REPUBLIC OF KENYA **EMBU COUNTY GOVERNMENT**

FINANCE & ECONOMIC PLANNING

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

Vision

A prosperous County with Equal Opportunities for all

Mission

To ensure effective resource mobilization and optimization for Wealth and Job Creation

OCTOBER 2017

Foreword

This County Budget Review and Outlook Paper (CBROP), prepared in accordance with the Public Financial Management Act, 2012 section 118. It details the actual fiscal performance in the financial year 2016/17 compared to the budget appropriation for that year. The updated macroeconomic outlook therein also provides us with a basis to revise the 2017/18 budget in the context of the Supplementary Estimates, as well as setting out the broad fiscal parameters for the next budget and medium term. It further provides updated macro-economic and financial forecasts with sufficient information to show changes from the projections outlined in the County Fiscal Strategy Paper (CFSP) for FY 2017/18.

In this Paper, we will also provide an overview of how the actual performance of the FY 2016/2017 affected our compliance with the fiscal responsibility principles and the financial objectives as detailed in the CFSP for FY 2017/18. The paper is being prepared at a time when significant progress has been made in operationalizing the County Government.

The County priorities and goals outlined have a higher emphasis on investment in: Infrastructure, Accessible and affordable healthcare, Agriculture and food security, accessibility of water and education. These priorities shall form the basis for formulation of FY 2018/19 budget in the Medium Term. The paper therefore links county planning and policies to Budget which is the main objective of the Medium Term Expenditure Framework.

The paper covers the following broad areas in review of the fiscal performance of financial year 2016/2017; highlights of the recent economic developments and the economic outlook; broad strategic priorities and policies for the Medium Term and the Medium Term Fiscal Framework. The fiscal framework presented in the paper ensures a sustainable financing while allowing continued spending on priority programmes. Achievement of the set objectives calls for greater transparency, effectiveness and efficiency in public financial management in order to ensure fiscal discipline.

We are committed to maintain the trend of economic growth and development in line with the expectations and commitments we have made to the people of Embu County. Towards this end, we shall ensure there is transparency and accountability by relaying our performance indicators to the public as well as publicizing other publications as required by the Constitution 2010 and the Public Finance Management Act, 2012.

MR JOHN NJERU NJAGI
COUNTY EXECUTIVE COMMITTEE MEMBER
FINANCE AND ECONOMIC PLANNING

Legal Basis for the Publication of the Budget Review and Outlook Paper

The Budget Review and Outlook Paper is prepared in accordance with Section 118 of the Public Financial Management Act, 2012. The law states that:

(1) A County Treasury shall:

(a) Prepare a County Budget Review and Outlook Paper in respect of the county for each financial year; and

(b) Submit the paper to the County Executive Committee by the 30th September of that year.

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

(a) The details of the actual fiscal performance in the previous year compared to the budget appropriation for that year;

(b) The updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper;

(c) Information on:

(i) Any changes in the forecasts compared with the County Fiscal Strategy Paper; or

(ii) How actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the County Fiscal Strategy Paper for that financial year; and

(d) Reasons for any deviation from the financial objectives in the County Fiscal Strategy Paper together with proposals to address the deviation and the time estimated for doing so.

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

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

(a) Arrange for the Paper to be laid before the County Assembly; and

(b) As soon as practicable after having done so, publish and publicize the Paper.

Fiscal Responsibility Principles in the Public Finance Management Law

The Public Finance Management (PFM) Act, 2012 sets out the following fiscal responsibility principles to ensure prudency and transparency in the management of public resources;

1) The County Government’s recurrent expenditures shall not exceed the county government’s total revenue.

2) Over the Medium Term, a minimum of thirty percent of the county government’s budget shall be allocated to the development expenditures.

3) The County Governments' expenditures on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenue as prescribed by the Executive Committee Member for Finance in regulations and approved by County Assembly.

4) Over the Medium Term the government's borrowing shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.

5) The county debt shall be maintained at sustainable level as approved by county assembly.

6) The fiscal risks shall be maintained 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.

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Abbreviations

AiA	Appropriation in Aid
BROP	Budget Review and Outlook Paper
CBROP	County Budget Review and Outlook Paper
CIDP	County Integrated Development Plan
CPI	Consumer Price Index
FY	Financial Year
MTEF	Medium Term Expenditure Framework
PFMA	Public Finance Management Act

I. INTRODUCTION

Objective of BROP

1. The objective of the BROP is to provide a review of the previous fiscal performance and how this impacts the financial objectives and fiscal responsibility principles set out in the last County Fiscal Strategy Paper (CFSP). This together with updated macroeconomic outlook provides a basis for revision of the current budget in the context of Supplementary Estimates and the broad fiscal parameters underpinning the next budget and the medium term.

2. The BROP is a key document in linking policy, planning and budgeting. This year's BROP is embedded on the priorities of the county government while taking on board emerging challenges while implementing the devolved system of government.

3. The PFM Act 2012 has set high standards for compliance with the MTEF budgeting process. Therefore, it is expected that the sector ceilings for the 2017/2018 of the MTEF provided in the previous CFSP will form the indicative baseline sector ceilings for the next budget of 2018/19. However, following the fiscal outcome of 2016/17 and the updated macroeconomic framework these sector ceilings have been modified as indicated in the annex of this BROP.

