For tabling
rcd 1/4/25

COUNTY GOVERNMENT OF BUNGOMA

COUNTY ASSEMBLY OF BUNGOMA
OFFICE OF THE CLERK

THIRD ASSEMBLY FOURTH SESSION

BUDGET AND APPROPRIATIONS COMMITTEE

MEDIUM TERM DEBT MANAGEMENT STRATEGY PAPER FOR THE PERIOD FY 2025/26 - 2027/28

Clerks Chambers
County Assembly Buildings
P.O BOX 1886 - 50200
BUNGOMA, KENYA

MARCH 2025

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CHAPTER ONE

1.0 Preamble

Mr. Speaker Sir, it is my pleasure to present the report on the Medium Term Debt Management Strategy Paper for the period of three years 2025/26 to 2027/28 which was tabled on 4th March, 2025 and committed to Budget and Appropriations Committee for consideration.

1.1 The Mandate of the Committee

Mr. Speaker Sir, Budget and Appropriations Committee is established under Standing Order 210 of the County Assembly of Bungoma and is mandated to:

a) Discuss and review the estimates and make recommendation to the County Assembly;
b) Examine the County Fiscal Strategy Paper presented to the County Assembly;
c) Examine the County Debt Management Strategy Paper presented to the County Assembly;
d) Examine Bills related to the County Budget, including Appropriations Bills; and
e) Evaluate tax estimates, economic and budgetary policies and programmes with direct budget outlays.

1.2 Committee Membership

Mr. Speaker Sir, the Committee on Budget and Appropriation as currently constituted comprises of the following Members:-

1.	Hon. Jack Wambulwa	Chairperson
2.	Hon. Charles Nangulu	Vice chairperson
3.	Hon. Anthony Lusenaka	Member
4.	Hon. Joan Kirong	Member
5.	Hon. Meshack Simiyu	Member
6.	Hon. Sudi Busolo	Member
7.	Hon. Milliah Masungo	Member
8.	Hon. Ali Machani	Member
9.	Hon. Grace Sundukwa	Member
10.	Hon. Polycarp Wandabusi	Member
11.	Hon. Caleb Wanjala	Member

1.4 Acknowledgment

Mr. Speaker Sir,

The Committee appreciates the Offices of the Speaker and that of the Clerk of the County Assembly for making this undertaking a success through facilitation and other logistics offered during report writing. The Committee also register its gratitude to the members of the Committee and the secretariat for successfully compiling this report.

Mr. Speaker Sir, it is therefore my pleasant duty and privilege, on behalf of the Budget and Appropriations Committee, to table this report and recommend it to the House for consideration.

for

Signed: .... Date......................... 1st April 2025

HON. JACK WAMBULWA, MCA KIMAETI WARD

CHAIRPERSON, BUDGET AND APPROPRIATIONS COMMITTEE

CHAPTER TWO

2.0 GUIDING PRINCIPLES IN THE EXAMINATION OF THE DEBT MANAGEMENT STRATEGY

2.1 Legal Framework

Mr. Speaker Sir, the Debt Management Strategy Paper has been developed in accordance with Section 123 of the Public Finance Management Act, 2012 which provides as follows:

"(1) On or before the 28th February in each year, the County Treasury shall submit to the County Assembly a statement setting out the debt management strategy of the county government over the medium term with regard to its actual liability and potential liability in respect of loans and its plans for dealing with those liabilities.

(2) The County Treasury shall include the following information in the statement –

(a) The total stock of debt as at the date of the statement;

(b) The sources of loans made to the county government;

(c) The principal risks associated with those loans;

(d) The assumptions underlying the debt management strategy; and

(e) An analysis of the sustainability of the amount of debt, both actual and potential.

(3) As soon as practicable after the statement has been submitted to the County Assembly under this section, the County Executive Committee Member for Finance shall publish and publicize the statement and submit a copy to the Commission on Revenue Allocation and the Intergovernmental Budget and Economic Council.

Further, Article 212 of the Constitution of Kenya provides for borrowing powers by Counties on guarantee by the National Government."

Regulation 182(2) (d) of the Public Finance Management (County Governments) Regulations 2015 requires the preparation of the County Medium Term Debt Strategy to be consistent with the County Fiscal Strategy Paper.

Further **Section 140(1) (c) (d) of the Public Finance Management Act 2012** provides that

(1) A County Executive Committee Member for Finance may, on behalf of the county government, raise a loan for that Government's purposes, only if the loan and the terms and conditions for the loan are set out in writing and are in accordance with—

(a) Article 212 of the Constitution;

(b) Sections 58 and 142 of this Act;

(c) The fiscal responsibility principles and the financial objectives of the county government set out in its most recent County Fiscal Strategy Paper; and

(d) The Debt Management Strategy Paper of the county government over the medium term.

(2) A loan may be raised either within Kenya or outside Kenya.

Article 212 provides that "A county government may borrow only—

a) If the national government guarantees the loan; and

(b) With the approval of the county government's assembly

Section 142 of Public Finance Management Act 2012 states that:

1) The County Assembly may authorize short term borrowing by county government entities for cash management purposes only.

(2) Any borrowing under sub-section (1) may not exceed five percent of the most recent audited revenues of the entity.

(3) A county government entity that has any such borrowing shall ensure that the money borrowed is repaid within a year from the date on which it was borrowed.

Mr. Speaker Sir, it is worth noting that the linkage between the County Fiscal Strategy Paper (CFSP) and Medium Term Debt Management Strategy Paper (MTDMSP) cannot be overlooked and this explains why the two documents are tabled on the same day.

It should be understood that approving the Medium Term Debt Management Strategy Paper does not in itself authorize the County Government to borrow but it only gives a framework and an additional strategy which the County Government can pursue to fund deficit in its budget.

The National Government is guarantor for all debts accrued by the County Governments therefore County government can borrow only if and when the National Government approves. These powers are vested in the Cabinet Secretary for Finance who guarantees the loans by County Governments and this is approved by Parliament.

However, the County loans will be guaranteed by the National Government only if the following Fiscal Responsibility Principles are adhered to:

1. Over the medium term a minimum of thirty percent of the County Government shall be allocated to the development expenditure.
2. The County Government expenditures on wages and benefits for its public officers shall not exceed 35% of the County Government total revenue.
3. Over the medium term the County Government's borrowing shall be used only for the purposes of financing development expenditure and not for recurrent expenditure.
4. The County debt shall be sustained at 20% of the most recently audited revenues and the cost of debt shall not exceed 15%.
5. A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained taking into account any tax reforms that may be made in the future.

6. The fiscal risk shall be managed prudently.

2.2 Procedure for borrowing by the County Government

Mr. Speaker Sir, pursuant to Section 58 PFMA, the following procedure will apply when County Government wants to borrow especially long term borrowing:

a) The County Executive Committee Member for Finance shall submit the borrowing proposal to the County Executive Committee for approval of the borrowing including its terms and conditions;

b) After approval by the County Executive Committee, the County Executive Committee Member for Finance shall submit the signed loan agreement and a sessional paper to the County Assembly for approval of the borrowing, including its broad terms and conditions;

c) After obtaining the approval of the County Assembly, the County Executive Committee Member for Finance shall submit the final draft loan financing agreement and the approval of the County Assembly to the Cabinet Secretary requesting for the guarantee of the final loan financing agreement;

d) The Cabinet Secretary, after receiving the request from the county government, shall seek the recommendations of the Inter-governmental Budget and Economic Council;

e) The Cabinet Secretary to the National Treasury, after receiving recommendations of the Inter-governmental Budget and Economic Council, shall seek the recommendations of the Attorney-General;

f) The Cabinet Secretary may, upon taking into account the recommendations of the Intergovernmental Budget and Economic Council and the Attorney-General, approve or reject the request;

g) The Cabinet Secretary shall reject a request for loan guarantee with reasons and communicate the same to the concerned County Executive Committee Member for Finance.

h) Upon approval of a loan guarantee request, the cabinet secretary shall submit a sessional paper to parliament with recommendations seeking its approval;

i) The Cabinet Secretary shall communicate the decision of Parliament on the draft loan guarantee to the respective County Executive Committee Member for Finance; and

j) Upon approval by the parliament the Cabinet Secretary shall issue a loan guarantee.

k) After receiving the communication of the decision of the Parliament on the draft loan guarantee, the County Executive Committee Member shall report to the County Assembly of the decision.

