KISII COUNTY GOVERNMENT

FINANCE, ECONOMIC PLANNING AND ICT SERVICES DEPARTMENT

COUNTY DEBT MANAGEMENT STRATEGY PAPER

FOR FINANCIAL YEAR 2023/2024

FEBRUARY, 2023

FOREW0RD

The Debt Management Strategy Paper (DMSP) is prepared in pursuant to the requirements of Section 123 (1) of the Public Finance Management (PFM) Act, 2012. The strategy takes into account the existing stock of County arrears as at 31st December 2022 and the strategies to address them. The DMSP is an integral part of prudent management that informs optimal strategy for funding the debt (arrears).

The 2023 DMSP outlines refinancing measures necessary to reduce the costs and risks involved in the management of debts. The strategy considers existing stock of debt and potential financing strategies. The DMSP is aimed at ensuring that County debt is managed to sustainable levels through an in-depth analysis of the existing debt level, associated risks and strategies to address its management and sustainability. This will only be realized if fiscal prudence is ensured in the management of county's resources and more emphasis laid on operational efficiency. This will go a long way in ensuring that the financing needs and payment obligations of the County are met at the lowest possible cost and guaranteed debt sustainability.

Finally, regular reviews of the 2023 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 2023 is aimed at outlining strategies to address the payment challenges of the unpaid sums to contractors and suppliers.

Kennedy Okemwa Abincha

County Ececutive Committee Member, Finance and Economic Planning

ACKNOWLEDGEMENT

The preparation of the Debt Management Strategy Paper is a regular exercise aimed at providing appropriate guidance to financing county debt and which seeks to comply with Section 123 (1) of the PFM Act, 2012. This Debt Management Strategy Paper provides guidelines and strategies on how the County Government intends to prudently manage its actual and potential debt over the medium term.

It is worth noting that the preparation of DMSP is a relatively technical process because of inadequate and quality input data and thus determining an appropriate tool from which we can reliably determine an optimal debt management strategy. To ensure wide circulation of the DMSP we shall upload the same into our official website.

I would like to acknowledge the immense contributions of staff from the County Treasury who spearheaded the preparation process of this DMSP and whose valuable input will go a long way in enhancing efficiency in the county government.

Dr. Kennedy Ben Mwengei Ombaba
Chief Officer, Economic Planning and ICT.

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 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.

(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.

TABLE OF CONTENTS

TABLE OF CONTENT

LIST OF ABBREVIATION

ADP	Annual Development Plan
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
DMSP	Debt Management Strategy Paper
FY	Financial Year
GCP	Gross County Product
IFMIS	Integrated Financial Management Information System
KCG	Kisii County Government
KHS	Kenya Shillings
OSR	Own Source Revenue
PFMA	Public Finance Management Act

EXECUTIVE SUMMARY

The County's major challenges in Public Financial Management (PFM) are the accumulation of expenditures arrears. Debt is referred to as the financial obligations incurred by any level of the public entity for which remain unpaid when due. The overdue payments may be caused by particular legal obligation (such as payment of social security benefits, or salaries), specific contractual commitment (such as payment for the construction of a workshop in a vocational centre), or a continuing arrangement (such as payment for water bills).

The rising debt levels in the recent past which has become one of the key economic policy issues facing the County Governments. The County debt as at 31st December stood at Ksh 1,260,649,937 comprising of money owed to various contractors and suppliers of goods and services commonly known as pending bills and 626 million for Lap trust and Lamp fund respectively. This Strategy seeks to propose strategies to address this debt and alternative sources of funding.

Given that these debts date as early as 2014/15 financial year and have been accumulating with time, they have impacted negatively on the ability of the County Government to undertake development projects and also deliver services effectively. At the same time, this scenario not only creates a bad image of the county government but also put the county government into conflict with the service providers who have rendered service to the county but have not been paid. This Debt Management Strategy Paper (DMSP) provides strategies and financing options to address the debt issues in the County.

The strategy is structured into four sections where each section highlights a specific segment of the paper .Section one gives the background information, the objectives of Debt Management Strategy Paper, scope and status of the county debt.

Section Two discusses key assumptions and potential financing sources. Section Three provides the proposed strategies in 2023 DMSP while Section Four provides conclusions and recommendations.

SECTION ONE

1.0 BACKGROUND INFORMATION

The legal framework as provided for in the Constitution and the Public Finance Management Act requires the County Governments to disclose specific fiscal risks with potentially significant impact on the county economic environment, and to prudently manage such risks. In particular, Article 225 of the Constitution read together with Section 96 of the PFM Act gives the Cabinet Secretary responsible for Finance powers to stop any transfer of funds to a County Government whenever such County Government is in persistent material breach of its obligations or failure by County Governments to make payments as and when due, or default on financial obligations may indicate material breach of legally established measures.

The County Government has been facing the challenge of the growth of debt portfolio which affects service delivery to the County residents and hence there is need for a robust debt management strategy in conformity with the Public Finance Management Act (PFMA). DMSP 2023 provides the direction in which the County Government intends to meet its financial obligations during the period.

1.1 OBJECTIVES OF THE DEBT MANAGEMENT IN KISII COUNTY

The main objective of this paper is to ensure that the County debt is managed to sustainable levels as it undertakes implementation of the strategies proposed in this Paper. The other objective of this paper is to service the existing debt portfolio in the County so as to avail enough resources for efficient and effective service delivery.

