REPUBLIC OF KENYA

COUNTY GOVERNMENT OF LAIKIPIA

THE COUNTY TREASURY

COUNTY DEBT MANAGEMENT STRATEGY PAPER

2027/2028- 2029/2030

November 2026

COUNTY VISION AND MISSION

Vision

An Inclusive County with Sustainable Quality Life

Mission

Facilitate Integrated Social Economic Development for the People of Laikipia.

Core Values

Synergy

Servant Leadership

Mutual Accountability

Integrity

Effectiveness

Efficiency

FOREWORD

Laikipia County Government has pursued its development agenda without recourse to borrowing. This record reflects a deliberate commitment to prudent public financial management, and places the county in a strong position to decide whether to use debt in the future.

This Strategy Paper sets out the county's approach to public debt management. It also discloses the county's pending bills (trade payables), because these unpaid obligations to suppliers and contractors are a fiscal risk even when it is not legally classified as such.

This County Debt Management Strategy paper (CDMSP) provides a framework for prudent borrowing, effective debt servicing, and responsible fiscal planning. It is designed to safeguard the county's financial health while enabling strategic investments that drive growth and improve the quality of life for our citizens.

It emphasizes transparency, accountability and efficiency in debt management. By aligning borrowing decisions with development priorities. The medium-term outlook further strengthens our commitment to maintaining debt sustainability, mitigating risks and enhancing resilience against economic shocks.

The County Government recognizes that debt is a powerful tool when managed effectively. Through this strategy and if there is need to seek debt, the county will adopt a balanced approach leveraging debt to finance critical projects while safeguarding future generations from undue fiscal burdens. Collaboration with stakeholders, adherence to best practices and continuous monitoring will be central to achieving these objectives.

I urge all departments and the County Assembly to adopt it as a guide to sound fiscal decisions.

COUNTY GOVERNMENT OF LAIKIPIA
COUNTY TREASURY
20 NOV 2026
SIGN.....

Samuel Wachira Gachigi,
County Executive Committee Member,
Finance, Economic Planning and County Development.

CamScanner

ACKNOWLEDGEMENT

The successful preparation of the County Debt Management Strategy 2026 and Medium-Term Plan is the result of collective effort, dedication and collaboration. We wish to extend our sincere gratitude to all individuals and institutions who contributed to its development.

I acknowledge the leadership of H.E the Governor, H.E the Deputy Governor, The County Executive Committee Members, whose guidance and vision steered the process. Special appreciation goes to the County Treasury team and staff from the Directorate of Budget for their technical input and commitment in compiling and presenting this paper.

We also recognize input from stakeholders, including development partners, financial institutions, and the public, whose perspectives enriched the strategy

Finally, we appreciate the support of the County Assembly for providing oversight. These contributions have laid a strong foundation for sustainable debt management and fiscal responsibility.

COUNTY GOVERNMENT OF LAIKIPIA
CHIEF OFFICER
20 NOV 2026
FINANCE

Daniel Ngumi,
Chief Officer,
Finance, Economic Planning and County Development.

CamScanner

LIST OF ABBREVIATIONS

ADB	African Development Bank
ADP	Annual Development Plan
CDMSP	County Debt Management Strategy Paper
CECM	County Executive Committee Member
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
DMAC	Debt Management Advisory Committee
DMU	Debt Management Unit
DSA	Debt Sustainability Analysis
IBEC	Inter Government Budget and Economic Council
IMF	International Monetary Fund
MDGs	Millennium Development Goals
NPV	Net Present Value
SDGs	Sustainable Development goals
SDR	Special Drawing Rights
PFMA	Public Finance Management Act
WB	World Bank
GDP	Gross Domestic Product
GCP	Gross County Product

EXECUTIVE SUMMARY

The County Debt Management Strategy Paper (CDMSP) 2027/2028 has been prepared in compliance with Section 123 of the Public Finance Management Act (PFMA), 2012**,** which requires counties to submit their debt management strategies to the County Assembly by 28th February each year, however the calendar has been adjusted with the realization that 2027/2028 is an election year. The strategy provides a framework for responsible borrowing, debt sustainability and fiscal discipline, ensuring that debt supports socio-economic transformation without undermining fiscal stability.

This strategy focuses on the following key areas

- **Legal Compliance**: Borrowing is restricted to development (capital) expenditure under PFMA, 2012 Section 58(2)(a) and must be guaranteed by the national government in line with Article 212 of the Constitution of Kenya, 2010**.** Debt levels must remain within the 20 percent revenue ceiling set by PFM Regulations, 2015 Section 25(1)(d)**.**
- **Debt Sustainability**: The county will continuously monitor debt indicators such as debt-to-revenue ratio, debt service-to-revenue ratio, and fiscal deficit levels. Annual Debt Sustainability Analysis (DSA) will be conducted to ensure affordability and resilience against fiscal shocks.
- **Risk Management**: The strategy identifies key risks including interest rate, exchange rate, refinancing, liquidity and operational risks and outlines mitigation measures including prioritization of concessional loans, diversification of financing sources and strengthening institutional capacity.
- **Financing Options**: The county will explore diverse financing mechanisms including domestic borrowing, grants, PPPs, concessional external loans and innovative instruments such as county bonds, green bonds and leasing. Preference will be given to concessional financing to minimize debt service costs.
- **Implementation and Oversight**: The County Treasury will lead implementation, supported by the County Assembly, National Treasury, Controller of Budget and Auditor-General. Monitoring will be conducted quarterly, with annual evaluations to assess debt sustainability and compliance. Transparency and public participation will be prioritized in line with Article 201(a) of the Constitution**.**

- **Policy Recommendations include**; Strengthen institutional capacity for debt management, prioritize concessional financing and diversify funding sources, enhance transparency through regular reporting and public disclosure, aligning county borrowing with the national debt management strategy and institutionalize monitoring and evaluation frameworks to ensure accountability.

