REPUBLIC OF KENYA

COUNTY GOVERNMENT OF MIGORI

DEBT MANAGEMENT STRATEGY PAPER 2023

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FOREWORD

The Medium Term Debt Management Strategy paper (MTDMS) has been prepared as per section 123 of the Public Finance Management (PFM) Act, 2012 and covers a period of two years from 2022/2023 to 2024/2025. The MTDMS sets out the debt management strategy of the County Government over the medium term with regard to its actual and potential liabilities in respect of loans and its plans for dealing with those liabilities. Regular preparation and publication of the MTDMS promotes transparency in the conduct of budget financing and public financial management. The policy provides guideline for debt management practices of the County Government including the issuance process, management of the debt portfolio and adherence to various laws and Regulations governing debt contracting and management.

This document will guide in decision making, better articulation of policy goals, provide clear guidelines for the structure of debt issuance and demonstrate the commitment of the county government of Migori to long-term capital and financial planning. To ensure that the County's debt remains within sustainable levels, the County Treasury will plan to fund annual budget deficits from sources characterized by lower costs and minimal risks.

The 2023 MTDMS is informed by evaluation of various alternative sources of financing considering the cost and risk inherent in each alternative strategy to identify the optimal funding strategy. Fundamental considerations include likely funding sources from domestic and external partners and private public partnerships.

The County MTEF budget estimates for FY 2023/2024 and the medium-term projections show an enlarging financing gap, thus justifying the need for this strategy. The county's total resource requirements have continued to widen over the years. A case at hand is that of Health and roads sectors which despite taking up a lion's share of the budget, still have large deficit in allocations compared to requirements. The bulk of these funds have been redirected towards recurrent and development expenditure for Health and Roads respectively. To bridge this deficit, the county government intends to borrow to invest in crucial areas with the aim of improving lives of the county residents. The on-going global inflation, Russia-Ukraine war and weakening of the Kenyan shilling has worsened the debt situation for Kenya and by extension Migori County..

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ACKNOWLEDGEMENT

The Medium-Term Debt Management Strategy (MTDMS) 2023 is prepared by the County Government under the requirement of the PFM Act, 2012. It sets out the debt management strategy for the Government of Migori County in the fiscal year 2023/2024 and over the Medium Term.

Through the Migori Debt Management strategy, the county will play a major role in guiding on the optimal process of procuring debts/loans and management of the same in a way that optimizes benefits and minimizes costs and risks.

The paper is informed by a fiscal policy supportive of the macro-economic stability and growth. The Strategy highlight strategies to be explored in seeking funding for the enormous financial needs from either internal or external sources to deliver the programmes in the Third CIDP. As at now, the County Government’s public debt is nil.

I wish to particularly recognize and acknowledge the technical officers from the department of Finance and Economic Planning for their immense effort in the preparation of this. Special thanks to the CECM, Finance and Economic Planning for his guidance and stewardship of the process. I would like to acknowledge the contribution of the Director Economic Planning and the secretariat for their immense effort put into the preparation of the document.

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ABBREVIATIONS AND ACRONYMS

CGM: County Government of Migori

CIDP: County Integrated Development Plan

CMTD: County Medium Term Debt Management Strategy

CSDF: County Strategic Development Framework

DMS: Debt Management Strategy

ECDE: Early Childhood Education

EU: European Union

FDI: Foreign Direct Investments

FY: Financial Year

GDP: Gross Domestic Product

GFS: Government Finance Statistics

ICT: Information Communication Technology

IFAD: International Fund for Agricultural Development

MTBF: Medium Term Budget Framework

MTDMS: Medium Term Debt Management Strategy

MTEF: Medium Term Expenditure Framework

PFMA: Public Finance Management Act

PPP: Public Private Partnerships

SDGs: Sustainable Development Goals

EXECUTIVE SUMMARY

This is the fourth Debt Management Strategy (CMTDS) paper prepared to guide management of debt in the County. Prior to 2018, counties were required to maintain balanced budgets hence little or no debt was accumulated since 2013. In order to finance budget deficits and bridge the gap between resource requirements and allocation, with National Government guarantees, Migori County has the options of borrowing externally and domestically.

