REPUBLIC OF KENYA

THE GOVERNMENT OF THARAKA NITHI COUNTY

FIRST

COUNTY FISCAL STRATEGY PAPER

2014

ECONOMIC GROWTH THROUGH OPTIMAL UTILIZATION OF RESOURCES

FEBRUARY 2014

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FORWARD BY CHIEF EXECUTIVE COMMITTEE MEMBER FOR FINANCE

The 2014 Fiscal strategy paper is the first one to be prepared under the devolved government of Tharaka Nithi County. It addresses economic growth through optimal utilization of resources which in turn advance the government's agenda of economic growth strategy elaborated in the County Integrated Development Plan (CIDP), while providing detailed plans to enhance and promote a dynamic and competitive government. The three main pillars of the County Integrated development Plan provide (i) Accelerating economic growth; (ii) Enhancing equity and poverty reduction; and (iii) Improving governance.

The expenditure policy framework in the medium term aims at ensuring efficiency and effectiveness in the implementation of our development policies. As part of efforts to link policy with budgeting, reforms in the expenditure and financial management will be deepened, and growth of non-priority expenditures will be contained in order to create fiscal space for financing priority policy areas such as the social sectors, agriculture and physical infrastructure, which are key to sustainable economic growth and development.

Significant progress will be realized in terms of linking policies, planning and budgeting and shifting budgetary resources to priority areas, the process continues to face some challenges. The County Government will continue to address these challenges, which include: (i) initiating an early comprehensive effort on costing all existing policies, programs, and projects; (ii) building links between recurrent and development budget; and (iii) developing a more programmatic approach to the budget, with a view to improving the linkage between expenditure and results.

In line with the need to achieve the county's objectives, the County Fiscal Strategy Paper (2014 CFSP) draws priorities from the CIDP

To this end, this County Fiscal Strategy Paper focuses on: (i) pro-poor expenditures in support of CIDP priorities. (ii) Shifting resources toward capital expenditures, and (iii) deepening structural reforms in areas such as public expenditure management, financial sector, governance to provide a conducive framework that encourages and supports the private sector.

The fiscal framework included in this 2014 CFSP outlines an affordable and sustainable path of public spending aimed at achieving Government's medium-term development priorities.

Other objectives that guided preparation of the 2014 budget include the following: (i) producing a budget that is affordable and sustainable; (ii) not factoring in any external budgetary support from multilateral and bilateral sources as a commitment to ensure budget predictability.

Finally, I would like to express my gratitude to all those who participated in this year budget process including Member of County Assembly, the private sector, civil society, and the members of public through public held on February 2014 at various stages provided valuable comments.

ELIUD MURIITHI MATI

DEPUTY GOVERNOR & CEC MEMBER FOR FINANCE & ECONOMIC PLANNING

ACKNOWLEDGEMENT

The 2014 County Fiscal Strategy Paper is a continuation of County Government's effort to ensure effective linkage between policies, planning and budgeting. It provides an updated resource envelop and presents a fiscal framework for the next budget and the medium term. It also sets firm sectorial and ministerial ceilings in line with indicative ceilings and Governments key strategic objectives as set out in the County Integrated Development Plan (CIDP) for Wealth and Employment Creation.

For this year running, the 2014 CFSP provides specific expenditure ceilings for line ministries and detailed guidelines that aim at restructuring the pattern of Government expenditures towards the priority areas in the social and economic sectors. The sector and ministerial ceilings for the 2014/15 budget are consistent with the indicative ceilings thus representing continuity in the allocation of resources in the medium term perspective.

The preparation of the 2014 CFSP was a cooperative effort. Much of the information in this report was obtained from the line ministries and various other government departments. We are grateful for their inputs. We are also grateful for the collaboration and comments we received from the Chief Officers, Heads of Departments and other technical staff.

A core team in the docket of Finance and Economic Planning spent a significant amount of time to put together the report. And for everybody who participated in the development of this paper we salute you all.

NICHOLUS GITONGA

CHIEF OFFICER/TREASURY

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Legal Basis for the Publication of the Budget Policy Statement

The County Fiscal Strategy Paper is published and publicized in accordance with Section 117 of the Public Finance Management Act, 2012. The Law states that:

The County Treasury shall prepare and submit to the County Executive Committee the County Fiscal Strategy Paper for approval.

1) The County Treasury shall submit the County Fiscal Strategy Paper approved in terms of subsection (1) to the County Assembly by the 28th February of each year.
2) The County Treasury shall align its County Fiscal Strategy Paper with the national objectives in the Budget Policy Statement.
3) In preparing the County Fiscal Strategy Paper, the County Treasury shall specify the broad strategic priorities and policy goals that will guide the county government in preparing its budget for the coming financial year and over the medium term.
4) The County Treasury shall include in the County Fiscal Strategy Paper the financial outlook in respect to county government revenues, expenditures and borrowings for the next financial year and over the medium term.
5) In preparing the County Fiscal Strategy Paper, the County Treasury shall seek and take into account the views of:-
   (a) The Commission on Revenue Allocation;
   (b) The Public;
   (c) Any interested persons or groups; and
   (d) Any other forum that is established by legislation.
6) The County Assembly, not later than 14 days after CFSP is submitted to County Assembly consider and adopt it with or without amendments.
7) The County Treasury shall consider any recommendations made by the county assembly when finalizing the County Fiscal Strategy Paper for the year concerned.
8) The County Treasury shall publish and publicize the County Fiscal Strategy Paper within 7 days it has been submitted to the County Assembly.

Fiscal Responsibilities Principles in the Public Financial Management Law

In line with the Constitution, the Public Finance Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudency and transparency in the management of public resources. The PFM law [Section 107 (2)] states that:

1. The county government's recurrent expenditures shall not exceed the county government's total revenue;
2. Over the medium term a minimum if 30 percent of the county government's budget shall be allocated to the development expenditure;
3. The county government's expenditure on wages and benefits for public officers shall not exceed a percentage of the county government revenue as prescribed by the regulations.
4. Over the medium term, the county government's borrowings shall be used only for the purpose of financing development expenditure and not recurrent expenditure;
5. The county debt shall be maintained at a sustainable level as approved by the county assembly;
6. The fiscal risks shall be managed prudently; and
7. 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.

I. ECONOMIC GROWTH THROUGH OPTIMAL UTILIZATION OF RESOURCES.

Overview

1. The 2014/15 MTEF Budget is being prepared amid continued establishment of a new Administration of the premier Governorship, following the successful elections in March 2013. It is also happening when we are transiting to a devolved system of government under a new Constitution of Kenya that was promulgated in August 2010. As such, this County Fiscal Strategy Paper sets out the priorities of the county government in the context of medium term expenditure framework.

2. This budget policy statement is framed against a backdrop of improving global economic prospects. World economic output is now expected to grow at 3.6 percent in 2014,compared with an estimate of 2.9 percent in 2013.Advanced economies are gradually strengthening, having successfully defused two of the biggest short-term threats to global recovery, the threat of the Euro area break-up and a sharp contraction of the unites states.

3. In emerging market and developing economies, activity has already picked up steam. These developments together with renewed investor confidence over the last year following successful elections bond well for accelerated growth prospects in Kenya generally. While in sub-Saharan Africa, the growth remains robust at about 5 percent, while the economies of East Africa Countries expected to grow at about 6 percent in 2014.

4. On the domestic front, we nevertheless recognize that rising imports, stagnating exports, food insecurity, declining agricultural and manufacturing productivity as well as weak transport and logistics remains a major concern to achieving our economy's full potential. These issues have continued to negatively impact the development and welfare of residents in Tharaka Nithi County. In addition, as we embrace devolved system of government we need to bear in mind 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, addressing the challenges facing our county

and establishing strong foundations and correctly sequencing the development agenda is critical to attaining good fiscal and financial governance.

5. Going forward, the County Government will build on the stability of macroeconomic environment and implement appropriate fiscal priorities and structural reforms to navigate through the challenges posed by the global, domestic and county developments in order to accelerate growth under an enhanced fiscal discipline.

6. Achieving the economic and social rights envisioned in the Constitution (Article 43) requires investing in our people through better and quality education and health as well as cushioning the vulnerable groups, while ensuring regional balance. At the same time, it needs a fast growing micro-economy that generates jobs for the youth and ensures that the benefits are shared by all residents of the county and all Kenyans in general. The commitment and zeal of the premier Governorship to fundamentally improve the opportunities for all residents of the county is therefore consistent with this approach.

7. This County Fiscal Strategy Paper outlines fiscal strategies and structural reforms as well as sector-based expenditure programmes that the County Government intends to implement over the Medium Term Expenditure Framework, In order to achieve the broad goal of the current Administration’s development agenda. In particular, it emphasizes continued shift of resources in favor of growth and job creation, and to support stronger private sector investment in pursuit of new economic opportunities. The proposed fiscal framework ensures continued fiscal discipline and provides support for sustained growth, broad-based development and employment growth that benefits all residents of Tharaka Nithi County.

New administration’s actions to promote growth and development

8. The strategic priorities of the administration of the premier Governorship is premised on anchoring stability to sustain higher and inclusive growth that opens economic opportunities and provides a better future for residents in Tharaka Nithi County. Getting the desired higher and better balanced growth depends on choosing the right combination of fiscal priorities and structural reforms and calibrating them correctly.

9. The current administration, in this regard, has set out **action plan** on which the county government can work in partnership with the private sector and development partners to reinvigorate inclusive growth:

- Investing in infrastructure Such as roads networks, energy, ICT and water supplies to reduce the cost of doing business and make our product cheaper and competitive in the domestic and international markets.

- Investing in the agriculture transformation and food security, including opening up new land under irrigation in order to expand food supply, reduce food prices so as to bring down the cost of living, support expansion of agro-processing industries and spur export growth and support other sector such as tourism and manufacturing. Diversify adding value, creating new products, exports, and opening up new markets.

