COUNTY GOVERNMENT OF MANDERA

THE COUNTY TREASURY

2025 MEDIUM TERM DEBT MANAGEMENT STRATEGY PAPER

FEBRUARY 2025

COUNTY VISION AND MISSION

Vision

Regionally competitive and self-reliant Mandera County

Mission

To strategically position Mandera County to be innovative, competitive in achieving sustainable progress, wealthy, healthy, cohesive and secure for all

Core Values

Integrity

Innovativeness

Professionalism

Team work

Equity

Transparency

Accountability

Respect for rule of law

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FOREWORD

The budget proposals contained in the Mandera County Fiscal Strategy Paper 2025 is balanced with the resource envelop of the county and as such the County Government of Mandera has no plans for deficit financing in the financial year 2025/2026. However, it is worth noting that the government debt management objective remains two-fold:

- To raise resources through borrowing to meet County government budgetary requirements for Development at a minimum cost and prudent level of risk
- To promote and encourage the development of domestic debt markets.

The Public Finance Management Act 2012 section 123 (1), Provides that 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 clearly showing its actual liability in respect of loans and its plan for dealing with those liabilities.

The strategy further outlines priorities that will assist in the financial risk reduction. It is for this reason that the Mandera County Government recognizes the need for prudence in debt management so as to avoid unwarranted financial risks that emanates from poor debt management strategies. The County is employing significant efforts and resources to ensure improvement in the debt management as well as enhancing capacity of assessing risks. The objective of this paper is to ensure that the servicing and management of Mandera County Government's financing requirements and payment obligations are met on a timely basis, and at the lowest possible cost over the medium to long run, consistent with a prudent degree of risk.

The Mandera County Government's debt will only realize sustainability if a prudent debt management and borrowing policy is adopted by the County Government.

Mr. Ibrahim. M Adan

CECM, Finance and Economic Planning

ACKNOWLEDGEMENT

The Mandera County Debt Management strategy paper is informed by a fiscal policy supportive of the macro-economic stability and growth. The debt management strategy asserts the county government's debt management objectives of ensuring the County government's financing needs and payment obligations are met at the lowest possible cost with a prudent degree of risk. The development of this Strategy Paper was coordinated by a technical teamof drawn from various departments critical to the county planning and budgeting process. I wish to express my appreciation to the entire County Treasury departmental staff for their dedication, contributions and support that they provided during the preparation of this document.

We are particularly grateful to H.E the Governor, the Deputy Governor, and the County Executive Committee Member for Finance and Economic Planning for their role, direction and guidance in developing this document.

Finally, it is our sincere conviction that this 2025 Medium Term Debt Management Strategy will guide the debt management strategy for the Mandera County Government.

Fartun Bulle

Chief Officer, Economic Planning

LIST OF ABBREVIATION

CIDP	County Integrated Development Plan
CT	County Treasury
DMS	Debt Management Strategy
CECM	County Executive Committee Member
FDLFA	Final Draft Loan Financing Agreement
FSP	Fiscal Strategy Paper
FY	Financial Year
GDP	Gross Domestic Product
IFMIS	Integrated Financial Management Information System
KENAO	Kenya National Auditor Office
KHS	Kenya Shillings
KRA	Kenya Revenue Authority
LAPFUND	Local Authorities Provident Fund
LAPTRUST	Local Authority Pension Trust Fund
MTDS	Medium Term Debt Strategy
MCG	Mandera County Government
NHIF	National Housing Insurance Fund
NSSF	National Social Security Fund
PAYE	Pay As You Earn
PFM	Public Finance Management

EXECUTIVE SUMMARY

The 2025 Mandera County Government Debt Management Strategy is generated in line with section 123 of the Public Finance Management Act 2012 which stipulates that on or before the 28th February of 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.

This Debt Management Strategy is structured in four chapters: Chapter one provides an overview of the Debt Management Strategy and outline of the paper. The chapter further provides the legal basis for the preparation of the Debt Management Strategy Paper.

Chapter two discusses the objectives, goals and principles of debt management and the need for the County Government to develop the same.

Chapter three discusses macroeconomic framework underpinning the 2025 Debt Management Strategy as stipulated in the Fiscal Strategy Paper February 2024. Some of the macroeconomic indicators highlighted in this chapter include; GDP growth rate, interest rates and remittances from the Diasporas. The chapter also analyzes potential financing sources for the County Government.

