COUNTY GOVERNMENTOF KISUMU

COUNTY TREASURY

MEDIUM TERM

FISCAL STRATEGY PAPER

28TH FEBRUARY 2014

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Foreword

The FY 2014/2015 Fiscal Strategy Paper is the first to be prepared in the County under a new constitutional dispensation of devolved governance considering the challenges experienced with the 2013-2014 budgeting process.The County Government of Kisumu, sets out the Administration‘s priority programs to be implemented in the Medium Term Expenditure Framework (MTEF). It is framed against a focus of improving national economic prospects, underpinned by gradual strengthening of the advanced economies and continued robust growth in sub-Saharan Africa. It is evident also that there is renewed investor interest in Kisumu County, following recent upgrading of the Kisumu Airport to international standards, and the ongoing road works on the major highway mean well for accelerated economic growth prospects, employment and improved livelihood in the county of Kisumu.

However it should be noted that high poverty level is one of the major developmental challenges in Kisumu County. Estimates show that over 60 per cent of the population are poor compared with the national average of 46 per cent as at 2006. Poverty levels are higher in the urban areas (70 per cent) compared with rural (63 per cent). The main causes of poverty include HIV and AIDS pandemic, collapse of local agro-based industries, unemployment, low agricultural and fish production. Food insecurity, inaccessibility to affordable healthcare, lack of proper storage facilities, erratic and unreliable rainfall, poor and inaccessible road network, frequent floods, problems with the sugar, rice, cotton and fish industries, lack of title deeds, poor water and sanitation systems, malaria, and water borne diseases worsens poverty situation in the county.

In order to tackle this challenge, this Strategy emphasizes on economic transformation in five major areas:

(i) Creation of conducive economic environment in order to encourage innovation, investment, growth and expansion of economic and employment opportunities;
(ii) Investing in agricultural transformation by encouraging farm mechanization, availing fertilizers and approved seeds to farmers and promoting irrigation. This will ensure food security, expand food supply, reduce food prices, support expansion of agro-processing industries and therefore reduce unemployment.
(iii) Improving transport logistics investing in key infrastructure, including roads, bridges and water ways reduce cost of doing business and improve competitiveness;
(iv) Investing in quality and accessible healthcare services and early childhood education as well as social safety net to reduce burden on the households and complement and sustain long term growth and development; and
(v) Ensuring effective cascading of devolution to the lowest level for better service delivery and enhanced rural economic development through strengthening of sub-county administration.

This Fiscal Strategy Paper, therefore, sets out priority areas for economic transformation and building a shared prosperity to be implemented in the Medium Term Expenditure Framework for 2014/15–2016/17. The implementation of these programs is expected to accelerate and sustain a broad-based county economic growth at about 10 percent.

Acknowledgement

This is the first Fiscal Strategy Paper prepared after full constitution of the Executive Committee and the preparation of the CIDP for Kisumu County. One cannot fail to take cognizance of the Citizens who participated in preparation of the CIDP which is the basis for these strategies.

Members of County Assembly who popularly mobilized the public during the CIDP preparation deserve great appreciation. All the departments of the County Government whose resourceful contribution made this exercise a success are highly recognized.

We thank members of the public who took part in the public participation forums for this County Fiscal Strategy Paper 2014/15 on 26th and 27th February 2014.

We hail H.E. the Governor of Kisumu for the conducive atmosphere created for accomplishment of strategy paper formulation, personal input and other forms of support.

GEORGE ONGAYA

AG. EXECUTIVE COMMITTEE MEMBER-FINANCE

Outline of the Fiscal Strategy Paper

1. The Fiscal Strategy Paper is presented in four Chapters. Chapter one presents an overview and objective of the Paper. Chapter two outlines the economic context within which the 2014/2015 budget will be prepared. It also presents an overview of the recent economic developments and the macroeconomic outlook covering the global, national and domestic scene.

2. In Chapter three, the paper presents the Fiscal Policy and Budget Framework that will support planned growth over the medium to long term, while continuing to provide sufficient resources to support social programmes in health as well as infrastructure development. The chapter also highlights the County's key pillars of development namely;

- Food security and agriculture
- Industrialization and enterprise development
- Tourism
- Technology
- Sports and talent

3. The last Chapter Four presents the resource envelope and spending priorities for the proposed 2014/2015 budget and medium term.

