



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



NYANDARUA COUNTY GOVERNMENT

MEDIUM TERM DEBT MANAGEMENT STRATEGY PAPER

FOR THE FY 2023/2024

FEBRUARY 2023

Nyandarua County Government Medium Term Debt Management Strategy Paper 2023

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Ol'Kalou,

KENYA

FOREWORD

Nyandarua County's Medium-Term Debt Strategy 2023 is a critical document that outlines the county's plans to ensure that its debt is sustainable while adhering to fiscal prudence in public finance. The primary objective of the County Debt Management Strategy Paper is to meet the county's obligations on time and at the lowest possible cost while ensuring a prudent degree of risk for debt sustainability. By doing so, the county will be able to minimize legal suits that may cost the government more resources.

The County Treasury has made deliberate efforts to implement a payment plan that settles its pending bills obligations, and clear and articulate projections for the Own Source Revenue have been made to prevent the escalation of County pending bills. It is heartening to note that the County Treasury has projected a Kes. 660 Million own-source revenue in the FY 2022/23 and Kes.780 Million in FY 2023/2024 down from Kes. 990 Million in the FY 2021/22. Presently the County pending bills are at Kes. 1,087,872,145. It is however expected that all the pending bills factored in the supplementary budget will be expended as appropriated. That will see the county settling Kes. 648,046,049 not settled in the current approved budget estimates.

The county's debt management strategy must be comprehensive, considering all forms of debt, associated risks, and strategies to manage the debt. The county should ensure that its debt portfolio is diversified, with a mix of long-term and short-term debt instruments, and there should be a proper balance between the county's debt servicing costs and its revenue streams.

The Debt Management Strategy Paper (DMSP) sets out Nyandarua County Government's strategies and plans for the management of its debt in the medium term. The DMSP outlines how the county government intends to achieve a desired debt portfolio over the medium term, ensuring that its financing needs and payment obligations are met at the lowest possible cost that is consistent with a prudent degree of risk. The DMSP places a strong emphasis on managing the risk exposure embedded in the debt portfolio, specifically potential variations in the cost of debt servicing, increased fiscal deficits, and their impact on the budget.

Nyandarua County's Medium-Term Debt Strategy 2023 should serve as a guiding document that outlines the county's approach to managing its debt obligations. The strategy should be based on sound financial principles that ensure the county's debt is sustainable, and it meets its obligations

on time and at the lowest possible cost. With a proper debt management strategy in place, the county can enhance fiscal prudence in the management of its resources, minimize legal suits that may cost the County Government more resources, and ultimately promote sustainable economic growth.

In conclusion, the Nyandarua County Government's Debt Management Strategy Paper sets out the county's strategies and plans for managing its debt in the medium term. The paper's contents show that the county is committed to ensuring that its debt is sustainable, meeting its obligations on time and at the lowest possible cost, and managing the risks associated with the debt portfolio. The paper should be a guiding document for the county's approach to managing its debt obligations, and it should be based on sound financial principles that promote sustainable economic growth.

HON. MARY W. KAMANDE



COUNTY EXECUTIVE COMMITTEE MEMBER
FINANCE, ECONOMIC PLANNING AND ICT

ACKNOWLEDGEMENT

I would like to express my profound gratitude to the authors of Nyandarua County's Medium-Term Debt Strategy 2023 for their efforts in putting together such an essential document. The strategy is a crucial tool that will guide the county in managing its debt obligations, ensuring fiscal prudence, and promoting sustainable economic growth.

The Public Finance Management Act and Regulations require that county governments develop a debt management strategy that outlines the county's borrowing and debt management plans. The authors of Nyandarua County's Medium-Term Debt Strategy 2023 have adhered to this requirement by presenting a well-thought-out strategy that outlines the county's debt profile, borrowing limits, and debt service projections.

The County Treasury deserves commendation for its deliberate efforts to promote clear and articulate projections for its Own Source Revenue to avoid escalation of the County's pending bills. This approach is critical in ensuring that the county's debt obligations are met promptly and effectively.

Furthermore, the multifaceted approach in handling the County's debt management strategy is a comprehensive approach that considers all forms of debt, associated risks, and strategies to manage that debt. This approach ensures that the county has a clear understanding of its debt position, which is vital in making informed decisions that promote sustainable economic growth.

