COUNTY GOVERNMENT OF ELGEYO MARAKWET

COUNTY TREASURY

2021 DEBT MANAGEMENT STRATEGY PAPER

(DMSP)

2021/22 – 2023/24 MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF)

FOREWORD

The Medium-Term Debt Management Strategy Paper (MTDMSP) guides the debt management and borrowing framework for the county. It is prepared annually in a three-year rolling format. Its preparation is guided by provisions in the Public Finance Management Act, 2012 and Article 212 of the Constitution of Kenya.

This Debt Management Strategy Paper which will cover the period 2021/22 to 2023/24 FYs is based on four purposeful components namely; to maintain debt at sustainable and affordable levels, to ensure any new borrowing follows fiscal responsibility guidelines for a fit purpose; from an allowable source; and with acceptable terms and conditions, to develop the domestic debt market and to introduce and consolidate fiscal, legal, institutional and operational measures that ensure that the above three objectives are met.

The 2018-22 County Integrated Development Plan (CIDP) is anchored on five development priorities; (i) a reliable, sustainable, cost- effective infrastructure and clean energy, (ii) a socially inclusive and empowered society, (iii) a healthy citizenry in a secure, clean environment, (iv) enhanced enterprise productivity and food security, and (iv) an open, efficient and responsive government.

Given that the success of these development priorities is pegged on a sustainable fiscal space guided by balanced budgets and realistic resource envelope projections, the county government of Elgeyo Marakwet does not intent to incur any debt in 2021/22 FY but pursue a balanced budget approach guided by the approved 2021 County Fiscal Strategy Paper (CFSP) which has defined a fiscal space for 2021/22 FY based on the available and/or projected resource envelope.

Notwithstanding our County Government not intending to borrow in 2021/22 FY, our government is projected to grow substantively economically and thus inevitably as it grows its strategic needs grow and thus creating a need for regular Debt management strategies to support annual budgets and meet its financial needs from the financial and money markets. This will be done cognizant of the need to avoid creating ‘pending bills’ – due payments transcending more than 1 FYs and/or projects not supported by budgets.

KEVIN BIWOTT
<u>CECM FOR FINANCE AND ECONOMIC PLANNING</u>

ACKNOWLEDGEMENTS

The Medium-Term Debt Management Strategy for Financial Years 2020/21-2023/24 will guide debt management operations over the medium-term to ensure that the County government financing needs are satisfied at prudent levels of risk. It also reaffirms the County Government’s commitment to continued stakeholder engagement in the effort to engender sustained support for county governments issuances. Therefore, as required by the PFM Act, the MTDS will be formally submitted to the County Assembly, tabled, published then publicized.

The Medium-Term Debt Management Strategy for Financial Years 2021/22 to 2023/24 has been prepared by a dedicated technical team from the Economic Planning and Budgeting Directorate led by Chief officer and Director of Economic Planning and Budgeting. Their tireless effort and immense loyalty during the process of collection, collating and compiling of inputs for the document is really appreciated.

We also acknowledge the leadership of Finance and Economic Planning Department’s Acting County Executive Committee (CEC) Member Mr. Kevin Biwott for the valuable contribution and continued commitment and support to the preparation of the document. Furthermore, we extend the county’s gratitude to county leadership's great support for enhancing the successful preparation of the document. It is worth mentioning that the preparation of this Debt Management Strategy Paper (DMSP) was a relatively technical process but an overall guidance by the leadership has helped determine an appropriate tool from which we can reliably determine an optimal borrowing strategy for execution.

LORETTA KOTUT

CHIEF OFFICER, ECONOMIC PLANNING AND BUDGETING

ABBREVIATIONS

CECM: County Executive Committee Member

CFSP: County Fiscal Strategy Paper

CIDP: County Integrated Development Plan

CoK: The Constitution of Kenya

COVID-19: Corona Virus Disease 2019

CRA: Commission on Revenue Allocation

DMAC: Debt Management Advisory Committee

DMSP: Debt Management Strategy Paper

DMS: Debt Management Strategy

DMU: Debt Management Unit

FY: Financial Year

IFMIS: Integrated Financial Management Information System

IBEC: Intergovernmental Budget and Economic Council

MTDMS: Medium Term Debt Management Strategy

PFMA: Public Finance Management Act

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EXECUTIVE SUMMARY

The implementation of County Governments' mandates as stipulated in the Constitution and various laws require enormous resources, part of which are to be acquired through borrowing. The purpose of this MTDMS therefore is to guide the County Government of Elgeyo Marakwet in its borrowing decisions in the Medium-Term (2021/22 – 2023/24 FYs). It provides a path for a sustainable level of debt over the medium term by evaluating both the costs and risks of various financing scenarios and recommends optimal debt management strategies for implementation within that period.

