REPUBLIC OF KENYA

THE GOVERNMENT OF THARAKA NITHI COUNTY

A Prosperous, Industrialized and Cohesive County

THIRD

COUNTY FISCAL STRATEGY PAPER

Sustaining Development for Economic Transformation

FEBRUARY 2017

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Vision

A prosperous, industrialized and cohesive County

Mission

Enhance sustainable socio-economic growth and optimal utilization of resources

Core Values

As Tharaka Nithi County, we are committed to championing these core values as the guiding codes for our operations:

Integrity

Straightforwardness, ingenuousness, honesty and sincerity are an integral part of our undertakings which we shall firmly adhere to in every duty to our society.

Inclusiveness

We believe in equity and equality. As a County we do not regard status or personal preferences but approach our work as guided by principles of fairness and non-bias. People from diverse backgrounds or communities are involved in the County development and we incorporate the needs, assets, and perspectives of communities into the design and implementation of county programs.

Citizen-focused

We consistently endeavor to create enduring relationships with our citizens; in so doing our approach goes beyond standard citizen participation principles and makes their input an integrated, formalized part of setting county projects/program goals, performance measures, and standards.

Creativity & Innovativeness

We thrive on creativity and ingenuity. We seek the innovations and ideas that can bring a positive change to the County. We value creativity that is focused, data-driven, and continuously-improving based on results.

Transparency and Accountability

We will remain accountable to our stakeholders and will acknowledge responsibility for our actions and decisions. Thus we shall always endeavour to be transparent, answerable and liable at all times.

Team work

Every person is important and has a part in county development. We endeavour to build a workplace environment that cultivates person's uniqueness, encourages staff participation, collaboration and integration of diverse skills and capabilities

Forward

In this County Fiscal Strategy Paper (CFSP) we outline broad strategic priorities and policy goals of County Government for implementation in financial year 2017/2018 and the Medium Term. The sustaining development for economic transformation strategy aims at spurring the economic growth of the county through: (1) continued investment in infrastructure especially roads and rural electrification; (2) embracing transformative agricultural practices; (3) creating conducive environment for business; (4) continued investment in social services; (5) ensuring accessible healthcare services; and (6) enhancing devolution by decentralizing services to lower units. This paper sets out the priority programs that the County Government is implementing in the Medium Term.

The expenditure policy framework in the medium term aims at ensuring efficiency and effectiveness in the implementation of our development policies. As outlined in the previous CFSP 2016, this paper is part of efforts by County Treasury to link policy with planning and budgeting by embracing reforms in the expenditure and financial management and containing growth of non-priority expenditures in order to create fiscal space for financing priority policy areas such as the healthcare, agriculture and physical infrastructure, which are key to sustainable economic growth and ultimate development.

As a result, significant progress will be realized in terms of linking policies, planning and budgeting and shifting budgetary resources to priority areas, though the process continues to face some challenges. The County Government will continue to address emerging issues, which include: (i) redesigning programmes and projects to eliminate redundancies; (ii) strengthening links between recurrent and development expenditures; and (iii) increasing funding to decentralized and lower units, with a view to improving the linkage between expenditure and results.

In line with the need to achieve these county's objectives, the County Fiscal Strategy Paper (2017 CFSP) draws priorities from the Governor's manifesto, CIDP, MTP II of Vision 2030 and departmental strategic plans.

Therefore, this County Fiscal Strategy Paper focuses on: (i) Poverty eradicating expenditures in support of CIDP priorities, (ii) increasing capital expenditure by optimizing recurrent expenditure, and (iii) investing in public finance management reforms in areas such as public expenditure management, accountability, governance and transparency providing a conducive environment for private sector investment.

The fiscal framework included in this 2017 CFSP outlines an affordable and sustainable path of public spending aimed at achieving Government's medium-term development priorities.

Finally, I would like to express my gratitude to all those who are participating in this year budget process at various stages by providing valuable comments, information and positive criticism that has seen us improve over time. Specifically, I convey my appreciation to staff of various dockets, Members of County Assembly, the private sector, civil society, and the members of public who participated in the budget process in FY 2015/16.

MUTEGI, M. ARON
CEC MEMBER FOR FINANCE & ECONOMIC PLANNING

Acknowledgement

This fourth County Fiscal Strategy Paper (CFSP) embraces the principles of prudent financial management outlined in the Public Finance Management Act, 2012. It outlines the broad strategic macroeconomic issues affecting the county and fiscal framework to guide spending plans, as a basis of 2017/18 budget and the medium- term. We expect the document to improve the public understanding of County's public finances and guide public debate on economic and development matters.

As usual, the preparation of the 2017 CFSP continues to be a collaborative effort. Much of the information in this report was obtained from the county dockets reports and other National Government Statutory reports. We are grateful for their inputs.

A core team in the County Treasury spent a significant amount of time putting together this piece. We are particularly grateful to the UNV seconded to Budget Office Ms. Rachel Kimani; Head of County Planning Mr. Denis Kwendo; Head of Treasury Budget and Expenditure Management Mr. Lawrence Micheni; and CEC Finance and Economic Planning Mr. Mutegi, Aron for coordinating the execution of this noble task. We received substantial inputs from the all Chief Officers and CECs while consolidating this document. Since it would not be possible to list everybody individually on this page, I would like to take this opportunity to thank the entire staff of the County Treasury for their dedication, sacrifice and commitment to public service.

NICHOLUS GITONGA

CHIEF OFFICER/TREASURY

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I. ENTRENCHING DEVOLUTION FOR SUSTAINED ECONOMIC PROSPERITY

Overview

1. This County Fiscal Strategy Paper (2017 CFSP) is the fourth in a series to be prepared under the new system of devolved government. It sets out the broad policies and strategies the county plans to deliver in the medium term period (2017/18-2019/20 FY).
2. The CFSP is a government policy document that sets out the broad strategic priorities and policy goals that will guide the county government in preparing its budget both for the following financial year and over the medium term.
3. The County Government aims to continue stimulating productivity of the County economy through implementation of pillars of the economic transformation agenda in line with the objectives indicated in the Budget Policy Statement(November 2016) with a clear focus on inclusive and equitable development. The economic pillars which are: (i) creating conducive business environment, (ii) developing infrastructure for growth of industries, (iii) transforming agriculture to sustain growth, (iv) supporting manufacturing to create employment, (v) investing in quality, accessible and relevant social services and (vi) enhancing rural economic development through consolidating gains made in devolution will ensure that Kenya makes social progress and build a competitive economy.
4. This County Fiscal strategy paper therefore builds on the commitments made by the County government in the last CFSP of implementing programs to raise productivity and economy-wide efficiency, thereby sustaining high and inclusive growth in line with aspirations of Vision 2030 and MTP II.
5. This will be the last CFSP prepared under the first CIDP whose implementation is ending in 2017. The preparation of the second CIDP for the period 2018-2022 will commence in early 2017 with a concept note that will be finalized after incorporating stakeholder comments within the county.
6. The 2017 CFSP is developed on understanding that despite the expansions in growth over the last few years, we are yet to reach our ideal levels and hence the need to tackle the challenges that delay us from operating optimally. Some of the constraints as identified in the previous County Fiscal strategy paper involves: business environment; infrastructure; agriculture; devolution and social services. The government therefore, needs to continue carrying out measures aimed at tackling the constraints and advancing structural reforms to substantially reduce unemployment and poverty.
7. On the Post-2015 development agenda, the 17 Sustainable Development Goals (SDGs) and respective 169 targets and 230 indicators will be mainstreamed into the County Integrated Development Plan (CIDPs). The

SDGs will be mainstreamed based on key thematic areas that include advocacy and awareness creation; domestication and localizing SDGs; capacity building; stakeholder mapping and engagement; monitoring and reporting and resource mobilization.

8. Therefore, the strategies and broad policies include: (1) continued investment in infrastructure especially roads and public utilities, (2) embracing transformative agricultural practices; (3) creating and sustaining conducive business environment; (4) continued investment in social services; (5) ensuring accessible and quality healthcare services; and (6) enhancing devolution by decentralizing services to lower units.

II. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

9. Kenya's macroeconomic performance remains broadly stable despite the global economic slowdown. The economy's growth momentum has been strongly supported by significant investment in infrastructure, construction and mining sectors, strong recovery in tourism, stable energy prices and improved agricultural production following improved weather conditions. Inflation is within the target band due to prudent monetary policy management while interest rates are low and stable despite global financial pressures following the enactment of the Banking (Amendment) Act, 2015.

10. The current account deficit narrowed due to: improved export earnings from tea and horticulture, reduced import bill of petroleum products due to lower oil prices, resilient diaspora remittances and improved tourism performance. The narrowing of the current account deficit together with steady capital inflows led to a stabilization of the shilling in the foreign exchange market, and also allowed the accumulation of international reserves.

11. Going forward, the economy is projected to expand further by 6.0 percent in 2016 and above 6.5 percent in the medium term supported by strong output in agriculture with a stable weather outlook, continued recovery of tourism and completion of key public projects in roads, rail and energy generation. In addition, strong consumer demand and private sector investment as well as stable macroeconomic environment will help reinforce this growth.

Overview of Recent Global Economic Performance

12. The global economy is experiencing a period of growth slowdown in the volume of international trade driven majorly by subdued demand, particularly in investment, which is necessary for generating international trade flows in the form of capital goods and intermediate inputs.

13. The global economic growth outlook remains subdued in 2016, though expected to recover gradually in 2017 and beyond. The new shocks to the outlook include: Britain's referendum result in favor of leaving the European Union and election of Donald Trump as US president; ongoing realignments among emerging and developing economies, such as adjustment of commodity exporters to a protracted decline in the terms of trade; slow-moving trends, such as demographics and the evolution of productivity growth; as well as noneconomic factors, such as geopolitical and political uncertainty.

