



**REPUBLIC OF KENYA
COUNTY GOVERNMENT OF
NYANDARUA
COUNTY TREASURY**



**NYANDARUA COUNTY MEDIUM-TERM
DEBT MANAGEMENT STRATEGY PAPER
(MTDMSP) 2025**

FEBRUARY 2025

Nyandarua County Government Medium Term Debt Management Strategy Paper, 2025

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FOREWORD

Prudent debt management is a critical component of sustainable public finance and economic development. The 2025 Debt Management Strategy (DMS) for Nyandarua County provides a structured framework to guide borrowing decisions, ensure fiscal discipline, and enhance transparency in managing the County's financial obligations. This strategy aligns with the County's development priorities as outlined in the County Integrated Development Plan (CIDP) 2023-2027 and the County Fiscal Strategy Paper (CFSP) 2025.

Nyandarua County faces significant fiscal challenges, including resource gaps that require strategic interventions to balance development needs with available revenue. While the County strives to enhance its own-source revenue (OSR) and maximize external funding opportunities, responsible debt management remains crucial. This strategy emphasizes sustainability, affordability, and accountability in borrowing and debt servicing, ensuring that the County's financial obligations do not compromise service delivery or burden future generations.

The DMS outlines key principles, including; Debt sustainability by ensuring that borrowing remains within acceptable limits, as per the Public Finance Management (PFM) Act, 2012. Prioritization of concessional borrowing and grants to finance priority development projects. Timely settlement of pending bills to restore confidence among suppliers, contractors, and development partners and Implementation of strong financial controls and monitoring mechanisms to enhance transparency and accountability in debt management.

By implementing this strategy, Nyandarua County aims to enhance fiscal stability, improve service delivery, and promote inclusive economic growth. The County Government remains committed to sound financial governance and will continue to engage stakeholders, including the National Government, development partners, and the private sector, to achieve Governor's transformation agenda.



HON. MARY W. KAMANDE
COUNTY EXECUTIVE COMMITTEE MEMBER
FINANCE, ECONOMIC PLANNING AND ICT

ACKNOWLEDGEMENT

The successful development of Nyandarua County's 2025 Debt Management Strategy (DMS) is the result of the collective efforts of various stakeholders committed to prudent financial management and sustainable development. I am deeply grateful for the invaluable contributions that made this document possible.

I would like to extend my heartfelt appreciation to H.E. the Governor, Dr. Moses Kiarie Badilisha, and the County Executive Member for Finance, Economic Planning, and the ICT Department, Hon. Mary Kamande, for their leadership and invaluable insights throughout the process. The County Treasury Team played a critical role in formulating and consolidating the document, and I am grateful for their technical input and dedication to the success of this endeavor.

With the implementation of this strategy, we are confident that Nyandarua County will strengthen its credit worthiness, financial management systems, promote sustainable development, and improve the quality of life for its residents.

Thank you all for your excellent work and continued support.



JORAM KIARIE

CHIEF OFFICER-ECONOMIC PLANNING

LIST OF ABBREVIATIONS

CECM	County Executive Committee Member
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
MTDMSP	Medium Term Debt Management Strategy Paper
PFMA	Public Finance Management Act
PFM	Public Finance Management
IFRS	International Financial Reporting Standards
PPPs	Public-Private Partnerships
IPSAS	International Public Sector Accounting Standards
M & E	Monitoring and Evaluation
DMSP	Debt Management Strategy Paper
IGRTC	Inter-Governmental Relations Technical Committee
IBEC	Inter-Governmental Budget Economic Committee
MTDMS	Medium-Term Debt Management Strategy
F/Y	Financial Year