The preparation of this DMSP is guided by provisions in the Public Finance Management Act, 2012 and Article 212 of the Constitution of Kenya. Specifically; (i) Article 212 of the Constitution, (ii) Sections 58 and 142 of this [PFMA] Act, (iii) The fiscal responsibility principles and the financial objectives of the county government set out in its most recent County Fiscal Strategy Paper, and (iv) the debt management strategy of the County Government over the medium term (v) A loan may be raised either within Kenya or outside Kenya. The achievement of these provisions and the objectives of this Strategy Paper is anchored on the institutional and operational framework detailed in this Paper.

This Paper is structured into six chapters. Chapter one provides the background on debt management, the scope and the legal framework. Chapter two details the purposes of the medium-term expenditure strategy paper while chapter three highlights on the principles of public finance and debt management of which the county's strategy is pegged on.

Chapter four focuses on the consolidation of fiscal, legal, institutional and operational measures that ensure that the objectives of the Strategy are met. Chapter five outlines the national debt outlook and its impacts on the county debt outlook, it also enumerates the macro-economic assumptions of the Medium-Term Debt Management Strategy. The conclusion is captured in chapter six.

CHAPTER ONE:

INTRODUCTION, LEGAL FRAMEWORK AND SCOPE OF DMS

1.1. Debt

Public debt, or borrowing, includes the contracting or guaranteeing of domestic and external (foreign) debt through loans, financial leasing, on-lending and any other type of borrowing, including concessional and non-concessional borrowing, whatever the source. Borrowing and debt of county government owned institutions would be included in the definition of total county government debt.

1.2. Debt Management Strategy Paper (DMSP)

This Medium-Term Debt Management Strategy (Debt Strategy) is a framework that the County government intends to use over the medium-term (three years) to ensure that debt levels stay affordable and sustainable, that any new borrowing is for a good purpose and that the costs and risks of borrowing are minimized.

1.3. Objectives of Debt Management Strategy Paper (DMSP)

This Debt Management Strategy Paper (DMSP) has several medium-term objectives. First, it sets out the County Government's strategy and plans for the management of its debt for three years beginning Financial Year 2021/22 to 2023/24. Secondly, this DMSP outlines what the County government intends to implement over the medium term to achieve a desired composition of debt portfolio. Thirdly, it operationalizes the county government's debt management objectives of ensuring financing needs and payment obligations are met at the lowest possible cost consistent with a prudent degree of risk. Finally, DMSP is intended to manage the risk exposure embedded in the debt portfolio specifically, potential variations in the cost of debt servicing and its impact on the budget.

1.4. Scope of Debt Management Strategy Paper (DMSP)

This DMSP includes the following areas;

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 assumption underlying the debt management strategy.
e) An analysis of the sustainability of the amount of debt, both actual and potential.

1.5. Legal Framework for Debt Management Strategy Paper (DMSP)

1.5.1 DMS Preparation Timelines and Processes

Preparation of this DMSP is provided for in the Public Finance Management (PFM) Act section 123 which states that:

1. On or before the 28th of February in each year, the County Treasury shall submit to the County Assembly a statement setting out the debt management strategy of the county government over the medium term with regard to its actual liability and potential liability in respect of loans and its plans for dealing with those liabilities.
2. The County Executive Member for Finance publishes and publicizes the statement and submit a copy to the Commission on Revenue Allocation (CRA), and the Intergovernmental Budget and Economic Council (IBEC).

1.5.2 Borrowing Framework for County Governments

Section 212 of the Constitution gives county governments a window of opportunity to borrow. All borrowed funds must be guaranteed by the national government and have to be approved by the County Government's Assembly. Loans to county governments are part of the public debt. The constitutional provision on borrowing is operationalized by the PFMA, 2012 (1) Section 58 of the Act which states;

