COUNTY GOVERNMENT OF KITUI

COUNTY TREASURY

KITUI COUNTY DEBT POLICY AND BORROWING FRAMEWORK

October 2020

FOREWORD

The constitution of Kenya defines public debt as all financial obligations attendant to loans raised or guaranteed and securities issued or guaranteed by the national or county government. Public debt management is the process of establishing and executing a strategy for managing the government's debt in order to raise the required amount of funding at the lowest possible cost over the medium to long term, consistent with a prudent degree of risk. Public debt management performs a key role in management of sustainable macroeconomic environment in any economy. It has implications on public expenditure and also has a direct bearing on macroeconomic stability. Poorly structured public debt is associated with high costs of borrowing. The sources of such debts are important components of the cost of debt.

National government debt sources include external creditors (multilateral, bilateral and commercial lenders) and domestic market through loans and issuance of debt securities, respectively. The debt stock has been growing over time, in nominal terms due to fiscal deficit incurred to support expenditure on development projects.

In the pursuit of reducing vulnerabilities to risks of public debt, the County Treasury has formulated a Debt Policy and Borrowing Framework (hereafter simply referred as 'the Debt Policy').

The policy is meant to act as a guideline for sources and cost of debt management practices of the county government including the issuance process, management of the debt portfolio, and adherence to various laws and Regulations governing debt contracting and management. With this policy, there will be improvement in the quality of decisions, better articulation of policy goals, clearer guidelines for the structure of debt, and a demonstration of commitment to long-term capital and financial planning.

The policy emphasizes the need to adhere to the laws and Regulations governing public debt management. This is a good signal to the credit/debt rating agencies and capital markets that the government is committed to ensuring debt sustainability and therefore is likely to meet its debt obligations in a timely manner. However, there are both legislative and procedural gaps that need to be addressed to guide debt management in Counties in a way that reduces risks and cost of public debt.

The policy, prepared in line with the best practices will serve as a guide to all parties involved in public debt management in an endeavor to effectively guide public borrowing practices and laws and coordinate decisions in debt management.

Ben Katungi

CECM-County Treasury

PREFACE

Formulation of a comprehensive County Debt Policy and Borrowing Framework has come at the right time for Kenya when public debt has been in public debate and the debt stock has become a matter of concern to fiscal sustainability. The policy will play a major role in guiding on the optimal process of procuring debts/loans and management of the same in a way that optimizes benefits and minimizes costs and risks.

Preparation of the Kitui County Debt Policy and Borrowing Framework was done by the County Treasury – Economic Planning Department and involved collaborative efforts and inputs from other directorates of the County Treasury. I thank the Director: Economic Planning, Mr. Paul Kimwele and Senior Economist, Bonface Muli for their tireless work and gh research in coming up with this policy document that will take our County forward in matters concerning County public debt.

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LEGAL FRAMEWORK

The Debt Policy and Borrowing Framework is published in accordance with section 12(1) (b); section 122 and 123 of the Public Finance Management Act, 2012.

The law states that:

(i) Subject to the Constitution and this Act, the National Treasury shall- Manage the level and composition of national public debt, national guarantees and other financial obligations of national government within the framework of this Act and develop a framework for sustainable debt control.

(ii) County Treasury shall maintain record of county government loans.

(iii) County Treasury shall submit county government Debt Management Strategy to County Assembly

GLOSSARY OF TERMS

i) Concessionality

A measure of the softness of a credit reflecting the benefit to the borrower compared to a loan at market rate. Technically, it is calculated as the difference between the nominal value and the present value of the debt service as of the date of disbursement, calculated at a discount rate applicable to the currency of the transaction and expressed as a percentage of the nominal value.

ii) Debt Service

The amount of funds used for repayment of principal and interest of a debt.

iii) Debt Sustainability

Sustainable debt is the level of debt that allows a debtor country to meet its current and future debt service obligations in full, without recourse to further debt relief or rescheduling, avoiding accumulation of arrears, while allowing an acceptable level of economic growth.

iv) Debt Sustainability Analysis

This is conducted in the context of medium-term scenarios. These scenarios are numerical evaluations that take account of expectations of the behaviour of economic variables and other factors to determine the conditions under which debt and other indicators would stabilize at reasonable levels, the major risks to the economy, and the need and scope for policy adjustment. In this analysis, macroeconomic uncertainties, such as the outlook for the current account, and policy uncertainties, such as for fiscal policy, tend to dominate the medium term outlook.

v) Debt Disbursement

The actual transfer of financial resources or of goods or services by the lender to the borrower.

vi) Domestic Borrowing

Government borrowing through issuance of local Government securities and direct borrowing from the Central Bank.

vii) External Borrowing

Government borrowing from both official (Government or Government agencies) and private institutions domiciled outside the country.

viii) Government Securities

Financial instruments used by the Government to raise funds from the primary market.

ix) Present Value

The present value (PV) is defined as the sum of all future cash flows (interest and principal) discounted at the appropriate market rate. For a loan, whenever the interest rate on a loan is lower than the market rate, the resulting PV is lower than its face value.

x) Primary Market

This is a market where financial instruments are originated through initial issuance.

xi) Public Debt

This refers to outstanding financial obligations of the County Government arising from past borrowing. It includes Government guaranteed debts to State Corporations and Local Authorities.

xii) Domestic Debt

Part of the overall debt owed by the Government to creditors domiciled in the economy. The debt includes money owed to commercial banks, non-bank financial institutions, individuals among others. The term domestic debt is used in relation to government obligation.

xiii) External Debt

Part of the overall debt owed by the Government to creditors domiciled outside the economy. The debt includes money owed to private commercial banks, other governments, or international financial institutions such as the IMF and World Bank. The term external debt is used in relation to government obligation.

xiv) Secondary Market

This is a market where already issued financial instruments are traded.

xv) Sovereign/Euro Bond

A debt security issued by a national government within a given country and denominated in a foreign currency. The foreign currency used will most likely be a hard currency.

xvi) Suppliers' Credit

An arrangement under which a supplier or exporter agrees to allow the customer to defer payment under a sales contract.

xvii) Treasury Bills

It is a short-term borrowing instrument issued by the Government to finance the budget.

xviii) Treasury Bond

This is a medium to long-term term debt instrument issued by the Government to finance the budget.

