COUNTY GOVERNMENT OF BUNGOMA

THE COUNTY TREASURY

MEDIUM TERM DEBT MANAGEMENT STRATEGY PAPER FOR

FY 2019/20 – FY 2021/22

FEBRUARY 2019

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ALL INQUIRIES ABOUT THIS COUNNTY DEBT MANAGEMENT STRATEGY PAPER 2019/20 – 2021/22 SHOULD BE ADDRESSED TO: CHIEF OFFICER, FINANCE AND ECONOMIC PLANNING

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FOREWORD

In on-going efforts by the County Government of Bungoma for prudent debt management and continuous improvement in service delivery, the County Treasury has prepared this Medium Term Debt Management Strategy (MTDS) to provide an overall guidance for the best management of debt in the medium term.

The County's debt management objective is to maintain debt within levels that are sustainable over time. This requires regular monitoring of debt levels against commonly accepted debt targets or thresholds established by national and multilateral institutions while also ensuring that any financing requirements are met at low cost with a minimum degree of risk in the medium term. This general objective and approach is also reflected in the county's policy documents and development plans.

As referred in the County Fiscal Strategy Paper for 2019, despite our limited financial circumstances and other constraints, the county medium term budgets shall focus on improving performance, growth, and wellbeing, while ensuring sound fiscal conditions; which are in turn an essential requirement for our policies and priorities to be successful.

The county will explore opportunities for new prudent borrowing with care. The focus will be on saving costs, driving growth, and addressing the urgent development needs as documented in the County Integrated Development Plan 2018 – 2022. In doing so, the county will remain mindful of the risks associated with holding significant levels of debt, and the need to ensure its sustainability.

Challenges will remain; the development of prudent debt management will require concerted efforts to constantly explore ways to mitigate the costs and risks in County Government's debt portfolio. It may also be necessary to review the legislations and to strengthen institutional arrangements for debt management including implementation of other new policies, as required.

In conclusion, I would like to emphasise the county's commitment to promoting transparency and accountability in public financial management. The publication of this inaugural CMTDS (2019/20 – 2021/22 will be reviewed annually in line with fiscal and macro development, It will provide a critical tool for informed policy decisions by all stakeholders with the intention to improve the debt burden and other fiscal vulnerabilities and also the relations with external and domestic financiers including the National Government and development partners.

ESTHER WAMALWA
EXECUTIVE COMMITTEE MEMBER, FINANCE AND PLANNING

ACKNOWLEDGEMENT

We thank the CEC Member in charge of Finance and Economic planning for having provided leadership and policy direction in the preparation of this strategy. The input of all our technical staff in the process of formulating and consolidating issues in the document is highly appreciated.

Special thanks to the team of county budget and economic planning staff who are composed of Finance officers and Economists namely Mathews Tsuma, Paul Wafula, James Watiti, Metrine Chonge, Edith Wekesa, Esther Mukhula, Martin Mabonga and Gloria Nasambu.

To these and others not mentioned here, God Bless you abundantly.

CHRISPINUS BARASA
CHIEF OFFICER, FINANCE AND ECONOMIC PLANNING

LEGAL BASIS FOR THE PUBLICATION OF THE DEBT MANAGEMENT STRATEGY

The Debt Management Strategy is published in accordance with section 123 of the Public Finance Management Act, 2012. The Law 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 assumption 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.

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	:	Growth Domestic Product
GFS	:	Government Finance Statistics
ICT	:	Information Communication Technology
IDA	:	International Development Association
IFAD	:	International Fund for Agricultural Development
MTBF	:	Medium Term Budget Framework
MTDMS	:	Medium Term Debt Management Strategy
MTEF	:	Medium Term Expenditure Framework
OPEC	:	Organization of the Petroleum Exporting Counties
PFMA	:	Public Finance Management Act
PPP	:	Public Private Partnerships
SACCOS	:	Savings and Credit Cooperative Societies
SDGs	:	Sustainable Development Goals
WB	:	World Bank

EXECUTIVE SUMMARY

This County Medium Term Debt Management Strategy (CMTDS) is the first formal strategy for management of debt. Prior to this, the county was required to maintain balanced budgets hence little or no debt was accumulated since 2013. 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.

The County MTEF budget estimates for FY 2019/20 and the medium term projections show an enlarging financing gap, thus justifying the need for this strategy. With a new county administration focusing on initiating significant flagship projects, this provides a considerable evaluation and revision of the debt sustainability thresholds and gives the county more scope for prudent borrowing going forward.