3. Subject to subsection (2), the Cabinet Secretary may guarantee a loan of a County Government or any other borrower on behalf of the National Government and that loan shall be approved by Parliament.
4. The Cabinet Secretary shall not guarantee a loan under subsection (1) unless;
    a. The loan is for a capital project.
    b. The borrower is capable of repaying the loan and paying any interest or other amount payable in respect of it.
    c. In the case of a private borrower, there is sufficient security for the loan.
    d. The financial position of the borrower over the medium term is likely to be satisfactory;
    e. The terms of the guarantee comply with the fiscal responsibility principles and financial objectives of the National Government. Where Parliament has passed a resolution setting a limit for the purposes of this section;
        i. The amount guaranteed does not exceed that limit.
        ii. If it exceeds that limit, the draft guarantee document has been approved by resolution of both Houses of Parliament.
        iii. The Cabinet Secretary takes into account the equity between the National Government's interests and the County Government's interests so as to ensure fairness.
        iv. The borrower complies with any conditions imposed by the Cabinet Secretary in accordance with the regulations.
        v. The Cabinet Secretary has taken into account the recommendation of the Intergovernmental Budget and Economic Council in respect of any guarantee to a County Government; and
        vi. The loan is made in accordance with provisions of this Act and any regulations made thereunder.

5. Parliament may approve a draft loan guarantee document as provided by subsection (2)(f)(ii) Only if satisfied that:

a. The guarantee is in the public interest;
b. The borrower's financial position is strong enough to enable the borrower to repay the loan proposed to be guaranteed and to pay interest or other amounts payable in respect of the loan; and (c) The loan is geared towards stimulating economic growth in a County Government. Section 107 of the Act specifies

6. Over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.
7. The county debt shall be maintained at a sustainable level as approved by the County Assembly. The fiscal risks shall be managed prudently.
8. Short term borrowing shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited county government revenue.
9. Every county government shall ensure that its level of debt at any particular time does not exceed a percentage of its annual revenue specified in respect of each financial year by a resolution of the County Assembly.

Section 140 and 141 of the Act specifies that;

10. A 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;
    i. Article 212 of the Constitution
    ii. Sections 58 and 142 of this [PFMA] Act
    iii. The fiscal responsibility principles and the financial objectives of the county government set out in its most recent County Fiscal Strategy Paper
    iv. The debt management strategy of the County Government over the medium term
    v. A loan may be raised either within Kenya or outside Kenya.

11. In borrowing money, a County Government shall ensure that its financing needs and payment obligations are met at the lowest possible cost in the market that is consistent with a prudent degree of risk, while ensuring that the overall level of public debt is sustainable.
12. A County Government may borrow money only in accordance with this Act or any other legislation and shall not exceed the limit set by the County Assembly.
13. A County Government may borrow money in accordance with section 58, and only for purposes that are prescribed by regulations made under this subsection.
14. A public debt incurred by a County Government is a charge on the County Revenue Fund, unless the County Executive Committee Member for Finance determines that all or part of the public debt that would otherwise be a charge on that Fund shall be a charge on another public fund established by that county government or any of its entities.
15. The County Executive Committee Member for Finance shall pay the proceeds of any loan raised under this Act into the County Revenue Fund or into any other public fund established by the county government or as the County Executive Committee Member for Finance may determine.
16. A County Executive Committee Member for Finance may establish such sinking fund or funds for the redemption of loans raised under this Act for the purposes of the County Government or any of its entities as the County Executive Committee member for finance considers necessary.
17. Any expenses incurred in connection with borrowing by a County Government shall be a charge on the County Revenue Fund or on such other county public fund established by the County Government or any 5 of its entities as the County Executive Committee member for finance may determine in accordance with regulations approved by the County Assembly.

Section 142 of the act specifies that;

18. The County Assembly may authorize short-term borrowing by county government entities for cash management purposes only.
19. Any borrowing may not exceed five percent of the most recent audited revenues of the entity.
20. A County Government entity that has any such borrowing shall ensure that the money borrowed is repaid within a year from the date on which it was borrowed.

Section 143 of the act specifies that;

21. The County government may issue securities, whether for money that it has borrowed or for any other purpose, only in one or more series and only in accordance with this Act and regulations.
22. Subject to the provisions of section 141 of this Act, the authority of the County Executive Committee member for finance to borrow money includes the authority to borrow money by issuing County Government securities in accordance with the regulations.
23. Any County Government securities issued by the County Executive Member for finance under this section shall be within the borrowing limits set out by the County Assembly under subsection 141(2) of this Act.
24. County Government securities may be issued in one or more series; and may be issued in accordance with loan agreements entered in accordance with regulations developed by the County Executive Committee member for finance and approved by the County Assembly.
25. An agreement to obtain a loan by a County Government entity made under subsection (5) may be amended from time to time and where the amendment results in further indebtedness or prejudice to the entity that borrowed, the amendment shall be approved by the County Assembly.
26. The County Executive Committee member for finance shall ensure that every County Government security issued under this section is given in the name of that County.

