REPUBLIC OF KENYA

COUNTY GOVERNMENT OF GARISSA

COUNTY FISCAL STRATEGY PAPER

FY 2015/2016

FEBRUARY 2015

© Garissa County Fiscal Strategy Paper (CFSP) 2014

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Foreword

The 2014 County Fiscal Strategy Paper is the second to be prepared by the Garissa County Government. It is framed against a backdrop of improving global economic prospects, underpinned by gradual strengthening of the advanced economies and continued robust growth in sub- Saharan Africa.

The Country's has made progress in most sectors under the five pillar transformative economic strategy. The country's economy remains strong and resilient, largely on account of bold economic policies and structural reforms as well as sound economic management implemented over the last decade. The county economy is expected to grow in tandem with the Country's economic growth. This will complement the national growth.

In this County Fiscal Strategy Paper, therefore, we review the progress we have made in the five broad priority areas spelt out in the 2015 County Fiscal Strategy Paper. In addition, we re-emphasize the economic transformative policy adopted in 2014 as a basis to decisively deal with the concerns of county's citizens.

The five main broad areas as outlined in the 2014 County Fiscal Strategy Paper and as aligned with the Budget Policy Statement are;

(i) Investment geared towards growth and expansion of the economy and creating favorable business environment thereby creating employment opportunities.
(ii) Investing in dry land agricultural transformation and food security to spur economic growth and achieve food security.
(iii) Investment in key infrastructures, basic social and utility services including roads, energy and water to that will contribute to economic growth.
(iv) Investing in quality and accessible healthcare services and education as well as social safety net to reduce burden on the households and complement and sustain our long term growth and development
(v) Enhanced rural economic development that will further entrench devolution for better service delivery up to the village level.

The expenditure policy framework in the medium term aims at ensuring efficiency and effectiveness in the implementation of the development policies identified in the Garissa County Integrated Development Plan (CIDP). As part of efforts to link policy with budgeting, reforms in the expenditure and financial management will be deepened, and growth of non-priority expenditures will be contained in order to free up resources for dedication to the above key areas which are essential to ensure sustainable economic growth and development.

In pursuit of this, the County Government is committed to addressing the challenges experienced in the implementation of the 2014/15 budget and these include, initiating and costing all existing policies, programs, and projects; and developing a monitoring system to improve the linkage between expenditure and results.

In line with the requirements of the Public Finance Management Act, 2012, which stipulates the congruence of the respective County CFSPs with the National Development Goals, the Garissa County CFSP draws priorities from the the second Medium Term Plan, the 2015 Budget Policy Statement, CIDP and the Millennium Development Goals (MDGs).

Abdihakim Dayib

County Executive Committee Member for Finance and Economic Planning

Acknowledgments

The 2015 County Fiscal Strategy Paper is meant to ensure effective linkage between policies, planning and budgeting. It provides an updated resource envelop after the County Budget Review and Outlook Paper (CBROP). It presents a fiscal framework over the medium term. It also sets firm sectoral and programme ceilings in line with indicative ceilings outlined in the CBROP.

The preparation of the 2015 CFSP was a collaborative effort of several players. However, a core team of from the County treasury and Economic Planning headed by the Head of Treasury [budget] spent a significant amount of time to put together the report under the leadership and guidance of the County Executive Member for Finance and Economic Planning, Mr. Abdihakim S. Dayib. I would also like to acknowledge the contribution made by the Members of the public who took time to review the document and provide the much needed input.

Finally, I would like to express my gratitude to all those who have and continue to participate in this year's budget making process including the County Treasury and Planning, County Assembly members, the private sector, civil society, NGOs and other development partners who at various stages provided valuable comments..

