COUNTY GOVERNMENT OF ELGEYO MARAKWET

COUNTY TREASURY

# 2024 DEBT MANAGEMENT STRATEGY PAPER

# (DMSP)

## 2024/25 – 2026/27 MEDIUM TERM EXPENDITURE FRAMEWORK (MTEF)

## FOREWORD

The Medium-Term Debt Management Strategy Paper (MTDMSP) serves as a guide for the county's debt management and borrowing framework. It is updated annually in a three-year rolling format and is shaped by the provisions of the Public Finance Management Act, 2012, and Article 212 of the Constitution of Kenya.

The MTDMSP for the period 2024/25 to 2026/27 fiscal years focuses on four key objectives: maintaining debt at sustainable and affordable levels, ensuring new borrowing adheres to fiscal responsibility guidelines and comes from permissible sources with acceptable terms, developing the domestic debt market, and implementing measures to achieve these objectives effectively.

The priorities outlined in the 2023-2027 County Integrated Development Plan (CIDP) are organized into nine pillars, including healthcare, infrastructure, water security, human settlement, food security, industrialization, education, social welfare, and governance. Given that the success of these priorities depends on sustainable fiscal management with balanced budgets and realistic resource projections, the County Government of Elgeyo Marakwet aims to maintain a balanced budget in the 2024/25 fiscal year, following the guidelines set forth in the approved 2023 County Fiscal Strategy Paper (CFSP).

Although the county government does not plan to borrow in the 2023/24 fiscal year, it anticipates substantial economic growth, which will necessitate regular debt management strategies to support annual budgets and meet financial requirements from the financial and money markets. However, these strategies will be implemented with caution to avoid accruing pending bills or undertaking projects without adequate budgetary support.

**ALPHAEUS K. TANUI**
**CECM FOR FINANCE AND ECONOMIC PLANNING**

## ACKNOWLEDGEMENTS

We extend our deepest appreciation for the collaborative efforts and unwavering commitment that culminated in the creation of the Medium-Term Debt Management Strategy for Financial Years 2024/25-2026/27. This strategic document is poised to guide our county's debt management operations over the medium term, ensuring that the financing needs of the County government are met at levels of risk deemed prudent.

The commitment of the County Government to sustained stakeholder engagement is reaffirmed through this strategy, reflecting our earnest endeavor to foster enduring support for county government issuances. In accordance with the provisions of the Public Finance Management Act (PFMA), the Medium-Term Debt Management Strategy (MTDS) will be formally submitted to the County Assembly, subsequently tabled, published, and publicized.

The formulation of this crucial strategy owes much to the dedicated technical team from the Economic Planning and Budgeting Directorate, under the astute leadership of the Director of Economic Planning and Budgeting. Their tireless efforts in the collection, collation, and compilation of inputs for the document are truly commendable and deeply appreciated. Special gratitude is also extended to the entire county treasury team for their unwavering support throughout the meticulous preparation of the Medium-Term Debt Management Strategy. Their collective efforts have been instrumental in shaping a comprehensive and well-informed framework.

We express our sincere thanks to Mr. Alphaeus K. Tanui, the County Executive Committee (CEC) Member for the Finance and Economic Planning Department, for his valuable contribution, continued commitment, and steadfast support during the preparation of this document. His leadership has been pivotal in steering the strategy towards success.

Furthermore, we acknowledge and extend gratitude to the broader county leadership for their consistent support, which has significantly contributed to the successful preparation of this document. As we move forward, we anticipate continued collaboration and engagement, confident that this Medium-Term Debt Management Strategy will serve as a robust foundation for responsible financial management and sustainable development within our county.

