REPUBLIC OF KENYA

COUNTY GOVERNMENT OF HOMA BAY

DEPARTMENT OF FINANCE AND ECONOMIC PLANNING

# COUNTY BUDGET REVIEW AND OUTLOOK PAPER

SEPTEMBER 2017

## FOREWORD

Section 118 of the PFM Act 2012 requires that each County Treasury prepares a County Budget Review and Outlook Paper (CBROP) in respect of their county for each financial year; and submit the paper to the County Executive Committee by the 30th September of that year. According to the Act, the County Treasury shall specify among other things the details of the actual fiscal performance in the previous year compared to the budget appropriation for that year, and the updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper.

This County Budget Review and Outlook Paper (CBROP) is the fourth of its kind and it presents a review of the fiscal outcome and performance for the financial year 2016/17. It also gives a projected macroeconomic outlook based on national economic indicators as well as county-specific economic growth indicators. The macroeconomic outlook provides the basis to recast the 2017/18 budget in the context of expected expenditure as well as set out the broad fiscal parameters for the 2018/2019 budget and for medium term development planning.

While the macroeconomic environment remains conducive, uncertainty around the projected revenue to be collected coupled with the continued under-strength growth of the national economy calls for caution in the county's fiscal projections. In this CBROP 2017, the county government's fiscal policy strategy remains focused on enhancing revenue collection such as through establishing a strong inspectorate and automation as well as containing growth of recurrent expenditure especially on wages and personnel benefits. That way, resources are shifted from recurrent to the more productive capital areas while ensuring there is improved efficiency and effectiveness in the use of public resources. This fiscal policy strategy recognizes the need to strike a balance between growth and fiscal sustainability and therefore emphasizes on higher investments in health, water, agriculture, human capital and infrastructure development today for a stronger and more sustainable growth in future.

As outlined in the 2017 County Fiscal Strategy Paper, our development agenda will be implemented through the five thematic pillars, namely: creating a conducive environment; investing in agricultural transformation; developing quality infrastructure; providing quality and accessible social services and; entrenching devolution. The priorities identified based on a review of the County Integrated Development Plan (CIDP) for 2013-2022 and public proposals for inclusion in the County Integrated Development Plan for 2018-2022 are expected to be given prominence. County sectors are expected to adhere to the indicative sector ceilings and rationalize all programs to ensure that only those programs that can cost-effectively deliver results on our core objective of growth, employment creation and poverty eradication are first considered in resource allocation.

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CEC Member Finance & Economic Planning
Homa Bay County Government

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## ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| A-I-A | Appropriation in Aid |
| APR | Annual Percentage Rate |
| ARUD | Agriculture Rural and Urban Development |
| CBROP | County Budget Review and Outlook Paper |
| CBK | Central Bank of Kenya |
| CBR | Central Bank Rate |
| CECM | County Executive Committee Member |
| CFSP | County Fiscal Strategy Paper |
| CIDP | County Integrated Development Plan |
| CPI | Consumer Price Index |
| CRA | Commission on Revenue Allocation |
| CRF | County Revenue Fund |
| DANIDA | Danish Development Agency |
| DUAs | Departments, Units and Agencies |
| EAC | East African Community |
| ECD | Early Childhood Development |
| FY | Financial Year |
| GDP | Gross Domestic Product |
| HIV | Human Immuno-Deficiency Virus |
| ICT | Information and Communications Technology |
| IFMIS | Integrated Financial Management Information Systems |
| IPSAS | International Public Sector Accounting Standards |
| KBRR | Kenya Bank's Reference Rates |
| KNBS | Kenya National Bureau of Statistics |
| MDAs | Ministries, Departments and Agencies |
| MDG | Millennium Development Goals |
| MTEF | Medium Term Expenditure Framework |
| MTP | Medium-Term Plan |
| NDA | Net Domestic Asset |
| NFA | Net Foreign Asset |
| NSE | Nairobi Stock Exchange |
| PFM | Public Financial Management |
| PPP | Public Private Partnership |
| WASH | Water and Sanitation Hygiene |
| SACCO | Savings and Credit Cooperatives |
| SDGs | Sustainable Development Goals |
| SNA | System of National Accounts |
| SSA | Sub- Saharan Africa |
| TSA | Treasury Single Account |
| USA | United States of America |
| USD | United States Dollar |

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# Legal Basis for the Publication of the Homa Bay County Budget Review and Outlook Paper

The Homa Bay County Budget Review and Outlook Paper is prepared in accordance with Section 118 (1) of the Public Financial Management Act, 2012. The law states that: A County Treasury shall:

(a) Prepare a County Budget Review and Outlook Paper in respect of the county for each financial year; and
(b) Submit the paper to the County Executive Committee by the 30th September of that year.

(2) In preparing its county Budget Review and Outlook Paper, the County Treasury shall specify:

(a) The details of the actual fiscal performance in the previous year compared to the budget appropriation for that year;
(b) The updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper;
(c) Information on:
(i) Any changes in the forecasts compared with the County Fiscal Strategy Paper; or
(ii) How actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the County Fiscal Strategy Paper for that financial year; and
(d) Reasons for any deviation from the financial objectives in the County Fiscal Strategy Paper together with proposals to address the deviation and the time estimated for doing so.

(3) The County Executive Committee shall consider the County Budget Review and Outlook Paper with a view to approving it, with or without amendments, within fourteen days after its submission.

(4) Not later than seven days after the County Budget Review and Outlook Paper is approved by the County Executive Committee, the County Treasury shall:

(a) Arrange for the Paper to be laid before the County Assembly; and
(b) As soon as practicable after having done so, publish and publicize the Paper.

**Fiscal Responsibility Principles in the Public Financial Management Law**

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

(1) A County Treasury shall manage its public finances in accordance with the principles of fiscal responsibility set out in subsection (2), and shall not exceed the limits stated in the regulations.

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

(a) The county government's recurrent expenditure shall not exceed the county government's total revenue;

(b) Over the medium term a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure;

(c) the county government's expenditure on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenue as prescribed by the County Executive member for finance in regulations and approved by the County Assembly;

(d) Over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;

(e) The county debt shall be maintained at a sustainable level as approved by county assembly;

(f) The fiscal risks shall be managed prudently; and

(g) A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.

(3) For the purposes of subsection (2) (d), short term borrowing shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited county government revenue.

(4) Every county government shall ensure that its level of debt at any particular time does not exceed a percentage of its annual revenue specified in respect of each financial year by a resolution of the county assembly.

(5) The regulations may add to the list of fiscal responsibility principles set out in subsection (2). Specifically, the PFM Regulations provides further that:

(a) the County Executive Committee member with the approval of the County Assembly shall set a limit on the County Government's expenditure on wages and benefits for its public officers pursuant to Section 107(2) of the PFM Act;

(b) the limit set under paragraph (a) above, shall not exceed thirty-five (35) percent of the County Government's total revenue at any one time;

(c) for the avoidance of doubt, the revenue referred to in paragraph (b) shall not include revenue that accrue from extractive natural resources including as oil and coal;

(d) the county public debt shall never exceed twenty (20%) percent of the county government total revenue at any one time;

(e) the county annual fiscal primary balance shall be consistent with the debt target in paragraph (d);

(f) the approved expenditures of a county assembly shall not exceed seven per cent of the total revenue of the county government or twice the personnel emoluments of that county assembly, whichever is lower;

(g) pursuant to section 107(5) of the PFM Act, if the county government actual expenditure on development shall be at least thirty (30) percent in conformity with the requirement under section 107(2)(a) of the Act;

(h) if the county government does not achieve, the requirement of regulations 25(1)(f) above at the end of the financial year, the County Executive Committee member for finance shall submit a responsibility statement to the County Assembly explaining the reasons for the deviation and provide a plan on how to ensure annual actual expenditure outturns as wells as the medium term allocation comply with the provisions of section 107(2)(a) of the Act and these regulations in the subsequent year; and

(i) the compliance plan above shall be binding and the County Executive Committee member for finance shall ensure implementation.

# I. INTRODUCTION

## 1.1 Background

1. The Budget Review and Outlook Paper (BROP) is one of the budget documents that enhances financial discipline and fiscal responsibilities within the county's financial management framework.
2. The County Budget Review and Outlook paper (CBROP) is prepared in line with the Public finance Management Act 2012, section 118. The Act requires that every county prepares a BROP by 30$^{th}$ September of that financial year and submit the same to the County Assembly.
3. This CBROP is the first to be prepared after the country's second general election after the introduction of the devolved governance framework. The fiscal framework presented in this 2017 CBROP provides a strong basis for building a lasting legacy that will strengthen and cement the gains of devolution attained in the last plan period.
4. The updated macroeconomic outlook therein also provides us with a basis to be used in revising the 2017/18 budget in the context of the Supplementary Estimates, as well as set out the broad fiscal parameters for the next budget.

## 1.2 Objective of CBROP

5. The CBROP presents the fiscal outcome for 2016/17 and how this affects the financial objectives set out in the 2017 County Fiscal Strategy Paper (CFSP).

6. The objective of this CBROP is to provide a review of the previous' year's fiscal performance and how this impacts the financial objectives and fiscal responsibility principles set out in accordance to section 26 of the PFM act, 2012.
7. This, together with the updated national macroeconomic outlook, will provide a basis for review of the current budget under the supplementary arrangement as well as provide the broad fiscal parameters which will influence the next budget and the medium term expenditure framework (MTEF).

8. The PFM Administration and Management Regulations 2013 requires that the budget review and outlook paper, must at least include a review of recent economic development in the county and a discussion of the medium-term outlook as well as a discussion of the following year's prospects of the major expenditure and revenue categories and the medium term forecast.

9. This CBROP has attempted to link the national government's second MTP priorities, Kenya's Vision 2030 (KV 2030), the Sustainable Development goals (SDGs) Innovative Programmes, County Integrated Development Plan's (CIDP) priority plans and programmes, the Poverty Eradication Strategies to the annual budget process. In addition, this CBROP takes into account emerging issues and challenges in setting up the county government's structures and systems i.e. linking policy to planning and budgeting. This eventually links the annual budget to the medium term and long term development policies, objectives and plans.

10. This CBROP seeks to provide a basis for the medium - term projection of revenues, expenditures, the budget deficit and it's financing. It also provides the County Government with an opportunity to analyze spending priorities that underlies the county's strategic policy and programme priorities and how these influence resource allocations between and within sectors.

11. The CBROP sets the base upon which the County Government of Homa Bay lays the foundation for fiscal discipline. The overall objective of the Homa Bay County Government's financial management is to seek ways and means towards achieving collective fiscal discipline by controlling budget aggregates (revenues, expenditures and the deficit and its financing). This would be achieved through efficient allocation of resources whereby budgetary expenditure allocations between and within the County Government's sectors are done in such a way that it reflects and is consistent with the County Government's policies and priorities. The goal being to allocate more resources to higher priority programmes.

12. The CBROP seeks to inform macroeconomic growth targets by developing consistent and realistic resource envelopes which in turn will improve the allocation of resources to agreed strategic priorities both between and within sectors.

13. The CBROP further seeks to generate the commitment of the County Government sectors and departments to increased predictability in resource allocations so that these county government spending agencies plan ahead. This would lead to a more effective and efficient utilization of resources by the sectors, since funding levels will be predictable. Thus the CBROP seeks to ensure that citizens of Homa Bay County enjoy better service delivery and value for money.

14. The PFM Act 2012 has set high standards for compliance with the MTEF budgeting process. Therefore, it is expected that the sector ceilings provided form the indicative baseline sector ceilings for the next budget of 2017/18. However, following the fiscal outcome of FY 2015/16 and the existing macroeconomic framework, these sector ceilings have been modified as indicated in annex (i) of this CBROP.