Legal Basis for Preparation of the Fiscal Strategy Paper

In line with the Constitution, the Public Finance Management Act, 2012, sets out the fiscal responsibility principles to ensure prudent and transparent management of public resources. The PFM Act (Section 15) states that:

1) Over the medium term, a minimum of 30 percent of the national and county budgets shall be allocated to development expenditure
2) The national government's expenditure on wages and benefits for public officers shall not exceed a percentage of the national government revenue as prescribed by the regulations.
3) The county government's expenditure on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenue as prescribed by the County Executive member for Finance in regulations and approved by the County Assembly.
4) Over the medium term, the National and County government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.
5) Public debt and obligations shall be maintained at a sustainable level as approved by Parliament for the National Government and the county assemblies for the County Governments.
6) Fiscal risks shall be managed prudently; and a reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.

It is a requirement under section 117 of the Public Finance Management Act, 2012 that each County Treasury shall prepare and submit to the County Executive Committee the Fiscal Strategy Paper for approval, and the County Treasury shall submit the approved Fiscal Strategy Paper to the County Assembly by the 28th February of each year.

1. CHAPTER ONE

1.1 Overview

1.11 This Fiscal Strategy Paper has been prepared against the backdrop of a challenging external environment and the uncertainties inherent in the newly established structures of county government. Although the global growth was projected to increase during 2013, the recovery was more gradual than earlier anticipated and was expected to pose significant risks to the Kenyan economy and consequently to the assumptions underlying the fiscal framework. At the local scene however, macroeconomic conditions were favourable with the economy projected to grow at 5.0 percent in 2013 and 5.1 percent in 2014, as projected by the World Bank in the *Kenya Economic Update* released in December 2013.

1.12 With inflationary pressure subdued-underpinned by stable energy prices and moderation in food inflation, a stable exchange rate, and supportive monetary policy, the update reports that Kenya has potential for a growth spur in 2014.

1.13 This optimism is buttressed by the bold reform agenda adopted by the National Government as outlined in the second Medium Term Plan (MTP). The plan proposes macroeconomic stability as the key objective in national economic management and envisages various strategic options including sustained growth in agriculture, manufacturing, and service sectors in order to achieve an overall GDP growth rate of 10 per cent by 2017; increased local savings, remittances from the Kenyans in the diaspora and foreign direct investment in all the sectors; and enhanced regional and international trade to grow and diversify our exports in order to improve our balance of payments position and ensure exchange rate stability.

1.14 It is within this broad national policy framework that the County Government of Kisumuis leveraging itself in order to deliver on the expectations of its citizens as expressed in the County Integrated Development Plan, 2013-2017 and the requirements of the Constitution of Kenya, 2010 particularly with regard to delivery of the devolved functions under a fiscal decentralized framework.

1.15 However, as shown by the National Tax Payers Association in their report of 2012, experience with the management of the Constituency Development Fund (CDF) and the Local Authority Transfer Fund (LATF) has shown that while fiscal decentralization can offer significant gains under the right conditions, it also carries the risk of accentuating inequities and compromising macroeconomic stability. Thus, establishing strong foundations and correctly sequencing the devolution responsibilities is critical to attaining good economic and financial governance. While providing support to the economy and strengthening investment in economic infrastructure for sustainable long term growth, there is need for enhancing fiscal discipline. The

County government will build on the current improved macro-economic environment to navigate through the teething problems posed by the transition to devolved governance and the interrelationships within the various national and county governance structures.

1.16 This Fiscal Strategy paper has prioritized infrastructure as a key driver of the economy as well as the five pillars of development for sustained growth namely:

- Food security and agriculture
- Industrialization and enterprise development
- Tourism
- Technology
- Sports and talent

1.17 The County Government will build on the comparative advantage in resource availability and enhanced fiscal discipline to navigate through the challenges posed by the global and domestic development in order to sustain and improve the resilience of the county economy.

1.18 Operation and Maintenance pressures due to secondment of former national government officers to the County will raise the recurrent expenditure in terms of personnel costs. Other expenditures, including pensions and gratuity will have a bearing on the County resource envelope.

1.19 This fiscal strategy paper articulates economic policies and structural reforms as well as sector based expenditure programmes that the county intends to implement in order to achieve the broad goal of its development agenda. In particular, it emphasizes continued shift of resources in favour of programmes that enhance growth and job creation, and to support stronger private sector investment in pursuit of new opportunities in a changing economic environment. The proposed fiscal framework ensures continued fiscal discipline and provides support for sustained growth, broad based development and employment growth that benefits all citizens.

