

REPUBLIC OF KENYA



GOVERNMENT OF MAKUENI COUNTY



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Date: 27TH February, 2026

Kevin Mutuku,
Clerk,
Makueni County Assembly,
P.O. Box 572-90300,
WOTE, MAKUENI



Dear Sir,

SUBJECT: FY 2026/2027 – 2028/29 MAKUENI COUNTY DEBT MANAGEMENT STRATEGY

Pursuant to the provisions of Section 123 of the Public Finance Management Act, 2012, please find herewith the FY 2026/27 – 2028/29 Makueni County Debt Management Strategy for your necessary action.

Kind regards.

DAMARIS MUMO KAVOI

COUNTY EXECUTIVE COMMITTEE MEMBER – FINANCE, PLANNING, BUDGET & REVENUE AND HEAD OF COUNTY TREASURY

Encl.

Cc.

1. H.E Governor
2. H.E Deputy Governor
3. Hon. Speaker of Makueni County Assembly
4. County Secretary and Head of Public Service

2026 COUNTY DEBT MANAGEMENT STRATEGY

REPUBLIC OF KENYA

GOVERNMENT OF MAKUENI COUNTY



COUNTY TREASURY

2026 COUNTY DEBT MANAGEMENT STRATEGY

FY 2026/2027 – 2028/29 MEDIUM TERM EXPENDITURE FRAMEWORK

2026 COUNTY DEBT MANAGEMENT STRATEGY

Makueni County Medium Term Debt Strategy Paper (MTDS) 2026

For comments and clarifications, please contact:

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FOREWORD

The Makueni County Debt Management Strategy Paper (CDMSP) for the Financial Year 2026/27 has been prepared in accordance with Section 123 of the Public Finance Management Act, 2012, and is anchored on the County’s Medium-Term Fiscal Framework. The Strategy provides a comprehensive assessment of the County’s current debt position, outlines borrowing principles and plans, identifies potential fiscal risks, and sets out measures to ensure compliance with statutory debt sustainability thresholds.

The CDMSP for FY 2026/27 is a critical policy document that underscores the County Government’s commitment to prudent financial management, fiscal discipline, and sustainable development. Notably, the Strategy marks a significant milestone as Makueni County enters the 2026/27 financial year with a zero-debt position, reflecting strong fiscal governance and responsible public finance management. The County has safeguarded its financial health while retaining the capacity to finance priority development programmes and deliver essential services to its residents.

Looking ahead, the 2026/27 Debt Management Strategy focuses on strengthening own source revenue mobilization, enhancing efficiency in public expenditure, and leveraging partnerships for development financing. The County will continue to explore innovative and sustainable financing mechanisms, including grants and public private partnerships, while ensuring that any future borrowing, if considered, is undertaken prudently and does not impose unjustified fiscal burdens on future generations.

This Strategy serves as a guide for responsible financial stewardship and reinforces the County Government’s commitment to transparency, accountability, and long-term fiscal sustainability. As we move forward, Makueni County remains dedicated to sustaining economic resilience, stimulating local economies for shared prosperity, and promoting inclusive development, while maintaining a strong and debt free fiscal position.



**DAMARIS MUMO KAVOI,
COUNTY EXECUTIVE COMMITTEE MEMBER, FINANCE, PLANNING, BUDGET
AND REVENUE AND HEAD OF COUNTY TREASURY**

2026 COUNTY DEBT MANAGEMENT STRATEGY

ACKNOWLEDGEMENT

The preparation of the Medium-Term County Debt Management Strategy Paper for FY 2026 was undertaken to guide the County Government of Makueni in maintaining prudent public debt management, fiscal discipline, and long-term financial sustainability. The Strategy provides a clear framework for assessing the County's debt position, identifying potential risks, and outlining appropriate mitigation measures in line with the Public Finance Management Act, 2012 and the County's Medium-Term Fiscal Framework.

The development of this Strategy was informed by a comprehensive assessment of the costs and risks associated with public borrowing, taking into account prevailing macro-economic conditions, national fiscal developments, and evolving global financial dynamics. Particular emphasis was placed on safeguarding Makueni County's strong fiscal standing while exploring innovative and sustainable financing options to support the implementation of priority programmes under the County Integrated Development Plan (CIDP) 2023–2027.

We extend our sincere appreciation to His Excellency the Governor, the Deputy Governor, the County Secretary, and the entire County Executive Committee for their strategic leadership, policy direction, and unwavering commitment to sound public financial management. Their guidance has been instrumental in ensuring that the Strategy aligns with the County's development agenda and the aspirations of the people of Makueni.

Special recognition is accorded to the County Executive Committee Member for Finance, Planning, Budget and Revenue for the overall coordination, technical oversight, and stewardship demonstrated throughout the preparation process. We also acknowledge the valuable contributions of the County Budget and Economic Forum (CBEF), whose stakeholder perspectives and valuable input enriched the Strategy and enhanced its responsiveness to the needs of the citizens.

