

REPUBLIC OF KENYA



COUNTY GOVERNMENT OF KERICHO FINANCE AND ECONOMIC PLANNING

COUNTY DEBT MANAGEMENT STRATEGY 2025

FEBRUARY 2025

FOREWORD

The Medium-Term Debt Management Strategy (MTDS) outlines the approaches adopted by the County government for the effective management of its debt obligations. According to Section 140 of the Public Finance Management (PFM) Act 2012, a County Executive Committee Member responsible for finance is permitted to borrow on behalf of the County Government, provided that the loan's terms and conditions are documented in writing and comply with Article 212 of the Constitution, as well as Sections 58 and 142 of the PFM Act 2012, among other stipulations. The National Treasury has established guidelines for both domestic and external borrowing by counties, aimed at facilitating collaboration between the Government of Kenya (GOK), development partners, counties, and the National Government. This ensures effective coordination not only in loan management but also in the administration of grants and other forms of assistance.

The strategy delineates key priorities aimed at mitigating financial risk. Consequently, the County Government of Kericho (CGK) acknowledges the importance of exercising caution in its debt management practices to prevent excessive financial risks associated with ineffective debt management strategies. The County is dedicating substantial efforts and resources to enhance its debt management capabilities and improve risk assessment processes. This document aims to guarantee that the service and management of CGK's financial needs and payment responsibilities are fulfilled promptly and at the most economical cost over the medium to long term, while adhering to a prudent level of risk.

Hon. Jackson Rop

CECM Finance & Economic Planning and Head of County Treasury.

ACKNOWLEDGEMENT

The County Debt Management Strategy Paper is developed on an annual basis to direct the public debt management and borrowing practices of County Governments, ensuring fiscal sustainability for each financial year and over the medium term.

This document outlines the types and amounts of debt to be managed in the medium term, assessing the costs and risks associated with different debt strategies while offering recommendations for fulfilling debt obligations.

The preparation of this Debt Management Strategy Paper was led by the Economic Planning Team within the Department of Finance and Economic Planning. I would like to extend my gratitude to the Chief Officers, the Deputy Director of Budget, and their teams for their steadfast dedication and effort in crafting this policy document. I also wish to acknowledge the commitment, contributions, and support of all Economic Planning staff involved in this process. Our sincere thanks go to H.E. the Governor and the County Executive Committee Member for Finance and Economic Planning for their leadership and guidance throughout the development of this document.

Plan. Alphonse Rotich
Chief Officer Economic Planning

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1.0 Purpose

Section 123 of the Public Finance Management Act, 2012 requires that 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.

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 assumptions underlying the debt management strategy; and
- (e) an analysis of the sustainability of the amount of debt, both actual and potential.

As soon as practicable after the statement has been submitted to the County Assembly 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.

2.0 County Debt Management Strategy for Financial Year 2025-26

2.1 Objectives

Public debt management encompasses more than merely fulfilling debt obligations. It has two primary objectives.

The first objective is to ensure that the County Government's financing needs and payment responsibilities are addressed promptly and at the lowest feasible cost over the medium to long term, while maintaining a prudent level of risk.

The secondary objective focuses on managing the existing debt portfolio effectively to free up resources for service delivery.

The 2025 County Debt Management Strategy Plan (CDMSP) will direct the operations of the County Government for the 2025/2026 period. This strategy aims to strike a balance between the costs and risks associated with public debt, taking into account the County's financing requirements and exploring new funding initiatives.

Legal Basis for the Publication of the Debt Management Strategy

Section 123 of public finance management Act 2012 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 assumptions 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.

Further, section 176 of Public Finance Management Regulation 2015...states that;

County government borrowing shall be guided by the following principles—

(a) Need to ensure stability of domestic financial markets;

(b) Promotion of inter-generational equity in the sharing of burdens and benefits of public borrowing;

(c) Determination of thresholds of borrowing rights for both levels of government;

(d) Use of objective criteria for evaluating county government eligibility for national government debt guarantee; and

(e) Prudence and equity in setting limits for debt stock levels for each county government.

