REPUBLIC OF KENYA

GOVERNMENT OF MAKUENI COUNTY

COUNTY TREASURY

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MAKUENI

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MAKUENI COUNTY ASSEMBLY OFFICE OF THE CLERK

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

RE: 2024 COUNTY DEBT MANAGEMENT STRATEGY PAPER (DMSP)

The County Treasury is mandated by Public Finance Management Act, 2012, Section 123 to prepare and submit to County Assembly the County debt management strategy by 28th February every year.

In this regard, please find herewith the 2024 Makueni County Debt Management Strategy Paper for your necessary action.

Sincerely,

DAMARIS MUMO KAVOI
CECM –FINANCE, PLANNING, BUDGET AND REVENUE AND HEAD OF COUNTY TREASURY

Cc

1. H.E The Governor
2. H.E The Deputy Governor
3. Hon. Speaker- Makueni County Assembly
4. County Secretary

Encl;

REPUBLIC OF KENYA

GOVERNMENT OF MAKUENI COUNTY

COUNTY TREASURY

2024 COUNTY DEBT MANAGEMENT STRATEGY

FY 2024/2025 – 2026/27 MEDIUM TERM EXPENDITURE FRAMEWORK

Makueni County Debt Strategy Paper (MTDS) 2024

For comments and clarifications, please contact:

County Executive Committee Member - Finance, Planning, Budget & Revenue

County Treasury

P. O. Box 78- 90300

MAKUENI, KENYA

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

FOREWORD

The Medium Term Debt Management Strategy Paper is prepared in accordance with Section 123 of the PFM Act 2012 and is consistent with the County Government development policies and strategies. The paper guides the county on the amount, type of borrowing to undertake over the medium term and evaluates the costs and risks of various scenarios and recommends an optimal strategy for implementation.

The Debt Strategy Paper ensures debt remain sustainable and is incurred at the lowest possible cost while maintaining a prudent degree of risk. This strategy, therefore safeguards the financial integrity of Makueni County. While preparing the 2024 MTDS, various alternative sources of financing were considered in regards to the cost and risk associated with each alternative strategy to arrive at the optimal financing strategy. Key elements include potential funding sources from strategic partnerships, domestic and external sources of debt.

Demonstrating a track record of responsible fiscal management, the County Government of Makueni has consistently aligned expenditures and commitments with available resources. As a testament to this commitment, there are no outstanding debts. The Government has initiated process to develop County Infrastructure Bond and County Green Bonds to help close the resource gap to finance development projects mostly infrastructure (Water infrastructure and roads) and climate related initiatives. A Green Bond Assessment was carried out and recommendations made on how the County Government can source and access the funding. The Government is in process of implementing those recommendations.

The Government demonstrates agility in cash flow management by proactively engaging with commercial banks to swiftly address monthly projected cash flow deficits and mitigate potential disruptions, ensuring continuous operations and financial stability.

DAMARIS MUMO KAVOI
COUNTY EXECUTIVE COMMITTEE MEMBER – FINANCE, PLANNING, BUDGET & REVENUE

ACKNOWLEDGEMENT

The formulation of the 2024 MTDS was informed by a thorough 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 Makueni Debt Management strategy is informed by a fiscal policy supportive of the macro-economic stability and growth. The Strategy highlight strategies to be explored in seeking funding for the enormous financial needs from either internal or external sources to deliver the programs in the CIDP 2023-2027.

I wish to extend my deepest gratitude to the dedicated budget officers and economists from the County Treasury whose collaborative efforts were integral to the preparation of this Strategy. Special appreciation is due to the Executive Committee Member for Finance for her invaluable leadership and guidance throughout the development process.

This debt management strategy will serve as a valuable tool for navigating the financial challenges and opportunities that lie ahead thereby ensuring the continued prosperity of Makueni County and its residents.

MUTUA BONIFACE
CHIEF OFFICER – SOCIO-ECONOMIC PLANNING, BUDGET, REVENUE AND M&E

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EXECUTIVE SUMMARY

The Makueni County 2024 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 2024/25 to FY 2026/27. The strategy is developed amidst backdrop of ongoing global uncertainties, including but not limited to high inflationary pressures, 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 2024 County Fiscal Strategy Paper (CFSP), which emphasizes an inclusive development, with the overarching objective of Sustaining Economic Gains for Inclusive Development. 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 2024 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 FY2024/25 to FY2026/27.