The County MTEF budget estimates for FY 2023/24 and the medium-term projections show an enlarging financing gap, and with the county administration focusing on completing flagship projects there is justification for this MTDMS and county borrowing as shown in the table below.

SECTOR	TOTAL RESOURCE REQUIREMENT (M)	CFSP REQUIREMENT	VARIANCE
Agriculture, Livestock, Fisheries And Cooperative Development.	4,998.13	402.55	4,595.58
Lands Housing And Physical Planning	178.22	274.86	(96.64)
County Assembly	1,032.85	905.47	127.38
County Attorney	488.00	160.97	327.03
County Executive	734.90	440.39	294.51
Education, Sports, Youth Development, Gender And Culture	1,744.00	750.02	993.98
Environment, Climate Change And Disaster Management	971.05	82.67	888.38
Finance And Economic Planning	874.00	822.32	51.68
Health Services	3,321.47	2,412.04	909.43
Public Service Management	1,912.09	994.37	917.72
Roads, Transport And Public Works	4,729.50	810.89	3,918.61
Trade, Tourism, Industrialization And Marketing	933.00	258.59	674.41
Water And Energy	1,039.60	487.05	552.55
TOTAL	**22,956.81**	**8,802.19**	**14,154.62**

From the table above, County Government can only finance 38.3 per cent of total county requirements during the period under review (2023/24FY). For the county to meet the additional county resource requirements, there is need to plan to borrow in accordance with Public Finance Management Act 2012 and the County Government Regulations Sec. 179(1) which states that public debts should not exceed 20% of the most recent and audited revenues. However, the county will rationalize its expenditure with a view of prioritizing expenditure on key infrastructural programs as it considers the option of borrowing.

During this MTDMS period, practical options for implementation shall be identified by the county in order to keep its future financing requirements at prudent levels with minimum cost and risk. However, as the preferred option, the county will continue to exhaust all possible financing requirements from the grant pool fund; as available from our development partners. In terms of feasibility, there are numerous potential sources of debt financing so long as the provisions of the PFMA and its regulation are observed.

The Public Debt Management Unit under the County Treasury shall advice the County Executive Committee Member for Finance on any borrowings required to finance possible budget deficits and to improve the performance of the debt portfolio. The paper has highlighted several borrowing options for the county including the following;

1) External financing (semi and concessional)
2) Negotiated domestic loans, overdrafts and utilization of securities market
3) Combined External and Domestic financing. This method combines both external and domestic sources of loanable funds.

This Debt Management Strategy paper consists of eight chapters.

i. Chapter one gives the general introduction of debt management and the general outline of the strategy.
ii. Chapter two gives the objectives, goals and principles of Debt Management in the county and outlines the basis on which the 2022 Debt Management Strategy is prepared.
iii. Chapter three discusses the principles and guidelines for debt management.
iv. Chapter four details the Debt Management policies and strategies designed to assist the County in its effort to reduce debts in a fast and prudent manner
v. Chapter five gives the macroeconomic assumptions of the medium-term debt management strategy.
vi. The chapter six gives the conclusion

LEGAL BASIS FOR THE PUBLICATION OF THE DEBT MANAGEMENT STRATEGY

The PFM Act 2012 under Section 104 cites the mandate of the County Treasury as that of monitoring, evaluating and overseeing the management of public finances and economic affairs of the County Government, including managing the county government's public debt and other obligations and developing a framework of debt control for the county.

To this effect the County Treasury is required under Section 123 to prepare and submit to the County Assembly a statement setting out the debt management strategy of the county government over the medium term with regard to its actual liability and potential liability in respect of loans and its plans for dealing with those liabilities, on or before the 28th February in each year.

As soon as practicable after the statement has been submitted to the county assembly under this section, the County Executive Committee Member for Finance shall publish and publicize the statement and submit a copy to the Commission on Revenue Allocation and the Intergovernmental Budget and Economic Council.

The information in the statement shall include –

a. The total stock of debt as at the date of the statement;
b. The sources of loans made to the county government;
c. The principal risks associated with those loans;
d. The assumptions underlying the debt management strategy; and
e. An analysis of the sustainability of the amount of debt, both actual and potential.