Budget Summary for FY 2019/20 – 2021/22

Classification	Proposed MTEF ceiling	Total county requirements	% Available
Recurrent:	23,422,203,113.08	41,209,440,915.31	56.84
Development:	14,157,846,936.51	55,036,478,464.24	25.72
Total	**37,580,050,049.59**	**96,245,919,379.55**	**39.05**

NB: *This means we can finance 56.84% of total recurrent requirements and only 25.72% of total development requirements. The county will therefore rationalize expenditure with a view of reducing recurrent expenditure and increasing development expenditure on key infrastructural programmes.*

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

During this initial CMTDS 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 for the County Executive Committee Member for Finance on advancement of this CMTDS, for consideration of any borrowings required to finance possible budget deficits (GFS definition) and to improve the performance of the debt portfolio will be provided by the Public Debt Management Unit to be established by the County Treasury.

Four strategies are analyzed to compute the most optimal strategy for the county.

Strategy 1: External financing (semi and concessional) and some domestic bond financing. The strategy combines both external and domestic sources of loanable funds.

Strategy 2: Negotiated domestic loans, overdrafts and utilization of securities market

Strategy 3: Concessional financing. The strategy focuses on external long term, low interest loans.

Strategy 4: Bilateral financing: Strategy 4 looks at an alternative approach to making use of the external market, by borrowing from "new" bilateral creditors carrying quasi- or semi concessional terms (almost 70% of international flows), in addition to multilaterals (at half of baseline proportions), and a small 8% share of domestic debt.

In anticipation of results, Strategy 3 should exhibit a lower cost profile given advantageous interest rate terms, but foreign exchange risk may be heightened. Strategy 4 may show a low-cost/higher risk profile as well. This strategy best addresses the priority issue of refinancing risk.

Of the four strategies, **strategy 2 is the 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 fluctuations. With gradual development of the domestic market, it would also provide a more balanced composition of public debt with less external debt and more domestic debt.

Outline of the 2019 Debt Management Strategy Paper

This Debt Management Strategy paper consists of six 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 2019 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 reduction policies and strategies designed to assist the County in its effort to reduce debts in a fast and prudent manner
- The last chapter gives the summary of the Bungoma County Debt Management strategy FY 2019/2020.

CHAPTER ONE: OVERVIEW OF DEBT MANAGEMENT

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

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

3. The MTDS provides directions and benchmarks for managing the county's debt portfolio. This will lead to the 'preferred debt composition', i.e. the preferred cost-risk trade-off, 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, whatever the source.

5. The Debt Management Strategy is a framework that will guide County government to ensure that debt levels stay affordable and sustainable, that any new 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 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.

9. Inability to repay debts can lead to a situation known as debt distress. A county is said to be in this situation when one or more of the following conditions hold:

a) The sum of interest arrears is large relative to the outstanding stock of debt;
b) A county receives debt relief in the form of rescheduling and or debt reduction from the creditors, and;
c) The county receives substantial budget support from the national government through the conditional grants.

10. The cost of financing increases due to failure to repay debt obligations as well as making it increasingly difficult to obtain financing from development partners. This makes it necessary therefore for the County Government to undertake a review of its debt situation based on the present stock debt as well as future commitments and obligations.

CHAPTER TWO: OBJECTIVES OF DEBT MANAGEMENT STRATEGY

11. The main objective of the Bungoma County Government Debt Management Strategy is to meet the County Government's financing requirements at the least cost with a prudent degree of risk.

12. The Debt Management Strategy will guide County Government debt management operations in the FY 2018/2019 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.

13. The Debt Management Strategy will provide appropriate guidelines and direction to assist in making sound debt management decisions, while demonstrating strong financial management practices for posterity.

2.1 Scope of the Medium Term Debt Management Strategy

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

15. 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.

16. 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.

17. Although the focus of the CMTDS 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

18. The aim of the CMTDS shall be to support the government's strategy in implementing the FY2019/20 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;

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 remains 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
c) Provide a basis for mobilization of both financial and non-financial resources to based on county needs.

2.3 Debt Management Strategy Financing Principles

19. 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:

a) Financing must be pegged on debt sustainability over long term.
b) Prudence must be observed when contracting debt while taking into account the cost and risk implications.
c) Debt must be contracted to support expenditure in the identified County priority areas that are transformative
d) Debt must be guaranteed by the National Treasury as contained in PFMA County Government regulations 2015
e) The debt must be for capital projects

CHAPTER THREE: MACROECONOMIC ENVIRONMENT, RISKS AND POTENTIAL SOURCES

20. The Kenyan economy remains resilient and projected to grow by 6.0 percent in 2018 from 4.9 percent in 2017. Further, our macroeconomic performance remains broadly stable with overall inflation within target, short term interest rates remaining low and stable as well as a stable exchange rate of the Kenya Shilling to other currencies.

