

REPUBLIC OF KENYA



COUNTY GOVERNMENT OF LAIKIPIA

COUNTY TREASURY

DEBT MANAGEMENT STRATEGY PAPER

2020/21- 2022/23

FEBRUARY 2020

COUNTY VISION AND MISSION

Vision

The greatest County with the best quality of life

Mission

To enable every household in Laikipia County lead a prosperous life

Core Values

People-centeredness

Equity

Accountability

Efficiency

Professionalism

Integrity

Innovativeness

Passion

FOREWORD

Through the Constitution of Kenya 2010 and Section 123 of the Public Finance Management Act, 2012, the County Government is required to table to the County Assembly a statement setting out the Debt Management Strategy on the anticipated borrowing to be undertaken over the medium-term clearly showing the county's actual liabilities in respect of loans and its plan for dealing with those liabilities.

The 2020/21 Laikipia County Debt Management Strategy Paper (CDMSP) contains information about the counties liabilities and proposed borrowing, the costs and risks of proposed borrowing, and the debt management strategy as well as recommendations on optimal strategy for the implementation as this will have an impact on future borrowings.

The 2020/221 CDMSP is based on the expenditure priorities outlined in the county strategy Paper and specifies the measures that will assist in the costs and risks reduction in funding the priority projects outlined in the County Fiscal Strategy Paper in line with Article 212 of the Constitution as well as the various provisions of the Public Finance Management Act, 2012.

There is need for continuous enhancement of the county revenue base towards mitigation of any unforeseen budgetary shortfalls. The county is committed to engage among others, the private sector and development partners to complement in the delivery of programmes through the much prioritised economic stimulus, leasing program and treasury bonds as debt instruments. Debt funded expenditures will be for priority projects as highlighted in the budget while maintaining the fiscal principles provided for in the 2020/21 County Fiscal Strategy Paper. The strategy may be accessed in the county website (*www.laikipia.go.ke*).

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County Executive Committee Member,
Finance and Economic Planning

LIST OF ABBREVIATIONS

ADB	African Development Bank
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
NPV	Net Present Value
SDGs	Sustainable Development goals
SDR	Special Drawing Rights
PFMA	Public Finance Management Act
WB	World Bank

EXECUTIVE SUMMARY

County Governments are required by law to prepare a strategy to manage their debt as guided by the Public Finance Management Act (2012) section 123 which requires that the County Treasury submits a Debt Management Strategy over the medium term to the County Assembly on or before 28th February each year.

One of the most common challenges in public financial management (PFM) is the accumulation of debts. The 2020/2021 Debt Management Strategy Paper's main objective is to ensure that the county government's financing needs and its payments obligation are met at minimal costs over the short, medium and long term. With forecast of the national economy looking better, Laikipia County expects to continue enjoying the favorable environment through macro-economic framework underpinning the County Debt Management Strategy Paper that is consistent with the projections that are included in the 2020 County Fiscal and Strategy Paper.

The other objective of this strategy paper is to support the development of the domestic securities market through county infrastructural bond and leasing as debt instruments. In addition, ensure that debt levels are sustainable and affordable and borrowed funds must be used to improve the wellbeing of Laikipia County residents.

This strategy outlines debt management in the medium term by describing and explaining the different approaches that the county will use to achieve its development objectives. The county government will prioritize servicing of debt as a primary concern on debt management. The main risk would be inability to make repayments as large volume and high cost of debt have a negative impact on debt sustainability and affordability. Certain measures proposed will be introduced as a means to strengthen debt management and also establish a borrowing framework by ensuring that the county meets the legal, fiscal, institutional and operational measures therefore increasing transparency and accountability.

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CHAPTER ONE

PUBLIC DEBT MANAGEMENT

1.1 Introduction

The Public Finance Management Act, 2012 Section 123 requires the County Government to table in the County Assembly the Debt Management Strategy Paper (DMSP) by the 28th day of February. The strategy depicts the anticipated borrowing to be undertaken over the medium-term as spelled in the County fiscal strategy paper 2020/2021. Its aim is to ensure that the servicing and management of the county governments' financing requirements and Payment obligations are met on a timely basis, at the lowest possible cost and consistent with a prudent degree of risk.