Chapter Two: This chapter provides an overview of the cost and risks characteristics of the County public debts in the FY 2023/24. 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 2023. 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 is currently rated as a medium performer in terms of Debt Carrying Capacity, with a Composite Indicator (CI) estimated at 2.98. As of June 2023, the total stock of public and publicly guaranteed debt stood at Ksh. 10,278.7 Billion, approximately USD 73.1 Billion in nominal terms. According to the 2020 credit rating conducted by Global Credit Rating (GCR), Makueni County demonstrates a robust capacity to manage debts below Ksh. 2 Billion. Based on the audited revenues for FY 2022/23 of Ksh. 10,568,462,399 Makueni County is eligible for loans up to a maximum of Ksh. 2,113,692,480.

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 2024 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.

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 2024/25–FY 2026/27 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.

CHAPTER ONE: INTRODUCTION

1.1. Background

1. A robust debt management strategy is a fundamental component of prudent fiscal management. Its primary objective is to optimize the debt portfolio by minimizing risk while maintaining reasonable costs. This strategy ensures that the County Government meets its financing requirements at the lowest possible expense, all while managing risk judiciously. Key points of the strategy include:
    a) **Risk Mitigation**: The debt portfolio is carefully structured to minimize financial risks.
    b) **Annual Preparation**: The strategy is reviewed and updated annually, following a rolling three-year basis.
    c) **Balancing Cost and Risk**: While addressing the financial needs of the county, the strategy aims to strike a balance between cost and risk associated with public debt.
    d) **New Funding Initiatives**: It explores innovative funding sources to support county operations.
    e) **Timely Financing**: Ensuring that financing needs are consistently met within acceptable risk levels.
    f) **Affordability and Sustainability**: The strategy guides the County Government to maintain affordable and sustainable debt levels.
    g) **Purposeful Borrowing**: Any borrowing undertaken serves a well-defined purpose.
    h) **Minimizing Costs and Risks**: The County Government actively manages the costs and risks associated with borrowing.

2. 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.

3. The 2024 MTDS covers the following key components: a) the total stock of debt as at the date of the statement; b) the principal risks associated with those loans and guarantees; c) the assumptions underlying the debt management strategy; and d) an analysis of the sustainability of the amount of debt, both actual and potential. It entails plans and strategies to be implemented by the government towards reducing costs and risks of borrowing, debt management and pursuit of intergenerational equity in costs and benefits of public debt.

1.2. Legal framework

4. The PFM Act Section 123 mandates the county to develop a Medium-Term Debt Management Strategy Paper; Section 123 states - (1) "On or before the 28th February in each year, the County Treasury shall submit to County Assembly a statement setting out the debt management strategy of the county government over the medium term with respect to its actual liability and potential liability in respect of loans and guarantees and

its plans for dealing with those liabilities. The County Treasury shall include the following information in the statement-

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

CHAPTER TWO: REVIEW OF COST AND RISK CHARACTERISTICS OF PUBLIC DEBT

2.1. Introduction

5. This chapter provides an overview of the cost and risks characteristics of the county public debts in the FY 2023/24. It gives information in the County Government debt status and its implication to the Fiscal space.

2.2. Review of the Implementation of The 2022 Medium Term Debt Strategy

6. The County Integrated Development Plan (CIDP) 2023-2027 outlines a vision for robust resource mobilization strategies to bridge the Ksh. 38 billion resource gap. Among these strategies, the government plans to seek Medium-Term Loans and engage in Public-Private Partnerships (PPPs). The government's positive Credit Rating by Global Credit Rating (GCR) in 2020 signifies its capacity to meet financial commitments, both locally and externally while maintaining a limit of 20 percent of the most recent audited revenues as per PFM Act 2012 Regulation 179 (1)

7. However, in FY 2022/23, the Government operated without debt except the short engagements with commercial banks to address monthly projected deficits in cash flows due to delays in disbursements of equitable share. This was made possible by adhering to its means and aligning expenditures and commitments with available resources. Rigorous internal controls ensured that only approved programs and projects are implemented.

