REPUBLIC OF KENYA

COUNTY GOVERNMENT OF LAIKIPIA

COUNTY TREASURY

DEBT MANAGEMENT STRATEGY PAPER

2021/22- 2023/24

FEBRUARY 2021

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

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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 its actual liability in respect of loans and its plan for dealing with those liabilities.

The 2021/22 Laikipia County Debt Management Strategy Paper (CDMSP) guides the formulation of development assistance and debt management programmes through evaluating the costs and risks of various debt management strategies and provides recommendations on optimal strategy for the implementation as this will have an impact on future borrowings.

The 2021/22 CDMSP outlines priorities that will assist in the financial risk reduction and allows the County Government to seek long term funding either locally or internationally in order to accelerate development programmes as guided by 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 infrastructure bonds as debt instruments. Expenditures will be committed to priority activities as highlighted in the budget while maintaining the fiscal principles provided for in the 2021/22 County Fiscal Strategy Paper. The strategy may be accessed in the county website *(www.laikipia.go.ke).*

COUNTY GOVERNMENT OF LAIKIPIA
CHIEF EXECUTIVE COMMITTEE
MEMBER
14 JUN 2021
COUNTY TREASURY
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Murungi Ndai
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
MDGs	Millennium Development Goals
NPV	Net Present Value
SDGs	Sustainable Development goals
SDR	Special Drawing Rights
PFMA	Public Finance Management Act
WB	World Bank

EXECUTIVE SUMMARY

One of the most common problems in public financial management (PFM) is the accumulation of government debts. 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.

The 2021/2022 Debt Management Strategy Paper's main objective is to ensure that the county government's financing needs and its payments obligation are met at a lower cost over the short, medium and long term. With improved forecast of the national economy, 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 2021 County Fiscal and Strategy Paper.

The other objective 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 framework lays out the Laikipia County plans for debt management for the medium term clearly 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 of strengthening 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.

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 (CFSP) 2021/2022. 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 Public 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 public 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.

1.4 Scope of the Strategy

The 2021 County Debt Management Strategy aims at providing a general policy direction that will facilitate 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 (2021/22-2023/24).

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. The Public Finance Management Act, 2012, section 58 stipulates 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 of all financial obligations, attendant to loans raised and securities issued by the county. A debt policy enables a county to determine, establish and uphold legal and institutional frameworks that are in place to guide its borrowing programme and addresses both the external and domestic public debt management within a county. The policy is anchored in the 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 a key role in the management of public debt and borrowing.

The County Government of Laikipia has not incurred any debt since inception in 2013. However, in the FY 2021/2022, the County will have incurred public debt from the proceeds of the infrastructure bond that will be issued within the year.

The County Government has accumulated pending bills amounting to KShs 645.8 million as at June 2020 and remains committed to clear the bills through the annual budget process as it enhances local sources of revenue to meet short-term gaps in cash flows.

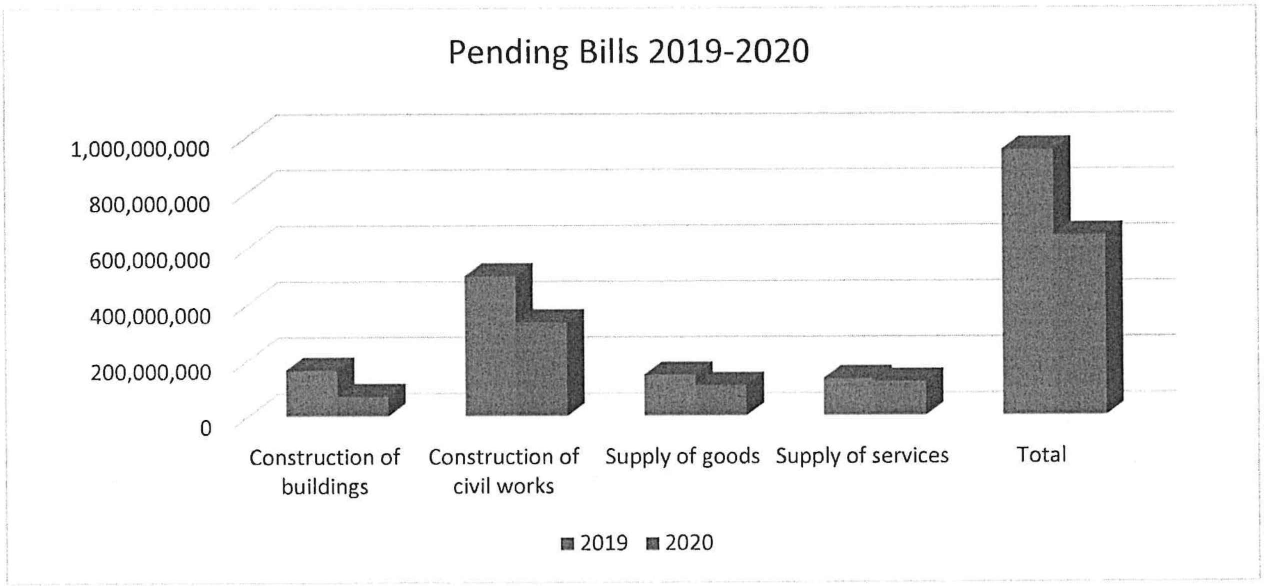
The pending bills consist of statutory creditors owed to merchants and contingent liabilities as illustrated in the table below.

