

EFFECT OF DEBT RESTRUCTURING STRATEGY ON THE FINANCIAL PERFORMANCE OF COUNTY GOVERNMENT OF BUNGOMA

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ABSTRACT

Purpose of Study: This study sought to examine the effect of debt restructuring strategy on the financial performance of the County Government of Bungoma.

Problem Statement: County governments in Kenya play a pivotal role in advancing economic growth, social development and the realization of devolution objectives. However, despite these financing mechanisms, many devolved units continue to face persistent fiscal stress due to rising expenditure demands, revenue shortfalls and accumulation of pending bills. In Bungoma County, financial performance remains below optimal levels despite significant allocations from both national transfers and internally generated revenues.

Methodology: The study adopted a correlational research design and targeted 86 staff at the county government of Bungoma involved in credit management. The study used a census technique and adopted a correlational research design. Primary data was collected through a structured questionnaire. Both descriptive and inferential statistics were employed in the study. After analysis, data was presented in the form of tables.

Result: The findings revealed that a unit increase in debt restructuring strategy would lead to a 0.323 improvement in the financial performance of the County Government of Bungoma. From the findings, the study concluded that debt restructuring strategy has a statistically significant effect on the financial performance of the County Government of Bungoma.

Recommendation: To optimize debt management, the County Government of Bungoma should consider extending payment terms for debtors where feasible to foster goodwill and improve repayment rates.

Keywords: *Debt Restructuring Strategy, Financial Performance, County Government*

INTRODUCTION

Debt restructuring strategy refers to a systematic process of renegotiating, reorganizing or refinancing existing debt obligations to restore financial stability and ensure sustainable fiscal management (Nonaka & Takeuchi, 2021). It involves the use of logical, evidence-based and innovative approaches to reduce financial distress, enhance liquidity and align repayment schedules with the revenue-generating capacity of an organization. In the context of county governments, debt restructuring strategies entail measures such as debt rescheduling, refinancing, conversion of short-term liabilities into long-term obligations, interest rate renegotiations and in some cases, debt write-offs or swaps. These strategies aim to strengthen fiscal space, stabilize budgets and allow counties to maintain essential service delivery without overburdening their limited resources (Teece, 2023).

The significance of debt restructuring strategies in county governments lies in their ability to address the unique fiscal challenges faced by devolved units. Counties operate in resource-constrained environments where revenue mobilization is often below targets, expenditure needs are high and reliance on equitable share transfers from the national government creates fiscal vulnerability (Rahman & Lee, 2020). Effective restructuring approaches enable counties to reduce the burden of unsustainable debt servicing, improve budget absorption, enhance resource allocation efficiency and ensure continued financing of key development programs. More importantly, debt restructuring provides counties with the flexibility to invest in infrastructure, healthcare, education and other critical services, thereby contributing to social welfare and economic development (Tumwine, 2021).

Globally, different jurisdictions have adopted debt restructuring strategies to restore fiscal stability and improve government performance. In the United States, structured municipal debt restructuring and the application of Chapter 9 bankruptcy frameworks have enabled cities such as Detroit to stabilize finances, reduce debt burdens and revitalize service delivery (Henderson, 2021). In Malaysia, innovative public debt restructuring frameworks, including refinancing through sukuk bonds and long-term fiscal planning, have allowed subnational entities to balance debt repayment with infrastructure investment (Sustainable Fiscal Management Study, 2024). Similarly, South Africa has implemented fiscal consolidation measures and restructuring of provincial and municipal debts, combined with regulatory reforms to address liquidity crises and improve service delivery outcomes (Mokoena & Sithole, 2020; OECD, 2025). In Uganda, debt restructuring at both national and subnational levels has included donor-supported fiscal reforms, reallocation of debt servicing costs and adoption of digital platforms for public finance management, which have enhanced transparency and fiscal resilience (Public Debt Sustainability Study, 2023). These global experiences illustrate how well-designed restructuring strategies strengthen government performance by balancing financial sustainability with developmental obligations.

