REPUBLIC OF KENYA

THE GOVERNMENT OF THARAKA NITHI COUNTY

SECOND

COUNTY FISCAL STRATEGY PAPER 2015

ECONOMIC GROWTH THROUGH OPTIMUM UTILIZATION OF RESOURCES

FEBRUARY 2015

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Forward

In this County Fiscal Strategy Paper (CFSP) we outline broad strategic priorities and policy goals of County Government for implementation in financial year 2015/2016 and the Medium Term. The economic growth through optimal utilization of resources strategy comprises of three main pillars that aims at spurring the economic growth of the county through: (i) Creating conducive business environment that encourages innovation, growth and investment; (ii) increasing investment in agricultural transformation to enhance food security, reduce prices and spur growth in trade; (iii) investment in infrastructure in roads, energy and water to reduce the cost of doing business in order to improve competitiveness; (iv) investing in quality and accessible healthcare and other social services; and (v) devolving services to sub-county to improve service delivery and enhance equitable economic development.

The expenditure policy framework in the medium term aims at ensuring efficiency and effectiveness in the implementation of our development policies. As outlined in CFSP 2014, this paper is part of efforts by County Treasury to link policy with budgeting, deepening reforms in the expenditure and financial management, and containing growth of non-priority expenditures in order to create fiscal space for financing priority policy areas such as the social sectors, agriculture and physical infrastructure, which are key to sustainable economic growth and development.

As a result, significant progress will be realized in terms of linking policies, planning and budgeting and shifting budgetary resources to priority areas, the process continues to face some challenges. The County Government will continue to address these challenges, which include: (i) initiating an early comprehensive effort on costing all existing policies, programs, and projects; (ii) building links between recurrent and development budget; and (iii) developing a more programmatic approach to the budget, with a view to improving the linkage between expenditure and results.

In line with the need to achieve the county's objectives, the County Fiscal Strategy Paper (2015 CFSP) draws priorities from the Governor's manifesto, CIDP and MTP II of Vision 2030.

Therefore, this County Fiscal Strategy Paper focuses on: (i) pro-poor expenditures in support of CIDP priorities. (ii) Shifting resources toward capital expenditures, and (iii) deepening structural reforms in areas such as public expenditure management, financial sector, governance to provide a conducive framework that encourages and supports the private sector.

The fiscal framework included in this 2015 CFSP outlines an affordable and sustainable path of public spending aimed at achieving Government's medium-term development priorities.

Other objectives that guided preparation of the 2015 budget include the following: (i) producing a budget that is affordable and sustainable; (ii) not factoring in any external budgetary support from donors and external financing sources as a commitment to ensure budget predictability.

Finally, I would like to express my gratitude to all those who participated in this year budget process including members of various dockets, Members of County Assembly, the private sector, civil society, and the members of public at various stages by providing valuable comments.

ELIUD MURIITHI MATI

DEPUTY GOVERNOR & CEC MEMBER FOR FINANCE & ECONOMIC PLANNING

Acknowledgement

This is the second County Fiscal Strategy Paper (CFSP) to be tabled in County Assembly strictly adhering to the principles of prudent financial management outlined in the Public Finance Management Act, 2012. It outlines the broad strategic macroeconomic issues affecting the country as a whole and fiscal framework of the County Government spending plans, as a basis of 2015/16 budget and the medium- term. We expect the document to improve the public's understanding of County's public finances and guide public debate on economic and development matters.

As usual, the preparation of the 2015 CFSP continues to be a collaborative effort. Much of the information in this report was obtained from the County Dockets and other County Government Agencies. We are grateful for their inputs. We are also grateful for the comments from the Budget and Economic Forum held on November 2014 and joint forum with members of County Assembly held on January 2015 on the 2015/16 Budget Review and Outlook Paper (BROP), which provided valuable inputs to this 2015 CFSP, in addition to comments from several other stakeholders.

A core team in the County Treasury spent a significant amount of time putting together this fiscal strategy paper. We are particularly grateful to the Head of County Planning, Mr. Kwendo, D ; Head of Treasury, Budget and Expenditure Management, Mr. Micheni, L.M ; for coordinating the execution of this task. We received substantial inputs from the all Chief Officers while consolidating this document. Since it would not be possible to list everybody individually in this page, I would like to take this opportunity to thank the entire staff of the County Treasury for their dedication, sacrifice and commitment to public service.

NICHOLUS GITONGA

CHIEF OFFICER/TREASURY

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Legal Basis for the Publication of the Budget Policy Statement

The County Fiscal Strategy Paper is published and publicized in accordance with Section 117 of the Public Finance Management Act, 2012. The Law states that:

The County Treasury shall prepare and submit to the County Executive Committee the County Fiscal Strategy Paper for approval.

1) The County Treasury shall submit the County Fiscal Strategy Paper approved in terms of subsection (1) 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 the County Fiscal Strategy Paper the financial outlook in respect to county government revenues, expenditures and borrowings for the next 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) The County Assembly, not later than 14 days after CFSP is submitted to County Assembly consider and adopt it with or without amendments.
7) The County Treasury shall consider any recommendations made by the county assembly when finalizing the County Fiscal Strategy Paper for the year concerned.
8) The County Treasury shall publish and publicize the County Fiscal Strategy Paper within 7 days it has been submitted to the County Assembly.

Fiscal Responsibilities Principles in the Public Financial Management Law

In line with the Constitution, the Public Finance 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 (2)] states that:

1. The county government's recurrent expenditures shall not exceed the county government's total revenue;
2. Over the medium term a minimum if 30 percent of the county government's budget shall be allocated to the development expenditure;
3. 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.
4. Over the medium term, the county government's borrowings shall be used only for the purpose of financing development expenditure and not recurrent expenditure;
5. The county debt shall be maintained at a sustainable level as approved by the county assembly;
6. The fiscal risks shall be managed prudently; and
7. 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.

I. Economic growth through optimal utilization of resources

Overview

1. The 2015 County Fiscal Strategy Paper (2015 CFSP) is the second to be prepared under the humble leadership of Governor Ragwa guided by both the Jubilee policies and governor's manifesto. As such, the paper sets out the priority programs of the County Government to be implemented in the Medium Term Expenditure Framework (MTEF).
2. This County Fiscal Policy Paper is conceived against the continuing recovery of the national economy from economic slump in 2011 characterized with drastic currency depreciation and rapid inflation. However, the road to stability in 2012 to 2014 saw the drop inflation to a single digit and the stability expected to continue into 2015.
3. Kenya is positioned as the largest economy in East Africa with a significant potential to further capitalize on regional markets and strengthen its position as the region's economic powerhouse. Additionally, this position is strengthened by the recent discovery of oil, gas and coal which presents Kenya with an opportunity for overall development likely to propel it to middle-income country status in the medium term. In this regard, Kenya is considered a "frontier" economy with impressive economic performance, prudent economic policies and fiscal discipline which have helped it achieve strong and stable economic growth.
4. Tharaka Nithi County has established herself as a leader amongst her neighbours by setting pace in policy formulation, equitable distribution of resources, progressive political agendas and setting its priorities right. This has spurred the county's economic growth and development characterized with citizen empowerment, public participation in governance issues and general economic regeneration.
5. The platform upon which the "economic growth through optimal utilization of resources" is built has requisite structures in place. Despite the progress made thus far, surmounting challenges still remain. The challenge of prolonged dry spell resulting from below average rainfall has been a great concern to the County Government. In particular, more than 60,000 residents are living in starvation. This extraneous condition of decreased agricultural productivity characterized with high food prices and accelerated unemployment have constrained the economy of the county from achieving full potential. Additionally, the county faces the challenge of weak transport and logistics, a weak investment climate and declining agricultural productivity. Moreover, the high and unsustainable county government's wage bill and related fiscal challenges, if not drastically arrested, will also drag our development effort in the medium term.
6. The county government endeavors to address these challenges more drastically to build on the success that forms the basis of achieving economic growth through optimal utilization of resources. Consequently, this CFSP covers the following broad priorities:
7. Priority I: Creating conducive business environment by initiating governance and structural reforms that target to reduce cost of doing business thus creating employment opportunities;

8. Priority II: Investing in agriculture value chains to improve security. This will include putting more acres of land under irrigation thus contributing to food security, supporting installation and expansion of agro-processing industries, reduction of food prices hence lower cost of living and spurring and supporting export growth for agricultural based sectors;

9. Priority III: Investment in world-class transport and logistics including upgrading of major roads to bitumen standards, all weather feeder roads and opening of access roads, additionally, scaling up investment in other key infrastructure such as water supplies, energy and drainage systems;

10. Priority IV: Investing in accessible healthcare services and quality pre-primary education as well guaranteeing social safety which compliments long term growth and development; and

11. Priority V: Devolving services to sub-county and ward levels for better service delivery thus enhancing general economic development.

Programmes for Achieving Economic Growth through Optimum Utilization of Resources

12. This CFSP (2015) therefore 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 2015-2016, 2016-2017 and 2017-2018 in order to achieve the 1st County Government's development goal of achieving highest level of economic prosperity through optimized use of resources as expounded below:

Priority I: Creating Conducive Business Environment for Sustained Economic Growth

13. The prime focus of the reforms under Priority 1 is to establish a serene business environment through enhanced structural and governance reforms, improved security and tracking the macroeconomic stability indicators in order to promote innovation, growth and expansion of county economy and investment as well as creating employment opportunities for all residents in Tharaka Nithi County.

14. There is increased need to focus on economy-wide efficiency and total factor productivity (TFP) in order to achieve higher levels of sustained growth. In this regard, the County Government shall undertake deepened structural reforms aiming at improved efficiency and effectiveness of service delivery to the public that facilitates growth in private sector.

15. *Governance Reforms:* The County Government is targeting to embark on well directed governance and anti-corruption reforms which shall include: (i) drastic measures to combat corruption; (ii) assets recovery measures; (iii) improved governance in priorities areas of health, agriculture, revenue administration, financial management and infrastructure development. The County Government will embrace the Code of Conduct and vetting of all public officers before they assume responsibilities. As a result, the County Government will create a framework for consultation, monitoring and reporting in order to enhance accountability in the public service.

16. *Expenditure Management:* The County Government will establish strong mechanisms that shall form part of economic transformation under public expenditure

management reforms. The reforms will be geared towards improving efficiency and effectiveness in utilization and execution of county budget. The focus will entail continued rationalization of expenditures by removal of expenditure overlaps and waste, identification and development of cost benchmarks, exploring alternative implementation strategies including leasing of assets, building on performance contracting as well as expenditure tracking. This regard, value for money audits shall be conducted regularly by the internal audit department to ascertain the efficiency in the use of public resources for all County MDAs.

17. As emphasized in 2014 CFSP, transformation entails instituting measures to enhance efficiency and productivity in production and service delivery so as to unleash the economy's full potential. While civil service rationalization is progressing well, more still needs to be accomplished to improve efficiency and effectiveness in public resource utilization and budget execution so as to facilitate economic transformation. Going forward, the County Treasury will, in 2015, institute and strictly enforce, among others, the following measures:

- Develop in the first half of FY 2015//16, a framework for enforcing cost benchmarks for projects and consumables;
- Conduct every year,, at least one Public Expenditure Tracking in any sector where there are value for money concerns;
- Entrench program budget and enforce performance benchmarks for execution of the development budget of at least 80 percent by departments;
- Make fully operational the Integrated Financial Information Management System (IFMIS) as an end-to-end transaction platform
- Undertake independent audit of the IFMIS in 2015 to ensure its integrity and operational capability.

18. Under tight fiscal constraints, difficult choices must be made to ensure that scarce resources are directed towards priority areas of economic development and more effective service delivery, while ensuring that debt levels are sustainable. In addition to rationalization of the public service to make it lean, efficient, effective and accountable, the County Government will adopt innovative ways to better deliver public service, including leveraging on Information Communication Technology. It will also develop and strictly enforce cost and standard benchmarks for service delivery, including infrastructure development.

