REPUBLIC OF KENYA

COUNTY GOVERNMENT OF BOMET

Medium Term Debt Management Strategy

2017/18 – 2019/20

February 2017

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FOREWORD

The County Debt Management Strategy (CDMS) Paper 2017 focuses on legal framework that governs access to credit by the county government and discusses available sources of credit as enshrined in the Public Finance Management Act (PFMA), 2012. The CDMS will allow the County to seek long term funding either locally or internationally in order accelerate economic growth and development, as well as achieve stability. Debt levels must be lower than any thresholds stipulated in the PFMA, 2012. The PMFA 2012 clearly stipulates that external loans can only be used for financing capital projects.

The main objective of public debt management is to ensure that the county government's financing needs and its payment obligations are met at the lowest possible cost over the short- to long run, consistent with a prudent degree of risk. This involves developing a strategic position to ensure that the servicing and management of county's financing requirements and payment obligations are met on a timely basis and at the lowest possible cost over the medium to long run.

The CDMS is expected to address the following objectives: -

- Meet the net financing of the county with concessional external financing and domestic financing
- The objective of the borrowing strategy is to allow the county to meet both short-term borrowing to meet budgetary shortfalls and to provide liquidity in normal operational activities.
- Allow the county to seek long term funding either locally or internationally in order accelerate economic growth and development
- Consider the possibility of accessing the international capital markets to develop growth and spur development.
- Align development to the CIDP, the Medium Term Fiscal Strategy (MTFS) as well as to the National Development Strategies.

The CDMS is designed to help the county reduce its borrowing cost and contain financial risks.

It will ensure that the county meets its fiscal, legal, institutional and operational measures that are needed to strengthen debt management and establish a borrowing framework. These measures will also increase transparency and accountability so as to earn credit worthiness through reputation. Compliance with the PFMA 2012 is essential to incorporate an effective borrowing framework.

The County Government must continue its commitment to a balanced recurrent budget and debt should not be used for recurrent spending unless on exceptional situations.

HON. DR. Peter Koros
CEC Finance and Economic Planning
COUNTY GOVERNMENT OF BOMET

ACKNOWLEDGEMENT

The County Debt Management Strategy (CDMS) Paper 2017 has been prepared in conformity with section 123 of the Public Finance Management Act 2012. The CDMS outlines the debt management strategy of the county government over the medium term with regard the actual and potential liability in respect of loans.

The preparation of the CDMS 2017 benefited from invaluable inputs of various stakeholders. I would like to acknowledge the department of Finance and Economic Planning which played a significant role in the preparation of the CDMS 2017. Special recognition goes to the core team from the department of Finance and Economic Planning, led by the Head of Budget Ms. Joyce Kemei, which spent a significant amount of time putting this paper. I also appreciate the contribution of other staff in the department of Finance and Economic Planning.

To the many individuals whom I have not named though they actively participated in one way or the other in the process, accept my gratitude for your invaluable input.

R.K. Mutai
Chief Officer, Economic Planning
COUNTY GOVERNMENT OF BOMET

EXECUTIVE SUMMARY

The County Debt Management Strategy (CDMS) Paper 2017 covers three financial years; FY 2017/18- FY2019/20 . The objective of this Paper is to help the County reduce borrowing cost, contain financial risks and develop its domestic market.The public finance management act (PFMA) 2012 requires CDMS to be submitted by the County Treasury on or before the 28th February of each year to the County Assembly. It includes contracting or guaranteeing domestic and external (foreign) debt through loans, financial leasing on lending and any type of borrowing, including concessional and non-concessional borrowing. Powers to borrowing by the county government is drawn from the constitution 2010 and in particular the PFMA 2012 section 58 subsections (2), section 107, section 140, 141, 142 and 143. The Debt management strategy's main objective is to ensure that the county governments' financing needs and its payments obligation are met at a lower cost over short, medium and long term. With improved forecast of the national economy, the county expects to continue enjoying the favorable environment through macroeconomic framework underpinning the CDMS that is consistent with projections included in the 2017 (CFSP). The county government intends to prioritize external financing on concessional terms as one way of financing source but there is need for a framework to be developed. The county government will ensure servicing debt as the primary concern for debt management, as the main risks would be inability to make repayments, ; large volume and high cost of debt all of which will have a negative impact on debt sustainability and affordability. Measures will be introduced to strengthen debt management and establish a borrowing framework by ensuring that the county meets fiscal, legal, institutional and operational measures thus increasing transparency and accountability.