1.110 With limited resources, the County government will be required to be more efficient to make meaningful gains in poverty reduction. The fiscal framework outlined in this Fiscal Strategy Paper (FSP) requires greater fiscal discipline and alignment of resources and priorities. In particular, better control of expenditure and a clear focus on core mandates by county departments will be required. The County Government will be expected to identify to identify new revenue streams that will contribute to financing the targeted priorities in line with the broad policy goals.

1.111 In the meantime, the County Government will continue promoting value addition so as to expand the levels of employment and consequently reduction in poverty. These incentives include accessing new and emerging markets, continued investment in infrastructure and targeted support for small and medium enterprises.

1.2 Objective

1.21 The objective of the 2014/2015 Fiscal Strategy Paper is to set the framework for the preparation of the County budget. It is a requirement under section 117 of the Public Finance Management Act, 2012 that each County Treasury shall prepare and submit to the County Executive Committee the Fiscal Strategy Paper for approval, and the County Treasury shall submit the approved Fiscal Strategy Paper to the County Assembly by the 28th February of each year. This Fiscal Strategy Paper contains the following:

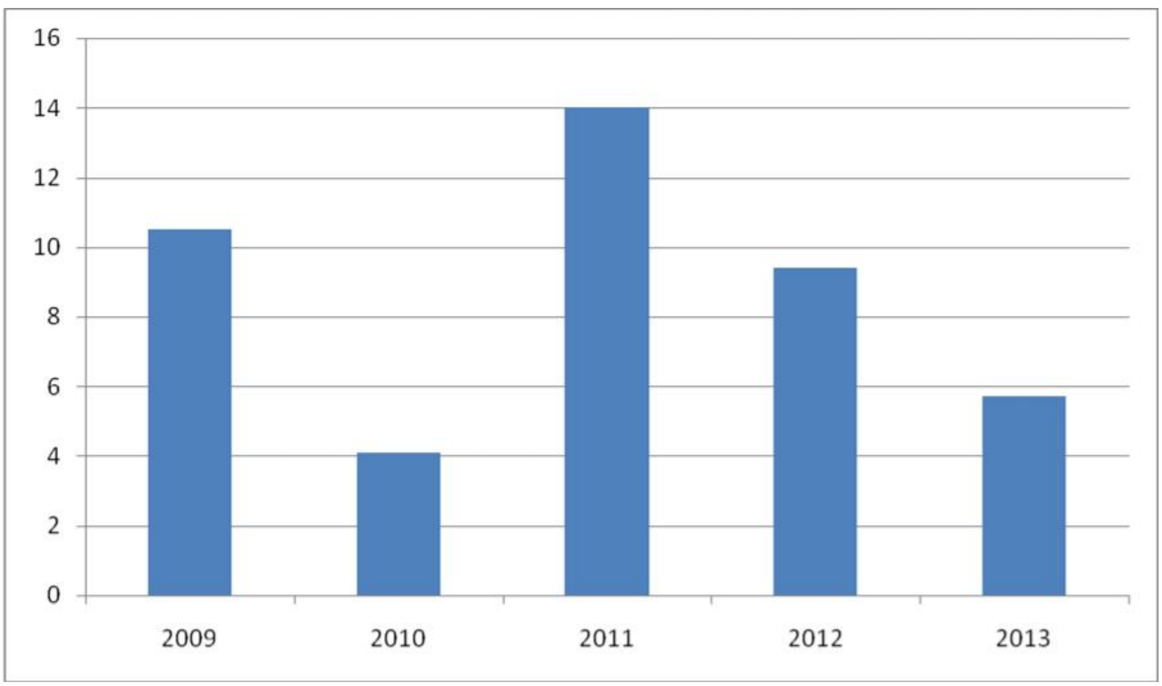
- The principles that will guide the 2014/2015 budgetary process;
- The broad fiscal parameters for the 2014/2015 budget and the key strategies and policies for management of revenues and expenditures;
- The broad strategic priorities and policy goals that will guide the preparation of the budget over the medium term;
- A discussion of risks to the budget parameters and Budget Strategies;
- The medium–term outlook for county government revenues and expenditures;
- A discussion of how the Budget Strategies relates to the Medium Term Fiscal Strategy (MTFS) and County Integrated Development Plan (CIDP); and
- A framework for the preparation of departmental forward budget estimate.

