



PAPERS LAID	
DATE	7 June 2022
TABLED BY	Dep. Maj. Wanjau
COMMITTEE	—
CLERK AT THE TABLE	M. Agbaku

REPUBLIC OF KENYA

THE NATIONAL TREASURY AND PLANNING

SESSIONAL PAPER NO.....2022

GOVERNMENT GUARANTEE ON BORROWING BY ISSUANCE OF KSH 1.16 BILLION INFRASTRUCTURE BOND BY LAIKIPIA COUNTY GOVERNMENT

1. In accordance with the provisions of Section 58 (1) of the Public Financial Management Act 2012, the following information is laid before the National Assembly for consideration and approval.
2. Laikipia County Government is one of the 47 counties established under the Constitution of Kenya and therefore qualifies to seek a National Government guarantee to borrow as provided for under Section 58(1) of the PFM Act.
3. Laikipia County Government submitted a request to the National Treasury for a guarantee to issue Ksh 1.16 billion Infrastructure Bond.
4. This is the first County that has submitted a request for the guarantee for the issuance of a domestic bond in the form of an Infrastructure Bond
5. The main objective of the Infrastructure Bond is to implement projects that involve provision of water for production, improvement of business environment by upgrading markets and town's infrastructure which will provide additional jobs to the people of Laikipia hence improve their household income and livelihoods.
6. The National Treasury has reviewed the documents submitted by the County requesting for a guarantee and note that;

- 01/11/2013
- i. The County has followed the laid down procedures of borrowing as per the PFM Act, 2012 and its attendant County Regulations;
 - ii. The County has obtained all approvals and other borrowing requirements and terms and conditions as required for the issuance of the guarantee;
 - iii. Demonstrated that the project could not be financed on other reasonable terms and conditions without a government loan;
 - iv. Adopted a unified approach in Project Cycle Management that includes the preparation, appraisal and management of public investment projects that is consistent with the standards applied by the National Government;
 - v. The conditions precedent for the implementation of the project have been met including:
 - a. Land acquisition, compensation and resettlement of persons affected and stakeholder management: The projects are under Laikipia County owned land and will require no compensation and resettlement exercise;
 - b. Detailed designs have been completed and relevant approvals obtained where applicable
 - c. Necessary regulatory approvals have been granted
 - d. Detailed resource requirement including sources of funding and personnel to operationalize the project have been planned for: and
 - e. Undertaken to capture the project details in the pipeline of Public Investment Management Information System. Laikipia County has undertaken to manage the projects through Integrated Financial Management Information System and will be on boarded to other systems that the National Government may provide.
 - vi. Provided the projected cash flow clearly setting out projected disbursement schedule and repayment plan;

- vii. Undertaken to contribute a substantial portion of project funds from their own resources and in any case not less than fifteen (15) percent; and
 - viii. Demonstrated that the proposed feasible projects have been approved by the County Government as required by county legislation.
7. The law requires that upon receipt of the request from the county government, the Cabinet Secretary to the National Treasury shall seek the recommendations of the Intergovernmental Budget and Economic Council (IBEC) in fulfillment of the requirements of section 58(2)(i) of the Act; and take into account the recommendations of the Intergovernmental Budget and Economic Council, to approve or reject the request. IBEC in its 15th ordinary session approved the recommendation for the County Government of Laikipia to borrow Kshs. 1.16 billion through issuance of the infrastructure bond at the indicative coupon.
 8. The County Government has demonstrated that;
 - the Bond is to be issued for Capital Projects as per the approved projects provided;
 - the County is capable of repaying the loan through the revenue projections as submitted; and
 - the financial position of the County is satisfactory even in the medium term with increased allocations from own sources of Income and other Equitable and Conditional grants.
 9. The National Government through the National Treasury supports Laikipia County issuance of an Infrastructure Bond of Kshs 1.16 billion as it will be within the debt ceiling as currently set at Kshs. 9 trillion.
 10. The proposed Laikipia County Infrastructure bond is of a seven (7) years tenor with an indicative interest rate of 12 per cent per annum, with a bullet repayment at the end of the 7-year maturity period. This is only indicative as the actual pricing will be determined by the market when the issuance takes place. Based on Laikipia County performance, the County will be able to meet its debt service obligations when it falls due.

11. The National Assembly is requested to approve the National Government Guarantee for the issuance of an Infrastructure bond of **Ksh 1.16 billion** for Laikipia County.