4. The rest of the paper is organized as follows: the next section provides a review of the fiscal performance in FY 2016/17 and its implications on the financial objectives set out in the last CFSP submitted to the County Assembly in October 2016. This is followed by brief highlights of the recent economic developments and updated macroeconomic outlook in Section III. Section IV provides the resources allocation framework, while Section V concludes.

II. REVIEW OF FISCAL PERFORMANCE IN 2016/2017

A. Overview

5. The fiscal performance in 2016/17 was fairly satisfactory, despite the challenges with shortfall in revenues and mounting expenditure pressures with limited structures in the county. The absorption of development expenditure increased from the previous 40.1% to 81.4% thus an increased the percentage of development funds absorbed. The County had an approved budget estimate of Ksh. 6,725,470,023 that was financed by equitable contribution from the national treasury at 69.82%, local revenue at 3.66%, grants to the health services 5.81%, Balance brought forward from 2015/16 at 14.11%, Road Maintenance Fuel Levy at 1.07% and Appropriation in Aid at 3.36%.

6. On the expenditure side, the County Government incurred high expenditure on salary for the devolved functions staff and establishment of County Government legal institutions that are part and of county structures. The actual recurrent expenditure amounted to Kshs. 3,660,078,514.00 which accounts for 63.55% with development expenditure accounting for 36.45% at Kshs. 2,099,161,907.00

B. 2016/17 Fiscal Performance

7. The table below presents the fiscal performance for the FY 2016/17 and the deviations from the approved estimates against the actual expenditure.

Table 1: **Summary of Approved Budget Estimates FY 2016/17**

DEPARTMENT	APPROVED	ACTUAL	DEVIATION	% DEVIATION
RECURRENT EXPENDITURE				
Office of the Governor	345,281,831	316,095,104	29,186,727	8.45%
Finance and planning	194,693,628	47,373,864	147,319,764	75.67%
Department of Health	1,617,190,746	1,512,977,787	104,212,959	6.44%
County Public service Board	38,372,326	28,939,435	9,432,891	24.58%
Department of Education	373,490,224	347,084,162	26,406,062	7.07%
Department of Youth & Sports	12,495,963	6,752,279	5,743,684	45.96%
Department of Infrastructure	65,524,371	52,126,668	13,397,703	20.45%

DEPARTMENT	APPROVED	ACTUAL	DEVIATION	% DEVIATION
Department of Trade & Tourism	33,815,512	18,675,154	15,140,358	44.77%
Department of Gender	16,687,660	5,734,632	10,953,028	65.64%
Department of Lands	111,301,459	96,012,461	15,288,998	13.74%
Department of Agriculture & Natural Resources	231,850,112	226,449,905	5,400,207	2.33%
Level 5 Hospital	283,226,074	223,150,945	60,075,129	21.21%
CSB ADMIN	318,176,630	293,691,163	24,485,467	7.70%
County Assembly	503,661,587	485,014,955	18,646,632	3.70%
TOTAL	**4,145,768,123**	**3,660,078,514**	**485,689,609**	**11.72%**
DEVELOPMENT EXPENDITURE				
Office of the Governor	0	0	0	0.00%
Finance and planning	25,013,917	25,013,917	10,329,082	41.29%
Department of Health	355,989,364	308,146,545	136,762,214	38.42%
County Public service Board	0	0	0	0.00%
Department of Education	146,604,645	128,742,531	49,291,585	33.62%
Department of Youth & Sports	105,654,089	73,456,538	20,252,151	19.17%
Department of Infrastructure	1,084,696,016	882,593,422	83,308,364	7.68%
Department of Trade & Tourism	200,899,611	76,095,537	18,687,982	9.30%
Department of Gender	86,444,599		33,144,329	38.34%
Department of Lands	222,533,144	222,533,144	76,880,031	34.55%
Department of Agriculture & Natural Resources	139,584,486	74,702,656	27,116,596	19.43%
Level 5 Hospital	189,686,396	149,186,396	6,589,185	3.47%
CSB ADMIN	4,500,000	0	82,840	1.84%
County Assembly	18,095,633	0	18,095,633	100.00%
TOTAL	**2,579,701,900**	**1,940,470,686**	**480,539,993**	**18.63%**
TOTAL EXPENDITURE	**6,725,470,023**	**5,600,549,200**	**966,229,602**	**14.37%**
Revenue				
Local Sources	517,772,092	217,143,785	300,628,307	58.06%
AiA (Ministerial)	286,000,000	199,128,462	86,871,538	30.37%
Equitable Share (Kshs.)	4,141,186,056	4,141,186,058	(2)	0.00%
Level 5 Hospitals (Kshs.)	286,705,202	286,705,201	1	0.00%
Doctors sal review	-	110,865,000	(110,865,000)	-100.00%
Road Maintenance Fuel Levy Fund (Kshs.)	63,629,297	63,629,296	1	0.00%
Conditional Allocation for Leasing of Medical Equipment	95,744,681	-	95,744,681	100.00%
Coffee CESS	0	7,278,841	(7,278,841)	-100.00%
Free Maternal Health Care (Kshs.)	54,985,378	50,917,500	4,067,878	7.40%
User Fees Forgone (Kshs.)	10,776,608	10,776,608	-	0.00%
DANIDA (Kshs.)	6,875,000	6,875,000	-	0.00%
World Bank/ UNDP (Kshs.)	25,417,291	-	25,417,291	100.00%
AFA Donor Funds (Kshs.)	11,613,728	-	11,613,728	100.00%

