COUNTY GOVERNMENT OF UASIN GISHU

THE COUNTY TREASURY

COUNTY FISCAL STRATEGY PAPER 2014

(CFSP)

FEBRUARY 2014

The County Treasury P. O. Box 40-30100 ELDORET, KENYA

Email: info@uasingishu.go.ke

Website: www.uasingishu.go.ke

The document is also available at www.uasingishu.go.ke

FORWARD

The Constitution of Kenya 2010 introduced significant changes to the governance structure in Kenya that saw the creation of national and county governments each with clear functions. To operationalize the fiscal discipline spirit within the constitution, the Public Finance Management Act was enacted in 2012.

The County Fiscal Strategy Paper (CFSP) was prepared by the County Treasury in accordance with Section 117 of the Public Finance Management (PFM) Act 2012. The Act states that a 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; and align its County Fiscal Strategy Paper with the national objectives in the Budget Policy Statement. The paper was also prepared within the framework defined by the County's 2013/2014 Budget; CIDP and Kenya Vision 2030.

The county will annually adopt a balanced budget as their yearly operating and capital plan. The general policy therefore is to pay for all recurring expenditures with recurring revenues and use non-recurring revenues for non-recurring expenditures. If a deficit seems forthcoming, the government will reduce appropriations or increase revenues.

In the fiscal year 2013/2014 and over the medium term, the county expects to have substantial allocation to development, more so in infrastructure and agriculture development. Recurrent expenditure is also expected to surge given the huge number of staff inherited from the three defunct local authorities and the national government staff devolved to the county. At the national front, food prices are high because of the drought experienced in parts of the country and inflation assumption of 5% has not been met. It is expected that these will ease in the coming months and growth prospects will be positive at national and county level.

The purpose of 2014 CFSP is to facilitate public understanding of the fiscal situation and the government's proposed budget strategies. The paper will guide the 2014/2015 budgetary process; provide the broad fiscal parameters for the 2014/2015 Budget and the key government strategies and policies for the management of revenues and expenditures; and the medium-term outlook for government revenues and expenditures.

MR. SHADRACK SAMBAI
COUNTY EXECUTIVE COMMITTEE MEMBER
FINANCE AND ECONOMIC PLANNING

ACKNOWLEDGEMENT

This is the first County Fiscal Strategy Paper to be prepared and submitted to the County Assembly under the new system of devolved government. The preparation of this CFSP was a comprehensive process of collaboration and participation by various stakeholders. The legal and regulatory basis informing preparation and submission of the CFSP to the County Assembly lies in the Constitution of Kenya Article 201 (a) that anticipates that the views of the public will be sought and taken into account.

It is expected that this will enhance the role citizen participation in public financial management. As such we thank the public for their commitment during public hearings on County Integrated Development Plan (CIDP) held in August 2013 as well as subsequent CFSP hearings.

The county government therefore would like to thank various persons and offices who ensured the successful preparation of the CFSP. We are thankful to the County Executive Committee Members for their invaluable support and overall leadership and in the process. Much gratitude goes to the Chief Officers of the various ministries for their sector support and guidance.

The preparation of this CFSP was made possible by a special team at the County Treasury. Special gratitude goes to Mr. Shadrack Sambai (CEC member for Finance and Economic Planning) whose leadership and insightful comments made the preparation of this paper possible. I extend special thanks to Mr. Barnabas Sang (CEC member for ICT) for his input in coordinating and guiding the technical team that put together this paper. Many thanks also go to Ms. Millicent Okonjo (head of budget) for her role in facilitating information used to prepare the CFSP. We give special thanks to the technical sub- Committee composed of Mr. Charles Rutto (Economist), Martin Mutai (budget officer), Mr. Michael Ndolo (Economist) and Mr. Samuel Kiprop (Economist) who put in significant time and sacrifice in preparing the CFSP.

Finally, I would like to thank all members of staff of various Ministries Departments and Agencies for their dedication and commitment to public service.

MR. SIMON CHEPLEL
CHIEF OFFICER, FINANCE AND ECONOMIC PLANNING

Table of Contents

ABBREVIATIONS

AIA	Appropriation in Aid
ASK	Agricultural Society of Kenya
BPS	Budget Policy Statement
BQs	Bills of Quantities
CAR	Central African Republic
CBD	Central Business District
CEC	County Executive Committee
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
CILOR	Contribution in Lieu of Rates
COB	Controller of Budget
CoK	Constitution of Kenya
ECD	Early Childhood Development
EIA	Environmental Impact Assessment
FTC	Farmers Training Center
FY	Financial Year
G/C	Guiding and Counseling
GDP	Gross Domestic Product
HIV	Human Immune Deficiency Virus
HQ	Head Quarter
ICT	Information and Communication Technology
IMF	International Monitory Fund
KES	Kenya Shilling
LPO	Local Purchase Order
M&E	Monitoring and Evaluation
MCAs	Members of County Assembly
MDG	Millennium Development Goals
MTP	Medium Term Plan
OVC	Orphans and Vulnerable Children
PFM	Public Financial Management
PMC	Project Management Committee
PPP	Public Private Partnership
PWDS	Persons with Disabilities
SRC	Salaries and Remuneration Commission
TIVET	Technical Vocational Education and Training
WEO	World Economic Outlook

I. ECONOMIC TRANSFORMATION FOR INCLUSIVE SOCIO-ECONOMIC DEVELOPMENT

Overview

1. This is the first County Fiscal Strategy Paper (CFSP) to be developed in the new system of devolved government and tabled in county assembly as required by the Public Financial Management Act, 2012 Article 117. It outlines the broad strategic macroeconomic issues and fiscal framework, together with a summary of County government spending for the year 2013/14 and spending plans, as a basis for 2014/15 budget and the medium- term. We expect the document to improve the understanding of Uasin Gishu's public finances and guide public debate on economic and development matters.