12. The current total contingent liabilities of the Government of Kenya in respect to the Public Financial Management Act, 2012 section 58 (2) (f) other than those specified in the schedule to the Act amount to **Kshs 160.32 billion** and with the guarantee of a sum equivalent to **Kshs 1.16 billion** the aggregate amount will be **Kshs. 161.48 billion** which will fall within the public debt ceiling set at **Kshs. 9 trillion** in accordance with the PFM (National Government) Regulations, 2015.

HON. (AMB). UKUR K. YATANI, E.G.H.
CABINET SECRETARY/NATIONAL TREASURY & PLANNING

DATE.....

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 RECEIVED
 PRINCIPAL SECRETARY
 THE NATIONAL TREASURY
 2 MAY 2022
 BOX 30007 - 00100, NAIROBI



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 2 MAY 2022
 Principal Secretary
 National Treasury

EXECUTIVE OFFICE OF THE PRESIDENT
 HEAD OF THE PUBLIC SERVICE

STATE HOUSE
 P.O. Box 40530-00100
 Nairobi, Kenya

Telegraphic Address
 Telephone: +254-20-2227436
 When replying please quote

CAB/GEN.3/1/1/VOL.XVIII/42

SECRET

25th May, 2022

Ref. No.
 and date

cc: DA BREA

Dr. Julius M. Muia, PhD, CBS
 Principal Secretary/National Treasury
 National Treasury & Planning
NAIROBI

DIRECTOR GENERAL
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 30 MAY 2022 778
 THE NATIONAL TREASURY
 PUBLIC DEBT MANAGEMENT OFFICE

PS TREASURY OFFICE	
Take Necessary Action	<input checked="" type="checkbox"/>
Please See Me	<input type="checkbox"/>
Please Review and Advice	<input type="checkbox"/>
Note	<input type="checkbox"/>
To Keep in View	<input type="checkbox"/>
Noted & Appreciated	<input type="checkbox"/>
Please Let's Discuss	<input type="checkbox"/>

Mr. Saitoti Torome, CBS
 Principal Secretary/Planning
 The National Treasury & Planning
NAIROBI

Mr. Julius Korir, CBS
 Principal Secretary/Devolution
 Ministry of Devolution
NAIROBI

cc: D/Policy & Risk

Mr. Kennedy N. Ogeto, CBS
 Solicitor General
 State Law Office & Department of Justice
NAIROBI

*Prepare for submission
 of Sessional Paper
 for presentation to Cabinet.
 cc: Charles Kariuki
 - Assist in drafting.
 H/S 30/5/22*

Dear *Dr. Muia*,

**THE NATIONAL GOVERNMENT GUARANTEE BY LAIKIPIA COUNTY
 GOVERNMENT TO BORROW KSHS.1.16 BILLION**

I refer to the **Cabinet Meeting - 2022** held on **12th May, 2022** during which the Cabinet Secretary for National Treasury & Planning, presented Cabinet Memorandum **CAB(22)6** jointly submitted by the Cabinet Secretary for Devolution and the Attorney-General for discussion and approval.

*③ Mr. Okusimba
 Print and forward
 through memo
 the Sessional
 Paper.
 30/5/22*

SECRET

DIRECTOR
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 30 MAY 2022
 THE NATIONAL TREASURY
 P.D.M.O.
 DEBT POLICY, STRATEGY & RISK MANAGEMENT

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The Memorandum sought to apprise Cabinet on the current status of Laikipia County application for a Guarantee. It also sought Cabinet approval to allow the National Treasury to submit to Parliament request for approval the application for National Government Guarantee by Laikipia County to borrow KShs.1.16 billion through issuance of domestic Infrastructure Bond.

The main objective of the Infrastructure Bond is to finance implementation of projects including: provision of water for agricultural production, improvement of business environment by upgrading markets and towns' infrastructure which will provide additional jobs to the residents of Laikipia hence improve their household income and livelihoods.

The guarantee request is in compliance with the Section 58 of the Public Finance Management Act 2012 and in accordance with the provisions of the Public Finance Management (County Regulations) 2015; Section 77(3).

The financial position of the County is satisfactory even in the medium term with increased allocations from own sources of income and equitable share of county revenue allocation. This borrowing will not compromise the County's financial health and the county will continue meeting its financial obligations as required.

I wish to inform you that Cabinet **considered** the Memorandum and:

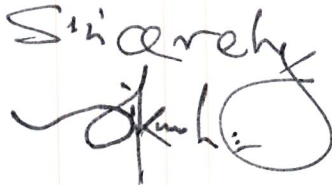
- (i) **Noted** the contents of the Memorandum;
- (ii) **Approved** the recommendations that the National Treasury seek approval of Parliament to issue a National Government Guarantee for the borrowing of Ksh.1,160,000,00 through issuance of an infrastructure Bond to fund the approved projects as submitted by the Laikipia County Government and;
- (iii) **Directed** that the Cabinet Secretary for the National Treasury and Planning; the Acting Cabinet Secretary for Devolution and the Attorney-General to take further necessary actions.

