COUNTY GOVERNMENT OF KWALE

COUNTY TREASURY

MEDIUM TERM

2018 COUNTY FISCAL STRATEGY PAPER

FEBRUARY 2018

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FOREWORD

This 2018 Kwale County Fiscal Strategy Paper (CFSP) is prepared in accordance with the provisions of section 117 of the Public Finance Management Act (PFMA), 2012. This strategy paper sets out the strategic priority programs and policies that will be implemented by the county government in the financial year (FY) 2017/18 budget and the medium term. The programmes and policies contained in this paper reflect the aspirations of the people of Kwale and are anchored in the 2nd County Integrated Development Plan (CIDP) 2018-2022 and are linked to the Third Medium Term (MTP III) of the Kenya Vision 2030.

This 2018 CFSP is framed against a background of improving growth in the domestic economy. The Kenyan economy has remained resilient with growth supported by a stable macroeconomic environment. The Kenyan economy grew at an average rate of 5.5 percent per year in the five years (2013-2017) outperforming the average growth rate of 4.7 percent in the period 2008-2012.The economy was expected to grow at an estimated growth of 5.1 percent but slowed towards the end of 2017 due to the uncertainty associated with the elections and the effects of adverse weather conditions. The Kenyan economy is projected to grow by 5.3 percent in FY 2017/2018, 5.9percent in FY 2018/2019, 6.3 percent in FY 2019/2020 and 6.8 percent by FY 2020/2021.The growth will be supported by sustained investment in infrastructure, strong agricultural production due to improved weather conditions, robust services sector, recovery in tourism, increased investor and consumer confidence and macroeconomic stability. The county economy will reap the benefits of the macroeconomic policies and structural reforms which will sustain the growth of the Kenyan economy. Benefits of the favourable macro-economic environment are expected to trickle down and accelerate growth in major sectors of the county economy. In particular macroeconomic stability will spur growth in our economic sectors of agriculture, trade, industry, tourism, building and construction. We envisage further growth in mining and agri-business industry as continued exploration and investments in this sector is expected.

This 2018 CFSP will implement programs and policies which will strengthen the county economy and accelerate socio- economic transformation thereby changing the lives of the citizens. Over the last five years much progress has been made. In this CFSP, we aim to build on the successes made thus far and address the remaining bottlenecks which continue to derail achievement of the county transformation agenda. The programs in this paper will therefore focus on achieving our strategic objectives in the second generation County Integrated Development Plan 2018-2022 and complement efforts of the National Government in realization of "the Big Four" Plan and priorities of MTP III of the Kenya Vision 2030.

As we implement the county plan for FY 2018/2019 and the medium term, we take into account the reality of limited fiscal space compared to a myriad of challenges which continue to derail our development agenda. In a bid to ensure resources are allocated to programmes with high impact to citizens, we remain committed to a sustainable fiscal policy aimed at curtailing non-priority expenditures and shifting these resources to our development priorities thereby ensuring efficiency and effectiveness in public spending.

The expenditure priorities and the sector ceilings given in this CFSP have been aligned to the strategic objectives in the 2nd Generation CIDP.In this regard our expenditure plan will prioritize projects aimed at enhancing healthcare services, improving education standards, skills and knowhow for the job market, promoting agricultural productivity and food security, improving and expanding the county road network, enhancing water supply and environmental protection. The other allocations will target employment and wealth creation, youth and women empowerment, and poverty and inequality reduction.

Towards the finalization of this CFSP 2018, the core planning team benefitted from the guidance of H.E The Governor and H.E The Deputy Governor. Further, we received support and immense contributions from members of the County Executive Committee (CEC), chief officers and staff. We also consulted members of the newly formed County Budget and Economic Forum (CBEF), Commission on Revenue Allocation (CRA), the Office of the Controller of Budget (OCOB) and the general public. We are grateful for their support.

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ACKNOWLEDGEMENT

This is the first County Fiscal Strategy Paper to be tabled in the County Assembly of Kwale for the Medium Term Expenditure Framework (MTEF) period 2018-2022. It is prepared in accordance with the requirements of section 117 of the Public Finance Management Act 2012 and provisions of Public Finance Management Regulations 2015 for county governments. This 2018 CFSP sets out the broad strategic priorities and policy objectives that will guide the preparation of the FY 2018/2019 MTEF budget. It will also provide updates on recent economic developments and county fiscal performance and information on the projections of revenues and expenditures, sector priorities and ceilings. Further the statement of fiscal risks and adherence to the fiscal responsibility principles will also be provided. These coupled with the economic outlook will form a basis of the FY 2018/2019 budget and the medium term. This 2018 CFSP is expected to improve public's understanding of the county's public finances, guide public debate on the county's socio economic development matters and implementation of county government's programs and policies.

Over the last five years significant progress has been achieved in terms of the county's socio-economic development. Successes have been made in healthcare services, education, and agriculture, promotion of trade and socio -cultural development. However a lot needs to be done to further boost sustainable and equitable growth, employment opportunities generation, wealth creation, poverty eradication and inequality reduction. This 2018 CFSP proposes priority programs and policies aimed at rapid county socio-economic transformation that will ensure a better quality of life for all Kwale citizens.

The preparation of this 2018 CFSP was a collaborative effort. Much of the information in this document was obtained from the county departments. We also received invaluable inputs from the County Budget and Economic Forum, the Commission on Revenue Allocation, the Civil Society Organisations (CSOs), various youth groups and the public during the county budget consultative fora. We are grateful for their inputs.

Finally, we would like to express our deep gratitude to the Budget and Economic Planning team in the County Treasury which spent significant amount of time in consolidating reports and content development for this CFSP. Their tireless efforts under the guidance of the County Director, Budget and Economic Planning produced this quality document in time.

ALEX THOMAS ONDUKO
CHIEF OFFICER FINANCE AND ECONOMIC PLANNING

ACRONYMS AND ABBREVIATIONS

BPS	Budget Policy Statement
CBEF	County Budget and Economic Forum
CBROP	County Budget Review and Outlook Paper
CBOs	Community Based Organizations
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CCG	Council of County Governors
CEC	County Executive Committee
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
COFOG	Classification of Functions of Government
CPI	Consumer Price Index
CHVs	Community Health Volunteers
ECDE	Early Childhood Development Education
EU	European Union
FY	Financial Year
IBEC	Intergovernmental Budget and Economic Council
IFMIS	Integrated Financial Management Information System
KBRR	Kenya Banks Reference Rate
KCoTREF	Kwale County Trade Revolving Fund
KNBS	Kenya National Bureau of Statistics
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan

NGOs	Non-Governmental Organizations
PER	Public Expenditure Review
PFMA	Public Finance Management Act
PWDs	Persons with Disabilities
SGR	Standard Gauge Railway
SDGs	Sustainable Development Goals
SMEs	Small and Medium Enterprises
SSA	Sub -Saharan Africa
SWGs	Sector Working Groups
US	United States
TVET	Technical Vocational Education Training
WEO	World Economic Outlook
WSTF	Water Services Trust Fund

TABLE OF CONTENTS

FOREWORD i
ACKNOWLEDGEMENT iii
ACRONYMS AND ABBREVIATIONS iv
TABLE OF CONTENTS vi
LIST OF TABLES viii
LIST OF FIGURES viii
Legal Basis for the Publication of the County Fiscal Strategy Paper ix
Fiscal Responsibility Principles for the National and County Governments x
CHAPTER ONE: POLICIES TO ACHIEVE SOCIO-ECONOMIC TRANSFORMATION AND SUPPORT THE" BIG FOUR "PLAN 1

1.0 Overview 1

2.0 Strategies To Achieve County Economic Transformation and Support The Big Four Plan ... 3

2..1 Strategies for Crop Development, increased productivity and attainment of food security. 3
2..2 Investing in Quality, Affordable and Accessible Health Care Services 5
2..3 Investing in Quality and Relevant Education and Technical Training 6
2..4 Investing in Infrastructure Development including County access road network, water and sanitation systems, energy and ICT. 7
2..5 Promotion of Tourism, Trade,Industrialization and Investment 9
2..6 Strengthening Community Development, Sports, Arts and Culture. 10
2..7 Promoting Environmental Conservation and Sustainable Use of Natural Resources. 11
2..8 Promotion of Water Supply and Sanitation. 11
2..9 Enhancing governance, transparency and accountability in public service delivery and the promotion of public participation in county programmes 12

CHAPTER TWO: RECENT ECONOMIC DEVELOPMENTS 13

2.0 Overview of Recent Economic Developments 13

2.1 Global and Regional Economies 13

2.2 The Domestic Economic Developments 15

2.3 Growth Updates 16

2.4 Macro-Economic Indicators 18

2.4.1 Inflation 18
2.4.2 Kenya Shilling Exchange Rate 20
2.4.3 Interest Rates 21
2.4.4 Foreign Exchange Reserves 22

2.5 General Performance of the County Economy 23

2.5.1 Overview 23
2.5.2 County Economic Activities 24

2.6 Fiscal Performance in FY 2016/17 and Emerging Challenges 33

2.6.1 Overview 33
2.6.2 County Revenue Performance 33
2.6.3 County Expenditure Performance 34

CHAPTER THREE: MEDIUM TERM OUTLOOK AND MACROECONOMIC POLICY FRAMEWORK 36

3.1 Medium Term Economic Outlook 36

3.1.1 External Environment 36

3.1.2 Kenya's Macroeconomic Outlook 36

3.2 Risks to the Outlook 38

3.2.1 External risks 38

3.2.2 Domestic risks 38

3.2.3 County Macroeconomic Outlook risks 38

3.2.4 Adherence to Fiscal Responsibility Principles 39

CHAPTER FOUR: FY 2018/19 BUDGET AND THE MEDIUM TERM 40

4.1 Fiscal Policy Framework 40

4.2 FY 2018/2019 Medium Term Budget 42

4.2.1 Revenue Projections 42

4.2.2 Expenditure Projections 43

4.3 Budgetary Allocations for the MTEF Period FY 2018/2019-2020/21 44

4.4 Key Priorities for the 2018/19 Medium Term Budget 46

4.5 Allocation Baseline Ceilings 47

4.6 Finalization of Spending Plans 49

4.7 Details of Sector Priorities 49

4.7.1 Agriculture, Rural and Urban Development (ARUD) Sector 50

4.7.2 Education 51

4.7.3 Health 52

4.7.4 Energy, Infrastructure and Information, Communication and Technology Sector 52

4.7.5 General Economic and Commercial Affairs Sector 53

4.7.6 Social Protection, Culture and Recreation Sector 54

4.7.7 Environmental Protection, Water and Natural Resources 55

4.7.8 Public Administration and International Relations Sector (PAIR) 55

CHAPTER FIVE: CONCLUSION 56

ANNEX I: STATEMENT OF SPECIFIC FINANCIAL RISKS 57

ANNEX II: DEPARTMENTAL CEILINGS FOR FY 2018/2019 BUDGET BY ECONOMIC CLASSIFICATION 60

LIST OF TABLES

Table 1: Global Economic Growth 14
Table 2: Gross Domestic Product (GDP) Growth by Activity (%) 17
Table 3: Actual Revenue Collection as at half year period, FY2017/18 34
Table 4: Actual Expenditure as at half year period, FY2017/18 35
Table 5: Summary of Expected County Revenue Envelope for MTEF Period FY 2017/2018-FY 2019/2020 42
Table 6: 2018/19- 2020/21 Medium Term Expenditure Framework Development Sector Ceilings 44
Table 7: 2018/19- 2020/21 Medium Term Expenditure Framework Recurrent Sector Ceilings 44
Table 8: Provisional Expenditure Ceilings for the FY 2018/2019 and their ranking 45
Table 9: Medium Term Sector Ceilings, 2018/19 - 2020/21 49

LIST OF FIGURES

Figure 1: Comparative Analysis of Growth Updates on the Kenyan Economy 17
Figure 2 : Inflation Rate 18
Figure 3: Inflation Rates 20
Figure 4: Kenya Shilling Exchange Rate 20
Figure 5: Short-Term Interest Rates 22
Figure 6: Official Foreign Exchange Reserves (US$ million) 23
Figure 7: Agricultural Productivity (Current Prices, Kshs 000' Millions) 25
Figure 8: Agricultural Sector's Contribution to GDP (%) 26
Figure 9: Manufacturing Sector Growth Rate, 2016 – 2017 (%) 27
Figure 10: Manufacturing Sector's Contribution to GDP (%) 28
Figure 11: Building and Construction Sector Growth Rate, 2016 – 2017 (%) 29
Figure 12: Building and Construction Sector's Contribution to GDP (%) 29
Figure 13: Tourism Sector Growth Rate, 2016 – 2017 (%) 30
Figure 14: Tourism Sector's Contribution to GDP (%) 31
Figure 15: Mining Sector Growth Rate, 2016 – 2017 (%) 32

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.

CHAPTER ONE: POLICIES TO ACHIEVE SOCIO-ECONOMIC TRANSFORMATION AND SUPPORT THE" BIG FOUR "PLAN

1.0 Overview

1. In the last five years of devolution, the County has implemented a number of programmes and projects towards achieving faster socio-economic transformation. This 2018 CFSP continues the implementation of programmes and projects which are based on five strategic priorities mentioned in the County Annual Development Plan (CADP) FY 2018/2019. The key strategic priorities identified by the plan include:(i)investing in quality, affordable and accessible health care services and other social services (education and social services);(ii)investing in key infrastructural facilities including county access road networks, water and sanitation systems, energy, markets and local industries;(iii) promoting value addition and agricultural transformation through increased extension services, farm mechanization, irrigation, livestock development and fisheries promotion. This will enhance food security, create employment and reduce poverty;(iv)working towards environmental protection, sustainable utilization of natural resources and the effective management of land;(v)enhancing governance, transparency and accountability in the delivery of service and promoting citizen participation in county programmes. Much progress has been achieved in the strategic priorities.

2. The implementation of programmes and initiatives based on the key priorities are intended to support the Big Four Plan outlined in the 2018 National Budget Policy Statement (BPS).The 2018 BPS has the overall theme of creating jobs and transforming the lives of Kenyans. This is to be achieved through the "Big Four" Plan of the Jubilee Administration over the five year period 2018-2022. "The Big Four" Plan targets to: (i)support value addition and raise the manufacturing sector's share to GDP from 9 percent to 15 percent by 2022;(ii)focus on initiatives that guarantee food security and nutrition to all Kenyans by 2022 through expansion of food production and supply, reduction of food prices to ensure affordability and support value addition in the food processing value chain;(iii)provide universal health coverage thereby guaranteeing quality and affordable healthcare to all Kenyans;(iv)provide at least five hundred thousand (500,000) affordable new houses to Kenyans by 2022 and thereby improve the living conditions of Kenyans.

3.The enablers to the Big Four Plan shall include: (i)continued investment in infrastructure to unlock the growth potential;(ii)supporting a conducive business environment that will accelerate economic growth prospects through industrialization;(iii)investing in sectoral transformation for food security and broad based sustainable economic growth;(iv)continued investment in quality and accessible social services (health, education and social safety nets);(v)consolidating the gains in devolution for services delivery and enhanced rural development.

4. Implementation of the strategies under the Big Four Plan will boost the county's efforts in transforming lives of the citizens by creating more employment opportunities, improving living conditions, lowering the cost of living thereby reducing poverty and inequality. The policies in this 2018 CFSP will seek to complement those of the 2018 BPS which aim at creating an enabling environment for rapid socio- economic transformation. The 2018 BPS is focussing on enhancing macroeconomic stability, improving the ease of doing business, expanding infrastructure, improving security, expanding access to finance and instituting governance reforms. The policies in this 2018 CFSP are linked to the policies contained in the 2018 BPS and also to the National medium term priorities and strategies outlined in the Third Medium Term Plan 2018-2022 of the Kenya Vision 2030.Efforts have made in this 2018 CFSP to also link our priorities to ensure the attainment of the Sustainable Development Goals (SDGs) in the World's Agenda 2030.

5. The 2018 CFSP is prepared under a background of favourable macroeconomic environment with most of the indicators remaining strong and stable. The National economy has expanded growing at an average rate of 5.5 percent over the period 2013-2017 outperforming the average growth rate of 4.7 percent in the period 2008-2012.Macroeconomic stability has been registered with inflation rate remaining low and stable as well as interest rates. The exchange rate has remained competitive with less volatility.

6. The 2018 CFSP is premised on the progress made thus far in implementing the strategies adopted in the last four years County Fiscal Strategy Papers (CFSPs)- 2014-2017. The County agenda of achieving rapid socio economic transformation evidenced in improved and better lives of the citizens will continue to guide the fiscal policy of the County Government of Kwale in the FY 2018/2019 budget and over the medium term.

7. In considering the aforementioned and recognising that resources are scarce while development needs are numerous, efforts shall be made to ensure optimal allocation of resources to implement the key strategic priorities to achieve rapid socio- economic transformation. Specifically, the strategy will be to consolidate the gains that were made over the five years and proactively address the bottlenecks that have derailed implementation of the various policies in the county transformation agenda.

1.2 Strategies To Achieve County Economic Transformation and Support The Big Four Plan

7. The strategies which will guide the preparation of the Medium Term Expenditure Framework Budget period 2018/2019-2020/2021 as espoused in this 2018 CFSP will be implemented in the seven thematic areas which form the core priorities in the county transformation agenda.

1.2.1 Strategies for Crop Development, increased productivity and attainment of food security.

8. The 2ndsustainable development goal aims at ending hunger, achieve food security and improved nutrition and promoting sustainable agriculture. To achieve this and transform agriculture in the county, deliberate investments shall be made which will have multiplier effects across the county economic sectors. Further innovation and promotion of commercial and modern agriculture shall be encouraged.

9. The Agriculture sub-sector will promote crop productivity by increasing farmers' training and field extension services, promote crop varieties adaptable to the climatic conditions, increase farm mechanization and promote micro- irrigation. Over the five years much progress has been made and therefore the County Government will build on the successes made thus far and strengthen supervision and monitoring to ensure the agricultural transformation agenda is attained.

10. The Agriculture sub-sector will take advantage of the Agriculture Sector Development Support Programme (ASDSP) and the National Agriculture and Rural Inclusive Growth Project (NARIGP) to assist farmers to access farm inputs, acquire modern farming methods, and sensitize them on post-harvest management practices. The County Government is expecting to receive National Governments grants to implement these projects and therefore county contribution via the department of Agriculture, Livestock and Fisheries will be ring fenced in the FY 2018/2019 budget.

11. The Agriculture sub-sector will also spearhead the construction and establishment of a fruit processing plant in conjunction with the department of Tourism and Enterprise Development. The much anticipated fruit processing plant in Shimba hills (Kubo South) will improve value addition of agricultural products and add value by about50 percent to the raw fruits. Other expected benefits will include employment creation both direct and indirect in crop cultivation, transport, wholesale as well as retail business. In addition the industry will enhance the county revenues through the imposition of licences for traders and other levies.

12. Under the Livestock sub-sector, the County Government will continue to enhance the provision of extension services to Livestock farmers in the county. In this case farmers will be trained on proper animal husbandry practices. The sub-sector will also prioritise livestock disease control such as the tsetse fly transmitted Trypanosomiasis. This will be carried out through the construction and rehabilitation of cattle dips and vaccination crushes. In conjunction with the National Government, the county government will support the operationalization of livestock disease free zones. The initiatives to be undertaken will ensure sustainable increased livestock productivity and thus revolutionise the sector.