The CDMSP 2027/2028 provides a roadmap for prudent debt management, balancing the county's financing needs with fiscal sustainability. By adhering to constitutional principles, statutory requirements and best practices, the county will safeguard fiscal stability while leveraging debt to accelerate socio-economic transformation and improve service delivery.

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CHAPTER ONE
PUBLIC DEBT MANAGEMENT

1.1 Introduction

Public debt management is the process of establishing and executing a strategy for managing government debt, to raise the required funding at the lowest possible cost over the medium to long term, consistent with a prudent degree of risk. A county without debt still needs a policy on when it would borrow, on what terms and how it monitors the obligations it already carries, such as unpaid supplier invoices.

Kenya's devolved system gives counties significant spending responsibility but a constrained borrowing mandate. Counties depend largely on the equitable share of nationally raised revenue, conditional grants and own source revenue. Against this backdrop, a county debt strategy is less about managing a loan book and more about protecting fiscal space, preserving creditworthiness and ensuring that all financial commitments, whether formally borrowed or not, are visible and managed.

The CDMSP serves as a critical policy instrument that outlines the county's borrowing framework, debt sustainability measures and financing strategies to bridge resource gaps in the annual and medium-term planning frameworks. It provides guidance on how the county will mobilize resources to fund development priorities while adhering to fiscal responsibility principles under Section 107 of the PFMA, 2012**,** which emphasize balanced budgets, sustainable debt levels and efficient use of public resources.

In preparing the CDMSP, the county has considered:

1. Legal provisions governing borrowing and debt management.
2. The debt acquisition process, including approvals by the National Treasury and County Assembly.
3. Impact of debt service on recurrent and development expenditure.
4. Anticipated fluctuations in interest rates, exchange rates and inflation.
5. Potential fiscal and budgetary risks, including contingent liabilities and guarantees.
6. Alignment with national debt management policies as guided by the National Treasury's Medium-Term Debt Management Strategy (MTDS)**.**

This strategy therefore provides a roadmap for responsible borrowing, ensuring that debt supports socio-economic transformation without undermining fiscal sustainability.

1.2 Description of the County Debt Management Strategy Paper

Public debt management refers to the establishment and execution of a plan to manage government debt in a manner that raises the required funding to meet development objectives while minimizing costs and risks.

The CDMSP is designed to: ensure debt levels remain affordable, sustainable and transparent; Provide a framework for accessing both domestic and external financing in compliance with Section 58 of the PFMA, 2012; which restricts borrowing to development (capital) expenditure, strengthen institutional capacity for debt recording, monitoring and reporting in line with PFM Regulations, 2015 and enhance coordination between the County Treasury, the National Treasury and other stakeholders to ensure consistency with national fiscal policies.

1.3 Objectives of the County Debt Management Strategy Paper

The primary objective of the CDMSP is to ensure that the County Government meets its financing needs while maintaining fiscal sustainability and minimizing financial risks. Other objectives include,

i. **Cost and Risk Minimization**: Ensure financing needs and payment obligations are met at the lowest possible cost over the medium to long term, consistent with a prudent degree of risk.
ii. **Debt Sustainability**: Safeguard the county's ability to service debt without compromising its fiscal capacity to deliver essential services and development projects.
iii. **Compliance with Legal Limits**: Ensure that the overall level of public debt does not exceed 20 percent of the county government's total revenue at any one time, as stipulated in PFM Regulations, 2015, Section 25(1)(d**)**.
iv. **Transparency and Accountability**: Promote openness in debt contracting, reporting and disclosure to the County Assembly and the public.
v. **Diversification of Financing Sources**: Explore innovative financing mechanisms such as public-private partnerships (PPPs), county bonds, concessional loans and grants to reduce reliance on commercial debt.

vi. **Strengthening Institutional Capacity**: Build robust debt management systems, including debt registers, monitoring tools and reporting frameworks, to enhance efficiency and compliance.

vii. **Risk Management**: Identify, assess and mitigate risks related to interest rates, exchange rates, refinancing and contingent liabilities.