### 1.3 Structure of CBROP

15. The rest of the CBROP include Section II which provides a review of the fiscal performance in FY 2016/17 and its implications on the financial objectives as set out in the 2017 CFSP submitted to the County Assembly on 28th February, 2016. This is followed by Section III in which brief highlights of the recent economic developments and the updated macroeconomic outlook are provided. The resource allocation framework is detailed in Section IV while the conclusion and next steps are contained in Section V.

# II. REVIEW OF THE FY 2016/2017 FISCAL PERFORMANCE

## 2.1 MACRO-ECONOMIC PERFORMANCE

### 2.1.1 General Economic Performance

16. Kenya's Gross Domestic Product (GDP) is estimated to have expanded by 5.8 per cent in 2016 compared to a revised growth of 5.7 per cent in 2015. Accommodation and food services recorded improved growth of 13.3 per cent in the year under review compared to a contraction of 1.3 per cent in 2015. The other sectors that registered significant improved performance in economic activities were in the information and communication; real estate; and transport and storage. Persistent drought hampered growth in the fourth quarter of 2016 impacting negatively on Agriculture and electricity supply. On the other hand, growth in construction; mining and quarrying; and financial and insurance activities decelerated in 2016. From the demand side, growth was buoyed by consumption in both the public and private sector.

### 2.1.2 County Revenue Performance

17. By the end of June 2017 when the financial year 2016/2017 ended, the total operating income including A-I-A amounted to KES 6,550,687,939. Against the revised estimates of KES 6,731,913,525 this represents a revenue performance of 97.3 percent. Against the original estimates of KES 6,696,640,476, however, this represents a strong revenue performance of 97.8 percent.

18. The actual revenue growth from 2014/15 to 2015/16 was 36.62% whereas actual growth from 2015/16 to 2016/17 was at 5.5%. This growth reduction from 2015/16 to 2016/17 was attributed in part to the decline in actual local revenue which reduced from KES 191,358,816 in 2015/16 to KES 144,131,092 in 2016/17 and, insignificant improvement in allocation from CRA for 2016/17.

**Table 1: Revenue Growth from 2015/2016 to 2016/2017**

| | 2015/16 | | 2016/17 | | | Deviation as a % of Budget |
|---|---|---|---|---|---|---|
| | Actual | Budget | Actual | Budget | Deviation | |
| Exchequer releases | 5,634,960,034 | 5,634,960,034 | 6,080,193,774 | 6,080,193,774 | 0 | 0 |
| Local Revenue | 191,358,816 | 202,733,667 | 144,131,092 | 192,162,868 | (48,031,776) | 25 |

| | | | | | | |
|---|---|---|---|---|---|---|
| External Resources | 24,770,000 | 24,770,000 | 22,652,000 | 42,678,030 | (20,026,030) | 46.92 |
| Other receipts | 609,427,448 | 834,565,243 | 303,711,073 | 416,878,853 | (125,301,961) | 30.06 |
| **Total** | **6,460,516,298** | **6,552,542,281** | **6,550,687,939** | **6,731,913,525** | **(181,225,586)** | **2.69** |

Source: County Treasury

**Equitable Share of County Revenue**

19. In the FY 2016/17, the County Government of Homa Bay was allocated a total of KES 6,080,193,774 from the National Treasury. This represented an increase of KES 445,233,740 (7.9%) over the allocations of the previous financial year 2015/2016. The increment is a significant decline compared to the 19.2% growth in revenue allocation from 2014/15 to 2015/16.

20. By the end of June 2017, the county had received KES 6,080,193,774 from the National Treasury as part of the equitable share due to the County Government. This represents a 100% transfer of the amount due as equitable share for the FY 2016/2017. This follows the trend of the FY 2015/16 when KES 5,634,960,034 (100%) of the total sharable revenue expected from the National Treasury was received. Table 2 below captures exchequer releases from the National Treasury as part of Equitable Share.

**Table 2: Exchequer Releases during the Twelve Months of FY 2016/2017**

| **Month of Release** | **July 2016** | **Aug 2016** | **Sep 2016** | **Oct 2016** | **Nov 2016** | **Dec 2016** | **First Half Total 2016/17** |
|---|---|---|---|---|---|---|---|
| **Date** | 08/08/2016 | 30/08/2016 | 27/09/2016 | 04/11/2016 | 01/12/2016 | 13/01/2017 | |
| **Amount** | 486,415,502 | 547,217,440 | 486,415,502 | 516,816,471 | 547,217,440 | 486,415,502 | **3,070,497,857** |

| **Month of Release** | **Jan 2017** | **Feb 2017** | **Mar 2017** | **Apr 2017** | **May 2017** | **Jun 2017** | **Second Half Total 2016/17** |
|---|---|---|---|---|---|---|---|
| **Date** | 08/02/2017 | 06/03/2017 | 10/04/2017 | 09/05/2017 | 09/06/2017 | 30/06/2017 | |
| **Amount** | 486,415,502 | 547,217,440 | 486,415,502 | 516,816,471 | 486,415,502 | 486,415,502 | **3,009,695,917** |

21. With the equitable share still accounting for approximately 92.8% of the County's total operating income in the FY 2016/2017, the County Government of Homa Bay remained almost fully dependent on exchequer releases from the National Government. Measures must be urgently instituted to diversify sources of operating income especially through

augmenting the local revenue base as well as enhancing mobilization of external resources.

**Collection of County Internal Revenue**

22. The total collection from local revenue sources in the FY 2016/17 was KES 144,131,092. This represents a total internal revenue decline of 24.68% from KES 191,358,816 collected in the FY 2015/16.

23. Against the set target of KES 192,162,868, the total collections in FY 2016/17 fell short of expectations by 25%. Table 3 shows the trend of local revenue collection by category and sub-county for FY 2016/17.

**Table 3 Revenue Collections during the FY 2016/2017 by Category and Sub-county**

| | Trade & Enter Dev. Sector | Transportation Unit | Office of the Governor and town inspectorate | Agriculture/ Livestock/Fisheries | Health Sector | Physical Planning, Lands & Housing | Youth affairs/ Sports/ Culture | Water/Environment& Natural resources |
|---|---|---|---|---|---|---|---|---|
| **Homa Bay Town** | 7,057,075 | 6,579,895 | 5,786,524 | 1,707,480 | 19,354,149 | 2,916,001 | 4,700 | 499,416 |
| **Ndhiwa** | 8,088,970 | 1,027,380 | 917,490 | 790,190 | 686,070 | 225,500 | 0 | 33,660 |
| **Suba** | 6,798,830 | 2,132,190 | 1,010,810 | 1,212,200 | 2,566,400 | 142,200 | 3,000 | 11,800 |
| **Mbita** | 6,327,725 | 4,217,190 | 2,453,490 | 715,365 | 2,888,190 | 633,329 | 0 | 77,000 |
| **Rangwe** | 2,315,890 | 710,930 | 2,219,740 | 654,960 | 425,880 | 80,500 | 0 | 172,130 |
| **Karachuonyo** | 2,460,160 | 5,524,140 | 4,768,945 | 613,600 | 3,034,870 | 382,637 | 0 | 236,850 |
| **Kabondo Kasipul** | 1,564,880 | 1,221,760 | 2,846,010 | 305,800 | 594,010 | 56,500 | 0 | 19,800 |
| **Kasipul** | 6,037,170 | 5,149,870 | 3,468,110 | 1,361,670 | 10,466,531 | 325,800 | 12,700 | 234,230 |
| **TOTALS** | **40,651,500** | **26,563,355** | **23,471,119** | **7,361,265** | **40,016,100** | **4,762,467** | **20,400** | **1,284,886** |

24. The highest category of local revenue was from the trade sector at KES 40.7 million down from KES 58.6 million in the year 2015/16. This is followed closely by the health sector at KES 40 million down from KES 57.2 million (30%) in the year 2015/16. The least category of local revenue was from youth affairs sector at KES 20,400 while no revenue was collected from the education sector. By specific category, market dues performed at KES 27.4 million down from KES 34.3 million (20.1%) in the last financial year; single business permits at KES 16.1 million down from KES 17.4 million (7.5%) in the last financial year; and bus park fees at KES 20.8 million up from KES 19.0 million (9.5%) in the last financial year. The other categories that contributed significantly to the county's revenue include motorbike fee at KES 5.4 million, other cess income at KES 4.9 million, cattle/goat/sheep auction fee at KES 4.7 million and kiosks rent at KES 4.0 million. Other categories that could be significant such as liquor licensing, land rates,

sewerage bills, survey/sub-division fees, water bills, fines and penalties have generally continued to underperform.

25. Revenue performance has remained largely below par for many reasons. First, slow adoption of existing institutional and legislative frameworks for revenue collection and revenue leaks in areas such as liquor licensing, registration of institutions and land rates. Secondly, capacity issues with respect to enforcement and compliance, data management, audit and inspection and, optimal revenue administration have not been eliminated. However, measures are being instituted to streamline collection while automation has taken off with a view to doubling collections within the next two years. Enhanced enforcement and ensuring wider use of E payment platform as well as sealing off revenue leakages will help improve revenue collection. There is also need to carry out a baseline census on business establishment in the County to establish accurate records for proper projects to enable the County achieve maximum revenue from this stream.

26. Fundamental issues to be addressed in the context of county government revenue reforms involve mostly the need to redesign the current revenue structure and to strengthen financial management. Moreover, measures are required to enhance taxpayers' compliance and to improve the accountability of revenue collectors and receivers. There is need for greater emphasis on the cost-effectiveness of revenue collection, taking into account not only the direct costs of tax administration, but also the overall costs to the county economy, including the compliance costs to the taxpayers. In addition, losses through corruption and tax evasion need to be reduced. Such improvements may take a long time to achieve, although automation and additional simplification of the local revenue system should provide a positive contribution towards these aims

**Mobilization of External Resources**

27. Mobilization of financial and in-kind resources to undertake development efforts of the County Government of Homa Bay continues to be areas for consideration. Whereas extra-budgetary resources are often important means to fund expensive equipment, modernization, training of staff and other initiatives essential for the County Government to carry out its mission effectively. So far KES 12,357,000 was received from DANIDA to support health services and a further KES 10,295,000 from UN-Habitat for upgrading of Nyakwere Market.

28. The following projects have been developed with support from external sources:

    (i). Atemo Falls Mini Hydroelectric Power Project pre-feasibility study at US $ 58,000. Supported by MultiConsult Ltd Norway, the report has already been published.

(ii). The Symbiocity Pilot Program, a two and half year project for Mbita Town starting in 2016 to 2018 with funding as follows

- Seed fund of KSh. 30 million for Popular Urban Development Project.
- Technical Assistance Fund of KSh. 22 million.
- Capacity Development for Urban Development stakeholders at KSh. 10 million.

(iii). Tools with a Mission (UK) donated technical training tools and equipment worth KSh. 4.1 million to Jwelu and Owiro Youth Polytechnics in Rachuonyo.

(iv). Kenya Airports Authority to modernize and expand Kabunde Airstrip and upgrade the same to an airport.

(v). Maseno University to found Tom Mboya University College at Homa Bay Town which has admitted students for the second year running.

29. In the period 2017-2022, the County Government of Homa Bay has entered partnerships such as:

- With the World Bank to support capacity strengthening and build a ring road around Lake Victoria;
- With Civic Engagement Alliance, through Africa Youth Trust, to support improvement and strengthening of small holder farmers access to extension and outreach services;
- With AfDB to construct several rural access roads such as Kendu Bay – Oyugis and Oyugis-Rodi Kopany; and
- With EPZ Authority to establish an industrial Park at Riwa in West Karachuonyo.

