REPUBLIC OF KENYA

STATE OFFICERS AND PUBLIC OFFICERS MOTOR CAR LOAN SCHEME FUND

REGULATORY IMPACT STATEMENT

FOR

THE PROPOSED AMENDMENTS TO THE PUBLIC FINANCE MANAGEMENT (STATE OFFICERS AND PUBLIC OFFICERS MOTOR CAR LOAN SCHEME FUND) AMENDMENT REGULATIONS, 2015

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1 INTRODUCTION

1.1 ABOUT THE SCHEME

The State Officers and Public Officers Motor Car Loan Scheme Fund was created through Legal Notice No. 195 of 2015. The establishment of the Fund was informed by the Salaries and Remuneration Commission (SRC) circular of 17th December 2014 that conferred mortgage and car loan benefits to public officers. The goal was to motivate state and public officers towards enhanced productivity as well as attract and retain requisite skills in the public service. The circular provided guidelines regarding implementation and administration of the benefits, including financing modalities, loan thresholds and applicable interest rate. It guided that the car loan scheme for state officers serving in the executive arm of Government and independent constitutional commissions be centrally administered by the National Treasury. It also advised that, for purposes of management efficiency, scheme benefits for other public officers be administered and managed by individual Government institutions and agencies independently for their employees.

Drawing from the SRC circular, the National Treasury spearheaded the development of Public Finance Management (State Officers and Public Officers Motor Car Loan Scheme) Regulations to guide the operationalization of the Car Loan scheme for state officers and national Government employees serving under the executive arm of Government. These Regulations were actualized through the above mentioned Legal Notice No. 195 of 25th September, 2015. The Regulations provide guidance on matters regarding the car loan benefit, including establishment of a car loan scheme Fund, the object and purpose of the Fund, sources of funds, expenditure of the Fund, loan application procedure, eligibility criteria, beneficiaries, loan thresholds, conditions for disbursement of funds, loan interest, loan repayment, structure for governance and administration of the Fund, among other operational guidelines.

The primary objective of the Motor Car Loan Scheme Fund is, therefore, to facilitate state and public officers under the national government to acquire motor vehicles based on the above policy and regulatory frameworks. This, however, excludes the Teachers Service Commission, the Kenya Defence Forces, the National Police Service and the National Prisons Service, who at the time of coming up with the Regulations had their own independent schemes.

1.2 MANAGEMENT STRUCTURE

The Motor Car Loan Scheme Fund discharges its mandate under the National Treasury and is not a body corporate. The management of the Fund, as provided for in the Regulations, comprises of a Fund Advisory Board under the chairmanship of the Principal Secretary, National Treasury and a Secretariat under the leadership of the Chief Executive Officer, who is also the Administrator of the Fund. The other Advisory Board members are the Principal Secretary for the State Department responsible for Public Service Management, the Principal Secretary for the State Department responsible for mechanical services, the Chief Executive Officer, Salaries and Remuneration Commission, the Chief Executive Officer, Public Service Commission and two officers at the level of Job Grade CSG 6 and above from the Directorate of Budget, Fiscal and Economic Affairs and

Directorate of Administrative Services of the National Treasury. The Advisory Board provides strategic direction and general oversight in the execution of the Fund mandate whereas the secretariat performing the day-to-day activities of the Fund.

1.3 BASIS OF REGULATORY IMPACT STATEMENT

This Regulatory Impact Assessment (RIA) has been prepared in light of the proposed amendments of some aspects of the State and Public Officers Motor Car Loan Scheme Fund Regulations. The RIA was developed pursuant to Sections 6 and 7 of the Statutory Instruments Act (CAP 2A of 2013). The above sections require a regulation-making authority to prepare a regulatory impact statement of an instrument, if the proposed instrument is likely to impose significant costs to the community or a part of the community, prior to making the statutory instrument.

The RIA provides a detailed and systematic appraisal of the potential impact of the proposed amendments to the Fund Regulations with a view to assessing whether the amendments are likely to achieve the desired objectives. It seeks to provide evidence-based analysis of Regulation related issues pertaining to the core mandate of the Fund.

