**COUNTY TREASURY**

# THE MEDIUM-TERM COUNTY DEBT MANAGEMENT STRATEGY PAPER, 2026

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Any enquiries regarding this document may be addressed to:

The County Treasury

Meru County Headquarters,

P.O. Box 120-60200,

MERU, Kenya.

Contacts: +254709241000

Website: www.meru.go.ke

Emails: feedback@meru.go.ke
merucounty@meru.go.ke

## FOREWORD

Debt remains one of the major economic policy issues facing County Governments in present Kenya. Accumulation of debt through the accrual of pending debts and other forms of public debt have acted to negatively affect the economic outlook of Meru County.

The MTDMS 2026 is Meru County's third debt management strategy paper and details Meru County's total debt portfolio, including debt inherited from the now defunct local authorities.

The MTDMS aims to ensure sustainability of the County's debt, having undertaken an analysis of the existing level of debt, associated risks and strategies to address the management of the debt. There is need for fiscal prudence in management of the County's fiscal resources so as to ensure that the County Government's financing needs and payment obligations are met.

Considering the current level of debt both inherited and pending bills arising from county departments, the MTDMS 2026 will reinforce measures geared towards reduction of the County's debt and has also formulated additional strategies to deal will future debt.

**CPA MONICA KATHONO KAITHIORI**
**CECM, FINANCE, ECONOMIC PLANNING AND ICT.**

## ACKNOWLEDGEMENT

The MTDMS paper 2026 has been prepared as per the requirement of Public Finance Management Act, 2012. It covers a period of three years for Financial Years 2026/2027 to 2028/2029 and will be revised annually to provide guidance for public debt management in the medium term. The MTDMS sets out the debt management strategy of the County Government of Meru over the medium term with respect to actual and potential liabilities.

The current Debt situation in Meru County is specifically pending bills incurred by the County Government of Meru, contingent liability as well as inherited debt from the now defunct local authorities. The debt management strategy asserts the county government's debt management objectives of ensuring the County government's financing needs and payment obligations are met at the lowest possible cost with a prudent degree of risk.

Let me take this opportunity to acknowledge the CECM Finance, Economic Planning and ICT for his overall leadership, the Director Budget for overseeing the preparation of MTDS and the County Treasury's secretariat for compilation and finalization of this paper.

**CPA CHARLES MWENDA,**
**CHIEF OFFICER, FINANCE, ECONOMIC PLANNING AND ICT.**

**ABBREVIATIONS**

| | | |
|---|---|---|
| CALC | - | County Assets and Liabilities Committees |
| CFSP | - | County Fiscal Strategy Paper |
| CIDP | - | County Integrated Development Plan |
| CMTDS | - | County Medium Term Debt Strategy |
| IGTRC | - | Inter-Governmental Technical Relations Committee |
| MCRB | - | Meru County Revenue Board |
| MTDMS | - | Medium Term Debt Management Strategy |
| PFMA | - | Public Finance Management Act |
| TA | - | Transitional Authority |

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## LEGAL BASIS FOR THE PREPARATION AND PUBLICATION OF THE COUNTY DEBT MANAGEMENT STRATEGY PAPER

1. Section 107 (2) (e) of the PFMA obligates the County Treasury to maintain the county debt at a sustainable level as approved by the County Assembly. In giving effect to this provision, Section 123 of the PFMA obligates the County Treasury to prepare a Debt Management Strategy Paper over the medium term. It provides:

> "(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 publicise the statement and submit a copy to the Commission on Revenue Allocation and the Intergovernmental Budget and Economic Council."

## FRAMEWORK FOR BORROWING BY COUNTY GOVERNMENTS

2. Section 140 of the PFMA, 2012 provides for the authority of County Governments to borrow. It provides that:

> (1) 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—
>
> (a) Article 212 of the Constitution;
>
> (b) Sections 58 and 142 of this Act;
>
> (c) the fiscal responsibility principles and the financial objectives of the county government set out in its most recent County Fiscal Strategy Paper; and
>
> (d) the debt management strategy of the county government over the medium term.
>
> (2) A loan may be raised either within Kenya or outside Kenya.