30. The County Government recognizes the importance of the issue of resource mobilization and the challenge faced by many county spending entities in developing and implementing an effective strategy. Effort is being enhanced towards locating additional sources of external funds and negotiating grants or loans to carry out priority projects. Already, the County Assembly has approved the County Treasury request to borrow up to KSh. 500 million for priority emergency projects in 2017/18. Equally, the County Government has negotiated with development partners such as AfDB to improved priority roads in the county.

31. It is imperative that the external resources unit should be strengthened to enhance the mobilization of external resources through improved grant seeking and Public Private Partnerships. Measures are being instituted to improve grant support from foreign governments and international institutions. This implies application of relevant principles such as effectively communicating gratitude and work done with support previously provided to enhance cause and organization visibility and credibility; highlighting the uniqueness of our organization by emphasizing our USP

(Unique Selling Proposition); ensuring transparency in our work and use of funds received; and making it easy for our donors to contribute. The County Government is focused on strengthening follow ups and using technology—for instance the internet—to make it conducive for development partners.

### 2.1.3 County Expenditure Performance

32. The actual expenditure during the FY 2016/17 amounted to KES 6,496,463,746 which represents 99.2 per cent of the total funds received. Out of that total actual expenditure, the County spent KES 4,399,369,696 (67.7%) on recurrent activities and a further KES 2,097,094,050 (32.3%) on development activities.

**County Expenditure by Broad Economic Classification**

33. The recurrent expenditure for the FY 2016/2017 represented an absorption rate of 94.9% of the revised recurrent budget, while development expenditure represented an absorption rate of 99.9% of the revised development budget. Table 4 below provides a synopsis of actual spending against revised estimates for both recurrent and development votes of the FY 2016/2017.

**Table 4: County Government Total Expenditure**

| | **2015/16** | **2016/17** | | | |
|---|---|---|---|---|---|
| | **Actual** | **Actual** | **Revised Budget** | **Deviation** | **Percentage Absorption** |
| Recurrent Expenditure | 4,378,850,292 | 4,399,369,696 | 4,633,840,430 | 234,470,734 | 94.9% |
| Development Expenditure | 2,142,500,483 | 2,097,094,050 | 2,098,073,095 | 979,045 | 99.9% |
| **Total** | 6,521,350,775 | 6,496,463,746 | 6,731,913,525 | 235,449,779 | 96.5% |

34. In the FY 2016/2017, the County Government of Homa Bay had a budget absorption rate of 96.5%. This is a decline as compared to FY 2015/16 in which 99.5% of the budget was absorbed. The low absorption rate could be attributed to low receipts from local sources and delayed funding from the National Exchequer.

35. It is noteworthy that actual compensation to employees (wage bill) constituted 38.3% of the total expenditure. A total of KES 2,491,138,011 was paid to employees compared to KES 2,495,770,755 paid to employees in the FY 2015/2016. KES 957,731,685 was used up to procure current goods and

services down from KES 1,556,772,634 used in the FY 2015/16. Equally, KES 950,500,000 was used for other recurrent purposes down from KES 967,803,085 used in the FY 2015/16. Table 5 below provides the breakdown of recurrent expenditure by broad economic classification.

**Table 5: Breakdown of Current Expenditure by Economic Classification**

| | **Actual Expenditure 2015/2016** | **Initial Estimates 2016/2017** | **Revised Estimates 2016/2017** | **Cumulative Expenditure 2016/2017** | **Exp.% of the Revised Budget** |
|---|---|---|---|---|---|
| Compensation to Employees | 2,495,770,755 | 2,413,680,172 | 2,381,255,374 | 2,491,138,011 | 104.6% |
| Recurrent operations & Maintenance Services | 1,883,079,537 | 1,929,080,214 | 2,252,585,056 | 1,908,231,685 | 84.7% |
| Total Recurrent | **4,378,850,292** | 4,342,760,386 | **4,633,840,430** | **4,399,369,696** | **94.9%** |

**Source: Homa Bay County Treasury**

**Resource Consumption by Spending Entities**

36. Actual expenditure returns for the FY 2016/2017 indicate that the departments of health and county assembly service board were the biggest spenders accounting for 38.1% and 16.6% of the actual total recurrent spending respectively. The department of finance and office of the governor accounted for 11.9% and 10.5% of the actual total recurrent spending in the county respectively. The other major spenders of recurrent included education and ICT (6.3%), Agriculture, Livestock and Fisheries Development (3.3%) and Trade, Industry, Investments and Cooperatives (2.8%).

37. In terms of absorption, it is only the department of health (106.7%) that had an absorption rates above 100% of its total recurrent allocations for the FY 2016/2017. The county assembly service board (82.1%) had the least absorption rate for the FY 2016/2017. Table 6 below provides a synopsis of the absorption of expenditure by broad economic classifications (votes) of recurrent and development.

**Table 6: Absorption of Recurrent and Development Expenditure by Spending Entities**

| **VOTE HEAD** | **Analysis of the FY 2016/2017 Recurrent Expenditure** | | | **Analysis of the FY 2016/2017 Development Expenditure** | | |
|---|---|---|---|---|---|---|
| | **Actual Expenditure** | **Budget Estimates** | **Rate of Absorp.** | **Actual Expenditure** | **Budget Estimates** | **Rate of Absorp.** |
| Agriculture, Livestock and | 150,946,787 | 168,095,440 | 89.8% | 162,469,800 | 164,000,000 | 99.1% |

| | | | | | | |
|---|---|---|---|---|---|---|
| Fisheries | | | | | | |
| Tourism, Culture and Sports | 57,121,177 | 63,076,964 | 90.6% | 51,623,400 | 52,823,500 | 97.7% |
| Transport and Infrastructure | 39,924,841 | 41,335,725 | 96.6% | 589,646,402 | 570,990,400 | 103.3% |
| Energy and Natural Resources | 23,264,162 | 25,117,088 | 92.6% | 65,300,548 | 66,037,548 | 98.9% |
| Education and ICT | 293,519,081 | 337,153,548 | 87.1% | 134,489,102 | 135,599,000 | 99.2% |
| Health | 1,669,429,978 | 1,653,670,232 | 101.0% | 248,752,231 | 250,000,000 | 99.5% |
| Lands, Housing and Physical Planning | 49,036,741 | 49,704,332 | 98.7% | 69,872,100 | 71,000,000 | 98.4% |
| Trade, Industry, Investments and Cooperatives | 129,699,035 | 131,967,876 | 98.3% | 132,300,102 | 132,741,700 | 99.7% |
| Water and Environment | 100,106,569 | 100,347,804 | 99.8% | 489,385,700 | 490,000,000 | 99.9% |
| Finance and Economic Planning | 552,341,842 | 552,782,952 | 99.9% | 78,584,430 | 79,419,452 | 98.9% |
| Office of the Governor | 484,257,591 | 486,166,772 | 99.6% | 64,670,235 | 65,000,000 | 99.5% |
| Public Service Board | 82,104,554 | 89,162,357 | 92.1% | 0 | 0 | 0.0% |
| County Assembly Service Board | 767,617,338 | 935,259,340 | 82.1% | 10,000,000 | 20,461,535 | 48.9% |
| **County Total** | **4,399,369,696** | **4,633,840,430** | 94.9% | **2,097,094,050** | **2,098,073,095** | 99.9% |

## Budget Outturn for the FY 2016/2017

**38.** An analysis of the budget outturn indicates that during the FY 2016/2017 the resources made available for spending by the various entities was less than the budget allocation by KES 181,225,586 representing 2.7% the total planned spending. The table 7 below further indicates, the total actual expenditure.

### Table 7: Budget Outturn for the FY 2016/17

| Receipt/Expense Item | Original Budget | Adjustments | Final Budget | Actual on Comparable Basis | Budget Utilization Difference | % of Utilization |
|---|---|---|---|---|---|---|
| | A | B | C= A+B | D | E= C-D | F= D/C % |
| **RECEIPTS** | | | | | | |
| Exchequer Releases | 6,420,713,936 | -340,520,162 | 6,080,193,774 | 6,080,193,774 | 0 | 100.0% |

| Receipt/Expense Item | Original Budget | Adjustments | Final Budget | Actual on Comparable Basis | Budget Utilization Difference | % of Utilization |
|---|---|---|---|---|---|---|
| | A | B | C= A+B | D | E= C-D | F= D/C % |
| Grant from Partners | 42,385,000 | 293,030 | 42,678,030 | 22,652,000 | 20,026,030 | 53.1% |
| Local Revenue | 233,541,540 | -41,378,672 | 192,162,868 | 144,131,092 | 48,031,776 | 75% |
| Other Receipts | 0 | 416,878,853 | 416,878,853 | 303,711,073 | 113,167,780 | 72.8% |
| **Total Receipts** | **6,696,640,476** | **35,273,049** | **6,731,913,525** | **6,550,687,939** | **181,225,586** | **97.3%** |
| **PAYMENTS** | | | | | | |
| Compensation of Employees | 2,413,680,172 | (32,424,798) | 2,381,255,374 | 2,491,138,011 | (100,882,637) | 104.6% |
| Other Operations | 1,929,080,214 | 291,080,044 | 2,220,160,258 | 1,908,231,231,685 | 311,928,573 | 86.0% |
| **Recurrent Payments** | **4,342,760,386** | **291,080,044** | **4,633,840,430** | **4,399,369,696** | **234,470,734** | **94.9%** |
| **Development Payments** | **2,353,880,090** | **-255,806,995** | **2,098,073,095** | **2,097,094,050** | **979,045** | **99.9%** |
| **Total Payments** | **6,696,640,476** | **35,273,049** | **6,731,913,525** | **6,496,463,746** | **235,449,779** | **96.5%** |

**Source: County Treasury of Homa Bay**

### 2.1.4 Fiscal Pressure, Debts and Deficits

### Fiscal Pressures

39. The more immediate challenge of the County Government of Homa Bay for the FY 2016/2017 was to increase the financing that is available to government as a result of concrete policy actions for enhancing resource mobilization, and the reforms necessary to secure the enabling governance, institutional and economic environment for these policy actions. The implication of that was that the average intensity of the load or the obligation to all taxpayers to pay taxes to the county government would increase. However, the County Government opted to raise revenue rates for sand and some agricultural products while reducing cess for fish and some fish products.

40. A number of issues continued to undermine efforts to enhance the fiscal space and exerted unforeseen fiscal pressure. First, the persistently high incidence of poverty and the dependency burden meant there was more demand for public services especially social protection for orphaned and vulnerable children, the aged, the disabled and the unemployed youth. Whereas social protection is largely the domain of the National Government, the small number of households covered implies many locals are turning to the County Government for relief. Secondly, delayed

exchequer releases could sometime force the county treasury to secure short-term debt and strain relations with contractors whose bills fell due for settlement during such delays. Finally, expanded commitments in infrastructure, health, education, water and sanitation made it difficult to create fiscal space to cover other emerging priority needs in human resource development, disaster management and development of productive clusters.

41. Going forward, the County Government of Homa Bay has considered all options to significantly expand fiscal space during the MTEF period 2017/18-2019/20 and generate resources for priority social investments. Some of the options will include: (i) re-allocating public expenditures; (ii) increasing revenues; (iii) expanding contributory revenues; (iv) lobbying for aid and transfers; (v) eliminating financial leakages and; (vi) adopting a more accommodative macroeconomic framework that enables emergency borrowing.