**PETER CHESOS**
**CO FINANCE AND ECONOMIC PLANNING**

## ABBREVIATIONS

| | |
|---|---|
| **BETA:** | Bottom-up Economic & Transformation Agenda |
| **CECM:** | County Executive Committee Member |
| **CFSP:** | County Fiscal Strategy Paper |
| **CIDP:** | County Integrated Development Plan |
| **COVID-19**: | Coronavirus 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 |
| **GCP:** | Gross County Product |
| **GDP:** | Gross Domestic Product |
| **IFMIS**: | Integrated Financial Management Information System |
| **IBEC:** | Intergovernmental Budget and Economic Council |
| **PFMA:** | Public Finance Management Act |
| **MTDMS:** | Medium Term Debt Management Strategy |

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# EXECUTIVE SUMMARY

The execution of County Governments' responsibilities, as outlined in the Constitution, the County Governments Act, and other relevant laws, demands significant resources, some of which may need to be acquired through borrowing. Thus, the aim of this Medium-Term Debt Management Strategy (MTDMS) is to provide guidance to the County Government of Elgeyo Marakwet regarding its borrowing decisions over the medium term (from 2024/25 to 2026/27 fiscal years). It aims to establish a sustainable level of debt by assessing the costs and risks associated with various financing options and recommending optimal debt management strategies for implementation during this period.

The formulation of this strategy is governed by the provisions of the Public Finance Management Act, 2012, and Article 212 of the Kenyan Constitution. Specifically, it adheres to: (i) Article 212 of the Constitution, (ii) Sections 58 and 142 of the Public Finance Management Act, (iii) the fiscal responsibility principles and financial objectives outlined in the county's most recent County Fiscal Strategy Paper, and (iv) the County Government's medium-term debt management strategy. It is noted that loans may be sourced domestically or internationally. The realization of these provisions and the objectives of this strategy paper relies on the institutional and operational framework outlined within.

The structure of this paper comprises six chapters. Chapter one offers an introduction to debt management, outlining its scope and the legal framework. Chapter two delineates the objectives of the medium-term expenditure strategy paper, while chapter three elucidates the principles of public finance and debt management upon which the county's strategy is based.

Chapter four concentrates on consolidating fiscal, legal, institutional, and operational measures to ensure the strategy's objectives are achieved. Chapter five addresses the national debt outlook and its implications for the county's debt outlook, alongside enumerating the macro-economic assumptions of the Medium-Term Debt Management Strategy. The conclusion is encapsulated in chapter six.

# CHAPTER ONE: INTRODUCTION, LEGAL FRAMEWORK AND SCOPE OF DMSP

## 1.0. Introduction

The Debt Management Strategy (DMSP) is a vital component of fiscal governance for the county government, prepared in accordance with the provisions outlined in Section 123 of the Public Finance Management (PFM) Act of 2012. It directs the County Treasury to present to the County Assembly a comprehensive statement delineating the debt management strategy over the medium term. The primary focus of this strategy is to demonstrate both the current and potential liabilities of the county government, accompanied by a strategic roadmap for effectively managing and mitigating these financial obligations.

The framework for governing county debt extends beyond Section 123, encompassing a range of pivotal sections within the PFM Act. Sections 107, 140, 141, 142, 143, and 144 collectively provide a robust regulatory foundation guiding the prudent management of county debt. These statutory provisions set the stage for a systematic approach to debt governance, ensuring transparency, accountability, and sustainability in the county's financial dealings.

In line with the legislative framework, the preparation of the DMSP is further informed by key documents such as the County Fiscal Strategy Paper (CFSP) and the County Budget Review and Outlook Paper (CBROP). These documents serve as essential references, offering valuable insights and strategic considerations that contribute to the formulation of a well-rounded and forward-looking debt management strategy.

As the county explores its financial landscape, this debt management strategy serves as a proactive tool, aligning the county's fiscal roadmap with responsible and sustainable practices. Through adherence to legislative directives and the integration of strategic planning documents, the DMSP aims to foster financial resilience, prudent resource allocation, and long-term fiscal stability for the benefit of the county and its constituents.

## 1.1. Debt

Public debt, commonly referred to as borrowing, encompasses the acquisition or underwriting of both domestic and external (foreign) debt. This financial commitment involves various means such as loans, financial leasing, on-lending, and any other form of borrowing, regardless of whether it is characterized as concessional or non-concessional, and irrespective of its origin. This comprehensive definition includes the borrowing activities of county government-owned institutions, contributing to the broader understanding of total county government debt. By encompassing a spectrum of financial instruments and sources, this definition captures the diverse strategies and mechanisms through which public debt is incurred, emphasizing the significance of transparency and accountability in managing the financial obligations of the county government.