14. Global growth is estimated at 2.9 percent in the first half of 2016, slightly weaker than in the second half of 2015 and lower than the projected growth

in the April 2016, according to WEO. The forecast for 2016 and 2017 is 3.1 percent and 3.4 percent, respectively.

Kenya: Performance Overview

15. The Kenyan economy has sustained its robust growth in the past decade supported by significant structural and economic reforms. The economy grew by 6.2 percent in quarter two of 2016 up from 5.9 percent growth registered in quarter one of 2016. This strong growth was supported by improved performance in agriculture, forestry and fishing (5.5 percent), mining and quarrying (11.5 percent), transport and storage (8.8 percent), electricity and water supply (10.8 percent), wholesale and retail trade (6.1 percent), accommodation and restaurant (15.3 percent) and information and communication (8.6 percent). Growth in other sectors, particularly manufacturing, construction, financial and insurance and real estate, though slightly lower compared to quarter two of 2015, remained robust.

16. The Government has maintained a strong track record of macroeconomic stability for sustained and inclusive development. In order to sustain this effort going forward, the Government will continue to implement prudent fiscal and monetary policies that are supportive of accelerated inclusive growth and development.

17. To ensure macroeconomic stability, the fiscal policy strategy recognizes the need to efficiently apply the limited resources on priority programs with the highest impact on the stated objectives but within a medium term framework of sustainable debt and strong financial position. As outlined in 2016 CFSP (February), this will be achieved by further rationalization and alignment of programs and resources to the priorities undertaken by the spending departments to deliver desired outcomes economically and efficiently.

Agricultural Transformation to improve food security and livelihoods

18. The favourable weather conditions experienced during the second quarter enhanced agriculture production hence the sector grew by 5.5 percent compared to 4.0 percent growth in quarter two of 2015. Similarly, electricity and water sector remained strong recording a growth of 10.8 percent compared to 9.2 percent in same quarter in 2015 owing to continued substitution of thermal electricity generation with relatively cheaper sources.

19. Recognizing the importance of the sector, the county government has remained committed to ensuring that the sector is cushioned through development of policies, measures and interventions to enable it to adopt a

forward look to transforming agriculture from subsistence to commercial farming and agribusiness, and to ensure sustainable food security in the county.

20. As a result, tremendous achievements have been realized, which include among others provision of subsidized farm inputs, scaling up of AI services, provision of milk coolers, promotion of fish farming, development of irrigation projects, and improvement of the breeding stocks.

Quality and Relevant Education and training

21. The Government's overall goal in the education sector is to increase access to education and training; improve quality and relevance of education; reduce inequality as well as leverage on knowledge and skills in science, technology, and innovation for global competitiveness. To achieve this goal the Government is committed to further entrenching universal and compulsory basic education and expanding tertiary education.

22. The county has prioritized quality improvement in the Early Childhood Development sub-sector by employing 450 caregivers and provision of learning materials. The county government has also funded schools to construct ECDE classrooms even though some of them are ongoing.

23. The management of polytechnics has faced very serious challenges since the national government stopped the disbursement of grants and this has lead to near closer of some of them. There is need to institute measures and modalities of funding polytechnics from the county government. Due to the stoppage in funding the polytechnic currently faces a serious shortage of basic equipments and they cannot even foot their bills.

24. The medium term strategy will therefore, focus on:

- Construction and improvement of infrastructure in all early learning institutions and youth polytechnics.
- Enhance capitation and grants to polytechnics, support for education and curriculum reforms and enhancement and support for examination, competence assessment and certification.
- Expansion of education and training opportunities in marginalized and underserved areas.
- Provision of bursaries to needy and deserving cases.
- Capacity enhancement of ECDE teachers and polytechnic instructors.
- Supporting the national government in the enhancement of ICT integration in education at all levels.

25. The county government will continue to promote gender and youth empowerment, livelihoods for the vulnerable groups and marginalized areas through the provision of loans and grants. Further, the county government will

expand opportunities for the youth in procurement through the Access to Government Procurement Opportunities (AGPO) platform in the county. The county government government will also designate resources for the promotion of sports activities which will help facilitate nurturing of youth and talent development.

Improving access to quality health services

26. The health sector aims to achieve the highest possible health standards in line with the population needs through supporting provision of equitable, affordable and quality health and related services to all Kenyans.
27. Spending in the health sector recorded improvements in preventive health services, curative health services, nutrition services ,diagnostic services as well as health information services. The county government has strived to implement programs and projects aimed at ensuring improved health promotion and prevention services; addressing the health needs of children, mothers and adolescents; improving the health infrastructure; enhancing social health protection and achievement of universal health coverage and the strengthening of adherence to normal standards as well as health regulation.
28. Transformative projects being undertaken include the disbursement of DANIDA and World Bank grants to health facilities, employment of more health workers, improvement of Kibunga health centre, construction of pediatric ward at Chuka Hospital, construction of theatre at Magutuni Sub district hospital, construction of mortuary at Tharaka district hospital and completion of various dispensaries.
29. To this effect, the financial year FY 2017/18-2019/20 MTF Budget will prioritize scaling up of policy interventions aimed at enhancing equitable access to high impact healthcare services, addressing challenges associated with devolution of health care and high turnover rate among health workers, controlling non-communicable diseases, and improving health service delivery in the county. The emphasis will therefore, be addressing these challenges in order to ease the burden to the households and attainment of the highest standards of care for sustained long-term growth and development.

Tourism promotion and marketing

30. Tourism, sports, culture and arts play a critical role in transformation and economic development of the county. In cognizance of this, the county government has continued to undertake several initiatives to spur growth of the tourism sector and create an enabling environment for tourism businesses, sports and culture, including encouraging joint partnerships between individuals, communities and non-citizens.
31. Going forward, the county government working in partnership with key stakeholders and the national government to increase tourism earnings,

international and domestic tourist arrivals, and conference tourism; develop and diversify niche tourism product. Further, the county government will continue to promote local tourism through the improvement and branding of tourism sites such as Gikwa Water Fall, Kibuuka and Nithi Tourist Market.

Environmental Conservation and Making Water Accessible

32. The national policy blue print envisions the country to be a nation that prides in a clean, secure and sustainable environment and targets universal access to clean water and basic sanitation for all by the year 2030. To date, about 56 percent of Kenyans have access to reliable clean water, while 70 percent have access to clean sanitation.
33. The County Government working with National Government will continue to invest in clean water supply and put in place measures to control floods and harvest rain water as well as to protect and conserve the environment. The county government remains committed on its bid to mitigate the impact of climate change as per the Protocol on Climate Change following the adoption of the Paris Agreement.

    In addition, the county government will continue to mainstream climate change measures into all its projects and programmes.
34. Going forward, the county government will prioritize on domestic and irrigation water supply, forest service and management, sanitation and waste management, governance of land and water utilities, the reduction of non-revenue water, prudent infrastructure development and adoption of best practices in operation and maintenance.

Continued Spending in Infrastructure to unlock the Rural Economy

35. Tharaka Nithi County has a total of 1,670 kilometres of roads, which combines classified and unclassified networks across sub counties. Great strides have been made in the road construction and rehabilitation which include construction of new roads, rehabilitation and maintenance of existing roads.

    36. To this effect, in the FY 2017/18 the County government in collaboration with National Government has earmarked to construct 135km of low volume seal roads to enhance rural connectivity, opening 250 km of rural access roads and 10 footbridges, rehabilitate and maintain 300km of murrum roads to facilitate efficient movement of goods and people.
37. To conserve the environment and encourage value addition, the county government will continue to improve access to clean alternative energy through connection of more public institutions and markets with solar energy. The county government will also connect an additional 4 markets under the street lighting program which aims at lighting urban areas into 24-hour economy.

Enhancing Service Delivery through Good Governance

38. The three years since the advent of devolution it's notable that despite its many challenges, it is evident that it is one of the greatest successes of our new constitutional dispensation. The decentralization has led to distribution of resources to all corners of our country and spread development to previously unknown villages. Further, it has devolved leadership hence reducing political and social risks that comes with system where leadership is centralised hence some communities/people feel left out.

39. A major drawback to devolution has been the low performance of own-source revenue against respective target since the establishment of County Governments (CGs) in 2013. It has been established that revenue forecasting in CGs is not supported by macroeconomic assumptions or a sound methodology; revenue predictions once included in the budget are hardly updated since there is no in-year monitoring that is done.

40. To strengthen accountability and fiscal discipline, the County Government will continue building capacity of the officers and develop a strategy to enhance revenue management by identifying strong revenue raising measures and correct duplication and distortions in local taxes and fees that hurt the business environment.

41. The county government has enhanced the fight against corruption and its adverse effects to the county which include inefficiency, low productivity and high costs of doing business. The county government will continue with the implementation of the measures articulated in National Call to Action against corruption which include continuous and objective lifestyle audits for all County Accounting Officers as well as Authority to Incur Expenditure (AIE) holders. The county government is also committed to strengthening expenditure control and improve the efficiency of public spending through Public financial management reforms aimed at promoting efficiency, transparency and accountability in order to free resources for priority social and development projects and to improve governance in the county administration.

III. STRATEGIC PRIORITIES AND INTERVENTIONS

Overview

42. For a government to fully improve the living standards of the people, it requires a direct channeling of resources to programs with high socio-economic impact.

Following this, the county government of Tharaka Nithi has identified *strategic priorities* through which the residents will receive optimal output from the services rendered by the government. In the financial year 2017/2018 the various dockets are expected to heavily invest on these key areas.

