REPUBLIC OF KENYA

COUNTY GOVERNMENT OF BOMET

Vision: *To Be a Prosperous and Competitive County Offering High Quality Services to Its Citizens*

THE COUNTY TREASURY

MEDIUM TERM
COUNTY FISCAL STRATEGY
PAPER

To obtain a copy of this document, please contact

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Legal basis for the publication of County Fiscal Strategy Paper

The County Fiscal Strategy Paper is published in accordance with section 117 of the Public Finance and Management Act, 2012. The law states that

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

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

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

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

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

(a) the Commission on Revenue Allocation;

(b) the public;

(c) any interested persons or groups; and

(d) any other forum that is established by legislation.

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

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

(8) The County Treasury shall publish and publicise the County Fiscal Strategy Paper within seven days after it has been submitted to the county assembly.

Fiscal Responsibility Principles for the County Government

In line with the Constitution, the Public Finance and Management Act, 2012 sets out the fiscal responsibility principle to ensure that prudent and transparent management of public resources. The PFM law (Section 107) states that:

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

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

(a) the county government's recurrent expenditure shall not exceed the county government's total revenue;

(b) over the medium term a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure;

(c) the county government's expenditure on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenue as prescribed by the County Executive member for finance in regulations and approved by the County Assembly;

(d) over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;

(e) the county debt shall be maintained at a sustainable level as approved by county assembly;

(f) the fiscal risks shall be managed prudently; and

(g) a reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.

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

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

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

Forward

This 2014 County Fiscal Strategy Paper (CFSP), the first to be prepared under the new County Government of Bomet, sets out the administration's priority programs to be implemented under the Medium Term Expenditure Framework (MTEF). As provided by legislation this CFSP takes into account national policies and priorities as espoused by the national Budget Policy Statement.

The BPS outlines five pillars which underlie the national policy transformation, namely: **(i)creating conducive business environment to encourage innovation, investment, growth and expansion of economic and employment activities, (ii) Investing in agricultural transformation and food security to expand food supply, reduce food prices, support expansion of agro-processing industries and spur export growth, (iii) investment in first class transport and logistics hub and scaling investment in other key infrastructure, including roads, energy and water to reduce cost of doing business and improve competitiveness; (iv) investing in quality and accessible health care services and education as well as social safety net to reduce burden on household and compliment and sustain our long term growth and development; and (v) entrenching devolution for service delivery and enhanced economic development.**

The CFSP provides county priorities build on these national priorities, which address the challenges which continue to hold us back from achieving the full potential of the county. The county priorities will to accelerate growth of the county's economy and the standard of living of the citizens.

DAVID K. CHERUIYOT

EXECUTIVE MEMBER FOR FINANCE/COUNTY TREASURY

Acknowledgment

This is the first County Fiscal Strategy Paper (CFSP) to be prepared for tabling in the County Assembly under the Public Finance Management Act (PFMA) 2012. It outlines the broad strategic issues and fiscal framework together with summary of government revenues and spending, as a basis for 2014/15 budget and in the medium term. It is expected that this document will create and improve the understanding of the public finances. It is also expected it will inform and guide the public debate on the county development matters.

The preparation of the 2014 CFSP has been collaborative. The information and data used to produce the report was obtained from the ministries and other government entities. We are very grateful for the support received by the Treasury in producing this Paper. We are also grateful for the comments received from the stakeholders on the 2014/15 County Budget Review and Outlook Paper (C-BROP) which provided input to the 2014 CFSP. We are particularly grateful for the views received from stakeholders during the public participation forum on the 26th February, 2014 in Brevan Hotel, Bomet.

We would like to register sincere gratitude to the Governor and the Deputy Governor for the direction and guidance they gave us in the process of putting together this strategy. Special thanks go to the Executive Committee Members, Chief Officers, Accounting Officers, Directors and other members of staff who participated.

A core team chaired by Treasury spent a significant amount of time putting this strategy together. We wish to express special thanks to the following members of the task force who worked tirelessly to prepare this document under my chairmanship and guidance: Bill Ruto, Isaac Kitur, Ronald Sang, Lena Rono, Langat Kiprono, Eng. Korir K., Kilelson Mutai, Stella Chemutai, Linus Kipkirui, Isaac Kimisoi, Eng. Victor Koech, Dr. Bernard Sawek, Johnstone Rono, Hellen Abuya, Philip Cheruiyot, Wesley Sigei and Corazon Koech. Since it would not be possible to list everybody individually in this page, I would like to take this opportunity to thank the entire staff of the Treasury for their dedication, sacrifice and commitment to public service

Finally, I would like to thank Dr Nehemiah Ng'eno who guided the whole process to finality.

ROSE KOSITANY
CHIEF FINANCE OFFICER/COUNTY TREASURY

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CHAPTER ONE: THE OVERVIEW

1.1. Introduction

1.1.1. County Treasury

The Bomet County Treasury is established in accordance with Section 103 of the Public Finance Management (PFM) Act, 2012. It is responsible for managing the public finances and economic affairs of the County. Its specific functions and powers include:

i. develop and implement financial and economic policies;
ii. prepare and coordinate the implementation of annual budget, including estimates of revenue and expenditures;
iii. mobilize resources to finance county functions;
iv. manage the public debt;
v. prepare annual appropriation accounts;
vi. custody of county assets;
vii. ensure accounts are managed and controlled in accordance with prescribed standards; and,
viii. report to the County Assembly on the execution of the county budget.

In order to achieve these responsibilities the executive member for finance is empowered by legislation to issue regulations governing county financial management, including the budget making process. One of the important aspects of budget preparation is the requirement by Section 117 of the PFM Act that before 28th February of each financial year, each County Treasury shall submit a County Fiscal Strategy Paper (FSP) to the County Assembly. The Paper is also expected to be aligned to the national policies and objectives outlined in the Budget Policy Statement.

1.1.2. Rationale for FSP

The FSP outlines the macroeconomic performance of the county which informs and guides the formulation of budget, tax and revenue policies. The main result of the FSP process is an estimate of resources that will be available to finance county recurrent and development expenditures. In other words, the FSP will establish the ceilings for the county budget, including those of departments. The ceilings shall be estimated for a three year budget cycle and once approved shall be binding for the next two years.

The information on the county's economic position which informs the process includes the current and a two year forecasts of economic performance of the county in general and at the sector level; the cost of living; and the rate of investments. The assumptions underpinning the forecasts should be discussed in sufficient detail.

The county budget, including three year forecasts, shall include:

i. revenues classified by main categories;
ii. expenditures by economic and functional classifications;
iii. capital expenditures;
iv. deficit/surplus position; and,
v. level of public debt and guaranteed debt.

Analysis and explanations of any policy changes should be provided and may include: revenue policy and any change in taxes which may have an impact on revenues; deficit and debt policy; and, expenditure policy. The expenditure policy will include expenditure priorities, consolidated budgets and budget ceilings. Whether the fiscal strategy adheres to the fiscal responsibility principles will be explained. A risk analysis of issues which may have material effect on the fiscal and economic forecasts will be provided.

Finally, the Paper will outline the county's spending plans for the next financial year and estimates for the following three years and actual estimates for the current year. The plans will include details of expenditure priorities; detailed budget expenditures by budget line; and, priority investments by spending authority.

1.1.3. Role of other ministries/departments

The role of county departments during the process has been to identify and develop priorities and programmes and estimate of expenditures and revenues. The departments will actually take the lead in implementation of these activities since they have the information and will take responsibility for the outcomes.

1.1.4. Role of other stakeholders

In compliance with the constitutional requirements on public participation stakeholders were consulted before this document was finalized. The PFM Act (s. 107(5)) requires that the following stakeholders must be consulted and that their views should be taken into account:

Commission on Revenue Allocation (CRA)

Among the constitutional functions of CRA is to provide advice by way of recommendations on the financing of activities of county governments and financial management by the counties. Some of the matters CRA is expected to consider and provide advice on revenue enhancing measures and sources and adherence to fiscal responsibility principles. It is in these respects that CRA is an important stakeholder in the budget process in the counties.

The public

Five people were invited from each sub-county to participate in public consultations on the Paper. These participants were drawn from a list of people already identified up to the ward level as opinion leaders for stakeholder consultation purposes. They represent the business community, NGOs including CBOs, the youth, women and other marginalized and disadvantaged groups. Special interest groups were also invited to represent Bomet and Sotik towns because of their concerns for tax policies and the business climate in the county.

Other interested persons or groups

Members of the County Budget and Economic Forum were invited to the consultations, although their role in the process is mainly to review and approve the paper. Their participation was, however, seen as important because as this is the first Strategy Paper for the county the presence of all the stakeholders was considered necessary to develop and agree on best practices in the process.

1.2. Legal Framework for FSP

1.2.1 Legal basis of FSP

Other the requirement that the FSP must be submitted to the county assembly by 28th February, the PFM Act (s. 117) sets two other timelines; (1) that the county assembly must consider the FSP within 14 days of submission by the County Treasury and (2) the Treasury must publish and publicise the Paper within 7 days of submission to the assembly. As required under the law, the Treasury shall consider the views of the assembly on the FSP when finalizing the annual budget of the county.

