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REPUBLIC OF KENYA
NATIONAL ASSEMBLY

EIGHTH PARLIAMENT - THIRD SESSION

DEPARTMENTAL COMMITTEE

ON



FINANCE, PLANNING AND TRADE

REPORT ON

- ◆ **THE FIRST MONETARY POLICY STATEMENT
(JULY TO DECEMBER, 1997)**
- ◆ **THE SECOND MONETARY POLICY STATEMENT
(JANUARY TO JUNE, 1998)**
- ◆ **THE THIRD MONETARY POLICY STATEMENT
(JULY TO DECEMBER, 1998)**

**PARLIAMENT BUILDINGS
NAIROBI**

NOVEMBER, 1999

INTRODUCTION

Mr. Speaker, Sir, on behalf of members of the Departmental Committee No.F on Finance, Planning and Trade and in pursuance to provisions of Standing Order 101(3), I wish to present to the House, the Report and Recommendations of the Committee on the First (July to December, 1997), the Second (January to June, 1998) and the Third (July to December, 1998) Monetary Policy Statements from the Central Bank of Kenya.

Mr. Speaker, Sir, Monetary Policy Statements are submitted by the Governor of the Central Bank, to the Minister for Finance pursuant to provisions of section 4B of the Central Bank of Kenya (Amendment) Act, 1996 which state that:-

The Central Bank shall at intervals of not more than six months, submit to the Minister a Monetary Policy Statement for the next twelve months which shall:-

- (a) Specify the policies and the means by which the Bank intends to achieve the policy targets;
- (b) State the reasons for adopting such policies and means;
- (c) Contain a review and assessment of the progress of the implementation by the Bank of monetary policy during the period to which the preceding policy statement relates.

The Minister is in turn, required to table every Statement submitted by the Bank before the House not later than the end of the subsequent Session of Parliament.

Mr. Speaker, Sir, this report contains our deliberations and recommendations. The First Monetary Statement was released in December, 1997, the Second in June, 1998 and the Third Statement was released in July, 1998.

The Minister for Finance and the Governor of the Central Bank accompanied by their respective officers appeared before the Committee to deliberate on the three Statements.

The Members of the Committee are:

The Hon. Simeon M. Mkalla, M.P. - Chairman
The Hon. Jimmy N. Angwenyi, M.P.
The Hon. Onesmus Mboko, M.P.
The Hon. Wycliffe Osundwa, M.P.
The Hon. John Michuki, M.P.

The Hon. Peter Ochieng Odoyo, M.P.
The Hon. David Mwiraria, M.P.
The Hon. Joseph J. Mugalla, M.P.
The Hon. Soita Shitanda, M.P.
The Hon. Adan Keynan, M.P.
The Hon. Mohamed A. Galgalo, M.P.

FIRST MONETARY POLICY STATEMENT
(JULY TO DECEMBER, 1997)

OBSERVATIONS

Monetary Policy Statements

The Committee noted that, the provisions of the Central Bank of Kenya(Amendment) Act, 1996 have been contravened, in that the Statements have been released late. The Governor, however, promised that, in future, he would ensure that the Policy Statements would be availed every six months as stipulated in the Act.

Treasury Bills

The Committee sought a clarification as to whether the Central Bank had any other means by which to contain money supply, apart, from the sale of Treasury Bills. According to the Governor, the sale of Treasury Bills was the most effective short term measure for mopping up excess money from the economy. Besides, it also provides the Treasury with liquid money to spend on current needs.

For instance during the year under review, the Bank intervened several times in the domestic money circulation and foreign exchange market. It issued Treasury Bills to contain the expansion of the money supply and even more Bills to pre-empt increasing liquidity arising from its intervention in the foreign exchange market.

Inflation

The Committee expressed grave concern at the fluctuation in rates of inflation. According to the Governor, a loose monetary policy was capable of inflicting untold damage on the economy as evidenced in Kenya soon after the 1992 General elections, the ripple effects of which were still being felt today. The higher the inflation rate, the lower the Gross Domestic Product (GDP) growth rate.

Inflation therefore:-

- (i) Increases uncertainty and weakens investor confidence on the profitability of long term business ventures.
- (ii) It tends to unfairly "tax" the poorer members of society because as their money buys fewer and fewer goods and services, they tend to become more and more anxious and financially insecure.

In 1996, underlying inflation was kept at single digit with tight fiscal and monetary policies that slowed down the expansion in the money supply. The strengthening of the shilling by keeping the prices of imports down throughout 1996 and the first half of 1997 also helped to reduce the underlying inflation.

On the other hand, the overall inflation, that is, inflation taking into account both policy and non-policy factors continued to rise but at a slower pace. This was driven mainly by the delayed effects of the recent severe drought.

Inflation target for the year ending June, 1998

The priority of the Central Bank for the year ending June, 1998 was to contain the underlying inflation at single digit. To achieve this, the Government was required to limit borrowing from Central Bank to not more than 5% of the most recent audited Government gross recurrent revenue according to Section 46(3) of the Central Bank of Kenya Act. This limit was expected to ease the task of managing the money supply by eliminating excess government borrowing which is the main monetary injection channel.

Outlook

The monetary policy of the Central Bank for the year beginning July, 1997 was aimed at lowering inflation. It was expected that strict application of tight fiscal policy especially aiming at a surplus in the budget would be a determining factor in attaining desired results.

SECOND MONETARY POLICY STATEMENT
(JANUARY TO JUNE, 1998)

OBSERVATIONS

Inflation

The Committee noted with concern that, the level of inflation had shot up in the year ending June, 1998 despite the tight and strict monetary policy which had been put in place. The Governor explained that, the supply of goods and services was less than expected and in particular, the prices of food which was affected by drought and the El-Nino related rains. This, together with the weakening of the Kenya Shilling following the lapse of financial support from multilateral donors and other shortfalls in foreign exchange inflows contributed a lot to upward pressure on inflation.

Domestic and External Debt

The Committee observed that, part of the reason why the Government was completely bogged down is because of the huge debt it had to service. According to the Governor, the huge domestic debt was bound to drastically reduce as soon as the International Monetary Fund released the withheld funds. The external debt was no longer a national burden because the Government had stopped borrowing and the current debt was on the decline.

The Committee observed that, during the last nine months of this financial year, the government had reduced domestic borrowing, Treasury Bills have come down but there has been no corresponding decrease on the interest charged by Commercial banks. The Committee was of the view that, the Central Bank should consider intervening with a view to reducing Commercial bank interest rates as is done by Central Banks in other countries.

Government borrowing

Government borrowing from the Central Bank outstanding at the end of June, 1998 was in accordance with section 18(3) of the Central Bank of Kenya Act. Government overdraft with the Central Bank of Kshs 5.4 billion at the end of the Fiscal Year, was way below the mandatory limit of Kshs.7 billion.

Foreign Exchange and Money Market

There was a decrease in foreign exchange reserves. The lending rates for commercial banks remained high at about 30% during most of the year. Interest rates on the 91 Day Treasury Bills increased from 19.4% in June, 1997 to 25% in June, 1998. The exchange rate depreciated from Kshs.54 to the dollar in June, 1997 to Kshs 60 by the end of June, 1998.

Monetary policy in the twelve months to June, 1999

The policy of the Central Bank was to seek to confine inflation to below 5% and support a recovery in economic activity of at least 5% growth of out put in the fiscal year. The bank was also expected to ensure that, the country had adequate foreign exchange and that the financial sector, especially the banking system remained stable.

It was expected that loans and advances extended by the banks to both Government, private and other public sectors measured as net domestic assets of the system would expand by no more than 9.3%. Commercial Banks were expected to increase their lending to the private sector by at least 17.8% in the year ending June 1999 and Government borrowing from the banking sector was expected to fall by at least 5%.

Achievement of Target Inflation

The bank planned to regulate and control money supply by:

- undertaking open market operations to regulate reserves held by commercial banks to achieve the required change in the money supply and interest rates;
- discounting and overnight lending to commercial banks as a last resort facility to bridge short term liquidity shortfalls;
- the Central Bank to stay out of the foreign exchange market and only intervene when it was absolutely necessary;
- use of cash ratio to ensure that money lending by the banking institutions do not undermine targets on money supply; and
- inspection of banking institutions to ensure compliance with prudent legal requirements.

- The monetary policy of the Central Bank for the year starting June, 1998 was aimed at lowering inflation to at least 5%.

RECOMMENDATIONS OF THE COMMITTEE

- (i) That, the Monetary Policy Statements should not just address the intentions of the Central Bank of Kenya but should indicate the practical and specific measures which would be put in place to achieve those intentions.
- (ii) That, the Central Bank of Kenya should provide data detailing the total deposits held by commercial banks, how much of those deposits are interest free and where interest is paid, how much it is.
- (iii) That, the Central Bank of Kenya should restrict its role as the lender of the last resort as opposed to its current tendency where it operates as a lender of first resort.
- (iv) That, the policy of licensing for commercial banks by the Central Bank of Kenya should be based more on professionalism than on the capital base, as the real cause of the collapse of most local banks is mismanagement. The chairperson of every board of directors of a bank should be a banker.
- (v) That, the Central Bank of Kenya should review the use of Treasury Bills as a bench mark to determine interest rates.
- (vi) That, the principal used in supporting the National Bank of Kenya by the Central Bank of Kenya was improper and should not have been applied without the authority of Parliament.
- (vii) That, the Central Bank of Kenya should strengthen its discipline in the banking sector.

