



NAIROBI CITY COUNTY
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FINANCE AND ECONOMIC PLANNING AFFAIRS

Office of the County Executive Committee Member

NCCG/CECM(FIN)MTDS/30/2024

28TH FEBRUARY 2024

The Clerk,
Nairobi City County Assembly,
City Hall Building,
P. O. Box 45844-00100,
NAIROBI.



RE : MEDIUM TERM DEBT STRATEGY PAPER-2024

Pursuant to section 123 of the Public Finance Management Act 2012 I am pleased to submit the Medium Term Debt Management Strategy Paper - 2024.

Please find attached a copy of the same.

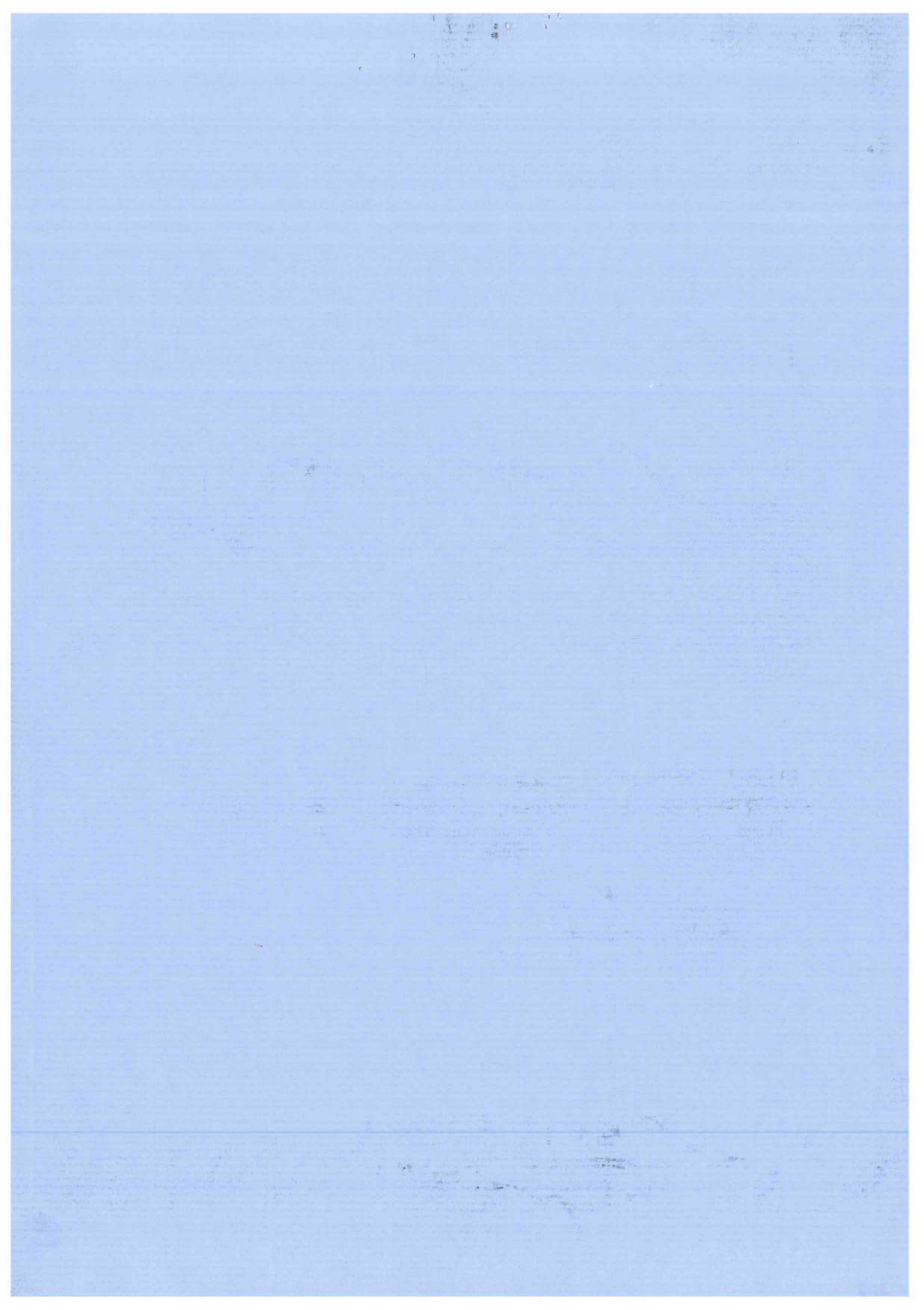
FOR *Atambugu*
CHARLES K. KERICH
COUNTY EXECUTIVE COMMITTEE MEMBER
FINANCE AND ECONOMIC PLANNING AFFAIRS

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advised by the
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(R. W. M. M. M.)
DLS
29/2/2024

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FCCA.
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Please Prepare for tabung.
PCA LSP
29/02/2024





NAIROBI CITY COUNTY

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OFFICE OF THE GOVERNOR

County Secretary and Head of County Public Service

NCCG/CS/MTDS/31/2024

28th February, 2024

The Clerk,
Nairobi City County Assembly,
City Hall Building,
P. O. Box 45844-00100
NAIROBI



RE: COUNTY MEDIUM TERM DEBT STRATEGY PAPER FOR THE FY. 2024

The County Treasury has formulated the County Medium Term Debt Strategy Paper as guided by Section 123 of the Public Finance Management Act, 2012.

This is to forward the said County Medium Term Debt Strategy Paper and the submission letter by the County Executive Committee Member – Finance and Economic Planning Affairs for your further action.