2.3. Review of the 2023 Medium Term Debt Strategy

8. In the FY 2023/24, the government will continue to operate within its financial ability. The government does not have any pending bill in the FY 2023/24.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 Infrastructure Bonds and County Green Bonds. A County Green Bond assessment was carried out in the county and various recommendations made to strengthen the government position in tapping into the fund source. In the medium term, the government will implement the recommendations made toward the launch of the Bond.

CHAPTER THREE: FY 2024/25-FY 2026/27 DEBT OUTLOOK

3.1. Introduction

9. 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.

3.2. National Debt outlook

10. The Government remains steadfast in its commitment to fiscal discipline and consolidation, prioritizing the reduction of fiscal deficits and the curbing of debt accumulation. This strategic approach aims to progressively alleviate debt service burdens over the medium term. The Government is actively fostering the development of the domestic debt market by implementing a series of reforms designed to deepen market liquidity and enhance efficiency. These reforms seek to mitigate costs and yields on domestic debt, ultimately facilitating broader access to credit across all sectors.

11. Despite Kenya's public debt remaining within sustainable thresholds, recent events have heightened the risk of debt distress, as noted by the IMF in June 2023. These events include geopolitical conflicts disrupting global trade, resulting in escalated fuel, fertilizer, and food prices. Additionally, the lingering effects of the post-COVID-19 pandemic era, compounded by severe regional droughts attributed to climate change, have further strained the nation's resources.

12. Kenya is currently rated as a medium performer in terms of Debt Carrying Capacity, with a Composite Indicator (CI) estimated at 2.98. To address the elevated risk of debt distress, the government will persist in implementing its ongoing fiscal consolidation program. This program focuses on enhancing domestic revenue mobilization and rationalizing expenditure measures.

13. As of June 2023, the total stock of public and publicly guaranteed debt stood at Ksh. 10,278.7 Billion, approximately USD 73.1 Billion in nominal terms. Of this amount, domestic debt accounted for Ksh. 4,832.1 Billion, while external debt comprised Ksh. 5,446.5 Billion. The public debt-to-GDP ratio was recorded at 70.8 percent, with total debt service as a percentage of GDP standing at 58.8 percent. Notably, the domestic debt structure included Treasury bills and bonds, with outstanding balances also reflecting pre-1997 government loans and IMF on-lent funds.

14. Looking ahead, the Government's focus for the medium term will center on bolstering revenue mobilization efforts and rationalizing non-priority expenditure while safeguarding capital investments. This strategic agenda underscores a commitment to

aggressive revenue enhancement through a combination of administrative and policy reforms within the taxation framework.

3.3. County Debt outlook

15. The Makueni County Government maintains a debt-free status, reflecting prudent financial management practices. The Government prioritize expenditures and commitments based on available resources, ensuring that no debts are carried over from year to year. Strengthening internal controls further reinforces this commitment, guaranteeing that only budget-approved projects are executed. Despite these efforts, periodic delays in the disbursement of equitable shares from the National Government have presented challenges to our cash flow and service delivery.

16. 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.

17. Based on the audited revenues for FY 2022/23 of Ksh. 10,568,462,399 Makueni County is eligible for loans up to a maximum of Ksh. 2,113,692,480. Looking ahead, Makueni County is actively exploring avenues to expand its resource base through the following initiatives;

1. Infrastructure Bonds

18. 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. The County Green Bonds

19. 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.

20. 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.

21. 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.

3.4. Recommendation

22. Both the County Green 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 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

4.1. Introduction

23. In the Medium Term, the government will raise resources through long term and short term borrowing to finance the programs in the in the County Integrated Development Plan 2023-27. This will be done while ensuring the debt levels are maintained at sustainable levels. The management of public debt will be in accordance with the constitution and the PFM Act 2012.