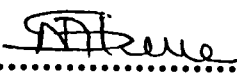
THIRD MONETARY POLICY STATEMENTS **(JULY TO DECEMBER, 1999)**

Upon the presentations on the Third Monetary Policy Statement and the Measures taken to Stabilize and Strengthen the Banking System, the Committee recommended that:-

(i) A section be incorporated in each Monetary Policy Statement, that would be a review of the following factors as presented in the proceeding Statement:-

- (a) The implementation of the Policy Statement.
- (b) The impact of the implementation of Statement.
- (c) The degree of convergence and complementarity in performance between implemented Monetary Policy and the macroeconomic objectives and targets of the following:-

- Targeted Gross Domestic Product - GDP;
- Growth rate;
- Inflation;
- Budgetary targets; and
- Balance of payments.

Signed: 

**HON. SIMEON M. MKALLA, MP
CHAIRMAN
DEPARTMENTAL COMMITTEE NO.F
FINANCE, PLANNING AND TRADE**

DATE: ...16-11-1999...

**MINUTES OF THE TENTH SITTING OF THE DEPARTMENTAL COMMITTEE
ON FINANCE, PLANNING AND TRADE HELD IN CONFERENCE ROOM NO.
9 PARLIAMENT BUILDINGS ON THURSDAY, NOVEMBER 05, 1998 AT 10.00
A.M.**

PRESENT: The following Members of the Committee were present:

The Hon. Simeon M. Mkalla, (Chairman)
The Hon. Mohamed A. Galgalo, M.P.
The Hon. Onesmus Mboko, M.P.
The Hon. Peter Odoyo, M.P.

ABSENT WITH APOLOGY:

The Hon. John Michuki, M.P.

ABSENT WITHOUT APOLOGY:

The Hon. James C. Koske, M.P.
The Hon. David Mwiraria, M.P.
The Hon. Joseph D. Lotodo, M.P.
The Hon. Soita Shitanda, M.P.
The Hon. Joseph Mugalla, M.P.
The Hon. Rashid Sajjad, M.P.

IN ATTENDANCE NATIONAL ASSEMBLY

Ms. A. K. Thurania - Clerk Assistant I
Mr. J. G. Wanyoike - Clerk Assistant

**MIN.NO.43/98 CONFIRMATION OF THE MINUTES OF THE PREVIOUS
MEETING**

The minutes of the Ninth Sitting of the Committee held on July 27, 1998 were confirmed by the Members present and signed by the Chairman.

MIN.NO.44/98 MATTERS ARISING

1. The Chairman informed the Committee that a letter from the Association of Kenya Insurers was received two days before the Bill

was passed by the House and there was not enough time for the Committee to deliberate on its suggestions in connection with the Retirement Benefits (Amendment) Bill.

The Committee, however, agreed to have an audience with members of the Association at a date to be agreed upon.

2. A meeting with the Minister for Planning and National Development and also the Minister for Trade, which had been postponed in August, 1998 should be convened soon to discuss their programmes and policy objectives.

MIN.NO.45/98

CONSIDERATION OF THE SECOND MONETARY POLICY STATEMENT

The Committee agreed that they should study the First and Second Monetary Policy Statements, (1997 and 1998) issued by the Central Bank on Friday, November 13, 1998 at 10.00 a.m.

MIN.NO.47/98

ADJOURNMENT

And the time being thirty minutes past Eleven O'clock the Chairman adjourned the Sitting until Wednesday, November 11, 1998 at 12 noon in Conference Room No. 9.

CONFIRMED:.....
(CHAIRMAN)

DATE:.....

MINUTES OF THE ELEVENTH SITTING OF THE DEPARTMENTAL COMMITTEE ON FINANCE, PLANNING AND TRADE HELD IN CONFERENCE ROOM NO. 9 PARLIAMENT BUILDINGS ON WEDNESDAY, NOVEMBER 11, 1998 AT 12.00 NOON

PRESENT: The following Members of the Committee were present:

The Hon. Simeon M. Mkalla, M.P. (Chairman)
The Hon. Joseph D. Lotodo, M.P.
The Hon. Mohamed A. Galgalo, M.P.
The Hon. Joseph J. Mugalla, M.P.
The Hon. David Mwiraria, M.P.
The Hon. Peter O. Odoyo, M.P.
The Hon. Onesmus Mboko, M.P.

ABSENT WITH APOLOGY:

The Hon. Soita Shitanda, M.P.
The Hon. John Michuki, M.P.
The Hon. Rashid M. Sajjad, M.P.

ABSENT WITHOUT APOLOGY:

The Hon. James Koske, M.P.

IN ATTENDANCE NATIONAL ASSEMBLY

Mr. J. N. Mwangi - Senior Clerk Assistant

MIN.NO.48/98 CONFIRMATION OF THE PREVIOUS MINUTES

Minutes of the Tenth Sitting of the Committee held on November 05, 1998 were confirmed by the Members present and signed by the Chairman.

MIN.NO.49/98 MATTERS ARISING

- (i) The Chairman informed the Committee that he had received a second letter from the Association of Kenya Insurers with several documents attached. The Members present confirmed that they had also received the documents. It was resolved that the Members study the documents before meeting the Members of the Association of Friday,

November 27, 1998.

- (ii) The Chairman informed the Committee of the need for a that the meeting with the Minister for Planning and National Development to discuss the programme, policy and objectives of the Ministry. The Secretariat was requested to arrange for the date of the meeting and inform the Committee accordingly.
- (iii) The Chairman informed the Members that the Governor of Central Bank had confirmed his appearance before the Committee on Friday, November 13, 1998.

MIN.50/98 CONSIDERATION OF THE FIRST AND SECOND MONETARY POLICY STATEMENTS

The Committee considered at length the First and Second Monetary Policy Statements and resolved to put the following questions/comments, among others, to the Governor of the Central Bank when he appears before the Committee:

1. Why the Central Bank had issued only two monetary Statements since 1997 contrary to Section 4B of the Central Bank of Kenya (Amendment) Act which stipulates that "**the Bank shall at intervals of not more than six months, submit to the Minister a Monetary Policy Statement for the next twelve months...**"

FIRST MONETARY POLICY 1997

2. Why did the Central Bank issue more Treasury Bills to contain money supply - were there no other controls which could have been used.
3. In the 1997 Statement, it is indicated that the most recent audited Government revenue were those for 1994/95 (page 8) why were these not up to date?
4. The level of Government borrowing from domestic sources was expected to decline thereby reducing the domestic debt stock which stood at 128 billion by at least 10 billion by end of June, 1998 - was this realised?

THE SECOND MONETARY POLICY 1998

5. Why did the underlying inflation increase from 4.8% in June, 1997 to 11.3% in June 1998, an increase which is well above the 5% targeted by the end of June, 1998?
6. Could the Governor expound on the reasons given for inflation in the year to June, 1998? (pages 3 & 4).
7. The Government while limiting its borrowings from the Central Bank seems to have borrowed quite a lot from the private section - what necessitated this?
8. What led to the decrease of foreign exchange reserves from US\$1,552 million at the end of June, 1997 to US\$1,289 million at the end of June, 1998, (a decrease of US\$263 million)?
9. Out of the US\$263 million quoted above, an amount of US\$199 million was as a result of payments deficit, what of the balance of US\$64 million?
10. Whereas the Foreign Exchange reserves decreased to US\$1,289 million and out of these the Central Bank held US\$754 million what happened to the balance of US\$535 million?
11. Why was there a big difference between the interest rates, the inflation rate and the exchange rate, whereas there should be a co-relation between the three?
12. - How far has the Government gone to reduce the borrowing from the banking sector?
- Why has the Government been issuing Treasury Bills.
13. Why are the foreign exchange reserves below the targeted 4 months of imports?

14. The Committee is of the view that the inflation rate is likely to rise higher than the targeted rate of 5% - what are the comments of the Governor?

The Central Bank of Kenya (Amendment) Act, 1996

- (i) How are members of the Board appointed and who are currently the five non-executive directors?
- (ii) Have the objectives set out in the Act been achieved?

General Question

Why have several banks gone under, within the last two to three months and what action is the Central Bank taking to salvage the situation?

MIN.NO.51/98

ADJOURNMENT

And the time being twenty minutes past two O'clock, the Chairman adjourned the sitting until Friday, November 13, 1998 at 10.00 a.m. in Conference Room No. 9.

Confirmed:.....

Date:.....

MINUTES OF THE TWELFTH SITTING OF THE DEPARTMENTAL COMMITTEE ON FINANCE, PLANNING AND TRADE HELD IN CONFERENCE ROOM NO. 9 PARLIAMENT BUILDINGS ON FRIDAY, NOVEMBER 13, 1998 AT 10.00 A.M.

PRESENT: The following Members of the Committee were present:

The Hon. Simeon M. Mkalla, M.P., (Chairman)
The Hon. Joseph D. Lotodo, M.P.
The Hon. Mohamed A. Galgalo, M.P.
The Hon. Peter O. Odoyo, M.P.
The Hon. Onesmus Mboko, M.P.