13. In the next MTEF period, the County Government of Kwale will establish a Livestock Disease Free (Export) Zone in one of the semi-arid area of the county (Lungalunga or Kinango sub counties) where livestock rearing is the main economic activity. The strategy will be first to start with a feasibility study to gauge the viability of the project. It is expected that the zone will attract cattle breeds suitable for fattening which shall later be available for meat processing for export.

14. To increase and sustain fish productivity, the County Government will continue the programme on provision of assorted fishing accessories, provision of cooling equipment and other post-harvest technologies to reduce post-harvest losses of fish. The County Government will also train fishermen, provide deep sea fishing boats and develop landing sites.

15. The sector will endeavour to build partnerships with both state and non-state organisations including development partners to strengthen the extension services and training of farmers. The Agricultural Training Centre (ATC) and the Agricultural Mechanization services (AMS) will be strengthened and supported to improve on their effectiveness and enhance revenue collection.

16. In order to enhance agricultural productivity among small holder farmers and cushion farmers against adverse climate conditions and eminent crop failure, the County Government will continue to support other disaster risk financing investments such as the National Drought Emergency Fund and to work with disaster agencies such as the National Drought Management Authority (NDMA) in efforts to end drought emergencies.

17. To enhance large-scale food production, the County Government has an intention of establishing county large farms of about 5,000 acres under maize and rice production. This will be aided by the construction of mid- sized dams, expansion of irrigation schemes and securing of water towers and river ecosystems.

1.2.2 Investing in Quality, Affordable and Accessible Health Care Services

18. The overall goal of the health sector is to have developed and well equipped health facilities across the county. The sector is charged with the responsibility of promoting quality healthcare services that are responsive, accessible and affordable to the citizens. The County Government recognizes that health is a fully devolved function and thus significant investments have been done in the sector. The urge to transform the sector by the County Government has translated into increased improvement in physical infrastructure, supply of essential medicines, specialized diagnostic medical equipment and recruitment of more health workers.

19. The National Government targets 100 percent Universal Health Coverage (UHC) for all households by the year 2022. This will guarantee access to quality and affordable healthcare to all Kenyans. The County Government will support and complement the initiatives that will drive this agenda through expansion of the number of health facilities at the community level, improvement in the supply of medical drugs, investing in specialized medical equipment, and establishing an oncology centre for cancer diagnosis and treatment at the County Referral Hospital in Msambweni, Ramisi Ward.

20. In addition, the County Government will support efforts to achieve universal health coverage by continuing the free maternity programme (the famous “Linda Mama” programme) to include all dispensaries and health centres in the county. Specifically, the County Government will continue with construction of maternity wings in all dispensaries and health centres.

21. The County Government will also continue with the digitization of health information management through the Information and Communication Technology (ICT) Division to increase efficiency and enhance service delivery in the sub-county hospitals and at the Msambweni County Referral Hospital .The ICT Division will establish Local Area Network (LAN) as well as Wide Area Network(WAN) systems for the hospitals.

22. Additional efforts to support achievement of Universal Health Coverage will include establishment of health insurance scheme for the vulnerable groups and the elderly and also institutionalizing and equipping the Community Health Volunteers (CHVs) scheme at the grassroots.

1.2.3 Investing in Quality and Relevant Education and Technical Training

23. The National Government recognizes that one of the strategies to achieve the "Big Four" Plan is to continue investing in quality and relevant education. To support and complement this strategy, the County Government shall endeavour to provide quality education under the Early Childhood and Development Education (ECDE) and relevant technical education to the youth. The provision of quality and relevant education and training is critical in equipping the youth with the skills and know how required in the job market.

24. The County Government will focus on expanding and improving the Early Childhood Development and Education centres to sustain quality education at the nursery level. In the financial year 2018/2019, this CFSP paper proposes the establishment of at least two ECDE centres in each ward. These centres will be fully equipped to provide conducive learning environment for the children.

25. The other efforts will include the construction and improvement of infrastructure in village polytechnics and enhancement of capitation and grants to the institutions.The polytechnics will be equipped with the requisite tools and equipment as part of utilization of the grant for the development of youth polytechnics given to counties. The County Government under the department of Education will factor in the grant from the National Government for development of polytechnics in the FY 2018/2019 budget.In addition, the County Government plans to strengthen supervision at the grassroots and enhance ICT intergration in the technical institutions.

26. The County Government of Kwale recognizes the poverty situation in the county.This has posed serious challenges to improvement of education standards in the county over the years. In order to improve on education standards, the County Government has been implementing the Education Fund to offer scholarships and bursaries to bright students from poor families. This CFSP 2018 continues the implementation of this strategy with special emphasis on supervision of the programme with regular reviews to ensure the intended strategic objective is achieved.The scholarship scheme will be extended further to cater for bright students who want to pursue relevant courses for the job market and also increase the pool of experts in essential sectors for rapid county transfomation .

1.3 Investing in infrastructure Development including County access road network, , energy and ICT

27. The National Government intends to complete all the on-going infrastructure development in road, rail, marine, air, energy and ICT to support achievement of the “Big Four” plan.The development of faster and cheaper means of transport of goods and people is critical for expansion of economic opportunities for employment and competitiveness of an economy.

1.3.1 Expanding the Road Network

28. The County Government recognizes that in order to improve connectivity and enhance the movement of people and goods, the construction and maintenance of the country road network is critical. In this vein, the County government will prioritize the construction and rehabilitation of key country access roads to open up areas for more economic activities in general but specifically to enable farmers to get their produce to markets faster and cheaply.

29. The County Government with the support of the National Government intends to upgrade the Technical University of Mombasa campus in Diani.This will require efficient road transport and security improvement. To achieve this, the County Government intends to tarmac about 15 kilometres of the Kona Ya Musa – Mabokoni – Kona Masai road.

30. The County Government has proposed works to be done on other key county access roads in the County Annual Development Plan which will be undetaken in the FY 2018/2019 budget.The County Government will continue to ensure efficient and effective utilization of the National Government Road maintenance levy grant for routine maintenance of roads including grading, gravelling, murraming,construction of bridges, drifts and culverts, and bush clearing.

1.3.2 Provision of Affordable and Decent Housing for All Kenyans

31. As one of its “Big Four” plan, the National Goverment targets to deliver five hundred thousand housing units by 2022 in major cities across the country. This will provide decent homes, create jobs , provide market for manufacturers and suppliers and raise the contribution of real estate and construction sector to 14 percent of GDP.

32. The County Government will support this initiative through rehabilitation and maintenance of county staff houses and others under its jurisdiction. Further, it will support initiatives to address matters on sustainable building standards and design procedures as well as controlling the mushrooming of informal settlements through proper county spatial planning framework.

1.3.3 Supporting the Access to Adequate, Affordable and Reliable Energy Supply

33. The realization of the “Big Four” plan will be accelerated by the provision of adequate, affordable and reliable energy.Reliable energy supply is necessary to reduce the cost of doing business and encourage the growth of industries and enterprises. To this effect, the National Government targets 100 percent access to affordable and reliable energy by the year 2022.

34. The County will benefit from the National Government 's efforts in exploiting locally available energy sources including the vast potential of renewable energy. The County also stands to gain from the National Government’s investment in the construction of more electricity substations, transmission lines and distribution of transformers in the quest to sustain demand for electricity.The County Government will take advantage of this by ensuring efficiency in the operations of streetlights and floodlights.The County Government in the recent County Annual Development Plan intends to acquire the necessary equipment to sustain these operations.

1.3.4 Promoting the use of Information Communication and Technology ICT

35. Promoting the use of ICT enhances efficiency in service delivery and also reduces the cost of doing business. A number of initiatives have been implemented by the National Government including the expansion of Optic Fibre Backbone Infrastructure (NOFBI) across the counties to improve on the internet connectivity, e-Procurement, Huduma Kenya, e-citizen, iTax and Integrated Financial Management Information Sytem (IFMIS)**.**

36. Going forward, the National Government in its pursuit to realize the ‘‘Big Four’’ Plan will focus on digitizing Government records, connecting all state departments to a unified Government Communications System, managing and improving cyber security and continue training youth in ICT skills to prepare them in the job market. The County Government will complement the National Government strategic objective in the promotion of the use of ICT to increase efficiency in service delivery. Among the initiatives the County Government will pursue include establishing community ICT centres, local area and wide area network installation, upgrading of county data recovery centre, development of ICT policy on data recovery, business continuity and ICT resource sharing framework.

1.4 Promotion of Tourism, Trade,Industrialization and Investment

37. Tourism is a key sector and its transformation is critical for employment creation, revenue generation and inclusive growth. There are a number of factors which have derailed tourism recovery in the county. These factors include: insecurity, poor infrastructure and low investment in the sector. Going forward, in order to transform the tourism sector and ensure sustainablility, the County Government of Kwale will foster on the rehabilitation of beach access roads, partner with key stakeholders to develop and diversify tourism products with key focus on eco-tourism, sports adventure and home stays and market Kwale as a tourist destination.

38. Promotion of trade, industrialization and investment in the county is another strategic intervention which will catalyze rapid economic growth and development. Trade and industrialization requires an enabling environment. The County Government will support the National Government efforts in creating an enabling environment for the attainment of the "Big Four" Plan and to enable private sector to flourish. The County Government will complement the National Government efforts on enhancing macro-economic stability, improving the ease of doing business, expanding of infrastructure, improving security, expanding access to finance and instituting governance reforms.

39. Kwale County has a huge potential in trade, industry and investiments. However, due to the number of bottlenecks this potential remains untapped. The main bottlenecks in trade include poor infrastructure and land access, high cost of doing business, low access to credit facilities, lack of requisite skills and capabilities and insecurity. The County Government of Kwale will focus on creating an enabling environment by continuing establishing new markets, improve access to affordable capital through the kwale county trade revolving fund(KCoTREF), promote business entrepreneural skills training, promote the easy of doing business, promote market access and encourage the registration of more small and medium sized enterprises through sound cooperatives governance.

40. Further, the County Government will strive to promote cooperative development through development of sound governance frameworks,development of market linkages and the provision of equipment including milling machines, soap processing machines, packaging materials , cold storage facilities and others to various registered cooperative societies.In addition under the cooperative development programme , the County Government will continue to enhance value addition to domestically produced goods, develop skills and capabilities, enhance the access to quality inputs and markets. To support value addition to agricultural produce, the County Government will construct a fruit processing plant in Shimba hills – Kubo South ward.

41. Under the "Big Four" Economic Plan, the National Government targets to increase the manufacturing sector's share of GDP from 9.2 percent in 2016 to 15 percent by 2022. This will accelerate economic growth, create jobs and reduce poverty. Among the measures the National Government intends to adopt will be to continue to develop industrial infrastructure such as the Export Processing Zones (EPZs), Special Economic Zones (SEZs) and industrial parks across the Country. The County will gain from the establishment of Dongo Kundu SEZs as it will enable faster transportation of goods and movement of tourists to and from the County. This will improve trade and sustain the tourism recovery efforts.Futher the County Government intends to complete the establishment of micro industrial parks in Lungalunga and Samburu-Chengoni. The County Government will establish jua kali sheds to encourage locally blacksmiths and production of other wares in Kwale,Ukunda and Shimba hills to unlock growth in industrialization.

1.5 Strengthening Community Development, Sports, Arts and Culture

42. The County Government recognises that the empowerment of youth, women and persons with disabilities (PWDs) and other vulnerable groups will foster inclusive growth, reduce poverty and inequality. More so, social transformation of the people will result in shaping social change necessary for rapid county transformation. In recognition of this fact, the County Government targets to continue to promote gender and youth empowerment and improve livelihoods of the people living with disabilities through the Youth, Women and PWDs fund. This will expand opportunities for these groups to venture in small scale business and promote employment creation services.

43. Under Sports and Arts development the County Government will continue to identify,train and nurture talents in various sports disciplines. In addition, the County Government will create an enabling environment to develop sports and arts through the construction and equipping of a modern county stadium, continue the rehabilitation of county wards sports fields and construct a state of the art and modern centre for performance of arts. In culture, the County Government will continue to train, facilitate competitions and dissseminate cultural heritage.

1.6 . Promoting Environmental Conservation and Sustainable Use of Natural Resources

44. Environmental conservation and the sustainable utilization of natural resources is key for achievement of the "Big Four" Plan. The National Government has continued with efforts to ensure a clean environment to avoid health and environmental hazards. Among its efforts include the banning on use and manufacture of plastic bags, encouraging use of green energy and mainstreaming climate change measures into all its projects and programmes.

45. To support the National Government efforts to contain the serious threats posed by climate change, land degradation and pollution of the environment, the County Government will continue the forest development programme by planting of trees through organized youth groups. In addition to boost the environmental conservation the County Government will initiate energy saving measures under the innovative Kuni Mbili energy saving jikos. A policy will be developed on how the youth and women groups will be organized to effect this.The other initiatives in the management of natural resources shall include the establishment of a geographical information system (GIS) centre and preparation of the county spatial plan. The GIS centre is critical in resources mapping and physical planning.

1.7 Promotion of Water Supply and Sanitation

46. The access to adequate supply of clean water is fundamental in enhancing health care and the productivity of labour. In addition, adequate supply of water is necessary for increased agricultural production and industrialization. It is for this reason that the County Government will continue to invest in clean water supply, prioritize on construction of medium sized dams, complete ongoing water projects in the rural areas and construct water harvesting and storage infrastructure. In addition, the County Government working with development partners and water supply affiliated bodies will undertake water community projects to increase the number of people connected to safe piped water and serve the increasing urban population in our major towns and trading centres.

47. The County Government will also continue to expand sanitation infrastructure in the urban areas through proper sewerage and water drainage systems. In addition, the County Government will continue with its efforts of ensuring a clean environment through proper waste management systems.

1.8 Enhancing governance, transparency and accountability in public service delivery and the promotion of citizens participation in county programs

48. Over the last five years, the County Government has implemented various policies and structural reforms to strengthen governance for efficient and effective service delivery to achieve county transformation. Among the reforms instituted by the County Government include; (i)establishment of administrative structures from the county level to the village level;(ii)restructuring of governance structures to implement county programmes by setting ten operational departments covering the core devolved functions and key strategic areas;(iii)establishment of an oversight arm for devolution functions and use of public resources and service delivery;(iv)operationalization of the public service board for human resources recruitment and development and (v)deepening public finance management reforms in financial management systems (IFMIS), procurement, assets and liabilities management, public funds management, planning and budgeting, revenue mobilization and risk assurance.

49. The County Government is cognisant of the challenges it has faced in governance over the last five years. These challenges include; (i) inefficiency in public service delivery due to lack of capacity and inefficient systems;(ii) procurement challenges as a result of non-adherence to the Public Procurement and Asset Disposal Act, 2015;(iii) lack of proper management framework for operationalization of public funds;(iv) slow pace in enactment of legislation for revenue mobilization and others;(v) management of assets and liabilities due to lack of an updated asset register among others.

50. The County Government has addressed these challenges through:-

i) Enhancing capacity through embracing capacity development and training and ensuring optimal staffing structures.

ii) Strict compliance to the Public Procurement and Asset Disposal Act, 2015 to avoid issues of unsupported and unexplained payments for projects, full payment against incomplete, abandoned and stalled projects, procurement of goods and services outside the approved procurement plan and unjustified single sourcing of supplies and others .

iii) Continuing maintaining of an updated asset register whose information should be included in the annual financial statement.

iv) Adherence to the PFMA, 2012 on establishment of public funds including special purpose funds.

v) Strengthening empowerment and capacity building of members of the County Assembly and their staff.

51. In enhancing transparency and accountability, the County Government has been guided by Article 201 (a) of the Constitution 2010 on principles of public finance. Further, the PFM Act, 2012 and the PFM Regulations 2015(County Governments) offer guidance in the prudent management of public funds to ensure transparency and accountability. Although there were challenges in the early years of devolution, the County Government has instituted reforms to ensure funds transferred to the County are properly managed. Among these reforms include the establishment of an Internal Audit Committee in pursuit of implementing the provisions of section 167 of the PFM (County Governments) Regulations, 2015. Over the last two years, there has been remarkable improvement. The County Government is regarded as one of the most improved counties in audit matters.

52. On promotion of participation of the citizens in county programmes, the County Government initiated a number of reforms in line with provisions of the County Government Act 2012. Among the initiatives undertaken over the last five years include the strengthening of civic education by establishing a policy and enacting public participation legislation. Public participation fora continue to be held and the public is actively involved in the preparation of county plans and budgets and other county development programmes. Public participation as enshrined in the Constitution offers opportunity to the citizens to identify and prioritize key development projects in the budgeting process.

53. The preparation of this 2018 CFSP will also embrace participation of the citizens. This is a requirement by section 117 (5) of the PFM Act, 2012. Thus, the County Government will seek views of various stakeholders including the Commission on Revenue Allocation (CRA), interested groups or persons and the public.

CHAPTER TWO: RECENT ECONOMIC DEVELOPMENTS

2.0 Overview of Recent Economic Developments

2.1 Global and Regional Economies

54. Global economic activity gained momentum from a broad-based recovery in investment, trade, and industrial production both in advanced economies and emerging market and developing economies. Global growth strengthened to 3.6 percent in 2017 from 3.2 per cent in 2016. Growth in the advanced economies increased to 2.2 per cent in 2017 from 1.7 per cent in 2016, following contributions from both domestic and external demand, as continued recovery in global investment spurred stronger manufacturing activities. Among emerging markets and developing economies, growth improved to 4.6 per cent in 2017 from 4.3 per cent in 2016, anchored on higher domestic demand in China and continued recovery in key emerging market economies.

55. The pickup in global activity that started in 2016 gathered pace in the first half of 2017 supported by notable improvements in investment, trade, and industrial production coupled with strengthening business and consumer confidence.

Table 1: Global Economic Growth

REAL GDP GROWTH (%) IMF			
YEAR OVER YEAR			
County/ Region	**2015**	**2016**	**2017**
World Output	**3.4**	**3.2**	**3.6**
Advanced Economies	**2.2**	**1.7**	**2.2**
United States	2.9	1.5	2.2
Euro Area	**2.0**	**1.8**	**2.1**
Germany	1.5	1.9	2.0
France	1.1	1.2	1.6
Italy	0.8	0.9	1.5
Spain	3.2	3.2	3.1
Japan	1.1	1.0	1.5
United Kingdom	2.2	1.8	1.7
Emerging Market and developing Economies	**4.3**	**4.3**	**4.6**
Russia	-2.8	-0.2	1.8
China	6.9	6.7	6.8
India	8.0	7.1	6.7
Brazil	-3.8	-3.6	0.7
Middle East, North Africa, Afghanistan and Pakistan	**2.7**	**5.0**	**2.6**

Source: *Central Bank of Kenya Reports*

56. Growth in Sub-Saharan Africa (SSA) rose to 2.6 per cent in 2017 from 1.4 percent in 2016, with sizeable differences across countries. The recovery is supported by a recovery in growth of larger commodity exporters of the two large economies, Nigeria and South Africa, attributed to the impact of improvement in commodity prices and favorable weather conditions. In addition, the easing of drought conditions in the Eastern and Southern Africa has contributed to the positive outlook.