19. The recurrent expenditure of the County Government is reaching unsustainable levels, squeezing out resources meant for development. Similarly, the recurrent expenditure of the Tharaka Nithi County is equally straining the development agenda. The wage bill is towards the unacceptable limit of above 40% total revenue. This is unsustainable and poses a serious threat to the funding of important development projects, and has the potential to severely affect the county's economic prospects. In addition, salary pressures will also impact on pensions, hence increasing the County Government's contingent liability

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21. *Asset Management:* The County Government will ensure efficient management of all its assets and will be given priority in the ongoing expenditure reforms. As a result, the County Treasury will conduct a countywide asset registration exercise that will target to update Asset Registry for County Government assets. The County Departments will be the custodian of all the assets within their jurisdiction including *inter alia*, equipment, plants and machinery, ICT hardware and motor vehicles. All existing fleet of County Government motor vehicles will be fitted with fleet management system to guarantee optimal utilization and management.

22. *Tax and Revenue Reforms:* The priority measures that simplify tax systems, expand revenue base, rationalize tax incentives and leverage automation will form the strategy for strengthening revenue collection efforts as well as the ease of doing business. The reforms will target improving the net revenue capture for informal sector and the County Departments with revenue streams through coordinated efforts of revenue department in the County Treasury. The implementation of the Finance Bill 2014 will have the overall impact setting broad revenue base effect and improved efficiency and effectiveness in revenue administration. Additionally, the proposed Finance Bill 2015 to be submitted to the County Assembly will entrench further simplified and modernized revenue regulations that will commence in 2015.

23. *Public Sector Reforms:* The strategy that the County Government will use to play its facilitate role more effectively will include rationalizing and consolidating the civil service in the county in order to eliminate duplication of functions and eliminate overlaps thus reducing pressure on the wage bill. These measures will additionally improve performance accountability of the civil service. In this regard, all county departments will be rationalized and strengthened into lean, effective, efficient and accountable agencies that provide better services.

24. *Business Regulatory Reforms:* The County Government is to entrench, as a strategy, measures to reduce cost of doing business focusing on furthering interest of small businesses including business registration, construction permits, registering property, access to micro-credit, tax compliance and across sub-county border issues. The County Government will utilize the progress achieved so far in simplifying and modernizing business regulatory regime. This will be achieved by rationalizing all regulatory fees, charges and institutionalize legal framework to establish the county as one-stop-investment-shop which reaches to all. The County Government is embarking on digitalizing its payment in order to hasten service delivery thus reducing transaction cost and safeguard revenue.

Priority II: Agricultural Transformation for Food Security

25. The continued investment in agriculture as a priority area for ensuring economic development through optimum utilization of resources will contribute significantly in transforming the economy of the county. Investment in agricultural reforms and transformation will spur all inclusive growth with extensive effects on agro-processing, whole

and retail, financial services, storage and transport and external market diversification and growth. Transformed agriculture will ensure expanded agricultural output that guarantee food security, reduced food prices and cost of living, improved employment opportunities and overall rural development for improved economic welfare of all residents in Tharaka Nithi County.

26. In this strategy the focus will be on identifying markets for our agricultural produce whether locally or internationally. The markets are to be identified by negotiating forward contracts with buyers of our produce and structuring specific product supply chains to ensure they meet secured market. Through the negotiated forward contracts and supervised productions the smallholder farmers will be able to access: (i) financial resources; (ii) all necessary inputs including machinery, technical knowledge, supervision on standards and adequate technical and financial help that are capable of increasing productivity hence better incomes. Therefore forward contracting forms central pillar for a functional agricultural value chain since it lays-down necessary measures to transform agriculture into viable business venture.

27. This strategy unlocks productivity amongst smallholder farmers as well as commercial farmers by guaranteeing markets and prices in addition to assisting them achieve the optimal level of production. This will be achieved by investing in extension services, soil management, post-harvest technology, high yielding seeds, and investing in wide application of modern technology especially mechanization and re-organization of smallholder farmers into cluster groups so that they can access driers, storage and coolers as well as attain economies of scale.

28. In this regard, the County Government has mandated the Docket of Agriculture, Livestock, Fisheries Development and Irrigation to initiate partnerships with relevant stakeholders including financial institutions to develop financial instruments that are friendly to smallholder farmers. These initiatives will enable smallholder farmers expand their agri-business ventures, offer support on crop-specific value chains and educate farmers on smart farms and agriculture that drives sustainable output and creates employment.

29. The county is blessed with sufficient water resources and has a comprehensive agri-business initiative involving smallholder farmers in fish farming and crop production. Currently, farmers are provided with fish ponds and irrigation kits for youth groups. This project is expected to improve nutrition, provide income to households and develop new agri-business ventures to the society that has traditionally relied on subsistence maize farming. In the aquaculture project involving trot fish farming, the farmers will be supported through extension services involving better farming methods, access to handling facilities and modern storage, and linking them to financial services. As a result, the farmers will be encourages to invest along the fish value chain thus making fish farming a viable agri-business venture. Similar strategies will be used in other crop-specific value chains.

30. The livestock and dairy farmers are yet to realize the full potential of their ventures. The County Government is well aware that the huge potential of beef, leather products, poultry, milk and their by-products in transforming the economy of the county remains untapped. The County Government focusing on securing forward contracts for various dairy, poultry and livestock products in order to improve the commercial value of these farming activities. The County Government resources will be prioritized in this area for development

of key infrastructure which includes storage, agro-processing and value addition facilities, training facilities and curriculum development, energy and access roads.

31. The County Government has invested extensively in irrigation schemes and projects within the county with a target to ensure that at least 10,000-20,000 acres of land are irrigated. Major irrigation schemes in all sub-counties have been identified for investment and will transform this county into an economic hub eliminating perennial food shortages and hovering poverty. This is a comprehensive project involving infrastructure development, modern production techniques, harvesting and storage, agro-processing, packaging, distribution and marketing. Therefore, the project will be capable of creating thousands of employment opportunities especially to jobless youth within the supply chains. The implementation of the irrigation projects started last year with eight projects marked for roll-out targeting 1,000 acres. The County Government is also developing a framework that will be used to guide private partnerships in this sector to ensure collaborations are coordinated within institutional and legal framework.

Supporting Growth of Manufacturing for Economic Growth

32. In line with the agriculture strategy, the County Government embroils manufacturing as a necessary vehicle to move agricultural products up the value chain through value addition. Value added products attract a diversified market and encourage trade amongst regions and countries while growing economy and creating employment. In this regard, the County Government prioritize manufacturing by facilitating establishment of technology-based and modern industrial parks in sections designated for industries in our major towns: Chuka; Chogoria; Marimanti; and Kathwana in order to position Tharaka Nithi as an industrial hub.

33. The county Government will also domesticate the policy of Buy – Kenya – Build Kenya Policy whose objective is assist Kenya enterprises to supply the public sector with goods and services that can be produced competitively in Kenya. The emphasis will be on developing and manufacturing locally quality products lines that can compete with imports, such as furniture, Textiles, consumables, food products, office supplies and construction materials.

34. The issue of manufacturing is not mere agenda but there is need to ensure that industries that are established in the rural homes but in designated economic zones where they are facilitated for energy, access roads, and other infrastructure. The County Government will also facilitate modernization and establishment of industries in agro-processing, leather, textile, fishing and beef in order to attain value addition required for agricultural transformation, industrialization and eventually economic growth.

Priority III: Transport, Energy and Water for Accelerated Economic Growth

35. On infrastructure, the County Government will continue to prioritize investment in roads, energy and ICT to drive economic growth, job creation and deepen our links with our development partners. Modern infrastructure is a key prerequisite for sustained agricultural and industrial transformation. For this reason, the Government's strategy for economy transformation prioritizes investment in infrastructure covering good feeder roads

36. In particular, transport plans include tarmacking of urban roads and murraming feeder roads within the county, so that our people can move goods easily across the county. Also, the county needs more new housing to meet the current shortage encompassing our urban population.

37. Further, alternative methods and technology of road construction will be deployed to reduce time and cost, while enhancing the longevity of our road network. Project cost benchmarks will be developed and strictly enforced, and an independent project management framework will be established in the county to supervise and manage delivery of roads on a timely and cost effective manner.

38. Sustaining economic transformation, underpinned by efficiency and productivity, requires substantial investments in expansion and access to affordable and reliable energy supply. Over the medium term, the Government has programmed to connect 10,000 households with electricity under the *stima mashinani* project. This will entail a joint partnership with the REA whereby the county government will top up the subsidies given to the consumers. Significant efforts will also be made to promote the generation and use of renewable sources of energy including solar and biogas especially in schools.

39. Effective climate change mitigation and sustainable access to farming 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. More recently, over 100 additional projects were undertaken to provide to safe drinking water by investing close to Ksh 100 million in water projects such as Kibunga kakimiki water supply system, Chiakariga water supply. In addition, the Government increased investment towards expansion of irrigation infrastructure in various schemes throughout the county to facilitate smart agriculture, improve crop yields and sustain rural livelihoods.

40. Environmental conservation and sustainable access to water is essential for sustained agricultural transformation, higher productivity and growth as well as overall development. Priority will be given to sustainable exploitation, utilization, management and conservation of the environment and protection of water catchment area. Program of water harvesting will be rolled; this entails construction of mini-dams and water pans and rehabilitation of existing dams and water pans to make water accessible for households, irrigation and livestock development. The county government will ensure water harvesting and storage in all public institutions through the county, and invest in mid-size dams to store water for household and agriculture use.

Priority IV: Investing in Accessible Healthcare and Social Services

41. In this strategy, the County Government will ensure that the gains from growth are widely distributed through well targeted social safety programme and sustainable employment in order to guarantee a lasting reduction in poverty and progress towards achieving its vision as envisioned in the CIDP. While increased spending on social sectors such as education and health has supported inclusive growth over the recent past, more needs to be done.

Quality Healthcare Services for Healthy Working Population

42. On human capital development, the County Government is committed to ensuring the highest attainable standard of health. Policies will aim to ensure that all Tharaka Nithi residents have access to well-equipped health facilities and well trained and motivated health care workers, in addition to developing systems to support and expand health care and improved sanitation. A healthy population is essential for higher productivity and sustained long term development of a nation. The county government will continue to support programmes controlling communicable diseases and decrease in child mortality. The county government will also deal with challenges associated with affluent and accidents.

43. Implementation of a second generation healthcare reform strategy involving; rationalization of health workers recruitment programme, expansion of training facilities, and development of system to supports and expand healthcare services and sanitation at the community level. A programme for healthcare infrastructure upgrade and equipment modernization, especially trough leasing will be implemented. Efficient, effective and accountable framework for management of public resources and medical supplies at the facility levels will be put in place.

Youth Sports, Culture, Heritage and Talents

44. Tharaka Nithi has immense talents especially in sports and arts where our own team playing in a national league. These talents will be nurtured as a catalyst for economic prosperity that the county endows dearly. The investment of the County Government will focus on establishing sports facilities throughout the county, establishment of talent centers at strategic places and empowerment centres that will develop latent talents and innovations characterizing the youth. The cultural heritage that forms the basis on which our peoples' values, norms, beliefs, identity and rituals are passed across generations. Thus, the County Government will continue promoting the cultural heritage in order to preserve our identity.

45. Unemployment amongst the youth, women and persons with disability remains a major challenge to our development and social stability. The Government will build on youth and women support initiatives to further encourage entrepreneurship and innovation, especially by tapping the creativity and knowledge of the young people. Skills development and access to credit will be given priority to enable this group to be dynamic drivers of the growth and employment creation. The county government will work closely with the national to domestic the policies of the UWEZO Fund.

Empowering Youth and Women for Economic Growth

46. This strategy involves entrenches placing priority on building the capacity of the youth, women and persons with disability in order to achieve optimum economic growth and social stability. The issue of unemployment among the youth, women and PWDs remains a major challenge and County Government will enhance the already established initiatives that further encourage innovation and entrepreneurship thus tapping on the creativity and knowledge of these groups. The County Government will expand existing and roll-out new smallholder business loans to primarily focus on youth, women and PWDs. In addition, the

County Government is implementing affirmative action of 30 percent of all public procurement to be reserved for Youth, Women and PWDs and will continue to entrench it further with possibility of exceeding the threshold.

