REPUBLIC OF KENYA **GOVERNMENT OF MAKUENI COUNTY**

COUNTY TREASURY

2025 COUNTY DEBT MANAGEMENT STRATEGY

FY 2025/2026 – 2027/28 MEDIUM TERM EXPENDITURE FRAMEWORK

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Makueni County Debt Strategy Paper (MTDS) 2024

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MAKUENI, KENYA

The document is also available on the internet at: *www.makueni.go.ke/planning*.

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FOREWORD

The 2025/26 Makueni County Debt Management Strategy Paper has been prepared in compliance with the Public Finance Management Act, 2012, section 123 and is anchored on the County's Medium-Term Fiscal Framework. It presents an assessment of the current debt position, borrowing plans, risk mitigation strategies, and adherence to debt sustainability thresholds.

The Makueni County Debt Management Strategy Paper (DMSP) for the Financial Year 2025/26 is a critical policy document that outlines our commitment to prudent financial management, fiscal discipline, and sustainable development. This year's strategy is particularly significant as it reflects the County remarkable milestone to enter the 2025/26 financial year with zero debt.

Our zero-debt position is a testament to the county's sound fiscal policies, efficient resource mobilization, and strategic public financial management. By ensuring that we spent within our means, we safeguard the county's financial health while maintaining our ability to invest in key development priorities.

As we look ahead, the 2025/26 strategy focuses on strengthening own-source revenue mobilization, optimizing public expenditure efficiency, and enhancing partnerships for development financing. The county will continue to leverage innovative financing models that do not burden future generations with debt while ensuring that essential public services and infrastructure projects remain adequately funded.

This document serves as a guide for responsible financial stewardship, reinforcing our dedication to transparency, accountability, and fiscal sustainability. As we move forward, we remain committed to ensuring that Makueni continues on a trajectory of economic resilience, stimulation of local economies for shared prosperity and inclusive development, free from debt financial obligations and constraints.

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COUNTY EXECUTIVE COMMITTEE MEMBER, FINANCE, PLANNING, BUDGET AND REVENUE.

ACKNOWLEDGEMENT

This County Debt Management Strategy Paper 2025 was prepared to inform the debt position of the county, risk mitigate measures and debt repayment plan during the planning period. Preparation of the 2025 MTDS was informed by critical assessment of the costs and risks associated with public debt, considering the dynamic nature of global financial markets. The analysis was conducted with a keen focus on the objectives outlined in the Public Finance Management Act (PFM), 2012 aiming to minimize costs and risks associated with the evolving debt portfolio.

The paper highlights strategies to be explored in seeking funding for the enormous financial needs from either internal or external sources to deliver the programs in the CIDP 2023-2027. Preparation of the 2025 MTDS, was by way of collaborative teamwork and inputs that involved Officers from various departments within the County Treasury.

I would like to appreciate the invaluable leadership and guidance provided by the CECM Finance and Socio Economic planning, and the technical staff led by Ann Muendo, Director of Budget & Expenditure, Stanlus Matheka Acting Director Planning, Patrick Nzula Acting Director M&E, Evans Kisilu Senior Economist, Nathan Wahome Economist, Lydia Omare Economist, Jacob Kyungu Economist, Hastings Mwangangi Senior Statistician, Justus Mutunga Statistician, Patricia Kanzi Statistician, Jeremiah Mutunga Budget Officer, Richard Mwendwa Budget Officer, Jackline Mbula Budget Officer, Mary Mutava M&E Officer, Dorcas Mwende M&E Officer, Frankline Mambo Intern and Margret Muteti Intern.

It my hope the DMSP will guide and serve as a valuable tool for navigating the financial challenges and opportunities that are aligned to ensuring the prosperity of Makueni County residents.

MUTUA BONIFACE

CHIEF OFFICER, SOCIO-ECONOMIC PLANNING, BUDGETING, REVENUE AND MONITORING & EVALUATION.

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GLOSSARY

CECM – County Executive Committee Member

CFSP – County Fiscal Strategy Paper

CIDP – County Integrated Development Plan

DMAC- Debt Management Advisory Committee

DMSP-Debt Management Strategy paper

GCR – Global Credit Rating

FY- Financial Year

IBEC – Intergovernmental Budget and Economic Council

KPI's – Key Performance Indicators

M&E- Monitoring and Evaluation

MTDS –Medium Term Debt Strategy

MTDMS –Medium Term Debt Management Strategy

MTEF- Medium Term Expenditure Framework

PFM – Public Finance Management

PPPs – Public-Private Partnerships

SDG's – Sustainable Development Goals

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EXECUTIVE SUMMARY

The Makueni County 2025 Medium-Term Debt Management Strategy (MTDS) has been prepared in adherence to the mandates outlined in Section 123 of the Public Finance Management Act, 2012. The strategy provides a comprehensive roadmap for the government's borrowing activities over the medium term framework covering FY 2025/26 to FY 2027/28. The strategy is developed amidst backdrop of ongoing global uncertainties, including but not limited to high inflationary pressures, US President executive order tension on health funding, geopolitical tensions and climate change-induced shocks affecting food security. The paper is cognizant of the need to adapt to evolving economic landscapes. The MTDS is aligned with the 2025 County Fiscal Strategy Paper (CFSP), which emphasizes an inclusive development, with the overarching objective of Stimulating local economies for shared prosperity. The paper consists of eight chapters with the following key highlights:

Chapter One: Chapter one provides the introduction. The paper is prepared in adherence to the PFM Act, 2012, Section 123. The 2025 MTDS covers initiatives to minimize costs and risks of borrowing both for domestic and external projected debt service and financing of the fiscal deficit for the period FY2025/26 to 2027/28.

Chapter Two: This chapter provides an overview of the cost and risks characteristics of the County public debts in the FY 2024/25. It gives information on the County Government debt status and its implication to the Fiscal space. Makueni County has never secured any debt since onset of devolution and therefore did not have any debt balances in its financial statement for the financial year ending June 2024. To address the resource gap for financing development projects primarily infrastructure (water infrastructure and roads) and climate related initiative, the government has embarked on the process of developing County Infrastructure Bonds and Green Bonds.

Chapter Three: This chapter offers insights into the fiscal policies, economic conditions, and external factors shaping the National and county's borrowing decisions and debt sustainability measures**.**

Kenya's public debt has been on an upward trajectory, reaching Ksh. 10,581.98 Billion, approximately USD 81.7 Billion in June 2024, up from 10,278.7 Billion, approximately USD 73.1 Billion in June 2023. Of this amount, domestic debt accounted for Ksh. 5410.28 Billion, while external debt comprised Ksh. 5,171.7 Billion.The country is rated as a medium performer in terms of Debt Carrying Capacity, with a Composite Indicator (CI) estimated at 2.98. This classification implies that Kenya has moderate ability to manage its debt levels, balancing between potential vulnerabilities and strengths in its economic and institutional frameworks.

Makueni County Government remains debt-free, demonstrating strong financial management and prudent expenditure practices. According to the 2020 credit rating conducted by Global Credit Rating (GCR) on behalf of the National Treasury, World Bank, and Commission on Revenue Allocation (CRA), Makueni County demonstrates a robust capacity to manage debts below Ksh.

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2 Billion. As per Section 179(1) of the PFM Regulations 2015, the County's public debt should not exceed twenty percent (20%) of the most recent audited revenues approved by the county assembly.

Based on the audited revenues for FY 2023/24 of Ksh. 9,874,379,548 Makueni County is eligible for loans up to a maximum of Ksh. 1,974,875,910. Looking ahead, Makueni County is actively exploring avenues to expand its resource base through the infrastructure Bonds, Municipal Bonds, and the County Green Bonds

Chapter Four: Chapter four highlights the responsibilities of County Treasury on matters of debt management, purpose of borrowing and its limit, process of seeking loans, process of approving loan proposals and debt management strategies. The 2025 MTDS considered three alternative financing strategies to fund any fiscal deficits for the FY2024/2025 and the medium-term borrowing. The options are; Strategic partnerships, Domestic and External sources of loans. The government will aim to strengthen strategic partnerships through actively engaging with potential partners through targeted outreach, joint project development, and proposal writing to align interests and maximize impact.

Based on the audited revenues for FY 2023/24 of Ksh. 9,874,379,548 Makueni County is eligible for loans up to a maximum of Ksh. 1,974,875,910 and is exploring possibilities to borrow up to 1.5billion infrastructure Bonds.

Chapter Five: The chapter highlights key assumptions on key economic, financial and natural factors**.** It also shows key risks, impact and mitigation measures.

Chapter Six: Chapter six sets out the county financing requirements and sources for FY 2025/26–FY 2027/28 Medium-Term. The County Government needs to raise Ksh. 92.3 Billion to finance various programs prioritized in CIDP III.

Chapter Seven: This chapter shows the process of translating debt management plans into actionable strategies, monitoring, evaluation and learning for evidence driven decision making.

Chapter Eight: The chapter emphasizes the importance of prudent public debt management ensuring financing needs are met at minimal cost and risk, with equitable sharing of benefits and burdens across generations.

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CHAPTER ONE: INTRODUCTION

1.0. Background

The Debt Management Strategy is specified in Section 123 of the Public Finance Management Act, 2012. Pursuant to specified sections, the County Treasury must submit a statement to the County Assembly on or before February 28th each year. This statement outlines the County Government's Debt Management Strategy for the medium term, addressing actual and potential liabilities related to loans and detailing the measures to be implemented for managing these liabilities.