57. While risks around the global growth forecast appear broadly balanced in the near term, they remain skewed to the downside over the medium term with protracted policy uncertainty, delays in the implementation of policy adjustments in Nigeria and South Africa, adverse weather conditions and financial sector vulnerabilities affecting market confidence and asset valuations, and thus weighing down on global growth. Many of the faster growing economies in sub Saharan African economies continue to be driven by public spending, with debt levels and debt service costs rising.

58. In the East African Community (EAC) region, economic growth is estimated to stabilize at 5.4 percent in 2016 and 2017, a slowdown from a 6.1 percent growth in 2015. The prolonged effect of drought experienced in 2016 and continued in 2017, dampened agricultural output and GDP growth in Uganda, Tanzania and Rwanda. In addition, there was a slowdown in credit growth across countries in the region, which further dampened the growth. Further, insecurity and political tensions continued to constrain economic activities in countries such as Burundi, Somalia, and South Sudan.

2.2The Domestic Economic Developments

59. Growth of the Kenyan economy remained resilient; broad based and registered strong performance in the past 5 years supported by strong public and private sector investment and appropriate economic and financial policies. The economy, specifically, grew by an estimated 4.8 percent in 2017, a downside performance compared to a growth of 5.8 percent recorded in 2016. The uncertainty associated with elections coupled with the effects of adverse weather conditions slowed down the performance of the economy in 2017.

60. The economy grew by 4.4 percent in Quarter 3, 5.0 percent in Quarter 2, and 4.7 percent in Quarter 1, largely supported by robust activities in the service sectors particularly; accommodation and restaurant; real estate and information and communication. The growth was somewhat constrained by subdued performances in agriculture, forestry and fishing, manufacturing, electricity and financial intermediary sectors.

61. Services remain the main source of growth. The sector grew from 5.0 percent in 2012 to 6.8 percent in 2016 supported by favourable performance of ICT, real estate, wholesale and retail trade, transport and storage and accommodation and restaurants. Accommodation and restaurants has been the fastest growing sector. It grew from 3.1 percent in 2012 to 13.3 percent in 2016 supported by the improved security situation that led to removal of travel alerts from major tourist originating countries.

62. The growth of the financial and insurance sector accelerated from 6.0 percent in 2012 to 9.4 percent in 2015 supported by reforms aimed at creating a conducive business environment. However, the sector slowed down to 6.9 percent in 2016 and is estimated at 3.2 percent in 2017 partly due to low domestic credit to the private sector and a decline in the growth of interest income.

63. The industry sector grew from 3.5 percent in 2012 to 7.0 percent in 2015 supported by the construction sector as a result of public infrastructural development. The sector slowed down in 2016 and 2017 following subdued performance of the Manufacturing and Electricity and Water Supply sectors.

64. Meanwhile, growth of the agricultural sector rose from 2.8 percent in 2012 to 5.5 percent in 2015 but contracted to (-1.3) percent in first quarter of 2017 due to the prolonged drought that started in the fourth quarter of 2016. Growth in the sector recovered to 3.1 percent as weather conditions improved.

2.3 Growth Updates

65. The Kenyan economy recorded a declined growth of 4.4 per cent in the third quarter of 2017. This was lower than 5.0 per cent in the second quarter of 2017 and 5.7 per cent in the third quarter of 2016. The subdued performance was mainly attributed to heightened electioneering activity which undermined the non-agricultural output. Agriculture sector growth recovered, recording a growth of 3.1 per cent compared to 1.3 per cent in the second quarter of 2017 and 3.8 per cent in the third quarter of2016 on account of favourable weather conditions experienced since the second quarter of the year. Non-agricultural output declined to 4.8 per cent compared to 6.1 per cent in the second quarter of 2017.

66. The Services sector continues to be the main source of growth. It grew by 5.6 per cent in the third quarter of 2017 compared to 6.8 per cent in the same quarter last year. The subdued performance was witnessed in Accommodation and Restaurant, Transport and Storage, Financial and Insurance, Education and Health sectors.

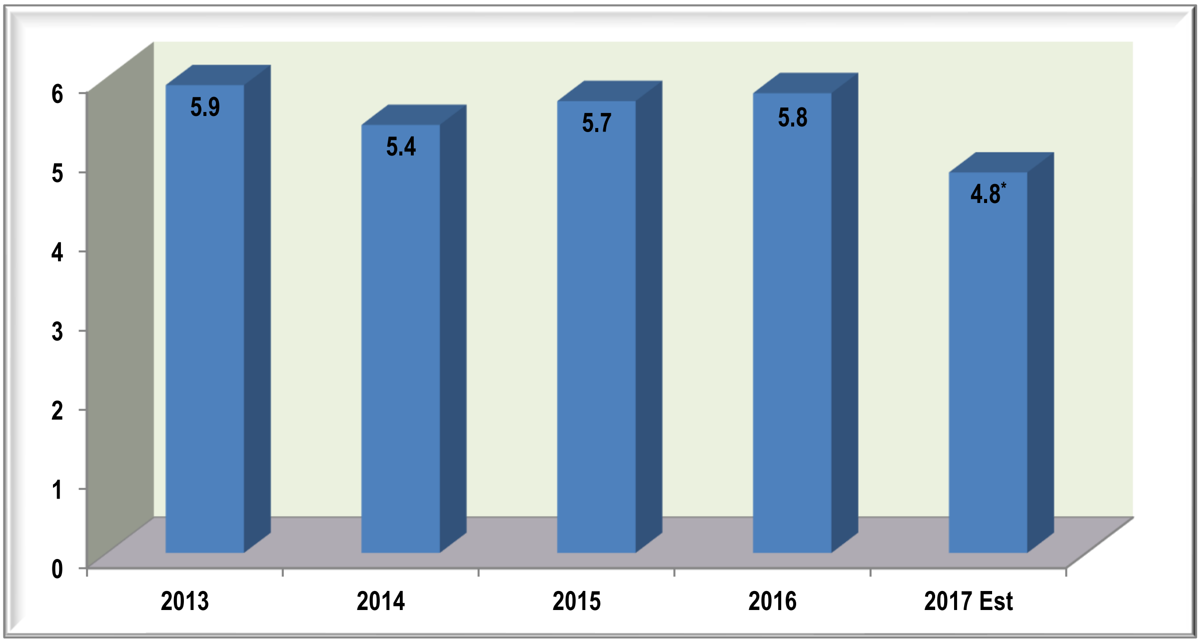
67. The performance of the industry sector decelerated further to 3.4 per cent in the third quarter of 2017 compared to 4.4 per cent in the second quarter of 2017 and 5.7 per cent in the third quarter of 2016 following restrained performance of the Manufacturing, Construction, and Electricity and Water Supply sectors.

Table 2: Gross Domestic Product (GDP) Growth by Activity (%)

	2016				2017		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
1. AGRICULTURE	**4.0**	**7.0**	**3.8**	**0.1**	**-1.3**	**1.3**	**3.1**
2. Non-Agriculture (o/w)	**5.8**	**6.0**	**6.1**	**7.5**	**6.8**	**6.1**	**4.8**
2.1 INDUSTRY	**5.0**	**6.8**	**5.7**	**5.8**	**5.0**	**4.4**	**3.4**
Mining and Quarrying	6.7	10.6	9.8	11.2	9.7	5.7	5.8
Manufacturing	1.7	5.3	4.4	2.5	2.9	2.3	2.1
Construction	10.2	7.6	7.8	11.5	8.4	7.5	4.9
Electricity and water supply	8.6	9.6	5.4	4.7	5.1	6.1	4.8
2.2 SERVICES	**7.0**	**6.7**	**6.8**	**7.7**	**7.7**	**6.8**	**5.6**
Wholesale and retail trade	3.6	2.3	4.3	5	6.1	2.8	3.6
Accommodation and restaurant	10.4	15.7	13.5	14.2	15.8	13.4	7.3
Transport and storage	9.3	7.5	6.2	10.8	10.2	8.3	5.4
Information and communication	10.9	9.1	8.8	9.8	11.4	9.2	9.0
Financial and insurance	8.2	8.1	7.1	4.1	5.3	4.3	2.4
Public administration	5.7	6.6	5.1	3.6	5.4	6.3	6.1
Profession, admin and support services	3.3	5.4	3.8	4.7	4.8	6.4	4.9
Real estate	8.8	8.2	8.5	9.5	9.3	9.7	8.9
Education	6.2	6.0	6.9	6.3	5.9	5.6	4.8
Health	5.1	6.6	7.1	4.5	4.5	5.5	3.3
Other services	5	4.6	4.3	2.8	3.5	1.2	1.0
FISIM	8.4	5.2	1.7	-2.7	3.3	-0.8	0.8
All industries at basic prices	5.7	6.8	5.9	5.7	4.5	4.8	4.6
2.3 TAXES ON PRODUCTS	**2.5**	**2.0**	**3.7**	**9.7**	**6.0**	**6.1**	**3.6**
Real GDP growth	**5.3**	**6.3**	**5.6**	**6.2**	**4.7**	**5.0**	**4.4**

Source: *Kenya National Bureau of Statistics*

Figure 1: Comparative Analysis of Growth Updates on the Kenyan Economy



Source: *Kenya National Bureau of Statistics*

68. The Manufacturing sector remained stabilized in the third quarter of 2017, hampered by low activity in the non-food subsector following the prolonged electioneering period. It recorded a growth of 2.1 per cent in the third quarter of 2017 compared to 2.3 per cent in the second quarter of 2017 and 4.4 per cent in the third quarter of 2016.

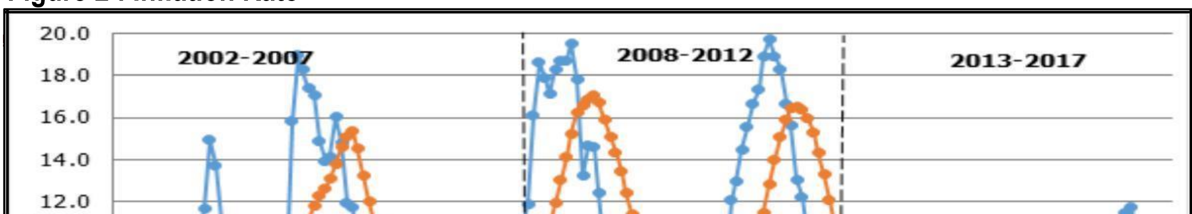
69. Activity in the food sub-sector increased, boosted by a significant increase in the production of maize meal, following the Government subsidy on importation of maize grain to contain maize prices. Production of soft drinks, edible oils and wheat flour also increased during the quarter under review, which supported growth of the manufacturing sector. The sectoral share declined slightly to 10.2 per cent from 10.4 per cent in the third quarter of 2016.

2.4 Macro-Economic Indicators

2.4.1 Inflation

70. Inflation rate has been low, stable and within the Government target range of 5+/-2.5 percent in the period 2013 to 2017 as a result of prudent monetary and fiscal policies. Inflation rate, improved from 6.99 percent recorded at the beginning of 2017 to close at 4.5 percent in December, 2017. However, inflation increased to above target in the first half of 2017 due to drought that affected food prices.

Figure 2 : Inflation Rate



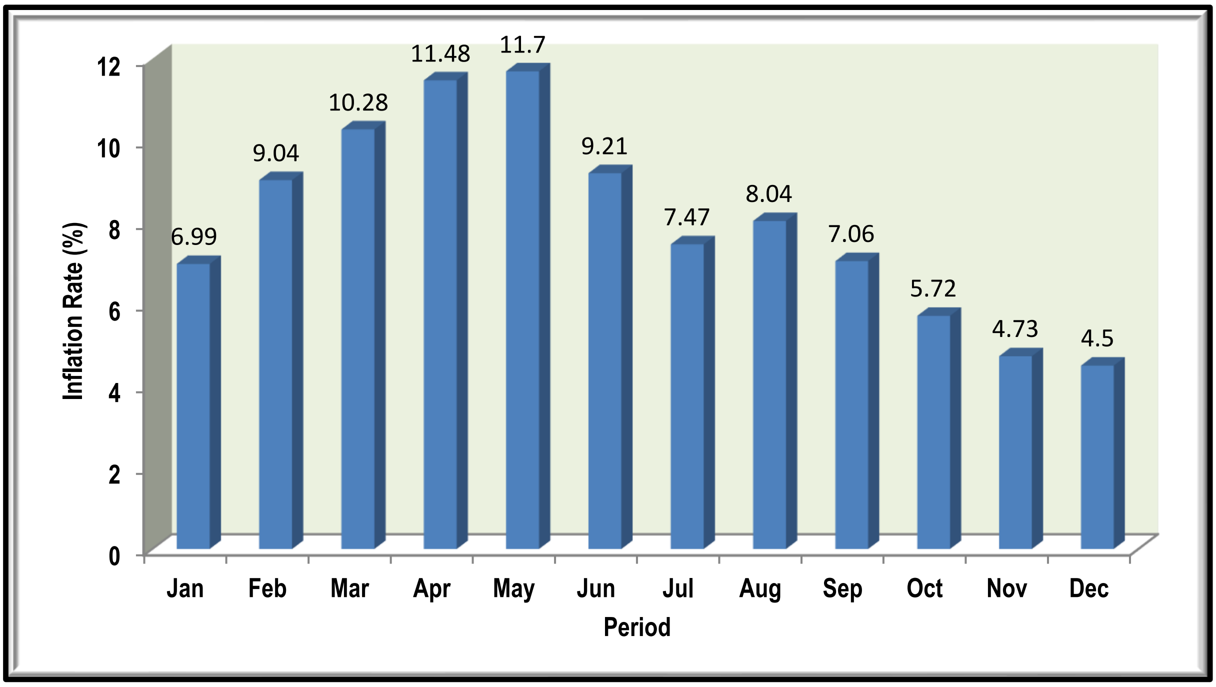
Source: *Kenya National Bureau of Statistics*

71. Inflationary pressures started to ease in the second half of 2017 as the weather situation improved and earlier measures taken by the Government to address the food shortages took effect. These measures included: allowing duty free imports of major food items (maize, wheat, sugar, and milk) and introducing a temporary subsidy on maize meal prices. As a result, overall month on month inflation was 4.5 percent in December 2017 from 6.4 percent in December 2016, and was within the Government’s target range.

72. Core inflation again came in below 5.0 percent in December, signaling that demand pressures remained muted. Although the downward trend in inflation opened room for monetary accommodation to stimulate higher economic activity, the upward price pressures emanating from the rise in oil prices may deter the trend. Nevertheless, inflation is expected to remain well anchored and within the target – band in the near term.

73. With easing inflation rates, the County economy stands to benefit leading to revamped economic activities and eventually an expansion of the county economy. The general downside movement of commodity prices will lead to an automatic reduction of prices for basic commodities including food and fuel, improvement in the citizens’ purchasing power and improved living standards as a result of low cost of living. Other areas expected to benefit include lower prices for inputs such as fertilizer and certified seeds set to improve agricultural productivity and food security. Lower cost of doing business will boost entrepreneurial activities for local entrepreneurs and traders in general.

Figure 3: Inflation Rates

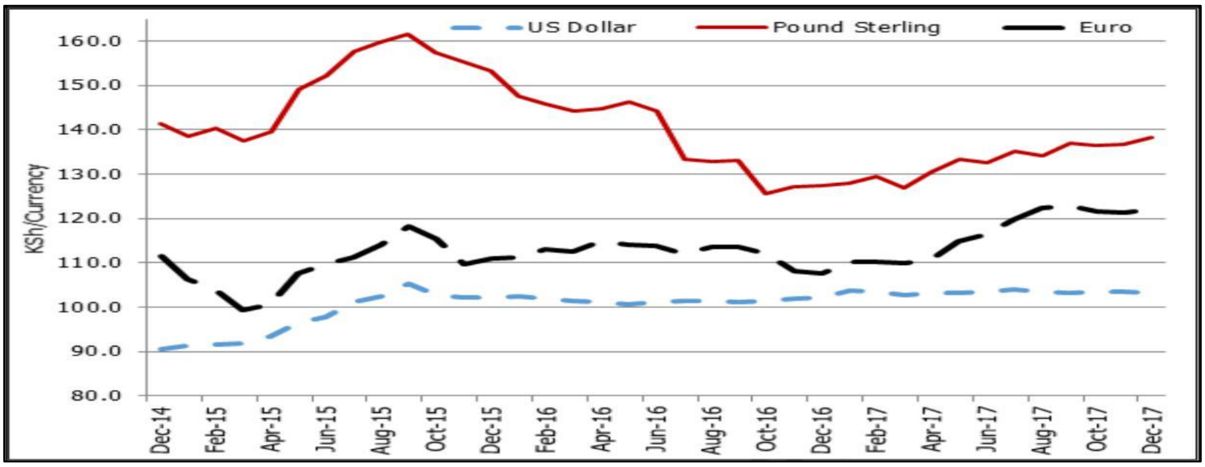


Source: *Kenya National Bureau of Statistics*

2.4.2 Kenya Shilling Exchange Rate

74. The Kenya Shilling exchange rate remained broadly stable against major international currencies. As at December 2017, the shilling exchange rate against the Dollar was at Ksh 103.1 from Ksh 102.1 in December 2016. Against the Euro and the Sterling pound, the Shilling weakened to Ksh 122.0 and Ksh 138.2 in December 2017 from Ksh 107.7 and Ksh 127.7 in December 2016, respectively

Figure 4: Kenya Shilling Exchange Rate



Source: *Central Bank of Kenya*

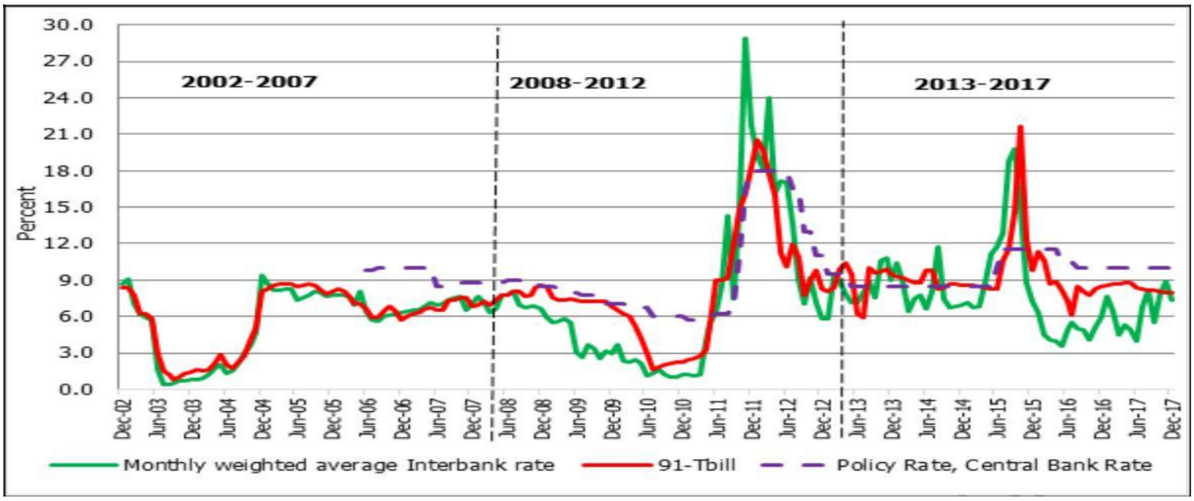
75. The Kenya Shilling exchange rate as compared to most sub-Saharan African currencies has continued to display relatively less volatility. This stability reflected resilient receipts from tea and horticulture despite lower export volumes due to adverse weather conditions in the first quarter of 2017. Additionally, receipts from tourism, coffee exports and Diaspora remittances remained strong.