ABBREVIATIONS AND ACRONYMS

CBK	Central Bank of Kenya
CMA	Capital Markets Authority
DPSRM	Debt Policy, Strategy and Risk Management
DRS	Debt Recording and Settlement
DSA	Debt Sustainability Analysis
GDP	Gross Domestic Product
GoK	Government of Kenya
IBEC	Intergovernmental Budget and Economic Council
MTDS	Medium Term Debt Management Strategy
NT	National Treasury
OTC	Over the Counter
PAC	Public Accounts Committee
PDMU	Public Debt Management Unit
PFM	Public Finance Management
PPP	Public Private Partnership
RMD	Resource Mobilization Department
COE	State Owned Enterprise

1.0 INTRODUCTION

2. The constitution of Kenya defines public debt as all financial obligations attendant to loans raised or guaranteed and securities issued or guaranteed by the national or county government.
3. A debt policy enables county government to determine, establish and uphold the legal and institutional frameworks that are in place to guide its borrowing programme. Such a framework helps to ensure that the relevant bodies and personnel are in place to steer on the strategies to be adopted when deciding on contracting debt, negotiating with creditors and managing debt. This debt policy addresses both the external and domestic public debt management in the County.
4. In line with the Constitution of Kenya and relevant laws, the authority for County Government in borrowing rests with the CECM Treasury and such borrowings are subject to County Assembly approval. Using this public debt policy, the County Government of Kitui aims at improving the quality of debt management decisions, debt statistics, analysis, reporting and dissemination and commitment to financial planning. This policy will be reviewed from time to time in line with fiscal and economic developments. The policy plus the relevant laws will form the basis for borrowing, conducting Debt Sustainability Analysis (DSA), formulation and implementation of the Medium-Term Debt Management Strategy (MTDS) and the annual borrowing plans.

5. With regard to County government capacity for public debt management, the following are required:

   (i) Clearly defined roles, responsibilities and individual job descriptions;
   (ii) Clearly defined processes and procedures; Code of conducts/ethics and conflict of interest guidelines;
   (iii) A public debt management unit dedicated to debt management.
   (iv) Conducive working environment including necessary equipment and trained staff in order to ensure that the County Treasury has the resources and skills to manage the debt and borrowing according to national best practices fir liability management.

2.0 BACKGROUND

6. The Government of Kenya has a considerable portfolio of public debt dating back to the 1960s. This debt has been contracted from external creditors (multilateral, bilateral and commercial) and domestic market through loans and issuance of debt securities, respectively. The debt has been growing over time, in nominal terms, due to fiscal deficits incurred to support expenditure on development projects.
7. Furthermore, cost and risk characteristics of the portfolio evolved during the same period, driven mainly by the diversification of funding sources and declining financing

from the concessional sources following the reclassification of the country into lower middle-income category coupled with the changing landscape in the international capital markets.

8. The increase in debt stock strains public service delivery, as resources available for financing other social and development needs are limited. The need to adequately coordinate borrowing activity and establish guidelines to monitor debt levels is crucial in debt management. Due attention is required in assessing implications of total debt on Government of Kenya fiscal and monetary policies.
9. Sustained fiscal deficits have led to the increase in domestic and external debt stock accumulated through issuance of Government debt securities and disbursement of external loans. This has exposed public debt to risk of seriously constrained budget resources, making it imperative that the appropriate structures are put in place to monitor and manage debt obligations and related contingent liabilities. Maintaining vigilance over the debt portfolio, new borrowing commitments and terms of new borrowings to limit the associated fiscal and foreign exchange implications is key to effective debt management.
10. Since establishment of County Governments in Kenya, there is no considerable portfolio of public debt. The debt has not contracted any external creditors (multilateral, bilateral and commercial) and domestic market through loans and issuance of debt securities, respectively.
11. It is against this background that the County Government of Kitui has developed this debt policy in its endeavor to effectively guide debt contracting and to coordinate public debt management in Kitui County.

3.0 OBJECTIVES OF DEBT POLICY AND COORDINATION WITH FISCAL AND MONETARY POLICIES

4.1 Objectives

12. The objectives of the debt policy and borrowing framework:
    i) To ensure that the Kitui County government financing needs and its payment obligations are met at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk;
13. The secondary objectives are to:
    i) Promote the development of domestic debt market for County Government debt securities.
    ii) Ensure the sharing of the benefits and costs of public debt between the current and future generations.

4.2 Scope of the Policy

14. The scope of the debt policy in public debt as defined in the Constitution: “all financial obligations attendant to loans raised or guaranteed and securities issues or guaranteed

by the County government”. The policy will therefore apply to debt management activities where County government exercises control.

15. The policy may also cover implicit contingent liabilities like loss on potential lawsuits, product warranties, and pending investigation; to ensure that they do not negatively affect financial stability of the County economy. The policy does not cover grants and donations, which are comprehensively covered elsewhere in laws and Regulations.

4.2 Coordination with Fiscal and Monetary Policies

16. Due to their interdependencies, there is need to coordinate debt, fiscal and monetary policies. While it is important to separate objectives and accountabilities of debt management from those of monetary policies, it is critical that mechanisms are developed to share information between the County Treasury as implementer of fiscal, debt, borrowing policy, and Central bank as implementer of monetary policy as well as fiscal agent of the County Treasury.
17. Coordination of these policies is also necessary in the use of monetary instruments to ensure the County Treasury and Central Bank are not working at cross-purposes.
18. Regular meetings, at both technical and executive levels are recommended between debt, fiscal and monetary authorities to share information on County government deficit levels, current and future liquidity requirements, implications

5.0 TRANSPARENCY AND ACCOUNTABILITY

5.1 The Legal Basis for Borrowing

19. Subject to the provisions of the Constitution and the relevant laws, County Government through the County Executive Committee Member for treasury, may borrow or raise money from any reputable source for purposes of economic management and development of the county with approval of the County Assembly. The Cabinet Secretary guarantees or raises a loan on behalf of County Government as authorized by or under an Act of Parliament.

5.2 Principles of Public Finance

20. Article 201 of the Constitution stipulates the following principles to guide all aspects of public finance in the Republic of Kenya. These principles will apply to all public borrowing and debt management.
    i) There shall be openness and accountability, including public participation in financial matters;
    ii) The public finance system shall promote an equitable society;
    iii) The burdens and benefits of the use of resources and public borrowing shall be shared equitably between present and future generations;
    iv) Public money shall be used in a prudent and responsible way;
    v) Financial management shall be responsible and fiscal reporting shall be clear.

5.3 Principles of Government Borrowing

21. In addition to the principles of public finance, public borrowing shall be guided by the following principles:-
    i) Need to ensure stability of domestic financial markets;
    ii) Promotion of inter-generational equity in the sharing of burdens and benefits of public borrowing;
    iii) Determination of thresholds of borrowing rights for both levels of government;
    iv) Use of objective criteria for evaluating county government eligibility for national government debt guarantee;
    v) Prudence and equity in setting limits for debt stock levels for county government

5.4 Decision Making Process

22. The decision to borrow on behalf of the County Government rests with the CECM for County Treasury. To assist the CECM in this function will make use of:-
    i) Relevant laws and Regulations;
    ii) PDMU to which the CECM will delegate the operational decisions on borrowing and debt management and the day-to-day management of the office;
    iii) County debt management policy and guidelines.

