COUNTY GOVERNMENT OF KITUI

MINISTRY OF FINANCE, ECONOMIC PLANNING AND REVENUE MANAGEMENT

# KITUI COUNTY DEBT MANAGEMENT STRATEGY

FEBRUARY 2024

## *FOREWORD*

County Governments are required by law to prepare a strategy to manage their debt – this fact is recognized by the Public Finance Management Act (2012) section 123 and its regulations sections 176 to 195 which requires submission of a Debt Management Strategy over the anticipated borrowing to be undertaken over the medium term, including the purposes for which the money will be borrowed to the County Assembly on or before 28th February of each year. The strategy underscores the public debt management objectives over the medium term which aims at reducing the cost and risk linked to public debt and is anchored in the FY 2024/25 County Fiscal Strategy Paper.

The FY 2024/25 Kitui County Debt Management Strategy (CDMS) guides the formulation of development assistance and debt management programmes through evaluating the costs and risks of various debt management strategies and provides recommendations on optimal strategy for the implementation as this will have an impact on future borrowings.

The FY 2024/25 CDMS outlines priorities that will assist in the financial risk reduction and allows the County Government to seek long term funding either locally or internationally in order to accelerate development programmes as guided by Article 212 of the Constitution as well as the various provisions of the Public Finance Management Act, 2012.

The main debt strategy is to limit borrowing to concessional terms and at prudent levels. To develop the debt strategy, Ministry of Finance, Economic Planning and Revenue Management has examined available alternatives and decided on the best plan for action to achieve the objectives. Before any borrowing is made, prudent levels of borrowing, within the thresholds approved by the Inter-Governmental Budget and Economic Council (IBEC) and the County Assembly will be calculated each year as part of the budget process, to establish the borrowing plan. This will be submitted to the Cabinet Secretary in charge of the National Treasury for guarantee purposes. Borrowing shall be from an allowable source and with acceptable terms and conditions.

There is need for continuous enhancement of the county revenue base towards mitigation of any unforeseen budgetary shortfalls. The county is committed to engage among others, the private sector and development partners to complement in the delivery of programmes through the much prioritized economic stimulus, leasing program and infrastructure bonds as debt instruments. Expenditures will be committed to priority activities as highlighted in the budget while maintaining the fiscal principles provided for in the FY 2024/25 County Fiscal Strategy Paper.

Assessment of borrowing proposals will be part of the budget process in order to make sure that projects can be compared and only the best projects are funded. Special thanks goes to H.E. the Governor and the entire County Executive Committee for their support and undivided commitment to sound economic and financial management policies that have led to the production of this County Debt Management Strategy.

**Peter Mwikya Kilonzo**
**County Executive Committee Member**
**Ministry of Finance, Economic Planning and Revenue Management**

## *ACKNOWLEDGEMENT*

The 2024 County Debt Management Strategy was prepared in accordance with Section 123 of the Public Finance Management Act of 2012. The FY 2024/2025 Debt Management Strategy aims at ensuring that the county government's financing needs and its payments obligation are met at a lower cost over the short, medium and long term. With improved forecast of the national economy, Kitui County expects to continue enjoying the favorable environment through macro-economic framework underpinning the County Debt Management Strategy paper that is consistent with the projections that are included in the FY 2024/25 County Fiscal and Strategy Paper.

The preparation of the Debt Management Strategy for 2024 was a collaborative effort of various Government Departments, Government partners, members of the public, and other stakeholders. We are grateful for their contributions. We thank all spending units, Ministries, Government Departments, and Agencies for providing information on time.

Finally, I express my gratitude to the leadership of H.E. the Governor, H.E the Deputy Governor, the entire County Executive Committee members, and all Chief Officers and accounting officers for respective County Spending entities for their support and input. Special appreciation goes to the Director – Economic Planning and Budgeting Mr. Paul Kimwele and Economist, Mr. Gabriel David who helped put this document together. The two put tireless quality time in production of this document.

**Patrick Masila Munuve**

**Chief Officer**

**Economic Planning and Budgeting**

## *ACRONYMS*

| | |
|---|---|
| AG | Attorney General |
| AIA | Appropriations in Aid |
| BPS | Budget Policy Statement |
| CBK | Central Bank of Kenya |
| CEC | County Executive Committee Member |
| CG | County Government |
| CDMS | County Debt Management Strategy |
| COK | Constitution of Kenya 2010 |
| CS | Cabinet Secretary |
| DMAC | Debt Management Advisory Committee |
| DMU | Debt Management Unit |
| DMO | Debt Management Office |
| GDP | Gross Domestic Product |
| IBEC | Intergovernmental Budget and Economic Council |
| IMF | International Monetary Fund |
| KERP | Kenya External Resources Policy |
| MAF | Mutual Accountability Framework |
| MCA | Member of County Assembly |
| MDG | Millennium Development Goals |
| MTEF | Medium Term Expenditure Framework |
| MTP | Medium Term Plans |
| MTDMS | Medium Term Debt Management Strategy |
| NGO | Non-Governmental Organization |
| NPV | Net Present Value |
| PBA | Programme Based Approaches |
| PFM | Public Financial Management |
| PFMA | Public Financial Management Act 2012 |
| SPIU | Single Project Implementation Units |
| SWAP | Sector Wide Approach Programmes |
| TA | Technical Assistance |
| TC | Technical Cooperation |

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# *EXECUTIVE SUMMARY*

One of the most common problems in public financial management (PFM) is the accumulation of government debts. County governments are required by law to prepare a strategy to manage their debt as guided by the Public Finance Management Act (2012) section 123 which requires the County Treasury to submit a Debt Management Strategy over the medium term to the County Assembly on or before 28th February each year.

The FY 2024/2025 Debt Management Strategy main objective is to ensure that the county government's financing needs and its payments obligation are met at a lower cost over the short, medium and long term. With improved forecast of the national economy, Kitui County expects to continue enjoying the favorable environment through macro-economic framework underpinning the County Debt Management Strategy paper that is consistent with the projections that are included in the FY 2024/25 County Fiscal and Strategy Paper.

The other objective is to ensure that debt levels are sustainable and affordable and borrowed funds must be used to improve the wellbeing of Kitui County residents.

