

GOVERNMENT OF NAIROBI CITY COUNTY



*Paper laid by the
leader of Majority
Party on 2/3/2021.*

THE NAIROBI CITY COUNTY ASSEMBLY

OFFICE OF THE CLERK

**SECOND ASSEMBLY
(FIFTH SESSION)**

NCCA/CA/TJ/2021(6)

2nd March 2021

PAPER LAID

Pursuant to Section 123 of the Public Finance Management Act, 2012, I beg to lay the following Paper on the Table of the Assembly, today Tuesday 2nd March, 2021:

**— THE NAIROBI CITY COUNTY DEBT MANAGEMENT STRATEGY
PAPER FY 2021/2022**

(The Leader of Majority Party)

Copies to:
The Speaker
The Clerk
Hansard Editor
Hansard Reporters
The Press



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Clerk
1/3/2021

NAIROBI CITY COUNTY

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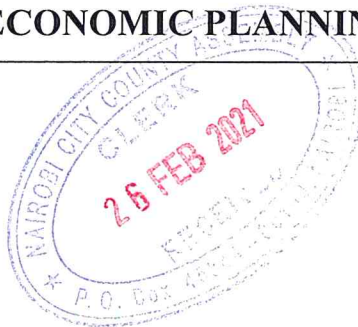
City Hall,
P.O. Box 30075-0010,
Nairobi,
KENYA.

FINANCE AND ECONOMIC PLANNING SECTOR

NCCG/CECM/DMSP/040/2021

26th February, 2021

The Clerk,
Nairobi City County Assembly,
City Hall Building, 2nd Floor,
P.O. Box 45844 – 00100,
NAIROBI



RE: DEBT MANAGEMENT STRATEGY PAPER FOR THE FY 2021/2022

Pursuant to the provisions of Section 123 of the Public Finance Management Act, 2012, I am pleased to submit the Debt Management Strategy Paper for financial year 2021/2022.

Please find attached a copy of the same.

A handwritten signature in black ink, appearing to read 'Allan Esabwa Igambi'.

ALLAN ESABWA IGAMBI
COUNTY EXECUTIVE COMMITTEE MEMBER
FINANCE AND ECONOMIC PLANNING

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1/3/2021

NAIROBI CITY COUNTY



**Medium Term
Debt Management Strategy
Paper**

February 2021

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Enquiries covering this Debt Strategy Paper may be addressed to;

**Nairobi City County,
County Executive Member-Finance & Economic Planning,
P.O. Box 30075,
Nairobi.**

Telephone: +254 2022221349

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Foreword

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 preparation of the County Medium Term Debt Management Strategy (MTDMS), is guided by the Public Finance Management Act of 2012 and the PFM County Regulations of 2015. These provide the requisite framework to ensure the County continues with prudent debt management. The PFMA has laid strict procedures, accountability and reporting requirements for Counties.

The Medium Term Debt Management Strategy (MTDS) is one of the important deliverables of the County Treasury as provided for under the PFMA. It provides the guidance to the County on the amount, type of borrowing to undertake over the medium term. It evaluates the costs and risks of various scenarios and recommends an optimal strategy for implementation.

The main objective of the Medium Term Debt Management Strategy is to ensure sustainability of the County debt, having undertaken an analysis of the existing level of debt, associated risks and strategies to address management of the debt. There is need for fiscal prudence in management of County's resources and emphasis of operational efficiency, to ensure that the County Government financing needs and payment obligations are met at the lowest possible cost in the market that is consistent with a

Nairobi City County Debt Strategy Paper

[illegible]

prudent degree of risk, while ensuring that the overall level of public debt is sustainable.

This involves developing a strategic position to ensure that the servicing and management of County's financing requirements and payment obligations are met on a timely basis and at the lowest possible cost over the medium to long run.

Considering the current level of debt both inherited from the defunct Nairobi City Council and pending bills arising from County Government, the MTDMS 2021/2022 will reinforce measures geared towards reduction of County debt. The County will continue to maintain effective linkages with the National Treasury for effective debt management and provision of technical advice.



ALLAN ESABWA IGAMBI

COUNTY EXECUTIVE COMMITTEE MEMBER FOR FINANCE

AND ECONOMIC PLANNING

Acknowledgement

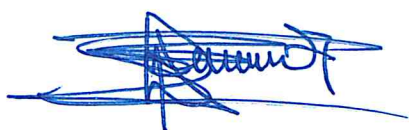
The Medium-Term Debt Management Strategy (MTDMS) paper has been prepared as per the requirement of Public Finance Management (PFM) Act, 2012. It sets out the debt management strategy of the County Government over the medium term with respect to actual and potential liabilities.