2 RATIONALE FOR THE PROPOSED AMENDMENT TO THE REGULATIONS

The Salaries and Remuneration Commission vide Circular Ref. No. SRC/ADM/CIR/1/13 Vol. III (128) dated 17th December, 2014 conferred mortgage and car loan benefits to serving public officers (Attached as *Annex 1*). The mortgage benefits for national government employees are currently being administered under the State Department for Housing whereas the Car Loan scheme is being administered under the National Treasury.

The pilot programme for the car loan scheme was undertaken in the 2018/2019 Financial Year and has since been rolled out in earnest. Despite the car loan facility having been in place for a period of over seven years, the loan uptake is generally low. As at 30th June, 2025, only 362 officers had benefited from the scheme. This is a small fraction of the thousands of potential beneficiaries. In terms of amounts, Ksh 822, 461,787 shillings had been disbursed out of the over 4 billion Kenya shillings available in the Fund. The low uptake remains an issue inspite of aggressive awareness creation campaign conducted by the Fund. This includes sensitization of potential beneficiaries within Government Ministries, Departments and Agencies across the country about the existence and access to the car loan facility. Whereas there has been some remarkable improvement in loan uptake over the recent past with the scaling up of the awareness creation campaigns, the overall absorption is still generally low when compared to the amounts available in the Fund.

During the development of the Fund's maiden strategic plan for the period 2023/2024 – 2027/2028, a comprehensive situation analysis was conducted regarding the status of the Fund. This entailed engagement of the various stakeholders including Focused Group Discussion with the heads of human resources in Government Ministries, Department and Agencies as well as interaction with the potential beneficiaries of the Fund across the country.

The situation analysis and feedback obtained during the awareness creation forums pointed out some aspects of the Motor Car Loan Scheme Fund Regulations that may be contributing to the low uptake of loans. These include the following:

(a) Requirement for loan advanced to be repaid within a period of sixty months (five years) on account of low pay slip headroom
(b) Restriction of purchase of vehicles that are not more than eight years old from the date of manufacture
(c) Restriction of the use of the vehicle
(d) Low loan threshold vis a vis the increasing cost of vehicles

Following consultation between the National Treasury, the Salaries and Remuneration Commission and the Public Service Commission, it has also been found necessary to effect the following amendments to the Regulations:

(a) Reduce the applicable interest rate from 5% to 4%. A copy of a circular from the Public Service Commission in this regard is attached as *Annex 2.*
(b) Delete clause stating that the interest rate will revert to commercial terms for officers leaving the service on disciplinary grounds. A copy of a circular from the Public Service Commission on this is attached as *Annex 3.*

The proposed amendments to the Regulations have been informed by the above observations and developments. A matrix showing the proposed areas of amendment and corresponding justification is appended as *Annex 1*. The amendments are aimed at making the loan facility attractive to the potential beneficiaries. The intended effect is to grow the beneficiary uptake of the Fund.

3 EVALUATION OF THE POLICY ISSUE

The primary mandate of the State and Public Officers Motor Car Loan Scheme Fund is to provide car loan facility to state officers and public officers of the national Government to acquire motor vehicles.

The low uptake of loans has been a subject of audit queries. The Auditor General reports on the audit of the Fund's Financial Statements have repeatedly highlighted low uptake of the car loans as a matter of concern. A sample of an audit report where this issue was raised is attached as *Annex 4*.

The low uptake of loans is a matter that has also caught the attention of Parliament and management of the Fund has been summoned to the National Assembly on a number of occasions on the same.

Further, the low absorption of loans threatens the very existence of the Fund. It is a pointer to an issue concerning the sustainability of the Fund. There is a risk of the funds allocated to the Fund being recalled. In this regard, there is need to re-examine the current structures and legal instruments creating the Fund to ensure that the scheme operates efficiently and effectively, including providing timely services to the beneficiaries.

