COUNTY GOVERNMENT OF KITUI

MINISTRY OF FINANCE, ECONOMIC PLANNING AND REVENUE MANAGEMENT

FY2025/26 Medium Term Debt Management Strategy Paper

Dated 10th February 2025

FOREWORD

County Governments are required pursuant to Section 123 of the Public Finance Management Act, 2012 and Sections 176-195 of the Public Finance Management Regulations, 2015 (County Governments) to prepare a strategy to manage their debt. The County Treasury is required to submit 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. This Paper guides the County Government of Kitui on the amount, type of borrowing to undertake over the medium term and evaluates the costs and risks of various scenarios and recommends an optimal strategy for implementation. 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 2025/26 County Fiscal Strategy Paper.

The FY 2025/26 County Debt Management Strategy (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 County Government of Kitui commits to a continuous enhancement of the County revenue base towards mitigation of any unforeseen budgetary shortfalls and will prioritize expenditures as highlighted in the budget while maintaining the fiscal principles provided for in the FY 2025/26 County Fiscal Strategy Paper.

I express my gratitude to H.E. the Governor for his leadership and guidance, the entire County Executive Committee, and all Chief Officers and accounting officers in respective County Spending entities for their support and input.

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

ACKNOWLEDGEMENT

The FY 2025/26 Debt Management Strategy aims at ensuring that the County Government's financing needs and its payments obligations are met affordably over the short, medium and long term. As Kenya’s economy grows, Kitui County expects to continue enjoying a favorable environment through a macro-economic framework underpinning the County Debt Management Strategy that is consistent with the projections that are included in the FY 2025/26 County Fiscal and Strategy Paper.

The preparation of the Debt Management Strategy for FY 2025/26 was a collaborative effort of various County departments, partners, members of the public, and other stakeholders. We are grateful for their contributions. We thank all spending units, County Ministries, Departments and Agencies for providing information in time.

Special appreciation goes to the entire Economic Planning and Budgeting team who helped in putting this document together.

Patrick Masila Munuve

Chief Officer

Economic Planning and Budgeting

ACRONYMS

CEC	County Executive Committee Member
CRA	Commission on Revenue Allocation
CG	County Government
CDMS	County Debt Management Strategy
COK	Constitution of Kenya 2010
DMAC	Debt Management Advisory Committee
DMU	Debt Management Unit
DMO	Debt Management Office
GDP	Gross Domestic Product
IBEC	Inter – Governmental Budget and Economic Council
ITGRC	Inter- Governmental Technical Relations Committee
KRA	Kenya Revenue Authority
MTEF	Medium Term Expenditure Framework
MTDMS	Medium Term Debt Management Strategy
NHIF	National Health Insurance Fund
NSSF	National Social Security Fund
PFM	Public Financial Management
PFMA	Public Financial Management Act 2012

Table of Contents

Contents

CHAPTER ONE: INTRODUCTION

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 spelt out in the County Fiscal Strategy Paper (CFSP) 2025/2026. 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 by the County Government of Kitui will be to raise stable and low-cost funding to meet its financial needs.

The objective of this public debt management strategy is to ensure equitable sharing of benefits and burdens of public debt between the current and future generations. 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 Strategy has been submitted to the County Assembly, the County Executive Committee member for Finance is required to publish and publicize it 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 Purpose of the Debt Management Strategy

The Debt Management Strategy sets out the County Government of Kitui's objectives, strategies 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 the County Government of Kitui. The Constitution of Kenya 2010 and the Public Finance Management Act, 2012, require the County Government to table in the 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.

1.2 Compliance with 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 Favorable Terms and Conditions.

Concepts such as inter-generational equity are also important. Future generations should not pay the bulk of bills incurred by the current generation.

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

a) Borrowing must be for the following types of projects:
    i. Investing in the productive capacity of the County Government;
    ii. Funding of highly prioritized core infrastructure and development initiatives;
    iii. Specific purposes (projects) identified as high priorities in the Kitui County Integrated Development Plan (CIDP 2023-2027)
b) Borrowing must not be used for:
    i. Funding shortfalls in the County Government's recurrent expenditure
    ii. Funding losses of County Government entities

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

While the County has not yet borrowed, any future borrowing shall be guided by the following principles;

i. Promotion of inter-generational equity in the sharing of burdens and benefits of public borrowing;
ii. Objective determination of thresholds of borrowing rights for both levels of government which will determine the borrowing space for the County Government;
iii. Prudence and equity in setting limits for debt stock levels for the County Government; and;
iv. Use of objective criteria for evaluating the County Government's eligibility for national government debt guarantee.