21. Performance across the various sectors of the economy varied widely, with Accommodation and Food services; Information and Communication Technology; Education; Wholesale and Retail trade; and Public Administration registering accelerated growths in 2018 compared to 2017.

22. This debt management strategy will contribute to economic transformation by availing resources to support the implementing key programs under 'The Big Four' Plan for job creation and shared prosperity. The focus will be on boosting the manufacturing activities, improving food and nutrition security, achieving universal health coverage and supporting construction of decent and affordable housing for Kenyans. In addition, priority will be given to development enablers such as macroeconomic stability, business environment infrastructure, security, social sector investments, and public sector reforms.

3.1 Potential Financing Sources

23. The potential sources of Loans for Bungoma County Government fall under two categories:

a) Domestic sources of Loans

b) External sources of loans

3.1.1 Domestic Sources of funding

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

25. Non-Financial resources will be solicited in the form of Training (Technical Assistance (TA), Structured Learning (SL)); Equipment and Systems Roll out. Most of this support is available from the National Government Ministries, Departments and Agencies (MDAs)

3.1.2 External sources of funding

26. The main sources include Loans and grants from bilateral and multilateral organizations.

CHAPTER FOUR: ANALYSIS OF FUNDING SOURCES

27. Infrastructure and reconstruction spending is a near-term priority, while in the medium term, the county will aim to gradually reduce the debt-to-revenue ratio. The county continues to be exposed to natural disasters e.g. fall army worms, landslides and lightning, as well as the priority development needs, which requires careful management of fiscal space.

28. In reference to the National Budget Statement 2018/19, as learnt over recent years, there is no scope for further fiscal expansion from large external loans due to the already large debt portfolio for the national government. Fiscal expansion beyond the capacity of domestic revenue must be funded by increases in budget support and external aid, issuance of domestic bonds that mobilizes excess domestic liquidity, with some prudent external borrowing for viable projects, on highly concessional terms.

29. 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. The financing gap for the medium term is estimated at Kshs 39 Billion with an average of Kshs 13 Billion for a given Financial Year as indicated in table-

Table-

DEPARTMENT	REQUIREMENTS FY 2019/20	ALLOCATION FY 2019/20	RESOURCE GAP FY 2019/20
Agriculture, Livestock, Fisheries, Irrigation and Co-operative Development	4,236,936,928	949,415,836	3,287,521,092
Education	1,975,162,281	1,560,834,348	414,327,933
Health and Sanitation	8,923,932,736	3,084,328,751	5,839,603,985
Roads and Public Works	4,140,418,538	1,810,106,288	2,330,312,250
Trade, Energy and Industrialization	1,812,430,000	276,242,295	1,536,187,705
Lands, Urban and Physical Planning	1,084,643,635	584,211,128	500,432,507
Housing	586,955,000	50,149,940	536,805,060
Tourism and Environment	305,119,371	121,015,456	184,103,915

DEPARTMENT	REQUIREMENTS FY 2019/20	ALLOCATION FY 2019/20	RESOURCE GAP FY 2019/20
Water and Natural Resources	905,528,401	542,525,640	363,002,761
Gender, Culture, Youths and Sports	516,855,958	270,478,291	246,377,667
Finance and Economic Planning	1,706,600,000	1,642,590,746	64,009,254
Public Service Management and Administration	739,210,068	490,176,780	249,033,288
Office of the County Secretary	376,629,310	220,282,868	156,346,442
Sub county administration	48,840,000	9,780,142	39,059,858
Governor's Office	470,077,445	369,166,306	100,911,139
Deputy Governor's Office	76,200,000	36,222,497	39,977,503
County Public Service Board	85,815,591	45,417,620	40,397,971
County Assembly	1,158,081,615	1,036,788,480	121,293,135
Grand Total	**26,750,251,498**	**13,099,733,412**	**13,650,518,086**

30. During the medium term, and subject to guarantee from the National Government, half of the financing requirements will be sourced from highly concessional external borrowing from World Bank (WB) for budget support (loan portion) also for the flagship infrastructure projects. The balance will be sourced domestically but through consultations with National Government. For the 2 outer years, similar financing methods will also be taken.

31. During this 3 year period of the CMTDS, 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 CMTDS it includes 'existing' sources and also 'potential' sources that the county can consider to seek financing from.

Table 1 provides information on related potential Creditors and briefly includes some cost and risk indicators on the various types of financing.

Table 1: Creditors Cost and Risk Indicators

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

32. 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.

