



**NYAMIRA COUNTY GOVERNMENT**

**COUNTY TREASURY**

**MEDIUM TERM**

**DEBT MANAGEMENT STRATEGY**

**JANUARY 2017**

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## **FOREWORD**

The budget proposals contained in the Nyamira County Fiscal Strategy Paper 2017 is balanced with the resource envelop of the county and as such the County Government of Nyamira has no plans for deficit financing in the financial year 2017/2018. However, it is worth noting that the government debt management objective remains two-fold:

- To raise resources through borrowing to meet County government budgetary requirements at a minimum cost and prudent level of risk
- To promote the development of domestic debt markets.

The Public Finance Management Act 2012 section 123 (1), Provides that 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 clearly showing its actual liability in respect of loans and its plan for dealing with those liabilities.

The strategy further outlines priorities that will assist in the financial risk reduction. It is for this reason that the Nyamira County Government recognizes the need for prudence in debt management so as to avoid unwarranted financial risks that emanates from poor debt management strategies. The County is employing significant efforts and resources to ensure improvement in the debt management as well as enhancing capacity of assessing risks.

The Nyamira County Government's debt will only realize sustainability if a prudent debt management and borrowing policy is adopted by the County Government.

**KEPHA OSORO**

**EXECUTIVE COMMITTEE MEMBER,  
FINANCE AND ECONOMIC PLANNING**

## **ACKNOWLEDGEMENT**

This is the third Medium Term Debt Management Strategy (MTDS) by Nyamira County Government to be tabled to the County Assembly under the requirement of the PFM Act 2012. This Medium Term Debt Management Strategy sets out the debt management strategy for the Nyamira County Government.

The development of this Debt Management Strategy Paper was coordinated by a team of county Economists from the department of Finance and Planning who included Mr. Paul Onyango, Mr. Nicodemus Mutinda, Ms. Grace Obwangi, Mr. Denis Muthuri and Mr. Jasper Ouma. Their unwavering commitment and team work is duly acknowledged.

Similarly and with equal measure, I also express my appreciation to Mr. Robin Achoki, the entire Treasury staff for their dedication, contributions and support that they provided during the preparation of this document.

We are particularly grateful to H.E the Governor, Deputy Governor, the County Executive Committee Member for Finance and Economic Planning for their role, direction and guidance in developing this document.

Finally, it is our sincere conviction that this 2017 Medium Term Debt Management Strategy will guide the debt management strategy for the Nyamira County Government.

**EDWARD ONDIGI**

**COUNTY CHIEF OFFICER,  
FINANCE AND ECONOMIC PLANNING**

## **LIST OF ABBREVIATION**

ALGA	Association of Local Government Auditors
ALGAE	Association of Local Government Authority Employers
ALGAK	Association of Local Government Authorities of Kenya
CIDP	County Integrated Development Plan
CT	County Treasury
DMS	Debt Management Strategy
ECM	Executive Committee Member
FDLFA	Final Draft Loan Financing Agreement
FSP	Fiscal Strategy Paper
FY	Financial Year
GDP	Gross Domestic Product
IDLA	Initial Draft Loan Agreement
IFMIS	Integrated Financial Management Information System
KENAO	Kenya National Auditor Office
KHS	Kenya Shillings
KRA	Kenya Revenue Authority
LAPFUND	Local Authorities Provident Fund
LAPTRUST	Local Authority Pension Trust Fund
LGLA	Local Government Loaning Agency
MTDS	Medium Term Debt Strategy
NCG	Nyamira County Government
NHIF	National Housing Insurance Fund
NSSF	National Social Security Fund
PAYE	Pay As You Earn
PFM	Public Finance Management
PPP	Public Private Partnership

## **EXECUTIVE SUMMARY**

The 2017 Nyamira County Government Debt Management Strategy is the third to be generated by the County Treasury. This is in line with section 123 of the Public Finance Management Act 2012 which stipulates that on or before the 28<sup>th</sup> February of 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.