The draft PFM Regulations provide further guidelines on the development of the FSP. It goes into details regarding the contents of the FSP and covers the purpose of the strategy, contents of the macroeconomic framework, and contents of the fiscal framework. This FSP has followed the guidelines of the draft regulations although it has not been passed. In future the development of the FSP will be guided by both the national and the county PFM regulations.

1.2.2 Fiscal Responsibility Management

These principles apply to both levels of government, but in practice the application of the principles will differ in some cases. The review of the principles here places emphasis on how they apply to the county government.

i. **Recurrent expenditure should exceed total revenue:** the application of this principle will differ between national and county governments. At the national level recurrent expenditure can take up even all the total revenue. This is why development is usually funded through local borrowing or external loans or grants. This is not possible for the counties because access to local borrowing and external resources is constraint by law.

ii. **In the medium term 30% of the budget shall be allocated to development expenditure:** in light of the argument above this principle means that 70% of the budget will be allocated to recurrent expenditure.

iii. **Wages shall not exceed a percentage of total revenues prescribed by regulations:** as discussed above neither the national nor county regulations have been passed, however the draft national regulations proposes a ratio of 35 percent. This translates to about 50% of recurrent expenditure meaning that the remaining resources will be allocated to allowances and O&M. This percentage will suffice for this financial year, but actual target will be agreed through public participation in the process of discussing draft county PFM regulations to be developed by the county executive for finance.

iv. **In the medium term borrowing shall be undertaken only for the purpose of financing development expenditure:** as discussed this in the short term is not possible for the county as modalities for borrowing are not yet in place. This includes legislation and regulations governing borrowing by the county and a clear policy on the terms and conditions for guarantees by the national government.

v. **Short term borrowing shall be for purpose of cash flow management and shall not exceed 5% of the most recent audited revenue:** any such borrowing will mostly be in the form of bank overdrafts, but regulations should be enacted to provide for the terms and conditions under which the county departments can overdraw their accounts in the banks. Arrangements similar to those available to the national government should be considered and provided for by legislation.

vi. **Debt shall be maintained at a sustainable level approved by the assembly:** the county does not intend to finance any of its activities through debt in the short term. However, a debt policy providing for debt sustainability will be developed and presented to the assembly for approval in the FY 2014/15.

vii. **Fiscal risks to be maintained prudently:** the budget projections do not provide for deficits hence the risks are minimized.

viii. **Tax rates and tax bases shall be predictable:** taxation has been a thorny issue and is being addressed comprehensively through extensive stakeholder consultations. It is expected that the next finance bill will provide for tax rates which meet the best practices in tax policy and predictable tax bases.

1.2.3 Conclusion

The main message of this section is that FSP has a legal founded and requires the contribution not only of the Treasury, which initiates the process, but also those of other stakeholders particularly the public. The role of county ministries in the process is to identify and allocate resources to priorities. As ministries develop spending plans it is important that they adhere to the required fiscal responsibility principles. Thus the plans must be within ceilings set by the Treasury.

1.3. Outline of the FSP

Economic Environment and Outlook

Section 2 outlines the economic environment in which the 2014/15 county MTEF budget is prepared. An overview of global and national economic outlook and their implication on the county economy is also provided. This is followed by a review of the economic performance and prospects of the county.

The main message is that growth prospects of the world economy, and particularly the Euro-Zone and the US, has picked up following the 2008 global recession. Since the county economy is dominated by agriculture, higher growth especially in the Euro-Zone which the major destination of county product such as tea and horticulture will have positive effects on the county economy. The same applies with good performance of the national economy.

Analysis of the county economy is faced by lack of macroeconomic data and other data necessary for development planning. The county will in the medium term work with the national government and other stakeholders, such as institutions of higher learning and development partners, to address the problem. Technical assistance will be sought and local capacity will be build to develop and implement a macroeconomic model to generate county data.

Fiscal and Budget Framework

Section 3 outlines the fiscal performance of the county, including the sources of revenue and projections into the medium term. It is evident that the county has a narrow tax base and thus the county will depend on national revenue allocations into the foreseeable future.

The section provides proposals for fiscal reform which are administrative and legal in nature. Administrative reforms are geared to improve tax administration while legal reforms are to provide the powers to the county to raise revenues assigned by the constitution.

In the fiscal year 2014/15 and the medium term the county will run a balanced budget. This implies that there will be low or no fiscal risks and the county budget thus the county is likely to meet all the fiscal responsibility principles.

Medium Term Expenditure Framework

The resource envelope for the county and spending projections for 2014/15 are provided in section 4. Sector priorities are given in detail to illustrate the importance of taking into account budget constraints in priority setting. Over 50 percent of the budget is allocated to development expenditure and the sectors will the largest allocations are health, roads, water, agriculture and social protection.

Conclusions

Section 5 of FSP concludes.

1.4. Summary

The FSP has been prepared to provide information and to explain to the public county priorities for 2014/15 and the medium-term and how the priorities are to be funded. The paper provides details of major public investments the county proposes to undertake to realize the objectives of CIDP and Kenya Vision 2030. These investments will be funded through county resources, but for many of them the required funds are beyond the means of the county and therefore will require external support either from the national government or development partners while others may be implemented through PPPs.

2. CHAPTER TWO: ECONOMIC ENVIRONMENT AND OUTLOOK

2.1. Global Environment

2.1.1 Growth and prospects of global economy

The global economy has an impact on the county economy and therefore has to be taken into account in formulating the county's economic policies. As a result of the 2008 economic crisis the Euro Zone, the USA and most of the world economies went into severe recession. Despite strong expansionary policies economic growth particularly in the Euro Zone and USA has been sluggish and has only recently began to move to recovery trajectory.

The emerging markets and developing countries though, not negatively affected as the developed economies by the 2008 global recession, have witnessed stronger economic growth. These countries include China and India which have become Kenya's major trading partners albeit with large trade balances in their favour. The others are the countries of the EAC and COMESA regional blocs which are Kenya's main export markets.

The world economy is now projected to grow by 3.7% in 2014 up from 3% in 2013 and is further projected to increase to 3.9% in 2014. The US economy is projected to rise from 1.8% in 2013 to 2.8% in 2014 and 3% in 2015. Similarly, growth in the Euro Zone is projected to increase from -0.4% in 2013 to 1% in 2014 and 1.4% in 2015.

The emerging markets and developing countries are projected to experience positive growth going forward. In general, these economies are projected to grow by 5.1% in 2014 and 5.4% in 2015. China is projected to grow by 7.5% and 7.3% in 2013 and 2015, respectively while India is projected to grow by 5.4% and 6.4% during the same period. On the other hand, the growth rates of EAC and COMESA the major destination of Kenya's exports are projected to be 6.3% in 2013 and 6.7% in 2014 and 5.7% in 2013 and 6.6% in 2014, respectively.

2.1.2 Likely impact on county economic performance

The performance of the economies of Kenya's trading partners affects the county economy directly through demand for goods and services produced in the county and indirectly through increased investments in the national economy. The growth of major trading partners may also directly positively affect the county economy if that affords them to invest directly in the county.

Europe and USA are the major consumers of some of the products produced in the county, namely tea, flowers and coffee. As the county promotes tourism the same trading partners will be the major source of tourists. Therefore as they prosper there will be increased demand for exports originating from the county and more tourists will visit the county.

The contribution of the regional economies on the economic performance of Bomet county is likely to be minimal. This is largely because most of Kenya's exports to the two regional blocs are manufactured goods which originate mainly from Nairobi and possibly a couple of other counties. Promotion of industrial enterprises is the only way for the county to benefit from Kenya's trade relations with EAC and COMESA.

2.2. National Situation

i. Growth, challenges and prospects for national economy

The national economy has underperformed all the long term growth targets. It was projected under the First MTP 2008-2012 that real GDP would steadily grow from 4.5% in 2008 to 10% in 2012. However, at no time have the actual growth rates come close to the projections. It is now projected the economy will increase from 4.4% in 2012 to 5.1% in 2013 and thereafter rise to 5.8% in 2014 and 6.4% and 6.8% in 2015 and 2016 respectively.

The national government underpins the movement out of the seemingly low growth equilibrium on the rising global economic growth; and stable domestic macroeconomic environment and sustained investment programmes. In historical context the current growth projections are ambitious, but they are attainable with sound socioeconomic and political policies.

ii. Likely impact on economic performance of the county

Growth of the national economy is inextricably linked to those of the counties. An expanding national economy will lead to higher revenues and ultimately higher allocations to the country governments to finance development and provision of social services. Higher growth also raises household incomes thus generally raising demand for goods and services.

More importantly good macroeconomic policies are vital for improving the livelihood of all Kenyans, especially the poor. Low inflation and interest rates are key to higher overall economic growth and improved social welfare, while stable exchange rates will promote exports. It is therefore in the interest of counties that macroeconomic stability at the national level is maintained.

iii. National objectives and economic policies

The specific policies that the national government plans to implement to promote a vibrant economy include ensuring stable inflation, interest rates and exchange rates. Inflation is targeted to decline from the current projected average rate of 6 percent to 5 percent and to stabilize at that rate in the medium term. On the fiscal side the policy is to ensure sustainability of public debt through sustained fiscal consolidation.