This Strategy paper presents the County Government's objectives, strategy, and plans for managing its debt during the MTEF period **2025/26-2027/28**. It outlines the measures the County Government intends to implement within this period to achieve an optimal debt portfolio composition, ensuring the County's financing needs and payment obligations are met at the lowest possible cost. The primary objective of the strategy is to manage the risk exposure associated with the debt portfolio, including potential variations in debt servicing costs and their impact on the budget. This strategy guarantees that the County Government meets its financing requirements at the lowest possible expense while prudently managing risks.

1.1. Legal framework

The Public Finance Management Act (PFM Act) of 2012 outlines critical provisions related to public debt management within counties. Specifically, section 186 of the PFM Act establishes the objective of county debt management. Section 123 and 141 of the PFM Act, 2012 specifies objectives of the Public Debt Management to include: minimization of the cost of debt management and borrowing over the long-term taking account of risks; promote the development of market institutions for Government securities; and ensure the sharing of the benefits and costs of public debt between the current and future generations. This strategy covers a three-year period and outlines the county's debt management approach. Its aim is to strike a balance between financing needs, cost-effectiveness, and risk management. Submission of the Debt Management Strategy to the County assembly underscores transparency and accountability as per the PFM Act, 2012

To avoid excessive debt accumulation, prudent borrowing practices are crucial. The County Treasury must consider factors such as affordability, sustainability, and impact on development when taking on new debt. Additionally, the Debt Sustainability Analysis helps assess whether proposed debt levels remain manageable.

The county treasury plays a pivotal role in managing public debt, with responsibilities including:

a) **Borrowing and Repayment**: The County Treasury borrows funds on behalf of the county government and ensures timely repayment.
b) **Debt Service**: It oversees interest and principal payments on existing debts.
c) **Risk Assessment**: The County Treasury assesses borrowing risks and develops mitigation strategies.
d) **Reporting**: Regular reporting on debt levels, terms, and conditions maintains transparency and accountability.

e) The primary goal of county debt management is to **meet the County Government's financing needs and payment obligations** while minimizing costs over the medium to long term. This prudent approach ensures that the county secures necessary funding for development projects and essential services without jeopardizing fiscal stability. Effective debt management contributes to sustainable development while safeguarding fiscal health.

CHAPTERTWO: REVIEW OF COST AND RISK CHARACTERISTICS OF PUBLIC DEBT

2.0. Introduction

This chapter offers an overview of the cost and risk characteristics associated with the county's public debts for the FY 2024/25. It provides insights into the County Government's debt status and examines its implications on fiscal space.

2.1. Review of the Implementation of The 2024 Medium-Term Debt Strategy

The County Integrated Development Plan (CIDP) 2023-2027 presents a vision for effective resource mobilization strategies aimed at closing the KShs 38 billion resource gap. As part of these strategies, the government plans to pursue Medium-Term Loans and explore Public-Private Partnerships (PPPs). The government's positive Credit Rating from Global Credit Rating (GCR) in 2020 highlights its ability to fulfill financial obligations, both domestically and internationally, while adhering to the limit of 20 percent of the most recent audited revenues as outlined in PFM Act 2012, Regulation 179 (1).

In the FY 2024/25, the Government operated without incurring any debt, except for brief engagements with commercial banks to manage monthly projected cash flow deficits caused by delays in the disbursement of the equitable share. This was achievable by strictly adhering to available resources and aligning expenditures and commitments accordingly. Robust internal controls ensured that only approved programs and projects were implemented.

2.2. Review of the 2024 Medium-Term Debt Strategy

Debt management has a significant impact on future spending levels, affecting both the mid-term and long-term periods. The 2024 MTDMS currently guides the County Government's operations for the plan period, aiming to balance the cost and risk of public debt while addressing the financing needs and exploring new funding sources. However, in FY 2025/26, the government will continue to operate within its financial capacity by preparing balanced budget against its expenditure. The government anticipates that no pending bills will be accumulated during FY 2024/25. The government plans to address the resource gap in financing development projects, especially in infrastructure (such as water and roads) and climate-related initiatives, by introducing Infrastructure Bonds and County Green Bonds. A County Green Bond assessment was conducted, offering key recommendations to enhance the government's ability to access debt financing. The assessment report highlights key bankable investments that are expected to attract private investors over the medium term.

In case of any revenue shortfall, the 2025 MTDMS provides three alternative financing strategies which include strategic partnerships, own source revenue improvement and external sources of loans. The government has strengthened strategic partnerships by actively engaging with potential partners through targeted outreach, joint project development, and proposal writing to align interests and maximize impact.

CHAPTER THREE: FY 2025/26-2027/28 DEBT OUTLOOK

3.0. Introduction

This chapter offers insights into the fiscal policies, economic conditions, and external factors shaping the National and county's borrowing decisions and debt sustainability measures. By examining projected revenue streams, expenditure patterns, and potential financing sources, this chapter aims to provide a roadmap for navigating the complexities of debt management while ensuring prudent financial stewardship and sustainable development for Makueni County.