Other sections that guide on the management of the county debt in the Act includes:

i. Section 140 on authority for borrowing by county governments, requires that borrowing by county governments is undertaken in accordance with the debt management strategy of the county government over the medium term;
ii. Section 141 on obligations and restrictions to county borrowing, requires that a county government shall ensure that it's financing needs and payment obligations are met at the lowest possible cost in the market that is consistent with a prudent degree of risk, while ensuring that the overall level of public debt is sustainable;
iii. Section 142 deals with borrowing by county government entities;
iv. Section 143 deals with persons who are authorized to execute loan documents at county government level;
v. Section 144 deals with issuance of county government securities as such maintaining a sustainable level of debt as approved by the county assembly is highlighted as one of the fiscal responsibility principles, under Section 107 of the Act.

CHAPTER 1: OVERVIEW OF DEBT MANAGEMENT

The County Medium Term Debt Management Strategy (MTDMS) is a high priority of the County Government of Migori, given the increasing gap between development resource requirements and the available allocations. The county has recognized the need to have a formal and explicit MTDMS in place to ensure prudent debt management as part of a stronger Medium Term Budget Framework (MTBF) to ensure county finances are placed on a sustainable footing.

The MTDMS provides directions and benchmarks for managing the county's debt portfolio. This will lead to the 'preferred debt composition', taking into account constraints posed by the economic and market environment. Government debt or borrowing includes the contracting or guaranteeing of domestic and external (foreign) debt through loans, financial leasing, on-lending and any other type of borrowing, including concessional and non-concessional borrowing, irrespective of the source.

The Debt Management Strategy is a framework that will guide the County Government to ensure that debt levels stay affordable and sustainable, that any borrowing is for a good purpose and that the costs and risks of borrowing are minimized. Most economies in the world whether developed or developing resort to borrowing in order to address any financing needs. This is a useful source of financing, however; it is worth noting that reliance on debt must be closely monitored and strategized.

CHAPTER TWO: OBJECTIVES OF DEBT MANAGEMENT STRATEGY

The MTDMS provides appropriate guidelines and direction to assist in making sound debt management decisions with strong financial management practices for posterity. The main objective of the MTDS is to meet the County Government's financing requirements at the least cost with a manageable degree of risk. The Debt Management Strategy will guide County Government debt management operations in the FY 2023/2024 and the medium term. The Strategy seeks to balance cost and risk of county debt while taking into account the county government financing needs. In addition, the strategy incorporates initiatives to seek new funding sources, support the County Government development priorities and achieve debt sustainability.

2.1 Scope of the Medium-Term Debt Management Strategy

This CMTDS covers the County Government of Migori anticipated debt portfolio which includes external debt, domestic debt, and contingent liabilities of on-lent debt and guaranteed debt with the public and other enterprises. External debt is a portion of a county's debt that is borrowed from foreign lenders including commercial banks, governments or international financial institutions.

In line with international reporting requirements, the county will consider review in future for current reporting of domestic debt (as may be required) to include the outstanding liability for transfer value under the pension scheme for civil servants. Although the focus of the MTDS is on actual direct liabilities of the County, contingent liabilities (whether explicit or implicit) may have an important bearing on the sustainability of debt and robustness of this strategy. Consequently, it is prudent to consider the potential risk that contingent exposures could materialize under specific scenarios and thus may need to be addressed in the future.

2.2 Goals for the Debt Management Strategy

The aim of the MTDS is to support the County Government's strategy in implementing FY2023/24 budget and over the medium term by ensuring that the government's financial requirement and payment obligations are met at the lowest cost with prudent degree of risk in line with PFM Act, 2012. In addition, the strategy will guide the overall debt management strategy of the county government over the medium term with respect to the actual and potential liabilities in respect of loans and guarantees and the plans for dealing with those liabilities.

a) Underscore the County Government's commitment to developing and designing a strategy that is evidence based and feasible in ensuring that public debt levels remain sustainable and supports broad-based and inclusive growth.

b) Serve as a strategy of financing the fiscal deficit of the County Government over the medium term

2.3 Debt Management Strategy Financing Principles

The debt management strategy will address the County government's financing requirements at the lowest cost and a prudent degree of risk by adhering to the following principles:

i. The debt must be for capital projects
ii. The debt must be guaranteed by National Government
iii. The debt must be contracted to support expenditure in identified County priority areas that are transformative
iv. Prudence must be observed when contracting debt, taking into account the cost and risk implications.
v. Financing must be pegged on debt sustainability over the long term.