Further appreciation goes to the technical teams comprising of Annastacia Muendo (Director, Budget and Expenditure), Jeremiah Mutunga (Budget Officer), Richard Mwendwa (Budget Officer), Mathias Mbweli (Economist), Hastings Mwangangi (Statistician), Charity Mumo (Economist), Evans Kisilu (Economist), Ruth Mwongeli (Economist), Jacob Kyungu (Economist), Nathan Wahome (Economist), Lydia Kerubo (Economist), Justus Mutunga (Statistician), Patricia Kanzi (Statistician), Franklin Mambo, Sharon Boniface, Francis Mwova, and Margaret Muteti (Budget Interns) for their dedication, professionalism, and teamwork in compiling data, undertaking analysis, and drafting this document.

It is our expectation that this Medium-Term Debt Management Strategy will serve as a vital tool for informed decision-making, support sustainable development financing, and reinforce Makueni County's commitment to transparency, accountability, and fiscal sustainability for the benefit of present and future generations.



DR. GEOFFREY N. MUTHOKA
AG. COUNTY CHIEF OFFICER SOCIO-ECONOMIC PLANNING, BUDGET,
REVENUE, AND M&E

TABLE OF CONTENTS

FOREWORD i

ACKNOWLEDGEMENT ii

TABLE OF CONTENTS..... iii

LIST OF FIGURES v

LIST OF TABLES v

ABBREVIATIONS AND ACRONYMS vi

EXECUTIVE SUMMARY vii

CHAPTER ONE: INTRODUCTION..... 8

 1.1. Background 8

 1.2. Legal framework..... 8

CHAPTER TWO: REVIEW OF PUBLIC DEBT 3

 2.1. Introduction..... 3

 2.2. Review of the Implementation of The 2025 Medium Term Debt Strategy 3

CHAPTER THREE: FY 2026/27-2028/29 DEBT OUTLOOK..... 4

 3.1. Introduction..... 4

 3.2. National Debt Outlook 4

 3.3. County Debt Context 5

 3.4. County Debt Outlook..... 5

CHAPTER FOUR: PRINCIPLES AND GUIDELINES FOR PUBLIC DEBT MANAGEMENT
IN MAKUENI COUNTY..... 7

 4.1. Introduction..... 7

 4.2. Responsibilities of the County Treasury in Debt Management 7

 4.3. Purpose of Borrowing 7

 4.4. Borrowing Limits..... 7

 4.5. Loan Application Process 8

 4.6. Approval Process for Makueni County Loan Proposals 8

 4.7. Debt Management Strategies 8

CHAPTER FIVE: MACRO-ECONOMIC ASSUMPTIONS AND KEY RISKS UNDER THE 2026
COUNTY FISCAL STRATEGY PAPER (CFSP)..... 9

 5.1 Macro-Economic Assumptions..... 9

 5.2 Key Risks Under The 2026 County Fiscal Strategy Paper (CFSP) 10

CHAPTER SIX: COUNTY FINANCING REQUIREMENTS, SOURCES, PUBLIC DEBT RISK AND COST EVALUATION..... 11

6.1 County Financing Requirements and Sources 11

CHAPTER SEVEN: PUBLIC DEBT RISK AND COST EVALUATION..... 12

7.1 Introduction..... 12

CHAPTER EIGHT: MEDIUM TERM DEBT STRATEGY IMPLEMENTATION, MONITORING & EVALUATION..... 13

8.1. Introduction..... 13

8.2. Implementation Strategy 13

8.3. Institutional and Operational Framework 13

8.4. Monitoring and Evaluation 14

LIST OF FIGURES

Figure 1: Makueni Gross County Product (GCP) trends 2019-2023 9

LIST OF TABLES

Table 1: Key Risks Under the 2026 County Fiscal Strategy Paper 10
Table 2: FY 2026/27 MTEF Resource Requirement, Estimated Revenue and Gaps 11
Table 3: National Government vs Makueni County Solvency and Liquidity Indicators 12

ABBREVIATIONS AND ACRONYMS

ATM	Average Time to Maturity
CBAs	Collective Bargaining Agreements
CBEF	County Budget and Economic Forum
CFSP	County Fiscal Strategy Paper
CI	Composite Indicator
CIDP	County Integrated Development Plan
DMAC	Debt Management Advisory Committee / County Debt Management
CDMAC	Advisory Committee
GCP	Gross County Product
GCR	Global Credit Rating
GDP	Gross Domestic Product
IMF	International Monetary Fund
M&E	Monitoring and Evaluation
MTDS	Medium-Term Debt Strategy
NSSF	National Social Security Fund
PFM	Public Finance Management
PPP	Public Private Partnerships
PV	Present Value
SDGs	Sustainable Development Goals
SRC	Salaries and Remuneration Commission

EXECUTIVE SUMMARY

The Makueni County Medium-Term Debt Management Strategy (MTDS) has been prepared in accordance with Section 123 of the Public Finance Management Act, 2012. The Strategy provides a structured framework for managing public debt in a prudent, transparent, and sustainable manner while supporting the financing of priority development programmes under the County Integrated Development Plan (CIDP) 2023–2027

Chapter one: This chapter provides the constitutional, legal, and institutional basis for public debt management which include the Constitution of Kenya, 2010 and the Public Finance Management Act, 2012

Chapter Two: Reviews the County’s existing debt position and performance under the previous Medium-Term Debt Strategy. It confirms that Makueni County enters FY 2026/27 with no outstanding long-term public debt. The County has relied on equitable share transfers, own source revenue, and grants to finance development and recurrent expenditures. Short-term borrowing has been applied only to manage temporary cash-flow challenges caused by delays in equitable share disbursements. The repayments for the borrowings are usually made within the same financial year, with no accumulation of arrears.

