



**COUNTY GOVERNMENT OF  
BUNGOMA**

**THE COUNTY TREASURY**

**COUNTY BUDGET REVIEW  
AND OUTLOOK PAPER**

**September, 2017**

©2017 County Budget Review and Outlook Paper (C-BROP)

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## **I. FOREWORD**

The Kenyan economy remains resilient registering strong economic growth compared to the average growth for Sub Saharan Africa. The economy maintained growth momentum for the third consecutive year to expand by 5.8 percent in 2016 up from a revised growth of 5.7 percent in 2015. This growth was supported by increased output in most of the sectors due to the ongoing public infrastructure spending, favourable weather conditions in the better part of the year, stable and low inflation during the year due to reduced costs of petroleum products and tight monetary policies; remarkable recovery of Tourism from improved security and strong consumer demand.

Looking ahead, near-term GDP growth is expected to decelerate to 5.5% in 2017 because of drought, weak credit growth, security concerns, and a rise in oil prices. Medium-term GDP growth should rebound to 5.8% in 2018 and 6.1% in 2019 respectively, depending on the completion of ongoing infrastructure projects, the resolution of slow credit growth, and the implementation of the budget for FY 2016/17 progressed well and picked up towards the end of the fiscal year. In the year, both revenue collection and expenditures lagged behind their respective targets. Total revenues was below target by Kshs 240,800,975 while total expenditures had a shortfall of Kshs. 1,201,432,713 occasioned by the lower absorption of both recurrent and development expenditures by the County Government. Therefore, we expect improved revenue collection in the current FY 2017/18 and going forward. On the expenditure side, we aim to rationalize recurrent expenditures to promote prudent use of public resources and improve absorption of development expenditure so as to get value for money in the delivery of goods and services to the public.

In preparation of the FY 2018/19 budget, emphasis will be put on high priority and strategic service delivery programmes that will continue to build on the strong desire to transform the county. County Departments and Agencies (CDAs) will undertake a detailed assessment of the achievement in the implementation of the 2014/15 - 2016/17 Medium-Term Budget that will guide in prioritizing high impact programmes in the formulation of the 2018/19 – 2020/2021 Medium-term Budget. The assessment will entail analysing the previous budgetary allocations, actual expenditure and achievement of actual outputs.

In this 2017 BROP, spending ceilings have been set and will continue to implement the tax measures contained in the Finance Act, 2016. These ceilings are based on risks associated with the macroeconomic outlook, budget execution and the projected resource envelope. I therefore, urge all the Chairpersons of the various Sector Working Groups to adhere to the sector ceilings provided and ensure the quality of allocations by eliminating wasteful spending.

**CEC**

**FINANCE AND ECONOMIC PLANNING**

## **II. ACKNOWLEDGEMENTS**

The 2017 County Budget Review and Outlook Paper (C-BROP), is prepared in accordance with the Public Finance Management (PFM) Act, 2012 and its regulations. The document provides actual fiscal performance of the FY 2016/2017 in comparison to the budget appropriations for the same year as well as a review of the recent economic developments in all the sectors of the National/County economy. It further provides an overview of how the actual performance of the FY 2016/2017 affected our compliance with the fiscal responsibility principles and the financial objectives spelt in the PFM Act as well as information showing changes from the projections outlined in the 2016 C-BROP.

The preparation of the 2017 Budget Review and Outlook Paper was a collaborative effort among various National and County Government Agencies. We thank all the spending units, the Ministries, Government Departments and Agencies for timely provision of useful data and information through their budget execution for the FY 2016/17. We are also grateful to the Budget Working Group, a sector that reviewed this document to ensure it satisfies the PFM Act, 2012 and set out the sector ceilings contained therein to guide the rest of the sectors in the preparation of their 2018/19 budget.

A core team in the County Finance and Economic Planning Office spent a significant amount of time putting together this CBROP. We are particularly grateful to the Secretariat headed by Director Budget and Director Economic Planning. I would like to take this opportunity to thank the entire staff of the County treasury for their dedication, sacrifice and commitment to public service.

**CHIEF OFFICER  
FINANCE AND ECONOMIC PLANNING**

### **III. LEGAL BASIS FOR THE PUBLICATION OF THE BUDGET REVIEW AND OUTLOOK PAPER**

1. The Public Finance Management Act 2012, Section 118 (1) requires the County Government to prepare the County Budget Review and Outlook Paper (CBROP).
  - a. It specifies 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 (CFSP);
  - c. 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.
2. The County Executive Committee (CEC) shall consider the County Budget Review and Outlook Paper with a view to approving it, with or without amendments, not later than fourteen days after its submission.
3. Not later than seven days after the C-BROP has been approved by CEC, the County Treasury shall:
  - a. Submit the paper to the County Assembly and
  - b. Publish and publicize the paper not later than fifteen days after laying the Paper before Parliament.

#### **Fiscal Responsibility Principles in the Public Finance Management Act**

In line with the Constitution, the Public Finance Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudent and transparent management of public resources. The PFM law (Section 15) states that:

1. Over the medium term, a minimum of 30% of the national budget shall be allocated to development expenditure.
2. The county government's expenditure on wages and benefits for public officers shall not exceed a percentage of the county government revenue as prescribed by the regulations, in this case 35%.
3. Over the medium term, the county government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure, provided that the National Treasury guarantees the borrowings.
4. Public debt and obligations shall be maintained at a sustainable level as approved by Parliament (NG) and county assembly (CG)
5. Fiscal risks shall be managed prudently
6. 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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#### **IV. EXECUTIVE SUMMARY**

Preliminary outcome for the FY 2016/17 indicate that the cumulative revenue collection including AIA was Kshs 491,095,743. This revenue was Kshs. 240,800,977 below the revised target of Kshs 731,896,720. The total expenditure amounted to Ksh9,271,589,801, against a target of Ksh10,469,990,770. The shortfall of Ksh.1,198,400,969 was attributed to lower absorption recorded in both recurrent (Kshs. 6,391,631,894) and development expenditures by the County Government (Kshs. 2,879,957,927).

The outcome of the FY 2016/17 budget adhered to the Fiscal Responsibility Principles and financial objectives set out in the PFM Act, 2012. These include: County Government development budget was at 36 percent of total budget; share of County Government wages and benefits to County Government revenues was 34 percent; Public debt and obligations were maintained at a sustainable level as approved by County Assembly; improved macroeconomic forecasts to manage fiscal risks and reforms in the tax administration and legislations were carried out to lock in predictability and enhance compliance with the tax system.

The budget for the FY 2017/18 and the medium term is premised on the favourable macroeconomic environment and transformational leadership at the county level, despite the risks emanating from the uncertainty in the global financial market. The macroeconomic environment remains favourable, with the narrowing of the current account deficit due to lower import bill, strong diaspora remittances, stable Kenya shilling exchange rate against the dollar, the increase in the foreign exchange reserves and the stability of the foreign exchange market. The Budget will also implement the third medium term plan of vision 2030 that is currently under preparation.

In the FY 2018/19, the revenue collection target including Appropriation-in-Aid (AiA) is Kshs 908,832,743 (8.28 percent of total budget) up from Kshs 865,554,993 (7.71 percent of budget) in FY 2017/18. Ordinary revenues are projected at Kshs 9,195,900,000 (84 percent of budget) in FY 2018/19 up from Kshs 8,758,000,000 (78 percent of budget) in FY 2017/18.

The medium term revenue projections are as indicated

### Revenue Projections

Type of Revenue	17/18	18/19	19/20	20/21	21/22
(a) Balance B/F	<b>775,444,281</b>				
(b) Local Revenue	499,668,163	524,651,571	550,884,150	578,428,357	607,349,775
(c) Equitable share	8,758,000,000	9,195,900,000	9,655,695,000	10,138,479,750	10,645,403,738
(d) Conditional grants	830,709,065	872,244,518	915,856,744	961,649,581	1,009,732,060
(e) Equalization fund		-	-	-	
(f) Other sources (Specify) AIA	365,886,830	384,181,172	403,390,230	423,559,742	444,737,729

There are risks to the medium term outlook that include among others; high public expectations, pressures on expenditures especially recurrent related expenditures, adverse weather conditions and external risks particularly the uncertainty in the global markets due to the possible tightening of monetary policy in the US, on-going repercussions of the decision of the United Kingdom to exit from the European Union, uncertainty on the international oil market and continued uneven and sluggish global growth. The County in liaison with the National Government will closely monitor the developments on these areas and undertake appropriate measures to safeguard macroeconomic stability should these risks materialize.