CHAPTER 3. PRINCIPLES AND GUIDELINES FOR PUBLIC DEBT MANAGEMENT

3.0 Overview

In the Medium Term, the Government will raise resources through long term and short-term borrowing to finance the programs in the budget. This will be done while ensuring the debt levels are maintained at sustainable levels. The management of public debt will be in accordance with the constitution and the PFM Act.

3.1 Purpose for Borrowing

The County Government borrowings will be for the following purposes;

i. Financing government budget deficits;
ii. For cash management;
iii. To finance development projects including on-lending to approved entities;
iv. To mitigate against adverse effects caused by urgent and unforeseen events. in cases where the emergency fund is depleted;
v. Meeting any other development policy objectives that the County Executive Committee Member for Finance shall deem necessary, consistent with the law and as Cabinet and County Assembly may approve

The County Executive Committee Member for Finance will ensure that the level of fiscal deficits set out in the County Fiscal Strategy paper is consistent with the principles of public finance as set out in the Constitution of Kenya and the objectives of Medium-Term Debt Strategy Paper.

3.2 Managing Costs and Risks

The Debt Strategy paper will guide public borrowing taking into account the cost and risks associated with the various borrowing options. Borrowing decisions will be taken after a critical and comprehensive cost benefit analysis of the debt involved, its purpose, amount, repayment terms, currency of contract, and any other risks associated with the loan.

Short-term borrowings will be for management of temporary cash flow fluctuations during the financial year and will be limited for a period of twelve months. Development/capital expenditures will be financed through long-term borrowing to maximize the benefits of long repayment periods of these type of loans. The County Government will maximize borrowing loans whose benefits have a potential for self-liquidating i.e. where the use of loan funds will generate proceeds that directly or indirectly repay the loan. This implies that the social and economic returns on borrowed funds exceed the cost of such capital. In this regard, a cost benefit analysis will be undertaken for all projects before a loan is accepted.

In order to ensure sustainability of loan repayment, the following guidelines will be applied:

i. Commercial borrowing will not be used to finance social projects;
ii. The social internal rate of return of loan funded projects should be high enough to justify the cost of the loan; and effort should be made to objectively quantify this measure);
iii. The gestation period of the candidate project – i.e., the time it takes for the project to start producing its outputs, outcome, or impact – should be shorter than or equal to the grace period of the loan; and
iv. Short-term loans should be limited to commercial or revenue generating projects as well as for financing projects of strategic value.

3.3 Borrowing Limits

Pursuant to PFM regulation 25; the county public debt shall never exceed twenty (20%) per cent of the county governments total revenue at any one time. At any time, the annual debt service cost of a county government shall not exceed fifteen (15%) per cent of the most recent audited revenue of that county government, as approved by county assembly (PFM Act regulation 179 (2). To be financed, it should support the achievement and meet the objectives of Government socio economic transformation agenda and must be included the Medium Term

Debt Strategy.

In order to be able to process any loan, Departments and entities should;

i. Present a feasibility study report informing the project economic viability, costing and design and social and environmental risks mitigation plans,
ii. Confirm on availability of land and wayleave acquisition for the project where necessary.
iii. Confirm on availability of adequate human resources capacity for project implementation. Where there is a shortfall, the Departments, must commit to develop a strategy to fill the gap; Demonstrate prioritization and commitment of the counterpart funding by the respective department where necessary. This should not be less than 15 percent of the total project cost. Funding, including but not limited to land and wayleave compensations among others that from part of counterpart funding must be prioritized under the department's allocation through the normal Medium Term Expenditure Framework (MTEF) budgeting process in accordance with the requirements of the loan agreement.
iv. Present a due diligence report to ascertain the financial, technical and legal competency for the firm procured competitively to undertake the project implementation.
v. Present any other requirements depending on either Bilateral or Multilateral Framework Agreement with the respective Development Partner;

All project proposals should be forwarded to County Treasury. The County Debt Management Unit will review all documents and independently assess the cost/benefits analysis submitted and evaluate the sources of financing. The implementing units shall work with County Treasury to ensure Conditions Precedent (CPs) are met first or done in parallel before signing of the financing agreements.

