



REPUBLIC OF KENYA

THE NATIONAL TREASURY AND PLANNING

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THE NATIONAL TREASURY
P.O. Box 30007 - 00100
NAIROBI

*② Head, take the
Process taking
to register, cover
and approval
committee
pages
6/6/22*

When replying please quote

Ref No. DMD 4/259

2nd June, 2022

Mr. Michael Sialai, CBS
Clerk to the National Assembly
Parliament Buildings
P.O. Box 41842-00100
NAIROBI.

*①
DLP
to be tabled
in house and
subsequently
processed.*

05 JUN 2022

Dear *Sialai,*

**THE NATIONAL GOVERNMENT GUARANTEE FOR LAIKIPIA COUNTY
GOVERNMENT TO BORROW KSHS. 1.16 BILLION**

@/6/2

The National Treasury and Planning is in receipt of the Cabinet approval vide letter Ref: CAB/GEN.3/1/1/VOL.XVIII/42, to issue a Guarantee to Laikipia County to borrow Kshs. 1.16 billion through issuance of a domestic Infrastructure Bond.

Section 58 (1) of the PFM Act, 2012 gives powers to the Cabinet Secretary responsible for finance to 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 unless—

- (a) the loan is for a capital project;
- (b) the borrower is capable of repaying the loan, and paying any interest or other amount payable in respect of it;
- (c) in the case of a private borrower, there is sufficient security for the loan;
- (d) the financial position of the borrower over the medium term is likely to be satisfactory;
- (e) the terms of the guarantee comply with the fiscal responsibility principles and financial objectives of the national government;

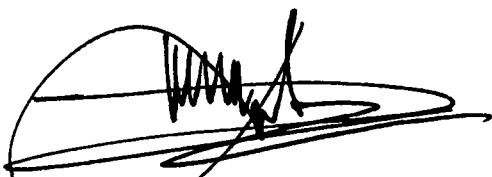
- (f) where Parliament has passed a resolution setting a limit for the purposes of this section— (i) the amount guaranteed does not exceed that limit; or (ii) if it exceeds that limit, the draft guarantee document has been approved by resolution of both Houses of Parliament;
- (g) the Cabinet Secretary takes into account the equity between the national government's interests and the county government's interests so as to ensure fairness;
- (h) the borrower complies with any conditions imposed by the Cabinet Secretary in accordance with the regulations;
- (i) 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
- (j) the loan is made in accordance with provisions of this Act and any regulations made thereunder.

The National Treasury has complied with all the necessary provisions of the law regarding the Laikipia County government borrowing including seeking approval of the Intergovernmental Budget and Economic Council and Cabinet.

Attached herewith is a Sessional Paper seeking the National Assembly's approval on issuance of the Guarantee. A copy of the resolutions of the Intergovernmental Budget and Economic Council and Cabinet approval on the same is also attached.

The purpose of this letter is to request you to table the Sessional Paper in the National Assembly.

Yours *Sincerely,*



HON. (AMB.) UKUR K. YATANI, EGH
CABINET SECRETARY, THE NATIONAL TREASURY AND PLANNING

Encl.



THE NATIONAL ASSEMBLY

DATE: 07 JUN 2022

Monday

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Marah Mwan

REPUBLIC OF KENYA

THE NATIONAL TREASURY AND PLANNING

SESSIONAL PAPER NO.....2022

GOVERNMENT GUARANTEE ON BORROWING BY ISSUANCE OF KSH 1.16 BILLION INFRASTRUCTURE BOND BY LAIKIPIA COUNTY GOVERNMENT

1. In accordance with the provisions of Section 58 (1) of the Public Financial Management Act 2012, the following information is laid before the National Assembly for consideration and approval.
2. Laikipia County Government is one of the 47 counties established under the Constitution of Kenya and therefore qualifies to seek a National Government guarantee to borrow as provided for under Section 58(1) of the PFM Act.
3. Laikipia County Government submitted a request to the National Treasury for a guarantee to issue Ksh 1.16 billion Infrastructure Bond.
4. This is the first County that has submitted a request for the guarantee for the issuance of a domestic bond in the form of an Infrastructure Bond
5. The main objective of the Infrastructure Bond is to implement projects that involve provision of water for production, improvement of business environment by upgrading markets and town's infrastructure which will provide additional jobs to the people of Laikipia hence improve their household income and livelihoods.
6. The National Treasury has reviewed the documents submitted by the County requesting for a guarantee and note that;

