COUNTY GOVERNMENT OF BUNGOMA

THE COUNTY TREASURY

MEDIUM TERM DEBT MANAGEMENT STRATEGY PAPER FOR

FY 2022/23 – FY 2024/25

FEBRUARY 2022

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ALL INQUIRIES ABOUT THIS COUNTY DEBT MANAGEMENT STRATEGY PAPER 2022/23 – 2024/25 SHOULD BE ADDRESSED TO: CHIEF OFFICER ECONOMIC PLANNING

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FOREWORD

The MTDMS paper has been prepared as per the requirement of Public Finance Management (PFM) Act, 2012. It covers a period of three years 2022/2023 to 2024/2025.

The MTDMS sets out the debt management strategy of the County Government over the medium term with respect to actual and potential liabilities.

Regular preparation and publication of the MTDMS promotes transparency in the conduct of budget financing and public financial management. This is the 4^{th} MTDS prepared by the County and the last under the current CIDP 2018-2022 development frame.

The policy is meant to act as a guideline for debt management practices of the County Government including the issuance process, management of the debt portfolio, and adherence to various laws and Regulations governing debt contracting and management. With this policy, there will be improvement in the quality of decisions, better articulation of policy goals, clearer guidelines for the structure of debt issuance, and a demonstration of commitment to long-term capital and financial planning.

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 County Treasury intends to fund annual budget deficits from sources characterized by lower costs and minimal risks. So far, measures geared towards reduction of county debt through pending bills by departments have been effective in view of the current level of pending bills.

The County MTEF budget estimates for FY 2022/23 and the medium term projections show an enlarging financing gap, thus justifying the need for this strategy. The MDA's budget deficit has continued to widen over the years. A case at hand is that of the ministry of Health in spite of the fact that it has been taking up a lion's share the budgets, it still has a large deficit in allocations compared to requirements. The bulk of these funds directed towards health sector goes towards recurrent expenditure. The same applies to other departments. To bridge this deficit, the county government intends to borrow to invest in crucial areas with the aim of not only improving them but also transforming them.

The ongoing global COVID-19 shock has worsened the debt situation for Kenya and by extension Bungoma County. However, the economy is set to recover given the ongoing implementation of the Bungoma County COVID-19 Socio Economic Re-Engineering Recovery Strategy put together in collaboration with the Council of Governors

In preparation for borrowing and to build the county capacity, Bungoma County has been participating in the shadow credit rating exercise organised by the World Bank alongside other counties such as Kisumu, Makueni and Laikipia from the FY 2018/19.

The rating attained-BBB(KE), for both long and short term, indicates a stable outlook. The county went public in March 2020, which was a favourable step.

Bungoma County treasury will continue to maintain effective linkages with the National Treasury for effective debt administration and provision of technical advice in the event that borrowing is done.

ESTHER WAMALWA EXECUTIVE COMMITTEE MEMBER, FINANCE AND PLANNING

ACKNOWLEDGEMENT

I would like to acknowledge H.E. the Governor of Bungoma County for his overall leadership, the C.E.C.M Finance and Economic Planning for her direction, the Ag. Director Economic Planning for overseeing the preparation of MTDS, Ag Director Budget for invaluable information, The input of all the technical staff from the County treasury led by Chief Officer Finance, in the process of formulating and consolidating issues in the document is highly appreciated, and the secretariat for compilation, editing and finalization of the document on time.

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

EDWARD MAKHANDIA CHIEF OFFICER, 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 Treasury as that of monitoring, evaluating and overseeing the management of public finances and economic affairs of the County Government, including managing the county government's public debt and other obligations and developing a framework of debt control for the county. To this effect the County Treasury is required under Section 123 to prepare and submit to the County Assembly a statement setting out the debt management strategy of the county government over the medium term with regard to its actual liability and potential liability in respect of 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 includes:

- Section 140 on authority for borrowing by county governments, requires that borrowing by county governments is undertaken in accordance with the debt management strategy of the county government over the medium term;
- 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;
- Section 142 deals with borrowing by county government entities;
- Section 143 deals with persons who are authorized to execute loan documents at county government level;
- Section 144 deals with issuance of county government securities As such maintaining a sustainable level of debt as approved by the county assembly is highlighted as one of the fiscal responsibility principles, under Section 107 of the Act.