1.0 COUNTY DEBT MANAGEMENT STRATEGY

The Public Finance Management Act, 2012 requires that on or before the 28th February in each year, the County Treasury shall 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.

The County Treasury shall include the following information in the statement—

(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.

As soon as practicable after the statement has been submitted to the county assembly the County Executive Committee member for finance shall publish and publicise the statement and submit a copy to the Commission on Revenue Allocation and the Intergovernmental Budget and Economic Council.

The objective of borrowing is to enable the County meet its financing requirements at the least cost with a prudent degree of risk. It allows the County to access to financial markets as well as supporting development of a well-functioning vibrant debt policy. This strategy is an important step forward in enhancing transparency of the County's debt management decisions. This strategy will be updated annually and presented with the budget documents. Therefore this 2016 CDMS will guide the County debt management operations over FY2017/2018 fiscal year. The strategy seeks to balance cost and risk of public debt and take account of demand constraints. In addition, the strategy incorporates initiatives to develop a domestic debt market, seek new funding sources, support macroeconomic stability and achieve debt sustainability. It also seeks to institutionalize the production of a debt strategy, the publication of the CDMS as provided for in the Public Finance Management Act, 2012.

Public 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, whatever the source. Borrowing and debt of other public entities are included in the definition of total Public debt.

This Medium-Term Debt Management Strategy (Debt Strategy) is a framework that the County government intends to use over the medium-term (Three years) to ensure that debt levels stay affordable and sustainable, that new borrowing is for a good purpose and that the costs and risks of borrowing are minimized.

2.0 LEGAL FRAMEWORK

Powers to borrowing by the County government is drawn from the constitution and in particular the Public Finance Management Act, 2012.

2.1 Section 58 of the Public Finance Management Act, 2012 states,

- Subject to subsection (2), the Cabinet Secretary may guarantee a loan of a County Government or any other borrower on behalf of the National Government and that loan shall be approved by Parliament.

- The Cabinet Secretary shall not guarantee a loan under subsection (1) unless

    1) The loan is for a capital project.
    2) The borrower is capable of repaying the loan, and paying any interest or other amount payable in respect of it.
    3) In the case of a private borrower, there is sufficient security for the loan.

4) The financial position of the borrower over the medium term is likely to be satisfactory.
5) The terms of the guarantee comply with the fiscal responsibility principles and financial objectives of the National Government.

Where Parliament has passed a resolution setting a limit for the purposes of this section,

1) The amount guaranteed does not exceed that limit.

2) If it exceeds that limit, the draft guarantee document has been approved by resolution of both Houses of Parliament.

3) The Cabinet Secretary takes into account the equity between the National Government's interests and the County Government's interests so as to ensure fairness.

4) The borrower complies with any conditions imposed by the Cabinet Secretary in accordance with the regulations.

5) The Cabinet Secretary has taken into account the recommendation of the Intergovernmental Budget and Economic Council in respect of any guarantee to a County Government; and

6) The loan is made in accordance with provisions of this Act and any regulations made thereunder.

Parliament may approve a draft loan guarantee document as provided by subsection (2)(f)(ii) only if satisfied that

1) The guarantee is in the public interest;
2) The borrower's financial position is strong enough to enable the borrower to repay the loan proposed to be guaranteed and to pay interest or other amounts payable in respect of the loan; and
3) The loan is geared towards stimulating economic growth in a County

Government.

2.2 Section 107 of the Act specifies

- Over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.

- The county debt shall be maintained at a sustainable level as approved by County Assembly.
- The fiscal risks shall be managed prudently.
- Short - term borrowing shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited county government revenue.
- Every county government shall ensure that its level of debt at any particular time does not exceed a percentage of its annual revenue specified in respect of each financial year by a resolution of the County Assembly.