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Please proceed and take action as directed by Cabinet.

Yours



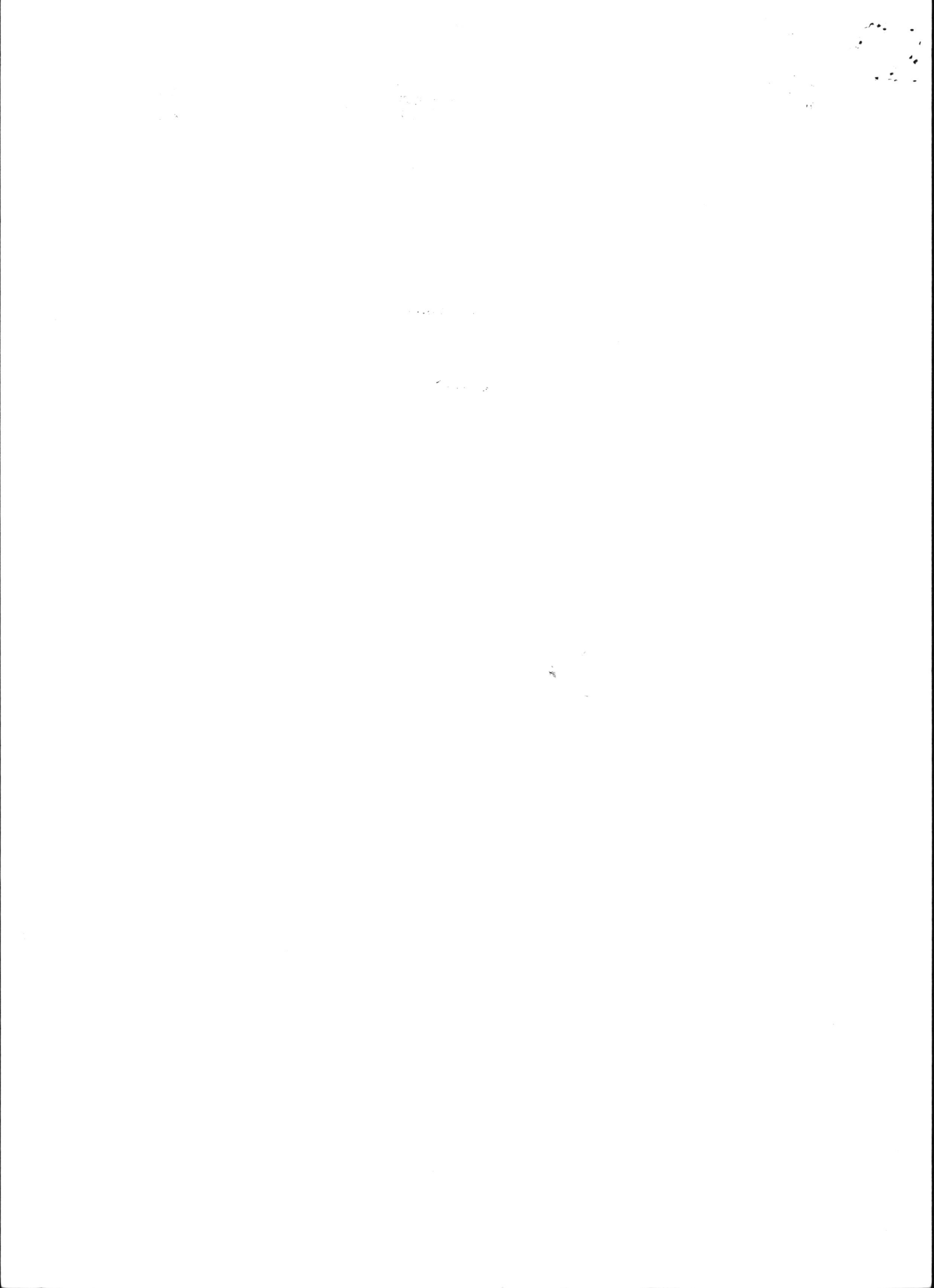
JOSEPH K. KINYUA, EGH
HEAD OF THE PUBLIC SERVICE

Copy to: Hon. (Amb.) Ukur Yatani, EGH
Cabinet Secretary for National Treasury & Planning
NAIROBI