1.4 Scope of the Strategy

This CDMSP provides policy direction for accessing financial markets and developing a well-functioning debt management framework over the medium term. Key aspects of the scope include:

a) **Fiscal Deficit Financing**: The CDMSP is anchored on projected fiscal deficits and assumptions outlined in the County Integrated Development Plan (CIDP) and the County Fiscal Strategy Paper (CFSP).

b) **Integration with Budget Process**: The CDMSP will be updated annually and incorporated into the CFSP as required under PFMA, 2012 Section 117**,** ensuring consistency with the county's budget cycle.

c) **Capital Expenditure Focus**: Borrowing will strictly finance development projects, in line with PFMA, 2012 Section 58(2)(a)**.**

d) **Medium-Term Outlook**: The strategy covers a three-year horizon, aligning debt management operations with the county's medium-term expenditure framework.

e) **Legal and Institutional Framework**: Debt contracting will adhere to approvals by the County Assembly and the National Treasury, ensuring compliance with Article 212 of the Constitution**,** which requires county borrowing to be guaranteed by the national government.

f) **Monitoring and Evaluation**: The CDMSP will establish mechanisms for continuous monitoring of debt sustainability indicators, including debt-to-revenue ratios, debt service-to-revenue ratios and fiscal deficit levels.

CHAPTER TWO
LEGAL AND INSTITUTIONAL FRAMEWORK FOR DEBT MANAGEMENT

2.1 Introduction

County debt management operates within a layered legal framework, effective debt management anchored in legal and institutional framework that ensures borrowing is conducted transparently, sustainably and in line with constitutional and statutory provisions. This framework provides the rules, responsibilities and oversight mechanisms that guide the county in contracting, managing and reporting debt.

Article 212 of the Constitution of Kenya, 2010, stipulates that a county may borrow only if:

1. The National Government guarantees the loan.
2. The County Assembly approves the borrowing.

This constitutional requirement ensures that county borrowing is consistent with national fiscal policies and does not jeopardize macroeconomic stability.

2.2 Legal Framework

County borrowing and debt management in Kenya are governed by a comprehensive constitutional, statutory and regulatory framework designed to ensure fiscal discipline, transparency, accountability and long-term sustainability of public finances.

Constitsution of Kenya, 2010

The Constitution establishes the overarching principles and institutional oversight mechanisms for public finance management at both national and county levels.

Article 201 sets out the principles of public finance, including equity in resource sharing, prudent and responsible use of public funds, openness and accountability and the need to promote fiscal sustainability.

Article 212 provides that counties may borrow only with a guarantee from the national government and subject to approval by the respective County Assembly, thereby safeguarding macroeconomic stability.

Public Finance Management Act (PFMA), 2012

The PFMA operationalizes constitutional principles and provides detailed rules governing county borrowing and debt management. Section 58(2)(a) restricts county borrowing to development (capital) expenditure, prohibiting borrowing for recurrent spending. Section 107 outlines fiscal responsibility principles, requiring counties to maintain sustainable debt levels and ensure that public debt is managed prudently. Section 123 requires the County Treasury to prepare and submit the County Debt Management Strategy Paper (CDMSP) to the County Assembly by 28th February each year, promoting forward-looking debt planning. Sections 140–142 establishes procedures for obtaining national government guarantees, approvals, and management of public debt obligations.

Public Finance Management Regulations, 2015

The Regulations provide detailed operational guidance to support implementation of the PFMA. Regulation 25(1)(d) limits county debt to not more than 20 percent of total county revenue at any given time, reinforcing fiscal sustainability.

The Regulations also provide frameworks for debt reporting, monitoring, disclosure and risk management, enhancing transparency and accountability in county debt operations.

Public Audit Act, 2015

The Act strengthens accountability in debt management through independent audit.

It mandates the Auditor-General to audit county debt records, guarantees, and related financial obligations to ensure compliance with the Constitution, PFMA, and other applicable laws.

County Governments Act, 2012

This Act provides the governance architecture necessary for effective oversight and approval of county debt.

It establishes the roles of County Assemblies and County Executives in approving borrowing, overseeing fiscal decisions, and monitoring implementation of debt-financed development programmes.

2.3 Institutional Framework

The following institutions are critical to the county debt management process

Institution	Role in county debt and liabilities management
CECM Finance and Economic Planning	Overall responsibility for county financial management, including debt and for submitting the Strategy and reports.
The County Treasury	Ensures compliance with PFMA, 2012 and PFM Regulations, 2015, prepares the CDMSP annually, maintains a comprehensive debt register and submits debt reports to the County Assembly, Controller of Budget and National Treasury.
County Executive Committee	Approves policy proposals for borrowing and the Strategy before submission to the Assembly.
County Assembly	Approves borrowing, approves the debt strategy, oversees implementation through the Budget and Appropriations Committee and the Public Accounts Committee.
Accounting Officers (Chief Officers)	Ensure commitments are only made within approved budgets and appropriately recorded in IFMIS.
County Internal Audit and Audit Committee	Independent assurance on liabilities and on the integrity of the pending bills and debt register.
National Treasury (PDMO)	Guarantee, technical guidance, consolidation of county debt data.
Intergovernmental Budget and Economic Council (IBEC)	Consultation on fiscal matters including county borrowing.
Controller of Budget	Authorizes withdrawals and reports on county budget implementation, including pending bills and debt obligations.
Auditor-General	Audits county financial statements including the statement of debt, pending bills and contingent liabilities.
The Public	Public consultations ensure transparency and accountability in debt management and is a requirement under Article 201(a) of the Constitution.

2.4 Coordination Mechanisms

To strengthen debt management, coordination between institutions is critical: These efforts and interactions will involve the following institutions and relationships

- **County Treasury ↔ National Treasury**: For guarantees, approvals and alignment with national debt strategy.
- **County Treasury ↔ County Assembly**: For approval and oversight of borrowing.

