COUNTY GOVERNMENT OF BUNGOMA

THE DEPARTMENT OF FINANCE AND ECONOMIC PLANNING

MEDIUM TERM DEBT MANAGEMENT STRATEGY PAPER

FOR

FY 2024/25 – FY 2026/27

FEBRUARY 2024

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FOREWORD

This Medium-Term Debt Management Strategy Paper (MTDMSP) 2024/2025 to 2026/2027 is the 6th to be prepared by the County Government and the second under County Integrated Development Plan (CIDP 2023-2027).

The preparation of 2024 MTDMSP is in accordance with the requirements of Section 33(2) of the Public Finance Management (PFM) Act, 2012 and is anchored on the County Fiscal Strategy Paper (CFSP) 2024.

The Medium-Term Debt Management Strategy Paper (MTDSP) is a policy document that guides prudent and sustainable government borrowing and public debt management in pursuing the desired structure of the public debt portfolio which adhere to various laws and Regulations governing debt contracting and management.

The 2024 MTDSP has been prepared on the background where the economy has been facing major shocks, among them, the geopolitical conflicts that disrupted global trade leading to increased fuel, fertilizer and food prices; the lingering of the post COVID-19 pandemic effects; and a severe drought witnessed in the region and most parts of the country associated with climate change which exerted more strain on the country's resources.

In preparing the 2024 MTDS, 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. To ensure that the County's debt remains within sustainable levels, the Department of Finance and Economic Planning 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 2024/25 and the medium-term projections show an enlarging financing gap, thus justifying the need for this strategy. 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 has been participating 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 Treasury will continue to maintain a mutual relationship with the National Treasury for effective debt Management and administration.

CHRISPINUS BARASA
EXECUTIVE COMMITTEE MEMBER- FINANCE AND PLANNING

ACKNOWLEDGEMENT

The 2024/25-2026/27 County Debt Management Strategic Plan, has been prepared by a technical team at the Department of Finance and Economic Planning with the participation of all other key stakeholders. I wish to express my sincere gratitude to H.E. the Governor for his leadership and support in developing this CDMSP.

Special recognition goes to the County Executive Member for Finance and Economic Planning, under whose direction and guidance, this exercise was successfully undertaken. 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 Department of Finance and Economic Planning 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.

In the county's efforts to reducing fiscal deficit, escalation of debt accumulation and maintenance will be in kept at sustainable levels.

God bless you all.

ROBERT SIMIYU
CHIEF OFFICER, FINANCE AND ECONOMIC PLANNING

LEGAL BASIS FOR THE PUBLICATION OF THE DEBT MANAGEMENT STRATEGY

The PFM Act 2012 under Section 104 cites the mandate of the County Department of Finance and Economic Planning 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:

i. Section 140 on authority for borrowing by County Governments, requires that borrowing is undertaken in accordance with the debt management strategy of the County Government over the medium term;

ii. Section 141 on obligations and restrictions to County 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;

iii. Section 142 deals with borrowing by County Government entities;

iv. Section 143 deals with persons who are authorized to execute loan documents at County Government level;

v. 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;

i. Section 176 highlights the guiding principles for County Government borrowing
ii. Section 177 highlights the borrowing powers of the County Government
iii. Section 178 details the purposes for borrowing
iv. 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.
v. Section 180 guides on setting of debt limit in the County Medium Term Debt Management Strategy, pursuant to Section 141 of the Act
vi. Section 187 highlights the requirement and process for preparation of the County medium term debt management strategy

LIST OF 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
CMTD	: County Medium Term Debt Management Strategy
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

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EXECUTIVE SUMMARY

This County Medium Term Debt Management Strategy (CMTDS) is the sixth 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 2024/25 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 MTDS and County borrowing.

Table 1: Budget Summary for FY 2024/25 – 2026/27

	Requirements 2024/25	Allocations 2024/25	Projections 2025/26	Projections 2026/27	% Available 2024/25
Recurrent	15,053,630,751	10,046,415,519	10,548,736,295	11,076,173,109	66.74%
Development	20,352,087,361	4,307,657,232	4,523,040,094	4,749,192,099	21.17%
Total	**35,405,718,112**	**14,354,072,751**	**15,071,776,388**	**15,825,365,208**	**40.54%**

The County Government can finance 66.74% of total recurrent requirements and only 21.17% of total development requirements. The County will therefore rationalize expenditure with a view of reducing recurrent expenditure and increasing development expenditure on key infrastructural programs.