### 1.2. Debt Management Strategy Paper (DMSP)

The Medium-Term Debt Management Strategy (Debt Strategy) being presented serves as a framework devised by the County government designed to guide financial decisions over the next three years. The strategy is employed to uphold the principles of affordability and sustainability in managing the county's debt levels. It demonstrates the county's commitment to ensuring that any borrowing is undertaken with a clear purpose, aligning with strategic objectives, and emphasizing the imperative of minimizing both the costs and risks associated with such financial endeavors. It outlines the plans that the county endeavors to maintain towards attainment of fiscal discipline, financial stability, and making informed choices geared at the overall welfare of the community.

### 1.3. Objectives of Debt Management Strategy Paper (DMSP)

The objective of this Debt Management Strategy Paper is to highlight and delineate the County Government's strategic approach and plans for effective management of its debt over the medium term, spanning from the Financial Year 2024/25 to 2026/27. This comprehensive roadmap serves as a guiding framework for informed decision-making and fiscal planning.

The DMSP outlines the County government's commitment to achieving a well-balanced and sustainable composition of the debt portfolio. It explicitly aims to ensure that the overall level of public debt remains within prudent limits, with a strict adherence to the stipulations set forth in the Public Finance Management (County Government) Regulations section 25(1)(d). Specifically, the objective is to prevent the county government's debt from exceeding twenty (20%) percent of its total revenue at any given time.

DMSP aims to operationalize the county government's debt management goals. This involves ensuring that financing needs and payment obligations are met at the lowest possible cost, all while maintaining a prudent level of risk. The strategy emphasizes cost-effectiveness in managing debt, contributing to overall fiscal efficiency and responsible financial stewardship.

The DMSP is designed to proactively manage and mitigate the risk exposure embedded in the county government's debt portfolio. It addresses potential variations in the cost of debt servicing and, in doing so, seeks to minimize adverse impacts on the budget. By focusing on risk management, the strategy enhances the county's resilience to external financial fluctuations, fostering a more stable and secure fiscal environment.

### 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 principal risks associated with those loans.
c) The assumption underlying the debt management strategy.
d) 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 regarding 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 submits 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 must 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;

1. 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.
2. The Cabinet Secretary shall not guarantee a loan under subsection (1) unless.
   a) The loan is for a capital project.
   b) The borrower can repay the loan and pay 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;
      - The amount guaranteed does not exceed that limit.
      - If it exceeds that limit, the draft guaranteed document has been approved by resolution of both Houses of Parliament.
      - The Cabinet Secretary considers the equity between the National Government's interests and the County Government's interests to ensure fairness.
      - The borrower complies with any conditions imposed by the Cabinet Secretary in accordance with the regulations.
      - The Cabinet Secretary has considered the recommendation of the Intergovernmental Budget and Economic Council in respect of any guarantee to a County Government; and
      - The loan is made in accordance with provisions of this Act and any regulations made thereunder.

3. 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.

4. Over the medium term, the county government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.

5. The county debt shall be maintained at a sustainable level as approved by the County Assembly. The fiscal risks shall be managed prudently.

6. 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.

7. Every county government shall ensure that its level of debt at any 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**:

8. 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

9. 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.

10. 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.

11. A County Government may borrow money in accordance with section 58, and only for purposes that are prescribed by regulations made under this subsection.

12. 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.

13. 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.

14. 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.

15. 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 funds established by the County Government or any five 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;**
16. The County Assembly may authorize short-term borrowing by county government entities for cash management purposes only.

17. Any borrowing may not exceed five percent of the most recent audited revenues of the entity.

18. 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;**
19. 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.

20. 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.

21. 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.

22. 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.

23. 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.

