# REPUBLIC OF KENYA

# COUNTY GOVERNMENT OF NYERI

## MEDIUM TERM DEBT MANAGEMENT STRATEGY PAPER

## 2023/24-2025/2026



**FEBRUARY, 2023**

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## FOREWORD

This Nyeri County Government 2023/2024-2025/2026 Medium Term Debt Management Strategy is prepared in line with section 123 of the Public Finance Management (PFM) Act 2012, and the guidelines outlined in the Debt and Borrowing Policy. It is also aligned with the County Government Development Agenda over the medium term. The strategy underscores the objectives of the debt management objectives over the medium term to ensure that the County Government financial needs and payment obligations are met at the most efficient and cost effective way, consistent with a prudent degree of risk, while ensuring that the overall level of public debt is sustainable.

The sustainability of debt is a key fiscal responsibility principle and this will be duly addressed in this paper. Through a resolution of the Nyeri County Assembly as required under the PFM Act section 107 (2) (e) and section 107 (4) that deals with sustainability of debt, an annual borrowing limit has been set for any future requirements.

The County Treasury shall ensure that the Medium-Term Debt Management Strategy is consistent with the broad strategic priorities and policy goals set out in the County Fiscal Strategy Paper(CFSP), 2023. The Policy goals and strategic priorities are geared towards the bottom up economic transformation for inclusive growth. To ensure sustainability, the MTDMS has proposed measures to be carried out aimed at reducing the debts to a manageable level.

With the existing debt, both inherited and county pending bills, the 2023/2024-2025/2026 MTDMS largely recommends approaches of reducing and managing future debts. The county Government will attempt to guarantee that both the burden and benefits from public borrowing is shared equitably between the current and future generation as stipulated under Article 201 of the Constitution.

Further, the County Treasury will enhance its capacity in terms of training to ensure that it is in a position to handle all matters relating to borrowing and servicing of debt should they arise. Effective linkages will also be established with the National Treasury to facilitate the management of the inherited debts, future borrowing and provision of technical advice.

Sincerely,

Robert Thuo Mwangi

**County Executive Committee Member**
**FINANCE AND ECONOMIC PLANNING**

# ACKNOWLEDGEMENT

The 2023/2024-2025/2026 Medium Term Debt Management Strategy (MTDMS) is meant to guide debt management operations and borrowing for the fiscal year 2023/2024 and the medium term based on an evaluated costs and risks of various options of financing the budget deficit. The policy document states how the County Governments debt management objectives, financing needs and other payments obligations will be met.

This MTDMS will be submitted to the Commission on Revenue Allocation (CRA) and the Intergovernmental Budget and Economic Council as per PFM Act 2012. In addition, MTDM strategy will be published and made available in the county website, www.nyeri.go.ke, to ensure wide circulation as envisaged under the PFM Act, 2012.

I wish to thank H.E the Governor and the entire County Executive for providing leadership and direction in the formulation of this document. I also wish to recognize and appreciate the overall guidance of the County Executive Committee Member for Finance and Economic Planning in successfully coordinating the formulation of this strategy.

The county departments and other entities are also appreciated for their significant input and provision of other information that supported the preparation and finalization of the MTDMS. Likewise, I wish to thank members of the public and public institutions for their invaluable comments and contributions to enrich the document.

It is also my pleasure to distinguish the efforts made and significant amount of time spent by the team from the County Economic Planning Unit in the development of the MTDMS while ensuring that it is within the required standards. Finally, I wish to recognize all our stakeholders and all persons who made the preparation of the MTDMS a success through their involvement during the entire process.

FA. Stephen M. Mwai

**AG. C.O. - ECONOMIC PLANNING, BUDGETING, M&E**

## ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| ADP | Annual Development Plan |
| BPS | Budget Policy Statement |
| CIDP | County Integrated Development Plan |
| CBROP | County Budget Review and Outlook Paper |
| CECM | County Executive Committee Member |
| CFSP | County Fiscal Strategy Paper |
| CRA | Commission on Revenue Allocation |
| CRF | County Revenue Fund |
| FY | Financial Year |
| IBEC | Intergovernmental Budget and Economic Council |
| IFMIS | Integrated Financial Management Information System |
| IGRTC | Intergovernmental Relations Technical Committee |
| Kshs. | Kenya Shillings |
| LA | Local Authority |
| LAPFUND | Local Authority Provident Fund |
| LAPTRUST | Local Authority Pension Trust |
| LGLA | Local Government Loans Authority |
| MTDMS | Medium Term Debt Management Strategy |
| NHC | National Housing Corporation |
| NHIF | National Hospital Insurance Fund |
| NSSF | National Social Security Fund |
| PAYE | Pay as You Earn |
| PFM | Public Finance Management |
| TA | Transition Authority |
| VAT | Value Addition Tax |