Priority 1: Continued Investment in Infrastructure and Public Utilities

43. This is a major indicator of the economic status of the county since its one of the foundations that anchors the three pillars for national transformation of vision 2030. The docket of infrastructure, transport, housing and public works aims at expanding and sustaining physical infrastructure to support growth and development of the economy. This has greatly improved accessibility to health facilities, schools, urban areas and improved the business environment of Tharaka Nithi.

44. This sector has received the biggest share of the County allocation over the last three years amounting to Kshs 1,286.6 million towards roads construction and maintenance. The key programs of grading, murruming and opening of new roads has been done in order to open up all areas of the county and spur economic development. In 2017/2018 the docket has been allocated Kshs 382 million towards construction of major roads, rehabilitation and maintenance of feeder roads in all wards, construction of drifts and purchase of road equipment (graders, rollers, excavators, and tipper).
Further allocation of Kshs 70 million and Kshs 70 million has been allocated for construction of county assembly chambers and sub-county offices respectively. The key challenge in maintenance of roads has been the adverse weather conditions especially heavy rains hence the roads require frequent rehabilitation.

Priority 2: Embracing Transformative Agricultural Practices

45. Agriculture is the economic backbone of our county. Tharaka Nithi County government focuses on attaining food security through maximum utilization of its huge arable land in its six sub-counties. The county relies on natural rainfall for food production of which rain shortfalls mainly lead to acute shortage of food. It is in regard to this that the docket of agriculture has adopted various policy objectives which includes raising agricultural productivity through value addition, increasing market access and adoption of technologies; exploiting irrigation potential; increased commercialization of the sector activities; and sustainable management of resources to ensure the county produce enough for consumption and sell the surplus. Investing in transformative agricultural practices is a strategic means for the reduction of the cost of living and spur economic growth.
46. Transformative agricultural practices are also a key driver of employment. The priority investments include; promoting value chains through agro-ecological zoning and re-organization of farmers into viable cluster groups for economies of scale, disease surveillance, upgrading local breeds of livestock both for meat and milk, increase acreage under irrigation and promote fish consumption.

Priority 3: Creating Conducive Business Environment

47. Trade contributes significantly to the county's economic growth and wealth creation. It is still among the key areas with potential of accelerating the economic growth and development for the achievement of the developments envisioned in the CIDP and MTP II of Vision 2030. Various projects such as business training and extension services delivery, capital financing to special interest and vulnerable groups, capacity building and mentorship programs require the implementing agencies support and monitoring.
48. Rapid population growth, the need for increased revenue sources by county government and the need for stable and predictable tax environment have all set the arena for establishment of a sustainable business environment that will attract more investment. The measures being undertaken include: enhancing the Joint Loans Board, construction of market facilities, training and mentoring on business skills, promoting fair business practices, construction of business hub, construction of *boda-boda* sheds and forward contracts among others. The enhanced capacity of staff and services offered, assessing initiated county cooperative policies, feasibility, pre-feasibility studies and fair trade practices in relation to business facilitation will continue to be monitored to ensure that programs outcomes are realized.

Priority 4: Gender and Youth Empowerment

49. Approximately 29% of Tharaka Nithi County residents fall under the youth category who require employment opportunities in addition to active participation in youth empowerment programs. On the other hand about 52 per cent of the county population comprises of female. Traditionally, the cultural set up has defined duties and responsibilities to women and men based on perceived differences. Although society continues to teach these cultural values a lot has changed due to exposure through the media, formal education and interaction with people from other cultures. As a consequence this has lead to various gender issues that require special attention.
50. In order to create a healthy upright young generation, the county government through the docket of education, social services, culture and sports has continuously ventured into youth related programs like talent shows to tap and develop different talents in youth. This subsequently creates employment to thousands of youths around the county.

    Sports activities are common source of employment to youths. Different sports programs ran by the docket bring together youths from different regions hence promoting peaceful co-existence among the communities.

51. The County is committed to address the issues on promotion and exploitation of County's diverse culture for peaceful co-existence; development and promotion of sports; preservation of County's heritage; promotion of cultural and sports tourism; development and promotion of local talents and arts.

    In financial year 2017/2018, the docket of education, social services, culture and sports is estimated to spend 85 million for development expenditure which includes county league and promotion of sports development and culture promotion.

Quality and Relevant Early Childhood Education and Vocational Training

52. Tharaka Nithi County has 18 registered village polytechnics, 657 ECDE institutions of which 187 are private while 470 are public. To enhance proper learning in the ECDE centers, the government has employed over 450 care givers in all public institutions. The docket of Education has distributed learning materials to ECDE centers across the county.
53. In order to ensure access to education for the students from poor families, the bursary program for needy students currently stands at Ksh 20 million annually. Education and youth training will continue to be a major program under the docket of education, with a projected expenditure allocation of Ksh 85.5 million in 2017/18. A substantial amount of these funds will be used to improve performance and education standards for youth in need of technical training.

Priority 5: Improved Access to Quality Healthcare Services

54. A healthy county is a wealthy county! The major objective of docket of health is to provide affordable, easy-to-access and modern health services to all residents of the county.

    Between 2013 and 2015, the health docket has implemented several programs and made impressive strides towards improvement of health facilities to promote access to primary healthcare. The establishment of health facilities in all wards has made it possible to all residents to access health services easily without travelling long distances.
55. Free maternity healthcare, Expanded Program on Immunization (EPI), malaria control and disease surveillance programs are facilitated by the county government. In 2017/2018 the docket will majorly focus on improving maternal and child health services to a tune of Kshs 10 million, purchase of medical equipment and laboratory services of Kshs 60 million, completion and maintenance of health facilities at Kshs 80 million.

Priority 7: Continued Support for Devolution by decentralizing services to lower units

56. Coherent management of county affairs is practiced through the office of the Governor and County Public Service Board.

    The decentralization of service delivery and resources through Devolution has had a profound effect on lives of Kenyans at the grass roots level. As witnessed across the country in the past three years of devolution, local development is gaining traction as counties are becoming the new centres of economic activity. To lock-in and sustain these gains, the County Government will continue to support decentralized units through increased allocation of shareable revenues so as to ensure that devolution achieves the objectives of better service delivery and rapid local economic development as well as jobs creation in line with MTP II of Vision 2030.
57. The County Government is taking steps to strengthen accountability and fiscal discipline in the use of devolved resources, to achieve the constitutional objectives of

improving service delivery and enhancing equitable economic development at the county level. In this respect, therefore, the County Treasury will put in place mechanisms to monitor and ensure full compliance so as to contain fiscal risks and financial sustainability.

Further, implementation of a strategy that enhance revenue administration by the sub-counties in order to strengthen revenue raising measures, remove duplication and correct distortions in local taxes and fees that hurt business environment.

Other Cross Cutting Structural Reforms

Governance

58. Following the launch of report on corruption risk assessment in the county, the governor reiterated the government's commitment to fight corruption and challenged the agencies charged with combating graft, especially the courts to fast-track their mandate. The Governor further warned against politicization of corruption and integrity issues, promised swift action against corrupt officials and highlighted the need for strengthening of investigations and improvements to the anti-corruption cases in order to enhance their effectiveness.

Expenditure Management

59. The County assembly, in FY 2017/18 will continue to fast-track consideration of reports on county budget implementation, sector performance reports and audited accounts of the County Government. In addition, they will introduce bills; consider motions, statements and petitions; and carry out vetting of county officers presented to them as required by law. These activities will go a long way in entrenching good governance in our institutions and ensuring accountability of public resources.
60. With regard to cash management, the County treasury will continue disbursing funds to county agencies in accordance with the approved disbursement Schedule. In disbursing the funds, however, the County treasury will prioritize disbursements to departments with most completed projects in order to ensure prudent cash management as required under Article 201(d) of the Constitution.

IV. RECENT FISCAL DEVELOPMENTS

Fiscal Performance of 2015/16 Budget and Emergent Challenges

61. The FY 2015/16 budget review shows that the fiscal outcome coupled with updated macroeconomic forecast advises the need for review of the financial objectives for FY 2016/17-2018/19 MTEF. Therefore, the reviewed expenditures reflect the real circumstances that surrounded the implementation of FY 2015/16 budget and are broadly within the fiscal responsibility principles outlined in the PFM Act, 2012, Section 107(2). The fiscal outcomes are also consistent with the national financial objectives as outlined in relevant policy documents and various legislations including the

Constitution of Kenya, County Government Act, 2010, PFM Act, 2012 and PFM Regulations 2015.

62. During the FY 2015/16, the County realized a total of Kshs 3.382 billion as total revenue which represents 89.6 per cent of targeted total revenue of Kshs 3.82 billion. Comparatively, the 2015-2016 FY revenue performance indicated a significant improvement from Kshs 2.53 billion reported in 2014-2015 FY representing a 33.68 per cent growth. This growth is mainly driven by increased allocation of shareable domestic revenue from national government.
63. The receipts from National Government of Kshs 3,137.57 million were against a target of Kshs 3,426.01 million as indicated in the 2015 Budget Policy Statement and Revenue Allocation Bill 2014 resulting to Kshs 288.44 million shortfall. The shortfall is expected to be received as balance carried forward and included in the FY 2016/17 budget through supplementary adjustment. The shortfall was also caused by underperformance in raising local revenues with the county only able to meet about 60% (Kshs 142.4 million of 248 million) of the target.
64. The total effect of the shortfall from the two combined revenue sources indicated that the total expenditures were under funded by Kshs 433.44 million for FY 2015/16. The total cumulative expenditure for the period was Kshs 3.31 billion against the target of Kshs 3.82 billion.
65. The County Government's development as a percent of total budget was 40.3 percent in FY 2015/16. It is budgeted at 32 percent in FY 2016/17 and projected at 34percent in the FY 2017/18 and 35 percent in FY 2018/19. These resources for development are above the 30 percent minimum threshold set out in the PFM law.