24. 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 following assumptions form the basis for the Medium-Term Debt Management Strategy Paper (DMSP):

i. The success of the DMSP relies on the continuation of a stable macroeconomic environment throughout the designated medium-term period.
ii. The macroeconomic framework for the DMSP (2024/2025-2026/2027) aligns with the projections outlined in the 2024 County Fiscal Strategy Paper (CFSP). The CFSP aims to provide a general fiscal direction, considering debt sustainability over the next three years, with an improved forecast of the national economy.
iii. The assumption is that the political, social, and economic conditions will remain favorable during the implementation of the debt management strategy.
iv. The County Government of Elgeyo Marakwet has debts totaling Ksh. 18,647,689. Recurrent pending bills sums to Ksh. 7,953,106 and development pending bills adds to Ksh. 10,694,583.
v. As stipulated in the constitution, the national government is mandated to ensure the security of county government loans, thereby affirming its commitment to supporting and sustaining the financial well-being of local governance.
vi. The County Government of Elgeyo Marakwet is expected to conscientiously follow and implement the strategies outlined in the Debt Management Policy document.
vii. Appropriate enabling debt management framework exists (adequate legal framework; effective institutional arrangements and comprehensive and efficient debt recording).

## 2.2: Purpose of DMS

The purpose for this Debt Management Strategy is.,

1. To ensure that any new borrowing follows fiscal responsibility guidelines for a fit purpose; from an allowable source; and with acceptable terms and conditions.
2. To introduce and consolidate fiscal, legal, institutional, and operational measures that ensure that the above three objectives are met.
3. To develop domestic debt market for the County Government
4. To maintain debt at sustainable and affordable levels.

### 2.2.1 Sustainable Debt Maintenance

1) Debt servicing shall be sequenced to avoid large peaks in repayment expenses at certain times of year.
2) 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.
3) Pursue grant funding and budget support.
4) Where grants are unavailable, or where a loan element of grant funding for priority development projects is mandatory, limited concessional borrowing may be sought.
5) Borrowing must be limited to concessional loans from multi- or bilateral donors or development partners.
6) 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.
7) 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.
8) As part of the budget process, an annual borrowing limit will be set such that debt levels will not cause thresholds to be exceeded.
9) Debt levels must be lower than any thresholds stipulated in PMF Act, 2012.

### 2.2.2 Legal and Fiscal responsibility Borrowing Guidelines

In compliance with legal requirements and to maintain fiscal responsibility, the County Government has implemented strong borrowing protocols that align with the applicable legal frameworks. The borrowing procedures are structured to guarantee transparency, accountability, and prudent financial management. The essential components of these guidelines include:

**1.Compliance with Legislative Requirements:**

- New borrowing activities must fully comply with the stipulations outlined in sections 58 and 142 of the Public Finance Management (PFM) Act, 2012, as well as Article 212 of the Constitution of Kenya (CoK).
- Adherence to these legislative provisions is essential to uphold the legal framework governing financial management at the county level.

**2.Alignment with Fiscal Responsibility Principles:**

- All new borrowing initiatives must align with the fiscal responsibility principles and financial objectives articulated in both the County Fiscal Strategy Paper and the County Debt Management Strategy over the medium term.
- This ensures that borrowing decisions are consistent with the county's broader financial strategy and contribute to sustainable fiscal outcomes.

**3.Authorization by County Assembly and Approval by National Treasury:**

- The initiation of any new borrowing must undergo a thorough approval process, starting with authorization by the County Assembly.
- Subsequently, approval from the National Treasury is mandatory, providing an additional layer of oversight and scrutiny.

**4.Fit Purpose, Acceptable Source, and Favorable Terms:**

- New borrowing must be undertaken for a fit purpose, meaning that funds are allocated to projects and initiatives that align with the county's development goals and priorities.
- Sources of borrowing must be acceptable, adhering to ethical standards, and the terms and conditions of the borrowing must be favorable and sustainable over the long term.

Through the establishment and adherence to these borrowing guidelines, the County Government is dedicated to maintaining legal compliance, fostering fiscal responsibility, and ensuring that financial decisions positively impact the county's economic development and long-term financial well-being. These guidelines act as a structure for prudent financial management, illustrating the government's commitment to transparency, accountability, and responsible governance.