## LEGAL BASIS FOR PUBLICATION OF MEDIUM TERM DEBT MANAGEMENT STRATEGY PAPER

The debt management strategy is published in accordance with section 123 of the Public Financial Management (PFM) Act, 2012. The law states that:

**(1)** On or before the 28th 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 Treasury shall include the following information in the statement—

**(a)** The total stock of debt as at the date of the statement;

**(b)** The sources of loans made to the county government;

**(c)** The principal risks associated with those loans;

**(d)** The assumptions underlying the debt management strategy; and

**(e)** An analysis of the sustainability of the amount of debt, both actual and potential.

As soon as practicable after the statement has been submitted to the county assembly under this section, the County Executive Committee member for finance shall publish and publicize the statement and submit a copy to the Commission on Revenue Allocation and the Intergovernmental Budget and Economic Council.

# EXECUTIVE SUMMARY

The 2023/2024-2025/26 Medium Term Debt Strategy has been prepared in line with requirements of PFM Act, 2012. The preparation of the strategy is to ensure adherence with the fiscal responsibility principles and is interlinked with other budget documents such as departmental reports, county budget review and outlook paper, annual financial statements and the County Fiscal Strategy Paper, 2023.

The County Government inherited approximately Kshs 592,807,561.54 from defunct local authorities i.e. Nyeri County Council, Nyeri Municipal council, Karatina Municipal council and Othaya Town Council. In dealing with inherited debts, the County Treasury through the help of the Intergovernmental Relations Technical Committee has been verifying liabilities inherited from the defunct local authorities. However, the process seems to have stalled but the County Government undertook the process of verifying some of the debts especially bordering on personal emolument and employees benefits with the view of offsetting them.

The county debt burden consists of inherited debt and pending bills arising from County Government departments and spending units. As at 30th June, 2022 the county debt was Kshs. 1,039,771,425.54 comprising of Kshs. 592,807,561.54 as inherited debts from defunct local authorities and Kshs. 446,963,865 as pending bills accruing from the FY 2021/2022.

It is also important to note that some commitments arising from ongoing projects rolled over to the current financial and funds have already been appropriated in the supplementary budget. Further, most of the pending bills have been settled as first charge in accordance with section 41 of the PFM (County Governments) Regulations, 2015. However, the pending bills that had no corresponding votes in the originally approved budget have been considered and allocated adequately in the approved first supplementary budget. Commitments should therefore be well planned for to avoid the risk of becoming potential debts in future.

In an endeavor to maintain the county debt at considerable and sustainable level, an amount is usually set aside in the annual budget for settlement of pending bills and commitments. In the current financial year, the county treasury allocated funds for settlement of the pending bills that could not be paid as first charge as well as the amount required to settle the ongoing and roll over projects. The allocation was made in full in the approved first supplementary budget for the FY 2022/23 and the processing of payments progressing.

In dealing with the inherited liabilities, the County Government undertook an exercise to verify the staff claims accruing from pre-devolution era that partly contributed to the inherited debt burden. These included unpaid leave days, staff uniform as well as overtime allowances. During the exercise, the County Government cleared Kshs. 58 million out of a total claim of Kshs. 129.7

million and the County Treasury allocated Kshs. 30 million in the supplementary budget to settle part of the claims that could be accommodated within the existing funds. However, the County Government is still waiting for the liabilities and debts to be handed over, after which it will negotiate with creditors to spread the debt burden for a period of time to avoid unnecessary fiscal pressure. This arrangement will be necessary since the fiscal space may not accommodate all the payments in one year.