2.2 Macroeconomic Environment and Risks.

The global economy is holding steady, although the degree of grip varies widely across countries. Global GDP growth in the third quarter of 2024 was 0.1 percentage point below that predicted in the October 2024 WEO, after disappointing data releases in some Asian and European economies. Growth in China, at 4.7 percent in year-over-year terms, was below expectations. Faster-than-expected net export growth only partly offset a faster-than-expected slowdown in consumption amid delayed stabilization in the property market and persistently low consumer confidence. Growth in India also slowed more than expected, led by a sharper-than-expected deceleration in industrial activity.

Growth continued to be subdued in the euro area (with Germany's performance lagging that of other euro area countries), largely reflecting continued weakness in manufacturing and goods exports even as consumption picked up in line with the recovery in real incomes. In Japan, output contracted mildly owing to temporary supply disruptions. By contrast, momentum in the United States remained robust, with the economy expanding at a rate of 2.7 percent in year-over-year terms in the third quarter, powered by strong consumption.

Global disinflation continues, but there are signs that progress is stalling in some countries and that elevated inflation is persistent in a few cases. The global median of sequential core inflation has been just slightly above 2 percent for the past few months. Nominal wage growth is showing signs of moderation, alongside indications of continuing normalization in labor markets. Although core goods price inflation has fallen back to or below trend, services price inflation is still running above pre-COVID-19 averages in many economies, most notably the United States and the euro area. Pockets of elevated inflation, reflecting a range of idiosyncratic factors, also persist in some emerging market and developing economies in Europe and Latin America.

Global financial conditions remain largely accommodative, again with some differentiation across jurisdictions. Equities in advanced economies have rallied on expectations of more business-friendly policies in the United States. In emerging market and developing economies, equity valuations have been more subdued, and a broad-based strengthening of the US dollar, driven primarily by expectations of new tariffs and higher interest rates in the United States, has kept financial conditions tighter. Economic policy uncertainty has increased sharply, especially on the trade and fiscal fronts, with some differentiation across countries. Expectations of policy shifts under newly elected governments in 2024 have shaped financial market pricing in recent months. Bouts of political

instability in some Asian and European countries have rattled markets and injected additional uncertainty regarding stalled progress on fiscal and structural policies. Geopolitical tensions, including those in the Middle East, and global trade frictions remain elevated.

Energy commodity prices are expected to decline by 2.6 percent in 2025, more than assumed in October. This reflects a decline in oil prices driven by weak Chinese demand and strong supply from countries outside of OPEC+ (Organization of the Petroleum Exporting Countries plus selected nonmember countries, including Russia), partly offset by increases in gas prices as a result of colder-than-expected weather and supply disruptions, including the ongoing conflict in the Middle East and outages in gas fields. Nonfuel commodity prices are expected to increase by 2.5 percent in 2025, on account of upward revisions to food and beverage prices relative to the October 2024 WEO, driven by bad weather affecting large producers. Monetary policy rates of major central banks are expected to continue to decline, though at different paces, reflecting variations in growth and inflation outlooks. The fiscal policy stance is expected to tighten during 2025–26 in advanced economies including the United States and, to a lesser extent, in emerging market and developing economies

Global growth is expected to remain stable, albeit lackluster. At 3.3 percent in both 2025 and 2026, the forecasts for growth are below the historical (2000–19) average of 3.7 percent and broadly unchanged from October. Among advanced economies, growth forecast revisions go in different directions. In the United States, underlying demand remains robust, reflecting strong wealth effects, a less restrictive monetary policy stance, and supportive financial conditions. Growth is projected to be at 2.7 percent in 2025. This is 0.5 percentage point higher than the October forecast, in part reflecting carryover from 2024 as well

as robust labor markets and accelerating investment, among other signs of strength. Growth is expected to taper to potential in 2026.