Chapter Three: Provides the national and county debt outlook over the medium term. At the national level, public debt stood at Ksh 11.8 trillion, equivalent to 67.8 percent of GDP as at June 2025, indicating elevated fiscal risks. Makueni County adopts a development focused borrowing stance. Based on audited revenues of Ksh. 11.06 billion (FY 2024/25), the County’s statutory borrowing ceiling is Ksh. 2.21 billion.

Chapter Four: Outlines the principles guiding debt management in the County. Borrowing will be undertaken solely for development projects with clear economic, social, or environmental impact and will be aligned with the MTDS, County Fiscal Strategy Paper, and CIDP 2023-27.

Chapter Five: This chapter sets out the macroeconomic assumptions underpinning the Strategy, including moderate economic growth of 5 percent, stable political conditions, improved own-source revenue mobilization, and continued engagement with development partners. It also identifies key fiscal risks, including revenue shortfalls, rising expenditure pressures, contingent liabilities, and climate-related shocks, and outlines mitigation measures to protect the County’s fiscal position.

Chapter Six: Analyses the County’s financing needs and available resources over the medium term. The total resource requirement for the MTEF period is estimated at Ksh. 33.27 billion, against projected revenues of Ksh. 22.57 billion, resulting in a financing gap of Ksh. 10.7 billion (32%). To address this gap, the County will prioritize grants, development partner support, public-private partnerships, and enhanced own-source revenue mobilization. Limited borrowing, including domestic infrastructure and green bonds, will be undertaken only where necessary and within statutory limits.

Chapter Seven: Evaluates the cost and risk implications of potential borrowing. Makueni County’s fiscal position remains strong, with a debt-to-GCP ratio of approximately 1 percent, compared to the national debt-to-GDP ratio of 65.7 percent. At the national level, debt service accounts for about 4 percent of country revenues, while interest payments account for 2 percent, indicating low debt distress and high affordability.

Chapter Eight: Outlines the framework for implementing, monitoring, and evaluating the Medium-Term Debt Management Strategy. It provides for the establishment of a County Debt Management Unit and a County Debt Management Advisory Committee to oversee debt operations, ensure compliance with borrowing limits, and strengthen reporting and accountability. Key performance indicators will be monitored regularly to support evidence based decision-making and timely corrective action.

CHAPTER ONE: INTRODUCTION

1.1. Background

1. The Debt Management Strategy is prepared pursuant to the provision of Section 123 of the Public Finance Management Act, 2012. The County Treasury is mandated to submit a statement to the County Assembly on or before 28th February of each year outlining the County Government’s medium-term Debt Management Strategy. The statement addresses existing and potential debt liabilities and sets out the measures to be undertaken to manage such liabilities in a prudent and sustainable manner.
2. This Paper presents the County Government’s objectives, policies, and plans for managing public debt over the medium-term period covering FY 2026/27–2028/29. It outlines the measures the County Government intends to implement to achieve an optimal debt portfolio composition while ensuring that the County’s financing needs and payment obligations are met at the lowest possible cost and within acceptable risk levels. The primary objective of the strategy is to minimize cost and manage risks associated with the debt portfolio, including exposure to interest rate, refinancing, and liquidity risks, while safeguarding fiscal sustainability and budget stability.

1.2. Legal framework

3. County borrowing is governed by Articles 212 and 213 of the Constitution of Kenya and operationalized through Section 58 of the PFM Act, 2012 and Regulation 179 of the PFM (County Governments) Regulations, 2015. These provisions require that county borrowing be undertaken strictly for development purposes, guaranteed by the National Government, and capped at twenty percent (20%) of the most recent audited and approved revenues.
4. Article 201(d) of the Constitution requires that public money be used prudently and responsibly, while Article 212 stipulates that a county government may borrow only with the approval of the County Assembly and subject to a guarantee by the National Government.
5. The Public Finance Management Act, 2012, operationalizes these provisions by establishing fiscal responsibility principles for counties, including the requirement under Section 107(2)(d) that public debt be maintained at a sustainable level as approved by the County Assembly. Further, Sections 122 and 123 mandate the County Treasury to

2026 COUNTY DEBT MANAGEMENT STRATEGY

maintain proper records of all county loans and to prepare and submit a County Debt Management Strategy to the County Assembly. Sections 140 and 141 reinforce that county borrowing must strictly comply with constitutional provisions and remain sustainable and consistent with fiscal responsibility principles.

