



**REPUBLIC OF KENYA**

**COUNTY GOVERNMENT OF MERU**

**FISCAL STRATEGY PAPER**

**FEBRUARY 2015**



## **Foreword**

It is a requirement under the PFM Act 2012, section 117 that the county treasury prepares and presents before the county executive committee a County Fiscal Strategy Paper that outlines the county's fiscal framework for the medium term. The approved fiscal strategy paper should then be presented to the county Assembly by the 28<sup>th</sup> of February of each financial year. This being the First Meru County Fiscal Strategy Paper it underpins and elaborates the county's fiscal strategies and policies aimed at achieving accelerated, inclusive and sustainable economic development. It is therefore a critical paper for guiding public spending.

The paper elaborates policies for laying a firm foundation for achievement of objectives set out in the First County Integrated Development Plan, 2013 – 2017 and as aligned with the Kenya Vision 2030 pillars and Millennium Development Goals. The implementation framework of the First County Integrated Development Plan aims at ensuring value for money as well as creating opportunities for the local population to prosper. The framework is expected to create the fiscal space necessary for financing priority projects and programmes captured in the County Integrated Development Plan. It is also expected to ensure flagship projects identified at the sectoral levels receive adequate resources.

In line with the county's vision of becoming a green, unified, prosperous model county, this Fiscal Strategy Paper Focuses on (1) Projects that will lift the living standards of Meru county residents; (2) market agricultural produce by linking producers to the customers through local output markets, and (3) Setting up structures for improved mobilization and management of resources in the county in accordance with Meru economic model and (4) creating a conducive environment for businesses to thrive frame. (5)

The fiscal framework thus outlines an affordable and sustainable path of public spending aimed at delivering on the county aspirations and priorities captured in the CIDP.

My sincere gratitude goes to all individuals and organizations that participated in this year's budget process including members of the County Executive Committee, members of the County Assembly, technical government officers, the private sector, non-governmental organizations and development partners who at various stages made invaluable contribution to the process.

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**CEC MEMBER FINANCE**  
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## **Acknowledgements**

The 2014 Fiscal Strategy Paper for Meru County is part of the Meru County Government effort to ensure effective linkages between policies, plans and budgets. It provides an essential resource envelop and presents the fiscal framework for the 2014/2015 budget and subsequent budgets falling within the Medium Term Expenditure Framework.

The FSP2014 is aligned with the national objectives as set out in the budget policy statement. The paper provides specific expenditure ceilings for county departments, units and agencies and details guidelines that aim at structuring the pattern of county government expenditure towards priority areas for investment. These priorities are derived from sectoral reports which have recommendations from expenditure reviews.

The preparation of this fiscal paper was a cooperative effort. Much of the information in this report was obtained from various county departments, units and agencies as well as from input by various non-state actors. We are indeed grateful for the collaboration and the comments received from Members of the County Executive Committee, technical staff of County Departments and non-state interests.

A core team in the Department of Finance/Treasury spent a significant amount of time to put together this report. In this regard, we are grateful to: Mr. Said Karani (Director Deputy for Budget & Principal Fiscal Officer) who headed the team comprising of staff of the County Department of Finance including, in particular Mr. Anthony Gitobu, Miss Dinah Gaceri, Mr. Fredrick Mutembei, Mr. Erick Muriuki, Miss Fridah Karimi and Mr. William Mwenda. Many thanks also go to all the members of the County Executive Committee for their input during the approval process.

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## Abbreviations and Acronyms

<b>A-I-A</b>	Appropriations in Aid
<b>BPS</b>	Budget Policy Statement
<b>CBROP</b>	County Budget Review and Outlook Paper
<b>CIDP</b>	County Integrated Development Plan
<b>ECD</b>	Early Childhood Development
<b>E-PROMIS</b>	Electronic Projects Management Information System
<b>FSP</b>	Fiscal Strategy Paper
<b>FY</b>	Financial Year
<b>GDP</b>	Gross Domestic Product
<b>GoK</b>	Government of Kenya
<b>ICT</b>	Information and Communication Technology
<b>IFMIS</b>	Integrated Financial Management Information System
<b>MTEF</b>	Medium Term Expenditure Framework
<b>MTP</b>	Medium-Term Plan
<b>NIMES</b>	National Integrated Management Information Systems
<b>PBB</b>	programme Based Budget
<b>PERs</b>	Public Expenditure Review
<b>PFM</b>	Public Financial Management
<b>PFMA</b>	Public Finance Management Act
<b>PPP</b>	Public Private Partnership

## **Legal Basis for the Publication of the Meru County Fiscal Strategy Paper**

The Meru County **Fiscal Strategy Paper** is prepared in accordance with Section 117 (1) of the Public Financial Management Act, 2012 which states that:

(1) The County Treasury shall prepare and submit to the County Executive Committee the County Fiscal Strategy Paper for approval and the County Treasury shall submit the approved Fiscal Strategy Paper to the county assembly by the 28th February of each year.