CHAPTER TWO:

PURPOSE OF MEDIUM-TERM DEBT MANAGEMENT STRATEGY

2.0 Key Assumptions

The assumptions considered during preparation of this DMSP and those that are to affect the realization of the proposed management strategies include;

i. The macroeconomic framework underpinning the strategy will remain stable during the medium- term period.
ii. The macro-economic framework underpinning the 2021/2022-2023/2024 DMSP is consistent with projections included in the 2021 County Fiscal Policy Statement (CFSP). The fiscal strategy paper objects at providing a general fiscal direction to support economic activities taking into consideration debt harmony in the next three years with an improved forecast of the national economy.
iii. The political, social and economic environment will remain favorable during the implementation of the strategy.
iv. The County Government of Elgeyo Marakwet has no current debt.
v. As per the constitution, the national government will guarantee county government loans;
vi. The County Government of Elgeyo Marakwet will adhere to the strategies contained in the debt management policy document. The CFSP will guide the borrowing requirements.
vii. Appropriate enabling debt management framework exists (adequate legal framework; effective institutional arrangements and comprehensive and efficient debt recording).

2.2 Purpose of DMS

There are four purposes for this Debt Management Strategy;

i. To maintain debt at sustainable and affordable levels

ii. To ensure that any new borrowing follows fiscal responsibility guidelines for a fit purpose; from an allowable source; and with acceptable terms and conditions.
iii. To develop domestic debt market for the County Government
iv. To introduce and consolidate fiscal, legal, institutional and operational measures that ensure that the above three objectives are met.

2.2.1 Sustainable Debt Maintenance

a) Pursue grant funding and budget support;
b) Where grants are unavailable, or where a loan element of grant funding for priority development projects is mandatory, limited concessional borrowing may be sought;
c) Borrowing must be limited to concessional loans from multi- or bilateral donors or development partners.
d) The criteria for considering concessional financing shall be a grant element of 35 per cent or more. This is in line with international debt management practice and as recommended by the IMF and World Bank.
e) Concessional debt terms and conditions must be appropriate for the project being financed. These terms are suitable for long-term infrastructure projects, but projects with a shorter life must have loans with a comparably shorter time to maturity. Also, a 10 year grace period could be too long for projects where a revenue stream is forecast to commence in less than 10 years;
f) Projected debt servicing cost, not allowing for grace periods, must be less than 8 percent of forecast domestic sourced revenues, assuming no growth in revenue.
g) Debt servicing shall be sequenced to avoid large peaks in repayment expenses at certain times of year.
h) As part of the budget process, an annual borrowing limit will be set such that debt levels will not cause thresholds to be exceeded.
i) Debt levels must be lower than any thresholds stipulated in PMF Act, 2012

2.2.2 Legal and Fiscal responsibility Borrowing Guidelines.

New borrowing must comply with legislative requirements in sections 58 and 142 of the PFM Act, 2012 and Article 212 of the CoK 2010, the fiscal responsibility principles and financial objectives in the CFSP and the County debt management strategy over the medium term.

New borrowing must be authorized by the County Assembly and approved by the National Treasury. The new borrowing must be for a fit purpose, from an acceptable source and with favorable terms and conditions.

2.2.3 Domestic Debt Market Development

A domestic government securities market is made up of tradable debt instruments with a time to maturity up to one year (Treasury Bills, which are discount instruments) and Treasury Bonds which have a time to maturity of more than one year.

The current domestic market is limited to counties having their own securities because of legal restrictions and compliance processes. But given that some counties such as Laikipia have succeeded in raising county bonds and securities, a precedence for compliance has now been set and more counties including Elgeyo Marakwet can follow suit.

2.2.4 Fiscal, Legal, Institutional and Operational Measures

Fiscal, legal, institutional and operational measures are needed to strengthen debt management and establish a borrowing framework. These measures also need to increase transparency and accountability to restore credit worthiness through rebuilding reputation. The PFMA 2012 provides an effective borrowing framework.

CHAPTER THREE:
PRINCIPLES OF PUBLIC FINANCE AND DEBT MANAGEMENT

This Chapter will highlight the Principles of Public Finance, analysis of Debt sustainability, debt management strategies, responsibilities of County Treasury in Debt management.