At the sector level, agriculture reforms, irrigation and value addition in agriculture are seen as the drivers of growth. Investments in infrastructure which have contributed to economic progress in the last few years are to be continued. The major areas in this process are roads, energy, ports and the construction of the standard gauge railway. Other initiatives are reforms to improve investment climate, including security; and, increased investments in education, health and social protection. The national government plans to enhance the growth of exports by expanding regional markets and through establishment of special economic zones and commodity exchanges.

The national government identifies several risks which could negate the impact of the reforms and policy initiatives on growth. This include lower than expected growth in developed economies that may have a negative impact on earnings from exports and tourism; poor geopolitical environment which have a negative impact of the world oil market and Kenya's manufacturing sector; high recurrent expenditures especially linked to wages and interest rates. The national government also views devolution as a risk and particularly with respect to the management of public finances.

2.3. County economic performance and prospects

Overview of county economy

The economy of the county is dominated by agriculture and most households earn their livelihood from the sector. The main products of the sector are tea, maize, milk and other livestock products. These products are exposed to the vagaries of the weather and international markets. The industrial sector is very small and limited to agro-processing mainly of tea and milk. The services sector such trade and tourism is small.

Review of the global and national economic performance indicates good prospects for growth which bodes well for the county as demand for its products is likely to rise. However, the county can only benefit from these prospects if its products are competitive.

Other challenges that should be addressed are the declining world prices of tea, the disease currently affecting disease maize and the weak cooperative sector. The recent decline in the prices of tea is a result of glut and decline in demand for tea in traditional markets, in particular North Africa, Middle East, Iran, Afghanistan and Pakistan. This will be addressed through diversification of markets and value addition, including marketing of Kenyan tea as specialty. The county in this respect will work with the Tea Directorate of the Agriculture, Fisheries and Food Authority.

The county will work with KARI and other research institutions for find a lasting solution to the maize disease. A concerted effort has been initiated to revive and strengthen cooperative societies so that they can function as anchors for improving the livelihoods of households.

The most serious challenge facing development planning in the county is lack macroeconomic data for analyzing the performance of the county. This means specific indicators such as economic performance of the county and key prices are not available. Unless these are developed effective budgeting will not be possible. The county will work with the national government and other institutions to develop a macroeconomic framework for the county which help generate all the required data. This will be accompanied by building capacity for planning and economic analysis in the Planning Department.

Strategic Priorities and Policies

In allocating resources the county will give priority to the following sectors which have been agreed as priority sectors: health, roads, water, agriculture and social protection. The main objectives and activities in these sectors are:

Health: employment of more health personnel and ensuring that medicines are available and that over the next five years there will be an ambulance at every health centre.

Roads: more roads will be graded and graveled to good condition and more bridges will be built to improve transport and connectivity within the county.

Water: Bosto, Kibusto, Mugango and Iria-Maina water schemes will be developed to supply water to the whole county; new dams will be built and existing dams and water pans will be rehabilitated in the drier parts of the county.

Agriculture: productivity of the agriculture sector will be enhanced by provision of increased and relevant extension services, enhanced surveillance and control of pests and crop and animal diseases, and availability of sufficient quality and affordable inputs. A county fund will be established to support women, the youth and cooperatives to promote agro-based enterprises.

Social Protection: establishment of an Old Age Fund to support cash transfers to those over 70 years.

Alignment of Priorities to National Objectives

The medium term strategy and policies are contained the 2014 Budget Policy Statement. The following priorities outlined in the BPS clearly indicate that county priorities are aligned to national priorities.

Creating conducive business environment: to encourage innovation, investment, growth and expansion of economic and employment activities.

Investing in agricultural transformation and food security: to expand food supply, reduce food prices, support expansion of agro-processing industries and spur export growth.

Investment in transport and logistics: including roads, energy and water to reduce cost of doing business and improve competitiveness.

Investing in quality and accessible health care services and education as well as social safety net: to reduce burden on household and compliment and sustain our long term growth and development.

Entrenching devolution: for service delivery and enhanced economic development.

Risk to Implementation of Priorities

The risks which face the implementation of county priorities in the 2014/15 fiscal year and the medium term is slow growth in global and national economy. At the international level, an emerging risk is the failure by the EAC countries to agree on an Economic Partnership Agreement with the European Union. This will have a negative impact on county exports such as tea and horticultural products with severe effect on the county economy. At the county level, the persistence of the disease that has negatively production of maize is a major threat. In the parts of the county which are prone to drought there is always a risk of hunger.

The county will use intergovernmental mechanisms to lobby the national government to pursue growth oriented policies and to ensure that EAC reaches an amicable agreement with the EU on the EPAs impasse. The county will work with KARI and other research institutions to address the maize disease menace. It will also encourage the adoption of drought resistant crops and implement small scale irrigation projects.

2.4. Summary

As agriculture based economy, the county is dependent global economic prospects and the vagaries of weather. Since these are exogenous factors the county cannot influence them by way of policy. However, as the county takes full control of its policy levers it will work on the supply side of the sector to address some of the problems. Cooperatives will be supported to raise agricultural productivity through support to producers to enhance value addition. The government will supplement efforts by the national government by ensuring that fertilizers and other inputs are available to the farmers at affordable prices.

3. CHAPTER THREE: FISCAL AND BUDGET FRAMEWORK

3.1. Overview

The first budget of the county (2013/14) was prepared during the transition period under the guidance of the Transition Authority. The 2014/15 budget will therefore be the first budget to be prepared by the county government. The 2014 Medium-Term Fiscal and Budget Framework will guide the development of the county Medium Term Expenditure Framework (MTEF) that is compliant with the Public Finance Management Act (PFM) of 2012 and other relevant legislation. Fiscal reforms to be implemented in the period will emphasize the development of institutions and mechanisms to promote efficient revenue mobilization, while ensuring social equity and conducive environment for doing business. The reforms will also promote prudent expenditure, while ensuring resources are directed to county priorities.

The institutional reforms and development of mechanisms to drive the fiscal framework will be underpinned by legislation to guarantee policy certainty. Priority in this respect will be enactment of revenue legislation and the strengthening of the revenue functions in the county Treasury.

3.2. Fiscal Performance

i. Fiscal policy

The tax base for the county is very narrow as it is mainly a rural county with underdeveloped resource base. National revenue allocations will therefore form a large share of total revenues for some time to come. This share is estimated to be 92.7% and 92.9% in 2013/14 and 2014/15 respectively.

The county is using the tax bases and rates previously used by the former local authorities because the county faced the challenge of producing a Finance Bill acceptable to all the stakeholders. The old system is, however, complex with too many items and some of the rates have not been reviewed for many years. A committee has been set up to review the system and a transparent tax regime will be put in place before the 2014/15 Finance Bill is tabled before the county assembly.

As shown in Table 1, the main sources of revenue are rates and SBP, followed by other sources and water. Revenues from other sources are largely fees and incomes and need to be separated to clarify revenue from charges for services, licenses and investment incomes. This is true for revenue from water which is essential incomes to the water company for supply of water. Under fiscal reforms to be carried out over the next financial year these anomalies will be addressed.

Effort to collect revenue faces several challenges. The most critical is that the system used is manual and LAIFORMS is only used at the headquarters. Most revenue officers are former local authority staff who lack skills required for effective revenue collection and require retraining. Some of these officers would need to be taken through change management processes to appreciate the new environment they are operating in. This will address the apparent resistance to change by some staff that explains lower than expected revenues.

Table 1: Sources of Tax Revenues

Own Revenue by Source	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Rates[1]	15.90	110.00	179.80	107.00	100.00	166.00
Single Business Permit (SBP)	24.50	60.00	66.00	79.00	84.00	89.00
Cess[2]	9.70	10.00	11.00	30.00	35.00	45.00
Fees[3]	16.44	15.00	18.00	26.00	36.00	39.00
Water[4]	-	25.00	26.00	32.00	37.00	44.00
Others[5]	27.65	30.00	33.00	53.00	57.00	64.00
Total	94.22	245.00	333.8	327.00	349.00	383.00

Source: County Treasury

ii. Fiscal Policy Reforms

The county government will in the short to medium-term reform the tax regime to increase the tax effort without necessarily imposing undue burden on the taxpayers. The reform will cover aspects of tax administration and tax modernization, including enactment of legislation to provide for county powers and functions on tax matters.

The main constraint to fiscal performance is shortage and poor supervision of staff, and as already explained inadequate skills of existing staff. Legislation on tax administration is already before the assembly to address this problem, by streamlining administrative processes. The law will provide for clear administrative systems and accountability mechanisms. The Treasury will recruit and post revenue officers to all sub-county and ward administrative units. Treasury will also work with administrators at those units to ensure that revenue officers receive appropriate logistical support to facilitate revenue collection and are effectively supervised. The legislation will give sufficient powers to market inspectors and revenue collectors to effectively do their work.