3.1. National Debt Outlook

Kenya's public debt has been on an upward trajectory, reaching Ksh. 10,581.98 Billion, approximately USD 81.7 Billion in June 2024, up from 10,278.7 Billion, approximately USD 73.1 Billion in June 2023. Of this amount, domestic debt accounted for Ksh. 5410.28 Billion, while external debt comprised Ksh. 5,171.7 Billion. The public debt-to-GDP ratio was recorded at 65.7 percent, with total debt service as a percentage of GDP standing at 13.9 percent. Projections indicate that Kenya's national debt will continue to rise, potentially reaching $138.34 billion USD by 2029.

In January 2025, Moody's revised Kenya's outlook to positive from negative, citing potential easing of liquidity risks and improvements in debt affordability. This shift is attributed to declining domestic financing costs amid a monetary easing cycle and anticipated support from international financial institutions. However, the debt service burden remains significant, consuming a substantial portion of the country's revenue. This situation limits the government's capacity to invest in essential sectors such as health, education, and infrastructure.

Kenya is currently rated as a medium performer in terms of Debt Carrying Capacity, with a Composite Indicator (CI) estimated at 2.98. This classification implies that Kenya has moderate ability to manage its debt levels, balancing between potential vulnerabilities and strengths in its economic and institutional frameworks. To address the elevated risk of debt distress, the government will; reduce refinancing risks by reducing short maturities debt while
lengthening the total portfolio Average Time to Maturity (ATM) by deepening the domestic bond market through issuance of more medium to long term instruments as the main source of domestic financing; reduce the foreign exchange risk by diversifying debt held in foreign currencies

While Kenya's debt levels are projected to increase between 2025 and 2028, ongoing fiscal consolidation efforts and international support may help mitigate associated risks. Continuous monitoring and prudent fiscal management will be crucial to ensure long-term debt sustainability.

3.2. County Debt Outlook

Makueni County Government remains debt-free, demonstrating strong financial management and prudent expenditure practices. By prioritizing spending based on available resources, the County ensures that no debts are carried forward from one fiscal year to the next. Additionally, robust

internal controls safeguard against unauthorized expenditures, ensuring that only budget-approved projects are implemented. However, occasional delays in the disbursement of equitable share funds from the National Government have posed challenges to cash flow and service delivery.

According to the 2020 credit rating conducted by Global Credit Rating (GCR) on behalf of the National Treasury, World Bank, and Commission on Revenue Allocation (CRA), Makueni County demonstrates a robust capacity to manage debts below Ksh. 2 Billion. As per Section 179(1) of the PFM Regulations 2015, the County's public debt should not exceed twenty percent (20%) of the most recent audited revenues approved by the county assembly.

Based on the audited revenues for FY 2023/24 of Ksh. 9,874,379,548 Makueni County is eligible for loans up to a maximum of Ksh. 1,974,875,910. Looking ahead, Makueni County is actively exploring avenues to expand its resource base through the following initiatives;

1. Infrastructure Bonds

This bond will serve as indispensable tools for Makueni County to address critical infrastructure needs, including transportation networks, water and sanitation facilities, and public buildings. By issuing infrastructure bonds, the government will secure long-term funding for essential projects that enhance connectivity, improve quality of life, and stimulate economic growth. These bonds not only provide a stable and reliable source of financing but also enable the government to leverage private sector participation through public-private partnerships, thereby maximizing the efficiency and effectiveness of infrastructure development initiatives.

2. Municipal Bonds

Municipal bonds are debt securities issued by local governments to finance public projects such as roads, water supply systems, sewerage and waste management systems, vocational training institutions/schools, and health facilities. To successfully issue these bonds, Emali and Wote municipalities must establish a strong legal framework, implement a revenue-backed repayment plan, develop structured bond issuance mechanisms, attract investors through effective marketing, and maintain robust financial management to ensure transparency, investor confidence, and sustainable county development.

3. The County Green Bonds

The County Green bonds provide a crucial avenue for counties to raise funds specifically earmarked for environmentally sustainable projects. The Government plans to finance some of the key priority areas as provided for in the CIDP 2023-27. The priority areas are:

i. Water Infrastructure development: The government intends to implement innovative and appropriate model water projects through partnerships and a multifaceted approach to ensure universal water coverage for both domestic and irrigation purposes. The target projects under this area are Kaiti water project Phase 1 & 2 and Kiianzou water project.

ii. Industrial Development: The County government plans to establish a Makueni Industrialization Park (MIP) to promote industrial sector along the SGR corridor in Mtito

Andei, Emali, and Kibwezi and at Kwa Kathoka in Makueni Sub County. This will help boost economic growth and strengthen the manufacturing and value addition activities in the county. In this priority area, the government also targets The Makueni County Fruits Development and Marketing Authority to enhance its operations toward its full potential operation.

iii. Forestry & Water Resources Management: The County government is keen to facilitate the gazettement of water catchment areas and the rehabilitation of rivers. This is in line with ensuring long-term water resource management and enhanced environmental protection.

iv. Public Infrastructure & Energy Efficiency: Quality, resilient and adequate infrastructure are important prerequisite for any development. The priority project in this area is to develop 20 megawatts solar farm along Wote-Makindu road. Promote energy efficiency across government offices, hospitals, state-owned enterprises, street & market lighting will be given to the development of major towns as catalysts for the growth of other urban centres.

v. Solid & Liquid Waste Management: The County intends to improve waste disposal by developing sewerage and waste management systems in urban areas.