CHAPTER THREE

3.0 SCRUTINY OF THE MEDIUM TERM DEBT MANAGEMENT STRATEGY PAPER FOR FY 2025/26 TO FY 2027/28

3.1 Introduction

Mr. Speaker Sir, the Medium Term Debt Strategy Paper FY 2025/26 to FY 2027/28 is the 7th prepared by the County Government and the third under CIDP 2023-2027. It sets out the debt management strategy of the County Government over the medium term with an aim of guiding prudent debt management and minimizing high cost associated with excess borrowing.

The County MTEF budget for FY 2026/27 and the medium term projections shows an enlarging financing gap thus justifying the need for this strategy paper. The required budget based on CIDP 2023-2027 is Kshs. 81.6 billion for the FY 2025/26 to 2027/28 while revenue projections are Kshs. 50 million implying that only 61.30% of the budget requirement can be financed leaving a financing gap of Kshs. 31.5 million representing 38.70%. In order to finance budget deficit and bridge the gap between resource requirements and allocation with National Government guarantees, Bungoma intends to initiate borrowing domestically and externally.

This paper has also highlighted the magnitude outstanding financial obligations resulting from the accounts payable across the departments totalling to Kshs. 3.66 billion.
The County government has a short-term arrangement with the Kenya Commercial Bank, Bungoma Branch, to facilitate salary payments in the event of delays in the exchequer releases.

3.2 Goals and Objectives

Mr. Speaker Sir, the Debt Management Strategy covers three years with provisions for annual review. The main objectives of the Medium Term Debt Management Strategy Paper are as follows:

a) To provide appropriate guideline and direction to assist in making sound debt management decisions with strong financial management practices for posterity.

b) To meet the County Governments financing requirements at the least cost with a manageable degree of risk.

c) To guide county government debt management operations in the FY 2025/26 and in the medium term.

d) To balance cost and risk of county debt while taking into account the County Government financing needs by incorporating initiatives to seek new funding sources, support the County Government development priorities and achieve debt sustainability.

e) To diversify the governments funding sources and their investment portfolio.

f) To advance measures to maintain and develop an efficient domestic debt market.

3.3 Debt Management Strategy Finance Principles

The following principles should be adhered to;

i. The debt must be for capital projects
ii. The debt must be guaranteed by National Government
iii. The debt must be contracted to support expenditure in identified County priority areas that are transformative
iv. Prudence must be observed when contracting debt taking into account the cost and risk implications
v. Financing must be pegged on debt sustainability over the long term

3.4 Bungoma County Liabilities

Mr. Speaker Sir,

The County accumulated accounts payable amount to Kshs. 3,665,142,229 as at June 2024. The County formed a pending bill committee to address the issue and based on its recommendations, the cabinet approved that 30% of the Bills to be paid each year for three years as per the below schedule for account payable payment;

SNO	YEAR	AMOUNT
1	2024-2025	1,215,752,788
2	2025-2026	1,157.133,263
3	2026-2027	1,292.256.178

The County Government projects to borrow Kshs. 2,399,727,879 which is 20% of actual revenue arising from last audited accounts at a negotiated interest rate of 11.25 p.a on reducing balance. The debt is to be serviced in 15 years with an annual repayment of Kshs. 338,336,759.

3.5 Strategies for management on Debt in the Medium Term

Mr. Speaker Sir,

The County Debt Management Strategy presents three main strategies that County Government of Bungoma will explore in the next three years in debt management. These strategies include: -

Strategy 1: External Financing (Semi and concessional) and some domestic bond financing.

Mr. Speaker Sir, External debt refers to loans that a country or entity borrows from foreign lenders, which can include foreign commercial banks, foreign governments, and international financial institutions such as the International Monetary Fund (IMF) or the World Bank. One key characteristic of external debt is that all payments, including interest and principal repayments, must be made in the currency in which the debt was issued. This means that if a country borrows in US dollars, for example, it must repay the loan and interest in US dollars, which can expose it to currency exchange rate risks.

This strategy evaluates the cost and risk aspects of a continuation of current borrowing practices for Bungoma County which will form a benchmark for examining different approaches. This strategy is based on current practice of external and domestic borrowing and therefore does not best address the priority issues of foreign exchange risk, liquidity and repayment risk, creditor concentration risk and refinancing risk.

Mr. Speaker Sir, the following are the risks associated with this strategy:

a) **Affects economic growth:** Economic growth occurs when governments and companies incur capital expenditures that boost production and increase output and income levels. If large amounts of external debt need to be repaid, then there is less money left for investment purposes. It hampers future economic growth.

b) **Long gestation period:** Gestation period is the interim period between the initial investment in a project and the time the project becomes productive. When external debt is used to fund infrastructure projects, it takes a few years for the project to start giving a return on the investment. However, the debt will need to be repaid, along with interest, within a provided time of receiving the loan. Thus, government will face the pressure of repaying the loan even before the project starts yielding a stable return.

c) **Unexpected devaluation of domestic currency:** If the currency of the borrowing country depreciates with respect to that of the lending country, then the real value of interest (as denominated in the domestic currency) will rise.

d) **The Vicious Cycle of Debt**: The most crucial disadvantage of external debt is that it often leads to a vicious cycle of debt. The debt cycle refers to the cycle of continuous borrowing, accumulating payment burden, and eventual default. When a government's expenditure exceeds how much it earns in a year, it faces a fiscal deficit. In order to finance the adverse gap, the government borrows money from another country. In the next year, with the additional expense of interest payment and loan repayment, the government might face a deficit again and be forced to take another external loan. In subsequent years, there might be a situation where it borrows money in order to repay its previous loans.

Strategy 2: Negotiated domestic borrowing and utilization of securities market

Mr. Speaker Sir, domestic borrowing refers to a government raising funds within its own country's financial markets. This is typically done through the issuance of various securities such as treasury bills and treasury bonds. Treasury bills are short-term debt instruments with maturities ranging from 91 days to 364 days, while treasury bonds have longer maturity periods, typically exceeding one year. These securities are used by governments to meet short-term funding needs (treasury bills) or to finance long-term projects and expenditures (treasury bonds).

The risks associated with this strategy are as listed;

a) Domestic borrowing could lead to pressure on institutional investors and banks to absorb "too much" government debt and this may have a negative effect on financial stability.
b) Expanding the market for domestic government bonds may have the risk that the public sector may crowd out private issuers.
c) Finally, there are political economy reasons that may make domestic debt more difficult to restructure. In fact, a few highly indebted countries which were able to use debt relief initiatives to address their external debt problems are still burdened with high levels of domestic debt.

Strategy 3: External financing and some domestic bond financing

Mr. Speaker Sir, this is where the County combines both external and domestic financing in order to take advantage of the medium to high risk mainly due to the foreign exchange factor and low to medium cost in relation to County revenues. With gradual development of the domestic market this would provide a more balance composition of the public debt with less external debt and more domestic debt.

Bungoma County intends to use this third option which allows the county to source funding from both External and Internal sources of funding but with emphasis on Domestic borrowing in order to minimize the risks associated with external borrowing.

3.6 General Risks associated with Debts

Mr. Speaker Sir,

There are many inherent risks in any debt portfolio.The County Government of Bungoma should employ measures to mitigate these risks and to minimize the impact of various exogenous shocks on the debt portfolio.

Creditor Concentration Risk: This refers to risks associated with most of the debt portfolio being held by one or two creditors. Those who hold a large proportion of debt could have a vested interest in the course of a county's affairs and could potentially have an undue influence in policy development hence the investor base should be diversified and expanded.

Credit Risk of on-lent and guaranteed loans: When the level of outstanding on-lent loans from County Government of Bungoma is high, there is an implicit exposure to default and non-payment of obligations even when the loans are guaranteed. Deeper analysis and oversight required on these transaction.

Operational Risk: This arise from a small staff size and limited capacity. The difficulty in establishing the Debt Management office is a risk for Treasury and the County Government of Bungoma in general.

Strategic Risk: Strategic risk is the risk that decisions made about management of the debt portfolio have a high opportunity cost. If the CGoB decides not to borrow, then it could miss out on grant funding. If decisions to borrow for particular projects do not match expectations, then this money could have been better spent elsewhere on more beneficial projects. Money spent on servicing debt might be better spent on providing essential services.

Financial Risk: In this case, CGoB's portfolio management is so poor that it creates a source of instability for the private sector, less money is available for servicing the county's basic needs which could undermine development.A build-up of debt arrears might negatively influence investor confidence, weakening private sector activity, leading to a withdrawal of investment in the county, a decline in growth prospects and a further increase in debt to revenue ratios. This is an extreme risk.