In the Kenyan context, debt restructuring is increasingly vital for counties struggling with fiscal constraints, pending bills and growing expenditure pressures. The County Government of Bungoma, like many devolved units, faces challenges such as high recurrent expenditures, accumulation of pending bills, low own-source revenue mobilization and dependence on national transfers (EPRA, 2020). These fiscal imbalances directly affect the county's ability to finance development projects, maintain liquidity, and sustain service delivery. Adopting effective debt restructuring strategies can help the county restore fiscal discipline, minimize budgetary stress and create fiscal room for capital investments.

Financial performance in county governments refers to the ability of devolved units to efficiently mobilize, allocate, and utilize financial resources to achieve developmental goals while maintaining fiscal sustainability (Kianto, Sáenz, & Aramburu, 2020). It is measured through indicators such as revenue growth, debt servicing capacity, budget absorption rates, cost efficiency, reduction of pending bills, financial accountability and capacity to finance development projects (Yu & Liu, 2021). Improved financial performance enhances the county's ability to deliver public services effectively, attract investment, and support long-term socio-economic development.

STATEMENT OF THE PROBLEM

County governments in Kenya play a pivotal role in advancing economic growth, social development and the realization of devolution objectives. They are central to the delivery of essential services in health, education, water, agriculture and infrastructure. To finance these mandates, the national government allocates equitable share and conditional grants to counties, while counties also mobilize own-source revenues. However, despite these financing mechanisms, many devolved units continue to face persistent fiscal stress due to rising expenditure demands, revenue shortfalls, and accumulation of pending bills. For instance, the Controller of Budget (2023) reported that pending bills for all 47 counties stood at over Kshs. 160 billion in the 2022/2023 financial year, undermining liquidity and delaying the implementation of critical development projects.

In Bungoma County, financial performance remains below optimal levels despite significant allocations from both national transfers and internally generated revenues. Reports by the Office of the Controller of Budget have highlighted challenges such as unsustainable recurrent expenditure, underperformance in development spending, accumulation of pending bills and weak cash flow management. For example, in the 2022/2023 financial year, Bungoma County recorded low absorption of development budgets while pending bills continued to increase, constraining the timely execution of projects under its County Integrated Development Plan (CIDP). These fiscal constraints erode public trust, limit service delivery and weaken the county's ability to achieve sustainable financial performance. Therefore, the study sought to examine the effect of debt restructuring strategy on the financial performance of the County Government of Bungoma.

THEORETICAL FRAMEWORK

The study was anchored on the Trade-Off Theory (TOT), which was developed by Kraus and Litzenberger (1973). The theory posits that organizations balance the benefits and costs of debt financing in order to arrive at an optimal capital structure. Specifically, it emphasizes that while debt provides benefits such as tax shields and access to capital, it also exposes organizations to risks such as financial distress, bankruptcy costs and reduced operational flexibility. The theory

therefore argues that firms must make deliberate trade-offs between these benefits and costs to sustain financial stability and improve performance.

The Trade-Off Theory is particularly relevant in explaining the effect of debt restructuring strategy on the financial performance of the County Government of Bungoma. County governments operate in an environment characterized by limited fiscal space, growing expenditure demands, revenue shortfalls and persistent pending bills. In such a context, the accumulation of debt without structured repayment mechanisms often results in financial strain, service delivery disruptions and diminished public trust. Debt restructuring through measures such as renegotiating repayment terms, consolidating obligations, and rescheduling payments represents a strategic trade-off aimed at easing fiscal pressures while maintaining service delivery commitments.

In this context, TOT provides a valuable lens by linking debt restructuring strategies to financial performance outcomes in county governments. Inefficiencies such as high wage bills, pending bills and weak cash flow management can often be traced back to unsustainable debt structures that fail to balance financing needs with repayment capacity. By adopting effective debt restructuring strategies, Bungoma County can reconfigure its fiscal obligations, reduce financial distress, and create fiscal space for development expenditure. This, in turn, enhances liquidity, service delivery, fiscal sustainability and overall financial performance.

EMPIRICAL REVIEW

Barasa, Tibbs and Shitseswa (2023) conducted a study on influence of debt restructuring strategy implementation on performance of selected commercial banks in Kisumu Kenya. The study was based on risk management theory. The study adopted descriptive survey research design. The research used 34 operational banks in Kisumu City as the target population for a five-year period from 2017 to 2021. The respondents consisted of 102 managers from the selected banks who were chosen via the purposive sampling method. To collect primary data, structured questionnaires were used. The study used both descriptive and inferential statistics. The study established that debt restructuring strategies had a significant positive effect on performance.

