REPUBLIC OF KENYA

MIGORI COUNTY

2024/25 DEBT MANAGEMENT STRATEGY PAPER

February, 2024

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FOREWORD

The MTDMS paper has been prepared as per the requirement of Public Finance Management (PFM) Act, 2012. It covers a period of three years 2022/2023 to 2024/2025. The MTDMS sets out the debt management strategy of the County Government over the medium term with respect to actual and potential liabilities. Regular preparation and publication of the MTDMS promotes transparency in the conduct of budget financing and public financial management.

The policy is meant to act as a 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.

The Debt Strategy Paper ensures fiscal prudence in management of county resources to ensure debt is sustainable and is met at the lowest possible cost and with a prudent degree of risk. The County Government of Migori has consistently ensured expenditures and commitments are in line with the available resources. However, due to delays in the Exchequer release and failure to meet our own resource targets, has resulted to accumulation of pending debts amounting to Ksh 796m as at the end of December 2023.

. Finally, regular reviews of the 2024 DMSP will be undertaken as a demonstration of commitment to prudence and accountability in the management of the County debt to ensure sustainability in the long-run. The DMSP 2024 is aimed at outlining strategies to address the payment challenges of the unpaid sums to contractors and suppliers.

Maurice Otunga

CECM Finance & Economic Planning

ACKNOWLEDGEMENT

The Medium-Term Debt Management Strategy (MTDS) 2024 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 2024/2025 and over the Medium Term.

The technical process of preparing MTDS involving use of an analytical tool to analyze the existing debt portfolio debt risk characteristics and potential borrowing alternatives which an optimal borrowing strategy is determined. The analysis takes into account the macro-economic assumptions presented in the 2024 County fiscal strategy paper.

Preparation of the strategy was spearheaded by the County Treasury and Planning directorate. This is therefore to convey gratitude to the staff and all Heads of Directorates and Departments of the county Treasury and other stakeholders whose inputs contributed towards the development of this Strategy.

I would like to acknowledge the overall guidance provided by CECM Finance throughout the preparation period of this debt management strategy. In this regard, I’m grateful for their technical input and commitment to the success of the process. Thank you all for the excellent support and work.

Dr. Achuora John Odoyo

Chief Officer- Finance and Economic Planning

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

DMSP: Debt Management Strategy Paper

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 strategy covers the period FY 2024/2025- 2026/27 over which the optimal debt portfolio will be achieved. The 2024 Medium Term Debt Strategy (MTDS) has been prepared amid elevated global inflation caused by supply chain disruptions due to Israel-Gaza and Ukraine – Rusia wars and monetary tightening. The strategy is aligned to 2024 County fiscal strategy paper whose aim is to support economic recovery through a growth friendly fiscal consolidation plan aimed at revamping economic and improved service delivery to the people of Migori County.

The Government's plan in the fiscal year 2024/2025 and over the medium term is to implement various priority economic policies, structural reforms, fiscal consolidation plan and sectoral expenditure programs outlined in the 2024 CFSP. This is geared towards economic turnaround and inclusive growth. Special focus will be placed on increased employment, more equitable distribution of available resources, MSEs empowerment through provision of loans, expansion of infrastructure and increase collection of own source revenue.

This Debt Management strategy Paper (DMSP) has been prepared in accordance with Section 123 of the Public Finance Management Act (2012) and it covers the period FY 2024/2025 –FY 2026/2027 over which optimal debt portfolio is to be achieved. The county's present value of public debt is at 0.00 percent of CGDP.

However, the accumulation of the expenditure arrears (pending bills) is one of the most common problems in public financial management. The county has experienced debts arising from payment arrear (pending bills). There is need to ensure effective management of pending bills by aligning procurement plans to cash flow projections, adequate budgetary provision, and to payment of pending bills on a First – In- First – Out basis

The strategy is structured into four chapters where each chapter highlights a specific segment of

the paper. Chapter one gives introduction and the background information, Chapter two gives the objectives of Debt Management Strategy Paper.

Chapter Three discusses principles and guidelines for public debt management. Chapter four highlights the medium term debt management strategies while chapter five provides conclusions.

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: INTRODUCTION

The County Medium Term Debt Management Strategy (MTDS) is a high priority of the County Government of Migori, given the increasing gap between development resource requirements and the available allocations.