(2) The County Treasury shall align its County Fiscal Strategy Paper with the national objectives in the Budget Policy Statement.

(3) In preparing the County Fiscal Strategy Paper, the County Treasury shall specify the broad strategic priorities and policy goals that will guide the county government in preparing its budget for the coming financial year and over the medium term.

(4) The County Treasury shall include in its County Fiscal Strategy Paper the financial outlook with respect to county government revenues, expenditures and borrowing for the coming financial year and over the medium term.

(5) In preparing the County Fiscal Strategy Paper, the County Treasury shall seek and take into account the views of:

- a) The Commission on Revenue Allocation;
- b) The public;
- c) Any interested persons or groups; and
- d) Any other forum that is established by legislation.

(6) Not later than fourteen days after submitting the County Fiscal Strategy Paper to the county assembly, the county assembly shall consider and may adopt it with or without amendments.

(7) The County Treasury shall consider any recommendations made by the county assembly when finalizing the budget proposal for the financial year concerned.

(8) The County Treasury shall publish and publicize the County Fiscal Strategy

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

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

(1) A County Treasury shall manage its public finances in accordance with the principles of fiscal responsibility set out in section 107 subsection (2), and shall not exceed the limits stated in the regulations.

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

- a) The county government's recurrent expenditure shall not exceed the county government's total revenue;
- b) Over the medium term a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure;
- c) the county government's expenditure on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenue as prescribed by the County Executive member for finance in regulations and approved by the County Assembly;
- d) Over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;
- e) The county debt shall be maintained at a sustainable level as approved by county assembly;
- f) The fiscal risks shall be managed prudently; and
- g) A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.

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

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

The regulations may add to the list of fiscal responsibility principles set out in subsection (2).

## INTRODUCTION

### Overview

1. This year's fiscal strategy paper is the second of its kind for Meru County since the inception of the County Government. The paper entails:
  - a. An assessment of the current state of the economy and the financial outlook over the medium term, including macro-economic forecasts;
  - b. The financial outlook with respect to County Government revenues, expenditures and borrowing for the next financial year and over the medium term;
  - c. The proposed expenditure limits for the various sectors, departments, and spending units including those of the county assembly, and the public service board.
  - d. The fiscal responsibility principles and financial objectives over the medium term.
  - e. The total resources to be allocated to individual programmes and projects within department/division for the period 2015 - 2018 indicating the outputs expected from each such programme or project during the period.
2. The Meru County Fiscal Strategy Paper also indicates the criteria used to allocate or apportion the available public resources among the various programmes and projects.
3. The CFSP is embedded on the national government's second MTP priorities, the Sustainable development goals(SDGs) , Meru County's Integrated Development Plan (CIDP) 2013-2017, as well as the programmes outlined in the Medium Term Expenditure Framework (MTEF) 2015/2016 – 2017/2018 in addition to taking into account emerging issues and challenges in setting up the county government's structures and systems. Indeed the county government is faced with an enormous task of nurturing and sustaining the economic growth of the county as well as managing its citizen's expectations on devolution.
4. The overriding policy thrust for 2015 Meru County Fiscal Strategy Paper, therefore, is to accelerate economic growth through maintenance of macroeconomic stability as well as investing in key physical infrastructure aimed at facilitating the private sector to expand its business, promote productivity and build resilience necessary for employment creation and poverty reduction.
5. The First County Integrated Development Plan 2013-2017 for Meru ably captures the priority development programmes and projects in all the medium term expenditure framework (MTEF) sectors in the county. The priority projects and programmes are in response to the mission of the county government to build and preserve optimal conditions

for accelerated, inclusive and sustainable development that guarantees safe livelihoods, dignified living and progressive pathways for all citizens of the county to thrive.