1.4 Borrowing Purposes

If and when and the County Government desires to borrow, the borrowing shall be for the following purposes; -

i. Financing County Government budget deficits;
ii. Cash management;
iii. Refinancing outstanding debt or repaying a loan prior to its date of repayment;
iv. Mitigation against adverse effects caused by an urgent and unforeseen event in cases where the Emergency Fund has been depleted;
v. Meeting any other development policy objectives that the County Executive Committee Member responsible for Economic Planning shall deem necessary, consistent with the law, and as the County Assembly may approve.

1.5 Cash Management

The Central Bank of Kenya, as the Government's fiscal agent, manages the Kitui County Revenue Fund, among all others, from which the balances required for the 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 consists of money 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: COUNTY DEBT STOCK

2.1 Pending Bills from County Departments

The largest portfolio of the County liabilities is pending bills. These liabilities were incurred mainly from individuals and businesses who supplied goods and services to the County Government and have been consolidated to form the county debt obligation. However, these could increase owing to possible litigation and interest accumulation.

The County Government after August 2022 general elections formed the Kitui County Pending Bills Review Committee, 2022, to verify all pending bills claims. The Committee received claims totaling **Kshs. 2,560,718,639**. Out of these **Kshs. 1,431,226,010** was cleared for payment and **Kshs.1,129,492,629.** was subjected to further verification, valuation and validation by the Pending Bills Review & Advisory Team.

Kshs. 1,431,226,010, cleared by the Pending Bills Review Committee comprised of **Kshs. 897,594,528** bills for provision of goods, works and services and **Kshs 533,631,481** being bills for legal services (including interests)**.** Of the **Kshs 897,594,528** owed to merchants for goods, work and services**,** a total of **Kshs 728,685,647** has been paid, with **Kshs 92,364,521** being confirmed either paid before the **PBRC** or not payable for lack of documents. A balance of **Kshs 76,544,360** is outstanding**.** For legal fees, a total of **Kshs 188,009,858** has been paid**, Kshs 233,957,531** has been waived through negotiations. To date, an amount of **Kshs 111,664,092** for court decrees and arbitral awards is still outstanding. In summary, for the **Kshs 1,431,226,010** approved by the PBRC, a total of **Kshs 1,243,017,557** has been settled so far, with **Kshs 188,208,453** still outstanding.

Further, on the **Kshs. 1,129,492,629** which were recommended for verification and valuation, the Pending Bill Review Advisory Team **(PBRAT)** has reviewed bills worth **Kshs 334,894,092**, for which bills valued at **Kshs 233,880,975** have been cleared for payment while an amount of **Kshs 101,013,117** has been declared ineligible for payment. A total of **Kshs 135,956,170** has been paid, being part of the pending bills approved by the PBRAT. The total amount paid (including bills settled through negotiations) is **Kshs 1,286,609,205**.

This information is presented in tables 1 and 2 below.

Table 1: Payment status of pending bills as at December, 2024

Category	Claim Amount	Actual Paid	Variance
Grand Total Lot 1 (2012-2016)	*307,425,968.00*	*228,626,632*	*78,799,335*
Grand Total Lot 2 (2017-2021)	*233,808,008.00*	*171,449,483*	*62,358,525*
Grand Total Lot 3 (2022)	*356,360,552.00*	*328,609,531*	*27,751,021*
Total Bills for Works, Goods, and Services Cleared by PBRC	***897,594,528.00***	***728,685,647***	***168,908,881***
Total Bills for Court Decrees and Arbitral Awards	*533,631,481*	*188,009,858*	*345,621,623*
Sub Total	***1,431,226,010***	***916,695,505***	***514,530,505***
Bills subject to verification, valuation and validation	1,129,492,629	*135,956,170*	*993,536,459*
Grand Total	***2,560,718,639***	***1,052,651,675***	***1,508,066,964***

Source: Ministry of Finance, Economic Planning and Revenue Management, 2024.