CONTENTS	
FOREWORD	4
ACKNOWLEDGEMENT	5
LIST OF ABBREVIATIONS	6
EXECUTIVE SUMMARY	8
CHAPTER ONE	10
1.0 COUNTY PUBLIC DEBT MANAGEMENT	10
1.1 overview	10
1.2 Legal Background	11
1.3 Objectives of the Debt MANAGEMENT Strategy Paper	12
1.4 Scope of Medium-Term Debt Management Strategy Paper	13
CHAPTER TWO	14
REVIEW OF THE COUNTY PUBLIC DEBT	14
2.1 County Debt Statement	14
2.2 Responsibilities of County Treasury in Matters of Debt	14
2.3 Principles of Public Finance	15
2.4 County Public Debt Portfolio	15
2.5 Debt Servicing	17
CHAPTER THREE	19
DEBT MANAGEMENT STRATEGY	19
3.0 Overview	19
3.2 Purpose of Borrowing	19
3.3 Debt Sustainability	20
CHAPTER FOUR	22
ASSUMPTIONS & RISKS ASSOCIATED WITH THE LIABILITIES	22
4.1 Assumptions Underlying the Debt Management Strategy	22
4.2 Uncertainties and Risks	22
CHAPTER FIVE	24
CONCLUSION AND RECOMMENDATIONS	24
5.0 Overview	24

EXECUTIVE SUMMARY

The 2025 Debt Management Strategy (DMS) for Nyandarua County provides a comprehensive framework to ensure prudent management of public debt, focusing on fiscal sustainability, timely debt servicing, and the effective use of borrowed funds. This strategy is developed in alignment with the County's long-term development objectives, as outlined in the County Integrated Development Plan (CIDP) 3 (2023-2027), which emphasizes economic turnaround, inclusive growth, and effective service delivery to the residents of Nyandarua.

The primary goal of the DMS is to manage the County's debt in a way that supports development without overburdening future generations or compromising fiscal stability. It emphasizes a cautious approach to borrowing, prioritizing grants and concessional loans from multilateral and bilateral donors, with a focus on financing priority development projects. Debt will only be considered to cover short-term liquidity gaps, unforeseen emergencies, financing deficits, and essential development initiatives.

The strategy is grounded in the principles of debt sustainability, with the County committed to ensuring that debt does not exceed 20% of its most recent audited revenue, in accordance with the Public Finance Management (PFM) Act. Key indicators used to assess debt sustainability include Debt to Gross County Product (GCP), Debt Service to County Revenues, and Interest Payments to County Revenues. The Debt Service to County Revenues ratio will be the primary metric used for ongoing debt sustainability assessments.

Given the County's ongoing challenges with pending bills, the DMS outlines specific measures to address these issues over the medium term (FY 2025/26 to FY 2027/28), including:

- Setting realistic own-source revenue targets to reduce deficits that lead to pending bills.
- Implementing a comprehensive monitoring and evaluation system (CIMES) to track project expenditure.
- Ensuring timely debt servicing to prevent accumulation and mitigate penalties.
- Strengthening internal controls and audits to improve procurement processes and debt management transparency. The strategy is based on several assumptions, including a stable political, social, and economic environment, timely disbursement of equitable share transfers from the National Treasury, and the County's

commitment to settling pending bills. However, the County also acknowledges the risks associated with external factors such as market fluctuations, legal disputes, and reputational damage that may result from delayed debt servicing.

In conclusion, the 2025 Debt Management Strategy provides a clear and actionable plan for Nyandarua County to manage its public debt prudently. By focusing on debt sustainability, transparency, and efficiency, the County aims to enhance its fiscal health, improve service delivery, and meet its development goals. The successful implementation of this strategy will support the County's efforts to promote inclusive growth and economic stability for the benefit of its residents.

CHAPTER ONE

1.0 COUNTY PUBLIC DEBT MANAGEMENT

1.1 OVERVIEW

The Medium-Term Debt Management Strategy (MTDMS) serves as a framework to guide the County Government in maintaining affordable and sustainable debt levels, ensuring that any borrowing is for productive purposes. The MTDMS outlines the County Government's approach to achieving a desired debt portfolio over the medium term, focusing on meeting financing needs and payment obligations at the lowest possible cost while managing risk prudently. The strategy emphasizes managing risks associated with the debt portfolio, such as fluctuations in debt servicing costs, fiscal deficits, and their impact on the budget. Additionally, it incorporates initiatives to explore new funding sources, manage cash flow, and support the County Government's priorities for socio-economic transformation, all while ensuring debt sustainability.