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

S/No	Description	Pending bills as at 30th June, 2019 in KShs	Pending bills as at KShs 30th June, 2020 in KShs
1.	Construction of buildings	166,986,427	72,579,564
2.	Construction of civil works	502,841,398	337,846,185
3.	Supply of goods	148,411,876	111,289,012
4.	Supply of services	134,353,790	124,108,956
	Total	**952,593,491**	**645,823,717**

Source: Laikipia County Financial Statement as at 30th June, 2020

Figure 1: Reduction in Pending bills, 2019-2020



The county initiated projects whose payments have over-time been rolled over to consecutive financial years. Departments procure late in the year and thus leading to rollovers and growth in pending bills. This mainly due to fluctuating revenues that affect the cash flow projected that leads to a large number of unpaid merchants at the end year. Volatile economy, global pandemic and government policies have adversely affected the revenue collection. The county government has continually adopted various strategies to reduce and curb these debts namely;

a) Verification of outstanding claims to boost validity and hence reduce fraudulent claims through audit firms and internal audit directorate;
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 1.247 billion in the FY 2021/2022.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. The PFMA (County Government) Regulations 2015 Section 177 stipulates that;

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

ii) 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 Infrastructure 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.

iii) 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.

iv) 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 roads and bridges 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 in 2021/2022 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 preparations to float its very first Infrastructure Bond which targets to raise KShs 1.247 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 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 - Infrastructure 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 - Infrastructure Upgrade	Salama	59,251,157
Matanya - 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
Muwarak - Upgrade Infrastructure/Lighting	Sosian	87,641,531
Wiyumiririe - Infrastructure Upgrade	Ngobit	93,525,747
Kinamba Town- Infrastructure Upgrade	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**

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 72,828,375 (11.67 per cent 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 Table 3.

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

Date	Loan amounts Outstanding (KShs)	Interest amount (KShs)	Bond Redemption Amount (KShs)	Total amounts (KShs)
30/06/2022	1,247,627,355			
30/12/2022		72,828,375	-	72,828,375.41
30/06/2023		72,828,375	-	72,828,375.41
30/12/2023		72,828,375	-	72,828,375.41
30/06/2024		72,828,375	-	72,828,375.41
30/12/2024		72,828,375	-	72,828,375.41
30/06/2025		72,828,375	-	72,828,375.41
30/12/2025		72,828,375	155,953,419.38	228,781,794.78
30/06/2026		72,828,375	155,953,419.38	228,781,794.78
30/12/2026		72,828,375	155,953,419.38	228,781,794.78
30/06/2027		72,828,375	155,953,419.38	228,781,794.78
30/12/2027		72,828,375	155,953,419.38	228,781,794.78
30/06/2028		72,828,375	155,953,419.38	228,781,794.78
30/12/2028		72,828,375	155,953,419.38	228,781,794.78
30/06/2029		72,828,375	155,953,419.38	228,781,794.78
Total Payments		**1,019,597,255.70**	**1,247,627,355.00**	**2,267,224,610.70**

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.

4.1.1 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 January and June, 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.

4.1.2 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 of Kenya 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.

Concepts such as intergenerational equity are also important. Future citizens should not pay the bills for living citizens.

a) 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 Government;
- 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 Government's recurrent expenditure
- Funding losses of County Government entities

b) New Borrowing is from an Acceptable Source

For the duration of this County Debt Management Strategy, borrowing should be 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 denomination of the loan currency will also influence the acceptability of the source. Acceptability of source will also depend on the individual characteristics of the loan, limitations and conditions on the loan.

Lending from bilateral partners is linked to specific projects and terms and conditions depend on the project. 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 county). Loan disbursement may also be highly dependent on the progress of the project.

A third potential source of funding is through domestic securities. Section 144 of the PFMA, 2012 envisages that the CECM for Finance may issue securities on behalf of the County Government for money borrowed by the County Government.