76. At the county level, lower exchange rate in favour of the Kenyan Currency will be expected to have a positive impact on our county economy. Cost of imports will exhibit a downward movement to the benefit of our importers such as petroleum and petroleum products. Consequently, returns from exports will improve in favour of our exports such as livestock and livestock products due to increased demand for our exports.

2.4.3 Interest Rates

77. Interest rates remained stable and low in the period 2013-2017 except June – December 2015 when world currencies were under pressure. During the period, the policy rate (Central Bank Rate) was adjusted appropriately to anchor inflation expectations. The rate is currently (January 2017) at 10.0 percent since August 2016. The interbank rate has remained low at 7.7 percent in December 2017 from 5.9 percent in December 2016 due to ample liquidity in the money market, while the 91-day Treasury bill rate declined to 8.0 percent from 8.4 percent over the same period. The 182 day and the 364 day Treasury bills averaged 10.6 percent and 11.1 percent in December 2017 from 10.5 percent and 11.0 percent in December 2016, respectively.

Figure 5: Short-Term Interest Rates



Source: *Central Bank of Kenya*

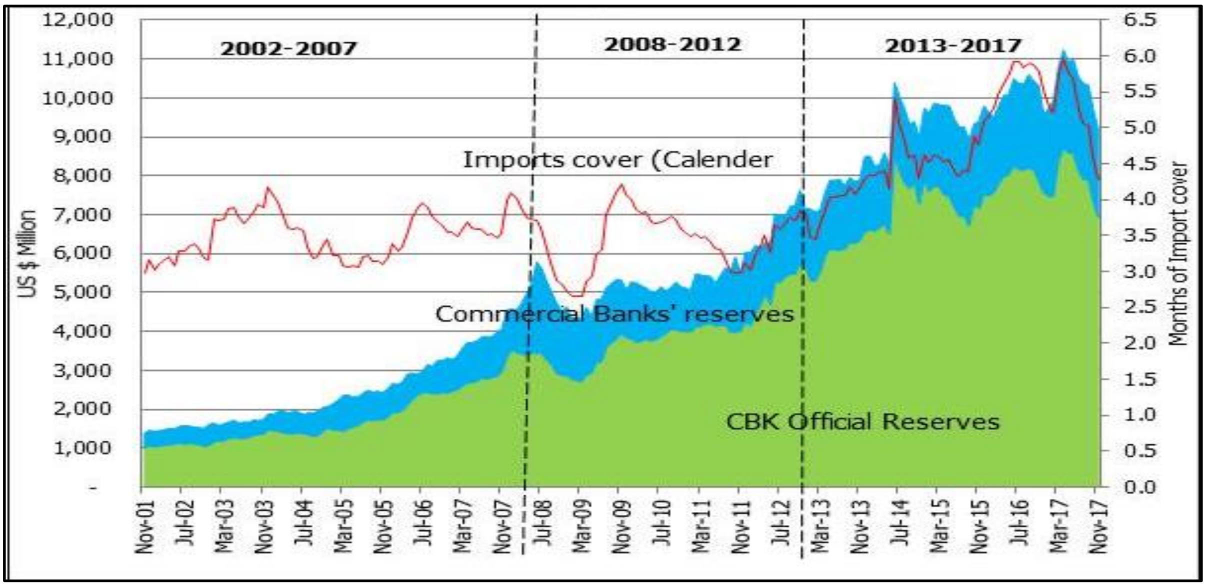
78. The interest rate spread narrowed to 6.0 percent in September 2017 from 6.4 percent in September 2016 with the Commercial banks' average lending interest stabilizing at 13.7 percent over the same period. Meanwhile, the average commercial banks' deposit rate increased to 7.7 percent in September 2017 from 7.3 percent in September 2016. Comparatively, Kenya has the lowest lending rates among the East African countries.

79. Interest rates are one of the important aspects of economic growth. At the county level, lower and stable interest rate would enhance access by county traders and entrepreneurs to cheap credit facilities for business growth as an alternative to the County trade revolving fund. In addition, trade and investment expansion can be easily achieved through access to capital at lower costs thereby increasing potential proceeds from investments

2.4.4 Foreign Exchange Reserves

80. The banking system's foreign exchange holding was at US$ 9,202 million in November 2017 from US$ 10,327 million in November 2016. The official foreign exchange reserves held by the Central Bank remained strong at US$ 6,919.5 million (4.6 months of import cover) in November 2017 compared with US$ 7,872.1 million (5.2 months of import cover) in November 2016 while commercial banks holdings was at US$ 2,282.8 million in 2017 from US$ 2,454.6 million in 2016.

Figure 6: Official Foreign Exchange Reserves (US$ million)



Source: *Central Bank of Kenya*

2.5 General Performance of the County Economy

2.5.1 Overview

81. Overall National macroeconomic fundamentals were stable in 2017. The Central Bank of Kenya (CBK) pursued prudent monetary, fiscal, and exchange rate policies and retained the policy rate at 10 percent to anchor inflation within Government's single-digit range (on average at 8.01%). Fiscal policy was expansionary and focused on financing infrastructure mega-projects such as the completion and operationalization of the Standard Gauge Railway (SGR). As a result, the county economy enjoyed the ripple effects associated from these variables.

82. However, the drought, increased oil prices and the prolonged presidential electioneering period affected the county macroeconomic performance. Continued drought in 2016/17 hindered agricultural productivity and resulted in high inflation for food prices. Prolonged political activities and the presidential election impasse hurt private-sector activity. All these had a negative effect on the County economy. County own revenue collection within the first half period ending 30th December, 2017 was 18.21 percent of the annual target. Consequently, this dismal performance in local revenue collection will have a negative impact on programme and project implementation within the second half period of the FY2017/2018.

83. The county gained from the robust tourist arrivals witnessed during this period registering good performance especially in the hospitality, accommodation and food services sector.The increase in tourist arrivals can be attributed to increased conference tourism, lifting of travel advisories by key tourist source countries such as United Kingdom and France, and continued aggressive marketing in both domestic and international markets. This eased the youth unemployment rate following jobs created by this sector. The county intends to open up more beach access roads as well as improving street lights to improve security in our major towns.

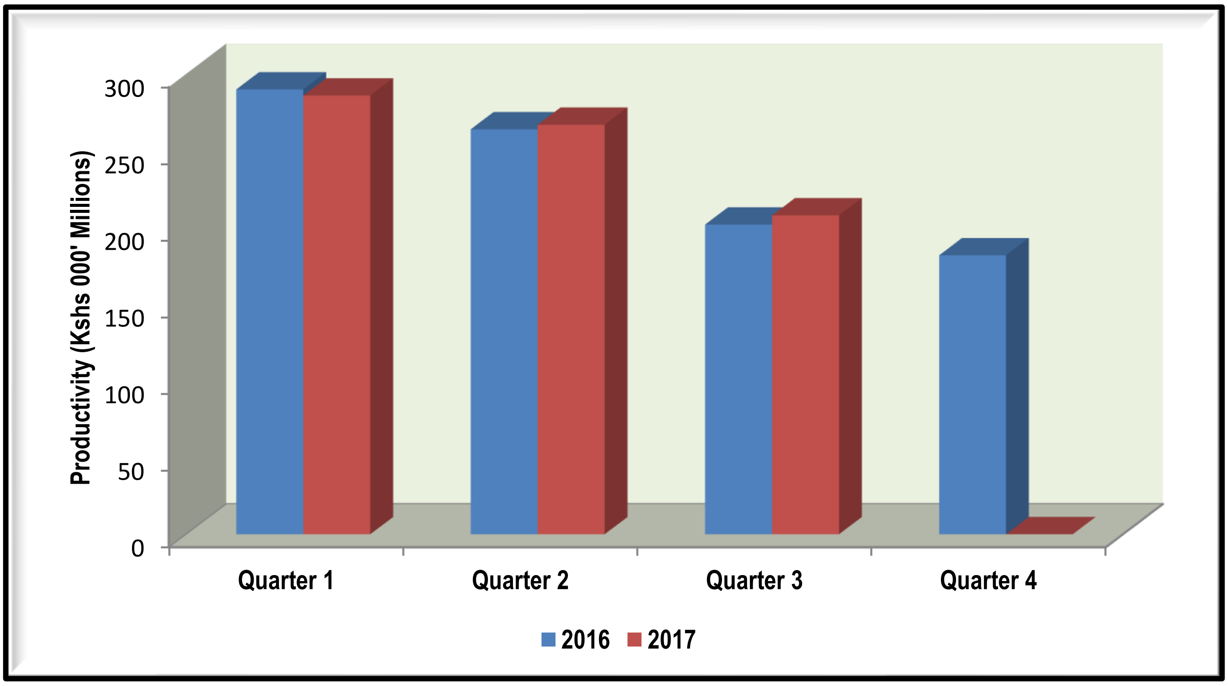
84. According to the World Bank's 2018 Doing Business Report, the business – enabling environment has improved as well. Kenya was ranked third in Africa in the ease of doing business after Rwanda and Mauritius, as the country moved up 12 places to position 80.This can be attributed to the raft measures implemented by the government including reduced construction fees by eliminating fees from the National Environment Management Authority and the National Construction Authority, improved reliability of power supply by setting up a squad specializing in restoring power when outages occur and enhanced systems for filling taxes and tax returns online (revenue automation). This is expected to boost investor's confidence to invest and operate both at the National and County level.

2.5.2 County Economic Activities

2.5.2.1 Agriculture, Forestry and Fishing Sector

85. The Agriculture sector continued to recover in the third quarter of 2017. The sector grew by 3.1 per cent in the third quarter of 2017, an improvement compared to 1.3 per cent in the second quarter of 2017 and 3.8 per cent in a similar quarter of 2016. Growth in the sector was supported by increased production of tea that rose to 102.6 metric tonnes in the third quarter of 2017 and improved performance in the fishing sub-sector that recorded a 21.2 per cent increase from 20.3 thousand metric tonnes in the comparative quarter of 2016.In addition, dry weather conditions that characterized the period led to notable reduction in production of key food crops as evidenced by increases in wholesale prices of dry maize, beans and potatoes. The agriculture sector contributed to 18.8 percent of the country's GDP in the third quarter of 2017, compared to 21.75 percent recorded in 2016.

Figure 7: Agricultural Productivity (Current Prices, Kshs 000' Millions)



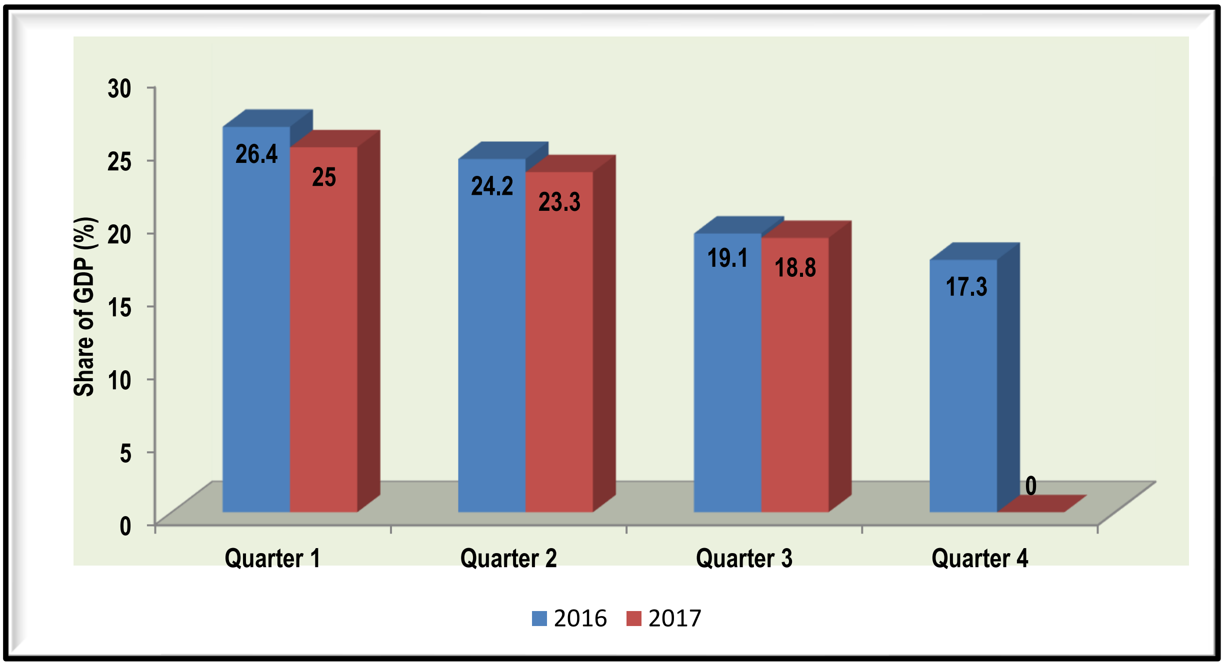
Source: *Kenya National Bureau of Statistics*

86. At the county level, projects that were implemented during this period include county mechanization services which saw 300 farms cultivated using county machinery in each of the 20 wards, provision of certified farm inputs, micro irrigation projects and distribution of livestock breeding stock. As a result, farm productivity for maize, cow peas and green grams has increased to 268,965, 23,900 and 30,950 tonnes respectively. The current acreage on maize, cow peas and green gram production stands at 20868, 3403 and 1595 hectares respectively.

87. In livestock, the county carried out animal breeding and fattening programme for dairy and beef cattle and goats for distribution to livestock farmers. This has had a positive effect on the value of livestock within the County. In addition, to enhance the export of livestock and livestock products, the county will carry out feasibility study on the establishment of a Livestock Export/Disease Free Zone to take advantage of the livestock farming and ranches in both Lungalunga and Kinango.

88. In order to promote fish farming in Kwale, the county government through the division of fisheries development procured assorted fishing accessories including procuring of 12 fishing boats. So far, 10 fishing boats have been distributed to Beach Management Units (BMUs) in Waa-Ng'ombeni, Bongwe-Gombato, Kinondo, Ramisi, Pongwe-Kikoneni and Vanga wards. However, due to group dynamics, the management of these fishing boats has not been satisfactory. As a result, the County Government will emphasize on development of landing sites and strengthen the management of Beach Management Units (BMUs).

Figure 8: Agricultural Sector's Contribution to GDP (%)

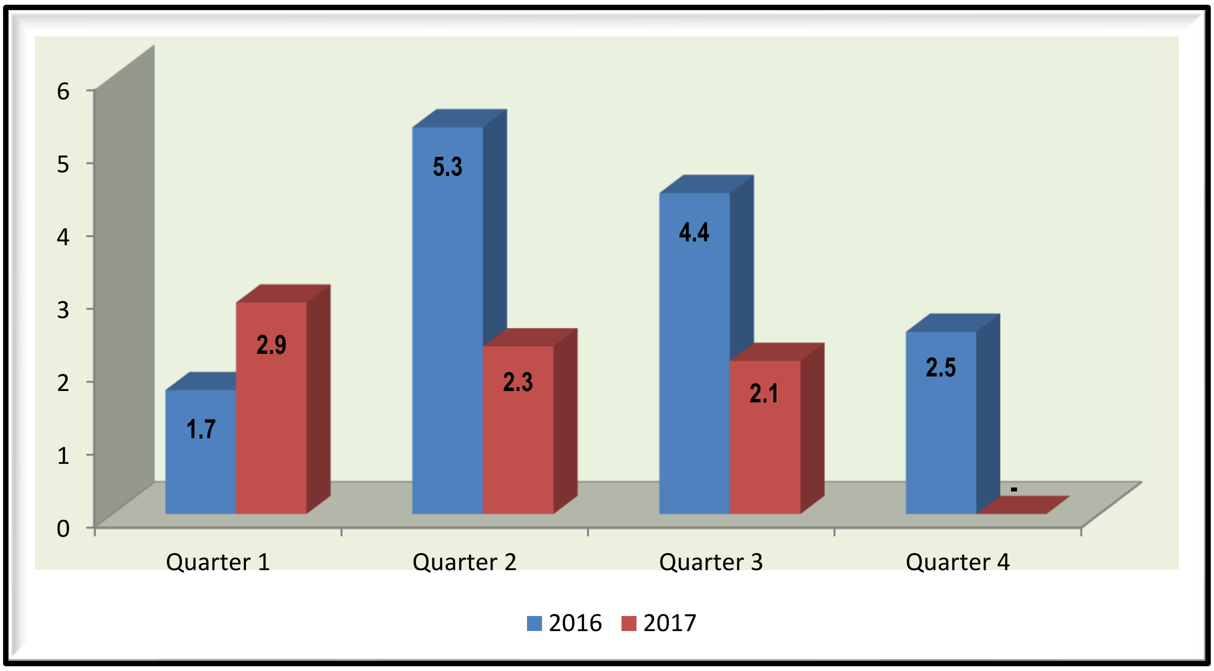


Source: *Kenya Bureau of Statistics*

2.5.2.2 The Manufacturing and Industry Sector

89. The performance of the Manufacturing sector recorded a declining trend in 2017, hampered by low activity in the non-food subsector following the prolonged electioneering period. It recorded a growth of 2.1 per cent in the third quarter of 2017 compared to 2.3 per cent in the second quarter of 2017 and 4.4 per cent in the third quarter of 2016. The sectoral share to GDP declined slightly to 10.2 per cent in the third quarter from 10.4 per cent in the third quarter of 2016.

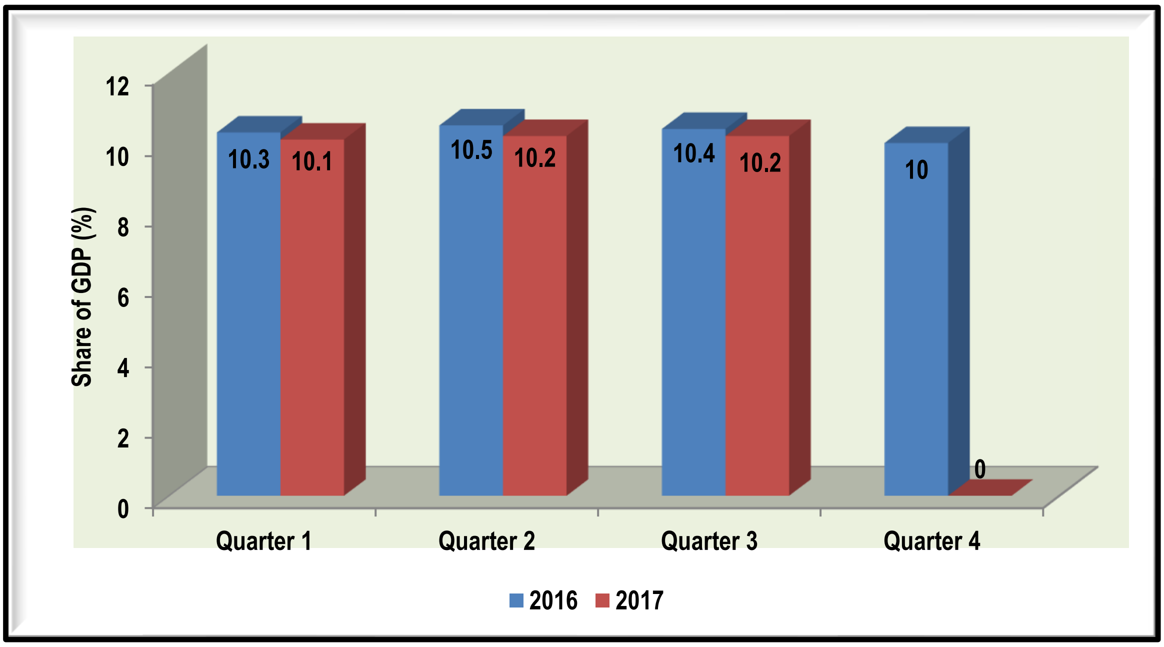
Figure 9: Manufacturing Sector Growth Rate, 2016 – 2017 (%)



Source: *Kenya National Bureau of Statistics*

90. Kwale County has a huge potential in the manufacturing sector. Through the department of Tourism and Enterprise Development, the county supported the JuaKali artisans and stone – carving blacksmiths industries in Mwangoloto in Samburu-Chengoni through construction of jua kali sheds, training, purchase of machines for blacksmiths and payment for exhibition costs. To enhance development of entrepreneurial activities, the county will continue to implement the business development services programme aimed at developing and packaging business ideas for funding, development of entrepreneurial initiatives through business interactive forums and the business round table. The county has also proposed to establish an agro processing plant to tap into the huge raw material potential in tannery, coconuts, cashew nuts and fruits processing.