4.2. Responsibilities of County Treasury on Matters of Debt Management

24. Pursuant to PFM Act Section 107 (2), The County Treasury is mandated to manage its public finances in accordance with the principles of fiscal responsibility. In managing the County Government's public finances, the County Treasury shall ensure over the medium term, the government's long term borrowings shall be used only for the purpose of financing development expenditure and the county debt shall be maintained at a sustainable level as approved by the county assembly. Section 140 (1) of the PFM Act, authorizes the County Executive Committee Member for Finance, to raise loans to implement government programs, only if the loan and the terms and conditions for the loan are set out in writing and are in accordance with—

a) Article 212 of the Constitution; A county government may borrow only— (i) if the national government guarantees the loan; and (ii) with the approval of the county government's assembly. Section 58 of the PFM Act 2012; Mandates the Cabinet Secretary (National Treasury) to guarantee loans for county governments or any other borrower on behalf of the national government with approval by Parliament.

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

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

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

4.3. Purpose for Borrowing

25. Pursuant to PFM Regulations 177(2) County government may from time to time borrow within and outside Kenya. The County Executive Committee Member for Finance may, on behalf of the County Government, raise a loan for that government's purposes, only if the loan and the terms and conditions for the loan are set out in writing and are in

accordance with Article 212 of the Constitution. Public borrowing allows governments to fund essential capital investments which contribute to economic growth and improve citizens' quality of life.

4.4. Borrowing Limits

26. Pursuant to PFM Act 2012 Regulation 25; the county public debt shall never exceed twenty (20%) per cent of the County Governments total revenue at any one time. At any time, the annual debt service cost of a County Government shall not exceed fifteen (15%) per cent of the most recent audited revenue of that county government, as approved by county assembly. Based on the credit rating report, Makueni County qualifies for any loan below Ksh. 2 Billion. However, based on the actual revenues for FY 2022/23, Makueni County qualifies for a loan to a maximum of Ksh. 2,113,692,480.

4.5. Process of Seeking Loans

27. For a project to be financed, it should meet the objectives of government socio economic transformation agenda and must be included the Medium Term Debt Strategy. All the targeted programmes and projects should be within the county long term plan, the CIDP 2023-27. The County Treasury will ensure all requirements are met before the loans are processed. This will involve: ascertaining that the programme or the project is a priority, carrying out prefeasibility and feasibility studies, Confirmation of availability of land and other necessary resources, due diligence report and any other requirements which may be in the Agreement Framework.

4.6. Process for Approving Loan Proposals by The County Government

28. The County Executive Committee Member will ensure the provisions in Section 184 of PFM Regulations are met during the process of approving the loan proposal. This will include: Submitting:
    a. The borrowing proposal which will include its terms and conditions to the County Executive Committee for approval,
    b. The signed loan agreement and a sessional paper to the County Assembly for deliberation and approval, and
    c. The final draft loan financing agreement and the 'approval of the County Assembly to the Cabinet Secretary – National Treasury requesting for the guarantee of the final loan financing agreement.

29. The Cabinet secretary (National Government) shall participate in the negotiations on the contracting of a guaranteed loan by advising the County Government on the best financial terms available and shall sign on behalf of the National Government all agreements on the issuance of a government guarantee.

4.7. Debt Management Strategies

30. To ensure that the debt remains at the sustainable and affordable level, the government shall ensure it considers to pursue grant funding and budget support and where grants are

available. Where a loan element of grant funding for priority development projects is mandatory, limited concessional borrowing will be sought. The **Concessional loans** will be limited to multi- or bilateral donors or development partners. Any new borrowing shall follow fiscal responsibility guidelines for a fit purpose; from an allowable source and within the acceptable terms and conditions.

31. The 2024 MTDS considered three alternative financing strategies to fund any fiscal deficits for the FY2024/2025 and the medium-term borrowing. The options are; Option 1 (S1) -Strategic Partnerships, Option 2 (S2) - Domestic sources of loans, and Option 3 (S3) - External sources of loans. After careful analysis, the government will opt for **Option 1 (S1), strengthening the strategic partnerships** through active engagement with potential partners, targeted outreaches, joint project development, and proposal writing to align county interests to the donors' interests and maximize impact.