Given the growing gap between development needs and available resources, the County Government of Nyandarua prioritizes the implementation of a formal Medium-Term Debt Management Strategy (MTDS) to ensure prudent debt management within a robust Medium-Term Budget Framework.

Public Debt is defined by the Kenya Constitution Article 214(2) as all financial obligations relating to loans raised or guaranteed and securities issued or guaranteed by the national government.

Public Debt Management is the process of establishing and executing a strategy for managing the government's debt to raise the required amount of funding to meet objectives set by the government.

Government debt or borrowing includes the contracting or guaranteeing of domestic and external (foreign) debt through loans, financial leasing, on-lending, and any other type of borrowing, including concessional and non-concessional borrowing, irrespective of the source.

The MTDS provides clear guidelines to assist in making sound debt management decisions, ensuring financial prudence and stability for future generations. By balancing the costs and risks of borrowing, the strategy aims to create a sustainable and optimal public debt portfolio that aligns expenditures with the County's financial capacity and development goals. It offers clear guidance for managing the County's debt portfolio, helping to determine the preferred

debt composition based on economic and market conditions. While borrowing is a valuable financing tool, it requires careful monitoring and strategic planning to prevent unsustainable debt levels

1.2 LEGAL BACKGROUND

The County Government is mandated by the PFM Act to develop a medium-term debt management strategy paper. According to Section 123 of the PFM Act (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 respect to its actual liability and potential liability in respect of loans and guarantees and its plans for dealing with those liabilities."

As soon as practicable after the statement has been submitted to the County Assembly, 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 Inter-Governmental Budget and Economic Council.

The County Treasury shall include the following information in the statement:

- The total stock of debt as at the date of the statement,
- The sources of loans made to the County Government,
- The principal risks associated with those loans,
- The assumptions underlying the debt management strategy, and
- An analysis of the sustainability of the amount of debt, both actual and potential.

The Public Finance Management (County Regulations) 2015 stipulates that debt service payments shall be a first charge on the County Revenue Fund. Section 41 of the Regulations on budget execution requires the County Governments to ensure that they do not default on obligations to the extent possible.

The PFM County Regulations provide detailed provisions on County public debt management as follows:

- Section 176 provides the guiding principles for County Government borrowing,
- Section 177 highlights the borrowing powers of the County Government,
- Section 178 details the purposes for borrowing,
- Section 179 gives the County total public debt threshold, pursuant to section 50(5) of the Act. According to part one (1) of section 179, a County public debt shall not exceed twenty percent (20%) of the County Government's most recent audited revenues, as approved by the County Assembly. Part two (2) under this section further states that the annual debt

service cost of a County Government shall not exceed fifteen (15%) percent of the most recent audited revenue of that County Government, as approved by the County Assembly.

- Section 180 guides on the setting of debt limits in the County Medium-Term Debt Management Strategy, pursuant to Section 141 of the Act,

- Section 187 highlights the requirement and process for the preparation of the County medium-term debt management strategy.

1.3 OBJECTIVES OF THE DEBT MANAGEMENT STRATEGY PAPER

The primary objective of the Nyandarua County Debt Management Strategy Paper is to ensure that the County's financing needs and payment obligations are met on time and at the lowest possible cost, while maintaining a prudent level of risk. The strategy aims to create a sustainable and optimal public debt portfolio by balancing the costs and risks of debt, taking into account the County's limited resources and funding needs. Expenditures will be closely aligned with departmental budgets to ensure they remain within the County's financial capacity.

As outlined in the County Fiscal Strategy Paper (CFSP) 2025, the County Government does not plan to pursue external financing through borrowing. Instead, it will prioritize Public-Private Partnerships (PPPs) as the primary mechanism for financing development projects in the medium term.