- i. The County has followed the laid down procedures of borrowing as per the PFM Act, 2012 and its attendant County Regulations;
- ii. The County has obtained all approvals and other borrowing requirements and terms and conditions as required for the issuance of the guarantee;
- iii. Demonstrated that the project could not be financed on other reasonable terms and conditions without a government loan;
- iv. Adopted a unified approach in Project Cycle Management that includes the preparation, appraisal and management of public investment projects that is consistent with the standards applied by the National Government;
- v. The conditions precedent for the implementation of the project have been met including:
 - a. Land acquisition, compensation and resettlement of persons affected and stakeholder management: The projects are under Laikipia County owned land and will require no compensation and resettlement exercise;
 - b. Detailed designs have been completed and relevant approvals obtained where applicable
 - c. Necessary regulatory approvals have been granted
 - d. Detailed resource requirement including sources of funding and personnel to operationalize the project have been planned for:
and
 - e. Undertaken to capture the project details in the pipeline of Public Investment Management Information System. Laikipia County has undertaken to manage the projects through Integrated Financial Management Information System and will be on boarded to other systems that the National Government may provide.
- vi. Provided the projected cash flow clearly setting out projected disbursement schedule and repayment plan;

- vii. Undertaken to contribute a substantial portion of project funds from their own resources and in any case not less than fifteen (15) percent; and
 - viii. Demonstrated that the proposed feasible projects have been approved by the County Government as required by county legislation.
7. The law requires that upon receipt of the request from the county government, the Cabinet Secretary to the National Treasury shall seek the recommendations of the Intergovernmental Budget and Economic Council (IBEC) in fulfillment of the requirements of section 58(2)(i) of the Act; and take into account the recommendations of the Intergovernmental Budget and Economic Council, to approve or reject the request. IBEC in its 15th ordinary session approved the recommendation for the County Government of Laikipia to borrow Kshs. 1.16 billion through issuance of the infrastructure bond at the indicative coupon.
 8. The County Government has demonstrated that;
 - o the Bond is to be issued for Capital Projects as per the approved projects provided;
 - o the County is capable of repaying the loan through the revenue projections as submitted; and
 - o the financial position of the County is satisfactory even in the medium term with increased allocations from own sources of Income and other Equitable and Conditional grants.
 9. The National Government through the National Treasury supports Laikipia County issuance of an Infrastructure Bond of Kshs 1.16 billion as it will be within the debt ceiling as currently set at Kshs. 9 trillion.
 10. The proposed Laikipia County Infrastructure bond is of a seven (7) years tenor with an indicative interest rate of 12 per cent per annum, with a bullet repayment at the end of the 7-year maturity period. This is only indicative as the actual pricing will be determined by the market when the issuance takes place. Based on Laikipia County performance, the County will be able to meet its debt service obligations when it falls due.

11. The Senate is requested to approve the National Government Guarantee for the issuance of an Infrastructure bond of **Ksh 1.16 billion** for Laikipia County.
12. The current total contingent liabilities of the Government of Kenya in respect to the Public Financial Management Act, 2012 section 58 (2) (f) other than those specified in the schedule to the Act amount to **Kshs 160.32 billion** and with the guarantee of a sum equivalent to **Kshs 1.16 billion** the aggregate amount will be **Kshs. 161.48 billion** which will fall within the public debt ceiling set at **Kshs. 9 trillion** in accordance with the PFM (National Government) Regulations, 2015.

HON. (AMB). UKUR K. YATANI, E.G.H.
CABINET SECRETARY/NATIONAL TREASURY & PLANNING

DATE.....



REPUBLIC OF KENYA
OFFICE OF THE DEPUTY PRESIDENT

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NAIROBI

When replying please quote

Ref: ODP/ADM.1/93 (76)

25th November, 2021

Dr. Julius Muia, CBS
Principal Secretary
National Treasury
NAIROBI

Dear *Julius,*

PROPOSED BORROWING OF KSHS. 1.16 BILLION BY COUNTY GOVERNMENT OF LAIKIPIA THROUGH INFRASTRUCTURE BOND

The Intergovernmental Budget and Economic Council (IBEC) pursuant to the request Ref No. DMD. 4/259 dated 12th October, 2021 by the Cabinet Secretary/ National Treasury and Planning under section 58 of the Public Finance Management Act 2012 at its 15th ordinary session approved the recommendation for the County Government of Laikipia to borrow Kshs. 1.16 billion through issuance of an infrastructure bond at an indicative coupon rate of 12 % per annum repayable in 7 years. The purpose of this loan is to cater for the financing deficit of its development projects in FY 2021/22. These are capital investments in the upgrading of its 10 towns and market centres in accessibility, security, drainage and waste disposal systems and expanding two dams to provide adequate water for commercial and domestic use as listed below.