Table 2: Analysis of the variances

Category	*Variance*	*Amount Payable*	*Amount Not payable/waived*
Grand Total Lot 1 (2012-2016)	*78,799,335*	*2,746,348*	*76,052,988*
Grand Total Lot 2 (2017-2021)	*62,358,525*	*50,799,172*	*11,559,353*
Grand Total Lot 3 (2022)	*27,751,021*	*22,998,840*	*4,752,181*
Total Bills for Works, Goods, and Services Cleared by PBRC	***168,908,881***	***76,544,360***	***92,364,521***
Total Bills for Court Decrees and Arbitral Awards	*345,621,623*	*111,664,092*	*233,957,531*
Sub Total	***514,530,505***	***188,208,452***	***326,322,052***

Source: Ministry of Finance, Economic Planning and Revenue Management, 2024

The total value of pending bills as at the closure of the financial year 2023/2024 was **Kshs 829,918,625**. This amount includes the pending bills which were approved by the Pending Bill Review Committee, 2022 which remained unpaid, pending bills approved by the PBRAT and were not as well as those bills which were included in the year ending June 2024.

It is important to note that as further bills are verified, valued and validated by the Pending Bills Review and Advisory Team, the amount payable will continue to change. These changes will be updated to the pending payment plan which has been submitted to the Office of the Controller of Budget.

2.2 Inherited Debts from the Defunct Local Authorities

The County Government inherited **Kshs. 215,829,480.20** from defunct local authorities i.e Kitui Municipal Council, Kitui County Council, Mwingi County Council and Mwingi Town Council. Some of these inherited bills were presented to the Pending Bills Review Committee and constitute the Lot 1 bills tabulated above while some were not. In dealing with inherited debts, the County Treasury relied on the verification by the Intergovernmental Relations Technical Committee of assets and liabilities inherited from the defunct local authorities. At some point the process seemed to stall but the Pending Bills Review Committee examined and cleared some of this debt for onward processing and payment.

Table 2: Breakdown of Debt Inherited from the defunct Local Authorities

SNo.	Source of Debt	Amount (Kshs.)
1	Commercial Loans	30,000,000.00
2	National Housing Corporation Loans	21,400,947.20
3	Unpaid Trade & Other Creditors	77,307,483.00
4	Unremitted Statutory Deductions	1,798,000.90
5	Unremitted Staff Pension Deductions	3,739,623.00
6	Unpaid Staff Emoluments	56,697,601.10
7	Unpaid Legal Fees	18,273,812.00
8	Unremitted Staff Loan Deductions	616,768.00
9	Other Sources	5,995,245.00
		215,829,480.20

Source: Intergovernmental Relations Technical Committee

2.3 County Pensions & Gratuities and Unremitted Statutory Deductions

The County Government has an obligation to ensure the Gratuity/pension account remains healthy and adequately resourced to take care of all claims when they fall due. It will also reconcile its liabilities against funds in suspense accounts in NSSF, NHIF, KRA, LAPTRUST and LAPFUND to determine the actual position on outstanding liabilities.

2.4 Loans Taken by the County

At present, the county stands free of any outstanding loans and there are no immediate plans to pursue additional borrowing. This circumstance underscores the critical importance of effectively utilizing existing resources within the county. With a focus on prudent financial management, the county will allocate its resources efficiently to address pressing needs and priorities effectively. This includes prioritizing investments in the six development pillars (Food Security, Water Access, Healthcare, Aggregation & Industrial Parks, Appropriately Nurtured & Skilled Human Capital and Planned Urban Development) while maintaining a balanced budget and fiscal discipline.

CHAPTER THREE: DEBT MANAGEMENT STRATEGY

3.1 Debt Management Strategy Components

The County Government initiated projects whose payments have over time been carried forward in successive financial years. Departments procure late in the year leading to rollovers and growth in pending bills. This is mainly due to fluctuating revenues that affect the cash flow projections leading to a large number of unpaid merchants at the end of the financial year. A volatile economy, global pandemics and Government policies have adversely affected revenue collection.

The following are the components of the Kitui County Debt Management Strategy.

a) Verification of outstanding claims to establish validity and hence reduce fraudulent claims;
b) Increase budgetary allocation on the pending bills vote and distribute the same to sectors;
c) Setting realistic revenue targets/projections that should be in tandem with the expenditure in order to avoid procurement of goods and services beyond the County Government's ability to finance its payments.
d) Revalidating and updating the portfolio of inherited liabilities to determine legality of claims and the amounts repaid or resolved in other ways.
e) Segregating performing and nonperforming claims and loans and estimating the present values of the claims at the date of revision, especially the overdue liabilities
f) Timely remittance of statutory deductions and other obligations to avert any interest and penalties on late remittance or non-remittance. This will also involve reaching out to the national government for the resolution of unremitted statutory deductions by drastically reducing penalties.
g) Adhering to annual procurement plans and budgetary provisions to guide County expenditures.
h) Sensitize all Staff on integrity and national values and principles of governance and public service as enshrined in Articles 10 & 232 of the Constitution of Kenya, 2010.
i) Maintaining debt at sustainable and affordable levels by ensuring that the debt is properly structured in terms of maturity, and debt associated costs.
j) Ensuring that any new borrowing follows generally acceptable fiscal responsibility guidelines, is from allowable sources and under acceptable terms and conditions.
k) Introducing and consolidating fiscal, legal, institutional and operational measures that ensure that the above two strategies are met.
l) Setting up a debt management unit at County Ministry of Finance, Economic Planning and Revenue Management for effective management of the debt.
m) Lobbying through the Intergovernmental Relations Technical Committee (IGRTC) for a national government conditional grant to offset liabilities inherited from the defunct