6. Regulation 176-196 of the Public Finance Management (County government) Regulations, 2015 provides the public debt management procedures and guiding principles for county borrowing
7. The county treasury plays a pivotal role in managing public debt, with responsibilities including:
 - a) Borrowing funds on behalf of the county government and ensures timely repayment.
 - b) overseeing interest and principal payments on existing debts.
 - c) Assessing borrowing risks and develops mitigation strategies.
 - d) Regular reporting on debt levels, terms, and conditions maintains transparency and accountability

CHAPTER TWO: REVIEW OF PUBLIC DEBT

2.1. Introduction

8. This chapter offers an overview of the cost and risk characteristics associated with the county's public debts for the FY 2025/26. It gives information on the County government debt status and its implication to the Fiscal space.

2.2. Review of the Implementation of The 2025 Medium Term Debt Strategy

9. The County Integrated Development Plan (CIDP) 2023-27 envisions that the government will engage in robust resource mobilization strategies to help fill a resource gap of Ksh. 38 billion. Among these strategies is seeking loans in the medium term and engaging in Public-Private Partnership program for various public utilities. The government had received a positive rating from Global Credit Rating (GCR), indicating its capacity to meet financial commitments based on its financial performance. This therefore affirms that the government is financially stable to repay loans both locally and externally.
10. The PFM Act 2012 Regulation 179 (1) limits maximum borrowing to 20 percent of the most recent audited revenues approved by the County Assembly. Despite this provision, the County Government of Makueni has never acquired any long term debt but has remained within its means, incurring expenditures and commitments based on available resources. Additionally, there are strong internal controls to ensure that only programs and projects approved in the budget are implemented. However, in FY 2024/25, the government contracted commercial bank to address monthly projected cash flow deficits which were caused by delays in the disbursement of equitable shares from the National Government.

CHAPTER THREE: FY 2026/27-2028/29 DEBT OUTLOOK

3.1. Introduction

11. This chapter outlines the National and County debt context and outlook over the medium term, covering FY 2026/27–2028/29. It highlights the County’s current debt position, statutory borrowing limits, and planned financing strategies to support development priorities while ensuring fiscal prudence and sustainability.

3.2. National Debt Outlook

12. Kenya’s public debt has continued on an upward trajectory, reaching Ksh. 11.81 trillion (USD 91.42 billion) as at the end of June 2025, compared to Ksh. 10.58 trillion (USD 81.7 billion) in June 2024. Of the total stock, domestic debt stood at Ksh. 6,326.01 billion, while external debt amounted to Ksh. 5.49 trillion. The nominal public debt-to-GDP ratio increased to 67.8 percent, up from 65.7 percent in June 2024, largely reflecting exchange rate movements and continued financing of fiscal deficits. The present value (PV) of public debt declined marginally to 65.3 percent of GDP, though it remains above the 55 percent sustainability benchmark. Debt service pressures remain elevated, with interest payments accounting for 5.9 percent of GDP, underscoring the growing cost of servicing public debt. Over the medium term, public debt is projected to remain elevated before gradually declining as fiscal consolidation measures take effect, with the PV of debt expected to fall below the benchmark after FY 2028/29.
13. Kenya’s debt sustainability assessment indicates that public debt remains sustainable but with a high risk of debt distress, as affirmed by the 2025 Debt Sustainability Analysis (DSA) undertaken jointly by the National Treasury and the Central Bank of Kenya. While the PV of external debt-to-GDP remains below the 40 percent threshold, debt service indicators continue to exert pressure, particularly the debt service-to-exports ratio, which is projected to remain above the sustainability benchmark through 2030. These pressures constrain fiscal space and limit the Government’s ability to scale up expenditure in priority sectors such as health, education, and infrastructure. Consequently, debt management policy over the medium term is focused on smoothing the debt maturity profile, reducing refinancing risks, and minimizing borrowing costs through greater reliance on concessional financing and liability management operations.
14. Kenya is classified as a medium debt-carrying capacity country, with a Composite Indicator (CI) estimated at approximately 3.0, reflecting moderate institutional strength and macroeconomic performance. In response to elevated debt vulnerabilities, the Government’s Medium-Term Debt Management Strategy emphasizes reducing refinancing risk by lowering reliance on short-term domestic instruments and lengthening the Average Time to Maturity (ATM) of the debt portfolio through issuance of medium-to long-term Treasury bonds. In addition, the Strategy prioritizes reducing foreign exchange risk exposure by limiting commercial external borrowing, diversifying the currency composition of external debt, and deepening the domestic debt market. These measures are complemented by continued fiscal consolidation and reforms aimed at strengthening debt governance and market confidence.
15. Although public debt levels are projected to remain high over the medium term, the ongoing implementation of fiscal consolidation measures, improved domestic financing conditions, and continued engagement with development partners are expected to mitigate associated risks. Sustained adherence to prudent debt management practices will

be critical to restoring fiscal buffers and safeguarding macroeconomic stability. In this context, Kenya's evolving debt outlook presents an insight for county governments, including Makueni County, to cautiously explore development financing within the framework of the Public Finance Management Act. This will require strengthening own-source revenue mobilization, enhancing financial management systems, maintaining strict debt discipline, and leveraging innovative financing mechanisms such as public-private partnerships, blended finance, and carefully structured infrastructure investments to support development objectives while preserving fiscal sustainability.