Figure 10: Manufacturing Sector's Contribution to GDP (%)



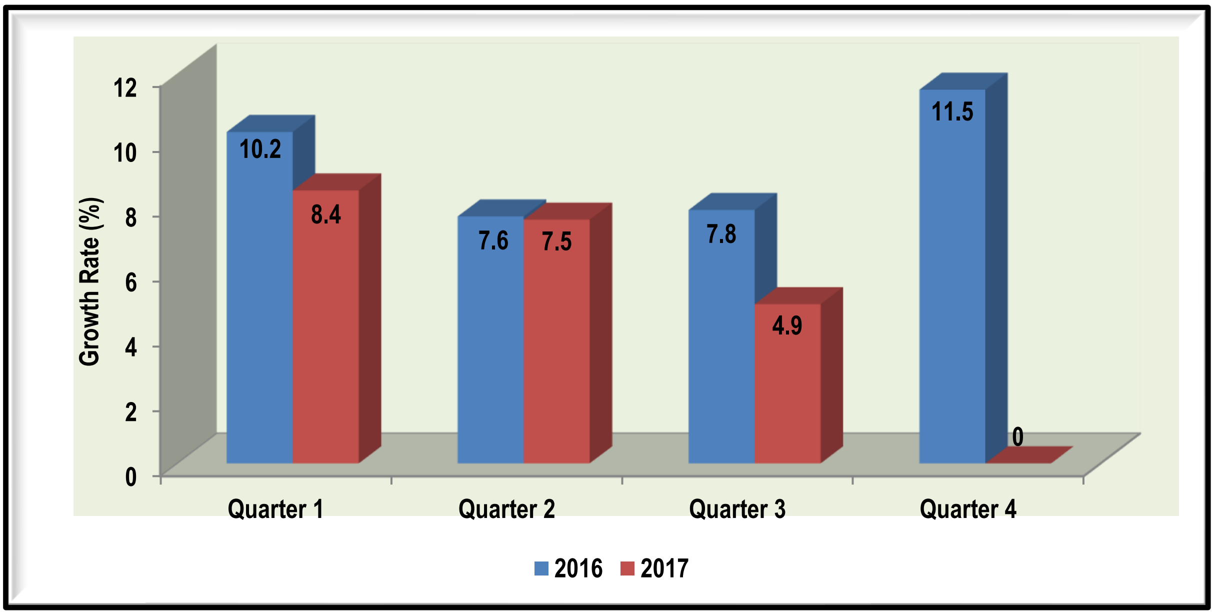
Source: *Kenya Bureau of Statistics*

2.5.2.3 The Construction and Real Estate Sector

91. The Construction sector recorded a decline in performance. The sector grew by 4.9 per cent in the third quarter of 2017, slower than 7.5 per cent in the second quarter of 2017 and 7.8 per cent growth in the third quarter of 2016, and growth was constrained as investors scaled down construction activities following the prolonged electioneering period. In 2016, the construction sector grew by 9.3 percent. In terms of GDP contribution, the sectoral share to GDP increased to 5.6 per cent in the third quarter compared to 5.3 per cent in the previous quarter but was stable compared to the third quarter of 2016.

92. The real estate sector continues to record robust growth despite slowdown in credit, supported by robust property development across the country. The sector grew by 8.9 per cent in the third quarter of 2017, compared to 9.7 per cent in the second quarter of 2017 and 8.5 per cent in the third quarter of 2016. The sectoral share to GDP increased to 9.0 per cent in the third quarter of 2017, compared to 8.6 per cent in the previous quarter and the same quarter of 2016.

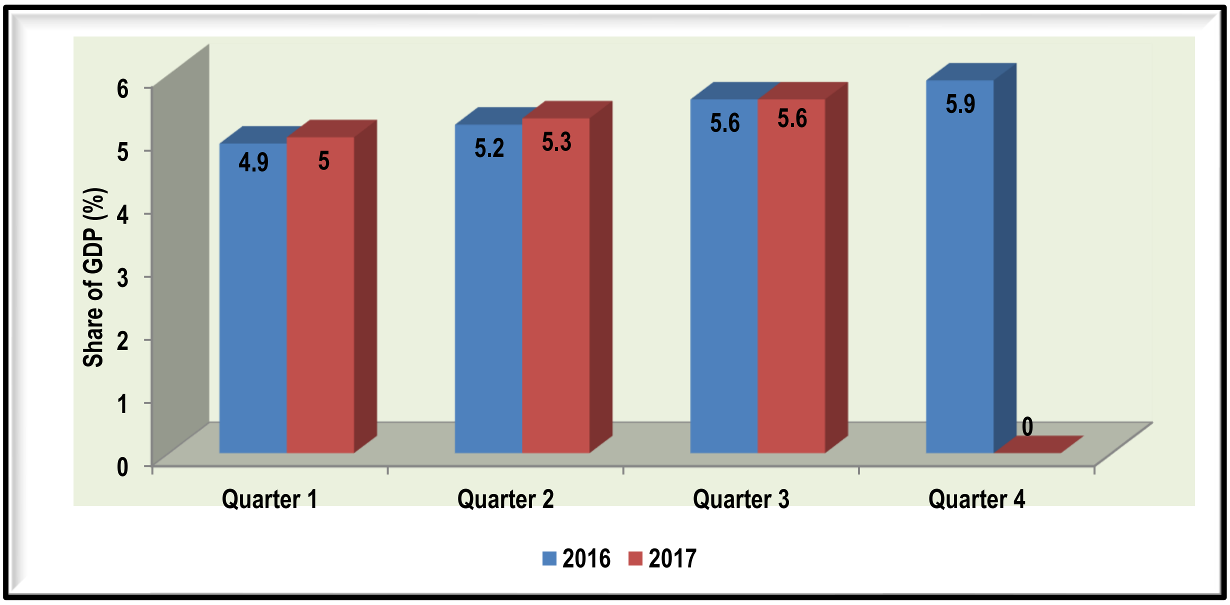
Figure 11: Building and Construction Sector Growth Rate, 2016 – 2017 (%)



Source: *Kenya National Bureau of Statistics*

93. The Department of roads and infrastructure at the county level continue to be allocated a bigger share of development resources for road opening and rehabilitation. During the first six months period ending 30th December, 2017, the county opened up and rehabilitated an estimated 101.7 Kms of roads county wide, compared to 631.5 Kms and 592.1 Kms done in 2016/17 and 2015/16 respectively thereby easing access and transportation of farm products to the markets.In addition, Kwale County will strive to providing better and low cost housing units to staffs by renovating and refurbishing county staff houses.

Figure 12: Building and Construction Sector's Contribution to GDP (%)

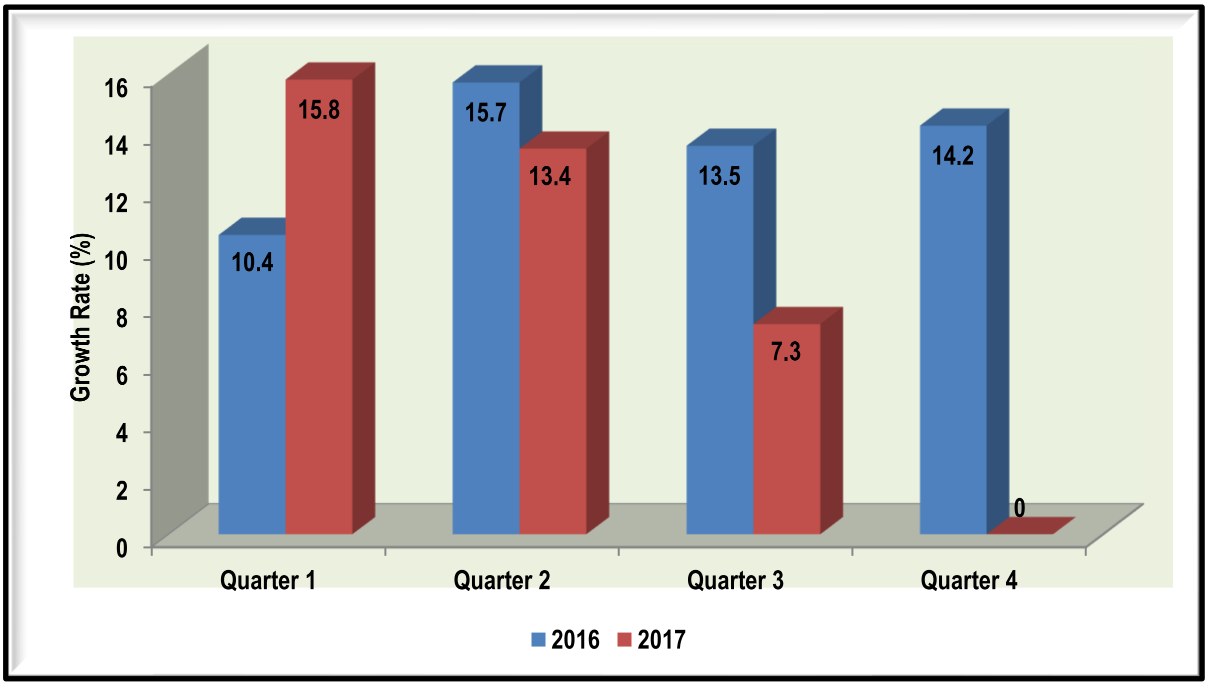


Source: *Kenya Bureau of Statistics*

2.5.2.4 Tourism Sector

94. Growth in the Accommodation and Restaurant sector remained strong, supported by higher tourist arrivals. The sector grew by 7.3 per cent in the third quarter of 2017. However, growth was lower compared to 13.4 per cent in the second quarter of 2017 and 13.5 per cent in the third quarter of 2016, following reduced hotel bed occupancy following political uncertainty experienced during the third and fourth quarter of 2017.

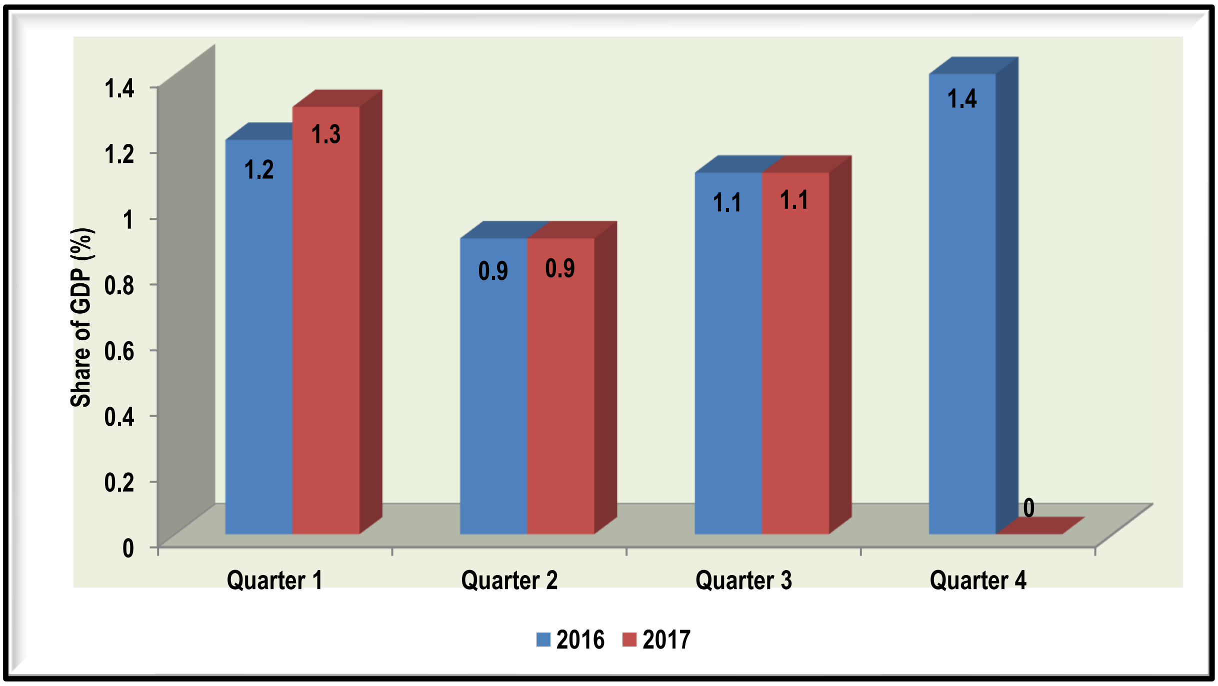
Figure 13: Tourism Sector Growth Rate, 2016 – 2017 (%)



Source: *Kenya National Bureau of Statistics*

95. Overall tourist arrivals increased by 32.3 per cent in the third quarter of 2017 compared to the previous quarter. Additionally, cumulative tourist arrivals increased by 11.5 per cent in the first half of 2017 compared to a similar period in 2016.The highest inflow of tourists during the quarter was recorded in July 2017 as Kenya hosted the IAAF World Under-18 Championships in Nairobi. Monthly tourist arrivals at Jomo Kenyatta International Airport (JKIA), in Nairobi and the Moi International Airport Mombasa (MIAM) increased in July 2017, but declined in September 2017. When compared to the third quarter of 2016, overall tourist arrivals increased by 7.3 percent, pointing to continued recovery of the tourism sector.

Figure 14: Tourism Sector's Contribution to GDP (%)



Source: *Kenya Bureau of Statistics*

96. Kwale County's main tourist attraction sites are Shimba Hills National Reserves, Mwaluganje sanctuary, marine reserves and forests, coral and sandy beaches, bird habitat areas, hotels, turtle breeding grounds and sky diving. Measures undertaken to improve performance of the sector within the county include installation of street lights along the 10 Km Diani beach roads to enhance security of tourists and locals. This stretch hosts among others, Diani Beach hotel and Leopard Beach Resort and Spa which scooped the prestigious World Tourism Award (WTA) prize for being the best beach destination and best Spa in Africa, respectively. Other measures include opening up of beach access roads and tourism marketing.

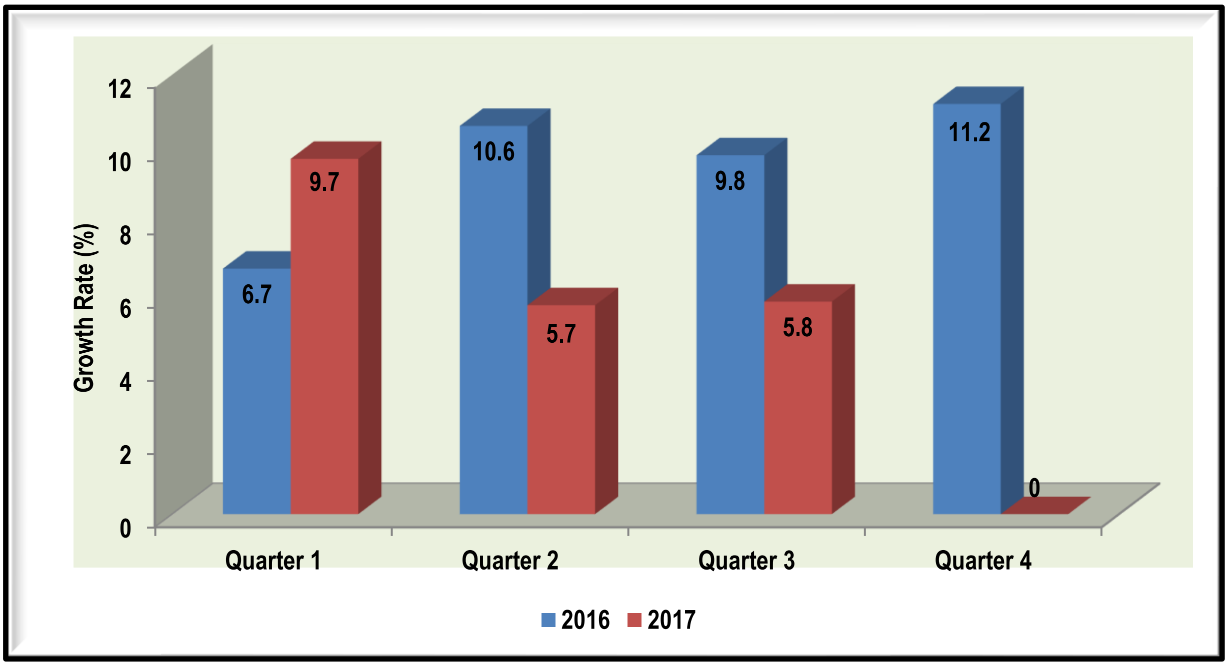
97. With the tourism sector slowly gaining momentum, Kwale County stands to gain from the increasing tourism activities. Youth unemployment is expected to reduce as more youths get engaged from the multiplier effects arising from robust tourism activities. As a result, crime activities and insecurity is expected to go down further thereby increasing investors and traders confidence in investing and working towards a 24hr working economy.

2.5.2.5 Mining Sector

98. The mining and quarrying sector grew at 5.8 percent during the third quarter of 2017, an improvement from 5.7 percent recorded in the second quarter of 2017.The increase was mainly attributed to high earnings from titanium minerals of ilmenite, rutile and zircon in the export markets which is a major contribution from Kwale County. Earning from titanium ores accounted for more than half of the minerals value. The sector's contribution to GDP sustained at 1.1 percent for the last two years 2016 and 2017.

99. Although the value of titanium ore mined in Kwale County accounted for more than half of the minerals value, the county is yet to reap from the mining activities. This has been caused by the delay in enactment of the Mining law. Over 300 people are currently employed by Base Titanium and its contractors, out of which 65% are from Kwale County working as middle level managers and other lower cadres.

Figure 15: Mining Sector Growth Rate, 2016 – 2017 (%)



Source: *Kenya National Bureau of Statistics*

2.6 Fiscal Performance in FY 2016/17 and Emerging Challenges

2.6.1 Overview

100. Implementation of the FY 2017/18 budget is on course although performance is lagging behind targets due to the delays in the release of funds by the National Exchequer. Implementation of county programmes and projects was further hampered by the General Elections held on 8th August and the repeat of the same on the 26th October, 2017.

