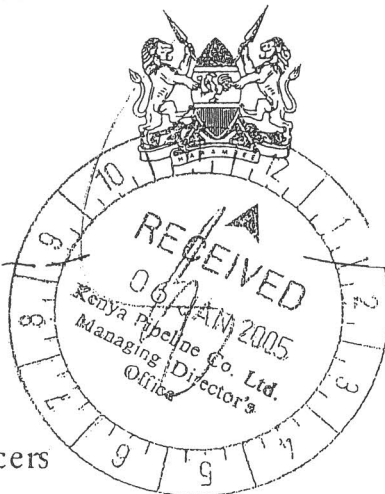


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Ref No: DGIPE/A/1/10



Date: 3<sup>rd</sup> January 2005

To: All Accounting Officers

All Chief Executives of State Corporations

PAYMENTS BY STATE CORPORATIONS AND STATUTORY BOARDS

1. Christmas Bonus/Honoraria

It has come to our attention that some State Corporations and Statutory Boards have paid Christmas bonuses/honoraria to their Board of Directors and members of staff or recommended for payment of the same without due regard of the budgetary implications and the existing guidelines.

It should be noted that such payments must be made in accordance with the office of the President Circular Ref. No. OP/CAB.9/21/2A/LII/43 dated 23<sup>rd</sup> November 2004 on Terms and conditions of services for state corporations. In particular the following must be considered in making the payment.

- i. The budgetary implications of the payment.
- ii. Whether there is a provision for the payment in the approved annual budget
- iii. The improvement in performance
- iv. Approval of the Parent Ministry.
- v. For those state corporations already on performance contract the payments is made as per the provisions of section 12(1) of the State Corporations (Performance Contracting) Regulations 2004, where the bonus is paid as an incentive to Board members and employees subject to approval by Minister for Finance is consultation with the State Corporations Advisory Committee.

No state corporation or statutory board should therefore make any payment of Christmas bonus/honoraria to its Board members or members of staff during the current financial year without the relevant authority and due regard to the above considerations

## 2 Payment of Directors' Fees

It has also been noted that some State Corporations and Statutory Boards have been paying directors fees without remitting to Treasury such fees in case of Civil Servants in compliance with the Treasury Circular No. DGIPE/A1/10 dated 19<sup>th</sup> June 2002. The Civil Servants should however continue to receive the sitting allowances. It is hereby emphasized that where a state corporation pays or decides to be paying directors' fees, such payment in case of civil servants must be paid to the Permanent Secretary, Treasury and the payment cheque remitted directly to the Investment Secretary for monitoring purposes.

## 3 Payment of Dividends/surpluses

It is reiterated that the Government like any other investor expects a return on its investment. To this end, your attention is drawn to clause 2 of the Treasury Circular No. 17/2004 dated 7<sup>th</sup> June 2004 where all commercial state corporations are directed to formulate an appropriate dividend policy to ensure that investors receive a reasonable return on their investment. Clause 1 of the Circular directs, in exercise of the powers vested on the Minister for Finance under Section 16(3) of the State Corporations Act Cap. 446, that non commercial State Corporations pay their annual surpluses to the exchequer unless Treasury has granted express authority for the retention of the whole or part of the same to meet approved expenditures. The Government is concerned that some state corporations have not only ignored payment of dividends/surpluses but have also not deliberated on the issue to ensure a reasonable return on the investment by the Government. In view of the fact that all state corporations will be on Performance Contracts by 1<sup>st</sup> July 2005 whereby compliance with the relevant Acts of Parliament and guidelines is one of the performance criterion, all state corporations should move with speed to formulate an appropriate dividend policy to ensure Government receives adequate returns for its investment.



Joseph K. Kinyua, EBS  
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