Shang and Okorie (2023) did a study on the impact of debt restructuring strategies on the financial sustainability of a multinational corporation based in North America. Employing a longitudinal research design, the researchers collected data over a five-year period, utilizing a purposive sampling technique to select key financial decision-makers within the organization. The sample size comprised 200 participants. Quantitative data on debt ratios, profitability and liquidity were collected through financial reports, while qualitative data on the restructuring process were gathered through interviews. Statistical analyses revealed a positive correlation between successful debt restructuring and improved financial sustainability.

Wang (2018), the study focused on the relationship between debt restructuring and firm performance in Southeast Asia. Using a mixed-methods approach, the researchers conducted surveys and interviews with business leaders in the region. The sampling design involved stratified random sampling and a total of 250 firms participated in the study. Financial performance indicators, such as return on assets and equity, were analyzed alongside qualitative data on the restructuring process. The findings demonstrated that well-executed debt restructuring positively influenced firm performance in Southeast Asia.

Kimani and Mangu (2019) did a study on the debt restructuring models and Public Sector Efficiency: A Study of Government Organizations in Kenya. The research design employed a

comparative case study methodology, with a sample size of 150 government officials selected through convenience sampling. Data were collected through document analysis, interviews and surveys. The findings revealed that adopting specific debt restructuring models led to enhanced efficiency in public sector operations, emphasizing the importance of tailored approaches for different contexts.

Wanjiku and Otieno (2018) conducted a study on debt restructuring practices in the public sector, focusing on Nairobi County Government in Kenya. Employing a qualitative research design, the study utilized interviews with finance officials and analysis of financial reports to examine the effectiveness of debt restructuring strategies. The sample comprised 15 finance officials and archival data spanning a five-year period. Data analysis involved thematic analysis to identify key themes and patterns in debt restructuring practices. The findings revealed that Nairobi County Government utilizes debt consolidation, refinancing and renegotiation techniques to manage its debt portfolio and alleviate financial pressures. Moreover, the government collaborates with financial institutions and development partners to secure favorable terms and extend repayment schedules. The study concluded that prudent debt restructuring strategies are essential for ensuring fiscal sustainability and resilience in the public sector in Kenya.

CONCEPTUAL FRAMEWORK

Independent Variable

Dependent Variable

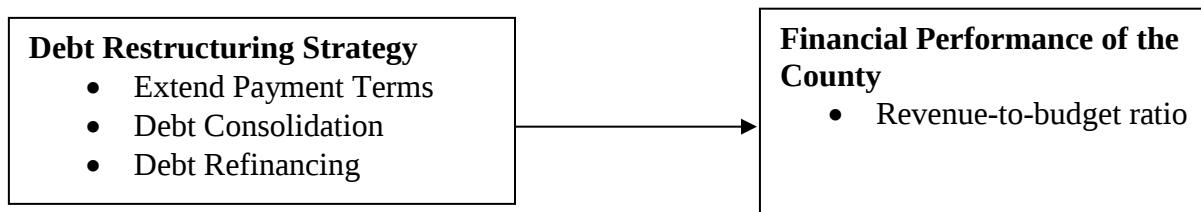


Figure 1: Conceptual Framework

Source: Author (2025)

METHODOLOGY

The study was guided by a positivist research philosophy, which emphasizes objectivity and the use of empirical evidence to explain causal relationships among variables. Consistent with this philosophical stance, the study adopted a correlational research design to investigate the effect of debt restructuring strategy on the financial performance of the County Government of Bungoma. This design was deemed appropriate as it enabled the systematic examination of existing conditions while also testing hypothesized relationships between the study constructs. The target population comprised 86 staff members of the County Government of Bungoma who are directly involved in credit management activities. Given the relatively small size of the population, the study employed a census approach, thereby incorporating all eligible respondents in the analysis. The unit of observation consisted of officers and managers engaged in debt and credit management, as they were considered directly involved in financial decision-making and the implementation of debt restructuring strategies within the county. Primary data was collected