PFM County Government Regulations Sec. 179(1) states that public debts should not exceed 20% of the most recent and audited revenues.

Table 2: Summary of Pending Bills

Department	RECURRENT	DEVELOPMENT	TOTAL
Office of The Governor	85,884,042	-	85,884,042
Public Service Management and Administration	27,271,345	34,852,879	62,124,224
Office of the County Secretary	9,772,487	-	9,772,487
County Attorney	89,842,514	-	89,842,514
Finance and Economic Planning	410,307,920	1,333,732	411,641,652
Tourism, Environment, Forestry and Climate Change	-	12,399,107	12,399,107
Water and Natural Resources	-	171,026,563	171,026,563
Education and Vocational Training centres	1,690,250	200,682,071	202,372,321
Lands, Urban and Physical Planning	1,974,825	17,513,250	19,488,075
Housing	-	76,101,000	76,101,000
Bungoma Municipality	1,320,740	-	1,320,740

Department	RECURRENT	DEVELOPMENT	TOTAL
Kimilili Municipality	1,180,000	-	1,180,000
Trade, Energy and Industrialization	14,843,945	91,848,807	106,692,752
Gender & Culture	5,197,657	11,393,459	16,591,115
Youth & Sports	-	- 662,871	- 662,871
County Public Service Board	7,559,830	-	7,559,830
Roads and Public Works	8,060,732	418,286,151	426,346,883
Health and Sanitation	84,816,483	23,541,237	108,357,720
Agriculture, Livestock, Fisheries and Cooperative Development	12,981,185	125,090,451	138,071,636
TOTAL	**762,703,954**	**1,183,405,835**	**1,946,109,790**

Source County Treasury

NB: The pending bills for Finance and Economic planning constitute mostly of employer contribution to pension scheme arrears. The department intends to offset the arrears in FY 2024/25.

During this MTDS period, practical options must be 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. However, as the preferred option, the County will continue to exhaust all possible financing requirements from the grant pool fund; as available from our development partners. 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 by the County Executive Committee Member for Finance on advancement of this MTDS, 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 under the County Treasury.

There are several borrowing options for the County. These include:

i. External financing (semi and concessional)
ii. Negotiated domestic loans, overdrafts and utilization of securities market
iii. Combined External and Domestic financing. The method combines both external and domestic sources of loanable funds.

Outline of the 2024 Debt Management Strategy Paper

This Debt Management Strategy paper consists of eight chapters.

- ✓ Chapter one gives the general introduction of debt management and the general outline of the strategy.

- ✓ Chapter two gives the objectives, goals and principles of Debt Management in the County and outlines the basis on which the 2024 Debt Management Strategy is prepared.
- ✓ Chapter three discusses the macroeconomic environment, risks and potential sources.
- ✓ Chapter four provides emphasis on specific strategies the County Government intends to employ in dealing with debts in future.
- ✓ Chapter five details the Debt Management policies and strategies designed to assist the County in its effort to reduce debts in a fast and prudent manner
- ✓ Chapter six provides analysis of and projections of debt repayment
- ✓ Chapter seven details risks associated with the various borrowing options
- ✓ The chapter eight gives the summary of the Bungoma County Debt Management Strategy Paper FY 2024/2025.

CHAPTER ONE: OVERVIEW OF DEBT MANAGEMENT

1. The County Medium Term Debt Management Strategy (MTDS) 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 MTDS in place to ensure prudent debt managemesnt as part of a stronger Medium Term Budget Framework (MTBF) to ensure County finances are placed on a sustainable footing.

3. The MTDS 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.

CHAPTER TWO: OBJECTIVES OF DEBT MANAGEMENT STRATEGY

9. The MTDS 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 MTDS 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 2024/2025 and 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.

2.1 Scope of the Medium-Term Debt Management Strategy

12. This CMTDS 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.

13. 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.

14. 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.