2. The CFSP is prepared against a backdrop of economic resilience at the national level. The 2014 BPS envisages transforming the economy for shared growth. This is an ambitious theme that aims to sustain Kenya's position and prospects as a frontier economy. The county CFSP therefore promises to support this endevour by implementing requisite interventions that include bold economic policies, structural and institutional reforms, bridging the infrastructure gap, spending in quality education and health care, expansion in agriculture transformation , building human resource capabilities, sustaining community peace building and good governance.

3. This CFSP therefore articulates broad macroeconomic and policy considerations, structural reforms and sectoral expenditure as reflected in MTP II for the Medium Term Expenditure Framework for financial year 2014/2015, 2015/2016 and 2016/2017. Implementation of these programmes is expected to fast track achievement of Kenya Vision 2030 through accelerating growth to 10 percent and beyond as well as poverty reduction.

4. The overriding development thrust of this year's CFSP, therefore, is to strengthen and build on the economic and social gains made over the last Medium Term (2008-2012). In doing this, it will be necessary to focus on risk reduction, removal of constraints, focusing on promotion of productivity, facilitating expansion of private businesses and build the county citizens resilience requisite in asset building, employment creation and poverty reduction.

5. The national growth of 5.0 percent is indicated in the 2014 BPS as having largely been driven by expansion in agriculture, transport, communication, wholesale and retail and manufacturing center. As such, the priorities under this year's CFSP include continued investment in agriculture and road infrastructure. This will achieve the twin objective of food security and market linkage.

6. Investing in road infrastructure is also expected to significantly reduce the cost of doing business and therefore facilitate high returns and poverty reduction in the county. The medium term investment in road upgrade through the county will be aligned to support agriculture by linking farmers to markets. The road expansion will be subjected to comprehensive audit of costs and quality and cost benchmarking will be adhered to in tandem with PFM regulations and Integrated Financial Management and Information System. In line with the national agriculture based growth strategy, the county government will invest in modern and technology-based value addition along the agriculture supply chain.

7. The CFSP takes cognizance of the economic, geographical and social positioning of the County first as an epicenter for agricultural productivity in Kenya, second as a transit point into western Kenya and Eastern Africa region and third, as a highly cosmopolitan region in which the county government can invest in, build and leverage on the social diversity that it represents. This requires implementing policies of inclusion that promotes national values for shared growth; a feature that is recognized by the Constitution of Kenya (CoK) chapter four on the bill of rights.

8. Today Uasin-Gishu County is regarded as the indisputable athletics epicenter. In the medium term, the CFSP will continue to invest in athletics infrastructure and diversify its talent potential to include other sports and arts in order to consolidate and strengthen its position as a sports hub. The County's economic growth over the last decade has largely been fueled by growing inflows athletics price money and therefore investments in real estate and farming by athletes from the county and its neighbours in completions across the globe. The county in collaboration with the Central Government will build and equip one talent center or academy.

9. The CFSP underline the importance of adherence to central government's commitment to ensuring 30 percent of all public procurements are reserved for the youth, women and Persons With Disabilities (PWDs). As such, the county government will develop systems that ensure this commitment is implemented.

10. The implementation of the sector programmes in the medium term will require effective coordination among stakeholders. The county government of Uasin-Gishu will ensure that planning and implementation as well as monitoring and evaluation (M&E) of programmes are done within a framework of intergovernmental collaboration and stakeholder coordination. In this regard, the county government will work closely with National M&E system under the National Integrated Monitoring and Evaluation System.

11. The framework for operationalization of CFSP in the short and medium term shall therefore be effected under conditions and principles of Financial Management, fiscal sustainability and poverty reduction for economic growth and shared prosperity.

12. The state of national economy has implications at county level. The county has aligned its policies with the Budget Policy Statement, and hence targets policy interventions geared towards (1) investing in agricultural transformation and food security and ensuring conducive business environment; (2) investing in infrastructural development; (3) investing in quality and accessible healthcare services; (4) investing in quality education; and (5) governance and innovation for efficient service delivery.

13. This County Fiscal Strategy Paper, therefore articulates priority economic policies and structural reforms as well as sectoral expenditure programs to be implemented under the Medium Term Expenditure Framework for 2014/15 – 2016/2017 in order to achieve the County Government's development goal of economic transformation for inclusive socio- economic development as elaborated below:

Pillar 1: Investing in agricultural transformation and food security and creating conducive business environment

14. The county over the medium term intends to focus on expanding agricultural output to increase food supply, create employment and improve incomes. Increased food supply will reduce food related prices and brings down the cost of living. With improved incomes farmers will be encouraged to produce more.

15. The strategy entails unlocking agricultural productivity among small holder and livestock farmers through research and extension services, soil testing, high yielding seeds, provision of subsidized fertilizers, and wide application of appropriate technology and mechanization of agriculture to achieve the highest level of production. In addition the county will invest in a modern abattoir targeting international markets; a milling plant; dairy cooling plants; stock dams with fish; and develop a hatchery in collaboration with University of Eldoret.