6. Major challenges being addressed include, inter alia; low productivity and value addition in agriculture, poor infrastructure, inadequate capacity, inadequate financial & technical support to local businesses, inadequate access to piped water and essential health services, inadequate quality and equality in education i.e. ECDE & polytechnics, personnel rationalization, setting up devolved structures and inadequate social facilities. Resources are therefore being channeled towards overcoming these challenges within the shortest time possible.
7. The County Government of Meru adopted programme based budgeting and entrenched performance based systems in the county in its aim to improve the MTEF process. Therefore, budgetary allocations for the financial year 2015/16 shall be based on programmes that are linked to clearly specified objectives and targets in the CIDP, MTP (II) & Vision 2030.
8. With limited resources, it will require the County Government to be more efficient to make meaningful gains in poverty reduction. The fiscal framework outlined in this FSP requires greater fiscal discipline and alignment of resources and priorities. In particular, better control of expenditure and a clear focus on core mandates by departments will be required. Thus, in preparing the 2015/16 Budget and medium term plan, departments/ divisions are expected to identify savings that will contribute to financing the county government's targeted outcomes and development agenda as outlined in the county integrated Development Plan 2013 – 2017.

### **Enhancing Economic Transformation for a Shared Prosperity**

9. Through the various priority economic policies, structural reforms and sectoral expenditure programs outlined in this 2015 Fiscal Strategy paper, the County Government is taking determined steps to address these challenges and foster sustained high and inclusive growth as part of the Strategy of achieving economic transformation for a shared prosperity. The implementation of programs under the five pillars, as expounded in 2014 FSP, is expected to raise economic efficiency, productivity and in turn, make County's products competitive, thus creating vast opportunities for productive jobs and securing livelihoods.

## **Outline of the 2015 Fiscal Strategy Paper**

### ***Recent Economic Developments and policy Outlook***

10. The next section (II) outlines the economic context in which the 2015/16 county budget is prepared. It provides an overview of the recent County economic developments and the macroeconomic outlook covering the domestic scene.

### ***Fiscal policy and budget framework***

11. Section IV outlines the fiscal framework that is supportive of the realization of the growth over the medium to long term as well as the fiscal strategies for the realization of the county's economic prospects. It sets out a framework for sustainable public finances management, while managing vulnerability to economic and fiscal risks

### **Medium-Term Expenditure Framework**

12. Section V presents the resource envelope and spending priorities for the proposed 2015/16 MTEF budget and the medium term. Sector achievements and priorities are also reviewed, along with costing of the devolved functions for the 2015/16 MTEF period.

## **I. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK**

### **Overview of recent economic performance**

13. A challenge in the movement to new IFMIS platform delayed implementation of the FY2013/2014 budget. This has now been addressed by the county treasury and operations are continuing in earnest since all the modules have been rolled out. It is believed that the FY 2014/15 budget will be implemented smoothly.
14. Financial Pressure still remains to be felt in 2014/15 FY as a result of new recruitment with high salary demands expected from health, Agriculture and Education sector.
15. Revenue collection was below target hence there is need to enhance administrative measures to reverse the situation because the current growth projections remain out of reach given that downside risk still remain. While its expected for the economy to remain resilient. We expect the total revenue to grow by 60 Percent in 2014/15 FY.
16. Whereas there are expected challenges in achieving the projected growth, such as changes in the weather patterns which may result in food shortage in some parts the county. The government recognizes the need to mobilize a large amount of resources, raise factors of productivity and move a higher value added and more efficient production structure. Some of the measures the government intends to put in place include:
  - I. Fast tracking the automation of the revenue collection processes and administration system to avert the current challenges facing the county in terms of local revenue mobilization.
  - II. The county government also intends to fund SACCOS to offer affordable credit facilities to youth, women and promote new investments and business growth which in turn will foresee wealth creation.
  - III. Plans are underway to establish Meru county Investment Corporation which will be tasked with management of county investment programmes to increase revenue base
  - IV. Formation of county microfinance corporation to provide seed capital to county SACCOS.

## **UPDATE ON FISCAL PERFORMANCE AND EMERGING CHALLENGES**

17. 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 7.835 billion and total expected local revenues of Ksh922 million . The 2014 Fiscal Strategy Paper detailed the fiscal framework underpinning the FY 2014/15 budget.

## **IMPLEMENTATION PROGRESS AND EMERGING FISCAL CHALLENGES**

18. 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.

19. Fiscal outcome by the end of December 2014 year has been generally satisfactory and underlying macroeconomic assumptions maintained. Expenditure are slightly lagging though and ordinary revenue recording shortfall. Despite ordinary revenues recording shortfall against the target, it grew by 120 percent compared to the same period in the previous financial year.

### **2014/15 Revised Estimates**

20. In the FY 2014/15, the County Assembly approved expenditures amounting to Ksh. 7.835billion.

## **ECONOMIC POLICIES AND OUTLOOK**

### **External Environment: Kenya's Growth Prospects**

21. 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.

