KWALE COUNTY GOVERNMENT

COUNTY FISCAL STRATEGY PAPER

FEBRUARY, 2014

FOREWORD

The theme of the 2014 National Budget Policy statement which this paper uses as reference is: Economic Transformation for a shared prosperity in Kenya.

This 2014 County Fiscal Strategy Paper sets out the County priority programs to be implemented in the Medium Term Expenditure Framework for 2014/15 -2016/17. These programs which are in line with the County's Integrated Development Plan CIDP and the Country's Vision 2030 will help transform the county's economy and build a shared prosperity. Kwale county has a strong potential for greater economic growth. Recent developments on renewed investments within the county such as in the mining sector and agri-business industry have given an impetus for accelerated economic growth prospects and creation of job opportunities in Kwale.

The expenditure policy framework which the county will adopt 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. While significant progress has been realized in implementing the Medium Term Expenditure Framework (MTEF) in terms of linking policies, planning and budgeting and shifting budgetary resources to priority areas, the process continues to face some challenges. Kwale county government will continue to address these challenges by:-

(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 national objectives over the medium term, the County Fiscal Strategy Paper will adopt the strategy as outlined in the 2014 National BPS for achieving sustainable growth .The strategy covers five broad areas which include:-

i. creating conducive business environment in order to encourage innovation, investment, growth and expansion of economic and employment opportunities

ii. investing in agricultural transformation and food security to expand food supply, reduce food prices, support expansion of agro-processing industries and spur export growth

iii. investment in key infrastructure areas, including roads, energy and water to reduce cost of doing business and improve competitiveness

iv. investing in quality and accessible healthcare services and education as well as social safety net to reduce burden on households and complement and sustain our long term growth and development

v. further entrenching devolution for better service delivery and enhanced rural economic development

The fiscal framework included in this 2014 County Fiscal Strategy Paper 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 CFSP 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 continuation of the commitment to ensure budget predictability

In keeping in line with the theme of economic transformation and building a shared prosperity, Kwale county will implement priority programs as set out in this paper to accelerate and sustain a broad based economy to help achieve the country's economic growth target at about 10 percent.

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CEC MEMBER,FINANCE AND ECONOMIC PLANNING

ACKNOWLEDGEMENT

The 2014 County Fiscal Strategy Paper is first to be tabled in the Kwale County Assembly and the first under the Public Finance Management Act, 2012. It outlines the broad strategic macroeconomic issues and presents a fiscal framework together with a summary of county spending plans for the 2014/15 budget and the medium term.

The 2014 CFSP provides specific expenditure ceilings for line departments and detailed guidelines that aim at restructuring the pattern of the county government expenditures towards the priority areas in the social and economic sectors. The department's priorities have been derived from the sector reports, which have incorporated recommendations of the departmental public expenditure reviews (DPERs).

This paper is expected to guide and inform public debate on Kwale county's economic and development matters.

The preparation of this 2014 CFSP was a collaborative effort among different departments and organs within the county.We are grateful for their inputs. Much of the information in this report was obtained through the public participation process and the comments contained in the National 2014 BPS, the County Allocation Revenue Bill 2014 and the Division of Revenue Bill, 2014.

Finally, I wish to express my gratitude to the staff of the county treasury for their support and the long hour put in the writing of this County Fiscal Strategy Paper.

ALEX ONDUKO THOMAS

CHIEF OFFICER-FINANCE AND ECONOMIC PLANNING

Legal Basis for the Publication of the County Fiscal Strategy Paper

Section 117 of the Public Finance Management Act, 2012 states;

1) The County Treasury shall prepare and submit to the County Executive Committee the County Fiscal Strategy Paper for approval and the County Treasury shall submit the approved Fiscal Strategy Paper to the County Assembly by the 28th February of each year.
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 its County Fiscal Strategy Paper the financial outlook with respect to county government revenues, expenditures and borrowing for the coming 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
    d) any other forum that is established by the PFM Act 2012
6) Not later than fourteen days after submitting the County Fiscal Strategy Paper to the County Assembly, the County Assembly shall consider and may adopt it with or without amendments
7) The County Treasury shall consider any recommendations made by the County Assembly when finalizing the budget proposal for the financial year concerned
8) The County Treasury shall publish and publicize the County Fiscal Strategy Paper within seven days after it has been submitted to the County Assembly.

Fiscal Responsibility Principles for the National and County Governments

Section 107 of the Public Finance Management Act, 2012 sets the principles of fiscal responsibility.

Subsection (2) states that:

In managing the county government's public finances, the County Treasury shall enforce the following fiscal responsibility principles:-

a) the county government's recurrent expenditure shall not exceed the county government's total revenue
b) over the medium term a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure
c) the county government's expenditure on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenues as prescribed by the County Executive member for finance in regulations and approved by the County Assembly.
d) Over the medium term, the county government's borrowing shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.
e) the County debt shall be maintained at a suitable level as approved by County Assembly
f) the financial risks shall be managed prudently, and
g) a reasonable degree of predictability with respect to the level of tax bases shall be maintained, taking into account any tax reforms that may be made in the future
h) Short term borrowing as mentioned in (d) above shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited county government revenue.