Market Risk: Refers to the risks associated with changes in market prices, such as interest rates, exchange rates, commodity prices, on the cost of the government's debt servicing.

Rollover Risk: The risk that debt will have to be rolled over at an unusually high cost or, in extreme cases, cannot be rolled over at all. To the extent that rollover risk is limited to the risk that debt might have to be rolled over at higher interest rates, including changes in credit spreads, it may be considered a type of market risk.

Liquidity Risk: This refers to a situation where the volume of liquid assets can diminish quickly in the face of unanticipated cash flow obligations and/or a possible difficulty in raising cash through borrowing in a short period of time.

Credit Risk: The risk of non-performance by borrowers on loans or other financial assets or by a counterparty on financial contracts.

Settlement Risk: Refers to the potential loss that the government, as a counterparty, could suffer as a result of failure to settle, for whatever reason other than default, by another counterparty.

CHAPTER FOUR

4.0 COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS:

4.1 Committee Observations

Mr. Speaker Sir, the Committee after analyzing the Debt Management Strategy Paper made the following observations;

1. This Medium Term Debt management Strategy Paper (MTDMSP) is the 7th to be prepared by the County Government since devolution and the Assembly notes the absence of an established public debt management unit.
2. The Medium Term Debt Management Strategy Paper is a robust framework for prudent debt management that will provide a systematic approach to decision making on the appropriate composition of debt finance taking into account both cost and risk.
3. The Medium Term Debt Management Strategy Paper for FY 2025/26 – FY 2027/28 provides a framework and an additional strategy which the County Government can pursue to fund its budget deficits.
4. The County Government of Bungoma's decision to borrow is vested in the County Assembly of Bungoma as the 1st approver. If the County Assembly is of the opinion that the county government's borrowing carries substantial financial risk, may attract high cost of servicing and is a threat to the County's budgeting and service delivery, then the Assembly can deny approval for the borrowing.
5. The Committee notes that the County Accounts Payable are indicated as Kshs. 1,094,407,200 for recurrent expenditure, Kshs. 1,849,968,716 for development expenditure and Kshs. 720,766,313 for Ward Based Projects totaling to Kshs. 3,665,142,229.
6. The County government has a short-term borrowing arrangement with the Kenya Commercial Bank, for an overdraft facility equivalent to one month's gross staff salaries to be utilized in payment of salaries in the event of delayed in exchequer releases but the limit of borrowing has not been indicated in the report.

4.2 Committee's Recommendations

Mr. Speaker Sir, based on the above observations, the Committee recommends as follows;

1. **THAT,** the County Government should establish a Public Debt Management Unit (PDMU) to enhance the efficiency and effectiveness of debt management. The unit will help in monitoring and coordinating the County's debt portfolio, ensuring alignment with medium term debt strategy and offering expertise in the assessment of debt sustainability.
2. **THAT**, the County Government of Bungoma adopts Strategy 3; **external financing and some domestic bond financing, which will allow the** county to source for funding from both External and Internal sources of funding but with emphasis on domestic borrowing in order to minimize the risks associated with external borrowing.
3. **THAT**, the County Government should adhere to the fiscal responsibility principle to be able to secure long term loans to finance its budget deficit.
4. **THAT**, County Treasury should prioritize addressing the high outstanding accounts payable as they represent a significant financial burden and measures should be put in place to ensure that such arrears are minimized in the future.
5. **THAT,** a robust monitoring framework should be established to provide regular and timely reports on completed projects that have not been paid. This will ensure transparency and accountability, enabling the County to track outstanding payments and plan on how to settle them.
6. **THAT**, the County Treasury should comply with Section 142 (2) of Public Finance Management Act 2012 by not exceeding five percent of the most recent audited revenues of the entity on the short term borrowing arrangement with Kenya Commercial Bank.

4.3 CONCLUSION

Mr. Speaker, the approval of this Medium Term Debt Management Strategy Paper for FY 2025/26 -2027/28 by this House will provide the framework for the County Government of Bungoma to pursue for additional funds to finance its budget deficits especially on development expenditures.

5.0 ANNEXTURE

Annex I : Adoption schedule

Annex II : The draft Bungoma County Medium Term Debt Management Strategy Paper for FY 2025/26 –FY 2027/28

Adoption schedule

Name	Title	Sign
1. Hon. Jack Wambulwa	Chairperson	....
2. Hon. Charles Nangulu	Vice Chairperson	....
3. Hon. Milliah Masungo	Member	....
4. Hon. Antony Lusenaka	Member	....
5. Hon. Meshack Simiyu	Member	....
6. Hon. Joan Kirong	Member	....
7. Hon. Sudi Busolo	Member	....
8. Hon. Ali Machani	Member	....
9. Hon. Grace Sundukwa	Member	....
10. Hon. Polycap Wandabusi	Member	....
11. Hon. Caleb Wanjala	Member	....

-COUNTY GOVERNMENT OF BUNGOMA

MEDIUM TERM DEBT MANAGEMENT STRATEGY PAPER

FOR

FY 2025/26 – FY 2027/28

HBC
To schedule for tabling
3.3.25

JANUARY 2025

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The document is also available on the website at: www.bungomacounty.go.ke

All Inquiries about This County Debt Management Strategy Paper 2025/26–2026/27 Should Be Addressed To: Chief Officer Economic Planning

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Foreword

This CMTDMSP FY 2025/26 – FY 2027/28 is the 7th MTDMS prepared by the County and the third under CIDP 2023-2027. It has been prepared in line with the requirement of Public Finance Management (PFM) Act, 2012. It covers a period of three years 2025/2026 to 2027/2028. It sets out the debt management strategy of the County Government over the medium term with an aim of guiding prudent debt management as well as minimizing high costs associated with excess borrowing.

The policy is meant to act as a guideline for debt management practices of the County Government including the issuance process, management of the debt portfolio, and adherence to various laws and Regulations governing debt contracting and management.

Bungoma County Government has so far not taken any loans; however, the County has experienced debts arising from payment arrears to suppliers of goods and services, i.e., pending bills and bank overdraft arrangement to cater for salary payment. To ensure that the County's debt remains within sustainable levels, the County intends to fund annual budget deficits from sources characterized by lower costs and minimal risks. So far measures are geared towards reduction of County debt through pending bills by departments being effective in the management of the current level of pending bills.

The County MTEF budget estimates for FY 2026/27 and the medium-term projections show an enlarging financing gap, thus justifying the need for this strategy. The MDA's budget deficit has continued to widen over the years. A case at hand is that of the Department of Health, in spite of the fact that it has been taking up a lion's share in our budgets, it still has a large deficit in allocations compared to requirements. The bulk of these funds directed towards health sector go towards recurrent expenditure. The same applies to other CDAs. To bridge this deficit, the County Government intends to borrow and invest in crucial development areas to spur economic growth and improve service delivery.

In preparation for borrowing and to build the County capacity, Bungoma County participated in the shadow credit rating exercise organized by the World Bank alongside other Counties. The rating attained-BBB (KE), for both long and short term, indicates a stable outlook. Therefore, the County will continue to maintain a mutual relationship with the National Treasury for effective debt Management and administration.

CPA. Chrispinus Barasa
Executive Committee Member- Finance and Planning

Acknowledgement

The 2025/26-2027/28 County Debt Management Strategic Plan has been prepared by a technical team at the County Treasury with the participation of all other key stakeholders. I would wish to thank all those who contributed to the preparation and subsequent finalization of this CDMSP FY 2025/26 – FY 2027/28. I wish to express my sincere gratitude to H.E. the Governor for his stewardship and support in developing this County Debt Management Strategic Plan.

Special recognition goes to the County Executive Member for Finance and Economic Planning, under whose direction and guidance, this plan was successfully developed. I wish to specifically thank the Chief Officers who provided able leadership and the necessary information in their respective departments. I also thank the individual stakeholders who dedicated their time and other resources to ensure that the preparation as well as the finalization of this document became a reality. Special thanks go to members of the Core team in the County Treasury for their technical support and time in the preparation of this Plan. Their commitment and tireless effort ensured that this document was produced in time.