2.3 Section 140 and 141 of the Act specifies

- A County Executive Committee member for finance may, on behalf of the County Government, raise a loan for that Government's purposes, only if the loan and the terms and conditions for the loan are set out in writing and are in accordance with
    - i. Article 212 of the Constitution
    - ii. Sections 58 and 142 of this Act
    - iii. The fiscal responsibility principles and the financial objectives of the county government set out in its most recent County Fiscal Strategy Paper
    - iv. The debt management strategy of the County Government over the medium term
    - v. A loan may be raised either within Kenya or outside Kenya
- In borrowing money, 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.
- A County Government may borrow money only in accordance with this Act or any

other legislation and shall not exceed the limit set by the County Assembly.

- A County Government may borrow money in accordance with section 58, and only for purposes that are prescribed by regulations made under this subsection.
- A public debt incurred by a County Government is a charge on the County Revenue Fund, unless the County Executive Committee member for finance determines that all or part of the public debt that would otherwise be a charge on that Fund shall be a charge on another public fund established by that county government or any of its entities.
- The County Executive Committee member for finance shall pay the proceeds of any loan raised under this Act into the County Revenue Fund or into any other public fund established by the county government or as the County Executive Committee member for finance may determine.
- A County Executive Committee member for finance may establish such sinking fund or funds for the redemption of loans raised under this Act for the purposes of the County Government or any of its entities as the County Executive Committee member for finance considers necessary
- Any expenses incurred in connection with borrowing by a County Government shall be a charge on the County Revenue Fund or on such other county public fund established by the County Government or any of its entities as the County Executive Committee member for finance may determine in accordance with regulations approved by the County Assembly.

2.4 Section 142 of the act specifies

- The County Assembly may authorize short term borrowing by county government entities for cash management purposes only.
- Any borrowing may not exceed five percent of the most recent audited revenues of the entity.
- A County Government entity that has any such borrowing shall ensure that the money borrowed is repaid within a year from the date on which it was borrowed.

2.5 Section 143 of the act specifies

- The County government may issue securities, whether for money that it has borrowed or for any other purpose, only in one or more series and only in accordance with this Act and regulations.
- Subject to the provisions of section 141 of this Act, the authority of the County Executive Committee member for finance to borrow money includes the authority to borrow money by issuing County Government securities in accordance with the regulations.
- Any County Government securities issued by the County Executive Member for finance under this section shall be within the borrowing limits set out by the County Assembly under subsection 141(2) of this Act
- County Government securities may be issued in one or more series; and may be issued in accordance with loan agreements entered into in accordance with regulations developed by the County Executive Committee member for finance and approved by the County Assembly.
- An agreement to obtain a loan by a County Government entity made under subsection (5), may be amended from time to time and where the amendment results in further indebtedness or prejudice to the entity that borrowed, the amendment shall be approved by the County Assembly.
- The County Executive Committee member for finance shall ensure that every County Government security issued under this section is given in the name of that County.

3.0 Debt Management Strategy

The main objective of public debt management is to ensure that the County government's financing needs and its payment obligations are met at the lowest possible cost over the short, medium to long run, consistent with a prudent degree of risk. This requires taking tactical position and looking in the basket of current issues and developing a strategic position to ensure that the servicing and management of County's financing requirements and payment obligations are met on a timely basis and at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk. This ensures that decisions are not be made on an ad hoc basis, debt levels must be sustainable and affordable, and borrowed funds must be used to increase the well being of the residents. The main debt strategy is to limit borrowing to concessional terms and prudent levels.