22. Real GDP is therefore projected to expand by 5.3 percent in 2014 from an earlier forecast of 5.8 percent in the 2014 BPS, 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.

23. 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.
24. The growth will accelerate in the outer years as issues suppressing growth are addressed which include: infrastructure development, removal of obstacles that includes cost of energy by increased geothermal generation, successful integration, financing access, opportunities for the SMEs, and the development of the oil and gas sector.
25. The National Budget Policy Statement continues to implement the Medium Term five pillar thematic economic transformative strategies identified in BPS 2014. This will accelerate economic growth and transformation in the fiscal year ahead and the medium term. The policies referred to above will accelerate the pace of economic growth and will enable the country achieve the growth rates envisaged in the Vision 2030. Further, resources from the extractive industry especially mining and oil will enhance economic growth once full scale exploitation of these resources commence. It is expected therefore that economic growth by 2018 will be relatively higher than the current estimates due to the impact from this sector as well as the Standard Gauge Railway.
26. Growth will be augmented through implementation of jubilee government development strategy of achieving economic transformation for a shared prosperity. This strategy covers 5 broad pillars:
  - **Pillar I:** Creating conducive business environment by maintaining macroeconomic stability deepening structural and governance reforms to reduce the cost of doing

business and improving security in order to encourage innovation, investment, growth and expansion of economic and employment opportunities;

- **Pillar II:** Investing in agricultural transformation and food security, including opening up at least one million acres of new land under irrigation in order to expand food supply, reduce food prices so as to bring down the cost of living, support expansion of agro-processing industries and spur export growth and support other sectors such as manufacturing and tourism;
- **Pillar III:** Investment in first class transport and logistics, including investment in standard gauge railway, modernization of our seaport and airport to position Kenya as regional port and aviation hubs, and scaling up investments in other key infrastructure such as road networks, energy and water supplies to reduce cost of doing business and make our products cheaper and competitive in the domestic and international markets. With the recent discoveries of oil, the Government will fast track construction of an oil pipeline to evacuate crude oil;
- **Pillar IV:** Investing in quality and accessible healthcare services and quality education as well as social safety net to reduce burden on the households and complement and sustain our long term growth and development; and
- **Pillar V:** Further entrenching devolution for better service delivery and enhanced rural economic development.

### **Internal Environment**

27. With regard to the Economic Pillar of Kenya Vision 2030, the County Government of Meru will attempt to achieve a broad-based expansion touching all sectors of its economy. Emphasis will however be made on improving water accessibility through provision of storage tanks and distribution of pipe water, Land mapping and adjudication ,availing seed capital to SACCOs, improving drainage structures, increasing agricultural productivity, expanding agricultural production and enhancing value addition (manufacturing). Effort will be made to set up development districts, expand investment in infrastructure and promote green energy. Effort will also be made to support growth of tourism and hospitality as well as wholesale and retail trade.
28. Over the medium to long term, the County Government of Meru will strive to strengthen receipts from agriculture, manufacturing and services especially from tourism, fisheries, energy and private capital inflows. This will also involve supporting local businesses to

become competitive and to leverage upon facilities provided within the established development districts.

29. With regard to social pillar of Kenya Vision 2030, the County Government of Meru is committed to address inequality and reduce poverty by providing significant resources to the social and rural development sectors as well as targeting spending to core poverty initiatives. As a matter of priority, the county government shall provide support to needy populations in the form of bursaries, technical training, research and technology to enhance their competitiveness in the market. The county government will also shift focus from curative to preventive care and allocate additional resources to facilitate multi-sectoral response to epidemics. Reforms shall be deepened in agriculture to implement the food security strategy as well as the agriculture commercialization strategy. Micro and Small Enterprises (MSE) sector shall also be provided with an enabling environment and resources to increase productivity and employment.
30. The County Government of Meru will strive to improve the living conditions of the poor through formation of cooperatives.

### **RISKS TO THE OUTLOOK**

31. The high wage bill will be a major challenge to the implementation of budget. Also, ban of miraa in European Union market, deadline in tea bonus payout and persistent boarder conflicts between Meru, Isiolo and Tharaka Nithi counties could slow down economic growth in the county, should this risks materialize the government until undertake appropriate measures to safeguard macro-economic stability.