2. CHAPTER TWO

2.1 Overview of National Economic Performance

2.11 Macroeconomic conditions continued to improve, as Kenya's economy entered the third year of relative stability, with single digit inflation and a stabilized exchange rate. However, GDP growth rate was lower than projected. Nationally, inflation rate declined from 9.4 in 2012 to 5.7 in 2013 due to better food supply resulting from favourable weather conditions. These trends portend improvement in the performance of the economy for the country in general and the county in particular. Figure 1 below shows the falling inflation rate over the last five years.

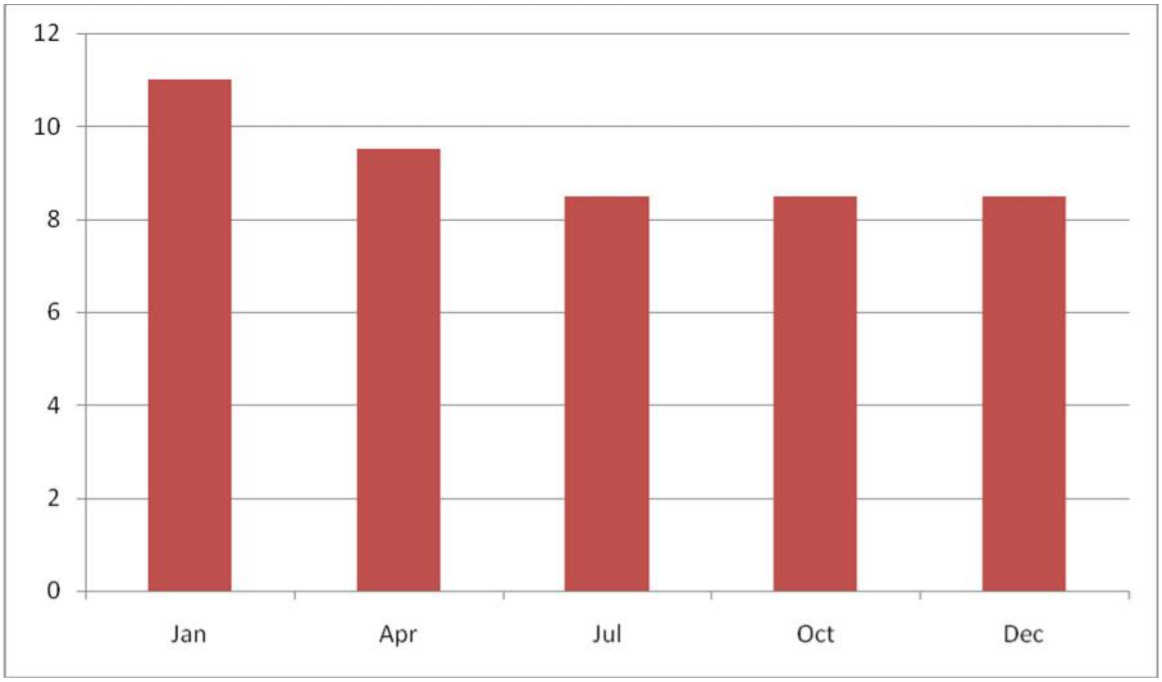
Figure 1: National Inflation 2012-2013



Source: Central Bank of Kenya Website

2.12 Short term interest rates have also eased in line with the drop in inflation. The Central Bank of Kenya has left the interest rate at 8.5 percent as the current monetary policy stance is considered to deliver the desired objective of price stability. Figure 2 below shows the trend in quarterly interest rates for 2013, which had been falling but had stabilized throughout the last three quarters of the year.