Local Authorities.

n) Forging strategic partnerships with development partners to supplement County budget deficits.
o) Strengthening the County legal unit to ensure favorable court resolution should litigation arise.

3.2 Factors Considered in Debt Management Decisions

County borrowing is guided by the following factors laid out in the national Debt Management Guidelines:

a) Debt costs
b) Budgetary risks
c) Debt rollover
d) Markets impact and activities
e) The debt transaction being undertaken incorporates 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.

CHAPTER FOUR: BORROWING BY THE COUNTY GOVERNMENT

4.1 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 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 County Executive Committee, the County Executive Committee member for 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 County Assembly, the County Executive Committee member for Finance, Economic Planning and Revenue Management 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 agreement;

d) The Cabinet Secretary in charge of 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 of the National Treasury after receiving recommendations of IBEC shall then seek the recommendations of the Attorney General

f) The Cabinet Secretary of 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 Committee Member for 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 the County Executive Committee Member of Finance, Economic Planning and Revenue Management;
j) Upon approval by Parliament the Cabinet Secretary to the National Treasury shall issue a loan guarantee.

4.2 Evaluation criteria for guarantee requests by County Governments

Pursuant to the provisions of Section 58 of the Public Finance Management Act,2012, the capital project expenditures of the County Government of Kitui or any other County 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 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 the 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) When applying for a national government guarantee the County Government 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.

4.3 Operational Guidelines on Loans and Grants

a) Budget estimates and Development Partners' commitments will be submitted to the County Ministry of Finance, Economic Planning and Revenue Management in a timely manner and budget proposals by sectors in the County 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 requested 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 Assembly 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 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.

During FY 2025/26, the County Government anticipates to receive conditional grants amounting to **Kshs. 740,929,976** from the national government as shown in Table 3 below.

Table 3: Allocation for Grants – FY 2025/26

Grants	**Projected Allocation FY 2025/26**
Road Maintenance Fuel Levy (RMFL)	445,098,850
Grants from World Bank- Kenya Devolution Support Programme (KDSP)	37,500,000
IDA (World Bank) credit (National Agricultural Value Chain Development Project (NAVCDP)	151,515,152
Health Service Support Project (HSSP/HSPS) - (DANIDA/IDA)	13,601,250
Community Health Promoters (CHPs)	58,050,445
Kenya Urban Support Project (KUSP), Urban Institutional Grant (UIG)- World Bank	35,000,000
Allocation for Court Fines	50,000
Allocation for 20% Share of Mineral Royalties	114,279
Total	**740,929,976**

Source: Ministry of Finance, Economic Planning and Revenue

CHAPTER FIVE: IMPLEMENTATION STRATEGY & CONCLUSION

5.1 Implementation Strategy

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

5.2 Conclusion

This Debt Management Strategy is a robust framework for prudent debt management. It provides a systematic approach to decision making on the appropriate financing of development projects. The stock of debt in the County needs to be always manageable. It is essential for the County Government to establish and implement structures to maintain the debt level within the current range and to reduce further escalation of the liabilities.

The current debt level necessitates for adequate allocations of finances to service the existing debts in FY 2025/26. This calls for continuous budgetary allocations in subsequent years in an effort to ensure that all Kitui County debts are cleared without imposing budgetary pressure on County resources. However, since the Strategy envisages no borrowing to finance the budget deficit, more emphasis has been put on management of current debt.

Going forward, all County departments and other entities are expected to be more prudent while spending and ensure that projects and programmes implementation is in line with the approved budget and availability of funds. The procurement processes should be fast tracked to avoid pending bills in subsequent years.

Further, it is expected that the National Treasury will be releasing the equitable share disbursements as per the agreed cash flow schedules to avoid last minute rush in processing of payments for goods and services rendered. The County Treasury will also continue to capacity build its technical personnel on IFMIS and update them with the requisite skills to guarantee smooth processing of payments thereby minimizing possible delays.