16. The strategy will also focus on identifying local and international markets for farmers' produce. The county intends to utilize Eldoret International Airport to export horticulture and flowers, amongst other produce. To achieve this, the county expects to develop cold storage facilities at the airport to handle horticulture. In collaboration with state agencies the county will ensure standards of products for export.

17. The county intends to establish an economic stimulus package that will support farmers' cooperatives to improve agricultural production and incomes. The strategy will focus on mobilizing farmers to form or join cooperative societies.

18. Under creating a conducive business environment, the county's objective will be deepening structural and governance reforms and collaborating with national government to improve security in order to encourage innovation, investment, growth and expansion of economic and employment opportunities in the county. Structural reforms aimed at improving efficiency and effectiveness of public service delivery facilitates private sector growth.

19. The prevailing macroeconomic stability in the country is necessary to create a conducive environment for private sector investments as a basis for sustained economic growth, and ultimately, expanded economic opportunities and poverty reduction in the county. Structural and governance reforms as well as security also have influence on business environment. Structural reforms aimed at improving efficiency and effectiveness of public service delivery facilitates private sector growth. The county will seek to simplify the issuance of licenses and make it easy to set up a business, thus attracting more investors. Establishment of one-stop shop to issue all the necessary licenses and permits, and registration.

20. Security will be enhanced, in collaboration with the national government, to encourage investments for accelerated growth and employment creation, especially for the youth. The county intends to have focused programme for enterprise creation, incubation, and commercialization. The county will continue to support youth focused programmes. This is to be strengthened in the medium term.

Pillar 2: Investing in infrastructure development

21. To support sustained agricultural transformation, encourage expansion of commerce, grow export of goods and services and expand economic opportunity for employment, the county will scale up investment in infrastructure. Investment in agriculture and road infrastructure will achieve the twin objective of food security and market linkage.

22. This will be achieved by upgrading existing roads, carry out routine maintenance of existing roads, and opening up of new roads especially in the town to decongest urban traffic. Investing in road infrastructure is also expected to significantly reduce the cost of doing business and therefore facilitate high returns and poverty reduction in the county. The medium term investment in road upgrade through the county will be aligned to support agriculture by linking farmers to markets.

23. The county intends to acquire land banks, land for way-leaves, parking bays and road corridor for future road expansion as per the master plan. The county will encourage more investments in the housing sub-sector to meet the rising demand. The strategy is to develop a low cost housing scheme to benefit the low income earners to own homes.

24. Complete the purchase of equipment to fully mechanize the roads department. This is intended to facilitate the establishment of Road Corporation wholly owned by the county government and which will implement road works in the county.

25. To modernize infrastructure in the county, street lighting will be done as well as installation of CCTVs. In addition, non-motorized transport (NMT) will be constructed to ease pedestrian congestion, reduce traffic conflicts and accidents.

26. The county intends to conserve water catchment areas by protecting water sheds and water bodies. Conservation efforts will be geared towards sensitization of the community and planting of trees along water catchment areas. In addition, efficient waste management system will be put in place to create a cleaner environment. Beautification of the county will also be given priority as part of marketing the county.

Pillar 3: Investing in quality and accessible healthcare services

27. A healthy population is essential for higher productivity and sustained long term development of the county. The county government intends to enable access to modern and well-equipped health facilities and well trained and motivated health personnel. The strategy is to establish one county referral hospital and six sub-county hospitals, expand and equip all health facilities and recruit more health workers. This will also be achieved by adequately stocking all health facilities with requisite drugs. The county will also collaborate with the national government and other development partners in the area of

training so that the county will have healthcare workers with all the necessary and sufficient knowledge and skills for quality health care services.

Pillar 4: Investing in quality education

28. Proper and early development of a child lays good foundation necessary for entry into primary school education. The county government appreciates this and therefore, intends to develop ECDE in the county. To achieve this, the county expects to equip ECDE centers, and continue investing in capacity building of ECDE teachers and their management over the medium term.

29. To equip the youths with skills necessary to enable them enter the labour market, the county will invest in equipping the existing county polytechnics and establishing more.

30. The county appreciates that sports is a major source of inflows, which also forms substantial portion of investment in the county especially in real estate development and agriculture. We shall endevour to develop sports facilities including sports academies with a view to developing and nurturing sports talents in the county. This would also go a long way in promoting sports tourism.

31. Culture is an integral part of a community and its promotion is a noble course. The county government will achieve this by partnering with community leaders to identify those with cultural knowledge, identify and collect cultural artifacts, promote intercultural partnerships, and promote use of native language. Cultural sites will also be protected.

32. The county has experienced increasing number of orphans and vulnerable children. The county will have targeted programmes to support this disadvantaged group. The county will also collaborate with existing programmes that target OVCs to enhance outreach.

Pillar 5: Governance and innovation for efficient service delivery

33. Uasin Gishu County continues to receive its shareable revenue. It is imperative that devolution achieves the objectives of better service delivery and rapid local economic development as well as job creation in line with the Vision 2030. However, this can only be realized if accountability and fiscal discipline in the use of devolved resources are entrenched and macroeconomic environment remains stable.

34. The county will improve efficiency in revenue collection and health records management through automation of rates and development of county health information system respectively. Plan is also underway to set up information and communication centers in the county as well as developing ICT legal framework to promote ICT governance.