3.1 **Principles of Public Finance**

The following principles shall guide all aspects of public finance in the county Government-

a) There shall be openness and accountability, including public participation in financial matters.

b) The public finance system shall promote an equitable society, and in particular: -

  i. The burden of taxation shall be shared fairly.
  ii. Revenue raised nationally shall be shared equitably among national and county governments; and
  iii. Expenditure shall promote the equitable development of the country, including by making special provision for marginalized groups and areas.

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

d) Public money shall be used in a prudent and responsible way; and

e) Financial management shall be responsible, and fiscal reporting shall be clear.

3.2 **Analysis of Debt Sustainability**

The County Government recognizes the importance of managing debt prudently to avoid unwarranted debt burden to the future generation and reduce risk of macroeconomic instability. Significant efforts have been made to improve the institutional debt management as well as capacity to assess risks. As a County we need to embrace strong fiscal responsibility measures such as paying in full all current statutory deductions as they fall due to avoid unnecessary penalties and fines.

3.3 **Debt Management Strategies**

3.3.1 Enhancing the credibility and realism of the budget: One of the first steps in addressing a persistent arrears problem is to strengthen the realism of the annual budget. This will depend on robust assumptions and forecasts in the fiscal framework on which the budget is based. Internal revenues should be realistic and matched against expenditure. The County should set up realistic revenue targets and ensure the actual collection in a Financial Year is enhanced.

3.3.2 Strengthening commitment controls - Commitment controls are part of the internal control system, which should prevent the County from initiating expenditure without available budget and cash. IFMIS and e-Procurement will be used to enforce commitment control to ensure that expenditure incurred in a financial year has been budgeted for.

3.3.3 Improving cash and debt management - Reliable cash forecasting should ensure that liquidity is available to meet payment obligations as they arise. For effective cash management, the County treasury needs to develop accurate and timely short-term estimates of cash inflows and outflows. Spending sectors should be required to prepare financial plans both a schedule of commitments and likely cash outflows.

3.3.4 Verification of Arrears - Once data on the outstanding debts has been collected, the data should be verified to ensure that such payments are genuine claims to avoid payment of fraudulent claims. This activity can be undertaken by the internal audit function of the County, Office of the Auditor General or private audit firms, depending on the legal and institutional arrangements and capacity available.

3.3.5 Strengthening the legal and regulatory framework- The legal framework or related regulations should define payment terms (and when a payment is in arrears); reporting requirements; controls at the budget authorization, commitment, and payment stages; and the sanctions associated with any breach of those provisions. A clear credit policy should be put in place to enhance reporting, prioritization and timely payment of debt.

3.4 **Responsibilities of County Treasury in Debt Management**

- Make debt payments on time and for the correct amount.
- Keep timely, comprehensive and accurate records of outstanding government debt, guarantees, contingent liabilities and new borrowing in a single debt database;
- Publish, in a timely manner, monthly (and quarterly) reports showing the status of outstanding debt, debt payments, and projected debt payment obligations;
- Prepare, review and update the Debt Strategy;
- If required, prepare an annual borrowing plan;
- Prepare and publish auction calendars for issuance of domestic securities (Treasury Bills and Treasury Bonds);
- Assess 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;
- Submit all debt reports and debt management strategy to DMAC for consideration and recommendation.

3.5. **Principles and guidelines for Debt Management**

Section 212 of the Constitution gives county governments a window of opportunity to borrow. All borrowed funds must be guaranteed by the national government and have to be approved by the County Government's Assembly. Loans to county governments are part of the public debt. The constitutional provision on borrowing is operationalized by the PFMA, 2012 (1) Section 58 of the Act which states;

- Subject to subsection (2), the Cabinet Secretary may guarantee a loan of a County Government or any other borrower on behalf of the National Government and that loan shall be approved by Parliament.
- The Cabinet Secretary shall not guarantee a loan under subsection (1) unless;
    a) The loan is for a capital project.
    b) The borrower is capable of repaying the loan and paying any interest or other amount payable in respect of it.
    c) In the case of a private borrower, there is sufficient security for the loan.

d) The financial position of the borrower over the medium term is likely to be satisfactory;

e) The terms of the guarantee comply with the fiscal responsibility principles and financial objectives of the National Government. Where Parliament has passed a resolution setting a limit for the purposes of this section;

   i. The amount guaranteed does not exceed that limit.
   ii. If it exceeds that limit, the draft guarantee document has been approved by resolution of both Houses of Parliament.
   iii. The Cabinet Secretary takes into account the equity between the National Government's interests and the County Government's interests so as to ensure fairness.
   iv. The borrower complies with any conditions imposed by the Cabinet Secretary in accordance with the regulations.
   v. The Cabinet Secretary has taken into account the recommendation of the Intergovernmental Budget and Economic Council in respect of any guarantee to a County Government; and
   vi. The loan is made in accordance with provisions of this Act and any regulations made thereunder.