To ensure manageable levels of pending bills that can be settled without giving undue pressure to the overall budget, all county entities will be required to align their projects and programs to the available funds and cash flow forecast. Further, procurement of good and services should be done in the first three quarters of the financial year so that most of the suppliers can be paid by the end of the financial year. The pending bills should also be cleared as a first charge in the approved budget, to avoid accumulation, as provided for under section 41(2) of the Public Finance Management (County Governments) Regulations, 2015.

The County Treasury will create and strengthen a debt management committee to handle matters relating to borrowing and management of debt. The County Treasury will also continue to work closely with the National Treasury to enhance the capacity of the staff and also offer technical expertise in issues relating to borrowing and repayment of debts especially those inherited from the defunct local authorities. Close collaboration between the County Government and the National Treasury should also be enhanced to ensure that county disbursements are made on time to reduce the risk of pending bills arising from cash flow shortfalls.

# 1 INTRODUCTION

## 1.1 Background

The debt management strategy is prepared in accordance with section 123 of PFM Act, 2012 that requires the County Treasury to 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 and its plans for dealing with those liabilities. The statement should, among other information, contain:

(a) The total stock of debt as at the date of the statement;

(b) The sources of loans made to the County Government, if any;

(c) The principal risks associated with those loans;

(d) The assumptions underlying the debt management strategy; and

(e) An analysis of the sustainability of the amount of debt, both actual and potential.

There are other sections of PFM Act that guides the management of county debt, this include PFM Act sections 107, 140,141,142,143 and 144. Other documents that guide the preparation of debt management strategy are County Fiscal Strategy Paper (CFSP) and County Budget Review and Outlook Paper (CBROP).

In this MTDMS more emphasis has been put in ensuring the sustainability of the current debt and establishment of necessary structures to facilitate future borrowing where possible. The County Fiscal Strategy Paper, 2023 does not envisage any borrowing to fund the budget and therefore the MTDM strategy will be aimed at servicing of the already existing debt. Considering the existing debts, the County Government may not be able to accommodate borrowing to finance its expenditure and therefore over the medium term the government will put more emphasize on settlement of the debt inherited from the defunct local authorities once they are verified.

The County Treasury will form a debt management committee to verify all liabilities inherited from the defunct local authorities once the handing over is concluded by the Intergovernmental Relations Technical Committee (IGRTC). The main goal of this exercise will be to establish the actual debt position of County Government of Nyeri and make a plan for clearance of debt while exploring ways of minimizing such debts in future.

The debt management committee will be expected to undertake the following;

a) Compile list of all creditors both statutory and sundry.

b) Establish whether the claims are genuine or not.

c) Establish whether all procedures were followed in incurring the debts.

d) Establish whether all supporting documents are available.

e) Prioritize the debt.

The establishment of the committee will be the first step in ensuring that the County Government is in a position to handle its current debt and is ready to undertake future borrowing to finance the budget within the legal framework.

## 1.2 Objective of debt management

The following are the main objectives of debt management strategy in the county;

a) To ensure the servicing and management of the County Government's financing and payment obligations are met on a timely basis, at the lowest possible cost in the market and is consistent with a prudent degree of risk.

b) To ensure that the overall level of public debt is sustainable and debt shall never exceed twenty (20%) percent of the County Governments total revenue at any one time as stipulated in the Public Finance Management (County Government) Regulations section 25 (1)(d).

c) To ensure that both the burden of and benefit from public borrowing is shared equitably between the current and future generation as stipulated under Article 201 of the constitution.

d) To ensure that the County Government is able to deal with the existing debt portfolio in order to release resources to service delivery. The strategy seeks to balance cost and risk of public debt while taking into account the financing needs of the County and to develop initiatives for new funding sources.

## 1.3 Scope of Medium Term Debt Management Strategy

The Medium Term Debt Management Strategy (MTDMS) covers actual and potential liability i.e. it covers all loans and other debt, whether inherited or created by the County Government, that require payment of principal with or without interest by the County Government to the creditor at a date or dates in future. The MTDMS is prepared for financial year 2023/24 but also makes projection for year 2024/25 and 2025/26.

## 2 REVIEW OF NYERI COUNTY PUBLIC DEBTS

### 2.1 Stock of debt

The total stock of debt as at 30th June 2022 stood at Kshs. 1,039,771,425.54. This consists of Kshs. 592,807,561.54 inherited debts from the defunct local authorities and Kshs 446,963,865 for pending bills accruing from the FY 2021/2022. Despite lack of a conclusive report on the inherited debts, the County Government undertook an exercise to verify the staff claims accruing from pre-devolution era that partly contributed to the inherited debt burden. These included unpaid leave days, staff uniform as well as overtime allowances.