The strategy factors the provisions of the law, the projected costs of debt, the projected annual variability of the debt costs and their potential budgetary risks. The main objective of the DMSP is to ensure that Laikipia County Government is able to fund the budget deficit and settlement of the county financial obligations through contracting low-cost funding. This will ensure reduced risk and equitable sharing of benefits and burdens of public debt between the current and future government.

1.2 Description of the County Debt Management Strategy

Public debt management is the process of establishing and executing a strategy for managing the government's debt in order to raise the required amount of funding and to meet any other objectives set by the government. The County Debt Management Strategy is a framework that will guide the County Government to ensure that debt levels stay affordable and sustainable.

A sustainable level of a county government's debt and obligations is required to be maintained as set in the medium term debt strategy approved by the county assembly.

1.3 Objectives for the County Debt Management

The main objective of county debt management is to ensure that the governments financing needs and its payment obligations are met at lowest possible cost over the medium to long term consistent with prudent degree of risk.

This strategy aims at ensuring county debt sustainability and minimizing the level of contingent liabilities through the adoption of robust strategies that mitigate further growth of the debt. The strategy also considers a range of other alternative debt management plans for adoption.

The 2020 County Debt Management Strategy aims at providing a general policy direction that will guide county's access to financial markets as well as supporting future development of a well-functioning vibrant debt policy and debt management operations over the medium-term (2020/21-2022/23).

1.4 Scope of the Strategy

The County Debt Management Strategy is developed on the fiscal deficits and financial assumptions spelled in the CFSP. The key elements of the County Debt Management Strategy are incorporated into the CFSP and updated every year as part of the budget process. Section 58 of the Public Finance Management Act, 2012 provides that the County Government borrowing is only for development (capital) expenditure.

CHAPTER TWO COUNTY PUBLIC DEBT

2.1 Debt Portfolio Statement

County public debt comprises all financial obligations, attendant to loans raised and securities issued by the county. The Strategy is anchored in Article 212 of Constitution of Kenya 2010, specifically the principles of public finance. It provides for a strong accountability framework in borrowing and management of the public debt portfolio. Parliament, Auditor General, Controller of Budget, Commission on Revenue Allocation and the Central Bank of Kenya play key roles in over sighting the management of public debt and borrowing.

Laikipia County has not formally contracted any loans or issued any debts securities in the past; however the county has accumulated pending bills amounting to KShs 952.5 million as at June 2019. The County Government is committed to clear off its pending bills through the annual budget process as it enhances local sources of revenue to meet short-term gaps in cash flows.

The pending bills consist of statutory creditors, owing to merchants and contingent liabilities as illustrated in the table below.

Table 1: Summary of County Pending bills, 2019-2020

S/No	Description	30 th June, 2019
		KShs
1.	Construction of buildings	166,986,427
2.	Construction of civil works	502,841,398
3.	Supply of goods	148,411,876
4.	Supply of services	134,353,790
	Total	952,593,491

Source: Financial Statement as at 30th June, 2019

The county implemented projects without adequate funding leading to accumulation of pending bills which have been rolled over to consecutive financial years. County Departments procure late in the fiscal year leading to non-settlement and growth of pending bills mainly due to fluctuating revenues that affect the cash flow projected .

The county government has continually adopted various strategies to reduce and curb accumulation of pending bills namely;

- a) Verification of outstanding claims to boost validity and hence reduce fraudulent claims through audit firms and department.
- b) Increase budgetary allocation on the pending bills vote and decentralize the same to sectors
- c) Robust assumptions and forecasts in the fiscal framework as a means of enhancing credibility and realism of the annual budget. The county should have realistic revenue targets/projections that should be in tandem with the expenditure in order to avoid procurement of goods and services beyond the county's ability to finance its payments.
- d) Timely remittance of statutory deductions and other obligations to avert any interest and penalties on late remittance or non-remittance.
- e) Adhering to annual procurement plans and budgetary provisions to guide the county expenditures.