- **County Treasury, Controller of Budget and Auditor-General**: For monitoring, authorization and audit of debt.
- **County Treasury ↔ Citizens**: For public participation and accountability.

CHAPTER THREE:

DEBT SUSTAINABILITY ANALYSIS AND RISK MANAGEMENT FRAMEWORK

3.1 Introduction

Debt sustainability analysis (DSA) is a key component of prudent public debt management. It evaluates whether the county's current and projected debt levels can be serviced without compromising fiscal stability or crowding out essential public services. The analysis is guided by the Public Finance Management Act (PFMA), 2012**,** the Public Finance Management Regulations, 2015 and the principles of fiscal responsibility under Section 107 of the PFMA, 2012**.**

The risk management framework complements the DSA by identifying, assessing and mitigating risks associated with borrowing, including interest rate fluctuations, exchange rate volatility, refinancing risks and contingent liabilities. Together, these tools ensure that debt remains sustainable and supports socio-economic transformation.

The debt sustainability analysis and risk management framework therefore provide the county with tools to ensure that borrowing remains affordable, transparent and aligned with development priorities. By continuously monitoring debt indicators and proactively managing risks, the county will safeguard fiscal stability while leveraging debt to accelerate socio-economic transformation.

3.2 Debt Sustainability Indicators

The county will monitor and evaluate debt sustainability using the following indicators:

- **Debt-to-Revenue Ratio**: Total debt stock should not exceed 20 percent of county revenue, as stipulated in PFM Regulations, 2015 Section 25(1)(d)**.**
- **Debt Service-to-Revenue Ratio**: Annual debt service obligations should remain below 30 percent of total revenue, ensuring adequate fiscal space for service delivery.
- **Fiscal Deficit-to-Revenue Ratio**: Fiscal deficits should be maintained within prudent limits, consistent with Section 107(2)(b) of PFMA, 2012**,** which requires counties to maintain a balanced budget.
- **Liquidity Indicators**: Monitoring cash flow adequacy to meet short-term obligations without resorting to expensive borrowing.
- **Contingent Liabilities**: Assessment of risks arising from guarantees, PPPs and pending bills.

3.3 Risk Management Framework

Effective debt management requires not only monitoring sustainability indicators but also proactively identifying and mitigating risks that could undermine fiscal stability. The Risk Management Framework provides structured measures to anticipate, assess and respond to potential threats to the county's debt portfolio. It ensures that borrowing decisions remain prudent, affordable and aligned with the Public Finance Management Act (PFMA), 2012, the PFM Regulations, 2015 and fiscal responsibility principles.

Key risks that may affect this strategy and proposed mitigations

Interest Rate Risk

Exposure to variable interest rates can significantly increase debt service costs, creating budgetary uncertainty. To minimize volatility, the county will prioritize concessional loans and fixed-rate instruments, ensuring greater predictability in repayment obligations.

Exchange Rate Risk

Foreign currency-denominated debt exposes the county to fluctuations in exchange rates, which can raise the cost of servicing external obligations. To mitigate this risk, external borrowing should be limited, hedging mechanisms employed where feasible and domestic financing prioritized to reduce vulnerability.

Refinancing Risk

Short-term debt instruments often require frequent rollovers, increasing the county's vulnerability to market conditions. A balanced debt portfolio with longer maturities is recommended to reduce rollover pressure and enhance financial stability.

Liquidity Risk

Inadequate cash flow may hinder the county's ability to meet debt obligations on time. Strengthening cash flow forecasting, commitment control and maintaining adequate reserves are essential strategies to ensure timely debt servicing and safeguard fiscal credibility.

Operational and governance risk

Weak institutional capacity, poor debt recording or inadequate reporting can undermine effective debt management. To address this, the county will enhance institutional capacity, adopt modern debt management systems and ensure timely and accurate reporting.

Legal and Compliance Risk

Non-compliance with the Public Finance Management Act (PFMA), 2012 and related regulations may result in sanctions or loss of credibility. Strict adherence to legal provisions, coupled with regular audits by the Auditor General, is necessary to maintain compliance and reinforce accountability.

Contingent liability risk.

Litigation, unsettled contractor claims and obligations of county-owned entities pose a risk to the framework. Mitigation: Timely meeting of obligations, preparing contingent liabilities register reviewed quarterly.

Revenue shortfall risk.

Own-source revenue underperformance and reduced transfers may affect target cashflows. Realistic revenue projections and a contingency reserve will mitigate against this.

Commitment control risk.

Entering contracts or issuing LPOs outside IFMIS or without budget cover. Mitigation: strict enforcement of commitment controls, with accountability for officers who breach them.

Concentration risk.

Overdependence on a single funding source or lender, Mitigation: adopting to different source strategy ensuring debt spread**.**

Reputational and market risk.

Late payment damages supplier confidence and raises bid prices. Mitigation adherence to contractual terms.

3.4 Pending Bills and Fiscal Risks

Pending bills represent obligations arising from goods and services delivered to the county but not yet paid for. Although they are not classified as formal debt, they constitute a liability that directly impacts fiscal sustainability, liquidity and credibility of the county government.

