

REPUBLIC OF KENYA
COUNTY GOVERNMENT OF UASIN GISHU



THE COUNTY TREASURY

COUNTY DEBT MANAGEMENT
STRATEGY PAPER (CDMSP) 2018

February 2018

FORWARD.

A well-designed public debt management strategy can help the county reduce its borrowing cost and contain financial risks associated with public debt. It anticipates and addresses the following objectives: The County Debt Management Strategy Paper (CDMSP) 2018 is intended to meet the net financing of the county with concessional external financing and domestic financing; To allow the county to meet short-term borrowing, budgetary shortfalls and to provide liquidity in normal operational activities. In addition, the debt management strategy paper will allow the county to seek long term funding either locally or internationally in order to accelerate economic growth, development, as well as achieve stability; and consider the possibility of accessing the capital markets to develop growth and spur development. It further lays out the county's debt portfolio and provides a repayment plan of the same.

The Strategy Paper will ensure that the county meets 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 Public Finance Management Act is essential to incorporate an effective borrowing framework. The County Government must continue its commitment to balanced recurrent budgets and debt should not be used for recurrent spending unless on exceptional situations.

Finally I would like to express my gratitude to all those who participated in the preparation of the Paper.

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1.0 INTRODUCTION

The County Debt Management Strategy Paper (CDMSP) 2018 sets the framework for the management of county public debt. Section 123 of the Public Finance Management (PFM) Act 2012 requires counties to prepare and submit a debt management strategy over the medium term to the County Assembly on or before 28th February in each year. This is in regard to its actual and potential liabilities in respect of loans and its plans of dealing with those liabilities.

The strategy has been prepared taking into account: the borrowing needs of the County Governments; Fiscal responsibility principles set out in the PFM Act 2012; and debt sustainability by the County Government.

1.1 OBJECTIVE OF COUNTY DEBT STRATEGY PAPER

The objective of public debt management 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 prudent degree of risk, and to promote development of the domestic debt market while ensuring the sharing of benefits of public debt between the current and future generation. In addition, it aims at facilitating County's access to financial markets as well as supporting development of a well-functioning vibrant debt policy.

The County Treasury intends to review the strategy annually and submit it together with the County Fiscal Strategy Paper (CFSP). The CDMSP 2018 will cover for the County debt management operations over FY2018/2019 and over the medium term. 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.

2.0 LEGAL FRAMEWORKS FOR BORROWING

The County Government draws borrowing powers from Article 212 of the Constitution of Kenya which allows county governments to borrow on guarantee by national government and approval by the county assembly; and the PFM Act. 2012. The county government borrowing is particularly guided by the following sections of the PFM Act 2012: -

Section 58 provides the requirement the county government must meet before seeking national government guarantees to borrow.

Section 107 provides on the use on county government's borrowings which shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.

Section 140 and 141 provides for the role of the County Executive Committee member for finance on matters of borrowing by the county government.

Section 142 spells out terms for short term borrowing by county government entities for cash management purposes only.

Section 143 provides for County government to issue securities, whether for money that it has borrowed or for any other purpose.

3.0 COUNTY'S DEBT PORTFOLIO

The current county government overall debt portfolio stands at Kshs. 118,121,979, broken down as below. These liabilities been verified by Transition Authority and Kenya National Audit Office and will be budgeted in the FY 2018/19 budget and MTEF.

Contingent legal liabilities:

- i. CPF Financial Services(Laptrust) – Kshs. 70,621,979 as actuarial deficits;
- ii. NSSF – Kshs. 47,500,000.00, being penalties on Municipal of Eldoret;

4.0 COUNTY'S DEBT MANAGEMENT STRATEGY

The debt strategy for the period shall include:

- Budget for all debts amounting to Kshs. 118,121,979 in the 2018/19 Budget and MTEF period as indicated in Table 5.1 below.
- The County Government may seek both short-term borrowing for cash flow management and long term funding from local or international lenders to finance capital projects.
- The County Government will have established a debt management office in the County Treasury to manage county's debts.
- County Treasury to create an enabling environment for county entities and corporations to borrow.
- Any Borrowing by the County Government will be in line with the Constitution of Kenya, Public Finance Management Act 2012 and the borrowing framework by sub nationals adopted by IBEC.

5.0 DEBT REPAYMENT PLAN

The County Government will meet its debt obligations over the medium term as follows:

Table 5.1 Debt Repayment Plan

DEBT	COST	BUDGET ALLOCATIONS FOR DEBT REPAYMENT		BALANCE
		2018/19	2019/20	
CPF Financial Services(Laptrust)	70,621,979	40,000,000	30,621,979	NIL
NSSF	47,500,000	20,000,000	27,500,000	NIL
Total	118,121,979	60,000,000	58,121,979	
<i>% of Total Allocation</i>	1.50%	0.76%	0.74%	

The overall cost of the debt stands at 1.50 percent of total allocation for the 2018/19 budget; and debt budgeted for repayment in 2018/19 Budget is .76 percent of total allocations and expected to fall to 0.74 percent in the 2019/20Budget.

5.0 CONCLUSION

The 2018/19-2019/20 County Debt Management Strategy lays a framework for prudent debt management. It provides a systematic approach to decision making on borrowing to finance the budget taking into account the risks and the costs. It's imperative that the county government continues to ensure that they implement prudent debt management practices and policies for a sustainable debt position.