CHAPTER THREE

COUNTY BORROWING REQUIREMENT AND FUNDING STRATEGY

The development budget contained in the CFSP has spelled out a funding gap of KShs 1.16 billion in the FY 2020/2021. The County proposes to bridge this gap through borrowing. The following sections articulate the borrowing options available for the county government.

3.1 New Funding Strategies

The County Government powers to raise loans are derived from the Constitution of Kenya Article 212, the PFM Act, 2012 Section 140 and of the PFMA (County Government) Regulations 2015,

PFMA (County Government) Regulations 2015 Section 177 stipulates that;

(1) The County Executive Committee Member derives powers to raise loans for the County Government from section 140 of the PFM Act.

(2) A county government may from time to time borrow within and outside Kenya such sums of money in such amount and on such terms and conditions as to interest, repayment, disbursement or otherwise as the County Executive Committee Member may think fit, in any of the following manners —

- a) By issuing county treasury bonds;
- b) By bank overdraft facility from the central bank of Kenya; and
- c) By any other loan or credit evidenced by instruments in writing.

(3) Any borrowing by a county government under paragraph (2) (a) and (c) of the regulation shall require a national government guarantee pursuant to section 58 of the Act.

(4) Any borrowing under paragraph (2) (b) of the regulation, shall be in accordance with section 142 of the Act and shall be deemed guaranteed by the Cabinet Secretary and that guarantee shall be secured by the county equitable share of the revenue raised nationally.

In line with the legal provisions, Laikipia County has initiated new strategies to finance implementation of capital projects and programs. These includes the following.

- Asset Leasing
- Infrastructure Development Bond

3.1.1 Asset Leasing

Laikipia County through leasing programme has continued to fund the acquisition of machinery and equipment such as graders, tippers and excavators to fasten the road and bridge construction and maintenance. In addition, there are plans to incorporate leasing of medical equipment and an integrated ICT system for effective referral and service delivery.

Leases are contracts in which the asset owner allows another party to use the asset in exchange for something, usually money or other assets. It is a type of transaction undertaken by an organization to have the right to use an asset.

Through the leasing agreement, the county is freed from machinery and equipment maintenance tasks which previously led to total grounding of construction machinery even with minor faults. In addition, the county has benefited through staggering payments over multiple financial years while simultaneously implementing development programs.

In line with the County Fiscal Strategy Paper and Annual Budget Allocations, the county has promptly continued to finance the asset leasing programme as per the contract.

3.1.2 Infrastructure Development Bond

Infrastructure bonds are borrowings to be invested in government funded infrastructure projects. They are issued by governments; government authorized infrastructure companies or Non-Banking Financial Companies. They are a type of long-term borrowing that state and local governments frequently use to raise money by selling bonds to investors and in exchange repay the money, with interest, according to specified schedules.

Laikipia County in collaboration with the National Treasury and its fiscal agent-the Central Bank of Kenya (CBK) will seek to issue an infrastructure bond to raise funding for development projects in the county. Section 45 of the CBK Act further provides that the CBK in its capacity as fiscal agent and banker to any public entity may, subject to the instructions of that public entity:- Be the official depository of the public entity concerned and accept deposits and effect payments for the account of that public entity, provided that the Bank may, after consultation with the cabinet secretary, select any specified bank to act in its name and for its account as the official depository of that public entity in places where the Bank has no office or branch.

Laikipia County has embarked on floating its very first Bond which targets to raise KShs 1.16 billion. The Bond will be issued under the Infrastructure Financing Programme and will be classified as an Infrastructure Bond.

The seven year bond will raise funds to finance the implementation of flagship projects drawn from water and irrigation, roads and urban development sectors. The CFSP has laid emphasis on these sectors as a testament to the crucial role they play in supporting the growth of other economic sectors in the county. The specific sector projects to be financed and implemented through infrastructure bond are as shown in the table below.