Borrowing from private sources such as 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.

c) New Borrowing Terms and Conditions are acceptable

The terms and conditions associated with any debt proposals must be examined carefully. The following factors require to be examined:

- 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. Preference should be given to debt denominated in Special Drawing Rights (SDR) as determined by the IMF.
- 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 (32 or 40 years). 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. Very long-term loans may encourage fiscal irresponsibility, because if the project fails, it is future generations that must bear the cost. By using up the borrowing envelope now, it might restrict the ability of future generations to borrow, and they will be servicing debt for projects that were completed before they were born and for which they receive no tangible benefits.
- Grace period: Debt sustainability analysis must extend beyond grace periods. The standard long grace periods of eight or ten years offered by multilaterals such as the WB and ADB may not be appropriate. The length of the grace period should be assessed in terms of factors such as 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 such as January-June.
- 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.
- Concentration risk: If the volume of the loan is large, it may contribute to concentration risk where the institution or bilateral partner could use this as a means of exerting undue political influence or bargaining for favors (for example tax concessions, access to resources). The behavior of the lender needs to be assessed.
- 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.

4.1.3 Developing the Domestic Debt Market

The domestic government securities market is made up of tradable debt instruments with a time to maturity up to one year (Treasury Bills, which are discount instruments) and Treasury Bonds which have a time to maturity of more than one year. Currently, the primary market is limited to Treasury Bills with a time to maturity of up to 91 days. The current market is limited in that counties have no securities of their own because of legal restrictions.

There is a provision for overdraft facilities repayable within one year from financial institutions guided by a thorough debt sustainability analysis. This is restricted to five percent of most recent audited accounts of the County Government.

CHAPTER FIVE: LAIKIPIA COUNTY LONG-TERM DEBT MANAGEMENT STRATEGIES

The PFMA, 2012 provides an effective borrowing framework. There is need to have robust fiscal, legal, institutional and operational measures to strengthen debt management at the County level. These measures also need to increase transparency and accountability so as to enhance credit worthiness through rebuilding reputation.

5.1. Fiscal Measures

The County Government must continue its commitment to balanced budgets and debt should not be used for recurrent spending. Annual borrowing limits will be set as part of the budget process in order to keep debt at sustainable and affordable levels. This will be 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 (DMAC) 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

There is need for clear delegation of responsibilities for recommending and approving debt, where debt includes loans, borrowings, and guarantees and on lending by the County Government. The proposed process for approving debt 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 with high rates of return 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.
- The cost of any contingent liabilities and obligations such as tied procurement are factored into the cost and risk of debt. The implications for the recurrent budget should also be quantified, for example, maintenance of buildings or other assets acquired through the proposal.
- 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 will be submitted and incorporated as part of the budget approval and appropriation process.

- The CECM for Finance has sole authority to approve loans. Therefore, borrowing will not be legal unless it has been signed off by CECM for Finance.

(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, guarantees, 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;
- Prepare and publish auction calendars for issuance of domestic securities (Treasury Bills and Treasury Bonds);
- Assess the risks in issuing any guarantees, and prepare reports on the method used for each assessment and the results thereof for the attention of Cabinet Secretary for the National Treasury.

(iii) Debt Management Advisory Committee

The Debt Management Advisory Committee will evaluate borrowing proposals. The Debt Management Advisory Committee 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;
- Debt is from an acceptable source;
- Debt is for a good purpose and the project is a high priority in the CIDP;
- Debt is not for funding recurrent 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 that will be able to be 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, guarantees, contingent liabilities and payment arrears. The report will include details of new borrowing and issuance of Government guarantees, 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 and 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 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. Use of cash management tools depends on reliable cash forecasting. For example, Treasury Bills can be issued to fund forecast cash shortfalls, with maturity timed to coincide with periods of forecast cash surplus. 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

6.1 Implementation Strategy

The County Government of Laikipia will work with the National Government through the National Treasury and Planning 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.

6.2 Conclusion

a) The 2021/2022 County Debt Management Strategy is a framework for prudent debt management. It provides a systematic approach to decision making on borrowing to finance the budget taking into account the risks and the costs involved.
b) The proposed debt management structures namely DMAC and DMU will be made operational as a measure of strengthening the debt management strategy.
c) Through the proposed debt management strategies, the county is focused on reducing debt to sustainable levels and eventually clearing all outstanding debts.
d) Given the negative effect pending bills have on the growth of the economy, there's need for urgent action to ensure there is no further accumulation of pending bills and those verified should be paid without further delay.
e) Finally, the County Government will continue to ensure that it implements prudent debt management practices and policies for a sustainable debt position.