I am confident that Nyandarua County's Medium-Term Debt Strategy 2023 will help Nyandarua County in managing its debt obligations effectively and promoting sustainable economic growth. The authors of the strategy have put in a lot of hard work to ensure that it meets the requirements of the Public Finance Management Act and Regulations.

In conclusion, I would like to extend my sincere appreciation to the great leadership of Nyandarua County led by H. E. the Governor, Dr Moses Kiarie Badilisha and the CECM in charge of Economic Planning for the insights in the preparation of Nyandarua County's Medium-Term Debt Strategy 2023 for their dedication and commitment to developing a comprehensive and robust debt management strategy. This strategy will undoubtedly be an essential tool in promoting fiscal discipline, effective debt management, and sustainable economic growth in Nyandarua County.

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CHIEF OFFICER

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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
MTDS	Medium Term Debt Strategy
F/Y	Financial Year

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CHAPTER ONE

1.0 COUNTY DEBT MANAGEMENT STRATEGY

1.1 Introduction

This Debt Management Strategy Paper (DMSP) sets out the Nyandarua County Government's strategies and plans for the management of its debt in the medium term. The DMSP outlines how the County Government intends to achieve a desired debt portfolio over the medium term. It is proposed to ensure the County Government's financing needs and payment obligations are met at the lowest possible cost that is consistent with a prudent degree of risk. The DMSP has a strong focus on managing the risk exposure embedded in the debt portfolio specifically, potential variations in the cost of debt servicing, increased fiscal deficits and their impact on the budget.

Public debt, or borrowing, includes and is not limited to contracting or guaranteeing domestic and external (foreign) debt through loans, financial leasing, on-lending and any other type of borrowing, including concessional and non-concessional borrowing. Debt owed by the County Government and its institutions would be included in the definition of total County Government debt.

Debt Management Strategy is a framework that the County Government intends to use over the medium term to ensure that debt levels stay affordable and sustainable, that borrowing is for projects with high impact or has potential for revenue generation, and that the costs and risks of borrowing are minimized.

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 PFM Act (1) "On or before the 28th February in each year, the County Treasury shall submit to County assembly a statement setting out the debt management strategy of the County Government over the medium term with respect to its actual liability and potential liability in respect of loans and guarantees and its plans for dealing with those liabilities."

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

- ❖ 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 don't default obligations to the extent possible.

The PFM County Regulations are detailed on provisions of the 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 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 limit 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

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 Inter-Governmental Budget and Economic Council.

1.3 Objectives Debt Strategy Paper

The main objective of the Nyandarua County Debt Management is to ensure that the County's financing needs and payment obligations are met on time, and at the lowest possible cost which is consistent with a prudent degree of risk. It also aims at providing an optimal and sustainable County Public Debt. Therefore, this strategy seeks to balance cost and risk of Public Debt considering the demand and resource constraints. Expenditures will strictly be confined to departmental budgetary allocations in line with the County's Resource Envelope. The County Government as envisaged in the CFSP 2023 does not consider external financing through borrowing but opts for Public Private Partnerships in the medium term.

Broadly the objectives of County Debt Management will be:

- 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);
- To ensure that both the burden of and benefit from public borrowing is shared equitably between the current and future generations as stipulated under Article 201 of the constitution.
- To ensure that the County Government can deal with the existing debt portfolio to release resources to service delivery. The strategy seeks to balance cost and risk of public debt while considering the financing needs of the County and developing new sources of revenue;
- Mitigate any negative effects arising from the indebtedness of the County e.g. legal suits, contractors' petitions and dissatisfaction, emotional torture and resultants effects on the suppliers and contractors; and
- Provide a general policy direction that will facilitate future access by the County to financial markets.

CHAPTER TWO

2.0 COUNTY DEBT

2.1 Review of County Debt

The County debt comprises of all outstanding financial obligations by the County Government. Various Government institutions and agencies play a key role in the management of County Public Debt and borrowing. They include the Parliament, Auditor General, Controller of Budget, Commission on Revenue Allocation, The National Treasury, and the Central Bank of Kenya. Therefore, the County should have a very strong framework on how to manage its public debt portfolio.

The County Government of Nyandarua has not incurred any debt from borrowing since its inception. The Government has been preparing its budget by balancing expenditures with the available resources. The delays in disbursements of equitable share from the National Government continue to negatively affect service delivery. In addition, The County Government has had fiscal deficits as a result of unachieved own source revenue targets. This has led to a pile-up of debt mainly composed of pending bills of **Kes1.32 billion** at the beginning of FY 2022/23 as illustrated in the table below.