33. 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

34. The County Debt Management Strategy presents four main strategies that CGoB 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

a) To evaluate the cost and risk aspects of a continuation of current borrowing practices for Bungoma County, and to use these factors to set a benchmark for examining different approaches.

b) In conclusion, this strategy is based on current practice of external and domestic borrowing, that it does not best address the priority issues of foreign exchange risk, liquidity and repayment risk, creditor concentration risk and refinancing risk.

c) Under the cost and risk analysis over the 3 year period, this strategy in comparison to 2, 3 and 4, provides medium to high risk mainly due to the foreign exchange factor and low to medium cost in relation to County revenues.

Strategy 2: Negotiated domestic borrowing and utilization of securities market

a) To examine the cost and risk aspects of taking steps to further develop the domestic debt market, Strategy 2 highlighted an overall balance of new borrowing that tapped the domestic market for 95% of financing requirements, and the external debt market for 5%. A domestic yield curve was established following the existing rate structure in Kenya for the 5-6 year debt stock, and extended to cover the issuance span from 1 to 10 year maturities.

b) Bond issuance was posited to be concentrated by almost 60% (of domestic flows) in 5-6 year bonds—deepening the existing market, while building to an average 30% concentration in 10-year bonds—establishing a longer term maturity in the market; and by an average 7% at the 1-year maturity. A priority, one would anticipate greater costs for this strategy vis-à-vis baseline, given the higher level of domestic interest rates versus international concessional ones; but exchange rate risk would be diminished by the higher share of domestic-currency denominated debt.

c) In conclusion, this strategy best addresses the priority issue of foreign exchange risk and liquidity and repayment risk with rollover of domestic securities on maturity.

d) Under the cost and risk analysis over the 3 year period, this strategy in comparison to 1, 3 and 4, provides low risk mainly due to the foreign exchange factor of external borrowing and high cost in relation to county revenues due to the interest rate factor and shorter maturity compared to external borrowing.

Strategy 3: Concessional financing

a) Strategies 3 and 4, in contrast to Strategy 2, examine the tradeoffs in expanding external borrowing, in Strategy 3 by boosting the proportion of gross external borrowing over the 2018-2025 period to 83% from 50% in the baseline, here concentrated in concessional multilateral borrowing. Domestic debt issuance is diminished to 17% of total financing requirements.

b) In conclusion, this strategy best addresses the priority issue of refinancing risk. Under the cost and risk analysis over the 3 year period, this strategy in comparison to 1, 2 and 4, provides medium risk mainly due to the foreign exchange factor and lowest cost in relation to county revenues due to the interest rate factor available from multilateral sources offering highly concessional terms.

Strategy 4: Bilateral financing

a) Strategy 4 looks at an alternative approach to making use of the external market, by borrowing from “new” bilateral creditors carrying quasi-or semi concessional terms (almost 70% of international flows), in addition to multilaterals (at half of baseline proportions), and a small 8% share of domestic debt. In anticipation of results, Strategy 3 should exhibit a lower cost profile given advantageous interest rate terms, but foreign exchange risk may be heightened. Strategy 4 may show a low-cost/higher risk profile as well.

b) In conclusion, this strategy best addresses the priority issue of creditor concentration risk.

c) Under the cost and risk analysis over the 3 year period, this strategy in comparison to 1, 2 and 3, provides highest risk mainly due to the foreign exchange factor and less concessional terms (from terms offered by multilateral sources).

d) To determine the cost-risk profile of the baseline macroeconomic scenario-borrowing strategy combination, a set of standard market shock tests are applied to the strategy in order to assess the different vulnerabilities to exchange and interest rate fluctuations.

e) Given the analysis of the four strategies based on the lowest cost and risk between the four strategies, Strategy 3 best addresses that requirement. However, on the priority requirement to minimize the significant level of foreign exchange risk as a result of the high proportion of external debt at 91% (compared to 9% of domestic debt), under this strategy CGoB will continue to be vulnerable to this risk in the medium term. Further, with progressing of the county economy, access to highly concessional borrowing from multilateral sources will also become limited.

f) To consider the strategy that best addresses the high risk of foreign exchange and comparison of difference between cost and risk of the four strategies. Strategy 2 is the preferred option for CGoB to implement in the medium term. Although it provides a higher interest cost than the other strategies that it is minimal compared to the difference in risk level due to no 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.

CHAPTER SIX: BASELINE PROJECTIONS AND BEST PRACTICES IN DEBT MANAGEMENT

6.1 Fiscal Policy

35. **The county fiscal policy** is its primary tool to improve income distribution through both its revenue and spending policies. Fiscal policy are 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, access to free and improved health care, and free basic primary education and subsidized post-secondary education.

36. **The county recurrent budget** shows the significant contribution of budget support relative to local revenue. The share of staff costs compared to operating expenditure continues to account for over 62.3%. The balances brought forward for each FY will contribute to county cash balances.