5.5 Audit of Debt Management activities

23. The office of the Auditor General will audit all public debt management activities annually in accordance with the Public Audit Act and the Public Finance Management Act, with the aim of promoting value for money and accountability of public funds. The entities to be covered by the audit are the county governments.

5.6 Control of borrowed funds

24. The County Controller of Budget will oversee the utilization of budgeted borrowed funds for the county governments by authorising withdrawals from public funds, as provided under relevant laws and Regulations.

5.7 Commitment of Loan Contractual Obligations

25. County Government of Kitui will undertake timely honour all public debt obligations entered into directly and all loan guarantees with the aim to minimize fiscal cost and risks that may arise out of undue defaults. County Government commits to ensuring that all laws governing public debt management are honoured.

6.0 PRINCIPLES AND GUIDELINES FOR COUNTY PUBLIC DEBT MANAGEMENT

26. The following principles and guidelines aim to ensure that County Government debt is sustainable, does not constrain the counties aspirations for growth and development, and reflects best practice in managing the public debt. All borrowings by County government shall be subject to the provisions of the relevant laws.

6.1 Purpose for Borrowing

27. All borrowings, through the CECM, will be for the following purposes:
    i) Financing County development government budget deficits;
    ii) Refinancing and pre-financing existing debts;
    iii) To mitigate against adverse effects caused by an urgent and unforeseen event in cases where the contingency fund is depleted;
    iv) Meeting any other development policy objectives that the CECM shall deem necessary, consistent with the law and as County Assembly may approve;

28. In both domestic and external borrowing, the CECM shall ensure that such terms and conditions do not conflict with:
    i) The fiscal responsibility requirements under the relevant laws
    ii) The Medium Term Debt Management Strategy
    iii) The fiscal objectives in the Budget Policy Statement;
    iv) Any limits on borrowing set out in the relevant laws and Regulations and in the annual budget.

6.2 Costs and Benefits of Public Borrowing

29. The Annual Debt Management Strategy (ADMS) will guide County Government borrowing taking into account the cost and risks associated with the various borrowing options. Borrowing decisions will be taken after a critical and comprehensive cost benefit analysis of the debt involved, its purpose, amount, repayment terms, currency of contract, and any other risks, have been evaluated. To the extent possible, the guiding principle for efficient County Government borrowing will be evidenced by the lowest cost and minimum risk considerations over the long term.
30. County Government will consider borrowing from private sources if the project to be implemented can be funded from Private sources. (Commercial Banks Borrowing). Borrowing will also be subject to prioritization based upon analysis of the cost and risk associated with the existing debt and those of the acceptable sources of financing.
31. As a guiding principle, borrowing decisions will implement the constitution, which provides that public money shall be used in a prudent and responsible way. In this regard, borrowed funds will be used for the purpose of financing development expenditures and not for recurrent expenditures.
32. Short term borrowings will be generally restricted to management of cash flows and bank overdraft facilities will not exceed the limit set in the relevant law. In addition,

borrowings for purposes of cash management will be limited to twelve months. County Government of Kitui will also, in addition to financing the budget deficit, borrow from the domestic market for liability management and to support development of domestic debt market.

33. Irrespective of the source, the County Government of Kitui will maximise borrowing loans whose benefits have a potential for self-liquidating i.e. where the use of loan funds will generate proceeds that directly or indirectly repay the loan. This implies that the social and economic returns on borrowed funds exceed the cost of such capital. In this regard, a cost benefit analysis will be undertaken for all projects before a loan is accepted.

34. In order to ensure sustainability of loan repayment, the following guidelines will generally be applied:
    i) Commercial borrowing will not be used to finance social projects;
    ii) The social internal rate of return of loan funded projects should be high enough to justify the cost of the loan.
    iii) The gestation period of the candidate project – i.e. the time it takes for the project to start producing its outputs, outcome, or impact – should be shorter than or equal to the grace period of the loan; and
    iv) Short-term loans should be limited to commercial or revenue generating projects as well as for financing projects of strategic value.

6.3 Sustaining County Public Debt

35. In deciding whether or not to contract new debt, emphasis will always be placed on monitoring the level of total County public debt, and to assess the potential new debt's cost and risk measured against the available fiscal space and the vitality of the economy in order to ensure that the future borrowing will maintain outstanding debt within sustainable levels. The ratios to be monitored include liquidity indicators that assesses whether the liquid assets and the available financing are sufficient to repay or roll over the debt service.

36. These ratios include:-
    i) Debt service to Exchequer,
    ii) Debt service to Local revenues;
    iii) Interest payments to debt.
    iv) Present Value (PV)) of debt to revenues.

6.4 County Borrowing Limits

37. County borrowing limits will be set out in the relevant laws and Regulations. The limits will be guided by:
    i) County current and future capacity to service the debt;

ii) The need to optimise demand for resources.

38. Accordingly, the County Treasury, will, prior to the Budget speech, each year, establish such annual debt ceilings for the subsequent financial year in consideration of the cumulative debt limits. This will be articulated in the Annual Debt Management Strategy.

6.5 Absorption Capacity

39. To ensure optimal absorption of borrowed funds, the resources will be utilized in accordance with the County Debt Management policy and Kenya External Resource Policy (KERP). For a project to be financed, it should appear in the Annual Debt Strategy and able to address the County Government's development agenda.

40. The following are mandatory requirements that must be fulfilled by line ministries before seeking external financial support:
    i) Feasibility study report inspected and approved by the County cabinet.
    ii) Feasibility study report inspected and approved by relevant County government entities informing on the project economic viability, costing and design;
    iii) Confirmation of land availability either purchased/ acquired through leasing for the project. The Resettlement Action Plan (RAP) report should be provided, if necessary;
    iv) Commitment to relocate County and National government utilities;
    v) Confirmation of adequate human resource capacity for project implementation. Where there is a shortfall, the implementing Ministry(s) must commit to develop a strategy to fill the gap;
    vi) Prioritization and commitment of the counterpart funding by county government where necessary;
    vii) Due diligence report to ascertain the financial, technical and legal competency for the firm procured competitively to undertake the project implementation. This will mainly apply to the projects that are undertaken under Engineering, Procurement, Construction and Financing (EPCF) Model;
    viii) Any other requirements depending on either Bilateral or Multilateral framework Agreement with the respective Development Partner;
    ix) Funding, including but not limited to land and way lease compensations among others that form part of counterpart funding must be prioritized under the MDA's Sector allocation through the normal Medium Term Expenditure Framework (MTEF) budgeting process in accordance with the requirements of the loan agreement.

41. Project completion rates in relevant entities will determine the level of borrowing for subsequent periods. The absorption capacity should match the disbursement profile of the loan to minimize commitment charges that accrue on undisbursed loan

balances. It is therefore mandatory that the implementation of projects is closely monitored by the implementing agencies.

42. Loan facilities of non-performing projects will be reviewed accordingly, on regular basis, to allow modification of project implementation or loan cancellation if necessary. This will also inform on the level of new borrowings for subsequent periods.