This framework lays out the Kitui County plans for debt management for the medium term clearly describing and explaining the different approaches that the county will use to achieve its development objectives. The county government will prioritize servicing of debt as a primary concern on debt management. The main risk would be inability to make repayments as large volume and high cost of debt have a negative impact on debt sustainability and affordability. Certain measures proposed will be introduced as a means of strengthening debt management and also establish a borrowing framework by ensuring that the county meets the legal, fiscal, institutional and operational measures therefore increasing transparency and accountability

# CHAPTER ONE: PUBLIC DEBT MANAGEMENT

## 1.0 Introduction

The Public Finance Management Act, 2012 Section 123 requires the County Government to table in the County Assembly the Debt Management Strategy Paper (DMSP) by the 28th day of February. The strategy depicts the anticipated borrowing to be undertaken over the medium-term as spelled in the County Fiscal Strategy Paper (CFSP) FY 2024/2025. Its aim is to ensure that the servicing and management of the county governments' financing requirements and payment obligations are met on a timely basis, at the lowest possible cost and consistent with a prudent degree of risk.

This task of developing a medium-term county debt management strategy requires a thoughtful balance between the many considerations that flow from the debt management objectives, to principles and the law. Factors that must be taken into account include the provisions of the law, projected debt costs, the projected annual variability of debt costs and their potential impact on the budget (budgetary risk). The fundamental objective of debt management in Kitui County Government will be to raise stable and low-cost funding to meet the financial needs of the Kitui County Government.
The objectives of public debt management strategy are to ensure that the county governments' financing needs and payment obligations are met at the lowest possible cost, with a prudent degree of risk, while ensuring the equitable sharing of benefits and burdens of public debt between the current and future generation.

Achieving stable low-cost funding shall involve striking a balance between the cost and the risk associated with the debt structure. Over the medium term, debt management decisions will be taken with a view to keeping debt costs low and maintaining refinancing risks at prudent levels, while reserving sufficient flexibility to adapt to changing circumstances.

After the statement has been submitted to the County Assembly, the County Executive Committee member for Finance is required to publish and publicize the statement and also submit a copy to the Commission of Revenue Allocation and the Inter - Governmental Budget and Economic Council.

Developing sound debt management strategies has been identified as an important factor in avoiding debt and financial crises, and the hardship that such crises bring to citizens.

## 1.1 Description of the County Debt Management Strategy

Public debt management is the process of establishing and executing a strategy for managing the government's debt in order to raise the required amount of funding and to meet any other objectives set by the government. The County Debt Management Strategy is a framework that will guide the County Government to ensure that debt levels stay affordable and sustainable.
A sustainable level of a county government's debt and obligations is required to be maintained as set in the medium term debt strategy approved by the county assembly.

## 1.2 Purpose of the Debt Management Strategy

The Debt Management Strategy sets out the Kitui County Government's objectives, strategy and plans for the management of its debt, other financial liabilities and related assets. Borrowing activities support the execution of the budget plan and other financial operations of the County Government. This includes investing in financial assets needed to establish a prudent liquidity position and borrowing on behalf of Kitui County Government. The Constitution of Kenya 2010 and the Public Finance Management Act, 2012, requires that County Government table in County Assembly, a report on the anticipated borrowing to be undertaken in the year ahead, including the purposes for which the money will be borrowed.

This county debt management strategy paper sets out the framework. The strategy is anchored in Chapter 12 of the Constitution of Kenya 2010 and in particular:

a) Articles 201 on principles of public finance,
b) Article 212 on borrowing by county governments,
c) Article 213 on loans guarantee by the National Government; and
d) Article 214 that specifies what constitutes a public debt.

The strategy is informed and consistent with the provisions of the Public Finance Management Act (PFMA), 2012. In particular, it is guided by provisions of sections 140 to 143 of the PFMA, 2012.

## 1.3Principles that guide the borrowing by Kitui County Government.

This strategy shall be guided by the following principles;

Need to ensure stability of domestic financial markets in liaison with the National Government;

Promotion of inter-generational equity in the sharing of burdens and benefits of public borrowing;

Objective determination of thresholds of borrowing rights for both levels of government which will determine the borrowing space for Kitui County;

Prudence and equity in setting limits for debt stock levels for Kitui County Government; and;

Use of objective criteria for evaluating Kitui County Government's eligibility for national government debt guarantee.

## 1.4Borrowing Purposes

The Kitui county government shall borrow pursuant to the requirements of sections 140 and 142 of the PFMA, 2012 for the purpose of:-

Financing county government budget deficits;

Cash management;

Refinancing outstanding debt or repaying a loan prior to its date of repayment;

Mitigation against adverse effects caused by an urgent and unforeseen event in cases where the Emergency Fund has been depleted;

Meeting any other development policy objectives that the Kitui County Executive Committee Member for Ministry of Finance, Economic Planning and Revenue Management shall deem necessary, consistent with the law, and as Kitui County Assembly may approve.

## 1.5Scope of the Strategy

The 2023 County Debt Management Strategy aims at providing a general policy direction that will facilitate county's access to financial markets as well as supporting future development of a well-functioning vibrant debt policy and debt management operations over the 2023/24 FY.

The County Debt Management Strategy is developed on the fiscal deficits and financial assumptions spelled in the CFSP. The key elements of the County Debt Management Strategy are incorporated into the CFSP and updated every year as part of the budget process. The Public Finance Management Act, 2012, section 58 stipulates that the County Government borrowing is only for development (capital) expenditure.

## 1.6Cash Management

The Central Bank of Kenya, as fiscal agent for the Government, manages the Kitui County Revenue Fund, from which the balances required for the Kitui County Government's day-to-day operations are drawn. The core objective of cash management is to ensure that the County Government has sufficient cash available at all times to meet its operating requirements. Cash consist of moneys on deposit with the Central Bank of Kenya, Commercial Banks and in transit. Cash with the Central Bank of Kenya includes operational balances held for the prudential liquidity plan. (Section 142 of the PFMA and 177 (2) (b) of the regulations).

# CHAPTER TWO: LEGAL FRAMEWORK

## 2.0 LEGAL FRAME WORK

## 2.1 Compliance to Legal and Fiscal Responsibility Guidelines

County borrowing must comply with legislative requirements in Sections 58 and 142 of the Public Finance and Management Act, 2012 and Article 212 of the Constitution of Kenya 2010. In addition, new borrowing should be in line with the fiscal responsibility principles and financial objectives in the CFSP and the County Debt Management Strategy over the medium term. New borrowing must be authorized by the County Assembly and approved by the National Treasury. The borrowing must be:

a) For a Fit Purpose;
b) From an Acceptable Source; and
c) With Favourable Terms and Conditions.

Concepts such as inter-generational equity are also important. Future citizens should not pay the bills for living citizens.

