REPUBLIC OF KENYA

COUNTY GOVERNMENT OF WEST POKOT

COUNTY TREASURY

County Debt Management Strategy Paper

FY 2017/2018

The Hidden Treasure

FOREWORD

The Debt Management Strategy provides a framework that will guide County government to ensure that debt levels stay affordable and sustainable, that any new borrowing is for a good purpose and that the costs and risks of borrowing are minimized.The County Government of West Pokot has no plans of incurring debt in the financial year 2017/2018 since the budget proposals contained in the fiscal strategy paper 2017 are balanced with the resource envelope available hence there will be no anticipated need for deficit financing. However, as county government matures and its strategic needs grow, there is need for the preparation of a Debt management strategy as part of the documents supporting budget to enable it meet its financial needs from the financial and money markets.

The purpose of the 2017 MTDS is to guide County Government borrowing in the future financial years while providing a path for sustainable level of debt over the medium term. It evaluates both costs and risks of various scenarios and recommends an optimal debt management strategy for implementation in the future.

The institutional arrangements for public debt management will be reviewed to enable the treasury execute its mandate effectively and efficiently under the constitution of Kenya 2010. The implementation of the constitution requires enormous amount of the resources, part of which will be sourced through borrowing. It's therefore, important to closely monitor the burden of the public debt at county Government level so as not to undermine economic growth. As we implement the constitution of Kenya, 2010, it is important that both the burden of and benefit from public borrowing is equitably shared between the present and future generations. Indeed, it is one of the key principles of public finance under Article 201 of the Constitution of Kenya, 2010. It's therefore expected that going forward County Government's fiscal strategies will be geared towards maintaining a sustainable level of debt.

Mr. Joel Ngolekong,
CEC, Finance and Economic Planning
<u>West Pokot County</u>

ACKNOWLEDGEMENT

Pursuant to an Intergovernmental Budget and Economic Council (IBEC) agreement, the National Government will develop guidelines to regulate short-term borrowing by County Governments from the Central Bank of Kenya (CBK). Access to short-term borrowing will enable the counties to better manage their cash flow, while eliminating need for high-interest commercial bank loans. These guidelines together with West Pokot Debt Management strategy for FY 2017/18 will help to mitigate fiscal risks, which could arise from short-term lending.

The West Pokot Debt Management strategy for FY 2017/18 is informed by a fiscal policy supportive of the macro-economic stability and growth. As at now, the county government's public debt is nil since it has not accumulated any debts from 2013.Further, there are no audited debts transferred from the defunct local authorities.Preparation of the draft Legal Notice to enable the transfer of assets and liabilities from the defunct local authorities has been done by the Intergovernmental Relations Technical Committee .The transfer is expected to be concluded by 31st March, 2017. The IGRTC will coordinate the actual auditing of assets and liabilities and the Auditor-General will audit the final outcome.The strategy therefore will guide the county government to adequately prepare before payment of any inherited debts or undertaking any future borrowings to support implementation of priority policies, capital programmes and projects.

I would like to thank Mr. Joel Ngolekong (*County Executive* Member for *Finance and Economic Planning*) and the County Executive Members for their input and for dedicating their time to provide leadership in the entire Debt Management Strategy preparation process. The Budget and County Planning team also spent a significant amount of time to put together the report. In this regard, I'm grateful for their technical input and commitment to the success of the process. Thank you all for the excellent support and work.

Jackson Pengat
Chief Officer Finance and Economic Planning
West Pokot County

TABLE OF CONTENTS

1.0 CHAPTER ONE: GENERAL OBJECTIVES OF DEBT MANAGEMENT IN WEST POKOT COUNTY

1.1 Introduction

This is the third Medium Term Debt Management Strategy paper (MTDMS) prepared by the County Government of West Pokot since its inception. This Strategy paper sets out the County Government's objectives, strategy and plans for the management of its debt for Financial Year 2017/2018 and the medium term. The MTDMS is a plan that outlines what the county government intends to implement over the medium term in order to achieve a desired composition of debt portfolio. It operationalizes the government's debt management objectives i.e ensuring the County government's financing needs and payment obligations are met at the lowest possible cost consistent with a prudent degree of risk. It has a strong focus on managing the risk exposure embedded in the debt portfolio—specifically, potential variations in the cost of debt servicing and its impact on the budget. In particular, the MTDMS identifies how costs and risks vary with the composition of the debt.