3. Section 141 of the PFMA, 2012, on the other hand, provides for the obligations and restrictions with respect to county government borrowing. It provides:

> (1) In borrowing money, a county government shall ensure that its 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.
>
> (2) 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.

(3) A county government may borrow money in accordance with section 58, and only for purposes that are prescribed by regulations made under this subsection.

(4) 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.

(5) 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.

(6) 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.

(7) A County Executive Committee member for finance may in accordance with national legislation on public procurement and disposal of assets—

(a) appoint advisers, agents and underwriters for the purposes of raising loans; and

(b) enter into agreements with those advisers, agents and underwriters as to the role to be undertaken by them and the remuneration to be paid to them.

(8) Any expenses incurred in connection with borrowing by a county government shall be a charge—

(a) 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.

(b) 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.

(9) The costs, interests and principal payments made by the national government on behalf of the county concerning loans to the county government shall, together with the principal amount, be reimbursed to the national government by the county government.

4. Section 142 of the PFMA, 2012 provides for borrowing by county government entities. It provides:

(1) The County Assembly may authorise short-term borrowing by county government entities for cash management purposes only.

(2) Any borrowing under subsection (1) may not exceed five percent of the most recent audited revenues of the entity.

(3) A county government entity that has any such borrowing shall ensure that the money borrowed is repaid within the medium term from the date on which it was borrowed.

## CHAPTER ONE: INTRODUCTION AND BACKGROUND

### 1.1 INTRODUCTION

5. This is the third Medium Term Debt Management Strategy paper (MTDMS) prepared by the County Government of Meru. This Strategy paper sets out the County Government of Meru's objectives, strategy and plans for the management of its debt in the medium term beginning Financial Year 2026/2027; and is informed by the provisions of Section 104 of the PFMA which identifies the monitoring, evaluation and overseeing the management of public finances and economic affairs of the county government, including the management of the County Government's public debt and other obligations, as well as developing a framework of debt control for the county as being one of the functions of the County Treasury.

6. 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. The MTDMS 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.

### 1.1 Definition of Debt

7. 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 should be included in the definition of total county government debt.

### 1.2 Definition of a Medium-Term Debt Management Strategy

8. 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.

### 1.3 Objective of the Debt Management Strategy

9. The main objective of this Debt Management Strategy is to ensure that the County Government of Meru'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.

10. Specifically, the Strategy aims at:

    a) Covering financing needs and payment obligations, while minimizing medium- and long-term costs; and
    b) Limiting risk in the public debt portfolio. The limitation of risks attached to the County Government's debt portfolio is an important objective set in this Strategy, aiming at providing an optimal and sustainable composition of the public debt.

11. The strategy aims at providing a general policy direction that will facilitate County's access to financial markets as well as supporting future development of a well-functioning vibrant debt policy. This first formal and explicit strategy is an important step forward in enhancing

transparency of the County's debt management decisions. The underlying intention is to update the strategy regularly, presenting it on an annual basis with the budget planning documents.

12. In summary therefore, the strategy seeks to balance cost and risk of public debt and take account of demand constraints. It also seeks to institutionalize the production of a debt strategy publication as provided for in the Public Finance Management Act, 2012 and its subsequent Regulations.

### 1.4 Scope of Medium-Term Debt Management Strategy

13. The Medium-Term Debt Management Strategy (MTDMS) covers actual and potential liability i.e. It covers all loans and other debt that require payment of principal with or without interest by the county government to the creditor at a date or dates in future.

14. Potential liability includes all those debts that have been brought to the attention of the County Treasury through the issue of debt notes or other written demands but the verification of the said debts has not been completed to ascertain whether it is payable and the actual amount to be paid. However, it excludes any debt that may exist but has not been officially forwarded to the County Treasury.