43. The implementing units shall work with the County Treasury to ensure Conditions Precedent (CPs) are met first or done in parallel before signing of the financing agreements. During the project implementation period, line ministries will provide a quarterly project implementation status report to the PDMU of all existing projects financed by loans.

44. To enhance absorption of funds by the line ministries, the PDMU will conduct completion rate analysis from time to time and recommend to the CECM-Treasury to take certain measures for project loans that are not being absorbed due to action or inaction of the line ministry or COE.

6.6 Sources of Loans

6.6.1 External Sources

45. As a matter of policy, The County Government through National treasury will procure most of its external development assistance from Official Development Assistance (ODA) as guided by the Kenya External Resources Policy (KERP). The following statements in the KERP will guide County external borrowing:-
46. “Kenya’s engagement with development partners and the rest of the global community is guided by Her foreign policy. Kenya’s Foreign Policy has set out to pursue, promote and protect national interests and protect national values. With the advent of rapid globalization and increased competition among states for scarce resources, a re-orientation of Kenya’s Foreign Policy has become necessary”
47. “As a result, Kenya has sought to strengthen traditional ties while deepening cooperation with new emerging economies. In particular, Kenya’s Foreign Policy is designed to increase capital in-flow through harnessing and retaining existing sources of development assistance and foreign direct investment while attracting new sources. The Policy aims to strengthen existing engagements as well as seek new development partners bearing in mind the need to mold relationships within guidelines that guarantee Kenya’s national interests, in accordance with international laws and practices”
48. The ODA loans include both multilateral and bilateral sources.
49. The other source of financing will be external commercial borrowing; through commercial loans and issuance of external government securities. However, the

amount of commercial borrowing will be limited due to their high cost and risk implications. This form of financing should only be used within the limits of debt repayment capacity, for revenue-generating projects and for projects of high national interest.

6.6.2 Domestic Sources

50. Domestic borrowing may be in the form of term loans from a single lender or multiple lenders (syndicate); government debt securities (Treasury Bonds, Treasury Bills or stock); bank overdraft on Exchequer Account or any other public account; and advances from Central Bank of Kenya.

6.7 Transparency in Selecting Financing Source

51. When contracting loans, County Government of Kitui will consider the terms and conditions offered by different creditors in selecting sources of loans.
52. To ensure competitiveness in securing financing, there is need to demonstrate competitiveness on identifying financiers. External market debt and domestic commercial bank debt will be secured through competitive Requests for Proposals (RFP) tendering process and evaluated by a properly constituted procurement team.
53. Domestic marketable debt will be issued via transparent auctions conducted by the Central Bank of Kenya (CBK), as fiscal agent for the CT. Auction results will be published on the CT website and the CBK website. The auction process and procedures, along with the operation of the secondary market, will be governed by Market Rules. These Market Rules, once approved by both the NT and CBK, will be published on their websites.

7.0 INSTITUTIONAL FRAMEWORK

7.1 Public Debt Management Unit (PDMU)

7.1.1 Establishment of the PDMU

54. A PDMU will be set up within the County Treasury.

7.1.2 Objectives of PDMU

55. The objectives of the PDMU will be to:-

i) Minimise the cost of debt management and borrowing over the long term taking account of risk;
ii) Promote the development of the market for County debt securities;
iii) Ensure the sharing of the benefits and costs of public debt between the current and future generations.

7.1.3 Functions of PDMU

56. The functions of the PDMU include the following:-

i) Carrying out the County government's debt management policy of minimizing cost taking account of risk;
ii) Maintaining debt data base for all loans taken by the County government, loans guaranteed by the national government, county governments and their entities;
iii) Prepare and update the annual medium term debt strategy and debt sustainability analysis;
iv) Prepare and implement the County government borrowing plan including servicing of outstanding debts;
v) Acting as the principal in the issuance of County government debt securities on behalf of the County Treasury;
vi) Monitor and evaluate all borrowing and debt related transactions to ensure that they are within the guidelines and risk parameters of the debt management strategy;
vii) Transact in derivative financial instruments in accordance with best practices benchmarked to the debt management offices of the National government that are internationally respected for their practices.
viii) Appoint agents to provide technical advice or undertake administrative functions for the management of debts provided that control and accountability for these functions remain with the CECM Treasury;
ix) Prepare, update and execute the annual medium-term debt management strategy including debt sustainability analysis in accordance with Regulations;
x) Prepare and review an annual borrowing programme as appropriate including the auction calendar to facilitate auction of County government debt securities;
xi) Participate in negotiation meetings with County government creditors, and provide technical support to the CECM-Treasury on public debt operations;

xii) Assess the risks in issuing any guarantees including contingent liabilities inherent in public private partnership projects, and prepare reports on the method used for assessment and the results thereof for the attention of the CECM Finance;
xiii) Facilitate the recovery of any payments including interest and other costs incurred by County Government due to the honoring of outstanding guarantees;
xiv) Prepare annual debt management report which shall include outstanding guarantees, outstanding lending and government on-lending by County Government;
xv) Monitor and keep track of debt levels;
xvi) To keep timely, comprehensive and accurate records of outstanding County Government debt, guarantees and lending in an appropriate database;
xvii) Advise on all debt servicing obligations of Government;
xviii) Prepare and publish debt statistical bulletins regularly;
xix) Prepare forecasts on County Government debt servicing and disbursements as part of the yearly budget preparation;
xx) Compile, verify and report on all County Government debt arrears and design a strategy for the settlement of those arrears;
xxi) Monitor that the disbursements of loans raised by County Government are in accordance with agreed disbursement schedules;
xxii) Formulate External Resources Policy;
xxiii) Assess, mobilize, negotiate and allocate all external resources including the consolidation of the donor commitment register in the annual County budget;
xxiv) Examine and scrutinize proposals for financing projects of a County government entity from ministry accounting officer;
xxv) Formulate and harmonize policies and coordinate matters relating to employment and appointment of expatriate consultants and technical assistance as experts and consultants in projects supported by development partners
xxvi) Ensure adherence to the accepted guidelines and procedures for procurement involving funds provided under foreign aid;
xxvii) Coordinate, review and monitor the utilization of external resources including joint programming, joint work plans, joint visits, joint implementation, and monitoring and evaluation;
xxviii) Profile external resources and maintain the accounts thereof;
xxix) Formulate an external resource mobilization strategy to guide the county government in external resource mobilization including monitoring;
xxx) Liaise for external economic relations with County and National development agencies;
xxxi) Coordinate all County agreements involving financial, economic and technical cooperation dealing predominantly with economic and financial issues;
xxxii) Programme and manage financing of fellowships, scholarships and external training offers from national and bilateral sources;

xxxiii) Ensure harmonization, alignment and coordination of external resources in line with National conventions of which Kitui County is a member state thereof;

xxxiv) Monitor disbursement and absorption of external resources including reporting of the same by county government;

xxxv) Formulate guidelines and procedures for reporting and recording budget estimates and expenditure for external resource;

xxxvi) Provide guidance and capacity development to county government in the assessment, mobilization, negotiation and allocation of all external resources for implementation of developments partners;

xxxvii) Support aid effectiveness initiatives and use country systems in the management of external resources and where there is need, support in strengthening them rather than avoiding them;

xxxviii) Ensure linkages of the County Treasury with NGOs and coordination of NGOs through the formation of a County Consultative Forum;

xxxix) Perform such other functions as may be determined by the CECM Treasury.