Mohamed H. Mohamed

Chief Officer/ Finance and Economic Planning

Abbreviations

BPS	Budget Policy Statement
CA	County Assembly
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
CG	County Government
FY	Financial year
PFMA	Public Financial Management Act
TA	Transition Authority
LATF	Local Authority Transfer Fund
LAIFORMS	Local Authority Integrated Financial Management System

INTRODUCTION

Sections 117 of the PFMA provides for the preparation of the County Fiscal Strategy Paper (CFSP) by the County Treasury.

The law requires the CFSP to present the fiscal objectives for the following financial year and to detail the broad strategic priorities and policy goals that will guide the County government in preparing its budget.

On that note this CFSP is in essence a communication to the spending agencies, and other stakeholders on the financial status and objectives of the County as well as stipulating the total limits within which Garissa County can afford to spend for the 2015/16 financial year. This is founded on the equitable share from the national government as well as the local revenues generated locally.

This CFSP promotes fiscal discipline as well as transparent resource allocation criteria which should work towards reducing poverty levels and stimulating employment by re-focussing expenditure to the high impact areas. This is critical since the county's demographic composition show that the youth constitutes the highest proportion of the unemployed.

In this regard, the County government is committed to provide targeted interventions to mitigate the plight of the people while ensuring stable and sustainable economic growth. In pursuit of this, the County must ensure commitment to attainment of the budgetary targets and to instil prudence in the use of resources across the various spending agencies.

LEGAL BACKGROUND

The CFSP has been prepared by the County treasury in accordance with Section 117 of the PFM Act. The Act states that a County Treasury:

1. The County Treasury shall prepare and submit to the County Executive Committee the County Fiscal Strategy Paper for approval and the County Treasury shall submit the approved Fiscal Strategy Paper to the county assembly, by the 28th February of each year.
2. The County Treasury shall align its County Fiscal Strategy Paper with the national objectives in the Budget Policy Statement.
3. In preparing the County Fiscal Strategy Paper, the County Treasury shall specify the broad strategic priorities and policy goals that will guide the county government in preparing its budget for the coming financial year and over the medium term.
4. The County Treasury shall include in its County Fiscal Strategy Paper the financial outlook with respect to county government revenues, expenditures and borrowing for the coming financial year and over the medium term.

5. In preparing the County Fiscal Strategy Paper, the County Treasury shall seek and take into account the views of —
    (a) The Commission on Revenue Allocation;
    (b) The public;
    (c) Any interested persons or groups; and
    (d) Any other forum that is established by legislation.
6. Not later than fourteen days after submitting the County Fiscal Strategy Paper to the county assembly, the county assembly shall consider and may adopt it with or without amendments.
7. The County Treasury shall consider any recommendations made by the county assembly when finalizing the budget proposal for the financial year concerned.
8. The County Treasury shall publish and publicize the County Fiscal Strategy Paper within seven days after it has been submitted to the county assembly.

Fiscal Responsibility Principles for the County Governments

In line with the constitution and the PFM Act 2012, sets out the fiscal responsibility principles to ensure prudent and transparent 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.

In summary, this CFSP is expected to set the tone and financial objectives that will guide the preparation and implementation of the 2015/2016 budget as well as provide a summary of the national macroeconomic outlook and how this will affect the County's economic performance.

Section 1; County Strategic Blueprint

1. The 2015 County Fiscal Strategy Paper (CFSP), the second to be prepared under the Jubilee the County Government, reaffirms the broad policies and strategies outlined in the 2014 County Fiscal Strategy Paper, under a five pillar priority areas:

i. creating a conducive business environment;
ii. investing in agricultural transformation and food security;
iii. Investment in key infrastructures, basic social and utility services including roads, energy and water to that will contribute to economic growth;
iv. investing in quality and accessible healthcare services and quality education as well as strengthening the social safety net to reduce the burden on the households; and
v. Enhanced rural economic development that will further entrench devolution for better service delivery up to the village level.