ABSENT WITH APOLOGY:

The Hon. Joseph J. Mugalla, M.P.
The Hon. David Mwiraria, M.P.
The Hon. John N. Michuki, M.P.
The Hon. Soita Shitanda, M.P.
The Hon. Rashid M. Sajjad, M.P.

ABSENT WITHOUT APOLOGY:

The Hon. James Koske, M.P.

IN ATTENDANCE NATIONAL ASSEMBLY

Mr. J. N. Mwangi - Senior Clerk Assistance
Ms. A. K. Thurania - Clerk Assistant I

MIN.NO.52/98 CONFIRMATION OF MINUTES OF THE PREVIOUS MEETING

The Minutes of the Eleventh Sitting of the Committee held on November 11, 1998 were confirmed by the Members present and signed by the Chairman.

MIN.NO.53/98 MEETING WITH THE GOVERNOR OF CENTRAL BANK

The Governor of Central Bank, Mr. Micah Cheserem accompanied by Mr. Maurice Kanga, the Central Bank Chief Economist, appeared before the

Committee and responded to various issues raised by the Members concerning the First and Second Monetary Policy Statements.

The Governor further briefed the Committee on the objectives and operations of Central Bank. He informed the Members that Central Bank would be willing to organise Seminars for Members of Parliament where current economic and monetary issues could be discussed.

MIN.NO.54/98 **CONSIDERATION OF THE FIRST AND SECOND MONETARY POLICY STATEMENTS**

The Governor gave a general overview of the 1997 and 1998 Monetary Policy Statements and informed the Committee that in future, the Statement would be on schedule after every six months as stipulated in the Central Bank of Kenya (Amendment) Act, 1996. He also said that it would include Bank information from the Banking Sector.

MIN.NO.55/98 **SALE OF TREASURY BILLS**

The Governor informed the Committee that apart from providing the Treasury with money to spend, sale of Treasury Bills also held in mopping up excess money from the economy. He said that the credibility gap in this country had led to very low investor confidence. Foreign investors are not sure of the safety of their investments and international donors were also thinking of the risk element. The Governor urged the Members to be at the forefront in prevailing upon the Minister for Finance to fulfil the promises he made to the International Monetary Fund and other international donors in order to restore the lost credibility.

MIN.NO.56/98 **DOMESTIC AND EXTERNAL DEBT**

The Governor informed the Committee that although the Government has a huge domestic debt, this was be drastically reduced when the International Monetary Fund releases funds because many other donors will follow suit and new ones will come up.

As regards the external debt, the Governor said that, it was already on the decline because the country was not borrowing any more.

MIN.NO.57/98 **PROBLEMS IN THE BANKING SECTOR**

The Committee wanted to know why in the last three months, several banks had gone under and what measures Central Bank was taking to forestall the situation. According to the Governor, most of the owners of the local banks just like ordinary business ventures.

There has also been too much in-house borrowing of huge amounts of money by the bank directors most of whom neither pay back promptly nor have enough collateral to cover their loan.

To salvage the situation, the Central Bank is planning to come up with a law raising the minimum capital deposit for those wishing to establish new banks to Kshs.500 million.

MIN.NO.58/98 VOTE OF THANKS

The Chairman thanked the Governor for the eloquent and informative manner in which he had tackled all the issues raised by the Committee. He said members of Parliament should have frequent forums in which national economic and financial issues can be discussed in a friendly and transparent atmosphere.

MIN.NO.59/98 ADJOURNMENT OF THE MEETING

And the time being twenty minutes to Twelve O'clock, the Chairman adjourned the meeting until a date to be agreed later.

CONFIRMED:
(CHAIRMAN)

DATE:.....

MINUTES OF THE FOURTEENTH SITTING OF THE DEPARTMENTAL COMMITTEE ON FINANCE, PLANNING AND TRADE HELD IN CONFERENCE ROOM NO. 9 PARLIAMENT BUILDINGS ON FRIDAY, APRIL 09, 1999 AT 09.00 A.M.

PRESENT: The following Members of the Committee were present:-

The Hon. Simeon M. Mkalla, M.P. (Chairman)
The Hon. Onesmus Mboko, M.P.
The Hon. Mohamed A. Galgalo, M.P.
The Hon. David Mwiraria, M.P.
The Hon. Peter Ochieng, M.P.
The Hon. Soita Shitanda, M.P.
The Hon. John Michuki, M.P.
The Hon. Joseph J. Mugalla, M.P.

ABSENT WITHOUT APOLOGY:

The Hon. Rashid M. Sajjad, M.P.

IN ATTENDANCE: NATIONAL ASSEMBLY

Mr. J. N. Mwangi, - Senior Clerk Assistant
Ms. A. K. Thurania - First Clerk Assistant

MIN. NO.6/99 CONFIRMATION OF MINUTES OF THE PREVIOUS MEETING

The Minutes of the Thirteenth Sitting of the Committee held on March 18, 1999 were confirmed by the Members present and signed by the Chairman.

MIN. NO.7/99 MATTERS ARISING

(a) **Min.2/99 Monetary Policy Reports**

- (i) The Committee expressed its concern that despite the promise by the Governor of Central Bank on punctuality in submission of Monetary Policy statements, the December, 1998 statement has not yet been received in Parliament. The Secretariat

undertook to follow up the issue with the Minister for Finance on April 15, 1998 after the Committee sitting.

(ii) **Crisis in the Banking Sector**

The Committee noted with concern that the crisis in the banking sector was threatening to get out of hand unless drastic measures were taken. The Committee therefore agreed that there was urgent need to hold serious discussions with the Minister for finance and the Governor of Central Bank for a brief on the current situation and the measures being taken to avert the crisis.

(iii) **Action Column**

The Committee recommended that due to the number of pending issues arising out of the deliberations, there was need to have an "Action Column" in the Minutes to facilitate follow ups.

(b) **Min. No.3/99** **Kenya National Assurance Company Limited**

The Committee resolved that due to the short time the Minister for finance and the Attorney General spent during the Committee meeting discussing the proposed sale of Kenya National Assurance Company, the issue was not exhaustively laid out to the satisfaction of the Committee. Consequently, the Committee rejected the proposals presented by the Minister until all the underlying questions about the sale have been adequately addressed.

MIN. NO.8/99 **Meeting with the Ministers**

The Committee resolved that due to the many issues coming up concerning the schedule of items the Committee would like to discuss with the respective Ministers as follows:-

MINISTRY OF FINANCE

- A brief on what is going on between the Government of Kenya and the International Monetary Fund (IMF) - what areas have they agreed on and what are the outstanding issues?
- How much money has the Country received from the World Bank and why hasn't this money been spent?
- Why has the government not spent money offered by donors such as IFAD?
- A brief on balanced budget vis-a-vis local borrowing.
- Crisis in the Banking Sector - 35 banks have collapsed within a span of less than 15 years. What action is the Minister taking to remedy this situation?
- A brief on the Insurance Industry.
- Central Bank and the Country's monetary policy.
- Treasury Bills and the Central Bank's monitoring policy.
- Status of the Central Bank - is it a facilitator, a government instrument or a trader - why should it have to declare a dividend?
- Control of interest rates - how are rates discounted?
- Supplementary Estimates - the Minister to brief the Committee before tabling the Estimates?
- A Retirement Benefits Authority - has it commenced business?
- A brief on Kenya Revenue Authority.

MINISTRY OF PLANNING AND NATIONAL DEVELOPMENT

- The forthcoming National Population Census - the logistical details put in place, duration and when the results are expected.

- District Development Committees - are they serving any useful purpose in this country?
- Duplication of efforts in project planning and implementation - scattering of similar projects in various ministries - what is the rationale behind this?
- What is the general macro-policy of the Ministry?

MINISTRY OF TRADE

- Liberalisation of trade vis-a-vis the local industries.
- Importation of sugar and rice at the expense of the local agricultural industry.
- Trade Agreements.

MINISTRY OF TOURISM

- Policy and objectives of the Ministry.
- Who are the players in this industry.
- Strategies for the rival of the Tourism industry.
- A brief on the Tourism Board.

MIN. NO.9/99 ADJOURNMENT

And the time being half past Twelve O'clock, the Chairman adjourned the sitting until Thursday, April 15, 1999 in conference Room No. 9 at 09.00 a.m.

Confirmed

Date

MINUTES OF THE FIFTEENTH SITTING OF THE DEPARTMENTAL COMMITTEE ON FINANCE, PLANNING AND TRADE HELD IN CONFERENCE ROOM NO.9 PARLIAMENT BUILDINGS ON THURSDAY, APRIL 15, 1999 AT 9.00 A.M.

PRESENT: The following Members of the Committee were present:-

The Hon. Simeon M. Mkalla, M.P (Chairman)
The Hon. Onesmus Mboko, M.P.
The Hon. Mohamed A. Galgalo, M.P.
The Hon. Peter Ochieng Odoyo, M.P.
The Hon. Soita Shitanda, M.P.
The Hon. John N. Michuki, M.P.

ABSENT WITHOUT APOLOGY:

The Hon. Rashid M. Sajjad, M.P.
The Hon. J. Mugalla, M.P.
The Hon. David Mwiraria, M.P.