through structured questionnaires designed to capture quantitative information relevant to the study variables. Prior to the main survey, a pilot study was conducted in the neighbouring Kakamega County to evaluate the clarity, reliability and validity of the research instruments. Content validity was ascertained through expert review, while reliability was assessed using Cronbach's Alpha, with a coefficient threshold of 0.7 considered acceptable for internal consistency. For data analysis, both descriptive and inferential statistics were employed. Descriptive statistics (including percentages, frequencies, means and standard deviations) were used to summarize and present the characteristics of the data. Inferential statistics, specifically correlation and regression analysis were applied to test the hypothesized relationships between debt restructuring strategies and financial performance. Diagnostic checks were carried out to validate regression assumptions such as normality, linearity and homoscedasticity, ensuring robustness of the findings. Data analysis was conducted using the Statistical Package for Social Sciences (SPSS), and the results were presented in the form of tables to facilitate interpretation.

FINDINGS AND DISCUSSION

Response Rate

The researcher issued out 86 questionnaires to the respondents. Out of 86 questionnaires issued, 70 were successfully filled and returned for analysis thus giving the study 81% response rate.

Table 1: Response Rate

Response	Frequency	Percentage (%)
Expected response	86	100
Received response	70	81
Un-received response	16	19

Source: Survey Data (2025)

Reliability of the Research Questionnaire

Before the main study the study conducted a pilot study in Kakamega County where questionnaires were distributed. Table 2 shows the result of the findings.

Table 2: Reliability Test Results

Variable	No. of Items	Cronbach's Alpha Value
Debt Restructuring Strategy	5	.899
Financial Performance	7	.798

Source: Research Data (2025)

The reliability test results show that all the variables in the study have Cronbach's Alpha values above the commonly accepted threshold of 0.7, indicating good internal consistency and reliability of the measurement scales. Specifically, debt restructuring strategy had 0.899 and financial performance had 0.798, further confirming that the survey items reliability measures the constructs under the study.

Demographic Data

Duration of Employment in the County Government

The researcher sought to establish the duration of employment of the respondents in the county government. The findings were as indicated in table 3.

Table 3: Duration of Employment in the County Government

Duration of Employment	Frequency	Percentage (%)
Below one year	18	26%
1–3 years	15	21%
4–6 years	25	36%
Above 6 years	12	17%
Total	70	100

Source: Survey Data (2025)

From the findings, 26% of the respondents had worked in the County Government of Bungoma for less than one year, 21% had worked for between 1–3 years, 36% had worked for 4–6 years, while 17% had worked for more than 6 years. This implies that the majority of the respondents had worked in the county government for 4–6 years. This shows that the largest proportion of respondents (36%) had moderate experience, suggesting that most participants were well acquainted with the county's operations. A significant number of respondents also had over 6 years of experience, indicating that the study captured perspectives from a fairly experienced workforce. The moderate to high level of work experience among the respondents implies that the study obtained reliable insights from individuals with sufficient exposure to the financial and administrative processes of the county government.

Descriptive Findings on Debt Restructuring Strategy

The researcher further sought to assess the level of agreement with the statements on Debt Restructuring Strategy on Financial Performance of Bungoma County. The responses were rated from 1-5 where 1 is the lowest meanwhile and 5 indicated the highest mean. Key SA=Strongly Agree, A=Agree, U=Undecided, D=Disagree, SD=Strongly Disagree. The study findings were as indicated in table 5.