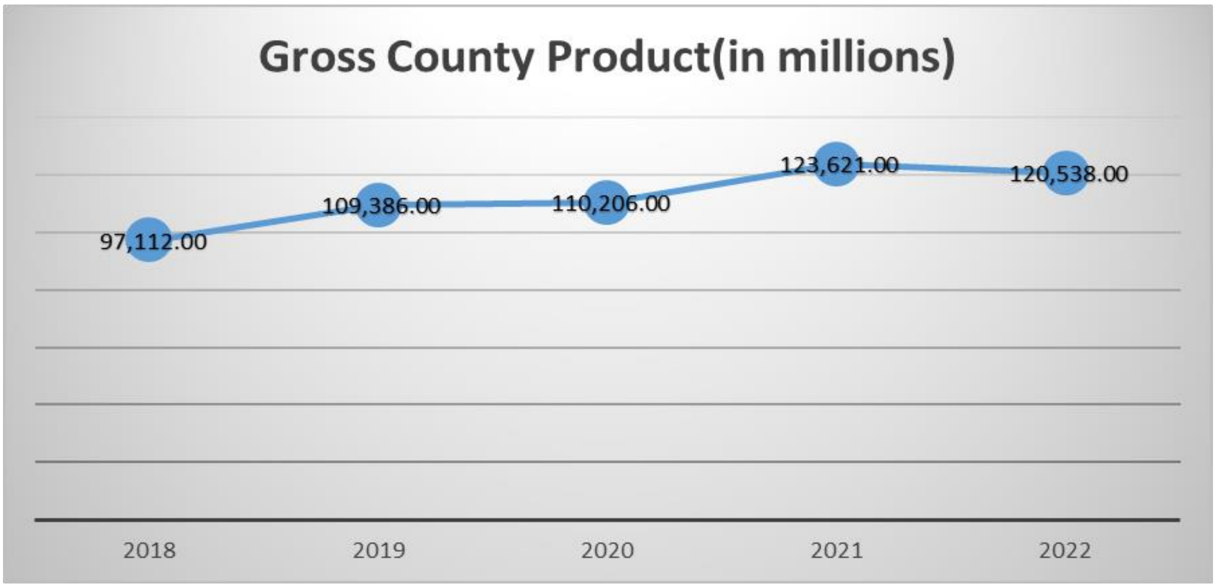
CHAPTER FIVE: MACRO-ECONOMIC ASSUMPTIONS AND KEY RISKS UNDER THE 2024 COUNTY FISCAL STRATEGY PAPER (CFSP)

5.1. Macro-Economic Assumptions

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

a. Economic Growth

33. The National economy is projected to register a 6 percent growth 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

34. 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 measure to ensure that Own Source Revenue targets are met.

c. Favourable Weather and Reliable Rain Patterns

35. 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. Others strategies like ensuring that farmers are insured against climate related risks will be undertaken.

d. Resilience to disasters and emergencies

36. 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

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

f. Strategic partnerships

38. The County Government will maintain 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 2024 County Fiscal Strategy Paper (CFSP)

39. 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 AND SOURCES AND PUBLIC DEBT RISK AND COST EVALUATION

6.1. County Financing Requirements and Sources

40. 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 2024/25 and the MTEF period, the county has a total resource requirement of Kshs 58.15 Billion and a cumulative deficit of Ksh 24.89 Billion, with the largest deficit of Ksh 12.94 Billion expected in FY 2025/26.

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

	FY 2024/25	FY 2025/26	FY 2026/27	Total
Resource Requirement (Ksh. Billions)	18.34	23.80	16.01	58.15
Estimated Revenue (Kshs. Billions)	10.48	11.06	11.56	33.05
Variance (Ksh. Billions)	7.86	12.79	4.45	25.10
Variance as a % of the total resource requirement	43%	54%	28%	43%

Source: Draft Makueni CFSP 2024 and CIDP 2023-2027

41. The County Government will therefore have a deficit of 43% of the total resource requirement over the MTEF period. To address this deficit, the government will pursue various resource mobilization approaches, 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% of the prior year's audited revenue of Kshs. 10,568,462,399. 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 2022/23, Makueni County qualifies for a loan of up to Kshs 2,113,692,480. However, during the FY 2024/25, the government will not carry out debt financing and will rely on the Strategic partnership from the development partners to finance the existing revenue gap.
42. 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 main sources will include Loans and grants from bilateral and multilateral organizations. This will be facilitated through the National Treasury
43. The proposed projects for debt financing and resource mobilization from development partners are as shown in the table 1 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

6.2. Public Debt Risk and Cost Evaluation

44. Pursuant to Section 107 (2) of the PFM Act, 2012, the County Treasury is required to manage its public finances in line with the principles of fiscal responsibility. When managing the county government's public finances, the County Treasury shall ensure that the government's long-term borrowings are solely used for development expenditure, and the county's debt is kept at a sustainable level as approved by the county assembly.