Chapter four provides the characteristics of Mandera County Government public debt with emphasis on specific strategies the County Government intends to employ in dealing with debts.

CHAPTER ONE

1.0 OVERVIEW OF DEBT MANAGEMENT STRATEGY

Debt Management Strategy Paper guides the County government to ensure that its debt levels stay affordable and sustainable and that any borrowing will only finance development expenditures. Inability to repay debts can lead the County economy to debt distress. A county can be said to be in this situation when one or more of the following conditions hold:

- The sum of interest arrears is large relative to the outstanding stock of debt;
- A county receives debt relief in the form of rescheduling and or debt reduction from the creditors, and;
- The county receives substantial budget support from the national government through the conditional grants.

The Medium Term Debt Management Strategy is prepared and executed by the County Treasury on behalf of the County Executive Committee and is formulated annually on a three year rolling basis and becomes effective only with the approval of the County Assembly. The strategy must take into account:

- The borrowing needs of the County Government;
- Fiscal responsibility principles set out in section 107 of the Act and regulation 25 of these regulations;
- Prevailing macro-economic conditions;
- Prevailing conditions of the financial markets;
- Measures to minimize borrowing costs with a prudent degree of risk;

1.1 Outline of the 2025 Debt Management Strategy Paper

This Debt Management Strategy paper is made up of four chapters. Chapter one provides an overview of the Debt Management Strategy and outline of the paper. The chapter further provides the legal basis for the preparation of the Debt Management Strategy Paper.

Chapter two discusses the objectives, goals and principles of debt management and the need for the County Government to develop the same.

Chapter three discusses macroeconomic framework underpinning the 2025 Debt Management Strategy as stipulated in the Fiscal Strategy Paper February 2025. Some of the macroeconomic indicators highlighted in this chapter include; GDP growth rate, interest rates and remittances from the Diasporas. The chapter has also analyzed Potential financing sources for the County Government.

Chapter four provides the characteristics of Mandera County Government public debt with emphasis on specific strategies the County Government intends to employ in dealing withdebts.

1.2 Legal Basis for the Publication of the Debt Management Strategy

The Debt Management Strategy is published in accordance with section 123 of the Public Finance Management Act, 2012. The Law states that:

(1) On or before the 28th February in each year, the County Treasury shall submit to the county assembly a statement setting out the Debt Management Strategy of the County Government over the medium term with regard to its actual liability and potential liability in respect of loans and its plans for dealing with those liabilities.

(2) The County Treasury shall include the following information in the statement-

- *a) The total stock of debt as at the date of the statement;*
- *b) The sources of loans made to the county government;*
- *c) The principal risks associated with those loans;*
- *d) The assumption underlying the debt management strategy; and*
- *e) An analysis of the sustainability of the amount of debt, both actual and potential.*

(3) As soon as practicable after the statement has been submitted to the county assembly under this section, the County Executive Committee Member for Finance shall publish and publicize the statement and submit a copy to the Commission on Revenue Allocation and the Intergovernmental Budget and Economic Council.

CHAPTER TWO

2.0 OBJECTIVES OF DEBT MANAGEMENT STRATEGY

The main objective of Mandera County Debt Management Strategy is to ensure that the Mandera County Government meets its financing needs and its payment obligations are met at the lowest possible cost over the medium to long term, consistent with a prudent degree of risk.

Specifically, the strategy aims at:

- Covering financing needs and payment obligations, while minimizing medium and long term costs;
- Limiting risk in the public debt portfolio.

The strategy aims at providing a general policy direction that will facilitate County's access to financial markets as well as supporting future development of a well-functioning vibrant debt policy. This first formal and explicit strategy is an important step forward in enhancing transparency of the County's debt management decisions.

The 2025/2026 DMSP will cover for the County debt management operations within the period. The document is expected to guide in making decisions on debt management and demonstrate sound financial management practices, in the interest of Mandera citizenry, credit institutions, investors and other stakeholders.

In accordance to the PFM Act section 123(3), the statement shall be published and publicized;

''*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*''.