The county recognizes that pending bills:

- Reduce the cash available in the following year's budget, effectively crowding out new investments.
- Increase the cost of future procurement through risk premiums.
- Can attract interest and penalties under contract terms or court judgements.
- Weaken the credibility of the budget and of the county's reporting.
- May include ineligible or unverified claims, which pose a separate risk of paying invalid obligations.

Accumulation of pending bills can crowd out development spending, increase fiscal risks and expose the county to litigation.

The County Treasury will therefore:

- Maintain a comprehensive register of pending bills.
- Prioritize clearance of eligible and verified bills.
- Integrate pending bills into annual debt sustainability analysis.
- Report progress on pending bills to the County Assembly and Controller of Budget.

3.5 Debt Sustainability Assessment Process

The county’s debt sustainability assessment follows a structured process designed to ensure prudent management and long-term fiscal stability.

Data Collection; The first step involves compiling comprehensive information on debt stock, revenue, expenditure and macroeconomic projections. This provides the foundation for accurate analysis and informed decision-making.

Baseline Scenario; Current debt levels are then assessed against established sustainability thresholds. This baseline scenario serves as a benchmark for evaluating the county’s fiscal position and identifying potential risks.

Stress Testing; To gauge resilience, adverse scenarios are simulated, including revenue shortfalls, interest rate hikes and exchange rate depreciation. Stress testing highlights vulnerabilities and helps anticipate the impact of external shocks.

Policy Recommendations; Based on the findings, corrective measures are proposed to maintain debt sustainability. These recommendations guide adjustments in borrowing strategies, fiscal policies and risk management practices.

Reporting; Finally, the results of the assessment are presented to the County Assembly, the Controller of Budget and the National Treasury. This ensures transparency, accountability and alignment with national oversight requirements.

CHAPTER FOUR:
FINANCING OPTIONS AND BORROWING STRATEGIES

4.1 Introduction

Counties in Kenya face persistent resource gaps between available revenues and development needs as amplified in the county planning frameworks. The County will prioritize enhancing revenues from ordinary sources for enhanced operations while seeking borrowing to bridge funding gaps. However, borrowing must be carefully structured, legally compliant and aligned with fiscal responsibility principles under Section 107 of the PFMA, 2012**.** This chapter outlines the financing options available to the county, borrowing strategies and innovative mechanisms that can be leveraged to fund priority projects while safeguarding debt sustainability.

4.2 Financing options

The county has access to a diverse range of financing instruments, both domestic and external, which can be strategically deployed to support development initiatives while maintaining fiscal sustainability.

Domestic Borrowing

Domestic borrowing provides immediate access to funds from local sources. Bank loans offer short- to medium-term financing from local financial institutions, while county or municipal bonds enable the issuance of debt instruments to raise funds from domestic capital markets. These bonds are subject to approval by the National Treasury and the Capital Markets Authority (CMA). In addition, other lending institutions such as water trust fund may provide targeted financing. Supplier credit arrangements with contractors are also available, though these are limited to development projects and must comply with the Public Finance Management Act, 2012.

External Borrowing

External borrowing supplements domestic resources through concessional loans, grants and commercial loans. Concessional loans, typically provided by development partners such as the World Bank and the African Development Bank, offer favorable terms with low interest rates. Grants from bilateral and multilateral donors provide non-repayable funding, easing the debt burden. Commercial loans from international lenders may be considered, but only when concessional financing is unavailable, given their higher cost.

Public-Private Partnerships (PPPs)

PPPs present an opportunity to leverage private sector financing and expertise in infrastructure development. Governed by the Public Private Partnerships Act, 2021, these arrangements reduce reliance on debt while ensuring service delivery. By engaging private partners, counties can expand infrastructure investment without overburdening public finances.

Innovative Financing Mechanisms

Emerging financing tools provide new avenues for resource mobilization. Green bonds can be issued to fund environmentally sustainable projects such as renewable energy and waste management. Diaspora bonds enable counties to mobilize resources from Kenyans abroad, channeling their contributions into local development. Blended finance combines grants, concessional loans and private investment to reduce overall financing costs and enhance project viability.

Alternative Financing Tools

Alternative mechanisms provide flexibility and protect liquidity. Leasing arrangements will be employed for assets such as garbage trucks and medical equipment, reducing upfront capital requirements and aligning financing with the useful life of depreciating or frequently upgraded assets. This approach minimizes long-term debt exposure while maintaining operational efficiency.

Short-term cashflow advances from banks will serve as tactical liquidity management tools, bridging temporary gaps between receivables and payables. These advances will ensure timely fulfillment of financial obligations and continuity of operations. Their use will be carefully monitored and tied to predictable inflows to prevent overreliance and maintain healthy debt ratios.

Together, leasing and short-term advances complement traditional financing methods by providing flexibility, safeguarding cash reserves and supporting operational stability. Leasing will be positioned under asset financing, while cashflow advances will be managed within the liquidity framework of the debt strategy. This balanced approach ensures that financing decisions remain aligned with asset lifecycles and cashflow realities, thereby strengthening overall debt management.

4.3 Borrowing Strategies for County Debt Management

The county's borrowing strategies are guided by principles that ensure compliance with the law, fiscal prudence and transparency. They provide a framework for sustainable debt management.