1) The 2017 CDMS is intended to meet the net financing of the County with concessional external financing and domestic financing.
2) The objective of the borrowing strategy is to allow the County to meet both short-term borrowing to meet budgetary shortfalls and to provide liquidity in normal operational activities. Consideration is made of underperformance of revenues and increased expenditures due to unforeseen contingencies to allow mitigation against the effects of those occurrences.
3) In addition, the CDMS will allow the County to seek long term funding either locally or internationally in order accelerate economic growth, development, as well as achieve stability. This will encourage greater confidence in the mechanism and enhance the growth of the County.
4) The County Government will take some important steps in highlighting the existence of a formal and explicit debt management strategy that will allow discussions with other line departments, on what new debt should be contracted.
5) The fact that it is clearly based on some analysis will enhance its credibility so that it is not just seen as an ad hoc County treasury position. While this is an important step in increasing transparency, there will be need in increasing awareness of the strategy. In that context, the County Government will organize workshops on debt management.
6) The County Assembly will determine a maximum debt levels pursuant to the PFMA Act, 2012 to determine borrowing both at domestic and external levels. This will determine negotiating points with creditors.
7) The County Government will consider the possibility of accessing the international capital markets to develop growth and spur development. In this context, the CDMS

will be useful in providing a clear basis for engagement.

8) The scope of a Debt Strategy does not prescribe borrowing amounts.
9) The Debt Strategy will be aligned to the CIDP, the Medium Term Fiscal Strategy (MTFS) as well as to the National Development Strategies.
10) Pursue grant funding and budget support.
11) Concessional debt terms and conditions must be appropriate for the project being financed.
12) Debt servicing shall be sequenced to avoid large peaks in repayment expenses at certain times of year.
13) Debt levels must be lower than any thresholds stipulated in the Public Finance Management Act, 2012.
14) Funding priority core infrastructure and development initiatives.
15) New borrowing must be:
    - For a fit purpose,
    - From an acceptable source, and
    - With favorable terms and conditions.

4.0 Macroeconomic Environment and Risks

The macroeconomic framework underpinning the CDMS is consistent with projections included in the 2017 County Fiscal Strategy Paper (CFSP). With improved forecast of the national economy, the County expects to continue enjoying the favorable environment. The medium term outlook assumes

1) That growth of the national economy will increase from 5.7 percent in 2017
2) Inflation is expected to remain at around 5 percent, and the exchange rates to remain stable.
3) Balance of Payments is expected to return to surplus, due to improvements in exports, and remittances. Financing needs are determined by the primary deficit, interest costs and principal payments.
4) The CFSP will guide the borrowing mix. Lower growth will negatively affect the

County through both lower revenue collection and increased outlays. Overall, growth will depend on the pace of global economic growth and the impact of the continued growth of the National Government.

5) Development needs also put pressure on the budget. Increased investment in infrastructure might require an increase in the level of borrowing. This increase in contingent liabilities would represent a significant increase in risk. The approval of the Act to regulate PPPs, by the National Parliament would also have implications for County's contingent liabilities in the future.

5.0 Financing Sources

The County Government intends to prioritize external financing on concessional terms. However, it is noted that it is increasingly hard due to terms on new bilateral loans. However, recent events elsewhere suggest that investors are likely to increase their focus on issues relating to fiscal transparency, quality of statistics and effectiveness of public financial management and expenditure controls. These are areas that the County should improve focus, in order to benefit from this source.

In terms of domestic debt, the County needs to come up with a frame work to develop the domestic market. The short -term borrowing needs have to be almost entirely met through domestic borrowing. However, the County Government recognizes that the pace of domestic debt growth needs to be sustainable. In particular, the County Government should consider that it would not be possible to meet large infrastructure investment.

5.1 External sources

The sources include grants and loans from external sources to fund developmental activities. This may include friendly nation, bilateral donors and other credit giving institutions including the International Monetary Fund, Multilateral Agencies like the ADB and World Bank and bilateral donors amongst others. Acceptability of source will also depend on the individual characteristics of the loan, limitations and conditions on the loan.

The Cabinet Secretary may guarantee a loan of a county government or any other borrower on behalf of the national government and that loan shall be approved by Parliament. This source has a high potential for the overall development of infrastructure that will lead to growth.