On tax modernization, the county will take several step including improving the IT systems to promote efficiency of tax administration and to reduce leakage of tax revenues. Connectivity will be extended to sub-county revenue offices through installation of a WAN system. A county rating act will be passed to provide for the levying of rates and trade licensing act will be enacted to provide for levying of licenses, fees and charges. The county will also undertake consultations on the role of Kenya Tea Growers Association in the collection of tea cess. The county will also consult on the benefits to the county from tea

[1] **Rates:** land rates/rent, clearance fees, survey fees, building plan approvals.
[2] **Cess:** produce cess, Kenya Tea Growers Association (KTGA) and quarry cess.

[3] **Fees:** parking fees, impounding, hospital charges (Longisa and Sigor).

[4] **Water:** Revenue from Bomet water company.

[5] **Others:** Revenue from markets, slaughter fees, rental incomes, Embomos tea farm, Liqour licences, group registration under social services.

levies on made tea previously collected by Tea Board of Kenya and now collected by the Tea Directorate of the Agriculture, Fisheries and Food Authority. These consultations are aimed at ensuring that the county is getting a fair share of money from the collections from these two alternative sources of revenue.

In the meantime to maintain certainty taxes will be collected on a calendar year basis. The county has been zoned into three areas for the purpose of promoting equity. Bomet town is classified as zone A, Sotik town as zone B and other areas as zone C, with the level of taxation to be charged in each zone on descending order. This classification will apply mostly to payment of rates, SBP, market fees and parking fees.

3.3. 2014/15 Budget Framework

Table 2 provides a summary of the 2014/15 budget and the medium term budget estimates. As a result of expected higher national revenue allocations, total revenue for 2014/15 will be higher than the 2013/14 budget by about Kshs 470 million.

Table 2: Budget Summary 2013/14-2017/18

Budget Item	Budget		Budget Estimates		
	2013/14	2014/15	2015/16	2016/17	2017/18
Total Revenues	3,821.80	4,341.3	4,655.4	5,023.9	5,413.5
National Allocations	3,442.00	4,008.00	4,328.1	4,674.4	5,048.4
Own Revenues	245.00	333.8	327.3	349.5	365.1
Grants	12.80	0.00	0.00	0.0	0.0
2012/13 Commitments	122.00	0.00	0.00	0.00	0.0
Total Expenditure	3821.8	4,341.3	4,655.4	5,023.9	5,413.5
• PE	936.2	1,131.7	1,154.6	1,178.0	1,201.6
• Recurrent	874.3	1,037.0	1,210.4	1,306.8	1,562.5
• Development	2,011.0	2,173.0	2,311.0	2,558.0	2,667.0
Deficit/Surplus	0.00	0.00	0.00	0.00	0.00

Source: County Treasury

Revenue projections

The main source of revenue for the county for some time will be national allocation which is projected to rise to about Kshs 4.3 billion in 2014/15. Due to a narrow tax base revenue mobilized within the county is projected to rise marginally from Kshs 245 million in 2013/4 to about Kshs 333 million in 2014/15. Unlike 2013/14 there are no other revenue sources in 2014/15 and the medium term.

Expenditure Forecasts[6]

[6] Tables 4-6 in the Annex show expenditure estimates by ministry/department.

The balanced budget policy taken by the county implies that total expenditures shall be equal to total revenues in 2014/15 and possibly into the medium term. The constrained will be relaxed once other sources of funding the budget, such as borrowing and grants, are available.

Recurrent Expenditure

Recurrent expenditure is projected to rise slowly into the medium term. This growth is driven by unresolved staff requirements of the county. The current projections on personnel emoluments are based three types of staff in the county: staff recruited by the county, staff of the previous local authorities and national government staff. Staff analysis is being undertaken and once completed the results will be used to review budget requirements personnel emoluments as more recruitments and redeployments are made.

The apparent large O & M expenditure projections relative to personnel emoluments is explained by the upfront costs required for setting up county offices and infrastructure. The establishment of county offices at the sub-county and ward levels will continue into the medium term. This explains the progressive increase in O & M expenditures.

Development Expenditure

A deliberate effort has been made to allocate substantial resources to development. However, the allocations for 2014/15 will rise marginally from Kshs. 2011.4 million in 2013/14 to Kshs. 2172.6 million. Allocations will thereafter increase consistently, though not as fast as recurrent expenditure.

Deficits and Financing

The county does not have any public debt and does not plan to engage in deficit financing in the medium term and in any case before the mechanism and process for national guarantee is agreed at the intergovernmental level. It is also necessary that a bill governing approval of loan guarantees is passed by the county assembly. The county executive will draft and submit the bill to the assembly before the end of the 2014/15 fiscal year.

The county will, however, with the authority of the county assembly engage in short term borrowing for cash management purposes and shall comply with other requirements of the PFM Act on the matter. Although it has not budgeted for any grants from the national or donor agencies, the county may apply for such grants when the opportunity arises. Any receipt of grants from a development partner will be treated in accordance with the law.

3.4. Meeting the Fiscal Responsibility Principles

The structure of budget financing almost ensures that fiscal responsibility principles will be complied by the county. With little room for borrowing and the largest share of total revenues coming from revenue allocations from the National Government, recurrent expenditures are about 50% in 2014/15 and below 50% over the medium term. This also means that the share of the budget allocated to development expenditure is over 50% over the medium term.

The principles also require that wages should not exceed a limit prescribed by regulations. Although there are no national or county regulations providing for the limit, the budget projections show that wages are 30 percent of total revenues, and declines. This is less than the 35 percent proposed by the draft national regulations.

Issues of debt sustainability and fiscal risks will not arise in the medium term as the county does not plan to finance the budget through debt. While the county may, where necessary, resort to short term borrowing for cash flow management purposes this will pose little or no fiscal risks.

3.5. Summary

Fiscal policy of the county in the medium term aims to increase own revenue efforts to supplement national revenue allocations. It will ensure tax measures support the growth of business enterprises. The policy proposes administrative and legal reforms to support the achievement of these objectives. Enactment of the proposed legislation will provide clear administrative structures and regulations for effective implementation of fiscal policies.

In the 2014/15 budget and medium term the policy is to maintain a balanced budget. Though this may constrain economic development of the county, it will provide space for measures to promote prudent management of resources to be put in place. In the meantime the county will work out guidelines for equitable borrowing guarantees with the national government, including appropriate protocols for engagement with the development partners.

4. CHAPTER FOUR: MEDIUM TERM EXPENDITURE FRAMEWORK

4.1. Resource Envelope

The resource envelope available for allocation among the ministries is based on the revenue projections provided in section 3. In the absence of borrowing this is limited to national revenue allocations and locally mobilized resources.

Overall national revenue allocations will account for 93 percent total budget resources, with local revenues accounting for the remaining 7 percent. This pattern is repeated over time and given the revenue constraints at the national level this will persist unless other revenue sources are identified. The county will therefore give priority to this matter.

4.2. Spending Priorities

County priorities are provided by the CIDP and are summarized in subsection 4.4 below. As the requirements necessary to finance all the priorities cannot be accommodated by the budget, ministries have had to allocate available resources to priorities which contribute to increased service delivery, higher productivity and food security.

Health will receive the largest allocation for hiring of health staff and rehabilitations of health institutions and infrastructure. This is important to improve the quality of life of county residents which in turn will contribute to productivity of the county economy in the long term. More resources will be directed to preventive services to reduce the cost of health care.

Roads and related infrastructure will receive sufficient allocations to ensure all roads are up to motorable level. This will enable most areas to access markets at reduced costs and facilitate easy movement within the county by residents. The water sector will also get increased allocations to ensure there is sufficient water supply for household consumption and to promote agricultural productivity by increasing availability of water for livestock and small scale irrigation.

Agriculture sector will also receive increased allocations to enhance to support improvement in food security, availability of inputs, value addition and affordable credit. This will promote higher productivity in the sector and increased household incomes.

Other areas receiving increased allocations are social protection and education. Educations will receive additional resources to hire more ECD assistants and tutors, renovate ECD centers and build new ones.

Sectors where allocations need to be reviewed are energy and tourism. As additional resources are mobilized more should be allocated to them as they are currently underfunded. Resource requirements by the health and education sectors are large and should be managed by putting emphasis on efficient delivery of services and ensuring a phased recruitment of new staff.

Resource constraints also require that some the priority projects are promoted to investors for PPPs. The best candidates for this are the water supply schemes, wind and energy power generation, low cost housing and the development of tourist sites and hotels.

4.3. Baseline Budget Ceilings

The baseline indicates allocation of resources to the different sectors of the county. As already noted health and roads receive the largest share (over 30 percent) of the allocations signifying the importance the county attaches to development and delivery of services in these sectors. Agriculture (which combines the two related sectors Agriculture, Veterinary Services and Fisheries. Co-operatives Livestock, and Marketing), social services and education also receive large shares of the budget.

The large allocations to county headquarters and the Treasury are for administrative purposes and most of the O & M expenditures. Allocations to the county assembly are only for recurrent expenditure.