Other documents that inform the preparation of debt management Strategy Are; County Fiscal Strategy Paper (CFSP), County Budget Review And Outlook Paper (CBROP), sector reports and the annual financial statement.

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

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

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

EXECUTIVE SUMMARY

This County Medium Term Debt Management Strategy (CMTDS) is the third formal strategy for management of debt. 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 externally and domestically

The County MTEF budget estimates for FY 2022/23 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 2022/23 – 2024/25

Classification	Proposed MTEF Ceiling	Total County Requirements	% Available
Recurrent:	29,335,541,487	41,625,453,912	70.5
Development:	12,572,374,920	38,014,106,706	33.1
Total	41,907,916,407	79,639,560,618	52.6

NB: *This means the County Government can finance 70.5% of total recurrent requirements and only 33.1% 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**

	Recurrent	Development	Total
Ministry of Water & Tourism	17,550,531	5,035,632	22,586,163
Public Service Board	11,756,466	0	11,756,466
Public Administration	41,596,387	4,484,126	46,080,513
Education & Statistics	0	197,310,852.51	197,310,852.51
Governor's Office	21,134,422	0	21,134,422
Finance & Economic Planning	58,135,043	14,528,375	72,663,418
Health & Sanitation	41,023,076	22,888,872	63,911,948
Housing	0	961,403	961,403
Lands, Urban & Planning	0	52,002,842	52,002,842
Agriculture, Livestock & Irrigation	31,234,875	98,900,980	488,408,027.51
Gender Sports & Youth	16,592,372	40,166,991	56,759,363
Trade & Industrialization	0	21,842,980	21,842,980

Roads & Public Works	3,440,284	300,029,135	303,469,419
County Secretary	8,579,995	0	8,579,995
Bungoma Municipality	180,000	24,064,431	24,244,431
TOTAL	**251,223,451**	**782,216,619.51**	**1,033,440,070.51**

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 for 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. This 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.

Outline of the 2022 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 2022 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 2022/2023.

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 management 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 2022/2023 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 FY2022/23 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 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

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 rebounded strongly in the second quarter of 2021, with real GDP growing 10.1 percent supported by easing of COVID-19 containment measures. Economic growth is projected at 6.0 percent in 2021 from the contraction of 0.3 percent in 2020. This translates to a growth of 5.9 percent in FY 2021/22 from 2.9 percent in FY 2020/21. The economic recovery reflects improved business environment after easing of COVID-19 restrictions and is supported by the prevailing stable macroeconomic environment, ongoing implementation of the strategic priorities of the Government under the "Big Four" Agenda and the implementation of the third Economic Stimulus Programme

19. Year-on-year overall inflation rate has remained low, stable and within the policy target range of 5+/-2.5 percent since the end 2017. The year-on-year inflation rate increased to 6.45 percent in October 2021 from 4.84 percent in October 2020 mainly driven by food and fuel prices. However, the inflation rate remained within the target range moderated by muted demand pressures

20. 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.

21. 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.

22. So far, the initiative has seen the credit rating for three County Governments (Bungoma, Kisumu, Makueni and Laikipia) 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.

Potential Financing Sources

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

a) External sources of loans

b) Domestic sources of Loans

Domestic Sources of funding

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

External sources of funding

25. 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

26. **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 and African Development Bank, through the concessional windows of International Development Association (IDA) and African Development Fund (ADF).Other multilateral and bilateral Paris and non-Paris Club creditors have also contributed to the GOK's external financing this are potential financiers of development projects in Bungoma County.

27. 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.

28. 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.

29. **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. This 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: Creditors Cost and Risk Indicators

	Creditors		Cost indicators	Risk Indicators:

Multilateral				
	Creditors		Cost indicators	Risk Indicators:
	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	Semiconcessional	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

30. 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.

31. 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

32. 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

33.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.

34. Risks Associated with External Debt. There are several risks associated with foreign debt as well, which are as follows:

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

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

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

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

Negotiated domestic borrowing and utilization of securities market

35. 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

36. 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.

37. 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.

38. 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

39. **Fiscal Policy**: The county fiscal policy is a 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, and access to free and improved universal health care.

40. 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 run.

g) Monthly savings: The departments should spend prudently 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 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.

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

Key Challenges for Bungoma County:

42. 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.

43. 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 39%) could exert further pressure to resort to additional borrowing over the medium term.

