table 6: Kenya's Credit Ratings in FY 2023/2024**

Year	Agency	Date	Rating	Outlook
2024	Standard and Poor's	9-Feb	B	Negative
2023	Fitch	20-Jul	B	Negative
	Moody's	28-Jul	B3	Negative

*Source: Credit Rating Institutions*

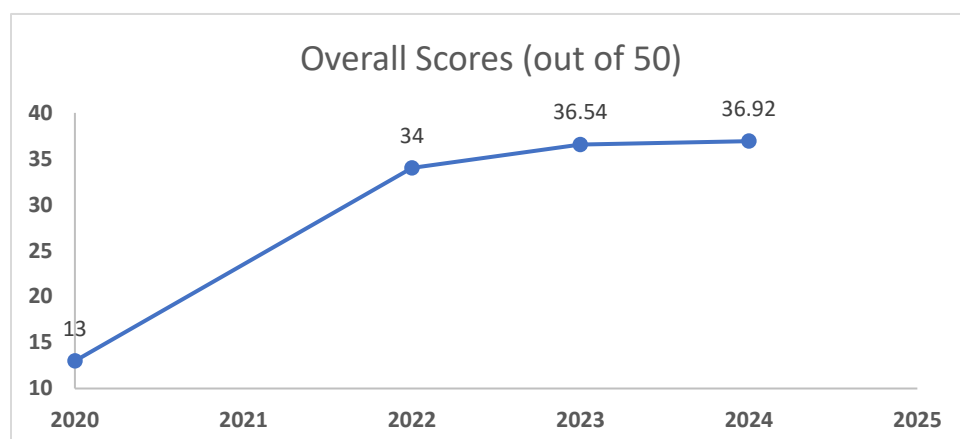
Credit rating with negative outlook erodes investors' confidence and financial terms of various credit facilities especially commercial loans leading to increased cost of borrowing.

### 7.2 Investor Road Shows

During the year under review, the PDMO coordinated several investor conference calls, deal and non-deal road shows with international investors to discuss macroeconomic policies, economic developments and public debt management matters. The investor calls and meetings organized targeted international commercial banks with wide networks of investors.

A survey of Sovereign Investor Relations and Data Transparency Practices conducted by Institute of International Finance (IIF) and released in July 2024 has shown an improvement in fiscal transparency from 13 points in 2020 to 36.92 in 2024 as presented in Figure 1below:

**Figure 1: Scores since 2020**



The IIF periodic updates of assessments provides a unique opportunity to convey to market participants the efforts governments are making to strengthen dialogue with investors relative to other countries.

### **7.3 Effective Development Cooperation in Kenya**

In the pursuit of development effectiveness, quarterly meetings on Development Effectiveness Group (DEG) were held at the National Treasury to discuss technical issues on implementation of the externally financed projects. The DEG meetings outcomes culminated in the convening of the Development Partnership Forum (DPF) on 4<sup>th</sup> June 2024 chaired by Deputy President in collaboration with the National Treasury. The meeting discussed the status and policies on development cooperation in Kenya, with a special focus on absorption levels of foreign financed projects. The DPF recommended the formation a task force to identify concrete recommendation on how to address key challenges related to absorption capabilities such as counterpart funding, off-budget funding, human resource capabilities and competencies and use of harmonized principles for more effective use of financial resources.



## **CHAPTER EIGHT: CONCLUSION**

It is worth noting that during the period under review, PDMO delivered its mandates and achieved various milestones through implementation of most of the planned activities. These include: mobilizing resources to finance the budget deficit; preparation of statutory documents and reports; implementation of debt management reforms; engagement of the relevant stakeholders; recruitment of technical staff; capacity building of the staff and consistently serviced debt on a timely manner without incurring any arrears.

In the spirit of promoting public debt transparency in line with Sovereign debt and data transparency principles of timely, accurate and broader disclosures of debt and borrowing activities the PDMO will continue holding periodic investor conference calls; deal and non-deal road shows. This initiative will facilitate better credit rating through engagement with credit rating agencies for improved credit access for the government.