In the medium term, the County government will seek support from the CRA which has a constitutional mandate to advise counties on how to finance their operations in ways that meet the fiscal responsibility yardstick. This will be through a credit worthiness initiative which will assist county governments' access financing through the capital market for purposes of public infrastructure development and service delivery.

The broader objectives of the County Debt Management Strategy include:

- i) Ensuring Public Debt Sustainability by ensuring public debt is within sustainable limits and does not exceed 20% of the County Government's total revenue at any time, as required by Section 25(1)(d) of the PFM Regulations.
- ii) Managing Existing Debt by balancing costs and risks to optimize debt management, freeing up resources for public service delivery and exploring new revenue sources.
- iii) Mitigating Negative Effects of Indebtedness by Reducing legal disputes, contractor dissatisfaction, and supplier disruptions, ensuring smooth service delivery and strong stakeholder relationships.

- iv) Facilitating Future Access to Financial Markets by Maintaining a strong credit profile and sound financial practices to ensure the County remains an attractive borrower when needed

1.4 SCOPE OF MEDIUM-TERM DEBT MANAGEMENT STRATEGY PAPER

The 2025 County Debt Management Strategy Paper (DMSP) is designed to provide a comprehensive policy framework for ensuring the sustainability of county public debt and minimizing the level of contingent liabilities. The strategy adopts robust measures to prevent the further accumulation of debt and to manage existing liabilities effectively. The DMSP is based on the fiscal deficits and financial assumptions outlined in the County Fiscal Strategy Paper (CFSP) 2025/26.

The scope of the DMSP covers the financial year 2025/26, with projections extending to the 2026/27 and 2027/28 financial years. This forward-looking approach ensures that the County Government can plan for debt repayment and liability management over the medium term, while aligning with the County's broader development goals as outlined in the County Integrated Development Plan 3 (CIDP -3).

CHAPTER TWO

REVIEW OF THE COUNTY PUBLIC DEBT

2.1 COUNTY DEBT STATEMENT

The County debt encompasses all incurred but outstanding financial obligations incurred by the County Government. Several government institutions and agencies play a critical role in managing County Public Debt and borrowing. These include Parliament, the Office of the Auditor General, the Controller of Budget, the Commission on Revenue Allocation, County Assembly, the National Treasury, and the Central Bank of Kenya. Given the complexity of public debt management, it is essential for the County to establish a robust framework to effectively manage its public debt portfolio.

2.2 RESPONSIBILITIES OF COUNTY TREASURY IN MATTERS OF DEBT

In accordance with Section 107(2) of the Public Finance Management (PFM) Act, the County Treasury is mandated to manage the County's public finances in line with the principles of fiscal responsibility. Specifically, the County Treasury must ensure that; Over the medium term, long-term borrowings are used exclusively for financing development expenditure and County's debt is maintained at a sustainable level, as approved by the County Assembly.

Section 140(1) of the PFM Act authorizes the County Executive Committee Member for Finance to raise loans for implementing government programs, provided that:

- a) Article 212 of the Constitution is adhered to, which stipulates that a county government may borrow only if the national government guarantees the loan, and with the approval of the County Assembly.
- b) Section 58 of the PFM Act mandates the Cabinet Secretary (National Treasury) to guarantee loans for county governments or other borrowers on behalf of the national government, subject to approval by Parliament.
- c) Section 142 of the PFM Act allows the County Assembly to authorize short-term borrowing by county government entities for cash management purposes only. However, such borrowing must not exceed 5% of the County's most recent audited revenues and must be repaid within one year from the date of borrowing.
- d) The borrowing must align with the fiscal responsibility principles and financial objectives outlined in the County's most recent County Fiscal Strategy Paper (CFSP).
- e) The borrowing must be consistent with the County's debt management strategy over the medium term.

Furthermore, PFM Regulations 177(2) permit the County Government to borrow funds within and outside Kenya, subject to the following methods:

- a) Issuing County Treasury bonds;
- b) Bank overdraft facilities from the Central Bank of Kenya (CBK); and
- c) Any other loan or credit evidenced by written instruments.