IN ATTENDANCE NATIONAL ASSEMBLY

Mr. Murumba Werunga - Deputy Clerk
Ms. A.K. Thurania - First Clerk Assistant

MIN NO.9/99 CONFIRMATION OF MINUTES OF THE PREVIOUS SITTING

The minutes of the Fourteenth Sitting of the Committee held on April 9, 1999 were confirmed by the Members present and signed by the Chairman.

MIN NO.10/99 MATTERS ARISING

Min.No.7/99 Monetary Policy Statement

The Committee was informed by the Secretariat that the Minister for Finance had already delivered the December, 1998 Monetary Policy Statement to the Clerk of the National Assembly.

MIN. NO.11/99 BRIEF BY THE MINISTER FOR FINANCE

The Minister for Finance, Dr. the Hon. Francis Y.O. Masakhalia, EGH, M.P. accompanied by:-

Ms. Margaret Chemengich, EBS, HSC., Permanent Secretary, Ministry of Finance; Messrs P. Omondi Mbago, Official Receiver and Provisional Liquidator; Njeru Kirira, Director of Fiscal and Monetary Affairs; James Olubayi, Special Manager, Kenya National Assurance Closed Life Fund; W.K.T. Richu, Senior Deputy Official Receiver; and Barack O. Amollo, Under Secretary; once again briefed the Committee on the issues earlier discussed in connection with the proposed sale of the Kenya National Assurance Company.

The Minister further clarified to the Committee, that the general insurance business of the former Kenya National Assurance Company is so hopelessly insolvent that it is being liquidated by the Official Receiver.

The Life Business Branch is what is being repackaged and offered for transfer to another Insurance Company to continue servicing the policies.

MIN. NO.12/99 ISSUES RAISED BY THE COMMITTEE DURING THE PREVIOUS SITTING FOR CLARIFICATION BY THE MINISTER

- (i) List of Debtors to the Kenya National Assurance Company Ltd, Amounts Owed and the Outstanding Debts.

The Minister informed the Committee that, as far as the closed Life Fund was concerned, the only debtors were mortgagors who owed Kenya National Assurance Company money by way of the mortgages they held. These mortgages were being held in the Life Fund as assets to back the actuarial liabilities.

The other class of debtors consists of ordinary life policy holders who took loans using their life policies as securities. These loans were fully secured as their value is less than the surrender value of the policies. As of June 30, 1997, the total amount of policy loans secured on life assurance policies was K.Shs.220,618,000.

The other category of debtors to the closed Life Fund were loans given out to Life Insurance agents of the company. This amounted

to K.Sh.3,533,000 as at 30th June, 1997. The Minister tabled the list of mortgage debtors and that of Life Insurance agents. The Committee requested to have the list of policy holder debtors for perusal before the next meeting.

- (ii) An analysis of the disposal of the assets of Kenya National Assurance Company and an indication as to whether all the departments of the company were insolvent.

According to the Minister, only vehicles and other movables that depreciate in value and which belonged to the closed Life Fund have been disposed off by the Provisional Liquidator.

- (iii) More information indicating business acumen, affiliations, credibility and identity of the South African Investors backing the two local companies who are bidding for Kenya National Assurance Company.

As far as this issue is concerned, the Minister informed the Committee that the prospective bidders have only indicated verbally that they might seek external assistance from South Africa or elsewhere in case it was necessary.

- (iv) When will the Official Receiver do the public examination - before or after the sale of KNAC?
The Minister informed the Committee that public examination of the former directors and the chief officers of the Company will be undertaken by the High Court on the application by the Official Receiver in the course of winding up of the General Insurance Business.

MIN. NO.13/99 COMMENTS AND QUESTIONS BY THE COMMITTEE

After a lengthy discussion on the underlying issues that led to the current status of Kenya National Assurance Company, the Committee resolved that, before they could concur with the Minister for Finance on the proposed transfer of the company, they needed to be absolutely clear in their minds that they were doing the right thing and that it was for the good of this nation.

The Committee, therefore, agreed that there was need to have another meeting with the Minister in order to further clarify the following issues concerning the proposed transfer of KNAC:-

- (i) The Minister to provide more information on the business history of the Kenyan Alliance Insurance Company and Pan Africa Insurance Company including their balance sheets as at December, 1998.
- (ii) Has the Minister requested the above companies to increase their bids as earlier requested by the Committee?
- (iii) The Minister to provide a balance sheet of the entire Kenya National Assurance Company Limited with the exhaustive list of debtors and creditors.
- (iv) Information on the activities of the general insurance department from July, 1996 to date.
- (v) How much money has so far been received from the debtors and how many of them have fully repaid their debts?
- (vi) Are there actual supporting documents for the securities offered for the outstanding loans, particularly the huge amounts?
- (vii) Provide the list of debtors whose loans have been transferred to Housing Finance Company of Kenya.
- (viii) Provide copies of bids from Pan African Insurance and Kenyan Alliance Insurance Company.
- (ix) General borrowing - What securities have the debtors provided and what are their current values?
- (x) What are the current and replacement values of the Kenya National Assurance Company Limited investment property as listed in Appendix 'C' of the information document availed to the Committee?.
- (xi) The Official Receiver to provide an Income and Expenditure report of KNAC since July, 1996.

MIN. NO.14/99

ADJOURNMENT

And there being no Any Other Business, and the time being half past One O'clock, the Chairman adjourned the sitting until Friday, 23rd April, 1999 in Conference Room No.9 at 9.00 a.m.

CONFIRMED:
(CHAIRMAN)

DATE:

MINUTES OF THE TWENTYFIRST SITTING OF THE DEPARTMENTAL COMMITTEE ON FINANCE, PLANNING AND TRADE HELD IN CONFERENCE ROOM NO.7 PARLIAMENT BUILDINGS ON TUESDAY, MAY 18, 1999 AT 9.00 A.M.

PRESENT: The following Members of the Committee were present:

The Hon. Simeon Mkalla, M.P. - Chairman
The Hon. Mohamed Galgalo, M.P.
The Hon. Soita Shitanda, M.P.
The Hon. Peter O. Odoyo, M.P.
The Hon. Joseph Mugalla, M.P.
The Hon. John Michuki, M.P.
The Hon. Onesmus Mboko, M.P.

ABSENT WITH APOLOGY:

The Hon. David Mwiraria, M.P.

ABSENT WITHOUT APOLOGY:

The Hon. Rashid Sajjad, M.P.

IN ATTENDANCE: NATIONAL ASSEMBLY

Ms A.K. Thurairia - First Clerk Assistant
Mrs F.A. Abonyo - Clerk Assistant

MIN.33/99: MINUTES OF THE PREVIOUS MINUTES

The Committee considered the minutes of the previous sitting and resolved that the same should be rewritten as they were not as detailed as they should have been.

MIN.34/99: CONSIDERATION OF THE DRAFT REPORT ON MONETARY POLICY STATEMENTS

The Committee deliberated on the Draft Report of the Monetary Policy Statements at length and particularly the role the Central Bank should play in relation to currency circulation, lending policies and the general influence it should have on the economy.

The Committee therefore made the following recommendations:

- (i) The Monetary Policy Statements should not just address the intentions of the Central Bank but should enumerate practical and specific measures which would be put in place to achieve those intentions.
- (ii) The Central Bank should provide data detailing the total deposits held by commercial banks, how much of those deposits are interest free and where interest is paid, how much it is.
- (iii) The Central Bank should maintain its role as the lender of last resort as opposed to its current tendency where it operates as a lender of first resort.
- (iv) The policy of licensing of commercial banks by Central Bank of Kenya should be based more on professionalism than on the capital base. This is because the real reason why local banks are collapsing is mismanagement. Every board of directors must have a professional banker as its chairperson.
- (v) The Central Bank of Kenya should review the use of Treasury Bills as a Bench mark.
- (vi) The principle used in supporting the National Bank of Kenya by the Central Bank should be applied across the board to other ailing banks.
- (vii) The Central Bank of Kenya should strengthen its supervisory and monitoring unit to instil financial discipline in the banking sector.

MIN.35/99: ADJOURNMENT

And the time being fortyfive minutes past Twelve O'clock, the Chairman adjourned the sitting until 2.30 p.m.

CONFIRMED:

(CHAIRMAN)

DATE:

MINUTES OF THE THIRTY-EIGHTH SITTING OF THE DEPARTMENTAL COMMITTEE NO.F ON FINANCE, PLANNING AND TRADE, HELD IN THE COMMITTEE ROOM, SECOND FLOOR, COUNTY HALL, PARLIAMENT BUILDINGS ON TUESDAY, SEPTEMBER 14, 1999 AT 10.00 A.M.

PRESENT: The following Members of the Committee were present:-

The Hon. Simeon Mkalla, M.P. - Chairman
The Hon. Peter O. Odoyo, M.P.
The Hon. Wycliffe Osundwa, MP
The Hon. Soita Shitanda, M.P.
The Hon. Adan Keynan, M.P.
The Hon. Onesmus Mboko, M.P.
The Hon. Jimmy N. Angwenyi, M.P.

ABSENT:

The Hon. Joseph J. Mugalla, M.P.
The Hon. Mohamed A. Galgalo, M.P.
The Hon. David Mwiraria, M.P.

ABSENT WITH APOLOGY:

The Hon. John N. Michuki, M.P.