ABBREVIATIONS

BPS	**Budget Policy Statement**
CBROP	**County Budget Review and Outlook Paper**
CBOs	**Community Based Organizations**
CCG	**Council of County Governors**
CFSP	**County Fiscal Strategy Paper**
CIDP	**County Integrated Development Plan**
ECD	**Early Childhood Development**
FY	**Financial Year**
IBEC	**Intergovernmental Budget and Economic Council**
IFMIS	**Integrated Financial Management Information System**
IRS	**Intergovernmental Relations Summit**
KIP	**Kenya Integrity Program**
KMTC	**Kenya Medical Training College**
MDGs	**Millennium Development Goals**
MTEF	**Medium Term Expenditure Framework**
NGOs	**Non-Governmental Organizations**
PER	**Public Expenditure Review**
PFM	**Public Finance Management**
PTAs	**Parents Teachers Associations**
SWGs	**Sector Working Groups**

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I. ECONOMIC TRANSFORMATION FOR A SHARED PROSPERITY

A: Overview

This is the first County Fiscal Strategy Paper (CFSP) prepared by the Kwale Government as part of the efforts to ensure effective linkage between policies, planning and budgeting. It provides an updated resource envelop and presents a fiscal framework for the 2014 budget and the medium term. It also sets out the sectorial and ministerial/departmental planned expenditures. This is in line with the introduction of the new governance structure under the new constitution.

In implementing the Medium Term Expenditure Framework (MTEF) 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 through:-

- Initiating an early comprehensive effort on costing all existing policies, programs, and projects;
- Building links between recurrent and development budget; and
- Developing a more programmatic approach to the budget, with a view to improving the linkage between expenditure and results.

In line with the MTEF process and to ensure credibility in the budget process, the budget ceilings presented in 2014CFSP are based on sectors and ministries/departments. For ownership at policy level, the 2014CFSP will be submitted to the County Executive Committee for approval before being submitted to the County Assembly.

Consistent with the first national BSP for 2005 and subsequent BSPs, this 2014County Fiscal Strategy Paper continues to align government spending priorities in the medium term to the Vision 2030 and Millennium Development Goals (MDGs). It acts as the instrument for discussion/feedback on spending priorities and plans between the County Government and stakeholders that will be reflected in the 2014/2015 budget and the entire MTEF process. It also presents specific interventions to address some of the budget implementation challenges as highlighted by the recent National Public Expenditure Review (PER 2013/2014).

PROGRAMMES FOR ACHIEVING ECONOMIC TRANSFORMATION FOR A SHARED PROSPERITY

The County Fiscal Strategy Paper articulates priority economic policies and structural reforms as well as sectorial expenditure programs to be implemented under the Medium Term Expenditure Framework for 2014/2015-2016/17 in order to achieve the development goal of economic transformation for a shared prosperity. This is illustrated below:-

PILLAR 1

Creating a Conducive Business Environment for Employment

Fiscal Policy Strategy

As outlined in the 2014BPS, creation of conducive business environment can be achieved through the maintenance of macroeconomic stability. The county will complement and support this objective through the enforcement of prudent fiscal policies.

The County Fiscal policy strategy recognizes that available resources are scarce and therefore the need to focus only on the county's priority programs that have the highest impact on the stated objectives.

Achievement of this policy rests on the maintenance of a strong revenue collection effort and containing the growth of total expenditure while shifting composition of expenditure from recurrent to development expenditure. At the same time, eliminating unnecessary and unproductive expenditure.

Structural Reforms to facilitate business and employment growth

The national government will work towards improving economy -wide efficiency and increasing total factor productivity,TFP so as to attain a high and sustained inclusive growth target of 10 percent. To complement this effort, the county government will undertake deeper structural reforms so as to improve efficiency and effectiveness of public service delivery to facilitate private sector growth.

Governance

The County government will implement well-targeted governance and anti-corruption reforms targeting

i. corruption prevention
ii. strengthening the prosecutorial capacity and the legal office
iii. improving governance in priority areas such as revenue administration, public works, public procurement and employment by the county/assembly public service boards

At the national level, the 2014 BPS proposes the development of an integrity program dubbed the Kenya Integrity Program KIP to entrench a code of conduct and vetting of public officers. This will also provide a framework for consultation, monitoring and reporting to enhance accountability in the public service. Keeping in line with this objective, this 2014 County Fiscal Strategy Paper proposes the development and entrenchment of a code of conduct for all public officers in the County Executive and the Assembly. Partnering with development partners and agencies such as the Transparency International will be ventured to ensure this objective succeeds.

Expenditure Management

Public expenditure reforms will be deepened to improve efficiency and effectiveness in utilization and execution of budget. This will entail:-

- rationalizing public expenditure to remove overlaps and waste
- adopting and enforcing development cost benchmarks for projects and consumables by the national government
- adopting a performance benchmark of at least 80 percent of the development budget
- strengthening the program based budget framework
- regular undertaking of expenditure tracking and value for money audits to ensure efficiency in the use of county resources

Operationalising the Integrated Financial Management Information System IFMIS

IFMIS will be made fully operational as an end- to- end platform. The County has started capacity building for users starting with the County Treasury and later rolled out to other county departments/organs.

All the modules in the system have been rolled out-Record to Report (R2R), Revenue to Cash (R2C), Plan to Budget (P2B) and Procure to Pay (P2P). The Procure -to-Pay (P2P) module will be crucial in improving the efficiency and effectiveness of the public procurement process at the county level. The module will integrate master lists and cost benchmarks.

The integrity and operational capability of the system will be assured through regular independent audits, integration with external systems and the establishment of a state of the art call Centre.

At the national level, public finance management regulations and a new procurement law will be enacted in order to entrench prudent public finance management

Asset Management.

Efficient management of the county assets will be given priority. The County Treasury will undertake an asset registration exercise and establish an updated Asset Registry for all county assets.

All existing fleet of County motor vehicles will be fitted with fleet management system (tracking devices) to ensure optimal utilization and management.

Tax and Revenue reforms

The strategy for strengthening revenue efforts and improving ease of doing business will prioritize measures to simplify tax systems, leverage automation, expand the tax base, rationalize tax incentives and exemptions and expand the tax net to capture the informal sector.