The CIDP 22023-2027 aims at achieving increased household income for sustainable livelihoods. This will be realized through; Increasing agricultural productivity, value addition and commercialization; Increasing availability and access to water; Enhancing quality health care for all; Youth, women and PWD economic empowerment and ensuring Secure land tenure and urbanization.

To fully implement the strategies in the CIDP (2023-2027) there is need to enhance the county resource mobilization both internally and externally. Over the period, 2013-2022, the County has ensured the programs and projects implemented over the period are within the available resources. This has ensured, no debt carryovers in each financial year.

Going forward, the County Government will be implementing strategies that seek to raise funding both internally (own source revenues) and externally. The external strategy shifts the attention towards engaging external partners to finance implementation of the prioritized programs. This will involve deepening engagement with bilateral and multilateral agencies, public private partnerships, private foundations, seeking loans and diaspora engagement (fundraising). Funding through PPPs and loans will be restricted to high impact projects focusing on the productive sectors of the economy. This will be expected to stimulate the growth of the county economy and enhance our Gross County Product. This in effect will result to increased business activities and more revenues. The increased revenues will enhance the credit rating for the County that will facilitate high access to loans.

The county has recognized the need to have a formal and explicit MTDS 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 MTDS 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.

Debt can be sustainable or unsustainable. By sustainable debt, it implies that the debt can be serviced without resorting to exceptional financing (such as debt relief) or a major future correction in the balance of income and expenditure while unsustainable debt simply means that debt inflows are exerting severe burdens on the economy in the future. Unsustainable levels of debt lead to adjustments in expenditure levels, with a view of obtaining additional resources which are then directed towards the repayment of debt and associated interest payments. These reallocations negatively impact on the implementation of priority Programmes, local investment, and poverty reduction initiatives.

CHAPTER TWO: OBJECTIVES OF DEBT MANAGEMENT STRATEGY

The MTDS 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 2024/2025 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

The scope of the debt portfolio contracted by the County Government of Migori is between the FY 2014/15 upto FY 2022/23. However the time horizon for the Debt Management paper FY 2024/25

2.2 Goals for the Debt Management Strategy

The aim of the MTDS is to support the County Government's strategy in implementing FY 2023/24 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.

2.3 Status of the County Debt

The overall debt as at 31st December stood at Kshs. 796.67 million majorly comprising of development and recurrent at Kshs. 429.9 million and Kshs. 366.7 million respectively as shown in table 1 below: -

Table 1: Summary of total outstanding debts for both Recurrent and Development as at 31st December, 2023

	Rec			Dev					
Department	**Outstanding Pending Bill Amount**	**Amount Paid (Kshs.)**	**Outstanding Pending Bill Amount as of 31st Dec, 2023 (Kshs.)**	**Outstanding Pending Bill Amount**	**Amount Paid (Kshs.)**	**Outstanding Pending Bill Amount as of 31st Dec, 2023 (Kshs.)**	**Total Outstanding Pending Bill Amount**	**Total Amount Paid (Kshs.)**	**Total Outstanding Pending Bill Amount as of 31st Dec, 2023 (Kshs.)**
Water & Energy	30,144,218	9,148,400	20,995,818	361,887,848	186,090,829	175,797,020	392,032,066	195,239,229	196,792,838
Agriculture, Livestock & Fisheries	498,750	498,750	-	8,365,551	4,663,551	3,702,000	8,864,301	5,162,301	3,702,000
Public Health	50,027,564	2,999,200	47,028,364	165,993,586	88,094,081	77,899,505	216,021,150	91,093,281	124,927,869
Trade & Co-operatives	4,012,749	-	4,012,749	79,538,098	19,914,956	59,623,142	83,550,847	19,914,956	63,635,891
Roads & Public Works	8,999,000	3,000,000	5,999,000	71,191,870	71,191,870	-	80,190,870	74,191,870	5,999,000
Education, Sports & Culture	3,673,500	3,044,500	629,000	34,920,052	22,772,698	12,147,354	38,593,552	25,817,198	12,776,354
Lands, Housing & Planning	8,833,835	849,800	7,984,035	10,270,165	6,534,962	3,735,203	19,104,000	7,384,762	11,719,238
Medical Services	253,348,307	90,993,598	162,354,709	40,386,077	22,467,741	17,918,336	293,734,383	113,461,338	180,273,045
PSM	19,383,991	2,911,028	16,472,963	42,741,977	10,998,206	31,743,771	62,125,968	13,909,234	48,216,734
Finance & Planning	30,316,597	6,215,411	24,101,186	14,121,866	9,036,045	5,085,821	44,438,463	15,251,456	29,187,007
County Executive	27,806,671	3,177,340	24,629,331	42,254,350	-	42,254,350	70,061,021	3,177,340	66,883,681
Enviroment & Natural Resources	13,715,763	1,695,734	12,020,029	-	-	-	13,715,763	1,695,734	12,020,029
County Attorney	39,752,293	22,077,213	17,675,080	-	-	-	39,752,293	22,077,213	17,675,080
PSB	3,974,860	699,860	3,275,000	-	-	-	3,974,860	699,860	3,275,000
ICT & E-Government	19,588,864	-	19,588,864	-	-	-	19,588,864	-	19,588,864
Total	**514,076,961**	**147,310,833**	**366,766,127**	**871,671,439**	**441,764,938**	**429,906,502**	**1,385,748,400**	**589,075,771**	**796,672,629**