PATRICK ANALO AKIVAGA, Regd. Physical Planner
AG. COUNTY SECRETARY AND HEAD OF COUNTY PUBLIC SERVICE

- Cc.
- H. E. the Governor
Nairobi City County
 - H. E. Deputy Governor
Nairobi City County

⑪ PEA LSP
Kindly advise as
advised by the
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(B. M. M.)
DLS
29/2/2024

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Kindly prepare
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LET'S MAKE **NAIROBI** WORK

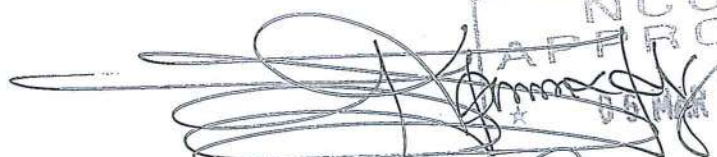


NAIROBI CITY COUNTY

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FINANCE AND ECONOMIC PLANNING AFFAIRS

Office of the County Executive Committee Member


NCCA
APPROVED
6/03/2024
6/03/2024

MEDIUM TERM DEBT MANAGEMENT STRATEGY PAPER

FEBRUARY 2024

LET'S MAKE **NAIROBI** WORK

© 2024 County Medium Term Debt Management Strategy (MTDS)

For comments and clarifications, please contact:

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FOREWORD

The County Treasury has a mandate to present a statement to the County Assembly, outlining the County Government's Medium-Term Debt Management Strategy (MTDMS). The statement should include details such as the current debt stock, sources of debts/loans, associated risks, assumptions guiding the strategy, and an analysis of debt sustainability. The County Executive Committee Member for Finance (CECM) is also required to publish and publicize the statement and provide copies to the Commission on Revenue Allocation (CRA) and the Intergovernmental Budget and Economic Council, (IBEC).

The Preparation of Nairobi City County MTDMS is guided by the Public Finance Management Act of 2012, (PFMA) and the Public Finance Management County Regulations of 2015, (PFMCR). These legal frameworks guide the County on prudent debt management practices. The PFMA has established strict procedures, accountability measures, and reporting requirements for Counties, ensuring responsible debt management.

The MTDMS is one of the important deliverables of the County Treasury as provided for under the PFMA, Section 123. It guides the County on the amount and 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 MTDMS is to ensure the sustainability of the County debt. This will be achieved through an analysis of the existing level of debt, associated risks, and strategies to address the management of the debt.

There is a need for fiscal prudence in managing the County's resources and an emphasis on operational efficiency to ensure that the County Government's funding requirements and payment obligations are met at the lowest cost possible in the market, consistent with a prudent degree of risk. This will ensure that the overall level of public debt is sustainable.

This involves developing a strategic position to ensure that the servicing and management of the 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.

As at 30th June 2023, the Nairobi City County's total debt stood at One Hundred and Seven Billion Shillings Only, (Sh.107B).

The Nairobi City County debt was primarily incurred in financing development projects, such as roads, drainages, health facilities, schools as well as recurrent expenditure on utilities and statutory obligations. The County also has a significant amount of debt that was inherited from the defunct City Council of Nairobi.

Considering the current level of debt inherited from the defunct City Council of Nairobi and pending bills arising from the Nairobi City County Government, the MTDMS 2024/2025 will reinforce measures geared towards the reduction of the County debt.

The Nairobi City County is committed to reducing its debt burden and will take the following strategies; Maintain effective linkages with the National Treasury for technical advice, effective debt management and restructuring plans; Implement a strict fiscal discipline policy to ensure that the County only borrows for essential projects and that all borrowing is affordable; Explore opportunities for re-financing existing debts at lower interest rates; Increase the County's revenue base by promoting economic development and improving revenue collection.



CHARLES K. KERICH
COUNTY EXECUTIVE COMMITTEE MEMBER
FINANCE AND ECONOMIC PLANNING AFFAIRS

ACKNOWLEDGMENT

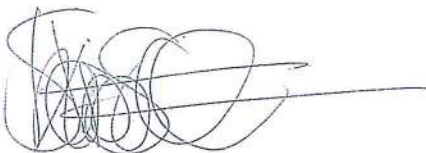
The County acknowledges the development of the Medium Term Debt Management Strategy (MTDMS) 2024, which outlines the County's approach to prudent debt management and reduction of its debt burden. The MTDMS is guided by the Public Finance Management Act of 2012 and the PFM County Regulations of 2015, ensuring adherence to strict procedures, accountability, and reporting requirements.

The Nairobi City County recognizes the importance of sustainable debt management practices and is committed to implementing strategies to mitigate associated risks. With a total debt of KES 107B as at 30th June 2023, the County recognizes the need to address the inherited debt from the defunct City Council of Nairobi and accrued pending bills. The MTDMS aims to reduce the County's debt burden by implementing strict fiscal discipline, exploring opportunities for refinancing existing debts at lower interest rates, and collaborating with the National Treasury to develop a debt-restructuring plan.

The County appreciates the importance of risk management and will develop a comprehensive debt management policy and regularly monitor its debt portfolio to mitigate risks such as interest rate risk, credit risk, and liquidity risk.

The County is committed to prudent debt management and achieving debt sustainability. The MTDMS 2024 provides a roadmap for responsible borrowing, debt servicing, and risk management, ensuring the long-term financial stability of the County.

I take this opportunity to acknowledge and commend members of my team in County Treasury, whose efforts and commitment made the preparation of this document possible.



ASHA ABDI
COUNTY CHIEF OFFICER-FINANCE & ECONOMIC PLANNING AFFAIRS

GOVERNOR'S MANIFESTO AND ITS SUPPORT IN CLEARING DEBT

There has been a rapid and persistent increase in the County debts over the years. This has been attributed to the problem of historical debts. The current debt stands at 107B compared to 99.4 B and 74.1B in the financial year 2022/23, 2021/22, and 2020/21 respectively. The sustainability of debt is a key fiscal responsibility principle and therefore resolution of debt remains a key priority to keep the County afloat.