DEPARTMENT	APPROVED	ACTUAL	DEVIATION	% DEVIATION
Closing balance for the financial year 2015/16	1,224,464,690	836,748,336	387,716,354	31.66%
Total Revenue	**6,725,170,023**	**5,931,254,087**	**793,915,936**	**11.81%**

Source: Embu County Treasury

8. The approved total revenue for the FY 2016/17 was Ksh. 6,725,170,023.00 but the actual revenue received amounted to Ksh 5,931,254,087 which accounted for 88.19% of the target. This was as a result of local revenue targets that fell short by 58.06% as well as Appropriation in Aid by various departments that fell short by 30.37%.

Revenue Performance 2016/17

9. Total cumulative local revenue collections amounted to Ksh. 416,272,247 compared to a target of Ksh 803,772,092 which represents a revenue shortfall of Ksh. 387,499,845 that is under collection by 48.21 %. The National treasury released to the County Government a total of Ksh. 4,141,186,058 as equitable share of the county as per the 2016 County Revenue Allocation Act.

10. The underperformance in local revenue collection was largely across all the revenue collection sites and revenue strings. Local revenue collection as per classification are shown in Table 2 below:

Table 2: Revenue Streams for FY 2016/17

REVENUE STREAMS	FY 2016/17			
	APPROVED	ACTUAL	DEVIATION	% DEVIATION
Single Business Permit	109,694,969.68	89,090,298.10	20,604,671.58	18.78%
House Stall	9,539,439.60	6,924,311.00	2,615,128.60	27.41%
Market fees	26,801,115.60	19,557,260.00	7,243,855.60	27.03%
Buspark	22,622,892.00	16,930,003.00	5,692,889.00	25.16%
Street Parking	6,849,004.80	10,779,470.00	(3,930,465.20)	-57.39%
Cess	63,930,824.40	45,409,713.00	18,521,111.40	28.97%
Land Rates and Plot Rents	14,952,766.80	13,753,276.00	1,199,490.80	8.02%
Enforcement	1,653,960.00	1,215,425.00	438,535.00	26.51%
Technical planning Fees	16,071,822.00	4,219,869.00	11,851,953.00	73.74%

Admn. Fees	-	-	-	0.00%
Advert Fees	4,171,108.80	896,280.00	3,274,828.80	78.51%
Slaughter Hse fees	1,037,010.00	2,466,415.00	(1,429,405.00)	-137.84%
Miscellenious revenue	19,265,612.40	3,958,524.85	15,307,087.55	79.45%
Stock fees	2,667,636.00	1,766,655.00	900,981.00	33.77%
Water Charges	544,926.00	176,285.00	368,641.00	67.65%
Valuation Roll	217,969,003.92	0.00	217,969,003.92	100.00%
Total	**217,143,784.95**	**517,772,092.00**	**300,628,307.05**	**58.06%**

Source: Embu County Treasury

11. The deviation on single business permits is due to a shortage of staff to enforce the need to have single business permits for businesses operating in the county. The deviation on land rates was due to the late implementation of the valuation roll.

III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

A. Overview

11. Kenya's economy continues to perform well although severe drought in 2016 weighed on growth hence the first quarter of 2017 registered a slightly lower growth than in the same period in 2016 and pushed up inflation. Real GDP growth reached 5.8 percent in 2016, up from 5.7 percent in 2015. The growth was supported by public investment spending, lower global oil prices, and a strong recovery in tourism. Though inflation increased significantly in recent months, reflecting mainly the onset of the drought and the increase in global fuel prices, the measures taken by the government progressively reduced pressures on food prices.

12. The foreign exchange market has remained stable supported by a generally lower current account deficit. The current account deficit narrowed to 6.0 percent of GDP in July 2017 from 6.4 percent in May and June 2017. This reflects lower international oil prices, improved tea and horticulture exports, strong remittance inflows and a recovery of tourism. The narrowing of the current account deficit together with strong capital inflows, has led to the stabilization of the shilling in the foreign exchange market. The CBK's international reserves increased to US$ 8.5 billion (5.7 months of import cover) as at June 2017, compared to US$ 7.4 billion (5.3 months of import cover) at end of January 2017. The increase was largely attributed to planned external borrowings by the Government.

13. The economy is on track and is expected to expand by 5.5 percent in 2017. This growth is lower than the 6.0 percent growth projected in the 2017 Budget Policy Statement (BPS) as a result of poor performance of the agricultural sector due to adverse weather conditions and a slowdown in the uptake of credit to the private sector. The growth in 2017 will be supported by ongoing infrastructural investments, resilient domestic demand, continued recovery in the tourism sector and growth of exports in the sub region. In addition, strong consumer demand and private sector investment as well as stable macroeconomic environment will help reinforce this growth.