During the exercise, the County Government cleared Kshs. 58 million out of a total claim of Kshs. 129.7 million and the County Treasury allocated Kshs. 30 million in the supplementary budget for the FY 2021/22 to settle part of the claims that could be accommodated within the existing funds. This therefore indicates that once the process of all the inherited debts is conducted, the amount will end up reducing significantly.

By the end of the financial year 2021/2022, the county pending bills amounted to Kshs. 446,963,865 as compared to the previous financial that had no pending bills. However, the current bills arose from failure by the National Treasury to disburse the allocation for June, 2022 that subsequently led to cancellation of already processed payment due to cash flow shortfall resulting in accumulation of the pending bills. However, it is important to note that the expected disbursement was Kshs. 498 Million as compared to the amount of pending bills signifying prudence in the management and utilization of resources.

It is important to note that there were some commitments arising from projects and programmes that were still ongoing by the end of the financial year 2021/22 that rolled over to the current financial year. To ensure that they the commitments do not pose risk of debt in future, priority was given by allocating adequate funds in the first supplementary budget to service the pending bills and these commitments before considering any new projects.



### 2.2 Source of loans/debts made to the County Government

The source of debt to the County Government can be categorized as follows;

1. Pending bills arising from works done and not paid by the end of a financial year.
2. Inherited debt from defunct local authorities.
3. Commitments entered into near the closure of the financial year 2021/22 and rolled

over to the current financial year.

However, apart from the inherited debts, all the others are just potential debts if not well managed.

### 2.2.1 Pending bills from the County Departments.

The County Government accrued pending bills amounting to Kshs. 446,963,865 by the end of the financial year 2021/22. This may be attributed shortfall of cash flow arising from failure by the national treasury to release the final disbursement for the month of June, 2022. However, apart from this challenges the expected disbursement as compared the resultant pending bills reflects prudent management of available resources as well as expenditure control on essential areas.

However, due to the heightened political activities towards the general election, there are projects and programmes whose implementation was delayed and therefore rolling over to the current financial year. Other reasons included the county departments not availing physical payment vouchers (as some debts were for the previous years), electronic returns on merchant's payments due to wrong bank details or personal details. It is important to note that the County Government did not realize its own source revenue target. This posed the risk of future debt if all contracts signed during the financial year 2021/2022 were all implemented within the financial year.

While pending bills are considered as those payment vouchers which had reached the treasury and not settled, there were other contracts which had been signed but not fully executed by the end of the financial year, 2021/2022 including the multi-year projects. These could have easily increased the accumulated debts if not well planned and appropriated for in the financial year 2022/2023. They also include all ongoing works, commitments and roll over projects accruing from the same period. If the contracts fail to be adequately budgeted for in the current financial year, they would easily become debt and exacerbate the present situation.

### 2.2.2 Inherited debt from defunct local authorities

The Budget Policy Statement, 2017, indicated that to finalize the transfer of assets and liabilities from the defunct LAs to the County Governments, a Legal Notice Vol. CXIX-No.13 was prepared and published on 27th January 2017 to facilitate this transfer process. Among assets and liabilities of the defunct LAs covered in this process are:

i) Pending bills;

ii) Tax arrears;

iii) Statutory deductions relating to the National Hospital Insurance Fund (NHIF), National Social Security Fund (NSSF), Pension Funds, VAT and PAYE.

In this context, County Assets and Liabilities committees were formed to identify, verify, and validate the assets and liabilities of the defunct LAs as at 27th March 2013. This exercise was concluded, and Intergovernmental Relations Technical Committee (IGRTC) was validating the report as a basis to implementing its recommendations. However, the recommendations have never been shared with the counties for implementation.