IN ATTENDANCE NATIONAL ASSEMBLY:

Mr. Murumba Werunga - Deputy Clerk.
Mr. David K. Ziah - Second Clerk Assistant.

MINISTRY OF TOURISM, TRADE AND INDUSTRY

Ms. Margaret Chemengich - Permanent Secretary
Mr. Clement Mwatsama - Director of Tourism
Mr. Kirimi Guantai - Deputy Chief Economist

MIN.113/99 CONFIRMATION OF MINUTES

Minutes of the previous sitting held on September 07, 1999 were confirmed by the Members present and signed by the Chairman.

MIN.114/99

MATTERS ARISING

The Committee noted with a lot of concern the inaccuracy appearing in Minute No.112/99 regarding the dates of the next sitting. The sitting had been scheduled for September 14, 1999 and not September 07, 1999 as it appeared in the Minute. The Secretariat was cautioned to be accurate in recording minutes.

MIN.115/99

MEETING WITH THE MINISTER FOR TOURISM, TRADE AND INDUSTRY

The Permanent Secretary, Ministry of Tourism, Trade and Industry Ms. Margaret Chemengich accompanied by the Director of Tourism Mr. Clement Mwatsama and the Deputy Chief Economist Mr. Kiriimi Guantai appeared before the Committee and informed the Committee as follows:-

- (i) That, the Minister was unable to appear before the Committee because he was then attending a Cabinet Meeting.
- (ii) That, it was her wish to ask the Committee to reschedule the sitting in the absence of the Minister.
- (iii) That, an effort will be made to enable stake-holders appear before the Committee and dispose of all that was of concern to the Committee which had been communicated to the Ministry via letter Ref DC/FPT/CORR/59 dated September 03, 1999. The Committee expressed its appreciation for the commitment made by the Permanent Secretary to avail herself and appear before the Committee. The proposal to reschedule the sitting was accepted by the Committee. In this connection, the Secretariat was to liaise with the Permanent Secretary and fix the date for the rescheduled sitting before Parliament resumes in October, 1999.

MIN. 116/99

DRAFT REPORT ON MONETARY POLICY STATEMENTS OF JUNE TO DECEMBER, 1997 AND JANUARY TO JUNE, 1998

The Chairman read through the report and the following comments and observations were made:-

- (i) That, from 1997 when the first report came out only three reports had been submitted to the Committee instead of five (5). This contravened Section 4B of the Central Bank (Amendment) Act 1996.
- (ii) That, part five (v) of the recommendations be amended to read "The Central Bank of Kenya should review the use of Treasury Bills as one of the bench marks to regulate the interest rates."
- (iii) That, part six (vi) of the recommendations be amended to read "The principal in supporting the National Bank of Kenya by the Central Bank of Kenya was wrong and should be discouraged".
- (iv) That, another recommendations, part eight (Viii) be added to read "That, the Central Bank of Kenya must submit the Monetary Policy Statements after every six months as required by section 4B of the Central Bank (Amendment) Act 1996.
- (v) That, part nine (ix) be added to the recommendations to read "Central Bank of Kenya to maintain inflation rates at single digit".

The Committee observed that time should be allocated for reports by Departmental Committees to be debated on the floor of the House.

MIN.117/99

Any Other Business

1. The Chairman briefed the Committee about the deliberations of the Liaison Committee as follows:-
 - (i) That, the Deputy Speaker was to sort out the issue of one member of the Committee to participate in the African Carribbean Pacific/European Union, Consultative Forum (ACP/EU Meetings) as a representative of the House.

- (ii) That, the House had by then spent half of the money allocated for work of Committees for travelling and what had remained would be shared equally among the Departmental Committees.
- (iii) That, Departmental Committees should curtail trips abroad and give preference to local trips due to lack of funds.

MIN.118/99

DATE OF NEXT SITTING

The next sitting was scheduled for Wednesday September 15, 1999 at 10.00 a.m. in Committee Room, Second Floor, County Hall.

MIN.119/99

ADJOURNMENT

And there being no Any Other Business for discussion, the Chairman adjourned the sitting at 12.40 p.m. until Wednesday, 15th September, 1999 at 10.00 a.m.

Confirmed:
(CHAIRMAN)

Date:

MINUTES OF THE THIRTY-EIGHTH SITTING OF THE DEPARTMENTAL COMMITTEE NO.F ON FINANCE, PLANNING AND TRADE, HELD IN THE COMMITTEE ROOM, SECOND FLOOR, COUNTY HALL, PARLIAMENT BUILDINGS ON TUESDAY, SEPTEMBER 14, 1999 AT 10.00 A.M.

PRESENT: The following Members of the Committee were present:-

The Hon. Simeon Mkalla, M.P. - Chairman
The Hon. Peter O. Odoyo, M.P.
The Hon. Wycliffe Osundwa, M.P.
The Hon. Soita Shitanda, M.P.
The Hon. Adan Keynan, M.P.
The Hon. Onesmus Mboko, M.P.
The Hon. Jimmy N. Angwenyi, M.P.

ABSENT:

The Hon. Joseph J. Mugalla, M.P.
The Hon. Mohamed A. Galgalo, M.P.
The Hon. David Mwiraria, M.P.

ABSENT WITH APOLOGY:

The Hon. John N. Michuki, M.P.

IN ATTENDANCE **NATIONAL ASSEMBLY**

Mr. Murumba Werunga - Deputy Clerk
Mr. David K. Ziah - Second Clerk Assistant.

MINISTRY OF TOURISM, TRADE AND INDUSTRY

Ms. Margaret Chemengich - Permanent Secretary
Mr. Clement Mwatsama - Director of Tourism
Mr. Kirimi Guantai - Deputy Chief Economist

MIN.113/99**CONFIRMATION OF MINUTES**

Minutes of the previous sitting held on September 07, 1999 were confirmed by the Members present and signed by the Chairman.

MIN.114/99**MATTERS ARISING**

The Committee noted with a lot of concern the inaccuracy appearing in Minute No.112/99 regarding the dates of the next sitting. The sitting had been scheduled for September 14, 1999 and not September 07, 1999 as it appeared in the Minute. The Secretariat was cautioned to be accurate in recording minutes.

MIN.115/99**MEETING WITH THE MINISTER FOR TOURISM, TRADE AND INDUSTRY**

The Permanent Secretary, Ministry of Tourism, Trade and Industry Ms. Margaret Chemengich accompanied by the Director of Tourism Mr. Clement Mwatsama and the Deputy Chief Economist Mr. Kirimi Guantai appeared before the Committee and informed the Committee as follows:-

- (i) That, the Minister was unable to appear before the Committee because he was then attending a Cabinet Meeting.
- (ii) That, it was her wish to ask the Committee to reschedule the sitting in the absence of the Minister.
- (iii) That, an effort will be made to enable stake-holders appear before the Committee and dispose of all that was of concern to the Committee which had been communicated to the Ministry via letter Ref DC/FPT/CORR/59 dated September 03, 1999. The Committee expressed its appreciation for the commitment made by the Permanent Secretary to avail herself and appear before the Committee. The proposal to reschedule the sitting was accepted by the Committee. In this connection, the Secretariat was to liaise with the Permanent Secretary and fix the date for the rescheduled sitting before Parliament resumes in October, 1999.

**DRAFT REPORT ON MONETARY POLICY
STATEMENTS OF JUNE TO DECEMBER, 1997 AND
JANUARY TO JUNE, 1998**

The Chairman read through the report and the following comments and observations were made:-

- (i) That, from 1997 when the first report came out only three reports had been submitted to the Committee instead of five (5). This contravened Section 4B of the Central Bank (Amendment) Act 1996
- (ii) That, part five (v) of the recommendations be amended to read "The Central Bank of Kenya should review the use of Treasury Bills as one of the bench marks to regulate the interest rates"
- (iii) That, part six (vi) of the recommendations be amended to read "The principal in supporting the National Bank of Kenya by the Central Bank of Kenya was wrong and should be discouraged".
- (iv) That, another recommendations, part eight (Viii) be added to read "That, the Central Bank of Kenya must submit the Monetary Policy Statements after every six months as required by section 4B of the Central Bank (Amendment) Act 1996.
- (v) That, part nine (ix) be added to the recommendations to read "Central Bank of Kenya to maintain inflation rates at single digit".

The Committee observed that time should be allocated for reports by Departmental Committees to be debated on the floor of the House.

Any Other Business

1. The Chairman briefed the Committee about the deliberations of the Liaison Committee as follows:-
 - (i) That, the Deputy Speaker was to sort out the issue of one

member of the Committee to participate in the African Caribbean Pacific/European Union, Consultative Forum (ACP/EU Meetings) as a representative of the House.

- (ii) That, the House had by then spent half of the money allocated for work of Committees for travelling and what had remained would be shared equally among the Departmental Committees.
- (iii) That, Departmental Committees should curtail trips abroad and give preference to local trips due to lack of funds.

MIN.118/99 **DATE OF NEXT SITTING**

The next sitting was scheduled for Wednesday September 15, 1999 at 10.00 a.m. in Committee Room, Second Floor, County Hall.

MIN.119/99 **ADJOURNMENT**

And there being no Any Other Business for discussion, the Chairman adjourned the sitting at 12.40 p.m. until Wednesday, 15th September, 1999 at 10.00 a.m.