Table 3: Budget Ceilings (Kshs Millions)

	Printed	Budget	Budget Estimates		
Spending Units	**2013/14**	**2014/15**	**2015/16**	**2016/17**	**2017/18**
County Headquarters	631.4	646.5	723.5	780.1	874.9
Treasury	399.7	582.3	601.4	635.3	729.0
Agriculture, Veterinary Services and Fisheries	191.8	205.5	222.0	232.5	243.5
Co-operatives Livestock, and Marketing	151.4	169.7	179.5	187.4	195.0
Roads and Public Works	518.7	561.5	595.0	673.6	709.2
Water, Environment and Natural Resources	243.2	254.2	284.8	311.7	326.2
Education, Youth and Sports	249.9	328.2	349.2	366.4	381.1
Economic Planning and Social Services	345.6	364.1	400.1	450.4	470.5
Health	633.3	704.0	746.4	802.0	841.1
Energy, Industry, Trade and Tourism	62.6	66.9	72.6	77.0	80.9
Lands, Housing and Urban Planning	127.7	157.2	174.8	185.0	200.0

County Assembly	266.6	301.1	306.0	322.6	361.9
Total	3,821.9	4,341.3	4,655.4	5,023.9	5,413.6

Source: County Treasury

The ceilings will provide the basis of budget preparation for 2014/15. There are areas that will be reviewed going forward. This includes clear accommodation of the recently recruited ECD teaching assistants which are now budgeted under headquarters. The allocation of O & M between the departments and Headquarters and the Treasury will be reviewed.

4.4. Ministerial Priorities and Budget Estimates

Introduction

Allocation of budgetary resources to county departments is based on their priorities which have been identified in the County Integrated Development Plan. The Plan was produced after intensive stakeholder consultations and therefore reflects the expectations of the people of the county with regard to county development and service delivery. However, departments have had to prioritize the citizens' priorities according to available financial resources. This is important to point out so as to sensitize the public and public servants of the budget constraints and the need for prudent management of public resources.

Priorities of Ministries and Department

Summaries of the priorities of each department are outlined in this part. Where necessary resource requirements and budget allocations are provided to illustrate the budget constraints the county government faces and the need for prudence in the utilization of resources. In the case of public investments, where there are wide divergence between resource requirements and budget allocations, the county government will look for investors as co-investors under PPPs or seek budget support from the national government or development partners.

Office of the Governor (Administration)

The Office of the Governor provides overall coordination of departments in the County for the effective and efficient implementation of government programs. It provides shared support services to other departments and coordinates development and implementation of policies and programmes, including Kenya Vision 2030 and millennium development goals (MDGs).

However, the office faces a number challenges in realizing its planned objectives the main ones being absence of policies and legislation governing the functions assigned to the county; inadequate offices space; lack of information and communication systems; and inadequate means of transport for the purpose of service delivery. In addition, the department faces a challenge of managing the high expectations of service delivery by the public from the county government.

A number of strategies and priorities have been formulated to address these challenges. The office will coordinate departments to develop policies and related legislation and train staff at a cost of Kshs. 12M. The office has also prioritized the construction of administrative offices at the headquarters, sub-county and ward levels at a cost of Kshs 50M. Citizen centers will also be constructed to promote sharing of information and improved service delivery. Vehicles and motorbikes will be purchased at a cost of Kshs 75M. The office will establish county TV and radio stations at a cost of Kshs 5M to disseminate information and receive feedback from the citizens for enhanced public participation.

The office plans to collaborate with the county administration of the National Government on security matters, peace building and mobilization of the community. Other areas of collaboration with the National Government are technical assistance in such areas like performance contracting, resource utilization and audit.

The County Treasury

The County Treasury derives its mandate from Section 104 of the Public Finance Management Act, 2012. It is responsible for monitoring, evaluating and overseeing the management of public finances and economic affairs of the county government. The Treasury coordinates donor financing and technical assistance and specifically provides direction in the identification, planning and management of donor support to ensure it is targeted to areas the economy needs. The Treasury also provides accounting, auditing, IT, pensions, procurement, and divestiture services among others to the other government departments.

The biggest challenge the County Treasury faces is inadequate financial resources. Given the many requests from competing, the Treasury will prioritize the requests on the basis of the most impact. The other challenge that the Treasury faces is deficient connectivity by Orange service provider to IFMIS server in Nairobi. This slows down the processing of payments. The ICT infrastructure is also poor at the headquarters and connectivity to the sub counties does not exist. This affects efforts to monitor the performance of revenue collection. The Treasury also lags an ERP that would otherwise solve this problem. Human Capacity challenges also exist as most of the officers inherited from the previous councils are not conversant with the IFMIS and financial management.

The priorities of the County Treasury in FY 2014/15 includes, putting in place a reliable network to connecting all the departments at a cost of Kshs 40 million; installation of an ERP for revenue collection and financial reporting; and improving of connectivity to IFMIS server in Nairobi and the sub-counties. Staff will be trained on IFMIS and financial management. Automation of revenue collection will be given priority.

The department will also set up a resource mobilization unit to lobby for increased national government grants and loan guarantees and to solicit external loans and grants. Owing to overreliance on national revenue allocations by the budget, there is need to seek additional assistance from development partners. Only four donors USAid, DANIDA, World Bank, Walter Reed particitated in funding in the FY 2013/14, signaling the urgency of diversification of the donor base. The diversification should consider various types of donor sources and conditions they attach to the funding so as to reduce the fiscal risks associated with donor funding. The goal is not merely to have a large number of donors; but to have different types of donors. This strategy will be bolstered by the development of a resource mobilization strategy and implementation plan.

Pensions/Gratuity

The Treasury will include cost of county staff pension and/or service gratuity that is consistent with the current legislation and the decision of the SRC. It is expected that staff of the county governments who have been under a defined benefit pension scheme will shift to a defined contributory pension scheme, where county governments will be expected to contribute to the scheme.

Agriculture, Veterinary Services and Fisheries

Agriculture is an important sector in Kenya's economy, and has been identified as one of the key areas whose growth is paramount for the realization of vision 2030. The sector contributes to wealth creation, increased employment for youth and women, food security, and revenue generation through effective private, public and community partnership. The sector contributes 25% of GDP and employs over 75% of the population either directly or indirectly. More than 50% of export earnings are attributed to agricultural products, with cash crops such as coffee and tea leading the way. Given its importance, the performance of this sector is a reflection of the performance of the whole economy.

Productivity in the agriculture sector is declining due to constraints which range from high costs of key inputs to poor road network. This is further compounded by lack of organized marketing channels for the produce. The sector is also constrained by poor access to financial services and affordable credit to support farm enterprise. Extension and training services to farmers has been inadequate due to low staffing levels and poor staff morale.

Although the fisheries sub-sector is rapidly growing, it faces various challenges which include high cost of feeds, inadequate production of quality fingerlings, and lack of cold storage facilities. Fish farmers are also constrained by lack of proper fishing gears. Provision of veterinary services is constrained by poorly equipped abattoirs, which affect marketing of quality meat. In addition, the existing livestock sale yards in the county are designed poorly. Unreliable and erratic supply of veterinary vaccines and equipment is a challenge in the control of animal diseases. This is made worse by inadequate equipment for storage and dissemination of semen and liquid nitrogen.

The priority programmes in the agriculture sub-sector are engineering services to promote small scale irrigation and grain stores; agribusiness development; and agricultural training. Other areas which are to be given priority in resource allocation are seed development and promotion of horticultural crops.

Under the Veterinary sub-sector animal disease surveillance and control ranks highest in priority, followed by veterinary training and extension services. Fisheries development involving support to fish pond and dams construction; fish feed mill construction, provision of fingerlings and provision of extension services will be rolled out as a priority programme in each Ward.

The department will design and implement its policies and programmes which are aligned to national policies to achieve synergy in implementation programmes spearheaded by each level of government. The county will collaborate with the national government in implementation of food security programmes and to this end, a food security fund will be set up to support development of adequate food reserves in the county.

Other areas of collaboration with the national government include seed development in which the County will be procuring certified basic potato seeds from national institutions namely A.D.C and KARI centers for multiplication by farmers; setting up of a crop and animal disease diagnostic laboratory with KARI; and sensitization of farmers on better utilization of the fertilizer and seed subsidies to improve productivity.
Veterinary sub-sector will be collaborating closely with Kenya Veterinary Vaccine Production Institute (KEVAVAPI) in sourcing vaccines. The Fisheries sub-sector programmes identified at the national level for country wide implementation as flagship projects for the achievement of vision 2030 will be supported and enhanced at the County level. This includes the current programme aimed at establishing 20 fish ponds per sub-county.

Cooperatives, Livestock and Marketing

The department plays a critical role in the economy of Bomet County, and will be expected to use the cooperative movement model to drive the economy. Cooperative movement contributes between 30-45% of the total household income mainly from sale of livestock and other agricultural products and employs about 60% of the rural population engaged in direct farming, value addition, marketing, and provision of credit.

Agro processing is the ultimate objective of the department and towards this front, ksh.115 million was allocated to agro processing and marketing in 2013/14, out which ksh. 60 million was allocated for the establishment of milk cooling plants. However, for the priority to be achieved strengthening of cooperative movement is key and a total of ksh, 60 million was allocated for this purpose. Additionally, a credit access and livestock production support service was allocated ksh.51million and ksh.93 million, respectively. The financial allocation for agro processing is not adequate to sufficiently cover all target activities. It is expected that this financial gap will be bridged over time through collaboration with the national government and development partners.