42. Overall, the County Government of Homa Bay has maintained a lower rate of taxation so that there is low pressure on taxpayers. This has meant relatively low receipts for the county government budget. However, it is estimated that this low taxation rate is likely to boost the overall effort to achieve stability of the county economy and make more disposable income available at household level for accelerating economic growth and therefore leading to an increase in tax revenues to the MTEF budget for FY 2017/18-2019/20.

43. Equally, the behavior of economic agents as to not pay taxes or make contributions because they are not sanctioned by the County Government is being considered equivalent to increasing taxation on the shoulders of those who are honest and pay these obligations. Reducing tax evasion and intended leakages as well as tax arrears will be prioritized and considered tantamount to actual tax reduction because households and businesses are not forced to pay double to secure services which should be provided by the County Government. Stringent measures are therefore being put in place to check such vices.

**Debts**

44. The constitution of Kenya (2010) under the SIXTH SCHEDULE (*Article* 262) TRANSITIONAL AND CONSEQUENTIAL PROVISIONS in part IV sub section 33, provides that an office or institution established under the constitution was the legal successor of the corresponding office or institution, established under the former Constitution or by an Act of Parliament in force immediately before the effective date, whether known by the same or a new name. The County Government of Homa Bay was thus by the very law that created it expected to take over the assets, liabilities

and every other contractual obligation that were in existence within the structures of the 7 local authorities they were succeeding, including Homa Bay County Council, Homa Bay Municipal Council, Suba County Council, Mbita Town Council, Rachuonyo County Council, Kendu Bay Town Council and Oyugis Town Council.

45. The debt obligation inherited from the 7 defunct local authorities is still estimated to be KES 188,934,228. The debt was domestic in nature and was made up of 3 distinct components, namely; statutory deductions, unpaid emoluments, and pending bills from other creditors. Whereas the correct position of these debts is yet to be finalized with the support of the Inter-Governmental Relations Technical Committee (IRTC) due to the existing gaps in their documentation, pressure is piling that these debts are dispensed with. It is expected that the Council of Governors and the IRTC will reach a compromise and instruct the County Government to settle those liabilities.

46. Section 107 of the PFM Act of 2012 provides that over the medium term, borrowing shall only be for development purposes. The National Treasury and Constitutional Commissions restricted counties from borrowing during the first three years of existence. However, short-term borrowing (not exceeding 5% of the most recent audited revenue) for purposes of managing cash flow has been approved by the County Assembly so that the County Government of Homa Bay will be able to borrow a maximum of KSh. 500 million for the purposes of clearing the stock of pending development bills.

**Deficits**

47. For the FY 2016/17, the County Government of Homa Bay was able to formulate and operationalize a balanced budget in line with policy positions adopted by the National Treasury and Constitutional Offices such as the CRA and the Controller of Budget. However, the County Government of Homa Bay revised the budget to match expected receipts with potential payments throughout the financial year 2016/2017. Part of the reason was to take into account the balance carried forward from the FY 2015/16 of KES 76,358,791.

48. Based on an analysis of the budget outturn for the FY 2016/2017, only 2.7% of the projected revenue was not received and 0.8% of the receipts was not spent. The County never incurred any debt to finance its expenditures for the FY 2016/2017.

49. The county is putting in place measures to avoid unwarranted deficits resulting from: i) high levels of tax avoidance and tax evasion; ii) high levels of income and wealth inequality where many people are stuck in low-paid, insecure work where they don’t earn enough to pay much in tax and even more may remain dependent on social protection, adding to the pressure on

government spending; iii) demographic pressures from an expanding dependent or ageing population which will cause an increase in government spending on social welfare; iv) government inefficiency in supplying public services which then means the value for money is lower and more is being spent in total to provide the cover that people need; and v) high levels of government subsidies / transfers which over time means total government spending must rise because of the many competing demand placed upon politicians and the effects of lobbying by (often influential / powerful) pressure groups.

50. As consistent with the thinking of free market economists, the County Government of Homa Bay favors a smaller government sector with many activities out-sourced or privatized to the private sector to supply.

## 2.2 PUBLIC FINANCE MANAGEMENT

### 2.2.1 PFM Structures

51. For Homa Bay County to make efficient and effective use of its funds, it needed a solid public finance management system. That system would be equally important for attracting other funds, including – increasingly – private investment. In the FY 2016/2017 going forward, this called for the strengthening of administrative capacity and actively soliciting the use of systems and procedures prescribed in the Public Finance Management Act of 2012 and its operationalizing regulations.

52. In the FY 2016/2017 going forward, one of the PFM agenda of the county treasury was to improve in all phases of the budget cycle – preparation, execution, monitoring and auditing. As part of budget formulation, structures for public participation including sector working groups and the county budget and economic forums were used to good effect.

53. To improve budget execution, lessons from public expenditure reviews were incorporated and financial progress was consistently compared with physical progress so that budget outturn closely matches planned expenditure. Once again, tender committees, inspection and acceptance committees and audit committees were engaged to steer the necessary processes and ensure value for money. The County Monitoring and Evaluation Committee was strengthened to assess progress being made.

54. Ultimately, all PFM structures were operationalized before the close of the year in response to audit findings and recommendations. In response to the County Assembly recommendations for improved reporting, as envisioned in Section 104(iv) of the PFM act. The County Treasury will undertake to prepare and submit in time all the quarterly reports to the County Assembly.

### 2.2.2 PFM Reforms

55. Since 2003, the Government of Kenya embarked on a reform process to develop and enhance public finance management. The promulgation of the new constitution in 2010 provided further impetus to the reform process. More attention was provided to consolidating gains in PFM and improving governance and oversight structures.

56. Specifically, the PFM Act that came into being in 2012 prescribed for the county governments responsibilities in public finance; establishment, responsibilities and power of county treasuries; secondment of public officers; enforcement of fiscal responsibility principles; deviation from financial objectives; establishment of county revenue fund, emergency and other public funds; administration of funds; financial reporting timelines and frameworks; preparation of county budget and debt management papers; banking of revenue; management of cash and cash flows; county budget preparation, submission and approval; county planning; submission and consideration of revenue raising measures; approval of the finance bill; actions in case of delay in passing the appropriation bill; submission of supplementary budgets; appropriation of money for county government purposes; establishment of CBEF for county budget consultation processes; conditions for receiving grants and donations; regulations on grant administration; authority for borrowing; obligations and restrictions with respect to borrowing; execution of loan documents; issuance of securities; and authorization to lend money.

57. The PFM Act of 2012 further provides for joint infrastructure investments by counties; role and power of accounting officers in PFM; power to write off loses; spending authority of accounting officers; management of assets and liabilities; limited power to reallocate appropriated funds; maintenance of internal auditing arrangement of county government entities; disciplinary measures against public and accounting officers; designation of receivers of county revenue; the powers of CECM responsible to waive or vary tax fees or charges; appointment of collectors of revenue; county public officers obligation in resource management; preparation of annual financial statements; annual reporting by accounting officers and receivers of revenue; budgeting for, financing of, management and reporting of urban areas and cities; transitional arrangements cap 265; as well as establishment and dissolution of county operations

58. For success of the PFM reform process, the government needed to assume a high sense of responsibility and ownership of the reform process. Checking fiduciary risks became the cornerstone of PFM and an integrated financial management system (IFMIS) was fully adopted and operationalized. However, there is still need to build on the existing desire for further

reforms in the county and to review the PFM Act to make it more responsive to the needs and challenges of the county governments.

59. Over the medium to long term, the County Government is focused on securing good ratings in major international and national comparative indices. That way, the county's reputation could be improved thereby creating space for further reforms and mobilizing progressive forces to support the county's development agenda.

60. Whereas PFM comprises as set of increasingly complex processes, rules, systems, and norms that are explicitly provided for in legislation or regulations, the reforms proposed need champions and competent staff to carry them out. The emphasis on PFM's three key objectives—maintaining a sustainable fiscal position, effective allocation of resources, and efficient delivery of public goods and services—has relatively shifted from the effectiveness and efficiency arguments to fiscal sustainability.

61. The importance of the county context—historical, political, and geographical, but also human capital—cannot be stressed strongly enough. There were no cookie-cutter approaches to strengthening PFM, and therefore the options were carefully assessed and subjected to reality check. Political economy considerations continued to influence public administration or governance aspects of PFM. The coverage—either of devolved units or of transactions—of fiscal activities was still limited to the central IFMIS point of capture.

62. Progress was made on reporting standards as part of the effort to define better ways to convey an accurate picture of public finances for various purposes, from aggregate demand management to accountability. The horizon of fiscal policy was already extended by adopting medium-term frameworks aimed at making clear the impact of policy decisions on future outcomes. A better appreciation of fiscal risks—in a nutshell, all factors that could explain outcomes different from planned—is still needed, although the consideration is on-going.

### 2.2.3 Budget Credibility

63. Fiscal credibility is a key asset of any government to the extent that businesses and consumers believe in the proposed plans and adjust their actions accordingly. Credibility is achieved when the government implements it plan and in the process, meet or exceed set targets. Therefore, it is important to measure how budget outturn matches with planned spending.

64. In the FY 2016/2017, total revenue was fairly well predicted with an adverse deviation of just 2.7% down from a better deviation of 0.3% in the FY 2015/16 when actual receipts are compared to forecast revenue. In terms of planned

spending, the County Government was able to absorb 96.5% of planned expenditure on a cash basis. This was made largely possible due to timely exchequer releases before the end of the financial year.

65. In terms of the process by which the budget was created, all relevant laws and assembly processes were respected and fair representation of stakeholder groups was observed during the whole budget formulation process. Most allocations to projects and activities were fairly technically appropriate to indicated targets and stated goals. Whereas it was prudent to have a generous contingency plan as a buffer against downside risks, only KES 60 million was provided for emergency. This was still within the law that caps emergency funds at 2% of the total revenue.

66. In the FY 2016/2017, the economic and fiscal details were presented for the medium term including the two outer years of 2017/2018 and 2018/2019. Use was made of reasonable economic assumptions including revenue growth projection of 19.2%. Overall, current spending increased more than capital spending indicating a need to increase the fiscal space for capital spending and improve absorption of development expenditure.

67. Bearing in mind the principal-agent approach, fiscal transparency was greatly observed so that the government had limited information advantage over the county assembly and the public. This way, the elected representatives and the public constrained the government to execute the approved budget on their behalf. This further ensured that the budget was more credible and reliable.

### 2.2.4 Emerging PFM Challenges

68. All innovations introduced in public finance management had already been adopted in the financial year including fiscal responsibility legislation, fiscal rules, medium-term budget frameworks, fiscal risk management techniques, performance budgeting, and accrual reporting and accounting. But these innovations presented new challenges.

69. First, the fiscal responsibility principles restricted access to credit even under emergency conditions. Only borrowing for short term cash flow management is allowed but this too is restricted to 5% of the most recent audited revenue. Whenever exchequer releases were delayed, the county suffered liquidity challenges and therefore fiscal space to meet pressing recurrent obligations like payment of salaries was undermined from time to time.

70. Secondly, fiscal risk management was still below expectations. The internal audit and advisory department still has capacity challenges that will only be addressed through more training and new recruitment. The framework of

risk management will still need to be developed and implemented for improved risk identification, control and management.

71. Thirdly, cash accounting basis was still largely in use leading to a piling stock of pending bills the settling of which will need additional resources that were not been set aside. Going forward, these bills will have to be audited so that commitments outside the budget process are eliminated.

72. Fourthly, the lack of capacity in terms of adequate numbers of competent and qualified staff continued to undermine the implementation of plans and budgets in line with best practices, procedures and policies. Application of IPSAS and other accounting standards was still undermined by lack of qualified finance personnel. Worse, failure to digitalize processes such as in revenue collection continued to hinder efforts to realize better results.

