



**REPUBLIC OF KENYA**  
**EXECUTIVE OFFICE OF THE PRESIDENT**

**ROLE OF BOARDS IN FINANCIAL RESOURCE  
MOBILIZATION AND MANAGEMENT OF  
STATE CORPORATIONS**

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# Presentation Objectives

To understand the role of Board of Directors (BOD) in Financial resource Mobilization

To understand the role of BOD in Financial Management

To understand the role Treasury in financial oversight of State Corporations



# Structure of presentation

Establishment and financing of SC

Laws Governing Financial Management of State Corporations

Role of Boards in Resource mobilization

Role of Boards in Financial management

Use of budget and Performance Contract as a tool in financial management

Role of Treasury in financial management of public funds

Disposal of assets

Treasury's right to demand payment of surplus funds

Loans to directors

Dividends



# Establishment and Financing of State Corporations

State corporations are established through: Own or Sectoral Acts of Parliament, Companies Act

When established under own or Sectoral Acts of Parliament, the Acts are required to indicate how they will be financed (Through the exchequer, grants approved by the Government, internally generated funds etc)

# Establishment and Financing of State Corporations Cont'



If established under Companies Act they should be financed through equity, loans, grants, internally generated funds e.t.c (Including all financing options available to companies established under the Companies Act)

# Laws Governing Financial Management of State Corporations



Main laws Governing Financial Oversight:

- The Constitution -
- Public Finance Management Act, 2012
- The State Corporations Act, 1986
- Cabinet Secretary to the Treasury (Incorporation) Act Cap 101
- **Regulations** and **Circulars** issued under the above laws



# Role of Boards in Financial Oversight

Financial Oversight involves planning, mobilization, directing, monitoring and control of monetary resources of an organization

Section 15 (1) of the State Corporations Act provides that “ *A Board shall be responsible for the proper management of the affairs of a state corporation and shall be accountable for the moneys, the financial business and the management of a state corporation*”.

# Role of Boards in Resource mobilization



Board of Directors expected to **understand** the mandate/business of their organizations **thoroughly**

Resource mobilization is the process by which financial resources are solicited from potential financiers/donors

An effective resource mobilization strategy includes the following:

- Identifying bankable projects/programs
- Identifying potential sources of funds
- Developing legal agreements
- Actively soliciting for the pledges



# Role of Boards in Resource mobilization (Cont')



- Following up the pledges to obtain funds
- Developing transparent governance structure for depositing funds, recording of transactions etc
- Observance of financing covenants is critical at all times during project implementation and operations

# Role of Boards in Resource mobilization (Cont')



Financial resources may be secured from the following sources:

- Grants/subsidies from GOK
- Borrowing
- Fees and levies (support from parliament/county assemblies)
- Public Private Partnerships
- Internally generated funds (strategies to raise the top line/ productivity etc)

# Role of Boards in Resource Mobilization (Cont')



- Real Estate Investment Trusts (REITs)
- Joint ventures/ strategic investors
- Divestiture (Public Offerings)
- Capital call through Rights Issue e.t.c

# Role of Boards in Resource Mobilization (Cont')



## Grants and Subsidies from GOK

- Grants for recurrent or development expenditure are secured through the Parent Ministries
- SC that require exchequer funding are required to indicate so in their budget their submissions
- It is important that Boards are *adequately* represented to articulate their budget requests at the Ministerial level and at the sector hearings

# Role of Boards in Resource Mobilization (Cont')



- **Borrowing**

- The powers for a state corporation to borrow money in Kenya or elsewhere is exercised only with the consent of the Minister (parent ministry) with the concurrence of the National Treasury
- Approval is based on:
  - ❖ financial viability of the project i.e. the ability to repay the loan
  - ❖ social economic impact
  - ❖ whether the project for which funds are being borrowed is in line with the MTP, vision 2030 and the corporation's core mandate etc

# Role of Boards in Resource Mobilization (Cont')



Borrowing by SC can be classified into:

- Direct loan - SC using its balance sheet
- On lent loan - GOK borrows and on lend to a SC
- Guaranteed loan - GOK guarantee the loan on behalf of SC
- Infrastructure Bond
- Asset Based Securities
- Overdrafts



# Role of Board in Financial Oversight

A fiduciary standard expected from the board of directors requires that financial resources entrusted in them are applied in the most efficient manner to avoid wastage.

