REPUBLIC OF KENYA

COUNTY GOVERNMENT OF HOMA BAY

DEPARTMENT OF FINANCE AND ECONOMIC PLANNING

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

SEPTEMBER 2018

FOREWORD

Section 118 of the PFM Act 2012 requires that each County Treasury prepares a County Budget Review and Outlook Paper (CBROP) in respect of their county for each financial year; and submit the paper to the County Executive Committee by the 30th September of that year. According to the Act, the County Treasury shall specify among other things the details of the actual fiscal performance in the previous year compared to the budget appropriation for that year, and the updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper.

This County Budget Review and Outlook Paper (CBROP) is the fourth of its kind and it presents a review of the fiscal outcome and performance for the financial year 2017/18. It also gives a projected macroeconomic outlook based on national economic indicators as well as county-specific economic growth indicators. The macroeconomic outlook provides the basis to recast the 2018/19 budget in the context of expected expenditure as well as set out the broad fiscal parameters for the 2018/2019 budget and for medium term development planning.

While the macroeconomic environment remains conducive, uncertainty around the projected revenue to be collected coupled with the continued under-strength growth of the national economy calls for caution in the county's fiscal projections. In this CBROP 2018, the county government's fiscal policy strategy remains focused on enhancing revenue collection such as through establishing a strong inspectorate and automation as well as containing growth of recurrent expenditure especially on wages and personnel benefits. That way, resources are shifted from recurrent to the more productive capital areas while ensuring there is improved efficiency and effectiveness in the use of public resources. This fiscal policy strategy recognizes the need to strike a balance between growth and fiscal sustainability and therefore emphasizes on higher investments in health, water, agriculture, human capital and infrastructure development today for a stronger and more sustainable growth in future.

Priorities identified based on the Homa Bay County Integrated Development Plan (CIDP) for 2018-2022 are expected to be given prominence while focusing on the ''big four'' agenda of investments in Universal Health Coverage to ensure access to quality and affordable healthcare for all Kenyans; quality and affordable housing; food security to ensure all Kenyans are well fed; and industrialization to promote value addition to products, whilst creating employment opportunities for the country's working-age population, by 2022. County sectors are expected to adhere to the indicative sector ceilings and rationalize all programs to ensure that only those programs that can cost-effectively deliver results on our core objective of growth, employment creation and poverty eradication are first considered in resource allocation.

Hon. Nicholas K'Oriko

CEC Member Finance & Economic Planning
Homa Bay County Government

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ABBREVIATIONS AND ACRONYMS

A-I-A	Appropriation in Aid
BMU	Beach Management Unit
CARPS	Capacity Assessment and Rationalization of the Public Service
CBROP	County Budget Review and Outlook Paper
CCTV	Closed-Circuit Television
CECM	County Executive Committee Member
CEO	Chief Executive Officer
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
CRA	Commission on Revenue Allocation
DUAs	Departments, Units and Agencies
EAC	East African Community
ECDE	Early Childhood Development Education
FSP	Fiscal Strategy Paper
FY	Financial Year
GDP	Gross Domestic Product
H.E	His Excellency
HR	Human Resource
ICT	Information and Communications Technology
IRTC	Inter-Governmental Relations Technical Committee
IFMIS	Integrated Financial Management Information Systems
IPSAS	International Public Sector Accounting Standards
KES	Kenya Shillings
KV2030	Kenya Vision 2030
MCH	Maternal and Child Health
MDG	Millennium Development Goals

MRI	Magnetic Resonance Imaging
MTEF	Medium Term Expenditure Framework
MTP	Medium-Term Plan
NMF	National Music Festival
OPD	Out Patient Department
PFM	Public Financial Management
SACCO	Savings and Credit Cooperatives
SVTCSG	Subsidized Vocational Training Centre Support Grant
US	United States
USAID	United States Agency for International Development
VIP	Very Important Person

LIST OF TABLES

LEGAL BASIS FOR THE PUBLICATION OF THE HOMA BAY COUNTY BUDGET REVIEW AND OUTLOOK PAPER

The Homa Bay County Budget Review and Outlook Paper is prepared in accordance with Section 118 (1) of the Public Financial Management Act, 2012. The law states that: A County Treasury shall:

(a) Prepare a County Budget Review and Outlook Paper in respect of the county for each financial year; and
(b) Submit the paper to the County Executive Committee by the 30th September of that year.

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

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

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

(c) Information on:

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

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

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

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

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

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

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

FISCAL RESPONSIBILITY PRINCIPLES IN THE PUBLIC FINANCIAL MANAGEMENT LAW

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

(1) A County Treasury shall manage its public finances in accordance with the principles of fiscal responsibility set out in 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). Specifically, the PFM Regulations provides further that:

(a) the County Executive Committee member with the approval of the County Assembly shall set a limit on the County Government's expenditure on wages and benefits for its public officers pursuant to Section 107(2) of the PFM Act;

(b) the limit set under paragraph (a) above, shall not exceed thirty-five (35) percent of the County Government's total revenue at any one time;

(c) for the avoidance of doubt, the revenue referred to in paragraph (b) shall not include revenue that accrue from extractive natural resources including as oil and coal;

(d) the county public debt shall never exceed twenty (20%) percent of the county government total revenue at any one time;

(e) the county annual fiscal primary balance shall be consistent with the debt target in paragraph (d);

(f) the approved expenditures of a county assembly shall not exceed seven per cent of the total revenue of the county government or twice the personnel emoluments of that county assembly, whichever is lower;

(g) pursuant to section 107(5) of the PFM Act, if the county government actual expenditure on development shall be at least thirty (30) percent in conformity with the requirement under section 107(2)(a) of the Act;

(h) if the county government does not achieve, the requirement of regulations 25(1)(f) above at the end of the financial year, the County Executive Committee member for finance shall submit a responsibility statement to the County Assembly explaining the reasons for the deviation and provide a plan on how to ensure annual actual expenditure outturns as wells as the medium term allocation comply with the provisions of section 107(2)(a) of the Act and these regulations in the subsequent year; and

(i) the compliance plan above shall be binding and the County Executive Committee member for finance shall ensure implementation.

1.0 INTRODUCTION

1.1 Background

1. The County Budget Review and Outlook Paper (CBROP) is one of the key stages in the preparation of the annual county budget. The law requires CBROP to present the fiscal outcome for the previous financial year and to state how this outcome affects the financial objectives contained in that year's CFSP. Its preparation is in line with section 118 of the Public Finance Management (PFM) Act, 2012. This CBROP contains a review of the fiscal performance of the last financial year (2016/2017), updated macroeconomic forecast and any likely deviations with reasons from the budget estimates as initially approved by the County (Homa Bay) Assembly on 30th June 2017. This is the forth CBROP to be prepared under the current administration.

2. The CBROP creates a linkage with the national government's second MTP priorities, Kenya's Vision2030 (KV2030), the Millennium Development Goals (MDGs), Innovative Programs, County Integrated Development Plans (CIDP), priority plans and programs, and the Poverty Eradication Strategies to the annual budget process. In addition, it considers emerging issues and challenges in setting up the county government's structures and systems i.e. linking policy to planning and budgeting. This eventually links the annual budget to the medium term and long-term development policies, objectives and plans. This provides a basis for the medium - term projection of revenues, expenditures, the budget deficit and it's financing. It also enables the County Government with an opportunity to analyse spending priorities that underlies its strategic policy and program priorities and how these influence resource allocations between and within sectors.

3. The CBROP intends to inform macroeconomic growth targets by developing consistent and realistic resource envelopes which in turn will improve the allocation of resources to agreed strategic priorities both between and within sectors. It further seeks to generate the commitment of the County Government sectors and departments to increased predictability in resource allocations so that these county government spending agencies plan early enough, which would lead to a more effective and efficient utilization of resources by the sectors, since funding levels will be predictable. Thus, it seeks to ensure that citizens of Homa Bay County enjoy better service delivery and value for money. The PFM Act 2012 has set high standards for compliance with the MTEF budgeting process. Therefore, it is expected that the sector

ceilings provided, form the indicative baseline sector ceilings for the next budget of 2018/19. However, following the fiscal outcome of FY 2017/18 and the existing macroeconomic framework, these sector ceilings have been modified as indicated in annex (i) of this CBROP.

1.2 Objective of CBROP

4. To provide a review of the previous' year's fiscal performance and how this impacts the financial objectives and fiscal responsibility principles set out in accordance to section 26 of the PFM Act, 2012. Together with the updated national macroeconomic outlook, it'll provide a basis for review of the current budget under the supplementary arrangement as well as provide the broad fiscal parameters which will influence the next budget and the Medium Term Expenditure Framework (MTEF).

5. To provide a basis for revision of the current financial year's budget in the context of the Revised Estimates as provided in Section 135 of the PFM Act, 2012 and the broad fiscal parameters underpinning the next budget. Recent economic development in the county and a discussion of the medium-term outlook as well as discussion of the following year's prospects of major expenditure, revenue categories and the medium term forecasts will be catered for as required by the PFM Act.