3.3. County Debt Context

16. Since the establishment of devolved governments in 2013, Makueni County has pursued a conservative and prudent debt management approach, anchored on the principles of fiscal responsibility, affordability, and sustainability as provided for under Article 201 of the Constitution of Kenya and the Public Finance Management (PFM) Act, 2012. The County has primarily relied on intergovernmental fiscal transfers, own-source revenues, conditional loans & grants and partnerships to finance development programmes, thereby avoiding the accumulation of unsustainable debt obligations.
17. The County has maintained a low debt profile, with no long-term borrowing commitments. Short-term bank facilities have only been utilized occasionally to manage temporary cash-flow mismatches largely arising from delays in the disbursement of equitable share transfers from the National Government. The short term facilities are mainly for the timely payment of salaries and are usually settled within the same financial year. As a result, the County has consistently avoided the carry-over of debt or expenditure arrears, reflecting sound cash management and strict expenditure control.
18. A credit assessment undertaken in 2020 by Global Credit Rating (GCR) on behalf of the National Treasury, the World Bank, and the Commission on Revenue Allocation affirmed that Makueni County possesses the institutional and fiscal capacity to prudently manage moderate levels of debt, subject to compliance with statutory limits and maintenance of sound financial management practices.

3.4. County Debt Outlook

19. Section 142 of the PFMA and Regulations 177 and 178 of the PFMA Regulations (County Governments) 2015 provide for short term borrowing by the county government entities as authorized by the County Assembly. Such borrowing is meant for cash management purposes and shall not exceed five percent of the most recent audited revenues of the entity. The loans should be repaid within a year from the date of borrowing. In the Medium term, the county government will seek short term borrowing with the approval of the County Assembly to manage cash flow, ensure timely payment of salaries, and maintain uninterrupted service delivery
20. Over the medium term, Makueni County's debt outlook will be development-oriented. The scale of development needs articulated in the CIDP III (2023–2027) significantly exceeds projected revenues, necessitating complementary financing mechanisms. Section 179(1) of the PFM Regulations 2015 guides that the County's public debt should not exceed twenty percent of the most recent audited revenues approved by the county assembly.

2026 COUNTY DEBT MANAGEMENT STRATEGY

21. The County is therefore exploring long-term domestic debt instruments, including Infrastructure Bonds, Municipal Bonds, and County Green Bonds, to finance priority projects with clear economic, social, and environmental returns. Any borrowing undertaken will be guided by the principles of affordability, transparency, and intergenerational equity to ensure that debt service obligations remain manageable and do not crowd out essential service delivery.
22. Based on the audited revenues for FY 2024/25 of Ksh. 11,057,792,021 Makueni County is eligible for loans up to a maximum of Ksh. 2,211,558,404.

CHAPTER FOUR: PRINCIPLES AND GUIDELINES FOR PUBLIC DEBT MANAGEMENT IN MAKUENI COUNTY

4.1. Introduction

23. This chapter highlights the main principles guiding Makueni County's debt management which includes transparency, accountability, affordability, and sustainability. It also sets out clear procedures for borrowing, debt repayment, and coordination among institutions to reduce financial risks and support long-term development.
24. In the Medium -Term Expenditure Framework, the County will manage public debt responsibly to maintain fiscal discipline, support economic stability, and ensure that public resources are used effectively. The County will endeavor to borrow while assessing potential risks and ensuring compliance with the Constitution of Kenya and the Public Finance Management (PFM) Act, 2012. These measures will help keep debt at affordable and sustainable levels while financing priority development projects.

4.2. Responsibilities of the County Treasury in Debt Management

25. In line with the Public Finance Management (PFM) Act, 2012, Makueni County Treasury is responsible for ensuring responsible borrowing and financial stability. The Treasury is required to ensure that long-term borrowing is only utilized for development projects and stays within sustainable limits approved by the County Assembly.
26. The Public Finance Management (PFM) Act allows the County Executive Committee Member for Finance to negotiate loans under clear terms set out in the Constitution. The Act also permits the County Assembly to approve short-term borrowing to help manage cash flow challenges. Such short term borrowing must not exceed five percent of the County's most recently audited revenue and must be repaid within one year.

4.3. Purpose of Borrowing

27. In line with the Public Finance Management regulations, Makueni County may borrow funds from local or international sources to finance viable development projects. All borrowing must match the County's development priorities and be included in the Medium-Term Debt Strategy. The county treasury has the mandate to carry out assessments to ascertain a project's viability, availability of funds, and overall financial soundness before borrowing.

4.4. Borrowing Limits

28. Pursuant to the Public Finance Management (PFM) Act, 2012, the County is required to ensure that its total public debt does not exceed 20 percent of total County revenue at any given time. Additionally, annual debt servicing obligations should be maintained within 20 percent of the most recently audited County revenue. Based on current financial assessments, the County has a borrowing capacity of up to Ksh. 2,211,558,404. However,

any borrowing will be undertaken cautiously to preserve fiscal discipline, ensure long term sustainability, and avoid potential financial distress.