This Debt Management Strategy is structured in four chapters: Chapter one provides an overview of the Debt Management Strategy and outline of the paper. The chapter further provides the legal basis for the preparation of the Debt Management Strategy Paper.

Chapter two discusses the objectives, goals and principles of debt management and the need for the County Government to develop the same.

Chapter three discusses macroeconomic framework underpinning the 2017 Debt Management Strategy as stipulated in the Fiscal Strategy Paper February 2017. Some of the macroeconomic indicators highlighted in this chapter include; GDP growth rate, interest rates and remittances from the Diasporas. The chapter has also analyzes potential financing sources for the County Government.

Chapter four provides the characteristics of Nyamira County Government public debt with emphasis on specific strategies the County Government intends to employ in dealing with debts.

# CHAPTER ONE

## 1.0 OVERVIEW OF DEBT MANAGEMENT STRATEGY

Debt Management Strategy Paper guides the County government to ensure that its debt levels stay affordable and sustainable and that any borrowing will only finance development expenditures.

Inability to repay debts can lead the County economy towards a situation known as debt distress. A county can be said to be in this situation when one or more of the following conditions hold:

- The sum of interest arrears is large relative to the outstanding stock of debt;
- A county receives debt relief in the form of rescheduling and or debt reduction from the creditors, and;
- The county receives substantial budget support from the national government through the conditional grants.

The medium term debt management strategy is prepared and executed by the County Treasury on behalf of the County Executive Committee and is formulated annually on a three year rolling basis and becomes effective only with the approval of the County Assembly. The strategy must take into account:

- The borrowing needs of the County Government;
- Fiscal responsibility principles set out in section 107 of the Act and regulation 25 of these regulations;
- Prevailing macro-economic conditions;
- Prevailing conditions of the financial markets;
- Measures to minimize borrowing costs with a prudent degree of risk;

### 1.1 Outline of the 2016 Debt Management Strategy Paper

This Debt Management Strategy paper is made up of four chapters. Chapter one provides an overview of the Debt Management Strategy and outline of the paper. The chapter further provides the legal basis for the preparation of the Debt Management Strategy Paper.

Chapter two discusses the objectives, goals and principles of debt management and the need for the County Government to develop the same.

Chapter three discusses macroeconomic framework underpinning the 2017 Debt Management Strategy as stipulated in the Fiscal Strategy Paper February 2017. Some of the macroeconomic indicators highlighted in this chapter include; GDP growth rate, interest rates and remittances

from the Diasporas. The chapter has also analyzed Potential financing sources for the County Government.

Chapter four provides the characteristics of Nyamira County Government public debt with emphasis on specific strategies the County Government intends to employ in dealing with debts.

## **1.2 Legal Basis for the Publication of the Debt Management Strategy**

The Debt Management Strategy is published in accordance with section 123 of the Public Finance Management Act, 2012. The Law states that:

*(1) On or before the 28<sup>th</sup> 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.*

*(2) 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 assumption underlying the debt management strategy; and*
- e) An analysis of the sustainability of the amount of debt, both actual and potential.*

*(3) 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.*



## CHAPTER TWO

### 2.0 OBJECTIVES OF DEBT MANAGEMENT STRATEGY

The main objective of Nyamira County Debt Management Strategy is to ensure that the Nyamira County Government meets its financing needs and its payment obligations are met at the lowest possible cost over the medium to long term, consistent with a prudent degree of risk.

Specifically, the strategy aims at:

- Covering financing needs and payment obligations, while minimizing medium and long term costs;
- Limiting risk in the public debt portfolio.

The strategy aims at providing a general policy direction that will facilitate County's access to financial markets as well as supporting future development of a well-functioning vibrant debt policy. This first formal and explicit strategy is an important step forward in enhancing transparency of the County's debt management decisions.

The 2017/2018 DMSP will cover for the County debt management operations within the period. The document is expected to guide in making decisions on debt management and demonstrate sound financial management practices, in the interest of Nyamira citizenry, credit institutions, investors and other stakeholders.