5.2 Conditions to be met include,

- The loan is for a capital project.
- The borrower is capable of repaying the loan, and paying any interest or other amount payable in respect of it.
- In the case of a private borrower, there is sufficient security for the loan.
- The financial position of the borrower over the medium term is likely to be satisfactory.
- The terms of the guarantee comply with the fiscal responsibility principles and financial objectives of the national government.
- Subject to limits set out by the Public Finance Management Act.
- Approval by Parliament.

5.3 Types of borrowing Include;

- Domestic borrowing
- Concessional external loans
- Accessing the international capital market

5.4 In seeking this source of funding the county will consider the following

- Terms of the facility.
- Interest rates.
- Concessions offered.
- Conditions of the facility.
- Carry out a Debt Sustainability Analysis (DSA).

5.5 Risks

- Facility not easily available.
- Possibility of unfavorable terms of credit.
- Financing generally comes with greater scrutiny and oversight, making sure that funding is used for the purposes it was provided and decreasing reputational risk.
- There may be hidden costs, such as various transaction charges and conditions attached to the loan including disbursement penalties, tied procurement.
- Loan disbursement may also be highly dependent on the progress of the project.
- Long procedures of approval.

5.6 Domestic market sources

The domestic sources include overdrafts and term loans which can be obtained from financial institutions including banks. Other credit giving institutions also fall under this category. It is important to carry out a Debt Sustainability Analysis (DSA) before raising funds from this source.

5.7 Conditions to be met include,

- The County Assembly may authorize short term borrowing by county government entities for cash management purposes only.

- Any borrowing may not exceed five percent of the most recent audited revenues of the entity.

- A county government entity that has any such borrowing shall ensure that the money borrowed is repaid within a year from the date on which it was borrowed.

5.8 In considering this type of finance the County will consider the following factors

- Prevailing interest rates.
- The financial institution's strength.
- Sustainability of the facility.
- Duration in relation to interest advantage.
- Carry out a Debt Sustainability Analysis (DSA).

5.9 Risks

- High cost of borrowing
- Poor financial management and lack of controls.
- Medium risk of debt distress.
- Servicing loans from commercial lenders is expensive and prohibitive.
- Interest rate risk – with variable interest rates, costs can increase.
- Rollover risk – loans tend to be short-term.
- Requires assets to be offered as collateral.
- Lack of transparency

5.10 Securities

The intended amount of capital can be raised through the placement of new County Government securities as well as on the mix of securities to be offered. Say, to fix the ideas, to what extent one ought to offer a short-term bill or rather a long-term bond. The issuance of securities gives rise to a form of repeated game between the treasury and the investors, so that the former should carefully assess the impact of any supply decision taken today on the outcome of future auctions. Debt management can be regarded as an instance of portfolio allocation of securities of different maturity, with the obvious caveat that here the agent attempts to minimize costs rather than maximizing profits. Issuing longer term County treasury Bonds is not recommended due to high interest cost and refinancing risk. It is important to carry out a Debt Sustainability Analysis (DSA) before raising funds from this source. Examples of securities include treasury Bills which are short-term debt securities (up to one year) that carry an annual rate of fixed interest over the life of the security, payable on maturity. The sort of security source has not been utilized by any of the Counties in the country. Securities are a short-term cash management tool. Domestic securities have many advantages; however, it may lead to a poor credit rating and a poor reputation if the County defaulted on Treasury Bonds. There is also currently no capacity or systems for issuing debt by this means.

5.11 Conditions for County Government securities borrowing

- The County government may issue securities, whether for money that it has borrowed or for any other purpose, only in one or more series.

- Authority to borrow money by issuing county government securities in accordance with the regulations.

- Any county government securities issued by the County Executive Member for finance under this section shall be within the borrowing limits set out by the county assembly.

- County government securities may be issued in one or more series; and may be issued in accordance with loan agreements entered into in accordance with regulations developed by the County Executive Committee member for finance and approved by the County Assembly.

- An agreement to obtain a loan by a county government entity made may be amended from time to time and where the amendment results in further indebtedness or prejudice to the entity that borrowed, the amendment shall be approved by the county assembly.

5.12 Risks

1) Lack of structures to support the development of the domestic securities market.
2) Lack of structures to ensure that the servicing and management of financing requirements and payment obligations are met on a timely basis.
3) Lack of structures to ensure obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk.