Section 123 of Public Finance Management Act provides for the framework for preparation of debt management strategy of the county government over the medium term with regard to its actual liability and potential liability in respect of loans and its plans for dealing with those liabilities. Sections 123(1)(2) of PFMA 2012 contain detailed explanations on how County Treasury is to submit county government debt management strategy to County Assembly.

3.6 Scope of Debt Management Strategy

Debt Management Strategy highlight the following areas;

- The total stock of debt as at the date of the statement
- The sources of loans made to the county government

- The principal risks associated with those loans
- The assumption underlying the debt management strategy
- An analysis of the sustainability of the amount of debt, both actual and potential.

CHAPTER FOUR:

INSTITUTIONAL AND OPERATIONAL FRAMEWORK

4.0 **Role of County Executive Member for Finance.**

There is a need for clear delegation of responsibilities for recommending and approving debt, where debt includes loans, borrowings, and guarantees and on lending to the county government. In this regard, DMAC will recommend and rank acceptable proposals. It is therefore, proposed that:

i. Proposals that have been recommended by the DMAC be submitted and incorporated as part of the budget approval and appropriation process.
ii. The CECM for finance has sole authority to approve loans. Therefore, borrowing will not be legal unless it has been signed off by CEC Member for finance.

4.1 **County Debt Management Advisory Committee**

There is established a committee to be called County Debt Management Advisory Committee (DMAC). This Committee will be chaired by the chief officer in charge of finance with membership of technical officers drawn from the five sectors. The Debt Management Advisory Committee will evaluate borrowing proposals and make recommendations to the CECM for finance as to whether borrowing should or should not proceed. The Debt Management Unit will act as secretariat for the Committee.

4.2 Management of County Debt

Borrowings by the county government shall be informed by the county government medium term debt management strategy and shall set out the framework for the management of county public debt. The medium-term debt management strategy, which is reviewed annually, shall be prepared and executed by the County Treasury, following approval by the County Executive Committee. The strategy shall be formulated annually on a three-year rolling basis.

There is established a County Debt Management unit (DMU) under the County Treasury of Elgeyo Marakwet county government. The functions and responsibilities of the DMU will include:

1. Making payments of county public debts
2. Preparation and review of Debt Management Strategy
3. Analysis of county fiscal and economic outlook
4. assessment of risks involved in both domestic and external borrowing; and issuance of treasury bill, treasury bond, treasury note, and any other debt instrument issued by the county government.
5. Preparation and submission of periodic debt reports

DMAC will assess the volume and risk characteristics of debt to ensure that:

i. Debt is sustainable and affordable.
ii. Debt is below the thresholds established.
iii. Debt is from an acceptable source.
iv. Debt is for a good purpose and the project is a high priority in the CIDP.
v. Debt is not for funding recurrent expenditure.
vi. Project has a positive Net Present Value or helps achieve Vision 2030 and the MDGs.
vii. The cost of any contingent liabilities and obligations such as tied procurement are factored into the cost and risk of debt.
viii. Cash flows from project can be identified that will be able to be used for repaying the loan.
ix. Loan terms and conditions are acceptable and achieve the best cost and risk outcome.
x. Borrowing aligns with the CFSP.

4.3 **Operational Framework**

In adherence to PFM Act, 2012, pursuant to provisions of sections 184 and 58, the county government shall follow the procedure hereunder;

a) The Cabinet Secretary, after receiving the request from the county government, shall seek the recommendations The County Executive Committee member for finance shall submit the borrowing proposal to the County Executive Committee for approval of the borrowing including its terms and conditions;

b) After approval by the County Executive Committee, the County Executive Committee member for finance shall submit the signed loan agreement and a sessional paper to the County Assembly for approval of the borrowing, including its broad terms and conditions;

c) After obtaining the approval of the County Assembly, the County Executive Committee member for finance shall submit the final draft loan financing agreement and the approval of the County Assembly to the Cabinet Secretary requesting for the guarantee of the final loan financing agreement;

d) of the Intergovernmental Budget and Economic Council in fulfillment of the requirements of section 58(2)(i) of the Act;

e) the Cabinet Secretary to the National Treasury, after receiving recommendations of IBEC, shall seek the recommendations of the Attorney-General.

f) the Cabinet Secretary may, upon taking into account the recommendations of the Intergovernmental Budget and Economic Council and the Attorney-General, approve or reject the request.