1.2 Definition of Terms

1.2.1 Debt

Public debt, or borrowing, includes the contracting or guaranteeing of domestic and external (foreign) debt through loans, financial leasing, on-lending and any other type of borrowing, including concessional and non-concessional borrowing, whatever the source. Borrowing and debt of county government owned institutions would be included in the definition of total county government debt.

1.2.2 Medium-Term Debt Management Strategy

This Medium-Term Debt Management Strategy (Debt Strategy) is a framework that the County government intends to use over the medium-term (three years) to ensure that debt levels stay affordable and sustainable, that any new borrowing is for a good purpose and that the costs and risks of borrowing are minimized.

1.2.3 Debt Sustainability

Debt sustainability refers to the ability of West Pokot county government to service its debt on a continuing basis and not go into default.

1.3 Legal Framework

The Public Finance Management Act, 2012 requires County Treasury to submit the County Government Debt Management Strategy to the County Assembly. Section 123 stipulates 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. "

After submission of the statement to the assembly, the County Executive Member for Finance is required to publish and publicize the statement and submit a copy to the Commission on Revenue Allocation (CRA), and the Intergovernmental Budget and Economic Council (IBEC).

Framework for Borrowing by County Governments

Section 212 of the Constitution gives county governments a window of opportunity to borrow. All borrowed funds must be guaranteed by the national government and have to be approved by the County Government's Assembly. Loans to county governments are part of the public debt. The constitutional provision on borrowing is operationalized by the PFMA, 2012. (1) Section 58 of the Act states,

• Subject to subsection (2), the Cabinet Secretary may guarantee a loan of a County Government or any other borrower on behalf of the National Government and that loan shall be approved by Parliament.

• The Cabinet Secretary shall not guarantee a loan under subsection (1) unless

(a) The loan is for a capital project.
(b) The borrower is capable of repaying the loan, and paying any interest or other amount payable in respect of it.
(c) In the case of a private borrower; there is sufficient security for the loan.
(d) The financial position of the borrower over the medium term is likely to be satisfactory;
(e) The terms of the guarantee comply with the fiscal responsibility principles and financial objectives of the National Government. Where Parliament has passed a resolution setting a limit for the purposes of this section;

(a) The amount guaranteed does not exceed that limit.
(b) If it exceeds that limit, the draft guarantee document has been approved by resolution of both

Houses of Parliament.

(c) The Cabinet Secretary takes into account the equity between the National Government's interests and the County Government's interests so as to ensure fairness.

(d) The borrower complies with any conditions imposed by the Cabinet Secretary in accordance with the regulations.

(e) The Cabinet Secretary has taken into account the recommendation of the Intergovernmental Budget and Economic Council in respect of any guarantee to a County Government; and

(f) The loan is made in accordance with provisions of this Act and any regulations made thereunder.

- Parliament may approve a draft loan guarantee document as provided by subsection (2)(f)(ii) Only if satisfied that

(a) The guarantee is in the public interest;

(b) The borrower's financial position is strong enough to enable the borrower to repay the loan proposed to be guaranteed and to pay interest or other amounts payable in respect of the loan; and

(c) The loan is geared towards stimulating economic growth in a County Government.

Section 107 of the Act specifies

- Over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.
- The county debt shall be maintained at a sustainable level as approved by County Assembly.
- The fiscal risks shall be managed prudently.
- Short term borrowing shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited county government revenue.
- Every county government shall ensure that its level of debt at any particular time does not exceed a percentage of its annual revenue specified in respect of each financial year by a resolution of the County Assembly.

Section 140 and 141 of the Act specifies that

- A County Executive Committee member for finance may, on behalf of the County Government, raise a loan for that Government's purposes, only if the loan and the terms and conditions for the loan are set out in writing and are in accordance with;

(i) Article 212 of the Constitution

(ii) Sections 58 and 142 of this[PFMA] Act

(iii)The fiscal responsibility principles and the financial objectives of the county government set out in its most recent County Fiscal Strategy Paper

(iv)The debt management strategy of the County Government over the medium term

(v) A loan may be raised either within Kenya or outside Kenya

• In borrowing money, a County Government shall ensure that it's financing needs and payment obligations are met at the lowest possible cost in the market that is consistent with a prudent degree of risk, while ensuring that the overall level of public debt is sustainable.

• A County Government may borrow money only in accordance with this Act or any other legislation and shall not exceed the limit set by the County Assembly.

• A County Government may borrow money in accordance with section 58, and only for purposes that are prescribed by regulations made under this subsection.