### 2.2.3 Domestic Debt Market Development

The establishment of a robust domestic debt market is a crucial step in facilitating accessible and sustainable long-term financing for both public and private sectors. A functional domestic government securities market includes diverse tradable debt instruments like Treasury Bills (short-term discount instruments) and Treasury Bonds (long-term instruments). This dynamic market plays a vital role in promoting economic growth and ensuring financial stability.

Presently, legal restrictions and compliance processes limit the scope of the domestic market, restricting participation to counties issuing their own securities. Despite these challenges, the County Government remains dedicated to advancing the domestic debt market and actively pursuing the diversification of government securities. This strategic approach aligns with a market-based debt restructuring framework, recognizing the significance of flexibility and innovation in financial markets.

### 2.2.4 Fiscal, Legal, Institutional and Operational Measures

To strengthen debt management and establish a robust borrowing framework, it is essential to implement fiscal, legal, institutional, and operational measures. These actions play a pivotal role in enhancing transparency and accountability, consequently restoring creditworthiness and rebuilding reputation. The Public Finance Management Act of 2012 (PFMA 2012) serves as a solid foundation for such a borrowing framework.

Clearly outlined debt management objectives are crucial, with a focus on minimizing the cost of debt over the medium to long term, maintaining acceptable risk levels in the debt portfolio, and promoting the development of the domestic debt market. The law mandates an annual review and update of the Debt Strategy, which not only functions as an operational strategy but also provides a comprehensive framework outlining how the county government intends to achieve its debt management objectives.

## CHAPTER THREE: PRINCIPLES OF PUBLIC FINANCE AND DEBT MANAGEMENT

This Chapter highlights the Principles of Public Finance, Debt sustainability, debt management strategies and responsibilities of the 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.

(iii) Revenue raised locally shall be shared equitably among wards; and

(iv) 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 understands the need for debt management to lower the risk of macroeconomic instability and spare future generations from debt burdens. Considerable endeavors have been undertaken to enhance the institutional debt management and risk assessment capabilities. To prevent needless penalties and fines, the County will adopt strict fiscal responsibility measures, such as paying all current statutory deductions in full as they become due. The county had outstanding bills of Kshs. 14,325,048/- as at the end of January 2023, as shown in the table below. Pending bills were drastically reduced during the period under review.

**Outstanding Pending bills as of 31st January 2023**

| | DEPARTMENT | CODE | RECURRENT | DEVELOPMENT | TOTAL |
|---|---|---|---|---|---|
| 1 | Governor's Office | 4362 | 638,793.05 | - | **638,793.05** |
| 2 | Finance and Economic Planning | 4363 | 200,000.00 | - | **200,000.00** |
| 3 | Agriculture and Irrigation | 4364 | - | - | **-** |
| 4 | Water and Climate Change | 4365 | 54,000.00 | 5,694,752.00 | **5,748,752.00** |
| 5 | Education and Vocational Training | 4366 | - | 497,110.00 | **497,110.00** |
| 6 | Health Services | 4367 | - | 2,522,266.00 | **2,522,266.00** |
| 7 | Lands and Physical Planning | 4368 | 145,600.00 | - | **145,600.00** |
| 8 | Roads and Public Works | 4369 | - | 199,800.00 | **199,800.00** |
| 9 | Tourism and Wildlife Management | 4371 | - | - | - |
| 10 | Youth, Sports, and Gender | 4372 | 120,000.00 | 810,655.00 | **930,655.00** |
| 11 | Public Service Management | 4373 | 1,687,200.00 | - | **1,687,200.00** |
| 12 | County Public Service Board | 4374 | - | - | **-** |
| 13 | Livestock and Veterinary | 4377 | 5,107,513.00 | 970,000.00 | **6,077,513.00** |
| | TOTAL | | **7,953,106.05** | **10,694,583.00** | **18,647,689.05** |

### 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 rely on the fiscal framework's solid predictions and assumptions which form the basis of the budget. Internal revenue growth should be proportionate to expenditure growth. The county will establish reasonable revenue goals and make sure that actual money collected within a fiscal year is increased.