Compliance with Legal Framework

All borrowing activities must strictly adhere to the provisions of the Public Finance Management Act (PFMA), 2012. In particular, borrowing is restricted to financing development expenditure as stipulated under Section 58(2)(a). Furthermore, county borrowing must be guaranteed by the national government in accordance with Article 212 of the Constitution. Debt levels are also required to remain within the 20 percent revenue ceiling set by the PFM Regulations, 2015.

Prioritization of Concessional Financing

To minimize debt service costs, the county will prioritize concessional loans and grants from development partners. Commercial borrowing will only be considered for projects that demonstrate high economic returns, ensuring that debt obligations are matched with productive investments.

Diversification of Financing Sources

The county will avoid over-reliance on a single source of financing by maintaining a balanced approach between domestic and external borrowing. This diversification helps mitigate risks.

Debt Portfolio Management

An optimal mix of short-term and long-term debt will be maintained to balance liquidity needs with long-term sustainability. Exposure to foreign currency-denominated debt will be limited to reduce exchange rate risk. The debt portfolio will be reviewed regularly to ensure affordability, sustainability and alignment with fiscal objectives.

Transparency and Accountability

Transparency is central to debt management. Full disclosure of borrowing terms will be made to the County Assembly and the public to foster accountability. Debt registers and reporting mechanisms will be strengthened to improve oversight. In addition, the county will publish an annual debt sustainability analysis and borrowing outcomes, reinforcing credibility and public trust.

CHAPTER FIVE:
IMPLEMENTATION, MONITORING AND EVALUATION FRAMEWORK

5.1 Introduction

The successful execution of this CDMSP depends on a robust implementation, monitoring and evaluation framework. This framework ensures that borrowing decisions are operationalized effectively, debt sustainability is continuously assessed and corrective measures are taken promptly. It also guarantees compliance with the Public Finance Management Act (PFMA), 2012**,** the PFM Regulations, 2015 and constitutional principles of transparency and accountability under Article 201 of the Constitution of Kenya, 2010**.**

5.2 Implementation Framework

Several institutions play a critical role in ensuring effective debt management within the county. Their mandates and responsibilities collectively safeguard fiscal discipline, transparency and compliance with the law.

The **County Treasury** serves as the lead agency in implementing the CDMSP. It is responsible for maintaining debt registers, ensuring timely debt servicing and preparing both quarterly and annual debt reports.

The **County Assembly** is mandated to review and approve borrowing proposals while exercising oversight over debt implementation. This ensures that borrowing decisions align with development priorities and remain within legal and fiscal limits.

The **National Treasury** provides guarantees for county borrowing and monitors aggregate county debt to safeguard national fiscal stability. Its role ensures that county-level borrowing does not compromise the broader macroeconomic framework.

The **Controller of Budget** authorizes withdrawals for debt servicing and ensures that borrowed funds are used strictly for development expenditure. This oversight prevents misuse of borrowed resources and reinforces compliance with statutory requirements.

Finally, the **Auditor-General** audits debt records and reports on compliance with laws and regulations. Through independent audits, the Auditor-General strengthens accountability and enhances public confidence in the county's debt management practices.

Operationalization

Borrowing proposals and debt servicing will be fully integrated into the CFSP, the annual budget, and the MTEF. To support this integration, the County Treasury will adopt modern debt management systems that ensure accurate recording and timely reporting. This operationalization strengthens institutional coordination, embeds debt management into the broader fiscal planning process and enhances transparency in the use of borrowed resources.

5.3 Monitoring Framework

Debt Monitoring Tools

To ensure effective oversight and sustainability of county debt, several monitoring tools will be employed.

The **Debt Register** will serve as a comprehensive record of all county debt obligations. It will provide a centralized database that captures details of each loan, bond or credit arrangement, thereby enhancing transparency and accountability in debt management.

Quarterly Debt Reports will be prepared and submitted to the County Assembly, the Controller of Budget and the National Treasury. These reports will provide regular updates on debt levels, servicing status and compliance with statutory requirements, enabling timely oversight and corrective action where necessary.

An **Annual Debt Sustainability Analysis (DSA)** will be conducted to evaluate debt indicators against legal thresholds. This analysis will assess the county's capacity to meet its debt obligations without compromising fiscal stability, ensuring that borrowing remains within sustainable limits.

Finally, **Performance Indicators** will be used to track debt performance. Key indicators will include the debt-to-revenue ratio, the debt service-to-revenue ratio, compliance with the 20 percent debt ceiling and the timeliness of debt servicing. These metrics will provide measurable benchmarks for evaluating the effectiveness of debt management practices.

Together, these tools will strengthen monitoring, promote transparency and safeguard the county's fiscal health.

Monitoring of Trade payables

Payables will be tracked as part of debt management indicators. The County Treasury will prepare quarterly reports and publish them for transparency.