Fiscal Performance in 2016/17 FY and Emerging Challenges

66. The implementation of the budget for FY 2016/17 has progressed slowly due to delayed disbursement of funds from the exchequer and failure to activate the *IFMIS* and *e-procurement* platform on time. This meant that procurement of works and services could not be commenced as per the annual work plans.
67. Expenditures lagged behind their respective targets during the first and second quarter but are expected to pick up in the third quarter as implementation of development programmes and the general activity of Government gain pace.

68. Revenue collection improved marginally in the first quarter with high receipts of single business permits and plot rate revenues but market rates were affected by disturbances in various areas including Chuka town, Kathwana market and Gatunga. Furthermore the delay in the passage of the finance bill has impacted negatively on resource mobilization.

69. The CORe collections for the FY 2016/17 half year is Kshs 56.8 million compared to Kshs 60.8 million collected in FY 2015/16 which translates to 6.68 per cent decline. The shortfall can be attributed to whirlwinds originating from electioneering activities as well as slow progress in developing key revenue laws. Other challenges include political interferences in some areas have seen politicians incited locals not to pay tax dues to County Government, there was alignment of revenues to avoid incidences of double-taxation resulted in slaughter fees being scrapped though they had contributed to more than 20 percent of CORe in previous year 2015/16 and weakening administrative measures although with deployment of Director Revenue things are expected to change going forward.
70. The receipts from exchequer transfers from July to December 2016 amount to Kshs 1.71 (1.2 billion in FY 2015/16) billion accounting for 49.56 percent of total expected transfers from exchequer. The Kshs 1.71 billion includes Kshs 200.0 million as cash balances carried forward from FY 2015/16.
71. The total expenditure to December 2016 was Kshs 1.25 billion which was 37.3 percent of annual targeted expenditure. This represented 67.9 percent of all resources available for spending up to December 2016. This expenditure comprised of Kshs 974.15 million recurrent expenditure representing 45.5 percent of total budgeted recurrent expenditure and development expenditure of Kshs 276.77 million representing 22.8 percent of targeted development expenditure.
72. Despite this derailing scenario, the implementation of the current budget 2016/17 is back on course and the CG has put in place mitigating measures which are articulately timed and designed to guarantee the set objectives are achieved.

V. Fiscal Policy and Budget Framework

Overview

73. The thematic focus of the 2017 County Strategy Fiscal Paper embraces the continuing need to have a sustainable conducive environment that supports development of investment opportunities within our county borders. Based on the fiscal performance for FY 2015/16 indicated in the County Budget Review and Outlook Paper (CBROP) 2016 which indicated 42.6 percent underperformance in revenue collection. Therefore, this 2017 CFSP proposes to adopt fiscal policies both in the FY 2017/18 budget and MTEF targeting a decrease of 27.4 percent in the local revenue target. However, the 2017 CFSP targets 8.3 percent increase in total exchequer transfers from National Treasury from Kshs 3.61 billion allocated in FY 2016/17 to Kshs 3.98 billion.
74. Further, in order to have a sustainable and conducive business environment for investment and growth opportunities, the policy aims at shifting more public resources from recurrent expenditure to targeted capital investment. In line with PFM Act, 2012 the policy proposes that:
    - The County Government's total expenditure shall be within the total revenue budgeted and realized;
    - On annual basis and over the medium term, a minimum of 30% of the county budget shall be allocated to development expenditure;
    - The County Government's expenditure on personnel emoluments shall not exceed a 45% of the County Government's total revenue or a percentage of total revenue prescribed by the regulations approved by County Assembly.
    - Over the medium term, the County Government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure. It is the County Government's commitment to procure external financing only for development projects a practice which is in line with this principle. However, over the last four years the County Government has not been involved in any external financing hence adherence to this principle;
    - The county debt shall be maintained at a sustainable level as indicated in the debt management strategy approved by County Assembly. The County Government will ensure that the level of domestic borrowing does not crowd out the private sector given the need to increase private investment to accelerate county economic expansion.
    - Fiscal risks shall be managed prudently. The County Government also takes into account the fiscal risks arising from contingent liabilities, increasing pending bills, impact of the Public Private Partnership and Financial Sector Stability.

Prudent Fiscal Policy

75. The legal framework for Public Finance Management requires County Governments to disclose specific fiscal risks which have a potentially significant impact on the county's economic environment. Additionally county governments are required to show how prudently such fiscal risks shall be managed. As such, the County Government through County Treasures is committed to take the following measures among others: i) implement efforts to enhance CORe to minimize overreliance on Exchequer transfers; ii) accurately forecast CORe to avoid negative impacts on the budget due to unrealized targets; and, iii) adhere more strictly to expenditure ceilings set out in County Fiscal Strategy Paper. Additionally, there is need to have deliberate efforts to avoid duplication of functions with National Government. This will reduce wasteful spending; possible intergovernmental conflicts and possible financing gaps that could adversely affect implementation of the fiscal framework. Over the past year, the County Government has reoriented expenditure towards priority programmes in infrastructure, early childhood education, health and agriculture which are core areas with greatest impact on job creation and increased investment opportunities.

Observing Fiscal Responsibility Principles

76. In reiteration of commitments to prudent fiscal policy County Government recognizes that the fiscal stance it takes today will have implications into the future. In this regard, the county government will;

- Ensure that there is equitable sharing of burdens and benefits of the use of resources and public borrowing between the present and future generation. Thus the county government shall make prudent policy decisions today so that it does not impose an unnecessary debt burden on future generations;
- Ensure that development portfolio is not crowded out by increasing wage burden;
- Ensure adherence to the ratio of development to recurrent of at least 30:70 on annual basis and over the medium term, as set out in the legal framework;
- Respect ratios guiding the wage levels in general and procured goods and services reflecting actual market prices.
- Delays on paying goods and services should be minimized to enable County Government get competitive prices in the market.

77. Generally, the County Government pledges fiscal discipline as set out in PFM Act, 2012 as well as adoption of best practices.

Fiscal Structural Reforms in FY 2017/18 Budget

78. The budget submissions by county departments will critically be reviewed with a view to remove any non-priority expenditures and shift the savings to the priority programmes. The MTP II of Vision 2030, the first CIDP (2013-2017) and the Governor's manifesto will guide resource allocation
79. The County government is committed to improving the implementation and absorption capacity of projects and programmes. In the forth coming budget for FY 2017/18 and the Medium Term the development budget will be based on targeted projects regardless of the source of financing. This will help in monitoring and reporting on implementation of projects and programmes.
80. Therefore, the budget for FY 2017/18 has the following undertakings:
    a. **Capital investments in Infrastructure, ICT sector and other Development expenditure in general**, will reflect the priority assigned to capital investments as indicated in our growth objectives. A higher weighted average percentage, minimum of 30 per cent of total discretionary expenditures, will be assigned to development of infrastructure projects in all departments.
    b. **Enhance support to social sectors** including Health, Education with a focus on early childhood and village polytechnics, culture and other social services. The health and education sectors will continue to receive bulk budgetary resources to support their operations.
81. Other priority areas including agriculture, physical planning, energy, and general economic sectors will be given priority in the allocation of resources.

Adherence to Fiscal Responsibility Principles

82. The County Government will observe strictly fiscal responsibility principles outlined under section 107 (2) of the PFM Act. The county government's expenditure on the compensation of employees (including benefits and allowances) shall not exceed a percentage set by CEC Finance and approved by County Assembly of the county government's equitable share of the revenue. The percentage of wage burden is further stipulated in the PFM regulations 25 (1) (b) (County Regulations) as 35 per cent of equitable share. Therefore, the County Government is in breach with compensation of employees being 45 percent of total budget thus remedial measures need to be taken as provided in the regulations.
83. Generally, observance of the Fiscal responsibility principles, as stipulated by the Constitution and the PFM Act, 2012, has been as follows:

a. Minimum of 30% of the County Budget, over the medium term, to be allocated to development expenditure

The budget allocation to development over the medium term has surpassed the 30 per cent minimum set out in law. The table below shows the budget allocation to development expenditure from FY 2013/14 to 2018/19. Over the medium term the development expenditure is projected to average 33 per cent FY 2018/19.