#### 3.3.2 Strengthening commitment controls

Within the internal control system, commitment controls help to ensure that the County never starts spending money before it has the necessary funds and budget. The enforcement of commitment control will be carried out through IFMIS and e-Procurement, guaranteeing that all expenses incurred within a fiscal year have been covered by budget.

### 3.3.3 Improving cash and debt management.

A reliable cash forecast should guarantee that there is enough liquidity to cover unforeseen expenses. The County treasury will create precise and timely short-term estimates of cash inflows and outflows to manage cash effectively. It should be mandatory for spending sectors to create financial plans that include a timeline of commitments and anticipated cash outflows.

### 3.3.4 Verification of Arrears

Once data on the outstanding debts has been collected, it is important to confirm the information to make sure that payments made are for legitimate claims and to prevent paying for false claims. This activity is undertaken by both the internal audit function of the County, and the pending bills committee. The arrears are confirmed by the Public Accounts Committee of the county assembly and the Auditor General's office annually during the audit process.

### 3.3.5 Strengthening the legal and regulatory framework.

The payment terms (including identifying when a payment is in arrears), reporting requirements, and controls during budget authorization, commitment, and payment phases, along with the penalties for violating these rules, should be explicitly outlined in the legal framework or relevant regulations. Additionally, implementing a well-defined credit policy is essential to improve reporting accuracy, prioritize payments, and ensure timely settlement of debts.

## 3.4 Responsibilities of County Treasury in Debt Management

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

### 3.5. Principles and guidelines for Debt Management

County governments are afforded a chance to borrow under Section 212 of the Constitution. Any borrowed funds must be backed by the national government and necessitate approval from the County Government's Assembly. Loans granted to county governments contribute to the overall public debt. The constitutional provision on borrowing is operationalized by the PFMA, 2012 (1) Section 58 of the Act which states.

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 can repay 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 guaranteed document has been approved by resolution of both Houses of Parliament.
iii. The Cabinet Secretary considers the equity between the National Government's interests and the County Government's interests 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 considered 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 the Public Finance Management Act outlines the guidelines for formulating the debt management strategy of the county government, addressing both current and potential liabilities arising from loans and outlining plans for managing those obligations in the medium term. The specifics of how the County Treasury is required to present the county government's debt management strategy to the County Assembly are elaborated in Sections 123(1)(2) of the PFMA,2012.

### 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 principal risks associated with those loans.
- The sources of loans made to the county government.
- 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

This chapter provides the Institutional framework: Composition, functions, and responsibilities of the County Debt Management Advisory Committee (DMAC), CECM Finance, Cabinet and County Debt Management Unit (DMU).

### 4.1 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, Debt Management Advisory Committee (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 the Chief Executive Committee Member for Finance.

### 4.2 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.

### 4.3 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 an established County Debt Management unit (DMU) under the County Treasury of Elgeyo Marakwet county government. The functions and responsibilities of the DMU 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.

The County Debt Management Advisory Committee (DMAC) will assess the volume and risk characteristics of debt to ensure that:

i. Debt is affordable and sustainable.
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 (NPV) or helps achieve Vision 2030 and the Sustainable Development Goals (SDGs).
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 projects 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 County Fiscal Strategy Paper (CFSP).

**4.4 Operational Framework**

In adherence to Public Finance Management (PFM) Act, 2012, pursuant to provisions of sections 184 and 58, the county government shall follow the procedure here under.

a. 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. The Cabinet Secretary, after receiving the request from the county government, shall seek the recommendations of the Intergovernmental Budget and Economic Council (IBEC) 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 considering 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 regarding 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 (IBEC) in fulfillment of the requirements of section 58(2)(i) of the Act.

(e) The Cabinet Secretary to the National Treasury may, upon considering 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 advertise 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) After the National Treasury and the county government sign an on-lending agreement, the National Treasury shall transfer the proceeds of the Treasury Bond to the Revenue Fund of that county government and such on-lending transactions shall attract a fee to be determined by the National Treasury.