**a) New Borrowing is for a Fit Purpose**

In order to ensure that new borrowing is for a fit purpose, the following basic requirements are to be observed:

i. Borrowing must be for the following types of projects:

- Investing in the productive capacity of the County Government;
- Funding of highly prioritized core infrastructure and development initiatives;
- Specific purposes (projects) identified as high priorities in Kitui County Integrated Development Plan (CIDP 2023-2027)

ii. Borrowing must not be used for:

- Funding shortfalls in the County Government's recurrent expenditure
- Funding losses of County Government entities

**b) New Borrowing is from Acceptable Source.**

For the duration of this County Debt Management Strategy, borrowing should be from concessional sources of finance from multilateral or bilateral donors. Such financing generally comes with greater scrutiny and oversight, making sure that funding is used for the purposes it was provided and decreasing reputational risk. Concessional lending is available through multilateral agencies like the African Development Bank (ADB), World Bank and bilateral donors. Loan amounts will depend on the specific projects to be funded and donors' funding allocations for the county. The denomination of the loan currency will also influence the acceptability of the source. Acceptability of source will also depend on the individual characteristics of the loan, limitations and conditions on the loan.

Lending from bilateral partners is linked to specific projects and terms and conditions depend on the project. There is usually limited flexibility on the choice of terms. There may be hidden costs, such as various transaction charges and conditions attached to the loan including disbursement penalties, tied procurement (requiring recipients to use or procure goods and services exported by the creditor county). Loan disbursement may also be highly dependent on the progress of the project.

A third potential source of funding is through domestic securities. Section 144 of the PFMA, 2012 envisages that the CECM for Finance may issue securities on behalf of the County Government for money borrowed by the County Government.

Borrowing from private sources such as commercial banks is highly discouraged for the following reasons:

- Cost elements - interest rates are high;
- Interest rate risk - with variable interest rates, costs can increase;
- Rollover risk - loans tend to be short-term;
- Collateral-Requires assets to be offered as collateral;
- Disclosures- Inadequate transparency and disclosure.

**c) New Borrowing Terms and Conditions are Acceptable**

The terms and conditions associated with any debt proposals must be examined carefully. The following factors require to be examined:

- Grant/Concessional element: Preference should be given to debt with a large grant component while the project still needs to be for a fit purpose.
- Debt sustainability and affordability: The volume and cost of debt must not have a negative impact on debt sustainability and affordability. Hidden costs, such as fees (transaction, commitment, agency or underwriting), requirements for the County Government to fund maintenance or project management expenses beyond the current year must be included in the analysis.
- Currency and exchange rate risk: Despite offering very low interest rates, concessional loans still carry foreign exchange risk. Preference should be given to debt denominated in Special Drawing Rights (SDR) as determined by the IMF.
- Interest rate: Debt with a lower interest rate will have a lower cost. Fixed interest rates have a lower risk than variable interest rates where the future cost of debt is not known.
- Tenure: Concessional loans have a standard long time to maturity (32 or 40 years). However, the term of the loan should be more closely aligned to the cash flows of the project. The advantages of very long-term loans (such as the impact of inflation on the value of the loan) and very low repayment amounts can be outweighed by accumulating large amounts of debt over many generations. Very long-term loans may encourage fiscal irresponsibility, because if the project fails, it is future generations that must bear the cost. By using up the borrowing envelope now, it might restrict the ability of future generations to borrow, and they will be servicing debt for projects that were completed before they were born and for which they receive no tangible benefits.
- Grace period: Debt sustainability analysis must extend beyond grace periods. The standard long grace periods of eight or ten years offered by multilaterals such as the WB and ADB may not be appropriate. The length of the grace period should be assessed in terms of factors such as the revenue stream from the project, its duration, inter-generational equity and the time value of money.

- Repayment risk: The County Government must be able to afford the debt repayments over the life of the loan and repayments must be timed for months with lower repayment volumes or where the County Government has peaks in cash collection such as January-June.
- Conditions: Preference should be given to debt with positive characteristics such as project administration or management and advisory services. Negative characteristics such as tied procurement, the requirement to use particular companies or nationalities for project implementation, future expense commitments (such as auditing expenses or maintaining equipment) need to be factored into assessments of the cost of debt.
- Concentration risk: If the volume of the loan is large, it may contribute to concentration risk where the institution or bilateral partner could use this as a means of exerting undue political influence or bargaining for favors (for example tax concessions, access to resources). The behavior of the lender needs to be assessed.
- Legal risk: Borrowing proposals must be examined for potential legal risks. They must not contravene any national or county legislation. In addition, the County Government must be certain that it is able to comply with all legal requirements such as conditions attached to the loan and including ability to repay. All loan contracts must first be cleared with the Legal Office before signing.

## 2.2 Developing the Domestic Debt Market

The domestic government securities market is made up of tradable debt instruments with a time to maturity up to one year (Treasury Bills, which are discount instruments) and Treasury Bonds which have a time to maturity of more than one year. Currently, the primary market is limited to Treasury Bills with a time to maturity of up to 91 days. The current market is limited in that counties have no securities of their own because of legal restrictions.

There is a provision for overdraft facilities repayable within one year from financial institutions guided by a thorough debt sustainability analysis. This is restricted to five percent of most recent audited accounts of the County Government. Any borrowing by Kitui County government shall require a National Government guarantee pursuant to section 58 of the PFMA, 2012.

Upon recommendation by the Cabinet Secretary to the National Treasury, Parliament may approve a draft loan guarantee document as provided under section 58 (2) of the PFMA,2012 only if it is satisfied that:

a) The guarantee is in the public interest;
b) The borrowers financial position is strong enough to enable the borrower to repay the loan proposed to be guaranteed and to pay interest and other charges based on projected revenue streams;
c) Concessionally of the proposed loan is fully evaluated by the National and County Governments is determined to be at the acceptable level of above 35% grant element as per the borrowing strategy;
d) The loan investments are geared towards stimulating economic growth in a County government; and
e) All legal issues relating to financial agreements, tripartite signing, and subsidiary agreements are fully addressed.

## 1.3Use of Proceeds of Borrowing

All sums borrowed by the County Government of Kitui under the PFMA, 2012 shall be expended only on the activities included in the estimates of development expenditure of the County Government entities approved in accordance with Sections 131,134 and 135 of the PFMA, 2012, except where the borrowing is for purposes of cash management as provided for under Section 107(3) of PFMA, 2012.