Analysis of Debt Sustainability

In deciding whether or not to contract new debt in the medium term, emphasis will be placed on monitoring the level of total public debt, and to assess the potential cost and risk of new debt measured against the available fiscal space and the vitality of the economy to ensure that future borrowing will maintain outstanding debt within sustainable levels. The ratios to be monitored include solvency and liquidity indicators. These ratios include:

a) Debt to GCP;
b) Debt service to GCP;
c) Debt Service to County Revenues
d) Interest payments to County Revenues
e) Interest payments to GCP;

Debt Management Strategies

In the event, the county seeks debt to finance its operations; the following shall be adhered to;

i. **Debt shall be Sustained at Affordable Levels;** To realize this, the county will ensure it pursues grant funding and budget support and where grants are unavailable, or where a loan element of grant funding for priority development projects is mandatory, limited concessional borrowing will be sought.
ii. **Concessional loans;** Borrowing will be limited to concessional loans from multi- or bilateral donors or development partners
iii. **Loan purpose;** Any new borrowing shall follow fiscal responsibility guidelines for a fit purpose; from an allowable source and with acceptable terms and conditions.

Any borrowing sought by the County will be for;

a) Managing County cash flow.

b) Investing in the productive sectors of Migori County;
c) Funding priority core infrastructure and development initiatives as identified in the CIDP 2023-2027; and
d) Specific purpose projects identified as a high priority in the CIDP; Preference shall be given to projects that have the chance to stimulate growth and development of all other sectors and no borrowing will be done to fund shortfalls in recurrent expenditure.

3.5 Institutional and Operational Framework

Debt management in the county will be handled by the County Debt Management Unit which will provide secretariat services to the County Debt Management Advisory Committee

(DMAC). The functions and responsibilities of the unit shall include:

i. carrying out the government's debt management policy of minimizing cost taking account of risk;

ii. maintaining debt data base for all loans taken by the county government

iii. preparing and updating the annual medium term debt strategy and debt sustainability analysis;

iv. preparing and implementing the county government borrowing plan including servicing of outstanding debts;

v. monitoring and evaluating all borrowing and debt related transactions to ensure that they are within the guidelines and risk parameters of the debt management strategy;

vi. Preparing, updating and executing the annual medium-term debt management strategy including debt sustainability analysis in accordance with Regulations;

vii. Participating in negotiation meetings with government creditors, and provide technical support to the ECM Finance on public debt operations;

viii. Assessing the risks in issuing any guarantees including contingent liabilities inherent in public private partnership projects, and prepare reports on the method used for assessment and the results thereof for the attention of the ECM Finance;

ix. Facilitating the recovery of any payments including interest and other costs incurred by Government due to the honoring of outstanding guarantees;

x. Preparing annual debt management report which shall include outstanding guarantees, outstanding lending and government on-lending by Government;

xi. Monitoring and keeping track of debt levels;

xii. Advise on all debt servicing obligations of Government;

xiii. Preparing and publishing debt statistical bulletins regularly;

xiv. Preparing forecasts on Government debt servicing and disbursements as part of the yearly budget preparation.

xv. Compiling, verifying and reporting on all Government debt arrears and design a strategy for the settlement of those arrears;

xvi. Monitoring that the disbursements of loans raised by Government are in accordance with agreed disbursement schedules;

xvii. Formulating External Resources Policy;

xviii. Assessing, mobilizing, negotiating and allocating all external resources including

the consolidation of the donor commitment register in the annual national budget;

xix. Examining and scrutinizing proposals for financing projects of a county government entity from an accounting officer;

xx. Formulating an external resource mobilization strategy to guide the county in external resource mobilization including monitoring;

xxi. Formulating guidelines and procedures for reporting and recording budget estimates and expenditure for external resource;

The County Debt Management Advisory Committee will be responsible for recommending and ranking acceptable proposals to be submitted by the County Executive Committee Member for Finance to the County Executive Committee for considerations and approval. The approved proposals will then be submitted and incorporated as part of the budget approval and appropriation process after signing by the CEC member for finance. Borrowing will not be legal unless it has been signed off by CEC member for finance.