Confirmed.....

(CHAIRMAN)

Date

September 17, 1999

MINUTES OF THE THIRTY-NINETH SITTING OF THE DEPARTMENTAL COMMITTEE NO.F ON FINANCE, PLANNING AND TRADE, HELD IN THE COMMITTEE ROOM, SECOND FLOOR, COUNTY HALL, PARLIAMENT BUILDINGS ON WEDNESDAY, SEPTEMBER 15, 1999 AT 10.00 A.M.

PRESENT: The following Members of the Committee were present:-

The Hon. Simeon Mkalla, MP - Chairman
The Hon. Peter O. Odoyo, MP
The Hon. Wycliffe Osundwa, MP
The Hon. Soita Shitanda, MP
The Hon. Adan Keynan, M.P.
The Hon. Onesmus Mboko, M.P.
The Hon. Jimmy N. Angwenyi, MP
The Hon. John N. Michuki, M.P.

ABSENT WITH APOLOGY:

The following Member was absent with apology:-

The Hon David Mwiraria, M.P.

ABSENT WITHOUT APOLOGY:

The following Members were absent without apology:-

The Hon. Joseph J. Mugalla, M.P.
The Hon Mohamed A. Galgalo, M.P.

IN ATTENDANCE NATIONAL ASSEMBLY

Mr. David K. Ziah - Second Clerk Assistant.

CONSIDERATION OF THE THIRD MONETARY POLICY STATEMENT JULY TO DECEMBER, 1998.

(a) Objectives

The Committee discussed both the Principal and secondary objectives of the third Monetary Policy Statement of the Central Bank of Kenya and had the following observations:-

- (i) That, the objectives of the Central Bank of Kenya should include protecting the Kenya Shilling from depreciation. It was noted that there was a need for the Central Bank of Kenya to come up with a Monetary Policy Statement on how it intended to defend the Shilling against strong currencies as is the trend in other countries and the Committee felt it was high time such measures were put in place by the Central Bank of Kenya.
- (ii) That, the Central Bank of Kenya should be a lender of last resort so that by the time it was approached by a bank for a loan, the reasons as to why other banks would have refused to lend such a bank would be have been known. Cases of banks fraudently obtaining money from the Central Bank of Kenya would be avoided.
- (iii) That, the above issues would be communicated to the Governor of the Central Bank of Kenya and be discussed when he appeared before the Committee. The Committee further resolved that the views in (i) and (ii) above make part of the specific objectives of the Central Bank of Kenya.

(b) Instruments of Monetary Policy

The Committee had the following observations:-

- (i) That, the instruments of the Monetary Policy were inadequate because it did not address the problem of the rate of the interest charged on Treasury Bills and Commercial Banks.
- (ii) That, Treasury be requested to avail to the Committee quarterly reports on government expenditure for scrutiny.

- (iii) That, the last part of the instruments of the Monetary Policy was contradictory to what was happening on the ground, in that the Central Bank of Kenya has continued to be first resort lender rather than the last resort.

(c) **Monetary Policy Progress in the last six months**

The Committee noted with concern that the growth targets and bench mark levels expressed had not been achieved. It was felt that the Monetary Policy Statements should have gone further to explain the reasons and causes for such failures. The targets and bench mark levels which were never realized were noted as follows:-

- (i) Lending by Commercial Banks to the private sector was targeted to at least 17.8% in the year to June, 1999. As at end of October, 1998, lending to private sector had grown only by 10.1%
- (ii) The government had intended to reduce its borrowing by at least 5% but the government increased its borrowing from the banking system by 17% between July and October 1998.
- (iii) The Governor to explain causes and reasons why there was a decline of foreign exchange reserves from US\$1311.7m in July 1998 to US\$1308.6m in October, 1998.

(d) **INFLATION**

The Committee noted the inconsistent manner in which figures were presented in the report, and that the figures especially the single digit inflation rate was not believable. The case of the increase in prices of kerosene was cited as and that rised questions on the viability of the figures given.

(e) **FINANCIAL SYSTEM**

The following issues were observed by the Committee:-

- (i) That, lack of adequate supervision by the Central Bank of Kenya led to the high level of non-performing loans and not any poor lending practices compounded by mismanagement and frauds as cited in (a) of the Monetary Policy Statement.
- (ii) That, the Central Bank of Kenya should institute measures to recover non-performing loans including litigation through the recently created Commercial Courts.
- (iii) As regards part (d) and (e) those who might have used official influence or their positions as directors or their associates in banks to be advanced loans for non-viable projects or monuments should be exposed including the amounts involved by the affected banks.
- (iv) The Committee sought evidence from the Central Bank of Kenya to prove that under capitalization for most of the banks under receivership had facilitated their failures.
- (v) The Committee was concerned that, the Central Bank of Kenya appears to be condoning the illegal and unethical banking practises.

- (vi) The actions proposed by the Central Bank of Kenya to stabilise the banking sectors were not convincing to the Committee. The Committee noted especially the recommendation for the Government to progressively divest from the banking system. Despite this recommendation by the Central Bank of Kenya, the Treasury went ahead and advanced Ksh.4.5 billion to the National Bank of Kenya.
- (vii) The Committee was concerned about the justification for the various decrees issued by the Central Bank of Kenya, a case in point being the decree requiring any bank and financial institutions to become commercial banks.
- (viii) The Governor of the Central Bank of Kenya to explain whether the conditions stipulated on page 8 of the Monetary Policy statements on re-opening of banks under statutory management were being implemented.

(f) **EXCHANGE RATES AND INTEREST RATES**

- (i) The Committee resolved to request the Minister to submit the current Monetary Policy of the Government to the Committee for scrutiny.

(g) **GLOSSARY**

- (i) The Committee was of the view that, the interpretation of monetary policy should be expounded.
- (ii) On Open Market Operation (OMO) the Committee felt that the current policy with regard to the issues of Treasury Bills was not achieving the desired results.

MIN. 122/99

ANY OTHER BUSINESS

The following business was discussed and resolved that:-

The Secretariat should write to Stake-holders request for comments on the Monetary Policy Statement to be received within the next two weeks.

MIN.123/99

ADJOURNMENT

And there being no Any Other Business for discussion, the Chairman adjourned the sitting at thirty minutes past One O'clock until Tuesday, September 21, 1999.

Confirmed

(CHAIRMAN)

Date

October 08, 1999

MINUTES OF THE FORTY-FIRST SITTING OF THE DEPARTMENTAL COMMITTEE NO.F ON FINANCE, PLANNING AND TRADE, HELD IN THE OLD CHAMBER, PARLIAMENT BUILDINGS ON FRIDAY, OCTOBER 08, 1999 AT 10.00 A.M.

PRESENT: The following Members of the Committee were present:-

The Hon. Simeon Mkalla, M.P. - Chairman
The Hon. John N. Michuki, M.P.
The Hon. Wycliffe Osundwa, M.P.
The Hon. Adan Keynan, M.P.
The Hon. Onesmus Mboko, M.P.
The Hon. Mohamed A. Galgalo, M.P.
The Hon. David Mwiraria, M.P.

ABSENT WITHOUT APOLOGY:

The following Members were absent without apology:-

The Hon. Joseph J. Mugalla, M.P.
The Hon Peter O. Odoyo, M.P.
The Hon. Jimmy N. Angwenyi, M.P.
The Hon. Soita Shitanda, M.P.

IN ATTENDANCE NATIONAL ASSEMBLY

Mr. Murumba Werunga - Deputy Clerk.
Mr. Andrew M. Mwendwa - Second Clerk Assistant.

The Committee had lengthy deliberation on the Third Monetary Policy Statement of the Central Bank of Kenya (July to December, 1998) with Dr. Mbui Wagachia, a Co-ordinator, Macro-economics Policy Analysis Program of the Institute of Policy Analysis and Research (IPAR).

The Committee was guided through the IPAR concise submission by Dr. Wagachia, who presented the recommendations following herebelow for modifications on the form and content of Monetary Policy Statements; viz:

**DRAFT RECOMMENDATIONS BASED ON MONETARY
STATEMENT**

- Add progress report section to report
- Place future reports in context of overall macroeconomic objectives of government
- Discuss instruments, their use, implementation and impact in greater detail
- Hopefully, the Central Bank of Kenya can accelerate implementation of its secondary objective number 5 in the Statement, by investing in research/advise to government on the management of public finances: the keys to this advise are:
 - (a) Fiscal discipline (incorporating revenue/expenditure projections, expenditure affordability and optimal methods of financing budget deficits;
 - (b) Linking of public finances and budget to the priorities of the productive sectors; and
 - (c) Enhancing the efficiency, effectiveness and accountability of public expenditure.

MIN. 132/99

DATE FOR THE NEXT SITTING

Upon deliberations on the need to accomplish scrutiny of the Third Monetary Policy Statement and to also discuss the Annual Estimates (Revised) for the Fiscal Year 1999/2000 the Committee resolved for sittings, following here below so as to dispose of both:-

- (a) Meet with the Minister for Finance on Thursday, October 14, 1999 at 09.00 Hrs.
- (b) Meet with the Minister for Finance along with the Governor of the Central Bank of Kenya on Friday, October 15, 1999 at 09.00 Hrs.