6. To provide an updated economic development outlook to be firmed in the CFSP to reflect any changes in economic and financial conditions. Updates on economic and financial forecasts in relation to the changes from the forecasts of the most recent County Fiscal Strategy Paper are taken into consideration.

7. To provide any information on changes in the forecasts compared with the CFSP

8. To provide reasons for any deviation from the financial objectives in the CFSP together with the proposals to address the deviation and the time estimated for so doing.

1.3 Structure of CBROP

9. The CBROP has five sections; Section 1 which provides the main introductory part of the CBROP; Section 2 which provides a review of the fiscal performance in FY 2017/18 and its implications on the financial objectives as set out in the 2017 CFSP submitted to the County Assembly on 28Th February,

2017; Section 3 in which brief highlights of the recent economic developments and the updated macroeconomic outlook are provided; Section 4 which details the resource allocation framework; and Section 5 which provides the conclusion and next steps.

2.0 REVIEW OF THE FY 2017/2018 FISCAL PERFORMANCE

2.1 Macro-Economic Performance

2.1.1 General Economic Performance

10. Kenya's economy expanded by 4.9 per cent in 2017 down from 5.9 per cent in 2016. This slowdown was majorly attributed to the extended electioneering period in addition to effects of adverse weather conditions. The slowdown was particularly noted in sectors such as Manufacturing which recorded 0.2 per cent in 2017 compared to 2.7 per cent in 2016, Agriculture, Forestry and Fishing which decelerated to 1.6 per cent down from 4.7 per cent in the previous year, Financial and Insurance Services which fell to 3.1 per cent in 2017 despite improved performance in the Insurance sub-sector, while the Financial sub-sector decelerated significantly from 6.9 per cent in 2016 to 2.6 in 2017.

11. Performance across various sectors however remained stable with Accommodation and Food services; Information and Communication Technology; Education; Wholesale and Retail trade; Public Administration all registering accelerated growth in 2017 compared to the previous year.

12. The National Government's continued appetite for debt has also been a key factor with the debt to GDP ratio now standing at an all-time high of 57%. This is like to put negative pressure on the economy with reduced spending by the National Government being the most probable outcome. As a result, allocations to County Governments will be impacted thereby hampering implementation of the various county medium term expenditure plans.

2.1.2 County Revenue Performance

13. As at the close of the 2017/2018 financial year, the total operating income including A-I-A amounted to KES. 7,333,877,116. Against the revised estimates of KES. 7,568,991,255 this represents a revenue performance of 96.9% while against the original estimates of KES. 7,191,154,134 this represents a strong revenue performance of 102%.

14. The actual revenue growth from 2016/17 to 2017/18 was a modest figure of 12% whereas actual growth from 2015/16 to 2016/17 was a significant improvement of 19.3%.

Table 1: Revenue Growth from 2016/2017 to 2017/2018

	2016/17		2017/18			Deviation as a % of Budget
	Actual	Budget	Actual	Budget	Deviation	
Exchequer releases	6,080,193,774	6,080,193,774	6,523,200,000	6,523,200,000	0	0%
Local Revenue	144,131,092	192,162,868	101,919,410	118,664,278	(16,744,868)	14.1%
External Resources	22,652,000	42,678,030	224,451,098	367,659,083	(143,207,985)	39.0%
Other receipts	303,711,073	416,878,853	240,088,315	315,249,601	(75,161,286)	23.8%
Returned CRF Issues	-	-	244,218,293	244,218,293	0	0%
Total	**6,550,687,939**	**6,731,913,525**	**7,333,877,116**	**7,568,991,255**	**(235,114,139)**	**3.1%**

Source: County Treasury

2.1.2.1 Equitable Share of County Revenue

15. The County Government of Homa Bay was allocated a total of KES. 6,523,200,000 by the Commission on Revenue Allocation for the financial year 2017/18. This represented an increase of KES. 443,006,226 (7.3%) over the allocations of the previous financial year 2016/17 of KES. 6,080,193,774. The increment backs the revenue allocation growth trend of approximately 7.9% from 2015/16 to 2016/17.

16. Monthly exchequer releases were relatively more predictable in the financial year 2017/2018 even though late monthly releases could sometime undermine liquidity and stability in expenditure planning. By the end of June 2018, the county had received KES. 6,523,200,000 from the National Treasury as part of the equitable share due the County Government. This represented a 100% transfer of the amount due as equitable share for the FY 2017/2018, and a 3.4 per cent increase from the 2016/17 financial year, when KES. 6.51 billion of the total sharable revenue expected from the National Treasury was received. Table 2 below captures exchequer releases from the National Treasury as part of Equitable Share.

Table 2: Exchequer Releases during the Twelve Months of FY 2017/2018

Quarter of Release	July 2017	Aug 2017	Sep 2017	Oct 2017	Nov 2017	Dec 2017	First Half Total 2017/18
Date	27/07/2017	-	01/09/2017	19/10/2017	23/11/2017	-	
Amount	456,624,000	0	456,624,000	587,088,000	619,704,000	0	**2,120,040,000**

Quarter of Release	Jan 2018	Feb 2018	Mar 2018		Apr 2018	May 2018	June 2018	July 2018	Second Half Total 2017/18
Date	05/01/2018	09/02/2018	16/03/2018	26/03/2018	24/04/2018	31/05/2018	27/06/2018	04/07/2018	
Amount	**652,320,000**	**521,856,000**	**521,856,000**	**587,088,000**	**521,856,000**	**554,472,000**	**521,856,000**	**521,856,000**	**4,403,160,000**

17. Equitable share of revenue accounted for over 86.2% of the total approved supplementary budget for the FY 2017/18. The County Government of Homa Bay remained almost fully dependent on exchequer releases from the National Government. In light of this, urgent measures must be taken to diversify sources of operating income especially through augmenting the local revenue base as well as enhancing mobilization of external resources.

2.1.2.2 Collection of County Internal Revenue

18. The County Government of Homa Bay collected a total of KES. 101,919,410 of local revenue for the FY 2017/18. This represented a 29.3% drop in revenue collections for the previous FY 2016/17; KES. 144,133,092.

19. Compared to the set target of KES. 118,664,278, the total local revenue collections in FY 2017/18 was below target by KES. 16,744,868, representing a 14.1% variance.

20. The County Government has put a host of measures in place to revamp local revenue collection. These measures include; the formation of an inspectorate that will ensure enforcement on collections, ensuring that revenue collectors bank directly all revenues collected, construction of toilets in 35 markets as well as murraming 22 markets, putting all the revenue collectors under performance contracts, finalizing Arujo and Kigoto and digitizing revenue collection. It is expected that these initiatives will boost local revenue collection. Tables 3 shows the trend of local revenue collection by category

and sub-county for FY 2017/18. Tables 3 shows the trend of local revenue collection by category and sub-county for FY 2017/18.

Table 3 Revenue Collections during the FY 2017/2018 by Category and Sub-county

	Trade & Enter Dev. Sector	Transportation Unit	Office of the Governor and town inspectorate	Agriculture / Livestock/Fisheries	Health Sector	Physical Planning, Lands & Housing	Youth affairs/ Sports/ Culture	Education Department	Water/Environment& Natural resources
Homa Bay Town	7,214,741	5,667,061	7,230,208	1,148,280	20,690,630	2,351,529	1,000	0	185,810
Ndhiwa	4,482,976	466,860	800,150	398,250	464,850	178,300	0	0	0
Suba	3,590,007	394,650	599,650	690,900	893,433	119,400	0	0	0
Mbita	5,205,075	2,433,150	1,697,200	501,070	1,171,665	248,000	0	0	12,500
Rangwe	1,964,620	284,050	1,181,320	320,750	672,280	71,000	0	0	9,460
Karachuonyo	1,684,735	2,093,090	3,190,795	361,400	951,894	75,663	0	0	74,030
Kabondo	918,090	786,090	1,266,420	185,220	186,230	33,490	0	0	0
Kasipul	3,202,094	3,054,724	1,489,825	1,007,890	5,378,800	232,300	10,800	0	157,900
Kendu Bay	316,560	1,519,555	47,500	159,050	192,040	0	0	0	2,400
TOTALS	**28,578,898**	**16,699,230**	**17,503,068**	**4,772,810**	**30,601,822**	**3,309,682**	**11,800**	**0**	**442,100**

Source: County Budget Coordinator (OCOB)

21. In the FY 2017/18, the health sector recorded the highest total local revenue of KES. 30,601,822 down from KES. 40,016,100 (9% drop). This is followed closely by the trade sector; KES. 28,578,898 down from KES. 40,651,500 (29.7%) in the last financial year. The sector with the lowest internal revenue collection was the education sector (nil) followed by youth affairs at KES. 11,800 down from KES. 20,400 (42.1%). By specific category, market dues performed at KES. 21.1 million down from KES. 27.4 million (23%) in the last financial year; single business permits at KES. 13.1 million down from KES. 16.1 million (18.6%) in the last financial year; and bus park fees at KES. 15.0 million down from KES. 20.8 million (27.9%) in the last financial year. The other categories that recorded significant revenue collection include bricks/sand/stones cess at KES. 4.3 million, cattle/sheep/goat auction fees at KES. 3.2 million, fish cess at KES. 2.6 million, kiosk rent at KES. 2.4 million and motor bike fees at KES. 1.4 million. Other categories that could be

significant such as liquor licensing, land rates, sewerage bills, survey/sub-division fees, water bills, fines and penalties have generally continued to underperform.