The Governor's manifesto envisages dealing with the menace of accumulated pending bills to enhance public service delivery. On this, the governor through his manifesto is committed to:

- Audit and fast-track payment of pending bills
- Seek solutions to historical uncollected debts

Revenue growth remains the sure way of achieving county targets and avoiding the accumulation of pending bills. Regarding this, the Governor's manifesto envisages strengthening measures to generate and improve revenue collection. This can be achieved through broadening the county revenue base, embracing public-private partnerships as a financing option, and digitization of revenue collection.

In the implementation of the manifesto concerning debt clearing, the Governor delivered his manifesto firstly by sorting out the historical debt with KEMSA and firming up an arrangement to ensure constant supply to all the facilities. In addition, the following has been achieved;

- Revenue mobilization through a cashless system - no cash policy
- Revenue RRI
- Creation of Nairobi City County Revenue Authority
- Formed an audit committee to review pending legal bills.
- Expanding of revenue base, i.e. Improvement of markets, registration of all business through Nairobi pay, unified business permit.
- Undertaking pending bills reconciliation i.e. KRA tax, Kenya Power, Statutory deduction (Laptrust, Lapfund, and NSSF)
- From now on, the Governor is committed to seeing the full implementation of his manifesto to ensure that proper solutions to historical debts are addressed.

LIST OF ABBREVIATIONS AND ACRONYMS

B	: Billion
CBA	: Collective Bargaining Agreement
CBK	: Central Bank of Kenya
CBR	: Central Bank Rate
CECMF	: County Executive Committee Member for Finance
CRA	: Commission on Revenue Allocation
DMD	: Debt Management Department
DMO	: Debt Management Office
FY	: Financial Year
GOK	: Government of Kenya
IBEC	: Intergovernmental Budget and Economic Council
MTDS	: Medium Term Debt Strategy
MTDMS	: Medium Term Debt Management Strategy
MTEF	: Medium Term Expenditure Framework
PFMA/PFM	: Public Finance Management Act, 2012
PFMCR	: Public Finance Management County Regulations, 2015,
RRI	: Rapid Result Initiative
DMSP	: Debt Management Strategy Paper
OSR	: Own Source Revenue
KCB	: Kenya Commercial Bank
DSA	: Daily Subsistence Allowance
KRA	: Kenya Revenue Authority
NSSF	: National Social Security Fund
F E P	: Financial and Economic Planning Affairs
IFMIS	: Integrated Financial Management System
NCCG	: Nairobi City County Government
M & W	: Mobility & Works
GOK	: Government of Kenya
KEMSA	: Kenya Medical Supplies Authority

EXECUTIVE SUMMARY

Government debts are financial obligations incurred by any level of the public sector which remain unpaid when due. Debts remain one of the major economic policy issues facing County Governments. Nairobi City County Government (and its predecessor, the defunct City Council of Nairobi) has been heavily in debt for years.

The County Medium Term Debt Management Strategy (MTDMS) 2024/2025 outlines the County's approach to prudent debt management and reduction of its debt burden guided by the Public Finance Management Act of 2012 and the PFM County Regulations of 2015. The MTDMS ensures adherence to strict procedures, accountability, and reporting requirements.

Recognizing the importance of sustainable debt management practices, the County is committed to developing and implementing strategies to mitigate associated risks. The MTDMS emphasizes fiscal discipline, exploration of refinancing opportunities, and collaboration with the National Treasury for debt restructuring and increasing the County's revenue base.

The County's debt portfolio worsened over the years due to the 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 results are an ever-growing debt portfolio.

With a total debt of KES 107B as of 30th June 2023, the County acknowledges the need to address the inherited debt from the defunct City Council of Nairobi and the accruing pending bills' portfolio. The MTDMS aims to reduce the County's debt burden by implementing strict fiscal discipline, exploring opportunities for refinancing existing debts at lower interest rates, and collaborating with the National Treasury to develop a debt-restructuring plan.

Furthermore, the County recognizes the significance of risk management. It will develop a comprehensive debt management policy, and regularly monitor its debt portfolio to mitigate risks such as interest rate, credit, and liquidity risk.



The MTDMS 2024 serves as a roadmap for responsible borrowing, debt servicing, and risk management to ensure the long-term financial stability of the County. The County is committed to prudent debt management to ensure debt sustainability.

CHAPTER ONE

1.0 BACKGROUND AND CONTEXT

1.1 PREAMBLE

The MTDMS is structured into several chapters, each addressing a specific aspect of the County's debt and management strategy and the final chapter outlines how this MTDMS will be implemented giving clear timelines and action areas. Chapter 1 provides an introduction to the MTDMS, its background, purpose, objectives, scope, and structure. Subsequent chapters delve into the details of the County's debt situation, risk analysis, debt reduction strategies, risk management framework, and implementation plan.

The County Medium Term Debt Management Strategy (MTDMS) 2024 is formulated within the framework of the Public Finance Management Act (PFM) of 2012 and the County Regulations of 2015. These legal frameworks provide the necessary guidance and requirements for prudent debt management practices by the County.

The MTDMS serves as a roadmap for the County's debt management over the medium term, ensuring sustainability and aligning with the County's overall financial strategy. It outlines the County's current debt situation, objectives, strategies, and measures to manage its debt effectively.

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 MTDS will guide the County Government operations in 2024. The strategy seeks to balance the cost and risk of public debt while considering the financing needs of the County and to develop initiatives for new funding sources.