The board of directors are required to use the resources at their disposal for the benefit of the SC and the Kenyan people.

No state corporation should enter into financial commitments or initiate new projects unless funding is secured.



# ROLE OF TREASURY IN FINANCIAL OVERSIGHT OF PUBLIC FUNDS

Chapter Twelve of the Kenya Constitution outlines the main principles of the systems of financial administration of the Kenya Government.

The authority for raising revenue or other monies and their appropriation for the purpose of the Government of Kenya is vested with the Parliament.

The Treasury is responsible for the control and management of those finances after their Appropriation by the Parliament

- Under Section 16(3) of the SC Act the CS to the Treasury has the right to call for any surplus funds held by the State Corporation to be paid to the consolidated fund





# Use of Budget as a Tool in Financial Oversight

- Budgets are used as a tool for enhancing financial control and management
- The proposed annual estimates of revenue and expenditure should be geared towards achieving:
  - Key results areas
  - Delivery MTP and sector performance standards and vision 2030 flagship projects
- No annual estimates and proposals for funding projects shall be implemented until they have been approved by the Minister with the concurrence of the National Treasury.
- Budget proposals **MUST** be approved by the **FULL BOARD**



# Use of Budget as a Tool in Financial Oversight

Upon approval directors should peruse the comments/concerns made by the National Treasury while approving the budget

The boards should always be vigilant and raise issues on over or under expenditure on a budget items



# Use of Budget as a Tool in Financial Oversight

Boards should develop key ratios to help them in financial/management oversight e.g.

- current ratios
- recurrent budget to development
- Personnel emoluments as a percentage of total revenue, O&M e.t.c
- Debt to equity i.e a sustainable capital structure
- Technical vs Administrative staff
- Debt Service Coverage Ratios
- Absorption rates of development budgets etc



# Use of Budget as a Tool in Financial Oversight

- Going concern test
- The going concern test is one of the cornerstones of financial accounting
- In essence the going concern test shows the prospect of continuity in a business in a foreseeable future
- It is incumbent upon the directors to propose a restructuring proposal



# Use of performance contract as a tool to financial Oversight

- The board sign a PC annually with the Government which amounts to a contract/promise that the negotiated targets should be met or exceeded .
- Quarterly the management presents to the board the performance Mainly through the Finance Committee.
  - \* comparisons of targets set, budget approved and actual performance should be noted and the board should seek clarifications for divergences.



# Disposal of Assets

The assets of a state corporation may be disposed of:-

- If they are current assets in the normal course of business carried on by that state corporation,
- Where the disposal and the utilization of the proceeds have been taken into account in an annual estimate prepared and approved in accordance with Section 11.
- By way of sale or otherwise with the approval of the Minister and the Treasury where such disposal has not been taken into account in the estimates.



# Loans to Directors

Section 17 of the State Corporation Act forbids granting of loans to members of the Board and to staff unless there is an established scheme by the board and approved by SCAC in consultation with the Treasury



# Financial Reporting

- In the PFMA SC are required to prepare quarterly financial reports and submit them to the CS of the Parent Ministry and upon approving it forward a copy to CS National Treasury
- Submit to the NT on a quarterly basis:
  - Cash flow statements and cash flow projections for the next quarter
  - Cash balances held in fixed deposits, on call deposits/treasury bonds etc
- For each financial year, each state corporation shall prepare and submit for audit accounts to the Controller and Auditor General.
- The Accounts shall include:-
- Balance sheet : Total Assets = C+L
- Statement of Income and Expenditure (P & L A/c)
- Cash flow statement
- Any other statement and A/c that may be necessary to fully disclose the financial position of the state corporation





# Reporting to Parliament

The CEO of a state corporation may be summoned by the PIC to answer on behalf of the Board to answer any question arising from the audited accounts

The Public Audit Act is under review to also have the chairman to accompanied by the board members to also appear in Parliament



# Dividends/Surplus

All commercial SC are expected to generate reasonable returns and should declare and pay dividends to the National Treasury and other shareholders.

Dividends approved by shareholders must be paid within three months.

Regulatory State Corporations are required to submit 90% of surplus funds to the Consolidated Fund



Thank You