• A public debt incurred by a County Government is a charge on the County Revenue Fund, unless the County Executive Committee member for finance determines that all or part of the public debt that would otherwise be a charge on that Fund shall be a charge on another public fund established by that county government or any of its entities.

• The County Executive Committee member for finance shall pay the proceeds of any loan raised under this Act into the County Revenue Fund or into any other public fund established by the county government or as the County Executive Committee member for finance may determine.

• A County Executive Committee member for finance may establish such sinking fund or funds for the redemption of loans raised under this Act for the purposes of the County Government or any of its entities as the County Executive Committee member for finance considers necessary

• Any expenses incurred in connection with borrowing by a County Government shall be a charge on the County Revenue Fund or on such other county public fund established by the County Government or any of its entities as the County Executive Committee member for finance may determine in accordance with regulations approved by the County Assembly.

Section 142 of the act provides that

• The County Assembly may authorize short term borrowing by county government entities for cash management purposes only.
• Any borrowing may not exceed five percent of the most recent audited revenues of the entity.
• A County Government entity that has any such borrowing shall ensure that the money borrowed is repaid within a year from the date on which it was borrowed.

Section 143 of the act specifies that

• The County government may issue securities, whether for money that it has borrowed or for any other purpose, only in one or more series and only in accordance with this Act and regulations.
• Subject to the provisions of section 141 of this Act, the authority of the County Executive Committee member for finance to borrow money includes the authority to borrow money by issuing County Government securities in accordance with the regulations.
• Any County Government securities issued by the County Executive Member for finance under this section shall be within the borrowing limits set out by the County Assembly under subsection 141(2) of this Act
• County Government securities may be issued in one or more series; and may be issued in accordance with loan agreements entered into in accordance with regulations developed by the County Executive Committee member for finance and approved by the County Assembly.
• An agreement to obtain a loan by a County Government entity made under subsection (5) may be amended from time to time and where the amendment results in further indebtedness or prejudice to the entity that borrowed, the amendment shall be approved by the County Assembly.
• The County Executive Committee member for finance shall ensure that every County Government security issued under this section is given in the name of that County.

1.4 Objective of the Debt Management Strategy

The main objective of West Pokot Debt Management Strategy is to ensure that the County Government of West Pokot's 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:

(a) Covering financing needs and payment obligations, while minimizing medium and long term costs;

(b) Limiting risk in the public debt portfolio. The limitation of risks attached to the County Government Debt portfolio is an important objective set in this Strategy, aiming at providing an optimal and sustainable composition of the public debt;

In summary, the strategy seeks to balance cost and risk of public debt while taking into account county government financing needs. In addition, the strategy incorporates initiatives to leverage on the domestic debt market, seek new funding sources, support macroeconomic stability and achieve debt sustainability.

2.0 CHAPTER TWO: OVERVIEW OF THE MEDIUM TERM DEBT MANAGEMENT STRATEGY

2.1 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. The assumption is:

(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 2017/2018-2019/2020 MTDMS is consistent with projections included in the 2017 County Fiscal Policy Statement (2017 CFSP). The fiscal strategy paper aims at providing a general fiscal direction to support economic activities taking into consideration debt harmony in the next three years with improved forecast of the national economy.

(iii) The political, social and economic environment will remain favorable during the implementation of the strategy.

(iv) As per the constitution, the national government will guarantee county government loans;

(vii) The National Treasury will sustain the efforts towards minimizing the delays in disbursement of equitable share transfers and other factors which might lead to escalation of demand for short-term finance by the counties.

2.2 Analysis of Debt Sustainability

The County Government of West Pokot does not have debts. Being a new county, it is yet to borrow within the meaning of the Constitution and PFMA 2012. Rigorous debt sustainability analysis therefore, will be done once the County Government contracts the first borrowing as informed by law.

2.3 Debt Management Strategies

This section outlines debt management strategies envisaged should the County Government of West Pokot contracts a debt in future. There are four components to the Debt management Strategy

(i) Maintain debt at sustainable and affordable levels.

(ii) Ensure that any new borrowing follows fiscal responsibility guidelines for a fit purpose; from an allowable source and with acceptable terms and conditions.

(iii) Introduce and consolidate fiscal, legal, institutional and operational measures that ensure that the above objectives are met.