Table 4: Debt Restructuring Strategy on Financial Performance of Bungoma County

Statement	S A %	A %	U %	D %	SD %	Mean	Std
By allowing debtors more time to fulfill their payment obligations, the government can minimize the risk of default.	37	34	10	16	3	3.855	1.185
Extending payment terms with debtors can help preserve positive relationships and goodwill between the government and its stakeholders	55	34	8	3	0	4.403	0.778
By consolidating its debts with individual debtors, the County Government of Bungoma can simplify its debt management processes	44	46	7	3	0	4.307	0.738
Debt consolidation facilitates more efficient collections by centralizing the government's efforts and resources on a single consolidated debt obligation	37	44	16	3	0	4.145	0.807
Debt consolidation provides the government with increased leverage and negotiating power when dealing with debtors.	35	45	5	0	0	4.452	0.592
By consolidating multiple debts into a single obligation, the county government can negotiate more favorable terms, such as extended payment schedules.	37	44	16	3	0	4.145	0.807
By refinancing debts at more favorable terms, such as longer repayment periods, the county government can improve its liquidity.	42	32	12	14	0	4.403	0.778
Debt refinancing allows the government to restructure its debt portfolio with individual debtors to better align with its financial objectives.	30	40	18	12	0	4.307	0.738
By refinancing debts at more favorable terms, the county government can strengthen its relationships with debtors minimizing the risk of default or delinquency	42	30	16	12	0	4.145	0.807
Overall Mean and SD						4.240	0.803

SA=Strongly Agree, A=Agree, 3=Neutral, D=Disagree, and SD==Strongly Disagree

The findings in Table 9, 37% of the respondents strongly agreed that by allowing debtors more time to fulfill their payment obligations, the government can minimize the risk of default, 34% agreed, 10% were undecided, 16% disagreed, while 3% strongly disagreed that by allowing debtors more time to fulfill their payment obligations, the government can minimize the risk of default with a mean of 3.855 and a standard deviation of 1.185. Also, 55% of the respondents strongly agreed, 34% agreed, 8% were undecided and 3% disagreed that extending payment terms with debtors can help preserve positive relationships and goodwill between the government and its stakeholders, with a mean of 4.403 and a standard deviation of 0.778. Further, 44% strongly agreed that by consolidating its debts with individual debtors, the County Government of Bungoma can simplify its debt management processes, 46% agreed, 7% were undecided 3% disagreed that by consolidating its debts with individual debtors, the County Government of Bungoma can simplify its debt management processes with a mean of 4.307 and a standard deviation of 0.738. The findings match with those of Barasa, Tibbs and Shitseswa (2023), who stated that

consolidating debts reduces the number of creditors and accounts the county government has to manage, creating a single point of contact for debt-related issues. This streamlines communication and management. A consolidated debt structure typically involves a single payment schedule, making it easier to track and manage payments. This reduces administrative complexity and minimizes the risk of missed payments.

Furthermore, 37% of the respondents strongly agreed that debt consolidation facilitates more efficient collections by centralizing the government's efforts and resources on a single consolidated debt obligation, 44% agreed, 16% were undecided while 3% disagreed that debt consolidation facilitates more efficient collections by centralizing the government's efforts and resources on a single consolidated debt obligation with a mean of 4.145 and a standard deviation of 0.807. Moreover, 35% of the respondents strongly agreed that debt consolidation provides the government with increased leverage and negotiating power when dealing with debtors, 45% agreed while 5% were undecided that debt consolidation provides the government with increased leverage and negotiating power when dealing with debtors with a mean of 4.403 and a standard deviation of 0.557. Additionally, 37% of the respondents strongly agreed that by consolidating multiple debts into a single obligation, the county government can negotiate more favorable terms, such as extended payment schedules, 44% agreed, 16% were undecided, while 3% disagreed that by consolidating multiple debts into a single obligation, the county government can negotiate more favorable terms, such as extended payment schedules with a mean of 4.145 and a standard deviation of 0.807. The findings match with those of Shang and Okorie, (2023) who concluded that when consolidating debts, the county government deals with one creditor instead of multiple. This can simplify negotiations and increase leverage, as the creditor may be more inclined to offer favorable terms to secure a larger consolidated debt. Consolidating debts into a single obligation can demonstrate a significant commitment to repaying the debt, which may enhance the government's bargaining position for better terms.