- Invest in our greatest capital resource – our people and provide what our Constitution demands – social protection for every Kenyan. This will entail quality and accessible healthcare services and quality education which will reduce burden on the households and complement and sustain our long term growth and development; and

- Create a business climate that encourages innovation, investment and growth. This will entail deepening structural and governance reforms to reduce the cost of doing business and improving security in order to encourage innovation, growth and expansion of economic and employment opportunities. Seal leakages in our revenue collection system and extend the tax base. Drive up value for money from public procurement to get what we pay for.

Time to make tough decisions

10. The Constitution envisages lean and effective Government and government entities. Consistent with this, the County Government of Tharaka Nithi has created only 9 Ministries.

In addition, the overall public sector is expected to play an effective role in the development agenda by ensuring strategic prioritization of scarce resources. As such, county enterprises and entities will be rationalized in order to remove duplications and overlaps so as to ensure resources are utilized more efficiently and productively towards county development priorities.

11. Under tight fiscal constraints, difficult choices must be made to ensure that scarce resources are directed towards priority areas of economic development and more effective service delivery, while ensuring that debt levels are sustainable. In addition to rationalization of the public service to make it lean, efficient, effective and accountable, the County Government will adopt innovative ways to better deliver public service, including leveraging on Information Communication Technology. It will also develop and strictly enforce cost and standard benchmarks for service delivery, including infrastructure development.

12. The recurrent expenditure of the National Government is reaching unsustainable levels, squeezing out resources meant for development. Similarly, the recurrent expenditure of the Tharaka Nithi County is equally straining the development agenda. The wage bill is towards the unacceptable limit of above 40% total revenue. This is unsustainable and poses a serious threat to the funding of important development projects, and has the potential to severely affect the county's economic prospects. In addition, salary pressures will also impact on pensions, hence increasing the County Government's contingent liability.

13. Therefore, over the medium term, management of wage bill will be given careful attention with emphasis on the principle of moderation. In this regard, the county will continue to comply with recommendations of Salaries and Remuneration Commission (SRC) on the salaries of state officers and recommended salaries for public officers that will facilitate fiscal sustainability, among other key public finance principles. The two arms of County Government must set the example and lead the way in bringing the wage bill of the county to sustainable level.

Policies for Achieving Economic Growth through Optimal Utilization of Resources

(i) Investing in infrastructure Such as roads networks, energy, ICT and water supplies to reduce the cost of doing business and make our product cheaper and competitive in the domestic and international markets.

14. On infrastructure, the County Government will continue to prioritize investment in roads, energy and ICT to drive economic growth, job creation and deepen our links with our development partners. In particular, transport plans include tarmacking of towns and long distance road connections within the county, so that our people can move goods easily across the county. Also, the county needs more new housing to meet the current shortage encompassing our urban population.

15. Access to adequate, affordable and reliable energy is necessary to reduce the cost of doing business, spur growth of enterprises and industries, and accelerate the realization of the planned economic transformation. The county government will ensure there is available power to the household within the county. The county government will also make policies that will promote green energy with the county.

16. Investment in road network throughout the county will be aligned to support agricultural transformation by linking farmers with markets and facilitating access to tourist attraction. The ongoing road construction and rehabilitation works will continue but subject to comprehensive audit on cost structure and quality of civil works. Alternative methods of road construction will be deployed to reduce time and cost of delivery while enhancing the longevity of the road network. Project benchmarks will be developed and entrenched in the public finance regulations.

17. Environmental conservation and sustainable access to water is essential for sustained agricultural transformation, higher productivity and growth as well as overall development. Priority will be given to sustainable exploitation, utilization, management and conservation of the environment and protection of water catchment area. Program of water harvesting will be rolled; this entails construction of mini-dams and water pans and rehabilitation of existing dams and water pans to make water accessible for households, irrigation and

livestock development. The county government will ensure water harvesting and storage in all public institutions through the county, and invest in mid-size dams to store water for household and agriculture use.

(ii) Investing in the agriculture transformation and food security, including opening up new land under irrigation in order to expand food supply, reduce food prices so as to bring down the cost of living, support expansion of agro-processing industries and spur export growth and support other sector such as tourism and manufacturing. Diversify adding value, creating new products, exports, and opening up new markets.

18. Investing in agriculture reforms and transformation will spur an inclusive economic growth with knock-on effects on the related sectors of agro-processing; storage and tourism, wholesale and retail; construction, financial services as well as export diversification and growth. In additional, expanded agriculture output will increase food supply, reduce food related prices and bring down the cost of living, crate employment and promote overall rural development and improve the economic welfare of Kenyans.

19. The strategy focuses on identifying local and international markets that can be supplied with Kenya's agricultural products and negotiating forward contracts with buyer on the same, then structuring product specific viable supply chains to meet the secured markets. The Viability of the forwards contracts, and supervised production that ensures optimal use of inputs will enable smallholders and livestock farmers to be provided with necessary inputs, machinery, technical knowhow and supervision on standards, all being measures necessary to increase agriculture productivity and crop yield, anchored on access to market and adequate financial and technical resources – the central pillars of a functional agriculture value chain, which is necessary to transform agriculture into a business.

20. The strategy entails unlocking agriculture productivity among small holders and livestock farmers as well as commercializing farmers by guaranteeing markets and prices and then assisting them with to achieve optimal production. This will be achieved in by investing in research and extension services, soil management, high yield seeds, wide application of appropriate technology and re-organizing the farmers into viable clusters

groups to reach economies of scale, so that they can access driers, coolers and storage to eliminate post-harvest losses.

21. Agriculture products will be directed to their ideal agro-ecological zones where yields and returns on investment will be highest, the reorganization and commercialization of farming zones will be undertaken and farmers affected provided with alternative and better farming options. The government will also partner with financial sector to provide structure such as Agri—Business-Fund to support alternatives agriculture initiatives amongst small holder farmers, expand agri-business ventures and support crop specific value additional initiatives. Given the challenge on climate change, a program to educate farmers on smart agriculture will be implemented, in order to sustain agriculture outputs and create more employment especially to the youth.

22. The aquaculture programme, the fish Enterprise Project Started in 2009 by the national government, will be expended by securing forward markets for farmers, which in turn will widen coverage, enhance farmers support through extension and better farming methods, access to modern storage and handling facilities, and link farmers to finance and other services. This initiative is expected to encourage investments along the value chain thus making fish farming a viable commercial venture.

23. The full potential of livestock and poultry farming as well as that of dairy remains untapped, with huge potential growth for beef, leather products and poultry as well as milk and their by-products they can be powerful catalysts for economic transformation. The County government will initiate programme for modern commercial livestock, dairy and poultry farming. Focusing on securing forward contracts for various livestock and dairy products. In-additional, resources will be prioritized for the investment in key infrastructure, including training facilities, produce handling, storage, agro-processing and value additional facilities, access roads and energy.

24. The government will expand the irrigation projects that were initiated in this year while opening more acreage under irrigation. This will entail investing a lot in water infrastructure and dams.

25. The county government as identified agriculture as a bank bone to starting of industries (Textile, leather, Agro-processing, beef and fishing) this is essential to moving agriculture up the value chain through value addition. It is through value addition in agriculture that we will be able to diversify and grow export, while at the same time, growing the economy and creating employment.

(iii) Invest in our greatest capital resource – our people and provide what our Constitution demands – social protection for every Kenyan. This will entail quality and accessible healthcare services and quality education which will reduce burden on the households and complement and sustain our long term growth and development.

26. On human capital development, the County Government is committed to ensuring the highest attainable standard of health. Policies will aim to ensure that all Tharaka Nithi residents have access to well-equipped health facilities and well trained and motivated health care workers, in addition to developing systems to support and expand health care and improved sanitation. A healthy population is essential for higher productivity and sustained long term development of a nation. The county government will continue to support programmes controlling communicable diseases and decrease in child mortality. The county government will also deal with challenges associated with affluent and accidents.

27. Implementation of a second generation healthcare reform strategy involving; recruitment of more health workers, expansion of training facilities, and development of system to supports and expand healthcare services and sanitation at the community level. A programme for healthcare infrastructure upgrade and equipment modernization, especially trough leasing will be implemented. Efficient, effective and accountable framework for management of public resources and medical supplies at the facility levels will be put in place.

28. Unemployment amongst the youth, women and persons with disability remains a major challenge to our development and social stability. The Government will build on

youth and women support initiatives to further encourage entrepreneurship and innovation, especially by tapping the creativity and knowledge of the young people. Skills development and access to credit will be given priority to enable this group to be dynamic drivers of the growth and employment creation. The county government will work closely with the national to domestic the policies of the UWEZO Fund.

29. The county Government will also domestic the policy of Buy – Kenya – Build Kenya Policy whose objective is assist Kenya enterprises to supply the public sector with goods and services that can be produced competitively in Kenya. The emphasis will be on developing and manufacturing locally quality products lines that can compete with imports, such as furniture, Textiles, consumables, food products, office supplies and construction materials.

30. Tharaka Nithi Youths have shown immense talents, especially in sports and arts. These talents will be nurtured as catalyst for growth and development. The national government has promised to match one-to one County Government investments in sport facilities throughout the country. In additional, talents Centre's or academics will be established in the county and made operational in strategic locations to tap and developed talents and innovations by the youth. As the county, our cultural heritage forms the basis on which communities and peoples values, beliefs, norms, identity, rituals and materials culture are passed on from generation to generations. The county government will continue to promote cultural heritage as a form of indemnity and preservation.

31. The County Government will ensure that the gains from growth are widely distributed through well targeted social safety programme and sustainable employment in order to guarantee a lasting reduction in poverty and progress towards achieving its vision as envisioned in the CIDP. While increased spending on social sectors such as education and health has supported inclusive growth over the recent past, more needs to be done.

(iv) Create a business climate that encourages innovation, investment and growth. This will entail deepening structural and governance reforms to reduce the cost of doing business and improving security in order to encourage innovation, growth and expansion of economic and employment opportunities. Seal leakages in our

revenue collection system and extend the tax base. Drive up value for money from public procurement to get what we pay for.

32. The county government will implement well targeted governance reforms covering; Corruption prevention and improving governance in priority areas of medical supplies, public works, revenue administration, and procurement.