22. Internal revenue collection remained largely below target for a number of reasons; Firstly, slow adoption of existing institutional and legislative frameworks for revenue collection as well as revenue leakages in areas such as liquor licensing, registration of institutions and land rates. Additionally, capacity issues with respect to enforcement and compliance, data management, audit and inspection and, optimal revenue administration are still major hurdles. However, measures are being instituted to streamline and automate revenue collection with a view to doubling collections within the next two years.

23. The main administrative challenge for the division of revenue is the inability to collect all the revenues due to the County Government. In many cases, there are huge gaps between reported and projected revenues. This has been largely attributed to: (1) poor administrative capacity to assess the revenue base; (2) poor administrative capacity to enforce the taxes; (3) explicit and intentional tax evasion and resistance from some taxpayers; (4) embezzlement of revenues; (5) fiscal pressure on the finance department to provide optimistic projections; and (6) political pressure on the local tax administration to relax on revenue collection.

24. Fundamental issues to be addressed in the context of county government revenue reforms involve mostly the need to redesign the current revenue structure and to strengthen financial management. Moreover, measures are required to enhance taxpayers' compliance and to improve the accountability of revenue collectors and receivers. There is need for greater emphasis on the cost-effectiveness of revenue collection, taking into account not only the direct costs of tax administration, but also the overall costs to the county economy, including the compliance costs to the taxpayers. In addition, losses through corruption and tax evasion need to be reduced. Such improvements may take a long time to achieve, although automation and additional simplification of the local revenue system should provide a positive contribution towards these aims

2.1.2.3 Mobilization of External Resources

25. Mobilization of financial and in-kind resources to undertake development efforts of the County Government of Homa Bay continues to be an area for consideration. Whereas extra-budgetary resources are often important means to fund expensive equipment, modernization, training of staff and other initiatives essential for the County Government to carry out its mission effectively.

26. The County Government recognizes the importance of the issue of resource mobilization and the challenge faced by many DUAs in developing and implementing an effective strategy. Effort is being enhanced towards locating additional sources of external funds and negotiating grants or loans to carry out priority projects. This is part of the process to develop a resource-mobilization strategy whose main thrusts include:
    - Determining the key developments needed in the County Government and specific DUAs;
    - Framing development needs of those DUAs in the context of broader national, regional and international goals;
    - Gaining an understanding of current policies, programmes and priorities for development- assistance activities from the relevant national authorities (such as ministries of finance, planning and foreign affairs);
    - Identifying potential sources of funds;
    - Researching the policies, programmes, priorities and procedures of potential donors;
    - Initial contact with potential donors to outline County Government plans, the need for assistance, and the counterpart support available from the County Government if donor support is obtained;
    - Formal submission of the request for assistance, taking account of the points regarding capital and project budgets and following the procedures required by the donor;
    - Follow-up to check progress and the need for additional information; and
    - Once approvals are obtained, completing the formal agreements and moving to the project implementation phase, setting in place the required financial management processes and systems.

27. It is imperative that the external resources unit should be strengthened to enhance the mobilization of external resources through improved grant seeking and Public Private Partnerships. Measures are being instituted to improve grant support from foreign governments and international institutions. This implies application of relevant principles such as effectively communicating gratitude and work done with support previously provided to enhance cause and organization visibility and credibility; highlighting the uniqueness of our organization by emphasizing our USP (Unique Selling Proposition); ensuring transparency in our work and use of funds received; and making it easy for our donors to contribute. The County Government is focused on strengthening follow ups and using technology—for instance the internet—to make it conducive for development partners.

2.1.3 County Expenditure Performance

28. The actual expenditure during the FY 2017/18 amounted to KES. 6,845,291,410 which represented 93.3% of the total funds released for operations. Out of this total, the County spent KES. 4,791,703,988 (70%) on recurrent activities and a further KES. 2,053,587,423 (30%) on development activities.

2.1.3.1 County Expenditure by Broad Economic Classification

29. The recurrent expenditure for the FY 2017/18 represented an absorption rate of 94.9% of the revised recurrent budget, while development expenditure represented an absorption rate of 82.7% of the revised development budget. Table 4 below provides a summary of the actual spending against revised estimates for both recurrent and development votes for the FY 2017/2018.

Table 4: County Government Total Expenditure

	2016/17	2017/18			
	Actual	**Actual**	**Revised Budget**	**Deviation**	**Percentage Absorption**
Recurrent Expenditure	4,399,369,696	4,791,703,988	5,049,118,783	257,414,795	94.9%
Development Expenditure	2,097,094,050	2,053,587,423	2,519,872,472	435,965,397	82.7%
Total	**6,496,463,746**	**6,845,291,411**	**7,568,991,255**	**723,699,845**	**90.4%**

30. In the FY 2017/2018, the County Government of Homa Bay had a budget absorption rate of 90.4% against the revised total budget. This represents a decline on the FY 2016/17 when 96.5% of the budget was absorbed down from 99.5% in the FY 2015/2016. The low absorption rate could be attributed to the delays by the National Government in releasing funds provided for as part of equitable share provided for in the revised estimates of the County Government of Homa Bay for the FY 2017/18. The delays were attributed mainly to the prolonged electioneering period that hampered government operations.

31. It is noteworthy that actual compensation to employees (wage bill) constituted 35.6% of the total expenditure. A total of KES 2,437,524,927 was paid to employees compared to KES. 2,491,138,011 paid to employees in the FY 2016/2017. KES. 2,354,179,061 was used up to procure current goods and services. Table 5 below provides the breakdown of recurrent expenditure by broad economic classification.

Table 5: Breakdown of Current Expenditure by Economic Classification

	Actual Expenditure 2016/2017	Initial Estimates 2017/2018	Revised Estimates 2017/2018	Cumulative Expenditure 2017/2018	Exp.% of the Revised Recurrent Budget
Compensation to Employees	2,491,138,011	3,276,320,224	2,776,891,811	2,437,524,927	48.3%
Recurrent operations & Maintenance Services	1,908,231,685	1,703,835,293	2,272,226,972	2,354,179,061	46.6%
Total Recurrent	**4,399,369,696**	**4,980,155,517**	**5,049,118,783**	**4,791,703,988**	**94.9%**

Source: Homa Bay County Treasury

2.1.3.2 Resource Consumption by Spending Entities

32. Actual expenditure returns for the FY 2017/2018 indicate that the departments of health and the County Assembly were the biggest spenders accounting for 30.4% and 15.8% of the actual total spending respectively. The Department of Transport and the Department of Finance and Economic Planning accounted for 8.30% and 8.2% of the actual total recurrent spending in the county respectively. The other major spenders included Office of the Governor (8.1%), Education and ICT (7.9%), Water and Environment (6.8%),

Agriculture, Livestock and Fisheries (4.6%) and Trade, Industry, Cooperatives and Investments (3.5%).

33. In terms of absorption, the departments of Transport and Infrastructure (117.3%) and the Office of the Governor (103.8%) had an absorption rate above 100% of their recurrent allocations for the FY 2017/2018. The County Assembly (100%), the Office of the Governor (98.9%) and Finance and Economic Planning (98.7%) had the highest absorption rates of above 90% of their development allocations. Table 6 below provides a synopsis of the absorption of expenditure by broad economic classifications (votes) of recurrent and development.