73. Finally, the lack of relevant local legislations and policy frameworks especially the revenue administration bills continued to undermine efficacy of essential processes such as revenue collection. Once again, the Ward Development Fund funds could not be operationalized for lack of a relevant legislation or policy framework.

## 2.3 ANALYSIS OF SECTORAL PERFORMANCE

### 2.3.1 Agriculture, Rural and Urban Development Sector

74. Agriculture, Rural and Urban Development Sector is one of the key sectors for the county's sustained economic growth. The sector consists of two sub sectors namely: Agriculture, Livestock and Fisheries Development sub sector and Lands, Housing and Physical Planning sub sector. The goal for the sector is to attain food security, sustainable land management and affordable housing.

**Agriculture, Livestock and Fisheries Development**

75. The Department was mandated to continue expansion of area under farming, increase production and productivity through input subsidy and timely land preparation (mechanization), strengthen research and use of modern technology, control pests and diseases, improve marketing and quality of products from local farm resources, capture fisheries management and promote fish farming through establishment of fish multiplication and demonstration sites.

76. In the FY 2016/17 the department was allocated KES 168,095,440 for recurrent and KES 164,000,000 for development totaling to KES 332,095,440.

With an expenditure of KES 150,946,787 for recurrent and KES 162,469,800 for development the department was able to use up 4.7% of the county's total budget for the FY 2016/17.

**Lands, Housing and Physical Planning**

77. The Department of Lands, Housing and Physical Planning was charged with the responsibility of ensuring efficient and effective administration and management of land resources, developing and maintaining cost effective government buildings and other public works, facilitating development of quality and affordable housing, improving the livelihoods of people living and working in informal settlements and, enhancing Infrastructure connectivity and accessibility within urban areas.

78. In the FY 2016/17 the department was allocated KES 49,704,332 for recurrent and KES 71,000,000 for development totaling to KES 120,704,332. The department was able to use up KES 49,036,741 for recurrent and KES 69,872,100 for development presenting an overall absorption rate of 98.5%. In terms of the county's share of total resources, the department spent a paltry 1.8% of the county's total resources.

### 2.3.2 Energy, Infrastructure and ICT

**Energy and Natural Resources Sub-Sector**

79. The energy sub-sector was once again mandated to optimize power supply in Homa Bay County, so as to improve on its sufficiency and reliability; to promote alternative sources of energy and; to regulate and control the construction minerals industry.

80. In the FY 2016/17 the department was allocated KES 25,117,088 for recurrent and KES 66,037,548. The department was able to use up KES 23,264,162 for recurrent and KES 65,300,548 for development presenting an overall absorption rate of 97.2%. In terms of the county's share of total resources, the department spent a paltry 1.3% of the county's total resources.

**Transport and Infrastructure Sub-Sector**

81. The Department of Transport and Infrastructure was mandated to provide efficient, safe, affordable and reliable infrastructure for sustainable economic growth and development through construction, modernization, rehabilitation and effective management of all infrastructure facilities.

82. In the FY 2016/17 the department was allocated KES 41,335,725 for recurrent and KES 570,990,400 for development totaling to KES 612,326,125. In attempting to achieve planned outputs, the department was able to utilize 96.6% of its budgetary allocation for recurrent and 103.3% of its budgetary allocations for development. Ultimately, the department was able to use up 95.7% of its budgetary allocation and 8.8% of the total county expenditure.

### 2.3.3 General Economic and Commercial Affairs Sector

83. The General Economics and Commercial Affairs Sector comprises of the Department of Trade, Industry, Investments and Cooperatives; and the Tourism sub-sector. The sector aims at strengthening cooperatives, growth and development of commerce, tourism promotion and development, savings and investment mobilization, employment creation, and industrial and entrepreneurship development.

**Trade, Industry, Investments and Cooperatives Sub-Sector**

84. The total expenditure for the department of Trade, Industry, Investments and Cooperatives in the reporting period amounted to KES 261,999,137 representing 3.9% of the County's Total Expenditure. Development expenditure for the department amounted to KES 132,300,102 representing an absorption rate of 99.7% of the department's development budget. Recurrent expenditure for the department amounted to KSh 129,699,035 representing an absorption rate of 98.3 per cent of the department's recurrent budget.

### 2.3.4 Health Sector

85. The Health department was focused on increasing immunization coverage and reducing mortality rates; enhancing MCH and reproductive health services; improving coordination and community access to affordable quality health services; reducing the burden of communicable and non-communicable diseases; and reducing morbidity associated with poor hygiene and sanitation.

86. During the FY 2016/17 the department was allocated KES 1,653,670,232 for recurrent and KES 250,000,000 for development totaling to KES 1,903,670,232. The total expenditure for the department during the FY 2016/17 was KES 1,918,182,209 including KES 1,669,429,978 for recurrent and KES 248,752,231 for development with each vote experiencing a budget absorption rates of 101.0 per cent and 99.5 per cent respectively for recurrent and development. In all, expenditure on health constituted 29.7 per cent of total county expenditure for the FY 2016/17.

### 3.5 Education Sector

87. The department exists 'to provide, promote and coordinate quality education and training, integration of information, communication, technology and innovation in a sustainable socio-economic development process.'

88. During the FY 2016/17 the Education sector was allocated KES 472,752,548, comprising of KES 135,599,000 for development programmes and KES 337,153,548 for recurrent programmes.

89. The total expenditure for the department of education and ICT during the reporting period amounted to KES 428,008,183 representing 6.4 per cent of the total expenditure and an overall absorption rate of 90.5 per cent. This expenditure comprised of KES 293,519,081 in recurrent expenditure, which represented 87.1 per cent of the annual budget estimates for recurrent programmes while development expenditure amounted to KES 134,489,102 accounting for an absorption rate of 99.5 per cent of the department's development budget.

### 2.3.6 Public Administration and Government Relations Sector

90. The sector comprised of the Governor's Office (including the Office of the Deputy Governor and the County Secretary), the County Treasury, the County Planning Unit, the County Public Service Board and the County Assembly.

**County Executive Services (Office of the Governor)**

91. The Office of the Governor was mandated to provide strategic leadership and coordination of public services and development interventions in the county. In the FY 2016/2017, the entity was allocated KES 486,166,772 for recurrent up from KES 459,481,243 allocated in the previous year while for development KES 65,000,000 was allocated up from 36,500,000 allocated in the FY 2015/16.

92. Over the financial year, the entity was able to spend a total of KES 548,927,826 representing 9.4 per cent of the county's total expenditure and an overall absorption rate of 99.6 per cent. This amount included KES 484,257,591 for recurrent representing 99.6 per cent absorption and KES 64,670,235 for development representing 99.5 per cent absorption rate.

**Finance and Economic Planning Sub-Sector**

93. The Department of Finance and Economic Planning was tasked with providing leadership and coordination in planning, resource allocation and

results tracking; improving accountability and prudence in the management of the county's financial resources; and mobilizing development assistance and ensuring optimum and equitable collection of revenue.

94. In the FY 2016/17 the department was allocated KES 552,782,952 for recurrent and KES 78,584,430 for development totaling to KES 630,026,976. With an expenditure of KES 552,341,842 for recurrent and KES 78,584,430 for development the department was able to use up 9.4 per cent of the county's total budget for the FY 2016/17 and with an absorption rate of 99.8 per cent of its total budget.

**County Public Service Board**

95. The County Public Service Board exists 'to provide overall leadership and coordination in the management of the County's human resources for effective service delivery

96. The Board was allocated KES 89,162,357 for the FY 2016/17 up from KES 97,765,419 allocated for recurrent purposes only in the FY 2015/16. The entity was able to utilize 92.1 per cent of the allocation. Ultimately, the board's expenditure reflected just a paltry 1.2% of the County's Total Expenditure.

**County Assembly Services**

**97.** The County Assembly was tasked with creating the necessary legal, institutional and policy framework for holding the executive accountable while at the same time representing the public interest in all matters government. The Assembly was therefore allocated KES 935,259,340 for recurrent up from KES 880,117,019 allocated in the FY 2015/16. For development spending, the entity was allocated KES 20,461,535 down from KES 70,000,000 allocated in the last financial year. The Assembly was able to absorb 82.1 per cent of its recurrent vote and 97.9 per cent of the development vote.

### 2.3.7 Social Protection, Culture and Recreation Sector

98. The Department of Culture and Sports was tasked with developing and promoting our culture and heritage and, developing and managing our sports and sports facilities. It was also tasked with complementing the abilities of poor and vulnerable groups to participate fully in county's development process through social protection measures. Towards this end, during the FY 2016/2017 the department was allocated KES 63,076,964 for recurrent expenditure and KES 52,823,500 for development giving a total of KES 115,900,464 budget.

99. Over the financial year, the department was able to spend KES 57,121,177 for recurrent purposes and KES 51,823,500 for development. This reflects an absorption rate of 97.7 per cent of the development vote and 90.6 per cent of the recurrent budget.

**2.3.8 Environment Protection, Water and Natural Resources Sector**

100. The mandate of the water and environment sector is to ensure adequate and reliable supply of water and sewerage services; and to promote, conserve and protect the environment including forests. The financial year 2016/2017 budget was therefore focused on rehabilitation and expansion of water schemes; drilling of new boreholes; protection of springs; de-silting of water pans; provision of roof catchment tanks to public institutions; re afforestation of the county landscape and cleaning of major market centers.

101. The Environment, Protection water and Natural resources sub-sector had an actual recurrent expenditure during the financial year 2016/17 of KES 100,106,569 out of the KES 100,347,804 that was allocated representing 99.8 per cent absorption rate. The total development allocation for the financial year 2016/17 was KES 490,000,000. Total actual development expenditure was KES 489,385,700 representing an absorption rate of 99.9 per cent of the total development vote. In all, 8.8 per cent of the total county expenditure went into the sector.

## 2.4 FISCAL RESPONSIBILITY PRINCIPLES

102. In line with the Constitution of Kenya (2010), Public Finance Management (PFM) Act, 2012, and in keeping with the prudence and transparent management of public resources, the County Government of Homa Bay was able to adhere to the fiscal responsibility principles as set out in the statutes as follows:

***a. Over the medium term, a minimum of 30% of the budget shall be allocated to development expenditure***

103. The County Government development budget allocation over the medium term has been consistently above 30 percent which is the minimum as set out in PFM Act of 2012.

104. In the FY 2016/17, the County Government allocated KES 2,098,073,095 to development representing 31.2% of its total budget. Out of that allocation

KES 2,097,094,050 was used up representing an absorption rate of 99.9 percent. The development expenditure represented 32.3 % of the total expenditure in the FY 2016/17.

105. The development allocation for FY 2016/17 backs the trend of those for the FYs 2013/14, 2014/15 and 2015/16 when the County Government of Homa Bay had allocated KES 1,323,900,000 (30.6%), KES 2,004,392,365 (38.5%) and KES 2,406,536,984 (36.7%) respectively in the final budget. Even though the expenditure outcome indicates that development expenditure stood at thirty-one point five percent (31.5%), thirty-three point three (33.3%) and thirty two point eight (32.8%) respectively of total County Government of Homa Bay expenditure in the FYs 2013/14, 2014/15 and 2016/17, overall trend indicates the fiscal responsibility principle has been complied with consistently.

***b. The county government's expenditure on wages and benefits for public officers shall not exceed a percentage of the county/government revenue as prescribed by the regulations.***

106. The PFM Regulations further provided that: (1) the County Executive Committee member with the approval of the County Assembly should set a limit on the County Government's expenditure on wages and benefits for its public officers pursuant to Section 107(2) of the PFM Act; (2) the limit set under paragraph 112 (1) above, shall not exceed thirty five (35) percent of the County Government's total revenue at any one time; and (3) for the avoidance of doubt, the revenue referred to in paragraph 112 (2) shall not include revenue that accrue from extractive natural resources such as oil and coal.