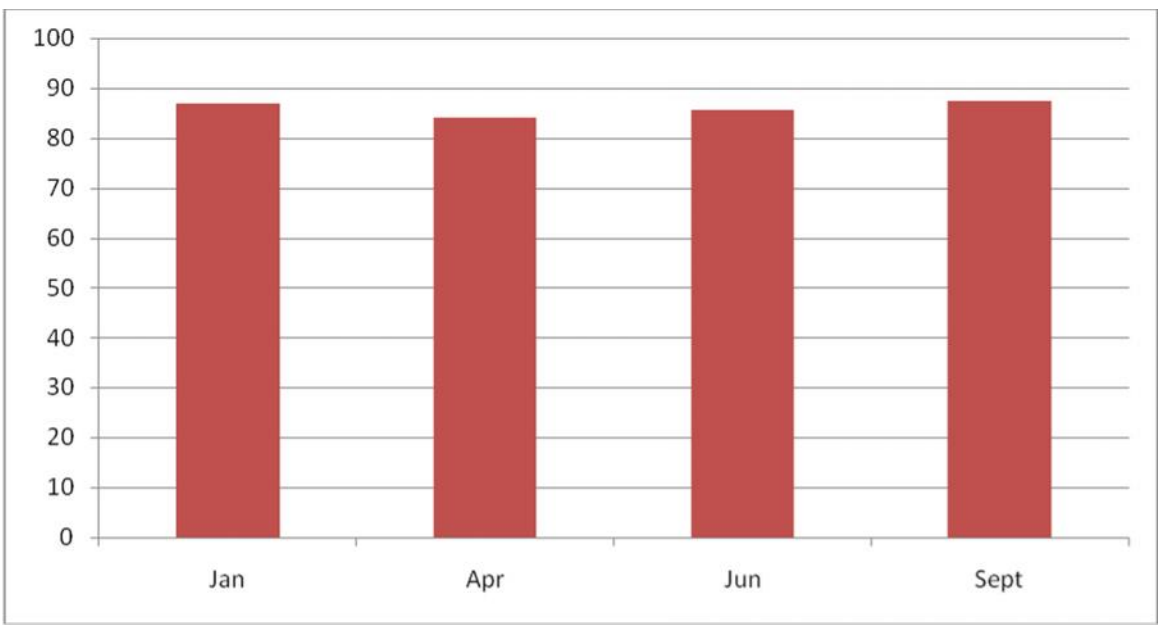
Figure 2: Quarterly Interest Rates (Kenya) in 2013



Source: Central Bank of Kenya, Website

2.13 At the same time, the Kenyan Shilling exchange rate has also stabilized against the dollar as shown in the Figure 3 below.

Figure 3: Quarterly Average Exchange Rate (Kenya) in 2013



Source: Central Bank of Kenya Website

2.2 County Fiscal Performance and Challenges

Revenue

The County Government of Kisumu is in the process of implementing a web based e-revenue collection system to ensure maximized collection so as to seal loop holes through which leakages have been experienced over the years. This platform to be initiated with other partners shall ensure real time banking of collections and it is currently being piloted in selected sub counties.

The full implementation of this system shall ensure that the county collects at least Kshs. 3.8 Billion from the local sources. This together with the anticipated exchequer release by the national government of Kshs. 5.2 Billion will cushion the expected development and operational activities in the county government of Kisumu

Expenditure

The total expenditure for the Fiscal Year 2014/15 is expected to Kshs. 10 Billion attributed to the anticipated revenue collection, in this regard, the County Government shall ensure that at least 40% of expenditure is put to development activities as outlined in the CIDP (County Integrated Development Plan)

2.3 Macroeconomic Policies and Outlook

Growth Prospects

2.31 The macroeconomic framework underpinning the 2014 FSP is cautious given the uncertainties in global output growth, the performance of the domestic economy in the first half of 2013 and the increased wage bill in the County Government .Nevertheless, with improved weather conditions, the domestic economic prospects remain favourable.

2.32 The national GDP is expected to grow by 6.2 percent in 2014, up from about 5.7 in 2013. Over the medium term, growth is expected to pick up over 6 percent. In terms of fiscal years, nationally the projections translate to 6.2 percent for 2014/2015 and 6.5 percent 2015/2016.

Table 2: Macroeconomic Indicators Underlying the Medium Term Fiscal Framework 2012/2013-2015/2016

	2012/2013 previous	**2013/2014 current**	**2014/2015 projections**	**2015/2016 projections**
National account and prices (Annual percentage change)				
Real GDP	5.4	5.9	6.2	6.5
GDP deflator	9.2	6.8	6.7	6.8
CPI Index	6.0	5.5	5.0	5.0
CPI Index(average)	5.9	6.0	5.0	5.0
Terms of trade(-deterioration)	-1.2	0.9	4.5	5.6
Investment and saving (In percentage of GDP)				
Investment	20.5	22.4	24.0	25.8
Gross National Saving	11.8	14.2	17.1	20.4
Central government budget				
Total revenue	24.9	24.3	24.4	24.5
Total expenditure and net lending	31.9	29.8	29.3	29.4
Overall balance(commitment basis) excl. grants	-7.0	-5.5	-4.9	-4.8

Nominal public debt, net	46.2	44.4	43.3	41.7
External sector				
Current external balance, including official transfers	-8.7	-8.2	-6.9	-5.4
Gross international reserve coverage in months of imports	3.9	4.1	4.3	4.4

Source Budget Policy Statement January 2013

2.33 Growth will be bolstered by production in agriculture assuming favourable weather conditions that prevailed in the previous year will persist and that the ongoing key infrastructural projects such as roads and energy are completed in time. Domestic demand is expected to be robust following a drop in inflation at the national level, and fostering of investor confidence.