CPA Andrew Wamukoya
Chief Officer-Economic Planning

Abbreviations and Acronyms

ADB : African Development Bank
BCG : Bungoma County Government
BRICS : Brazil, Russia, India, China and South Africa
CBAs : Collective Bargaining Agreements
CBR : Central Bank Rate
CGoB : County Government of Bungoma
CIDP : County Integrated Development Plan
CMTDMSP: County Medium Term Debt Management Strategy Paper
CSDF : County Strategic Development Framework
CSDF : County Strategic Development Framework
DMS : Debt Management Strategy
ECDE : Early Childhood Education
EIB : European Investment Bank
EU : European Union
FDI : Foreign Direct Investments
FY : Financial Year
GDP : Gross Domestic Product
GFS : Government Finance Statistics
ICT : Information Communication Technology
IDA : International Development Association
IFAD : International Fund for Agricultural Development
MTBF : Medium Term Budget Framework
MTDMS : Medium Term Debt Management Strategy
MTEF : Medium Term Expenditure Framework
OPEC : Organization of the Petroleum Exporting Counties
PFMA : Public Finance Management Act
PPP : Public Private Partnerships
SACCOs : Savings and Credit Cooperative Societies
SDGs : Sustainable Development Goals
WB : World Bank

Executive Summary

This County Medium Term Debt Management Strategy Plan (CMTDSP) is the seventh formal strategy for County debt management. Prior to 2018, counties were required to maintain balanced budgets hence little or no debt was accumulated since 2013. In order to finance budget deficits and bridge the gap between resource requirements and allocation, With National Government guarantees, Bungoma County intends to initiate borrowing domestically and externally.

The County MTEF budget estimates for FY 2026/27 and the medium-term projections show an enlarging financing gap, and with the county administration focusing on completing flagship projects there is justification for this MTDSP and County borrowing.

Based on the CIDP 2023-2027 the County requires ksh. 81,584,147,413. For the FY 2025/26 to 2027/28 while revenue projections are 50,009,652,387 implying that the county will be able to finance 61.30% of its budget requirements leaving a financing gap of kshs 31,574,495,026 equivalent to 38.70%

As a result of the above mentioned resource financing gap, among other constraints, the County accumulated pending bills amounting to ksh 3,665,142,229 as at June 2024
(Source: Bungoma County Fiscal strategy Paper 2025)

The county government has also made arrangements with Kenya commercial bank for an overdraft facility equivalent to one month's gross staff salaries to be utilized in payment of salaries in the event of delays in exchequer releases

During this MTDSP period, practical options have been identified for the County to implement in order to keep its future financing requirements at prudent levels and a minimum degree of cost and risk as a high priority. In terms of feasibility, there are numerous potential sources of debt financing so long as the provisions of the PFMA and its regulation are observed

The strategic advice of the County Executive Committee Member for Finance and Economic Planning on advancement of this MTDSP, for consideration of any borrowings required to finance possible budget deficits and to improve the performance of the debt portfolio will be provided by the Public Debt Management Unit.

There are several borrowing options for the county. These include;

- External financing (semi and concessional)
- Negotiated domestic loans, overdrafts and utilization of securities market

- Combined External and Domestic financing. The method combines both external and domestic sources of loanable funds.

The County Government projects to borrow Kshs. 2,399,727,879 in total which would be the maximum allowable as provided for in the PFM Act as being 20% of Kshs. 11,998,639,364 (Actual revenue) arising from last audited accounts 2023/24 with a repayment plan of Ksh 338,336,759 over a 15 year period.

Introduction

Legal Basis for Debt management Strategy Paper

The PFM Act 2012 under Section 104 cites the mandate of the County Treasury as that of monitoring, evaluating and overseeing the management of public finances and economic affairs of the County Government, including managing the county government's public debt and other obligations and developing a framework of debt control for the County. To this effect the County Treasury is required under Section 123 to prepare and submit to the County Assembly a statement setting out the debt management strategy of the county government over the medium term with regard to its actual and potential liability in respect to loans and its plans for dealing with those liabilities, on or before the 28th February in each year.

As soon as practicable after the statement has been submitted to the County assembly under this section, the County Executive Committee Member for Finance shall publish and publicize the statement and submit a copy to the Commission on Revenue Allocation and the Intergovernmental Budget and Economic Council.

The information in the statement shall include –

a) The total stock of debt as at the date of the statement;
b) The sources of loans made to the County Government;
c) The principal risks associated with those loans;
d) The assumptions underlying the debt management strategy; and
e) An analysis of the sustainability of the amount of debt, both actual and potential.

Other sections that guide on the management of the County debt in the Act include:

- Section 140 on authority for borrowing by County Governments, requires that borrowing by the County Government is undertaken in accordance with the debt management strategy over the medium term;
- Section 141 on obligations and restrictions to County Government borrowing, requires that a County Government shall ensure that it's financing needs and payment obligations are met at the lowest possible cost in the market that is consistent with a prudent degree of risk, while ensuring that the overall level of public debt is sustainable;
- Section 142 deals with borrowing by County Government entities;

- Section 143 deals with persons who are authorized to execute loan documents at county government level;
- Section 144 deals with issuance of County Government securities as such maintaining a sustainable level of debt as approved by the county assembly is highlighted as one of the fiscal responsibility principles, under Section 107 of the Act.
- Other documents that inform the preparation of debt management Strategy Are; County Fiscal Strategy Paper (CFSP), County Budget Review and Outlook Paper (CBROP), sector reports and the annual financial statement.

The PFM (County Regulations) 2015 which gave effect to the provisions of the Public Finance Management Act, 2012 stipulates that debt service payments shall be a first charge on the County Revenue Fund. Under Section 41 on budget execution, the county governments are required to ensure that they don't default obligations to the extent possible. Part XIV of PFM County Regulations is detailed on provisions of the county public debt management as follows;

- Section 176 highlights the guiding principles for county government borrowing
- Section 177 highlights the borrowing powers of the county government
- Section 178 details the purposes for borrowing
- Section 179 gives the county total public debt threshold, pursuant to section 50(5) of the Act. According to part one (1) of section 179, a county public debt shall not exceed twenty percent (20%) of the county government's most recent audited revenues, as approved by county assembly. Part two (2) under this section, further states that the annual debt service cost of a county government shall not exceed fifteen (15%) percent of the most recent audited revenue of that county government, as approved by county assembly.
- Section 180 guides on setting of debt limit in the County Medium Term Debt Management Strategy, pursuant to Section 141 of the Act
- Section 187 highlights the requirement and process for preparation of the county medium term debt management strategy

Overview of the Medium Term Debt Management Strategy

1. The County Medium Term Debt Management Strategy Paper (MTDSP) is a high priority of the County Government of Bungoma, given the increasing gap between development resource requirements and the available allocations.

2. The County has recognized the need to have a formal and explicit MTDSP in place to ensure prudent debt management as part of a stronger Medium Term Budget Framework (MTBF) to ensure County finances are placed on a sustainable footing.

3. The MTDSP provides directions and benchmarks for managing the County's debt portfolio. This will lead to the 'preferred debt composition', taking into account constraints posed by the economic and market environment.

4. Government debt or borrowing includes the contracting or guaranteeing of domestic and external (foreign) debt through loans, financial leasing, on-lending and any other type of borrowing, including concessional and non-concessional borrowing, irrespective of the source.

5. The Debt Management Strategy is a framework that will guide the County Government to ensure that debt levels stay affordable and sustainable, that any borrowing is for a good purpose and that the costs and risks of borrowing are minimized.

6. Most economies in the world whether developed or developing resort to borrowing in order to address any financing needs. This is a useful source of financing, however; it is worth noting that reliance on debt must be closely monitored and strategized.

7. Debt can be sustainable or unsustainable. By sustainable debt, it implies that the debt can be serviced without resorting to exceptional financing (such as debt relief) or a major future correction in the balance of income and expenditure while unsustainable debt simply means that debt inflows are exerting severe burdens on the economy in the future.

8. Unsustainable levels of debt lead to adjustments in expenditure levels, with a view of obtaining additional resources which are then directed towards the repayment of debt and associated interest payments. These reallocations negatively impact on the implementation of priority Programmes, local investment, and poverty reduction initiatives.

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Objectives of Debt Management Strategy Paper

9. The MTDMSP provides appropriate guidelines and direction to assist in making sound debt management decisions with strong financial management practices for posterity

10. The main objective of the MTDMP is to meet the County Government's financing requirements at the least cost with a manageable degree of risk.

11. The Debt Management Strategy will guide County Government debt management operations in the FY 2025/2026 and in the medium term. The Strategy seeks to balance cost and risk of county debt while taking into account the county government financing needs. In addition, the strategy incorporates initiatives to seek new funding sources, support the County Government development priorities and achieve debt sustainability.

