

COUNTY ASSEMBLY OF BUNGOMA

COUNTY ASSEMBLY DEBATES

DAILY HANSARD

THURSDAY 16TH MARCH, 2022

Afternoon Sitting

COUNTY ASSEMBLY OF BUNGOMA

HANSARD OFFICIAL REPORT

THURSDAY 16TH MARCH, 2022

The House met at 2:30 p.m.

(Mr. Deputy Speaker [Hon. Stephen Wamalwa] in the Chair)

PRAYER

PAPERS

REPORT BY THE SECTORAL COMMITTEE ON GENDER AND CULTURE ON THE CAPACITY BUILDING FOR THE MEMBERS OF COMMITTEE ON GENDER BASED VIOLENCE IN BUNGOMA COUNTY

Hon. Beatrice Wekesa: Thank you, Mr. Speaker Sir. I stand to move a motion...

Mr. Deputy Speaker: Hon. Beatrice you are tabling, not moving a motion.

Hon. Beatrice Wekesa: Sorry, I rise to table the Report by the Sectoral Committee on Gender and Culture on the Capacity Building for the Members of the Committee on Gender Based Violence in Bungoma County.

Mr. Deputy Speaker: Thank you, Hon. Beatrice.

NOTICES OF MOTION

REPORT BY THE SECTORAL COMMITTEE ON GENDER AND CULTURE ON THE CAPACITY BUILDING FOR THE MEMBERS OF COMMITTEE ON GENDER BASED VIOLENCE IN BUNGOMA COUNTY

Hon. Beatrice Wekesa: Thank you, Mr. Speaker Sir. I stand to issue a notice of motion that this House adopts the report by the Sectoral Committee on Gender and Culture on the Capacity Building for the Members of the Committee on Gender Based Violence in Bungoma County.

Mr. Deputy Speaker: Thank you, Hon. Beatrice. Honorable members, notice of motion having been issued, I now direct that it is the property of this House and that it is circulated accordingly to form part of business to be considered by this House.

MOTIONS

THE JOINT REPORT BY FINANCE AND ECONOMIC PLANNING; BUDGET AND APPROPRIATIONS COMMITTEE ON THE BUNGOMA COUNTY MEDIUM TERM DEBT MANAGEMENT STRATEGY PAPER FY2022/23–FY 2024/2025

Hon. Francis Chemion (Member, Finance): Honorable Speaker, thank you for allowing me go through this motion by the Joint Committee’s report on the Medium Term Debt Management Strategy Paper FY 2022/23-FY 2024/25.

Page two is table of contents which I may not read.

PREAMBLE

Mr. Speaker,

On behalf of the Members of Joint Committee of Finance and Economic Planning and Budget & Appropriations pursuant to Section 123 (1) of the Public Finance Management Act, 2012 and Part XIV of PFM Regulations, 2015, It’s my pleasure to present to this House, the joint Committee’s report on the Medium Term Debt Management Strategy Paper FY 2022/23-FY 2024/25 (MTDMSP) which was laid on the table of the House on Tuesday, 1st February, 2022.

MANDATE OF THE JOINT COMMITTEE OF FINANCE AND ECONOMIC PLANNING COMMITTEE BUDGET & APPROPRIATIONS COMMITTEE

The Joint Committees mandate was to examine and report on the Medium Term Debt Management Strategy Paper FY 2022/23 – FY 2024/25.

JOINT COMMITTEE MEMBERSHIP:

Mr. Speaker,

The Joint Committee was formed pursuant to Standing Order No. 183 (1) which states as follows; “Two Committees of the County Assembly considering similar matters may, with the approval by Speaker, hold joint sittings”

The Committee on Budget and Appropriations as currently constituted comprises of the following:

- | | |
|------------------------------|------------------|
| 1. Hon. Jack Wambulwa, MCA | Chairperson |
| 2. Hon. Eric Wapang’ana. MCA | Vice chairperson |

3. Hon. Jane Chebet, MCA	Member
4. Hon. Joseph Juma, MCA	Member
5. Hon. Paul Wanyonyi, MCA	Member
6. Hon. Meshack Simiyu, MCA	Member
7. Hon. Joan Kirong, MCA	Member
8. Hon. Martin Pepela, MCA	Member
9. Hon. Sospeter Nyongesa, MCA	Member
10. Hon. Grace Sundukwa, MCA	Member
11. Hon. Violet Makhanu, MCA	Member

Mr. Speaker,

The Committee on Finance and Economic Planning as currently constituted comprises of the following Members:-

1. Hon. James Mukhongo, MCA	Chairperson
2. Hon. Ben Kipkut, MCA	Vice Chairperson
3. Hon. Florence Wekesa, MCA	Member
4. Hon. Francis Chemion, MCA	Member
5. Hon. Evelyne Mutiembu, MCA	Member
6. Hon. Henry Majimbo, MCA	Member
7. Hon. Stephen Wamalwa, MCA	Member
8. Hon. George Makari, MCA	Member
9. Hon. Elly Tindi, MCA	Member
10. Hon. Bethwell Mwambu, MCA	Member
11. Hon. Christine Ngelech, MCA	Member
12. Hon. Metrine Nangalama, MCA	Member
13. Hon. Sophie Marumbu, MCA	Member
14. Hon. Sudi Busolo, MCA	Member
15. Hon. Vitalis Wangila, MCA	Member

ACKNOWLEDGEMENT

Mr. Speaker,

The joint Committee would like to pay special compliment to the following:

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 would also like to register its appreciation to the members of staff who worked with us for their untiring commitment to ensure the success of the joint committee report.