Table 1: List of proposed infrastructure Bond projects

| SN | Project Name | Amount (kshs.) | Location/ward |
|----------------------------------|--|----------------------|---------------|
| A. SMART TOWNS INITIATIVE | | | |
| 1 | Karuga- infrastructure upgrade | 102,671,016 | Igwamiti |
| 2 | Nyahururu town- upgrading Jua kali roads | 120,142,043 | Igwamiti |
| 3 | Nanyuki old Bus Park- Rehabilitation | 31,127,626 | Nanyuki |
| 4 | Nkando- Laikipia road opening | 20,057,111 | Nanyuki |
| 5 | Kalalu- Infrastructure upgrade | 100,254,437 | Umande |
| 6 | Naibor- infrastructure upgrade | 90,911,525 | Segera |
| 7 | Pesi- infrastructure upgrade | 59,251,157 | Salama |
| 8 | Matanya- infrastructure upgrade | 84,766,826 | Tigithi |
| 9 | Muwarak- infrastructure upgrade and lighting | 87,641,531 | Sosian |
| 10 | Kinamba-town- infrastructure upgrade | 89,500,354 | Githiga |
| 11 | Railway road | 36,817,762 | Thingithu |
| 12 | Silent road | 19,058,254 | Thingithu |
| 13 | Bemwaki Towers roads | 46,869,614 | Thingithu |
| 14 | Wiyumiririe Town – infratruscture upgrade | 93,525,747 | Thingithu |
| 15 | Doldol- infrastructure upgrade | 98,795,413 | Mukogodo East |
| | SUBTOTAL | 1,082,390,416 | |

| | | | |
|----|--------------------|----------------------|---------------|
| 16 | Ipolei Dam | 67,500,000 | Mukogodo West |
| 17 | Wangwaci Dam | 98,736,939 | Olmoran |
| | SUBTOTAL | 165,236,939 | |
| | GRAND TOTAL | 1,247,627,355 | |

Source: County Government of Laikipia

The approval is based on the following grounds:

- 1.1 An approved County Integrated Development Plan (CIDP) 2018-2022 containing the infrastructure bond as financing option for the projects which are compatible with the overall strategy of the County.
- 1.2 A report on the series of public participation meetings to sensitize the Laikipia citizens and seek their approval of the identified projects, financing options and repayment pursuant to Article 201(2) of the Constitution and section 207 of the Public Finance Management Act, 2012 which addresses issues of prioritization and ownership including response to any objections raised by a civil society, Laikipia East Welfare Association (LEWA), and a resident have raised objection to the issuance of the guarantee by NT on grounds of illegality, inadequate public participation, serious debt overcommitment, failure to publish a debt management register and timing of the bond, duly addressed.
- 1.3 A report on the approval by its Executive committee on 20th March 2021.
- 1.4 Reports of the approval by its county assembly of the Debt Management Strategy Paper 2021, County Fiscal Strategy paper 2021, Program based Budget 2021/22, Appropriation bill 2021, all of which refer to this bond financing. According to the County's DMSP the county does not possess any public debt as defined in law and the proposed request is the first of its kind. The measures spelt out in the CDMSP if properly implemented adequately address the inherent risk associated with the impugned borrowing proposal.
- 1.5 A report of the existence of a kshs. 3 billion fund established in partnership with the local commercial banks pursuant to its business stimulus regulation 2020 to support the MSMEs through its county enterprise development program.
- 1.6 A report of its financial capability in enhancing its own source revenue through the established country revenue board.
- 1.7 A report of its compliance with key financial responsibility frameworks prescribed under regulation 25(1) of the PFMA including meeting the 30% budgetary allocation for development; moving towards meeting the employee emoluments allocation limit of 35% by conducting staff audit, restructuring, recruitment, instituting performance management and recognition as below.