The automation of the county revenue collection system will hasten service delivery and safeguard county revenue. It is worthwhile to mention here that the County Treasury has initiated the process by inviting prequalified vendors to demonstrate their revenue collection system

Enhancing Security for Sustained Growth and Employment

Security is central to stability and encouraging investment, accelerating growth and in turn creating employment especially for our youth. There has been witnessed general insecurity in the county which has led to negative impact on tourism, one of the leading employers in the county.

To improve on security and ensure stability, the county government will:-

- Complement the national government's investment in mobility and patrol of security operations by at least one police motor vehicle for each major urban/town centres. To ensure optimal impact, a motor vehicle fleet management system will be put in place.
- Street lighting and CCTV surveillance system in all major centers to be installed like Kwale, Ukunda, Kinango, Taru, Kombani, Lungalunga, Msambweni, Mwangulu, Samburu among others in collaboration with private partners.
- Setting up of county policing authority and strengthening the partnership between communities and security agencies for neighborhood safety
- Rehabilitation of alcohol and drug addicts

PILLAR II

Agricultural Transformation and Food Security

As outlined in the County Integrated Development Plan CIDP, agricultural transformation and food security for Kwale residents is a key priority. The county will address agriculture, livestock and fisheries issues to harness the potential to create employment and improve income earning for the population living in rural areas.

The key strategies identified to transform agriculture and ensure food security include:-

- Integrated Agriculture, livestock and fisheries programs through investments in the three subsectors to ensure sustainability and linkages between the subsectors
- Agriculture mechanization through establishment of demonstrated agricultural machinery and the wide application of appropriate technology
- Investing in research and participatory extension approaches in soil management, developing high yielding seeds and establishing disease free zones

- Availing affordable and necessary farm inputs, technical know-how, and supervision on standards
- Educating farmers on smart agriculture to withstand the vagaries of weather and climate change. This will drive and sustain agricultural output and create more employment especially for the youth.
- Partnering with financial services providers to structure financial instruments to support farmers ,for instance, the introduction of Saccos and revolving fund
- Constructing and operationalising storage facilities and make them accessible to farmers to eliminate post-harvest losses
- Establishment of agricultural markets to promote organized marketing of agricultural produce. This can be done also through reorganizing farmers into viable cluster groups and forming marketing cooperatives
- Irrigation and construction of dams and mini-dams especially along all major river basins and rain water harvesting

Enhancing Trade, Industry and Investment Opportunities for Employment Creation

To support the agriculture transformation strategy, the county government will make a deliberate move to revamp the trade and industry sector. Growth in trade and industry will be crucial in moving up agriculture up the value chain through value addition. Through value addition in agriculture, the county will be able to diversify and improve agricultural productivity and create employment to the people.

Other initiatives which the county will undertake to enhance trade ,industry and investment include:-

- Establishment of four(4) business incubation units, one in each subcounty
- Establishment of the Kwale County Trade Revolving Fund
- Setting up food processing plants for value addition
- Setting up of a fully fledged business research unit to carry out research on viable trade and investment opportunities
- Equipping SMEs with technical and business management skills
- Promotion of Public Private Partnership in investment through the formation of the Kwale County Economic Corporation to address such issues like the industrialization of the quarrying sector, setting up of a mining company and establishment of a county state of the art hotel etc.

Empowering the Youth and Women for Employment Creation

Unemployment, especially among the youth, women and the physically challenged persons remains a major obstacle to development and social stability. Over the medium term, the county will build on recent youth and women support initiatives to further encourage entrepreneurship and innovation, especially by tapping the creativity and knowledge of the youth.

The key strategies that the county will adopt include:-

- Skills development through the equipping of polytechnics and other tertiary institutions like vocational training institutes in technical skills like plumbing, electrician, carpentry etc
- Facilitate the expansion of credit through effective management of the UWEZO Fund to give access to credit to youth and women
- Entrenching and strict adherence of the requirement of at least 30 percent of all public procurement to be reserved for the youth, women and persons with disability.

Youth Sports,Culture,Heritage and Talents

The youth have shown immense talents, especially in sports and the arts. These talents need to be nurtured as catalyst for growth and development. The county will

- Invest in sport facilities through the Ministry of Community Development by developing modern and well equipped stadium in each Sub-County
- Establish talent centers or academies in strategic locations to tap and develop latest talents and innovations by the youth

PILLAR III

Transport,Logistics,Energy and Water for inclusive Growth

Kwale County is endowed with immense natural resources but due to inadequate infrastructure both physical and social, most of these resources remain untapped and undeveloped.

To realize rapid and sustainable development, infrastructural facilities in the form of energy, roads, public works and transport need to developed.

The existing road network is deplorable and in poor condition to allow for any meaningful investment and development.

Water infrastructure is unreliable and inaccessible to most of rural population. Electricity is concentrated in urban/commercial centres. The high cost of electricity coupled with rampant and erratic power interruptions have adversely affected industry trade related livelihoods negatively.

The key strategies which this CFSP wishes to adopt to foster growth and development will include:-

- Improvement and expansion of the road network within the county in areas with high social and economic impact.

  The tarmacking of roads linking key circuits namely Kwale-Kinango-Samburu; Lungalunga-Kinango;Ukunda-Shimbahills-Mamba-TM and the Kinango-Mariakani are a priority to ease the linkage with other national and international markets. Other roads include the Majoreni-Vanga road,Lungalunga-Vanga and the Majoreni-Jego roads. These will help promote Agriculture, Tourism and Fisheries and cross border trade.

  The County government shall continuously engage the National Government to speed up implementation of the DongoKundu bypass project. This will offer an alternative to the usage of the Likoni Ferry crossing.

<u>Access to adequate affordable and reliable energy supply</u>

The county will undertake feasibility studies to assess the viability of hydroelectricity production along river Umba and Marere, Coal power from the Taru basin and thermal power production in Ukunda through public private partnerships, PPP.