Mr. Speaker,

It is now my pleasant duty and privilege, on behalf of the Joint Committee of Finance and Economic Planning Committee and Budget & Appropriations Committee to table this report and recommend it to the House for adoption.

Signed by Hon. James Barasa Mukhongo, Chairperson - Committee on Finance and Economic Planning and Hon. Jack Wambulwa, Chairperson - Budget and Appropriations Committee

Mr. Speaker,

The County Medium Term Expenditure Framework (MTEF) budget estimate for FY 2022/23 and the medium term projections continue to show an enlarging financing gap between the departments' resource requirements and the available actual financial resources. This will further be enhanced with the effects of Covid 19 pandemic which has affected the revenue collection streams. With this strategy in place, the county might be forced to initiate borrowing externally and domestically to finance the budget deficit.

LEGAL FRAMEWORK

Submission of Debt Management Strategy is guided by Section 123 of the Public Finance Management Act, 2012 which states that;

“(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 subsection (1) may not exceed five per cent 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, 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 per cent 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, 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 2022/23 –FY 2024/25

3.1 Introduction

The County Government has not done any borrowing to date. With this strategy in place, and with National Government guarantees, the county is expected to initiate borrowing externally and domestically to finance the budget deficit.

3.2 Scope and Objectives

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 meet the County Governments financing requirements at the least cost with a prudent degree of risk
- b) To guide County Government debt management operations in the medium term period for FY 2022/2023-2024/2025
- c) 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.
- d) To diversify the governments funding sources and their investment portfolio.
- e) To advance measures to maintain and develop an efficient domestic debt market.

3.3 Potential Financing Sources

The potential sources of loans for Bungoma County Government will fall under two categories:

3.3.1 Domestic sources of loans

Potential sources of domestic funding will consist of borrowing from financial and non-financial institutions

3.3.2 External sources of loans

The main sources of funding for external sources will include loans and grants from bilateral and multilateral organizations.

3.4 Strategies for management on Debt in the Medium Term

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, external debt refers to the loans raised through foreign lenders, such as foreign commercial banks, foreign government and international financial institutions. In the case of external debt all payments must be in currency in which the debt was issued.

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, 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. It will take time for the investment to become functional, start production, and earn money or value.
- 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.

Mr. Speaker, I can see my chair whose work I'm doing here making a lot of consultations. He can calm a bit because I'm doing on his behalf.

Mr. Deputy Speaker: Hon. Chemion, I know the Chair is gifted with a voice but I'm sure he can control it. Please consult in low tones.

Strategy 2: Negotiated domestic borrowing and utilization of securities market

Mr. Speaker, Domestic borrowing involves the borrowing in the local markets. It is done through the issuance of securities like treasury bills, which are short term debt instruments with tenure ranging from 91,182 and 364 days and treasury bonds with a maturity period of more than a year.

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, 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.

The department proposed to use a mix of external financing and some domestic bond financing strategy which will allow 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.

Mr. Speaker,

Out of the 3 strategies, strategy 2 is the most preferred option for the County Government of Bungoma to implement in the medium term. Although it provides a higher interest cost than the other strategies, it is minimal compared to the difference in risk level due to non-exposure of domestic borrowing to foreign exchange. With gradual development of the domestic market that it would also provide a more balanced composition of public debt with less external debt and more domestic debt.

For instance, assuming the County Government of Bungoma borrowed a loan of Kshs. 2,059,681,458 in FY 2022/2023 at a negotiated rate of 7% per annum over the next 15 years, an analysis of this shows that we need to set aside Kshs. 226,141,954 per year for 15 Years inclusive of interests) For a similar term, a loan of Kshs. 1,033,440,070.51, which is the total amount of pending Bills as at the time of this report, will require the County Government of Bungoma to repay an annual figure of Kshs. 113,446,164.69 inclusive of interests.