35. To improve external relations the county intends to establish external relations office to be domiciled in the governor's office. The office will manage external relations including diaspora who contribute substantially to the development in the county through inflows. This office will also manage intergovernmental relations. The county will also engage in county branding exercise to market itself for purposes of visibility in the eyes of potential investors, tourists, and development partners.

36. The counties intend to establish legal office to handle integrity issues, litigation and legal advice. This will ensure that the county government operates within the confines of the constitution and established laws.

37. The county will also institute governance and structural reforms aimed at improving efficiency and effectiveness of public service delivery. There will be staff rationalization to establish optimal staffing levels. There will also be automation of human resource management (staff records). The county will enhance communication among if staff.

38. The county government development strategy covered in the aforementioned five pillars is expected to address the socio-economic challenges facing residents of the county. The strategies are intended to realize the county's long term goals: (i) to attain household food security; (ii) to reduce poverty and increase incomes; (iii) improve literacy levels; (iv) to enhance the health status of the citizens; and (v) to improve infrastructure in the County.

39. This fiscal year the County government aims to serve and improve the lives of residents through good leadership, innovative technology and efficient infrastructure.

40. In addition improvement in investor confidence will require confidence in governance and justice system. Improving transparency and public participation therefore, forms vital integral part of budget making process as anchored in Public Finance Management Act Article 125 (2)and in the Constitution of Kenya 2010 Chapter 12 Article 201(a).

41. Specific avenues to achieve county development objectives include:
    - Establishing County Sector Strategic Plans for 2014 – 2017 within the financial year in line with CIDP
    - Developing a County Spatial Plan in the financial year 2014/2015
    - Establishing sound programme implementation frameworks
    - Developing and operationalizing annualized work plans at sector, institution and individual level
    - Public investment in infrastructure especially road improvement.
    - Enhancing quality ECD
    - Building capacity of county government agencies to enhance service delivery
    - Continued partnership with the National Government to improve security.
    - Agribusiness investment and value addition including agriculture economic stimulus package in horticulture and dairy.
    - Financial inclusion through setting up credit facilities for poor to compliment national strategy. This is also tied to the economic stimulus package.
    - Streamlining business environment
    - Establishing strong advocacy and partnership networks that buy best practice in poverty reduction
    - Investing in competent staff and motivation of county public service employees
    - Investing in environmental conservation programmes to mitigate risks to the environment. Environmental threats associated with poverty, overpopulation, climate change and pollution will particularly be addressed in line with various international treaties and national laws.
    - Establishment of ERO within the county structure to mobilize diaspora remittance for increasing investments and creating employment opportunities.

- Conducting a comprehensive resource mapping including revenue streams.

II. RECENT GLOBAL, NATIONAL, AND COUNTY ECONOMIC SITUATION

Overview of Recent Developments

42. The global economy remains largely subdued. But there is slight improvement in the economic recovery, although downside risks remain. According to IMF world economic outlook (WEO) for October 2013 world output is projected to expand by 3.6 percent in 2014 and then to 4.1 percent in the mid-term. Advanced economies are gradually strengthening after successfully defusing two of the biggest short-term threats to global recovery – the threat of a Euro area break-up and a sharp fiscal contraction in the United States. Emerging market economies' growth for 2013 has been revised to 4.5 percent from 5.3 percent as a result of cyclical factors and a decrease in potential output growth. Growth in sub-Saharan Africa for 2013 has been revised to 5.0 percent down from 5.6 percent earlier forecast. This is because of weaker growth prospects in many countries caused by spill-over from sluggish external demand, reversal of capital flows and decline in commodity prices.

43. This CFSP is presented at a time the country's economy is on growth path. In the first three quarters of 2013 the economy expanded by 4.6 percent on average compared to 4.4 percent in the same period in 2012. In 2012 economic growth (4.6 percent) was largely satisfactory, despite a somewhat stagnating demand for our exports in the traditional markets. This was an increase from 4.4 percent in 2011. The broad based growth was mainly due to expansion in building and construction, mining and quarrying, wholesale and retail, manufacturing, transport and communication, financial intermediation, agriculture and forestry.

44. Favourable rains contributed to good harvests, hydropower generation, and private sector activities benefitted from improved macroeconomic environment. Inflation declined from double digits in 2011 towards 5 percent in recent months. In line with the decline in inflation short-term interest rates have also eased. The shilling exchange rate has stabilized against major currencies.

45. Kenya's opportunity lies in its well integration with the world economy so that as global prospects improve, the positive developments are likely to have positive impact on our economy. Risks to the country's outlook include: continued weak growth in advance economies; geopolitical uncertainty on the international oil market; public expenditure pressures, especially recurrent expenditure; and continued high capital imports and high investment demands to finance infrastructure investments and mineral exploration.

46. In the past decade Uasin Gishu County's economy has largely been driven by agricultural expansion, real estate and inflows from sports, especially athletics, among others. The county expects to accelerate growth of its economy by investing in growth potential sectors notably agriculture, healthcare provision, and physical infrastructure. However, it is noteworthy to allude to risks even as we expect to invest in the growth potential sectors. There is public expenditure pressure, especially recurrent expenditure. With huge number of staff inherited from the three defunct local authorities and the ones devolved from the national government, wage bill is likely to put pressure on county resources. Uncertainty

on the international oil market (oil price shocks) is likely to affect cost of fertilizers thereby affecting investment in agriculture. Though Uasin Gishu County is known to have reliable weather conditions, variation in weather is possible risk. Investment in agricultural transformation may also be hampered by high bank lending interest rates.