Table 2: Projects to be financed by Infrastructural Bond

Project Description	Ward	Amount (Ksh.)
Smart and Organized Towns and Market Places		
Karuga - Infrastructure Upgrade	Igwamiti	102,671,016
Nanyuki Old Bus Park - Rehabilitation	Nanyuki	31,127,626
Upgrading Jua Kali Roads, Nyahururu Town	Igwamiti	120,142,043
Kalalu Market - Infrastructure For Market Upgrade	Umande	100,254,437
Naibor - Infrastructure Upgrade	Segera	90,911,525
Doldol - Infrastructure Upgrade	Mukogodo East	98,795,413
Nkando - Laikipia Rd - Bridge	Nanyuki	20,057,111
Pesi Market - Infrastructure Upgrade	Salama	59,251,157
Matanya Market - Infrastructure Upgrade	Tigithi	84,766,826
Railway Road	Thingithu	36,817,762
Silent Road	Thingithu	19,058,254
Bemwaki Towers Roads	Thingithu	46,869,614
Mugwarak Town - Upgrade Infrastructure/Lighting	Sosian	87,641,531
Wiyumiririe Town - Infrastructure Upgrade	Ngobit	93,525,747
Kinamba Town	Githiga	89,500,354
Water For Production		
Wangwaci Dam - Irrigation (Agriculture Production)	Olmoran	98,736,939
Ilpolei Dam - Increased Agriculture Production	Mukogodo West	67,500,000
Totals		1,247,627,355
Financing from other revenue sources		(87,627,354.54)
Infrastructure bond financing		1,160,000,000

The infrastructure bond will be listed for trading in the Nairobi Stock Exchange (NSE) and the applicable approval for listing by the Capital Markets Authority (CMA) of Kenya will be obtained. The County government, through the County Fiscal Strategy Paper and budgetary allocation, will on semi-annual basis for the next seven years set aside KShs 67,713,260 (11.685 percent per annum of the original principal amount) for bond interest repayment. Upon bond

maturity the bond face value (principal amount) together with the last bond interest amount will be paid-as captured in the table below and as per the annexed cash plan.

Table 3: Bond Redemption and Interest Payment Schedule (Projected Estimates)

Date	Loan amounts Outstanding	Interest amount	Bond Redemption Amount	Total amounts
30/06/2021	1,160,000,000.00			
30/12/2021		67,713,260.00	-	67,713,260.00
30/06/2022		67,713,260.00	-	67,713,260.00
30/12/2022		67,713,260.00	-	67,713,260.00
30/06/2023		67,713,260.00	-	67,713,260.00
30/12/2023		67,713,260.00	-	67,713,260.00
30/06/2024		67,713,260.00	-	67,713,260.00
30/12/2024		67,713,260.00	-	67,713,260.00
30/06/2025		67,713,260.00	-	67,713,260.00
30/12/2025		67,713,260.00	-	67,713,260.00
30/06/2026		67,713,260.00	-	67,713,260.00
30/12/2026		67,713,260.00	-	67,713,260.00
30/06/2027		67,713,260.00	-	67,713,260.00
30/12/2027		67,713,260.00	-	67,713,260.00
30/06/2028		67,713,260.00	1,160,000,000.00	1,227,713,260.00
Total Payments		947,985,640.00	1,160,000,000.00	2,107,985,640.00

CHAPTER FOUR

COUNTY DEBT MANAGEMENT STRATEGY

4.1 Components of County Debt Management Strategy

There are four components of the County Debt Management Strategy.

- a. Maintaining debt at sustainable and affordable levels.
- b. Ensuring that any new borrowing follows fiscal responsibility guidelines for a fit purpose; from an allowable source; and with acceptable terms and conditions.
- c. Developing the domestic debt market.
- d. Introducing and consolidating fiscal, legal, institutional and operational measures that ensure the above three objectives are met.