2. This County Fiscal Strategy Paper articulates priority economic policies and structural reforms as well as sector-specific expenditure programs to be implemented under the Medium Term Expenditure Framework for FY 205/16, 2016/17 and 2017/2018 in order to achieve the County Government's development goals outlined in the priority areas. The implementation of programs under these five pillars is expected to raise efficiency and productivity in the county's economy, and in turn, accelerate and sustain inclusive growth, create opportunities for productive jobs, and secure livelihoods of all Kenyans. This County Fiscal Strategy Paper, therefore, reiterates the Government's priority programs and structural reform measures to be implemented in the Medium Term Expenditure Framework for 2015/16 – 2017/18.

OUTLINE OF THE COUNTY FISCAL STRATEGY PAPER

Recent Economic Developments and Policy Outlook

The next section (II) outlines the economic context in which the 2015/16 MTEF budget is to be prepared. It provides an overview of the recent economic developments and the general macro-economic outlook covering the country and counties.

Fiscal Policy and Budget Framework

Section III outlines the fiscal framework that is supporting growth in the county over the medium term while continuing to provide adequate resources to facilitate further devolution to village levels. This is possible with the little resource in hand and no borrowing in place within the first three years.

Medium- Term Expenditure Framework

Section IV presents the resource envelope and spending priorities for the proposed 2015/16 MTEF and the medium term. Sector achievements and priorities are also reviewed for the 2015/16 MTEF period.

Section II: Recent Economic Developments and Policy Outlook

Overview of Recent Economic Performance

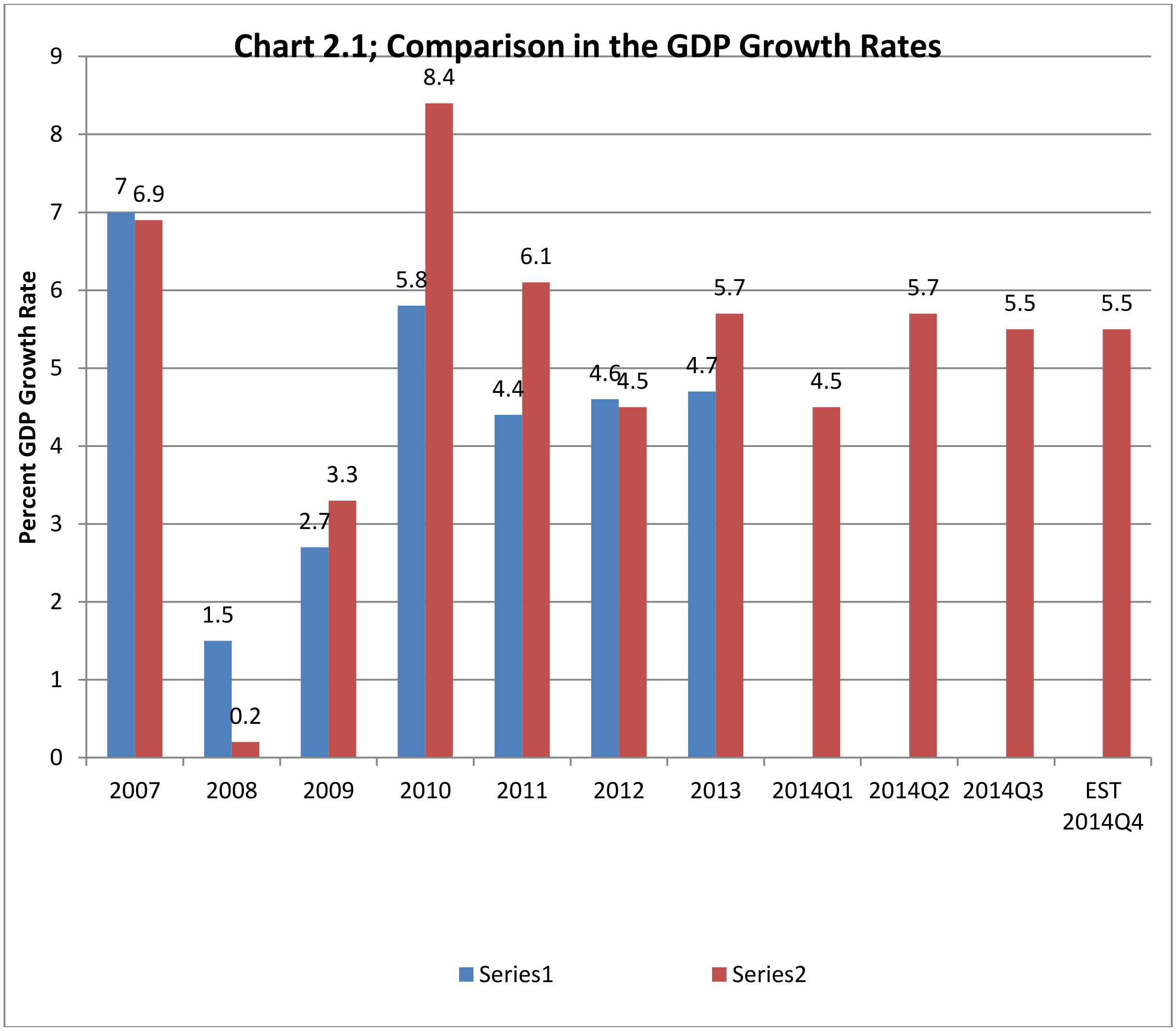
3. The Kenya National Bureau of Statistics (KNBS) initiated the process of rebasing and revising of the National Accounts Statistics (NAS) in 2010 and completed the exercise in September 2014. The rebased GDP estimates in nominal terms for 2013 is Ksh 4,757.5 billion which represents 25.3 percent increase from the previous estimates. This translates to US$ 1,269 in GDP per capita in 2013 up from US$ 994 in 2013, placing Kenya at lower middle income economy. Kenya's economy is now ranked as the 9th largest in Africa and 4th largest in Sub Saharan Africa.