A. Recent Economic Developments

14. The economy grew by 5.8 percent in 2016 compared to 5.7 percent growth in 2015. Growth remained fairly resilient in the first quarter of 2017, recording 4.7 percent despite prolonged drought and subdued credit to the private sector during the quarter. This strong growth was supported by improved performance in; accommodation and restaurant (15.8 percent), information and communication (11.4 percent), transport and storage (9.9 percent), mining (9.7 percent), real estate (9.6 percent), wholesale and retail trade (6.1 percent) and manufacturing (2.9 percent). The quarter witnessed contraction in agricultural activities as well as deceleration in growth of construction, financial and insurance and electricity and water supply sectors.

15. The accommodation and restaurant sector improved by 15.8 percent in the first quarter of 2017, up from a growth of 10.4 percent in the same quarter in 2016, largely on account of a considerable boost from conference tourism due to improved security situation. The robust performance in the passenger and freight road transport favoured the transport and storage sector hence recording an improved growth of 9.9 percent in the first quarter of 2017 compared to 8.9 percent during the same quarter of 2016. The information and communication sector improved by 11.4 percent up from 10.9 percent in the same quarter in 2016 on account of strong performance in the mobile telephony sub-sector.

16. The first quarter of 2017 faced challenges that led to contraction and lower growth in some sectors while compared to the same period in 2016. The challenges included: unfavourable weather conditions as short rains failed in 2016 and the onset of the 2017 long rains delayed; reduced credit among others. This resulted to contraction of the Agriculture sector by 1.1 percent; scale down of hydro generation and hence lower growth in the electricity and water supply sector; and reduced the financial sector growth, to 5.3 percent compared to a growth of 8.2 percent in the first quarter of 2016.

17. Overall month on month inflation softened for two consecutive months (in June and July 2017), as a result of improved weather conditions and government policy interventions that resulted to significant decline in prices of key food items and converged to the government's target of 5 percent (+/- 2.5 percent). It declined to 9.2 percent in June 2017 and 7.5 percent inJuly 2017 from a high of 11.7 percent in May 2017. However, in August 2017, the inflation rose slightly to 8.0 percent. This increase is attributed to rise in cost of food and nonalcoholic drinks and transport during the period due to depressed supply especially in the second week of the month; which can be related to the general elections conducted in the said week.

Though on average the annual inflation rate increased to 8.3 percent in August 2017 compared to 6.5 percent in the same period in 2016, it is expected to converge to government's target as the demand pressures have eased and supply has normalized.

18. The Kenya Shilling exchange rate remained stable against major international currencies. As at 20^{Th} September 2017, the Kenya Shilling compared with the US dollar, had depreciated by around 2.0 percent in nominal terms since September 2016, the currency traded at Ksh 103.3 against the dollar from Ksh 101.3 in September 2016. Against the Euro and the Sterling pound, the currency weakened to Ksh 123.7 and Ksh 139.6 as at 20^{th}September 2017 from Ksh 113.5 and Ksh 133.2 in September 2016, respectively reflecting increasing confidence in the Euro area recovery.

19. The Central Bank Rate (CBR) that was retained at 10.0 percent to anchor inflationary expectations has resulted in stabilization of liquidity conditions in the market contributing to the decline in the interest rates. The interbank rate declined to 4.5 percent as of 20^{th} September 2017 from a high of 7.7 percent in January 2017, while the 91-day Treasury bill rate dropped to 8.1 percent from 8.6 percent over the same period. The 182 day and the 364 day Treasury bills averaged 10.3 percent and 10.9 percent, respectively in August 2017.

20. Following the interest rates capping law which came into effect on September 14, 2016, interest rate spread has narrowed to 6.6 percent in June 2017 from 11.2 percent in August 2016 as a result of the developments in the lending and deposit rates. Commercial banks' average lending interest declined to 13.7 percent in the first half of 2017 compared to 18.0 percent in the first half of 2016. The stability was largely reflected in all loan categories. Meanwhile, the average commercial banks' deposit rate declined to 7.2 percent from 7.6 percent over the same period.

21. Bank credit to the private sector has been on a gradual slowdown in the year to July 2017. The credit slowed to a growth of 1.4 percent (Ksh 30.0 billion) in the year to July 2017 from a 7.0 percent growth (Ksh 145.4 billion) in the same period in 2016. This slowdown was largely due to significant repayments in the manufacturing sector, delays in registration of land titles and building approvals, and availability of alternative external financing for key private sector projects. The CBK's foreign exchange reserves increased in the year to July 2017 due in part to planned external borrowings by the Government. The banking system's foreign exchange holdings increased to US$ 10,550 million in July 2017 from US$ 10,381 million in July 2016. This was due to the increase in reserves held by commercial banks to US$ 2,415million in 2017 from US$ 2,217 million in 2016, despite the decrease in the official reserves held by the Central Bank to US$ 8,135 million (5.4 months of import cover) in July 2017 from US$ 8,165 million (5.3 months of import cover) in the same period in 2016.

22. The Government has identified Information Communication Technology (ICT) as a key enabler to the achievement of Vision 2030 goals and aspirations which aims at transforming Kenya into a knowledge and information based economy. Information and Communication Technology has played a fundamental role both as an innovative economic sector and a catalyst for other sectors. The Government has put in place regulatory frame works and guidelines for boosting Information and Communication Technologies (ICTs) usage in all sectors of the economy.