Priority V: Devolving Services for Quality and Accessible Services

47. This strategy entrenches devolution to offer better service delivery and aims at strengthening institutions and capacity to link inter-governmental fiscal transfers with revenue raising capacity of the sub-county government units in order to enhance political and financial accountability necessary for efficiency and effectiveness in service delivery, alleviation of poverty and convergence in county development. The increased involvement in budgetary processes of the devolved units of County Government ensure that devolution system achieves the objectives of better service delivery and rapid local economic development as well as jobs creation in line with our Vision 2030. For this to be achieved accountability and fiscal discipline in the use of devolved resources must be entrenched and macroeconomic environment remains stable.

48. The County Government will, therefore, continue to support to county governments as the centres for service delivery and economic expansion, especially in the areas of public financial management, good governance practices and supporting the sub-counties to be fully operational as units of devolved government. This increased participation of all levels of County Government will further the initiatives especially in implementing the county development agenda and critical policy initiatives. This will include moderating the zeal by sub-counties to raise local revenues levels and safe guarding a thriving business environment that support private sector.

Outline of County Fiscal Strategy Paper

Recent economic developments and Outlook

49. The next section (II) outlines the economic context in which the 2014/15 MTEF budget is prepared. It provides an overview of the recent economic developments and the macroeconomic outlook covering the global and domestic (national) scene.

Fiscal policy and budget framework

50. Section III outlines the fiscal framework that is supportive of the growth over the medium to long term, while continuing to provide adequate resources to facilitate development agenda and fiscal priorities of the current County Government.

Medium-Term Expenditure Framework

51. Section V presents the resource envelope and spending priorities for the proposed 2014/15 MTEF budget and the medium term.

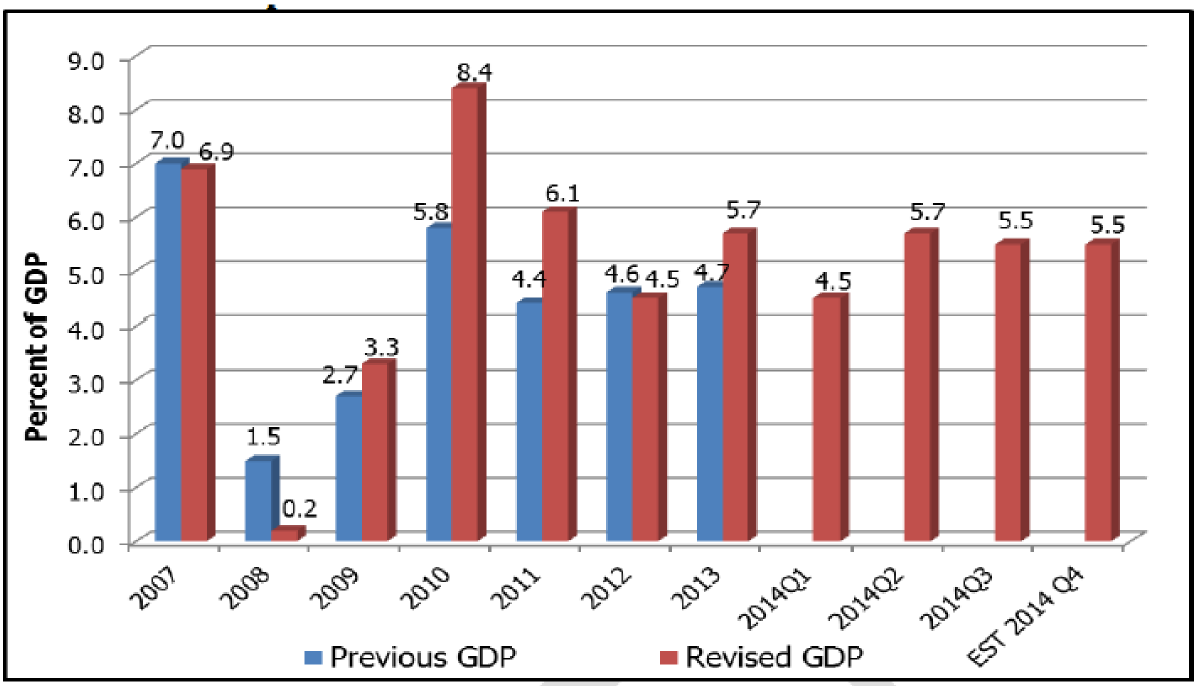
Section VI concludes.

II. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

Overview of Recent Economic Performance

52. 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 SSA. The Kenyan economy grew by 5.7 percent in 2013, up from 4.5 percent growth in 2012 **.**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).

Figure 1 Comparison in GDP Growth Rates



Source: KNBS

53. 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.

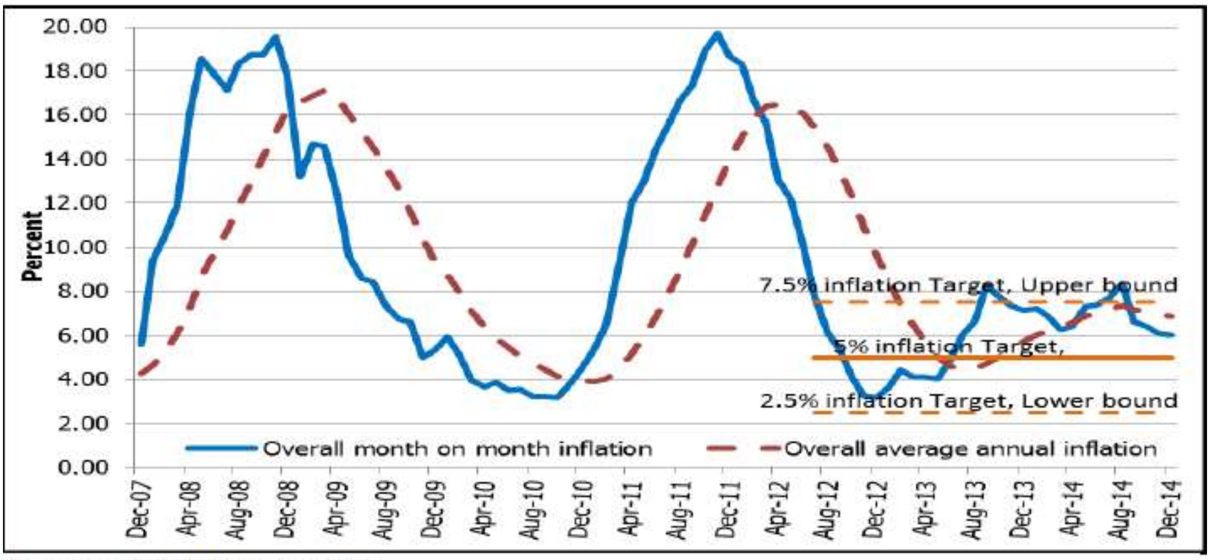
54. The pace of current growth is, however, still well below the target of Vision 2030 of 10 percent necessary to draw more Kenyans into employment and reduce poverty significantly. Accelerating growth requires scaling up both public and private investment to

raise Kenya's economic competitiveness and create more employment opportunities for all Kenyans.

55. At the county level recovery in agricultural production slowed down due to poor weather conditions (inadequate rain). This led to food shortages especially in the drier regions of the county which necessitated relief supplies. The ongoing road construction in Chuka town disrupted business activities as several which were hitherto business premises were demolished late last year.

Inflation has dropped to below single digits

Figure 2 Inflation Rate



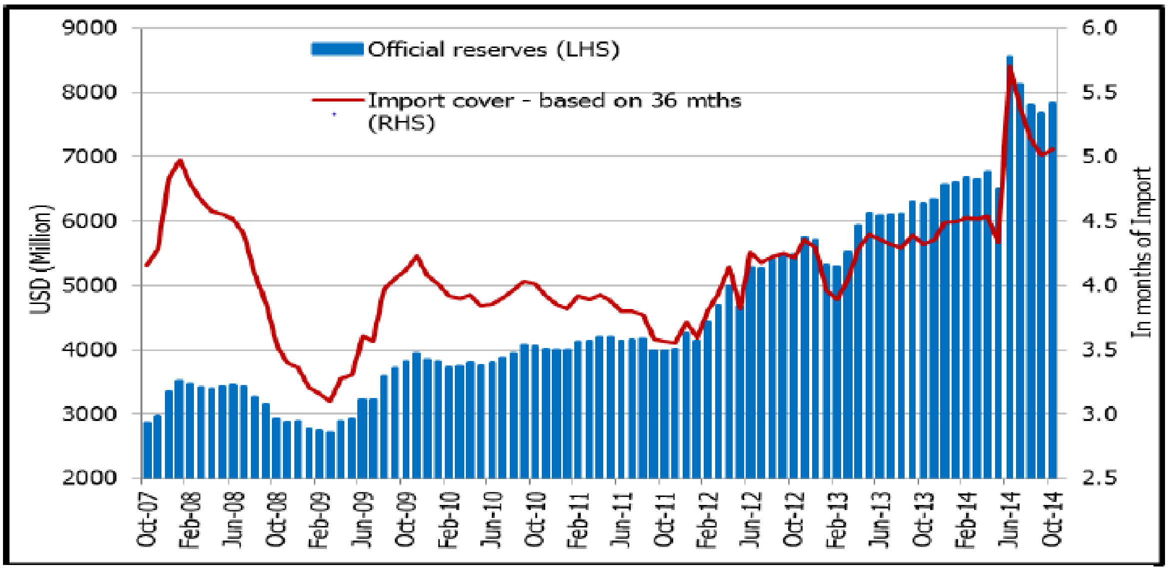
Source: KNBS and CBK

56. 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.

57. The decline in overall inflation in December 2014 was largely attributed to lower fuel prices. 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. 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.

58. Going forward, we expect inflation to remain within the 5 percent target in the months ahead with appropriate monetary policy, barring any effects from the external shocks such as a surge in commodity prices. The risk to this outlook is the international oil market that still remains volatile due to tensions in the Middle East that could lead to oil supply disruptions.

The external payments position has strengthened



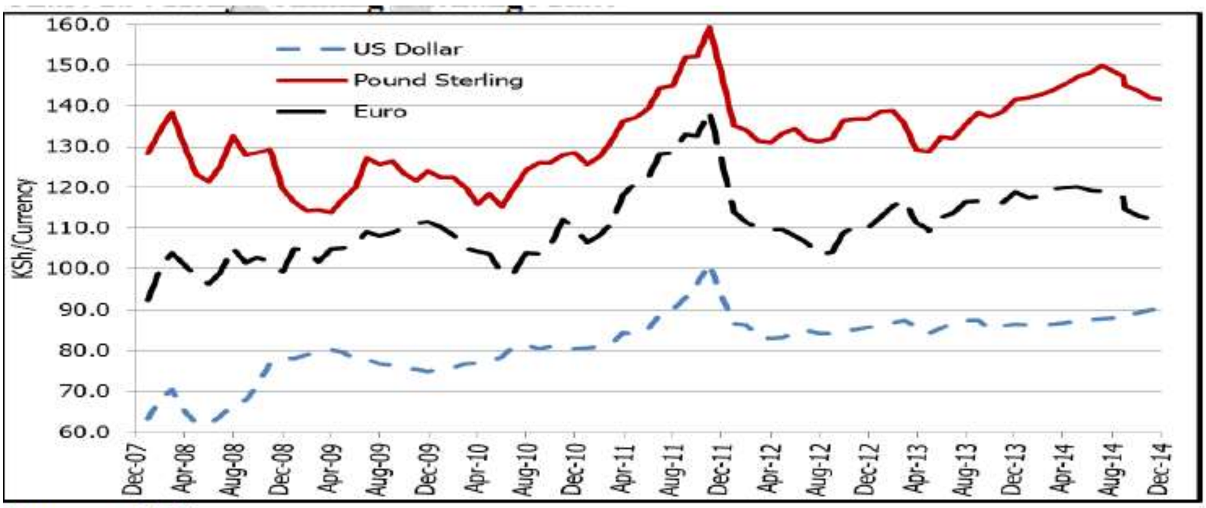
Source: CBK

Figure 3 External Payments

59. The gross foreign exchange holdings of the banking system increased by 19.6 percent from US$ 7,859 million in October 2013 to US$ 9,400 million in October 2014 .Gross Official reserves held by the Central Bank increased to US$ 7,839 million (5.06 months of import cover) in October 2014, an improvement from US$ 6,263 million (4.32 months of import cover) in October 2013 due to purchases from the interbank money market and receipt of proceeds from the sovereign bond issuance.