4.5. Loan Application Process

29. For a project to qualify for loan financing, it must be aligned with the County Integrated Development Plan (CIDP) and included in the Medium-Term Debt Strategy. Prior to submitting any loan application, the County Treasury shall ensure that all legal and financial requirements are met, including confirmation of project priority, completion of feasibility studies, verification of resource availability, and obtaining the required approvals.

4.6. Approval Process for Makueni County Loan Proposals

30. To comply with the PFM Act, the following steps must be followed when approving loan proposals:
- a. Submission of the borrowing proposal, including detailed terms and conditions, to the County Executive Committee member for finance for approval.
 - b. Presentation of the approved loan agreement and sessional paper to the County Assembly for further review and endorsement.
 - c. Submission of the final loan agreement to the Cabinet Secretary for National Treasury to facilitate a government guarantee where applicable.
 - d. Engagement of the National Treasury in negotiations to secure the best possible financial terms for the County.

4.7. Debt Management Strategies

31. To maintain public debt sustainability and affordability, Makueni County will implement the following strategies:
- a. Prioritize conditional allocations and grants over loans to minimize debt accumulation.
 - b. Consider concessional loans from bilateral and multilateral partners when borrowing is necessary.
 - c. Strengthen relationships with development partners and private investors to secure funding for priority projects.
 - d. Conduct comprehensive risk assessments before acquiring new debt to minimize financial exposure.
 - e. Implement strong mechanisms to track debt performance and ensure alignment with long-term fiscal goals.
32. The County aims to leverage on strategic partnerships and accelerate own source revenue rather than direct borrowing to address financial gaps. Any future borrowing will strictly adhere to fiscal responsibility guidelines to preserve financial stability and support sustainable development priorities.

CHAPTER FIVE: MACRO-ECONOMIC ASSUMPTIONS AND KEY RISKS UNDER THE 2026 COUNTY FISCAL STRATEGY PAPER (CFSP)

5.1 Macro-Economic Assumptions

33. The 2026 County Fiscal Strategy Paper considers crucial assumptions on financial, economic, and environmental factors:

a. Economic Growth

34. The national economy is projected to expand by approximately 5 percent in 2026 according to the latest International Monetary Fund (IMF) forecasts. Over the medium term, this positive trend is likely to be reflected in the county economy, driven by continued robust growth in the services sector, a recovery in agriculture, and the sustained implementation of initiatives to stimulate local economic activity. The Gross County Product (GCP) trend 2019-2023 is shown below:

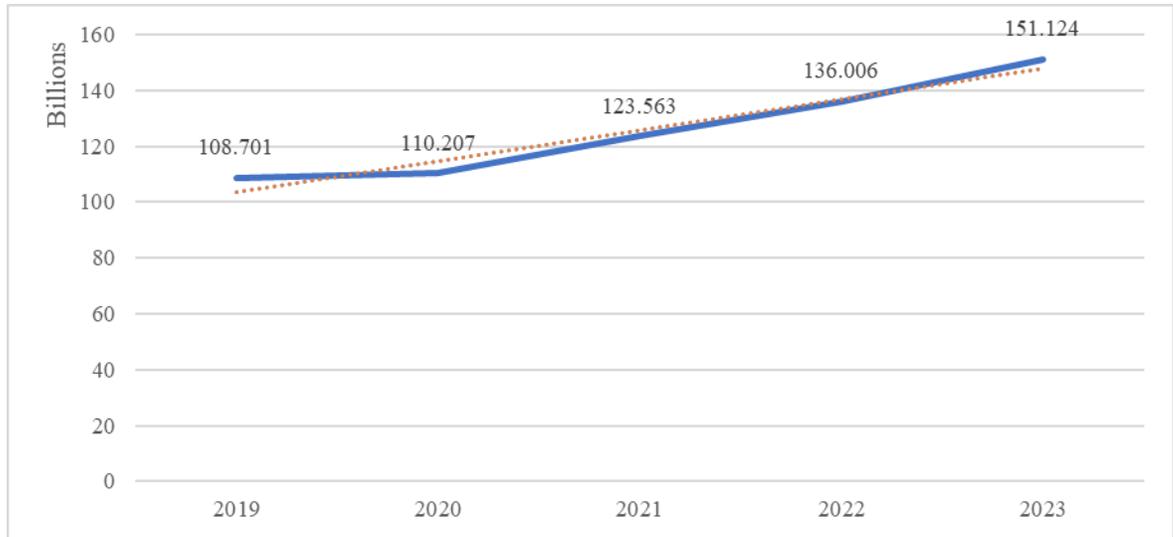


Figure 1: Makueni Gross County Product (GCP) trends 2019-2023

b. Political Stability

35. The political environment in the medium term will remain stable with few or no disruption on government programmes and projection execution.

c. Stable financial inflows and revenue generation

36. The strategy assumes the disbursement from the exchequer to the county government will be stable and the county government will improve own source revenue generation strategies to realize the desired targets.

d. Strategic Partners

37. The county government will strengthen the existing synergy with Development Partners and Non-State Actors. This offers a conducive environment to mobilize resources to support the county development agenda.