4. The economy grew by 5.7 percent in 2013, up from 4.5 percent growth in 2012 **(Chart 2.1).** The increase in growth in 2013 was supported by improved activities in agriculture, forestry and fishing (5.1 percent), manufacturing (5.9 percent), wholesale and retail trade (9.2 percent), financial and insurance activities (9.3 percent) and information and communication (13.5 percent).

5. In the first three quarters of 2014 the economy expanded by 5.2 percent on average compared with 6.6 percent in the same period in 2013. On account of performance during the first three quarters and the projected growth of 5.3 percent in 2014, the fourth quarter growth of 2014 is estimated to be at 5.5 percent.

6. The economy is estimated to have expanded by 5.5 percent in the third quarter of 2014 compared to a revised estimate of 6.2 percent in the same period of 2013. The growth was mainly supported by robust growths in; construction (11.0 percent), finance and insurance (9.9 percent), wholesale and retail trade (7.2 percent); information and communication (6.6 per cent); and agriculture and forestry (6.2 per cent). All the sectors of the economy recorded positive growths

except accommodation and food services (hotels and restaurants) which has consistently been on the decline since last year.



7. Going forward, the growth outlook is promising due to continued implementation of bold economic policies and structural reforms as well as sound economic management. The economy is projected to grow by 5.3 percent, 6.9 percent in 2014 and 2015, respectively, and 7.0 percent over the medium term. This level of growth will be underpinned by the continued good performance in agriculture, forestry and fishing, manufacturing, real estate, wholesale and retail trade, financial and insurance activities and information and communication.

8. Growth in broad money supply, M3, increased to 17.3 percent in the year to November 2014 from a growth of 12.2 percent in the year to November 2013. The improvement in M3 was attributed to an increased growth in both the net foreign assets (NFA) and the net domestic assets (NDA) of the banking system.