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

h) upon approval of a loan guarantee request, the Cabinet Secretary shall submit a sessional paper to Parliament with recommendations seeking its approval;

i) the Cabinet Secretary shall communicate the decision of Parliament on the draft loan guarantee to the respective County Executive Committee Member for finance; and

j) upon approval by Parliament the Cabinet Secretary shall issue a loan guarantee.

After receiving the communication of the decision of Parliament on the draft loan guarantee, the County Executive Committee member shall report to the County Assembly of the decision.

Foreign borrowing has a different approach. As guided by section 189 of PFM Act (2012) Negotiation with foreign governments and agencies for external loans shall culminate into and shall be formalized into one of the following recognized instruments in addition to the national government guarantee—

a) loan agreements; or
b) exchange of letters that constitute an agreement; or
c) subscription statement in regard to domestic government securities; or
d) national government guarantee

All sums borrowed shall be expended only on the activities included in the approved estimates of expenditure of the county government.

The county shall, when intending to issue a Treasury Bond, adhere to PFM Act (2012), section 183. (1) which stipulates that Pursuant to section 144 of the Act, a county government shall be guided by the following procedures—

a) the County Executive Committee Member for finance shall develop and submit the cash plan, indicating the borrowing requirements to the County Executive Committee for approval of the borrowing including its terms and conditions;
b) after approval by the County Executive Committee, the County Executive Committee Member shall submit the cash plan referred to above to the County Assembly for approval of the borrowing including its terms and conditions;
c) upon approval by the County Assembly, the County Executive Committee Member shall submit the final cash plan and the approval of the County Assembly to the Cabinet Secretary requesting for the guarantee of the Treasury Bond and their inclusion in the issuance calendar;

d) the Cabinet Secretary to the National Treasury, after receiving the request from the county government, shall seek the recommendations of the Intergovernmental Budget and Economic Council in fulfillment of the requirements of section 58(2)(i) of the Act;
e) the Cabinet Secretary to the National Treasury may, upon taking into account the recommendations of the Intergovernmental Budget and Economic Council, approve or reject the request;
f) the Cabinet Secretary shall reject a request for loan guarantee with reasons and communicate the same to the concerned County Executive Member ;
g) upon approval of a loan guarantee request, the Cabinet Secretary to the National Treasury shall submit the request to Parliament with recommendations seeking its approval;
h) the Cabinet Secretary to the National Treasury shall communicate the decision of Parliament on the draft loan guarantee to the respective County Executive Committee Member for finance;
i) upon approval by Parliament, the Cabinet Secretary shall include such authorized Treasury Bonds in the overall national issuance calendar;
j) once the issuance calendar is known, when the national governments advertises its bond issuance for a specific month it shall also incorporate those to be issued on behalf of county governments;
k) on the issuance day, the county whose bond is being issued, shall be represented in the auction committee meeting by the County Executive Committee Member or his or her representative; and
l) the National Treasury and the county government sign an on-lending agreement, the National Treasury shall transfer the proceeds of the Treasury Bond to the Revenue Fund of that county government and such on-lending transactions shall attract a fee to be determined by after the National Treasury.

CHAPTER FIVE:

2021/22 – 2022/23 DEBT OUTLOOK AND MACRO-ECONOMIC ASSUMPTIONS

5.1 **National Debt outlook, County Debt outlook**

Kenya government debt to GDP ratio stood at 68.69% in December 2020 and is expected to rise to 71.5% by December 2021. Public debt is primarily driven by fiscal deficit as the country resorts to borrowing to fill the budgetary resource gap to finance development needs of the two levels of government. This implies that a larger portion of revenues generated internally will go to financing of the debt causing a decrease in liquidity.

Kenya's debt position remains sustainable, but the risk of debt distress has increased to a high level due to the COVID-19 crisis weakening exports and real GDP growth and delaying fiscal consolidation. Kenya's total public debt has more than doubled to KSh 7.2 trillion at the end of December 2020 compared to KSh. 3.1 trillion in January 2016. During this period, the amount of external debt rose from KSh. 1.654 trillion to KSh 3.7 trillion. Kenya's domestic debt also rose from KSh. 1.5 trillion in January 2016 to KSh. 3.5 trillion as at December 2020. External debt was 52 % of total public debt while 48% was domestic debt as at close of December 2020.