The exchange rate has generally stabilized

Figure 4 Foreign Exchange currency rates



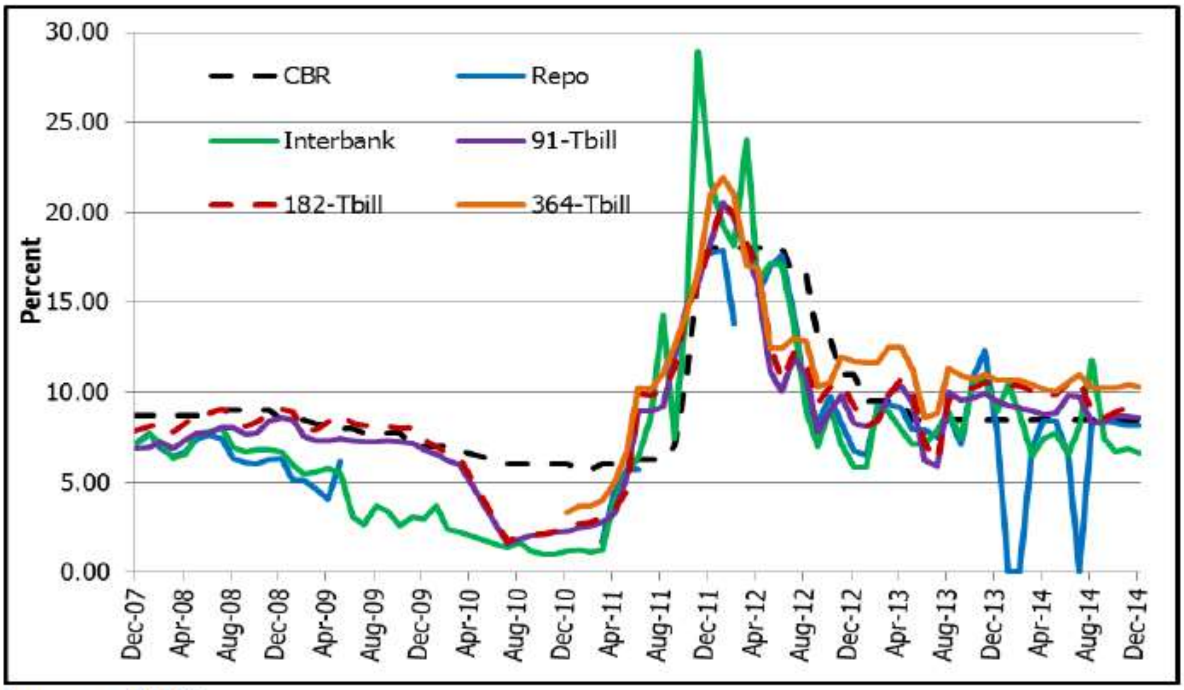
Source: CBK

60. As a result of the increase in official foreign reserves, the shilling exchange rate against major international currencies has generally stabilized over the recent months after the sharp weakening in late 2013.The Kenya Shilling exchange rate demonstrated mixed performance against major international currencies. The currency depreciated against the US

dollar to Ksh 90.5 in December 2014 from Ksh .90.0 in November 2014 and Ksh 89.2 in October 2014 Against the sterling pound, the shilling appreciated to Ksh. 141.4 in December 2014 from Ksh.142.0 in November 2014 and Ksh 143.7 in October 2014 and against the Euro it appreciated to Ksh 111.5 in December 2014 from Ksh 112.3 in November 2014 and Ksh 113.2 in October 2014. Diaspora remittances, increased foreign investor participation in the NSE and enhanced confidence following successful issuance of the sovereign bond continues to support the Kenya shilling exchange.

Interest rates eases with the drop in inflation

Figure 5 Short-Term Interest Rates



Source: CBK

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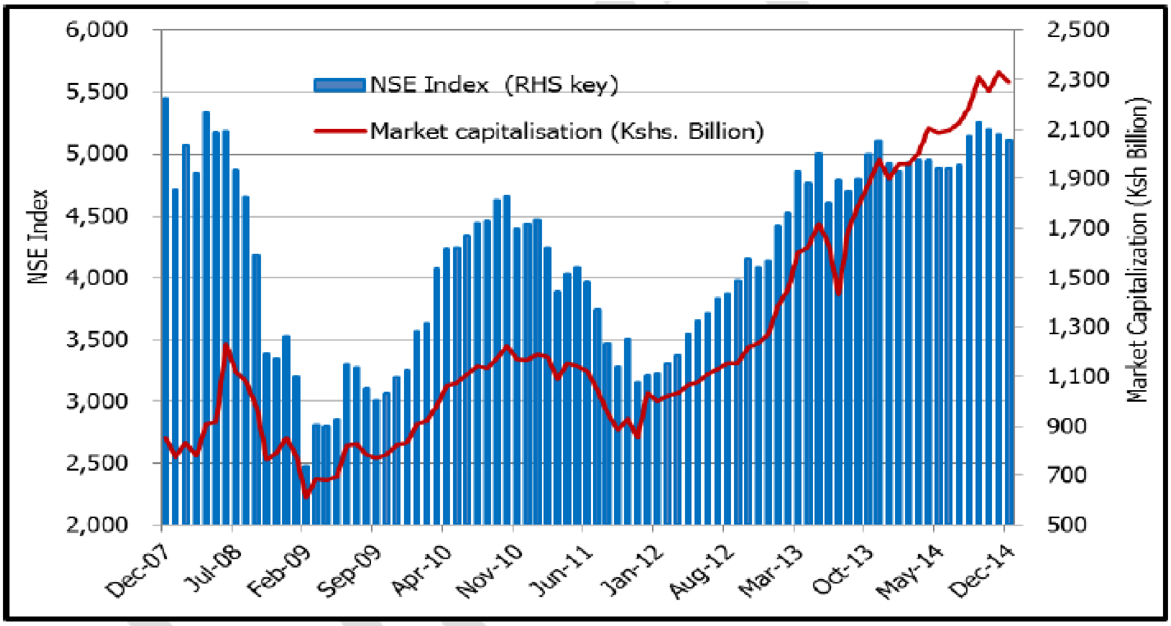
61. The Central Bank Rate remained at 8.5 percent in December 2014 and the short term interest rates oscillated around the CBR. The average interbank rate averaged 6.9 percent in December and November 2014 from 6.8 percent in October 2014.

62. The Kenya Bank's Reference Rate (KBRR) remained at 9.13 percent. Commercial banks average lending declined to 15.9 percent in November 2014 compared with 17.0 percent in November 2013 while the deposit rate increased to 6.7 percent from 6.6 percent over the same period .This narrowed interest rate spread from 10.3 percent in November 2013 to 9.2 percent in November 2014 reflecting mainly a decline in the lending rate.

63. The 91-day Treasury bill rate declined to 8.6 percent in December 2014 from 8.7 percent in November 2014 and 8.7 percent in October 2014. The 182 day Treasury bill increased to 9.6 percent in December 2014 from 9.2 percent in November 2014 and 8.9 percent in October 2014 while the 364 day Treasury bill rate averaged at 10.5 percent in December and November 2014 from 10.3 percent in October 2014.

Stock market remains vibrant

Figure 6 Performance of the NSE



Source: NSE

64. 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. 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.

65. Equity Market turnover for the month of December 2014 stood at Ksh 28.6 billion from Ksh 17.1 billion in November 2014 representing a 67.3 percent increase. December 2014 bond turnover stood at Ksh. 40.7 billion, 22.6 percent lower than the Ksh. 52.6 billion recorded in November 2014.

Fiscal Performance and Emerging Challenges 2014/15 Budget

66. The FY 2014/15 fiscal framework assumed a stable macroeconomic environment and continuation of the Government's policy of containing non- priority and unproductive expenditures. After taking into account adjustments made by the county Assembly, total expenditures were projected at Ksh.3, 708 million and total expected revenues of Ksh. 3,161. Million comprising of equitable share of national revenue of Ksh 2,671 million, local revenue collections of Ksh 250.0 million and bank balances brought forward from FY 2013/14 of Ksh 240 million, the overall budget deficit (including grants) in 2014/15 is projected to be about 787 million to be financed by the National Government as per the 2014 CFSP.

67. County Assembly approved the 2014/15 budget with expenditures amounting to Ksh. 3,718 million, comprising of recurrent expenditure of Ksh. 1,830.8 million and development expenditures of Ksh. 1,887.5 million. These expenditures were expected to be financed by total revenue amounting to Ksh. 2,921.3 million; National government equitable share of Ksh

2,671.3 million, donor (conditional) grants of Ksh. 786.8 million, revenue locally generated of Ksh. 250.0 million and no domestic and foreign borrowing.

Implementation progress and emerging fiscal challenges

68. 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. The county was allowed to spend 50% of the recurrent votes due to the ongoing case court over the revenue sharing between the county assembly and Executive. Fiscal outcome for the first eight months of the financial year was generally satisfactory, but revenue shortfalls continue to persist amid rising expenditure pressures.

69. Table 1 Revenue and Expenditure Out-turn for 1st Half FY 2014/15 provides the cumulative budget out-turn for the first six months of the FY 2014/15 budget. Revenues shortfall has persisted, with cumulative local revenue receipts amounting to Ksh. 81.4 million, against a target of Ksh. 125.0 million, an underperformance of Ksh. 44 million. All the major revenue heads underperformed and this will drastically affect the budget

Table 1 Revenue and Expenditure Out-turn for 1st Half FY 2014/15

implementation to priority areas.

70. Expenditure execution lagged behind but the pace of execution is expected to pick up well in the second half. Total expenditure (based on disbursement) amounted to Ksh. 998.4.8

COUNTY REVENUE & EXPENDITURE			
	Jul'14-Dec'14 Months Target	Jul'14-Dec'14 Months Actual	Difference
Local revenue	125,000,000.00	81,351,038.00	-35%
Share from Natior	1,335,680,191.00	917,016,506.00	-31%
Total revenue	1,460,680,191.00	998,367,544.00	-32%
	-		
COUNTY EXPENDITURE			
Recurrent Expendi	915,446,810.50	830,305,670.15	-9%
Development	545,233,380.50	168,061,874.00	-69%
TOTAL	1,460,680,191.00	998,367,544.15	-35%

Million, against a target of Ksh. 1,460.7million. this reflected an overall under-spending of

Ksh. 462.3 million, of which Ksh. 85.14 million was in respect of recurrent expenditure and Ksh. 377.2 million was in respect of development expenditure. The high expenditure in the recurrent vote mainly went to payment of salaries costing to close to 100 million every month. Most of the under-execution in development expenditures was due to delayed disbursement national government resources and that most of the projects are still at the design or tendering stage.

71. To confront the challenges of revenue shortfall and expenditure pressures, the County Government has stepped up efforts in tax administration and mobilization of revenue to eliminate leakages and increase revenue collection as targeted in the FY 2013/14. We have also rationalized expenditures so as to live within the fiscal framework.

72. A revised budget for 2014/15 will be presented to the County Assembly in March 2015 in order to rationalize the spending plan with available resources with more4 focus to priority areas. We. The County Government will take additional measures including further adjustments to the budget considering that the revenue shortfall that is expected to the entire financial year.