9. Annual growth of the NFA of the banking system increased by 15.4 percent in the year to November 2014 from a contraction in growth of 2.0 percent over a similar period in 2013 mainly due to the improvement in the official foreign assets of the Central Bank by Ksh 107.3 billion that more than offset the decline in the foreign assets of the banking institutions.

10. Net credit to Government contracted by 38.0 percent in the year to November 2014 compared with a growth of 10.3 percent in a corresponding period in 2013. Bank credit to the private sector amounted to Ksh 1,857.3 billion in November 2014 from 1,519.3 billion in November 2013, representing an increased growth of 22.2 percent in November 2014 from 20.0 percent growth in the same period in 2013**.** The private sector credit flow was mainly to productive sectors though a pick up is also noted in sectors with consumption bias such as private households.

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11. Overall month on month inflation declined further to 6.0 percent in December 2014 from 6.1 percent in November 2014 and 6.4 percent in October 2014**.** On average, the annual inflation rate was 6.9 percent in December 2014 compared to 5.7 percent in December 2013.

12. The decline in overall inflation in December 2014 was largely attributed to lower fuel inflation. Fuel inflation eased from 6.4 percent in November 2014 to 6.0 percent in December 2014 reflecting a fall in the retail price of kerosene, diesel and petrol. Non-food non-fuel inflation also eased from 3.8 percent in November 2014 to 3.7 percent in December 2014.

13. Food inflation however, rose from 7.4 percent in November 2014 to 7.5 percent in December 2014. This reflects the 12-month change in the 'food and non-alcoholic beverages' index, which rose from 7.5 percent in November 2014 to 7.7 percent in December 2014.

14. The Central Bank Rate remained at 8.5 percent in December 2014 and the short term interest rates oscillated around the CBR**.** The average interbank rate averaged 6.9 percent in December and November 2014 from 6.8 percent in October 2014.

15. Overall balance of payments position recorded a surplus of US$ 1,507 million in the year to October 2014 from a surplus of US$ 607 million in the year to October 2013. The improved surplus reflected an increase in the capital and financial account that more than offset the increasing deficit in the current account.

16. Activity in the stock market remained vibrant in the year to December 2014. The NSE 20 share index improved to 5,113 points in December 2014 from 4,927 points in December 2013, representing an increase of 3.8 percent (Chart **2.10).** Market capitalization that measures shareholders' wealth improved from Ksh 1,901 billion in December 2013 to Ksh 2,300 billion in December 2014 representing an increase of 21.0 percent.

Priority I: Creating a Conducive Business Environment for Employment

17. As stated in 2014 CFSP, the objective of the reforms under Priority I is to create conducive business environment. The County Government will continue to pursue prudent fiscal policies that are supportive of accelerated inclusive growth and development. Through the County Finance Act of 2014/2015 and 2015/16, the government proposed affordable taxes/charges that will not only spur

economic growth by encouraging private investment of the county but will also ensure that enough local revenue is also generated to ensure services are offered to the county's residents.

18. Fiscal policy strategy recognizes that available resources are scarce and hence the need to efficiently apply them only on priority programs with the highest impact on stated objectives. This will be achieved by maintaining a strong revenue effort and containing the growth of total expenditure, while shifting composition of expenditure from recurrent to capital expenditure and eliminating unproductive expenditures.

19. On matters of Financial Management the county government has fully operationalized the Integrated Financial Information Management System (IFMIS) as an end-to-end transaction platform. In the coming year it will operationalized the Procure-to-Pay module in its operations.

Priority 2: Investing in agricultural transformation and food security

20. Garissa County is food insecure. A large portion of the population relay on food aid from the National Government. To reduce this food dependency the government had prioritized investing in agriculture in order to spur an inclusive economic growth. Expanded agricultural output will also increase food supply, reduce food related prices and bring down the cost of living, create employment and promote overall rural development. The County government therefore aims to continue investing in agriculture by increasing the area under irrigated agriculture. This will be done along the Tana River. Certified seeds and fertilizer will be provided to farmers in order to reduce the cost of production hence provides farmers with a higher profit margin. The government will also invest in the development of fish ponds to further improve food security.