1.2 SCOPE

The scope for coverage of the County debt portfolio includes the debt contracted by the Kisii County government between the Financial Year 2014/15 and 2022/23.Time horizon of DMSP is 2023/2024.The starting point of the analysis is the debt portfolio as at 31st December 2022.

1.3. STATUS OF THE COUNTY DEBT

The Kisii County Overall debt as at 31st December 2022 stood at KShs **1,260,649,937** majorly comprising of unpaid suppliers and contractors across the County Government departments. Table 1 indicates a summary of outstanding debts as at 31st December 2022 for both development and recurrent department wise.

Table **1: Pending Bills by Department (KShs Millions) as at 31st December 2022.**

	Department	**Development**	**Recurrent**	**Outstanding Pending Bills Amount As at 31st December 2022**
1	Public Service, County Administration and Participatory Development	45,410,831	33,206,061	78,616,892
2	Trade, Tourism, Industry and Marketing	10,626,729	27,613,363	38,240,092
3	Water, Environment , Natural Resources and Climate Change	73,300,601	30,640,034	92,899,135
4	Agriculture, Fisheries, Livestock Development and Irrigation	110,942,344	44,846,962	104,349,306
5	Lands, Physical Planning	49,143,035	21,317,770	70,460,805
6	County Executive	22,719,911	34,785,030	57,354,941
7	Medical Services, Public Health and Sanitation	33,559,446	53,686,190	56,893,078
8	Youth, Sports ,Culture, Arts and Special Services	50,937,511	4,259,152	55,196,663
9	Finance, Economic Planning and ICT Services	2,322,320	79,171,477	67,981,360
10	Infrastructure, Energy and Public works	568,254,965	16,721,183	570,844,952

11	Kisii Municipality	25,241,567	21,209,915	33,874,697
12	Education, Techinical Training, Innovation and Social Services	31,692,268	2,245,749	33,938,017
13.	Lap trust	600,000,000	-	600,000,000
14.	Lapfund	26,000,000	-	26,000,000
	Total	**1,024,151,528**	**369,702,887**	**1,886,649,938**

Source: County Treasury

The County Debt as at 31st December,2022 was KShs **1,886,649,938** comprising of pending bills owed to contractors and suppliers and Laptrust and Lapfund respectively.

SECTION TWO

2.0 KEY ASSUMPTIONS, RISKS AND POTENTIAL FINANCING SOURCES

2.1 Key Assumptions

Kisii County contributes 2.0 per cent of the national GDP annually according to the Gross County Product (GCP) 2021 report. To uplift livelihoods within the County, over the medium-term resources will be channeled to environmental conservation, provision of clean water, primary health care, infrastructural development, food security and urban development.

Disbursements from the National Government are insufficient to finance programs and projects proposed in the ADP 2023/2024.This will be addressed by seeking development partners to fill the financing gaps. In addition, the County will also work with other counties in the Lake Region Economic Block in addressing development challenges facing residents of the region.

To address shortfall in Own Source Revenue targets, the County Government will make structural adjustments that will see a growth trajectory.

Over the medium term, the County Government will strengthen its fiscal policies to achieve set targets by directing resources towards the key priority areas namely; wealth creation, social development, sustainable environmental conservation, enablers and ICT and deepening devolution and governance.

Implementation of the County post Covid-19 Economic Recovery Strategy, availability of favorable weather conditions and full reopening of the economy are expected to grow the county economy at a projected annual higher rate.

2.2 Risks

The county economy will continue facing risks arising from public expenditure pressures; particularly wage related recurrent expenditures and payment of pending bills. The erratic weather-related shocks could impact adversely on agricultural output, leading to increase in food prices and hence putting pressure on households' expenditure leading to inflation.

Unpredictable weather conditions and dynamic climatic change affects at the implementation of most development projects in the County.

Late Exchequer releases affects implementation of projects

The unmet revenue targets effects project implementation.

2.3 Potential Financial Sources

The potential financing sources include:

i) Own Source Revenue (OSR)

The preferred source of financing in the County remains our own revenues in view of the cost and risk of other sources of financing.

ii) Loans and Grants from Development Partners

The government will reach out to development partners through proposal writing to finance its capital projects.

iii) Public Private Partnerships

The County departments will develop modalities of partnering with the private sector in undertaking some projects. This will spread the cost hence a reduction in pressure on the County budget.

SECTION THREE

3.0 PROPOSED STRATEGIES in the 2023 DMSP

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: Prioritise allocation for pending bills: Budgetary allocation on the pending vote will be prioritised and the same decentralised 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 defict: 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 paid.

SECTION FOUR

4.0 CONCLUSION

The following conclusions and recommendations have been outlined in this Debt Management Strategy Paper;

The 2023 DMSP is a robust framework for prudent debt management. It provides a systematic approach to decision making on the appropriate strategies of addressing the County debt and alternative sources of funding. The County governments is sustainable hence it is imperative that the County Government continues to implement prudent debt management practices. This debt is expected to reduce substantially in this financial year and over the medium term once the on-going verification exercise is completed by the Pending Bills Committee. This will provide room for the payment of eligible bills.