The main challenges facing effective implementation of agro processing programme are: the high cost of establishing infrastructure, market access and stiff competition, low adoption of modern technologies, disease outbreaks, and poor leadership and governance among implementing entities.

In order to address these challenges, the county government has put in place measures which include, using the cooperative movement model and strengthening the leadership and governance in the cooperatives sector. Adequate financial support will be given to establish infrastructure, ensure disease controls and provision of affordable credit. Business hubs will be developed to promote a good foundation for access to markets for agricultural products with competitive prices.

Policies will be developed to provide enabling environment for investment in the agro processing and marketing. The County government will continue to collaborate with the national government in the development of the sector and specifically to support farmers in two county wards (Ndaraweta and Kembu). This specific project entails improving in market access and enhancement of productivity under the smallholder dairy commercialization programme, a project funded by IFAD and the Government of Kenya. The project also supports women groups on value addition and access to breeding dairy goat stocks in four wards – Sigor, Nyangores, Ndaraweta and Longisa. Efforts will be made to expand this support to other areas.

Roads and Public Works

The County Government of Bomet recognizes the importance of infrastructure in accelerating economic development and as a key pillar to a sound business environment. It also contributes to poverty reduction through employment and wealth creation by facilitating mobility of people, goods and services. The roads traverse rich and expansive agricultural lands that produce tea, coffee, milk and flowers and vast natural forests with rare species of plants and animals that provide potential investment in tourism industry.

The challenges facing the sector include: underfunding, inadequate human resource capacity, long procurement procedures, unfavourable weather conditions, high cost of building materials especially cement and bitumen, frequent breakdown of equipment and overloading by trucks. These challenges will be addressed by customizing procurement rules for roads contractors to minimize the bureaucracies without compromising the requirements of the Public Procurement and Disposal Act. Other actions to taken to address the challenges are build capacity of personnel, plan well for works so as to avoid doing so during unfavourable seasons, take advantage of private public partnerships (PPPs), utilize road 2000 strategies, introduce policies to regulate loading on our road networks, dispose unserviceable plant and equipment and acquire new/modern ones.

There are about 7000 kilometres of county road network, out of which 2158 kilometers have been identified and earmarked for construction, rehabilitation and maintenance with an estimated cost of Kenya Shillings 3.1 billion during implementation period of County Integrated Development Plan (2013-2017).

However, the roads which transverse sub-counties and those which connect wards have been categorized as flagship county roads. A total 307km of these roads have been proposed for tarmacking, but due to financial constraints, they have been prioritized for heavy grading, gravelling, bush clearing and culvert cleaning in the first year of CIDP implementation as the county Government sources for more funds.

Other County roads have also been prioritised for heavy grading, gravelling, bush clearing and culvert cleaning in the second to fifth year of CIDP implementation. A total of 1853km of ward roads will be done with an estimated cost of Kenya Shillings 1.8 billion. A number of motorized and foot bridges and box culverts will be constructed both to improve interconnection between areas separated by streams, brooks and rivers. Minor roads were not prioritised for maintenance due to financial limitations as priority has been to increase connectivity in major roads. So far a total of 356KM of roads have been graded, 232KM of which have been improved to gravel status since September 2013 when development funds were released.

It is a legal requirement that construction and maintenance of the county roads, public buildings and bridges should meet the standards and specifications of the national Government. In this respect the ministry has been collaborating with relevant national Government departments. The department of roads has been relating with Kenya Institute of Buildings and Highway Technology, Kisii Branch on material testing. There are ongoing engagements with Kenya National Highways Authority, Kenya Urban Roads Authority and Kenya Rural Roads Authority (KeRRA). KeRRA has been engaged in the mapping of county roads.

Water, Environment and Natural Resources

Bomet County is well endowed with natural resources with huge potential to spur economic development and social well-being. The Mau forest section adjacent to the county is still intact with limited degradation as compared to other parts of the Mau forest complex. This condition enhances the continued provision of important ecosystem services like water resources, biodiversity, climate amelioration, carbon sequestration among others. Most parts of the county form an important catchment of the Lake Victoria Basin. The gazetted Chepalungu forest covers 4,811 ha, but has been severely degraded.

The development of infrastructure for delivery of water requires huge investment that the county government is unable to meet. Secondly, the declining of water resources due to climate change and environmental degradation, among others, adversely affects provision of adequate water supply. In addition, the existing water supply schemes cannot meet supply the growing demand for water across the county. On the other hand, rising poverty and limited awareness on environmental conservation pose a great challenge to sustainable exploitation of natural resources.

In order to address these challenges, the sector will prioritise implementation of several projects. One of these is the upgrading and expansion of the existing water supply schemes, namely Itare, Sotik, Bomet, Sigor, Longisa, Olbutyo, Ndanai, Kamureito and Yaganek water schemes. The ministry will offer technical and financial support to community based water projects, revive stalled projects and develop and protect other water points such as springs, dams and pans. It will also facilitate water harvesting and storage initiatives. Water supply development programme has been allocated KShs. 201.6 million for the 2014/2015 year.

The sector will encourage public participation in environmental conservation by facilitating capacity building for catchment protection, soil and water conservation, pollution control and agro-forestry/on-farm forestry. It will also offer technical and financial support for community based conservation initiative especially through facilitation of community-based organizations engaged in environmental and natural resource conservation. In addition it will also carry out and/or facilitate reforestation, afforestation and tree planting along major roads and urban/market centres. The sector will offer technical support for safe quarrying activities and promote land reclamation in abandoned quarry sites. This programme has been allocated Kshs. 33.04 million for the year 2014/2015.

The budgetary allocation to the sector programmes is not sufficient to fully fund the priorities. The ministry will therefore collaborate with national institutions especially in assessment of natural resources and design and development of water infrastructure. In this respect, the sector has already collaborated with Egerton University and the National Youth Service. The sector is discussing with the State Department of Water in the Ministry of Environment, Water and Natural Resources with regard to supporting large scale water works such as dams and pans construction and rehabilitation.

The sector will also engage other partners such as NGOs and trans-boundary and international institutions. Among the NGOs which have expressed interest in partnerships include WWF and World Vision Kenya; while the international institutions interested are the Red Cross (Kenyan Chapter) and Mara Basing programme.

Education, Vocational Training, Youth and Sports

The department of Education, Vocational training, Youth, Sports and Children services is charged with the responsibility of supervising the provision of Early Childhood Education, vocational training,youth development, and promotion of sports and children services. It is well established that investment in ECDE and vocational training is a cost effective strategy to promote long term growth and reduction of inequalities in the county. Similarly, the youth which form about 36 percent of the county population is an asset that should be natured for the benefit of the county. This will be done throughthe establishment of County Youth Enterprise Fund and development of sports facilities. On its own, sports industry should be considered as an important source of employment and creation of wealth as it provides wide range of opportunities for investment and income generation.

The challenges facing the department as it discharges its mandate include:insufficient policy guidelines and standards, and quality assurance for delivery of education programmes; inadequate recreational and educational facilities; lack of adequate finance to support vulnerable children and their families, and poor ownership and participation of community in the delivery of county services.Sporting talent in the county has not been fully exploited due to poor and unregulated management, inadequate training Programmes andfew sporting facilities. Officers of the department arepoorly remunerated and have inadequate skills, particularly in information, communication and technology (ICT).It is also important to note that the tertiary education sector is grossly underdeveloped in the county this therefore calls for concerted efforts from all the stakeholders in the sector including the county government. Towards this endeavour the county government will support the establishment of technical training institutions and is partnering with JKUAT to set up a value addition centre within the county.

Priority activities targeted to address these problems relate largely to improving ECDE and vocational training. Over 800 ECD teachers have been recruited and over 850 ECD centres will be constructed or rehabilitated. Recruitment of vocational training and home craft instructors will also be given priority. The department as a priority will develop policies related to all its functions. This aspect will be undertaken in collaboration with the National Government and all the stakeholders. It will also prioritise support to Orphans and Vulnerable Children and establishment of children homes in the sub counties. The department also intends to establish SNE friendly centres to meet the needs of children with impairments.

Several key investments related to the sector will be made by the county. An educational resource centre, training camps and talent centerswill be established, butsince this will be a huge investment it will require donor support or a form Private Public Participation (PPP). A county Youth Enterprise Fund will be set up as a long-term revolving fund to finance youth initiatives. A technical institute will also be established to accommodate middle – level professionals.

Economic Planning and Social Services

County economic planning and social services sector plays a key role in county development planning process, including development and the implementation of county integrated development plans and county economic policies and programmes. The department also facilitates effective budgeting processes through the preparation of the Medium Term Expenditure Frameworks (MTEF). The department coordinates production of a comprehensive and reliable population, economic and county statistics. It develops county monitoring and evaluation framework and coordinates the monitoring and evaluation of implementation of development projects. It also carries out research and analysis, economic modeling and forecasting, feasibility studies and produces technical papers.