47. The pace of current development growth is expected to pick in the next financial year and over the medium term given that the foundation for growth has already been set. We therefore intend to do investment in agriculture, healthcare provision, quality education and physical infrastructure in order to meet our goals.

48. The county had a population of 894,179 according to 2009 population and housing census. This figure was projected to rise to 1,002,153 in 2012, and further to 1,123,165 and 1,211,853 in 2015 and 2017 respectively. The 1999-2009 inter-censal population growth rates for the county was 3.8 percent, a figure higher than the national rate of 2.9 percent. The high population growth is mainly due to natural increase and immigration from other regions.

49. The county has road network of 309.6 Km of Bitumen, 549 Km of murram, and 377.2 Km of earth surface. It has a railway line passing through it, and an international airport. There is also an inland container depot. This makes the county the region's transport and service hub.

50. The county has experienced tremendous growth in the financial sector services. Presence of Central Bank branch and several other financial institutions ensures financial deepening and growth.

51. Manufacturing is still limited, apart from a few manufacturing industries operating in the county. These include Rivatex, Ken knit, Raiply, Rift Valley Bottlers and Unga Group Millers. Manufacturing has been identified as essential towards moving agriculture up the value chain through value addition. It is through value addition in agriculture that the county will be able to diversify and grow its exports, at the same time ensuring growth and creating employment, especially for the youth.

52. The county has fairly developed educational facilities. There are two public universities, Moi University and University of Eldoret, as well as campuses of several other public and private universities. There are 576 ECD centres, 422 primary schools, and 129 secondary schools. More educational infrastructure will be developed and more teachers brought on board so as to be in speed with the rapid population growth in the county. Existing infrastructure will be expanded, rehabilitated and equipped to be in line with the changing labour market and economic condition.

53. The county has 85,525 hectares under food crops, 40,786.2 hectares on cash crops, and 62 hectares under horticulture. A total of 29,801.92 hectares is under forest cover (gazetted forest).

Update on County Fiscal Performance and Strategy

54. In developing the CFSP, the county is cognizant of consequential assumptions underlying its fiscal strategy in the short and medium term. In this respect, the fiscal framework is

anchored on assumptions of (i) strong local revenue collection, (ii) the county's equal share from the National Treasury, (iii) a commitment to sound expenditure controls, and (v) a commitment to maintaining sound balance between development and recurrent spending. Equally important in this regard is the need to eliminate non-essential expenditures, inefficient spending and leakages.

55. County Public expenditure productivity will be critical in fiscal adjustment and sustainability especially given resource limitation. The county strategy to fiscal spending will involve a shift from focusing on revenue side to increasing productivity of public spending. It is assumed that this can provide a viable alternative to reducing deficits particularly in the future. It will also provide a viable option to expand critical expenditure programmes in line with MTP II of Vision 2030 and as emphasized in the 2014 BPS. These programmes include investment in infrastructure (especially improving transport), agricultural transformation and food security and quality health care. Equally fundamental is the county's commitment to provide a conducive environment to do business and entrenching the principles and objects of devolution for better services.

56. The 2013/14 budget envisages a total spending of KES 5,821,338,393. Out of this, KES 2,059,700,000 will be committed to development spending and KES 3,590,208,693 will go to recurrent spending. In recurrent budget portion, the county has set KES 40,000,000 towards emergency fund to cushion the county against unforeseen eventualities.

57. The above spending will be financed from various streams; KES 4,066,931,320 from the county's equal share of National Transfer, KES 1,467,407,073 is expected from local revenue collection and KES 287,000,000 will be Contribution in Lieu of Rates (CILOR).

58. The underlying assumptions for the success of this spending beside the ones noted earlier include a sustained economic growth at the national level, average inflation assumption of 5 percent or below, real GDP growth expectation of 5.1 percent and stability of the shilling.

Revenue Collection

59. In 2013/2014 fiscal year, the overall local revenue collections through end-December 2013 amounted to KES 138, 343,152 compared with the target of KES 357,447,073; the shortfall of KES. 219,103,921 (or 61 percent) was largely occasioned by challenges in (i) implementing Public Finance Management Act, and (ii) transitional challenges. In addition, the county government received a total of KES. 1,166,730,187 from the national government transfer.

Expenditure Performance

60. Similarly, the Government expenditure during the same period totaled KES 321,972,572 representing a shortfall of about 89 percent against a projected target of KES 2,824,954,349. The lower than expected expenditure reflected lower capital expenditures owing to delays in disbursements from the exchequer and continuing difficulties in procurement. However, government spending is expected to rise drastically from January 2014 due to devolved staff whose salaries are paid by the county government.

61. The County is also expected to reimburse a total of KES 516,000,000 as salaries paid to staff from devolved units from 1st July 2013 to 31st December 2013.

Revised Budget

62. The revised budget for 2013/2014 financial year is a tabulated below.

Vote Head	**Previous**	**Revised**
Recurrent	3,590,208,693.00	3,781,083,679.00
Development	2,059,700,000.00	1,946,800,000.00
totals	**5,649,908,693.00**	**5,727,883,679.00**

63. The revision of the budget was occasioned by the following scenarios.

- The functions of the county governments were expected to be devolved in phases. However, the functions were devolved in single phase in the second quarter of 2013/2014 financial year. Staff that were previously on central government payroll had not been factored in the initial budget. This necessitated an upward revision in recurrent expenditure to accommodate an increase in personnel cost.