23. During the financial period 2016/17, the Kenyan Government continued to develop infrastructure at a relatively rapid rate. KNBS reported that the sector grew by 9.3% in Q3 2016 compared to a 15.6% growth the sector posted in Q3 2015. The slowed growth in infrastructure development, was mirrored by reduced consumption of cement from 11% in Q3 2015 to 5.3% in Q3 2016. In Q3 2016, imports of construction materials such as bitumen, bars and steel declined. This was partly due to a considerable reduction in civil works of the Standard Gauge Railway (SGR) from Mombasa to Nairobi.

24. According to the Energy Regulatory Commission (ERC), Kenya's energy needs derive primarily from three sources: wood fuel, petroleum and electricity (which account for 69%, 22% and 9% of total energy respectively). Given the heavy reliance on biomass and petroleum (non-renewable sources of energy), the Kenyan Government has set its eyes on the development of harnessing viable renewable sources of energy with focus on development of geothermal and wind energy.

Stock Market.

25. The capital market recorded a gradual recovery from the fall attributed to uncertainties in the global economy and initial effects of the capping of interest rates on the prices of banking sector listed stocks. The NSE index stabilized in January, and rose gradually thereafter to 4,027 points in August 2017 from 3,179 points in August 2016 while market capitalization also improved to Ksh 2,479 billion in August 2017 from Ksh 1,937 billion in August 2016. This reflects favourable investor sentiments in the international market and good performance of the economy.

Balance of Payments

26. The overall balance of payments position recorded a deficit of US$ 65.9 million (0.1 percent of GDP) in the year to July 2017 from a deficit of US$ 1,252.9 million (2.0 percent of GDP) in the year to June 2016. The current account balance was at a deficit of US$ 4,384.8 million (6.0 percent of GDP) in the year to July 2017 from a deficit of US$ 3,141.6million (4.9 percent of GDP) in the year to July 2016.

This reflects a decline in the value of the merchandise account as payments for import of oil increased on account of the rebound in international oil prices and the increase in imports of machinery and transport equipment mostly on account of imports of wagons, locomotives and associated equipment related to the ongoing second phase of the Standard Gauge Railway (SGR) project.

28. In respect to these economic developments at the national level, the Embu County Government is committed to sustainable economic growth by deepening and widening the agricultural base in the county. It is the belief of the County Executive Committee that this is the path towards revitalization of the county economy resulting to increased and sustainable employment as well as economic empowerment of the county citizens. The County Government has identified Agricultural value addition as having the potential to act as a catalyst for the take-off of county's industrial sector. Agri-business initiatives have received support from the Government. The Government is keen on targeting the youth who are increasingly considering it as a viable commercial venture.

29. To improve efficiency in the manufacturing sector, the Government has allocated resources towards energy distribution, improving on ease of doing business, security, and revival of strategic industries such as macadamia, bananas, milk processing, and honey refinery development amongst others. Going forward, the Government shall intensify investment in these areas to unlock the County's economic potential.

B. Macro-economic outlook and policies

Growth prospects

30. Though the Global growth slowed down to 3.2 percent in 2016 from 3.4 percent in 2015, it is expected to rise to 3.5 percent in 2017 and 3.6 percent in 2018. This pick up of the global activities is projected from upside developments including stronger activity, expectations of more robust global demand, reduced deflationary pressures, and optimistic financial markets.

31. With potentially persistent structural changes in the global economy, Emerging and Developing economies may face a less supportive external environment going forward. The growth in these economies therefore will be supported by internal factors including strengthening institutional frameworks, protecting trade integration, permitting exchange rate flexibility, and containing vulnerabilities arising from high current account deficits and external borrowing as well as large public debt. Growth is projected to rise from 4.3 percent in 2016 to 4.6 percent in 2017 and 4.8 percent in 2018. This growth is primarily driven by stronger domestic demand, higher public spending, strong credit growth, reliance on public investment, implementation of key reforms, loosening of supply-side bottlenecks, and appropriate fiscal and monetary policies.

32. Sub-Saharan African (SSA) growth declined to 1.3 percent in 2016 from 3.4 percent in 2015 driven largely by challenging macroeconomic conditions that faced the largest economies including disruptions in the oil sector coupled with foreign exchange, power, and fuel shortages, output in Nigeria; drop in commodity prices and drought in South Africa among others.

However, this growth is expected to improve to 2.6 percent in 2017 and 3.5 percent in 2018, largely driven by improved macroeconomic conditions in the large economies including recovery in oil production, commodity prices recovery, continued growth in agriculture as drought conditions ease, better terms of trade and higher public investment.

33. Growth in the East African Community (EAC) region (Kenya, Uganda, Tanzania, Rwanda and Burundi) is projected to pick up in 2017, supported by ongoing infrastructure investment efforts, strong private consumption and the lower global oil prices. The decline in other commodity prices and currency depreciations will partly offset the gains in some of them.

34. The economic outlook takes into account the poor performance in the Agriculture and Electricity and Water Supply sectors following the unfavorable weather conditions experienced in the first quarter of 2017, subdued credit to the private sector and effects of lengthy electioneering

period on economic activity. As a result, the economy is projected to expand by 5.5 percent in 2017 from a growth of 5.8 percent in 2016.