Macroeconomic Policies and Outlook

Kenya Economic Outlook

73. The macroeconomic forecasts are cautious considering the mixed performance of global growth and SSA growth and the continued downside risks for emerging market economies. The Macroeconomic Framework guiding the projections takes into account, the Government's national strategic objectives as outlined in the second Medium Term Plan (MTP) for the period 2013-2017 of Vision 2030 and the broad development policies of the Jubilee Government.

74. Real GDP is therefore projected to expand by 5.6 percent in 2014 from an earlier forecast of 5.8 percent in the 2014 CFSP, 6.9 percent in 2015 and 7.0 percent in 2018. In terms of fiscal years, the projections translate to 5.5 percent in 2013/14, 6.1 percent in 2014/15, 7.0 percent in 2015/16 and 7.3 percent in 2018/19. The economic growth outlook is underpinned by continued good performance across all sectors of the economy. The projected growth assumes normal weather pattern in 2015 and the medium term. Inflation is expected to be maintained at a single digit level and near the 5 percent target reflecting implementation of a prudent monetary policy and easing of both food and oil prices, and stability of the shilling exchange rate to the major international currencies.

Table 2 Macroeconomic Indicators underlying the medium Term Fiscal Framework, FY2011/12-2017/18

	2011/12	2012/13	2013/14	2014/15		2015/16	2016/17	2017/18
	Act.	Act.	Prel.	Budget	Rev. Budget	Projections		
	Annual percentage change							
National Account and Prices								
Real GDP	5.3	5.1	5.5	6.1	6.1	7.0	7.1	7.0
GDP Deflator	10.1	7.5	6.2	7.2	6.7	6.5	6.4	6.2
CPI Index (eop)	10.1	6.0	5.8	5.3	5.3	5.0	5.0	5.0
CPI Index (avg)	16.1	5.9	6.0	5.7	5.7	5.0	5.0	5.0
Terms of Trade (-deterioration)	-2.2	2.0	1.5	5.1	0.2	0.3	0.2	0.2
	In percentage of GDP							
Investment and saving								
Investment	20.8	20.8	21.2	22.4	24.6	26.9	25.2	25.6
Gross National Saving	11.4	12.3	12.7	15.3	16.6	19.7	18.0	18.2
Central government budget								
Total revenue	18.7	18.8	19.3	21.0	20.3	20.6	20.8	20.9
Total expenditure and net lending	23.8	24.8	25.7	28.4	30.0	29.2	27.4	26.2
Overall balance (commitment basis) excl. grants	-5.0	-6.0	-6.5	-7.4	-9.7	-8.6	-6.6	-5.3
Overall balance (commitment basis) incl. grants	-4.5	-5.5	-5.9	-6.4	-8.7	-7.6	-5.9	-4.5
Nominal public debt, net	36.9	38.5	44.1	43.8	44.3	44.2	43.3	42.2
External sector								
Current external balance, including official transfers	-9.4	-8.5	-8.5	-7.1	-8.0	-7.2	-7.2	-7.4
Gross international reserve coverage in months of imports	3.7	3.8	4.1	4.8	4.6	4.8	5.1	5.3

Source: National Treasury

External Environment

75. With world growth in the first half of 2014 slower than expected, we now project uneven and sluggish global recovery. World economic output is expected to gradually strengthen from 3.3 percent growth in 2014 to 3.8 percent in 2015 driven mainly by growth in advanced economies. Although the euro area has exited recession, growth remains anaemic, hampered by high unemployment, large debt stocks, and tight private sector borrowing conditions. Despite deceleration in 2014, growth in emerging markets and developing economies is projected to increase modestly into 2015, supported by stronger domestic demand and slow recovery in global demand.

76. In Sub-Saharan Africa, growth is expected to remain strong, at about 5 percent in 2014 and 5¾ percent in 2015, driven by sustained infrastructure investment, buoyant services sectors, and strong agricultural production, even as oil-related activities provide less support. In a few countries, economic activities are facing headwinds from, recent Ebola outbreak (Guinea, Liberia and Sierra Leon), inappropriate domestic policies (South Africa), and more recently, macroeconomic imbalances (Ghana and Zambia)

77. Kenya is well integrated with the world economy and any favorable developments are likely to impact positively on our growth prospects. Thus, the somewhat expected improved external environment could potentially have a positive impact on the demand for our exports

such as horticulture and tourism. This together with the strong growth in the sub-region bonds well for accelerated growth prospects in Kenya.

78. Tharaka Nithi County expects to reap great from favorable external and domestic environment which is expected to boost the market for locally produced agricultural goods and other products both locally and internationally.

Growth prospects

79. While there is renewed optimism in the global arena, the macroeconomic framework underpinning this 2015 CFSP is cautious given the high uncertainties in the global projections witnessed over the recent years. In addition, we face daunting domestic reform challenges, including managing the challenges that come with a devolved functions. Nonetheless, with the continued favorable weather conditions and completion of key infrastructure projects in the roads and energy sub-sectors, the domestic economic prospects remain sanguine, but with downside risks.

80. This level of growth will be supported by increased production in agriculture following the interventions being put to revamp the sector together with other measures specified in section I, continued investment in infrastructure projects, expansion of activities in other sectors of the economy such as building and construction, manufacturing, retail and wholesale and financial intermediation, among others. The growth will also benefit from increased investments and domestic demand, following investor confidence and the on-going initiatives to deepen regional integration.

81. Growth will be bolstered by production in agriculture following expected receipt of adequate rain, initiatives to revamp irrigation schemes, completion of key infrastructure projects (such as roads and energy), further structural reforms especially those targeted toward improving competitiveness of private sector and promoting overall productivity in the economy, and exports that are expected to continue to benefit from the relatively strong growth in the sub region. Finally, domestic demand is expected to be robust following a drop in inflation, and increased investor confidence.

82. Taking into account limited public resources, the County Government will deepen its reform agenda aimed at enhancing the role of the private sector as the main driver of Tharaka Nithi County economy and sustainable development. Provide for private sector participation in infrastructure development; promote appropriate regulation of private sector activity; and provide for greater private sector access to finance. All this will require sustaining macroeconomic stability, implementation of a robust private sector development strategy, deeper structural reforms, and improvements in enabling legislations.

83. Appropriate macroeconomic policies should ensure delivery of low inflation around the 5 percent target, while ensuring continued stability in long term interest rates. This is based on the expectation that international oil prices will continue to remain stable after the drastic drop in the recent months and weather conditions will also remain favorable. We also expect the national government will play a key role in ensuring the macroeconomic factor remains stable.

84. Whereas the projected growth is still below the target envisioned in Vision 2030 needed to increase labour absorption and reduce poverty, the county Government recognizes

that further up scaling would require mobilizing larger amounts of resources, raising factor productivity, and moving to a higher value added and more efficient production structure to increase export growth. While these reforms are underway it is expected that it will take time before translating to higher growth.

Risks to the Outlook

85. The risks to the outlook for 2015/16 and the medium-term include continued weak growth in advanced economies that will impact negatively on our country exports and tourism activities. In our county context, slumped economic growth may result to delayed disbursement of funds by the National Treasury, shrinking market for agricultural products and increased unemployment.

86. Public expenditure pressures, especially recurrent expenditures, pose a fiscal risk. Wage pressures and the inefficiencies in service departments may limit continued funding for development expenditure.

87. The impact of insecurity on tourism and depressed rainfall could also affect trade and agricultural production and therefore remain a risk to the growth outlook.

88. The County Government will undertake appropriate measures to safeguard macroeconomic stability should these risks materialize.

Summary

89. Public expenditure pressures, especially recurrent expenditures, pose a fiscal risk. Wage pressures may limit continued funding for development expenditure.

90. Continued weak growth in advanced economies that will impact negatively on our exports and tourism activities. Further, geopolitical uncertainty on the international oil markets will slow down the manufacturing sector.

III. Fiscal Policy and Budget Framework

Overview

91. The 2015 Medium-County Strategy Fiscal Paper aims at supporting rapid economic growth through optimizing resource usage while at the same time supporting the devolved system of County Government to Sub-county level in order to effectively deliver public goods and services in an inclusive manner. Specifically, the fiscal policies underpinning the FY 2015/16 Budget and MTEF aims at increasing the local revenue from 3.5 per cent to 8.3 per cent of the total revenue 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. Specifically:

- The County Government's total expenditure shall not exceed the county government's total revenue in order to ensure a balanced budget;
- Over the medium term, a minimum of 30% of the county budget shall be allocated to development expenditure. In this regard, the County Government is committed to a reduction in the recurrent expenditure to devote more resources to development;
- The County Government's expenditure on wages and benefits for public officers shall not exceed a percentage of the County Government's total revenue as prescribed by the regulations approved by County Assembly.
- Over the medium term, the County Government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure. It is the County Government's policy to procure external financing only for development projects a practice which is in line with this principle. However, over the last three years the County Government has not been involved in any external financing hence adherence to this principle;
- The county debt shall be maintained at a sustainable level as approved by County. The County Government will ensure that the level of domestic borrowing does not crowd out the private sector given the need to increase private investment to accelerate county economic expansion.
- Fiscal risks shall be managed prudently. The County Government also takes into account the fiscal risks arising from contingent liabilities, impact of the Public Private Partnership and Financial Sector Stability.

Prudent Fiscal Policy

92. The fiscal policies adopted by the County Government will continue to support economic activities within a context of sustainable public financing. Over the past year, the County Government has reoriented expenditure towards priority programmes in infrastructure, education, health and agriculture under the current medium-term expenditure framework (MTEF). The overall fiscal balance is zero and is expected to increase gradually over the next couple of years. This will allow County Government to borrow for financing development up to required limit as authorized by regulations and advised by National Treasury.

Observing Fiscal Responsibility Principles

93. The County Government recognizes that the fiscal stance it takes today will have implications into the future. In this regard, and in line with the Constitution and the Public Finance Management (PFM) Act of 2012;

- Ensure of sharing the burdens and benefits of the use of resources and public borrowing between the present and future generation implies that we have to make prudent policy decisions today so that we do not impose an unwarranted debt burden on future generations;
- Ensure that development portfolio is not crowded out by the County Government;
- Ensure adherence to the ratio of development to recurrent of at least 30:70 over the medium term, as set out in the law;
- Respect ratios guiding the wage levels in general and expenditure management on items such as office goods and their pricing that should as much as possible reflect actual market prices.
- Timelines on paying goods should be minimized to enable County Government get competitive prices in the market.

94. Generally, the County Government pledges strict adherence and observance of the fiscal principles, rules and regulations as set out in PFM Act, 2012 as well as other self-imposed regulations that are important and necessary to entrench fiscal discipline.

Fiscal Structural Reforms

95. The Fiscal Policy underpinning the FY 2015/16 Budget and MTEF aims at local revenues of more than 8.3 per cent of total county revenue over the medium term and containing growth of total recurrent expenditure. Further, the policy aims at shifting more public resources from recurrent to capital investment so as to promote sustainable and inclusive growth. 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 resident taxpayers make their contribution towards Tharaka Nithi’s development agenda. Revenue administration capacity will be strengthened through organizational and modernization reforms. Automation of revenue collection remains a priority in order to enhance revenue collection.
- Expenditure rationalization will continue being a priority focusing on non-productive areas. Additionally, with the ongoing public service rationalization, redundancies and duplications will be eliminated in the public service.
- 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 per cent, expenditure tracking and value for money audits to ensure efficiency and effectiveness in use of resources at county department levels.

96. With the above and on-going 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. The Government is reviewing all tax legislations in order to simplify and modernize them. The VAT Act, 2013 was reviewed and amended after its implementation was faced with challenges at the beginning of FY 2013/14. The Act, which simplifies, modernizes and reduces cost of compliance, is expected to yield more revenues as it's been fully implemented.