Table 1 Revenue and Expenditure FY 2013/14-2018/19

BUDGET SUMMARY FOR PERIOD 2013/2014 - 2018/2019 (Ksh Millions)						
Financial Year	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**	**20**
1.0 Total Expenditure & Net Lending (a)	**2,378.82**	**2,931.47**	**3,553.64**	**3,757.41**	**3,981.83**	
1.1 Total Recurrent	1,545.22	1,830.89	2,082.20	2,542.64	2,694.50	
Wages	1,046.30	1,109.90	1,207.79	1,328.72	1,408.08	
Other Recurrent	498.92	720.99	515.00	811.67	860.15	
County Assembly			359.41	402.25	426.27	
As % of CG Revenues	**65%**	**62%**	**59%**	**68%**	**68%**	
1.2 Development	833.60	1,100.58	1,471.44	1,214.78	1,287.33	
Executive	833.60	1,100.58	1,401.85	1,214.78	1,287.33	
County Assembly			69.59	-	-	
As % of CG Revenues	**35%**	**38%**	**41%**	**32%**	**32%**	
2.0 Total CG Revenues (b)	**2,378.82**	**2,931.47**	**3,553.64**	**3,757.41**	**3,981.83**	
2.1 Equitable Share	2,294.82	2,681.36	3,116.23	3,446.62	3,612.98	
2.2 Local Revenue Collections	84.00	250.11	248.05	200.00	180.00	
2.3 Danida			10.00	15.00	12.00	
2.4 Conditional Allocations - Compensation for forgone user fees			8.52	8.52	8.52	
2.5 Conditional Allocations - Free Maternal Healthcare			35.24	35.26	35.24	
2.6 Conditional Allocations - Leasing of Medical Equipment			95.74	52.02	-	
2.7 Conditional Allocations from Road Maintenance Fuel Levy Fund			39.86		95.29	
2.8 Other Conditional Grants			-		37.80	
3.0 Net Funding (b-a)	**-**	**-**	**0.00**	**0.00**	**-**	

b. *The County Expenditure on compensation to employees shall not exceed 35 percent of total county government revenue as prescribed by regulations*

On wages and benefits, the allocation has been averaged slightly over 35 per cent of equitable share, and being projected at projected at 40.0 per cent in FY 2017/18 and over the medium term. This requires county government to take some remedial measures.

c. *Over the medium term, the County Government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure*

The County Government has adopted a policy where all procured external finances are to be devoted to development projects. These external finances include concession loans and domestic borrowing.

d. *Public debt and obligations shall be maintained at a sustainable level as approved by County Assembly*

The County Debt Management Strategy 2016 provides for public debt sustainability and envisages restricted borrowing from external and domestic financiers.

e. *Fiscal risks be managed prudently*

The County Government has considered it a priority to manage all fiscal risks prudently and in so doing has regularly reviewed the implication of macroeconomic projections on the County Budget. The annex 1 provides review of fiscal risks. In this regard, the County Government takes into consideration all fiscal risks arising from contingent liabilities, over priced cost of supplies for goods and services, delayed payments and increasing pending bills. Consequently, the County Treasury proposes to maintain a Contingency provision of Ksh 20.0 million in the budget under Docket of Finance and Economic Planning to cater for urgent and unforeseen expenditure.

f. *A reasonable degree of predictability with respect to the level of tax rates and tax bases given provision for any tax reforms that may be made in the future*

Through the Finance Bill 2016, the County Government of Tharaka Nithi has defined all taxable goods and services and their applicable rates for purposes of revenue administration. In furtherance of this fiscal principle the County Government will only review it revenue raising measures after a thorough consultation with relevant stakeholders and after taking into consideration the possible impact of such measures on the economic performance. Therefore, reforms in tax raising measures will lock predictability and enhance compliance with the revenue system adopted by the county.

Debt Financing Policy

84. The County Government's borrowing plans remain anchored in the medium term Debt Management Strategy which aims at ensuring public debt sustainability. The strategy envisages possible borrowing from domestic and external sources. While external financing will largely be on concessional terms the county treasury shall continue to diversify financing sources by possibly issuing treasury bonds. The County Government will ensure that the level of domestic borrowing does not crowd out the private sector. However, it is important to note non- concessional external borrowing will be undertaken in a cautious manner and limited to development projects

Budget Framework for FY2017/18

85. The medium term fiscal framework for FY 2017/18 is set based on macro-fiscal framework discussed above. Kenya's Real GDP is expected to increase by 6.8 per cent in FY 2016/17 as underpinned by continued good performance across all sectors of the economy. On a lower geographical scale, Tharaka Nithi County is expected to have a "Bright Light" GDP of Kshs 13.08 billion with

projected growth at par with that of the national economy. Revitalized agriculture, transport and infrastructure, and transformed public service sectors will be the key drivers. In this regard, the projected economic growth assumes normal weather pattern during the year and improved investor confidence in the entire county economy. Inflation is expected to remain low and stable, reflecting continued implementation of a prudent monetary policy by National Treasury and stable food and oil prices within the country at large, as well as stable exchange rate.

Revenue Projections

86. The FY 2017/18 budget targets total revenue collection of Kshs 3.84 billion of consisting of equitable share of Ksh 3.5 billion, CORe of Ksh 180.0 million and Kshs 160 million as conditional grants. The CORe includes Appropriation-in-Aid (AiA) of Ksh 50 million (25 per cent of **CORe**) to be raised by Level IV hospitals and veterinary services department in the Docket of Agriculture. As indicated **CORe** will amount to Ksh 180.0 million (5.3 per cent of **total revenue**) in FY 2017/18 a decline from the projected Ksh 200 billion (8.1 per cent of total revenue) in FY 2016/17. The downward revision on the CORe target was as a result of increasing interferences in revenue collection which has negatively affected any measures being undertaken to spur revenue growth. The County Treasury in consultation with various county departments is planning to launch a revenue mapping exercise targeting to harmonize fees and charges and recommend on new sources. Additionally, the County Treasury will draft and table to the County Assembly various tax laws that will repeal the contentious by-laws inherited from the defunct local authorities and establish new revenue regime that promote the spirit of new constitution.

Expenditure Forecasts

87. Based on fiscal performance earlier highlighted, overall expenditure targeted in FY 2017/18 is projected at Ksh 3.84 billion from the estimated Ksh 3.5 billion in the FY 2016/17 budget.
88. Recurrent expenditures will amount to Ksh 2.58 billion (68.3 per cent of total budget) compared with Ksh 2.1 billion (60 per cent of total budget). The personnel emoluments are expected to be 60.4 per cent of recurrent expenditure for FY 2017/18 leaving only Kshs 987.4 million (39.6 percent) for operations including Kshs 180 million allocated to County Assembly operations.
89. Development expenditure is projected at Ksh 1.22 billion (31.7 per cent of total budget) from the previous Ksh 1.5 billion (40 per cent) in FY 2016/17. This decrease has resulted to reclassification of some expenditure as recurrent expenditure.

90. In terms of percentage to total revenue, the wage bill for the County Government in FY 2017/18 is projected at 40 per cent of projected total revenue. This percent of employee costs is above the threshold contemplated in PFM Act, 2012 of 35 percent.
91. Expenditure ceilings on goods and services (recurrent expenditures) for County Departments/dockets are based on size of the entities, past performance, absorption capacity of previous budgets, required inputs, agreed priorities and ranking. The ceilings are then moderated to take into account one-off expenditures that were budgeted in FY 2016/17 and then adjusting factor is applied to take into account anticipated inflation.
92. The ceiling for development expenditures were established on a criteria that considered past performance, status of on-going projects, economic growth potential and generally contribution towards achieving the agreed priorities. Therefore, most of the development expenditure will be expected to continue supporting infrastructure development. The entire proposed development will be financed through domestic resources comprising of equitable share, determined conditional grants and loans and CORe.
93. A contingency of Ksh 20.0 million is to be provided in FY 2017/18. Additionally, the department of infrastructure has been allocated Kshs 120 million comprising of which Kshs 50 million is for 1st Phase construction of sub-county and ward administrator offices (given the fact that the county headquarters construction has been taken over by National Treasury) and the remaining Kshs 70 million is for the 2nd Phase construction of County Assembly offices and chambers.

Fiscal balance and deficit financing

94. Reflecting on the above projected expenditures and revenues, the overall fiscal balance (on a commitment basis and excluding grants), is projected to be zero. This complies with National Treasury advisory that county governments should assume a balanced budget.

Summary

95. Fiscal policy outlined in this CFSP aims at improving resource mobilization as well as observing fiscal discipline. This will be achieved through both administrative and legislative reforms aimed at enhancing resource mobilization, improving efficiency in government expenditure and strengthening public finance management reforms. The fiscal space created will avail resources to scale up investments in human capital, including on health and education, and physical infrastructure, while at the same time providing sufficient resources to all devolved functions. The Fiscal policy will also endeavor to adhere to medium-term debt targets as provided in the

medium term debt management strategy that aims at ensuring public debt sustainability.

VI. Medium Term Expenditure Framework

Revenue Outturns for FY 2017/2018

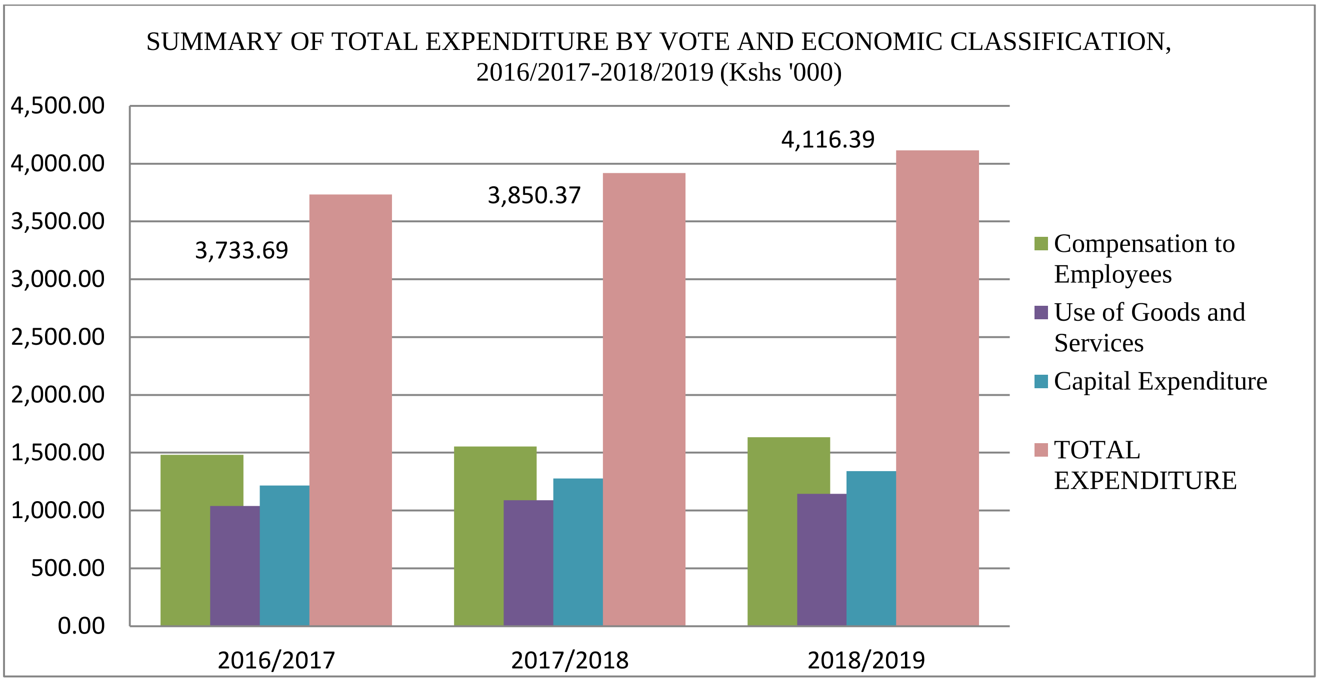
96. The resource envelope available for allocation among the spending County Departments is based on the updated medium term fiscal framework which is outlined in Section III.