33. Efficiency, Effectiveness, transparency and accountability in the use of the public resources will be enhanced by strengthening the institutional capacity of the Public finance management. The county Treasury will be restructured to align it with the core mandate of Economic and financial management and equipped with requisite competencies. The Capacity of oversight institutions will be strengthen; by among other adoption of modern work environment and training and capacity building in-order to enhance their capabilities in audit and financial reporting.

34. As part of economic transformation, the public expenditure reforms will be deepened to improve efficiency and effectiveness in the utilization and execution of budget. With limited resources, the County Government will be more efficient in order to make meaningful gains in poverty reduction. Thus, the fiscal framework outlined in this County Fiscal Strategy Paper 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 government departments and entities will be required. The ministries and departments are expected to identify savings that will contribute to financing government's targeted outcomes, developing and enforcing cost benchmark for projects and consumables, entrenching performance benchmark of at least 80 percent of the development budget and strengthening the program budget. Expenditure tracking and the value for money audits will be undertaken regularly to ensure efficiency in use of resources.

35. The integrated financial management information system (IFMIS) will be made fully operational as an end –to-end transaction platform. The integrity and operational capability of the system will be assured, through regular independent audits.

36. Efficient management of the government assets will be given priority as part of expenditure reforms. The county treasury will undertake an asset registration exercise and establish an updated Asset registry for all County Assets. Leasing of asset will cover asset such as equipment, plants and machinery, motor vehicle and ICT hardware, among others will be explored. All existing fleet of motor vehicles will be fitted with fleet management system to ensure optimal utilization and management.

37. The strategy for strengthening the revenue and improve ease of doing business will be prioritized measures to expand tax base, expand tax net to capture the informal sector and rationalize tax incentives will also be advanced.

38. For the public sector to play its facilitative role more effectively, the government will rationalize and consolidate the civil services to eliminate overlaps and duplication of functions, reduce pressure on wage bill and enhance its performance accountability.

39. The strategy to reduce the cost of doing business focuses on indicators of interest to small business such as starting a business, dealing with construction permits, registering property, and accessing credit, paying taxes and trading across the county. The county government will build on current existing structures to further modernize business regulatory regimes, rationalize all regulatory fees and other charges, and establish an institutional and legal framework for management regulatory charges. Establish a state of art one-stop-investment-shop and expand one-stop public service Centre. The government will also digitalize its payment transaction to hasten service delivery, reduce transaction cost and safeguard revenue.

40. Security is central to stability and encouraging investments, accelerating growth and in turn creating employment, especially for our youth. The county Government will strengthen its administrative units to ensure the security of the region is guaranteed.

41. The overriding policy thrust for 2014 County Fiscal Strategy Paper, therefore, is to accelerate economic growth through sustained fiscal strategies and focusing on fiscal priorities and structural reforms outlined above. These initiatives will happen within a disciplined spending path financed through share of national revenue as well as revenue

generated locally. Fiscal adjustment will be accompanied by shifts in the composition of public expenditure towards investment and economic development. Measures to strengthen public financial management and modernize and simplify the tax system will be implemented.

42. Preparation of this County Fiscal Strategy Paper is part of the institutional reforms entrenched in the PFM Act so as to ensure adherence to the principles of public finance outlined in Section 107 of the Constitution. The information provided here is to ensure that the processes of budget making are transparent and are consistent with prevailing economic situation and outlook, in addition to ensuring that the policy priorities of the County Government are financeable within a sustainable fiscal framework.

43. Finally, aware that corruption limits access to much needed services, stifles efficiency and eats away at public values, and makes our county less attractive as an investment destination, the County Government will act swiftly to end the scourge of corruption. In addition, measures will be taken to combat waste and inefficiency as well as reform procurement systems to enhance value for money.

Outline of the 2014 County Fiscal Strategy Paper

Recent economic developments and Outlook

44. The next section (II) outlines the economic context in which the 2014/15 MTEF budget is prepared. It provides an overview of the recent economic developments and the macroeconomic outlook covering the global and domestic (national) scene.

Fiscal policy and budget framework

45. Section III outlines the fiscal framework that is supportive of the growth over the medium to long term, while continuing to provide adequate resources to facilitate development agenda and fiscal priorities of the current County Government.

46. Section V presents the resource envelope and spending priorities for the proposed 2014/15 MTEF budget and the medium term.

47. Section VI concludes.

II. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

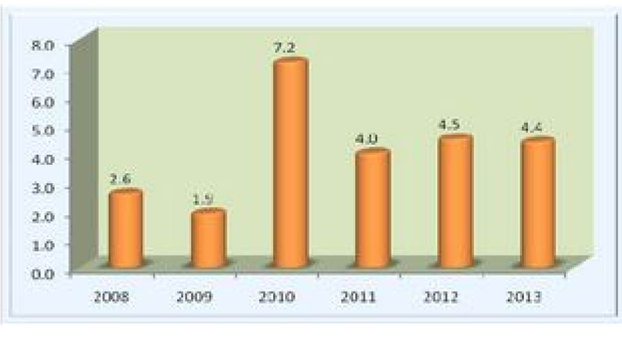
Overview of recent economic performance

48. Economic growth was largely satisfactory in 2013, despite a somewhat stagnating demand for our exports in traditional markets. Favorable rains contributed to good harvests and hydropower generation and private sector activities benefited from improved macroeconomic environment. Inflation has declined steadily from double digits to below the 5 percent target in recent months. Short term interest rates have also eased in line with the drop in inflation, while the shilling exchange rate has stabilized against major currencies.

Growth remain resilient

49. The expected Real GDP growth remained resilient in 2013 with country's economy maintaining a moderate growth of percent in the third quarter, slightly lower than 4.5 percent in a similar period in 2012. The growth is supported by improved performances in transport and communication, financial intermediation, manufacturing, construction and mining and quarrying activities as well as wholesale and retail trade. However, higher achievements were slowed down by slowed growth of agriculture and forestry which had negative impact on the economic performance. The performance of hotels and restaurants remained suppressed even though the activities had shown significant recovery. Seasonally adjusted growth which tracks performance in consecutive quarters indicated that the economy grew by 1.6 per cent in third quarter 2013 compared to 0.8 per cent in the second quarter 2013.

Figure 1: Real GDP



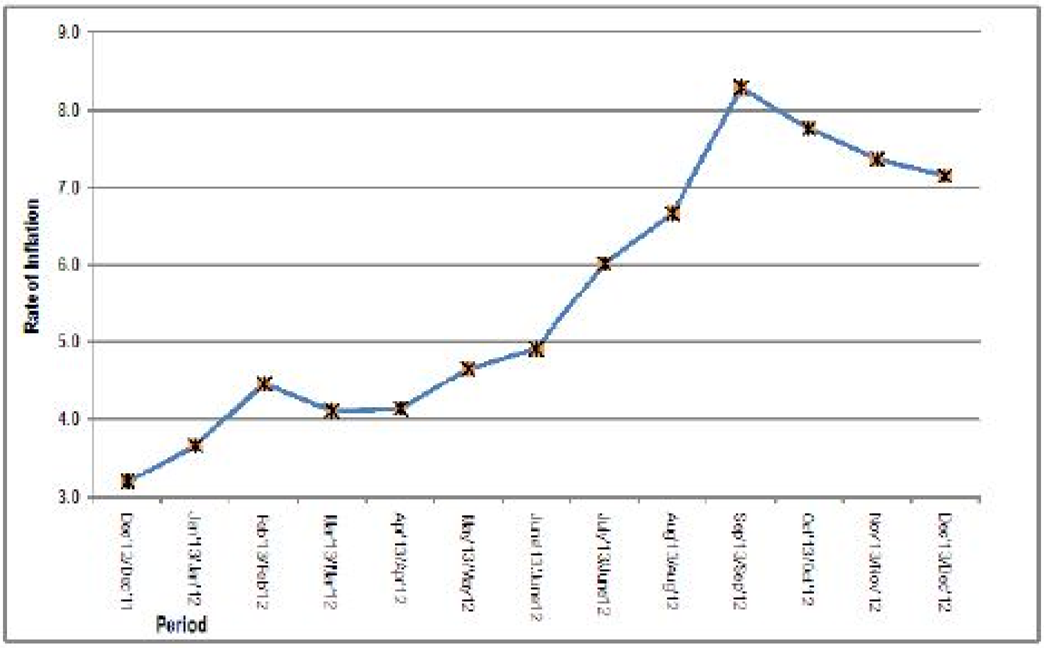
50. All sectors of the economy are expected to register positive growth. Electricity and water, agriculture, financial intermediation and wholesale and retail trade posted strong growth while performance in other sectors was moderate.

51. Recovery in agricultural production followed favorable weather conditions (adequate rain). Favorable weather also boosted hydroelectric power thus improving value added in electricity industry. Other sectors benefited from increased domestic demand, and stimulated improved credit access resulting from declining interest rates. In addition, inflationary expectations were subdued helping to stabilize the shilling exchange rate and sustaining investor confidence.

52. The pace of current growth is, however, still well below the target of Vision 2030 of 10 percent necessary to draw more Kenyans into employment and reduce poverty significantly. Accelerating growth requires scaling up both public and private investment to raise Kenya’s economic competitiveness and create more employment opportunities for all Kenyans.