### **Fiscal Risks**

32. Public expenditure pressures, especially recurrent expenditures and in particular wage bill and interest payment, pose a fiscal risk;
33. Setting up of devolved structure and systems, including capacity building of staff.
34. The key risk in this budget is that exchequer releases may fail to grow as anticipated and whereas the CRA has recommended allocation of Ksh 7.315 billion(including grants) for the county, the national treasury may fail to deliver those transfers as expected

## **II. FISCAL POLICY AND BUDGET FRAMEWORK**

### **Overview**

35. The County Government of Meru will adopt a Fiscal policy framework that is finely balanced if it has to achieve economic prosperity and other objectives as envisioned in the county's first Integrated Development plan (2013 – 2017)/MTP II.
36. In order to achieve this; efforts must be put in place to facilitate rapid growth—both through the provision of needed infrastructure and human capital—while still being responsive both to the demands of the population for basic public services and the potential downside risks that may emerge.
37. The county government shall adopt a Fiscal Framework that influences macroeconomic conditions. Attempts shall be made towards job creation; wealth creation through County investment Corporation and Micro Finance Bank .Equally, adjustment shall be made to local levies and rates to change economic performance. This is expected to lead to both investor and creditor confidence as well as to boost growth.
38. The county government shall adopt prudent management of public sector finances by developing and implementing public expenditure management strategy.
39. The county government anticipates that the financing of infrastructure should rely heavily on the private sector through the use of public-private-partnership (PPP) financing initiatives. For the medium term, at least 10 percent of infrastructure spending should be financed through PPPs
40. Improving budgetary discipline and supporting sound and sustainable conduct of public finances remains one of the critical fiscal governance objectives of the County Government of Meru.

### **Continuing with Prudent Fiscal Policy**

41. Fiscal policy will continue to support economic activity within a context of sustainable public financing. Over the past year, the Government has reoriented expenditure towards priority programmes in education, health, agriculture and infrastructure under the medium-term expenditure framework (MTEF). The overall fiscal balance is projected to decline to a sustainable level over the medium term.

### **Observing Fiscal Responsibility Principles**

42. The Government recognizes that the fiscal stance it takes today will have implications into the future. Therefore, and in line with the Constitution and the Public Finance Management (PFM) Act of 2012, the principle 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. Also to ensure that development portfolio is not crowded out, we shall ensure adherence to the ratio of development to recurrent of at least 30:70 over the medium term, as set out in the law. It is expected that departments will 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. The respect and observance of these fiscal rules set out in the PFM law and its regulations is important and necessary to entrench fiscal discipline. In this regard, the Government will observe the fiscal rules set out in the PFM law so as to entrench fiscal discipline.

Observance of the Fiscal Rules has been as follows:

### **Fiscal Responsibility Principle**

43. In line with the Constitution, the new Public Finance Management (PFM) Act, 2012, and in keeping with the prudence and transparent management of public resources, the Government has adhered to the fiscal responsibility principles as set out in the statutes as follows:

- Over the medium term, a minimum of 30% of the County Budget shall be allocated to development expenditure.
- The County government's expenditure on wages and benefits for public officers shall not exceed a percentage of the total revenue as prescribed by the regulations.
- 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.
- Public debt and obligations shall be maintained at a sustainable level as approved by County Assembly (CA)
- Fiscal risks shall be managed prudently.

## **Fiscal Structural Reforms**

44. The Fiscal Policy underpinning the FY 2015/16 Budget and MTEF aims at achieving and sustaining a strong revenue performance 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, including relooking revenue administration to widen revenue base, improve billing and automation of collections, optimize prices charged for services offered and use of county assets to make money.
  - II. 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.
  - 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 s will be strengthened.
  - IV. With the on-going integrated financial management system (IFMIS) as an end-to-end transaction platform, revenue and expenditure efficiency and economy will be realized.

## **Revenue Policies**

45. To achieve the revenue targets for the FY 2015/16 and the medium term we will employ the following revenue policies:
- I. County Revenue Board will be created to reengineer procedures with emphasis on risk control, integrated management and development of intelligence and simplification of payment procedures.
  - II. Reforms to rationalize exemptions and incentive structures shall also be put in place through necessary objective criteria for granting waivers. New schemes will therefore be introduced to protect the revenue base.
  - III. Automation of revenue collection, Review of fees and charges and Timely passing of county finance bills
  - IV. Enactment and enforcement of county laws, Preparation of county valuation roll

## **Expenditure Policies**

46. The County Government of Meru is focused on structuring its expenditure in favor of priority programmes, including infrastructure and flagship projects in sectoral plans and the CIDP. Recurrent expenditure will be structured to decrease over time as capital expenditure increase in relative terms. Some of the approaches adopted to achieve this include:

- Reducing the wage bill – such as through closely linking wage increases to productivity, while harmonizing wages and consolidating allowances; initiating voluntary early retirement schemes aimed at downsizing non-value adding cadres; performance contracting and flexibly allowing for recruitment of more qualified personnel in order to achieve the optimum level for the services offered by various county government entities.
- Reducing the stock of pending bills – such as by implementing a strict commitment control system, paying up and closing the genuine stocks identified and terminating and completing stalled projects that are likely to lead to pending bills.