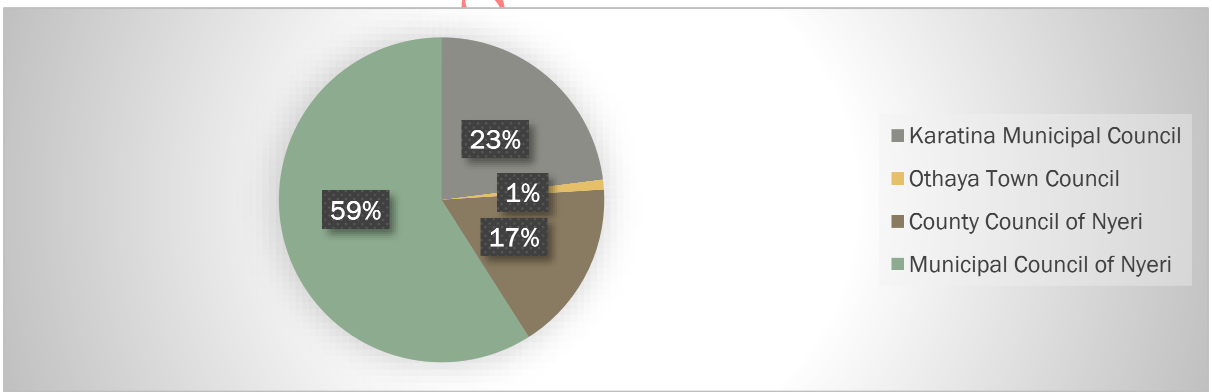
The inherited debt as reported by all defunct local authorities is shown in the table below;

| Defunct local authority | Outstanding Debt as at 30th June 2013 |
|---|---|
| Karatina Municipal Council | 137,505,036.75 |
| Othaya County Council | 5,262,092.09 |
| County council of Nyeri | 100,917,404.70 |
| Municipal Council of Nyeri | 349,123,028.00 |
| **Total** | **592,807,561.54** |

***Source: Nyeri County Assets and liability report, 2014***

Most of the debt were inherited from defunct municipal council of Nyeri with 59% of the total debt inherited, followed by Municipal council of Karatina with 23%. County council of Nyeri had 17% while Othaya Town Council had the least debt inherited with only 1% of the total debt.

### 2.2.3 Outstanding Debt as at 30th June 2013




***Source: Nyeri County Assets and liability report 2014***

A detailed analysis on specific debts are shown below per defunct local authority;

**(a) Defunct Municipal Council of Nyeri**

| Item | Debt as at 31st December 2014 |
|---|---|
| Loan from LGLA | 320,319,642 |
| Unpaid emoluments | 3,544,357 |
| Creditors | 25,259,029 |
| **TOTAL** | **349,123,028** |

### (b) Defunct Town Council of Othaya

| Item | Debt as at 31st December 2014 |
|---|---|
| LAPTRUST | 2,582,956 |
| LAPFUND | 267,250.09 |
| Creditors | 2,411,886 |
| **TOTAL** | **5,262,092.09** |

### (c) Defunct Municipal Council of Karatina

| Item | Debt as at 31st December 2014 |
|---|---|
| Loan from LGLA | 38,931,070.20 |
| Loan from NHC | 258,929 |
| Unpaid emoluments | 7,401,096 |
| LAPTRUST | 15,488,531.56 |
| LAPFUND | 3,533,102.20 |
| Creditors | 71,892,307.79 |
| **TOTAL** | **137,505,036.75** |

### (d) Defunct County Council of Nyeri

| Item | Debt as at 31st December 2014 |
|---|---|
| Unpaid emoluments | 17,573,065 |
| NSSF | 26,927,359 |
| LAPTRUST | 3,558,619 |
| LAPFUND | 34,510,344.70 |
| Creditors | 18,348,017 |
| **TOTAL** | **100,917,404.70** |

In an endeavor to ease the debt burden, the County Government established a task force to verify the claims for the defunct local authority staff. These included the unpaid leave days, staff uniform allowances as well as overtime claims that amounted to Kshs. 129,766,324.76. After the verification exercise, Kshs. 58,385,502.27 was cleared and agreed upon by the County Government and the staff union.

Subsequently, considering the available allocation outlay, the County Treasury provided Kshs. 30 million for settlement of these claims and the remaining amount will be provided in future budgets. Notably, the verification exercise significantly reduced the claims which shows that once all the inherited debts are scrutinized and verified the resultant amount may be even much lower.