County Debt Management Advisory Committee

The County Debt Management Advisory Committee (DMAC) will be chaired by the Chief Officer in charge of Finance and Economic Planning with membership of technical officers from County Treasury and Chief Officers . The Debt Management Advisory Committee will evaluate borrowing proposals and make recommendations to the CECM for finance as to whether borrowing should or should not proceed.

The County Debt Management Advisory Committee is mandated to assess the volume and risk characteristics of debt to ensure that:

i. Debt is sustainable and affordable;

ii. Debt is below the thresholds established;

iii. Debt is from an acceptable source;

iv. Debt is for a good purpose and the funded project is a high priority in the CIDP 2023-2027 ;

v. The project to be funded has a positive Net Present Value or helps achieve Vision 2030 and the SDGs;

vi. The cost of any contingent liabilities and obligations such as tied procurement are factored into the cost and risk of debt;

vii. Loan terms and conditions are acceptable and achieve the best cost and risk outcome

viii. Borrowing aligns with the CFSP.

County Debt Management Unit

There shall be a County Debt Management Unit (CDMU) under the County Treasury of Migori county government. The Debt Management Unit will provide secretariat services to the County Debt Management Advisory Committee (DMAC).

The functions and responsibilities of the County Debt Management Unit will include:

i. Making debt payments on time and for the correct amount,

ii. Keeping timely, comprehensive and accurate records of outstanding government

debt, guarantees, contingent liabilities and new borrowing in a single debt

database;

iii. Publishing, in a timely manner, monthly (and quarterly) reports showing the status

of outstanding debt, debt payments, and projected debt payment obligations;

iv. Preparing, reviewing and updating the Debt Strategy;

v. Preparing an annual borrowing plan

vi. Assessing the risks in issuing any guarantees, and prepare reports on the method used for each assessment and the results thereof for the attention of the CEC Member for Finance;

vii. Submitting all debt reports and debt management strategy to DMAC for consideration and recommendation.

3.6 Process for Approving Loan Proposals by the County Government

Pursuant to Section 184 of PFM Regulations the County Executive Committee Member shall undertake the following;

i. Submit the borrowing proposal which will include its terms and conditions to the County Executive Committee for approval of the borrowing; After approval by the County Executive Committee, the County Executive Committee Member for Finance shall submit the signed loan agreement and a sessional paper to the County Assembly for deliberation and approval.
ii. After obtaining the approval of the County Assembly, the County Executive Committe Member for Finance shall submit the final draft loan financing agreement and the 'approval of the County Assembly to the Cabinet Secretary – National Treasury requesting for the guarantee of the final loan financing agreement;
iii. The Cabinet secretary (National Government) shall participate in the negotiations on the contracting of a guaranteed loan by advising the County Government on the best financial terms available and shall sign on behalf of the National Government all agreements on the issuance of a government guarantee.

In guaranteeing the loans, the County must demonstrate the following;

a. That the project could not be financed on reasonable terms and conditions without a government loan

b. The County has adopted a unified approach in project cycle management that includes the preparation, appraisal and management of public investment projects

c. Conditions precedent for the implementation of the project have been met including

Land acquisition, compensation and resettlement of persons affected and stakeholder management

Detail designs have been completed and relevant approvals obtained where applicable;

c. Necessary regulatory approvals have been granted

d. Detailed resource requirement including sources of funding and personnel to operationalize the project have been planned for

e. Project details have been captured in the pipeline of Public Management Information System

d. Provide the projected cash flow clearly setting out the projected disbursement schedule and repayment plan

e. Contribute a substantial portion of project funds from the own county resources not less than 15 percent

f. Demonstrate that the proposed feasible project(s) have been approved by the County Government as required by county legislation

iv. While the cabinet secretary is guaranteeing the loans, He/she shall take into account the recommendation of the Intergovernmental Budget and Economic Council IBEC in respect of any guarantee. This is in line with section 58(2) of the PFMA, 2012.

v. The Cabinet Secretary after receiving recommendations of the IBEC shall then seek the recommendations of the Attorney General

vi. The Cabinet secretary to the National Treasury upon taking into account the recommendations of IBEC, the cabinet and the Attorney General may recommend for approval or rejection of the request

vii. Upon rejection of a loan request, the cabinet secretary shall give reasons and communicate the same to the county executive committee member for finance.