The Debt Management Strategy Paper (DMSP) provides guidance on the amount and type of borrowing to undertake over the medium term. It evaluates the costs and risks of various Debt Management Strategies and provides recommendations on meeting its obligations geared towards clearing of debts.

As required by the PFMA the Medium-Term Debt Management Strategy Paper will be formally tabled to the County Assembly on or before 28th February 2021 and will be published and publicized.

To ensure circulation of the Medium-Term Debt Strategy Paper, it will be available in the County website. www.nairobi.go.ke.

I also take this opportunity to acknowledge the staff of the County Treasury who were involved in the preparation of the 2021/2022 Medium Term Debt Management Strategy Paper.



HALKANO DIDA WAQO

CHIEF OFFICER FINANCE AND ECONOMIC PLANNING

Nairobi City County Debt Strategy Paper

List of Abbreviations

B.	Billion
CBA	Collective Bargaining Agreement
CBK	Central Bank of Kenya
CBR	Central Bank Rate
DMD	Debt Management Department
DMO	Debt Management Office
FY	Financial Year
GOK	Government of Kenya
MTDS	Medium Term Debt Strategy
MTEF	Medium Term Expenditure Framework
PFMA/PFM	Public Finance Management Act, 2012

[illegible]

EXECUTIVE SUMMARY

The accumulation of Government expenditure arrears is one of the most common problems in public financial management. Government debts are financial obligations incurred by any level of the public sector for which remain unpaid when due.

Payments may be overdue based on a particular legal obligation (such as payment of social security benefits, or salaries), a specific contractual commitment (such as payment for construction of a road), or a continuing service arrangement (such as payment for electricity supply).

Debt remains one of the major economic policy issues facing County Governments. Nairobi County Government (and its predecessor the defunct City Council of Nairobi) has been heavily in debt for decades.

The County Government debt portfolio comprises of both short and long-term debts. These include historical on-lent water loans taken to finance water infrastructure in the 1970's and Government guaranteed loans taken in the 1980's to finance construction of Umoja II housing project, pending bills to various contractors and suppliers of goods and services, utility companies, statutory bodies, loan from commercial bank and unpaid personnel emoluments.

Further, the County's debt portfolio worsened over the years due to failure to achieve revenue projections and high-compounded interest/penalties charged by the statutory creditors. This has made servicing of the debts quite a challenge and the result is an ever-growing debt portfolio.

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The County Government will ensure servicing debt is the primary concern for debt management. Measures will be introduced to strengthen debt management and establish a borrowing framework by ensuring that the County meets fiscal, legal, institutional and operational measures thus increasing transparency and accountability.

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CHAPTER ONE

1.0 MEDIUM TERM DEBT MANAGEMENT STRATEGY

Introduction

The PFMA Act, 2012 section 107(2e) requires that Nairobi City County debt be maintained within a sustainable level, as approved by the County Assembly, section 107(3) requires that short term borrowing be restricted to management of cash flows and not exceed 5% of recent audited Government revenue.

The 2021 MTDS will guide the County Government operations in 2021/2022. The strategy seeks to balance cost and risk of public debt while considering the financing needs of the County and to develop initiatives for new funding sources.

The principal objective of the County Government debt management is to meet the County Government financing requirements at the least cost possible with a prudent degree of risk. The secondary objective is to service and retire the existing debt portfolio in order to release resources to service delivery.

The Nairobi County Government Medium-Term Debt Management Strategy (MTDS) is developed within the context of the Fiscal Responsibility Framework and guided by the Public Debt Management Act 2012 section 107(2e).

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1.1 LEGAL FRAMEWORK

Section 123 of the PFM Act 2012 requires the County Treasury;

1. On or before the 28th February in each year, the County Treasury shall submit to the county assembly a statement setting out the debt management strategy of the county government over the medium term with regard to its actual liability and potential liability in respect of loans and its plans for dealing with those liabilities.
2. The County Treasury shall include the following information in the statement—
 - (a) The total stock of debt as at the date of the statement;
 - (b) The sources of loans made to the county government;
 - (c) The principal risks associated with those loans;
 - (d) The assumptions underlying the debt management strategy; and
 - (e) An analysis of the sustainability of the amount of debt, both actual and potential.
- (3) As soon as practicable after the statement has been submitted to the county assembly under this section, the County Executive Committee member for finance shall publish and publicize the statement and submit a copy to the Commission on Revenue Allocation and the Intergovernmental Budget and Economic Council.