The other key interventions will include:-

- Extending the rural electrification programme and exploring possibilities of subsidizing electricity connection charges for rural communities will be explored.
- Connect each ward headquarters and all primary and secondary schools with electricity from the National Grid.

- Use of biogas technology for lighting populated public centers and other institutions will be encouraged.

Making Water Accessible to Households and Farmers

To improve on access and reliability of water supply, efforts will be focused on rehabilitating existing supply systems and construction of new systems.

Among the existing water supply system that will be rehabilitated include the Marere water supply system, the Tiwi and Waa boreholes, the Mwanyamala-Kikoneni water system and the Msambweni(Mkurumudzi) water supply.

The Tiwi and Msambweni aquifers and the Umba and Pemba rivers will be rehabilitated to accommodate the anticipated irrigation schemes, domestic and livestock water needs and the development of the Resort City and the increased industrial and commercial activities.

PILLAR IV

Access to Quality Social Services

The aim of the national government to develop human capital is to ensure realization by Kenyans of their full potential and dignified life.

The strategy for human capital development entails getting more value out of current spending, improving equitable access to quality health care and educational services and expanding social protection throughout the country.

To be in line with this objective, Kwale County government will adopt the following strategies:-

Building a Healthier Kwale

- Development of modern and well equipped health facilities to improve access to quality health care. Among the priority programs is to develop a ultra-modern well equipped referral hospital with specialized medical equipment such as mobile clinics, CTscan, X-Ray, Ultrasound, chemotherapy, dialysis and radio therapy.

- Development of systems to support healthcare services and sanitation at the community level. This is intended to contain the main risk factors to health. To promote good sanitation and hygiene, the county will undertake the construction of public toilets in major centers and support individual households to put up pit latrines.
- Training of more medical staff by supporting infrastructure upgrade of the current KMTC in Msambweni and Matuga. The county will support the expansion of the colleges and introduction of new courses for training more clinical officers, nurses, nutritionists, laboratory and pharmaceutical technologists.
- Supporting the national government development of an efficient, effective and accountable framework for the management of public resources. In particular, the county will reconstitute hospital management boards and appoint people with the requisite skills, experience, commitment and integrity.
- Improving on the supply of essential medicines and medical supplies through the establishment of a robust supply chain system to enhance services delivery in all health facilities in all tiers.

Quality and Relevant Education

The major challenges facing the education sector in the county include inadequate education infrastructural facilities, inadequate training of technical and professional practitioners and low income levels of the people. These have led to low literacy levels, poor performance and poor education standards. To improve on education standards and performance, this 2014 County Fiscal Strategy Paper proposes the following:-

- Complementing the national government effort in the upgrading and modernization of all public schools throughout the country over the medium term. As a strategy, the county will upgrade for each sub county an identified primary and secondary school to be model schools. These model schools will be equipped with all equipment, materials and staffed with adequate teachers. In addition, they will have boarding facilities and shall enroll the best students from across the county.
- Expanding and modernizing technical, vocational and village polytechnics in partnership with development partners, government agencies and the private sector to equip the youth with appropriate skills
- Continue supporting the needy students through scholarships, bursaries and grants. These schemes will be streamlined through regular reviews to ensure that it supports the intended beneficiaries.

- Complementing the national government effort in developing educational delivery standards and strengthening quality control and educational inspectorate services in order to enforce and uphold quality education. The county government shall develop school management standards which shall be adhered to by school management boards and PTAs.
- Collaborative efforts by professionals from and within the County, CBOs, NGOs and other stakeholders to sensitize the local community on the value of education and help curtail negative and retrogressive cultural practices which adversely affect education.

PILLAR V

Further Entrenching Devolution for better Service Delivery

To ensure that devolution achieves the objectives of better service delivery and rapid economic development in line with the Vision 2030, accountability and fiscal discipline in the use of devolved resources must be entrenched.

Kwale County will uphold sound public financial management principles and good governance practices to ensure success of devolution. In addition, the county will promote close collaboration with the national government in implementing the national government development agenda.

Outline of the 2014 County Fiscal Strategy Paper

The rest of this 2014 CFSP is organized as follows**:-**

Section II and III- reviews recent economic developments and the medium term strategy, respectively.

Section IV(1) has the fiscal framework which takes into account the equitable share of revenue from the national government, external assistance in form of conditional grant, and local (own) revenue

Section IV (2) presents the medium term sectorial resource allocation, including medium term expenditure allocations,

Section V provides the details of the 2014/2015 budget framework and

Section VI discusses the details of ministerial ceilings and the priorities for 2014/15.

Section VII concludes this paper.

II. RECENT ECONOMIC DEVELOPMENTS AND POLICY OUTLOOK

Overview of Recent Economic Performance

At a glance the national economy registered an impressive economic growth, despite a stagnating demand for our exports in traditional markets. There was conducive environment which spurred growth. Inflation declined from double digits in 2011 to about five percent (5%) in recent months. Accompanied by this decline are the short term interest rates and stabilization of the shilling exchange rate against major foreign currencies. Increased financial literacy campaigns have expanded financial inclusion to more than 70 percent of the Kenyan population.

The above scenario has led to the enactment of the national economic transformation agenda.

The 2014/15 CFSP is being prepared against such a background. Recent economic developments at the national level and within the county have accelerated economic growth and creation of jobs for Kenyan citizenry in general and Kwale county residents in particular. However, the national economy and the county economy are experiencing many challenges which include high cost of living driven by high food prices and energy cost, food insecurity, declining agricultural and manufacturing productivity, weak transport and logistics, weak

investment climate and general insecurity in the country. All these have had a negative effect on tourism which is a leading employer in the county.