7.1.4 Role of CECM in PDMU

57. The role of the CECM in the efficient functioning of the PDMU will be to:-
    i) Develop the policy and financial framework in accordance with Constitutional principles within which the PDMU operates;
    ii) Raise loans for County government;
    iii) Issue County government securities and external County government securities
    iv) Enter into derivative financial transactions on behalf of County government
    v) Guarantee a loan of a county government;
    vi) Delegate to the head of PDMU the operational decisions on borrowing and debt management and the day-to-day management of the Office;
    vii) Ensure the PDMU has the resources and skills to manage the debt and borrowing according to international best practices for liability management;
    viii) Be accountable to County Assembly for the work of the PDMU.
    ix) Appoint advisers, agents and underwriters for the purpose of raising loans and issuing, managing or redeeming County government securities;
    x) Enter into agreements with the advisers, agents and underwriters appointed on the role to be undertaken by them and remuneration to be paid.
    xi) Issue guidelines on amendment of County government securities register;
    xii) Submit MTDS to County Assembly;
    xiii) Make Regulations;
    xiv) Approve County government entity's intended borrowing programme.

7.1.5 Enhanced capacity of PDMU

58. Adequate capacity (human and institutional) is key for the effective discharge of all debt management functions. The CECM-County Treasury shall ensure that sufficient

resources are availed to the PDMU so as to ensure the PDMU is able to carry out its mandate under the relevant laws and sufficient to safeguard the PDMU's ability to provide independent policy advice and maintain the integrity of public debt management.

59. These resources are required in order to ensure that:
    i) Adequate personnel in the County responsible for public debt management are in place and there is staff continuity;
    ii) Adequate skills on computer-based debt management systems are in place;
    iii) Accurate, comprehensive debt database system is maintained;
    iv) Cost and risk analysis is conducted to facilitate evaluation of various funding options available and assessment of the associated cost and risk;
    v) Financial agreement negotiation skills are available;
    vi) Debt statistics analysis is conducted in relation to other macroeconomic variables;
    vii) Management of fiscal risks in the area of public debt including fiscal commitments and contingent liabilities in PPPs
    viii) Independent expertise essential for developing sound debt management policies, providing advice and accurate debt reporting and monitoring, as well as a high standard of integrity in issuance of all County government debt is uniformly provided.

7.1.6 Outputs from PDMU

60. The PDMU is charged with preparing and submitting to the CECM-Treasury for submission to National Commission on Revenue Allocation the following:-
    i) The Medium Term Debt Strategy consistent with the Budget Policy Statement.
    ii) The County government borrowing plan for the approved Annual Budget;
    iii) Statistical and analytical reports on debt and borrowing;
    iv) The annual performance reports of the PDMU;
    v) Report of all loans made to the County government entities.
    vi) Report on loan balances, drawings and amortization on new loans obtained outside County .
    vii) Report of all guarantees given by the County government;
    viii) Report of all guarantees given by the County government in a financial year (2 months after end of financial year)
    ix) All these reports will be published and publicised.

7.2 Relationship of PDMU with other agencies

7.2.1 National Government

61. National government's authority to borrow under guarantee is permitted under the Constitution. National Government Issue securities, subject to regulation by the National Treasury. National Government is permitted to seek a loan guarantee from

the Cabinet Secretary and to lend their funds to county entities. All requirements and procedures for borrowing, issuing National government debt securities and obtaining a guarantee by National Government will be set out in relevant laws and Regulations and the Loan Guarantee Procedure Guidelines to be drafted.

62. It is the responsibility of the PDMU to monitor both National and County Government debt, maintain a debt database and report on all outstanding National and County Government guarantees. The PDMU will assist a National Treasury, at its request in its debt management and borrowing. The PDMU will request National Treasury, and be supplied with any information that will enable it to execute its mandate efficiently.

7.2.2 Central Bank of Kenya (CBK)

63. In relation to public debt management, the CBK performs the following functions:
    - i) Makes external debt service payments on behalf of County Treasury;
    - ii) Acts as Fiscal Agent for the County Treasury and issues government domestic debt instruments on behalf of County Government at the primary level;
    - iii) Maintains accounts of the borrowed proceeds;
    - iv) Advises the County Government on debt related issues;
    - v) Acts as custodian of the domestic debt register;
    - vi) Provides depository facilities for County government domestic debt,
    - vii) Provides clearing and settlement arrangements for trade in County government domestic debt instruments; and,
    - viii)Provide bank overdraft on Exchequer Account or any other public account;
    - ix) Make cash advances to County government;
    - x) Any other function as may be delegated by the Government.

7.2.3 Attorney General's Office

64. In the management of public debt, the County Treasury will seek the advice of the Attorney General:
    - i) Regarding negotiating, drafting, vetting and interpreting local and international documents, agreements and treaties; and
    - ii) Where a legal opinion is required by a creditor on the validity of loan documents.
    - iii) In performing its duties on debt management, the Attorney General's Office, at its discretion, may either:
    - iv) Assign public debt related functions to appropriate office/unit in the office of the Attorney General and provide sufficient dedicated staff;
    - v) Deploy state counsel(s) to PDMU legal unit at the County Treasury.
    - vi) Such officers handling public debt related issues will be sufficiently trained in public finance laws, loan negotiations, issuance of domestic debt and external debt and preparing international and commercial financing documents.

7.2.4 Line Ministries and Government Agencies

65. In relation to public debt management, the line ministries and County Government agencies will perform the following duties:
    i) Comply with provisions of section 6.4 paragraph 40 (Checklist of mandatory requirements for projects)
    ii) Participate in the loan negotiation process;
    iii) Execute implementation of the projects in their respective sectors;
    iv) Report on project implementation to the relevant stakeholders;
    v) Ensure adequate budgetary allocations for servicing on-lent funds by entities under their oversight; and
    vi) Comply with all relevant laws and Regulations governing procurement and utilization of borrowed funds

7.2.5 County Assembly

66. The major roles played by County Assembly in the public debt management are:
    i) Enact the laws governing public debt management;
    ii) Approve annual County Government borrowing, provide for thresholds for the borrowing entitlements of the County government and their entities, as well as approve the debt limit in the annual budget;
    iii) Approve guarantees to county governments and Public investments;
    iv) Authorize payment out of the Consolidated Fund or any other public fund;
    v) Approve declaration of County government entities;
    vi) Provide oversight role by holding the Executive accountable.