Table 2: Performance report for period 2015/16 to 2020/21

| FY | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 | 2020/21 |
|----------------------------|-------------|---------------|---------------|---------------|---------------|---------------|
| 1.Revenue realized (kshs.) | 418,151,083 | 468,924,816 | 608,463,783 | 815,790,157 | 730,967,503 | 840,396,633 |
| Percentage | Base year | - | 29.7% | 34% | - | 15% |
| 2.Development allocation | | 2,466,222,416 | 1,890,369,248 | 2,802,167,300 | 2,605,424,972 | 3,287,730,043 |
| Percentage | | 41% | 33% | 40% | 36% | 41% |
| 3.Emoluments allocation | | 2,023,164,372 | 2,320,403,831 | 2,382,859,985 | 2,638,096,991 | 2,779,507,605 |
| Percentage | | 36% | 40% | 37% | 42% | 40% |

Source: County Government of Laikipia

1.8 A report on compliance with clear financial reporting through ensuring release of quarterly financial statements to its citizens and media and improved quality annual financial statements ranging from adverse to unqualified accounts as below.

Table 3: Audit Findings for the period 2013/14 to 2019/20

| FY | 2013/14 | 2014/15 | 2015/16 | 2016/17 | 2017/18 | 2018/19 | 2019/20 |
|-------------------|---------|------------|-----------|-----------|-----------|-----------|--------------|
| Audit opinion | Adverse | Disclaimer | Qualified | Qualified | Qualified | Qualified | Un qualified |
| Number of queries | 25 | 11 | 8 | 7 | 9 | 1 | Nil |

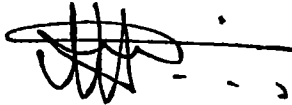
Source: County Government of Laikipia

- 1.9 A report on its credit worthiness through participation in a voluntary assessment by Global Credit Rating (GCR) attaining a rating of BB+(KE) stable outlook for Issuer Long term, National; and B(KE) for Issuer short term, National.
- 1.10 A report on financial prudence by the NT for commendation in fully settling its pending bills in 2020 and the County's commitment to settle its future liabilities as they fall due.
- 1.11 Reports by International Budget Partnership in 2019 and 2020 which ranked the county 2nd and 1st respectively among the 47 counties in Kenya in respect of access to public availability of key budget documents.
- 1.12 Reports on provision of essential information for potential investor decision making through consistent publication of its Statistical abstract since 2018; labour survey 2020 and mining survey 2020.
- 1.13 A report of compliance with the requirement of the Public Investment Management (PIM) Regulations 2021 by putting in place a team (with the assistance of the NT's Public Debt Management Office) to conceptualize, identify and prepare the requisite bond documents including detailed feasibility studies, approved designs, approved regulatory requirements, acquired projects land, developed adequate project managements personnel, pipelined the projects and installed project administration and management systems. NT having confirmed from the feasibility studies/ concept papers the economic desirability of the projects.
- 1.14 A report of the socio-economic impacts analysis demonstrates that from the increased water production, the County's GCP will rise by over Kshs. 2 billion with revenue collection in excess of Kshs. 213 million. Similarly, infrastructure upgrades will attract more investments including innovations and manufacturing, expand existing enterprises by an injection of over kshs. 25 billion to the County's GCP with revenues in excess of Kshs. 429 million.
- 1.15 A report of having made available in its budget its 15% contribution to the overall projects cost, that is, Kshs 190 million.
- 1.16 A report of compliance with the borrowing threshold of 20% of its last audited revenue FY 2018/19, that is, 20% of Kshs. 6, 444,983, 793 is kshs. 1, 288, 396,758.60 which is within the borrowing of kshs. 1, 160,000,000.
- 1.17 A report of the approved projected cash flow shows that the projected disbursement schedule and repayment plan is feasible, that is, Interest of kshs. 67,713,260 paid half-yearly (14 instalments) and the principle amortized in 8 equal instalments of kshs. 145,000,000 from 2025.
- 1.18 NT having confirmed that there is adequate fiscal space within the overall debt ceiling to cover the proposed Laikipia County borrowing if approved.

1.19 Control institutions such as the internal audit and Controller of Budget shall provide necessary monitoring mechanism to enable accountability to the county assembly.

Please take necessary measures to facilitate guarantee and further approval.

Yours *sincerely,*



Dr. Patrick Omutia, CBS
Special Secretary - IBEC

Copy to : **Hon. (Amb) Ukur Yatani, EGH**
Cabinet Secretary
The National Treasury
NAIROBI

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 RECEIVED
 PRINCIPAL SECRETARY
 THE NATIONAL TREASURY
 2 MAY 2022
 BOX 30007 - 00100, NAIROBI



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 2 MAY 2022
 Principal Secretary
 National Treasury

EXECUTIVE OFFICE OF THE PRESIDENT
 HEAD OF THE PUBLIC SERVICE

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 P.O. Box 40530-00100
 Nairobi, Kenya