## 5.1 National Debt Outlook and County Debt Outlook

### 5.1.1 National Debt Outlook

During the FY 2022/23, the actual gross domestic borrowing was Ksh. 1,957.5 billion while gross external borrowing was Ksh. 548.2 billion as at end June 2023. The total actual gross external borrowing was 22 percent of total borrowing against a target of 25 percent and consisted of disbursements from multilateral and bilateral sources in form of program loans, project AIA, cash loans and IMF Special Drawing Rights (SDR) allocation. The actual gross domestic borrowing was 78 percent of the total borrowing compared to an optimal strategy target of 75 percent.

The 2023 MTDS aimed at lowering the debt service cost and minimizing the refinancing risk. However, there was an increase in both the debt service cost and the refinancing risk due to appreciation of major currencies against the Kenyan shilling and elevated interest rates in the domestic market resulting in an increase in the interest payment as a share of GDP by 1.2 percentage points. The increase in refinancing risk is reflected by the increase in proportion of debt maturing in one year as a percentage of total debt from 10.1 percent to 12.7 percent. This indicates an increase in the issuance of short-term instruments. In addition, the Average time to Maturity (ATM) of the total debt portfolio reduced from 11.5 years to 8.5 years.

Marginal increase in interest rate risk indicators is echoed by the reduction of Average Time to Re-fixing (ATR) from 11.3 years to 7.7 years. Additionally, the debt re-fixing in 1 year as a percentage of total debt rises to 26.7 percent against a target of 14.1 percent. The Kenya shilling depreciating against major currencies exacerbated the foreign exchange risk causing an increase in foreign debt as a percentage of total debt from 47.1 percent to 51.5 percent. New external debts average maturity reduced to 15.7 years as at end June 2023 from 25.9 years in June 2022. However, the grace period increased to 4.8 years from 4.2 years during the same period. The weighted average interest rate increased to 3.2 percent from 0.8 percent in June 2022.

The maturity structure of domestic debt improved at the end June 2023. The proportion of instruments with less than one year to maturity reduced to 16.7 percent as at end June 2023 from 19.5 percent as at end December 2022. Further, instruments with the remaining years to maturity between 2-3 years, 4-5 years and 6-10 years increased by 5.2 percentage points, 7.3 percentage points, and 4.3 percentage points respectively. However, the proportion of instruments with longer than 11 years to maturity as at end June 2023 reduced by 14 percentage points from 40.9 percent as at end December 2022 to 26.9 percent as at end June 2023. This was attributed to the investor’s preference to short-term instruments.

The Microeconomic assumptions outlined in the 2024 Budget Policy Statement are integrated into the 2024 Medium Term Debt Strategy (MTDS). Economic growth in the FY 2024/25 is projected at 5.5 percent and will be supported by implementation of priority programmes outlined in the Bottom-Up Economic and Transformation Agenda (BETA) and the fourth Medium-Term Plan of vision 2030. Over the medium-term growth is projected to remain above 5.5 percent supported by inclusive growth through increased employment, more equitable income, enhanced social security and expansion of tax revenue base.

Inflation rate at the end of June 2023 increased above the government target range of 2.5-7.5%. The overall inflation returned to the target band from July 2023 declining to 6.9 percent in October 2023 and is expected to remain within the target supported by lower food prices, prudent monetary policy, and other government policy interventions.

The government strives to continue implementing growth responsive fiscal consolidation through broadening of tax revenue base and rationalization of expenditure to reduce the fiscal deficits. The fiscal deficit is projected to decline to 3.9 percent of GDP in FY 2024/25 and further to 3.1 percent of GDP over the medium-term.

Borrowing from domestic and external markets remains the main source of funding Kenya's budget deficits. External borrowing will be mainly through loans from multilateral, bilateral and commercial lenders as well as bond issuances while domestic borrowing will be through Treasury bills refinancing and bonds issuance. The Government will issue benchmark Treasury instruments (with tenors of 2, 5, 10, 15, 20 and 25 years), retail bonds and infrastructure bonds. However, off-benchmark bonds may be issued depending on the prevailing market conditions mainly through reopening of existing series. Treasury bills will be used for cash management purposes.