Goals for the Debt Management Strategy

12. The aim of the MTDMS is to support the County Government's strategy in implementing FY2025/26 budget and over the medium term by ensuring that the government's financial requirement and payment obligations are met at the lowest cost with prudent degree of risk in line with PFM Act, 2012.
13. In addition, the strategy will; guide the overall debt management strategy of the County Government over the medium term with respect to the actual and potential liabilities in respect of loans and guarantees and the plans for dealing with those liabilities.
14. Underscore the County Government's commitment to developing and designing a strategy that is evidence based and feasible in ensuring that public debt levels remain sustainable and supports broad-based and inclusive growth.
15. Serve as a strategy of financing the fiscal deficit of the County Government over the medium term

Scope of the Medium-Term Debt Management Strategy

16. This CMTDMSP covers the County Government of Bungoma (CGoB) anticipated debt portfolio which includes external debt, domestic debt, and contingent liabilities of on-lent debt and guaranteed debt with the public and other enterprises.

17. External debt is defined as debts denominated in currencies other than Kenyan shilling while domestic debt is defined as debt denominated in Kenyan shillings, even when the creditor is a foreign entity.

18. In line with international reporting requirements, CGoB will consider review in future for current reporting of domestic debt (as may be required) to include the outstanding liability for transfer value under the pension scheme for civil servants.

19. Although the focus of the MTDMS is on actual direct liabilities of the CGoB, contingent liabilities (whether explicit or implicit) may have an important bearing on the sustainability of debt and robustness of this strategy. Consequently, it is prudent to consider the potential risk that contingent exposures could materialize under specific scenarios and thus may need to be addressed in the future.

Debt Management Strategy Financing Principles

20. The debt management strategy will address the County government's financing requirements at the lowest cost and a prudent degree of risk by adhering to the following principles:

i. The debt must be for capital projects

ii. The debt must be guaranteed by National Government

iii. The debt must be contracted to support expenditure in identified County priority areas that are transformative

iv. Prudence must be observed when contracting debt, taking into account the cost and risk implications.

v. Financing must be pegged on debt sustainability over the long term.

Macroeconomic Environment, Potential Sources of Loans and Risks.

21. The World Bank projected Kenya's economic growth of 5.2 % 2024 whereas the National Treasury projected a growth of 5.5% supported by prudent fiscal and monetary policies. The African Development Bank projected an economic growth of 5.4% in 2024, driven by services and household consumption, amidst global economic slowdown occasioned by global supply chain disruptions associated with Russia-Ukraine war, Israel-Palestine crisis and high inflation levels.

22. Kenya's annual inflation rate went down to 2.7 percent in October 2024 as compared to 6.9 percent October 2023, remaining within the central banks preferred mid-point range of 5 percent. This is as result of stabilization of food prices and the exchange rate of Kenyan shilling to the US dollar. However, the average inflation was 5.1 percent for 2024. Various sources including the IMF predicts a stable annual inflation rate of

between 5.5 percent to 5.1 Percent for 2025. Kenya shilling exchange rate and interest rates are projected to stabilize as inflation declines with the easing of global supply chain disruptions. Exchange rate stability will be supported by recovery in remittances inflow, and tourism reduced import of capital goods as well as other government interventions such as government to government agreements.

23. Total revenue is projected at 16.9 percent of GDP in the FY 2025/26 while total expenditure is projected to decline to below 21.5 percent of the GDP on account of planned reduction of the fiscal deficits.

24. The Commission on Revenue Allocation in collaboration with the World Bank Group (WBG) and other stakeholders initiated the County Creditworthiness Initiative (CCI) for Kenya to provide technical assistance to County Governments in bridging the creditworthiness gap and access market finance for infrastructure and other development projects in the FY 2018/19. This process sponsored by the World Bank ended in 2022 to allow Counties continue to support the process on their own.

25. Bungoma county underwent the rigorous process of;

    a. County Budget and Economic planning staff training on self-assessment tool,

    b. Compilation of the credit worthiness self-assessment tools and preparation of an action plan, a report of which was generated in April 2019.

The report provided the County Government of Bungoma with a customized preliminary Creditworthiness Action Plan that identified key Challenges to creditworthiness development and charted out a potential approach for improvements according to County Government preferences.

26. So far, the initiative has seen the credit rating for some County Governments, Bungoma included, which went public in March 2020. Bungoma County was rated BBB. This was favorable as it allowed the County to borrow development money from the market. The rating meant it was possible for the County to tap into debt financing by floating infrastructure bonds.

27. Bungoma County Liabilities

Bungoma County Liabilities:

Based on the CIDP 2023-2027 the County requires ksh. 81,584,147,413. For the FY 2025/26. to 2027/28 while revenue projections are 50,009,652,387 implying that the county will be able to finance 61.30% of its budget requirements leaving a financing gap of kshs 31,574,495,026 equivalent to 38.70%

Table 1: Budget Summary for FY 2025/26 – 2027/28

FY	Requirements	Projection	% Available
2025/26	25,879,190,361.06	15,868,268,584	61.32
2026/27	27,173,149,679.11	16,654,333,563	61.29
2027/28	28,531,807,373.07	17,487,050,240	61.29
Totals	81,584,147,413.24	50,009,652,387	61.30

As a result of the above mentioned resource financing gap, among other constraints, the County accumulated pending bills amounting to ksh 3,665,142,229 as at June 2024 (***Source: Bungoma County Fiscal Strategy Paper 2025)***

The County formed a pending bills committee to address the issue, and based on its recommendations, the cabinet approved a 30% per provision of payment of pending bills for three years as shown below:

Table 2: Pending Bills Payment Schedule

	Year	Amount
	2024-2025	1,215,752,788
	2025-2026	1,157,133,263
	2026-2027	1,292,256,178

Table 3: Summary of Pending Bills

Department	Rec. payable	County Dev. payable	Ward Based Dev. payable	Totals
Agriculture, Livestock, Fisheries, Irrigation & Co-operatives	27,140,039	158,631,418	4,017,500	189,788,957
County public service board	4,050,400			4,050,400
County Secretary	14,933,758	-		14,933,758
Education	8,719,591		143,093,153	151,812,744
Environment and Water	2,170,000	11,210,620	149,799,888	163,180,508
Finance & Economic Planning	676,245,426			676,245,426
Gender and culture	6,932,457	15,395,126	959,040	23,286,623
Governor's Office	83,655,841			83,655,841
Health & Sanitation	73,982,758	36,264,029	101,309,726	211,556,514
Housing	939,924	40,120,900		41,060,824
Lands, Urban & Physical Planning	30,771,763	23,332,380	11,833,000	65,937,143
Mabanga ATC	8,005,230			8,005,230

Public Service Management & Administration	94,518,962	13,032,024		107,550,986
Roads & public works	43,080,822	1,003,369,075	257,906,086	1,304,355,983
Trade, Energy and Industrilization	18,033,869	400,905,411	44,361,134	463,300,414
Youth and sports	1,226,360	147,707,734	7,486,785	156,420,879
Grand Total	1,094,407,200	1,849,968,716	720,766,313	3,665,142,229

28. The County Government projects to borrow Kshs. 2,399,727,879 in total which would be the maximum allowable as provided for in the PFM Act as being 20% of Kshs. 11,998,639,364 (Actual revenue) arising from last audited accounts 2023/24.

Table 4: Projected Borrowing

Nature of expenditure	Amount (Kshs.)	Source	Justification
Development	2,399,727,879	Medium term/Long-term concessional loan borrowing	Financing gap priority for long-term projects

29. This means that the County Government would have borrowings for the medium and long term to finance priority projects.

30. Given that our recent audited revenues amount to Ksh. 11,998,639,364 then County loan borrowing will be Kshs. 2,399,727,879 in FY 2025/26 at a negotiated interest rate of 11.25% pa on reducing balance, table 6 shows the costs for debt servicing over the next 15 years. The analysis shows that we need to set aside Kshs. 338,336,759 pa for 15 years (inclusive of interest).