4) Fluctuating interest rates.
5) Rollover risk is the risk that maturing debt cannot be replaced or refinanced. Rollover risk is the risk that auctions will be undersubscribed or that new issuance will be at higher yields than for maturing Bills.
6) The risk of losses resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.
7) Litigation for failure to make payments on time or for the correct amount.
8) The accumulation of debt arrears can damage the county's reputation, making debt more expensive or institutions unwilling to lend.
9) Strategic risk that decisions made about the management of the debt portfolio have a high opportunity cost.

Types of bonds include,

- Money market instruments,
- Short-term bonds (2-year),
- Medium-term bonds (5 - 10 years),
- Long-term bond.

6.0 REPAYMENT RISK (DEBT SERVICE COST)

Servicing debt is the primary concern for debt management. The County Government must make sure that total expenditure including debt service costs do not exceed revenue collected. The main risk for the debt portfolio is the County government's inability to make repayments or 'repayment risk'. This risk can be expressed as the cost of debt repayments compared with funds available. Other risks to consider include,

1) The volume and cost of debt must not have a negative impact on debt sustainability and affordability.
2) Hidden costs, such as fees (transaction, commitment, agency or underwriting),

requirements to fund maintenance or project management expenses beyond the current year must be analyzed.

3) The analysis must extend out a number of years using conservative estimates of economic variables.
4) Despite offering very low interest rates, concessional loans carry foreign exchange risk.
5) Stress tests used in the above analysis must assess the impact on affordability and sustainability.
6) Debt with a lower interest rate will have a lower cost.
7) Fixed interest rates have a lower risk than variable interest rates where the future cost of debt is not known. 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.
8) Very long-term loans may encourage fiscal irresponsibility, because if the project fails, it is future generations that must bear the cost.
9) 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 benefit.
10) Preference should be given to debt with positive characteristics such as project administration or management and advisory services.
11) 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.
12) If the volume of the loan is large, it may contribute to concentration risk. If an institution or bilateral partner has a large concentration of debt it 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.
13) Borrowing proposals must be examined for potential legal risks.
14) They must not contravene any legislation.
15) Fiscal, legal, institutional and operational measures are needed to strengthen debt

management and establish a borrowing framework. These measures also need to increase transparency and accountability so as to create credit worthiness through reputation.

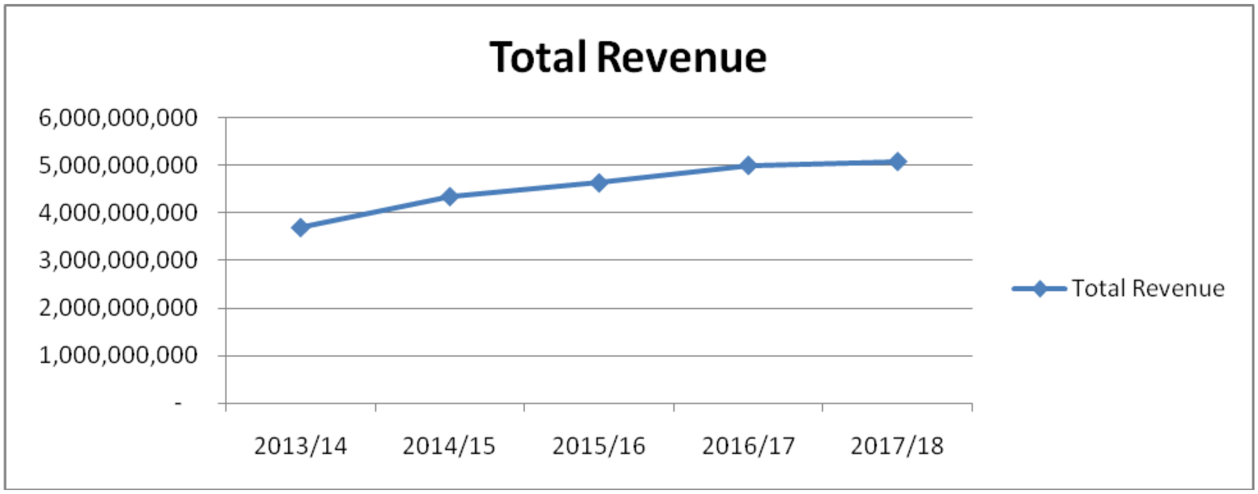
7.0 Fiscal, legal, institutional and operational measures