- The Member of County Assembly (MCAs) mortgage and car loans were revised upwards in view of renegotiated deal between MCAs and Salaries and Remuneration Commission (SRC).

- The initial budget had itemized KES 171,000,000 towards debt repayment which was domiciled under the previous local authority. The revised budget excluded this item following Controller of Budget's (COB) recommendation against committing to this item. The COB's opinion stated that the national government was to undertake a comprehensive audit of devolved unit's assets and liabilities and that the payment of debt be shelved until the audit is finalized.

64. The county Government has then reprioritized spending to respond to the changes. The immediate concerns to be addressed in the short term therefore include absorption of previously national government staff, road upgrade, supply of drugs to health facilities.

Credit Facilities and grants

65. Currently, there are no grants either from central government or from external sources. Mobilizing resources for faster productivity and therefore growth is a national and county government commitment. Therefore, the county government in its medium term resource envelope strategy intends to increase revenue inflows from external sources to at least 13 percent of gross county government spending. These inflows will be used in key productive sectors to improve service delivery and transform agricultural value addition.

Development Prospects (economic prospects)

66. The CFSP is prepared at the backdrop of sustained growth in world economy. There are underlying economic outlooks at global, regional, national and local level that may bode well for the county's development yet others may stifle policy and strategic objectives.

67. The 2014 BPS notes that the world economic output is expected to grow at 3.6 percent in 2014 compared to 2.9 percent in 2013. This is attributable to neutralizing of two major global economic recovery threats; the EURO collapse and the US fiscal contraction. The BPS further notes that at the regional level, growth in sub-Saharan Africa and expected growth in East Africa Region is estimated at 5 percent and 6 percent for 2014 respectively.

68. At the local front, Kenya's economy was pegged at 5 percent growth as at December 2013. The BPS indicates that growth prospects remain high despite instability in the Central Africa Republic (CAR) and the Republic of South Sudan. This position is anchored on sound economic management, bold economic policies and fiscal discipline that have enabled the country to move towards targeted inflation assumption of 5 percent. Prospects at the national level include increased investor and donor confidence which is expected to raise external resources inflows beyond the National Treasury target of 15.8 percent of gross public spending. Opportunities for accelerated growth are also rooted in strong foundation for economic transformation including increasing discipline in public financial management and expectation for improved public service delivery under devolution.

69. At the County level, the continued progress in setting up systems in the face of devolution, institutionalization of public financial management, building human and institutional capacity and revenue mobilization will form a basis for sustained growth. Distribution of subsidized fertilizer will be an impetus for agriculture investment. The ongoing reconstruction of trunk roads will stimulate positive response in trade across and among neighbouring counties. The commissioned standard gauge railways linking Mombasa to Ethiopia, Uganda and Rwanda provides a basis for accelerated growth in the medium term.

70. Key sectoral growth is predictably high in the medium term. Injecting capital spending in agriculture through upgrading of roads is expected to simulate investment in agricultural value addition and quicker access to markets. With sound budgetary management, growth in agriculture, value addition industry, trade, and infrastructure is expected to be enhanced.

71. However, these prospects will be constrained by certain risks both in the short and medium term. Systemic risks such as high fuel prices, high food prices and inflation will pose a major challenge to growth as it will constrain consumption and productivity. Other risks that will be addressed include declining agricultural productivity, weak transport and logistics, security, wage bill pressures and devolution challenges.

72. The County government recognizes that addressing food security concerns, investing in quality education and health care, increasing agricultural productivity and cushioning the poor and vulnerable through targeted programmes is key to poverty reduction and achievement of MDG goals. As such, these concerns have been addressed in sector programmes and budgets and will continue to be prioritized in the medium term.

Policy Implementation

73. The policies the county government has committed to implement in the medium term are basically those set out in the CIDP and which have been elaborated in this CFSP. The focus will be to remove constraints to investment and private sector activity. This will include continued investment in infrastructure and agriculture value addition.

74. As emphasized in the background issues to this CFSP, the county expects to improve revenue inflows and shift focus to productivity for faster growth. These inflows include increased investment spending by private sector players in agriculture and real estate. Increasing efficiency will involve exploring new competitive sources of private finance including PPP arrangements. In the medium term, it is also expected that revenue inflows from external sources will greatly support policy implementation across sectors. The county will also initiate and support programmes aimed at empowering women, youth and PWDs.

75. In order to influence programme implementation, the county will commit to develop an inventory of private sector investment opportunities and risks. This will be helpful in ensuring that a benchmark on relevant investment and risk profiles are available for use by those intending to invest in the county. The assumption here is that informed investment decisions are critical to supporting development.

III. MEDIUM TERM FISCAL OBJECTIVES

76. The CFSP, in its medium term revenue and expenditure trajectory, does not envisage any deficit spending. In tandem with the need to exercise prudency in fiscal management, the county will ensure that prioritization of county public spending; cutting on non-essential spending and modernizing its revenue collection is implemented. Improving revenue inflows from external sources will also be prioritized over the medium. Emphasis will be placed on strengthening local revenue collection processes and tax sources. In the medium term, the County Government will continue to progressively build capacity of the county staff in revenue collection, planning, budgeting and execution.

77. The assumption made above is that the county will ensure balanced budget spending in the medium term. However, flexibility in fiscal management can be allowed to take care of intended expansion of infrastructure and capital spending. In this sense, medium term borrowing will be pursued to manage cash flow issues. The county government shall ensure that such borrowing is in line with PFM Act 2012 and PFM regulations.