4.2 Sustainable Debt Levels

In order to maintain debt at sustainable and affordable levels, the following basic requirements are to be observed:

- a. Pursuing grant funding and budget support;
- b. Where grants are unavailable, or where a loan element of grant funding for priority development projects is mandatory, limited concessional borrowing may be sought;
- c. Borrowing must be limited to concessional loans from multi-lateral or bilateral donors or development partners;
- d. The criteria for considering concessional financing shall be a grant element of 35 per cent or more. This is in line with international debt management practice and as recommended by the International Monetary Fund (IMF) and World Bank (WB);
- e. Concessional debt terms and conditions must be appropriate for the project being financed. These terms are suitable for long-term infrastructure projects however projects with a shorter life must have loans with a comparably shorter time to maturity. For instance, a 10-year grace period could be too long for projects where a revenue stream is forecast to commence in less than 10 years;
- f. Projected debt servicing cost, not allowing for grace periods, must be less than 8 per cent of forecast domestic sourced revenues, assuming no growth in revenue;

- g. Debt servicing shall be sequenced to avoid large peaks in repayment expenses at certain times of year. Revenues tend to peak in June and December , so where semi-annual payments are to be made, these months should be targeted;
- h. As part of the budget process, an annual borrowing limit will be set such that debt levels will not cause thresholds to be exceeded;
- i. Debt levels must be lower than any thresholds stipulated in Section 50 (5) of the Public Finance Management Act, 2012.

4.3 Compliance to Legal and Fiscal Responsibility Guidelines

New borrowing must comply with legislative requirements in Sections 58 and 142 of the Public Finance and Management Act, 2012 and Article 212 of the Constitution 2010. In addition, new borrowing should be in line with the fiscal responsibility principles and financial objectives in the CFSP and the County Debt Management Strategy over the medium term. New borrowing must be authorized by the County Assembly and approved by the National Treasury. The borrowing must be:

- For a fit purpose;
- From an acceptable source; and
- With favorable terms and conditions.

4.3.1 New Borrowing is for a Fit Purpose

In order to ensure that new borrowing is for a fit purpose, the following basic requirements are to be observed:

(i) Borrowing must be for the following types of projects

- Investing in the productive capacity of the County;
- Funding of highly prioritized core infrastructure and development initiatives;
- Specific purposes (projects) identified as high priorities in Laikipia County Integrated Development Plan (CIDP 2018-2022)

(ii) Borrowing must not be used for:

- Funding shortfalls in the county's recurrent expenditure
- Funding losses of County Government entities

4.3.2 Future Borrowing strategies

In future the county shall seek to contract debts from concessional sources of finance from multilateral or bilateral donors. Such financing generally comes with greater scrutiny and oversight, making sure that funding is used for the purposes it was provided and decreasing reputational risk. Concessional lending is available through multilateral agencies like the African Development Bank (ADB), World Bank and bilateral donors. Loan amounts will depend on the specific projects to be funded and donors' funding allocations for the county. The choice of the denomination of the loan currency will be guided by the Public Debt and Borrowing Policy. Acceptability of source will also depend on the individual characteristics of the loan, limitations and conditions on the loan.

Borrowing from bilateral partners will be linked to specific projects and terms and conditions depend on the project as there is usually limited flexibility on the choice of terms. There may be hidden costs, such as various transaction charges and conditions attached to the loan including disbursement penalties, tied procurement (requiring recipients to use or procure goods and services exported by the creditor country). Loan disbursement may also be highly dependent on the progress of the project. Borrowing from commercial banks is highly discouraged for the following reasons:

- Cost elements – interest rates are high;
- Interest rate risk – with variable interest rates, costs can increase;
- Rollover risk – loans tend to be short-term;
- Collateral-Requires assets to be offered as collateral;
- Disclosures- Inadequate transparency and disclosure.

4.3.3 Terms and Conditions on New Borrowing

The terms and conditions associated with any debt proposals shall be examined carefully. Due considerations will be given to the following factors:

- Grant/Concessional element: Preference should be given to debt with a large grant component while the project still needs to be for a fit purpose.
- Debt sustainability and affordability: The volume and cost of debt must not have a negative impact on debt sustainability and affordability. Hidden costs, such as fees (transaction, commitment, agency or underwriting), requirements for the County

Government to fund maintenance or project management expenses beyond the current year must be included in the analysis.