In the social sector the ministry is responsible for gender mainstreaming; and identifying, planning, and implementing sustainable socio-economic activities towards the empowerment and active participation of vulnerable groups, persons with disabilities, elderly persons , HIV/AIDS infected and affected, street families, the very poor orphans and vulnerable children and marginalized groups in county and national development. The sector promotes women entrepreneurship through the women enterprise fund, coordinates the cash transfer programme and regulates and coordinates programmes of charitable institutions.

The department also provides policy interpretation, advice, guidance and planning of cultural matters. It promotes cultural diversity through cultural festivals and exhibitions; documentation and preservation of cultural heritage; formation of cultural association; and promotion of cultural talent identification and training in the county.

The challenges facing the sector include a weak policy and institutional framework for planning and monitoring and evaluation. This will be addressed by establishing three key units, namely monitoring and evaluation unit, statistics unit and sectoral planning unit to spear head planning and policy development in the county.

The ministry will build capacity for women and PWDs on entrepreneurship and life skills and will establish a revolving fund to support disadvantaged and marginalized groups. The ministry will give priority to campaigns against drugs and substance abuse.

Health

Health is a key driver of development in any country and it is normally said that health is wealth. The citizens need to be healthy in order to engage in development activities. The Kenyan constitution 2010 states that every Kenyan has the right to the highest attainable standard of health, thus the goal of the health sector in Bomet is to provide services which are affordable, equitable and accessible and socially acceptable to the residents of Bomet. Emphasis will be put into preventive health services and reproductive health. The health of men and women of reproductive age will be emphasized because this is the age group that is economically productive. Infrastructural development, staff recruitment, provision of essential medicines and supplies, and improvement of referral systems are prioritized.

There are many challenges in the health sector in Bomet County, including inadequate human resource; inadequate infrastructure; inefficient referral mechanism; shortage of commodities; and inadequate health care financing**.** These challenges will be addressed over time due to the large amounts of resources required.

A county referral hospital will be established and equipped to proper referral facility at a cost of Kshs 150 million. Support for referral services will require Kshs 45 Million per year for, among others, lease of state of the art ambulances and establishment of a blood transfusion centre in Bomet. A county amenity health centre will be established at a cost of Kshs 25 Million. About Kshs 80 million will be invested to upgrade five sub county hospitals level 4 facility and completed health facilities will be operationalized by equipping them and providing staff and medicines at a cost of Kshs 80 Million.

The county government has entered into MOUs with KEMSA and MEDS, the two biggest supply chain institutions in Kenya, to ensure consistent and reliable supply of the essential commodities at a cost of Kshs 220 Million. The ministry has recruitment of health workers including specialists, but requires an additional Ksh 80 Million per year to fill vacant posts. A county medical store, complete with cold chain facilities will be build at a cost of Kshs 50 Million.

Trade, Energy, Tourism and Industry,

The ministry is responsible for development of trade, energy, tourism and industry in the county. Orderly development and growth of trade will be promoted through formulation and implementation trade policies. The ministry plans to increase coverage of electricity to over 80% of the county by 2015 and promote use of affordable renewable energy. It is also responsible for ensuring sustainable development of tourism. The ministry promotes and facilitates industrial development by providing incentives necessary for the establishment of industries and by enactment of investment-friendly legislation.

The challenge facing the department is that most priority projects are capital intensive and require large financial outlays. This is especially true for projects in the energy sector which require feasibility studies to determine their viability. The mapping of energy and other natural resources is yet to be carried out in most of areas. The staffing and technical knowhow in the ministry remains a challenge.

Some of the mitigation measure to taken to address the challenges are initiation of a public private partnerships (PPPs) in the sector; mapping of resource potentials in the county by undertaking surveys; feasibility studies in the energy sector to determine viable power generation projects; improving capacity and optimal staffing levels in the departments; and, the development of the County Industrial Policy.

The priority sector in trade includes; developing the County trade development policy, promotion of retail and wholesale trade, development of micro and small business, fair trade practices and consumer protection, and private sector development. The sector has been allocated 19.2 million against a budgeted amount of Kshs 75.4 million.

In tourism the sector tourist circuits will be mapped and marketing activities will be enhanced to promote Bomet County as a tourist destination. The county will seek partnerships with local and international tourism investors to construct a tourist center at Nairotia forest complete with a state lodge, air strip, campsite and high altitude sports training center. Eco-tourism site will be developed in Bosto and Koimeret. The unit has a budget of Kshs 9.8 million against a budget of Kshs 38.58 million.

An industrial park will be established in Sotik town to promote industrial development in the county. Local and foreign investors will be encouraged through construction of jua kali sheds and operationalization of Constituency Industrial Development Centers (CIDC). The unit has a budget of Kshs 2.9 million against a budget of 16.71 million.

Areas of co-operation with the national government include but not limited to: trade financing through Bomet Trade Development Joint Loans Board; equipping and operationalization of the CIDC; registration of patents and product certification; connection and supply electricity within the County jointly with REA and KPLC. The department will also work closely with the Kenya Investment Authority (KIA), on matters relating with investment.

Lands, Housing and Urban Development

Land, Housing and Urban Development Department is responsible for ensuring rational and sustainable land use, effective management and orderly development of urban and rural areas as well as safe, planned and adequate housing for sustainable and socio-economic development in the County. The functions of the department are improvement of land tenure security; provision and management of urban infrastructure; sanitation and effective waste management; facilitation of access to adequate and affordable housing; and ensuring security of public land.

The sector faces the challenge of insufficient financial resources for development programmes; shortage of skilled and experienced manpower; lack of clear policies and legislation which provide for regulations and standards to govern land management; inadequate public land for development; poor infrastructure development; unplanned development; and inadequate housing.

Key strategies to address these challenges include streamlining and strengthening surveying and mapping systems to address land administration and promote access to justice in land related matters. An institution and mechanism for resolution of land disputes will be established.

Quality and quantity of land information will be improved through computerization and geo- referencing at all levels of the county. This is necessary for protection of intellectual property rights and for land administration. The ministry will develop policies and legislation governing land management. The sector will work with County Public Service Board to fill vacant posts. Inadequate housing will be addressed through development of low cost housing and promotion of appropriate building materials and technology. The sector will collaborate with the National government and development partners to fill funding gaps for flagship projects

The priorities of the sector include development of county spatial plan, sewerage systems in Bomet and Sotik towns, markets, land bank programme; low cost housing and public amenities. The development of Bomet and Sotik sewerage systems will be implemented over the next five (5) years with the county contributing 64 million shillings. The programme is capital intensive and therefore the county will seek assistance from development partners to bridge the gap estimated budget of Kshs 3.28 billion. The ministry is already working with Lake Victoria Environmental Management Programme which has contributed Kshs 40 million for design of sewerage ponds.

The retail and wholesale markets priority is a Vision 2030 flagship activity. The priority started with the economic stimulus programs, although most are waiting commissioning. Large markets will be developed in Bomet and Sotik and relatively smaller markets will be developed in a number of other urban centres. The public amenities development programme will have major projects aimed at improving the business environment. These will include beautification of towns, installation of street lights, building of public toilets, construction of bus parks and parking bays, and construction of roads and pedestrian walkways in towns and urban centers. The county government has committed Kshs 227.29 million to these activities with a deficit of 1.94 billion in the next five years. The Deficit is expected to be sourced from the development partners

The county intends to implement a Land Bank Program under which land will be acquired through open market purchases and in special cases through compulsory acquisition. Land bought under the programme will be strategically allocated to investors and developers who would otherwise be constrained from investing due escalating land prices. The programme will identify all public land and initiate a process of returning them to the original planned use, at a cost of 31.39 million and with a total budget of 152.7 million in the next five years. The county government will liaise with national government on land administration processes.

The county government will work with the private sector to develop low cost housing schemes in Bomet and Sotik. However, the county will allocate Kshs 77 million and source Kshs 395 million in the next five years from the national government and the private sector. Application of appropriate technology will be encouraged to reduce the cost of residential and commercial buildings.

The sector has budgeted to spend Kshs 248.66 million for disaster management infrastructure and land information system development leaving a deficit of Kshs 811.64 million which will be sourced through collaboration and partnership with National government and development partners.

4.5. Summary

The budget ceilings have been set taking into account county priorities, but with binding constraints on the resource envelope the ministries have been forced to make tough decisions in allocating available resources across their programmes. The Treasury will work with the ministries to ensure resources are availed to them when required.

As all programs and projects developed through the CIDP cannot be fully funded, ministries will develop viable public investments for additional funding under PPPs or with the support of the national government or development partners. These projects will be incorporated in the budget once agreements for support have been signed.

5. CHAPTER FIVE: CONCLUSIONS

Conclusion

In developing this CFSP county departments have had the opportunity for the first time to be involved in a collective budget making process. The in the process lessons learned will be useful in the drafting of 2014/15 budget estimates will begin as soon as the Treasury receives comments on the document from the county assembly. It is also evident that as the estimates are being prepared the ceilings will need to be reviewed to improve the assignment of allocations.

Several challenges were identified which require attention in the short to medium term. These include:

Lack of data: this especially true for macroeconomic data required for developing indicators on the performance of the county. The county will work with the national government, development partners and institutions of higher learning to address the problem.