The proposed amendments to the Regulations are geared towards ensuring Fund sustainability and enabling the Fund to discharge its mandate in earnest. It should further be noted that the proposed amendments introduce the aspect of life insurance, which is missing in the current Regulations. The incorporation of the requirement for life insurance will essentially cushion the Fund and the Government against potential loses in the event of the death of a loan beneficiary.

4 EVALUATION OF ALTERNATIVE OPTIONS

This section evaluates the possible alternatives to addressing the identified problem. Three options have been considered. The first option is to maintain the status quo. The second option is sensitization of all potential beneficiaries about the scheme. The third option is amendment of the Regulations alongside the sensitization.

From the evaluation of the three options and review of the previous awareness creation and loan uptake data, it is noted that the first and second options are likely to result into continued low loan uptake, failure to realize the intended objective of the Fund as well as failure to realize the ultimate goal of the scheme of enhancing employee motivation on a wide scale and productivity of the public service. From the previous sensitization sessions, it came out clearly that there are other factors that impact on loan uptake that go beyond awareness about the scheme.

The review of the Regulations alongside sensitization of potential beneficiaries will on the other hand help the Fund to move away from the current state of affairs. This approach is likely to yield more positive results given the fact that the review is based on tangible data obtained from the situation analysis. It is further noted that the proposed amendments are beneficiary focused and bear no requirement for additional funding from the exchequer.

5 ASSESSMENT OF IMPACT

The review of the Car Loan Regulations is one of the key initiatives that were prioritized in the Fund Strategic Plan. It is contained under Key Result Area 3 on Beneficiaries whose goal is to aggressively grow the beneficiary uptake of the Fund. With the amended Regulations, it is expected that the number of loanees will grow from 106 at the time of developing the plan in 2023/2024 (rated as very low) to 1,125 by 2027/2028. The Fund also expects to grow disbursed loans from 324 million to 2,267 million shillings over the same period. The amounts of loans disbursed as percentage of the fund is further expected to grow from 8.4% to 69.3%. The above projections were borne out of an empirical study and are anchored on the outcome matrix of the Fund Strategic Plan.

It is anticipated that the amended Regulations will enable the Fund to execute its mandate effectively. The proposed amendments will trigger interest among the potential beneficiaries and help realize the ultimate goal of the scheme as spelt out in the enabling regulatory and policy frameworks. They will also help address issues raised around the very existence and long term sustainability of the Fund. They are further expected to enhance staff motivation and productivity and ease the burden of transport on the part of the beneficiaries.

The following are some of the proposed Amendments and likely impact:

(a) Expansion of the Meaning of Motor Car (Interpretation)

The Regulations currently define a "motor-car" as a motor vehicle having seating accommodation for not more than ten passengers excluding the driver, but does not include a motorcycle”.

In the proposed amendments a **“**motor car**”** is defined as a motor vehicle having seating accommodation for not more than ten passengers excluding the driver or has less than four wheels”

The expansion of the meaning of motor car to include a motor vehicle with less than four wheels will broaden application of the Regulations to include motor cycle. The proposed amendment will facilitate access to the car loan facility to a wider range of the potential beneficiaries. This is in view of the relatively low cost of motor cycles. It is also takes into cognizance some jurisdictions such as Lamu where the need for different types of motorised transport was identified during the awareness creation forums.

(b) Deletion of Restriction of the Use of Vehicle (Interpretation and Regulation 15)

The Regulations currently provide that during the loan repayment period the beneficiary shall ensure that the motor car is not used for commercial purposes.

It is proposed that the restriction on the use of vehicle be expunged from the Regulations by deleting the definition of “commercial use” under the definition of terms as well as deleting paragraph (c) of Regulation 15 (5).

Non-restriction of the use of the vehicle will attract the potential beneficiaries to the loan facility and thereby enhance loan uptake. This also aligns the scheme to the other public sector schemes including the Parliamentary Service Commission Scheme.

(c) Extension of the Age of Vehicle from the Year of Manufacture (Regulation 12)

The Regulations currently provide that “a loan shall not be given to a borrower to purchase a used vehicle that is more than eight years old from the date of manufacture.”