2.6.2 County Revenue Performance

101. In the first six months of the year, the County received a total cumulative revenue of **Ksh. 1,868,029,316.00**from both the National Government and the County own revenue. This represents a significant reduction of **25.78 percent** compared to **Ksh. 2,516,880,770.00** collected during the same period in FY2016/17. In addition, the County Government rolled over Ksh. 1,835,334,734.38 to the FY2017/18 as commitments from the previous FY2016/17.

102. The National Government remittances amounted to Ksh. 1.82 Billion by the end of the half year period ending 30th December, 2017 against Ksh. 2.44 Billion collected in a similar period in FY2016/17. The county own revenue collected during this period stood at Ksh. 50.08 Million compared to Ksh. 78.79 Million collected during the same period in the previous year. This has had a downside impact on programme and project implementation by the County spending organs.

103. County own source revenue collection still remains behind target due to a number of challenges ranging from absence of updated local tax laws, presence of revenue leakages to inadequate enforcement and compliance personnel. The revenue automation system needs to be fast - tracked to enhance local revenue collection by improving transparency, accountability and efficiency.

Table 3: Actual Revenue Collection as at half year period, FY2017/18

REVENUE SOURCE	ACTUAL REVENUE AS AT 30TH DECEMBER, 2017		
	QUARTER 1	QUARTER 2	TOTAL
Parking Fees	2,001,227.00	2,104,511.00	4,105,738.00
Land Rates	6,360,984.00	2,887,520.00	9,248,504.00
Single Business Permits	1,962,070.00	916,575.00	2,878,645.00
Plans Inspection{Building plan approval}	283,507.00	395,976.00	679,483.00
Advertising	487,260.00	2,495,600.00	2,982,860.00
Rent (County Houses, Market stalls, County commercial buildings)	190,400.00	815,100.00	1,005,500.00
Revenue from trade & co-operative	-	16,800.00	16,800.00
Agricultural Produce {Revenue from Agriculture livestock & fisheries}	-	156,500.00	156,500.00
Land Revenue	442,301.00	516,590.00	958,891.00
Royalties	3,769,017.00	3,753,076.00	7,522,093.00
Hospital Fees	1,327,665.00	5,434,850.00	6,762,515.00
Public health & sanitation	739,685.00	315,700.00	1,055,385.00
Other Revenues Not Classified anywhere {miscellaneous}	144,300.00	501,985.00	646,285.00
Cess	1,619,159.00	1,805,271.00	3,424,430.00
Market Fees	935,372.00	1,116,112.00	2,051,484.00
Transit Goods	812,600.00	724,119.00	1,536,719.00
Auction Fees	1,485,464.00	1,831,089.00	3,316,553.00
Garbage Fees	640,000.00	543,000.00	1,183,000.00
Slaughter	350,928.00	196,304.00	547,232.00
Own Revenue	**23,551,939.00**	**26,526,678.00**	**50,078,617.00**
National Government Remittances	101,852,012.00	1,716,098,687.00	1,817,950,699.00
TOTAL REVENUE	**125,403,951.00**	**1,742,625,365.00**	**1,868,029,316.00**

Source: *Kwale County Treasury*

2.6.3 County Expenditure Performance

104. During the first six months ending 30th December, 2017, the County Government spent a total of **Ksh. 2,142,428,188.00** against an approved annual budget of Ksh. **9,710,703,780.00,** representing an absorption rate of 22.04 percent. In terms of recurrent and development expenditures, the county spent Kshs. 1.61 Billion and Kshs. 535.62 Million respectively as at end of the first six months. This represents 32.86 percent and 11.23 percent absorption rates for recurrent and development respectively.

Table 4: Actual Expenditure as at half year period, FY2017/18

DEPARTMENT	ACTUAL EXPENDITURE		
	RECURRENT	DEVELOPMENT	CUMMULATIVE EXPENDITURE
COUNTY EXECUTIVE SERVICES	50,843,494.00	-	**50,843,494.00**
PUBLIC SERVICE AND ADMINISTRATION	152,926,544.00	17,226,402.00	**170,152,946.00**
FINANCE AND ECONOMIC PLANNING	117,047,720.00	12,557,158.00	**129,604,878.00**
AGRICULTURE, LIVESTOCK AND FISHERIES	60,624,596.00	13,718,493.00	**74,343,089.00**
EDUCATION, RESEARCH AND HR DEVELOPMENT	171,342,108.00	139,487,951.00	**310,830,059.00**
HEALTH SERVICES	720,211,923.00	108,875,017.00	**829,086,940.00**
TRADE AND COOPERATIVE DEVELOPMENT	16,885,463.00	4,308,934.00	**21,194,397.00**
COMMUNITY DEVELOPMENT, CULTURE AND TALENT MANAGEMENT	26,557,019.00	28,986,982.00	**55,544,001.00**
INFRASTRUCTURE AND PUBLIC WORKS	51,809,389.00	69,406,493.00	**121,215,882.00**
TOURISM, INVESTMENT AND ICT	15,328,599.00	27,394,517.00	**42,723,116.00**
LANDS, PHYSICAL PLANNING AND NATURAL RESOURCES	12,900,770.00	1,399,840.00	**14,300,610.00**
WATER SERVICES	18,208,588.00	104,000,431.00	**122,209,019.00**
COUNTY PUBLIC SERVICE BOARD	10,462,778.00	-	**10,462,778.00**
COUNTY ASSEMBLY	181,663,272.00	8,253,707.00	**189,916,979.00**
TOTAL	**1,606,812,263.00**	**535,615,925.00**	**2,142,428,188.00**

Source: *Kwale County Treasury*

CHAPTER THREE: MEDIUM TERM OUTLOOK AND MACROECONOMIC POLICY FRAMEWORK

3.1 Medium Term Economic Outlook

3.1.1 External Environment

105. The World Bank forecasts global economic growth to edge up to 3.1 percent in 2018 after a much stronger-than-expected 2017, as the recovery in investment, manufacturing, and trade continues. Growth in advanced economies is expected to moderate slightly to 2.2 percent in 2018, as central banks gradually remove their post-crisis accommodation and the upturn in investment growth stabilizes. Growth in emerging markets and developing economies as a whole is projected to strengthen to 4.5 percent in 2018 as commodity exports continue to recover amid firming prices. While the growth path of mature markets will remain solid in the short term, potential for much faster growth is limited, and a growth slowdown is likely to set in later in the decade. As some major emerging markets are maturing especially China, they are unlikely to return to growth trends of the past.

106. In sub-Saharan Africa growth in the region is anticipated to pick up to 3.2 percent in 2018 from 2.4 percent in 2017. Stronger growth will depend on a firming of commodity prices and implementation of reforms. A drop in commodity prices, steeper-than-anticipated global interest rate increases, and inadequate efforts to ameliorate debt dynamics could set back economic growth. South Africa is forecasted to tick up to 1.1 percent growth in 2018 from 0.8 percent in 2017. Nigeria is anticipated to accelerate to a 2.5 percent expansion this year from 1 percent in the year just ended.

107. The world bank reports further states that, among East African countries, Ethiopia is likely to remain the fastest growing economy, but growth is expected to soften as it takes measures to stabilize government debt. Growth is expected to recover in Kenya, as inflation eases, and to firm in Tanzania on strengthening investment growth.

3.1.2 Kenya's Macroeconomic Outlook

108. According to African Development Bank (ADB) report, the real GDP for Kenyan economy was a robust 5.8 percent in 2016, driven mainly by services (which accounted for 66 percent of growth) and industry (which accounted for 19 percent of growth). Agriculture accounted for 15percent of growth, the lowest in recent years. Growth in services was driven by real estate (which grew 12percent) and transport and storage (which grew 10 percent), and growth in industry was driven by construction (which grew 8.2 percent) and manufacturing (which grew 6.2percent). Real GDP growth declined to an estimated 5percent in 2017, due to subdued credit growth caused by caps on commercial banks' lending rates, drought, and the prolonged political impasse over the presidential election.

109. The half-year estimates show that the economy remained fairly resilient, growing at 4.8percent. Services accounted for 82percentof that growth and industry accounted for 17percent; agriculture's poor performance continued. The economy is projected to rebound to GDP growth of 5.6 percent in 2018 and 6.2 percent in 2019.

110. The ADB further observed that macroeconomic fundamentals were stable in 2016. Authorities pursued prudent monetary, fiscal, and exchange rate policies. The Kenya Central Bank retained the policy rate at 10 percent to anchor inflation at the single-digit level (6.3%). Fiscal policy was expansionary and focused on financing infrastructure mega-projects. Higher government spending, coupled with weaker revenue mobilization, increased the budget deficit to 8 percent and the public debt–to GDP ratio to 54 percent. The December 2016 International Monetary Fund (IMF)–World Bank Debt Sustainability Analysis put the country at low risk of debt stress.

111. The balance of payments deficit improved slightly to 0.6 percent of GDP for the year ending June 2017, from 1.7 percent for the year ending June 2016, on the back of improved current, capital, and financial account balances. This progress increased foreign exchange reserves by 0.8 percent to a new high of $7.8 billion at end June 2016. The increase in foreign reserves, as well as the precautionary arrangement with the IMF amounting to $1.5 billion, contributed to exchange rate stability.

112. Economic performance in 2017 was mixed. The drought and the presidential election crisis likely affected macroeconomic performance. Inflation increased to an estimated 8.8 percent; the budget deficit remained high, at an estimated 7.8 percent of GDP; and the current account deficit increased to 5.9 percent of GDP. The economy is projected to be stronger from 2018 onward.

113. The county economic outlook is dependent on above macroeconomic factors which will influence the National Economy. As the National Economy remains to be resilient and strong in the coming years it is envisaged that the County economy will grow as risks arising out of political activities, adverse climatic conditions, inflationary pressures, insecurity are contained.

3.2 Risks to the Outlook

114. The macroeconomic outlook outlined above may have risks which may impact on effective and efficient implementation of the county policies and strategic priorities. Risks emanate from both the external economic environment as well as the domestic economy.

3.2.1 External risks

115. The external risks from the global economies will arise from uncertainties in the global financing markets. The other major risk likely to cause a downward trend in the growth of global economies is the increasing tension on the production and use of nuclear weapons. Trade and financials among the developed economies are likely to be affected.

3.2.2 Domestic risks

The following are risks to the domestic macroeconomic outlook:-

116. Increasing fuel prices may hinder growth prospects in most of emerging markets and developing economies in sub-saharan Africa, middle East and Latin America. Imports for most inputs will be expensive to obtain and this may be a setback to industrial and manufacturing growth.

117. Volatility in exchange rates may increase the risk arising from external exchange rates shocks. Exporters may be hard hit in terms of reduced returns.

118. Political uncertainty due to increased political and human rights activities may scare away investors and thus hinder direct foreign investments and also private sector development.

119. Interest rates instability is one factor which may impede growth of the private sector. On the other hand, the law on capping of interest rates by commercial banks may lead to lower returns in financial services sector. Small and medium-term enterprises have witnessed credit squeeze as banks develop stringent measures to curb loans defaulting and imminent increase of non-performing loans. The slow growth of credit and introduction of new financing rules by banks may hinder the country's growth forecast of 6 per cent by 2019.

120. Increasing public debt and high long term interest rates may expose the country to worsening public debt dynamics. This may also eat into government revenues thereby further worsening the budget deficits.

3.2.3 County Macroeconomic Outlook risks

The macroeconomic outlook at the County may face the following risks:-

121. Increasing wage bill due to continued recruitment of employees in public service at the County will shrink the resources to be allocated for development. In the long-run this will impede the objective of rapid socio-economic development.

122. Delays in the release of funds from the National Treasury poses risk to the County economic outlook. Delays often lead to late implementation of county programmes and projects. As the public expenditure on projects is delayed, contractors, supplies and manufacturers are affected. This has the overall effect of reduced investments in the local economy and especially the building and construction sectors and others.

123. Adverse weather conditions resulting in drought may cause inflation in food items. In severe cases this may cause starvation and hunger necessitating drought emergency services. This also has a multiplier effect on the other sectors and the productivity of labour and growth of the economy.

124. Lower revenue collection against the target at the National Level by the Kenya Revenue Authority may impede growth of the equitable share of income for counties. While this is the case, low local revenue collection may impact negatively in sustaining growth at the county.

125. The county government remains cautious to the potential risks that may emanate from adverse weather conditions, lower revenue collection than the targets, shocks in the macroeconomic environment, insecurity, adverse weather conditions and the threats caused by climate change which may dampen the performance of the economy. The county government will devise strategies and adaptation measures to mitigate the risks.

3.2.4 Adherence to Fiscal Responsibility Principles

126. The County government will aim at developing a fiscal policy that will have its objectives conforming to the principles of public finance as outlined in section 107 of the Public Finance Management Act, 2012. This is explained as follows:-

- Over the medium term, a minimum of 30 percent of the county budget to be allocated to development expenditure. The proposed development expenditure in this CFSP translates to **about 47.1 percent** of total county budget. The County Government intends to sustain this rate over the medium term.

- The county government's expenditure on wages and benefits for its employees shall not exceed a certain percentage of the county government revenue as prescribed by regulations. On wages and benefits, the share of expenditure to our total revenue was 23.50 percent in FY 2014/2015, 31 percent in FY 2016/2017, 26.85 percent in FY 2017/2018 and to be **maintained at about 32.7 percent in FY 2018/19**. The wage bill rate for FY 2018/2019 will be below the 35 percent threshold given in the Public Finance Management Regulations 2015.
- Over the medium term, the county government borrowings shall be used only for the purpose of financing development expenditures and not for recurrent expenditure. The county government's policy is aimed at utilizing any external financing only for capital projects.
- Public debt and obligations shall be maintained at a substantial level as approved by the County Assembly. In our medium term debt strategy, the county government shall at all times ensure public debt sustainability.
- Fiscal risks shall be managed prudently. The county government shall put up appropriate mitigation strategies to arrest such risks as they arise.
- 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. The Finance bill and other associated bills shall be fast tracked to ensure there is efficient and effective collection of our revenues.

CHAPTER FOUR: FY 2018/19 BUDGET AND THE MEDIUM TERM

4.1 Fiscal Policy Framework

127. The Fiscal policy to be pursued in the medium term 2018-2022 continues to be one that supports rapid socio-economic transformation and sustainable development. The policy will thus be guided by our resolve to allocate more resources to development priority areas and curtailing non-priority recurrent expenditures. The County Government of Kwale will continue with the rationalization of recurrent expenditures in the financial year 2018/19 to save resources. Resources that are saved will be re-directed to fund the county strategic priority areas that will be stipulated in the 2018-2022 CIDP and the subsequent Annual Development Plans (ADPs).

128. Financial management has been strengthened through the Integrated Financial Management Information System (IFMIS) platform at the County Treasury. This is expected to be rolled out to the other departments as well as to the Sub Counties and wards offices by 2022. This is expected to accelerate reforms in the County expenditure management system in line with the fiscal responsibility principles.

129. Our Fiscal policy will guard against the threat of rising wage bill. The fiscal policy in the medium term will continue to ensure a county wage bill that does not exceed 35 per cent of the total revenue as required by regulation 25 (1) (b) of the PFMA, 2015 for County Governments. There is an evident relationship between high wage bill and low development expenditures. The County Government will develop appropriate structures to establish an optimal staffing level to ensure a sustainable wage bill in the medium term. Other guidelines provided by the Salaries and Remuneration Commission (SRC) and measures contained in the report of the Capacity Assessment and Rationalisation of the Public Service Programme (CARPS) will be embraced.

130. The County Government expenditure has declined form an average rate of 78.9 per cent to 74.3 per cent between FY 2015/16 and FY 2016/17. The absorption rates for recurrent expenditures were relatively higher than the development expenditures between the two financial years. In FY 2015/16 there was 89.4 per cent absorption of recurrent funds while in FY 2016/17 it was 87.9 per cent. For the development expenditure between the same period, the absorption rates were lower at 68.4 percent and 60.7 percent respectively. Generally over the five years development expenditure absorption rate was lower than that of recurrent expenditure.

131. The low absorption rate is partly caused by the delays in release of funds from the National Treasury, procurement challenges and capacity deficits to implement the projects and also planning. The National Government in conjunction with development partners is implementing the Kenya Devolution Support Program (KDSP) which will address challenges faced by counties in planning, procurement, budget execution, monitoring and reporting.

132. The underperformance in collection of own source revenue(OSR) is still a major concern. This concern is partly due to improper forecasting where unrealistic targets are set beyond the county's collection capacity. The low local revenue collection could also be caused by inefficiency in the systems used and lack of appropriate legislation.

133. In this CFSP 2018, it is expected that recommendations made in the latest 2017 County Budget Review and Outlook Paper (CBROP) will be actualised. These recommendations include; fast tracking of the revenue automation system to enhance collection efficiency, enhancing of supervision and compliance through the recruitment of enforcement officers, the establishment of a new valuation roll for property rates and rents and enactment of the Finance bill and other affiliated laws. Further, the County Government will support the National Treasury's intended strategy to roll out capacity building programmes across counties on revenue forecasting and tax analysis.

4.2 FY 2018/2019 Medium Term Budget

4.2.1 Revenue Projections

134. The fiscal framework for the FY 2018/19 budget is based on the County Government's policy priorities and macroeconomic economic policy framework outlined above.

135. In the FY 2018/19 the county government has projected revenue collection of about Ksh**.8, 617,671,314.00** from all the revenue sources. The county government is expecting to receive Ksh**7, 610,400,000.00** as its equitable share of revenue from the National Government. This will be a great improvement from previous financial year's allocation of Ksh**7, 248,000,000.00**.

136. The Conditional grants and National Government grants and loans amounting to **Ksh764,159,009.90** will consist of : allocation for development of youth polytechnics, compensation for user fees forgone, leasing of medical equipment, road maintenance levy, World Bank loan to supplement financing of county health facilities, World Bank Grant on Kenya devolution support programme, World Bank grant for Universal health care project, European Union Grant for instruments for devolution advice and support and World Bank loan for National Agricultural and Rural Inclusive Growth project.

137. The targeted county own source revenue has a slight decline from Ksh**275,000,000.00** in FY 2017/18 to Ksh**243,112,304.00** targeted for **FY 2018/2019**.