viii. Upon approval of a loan guarantee request, the Cabinet Secretary shall submit a sessional paper to Parliament with recommendations seeking its approval;

ix. The Cabinet Secretary shall communicate the decision of Parliament on the draft loan guarantee to the respective County Executive Committee Member for finance; and

x. upon approval by Parliament the Cabinet Secretary shall issue a loan guarantee.

xi. After receiving the communication of the decision of Parliament on the draft loan guarantee, the County Executive Committee member shall report to the County Assembly of the decision

Procedure for submission of County Treasury Bonds guarantee request.

While seeking funding through treasury bonds, the CEC Finance shall follow the following process;

i. The County Executive Committee Member for finance shall develop and submit the cash plan, indicating the borrowing requirements to the County Executive Committee for approval of the borrowing including its terms and conditions;
ii. After approval by the County Executive Committee, the County Executive Committee Member shall submit the cash plan referred to above to the County Assembly for approval of the borrowing including its terms and conditions;iii. upon approval by the County Assembly, the County Executive Committee Member shall submit the final cash plan and the approval of the County Assembly to the Cabinet Secretary requesting for the guarantee of the Treasury Bond and
iii. their inclusion in the issuance calendar;
iv. the Cabinet Secretary to the National Treasury, after receiving the request from the county government, shall seek the recommendations of the Intergovernmental Budget and Economic Council in fulfillment of the requirements of section 58(2)(i) of the Act;
v. the Cabinet Secretary to the National Treasury may, upon taking into account the recommendations of the Intergovernmental Budget and Economic Council and the Attorney General may approve or reject the request;
vi. the Cabinet Secretary shall reject a request for loan guarantee with reasons and communicate the same to the concerned County Executive Member ;
vii. upon approval of a loan guarantee request, the Cabinet Secretary to the National Treasury shall submit the request to Parliament with recommendations seeking its approval;
viii. the Cabinet Secretary to the National Treasury shall communicate the decision of Parliament on the draft loan guarantee to the respective County Executive Committee Member for finance;
ix. upon approval by Parliament, the Cabinet Secretary shall include such authorized Treasury Bonds in the overall national issuance calendar.
x. once the issuance calendar is known, when the national governments advertise its bond issuance for a specific month it shall also incorporate those to be issued on behalf of county governments;
xi. on the issuance day, the county whose bond is being issued, shall be represented in the auction committee meeting by the County Executive Committee Member or his or her representative; and
xii. after the National Treasury and the county government sign an on-lending agreement, the National Treasury shall transfer the proceeds of the Treasury Bond to the Revenue Fund of that county government and such on-lending transactions shall attract a fee to be determined by the National Treasury

CHAPTER 4: MEDIUM TERM FRAMEWORK DEBT OUTLOOK

4.1 National Debt Outlook

Kenya's public debt has gradually risen to Ksh 72.7 USD as of end of November 2022, split broadly equally between external and domestic debt, and the structure continues to evolve with economic transformation of the country. Public debt is primarily driven by fiscal deficit as the country resorts to borrowing to fill the budgetary resource gap to finance development needs of the two levels of government.

The costs and risks characteristics of the public debt portfolio have significantly changed over time due in part to increase in stock and its components, and due to decline in grants from development partners. Consequently, debt service obligations have risen and fiscal consolidation to stem expenditure pressures need to be sustained to avoid undesirable outcomes.

Kenya's debt position remains sustainable, but the risk of debt distress has increased to high level due to the COVID-19 crisis weakening exports and real GDP growth and delaying fiscal consolidation. Kenya's total public debt has more than doubled to KSh 7.2 Trillion at the end of December 2020 compared to KSh 3.1 Trillion in January 2016. During this period, the amount of external debt rose from KSh 1.654 Trillion to KSh 3.7 Trillion. Kenya's domestic debt also rose from KSh 1.5 Trillion in January 2016 to KSh 3.5 Trillion as at December 2020. External debt was 52 % of total public debt while 48% was domestic debt as at close of December 2020.