Furthermore, 42% of the respondents strongly agreed that by refinancing debts at more favorable terms, such as longer repayment periods the county government can improve its liquidity, 32% agreed, 12% were undecided while 14% disagreed that by refinancing debts at more favorable terms, such as longer repayment periods the county government can improve its liquidity with a mean of 4.403 and a standard deviation of 0.778. Moreover, 30% of the respondents strongly agreed that debt refinancing allows the government to restructure its debt portfolio with individual debtors to better align with its financial objectives, 40% agreed while 18% were undecided while 12% disagreed that debt refinancing allows the government to restructure its debt portfolio with individual debtors to better align with its financial objectives with a mean of 4.403 and a standard deviation of 0.557. Additionally, 52% of the respondents strongly agreed that by refinancing debts at more favorable terms, the county government can strengthen its relationships with debtors minimizing the risk of default or delinquency; 32% agreed, 6% were undecided, while 10% disagreed that by refinancing debts at more favorable terms, the county government can strengthen its relationships with debtors minimizing the risk of default or delinquency with a mean of 4.145 and a standard deviation of 0.807. The overall mean of 4.240 and a standard deviation of 0.803 shows that respondents largely agree on its effectiveness, though the slightly higher standard deviation indicate varying perceptions. The findings are in line with those of Kimani and Mangu (2019) which showed that refinancing typically involves securing more favorable terms, such as lower interest rates or extended repayment periods. This reduction in payment amounts can alleviate financial pressure on the county government, making it easier to meet its debt obligations.

Lower monthly payments from refinancing can improve the county's cash flow, allowing it to allocate resources more effectively and reduce the likelihood of missing payments.

Financial Performance of Bungoma County

The researcher further sought to assess the level of agreement with the statements on Financial Performance of Bungoma County. The responses were rated from 1-5 where 1 is the lowest meanwhile and 5 indicated the highest mean. Key SA=Strongly Agree, A=Agree, U=Undecided, D=Disagree, SD=Strongly Disagree. The study findings were as indicated in Table 5.

Table 5: Financial Performance

Statement	SA (%)	A (%)	N (%)	D (%)	SD (%)	Mean	SD
The county government is able to meet all its financial obligations on time	0	5	2	29	64	2.403	0.978
The county government is able to provide all its devolved services	0	5	8	30	54	2.307	0.938
The county government is able to pay all the creditors on time	9	6	4	43	38	2.145	0.907
The county government has enough cash flow to meet financial obligations	11	5	7	34	43	2.387	0.969
The county government is able to pay all of it recurrent expenditure on time	0	11	6	35	48	2.005	0.977
The county government is able to implement all of the budgeted infrastructure projects	0	4	7	39	50	2.177	0.954
Overall Mean and SD						2.237	0.954

SA=Strongly Agree, A=Agree, 3=Neutral, D=Disagree, and SD==Strongly Disagree

According to the findings in table 10, 64% of the respondents strongly disagreed that the county government is able to meet all its financial obligations on time, 29% disagreed, 2% were undecided while 5% agreed that the county government is able to meet all its financial obligations on time with a mean of 2.403 and a standard deviation of 0.978. Furthermore, 54% of the respondents strongly disagreed that the county government is able to provide all its devolved services, 30% disagreed, 8% were undecided while 5% disagreed that the county government is able to provide all its devolved services with a mean score of 2.307 and a standard deviation of 0.938. According to Muthoni and Kamau (2021) most counties rely heavily on equitable revenue share from the national government, which often delays disbursements. This leaves counties without the necessary funds to meet obligations on time. Counties have limited capacity to generate revenue through local taxes, levies and fees.

Furthermore, 38% of respondents strongly disagreed that the county government is able to pay all the creditors on time, 43% agreed, 4% were undecided, 6% agreed, 9% strongly agreed that the county government is able to pay all the creditors on time with a mean 2.145 and a standard

deviation of 0.907. The findings agree with Kamau (2023) who argue that Counties often roll over unpaid debts (pending bills) from one financial year to the next, leading to a backlog of creditors. This accumulation creates a financial burden that counties struggle to manage.

Further, 43% of the respondents strongly disagreed that the county government has enough cash flow to meet financial obligations, 34% disagreed, 7% were neutral, 5% agreed, 11% strongly agreed that the county government has enough cash flow to meet financial obligations with a mean of 2.145 and standard deviation of 0.907. According to Buchheit, DeLong and Zettelmeyer, (2019) a significant portion of county budgets is allocated to recurrent expenditures, such as salaries and allowances, leaving little room for development projects and payment of creditors.