## **V. ABBREVIATIONS AND ACRONYMS**

CBROP	County Budget Review and Outlook Paper
BMI	Business Monitoring Intelligence
CFSP	County Fiscal Strategy Paper
EAC	East African Community
EIU	Economic Intelligence Unit
ERS	Economic Recovery Strategy
GDP	Gross Domestic Product
GOK	Government of Kenya
KNBS	Kenya National Bureau of Statistics
MDG	Millennium Development Goals
MPERs	Ministerial Public Expenditure Review
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan
SWGs	Sector Working Groups
V-2030	Vision 2030

## **VI. INTRODUCTION**

### **Objective of the Budget Review and Outlook Paper**

1. The objective of the 2017 County Budget Review and Outlook Paper (C-BROP) is to provide a review of fiscal performance for the FY 2016/17 and how this performance impacts on the financial objectives and fiscal responsibility principles set out in the 2017 MTEF Budgeted circular. The Public Finance Management Act 2012, Section 118 (1) requires the County Government to prepare the County Budget Review and Outlook Paper (CBROP). It specifies the details of the actual fiscal performance in the previous year compared to the budget appropriation for that year, the updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP); and 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.
2. Further, the document provides highlights of recent economic developments and outlook and sector ceilings for the 2018/19 budget and the medium term. The sector ceilings are guided by the overall resource envelope that is informed by the macroeconomic and fiscal outlook as presented in section III and IV of this document. The sector ceilings set in motion the budget preparation for the FY 2018/19 and the medium term.
3. As required by the PFM Act, 2012, budget process aims to promote the efficient and effective use of resources, based on evidence and rational deliberation. To achieve this, the County Government remains committed to a measured, prudent course of fiscal consolidation to narrow the budget deficit and stabilize debt.
4. In this context, the 2017 C-BROP outlines broad policies, including proposals to raise additional revenue and sustain core expenditure, improve value for money spent, stabilise expenditure on personal emoluments, and contribute to economic growth and employment creation. As a result of the improved fiscal discipline and competent management of the county economy, it is expected that key indicators of the county transformation will remain robust.
5. To meet the current commitments as contained in the 2017/18 Budget, the County Government proposed tax measures through the Finance Act, 2016, aimed at raising the local revenue and providing incentives for businesses to thrive and create employment opportunities consistent with the County Integrated Development Plan, County strategic plan, and the overall strategies and policies outlined in the Vision 2030's and the third Medium-Term Plan (MTP III) 2018-2022.
6. However, the underperformance in both revenue collection and expenditure in the FY

2016/17 has implications on the financial objectives outlined in the 2017 MTEF budget circular and the 2017/18 Budget. In particular, the baseline for projecting both the revenue and expenditures for the FY 2017/18 and the medium term has changed.

7. To remedy these deviations, the 2017 BRPOP details appropriate revisions taking into account the budget outturn for the FY 2016/17. In addition, the fiscal outlook contained in this BRPOP focuses on reforming the tax and revenue administration systems to enhance revenue yields, promote compliance and facilitate private sector growth and development as indicated in the county integrated development plan. Further, the County Treasury has issued guidelines on how capital projects and donor funded programmes should be planned, appraised and evaluated before funds are committed in the budget.
8. With this background, the rest of the paper is organized as follows: Section II provides a review of the fiscal performance for the FY 2016/17 and its implications on the financial objectives set out in the 2017 BPS. This is followed by Section III that provides highlights of the recent economic developments and outlook. The proposed Resource Allocation Framework is provided in Section IV while conclusion is in Section V.

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

### **A. Overview**

9. A key regional player in East Africa, Kenya is a major communications and logistics hub, with an important Indian Ocean port and land borders with Somalia, Ethiopia, South Sudan, Uganda, and Tanzania. It has a population of about 48.5 million (2016). A new constitution in 2010 introduced a tenured judiciary and bicameral legislative house, and devolved county government, a move that has had a major impact on service delivery. Elections in August 2017 returned President Uhuru Kenyatta to office for a second term, but were nullified in September by Kenya's Supreme Court, paving the way for a fresh election.
10. The prolonged period of political uncertainty following the elections, and the prospect of another round of polling, have contributed to an apparent slowing of the economy, with the possibility of unrest a worry for Kenya's neighbours, too. The port of Mombasa is a key transit point not just for imports and exports to and from Kenya, but also to and from Uganda, Rwanda, South Sudan, and the Democratic Republic of the Congo.

### **B. Recent Developments**

#### **International Scene**

11. 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.

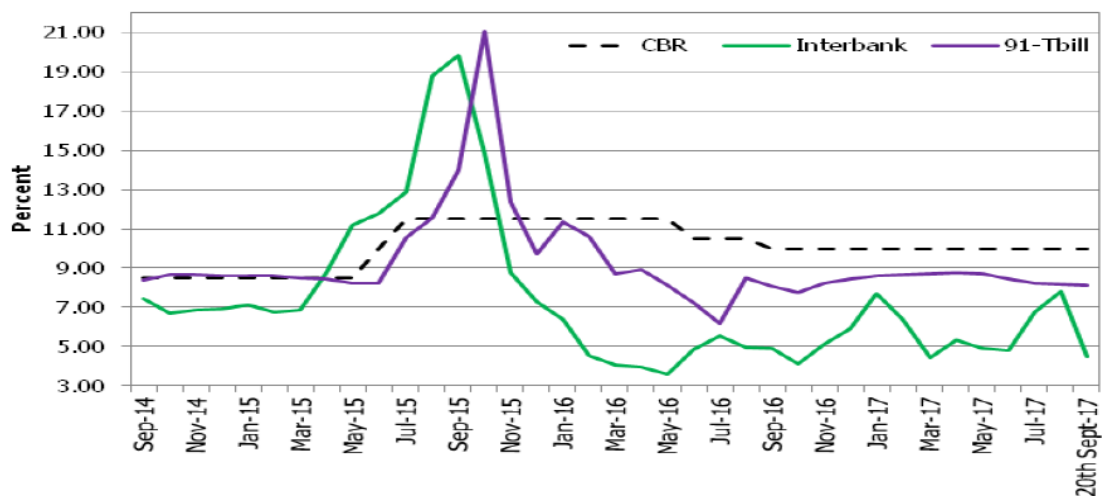
12. The slowed growth was occasioned by constrained global trade, subdued investment and heightened policy uncertainty associated with the United Kingdom (UK) decision to leave the European Union (EU); and elections in the United States of America (USA). Growth in advanced economies expanded by 2.1 per cent in 2016 compared to 1.9 per cent in 2015. The United States of America recorded a growth of 1.5 per cent in 2016 compared to 2.6 per cent in 2015, mainly due to weak exports, subdued investments in the manufacturing sector and uncertainty surrounding the 2016 elections. Growth in China decelerated on account of slowed investment as the economy rebalanced towards services and consumption. In Japan, the level of economic activity was robust owing to fiscal support, lower oil prices and accommodative financial conditions.
13. 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.
14. 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.

#### **Domestic Scene**

15. 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.

16. 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
17. The National Treasury reported that Kenya had a fiscal deficit of 8.7% of GDP in 2015. BMI forecasts a fiscal deficit of 8.1% of GDP in 2016 due to shortfalls in income tax and value added tax (VAT) collections despite efforts by the Government to increase tax compliance through incentive programmes and electronic payment systems. The fiscal deficit for the FY 2016/17 (on a commitment basis and excluding grants) was at Kshs 709.4 billion (equivalent to 9.2 percent of GDP) against a targeted deficit of Kshs 871.6 billion (equivalent to 11.7 percent of GDP). Including grants, the fiscal deficit stood at 8.9 percent of GDP against a targeted deficit of 10.9 percent of GDP.
18. The outcome of the FY 2016/17 budget adhered to the Fiscal Responsibility Principles and financial objectives set out in the PFM Act, 2012. These include: National Government development as a percent of total budget was 35.4 percent; share of National Government wages and benefits to National Government revenues was 30.2 percent; National Government borrowing was used to finance development expenditure; Public debt and obligations were maintained at a sustainable level as approved by Parliament; improved macroeconomic forecasts to manage fiscal risks and reforms in the tax administration and legislations were carried out to lock in predictability and enhance compliance with the tax system.
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 20th September 2017 from a high of 7.7 percent in January 2017 (Chart 4), 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.

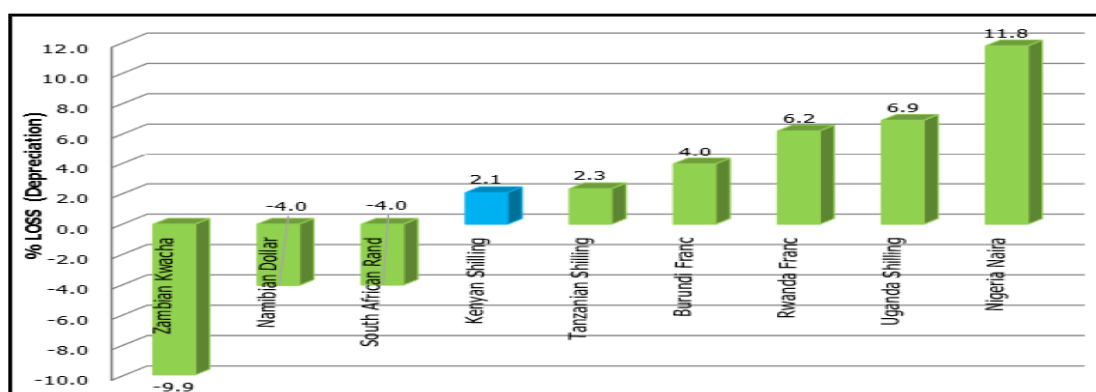
**Figure 1: Short term interest rate**



21. The Kenya Shilling exchange rate remained stable against major international currencies. As at 20th 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 Kshs 103.3 against the dollar from Kshs 101.3 in September 2016. Against the Euro and the Sterling pound, the currency weakened to Kshs 123.7 and Kshs 139.6 as at 20th September 2017 from Kshs 113.5 and Kshs 133.2 in September 2016, respectively reflecting increasing confidence in the Euro area recovery.