15. The MTDMS is prepared annually on a three-year rolling basis and reviewed annually, and therefore the 2026 debt management strategy covers Financial Years 2026/27-2028/29.

### 1.2 BACKGROUND ON MERU COUNTY'S DEBT

16. The genesis of the Meru County's debt is two-fold. First, there are those debts that existed at the onset of devolution, belonging to the defunct local authorities. The Constitution of

Kenya, 2010 gave the Transition Authority (TA) a lifetime of three years for which they were required to have completed the process of devolving all functions to county government including the verification of asset and liabilities as stipulated in Section 7 (e) of Transition to Devolved Government Act 2012. However, by the end of its tenure the TA was not able to finalize the process of liability verification and handing over to the County Government of Meru.

17. To bridge the gap created by delay of TA in creating an inventory of asset and liability as inherited from the defunct local authorities, A Gazette Notice No. 4370 dated 11th May 2018 established the County Assets and Liabilities Committee (CALC), the greatest of the responsibility was to ensure there is evidence on existence of the assets. CALC has already forwarded their findings to the County treasury, and the report was tabled and adopted by the cabinet. The recommendations forms basis for implementation by the county.

18. During the Financial Year 2013/2014, the defunct local authorities transited pending bills amounting to Kshs. 85,920,272/-. The County Government of Meru during its first tenure (2013-2017) accumulated debts in form of pending bills to the tune of Kshs.1.5B against a cash balance of Kshs. 1.2B. This amount grew during the term of the second term regime to Kshs. 1.97 billion against a cash balance of Kshs. 829 Million.

## CHAPTER TWO: STOCK OF COUNTY PUBLIC DEBT

### 2.1 Debt Strategy Portfolio

19. County public debt comprises of all financial obligations, attendant to loans and securities issued by the County. A debt policy enables a county to determine, establish and uphold legal and institutional frameworks that are in place to guide its borrowing programme and addresses both external and domestic public debt management within a county. The policy is anchored in Article 212 of the Constitution of Kenya, 2010 specifically the principles of public finance. It provides for a strong accountability framework in borrowing and management of the public debt portfolio. Parliament, Auditor General, Controller of Budget, Commission on Revenue Allocation and the Central Bank of Kenya play a key role in the management of public debt and borrowing.

20. The County Government has accumulated pending bills amounting to Kshs.1.8 Billion (approximate) as at February, 2026 and remains committed to clear the bills through the annual budget process as it enhances own local revenue to meet short term gaps in cash flow.

21. The pending bills consist of due owed to merchants and creditors and other contingent liabilities as illustrated in the table below.

| No. | Description of Pending Bills | Amount as at 1st July, 2024 (Kshs) |
|---|---|---|
| 1. | Pending Bills balance unprovided as at February 2026 | 818,364,989.65 |
| 2. | Statutory bodies unprovided for as February 2026 | 228,605,482.67 |

| | | |
|---|---|---|
| 3. | Legal Liabilities (Approximate) as at February 2026 | 795,029,538.00 |
| | **TOTAL** | **1,842,000,060.32** |

*Source: County Treasury*

22. The county-initiated projects whose payments have over-time been rolled over to consecutive financial years. The National Treasury delayed disbursement for the month of June 2024 hence accumulation of additional pending bills of approximately 790M. Also due to unrealised own source revenues cashflows had deficit leading to some suppliers being unpaid at end of the financial year. The County Government has continually adopted various strategies to reduce and curb these debts namely:

1. Verification of outstanding claims to boost validity and hence reduce fraudulent claims;
2. Increase budgetary allocations to pending bills;
3. Formulation of robust assumptions and forecasts in the County's fiscal framework thereby enhancing credibility and realism in the County's Budget;
4. Timely remittance of statutory deductions and other obligations to avert any interest and penalties on late remittance and non-remittance; and
5. Adherence to the procurement plans and budgetary provisions to guide the County's expenditures.
6. Prioritization of Completion of incomplete works/stalled projects across all departments.
7. Operationalization of Monitoring and Evaluation Department for effective and efficient project and programmes implementation.