Borrowing through the issuance of County Treasury bonds or other written credit instruments requires a national government guarantee, as per Section 58 of the PFM Act. Borrowing through the Central Bank of Kenya (CBK), as outlined in Section 142 of the Public Finance Management (PFM) Act, is limited to short-term overdraft facilities. This borrowing is capped at 5% of the County's most recent audited equitable share and requires approval from the County Assembly.

2.3 PRINCIPLES OF PUBLIC FINANCE

The Constitution of Kenya (Article 201) outlines the following principles to guide all aspects of public finance management, including public borrowing and debt management:

- a. There will be openness and accountability in borrowing and management of public debt;
- b. Public debt management will promote an equitable society;
- c. The burdens and benefits of the use of resources and public borrowing will be shared equitably between present and future generations;
- d. Public money will be used in a prudent and responsible way; and
- e. Borrowing and management of public debt will be responsible and fiscal reporting will be clear.

2.4 COUNTY PUBLIC DEBT PORTFOLIO

The County Government of Nyandarua has entered into an agreement with a local lender for payroll financing, enabling the County to pay staff salaries during periods of cash flow shortfalls. The County Government has been preparing its budget by balancing expenditures with available resources. However, delays in the disbursement of equitable share funds from the National Government have continued to negatively impact service delivery. Additionally, the County has experienced fiscal deficits due to unachieved own-source revenue targets, leading to an accumulation of debt, primarily in the form of pending bills. The total county pending bills stood at Kshs. 1,397,002,120 comprising of Kshs. 426,726,598 as recurrent and Kshs. 970,275,521 as development on 30th June, 2024. This is as shown in table 1.

Table 1: county debt classified per department

Department	Total Pending Bills-Kes
Office of the Governor	2,968,380
County Secretary & Head of Public Service	4,893,965
Office of The County Attorney	67,524,057
Public Service Administration & Devolution	5,888,408
County public Service Board	-
Finance ,Economic Planning and ICT	61,201,645
Health Services	96,431,213
Education, Children, Gender Affairs, Culture and Social Services	132,797,313
Tourism, Cooperative Development, Trade & Industrialization	41,280,922
Youth Empowerment, Sports and Arts	30,479,610
Water, Environment, Climate Change& Natural Resources	240,643,003
Public Works, Roads, Transport, Housing & Energy	537,116,064
Lands, Physical Planning and Urban Development	45,792,729
Municipalities	12,203,258
Agriculture ,Livestock & Fisheries	84,182,400
Emergency	3,189,141
Facility Transfers	30,410,011
TOTAL	1,397,002,120

Source; County Treasury

The total pending bill of Kshs 1,397,002,120 relates to all obligations owed by the County Government to suppliers of goods, services and works. Through the approved budget estimates and the first supplementary budget, Kshs 822,164,837 will be allocated for offsetting pending bills. Consequently, Kshs. 209,890,000 has been paid to date with a further Kshs. 612,274,837 anticipated to be paid by 30th June, 2025 after the approval of the first supplementary budget.

The County's pending bills likely to be carried forward to the subsequent financial years amount to Kes. 574,837,283 as illustrated in the table 2.

Table 2: County Debt portfolio versus payments analysis

Description	Amount-Kes
Status of pending bills in 2024/25	
Pending Bills as at 30th June 2024	1,397,002,120
	209,890,000

Description	Amount-Kes
Pending bills provided in the approved 2024/25 FY Budget –original budget	
Proposed pending bills to be provided for in the 1 st supplementary Budget FY 2024/25 (additional)	612,274,837
Pending bills to be carried forward to subsequent Fys	574,837,283
Payments information- 2024/25	
total pending bills provided in 2024/25 FY	822,164,837
Total Pending Bills settled (paid) as at 28th February 2025	209,890,000
Outstanding Pending Bills Expected to be settled in the remainder of the 2024/25	612,274,837

Source: County Treasury

2.5 DEBT SERVICING

The County Government is committed to honouring all public debt obligations timely to minimize fiscal costs and risks associated with defaults. The County Government pledges to adhere to all laws governing public debt management.