The principle objectives of the DMSP can broadly be viewed in a dichotomy:

- i. To progressively resolve existing stock of debt

- ii. To forestall any further accumulation and growth of debt.

Each of the preceding objectives will certainly require a unique set of sustained strategies to yield desirable outcomes. The secondary objective is to service and retire the existing debt portfolio to release resources for 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).

1.2 LEGAL FRAMEWORK

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

1. On or before 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 concerning 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 of 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.

1.3 PURPOSE AND OBJECTIVES

The primary purpose of the MTDMS is to ensure the sustainability of the County's debt. This involves analyzing the existing level of debt, and associated risks, and developing strategies to address debt management challenges.

The MTDMS aims to reduce the County's debt burden, manage debt-related risks, and ensure that the County's financing requirements and payment obligations are met at an affordable cost.

1.4 SCOPE AND STRUCTURE

The MTDMS encompasses various aspects of the County's debt management, including:

- (a) Overview of the County's current debt situation, including the amount, types, and terms of debt obligations.
- (b) Analysis of debt-related risks, such as interest rate risk, credit risk, and liquidity risk.
- (c) Formulation of strategies to reduce the County's debt burden, including fiscal discipline, refinancing opportunities, and collaboration with the National Treasury.
- (d) Development of a comprehensive debt management policy to mitigate debt-related risks.
- (e) Implementation plan outlining the specific actions, timelines, and responsibilities for achieving the objectives of the MTDMS.

CHAPTER TWO

2.0 STOCK OF NAIROBI COUNTY DEBTS

Each category of existing debt has unique characteristics and discernible growth drivers and poses identifiable risks to the County's economic and fiscal stability. While some debts attract high-compounded interest at regular periodic intervals, other debts attract little or no interest although they pose a credibility challenge for the County Government.

The basic strategic approach in resolving existing debt stock is through expanding available fiscal space to facilitate the appropriation of funds for debt resolution on an annual basis. All efforts, tools, strategies, and measures necessary for expanding the County's revenue base are worthy of enhancement. These efforts include targeting the growth of OSR as well as exploring plausible, innovative, and sustainable alternative financing mechanisms for development and service delivery programs. Other strategies include debt swaps, negotiated restructuring, and writing off specific categories of debt that are within the jurisdiction of the County Government and its entities.

The stock of debt is mainly comprised of unpaid statutory deductions, unpaid suppliers, contractors, legal bills, and utilities owed to Kenya Power and Nairobi Water. There are also benefits owed to retired and deceased staff of the county. Some years back, the defunct City Council of Nairobi took a loan with Equity Bank and later the loan was taken over by KCB Bank which the county has had challenges repaying.

It is worth noting that the county inherited a large debt portfolio from the defunct city council of Nairobi, part of this debt are long-term loans taken from development partners for the expansion of water infrastructure in the 1970's and another one for housing projects in the 1980's both 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. Additionally, the County also inherited debts owed to various statutory creditor and merchants. The Nairobi City County debt as at 30th June 2023 was Kshs 107B.

Summary

STATUTORY	46,606,468,574.46	49,182,074,277.47
UTILITIES	528,630,401.00	730,099,306.65
SUPPLIERS & CONTRACTORS	25,742,365,018.00	30,258,848,094.62
STAFF	222,411,928.00	889,859,318.00
LOANS & OVERDRAFTS	4,504,199,426.00	4,504,199,426.00
CONTINGENT LIABILITIES	21,768,297,573.00	21,768,297,573.00
GRAND TOTAL	99,372,372,920.46	107,333,377,995.74

Figure 1: A graph showing the Debt status as at 30th June 2023

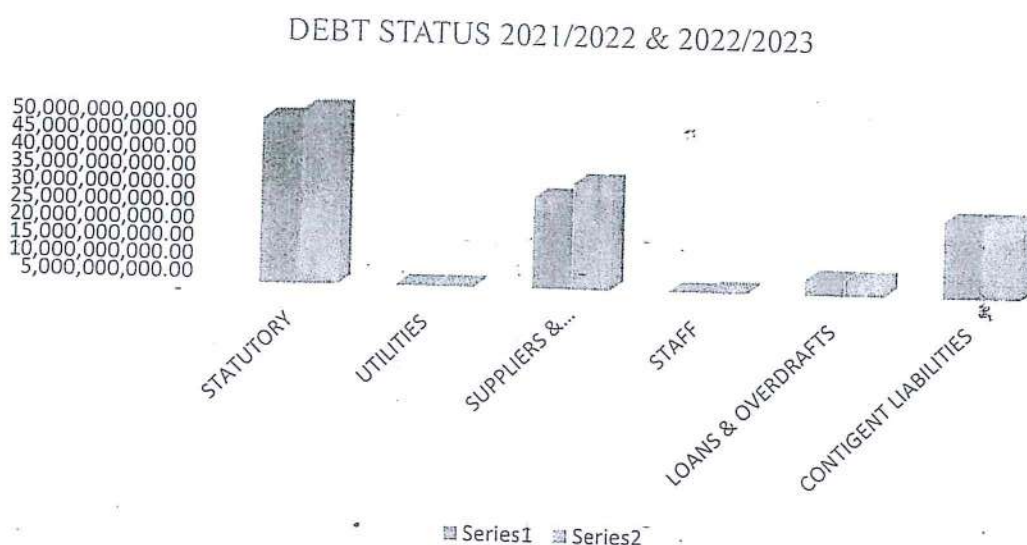
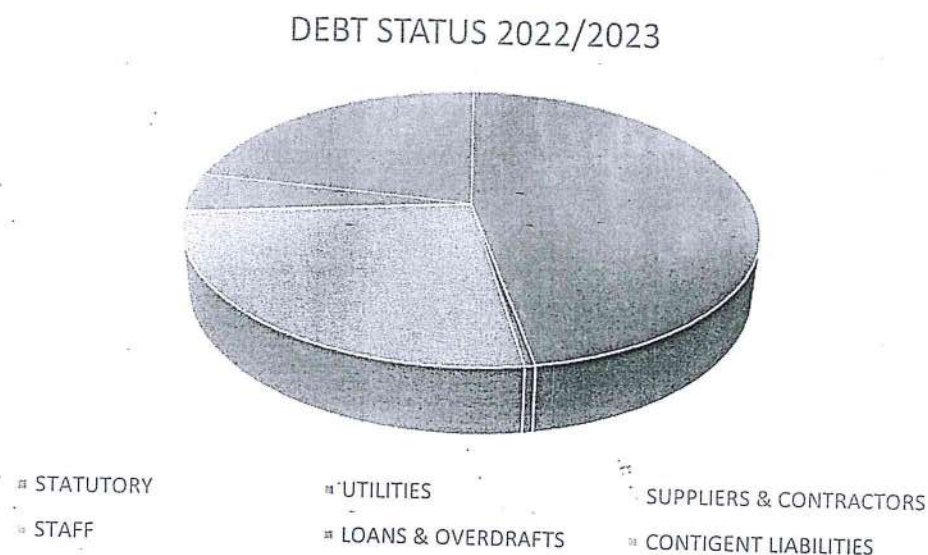