37. 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 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.

g) Monthly savings: The departments should save monthly by reducing unnecessary expenditure even those budgeted for and use the monies for debt payment and in economic development subject to approval by the county assembly.

h) Stakeholders' Involvement: Some activities such 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.

6.2 Monetary

38. 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.

39. 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 presents an opportunity for the county to seek out low interest domestic loans for development expenditure.

6.3 Key Challenges for Bungoma County:

40. 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 tourism 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, put downward pressure on the exchange rate, and lead to a rise in domestic and/or external borrowing needs.

41. 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 (currently at 43%) could exert further pressure to resort to additional borrowing over the medium term.

6.4 Other Longer Term Structural Adjustments

42. The County Strategic Development Framework (CSDF), which encompasses nine priority areas, continues to guide the overall strategic reform of the county. Table – shows the projects/initiatives contained in the CSDF for the medium term.

Table 2: County Strategic Development Framework initiatives

Sector	Project/Initiative
Agriculture	Develop the Chwele Agribusiness zone
Roads and Transport	Upgrade 250 km of major county roads to bitumen standards through Public Private Partnerships
Education	Invest in provision of quality pre-school and vocational education
Sports	Renovation and modernization of Masinde Muliro Stadium
Water	Invest in safe drinking water, promote rain-water harvesting and Develop gravity fed water systems
Health	Constructing a county Referral Hospital,, staffing and equipping at-least one dispensary per ward
Industry	Development of cottage and manufacturing industries
Trade	Develop modern truck shops on the Webuye Malaba Road
Tourism	Use partnership model to attract Tourism Investments in Bungoma County

43. 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 CMTDS.

44. **Structural Policy:** Structural reforms to facilitate the functioning of credit markets especially Savings and Credit Cooperative Societies (SACCOS) need to be implemented and

with renewed vigor. The county intends to gradually improve revenue collection and management to support her growth agenda. The promotion of foreign direct investments (FDI) should focus on business enabling structural reforms, while the use of tax incentives should be minimized and well-targeted.

45. 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.

46. **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.

47. 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.

48. 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 programmes from individual and corporates operating within the county.

49. 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

7.1 Inherent Risks in the Debt Portfolio

50. There are several inherent risks in the debt portfolio. The CGoB has in recent years, noted the priority need to employ various measures to mitigate these risks and to minimize the impact of various exogenous shocks on the 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.

7.2 Risk Scenario Testing

51. 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.

7.3 Analysis of Cost and Risk Indicators

52. Looking forward over the next 3 years, cautious monitoring of the county treasury's 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.

7.3.1 Exchange Rate Risk

53. Foreign exchange rate risk relates to vulnerability of the debt portfolio and its impact on the CGoB's debt servicing cost due to a depreciation of the Kenya Shillings (Kshs) against the currencies in which the external debt is denominated.

54. Foreign exchange movements will change both the amount of debt servicing and the value of debt outstanding, and therefore the related debt ratios. The annual external debt servicing obligations will be initiated in FY 2019/20.

7.3.2 Refinancing Risk

55. Rollover risk is the risk that a maturing debt cannot be replaced or refined, or that the replacement debt will be more expensive.

7.3.3 Interest Rate Risk

56. Interest rate risk is the risk associated with interest rate changes in the debt portfolio.

57. The weighted average interest rate of both external and domestic debt will be estimated at the end of every FY for analysis to inform decision making organs.

7.3.4 Liquidity and Repayment Risk

58. Servicing debt is a primary concern for debt management and to ensure that the total expenditure including debt service costs does not exceed revenue collected. This risk can be expressed as the cost of debt repayments compared with funds available.

59. This is a real risk for CGoB especially from FY 2019/20 with the initiation of external debt servicing costs. In comparison of these costs to both revenue and expenditure it may create inability to meet all the repayments as due.

60. According to the County MTEF report for the period 2019/20 – 2021/22, the county total resource requirements are estimated at - Kshs for FY 2019/20 AND Kshs- and – for FY 2020/21 and 2021/22 respectively as indicated in table-

FY	Requirements	Allocation	Financing gap
2019/20	30,530,029,938.00	11,920,713,735.00	18,609,316,203
2020/21	32,056,531,434.90	12,516,749,421.75	19,539,782,013
2021/22	33,659,358,006.65	13,142,586,892.84	20,516,771,113

61. The County Governments projects to borrow Kshs. 1,599,818,364 in total which would be split into recurrent and development components as follows:

Nature of expenditure	Amount(Kshs.)	Source	Justification
Recurrent	450,000,000	Overdraft(CBK)	Cash flow management(One month projected cash flow needs)
Development	1,149,818,364	Medium term/Long-term concessional loan borrowing	Financing gap priority for long-term projects
Total	1,599,818,364		

This means that the County Government would have two types of borrowings; short-term (overdraft) to finance short-term liquidity needs and long term to finance priority projects.