The County Green Bond Assessment report (May 2023) on Makueni observed that the county is in a better position to implement the mentioned projects through County Green Bond financing but the government will be required to: Develop Concept Notes, carry out feasibility and viability studies, and Cost-Benefit Analysis on proposed projects by the relevant County Stakeholders; Obtain requisite approvals (County Executive and Assembly) and National Government to raise finance to fund the selected projects; Design and develop approved projects in tandem with sustainability standards ; Subject proposed projects to verification for compliance with the Climate Bonds Standards ; Issue County Bonds to raise funds to execute projects directly and Monitor utilization of proceeds and report on use and impact on the environment and the welfare of the citizens.

The County Government could alternatively utilize a special purpose vehicle (SPV) to ring-fence the green assets to raise funds from the green bond market to execute priority infrastructure projects or partner/support private enterprises in Makueni (provision or land, infrastructure and incentives) to access the green bond market to finance identified green projects, especially in the agro-processing and value additions to agricultural produce. The Assessment report however made the following recommendations:

a. Improves the overall revenue profile by capturing levies, fees and licenses from the large informal sector in a bid to increase own source revenue to a sustainable base and cushion future fluctuations in national government revenue.

b. Regulates the expenditure profile particularly in moderating payroll expenses in the near term, keeping overhead costs within reasonable limits as well as ensuring that funds are not diverted to unbudgeted activities.

c. Embrace the Debt Capital Markets for Infrastructure Development financing to help address the reliance on reducing transfers from the national government which would ultimately limit near-term funds available for developing infrastructure projects
d. Increase public sensitization on re-afforestation and afforestation and creating awareness in the communities on climate change policies and impacts.
e. Provide incentives to attract investments in green infrastructure and continue investing in county infrastructure to encourage tourism in the forestry.
f. Capacity build County Staff in all departments, key stakeholders such as Members of County Assembly (MCAs), civil society organizations (CSOs), community based organizations (CBOs) and private actors on climate change and green finance and enforce compliance with established County laws and policies such as climate change policies.

3.3.Recommendation

The County Green Bonds, Municipal Bonds and Infrastructure Bonds will contribute to the overall resilience and sustainability of government's economies. By investing in green infrastructure projects, Makueni county will enhance its resilience to the impacts of climate change, reduce carbon emissions, and promote environmental stewardship. Similarly, investments in essential rural and urban infrastructure bolster economic resilience by enhancing productivity, attracting businesses and investment, and creating employment opportunities, thereby fostering inclusive and sustainable development.

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

4.0. Introduction

In the Medium term expenditure framework, the county will ensure effective public debt management to uphold fiscal discipline, promote economic stability, and ensure efficient resource allocation. Prudent debt management includes responsible borrowing risk assessment, and adherence to the Constitution of Kenya and the PFM Act 2012 legal and policy frameworks to maintain manageable debt levels while funding development objectives. This chapter presents key principles governing Makueni County's debt management, emphasizing transparency, accountability, affordability, and sustainability. It also establishes a structured framework for responsible borrowing, debt servicing, and institutional coordination to mitigate financial risks and foster economic development.

4.1. Responsibilities of the County Treasury in Debt Management

Pursuant to Public Finance Management (PFM) Act,2012, the Makueni County Treasury is mandated to uphold fiscal responsibility by ensuring sound borrowing practices and financial stability. The Treasury ensures that long-term borrowing is strictly allocated to development projects and remains within sustainable limits as approved by the County Assembly.

Section 140 of the PFM Act empowers the County Executive Committee Member for Finance to negotiate loans under clearly defined terms and conditions as outlined in Article 212 of the Constitution. Section 142 of PFM Act;2012 spells out that the County Assembly may authorize short term borrowing by County Government entities for cash management purposes. However, such borrowing shall not exceed five per cent of the most recent audited revenues of the County Government. The borrowing should be repaid within a year from the date on which it was borrowed with requisite approvals from both the County Assembly and the National Treasury.

4.2. Purpose of Borrowing

In line with the PFM Regulations, Makueni County may access loans from local and international sources to finance critical development projects. All borrowing must align with the County's socio-economic priorities and be integrated into the Medium-Term Debt Strategy. The County Treasury ensures that each loan undergoes pre-feasibility and feasibility assessments, resource availability verification, and a due diligence review before approval.