7.2.6 Public Private Partnership (PPP) Unit

67. In cases where PPP financing arrangement requires support by the County government, the CECM-Treasury, in consultation with PDMU and PPP actors, may give a project support deemed necessary. Such support will be prescribed in the relevant laws and Regulations. The PDMU will participate in the assessment and approval of fiscal risks and contingent liabilities associated with a project based on project feasibility studies submitted by the PPP actors.

8.0 MEDIUM TERM DEBT MANAGEMENT STRATEGY (MTDS)

8.1 Objective of the Strategy

68. The MTDS will be prepared by the County Treasury and its objective is to guide the overall debt management strategy of the county government over the medium term with respect to their actual and potential liabilities in respect of loans and guarantees and their plans for dealing with those liabilities. Any borrowing by the county government will be informed by the MTDS, which will be formulated annually on three-year rolling basis.

69. The MTDS will be prepared include and take into account —
    i) The broad strategic priorities and policy goals set out in the Budget Policy Statement;
    ii) Sources of loans and guarantees given;
    iii) Principal risks associated with the loans;
    iv) Assumptions underlying the MTDS, including macro-economic environment, borrowing needs, and prevailing market conditions;
    v) Analysis of sustainability of the amount of actual and potential debt.

70. The debt limits set out in the relevant laws and Regulations will be specified in the MTDS. Annual new County government debt and guarantees will be consistent with the debt limits. The public debt management strategy shall entail minimising borrowing costs with a prudent degree of risks.
71. The MTDS will guide the cost and risk characteristics of the public debt and the borrowing mix on a rolling forward yearly basis. Ceilings for different borrowing instruments shall be set in the MTDS and the Annual Borrowing Plan.
72. The County Government will develop on a yearly basis a Borrowing Plan for both domestic and external debt, which will indicate planned issuances of County Government securities and disbursement of external loans for each fiscal year and show indicative dates of such issuance and disbursements.
73. Borrowing Plans will take into account;
    i) The maturity profile of the existing debt to avoid bunching up of maturities;
    ii) An assessment of the ability to refinance debt at lower cost and risks;
    iii) The prevailing secondary market conditions within the financial year;
    iv) The need to lengthen the maturity structure of the existing public debt;
    v) The prevailing currency composition of existing debt;
    vi) The prevailing interest rate composition and any recommendations on interest rate composition for entering into future debt;
    vii) The need to diversify sources of borrowing and diversify creditor base.

74. County Government of Kitui will also conduct an annual debt sustainability analysis (DSA) and update the debt management strategy annually to ensure the overall

borrowing is within sustainable limits. While the primary responsibility of conducting DSA belongs to the department responsible for macro-fiscal affairs, the PDMU will provide support through provision of the debt data.

75. The Public Debt Management Unit will conduct an analysis on the effect of each new loan on the total debt stock and the ability of the country to service the debt, to ensure that it does not affect negatively on the country's debt servicing capacity and debt stock.

8.2 Risk Management Framework

76. The County Treasury will develop a risk management framework to enable identification and management of the trade-offs between expected cost and risk in the County government debt portfolio. To assess risk, County Treasury will regularly conduct stress tests of the debt portfolio to determine the impact of economic and financial shocks the government/country is potentially exposed to. These shocks include, among others exchange rates and interest rates.

77. In the effort to manage cost and risks, the County Treasury shall employ the use of various liability management tools. The use of these tools shall be dependent on the level of development of the County Government debt securities market, as well as appropriate analysis that demonstrates either actual cost savings, or improved cash flows so that the timing and/or amount of debt service is moderated, smoothing the maturity profile, or that such other specific debt management goal will be achieved.
78. These tools may include;
    i) Debt restructuring including debt securities,
    ii) Transforming fixed rate debt into floating rate debt and vice versa
    iii) Changing or swapping the currency denomination of old debt
    iv) Use of a sinking fund to retire expensive debt
79. In addition, in the endeavor to implement the above-mentioned liability management tools, the County Treasury may transact in derivative transactions as prescribed in the relevant laws and Regulations and in accordance with best practices benchmarked to the debt management office of the County government that are nationally respected for their practices.

9.0 MARKET DEVELOPMENT

9.1 Market for Government Securities

80. One of the principal objectives of the County Treasury is to promote the development of the market institutions for County Government debt securities. The PDMU will implement initiatives to ensure the promotion and development of County government securities markets. The initiatives will aim at ensuring a liquid, deeper and vibrant Government securities debt market.

81. In order to minimize cost and risk over the medium term, the County Treasury will implement policies and operations that are consistent with the development of efficient government securities market.

9.2 Portfolio Diversification

82. The County Treasury will strive to achieve a broad investor base for its domestic and foreign borrowings with regard to cost and risk.

9.3 Primary Market

83. The County Treasury in liaison with National treasury and Central Bank of Kenya will conduct debt management operations in the primary market transparently and predictably. Debt issuance will use market-based mechanisms, including competitive auctions and syndication.

9.4 Secondary Market

84. The County Treasury in liaison with National Treasury and Central Bank of Kenya will promote the development of robust secondary markets that can function effectively under a wide range of market conditions.

10.0 EXTENAL AND DOMESTIC BORROWING PROCEDURES

85. Subject to relevant laws and Regulations the CECM Finance may, on behalf of the County government raise a loan within or outside the County.

10.1 External Borrowing

10.1.1 Process and Controls

86. Processes and Controls for external borrowing by the county Government and their agencies must conform to the Statutes and Guidelines governing external borrowing, and in particular:
    - i) The Constitution of Kenya 2010;
    - ii) The relevant laws and Regulations;
    - iii) External Resource Policy;
    - iv) The External Borrowing and Disbursement Guidelines;
    - v) County Government Borrowing Guidelines;
    - vi) Central Bank of Kenya Act, Cap 491.

10.1.2 County Assembly Approval

87. The following approvals must be obtained from County Assembly, prior to any consideration of requests for external borrowing by the County Government and its agencies:
    - i) Approval of the Medium Term Debt Management Strategy.
    - ii) Approval of the terms and conditions of external loans as contained in the Medium Term Debt Management Strategy.
    - iii) Approval of overall limits, for the amounts of consolidated debt of the County Governments set in the relevant laws and Regulations.
    - iv) Prior authorization in the Appropriation or other Act or Law for the purpose for which the borrowing is to be utilized.