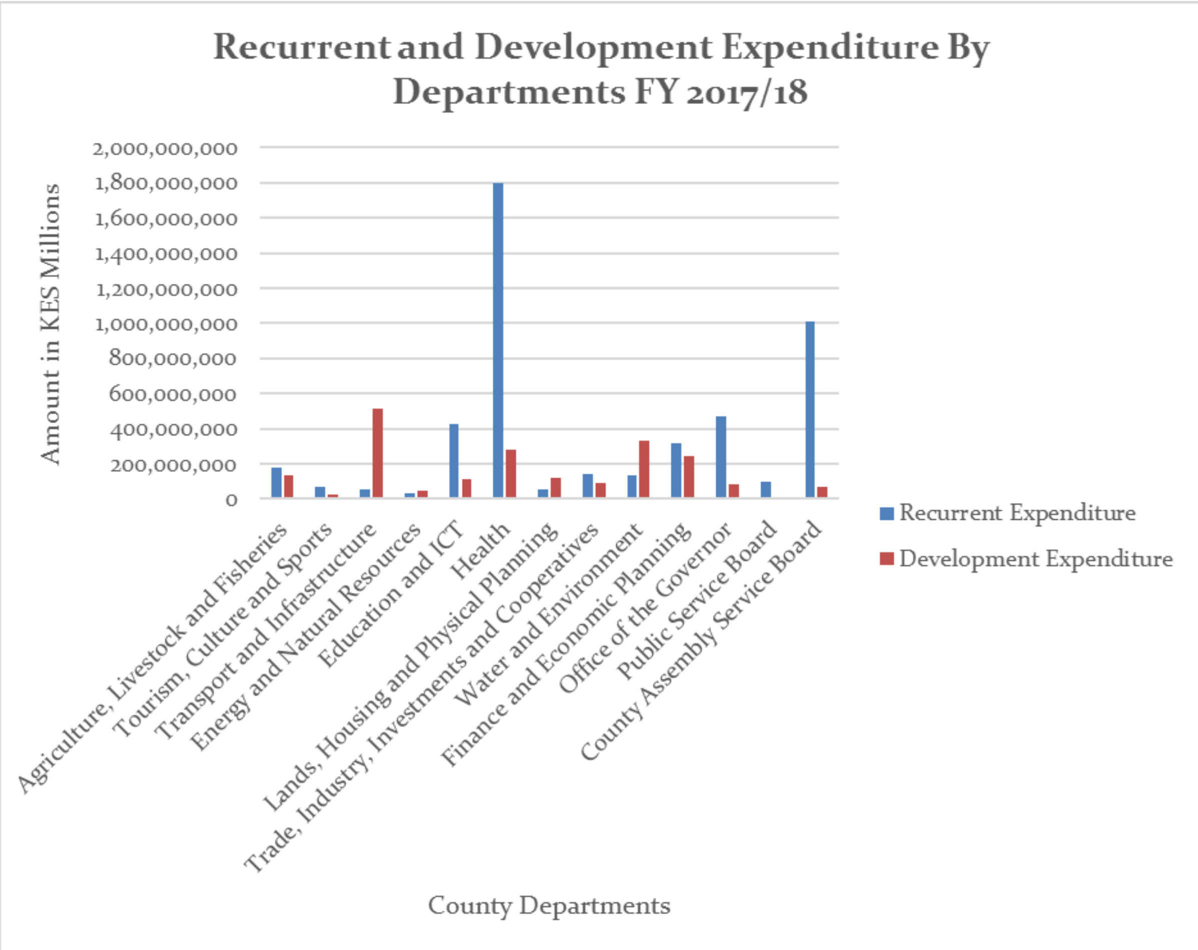
Table 6: Absorption of Recurrent and Development Expenditure by Spending Entities

VOTE HEAD	Analysis of the FY 2017/2018 Recurrent Expenditure			Analysis of the FY 2017/2018 Development Expenditure		
	Actual Expenditure	**Budget Estimates**	**Rate of Absorp.**	**Actual Expenditure**	**Budget Estimates**	**Rate of Absorp.**
Agriculture, Livestock and Fisheries	180,623,270	187,746,528	96.2%	134,259,398	232,000,000	57.9%
Tourism, Culture and Sports	69,728,041	71,122,828	98.0%	27,316,594	66,000,000	41.4%
Transport and Infrastructure	54,714,882	46,628,546	117.3%	513,561,257	544,059,682	94.4%
Energy and Natural Resources	30,875,636	33,999,364	90.8%	45,028,573	80,000,000	56.3%
Education and ICT	424,563,063	444,813,284	95.5%	114,478,664	172,000,000	66.6%
Health	1,800,295,113	1,976,385,816	91.0%	277,848,062	340,000,000	81.7%
Lands, Housing and Physical Planning	53,501,292	56,853,222	94.1%	118,253,940	201,892,100	58.6%
Trade, Industry, Investments and Cooperatives	143,933,771	176,387,690	81.6%	93,545,840	106,000,000	88.3%
Water and Environment	132,620,414	147,714,554	89.8%	330,161,898	359,600,000	91.8%
Finance and Economic Planning	318,715,612	325,567,898	97.9%	244,138,129	247,320,690	98.7%

Office of the Governor	468,997,732	452,030,633	103.8%	86,995,068	88,000,000	98.9%
Public Service Board	100,135,162	105,895,345	94.6%	1,000,000	12,000,000	8.3%
County Assembly Service Board	1,013,000,000	1,019,973,075	99.3%	67,000,000	67,000,000	100.00%
County Total	**4,791,703,988**	**5,049,118,783**	94.90%	**2,053,587,423**	**2,519,872,472**	81.5%

Source: County Treasury of Homa Bay

<u>Bar graph depicting recurrent vs development expenditure by various spending entities.</u>



2.1.4 Budget Outturn for the FY 2017/18

34. An analysis of the budget outturn indicates that during the FY 2017/2018 the resources made available for spending by the various entities fell short of the budget allocation by KES. 235,114,139 representing a 3.1% of the total planned spending. As table 7 below further indicates, the total actual expenditure is below total budgetary allocation for the FY 2017/2018 by KES. 723,699,845 representing an overall budget outturn of 90.4%.

Table 7: Budget Outturn for the FY 2017/18

Receipt/Expense Item	**Original Budget**	**Adjustments**	**Final Budget**	**Actual on Comparable Basis**	**Budget Utilization Difference**	**% of Utilization**
	A	B	C= A+B	D	E= C-D	F= D/C %
RECEIPTS						
Exchequer Releases	6,523,200,000	0	6,523,200,000	6,523,200,000	0	100%
Local Revenue	209,457,525	(90,793,247)	118,664,278	101,919,410	16,744,868	86.0%
Loans and Grants	143,273,008	224,386,075	367,659,083	224,451,098	143,207,985	61.0%
Other Receipts	315,249,601	0	315,249,601	240,088,315	75,161,286	76.1%
Returned CRF Issues	-	244,218,293	244,218,293	244,218,293	0	100%
Total Receipts	**7,191,180,134**	**377,811,121**	**7,568,991,255**	**7,333,877,116**	**235,114,139**	**96.9%**
PAYMENTS						
Compensation of Employees	3,276,320,224	(499,428,413)	2,776,891,811	2,437,524,927	339,366,884	87.8%
Other Operations	1,703,835,293	568,391,679	2,272,226,972	2,354,179,061	(81,952,089)	103.6 %
Recurrent Payments	**4,980,155,517**	**68,963,266**	**5,049,118,783**	**4,791,703,988**	**257,414,795**	**94.9%**
Development Payments	**2,210,998,617**	**308,873,855**	**2,519,872,472**	**2,053,587,423**	**466,285,049**	**81.5%**
Total Payments	**7,191,154,134**	**377,837,121**	**7,568,991,255**	**6,845,291,411**	**723,699,844**	**90.4%**

Source: County Treasury of Homa Bay

2.1.5 Fiscal Pressure, Debts and Deficits

Fiscal Pressures

35. The more immediate challenge of the County Government of Homa Bay for the FY 2017/2018 was to increase the financing that is available to government as a result of concrete policy actions for enhancing resource mobilization, and the reforms necessary to secure the enabling governance, institutional and economic environment for these policy actions to be effective, for the county's prioritized set of development objectives. The implication of that was that the average intensity of the load or the obligation to all taxpayers to pay taxes to the county government would increase. However, the County Government opted to retain revenue rates at the previous levels until it is clear the economy has grown sufficiently to make the burden lighter.

36. A number of issues continued to undermine efforts to enhance the fiscal space and exerted unforeseen fiscal pressure. First, the persistently high incidence of poverty and the dependency burden meant there was more demand for public services especially social protection for orphaned and vulnerable children, the aged, the disabled and the unemployed youth. Whereas social protection is largely the domain of the National Government, the small number of households covered implies many locals are turning to the County Government for relief. Secondly, delayed exchequer releases could sometime force the county treasury to secure liability and strain relations with contractors whose bills fell due for settlement during such delays. Finally, expanded commitments in health, education, water and sanitation made it difficult to create fiscal space to cover other emerging priority needs in human resource development, disaster management and development of productive clusters.

37. Going forward, the County Government of Homa Bay must has considered all options to significantly expand fiscal space during the MTEF period 2017/18-2019/20 and generate resources for priority social investments. Some of the options will include: (i) re-allocating public expenditures; (ii) increasing revenues; (iii) expanding contributory revenues; (iv) lobbying for aid and transfers; (v) eliminating revenue leakages flows and; (vi) adopting a more accommodative macroeconomic framework.

38. Overall, the County Government of Homa Bay adopted for low rate of taxation so that there is low pressure on taxpayers. This has meant relatively

low receipts for the county government budget. However, it is estimated that this low taxation rate is likely to boost the overall effort to achieve stability of the county economy and make more disposable income available at household level for accelerating economic growth and therefore leading to an increase in tax revenues to the MTEF budget for FY 2017/18-2019/20.

39. Equally, the behavior of economic agents as to not pay taxes or contributions because they are not sanctioned by the County Government is being considered equivalent to increasing taxation on the shoulders of those who are honest and pay these obligations. Reducing tax evasion and corruption as well as tax arrears will be prioritized and considered tantamount to actual tax reduction because households and businesses are not forced to pay double to secure services which should be provided by the County Government. Stringent measures are therefore being put in place to check corruption and tax evasion.