e. Resilience to emergencies and disasters

38. The government will strengthen the resilience and adaptive capability of the residents to cope with natural disasters that face the county such as landslides, drought and fire

outbreaks. The county has invested in climate change mitigation, disaster risk minimization and climate information, which are key in enhancing resilience

5.2 Key Risks Under The 2026 County Fiscal Strategy Paper (CFSP)

39. The county government will incorporate risk management approaches in the medium strategy to mitigate potential uncertainties and risks, and maintain stability required to deliver essential services to the citizenry. The risks identified, the implication and the measures to mitigate are contained in the matrix below

Table 1:Key Risks Under the 2026 County Fiscal Strategy Paper

Fiscal Risk	Key areas of uncertainty	Mitigation measures
Revenue risk	Underperformance of own-source revenue (OSR) results in unfunded budgets, leading to the accumulation of pending bills.	<ul style="list-style-type: none"> a. Strengthen revenue administration systems b. Expand revenue base c. Forecasting of revenue targets
Intergovernmental Fiscal Transfer risks	Delays or reductions in disbursement of equitable share and conditional grants from the national government could disrupt implementation and service delivery	<ul style="list-style-type: none"> a. Prioritize critical and ongoing programmes in cash flow planning b. Strengthen reporting and compliance to avoid grant disbursement delays
Expenditure and Budget Execution Risks	<ul style="list-style-type: none"> i. Poor budget absorption, accumulation of pending bills and misalignment between plans and budgets which negatively affects service delivery. ii. Project cost variation might undermine fiscal sustainability 	<ul style="list-style-type: none"> a. Strengthen linkage between CIDP, ADP, CFSP and annual budgets b. Enhance quarterly budget execution review c. Strengthen internal controls and IFMIS utilization d. Preparation of project concept notes and appraisal of all projects
Rising wage bill	Rising wage demands brought about by implementation of the SRC guidelines will lead to an increase in the wage bill, straining the county’s budget hence limiting resources available for development projects.	Progressively implement the recommendations from Human Resource and the Wage bill conference.
Macroeconomic and economic risks	Inflation, exchange rate volatility and national macroeconomic instability increasing cost of service delivery	<ul style="list-style-type: none"> a. Promote local economic development and diversification b. Enhance support to climate-smart agriculture and MSMEs
Climate change and environmental risks	<ul style="list-style-type: none"> i. Frequent and extreme weather events ranging from droughts, landslides, strong winds and other climate-related shocks affecting revenue, food security and expenditure pressures. ii. Climate-induced disasters could increase emergency expenditures, diverting funds from planned programs. 	<ul style="list-style-type: none"> a. Mainstream climate risk considerations into fiscal planning and budgeting b. Allocate resources to disaster preparedness and emergency response c. Strengthen climate-resilient investments

CHAPTER SIX: COUNTY FINANCING REQUIREMENTS, SOURCES, PUBLIC DEBT RISK AND COST EVALUATION

6.1 County Financing Requirements and Sources

40. The total estimated resource requirement for implementing the CIDP III is Ksh 92.3 billion. Over the five-year period, the County's projected revenue amounts to Ksh 54.2 billion, leaving a financing gap of Ksh 38.1 billion. In FY 2026/27 and the MTEF period, the County's total resource requirement is estimated at Ksh 33.27 billion, resulting in a cumulative deficit of Ksh 10.7 billion. Of this amount, a deficit of Ksh 5.0 billion is projected in FY 2027/28.

Table 2: FY 2026/27 MTEF Resource Requirement, Estimated Revenue and Gaps

	FY 2026/27	FY 2027/28	Tota l
Resource Requirement (Ksh. Billions)	16.01	17.26	33.27
Estimated Revenue (Kshs. Billions)	11.01	11.56	22.57
Variance (Ksh. Billions)	5	5.7	10.7
Variance as a % of the total resource requirement	31%	33%	32%

Source: Makueni CIDP 2023-2027

41. The County Government is therefore projected to face a financing gap equivalent to 32 per cent of the total resource requirement over the MTEF period. To address this shortfall, the County government will implement a range of resource mobilization measures, including strengthening strategic partnerships with development partners and pursuing domestic and external borrowing. In the medium term, borrowing will be undertaken prudently to finance development initiatives aligned with CIDP III priorities, while fully adhering to the Public Finance Management (PFM) Act, 2012. Based on projected revenue and borrowing within this limit, total debt is expected to remain below Ksh 2.3 billion, with credit metrics remaining within comfortable levels. Accordingly, in FY 2026/27, the County intends to scale up strategic partnerships with development partners and raise approximately Ksh 2.2 billion through infrastructure bonds to partially close the revenue gap.