Inflation has dropped consistently over the last one year

Figure 2: Inflation Rate



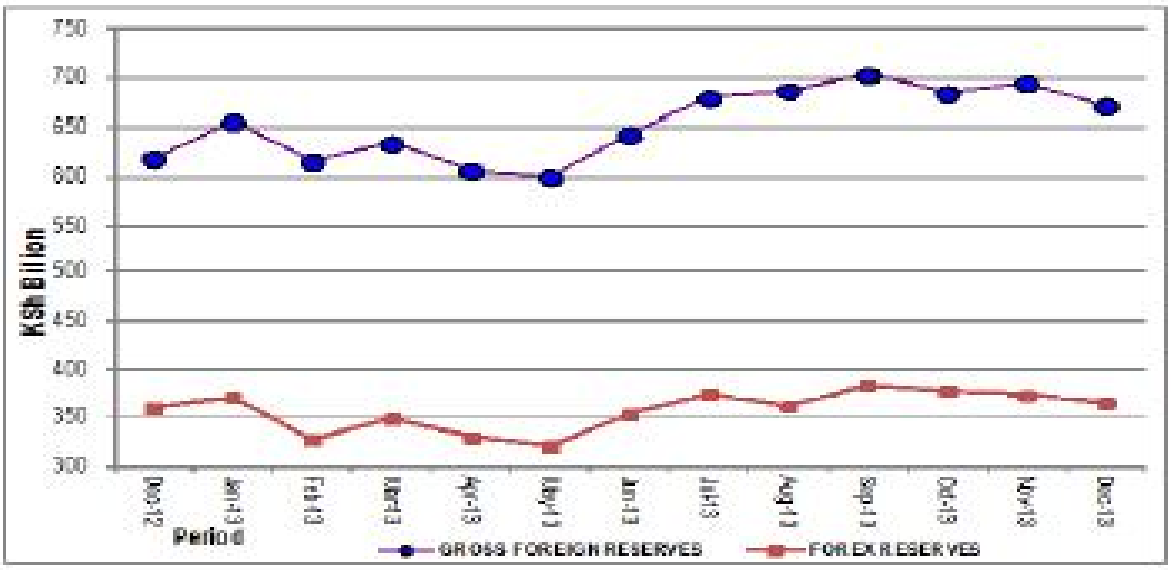
53. Overall inflation fell from a peak of 8.4 percent in September 2013 to 7.2 percent in December 2013. From December 2012, inflation was edging up slightly to 4.6 percent before easing again to 4.1 percent in March (Figure 2). The average annual inflation for 2013 stood at 5.7 percent down from 9.6 percent in 2012

54. The fall in inflation largely reflected a drop in food inflation. Favorable weather condition with adequate rain resulted in increased food supplies and use of hydro generated electricity. This had the effect of suppressing food and electricity prices. A stable exchange rate coupled with stable international commodity prices over the recent months has also supported low inflation with less pass-through from import prices.

55. Going forward, we expect inflation to remain within the 5 percent target in the months ahead with appropriate monetary policy, barring any effects from the external shocks such as a surge in commodity prices. The risk to this outlook is the international oil market that still remains volatile due to tensions in the Middle East that could lead to oil supply disruptions.

The external payments position has strengthened

Figure 3: Foreign Exchange Reserves

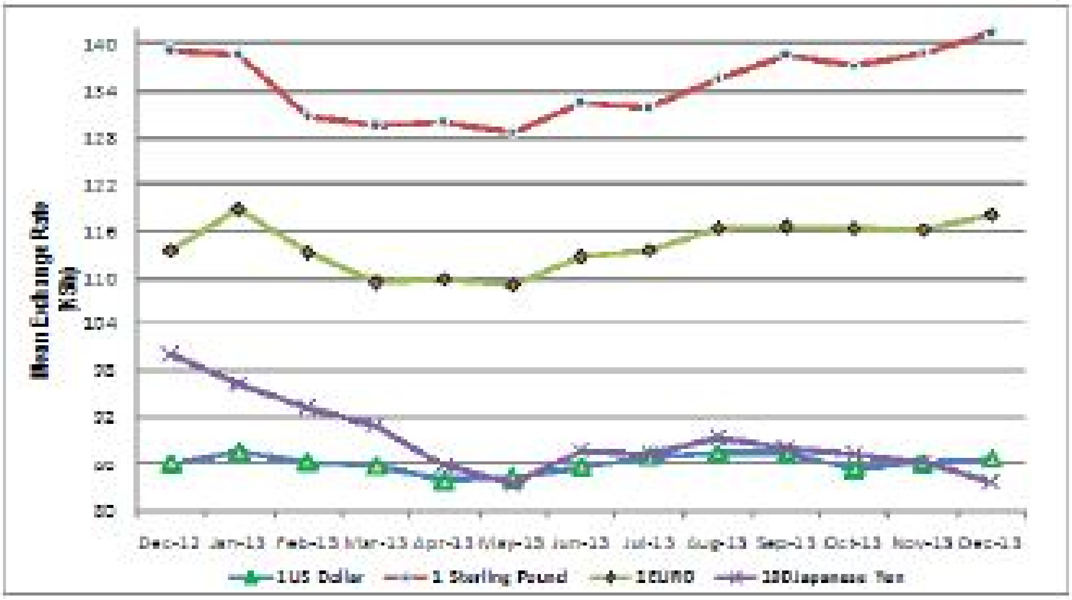


56. Following improvement in the external payments position, official foreign exchange reserves held by the Central Bank of Kenya rose by about 30 percent to over US$ 5 billion (about 4 months of import cover) by the end of

December 2013, from US$ 4.1 billion (or 3.6 months of import cover) in a similar period in 2011 (Chart 2.3). By March 2013, foreign exchange reserves had continued to remain at conformable level, despite interventions from the CBK in the foreign exchange market.

The exchange rate has generally stabilized

Figure 4: Foreign Currency Exchange Rate

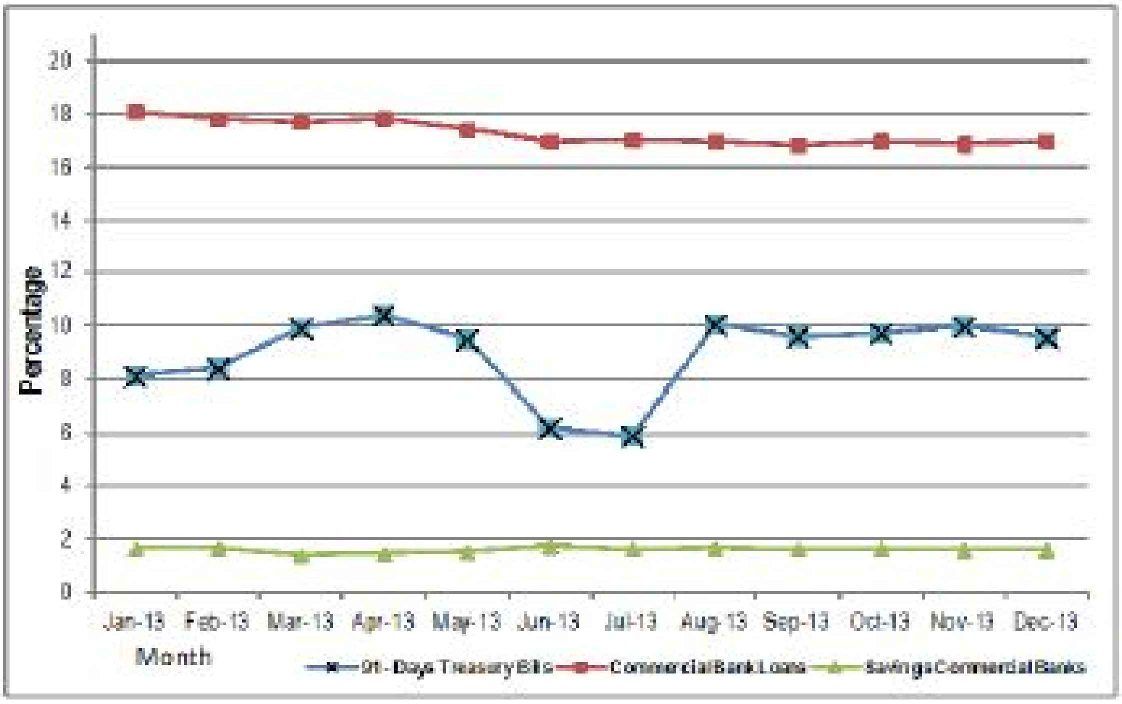


57. As a result of the increase in official foreign reserves, the shilling exchange rate against major international currencies has generally stabilized over the recent months after the sharp weakening in late 2013 (Figure 4).

58. In November 2013, the shilling appreciated against the Euro, the Japanese Yen, and the South African Rand to exchange at KSh 116.21, KSh 86.21, and KSh 8.43 while depreciating against other major currencies. The Kenya shilling exchanged at KSh 86.65 against US dollar, KSh.141.37 against the Pound Sterling, and KSh. 118.18 against the Euro, and Tsh 18.63 against the Tanzanian shilling and Ush 29.30 against the Ugandan Shilling. By March 2013, the shilling had gained further to trade at Ksh 85 per US dollar. The strengthening of the shilling against major international currencies reflects increased capital flows, easing oil prices, and reduced inflationary expectations following the tightening of monetary policy.

Interest rates have eased significantly in line with the drop in inflation

Figure 5: Interest Rates



The average yield rate for the 91-day Treasury bills, which is a benchmark for the general trend of interest rates, decreased from 9.95 per cent in November 2013 to 9.53 in December 2013. The inter-bank rates declined from 10.75 per cent during the same period. The interbank interest rates eased to single digits in recent months from an all-time high of about 30 percent in the last quarter of 2013. The drop in short-term interest rate reflects subdued inflationary expectation and ample liquidity in the financial system. Similarly, the 91-day Treasury bill rates have also dropped from 17.9 percent in December 2011 to 8-9 percent in December 2013 (Figure 5).

59. The tight monetary policy has curtailed significant growth in the money, banking and finance sector. The banks showed reluctance in lowering the lending rates despite a significant drop in the Central Bank Rate (CBR) in the second half of the year. Commercial banks' lending rates, which had remained high at around 18/20 percent, have started easing in recent months. Lending rates had remained sticky downwards due to the high cost of deposits that were locked in by banks during the period of tight liquidity in late 2013. Meanwhile, reflecting the stable liquidity conditions the government borrowing programme has progressed as planned with the cost declining as evidenced by the sharp fall in Treasury bill rates.