3. CHAPTER THREE

3.1 COUNTY FISCAL POLICY AND BUDGET FRAMEWORK

Through this fiscal policy, the County Government attempts to improve unemployment rates, stabilize business cycle in an effort to control the economy. The County Government strives to change economic performance of the County through revenue enhancement and prudent County Government spending pattern.

The County Government will try to balance between changing tax rates and public spending to stimulate an economic growth. The policy paper highlights key areas that will guide the 2014/2015 budgeting process for the Kisumu County. The preparation of the budget will be through consultation with stakeholders at all levels and will integrate the departmental priorities and County Integrated Development Plan, while considering the resource base of the County and expected revenue disbursement from the National Government Treasury. The paper has also put into consideration the economic growth and challenges.

3.2 KEY CHALLENGES AND BROAD PRIORITY AREAS

Urbanisation

Urbanisation has been accompanied by rapid population growth in sub urban areas and increased industrial and commercial development in unincorporated areas. Urbanisation promises to be a major issue as developing sub urban areas demand more and more urban type service like increased demand for school, water and sewer expansion, hospitals, and roads network against the back drop of limited resources. Efforts by the County Government through the Kisumu Urban Project in developing the Integrated Strategic Urban Development Plan is expected to address some of the challenges that come with urbanization. The 2014/15 budget, will have to target water & sewer expansion projects for implementation for financing.

Devolution

Devolution was one of the hall marks of the transition from a previous centralised political system, what was largely blamed for vast inequality, exclusion and deep division in Kenyan society. A number of key steps have been taken as part of the constitutionally prescribed three year roll out plan for devolved Government. In this regard, the March 2013 election is significant in that, it definitively sealed the death of Kenyan's obsolete, post – independence constitution and paved way for full implementation of many section of the new charter. Until now, many sections remain largely unimplemented.

The lack of understanding of key issues around devolution is generating a great deal of mistrust between stakeholders with some believing that, the National Government is seeking to frustrate devolution. The latest clamour to increase development expenditure to seventy per cent and allowing the County Government to utilize thirty per cent for recurrent expenditure will raise a lot of challenges in terms of restructuring and inability to discharge its operational mandate under the constitution of Kenya 2010. This would impact negatively on maintaining the existing development infrastructure. It may also affect objectivity, impartiality and quality assurance in provision of services to the public.

Revenue allocation is also proving to be a divisive issue. By law, counties are entitled to at least Fifteen per cent of the total national revenue collected based on preceding audited accounts. Despite many Counties currently are not getting adequate funding, there is a feeling that budgetary allocation needs to be increased and the National Government is reluctant to cede ground on this. Many County Government have since launched a spirited campaign to that effect and have interpreted the perceived National Government reluctance as a ploy to frustrate the effectiveness of devolved unit.

The County Government will establish public participation forums in various Sub Counties and wards to improve civic education in the devolved government structures.

Infrastructure Development

According to the Word Bank, the continents infrastructure deficit is considered one of the most significant barriers to sustaining economic growth. County Government of Kisumu continue to suffer from low levels of agricultural productivity and is constantly bedevilled by famine. A large part of the County's inability to feed itself and stimulate rural entrepreneurship can be explained by poor infrastructure e.g. transport, energy, irrigation and telecommunication.

Good infrastructure stimulates economic growth; generate employment and engineering capabilities which intern foster entrepreneurship. Such investments provide opportunity to work closely with private sector to build the engineering and managerial capabilities needed to design, build and maintain infrastructure projects. Kisumu County will closely work with the National government, private sectors and other development partners to foster a good working environment to improve infrastructure development in the County.

Water Supply and Sanitation

Drinking water supply and sanitation in Kisumu County continue to be inadequate despite longstanding effort by various levels of Government and communities to improve coverage. A number of innovative approaches to improve water supply and sanitation have been going on for some time in the County. Lake Victoria South Water Services Board has been modernising water supply infrastructure within Kisumu County by improving pumping capacities at Dunga water Works and Gita intake point and other water stations in the Sub Counties. This has seen the widening of piping network and construction of water reservoir to increase their capacities. Lack of adequate sanitation and safe water supply has significant negative health impacts.

The residents of Kisumu County deservers clean water for their domestic use and a clean environment. The County Government will plan to allocate funds to improve water supply and reticulation in the country to address this critical challenge.