62. Assuming the county borrowed a loan of Kshs 1,149,818,364 in FY 2019/20 at a negotiated interest rate of 7% pa, table 3 shows the costs for debt servicing over the next 15 years, with the analysis showing that we need to set aside Kshs 126,244,070 pa for 15 years. (inclusive of interest)

Table 3: Annual cost of debt servicing over 15 year period

Year	Loan bal	Rate	Interest	Total loan bal	Repayment	Year end bal
1.	1,149,818,364	0.07	80,487,285	1,230,305,649	126,243,876	1,104,061,774
2.	1,104,061,774	0.07	77,284,324	1,181,346,098	126,243,876	1,055,102,222
3.	1,055,102,222	0.07	73,857,156	1,128,959,378	126,243,876	1,002,715,502
4.	1,002,715,502	0.07	70,190,085	1,072,905,587	126,243,876	946,661,711
5.	946,661,711	0.07	66,266,320	1,012,928,031	126,243,876	886,684,155
6.	886,684,155	0.07	62,067,891	948,752,046	126,243,876	822,508,170
7.	822,508,170	0.07	57,575,572	880,083,742	126,243,876	753,839,867
8.	753,839,867	0.07	52,768,791	806,608,657	126,243,876	680,364,782
9.	680,364,782	0.07	47,625,535	727,990,316	126,243,876	601,746,441
10.	601,746,441	0.07	42,122,251	643,868,691	126,243,876	517,624,816
11.	517,624,816	0.07	36,233,737	553,858,553	126,243,876	427,614,677
12.	427,614,677	0.07	29,933,027	457,547,704	126,243,876	331,303,829
13.	331,303,829	0.07	23,191,268	354,495,097	126,243,876	228,251,221

Year	Loan bal	Rate	Interest	Total loan bal	Repayment	Year end bal
14.	228,251,221	0.07	15,977,585	244,228,806	126,243,876	117,984,931
15.	117,984,931	0.07	8,258,945	126,243,876	126,243,876	0

7.3.5 Creditor Concentration Risk

63. Creditor concentration risk 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.

64. 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.

7.3.6 Credit Risk of on-lent and guaranteed loans

65. When the level of outstanding on-lent loans from CGoB is high, there is an implicit exposure to default and non-payment 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.

7.4 Other Risks in Managing the Portfolio

7.4.1 Operational Risk:

66. The operational risks arise 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.

67. 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.

7.4.2 Strategic Risk

68. Strategic risk is the risk that decisions made about management of the debt portfolio have a high opportunity cost.

69. 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 other, more beneficial projects. Money spent on servicing debt might be better spent on providing essential services.

70. 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.

71. 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 analyse the related costs and risks for those options.

7.4.3 Financial Risk

72. Financial risk is the risk that the 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.

73. 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.

CHAPTER EIGHT: SUMMARY AND CONCLUSION

74. The 2019 Debt Management Strategy (DMS) is a robust 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.

75. 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.

76. 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.

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

78. 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 the transparency and accountability in public debt management.

PART XIV—PUBLIC DEBT MANAGEMENT

Guiding principles for county government borrowing.

176. County government borrowing shall be guided by thefollowing principles—
(a) need to ensure stability of domestic financial markets;
(b) promotion of inter-generational equity in the sharing of burdens and benefits of public borrowing;
(c) determination of thresholds of borrowing rights for both levels of government;
(d) use of objective criteria for evaluating county government eligibility for national government debt guarantee; and
(e) prudence and equity in setting limits for debt stock levels for each county government.

Borrowing powers for county governments.

177. (1) The County Executive Committee Member derives powers to raise loans for the County Government from section 140 of the Act.
(2) A county government may from time to time borrow within and outside Kenya such sums of money in such amount and on such terms and conditions as to interest, repayment, disbursement or otherwise as the County Executive Committee Member may think fit, in any of the following manners—
(a) by issuing County Treasury bonds;
(b) by bank overdraft facility from the Central Bank of Kenya; and
(c) by any other loan or credit evidenced by instruments in writing.
(3) Any borrowing by a county government under paragraph (2)
(a) and (c) of this regulation shall require a national government guarantee pursuant to section 58 of the Act.
(4) Any borrowing under paragraph (2) (b) of this regulation, shall be in accordance with section 142 of the Act and shall be deemed guaranteed by the Cabinet Secretary and that guarantee shall be secured by the county equitable share of the revenue raised nationally.

Borrowing purposes.