# CHAPTER THREE: DEBT MANAGEMENT STRATEGY

## 3.0DEBT MANAGEMENT STRATEGY

### 3.1Debt Management Strategy Components

There are five components to the Kitui County Debt Management Strategy.

a) Maintaining debt at sustainable and affordable levels by ensuring that the debt is properly structured in terms of maturity, and debt associated costs.
b) Ensuring that any new borrowing follows generally acceptable fiscal responsibility guidelines; is from allowable sources; and under acceptable terms and conditions.
c) Developing the domestic debt market.
d) Introducing and consolidating fiscal, legal, institutional and operational measures that ensure that the above three objectives are met.
e) Setting up a debt management unit at Kitui Ministry of Finance, Economic Planning and Revenue Management for effective management of the debt.

### 3.2Kitui County Debt Management Unit

The functions and responsibilities of the Kitui County Debt Management Unit will be incorporated into legislation through the Financial Instructions and will include to:

a) Make debt payments on time and for the correct amount;
b) Keep timely, comprehensive and accurate records of outstanding government debt, guarantees, contingent liabilities and new borrowing in a single debt database;
c) Publish, in a timely manner, monthly (and quarterly) reports showing the status of outstanding debt, debt payments, and projected debt payment obligations;
d) Prepare, review and update the Debt Strategy;
e) If required, prepare an annual borrowing plan;
f) Prepare and publish auction calendars for issuance of domestic securities (Treasury Bills and Treasury Bonds), if any;

g) The Debt Management unit shall assess the volume and risk characteristics of debt before submission to County Assembly to ensure that:

- Debt is sustainable and affordable;
- Debt is below the thresholds established in the Debt Strategy and annual Borrowing Plan;
- Debt is from an acceptable source;
- Debt is within legislative guidelines and other legal obligations
- Debt is for a good purpose and the project is a high priority in the County Integrated Development Plan and in the Annual Development Plan;
- Debt is not for funding recurrent expenditure;
- The project has a positive Net Present Value (NPV) or helps achieve development goals and the implication for recurrent expenditure is clearly quantified;
- The cost of any contingent liabilities and obligations such as tied procurement are factored into the cost and risk of debt;
- Cash flows from project can be identified that will be able to be used for repaying the loan;
- Loan terms and conditions are acceptable and achieve the best cost and risk outcome;
- Borrowing aligns with the Medium Term Fiscal Strategy.

Kitui County has had no previous formal debt management strategy governing its operations. There is therefore a need to set up a debt management unit and equip it with the necessary skills and capacity to manage the envisaged debt portfolio of the Kitui County Government. The previous debt portfolio which the county government is taking over is largely made up of pending bills which have no formal terms of payment other than invoice conditions. These liabilities are mainly from contractors. There are no external obligations in form of either loans or securities and therefore all the liabilities are domestic.

## 3.3Cost and Risk Characteristics of Existing Debt Portfolio

A large portfolio of the County liabilities are pending bills. These liabilities were incurred mainly from individuals and businesses who supplied goods and services to the County Government. These liabilities have been consolidated to form the county debt obligation, mainly domestic. These liabilities are yet to be settled and may result into civil litigations against the county. The costs of the litigations shall increase the county's liability should the cases be lost. In addition, the county also runs the risk of accumulating more debt liabilities arising from delayed payments of existing liabilities due to interest charges levied.

The county initiated projects whose payments have over-time been rolled over to consecutive financial years. Departments procure late in the year and thus leading to rollovers and growth in pending bills. This mainly due to fluctuating revenues that affect the cash flow projected that leads to a large number of unpaid merchants at the end year. Volatile economy, global pandemic and government policies have adversely affected the revenue collection. The county government has continually adopted various strategies to reduce and curb these debts namely;

a) Verification of outstanding claims to boost validity and hence reduce fraudulent claims through audit firms and internal audit directorate;
b) Increase budgetary allocation on the pending bills vote and decentralize the same to sectors
c) Robust assumptions and forecasts in the fiscal framework as a means of enhancing credibility and realism of the annual budget. The county should have realistic revenue targets/projections that should be in tandem with the expenditure in order to avoid procurement of goods and services beyond the county's ability to finance its payments.
d) Timely remittance of statutory deductions and other obligations to avert any interest and penalties on late remittance or non-remittance.
e) Adhering to annual procurement plans and budgetary provisions to guide the county expenditures.

## 3.4Setting Debt Limit in the County Medium Term Debt Management Strategy

Pursuant to Section 141(2) of the PFMA, 2012, the debt limit for the county government at any given time shall not exceed the nominal value of the total county public debt that is determined in accordance with fiscal responsibility principles. The debt limit shall be specified annually in the County Fiscal Strategy Paper and the Medium Term Debt Management Strategy. For the purposes of monitoring compliance with the debt limits, the amount of county government debts which are not denominated in shillings shall be recalculated at the prevailing exchange rate of the Central Bank of Kenya.

The County Government Medium Term Debt Management Strategy shall set out the framework for the management of the county public debt and shall be reviewed annually and will be prepared and executed by Ministry of Finance, Economic Planning and Revenue Management. The strategy shall be formulated annually on a three- year rolling basis and approved by the County Executive Committee.

The county public debt threshold shall not exceed twenty (20%) percent of the county governments' most recently audited revenues as approved by county assembly or (2%) percent of the national GDP, whichever is lower. These thresholds may be reviewed when the Public Finance Management Regulations are reviewed to ensure conformity. The annual debt service cost of a county government shall not exceed fifteen (15%) percent of the most recent audited revenue of the county government.

The county Medium Term Debt Management Strategy shall be prepared taking into account the borrowing needs of the county governments and the following;

a) Fiscal responsibility principles as set out in Section 107 of the PFMA, 2012 and the PFM regulations;
b) Prevailing macro-economic conditions;
c) Prevailing conditions of the markets; and
d) Any other relevant factors.

The county Medium Term Debt Management Strategy shall include measures for minimizing borrowing costs with a prudent degree of risks.

### 3.5Annual County Government Borrowing Programme

The County Medium Term Debt Management Strategy shall be implemented through the annual county government-borrowing programme for each fiscal year. 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.

# CHAPTER FOUR: DOMESTIC BORROWING BY THE COUNTY

## 4.0DOMESTIC BORROWING BY THE COUNTY

### 4.1Criteria for issuance of government securities on behalf of the county Government

The capital project expenditures of the county government for which issuance of domestic government security is requested shall meet the following requirements:

a) Not be possible to be financed on reasonable terms and conditions without the county government loan.
b) Be accompanied by a projects cash flow clearly setting out a borrowing and repayment plan
c) Shall have been approved by the county government entity
d) The project shall be on devolved function in line with the Fourth Schedule of the Constitution.