2.4 Maintain debt at sustainable and affordable levels

- Pursue grant funding and budget support;
- Where grants are unavailable, or where a loan element of grant funding for priority development projects is mandatory, limited concessional borrowing may be sought;
- Borrowing must be limited to concessional loans from multi- or bilateral donors or development partners,
- The criteria for considering concessional financing shall be a grant element,
- Concessional debt terms and conditions must be appropriate for the project being financed,
- Projected debt servicing cost, not allowing for grace periods, must be less than 10 per cent of forecast domestic sourced revenues, assuming no growth in revenue;
- Debt servicing shall be sequenced to avoid large peaks in repayment expenses at certain times of year.
- As part of the budget process, an annual borrowing limit will be set such that debt levels will not exceed the minimum set thresholds (5 percent of internal revenue).
- As a general rule, and to maintain any debt to be incurred at its affordable and sustainable levels or below, the cumulative new issuance should not exceed the cumulative principal repayments to be made once interest to incur debts are floated;
- Debt levels must be lower than any thresholds stipulated in the Public Finance Management Act 2012 and any other land legislation governing matters debt;
- Debt levels used in monitoring and analysis will be total public debt;

- Any additional fiscal surplus arising from buoyant county revenues will be used to retire domestic debt.

- Ensure that any new borrowing follows legal and fiscal responsibility guidelines for a fit purpose; from an allowable source; and with acceptable terms and conditions.

- New borrowing must be recommended by a County Debt Management Unit to the Debt Management Advisory Committee and approved through the proper legal and institutional channels. It must comply with the conditions contained within the MOU signed by the county and the entity issuing the debt.

New borrowing must be:

(a) For a fit purpose.

(i) Borrowing must be for the following types of projects

i. Investing in the productive capacity of West Pokot County;

ii. Funding priority core infrastructure and development initiatives;

iii. Specific purposes (projects) identified as a high priority in the county CIDP or specific sector plans; Preference shall be given to projects with high rates of return or projects such as investing in hospitals or schools that generate a high 'social rate of return' and those that can help the county reach the Sustainable Development Goals and the Kenya Vision 2030. Investment projects cash flows need to be clearly identified as sufficient to make debt repayments and the cost of any contingent liabilities and obligations such as tied procurement must be factored into the cost and risk of debt. When lending for revenue generating enterprises, the rate of return must be sufficient to make debt servicing payments and contribute to the future capital requirements of the county.

(ii) Borrowing must not be used for:

i. Funding shortfalls in recurrent expenditure.

ii. Funding any form of losses incurred by the county.

(b) From an acceptable source.

For the duration of this Debt Management Strategy (three years), borrowing after the transition period shall be restricted to concessional sources of finance from multilateral or bilateral donors. Such financing generally comes with greater scrutiny and oversight, making sure that funding is used for the purposes it was provided and decreasing reputational risk. Concessional lending is available through multilateral agencies like the ADB and World Bank and bilateral donors. Loan amounts will depend on the specific projects to be funded and donors' funding allocations to the county. The denomination of the loan currency will also influence the acceptability of the source. Acceptability of source will also depend on the individual characteristics of the loan, limitations, terms and conditions on the loan. Lending from bilateral partners is linked to specific projects and terms and conditions depend on the project.

(c) With favorable terms and conditions.

The terms and conditions associated with any debt proposals must be examined carefully. Loans will be subject to a cost risk analysis by the DMU.

The following factors must be examined:

a) **Grant/ Concessional Element**: Preference should be given to debt with a large grant component. However, the project still needs to be for a fit purpose.
b) **Debt Sustainability and Affordability**: The volume and cost of debt must not have a negative impact on debt sustainability and affordability. All economic indicators must be below the thresholds when subjected to stress tests and using conservative estimates of economic variables. Hidden costs, such as fees (transaction, commitment, agency or underwriting), requirements for the county Government to fund maintenance or project management expenses must be included in the analysis.
c) **Currency and Exchange Rate Risk**: Despite offering very low interest rates, concessional loans still carry foreign exchange risk. The benefit of very low or even zero interest rates could be negated by depreciation. Stress tests used in the above analysis must assess the impact on affordability and sustainability of foreign exchange movements.
d) **Interest Rate**: Debt with a lower interest rate will have a lower cost. Fixed interest rates have a lower risk than variable interest rates where the future cost of debt is not known.

e) **Tenure:** The term of the loan should be more closely aligned to the cash flows of the project. The advantages of very long term loans (such as the impact of inflation on the value of the loan) and very low repayment amounts can be outweighed by accumulating large amounts of debt over many generations. Very long term loans may encourage fiscal irresponsibility, because if the project fails, it is future generations that must bear the cost. By using up the borrowed loans now, it might restrict the ability of future generations to borrow, and they will be servicing debt for projects that were completed before they were born and for which they receive no tangible benefit.

