REPUBLIC OF KENYA **GOVERNMENT OF MAKUENI COUNTY**

COUNTY TREASURY

2020 County Debt Management Strategy Paper

FY 2020/2021 – 2022/23 MEDIUM TERM EXPENDITURE FRAMEWORK

FOREWORD

The Medium Term Debt Management Strategy (MTDS) is published every year and guides County Government borrowing in the medium term while providing a path for sustainable level of debt over the same period.

Public debt management forms an integral part of macroeconomic environment in any economy. It has implications on public expenditure and also has a direct bearing on macroeconomic stability.

The Makueni County development blue print 'Vision 2025' aims at achieving accelerated and inclusive economic growth and development; improved access to quality water and health services, access to quality education, increased job creation increased household incomes and sustainable food security. To deliver this vision, the Government has outlined an elaborate resource mobilization framework that includes seeking debt to finance flagship projects and other programs critical to catalyze development in the County.

Public Debt Management is the process of establishing and executing a strategy for managing the government's debt. This is done in order to raise the required amount of funding to meet any arising budget deficit necessary to realize the objectives set by government.

The Debt strategy Paper seeks to act as a guideline for debt management practices of the County Government including the issuance process, management of the debt portfolio, and adherence to various laws and Regulations governing debt contracting and management.

The Makueni County Debt Management Strategy provides a framework that will guide the County Government to ensure; debt levels stay affordable and sustainable, any new borrowing is for development purposes and that the costs and risks of borrowing are minimized. It evaluates both costs, risks of various debt management strategies, and recommends an optimal debt management strategy for implementation in the future.

The County Government of Makueni has no plans of incurring debt in the financial year 2020/2021. The County's Budget will be balanced with the resource envelope available hence, there will be no anticipated need for deficit financing.

ROSEMARY MAUNDU
AG. COUNTY EXECUTIVE COMMITTEE MEMBER - FINANCE AND SOCIO ECONOMIC PLANNING

ACKNOWLEDGEMENT

The Medium Term Debt Management Strategy (MTDS) 2020 is prepared by the County Government under the requirement of the PFM Act 2012. It sets out the debt management strategy for the Government of Makueni County in the fiscal year 2020/21 and over the Medium Term.

The Makueni Debt Management strategy is informed by a fiscal policy supportive of the macro-economic stability and growth. The Strategy highlight strategies to be explored in seeking funding for the enormous financial needs from either internal or external sources to deliver the programmes in the Vision 2025. As at now, the County Government's public debt is nil.

I would like to acknowledge the overall guidance provided by ECM Finance Mrs. Mary K. Kimanzi throughout the preparation period of this debt management strategy. The Budget, Revenue and Planning team spent a significant amount of time to put together the report. In this regard, I'm grateful for their technical input and commitment to the success of the process. Thank you all for the excellent support and work.

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<u>MAKUENI COUNTY</u>

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EXECUTIVE SUMMARY

The 2020 Makueni County Government Debt Management Strategy Paper is prepared in line with section 123 of the Public Finance Management 2012 Act. The document lays out plans for Makueni County debt management for the fiscal year 2020/21 and over the Medium Term.

The Medium Term Debt Strategy is based on the medium-term macroeconomic framework as provided in the 2020 County Fiscal Strategy Paper which is focusing on investing in productive sectors. This will be by; Enhancing household food security through irrigated farming; increasing investments in county productive sector; Strengthening the capacity of the community to drive development at local level and Youth empowerment.

The strategy is structured in four sections with each section highlighting a specific segment of the paper.

Section one outlines the legal framework for preparing the debt strategy paper. Section two provides the general objectives, goals and principles of debt management and defines debt and debt management.

Section three outlines the principles and guidelines for public debt management and purpose for borrowing, costs and benefits of public borrowing and borrowing limits. The chapter also highlights the Debt Management Strategies and the Institutional and Operational Framework for debt management.

Section four discusses key assumptions and macroeconomic framework underpinning the 2020 Medium Term Debt Management Strategy. The chapter has also analyzed Potential financing sources for the County Government.

Section five provides the conclusions, summary and recommendations for the County Government.

1.0 LEGAL FRAMEWORK FOR PREPARING A MEDIUM TERM DEBT MANAGEMENT STRATEGY

The PFM Act section 123 mandates the county to develop a medium-term debt management strategy paper; Sec 123 states;

(1) On or before the 28th February in each year, the County Treasury shall submit to county assembly a statement setting out the debt management strategy of the county government over the medium term with respect to its actual liability and potential liability in respect of loans and guarantees and its plans for dealing with those liabilities.

(2) The County Treasury shall include the following information in the statement-

- The total stock of debt as at the date of the statement,
- The sources of loans made to the county government,
- The principal risks associated with those loans,
- The assumptions underlying the debt management strategy; and
- An analysis of the sustainability of the amount of debt, both actual and potential.

(3) As soon as practicable after the statement has been submitted to the County Assembly under this section, the County Executive Committee Member for Finance shall publish and publicize the statement and submit a copy to the Commission on Revenue Allocation and the Intergovernmental Budget and Economic Council.

2.0 OBJECTIVES FOR DEBT MANAGEMENT

2.1 Introduction

To achieve the desired County socio Economic transformation, there is need to invest in the transformational programmes and projects which most often don't get funding in the annual budget due to their cost requirements. From past traditions, the amounts required to invest in the high impact projects has put the county in financial strain and thus the need to come up with innovative strategies to fund them and stagger their repayments over a reasonable time period. This will facilitate crowding resources to other key programmes at the same time ensuring implementation of the transformative programmes. Debt is therefore an important avenue in resource mobilization to ensure delivery of the envisaged socio economic transformation programmes as prioritized in the Vision 2025.

The Debt strategy Paper provides a framework that helps to ensure that the relevant bodies and personnel are in place to steer on the strategies to be adopted when deciding on contracting debt, negotiating with creditors and managing debt. The Debt Strategy Paper enables the County to determine, establish and uphold the legal and institutional frameworks that are in place to guide its borrowing programme.

2.2 Public Debt Management and its Objectives

Public Debt; is defined by Constitution Article.214.(2) as all financial obligations relating to loans raised or guaranteed and securities issued or guaranteed by the national government.

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, achieve its risk and cost objectives, and to meet any other objectives set by government.

Deficit is the financing gap created when projected expenditure exceeds available revenues. To finance this gap government's resort to borrowing and debt is created.

2.3 Purpose of a Debt Strategy Paper

A debt strategy guides the government on how, where, when and what to borrow in order to finance the budget deficit. As per PFM Act Section 123, counties are required to prepare and submit a debt management strategy over the medium term to the County Assembly on or before 28th February in each year. This is in regard to its actual and potential liabilities in respect of loans and its plans of dealing with those liabilities.

2.4 Scope and Objective of a County Debt Management Strategy Paper

This Debt Management Strategy Paper is a framework that the county government intends to use over the medium-term to meet its debt financing requirements to ensure delivery of Vision 2025. The strategy is on a three year rolling basis with an aim to ensure that debt levels stay affordable and sustainable. The main objectives of a County Debt Management Strategy Paper include;

i. Ensure that the government financing needs and its payment obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk, and
ii. Ensure the sharing of the benefits and costs of public debt between the current and future generations.

The 2020/2021 – 2022/23 Debt Management Strategy will guide County Government debt management operations in the Medium Term. The Strategy seeks to balance cost and risk of county debt while taking into account the county government financing needs. In addition, the strategy incorporates initiatives to seek new funding sources, support the County Government priorities for socio economic transformation while ensuring debt sustainability.

2.5 Legal Framework for Debt Management and Developing the mtds for the County Government;

2.5.1 Responsibilities of County Treasury in Matters of Debt

Pursuant to PFM ACT Section 107 (2) The County Treasury is mandated to manage its public finances in accordance with the principles of fiscal responsibility and ensure that it does not exceed the limits stated in the regulations. In managing the county government's public finances, the County Treasury shall ensure; over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure; and the county debt shall be maintained at a sustainable level as approved by county assembly;

2.5.2 Authority for Borrowing by County Governments

According to Section 140 (1) of the PFM Act, the County Executive Committee member for Finance, on behalf of the County Government, may raise a loan for that Government's purposes, only if the loan and the terms and conditions for the loan are set out in writing and are in accordance with—

a) Article 212 of the Constitution;- A county government may borrow only— (i) if the national government guarantees the loan; and (ii) with the approval of the county government’s assembly

b) Section 58; Mandates the cabinet Secretary (National Treasury) to guarantee loans for county governments or any other borrower on behalf of the national government with approval by Parliament.

c) Section 142 of PFM Act; the County Assembly may authorize short term borrowing by county government entities for cash management purposes only. However such borrowing shall not exceed five per cent of the most recent audited revenues of the county. The borrowing should be repaid within a year from the date on which it was borrowed.

d) The fiscal responsibility principles and the financial objectives of the county government set out in its most recent County Fiscal Strategy Paper; and

e) The debt management strategy of the county government over the medium term.

Pursuant to PFM regulations 177(2) a county government may from time to time borrow within and outside Kenya such sums of money in such amount and on such terms and conditions as to interest, repayment, disbursement or otherwise as the County Executive Committee Member may think fit, in any of the following ways—

(a) By issuing County Treasury bonds;

(b) By bank overdraft facility from the Central Bank of Kenya; and

(c) By any other loan or credit evidenced by instruments in writing.

However, any borrowing under paragraph (2) (a) and (c) of PFM regulation 177 shall require a national government guarantee pursuant to section 58 of the PFM Act.

2.6 Principles of Public Finance

Article 201 of the Constitution stipulates the following principles to guide all aspects of public finance in the Republic of Kenya. These principles will apply to all public borrowing and debt management.

i. There shall be openness and accountability, including public participation in financial matters;

ii. The public finance system shall promote an equitable society;

iii. The burdens and benefits of the use of resources and public borrowing shall be shared equitably between present and future generations;

iv. Public money shall be used in a prudent and responsible way; and financial management shall be responsible and fiscal reporting shall be clear.

2.7 Audit of Debt Management activities

The office of the Auditor General will audit all public debt management activities annually in accordance with the Public Audit Act and the Public Finance Management Act, with the aim of promoting value for money and accountability of public funds.

2.8 Control of borrowed funds

The Controller of Budget will oversee the utilization of budgeted borrowed funds for the county governments by authorizing withdrawals from public funds, as provided under relevant laws and Regulations.

2.9 Commitment of Loan Contractual Obligations

The County Government of undertakes to timely honor all public debt obligations entered into directly and all loan guarantees with the aim to minimize fiscal cost and risks that may arise out of undue defaults. The County Government commits to ensuring that all laws governing public debt management are honored.

3.0 PRINCIPLES AND GUIDELINES FOR PUBLIC DEBT MANAGEMENT

The following principles and guidelines aim to ensure that the County Government debt is sustainable, does not constrain the county's aspirations for growth and development, and reflects best practice in managing the public debt. All borrowings by the County government shall be subject to the provisions of the relevant laws.

3.1 Purpose for Borrowing

All borrowings, through the will be for the following purposes:

i. Financing government budget deficits;
ii. For cash management;
iii. To finance development projects including on-lending to approved entities;
iv. To mitigate against adverse effects caused by an urgent and unforeseen event in cases where the contingency fund is depleted;
v. Meeting any other development policy objectives that the County Executive Committee Member for Finance shall deem necessary, consistent with the law and as Cabinet and County Assembly may approve; and
vi. Financing goods and services provided by a supplier outside Kenya.

In both domestic and external borrowing, the County Executive Committee Member for Finance shall ensure that such terms and conditions do not conflict with:

i. The fiscal responsibility requirements under the relevant laws
ii. The Medium Term Debt Management Strategy
iii. The fiscal objectives in the County Fiscal Strategy Paper or14
iv. Any limits on borrowing set out in the relevant laws and Regulations and in the annual budget.

3.2 Costs and Benefits of Public Borrowing

The Medium-Term Debt Management Strategy (MTDS) will guide the County Government borrowing taking into account the cost and risks associated with the various borrowing options. Borrowing decisions will be taken after a critical and comprehensive cost benefit analysis of the debt involved, its purpose, amount, repayment terms, currency of contract, and any other risks, have been evaluated.

To the extent possible, the guiding principle for efficient County Government borrowing will be evidenced by the lowest cost and minimum risk considerations over the long term.

County Government will maximize borrowing from concessional sources. Borrowing will also be subject to prioritization based upon analysis of the cost and risk associated with the debt and those of the acceptable sources of financing.

As a guiding principle, borrowing decisions will implement the constitution, which provides that public money shall be used in a prudent and responsible way. In this regard, borrowed funds will be used for the purpose of financing development expenditures and not for recurrent expenditures.

Short term borrowings will be generally restricted to management of cash flows. Borrowings for purposes of cash management will be limited to twelve months.

The County Government will maximize borrowing loans whose benefits have a potential for self-liquidating i.e. where the use of loan funds will generate proceeds that directly or indirectly repay the loan. This implies that the social and economic returns on borrowed funds exceed the cost of such capital. In this regard, a cost benefit analysis will be undertaken for all projects before a loan is accepted. This will also be facilitated through the ongoing credit worthiness evaluation been done in conjunction with Commission of Revenue Allocation

In order to ensure sustainability of loan repayment, the following guidelines will generally be applied:

i. Commercial borrowing will not be used to finance social projects;
ii. The social internal rate of return of loan funded projects should be high enough to justify the cost of the loan; and effort should be made to objectively quantify this measure);
iii. The gestation period of the candidate project – i.e. the time it takes for the project to start producing its outputs, outcome, or impact – should be shorter than or equal to the grace period of the loan; and
iv. Short-term loans should be limited to commercial or revenue generating projects as well as for financing projects of strategic value.

3.3 Borrowing Limits

Pursuant to PFM regulation 25; the county public debt shall never exceed twenty (20%) per cent of the county governments total revenue at any one time.

At any time, the annual debt service cost of a county government shall not exceed fifteen (15%) per cent of the most recent audited revenue of that county government, as approved by county assembly (PFM Act regulation 179 (2).

Table 1: Projected County Possible Loan Amounts and Expenditure Limits

Revenue source	**FY 2017/18**	**FY 2018/19**	**FY 2019/20**	**FY 2020/21**
Own source revenue	322,019,332.70	7,127,800,000.00	7,406,100,000.00	7,309,400,000
Shareable revenue	6,825,200,000.00	511,702,071.85	655,235,126.00	750,000,000.00
Total	**7,147,219,332.70**	**7,639,502,071.85**	**8,061,335,126.00**	**8,059,400,000.00**
Maximum loan (20%)	**1,429,443,866.54**	**1,527,900,414.37**	**1,612,267,025.20**	**1,611,880,000.00**
Maximum annual repayment amounts (15% of revenues)				1,208,910,000.00
Repayment options				
Years	**Annual repayments – based on annual maximum loan amounts**			
2	714,721,933.27	763,950,207.19	806,133,512.60	
5	285,888,773.31	305,580,082.87	322,453,405.04	
10	142,944,386.65	152,790,041.44	161,226,702.52	
15	95,296,257.77	101,860,027.62	107,484,468.35	

Source; County Treasury

Public borrowing limits will be guided by county's current and future capacity to service the debt; and the need to optimize demand for resources.

For a project to be financed, it should support the achievement and meet the objectives of Government socio economic transformation agenda and must be included the Medium Term Debt Strategy.

The following checklist of mandatory requirements must be provided to the County Treasury by departments and County Government before seeking external financial support:

i. Feasibility study report inspected and approved by the relevant government entity informing the project economic viability, costing and design;
ii. Confirmation of the land and wayleave acquisition for the project.
iii. Confirmation of adequate human resources capacity for project implementation. Where there is a shortfall, the Departments, must commit to develop a strategy to fill the gap;
iv. Prioritization and commitment of the counterpart funding by the respective department where necessary;
v. Due diligence report to ascertain the financial, technical and legal competency for the frim procured competitively to undertake the project implementation. This will mainly apply to the projects that are undertaken under Engineering, Procurement, Construction and Financing (EPCF) Model;
vi. Any other requirements depending on either Bilateral or Multilateral framework Agreement with the respective Development Partner; and h) Funding, including but not limited to land and wayleave compensations among others that from part of counterpart funding must be prioritized under the department's allocation through the normal Medium Term Expenditure Framework (MTEF) budgeting process in accordance with the requirements of the loan agreement.

All project proposals should be forwarded to County and not through financiers and/or contractors. The County Debt Management Unit will review all documents and independently assess the cost/benefits analysis submitted and evaluate the sources of financing.

Project completion rates in relevant entities will determine the level of borrowing for subsequent periods. The absorption capacity should match the disbursement profile of the loan to minimize commitment charges that accrue on undisbursed loan balances. It is therefore mandatory that implementation of projects is closely monitored by the implementing agencies. Loan facilities of non-performing projects will be reviewed accordingly on a regular basis to allow modification of project implementation or loan cancellation if necessary, as well as to revise the level of new borrowings to be approved in subsequent periods.

The implementing units shall work with County Treasury to ensure Conditions Precedent (CPs) are met first or done in parallel before signing of the financing agreements.

3.4 Analysis of Debt Sustainability

The County Government of Makueni does not have debts. The expenditure per year has always balanced off with the revenues. However, in the medium term the county will seek funding for the flagship projects identified in the Vision 2025 and CIDP 2018-2022 that will be geared towards stimulating growth in the other sectors of the county Government.

3.5 Debt Management Strategies

In the event, the county seeks debt to finance its operations; the following shall be adhered to;

Debt shall be Sustained at Affordable Levels; To realize this, the county will ensure it pursues grant funding and budget support and where grants are unavailable, or where a loan element of grant funding for priority development projects is mandatory, limited concessional borrowing will be sought.

Concessional loans; Borrowing will be limited to concessional loans from multi- or bilateral donors or development partners

Loan purpose; any new borrowing shall follow fiscal responsibility guidelines for a fit purpose; from an allowable source and with acceptable terms and conditions.

Any borrowing sought by the County will be for;

a. Investing in the productive sectors of Makueni County;
b. Funding priority core infrastructure and development initiatives as identified in CIDP 2018-2022 and Vision 2025; and
c. Specific purpose projects identified as a high priority in the county Vision 2025; Preference shall be given to projects that have the chance to stimulate growth and development of all other sectors and no borrowing will be done to fund shortfalls in recurrent expenditure.

3.6 Institutional and Operational Framework

There shall be a County Debt Management Unit that provides secretariat services to the County Debt Management Advisory Committee (DMAC). The functions and responsibilities include:

i. carrying out the government's debt management policy of minimizing cost taking account of risk;
ii. maintaining debt data base for all loans taken by the county government
iii. preparing and updating the annual medium term debt strategy and debt sustainability analysis;
iv. preparing and implementing the county government borrowing plan including servicing of outstanding debts;
v. monitor and evaluate all borrowing and debt related transactions to ensure that they are within the guidelines and risk parameters of the debt management strategy;
vi. Preparing, updating and executing the annual medium-term debt management strategy including debt sustainability analysis in accordance with Regulations;
vii. Participating in negotiation meetings with government creditors, and provide technical support to the ECM Finance on public debt operations;
viii. Assessing the risks in issuing any guarantees including contingent liabilities inherent in public private partnership projects, and prepare reports on the method used for assessment and the results thereof for the attention of the ECM Finance;
ix. Facilitating the recovery of any payments including interest and other costs incurred by Government due to the honoring of outstanding guarantees;
x. Preparing annual debt management report which shall include outstanding guarantees, outstanding lending and government on-lending by Government;
xi. Monitoring and keeping track of debt levels;
xii. Advise on all debt servicing obligations of Government;
xiii. Prepare and publish debt statistical bulletins regularly;
xiv. Prepare forecasts on Government debt servicing and disbursements as part of the yearly budget preparation;

xv. Compile, verify and report on all Government debt arrears and design a strategy for the settlement of those arrears;
xvi. Monitor that the disbursements of loans raised by Government are in accordance with agreed disbursement schedules;
xvii. Formulate External Resources Policy;
xviii. Assess, mobilize, negotiate and allocate all external resources including the consolidation of the donor commitment register in the annual national budget;
xix. Examine and scrutinize proposals for financing projects of a county government entity from an accounting officer;
xx. Formulate an external resource mobilization strategy to guide the county in external resource mobilization including monitoring;
xxi. Formulate guidelines and procedures for reporting and recording budget estimates and expenditure for external resource;

3.6.1 County Debt Management Advisory Committee

The County Debt Management Advisory Committee (DMAC) will be chaired by the Chief Officer in charge of planning, Budget and Revenue with membership of technical officers from County Treasury and Chief Officers from the three pillars of the Vision 2025 i.e (Economic Pillar (Department of Transport and Infrastructure, Department of Trade, Industry, Tourism and Cooperatives), Social Pillar (Department of water, Irrigation and Environment Services) and political pillar (Department of Devolution and Public service). The Debt Management Advisory Committee will evaluate borrowing proposals and make recommendations to the CECM for finance as to whether borrowing should or should not proceed.

The County Debt Management Advisory Committee is mandated to assess the volume and risk characteristics of debt to ensure that:

i. Debt is sustainable and affordable;
ii. Debt is below the thresholds established;
iii. Debt is from an acceptable source;
iv. Debt is for a good purpose and the funded project is a high priority in the CIDP 2018-2022 and Vision 2025;
v. Debt is not for funding recurrent expenditure;
vi. The project to be funded has a positive Net Present Value or helps achieve Vision 2025 and the SDGs;
vii. The cost of any contingent liabilities and obligations such as tied procurement are factored into the cost and risk of debt;
viii. Loan terms and conditions are acceptable and achieve the best cost and risk outcome
ix. Borrowing aligns with the CFSP.

3.7 Process for Approving Loan Proposals by the County Government

Pursuant to Section 184 of PFM Regulations the County Executive Committee Member for Finance shall submit the borrowing proposal which will include its terms and conditions to the County Executive Committee for approval of the borrowing;

After approval by the County Executive Committee, the County Executive Committee Member for Finance shall submit the signed loan agreement and a sessional paper to the County Assembly for deliberation and approval.

After obtaining the approval of the County Assembly, the County Executive Committed Member for Finance shall submit the final draft loan financing agreement and the 'approval of the County Assembly to the Cabinet Secretary requesting for the guarantee of the final loan financing agreement;

The County Debt Management Advisory Committee will be responsible for recommending and ranking acceptable proposals to be submitted by the County Executive Committee Member for Finance to the County Executive Committee for considerations and approval. The approved proposals will then be submitted and incorporated as part of the budget approval and appropriation process after signing by the CEC member for finance. Borrowing will not be legal unless it has been signed off by CEC member for finance.

4.0 MACROECONOMIC ASSUMPTIONS OF THE MEDIUM TERM DEBT MANAGEMENT STRATEGY

This section describes the medium term strategy assumptions considered during preparation and those that are to affect the realization of the proposed management strategies. The assumption is:

i. The macroeconomic framework underpinning the strategy will remain stable during the medium term period. Forecasted GDP growth rates and variables such as inflation rates, interest rates amongst others are expected to remain stable to minimize the cost of debt;
ii. The macro-economic framework underpinning the 2020/2021-2022/2023 MTDS is consistent with projections included in the 2020 County Fiscal Policy Strategy Paper. The fiscal strategy paper aims at providing a general fiscal direction to support economic activities taking into consideration debt harmony in the next three years with improved forecast of the national economy;
iii. The political, social and economic environment is expected to remain favorable during the implementation of the strategy;
iv. As per the constitution, the national government is expected to guarantee county government loans; and
v. The National Treasury is expected to sustain the efforts towards minimizing the delays in disbursement of equitable share transfers and other factors which might lead to escalation of demand for short-term finance by the counties.

4.1 National Debt Outlook

The National Government strives to maintain macroeconomic stability which is critical for job creation by pursuing prudent fiscal and monetary policies that support strong economic growth, ensure price stability and maintain public debt at sustainable levels.

Kenya's debt sources include external creditors (multilateral, bilateral and commercial lenders) and domestic market through issuance of debt securities (T-Bills and T-Bonds). The net domestic financing for 2019/20 is Ksh. 300.7 billion while the Net Foreign Financing is Ksh. 353.5 billion.

Increasing fiscal constraints in concessional financial sources as well as Kenya`s graduation to lower middle-income economy has led to a slowdown in access to concessional funding. The cost of deficits financing and refinancing maturing debt has therefore remained higher since 2014 than in the previous years. Debt service burden will greatly benefit from fiscal consolidation so as to ensure that the relative service of debt service is brought down in the medium term. It is also expected that the country will restructure its debt portfolio by replacing expensive commercial debt with cheaper funds from alternative sources.

The National Government projects the fiscal deficit (including grants), to be Ksh 569.4 billion (4.9 percent of GDP) in FY 2020/21 against the estimated overall fiscal balance of Ksh 657.4 billion (6.3 percent of GDP) in FY 2019/20. The fiscal deficit in FY 2020/21, will be financed by net external financing of Ksh 247.3 billion (2.1 percent of GDP), Ksh 318.9

billion (2.7 percent of GDP) net domestic borrowing and other net domestic receipts of Ksh 3.2 billion.

4.2 County Debt Outlook

The County has no debt. However any new debt to be sought will be in line with the strategies outlined in this Debt Strategy Paper.

4.3 Potential Financing Sources

The potential sources of Loans for Makueni County Government falls under two categories;

a) **Domestic sources of loans;** this will consist of borrowing from financial institutions (banks, pension funds and insurance companies) and non-financial institutions (domestic instruments E.g. T-bills, T-bonds).

b) **External sources of loans;** the main sources will include Loans and grants from multilateral, bilateral organizations. This will be facilitated through the National Treasury

5.0 CONCLUSION

The increase in debt stock strains public service delivery, as resources available for financing other social and development needs are limited. The need to adequately coordinate borrowing activity and establish guidelines to monitor debt levels is crucial in debt management. Public debt management objectives are; to ensure that the county government's financing needs and payment obligations are met at the lowest possible cost over the medium to long term, with a prudent degree of risk, while ensuring the equitable sharing of benefits and burdens of public debt between the current and future generation.

The strategies proposed in the MTDS will ensure low cost funding with high returns, thereby promoting socio-economic well-being of the citizens. This is expected to contribute to economic growth both at the county and national level and ensure delivery of Vision 2025 for enhanced socio economic transformation.

The County Government of Makueni is yet to contract a debt within the interpretation of Section 122 and 123 of the PFMA, 2012. In this regard, it proceeds to make proposals on strategies to be adopted in future.

To achieve the outcomes set out in this policy the County Treasury will take a leadership role and oversee its implementation in collaboration with relevant departments, National governments and other key stakeholders.

GLOSSARY OF TERMS

Concessionality; A measure of the softness of a credit reflecting the benefit to the borrower compared to a loan at market rate. Technically, it is calculated as the difference between the nominal value and the present value of the debt service as of the date of disbursement, calculated at a discount rate applicable to the currency of the transaction and expressed as a percentage of the nominal value.

Debt Service; The amount of funds used for repayment of principal and interest of a debt.

Debt Sustainability; Sustainable debt is the level of debt that allows a debtor country to meet its current and future debt service obligations in full, without recourse to further debt relief or rescheduling, avoiding accumulation of arrears, while allowing an acceptable level of economic growth.

Debt Sustainability Analysis; This is conducted in the context of medium-term scenarios. These scenarios are numerical evaluations that take account of expectations of the behavior of economic variables and other factors to determine the conditions under which debt and other indicators would stabilize at reasonable levels, the major risks to the economy, and the need and scope for policy adjustment. In this analysis, macroeconomic uncertainties, such as the outlook for the current account, and policy uncertainties, such as for fiscal policy, tend to dominate the medium term outlook.

Disbursement; The actual transfer of financial resources or of goods or services by the lender to the borrower.

Domestic Borrowing; Government borrowing through issuance of local Government securities and direct borrowing from the Central Bank.

External Borrowing; Government borrowing from both official (Government or Government agencies) and private institutions domiciled outside the country.

Government Securities; Financial instruments used by the Government to raise funds from the primary market.

Present Value; The present value (PV) is defined as the sum of all future cash flows (interest and principal) discounted at the appropriate market rate. For a loan, whenever the interest rate on a loan is lower than the market rate, the resulting PV is lower than its face value.

Primary Market; This is a market where financial instruments are originated through initial issuance.

Public Debt; This refers to outstanding financial obligations of the Government arising from past borrowing. It includes Government guaranteed debts to State Corporations and Local Authorities.

Domestic Debt; Part of the overall debt owed by the Government to creditors domiciled in the economy. The debt includes money owed to commercial banks, non-bank financial institutions, individuals among others. The term domestic debt is used in relation to government obligation.

External Debt; Part of the overall debt owed by the Government to creditors domiciled outside the economy. The debt includes money owed to private commercial banks, other governments, or international financial institutions such as the IMF and World Bank. The term external debt is used in relation to government obligation.

Secondary Market; this is a market where already issued financial instruments are traded.

Sovereign/Euro Bond; A debt security issued by a national government within a given country and denominated in a foreign currency. The foreign currency used will most likely be a hard currency.

Treasury Bills; It is a short-term borrowing instrument issued by the Government to finance the budget.

Treasury Bond; This is a medium to long-term term debt instrument issued by the Government to finance the budget.