The issuance of Government securities on behalf of Kitui County Government to raise debt capital shall be by way of auction or such other method as County Executive Committee Member for Ministry of Finance, Economic Planning and Revenue Management may determine with the concurrence of the Cabinet Secretary to the National Treasury.

The auction of domestic 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.

For the above to be achieved, the government securities issued on behalf of Kitui County government will be incorporated in the overall borrowing calendar for the National Government and during the auction of such security, the Kitui County Executive Committee Member for Ministry of Finance, Economic Planning and Revenue Management or his or her representative will be present.

## 4.2Role of Central Bank in Issuing Bonds on behalf of the County Government

Section 44(2) of the CBK Act authorizes the CBK to perform the functions of fiscal agent and banker for public entities in accordance with, and within the scope determined by, any special arrangements made between the CBK and the public entity concerned.

Section 45 of the CBK Act further provides that the CBK in its capacity as fiscal agent and banker to any public entity may, subject to the instructions of that public entity:-

a) Be the official depository of the public entity concerned and accept deposits and effect payments for the account of that public entity, provided that the Bank may, after consultation with the cabinet secretary, select any specified bank to act in its name and for its account as the official depository of that public entity in places where the Bank has no office or branch;
b) Maintain and operate special official accounts in accordance with arrangements made between the Bank and the public entity concerned;
a) As an agent of the Government, administer the public debt including the issuance of, payment of a return on, and redemption of, bonds and other securities of the Government;
b) Pay, remit, collect or accept for deposit or custody funds in Kenya or abroad;
c) Purchase, sell, transfer or accept for custody cheques, bills of exchange and securities;
d) Collect the proceeds, whether principle or interest or return, resulting from the sale for, or accruing to the interest or return of, a public entity of securities or other property; and
e) Purchase, sell, transfer or accept for custody gold or foreign exchange.

## 4.3Process of Issuance of County Treasury Bonds on behalf of Kitui County Government

In issuing Treasury Bonds on behalf of Kitui county government, the following procedures shall apply:

a) Before seeking the National Government guarantee, the County Executive Committee member for Ministry of Finance, Economic Planning and Revenue Management 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) The cash plan prepared above shall indicate:
    i) Financing amounts from the issuance of the County Treasury Bond;

ii) The timing of the bond issuance;

iii) Redemption and interest payment of previously issued Bonds plus the interest payment of the intended Treasury Bond;

iv) The county government's cash plan to be integrated into the national government borrowing program to prepare the market for issuance;

c) Upon approval by the County Executive Committee member for Ministry of Finance, Economic Planning and Revenue Management shall submit the cash plan referred to above to the County Assembly for approval of the borrowing;

d) Upon approval by the County Assembly, the County |Executive Committee member for Ministry of Finance, Economic Planning and Revenue Management 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;

e) 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 fulfilment of the requirements of section 58(2)(i) of the PFMA, 2012;

f) The County Executive Committee member for Ministry of Finance, Economic Planning and Revenue Management shall inform the County Executive Committee and the County Assembly once the Cabinet Secretary has approved the debt guarantee.

# *CHAPTER FIVE: EXTERNAL BORROWING BY THE COUNTY*

# 5.0EXTERNAL BORROWING BY KITUI COUNTY GOVERNMENT

## 5.1 Process for approving loan guarantee to County Governments

Pursuant to the provisions of Section 58(2) (a) of the PFMA, 2012, county governments, shall meet the following requirements;

a) Before seeking the National Government guarantee, the County Executive Committee member for Ministry of Finance, Economic Planning and Revenue Management shall submit the borrowing proposal to the County Executive Committee for approval of the borrowing including its terms and conditions; and

b) After approval by the Kitui County Executive Committee, the County Executive Committee member for Ministry of Finance, Economic Planning and Revenue Management 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 Kitui County Assembly, the County Executive Committee member for Ministry of Finance, Economic Planning and Revenue Management shall submit the final draft loan financing agreement and the approval of the Kitui County Assembly to the Cabinet Secretary requesting for the guarantee of the final loan agreement;

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 (IBEC) in fulfilment of the requirements of Section 58(2) (i) of the PFMA, 2012.

e) The Cabinet Secretary to the National Treasury after receiving recommendations of IBEC shall then seek the recommendations of the Attorney General

f) The Cabinet Secretary to the National Treasury upon taking into account the recommendations of the Intergovernmental Budget and Economic Council and the Attorney General may 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 Ministry of Finance, Economic Planning and Revenue Management.
h) Upon approval of a loan guarantee request, the Cabinet Secretary to the National Treasury shall submit a sessional paper to Parliament with recommendations seeking its approval.
i) The Cabinet Secretary to the National Treasury shall communicate the decision of Parliament on the draft loan guarantee to Kitui County Executive Committee Member of Ministry of Finance, Economic Planning and Revenue Management;
j) Upon approval by Parliament the Cabinet Secretary to the National Treasury shall issue a loan guarantee.

## 5.2 Evaluation criteria for guarantee requests by County Government

Pursuant to the provisions of Section58 of the Act, the capital project expenditures of Kitui County Government 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) Kitui County Government shall contribute at least fifteen (15) percent of the project cost from their own resources to show the importance and priority of the project;
d) It is a feasible project that has been approved by Kitui County Government as required by legislation;
e) 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;
f) Kitui County Government when applying for a national government guarantee shall meet all the fiscal responsibility principles set out in the PFMA,2012 and the regulations;
g) The borrowing will be for financing a devolved function capital project in line with schedule four of the Constitution of Kenya;
h) The National Treasury has confirmed that the County is of good credibility and standing with the Government of Kenya;

i) The borrowing shall not result in the county public debt in excess of twenty (20%) per cent of the county governments total revenue at any time; and
j) Any other guidelines as Cabinet Secretary to the National Treasury may prescribe in a government gazette.

### 5.3 Formalization of agreements for external loans

Negotiation with foreign governments and agencies for external loans shall culminate into and shall be formalized into one of the following recognized instruments:-

i. Loan agreements;
ii. Exchange of letters that constitute an agreement; and
iii. National government guarantee.