## 2.3 Assumptions underlying the debt management strategy

This Medium Term Debt Strategy recognizes the medium-term macroeconomic framework as provided in the County Fiscal Strategy Paper, 2023 whose targets are anchored on the priorities articulated in the bottom up economic transformation agenda for inclusive growth, Medium Term Plan IV of the Kenya Vision 2030 and the draft ADP for Financial Year 2022/2023. The key priorities of the County Government in the medium term are grounded on key strategic objectives as outlined in the CIDP 2023-2027

**Risks to the Macroeconomic Assumptions in the 2023/24-2025/26 MTDMS**

Major risks to the macroeconomic framework include:

i. A high county wage bill that is putting pressure on the available resource basket and limiting the capital outlay for execution of projects and programmes.
ii. The effects of Covid-19 pandemic brought some adversely affected lives and livelihood and the recovery has been slow where some sectors are still facing challenges. Considering that the county mainly depends of revenue collected locally to finance its activities, the slowdown has led to revenue collection shortfall.
iii. Declining long term growth as a result of expected slow productivity growth and aging workforces.
iv. The framework is exposed to economic growth and fiscal risks. The projected growth assumes favorable weather conditions and therefore any adverse weather conditions will have negative impact on the growth.
v. Public expenditure pressures especially recurrent expenditures.

## 2.4 Sustainability of debt

Public debt sustainability is the ability of a country/ county to service its debt obligations as they fall due without distracting its budget implementation.

The sustainability of debt is guided by PFM Act section 107 (2)(e) and section 107 (4). According to section 107 (2)(e) the county debt shall be maintained at a sustainable level as approved by county assembly. Section 107 (4) further states that 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 resolution of the county assembly.

The County Government through the County Treasury will attempt to maintain public debt and obligations at sustainable levels in line with section 15 (d) of the Public Finance Management (PFM) Act 2012. In line with this, the County Government has set the debt level at five percent (5%) but should never exceed twenty per cent (20%) of the annual revenue.

The current actual and potential debt is at 13.66 % of the total County revenues for the current financial year which is within the set limits. The potential debt consists of the pending bills and roll over projects while the actual debt comprises the inherited debts. However, if the disbursements were made as initially planned, the percentage could be way lower since most of the pending bills could have been settled in time.

# 3 STRATEGIES OF DEALING WITH DEBT

## 3.1 Debt servicing

Payment of the inherited debts is one of the County Government's key priorities. However, these debts must be clearly handed over and strategies of settling them be arrived at. The debt will be payed either in part or in full depending on the available funds in the budget for the FY 2023/24 and subsequent years.

The County Government embarked on verification of some of the liabilities inherited from its defunct local authorities consisting of unpaid leave days, uniform allowances as well as overtime claims for staff amounting to Kshs. 129,766,324.76. Out of this, Kshs. 58,358502.27 was verified and cleared for settlement. The county treasury subsequently provided an allocation of Kshs. 30 million that the budget was able to accommodate in the FY 2021/2022. The allocated funds were subsequently paid to the owed personnel while the remaining amount will be considered in future budgets.

In addition, the pending bills that accrued from the FY 2021/2022 were either paid as first charge in the respective departments' original budget or allocated funds in the subsequent supplementary budgets to cater for items that did not have corresponding votes to qualify as a first charge in the initial budget. In addition, the commitments and roll over projects arising from the FY 2021/22 were also appropriated funds in the supplementary budget for the current financial year. To ensure proper planning for debt servicing, funds should be allocated for anticipated bills as at the end of the financial year 2022/23 since the County Fiscal Strategy Paper (CFSP), 2023 will inform the possible savings after considering and allocating funds to all spending units.

Some of the pending bills also arise from shortfall in the local revenue and it is imperative to put in place all the necessary measure for its mobilization to ensure that the set targets are met. The county government will therefore be required to intensify its revenue mobilization strategies to release more funds for settlement of the budgeted projects and programs. The unmet revenue target usually give rise to potential debts in future in form of pending bills.

## 3.2 Debt Restructuring

The main objective of debt restructuring is to spread repayment of debt over a number of years. The County Government is exploring the possibility of debt restructuring as one method of dealing with huge debts particularly for bank loans and pension funds inherited from the defunct local authorities once the handing over is concluded. This will spread the substantial debt burden over a period of time since the existing debt cannot be cleared within a year due to budgetary constraints. However, for small debt such as the pending bills and rollover projects, prioritization will be undertaken based on the fiscal space and liquidity. Restructuring will also help the county to avoid payment of penalties and interest that have accrued and the costly litigations.