178. The county governments may borrow in pursuant to the requirements of sections 140 of the Act for the purpose of—
(a) financing county government budget deficits; or
(b) cash management; or
(c) refinancing outstanding debt or repaying a loan prior to its date of repayment; or
(d) mitigation against adverse effects caused by an urgent and unforeseen event in cases where the Emergency Fund has been depleted; or
(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 the 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.
(7) 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 minimising 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 utilisation 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 paragragh (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.
194. (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 authorisation 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.

ANEX II

Resource Requirements versus Resource Allocations 2019/20 to 2021/22

		Budgeted		Projected			
		2019/20		2020/21		2021/22	
DEPARTMENT		REQUIREMENTS	ALLOCATION	REQUIREMENTS	ALLOCATION	REQUIREMENTS	ALLOCATION
Agriculture, Livestock, Fisheries, Irrigation and Co-operative Development	Recurrent	1,259,922,414.00	422,876,656.00	1,322,918,534.70	444,020,488.80	1,389,064,461.44	466,221,513.24
	Development	3,722,500,000.00	526,539,180.00	3,908,625,000.00	552,866,139.00	4,104,056,250.00	580,509,445.95
	Total	**4,236,936,928.00**	**949,415,836.00**	**4,448,783,774.40**	**996,886,627.80**	**4,671,222,963.12**	**1,046,730,959.19**
Education	Recurrent	1,459,021,581.00	1,011,412,203.00	1,531,972,660.05	1,061,982,813.15	1,608,571,293.05	1,115,081,953.81
	Development	516,140,700.00	399,422,145.00	541,947,735.00	419,393,252.25	569,045,121.75	440,362,914.86
	Total	**1,975,162,281.00**	**1,410,834,348.00**	**2,073,920,395.05**	**1,481,376,065.40**	**2,177,616,414.80**	**1,555,444,868.67**
Health and Sanitation	Recurrent	5,778,660,083.00	2,737,770,123.00	6,067,593,087.15	2,874,658,629.15	6,370,972,741.51	3,018,391,560.61
	Development	3,145,272,653.00	346,558,628.00	3,302,536,285.65	363,886,559.40	3,467,663,099.93	382,080,887.37
	Total	**8,923,932,736.00**	**3,084,328,751.00**	**9,370,129,372.80**	**3,238,545,188.55**	**9,838,635,841.44**	**3,400,472,447.98**
Roads and Public Works	Recurrent	178,418,538.00	171,682,613.00	187,339,464.90	180,266,743.65	196,706,438.15	189,280,080.83
	Development	3,962,000,000.00	1,538,423,675.00	4,160,100,000.00	1,615,344,858.75	4,368,105,000.00	1,696,112,101.69
	Total	**4,140,418,538.00**	**1,710,106,288.00**	**4,347,439,464.90**	**1,795,611,602.40**	**4,564,811,438.15**	**1,885,392,182.52**
Trade, Energy and Industrialization	Recurrent	101,000,000.00	45,179,297.00	106,050,000.00	47,438,261.85	111,352,500.00	49,810,174.94
	Development	1,711,430,000.00	231,062,998.00	1,797,001,500.00	242,616,147.90	1,886,851,575.00	254,746,955.30
	Total	**1,812,430,000.00**	**276,242,295.00**	**1,903,051,500.00**	**290,054,409.75**	**1,998,204,075.00**	**304,557,130.24**
Lands, Urban and Physical Planning	Recurrent	215,398,007.00	116,254,690.00	226,167,907.35	122,067,424.50	237,476,302.72	128,170,795.73
	Development	869,245,628.00	467,956,438.00	912,707,909.40	491,354,259.90	958,343,304.87	515,921,972.90
	Total	**1,084,643,635.00**	**584,211,128.00**	**1,138,875,816.75**	**613,421,684.40**	**1,195,819,607.59**	**644,092,768.62**