15. Although the focus of the MTDS 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.

2.2 Goals for the Debt Management Strategy

16. The aim of the MTDS is to support the County Government's strategy in implementing FY2024/25 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. 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.

a) 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.

b) Serve as a strategy of financing the fiscal deficit of the County Government over the medium term

2.3 Debt Management Strategy Financing Principles

17. 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.

CHAPTER THREE: MACROECONOMIC ENVIRONMENT, RISKS AND POTENTIAL SOURCES

18. Kenya's economy grew by 5.4 percent in the second quarter of 2023 and is expected to grow by 5.5- percent in 2024, amidst global economic slowdown occasioned by global supply chain disruptions associated with Russia-Ukraine war, Israel-Palestine crisis and high inflation levels.

19. Kenya's annual inflation rate down to 6.6 percent in December 2023 from 6.8 percent in November of the same year remaining within the central banks preferred range of 2.5 to 7.5 percent. However, the average inflation was 7.7 percentage for 2023. It is expected to stabilize in the near term and converge towards 6.5 percent in 2024. 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.

20. Total revenue is projected at 18.3 percent of GDP in the FY 2024/25 while total expenditure is projected to decline to 23.3 percent of the GDP on account of planned reduction of the fiscal deficits.

21. 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.

22. 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.

23. 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 is favorable as it 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.

3.1 Potential Financing Sources

24. The potential sources of development loans for Bungoma County Government fall under two main categories:
    a) Domestic sources of Loans
    b) External sources of loans

3.2 Domestic Sources of funding

25. Potential sources of domestic funding to the County Government consist of borrowing from local Financial and non-financial institutions.

3.3 External sources of funding

26. The main sources include Loans and grants from bilateral and multilateral organizations which can be either on commercial or concessional terms.

CHAPTER FOUR: ANALYSIS OF FUNDING SOURCES

27. **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 these are potential financiers of development projects in Bungoma County.

28. 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.

29. 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 MTDS it includes 'existing' sources and also 'potential' sources that the County can consider to seek financing from.

30. **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 keys 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 parastatals. These are potential sources of funding of Bungoma County.

Table 3 provides information on related potential Creditors and briefly describes some cost and risk indicators on the various types of financing.

Table 3: Potential Creditors

	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

	Creditors	Description	Cost indicators	Risk Indicators:
	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
	Impact Investment program III (AMREF - Social Impact Bond)	Innovative financing alternative for the Health sector	Investment Impact Evaluation	Depends on outcomes 90- achieved,
Loans	Commercial loans		Respond to changes in interest rates	Interest fluctuations create risk exposures

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

32. 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).

CHAPTER FIVE: STRATEGIES FOR MANAGEMENT OF DEBT IN THE MEDIUM TERM

33. 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) and some domestic bond financing

34. 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.

35. 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 pattern of continuous borrowing, accumulating payment burden, and eventual default. When a government's expenditure exceeds what 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

36. 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. 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.

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

37. 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.

38. 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.

39. 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.

CHAPTER SIX: BASELINE PROJECTIONS AND BEST PRACTICES IN DEBT MANAGEMENT

40. **Fiscal Policy**: The County fiscal policy is a primary tool to improve income distribution through both its revenue and spending policies. Fiscal policy is designed to support macroeconomic stability, correct market failures and provide public goods with particular emphasis on inclusiveness, in particular elderly welfare, special needs of vulnerable groups and the disabled, and access to free and improved universal health care.

41. To ensure prudent debt management, the County will pursue with improvements the following measures (with support of specific policies):

a) Improving estimation of funding ceilings based on realistic assessments of revenue raising capacity, budget support and development assistance, and where appropriate prudent borrowing;

b) More careful assessing and managing of appropriate levels of public debt and cash reserves required to create fiscal space to respond to shocks and unforeseen events;

c) Improving budget allocation across sectors by better analysis, prioritization and discussions to better align funding allocations to departmental/agency corporate plans based on the County Strategic Development Framework (CSDF) and overall available funding;

d) Improving quality of expenditure by ensuring commitments are properly cost and funded, restricting ad hoc funding additions during the year, improved financial management and reporting, linked to reporting on progress against sectoral plan indicators.

e) Establishment of Debt Management Unit: The County should establish a Debt Management Unit which will be in charge of debt audit, managing debtors and creditors' information.

f) Payment of creditors: The Bungoma County Government to pay its creditors promptly to maintain good cordial relationship with them and to reduce the risk of accruing interest which becomes a burden in the long run.

g) Monthly savings: The departments should spend prudently by reducing unnecessary expenditure even those budgeted for and use the monies for debt payment and on economic development subject to approval by the County assembly.

h) Stakeholders' Involvement: Some activities such as cleaning the environment, tree planting to be undertaken through involvement of the community. This will be a strategy to minimize debts arising through wages and allowances.