4.3. Borrowing Limits

According to the PFM Act,2012 Makueni County's total public debt must not exceed 20% of its total revenue at any time. Furthermore, annual debt service costs should not surpass 15% of the most recent audited County revenue. Based on financial evaluations, Makueni County qualifies for borrowing up to Ksh. 2.1 billion. However, borrowing decisions will be made cautiously to maintain fiscal sustainability and prevent financial strain.

4.4. Loan Application Process

To qualify for loan financing, a project must align with the County Integrated Development Plan (CIDP) and be integrated in the Medium-Term Debt Strategy. The County Treasury ensures that all legal and financial prerequisites are met before loan applications proceed. This includes

assessing project priority, conducting feasibility studies, confirming resource availability, and securing necessary approvals.

4.5. Approval Process for Makueni County Loan Proposals

To comply with the PFM Act, the following steps must be followed when approving loan proposals:

1. Submission of the borrowing proposal, including detailed terms and conditions, to the County Executive Committee member for finance for approval.
2. Presentation of the approved loan agreement and sessional paper to the County Assembly for further review and endorsement.
3. Submission of the final loan agreement to the Cabinet Secretary for National Treasury to facilitate a government guarantee where applicable.
4. Engagement of the National Treasury in negotiations to secure the best possible financial terms for the County.

4.6. Debt Management Strategies

To maintain public debt sustainability and affordability, Makueni County will implement the following strategies:

a. **Maximizing Grant Funding:** Prioritizing grants over loans to minimize debt accumulation.
b. **Concessional Borrowing:** Preferring concessional loans from bilateral and multilateral partners when borrowing is necessary.
c. **Enhancing Strategic Partnerships:** Strengthening relationships with development partners and private investors to secure funding for priority projects.
d. **Robust Risk Management:** Conducting comprehensive risk assessments before acquiring new debt to minimize financial exposure.
e. **Monitoring and Evaluation:** Implementing strong mechanisms to track debt performance and ensure alignment with long-term fiscal goals.

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.

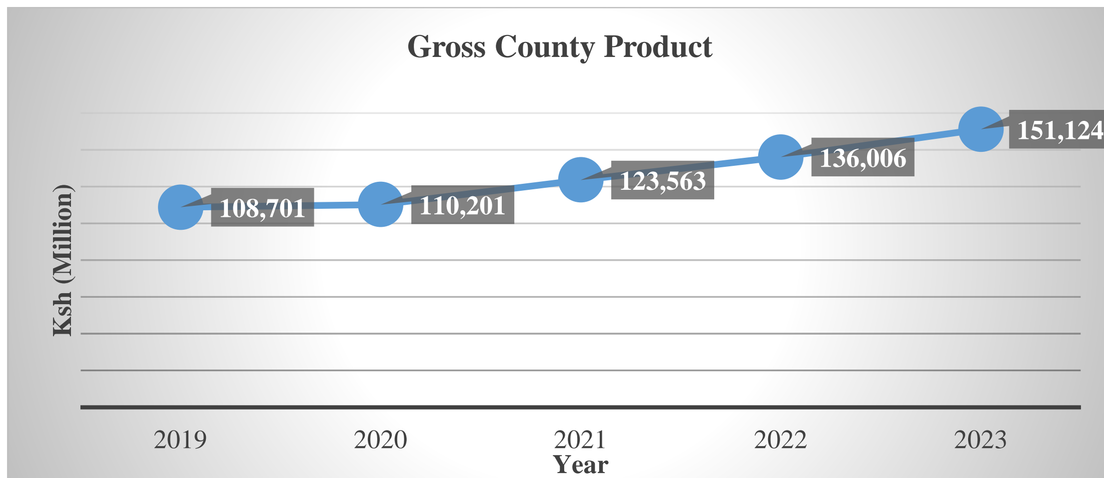
CHAPTER FIVE: MACRO-ECONOMIC ASSUMPTIONS AND KEY RISKS UNDER THE 2025 COUNTY FISCAL STRATEGY PAPER (CFSP)

5.1. Macro-Economic Assumptions

The County Fiscal Strategy Paper takes into consideration key assumptions on key economic, financial and natural factors:

a. Economic Growth

The National economy is projected to grow from 5.4% in 2024 to 5.6% in 2025 over the medium term. This trend will be replicated in the county economy supported by the continued robust growth of the services sectors, the rebound in agriculture, and the ongoing implementation of measures to boost county economic activity especially in non-farm enterprises. The Gross County Product (GCP) trend 2018-2022 is shown below:



b. Stable Financial Inflows and Revenue Generation

The main source of the county revenue is the equitable share from the Exchequer. The strategy assumes that the disbursement of funds from the exchequer to the county government will be steady and the County Government will enhance own source revenue generation measures to achieve the desired targets. The government has put in measures to accelerate own source revenue to realize set targets.