22. In spite of the KES depreciation, as compared to the regional currencies, the Kenya Shilling exchange rate has continued to display relatively less volatility. The stability of the Kenya shilling exchange rate reflected resilient receipts from tea and horticulture despite lower export volumes due to adverse weather conditions in the first quarter of 2017. Additionally, receipts from tourism, coffee exports and Diaspora remittances remained strong.

**Figure 2: Selected Currencies Performance against the US Dollar (August 2016 – August 2017)**



Source of data: Various National Central Banks

23. The EIU reports that the KES will remain vulnerable to global development such as further rises in US rates and uncertainties surrounding the state of the Chinese economy. The EIU predicts the KES to weaken from an average of 104.23 against the US dollar in 2016 to an average of 117.5 in 2020.

### **C. Macroeconomic Outlook and Policies**

24. The Economic survey report, 2017 findings show that the value of ICT output increased by 11.1 per cent from Kshs 280.0 million in 2015 to Kshs 311.1 million in 2016. The penetration rate for mobile subscriptions improved to 85.9 per cent in 2016 from 85.4 per cent in 2015. Wireless subscriptions per 100 inhabitants increased from 54 in 2015 to 59 in 2016. Mobile money subscriptions per 100 inhabitants increased from 61 in 2015 to 71 in 2016. The value of money transacted through mobile phones increased from Kshs 2.8 trillion in 2015 to Kshs 3.4 trillion in 2016. The number of mobile money transactions grew by 37.0 per cent from 1,114.2 million in 2015 to 1,526.2 million in 2016. In 2016, there were 928.2 thousand mobile commerce (m-commerce) transactions with a value of Kshs 1.8 trillion. Fixed telephone line capacity more than doubled from 75 thousand in 2015 to 179 thousand lines in 2016 mainly attributed to recommissioning of fixed network services during the review period.

25. The number of Internet Service Providers (ISPs) increased from 221 in 2015 to 242 in 2016 while estimated internet users increased by 11.0 per cent to 39.4 million in the review period. Bandwidth capacity increased by 30.8 per cent to 2,028,743 megabytes per second (mbps) in 2016 while demand for mobile broadband increased by 76.4 per cent to 12.5 million subscribers in 2016. The cost of installing fixed telephone increased by 38.5 per cent from Kshs 3,394 in 2015 to Kshs 4,699 in 2016. Subscription fees for residential and business telephone services increased to Kshs 750 and Kshs 1,000 in 2016, respectively. The number of TV frequencies increased from 302 recorded in 2015 to 312 in 2016. The total number of mobile transceivers grew by 12.9 per cent from 109,294 in 2015 to 123,380 in 2016. The third generation (3G) transceivers increased by 59.7 per cent to 30,818 while the second generation (2G) transceivers rose by 2.9 per cent to 92,562 during the review period. Overall, gender disparity in the use of ICT remained low but tends to favour male users in 2016.

26. In the energy sector high global crude oil production and inventories levels led to a reduction in international oil prices in 2016. Consequently, crude prices for urban decreased to an average of 44.18 US Dollars per barrel in 2016 from an average of US Dollars 52.53 per barrel in 2015. The volume of petroleum products imports expanded by 9.5 per cent from 4,431.7 thousand tonnes in 2015 to 4,852.4 thousand tonnes in 2016. Total import bill of petroleum products declined by 12.6 per cent to Kshs 197.5 billion from Kshs 226.1 in 2015. Total demand for petroleum products increased by 6.5 per cent to 5,046.9 thousand tonnes. Total installed electricity generating capacity declined to 2,325.7 Mega-Watt (MW) as at December 2016. Total electricity generation

increased from 9,514.9 Giga-Watt hours (GWh) in 2015 to 10,057.7 GWh in 2016. Hydro power generation increased to 3,959.9 GWh in 2016. The number of connections under the Rural Electrification Programme (REP) rose by 38.2 per cent to stand at 972,018 customers as at the end of June 2016 from 703,190 customers in 2015.

27. The value of output for the transport and storage sector increased by 7.2 per cent from Kshs 928.3 billion in 2015 to Kshs 994.7 billion in 2016. Output of the road transport sub-sector grew by 6.1 per cent to Kshs 667.1 billion while that of the railway transport sub-sector declined by 9.9 per cent to Kshs 5.7 billion in 2016. Total cargo through put handled at the Port of Mombasa rose by 2.4 per cent to 27,364 thousand tonnes in 2016 while container traffic increased by 1.4 per cent to 1.1 million Twenty-foot Equivalent Units (TEUs) in the review period. Total pipeline throughput of white petroleum products expanded by 2.8 per cent to 5,872.9 thousand cubic metres in 2016. On the other hand, the volume of white petroleum products transported through the pipeline for domestic consumption expanded by 9.0 per cent to 4,018.6 thousand cubic metres in the review period.
28. The performance of the air transport sub-sector improved during the review period, with the total commercial passengers handled increasing by 11.7 per cent to 10.0 million in 2016. Total passengers handled at Jomo Kenyatta International Airport (JKIA) rose by 9.7 per cent to 7.1 million in 2016 while those handled at Moi International Airport (MIA) rose by 7.6 per cent to 1.3 million during the same period. The number of road transport licenses issued increased by 2.8 per cent to 123,386 in 2016 with the number of Public Service Vehicle (PSV) licenses issued increasing by 9.3 per cent to 33,349 in 2016. The number of reported traffic accidents dropped marginally to 5,296 in 2016 while reported casualties from accidents rose by 8.4 per cent to 13,159 in 2016. Newly registered motor vehicles and motor cycles dropped by 13.5 per cent to 213,715 in 2016.
29. The agriculture sector registered a decelerated growth of 4.4 per cent in 2016 from a revised growth of 7.2 per cent. The volume of marketed milk increased by 5.6 per cent from 615.9 million litres in 2015 to 650.3 million litres in 2016. The value of marketed milk increased from Kshs 21.2 billion in 2015 to Kshs 23.0 billion in 2016. Tea and coffee production increased by 18.5 per cent and 10.8 per cent to 473.0 thousand tonnes and 46.1 thousand tonnes, respectively in 2016. Earnings from fresh horticulture exports increased by 12.3 per cent from Kshs 90.4 billion in 2015 to Kshs 101.5 billion in 2016. Maize production declined from 42.5 million bags in 2015 to 37.1 million bags in 2016. Sugarcane production reduced from 7.2 million tonnes in 2015 to 7.1 million tonnes in 2016. Wheat production declined from 238.6 thousand tonnes in 2015 to 222.4 thousand tonnes in 2016.
30. The construction industry grew by 9.2 per cent in 2016 from an expansion of 13.9



per cent registered in 2015. Increased activity in the construction of roads and development of housing also translated to an increase in employment in the sector from 148.6 thousand jobs in 2015 to 163.0 thousand jobs in 2016. Construction of Phase I of the Standard Gauge Railway (SGR) was at the final stages of completion as at the end of 2016. The SGR has since been completed and commissioned for use. Overall expenditure on roads is expected to increase by 38.3 per cent from Kshs 113.2 billion in 2015/16 to Kshs 156.5 billion in 2016/17. Total development expenditure is also expected to grow by 31.7 per cent from Kshs 87.8 billion in 2015/16 to Kshs 115.6 billion in 2016/17. Development expenditure on trunk and primary roads is expected to grow by 36.2 per cent from Kshs 51.6 billion in 2015/16 to Kshs 70.3 billion in 2016/17.