42. **Monetary Policy**: Monetary policy is a preserve of the Central Bank of Kenya. However, the monetary decisions of the CBK affect the debt portfolio of counties. The roles of monetary policy include (with support of specific policies):

a) Ensuring sound financial institutions (encourage strong and viable banking);

b) Maintaining adequate foreign reserves

c) Protecting external balance (balance of payments and currency convertibility);

d) Supporting price stability (low inflation);

e) Facilitating growth of the domestic economy.

f) The capping of interest rates to a maximum of 4.0 per cent above the Central Bank Rate (CBR) resulted in a significant decline in interest rates and a decline in credit to the private sector. However, the low interest rates present an opportunity for the County to seek out low interest domestic loans for development expenditure.

Key Challenges for Bungoma County:

43. There are several downside risks to the baseline macroeconomic outlook. These include the risk of not securing the mandatory National Government guarantees for borrowing; remittances and revenue not increasing as robustly as expected; the County not being able to control the wage bill (due to CBAs for health workers and ECDE teachers) combined with a tax reform not resulting in the expected revenue increases. These risks are likely to dampen growth prospects, and lead to a rise in domestic and/or external borrowing needs.

44. Continuation of financial difficulties in the main origin countries of remittances from Kenyans abroad and main sources of tourists (USA and the EU) would negatively affect the expected National economic growth rate with negative consequences to the County (since County allocations are based on performance of the National economy). Furthermore, any delays in implementing revenue reforms and reducing the wage bill (43.54 percent 2022/23 projection) could exert further pressure to resort to additional borrowing over the medium term.

Other Longer Term Structural Adjustments

45. The County Strategic Development Framework (CSDF), which encompasses priority areas, guides the overall strategic reform of the County. Table 4 shows the County initiatives for the medium term.

Table 4: County Strategic Development Framework initiatives

The County will undertake measures that will stimulate growth, promote job creation, reduce poverty and, protect the vulnerable groups and businesses. To achieve these, the County Government will:

- Fast track development of critical infrastructure in the County: Water supply, sewerage systems, Kanduyi/Musikoma Dual Carriageway, Misikhu/ brigadier road, Upgrading and maintenance of rural roads, Masinde Muliro Stadium.
- Transform economic sectors for broad based sustainable economic growth: Chwele agribusiness center, Kamukuywa, Kipsigon and Naitiri markets, and Coffee value chain.
- Support youth, women, elderly persons and persons with disability to enable them actively contribute to the economic recovery agenda;
- Foster conducive business environment-street lighting.

46. In support of addressing the expected debt overhang and the requirement for fiscal consolidation and structural reform in the medium term, the CSDF covers the following related areas beyond the MTDS.

47. Structural Policy: Structural reforms to facilitate the functioning of credit markets especially Savings and Credit Cooperative Societies (SACCOS) will be implemented. The County intends to gradually improve revenue collection and management to support her growth agenda.

48. The County is committed to further strengthening the Public Private sector Partnership (PPP) to increase competition which helps improve quality and lower prices for customers. Promoting FDI should focus on business enabling structural reforms, and there is the need to strike the right balance between promoting FDI projects and protecting revenue base.

49. Improving County operations to a more efficient, effective and affordable public service needed to deliver on policies and required results while ensuring fiscal stability is a major requirement for the medium term.

50. Major reforms are under way and these relate to economic and social policy analysis, integrated development planning and budgeting, staff performance and management, improved governance and transparency as well as other technical areas.

51. The development of County domestic debt market, presents an alternative financing option for the County. This involves development of legal and institutional arrangements to obtain financial and non-financial resources to support the County development programs from individual and corporates operating within the County.