Non-bank institutions (pension funds, insurance firms, parastatals, and retail investors) and commercial banks remain the major investors as they held 52.5 percent and 47.5 percent of the outstanding Treasury Bills and bonds as at end June 2023 respectively. Multilateral, bilateral and commercial (including International Sovereign Bond, ISB) share in external debt was 50.5 percent, 23.8 percent, and 25.4 percent respectively. Suppliers Credit accounted for 0.3 percent. The main multilateral lenders comprise of International Development Association (IDA), International Bank for Reconstruction and Development (IBRD), African Development Bank (ADB), African Development Fund (ADF) and International Monetary Fund (IMF) while dominant bilateral lenders include China, France, and Japan as at end of June 2023.

### 5.1.2 County Debt Outlook

The County has no debt since it 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 pending bills. These have been caused by IFMIS system challenges during the closure of the financial year causing incomplete transactions. To reverse this trend, the County Government has undertaken specific measures to ensure that requisitions and payments are synchronized with the closure of financial year guidelines and measures and also enhanced revenue forecasting to broaden the revenue base.

## 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 2024/25 to 2026/27 Medium Term Debt Management Strategy (MTDMS) is consistent with projections contained within the 2024 County Fiscal Strategy Paper (CFSP).
c. The national government guarantees county governments loans as per the Constitution of Kenya 2010.
d. The national Treasury to sustain efforts to reduce delays experienced in disbursement of equitable shares.
e. The micro-economic framework behind the strategy, as counties 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.

**5.3 Risks to the 2024 BPS baseline macroeconomic assumptions**

1. Kenya's debt sustainability is vulnerable to exogenous shocks e.g. export, revenue patterns, climate related shocks and exchange rate movements. To reduce debt vulnerabilities, the government is committed to finance capital investments using concessional borrowing and to deepen the domestic market through setting up of an OTC exchange among other strategies. Additionally, a steady inflow of remittances and a favorable outlook for exports will play a major role in supporting external debt sustainability.
2. Performance of the economy and government revenues has a direct impact on debt sustainability. A slowdown in the growth of the economy may elevate debt indicators.
3. Inflation induced high interest rates in both domestic and international markets thus increasing the cost of borrowing. Continued pattern may pose a challenge to the government's financing of the FY2024/25 Budget and performing liability management operations on its debt portfolio as well as increasing its debt service costs. Government will continue to monitor market conditions with the view of taking appropriate actions when the conditions are favorable. Additionally, the government will continue to implement reforms to strengthen the domestic debt market to cushion against the downside risks emanating from international capital markets.
4. Investor preference for short-term instruments has resulted in increased refinancing risk through accumulation of more short-term debt.
5. The continued appreciation of major currencies against the Kenya shilling may increase the cost of debt service as over 50 percent of the total debt portfolio is in foreign currencies.
6. Materialization of fiscal risks especially from contingent liabilities arising from State-Owned Enterprises (SOEs) debts and Public Private Partnership (PPPs) projects remain a key risk to the budget. Continuous monitoring of these exposures is important to mitigate against any risks before they materialize.
7. The PDMO will continue to monitor evolving public debt risk profiles and advise the National Treasury on appropriate remedial interventions.

## 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 release 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 maturity structure of domestic debt improved at 3.2 percent at the end June 2023.

The increase in refinancing risk is reflected by the increase in proportion of debt maturing in one year as a percentage of total debt from 10.1 percent to 12.7 percent, that is 2.6 percent rise. The greatest challenge was the increase in inflation rate during the financial year. The weighted average interest rate increased to 3.2 percent from 0.8 percent in June 2022.

The strategies proposed in this 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 for enhanced socio-economic transformation.

Borrowing activities in general must absolutely comply with the stipulations outlined in sections 58 and 142 of the Public Finance Management (PFM) Act, 2012.