Figure 2: A pie chart showing the Debt status as at 30th June 2023



These measures include:

2.1.1 Compliance with statutory provisions of the law

Remittance of statutory deductions such as PAYE and VAT are agency obligations of the County Government subject to the Kenya Revenue Authority. Payroll costs are budgeted for in gross terms. It is therefore a matter of fidelity to the law or lack of it whenever a decision is made to remit such deductions or otherwise. The County Government is bound by the Constitution, the Public Finance Management Act and its regulations. Any attempt to treat the remittance of such deduction as a discretionary obligation is a violation of the law. It is imperative therefore that we ensure complete consonance with the law regarding such remittances.

The County Government has committed to remitting the statutory deductions from gross salary every month as opposed to the past when the County was paying net salaries disregarding remittance of statutory deductions leading to huge arrears that attract high interest and penalties. This has helped check the previously ever-increasing compounded interest. The marginal increment of the outstanding debt has significantly reduced compared to previous years. Further,

we also intend to engage the funds for a reconciliation exercise and negotiate for a waiver of interest.

2.1.2 Fiscal discipline

Adherence to set out financial and economic objectives as set out in the annual appropriation Acts, exercising controls to forestall material deviation from set objectives.

2.1.3 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 that must be tied to a realistic budget. In its daily operations, the County is committed to following the annual procurement plan and engaging its professionals to come up with revenue forecasts that will guide its expenditure plans.

We also intend to tie our expenditure to actual revenues collected by allowing sectors to only spend part of their budget which can be financed by actual revenue as opposed to spending based on budgetary projections.

2.1.4 Reconciliation of Debts

The county in conjunction with KRA has embarked on a reconciliation exercise of the debt owed to Kenya Revenue Authority with a view of agreeing on the outstanding principal amount to qualify the county for Tax Amnesty given by KRA before the expiry of the deadline on 30th June 2024. We expect the amount of debt to KRA to reduce significantly and make it possible for the County to pay the remaining debt.

2.1.5 Prioritizing payments (FIFO)

By having a systematic payment plan of pending bills based on First in First out method (FIFO), it is expected that costs incurred in paying penalties, interest, and litigation which accrue due to failure to honor suppliers' demand notes within the stipulated period i.e. 90 days, will save the county resources which shall, in turn, go towards reducing the debt.

2.1.6 Debt swap

We propose to engage institutions, and table a proposal to have all their Land rates, Parking (Loading Zones), and Licenses, go towards payments of the loan.

This will bring back the lost trust by the financial Institutions as well as demonstrate goodwill by the County to bring back the Institution to the arbitration table where we can apply for a waiver of interest that has accrued.

2.1.7 Immediate payment of retirees

All the outstanding payments to retirees should be prioritized and payments processed without further delay.

We propose that in the future Human Resources pay retirees all their dues with their last pay slip.

2.1.8 Realistic revenue and expenditure projections

Beginning a Financial Year on expenditure targets that are based on unattainable revenue estimates predicates the County's fiscal framework to the significant fiscal risk associated with the fiscal deficit. Financial commitments that are grounded on a foreseeable deficit are fertile ground for the uncontrolled growth of County debts.

This MTDS aims at reducing commitments based on estimates and puts measures to ensure the said commitments are based on actual revenue collected and available for appropriation.

2.1.

An organization's capital structure, which is not highly leveraged, is evidence of financial stability and enables the organization to take advantage of opportunities in an economy. High leverage means the organization's assets are majorly financed by debt and worse still when a significant proportion of the assets are obsolete and others completely worn out, the assets are not contributing to the well-being of the organization.

We also have loans that were inherited from the defunct City Council of Nairobi for infrastructure projects that cannot be supported by any documentary evidence. The value of this assets cannot be verified neither can we assess the benefits of the assets for lack of specificity.

We have initiated discussions with The National Treasury with an aim of either getting the records or authority to write off in order to make our balance sheet reflect the true state of affairs.

2.2 ACCOUNTS RECEIVABLES

These are amounts owed to the County Government as at 30th June 2023 which have continued to accumulate with time as per the table below.