f) **Grace Period**: Debt sustainability analysis must extend beyond grace periods. The length of the grace period should be assessed in terms of factors such as the revenue stream from the project, its duration, inter-generational equity and the time value of money.

g) **Conditions**: Preference should be given to debt with positive characteristics such as project administration or management and advisory services. Negative characteristics such as tied procurement, the requirement to use particular companies or nationalities for project implementation, future expense commitments (such as auditing expenses or maintaining equipment) need to be factored into assessments of the cost of debt.

h) **Concentration Risk**: If the volume of the loan is large, it may contribute to concentration risk. If an institution or bilateral partner has a large concentration of debt it could use this as a means of exerting undue political influence or bargaining for favors (for example tax concessions, access to resources). The behavior of the lender needs to be assessed.

i) **Legal Risk**: Borrowing proposals must be examined for potential legal risks. They must not contravene any country legislation

2.5 Implementation Framework

This section seeks to introduce and consolidate fiscal, legal, institutional and operational measures that ensure that the objectives of the Strategy are met. Fiscal, legal, institutional and operational measures are needed to strengthen debt management and establish a borrowing framework. These measures also need to increase transparency and accountability so as to restore credit worthiness.

2.6 Fiscal Measures

The West Pokot County Government must continue its commitment to balanced recurrent budgets and debt should not be used for recurrent spending. Annual borrowing limits will be set as part of the budget process to keep debt at sustainable and affordable levels, based on conservative forecasts of macro-economic factors, and in line with the County Fiscal Strategy Paper.

2.7 Legal Measures

Essential aspects of debt management contain these elements:

(i) Definition of debt to include loans, borrowings, guarantees and on-lending;

(ii) Clear authorization by county assembly to approve borrowings and loan guarantees on behalf of the county government;

(iii) A requirement that all borrowing proposals (including guarantees) are reviewed by a Debt Management Advisory Committee (DMAC) and recommendations submitted to the CECM for finance before borrowing and loan guarantees can be approved on behalf of the government;

(iv) Decisions surrounding borrowing made as part of the budget process so that projects can be compared on merit, and appropriations are made for borrowed funds;

(v) Clear authorization from the CECM for Finance to the debt management entities to undertake borrowing and debt-related transactions and to manage loan guarantees;

(vi) Clear debt management objectives, including that the cost of the debt is minimized from a medium/long-term perspective, the risks in the debt portfolio are kept at acceptable levels, and that development of the domestic debt market is promoted;

(vii) A requirement to review and update the Debt Strategy annually which will serve as an operational strategy and will provide a framework for how the county government will achieve its debt management objectives; and

(viii) As part of the annual update of the Debt Strategy, mandatory reporting on progress since the last review, covering an evaluation of outcomes against stated objectives.

2.8 Institutional and Operational Framework

2.8.1 County Debt Management Advisory Committee

There is established a committee to be called County Debt Management Advisory Committee (DMAC).This Committee will be chaired by the chief officer in charge of finance with membership of technical officers from Economic Planning, Budget, Water, Agriculture, Livestock and Infrastructure dockets. The Debt Management Advisory Committee will evaluate borrowing proposals and make recommendations to the CECM for finance as to whether borrowing should or should not proceed.

DMAC will assess the volume and risk characteristics of debt to ensure that: (i) Debt is sustainable and affordable;(ii) Debt is below the thresholds established; (iii) Debt is from an acceptable source;(iv) Debt is for a good purpose and the project is a high priority in the CIDP; (v) Debt is not for funding recurrent expenditure;(vi) Project has a positive Net Present Value or helps achieve Vision 2030 and the SDGs; (vii)The cost of any contingent liabilities and obligations such as tied procurement are factored into the cost and risk of debt;(viii)Cash flows from project can be identified that will be able to be used for repaying the loan.(ix)Loan terms and conditions are acceptable and achieve the best cost and risk outcome (x) Borrowing aligns with the CFSP.

2.8.2 Functions and Responsibilities of the Debt Management Unit

There is established a County Debt Management unit (DMU) under the County Treasury of West Pokot county government. The Debt management Unit will provide secretariat services for the DMAC Committee.