78. The county government will continue to strengthen M&E, financial reporting and expenditure management in accordance with the fiscal responsibility principles as anticipated in the CoK 2010 and the PFM Act 2012.

79. The county government's commitment will be to build capacity of the county to fully absorb development spending on a rolling basis for the medium term. The table below shows the county government's fiscal actuals for 2013/2014 and projections over the medium term.

Table 1: Fiscal actuals for 2013/2014 and projections for the medium term.

	2013/2014		2014/2015	2015/2016	2016/2017
	Budget (million)	Act. (Dec. 2013)	Proj.	Proj.	Proj.
Revenue (NT)	3,796,628,687	1,166,730,187	4,419,574,966	4,885,941,152	5,548,303,031
Revenue (local)	1,931,254,992	138,343,152	1,210,000,000	1,331,000,000	1,464,100,000
Grants		0	96,432,418	932,541,172	1,051,860,454
Borrowing	0	0	0	0	0
Total Revenue	5,727,883,679	1,305,073,339	5,726,007,384	7,149,482,324	8,064,263,485
Developments exp.	1,946,800,000	26,596,842	2,363,543,429	2,502,318,813	2,822,492,219
Recurrent Exp.	3,781,083,679	651,809,644	4,389,437,796	4,647,163,510	5,241,771,265
Total exp.	5,727,883,679	678,406,486	6,752,981,225	7,149,482,323	8,064,263,484

80. The 2014 BPS does not envisage transferring grants to county government in the financial year 2014/2015 due to a number of reasons that include the fact that loans and grants earmarked for devolved functions are tied to ongoing contracts with suppliers, the alteration of which may have legal and cost implication, some programmes funded by loans and grants have agreed implementation structures that transcend more than one county and therefore establishing the locus of management responsibility may not be achieved. As such the grant of KES 96,432 418 (shown in the table above) will continue to be managed by the national government.

81. To foster efficiency in the use of county public resources, PPP arrangements will be infused into the medium term plan. Budgeting adjustments will therefore be effected to reflect and operationalize PPPs in line with national PPP laws that are in the process of enactment. These interventions will be anchored on a strong M&E framework. The Ward/Village Administrators will play a crucial role in M&E through Project Management Committees (PMC).

82. Structural and institutional reforms will further support devolution to the lowest level and improve public spending as per PFM principles. In light of this, the county government as reiterated earlier will continue to put emphasis in prioritizing spending in order to live within its means.

83. Sustainability of the wage is a critical component in ensuring prudency in managing county public resources in accordance with Article 201 (d) of the constitution which requires public money to be used prudently and responsibly. The county government will ensure that staff numbers are commensurate with the assigned functions.

84. The medium term expenditure framework will also develop mechanism to implement policies that remove constraints to enable growth through creating enabling environment for private investment as outlined in 2014 BPS. The assumption here is that at the national dimension, macroeconomic stability will be held through prudent fiscal and monetary policy. The county government will support policies for creating enabling environment for poverty reduction shared growth and prosperity through collaborative efforts in security enhancement and deepening financial inclusion, structural reforms and implementing governance reforms that encourage innovation, expansion and growth of employment and poverty reduction opportunities.

85. The county CIDP recognizes that the livestock sector directly supports 160,000 households and as such, value addition is critical to growth in line with Schedule four of the constitution on the role of county governments in plant and animal disease control, establishment of abattoirs. Agribusiness processing will be prioritized in line with Schedule the national objectives. The envisaged growth in agriculture will open opportunity to mobilize farmers and investor into cooperative movements that will mobilize savings and capital for expansion. Full potential in livestock and poultry remains untapped. The County Government will therefore take the lead in building the capacity of its farmers in these sectors and at all stages of agriculture value chain.

86. In reaffirming the role of agriculture in the growth of economy, the county government will in the medium term put 100,000 households in the county to an agriculture economic stimulus programme situated in horticulture and dairy industries. The design of the stimulus package will involve entering into financial arrangement with financial banking institutions to facilitate farmers in the two sectors with capital requirements for programmes that build on their incomes through modern practices and value addition. The stimulus will also establish a revenue sharing arrangement between farmers and county government as part of its wider revenue collection strategy. The county government will make use of Ward/Village Administrators and PMC s in monitoring the programme and projects.

87. In its strategy to attract private resources for investment, the County Government recognizes the under-tapped capacity of its diaspora and therefore reaffirms its commitment to mobilize diaspora remittances to create a pool of resources targeted at key growth sectors. As such, an External Relations Office (ERO) will be developed. Specific roles of the ERO will be developed and operationalized.

88. In addition, the county government will enhance infrastructure, build capacity to handle emergencies, and improve capacity of staff for access to quality health care.

89. These reforms are to be complemented with other structural reforms in PFM and public participation in programme identification, prioritization and governance. In addition the county government will work with private sector and development partners in ensuring county development objectives are met. Operational and financial efficiency will similarly be pursued as will be professionalism and management systems.

IV. 2014/15 FISCAL FRAMEWORK AND STRUCTURAL MEASURES FOR THE MEDIUM TERM

90. The 2014/15 budget framework is set against the background of the medium-term macro-fiscal framework set out above, the county Government‘s strategic objectives as outlined in the County Integrated Development Plan, the Vision 2030 MTP II and the broad development policies of the county administration. Assuming a normal weather pattern during the year, we expect the county's economy to expand in FY 2014/15 supported by good performance across all sectors of the economy.