1.2 SCOPE AND OBJECTIVES

The MTDS covers debts and potential liabilities i.e. it covers all loans and other debts that require payments of principal with or without interests by the County Government to the creditor at a date or dates in future.

The principal objective of the County Government debt management is to meet the County Government financing requirements at the least cost possible with a prudent degree of risk. The secondary objective is to service and retire the existing debt portfolio in order to release resources to service delivery.

The 2021 Medium-Term Debt Management Strategy (MTDS) will guide the County Government operations in 2021. The strategy seeks to balance cost and risk of public debt while considering the financing needs of the County and to develop initiatives for new funding sources.

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CHAPTER TWO

2.0 STOCK OF COUNTY DEBTS

The stock of debt is mainly composed of unpaid statutory deductions, unpaid suppliers and contractors and legal bills, utilities owed to Kenya Power and Nairobi water. There are also benefits owed to retired and deceased staff of the County as well a Commercial Bank loan.

It is worth noting that The County inherited a large debt portfolio from the defunct City Council of Nairobi, part of these debts are long-term loans taken from development partners for the expansion of water infrastructure in the 70's by the defunct Council and housing projects guaranteed by the National Treasury.

The debts remained in the books of the former City Council of Nairobi until the year 2013 when the County Government took over. Further, the County also inherited huge debts owed to various statutory creditors and merchants

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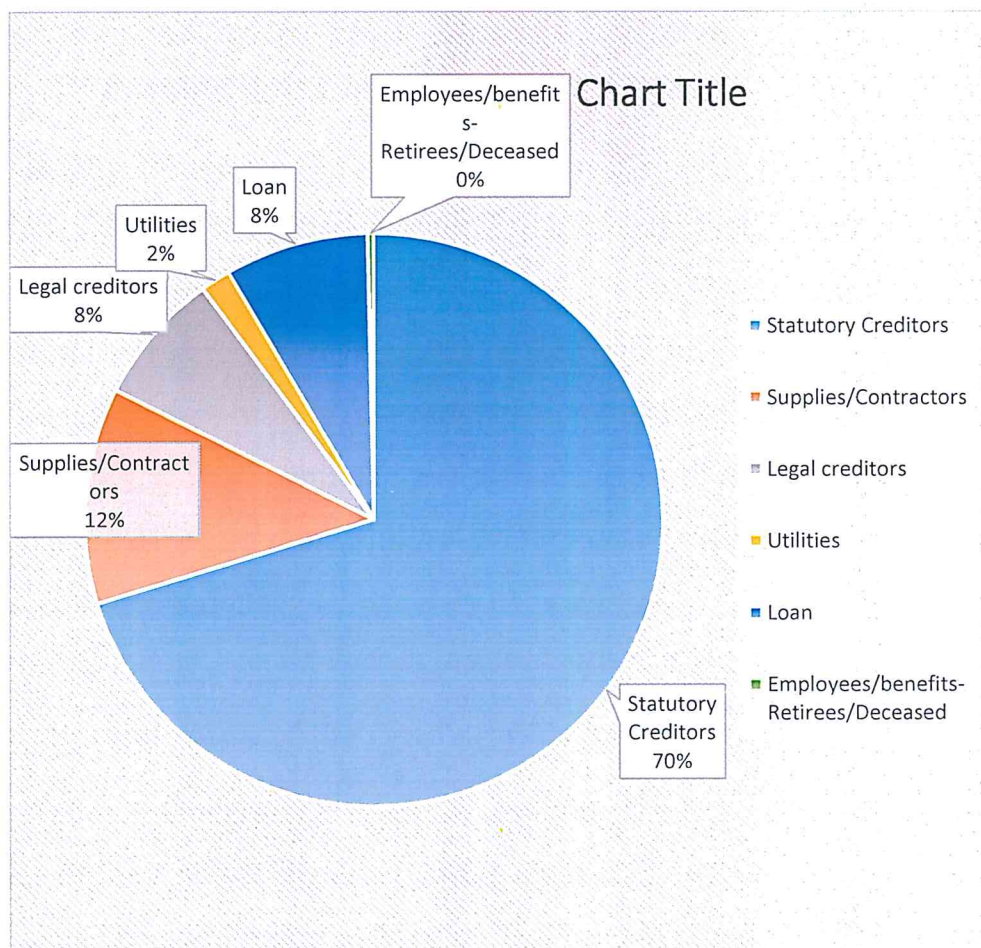
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The County debt as at 31st December 2020 was Kshs 76.9 Billion which includes Kshs 55.1B verified and Kshs 21.8B.not verified (book debts)

Table I: Summary of Outstanding Liabilities as at 31st December 2020.