107. Allocation for wages and personnel benefits in the FY 2016/17 stood at KES 2,491,138,011. This represents 38.3% of the total county revenue and this does not conform with the prescribed level of 35 percent in the PFM ACT (2012).

108. There's confidence, however, that expenditure on personnel emoluments will drop to the level of 35% given the fact that the County Government of Homa Bay has been able to lay effective strategies to reduce the wage bill in the medium term. First, recommendations from the CARPS program are being considered so that county public service is kept at its optimal level. Second, vacancies arising from natural attrition will not be filled unless it is absolutely necessary provided the expected level of services are maintained. Third, promotions and other personnel benefits that have implications on the wage bill are carefully being considered through the HR Advisory Committee so that wage increases are matched by productivity increases.

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***

109. For the purposes of this provision, short term borrowing was to be restricted to management of cash flows and should not exceed five percent of the most recent audited county government revenue. The PFM Regulation further provided that the county public debt shall never exceed twenty (20%) percent of the county government total revenue at any one time; and that the county annual fiscal primary balance shall be consistent with the debt target in the 20% provision.

110. In compliance with these provisions, the County Government of Homa Bay did not borrow any funds in the FY 2016/17 as prescribed in the PFM Act of 2012 and its operationalizing regulations. However, in the medium term, the county treasury is working on a framework for borrowings to finance priority development in critically large capital infrastructural projects. This will however be restricted to the levels recommended in the PFM provisions.

d. ***Fiscal risks shall be managed prudently***

111. The National Government has improved its macroeconomic forecasts and regularly reviews the impact of macroeconomic projections and their implications for the budget. The County Government took into account the fiscal risks arising from those contingent liabilities, potential impact of the Public Private Partnership and Financial Sector Stability. Furthermore, for the FY 2016/17, a Contingency provision of KShs. 60 million was factored in the budget to cater for urgent and unforeseen expenditure.

e. ***Approved expenditures of a county assembly shall not exceed seven per cent of the total revenue of the county government or twice the personnel emoluments of that county assembly, whichever is lower***

112. The PFM Regulations further provide that if the county government does not achieve the requirement of the regulations above at the end of the financial year, the County Executive Committee member for finance shall submit a responsibility statement to the County Assembly explaining the reasons for the deviation and provide a plan on how to ensure annual actual expenditure outturns as well as the medium term allocation comply with the provisions of section 107(2)(a) of the Act and these regulations in the subsequent year; and that the compliance plan above shall be binding and the County Executive Committee member for finance shall ensure implementation.

113. Whereas transfers to the County assembly for the FY 2016/17 stood at KES 777,617,338 which represents 11.6 per cent of the total county receipts, this was consistent with the responsibility statement prepared by the County Executive Committee member responsible for Finance and Economic Planning. Measures have been instituted however, to reduce discretionary spending without compromising the ability of the County Assembly to discharge its mandate for legislation, oversight and representation.

114. A compliance plan has been developed jointly by the county assembly to ensure that the total expenditure of the county assembly is brought down to the level of not more than 7% of the county's total revenue within three years. Already, the personnel emoluments of the county assembly constitute 6.1% of the total county government revenue and any effort to reverse this trend requires medium to long-term commitments including laying off staff.

## III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

115. The performance of the county is dependent on the country's economic performance as well as formulation and implementation of prudent policies by the county Government. Generally, the county operated under a stable macroeconomic environment

### Global Growth Outlook.

116. The Global economy is estimated to have expanded by 2.9 per cent in 2016 compared to a revised growth of 3.1 per cent in 2015.The slowed growth was occasioned by constrained global trade, subdued investment and heightened policy uncertainty associated with the united kingdom (UK) decision to leave the European Union (EU); and elections in the united states of America (USA) .Growth in advanced economies expanded by 2.1 per cent in 2016 compared to a revised growth of 1.9 per cent in 2015.

117. The United States of America recorded a growth of 1.5 per cent in 2016 compared to 2.6 per cent in 2015, mainly due to weak exports, subdued investments in the manufacturing sector and uncertainty surrounding the 2016 elections. Growth in China decelerated on account of slowed investment as the economy rebalanced towards services and consumption. In Japan, the level of economic activity was robust owing to fiscal support, lower oil prices and accommodative financial conditions.

118. In the Sub-Saharan Africa, lower commodity prices for metal exporting countries and domestic shocks from a generally less supportive global economic environment slowed the economic performance. The region's real gross domestic product is estimated to have expanded by 1.5 per cent in 2016 compared to 3.8 per cent growth registered in 2015. The slowdown in growth was mainly on account of decelerated growth in South Africa and the oil exporting countries whose economic activities were strained by a considerable drop in international oil prices. However, growth remained solid in agricultural exporting countries as well as in the commodity importing economies

119. During the period under review, global inflation was estimated at 2.9 per cent compared to 2.8 per cent recorded in 2015. In emerging markets and developing economies, headline inflation remained steady as currencies remained broadly stable, or appreciated in some cases. Rising input prices in many emerging economies particularly China, where producer price inflation became positive for the first time in four years also contributed to

the rise in inflation. Core inflation remained comparatively stable at low levels, reflecting persistent economic slack and weak global price pressures, particularly in Japan where the effective exchange rate appreciated substantially over the past year.

120. During the year under review, real GDP in the East Africa Community (EAC) is estimated to have grown by 6.1 per cent compared to 5.8 per cent growth in 2015. The growth was fueled by public infrastructure investment, buoyant private consumption and low oil prices. Tanzania recorded the highest real GDP growth in the region, expanding by 7.2 per cent in 2016 compared to a growth of 7.0 per cent in 2015. In Burundi, real GDP contracted by 0.5 per cent in 2016 compared to a contraction of 4.0 per cent in 2015. The bloc's inflation eased to 5.6 per cent in 2016 from 5.8 per cent in 2015. Currency stability helped to keep inflation within the Central Bank target in Kenya, Uganda and Tanzania. The current account deficit as a percentage of GDP narrowed to 8.1 per cent in 2016

121. The Southern African Development Community (SADC) recorded a slower growth of 1.6 per cent during the year under review compared to a growth of 2.7 per cent in 2015, mainly due to decelerating growth of South Africa's economy. Growth was constrained by severe drought, which affected agricultural production in some member countries. In Zambia, drought significantly disrupted hydroelectric power generation. Inflation increased to 9.9 per cent in 2016 compared to 5.5 per cent in 2015, due to rising food prices. The region's current account deficit narrowed to 5.0 per cent in 2016 from 6.1 per cent in 2015

## A. Recent Economic Developments

122. The Kenyan economy experienced a relatively conducive environment for growth during the first three quarters of 2016. However, the last quarter's growth was undermined by a persistent drought that impacted negatively on the agricultural sector and a slower growth of the electricity supply industry, though to a smaller extent. The country's real Gross Domestic Product(GDP) is estimated to have maintained growth momentum for the third consecutive year to expand 5.5 per cent in 2016 compared to a revised growth of 5.7 per cent in 2015.Generally,the growth was well spread and robust in most sectors but subdued in a few. Accommodation and food services registered the most improved growth of 13.3 per cent in 2016 from a contraction of 1.3 per cent in 2015.

123. Other remarkable improvements in economic activities were realized in the information and communication sector; real estate; and transport and storage. On the other hand, construction; mining and quarrying; and financial

and insurance activities registered the most notable slowdown in growths. From the demand side of the GDP, the growth was mainly driven by consumption in both the private and public sectors. Addition to fixed assets (Gross Fixed Capital Formation) contracted significantly, mainly due to a considerable decline in investments in transport equipment in 2016. Declines in investments in civil works and residential buildings also contributed to a slowdown in additions to fixed assets during the review period.

124. Key macroeconomic indicators remained fairly stable in 2016. Annual average inflation was contained within the central Banks target of 0.5 per cent stand at 6.3 per cent compared to an average of 6.6 per cent in 2015. The easing in inflation was mostly due to significant slowdowns in prices of transportation; housing and utilities; and communication. Transport costs were benefitted from a fall of 21.7 per cent in the international oil prices to an average of USD 40.68 in 2016. The Kenyan shilling's performance against its main trading currencies varied significantly during the period under review. The Shilling strengthened against the Pound Sterling, South African Rand, Ugandan Shilling, Tanzanian Shilling and the Rwandan Franc but weakened against the US Dollar, Euro, and the Yen in 2016. On the whole, the shilling depreciated as reflected in the overall foreign exchange index which rose by 0.5 per cent to 114.83 in 2016.

125. The Central Bank Rate (CBR) was revised downward twice to 10.50 per cent in June and 10.00 per cent in December. The amendment of the Banking Act in August 2016 to cap the lending rates to a maximum of 4.0 per cent above the Central Bank Rate (CBR) resulted in a substantial decline in the interest rates during the month of September to 13.84 compared to 16.75 during the same month in 2015. However, there was a decline in credit to the private sector despite the capping of the rates. Overall, domestic credit growth decelerated from 20.8 per cent in 2015 to 6.4 per cent in 2016, with credit to private sector expanding by 4.3 per cent against a target of 6.8 per cent

126. The UN General assembly has reviewed the progress of the millennium development goals whose implementation was to end by 2015. New Goals (17 in number) have been agreed upon under the banner sustainable development goals (SDGs), to be implemented in the next fifteen years till 2030. The 17 goals have a total of 126 targets that countries will use as a basis in assessment of achievement towards the goals. This agreement on a new set of goals is likely to trigger flow of resources made for the implementation into the country and the counties eventually. The SDGs are listed below

1. No Poverty - End poverty in all its forms everywhere.
2. Zero Hunger - End hunger, achieve food security and improved nutrition and promote sustainable agriculture.
3. Good Health and Well-being - Ensure healthy lives and promote well-being for all at all ages.
4. Quality Education - Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.
5. Gender Equality - Achieve gender equality and empower all women and girls.
6. Clean Water and Sanitation - Ensure availability and sustainable management of water and sanitation for all.
7. Affordable and Clean Energy - Ensure access to affordable, reliable, sustainable and clean energy for all.
8. Decent Work and Economic Growth - Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.
9. Industry, Innovation and Infrastructure - Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation.
10. Reduced Inequalities - Reduce inequality within and among countries.
11. Sustainable Cities and Communities - Make cities and human settlements inclusive, safe, resilient and sustainable.
12. Responsible Consumption and Production - Ensure sustainable consumption and production patterns.
13. Climate Action - Take urgent action to combat climate change and its impacts.
14. Life Below Water - Conserve and sustainably use the oceans, seas and marine resources for sustainable development.
15. Life on Land - Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.
16. Peace, Justice and Strong Institutions - Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels.

Partnerships for the Goals - Strengthen the means of implementation and revitalize the global partnership for sustainable development

## Macroeconomic Outlook and Policies (Interest Rates, Exchange rate)

127. In 2016, the monetary policy a adopted aimed at supporting a non – inflationary credit expansion to key sectors of the economy and continued anchoring inflation expectations, while promoting stability in the foreign exchange market. The Banking Act was amended to introduce capping of interest rates on credit facilities. The amendment was aimed at protecting borrowers from high interest rates, thus making loans affordable. The Act sets the maximum lending rate at no more than 4 per cent above the base rate set and published by the Central Bank of Kenya (CBK), and the minimum interest rate granted on a deposit held in interest earning account to at least 70 per cent of the Central Bank Rate (CBR). Consequently, following the implementation of the amended Act in mid-September 2016, the Monetary Policy Committee (MPC) suspended the Kenya Bankers Reference Rate (KBRR), previously used as the base rate for pricing of loans by commercial bank.