35. This growth momentum is expected to rise over the medium term supported by improved global conditions, improved production in agriculture, ongoing recovery of tourism and completion of key public projects in roads, rail and energy generation, resilient exports and benefits from ongoing regional integration efforts. In addition, the strong consumer demand and private sector investment as well as a stable macroeconomic environment in the country will help reinforce this growth.

C. Medium Term Fiscal Framework

36. The 2017 Medium-Term Fiscal Policy aims at supporting rapid and inclusive economic growth, ensuring sustainable debt position and at the same time supporting the devolved system of Government for effective delivery of services. Our fiscal policy also indicates our deliberate convergence path towards the East African Community Monetary Union protocol's fiscal targets. Specifically, the Fiscal policy underpinning the FY 2017/18 Budget and MTEF aims at raising revenue from an estimated 20.2 percent of GDP in FY 2016/17 to 20.4 percent of GDP in FY 2017/18 and 21.7 percent of GDP over the medium term while containing growth of total expenditure. Total expenditures and net lending is projected to decrease from 27.6 percent of GDP in FY 2016/17 to 27.5 percent of GDP in FY 2017/18 and 26.6 percent of GDP over the medium term.

37. The overall fiscal deficit inclusive of grants is therefore projected to decrease from 6.9 percent of GDP in FY 2016/17 to 6.4 percent in FY 2017/18 and then decline to 4.1 percent of GDP over the medium term. The higher deficit continues to reflect the implementation of the one off SGR project. Including grants and excluding expenditures related to the SGR, the deficit declines from 5.5 percent of GDP in FY 2017/18 to 3.6 percent of GDP over the medium term.

38. The government will continue borrowing from domestic and external sources mainly on concessional terms. Non-concessional external borrowing

will be limited to projects with viable expected returns and the ceiling stated in the Medium-Term Debt Strategy paper. The Government will also continue diversifying its sources of funds through accessing international capital markets. Other alternative sources of financing the government may explore over the medium term include; the Islamic financing instruments, the Samurai market, Panda bonds and Diaspora bonds.

39. The Government's borrowing plans remain anchored in the medium term debt management strategy which aims at ensuring public debt sustainability. The Government will ensure that the private sector is not crowded out through high domestic borrowing levels. This is to ensure that their participation in the development agenda is guaranteed in order to accelerate economic activities. This will be achieved by ensuring transparency in the market through issuance of the borrowing calendar and introduction of various products/initiatives aimed at widening the investor base and increasing the retail participation in the government securities market.

40. On the external financing front, the Government will minimize the degree of foreign exchange rate risk exposure associated with the external debt portfolio by adopting a deliberate approach in diversifying currency structure so as to hedge against exchange rate risks especially to new loan commitments. A cautious approach will be adopted in the issuance of external Government loan guarantees and provision of government support to minimize the risk exposure to contingent liabilities.

D. Risks to the outlook

41. There are a number of risks to the outlook for 2017 and medium-term that are both external and domestic. They include geopolitical uncertainty, political squabbling, unpredictable weather climate and non-compliance to the guidelines provided by the controller of budget. Risks to the economic growth outlook emanate from both external and domestic factors.

42. The external risks to the economic growth projected include, any unfavourable structural changes by advanced economies, continued uneven

and sluggish growth in advanced and emerging market economies as well as falling commodity prices that may have a negative impact on our exports and tourism activities. Further, the uncertainty in the global markets due to potential tightening of US monetary policy and consequent increase in the US interest rates,

43. Britain's vote to exit the European Union and persistent geopolitical uncertainty on the international oil markets may have an impact on our economy.

44. Domestically, the economy is exposed to risks including any occurrence of adverse weather conditions, public expenditure pressures especially recurrent expenditures pose a fiscal risk and any inefficiency in spending government resources that may lower impact of development expenditure. The repeat of the presidential elections also poses risk to the growth as the resources have to be availed for the exercise and may mean foregoing some programmes. The country may also experience the possibility of slowed economic activity as investors hold-back awaiting the conclusion of the elections.

45. Underperformance in local revenue collection was largely across all the revenue collection sites and revenue strings. Reduction in the revenue basket means that funds for development across all the departments will be reduced. Going forward, it is important that the County exercises strict fiscal discipline while focusing on areas that will ignite the economic potential of our county. In the face of the huge wage bill, the county Government will rigorously scrutinize spending proposals with an intention of cutting those that are non-priority.

46. In the event, the above risks materialize; the Macro Framework and the Medium Term Sector Ceilings shall be revised through a supplementary budget and adopt austerity measures if deemed necessary. In the meantime, the Government continues to monitor the above risks and will undertake appropriate measures to safeguard macroeconomic stability

IV. RESOURCE ALLOCATION FRAMEWORK

A. Adjustment to 2017/18 Budget

47. Given the performance in 2016/17, it is expected that the trend of development in the county will continue to improve. This is necessitated by the implementation of infrastructural projects such as tarmacking (Siakago, Kibugu and Dallas roads), opening, grading and Murraming of county roads, Urban and rural electrification and by employment of additional workforce. However there are a number of risks towards the implementation of FY 2017/18 county budget. These risks include unfavorable political and macroeconomic environment which may affect the pace of implementation of programmes and projects within the county.