2.1 GOALS FOR THE DEBT MANAGEMENT STRATEGY

The Debt Management Strategy spells out the Government's debt financing plans for 2025/2026 Financial Year. In addition, the strategy provides policy framework for liability management and thus enable the county government to meet both recurrent and capital financing needs as well as financing statutory obligations.

The 2025/2026 Debt Management Strategy is also expected to provide debt ceilings for the county government. The limit must:

- Not exceed the nominal value of the total public debt that is determined in accordance with fiscal responsibility principles.

- Be specified annually in the county fiscal strategy paper and the medium term debt management strategy
- Guide the level of new annual government debt to ensure it is consistent with that limit.
- Guide the amount of county government debt(s) that are not denominated in shillings after they are recalculated at the prevailing exchange rate of the Central Bank of Kenya for the purposes of monitoring compliance with debt limits.

2.2 DEBT MANAGEMENT STRATEGY FINANCING PRINCIPLES

The debt management strategy will address the County government's financing requirements at the lowest cost and a prudent degree of risk by adhering to the following principles:

(a) Financing must be pegged on debt sustainability over the long term.

(b) Prudence must be observed when contracting debt, taking into account the cost and risk implications.

(c) Debt must be contracted to support expenditure in the identified County priority areas that are geared towards poverty reduction and promotion of overall County development.

(d) Debt must be guaranteed by National Government.

(e) The debt must be for capital projects.

2.2.1 Framework for approving loan guarantee to County governments

In line with part (d) above, the County government must meet the following requirements before seeking loan guarantees from the national government:

i. Prior to commencing negotiations with any lender, the County Treasury shall on behalf of the County Government submit to the Cabinet Secretary for Finance a capital project financing proposal for review and advice. This advice shall be communicated back to the county government within two weeks from the date of submission;

ii. If approved by the Cabinet Secretary for Finance, the County Treasury must make the necessary adjustments suggested by the Cabinet Secretary and thereafter proceed to begin negotiations with possible lenders. It must then prepare an Initial Draft Loan Agreement (IDLA) which shall spell out the terms and conditions of the loan;

iii. This Initial Draft Loan Agreement must be submitted to the Cabinet Secretary for review and advice on the terms and conditions of the IDLA. A response shall be issued within two weeks from the date of submitting the IDLA;

iv. If approved by the Cabinet Secretary, the County Treasury and the lender will make the necessary amendments suggested by the Cabinet Secretary and submit a final draft loan financing agreement (FDLFA) to the Cabinet Secretary;

v. The Cabinet Secretary shall review this final draft loan financing agreement and submit it to the Attorney General for legal opinion which shall itself be provided within two weeks after the date of submission by the Cabinet Secretary;

vi. The Cabinet Secretary shall send the final loan financing agreement to the county government with the opinion of the Attorney General and the Cabinet Secretary's opinion for the necessary final adjustments, if any, before formalizing the loan financing agreement.

After taking into account the legal opinion of the Attorney General and that of the Cabinet Secretary, the CEC Member for Finance with the help of the County Treasury, must:

(a) Submit the loan agreement to the County Executive Committee for approval of the borrowing including its terms and conditions; and

(b) After approval by the County Executive Committee, submit the loan agreement to the County Assembly for approval of the borrowing including its terms and condition.

After obtaining the County Assembly's approval, the County Executive Committee Member for Finance should submit the final draft loan financing agreement and the approval of the County Assembly to the Cabinet Secretary with an accompanying letter requesting for a national Government guarantee of the final loan financing agreement.

After receiving the request for a guarantee, the Cabinet Secretary will seek the recommendations of the Intergovernmental Budget and Economic Council as required under section 58 of the PFM Act. These recommendations shall be given not later than 30th November each year.

The Cabinet Secretary shall take into account the recommendations of the Intergovernmental Budget and Economic Council before seeking approval of the loan guarantee from Cabinet and Parliament respectively. This approval shall be given by 31st January each year.

The Cabinet Secretary shall communicate the decision of Parliament on the draft loan guarantee by 15th February each year to the respective County Executive Committee Member.

After receiving the communication of the decision of Parliament on the draft loan guarantee, the county Executive Committee member shall report to the County Assembly of the decision

CHAPTER THREE

3.0 MACROECONOMIC ENVIRONMENT, RISKS AND POTENTIAL SOURCES

The macroeconomic framework underpinning the Medium Term Debt Management Strategy is consistent with projections in the 2025 Mandera County Fiscal Strategy Paper. According to the Budget Policy Statement (BPS) 2025, the Kenyan economy has remained resilient in the past five years.