## CHAPTER THREE: DEBT MANAGEMENT STRATEGIES

### 3.1 GOALS FOR THE DEBT MANAGEMENT STRATEGY

23. The aim of the MTDMS is to support the County Government's strategy in implementing FY2026/25 budget and over the medium term by ensuring that the County Government's financial requirement and payment obligations are met at the lowest cost with prudent degree of risk in line with PFMA. In addition, the strategy will; guide the overall debt management strategy of the county government over the medium term with respect to the actual and potential liabilities in respect of loans and guarantees and the plans for dealing with those liabilities.

    a) Underscore the County Government's commitment to developing and designing a strategy that is evidence based and feasible in ensuring that public debt levels remain sustainable and supports broad-based and inclusive growth; and

    b) Serve as a strategy of financing the fiscal deficit of the County Government over the medium term

### 3.2 DEBT MANAGEMENT STRATEGY FINANCING PRINCIPLES

24. The debt management strategy will address the County Government's financing requirements at the lowest cost and a prudent degree of risk by adhering to the following principles:

    a) The debt must be for capital projects or for cash management purposes;

    b) The debt must be guaranteed by National Government for capital projects;

    c) The debt must be approved by the County Assembly;

d) The debt must be contracted to support expenditure in identified County priority areas that are transformative;

e) Prudence must be observed when contracting debt, taking into account the cost and risk implications; and

f) Financing must be pegged on debt sustainability over the long term.

## 3.3 STRATEGIES OF DEALING WITH DEBT

### 3.3.1 Strategies to Deal with Pending Bills

| No | Description | Amount |
|---|---|---|
| | Pending brought forward as at 30th June 2025 | 1,886,246,012.53 |
| | 2025/2026 budget for payment | 1,067,881,022.88 |
| | Balance unprovided for as at 28st March, 2026 | 818,364,989.65 |
| | Provision in FY 2026/2027 | **493,788,361.85** |
| | Balance to be provided in the subsequent financial years | 324,576,627.80 |

### Legal Liabilities

| No | Description | Amount |
|---|---|---|
| a | Balance as at February, 2026 (Approximate) advance claims and fees | 935029,538.00 |
| b | Provision in FY 2025/2026 Budget | **140,000,000.00** |
| c | Balance unprovided for as at February 2026 | 795,029,538.00 |
| d | Budgetary provision in FY 2026/2027 (Equitable Share Funding) | **170,000,000.00** |
| e | Balance | 625,29,538.00 |
| f | Anticipated provision for **leopard Rock** by National Government | **384,000,000.00** |
| g | Balance of advanced claims to provided for in subsequent budgets (supplementary budgets and subsequent financial years) | 241,029,538.00 |

### 3.3.1 Strategy 1: Enhancing Credibility and Realism of the County's Budget

26. The County Treasury identifies the leading cause of the accumulation of pending bills as being the unrealistic revenue projection which encourages the procurement of goods and services beyond the County's ability to finance payments.

27. One of the first steps in addressing a persistent arrears problem is to strengthen the realism of the annual budget of the County. This will depend on robust assumptions and forecasts in the fiscal framework, which determines the budget. Local revenue estimations will be realistic and in tandem with the projected County's expenditure. To this end, the County Treasury will enhance local revenue collection while setting up realistic revenue targets. Going forward, the local revenue projections as stated in the County's Budget will be based on actuals derived from the previous year' collections plus a growth of twelve (12) per cent. However, the targets for local revenue collections for the Meru County Revenue Board (MCRB) will be set to reflect the aspirations of the County's budgetary needs and any surplus shall be budgeted in subsequent supplementary budgets or in the next fiscal budget process.

### 3.1.2 Strategy 2: Settlement of Recurrent Pending Bills

28. Recurrent pending bills arising from all Departments will have to be cleared as a first charge in the succeeding year's budget from the corresponding votes of that Department.