97. Locally mobilized revenue or County Own Revenue (CORe) will finance about 7.7 per cent of the expenditure priorities in the budget. This is a 0.1 percent increase from revenue mobilized in FY 2015/2016 of Kshs 142 million. Equitable Share from National Government will accounts for over 92.3 per cent of total budget resources. Locally raised revenues are expected to reach Ksh 200.0 million in 2016/17 and expected to grow at a rate of 5 percent during 2018/19 (to Ksh 210.0 million) and FY 2019/20 (to Ksh 220.5 million) respectively.

Expenditure Outturns for FY 2017/2018

98. The County Government is well within the 30 percent threshold for expenditure dedicated to development. This is despite the fragile economic state being witnessed globally and nationally attributed to the fiscal crisis, political tumults from electioneering activities, changes in donor commitments, prolonged industrial activism especially in heath sector and many other challenges. These and other considerations have obliged the county government to set its projected recurrent expenditure at Kshs 2.5 billion limit while development is projected at Kshs 1.2 billion.

99. The county expenditure profile below summarises spending over the current MTEF period. Based on the increase in use of goods and services, the projected expenses for FY 2017/18 budget is expected to increase, implying an increase in the recurrent budget to accommodate a larger work force in the county departments.



Analysis and Statement on Debt Position and Contingent Liabilities

100. The Medium Term Expenditure Framework for the three year period 2016 - 2018 is expected to guide economic management and reform within the County Government. This is based on the principles of fiscal responsibility which includes providing effective social, economic and developmental strategies that will significantly manage county own revenue and equitable share.

101. Debt management has been prudent at County level. The reduction of borrowing capacity arising from public finance management regulations 2015 has encouraged the County Government to enforce shrewd debt and liabilities management. The short term lending from commercial banks that was being used to finance short term cash demands arising from delayed disbursements of exchequers has been stopped. The intervention has resulted in savings on hefty interest demands from commercial lenders. However, the challenge of delayed receipt of disbursements hasn't been addressed by The National Treasury.

102. The county has made obligations to crystallize occurrence of certain future events that may occur. Focus has also been placed on sustaining the labour force over the short term, with the rise in political uncertainty over the upcoming national election period.

103. The current and most dominant ongoing capital project is the construction of the county headquarters, which has been taken over by the National Government. H.E Ragwa's administration has limited the occurrence of new liabilities and has encouraged a strong regulatory framework to continue managing tax and other mandatory obligations.

104. The sustainability of this strategy is tailored to our current economic circumstances and on the continuity of good governance and consistent management of expenditure incurred on a quarterly basis.

Interventions for Improving Revenue Management and Collecting Leakages

105. The County Government has also embarked on initiating the following interventions to improve county revenue management in order to fuel capacity to create employment in the three sub-counties and encourage entrepreneurship among the youth, women and people with disability:

106. **The automation of revenue collection channels:** this will help to sufficiently mobilize resources for county programmes supported through Public Private Partnerships (PPP). One such programme is the public participation platform created in collaboration with Plan International, ***Sauti Yetu***. This will lead to a faster, efficient communication channel between county residents and departments. Through this programme, the Department of Finance and Economic Planning will support social budgeting.

107. **Gradual build up of infrastructure:** On an annual basis, the county has maintained feeder roads in the 15 wards by grading and gravelling through contractual services with local vendors. For the benefit of future generations, the county is exploring the need to purchase equipment for this activity and reduce the recurrent cost within the Department of Roads, Transport, Housing and Legal Affairs.

108. **Consistency of the Medium Term Expenditure Framework to Vision 2030 and other national plans:** The County Government has over the past four years pegged its delivery of public goods and services to the agendas to reduce over-reliance on grants and donations but create gainful partnerships both locally and abroad, support a majority of proposed projects for social inclusion and prompt adoption of regulations that will ensure access of resources to Kenyans.

109. The 2015/16 C-FSP proposed measures such as expenditure rationalization to eliminate redundancy and pegging of benefits to public officers to a

percentage of county revenue; these measures have led to driving attention to results and outputs. The strategies act as measures of development in the county and identify performing and non-performing departments in a fair, unbiased means. They also point out departments requiring further intervention and support.

110. **Management of fiscal risk and creating value for money:** planned spending will ensure that budget deficits are avoided over the medium term. Performance driven spending will aid in creating value for the people of Tharaka Nithi and also promote economic diversification as a means of creating business opportunities at ward level.

Macroeconomic Stability and Efficient Resource Allocation

111. Each fiscal year, the County Government embarks on efforts to solicit external resources through conditional grants, loans and donations that are then directed to specific programmes and projects. The county has a strong sense of dedication to collaborating with organizations that offer their support to wards.

112. Increased external funding is anticipated with improved national regulations outlining the nature of future relationships between counties and PPP. This has been the major strategy enforced to weather macroeconomic instability effects on county level.

113. The alternative sources of financing spur development in our county; domestic borrowing options are explored as a way of improving the development agenda in the sub-counties.

Priorities, Parameters and Targets for the 2017/18 Medium Term

114. The Constitution and the PFM Act, 2012 requires County Governments to promote budgetary transparency, accountability and effective management of the economy. In line with this, the County Government has enforced measures to eliminate inefficient and wasteful public spending within each department.

115. Increasing revenue through adjustments of tax rates, introduction of policy options and increasing foreign investment have been used in the past by government to create revenue streams. The funding of national projects such as the standard gauge railway, rural electrification and tarmacking of new roads (especially in this county) is dependent on these revenue streams. The county government is aware that these strategies are constrained and will continue to work towards creating locally accepted and approved strategies to increase disposable income for residents in order to improve livelihoods.

116. The proposition that counties are suffering low productivity and growth in labour intensive socio-economic sectors is equally untrue and ail-motivated. Despite this the CG is focused on improving the county economic profile against exogenous shocks such as the change in weather patterns.

117. This is through supporting hybrid livestock and crop varieties, fish farming, improving mining and horticultural farming. Giving farmers in our county better access to finance, better post-harvest handling and storage, establishing a corporation to protect them against price wars and enforcing quality control will bear fruit over the medium term for our county.

118. Spurring growth for future generations is dependent on creative strategies. Emphasis on delivering quality public service to improve the well being of urban areas in our county, to further the development of infrastructure and public institutions that will reduce loss of talented youth redirecting their productivity to neighbouring counties.

119. For the tourism department to thrive, interventions such as developing new products and encouraging faith-based tourism by residents in neighbouring counties, aggressive marketing and upgrading of local sites, human capital development through revamped courses offered in polytechnics and sustaining peace during the national election period will increase confidence and attention to Tharaka Nithi County. Cost effective, customer-driven economic diversification remains the cornerstone for all dockets.

120. The MTEF budget is critically reviewed annually a view to modify priority expenditures and increase funds for priority programmes. The current CIDP (2013-2017), together with the priorities of the current administration guide resource allocation, illustrated in the baseline ceilings for each docket.

121. As we finalize the FY2017/18 MTEF Budget, we will critically review expenditures to ensure that they are geared towards identified priority programmes that form the focus of the County Government. Taken as a whole, the MTEF budget for FY2017/18 will focus on the following: health, education, agriculture and water.