31. Disbursement of funds from the Roads Maintenance Levy Fund (RMLF) by Kenya Roads Board (KRB) to various road agencies and county governments is anticipated to increase significantly to Kshs 40.9 billion in 2016/17 from Kshs 25.4 billion in 2015/16. National Housing Corporation (NHC), the government agency for housing, undertook several housing activities in 2016, at a total cost Kshs 877.9 million. The value of reported new buildings completed in Nairobi registered a growth of 7.6 per cent to Kshs 76.2 billion in 2016. The value of reported building plans approved in Nairobi increased by 43.3 per cent from Kshs 215.2 billion in 2015 to Kshs 308.4 billion in 2016. The index of government expenditure on roads increased from 350.3 in 2015 to 461.0 in 2016 following an increase in road construction projects. Consumption of cement, a major input in construction of buildings and civil works, rose further by 10.5 per cent from 5,708.8 thousand tonnes in 2015 to 6,302.0 thousand tonnes in 2016. Credit to the construction industry went down marginally from Kshs 106.3 billion in 2015 to Kshs 104.8 billion in 2016.
32. In 2016, the monetary policy adopted was aimed at supporting a non-inflationary credit expansion to key sectors of the economy and continued anchoring of inflation expectations, while promoting stability in the foreign exchange market. The Kenya Shilling (Kshs) weakened against major currencies and averaged Kshs 101.5 per USD in 2016 compared to Kshs 98.2 per USD in 2015.
33. The period witnessed the amendment of the Banking Act which introduced capping of interest rates on credit facilities. The amendment aimed at protecting borrowers from high interest rates, thus making loans affordable. In the review period, the CBR, was revised downwards twice, to 10.50 per cent in June and 10.00 per cent in December. However, it remained at 11.50 per cent during the first half of the year.
34. The manufacturing sector recorded a real growth of 3.5 per cent in 2016 compared to a revised growth of 3.6 per cent in 2015. The growth was as a result of reduced cost of production and increased volume output. Cement production increased by 5.6 per cent from 6,352.9 thousand tonnes in 2015 to 6,707.2 thousand tonnes in

2016. The Producer Price Index (PPI) increased marginally by 0.2 per cent in 2016. The increase was due to stability of prices of imported raw materials and reduced cost of electricity. Credit to manufacturing sector decreased by 4.6 per cent from Kshs 290.9 billion in 2015 to Kshs 277.4 billion in 2016. In the year under review, formal employment in the manufacturing sector went up marginally by 1.8 per cent to 300.8 thousand persons in 2016. The Export Processing Zones (EPZ) experienced growth in most of its performance indicators in 2016. Total capital investment of EPZ enterprises increased from Kshs 48.1 billion in 2015 to Kshs 51.2 billion in 2016.

35. Tourism sector had a remarkable recovery because of improved security and successful conference tourism in 2016. In addition, the sector benefited from aggressive marketing in the domestic and international markets. Therefore, receipts accruing to the tourism sector earnings improved to Kshs 99.7 billion in 2016 compared to Kshs 84.6 billion in 2015, translating to an increase of 17.8 per cent. The number of international visitor arrivals rose by 13.5 per cent to 1,339.7 thousand in 2016. The number of hotel bed-nights occupancy rose by 9.7 per cent from 5,878.6 thousand in 2015 to 6,448.5 thousand in 2016. Local conferences held increased by 17.4 per cent from 3,199 in 2015 to 3,755 in 2016. Likewise, the number of international conferences held expanded by 4.1 per cent from 218 in 2015 to 227 in 2016. Museums, snake parks and historical sites reported a 15.7 per cent increase in the number of visitors recording 923.1 thousand in 2016 compared to 797.5 thousand in 2015. Similarly, visitors to national parks and game reserves rose by 17.0 per cent to 2,284.7 thousand in 2016.

#### **D. Economic Performance– National- First Quarter of 2017**

36. The Kenyan economy remains resilient registering strong economic growth compared to the average growth for Sub Saharan Africa. The economy maintained growth momentum for the third consecutive year to expand by 5.8 percent in 2016 up from a revised growth of 5.7 percent in 2015 and created 832,900 new jobs. This growth was supported by increased output in most of the sectors due to the ongoing public infrastructure spending, favourable weather conditions in the better part of the year, stable and low inflation during the year due to reduced costs of petroleum products and tight monetary policies; remarkable recovery of Tourism from improved security and strong consumer demand. The major sources of Gross Domestic Product (GDP) growth in 2016 were agriculture, forestry and fishing (15.2%), manufacturing (6.3%), transport and storage (9.7%), information and communication (6.1%), construction (8.2%), real estate (12.3%) and financial services (7.3%).

37. In 2017, the economy though faced with challenges including effects of the prolonged drought that set in the last quarter of 2016 and pushed prices up and subdued credit to the private sector, it has remained fairly resilient. The economy grew by 4.7 percent in the first quarter of 2017. The transformation Agenda that the government has been implementing for the last four years has seen improvement of

security, economic stability, creation of new jobs, expanded access and affordable health care and improved public services. Economic growth in 2017 is likely to be influenced more by the domestic factors than external ones. The long rains are projected to delay and to be depressed in 2017, which is likely to have a direct negative impact on growing of crops, production of livestock and its products, electricity generation and water supply. Due to the share of agricultural contribution to the GDP, there will be a lower rural demand for goods and services. The impacts could further be experienced in sectors that have strong interlink ages with these industries. If the deceleration in growth of credit that started in 2016 continues, it is likely to constrain growth in 2017 especially in activities that are reliant on borrowing from commercial banks.

38. Furthermore, sectors such as manufacturing are encountering more intensified competition in their traditional export markets which could delay the recovery in that sector. However, the expected commencement of operations of railways services on the Standard Gauge Railway (SGR) is likely to increase efficiency while other modes of transport are expected to continue in the current growth trajectory. The overall performance is therefore likely to be determined by the extent of each of these effects.
39. International oil prices are projected to rise in 2017 albeit gradually. If this occurs, growth in the road transport is likely to be suppressed due to rise in cost of intermediate inputs. The exchange rate is expected to remain stable due to significant level of reserves, the continued growth in emigrant remittances and sustainability of the current account deficit. On the demand side, growth is likely to be driven by both the public and private final consumption. Public final consumption is projected to expand as reflected in the 2017/18 national budget. Similarly, private consumption is likely to remain robust in 2017 and therefore boost economic growth. On the external front, world trade is projected to improve while the expansion of global economy is expected to be strong in 2017. Similarly, majority of Kenya's main European trading partner are likely to sustain strong growths and therefore support the domestic economy.
40. Figure 3 presents the GDP growth rates from 2011 to 2016. In the last six years, 2011 recorded the highest growth of 6.1% while 2012 had the lowest growth of 4.5%.

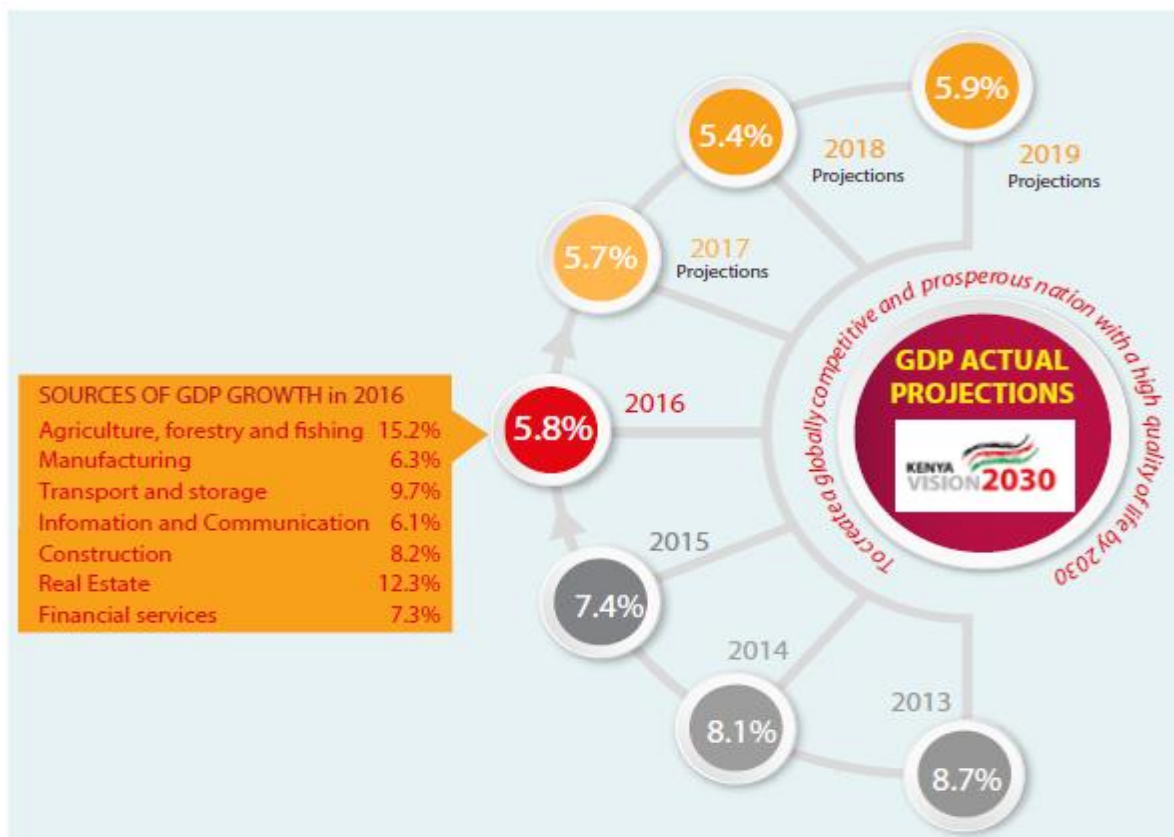
**Figure 3: GDP Growth Rates**



*Source of data: Kenya National Bureau of Statistics*

41. 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: unfavorable 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.
42. Increased demand in housing both for private and commercial purposes led to the improvement of the real estate sector which recorded a growth of 9.6 percent in the first quarter of 2017 from 8.7 percent during the same period in 2016. As the Standard Gauge Railway (SGR) construction activities reduced, the vibrancy that the construction sector had enjoyed for the last few years was slightly subdued hence recording a lower growth in the first quarter of 2017 of 8.4 percent from a growth of 10.2 percent in the first quarter of 2016.