48. Adjustments to the 2017/18 budget will focus on implementing projects aimed at generating additional revenue for the County. Such projects include; refurbishment of bus parks and parking bays and construction and rehabilitation of market sheds in major towns. The resources earmarked for development purposes will be utilized in the priority projects which include provision of accessible and affordable health care services, promotion of value addition on Agricultural produce and provision of irrigation and clean domestic water. The County government will also continue opening more access roads to the markets as well as lighting market centres towards making the county a 24-hour economy.

49. In relation to revenue, the county employed enforcement officers who will help in effectively enforcing revenue collection. The officers will focus on monitoring performance of the revenue streams and seal any loopholes so as to maximize the revenue and minimize the leakages.

50. The proposed county M&E policy intends to support the creation of structures for effective and efficient implementation of projects and programmes. This will track development progress and hence promote transparency, integrity, access to information and embrace accountability

principles in public resource utilization. It will also improve the participation of public in monitoring of projects.

B. Medium-Term Expenditure Framework

51. The County is in the process of writing a County Integrated Development Plan (CIDP) for the year 2018 -2022 that will guide the county on the development plan for a period of five (5) years.

52. The priority sectors of Infrastructure, Transport, Energy, Housing and Public works, Health and Lands, Water, Environment and Natural Resources will continue to receive adequate resources. These sectors are already receiving a significant share of resources in the budget and require them to utilize the allocated resources more efficiently to generate fiscal space to accommodate other strategic interventions in their sectors.

53. Infrastructure, Transport, Energy, Housing sector has been allocated the largest share of resources in FY 2017/18 accounting for 42.49% of the development expenditure. The sector remains the driver of the economy and its allocation will continue to rise over the medium term while reflecting the county Government's commitment in improving infrastructure countywide such as tarmacking and gravelling of roads as well as installation of street lights. However, the sector faces a number of challenges that limits its optimal operations which include lengthy procurement process and unclear delineation between the national government and county government roles. Over the medium-term, the sector's priorities will include improving efficiency and effectiveness of the infrastructure development process at all levels of planning, contracting, and construction and expanding access.

54. The Health sector is expected to receive 20.39% of the county development expenditure for the FY 2017/18 in its quest to provide equitable and affordable health care to the citizens. The county government has improved the health infrastructure which includes construction of modern theatre, ICU complex, CT scan unit, maternities among others. His is aimed at upgrading the level 5 hospital to a referral Hospital. The sector

focus operationalizing the various sections through equipping and placing the human resource so as to overcome the challenges of shortage of qualified health personnel and on time delivery of medicines and medical supplies.The County is expected to play a significant role in improvement of access of affordable and better health care for the citizens.

55. The Agriculture, Irrigation, Livestock, Fisheries and Cooperative Development sector is critical to County's economic growth, employment creation and poverty reduction. The sector contributes up to 80% of the County's economic production and contains multiple linkages with other key sectors such as manufacturing, wholesale and retail, transport and distribution and other service-related sectors. The challenges facing the sector include fluctuation in prices, low value addition, low production due to poor adoption of new technologies, inaccessible markets, inadequate funding, and low access to financial services as well as affordable credit. The sector is expected to receive 6.01% of the county development expenditure for the FY 2017/18

56. The Water, Irrigation, Environment and natural Resources is among the sectors that has been allocated large share of resources in FY 2017/18 budget accounting for 8.70% of the overall development expenditure. The sector plays a key role in ensuring that every citizen has access to portable water in a clean and secure environment. Over the MTEF period the sector aims to achieve expansion of water coverage and sewerage facilities by scaling up water storage to improve water security, conservation and management of catchment areas and enforcement of sector laws and regulations.

57. The Education, Youth Empowerment and Sportssector is expected to receive 10.11% of the county development expenditure for the FY 2017/18 in its quest to provide basic education and impact technical still to the youth. Under basic education the sector focuses on construction, refurbishment and equipping of ECDE classes. Under youth empowerment

and sports, it aims at nurturing the youth and supporting their education and talents through provision of better leaning institution.

Reflecting the medium-term expenditure framework, the table 3 provides the tentative projected baseline ceilings for the 2018 MTEF by sector.

Table 3: Total Expenditure Projections

PORTFOLIO	APPROVED BUDGET	PROJECTIONS		
	2017/18	2018/19	2019/20	2020/21
Office of The Governor	301,108,693	331,219,562	364,341,519	400,775,670
Finance and Economic Planning	119,528,988	131,481,887	144,630,075	159,093,083
Education, Science and Technology	451,057,178	496,162,896	545,779,185	600,357,104
Health	1,819,977,106	2,001,974,817	2,202,172,298	2,422,389,528
Infrastructure, Public Works, Housing and Energy	864,487,065	950,935,772	1,046,029,349	1,150,632,284
Youth Empowerment and Sports	98,232,104	108,055,314	118,860,846	130,746,930
Trade, Tourism, Investment and Industrialization	123,346,967	135,681,664	149,249,830	164,174,813
Agriculture, Livestock, Fisheries and Co-operative Development	365,716,908	402,288,599	442,517,459	486,769,205
Lands, Water, Environment and Natural Resources	244,957,377	269,453,115	296,398,426	326,038,269
Gender, Culture, Children and Social Services	78,792,132	86,671,345	95,338,480	104,872,328
Public Service and Administration	283,812,309	312,193,540	343,412,894	377,754,183
County Public Service Board	37,264,434	40,990,877	45,089,965	49,598,962
County Assembly	558,117,679	613,929,447	675,322,392	742,854,631
Embu Level 5 Hospital	371,789,603	408,968,563	449,865,420	494,851,962
TOTAL	**5,718,188,543**	**6,290,007,397**	**6,919,008,137**	**7,610,908,951**