S/NO.		Verified	Not verified
1	Statutory Creditors	38,741,127,373	-
2	Supplies/Contractors	6,729,913,977	-
3	Legal creditors	4,113,165,423	-
4	Utilities	926,581,375	-
5	Loan	4,449,656,189	-
6	Book Debts (On let water debts)	-	21,768,297,573
7	Employees/benefits-Retirees/Deceased	173,583,267	-
TOTAL		55,134,027,604	21,768,297,573

2.1 STOCK OF COUNTY VERIFIED DEBT AS 31ST DECEMBER 2020



With strained County revenues and due to accrued interests and penalties especially on statutory debts, the County debt has continued to grow. The County Government has undertaken specific measures to reverse this trend.

These measures include:

- **Pending Bills Committee -2013-2016**

His Excellency the Governor of Nairobi County Established a pending bill committee by Gazette Notice No. 14-616 of 15th November 2013, known as Committee on Finalization of Pending Bills and Audit of Procurement Processes

Nairobi City County Debt Strategy Paper

- **Annual Procurement Plan and Budget**

Whereas every Sector in the County must come up with an annual procurement plan, the County is focused on adhering to procurement plans which must be tied to a realistic budget. In its daily operations the County is committed to follow the annual procurement plan and engage its professionals to come up with revenue forecasts that will guide in its expenditure plans.

- **Accounts Receivables**

These are amounts owed to the County Government which have continued to accumulate with time as per the table below.

S/NO.	REVENUE STREAM/FY	KSHS.
1	SUNDRY DEBTORS	644,497,003
2	RENTAL HOUSES-EOTE	198,947,354
3	RENTAL HOUSES-EASTLANDS	205,419,929
4	RENTAL MARKET STALLS/TPS	114,593,792
5	LAND RATES	825,474,177,521
6	LOADING ZONES-PRIVATE	23,760,000
7	LOADING ZONES-GOK	787,124,800
8	ADVERTISEMENTS	268,054,967
9	SINGLE BUSINESS PERMITS	904,617,500
10	WAY LEAVES	115,048,003
11	KPLC-wayleaves	856,345,290
TOTAL		829,592,586,159

The County is in the process of collecting the same by the use of the following strategies:

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- Swap of Kshs 856m wayleave with electricity bills which currently stands at kshs 692m
- Appointed KRA as principle/agent collector
- Robust debt collection unit to follow up on defaulters
- Issue of waiver on land rates to encourage compliance. (out of 825b rates amount 803b amounts to penalties and interest)
- Issuance of demand notices followed with enforcement upon expiry of the notices.

If the County is able to collect the above account receivables it will be easy to pay all the debts.

2.2 SOURCES OF LOANS MADE TO THE COUNTY GOVERNMENT

The defunct Nairobi City Council had a credit facility with Equity Bank of Kshs 5B in the year 2011. Following successful negotiation, the outstanding loan balance of Kshs 3.3B was transferred to KCB bank. However, as at 31st December 2020 the loan balance was Kshs 4.4B, due to none payment of the principal, interest and penalties.

The County is at risk of losing its creditworthiness (reduced credit rating) hence affecting any future access to credit.

2.3 PRINCIPAL RISKS ASSOCIATED WITH LOANS/DEBTS

DEBT CATEGORY	NATURE OF RISK	LEVEL OF RISK	MITIGATION
KCB Bank loan Kshs 4.4B	Changes in interest rates Loss of credit worthiness	High	Negotiation to restructure repayment by installment of Kshs 55m per month for 8 years
Statutory deductions of Kshs 38.7B	-Litigation of -Freezing of Bank Accounts -Withheld pensions	High	Negotiate for installment payments and stoppage of accrued interest
Outstanding Legal fees Kshs 4.1B	-Litigation	High	-Negotiate and spread the payments -Explore alternative dispute resolution i.e. mediation, arbitration
Employee terminal Benefits Kshs 173M	-Low staff morale -Depressed retirees	Medium	Payoff
Merchants Debts Kshs 6.7B	-Compromised service delivery -Litigation	High	Have a payment plan
Utilities Debt of Kshs 927M	-Disruption of services	Medium	-Negotiate debt swap with Kenya Power.

			-Seek exemption for water bills for County facilities
Book debts Kshs 21.8B	-Highly leveraged organization	High	-Write off with the authority of County Assembly.