21. The potential of livestock, dairy and poultry farming, including value addition of their by-products remains untapped as a catalyst for economic transformation. Therefore, the Government will initiate in FY 2015/16 will the completion of the modern abattoir. Additionally, the government will improve livestock, dairy and poultry farming.

22. The Government remains committed to addressing unemployment, especially among the youth, women and persons with disability so as to secure sharing in prosperity. Therefore, the government will upscale the '***Ugatuzi na Kazi'*** programme which was launched at the beginning of the Financial Year 2014/15. Priority will also be given to skills development and access to credit to enable this group be the dynamic drivers of growth and employment creation. The requirement for at least 30 percent of all public procurement to be reserved for the youth, women and persons with disability will be entrenched, strictly enforced and access made much easier through digitization.

Priority 3: Investment in key infrastructures and water

23. Infrastructure was the second single most spender in the County after Health, This was and still attributed to the poor condition of the road network in the County. Going forward, the Government will continue to invest in expansion of road network to open up rural areas, ease

movements of goods and passengers and encourage growth of commerce and employment throughout the county.

24. Access to livestock and household water is essential for economic transformation and social development. Safe drinking water and sanitation also complement efforts towards improved primary health care and productivity of labour. For this reason, Government has invested significantly over the years to enhance access to sustainable water supplies. Water harvesting structures have been constructed and more will be done in the coming financial year.

Priority 4: Access to quality social services

35. A healthy population is the cornerstone of economic progression. Health is the highest spender in the county. However a large portion of this goes to compensation of employees. The government has in the recent past invested in new health facilities and recruitment of additional health personnel. This will continue in the 2015/16 FY. However, inefficiency in our health care system emanates from skewed distribution of resources, absenteeism by health workers, knowledge practice gaps as well as stock outs of drugs and medical supplies. These challenges will be addressed in the coming year. The government will also continue expanding infrastructure for Early Childhood Education and Youth polytechnics.

Priority 5: Enhanced rural economic development that will further entrench devolution for better service delivery up to the village level.

26. The government is committed to ensuring that the citizens feel the effect of devolution. In the current financial year, the government has recruited the Sub County and ward administrators.. Together with other departmental representatives in these administrative areas, they are required to ensure that government services reach the people in their villages. In the FY 2015/16 offices for the administrators will be put and facilitated to carry out their duties.

Update on Fiscal Performance and Emerging Challenges

27. The Garissa County Assembly approved Kshs. 5,668,388,230 during the financial year 2014/2015. This will comprise of Kshs. 2,723,355,421 (48%) for development expenditure and Kshs. 2,945,032,809 (52%) for recurrent expenditure. This however excluded Ksh. 2,250,000,000 for development expenditure that was carried forward from the FY 2014/15. The county revenues were estimated at Ksh.5,668,230 FY 2014/2015 comprising of Ksh.4,914,082,809 from the National equitable share, loans and grants of Kshs. 91,802,418, Rural Electrification of Kshs. 162,503,003 and Ksh.500,000,000 million on projected local revenues

28. Implementation of the FY 2014/15 budget is progressing well despite initial challenges encountered at the start of the financial year. Adequate measures have been taken to ensure priority programmes are fully implemented. Implementation of priority programmes will be tracked and feedback provided periodically. There still exist a few challenges especially with regard to cash flow projections and exchequer releases.

29. As at the end of the second quarter of financial year 2014/2015, the National Treasury had remitted **Kshs 1.1895 billion** to the Garissa County Revenue Fund Account. The county further raised **Kshs. 16.3 million** as local revenue. The resources the county released through the operations account as per the exchequer releases to the county during the period under review amounted to **Kshs.856.9 million** and comprised of **Kshs. 735.6 million (85.84%)** for recurrent expenditure, **Kshs. 105.7 million (12.33%)** for development expenditure and **Kshs. 15.7 million (1.83 %)** conditional grant for level five hospital.