42. The potential debt financing sources in the medium term are categorized as follows:

- a. **Domestic sources of loans;** This includes borrowing from financial institutions such as banks, pension funds, and insurance companies, as well as from non-financial sources through domestic instruments, for example, Treasury bills and Treasury bonds.
- b. **External sources of loans;** The primary sources will include Loans and grants from bilateral and multilateral organizations. This will be facilitated via the National Treasury

CHAPTER SEVEN: PUBLIC DEBT RISK AND COST EVALUATION**7.1 Introduction**

43. In line with Section 107(2) of the Public Finance Management Act, 2012, the County Treasury is committed to managing public finances responsibly, ensuring that long-term borrowings are directed exclusively toward development expenditures and that debt levels remain sustainable as approved by the County Assembly.
44. Since its establishment, the County Government has not engaged in public borrowing. However, to address medium-term financing gaps, the County plans to issue an infrastructure bond of up to Ksh. 1.5 billion in medium term expenditure framework, with a coupon rate of 14 percent per annum and a maturity period of seven years. Borrowing decisions will be guided by vigorous cost-benefit analysis, considering repayment terms, currency risks, and overall fiscal sustainability.

Table 3: National Government vs Makueni County Solvency and Liquidity Indicators

No.	Indicators	Ratios	
		Makueni County	National Government
1.	Debt to GCP/ GDP	0%	67.8 %
2.	Debt Service to GCP/ GDP	0%	13.9%
3.	Debt Service to Revenues	0%	17.6%
4.	Composition of borrowing	Domestic 0% External 0%	Domestic 53.5% External 46.5%

Source: Makueni County Treasury

45. These indicators highlight Makueni County's zero debt burden, manageable liquidity risks, and fiscal flexibility to allocate resources towards priority development programs. In contrast, the national government's high debt servicing costs pose risks of financial distress and reduced fiscal space.
46. Overall, Makueni County's prudent fiscal management, low debt ratios, and stable liquidity position provide a strong foundation for responsible borrowing to finance long-term economic growth. Continuous monitoring of debt metrics, revenue growth trends and macroeconomic conditions will remain essential to sustaining fiscal stability and prosperity

CHAPTER EIGHT: MEDIUM TERM DEBT STRATEGY IMPLEMENTATION, MONITORING & EVALUATION.

8.1. Introduction.

47. This chapter outlines the framework for implementing, monitoring, and evaluating the County’s Medium-Term Debt Strategy (MTDS). It provides guidance on how approved debt management policies will be operationalized, institutional responsibilities coordinated, and performance tracked. The primary goal is to maintain debt sustainability, enhance fiscal discipline and support economic growth by aligning debt management with national and county development objectives. A well-structured debt strategy helps mitigate financial risks, optimize borrowing costs and promote economic resilience

8.2. Implementation Strategy

48. Borrowing decisions will be guided by the need to lower cost and minimize risks, including those related to foreign exchange fluctuations, interest rate volatility, refinancing and settlement risks. In order to avoid unnecessary debt burden to the future generation and reduce the risk of macro-economic instability the Government will pursue implementation of 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.
49. The County Government will collaborate with the National Government through the National Treasury to effectively implement this strategy. This process will include seeking approvals and recommendations from Makueni County Assembly, Intergovernmental Budget and Economic Council (IBEC), Attorney General and the parliament. The County Government will establish robust legal and policy frameworks to facilitate external resource mobilization which include Public Private Partnerships (PPP).

8.3. Institutional and Operational Framework

50. To ensure the effective implementation of the Medium-Term Debt Strategy, the County Treasury will establish two specialized units namely; County Debt Management Unit and County Debt Management Advisory Committee. The composition and the roles of these units will be as follows:

a. County Debt Management Unit

51. The primary function of this unit is to provide administrative support to the County Debt Management Advisory Committee (DMAC). The functions and responsibilities of the County Debt Management Unit include:
- i. Ascertaining debt payments by the County.

- ii. Keeping timely, comprehensive and accurate records of outstanding government debt, guarantees, contingent liabilities and new borrowing in a single debt database.
- iii. Timely publishing of 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.

b. County Debt Management Advisory Committee (CDMAC)

52. The County Debt Management Advisory Committee plays a pivotal role in evaluating and prioritizing proposed proposals/initiatives to the County Executive Committee for considerations and approval. 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 Departments of Transport and Infrastructure, Trade, Marketing, Industry, Culture & Tourism, Water and Sanitation, Health services and Devolution and Public service. The County Debt Management Advisory Committee shall:

- i. Evaluate the amount and risk profile of the County debt
- ii. Ascertain that the debt is within the established sustainability, affordability and prudential limits
- iii. Verify that the debt originates from a reputable source
- iv. Confirm that the debt serves a worthwhile purpose and the financed project is a top priority in the County Integrated Development Plan (CIDP) III
- v. Ensure that the project to be financed has a positive Net Present Value or contributes to the objectives set out in the CIDP III and the Sustainable Development Goals (SDGs)
- vi. Incorporate the cost and risk of any contingent liabilities and obligations such as tied procurement into the debt analysis
- vii. Secure favorable loan terms and conditions that optimize the cost and risk outcome
- viii. Align the borrowing with the County Fiscal Strategy Paper.

8.4. Monitoring and Evaluation

53. Monitoring and evaluation is an important management tool that helps track progress, enhance transparency and accountability for evidence based decision making. Periodic performance reviews will be conducted to evaluate the strategy's performance against predefined objectives and targets. Key performance indicators (KPIs) will be established to measure progress and identify areas for improvement.