52. The County recognizes that the medium-term prospects depend on the continued implementation of its wider program of structural reforms as well as retaining a focus on the CMTDS within the wider strengthening of the MTBF to ensure that County finances are on a sustainable path. This will also provide policy space to allow better response to future shocks.

CHAPTER SEVEN: RISK SCENARIO TESTING

53. **Inherent Risks in the Debt portfolio:** There are several inherent risks in any debt portfolio. The CGoB will employ various measures to mitigate these risks and to minimize the impact of various exogenous shocks on the debt portfolio. The CGoB will identify and mitigate risks to the implementation of the debt management strategy. Prudent debt management practices will be pursued over the medium-term with a view of satisfying the mandate as outlined in the CMTDS.

54. **Risk Scenario Testing:** Stress testing involves deciding on realistic problems (downside risks) that the County might face, and looking at how they are likely to affect the County's future economy. CGoB recognizes that stress testing is an important part of a debt sustainability analysis, where the effect of downside risks on the ability of a County to continue to make debt repayments is examined.

55. **Analysis of Cost and Risk Indicators**: Looking forward over the next 3 years, cautious monitoring of the County debt sustainability level is required and especially on any ease for future external borrowing. This is to ensure improvement in our current level of economic activity and prudent public debt management, in order to mitigate the vulnerability to shocks.

56. According to the County MTEF report for the period 2024/25 – 2026/27, the County total resource requirements are estimated at Kshs 35,405,718,112 for FY 2024/25, Kshs. 37,176,004,018 for FY 2025/26 and Kshs. 39,034,804,219 for FY 2026/27 respectively as indicated in table 5.

Table 5: Resource Requirements

FY	Requirements	Allocation	Financing Gap
2024/2025	35,405,718,112	15,113,183,529	20,292,534,583
2025/2026	37,176,004,018	15,868,268,584	21,307,715434
2026/2027	39,034,804,219	16,661,682,012	22,373,122,207
Total	**111,616,526,349**	**47,643,134,125**	**63,973,392,224**

57. The County Government projects to borrow Kshs. 2,805,261,648 in total which would be the maximum allowable as provided for in the PFM Act as being 20% of Kshs. 14,026,308,243 (Actual revenue) arising from last audited accounts 2022/23.

Table 6: Projected Borrowing Limit

Nature of expenditure	Amount (Kshs.)	Source	Justification
Development	2,805,261,648	Medium term/Long-term concessional loan borrowing	Financing gap priority for long-term projects

58. This means that the County Government would have borrowings for term to finance priority projects.

59. Given that our recent audited revenues amounts to Kshs. 14,026,308,243 then County loan borrowing will be Kshs. 2,805,261,648 in FY 2024/25 at a negotiated interest rate of 13% pa(based on the CBK base lending Rate) on reducing balance, table 6 shows the costs for debt servicing over the next 15 years. The analysis show that we need to set aside Kshs. 434,091,180 pa for 15 years (inclusive of interest).

Table 7: Annual cost of debt servicing over 15-year period

Year	Principal	Rate	Interest	Total balance		Repayment	Year-end balance
1	2,805,261,648	13%	364,684,014	3,169,945,662	-	434,091,180	2,735,854,482
2	2,735,854,482	13%	355,661,083	3,091,515,565	-	434,091,180	2,657,424,385
3	2,657,424,385	13%	345,465,170	3,002,889,555	-	434,091,180	2,568,798,375
4	2,568,798,375	13%	333,943,789	2,902,742,164	-	434,091,180	2,468,650,984
5	2,468,650,984	13%	320,924,628	2,789,575,612	-	434,091,180	2,355,484,432
6	2,355,484,432	13%	306,212,976	2,661,697,408	-	434,091,180	2,227,606,228
7	2,227,606,228	13%	289,588,810	2,517,195,038	-	434,091,180	2,083,103,858
8	2,083,103,858	13%	270,803,501	2,353,907,359	-	434,091,180	1,919,816,179
9	1,919,816,179	13%	249,576,103	2,169,392,282	-	434,091,180	1,735,301,102
10	1,735,301,102	13%	225,589,143	1,960,890,246	-	434,091,180	1,526,799,066
11	1,526,799,066	13%	198,483,879	1,725,282,944	-	434,091,180	1,291,191,764
12	1,291,191,764	13%	167,854,929	1,459,046,694	-	434,091,180	1,024,955,514
13	1,024,955,514	13%	133,244,217	1,158,199,730	-	434,091,180	724,108,550
14	724,108,550	13%	94,134,112	818,242,662	-	434,091,180	384,151,482
15	384,151,482	13%	49,939,693	434,091,175	-	434,091,180	-

60. **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. 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.