**Figure 4: GDP Growth Rates Projection to 2019**



**E. The East African Community**

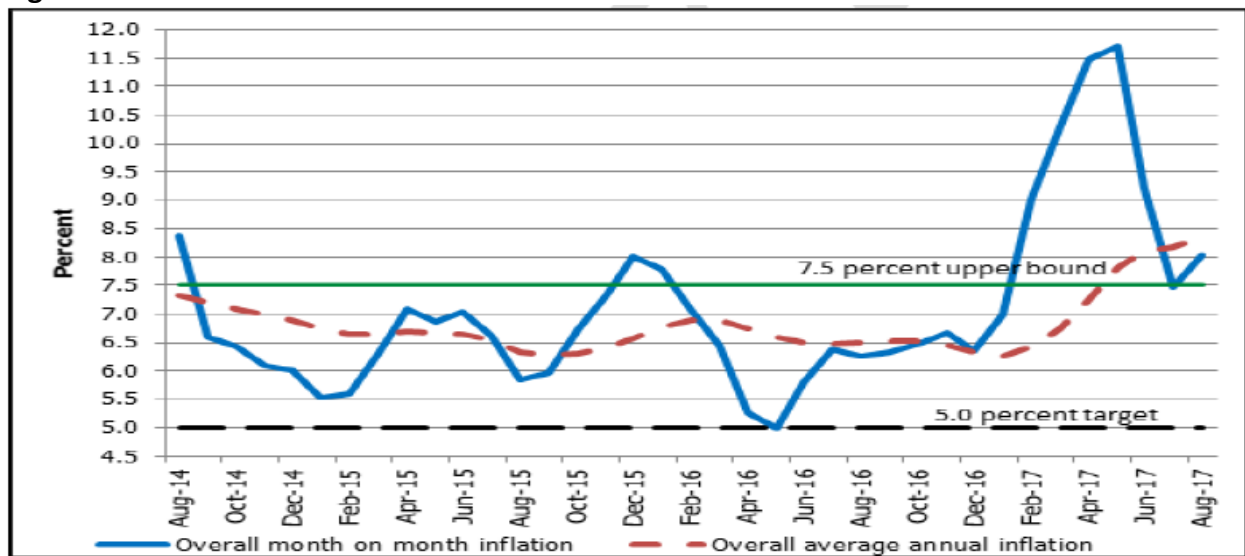
43. Growth in the East African Community (EAC) region (Kenya, Uganda, Tanzania, Rwanda and Burundi) is projected to pick up in 2017, supported by ongoing infrastructure investment efforts, strong private consumption and the lower global oil prices. The decline in other commodity prices and currency depreciations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

**F. Domestic Country Economy**

44. 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 in July 2017 from a high of 11.7 percent in May 2017 (Chart below). However, in August 2017, the inflation rose slightly to 8.0 percent. This increase is attributed to rise in cost of food and non-alcoholic 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.

45. 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.

**Figure 5: Inflation trends**



*Source of data: Kenya National Bureau of Statistics*

46. 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.

47. 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. The growth estimates for the medium term in fiscal years are; 5.7 percent in FY 2016/17, 5.9 percent in FY 2017/18, 6.3 percent in FY 2018/19 and 6.7 percent in FY 2020/21.

**G. Medium Term Economic Outlook**

48. According to the EIU, Kenya’s GDP growth will remain robust between 2017 and 2021, averaging 5.8% as a result of sustained expansion in consumer services, urbanisation, EAC integration, structural reforms and investment in infrastructure.

49. The EIU forecasts inflation to average 5.1% between 2017 and 2020 due to prudent monetary policy and efficiency gains arising from regulatory reform and investment in infrastructure.

50. The EIU predicts the KES to weaken from an estimated average of 106.5 against the US dollar in 2017 to a possible average of 120.5 in 2021.

51. In the long-term, the adoption of prudent macroeconomic policies will help safeguard Kenya's robust economic performance. This includes the implementation of fiscal and monetary prudence and lowering the deficit down to 4.3% by FY19/20, as per the Medium Term Fiscal Framework. Fiscal consolidation needs to avoid compromising public investment in critical infrastructure key to unlocking the economy's productive capacity.
52. Credit access should be supported by reducing public sector borrowing, and the transactions cost for accessing credit through better credit reporting, the creation of a central electronic collateral registry, and a framework to promote property as collateral with the automation of land registries and the implementation of the National Payments System Act.
53. Agricultural productivity can also be improved by increasing the competitiveness of agricultural input and output markets.
54. New engines for economic growth need to be supported, such as unlocking the affordable housing market. Kenya can make housing more affordable to many more Kenyans, which will in turn create new channels to boost overall economic growth both at the national and county levels.
55. On social development, Kenya met some Millennium Development Goals (MDGs) targets, including reduced child mortality, near universal primary school enrolment, and narrowed gender gaps in education. Interventions and increased spending on health and education are paying dividends. And, while the healthcare system has faced challenges, devolved health care and free maternal health care at all public health facilities will improve health care outcomes and develop a more equitable health care system.
56. Kenya's youthful and growing population, dynamic private sector, highly skilled workforce, improved infrastructure, new constitution, and pivotal role in East Africa, gives it the potential to be one of Africa's great success stories. Addressing poverty, inequality, governance, and the skills gap (between market requirements and the education curriculum) will be major goals, as well as problems of climate change, low investment, and low productivity. Only when these have been addressed can sustained growth rates transform lives of ordinary Kenyan citizens.

#### **Risks to the Domestic Economic Outlook**

57. While the medium to long-term outlook appears favorable, Kenya's economy remains vulnerable to downside risks. These include potential for fiscal slippages, a more prolonged drought in 2017, and external risks from a weaker than expected growth amongst Kenya's trading partners, as well as uncertainties related to US interest rate hikes and the resultant stronger dollar. In addition, rising insecurity threats from Al-

Shabaab, heightened political uncertainty, intensification of conflict and worsening drought conditions would severely affect economic conditions.

58. Further, Kenya faces a marked slowdown in credit growth to the private sector and this is weighing on private investment and household consumption.

59. As a net oil importer, the rise in global oil prices compared to the lows of 2016 has a dampening effect on economic activity. In the event, the above risks materialize; the Medium Term Sector Ceilings shall be revised in the 2018 Fiscal Strategy Paper. In the meantime, the County Government continues to monitor the above risks and will undertake appropriate measures to ensure.

## **VIII. REVIEW OF FISCAL PERFORMANCE FOR THE FY 2016/17**

### **A. Overview**

60. The County's FY 2016/17 Supplementary Budget was Kshs.10.47 billion, comprising of Kshs. 6.685 billion (64 per cent) and Kshs. 3.784 billion (36 per cent) allocation for recurrent and development expenditure respectively. To finance the budget, the County was to receive Kshs. 8.37 billion (80.0 per cent) as equitable share of revenue raised nationally, Kshs. 545.04 million (5.1 per cent) as total conditional grants, generate Kshs.731.90 million (7.0 per cent) from local sources, and Kshs.818.26 million (7.9 per cent) cash balance from FY 2015/16.

61. Cumulative revenue collection including A-i-A by end of June 2017 was Kshs 9.27 billion or Kshs 1.27 billion below the revised target of Kshs 10.47 billion. On the expenditures side, there was lower absorption recorded in both the recurrent (wages and salaries and operations and maintenance) and development expenditures by the County Government.

### **B. FY 2016/17 Fiscal Performance**

#### **Performance of Revenues**

62. During the FY 2016/17, the County received Kshs.8.37 billion as equitable share of the revenue raised nationally, Kshs.545.04 million as total conditional grants, raised Kshs.731.9 million from local revenue sources, and had a cash balance of Kshs.818.26 million brought forward from FY 2015/16.