In addition, 48% of the respondents strongly disagreed that the county government is able to pay all of its recurrent expenditure on time, 35% disagreed, 6% were neutral while 11% agreed that the county government is able to pay all of its recurrent expenditure on time with a mean of 2.005 and a standard deviation of 0.977. Moreover, 50% of the respondents strongly disagreed that the county government is able to implement all of the budgeted infrastructure projects, 39% disagreed, 7% were undecided and 4% agreed that the county government is able to implement all of the budgeted infrastructure projects with a mean of 2.177 and a standard deviation of 0.954. The overall mean of 2.237 and a standard deviation of 0.954 reflect a general disagreement with the financial performance of the county government. The relatively high standard deviation suggests significant variability in respondents' assessments, indicating concerns over financial stability. According to Wang, (2018) counties sometimes budget for projects without realistic estimates of available resources, leading to a mismatch between planned projects and actual funding. Unrealistic revenue targets during budgeting often result in incomplete or stalled projects when expected funds are not realized.

Diagnostic Tests

Before conducting the inferential statistics, the study conducted a normality tests

Table 6: Normality Assumption Test Results

Variable	Kolmogorov- Smirnov	Sig
Debt restructuring strategy	.174	.871
Financial performance	.236	.877

The findings indicated that debt restructuring had a Kolmogorov-Smirnov significance value of $p=.174>0.05$, and financial performance had a Kolmogorov-Smirnov significance value of $p=.236>0.05$. Since the p-values were greater than the significance level (0.05), this implies that the data were normally distributed.

Inferential Statistics

Under inferential statistics the study conducted both correlation and regression analysis. The findings are indicated below.

Table 7 : Correlation Results

	Financial Performance	
Debt Restructuring Strategy	Pearson Correlation	.641
	Sig. (2-tailed)	.000
	N	70

The findings established that a strong positive correlation existed between debt restructuring strategy and the financial performance of the county government of Bungoma ($r=0.641$; $p=0.000$). The results of the correlation analysis indicated that better debt restructuring strategy improves the financial performance of the county government of Bungoma. The study findings are in line with Muthoni and Kamau (2021), who stated that restructuring often involves renegotiating terms to lower interest rates or extend repayment periods, reducing monthly or quarterly debt service payments and improving cash flow. Debt restructuring leads to renegotiation of terms, such as lower interest rates, which reduces the total cost of borrowing over the life of the debt.

Table 8: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	.564	.145		.389	.796
Debt Restructuring Strategy	.323	.106	.360	3.047	.003

The interpretations of the findings indicated follow the following regression model.

$$Y = 0.564 + 0.323X$$

The findings revealed that holding all the other variables constant, a unit increase in debt restructuring strategy would lead to a 0.323 improvement in the financial performance of the County Government of Bungoma. The findings are in line with Maresi (2021), which showed that effective restructuring improves debt management by consolidating or extending debt, reducing the risk of financial distress and enhancing long-term stability. By addressing debt repayment issues proactively, restructuring helps prevent defaults and associated penalties, protecting the organization's financial health.

CONCLUSION

The study concluded that Debt restructuring strategy has a statistically significant effect on the financial performance of the County Government of Bungoma. This finding implies that effective restructuring mechanisms such as renegotiating repayment schedules, consolidating debts or rescheduling obligations play a critical role in enhancing fiscal stability, liquidity and service delivery capacity of the county. When debt is managed through structured restructuring strategies, the county government is better positioned to reduce the burden of pending bills, improve cash flow management and allocate more resources toward development projects. This fosters fiscal discipline, enhances accountability and restores public trust in county financial management. On

the other hand, failure to adopt effective debt restructuring strategies may worsen financial distress, crowd out development expenditure, and undermine the county's ability to deliver essential services.

RECOMMENDATIONS

In light of the findings, the study recommended that to optimize debt management, the County Government of Bungoma should consider extending payment terms for debtors where feasible to foster goodwill and improve repayment rates. Debt consolidation should also be prioritized to centralize collection efforts and streamline debt management processes. Furthermore, the county government should actively negotiate for more favorable terms when consolidating debts, such as lower interest rates and extended repayment periods, to reduce financial pressure and enhance overall financial performance.

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