c. Favourable Weather and Reliable Rain Patterns

The county economy is dependent on rain fed agriculture. Any effects which affects the weather and rain patterns adversely affects the economy. The strategy assumes that the weather conditions and rain patterns remain stable in the medium term. As a mitigation measures and to move toward resilient economy, the government will promote irrigated agriculture and climate smart technologies as well as invest in provision of timely climate information to the farmers, strategic focus on value addition and environmental conservation. Others strategies like ensuring that farmers are insured against climate related risks will be undertaken.

d. Resilience to disasters and emergencies

The government will enhance the resilience and adaptive capacity of the residents to cope with natural disasters that face the county which include drought, floods, landslides and fire outbreaks. This is anchored on the fact that over the years the county has invested in climate change mitigation, climate information, disaster risk reduction and its mainstreaming in the county development. The strategies to address this aspect are well captured in the county long term development plan.

e. Political stability

The political environment will remain stable in the medium term with minimal or no disruption on government projects and programmes implementation.

f. Strategic partnerships

The County Government will advance the existing good working relationship with Development Partners and Non-State Actors. This provides a favourable environment to mobilize stakeholders and resources to support the county development.

5.2. Key Risks Under The 2025 County Fiscal Strategy Paper (CFSP)

The county government will be incorporating risk management strategies in the medium strategy to address potential risks and uncertainties, and maintain the stability necessary to deliver essential services to the citizenry. The risks identified, the implication and the measures to mitigate them are contained in the matrix below.

Fiscal Risk	Key Areas of Uncertainty
Policy decisions affecting revenue collection in the county	Increase in fees and levies in the Finance Act will significantly reduce the compliance rate. Waivers and concessions will reduce the likelihood of realizing revenue projections.
Policy decisions leading to increase or unanticipated Government expenditure	Implementation of the following policy decisions will lead to uncertainty in the county fiscal outlook. They include: Employer contributory new levies such as housing levy, NSSF, contributory pension schemes, m change of employment terms, SRC circular on staff allowances, response to emergencies and pandemics
Capital decisions with high resource requirements	Mass recruitment to attain optimal staffing levels will lead to high budgetary requirements. Undertaking flagship projects without pre-feasibility studies will lead to unprecedented expenditure.

Change in fiscal responsibilities due to the outcome of negotiations and international obligations	Matching grants, Collective Bargaining Agreements (CBAs), foreign exchange rates may pose a potential fiscal threat on the financial health and performance of the county treasury.
Contingent liabilities	Fiscal uncertainty may arise from pending or threatened legal actions, regulatory investigations, or contractual obligations.

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

6.1. County Financing Requirements and Sources

The County Government needs to raise Kshs. 92.3 Billion to finance various programs prioritized in CIDP III. Over the five-year period, the county has a projected revenue of Ksh. 54.2 Billion, resulting into a revenue gap of Ksh. 38.1 Billion. In FY 2025/26 and the MTEF period, the County has a total resource requirement of Kshs 57.07 Billion and a cumulative deficit of Ksh 23.02 Billion, with the largest deficit of Ksh 12.32 Billion expected in FY 2025/26.

Table 1: FY 2024/25 MTEF Resource Requirement, Estimated Revenue and Gaps

	FY 2025/26	FY 2026/27	FY 2027/28	Total
Resource Requirement (Ksh. Billions)	23.8	16.01	17.26	57.07
Estimated Revenue (Kshs. Billions)	11.48	11.01	11.56	34.05
Variance (Ksh. Billions)	12.32	5.00	5.70	23.02
Variance as a % of the total resource requirement	52%	31%	33%	40%

Source: Draft Makueni CFSP 2025 and CIDP 2023-2027

The County Government will therefore have a deficit of 40% of the total resource requirement over the MTEF period. To address this deficit, the government will pursue various resource mobilization strategies, including; strategic partnerships with development partners, domestic and external borrowing. In the medium term, government plans to borrow responsibly to finance development initiatives aligned with CIDP III. While undertaking this borrowing, it will adhere to the PFM Act, 2012 set limit of borrowing up to 20 percent of the previous year's audited revenue of Kshs. **9,889,633,424**. Based on the County's projected revenue and assuming the County raises debt up to this limit, GCR expects that any debt will be below Kshs 2 Billion and credit protection metrics will remain comfortable. Based on the audited revenues for FY 2023/24, Makueni County qualifies for a loan of up to Kshs **1,977,926,685**. However, during the FY 2025/26, the government plans to enhance Strategic partnership from the development partners and borrow approximately 1.5billion through infrastructural bonds to to finance the existing revenue gaps

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

i. **Domestic sources of loans;** This encompasses borrowing from financial institutions (banks, pension funds, insurance companies) and non-financial institutions (domestic instruments E.g. T-bills, T-bonds).
ii. **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

The proposed projects for debt financing and resource mobilization from development partners are as shown in the table 2 below.