61. **Credit Risk of on-lent and guaranteed loans**: When the level of outstanding onlent 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.

62. **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.

63. **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.

64. **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.

65. **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.

66. **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.

67. **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.

68. **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.

69. **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.

70. **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.

CHAPTER EIGHT: SUMMARY AND CONCLUSION

71. The 2024 Debt Management Strategy (DMS) 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.

72. 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.

73. 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.

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

75. 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: The Public Finance Management (County Governments) Regulations, 2015

PART XIV—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 National ly.

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

(e) 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 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 (f) 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—

(a) 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;

(b) 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;

(c) 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;

(d) 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;

(e) 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;

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

Concerned County Executive Member;

(g) 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;

(h) 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;

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

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

(k) 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

(l) 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;

(b) Fiscal responsibility principles set out in section 107 of the Act and regulation 25 of these Regulations;

(c) Prevailing macro-economic conditions;

(d) Prevailing conditions of the financial markets; and
(e) Any other relevant factors.

(6) The County medium term debt management strategy shall include measures for minimizing borrowing costs with a prudent degree of risks.

Annual County Government borrowing programme.
188. (1) the County medium term debt management strategy shall be implemented through the annual County Government borrowing programme for each fiscal year.

(2) The annual borrowing programme shall include issuance of County Government securities, external guaranteed loans and disbursements for the fiscal year and show indicative dates of such issuance and disbursements.

Formalization of agreements for loans.
189. Negotiation with foreign governments and agencies for external loans shall culminate into and shall be formalized into one of

The following recognized instruments in addition to the National Government guarantee—

(a) Loan agreements; or

(b) Exchange of letters that constitute an agreement; or

(c) Subscription statement in regard to domestic government securities; or

(d) National Government guarantee.

Modes of payment (disbursement) of loan funds.

190. The procedure to be followed in the disbursement of loan funds shall be defined in the respective agreement and shall generally assume one or more of the following methods—

(a) Credit purchase; or

(b) Direct disbursement to the County Revenue Fund; or

(c) Reimbursement, where the County Government pays for goods and services supplied and later on claim reimbursement from the financier.

Credit purchases.

191. Where development partner have opted to give loans through credit purchase or commodity loan arrangements, for the purposes of budgeting and accounting, the following procedures shall be followed—

(a) The amount of expenditure and matching direct payment as agreed and as applicable, shall be included in the development estimates under separate items; (b) Accounting officer shall apply through the County Treasury

For utilization of the credit purchase facility in the prescribed manner as set-out in the loan instrument;

(c) After supplying goods or services, the development partner shall notify County Treasury of the amount disbursed against the loan;

(d) The County Treasury shall record the amounts disbursed as a drawing against each loan facility;

(e) The County Treasury shall forward invoices and debit advices to the accounting officer concerned to bring the expenditure involved into account;

(f) the accounting officer shall, on satisfying herself or himself of receipt of goods and services, record the transactions in the stores ledger card and the accounting officer shall notify the County Treasury on the receipt of goods and services; and

(g) Upon receipts of the notification under paragraph (f) of this regulation, the County Treasury shall notify the Cabinet Secretary of the receipt of goods and services.

Redemption, conversion, and consolidation of loans.

192. (1) The County Executive Committee Member may, on such terms and conditions as he or she may determine, and when necessary, with the concurrence of the lender and the Cabinet Secretary—

(a) Repay any loan prior to the redemption date of that loan; or

(b) Convert the loan into any other loan; or

(c) Consolidate two or more loans into an existing or new loan.

County Government entities to provide data on debt.

193. A County Treasury shall submit to the National Treasury a report on County public debt as prescribed in these Regulations.

County annual debt reporting.

(1) Not later than three months after the end of each financial year, the County Executive Committee Member shall prepare and submit an annual report to the County assembly on public debt.

(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.