Table 2: A summary of what is owed to Nairobi City County

S/N O.	REVENUE STREAM/FY	30/06/2023	30/06/2022	30/06/2021	30/06/2020	30/06/2019
		KSHS.	KSHS.	KSHS.	KSHS.	KSHS.
1	SUNDRY DEBTORS	860,063,437	860,063,437	592,165,564	644,497,003	415,077,733
2	RENTAL HOUSES-EOTE	396,366,900	360,094,713	91,588,684	198,947,354	132,439,814
3	RENTAL HOUSES-EASTLANDS	355,684,458	420,717,575	254,128,096	205,419,929	140,902,441
4	RENTAL MARKET STALLS/TPS	95,114,719	154,763,412	94,782,336	114,593,792	82,256,347
5	LAND RATES	1,367,601,363,158	1,479,708,989,415	1,157,787,656,964	825,474,177,521	587,401,038,906
6	LOADING ZONES-PRIVATE	16,740,000	16,740,000	0	23,760,000	- 16,460,000
7	LOADING ZONES-GOK	813,920,000	813,920,000	449,960,000	787,124,800	677,600,800
8	OA & BILLBOARDS	378,782,982	341,765,306	333,667,701	268,054,967	281,206,502
9	SINGLE BUSINESS PERMITS	396,366,900	549,401,500	806,519,500	904,617,500	467,013,500
10	OUTSTANDING IMPRESTS	0	0	0	0	24,907,000
11	WAYLEAVES		89,869,277	226,893,711	115,048,003	946,143,955
12	KPLC	856,345,290	856,345,290	856,345,290	856,345,290	820,000,000
	TOTAL	1,371,770,747,844	1,484,172,669,924	1,161,493,708,846	829,592,586,159	591,405,046,998

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

- Debt swaps.
- Negotiation with National Government to clear their dues.
- Robust debt collection unit to follow up on defaulters.
- Issue of waiver on land rates to encourage compliance.
- Issuance of demand notices followed with enforcement upon expiry of the notices.
- Issuance of Agency notice
- Account management

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

It is important to note that a significant percentage of the above receivables may not be collectable for the following reasons:

- The high amounts of Land rates comprise interest and penalties and will be capped as per the Rating Act Cap 267, Sec. 16(4) as per the law (In-Duplum rule) this will guide on Data cleansing exercise.
- Uncollectable amounts from institutions that are exempt from paying rates such as religious institution and embassies.
- Court cases that have barred the County from collecting debts awaiting judgment include new valuation roll exceptions that await valuation court decision
- Ground rent and stand premium for plots that have been issued with title deeds and hence are now been charged Land Rates.
- Housing rent that continue to accumulate after the houses have been re-allocated, houses and shops burnt down or destroyed under different circumstances.

Table 3: CATEGORY AND PRINCIPAL RISKS ASSOCIATED WITH LOAN/DEBTS

Debt Category	Nature of risk	Level of Risk	Mitigation Action/ Strategy
KCB BANK LOAN	<ul style="list-style-type: none"> • Erosion of Credibility • Litigation/Legal risk • Financial Risk from resultant penalties from non-compliance 	High	<ul style="list-style-type: none"> • Restructuring • Debt swap • Enter into a PPP (Public Private Partnership) and joint ventures • Securitization of the debt
STATUTORY DEDUCTIONS	<ul style="list-style-type: none"> • Reputational risk • Compliance risk • Financial Risk from resultant penalties from non-compliance 	High	<ul style="list-style-type: none"> • Prompt payment of the current statutory deduction • Negotiate for a debt swap • Negotiate for waiver on penalties and Interest
OUTSTANDING LEGAL FEES	<ul style="list-style-type: none"> • Litigation risk 	High	<ul style="list-style-type: none"> • Enhance County internal legal capacity • Full compliance
EMPLOYEE TERMINAL BENEFITS	<ul style="list-style-type: none"> • Reputational risk • Low staff morale • Operational risk 	Moderate	<ul style="list-style-type: none"> • PSM to incorporate benefits in the final pay slip • Adoption of FIFO payment schedule
MERCHANTS DEBT	<ul style="list-style-type: none"> • Legal risk through court proceedings to recover owed sums • Reputation risk • Financial risk in the event interest clause in the contracts is triggered • Operational risk • Tainted reputation 	High	<ul style="list-style-type: none"> • Adoption of FIFO • Budgetary allocations • Prioritize essential services • Adhere to customer service charter
UTILITIES DEBT BOOK DEBTS	<ul style="list-style-type: none"> • Operational risk • Tainted reputation 	Low	<ul style="list-style-type: none"> • Structured payment plan • Debt Swap • Negotiate for waiver and exemption • Switch to green energy • Negotiate for a write-off on old debt

2.3 UNDERLYING ASSUMPTIONS OF THE DEBT MANAGEMENT STRATEGY

While preparing this MTDS the following assumptions were made;

- That revenue projections will be realized as stated and that any arising variance will not affect full implementation of the budget
- That all appropriations will be done from actual cash realized
- That In-Duplum rule will apply to contain the KCB loan.
- That the Macro economic factors will not change significantly in a manner that affects the projected variables.

EMERGING ISSUES

The current rains which have been projected to go until February 2024 will result into bumper harvest occasioning more foodstuffs in the market place and hence more revenue from market cess collection.