Source: County Treasury

CHAPTER 3. PRINCIPLES AND GUIDELINES FOR PUBLIC DEBT MANAGEMENT

3.0 Overview

In the Medium Term, the Government will finance the budget deficit through the following five major sources: -

i) **Strengthening of the Own Source Revenue**

It is the preferred source of financing the debt through tightening revenue leakages and improving revenue targets.

ii) **Loans and Grants from development partners**

This shall be done through writing of proposals.

iii) **Public-Private partnerships**

The county will develop mechanism of partnering with private sector in undertaking some projects this will spread the cost and reduce the pressure on the county budget.

iv. **Exchequer releases**

Under this strategy preference shall be given to settlement of previous pending bills before initiating new projects

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.

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 local banks

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.

3.5 Institutional and Operational Framework

Debt management in the county will be handled by the County Debt Management Unit

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.

CHAPTER 4: MEDIUM TERM DEBT MANAGEMENT STRATEGIES

During the implementation period of this DMSP, the County government will resort to the following debt management strategies in its endeavor to bring debts to manageable levels.

Strategy 1: Verification of arrears: To boost validity and reduction of fraudulent claims, the available data will be verified by an appointed pending bills committee to undertake verification.

Strategy 2: **prioritize allocation for pending bills:** Budgetary allocation on the pending vote will be prioritized and the same decentralized to all departments. This will enable all departments to pay their pending bills promptly.

Strategy 3: Repayment Plan: The County government will during the period come up with a detailed, realistic repayment plan, which will be adopted / approved in clearing the pending bills. The plan will prioritize payment based on urgency, availability of funds and the age of the payment.

Strategy 4: Enhancing credibility and realism of the budget: The County will strengthen the realism of the annual budget based on the robust assumptions and forecasts in the fiscal framework, which determines the budget. Local revenues will be realistic and in tandem with the expenditure. The County will enhance revenue collection while setting up realistic targets. This will help address the pending bills issues given that in the past, one of the causes of increased pending bills have been unrealistic revenue projections that encourage procurement of goods and services beyond the County's ability to finance payments.

Strategy 5: Strengthening commitment controls: Commitment controls are part of the internal control system, which should prevent the County from initiating expenditure without available budget and cash. IFMIS as an efficient tool of financial management shall enforce commitment control to ensure that expenditure incurred in a financial year is in tandem with the budget. In this way, the rising pending bills will be contained.

Strategy 6: Strengthening legal and regulatory framework: The legal or related regulations should clearly define payment terms (and when a payment is in arrears); reporting requirements; controls at the budget authorization, commitment, and payment stages; and the sanctions associated with any breach of those provisions.

Strategy 7: Advisory on deficit: In the event the County Treasury realizes a likelihood of a deficit in OSR and late disbursement, it will give an advisory on the kind of projects to be implemented to avoid commitments of the entire budget and even have some projects to be re-scheduled to subsequent years.

Strategy 8: Reconciliation to be done to ascertain the amounts and even beneficiaries to be

CHAPTER 5: 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.