10.1.3 Documentation/Procedural Requirements by the County Government of Kitui

88. Having obtained the approvals above, the County Government of Kitui through the National Treasury will further comply with the following documentation and procedural requirements:
    - i) Preparation of the Annual Borrowing Plan, which contains:
        - a) Terms and Conditions of the external loans;
        - b) Overall limits for the amounts of consolidated debt, including domestic debt County Government entities;
        - c) Year Medium Term Borrowing Plan with loan repayment schedules and demonstrated to be within the overall Government borrowing limit set in the MTDS and the fiscal framework.
    - ii) The Annual Borrowing Plan for external concessional and commercial loans should indicate the expected disbursement profiles.

iii) The County Treasury will prepare the Annual Borrowing Plan for external concessional and commercial loans. Inputs for loan negotiations will be sought from various County Treasury units and line ministries.
iv) Commercial loans will be used only to finance projects with expected revenue streams/infrastructure projects and not socio-economic projects. Socio-economic projects will be funded by concessional loans. This guideline will be waived only after obtaining the approval of the CECM Finance.
v) Creditors dealing with all levels of Government for the very first time will be required to fill Know Your Customer (KYC) and Due Diligence form to be issued by the PDMU.
vi) A checklist (to be developed) of conditions precedent to signing any financing agreements by the CECM Finance will be filled by the project implementing ministry. This will go a long way in determining if the implementing agencies are ready to undertake the project to completion within the set timelines.
vii) The PDMU shall appraise county governments Ministries borrowing proposals and project documents to ascertain conformity with borrowing guidelines and County developmental priorities and submit appropriate recommendation to the CECM-Treasury for approval.

10.1.4 Documentation Requirement for County Government Borrowing

89. The County Government ministries can only obtain loans with the approval of the CECM-Treasury and such loans must be supported by National Government's Guarantee in accordance with Article 212 of the Constitution and the relevant laws and Regulations.
90. The relevant laws and Regulations shall stipulate terms and conditions for county borrowing and guarantees provided by the County government, including:-
    i) Obligations and restrictions on County government guarantees;
    ii) Power of CECM-Treasury to guarantee loans;
    iii) Submission of statement on guarantees to County Assembly;
    iv) Recovery of amounts paid on a guarantee;
    v) Establishment of PDMU and its role on assessing risks and issuing guarantees, including contingent liabilities inherent in PPPs;
    vi) Guiding principles for county government borrowing;
    vii) Borrowing powers for county governments;
    viii) Eligibility and evaluation criteria for guarantee request by county governments;
    ix) Borrowing purposes;
    x) County total public debt threshold;
    xi) Debt limits in county MTDS;
    xii) Criteria for issuance of county government securities;
    xiii) Process of issuance of treasury Bonds on behalf of county governments; and

xiv) Process for applying for national government guarantee for external borrowing.

91. In making borrowing decisions and processing loan requests, therefore, counties are required to comply with the relevant laws and Regulations as outlined in the foregoing paragraph and any other laws applicable to county borrowing.

10.1.5 External Loan Negotiation, Guarantee issuance and Signing of Agreement

92. No County ministry is authorized to negotiate any financing agreement from any creditor without prior consultation with the County Treasury.
93. The CECM or his appointee will lead the loan negotiations:
    - i) Upon County Assembly approval of the Annual Budget.
    - ii) Negotiation Team for each new loan proposal led by CECM-Finance or his appointee shall be formally constituted.
    - iii) Comprising representatives from the PDMU.
    - iv) Mutually agree with the prospective creditor(s) on the financing terms of the loan(s).
94. Before submission to County Assembly, the CECM will prepare a Cabinet Memorandum and subsequently a Sessional Paper in liaison with the line ministry and COE as an instrument of guarantee for both external and domestic borrowing.
95. The Cabinet Memorandum is forwarded to the Cabinet for information and acceptance through the CECM responsible before converting it into a Sessional Paper for tabling in County Assembly.
96. The Sessional Paper outlines the issues to be addressed, the term and conditions of the loan(s) and resource implications of the guarantee.
97. County Assembly considers/debates the Sessional Paper and issues a guarantee.
98. The following areas should be covered in a Sessional Paper:
    - i) Objective of the Sessional Paper
    - ii) The background of the subject matter
    - iii) Analysis of the problem
    - iv) Options on the way forward
    - v) Financial implications
    - vi) Recommendations to County Assembly
99. Upon approval of the terms and conditions of the loan by County Assembly, the CECM shall communicate to the COE to execute the Loan Agreement(s). County government entities are expected to execute a Subsidiary Loan Guarantee Agreement with the County Government.

10.2 Procedural Requirements for County Government Borrowing

100. After the CECM Finance forwards such borrowing proposals to the PDMU, the PDMU shall ascertain the County Government debt sustainability levels, to ensure that they have not over-borrowed. The PDMU shall subject all borrowing proposals to the Loan Guarantee Procedures Guidelines (to be drafted)

101. Based on the recommendation of the PDMU, and subject to CECM-Finance final approval, such proposal is then incorporated into the Annual Borrowing Plan for CECM-Finance approval.

102. Following CECM-Finance approval, the Annual Borrowing Plan containing the details of the Borrowing Plan for the County requesting to borrow is subsequently forwarded to IBEC for approval.

103. Following IBEC's approval, the Annual Borrowing Plan containing the details of the Borrowing Plan for Counties requesting to borrow is subsequently forwarded to Parliament for guarantee approval.

10.3 Domestic Borrowing

104. The relevant laws and Regulations will govern domestic borrowing. All domestic borrowing by County Government will be issued/contracted by the CECM Finance in accordance with the relevant laws and Regulations. Issuance/contracting will be through transparent, accountable process with clear Market Rules, at the lowest cost with a prudent degree of risk, and in accordance with the Annual Borrowing Plan.

105. The Annual Borrowing Plan for domestic debt will be prepared by the County Treasury in liaison with National Treasury and Central Bank of Kenya acting as the fiscal agent of County Government. The plan will be approved by the Cabinet Secretary for implementation by the Central Bank of Kenya.

106. The issuance of domestic government securities will take into account:-

i) Pricing of the securities;
ii) Refinancing risks of the securities;
iii) Market stability when taking up the securities;
iv) The borrowing programme, which is consistent with the MTDS and Budget Policy Statement.

11.0 PUBLIC GUARANTEES AND ON-LENDING

107. The County Government of Kitui may consider guaranteeing his borrowings by the National government in line with the Constitution Section 212 and relevant laws and Regulations, if it is convinced that the project to be financed for development is viable and/or of County interest. The analysis for the issuance of such guarantees shall be in accordance with the approved Loan Guarantee Procedures Guidelines (to be drafted). The Guidelines specifies the criteria, pre-conditions as well as the applicable charges.

108. The entity seeking guarantees shall submit to the National Treasury their financial statements. The PDMU shall review the County financial standings and issue a recommendation for the guarantee approval to be submitted to County Assembly after financial analysis of the entity.

109. The PDMU may also recommend that a fee or additional funds be required to be paid into a contingency reserve fund, or require other types of additional collateral as security for the loan in order to enhance credit of the loan request.