The shilling performing dismally against the dollar, however County transacting currency being the local currency and hence very little effect on County's projections

CHAPTER THREE

3.0 STRATEGIES FOR DEALING WITH DEBT MANAGEMENT INTRODUCTION

The current debt portfolio shows that all debts are already overdue, as most are owed to suppliers, contractors and statutory institutions. The following Strategies have been proposed and will be reviewed periodically to assess their suitability and effectiveness:

3.1 Enhancement of Revenue Collection measures

1. Strategies to ensure improvement

The County has developed various strategies to improve on own sources of revenue, they include but are not limited to:

(i) Land Rates:

- a. Expansion of fees and charges - The County intends to increase the revenue base by registering new clients, currently there are one hundred and sixty thousand properties captured in our database and the County has the potential of registering over two hundred and fifty thousand properties.
- b. Utilizing Ministry of Lands data given to the County to bring on board properties under sectional titles in various parts such as Ngara-580 properties, Kileleshwa 600 properties(Telkom), Jamhuri 1500 properties(HFCK), Komarock 480 properties(HFCK) and 300 properties for Madaraka Estate (NHC).
- c. Engage stakeholders like residential associations and business community for information sharing and revenue collection.
- d. Decentralize compliance and enforcement on collection of rates to Wards and Sub-counties
- e. Sensitize property owners on the consequences of default in the payment of land rates after the specified period.

(ii) Unified Business Permit

- a. Undertake a Deliberate Staff/Customer Sensitization campaign to embrace UBP.

- b. Build capacity in Sub Counties for advocacy and universal billing to decentralize the customer service experience at City hall.
- c. SMS Notification-Frequent communication to our customers using bulk sms and social media.
- d. To introduce executive customer care desk for our corporate customers to maximize their response.
- e. Pitching of tents in Sub counties to undertake deliberate advocacy to Nairobians to embrace self-billing to shorten queues at our Customer Care Offices.
- f. Deliberately actualize the Nairobi County Revenue Authority as stipulated in the Nairobi County Revenue Administration Act 2019, to provide a legal framework for revenue collection.
- g. To constitute sub-county multi-sectoral compliance teams with defined work plans and targets, for regular enforcement to enhance revenue collections.
- h. Ensure the Nairobi Pay service provider stabilizes the system for maximum revenue collection

(iii) Parking

- a. To collaborate with the security and compliance department to clear the streets of parking boys, hawkers, PSV matatus, and gangs.
- b. Continuous enforcement in the street including clamping and towing to ensure compliance.
- c. Frequent rotation of staff to minimize familiarity problems.
- d. To sensitize motorist on self-service payment of parking fees at their convenience.

(iv) Other strategies include:

- a. Aggressive and continuous Public awareness campaigns to inform the citizens on all County dues, when and how to pay, and the consequences of being in default.
- b. Continuous and constant follow-up, reminders to all with unpaid bills that have been issued and served to ensure compliance.
- c. Staff should be well facilitated to deal with the debt collection and management.
- d. Improve multi-sectoral collaboration.

- e. Implementation of Nairobi City County Administration Act for efficient Revenue management
- f. Expansion of revenue base:
- g. Bring on board 2000 properties from the Ministry of Housing to increase revenue by approx. 20m.
- h. Rate payable to new titling program – register new ratepayers in the system
- i. Data collection and new registration targeting 300,000-320,000 Unified business permit customers translating into a revenue increase of approximately 2B.
- j. Data collection and new registration of new property owners.
- k. Operationalization of Finance Bill 2023.
- l. Mapping of the revenue streams to establish and increase actual potential.
- m. More publicity of the new revenue management system. Nairobi pay to bring all clients on board, and integrate with all other collection platforms for efficient and effective revenue collection and monitoring.
- n. 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.
- o. Aggressive follow up on account receivables by carrying out awareness campaigns such as, use of media and bulk sms.

CHAPTER 4

4.1 SUMMARY/CONCLUSION

The Medium-term Debt Management Strategy for year 2024 outlines the Nairobi 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 raising adequate funding at the lowest possible costs at prudent levels of risk.

The paper focuses on clearing outstanding debts in the shortest possible time to avoid various risks such as litigation, high interest, penalties, loss of creditworthiness, 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 shall fast track the formation of a committee that will ensure total expenditures including debt-servicing costs do not exceed revenue collected, by tying all procurement to cash-in flows. This will help in avoiding the creation of more pending bills. There is a need for constant monitoring and review of performance and progress made on medium-term debt strategy.

ANNEXES

Table 4: MTDS IMPLEMENTATION PLAN

	OUTPUT	ACTIVITY	TIME FRAME	ACTION BY	DATA/INFORMATION SOURCE
1.	MTDS 2024	Review of 2023 MTDS, preparation, and submission of 2024 to the county assembly	Jan-20th Feb 2024	Debt management directorate. In collaboration with other directorates of finance and economic planning	Previous year MTDS and directorates of Finance & Economic Planning
2.	Dissemination of the MTDS 2024 to County sectors	Circulation of printed copies to implementing sectors/departments	21 ST - 28 th March 2024	Directorate of Debt Management	Directorate of Management
3.	Monthly MTDS monitoring and evaluation report	Receiving reports from implementing sectors/departments on the extent of implementation, challenges, and proposals	Recommend the formation of an implementation committee	Directorate of Debt Management	Implementing sectors
4.	Quarterly sectoral Debt reports	Updating of sectoral debts both statutory and non-statutory	The first week of the month at the beginning of every quarter	Directorate of Debt Management	Sectors
5.	MTDS 2024 half-year performance review	Undertake a review of MTDS performance including the effectiveness of proposed strategies	The first week of July 2024 and January 2025	Implementation Committee	Sectors
6.	Quarterly review of remittance of statutory deductions	Interrogation of bank statements vis-a-vis the payroll	1 ST OCT 2024	Debt Management Secretariat	HR and IB sections
7.	Reconciliation of Lapfund, Laptrust, and NSSF	Updating of records on all payments and comparing with fund records for adjustments and establishment of actual balances	1 ST AUG 2024	Debt Management Secretariat	Debt Office in line with the funds
	Quarterly review of expenditure commitments against revenue	Detailed report on expenditure commitments vis-a-vis actual revenue collections per sector to establish compliance with the recommendations	1 ST OCT 2024	All Directors in F & E P	Budget and financial reporting directorates (IFMIS) Revenue
8.	(KRA) Debt Reconciliation	A reconciliation to establish deductions made and remitted, deductions made and not remitted, and	1 ST OCT 2024	Debt Management, Tax Compliance Unit And Sectoral Accountants	KRA and NCCG IFMIS and Bank Statements