Pending bills will be treated as a first charge when County departments and spending units prepare their budgets, as stipulated in the PFM Act 2012 and County Regulations 2015. This approach will not only prevent the accumulation of pending bills but also promote disciplined spending.

The debt repayment plan for pending bills is outlined in the table 3:

Table 3: Debt Repayment Schedule-Kes

Category	Outstanding liabilities as at 30th June 2024	Payments provided for in 2024/25 FY	Payments projected for payment in 2025/26 FY	Payments projected for payment in 2026/27 FY	Payments projected for payment in 2027/28 FY
Outstanding payments to contractors & suppliers	1,397,002,120	822,164,837	186,000,000	250,000,000	138,837,283

Source; County Treasury

In the County Fiscal Strategy Paper 2025, Kes. 186 million has been allocated to address pending bills in the 2025/26 FY. The County Government has committed to paying all verified pending bills and liabilities in the medium term. All departments will prioritize the

payment of pending bills and liabilities when preparing their FY 2025/2026 budget estimates.

The accumulation of liabilities and pending bills poses a significant threat to the County's development agenda. These liabilities represent a fiscal risk with potentially severe consequences for the County's economy.

CHAPTER THREE

DEBT MANAGEMENT STRATEGY

3.0 Overview

The Debt Management Strategy Framework will guide the County Government over the medium term to ensure that debt levels remain sustainable. This strategy is critical for managing the County's debt, particularly given the gap between the development resource requirements and the available resource envelope, as outlined in the proposed County Integrated Development Plan (CIDP) 3 (2023-2027). The framework will ensure that the County's debt remains within sustainable limits, enabling the County to meet its development goals without compromising fiscal stability.

3.1 The Nyandarua County pending bills special verification committee

The County Treasury in response to the persistent issue on pending bills constituted a special committee which was mandated to verify all pending bills as at 30th June 2024 with a view to making recommendations to the County Government on the extent to which the pending bill are payable or not.

The committee was further supposed to ensure that a directive from the senate and office of the controller of budget on ensuring that settlement of all pending bills is done as soon as possible. Specifically, all county governments are required to;

- i. Pay verified pending bills amounting to Kes 1 billion by end of Financial Year 2023/2024 and those above Kes 1 billion by the end of the FY 2024/25,
- ii. Prepare and submit to the Controller of budget a payment plan and prioritize payment of pending bills as first charge on the County Revenue Fund, and
- iii. Counties to only pay pending bills contained in their procurement plans.

The committee has been able to undertake its mandate and a report on the same developed.

3.2 PURPOSE OF BORROWING

In the event that the County seeks to borrow funds to finance its operations in the medium term, the following principles shall be adhered to:

- **Debt Sustainability at Affordable Levels:** The County will prioritize grants and budget support. If grants are unavailable, concessional borrowing will be considered for priority development projects to ensure affordability.
- **Concessional Loans:** Borrowing will be restricted to concessional loans from multilateral or bilateral donors and development partners, ensuring favorable terms such as low interest rates and extended repayment periods.

- **Loan Purpose:** All borrowing must comply with fiscal responsibility guidelines, ensuring loans are used for specific, approved purposes under acceptable terms and conditions.

Borrowing will be strictly limited to:

- a) Managing County cash flow to address short-term liquidity challenges.
- b) Mitigating adverse effects of urgent and unforeseen events when the emergency fund is depleted.
- c) Financing County government budget deficits.
- d) Funding development projects.

3.3 DEBT SUSTAINABILITY

The sustainability of the County's debt is guided by Section 107(2)(e) and Section 107(4) of the Public Finance Management (PFM) Act. Additionally, Section 50(5) of the Act stipulates that the County's debt must not exceed 20% of its most recent audited revenue, as approved by the County Assembly. The County Government recognizes the importance of prudent debt management to avoid placing an undue burden on future generations and to minimize the risk of macroeconomic instability. The volume and cost of debt must not compromise its sustainability or affordability.