With lower domestic revenue mobilization and elevated budget expenditures before the unwinding of COVID-19 related fiscal stimulus measures, the budget deficit is expected to remain broad and add to Kenya stock of public debt. If Kenya's fiscal imbalance is not reduced in the coming years, there will be further accumulation of domestic and external public debt, intensifying Kenya's external debt vulnerabilities, crowding out private sector investment. While Kenya is committed to medium-term fiscal consolidation, this may face challenges, including the 2022 general elections.

The County has no loan and has been operating on a cash basis meaning that expenditures are balanced with the existing fiscal space. However, there are debts mainly composed of unpaid statutory deductions and penalties accruing from delays in payments of such statutory deductions. These have been caused by late disbursements of the equitable share by the National treasury and underperformance in local revenues. To reverse this trend, the County Government has undertaken specific measures that include;

- **Establishment of Pending Bills Committee**

The pending bills committee was gazetted on 31st January 2020 with a view of analyzing any unpaid claims or bills on account of provision of goods and services to Elgeyo Marakwet County. Through this, the County Government was able to clear all the ineligible pending bills that were in dispute.

- **Enhanced revenue forecasting**

The County has adopted enhanced revenue forecasting methodologies which result in realistic budgeting thus ensuring that the government does not commit funds well beyond its ability to honour them.

- **Remittance of statutory deductions from gross salary**

The County Government has committed to remit statutory deductions from gross salary every month unlike in the past. This has avoided any interests and penalties accruing for late remittance or non-remittance which have in the past led to increase in the County's debt stock.

- **Discussion with National Government Agencies**

The County in its endeavor to clean up its books has engaged the National Government agencies for support. The County Government and The Kenya Revenue Account (KRA) and National Hospital Insurance Fund (NHIF) are in discussion on how to assist in resolving the penalties owed to them.

5.2 Macro-economic Assumptions of the Medium-Term Debt Management Strategy

This section gives an overview of medium-term strategy assumptions that were taken into consideration in the preparation process of the debt management strategies proposals.

The assumptions taken into considerations include:

a. The expectation that the economic, social, and political environment will remain conducive during the implementation period of the strategy.

b. The macro-economic framework beneath the 2021/22 to 2023/23 Medium Term Debt Management Strategy (MDTS) is consistent with projections contained within the 2021 County Fiscal Strategy Paper (CFSP).
c. The national government to guarantee county governments loans as per the Constitution of Kenya 2010.
d. The national Treasury to sustain efforts of reducing delays experienced in disbursement of equitable shares.
e. The micro-economic framework behind the strategy, as county's and country's economy is recovering from post covid 19 negative effects, will remain stable during the medium term period. Forecasted GCP and GDP growth rates and variables such as interest and inflation rates among others are expected to remain stable in the medium term.

CHAPTER SIX:

CONCLUSION

Public debt management forms an integral part of the macroeconomic environment in any economy. It has implications on public expenditure and has a direct bearing on macroeconomic stability. Its' objective is to ensure that the county government's financing needs and payment obligations are met at the lowest possible cost over the medium to long term, with a prudent degree of risk, while ensuring the equitable sharing of benefits and burdens of public debt between the current and future generation.

As the county strives for enhanced debt management, pending bills remain as the main challenge. Given the negative effect pending bills have on the growth of the economy, there is need for urgent action to ensure there is no further accumulation of pending bills and those verified should be paid without any further delays.

The procurement processes should also be completed prior to the end of the third quarter to avoid pending bills in subsequent years. Further it is expected that the National Treasury will be releasing the exchequer as per the agreed cash flow schedules to avoid last minute rush in processing of payments for goods and services rendered. The County Treasury will also continue to capacity build its technical personnel on IFMIS and update them with the requisite skills to guarantee smooth processing of payments thereby minimizing possible delays.

Payment of all arrears owed to the county should be a priority especially pending statutory deductions to avoid penalties that will accrue due to delayed remittances.

The strategies proposed in the DMSP will ensure low-cost funding with high returns, thereby promoting socio-economic well-being of the citizens. This is expected to contribute to economic growth both at the county and national level and ensure delivery of Vision 2030 and SDGS for enhanced socio-economic transformation.