Debts

40. The constitution of Kenya (2010) under the SIXTH SCHEDULE (*Article* 262) TRANSITIONAL AND CONSEQUENTIAL PROVISIONS in part IV sub section 33, provides that an office or institution established under the constitution was the legal successor of the corresponding office or institution, established under the former Constitution or by an Act of Parliament in force immediately before the effective date, whether known by the same or a new name. The County Government of Homa Bay was thus by the very law that created it expected to take over the assets, liabilities and every other contractual obligation that were in existence within the structures of the 7 local authorities they were succeeding, including Homa Bay County Council, Homa Bay Municipal Council, Suba County Council, Mbita Town Council, Rachuonyo County Council, Kendu Bay Town Council and Oyugis Town Council.

41. The debt obligation inherited from the 7 defunct local authorities is still estimated to be KES 188,934,228. The debt was domestic in nature and was made up of 3 distinct components, namely; statutory deductions, unpaid emoluments, and pending bills from other creditors. Whereas the correct position of these debts is yet to be finalized with the support of the Inter-Governmental Relations Technical Committee (IRTC) due to the existing gaps in their documentation, pressure is piling that these debts are dispensed

with. It is expected that the Council of Governors and the IRTC will reach a compromise and instruct the County Government to settle those liabilities.

42. During the financial year 2017/2018, more pressure was brought by the Union of Local Government Workers that provision should be made in the budget for the same. However, the lack of an agreed-upon settlement mechanisms and the limited resource envelop of the County Government could not allow such a settlement. The debt will therefore remain until such a time that it will be settled within the approved framework. Furthermore, section 107 of the PFM Act of 2012 provides that over the medium term, borrowing shall only be for development purposes. The National Treasury and Constitutional Commissions went as far as to restrict counties from borrowing during the first three years of existence. Short-term borrowing (not exceeding 5% of the most recent audited revenue) for purposes of managing cash flow could however be done from time to time subject to the approval of the County Assembly, but by the end of the FY 2017/2018, the County Government of Homa Bay had no such debt obligation.

Deficits

43. For the FY 2017/18, the County Government of Homa Bay was able to formulate and operationalize a balanced budget in line with policy positions adopted by the National Treasury and Constitutional Offices such as the CRA and the Controller of Budget. However, the County Government of Homa Bay revised the budget to match expected receipts with potential payments throughout the financial year 2017/2018.

44. Based on an analysis of the budget outturn for the FY 2017/2018, 9.60% of the projected revenue was not spent and 3.1% of the projected revenue was not realized.

45. The county is putting in place measures to avoid unwarranted deficits resulting from: i) high levels of tax avoidance and tax evasion; ii) high levels of income and wealth inequality where many people are stuck in low-paid, insecure work where they don't earn enough to pay much in tax and even more may remain dependent on social protection, adding to the pressure on government spending; iii) demographic pressures from an expanding dependent or ageing population which will cause an increase in government spending on social welfare; iv) government inefficiency in supplying public services which then means the value for money is lower and more is being spent in total to provide the cover that people need; and v) high levels of

government subsidies / transfers which over time means total government spending must rise because of the many competing demand placed upon politicians and the effects of lobbying by (often influential / powerful) pressure groups.

46. In line with good Public Finance Management practice, the County Government of Homa Bay is advocating for a leaner government sector with a number of productive activities out-sourced or privatized to the private sector to supply.

2.2 Public Finance Management

2.2.1 PFM Structures

47. For Homa Bay County to make efficient and effective use of its funds, it needed a solid public finance management system. That system would be equally important for attracting other funds, including – increasingly – private investment. Over the medium term, the county shall continue strengthening the administrative capacity and actively soliciting the use of systems and procedures prescribed in the Public Finance Management Act of 2012, Public Finance Regulations 2015 and other operationalizing regulations.

48. In the FY 2017/2018 going forward, one of the PFM agenda of the county treasury was to improve in all phases of the budget cycle – preparation, execution, monitoring and auditing. As part of budget formulation, structures for public participation including sector working groups and the county budget and economic forums were used to good effect.

49. To improve budget execution, lessons from public expenditure reviews were incorporated and financial progress was consistently compared with physical progress so that budget outturn closely matches planned expenditure. Once again, tender committees, inspection and acceptance committees and audit committees were engaged to steer the necessary processes and ensure value for money. The County Monitoring and Evaluation Committee was strengthened to assess progress being made.

50. Ultimately, all PFM structures were operationalized before the close of the year in response to audit findings and recommendations. In response to the County Assembly recommendations for improved reporting, as envisioned in Section 104(iv) of the PFM act, the County Treasury will undertake to prepare and submit in time all the quarterly reports to the County Assembly.

2.2.2 PFM Reforms

51. Since 2003, the Government of Kenya embarked on a reform process to develop and enhance public finance management. The Constitution of Kenya provided further impetus to the reform process. More attention was provided to consolidating gains in PFM and improving governance and oversight structures.

52. Specifically, the PFM Act that came into being in 2012 prescribed for the county governments responsibilities in public finance; establishment, responsibilities and power of county treasuries; secondment of public officers; enforcement of fiscal responsibility principles; deviation from financial objectives; establishment of county revenue fund, emergency and other public funds; administration of funds; financial reporting timelines and frameworks; preparation of county budget and debt management papers; banking of revenue; management of cash and cash flows; county budget preparation, submission and approval; county planning; submission and consideration of revenue raising measures; approval of the finance bill; actions in case of delay in passing the appropriation bill; submission of supplementary budgets; appropriation of money for county government purposes; establishment of CBEF for county budget consultation processes; conditions for receiving grants and donations; regulations on grant administration; authority for borrowing; obligations and restrictions with respect to borrowing; execution of loan documents; issuance of securities; and authorization to lend money.

53. The PFM Act of 2012 further provides for joint infrastructure investments by counties; role and power of accounting officers in PFM; power to write off loses; spending authority of accounting officers; management of assets and liabilities; limited power to reallocate appropriated funds; maintenance of internal auditing arrangement of county government entities; disciplinary measures against public and accounting officers; designation of receivers of county revenue; the powers of CECM responsible to waive or vary tax fees or charges; appointment of collectors of revenue; county public officers obligation in resource management; preparation of annual financial statements; annual reporting by accounting officers and receivers of revenue; budgeting for, financing of, management and reporting of urban areas and cities; transitional arrangements cap 265; as well as establishment and dissolution of county operations

54. For success of the PFM reform process, the government needed to assume a high sense of responsibility and ownership of the reform process. Checking fiduciary risks became the cornerstone of PFM and an integrated financial management system (IFMIS) was fully adopted and operationalized. However, there is still need to build on the existing desire for further reforms in the county and to review the PFM Act to make it more responsive to the needs and challenges of the county governments.

55. Over the medium to long term, the County Government is focused on securing good ratings in major international and national comparative indices. That way, the county's reputation could be improved thereby creating space for further reforms and mobilizing progressive forces to support the county's development agenda.

56. Whereas PFM comprises as set of increasingly complex processes, rules, systems, and norms that are explicitly provided for in legislation or regulations, the reforms proposed need champions and competent staff to carry them out. The emphasis on PFM's three key objectives—maintaining a sustainable fiscal position, effective allocation of resources, and efficient delivery of public goods and services—has relatively shifted from the effectiveness and efficiency arguments to fiscal sustainability.

57. The importance of the county context—historical, political, geographical and human capital—cannot be stressed strongly enough. There were no cookie-cutter approaches to strengthening PFM, and therefore the options were carefully assessed and subjected to reality check. Political economy considerations continued to influence public administration or governance aspects of PFM. The coverage—either of devolved units or of transactions—of fiscal activities was still limited to the central IFMIS point of capture.

58. Progress was made on reporting standards as part of the effort to define better ways to convey an accurate picture of public finances for various purposes, from aggregate demand management to accountability. The horizon of fiscal policy was already extended by adopting medium-term frameworks aimed at making clear the impact of policy decisions on future outcomes. A better appreciation of fiscal risks—in a nutshell, all factors that could explain outcomes different from planned—is still needed, although the consideration is on-going.

2.2.3 Budget Credibility

59. Fiscal credibility is a key asset of any government to the extent that producers and consumers believe in the proposed plans and adjust their actions accordingly. Credibility is achieved when the government implements its plans and, in the process, meets or exceeds set targets. Therefore, it is important to measure how budget outturn matches with planned spending.

60. During the FY 2017/2018, revenue was fairly predicted with a deviation of 3.1% up from a deviation of 2.7% in the FY 2016/17 when actual receipts are compared to forecast revenue. In terms of planned spending, the County

Government was able to absorb 90.4% of planned expenditure on a cash basis.

61. In terms of the process by which the budget was created, all relevant laws and assembly processes were respected and fair representation of stakeholder groups was observed during the whole budget formulation process. Most allocations to projects and activities were fairly technically appropriate to indicated targets and stated goals. Whereas it was prudent to have a generous contingency plan as a buffer against downside risks, only KES 61,689,336.00 million was provided for emergency. This was still within the law that caps emergency funds at 2% of the total revenue.