### 3.3 Prioritization of programmes

The pending bills arising from all the county departments and spending units will have to be cleared as a first charge in the succeeding year's budget from the corresponding votes of those departments and units. This will not only prevent the possibility of pending bills turning into debts over time but also inculcate disciplined spending by all the accounting officers.

Further, to avoid accumulation of additional debts in line with section 41(2) of the PFM (County Government) Regulations, 2015, departments will also be required to prioritize projects/ programmes taking into account the constrained resource basket. County departments that have accumulated huge recurrent bills will face liquidity challenges in the initial phase and may compromise implementation of some of the critical projects/programmes as well as service delivery.

In order to avoid accumulation of debts in succeeding years, necessary measures will be put in place. The County Treasury shall prepare a report on cash flow projections in early April, 2023 so as to advice on commitments, thus minimizing or avoiding pending bills by the end of the financial year as per section 44(5) of the PFM (County Government) Regulations, 2015.

The pending bills for development activities arises from projects that were completed, invoices received for payment, but not cleared by the end of the financial year. This can be due to various challenges which includes delayed release of equitable share by the National Treasury and IFMIS malfunctions. The settlement of such commitments will be made from the allocation set aside for debt resolution as a budgetary reserve or as a first charge in the respective departmental/spending units' budgets for in the succeeding year's budget.

To avoid debt arising from projects that are rolled over from one financial year to the other, the departments should give priority, when settling debts, to the already completed projects before starting implementation of new contracts. Initiating of new projects should be determined by the availability of funds to avoid increasing the debt level.

# 4 IMPLEMENTING THE 2023/24-2025/26 MTDMS

In order to avoid unnecessary debt burden to the future generation and reduce the risk of macro-economic instability, there is need for the County Government to manage it potential and existing debt prudently. After the approval and adoption of this Strategy, the County Treasury will develop a plan for repayment of pending bills that will emerge by the end of the financial year based on priorities and cash flow projections.

Further, in line with the National Treasury's directive to prioritize payments of bills owed to suppliers, the County Treasury will ensure that the commitments already executed as roll over projects from FY 2022/23 are also paid as first charge in the respective department's allocations in the coming financial year. This will ensure that the County does not suffer cash flow sanctions for not meeting its financial obligations.

A debt management committee should be formed, based at the County Treasury, to review all pending bills from the departments and make recommendation for payment or otherwise as it deem fit as a new financial year starts. The committee should also be strengthened to ensure availability of comprehensive, accurate and timely information on debt.

The PFM Act sets the ceiling for borrowing by counties at 5 percent of the county's local revenue for the purposes of development only. The County Treasury shall provide a budgetary allocation for payment of pending bills and any other possible debt. This will not only guide the sustainability of debt but will also lay the ground for future borrowing to finance the budget.

In addition, effective linkages will be established with the National Treasury to facilitate training on debt management skills and offer direction and support on future borrowing. The National Government is expected to guarantee borrowing by County Governments and therefore the National Treasury plays a critical role in ensuring the success of debt management in the county.

The County will also continuously engage the Debt Management Office (DMO) at the National Treasury in order to improve the capacity on debt management and especially concerning the debts guaranteed by the National Treasury. Specifically, and in-order to clear already outstanding debts.

# 5 CONCLUSION

This Medium-Term Debt Management Strategy is a robust framework for prudent debt management. It provides a systematic approach to decision making on the appropriate financing of development projects. The stock of debt in the county has remained within manageable limits. However, it is essential for the County Government to establish and implement structures to maintain the debt level within the current range and to reduce further escalation of the liabilities.

The current debt level necessitates for adequate allocations of finances to service the existing debts in FY 2023/24. This calls for continuous budgetary allocations in consecutive years in an effort to ensure that all county debts are cleared without imposing budgetary pressure on the county resources. However, since this MTDMS envisages no borrowing to finance the budget, more emphasis has been put on management of current debt.

Going forward, all county departments and other entities are expected to be more conscious while spending and ensure that projects and programmes implementation is in line with the approved budget and availability of funds. The procurement processes should be fast tracked 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.