Housing	Recurrent	55,755,000.00	24,080,174.00	58,542,750.00	25,284,182.70	61,469,887.50	26,548,391.84
	Development	531,200,000.00	26,069,766.00	557,760,000.00	27,373,254.30	585,648,000.00	28,741,917.02
	Total	**586,955,000.00**	**50,149,940.00**	**616,302,750.00**	**52,657,437.00**	**647,117,887.50**	**55,290,308.85**
Tourism and Environment	Recurrent	192,311,033.00	100,233,384.00	201,926,584.65	105,245,053.20	212,022,913.88	110,507,305.86
	Development	112,808,338.00	20,782,073.00	118,448,754.90	21,821,176.65	124,371,192.65	22,912,235.48
	Total	**305,119,371.00**	**121,015,457.00**	**320,375,339.55**	**127,066,229.85**	**336,394,106.53**	**133,419,541.34**
Water and Natural Resources	Recurrent	160,828,973.00	50,183,376.00	168,870,421.65	52,692,544.80	177,313,942.73	55,327,172.04
	Development	744,699,428.00	442,342,264.00	781,934,399.40	464,459,377.20	821,031,119.37	487,682,346.06
	Total	**905,528,401.00**	**492,525,640.00**	**950,804,821.05**	**517,151,922.00**	**998,345,062.10**	**543,009,518.10**
Gender, Culture, Youths and Sports	Recurrent	146,855,958.00	111,462,043.00	154,198,755.90	117,035,145.15	161,908,693.70	122,886,902.41
	Development	370,000,000.00	159,016,248.00	388,500,000.00	166,967,060.40	407,925,000.00	175,315,413.42
	Total	**516,855,958.00**	**270,478,291.00**	**542,698,755.90**	**284,002,205.55**	**569,833,693.70**	**298,202,315.83**
Finance and Economic Planning	Recurrent	1,236,979,688.00	888,471,609.00	1,298,828,672.40	932,895,189.45	1,363,770,106.02	979,539,948.92
	Development	1,080,000,000.00	25,099,459.00	1,134,000,000.00	26,354,431.95	1,190,700,000.00	27,672,153.55
	Total	**2,316,979,688.00**	**913,571,068.00**	**2,432,828,672.40**	**959,249,621.40**	**2,554,470,106.02**	**1,007,212,102.47**
Public Service Management and Administration	Recurrent	543,210,068.00	397,829,142.00	570,370,571.40	417,720,599.10	598,889,099.97	438,606,629.06
	Development	196,000,000.00	42,347,638.00	205,800,000.00	44,465,019.90	216,090,000.00	46,688,270.90
	Total	**739,210,068.00**	**440,176,780.00**	**776,170,571.40**	**462,185,619.00**	**814,979,099.97**	**485,294,899.95**
Office of the County Secretary	Recurrent	145,629,310.00	89,953,112.00	152,910,775.50	94,450,767.60	160,556,314.28	99,173,305.98
	Development	231,000,000.00	30,329,756.00	242,550,000.00	31,846,243.80	254,677,500.00	33,438,555.99
	Total	**376,629,310.00**	**120,282,868.00**	**395,460,775.50**	**126,297,011.40**	**415,233,814.28**	**132,611,861.97**
Sub county administration	Recurrent	48,840,000.00	9,780,142.00	51,282,000.00	10,269,149.10	53,846,100.00	10,782,606.56
	Development	-	-	-	-	-	-
	Total	**48,840,000.00**	**9,780,142.00**	**51,282,000.00**	**10,269,149.10**	**53,846,100.00**	**10,782,606.56**

Governor's Office	Recurrent	470,077,445.00	369,166,306.00	493,581,317.25	387,624,621.30	518,260,383.11	407,005,852.37
	Development	-	-	-	-	-	-
	Total	**470,077,445.00**	**369,166,306.00**	493,581,317.25	387,624,621.30	518,260,383.11	407,005,852.37
Deputy Governor's Office	Recurrent	76,200,000.00	36,222,497.00	80,010,000.00	38,033,621.85	84,010,500.00	39,935,302.94
	Development	-	-	-	-	-	-
	Total	**76,200,000.00**	**36,222,497.00**	80,010,000.00	38,033,621.85	84,010,500.00	39,935,302.94
County Public Service Board	Recurrent	85,815,591.00	45,417,620.00	90,106,370.55	47,688,501.00	94,611,689.08	50,072,926.05
	Development	-	-	-	-	-	-
	Total	**85,815,591.00**	**45,417,620.00**	90,106,370.55	47,688,501.00	94,611,689.08	50,072,926.05
County Assembly	Recurrent	917,063,913.00	801,748,443.00	962,917,108.65	841,835,865.15	1,011,062,964.08	883,927,658.41
	Development	265,745,589.00	235,040,037.00	279,032,868.45	246,792,038.85	292,984,511.87	259,131,640.79
	Total	**1,182,809,502.00**	**1,036,788,480.00**	**1,241,949,977.10**	**1,088,627,904.00**	**1,304,047,475.96**	**1,143,059,299.20**
Grand Total	Recurrent	**13,071,987,602.00**	**7,429,723,430.00**	**13,725,586,982.10**	**7,801,209,601.50**	**14,411,866,331.21**	**8,191,270,081.58**
	Development	**17,458,042,336.00**	**4,490,990,305.00**	**18,330,944,452.80**	**4,715,539,820.25**	**19,247,491,675.44**	**4,951,316,811.26**
	Total	**30,530,029,938.00**	**11,920,713,735.00**	**32,056,531,434.90**	**12,516,749,421.75**	**33,659,358,006.65**	**13,142,586,892.84**