The functions and responsibilities of the DMU will include:

- Make debt payments on time and for the correct amount;
- Keep timely, comprehensive and accurate records of outstanding government debt, guarantees, contingent liabilities and new borrowing in a single debt database;
- Publish, in a timely manner, monthly (and quarterly) reports showing the status of outstanding debt, debt payments, and projected debt payment obligations;
- Prepare, review and update the Debt Strategy;

- If required, prepare an annual borrowing plan;
- Prepare and publish auction calendars for issuance of domestic securities (Treasury Bills and Treasury Bonds);
- Assess the risks in issuing any guarantees, and prepare reports on the method used for each assessment and the results thereof for the attention of the CEC Member for Finance;
- Submit all debt reports and debt management strategy to DMAC for consideration and recommendation.

2.8.3 Process for Recommending Borrowing Proposals to the County Executive

There is need for clear delegation of responsibilities for recommending and approving debt, where debt includes loans, borrowings, and guarantees and on lending to the county government. In this regard, DMAC will recommend and rank acceptable proposals. It is therefore, proposed that:

(i) Proposals that have been recommended by the DMAC be submitted and incorporated as part of the budget approval and appropriation process.

(ii) The CECM for finance has sole authority to approve loans. Therefore borrowing will not be legal unless it has been signed off by CEC Member for finance.

(iii) Operating framework for the debt management unit will consist of:

a) **Debt recording**: The DMU shall maintain accurate and up-to-date records of all debt (including guarantees, on- lending and contingent liabilities) and investments, which can then be reported. DMU also needs to keep records on liabilities of county entities.

b) **Debt reporting**: DMU shall publish monthly reports on the status of County's total debt including loans, guarantees, contingent liabilities and payment arrears. The report will include details of new borrowing and issuance of Government guarantees, as well as debt repayments, rescheduling, write-offs, and retirements. Quarterly debt bulletins indicating debt levels and cost, debt sustainability and affordability and actual and projected debt service costs over the medium term will be published on county's websites. An Annual Report will also be produced showing changes in the debt status over the year, details of any new borrowing and debt repayments, key events in the management of debt and in the DMU, and a review of progress and performance against the Debt Strategy. Reports shall be published in a timely manner, so that stakeholders have access to up-to-date information.

c) **Debt Strategy**: Every year the DMU shall review, update the debt management strategy and present to the County Assembly. The Debt Strategy will provide a framework for ensuring debt financing decisions are consistent with County government's broader fiscal and development strategies and that the level of borrowing fits within the debt sustainability/affordability thresholds defined in legislation or any other official documents and with achieving macroeconomic objectives.

d) **Borrowing Plan**: When required, DMU shall prepare a borrowing plan.

e) **Debt Sustainability Analysis**: DMU shall prepare a debt sustainability analysis.

f) **Integration with Cash Management**: The DMU shall continue to work with County Treasury to integrate cash and debt management. Cash management ensures that County government has sufficient funds to meet its obligations as and when they fall due. Use of cash management tools depends on reliable cash forecasting. For example, Treasury Bills can be issued to fund forecast cash shortfalls, with maturity timed to coincide with periods of forecast cash surplus. Similarly, excess cash can be invested in term deposits or similar instruments to earn the county government reasonable rates of return, with term deposits maturing at times of forecast cash shortfall.

g) **Compliance**; Where staffing levels permit, the DMU will move toward an office organization with separation of back, middle and front office duties so that work can be monitored and verified. DMU will also work with Treasury toward greater integration of the cash management task.

h) **Capacity Building**: Capacity building shall continue at all levels and the DMU will update its capacity development plan annually.

i) **Business Continuity and Disaster Recovery**: Business continuity shall be strengthened by documenting procedures for all key processes. A register will be kept of key spreadsheets and documents, and these will be backed up regularly.

3.0 CHAPTER THREE: CONCLUSION

The 2017/18 MTDS is a robust framework for prudent debt management. It provides a systematic approach to decision making on the appropriate composition of external and domestic borrowing to finance the budget in the financial year 2017/18, taking into account both cost and risk. The cost-risk trade-off of the Debt Strategy has been evaluated within the medium term context. The paper observes that the County Government of West Pokot is yet to contract a debt within the interpretation of Section 122 and 123 of the PFMA, 2012. In this regard, it proceeds to make proposals on strategies to be adopted in future.

The institutional framework envisaged will ensure that both the executive and the assembly play their roles within the provisions of Section 9 (1) and (2) of the County Governments Act, 2012 for the benefit of the public. The strategies proposed 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. Implementation of the strategies is the responsibility of the CEC Members led by the CEC Member for Finance and Economic Planning while the Assembly will provide the oversight role in line with the law.