In accordance to the PFM Act section 123(3), the statement shall be published and publicized; *“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”*.

### 2.1 GOALS FOR THE DEBT MANAGEMENT STRATEGY

The Debt Management Strategy spells out the Government's debt financing plans for 2017/2018 Financial Year. In addition, the strategy provides policy framework for liability management and thus enable the county government to meet both recurrent and capital financing needs as well as financing statutory obligations.

The 2017/2018 Debt Management Strategy is also expected to provide debt ceilings for the county government. The limit must:

- Not exceed the nominal value of the total public debt that is determined in accordance with fiscal responsibility principles.
- Be specified annually in the county fiscal strategy paper and the medium term debt management strategy
- Guide the level of new annual government debt to ensure it is consistent with that limit.
- Guide the amount of county government debt(s) that are not denominated in shillings after they are recalculated at the prevailing exchange rate of the Central Bank of Kenya for the purposes of monitoring compliance with debt limits.

## **2.2 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:

- (a) Financing must be taken up in a balanced way to ensure debt sustainability over long term.
- (b) Prudence must be observed when contracting debt while taking into account the cost and risk implications.
- (c) Debt must be contracted to support expenditure in the identified County priority areas that are geared towards poverty reduction and promotion of overall County development.
- (d) Debt must be guaranteed.
- (e) The debt must be for capital projects.

### **2.2.1 Framework for approving loan guarantee to County governments**

In line with part (d) above, the County government must meet the following requirements before seeking loan guarantees from the national government:

- i. Prior to commencing negotiations with any lender, The County Treasury shall on behalf of the County Government - submit to the Cabinet Secretary for Finance a capital project financing proposal for review and advice. This advice shall be communicated back to the county government within two weeks from the date of submission;
- ii. If approved by the Cabinet Secretary for Finance, the County Treasury must make the necessary adjustments suggested by the Cabinet Secretary and thereafter proceed to begin negotiations with possible lenders. It must then prepare an Initial Draft Loan Agreement (IDLA) which shall spell out the terms and conditions of the loan;

- iii. This Initial Draft Loan Agreement must be submitted to the Cabinet Secretary for review and advice on the terms and conditions of the IDLA. A response shall be issued within two weeks from the date of submitting the IDLA;
- iv. If approved by the Cabinet Secretary, the County Treasury and the lender will make the necessary amendments suggested by the Cabinet Secretary and submit a final draft loan financing agreement (FDLFA) to the Cabinet Secretary;
- v. The Cabinet Secretary shall review this final draft loan financing agreement and submit it to the Attorney General for legal opinion which shall itself be provided within two weeks after the date of submission by the Cabinet Secretary;
- vi. The Cabinet Secretary shall send the final loan financing agreement to the county government with the opinion of the Attorney General and the Cabinet Secretary's opinion for the necessary final adjustments, if any, before formalizing the loan financing agreement.

After taking into account the legal opinion of the Attorney General and that of the Cabinet Secretary, The CEC Member for Finance with the help of the County Treasury, must:

- (a) Submit the loan agreement to the County Executive Committee for approval of the borrowing including its terms and conditions; and
- (b) After approval by the County Executive Committee, submit the loan agreement to the County Assembly for approval of the borrowing including its terms and condition.

After obtaining the County Assembly's approval, the County Executive Committee Member for Finance should submit the final draft loan financing agreement and the approval of the County Assembly to the Cabinet Secretary with an accompanying letter requesting for a national Government guarantee of the final loan financing agreement.

After receiving the request for a guarantee, the Cabinet Secretary will seek the recommendations of the Intergovernmental Budget and Economic Council as required under section 58 of the PFM Act. These recommendations shall be given not later than 30th November each year.

The Cabinet Secretary shall take into account the recommendations of the Intergovernmental Budget and Economic Council before seeking approval of the loan guarantee from Cabinet and Parliament respectively. This approval shall be given by 31st January each year.