- Currency and exchange rate risk: Despite offering very low interest rates, concessional loans still carry foreign exchange risk.
- Interest rate: Debt with a lower interest rate will have a lower cost. Fixed interest rates have a lower risk than variable interest rates where the future cost of debt is not known.
- Tenure: Concessional loans have a standard long time to maturity. However, the term of the loan should be more closely aligned to the cash flows of the project. The advantages of very long-term loans (such as the impact of inflation on the value of the loan) and very low repayment amounts can be outweighed by accumulating large amounts of debt over many generations.
- Grace period: The County shall seek to contract concessional debts with appropriate length of the grace periods that are consistent with the revenue stream from the project, its duration, inter-generational equity and the time value of money.
- Repayment risk: The County Government must be able to afford the debt repayments over the life of the loan and repayments must be timed for months with lower repayment volumes or where the County Government has peaks in cash collection.
- Conditions: Preference should be given to debt with positive characteristics such as project administration or management and advisory services. Negative characteristics such as tied procurement, the requirement to use particular companies or nationalities for project implementation, future expense commitments (such as auditing expenses or maintaining equipment) need to be factored into assessments of the cost of debt.
- Legal risk: Borrowing proposals must be examined for potential legal risks. They must not contravene any national or county legislation. In addition, the County Government must be certain that it is able to comply with all legal requirements such as conditions attached to the loan and including ability to repay. All loan contracts must first be cleared with the Legal Office before signing.

CHAPTER FIVE

LAIKIPIA COUNTY LONG-TERM DEBT MANAGEMENT STRATEGIES

The PFMA, 2012 provides an effective borrowing framework. Fiscal, legal, institutional and operational measures are needed to strengthen debt management at the County level. These measures also need to increase transparency and accountability so as to restore credit worthiness through rebuilding reputation.

5.1 Fiscal Measures

The County Government must continue its commitment to balanced recurrent budgets and any debt contracted should not be used for recurrent spending. Annual borrowing limits will be set as part of the budget process to keep debt at sustainable and affordable levels, based on conservative forecasts of macro-economic factors, and in line with the County Fiscal Strategy Paper. Once a formal debt is incurred, a Debt Servicing Account will be created for the purposes of debt servicing only.

5.2 Legal Measures

Essential aspects of debt management contain these elements:

- Definition of debt to include loans, borrowings, guarantees and on-lending;
- Clear authorization by County Assembly to approve borrowings and loan guarantees on behalf of the County government;
- A requirement that all borrowing proposals (including guarantees) are reviewed by a Debt Management Advisory Committee and recommendations submitted to the CECM for Finance before borrowing and loan guarantees can be approved on behalf of the government;
- Decisions surrounding borrowing be made as part of the budget process so that projects can be compared on merit, and appropriations made for borrowed funds;
- Clear authorization from the CECM for Finance to the debt management entities to undertake borrowing and debt-related transactions and to manage loan guarantees;
- Clear debt management objectives, including that the cost of the debt is minimized from a medium/long-term perspective, the risks in the debt portfolio are kept at acceptable levels and that development of the domestic debt market is promoted;

- A requirement to review and update the Debt Strategy annually which will serve as an operational strategy and will provide a framework for how the County Government will achieve its debt management objectives; and
- As part of the annual update of the Debt Strategy, mandatory reporting on progress since the last review, covering an evaluation of outcomes against stated objectives.

5.3 Institutional Framework

(i) Process for recommending borrowing proposals to County Executive

The county has established the following clear delegation of responsibilities for recommending and approving debt, where debt includes loans, borrowings, and guarantees and on lending by the County Government. The process for approving debt contracting is as follows:

- Borrowing proposals are recommended by the Finance and Economic Planning department and forwarded to the Debt Management Advisory Committee (DMAC) for consideration.
- The projects identified for debt financing shall be consistent with the CFSP and limited to those projects that add to capital formation, job creation or are investments in essential social infrastructure (hospitals or schools as examples).
- New borrowing will be for prioritized projects or key infrastructure for achieving sustainable Development Goals (SDGs).
- Cash flows from investment proposals need to be clearly identified and be sufficient to make debt repayments.
- Borrowing proposals are assessed by the Debt Management Advisory Committee (DMAC). The Committee shall propose a methodology for evaluating projects for debt financing consideration. This methodology will include evaluating the cost /risk tradeoffs of the proposal.
- The DMAC will recommend and rank acceptable proposals;
- Proposals that have been recommended by the DMAC can then be submitted and incorporated as part of the budget approval and appropriation process.