Table 2: Proposed Projects for funding

No	Key Investment Areas	Proposed Projects
1	Water, Environment and Natural Resources	Kaiti River (Phase I and II) and Kiia Nzou Water distribution
2	Agriculture and Rural Development	Makueni County Fruit Development & Marketing Authority
3	Energy	Solar projects solar farm along Wote-Makindu road (20 megawatts).
4	Manufacturing	Establishment of Makueni Industrial Parks

Source: Makueni County Integrated Development Plan 2023-27

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CHAPTER SEVEN: PUBLIC DEBT RISK AND COST EVALUATION

7.0 Introduction

In accordance with Section 107(2) of the PFM Act, 2012, the County Treasury shall manage public finances following the principles of fiscal responsibility. While overseeing the county government's public finances, the County Treasury shall ensure that long-term borrowings are used exclusively for development expenditures and that the county's debt remains at a sustainable level as approved by the county assembly.

Since its establishment, the County Government has not engaged in public borrowing. Should there be a need to borrow funds to finance the budget over the medium term, a thorough analysis of the costs and risks associated with various borrowing options will be conducted. Borrowing decisions will only be made after a comprehensive Cost Benefit Analysis, taking into account factors such as the purpose, amount, repayment terms, currency of the contract, and any associated risks.

To address medium-term financing gaps, the County Government will issue an infrastructure bond of up to Ksh. 1.5 billion, with an indicative coupon rate of 14 percent per annum and a maturity period of seven years. The annual solvency and liquidity indicators to be monitored are assimilated in the table below:

Table 4: National Government vs Makueni County Solvency and Liquidity Indicators

No.	Indicators	Ratios	
		Makueni County	National Government
1.	Debt to GCP/ GDP	1.0%	65.7%
2.	Debt Service to GCP/ GDP	0.3%	13.9%
3.	Debt Service to Revenues	4.0%	69.6%
4.	Interest payments to Revenues	2.0%	27.0%

Source: 2025 Medium Term Debt Management Strategy, & Makueni County Treasury proposed Calculations 2025.

According to the 2024 Medium Term Debt Management Strategy, the national debt to GDP ratio is 65.7 percent as of June 2024, exceeding the approved debt anchor of 55 percent.

Debt service refers to the funds needed to cover both the principal and interest on outstanding debts within a specified timeframe. The table above shows that the debt service-to-GCP ratio is 0.3 percent, indicating minimal debt servicing costs and allowing for potential investments and growth. The National Government allocates an amount equivalent to 13.9 percent of GDP for debt servicing. In comparison, the national government’s spending on debt servicing is 46 times higher than that of the county. The moderate to high debt servicing costs at the national level may lead to financial distress, limiting the government's ability to allocate resources to key priority areas.

Government revenue consists of tax and non-tax income used to finance public expenditure over a specified period. The debt service to revenue ratio measures a government’s ability to service its

debt. The table above reveals that the county's debt service to revenue ratio is 4 percent, while the national ratio is 69.6 percent. This indicates that the County Government will allocate 4 percent of its total revenue to service debt, which is manageable and poses a lower liquidity risk to the county's financial health and stability compared to the national government, which spends more than half of its total revenues on debt repayments.

The debt interest payments to revenue ratio assesses the proportion of a government's total revenue dedicated to paying interest on its debt obligations. The table above reveals that the county's interest to revenue payments ratio is 2 percent, whereas the national ratio stands at 27 percent. This implies that the County Government faces a lower interest rate burden, allowing for greater flexibility in allocating resources to key priorities, while the national government may face financial constraints.

Overall, the County Government’s solvency and liquidity ratios present a stable financial landscape that is conducive to borrowing for long-term economic growth. However, policymakers should continue to monitor debt metrics, revenue trends, and macroeconomic indicators to ensure sustainable fiscal management and long-term prosperity.

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

8.0 Introduction

This chapter provides a structured approach to translating debt management plans into actionable strategies, ensuring effective monitoring, evaluation and learning for evidence-driven decision-making. 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.

8.1 Implementation Strategy

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. Further, 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.

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 before while seeking for credit. The County Government will establish robust legal and policy frameworks to facilitate external resource mobilization. Among these priorities for development are the County Public Private Partnerships (PPP) framework and policies aimed at facilitating the uptake of PPP investments.

8.2 Institutional and Operational Framework

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:

8.3 County Debt Management Unit

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.

8.4 County Debt Management Advisory Committee (CDMAC)

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
iv. 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)
v. 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
vi. Align the borrowing with the County Fiscal Strategy Paper.

8.5 Monitoring and Evaluation

Monitoring and evaluation is an important management tool that helps track progress, enhance transparency and accountability for evidence based decision making. Regular assessments 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.