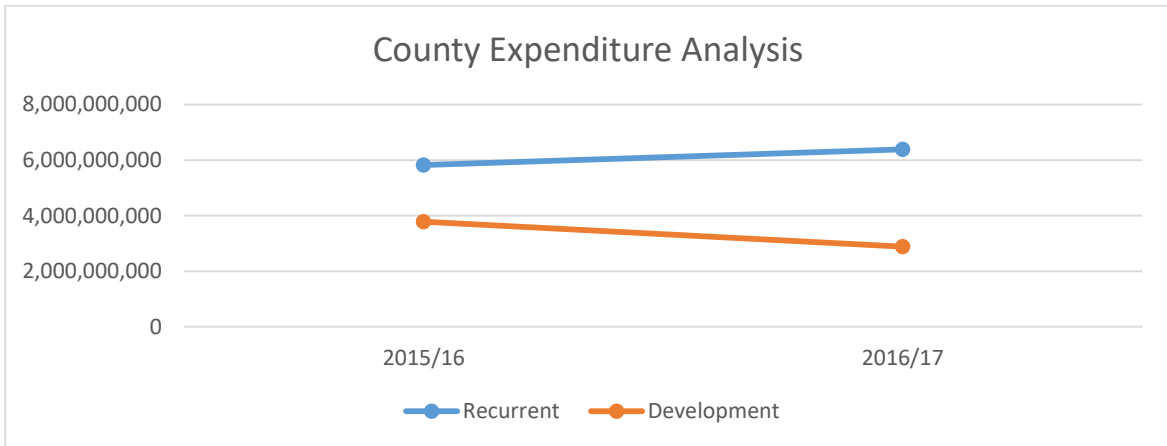
#### **Expenditure Performance**

63. The County spent Kshs.9.27 billion, which was 99.93 per cent of the total funds released for operations. This was an increase of 7 per cent from Kshs. 8 billion spent in a similar period in FY 2015/16. A total of 6,391,631,874 was spent on recurrent Activities 2.88 billion was spent on development activities. The recurrent expenditure was 100.28 per cent of the funds released for recurrent activities while development expenditure accounted for 99.16 per cent of the funds released for development activities. The recurrent expenditure represented 61 per cent of the annual budget, a decrease from



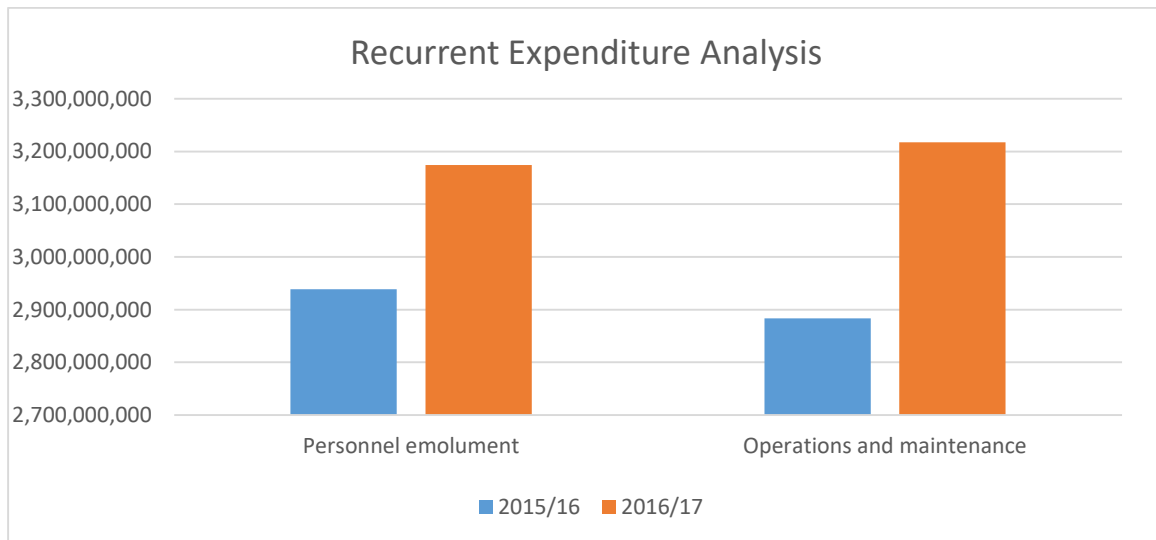
66.7 per cent spent in a similar period of FY 2015/16. Development expenditure recorded an absorption rate of 77 per cent, which was an increase from 75 per cent attained in a similar period of FY 2015/16. Figure 6 presents a comparison between the total expenditure in FY 2016/17 and FY 2015/16.

**Figure 6: County Expenditure Trend for FY 2015/16 - 2016/17**



64. The total recurrent expenditure of Kshs.6.39 billion consisted of Kshs.3.17 billion (49.7per cent) spent on personnel emoluments and Kshs. 3.22 billion (50.3 per cent) on operations and maintenance. Expenditure on personnel emoluments represented an increase of 7 per cent compared to a similar period of FY 2015/16 when the County spent Kshs.2.9 billion. Figure 7 shows the trend.

**Figure 7: Recurrent Expenditure Trend for FY 2015/16 - 2016/17**



65. The total development expenditure of Kshs.2.88 billion represented 76 per cent of the annual development budget of Kshs.3.78 billion. Table 1 shows a summary of budget estimates and budget performance by department for FY 2016/17.

**Table 1: Department Recurrent and Development Budget**

Department	Annual budget allocation (Millions)		FY 2016/17 exchequer issues (Kshs. million)		FY 2016/17 Expenditure to Exchequer issues (%)		FY 2016/17 Absorption rate (%)	
	Rec	Dev	Rec	Dev	Rec	Dev	Rec	Dev
Agriculture, livestock, fisheries and co-operative development	415.1	284.9	399.5	278	6.27	9.57	87	89
Tourism, Forestry, Environment Water and Natural Resources	97.6	249.2	96.4	217.8	1.51	7.50	93	61
Roads and Public works	135.8	1,095	126.6	1,078	1.99	37.12	88	76
Education, Youth and sports	535.7	113.6	532	58.5	8.35	2.01	103	36
Health	2,221.7	190.9	2,003.8	190.3	31.44	6.55	87	72
Trade, energy and industrialization	71.1	112	70	88.4	1.10	3.04	87	91
Lands, Urban and Physical Planning	94.7	163.4	94.1	153.8	1.48	5.30	59	66
Gender, Culture,	91.9	62.6	86.2	4	1.35	0.14	89	7
Housing and Sanitation	45.2	79.1	43.7	56.5	0.69	1.95	72	27
County Assembly	838.4	146.9	838.4	88	13.15	3.03	123	61
Finance and Planning	1,261	1,223	1,223.6	641	19.20	22.07	100	90
County Public Service	47.7	-	46.4		0.73	-	96	
Governors	352.7	-	350.4		5.50	-	86	
D/Governor's office	41.4	-	40.4		0.63	-	197	
Public Administration	352.3	42.3	341.9	35	5.36	1.20	89	75
Sub County Administration	31.8	-	31.8		0.50	-	125	
County Secretary	51.8	21.7	49.1	15	0.77	0.52	76	35
<b>TOTALS</b>	<b>6,685.8</b>	<b>3,784.2</b>	<b>6,374.1</b>	<b>2,904.4</b>	<b>100</b>	<b>100</b>	<b>96</b>	<b>76</b>
<b>PERCENTAGES</b>	<b>64</b>	<b>36</b>						

66. Analysis of budget performance by department shows that the department of Trade, Energy and Industrialization attained the highest absorption rate of development budget at 91 per cent while Gender and Culture Department attained the lowest absorption rate at 7 per cent. On the other hand the Deputy Governor's Office had the highest percentage of recurrent expenditure to recurrent budget at 127 per cent while the Department of Lands, Urban and Physical Planning had the lowest at 59 per cent.

67. Analysis of development outlay indicates that the Department of Finance and Economic Planning accounted for the largest share of the total development expenditures (37.9 percent) mainly on account of Community Empowerment Fund, followed by the Department of Roads and Public Works (27.6 percent), and the Department of Agriculture, Livestock, Fisheries, Irrigation and Cooperatives (10.3 percent).

### C. Fiscal Performance for the FY 2016/17 in Relation to Financial Objectives

68. The fiscal performance in the FY 2016/17 has affected the financial objectives set out in the 2017 CFSP and the Budget for FY 2017/18 in the following ways:

- a. The base for ordinary revenue projections is higher than the actual outcome; as such there will be a downward base effect adjustment in ordinary revenues for FY 2017/18 and the medium term. This adjustment in revenues is expected to translate to a mix of downward adjustment in expenditure projections and upward adjustment in financing for the FY 2017/18. In addition, adjustments will be made to fiscal aggregates to reflect revisions in the macroeconomic projections as well as revenue performance for the first two months of FY 2017/18;
  - b. The baseline ceilings for spending agencies will be adjusted in line with the revised resource envelope under the updated macroeconomic framework in the 2018 Budget Policy Statement. In addition the revisions will take into account the performance in project execution in the FY 2017/18 budget by MDAs and any identified one-off expenditures; and,
  - c. The under-spending in both recurrent and development budget for the FY 2016/17 additionally has implications on the base used to project expenditures in the FY 2017/18 and the medium term. Appropriate revisions have been undertaken in the context of this BROP, taking into account the budget outturn for the FY 2016/17.
69. The reasons for the deviations, as explained above, from the financial objectives include: lower than projected revenue collection; under-spending in both recurrent and development; and under-reporting on A-in-A expenditures by DAs in the FY 2016/17.
70. To remedy these deviations, the fiscal outlook will focus on reforming the tax and revenue administration systems to enhance revenue yields, promote compliance and facilitate private sector growth and development as indicated in the 2017 CFSP. Further, the National Treasury has issued guidelines on how capital projects should be planned, appraised and evaluated before funds are committed in the budget. Resources will be allocated to the capital projects which will have been fully processed to avoid delay in implementation. Further, this project will have been evaluated in the context of their importance in line with the medium and long term development agenda; their impact on poverty; promotion of growth and job creation; and the viability and sustainability of the project.