Public Debt Sustainability is assessed using several key indicators, including:

- a) Debt to Gross County Product (GCP): Measures the County's debt relative to its economic output.
- b) Debt Service to County Revenues: Assesses the proportion of County revenues used to service debt.
- c) Interest Payments to County Revenues: Evaluates the share of County revenues allocated to interest payments.
- d) Interest Payments to Gross County Product: Measures the economic burden of interest payments.

For the purposes of this Medium-Term Debt Strategy, the primary sustainability indicator will be the Debt Service to County Revenues ratio.

Table 4: County Debt Sustainability Indicators

Indicator	2025/26	2026/27	2027/28 projected
Revenue			
Debt	186,000,000	250,000,000	138,837,283
Debt service to revenue ratio	8,184,880,000	8,512,260,000	8,852,760,000

Indicator	2025/26	2026/27	2027/28 projected
Actual debt- service ratio	2.27	2.93	1.56
Recommended Ceiling-%	5	5	5

The table above demonstrates that the County Government of Nyandarua has managed its debt levels sustainably and should now focus on becoming debt-free.

Despite these efforts, the County continues to face challenges in meeting all its debt obligations, primarily due to high public expectations relative to the available resources. The majority of the County's debt is in the form of pending bills owed to contractors and suppliers.

To address these challenges and promote efficient debt settlement over the medium term (FY 2025/26 to FY 2027/28), the County will implement the following measures:

- a) **Set Realistic Revenue Targets:** Establish achievable own-source revenue targets to reduce deficits that lead to pending bills. The County has put measures to enhance local revenue collection and lobby for additional funding from the National Government, donors, and Public-Private Partnerships (PPPs).
- b) **Implement a Monitoring and Evaluation System:** Introduce a Comprehensive Integrated Monitoring and Evaluation System (CIMES) to track all projects and minimize unverifiable expenditures that contribute to pending bills.
- c) **Prompt Debt Servicing:** Ensure timely payment of debts to prevent accumulation and reduce the risk of penalties or legal disputes.
- d) **Prioritize Programs with Pending Bills:** During the planning and budgeting process, prioritize programs and projects with outstanding bills to ensure they are addressed promptly.
- e) **Strengthen Internal Controls:** Conduct regular audits to ensure that procurement processes are followed rigorously, reducing the risk of litigation and substandard work.
- f) **Develop a Legal and Regulatory Framework:** Establish a clear debt policy to enhance reporting, prioritization, and timely payment of debts, ensuring transparency and accountability in debt management.

CHAPTER FOUR

ASSUMPTIONS & RISKS ASSOCIATED WITH THE LIABILITIES

4.1 ASSUMPTIONS UNDERLYING THE DEBT MANAGEMENT STRATEGY

The Debt Management Strategy (DMS) is based on the assumption that the macroeconomic outlook will remain stable over the medium term. This includes the expectation that the forecasted GDP growth rates will be achieved, and key economic variables such as inflation rates, interest rates, and others will remain stable during this period.

Additional assumptions underpinning the strategy include:

- a) **Stable Political, Social, and Economic Environment:** The strategy assumes that the political, social, and economic environment will remain stable and conducive to the implementation of the debt management plan.
- b) **Timely Disbursement of Equitable Share:** The National Treasury is expected to continue efforts to minimize delays in the disbursement of equitable share transfers to counties. This will help reduce the demand for short-term financing by counties.
- c) **Payment of Pending Bills:** The County Government is expected to settle the pending bills of Kes. 822,164,837 million through the first supplementary budget for FY 2024/25.
- d) **Verification of Pending Bills:** All pending bills submitted by user departments are assumed to meet the required threshold, meaning that the work has been completed, and only the payment remains outstanding.
- e) **Implementation of the Strategy:** The strategy assumes that the debt management plan will be implemented as outlined, without significant deviations.