The Cabinet Secretary shall communicate the decision of Parliament on the draft loan guarantee by 15th February each year to the respective County Executive Committee Member.

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

## **CHAPTER THREE**

### **3.0 MACROECONOMIC ENVIRONMENT, RISKS AND POTENTIAL SOURCES**

The macroeconomic framework underpinning the Medium Term Debt Management Strategy is consistent with projections in the 2017 Nyamira County Fiscal Strategy Paper. According to the Budget Policy Statement (BPS) 2017, the Kenyan economy has sustained its robust growth in the past decade supported by significant structural and economic reforms. The economy grew by 5.6 percent in 2015 compared to 5.3 percent growth in 2014. The economy further improved and grew at 6.2 percent in quarter two of 2016 up from 5.9 percent growth registered in quarter one of 2016.

Going forward, the economy is projected to expand further by 6.0 percent in 2016 and above 6.5 percent in the medium term supported by strong output in agriculture with a stable weather outlook, continued recovery of tourism and completion of key public projects in roads, rail and energy generation. In addition, strong consumer demand and private sector investment as well as stable macroeconomic environment will help reinforce this growth.

The Kenya Shilling exchange rate has continued to display relatively less volatility compared with the major regional currencies and strengthened by 1.4 percent for the period October 2015 to October 2016. The stability of the Kenya shilling exchange rate reflects improved export earnings from tea and horticulture, a reduction in the imports of petroleum products due to lower oil prices, resilient diaspora remittances and improved tourism performance

Short term interest rates remained low due to the improvement of liquidity conditions in the money market. The interbank rate declined to 4.1 percent in October 2016 from 4.9 percent in September 2016 and 21.3 percent in September 2015, while the 91-day Treasury bill rate declined to 7.8 percent from 8.1 percent and 14.0 percent over the same period

The implementation of the Banking (Amendment) Act, 2015 effective September 14, 2016, that cap interest rates on banks' loans at 4.0 percent above the base rate (currently at 10.0 percent) and sets the minimum interest paid for a saving product at 70.0 percent of the same base rate has led to the narrowing of the interest rate spread from 11.3 percent in August 2016 to 7.0 percent by September 14, 2016. As a result of the new Act, Kenya has the lowest lending rate among the East African Countries. The average lending rates which had increased to 17.7 percent in August 2016 from 15.7 percent in August 2015 have declined to 14.0 percent. Similarly, the deposit rate which had decreased to 6.4 percent in August 2016 from 6.9 percent in August 2015 have risen to 7.0 percent from September 14, 2016 as provided in the Banking (Amendment) Act, 2015.

## **Key Assumptions**

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

- i. The macroeconomic framework underpinning the strategy will remain stable during the medium term period. Forecasted GDP growth rates will be realized and variables such as inflation rates, interest rates amongst others will remain stable to minimize the cost of debt.
- ii. The macro-economic framework underpinning the 2017/2018 MTDMS is consistent with projections included in the 2017 County Fiscal Policy Statement. .
- iii. The political, social and economic environment will remain favorable during the implementation of this strategy paper.
- iv. As per the constitution, National government will guarantee county government loans;
- v. The County Government of Nyamira will adhere to the strategies contained in the debt management policy document. The CFSP will guide the borrowing requirements.
- vi. Appropriate enabling debt management framework exist (adequate legal framework; effective institutional arrangements and comprehensive and efficient debt recording).

### **3.1 Potential source of borrowing**

The potential sources of Loans for Nyamira County Government falls under two categories:

- a) Domestic sources of Loans
- b) External sources of loans

#### **3.1.1 Domestic Sources offunding**

Potential sources of domestic funding to the County Government will consist of borrowing from Financial and non-financial institutions.

#### **3.1.2.External sources offunding**

The main sources include Loans and grants from multilateral, bilateral organizations. However this kind of borrowing must get approval and guarantee from the National Treasury. It should also be noted that, under the PFM Act, loans can only be used to finance development expenditure and cannot be used for recurrent expenditure. The sole exception to this rule is a bank overdraft taken for cash management purposes, which is then also restricted to a repayment period of one year orless.