60. Activity in the stock market has been vibrant in the year to December 2013. The NSE share index slightly declined from 5,101 points in November 2012 to 4,927 points December 2013, representing an increase of 36.9 percent. This can be attributed to depreciating Kenya Shilling against the major currencies as well as low level rainfall during the short-rains season which has resulted in drought in some areas hence macroeconomic instability. However, the economy is expected to full recovery during the coming long-rains which are forecasted to be enough.

Fiscal performance and emerging challenges 2013*/14 Budget*

61. The 2013/14 budget assumed continued economic growth. In addition, the financial objectives were aimed at containing non-priority and unproductive recurrent expenditure so as to ensure sustainable growth.

62. County Assembly approved the 2013/14 budget with expenditures amounting to KSh. 2,518.59 million, comprising of recurrent expenditure of KSh. 1,546.43 million, development expenditures of KSh. 972.16 million. These expenditures were expected to be financed by total revenue (including A-I-A) amounting to KSh. 2,518.59 million; National government funds of Ksh 2.29 billion, donor grants of KSh. 139.76 million, revenue locally generated of KSh. 84.0 million, and zero domestic and foreign borrowing.

Implementation progress and emerging fiscal challenges

63. Implementation of the FY 2013/14 budget begun at a slow pace in the early months of the financial year following due to low release of funds from National Treasury but subsequently picked up well. Fiscal outcome for the first eight months of the financial year was generally satisfactory, but revenue shortfalls continue to persist amid rising expenditure pressures.

64. Table 2.1 provides the cumulative budget out-turn for the first six months of the FY 2013/14 budget. Revenues shortfall has persisted, with cumulative local revenue receipts amounting to KSh. 35.5 million against a target of KSh. 42.0 million, an underperformance of KSh. 6.5 million. The shortfall was in respect of KSh. 5.2 million in single business permit and KSh. 9.9 million in plot rent. All other major revenue heads underperformed. However, the collections from house and stalls as well as miscellaneous income being driven by penalties, application fee and tendering fee.

COUNTY REVENUE & EXPENDITURE			
	Jul'13-Dec'13 Months Target	**Jul'13-Dec'13 Months Actual**	**Difference**
local revenue	**42,000,000.00**	35,457,398.00	(6,542,602.00)
Share from Nationa	**1,217,295,035.00**	829,872,617.00	(387,422,418.00)
total revenue	**1,259,295,035.00**	**865,330,015.00**	**(393,965,020.00)**
COUNTY EXPENDITURE			
Recurrent Expenditu	**773,213,972.88**	331,282,890.35	(441,931,082.53)
Development	**486,081,062.00**	52,197,993.00	(433,883,069.00)
TOTAL	**1,259,295,034.88**	**383,480,883.35**	**(875,814,151.53)**

65. Expenditure execution lagged behind but the pace of execution is expected to pick up well in the second half. Total expenditure (based on disbursement) amounted to KSh. 383.5 million against a target of KSh. 1,259.3 million. This reflected an overall under-spending of KSh. 875.8 million, of which KSh. 441.9 million was in respect of recurrent expenditure and KSh. 433.9 million was in respect of development expenditure. Most of the under-execution in development expenditures was due to delayed national government resources.

66. To confront the challenges of revenue shortfall and expenditure pressures, the County Government has stepped up efforts in tax administration and mobilization of revenue to eliminate leakages and increase revenue collection as targeted in the FY 2013/14. We have also rationalized expenditures so as to live within the fiscal framework.

67. A revised budget for 2013/14 was approved by County Assembly in November 2013. We have accommodated wages for devolved ministries, Early Childhood Development Education teachers and newly employed county staff while reprioritizing expenditures and preserving the expanded coverage of the social safety nets and allocation for implementation of devolved functions. The County Government will take additional measures including further adjustments to the budget considering that the revenue shortfall that is expected to the entire financial year.

Macroeconomic Policies and Outlook

External environment

68. According to the IMF latest World Economic Outlook released in October 2013, global economic prospects have somewhat improved again but the road to recovery in the advanced economies will remain bumpy. World output growth is forecast to reach 3.6 percent in 2014 and accelerate to 4.1 percent in the medium term.

69. In advanced economies, activity is expected to gradually accelerate, starting in June 2013. The projections are based on the assumption that policy makers in Europe will adopt policies that would gradually ease financial constraints in periphery economies such as Greece and that the USA would carefully manage fiscal policy in order to avoid major cutback in spending that would disrupt the economy.

70. In emerging market and developing economies, activity has already picked up steam. Developing Asia comprising of China and India are expected to grow by 7.1 percent and 7.3 percent, respectively, for 2013 and 2014, while the sub-Saharan region is expected to expand by 5.6 percent in 2013 and 6.1percent in 2014. Real GDP growth in Latin America is projected at 3.0 percent in 2012.

71. Kenya is well integrated with the world economy and any favorable developments are likely to impact positively on our growth prospects. Thus, the somewhat expected

improved external environment could potentially have a positive impact on the demand for our exports such as horticulture and tourism. This together with the strong growth in the sub-region bonds well for accelerated growth prospects in Kenya.

72. Tharaka Nithi County expects to reap great from favorable external and domestic environment which is expected to boost the market for locally produced agricultural goods and other products both locally and internationally.

Growth prospects

73. While there is renewed optimism in the global arena, the macroeconomic framework underpinning this 2014 C-FSP is cautious given the high uncertainties in the global projections witnessed over the recent years. In addition, we face daunting domestic reform challenges, including managing the challenges that come with a devolved functions. Nonetheless, with the continued favorable weather conditions and completion of key infrastructure projects in the roads and energy sub-sectors, the domestic economic prospects remain sanguine, but with downside risks.

74. Real GDP is expected to grow by 5.8 percent in 2014, up from about 4.6 percent in 2012 and an estimated 5.1 in 2013 while over the medium term, growth is expected to pick up gradually and cross the 7 percent mark by 2017, as global conditions improve and macro-economic stability is sustained. In terms of fiscal years, the projections translate to 5.5 percent for 2014/15, 6.6 percent for 2015/16 and 6.9 percent for 2016/17

Macroeconomic Indicators underlying the medium Term Fiscal Framework, FY2011/12-2016/17

	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
	Act.	Act.	Prov.	Projections		
	Annual percentage change					
National Account and Prices						
Real GDP	4.5	4.9	5.5	6.1	6.6	6.9
GDP Deflator	11.1	6.6	6.5	7.2	6.8	6.3
CPI Index (eop)	10.1	6.0	5.8	5.3	5.0	5.0
CPI Index (avg)	16.1	5.9	6.0	5.7	5.0	5.0
Terms of Trade (-deterioration)	-2.2	-1.0	-0.3	4.2	5.6	3.8
	In percentage of GDP					
Investment and saving						
Investment	20.2	20.9	22.3	23.8	24.9	25.5
Gross National Saving	8.6	10.4	12.7	14.9	16.9	18.0
Central government budget						
Total revenue	23.1	23.1	24.5	25.2	25.2	25.1
Total expenditure and net lending	29.2	30.5	35.3	33.1	32.3	31.7
Overall balance (commitment basis) excl. grants	-6.2	-7.4	-10.8	-7.9	-7.2	-6.6
Overall balance (commitment basis) incl. grants	-5.5	-6.8	-8.9	-6.3	-5.4	-4.9
Nominal public debt, net	45.7	47.8	51.8	52.0	50.8	49.6
External sector						
Current external balance, including official transfers	-11.6	-10.5	-9.6	-8.9	-8.0	-7.5
Gross international reserve coverage in months of imports	3.7	3.7	4.5	5.0	5.2	5.5

75. Growth will be bolstered by production in agriculture following expected receipt of adequate rain, initiatives to revamp irrigation schemes, completion of key infrastructure projects (such as roads and energy), further structural reforms especially those targeted toward improving competitiveness of private sector and promoting overall productivity in the economy, and exports that are expected to continue to benefit from the relatively strong growth in the sub region. Finally, domestic demand is expected to be robust following a drop in inflation, and increased investor confidence.

76. Taking into account limited public resources, the County Government will deepen its reform agenda aimed at enhancing the role of the private sector as the main driver of Tharaka Nithi County economy and sustainable development. Provide for private sector participation in infrastructure development; promote appropriate regulation of private sector activity; and provide for greater private sector access to finance. All this will require sustaining macroeconomic stability, implementation of a robust private sector development strategy, deeper structural reforms, and improvements in enabling legislations.

77. Equally important is the need to ensure that the gains from growth are widely distributed through sustainable employment in order to guarantee durable reduction in poverty. Therefore measures to address socio-economic inequities, improve the county's human capital, inculcate national cohesion for durable stability and prosperity, and increase distribution of resources to all levels in line with the Constitution will need to be implemented. In addition, the socioeconomic priority programs articulated in the new Administration's growth agenda will be crucial to complement these measures.

78. Appropriate macroeconomic policies should ensure delivery of low inflation around the 5 percent target, while ensuring continued stability in long term interest rates. This is based on the expectation that international oil prices will continue to remain stable and weather conditions will also remain favorable. We also expect the national government will play a key role in ensuring the macroeconomic factor remains stable.

79. Whereas the projected growth is still below the target envisioned in Vision 2030 needed to increase labour absorption and reduce poverty, the county Government recognizes that further up scaling would require mobilizing larger amounts of resources, raising factor productivity, and moving to a higher value added and more efficient production structure to increase export growth. While these reforms are underway it is expected that it will take time before translating to higher growth.

Summary

80. Public expenditure pressures, especially recurrent expenditures, pose a fiscal risk. Wage pressures may limit continued funding for development expenditure.

81. Continued weak growth in advanced economies that will impact negatively on our exports and tourism activities. Further, geopolitical uncertainty on the international oil markets will slow down the manufacturing sector.

III. FISCAL POLICY AND BUDGET FRAMEWORK

Overview

82. The 2014 Medium-Term Fiscal Framework aims at striking an appropriate balance between fiscal consolidation supports for growth. It also continues with prudent fiscal policy to reinforce Government's commitment to sustainability over the medium to long term. Specifically, the 2014 Budget Policy Statement emphasizes:

- Ensuring that the level of expenditure is adequate to sustain growth through continued public investment in infrastructure, agriculture, health and all sectors of the economy.