Hon. Eugene Wamalwa, EGH
Cabinet Secretary
Ministry of Defence &
Ag. Cabinet Secretary for Devolution
NAIROBI

Hon. Justice (Rtd.) Paul Kihara Kariuki, EGH
Attorney-General
State Law Office & Department of Justice
NAIROBI

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REPUBLIC OF KENYA
OFFICE OF THE DEPUTY PRESIDENT

www.dp@deputyresident.go.ke
Telephone: +254(0)20-3247000
Fax No.: +254-(0)20-2212178

Email: dp@deputyresident.go.ke
Harambee House Annex
P.O. Box 74434-00200
Harambee Avenue
NAIROBI

When replying please quote

Ref: ODP/ADM.1/93 (76)

25th November, 2021

Dr. Julius Muia, CBS
Principal Secretary
National Treasury
NAIROBI

Dear *Julius,*

PROPOSED BORROWING OF KSHS. 1.16 BILLION BY COUNTY GOVERNMENT OF LAIKIPIA THROUGH INFRASTRUCTURE BOND

The Intergovernmental Budget and Economic Council (IBEC) pursuant to the request Ref No. DMD. 4/259 dated 12th October, 2021 by the Cabinet Secretary/ National Treasury and Planning under section 58 of the Public Finance Management Act 2012 at its 15th ordinary session approved the recommendation for the County Government of Laikipia to borrow Kshs. 1.16 billion through issuance of an infrastructure bond at an indicative coupon rate of 12 % per annum repayable in 7 years. The purpose of this loan is to cater for the financing deficit of its development projects in FY 2021/22. These are capital investments in the upgrading of its 10 towns and market centres in accessibility, security, drainage and waste disposal systems and expanding two dams to provide adequate water for commercial and domestic use as listed below.

Table 1: List of proposed infrastructure Bond projects

SN	Project Name	Amount (kshs.)	Location/ward
A. SMART TOWNS INITIATIVE			
1	Karuga- infrastructure upgrade	102,671,016	Igwamiti
2	Nyahururu town- upgrading Jua kali roads	120,142,043	Igwamiti
3	Nanyuki old Bus Park- Rehabilitation	31,127,626	Nanyuki
4	Nkando- Laikipia road opening	20,057,111	Nanyuki
5	Kalalu- Infrastructure upgrade	100,254,437	Umande
6	Naibor- infrastructure upgrade	90,911,525	Segera
7	Pesi- infrastructure upgrade	59,251,157	Salama
8	Matanya- infrastructure upgrade	84,766,826	Tigithi
9	Muwarak- infrastructure upgrade and lighting	87,641,531	Sosian
10	Kinamba-town- infrastructure upgrade	89,500,354	Githiga
11	Railway road	36,817,762	Thingithu
12	Silent road	19,058,254	Thingithu
13	Bemwaki Towers roads	46,869,614	Thingithu
14	Wiyumiririe Town – infrasturcture upgrade	93,525,747	Thingithu
15	Doldol- infrastructure upgrade	98,795,413	Mukogodo East
	SUBTOTAL	1,082,390,416	

16	Ipolei Dam	67,500,000	Mukogodo West
17	Wangwaci Dam	98,736,939	Olmoran
	SUBTOTAL	165,236,939	
	GRAND TOTAL	1,247,627,355	

Source: County Government of Laikipia

The approval is based on the following grounds:

- 1.1 An approved County Integrated Development Plan (CIDP) 2018-2022 containing the infrastructure bond as financing option for the projects which are compatible with the overall strategy of the County.
- 1.2 A report on the series of public participation meetings to sensitize the Laikipia citizens and seek their approval of the identified projects, financing options and repayment pursuant to Article 201(2) of the Constitution and section 207 of the Public Finance Management Act, 2012 which addresses issues of prioritization and ownership including response to any objections raised by a civil society, Laikipia East Welfare Association (LEWA), and a resident have raised objection to the issuance of the guarantee by NT on grounds of illegality, inadequate public participation, serious debt overcommitment, failure to publish a debt management register and timing of the bond, duly addressed.
- 1.3 A report on the approval by its Executive committee on 20th March 2021.
- 1.4 Reports of the approval by its county assembly of the Debt Management Strategy Paper 2021, County Fiscal Strategy paper 2021, Program based Budget 2021/22, Appropriation bill 2021, all of which refer to this bond financing. According to the County's DMSF the county does not possess any public debt as defined in law and the proposed request is the first of its kind. The measures spelt out in the CDMSP if properly implemented adequately address the inherent risk associated with the impugned borrowing proposal.
- 1.5 A report of the existence of a kshs. 3 billion fund established in partnership with the local commercial banks pursuant to its business stimulus regulation 2020 to support the MSMEs through its county enterprise development program.
- 1.6 A report of its financial capability in enhancing its own source revenue through the established country revenue board.
- 1.7 A report of its compliance with key financial responsibility frameworks prescribed under regulation 25(1) of the PFMA including meeting the 30% budgetary allocation for development; moving towards meeting the employee emoluments allocation limit of 35% by conducting staff audit, restructuring, recruitment, instituting performance management and recognition as below.