CHAPTER FOUR

COMMITTEE'S OBSERVATIONS AND RECOMMENDATIONS:

Committee Observations

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

1. The credit rating for three County Governments (Bungoma, Kisumu, and Makueni) were done by CRA (Commission on Revenue Allocation), WBG (World Bank Group), and GCR (Global Credit Rating Company Limited, a South African based Financial Consultancy Firm) and were first made public in March 2020. Bungoma County was rated at BBB with a Stable Outlook by GCR. This has however been downgraded to BBB- while the Outlook remained Stable in last 2021 rating report. This is, however, still a favorable rating that allows the county to borrow development money from the market. The rating makes it possible for the county to tap into debt financing by floating infrastructure bonds.
2. The Committee notes that the county pending bills stands at Kshs 251,223,451 for recurrent expenditure and Kshs.782, 216,619.51 for development expenditure totaling to Kshs 1,033,440,070.51
3. The Medium Term Debt Management Strategy Paper for FY 2022/23 – FY 2024/25 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 County Government of Bungoma has not adhered to most of the Fiscal responsibility principles reducing the ability of the County to borrow.

Committee's Recommendations

Mr. Speaker, after keen scrutiny of the Bungoma County Medium Term Debt Management strategy paper the committee recommends as follows;

1. THAT, the County treasury should submit the credit rating report that they shared with CRA, GCR and the WBG in order to evaluate the assessment tools used and the action plan that rated Bungoma County credit worth within 14 days from the adoption of the report.

2. THAT, the county treasury should treat pending bills as first charge as it portrays an image of the county unable to settle its liabilities as they fall due hence hampering approvals for borrowing.

3. 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.

4. THAT, the County government should purpose to adhere to the fiscal responsibility principles and all the provisions of the law guiding borrowing and general debt management.

Conclusion

Mr. Speaker, the approval of this Medium Term Debt Management Strategy Paper for the period FY 2022/23 -2024/25 by this honorable House will serve to provide the much needed framework for the County Government of Bungoma to pursue for additional funds to finance its budget deficits especially on developments.

ANNEXTURE

1. The adoption schedule
2. Copy of the DMSP, FY 2022/23-2024/25

That is the report from the joint committees of Finance and Budget. I want to call the member for West Bukusu a member of Budget Committee, Hon. Sospeter Nyongesa to second this report.

Hon. Sospeter Nyongesa: Thank you Mr. Speaker. First of all I want to appreciate Hon. Chemion for taking us through the document. As you realize the two committees went through the document, analyzed it and made observations as have been read from which they had to recommend. I second this report and ask the House to second.

Mr. Deputy Speaker: Honourable members, the motion having been moved and dully seconded, I now propose the question that this House adopts the joint report by Finance and Economic Planning, Budget and Appropriations Committee on the Bungoma County Medium term Debt Management Strategy Paper Financial Year 2022/2023-2024/2025, I propose;

(Question proposed)

Hon. James Mukhongo: Thank you, Mr. Speaker for giving me this chance. Honorable Speaker, I want to support the report which came from the joint committees where I'm also a member and chairperson of one of the committees. How I wish that this House adopts the report. This is a tool that will necessitate the County Government of Bungoma in case of any short falls to borrow money and put the same money in good use in implementation of programmes especially development programmes. In any institution, you can't be sure that you can facilitate all the programmes; at least you can borrow. This is a framework tool which by then if need be the executive will bring a memo in this House to approve before they proceed to borrow.

I want also to inform the House, while my brother the ODM chairperson in Bungoma County was away, many events took place in the county. While you were in Azimio meetings giving Hon. Raila Odinga to vie and become the 5th President of Kenya, but I think also so what happened yesterday, therefore you have a task. As I congratulate Hon. Ali Machani...

Mr. Deputy Speaker: Hon. Mukhongo, you have to be orderly and stick to the point and agenda. You are clever enough to run away. I call upon the mover to reply. Hon. Chemion.

Hon. Francis Chemion: Mr. Speaker, going by the mood of the House and the contribution from our chairperson. It is true even homes and households we have debts. If you are alive you could be having both financial and non-financial debts. If you are a man like me, you could be having some debts which I cannot talk about to be on record. If you are a lady, you could be having a debt also, therefore, debts are there but we must find a way of managing them. That is why we have such strategies that we have listed here. Out of the three strategies, we have picked strategy three because it blends both the domestic and the external borrowing.

I urge the House to adopt this report, so that it allows the County of Bungoma if it feels that it needs to borrow, to start the process of borrowing in the medium term. It is clear that borrowing the first approver in the County Government is the County Assembly. If there will be anything to do with borrowing, it will come to this House. We will look at it and establish if it is okay or not. I urge the House to adopt this report.

Mr. Deputy Speaker: Thank you, Hon. Chemion. Honorable members, I put the question the House adopts the report of the joint committees on Budget and Appropriation and Finance and Economic Planning on the Bungoma County Medium Debt Management Strategy Paper.

(Question put and agreed to)

The ayes have it.

(Applause)

The report is adopted and the table clerks will transmit to the relevant office as required. Honourable members, there being no other item on the Order Paper, the House stands adjourned to 2:30 p.m.

(House Adjourns)