

COUNTY DEBT MANAGEMENT STRATEGY PAPER 2025 BRIEF

Outline of the 2025 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 2025 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
- **Chapter eight** gives the summary of the Bungoma County Debt Management Strategy Paper FY 2025/2026.

This Medium-Term Debt Management Strategy Paper (MTDMSP) 2025/2026 to 2027/2028 is the 7th to be prepared by the County Government and the third under County Integrated Development Plan (CIDP) 2023-2027.

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.

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 and personnel emoluments, i.e., pending bills.

The County MTEF budget estimates for FY 2025/26 and the medium-term projections show an enlarging financing gap, thus justifying the need for this strategy. To bridge this deficit,

COUNTY DEBT MANAGEMENT STRATEGY PAPER 2025 BRIEF

the County Government intends to borrow and invest in crucial development areas to spur economic growth and improve service delivery.

Bungoma County has been participating in the shadow credit rating exercise organized by the World Bank alongside other Counties in preparation for borrowing and to build the County capacity. The rating attained-BBB (KE), for both long and short term, indicates a stable outlook.

Legal Basis For The Publication Of The Debt Management Strategy

The preparation of 2025 MTDMSPP 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) 2025.

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.

Section 123 requires the County Department Of Finance And Economic Planning 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.

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 its 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;

COUNTY DEBT MANAGEMENT STRATEGY PAPER 2025 BRIEF

- 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

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 on 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

Table 1: Budget Summary for FY 2025/26 – 2026/27

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

The County Government can finance 61.30 % of its budgetary requirements. The county will therefore rationalize expenditure with a view of balancing recurrent and development expenditures.

COUNTY DEBT MANAGEMENT STRATEGY PAPER 2025 BRIEF

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

FINANCIALS - 2023/2024 PENDING BILLS		
	SECTOR	BALANCE DUE
1	Agriculture & livestock	214,549,968
2	county public service board	18,715,934
3	County Secretary	10,324,971
4	Education	75,994,848
5	Finance & Economic Planning	1,622,193,112
6	Gender and culture	178,574,774
7	Governor's Office	77,208,699
8	Health & Sanitation	339,870,245
9	Housing	14,364,443
10	Lands, Urban & Physical Planning	25,483,384
11	Mabanga ATC	7,208,720
12	Municipality	1,722,720
13	Public Administration	91,798,184
14	Roads & Public works	339,593,868
15	Trade, Energy and Industrialization	145,333,312
16	Water & Tourism	176,216,576
	Grand Total	3,339,153,758

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

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

Goals for the Debt Management Strategy

- The aim of the MTDS is to support the County Government's strategy in implementing FY2025/26 budget and over the medium term by ensuring that the government's financial requirement and payment obligations are met at the lowest cost with prudent degree of risk in line with PFM Act, 2012. In addition, the strategy will; guide the overall debt management strategy of the County Government over the

COUNTY DEBT MANAGEMENT STRATEGY PAPER 2025 BRIEF

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

Debt Management Strategy Financing Principles

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.

According to the County MTEF report for the period 2025/26 – 2027/28, the County total resource requirements are estimated at Kshs 25,879,190,361.06 for FY 2025/26, Kshs. 27,173,149,679.11 for FY 2026/27 and Kshs. 28,531,807,373.07 for FY 2027/28 respectively as indicated in table 1.

The County Government projects to borrow Kshs. 2,399,727,879 in total which would be the maximum allowable as provided for in the PFM Act as being 20% of Kshs. 11,998,639,364 (Actual revenue) arising from last audited accounts 2022/23.

Table 3: Projected Borrowing Limit

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

COUNTY DEBT MANAGEMENT STRATEGY PAPER 2025 BRIEF

Given that our recent audited revenues amounts to Kshs. 11,998,639,364 then County loan borrowing will be Kshs. 2,399,727,879 in FY 2025/26 at a negotiated interest rate of 11.25% pa (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. 338,336,759 pa for 15 years (inclusive of interest).

Table 4: Annual cost of debt servicing over 15-year period

Year	Principal	Rate	Interest	Total balance	Repayment	Year-end balance
1	2,399,727,879	11%	269,969,386	2,669,697,265	- 338,336,759	2,331,360,506
2	2,331,360,506	11%	262,278,057	2,593,638,563	- 338,336,759	2,255,301,804
3	2,255,301,804	11%	253,721,453	2,509,023,257	- 338,336,759	2,170,686,498
4	2,170,686,498	11%	244,202,231	2,414,888,729	- 338,336,759	2,076,551,970
5	2,076,551,970	11%	233,612,097	2,310,164,067	- 338,336,759	1,971,827,308
6	1,971,827,308	11%	221,830,572	2,193,657,880	- 338,336,759	1,855,321,121
7	1,855,321,121	11%	208,723,626	2,064,044,747	- 338,336,759	1,725,707,988
8	1,725,707,988	11%	194,142,149	1,919,850,137	- 338,336,759	1,581,513,378
9	1,581,513,378	11%	177,920,255	1,759,433,633	- 338,336,759	1,421,096,874
10	1,421,096,874	11%	159,873,398	1,580,970,272	- 338,336,759	1,242,633,513
11	1,242,633,513	11%	139,796,270	1,382,429,784	- 338,336,759	1,044,093,025
12	1,044,093,025	11%	117,460,465	1,161,553,490	- 338,336,759	823,216,731
13	823,216,731	11%	92,611,882	915,828,613	- 338,336,759	577,491,854
14	577,491,854	11%	64,967,834	642,459,688	- 338,336,759	304,122,929
15	304,122,929	11%	34,213,830	338,336,758	- 338,336,759	- 1