Table 2: Performance report for period 2015/16 to 2020/21

FY	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
1.Revenue realized (kshs.)	418,151,083	468,924,816	608,463,783	815,790,157	730,967,503	840,396,633
Percentage	Base year	-	29.7%	34%	-	15%
2.Development allocation		2,466,222,416	1,890,369,248	2,802,167,300	2,605,424,972	3,287,730,043
Percentage		41%	33%	40%	36%	41%
3.Emoluments allocation		2,023,164,372	2,320,403,831	2,382,859,985	2,638,096,991	2,779,507,605
Percentage		36%	40%	37%	42%	40%

Source: County Government of Laikipia

1.8 A report on compliance with clear financial reporting through ensuring release of quarterly financial statements to its citizens and media and improved quality annual financial statements ranging from adverse to unqualified accounts as below.

Table 3: Audit Findings for the period 2013/14 to 2019/20

FY	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20
Audit opinion	Adverse	Disclaimer	Qualified	Qualified	Qualified	Qualified	Unqualified
Number of queries	25	11	8	7	9	1	Nil

Source: County Government of Laikipia

- 1.9 A report on its credit worthiness through participation in a voluntary assessment by Global Credit Rating (GCR) attaining a rating of BB+(KE) stable outlook for Issuer Long term, National; and B(KE) for Issuer short term, National.
- 1.10 A report on financial prudence by the NT for commendation in fully settling its pending bills in 2020 and the County's commitment to settle its future liabilities as they fall due.
- 1.11 Reports by International Budget Partnership in 2019 and 2020 which ranked the county 2nd and 1st respectively among the 47 counties in Kenya in respect of access to public availability of key budget documents.
- 1.12 Reports on provision of essential information for potential investor decision making through consistent publication of its Statistical abstract since 2018; labour survey 2020 and mining survey 2020.
- 1.13 A report of compliance with the requirement of the Public Investment Management (PIM) Regulations 2021 by putting in place a team (with the assistance of the NT's Public Debt Management Office) to conceptualize, identify and prepare the requisite bond documents including detailed feasibility studies, approved designs, approved regulatory requirements, acquired projects land, developed adequate project managements personnel, pipelined the projects and installed project administration and management systems. NT having confirmed from the feasibility studies/ concept papers the economic desirability of the projects.
- 1.14 A report of the socio-economic impacts analysis demonstrates that from the increased water production, the County's GCP will rise by over Kshs. 2 billion with revenue collection in excess of Kshs. 213 million. Similarly, infrastructure upgrades will attract more investments including innovations and manufacturing, expand existing enterprises by an injection of over kshs. 25 billion to the County's GCP with revenues in excess of Kshs. 429 million.
- 1.15 A report of having made available in its budget its 15% contribution to the overall projects cost, that is, Kshs 190 million.
- 1.16 A report of compliance with the borrowing threshold of 20% of its last audited revenue FY 2018/19, that is, 20% of Kshs. 6, 444,983, 793 is kshs. 1, 288, 396,758.60 which is within the borrowing of kshs. 1, 160,000,000.
- 1.17 A report of the approved projected cash flow shows that the projected disbursement schedule and repayment plan is feasible, that is, Interest of kshs. 67,713,260 paid half-yearly (14 instalments) and the principle amortized in 8 equal instalments of kshs. 145,000,000 from 2025.
- 1.18 NT having confirmed that there is adequate fiscal space within the overall debt ceiling to cover the proposed Laikipia County borrowing if approved.

1.19 Control institutions such as the internal audit and Controller of Budget shall provide necessary monitoring mechanism to enable accountability to the county assembly.

Please take necessary measures to facilitate guarantee and further approval.

Yours *sincerely,*



Dr. Patrick Omutia, CBS
Special Secretary - IBEC

Copy to : Hon. (Amb) Ukur Yatani, EGH
Cabinet Secretary
The National Treasury
NAIROBI

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