128. In the review period, the CBR, was revised downwards twice, to 10.50 per cent in June and 10.00 per cent in December. During the first half of 2016, however, the base rate remained at 11.50 per cent. The monetary policy decisions were intended to support growth in the economy and to contain inflationary pressures amid fears of drought. The 91 day Treasury bill rate dropped from 9.81 per cent in December 2015 to 7.25 per cent in June 2016 and rose to8.44 per cent in December 2016. The overall inflation stood at 6.35 per cent in December 2016 compared with 8.01 per cent in December 2015.

129. Interest rates: Interest rates on savings deposits increased to 6.37 per cent by December 2016 compared to 1.56 per cent in December 2015. On the other hand, commercial banks' average lending interest rates charged on loans and advances declined to 13.69 per cent as at December 2016 from 18.30 per cent in December 2015, owing to the capping of the interest rates in mid- September 2016. These downward adjustments in interest rates narrowed the interest spread significantly to 6.36 per cent in December 2016.

## International Trade and Balance of Payments

130. Total exports declined marginally from KSh 581.0 billion in 2015 to KSh 578.1 billion in 2016 while total imports contracted by 9.2 per cent from KSh 1,577.6 billion to KSh 1,431.7 billion. This led to improvement in balance of trade from KSh 996.5 billion in 2015 to KSh 853.7 billion, in 2016. Similarly, the export-import ratio improved from 36.8 per cent to 40.4 per cent over the same period. Tea, horticulture, articles of apparel and clothing accessories and coffee were the

leading export earners accounting for 56.7 per cent of the total domestic exports during the review period.

131. The gross foreign reserves reduced slightly by 0.8 per cent to KSh 736.5 billion as at December 2016, while the net foreign assets of Central Bank increased marginally by 1.0 per cent to KSh 643.1 billion as at December 2016. The Central Bank's foreign liabilities reduced by 12.3 per cent to KSh 91.4 billion as at December 2016. Trade weighted exchange rate index deteriorated from 114.3 in 2015 to 114.8 in 2016, a reflection of the depreciation of the Kenya Shilling against the currencies of the major trading partners

132. The overall balance of payments position improved from a deficit of KSh 24.9 billion in 2015 to a surplus of KSh 13.1 billion in 2016. The current account balance narrowed by 11.9 per cent to a deficit of KSh 370.8 billion in 2016, reflecting a 5.2 per cent of Gross Domestic Product (GDP). Net inflows of international trade in services increased by 32.7 per cent to a surplus of KSh 171.7 billion in 2016, supported by increased foreign travel receipts. Net financial inflows rose by 9.5 per cent to a surplus of KSh 420.0 billion in 2016, on account of increased in short term capital inflows.

### Overview of the Economic Performance

133. Economic growth in 2017 is likely to be influenced more by the domestic factors than external ones. The long rains are projected to delay and to be depressed in 2017, which is likely to have a direct negative impact on growing of crops, production of livestock and its products, electricity generation and water supply. Due to the share of agricultural contribution to the GDP, there will be a lower rural demand for goods and services. The impacts could further be experienced in sectors that have strong inter-linkages with these industries.

134. If the deceleration in growth of credit that started in 2016 continues, it is likely to constrain growth in 2017 especially in activities that are reliant on borrowing from commercial banks. Furthermore, sectors such as manufacturing are encountering more intensified competition in their traditional export markets which could delay the recovery in that sector. However, the expected commencement of operations of railways services on the Standard Gauge Railway (SGR) is likely to increase efficiency while other modes of transport are expected to continue in the current growth trajectory. The overall performance is therefore likely to be determined by the extent of each of these effects

135. International oil prices are projected to rise in 2017 albeit gradually. If this occurs, growth in the road transport is likely to be suppressed due to rise in cost

of intermediate inputs. The exchange rate is expected to remain stable due to significant level of reserves, the continued growth in emigrant remittances and sustainability of the current account deficit.

136. On the demand side, growth is likely to be driven by both the public and private final consumption. Public final consumption is projected to expand as reflected in the 2017/18 national budget. Similarly, private consumption is likely to remain robust in 2017 and therefore boost economic growth. On the external front, world trade is projected to improve while the expansion of global economy is expected to be strong in 2017.

**County Specific Outlook for 2018/2019**

137. The outlook for Homa Bay County for the financial year 2018/19 is envisaged to provide a development oriented environment, which will ensure an improved environment for business while at the same time seeking to provide a conducive working and residential space for the population. Improvement of health services, investment in physical infrastructure, refinement of ECDE learning and provision of social amenities are strategies that will be used to achieve the favorable environment in the county.

**138. Trade**: Improving and expanding the business environment for enhanced production, trade and employment creation will be a key focus for the sector. The county will be aggressively marketed as a preferred tourist destination coupled with developing unique products for enhanced tourism activity. Rehabilitation of markets and construction of new markets will be given a priority. Provision of loans and capacity building of MSMEs, licensing and fair trade practices and liquor licensing and regulation will improve business environment.

**139. Agriculture, Livestock and fisheries** : Holds a key to food security in the county and the sector will seek to promote: urban and peri-urban agriculture; agro forestry development; agribusiness development and marketing; conservation and management of natural resources; crop, livestock and fisheries production; animal control and welfare; disease control and surveillance; value addition of livestock, fish and agriculture products; development of cottage industries; aquaculture development; agricultural integrated extension services; promote food processing technologies ; and food safety and quality assurance

140. **ICT**: The ICT platform holds greater potential for service transformation in the county. The County will continue investing in modern ICT infrastructure while progressively building human resource capacities for optimal outcome.

141. **Physical Planning**: Investing in housing facilities through urban renewal program, enhanced enforcement of the building code, regeneration of public spaces and the finalization of the valuation roll will be addressed on priority.

142. **Infrastructure**: Will remain a top priority in the county during the 2018/19 fiscal year. Emphasis will be on expanding and improving road network. Investing in public lighting, drainage and road safety will also be a key focus area.

143. **Health**: Improved access to high quality health care; through expansion of existing health infrastructure, investment in modern diagnostic facilities, improving of the county ambulance system and enhancing staff capacity in specialized areas of Medicare will be sought for in the period hence a better health sector. Further, provision of essential emergency and medical rehabilitative services as well as essential health care medical services will be given priority.

144. **Education**: Focus will be made especially on enhanced education standards at both the ECDE and vocational trainings institutions, accelerating expansion of youth training facilities in order to equip the youth with skills and competencies for the labour market. Construction and expansion of ECDE Centres will increase access to education and improve gross enrolment rates.

145. **Culture and Sports**: Programs for promoting good cultural practices, sports and recreational facilities for sustainable development will be implemented in 2018/2019.

146. **Finance**: Emphasis on efficient and cost effective technologies for resource mobilization, research and development, evidence based planning, county statistics, economic policy formulation and enhanced public participation in planning, budgeting, and expenditure will guide the focus of this sector. Updating of the county asset register, timely provision, of financial systems and tightening expenditure controls are expected to enhance prudence in public financial management.

## B. Implementation of the FY 2017/18 Budget of Homa Bay County

147. All county spending entities have commenced the implementation of the FY 2017/18 budget. So far, the implementation of the 2017/18 budget is progressing well despite transitional challenges associated with post-election reorganization. Exchequer releases have been slow and inadequate to address the fiscal pressures associated with institutional changes envisaged in the new term.

148. Adequate measures are being put in place to ensure priority programmes are being implemented. This include directing all county spending entities to adhere to their annual work plans, cash flow plans, and procurement plans as submitted to the County Treasury for control purposes. Implementation of priority programmes will be tracked and feedback given periodically. Expenditures outside the planning framework are also being rejected in line with requirements of the County Government Act, 2012.

149. The County Treasury is operationalizing a 'Treasury Single Account (TSA)' from which all payments are processed in compliance with the Public Finance Management Act, 2012. All county spending entities are not allowed to enter into fragmented banking arrangement which could result in government-owned financial resources lying idle for extended periods in bank accounts held by some spending units while the County Treasury continued to suffer liquidity constraints that could push it to borrow – most likely the same money – to provide to the spending units that are ready to apply the resources.

### Medium Term Fiscal Framework

150. The purpose of this sub-section is to present the underlying macroeconomic and fiscal assumptions, policies, and strategies for the development of the medium term expenditure framework and annual budget plans. Consequently, the focus is on the fiscal policy objectives for FY 2017/18 and a set of integrated medium-term macroeconomic targets and projections.

151. The fiscal policy objective of the County Government of Homa Bay is geared towards supporting rapid economic growth and ensuring effective delivery of public goods and services in a sustainable manner. Specifically, the Fiscal Policy underpinning the FY 2017/18 Budget and MTEF is aimed at a revenue growth of more than 22 percent over the medium term and containing growth of total expenditure. Further, the policy aims at shifting more public

resources from recurrent to capital investment so as to promote sustainable and inclusive growth.

152. The fiscal policy will undertake reforms on the following areas, namely: Enhancing resource mobilization, including broadening revenue base; Revenue collection efforts will be enhanced to ensure all potential taxpayers make their contribution towards county's development agenda. Revenue administration capacity will be strengthened through organizational and modernization reforms, broadening of the tax base in order to grow revenue to finance priority development. Automation of revenue collection processes remains a priority in order to enhance revenue collection.

153. Expenditure rationalization will continue being a priority so that expenditures in the non-productive areas are rationalized to create the requisite fiscal space for productive sectors. Additionally, with the ongoing public service rationalization, redundancies and duplications will be eliminated in the public service.

154. Expenditure efficiency and effective implementation of budget programs through enforcement of cost benchmarks for all projects and consumables. There will further be enforcement of a project implementation performance benchmark of at least 80 percent, expenditure tracking and value for money audits to ensure efficiency and effectiveness in use of resources at all levels and arms of government. Project planning and management as well as engagement with development partners will be strengthened.

155. With the above and with adoption of leasing of assets in government, the integrated financial management system (IFMIS) as an end-to-end transaction platform and full implementation of a Government Payment Gateway revenue and expenditure efficiency and economy will be realized.

156. The County Government of Homa Bay has prepared its finance bill and all revenue collection legislations in order to simplify, modernize and reduce cost of compliance to them. Revenue collection efforts will be enhanced to ensure all potential taxpayers make their contribution towards the county's development agenda.

157. More specifically, the revenue targets for the FY 2017/18 and the medium term will be achieved through:

- **Improvement of billing and collections.** The county government will strive to improve revenue intake in two ways: by applying readily available data mining and analytic techniques and by billing appropriately and collecting effectively.

- **Optimization of pricing.** The county government will strive to leverage on the private sector expertise when developing pricing strategies for revenue-generating products and services.

- **Use assets to make money.** The county government will strive to make its physical and digital assets work harder for taxpayers: sell, rent or lease the assets; and offer premium, value-added services related to the asset for which customers will readily pay.

158. Regarding expenditures, the Government will continue with the policy of rationalization of expenditures to improve efficiency and reduce wastage. Currently, procurement of goods and services constitute over 40 per cent of the annual budget. With the cascading of e-procurement, the absorption capacity in capital projects is expected to improve. The new system will ensure that public financial resources are used prudently and for intended purposes. The roll-out of electronic procurement system through the IFMIS "Procure to Pay" module introduces a new era to government procurement by bringing to an end manual procurement challenges that the national government had experienced in the past.