Poverty and unemployment particularly among the youth remains a serious challenge in the county .These have led to increased insecurity and general economic stagnation despite the gains made over the last couple of years. To overcome this challenge, priority programmes shall be initiated for sustainable economic growth that will ensure increased income and employment opportunities as envisaged in Vision 2030.

Faced with these challenges, the County Government shall consolidate and sustain economic growth by restoring and maintaining macroeconomic stability and focusing on economic policies and structural reforms aimed at removing the constraints to growth while facilitating private sector to expand its business and promote productivity. Public spending will be oriented towards investing in programs that are aimed at promoting economic growth while cushioning the poor and vulnerable through deliberate interventions.

Update on Fiscal Performance and Emerging Challenges

The macroeconomic assumptions underlying the 2013/14 budget were detailed in the 2013 County Fiscal Strategy Paper. The budget assumed economic growth and stable macroeconomic environment. In addition, the financial objectives were aimed at containing non-priority and unproductive expenditure.

County Assembly approved the 2013/14 budget with expenditures amounting to **Ksh**.**4,474,902,046** which comprised of recurrent expenditure **(Ksh. 2,627,973,409)** and development expenditure **(Ksh 1,846,928,637).**These expenditures were expected to be financed by total revenue of **Ksh 4,245,902,046** comprising of national government equitable share of revenue amount **Ksh 3,749,000,000** domestic revenue from county own sources **Ksh426,637,418**,reallocation of funds from last FY2012/13 **Ksh 70,267,628**. The county also included **Ksh 229,000,000** from equalization fund to the 2013/14 budget.

Implementation Progress and Emerging Challenges

Budget implementation started at a slow pace in the early months of the financial year as the organizational and service delivery structure was not fully operational. Initial transition issues caused delay at the national level in the timely disbursements of funds to the counties.

Despite these challenges, fiscal outcome has been generally satisfactory. As at 31st December, 2013,cumulative revenue receipts amounted to **Ksh. 60,300,000** against a target of **Ksh. 150,000,000**,implying only a 40.2%percent of our target.

Expenditure execution has lagged behind in the first six months of the financial year especially on the development. By 31st December,2013,total expenditure amounted to **Ksh.785,759,216.64** against a disbursement of **Ksh. 1,303,267,606.**Recurrent expenditure was **Ksh. 730,152,207.89** and Development expenditure was **Ksh. 55,607,008.75.** .

2013/14 Revised Estimates

In the course of budget implementation, during the first half of the financial year several challenges emerged. One of the challenges was expenditures pressures from sectorial departments which had not been included in the approved budget.

This coupled with new development priorities set by the county administration necessitated the preparation of a supplementary budget. The supplementary budget prepared reflecting the changes made were submitted to the County Assembly. Going forward, County Treasury shall emphasize on sound sectorial budget preparation and 100 percent coverage of sectorial expenditure needs and programs in the 2014/15 budget to curtail any unwarranted and unnecessary budget revisions and expenditure pressures.

III MEDIUM TERM STRATEGY 2014-2017

A: Introduction

The proposed medium term macro-economic framework largely reflects the County Government's plan to sustain and accelerate the economic recovery. The strategy essentially involves continued macro-economic stability underpinned by a deepening of various structural reforms covering areas of governance and anti-corruption, financial sector reforms, and expenditure management, including reorienting expenditures towards priority areas in support of economic growth and poverty reduction.

The main focus of the medium term strategy is to move decisively towards the Millennium Development Goals (MDGs). In this context, the strategy involves achieving: rapid and sustainable economic growth in order to reduce poverty on a sustainable basis; and reallocate resources towards the health and education sectors.

Budgetary support from both bilateral and multilateral sources is essential for rapid growth and this FY 2014/2015; we have factored **Ksh312,797,399** being conditional grant. This represents 0.06% of the total budget which means we must tighten our fiscal policy

Notwithstanding the conservative fiscal stance taken in the medium term, the Government remains strongly committed to implementing key reforms in the areas of public expenditure management, governance sector as part of efforts to ensure efficiency and effectiveness in public service delivery. However, should, in the course of implementing these programmes, bilateral and multilateral budgetary support materialize, the additional resources will be used to scale-up expenditures on social sector (health and education) and productive sector programs (especially infrastructure and agriculture). The additional resources would, therefore, be used toward accelerating Kenya's progress towards the MDGs.

B: The Medium-Term Macroeconomic Framework

The proposed medium term macroeconomic framework builds on the recent economic developments and various structural reforms implemented in the recent past. It is based on continued economic growth recovery driven mainly by continued sectorial growth in tourism, transport and communication, manufacturing and building and construction.

C: The Medium-Term Fiscal Framework

The medium term fiscal framework focuses on: (i) maintaining a strong revenue growth rate; (ii) containing growth of total expenditures while ensuring a shift in the composition of expenditure from recurrent to capital expenditures; (iii) ensuring a significant shift in resource allocation towards vision 2030 priority in the social and economic sectors.

Revenue Policy

The County's domestic revenue target for the financial year2013/2014 was Ksh370Million. The first six months of budget implementation had several challenges in collection of

domestic revenue. This coupled with the slow establishment of the organizational and service delivery structure realized in **Ksh.60,300,000**cumulative revenue receipts from domestic sources.

Recent economic developments in the county is expected to grow the county economy to higher heights especially with the commencement of mining by the Base Titanium Company of Australia, the commissioning of the Kwale International Sugar Company KISCOL and the revamping of small and medium enterprises.

The revenue policy framework for the county will be geared towards streamlining revenue collection systems by automating the current manual system to curb leakages and improve on accountability. The enactment of the Mining Act will develop the county as more economic activities will emerge.