#### **D. Fiscal Responsibility Principles**

71. In line with the Constitution, the Public Finance Management (PFM) Act, 2012, the PFM regulations, and in keeping with prudent and transparent management of public resources, the County Government has adhered to the fiscal responsibility principles as set out in the statute as follows:
72. The County Government's development expenditure as a percent of total budget was 36 percent in FY 2016/17 and is set to remain above the 30 percent minimum threshold set out in the PFM law over the medium term
73. The law requires that the national government's expenditure on the compensation of employees (including benefits and allowances) shall not exceed 35 percent of the

national government's equitable share of the revenue raised nationally plus other revenues generated by the national government pursuant to Article 209 (4) of the Constitution. In conformity to this regulation, the County Government share of wages and benefits to revenues was 34.4 percent in the FY 2016/17, and is projected at 28.9 percent in the FY 2017/18, declining to 23.2 percent by FY 2020/21.

74. To manage fiscal risks prudently as required, the Government has improved its macroeconomic forecasts and regularly reviews the impact of macroeconomic projections and their implications on the budget. Potential fiscal risks arising from contingent liabilities, including from Public Private Partnership projects among others are taken into account and a contingency provision made to cushion the economy from unforeseeable shocks.
75. On the principle of maintaining a reasonable degree of predictability with respect to the level of tax rates and tax bases, the Government continues to carry out tax reforms through modernizing and simplifying tax laws. In order to lock in predictability and enhance compliance with tax system, the government through the Finance Act, 2016, amended the revenue raising measures exempting the mama mbogas and bodaboda businesses.
76. The County Government fiscal projection provide comparisons between the updated projections in the BROP 2017 and the 2017 BPS for the financial year 2018/19 and in the medium term. The deviations, in the revision in revenues and expenditures are due to the base effect on revenue forecast and macroeconomic assumptions contained in this BROP, which will be firmed up in the context of the 2018 CFSP. The County Government will not deviate from the fiscal responsibility principles, but will make appropriate modifications to the financial objectives contained in the latest CFSP to reflect the changed circumstances.
77. The broad development policies of the County Government provide a clear and progressive approach to stimulate inclusive growth. We shall focus on the following priorities so as to help strengthen resilience and support sustained growth that opens economic opportunities and provides a better future for all people of Bungoma:
  - a. Maintaining a prudent fiscal stance consistent with the medium-term debt targets while pursuing a shift in the composition of expenditure towards development priorities. Adherence to the adopted framework establishing guidelines for county borrowing will be observed.
  - b. Create jobs through the establishment of Special Economic Zones.
  - c. On education; establish a county government sponsored bursary programme for all deserving cases in the county.
  - d. Double the numbers of vulnerable citizens supported through the cash transfer programme to include government funded NHIF cover for the aged (75+ years)

- e. Facilitate mass housing production of at least 500 affordable homes in 5 years across the county.
- f. Ensure every citizen is connected to reliable and affordable electricity (on or off-grid) by 2020.
- g. Expand food and agricultural production, and increase the fertilizer subsidy initiative to reduce cost to farmers and support small-holder agricultural irrigation
- h. Establish a county teaching and referral hospital by the year 2020.
- i. Improve the road network by tarmacking key roads including dualing of the Musikoma - Kanduyi road.

## **IX. RESOURCE ALLOCATION FRAMEWORK**

### **A. Adjustments to the FY 2017/18 Budget**

78. The Medium-Term Fiscal Framework (MTFF) for the FY 2017/18 aims at supporting rapid and inclusive economic growth by narrowing the budget deficit and at the same time supporting the County Government for effective delivery of services.
79. Since the commencement of the financial year, approvals for additional funds have been granted to cater for salary shortfalls, emergencies, unforeseen expenditures and emerging priorities. To ensure that these are accommodated within a sustainable MTFF, and given that the economy has not generated new resources to finance them, the FY2017/18 Budget is being revised to ensure that only priority programmes are funded through trade-offs and reallocations of the existing budgetary provisions.
80. It is also worth noting that even as we commence the preparation of the medium-term budget, the implementation of the FY 2017/18 is facing challenges. The spill over adverse effects of the invasion of army worms, a repeat of Presidential Election scheduled for October 2017, labour industrial unrest especially in the medical field, are some of the challenges we must address. In this regard, austerity measures are being instituted on less productive areas of spending across Government in the context of the FY2017/18 Supplementary Budget.

### **B. Medium Term Fiscal Projections**

81. Over the medium term, driven by continued reforms, revenue collection is expected to rise to about 847 million by 2020/21. Overall expenditures will increase gradually from 10 billion in FY 2017/18 to 11.6 billion in 2020/21. Overall recurrent expenditures are expected to increase from 6.5 billion in 2017/18 to 7.6 billion in the medium term while development expenditure is projected to increase from 3.4 billion in the FY 2017/18 to 4.05 billion over the medium term. The County Government remains committed to reorienting expenditures from recurrent to development and improving the productivity of our resources.

82. The overall budget constraints is projected to ease in the medium term, as major infrastructural projects currently being implemented by the County Government are completed. This will reinforce policy of consistency and predictability of government spending and will be achieved through the following strategies:
- a. Directing more resources coming from enhanced revenue collection to development related activities as we curtail recurrent spending;
  - b. Ensuring efficient and effective public spending; and
  - c. Ensuring that capital expenditure proposals have been thoroughly scrutinized and prioritized so that only high impact projects are accommodated using scarce resources.

### **C. 2018/19 FY Budget Framework**

83. Revenue Projections: The FY 2018/19 budget targets revenue collection including Appropriation-in-Aid (AiA) of Kshs 768,492,370 up from Kshs 731,897,495 in the FY 2017/18. This revenue performance will be underpinned by on-going reforms in revenue administration. Ordinary revenues will amount to Kshs 524 million in FY 2018/19 up from Kshs 499 million in FY 2017/18.
84. Expenditure Projections: In the FY 2018/19, overall expenditure is projected at Kshs 10,529,559,528 up from the estimated Kshs 10,028,151,931 in the FY 2017/18 approved budget. These expenditures comprises among others, recurrent of Kshs 6,530,860,096, development of Kshs 3,497,291,835.
85. In terms of percentage, the wages and salaries bill for civil servants is expected to increase to 48.9 percent in the FY 2018/19 from 44.0 percent in the FY 2017/18.
86. A contingency of Kshs 100 million is provided for in the FY 2018/19 budget. In addition, Kshs 480 million is provided for as conditional grants to health services, an increase from the ksh.457 million provided in the FY 2017/18 budget.
87. Overall deficit and financing: Reflecting the projected expenditures and revenues, the overall fiscal balance (on a commitment basis and excluding grants), is projected at Kshs 643.3 billion in the FY 2018/19. Including grants, the overall fiscal balance is projected at Kshs 592.8 billion in FY 2018/19 against the estimated overall fiscal balance of Kshs 691.2 billion in FY 2017/18. The deficit including grants in the FY 2018/19 is projected at 5.4 percent lower than the 7.2 in FY 2017/18.
88. The fiscal deficit in FY 2018/19, will be financed by net domestic borrowing and other net receipts of Kshs 4.2 billion

### **D. Medium-Term Expenditure Framework**

89. Resource allocation will continue to be aligned to development programmes/projects under the economic transformation agenda. The fiscal policy stance for the medium-term will be geared towards implementing growth-oriented

policies anchored on moderation of public expenditure growth. The composition of expenditure will focus on productive capital projects and priority commitments, while protecting budgetary allocations to social sectors, namely; education, health. The FY 2018/19 MTEF Budget will therefore focus on the following:

- a. Employment creation and youth empowerment;
  - b. Improving food security through subsidized inputs and increasing the acreage under irrigation;
  - c. Improving infrastructure connectivity across the county;
  - d. Increasing connectivity to reliable and affordable energy; and
  - e. Enhancing social welfare programmes in health, education and social protection.
90. Resources earmarked for strategic interventions in the areas of social welfare, youth and women empowerment will be ring-fenced over the medium term.
91. Reflecting the above medium-term expenditure framework for FY 2018/19, Annex 1 provide the tentative projected baseline ceilings for the medium-term period covering FY2018/19 – 2020/21 classified by sector.