### 5.4 Credit Purchases

Where development partners have opted to give loans through credit purchase/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 Ministry of Finance, Economic Planning and Revenue Management for utilization of the credit purchase facility in the prescribed manner as it is-out in the loan instrument;
c) After supplying goods or services, the development partner shall notify Ministry of Finance, Economic Planning and Revenue Management of the amount disbursed against the loan;
d) Ministry of Finance, Economic Planning and Revenue Management shall record the amounts disbursed as a drawing against each loan facility;
e) Ministry of Finance, Economic Planning and Revenue Management 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/himself of receipt of goods and services, record the transactions in the stores ledger card and the accounting officer shall notify Ministry of Finance, Economic Planning and Revenue Management of the receipt of goods and services; and

g) Upon receipts of the notification under paragraph (f) above, Ministry of Finance, Economic Planning and Revenue Management shall notify the Cabinet Secretary/ National Treasury of the receipt of goods and services.

### 5.5 Modes of payment (disbursement) of loan funds

The procedure to be followed in the disbursement of loan funds shall be defined in the respective agreement and will generally assume one or more of the following methods:-

a) Revenue mode which is through pre-financing where funds are advanced upfront through the Donor Special Accounts held with the Central Bank of Kenya;
b) Reimbursement mode where the county government pays for goods and services supplied and later on claim reimbursement from the financier;
c) Direct disbursement system/method or Aid in Appropriation (A-I-A)-(Direct payments to supplier and contractors). This is where a contract is advertised and awarded. The County Government will be required to prepare the accounting documents, forward them to the Donor through the National Treasury for direct payment to the contractor's bank account. This is because the amount involved would be huge. This method will only be accepted under exceptional circumstances as it will need approvals from the Cabinet Secretary to the National Treasury due to the various challenges encountered.

### 5.6 Redemption, conversion, and consolidation of loans

The County Executive Committee Member for Ministry of Finance, Economic Planning and Revenue Management may, on such terms and conditions as he/she may determine, and, when necessary, with the concurrence of the lender and the Cabinet Secretary to the National Treasury-

a) Repay any loan prior to the redemption date of that loan;
b) Convert the loan into any other loan; or
c) Consolidate two or more loans into an existing or new loan.

## 5.7 Default of payment of loan Guaranteed

In case of default of payment of a guaranteed loan by a county government, the provisions of section 61 and 94 of the PFMA, 2012 shall apply. Section 61of the PFMA, 2012 state:

*"(1) Money paid by the Cabinet Secretary on a guarantee, including any expenses incurred by the Cabinet Secretary in respect of the guarantee, shall—*

*(a) Be a debt due to the national government from the borrower whose loan was guaranteed; and*

*(b) Be recoverable from the borrower as a debt due to the national government by*

*(i) Proceedings brought in a court of competent jurisdiction; or*

*(ii) Withholding a transfer of money in terms of Article 225 of the Constitution, if the borrower receives appropriations.*

*(2) Where Cabinet considers that the debt is more likely to be recovered if the borrower is allowed to pay the debt over a period of time, the Cabinet Secretary may enter into an agreement with the borrower to pay the debt over that period and at such intervals, and subject to such terms and conditions, as may be specified in the agreement.*

*(3) The Cabinet Secretary shall not impose terms and conditions in an agreement under subsection (2) which are inconsistent with the terms and conditions specified in the guarantee document.*

*(4) Where the Cabinet Secretary enters into an agreement under subsection (2), no proceedings under subsection (1) (b) shall be taken unless the borrower defaults under the agreement.*

*(5) The Cabinet Secretary shall ensure that any money received or recovered from a borrower in respect of money paid under a guarantee entered into under this section is paid"*

## 5.8 Grant Administration

In line with the requirements of Article 48 of the PFMA, 2012, Kitui Ministry of Finance, Economic Planning and Revenue Management and Development Partners shall ensure that:

a) Projects implemented through grants are aligned to the Vision 2030, Medium Term Plans, sector plans and county Integrated Development Plans;

b) Poverty indices are used to determine the allocation and disbursement of grants taking into account that the most preferred mode of donor support is General Budget Support/revenue mode;
c) Revenue mode of disbursement is encouraged as the preferred mode of financing projects. Any other mode of disbursement will only apply on condition that Development Partners undertake to submit expenditure returns in a prescribed format acceptable to the recipient;
d) Grants are factored in the respective budgets and appropriated accordingly, including corresponding counter-part funds;
e) All grants are appropriated by County Assemblies for submission to the Cabinet Secretary to the National Treasury before commencement of disbursements in accordance with section 138(4) of the PFMA,2012;
f) All grant financing agreements are signed by the Kitui Ministry of Finance, Economic Planning and Revenue Management and Development Partner(s) while grant project documents are signed by the Development Partner, implementing agency and countersigned by the Kitui Ministry of Finance, Economic Planning and Revenue Management;
g) All grant financing agreements shall be cleared by the Office of the Attorney General;
h) Funds disbursed to third parties shall be factored in the relevant budget and their utilization reported by Development Partners;
i) Where authorization has been granted for the project to start, the accounting officer shall ensure public disclosure to intended beneficiaries immediately;
j) After disbursement of grants, the grant recipients shall report within forty five days after the end of each quarter to the intended beneficiaries and accounting officer on the expenditures and performance achieved in relation to the grant; and
k) All projects shall have a mandatory risk management framework to monitor non-compliance with the regulations and grant agreement, including public forums to review progress.

## 5.9 Operational Guidelines on Loans and Grants

**Budgeting of Development Partners Commitments (Loans and Grants)**

a) Budget estimates and Development Partners' commitments will be submitted to the Kitui Ministry of Finance, Economic Planning and Revenue Management in a timely manner and budget proposals by sectors in the counties and shall be accompanied by standardized work plans.

b) Loans and grants shall be factored in county budgets and appropriated accordingly including counter-part funds. Development Partners will be required to provide three year indicative forward budget for the projects they are supporting as this will be useful in strategic planning, timely and effective delivery of results, as well as adjustments to emerging priorities, including short term shocks and stresses.

c) County counterpart funding shall be captured in county budgets and forwarded to the County Assemblies for appropriation and approval.

d) Budget proposals shall indicate clearly the mode of funding (Loan Revenue, Grant Revenue, Loan Appropriation-in-Aid, or/and Grant Appropriation-in-Aid) and the title of the project to be supported. The revenue mode is preferred to the Appropriation-in-Aid mode. In the revenue mode of disbursement, the funds will be deposited to the Kitui County Revenue Fund as requested by the recipient while in A-in-A the Development Partner will hold funds on behalf of the recipient and disburse as requested by the recipient and report expenditure to the recipient within forty five days after disbursement attaching supporting documents or as spelt out in the financing agreement.