Other Longer Term Structural Adjustments

44. 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: Misikhu/ brigadier road, dual carriage way in Bungoma town, Masinde Muliro stadium.
- Transform economic sectors for broad based sustainable economic growth: Chwele agribusiness center, milk processor, Coffee value chain.
- Roll out the Post-Covid-19 Socio Economic Recovery Strategy
- Improve access to education, water and strengthen health care systems; - Pre-school and vocational training education, 300 and 100 bed capacity maternal and child units in Bungoma and Sirisia hospital respectively.
- Support youth, women, elderly persons and persons with disability to enable them actively contribute to the economic recovery agenda;
- Foster a conducive business environment-street lighting,

Harnessing the implementation of the "Big Four" Agenda for job creation

45. 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.

46. 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 vigour. The county intends to gradually improve revenue collection and management to support her growth agenda.

47. 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.

48. 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.

49. 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.

50. 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.

51. 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

52. **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.

53. **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.

54. **Analysis of Cost and Risk Indicators**: 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.

55. According to the County MTEF report for the period 2022/23 – 2024/25, the county total resource requirements are estimated at Kshs 25,870,764,747 for FY 2022/23, Kshs. 26,336,038,997 for FY. 2023/24 &n Kshs. 26,824,576,960 for FY. 2024/25 respectively as indicated in table 5.

Table 5: Resource Requirements

FY	Requirements	Allocation	Financing Gap
2022/2023	25,870,764,747	13,293,550,010	12,577,214,737
2023/2024	26,336,038,997	13,958,227,511	12,377,811,486
2024/2025	26,824,576,960	14,656,138,886	12,168,438,074

56. The County Governments projects to borrow Kshs. 2,059,681,458 in total which would as provided for in the PFM act. Being 20% of Kshs. 10,298,407,291 arising from last audited accounts 2019/20

Nature of expenditure	Amount(Kshs.)	Source	Justification
Development	2,059,681,458	Medium term/Long-term concessional loan borrowing	Financing gap priority for long-term projects

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

58. Assuming the county borrowed a loan of Kshs 2,059,681,458 in FY 2022/23 at a negotiated interest rate of 7% pa, table 6 shows the costs for debt servicing over the

next 15 years, with the analysis showing that we need to set aside Kshs 226,141,953 pa for 15 years (inclusive of interest).

Table 6: Annual cost of debt servicing over 15 year period

Year	Loan bal	Rate	Interest	Total loan bal	Repayment	Year end bal
1.	2,059,681,458	0.07	144,177,702	2,203,859,160	226,141,953	1,977,717,207
2.	1,977,717,207	0.07	138,440,205	2,116,157,412	226,141,953	1,890,015,459
3.	1,890,015,459	0.07	132,301,082	2,022,316,541	226,141,953	1,796,174,589
4.	1,721,642,577	0.07	120,514,980	1,842,157,557	216,758,224	1,625,399,333
5.	1,695,764,857	0.07	118,703,540	1,814,468,397	226,141,953	1,588,326,444
6.	1,588,326,444	0.07	111,182,851	1,699,509,296	226,141,953	1,473,367,343
7.	1,473,367,343	0.07	103,135,714	1,576,503,057	226,141,953	1,350,361,104
8.	1,350,361,104	0.07	94,525,277	1,444,886,382	226,141,953	1,218,744,429
9.	1,218,744,429	0.07	85,312,110	1,304,056,539	226,141,953	1,077,914,586
10.	1,077,914,586	0.07	75,454,021	1,153,368,607	226,141,953	927,226,654
11.	927,226,654	0.07	64,905,866	992,132,520	226,141,953	765,990,568
12.	765,990,568	0.07	53,619,340	819,609,907	226,141,953	593,467,955
13.	593,467,955	0.07	41,542,757	635,010,711	226,141,953	408,868,759
14.	408,868,759	0.07	28,620,813	437,489,572	226,141,953	211,347,619
15.	211,347,619	0.07	14,794,333	226,141,953	226,141,953	0

59. **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.

60. **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.

61. **Operational Risk:** This 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. 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.

62. **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.

63. **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.

64. **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.

65. **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.

66. **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 transactors 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.

67. **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.

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

69. **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

70. The 2022 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.

71. 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.

72. 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.

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

74. 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 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 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 AttorneyGeneral;

(f) The Cabinet Secretary may, upon taking into account the recommendations of the Intergovernmental Budget and Economic Council and the AttorneyGeneral, 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 threeyear 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.

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 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.