Table 1: County Debt Review

Summary of outstanding liabilities as at 30th June 2022

Description	Amount
Pending Bills as at 1 st July 2022	1,326,324,777
Less: Assembly Pending Bills	108,132,678
Balance (County Executive) FY 2021/2022	1,218,192,099
Proposed Payment as provided for in the 1 st supplementary FY 2022/23	778,366,003
Total Pending Bills settled as at 25th February 2023	130,319,954
Pending Bills Expected to be settled in the FY 2022/23 (Budget - Balances)	648,046,049
Total County Executive Pending Bills as at 25th February 2023	1,087,872,145

Source: County Governments Budget Implementation Review Report for The First Quarter of FY 2022/23 (Comptroller of Budget) and Finance Division – Requisition

The Current County’s debt stock as at 25th February 2023 is **Kes. 1,087,872,145**. These include Kes 648,046,049 which has been appropriated for in the FY 2022/23. In the Current Financial Year, already Kes. 130,319,954 has been paid.

2.2 Debt servicing

In the next planning period and the medium term, the County Government plans to meet its obligations to its creditors. The pending bills will be treated as a first charge when the County departments and spending units will be preparing their budgets as stipulated in the PFM Act 2012 and County Regulations 2015. This will not only prevent increasing pending bills but inculcate disciplined spending.

The debt repayment plan for the is scheduled below:

Table 1: Debt Repayment Schedule

Category	Outstanding liabilities as at 30 th June 2022	Payments provided for in 2022/23 FY	Payments projected for payment in 2023/24 FY	Payments projected for payment in 2024/25 FY	Payments projected for payment in 2025/26 FY	Total Payments
Outstanding payments to contractors & suppliers (in Kes.)	1,326,324,777	778,336,003	150,000,000	200,000,000	191,633,997	1,326,324,777

In the County Fiscal Strategy Paper 2023, **Kes. 150,000,000** has been set aside to take care of the Pending Bills. The balance of **Kes 397,985,774** will be provided for in the FY 2024/25 to FY 2025/26.

It is worthwhile to note that some of the historical pending bills set for settlement consist of the not payable but with conditions (Eligible and Ineligible pending bills Resolution Committee Report). Those captured as ineligible will be considered payable if the statuses were to change. Therefore, the projected provision for pending bills payment is subject to the current pending bills that have emanated from the departments and whose conditions for payment are expected to have been met.

2.3 Debt Sustainability

The sustainability of debt is guided by the PFM Act Section 107 (2) (e) and 107 (4). Additionally, section 50 (5) of the Act provides that the County debt shall not exceed 20% of the County's most recent audited revenue as approved by the County Assembly. Premised by this, the county needs to conduct continuous monitoring of its expenditures and debt levels to ensure that it can meet its obligations and it can manage the risks thereof.

Public Debt sustainability is determined by various parameters e.g. debt to GDP ratio, debt to revenue ratio or debt service to revenue ratio. Given these, this Medium Term Debt strategy sustainability indicators will be based on the debt service to revenue ratio.

Table 2: County Debt sustainability indicators

Indicator	2023/24	2024/25	2025/26 projected
Revenue	7,529,493,023	7,946,672,744	8,224,539,654
Debt	150,000,000	200,000,000	197,958,774
Debt service to revenue ratio	2%	2.50%	2.40%
Recommended	20%	20%	20%

The table above clearly illustrates that the County Government of Nyandarua has sustainably managed its debt levels and should now focus towards being debt free.

CHAPTER THREE

3.0 DEBT MANAGEMENT STRATEGY

3.1 Debt Management Strategy

The County intends to use the Debt Management Strategy Framework over the medium term to ensure the debt levels are sustainable. The Debt Strategy Paper is critical in the management of the County's debt given the gap between the development resource requirements and the available resource envelope as illustrated in the proposed CIDP 111 for the period 2023-2028. The Debt Management Strategy is the framework that will guide the County Government to ensure that debt levels are sustainable over the medium term.

The County Government in its planning and budgeting continues to employ various strategies to maintain sustainable debt levels, however, it still has challenges in meeting all its debt obligations. This is owed to high expectations from the public vis-a-vis the resources available. The major debts owed by the County are informed of pending bills to contractors and suppliers.