		instances where tax was not deducted and ought to have been deducted, this should result in actual outstanding amount due to Kenya Revenue Authority (KRA).			
	OUTPUT	ACTIVITY	TIME FRAME	ACTION BY	DATA/INFORMATION SOURCE
9.	Engaging KCB and table a proposal	Liaise with our legal team to establish the extent of engagement and jointly prepare a proposal to unlock the arbitration process	28 th March 2024	Directorate of Debt Management and the Office of the County Attorney	KCB, NCCG and Arbitrator
	Collect Data relating to KCB SBPS, loading zones, and land rates	The total of all -the fees payable to NCCG by KCB will form the basis of our swap proposal.	20 th March 2024	Directorate of Debt Management	Trade, Land Rates & Parking Sections
	Preparing A Proposal	The Proposal should include the Fees Payable to Offset against the Loan as well as some Regular Standing Order Payments.	26 th March 2024	Directorate of Debt Management and Office of the County Attorney	Debt Office in Liaison with Legal Department
	Sharing The Proposal with the NCC Legal Department	For purposes of drafting the Proposal And Linking up with the Arbitrator to Bring the Parties to the table	15 th April 2024	Directorate of Debt Management	Debt Office, KCB, and Arbitrator
	Follow-Up And Reporting Back	To ensure timely Implementation and Compliance with the newly agreed Terms Of The Loan Repayment.	20 th April 2024	Directorate of Debt Management in liaison with the Office of the County Attorney	Debt Office, KCB, and Arbitrator
10.	Retirees Payment	The objective is to establish whether retirees' arrears are being paid and come up with a figure that is outstanding and the payment plan that is in place	2 nd SEPT 2024	Directorate of Debt Management in Liaison with HR	HR and Directorate Of Debt Management
	Fact-finding and updating of our records	To get the names, the total amount outstanding and the payments done in the year	2 nd SEPT 2024	Directorate of Debt Management in liaison with HR	HR and Directorate of Debt Management
11.	Negotiate Writing-Off Old Book Debts	To negotiate writing off from our books the old book debts not supported by documentary evidence	15 th March 2024	Directorate of Debt Management	Directorate of Debt Management
	Follow up with The County Assembly and Seek Advice And Procedure	To follow up with the County Assembly on how to go about the process of writing off and preparing a memorandum for cabinet discussion and subsequent approval	15 th April, 2024	Directorate of Debt Management in liaison with Revenue and Office of the County Attorney	Directorate of Debt Management, Revenue and Legal Team

12.	Writing-off of irrecoverable revenue	To write off from our books receivables whose collectability is highly in doubt and which is more than five years accumulating and no response from the particular customer	14 th June 2024	Directorate of Debt Management in liaison with Revenue Section	Directorate of Management and Revenue Section
	OUTPUT	ACTIVITY	TIME FRAME	ACTION BY	DATA/INFORMATION SOURCE
	Data collection relating to Revenue whose collectability is doubtful	This is data from Eastlands, EOTE, TPS, parking and sundry debtors	15 TH May 2024	Directorate of Debt Management in Liaison with Revenue Section	Directorate of Debt Management and Revenue Section
	Initiate write-off (EASTLANDS, EOTE, TPS, PARKING AND SDR)	To prepare a policy document for cabinet approval and subsequent forwarding to the County Assembly	15 TH May 2024	Directorate of Debt Management in Liaison With Revenue Section	Directorate of Debt Management and Revenue Section Legal DCU
13.	Debt Swap				
	KPLC bills with way leaves	Establish from Roads and Public Works how much is owed to NCCG in terms of wayleaves Establish the current Electricity bill and engage KPLC for a swap	2 ND May 2024	Directorate of Debt Management and Mobility & Works Sector	Directorate of Debt Management and Mobility & Works Sector
14.	Negotiation with National Govt. to clear their dues	Identify GOK Ministries and Parastatals that owe NCCG money and inform them of unpaid fees	30 th June 2024	Directorate of Debt Management assisted by CECM-Finance & Economic Planning	Directorate of Debt Management in Liaison With Revenue Section
	Land Rates	Preparing Cabinet Memo for Resolution	2 nd April 2024	Directorate of Debt Management in Liaison With Rates Section	Directorate of Debt Management in Liaison with Rates Section
	Loading Zones	Preparing Cabinet Memo for Resolution	2 nd April 2024	Directorate of Debt Management in Liaison with Parking Section	Directorate of Debt Management in Liaison With Revenue Section
15.	Land Rates Data cleansing				
	Fact-finding and identification of plots with double accounts	Preparing a list of mother plots already subdivided and the sub-plots	2 nd April 2024	Directorate of Debt Management in Liaison With Rates Section	Valuation and Rates Section

	Engage Ministry of Lands or check the status of previous engagements	This will pave way for data sharing or other form of getting a solution to this perennial problem	15 th April 2024	Directorate of Debt Management in Liaison with Valuation and Rates Section	Valuation and Rates Section
	Sectional Titles And Account Opening	To be guided on how the accounts can be opened and the method of valuation	23 rd April 2024	Directorate of Debt Management in Liaison with Valuation and Rates Section	Valuation and Rates Section

REFERENCES

- Public finance management act 2012
- PFM (County Regulations) 2015
- Constitution of Kenya 2010
- County fiscal strategy paper
- Annual Financial statement 2022
- OAG special report on pending bills
- Transition to devolved government act 2012