Fiscal Policy Status

97. In line with the Constitution, the PFM Act, 2012, and in keeping with the prudence and transparent management of public resources, the County Government has adhered to the fiscal responsibility principles as set out in the statutes as follows:

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

The budget allocation to development by the County Government over the medium term has surpassed the 30 per cent minimum set out in law. **Table 3** below shows the budget allocation to development budget in FY 2013/14 and 2014/15. Over the medium term the development expenditure is budgeted to average over 45 per cent in FY 2015/16 - 2017/18.

Table 3 Revenue and Expenditure FY 2013/14-2017/18

Financial Year	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
1.0 Total Expenditure & Net Lending	**2378.82**	**2931.47**	**3303.85**	**3634.235**	**3815.947**
1.1 Total Recurrent	1545.22	1830.89	1775.87	1953.457	2051.13
Wages	1046.3	1109.9	1270.89	1397.979	1467.878
Other Recurrent	498.92	720.99	504.98	555.478	583.2519
As % of CG Revenues	65%	62%	54%	54%	54%
1.2 Development	833.6	1100.58	1527.98	1680.778	1764.817
As % of CG Revenues	35%	38%	46%	46%	46%
2.0 Total CG Revenues	**2378.82**	**2931.47**	**3303.85**	**3634.235**	**3815.947**
2.1 Equitable Share	2294.82	2681.36	3061.88	3368.068	3536.471
2.2 Local Revenue Collections	84.00	250.11	241.97	266.167	279.4754

b. The County Expenditure on wages and benefits for should for public officers shall not exceed a percentage of total county government revenue as prescribed by regulations

On wages and benefits, the share to County Government revenues was 44.0 per cent in FY 2013/14, and is projected at 38.0 per cent in FY 2014/15, marginally increasing to more than 38.5 per cent by FY 2017/18. Once the share is prescribed in the regulations, the County Treasury will take appropriate measures to ensure that this principle is strictly adhered to.

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

The County Government has a policy where all procured external finances are devoted to development projects. These external finances include concession loans, domestic borrowing and any other kind credit facility shall be used to finance development projects in line with this principle.

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

This debt strategy ensures public debt sustainability and envisages continued borrowing for external and domestic financiers. The County Government will ensure the borrowing is only on concessional terms and the level of borrowing does not cause crowd out the private sector given the need to encourage private investment for accelerated economic growth. So far, the County Government has not secured in any borrowing the advice by National Treasury for counties to abstain borrowing in their first three years of their promulgation.

e. Fiscal risks be managed prudently

The County Government has considered it a priority to manage all fiscal risks prudently and in so doing has regularly reviewed the implication of macroeconomic projections on the County Budget. The review of fiscal risks is done as part of the County Fiscal Strategy Paper. In this regard, the County Government takes into consideration all fiscal risks arising from contingent liabilities, possible impact of Public Private Partnerships as well as general stability of the financial sector. In so doing, the County Government maintains a Contingency provision of Ksh 20.0 million which is factor in the budget under Docket of Finance and Economic Planning to cater for urgent and unforeseen expenditure.

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

The County Government of Tharaka Nithi has held this principle to the latter by maintaining a reasonable degree of predictability with respect to revenue raising measures which includes definition of tax rates and tax bases. The County Government will only review it revenue raising measures after a thorough consultation with relevant stakeholders and after taking into consideration the possible impact of such measures on the economic performance. Therefore, reforms in tax raising measures will lock predictability and enhance compliance with the revenue system adopted by the county.

Fiscal Structural Reforms

98. The Fiscal Policy underpinning the FY 2015/16 Budget and MTEF aims at local revenues of more than 8.3 per cent of total County Government revenue 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. The fiscal policy will undertake reforms on the following areas, namely:

i. Enhancing resource mobilization, through:
   - Broadening revenue base and seeking alternative sources of financing;
   - Enhance revenue collection efforts to ensure all potential taxpayers make their contribution towards Tharaka Nithi's development agenda;
   - Strengthening revenue administration capacity through organizational and modernization reforms; and
   - Automation of revenue collection remains a priority in order to enhance revenue collection.

ii. Expenditure rationalization will continue to be a priority focusing on non-productive areas. Additionally, with the ongoing public service rationalization, redundancies and duplications will be eliminated in the county public service

iii. 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, expenditure tracking and value for money audits to ensure efficiency and effectiveness in use of resources. Project planning and management as well as engagement with development partners will be strengthened.

iv. With the above and the integrated financial management system (IFMIS) as an end-to-end transaction platform and full implementation of Public Finance Management Regulations, revenue and expenditure efficiency and economy will be realized.

99. The County Government is reviewing all tax legislations in form of Finance Bill, 2015 in order to simplify and modernize them. The review will simplify, modernize and reduce cost of compliance, is expected to yield more revenues when fully implemented.

Debt Financing Policy

100. The County Government's borrowing plans remain anchored in the medium term debt management strategy which aims at ensuring public debt sustainability. The strategy envisages continued borrowing from domestic and external sources. While external financing will be largely on concessional terms we shall continue to diversify our financing sources by continuing to access commercial sources of financing. The County Government will ensure that the level of domestic borrowing does not crowd out the private sector. However, it is important to note non- concessional external borrowing will be undertaken in a cautious manner and limited to bankable projects

Budget Framework for FY 205/16

101. The medium term fiscal framework for FY 2015/16 is set based on macro-fiscal framework discussed above. Our Motherland Kenya's Real GDP is expected to increase by 7.1 per cent in FY 2015/16 as underpinned by continued good performance across all sectors of the economy. On a lower geographical scale, Tharaka Nithi County is expected to exhibit similar growth trend in which the revitalized agriculture, transport and infrastructure, and transformed public service sectors will be the key drivers. In this regard, the projected economic growth assumes normal weather pattern during the year and improved investor

confidence in the entire national economy. Inflation is expected to remain low and stable, reflecting continued implementation of a prudent monetary policy by National Treasury and stable food and oil prices within the county and the country at large, as well as stable exchange rate.

Revenue projections

102. The FY 2015/16 budget targets total revenue collection of Ksh 3,303.9 million of consisting of equitable share of Ksh 3,061.9 million and revenue generated locally of Ksh 242.0 million. The local revenue includes Appropriation-in-Aid (AiA) of Ksh 80 million (29.7 per cent of **local revenue**) for revenue collected by county and sub-county hospitals, business solution centres and veterinary services. As indicated **Ordinary local revenues** will amount to Ksh 242 million (8.1 per cent of **total revenue**) in FY 2015/16 up from the projected Ksh 250 billion (7.7 per cent of total revenue) in FY 2014/15. The growth of local revenue is expected to grow steadily over the medium, FY 2017/18, up to Ksh 300 million (10.7 per cent) of total revenue given the fact that the county is yet to rationalize the current revenue collection system in place as inherited from the defunct local authorities. As noted earlier in this document, this performance will be underpinned by on-going reforms in tax policy and revenue administration.

Expenditure Forecasts

103. According to Table 3 above, overall expenditure and net lending in FY 2015/16 is projected at Ksh 3,303.8 million from the estimated Ksh 2,922.5 million (excluding donor funded expenditure of Ksh 769 million) in the FY 2014/15 budget.

104. Recurrent expenditures will amount to Ksh 1,775.87 million (54 per cent of total budget) compared with Ksh 1,830.9 million (62 per cent of total budget) in FY 2014/15. In the FY 2015/16, more resources will be earmarked for development as required by the PFM Act 2012. Development expenditure is therefore projected at Ksh 1,527.98 million (46 per cent of total budget) from the previous Ksh 1,100.58 million (38 per cent excluding donor funds) in FY 2014/15, while pension expenditures are expected to be about 5.4 per cent in FY 2015/16 including arrears to provident funds.

105. In terms of percentage to total revenue, the wage bill for the County Government in FY 2015/16 is projected at 38.5 per cent of projected total revenue in FY 2015/16 and 71.5 per cent of recurrent expenditure.

106. Expenditure ceilings on goods and services (recurrent expenditures) for County Departments/dockets are based on funding allocation in the FY 2014/15 budget as the starting point. The ceilings are then reduced to take into account one-off expenditures in FY 2014/15 and then an adjustment factor is applied to take into account the general increase in prices.

107. The ceiling for development expenditures excluding finance-aided projects amounts to Ksh 1,527.98 million in the FY 2015/16. Most of the outlays are expected to support critical infrastructure. This amount excludes any development budget that will be funded by either project loans or grants from development partners, therefore the entire projected development budget will be financed through domestic resources comprising of equitable share of domestic revenue from National Government and revenue raised locally.

108. A contingency of Ksh 20.0 million is provided for in FY 2015/16. In addition, Ksh 30.0 million is provided for as Disaster Management Fund set aside for response to drought related incidences affecting the lower altitude zones of the county due to perennial low rainfall leading to frequent poor harvest.

Fiscal balance and deficit financing

109. Reflecting the projected expenditures and revenues, the overall fiscal balance (on a commitment basis and excluding grants), is projected to be zero. This complies with National Treasury advisory that County Government should assume a balanced budget in their first three years after inception.

Summary

110. Fiscal policy outlined in this CFSP aims at improving revenue efforts as well as containing total expenditures. This will be achieved through administrative and legislative reforms aimed at enhancing resource mobilization, improving efficiency in government expenditure and reducing wastage. The fiscal space created will avail resources to scale up investments in human capital, including on health and education, and physical infrastructure, while at the same time providing sufficient resources to all devolved functions. The Fiscal policy will also endeavor to adhere to medium-term debt targets as provided in the medium term debt management strategy that aims at ensuring public debt sustainability.

IV. Medium Term Expenditure Framework

Resource Envelope

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

112. Locally mobilized revenue will finance about 7.8 per cent of the expenditure priorities in the budget. Out of this, Equitable Share from National Government from domestically raised resources will accounts for over 92.02 per cent of total budget resources. Locally raised revenues are expected to reach Ksh 269 million in 2015/16.

113. The County Government will embark on efforts to solicit external resources especially in form of grants, loans and donations that are clenched to specific programmes and projects.

114. Though ordinary local revenue is assumed to broadly cover funding required for recurrent expenditure, the revenue collected (excluding AiA) cannot even pay salaries for county employees for a single month. Therefore, a substantial amount of equitable share of domestic revenue from National Government is used to finance recurrent expenditure and part of the development. The County Government is seeking alternative sources of financing to spur development in our county; these include external project grants and loans, as well as domestic borrowing. This approach bodes well for long-term sustainability of our public finances.

Spending Priorities for the 2015/16 Medium Term Budget

115. The MTEF budget will critically be reviewed with a view to remove non- priority expenditures and shift the savings to the priority programmes. The current CIDP (2013-2017), together with the priorities of the current administration will guide resource allocation.

116. The Constitution and the PFM Act, 2012 requires County Governments to promote budgetary transparency, accountability and effective management of the economy. In line with this, the County Government will aim at eliminating inefficient and wasteful public spending at all levels in order to promote public trust in public spending.

117. As we finalize the FY2015/16 MTEF Budget, we will critically review expenditures to ensure that expenditures are geared towards identified priority programmes that form the focus of the County Government. Taken as a whole, the MTEF budget for FY2015/16 will focus on the following:

118. The critical social areas will continue to receive the bulk of budgetary resources. With a combined allocation of 32.7 per cent of total expenditures, education and health sectors will receiving a significant share of resources.

119. The budget will also reflect significance increase in capital investments in the areas of energy, infrastructure, and ICT and development expenditure in general. This reflects the priority we assign to the development in contributing to our growth objectives. With proposed allocation of 24.7 per cent of total expenditures, the Energy, Infrastructure and ICT sector will

be receiving the second largest share of resources after the education sector. This reflects County Government's commitment in improving infrastructure countywide, such as roads, energy and ICT. The allocation to the sector will continue to rise over the medium term.

120. Other priority areas including social protection, youth and agriculture will be given priority in the allocation of resources.

