

# COUNTY GOVERNMENT OF TAITA TAVETA



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MEDIUM TERM  
COUNTY DEBT MANAGEMENT STRATEGY PAPER

FEBRUARY 2021

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The document is also available on the County Government website: [www.taitataveta.go.ke](http://www.taitataveta.go.ke)

## Foreword

The 2021 Debt Management Strategy (DMS) has been prepared in accordance with the Public Finance Management Act 2012 section 123 (1). It is provided 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 provides guidance to the County Government on the amount and type of borrowing to undertake over the medium term. It also evaluates the costs and risks of various debt management strategies and provides recommendations on optimal strategy for implementation.

The strategy further outlines priorities that will assist in the financial risk reduction. The 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.

Hon. Andrew Kubo Mlawasi-ACCA  
CECM-Finance and Economic  
Planning

## Acknowledgement

This Medium Term Debt Management Strategy sets out the debt management strategy for the County Government.

It is worth noting that the preparation of DMS is a relatively technical process that requires critical analysis and formulation of an optimal borrowing strategy that will guide the County government borrowings.

We are particularly grateful to the County Executive Committee Member for Finance and Economic Planning, Chief Officer Finance and Planning for his role, direction and guidance in developing this document, County Executive Committee Members, Chief Officers, County Treasury Staff and Technical Team for their input in providing much needed information to the team working on this first MTDS.

Finally, it is our sincere conviction that this 2021 Medium Term Debt Management Strategy will guide the debt management strategy for Taita Taveta County Government.

CPA Joyce Mwachia  
Ag. County Chief Officer- Finance and Economic  
Planning

## LIST OF ABBREVIATION

DMS	Debt Management Strategy
FY	Financial Year
KSH	Kenya Shillings
NHIF	National Housing Insurance Fund
NSSF	National Social Security Fund
PAYE	Pay As You Earn
PFM	Public Finance Management
PPP	Public Private Partnership

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## EXECUTIVE SUMMARY

The 2021 County Government Debt Management Strategy is prepared in line with section 123 of the Public Finance Management Act 2012. The law stipulates 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.

This Paper is structured in two chapters: Chapter one provides an overview of the Debt Management Strategy by defining debt and debt management. The chapter also highlights the impact of unsustainable debt in the County.

Chapter two provides the characteristics of the County Government's public debt with emphasis on specific strategies the County Government intends to employ in dealing with debts. It further provides details of Debt reduction policies and strategies designed to assist the County in its effort to reduce debts in a fast and prudent manner.

An analysis of County Government's debts indicates that there are no external loans owed by the County. The question of pending bills as a liability has however bedevilled most counties since the inception of devolution and Taita Taveta no exception. Further, continued non-payments of bills to contractors and suppliers as observed by the Pending Bills Committee, not only dents the image of the County Government but has affected its economy and disrupted its operations. This also exposes the county to the risk of litigation.

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

The County Treasury shall include the following information in the statement-

- a) the total 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 1: OVERVIEW OF DEBT MANAGEMENT STRATEGY**

### **Introduction**

The 2021 Taita Taveta County Debt Management Strategy is aimed at guiding sustainable debt management and demonstrates sound financial management practices, in the interest of the citizenry, credit institutions, investors and other stakeholders. The document is prepared in accordance with the provisions of the PFM Act Section 123.

The main objective of debt management strategy is to enable the county government to prudently meet its financial obligations with sustainable risk levels.

### **Goals for the debt management strategy**

The Debt Management Strategy spells out the Government's debt financing plans for FY 2021/22. 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 Debt Management Strategy is also expected to provide debt ceilings for the county government. The limit must:

- a) Not exceed the nominal value of the total public debt that is determined in accordance with fiscal responsibility principles.
- b) Be specified annually in the county fiscal strategy paper and the medium term debt management strategy
- c) Guide the level of new annual government debt to ensure it is consistent with that limit
- d) 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.

## 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 taken up in a balanced way to ensure debt sustainability over Long term.
- b. Prudence must be observed when contracting debt while 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.
- e. The debt must be for capital projects

## CHAPTER 2: COUNTY PUBLIC DEBT SITUATION

### **Analysis of Taita Taveta County Government's Public Debt**

Analysis of Taita Taveta County liabilities indicate that there are no external loans pending by the County Government.

#### **Pending Bills**

Despite making major strides in revenue collection, outstanding pending bills are still posing a challenge in the running of the County Government. In the FY 2019/20, the County Government had an accrued eligible pending bills of Kshs. 652.8 Million out of which Ksh.436.1 Million was paid to various suppliers resulting to un-paid balance of Kshs. 216.7 Million as at 30th June, 2020. In the 1<sup>st</sup> half of FY 2020/2021, a total of Kshs 90.3 Million was spent on the settlement of pending bills.

Given the trends in disbursement of funds from the National Treasury it is prudent that a provision for pending bills be made to cover projects that will not have been paid for by 30<sup>th</sup> June 2021. To this end, this paper allocates Kshs 530 Million to cater for pending bills in FY 2021/2022. This amount includes Kshs 30 Million payable to National Housing Corporation for Mbela estate.

Going forward the County will implement E-Procurement full cycle, from sourcing to payments as a step towards reducing incurring of pending bills. Additionally, staff who will commit the County to incur pending bills will be held personally responsible and disciplinary action taken against them.

#### **Debt reduction strategies**

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

- a. Ensure total adherence to the budgetary ceilings during budget implementation
- b. Stakeholder participation during projects planning, monitoring and evaluation will be strengthened to avoid project variations and changes
- c. Embrace austerity measures to manage recurrent expenditure by departments and promote the savings for capital investments.
- d. Enhance revenue generation by departments by exploring and exploiting new and wider revenue streams.
- e. Encourage cost sharing especially for services like extension services in all sectors.
- f. Contract management should be conducted in adherence to all statutory Requirements as well as full adoption of e-Procurement
- g. Strengthen county audit and legal offices
- h. Reduce the role of the county government in business related ventures and allow for private sector and Public /Private Partnership (PPP)