The County Treasury in conjunction with other county organs and the development partners will source for more revenue avenues to increase the revenue base. Research will be carried out to come up with more viable and favorable fees, commission and charges in untapped revenue sources.

Efforts will be made towards recovery of uncollected revenue from rates defaulters .This section has a potential of delivery close to Ksh1 Billion worth of revenue.

Expenditure Policies for the medium term 2014-2017

The expenditure policy framework in the medium term aim at ensuring efficiency and effectiveness in the implementation of development policy. 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.

The following are the County Government's expenditure priorities for 2014/2015:

Reducing the County Wage Bill: County Government's wage policy will aim to reduce the ratio of the wage bill-to-total revenue from current level of 23 percent of the total

budget which is very high to 15 percent in 2016/17. To ensure the targeted wage reduction is achieved, the County Government will:

1. put in place a pay policy document that outlines the key principles that guide increases in pay and the measures to ensure overall adherence to the wage targets.
2. carry out a human resource audit of its establishment with a view to ascertain staffing levels versus actual needs and placement.
3. support the National Government's effort to reduce the wage bill by effecting the Voluntary Early Retirement scheme (VER) with the objective of downsizing the county service.

The wage projections in the medium term may need to be revised to allow for recruitment of medical personnel in order to aim at reaching the optimum level of personnel for the health sector and to move toward achieving the MDGs;

2. **Restoring stalled projects**: *S*talled projects have been generating pending bills as idle equipment and contractors continue to submit claims. This annual provision will be made through out the medium-term in order to complete the stalled projects in the 2013/14 financial year.
3. **Increasing core poverty expenditures**: The Government has updated the criteria for core poverty programmes in order to make it more comprehensive. The ministries are expected to ensure that the allocations to the core poverty programmes in agriculture, health, education water and infrastructure to reflect the outcome of the Ministerial Public Expenditure Review MPERs. At least 40 percent of development expenditures in each of these key ministries should be allocated to the core poverty programmes.
4. **Development expenditures**: The government is concerned with the low absorption capacity of development resources in the last few years. This has been due to delays caused by the lengthy procurement procedures. The County Treasury will undertake a review of the factors hindering utilization of funds and will provide recommendations on how to raise the rate of utilization of both local and external resources for development expenditure. With the implementation of the cash management system, the government will increase the utilization of development resources so as to ensure goods and services are delivered on time.
5. **Cost containment measures**: The county Government will develop a transport policy which will reduce the cost of transport and eliminate inequality and wastage in use of

official transport. The county government will source for cost efficient fueling of county motor vehicles to control fuel usage; use of fuel card system will be explored. As earlier mentioned, all existing fleet of county motor vehicles will be fitted with fleet management system (tracking devices) to ensure optimal utilization and control. In addition, through development of efficient IT and promotion of e-government, the County Government will in medium term seek to reduce administrative cost in purchase of stationery and advertising.

6. **Enhancing participation of the youth in county development programs**: The youth are expected to play a central role in the implementation of medium term development programmes. To this end, various initiatives aimed at tapping on the resourcefulness of the youth will be implemented. These include:

   (i) rehabilitate and develop youth polytechnics with the aim of enhancing vocational training and acquisition of technical skills to enable young people to secure employment or become self-employed;

   (ii) encourage the youth to take advantage of the County Youth Fund, County Trade Revolving Fund, Youth Enterprise Fund and UWEZO fund to help young people access capital to start or expand business;

   (iii) creating business incubators to encourage entrepreneurial development among the youth;

   (iv) using labor intensive methods in the construction of physical infrastructure;

   (v) develop the ICT sector to accelerate its growth and create more business opportunities; and

   (vi) speed up reforms in the agriculture sector to improve the sector's productivity and create more jobs in the rural areas.

D: Medium-Term Structural Reforms

As part of efforts to ensure efficiency and effectiveness in budget implementation and public service delivery, the County Government will continue to implement priority structural reform measures in the medium term. The implementation of these measures is expected to improve the business environment, facilitate private sector growth and contribute towards economic growth and development. Some of the key reforms will include:

Governance and Rule of Law

In the medium term, the government will continue to strengthen governance and build anti-corruption institutional capacity by:

- Strengthening enforcement capacity through:
  (i) hiring special prosecutors from the private sector,;
  (ii) set up a Special Prosecution Unit
- Implementing fully various governance and anti-corruption strategies, including the County Anti-Corruption Plan;
- Deepening the implementation of sector-wide governance reforms aimed at scaling up the fight against corruption, improving transparency and accountability in public sector, improving access to justice and empowering the poor and marginalized;
- Concluding investigation and prosecution of illegal and irregular allocation of Public Land.

Public Expenditure and Financial Management Reforms

Various expenditure and financial management reforms will be implemented in the medium term to improve efficiency in use of public resources. These reforms include:

- Implementing expenditure management reforms underpinning realization of PEMAP benchmarks;
- Conducting expenditure-tracking surveys to inform budget implementation and improve its effectiveness in achieving development goals;
- Strengthening procurement procedures in collaboration with the Public Procurement Oversight Authority
- Strengthening capacity for efficient and effective use of resources.
- Deepening enforcement of guidelines for the exchequer issues to line ministries, including maintaining an up-to-date bank reconciliation;
- Implementing fully the integrated financial management and information system IFMIS) to all line ministries; and
- Above all the National Government will develop a Public Financial Management Reform Strategy whose component will be implemented starting in the Financial Year 2014/15.

Privatization and Public Sector Reforms

In line with its stated policy objective of private led growth, the County Government will make effort towards facilitating private sector participation in economic development process. Among the reform initiatives implemented include:

- Introducing results based management through enforcement of performance contract for all heads of department, including attracting private sector entrepreneurial and managerial expertise into county government departments
- Prepare a Private -Public sector framework to enhance private-public participation in programmes of the county government.