Medium Term Expenditure Estimates

Table 4 provides the projected baseline ceilings for the 2014 MTEF, classified by docket**.**

Table 4 MTEF Expenditure Ceilings

THARAKA NITHI COUNTY								
MTEF 2015/16-2017/18 BUDGET CEILINGS								
			Projections				Projections	
Expenditure Dockets	**ESTIMATES 2014/15**	**CEILINGS 2015/16**	**2016/17**	**2017/18**	**ESTIMATES 2014/15**	**CEILINGS 2015/16**	**2016/17**	**2017/18**
COUNTY EXECUTIVE	157.49	116.69	128.36	141.20	8.6%	6.6%	6.6%	6.6%
COUNTY PUBLIC SERVICE BOARD	17.22	23.04	25.34	27.88	0.9%	1.3%	1.3%	1.3%
ROADS, TRANSPORT, PUBLIC WORKS AND LEGAL AFFAIRS	40.75	53.25	58.57	64.43	2.2%	3.0%	3.0%	3.0%
HEALTH SERVICES	723.00	678.70	746.57	821.22	39.5%	38.2%	38.2%	38.2%
PHYSICAL PLANNING, LANDS, ENERGY AND ICT	43.24	65.59	72.15	79.37	2.4%	3.7%	3.7%	3.7%
AGRICULTURE, LIVESTOCK, FISHERIES AND WATER	188.11	176.58	194.24	213.66	10.3%	9.9%	9.9%	9.9%
PUBLIC SERVICE, LABOUR AND URBAN DEVELOPMENT	91.38	104.27	114.70	126.17	5.0%	5.9%	5.9%	5.9%
EDUCATION, YOUTH, CULTURE AND SOCIAL SERVICES	60.37	56.67	62.34	68.57	3.3%	3.2%	3.2%	3.2%
TOURISM, ENVIRONMENT AND NATURAL RESOURCES	39.29	51.88	57.07	62.78	2.1%	2.9%	2.9%	2.9%
TRADE, INDUSTRY AND CO-OPERATIVE DEVELOPMENT	39.15	36.75	40.42	44.47	2.1%	2.1%	2.1%	2.1%
FINANCE AND ECONOMIC PLANNING	140.87	152.24	167.47	184.21	7.7%	8.6%	8.6%	8.6%
COUNTY ASSEMBLY	290.03	260.20	286.22	314.84	15.8%	14.7%	14.7%	14.7%
TOTAL	**1,830.89**	**1,775.87**	**1,953.45**	**2,148.80**				
DEVELOPMENT								
COUNTY EXECUTIVE	-	-	-	-	0.0%	0.0%	0.0%	0.0%
COUNTY PUBLIC SERVICE BOARD	-	-	-	-	0.0%	0.0%	0.0%	0.0%
ROADS, TRANSPORT, PUBLIC WORKS AND LEGAL AFFAIRS	476.15	469.15	492.61	517.24	25.2%	30.7%	30.7%	30.7%
HEALTH SERVICES	196.00	158.13	166.04	174.34	10.4%	10.3%	10.3%	10.3%
PHYSICAL PLANNING, LANDS, ENERGY AND ICT	195.24	72.52	76.14	79.95	10.3%	4.7%	4.7%	4.7%
AGRICULTURE, LIVESTOCK, FISHERIES AND WATER	182.84	147.51	154.89	162.63	9.7%	9.7%	9.7%	9.7%
PUBLIC SERVICE, LABOUR AND URBAN DEVELOPMENT	124.20	100.20	105.21	110.47	6.6%	6.6%	6.6%	6.6%
EDUCATION, YOUTH, CULTURE AND SOCIAL SERVICES	240.65	194.15	203.86	214.05	12.7%	12.7%	12.7%	12.7%
TOURISM, ENVIRONMENT AND NATURAL RESOURCES	140.35	98.23	103.14	108.30	7.4%	6.4%	6.4%	6.4%
TRADE, INDUSTRY AND CO-OPERATIVE DEVELOPMENT	91.20	73.58	77.26	81.12	4.8%	4.8%	4.8%	4.8%
FINANCE AND ECONOMIC PLANNING	110.95	114.51	120.24	126.25	5.9%	7.5%	7.5%	7.5%
COUNTY ASSEMBLY	130.00	100.00	105.00	110.25	6.9%	6.5%	6.5%	6.5%
TOTAL	**1,887.58**	**1,527.98**	**1,604.38**	**1,684.60**				
Grand Total	**3,718.47**	**3,303.85**	**3,557.84**	**3,833.40**				

Baseline Ceilings

121. The baseline estimates reflects the current departmental spending levels in sector programmes. In the recurrent expenditure category, non-discretionary expenditures takes first charge and includes salaries to county employees, statutory deductions such as NHIF and employer contribution to provident funds.

122. Compensation to employees covering those staff in all dockets providing services on behalf of County Government functions accounts for about 36.8 per cent of the total revenues or 446.1 per cent of ordinary local revenue. The expenditure on operations and maintenance accounts for 13.1 per cent of projected total revenue.

123. Overall, recurrent expenditure on non-discretionary, compensation of employees, and operations and maintenance account accounts for 49.1 per cent of projected total revenue. The balance of 50.9 per cent from total revenue is the resources available to fund planned development projects/ programmes for the County Government.

124. As already indicated, it is only 50.9 per cent of the total revenue that will be available to finance part of the planned development expenditure in an ordinary year. However, additional development expenditure that is targeted by the County Government can only be funded through borrowing from the domestic and foreign sources, as well as grants tied to projects, and from that point be included in the budget through supplementary budget.

125. Development expenditures are shared out on the basis of the Vision 2030, MTP II and CIDP priorities as well as other strategic interventions to deal with unemployment and remove constraints to faster growth as outlined by the manifesto of the current governorship. The following guidelines are used:

- *On-going projects*: emphasis is given to completion of on-going projects and in particular infrastructure projects and other projects with high impact on poverty reduction and equity, employment and wealth creation.
- *Strategic policy interventions*: priority is also given to policy interventions covering the entire county, national integration, social equity and environmental conservation and priorities of the County Government.
- *Counterpart funds*: priority is also given to adequate allocations for donor counterpart funds. This is the portion the Government must fund in support of the projects financed by development partners. Usually it accounts for between a quarter to a third of the cost of the project.

Finalization of Spending Plans

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

Details of Docket Priorities

127. The medium term expenditure framework for 2015/16 – 2017/18 ensures continuity in resource allocation based on prioritized programmes aligned to the MTP II of Vision 2030 and CIDP (2013-2017) and strategic policy initiatives of the current governorship of Ragwa which aims to accelerate growth, employment creation and poverty reduction. The recent achievements and key priority targets for each sector are based on the reports from the dockets that County Treasury collects on non-routine basis.

Docket of Agriculture, Livestock, Fisheries Development and Irrigation

128. The goal of the sector is to attain food security, sustainable land management. The key policy objectives of the docket include: raising agricultural productivity through value addition, increasing market access and adoption of technologies; exploiting irrigation potential; increased commercialization of the sector activities; creating an enabling policy and legal framework, improving efficiency and effectiveness of sector institutions; effective administration and management of land and land based resources; enhancing urban development; development of decent and affordable housing, and sustainable management of resources in the sector.

129. The county hosted and organised the World Food day at Mbogoni which was graced by the Cabinet Secretary for Agriculture. The docket was able to avail subsided farm inputs to farmers during the last planting season. Several irrigation projects have been initiated as the county plans to make significant steps in increasing the land under irrigation. The fisheries department purchased fingerlings for distribution to individual farmers and restocking of rivers. Initiatives to address post-harvest handling including construction of cereal stores and milk cooling plants have been initiated. The docket is also partnering with AFMILK to develop a model dairy farm and promote mechanised dairy farming in the region. Disease control and prevention measures have been scaled through surveillance and vaccination of livestock to make the county a disease free zone.

130. During the 2015/16-2017/18 MTEF period, focus will be directed to the following priority areas: increasing agricultural production and productivity through input subsidy programme, mechanized agriculture, irrigated agriculture, improved animal genetics and vaccine production and exploitation of deep sea fisheries; enhancing county food security through increasing and establishment of strategic food reserves, establishing agriculture and livestock insurance scheme and undertaking agricultural, livestock and fisheries development.

131. In collaboration with National Government, the Docket will also seek to improve market access through the establishment of the County as Livestock Disease Free Zone (DFZ) and improvement of marketing infrastructure; entrenching institutional reforms.

132. To achieve the above, the docket will require substantial funding for the FY 2015/16. During the FY 2015/16, the docket has been allocated Ksh 324.1 million, out of which Ksh 176.6 million is for Recurrent and Ksh147.5 million for Development programmes.

Docket of Infrastructure and Transport, Housing and Public Works

133. This is a key docket for sustained economic growth and social development. The docket aims at expanding and sustaining physical infrastructure to support growth and development of the economy.

134. The docket implemented programs that focused on opening of access roads, rural roads upgrading and murraming,

135. During the 2015/16 – 2017/18 MTEF period, road transport facilities will be expanded to strengthen Tharaka Nithi County's position as the networked in our region. With the construction of the LAPSSET corridor being implemented as part of upgrading of the national transport framework is bypassing through our county and will play a great role in interconnecting with neighbours in east and north. Additionally, the county has successively petitioned the National Government to upgrade more than 40 km of road to bitumen standards. The focus of road infrastructure will be upgrading of roads leading to and within the major urban areas to relieve congestion in these areas and ensure accessibility to the populous urban markets.

136. With regard to the Infrastructure and Transport sub-sectors, there are plans to construct/rehabilitate 700 km of roads through the conventional financing methods. Further, 20km of new roads will be designed in every sub-county by 2017 for consideration by the National Government for the innovative annuity financing and other sources of finance.

137. To achieve the above, the docket will require substantial funding for the FY 2015/16. During the FY 2015/16, the docket has been allocated Ksh 522.45 million, out of which Ksh 53.25 million is for Recurrent and Ksh 469.2million for Development programmes

Docket of Physical Planning, Energy, Lands and ICT

138. The docket implemented programs that focused on energy, ICT, land adjudication, surveying and physical planning.

139. The Key achievements of the docket included; establishment of County Lands Board, establishment of internet connectivity at Kathwana headquarters, issuance of title deeds, and preparation of Kathwana base map.

140. With regard to energy, a strategy is in place for increasing energy infrastructure network, increasing the share of energy generated from renewable energy sources, and providing energy that is affordable and reliable to businesses and households through collaborative efforts with relevant government agencies and the National Government. This will ensure that energy supply is adequate and efficient in order to contribute to the lowering of the cost of doing business in Tharaka Nithi County. The Plan *"Stima Mashinani"* aims at increasing electricity connectivity to all households by 2017.

141. Development in the ICT sector will ensure all achievements to be realized under the 1st CIDP and MTEP II for Vision 2030 are actualized. A new ICT Policy to provide for more utilization of digital technology in all goods and service sectors will be developed.

142. The County through the Physical Planning Department is supposed to prepare spatial plans, sector plans, and cities and urban plans. In this regard, the county is enegaging with The Technical University to provide techinal support in this exercise.

143. To achieve the above mentioned outputs, the docket will require Ksh 600 million for the 2015/16 Financial Year. During the period, the docket has been allocated Ksh 138.11 million, out of which Ksh 65.6 million is for Recurrent and Ksh 72.5 million for development programmes. The shortfall will be addressed through public private partnerships and the collaborations with National Government agencies. The allocation for FY 2016/17 and FY 2017/18 is projected at Ksh. 190.52 million and Ksh. 200.05 million respectively.

144. The Docket faces numerous challenges which include vandalism of infrastructural facilities; lack of adequate trained and skilled technical personnel; encroachment of infrastructure way-leaves; inadequate financial resources; lengthy procurement processes; slow disbursement of development partners' counterpart funds, land litigation; lengthy stakeholder and bureaucratic procedures and among others. To mitigate these challenges, the Docket will; seek alternative financing models, continuously build capacity, enforce existing legislation, develop/review appropriate policies and legislations, align the Docket to sector's policies and legislations as highlighted in the Constitution of Kenya, among others.