110. The PDMU may also recommend to the CECM-Finance to issue a partial guarantee or refuse to issue a guarantee depending on the findings concerning the entity after analysis as per foregoing paragraph. Upon refusal of a guarantee, the CT shall give reasons for the refusal to the entity and give the entity an opportunity to remedy their application for a guarantee. All guarantees and On-Lending Agreements must be in writing and issued in accordance with the Loan Guarantee Procedures Guidelines (To be drafted).

111. The County Government may, as and when requested and depending on the availability of resources, lend to public investments, the County government and any other public governmental entity. Such lending will be directly from the consolidated fund or be on lent from borrowed proceeds. Nonetheless, any lending by the County Government should be subject to the provisions of the relevant laws, Regulations and guidelines.

12.0 CONTINGENT LIABILITIES

112. The County Treasury will be responsible for providing current information on outstanding contingent liabilities of all County ministries that includes both implicit and explicit obligations, as well as on-lending arrangements. Other contingent liabilities to be reported include those liabilities that are not yet recognized, which include obligations to pay that were incurred, but may not have been explicitly agreed to and were subsequently suppressed, so that payment was delayed indefinitely and continues to remain outstanding and past due. The report will include all contingent liabilities for each COE, the amounts, date incurred, type of obligation, and total outstanding for each COE and shall be made available on a semi-annual basis to PDMU.

113. On an annual basis, the County Treasury shall provide in the budget a line to cater for contingent liabilities materialising. The Treasury will prepare an Annual Credit Risk Weighted Analysis that provides a quantitative analysis of the risk for materialization for all guarantees and on-ending agreements as well as contingent liabilities of County government entities, so that the guarantees and contingent liabilities considered most likely to materialise during the fiscal year will be included in the budget line.

114. The PDMU will submit an annual report to the CECM-Finance, which identifies the explicit and implicit guarantees, quantifies the risks and makes recommendations for the provision to cater for any materializing of explicit and implicit guarantees.

13.0 COUNTY PUBLIC DEBT MANAGEMENT FUNCTIONS

115. The County public debt management function will be executed/organized in accordance with County and National best practices of front, middle and back office functions.

13.1 Front Office Functions

116. The front office functions include;

i) Resource Mobilization (Local and National);
ii) Formulating annual borrowing plan and, with the consultation of the fiscal agent, prepare the annual domestic debt issuance calendar, to be updated quarterly;
iii) Coordination with creditors;
iv) Loan negotiations and fulfilment of loan conditions;
v) Processing of County Government Guarantees;
vi) Attend all meetings, including County Assembly committees, auction, cash flow and task teams and committees;
vii) Coordinate missions and technical assistance from cooperating partners; and
viii) Report of new loans to County Assembly including guarantees.

13.2 Middle Office Functions

117. The middle office functions include:

i) Prepare the Medium-Term Debt Management Strategy (MTDS)
ii) Undertake periodical portfolio analysis for policy decisions;
iii) Monitor compliance with the Operational Risk Management Framework;
iv) Participate in Debt Sustainability Analysis to be conducted by the department responsible for macroeconomic projections
v) Develop and update public debt management policy;
vi) Analyse fiscal risks associated with County Government Guarantees, On-lending and Public Private Partnerships (PPP);
vii) Generate analytical reports, including weekly, monthly, quarterly and annual reports;
viii) Contribute to the quarterly and annual County Treasury performance reports submitted to County Assembly;
ix) Prepare regular debt related reports for the senior management – Governor, CECM Finance and County Secretary;
x) Contribute to the reports by the CT to Public Accounts Committee (PAC) and other committees of County Assembly;
xi) Establish and operationalise an Investor Relations Office (IRO)

13.4 Back Office Functions

118. The back office function includes:

i) Maintain a credible debt database and contingent liabilities, that include all outstanding guarantees and fiscal commitments;
ii) Meet all the reporting needs including preparation of regular debt register;
iii) Prepare debt service forecasts;
iv) Initiate debt service payments;
v) Manage computer-based debt management system;
vi) Monitor loan utilization; and
vii) Undertake debt data reconciliation with creditors.

14.0 DISCLOSURES AND COMPLIANCE TO FISCAL TRANSPARENCY

119. The County Treasury shall conduct all debt and borrowing processes in a transparent and open manner. Towards achieving the objective of compliance to fiscal transparency, the CT will:-

i) Publish and publicize debt reports and information as guided by the relevant laws and Regulations;
ii) Post all relevant documents on the County Treasury websites;
iii) Be responsive to pertinent public debt issues;
iv) Engage as needed with the media;
v) Undertake any other necessary measures to achieve this objective.

15.0 LIST OF KEY DOCUMENTS IN MANAGING COUNTY PUBLIC DEBT

120. In order to undertake effective county public debt management, the following key documents should be prepared and made readily available:

i) Legal framework governing public debt management;
ii) Debt Policy and Borrowing Framework;
iii) Medium Term Debt Management Strategy
iv) County Fiscal Strategy Paper;
v) Annual borrowing plan;
vi) Procedure manuals covering all debt management operations;
vii) Regular debt statistics bulletins;
viii) Risk Management Framework;
ix) Code of conduct and conflict of interest manual;
x) Debt Sustainability Reports

121. County Public Debt Management Reports specifically including an annual report on guarantees (and fiscal commitments), which includes the credit risk weighted analysis and evaluation of all outstanding guarantees. Fiscal Agreement between the CT, NT and CBK to be reviewed and updated on a regular basis.

16.0 DEBT DATABASE SYSTEM

122. The PDMU will set up and maintain an accurate and comprehensive debt database with proper safeguards for:

i) All loans taken by the county government;
ii) Loans guaranteed by the county government;
iii) Loans lent and on lent by the County government.

17.0 CODE OF CONDUCT AND CONFLICT OF INTEREST GUIDELINES

123. All staff involved in debt management will be subjected to code-of-conduct and conflict-of-interest guidelines regarding the management of their personal financial affairs.

18.0 BUSINESS RECOVERY PROCEDURES

124. The PDMU will put in place sound business recovery procedures to mitigate debt management activities against the risk of natural disasters, terrorism or social unrest.

19.0 IMPLEMENTATION OF THE DEBT POLICY AND BORROWING FRAMEWORK

125. To achieve the outcomes set out in this policy the County Treasury will take a leadership role and oversee its implementation in collaboration with relevant ministries and other key stakeholders. The County External Resource Policy (KERP-To be drafted) and its Operational Manual will form an integral part of the debt policy.

126. Operational Manuals of the Front, Middle and Back Offices, Loan Guarantee Procedures Manual and areas covered under domestic borrowing in the Front Office Manual will also guide implementation of the debt policy by providing clear guidance on the responsibilities of different County government actors at each stage of the implementation.

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2. International Monetary Fund, 2003, 'External Debt Statistics: Guide for Compilers & Users'. Washington, D.C., IMF Publication Services.
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