CAB/GEN.3/1/1/VOL.XVIII/42

SECRET

25th May, 2022

Ref. No.
 and date

cc: DA BREA

Dr. Julius M. Muia, PhD, CBS
 Principal Secretary/National Treasury
 National Treasury & Planning
 NAIROBI

DIRECTOR GENERAL
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 30 MAY 2022 778
 THE NATIONAL TREASURY
 PUBLIC DEBT MANAGEMENT OFFICE

| PS TREASURY OFFICE | |
|--------------------------|-------------------------------------|
| Take Necessary Action | <input checked="" type="checkbox"/> |
| Please See Me | <input type="checkbox"/> |
| Please Review and Advise | <input type="checkbox"/> |
| Note | <input type="checkbox"/> |
| To Keep in View | <input type="checkbox"/> |
| Noted & Appreciated | <input type="checkbox"/> |
| Please Let's Discuss | <input type="checkbox"/> |

Mr. Saitoti Torome, CBS
 Principal Secretary/Planning
 The National Treasury & Planning
 NAIROBI

Mr. Julius Korir, CBS
 Principal Secretary/Devolution
 Ministry of Devolution
 NAIROBI

② D/Policy & Audit

Mr. Kennedy N. Ogeto, CBS
 Solicitor General
 State Law Office & Department of Justice
 NAIROBI

*Prepare for submission
 a Sessional Paper
 for presentation to Cabinet.
 cc: Charles Kariuki
 Assist in drafting.
 H.S. 30/5/22*

Dear *Dr. Muia*,

**THE NATIONAL GOVERNMENT GUARANTEE BY LAIKIPIA COUNTY
 GOVERNMENT TO BORROW KSHS.1.16 BILLION**

I refer to the **Cabinet Meeting - 2022** held on **12th May, 2022** during which the Cabinet Secretary for National Treasury & Planning, presented Cabinet Memorandum **CAB(22)6** jointly submitted by the Cabinet Secretary for Devolution and the Attorney-General for discussion and approval.

③ Mr. Okusimba
Print and forward through memo
SECRET
the Sessional Paper
10th May 2022

DIRECTOR
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 466
 30 MAY 2022
 THE NATIONAL TREASURY
 P.D.M.O.
 DEBT POLICY STRATEGY & RISK MANAGEMENT

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The Memorandum sought to apprise Cabinet on the current status of Laikipia County application for a Guarantee. It also sought Cabinet approval to allow the National Treasury to submit to Parliament request for approval the application for National Government Guarantee by Laikipia County to borrow KShs.1.16 billion through issuance of domestic Infrastructure Bond.

The main objective of the Infrastructure Bond is to finance implementation of projects including: provision of water for agricultural production, improvement of business environment by upgrading markets and towns' infrastructure which will provide additional jobs to the residents of Laikipia hence improve their household income and livelihoods.

The guarantee request is in compliance with the Section 58 of the Public Finance Management Act 2012 and in accordance with the provisions of the Public Finance Management (County Regulations) 2015; Section 77(3).

The financial position of the County is satisfactory even in the medium term with increased allocations from own sources of income and equitable share of county revenue allocation. This borrowing will not compromise the County's financial health and the county will continue meeting its financial obligations as required.

I wish to inform you that Cabinet **considered** the Memorandum and:

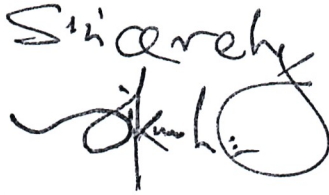
- (i) **Noted** the contents of the Memorandum;
- (ii) **Approved** the recommendations that the National Treasury seek approval of Parliament to issue a National Government Guarantee for the borrowing of Ksh.1,160,000,00 through issuance of an infrastructure Bond to fund the approved projects as submitted by the Laikipia County Government and;
- (iii) **Directed** that the Cabinet Secretary for the National Treasury and Planning; the Acting Cabinet Secretary for Devolution and the Attorney-General to take further necessary actions.

SECRET

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Please proceed and take action as directed by Cabinet.

Yours



JOSEPH K. KINYUA, EGH
HEAD OF THE PUBLIC SERVICE

Copy to: Hon. (Amb.) Ukur Yatani, EGH
Cabinet Secretary for National Treasury & Planning
NAIROBI

Hon. Eugene Wamalwa, EGH
Cabinet Secretary
Ministry of Defence &
Ag. Cabinet Secretary for Devolution
NAIROBI

Hon. Justice (Rtd.) Paul Kihara Kariuki, EGH
Attorney-General
State Law Office & Department of Justice
NAIROBI

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