Table 1: Summary of Trade payables

Description	Balance B/F For FY 2024/2025	Additions During the Period Ended June,2026	Paid during the Period Ended June,2026	Adjustment during the Period Ended June,2026	Balance C/F during the Period Ended June,2026
	Kshs	Kshs	Kshs	Kshs	Kshs
Construction of buildings	92,521,595	19,230,000	28,243,825	-21,321,330	62,186,441
Construction of civil works	287,915,189	66,426,501	136,635,760	-1,446,816	216,259,114
Supply of goods	188,491,796	38,364,663	39,285,901	-4,043,535	183,527,023
Supply of services	194,412,894	26,344,187	79,860,363	-10,527,593	130,369,125
Salary	188,084,043	294,079,039	188,084,043	-	294,079,039
Total	**951,425,517**	**444,444,390**	**472,109,891**	**-37,339,273**	**886,420,743**

Source: Financial Statement as at 31st September, 2026

5.4 Evaluation Framework

The purpose of this framework is to assess effectiveness of borrowing in achieving development goals, evaluate compliance with fiscal responsibility principles, identify gaps and recommend corrective measures. To achieve this, the county will use independent Audit Reports by the Auditor-General, Public Participation Feedback and Mid-Term Reviews of the CIDP and CFSP to assess debt impact on development outcomes.

5.5 Transparency and Accountability

To achieve these values and principles of Governance, the Strategy will be tabled before the County Assembly and the county will publish debt and sustainability analyses reports and engage citizens in debt-related decisions. The implementation, monitoring and evaluation framework ensures that the CDMSP is effectively operationalized, debt sustainability is continuously assessed and accountability is upheld. By adhering to constitutional principles, statutory requirements and best practices, the county will safeguard fiscal stability while leveraging debt to accelerate socio-economic transformation.

CHAPTER SIX
COUNTY DEBT PORTFOLIO STATEMENT

Introduction

This County Debt Portfolio Statement is issued in fulfillment of the principles of transparency, accountability and prudent financial management as required under the Public Finance Management Act and related statutory provisions. The purpose of this statement is to provide a clear and comprehensive account of the County's debt position, distinguishing between obligations that qualify as debt under the legal definition and other financial commitments that, while not classified as debt, have material implications for fiscal sustainability.

The County affirms that, as of the reporting period, it holds no debt obligations under the legal definition of public debt. This status reflects compliance with borrowing regulations and demonstrates the County's commitment to maintaining fiscal discipline. At the same time, the County recognizes the importance of disclosing other financial commitments including pending bills, leasing arrangements and short-term bank advances that influence cashflow, budgetary planning and service delivery.

By presenting this dual perspective, the County seeks to provide stakeholders including citizens, oversight institutions and development partners with a transparent view of its financial obligations. This statement serves not only as a record of compliance but also as a strategic tool for guiding debt management, ensuring that commitments are managed responsibly and preserving the County's capacity to invest in sustainable development.

6.1 Legal Debt Position

In accordance with the prevailing legal definition of public debt, the County currently holds no outstanding debt obligations**.** This means that, under statutory and constitutional criteria, the County is not indebted in the form of bonds, long-term loans or other instruments classified as debt by law. The County therefore maintains a debt-free status in the strict legal sense, which reflects prudent fiscal management and compliance with national debt regulations.

This position is important to emphasize because it distinguishes between legal debt which is tightly regulated and often subject to borrowing ceilings and other forms of financial commitments that, while significant, do not fall under the same statutory definition.

6.2 Other Financial Commitments

Although the County is debt-free under the legal framework, it carries other financial obligations that impact cashflow and fiscal sustainability. These commitments are disclosed to provide a complete picture of the County's financial position:

- **Pending Bills**: These represent outstanding payments to suppliers, contractors and service providers that remain unpaid at the close of the financial year. Pending bills are not classified as debt but can create fiscal pressure if they accumulate, as they represent obligations that must be settled from future revenues.
- **Leasing Arrangements**: The County has entered into leasing contracts for assets such as Trucks, medical equipment and other operational tools. Leasing provides flexibility and reduces upfront capital requirements, but it also creates recurring financial outflows that must be managed within the budget.
- **Bank Loans and Advances**: Short-term financing facilities, such as overdrafts or cashflow advances are occasionally accessed to manage liquidity gaps. While these are not categorized as debt under the legal definition, they represent contingent liabilities that require careful monitoring to avoid dependency or escalation into long-term obligations.

  In line with these financing mechanisms, Level four County Hospitals and other County corporations with independent structures for borrowing and funds application as per their specific board's authorization have continued to engage financiers to support critical projects. These entities include Nanyuki Water and sanitation company (NAWASCO), Nyahururu water and sanitation (NYAHUWASCO), Nanyuki and Nyahururu teaching and referral Hospitals which continue to seek commercial and other financing mechanisms to implement projects within their approved strategies. Further the county has been using short-term borrowings from commercial banks to manage cash flows relating to salaries and wages at a cost of 0.5 percent.

6.3 Strategic Disclosure

By presenting both the legal debt position and other financial commitments, the County ensures transparency in its fiscal reporting. This dual disclosure highlights that while the County remains debt-free under statutory definitions, it continues to manage obligations that affect its financial

sustainability. Incorporating these commitments into the debt management strategy allows for proactive planning, improved accountability and stronger stakeholder confidence.

This approach also aligns with best practices in public financial management, where governments are encouraged to disclose not only their formal debt but also contingent liabilities and off-balance-sheet commitments. Such disclosure strengthens trust with citizens, investors and oversight institutions and provides a more accurate basis for evaluating fiscal health.