47. In an attempt to reign in on recurrent and non-essential spending, the County Government of Meru will further focus on eight main areas, including:

- a) Transport: Putting measures such as regular transport audits, mileage controls and implementing Fleet management system.
- b) Foreign travel: to be restricted to essential travel with limited number of staff and controlled use of business class.
- c) Domestic travel: the number of officials travelling will be managed.
- d) Refurbishment of building will be restricted.
- e) Consultancy services will be better managed and fees controlled.
- f) Advertising cost: we will limit advertising and make use of website advertisement with a view to better manage cost.
- g) Utility Supplies: Putting in place measures for energy conservation and water management.
- h) Office and General Supplies: Reduce spending on stationery by introducing & adopting paperless communication and recycling used printing papers.

48. The government expects better budgetary outcomes through attaining sound budgetary positions with limited deficits; reducing cyclicity of fiscal policy making such that it would be possible to generate surpluses to anticipate downturns; improving efficiency of public spending through greater monitoring of programmes and linking resource allocation to

performance and; sound fiscal governance that spurs enhanced coordination among departments, units and agencies.

49. Whereas expenditure pressures have remained a challenge over the past one year, care will be taken to achieve improvements across all departments in financial management. The County Treasury will be finding ways to achieve savings eliminate waste and reprioritize spending towards key social and development objectives. Effort to see much better accountability and discipline in the stewardship of public resources is doubling. Wasteful expenditure is being limited and variation beyond 10 per cent for any vote for any department, unit or agency is not allowable except with approval from the County Assembly.

### **2015/16 Budget Framework**

50. The 2015/16 budget framework is set in reference to the updated Medium-Term Expenditure Framework. Although the budget process is an annual cycle, increasing importance is attached to a medium-term perspective. Rolling Medium Term Expenditure Frameworks (MTEFs) are designed to offer greater predictability to spending units and so to strengthen the links designed to offer greater predictability to spending units and so to strengthen the links between planning and budgeting.
51. With the overall resource envelope derived largely from transfers from national government and following the fiscal framework , the key features of resource allocation by spending units for the FY 2015/2016 involve:
- Identifying sectoral priorities from the County Integrated Development Plan 2013-2017 & MTP II;
  - Ranking priorities in terms of their contribution to achieving objectives set out in the CIDP and budget preparation guidelines including, among other things;
    - a) Maintaining economic stability and enabling attraction, growth and sustainability of other businesses;
    - b) Enabling the county to industrially take off and stay on growth trajectory in line with Kenya Vision 2030 and the county's own industrial aspirations;
    - c) Expansion of necessary infrastructure;
    - d) Enabling development of local skills and access to quality learning opportunities including entrepreneurial learning;
    - e) Improvement of healthcare with emphasis on reducing mortality;

- f) Enhancement of food security, protection of agro-based livelihoods and commercialization of lead agricultural enterprises;
- g) Support to effective public management and good governance systems.
- Containing transfers to and spending on non-priority expenditures to cater for projects prioritized above.

### **Revenue Projections**

52. The 2015/2016 budget will target internal revenue collections of KShs.500 million and national government transfers totaling over KShs.7.3 billion inclusive of conditional funding. This performance is expected to be underpinned by reforms in revenue administration and streamlining of the expenditure regime to expand and protect the revenue base. Total internal revenue, including the Appropriations-in-Aid are projected to increase by 2 per cent, bringing total internal revenue to KShs. 623 million. Transfers from National Government are expected to grow by 12 per cent to KShs 8.2 billion.