## CHAPTER FOUR

### 4.0 Analysis of the Nyamira County Government situation

As at 30<sup>th</sup> June 2016, Nyamira County Government's pending bills stood at Kshs. 89,241,581.44, out of which Ksh. 32,682,505.94 were recurrent and Ksh. 56,559,075.50 were development. The table below gives a summary of the pending bills. The county intends to service the debts with the financial year's budgetary allocations.

#### PENDING BILLS AS AT 30TH JUNE 2016 (TREASURY)

NO	DEPARTMENT	RECURRENT	DEVELOPMENT	TOTAL
1	Health Services	13,060,212.00	32,465,686.20	45,525,898.20
2	Land, Housing and Urban Development	3,002,940.00	4,741,725.25	7,744,665.25
3	Public Service Board	306,240.00	-	306,240.00
4	Agriculture, Livestock and Fisheries	2,625,104.00	2,099,780.00	4,724,884.00
5	Water and Environment	177,000.00	211,316.25	388,316.25
6	Education and ICT	5,010,512.00	2,330,353.80	7,340,865.80
7	Office of The Governor	2,894,271.00	-	2,894,271.00
8	Gender, Youth and Sports	-	-	-
9	Trade, Tourism and Corporative	26,000.00	6,593,275.00	6,619,275.00
10	Transport, Road and Public Works.	2,107,994.94	-	2,107,994.94
11	Finance and Planning	863,246.00	-	863,246.00
12	Public Administration & Co-Ordination of Decentralized Units	1,807,506.00	5,176,629.00	6,984,135.00

13	Pending Bills With Queries Awaiting Further Verification	801,480.00	2,940,310.00	3,741,790.00
	<b>TOTAL</b>	<b>32,682,505.94</b>	<b>56,559,075.50</b>	<b>89,241,581.44</b>

In addition, as at 30<sup>th</sup> June 2016, the county government had a total of Ksh. 572,358,790 as committed obligation. The table below gives a summary of the committed obligation.

<b>SUMMARY PER DEPARTMENT</b>		
<b>NO</b>	<b>DEPARTMENT</b>	<b>TOTAL</b>
1	Health Services	268,667,881
2	Land, Housing and Urban Development	-
3	Public Service Board	1,213,480
4	Agriculture, Livestock and Fisheries	11,686,985
5	Water and Environment	88,486,911
6	Education and ICT	135,436,066
7	Office of The Governor	681,340
8	Gender, Youth and Sports	8,763,308
9	Trade, Tourism and Corporative	5,833,550
10	Transport, Road and Public Works.	38,088,575
11	Finance and Planning	3,507,188
12	Public Administration & Co-Ordination of Decentralized Units	9,993,506
	<b>TOTAL</b>	<b>572,358,790</b>

#### **4.1 Strategies to deal with the County debts in 2016-2017F/Y**

- The funds due to the personal/staff and unprocessed vouchers are to be given first priority.
- Inspection and acceptance exercise to be carried out on all completed works before payments are done.
- Stalled projects to be inspected before they are re-budgeted.
- Contract management should be conducted in adherence to all statutory requirements
- Strengthen county audit and legal offices
- Verification of suppliers in the county

#### **4.2 Debt reduction strategies**

The county will apply the following strategies towards the reduction of its debts:-

- Total adherence to the budgetary ceiling
- Only borrow to for developmental initiatives as stipulated by the PFM Act 2012.
- Embrace saving culture as well as revenue generation by departments
- Only engage in debt whose interest rates are sustainable to the county
- Conduct assets and liabilities assessment on quarterly basis

#### **4.3 Recommendation and way forward**

There is need for constant monitoring and review of performance and progress made on the medium term debt strategy. The quarterly County debt report and the annual review of performance of the previous quarter which will reveal possible risks and recommend measures to mitigate in the subsequent quarter.

County debt information should be published more regularly to enhance transparency on debt management in accordance with best international practices.



