



# **KISII COUNTY GOVERNMENT**

## **FINANCE AND ECONOMIC PLANNING DEPARTMENT**

### **COUNTY DEBT MANAGEMENT STRATEGY PAPER FOR FINANCIAL YEAR 2021/2022**

**FEBRUARY, 2021**

## **FOREWORD**

This County Debt Management Strategy (DMSP) is prepared in line with Section 123 of the Public Finance Management Act of 2012. The strategy paper details the Kisii County's strategies to offset the existing debts. Much as the County's debt level is still considered sustainable, there has been upward growth in the pending bills which unless they are properly managed are likely to have adverse effects on the planned projects and programmes implementation in the county.

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 therefore, calls for fiscal prudence in management of county's resources and emphasis of operational efficiency, so as to ensure that the financing needs and payment obligations of the County are met at the lowest possible cost and guaranteed debt sustainability. Considering the fact that the County has unpaid sums to contractors and suppliers, the DMSP 2021 is aimed at outlining strategies to address the payment challenges.

**Moses Onderi**

**County Executive Committee Member, Finance and Economic Planning**

## **ACKNOWLEDGEMENT**

As a requirement of Public Finance Management 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 Finance and Economic Planning department who were involved in the preparation of the 2021 DMSP. Specifically, the core team comprising of Mr. Peterson Nyakeri, Mr. Chrispinus Ibalai, Mr. Penuel Ondieng'a, Mr. Alfred Keter, Mr. Wycliffe Nyaundi, Richard Anunda and Allan Zablon.

Zablon Ongori  
Chief Officer, Economic Planning

## 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.

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## **LIST OF ABBREVIATION**

CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
DMSP	Debt Management Strategy Paper
FY	Financial Year
IFMIS	Integrated Financial Management Information System
KCG	Kisii County Government
KHS	Kenya Shillings
PFMA	Public Finance Management Act

## **EXECUTIVE SUMMARY**

The County government's accumulation of expenditures arrears is one of the major challenges in Public Financial Management (PFM). By government debts it refers to 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).

In the current era, debt still remains one of the major economic policy issues facing County Governments. The Kisii County Government debt has been rising steadily since the inception of devolution. The County Government's debt portfolio comprises of mainly money owed to various contractors and suppliers of goods and services.

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 2021 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 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 present County Debt Management Strategy Paper for 2021/2022 sets out the Kisii County Government's objectives, strategies and plans for the management of its debts. The paper aims at ensuring the County debt is managed to sustainable levels as the County Government implements the outlined strategies in this paper. The paper further aims at servicing the existing debt portfolio in the County so as to inject resources to the County economy for 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 2016/17 and First half of 2020/2021. Time horizon of DMSP is 2021/2022. The starting point of the analysis is the debt portfolio as at 31<sup>st</sup> December 2020.



### 1.3. STATUS OF THE COUNTY DEBT

The Kisii County Overall debt as at 31<sup>st</sup> December 2020 stood at KShs 765,729,392.88 majorly comprising of unpaid suppliers and contractors. Table 1 indicates a summary of outstanding debts as at 31<sup>st</sup> December 2020 department wise.

**Table 1: Pending Bills by Department (KShs Millions) as at 31<sup>st</sup> December 2020**

KISII COUNTY GOVERNMENT			
SUMMARY OF PENDING BILLS AS AT 31ST DECEMBER 2020			
DEPARTMENT	DEVELOPMENT	RECURRENT	TOTAL
ADMINISTRATION AND STAKEHOLDER MANAGEMNT	23,297,493.92	38,965,790.00	62,263,283.92
TRADE , TOURISM AND INDUSTRY	49,425,645.22	6,950,820.00	56,376,465.22
ENERGY, WATER, ENVIRONMENT AND NATURAL RESOURCES	142,944,968.00	12,418,622.00	155,363,590.00
AGRICULTURE, LIVESTOCK, FISHERIES AND COOPERATIE DEVELOPMENT	60,091,446.00	3,175,865.00	63,267,311.00
LANDS, PHYSICAL PLANNING AND URBAN DEVELOPMENT	61,138,282.29	3,619,659.00	64,757,941.29
COUNTY EXECUTIVE		12,750,018.00	12,750,018.00
HEALTH SERVICESS	16,698,918.20	-	16,698,918.20
CULTURE, YOUTH, SPORTS AND SOCIAL SERVICES	39,539,974.42	7,323,357.73	46,863,332.15
FINANCE AND ECONOMIC PLANNING	7,076,006.65	1,315,500.00	8,391,506.65
ROADS , PUBLIC WORKS AND HOUSING	191,767,843.32	25,034,668.63	216,802,511.95
KISII MUNICIPALITY	35,417,985.50	-	35,417,985.50
EDUCATION, LABOUR AND MANPOWER DEVELOPMENT	26,776,529.00	-	26,776,529.00
<b>TOTAL</b>	<b>654,175,092.52</b>	<b>111,554,300.36</b>	<b>765,729,392.88</b>

The County Debt as at 31<sup>st</sup> December, 2020 was KShs 765,729,392.88 comprising of both development and recurrent expenditures across departments. Departments with the highest debt are Roads, Public Works and Housing KShs 216,802,511, Energy, Water, Environment and

Natural Resources KShs 155,363,590, Lands, Physical Planning and Urban Development KShs 64,757,941 respectively.