## ANNEXES

### ANNEX 1: MEDIUM TERM SECTOR CEILINGS FY 2018/19-2021

Sector		Estimates	Ceiling	Projection		% share of total expenditures			
		2017/18	2018/19	2019/20	2020/21	Estimates 2017/18	Ceiling 2018/19	Projections	
								2019/20	2020/21
Agriculture and Irrigation	<b>Sub Total</b>	<b>466,053,770</b>	433,744,568	455,431,797	478,203,387	4.6	4.1	4.1	4.1
	Rec. Gross	217,675,668	202,585,291	212,714,556	223,350,283	2.2	1.9	1.9	1.9
	Dev. Gross	248,378,102	231,159,277	242,717,241	254,853,103	2.5	2.2	2.2	2.2
Livestock and Fisheries	<b>Sub Total</b>	<b>264,192,109</b>	245,876,977	258,170,826	271,079,367	2.6	2.3	2.3	2.3
	Rec. Gross	172,537,105	160,575,961	168,604,759	177,034,997	1.7	1.5	1.5	1.5
	Dev. Gross	91,655,004	85,301,016	89,566,067	94,044,370	0.9	0.8	0.8	0.8
Cooperative Development	<b>Sub Total</b>	<b>79,583,734</b>	74,066,587	77,769,917	81,658,413	0.8	0.7	0.7	0.7
	Rec. Gross	44,196,063	41,132,168	43,188,777	45,348,216	0.4	0.4	0.4	0.4
	Dev. Gross	35,387,671	32,934,419	34,581,140	36,310,197	0.4	0.3	0.3	0.3
Environment and Tourism	<b>Sub Total</b>	<b>136,818,628</b>	127,333,670	133,700,353	140,385,371	1.4	1.2	1.2	1.2
	Rec. Gross	35,991,394	33,496,289	35,171,103	36,929,658	0.4	0.3	0.3	0.3
	Dev. Gross	100,827,234	93,837,381	98,529,250	103,455,712	1	0.9	0.9	0.9
Water	<b>Sub Total</b>	<b>308,807,451</b>	287,399,359	301,769,327	316,857,793	3.1	2.7	2.7	2.7
	Rec. Gross	63,307,763	58,918,949	61,864,897	64,958,141	0.6	0.6	0.6	0.6
	Dev. Gross	245,499,688	228,480,410	239,904,430	251,899,652	2.4	2.2	2.2	2.2
Roads, infrastructure and public works	<b>Sub Total</b>	<b>884,889,724</b>	2,079,879,710	2,183,873,695	2,293,067,380	8.8	19.8	19.8	19.8
	Rec. Gross	119,756,144	111,454,043	117,026,745	122,878,083	1.2	1.1	1.1	1.1
	Dev. Gross	765,133,580	1,968,425,667	2,066,846,950	2,170,189,297	7.6	18.7	18.7	18.7
Education and Vocational Training	<b>Sub Total</b>	<b>633,227,012</b>	530,642,547.42	557,174,675	585,033,409	6.3	5.0	5.0	5.0
	Rec. Gross	615,205,012.00	514,668,619.87	540,402,051	567,422,153	6.1	4.9	4.9	4.9
	Dev. Gross	18,022,000.00	15,973,927.55	16,772,624	17,611,255	0.2	0.2	0.2	0.2



Youths and Sports	<b>Sub Total</b>	<b>23,451,050</b>	20,786,004.53	21,825,305	22,916,570	0.2	0.2	0.2	0.2
	Rec. Gross	3,451,050	3,058,862.65	3,211,806	3,372,396	0	0.0	0.0	0.0
	Dev. Gross	20,000,000	17,727,141.88	18,613,499	19,544,174	0.2	0.2	0.2	0.2
Health services and sanitation	<b>Sub Total</b>	<b>2,242,840,465</b>	2,087,355,435	2,191,723,207	2,301,309,367	22.4	19.8	19.8	19.8
	Rec. Gross	2,113,820,839	1,967,280,101	2,065,644,107	2,168,926,312	21.1	18.7	18.7	18.7
	Dev. Gross	129,019,626	120,075,334	126,079,101	132,383,056	1.3	1.1	1.1	1.1
Trade, Energy and Industrialization	<b>Sub Total</b>	<b>200,343,801</b>	186,454,957	195,777,704	205,566,590	2	1.8	1.8	1.8
	Rec. Gross	57,197,174	53,231,977	55,893,576	58,688,254	0.6	0.5	0.5	0.5
	Dev. Gross	143,146,627	133,222,980	139,884,129	146,878,335	1.4	1.3	1.3	1.3
Lands, Urban/ Physical Planning and Housing	<b>Sub Total</b>	<b>292,675,743</b>	272,385,982	286,005,281	300,305,545	2.9	2.6	2.6	2.6
	Rec. Gross	91,632,066	85,279,668	89,543,652	94,020,834	0.9	0.8	0.8	0.8
	Dev. Gross	201,043,677	187,106,314	196,461,630	206,284,711	2	1.8	1.8	1.8
Gender and Culture	<b>Sub Total</b>	<b>163,394,742</b>	152,067,393	159,670,763	167,654,301	1.6	1.4	1.4	1.4
	Rec. Gross	83,028,021	77,272,099	81,135,704	85,192,489	0.8	0.7	0.7	0.7
	Dev. Gross	80,366,721	74,795,294	78,535,059	82,461,812	0.8	0.7	0.7	0.7
Housing	<b>Sub Total</b>	<b>72,583,830</b>	67,551,952	70,929,550	74,476,027	0.7	0.6	0.6	0.6
	Rec. Gross	30,932,030	28,787,665	30,227,049	31,738,401	0.3	0.3	0.3	0.3
	Dev. Gross	41,651,800	38,764,287	40,702,501	42,737,626	0.4	0.4	0.4	0.4
Sanitation	<b>Sub Total</b>	<b>26,884,776</b>	25,020,987	26,272,037	27,585,638	0.3	0.2	0.2	0.2
	Rec. Gross	2,315,641	2,155,109	2,262,864	2,376,007	0	0.0	0.0	0.0
	Dev. Gross	24,569,135	22,865,878	24,009,172	25,209,631	0.2	0.2	0.2	0.2
County Assembly	<b>Sub Total</b>	<b>1,126,485,240</b>	1,048,391,593	1,100,811,173	1,155,851,732	11.2	10.0	10.0	10.0
	Rec. Gross	873,394,203	812,846,105	853,488,411	896,162,831	8.7	7.7	7.7	7.7
	Dev. Gross	253,091,037	235,545,488	247,322,762	259,688,900	2.5	2.2	2.2	2.2
Finance and Planning	<b>Sub Total</b>	<b>2,005,692,874</b>	1,866,648,113	1,959,980,519	2,057,979,544	20	17.7	17.7	17.7

	Rec. Gross	1,000,304,209	930,958,068	977,505,972	1,026,381,270	10	8.8	8.8	8.8
	Dev. Gross	1,005,388,665	935,690,044	982,474,547	1,031,598,274	10	8.9	8.9	8.9
County Public Service	<b>Sub Total</b>	<b>71,815,591</b>	66,836,971	70,178,820	73,687,761	0.7	0.6	0.6	0.6
	Rec. Gross	71,815,591	66,836,971	70,178,820	73,687,761	0.7	0.6	0.6	0.6
	Dev. Gross	0	0	0	0	0	0.0	0.0	0.0
Governors	<b>Sub Total</b>	<b>390,447,827</b>	363,380,011	381,549,012	400,626,462	3.9	3.5	3.5	3.5
	Rec. Gross	385,947,827	359,191,974	377,151,572	396,009,151	3.8	3.4	3.4	3.4
	Dev. Gross	4,500,000	4,188,037	4,397,439	4,617,311	0	0.0	0.0	0.0
D/Governors office	<b>Sub Total</b>	<b>46,007,720</b>	42,818,232	44,959,144	47,207,101	0.5	0.4	0.4	0.4
	Rec. Gross	43,409,642	40,400,266	42,420,280	44,541,294	0.4	0.4	0.4	0.4
	Dev. Gross	2,598,078	2,417,966	2,538,864	2,665,808	0	0.0	0.0	0.0
Public Administration	<b>Sub Total</b>	<b>440,859,846</b>	410,297,215	430,812,075	452,352,679	4.4	3.9	3.9	3.9
	Rec. Gross	412,646,656	384,039,906	403,241,901	423,403,996	4.1	3.6	3.6	3.6
	Dev. Gross	28,213,190	26,257,309	27,570,175	28,948,683	0.3	0.2	0.2	0.2
Sub County Administration	<b>Sub Total</b>	<b>36,565,000</b>	34,030,130	35,731,636	37,518,218	0.4	0.3	0.3	0.3
	Rec. Gross	36,565,000	34,030,130	35,731,636	37,518,218	0.4	0.3	0.3	0.3
	Dev. Gross	0	0	0	0	0	0.0	0.0	0.0
County Secretary	<b>Sub Total</b>	<b>114,531,000</b>	106,591,133	111,920,689	117,516,724	1.1	1.0	1.0	1.0
	Rec. Gross	55,731,000	51,867,446	54,460,818	57,183,859	0.6	0.5	0.5	0.5
	Dev. Gross	58,800,000	54,723,687	57,459,871	60,332,865	0.6	0.5	0.5	0.5
<b>TOTALS</b>		<b>10,028,151,931</b>	10,529,559,527	11,056,037,504	11,608,839,379	100	100.0	100.0	100.0