- Efficiency and improving the productivity of expenditure while at the same time ensuring that adequate resources are available for operations and maintenance.

Continuing with Prudent Fiscal Policy

83. Fiscal policy will continue to support economic activity within the context of sustainable public financing. The County Government will reorient expenditure towards priority Programmes in Health, Agriculture, Education and Infrastructure under the medium-term expenditure framework (MTEF). This process will be strengthened with a revamped legislative framework to enable accommodation of critical Programmes that will accelerate socio-economic development.

Observing Fiscal Responsibility Principles

84. The County Government recognizes that the fiscal stance it takes today will have implications into the future. Therefore, and in line with the Constitution and the Public Finance Management (PFM) Act of 2012, the principle of sharing the burdens and benefits of the use of resources and public borrowing between the present and future generation implies that we have to make prudent policy decisions today so that we do not impose

unwarranted debt burden to our future generations. Also to ensure that developments portfolio is not crowded out by both the National and the county Governments, we shall ensure adherence to the ratio of development to recurrent of at least 30:70 over the medium term. The expenditure management on items such as office goods and their pricing that should as much possible reflect actual market pieces.

85. In this regard, the County Government will observe the fiscal rules set out in the PFM law so as to entrench fiscal discipline.

86. Timeliness payment of goods and services should be minimized to ensure the county government gets competitive prices in the market.

87. Fiscal responsibility has become even more important since the Constitution requires the Government to progressively provide for a minimum basic standard of economic and social rights to its citizens within available resources. In order for spending to increase on a sustainable basis to meet these basic needs, we should be prepared to match the increased expenditure demands with a corresponding increase in tax revenue yield through efficient collection, widening of tax bases, and reasonable tax rates. It is therefore imperative to reform and modernize the tax regimes to ensure stability of revenue effort, while at the same time continuing to restructure expenditure systems to ensure efficiency and create fiscal space required to fund these basic needs expenditures on sustainable basis.

Fiscal structural reforms

88. Underpinning the fiscal program are measures to raise the revenue. This will be achieved through measures to simplify the tax code in line with best practices, in order to help improve tax compliance, minimize delays, and raise revenue. In addition, the County Government will rationalize existing tax incentives and expand the income tax base.

89. On the expenditure side, the County Government will continue with expenditure management reforms to improve efficiency and reduce wastage in line with the PFM law of 2012. Expenditure management will be strengthened with implementation of the Integrated

Financial Management Information System (IFMIS) and capacity building of the county treasury will also be considered.

90. The county government will institute measures to contain the public wage bill and release needed resources for the development funding. These will also include staff rationalization, identification and trimming off excesses personnel.

Financing policy

91. The medium-term fiscal stance envisages raising revenue internally, national government allocation, equitable share from the national government and borrowing both domestic and external sources with the latter being largely on concessional terms. The County Government will ensure that the level of domestic borrowing does not crowd out the private sector given the expected increase in private investment with accelerated economic expansion.

2014/15 Budget Framework

92. The 2014/15 budget framework is set against the background of the medium-term macro-fiscal framework set out above, the County Government's strategic objectives as outlined in the County Integrated development plan. Real GDP is expected to expand as underpinned by continued good performance across all sectors of the economy. The projected growth assumes normal weather pattern during the year. Inflation is expected to be maintained at a single digit level of about 5 percent reflecting implementation of a prudent monetary policy and easing of both food and oil prices and stabilization of the shilling exchange rate.

Revenue Projections

93. The 2014/15 budget targets revenue collection including local revenue of 110.2Million. This performance will be underpinned by on-going reforms in revenue administration. The Department of Revenue Collection in Finance docket is expected to institute measures to expand revenue base and eliminate tax leakages. The modernization of

taxation legislation is expected to simplify tax collection and enhance the revenue yield. As such, total revenues including A.I.A are expected to be KSh 2,928.0 million.

Expenditure Forecasts.

94. This is the key policy document guiding the County Government's funding allocation decisions and is updated to depict development priorities by the County Government as the first MTP for the county covering 2013-2017. In 2014/15, overall expenditures are projected to equal total expected revenue amounting to KSh 2,928.0 million.

Recurrent Expenditure

95. With respect to goods and services, expenditure ceilings for sectors/ministries are determined by the funding allocation for goods and services in the previous year budget as the starting point. The ceilings are then reduced to take into account one-off expenditures in FY 2013/14 and then an adjustment factor is applied to take into account the general increase in prices.

Development and Net Funding

96. Consistent with the objective of allocating adequate resources towards development outlays and the need to ensure completion of critical infrastructure the ceiling for development expenditures including donor funded projects is KSh 1,171.2 million(40 percent of total targeted expenditure) in 2014/15 an increase of 20 percent on the amount allocated in 2013/14 revised budget. Most of the outlays are expected to support critical infrastructure that will facilitate critical interventions to remove binding constraints to growth.

97. In view of challenges of climate change, a contingency provision of KSh. 30 million will be provided in the budget for FY 2014/15.

Summary

98. Efficiency and economical spending of government resources will be enhanced to create room for critical interventions and pro-poor spending.

IV. INTERGOVERNMETAL FISCAL RELATIONS AND DIVISION OF REVENUE.

Introduction

99. The Constitution lays the foundation for a decentralized system of governance by providing for two levels of government, namely national and county governments, which are distinct and inter-dependent and which shall conduct their mutual relations on the basis of consultation and cooperation. In addition, the Constitution provides that government at either level shall perform its functions, and exercise its powers, in a manner that respects the functional and institutional integrity of government at the other level, and respects the constitutional status and institutions of government at the other level.

100. The Constitution has assigned functions and tax collection powers to both levels of government. In addition, the Constitution has provided for mechanisms for equitable sharing of revenue raised nationally, as well as other intergovernmental transfers. The functions are either exclusive to each level of governments, shared or are residually assigned to the national government. The Constitution stipulates that all revenue raised nationally shall be shared equitably among the two levels of governments and among county governments to enable them provide services and perform the functions assigned to them under the Fourth Schedule of the Constitution. In addition to their equitable share, county governments also receive conditional or unconditional grants from the national government.

101. The Constitution also has some important features pertinent to intergovernmental fiscal relations. This is underpinned by a commitment to basic human rights, set out in the Bill of Rights in Chapter 4, and to co-operative governance, spelled out in Chapter 2. The Bill of Rights sets the tone for the emphasis on the delivery of basic services to all Kenyans, which impacts on the budgets of the two levels of government. Specifically, Article 43 of the Constitution requires the Government to progressively provide for a minimum basic standard of economic and social rights (i.e., better health care services, education, clean and

safe water, housing, and social security) to its citizens within available resources. The commitment to co-operative governance is expected to create platform in which the intergovernmental system will develop and respond to emerging needs. In particular, it is expected that the vertical sharing of resources will involve a more interconnected approach that will encourage consensus rather than conflict between the two levels of governments.

The intergovernmental budget process

Legal basis

102. Under the Public Finance Management (PFM) Act, 2012, the county government should be able to plan, formulate, execute and report on their budgets. Towards this end, the County government will build capacity to ensure that proper financial management is in place. This together with sound foundations should ensure a smooth transition and uninterrupted provision of social services.

103. The PFM Act has formalized an intergovernmental budget process. In terms of the Act, the Commission on Revenue Allocation (CRA) is supposed to distribute revenue six months before the new financial year. This is submitted to the Parliament, county assemblies as well as national and county executives. The Cabinet Secretary responsible for Finance then notifies Intergovernmental Budget and Economic Council (IBEC) and the CRA before proposing a division of revenue for consideration by Cabinet and then Parliament.

Resources available

Equitable shares

104. According to the Constitution revenue raised nationally shall be shared equitably among each level of government to enable it to provide services and perform the functions allocated to them. The equitable division of revenue should take into account the functions assigned to each level of government and other considerations outlined in the Constitution. The CRA makes recommendations concerning the basis for the equitable sharing of revenue between the two levels of government and among the counties.

105. The equitable share of revenue is an unconditional allocation to the county governments. County governments, being a distinct level of government, are fully responsible for these funds and are directly accountable.

Other resources

106. Aside of their equitable share, The county governments will have the following resources at its disposal:

- ***Conditional and unconditional grants***: These may be given as additional allocations from the national government's share to which the national government may or may not attach conditions.

- ***Own revenues***: The County will impose property taxes, entertainment taxes, as well as any other tax and user fees and charges they are authorized to impose by an Act of the County Assembly and the Parliament. Revenue raised by county government constitutes own-revenues and will not be part of the pool of revenues subject to sharing between the two levels of government.

- ***Borrowing:*** Counties may borrow only if the national government guarantees the loan, and with the approval of the county government's assembly. The PFM law provides for the framework for counties to borrow in a transparent, prudent and equitable manner

- ***Grant and donations*** from the development partners in accordance with section 138 and 139 of the public Finance management Act, 2012

- ***Equalization Fund*** - The Constitution provides for an equalization fund, which the national government shall use to provide basic services including water, roads, health facilities and electricity to marginal areas in order to bring these services in the marginal areas to national standards. In line with this provision, the national government has prepared the regulations on the equalization fund.

One half (0.5) of a percent of revenue collected, calculated on the basis of the most recent audited accounts of revenue received as approved by the National Assembly, will be paid to the equalization fund.

Transfer of functions and budgeting.

Legal basis

107. The constitution as assigned function to both levels of government while the transition to developed government Act, 2012(TDGA) prescribed how the functions are to be transferred from the national government to the county government during the transition period. Article 187(2) of the constitution has also entrenched the principle 'finance should follow function' which requires that once a function is transferred, the necessary resources should also be transferred to the government that is assigned that function in order to enable such government the function transferred***.***

Summary

108. The new PFM law provides a robust intergovernmental budget process that, if implemented with emphasis of corporate governance, will present an opportunity for enhanced financial management at county government. As we usher in a devolved system of government, we need to draw lessons from international experience in managing decentralization. Under the framework of managing the transition to decentralized structure that is in line with the new Constitution, the division of revenue between national and county government is set out with national government accounting for an average of 78.7 percent of equitable share of revenues in the 2014/15, while county governments will account for 21.3 percent. In additional we expect to receive additional conditional allocation from loan and grants received from the development partners.