Table 5: Annual cost of debt servicing over 15-year period

Year	Principal	Rate	Interest	Total balance		Repayment	Year-end balance
1	2,399,727,879	11%	269,969,386	2,669,697,265	-	338,336,759	2,331,360,506
2	2,331,360,506	11%	262,278,057	2,593,638,563	-	338,336,759	2,255,301,804
3	2,255,301,804	11%	253,721,453	2,509,023,257	-	338,336,759	2,170,686,498
4	2,170,686,498	11%	244,202,231	2,414,888,729	-	338,336,759	2,076,551,970
5	2,076,551,970	11%	233,612,097	2,310,164,067	-	338,336,759	1,971,827,308
6	1,971,827,308	11%	221,830,572	2,193,657,880	-	338,336,759	1,855,321,121
7	1,855,321,121	11%	208,723,626	2,064,044,747	-	338,336,759	1,725,707,988
8	1,725,707,988	11%	194,142,149	1,919,850,137	-	338,336,759	1,581,513,378
9	1,581,513,378	11%	177,920,255	1,759,433,633	-	338,336,759	1,421,096,874
10	1,421,096,874	11%	159,873,398	1,580,970,272	-	338,336,759	1,242,633,513
11	1,242,633,513	11%	139,796,270	1,382,429,784	-	338,336,759	1,044,093,025

Year	Principal	Rate	Interest	Total balance		Repayment	Year-end balance
12	1,044,093,025	11%	117,460,465	1,161,553,490	-	338,336,759	823,216,731
13	823,216,731	11%	92,611,882	915,828,613	-	338,336,759	577,491,854
14	577,491,854	11%	64,967,834	642,459,688	-	338,336,759	304,122,929
15	304,122,929	11%	34,213,830	338,336,758	-	338,336,759	- 1

Table: Stock of Debts

	Details	Amount	Remarks
	Pending Bills	3,665,142,229	Provision for Payment of 30% per annum for three years
	Bank Overdraft	1,140,000,000	Facility equivalent to 2 months gross salary
	Proposed Borrowing Plan	2,399,727,879	Repayment over 15 years Period at ksh 338,336,759

Analysis of Funding Sources

31. The potential sources of development loans for Bungoma County Government fall under three main categories:
    a) Domestic sources of Loans
    b) External sources of loans
    c) Combined Domestic and External Sources of Loans

32. **External Sources:** The County Government will source funds from the official sector (Multilateral and Bilateral) and commercial creditors. The key external official multilateral sources in the past for the National Government have been World Bank, International Monetary Fund (IMF) and African Development Bank, through the concessional windows of International Development Association (IDA) and African Development Fund (ADF). Other multilateral and bilateral Paris and non-Paris Club creditors have also contributed to the GOK's external financing this are potential financiers of development projects in Bungoma County.

33. Borrowing will be limited to financing of the budget gap for the various initiatives undertaken by the County in efforts to diversify and stimulate the economy.

34. During this 3-year period of the MTDS, the County does not project to undertake any external borrowing under commercial terms but only on concessional terms. On

other financing options as explored in this MTDSP it includes 'existing' sources and also 'potential' sources that the County can consider to seek financing from.

35. **Domestic Sources.** Kenya's domestic debt market is growing to be vibrant. The National government is keen on debt market development as one of its key priority objectives. Increased reliance on domestic debt helps mitigate government exposure to foreign currency risk. The domestic debt market is dominated by commercial banks as the main investors for government securities. Non-banks comprise of pension funds, insurance companies, building societies, financial institutions and parastatal. These are potential sources of funding for Bungoma County.

Table 6 below, provides information on related potential Creditors and briefly describes some cost and risk indicators on the various types of financing.

Table 6: Creditors and Risk indicators

	Creditors	Description	Cost indicators	Risk Indicators:
Multilateral				
Potential	IDA, ADB, IFAD, EI	Highly Concessional	Very low interest rates	Fixed Interest rates, long amortization profile thus mitigating foreign currency risk
Bilateral				
Potential	China	Semi-concessional	low interest rates	Foreign currency risk, Fixed interest rates
	Rep. of Korea	Focusing on rural development and ICT		Depending on the source financing
	India	Focusing on agricultural projects		Depending on the source financing
	Indonesia	Focusing on social transformation		Depending on the source financing
	Africa Development Bank	Focusing on infrastructure development		Foreign currency indicators Fixed interest rates
Theme Funds				
Potential	Climate Change Funds	Grants/Loans		depending on the source financing
Domestic				
Bonds	Domestic		Market - will reflect market development	Depends on tenors achieved, may be some re-fixing, indexation creates other risk exposures

	Creditors	Description	Cost indicators	Risk Indicators:
Loans	Commercial loans		Respond to changes in interest rates	Interest fluctuations create risk exposures

36. Under non-traditional sources of financing, such as Climate Change 'theme funds', the World Bank manages 6 climate change funds, which could provide important amounts of financing for the County.

For consideration in future periods, some semi or concessional financing may also be available from other sources such as Brazil, Russia, India, Indonesia, China, South Africa (BRICS), and from the European Union (EU) and the Organization of the Petroleum Exporting Counties (OPEC).

37. The County Debt Management Strategy presents three main plans of action that CGoB will explore in the next three years in debt management. These include External financing (semi and concessional) some domestic bond financing and a combination of External and Domestic financing.

External financing

38. External debt refers to the loans raised through foreign lenders, such as foreign commercial banks, foreign governments, and international financial institutions. In the case of external debt, all repayments must be made in the currency in which the debt was issued.
39. Risks Associated with External Debt. There are several risks associated with foreign debt as well, which are as follows:

    a) Affects economic growth: Economic growth occurs when Governments and companies incur capital expenditures that boost production and increase output and income levels. If large amounts of external debt need to be repaid, then there is less money left for investment purposes. It hampers future economic growth.

    b) Long gestation period: Gestation period is the interim period between the initial investment in a project and the time the project becomes productive. When external debt is used to fund infrastructure projects, it takes a few years for the project to start giving a return on the investment. It will take time for the investment to become functional, start production, and earn money or value. However, the debt will need to be repaid, along with interest, within a provided time of receiving the loan. Thus, Government will face the pressure of repaying the loan even before the project starts yielding a stable return.

c) Unexpected devaluation of domestic currency: If the currency of the borrowing Country depreciates with respect to that of the lending country, then the real value of interest (as denominated in the domestic currency) will rise.

d) The Vicious Cycle of Debt The most crucial disadvantage of external debt is that it often leads to a vicious cycle of debt. The debt cycle refers to the cycle of continuous borrowing, accumulating payment burden, and eventual default. When a government's expenditure exceeds how much it earns in a year, it faces a fiscal deficit. In order to finance the adverse gap, the government borrows money from another country. In the next year, with the additional expense of interest payment and loan repayment, the government might face a deficit again and be forced to take another external loan. In subsequent years, there might be a situation where it borrows money in order to repay its previous loans.

Negotiated domestic borrowing and utilization of securities market

40. Domestic Borrowing involves borrowing in the local market. It is done through the issuance of securities like treasury bills, which are short term debt instruments with tenures ranging from 91, 182 and 364 days and treasury bonds with a maturity period of more than a year Risks associated with domestic borrowing include:

a) Domestic borrowing could lead to pressure on institutional investors and banks to absorb "too much" Government debt and this may have a negative effect on financial stability.

b) Expanding the market for domestic Government bonds may have the risk that the public sector may crowd out private issuers.

c) Finally, there are political economy reasons that may make domestic debt more difficult to restructure. A few highly indebted countries which were able to use debt relief initiatives to address their external debt problems are still burdened with high levels of domestic debt.

Given that the County Government operates within the wider Kenyan economy the aforementioned may not impact heavily on the County economy.

External financing and some domestic bond financing

41. This is where the County combines both external and domestic financing in order to take advantage of the medium to high risk mainly due to the foreign exchange factor and low to medium cost in relation to County revenues.

42. With gradual development of the domestic market this would provide a more balanced composition of public debt with less external debt and more domestic debt.

General Risks associated with Debts

Creditor Concentration Risk: This refers to risks associated with most of the debt portfolio being held by one or two creditors. Those who hold a large proportion of debt could have a vested interest in the course of a County's affairs and could potentially have undue influence in policy development. In order to diversify the investor base, the County Treasury will work closely with the National Treasury as may be required to explore the scope and options of instruments to offer the domestic market.

Credit Risk of on-lent and guaranteed loans: When the level of outstanding on lent loans from CGoB is high, there is an implicit exposure to default and nonpayment of obligations by the borrowing entities even when the loans are guaranteed. Introducing more analysis and oversight of these transactions will reduce the overall risks embedded in the CGoB's debt portfolio.

Operational Risk: This arises from a small staff size and limited capacity. The difficulty in developing and retaining skilled staff in the Debt Management office is a risk for Treasury and the CGoB in general. In order to address this risk, Debt Management Unit Staff should undergo capacity development through external trainings organized by the National Treasury and donors such as the IMF-WB on respective areas of debt management.