Table 2 MTEF Expenditure Ceilings

	RECURENT EXPENDITURE ESTIMATES						DEVELOPMENT ESTIMATES		
	RECURRENT ESTIMATES FOR FY 2017/18								
County Department	Employee Compensation	Operations and Maintenance	Current Transfers	CFSP 2017 Final Recurent Ceiling 2017-18	ADP 2016 Preliminary Recurent Ceiling 2017-18	Recurent Esimates FY 2016-17	CFSP 2017 Final Development Ceiling 2017-18	Dev Estimates FY 2016-17	T Estin 20
County Assembly	212,634,298	197,365,702		**410,000,000**	410,000,000	402,249,361		70,000,000	**410**
Office of the Governor	52,462,904	103,821,508		**156,284,412**	156,284,412	166,284,412			**156**
CPSB	19,043,556	15,898,528		**34,942,084**	34,942,084	29,942,084			**34**
Finance	114,395,326	143,438,605		**257,833,931**	266,469,751	250,636,751	**50,000,000**	95,500,000	**30**
Education	145,746,444	43,053,556	10,200,000	**199,000,000**	199,000,000	170,290,224	**85,000,000**	84,000,000	**284**
Health	803,084,608	188,215,392	57,000,000	**1,048,300,000**	1,048,300,000	936,162,617	**80,000,000**	113,000,000	**1,128**
Agriculture	211,394,131	41,241,690		**252,635,821**	229,000,000	204,181,555	**83,000,000**	97,275,000	**335**
Infrastructure	36,793,769	38,206,231		**75,000,000**	80,000,000	69,959,643	**382,000,000**	482,000,000	**457**
Lands	22,444,823	28,555,178		**51,000,000**	61,000,000	61,027,193	**39,000,000**	31,000,000	**90**
Environment	27,280,000	22,720,000		**50,000,000**	50,000,000	51,404,200	**31,500,000**	7,000,000	**81**
Water	-	9,500,000		**9,500,000**	9,500,000	8,920,000	**159,000,000**	117,000,000	**168**
Trade	24,146,789	20,853,211		**45,000,000**	45,000,000	43,041,626	**83,000,000**	98,000,000	**128**
Public Service	87,113,093	82,886,907		**170,000,000**	170,000,000	148,535,334	**91,000,000**	90,000,000	**261**
	1,756,539,740	**935,756,507**	**67,200,000**	**2,759,496,247**	**2,759,496,247**	**2,542,635,000**	**1,083,500,000**	**1,284,775,000**	**3,842**
	45.71%	**24.35%**	**1.75%**	**71.81%**			**28.19%**		
FY 2016/17 (Millions)	**KES 1,533.35**	**KES 1,009.04**	**KES -**	**KES 2,542.39**			**KES 1,214.78**		**KES**
Rate	**40.81%**	**26.86%**	**0.00%**	**67.67%**			**32.33%**		

Source: Tharaka Nithi County Treasury (Ceilings for FY 2017/18 budget estimates indicated by CFSP 2017 column)

Baseline Ceilings

122. The baseline for setting expenditure ceilings is consistent with the need to match the current departmental spending levels with resource requirements. In the recurrent expenditure category, non-discretionary expenditures including salaries to county employees, statutory deductions such as NHIF and employer contribution to provident funds takes the first charge.
123. Compensation to employees covering those staff in all dockets providing services on behalf of County Government accounts for about 40.9 per cent of the total revenues. The expenditure on operations and maintenance accounts for 24.6 per cent of projected total revenue.
124. About 31.8 per cent of the total revenue will be available to finance planned development expenditure. However, additional development expenditure that may be targeted by the County Government can only be funded through borrowing from the domestic and foreign sources, as well as donor grants tied to projects.
125. Development expenditures are shared out on the basis of the MTP II and CIDP priorities as well as other strategic interventions dealing with unemployment and remove constraints to faster growth as outlined by the manifesto of the current governorship. The following guidelines are used:
    - *On-going projects*: emphasis is given to completion of on-going projects and in particular infrastructure projects and other projects with high impact on poverty reduction and equity, employment and wealth creation.
    - *Strategic policy interventions*: priority is also given to policy interventions covering the entire county, cohesion and integration, social equity and environmental conservation and priorities of the County Government.
    - *Counterpart funds*: priority is also given to adequate allocations for donor counterpart funds. This is the portion the Government must fund in support of the projects financed by development partners. Usually it accounts between a quarter and a third of the total cost of the project.

Finalization of Spending Plans

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

Details of Docket Priorities

127. The medium term expenditure plan for MTEF (2015/16 – 2017/18) ensures continuity in resource allocation based on prioritized programmes aligned to

the MTP II of Vision 2030 and CIDP (2013-2017). It is also well aware of transition period following the forthcoming elections. The strategic policy initiatives of the current leadership of Ragwa with the aim to accelerate economic growth, create employment and eradicate poverty. The recent achievements and key priority targets for each sector are based on the reports from the dockets.

Docket of Agriculture, Livestock, Fisheries Development and Irrigation

128. The goal of this sector is to attain food security, sustainable land management. The key policy objectives of the docket include: raising agricultural productivity through value addition, increasing market access and adoption of technologies; exploiting irrigation potential; increased commercialization of the sector activities; creating an enabling policy and legal framework, improving efficiency and effectiveness of sector, and sustainable management of resources in the sector. During FY 2016/17, these objectives were met through four main programmes: crop production, livestock development services, veterinary services and fisheries.

129. The docket focused on ways to address projects that were not fully implemented over the last three financial years, more so those that received funding during FY 2015/16. The provision of farm inputs to farmers and purchase and installation of milk coolers are two projects from this category. Other projects that the docket focussed on include the construction of cereal stores in Mukothima and renovating the Kajuki cereal store. Distribution of dairy goats Furthermore rabbit keeping was promoted in Mariani and lower Mwimbi and Muthambi wards. Farmer's field schools were also conducted through partnership with the Upper Tana Resource Management Program apart from funding CIGS to initiate community projects. The department also started an agriculture training programme in Muumbuni, which is expected to improve the capacity of local farmers.

130. During the 2016/17-2018/19 MTEF period, focus will be directed to increasing agricultural production and productivity through input subsidy programme, mechanized agriculture, irrigated agriculture, improved animal genetics, vaccine production and exploitation of trout fisheries; enhancing county food security through establishment and increasing of strategic food reserves, fostering up-taking of agriculture and livestock insurance schemes. This is in line with the county sector plan, which aims to revolutionize agriculture in Tharaka Nithi.

131. To achieve the above, the docket will require substantial funding for the FY 2017/18. The docket has been allocated Kshs 335.6 million compared to Kshs

299.3 million allocated in FY 2016/17. Ksh 252.6 million has been allocated for recurrent expenditure and Kshs 83.0 million for Development programmes.

Docket of Infrastructure, Roads, Public Works, Housing and Legal Affairs

132. This is a key docket for sustained economic growth and social development. The docket aims at expanding and sustaining physical infrastructure to support growth and development of the county economy. During the last financial year, the docket focused on the key programmes including grading, murraming and opening of new roads. These are expected to spur economic growth and promote development of previously hard to reach areas. Additionally, the department is mandated to develop decent and affordable housing.
133. Adverse weather conditions remain the key deterrent of efficiency; frequent rehabilitation of roads is required in many areas. The forecasted drought that will be experienced during the first, second and third quarters of the year will have major implications on the need for quality transport channels throughout the county.
134. During the 2016/17 – 2018/19 MTEF period, road transport facilities will be expanded to strengthen Tharaka Nithi County's strategic position as a business hub in the region. The county recently petitioned the National Government to upgrade more than 120 km of road to low seal tarmac including roads around Chuka Town. Four key roads have also been targeted for improvement in order to have an effective, efficient and secure road network and easy to access business environment for commerce and agriculture productivity.
135. The County Government has embarked on a landmark project to construct the headquarters for the County Government, County Assembly offices and chamber as well as sub-county administration officers at their respective Sub-County Headquarters. In the proposed budget we have allocated Kshs 140 million for office infrastructure including Kshs 70 million apiece meant for County Assembly and Sub-county administration. The docket has been allocated a total of Ksh 457 million in FY 2017/18 out of which Ksh 75 million is for Recurrent and Ksh 382 million for Development programmes.

Docket of Physical Planning, Energy, Lands and ICT

136. The docket implemented programs that focused on energy resource development and management, ICT infrastructure development, land management and administration, surveying and spatial planning services.
137. The Key achievements of the docket included the rural electrification projects, with the support of the national government. Approximately 38,804 title deeds were also issued during the financial year and land was procured

for a proposed ICT centre in Chuka Town. Solar energy access to 1148 households in Tharaka sub-county was successfully completed.

138. The Docket continues to address numerous challenges: vandalism of infrastructural facilities; lack of adequate trained and skilled technical personnel; encroachment of infrastructure way-leaves; inadequate financial resources; lengthy procurement processes; slow disbursement of development partners' counterpart funds, land litigation; lengthy stakeholder and bureaucratic procedures and among others. These are prudently dealt with through capacity building and continuous learning and sharing of applicable solutions within the department.

139. To achieve the above mentioned outputs, the docket will require Ksh 90.0 million for the 2017/18 FY. During the period, the docket has been allocated Ksh 51 million for Recurrent and Ksh 39 million for development programmes.

Education, Culture, Youth and Social Services Docket

140. Education, Culture, Youth and Social Services Docket is endeavors to address the issues on promotion and exploitation of County's diverse culture for peaceful co-existence; development and promotion of sports; preservation of County's heritage; promotion of culture sports tourism; regulation, development and promotion of the film industry; and development, research and preservation of music in the county. The Docket is also tasked to enhance and promote regulation of sports organizations, children welfare and social development.

141. Over the past four years, the Docket organized sports programmes and facilitated teams to successfully participate both at County and Regional levels. The Docket also issued bursaries to needy students in colleges and secondary schools. Another achievement of the docket is promoting infrastructure development in both pre-primary level and polytechnic / technical training level. The county has also hired ECDE teachers by offering temporary contracts to those who were already serving under PTA as care givers over the past years. The docket in partnership with Plan International is rolling out a three-year civic education programme and in addition developing a rescue center at Kathwana and promoted public participation through ICT and youth development. In enhancing the capacity of youth, women and people with disability, the docket is drafting a policy to guide a proposed loan scheme.

142. The key challenges facing the Docket include inadequate funding; inadequate human resource capacity; inadequate policy, legal, regulatory and institutional framework; inadequate infrastructure; limited linkage between industry, training institutions and research institutions; and limited capital investments in sports, film and music industries. More specifically, the county

has faced challenges in optimizing the ECDE function due to funding challenges.

143. Supporting the development and marketing of cultural products and industries; research and promotion of county heritage; upgrading technology use in records archives management; supporting sports and creative Arts industry; building capacity for development, regulation and marketing of film services; strengthening linkages between industry and training; and promotion of productivity for competitiveness are a few of the strategies that are employed to address these challenges. Supporting orphans, vulnerable children, people with special needs and improving their livelihoods through the Social Protection Programmes remains a key objective of the administration of H.E Ragwa.