Table 5: Summary of Expected County Revenue Envelope for MTEF Period FY 2017/2018-FY 2019/2020

SOURCE	FY 2017/2018 ESTIMATES	FY 2018/2019 PROJECTIONS	FY 2019/2020 PROJECTIONS
EQUITABLE SHARE	7,248,000,000.00	7,610,400,000.00	7,990,920,000.00
COUNTY OWN SOURCE REVENUE	275,000,000.00	243,112,304.60	255,267,919.83
SUB TOTAL	**7,523,000,000.00**	**7,853,512,304.60**	**8,246,187,919.83**
CONDITIONAL GRANTS			
Allocation for Development of Youth Polytechnics	43,762,833.00	48,139,116.30	52,953,027.93
Compensation for user fee forgone	15,209,593.00	16,730,552.30	18,403,607.53
Leasing of medical equipment	95,744,681.00	105,319,149.10	115,851,064.01
Road maintenance levy	218,390,206.00	240,229,226.60	264,252,149.26
SUB TOTAL	**373,107,313.00**	**410,418,044.30**	**451,459,848.73**
LOANS AND GRANTS FROM DEVELOPMENT PARTNERS			
World Bank Loan to Supplement Financing of County Health facilities	37,075,000.00	40,782,500.00	44,860,750.00
World Bank Grant on Kenya Devolution Support Programme	47,394,016.00	52,133,417.60	57,346,759.36
Conditional allocations-other loans and grants	38,819,208.00	42,701,128.80	46,971,241.68
World Bank Grant for Universal Health Care Project	67,495,496.00	74,245,045.60	81,669,550.16
DANIDA Grant to Supplement Financing of County Health facilities	14,798,976.00	16,278,873.60	17,906,760.96
World bank loan for national agricultural and rural inclusive growth project	50,000,000.00	55,000,000.00	60,500,000.00
EU grant for instruments for devolution advice and support	66,000,000.00	72,600,000.00	79,860,000.00
SUB TOTAL	**321,582,696.00**	**353,740,965.60**	**389,115,062.16**
TOTAL COUNTY REVENUE	**8,217,690,009.00**	**8,617,671,314.50**	**9,086,762,830.72**

Source: Kwale County Treasury

4.2.2 Expenditure Projections

138. In the financial year 2018/2019 Kwale county overall expenditures are projected at KShs**.8, 617,671,314.50,** up from the approved total expenditure of KShs**8, 217,690,009.00** in the **FY 2017/2018** budget. Recurrent expenditures are expected to reduce to KShs**4.56 Billion** from KShs**4.83**billion in the current **FY 2017/18**. Development expenditures are projected to increase to **4.06 billion** from Ksh. **3.04 billion** in the current FY 2017/18.

139. Expenditure ceilings on goods and services for the sectors/departments are based on funding allocation in the FY 2017/18 budget. The ceilings will further be reduced taking into account one off expenditures in the FY 2017/18 budget and then an adjustment factor of not more than 10 per cent is applied to account for the general increase in prices.

4.3 Budgetary Allocations for the MTEF Period FY 2018/2019-2020/21

140. This 2018 CFSP proposes **47.1** per cent of the budget to be allocated to development programmes while the balance of **52.9** per cent to be for recurrent expenditures.

Table 6: 2018/19- 2020/21 Medium Term Expenditure Framework Development Sector Ceilings

SECTOR		Ceiling 2018/2019	PROJECTIONS	
			2019/2020	2020/2021
AGRICULTURE, RURAL AND URBAN DEVELOPMENT	**TOTAL**	**383,745,032.40**	**444,490,486.00**	**488,939,534.60**
Agriculture, Livestock and Fisheries	Sub Total	234,000,000.00	288,616,293.90	317,477,923.29
Environment and natural resources management	Sub Total	149,745,032.40	155,874,192.10	171,461,611.31
ENERGYAND INFRASTRUCTURE	**TOTAL**	**723,848,794.91**	**906,188,528.30**	**996,807,381.13**
Roads and public works	Sub Total	723,848,794.91	906,188,528.30	996,807,381.13
GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS	**TOTAL**	**254,000,000.00**	**343,616,293.90**	**377,977,923.29**
TOURISM AND ENTERPRISE DEVELOPMENT	Sub Total	254,000,000.00	343,616,293.90	377,977,923.29
HEALTH SERVICES	**TOTAL**	**652,000,237.60**	645,848,881.70	710,433,769.87
EDUCATION	**TOTAL**	**573,155,495.60**	536,892,942.30	590,582,236.53
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	**TOTAL**	**331,714,057.40**	**364,885,451.70**	**401,373,996.87**
County Assembly	Sub Total	100,000,000.00	110,000,000.00	121,000,000.00
County Executive Services	Sub Total	90,931,932.00	100,025,125.20	110,027,637.70
Public Service and Administration	Sub Total	81,931,932.00	103,061,601.50	113,367,761.70
Finance and Economic planning	Sub Total	47,089,760.40	51,798,725.00	56,978,597.50
County Public Service Board	Sub Total	0	0	0
SOCIAL SERVICES AND TALENT MANAGEMENT	**TOTAL**	**242,820,321.80**	298,962,219.60	328858441.6
WATER SERVICES	**TOTAL**	**911,545,479.74**	922,263,994.30	1014490394
TOTAL	**TOTAL**	**4,057,407,998.00**	**4,463,148,797.80**	**4,909,463,677.58**

Source: Kwale County Treasury

Table 7: 2018/19- 2020/21 Medium Term Expenditure Framework Recurrent Sector Ceilings

SECTOR		Ceiling 2018/2019	PROJECTIONS	
			2019/2020	2020/2021
AGRICULTURE, RURAL AND URBAN DEVELOPMENT	**TOTAL**	**252,362,938.88**	**266,599,232.31**	**293,259,155.54**
Agriculture, Livestock and Fisheries	Sub Total	195,696,313.13	215,265,944.44	236,792,538.89

Environment and Natural Resources Management	Sub Total	56,666,625.75	51,333,287.86	56,466,616.65
ENERGY, INFRASTRUCTURE AND ICT	**TOTAL**	**216,659,906.05**	**392,325,896.66**	**431,558,486.32**
Roads and Public Works	Sub Total	216,659,906.05	392,325,896.66	431,558,486.32
GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS	**TOTAL**	**138,987,314.57**	**97,886,046.03**	**107,674,650.63**
Tourism and Enterprise Development	Sub Total	138,987,314.57	97,886,046.03	107,674,650.63
HEALTH SERVICES	**TOTAL**	**1,508,059,542.49**	1,658,865,496.74	1,824,752,046.41
EDUCATION	**TOTAL**	**797,206,824.75**	792,245,704.35	871,470,274.78
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	**TOTAL**	**1,373,055,497.33**	**1,610,069,035.67**	**1,771,075,939.24**
County Assembly	Sub Total	491,804,086.00	696,160,652.78	765,776,718.06
County Executive Services	Sub Total	173,687,746.88	191,056,521.57	210,162,173.72
Public Service and Administration	Sub Total	230,941,073.95	254,035,181.35	279,438,699.48
Finance and Economic planning	Sub Total	431,014,233.50	430,115,656.85	473,127,222.54
County Public Service Board	Sub Total	45,608,357.00	38,701,023.13	42,571,125.44
SOCIAL SERVICES AND TALENT MANAGEMENT	**TOTAL**	135,811,209.23	149,392,330.15	164,331,563.17
WATER SERVICES	**TOTAL**	134,459,914.75	48,905,906.25	53,796,496.87
TOTAL		**4,560,263,316.50**	**5,016,289,648.15**	**5,517,918,612.97**

Source: Kwale County Treasury

141. From the foregoing analysis and presentation the total expenditure ceilings under each department will be as given in the table below.

Table 8: Provisional Expenditure Ceilings for the FY 2018/2019 and their ranking

DEPARTMENT	CEILING FY 2018/19	PERCENTAGE	RANK

County Executive Services	264,619,678.88	3.07	11
Public Service and Administration	312,873,005.95	3.77	10
Finance and Economic Planning	478,103,983.50	5.08	6
Agriculture, Livestock and Fisheries	429,696,313.13	5.32	7
Education	1,370,362,320.35	14.01	2
Health Services	2,160,059,780.09	24.31	1
Tourism and Enterprise Development	392,987,314.57	4.66	8
Social Services and Talent Management.	378,631,531.03	4.73	9
Roads and Public Works	940,508,700.96	13.7	4
Environment and Natural Resources Management	206,411,658.15	2.19	12
Water Services	1,046,005,394.49	10.25	3
County Public Service Board	45,608,357.00	0.41	13
County Assembly	591,804,086.00	8.5	5
SUB TOTAL	**8,617,671,314.50**	**100.00**	

Source: Kwale county treasury

4.4 Key Priorities for the 2018/19 Medium Term Budget

142. The key priorities to be implemented by the county government in the FY 2018/2019 budget and the medium term shall be based on programmes and projects identified in the County Annual Development Plan FY 2018/2019. The Annual Development Plan priorities are linked to the realisation of county strategic objectives mentioned in the County Integrated Development Plan 2018-2022 and also to the programmes and projects to be implemented in the Third MTP of Vision 2030. Efforts shall also be made to domesticate the Sustainable Development Goals SDGs in our fiscal plan.

143. The county transformation agenda is pegged on implementing high impact programmes and projects that will ensure faster socio-economic growth by creating the much needed jobs, increasing incomes of the citizens, improving the standard of living and thereby reducing poverty and inequality. The National Government Budget Policy Statement 2018 introduced the “Big Four” Plan to be implemented over five years 2018-2022. The County Fiscal plan will also aim at creating an enabling environment towards the realization of the objectives of the “Big Four” Plan. Adequate resources will thus be allocated to meet some of the Big Four Plan especially on food security and universal health care.

144.The County key priorities are categorized as follows: (i)investing in quality, affordable and accessible health care services and other social services (education and social services);(ii) investing in key infrastructural facilities including county access road networks, water and sanitation systems, energy, markets and local industries; (iii) promoting value addition and agricultural transformation and value addition through increased extension services, farm mechanization, irrigation, livestock development and fisheries promotion.(iv) working towards environmental protection, sustainable utilization of natural resources and the effective management of land;(v)enhancing governance, transparency and accountability in the delivery of services and promoting citizen participation in county programmes.

145.These priorities shall be achieved through the implementation of key flagship projects(i)Sports and performing arts academies under the department of social services and talent management(ii)Fruits processing plant under the department of Tourism and Enterprise development(iii)Tarmacking of 58 km of key roads in our 4 sub- counties under the department of Roads and Public works.(iv)6 major dams and 2 main pipelines under the department of Water services.(v)Oncology centre at Msambweni Hospital under the department of Health Services(vi)ECDE training centre in Kinango under the department of Education and(vii)County Spatial Plan under the department of Environment and Natural Resources.

4.5 Allocation Baseline Ceilings

146. Spending levels of departments in the current budget FY 2017/2018 will be reflected in our resource allocation criteria. Therefore baseline estimates will be based on budget implementation by departments. In the recurrent expenditure personnel emoluments which are non-discretionary shall take first charge followed by other crucial expenditures like medical cover, legal fees and PFM processes and capacity building.

147. On development expenditures, resources shall be allocated to implement the priorities of the County Annual Development Plan FY 2018/2019 and support interventions mentioned in the MTPIII of the Vision 2030. Kwale County Government is committed to improving the implementation and absorption capacity of capital projects. In apportioning funds for capital projects the criteria to be used shall include:

(a) **On -going projects:** adequate funds shall be allocated to complete on- going projects which had budget shortfalls and are crucial in realization of the county transformation agenda.

(b) **Flagship projects:** high impact projects with multiplier effect across the county sectors will be given priority and adequate funds provided to realize county faster transformation and changing lives of the citizens.

(c) **Counterpart funding: projects** initiated by development partners especially under the provision of clean and safe water to residents and agricultural transformation and food security shall also be receive adequate funding.

(d) **Strategic interventions:** priority will also be given to other strategic interventions in education, social services, youth, women and persons with disabilities empowerment and environmental conservation.

148. Based on the above criteria, the FY 2018/19 MTEF Budget will focus on the following:

- **The Health sector** to address the challenges faced in the provision of healthcare services and expanding the existing infrastructure in the County. The sector will receive bulk of development resources in FY **2018/19** at KShs.**2,160,059,780.09**
- Enhancing support to education by expanding the county infrastructure in early childhood education and development of youth polytechnics. The sector will be allocated **KSh.1,370,362,320.35**
- Capital investments in roads and public works and water services. The two sectors will be receiving the third largest share of the budget funds at **Kshs.940,508,700.96 and Ksh1,046,005,394.49 respectively.** This reflects the county government's commitment in improving infrastructure in the county for faster economic growth.
- The other sectors which will receive adequate funding to support the transformation agenda will include :(i)Agriculture sector which is vital for expansion of food production and value addition in agro-processing industry. Allocation to this sector is pegged at

Kshs.429,695,313.13(ii) Social services and talent management **(Kshs.378,631,531.03)(**iii) Tourism and enterprise development (**Kshs.392,987,314.57),** and (iv) Environment and natural resources management(**Kshs.206,411,658.15)** .

- Governance and the promotion of citizen participation in county programs shall also receive adequate funding. This will ensure effective service delivery and promotion of the devolution objectives. The departments under this sector shall be funded as follows(i)County Assembly(**591,804,086.00**)(ii)County Executive (**Kshs.264,619,678.88)(**iii)Public Service and Administration **(Kshs. 312,873,005.95**) and Finance and Economic planning (Kshs.478,103,993.90).

4.6 Finalization of Spending Plans

149. The finalization of the detailed budgets will entail thorough scrutiny to curtail spending on non-productive areas and ensure resources are directed to priority programmes. In the event that additional resources become available following careful and proper scrutiny of county departments' detailed budgets and affirming of the resource envelope the county government will utilize them to accommodate the key county strategic priorities.

150. Specifically, the following will receive priority:

- ❖ Interventions identified during the stakeholders consultation for FY 2018/19 MTEF budget;
- ❖ Strategic interventions in the areas of health, education, food security enhancing programmes, water services and empowerment of youth, women and persons with disabilities
- ❖ Emergent programmes and interventions which the County Executive Committee will find necessary and have the approval of the County Assembly.
- ❖ Specific consideration to enhance job creation for the youth based on sound initiatives identified within and outside the normal budget preparation.

4.7 Details of Sector Priorities

151. Table 9below provides the projected baseline ceilings for the FY 2018/19 and the medium term classified by sector.

Table 9: Medium Term Sector Ceilings, 2018/19 - 2020/21

SECTOR		Estimates 2017/18	Ceiling 2018/19	PROJECTIONS	
				2019/20	2020/21
AGRICULTURE, RURAL AND URBAN DEVELOPMENT	TOTAL	502,782,799.03	636,107,971.28	711,089,718.31	782,198,690.14

Agriculture, Livestock and Fisheries	Sub Total	352,345,654.70	429,696,313.13	503,882,238.34	554,270,462.18
Environment and Natural Resources Management	Sub Total	150,437,144.33	206,411,658.15	207,207,479.96	227,928,227.96
ENERGY, INFRASTRUCTURE AND ICT	**TOTAL**	**840,142,101.69**	**940,508,700.96**	**1,298,514,424.96**	**1,428,365,867.45**
Roads and Public Works	Sub Total	840,142,101.69	940,508,700.96	1,298,514,424.96	1,428,365,867.45
GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS	**TOTAL**	**470,368,144.00**	**392,987,314.57**	**441,502,339.93**	**485,652,573.92**
Tourism and Enterprise Development	Sub Total	470,368,144.00	392,987,314.57	441,502,339.93	485,652,573.92
HEALTH SERVICES	**TOTAL**	**2,727,599,165.33**	**2,160,059,780.09**	**2,304,714,378.44**	**2,535,185,816.28**
EDUCATION	**TOTAL**	**1,748,114,560.36**	**1,370,362,320.35**	**1,329,138,646.65**	**1,462,052,511.31**
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	**TOTAL**	**1,960,013,258.90**	**1,693,009,111.33**	**1,974,954,487.37**	**2,172,449,936.11**
County Assembly	Sub Total	760,640,914.31	591,804,086.00	806,160,652.78	886,776,718.06
County Executive Services	Sub Total	220,671,872.46	264,619,678.88	291,081,646.77	320,189,811.44
Public Service and Administration	Sub Total	417,299,972.07	312,873,005.95	357,096,782.85	392,806,461.13
Finance and Economic planning	Sub Total	517,210,904.16	478,103,983.50	481,914,381.85	530,105,820.04
County Public Service Board	Sub Total	44,189,595.90	45,608,357.00	38,701,023.13	42,571,125.44
SOCIAL SERVICES AND TALENT MANAGEMENT	**TOTAL**	**391,106,247.61**	**378,631,531.03**	448,354,549.75	493,190,004.73
WATER SERVICES	**TOTAL**	**1,070,577,503.45**	**1,046,005,394.49**	971,169,900.55	1,068,286,890.60
TOTAL	**TOTAL**	**9,710,703,780.00**	**8,617,671,314.50**	**9,479,438,445.95**	**10,427,382,290.55**

Source : Kwale county treasury

4.7.1 Agriculture, Rural and Urban Development (ARUD) Sector

152. The objective of this sector is to enhance food security, income generation, employment and wealth creation and poverty reduction. This sector is key in accelerating socio economic growth and development through forward and backward linkages with the other priority sectors of the economy.

153. The Agriculture sector has proposed programmes to promote food security, raise rural incomes through creation of rural farm employment, and revamp extension services to improve both crop and animal husbandry. To assist farmers in accessing farm inputs, the County Government will continue with the provision of farm inputs to farmers and technical assistance to improve on crop yields.

During the plan period, efforts will be made towards promotion of agro-processing industries for value addition of fruits and horticultural products.

154. The County will also focus on diversification of livestock production activities to meet the overall strategic objective of ensuring food security. Livestock disease control shall be undertaken through the construction and rehabilitation of cattle dips as well as animal vaccination.To improve fish production thereby creating employment and generating income, the Programmes on provision of assorted fishing accessories, provision of cooling equipment and value addition of fish products will be undertaken. To support the fishermen, the County will procure and fully equip one deep sea fishing boat and develop landing sites at Bodo in Ramisi ward and Tsunza in Kinango ward.

155. To undertake these programmes, the sector will require **Kshs.636.1Million** in the financial year 2018/19. KShs**242.4million** will be for recurrent purposes and **Kshs.383.7 Million** will be for development expenditure.

4.7.2 Education

156. This sector is represented by the department of Education, Research and Human Resource Development. The mandate of the sector at the county is Early Childhood Development and Education and youth vocational training.

157. During the plan period, the sector intends to expand the early childhood Development Education by establishing an additional 40 centres and also increase the number of ECDE care givers. At the tertiary level, the County intends to establish a teachers training college in Kinango as a flagship project, construct a home craft centre in Matuga, construct additional classrooms/ workshops in existing facilities and fully equip the polytechnics.

158. The bursary and scholarship programme will continue to be a significant contribution to promotion of education in the county. Bursaries to school children from poor families will continue as well as scholarships for bright students in national schools. The County will also target provision of scholarships to specific degree programmes which are in high demand for the county's socio-economic development.

159. In order to implement the prioritized programmes, the sector has been allocated Ksh **1,370.4 Million, Ksh 1,329.14Million** and **Ksh 1,462.05**Million for the financial years 2018/2019, 2019/2020 and 2020/21 respectively. Recurrent expenditure allocation is

Ksh797.21Million, Ksh 792.25 Million and **Ksh 871.47 Million** for FY 2018/2019, 2019/2020 and 2020/21respectively whereas development expenditure for the same period is **Ksh573.1 Million, Ksh 536.89 Million**, and **Ksh 590.58 Million** respectively.

4.7.3 Health

160. This sector is represented by the department of Medical and Public Health Services. The Health sector's goal is to attain equitable, affordable, accessible and quality health care for all. This will be achievable through elimination of the communicable diseases, minimizing exposure to health risks, strengthening emergency services, promoting diagnostic health services, improving the doctor-patient ratio and enhancing health insurance.