In emerging market and developing economies, growth performance in 2025 and 2026 is expected to broadly match that in 2024. With respect to the projection in October, growth in 2025 for China is marginally revised upward by 0.1 percentage point to 4.6 percent. This revision reflects carryover from 2024 and the fiscal package announced in November largely offsetting the negative effect on investment from heightened trade policy uncertainty and property market drag. In 2026, growth is projected mostly to remain stable at 4.5 percent, as the effects of trade policy uncertainty dissipate and the retirement age increase slows down the decline in the labor supply. In India, growth is projected to be solid at 6.5 percent in 2025 and 2026, as projected in October and in line with potential.

World trade volume estimates are revised downward slightly for 2025 and 2026. The revision owes to the sharp increase in trade policy uncertainty, which is likely to hurt investment disproportionately among trade-intensive firms. That said, in the baseline, the impact of heightened uncertainty is expected to be transitory. Furthermore, the front-loading of some trade flows in view of elevated trade policy uncertainty, and in anticipation of tighter trade restrictions, provides some offset in the near term.

In the medium term, the balance of risks to the outlook is tilted to the downside, with global growth poised to be lower than its 2025–26 average and five-year-ahead forecasts at about 3 percent. Near-term risks, in contrast, could reinforce divergences across countries: they are tilted to the upside in the United States, whereas downside risks prevail in most other economies amid elevated policy uncertainty and headwinds from ongoing adjustments (in particular, energy in Europe and real estate in China).

An intensification of protectionist policies, for instance, in the form of a new wave of tariffs, could exacerbate trade tensions, lower investment, reduce market efficiency, distort trade flows, and again disrupt supply chains. Growth could suffer in both the near and medium term, but at varying degrees across economies.

2.3 Debt Sustainability.

The County Government acknowledges the critical need for prudent debt management to prevent imposing an excessive debt burden on future generations and to mitigate the risks associated with macroeconomic instability. It is essential that the volume and cost of debt do not adversely affect debt sustainability and affordability.

To ensure effective monitoring, debt sustainability indicators at the County level should be established on a daily basis, adhering to relevant guidelines. Indicators that signal a debt burden exceeding acceptable thresholds may indicate a risk of debt distress, categorized as follows;

1. Low risk- when all debt burden indicators remain significantly below the established thresholds.
2. Moderate risk- when debt burden indicators fall below the thresholds in the baseline scenario.
3. High risk – when both the baseline scenario and stress tests reveal a prolonged breach of debt thresholds.
4. Debt distress- when the County is facing challenges in meeting repayment obligations.

2.5 Transparent Information Policy.

This 2025 CDMSF plays a crucial role in promoting accountability and transparency in the management of public debt. Despite the numerous challenges encountered by the county government in its operations, it has successfully formalized its debt management strategy in accordance with the PFM Act of 2012.

3.0 IMPLEMENTING THE 2025 MEDIUM TERM COUNTY DEBT MANAGEMENT STRATEGY

This section aims to present and reinforce the fiscal, legal, institutional, and operational measures necessary to achieve the objectives of the Strategy. These measures are essential for enhancing debt management and creating a robust borrowing framework.

4.0 DEBT PORTFOLIO

This section outlines the overall debt portfolio of the County Government, detailing its composition and repayment structure. The current debt of the County Government amounts to Kshs **1,170,142,355.00**, as presented in the table below.

Type of debt	Amount (Ksh)	% Ratio
Statutory debts	244,211,072	21%
Loans & overdrafts	18,093,701	2%
Others (payments to suppliers)	204,772,111	17%
Pending Bill as of 31 st Dec 2024	703,065,471	60%
TOTALS	1,170,142,355	100.00%

4.1 Statutory debts

The statutory debts include unremitted pension funds from Laptrust and Lapfund. The pension funds associated with the Provident and Trusts Fund grow

exponentially due to accrued interest, highlighting the necessity to prioritize their settlement in the medium term. The following schedule outlines the liabilities owed by the County Government, which were inherited from the dissolved local authorities.