Inefficiency in revenue: which is largely attributable to lack of ICT systems, low staff capacity and unclear legal framework. This will be addressed by ensuring ICT connectivity between the national Treasury and county Treasury and that there is also ICT connectivity between the county headquarters and the sub-counties. More staff will be recruited and will be trained together with existing staff. Three pieces of revenue legislation which are before the county assembly once enacted will provide an appropriate framework and powers for revenue collection.

Overreliance on national revenue allocations: this imposes constraints the county budget especially the funding of public investments. It is expected that appropriate regulations governing guarantees will be agreed between county governments and the national government to enable the counties to supplement national revenue allocations with borrowing. The county will also develop a resource mobilization strategy to provide guidelines on borrowing and engagement with donors.

It is also recognized for the county to succeed in its development endeavours it will have to collaborate with other stakeholders. The main areas of collaboration will be: PPPs with the private sector to finance investments; capacity building especially with the national government and development partners; and technology transfer.

ANNEXTURES

Table 4: Total Expenditure Ceilings

Budget Item	Budget	Budget Ceilings			
	2013/14	2014/15	2015/16	2016/17	2017/18
Office of the Governor					
• PE	215.0	236.5	241.7	247.0	252.4
• O&M	255	311.0	364.0	392.0	469.0
• Dev elopment	161	99	118	141	153
County Treasury					
• PE	113.4	124.8	127.5	130.3	133.1
• O&M	263	362	423	457	546
• Development	23	96	50	48	50
Agriculture, Veterinary services & Fisheries					
• PE	33.9	37.3	38.1	38.9	39.7
• O&M	9	13	15	16	19
• Development	149	155	169	177	184
Cooperatives and Marketing					
• PE	71.9	79.1	80.8	82.6	84.3
• O&M	6	9	10	11	
• Development	73	82	89	94	98
Roads and Public Works					
• PE	12.1	13.3	13.6	13.9	14.2
• O&M	35	48	53	57	69
• Development	472	501	528	602	26
Water, Natural Resources and Environment					
• PE	24.1	26.5	27.1	27.7	28.3
• O&M	10	13	15	17	20
• Development	210	215	242	267	278
Education, Vocational Training					
• PE	51.2	103.7	106.0	108.3	110.6
• O&M	8	11	13	14	17
• Development	190	213	230	267	278
Economic Planning and Social Services					
• PE	21.0	23.1	23.6	24.2	24.7
• O&M	10	13	15	17	20
• Development	315	328	361	410	426
Health					
• PE					
• O&M	292.8	322.1	329.2	336.4	343.5
• Development	46	63	73	80	96
	295	319	344	386	402

Energy, Trade, Industry and Tourism • PE • O&M • Development	 1.3 3 58	 1.5 5 61	 1.5 5 66	 1.5 6 70	 1.6 7 73
Lands, Housing and Urban Development • PE • O&M • Development	 30.9 31 66	 34.0 42 81	 34.7 49 91	 35.5 53 96	 36.2 64 100
County Assembly • PE • OM • Development	 68.6 198	 130.0 198 23	 132.9 173	 135.8 187	 138.6 223
Total Recurrent • Total PE • Total O&M • Development	 936.2 874.3 2,011.0	 1,131.7 1,037.0 2,173.0	 1,154.6 1,210.4 2,311.0	 1,178.0 1,306.8 2,558.0	 1,201.6 1,562.5 2,667.0
Grand Total	3,821.7	4,341.7	4,676.0	5,042.8	5,431.1

Notes:-

Operations & Maintenance for the County Assembly includes Khsh. 50 Millon for COUNTY ASSEMBLY LOAN & MORTGAGE Fund

Table 5: Total Recurrent Expenditure

Recurrent	,2013/14	2014/15	2015/16	2016/17	2017/18
County Headquarters - Governor's office	255	311	364	392	469
Financial Management Services	263	362	423	457	546
Agriculture, Veterinary services & Fisheries	9	13	15	16	19
Cooperatives & Marketing	6	9	10	11	13
Public Works	35	48	53	57	69
Water,Natural Resources and Environment	10	13	15	17	20
Education, Sports	8	11	13	14	17
Social Services & Economic Planning	10	13	15	17	20
Health	46	63	73	80	96
Energy,Trade,Industry and Tourism	3	5	5	6	7
Lands, Housing and Urban Planning	31	42	49	53	64
County Assembly	198	198	173	187	223
Recurrent Total	874.3	1,037.0	1,210.4	1,306.8	1,562.5

Table 6: Development Expenditure

TOTAL PROGRAMMES	,2013/14	2014/15	2015/16	2016/17	2017/18
County Headquarters (Administration)	161	99	118	141	153
Treasury	23	96	50	48	50
Agriculture	149	155	169	177	184
Co-operatives and Marketing	73	82	89	94	98
Roads and Public Works	472	501	528	602	626
Water and Environment	210	215	242	267	278
Education,Youth and Sports	190	213	230	244	254
Economic Planning and Social Services	315	328	361	410	426
Health	295	319	344	386	402
Energy, Trade and Tourism	58	61	66	70	73
Lands and Housing	66	81	91	96	100
County Assembly	-	23	-	-	;'; -
Development/Total Budget	2,011	2,173	2,311	2,558	2,667
Perssonnel Emoluments	936.23	1,131.70	1,154.59	1,177.95	1,201.64
Recurrent Expenditure	874.3	1,037.0	1,210.4	1,306.8	1,562.5
TOTALS	3,821.9	4,341.3	4,676.5	5,042.9	5,431.2

Table 7: Budget Allocation by Programme

	2013/14	2014/15	2015/16	2016/17	2017/18
Office of the Governor					
• Programme 1		62.0			
• Programme 2		32.0			
• Programme 3	161	5.0	118	141	153
Finance					
• Programme 1		46			
• Programme 2	23	50	50	48	50
Agriculture					
• Programme 1	47.0	49.5	53.5	56.1	60.2
• Programme 2	39.6	41.7	45.0	47.3	52.1
• Programme 3	5.3	5.6	6.0	6.3	7.0
• Programme 4	9.5	10	10.8	11.4	15.8
• Programme 5	21.4	22.5	24.3	25.5	26.3
• Programme 6	25.7	27.0	29.2	30.7	33.2
Cooperatives					
• Programme 1		30.0			
• Programme 2		25.0			
• Programme 3	73	27.0	89	94	98
Roads					
• Programme 1		420.0			
• Programme 2		76.0			
• Programme 3	472	5.0	528	602	626
Water					
• Programme 1	180.0	190.06	216.7	229.7	
• Programme 2	29.5	25.0	35.5	37.7	278.0
Education					
• Programme 1		112.0			
• Programme 2		87.5			
• Programme 3		14.7			
• Programme 4		22.4			
• Programme 5		75.0			
• Programme 6	190	58.0	230	244	254
Economic Planning					
• Programme 1		45			
• Programme 2		210			
• Programme 3	315	72	361	410	426
Health					
• Programme 1					
• Programme 2		25.0			
Programme 3		180.0			
Programme 4		40			
	295	74	344	386	402
Energy					
• Programme 1		32			
• Programme 2		12			
• Programme 3	58	12	66	70	73

• Programme 4		5			
Lands, Housing & U.P. • Programme 1 • Programme 2 • Programme 3	66	5.7 65.2 10.7	91	96	100
County Assembly • Programme 1	-	23	-	-	-

1. **Finance**

- Programme 1 - E- Government & Networking
- Programme 2 - Revenue automation

2. **Agriculture**

- Programme 1 - Crop Management
- Programme 2 - Agricultural Training & Extension Services
- Programme 3 - Agribusiness Development
- Programme 4 - Agricultural Engineering Services
- Programme 5 - Provision of Veterinary Services
- Programme 6 - Promotion of Fish Farming

3. **Water & Environment**

- Programme 1 - water supply development
- Programme 2 - and natural resources conservation

4. **Land, Housing & Urban planning**

- Programme 1 - Sewerage Development
- Programme 1 – Public Amenities
- Programme 1 – Land Bank & Information System

5. **Energy Development**

- Programme 1 – Energy Develoment
- Programme 2 – Trade Development
- Programme 3 – Industrial Development
- Programme 4 – Tourism Development

6. **Education, Vocational Training**

- Programme 1 - Early ChildHood
- Programme 2 – Education Infrustructure
- Programme 3 – Sports Activities
- Programme 4 – Youth Fund
- Programme 5 – Children Services

7. Roads & Public Works

- Programme 1 – Grading, Culverting, Bush Clearing
- Programme 2 – Foot & Motorized Bridges
- Programme 3 - Feasibility Studies

8. County Assembly

- Programme 1 – Construction of Offices

9. Cooperatives

- Programme 1 – Value Addition
- Programme 2 – Micro Finance
- Programme 3 - Development of Cooperatives

10. Health

- Programme 1 – Preventive
- Programme 2 – Curative
- Programme 3 - Policy Development
- Programme 4 – Infrustructure Development

11. Social Services

- Programme 1 – Administrative & Policy Developmet
- Programme 2 – Social Protection
- Programme 3 - Social Development

Administration

- Programme 1 – Infrastructure
- Programme 2 - Serivice Centres
- Programme 3 – Policy Development