62. In the FY 2017/2018, the economic and fiscal details were presented for the medium term including the two outer years of 2018/2019 and 2019/2020. General spending was made of reasonable economic assumptions including revenue growth projection of 19.2%. Overall, current spending increased more than capital spending indicating a need of ensuring fiscal discipline hence increasing the fiscal space for capital spending and improving absorption of development expenditure.

63. Bearing in mind the principal-agent approach, fiscal transparency was greatly observed so that the government had limited information advantage over the county assembly and the public. This way, the elected representatives and the public constrained the government to execute the approved budget on their behalf. This further ensured that the budget was more credible and reliable.

2.2.4 Emerging PFM Challenges

64. All innovations introduced in public finance management had already been adopted in the financial year including fiscal responsibility legislation, fiscal rules, medium-term budget frameworks, fiscal risk management techniques, performance budgeting, and accrual reporting and accounting. But these innovations presented new challenges.

65. First, the fiscal responsibility principles restricted access to credit even under emergency conditions. Only borrowing for short term cash flow management is allowed but this too is restricted to 5% of the most recent audited revenue. Whenever exchequer releases were delayed, the county suffered liquidity challenges and therefore fiscal space to meet pressing recurrent obligations like payment of salaries was undermined from time to time.

66. Secondly, fiscal risk management was still below expectations. The internal audit and advisory department still have capacity challenges that will only be addressed through more training and new recruitment. The framework of risk management will still need to be developed and implemented for improved risk identification, control and management.

67. Thirdly, cash accounting basis was still largely in use leading to a piling stock of pending bills the settling of which will need additional resources that were not been set aside. Going forward, these bills will have to be audited so that commitments outside the budget process are eliminated.

68. Fourthly, the lack of capacity in terms of adequate numbers of competent and qualified staff continued to undermine the implementation of plans and budgets in line with best practices, procedures and policies. Application of IPSAS and other accounting standards was still undermined by lack of qualified finance personnel. Worse, failure to complete digitalization processes such as in revenue collection continued to hinder efforts to realize better results.

69. Finally, the lack of relevant local legislations and policy frameworks especially the revenue administration bills continued to undermine efficacy of essential processes such as revenue collection. Once again, the Ward Development Fund funds could not be operationalized for lack of a relevant legislation or policy framework.

2.3 Analysis of Sectoral Performance

2.3.1 Agriculture, Rural and Urban Development Sector

70. Agriculture, Rural and Urban Development Sector is one of the key sectors for the county's sustained economic growth. The sector consists of two sub sectors namely: Agriculture, Livestock and Fisheries Development sub sector and Lands, Housing and Physical Planning sub sector. The goal of the sector is to attain food security, sustainable land management and affordable housing.

2.3.1.1 Agriculture, Livestock and Fisheries Development

71. In the FY 2017/18, the sector was allocated KES. 419,746,528. This included an allocation of KES. 232,000,000 for development and KES. 187,746,528 for recurrent. The allocation was utilized towards sub-programmes with KES. 180,623,270 (96.2%) went to recurrent activities while KES. 134,259,398 (57.9%) was expended on development activities.

72. Some of the key achievements by Agriculture, Livestock and Fisheries sub sector included; established 100 acres sorghum model farms, established 100 acres maize model farms, established 50 acres watermelon model farms, established 20 acres of tissue culture banana and 50 acres ground nuts and sunflower model farms established, 1 show and one exhibition held, over 7000 farmers reached with agricultural and entrepreneurial information, 40 commercial fruit tree nurseries established, 40 households harvesting runoff water in small water pans and using it for vegetable production, 1 produce storage facility constructed in Kigoto sub county, 20 engines (40 HP) procured and operational, 100 patrol missions undertaken, breeding areas demarcated and marked, 133 BMU committees trained, 250 BMU committees supervised, 200 ponds constructed, 400 fish farming inputs subsidized, 1 fisheries day held, 3 toilets constructed and operational, 1 auction center completed, 5 hectares of land banked for waste disposal and management 200 ponds constructed, 400 fish farming inputs subsidized, 57 dairy goats distributed to farmers, 60 dairy goats procured for multiplication Centre, 37 poultry procured and kept by farmers, 800 beehives kept by farmers, 6,000 doses of semen, 1200 litres of liquid nitrogen, 1 slaughter house completed, 35,000 FMD doses 27100 Blanthraxdoses, 25000 LSD, ECF vaccine 2000 doses, Rabies vaccine-2000 doses.

2.3.1.2 Lands, Housing and Physical Planning

73. The Department of Lands, Housing and Physical Planning was charged with the responsibility of ensuring efficient and effective administration and management of land resources, developing and maintaining cost effective government buildings and other public works, facilitating development of quality and affordable housing, improving the livelihoods of people living and working in informal settlements and, enhancing Infrastructure connectivity and accessibility within urban areas.

74. In the FY 2017/18 the sub-sector was allocated a total of KES. 258,745,322. Of this amount, KES. 201,892,100 was meant for development while KES. 56,853,222 was for recurrent purposes. The sub-sector expenditure on recurrent activities for the FY 2017/18 was KES. 53,501,292 (94.1%) while expenditure on development activities was KES. 118,253,940 (58.6%).

75. Some of the key achievements by the Lands, Housing and Physical Planning include: digitization of county data, completion of the spatial plan, spatial plan published and publicized, needs assessment report developed, base map realized, draft urban spatial plan developed, Survey and mapping completed, Digital map developed, county inventory of public land created, market centers surveyed, demarcated and fenced, land parcels properly demarcated, modernized government houses, ABT centers constructed and operational.

2.3.2 Energy, Infrastructure and ICT

2.3.2.1 Energy and Natural Resources Sub-Sector

1. The energy sub-sector was still mandated to optimize power supply in Homa Bay County, so as to improve on its sufficiency and reliability; to promote alternative sources of energy and; to regulate and control the construction minerals industry. Pursuant to this objective, KES 33,999,364 was allocated for recurrent and KES 80,000,000 allocated for development purposes in the FY 2017/18. The department was able to absorb 90.8% of its recurrent vote and 56.3% of its development vote reflecting the general pattern in the FY 2016/17 when only a paltry figure of 37.78% of the development allocation was spent. The sub-sector has managed to carry out a routine maintenance on the already installed solar lights both at the headquarters and at the ward levels.

2.3.2.2 Transport and Infrastructure Sub-Sector

76. The Department of Transport and Infrastructure was mandated to provide efficient, safe, affordable and reliable infrastructure for sustainable economic growth and development through construction, modernization, rehabilitation and effective management of all infrastructure facilities. With an allocation of KES 46,628,546 for recurrent and KES 544,059,682 for development, the department of transport and infrastructure was able to utilize 117.3% of its budgetary allocation for recurrent and 94.4% of its budgetary allocations for development. Ultimately, the department was able to use up 96.2% of its budgetary allocation and 8.3% of the total county spending went to transport and infrastructure.

2.3.2.3 Information and Communication Technology Sub-Sector

77. Under the ICT sub-sector, the Education and ICT department was intending to rehabilitate three ICT innovation Centers in Mbita, Kasipul and Rachuonyo North sub-counties. The sub-sector was able to complete installation of CCTV cameras at the Governor's office. Currently, the sub-sector is on a move to set up ICT policy that will governs its operations within the entire county. Another major success the sub-sector has managed in conjunction with the Finance sub-sector is on revenue automation. Piloting on revenue automation was carried out in three sub-counties; Mbita, Kasipul and Homa Bay. At the moment its implementation is still ongoing.

78. The sub-sector also initiated "The Ajira program" for training the youths on online skills and employment. Currently, 48 youths in the county are working and earning money online. The project has also been introduced to Tom Mboya University College.

79. In addition, the sub-sector innovation hubs at the sub-counties levels are working closely with the ICT Authorities to ensure that the fiber optic reaches them to enable access to internet at the sub-counties, in turn more youths will be able to be recruited to the Ajira program.

2.3.3 General Economic and Commercial Affairs Sector

80. The General Economics and Commercial Affairs Sector comprises of the Department of Trade, Industry, Investments and Cooperatives; and the Tourism sub-sector. The sector aims at strengthening cooperatives, growth and development of commerce, tourism promotion and development, savings and investment mobilization, employment creation, and industrial and entrepreneurship development.

81. For the 2018/19-201/2020 MTEF period, the priority of the sector will include creating a conducive environment for investment; promoting industrial development; consolidating and strengthening cooperative societies; supporting development of micro, small and medium enterprises; mapping, documenting and developing all sites of major tourist interest; and establishing basic support infrastructure to boost tourism activities. Some of the medium-term priority projects include: completion of six value chain projects; establishment of a leather processing in Ndhiwa and formation of a coffee milling plant; operationalization and implementation of the trade fund act and ASWEKRA policy and also strengthening the six SACCOs; upgrading selected market including Homa Bay and Oyugis markets and finally, strengthening economic stimulus programme.