161. Going forward, the county will concentrate on expansion of the existing facilities to enhance accessibility of health services, the supply of medical drugs and pharmaceuticals and the expansion of the maternal and child care services while recruiting more health workers to improve on the doctor-patient ratio. The County will also continue with the programme on improving diseases diagnostics by investing in specialized equipment for the sub county hospitals and establishment of a centre for the diagnosis and treatment of cancer(oncology centre)at the Msambweni County Referral Hospital**.**

162. To implement the prioritized programmes, the sector has been allocated **Ksh 2,160.1** Ksh 2,304.71 and Ksh 2,535.19Million for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively. Recurrent expenditure allocation is **Ksh 1,508.06Million**, Ksh 1,658.87Million and Ksh 1,824.75 Million for FY 2018/2019,2019/2020 and 2020/2021 respectively, whereas development expenditure for the same period is **Ksh652.00Million**, Ksh 645.85Million,andKsh710.43Million.

4.7.4 Energy, Infrastructure and Information, Communication and Technology Sector

163. This is one of the key strategic sectors for the county. This sector has the overall objective of developing and maintaining physical infrastructure for rapid and sustainable economic growth. The county government of Kwale will invest in infrastructural facilities including roads and buildings by developing appropriate policies, providing technical support and also mobilize resources from both the public and private sectors to develop and maintain the roads, buildings and other public works.

164. The County Government will support and supplement the National Government's objective of ensuring wider access to energy by households, institutions and businesses. In particular, this sector will support the rural electrification projects on streetlights and floodlights. This will encourage business and also improve on security.

165. The flagship projects of tarmacking roads in this sector will provide the stimuli to open up areas for development. The county government will tarmac about 10 kilometres in Ukunda urban area. The County Government will continue working with the National Government to fast track the upgrading of the Samburu-Kinango road to bitumen standard.

166. In order to implement the prioritized programmes, the sector has been allocated **Ksh 940.51 Million, Ksh1,298.51 Million** and **Ksh 1,428.36 Million** for the financial years 2018/2019,2019/2020 and 2020/2021 respectively. Recurrent expenditure allocation is **Ksh356.66 Million,Ksh392.33Million** and **Ksh431.56Million** for FY 2018/2019,2019/2020 and 2020/2021 respectively, whereas Development expenditure for the same period is **Ksh723.85 Million, Ksh 906.19Million**, and **Ksh 996.81 Million.**

4.7.5 General Economic and Commercial Affairs Sector

167. The sector comprises of the department of Tourism and Enterprise development**.** This is a strategic sector in the county for long-term socio-economic development .This sector is key in offering employment opportunities, creation of wealth and reducing poverty. There is huge potential in this sector which has not been fully tapped.

168. The Kwale County Trade Revolving Fund (KCoTREF) will be rejuvenated by the putting in place an appropriate policy framework after amending the existing bill. This will allow for faster approval and release of funds. This will boost the access to credit facilities by traders. This will also be supported by business training to ensure effective utilization of the loans and also develop an entrepreneurial culture among the residents.

169. To create an enabling environment for the small scale traders and the micro enterprises and hawkers, the County Government will continue to establish new markets and expanding the existing ones. This will create employment and generate more revenue to the County.

170. Tourism promotion is another intervention that is expected to attract investors in the county. Rehabilitation of roads and other infrastructure development in the areas near the beaches will be undertaken. The county will also establish a state of the art conference centre in Ukunda to boost conference tourism**.**

171. In order to implement the prioritized programmes, the sector has been allocated **Ksh 392.99 Million, Ksh 441.50 Million** and **Ksh 485.65 Million** for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively. Recurrent expenditure allocation is **Ksh 88.99Million, Ksh 97.87Million** and **Ksh 107.67Million** for FY 2018/2019,2019/2020 and 2020/2021 respectively, whereas development expenditure for the same period is **Ksh254.0 Million,** Ksh**343.62Million**,andKsh**377.98**Millionrespectively.

4.7.6 Social Protection, Culture and Recreation Sector

172. This sector deals with the promotion of culture and heritage, arts and sports development, social services and youth, women and persons with disabilities. This sector has the responsibility to change social attitudes of the people and shaping social change for rapid county transformation.

173. In the county, the youth population comprises of about 53 percent of the total population while that of women is over 50 percent. These two groups constitute a larger portion of the unemployed population in the county and increase the dependency ratio. In recognition of this fact, the County Government will continue with the Youth, Women and Persons with Disabilities Fund to offer credit facilities to engage in business and other income generating activities. The two groups will be encouraged to form groups and be assisted to start income generating activities.

174. Under sports and arts development, the County will establish an arts centre with modern facilities as well as rehabilitate sports fields. To promote sports and youth development, the county will construct and fully equip a modern stadium facility.

175. In order to implement the prioritized programmes, the sector has been allocated Ksh **378.6** Million, **Ksh 448.35 Million** and **Ksh 493.19 Million** for the financial years 2018/19, 2019/20 and 2020/21 respectively. Recurrent expenditure allocation is **Ksh 135.81 Million, Ksh 149.39 Million** and **Ksh 164.33Million** for the financial years 2018/19, 2019/20 and 2020/21respectively, whereas development expenditure for the same period is Ksh**242.82 Million**, **Ksh298.96 Million**, and **Ksh 328.86 Million** respectively.

4.7.7 Environmental Protection, Water and Natural Resources

176. The overall goal of this strategic sector is to provide clean and safe water for all the citizens in the county. Safe water for domestic use is a basic human right and it is the responsibility of a nation or county to ensure that water is adequately available to all citizens. Provision of clean and safe water will result in a healthy and productive population.

177. The FY 2018/2019 CFSP priorities will include the assessment, survey and design of water pipeline and surface water supply systems, the drilling, development and equipping of new boreholes, construction and rehabilitation of water pipelines and the rehabilitation of dams and water pans. This strategy paper proposes the undertaking of two flagship projects to improve on water accessibility. These are urban and small towns water supply improvement for Kwale, Dzombo, Tsimba-Golini, Tiwi and Mwereni and development of medium sized dams- Mwakalanga, Jitegemee, Dziweni and Kizingo dams.

.**178.** In order to implement the prioritized programmes, the sector has been allocated **Ksh 1,046.00Million, Ksh 971.17Million** and **Ksh 1068.29 Million** for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively. Recurrent expenditure allocation is **Ksh 44.46 Million, Ksh 48.91Million** and **Ksh 53.80Million** for FY 2018/2019,2019/2020 and 2020/2021 respectively, whereas Development expenditure for the same period is **Ksh911.54 Million, Ksh 922.26Million**, and **Ksh 1014.49 Million.**

4.7.8 Public Administration and International Relations Sector (PAIR)

179. The sector is comprises of; County Executive Services, Public Service and Administration, Finance and Economic planning (County Treasury), County Public Service Board and the County Assembly. This sector is mandated to provide overall policy, leadership, and oversight in economic and devolution management to the county, public service delivery and resource mobilization. It further coordinates county policy formulation, implementation as well as facilitating the tracking of the implementation of county programmes and projects.

180. This sector will continue with its role of providing leadership and administration policy issue to other sectors in the county to enhance public service delivery. In the plan period, the sector will enhance the county's relationship with its stakeholders in both the public and private sectors. This sector will work towards promotion of Private Public Partnership (PPP) by encouraging more involvement of the private sector in county development matters. It will further work towards providing a favourable environment to sustain and enhance service delivery and implement the planned programmes and projects

181. In order to implement the prioritized programmes, the sector has been allocated Ksh **1,693.01 Million, Ksh 1,974.95Million** and **Ksh 2,172.45 Million** for the financial years 2018/2019, 2019/2020 and 2020/2021 respectively. Recurrent expenditure allocation is **Ksh 1,463.70 Million, Ksh 1,610.07 Million** and **Ksh 1,771.08 Million** for FY 2018/2019, 2019/2020 and 2020/2021 respectively whereas development expenditure for the same period is **Ksh 319.95Million, Ksh 364.89 Million**, and **Ksh 401.37 Million** respectively.

CHAPTER FIVE: CONCLUSION

182. This 2018 County Fiscal Strategy Paper is the key document which will inform the FY 2018/2019 budget. It has been prepared in accordance with the law and regulations .It is expected as per the PFM regulations that the County Assembly will only change 1 percent of the allocations made to implement the strategic programs and policies.

I83. Preparation of the latest 2017 County Budget Review and Outlook paper made a number of recommendations and conclusions for revenue collection enhancement and prudent expenditure management This 2018 CFSP has taken into account the recommendations and conclusions and incorporated them in their appropriate areas.

184. The sector ceilings in this 2018 CFSP will be deliberated and firmed up and thus form a basis for the FY 2018/2019 budget and the medium term. This will guide departments in preparing their budgets for FY 2018/2019.

185. In this2018CFSP,the county government will remain steadfast in implementing a fiscal policy that will be sustainable while ensuring the county's strategic priority programs and policies are implemented to accelerate growth and attain rapid county socio- economic transformation. While emphasizing this, our policy reforms and programs will also complement the National Government's efforts in realizing the Big Four Plan and priorities of the Vision 2030 to be implemented in MTP III.

ANNEX I: STATEMENT OF SPECIFIC FISCAL RISKS

Introduction

1. The Public Finance Management Act 2012 requires that counties prepare "Statement of Fiscal Risks" as a way to mitigate and manage risks prudently**.** Although the domestic as well as the county economy is expected to be resilient with a promising growth outlook, risks still remain.

2. This "Statement of Specific Fiscal Risks" for the county will identify risks that emanate from expenditure pressures ,underlying assumptions for the macroeconomic environment, fiscal projections, contingent liabilities as well as climatic conditions. The statement will also give an assessment of the risks that affect budget execution and the attainment of strategic priorities set out in this 2018 County Fiscal Strategy Paper and the measures to be undertaken to mitigate the risks.

3. The County Government remains committed to ensuring prudent management and sustainable utilization of public finances, good governance, efficient and effective budget implementation, containing spending levels in non-priority areas and transparency and accountability in financial matters.

Risks in Changes in Macroeconomic Assumptions

4. Adverse and unexpected changes in macroeconomic variables may pose risks to the national economy with trickling down effects to the county economy. Macroeconomic variables changes such as reduced real GDP growth rates, increased inflation, depreciated exchange rate and the volatility of commodity prices on imports will have an effect on revenues to be generated.

5. Moreover, when the real GDP goes down and the Kenya shilling exchange rate depreciates against the major currencies, revenues will be reduced against the planned expenditures. On the other hand, increased inflation will imply increase prices of commodities which will erode purchasing power of consumers thereby affecting savings and investments.

6. When the value of imports in dollar terms are higher as a result of exchange rate depreciation it implies higher prices of imported commodities including inputs and raw materials used in manufacturing and industries. This will have effect on increased expenditures.

7. The budget formulation which depends on balancing of revenues with expenditures will be affected as revenues are reduced and expenditures increased.

8. The county government will monitor the developments in the macroeconomic environment and adopt mitigating measures to contain the risks.

Risks associated with slow execution of development budget

9. The execution of development budget has been low due to lower absorption rates by departments. This is also partly due to delays in the release of funds to counties by the National Treasury. As departments rush to beat deadlines in development budget execution they hasten their procurement processes. Due to prolonged processes and capacity issues with contractors departments commit themselves raising commitments monies at the end of the financial year.

10. The County Government recognizes the risk inherent in slow pace of development budget execution. The County Government is committed to ensuring procurement processes are set in time to ensure prompt implementation of approved development plans.

Risks related to Underperformance of Own Source Revenue (OSR) targets

11. This has been a concern over the last four years as given in our budget reviews. OSR performance has been below the set targets for all these years. The underperformance could be due to improper revenue forecasting and administrative inefficiencies as well as the lack of a legislative framework.

12. Underperformance in OSR will impact negatively on the total revenues against the planned expenditures. Total revenues will be lower than the expected expenditures. Due to the non-discretionary nature of some of the expenditures like salaries which cannot be reduced or deferred, monies earmarked for development may be affected. Reduction in development expenditure will imply non-implementation or staggering of some of the development programmes/projects.

13. The County Government will mitigate this risk by ensuring revenue raising measures are implemented. These measures include fast tracking automation of the revenue collection system, lobbying for faster enactment of the Finance Bill and other affiliated bills, intensifying compliance and enforcement efforts in revenue collection and completion of the valuation roll for assets and properties.

Risks associated with Wages Expenditures

14. Regulation 25(1)(b) of the Public Finance Management for County Governments requires that a county wage bill shall not exceed 35 percent of the total revenue. Since devolution started in FY 2013/2014 the county has maintained a wage bill below the threshold of 35 percent. Although the wage bill is not alarming, the county government remains cautious in ensuring expenditure pressures arising from salary increases and payment of allowances are contained.

15. There is a strong inverse correlation between development expenditures and wage bill. The higher the wage bill the less will be the development expenditure. Therefore higher wage bill will retard development in the county. Thus the county government will strive to establish an optimal staffing structure to ensure the wage bill is sustainable and does not affect the development agenda.

16. The County Government is in recognition of this fact and has put in measures to mitigate the risk associated with wage bill increases. Among the measures include the establishment of optimal staffing structures in all departments ,redeployment of employees to needy departments after job evaluation and staff capacity building, implementing the resolutions of the Salaries and Remunerations Commission (SRC) on sitting and other allowances and restricting employment in non-key save for only essential sectors like Health and Education.

Risks inherent in financial reporting and expenditure arrears

17. In the past there was intermittent use of IFMIS attributable to lack of capacity and network challenges. Some of the transactions at department's level were not posted on IFMIS. This caused unreconciled variances between financial statements and fiscal transactions records as captured in IFMIS.

18. Going forward the County Government will ensure all transactions are captured on IFMIS . The County Government in conjunction with the National Treasury will continue addressing the issues of capacity as well as the network challenges.

19. Over the past four years, pending bills due to contractors and suppliers of goods and services as well as utility payments have been reported. These expenditures may impact budget execution in subsequent years. To the contractors and suppliers, it affects their cash flows and operations. To the economy it affects a number of sectors and general employment in the county.

20. The financial sector is affected too. Contractors and suppliers borrow loans from commercial banks. Due to the late payment of their dues from the County Governments they are not able to make good their promises. This results in the increase in the non-performing loans of the commercial banks.

21. The County Government will embark on a programme of identifying all the expenditure arrears on pending bills and ensure they are promptly paid. In doing so they will address all the bottlenecks causing the delay in payment of contracts and supplies.

Risks due to Natural Disasters

22. Natural disasters such as severe and prolonged drought will have negative impact on agricultural productivity. Lower agricultural production often leads to higher food prices and has a multiplier effect on other sectors of the economy and generally reduced economic growth.

23. The National Government plans to reduce the effects of drought and imminent loss of revenue in the agricultural sector through the development of early warning systems and disaster preparedness strategies. In the county we shall endeavor to work in conjunction with institutions such as the National Drought Management Authority (NDMA) in actualizing Ending Drought Emergencies (EDE) programmes.

24. Floods are another form of natural calamities. Heavy rains can wreak havoc on agricultural crops and livestock, infrastructure and also affect households. Essential infrastructure such as buildings, roads, bridges, electricity poles and transformers are normally damaged during long period of heavy rains. Infrastructure was badly damaged in last year's heavy rains in the county.

25. The County Government will continue to budget for such emergencies to help restore situation and sustain social welfare. There will be as in the previous years and per requirements of the PFM Act a contingency fund (Emergency Fund) to defray these emergency costs and cushion our fiscal framework from such risks.

Risks associated with Climate Change

26. It has been projected that with the current economic activities and living conditions, the global mean temperatures will continue to increase over the next century by 2.8^0 Celsius with a 3 percent chance of rising 6^0Celsius or more**.** Climate change effects include extreme weather conditions such as drought, storms and floods, potential sea rise and beach erosion, effects on biodiversity, fragile ecosystems, water supply systems damage.

27. The effects of climate change including changing weather patterns and extreme weather conditions will impact farming and thus affect food production. Lower food production will slow down our attainment of the food security objective. The fiscal implications of climate change to our plan will be serious and immediate. It will directly affect our revenues and expenditures. Reduced revenues and increased expenditures will distort the county budget formulation.

28. The County Government will monitor the situation and adopt appropriate measures to mitigate the risks.

Risks associated with Insecurity and the advent of terrorist attacks and the Alshabaab Menace.

29. Religious extremism has caused youth to join the Alshabaab group. In a bid to strengthen their religious zeal and doctrine the Alshabaab sympathizers have caused terror and insecurity in some parts of the county. This coupled with potential terrorist attacks have a direct effect on tourism by reducing tourists visits. In the recent years, European nations have been issuing travel advisories to their citizens to be cautious when visiting the country particularly the tourist towns at the coast and especially Diani beach.

30. When movement of people is restricted, consumption, investment and growth are affected. Not only is the tourism sector affected but also the other economic sectors including agriculture, transport, entertainment and trade. When insecurity sets in there is general loss of revenues and employment opportunities. This derails the county's transformation agenda of wealth creation and poverty reduction.

31. The County Government is committed to ensure there is peace and stability and the Alshabaab menace is curtailed. The County Government has devised programmes for the youth in the Al Shabaab affected areas to counter violent extremism by offering support to youth to form groups and start income generating activities. Efforts to sustain security will also include the operationalization of the Nyumba Kumi initiative and working closely with communities to curb crime and attacks by the Alshabaab.

ANNEX II: DEPARTMENTAL CEILINGS FOR FY 2018/2019 BUDGET BY ECONOMIC CLASSIFICATION

	RECURRENT EXPENDITURE			DEVELOPMENT	TOTAL BUDGET
DEPARTMENT	P.E CFSP 2018	O &M	SUB TOTAL	SUBTOTAL	TOTAL
EXECUTIVE SERVICES	70,704,432.62	102,983,314.26	173,687,746.88	90,932,112.00	264,619,858.88
PUBLIC SERVICE & ADMINISTRATION	143,714,060.97	87,227,012.98	230,941,073.95	81,931,932.00	312,873,005.95
FINANCE & ECONOMIC PLANNING	334,049,631.72	96,964,601.28	431,014,233.00	47,089,760.40	478,103,993.40
AGRICULTURE ,LIVESTOCK AND FISHERIES	139,572,475.44	56,122,837.69	195,695,313.13	234,000,000.00	429,695,313.13
EDUCATION	266,746,587.45	530,460,237.30	797,206,824.75	573,155,495.60	1,370,362,320.35
HEALTH SERVICES	1,322,614,824.30	335,444,718.19	1,508,059,542.49	652,000,237.60	2,160,059,780.09
TOURISM AND ENTERPRISE DEVELOPMENT	47,315,899.51	91,671,415.06	138,987,314.57	254,000,000.00	392,987,314.57
SOCIAL SERVICES &TALENT MANAGEMENT	34,920,490.97	100,890,718.26	135,811,209.23	242,820,321.80	378,631,531.03
ROADS AND PUBLIC WORKS	65,889,988.04	50,769,918.01	116,659,906.05	723,848,794.91	840,508,700.96
ENVIRONMENT AND NATURAL RESOURCES	24,840,934.65	31,825,691.10	56,666,625.75	149,745,032.40	206,411,658.15
WATER SERVICES	32,999,386.55	51,460,528.20	84,459,914.75	911,545,479.74	996,105,395.49
COUNTY PUBLIC SERVICE BOARD	24,632,882.30	20,975,474.70	45,608,357.00	0	45,608,357.00
COUNTY ASSEMBLY	316,123,916.25	175,680,169.75	491,804,086.00	100,000,000.00	591,804,086.00
GRAND TOTAL	**2,824,125,510.77**	**1,732,476,636.78**	**4,556,602,147.55**	**4,061,069,166.45**	**8,617,671,314.00**
% ALLOCATIONS	32.7	20.1	52.9	47.1	100