The Kenyan economy remained strong and resilient in the first three quarters of 2024 despite its growth being relatively slower than the corresponding period in 2023. In the first three quarters of 2024, the economic growth averaged 4.5 percent (5.0 percent Q1, 4.6 percent Q2 and 4.0 percent in Q3) compared to an average growth of 5.6 percent (5.5 percent Q1, 5.6 percent Q2 and 6.0 percent in Q3) in 2023.

The growth in the first three quarters of 2024 was primarily underpinned by strong performance in the agriculture sector, a slight recovery of the manufacturing sector, and the resilience of services sector. All the economic sub-sectors except mining and construction recorded positive growth rates in the first the quarters of 2024, though the magnitudes varied across the economic activities. The diversified structure of the Kenyan economy remains a key source of resilience to domestic and external shocks.

The foreign exchange market remained stable in 2024 despite increased global uncertainties, effects of a stronger U.S. Dollar and geopolitical tensions in the Middle East. The Kenya Shilling exchange rate was weaker at the turn of the year but strengthened against the U.S. Dollar from mid-February 2024 and has now stabilized against major international currencies. In December 2024, the exchange rate against the US dollar averaged at Ksh 129.4 compared to an average of Ksh 159.7 in January 2024, an appreciation of 19.0 percent. Against the Euro, the Kenya shilling strengthened by 22.2 percent to exchange at an average of Ksh 135.6 in December 2024 compared to an average of Ksh 174.3 in January 2024 while against the Sterling Pound the Kenyan Shilling strengthened by 19.3 percent to exchange at an average of Ksh 163.6 compared to an average Ksh 202.9, over the same period.

The foreign exchange market was mainly supported by inflows from agricultural exports, remittances and portfolio investors while demand was driven by pickup in economic activities specifically in the manufacturing, wholesale, and retail sub-sectors. The appreciation and stability of the exchange rate has created confidence and triggered inflows of foreign direct investment and attracted investors to the Nairobi Securities Exchange. This appreciation has helped to reduce debt service costs, improve performance of domestic borrowing and stabilize interest rates.

Economic recovery, appreciation of the Kenya Shilling against major international currencies and macroeconomic stability have created confidence and triggered inflows of foreign direct investment and attracted investors to the Nairobi Securities Exchange. The NSE 20 Share Index improved to 2,011 points in December 2024 compared to 1,501 points in December 2023 while market capitalization also improved to Ksh 1,940 billion from Ksh 1,439 billion over the same period.

Commercial banks average lending and deposit rates increased in the year to November 2024 in tandem with prevailing tight monetary policy stance thereby reflecting high cost of investable funds. The average lending rate increased to 17.2 percent in November 2024 from 14.6 percent in November 2023 while the average deposit rate increased to 10.4 percent from 10.1 percent over the same period. Consequently, the average interest rate spread increased to 6.8 percent in November 2024 from 4.5 percent in November 2023.

Key Assumptions

This section describes the medium term strategy assumptions considered during preparation and those that are to affect the realization of the proposed management strategies.

i. The macroeconomic framework underpinning the strategy will remain stable during the medium term period. Forecasted GDP growth rates will be realized and variables such as inflation rates, interest rates amongst others will remain stable to minimize the cost of debt.
ii. The macro-economic framework underpinning the 2025/2026 MTDMS is consistent with projections included in the 2025 County Fiscal Policy Statement.
iii. The political, social and economic environment will remain favorable during the implementation of this strategy paper.
iv. As per the constitution, National government will guarantee county government loans;
v. The County Government of Mandera will adhere to the strategies contained in the debt management policy document. The CFSP will guide the borrowing requirements.
vi. Appropriate enabling debt management framework exist (adequate legal framework; effective institutional arrangements and comprehensive and efficient debt recording).

3.1 Potential source of borrowing

The potential sources of Loans for Mandera County Government falls under two categories:

a) Domestic sources of Loans
b) External sources of loans

3.1.1 Domestic Sources of funding

Potential sources of domestic funding to the County Government will consist of borrowing from Financial and non-financial institutions.