Item	Amount (Ksh)	% Ratio	Remarks
Lapfund (Defunct Local Authorities)	42,667,290	17.47%	Interest & penalty bearing
Lapfund (County Government)	177,400,420	72.64%	Interest & penalty bearing
Laptrust (CPF)	24,143,362	9.89%	Interest & penalty bearing
Total	244,211,072	100%	

4.2 Loans

Housing loans issued to the former Londiani Town and Kericho Municipal Council have accumulated interest and penalties. It is important to highlight that the National Housing Corporation has assumed responsibility for collecting rent from certain county properties to aid in the recovery of debts owed to the corporation. The specifics of the loans are presented in the table below.

Item	Amount (Ksh)	% Ratio	Remarks
National Housing Corporation mortgage	18,093,701	100%	Interest & penalty bearing
Total	18,093,701	100%	

4.3 Others

These typically represent obligations taken on by the now-defunct local authorities due to contracts established with suppliers of goods and services. Additionally, they encompass potential liabilities that are expected to be settled in the future. In an effort to mitigate legal responsibility, the county government will seek to address these debts.

Item	Amount (Ksh)	% Ratio	Remarks
Professional fees (Legal, audit fees)	23,549,000	11.50%	Non interest but legal implication
Supply of goods & services	181,223,111	88.50%	Non interest but legal implication.
Total	204,772,111	100%	

4.4 Pending Bills

Pending bills include payments owed to contractors and suppliers who rendered services to the county government but have not yet been compensated. These outstanding bills will be settled from the current fiscal year 2024/25 and in the following years.

RECURRENT	
DEPARTMENT	PENDING BILLS AS AT 31st Dec 2024
AGRICULTURE, LIVESTOCK FISHERIES AND COOPERATIVE DEVELOPMENT	2,776,650
EDUCATION, LIBRARIES, CULTURE AND SOCIAL SERVICES	4,232,284
FINANCE AND ECONOMIC PLANNING	15,262,576
HEALTH SERVICES	1,139,400
INFORMATION COMMUNICATION E GOVERNMENT, YOUTH AFFAIRS, SPORTS	106,736,341
EXECUTIVE OFFICE OF THE GOVERNOR	20,871,308
COUNTY PUBLIC SERVICE BOARD	3,758,600
LANDS, HOUSING AND PHYSICAL PLANNING	7,383,876
PUBLIC SERVICE MANAGEMENT	5,675,252
PUBLIC WORKS, ROADS AND TRANSPORT	17,555,487
TRADE, INNOVATION, INDUSTRIALISATION, TOURISM AND WILDLIFE	1,353,255
WATER, ENVIRONMENT, ENERGY, FORESTRY AND NATURAL RESOURCES	26,373,066
SUB TOTAL	213,118,095
DEVELOPMENT	
DEPARTMENT	PENDING BILLS AS AT 31st Dec 2024
AGRICULTURE, LIVESTOCK FISHERIES AND COOPERATIVE DEVELOPMENT	8,074,300
EDUCATION, LIBRARIES, CULTURE AND SOCIAL SERVICES	689,006
FINANCE AND ECONOMIC PLANNING	211,726,396
HEALTH SERVICES	39,999,183
INFORMATION COMMUNICATION E GOVERNMENT, YOUTH AFFAIRS, SPORTS	18,316,697
LANDS, HOUSING AND PHYSICAL PLANNING	4,940,135
PUBLIC SERVICE MANAGEMENT	12,199,431
PUBLIC WORKS, ROADS AND TRANSPORT	193,224,211
TRADE, INNOVATION, INDUSTRIALISATION, TOURISM AND WILDLIFE	-
WATER, ENVIRONMENT, ENERGY, FORESTRY AND NATURAL RESOURCES	778,016
SUB TOTAL	489,947,376
GRAND TOTAL	703,065,471

5.0 CONCLUSION

Regular monitoring and evaluation of the performance and advancements related to the County Debt Management Strategy is essential. To improve transparency in debt management and align with best international practices, county debt information will be released more frequently. It is crucial for the County Government to persist in applying sound debt management practices and policies to maintain a sustainable debt position.