Education, Culture, Youth and Social Services Docket

145. Education, Culture, Youth and Social Services Docket is mandated to address the issues on promotion and exploitation of County's diverse culture for peaceful co-existence; enhancing County's reading culture; development and promotion of sports; preservation of County's heritage; promotion of cultural and sports tourism; regulation, development and promotion of the film industry; and development, research and preservation of music in the country. The Docket is also mandated with the enhancement and promotion regulation of sports organizations, children welfare and social development.

146. During the 2011/12 – 2013/14 MTEF Period, the Docket organized sports programmes for vulnerable groups and facilitated teams to successfully participate at both County and Regional competitions. The Docket also issued bursaries to needy students in colleges and secondary schools amounting to Ksh 30 million. Another achievement of the docket is promoting infrastructure development in both primary and secondary schools. The docket is partnering with Plan International to roll out a three-year civic education programme. In enhancing the capacity of youth, women and people with disability, the docket is drafting a policy to guide a proposed loan scheme for these special groups.

147. During the 2015/16 – 2017/18 MTEF Period, the docket priorities will aim at creating an enabling environment for the development and promotion of County's rich cultural heritage and creation of employment. The Talent Academy will be operationalized to nurture top level skills development of sportsmen and women from grassroots level countrywide. In addition, the docket will continue to empower vulnerable groups specifically the orphans and vulnerable children, and persons with disability and improving their livelihoods through the Social Protection Programmes.

148. The docket has identified four (4) priority programmes for implementation during the 2015/16 to 2017/18 MTEF Period namely: Sports, Culture and the Arts; General Administrative Services; Early Childhood Education and Youth Training; and Social Development and Children Services. To implement these programmes, the docket has been allocated Ksh 250.8 million for the FY 2015/16,this comprises of Ksh 56.7 million and Ksh 194.2 million for recurrent and development programmes respectively.. During the FY 2016/17 and 2017/18, it is projected that resources allocated to the sector will increase to Ksh 276 million and Ksh 289.8 million respectively.

149. The key challenges facing the Docket include inadequate funding; inadequate human resource capacity; inadequate policy, legal, regulatory and institutional framework; inadequate infrastructure; limited linkage between industry, training institutions and research institutions; and limited capital investments in sports, film and music industries. More specifically, the county has faced challenges in operationalizing ECDE function especially lack of sufficient funds.

150. To address the above challenges a number of interventions and strategies will be implemented. These include, supporting the development and marketing of cultural products and industries; research and promotion of county heritage; upgrading technology use in records archives management; supporting sports and creative Arts industry; building capacity for development, regulation and marketing of film services; strengthening linkages between industry and training; and promotion of productivity for competitiveness.

Docket of Health

151. The mandate of the docket is to build a progressive, responsive and sustainable technologically-driven, evidence-based and client-centred health system for accelerated attainment of the highest standard of health to all Kenyans.

152. Tharaka Nithi epidemiological profile shows that, disease burden is still high. Top five causes of outpatient morbidity are malaria, diseases of the respiratory system, skin diseases, diarrhoea, and accidents accounting for about 70 per cent of morbidity.

153. In order to sustain the gains made and improve on the sector performance, the County Government will work closely with National Government in investing substantial resources in this docket during the 2015/16 – 2017/18 MTEF period. Most of the public health programmes are dependent on donors for financing. As more government funds become available to the health sector as a whole, efforts will be made to increase the allocations to health programmes which are currently relying on donor financing with the overall goal of full financing in the long run. Additional resources will be provided to prepare, respond and contain situations of emergency as they arise. The County Government will also undertake comprehensive capacity analysis with a view to developing a comprehensive capacity building plan to facilitate realization of health docket objectives. Efforts will also be made to upgrade and equip cancer units at Chuka and Marimanti Hospitals. During the 2015/16 - 2017/18 MTEF period, the docket requires Ksh 2.76 billion. In FY 2015/16, Ksh 836.9 million has been allocated to the docket. This comprises of Ksh 678.7 million and Ksh 158.2

million for recurrent and development programmes respectively. This is in addition to the allocations to the Health Sector from the National Government and donor agencies.

154. Although County has made tremendous steps in relation to HIV and AIDS by ensuring it has come under control through several interventions, provision of ARVs, several 'old' infectious diseases, including tuberculosis and malaria have proven problematic, because of increased antimicrobial resistance and activation of infectious agents (e.g. tuberculosis) in people whose immune system is weakened by AIDS. Further, deteriorating security concerns pose a significant and growing threat to county security with serious implications for public health.

Docket of Trade, Industry and cooperatives Development

155. The docket contributes significantly to the county's economic growth and wealth. It is still among the key areas with potential of accelerating the economic growth and development for the achievement of the developments envisioned in the CIDP and MTP II of Vision 2030.

156. The docket has implemented several Programmes which included promotion of Tharaka Nithi cereals as possible county products, spearheaded the development modern markets, improved the supply value chain efficiency in Wholesale and Retail Trade and enforced good governance through creation of awareness and inspections and monitored integrity status of the co-operative leadership. Notable achievements for the sector during the period include signing of future contracts with East African Breweries on sourcing of sorghum from the county, establishment of Marimanti Business Solutions Centre, issuance of loans through the County Loans Board and drafting and submission of the Alcoholic drinks Bill to the County Assembly.

157. For 2015/16 – 2017/18 MTEF period, the programmes prioritized for funding are; Industrial development and Investment; Cooperative Development and Management; Trade Development and Promotion; and General Administration, Planning & support services. To implement these programmes, the Docket requires Ksh 563.8 million against the actual allocation of Ksh 110.2 million during the FY 2015/16. This comprises of Ksh 36.6 million and Ksh 73.6 million for recurrent and development programmes respectively.

158. The Docket is faced with numerous challenges and emerging issues which need to be addressed to enable the sector realize its targets. These include, travel advisories which hinder the international tourists and potential investors from visiting the county; insecurity; poor infrastructure; unreliable and high cost of energy; influx of sub-standard, counterfeits and contra-band goods; low access to credit facilities and financial services; high interest rates and insufficient long term financing; poaching and illegal trade in wildlife products; multiple trade regulations; and low level of awareness on regional integration opportunities.

Docket of Public Service, Labour and Urban Development

159. The Docket plays a key role in enhancing public service delivery, organization and coordination of County Government business through planning, mobilization of financial and human resources in the public sector and urban areas. The Docket will focus on creating an efficient, skilled and motivated human resource base whose safety and health at work is

guaranteed, principles of decent work observed, fundamental rights at work including fair remuneration adhered to and tenets of social security practiced.

160. During the first two years, the Docket has been implementing several programmes. The expending of the resources enabled realization of a wide range of key outputs which included creation and operationalization of a new government framework in 2013; establishment of structures in urban centres, public service training and management, staff audit and head count and coordinating of service delivery at the grassroots.

161. The medium term priorities and financial plan for the MTEF period 2015/16-2017/18 will have total resource requirement estimated at Ksh 1,523.0 million in the FY 2015/16 of which Ksh. 1,140.0 million is for development vote and Ksh 383.0 million is for recurrent vote. This is against the set budgetary ceiling of Ksh 204.5 million available for the Docket in terms of both county governments. This allocation is projected to increase to Ksh 224.5 million, and Ksh 236.2 million in the FY 2016/17 and FY 2017/18 respectively.

Docket of Tourism, environment, natural resource and water management

162. The Tourism, Environment Protection, Water and Natural Resources Docket comprises three units namely: Tourism, Environnent and Natural Resources and Water supply services.

163. The performance of the Docket was constrained by both internal and external factors that included low hotel guest bookings and arrivals due to travel advisories; under exploitation of our tourism potential, insecurity including terrorism, environmental, poor weather patterns, conflicting laws and regulations, challenges like climate change and limited value addition. The Docket also organized a forum for investors in Mombasa which was aimed at outlining the county’s investment opportunities. Equally the Miss tourism and Miss County Beauty pageant were successfully held in the county.

164. The Docket will take leadership in the review and harmonization of Docket's Acts, statutes, policies, rules and regulations, increase tree cover, explore the county's minerals, rehabilitate degraded areas, recovery of illegally acquired forest land, increased access to clean water, reduce poaching incidences and human-wildlife conflict, provision of enhanced meteorological information and services, waste management and pollution control, integrated regional development and natural resources

165. The medium term priorities and financial plan for the MTEF period 2015/16-2017/18 will finance a total of four (4) programmes and six (6) sub-programmes. The total resource requirement is estimated at Ksh 900.1 million in the FY 2015/16 of which Ksh. 599.2 million is for development vote and Ksh300.8 million is for recurrent vote. This is against the set budgetary ceiling of Ksh 150.1 million available for the Docket in terms of both recurrent and development expenditures. This allocation is projected to increase to Ksh 165.1 million, and Ksh 173.3 million in the FY 2016/17 and FY 2017/18 respectively.

Docket of Finance and Economic Planning

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

167. During the MTEF period 2011/12 - 2013/14, the Docket implemented four (4) programmes with the overall absorption rate standing at 93.8 percent. The County Treasury's achievements during the 2013/14FY based on financial principles adopted for MTEF 2013/14-2015/16 includes adoption of IFMIS, enactment of Finance Bill 2014, implementation of Public Finance Management Act, 2012, establishment and restructuring of Audit and Accounts departments, and facilitating adoption of e-procurement. This has seen adoption of reforms in administration of finance and procurement processes in the county leading to better controls and accountability. Most important has been the relocation of the county treasury offices from Chuka to the county headquarters at Kathwana in the current financial year leading to better coordination of service delivery in the county.

168. The County Budget and Economic forum was able to hold two crucial meeting which led to deliberation on how the county priorities should be implemented in the future budgets.

169. The programs that will be financed during 2015/16 - 2017/18 MTEF period include implementation of the CIDP, 2013 – 2017 (MTPII) of the Kenya Vision 2030, and its flagship projects, the Governors Manifesto priorities, and many other sub-sectors' specific priorities. In implementing its programmes, the docket will be guided by six (6) strategic objectives which are anchored on the Docket Mission which is "To create an enabling environment for accelerated and sustainable economic growth by the pursuant of prudent fiscal and micro-economic policies while coordinating the financial operations of the County Government". During the 2015-16 – 2017/18 MTEF period, the Docket will implement four (4) programs which have been allocated Ksh 266.75 million, Ksh 243.7 million and Ksh 255.8 million for the FY 2015/16, FY 2016/17 and FY 2017/18 respectively. Budget shortfalls are thus expected in the MTEF period necessitating reprioritization of programmes.

County assembly

170. This arm of the county government proposal includes the MTEF expenditure limits for the County Assembly that is expected to be submitted directly to the County Assembly in line with the Constitution. The County Assembly plays a crucial role in strengthening the democratic space and good governance in the county. The allocation for legislation and oversight (County Assembly) is Ksh. 360.2 million for FY 2015/16, Ksh. 386.2 million for FY 2016/17, and Ksh. 300.5 million for the FY 2017/18.

V. CONCLUSION

171. The overall expenditure in this CFSP as outlined MTEP has grown moderately taking into account the envisioned moderate economic growth. However, the critical social areas will continue to receive a significant share of resources as well as capital investments as contributions to the growth objectives.

172. The budget framework has also provided targeted allocations to the dockets, way above the allocations for the base year 2013-2014. This not only shows commitment of the County Government in supporting the functions of the department in furtherance of the spirit of devolution but also ensures that adequate resources are availed to uplift lives of the Tharaka Nithi residents.

173. The policies outlined in this CFSP largely re-emphasizes the economic growth for sustained development agenda outlined in 2014 CFSP, reflecting the changed circumstances and are broadly in line with the fiscal responsibility principles outlined in the PFM Act, 2012. They are also consistent with the overall national strategic objectives pursued by Jubilee Government as a basis of allocation of public resources. These strategic objectives are adequately incorporated and implemented through the County Integrated Development Plan as well as The MTP II of Vision 2030.