### **Expenditure Forecasts**

53. In the 2015/2016 budget, overall expenditure is projected to rise by 13 per cent from KShs 6.88 billion in 2014/2015 to KShs 7.8 billion in 2015/2016, with increases in development expenditure outstripping that of recurrent expenditure in line with relevant legislations and best practices across the globe. The key policy document guiding all allocations shall be the CIDP, MTP II and strategy papers effectively in place. The sectors that have emerged as critical to the development of the county include;

- *Agriculture sector* – more resources towards revitalization of value-added agriculture, intensive crop production as well as commercialization of high value crops in the county.
- *Health Sector*- more resources devoted to modernization of infrastructure and equipping of health facilities, preventive and promotive care, expansion of immunization coverage, improvement of reproductive health services and facilitating effective response to communicable and non-communicable diseases.
- *Physical Infrastructure*- more resources towards expansion of road network, bituminization of class D roads, drainage, and improving access and connectivity to grid electricity supply.

- *Tourism* – more resources towards mainstreaming of Meru County in the Western Tourism Circuit, offering diverse and distinctive high-end (niche) products and encouraging medical tourism.
- *Wholesale and retail trade* - more resources will be made available for development of modern markets and hubs as well as for making the informal sector efficient and competitive.
- *Manufacturing* - more resources will be made available towards establishment of processing plants for agricultural produce as well as develop special economic zones.

### **Financing Arrangements**

54. There shall be no budget deficit even without grants in 2015/16. External financing and cost savings by sectors is expected to ploughed into development of infrastructure. Improved collection of A-I-A is expected to play a big role in driving internal revenue from the current of Ksh 500 million to projected amounts of Ksh 600 million. Some projects under infrastructure will be funded under PPP arrangements.

### **Summary**

55. 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 ensure the success of devolution.

### **Key priorities for the 2015/16 Medium Term Budget**

56. The broad strategic priorities of the County Government of Meru include, inter alia;
- (i) Maintenance of stability and creation of an enabling environment for attraction, growth and sustainability of businesses;
  - (ii) Setting up essential frameworks for the county to take off and stay on growth trajectory in line with Vision 2030 and the Constitution of Kenya, 2010;
  - (iii) Aligning expenditures with county priorities outlined in the County Integrated Development Plan 2013-2017, MTPII;

- (iv) Expanding investments in physical infrastructure to improve access to public transport, energy, water, sanitation and housing;
- (v) Enhancing skills development and access to quality education in the county;
- (vi) Improving provision of health care with emphasis on reduction of mortality rates, broadening prevention and treatment and combating HIV/AIDS, cancer and other diseases.
- (vii) Enhancing food security, protecting agro-based livelihoods and commercializing of selected agricultural enterprises;
- (viii) Supporting good governance and establishing structures that enhance transparency, accountability and other national values outlined in the constitution;
- (ix) Strengthening public finance management systems and implementing procedures for enhanced access, efficiency and stability in the finance sector; and
- (xi) undertaking additional measures to improve the entrepreneurial and investment climate in the county.

57. The aforementioned priorities are consistent with those highlighted in the budget policy statement of National Treasury. The key message of Kenya's long term development plan (Vision 2030) is clearly to accelerate growth to achieve middle income status with a more inclusive society. This generally entails the agenda of: (i) expanding electricity, transport and communications capacity – or more generally – infrastructure; (ii) improving Kenya's competitiveness in order to create more jobs; (iii) addressing security challenges; (iv) assuring food security and expanding agricultural opportunities; (v) investing in human capital; (vi) supporting devolution; and (vii) strengthening public service delivery while combating waste and corruption. There is an acknowledged need to move quickly to the implementation of the plan, including all delivery targets, sector plans, as well as county plans will be aligned to the second Medium Term Plan and the First CIDP for Meru County.

58. It is expected that the objective of economic growth, equity and poverty reduction as well as improvement in governance will be the primary objects of the expenditure framework.

### **III MEDIUM TERM FISCAL FRAMEWORK**

1. The County Government of Meru will adopt a Fiscal policy framework that is finely balanced if it has to achieve its economic prosperity and other objectives as envisioned in the county's first Integrated Development plan (2013 – 2017)/MTP II.
2. In order to achieve this; efforts must be put in place to facilitate rapid growth—both through the provision of needed infrastructure and human capital—while still being responsive both to the demands of the population for basic public services and the potential downside risks that may emerge.
3. The county government shall adopt a Fiscal Framework that influences macroeconomic conditions. Attempts shall be made towards job creation, and adjust local levies and rates that could change economic performance.
4. The county government shall adopt prudent management of public sector finances. This is expected to lead to both investor and creditor confidence as well as to boost growth by providing the fiscal resources to raise the counties expenditure levels on development to more than the 30% recommended in the PFM Act 2012 section 107.
5. The county government anticipates that the financing of infrastructure should rely heavily on the private sector through the use of public-private-partnership (PPP) financing initiatives. For the medium term, at least 10 percent of infrastructure spending should be financed through PPPs
6. Improving budgetary discipline and supporting sound and sustainable conduct of public finances remains one of the critical fiscal governance objectives of the County Government of Meru.