4.2 UNCERTAINTIES AND RISKS

The 2025 Debt Management Strategy (DMS) is anchored on the macroeconomic and microeconomic assumptions outlined in the 2025 County Fiscal Strategy Paper (CFSP). The CFSP is aligned with the County Government's development agenda, which emphasizes economic turnaround and inclusive growth through the Bottom-up Approach.

However, the County faces significant challenges due to the mismatch between its development needs and the available resource envelope. The resource envelope includes equitable share allocations, own-source revenue, and donor funding in the form of conditional grants, which are not always guaranteed.

When revenue targets are not met by the end of the financial year, and projects in the budget have already been implemented, the issue of pending bills arises. This forces the County to rely on debt funding, exposing it to several risks and uncertainties, including:

- a) **Increased Project Costs:** Suppliers may increase their prices to mitigate the risks and opportunity costs associated with delayed payments, leading to higher project implementation costs.
- b) **Market Fluctuations:** Changes in market prices, exchange rates, and commodity prices may result in higher quotations from suppliers. Additionally, suppliers may impose interest or penalties on outstanding amounts to reduce their risk exposure.
- c) **Legal Disputes:** In extreme cases, suppliers may take legal action against the County for breach of contract, which could strain the County's development agenda due to the associated cost implications.
- d) **Reduced Credibility:** Delayed settlement of debts may damage the County's credibility, making it difficult to attract quality suppliers and contractors who may be hesitant to work with the County.
- e) **Reputational Damage:** Negative perceptions of the County's financial management may lead to a loss of confidence among donors and investors, potentially resulting in reduced funding or withdrawal of support.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.0 Overview

The 2025 Debt Management Strategy provides a robust framework for prudent debt management, ensuring that the County Government manages its debt in a sustainable manner to avoid a heavy debt burden that could hinder the County's development. Continuous monitoring and review of the implementation of the medium-term debt strategy are essential to ensure its effectiveness.

Public debt management is a critical component of the macroeconomic environment, with significant implications for public expenditure and macroeconomic stability. The primary objectives of public debt management are to ensure that the County Government's financing needs and payment obligations are met at the lowest possible cost over the medium to long term, with a prudent degree of risk. Additionally, it aims to ensure the equitable sharing of the benefits and burdens of public debt between current and future generations.

As the County enhances its resource mobilization efforts in the medium term, it will ensure that any funding obtained through debt is sustainable, and that the County meets its debt obligations in a timely manner. This will help avoid risks such as litigation, penalties, loss of creditworthiness, low staff morale, compromised service delivery, and disruption of services. Government borrowing will be guided by the need to lower costs and minimize risks, particularly those related to foreign exchange, interest rates, refinancing, and settlement.

To further strengthen debt management, the County Government should publish debt information more regularly to enhance transparency in line with international best practices. As per the provisions of the Public Finance Management Act 2012, the Medium-Term Debt Management Strategy (MTDMS) aligns with the County's policy and objectives. The Government should, therefore, implement measures aimed at enhancing transparency and accountability in debt management processes, strengthening internal controls to ensure compliance with financial regulations and ensuring timely implementation of the budget to support sustainable public debt management.

To address the challenge of ever-increasing pending bills, the County Government should:

- Enhance Own-Source Revenue Collection mechanisms and set realistic and achievable revenue targets to reduce deficits that lead to pending bills.
- Allocate sufficient funds to ensure that all approved development projects are paid within the given financial year.
- Streamline Budgeting, Procurement, and Payment Processes: Establish clear linkages between budgeting, procurement, and payment processes to provide checks and balances and prevent the accumulation of pending bills.
- Conduct Regular Audit to strengthen implementation systems, minimize risks, and ensure compliance with procurement and financial regulations.
- Capacity Building: Invest in capacity building for technical personnel within the County Treasury to ensure seamless operations and minimize potential delays in debt management processes.