IV. MEDIUM-TERM SECTORAL RESOURCE ALLOCATION

INTRODUCTION

The 2014 County Fiscal Strategy Paper is prepared at a time when significant progress has been made in establishing and operationalising county government organs and functions in accordance with the requirements of the Constitution.

The county has an Executive Committee and an Assembly which are fully operational. The County Executive and the Assembly have established public service boards which have started recruitment of the requisite staff to facilitate effective service delivery.

At the national level, key intergovernmental institutions have been established to facilitate consultation and resolution of emerging challenges in the counties. These include: the Intergovernmental Relations Summit IRS, the Intergovernmental Budget and Economic Council IBEC and the Council of County Governors, CCG.

With the enactment of the key laws to govern public finance management and intergovernmental relations as well as the establishment of the necessary county and intergovernmental institutions, the intergovernmental budget process is now in fully operational. However, this progress notwithstanding, county governments have experienced challenges in planning and budgeting as well as the execution and reporting on budgets. These challenges have been addressed through:-

- Intergovernmental forums which facilitate closer cooperation between the national and county governments, such as IBEC
- National government support to counties in building capacity in the management of public finance

Kwale County Resources Available for FY2014/15

I. **Equitable Share of Revenue-** This is an unconditional allocation to the county government which the county will be expected to plan, budget, spend and account on the funds allocated. In the FY 2014/15, the County shall receive **Ksh 4,364,077,915** as its equitable share allocation from the National Treasury.

II. **Additional Resources**- In addition to the equitable share of revenue, the county is expected to get additional revenues from the following sources:

- **Additional conditional and unconditional allocations** from the share of the national government as contemplated under Article 202(2) of the Constitution. For FY 2014/15, the County Government shall receive **Ksh 312,797,399.**
- **Own Revenues** which will come from the county revenue raising measures as outlined in the county Finance Bill. The targeted revenues projected will be about 10 percent of the equitable share, about **Ksh 436,407,792,** this FY2014/15.
- **Borrowing-**provided the national government guarantee is obtained as well as the approval of the County Assembly. For this FY2014/15,the county government has no arrangement to borrow funds.
- **Grants and donations from development partners** in accordance with section 138 and 139 of the PFM Act,2012.
- **Equalization Fund** established under Article 204 of the Constitution for purposes of providing basic services including water, roads, health facilities and electricity to marginal areas in order to bring those services in the marginal areas to national standards. Kwale county was identified as one of these areas and in the FY 2013/14, the county was allocated **Ksh 229,000,000**.

Table 4. I Summarized Kwale County Revenue Resources for FY2013/14 and FY 2014/15

Revenue Source	FY 2013/14(Amount Ksh)	FY2014/15(Amount Ksh)
Equitable share allocation	3,748,952,670	4,364,077,915
Own Revenues	426,637,418	436,407,792
TOTAL REVENUE	**4,685,038,085**	**4,799,485,707**

Source: 2014 BPS

A: Criteria for Resource Allocation

The key features of sectorial allocation are anchored on the need to finance investment and to directly support economic growth and reduce poverty. The key resource allocation mechanism will therefore focus on measures to: (i) increase incomes for the poor, (ii) improve the quality of life, and (iii) improve security and governance.

As noted in CBROP 2013, the key features of sectorial resource allocation for 2014/15 will involve: (i) identifying ministerial strategic priorities from the vision 2030 framework and interventions required to achieve the MDGs; (ii) giving priority to core poverty programmes (MDG interventions); (iii) using the Monitoring and Evaluation (M&E) framework of the performance contracting to generate the performance indicators targets; (iv) ranking of the priorities by individual SWGs in terms of their contribution to achieving the overall performance objectives; and (v) adjustment of non-core expenditures to cater for the above indicated priorities.

B: Reorienting Expenditures

The current resource allocation criteria are based on the need to address poverty levels through spurring growth in agriculture, education ,health and water supply Specifically, it is expected that:

- **Health and water**: The share of total resources going to the health and water sector will be about **Ksh 1.2billion.** This will increase availability of resources to help fund HIV/AIDS interventions, and healthcare infrastructure, affordable drugs, recruitment and training of staff as part of the initiative to improve healthcare.
- **Education:** The share of resources going to education, including the hiring of nursery school teachers, construction of more ECD centers, increasing the scholarship/bursary fund and constructing and equipping youth polytechnics is aimed at improving human capital development.
- **Agriculture:** Given the need to implement the Strategy for the Revitalization of Agriculture (SRA) to address low agriculture productivity, poverty and MDG interventions go beyond what has been defined as core poverty programmes. To address unemployment in rural areas, the share of resources allocated to the agriculture sector is projected to increase in the subsequent years.
- **Infrastructure**: A significant share of resources shall go to physical infrastructure with priority given to expanding and improving maintenance of the road network and other public works. Other areas that will benefit from increased infrastructure resources include access to water resources, and provision of affordable energy.

The priority sectors taken together, the combined share of resources to health and water, education, agriculture and rural development and infrastructure is expected to raise to. about **Ksh 3.0 Billion.**

V. 2014/15 MEDIUM TERM EXPENDITURE FRAMEWORK

A: Macroeconomic Outlook

The 2014/15 budget framework will be set against the background of the medium term framework and the County Government's strategic objectives stated in the County Integrated Development Plan and the Vision2030. Specifically, the framework aims to promote economic growth and macroeconomic stability, strengthen governance, improve infrastructure and invest in the human capital development especially of the poor.

B: Fiscal Framework

The County Government remains committed to containing expenditures and re-orienting outlays toward growth and poverty-reducing programs through prudent use of resources. In light of the exclusion of external budgetary support in the 2014/15 budget, maintaining strong efforts in revenue collection will be critical so as to fund expected additional spending in Infrastructure, Health, Education and other priority sectors.