It is proposed that this be amended to read “a loan shall not be given to a borrower to purchase a used vehicle that is more than ten years old from the date of manufacture.”

It is anticipated that the amendment will enhance loan uptake in view of the lower cost of vehicles, hence affordability. It will also facilitate the potential beneficiaries to a wider selection of vehicles. This is also in view of the fact that this requirement does not apply in other jurisdictions including credit facilities provided by SACCOs and other financial institutions. It is further noted that ten year old year vehicles are generally mechanically sound and that insurance companies provide comprehensive insurance cover on vehicles that are ten years old.

(d) Reduction of the Period of Access to the Loan Facility (Regulation 13)

The Regulations currently provide that "no borrower shall be eligible for more than one loan at a time from the Fund within five years…"

It is proposed that this be amended to read "no borrower shall be eligible for more than one loan at a time from the Fund within three years.."

The proposed amendment will enable officers who may wish to benefit from the Scheme access the facility upon early completion of loan repayments without having to wait for five years. This also takes care of cases of reappointment of state officers and promotion of public officers to higher grades that may arise within the period of servicing the loan.

(e) Extension of the Repayment Period (Regulation 16)

The Regulations currently provide that " a loan advanced under these Regulations shall be repaid in full within sixty months"

It is proposed that this be amended to read "a loan advanced under these Regulations shall be repaid in full within seventy two months"

It is expected that the proposed amendment will enhance loan uptake in view of the lower monthly deductions.

(f) Deletion of the Provision Regarding Withdrawal of the Facility for Officers Who leave the Service on Disciplinary Grounds (Regulation 16)

The Regulations currently provide that "where a beneficiary leaves the public service on disciplinary grounds, the terms of the loan shall convert to commercial terms after ninety days from ^the effective date of leaving the service."

It is proposed that the above provision be expunged from the Regulations"

The proposed amendment is expected to contribute towards making the loan facility attractive. The amendment is further based on an advisory from the Public Service Commission regarding double punishment

(g) Deletion of the Loan Threshold Schedule

Currently, the loan threshold for state officers and other public officers is spelt out in a schedule appended to the Regulations.

It is proposed that the loan threshold schedule be expunged from the Regulations and that the issue of loan threshold be taken care of by Regulation 11. In this regard, it is proposed that Regulation 11 be amended to read: "The maximum loan each beneficiary shall be eligible to shall be as determined by the Salaries and Remuneration Commission from time to time."

The proposed amendment will facilitate flexibility in the execution of loan threshold based on advisories from the Salaries and Remuneration Commission. The Fund will align the applicable amounts to the SRC guidelines.

6 STAKEHOLDER ENGAGEMENT

The amendments to the Regulations will be prepared through a consultative and participatory process. This entails consultation with, among others, Government Ministries, Departments and Agencies, the Salaries and Remuneration Commission and the Public Service Commission of Kenya. A notice for public participation with regard to the proposed amendments will be sent out to the various stakeholders using different channels of communication. In addition, regional forums will be held targeting beneficiaries from all counties to sensitize them about the proposed amendments and obtain their feedback on the same.

Comments obtained from the various stakeholders will be recorded and presented to the technical working group for consideration and incorporation. Ultimately, the feedback will enrich the amendments draft.

A report on the stakeholder consultative sessions containing an analysis of comments and how they were considered and incorporated into the draft Regulations will be prepared. The report will spell out how the consultative process was conducted.

7 GENERAL OBSERVATION

The proposed amendments are expected to greatly impact on the operations of the Fund. If adopted, a monitoring and evaluation process will be instituted to gauge whether the intended effect is realized.

8 ANNEXURES

8.1.1 Annexure 1: Salaries and Remuneration Commission circular of 2014 on mortgage and car benefits
8.1.2 Annexure 2: Public Service Commission circular of 2024 on car loan interest rate
8.1.3 Annexure 3: Public Service Commission circular of 2024 on officers leaving the service on disciplinary grounds
8.1.4 Annexure 4: /Sample audit report regarding low uptake of loans