144. The docket has identified four (4) priority programmes for implementation during 2017/18 to 2019/20 MTEF Period namely: Education and Youth Training, Sports Development and Promotion, Promotion of Culture and Social Services. To implement these programmes, the docket has been allocated Ksh 284 million in FY 2017/18 compared to Kshs 241.0 million in the FY 2016/17. The allocation comprises of Ksh 199 million and Ksh 85 million for recurrent and development programmes respectively.

Docket of Health Services

145. The mandate of the docket is to attain equitable, affordable, accessible and quality healthcare for all. The four key programmes currently supporting this mandate are preventive and promotive health, curative health and general administration services.

146. The Tharaka Nithi epidemiological profile shows that the prevalence of disease is still restricting development. Approximately 102 projects have been funded to date to support health facilities in treating malaria, diseases of the respiratory system, skin diseases, diarrhea, and accidents, which account for about 70 per cent of morbidity.

147. In order to sustain the gains made and improve on the sector performance, the County Government will work closely with National Government in investing substantial resources in this docket during the 2016/17 – 2018/19 MTEF period. Additional resources will be provided to prepare, respond and contain situations of emergency as they arise. The County Government will implement the CARPS report with a view to developing a comprehensive capacity for realization of docket objectives. The docket has also hired staff in order to reduce the staffing shortfalls in some areas and improve service delivery.

148. Key projects to be implemented in the MTEF include: rehabilitation of health facilities across the county and modernization of the three major hospitals

within the county. During the 2017/18 - 2019/20 MTEF period, the docket has been allocated Ksh 1.128 billion in FY 2017/18 compared to Kshs 1.04 billion in FY 2016/17. This allocation comprises of Ksh 1.048 million and Ksh 80 million for recurrent and development programmes respectively.

Docket of Trade, Industry and Cooperatives Development

149. The docket contributed significantly to the county's economic growth and wealth after heavy investment in public facilities and construction of markets. It is still among the key areas with potential of accelerating the economic growth and development for the achievement of the developments envisioned in the CIDP and MTP II of Vision 2030. The general objective of the docket will be promotion and development of trade, innovation, saving mobilization and investment.
150. The docket has implemented promotion of production of cereals, spearheaded the development modern markets, improved the supply value chain efficiency in wholesale and retail trade and enforced good governance through creation of awareness and inspections, monitored integrity status of the co-operative leadership and improving public infrastructure in the county at an impressively high completion rate. Notable accomplishments for the sector during the period include stabilization of market prices for agricultural produce through signing of future contracts, issuance of loans through the County Loans Board, drafting and submission of corporation bill and small and medium enterprises act which seek to establish an investment arm for the government.
151. Emerging issues within the docket which need to be addressed to enable the sector realize its targets include: poor infrastructure; perceived insecurity; unreliable and high cost of energy; influx of sub-standard, counterfeit and contra-band goods; low access to credit facilities and financial services; high interest rates and insufficient long term financing; multiple trade regulations; and low level of awareness on regional opportunities.

152. For 2017/18 – 2019/20 MTEF period, the programmes prioritized for funding are; Industrial development and Investment; Cooperative Development and Management; Trade Development and Promotion; and General Administration, Planning & support services. To implement these programmes, the Docket has been allocated of Ksh 128 million during the FY 2017/18. This comprises of Ksh 45 million and Ksh 83 million for recurrent and development programmes respectively.

Docket of Public Service, Labour and Urban Development

153. The Docket enhances public service delivery, organization and coordination of County Government business through planning and mobilization of human

resources in the public sector and urban areas. Additionally, the docket spearheads urban development and issues related to disaster management.

154. The Docket has been implementing several programmes. Through expending the resources allocated, the department has been able to realize deliverables which included implementation of devolution; establishment of structures in urban centres, public service training and management, coordinating of service delivery at the grassroots. The department has also directed efforts to stalled projects from previous financial years and explored viable projects for the future. This includes the modernization of urban centers such as markets and improved management of public service.

155. The medium term priorities and financial plan for the MTEF period 2017/18-2019/20 will have total resource allocation estimated at Kshs 261 million with Kshs 91 million being for development vote and Ksh 170 million is for recurrent vote.

Docket of Tourism, Environment, Natural Resource and Water Management

156. The Tourism, Environment Protection, Water and Natural Resources Docket comprises of three units namely: Tourism Development and Promotion, Water Supply Services and Environment and Natural Resource Management.

157. The County Government recognizes that protecting and conserving the environment, underpinned by effective climate change mitigation and adaptation measures is fundamental to sustain access to clean water, clean environment are healthy productive population. Safe drinking and sanitation do complement efforts towards improved primary healthcare and productivity of labour. For this reason the government will continue to invest in clean water supply, put in place measures to control floods and harvest rain water as well as to protect and conserve the environment. The Mariene solar water pump and Ngaani solar water pumps were installed to improve access to clean water.

158. The key achievements include: hosting cultural week events during 2015 and 2016, tree planting throughout the county, school greening projects (40 water tanks issued) and distribution of seedlings to communities.

159. Over the medium term the docket will source for resources to finance the following programmes: Tourism Development and Branding; and Natural resource Management. The total resource allocated in FY 2017/18 is estimated at Ksh 81.5 million of which Ksh. 31.5 million is for development vote and Ksh 50.0 million is for recurrent vote.

160. The allocation to Water Services and Irrigation Development is Kshs 168.5 million in FY 2017/18 of which Kshs 159 million will go towards financing

development programmes and projects while Kshs 9.5 million is for recurrent expenditure.

Docket of Finance and Economic Planning

161. The docket plays a key role in enhancing public service delivery, organization and coordination of Government business through planning, coordination and mobilization of financial resources in the county.

162. The Docket has been implementing four (4) programmes with the overall absorption rate standing at 87.3 percent. The County Treasury's achievements includes implementing strategic projects under audit and human resource management, oversight of contingency funds, resource mobilization and management, completion of monitoring and evaluation of county funded projects and expenditure management. The county also aims to automate revenue collection and training during 2017. Pilot testing for the automation process is scheduled to take place in the third quarter of FY 2016/17.

163. During the 2017/18 – 2019/20 MTEF period, the Docket will implement four (4) programs which have been allocated Ksh 307.8 million compared to Kshs 368.5 million in FY 2017/18, of which Kshs 50 million will be for development expenditure and Kshs 257.8 million will be for recurrent expenditure.

Office of the Governor and Deputy Governor

164. The Office of the Governor provides overall leadership and policy direction in resource mobilization, management and accountability for quality public service delivery in the county as a whole. This mandate entails providing County leadership in implementation of County Policy and development agenda by ensuring the County Government works in harmony through improved policy direction and coordination.

165. The department has been able to achieve following among others: increasing capacity in offices in institutions, towns management boards, land management board and a number of ad hoc committee and other administrative units.

166. During the 2017/18 – 2019/20 MTEF period, the department will implement four (4) programs namely; Management of County Affairs, Coordination and Supervisory Services, County Government Advisory Services and Management of County Executive Services under the office of County Secretary. The Docket has been allocated Kshs 156 million compared to Kshs 166.2 million allocated in FY 2016/17 of which the entire amount is recurrent expenditure with compensation to employees being Kshs 52.5 million while operations and maintenance is allocated Kshs 103.8 million.

County Public Service Board

167. The board is established through County Government Act, 2012 Section 57 with mandate to establish County Government structures, offices and support human resource related functions such as recruitment and regulation enforcement on behalf of the County Government. During the last 4 budget

cycles, this docket has served its mandate, contributing to efficiency the the newly – developed county government administration system.

168. The board has been allocated Kshs 34.9 million in FY 2017/18 compared to Kshs 29.9 million allocated in FY 2016/17 which is entirely recurrent expenditure and of which the Kshs 19.0 million is compensation of members and secretariat while Kshs 15.9 million is for operations and maintenance.

County Assembly

169. The County Assembly plays a crucial role in strengthening the democratic arena and fostering good governance. It approves overall policy within set deadlines and contributes to the development of county legislations and oversight with respect to public expenditure. Vetting and approval of appointments of state officers as per the provision of the constitution has also been done through the County Assembly.

170. The allocation for legislation and oversight (County Assembly) is Kshs 410.0 in FY 2017/18 compared to Kshs 378.5 million in FY 2016/17. This excludes Kshs 70.0 million being proposed for construction of County Assembly chamber and offices.

VII. CONCLUSION

171. The overall expenditure in this CFSP as outlined MTEP has grown moderately taking into account the envisioned moderate economic growth and prevailing economic conditions that have been experienced within the period However, the critical social aspects of this plan will continue to receive a significant share of resources as well as development investments as contributions to the growth objectives. The consideration of the importance of the social development of the county remains the county's paramount objective, in order to ensure that the yields of devolution are fairly shared to all.
172. The policies outlined in this CFSP predictably re-emphasize the agenda of sustainable economic growth for development outlined in the 2016 CFSP, while reflecting on the changed circumstances – socially, environmentally, politically and economically - and are broadly in line with the fiscal responsibility principles outlined in the PFM Act, 2012. The County Government takes its mandate to promote policies that are meaningful and considerate of the numerous aspects of the county.
173. Consistency with the overall national strategic objectives pursued by the National Government is the basis of allocation of public resources this fiscal year. The role of the national treasury in ensuring timely response to the matters highlighted within this policy document must not be ignored. These strategic objectives are adequately incorporated and implemented through the County Integrated Development Plan, published Department Sectoral Plans as well as The MTP II of Vision 2030.

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