Strategic Risk: Strategic risk is the risk that decisions made about management of the debt portfolio have a high opportunity cost. If the CGoB decides not to borrow, then it could miss out on grant funding (if grant funding for these projects is not available from other sources). If decisions to borrow for particular projects do not match expectations, then this money could have been better spent elsewhere on more beneficial projects. Money spent on servicing debt might be better spent on providing essential services. Alternatively, it is better to pay down debt (which saves the CGoB future interest payments and increases borrowing opportunities in the future) rather than spending funds unwisely. In view of this risk, the County treasury as part of the annual budget preparation needs better review and coordination to best determine for any financing that the CGoB may require and to analyze the related costs and risks for those options.

Financial Risk: In this case, CGoB's portfolio management is so poor that it creates a source of instability for the private sector. The risk for Bungoma is that a poorly managed debt portfolio will mean that less money is available for servicing the County's basic needs which could undermine development and progress towards the CIDP, Vision 2030, SDGs and other interlinked plans. A burgeoning debt portfolio or a build-up of debt arrears might negatively influence investor confidence, weakening private sector activity, leading to a withdrawal of investment in the County, a decline in growth prospects and a further increase in debt to revenue ratios. This is an extreme risk.

Market Risk: Refers to the risks associated with changes in market prices, such as interest rates, exchange rates, commodity prices, on the cost of the Government's debt servicing. For both domestic and foreign currency debt, changes in interest rates affect debt servicing costs on new issues when fixed-rate debt is refinanced, and on floating-rate debt at the rate reset dates.

Rollover Risk: The risk that debt will have to be rolled over at an unusually high cost or, in extreme cases, cannot be rolled over at all. To the extent that rollover risk is limited to the risk that debt might have to be rolled over at higher interest rates, including changes in credit spreads, it may be considered a type of market risk. However, because the inability to roll over debt and/or exceptionally large increases in government funding costs can lead to, or exacerbate, a debt crisis and thereby cause real economic losses.

Liquidity Risk: There are two types of liquidity risk. One refers to the cost or penalty investors face in trying to exit a position when the number of transactions has markedly decreased or because of the lack of depth of a particular market. This risk is particularly relevant in cases where debt management includes the management of liquid assets or the use of derivatives contracts. The other form of liquidity risk, for a borrower, refers to a situation where the volume of liquid assets can diminish quickly in the face of unanticipated cash flow obligations and/or a possible difficulty in raising cash through borrowing in a short period of time.

Credit Risk: The risk of non-performance by borrowers on loans or other financial assets or by a counterparty on financial contracts. This risk is particularly relevant in cases where debt management includes the management of liquid assets. It may also be relevant in the acceptance of bids in auctions of securities issued by the government as well as in relation to contingent liabilities, and in derivative contracts entered into by the debt manager.

Settlement Risk: Refers to the potential loss that the government, as counterparty, could suffer as a result of failure to settle, for whatever reason other than default, by counterparty.

Operational Risk: This includes a range of different types of risks, including transaction errors in the various stages of executing and recording transactions; inadequacies or failures in internal controls, or in systems and services; reputation risk; legal risk; security breaches; or natural disasters that affect business activity.

43. Bungoma County intends to use the third option which allows the County to source funding from both external and internal sources of funding but with emphasis on domestic borrowing in order to minimize the risks associated with external borrowing.

Conclusion

44. The 2025 Debt Management Strategic Plan (DMSP) is a broad framework for prudent debt management. It provides a systematic approach to decision making on the appropriate composition of debt finance taking into account both cost and risk.

45. There is need for active investor and market consultation to get up to date information on the market. This will help in prior determination of the investor appetite for the various instruments before it is due.

46. There is need for constant monitoring and review of performance and progress made on the medium-term debt strategy. County debt information will be published more regularly to enhance transparency on debt management in accordance with best international practices.

47. The recommended plan of action is one that seeks the issuance of medium to long term domestic debt, and contracting of external concessional debt.

48. As required under the Public Finance Management Act 2012, the Strategy is in line with the County policy objectives. Going forward, the County Government will implement measures aimed at enhancing transparency and accountability in public debt management.

ANNEXES

ANNEX I: **Public Debt Management**

Guiding principles for County Government borrowing.

176. County Government borrowing shall be guided by the following principles—

(a) Need to ensure stability of domestic financial markets;
(b) Promotion of inter-generational equity in the sharing of burdens and benefits of public borrowing;
(c) Determination of thresholds of borrowing rights for both levels of government;
(d) Use of objective criteria for evaluating County Government eligibility for National Government debt guarantee; and
(e) Prudence and equity in setting limits for debt stock levels for each County Government.

Borrowing powers for County Governments.

177. (1) The County Executive Committee Member derives powers to raise loans for the County Government from section 140 of the Act.

(2) A County Government may from time to time borrow within and outside Kenya such sums of money in such amount and on such terms and conditions as to interest, repayment, disbursement or otherwise as the County Executive Committee Member may think fit, in any of the following manners—

(a) By issuing County Treasury bonds;
(b) By bank overdraft facility from the Central Bank of Kenya; and
(c) By any other loan or credit evidenced by instruments in writing.

(3) Any borrowing by a County Government under paragraph (2)(a) And (c) of this regulation shall require a National Government guarantee pursuant to section 58 of the Act.

(4) Any borrowing under paragraph (2) (b) of this regulation, shall be in accordance with section 142 of the Act and shall be deemed guaranteed by the Cabinet Secretary and that guarantee shall be secured by the County equitable share of the revenue raised nationally.

Borrowing purposes.

178. The County Governments may borrow in pursuant to the requirements of sections 140 of the Act for the purpose of—

(a) Financing County Government budget deficits; or
(b) Cash management; or
(c) Refinancing outstanding debt or repaying a loan prior to its date of repayment; or
(d) Mitigation against adverse effects caused by an urgent and unforeseen event in cases where the Emergency Fund has been depleted; or

Meeting any other development policy objectives that the County Executive Committee Member shall deem necessary, consistent with the law, and as County Assembly may approve.

County total public debt threshold.

179. (1) Pursuant to section 50(5) of the Act, a county public debt shall not exceed twenty percent (20%) of the County Government's most recent audited revenues, as approved by County Assembly.

(2) The annual debt service cost of a County Government shall not exceed fifteen (15%) percent of the most recent audited revenue of that County Government, as approved by County Assembly.

(3) Parliament may review the limit under paragraph (1) of this regulation five years after the commencement date of these Regulations.

Setting Debt Limit in the County Medium Term Debt Management Strategy Section 141

180. (1) Pursuant to Section 141 (2) of the Act, 2012, the debt limit at any given time shall not exceed the nominal value of the total County public debt that is determined by the County Assembly within the limits set under Section 50 (5) of the Act and in accordance with fiscal responsibility principles under regulation 25 of these Regulations.

(2) The debt limit under paragraph (1) of this regulation shall be specified annually in the County Fiscal Strategy Paper and the Medium-Term Debt Management Strategy Paper.

(3) The annual new government debt shall be consistent with the debt limits set out under paragraph (1) of this regulation.

(4) For the purposes of monitoring compliance with the limits under paragraph (1), the amount of County Government debts which are not denominated in Kenya shillings shall be recalculated at the prevailing exchange rate of the Central Bank of Kenya.

Eligibility and evaluation criteria for guarantee requests by County Government.

181. (1) Pursuant to the provisions of section 58 of the Act, the capital project expenditures of county governments for which a guarantee for issuance of domestic government security is requested, shall meet the following requirements—

(a) The County Government shall demonstrate that the project could not be financed on reasonable terms and conditions without a County Government loan;
(b) An economic analysis is made demonstrating the projects cash flow clearly setting out a borrowing and repayment plan;
(c) It is a feasible project that has been approved by the County Government entity as may be required by county legislation;
(d) The county Government meets all the fiscal responsibility principles set out in the Act and these Regulations.
(e) The borrowing shall be for financing a devolved function capital project; and (if) any other requirements as the Cabinet Secretary may prescribe in the gazette.

(2) Pursuant to the provisions of section 58 of the Act, the capital project expenditures of County Governments for which a guarantee is requested, shall meet the following requirements—

(a) The County Government shall demonstrate that the project could not be financed on reasonable terms and conditions without a government loan;
(b) Provide the projected cash flow clearly setting out a projected disbursement schedule and repayment plan;
(c) The County Government shall contribute a substantial portion of project funds from their own resources and in any case not less than fifteen (15) percent;
(d) A County Government that defaults on a loan shall not be eligible for a loan guarantee and shall only be eligible upon successful completion a financial recovery programme agreed by the County Treasury and National Treasury;
(e) It is a feasible project that has been approved by the County Government entity as may be required by National or County legislation;
(f) The application of the guarantee shall be submitted with a signed loan agreement but only for loans on concessional terms in the case of external loans;

(g) Any County Government applying for a National Government guarantee shall meet all the fiscal responsibility principles set out in the Act and these Regulations unless exempted under certain conditions by the Cabinet Secretary;
(h) The borrowing shall be financing a devolved function capital project in line with the Fourth Schedule of the Constitution;
(i) The lender is of good credibility and standing with the Government of Kenya;
(j) The guarantee is in the public interest; and
(k) Any other guidelines as Cabinet Secretary may prescribe in the gazette.