82. The sub-sector strategy is focused on moving agriculture up the value chain through value addition. Development districts in the form of special economic zones and processing parks shall be established to attract foreign direct investment, skill and new technology necessary to grow the share of manufacturing in the county economy. Up to 20% additional funding shall therefore have to be innovatively mobilized to target innovation in, capacity building of and research on the informal sector. Some of the key achievements of this sector include the construction of 35 toilets in 35 markets by the Trade sub-sector as well as murraming 22 markets.

2.3.4 Health Sector

83. The mandate of the health sector is to build a progressive, responsive and sustainable technology-driven, evidence-based and client-centered health system for accelerated attainment of the highest standards of health to the people of Homa Bay County. The sector is charged with confronting and overcoming the high disease burden in the county which is well highlighted in Kenya's epidemiological profile

84. The Health department was focused on increasing immunization coverage and reducing mortality rates; enhancing MCH and reproductive health services; improving coordination and community access to affordable quality health services; reducing the burden of communicable and non-communicable diseases; and reducing morbidity associated with poor hygiene and sanitation.

85. During the FY 2017/18 the department was allocated KES 1,976,385,816.00 for recurrent and KES 340,000,000.00 for development totaling to KES 2,316,385,816.00. The total exchequer release for the department during the FY 2017/18 was KES 2,499,473,998.00 including KES 2,344,473,998.00 for recurrent and KES 155,000,000.00 for development. The actual Expenditure in the FY 2017/2018 for recurrent totaled KES 1,800,295,113 while development totaled KES 277,848,062 with each vote experiencing a budget absorption rates of 91.0% and 81.7% respectively for recurrent and development. There's a total of KES 520,533,491 for recurrent and KES 62,151,938 balances brought forward in the FY 2018/2019.

86. The major achievements during the MTEF period 2014/15-2017/18 included construction of a new theatre, a blood transfusion Center, a Renal Unit and an oxygen plant at the County Referral Hospital in Homa Bay; construction/completion of Rachuonyo OPD Block with the block at 70% complete; completion of Sindo Mortuary; completion of the medical ward at Mbita Sub-County Hospital; construction/upgrading of medical blocks within health facilities (1 in each ward) in collaboration with other partners; purchase of 3 ambulances which have been equipped with clinical devises; supply of drugs to all health facilities; and recruitment of 300 additional health workers. Additionally, the Homa Bay County Referral Hospital has been supplied with new imaging (MRI) and x-ray machines.

2.3.5 Education Sector

87. The sector vision is to deliver a 'globally competitive education, training and innovation for sustainable development.' During the FY 2017/18 the Education sector was allocated KES. 616,813,284, comprising of KES. 172,000,000 for development programmes and KES 444,813,284 for recurrent programmes.

88. The total expenditure for the sector's programmes during the reporting period amounted to KES. 539,041,727 representing 7.87% of the total county expenditure and an overall absorption rate of 81.05%. This expenditure comprised of KES. 424,563,063 in recurrent expenditure, which represented 95.5% of the annual budget estimates for recurrent programmes while development expenditure amounted to KES. 114,478,664 accounting for an absorption rate of 66.6% of annual budget estimates for the development programmes.

89. The sector was able to disburse a total of KES 62 million as bursary with each ward receiving an allocation of 1.5 million and 2 million for bursary administration.

90. The department was also able to provide sufficient training services on the new curriculum to the 3200 ECDE teachers both in public and private schools. Under development, the department was able to secure grants from the Central Bank Special Account KES 52.9 million for Subsidized Vocation Training Center Support Grant (SVTCSG) that was used to in completing ECDE and VTC classrooms and workshops respectively.

91. The sector has also created a quality assurance section which has ensured higher standards of service delivery are realized. The sector has also promoted ECDE senior staffs and confirmed VTC instructors. It has also for the first time managed to present 5 items from the public ECDE schools to the National Music Festivals (NMF). The schools that presented at the NMF were; Sana, Oseno and Anding'o.

2.3.6 Public Administration and Government Relations Sector

92. The sector comprised of the Governor's Office (including the Office of the Deputy Governor and the County Secretary), the County Treasury, the County Planning Unit, the County Public Service Board and the County Assembly.

2.3.6.1 County Executive Services (Office of the Governor)

93. The Office of the Governor is responsible for providing leadership, coordination and results tracking for purposes of ensuring effective service delivery to enhance inclusive and sustainable development of Homa Bay County. In the FY 2017/2018, the entity was allocated KES. 452,030,633 for recurrent down from KES. 486,166,772 allocated in the previous year while for development KES. 88,000,000 was allocated up from KES. 65,000,000 allocated in the FY 2016/17.

94. Over the financial year 2017/18, the entity was able to spend a total of KES. 555,992,800 representing an overall absorption rate of 102.9%. This amount included KES 468,997,732 for recurrent which represents 103.8% absorption of total allocated recurrent allocation, and KES 86,995,068 representing 98.9% absorption rate.

95. Achievements of the department over the MTEF period 2015/16- 2017/18 included operationalization of devolved units, Completion (to 80%) of Homa Bay, Rangwe and Kabondo/Kasipul sub county offices, modernizing the Office of the Governor and completing networking mains; training of relevant

staff on performance contracting; establishing ICT platforms for improved electronic service delivery; developing a better public engagement strategy and; establishing a robust Inspection and Enforcement Unit to enhance compliance within the existing legal regime.

2.3.6.2 Finance and Economic Planning Sub-Sector

96. The Sub-Sector focused on providing leadership and coordination in planning, resource allocation and results tracking; improving accountability and prudence in the management of the county's financial resources; and mobilizing development assistance and ensuring optimum and equitable collection of revenue.

97. In the FY 2017/18, the department was allocated KES. 325,567,898 for recurrent down from KES. 552,782,952 allocated in the FY 2016/17. For development, the department was allocated KES 247,320,690 up from KES. 179,419,452 allocated in the FY 2016/17. During the FY 2017/18, the department's recurrent expenditure totaled KES. 318,715,612 representing 97.9% absorption rate while development expenditure totaled KES. 244,138,129 representing 98.7% absorption rate.

98. With the expenditure during the FY 2017/18, relevant plans and budgets were prepared, submitted and approved as required within the planning and financial management framework underpinned by the CIDP and the PFM Act, 2012. Resources were mobilized and allocated for use by the various spending entities of the County Government while standards of procedure were applied to ensure resources were put to public uses in the most prudent and effective ways possible. The public were engaged in all processes that required their input as were development partners and independent oversight bodies.

2.3.6.3 County Public Service Board

99. The County Public Service Board provides overall leadership and coordination in the management of the County's human resources for effective service delivery. During 2017/18, the department focused on strengthening the county policy framework for managing the county public service; promotion of national values and principles; enhancing staff productivity and morale, and attracting and retaining the best talent in the County Public Service. The department was allocated KES. 105,895,345 for the FY 2017/18 up from KES. 89,162,357 allocated for recurrent purposes in the FY 2016/17. The entity was able to utilize KES. 100,135,162 representing 94.6% of

the allocation for FY 2017/18. The department was allocated KES. 12,000,000 for the FY 2017/18 for development out of which it utilized only 8.3%.

2.3.6.4 County Assembly Services

100. The County Assembly focused on developing and sustaining its own institutional capacity to better discharge its constitutional mandate; improving the legislative process; improving the capacity to provide effective oversight to the County Government and fully developing the representation and outreach work of the members of county assembly. The Assembly was allocated KES. 1,019,973,075 for recurrent in the FY 2017/18 up from KES. 937,720,835 allocated in the FY 2016/17. For development spending, the entity was allocated KES. 67,000,000 up from KES. 18,000,000 allocated in the FY 2016/17. The Assembly was able to absorb 99.3% of its recurrent vote and 100% of the development vote.

2.3.7 Social Protection, Culture and Recreation Sector

101. The Department of Culture and Sports was tasked with developing and promoting our culture and heritage, developing and managing our sports and sports facilities. It was also assigned with complementing the abilities of poor and vulnerable groups to participate fully in county's development process through social protection measures. The department participated in the cultural festival held at Got Ramogi, Siaya County. Towards this end, during the FY 2017/2018 the department was allocated KES. 71,122,827 for recurrent expenditure and KES. 66,000,000 for development giving a total of KES. 137,122,827 budget.

102. Over the financial year, the department was able to spend KES. 69,728,041 for recurrent purposes and KES. 27,316,594 for development. This reflects an absorption rate of 98.0% of the development vote and 41.4% of the recurrent budget. Measures must urgently be instituted to improve absorption of the department's development vote especially for development of sports facilities and social development and empowerment.

103. For development of sports talents and facilities, the department was able to facilitate sports clubs to participate in County Leagues – Football (Men), Volleyball for the Deaf (Men) and Karate (Men & Women). During this FY 2017/18, the department also began the Phase I (perimeter wall fencing) of the construction of Homa Bay stadium up to 40% level.

104. For social development and empowerment, the department was able to develop a policy paper for social protection that has since been approved by

the county assembly and accented to by H.E the Governor. Soon, the department will be rolling out its cash transfer to older persons targeting 50 older persons in the 40 wards with each elderly person taking home KES. 2,000 per month.