Environmental challenges

Lake Victoria, with a surface area of 68,800 km2 and adjoining catchment of 184,000km2 is the World's second largest fresh water body. The Lake basin is used as a source of food, energy, drinking and irrigating water, transport and a repository for human, agricultural and industrial waste. With the population of riparian communities growing at the highest rate in the World, the multiple activities in the Lake basin have increasingly come into conflict. This has contributed to rendering the Lake environmentally unstable. The Lake ecosystem has undergone substantial and to some observer, alarming changes, which have accelerated over the last three decades. Massive blooms of algae, water – borne diseases, water hyacinth, overfishing and oxygen depletion at lower depth of the lake threaten the artisanal fisheries and biodiversity.

Water Hyacinth

Water hyacinth is a flowering plant whose origin is thought to be the Amazon area of Brazil. The main detrimental effects of the spreading mats of water hyacinth are;

i. Reduction in fishing in the Lake through de – oxidation of water and reduction of nutrients in sheltered bays which are breeding and nursery ground for fish particularly Tilapia.
ii. Physical interference with fishing operation especially in the bays where fishing are brought ashore to piers or landing beaches
iii. Physical interference to access to water supply from the Lake for both urban and Rural communities together with addition to the cost of purifying water with highest concentration of matters as a result of the hyacinth.
iv. Provision of a preferred breeding habitat for alternative host for schistosomiasic (Bilharzia), Snails, Mosquitos and Snakes.

Solid Waste Management

Waste management is the collection, transport, processing or disposal, managing and monitoring of waste materials. These are materials produced by human activities and the process is generally to reduce their effects on health, environment or aesthetic.

Following the industrialisation and urban growth of large population in Kisumu City, the build-up of waste causes a rapid deterioration in levels of sanitation and the general quality of urban life. The street becomes choked with filth due to lack of waste clearance regulations. The County Government is planning to come up with a regulatory framework to control and manage waste. Such regulation includes but not limited to landfills, incineration, recycling, sustainability, biological reprocessing, energy recovery, resource recovery, and avoidance and reduction methods.

In the 2014-2015 budgets the various environmental challenges will be addressed.

Insecurity

Insecurity is a matter of concern to the County Government. The County Government is aware of the recent runaway insecurity experienced in some part of the County. These ranges from wanton killing of innocent Kenyans by assortment of marauding gang, loss of lives in inter- ethnic community along the border of Kisumu and Nandi and Kericho County and cattle rustling in Nyakach Sub County, Sexual and gender based violence mostly on women and young girls by repugnant sexual predators.

Unless urgent and concerted measures are taken by both National and Non – States actors to stem the tide of rising insecurities in the County, we are fast sliding down a dangerous precipice of utter lawlessness. The County Government is closely working with National Government agents and non – states actors to stem insecurities in the County. Greater attention will be directed to technical capacity and resource mobilization to control insecurity.

Disaster Management

County Government of Kisumu is considering opening Emergency Fund Account. The fund will manage resource and responsibility for dealing with all humanitarian aspects of emergencies in particular preparedness, response and recovery in order to lessen the impact of disaster.

There is no County that is immune from disaster though vulnerability to disaster varies. Some of the disaster the County Government would like to manage are floods, fire, sinking boats, conflict management and war and sudden onset of contagious diseases. The County Government is planning to prepare disaster management plan. The plan will cover prevention, preparation, relief and recovery programmes. The county Government plans to allocate 2% of revenue each year on emergencies in line with Public Finance Management Act 2012.

Vision 2030 and Millennium Development Goals

The Kenya vision 2030 is the national long term development blue print that aims at transforming Kenya into a newly industrialising, middle income county providing a high quality of life to its entire citizen by 2030 in a clean and secure environment. The vision comprise of three key pillars; Economic, Social and political. The economic pillars aim to achieve an average economic growth rate of 10% per annum and sustaining the same until 2030. The social pillar seek to engendered just, cohesive and equitable social development in a clean and secure environment, while political pillars aims to realize result – oriented and accountable democratic system.

The three pillars are anchored on the foundation of macro – economic stability, infrastructural development, science, technology and innovation, land reforms, human resource development, security and public sector reforms. The vision was officially launched by the government in July 2008. The Kenyan vision 2030 is to be implemented in successive five years medium term plan (MTP), with the first such plans covering the period of 2008 – 2012. The ministry of Devolution and Planning delivery secretariat is reviewing its progress. This will inform the development of the next medium term plans 2012 – 2017. The County Government is watching the progress with a view of integrating the medium term plans (2012 – 2017) into its planning framework.