30. Total expenditure for the county during the first half of financial year 2014/2015 amounted to Kshs 540.3 million which comprised both recurrent and development.
This is shown in table below;

Funds Released by the National Government

MONTH	AMOUNT	UTILIZATION			TIME OF RELEASE
		RECURRENT	HOSPITAL	DEVELOPMENT	
AUGUST					
SEPTEMBER					
OCTOBER					
TOTAL					

Source; Garissa County Treasury

Economic Policy and Outlook

The County government has been extensively spending on improvement of infrastructure especially road network. The road network in the County is very poor. Most of the roads in the county are impassable during rainy season. The efficiency in the public transport is set to improve with extensive investment in roads; expansion of extension services will ensure that Garissa plays its part in bringing food security to a reality while providing employment to the population.

Over the medium term, expenditure on recurrent will need to be contained in order to ensure substantial amount of funds for development. In particular, every effort should be made to contain wages and salaries by the executive and other public entities by limiting the size of public service. Pursuing a sustainable level of debt once counties are allowed to borrow is also vital as a means to provide room for the private sector to expand business and create the much needed jobs within an environment of low inflation, and stable interest rates and exchange rate.

In light of apparent fiscal constraints, tough choices are therefore required to ensure that available resources are directed towards those priority programs that have the highest socio-economic impact on our economic development. This is especially more urgent with respect to the public sector wage bill that, if not appropriately managed, will become the main macroeconomic challenge for Garissa County.

Risks to the Outlook

Public expenditure pressures, especially recurrent expenditures, pose a fiscal risk. Wage pressures and the inefficiencies in the county government system may limit continued funding for development expenditure.

FISCAL POLICY AND BUDGET FRAMEWORK

The 2015 Medium-Term Fiscal Policy aims at supporting rapid economic growth and employment to as well as ensuring provision of essential County services. Specifically, the Fiscal policy underpinning the FY 2015/16 Budget and MTEF aims at revenue 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. Specifically,

- Over the medium term, a minimum of 30% of the county government budget shall be allocated to development expenditure. The Government is committed to a reduction in the recurrent expenditure to devote more resources to development.
- The Government's expenditure on wages and benefits for public officers shall not exceed a percentage of the Government revenue as prescribed by the regulations.
- Fiscal risks shall be managed prudently.

The overall budget deficit is expected to remain at zero in the short term as the freeze on county borrowing holds. It is, however, possible that the deficit may slightly rise towards the tail end of the medium term in the event that a comprehensive fiscal analysis indicates the necessity of borrowing to fund expanded development expenditure. This will entirely depend on a needs analysis and an assessment of the financial health of the County to ensure that the borrowing is both affordable and sustainable. In the longer term, however, efforts will be made to maintain the budget deficit at less than 5 percent of total expenditure to secure the County's fiscal sustainability.

Fiscal Framework for the Medium Term

Garissa County Government fiscal projections 2014/15-2018/19 (Kshs)

	Estimates before Revision FY 2014/15	FY 2015/16	FY2016/17	FY 2017/18	FY 2018/2019
REVENUE					
National Transfers	6,104,000,000	7,324,800,000	8,789,760,000	10,547,712,000	12,657,254,400
Local Collections	500,000,000	575,000,000	661,250,000	760,437,500	874,503,125
Conditional Grants	91,402,819	91,402,819	91,402,819	91,402,819	91,402,819
Donor Funds	15,560,000	15,560,000	15,560,000	15,560,000	15,560,000
TOTAL	**6,710,962,819**				
EXPENDITURE					
Recurrent	3,653,402,486.26				

Development	3,057,559,332.00				
TOTAL	**6,710,962,819.00**				

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