3.1.2. External sources of funding

The main sources include Loans and grants from multilateral, bilateral organizations. However, this kind of borrowing must get approval and guarantee from the National Treasury. It should also be noted that, under the PFM Act, loans can only be used to finance development expenditure and cannot be used for recurrent expenditure. The sole exception to this rule is a bank overdraft taken for cash management purposes, which is then also restricted to a repayment period of one year or less.

CHAPTER FOUR

4.0 Analysis of the Mandera County Government situation

As at 31st January 2025, Mandera County Government's pending bills stood at approximately Kshs. 1,385,728,264.

Sectors	Total Outstanding Bill as at 31st December 2024
Agriculture, livestock and Fisheries	102,590,885
Education and Human Capital Development	180,620,350.75
Social Development	92,566,828
Finance and Economic Planning	2,000,000
Health Services	292,507,284
Trade and Cooperative Development	12,929,185
Lands and Urban Development	9,978,273
Office of the Governor and Deputy Governor	0
Office of the County Secretary	0
Office of the County Attorney	64,868,279
County Public Service Board	0
Public Service Management, Devolved Units and Community Cohesion	132,772,722
Roads, Transport and Public Works	257,618,321.41
Water, Energy, Environment and Climate Change	237,276,136.22
TOTAL	**1,385,728,264.38**

The county government continues to implement prudent debt management practice and policies to avoid unnecessary accumulation of debt. The high debt level calls for sufficient allocation of fund in the medium term budgets in order to improve the debt position of the county and avoid unnecessary cost such as interest and penalties.

4.1 Strategies to deal with the County debts in FY 2025/2026

- Pending bill and obligations to be given priority in the county budgets
- Salary arrears to be prioritized
- The funds due to the personal/staff and unprocessed vouchers are to be given first priority.
- Inspection and acceptance exercise to be carried out on all completed works before payments are done.

- Stalled projects to be inspected before they are re-budgeted.
- Contract management should be conducted in adherence to all statutory requirements.
- Strengthen county audit and legal offices.
- Verification of suppliers in the county.
- Strengthen procurement processes.
- Debt restructuring. The County intends to pursue this strategy because restructuring will spread the substantial debt burden over a period of time since the existing debt cannot be cleared within a year due to budgetary constraints. Restructuring will also help the county to avoid payment of penalties and interest that have accrued and costly legal battles.

4.2 Debt reduction strategies

The county will apply the following strategies towards the reduction of its debts: -

- Adherence to the budgetary ceiling.
- Only borrow to for developmental initiatives as stipulated by the PFM Act 2012.
- Embrace saving culture as well as revenue generation by departments.
- Only engage in debt whose interest rates are sustainable to the county.
- Conduct assets and liabilities assessment on quarterly basis.
- The culture of saving will be embraced by every sector in the County by doing away with the non-priority activities in the budget.

4.3 Recommendation and way forward

There is need for constant monitoring and review of performance and progress made on the medium term debt strategy. The quarterly County debt report and the annual review of performance of the previous quarter which will reveal possible risks and recommend measures to mitigate in the subsequent quarter. County debt information should be published more regularly to enhance transparency on debt management in accordance with best international practices.

4.4 Conclusion

Public debt management forms an integral part of macroeconomic environment in any economy. It has implications on public expenditure and also has a direct bearing on macroeconomic stability. Public debt management objectives are; to ensure that the county government's financing needs and payment obligations are met at the lowest possible cost over the medium to long term, with a prudent degree of risk, while ensuring the equitable sharing of benefits and burdens of public debt between the current and future generation.

As the county enhances its resource mobilization in the medium term, the county will ensure when funding to programmes is done through debts it will be sustainable and the County will meet its debt obligations in a timely manner.

Government borrowing will be guided by the need to lower cost and minimize risks, particularly of foreign exchange, interest rate, refinancing and settlement risks. The Government will endeavor to implement sound policies and structural reforms to strengthen its credit rating to enhance its access to a wider array of sources of financing at lower cost and risk while maintaining overall debt within sustainable levels. 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. The strategies proposed in the MTDS will ensure low-cost funding with high returns, thereby promoting socio-economic well-being of the citizens. This is expected to contribute to economic growth both at the county and national level and ensure delivery of CIDP for enhanced socioeconomic transformation.