V. MEDIUM TERM EXPENDITURE FRAMEWORK

Resource Envelope

109. The resource envelope available for allocation among the spending ministries is based on the medium term fiscal framework outlined in Section III:

- Receipts from the National Government budget resources finance about 91.2 percent of the county budget.

- Locally raised funds are expected to be at 3.8 percent of county budget for FY 2014/15

- Committed and expected external financing in the form of grants and concessional borrowing tied to specific programmes/projects are expected to be about 5 percent of total county income in 2014/15.

Spending Priorities

110. The prioritization of resource allocation, broad development policies of the new Administration as well as the medium term priorities identified during the countrywide budget consultative meetings held within 2014 will be the main focus.

111. In addition, the Constitution and the PFM law require national and county governments to promote budgetary transparency, accountability and effective financial management of the economy and the public sector. Therefore, inefficiency and wasteful public expenditure will be eliminated at all costs in order to promote public trust in government spending.

112. In finalizing the preparation of the 2014 MTEF budget, the County Government will continue to pursue the policy of curtailing less productive expenditures and redirecting resultant savings to capital investment. Spending proposals will in this regard undergo rigorous scrutiny to identify areas of inefficient and non-priority expenditure with focus

being in the areas indicated in the table below. During scrutiny of 2014/15 budget proposals, more effective use of resources will be sought across spending agencies and any identified savings will be redirected to deserving priority expenditures.

Targeted expenditures for scrutiny to create savings
Recurrent
Telephone, Telex, Facsimile and Mobile Phone Services
Courier and Postal Services
Domestic Travel and Subsistence, and Other Transportation Costs
Foreign Travel and Subsistence, and other transportation costs
Printing , Advertising and Information Supplies and Services
Training Expenses
Hospitality Supplies and Services
Office and General Supplies and Services
Contracted Professional Services
Contracted Technical Services
Minor Alterations to Buildings and Civil Works
Purchase of Office Furniture and General Equipment
Refurbishment of Buildings
Purchase of Motor Vehicles
Pre-feasibility, Feasibility and Appraisal Studies
Development
Contracted Professional Services
Contracted Technical Services
Minor Alterations to Buildings and Civil Works
Refurbishment of Buildings
Pre-feasibility, Feasibility and Appraisal Studies

113. Overall, given limited resources, the MTEF budgeting will focus on the following:

- The priority social sectors of education and health will continue to receive adequate resources. It should be noted that both sectors (education and health) are already receiving a significant share of resources in the budget. These sectors, however, will be required to utilize the allocated resources more efficiently to generate fiscal space to accommodate strategic interventions in their sectors in their sectors including funding HIV/Aids interventions, healthcare infrastructure, affordable drugs, as well as recruitment and training of staff as identified during the budget consultations. In particular it is expected that the health sector will strengthen its infrastructure and administrative control, while the education sub-sector will revisit its key interventions which will include provision for learning infrastructure, teaching and learning material, and recruitment of teaching staff.

- The economic sectors including agriculture and livestock will receive increased share of resources to boost agricultural productivity with a view to dealing with the recurrent food security problems in the country.

- With the County Government committed to improving infrastructure countrywide, the share of resources going to priority physical infrastructure sector, such as roads, energy and water and irrigation, will continue to rise over the medium term. This will help the sector provide reliable and affordable services, as well as increased access to water and development of irrigation projects countrywide.

- Other priority sectors include agriculture, social protection, environment, youth and development of arid regions will receive a significant boost in resources. Resources to these sectors will be maintained at adequate level over the medium-term to enable these sectors to implement governance reforms as well as deal with security, youth unemployment and provide opportunities for the vulnerable members of our society in the arid and semi-arid regions.

Medium-Term Expenditure Estimates

114. The Table below provides the projected baseline ceilings for the 2014 MTEF, classified by sector.

THARAKA NITHI COUNTY									
MTEF 2014/15-2016/17 BUDGET CEILINGS									
	Total Expenditure		**Projections**				**Projections**		
Expenditure Sectors/Ministries	**2013/14 Printed**	**2013/14 Revised**	**2014/15**	**2015/16**	**2016/17**	**2013/14 Revised**	**2014/15**	**2015/16**	**2016/17**
Office of the Governor and Deputy Governor	202.63	130.60	157.73	173.50	190.85	8.5%	8.9%	8.9%	8.9%
Agriculture Livestock and Water services	9.94	143.16	183.95	202.35	222.58	9.3%	10.4%	10.4%	10.4%
Roads, transport , Public works and Legal affairs	9.94	9.93	46.62	51.28	56.41	0.6%	2.6%	2.6%	2.6%
Trade , Industry and Co-operatives	-	11.13	43.92	48.31	53.14	0.7%	2.5%	2.5%	2.5%
Health Services	9.94	551.21	606.33	666.96	733.66	35.9%	34.3%	34.3%	34.3%
Education, Youth, Culture & Social services	226.04	35.73	61.19	67.31	74.04	2.3%	3.5%	3.5%	3.5%
Finance and Economic Planning	79.73	136.32	147.47	162.22	178.44	8.9%	8.3%	8.3%	8.3%
Public Service, Urban Development & Disaster	242.44	218.90	148.04	162.84	179.13	14.2%	8.4%	8.4%	8.4%
Physical planning , Lands, Energy and ICT	9.94	27.50	67.00	73.70	81.07	1.8%	3.8%	3.8%	3.8%
Tourism Environment and Natural Resources	9.94	11.64	34.55	38.01	41.81	0.8%	2.0%	2.0%	2.0%
County Assembly	250.40	260.28	270.00	297.00	326.70	16.9%	15.3%	15.3%	15.3%
TOTAL	**1,050.94**	**1,536.40**	**1,766.80**	**1,943.48**	**2,137.83**				
DEVELOPMENT									
Agriculture Livestock and Water services	262.80	100.30	140.15	147.16	154.52	10.3%	12.0%	12.0%	12.0%
Roads, transport , Public works and Legal affairs	492.60	424.50	496.10	520.91	546.95	43.7%	42.4%	42.4%	42.4%
Education, Youth, Culture & Social services	75.50	125.50	58.30	61.22	64.28	12.9%	5.0%	5.0%	5.0%
Physical planning , Lands, Energy and ICT	55.50	25.50	50.00	52.50	55.13	2.6%	4.3%	4.3%	4.3%
Health Services	122.90	136.80	109.65	115.13	120.89	14.1%	9.4%	9.4%	9.4%
Finance and Economic Planning	187.10	14.00	157.00	164.85	173.09	1.4%	13.4%	13.4%	13.4%
Tourism Environment and Natural Resources	-	-	50.00	52.50	55.13	0.0%	4.3%	4.3%	4.3%
Public Service, Urban Development & Disaster	70.60	60.60	50.00	52.50	55.13	6.2%	4.3%	4.3%	4.3%
County Assembly	-	30.00	20.00	21.00	22.05	3.1%	1.7%	1.7%	1.7%
Trade , Industry and Co-operatives	47.00	55.00	40.00	42.00	44.10	5.7%	3.4%	3.4%	3.4%
TOTAL	**1,314.00**	**972.20**	**1,171.20**	**1,229.76**	**1,291.25**				
	2,364.94	**250860%**	**2,938.00**	**3,173.24**	**3,429.08**				

Baseline ceilings

115. The baseline estimates reflects current spending priorities in key sectors programmes health, Agriculture and infrastructure. County Assembly also receive large share.

116. In the recurrent expenditure category, non-discretionary expenditures takes first charge and includes payment of statutory obligations such as interest payments, salaries and wages and pension that are financed by the County Government.

117. Development expenditures are shared out on the basis of the CIDP priorities as well as other strategic interventions to deal with unemployment and remove constraints to faster growth as outlined by the manifesto of the new Administration. The following guidelines are used:

- *On-going projects*: emphasis is given to completion of on-going projects and in particular infrastructure projects and other projects with high impact on poverty reduction and equity, employment and wealth creation.

- *Strategic policy interventions*: priority is also given to policy interventions covering the social equity and environmental conservation.

Finalization of spending plans

118. As indicated earlier, the finalization of the preparation of the detailed budgets will entail thorough scrutiny to curtail spending on non-productive areas and ensure resources are directed to priority programmes. As detailed budgets are scrutinized and the resource envelope firmed up, it is likely that additional resources may become available. County Government will utilize these resources to accommodate key strategic priorities with sound business plans.

- Intervention identified during the county stakeholders consultation for 2014 MTEF budget.
- Strategic intervention in the area of education, health, infrastructure (especially rural/feeder roads), tourism, security and agriculture (especially irrigation programmes and other food security enhancing programmes), as well as policy interventions covering the entire county to enhance regional integration and social equity.
- Specific consideration to job creation for the youth based on sound initiatives identified within and outside the normal budget preparation.
- Implementation of the new Constitution covering proposals not accommodated within the baseline ceilings issued to Ministries.

Details of Sector Priorities

119. The medium term spending estimates for 2014/15 – 2016/17 ensures continuity in resource allocation based on prioritized programmes aligned to the CIDP and policy initiatives of the new Administration to accelerate growth, employment creation and poverty reduction.

Agriculture and Rural Development

120. The Agricultural and Rural Development (ARD) sector is critical to Tharaka Nithi County's economic growth, employment creation and poverty reduction. It contains multiple linkages with other key sectors such as manufacturing, wholesale and retail, tourism, transport and distribution and other service-related sectors. The challenges facing the sector include unfavorable climatic changes, poor planning and inadequate warning systems, low production and productivity, poor marketing and marketing infrastructure, low value addition and competitiveness, inadequate physical infrastructure, unfavorable legal and policy frameworks, and low access to financial services as well as affordable credit.