159. The fiscal stance of the county only envisages non-concessional external borrowing that will be limited to capital projects and within the ceiling stated in the County Debt Management Strategy Paper. The debt management strategy aims at ensuring public debt sustainability. The strategy envisages diversification of financing sources beyond commercial sources of financing. The County Government will support National Government in ensuring that the level of domestic borrowing does not crowd out the private sector given the need to increase private investment to accelerate economic expansion.

**Risks to the Economic Outlook**

160. With Brexit still very much unfolding, the extent of economic and political uncertainty has risen, and the likelihood of outcomes more negative than the one in the World Economic Outlook (WEO) baseline has increased. The Brexit shock occurs amid unresolved legacy issues in the European banking system, in particular in Italian and Portuguese banks, as identified in the Global Financial Stability Report. Protracted financial

market turbulence and rising global risk aversion could have severe macroeconomic repercussions, including through the intensification of bank distress, particularly in vulnerable economies. Continued reliance on credit as a growth driver is heightening the risk of an eventual disruptive adjustment in China. Many commodity exporters still confront the need for sizable fiscal adjustments, and emerging market economies more broadly need to be alert to financial stability risks. Risks of noneconomic origin also remain salient. Political divisions within advanced economies may hamper efforts to tackle long-standing structural challenges and the refugee problem; and a shift toward protectionist policies is a distinct threat. Geopolitical tensions, domestic armed strife, and terrorism are also taking a heavy toll on the outlook in several economies, especially in the Middle East, with further cross-border ramifications. Other ongoing concerns include climate-related factors– e.g., the drought in East and Southern Africa—and diseases such as the Zika virus afflicting the Latin America and Caribbean region (World Economic Update-IMF, 2016).

A. The main risk to the county outlook remains the challenges associated with the timely release of resources from the National Government to the Counties. The observed tussles between the various governments agencies involved in effecting the transfer of funds to the County will definitely affect the performance if they recur.
B. Revenue shortfalls will continue to hinder effective budget implementation through a constrained budget on the supply side. In particular, rates revenues have continued to be below expectation over the last two years largely due to high default rates among statutory bodies and land buying companies
C. The proposals contained in the Finance Bill will continue to face legal challenges posed by prospective payers. It is however hoped that following the wide scope of consultations and enhanced public participation in the process of formulation, the 2017/2018 bill will be more effective.
D. Pending bills continue to constitute an unpredictable cost element due to unforeseen litigations against the county arising from historical contingent liabilities and other omissions. This will greatly affect the performance of the county in economic front.
E. Macroeconomic imbalances and political instability associated with the general and presidential elections will continue to represent significant downside risks to the outlook in 2017/18. However, should these risks materialize the county government will act accordingly.

IV. RESOURCE ALLOCATION FRAMEWORK

## A. Adjustments to the FY 2017/18 Budget

161. The Medium Term Fiscal Framework (MTEF) for the FY 2017/2018 is anchored on six guiding principles i.e. equity, effectiveness, efficiency, economical and transparency. The principles aim at, supporting a vibrant and inclusive economic growth and continued fiscal discipline.

162. The county has commenced well in the implementation of the FY 2017/18 Budget with the ongoing automation of local revenue and the continuous institutional measures being carried out to enforce all fiscal policies and cover all revenue streams.

163. Given the fiscal performance in 2016/17 and the updated macroeconomic outlook for FY 2017/18, already the county plans on making adjustments to the FY 2017/18 Budget to accommodate revenue balances brought forward and expenditure arrears carried forward from the FY 2016/17. Recurrent expenditure pressure poses a serious challenge to budget implementation and may also constrain funding for capital projects. With foreseen changes in the county government structure, plans will be underway to addressed them as they occur and appropriate action taken to improve implementation. Risk relating to the surging wage bill, delay funding, slow implementation of projects will also be reviewed further in the context of the FY 2017/18 Supplementary Budget.

## B. Medium-Term Fiscal Projections

164. Over the medium term, county revenue is expected to rise to about 54 per cent of the Medium-Term Framework of FY2016/17 by FY2020/21. Development expenditure is expected to increase gradually to 38 per cent of the total county revenue by FY2020/21 and overall recurrent expenditure is expected to remain at a sustainable level during the medium-term period. The county will remain committed to reorienting expenditure from recurrent to development and improving the productivity of our resources. At the same time ensuring the debt position remains sustainable.

## C. 2018/19 FY Budget Framework

165. **Revenue Projections:** The FY 2018/19 budget targets revenue including Appropriation-in-Aid (A-i-A) of KSh. 8.38B up from KSh. 7.19B in the FY 2017/18. Local revenue will amount to KSh. 295.1M in FY 2018/19 up from KSh. 209.4M in FY 2017/18. This revenue performance will be supported by

the on-going automation of revenue and reforms in tax policy and revenue administration.

166. **Expenditure Projections:** In the FY 2018/19, overall expenditure is also projected at KSh. 8.38B from the estimated KSh. 7.19B in the FY 2017/18 revised budget.

## D. Medium Term Expenditure Framework

167. The medium-term expenditure framework FY2018/19 will continue working on improving the macro-fiscal situation of the County Government by lowering risks of deficits and improving economic growth; striving to enable a rational approach to a fit for purpose organization structure and economic stabilization; improving the impact of government policy and enable better allocation of resources to strategic priorities between and within spending entities. The framework is expected to assure greater predictability of both policy and funding, improve program performance and impact.

168. The medium-term expenditure framework will consist of a top-down resource envelope, a bottom-up estimation of the current and medium-term costs of existing programmes and ultimately the matching of these costs with available resources. The FY 2018/19-2020/21 will continue to focus on the following:

### Education and Health Care Services

169. The County Government of Homa Bay maintains its focus on improving both the health and Education sector by insuring there is improved and accessible health care and education services within the region. Focus will be on improved ECD Education; promotion of quality education; and improved transition to and retention at all levels of education. Under health services, the focus will be on construction, rehabilitation and equipping of health facilities; operationalization of the community strategy, promotion of environmental health and sanitation, control of diseases, support to training of specialized cadres and provision of essential supplies.

### Utilities and Physical Infrastructure

170. The Government commits itself in improving infrastructure countywide, such as roads, energy and in ICT and ensuring availability of safe water for the residents of Homa Bay. The allocation to the sector will continue to rise

over the medium term. This is in line with the government policy of developing infrastructure for accelerating sustainable growth.

171. The area of focus will be, to increase the stock of bituminized roads by 240 km; improve access to all wards of the county through motorable roads; support infrastructure and improve safety and efficiency of existing modes and means of local transport; stabilizing availability and making affordable energy supplies; developing low cost alternative sources of energy; improving access to adequate and reliable energy supplies; improving sewerage services; improving quality of water and waste water in the county and promoting, conserving and protecting the environment; and ICT infrastructure development.

**Agriculture, Rural and Industrial Development**

172. The county economy relies heavily on the agriculture, livestock and fisheries development. For food security, proper development of urban and rural towns and accelerating industrialization, the county will focus on, increasing agricultural productivity and output; increasing livestock production and productivity; improving management, conservation, control and development of fisheries; urban and rural development controls; creating a conducive environment for business and investment; and promoting selected industrial clusters around key agriculture, livestock and fisheries' product.

**Other Priority Programmes**

173. Other priority programmes including social welfare, youth empowerment, tourism, culture and sports will receive adequate resources. Focus will be put in place to, empower youths, women and persons living with disabilities (PWDs); promote and develop sports and sports facilities at all levels as well as culture promotion and development.

174. Reflecting the above medium-term expenditure framework for FY 2018/19, Table 9 and Table 10 provide the tentative projected baseline ceilings for the medium-term period covering FY 2018/19 – 2020/21 classified by departments.

**Table 9: Expected Revenue Inflow over the Medium Term.**

| Expected Revenue | FY 2018/2019 | FY 2019/2020 | FY 2020/2021 |
|---|---|---|---|
| Grants from the National Government | 7,960,200,249 | 8,852,065,105 | 9,843,854,950 |
| Internally Generated Revenue (including A-I-A) | 295,183,654 | 328,256,180 | 365,034,169 |
| Loans, donations and grants | 133,677,263 | 148,654,532 | 165,309,862 |
| **Expected Gross Revenue Inflow** | **8,389,061,167** | **9,328,975,817** | **10,374,198,979** |

**Table 10: Expected Expenditure during the MTEF period 2017/18-2019/20**

| ENTITY CODE | NAME OF SPENDING ENTITY | Estimates FY 2018/2019 | Estimates FY 2019/2020 | Estimates FY 2020/2021 |
|---|---|---|---|---|
| 5111 | Agriculture, Livestock and Fisheries Development | 499,047,188 | 544,481,424 | 598,481,424 |
| 5112 | Tourism, Culture, Social Development and Sports | 186,942,708 | 204,683,650 | 224,108,214 |
| 5113 | Transport and Infrastructure | 631,935,569 | 735,280,722 | 953,409,280 |
| 5114 | Energy and Mineral Resources | 148,482,513 | 162,965,662 | 178,861,513 |
| 5115 | Education and ICT | 508,070,119 | 649,936,054 | 781,932,213 |
| 5116 | Health | 2,335,128,104 | 2,435,512,253 | 2,540,211,787 |
| 5117 | Lands, Housing and Urban Development | 200,023,454 | 230,774,949 | 289,978,001 |
| 5118 | Trade, Industry and Investment | 322,462,383 | 356,741,078 | 394,663,699 |

| | | | | |
|---|---|---|---|---|
| 5119 | Water and Environment | 551,988,850 | 651,202,839 | 823,452,764 |
| 5120 | Finance and Economic Planning | 1,096,323,990 | 1,267,639,201 | 1,750,022,779 |
| 5123 | County Assembly | 1,053,682,220 | 1,150,391,366 | 1,283,823,622 |
| 5122 | County Public Service Board | 127,326,973 | 136,758,601 | 146,888,868 |
| 5121 | Office of the Governor | 727,647,096 | 802,608,018 | 885,291,282 |
| **TOTAL EXPENDITURE** | | **8,389,061,167** | **9,328,975,817** | **10,374,198,979** |
| **PROJECTED REVENUE** | | **8,389,061,167** | **9,328,975,817** | **10,374,198,979** |

## V. CONCLUSION AND NEXT STEPS

176. The fiscal strategy presented herein will be focused on achieving the objectives outlined in the PFM Act and lay ground for the financial year 2018/2019 in terms of preparing the county strategy papers. Fiscal discipline will be important in ensuring proper management of funds and delivery of expected output.

177. During the period under review, there are different challenges that have been identified some of which were identified in the previous reporting period that remains unresolved among them are: delay in exchequer releases; risks associated with project implementation; inadequate skilled human capital.

178. Going forward the set of policies outlined in this CBROP reflect the changed circumstances and are broadly in line with the fiscal responsibility principles outlined in the PFM act. They are also consistent with the national strategic objectives pursued by the National Government as a basis of allocation of public resources.

179. The county shall continue to mobilize more resources through enhanced revenue collection, private public partnership and creation of conducive environment for investor attraction.

180. Emphasis will be put on the rationalization of expenditure with a view to funding only core services and reducing recurrent expenditure as a proportion of the total expenditure. Actual outputs will be reported and specifics will be provided for all projects of location, allocation and expenditure.

181. Transparent criteria will be provided to serve as a guide in allocating resources amongst priority programmes. First, provision will be made for mandatory expenditures including salaries, rents and utilities. Then resources will be allocated towards completing on-going projects. Finally, new projects will be considered on the basis of their linkages to existing plans; degree to which they contribute to alleviation of poverty; degree to which they address the core mandate of the spending unit; the expected output and outcome from the programme; linkage with other programmes and their cost-effectiveness and sustainability.

182. The next County Fiscal Strategy Paper (CFSP) will be finalized by the February 2018 deadline as per the PFM act.