C. 2016/17 Budget Framework

58. The 2017/18 budget framework is set against the background of the updated medium-term macro-fiscal framework. The county's productivity is expected to expand underpinned by continued good performance across all sectors of the county's economy. The expected performance growth across all the sectors assumes normal weather pattern, good political environment, stable macro-economic environment and increased Public Private Partnerships (PPP) which is expected to help close the financial deficit.

59. The strategic priorities for the current budget are infrastructural development, access to health services, promotion of competitive agriculture through irrigation and sustainable livestock sub-sectors and access to clean and safe drinking water. The development expenditure of these sectors will create employment as well as generate revenue.

Revenue projections

60. The County revenue from local sources will be raised through levies, permits, rents, service-charge and rates, and from its share of the National revenue as part of the devolved funds. The 2017/18 budget target for revenue collection is expected to be KShs. 839,779,876. With the expected good macro-economic environment in the year, the performance will be underpinned by the on-going reforms in revenue administration and management which seeks to expand revenue base and eliminate revenue collection leakages. Amongst the suggested reforms to be undertaken, the county intends to fully automate revenue collection processes.

The table 4 below highlights the various revenue streams and their expected target over the medium term period.

Table 4: Revenue Projections 2017/18 – 2020/21

REVENUE STEAMS	APPROVED BUDGET	PROJECTIONS		
	2017/18	2018/19	2019/20	2020/21
Single Business Permit	75,606,710	80,143,113	84,951,700	90,048,802
House Stall	14,006,469	14,846,857	15,737,669	16,681,929
Market Fees	49,229,318	52,183,077	55,314,061	58,632,905
Parking Fees	62,573,218	66,327,611	70,307,267	74,525,704
Cess	82,873,158	87,845,547	93,116,280	98,703,257
Land Rates	177,415,994	188,060,954	199,344,611	211,305,288
Enforcement	1,193,350	1,264,951	1,340,849	1,421,299
Tech. Fees	23,202,765	24,594,931	26,070,627	27,634,864
Admin. Fees	261,317	276,996	293,615	311,232
Advert Fees	617,214	654,247	693,502	735,112
Slaughter Fees	1,612,997	1,709,776	1,812,363	1,921,105
Miscellaneous	26,189,750	27,761,135	29,426,803	31,192,411
Stock Fees	4,619,149	4,896,298	5,190,076	5,501,480
Water Charges	391,047	414,510	439,380	465,743
Appropriation in Aid	319,987,420	339,186,665	359,537,865	381,110,137
TOTAL	**839,779,876**	**890,166,669**	**943,576,669**	**1,000,191,269**

Expenditure Forecasts

61. The key policy document guiding the County Government's funding allocation decisions is the County Integrated Development Plan, which provides the updated development priorities of the county. The County Government Act, 2012 requires that all county governments prepare and implement an integrated development plan. The Integrated County Development Plans are, according to the act, five year plans that are implemented through annual budgetary allocation by the county governments. In addition, all planning is expected to be inspired by the Kenya Vision 2030 and be aligned to the second Medium Term Plan of Kenya Vision 2030.

62. In Infrastructure, the county aims to improve road network in the county by constructing 15km bitumen standard roads which is slightly higher than the 12Km realized in the 2016/2017 financial budget. Further

construction of around 120km out of the projected 500km is ongoing as well as grading and regular maintenance of all the feeder roads in the county.

63. In agriculture, the county government will prioritize on value addition of a number of agricultural produces. Improved and efficient crop production is being enhanced through irrigation projects and improved certified seeds for continued and sustained crop production.

64. In tourism sector, the county government will continue to establish proper marketing strategy aimed at opening up of some key tourist destinations. In the health sector, the county will prioritize on completion of health facilities, equipping and staffing. In Education and ICT, priorities will include adequately equipping of VTCs and construction/ completion/ renovation of ECDE classes. Also the sector intends to continue to support polytechnic students.

65. The county government also intends to prioritize on the completion of the Embu stadium which includes the undertaking of improvement and refurbishment works and improvement of the Talent and Sports Academy in Youth Empowerment and sports sector. In Finance and Planning sector, the county continues to implement strategies to enhance revenue collections and strengthening of Monitoring & Evaluation.

V. CONCLUSION AND NEXT STEPS

66. The fiscal outcome for 2016/17 together with the updated macroeconomic forecast has had implication of the financial objectives elaborated in the last CFSP submitted to the County Assembly in October 2016. Going forward, the set of policies outlined in this CBROP reflect the changed circumstances and are broadly in line with the fiscal responsibility principles outlined in the PFM law. They are also consistent with the national and county strategic objectives pursued by the county Government as a basis of allocation of public resources.