121. Over the 2014 MTEF, the sector aims to address the above challenges by raising agricultural productivity, exploiting irrigation potential, increasing commercialization of agriculture, improving the legal and policy framework for agriculture, improving governance of agricultural institutions, and land development and promotion of sustainable management of fisheries, forestry and wildlife resources.

122. The Constitution has assigned a number of functions in the sector to the Counties. These include crop and animal husbandry, livestock sale yards, abattoirs, plant and animal disease control, fisheries and cooperative societies.

Energy, Infrastructure and ICT Sector

123. Energy, Infrastructure and Information Communications Technology (EI&ICT) Sector continues to be an enabler for sustained development of our economy. Key achievements in the last FY 2013/14 include improved infrastructure.

124. However, the sector faces a number of challenges that limits its optimal operations, including: general underutilization of development expenditure, delayed uptake of donor funds at national level, lack of adequate local construction capacity; inadequate power supply capacity; over-reliance on hydrogenation; low investment in power generation by private sector; inadequate capacity for research in ICT and film industry.

125. Over the medium-term, the sector's priorities include: improved infrastructure and management in sub-counties, towns, and market centres, accelerating on-going infrastructure development, improving efficiency and effectiveness of the infrastructure development process at all levels of planning, contracting, and construction; attain efficient and economic road transport, expanding generation capacity and access to electricity, developing modern ICT infrastructure, and development.

126. Functions such as county roads maintenance, street lighting, traffic and parking, public road transport and housing will be addressed during the county fiscal year.

General, Economic, Commercial and Labour Affairs

127. The general economic and Commercial affairs (GECA) sector comprises: Commerce and tourism; industrialization and enterprises development. The sector plays a significant role towards achievement of the vision 2030 and the Millennium development goals through trade, tourism and investment to enhance economic growth. It is the major sources of revenues through taxes, duties, license fees, entry fees among others.

128. The Sector plays a significant role towards enhancement of economic growth. The sector faces a number of challenges ranging from inadequate legal, regulatory and institutional challenges, limited access to credit by businesses, high cost of production, stiff competition, low awareness of benefits of integration, influx of sub-standard, counterfeits and contraband goods, and low technology, innovation, research and development.

129. Over the medium-term, the sector plans to create an enabling business environment for trade and investment; deepen integration, promote best labour practices, manpower planning, development and utilization, tourism development and marketing, undertake policy, legal and institutional reforms for the development of the sector; support entrepreneurship and industrial development; and promote exports and sustainable tourism.

130. Assigned functions to the counties include markets, fair trading licenses, and local tourism.

131. The key outcomes expected from the sector are: increases contribution to the GDP, increased contribution of cooperatives to the economy, deepened and widened integration, increased contribution of trade and tourism to GDP and effective and efficient service delivery.

Health

132. The sector's goal is to promote and participate in the provision of integrated and highly quality curative, preventive and rehabilitative services that is equitable, responsive, accessible and accountable to the Kenyan citizens. The key achievements for the sector include reduction of under- 5 year old mortality from 115 per 1,000 live births in 2003 to less than 50 per 1,000 live births in 2016/17 and infant mortality from 77 per 1000 live births to 52

per 1000 live births over the same horizon. The sector will also see increased immunization coverage for under -1 year old from 71% in 2008 to 87% in 2017.

133. However, the sector faces numerous challenges, which include inadequate infrastructure for service delivery, shortage of qualified health personnel, and on time delivery of medicines and medical supplies. Maternal mortality ratio has deteriorated from 414 in 2003 to 488 deaths per 100,000 live births in 2008-09 and births attended by skilled health personnel declined from 51 percent in 2007 to 43 percent in 2010/11, despite considerable funding flowing to the programmes.

134. In the medium term, the sector will seek to address these challenges through continued investment in training of health professionals, medical services, health, and sanitation infrastructure and improving the working conditions of medical practitioners.

135. The resources being requested will be used to implement projects aimed at achieving accessibility, affordability of health services, and reduction of health inequalities and optimal utilization of health services.

136. Under the new constitution two tier health services delivery system has been introduced whereby the Ministry of Health at the national level deals with Health Policy, National referral Hospital, Capacity Building and technical Assistance to the counties. The County is expected to play a significant role in improvement of access and better health care for Kenyans. As such, functions assigned to the counties under this sector include county health facilities and pharmacies, ambulance services, promotion of primary health care, licensing and control of undertakings that sell food to the public, Veterinary services, cemeteries, funeral parlors and crematorium, referral removal, refuse removal, refuse dumps and solid waste disposal.

Education

137. The sector's goal under education is to increase access to education, raise the quality and relevance of education, reduce inequality, and exploit knowledge and skills in science, technology and innovation to achieve global competitiveness of our labour force.

138. Assumed functions by the counties under this sector are limited, mainly to cater for pre-primary education, village polytechnics, home craft centres and children facilities.

139. The county will play a significant role in ensuring and coordinating the participation of communities and locations in governance at the grassroots level and assisting communities and locations to develop the administrative capacity for the effective exercise of the functions and powers and participation in governance at the local level.

Social Protection, Culture & Recreation Sectors

140. Under social protection, culture and recreation sector comprise of labour, social security and services; and the sports, culture and arts. The sector is mandated to address harmonious industrial relations, safety and health at work places, employment promotion, industrial training, productivity management, county human resource development, social security and children welfare and social development. The sector is also mandated to address issues relating to the promotion and exploitation of Kenya's diverse culture for peaceful co-existence, enhancing Kenya reading culture through expansion of library network for the increased information access, development and promotions of sports for a vibrant sporting industry, promotion and preservation of Kenya's heritage for national pride and harmony, promotion of cultural and sports tourism; and development, regulation and promotion of the film industry as well as development, research and preservation of music in the industry.

141. Funding for the MTEF period will continue to focus on the sector priorities has highlighted above and in particular those aimed at creating efficient, motivated and healthy human resources base while promoting decent work, fundamental right at work, adequate income from work, representation and social security.

Public Administration and International Relations

142. The sector plays a key role in enhancing public service delivery, organization and coordination of County Government business through planning, mobilization of financial and human resources in the public sector. In addition the sector links all other sector on matters of international relations, cooperation and resource mobilization.

143. Funding over the 2013 MTEF period will enable the sector to oversee the implementation of the Constitution; provide leadership and policy direction in the governance of the county; coordinate and supervise county government affairs; promote sound public financial and economic management for socioeconomic development; articulate and implement Tharaka Nithi policy for county development; mainstream CIDP into the County's policy, planning and budgetary process, implementation, monitoring and evaluation; promote efficient and effective human resource management and development for improved public service delivery; and promote public service integrity.

144. The functions assigned to the county government include office of the governor, county assemblies, and county planning and development including statistics.

County Assembly

145. The sector proposal includes the MTEF expenditure limits for the parliament that is expected to be submitted directly to the County Assembly. County assembly plays a crucial role in strengthening the democratic space and good governance in the county.

Environmental Protection, Water and Housing

146. Under this sector, assigned functions to the counties include soil and water conservation, forestry, storm water management, and water and sanitation services, air pollution, noise pollution, other public nuisance and outdoor advertising.

147. The sector plays a key role in ensuring that every Tharaka Nithi resident has access to decent and affordable living with access to portable water in a clean and secure environment. Over the MTEF period the sector aims to achieve expansion of water coverage and sewerage facilities; scaling up water storage to improve water security; scaling up irrigation to reduce dependence of rain fed agriculture; protection, conservation and management of catchment areas; mitigation and adaptation measures on climate change; enforcement of sector laws and regulations; modernization of meteorological services; mineral exploration and mining cadaster system; enhancing housing development through various initiatives; up-scaling slum upgrading and redevelopment; and lowering the cost of building material to increase access to housing. Going forward, the County Government will introduce policies to involve the private sector in the financing of water services.

VI. CONCLUSION

148. The 2014 MTEF is marked by moderate growth in overall expenditure, taking into account the global economic outlook and the need to maintain fiscal discipline. Expanding infrastructure investment, while maintaining reasonable growth on social development priorities remain a priority. Allocations to counties reflect a transition arrangement in line with the spirit of the constitution while ensuring provision of basic services to all residents of Tharaka Nithi County.

149. Overall, the set of policies outlined in this BPS are consistent with the national strategic objectives pursued by the National Government as a basis of allocation of public resources. The Sector priorities benefited from the public consultations conducted in all the 4 sub-counties and 15 wards (in February 2014) as well as the comments from CRA and other stakeholders.

Annex 1: County Revenue and Expenditure for half Financial Year 2013/14

COUNTY REVENUE INCOME				
	Jul'13-Dec'13 Months Target	**Jul'13-Dec'13 Months Actual**	**Difference**	**%**
Land Rates	**500,000**	383,768	(116,232)	-23%
PLOT RENT	**5,387,450**	194,820	(5,192,630)	-96%
SINGLE BUSINESS PERMIT	**10,345,000**	434,090	(9,910,910)	-96%
CESS fee	**7,311,909**	6,851,482	(460,427)	-6%
MARKETS & SLAUGHTER	**9,166,791**	10,352,575	1,185,785	13%
VEHICLE PARKING	**6,615,819**	6,345,235	(270,584)	-4%
HOUSE AND STALLS	**511,750**	3,188,122	2,676,372	523%
HIRE OF HALL &lorry	**375,000**	35,800	(339,200)	-90%
Miscellaneous	**761,283**	6,674,491	5,913,209	777%
Plan Approval Fee	**1,025,000**	997,015	(27,985)	-3%
LOCAL REVENUE	**42,000,000**	35,457,398	(6,542,602)	-16%
Share from National Treasury	**1,217,295,035**	829,872,617	(387,422,418)	-32%
TOTAL REVENUE	**1,259,295,035**	**865,330,015**	**(393,965,020)**	**-31%**
COUNTY EXPENDITURE				
Recurrent Expenditure	**773,213,973**	331,282,890	(441,931,083)	-57%
Development	**486,081,062**	52,197,993	(433,883,069)	-89%
TOTAL	**1,259,295,035**	**383,480,883**	**(875,814,152)**	**-70%**