45. Since its establishment, the County Government has not taken on any public borrowing. If there is a need to borrow funds to finance the budget over the medium term, a thorough analysis of the costs and risks associated with different borrowing options will be conducted. Decisions regarding borrowing will only be made after a critical and comprehensive Cost Benefit Analysis is carried out, considering factors such as the purpose, amount, repayment terms, currency of contract, and any other risks associated with the loan.

46. In order to fill medium-term financing gaps, the County Government may issue an infrastructure bond not exceeding Ksh.2 billion shillings, with an indicative coupon rate of 18.46 percent per annum and a maturity rate of seven years. The annual solvency and liquidity indicators to be monitored include:

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

No.	Indicators	Ratios	
		Makueni County	National Government
1.	Debt to GCP/ GDP	1.75%	70.8%
2.	Debt Service to GCP/ GDP	0.57%	12%
3.	Debt Service to Revenues	6.55%	58.8%
4.	Interest payments to Revenues	3.69%	28.5%

Source: 2024 Medium Term Debt Management Strategy, & Makueni County Treasury proposed Calculations 2024.

47. Table 3 above shows that the Debt to Gross County Product (GCP) ratio stands at 1.75 percent. This suggests that if the county were to incur debt, it would amount to less than 2

percent of the county's economic output. Moreover, this ratio reflects a manageable debt burden that can be sustained with the county's current resources, safeguarding its long-term economic outlook.

48. According to the 2024 Medium Term Debt Management Strategy, the National debt to GDP ratio stands at 70.8 percent as at June 2023 against the approved debt anchor of 55 percent of debt to GDP. The National debt to GDP ratio would surpass the county debt to GCP ratio by 40 times and while it may not necessarily indicate immediate financial distress to the country, it underscores the importance of prudent debt management and sustainable fiscal policies to maintain long-term stability and prosperity.

49. Debt service pertains to the funds required to cover both the principal amount and the interest on an outstanding debt within a specified timeframe. The County's Gross County Product, as stated in the Gross County Report 2023, is Ksh 120.5 Billion as of 2022. Table 2 above presents that the debt service-to-GCP ratio stands at 0.57 percent, indicating minimal debt servicing costs thereby providing a window for investments and growth. The National Government spends an amount equivalent to 12 percent of the GDP to service debts. Comparatively, the national government's spending on servicing debts would be 21 times higher when compared to Makueni County. The moderate to high debt servicing costs may result to financial distress hence limit the government's ability to allocate resources to key priority areas.

50. Government revenue comprise tax and non-tax income and is used to finance public expenditure during a specified duration. Debt service to revenue ratio is a liquidity measure against a government's ability to service debt. Table 3 above shows that the county debt service to revenue ratio stands at 6.5% percent whereas the national ratio is 58.8%. This implies that the county government will allocate 6.5 percent of the total revenue to service debt, which is manageable and poses a lower liquidity risk to the county government's financial health and stability as compared to the national government which spends more than half of the total revenues on debt repayments.

51. Debt interest payments to revenue ratio measures the proportion of a government's total revenue that is allocated to paying interest on its debt obligations. Table 3 above shows that the county interest to revenue payments would be 3.69% whereas the national ratio stands at 28.5%. This implies that the County Government will have a low interest rate burden hence more flexibility to allocate resources to key priority resources whereas the national government may be strained financially.

52. Overall, the County Government's solvency and liquidity ratios portray a stable financial landscape conducive to borrowing for the purpose of fostering long-term economic expansion. However, policymakers should continue to monitor debt metrics, revenue trends, and macroeconomic indicators to ensure sustainable fiscal management and long-term prosperity.

CHAPTER SEVEN: MEDIUM TERM DEBT STRATEGY IMPLEMENTATION, MONITORING AND EVALUATION

7.1. Introduction

53. This chapter provides the process of translating debt management plans into actionable strategies, monitoring, evaluation and learning for evidence driven decision making. This is key in maintaining fiscal discipline, financial stability and promoting sustainable development.