Revenue Projections

91. The 2014/15 budget targets revenue collection of KES. 5.9 billion. However, realization of this performance will be pegged on operationalization of the county's Finance Act 2013. The county government is also expected to institute measures to expand revenue base and eliminate revenue collection leakages. In addition, AIA from devolved functions and the automation of revenue collection is expected to enhance the revenue yield.

Expenditure Forecasts

92. The key policy document guiding the Government's funding allocation decisions is the CIDP and the county's Administration strategic interventions. Overall government spending in FY 2014/2015 is expected to grow by 10 percent, largely as a result of increased investments in capital expenditures.

Recurrent Expenditure

93. Overall recurrent expenditures are forecast to grow at a 10 percent. This is a slower rate than overall expenditures, thereby providing room for development expenditures to grow at a faster rate. The County Government policy is to restrain growth in wage payments to free resources for development purposes. It is therefore widely anticipated that the national government's move to contain expansion of wage bill through rationalization and trimming of the civil service both at national and county level will have a desirable effect at the county, boosting efficiency and service delivery.

Development Expenditure

94. The projected development expenditure in FY 2014/2015 is KES 2,265,670,000. In line with the county government strategy to shift resources towards capital expenditures, an outlay for the recurrent expenditures is expected to decline, while development expenditure increases. In addition, the county will seek to mobilize external resources to support its development expenditures. Expenditures are therefore forecast to be more development oriented, and with focus on improving the road network, urban transport, access to water and education.

Summary

95. It is expected that fiscal strategy will support growth within sustainable path of public spending, allowing financing of all the expenditures from the county revenues. However, to finance any shortfalls in development expenditures, the county government will seek to mobilize external resources over the medium term. In addition, the budget restructuring implied in the fiscal strategy, reorienting expenditures to development overheads, would be supportive to the growth process with the improvement of the government's absorptive capacity for the development funds.

96. It is expected that timely development and execution of procurement plans will ensure development resources are spent on time. Meanwhile, the seconded staff of the devolved functions in the county is likely to impact on the overall wage bill if not managed well. Meanwhile, efficiency and economical spending of government resources will be enhanced to create room for critical interventions and pro-poor spending.

MEDIUM TERM RESOURCE ENVELOPE

97. Locally mobilized resource envelope is estimated to be 20% of budget. Local revenue for financial year 2013/2014 was revised down from 1,600,000,000 to 1,100,000,000 due to the reasons enumerated earlier. Over the Medium Term, the CFSP projects locally mobilized resources to increase by 10%. KES 100, million is expected as donor grants. This has already been committed and is tied to a programme in the health sector that intends to digitize health records in health facilities in the county.

Medium Term Expenditure Estimates

98. Medium Term Expenditure projections have been provided in Annex Table 2 which does not include programme proposals under consideration. The table below shows the county's expenditure projections for 2013/2014 and over the medium term.

Resource Distribution Criteria

99. Resources are shared according to the following criteria.

- The county government will ensure that development expenditure will constitute at least 30% of the county budget over the medium term. Currently, the proportion of development expenditure as a percentage of total budget stands at 34%. Development spending will be shared in accordance with the county's medium term plan priorities as well as any other strategic interventions such us roads upgrade.
- Operations and maintenance for basic operations of ministries and departments and agencies. This will account for not more than 35% of revenue.
- Non-Discretionary expenditures will consume 35% of revenue. These include statutory deductions; loans, salaries and pensions.

100. Below are the guidelines for distributing the resources.

- Statutory deductions (they must be complied-with by law)
- Ongoing projects (emphasis is on completion of ongoing projects in infrastructure and high impact projects such as in health and ECD)
- Strategic Interventions (environmental conservation advocacy, waste management, de-siltation of damns, water supply, tree planting and activities geared towards implementation of devolution).

Pending Proposals/ Spending Plans

101. The projections as noted earlier do not include ongoing proposals. Automation of revenue collection in sub sectors for efficiency, business licensing and zoning which will be in line with the county spatial plan are pending proposals that has not been considered in the projections for the medium term. As these are being firmed up, it may require additional resources. The county government also commits to accommodate sound priorities in areas of youth empowerment, infrastructure and programmes impacting on poverty reduction such as the envisaged agriculture stimulus programme targeting low-income households with land (3 acres and above).

CONCLUSION

102. Considering that the County's Integrated Development Plan is well articulated capturing the views and aspirations of peoples of County Government of Uasin Gishu, the development programmes required to implement is enormous (Estimated at Ksh 64 Billion). To be able to attain the objectives and peoples' aspirations in this policy document, County Government commits to work with all leaders (Executive, County Assembly, Senator, Members of Parliament and Community leaders) in ensuring resource mobilization and harmonized programme coordination and implementation.

103. This County Fiscal Strategy Paper is an effort of all County Departments and entities and collected views during the public participation forums held in sub-counties and at the County Headquarters, which helped in the identification of pillars earmarked in this document. The overall fiscal strategy for the county is indeed towards its vision of being a Champion County in the County and beyond achieved through its vision of ensuring livelihoods of every citizen in the County enjoys best services and incomes improved, thus allowing the County to get investment programmes that spur economic growth.

104. Thus this paper therefore forms the basis for development further of programme based budget for 2014/2015 and prioritization of intervention measures in the County based on anticipated resource streams captured.