With lower domestic revenue mobilization and elevated budget expenditures before the unwinding of COVID-19 related fiscal stimulus measures, the budget deficit is expected to remain broad and add to Kenya stock of public debt. If Kenya's fiscal imbalance is not reduced in the coming years, there will be further accumulation of domestic and external public debt, intensifying Kenya's external debt vulnerabilities, crowding out private sector investment.

4.2 County Debt Outlook

Migori County Government has no debt. The Government has been operating on a cash basis, expenditure balancing expenditures with the available fiscal space. Despite this, there has been periodic delays in disbursements of equitable share from the National Government negatively affecting service delivery. To address this, in the FY 2023/2024, the County shall explore the possibilities of seeking short term loans to manage the County cash flow in view of the inconsistent transfers of equitable share to the County Government and its effects on service delivery and payment of key obligations The County Executive will be submitting quarterly reports to the County Assembly for approvals of these loans. In the FY 2023/2024, the County will also evaluate programs and proposals in the CIDP, appraise and develop proposals for funding through loans.

The potential sources of Loans for Migori County Government fall under two categories;

a) **Domestic sources of loans;** this will consist of borrowing from financial institutions (banks, pension funds, insurance companies) and non-financial institutions (domestic instruments E.g. T-bills, T-bonds).

b) **External sources of loans;** The main sources will include Loans and grants from multilateral, bilateral organizations. This will be facilitated through the National Treasury

In the FY 2023/2024, the County Government shall explore the possibilities of seeking short term loans to manage the County cash flow in view of the inconsistent transfers of equitable share to the County Government and its effects on service delivery and payment of key obligations

In seeking these loans, the County Government will be guided by PFM Act Section 142 which authorizes borrowing for cash management purposes. The borrowing shall not exceed five percent of the most recent audited revenues of the entity and will be repaid within a year from the date on which it was borrowed.

CHAPTER 5: MACROECONOMIC ASSUMPTIONS OF THE MEDIUM-TERM DEBT MANAGEMENT STRATEGY

This section describes the medium-term strategy assumptions considered during preparation and those that are to affect the realization of the proposed management strategies. The assumption is:

i. As the County and National Economy rebounds from the negative effect of COVID 19 pandemic, it's expected that in the medium term, the macroeconomic framework underpinning the strategy will remain stable during the medium-term period. Forecasted GCP, GDP growth rates and variables such as inflation rates, interest rates amongst others are expected to remain stable in the medium term.

ii. The macro-economic framework underpinning the 2021/2022-2023/2024 MTDS is consistent with projections included in the 2023 County Fiscal Policy Strategy Paper.

iii. The political, social and economic environment is expected to remain favorable during the implementation of the strategy;

iv. As per the constitution, the national government is expected to guarantee county government loans; and

v. The National Treasury is expected to sustain the efforts towards minimizing the delays in disbursement of equitable share transfers and other factors which might lead to escalation of demand for short-term finance by the counties.

CHAPTER 6: CONCLUSION

Public debt management forms an integral part of macroeconomic environment in any economy. It has implications on public expenditure and also has a direct bearing on macroeconomic stability.

Public debt management objectives are; to ensure that the county government's financing needs and payment obligations are met at the lowest possible cost over the medium to long term, with a prudent degree of risk, while ensuring the equitable sharing of benefits and burdens of public debt between the current and future generation.

As the county enhances its resource mobilization in the medium term, the county will ensure

when funding to programmes is done through debts it will be sustainable and the County will meet its debt obligations in a timely manner. Government borrowing will be guided by

the need to lower cost and minimize risks, particularly of foreign exchange, interest rate, refinancing and settlement risks.

The Government will endeavor to implement sound policies and structural reforms to strengthen its credit rating to enhance its access to a wider array of sources of financing at lower cost and risk while maintaining overall debt within sustainable levels.

The increase in debt stock strains public service delivery, as resources available for financing other social and development needs are limited. The need to adequately coordinate borrowing

activity and establish guidelines to monitor debt levels is crucial in debt management.

The strategies proposed in the MTDS will ensure low-cost funding with high returns, thereby promoting socio-economic well-being of the citizens. This is expected to contribute to economic growth both at the county and national level and ensure delivery of CIDP for enhanced socio-economic transformation.