7.2. Implementation strategy

54. Borrowing decisions will be guided by the need to lower cost and minimize risks, including those related to foreign exchange, interest rate, refinancing and settlement. Further, the Government will pursue the 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.

55. The County Government will work in collaboration 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 Government will establish 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.

7.3. Institutional and Operational Framework

56. The County Treasury will establish two units to help in the operations of the debt management namely; County Debt Management Unit and County Debt Management Advisory Committee. The composition and the roles of these units will be as follows:

County Debt Management Unit

57. 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.

County Debt Management Advisory Committee (CDMAC)

58. 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.

7.4. Monitoring and Evaluation

59. 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 gauge the strategy's performance against predefined objectives and targets. Key performance indicators (KPIs) will be established to measure progress and identify areas for improvement.

CHAPTER EIGHT: CONCLUSION

60. Public debt management objectives are to ensure that the County Government's financing needs and payment obligations are met at the lowest possible cost over the medium to long term, with a prudent degree of risk. It also ensures that there is equitable sharing of benefits and burdens of public debt between the current and future generation.

61. 2024 Medium Term Debt Strategy Paper outlines the governments' strategic priorities for the debt financing and management over the medium term. The Government endeavors to ensure commitments and expenditures are within the available resources and where funding will be sought externally through debts, they are sustainable and fit for purpose. Additionally, the government will ensure that the debt funded programmes and projects are sustainable and that it meets its debt obligations in a timely manner. Government borrowing will be guided by lowest possible cost and minimal risks, particularly of foreign exchange, interest rate, refinancing and settlement risks.

62. The Government will endeavor to implement sound policies and structural reforms to improve its overall revenue and expenditure profile. This will strengthen the credit rating and enhance its access to a wider array of financial sources at lower cost and risk while maintaining overall debt within sustainable levels.

GLOSSARY OF TERMS

Budget	Financial plan that serves as an estimate of future cost, revenues or both.
Capital Expenditure("capex")	Expenditure on long-term assets such as plant, equipment or land, which will form the productive assets of a company.
Cash	Funds that can be readily spent or used to meet current obligations.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Concessionality;	A measure of the softness of a credit reflecting the benefit to the borrower compared to a loan at market rate. Technically, it is calculated as the difference between the nominal value and the present value of the debt service as of the date of disbursement, calculated at a discount rate applicable to the currency of the transaction and expressed as a percentage of the nominal value.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Debt Service;	The amount of funds used for repayment of principal and interest of a debt.
Debt Sustainability Analysis;	This is conducted in the context of medium-term scenarios. These scenarios are numerical evaluations that take account of expectations of the behaviour of economic variables and other factors to determine the conditions under which debt and other indicators would stabilize at reasonable levels, the major risks to the economy, and the need and scope for policy adjustment. In this analysis, macroeconomic uncertainties, such as the outlook for the current account, and policy uncertainties, such as for fiscal policy, tend to dominate the medium term outlook.
Debt Sustainability;	Sustainable debt is the level of debt that allows a debtor country to meet its current and future debt service obligations in full, without recourse to further debt relief or rescheduling, avoiding accumulation of arrears, while allowing an acceptable level of economic growth.
Disbursement;	The actual transfer of financial resources or of goods or services by the lender to the borrower.
Diversification	Spreading risk by constructing a portfolio that contains different exposures whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Domestic Borrowing;	Government borrowing through issuance of local Government securities and direct borrowing from the Central Bank.

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

	issuance.
Principal	The total amount borrowed or lent, e.g. the face value of a bond, excluding interest.
Public Debt;	This refers to outstanding financial obligations of the Government arising from past borrowing. It includes Government guaranteed debts to State Corporations and Local Authorities.
Secondary Market;	This is a market where already issued financial instruments are traded.
Solvency indicators	This is the county's ability to meet her long term debts and obligations
Transfers	Income received from a third party, most often a higher level of government or a donor. Includes exchequer releases, income provided by Government Departments, and or external parties such as development finance agencies.
Treasury Bills;	It is a short-term borrowing instrument issued by the Government to finance the budget.
Treasury Bond;	This is a medium to long-term term debt instrument issued by the Government to finance the budget.