## 5.10 Financial Processes' Guidelines

a) Budget proposals' and expenditure returns' entries shall be captured in the prescribed Financial Management Information Systems in a timely manner in line with Section 12(1)(e) of the PFMA, 2012.

b) All externally funded projects will have standardized reporting templates with definite timelines on budget and expenditure returns submitted to the Kitui Ministry of Finance, Economic Planning and Revenue Management on a monthly basis.

c) Kitui County Government shall use appropriate procedures as prescribed for the disbursements of funds (i.e Revenue or Appropriate-in-Aid (A-in-A) modes of disbursement).

d) Proper communication channels shall be established to make clear: expenditure returns' deadlines; disbursement timelines; County Revenue Funds requisition procedures; and current status of project progress throughout the project cycle.

e) Unspent project funds from previous financial year shall be disclosed to Ministry of Finance, Economic Planning and Revenue Management and regularized before including them in the subsequent financial year.

## 5.11 Project Management

a) During the project identification, design, implementation, monitoring and evaluation stage, the intended beneficiaries shall be involved through public participatory and Rights-Based Approaches to planning by way of public forums to enhance leadership, ownership, social accountability and sustainability of the project.

b) Project guidelines shall be followed strictly to prevent, delays in approval of work plans; processing disbursement requisitions; replenishment of accounts; release of funds from special accounts; ineligible expenditures; audit queries; procurement challenges; and non-adherence to other project guidelines.

c) Project officers shall be retained until the end of the project cycle or if the officers are transferred retired or move from the civil service, proper handovers should be done to avoid interruption of the project.

d) For each county department, there shall be established a Single Project Implementation Units (SPIU) to oversee the implementation of the projects.

e) Kitui County Government shall promote use of common aid modalities such as Sector Wide Approaches (SWAPs), Programme Based Approaches (PBAs) or Joint Programmes.

f) Upon project completion, projects' assets and equipment shall be transferred to the county government with a complete asset register.

g) Kitui County Government shall prepare work plans for spending the funds with clear deliverables including the outputs and outcomes with the requisite indicators.

h) Kitui County Government shall manage the projects under the prescribed Management Information systems.

## 5.12 Technical Cooperation

a) According to the Kenya External Resources Policy (KERP) and other existing laws, Technical Cooperation (TC) programmes should achieve sustainable Capacity Development through effective transfer of knowledge besides realizing value for money; Technical Assistance (TA) needs to be harnessed in a coordinated manner, with County Government taking lead in its sourcing, evaluation and placement across all sectors. Kitui County Government will seek to maximize value for demand-driven TA and will support preference of local experts as the first option due to cost factors, longer-term skills transfer to the county and for sustainability.
b) Kitui County Government shall use standardized training manuals developed by the National Treasury to ensure acquisition of desired skills, competencies and knowledge to the relevant local staff. TA personnel will be evaluated annually on the basis of the skills transferred in building local capacity. Further maintenance of an updated database of all TAs by County Government with their areas of expertise, qualifications in specific fields and contract duration will be upheld within the existing Monitoring and Evaluation Information Systems.

## 5.13 Harmonization, Alignment and Coordination Agenda

a) Kitui County government shall adhere to the requirements of the five(5) principles of aid effectiveness namely:-
   i. Ownership: - which entails developing countries setting their own strategies for poverty reduction and improving their institutions and tackling corruption.
   ii. Alignment: - where donor countries align to these objectives and use local systems.
   iii. Harmonization: - which entails donor countries coordinating, simplifying procedures and sharing information to avoid duplication.
   iv. Mutual accountability: - which entails both parties (development partners and developing countries) assessing each other based on commitments/targets.

v. Managing for results: - where developing countries and donors shift focus to development results and results get measured.

b) No Development Partner shall be in more than 4 sectors as guided by the Division of Labour process. Limiting number of active sector involvement reduces on aid transaction costs and assures better results. Participation in a fifth sector is through delegated or silent partnerships.

c) A functional reporting forum between Ministry of Finance, Economic Planning and Revenue Management and NGOs in the country will be constituted to monitor 'off-budget' support.

d) Development Partners use Country Systems (in procurement, budgeting, reporting, auditing and monitoring and evaluation) in the management of external resources and where there is need; efforts should be geared towards strengthening them rather than avoiding them.

e) A donor coordination unit/SPIU shall be established at the county level for purposes of coordination within the Counties and the National Government.

f) Ministry of Finance, Economic Planning and Revenue Management shall prepare and coordinate forums/meetings on aid effectiveness with the national level as invitations may arise from time to time.

g) Kitui County government shall use a Mutual Accountability Framework (MAF) to manage for results for agreed upon principles which also indicate baseline, key indicators of progress and timelines that should be revised from time to time. The National Treasury shall in this regard collaborate with the National Treasury to ensure the MAF is prepared and used.

## 5.14 Governance Matters

a) In dealing with external funding, governance matters shall be handled in line with the Economic Crimes Act 2012 and Public Officers Ethics Act 2003.

b) County project coordinators should adhere to the Public Procurement and Disposal Act 2005 procedures or as amended in order to avoid delays in future procurements.

c) Where there is non-compliance by loan/grant recipients with loan/grant conditions, misappropriated by the loan/grant recipient in accordance with Sections 197,198 and 199 of the PFM Act, 2012.

d) A county public officer or third party authorized to receive; control or pay public money and loans/grants shall only act within the authority of the Constitution, an Act of Parliament or County legislation as provided in Section 196 of the Public Finance Management Act, 2012.

## 5.15 Reporting on debt by county governments

a) Kitui Ministry of Finance, Economic Planning and Revenue Management shall submit to the National Treasury a report on county public debt as prescribed in the annex of the PFM regulations.
b) Not later than three months after the end of each financial year, the County Executive Committee Member for Ministry of Finance, Economic Planning and Revenue Management shall prepare and submit an annual report to Kitui County Assembly on public debt.
c) All externally funded projects shall have standard reporting templates with definite timelines on budget and expenditure returns submitted to Ministry of Finance, Economic Planning and Revenue Management on a quarterly, bi-annual and annual basis in the format set out in guidelines from the National Treasury.
d) Kitui County Government shall forward project final accounts to the office of the Auditor-General before the $30^{th}$ September of every year. The audited accounts shall be submitted to the Development Partners with copies to the National Treasury and Controller of Budget.

## 5.16 Loan Inventory Requirements

Kitui Ministry of Finance, Economic Planning and Revenue Management shall maintain an inventory of all loans made to the county government and make the record available to the Kitui County Assembly within seven days of request. The following information shall be included in the inventory:

a) The principle 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.