MIN. 133/99

ADJOURNMENT

And the time being thirty minutes past Twelve O'clock, the Chairman adjourned the sitting till October 14, 1999 at Nine O'clock.

Confirmed
(CHAIRMAN)

Date

MINUTES OF THE FORTY-THIRD SITTING OF THE DEPARTMENTAL COMMITTEE NO.F ON FINANCE, PLANNING AND TRADE, HELD IN THE COMMITTEE ROOM, FIRST FLOOR, COUNTY HALL, PARLIAMENT BUILDINGS ON FRIDAY, OCTOBER 22, 1999 AT 09.00 A.M.

PRESENT: The following Members of the Committee were present:-

The Hon. Simeon Mkalla, M.P. - Chairman
The Hon. Adan Keynan, M.P.
The Hon. Wycliffe Osundwa, M.P.
The Hon. Soita Shitanda, M.P.
The Hon. Onesmus Mboko, M.P.
The Hon. Jimmy N. Angwenyi, M.P.

ABSENT WITH APOLOGY:

The Hon. John N. Michuki, M.P.
The Hon. David Mwiraria, M.P.

ABSENT WITHOUT APOLOGY:

The following Members were absent without apology:-

The Hon. Joseph J. Mugalla, M.P.
The Hon. Mohamed A. Galgalo, M.P.
The Hon. Peter O. Odoyo, M.P.

IN ATTENDANCE NATIONAL ASSEMBLY:

Mr. Murumba Werunga- Deputy Clerk.

MIN. NO.143/99 OPENING REMARKS BY THE CHAIRMAN

The Chairman expressed concern at the late arrival of Members for the Sitting and further noted that such late arrival delayed commencement of the sitting, forcing it to stretch into late hours. Consequently, he exhorted his colleagues to strive to arrive on time.

MIN. NO.144/99 DELIBERATION ON THE THIRD MONETARY POLICY STATEMENT, JULY TO DECEMBER, 1998

1. The Financial Secretary to the Treasury Mr. Mwachazi Mwachofi accompanied by Messrs. G. N. Gicheru, Director, Budgetary Supplies; M. Githae, Deputy Secretary, Fiscal and Monetary Affairs Department; and the Governor of the Central Bank of Kenya, Mr. Micah Cheserem, accompanied by Messrs. Murugu, Director of Banking Supervision and M. Kanga, Director of Research; appeared before the Committee and made submissions on the Third Monetary Policy Statement, July to December, 1998.
2. In the elaborate deliberations on the Third Monetary Policy Statement for the period, July to December, 1998, the Financial Secretary to the Treasury and the Governor of Central of Kenya, expounded on several aspects of the Statement and others of general concern to the economy and financial status of the Government of Kenya Among the aspects and issues expounded upon, were the following:-
 - (i) The functions of the Central Bank of Kenya were re-seated as:-
 - to control inflation;
 - to control liquidity (supply of money); and
 - to regulate interest rates.
 - (ii) The cause of the on going rise in interest rates was stated as, the resumption of borrowing from the money market by the Government, which has now tripled to fifteen percent. The resumption has been occasioned by the need to breach the short-fall in the collection of revenue which is far below the rate envisaged in the budget for the Fiscal Year, 1999/2000.
 - (iii) The major impediment and hence the delay in the resumption of both unilateral and bilateral financial assistance and borrowing is the absence of sound relationship with International Monetary Fund (IMF), which was the key to resumption of financial relation with the donor community.

- (iv) The economy could be turned round and become vibrant, if the appropriate measures were backed by strong political will.
- (v) The crucial aspect of the required political will is the environment of good governance which should permeate into all spheres of public life.

MIN. NO. 144/99 MEASURES TAKEN TO STABILIZE AND STRENGTHEN THE BANKING SYSTEM

The governor of the Central Bank of Kenya presented the following, being the report of the measures the Bank has taken to deal with the recent instability in the banking system.

1. Restructuring of the six institutions under statutory management
 - Trust Bank re-opened in August, 1999.
 - Bullion Bank is due to re-open in November, 1999.
 - Options for re-opening Reliance Bank, Prudential Bank and City Finance Bank are going on but success is doubtful due to large non-performing loans portfolio and failure of previous directors/shareholders to co-operate.
 - Fortune Finance was put under statutory management on September 23, 1999. The way forward is soon to be confirmed by the Statutory Manager.
2. Restructuring of National Bank of Kenya is proceeding well and the main shareholders have agreed to convert deposits into long-term loans. After it stabilises, the bank will be privatised.
3. Plans are underway to find a strategic partner to buy the Government shareholding in Kenya Commercial Bank. The medium term objective is to have Government divest fully from banking.
4. The Banking Act has been amended giving Central Bank enhanced enforcement powers with respect to prudential regulations. The bank can now remove directors, levy penalties and issue regulations with legal force.

5. The disclosure of financial performance has been enforced as a way of increasing transparency and ensuring better market discipline. In 1999, banks were required to publish non-performing loans, provisions and loans to directors. The disclosures will be increased for Year 2000.
6. Establishment of the Credit Reference Agencies is being encouraged and enabling legislation to allow banks to exchange information is being prepared. This will improve on credit risk assessment.
7. The capital requirements for institutions were enhanced and all banks must meet capital of Shs.200m by December 1999 and Shs.500m by December 2002. Minimum capital adequacy ratios have also been increased.
8. To strengthen the competitiveness of the small banks, Central Bank took measures to encourage them to merge. A committee with membership drawn from the Central Bank and the small and medium size banks has been formed.
9. The procedures of licensing banking institutions have been made more stringent.
10. Amendments to Building Societies Act have been made to harmonise their operations with those of banks.
11. A system of vetting directors of banking institutions before they join boards of banking institutions has been implemented.
12. Directors are now required to borrow at commercial interest rates and a reporting system of insider loans has been put in place.
13. Bank Supervision Department has been strengthened in terms of personnel, equipment and training of staff.
14. To ensure prompt remedial action is taken on irregularities found in banks, a policy of presenting inspection reports to banks' board of directors has been implemented.

MIN. NO.145/99 RECOMMENDATIONS TO THE THIRD MONETARY POLICY STATEMENT

Upon the presentations on the Third Monetary Policy Statement and the Measures taken to Stabilize and Strengthen the Banking System, the Committee recommended that:-

A section be incorporated in each Monetary Policy Statement, that would be a review of the following factors as presented in the proceeding Statement:-

- (i) The implementation of the Policy Statement.
- (ii) The impact of the implementation of Statement.
- (iii) The degree of convergence and complementary in performance between implemented Monetary Policy and the macroeconomic objectives and targets of the following:-

- Targeted GAP;
- Growth rate;
- Inflation;
- Budgetary targets; and
- Balance of payments.

MIN. NO.146/99 ANY OTHER BUSINESS

The following issues were raised under Any Other Business.

- (i) The Governor of the Central Bank of Kenya expressed the concern of the Bank on fast growing culture of lack of integrity among Kenyans owning and managing financial institutions.
- (ii) The Committee was concerned at the slow pace of the court process, which hamper litigation to recover debts.
- (iii) The external public debt stand at Kshs.153 billion.
- (iv) The Central Bank of Kenya plans to have a Seminar with all banks to ensure preparedness to tackle the uncertainties on the advent of the next millennium.

- (v) The Central Bank of Kenya to mount a Seminar on its operations and related aspects of public finance and economics for the Committee on a mutually agreed date.

MIN. NO.142/99 MEETING WITH THE MINISTER OF FINANCE

The Committee resolved to meet the Minister of Finance on Friday, November 05, 1999, and the agenda would comprise the following:-

- (i) Areas on which the I.M.F. and the World Bank, want the Government to improve upon prior to resumption of relationship. The Minister to provide the list of the specific areas.
- (ii) Taxation of kerosene.
- (iii) Re-imposition of the presumptive tax on farm produce.
- (iv) Pending bills.
- (v) The need to involve the Committee in the budgetary process.
- (vi) Status of the Life Deposit Fund of the defunct Kenya National Assurance Company.
- (vii) The need to halt expenditure on controllable costs.

MIN. NO.148/99 ADJOURNMENT

And the time being thirty-five minutes past One O'clock, the Chairman adjourned the Sitting till November 05, 1999 at Nine O'clock.

Confirmed

Date

November 05, 1999

MINUTES OF THE FORTY-FOURTH SITTING OF THE DEPARTMENTAL COMMITTEE NO.F ON FINANCE, PLANNING AND TRADE, HELD IN THE COMMITTEE ROOM, FIRST FLOOR, COUNTY HALL, PARLIAMENT BUILDINGS ON FRIDAY, NOVEMBER 05, 1999 AT 09.00 A.M.

PRESENT: The following Members of the Committee were present:-

The Hon. Simeon Mkalla, M.P. - **Chairman**
The Hon. Adan Keynan, M.P.
The Hon. Mohamed A. Galgalo, M.P.
The Hon. Adan M. Noor, M.P.
The Hon. Onesmus Mboko, M.P.
The Hon. Jimmy N. Angwenyi, M.P.
The Hon. John N. Michuki, M.P.
The Hon. Peter O. Odoyo, M.P.