In the medium term, that is FY 2023/24 to FY 2025/2026 period, The County through its budgetary process will employ the following measures to promote efficiency in settling debts:

- ❖ Set realistic and achievable own-source revenue target to reduce deficits that otherwise translates into pending bills. In addition, the County should enhance local revenue collection as well as sourcing for additional funding from National Government, Donors, PPPs;
- ❖ Implement a comprehensive monitoring and evaluation system (CIMES) for all projects being implemented to minimize unverifiable projects that accumulate bills;
- ❖ Prompt debt servicing to avoid accumulation;
- ❖ Prioritization of programs that are phased and projects with pending bills while planning and budgeting;
- ❖ Strengthening internal controls such as Audits to ensure that a thorough procurement process is followed to avoid litigations and substandard works; and
- ❖ Development of Legal and Regulatory Framework- a clear debt policy to enhance reporting, prioritization and timely payment of debt

CHAPTER FOUR

4.0 ASSUMPTIONS & RISKS ASSOCIATED WITH THE LIABILITIES

4.1 Assumptions underlying the debt management strategy

The Debt Strategy Paper assumes that the macroeconomic outlook will remain stable. That the forecasted GDP growth rates will be realized and variables such as inflation rates, interest rates amongst others will remain stable in the Medium-Term period;

Other assumptions are: that there will be a stable political, social and economic environment that is favourable during the implementation of the strategy; that the County Government will pay the pending bills of **Kes 778,366,003** which is approved in the first supplementary Budget for the FY 2022/23; and that this debt management strategy will be actualized to the letter. Further, the County Treasury expects that all the pending bills forwarded from the user departments meet the threshold for pending bills. That is, the works are complete with only the payment pending.

4.2 Uncertainties and Risks

The 2023 DMS is anchored on the macroeconomic and microeconomic assumptions outlined in the 2023 County Fiscal Strategy Paper. The 2023 CFSP is anchored on Government's change development agenda on the Bottom-up Approach whose main focus is the economic turn-around and inclusive growth.

The rate at which the County's numerous development needs are raising does not match with the resource envelope available. The resource envelop includes equitable share, own source revenue and donor funding that it receives in form of conditional grants that are not always a guarantee.

With unrealized revenues at the end of the financial year, and the projects in the budget having been implemented, the issue of pending bills is brought forth. This leads to debt funding by the County which exposes it to several risks and uncertainties that may include:

- High cost of project implementation where suppliers mitigate the risks and opportunity cost of delayed payments by adjusting their initial prices upward;

- Market forces that lead to a fluctuation in market prices, exchange rates and commodity prices thereby leading to higher quotations to reduce the risk. This may also result in charging interest or penalties on amounts that are outstanding;
- In extreme cases, suppliers may resort to legal suits due to breach of contracts thereby straining the development agenda of the government due to the cost implications thereof;
- The County governments are experiencing reduced credibility due to delayed settlement of debts. This a huge risk since the government may not attract quality services from suppliers who may shy away; and
- Negative reputational damage leading to lack of confidence by the Donors and Investors who could potentially pull out or reduce the of amount resources.

4.3 Conclusion and Recommendations

The 2023 Debt Management Strategy provides a robust framework for prudent debt management. The County Government recognizes the importance of managing its debt well and sustainably to avoid a heavy debt burden that may hurt the County's development. Continuous monitoring and review of the implementation of the medium-term debt strategy is required.

The County Government should publish debt information more regularly to enhance transparency on debt management in accordance with international best practices. As per the provisions of the Public Finance Management Act 2012, the DMSP is in line with the County's policy and objectives. The Government should therefore endeavour to implement measures aimed at enhancing transparency and accountability, strengthening internal controls and timely implementation of the budget for sustainable public debt management.

In order to curb the challenge of the ever-increasing pending bills, the County Government should enhance the Own-Source Revenue collection and ensure that the set targets are realistic and achievable. This will ultimately ensure that all projects approved for development are paid within the given Financial Year. There is a need for clear linkage in the processes of budgeting, procurement and payments to provide for checks and balances. In addition, audits are to be undertaken continuously to strengthen implementation systems and minimize associated risks. The County Treasury will also capacity-build its technical personnel to promote smooth operations thereby minimizing possible delays.