2.4 THE ASSUMPTIONS UNDERLYING THE DEBT MANAGEMENT STRATEGY

In the preparation of this Debt Management Strategy Paper the following assumptions were made;

- There will be constant growth of own source revenues upon full implementation of the revenue raising measures.
- The procurement will be tagged to actual cash flow.
- Increase in equitable share by the National Government.
- Base lending Rate will not increase.
- Top management will spearhead the negotiations with our creditors.
- The County will maintain a realistic balanced budget.
- The County to continue strengthening the Internal Control Systems.
- The political social economic environment will remain favorable.

CHAPTER 3

3.0 STRATEGIC MEASURES FOR DEBT MANAGEMENT

The following Debt Management Strategies have been proposed and will be discussed in detail in the Medium-term Debt Strategy Paper 2021/2022.

3.1 Revenue Enhancement measures

- Completion and implementation of the GIS based on new Valuation roll capturing all properties and locations and rates charged based on the current land value. The current land rates are charged based on 1980 Valuation roll. The new valuation roll will also cleanse the rates data base. This will increase rates from the current annual Kshs 2.8B to about 6B.
- Accurate data on single business permit increasing the number of registered businesses from current 188,000 to appx. 500,000 increasing revenue collection from 2b to appx. 5b.
- Enactment of finance bill 2020 that has a potential of increasing the revenue by 2.2b.
- Mapping of the revenue streams to establish and increase actual potential by 4b.
- Implementation of the new integrated revenue management system with ability to integrate with all other collection platforms for efficient and effective revenue collection and monitoring.
- Enactment of the revenue administration bill for efficient revenue management.

- Adoption of enhanced revenue forecasting methodologies which will result in realistic budgeting. This will ensure that the County does not commit funds well beyond its ability to honor them.
- Aggressive follow up on account receivables.

3.2 Expenditure Capping

The County should institute measures to control expenditure based on the actual revenue collected.

Procurement plan to be tied to cash inflows and not the budget.

Manage the debts by tracing and ensuring payment within the stipulated time.

Top management to constitute a committee with representatives from all sectors to oversee expenditure capping based on actual revenue collected.

3.3 Debt/Asset Swap

Swapping of debt between the County and NSSF is being implemented. The rates due from NSSF properties are cancelled against the County debt due to NSSF.

The County is in negotiation with KPLC to swap its debts against wayleaves owed to the County

3.4 Debt Restructuring/Loan

The main objective of debt restructuring is to spread repayment of the loan over a number of years and negotiate on capitalization on interest so that it is not compounded. The County is in process of Negotiating to restructure repayment of KCB loan by installments of Kshs 55m per month for 8 years.

3.5 Current Creditors Payment

Prompt payment of current creditors to avoid accruing debts in the future as per the payment plan.

3.6 Exemption for Water Bills from NCWSC

Nairobi water and sewerage company has in the past billed the County for water usage. Considering that NCWSC is a subsidiary of Nairobi County, plans are underway to negotiate the exemption of these bills.

3.7 Writing off debts: Contingent Liabilities (old book debts).

- These are Loans inherited from defunct City council for infrastructure projects, whose records are unavailable both at the National and County government. They were guaranteed by the national government.
- The county did not maintain any records or documentation on these loans hence there is a possibility the debts have already been serviced by the National Government.
- In this regard the county is in the process of coming up with a debt management policy that will guide on County debts. In the absence of the records from National treasury negotiate with County Assembly for authority to write them off from our books of accounts.

CHAPTER 4.

4.1 SUMMARY/CONCLUSION

The Medium-term Debt Management Strategy for year 2021 outlines the County Government's strategic priorities for the management of the debt over the medium-term.

It provides an assessment of the relative costs and risks for the debt portfolio. MTDM considers alternative financing strategies to meet the broad objectives of rising adequate funding at the lowest possible costs at prudent levels of risk.

The paper focuses on clearing outstanding debt in the shortest possible time to avoid various risks such as litigation, high interest, penalties, loss of credit worthiness, depressed retirees, low staff morale, compromised service delivery and disruption of services among others.

Through the proposed debt management strategies such as, debt restructuring, revenue mobilization, debt swaps and collection of debts owed to the county by other entities, the County is focused on reducing debt to sustainable levels and eventually clearing all outstanding debts.

The County management should fast track formation of a committee that will ensure total expenditure including debt servicing costs do not exceed revenue collected, by tying all procurement to cash in flows. This will help in avoiding creation of more pending bills

There's need for constant monitoring and review of performance on progress made on medium term debt strategy

Nairobi City County Debt Strategy Paper

REFERENCES

- Public finance management act 2012
- PFM (County Regulations) 2015
- Constitution of Kenya 2010
- County fiscal strategy paper
- Annual Financial statement 2020
- Sector reports 2020
- Pending bills committee reports
- OAG special report on pending bills
- Transition to devolved government act 2012