## 5.17 Guidelines for Borrowing

The Kitui County Government on the basis of the PFM Act and the Constitution has set the guidelines to be applied to debt management which include:

a) New borrowing shall be authorized by the Kitui County Assembly and approved by Parliament in accordance with law.
b) Borrowing shall be from concessional sources only.
c) The amortization schedule for County debt shall be as smooth as possible over time.
d) To limit the proportion of short-term debt to maximum of 10% of the entire County's total outstanding debt.
e) Duration of loan: The average time to maturity of the debt portfolio shall be at least 5 years.

## 5.18 Potential Sources of Financing

Potentially, Kitui County government has two principle sources of financing its development projects.

a) Domestic sources.
b) External sources

At the moment, a large part of Kitui County revenue is sourced from the National government through its equitable share. However, going forward, the County will seek ways of generating its own local revenue to support its programmes. The county will continue accessing domestic sources of financing but with an option to externalize such obligations.

At the moment, most of the liabilities are from domestic sources and payable in domestic currency. This therefore shields the county from currency risks. However, interest rate risks prevail in most of the transactions undertaken. At the moment, the county has not externalized its debt obligations nor has it been guaranteed by the national government.

The county will continue to borrow domestically to fund its development agenda. There is however, room for central government guarantees where externalization of debt is sought by the county.

## 5.19 Quantitative Targets.

Kitui county government shall provide clear, quantitative targets for debt management for assessment of County debt sustainability. The targets shall be based on the Central government economic programme and macroeconomic assumptions in the Budget Policy Statement. These targets are subject to revision in the macro and fiscal assumptions. The Kitui County government shall update them as circumstances require annually.

## 5.20 Contingent Liabilities

Contingent liabilities are financial obligations that could fall on the County due to guarantees or administrative decisions that entail involvement in the financing of entities or corporations under the County government. While there is no legally mandated position on County guarantees, financial instability of entities' under the County government could pose a general risk to the economy of the County in particular and to the country in general. Some entities in the County whether public or private could be heavily leveraged, and their weak financial position could be cause of concern. In order to address these concerns all county public entities shall seek approval and guarantees for their loans from Ministry of Finance, Economic Planning and Revenue Management.

## 5.21 Debt Sustainability Analysis

a) Debt sustainability analysis shall be carried out in conjunction with the National Treasury annually.
b) Borrowing limit shall be imposed on any new debt obligation. Debt sustainability ratios shall also be kept within acceptable limits.
c) There is need to ensure continued persistence of favourable public debt situation over the medium term.

# *CHAPTER SIX: FACTORS CONSIDERED IN DEBT MANAGEMENT DECISIONS*

## 6.1FACTORS CONSIDERED IN DEBT MANAGEMENT DECISIONS

The factors to be considered shall include:

a) Debt costs
b) Budgetary risks
c) Debt rollover
d) Markets impact and activities
e) The debt transaction being undertaken incorporate sound legal features
f) Availability of an accurate and comprehensive management information system with proper safeguards to support debt management
g) Availability of a risk management framework.

To balance these competing considerations, Kitui County debt management office will develop various modes for assessing the cost-risk tradeoffs of different borrowing strategies. They shall include analytic tools that complement debt management unit's capacity and experience in financial modeling. They also include consultations with national government to enhance capacity, other market participants and other government agencies like Central Bank and Kenya National Bureau of Statistics. The Kitui county debt management unit shall provide analytical information on the various financial models to facilitate decision making by the executive and the legislature and also enable the publics to provide useful input into and review of the debt management strategy annually.

The Kitui Count Debt Management Unit shall also provide information on the tradeoffs between the government's debt costs and the risks associated with different financing strategies. The models will also allow debt management unit to examine how these tradeoffs change across a comprehensive evaluation of different funding choices. The main objective of the analysis is to find a funding mix consisting of all available debt instruments that ensure a prudent risk profile while simultaneously minimizing debt service charges and maintaining a well-functioning market for debt securities where applicable. By examining different financing strategies, each with different proportions of short-medium- and long-term debt instruments and the debt management strategy.

**A Communication Strategy:** An important element of the decision-making process when considering the debt strategy is to engage market participants in regular and open dialogue (annual debt management strategy consultations, consultations ahead of each auction call for tender where applicable, ad hoc consultations with investors and government securities distributors). A good communication strategy will ensure all stakeholders are properly informed, hence the need for the communication strategy.

# *CHAPTER SEVEN: IMPLEMENTATION STRATEGY*

## 7.1 IMPLEMENTATION STRATEGY

The County Government of Kitui will work with the National Government through the National Treasury and Planning to actualize the implementation of this strategy. This will also involve seeking approvals and recommendations from the Kitui County Assembly, IBEC, Attorney General and the parliament before advertisement and bond issuance.

## 7.2 CONCLUSION

a) The FY 2024/2025 County Debt Management Strategy is a framework for prudent debt management. It provides a systematic approach to decision making on borrowing to finance the budget taking into account the risks and the costs involved.

b) The proposed debt management structures namely DMAC and DMU should be made operational as a measure of strengthening the debt management strategy.

c) Through the proposed debt management strategies, the county is focused on reducing debt to sustainable levels and eventually clearing all outstanding debts.

d) Given the negative effect pending bills have on the growth of the economy, there's need for urgent action to ensure there is no further accumulation of pending bills and those verified should be paid without further delay.

e) Finally, the County Government will continue to ensure that it implements prudent debt management practices and policies for a sustainable debt position.

# *CHAPTER EIGHT: ANNEXURES*

## ANNEX 1: Format of the Annual Public Debt Report

**Note:**

The Annual Public Debt Report shall be in the format gazeted by the Cabinet Secretary in consultation with Public Sector Accounting Standards Board and shall include the following information :-

i. Review of previous year's financing of budget deficit.
ii. Composition of Domestic debt;
iii. Composition of External debt;
iv. On-lent loans and contingent liabilities;
v. Debt strategy and debt sustainability;
vi. Outlook for the medium term; and
vii. Any commitment fees and penalties paid on any undisbursed amounts of a loan.

## ANNEX 2: Matrix of Activities required to be submitted with the Strategy

i. Summary of the loan portfolio for approval showing clearly the domestic and foreign components (Trend of overall borrowing needs as projected over the medium term).
ii. Summary of existing debt portfolio.
iii. Financing budget deficit showing Priority activities affected.
iv. The Prudential liquidity plan, announced in approval Budget, currently being implemented. The County Government's overall liquidity levels and if it's enough to cover at least one month of net projected cash flows, including coupon payments and debt repayments and refinancing needs (Cash flow projection).