The departments with the lowest debts are Finance and Economic Planning KShs 8,391,506.65, County Executive KShs 12, 750,018 and Health Services KShs 16, 898,918 respectively.

## **SECTION TWO**

### **2.0 KEY ASSUMPTIONS, RISKS AND POTENTIAL FINANCING SOURCES**

#### **2.1 Key Assumptions**

The macroeconomic framework underpinning the DMSP is consistent with the projections included in the 2021 County Fiscal Strategy Paper (CFSP). It is hoped that fiscal policy will continue supporting the economic activity within the context of a sustainable public financing. In the FY 2021/22, the County has re-oriented expenditure towards priority programs such as increased Health care services, efficiency and effectiveness, water reticulation and environmental conservation, Food production and roads and Urban infrastructure development. This process has been strengthened by a revamped legislative framework to enable accommodation of critical programmes that will accelerate socio-economic development.

The medium term outlook for 2021-22 assumes a balanced budget with no deficits. In order to realize the budget objectives, the County needs to realize all the potential revenues both from the national government and internally generated revenues to finalize all the budget activities.

#### **2.2 Risks**

Risks from the global economies relate to persistence of the COVID-19 pandemic and required lockdowns, voluntary social distancing and its effect on consumption, the ability of laid off workers securing employment in other sectors, rising operating cost to make work places more hygienic and safer, reconfiguration of disrupted global supply chains, extent of cross-border spill overs occasioned by weaker external demand and funding shortfalls.

On the domestic front, risks will emanate from weaker external demand, reduced tourist arrivals and containment measures due the COVID-19 pandemic. In addition, the economy will continue to be exposed to risks arising from public expenditure pressures, particularly wage related recurrent expenditures and the erratic weather-related shocks that could have negative impact on agricultural output leading to higher inflation that could slow down growth.

The County Government is continually monitoring these risks and taking appropriate measures to strengthen resilience in the economy. To cushion its residents against the downsides of the risks, the County Government is preparing the Post COVID-19 Recovery Strategy to protect

lives and livelihoods. Implementation of the County priorities will unlock better growth, and positively impact on the lives of people through jobs creation and poverty reduction.

### **2.3 Potential Financial Sources**

In line with the Constitution and the Public Finance Management (PFM) Act of 2012, the principle of sharing the burdens and benefits of the use of resources and public borrowing between the present and future generation implies that we have to make prudent policy decisions today so that we do not impose an unwarranted debt burden on future generations. Adherence to the ratio of development to recurrent expenditures of at least 30:70 over the medium term, as set out in the PFM Act is crucial and statutory leaving little resources to debt servicing. The preferred source of financing in the County remains our own revenues in view of the cost and risk of other sources of financing.

The other potential financing sources include:

**i) Engineering Procurement and Construction**

This is where the contractor finances the projects and the county contributes in kind for things like land.

**ii) Borrowing from, the money and capital markets**

The county will pursue to engage in public private partnerships to finance projects. The process is very rigorous and requires approval from the National Treasury.

## **SECTION THREE**

### **3.0 PROPOSED STRATEGIES in the 2021 DMSP**

During the implementation period of this DMSP, the County government will resort to the following debt reduction 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 the internal audit department of the County or 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.

**Strategy 4: Enhancing credibility and realism of the budget:** One of the first steps in addressing a persistent arrears problem in the County is to strengthen the realism of the annual budget. This will depend on 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. In this regard, the County Treasury will draft a payment guideline that will prioritize payment based on urgency, availability of funds and the age of the payment.

## SECTION FOUR

### 4.0 CONCLUSIONS AND RECOMMENDATIONS

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

#### 4.1 CONCLUSION

The 2021 DMSP is a robust framework for prudent debt management. It provides a systematic approach to decision making on the appropriate composition of debt finance taking into account both cost and risk.

The Kisii County Government (KCG) current debt level is sustainable and therefore, it is imperative that the County Government continues to implement prudent debt management practices.

#### 4.2 RECOMMENDATIONS

The following recommendations have been proposed in this Debt Management Strategy;

1. **Availability of information on the reporting of debt management strategies and operations:** Materially important aspects of debt management operations should be publicly disclosed. The County Assembly and the members of public should be informed through an annual report on the context in which debt management operates and in the outcomes of the debt management strategy.
2. **Accountability and assurances of integrity by the department responsible for debt management:** Debt management activities should be audited annually by external auditors. In addition, there should be regular internal audits of debt management activities, and of systems and control procedures.
3. **Staff involved in debt management should be subjected to a code-of-conduct and conflict of interest rules regarding the management of their personal financial affairs:** This will help to allay concerns that staff's personal financial interests may undermine sound debt management practices.
4. **Debt management activities should be supported by an accurate and comprehensive management information system with proper standards:**

There is need to give priority to developing accurate debts, recording and reporting systems. This will not only be useful for proper debt updates and ensuring timely

payment of debt service, but/and also for improving the quality of budgetary reporting and the transparency of County government financial reports.