ABSENT WITH APOLOGY:

The Hon. Davld Mwirarla, M.P.

ABSENT WITHOUT APOLOGY:

The following Members were absent without apology:-

The Hon. Wycliffe W. Osundwa, M.P.
The Hon. Soita P. Shitanda, M.P.

IN ATTENDANCE

NATIONAL ASSEMBLY

Mr. Murumba Werunga - Deputy Clerk.

MIN. NO. 149

DELIBERATION ON THE THIRD MONETARY POLICY STATEMENT, JULY TO DECEMBER, 1998

1. The Minister for Finance, the Hon. Chrisanthus Okemo, EGH, M.P., accompanied by Messrs. Mwaghazi Mwachofi, Financial Secretary to the

Treasury; Njeru Kirira, Director, Fiscal and Monetary Affairs Department; E. M. Githae, Deputy Secretary, Fiscal and Monetary Affairs Department; and Dr. Nzioka Kibua, Deputy Governor and M. Kanga, Director of Research, Central Bank of Kenya; appeared before the Committee and deliberated on the Third Monetary Policy Statement, July to December, 1998, and other matters concerning the national economy.

2. In addition to the issues already forwarded to the Minister under Min. No. 147 of the Sitting of October 22, 1999, the following were raised by the Committee, viz:-
 - (i) So far, the targets set in the Monetary Policy Statements were not met, yet no explanation or indication was subsequently provided as to steps being taken to cater of the shortfall.
 - (ii) The interest rates continue to rise, without tangible measures to contain them.
 - (iii) The persisting trend, whereby, there are no measures to ensure the Government had sufficient foreign resources to meet foreign obligations, compels the Government to purchasing foreign currency from the open market, occasioning rise in the cost of the foreign currency.
 - (iv) The need for coherent measures to jump-start and revive the economy and the need for relentless pursuit of such measures.
 - (v) The negative impact on the economy of the escalation in the deteriorating state of security in the country.
 - (vi) The necessity of developing confidence in the relationship between the Minister and the Committee.
 - (vii) The need for the Minister and the Committee to speak with one voice on all measures affecting the economy.
 - (viii) The necessity for urgent steps to revive and strengthen relationship with the International Monetary Fund (IMF) and the World Bank (WB) which are key for access to bilateral and multi-lateral funds.
3. The elaborate response of the Minister on the issues raised above, highlighted on the following:-

- (i) The Minister has at no time snapped meetings with the Committee; his absence at scheduled meetings has been occasioned by extremely urgent and pressing matters of national concern requiring his personal attention. On such occasions, he has had to communicate with the Secretariat, otherwise, the Minister looks forward to working closely with the Committee. His one plea was for the meetings to start on time.
- (ii) Then public debt stand at US\$5.2 billion (foreign) and US\$2.4 billion (local).
- (iii) The current rise in local borrowing by the Government and which has led to the rise in interest rates, has been occasioned by both the low export earnings and drop in external funding which would have been at interest rates lower than those prevailing locally. The measures being taken to counter this situation include:-
- intensification of negotiations to revive relationships with I.M.F. and WB;
 - acceleration of privatization which would increase public income both in local and foreign currency; for instance, it is expected that the sale of Telkom (Kenya) to an external strategic investor; the sale of the balance of GOK shares in Kenya Commercial Bank and that of 100% shares in Kenya Re-insurance Corporation, would provide funds to pay part of the foreign and domestic debt and, thus reduce Government local borrowing and ease interest rates.
 - reduction in the size of the public service.
- (iv) The Minister would arrange a meeting between the Committee the team from IMF and WB during the latter's forthcoming visit to Kenya, which is likely before the end of the year. Consequently, the Minister urged the Committee to echo Government pronouncements which emphasize the efforts being made to enhance public efficiency and accountability. The Minister, would supply

to the Committee, the list of areas of concern which the IMF and WB would like the Government to work on, prior to the meeting.

- (v) Increased rate of taxation on Kerosene. The decision to increase tax on kerosene was meant to counter the illegal trade in petroleum products whereby the Independent Dealers were mixing the kerosene with other brands which they then sold at rates cheaper than, that of the Oil Companies. Though, the increase had not been effected, in order for the oil companies to maintain the profit returns, they had removed the discount on kerosene to independent dealers. Since it was the discount which used to result into cheaper kerosene, its removal has meant an increase with price of kerosene by as much as Kshs.5.00 per litre. It is now evident that, the Oil Companies intent to bring the price of kerosene nearer that of other oil brands, so as to maintain their profits and undercut any rivalry through illegal dealings by the by the Independent Dealers.

However, the Minister undertook to maintain the status quo by an appropriate amendment in the Finance Bill, 1999, so as to address the views expressed by the Committee, which are that, the end result of the increase would adversely affect the low income earning public. The Minister would also study other ways to deal with the illegal trade.

- (vi) Re-imposition of Presumptive Tax on farm produce. While acknowledging the views of the Committee, the Minister informed them, that this tax was re-imposed following elaborate discussions and representations from the major stakeholders in the farming industry, including Kenya National Farmers Union. The premise of the representations hinged on the fact that, a greater majority of farmers and peanuts ran the risk of incurring high costs if they were to operate within the provisions of the Income Tax Act. Thus, Presumptive Tax, which is a one time levy on the total produce, was perceived as cheaper and convenient. Therefore, the Minister urged the Committee to support the tax.

(vii) The Fourth Monetary Policy Statement January to June, 1999

The Committee expressed concern that, this Statement had yet to be laid before the House. The Minister undertook to laid the Statement prior to December recess.

MIN. NO. 150 **REPORT ON THE FINANCE BILL, 1999**

The Committee adopted the Report on Finance Bill, 1999 as laid by the Chairman of Tuesday, November 02, 1999. The Minister stated that, he would submit to the Committee the final draft of amendments to the Finance Bill, 1999 prior to Committee of the House Stage.

MIN. NO. 151 **THIRD MONETARY POLICY STATEMENT**

The Committee resolved to discuss the draft Report on the First, Second and Third Monetary Policy Statements at a Sitting on November 11, 1999 at 10.00 a.m.

MIN. NO. 152 **MEETING WITH THE MINISTER FOR FINANCE**

As the Committee could not conclude the deliberations with the Minister on the issues under Min. No. 147 of the Sitting of October 22, 1999, it was resolved to reconvene on November 12, 1999 at 10.00 a.m.

MIN. NO. 153 **ADJOURNMENT**

And the time being thirty minutes past Twelve O'clock, the Chairman adjourned the Sitting till November 11, 1999 at Ten O'clock.

CONFIRMED:

DATE:

November 11, 1999

MINUTES OF THE FORTY-FIFTH SITTING OF THE DEPARTMENTAL COMMITTEE NO.F ON FINANCE, PLANNING AND TRADE, HELD IN THE COMMITTEE ROOM, SECOND FLOOR, COUNTY HALL, PARLIAMENT BUILDINGS ON THURSDAY, NOVEMBER 11, 1999 AT 10.00 A.M.

PRESENT: The following Members of the Committee were present:-

The Hon. Simeon M. Mkalla, M.P. - **Chairman**
The Hon. Adan Keynan, M.P.
The Hon. Wycliffe W. Osundwa, M.P.
The Hon. Soita P. Shitanda, M.P.
The Hon. Adan M. Noor, M.P.
The Hon. Jimmy N. Angwenyi, M.P.

ABSENT WITH APOLOGY:

The Hon. John N. Michuki, M.P.
The Hon. David Mwiraria, M.P.

ABSENT WITHOUT APOLOGY:

The following Members were absent without apology:-

The Hon. Onesmus Mboko, M.P.
The Hon. Mohamed A. Galgalo, M.P.
The Hon. Peter O. Odoyo, M.P.

IN ATTENDANCE

NATIONAL ASSEMBLY

Mr. Murumba Werunga - Deputy Clerk.

MIN. NO.154/99

CONFIRMATION OF MINUTES OF THE PREVIOUS SITTINGS

The minutes of the Forty-Second, Forty-Third and Forty-Fourth Sittings of the Committee held, respectively, on October 14, 22 and November 05, 1999 were confirmed by the Members present and signed by the Chairman.

MIN. NO.155/99

**DELIBERATION ON THE DRAFT REPORT ON THE
FIRST, SECOND AND THIRD MONETARY POLICY
STATEMENTS**

The Committee discussed the draft Report on the First, Second and Third Monetary Policy Statements and adopted the same.

MIN. NO.156/99

ANY OTHER BUSINESS

The Committee deliberated on the need to deal with the following Bills -

- (i) The Bank of India (Africa) Limited, Bill (Bill No. 5) which was referred by the House to the Committee on June 30, 1999.
- (ii) The Parliamentary Pensions (Amendment) Bill, (Bill No. 7) which was referred to the Committee by the House on July 08, 1999.
- (iii) The Central Depositories Bill (Bill No. 8), which was referred by the House to the Committee on October 27, 1999.

The Committee resolved to start dealing with the Parliamentary Pensions Bill (Bill No. 7) on Friday, November 12, 1999.

MIN. NO.157/99

ADJOURNMENT

And the time being twenty minutes past Twelve O'clock, the Chairman adjourned the Sitting till November 12, 1999 at thirty minutes past Eight O'clock.

Confirmed:

Date:

