REPUBLIC OF KENYA **GOVERNMENT of MAKUENI COUNTY**

COUNTY TREASURY

2022 County Debt Management Strategy Paper

FY 2022/2023 – 2024/25 MEDIUM TERM EXPENDITURE FRAMEWORK

FOREWORD

The Medium Term Debt strategy paper is prepared in accordance with section 123 of the PFM Act, PFM regulations of 2015 and is consistent with the County Government development policies and strategies. The paper guides the county 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 Debt Strategy Paper ensures fiscal prudence in management of county resources to ensure debt is sustainable and is met at the lowest possible cost and with a prudent degree of risk.

The County Government of Makueni has consistently ensured expenditures and commitments are in line with the available resources. As such, we don't have any pending debts and has no plans of incurring debt in the financial year 2022/2023. However, the Government will continuously manage its cash flow through short term lending from commercial banks to offset delays in equitable share disbursements and own source revenue mobilization.

MARY K. KIMANZI
COUNTY EXECUTIVE COMMITTEE MEMBER - FINANCE AND SOCIO ECONOMIC PLANNING

ACKNOWLEDGEMENT

The Medium Term Debt Management Strategy (MTDS) 2022 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 2022/23 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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EXECUTIVE SUMMARY

Debt refers to financial obligations incurred by any level of the public sector which remain unpaid when due. 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. The Debt management policy act as a guide for public debt and borrowing practices of the County Government, including the issuance process and management of the debt portfolio. It also emphasizes the need to adhere to the laws and regulations governing public debt management.

The Makueni Debt Management Strategy Paper is prepared pursuant to PFM Act Section 123 and incorporates the principles of public finance as expounded in the constitution of Kenya 2010. The document lays out plans for Makueni County debt management for the fiscal year 2022/23 and over the Medium Term.

The MTDS provides guidance on raising resources through borrowing to finance the development objectives of the Government and managing the public debt portfolio. This will ensure any sought debt is affordable and sustainable and any new borrowing is for a good purpose 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 Medium Term Debt Strategy is based on the medium-term macroeconomic framework as provided in the 2022 County Fiscal Strategy Paper which is focusing on investing in productive sectors. The FY 2022/23 budget will be geared towards stimulating the growth of the local economy following the negative effects of COVID 19 pandemic. The budget theme will be enhancing community-driven development for building community resilience for sustainable development and prosperity. The budget will be guided by six principles namely; deepening equitable development; accelerating community-led development; disaster risk management and resilience building; accelerating post Covid-19 pandemic recovery; enhanced access to universal healthcare services and universal water coverage

The constitution and the PFM Act gives County Government powers to borrow money through issuing county treasury bonds and by loan or credit evidenced by instruments in writing. This must be guaranteed by the National government. In Guaranteeing the loans, the National Government shall ensure the loans financing needs and payment obligations are met at the lowest possible cost in the market which is consistent with a prudent degree of risk while ensuring that the overall level of public debt is sustainable.

Section 140 of the PFM Act, authorizes the County Executive Committee member for finance to raise a loan on behalf of the County Government only if the terms and conditions for the loan are set out in writing and are in accordance with;

i. Article 212 of the constitution
ii. Sections 58 and 142 of the PFM Act
iii. Regulations to the PFM Act 2012
iv. Fiscal responsibility principles and the financial objectives of the County Government set out in the most recent County Fiscal Strategy Paper

v. The debt management strategy of the County Government over the medium term.

The 2022 Makueni County Debt Strategy Paper is prepared taking account the following;

a. The borrowing needs of the county government
b. Fiscal responsibility principles as set out in section 107 of the PFM Act and regulation 25 of the PFM Act
c. Prevailing macro-economic conditions
d. Prevailing conditions of the financial markets.

1.0 LEGAL FRAMEWORK FOR PREPARING A MTDS

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.

The principal objective of the County Government debt management is to meet the County Government financing requirements at the least possible cost possible with a prudent degree of risk.

The 2022 Medium Term Debt Management strategy paper will guide the County Government operations in 2022/23 and the medium term. The strategy seeks to balance cost and risk of public debt while considering the financial needs of the county and to develop initiatives for new funding sources.

Makueni County has no debt. The Government will institute measures to ensure potential revenue gap in FY 2021/22 is addressed before the closure of each financial year. This will be realized through implementing Own source revenue enhancement measures and expenditure capping where expenditures and commitments will be incurred based on the actual revenues.

2.0 INTRODUCTION

The Makueni 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. The Vision has been implemented with two successive County Integrated Development Plans (CIDP 2013-2018, 2018-2022). The CIDP 2018-2022 aims at achieving increased household income for sustainable livelihoods. This will be realized through; Increasing agricultural productivity, value addition and commercialization; Increasing availability and access to water; Enhancing quality health care for all; Youth, women and PWD economic empowerment and ensuring Secure land tenure and urbanization.

To full implement the strategies in the Vision 2025 there is need to enhance the county resource mobilization both internally and externally. Over the period, 2013-2022, the County has ensured the programs and projects implemented over the period are within the available resources. This has ensured, no debt carryovers in each financial year.
Going forward, the County Government will be implementing strategies that seek to raise funding both internally (on source revenues) and externally. The external strategy shifts the attention towards engaging external partners to finance implementation of the prioritized programs. This will involve deepening engagement with bilateral and multilateral agencies, public private partnerships, private foundations, seeking loans and diaspora engagement (fundraising).

Funding through PPPs and loans will be restricted to high impact projects focusing on the productive sectors of the economy. This will be expected to stimulate the growth of the county economy and enhance our Gross County Product. This in effect will result to increased business activities and more revenues. The increased revenues will enhance the credit rating for the County that will facilitate high access to loans.

3.0 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.

The 2022/2023 – 2024/25 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, manage the cash flow and support the County Government priorities for socio economic transformation while ensuring debt sustainability. 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 the strategy include;

i. Ensuring 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;
ii. Ensuring public debt remains sustainable and that it does not place unbearable burden on its current and future generation. In this regard, management of public debt will seek to safeguard County Government's ability to service debt without compromising the fiscal capability to fund provision of services and development projects;
iii. To ensure that the overall level of public debt does not exceed twenty percent of the county governments total revenue at any one time as stipulated in the public finance management regulation section 25 (1)(d).

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. In managing the county government's public finances, the County Treasury shall ensure; over the medium term, the government's long term borrowings shall be used only for the purpose of financing development expenditure and the county debt shall be maintained at a sustainable level as approved by the county assembly.

Section 140 (1) of the PFM Act, authorizes the County Executive Committee member for Finance, to raise loans to implement Government programs, 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 of the PFM Act; 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.

Borrowing through Issuance County Treasury bonds and any other loan or credit evidenced by instruments in writing shall require a national government guarantee pursuant to section 58 of the PFM Act.

Borrowing through overdraft facility from CBK will be guided by PFM Act Section 142. This is restricted to short term borrowing at a maximum of 5 percent of the most recent audited equitable share and has to be approved by the County Assembly.

4.0 PRINCIPALS AND GUIDELINES FOR PUBLIC DEBT MANAGEMENT

In the Medium Term, the Government will raise resources through long term and short term borrowing to finance the programs in the budget. This will be done while ensuring the debt levels are maintained at sustainable levels. The management of public debt will be in accordance with the constitution and the PFM Act.

4.1 purpose for borrowing

The County Government borrowings 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 urgent and unforeseen events. in cases where the emergency 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

The County Executive Committee Member for Finance will ensure that the level of fiscal deficits set out in the County Fiscal Strategy paper is consistent with the principles of public finance as set out in the Constitution of Kenya and the objectives of Medium Term Debt Strategy Paper.

4.2 Managing Costs and Risks

The Debt Strategy paper will guide public 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 associated with the loan.

Short-term borrowings will be for management of temporary cash flow fluctuations during the financial year and will be limited for a period of twelve months. Development/capital expenditures will be financed through long-term borrowing to maximize the benefits of long repayment periods of these type of loans.

4.3 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).

Based on the Credit rating report Makueni County qualifies for any loan below Kshs 2 billion, however based on the actual revenues for FY 2020/21, Makueni County can qualify for a loan to a maximum of Kshs 1,833,999,114.55 as outlined in table 1 below.

Table 1; Projected county possible loan amounts and expenditure limits

Revenue source	FY 2020/21 - Actual Revenues	FY 2021/22 Projected Revenues	FY 2022/23 Projected Revenues	FY 2023/24 Projected Revenues	FY 2024/25 Projected Revenues
Own source revenue	521,102,374.05	1,091,306,710.00	920,000,000.00	950,000,000.00	1,000,000,000.00
Shareable revenue	7,464,930,000.00	8,132,783,562.00	8,132,783,562.00	8,450,322,447.11	8,780,259,417.43
Conditional allocations, loans and grants	1,183,963,198.70	808,073,194.00	850,000,000.00	1,250,000,000.00	950,000,000.00
Total	**9,169,995,572.75**	**10,032,163,466.00**	**9,902,783,562.00**	**10,650,322,447.11**	**10,730,259,417.43**
Maximum loan (20%)	**1,833,999,114.55**	**2,006,432,693.20**	**1,980,556,712.40**	**2,130,064,489.42**	**2,146,051,883.49**
Maximum annual repayment amounts (15% of revenues) (without Interest)					
			1,485,417,534.30	**1,597,548,367.07**	**1,609,538,912.61**
Years					
2.00	916,999,557.28	1,003,216,346.60	990,278,356.20	1,065,032,244.71	1,073,025,941.74
5.00	366,799,822.91	401,286,538.64	396,111,342.48	426,012,897.88	429,210,376.70
10.00	183,399,911.46	200,643,269.32	198,055,671.24	213,006,448.94	214,605,188.35
15.00	122,266,607.64	133,762,179.55	132,037,114.16	142,004,299.29	143,070,125.57

Source; county treasury

The annual repayments for the loan are sustainable over the medium term based on the projected inflows from equitable share and own source revenues.

4.4 Process of seeking loans;

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. In order to be able to process any loan, Departments and entities should;

i. Present a feasibility study report informing the project economic viability, costing and design and social and environmental risks mitigation plans,
ii. Confirm on availability of land and wayleave acquisition for the project where necessary.
iii. Confirm on availability 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. Demonstrate prioritization and commitment of the counterpart funding by the respective department where necessary. This should not be less than 15 percent of the total project cost. 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.

v. Present a due diligence report to ascertain the financial, technical and legal competency for the frim procured competitively to undertake the project implementation.

vi. Present any other requirements depending on either Bilateral or Multilateral Framework Agreement with the respective Development Partner;

All project proposals should be forwarded to County Treasury. The County Debt Management Unit will review all documents and independently assess the cost/benefits analysis submitted and evaluate the sources of financing. 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.

Analysis of Debt Sustainability

In deciding whether or not to contract new debt in the medium term, emphasis will be placed on monitoring the level of total public debt, and to assess the potential cost and risk of new debt measured against the available fiscal space and the vitality of the economy to ensure that future borrowing will maintain outstanding debt within sustainable levels. The ratios to be monitored include solvency and liquidity indicators. These ratios include:

a. Debt to GCP;
b. Debt service to GCP;
c. Debt Service to County Revenues
d. Interest payments to County Revenues
e. Interest payments to GCP;

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. Managing county cash flow.
b. Investing in the productive sectors of Makueni County;
c. Funding priority core infrastructure and development initiatives
d. 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.

4.5 Institutional and Operational Framework

Debt management in the county will be handled by the County Debt Management Unit which will provide secretariat services to the County Debt Management Advisory Committee (DMAC). The functions and responsibilities of the unit shall 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. monitoring and evaluating 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. Preparing and publishing debt statistical bulletins regularly;
xiv. Preparing forecasts on Government debt servicing and disbursements as part of the yearly budget preparation;
xv. Compiling, verifying and reporting on all Government debt arrears and design a strategy for the settlement of those arrears;
xvi. Monitoring that the disbursements of loans raised by Government are in accordance with agreed disbursement schedules;
xvii. Formulating External Resources Policy;
xviii. Assessing, mobilizing, negotiating and allocating all external resources including the consolidation of the donor commitment register in the annual national budget;
xix. Examining and scrutinizing proposals for financing projects of a county government entity from an accounting officer;
xx. Formulating an external resource mobilization strategy to guide the county in external resource mobilization including monitoring;
xxi. Formulating guidelines and procedures for reporting and recording budget estimates and expenditure for external resource;

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.

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 and sanitation ,Health 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 Vision 2025;
v. The project to be funded has a positive Net Present Value or helps achieve Vision 2025 and the SDGs;
vi. The cost of any contingent liabilities and obligations such as tied procurement are factored into the cost and risk of debt;
vii. Loan terms and conditions are acceptable and achieve the best cost and risk outcome
viii. Borrowing aligns with the CFSP.

County Debt Management Unit

There shall be a County Debt Management Unit (CDMU) under the County Treasury of Makueni county government. The Debt Management Unit will provide secretariat services to the County Debt Management Advisory Committee (DMAC).

The functions and responsibilities of the County Debt Management Unit will include:

i. Making debt payments on time and for the correct amount,
ii. Keeping timely, comprehensive and accurate records of outstanding government debt, guarantees, contingent liabilities and new borrowing in a single debt database;
iii. Publishing, in a timely manner, monthly (and quarterly) reports showing the status of outstanding debt, debt payments, and projected debt payment obligations;
iv. Preparing, reviewing and updating the Debt Strategy;
v. Preparing an annual borrowing plan

vi. Assessing the risks in issuing any guarantees, and prepare reports on the method used for each assessment and the results thereof for the attention of the CEC Member for Finance;
vii. Submitting all debt reports and debt management strategy to DMAC for consideration and recommendation.

4.6 Process for Approving Loan Proposals by the County Government

Pursuant to Section 184 of PFM Regulations the County Executive Committee Member shall undertake the following;

i. 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.
ii. 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 – National Treasury requesting for the guarantee of the final loan financing agreement;
iii. The Cabinet secretary (National Government) shall participate in the negotiations on the contracting of a guaranteed loan by advising the County Government on the best financial terms available and shall sign on behalf of the National Government all agreements on the issuance of a government guarantee.

In guaranteeing the loans, the County must demonstrate the following;

a. That the project could not be financed on reasonable terms and conditions without a government loan
b. The County has adopted a unified approach in project cycle management that includes the preparation, appraisal and management of public investment projects
c. Conditions precedent for the implementation of the project have been met including
    a. Land acquisition, compensation and resettlement of persons affected and stakeholder management
    b. Detail designs have been completed and relevant approvals obtained where applicable;
    c. Necessary regulatory approvals vane been granted
    d. Detailed resource requirement including sources of funding and personnel to operationalize the project have been planned for
    e. Project details have been captured in the pipeline of Public Management Information System
d. Provide the projected cash flow clearly setting out the projected disbursement schedule and repayment plan

e. Contribute a substantial portion of project funds from the own county resources not less than 15 percent
f. Demonstrate that the proposed feasible project(s) have been approved by the County Government as required by county legislation

iv. While the cabinet secretary is guaranteeing the loans, He/she shall take into account the recommendation of the Intergovernmental Budget and Economic Council IBEC in respect of any guarantee. This is in line with section 58(2) of the PFMA, 2012.
v. The Cabinet Secretary after receiving recommendations of the IBEC shall then seek the recommendations of the Attorney General
vi. The Cabinet secretary to the National Treasury upon taking into account the recommendations of IBEC, the cabinet and the Attorney General may recommend for approval or rejection of the request
vii. Upon rejection of a loan request, the cabinet secretary shall give reasons and communicate the same to the county executive committee member for finance.
viii. Upon approval of a loan guarantee request, the Cabinet Secretary shall submit a sessional paper to Parliament with recommendations seeking its approval;
ix. The Cabinet Secretary shall communicate the decision of Parliament on the draft loan guarantee to the respective County Executive Committee Member for finance; and
x. upon approval by Parliament the Cabinet Secretary shall issue a loan guarantee.
xi. After receiving the communication of the decision of Parliament on the draft loan guarantee, the County Executive Committee member shall report to the County Assembly of the decision

Procedure for submission of County Treasury Bonds guarantee request.

While seeking funding through treasury bonds, the CEC Finance shall follow the following process;

i. The County Executive Committee Member for finance shall develop and submit the cash plan, indicating the borrowing requirements to the County Executive Committee for approval of the borrowing including its terms and conditions;

ii. After approval by the County Executive Committee, the County Executive Committee Member shall submit the cash plan referred to above to the County Assembly for approval of the borrowing including its terms and conditions;
iii. upon approval by the County Assembly, the County Executive Committee Member shall submit the final cash plan and the approval of the County Assembly to the Cabinet Secretary requesting for the guarantee of the Treasury Bond and their inclusion in the issuance calendar;
iv. the Cabinet Secretary to the National Treasury, after receiving the request from the county government, shall seek the recommendations of the Intergovernmental Budget and Economic Council in fulfillment of the requirements of section 58(2)(i) of the Act;

v. the Cabinet Secretary to the National Treasury may, upon taking into account the recommendations of the Intergovernmental Budget and Economic Council and the Attorney General may approve or reject the request;

vi. the Cabinet Secretary shall reject a request for loan guarantee with reasons and communicate the same to the concerned County Executive Member;

vii. upon approval of a loan guarantee request, the Cabinet Secretary to the National Treasury shall submit the request to Parliament with recommendations seeking its approval;

viii. the Cabinet Secretary to the National Treasury shall communicate the decision of Parliament on the draft loan guarantee to the respective County Executive Committee Member for finance;

ix. upon approval by Parliament, the Cabinet Secretary shall include such authorized Treasury Bonds in the overall national issuance calendar.

x. once the issuance calendar is known, when the national governments advertises its bond issuance for a specific month it shall also incorporate those to be issued on behalf of county governments;

xi. on the issuance day, the county whose bond is being issued, shall be represented in the auction committee meeting by the County Executive Committee Member or his or her representative; and

xii. after the National Treasury and the county government sign an on-lending agreement, the National Treasury shall transfer the proceeds of the Treasury Bond to the Revenue Fund of that county government and such on-lending transactions shall attract a fee to be determined by the National Treasury

5.0 FY 2022/23 – FY 2024/25 DEBT OUTLOOK

5.1 National Debt Outlook

The Government is committed to fiscal discipline and consolidation to reduce fiscal deficits and tame the debt accumulation and thus reduce the debt service over the medium term progressively. In addition, the Government will continue to support the development of the domestic debt market by implementing various debt market reforms aimed at deepening and improving efficiency to reduce costs and yields on domestic debt and make credit affordable to all sectors.

Kenya`s debt is sustainable, however, with the negative impact of COVID-19 pandemic, exports and domestic resources have declined, which have in turn have deteriorated the debt service to exports ratio and the present value (PV) of debt to exports ratio.

Total public and publicly guaranteed debt by June 2021 increased by Kshs 1,003,297 million to stand at Kshs 7,696,635 million (or 68.1percent of GDP) against a debt ceiling set under the PFM Act of Kshs 9,000,000 million. The total public debt service increased from Kshs 651,473 million in the Fy 2019/20 to Kshs 780,628 million in the Fy 2020/21. As at June 2021, the debt comprised 52.0 percent external and 48.0 percent domestic debt. The debt to GDP ratio increased from 65.8 percent in June 2020 to 68.1 percent in June 2021. External debt to GDP ratio rose from 34.4 percent in June 2020 to 35.4 percent in June 2021, while domestic debt as a percentage of GDP was at 32.7 percent in June 2021 rising from 31.2 percent in June 2020. The ratio of debt service to revenue increased from 41.4 percent in June 2020 to 50.0 percent in June 2021.

The stock of domestic debt stood at Kshs. 3,697,093 million as at June 2021 from Kshs. 3,177,526 million at end June 2020. The increase was attributed to a net domestic borrowing of Kshs. 519,567 million during the fiscal year to finance the budget deficit. Public external debt stock increased by 14.7 percent from Kshs 3,350,564 million at end June 2020 to Kshs 3,842,322 million at end June 2021. The total outstanding government guaranteed debt declined to Kshs 157,220 million in June 2021 from Kshs 165,248 million at end June 2020.

The recently conducted Debt Sustainability Analysis (DSA) revised the debt carrying capacity from strong to medium signifying that the country's debt remains sustainable but with heightened risk of debt distress. The Government commitment to fiscal consolidation, implementation of public debt reforms and promotion of local exports will improve debt indicators sustainably

Going forward into the medium term, the Government will continue with its revenue mobilization and expenditure prioritization policy geared towards economic recovery to support sustained, rapid and inclusive economic growth, safeguard livelihoods and continue the fiscal consolidation programme to create fiscal space for the implementation of the "Big Four" Agenda. This will curtail growth in public expenditures to ensure it attains its fiscal consolidation path over the medium term and strengthen management of public debt to minimize cost and risks of the portfolio, while accessing external concessional funding to finance development projects.

5.2 County Debt Outlook

Makueni County Government has no debt. The Government always ensured expenditures and commitments are incurred based on the available resources. This has ensured there is no carryover of debts each year. In addition, we have strengthened our internal controls to ensure only projects approved in the budget are implemented. By 30th June 2021, the County Government had total pending bills of Kshs 52,205,614.96. As at 31st December 2021, Kshs 47,792,236.35 have been paid leaving a balance of Kshs 4,413,378.61 which will be paid before the closure of the financial year.

To address periodic delays in disbursements of equitable share from the National Government that has negatively affected our cash flow and service delivery, the County Government has contracted commercial banks to address monthly projected deficits in cash flows.

Based on the 2020 Makueni County credit rating by Global Credit Rating (GCR) on behalf of the National Treasury, World Bank and Commission on Revenue Allocation (CRA), Makueni County can sustain any debt will below Kshs 2Billion. However, based on the actual revenues for FY 2020/21, Makueni County can qualify for a loan to a maximum of Kshs 1,833,999,114.55.

Over the medium term, Makueni County is considering raising debt to finance development activity to finance the Makueni Vision 2025. The borrowing will be limited to the maximum of 20% of the prior year's audited revenue in line with the PFM Act.

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, 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

In the FY 2022/23 the Government will be seeking short term loans to manage the County cash flow. This has been occasioned by the inconsistent transfers of equitable share to the County Government affecting service delivery and payment of key obligations.

In seeking this loans, the County Government will be guided by PFM Act Section 142 which authorizes borrowing for cash management purposes. The borrowing shall not exceed five percent of the most recent audited revenues of the entity and will be repaid within a year from the date on which it was borrowed.

6.0 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. There will be constant growth of own revenues upon full implementation of the revenue raising measures. Low resource mobilization affecting both the OSR and equitable share. This may lead to pending bills by closure of the financial year and expose the County Government to huge pending bills
ii. The procurement will be tagged to actual cash flow
iii. The county will maintain a realistic balanced budget
iv. The county will continue strengthening internal control systems
v. The macro-economic framework underpinning the 2022/2023-2024/2025 MTDS is consistent with projections included in the 2022 County Fiscal Policy Strategy Paper.
vi. The political, social and economic environment is expected to remain favorable during the implementation of the strategy;
vii. As per the constitution, the national government is expected to guarantee county government loans; and
viii. 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 county.

7.0 CONCLUSION

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 Medium Term Debt Strategy paper of year 2022 outlines the Governments strategic priorities for the management of the debt over the medium term. The Government endeavors to ensure commitments and expenditures are within the available resources and where funding will be sought externally through debts, the County will ensure they are sustainable and fit for purpose.

As the county enhances its resource mobilization in the medium term, the county will ensure when funding to programmes is done through debts it will be sustainable and the County will meet its debt obligations in a timely manner. Government borrowing will be guided by the need to lower cost and minimize risks, particularly of foreign exchange, interest rate, refinancing and settlement risks.

The establishment of a pending bills committee is a great initiative to review any commitments due that has never been disclosed. The report will be audited to ensure only valid claims are budgeted and paid for.

The Government will endeavor to implement sound policies and structural reforms to strengthen its credit rating to enhance its access to a wider array of sources of financing at lower cost and risk while maintaining overall debt within sustainable levels.

8.0 GLOSSARY OF TERMS

Budget	Financial plan that serves as an estimate of future cost, revenues or both.
Capital Expenditure("capex")	Expenditure on long-term assets such as plant, equipment or land, which will form the productive assets of a company.
Cash	Funds that can be readily spent or used to meet current obligations.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
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.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Debt Service;	The amount of funds used for repayment of principal and interest of a debt.
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 behaviour 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.
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.
Disbursement;	The actual transfer of financial resources or of goods or services by the lender to the borrower.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.

Domestic Borrowing;	Government borrowing through issuance of local Government securities and direct borrowing from the Central Bank.
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 Borrowing;	Government borrowing from both official (Government or Government agencies) and private institutions domiciled outside the country.
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.
Government Securities;	Financial instruments used by the Government to raise funds from the primary market.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Issuer	The party indebted or the person making repayments for its borrowings.
Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Loan	A sum of money borrowed by a debtor that is expected to be paid back with interest to the creditor. A debt instrument where immovable property is the collateral for the loan. A mortgage gives the lender a right to take possession of the property if the borrower fails to repay the loan. Registration is a prerequisite for the existence of any mortgage loan. A mortgage can be registered over either a corporeal or incorporeal property, even if it does not belong to the mortgagee. Also called a Mortgage bond.
Own Source Revenue	Own source revenue are those income streams that are directly under the control of the public entity, and may include property rates, business and other licence fees, hospitality fees, fines, or any other charges through which an LRG can generate income.
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.

Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
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.
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.
Transfers	Income received from a third party, most often a higher level of government or a donor. Includes exchequer releases, income provided by Government Departments, and or external parties such as development finance agencies.
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.

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