Criteria for issuance of County Government securities.

182. (1) the issuance of County Government securities to raise debt capital shall be by way of auction or such other method as County Executive Committee Member may determine with the concurrence of the Cabinet Secretary.

(2) Despite the provisions of paragraph (1) of this regulation, the auction of domestic County Government securities shall take into account the following factors—

(a) Pricing of the domestic county government securities;
(b) Refinancing risk of the domestic County Government securities;
(c) The domestic market stability when taking up domestic County Government securities; and
(d) The borrowing programme which is consistent with the County Medium Term Debt Strategy and County Fiscal Strategy Paper.

Process of issuance of Treasury Bonds on behalf of County Governments.

183. (1) Pursuant to section 144 of the Act, a county government which intends to issue a Treasury bond shall be guided by the following procedures—

(e) Before seeking the National Government guarantee, the County Executive Committee Member for finance shall develop and submit the cash plan, indicating the borrowing requirements to the County Executive Committee for approval of the borrowing including its terms and conditions;
(f) After approval by the County Executive Committee, the County Executive Committee Member shall submit the cash plan referred to above to the County Assembly for approval of the borrowing including its terms and conditions;
(g) Upon approval by the County Assembly, the County Executive Committee

Member shall submit the final cash plan and the approval of the County Assembly to the Cabinet Secretary requesting for the guarantee of the Treasury bond and their inclusion in the issuance calendar;

(h) The Cabinet Secretary to the National Treasury, after receiving the request from the county government, shall seek the recommendations of the Intergovernmental Budget and Economic Council in fulfillment of the requirements of section 58(2)(i) of the Act;

(i) The Cabinet Secretary to the National Treasury may, upon taking into account the recommendations of the Intergovernmental Budget and Economic Council, approve or reject the request;

(j) The Cabinet Secretary shall reject a request for loan guarantee with reasons and communicate the same to the

Concerned County Executive Member;

(a) Upon approval of a loan guarantee request, the Cabinet Secretary to the National Treasury shall submit the request to Parliament with recommendations seeking its approval;

(b) The Cabinet Secretary to the National Treasury shall communicate the decision of Parliament on the draft loan guarantee to the respective County Executive Committee Member for finance;

(c) Upon approval by Parliament, the Cabinet Secretary shall include such authorized Treasury Bonds in the overall national issuance calendar;

(d) Once the issuance calendar is known, when the National Governments advertise its bond issuance for a specific month it shall also incorporate those to be issued on behalf of County Governments;

(e) On the issuance day, the County whose bond is being issued, shall be represented in the auction committee meeting by the County Executive Committee Member or his or her representative; and

(f) After the National Treasury and the County Government sign an on-lending agreement, the National Treasury shall transfer the proceeds of the Treasury bond to the Revenue Fund of that County Government and such on-lending transactions shall attract a fee to be determined by the National Treasury.

(2) The cash plan prepared under paragraph (1) above shall indicate—

(a) Financing amounts from the issuance of Treasury Bond;

(b) The timing of the bond issuance;

(c) Redemption and interest payment of previously issued Treasury Bonds plus the interest payment of the intended Treasury Bond; and
(d) The County Government's cash plan to be integrated into the National Government borrowing program to prepare the market for issuance.

Process for applying for a national government guarantee for external borrowing.

184. (1) Pursuant to the provisions of section 58 of the Act and before a County Government seeks a guarantee from the National Government, the following requirements shall be met—

(a) The County Executive Committee member for finance shall submit the borrowing proposal to the County Executive Committee for approval of the borrowing including its terms and conditions;
(b) after approval by the County Executive Committee, the County Executive Committee member for finance shall submit the signed loan agreement and a sessional paper to the County Assembly for approval of the borrowing, including its broad terms and conditions;
(c) after obtaining the approval of the County Assembly, the County Executive Committee member for finance shall submit the final draft loan financing agreement and the approval of the County Assembly to the Cabinet Secretary requesting for the guarantee of the final loan financing agreement;
(d) the Cabinet Secretary, after receiving the request from the County Government, shall seek the recommendations of the Intergovernmental Budget and Economic Council in fulfillment of the requirements of section 58(2)(i) of the Act;
(e) The Cabinet Secretary to the National Treasury, after receiving recommendations of IBEC, shall seek the recommendations of the Attorney General;
(f) The Cabinet Secretary may, upon taking into account the recommendations of the Intergovernmental Budget and Economic Council and the Attorney General, approve or reject the request;
(g) The Cabinet Secretary shall reject a request for loan guarantee with reasons and communicate the same to the concerned County Executive Member for finance.
(h) Upon approval of a loan guarantee request, the Cabinet Secretary shall submit a sessional paper to Parliament with recommendations seeking its approval;

(i) The Cabinet Secretary shall communicate the decision of Parliament on the draft loan guarantee to the respective County Executive Committee Member for finance; and

(j) Upon approval by Parliament the Cabinet Secretary shall issue a loan guarantee.

(k) After receiving the communication of the decision of Parliament on the draft loan guarantee, the County Executive Committee member shall report to the County Assembly of the decision.

Use of moneys borrowed and credits obtained.

185. All sums borrowed under the Act shall be expended only on the activities included in the approved estimates of expenditure of the county government entities.

Objectives of County public debt management.

186. The objectives of public debt management are to ensure that the county government's financing needs and payment obligations are met at the lowest possible cost over the medium to long term, with a prudent degree of risk, and to promote development of the domestic debt market while ensuring the equitable sharing of benefits and burdens of public debt between the current and future generation.

County Government Medium Term Debt Management Strategy.

187. (1) Any borrowing by the County Government shall be informed by the County Government medium term debt management strategy and shall set out the framework for the management of county public debt.

(2) The medium-term debt management strategy, which is reviewed annually, shall be prepared and executed by the County Treasury.

(3) Medium term debt management strategy shall be formulated annually on a three-year rolling basis.

(4) The Strategy shall be approved by the County Executive Committee.

(5) The county medium term debt management strategy shall be prepared taking into account—

(a) The borrowing needs of the County Governments;

(2) The annual public debt report shall be in the format gazette by the Cabinet Secretary and shall include the following information—

(a) Review of previous year's financing of budget deficit;
(b) Composition of domestic debt;
(c) Composition of external debt;
(d) on-lent loans and contingent liabilities;
(e) Debt strategy and debt sustainability;
(f) Outlook for the medium term; and
(g) Any commitment fees and penalties paid on any undisbursed amounts of a loan.

(3) The County Treasury shall maintain an inventory of all loans made to the county government and make the record available to the county assembly within seven days of request.

(4) The following information shall be included in the inventory under paragraph 3 of this regulation—

(a) the principal of the loan and the terms and conditions of the loan, including interest and other charges payable and terms of repayment and location of the project financed; and
(b) The amount of the loan advanced at any particular time.

Roles and responsibilities of accounting officers in debt management operations and loan administration.

195. For the purposes of debt management operations and loan administration, the accounting officers of a county government entity shall be responsible for the following—

(a) Preparing project proposals and submitting them for approval to the County Treasury;
(b) Where authorization has been granted for the project to start, the accounting officer shall ensure public disclosure to intended beneficiaries within thirty days of the allocation and disbursement of the loan;
(c) After disbursement of loans, the loan recipient accounting officer shall report within fifteen days after the end of each quarter to the intended beneficiaries on the expenditures and performance achieved in relation to the loan;
(d) During the project identification and design, the intended beneficiaries shall be involved through the public participatory approach to planning through

public forums to enhance leadership, ownership, social accountability and sustainability of the project;

(e) Preparing expected disbursements profiles;

(f) Submitting loan disbursement claims for approval by the County Treasury;

(g) Making comments on draft loan agreement from the County Treasury;

(h) Participating in all consultations and negotiations of all loan agreements for projects and programmes under their jurisdiction; and

(i) Implementing, monitoring and evaluating, in close collaboration with the county government entity responsible for county planning, all projects and programmes within their jurisdiction.

Default of payment of guaranteed loan.

196. In case of default of payment of a guaranteed loan by a county government, the provisions of section 61 and 94 of the Act shall apply.