The Millennium Development Goals are eight international development goals that were established following the millennium summit of the United Nations in 2000. Following the adoption of the United Nation Millennium Declaration, all 189 United Nation members states, Kenya included, committed to help achieve the millennium development goals by 2015. The goals are

i. To eradicate extreme poverty and hunger,
ii. To achieve gender equality and empowering women,
iii. To reduce child mortality rates,
iv. To improve maternal health,
v. To combat HIV / AIDs, malaria ,and other diseases,
vi. To achieve universal primary education,
vii. To ensure environmental sustainability,
viii. To develop a global partnership for development.

As the 2013 progresses, the implementation of the MDGs is in progress through various sectors. The County Government will devote its commitments targeting women and children's health and a countywide battle against poverty, hunger and diseases. These will be done through collaboration with private sector, non – governmental organisations and National Government. The County Government will also improve agricultural mechanization and seed quality to boost agricultural products.

Medium Term Expenditure Framework

Through internal reviews of the performance of the budget process, the National Government realised that, its public expenditure management was inconsistent with the objective of achieving high and sustained growth of the economy necessary for reducing the levels of poverty. The performance of the public sector in itself had become a constraint to the growth prospect of the private sector and thus to the overall economic growth. The composition of public expenditure was inappropriate and inefficient. It was this view that emphasized the need to have a comprehensive reform of the public expenditure management spanning from budget formulation to budget implementation.

A rising from this review and its recommendation, the National Government adopted the Medium Term Expenditure Framework (MTEF) which would guide the efficient and effective use of government resources and reduction in the share of public expenditure in the Gross Domestic Product. The medium term expenditure framework is expected to achieve three tasks;

i. Maintain aggregate fiscal discipline by ensuring that policy changes are consistent with fiscal norms and programme objective,
ii. Increase efficiency in resource allocation,
iii. Provide efficient delivery of service.

The County Government will adopt the medium term expenditure frame work as the current budgeting approach in 2014/2015 budgeting process. It will ensure that the budgets are linked to policies and plans for improved budget outcome. It will also provide the linking framework that allows expenditure to be driven by policy priorities and discipline by budget realities. Its planning and budgeting cycle allows for wider consultation to ensure budget formulation and to facilitate the benefits by all actors and interest groups in the execution of the budget. The medium term expenditure framework will cover a period of between 3 – 5 years.

3.4 CONCLUSION

The County Government of Kisumu has already made its budget contained in the 2013/2014 financial year actual allocations as shown below. In anticipation of the same and based on the County government projected trends the incomes and expenditures for the years 2014/2015 are projected to increase based on the identified sources and the existing expenditure outlines. However, there is an anticipated budget deficit which may arise as a result of revenue not increasing at the same rate as the expected expenditures. This needs to be taken care of by engaging other development partners in our development activities to cushion the deficit. There is also a need for prudent financial management of funds to ensure that proper usage is put to the little resources that the County currently has.

County Government of Kisumu: Budget Estimates Projections 2014/2015

REVENUES	**2013 /2014 KShs. (‘000)**	**2014/2015 KShs. (‘000)**
Own sources : Fees & charges(former las)	2,372,089.6	3,842,260.4
Devolved functions borrowings		
Sub-Total	**2,372,089.6**	**3,842,260.4**
NATIONAL GOVERNMENT		
Transfers	-	-
CRA Allocation	4,866,678.7	5,207,581.5
Other Government Grants-LATF Etc.	700,031.6	800,031.6
Unspent Balances	61,200.0	251,508
Sub-Total	**5,627,910.4**	**6,157,739.6**
TOTAL REVENUE	**8,000,000.0**	**10,000,000**
RECURRENT EXPENDITURES		
County Executive	5,341,746.2	4,369,832.6
County Assembly	891,061.2	980,167.4
Recurrent Transfers	-	
Other Re Current Expenditures	61,592,200	
TOTAL RECURRENT	**5,275,031.6**	**5,350,000**

DEVELOPMENT EXPENDITURES		
County non -community assets	521,000.0	
Community projects	2,203,968.4	
Capital transfers		
Transfers to emergency funds	0	50,000.0
TOTAL DEVELOPMENT	**2,724,968.4**	**4,650,000.0**
TOTAL EXPENDITURES	**8,000,000.0**	**10,000,000**
SURPLUS/ DEFICIT FOR THE YEAR	**-**	**-**