(ii) Functions and responsibilities of the Debt Management Unit

The functions and responsibilities of the DMU will be incorporated to include:

- Make debt payments on time and for the correct amount;

- Keep timely, comprehensive and accurate records of outstanding County Government debt, contingent liabilities and new borrowing in a single debt database;
- Publish, in a timely manner, monthly (and quarterly) reports showing the status of outstanding debt, debt payments, and projected debt payment obligations;
- Prepare, review and update the Debt Strategy;
- If required, prepare an annual borrowing plan;

(iii) Debt Management Advisory Committee

The Debt Management Advisory Committee will evaluate borrowing proposals. It will be chaired by the Chief Officer in charge of Finance. The County Treasury will act as secretariat for the Committee. The Committee will make recommendations to the CECM for Finance as to whether borrowing should or should not proceed. Debt Management Advisory Committee will assess the volume and risk characteristics of debt to ensure that:

- Debt is sustainable and affordable;
- Debt is below the thresholds established by County Assembly
- Debt is from an acceptable source;
- Debt is for a good purpose and the project is a high priority in the CIDP;
- Debt should be applied for funding development expenditure;
- Project has a positive Net Present Value (NPV) or helps achieve SDGs;
- The cost of any contingent liabilities and obligations such as tied procurement are factored into the cost and risk of debt;
- Cash flows from project can be identified and used for repaying the loan.
- Loan terms and conditions are acceptable and achieve the best cost and risk outcome.
- Borrowing aligns with the CFSP

5.4 Operational Framework

Accurate records and reports are necessary for maintaining and building County Government of Laikipia's accountability and transparency, and thus credibility. These are all important factors in improving investor confidence which will reduce the cost of borrowing in the future. Accurate records are needed for analysis, for example cost and risk analysis and for assessing performance against the Debt Strategy. Operational guidelines, procedures and approval processes for

domestic and external borrowing will be put in place to guide implementation of the various provisions.

(i) Debt Recording

The DMU will maintain accurate and up-to-date records of all debt (including guarantees, on-lending and contingent liabilities) and investments, which can then be reported. DMU also needs to keep records on liabilities of County Government entities.

(ii) Debt Reporting

The DMU will publish monthly reports on the status of County's total debt including loans, contingent liabilities and payment arrears. The report will include details of new borrowing, as well as debt repayments, rescheduling, write-offs, and retirements.

Quarterly debt bulletins indicating debt levels and cost, debt sustainability and affordability and actual and projected debt service costs over the medium term will be published on County Government's website. An Annual Report will be produced showing changes in the debt status over the year, details of any new borrowing and debt repayments, key events in the management of debt and the DMU, and a review of progress and performance against the Debt Strategy. Reports will be published in a timely manner, so that stakeholders have access to up-to-date information.

(iii) Debt Strategy

Every year the DMU will review, update the debt management strategy and present to the County Assembly. The Debt Strategy will provide a framework for ensuring debt financing decisions are consistent with County Government's broader fiscal and development strategies. The framework will also ensure that the level of borrowing fits within the debt sustainability/affordability thresholds defined in legislation or any other official documents

(iv) Debt Sustainability Analysis and Borrowing Plan

DMU will prepare a debt sustainability analysis and prepare a borrowing plan whenever required.

(v) Integration with Cash Management

The DMU will continue to work with County Treasury to integrate cash and debt management. Cash management ensures that the County Government has sufficient funds to meet its obligations as and when they fall due. Similarly, excess cash can be invested in term deposits or similar instruments to earn the County Government reasonable rates of return, with term deposits maturing at times of forecast cash shortfall.

CHAPTER SIX

IMPLEMENTATION STRATEGY

The County Government of Laikipia will work with the National Government through the National Treasury to actualize the implementation of this strategy. This will also involve seeking approvals and recommendations from the Laikipia County Assembly, IBEC, Attorney General and the parliament before advertisement and bond issuance.