This ensures that the County meets fiscal, legal, institutional and operational measures are needed to strengthen debt management and establish a borrowing framework. These measures also need to increase transparency and accountability so as to install credit worthiness through reputation. Compliance with the Public Finance Management Act is essential to incorporate an effective borrowing framework.

7.1 Fiscal measures

1) The County Government must continue its commitment to balance recurrent budgets and debt should not be used for recurrent spending
2) The County will set aside a percentage of revenue equivalent to the ratio of forecast debt servicing payments to forecast domestically sourced revenue plus a buffer of 2% for contingencies (such as weak revenue, currency devaluation) into a 'Debt Servicing Account'. This account is not to be used for any purpose other than debt servicing.
3) Annual borrowing limits will be set as part of the budget process to keep debt at sustainable and affordable levels, based on conservative forecasts of macro-economic factors, and in line with the County Government's Medium Term Fiscal Strategy.

Projected revenue 2015/16 -2017/18



7.2 Legal measures

Essential aspects of debt management will contain these elements:

1) Definition of debt to include loans, borrowings, guarantees and on-lending;
2) Clear authorization to approve borrowings and loan guarantees on behalf of the County Government;
3) Decisions surrounding borrowing made as part of the budget process so that projects can be compared on merit, and appropriations are made for borrowed funds;
4) There may be special circumstances when the County Government needs to raise funds for the recurrent budget such as in a genuine emergency or crisis.
5) Clear authorization from the County Executive for Finance and Economic Planning to the debt management entities to undertake borrowing and debt-related transactions and to manage loan guarantees.
6) 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.
7) 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.

8) As part of the annual update of the CDMS, mandatory reporting on progress since the last review, covering an evaluation of outcomes against stated objectives.

7.3 Institutional framework

For the process of recommending borrowing proposals, there needs to be clear delegation of responsibilities for recommending and approving debt, where debt includes loans, borrowings, guarantees. The process for approving debt should be determined and incorporated.

1) The projects identified for debt financing shall be consistent with the County Integrated Development Strategy and limited to those projects that add to capital formation, job creation and/or County Economic growth and Development, or are investments in essential social infrastructure (hospitals or schools for example).
2) New borrowing will be prioritized projects with high rates of return or key infrastructure for achieving sustainable Development Goals.
3) Cash flows from investment proposals need to be clearly identified and be sufficient to make debt repayments.
4) The cost of any contingent liabilities and obligations such as tied procurement are factored into the cost and risk of debt.
5) The implications for the recurrent budget should also be quantified, for example, maintenance of buildings or other assets acquired through the proposal.
6) Methodology will include evaluating the cost /risk tradeoffs of the proposal.
7) The borrowing should be ranked and acceptable proposals should be prioritized.
8) Proposals be submitted and incorporated as part of the budget approval and appropriation process this will allow adequate budgeting for repayment.

8.0 Current Debt Portfolio

The County has not incurred debts since inception in April 2013. However the County took over the assets and liabilities of the former Local Authorities which had over time incurred debts in the course of operations. At the time of take over the former Local Authorities had incurred debts whose exact figure has not been ascertained. For the FY 2015/16 the County Government has so far not incurred debts.

9.0 CONCLUSION

This is the third Debt Management Strategy Paper prepared by the County. Where else efforts have been made to include all factors of debt management, the Paper will be strengthened in the subsequent periods. Data required for detailed debt analysis was not available since the County has not accumulated a debt portfolio and the only debts identifiable are debts for the former Local Authorities which its exact amount is not ascertained. Although the County has not got into any worrying debt position, there is need to set up structures for debt management for borrowings which will be essential for economic growth and development.