Revenue Projections

Against the backdrop of this macroeconomic outlook, the 2013/14 budget will target revenue collection of about 10 percent of total budget. As alluded to earlier, this performance will be supported by reforming the fees and charges regime especially on automation of the collection system to curb leakages.

Expenditure Forecasts

Overall expenditures are projected to grow as the county government takes shape in the next two years before stabilizing. However, in line with the government strategy to shift resources toward capital expenditures from recurrent, the following programmes will be undertaken:-

- **Wages and salaries**: The County Government is supposed to develop a wage policy to restrain growth in wage payments to free resources for development purposes.

  The County Government, however, has commitments relating to the hire of ECD teachers, enforcement officer and nurses.
- **Development:** A core requirement of the PFM Act 2012 is that development expenditures should be at least 30 percent of the budget. The county government in the financial year 2014/15 will comply to this fiscal principle and even release funds saved from recurrent expenditure to development from the current 36 percent in 2013/14 to 42 percent in 2014/15. Expenditures will therefore be forecasted more on development with focus on improving the road network, urban transport, access to water, reliable and affordable energy, and efficient telecommunications system;
- **Water programs in arid and semi-arid areas:** Provision of portable water within reasonable walking distance will reduce the time spent by women and girls on water collection, allowing for increased school attendance. It will also reduce water related illnesses thereby lowering the burden on women as care-givers and also on health services.

- **Emergencies**: These are cases of unanticipated events that are completely not budgeted for i.e. drought or an act of God that may have a bigger socioeconomic impact by causing distraction to the public or environment. The county government in the financial year 2014/15, shall allocate a maximum of **Ksh. 96 million** which is 2 percent of the total 2014/15 budget as per the PFM Act 2012.
- **Enhancing participation of the youth**: The youth constitutes about 26 percent of Kwale population. To this end, the Government will endeavor to channel substantial resources to youth related programmes to provide opportunities for the youth to be meaningfully engaged in economic development process. Resource allocation in this area will be guided by the National Youth Policy, which seeks to address, among other things: issues of unemployment; health related problems; crime; drug and substance abuse; as well as limited participation in economic and political spheres.
- **The role of women:** The 2001 Human Development Report for Kenya indicated that in Kenya, women are more likely to be unemployed than men and even when they are employed they earn less than men on average for similar jobs. To address this development challenge, the government will put emphasis on funding those programmes likely to have impact on women. In particular, special attention will be paid on those measures aimed at increasing opportunity for employment or access to productive resources for women, including accessible health care, safe water and education.

Medium Term Expenditure Estimates

Tables 5.1 and 5.2 provide the projected baseline departmental/ministerial ceilings for the 2014/15 Budget for the Recurrent and Development expenditures.

Table 5.1: RECURRENT EXPENDITURE

	MINISTRY	ESTIMATES 2013/14	BUDGET CEILING,2014/15
1.	County Executive Services	182,475,165.25	182,949,420
2.	Decentralized Units	275,991,856.82	281,511,694
3.	Finance and economic planning	144,748,359.76	148,686,144
4.	Agriculture Livestock and Fisheries	82,126,675.24	84,590,475
5.	Education and Human Resource Development	158,907,422.91	163,674,645
6	Health, Water and Sanitation	1,331,612,438.34	1,371,560,811
7	Trade, Industry and Investment	26,514,637.88	27,310,077
8	Infrastructure, Transport and Physical Planning	122,994,054.88	126,683,877
9.	Community Development	55,069,718.00	56,721,810
10	Tourism and Technology	6,963,864.96	7,172,780
11	Land Mining and Natural Resources	31,459,864.96	32,403,661
12.	County Assembly	307,011,954.00	316,222,313
Sub Totals		**2,725,876,013.00**	**2,799,487,707**

TABLE 5.2: DEVELOPMENT EXPENDITURE

	MINISTRY	EQUATABLE SHARE	EQUILIZATION FUND	ESTIMATES 2013/14	BUDGET CEILING 2014/15
1.	Decentralized Units	110,260,000.00		110,260,000.00	25,000,000
2.	Finance and	71,500,000.00		71,500,000.00	50,000,000

	Economic Planning				
3.	Agriculture Livestock and Fisheries	110,180,000.00	50,000,000.00	160,180,000.00	500,000,000
4.	Education and Human Resource Development	112,283,172.28	50,000,000.00	162,283,172.28	300,000,000
5.	Health, Water and Sanitation	140,200,000.00	79,000,000.00	362,200,000.00	700,000,000
6.	Trade, Industry and Investment	110,202,190.00		110,202,190.00	200,000,000
7.	Infrastructure, Transport and Physical Planning	118,249,516.84	50,000,000.00	168,249,516.84	200,000,000
8.	Community Development	116,200,000.00		116,200,000.00	200,000,000
9	Tourism and Technology	110,202,190.00		110,202,190.00	50,000,000
10.	Land ,Mining and Natural Resources	88,391,841.55		88,391,841.55	50,000,000
	Sub total	**1,520,026,031.55**	**229,000,000.00**	**1,749,026,031.55**	**2,000,000,000**

VI. CONCLUSION

This 2014 CFSP has laid more emphasis on expansion of infrastructure investment in education,transport,logistics and information technology while at the same time setting

priority programs to revamp agriculture and food security as vehicles for rapid economic growth and development.

Maintenance of reasonable growth on the social development programs in health,water,community development, the youth, women and the vulnerable groups continues to be a priority.

The set of policies outlined in this 2014 CFSP are in consistent with the attainment of the broad national strategic objectives in general and the county objectives in particular.