#### **Medium Expenditure Estimates**

*Medium Sector Ceilings (Annex 1)*

#### **Sector Priorities**

##### **Agriculture, Rural and Urban Development Sector**

59. The priority for agriculture and rural development sector is to attain food security, sustainable land management, affordable housing and sustainable urban infrastructure development.
60. The key policy objectives of the sector include: raising agricultural productivity through value addition, increasing market access and adoption of technologies; increased

commercialization of the sector activities; 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.

61. The Sector will also seek to improve market access through improvement of marketing infrastructure; addressing land based conflicts, establishment of County spatial data infrastructure, development of more affordable and quality houses for lower income earners and development of social and physical urban infrastructural facilities.

### **Energy Physical Infrastructure & ICT**

62. This is a key sector for sustained economic growth and social development. The sector aims at expanding and sustaining physical infrastructure to support growth and development of the economy.
63. During the 2015/16 – 2017/18 MTEF period, the sector will focus on construction of probase roads, construction of drainage systems, road maintenance, paving of main bus parks, construction of county headquarters and development of County ICT Strategy & Policy.

### **Social Protection, Culture and Recreation Sector**

64. Social Protection, Culture and Recreation Sector 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; research and preservation of music in the county. The sector is also mandated with employment, industrial training, regulation of sports organizations and trade unions, productivity management, social security, social assistance, children welfare and social development.
65. During the 2015/16 – 2017/18 MTEF Period, the sector priorities will include the following completion of kinoru stadium and maintenance of other stadias, construction of Talent academy, rehabilitation of street children, refurbishment of cultural centers, youth and women empowerment, promotion of sports across the county and purchase of sports equipment and purchase of equipment for the physically challenged

## **Education Sector**

66. The priority for the sector is to recruit ECDE teachers and youth polytechnic instructors, construction of ECDE classrooms, supporting feeding program and Standard assessment in primary schools. During the MTEF period 2015/16 - 2017/18 the sector will prioritize building of ECDE classrooms, employment of ECDE teachers and polytechnics instructors, publishing of Kimeru-English dictionary and Quality Assurance.

## **General Economic and Commerce Affairs Sector**

67. The sector is among the key areas with potential of accelerating economic development in the county

- The priorities for the sector include creating a conducive environment for investment, promoting industrial development, Launch and provision of seed capital to Youth, Women and General Traders SACCOS, Fencing & face lifting markets, Training of SMEs and Juakali sector on entrepreneurial skills, consolidating and strengthening cooperative societies, supporting development of micro, small and medium enterprises, Grading of Weather roads connected to conservancy and Around the conservancy and tourism development and marketing.

## **Health Services Sector**

68. The mandate of the sector is to build a progressive, responsive and sustainable technologically-driven, evidence-based and client-centered health system for accelerated attainment of the highest standard of health.

The priorities for the health sector include: Construction and refurbishment of health facilities buildings; Purchase of medical and dental equipment; increasing immunization coverage and reducing mortality rates; purchase of Laboratory materials, supplies and small equipment, Building, equipping and maintaining a Renal Unit; construction and equipping cancer center, improving coordination and community access to affordable quality health services; Renovating, equipping and maintain the existing facilities in all 9 Sub-Counties.

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

69. The medium term priorities and financial plan for the MTEF period 2015/16-2017/18 will finance the following priorities for the environment Protection, Water and Natural Resources Sector; construction of two mega dams, construction of a sewerage system, improve recreation

facilities, distribution of water pipes and construction of water tanks to enhance water connectivity and Provide consumer meters as a sustainable measure for water supply provision

### **Public Administration and International Relations Sector**

69. The priority for the sector includes providing overall policy and strategic direction for socio-economic transformation, enhancing coordination and implementation of programmes in the CIDP; enhancing economic management and ensuring prudent management of financial resources, monitoring and evaluation, performance contracting, induction and training of the staff, staff rationalization, construction of administration offices.

### **CONCLUSION**

70. For the medium term, Meru County needs to focus on fiscal and macroeconomic policies that would boost productivity growth and foster job creation. The best way to achieve this is to support fundamentals for stability, develop a business environment that promotes investment and supports job creation, and increase the stock of physical and human capital and investment in infrastructure and endeavor to implement Meru economic model.

71. Finally CEC members will constantly link with their respective national government corresponding ministries for implementation of the development projects within the county