6.4 Implications for Debt Management Strategy

The County's debt-free status provides a strong foundation for future borrowing capacity, should the need arise. However, the existence of pending bills, leasing obligations and short-term advances means that fiscal discipline must remain a priority. These commitments, if not carefully managed, can erode the County's ability to maintain a debt-free position and may indirectly affect service delivery.

To mitigate these risks, the County will:

1) Prioritize the clearance of verified pending bills while ensuring critical service levels are maintained.
2) Structure leasing arrangements to align with asset lifecycles and budgetary capacity.
3) Limit reliance on short-term bank advances by strengthening cashflow forecasting and revenue collection.

By integrating these measures into the debt management strategy, the County ensures that financial commitments remain sustainable and do not compromise long-term fiscal stability.

Table 2: Legal Debt vs. Other Commitments

Category	Legal Status	Nature of Obligation	Fiscal Impact
Public Debt (Bonds/Loans)	None	No outstanding debt under statutory definition	No impact
Pending Bills	Not debt	Unpaid supplier/contractor obligations	Creates future cashflow pressure
Leasing Arrangements	Not debt	Contractual payments for vehicles/equipment	Recurring budgetary outflows
Bank Loans/Advances	Not debt	Short-term liquidity facilities	Temporary relief, potential risk if overused

The County's debt portfolio statement underscores a unique position: legally debt-free, yet fiscally obligated through other commitments. This distinction is critical for accurate financial reporting and responsible debt management. By disclosing both the absence of statutory debt and the presence of other obligations, the County demonstrates transparency, accountability and foresight in managing public resources.

Moving forward, the County will continue to strengthen its debt management framework by monitoring commitments, improving cashflow discipline and maintaining compliance with borrowing regulations. This balanced approach ensures that the County remains financially resilient, capable of meeting its obligations and well-positioned to pursue sustainable development initiatives without compromising fiscal stability.

CHAPTER SEVEN:
CONCLUSION AND POLICY RECOMMENDATIONS

7.1 Conclusion

The CDMSP for the fiscal year 2027/2028 sets out a comprehensive framework to guide prudent borrowing, ensure debt sustainability and uphold fiscal responsibility. Grounded in the Constitution of Kenya, 2010, the Public Finance Management Act (PFMA), 2012 and the PFM Regulations, 2015, the strategy emphasizes that all debt must be contracted transparently, managed efficiently and directed exclusively toward development expenditure.

The strategy establishes a clear legal and institutional framework for debt management, supported by defined sustainability thresholds such as the 20 percent debt-to-revenue ceiling. It also identifies key risks including interest rate, exchange rate and refinancing risks and outlines measures to mitigate them. In addition, the paper explores diverse financing options, ranging from concessional loans and public-private partnerships (PPPs) to innovative instruments such as county bonds.

To reinforce accountability, the strategy strengthens monitoring, evaluation and transparency mechanisms, ensuring that borrowing decisions remain aligned with fiscal discipline and development priorities. By adhering to these principles, the county will safeguard fiscal stability while leveraging debt as a tool to accelerate socio-economic transformation, enhance service delivery and expand infrastructure development.

7.2 Policy Recommendations

This CDMSP outlines a set of policy recommendations designed to strengthen fiscal discipline, enhance transparency and ensure sustainable borrowing practices over the medium term.

Strengthening Legal Compliance All borrowing will strictly adhere to Article 212 of the Constitution and Section 58 of the Public Finance Management Act (PFMA), 2012. Debt levels will be maintained within the 20 percent revenue ceiling established under the PFM Regulations, 2015, ensuring compliance with statutory limits and safeguarding fiscal stability.

Enhancing Institutional Capacity; The County Treasury will build technical expertise in debt recording, monitoring and reporting. Debt management systems will be adopted to improve accuracy, efficiency and transparency in debt administration.

Prioritizing Concessional Financing; To minimize debt service costs, concessional loans and grants will be favored over commercial borrowing. The county will actively explore partnerships with development partners to secure affordable financing that supports long-term development objectives.

Diversification of Financing Sources; The county will reduce reliance on traditional borrowing by developing frameworks for county bonds and public-private partnerships (PPPs). Innovative instruments such as green bonds and diaspora bonds will also be explored to broaden financing options and mobilize resources for priority projects.

Strengthening Monitoring and Evaluation; DSAs will be conducted to evaluate debt indicators against legal thresholds, with findings published for transparency. Quarterly reporting mechanisms will be established to keep the County Assembly and the public informed. Debt performance reviews will be incorporated into the County Fiscal Strategy Paper (CFSP) to ensure continuous oversight.

Promoting Transparency and Public Participation; Borrowing terms and debt reports will be disclosed to the public to foster accountability. Citizens will be engaged in debt-related decisions in line with Article 201(a) of the Constitution, reinforcing inclusivity and public trust in fiscal management.

Aligning with National Debt Strategy; The county will coordinate closely with the National Treasury to ensure borrowing aligns with national fiscal policies. All external borrowing will be guaranteed by the national government as required by law, thereby strengthening coherence between county and national debt strategies.

7.3 Way Forward

The County Government will institutionalize debt management as a core component of fiscal policy. By implementing the recommendations outlined in this CDMSP, the county will unlock new opportunities for development financing. This will ensure that debt remains a tool for growth rather than a burden, supporting the county's vision for inclusive county with sustainable quality life.