2.3.8 Environment Protection, Water and Natural Resources Sector

105. The department of water and environment policy direction was to ensure adequate and reliable supply of water, clean environment and sewerage services. The financial year 2017/2018 budget was therefore focused on the following: rehabilitation and expansion of water schemes; drilling of new boreholes; protection of springs; de-silting of water pans; provision of roof catchment tanks to public institutions; re-afforestation of the county landscape and cleaning of major market centers.

106. The Environment, Protection Water and Natural resources sub-sector had an actual recurrent expenditure during the financial year 2017/18 of KES. 132,620,414 out of the KES. 147,714,554 that was allocated representing 89.8% absorption rate

107. The total development allocation for the financial year 2017/18 was KES. 359,600,000. Total actual development expenditure was KES. 330,161,898 representing an absorption rate of 91.8% of the total development vote. In all, 6.8% of the total county expenditure went into the sector.

108. As a result of the expenditure, the sector was able to purchase and install new pumps for 5 water supplies; upgrade 25 existing boreholes to solar powered water schemes; drill and cap 33 new boreholes; protect 13 springs; install 6 ten cubic meter tank plus a guttering system in a secondary school; desilt 11No. water pans; install 51 skips; outsource cleaning of 3 county towns; supply 80 schools with tree seedlings and develop 3 water and environment bills.

2.4 Fiscal Responsibility Principles

109. In line with the Constitution of Kenya (2010), Public Finance Management (PFM) Act, 2012, and in keeping with the prudence and transparent management of public resources, the County Government of Homa Bay was able to adhere to the fiscal responsibility principles as set out in the statutes as follows:

a. Over the medium term, a minimum of 30% of the budget shall be allocated to development expenditure

110. The County Government development budget allocation over the medium term has been consistently above 30 percent which is the minimum as set out in PFM Act of 2012.

111. In the FY 2017/18, the County Government allocated KES. 2,519,872,472 to development representing 33.3 % of its total budget. Out of that allocation KES. 2,053,587,423 was used up representing an absorption rate of 81.5%. The development expenditure represented 30.3% of the total expenditure in the FY 2017/18.

112. The development allocation for FY 2017/18 backs the trend of those for the FYs 2013/14, 2014/15, 2015/16 and 2016/17 when the County Government of Homa Bay had allocated KES 1,323,900,000 (30.6%), KES 2,004,392,365 (38.5%), KES. 2,406,536,984 (36.7%) and KES. 2,098,073,095(31.2%) respectively in the final budget. Even though the expenditure outcome indicates that development expenditure stood at 30.6%, 38.5%, 36.7%, and 31.2% respectively of total County Government of Homa Bay expenditure in the FYs 2013/14, 2014/15, 2015/16 and 2016/17, overall trend indicates the fiscal responsibility principle has been complied with consistently.

b. The county government's expenditure on wages and benefits for public officers shall not exceed a percentage of the county/government revenue as prescribed by the regulations.

113. The PFM Regulations further provided that: (1) the County Executive Committee member with the approval of the County Assembly should set a limit on the County Government's expenditure on wages and benefits for its public officers pursuant to Section 107(2) of the PFM Act; (2) the limit set under paragraph 112 (1) above, shall not exceed thirty five (35) percent of the County Government's total revenue at any one time; and (3) for the avoidance of doubt, the revenue referred to in paragraph 112 (2) shall not include revenue that accrue from extractive natural resources such as oil and coal.

114. Allocation for wages and personnel benefits in the FY 2017/18 stood at KES 2,437,524,927. This represents 33.2% of the total county revenue (KES. 7,333,877,116) and conforms to the prescribed level of 35% in the PFM ACT (2012).

115. The confidence that expenditure on wages and personnel benefits will drop to the level of 35% stems from the fact that the County Government of Homa Bay has been able to lay effective strategies to reduce the wage bill in the medium term. First, recommendations from the CARPS program are being implemented so that county public service is kept at its optimal level. Second, vacancies arising from natural attrition will not be filled unless it is absolutely necessary provided the expected level of services is maintained. Third, promotions and other personnel benefits that have implications on the wage bill are carefully being considered through the HR Advisory Committee so that wage increases are matched by productivity increases.

c. Over the medium term, the County Government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure

116. For the purposes of this provision, short term borrowing is restricted to management of cash flows and should not exceed five percent of the most recent audited county government revenue. The PFM Regulation further provided that the county public debt shall never exceed twenty (20%) percent of the county government total revenue at any one time; and that the county annual fiscal primary balance shall be consistent with the debt target in the 20% provision.

117. In compliance with these provisions, the County Government of Homa Bay did not borrow any funds in the FY 2017/18 as prescribed in the PFM Act of 2012 and its operationalizing regulations. However, in the medium term, the county treasury is working on a framework for borrowings to finance priority development in critically large capital infrastructural projects. This will however be restricted to the levels recommended in the PFM provisions.

d. Fiscal risks shall be managed prudently

118. The National Government has improved its macroeconomic forecasts and regularly reviews the impact of macroeconomic projections and their implications for the budget. The County Government considered the fiscal risks arising from those contingent liabilities, potential impact of the Public Private Partnership and Financial Sector Stability. Furthermore, for the FY

2017/18, a Contingency provision of KES 61,689,336.00 was factored in the budget to cater for urgent and unforeseen expenditure.

e. ***Approved expenditures of a county assembly shall not exceed seven per cent of the total revenue of the county government or twice the personnel emoluments of that county assembly, whichever is lower***

119. The PFM Regulations further provide that if the county government does not achieve the requirement of the regulations above at the end of the financial year, the County Executive Committee member for finance shall submit a responsibility statement to the County Assembly explaining the reasons for the deviation and provide a plan on how to ensure annual actual expenditure outturns as well as the medium term allocation comply with the provisions of section 107(2)(a) of the Act and these regulations in the subsequent year; and that the compliance plan above shall be binding and the County Executive Committee member for finance shall ensure implementation.

120. Whereas transfers to the County Assembly for the FY 2017/18 stood at KES. 1,080,000,000 which represents 14.7% of the total county receipts, this was consistent with the responsibility statement prepared by the County Executive Committee member responsible for Finance and Economic Planning. Measures have been instituted however, to reduce discretionary spending without compromising the ability of the County Assembly to discharge its mandate for legislation, oversight and representation.

121. A compliance plan has been developed jointly by the county assembly to ensure that the total expenditure of the county assembly is brought down to the level of not more than 7% of the county's total revenue within three years. Already, the personnel emoluments of the county assembly constitute 6.1% of the total county government revenue and any effort to reverse this trend requires medium to long-term commitments including laying off staff.

3.0. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

The County's performance is dependent on the National economic performance as well formulation and implementation of sound policies in the County government.

Global Growth Outlook

122. The broad month on month inflation dropped to 4.8 percent in January 2018 from 7.0 percent in January 2017. The drop in inflation was as a result of the fall in the prices of potatoes, cabbages, and mangoes mainly attributed to favorable weather conditions towards end of 2017. The inflation of 4.8 percent in January 2018 was within Government's target range.

123. Over the medium term, growth is anticipated to increase by more than 7.0 percent due to investments in strategic areas under "The Big Four" Plan, efforts will be geared towards supporting the business environment, create job opportunities and ultimately promote broad based inclusive growth.

124. Kenya is ranked favorably in the ease of doing business and as a top investment destination. In 2017, the World Bank's Doing Business Report, ranked Kenya third in Africa in the ease of doing business after Rwanda and Mauritius, as the country moved up 12 places to position 80. Further, in September 2017, Standard and Poor's Global Ratings affirmed Kenya's short and long term foreign and local currency sovereign credit rating at B+/B citing Kenya's strong growth prospects which will facilitate fiscal consolidation.

Country Performance Outlook

125. Kenya's economy remained resilient in 2017 despite adverse weather conditions, a prolonged electioneering period as well as subdued credit growth to the private sector which combined to weaken growth in the first half of the year. Economic growth for 2017 is estimated at 4.8 percent from 5.8 percent in 2016 and is projected to bounce back to 5.8 percent in 2018. The resilience in growth in 2017 was supported by the ongoing public sector infrastructure investments, recovery in the tourism sector and continued stable macroeconomic environment

126. The broad month on month inflation dropped to 4.8 percent in January 2018 from 7.0 percent in January 2017. The drop in inflation was as a result of the fall in the prices of potatoes, cabbages, and mangoes mainly attributed to favorable weather conditions towards end of 2017. The inflation of 4.8 percent in January 2018 was within Government's target range.

127. The foreign exchange market has remained relatively stable supported by increased tea and horticultural exports, strong diaspora remittances, and a continued recovery in tourism. The 12-month current account deficit stabilized at 7.0 percent of GDP in

December 2017 and is expected to narrow to below 6.0 percent of GDP in 2018 due to lower imports of food and lower imports in the second phase of SGR Project.

128. Kenya is ranked favorable in the ease of doing business and as a top investment destination. In 2017, the World Bank's Doing Business Report, ranked Kenya third in Africa in the ease of doing business after Rwanda and Mauritius, as the country moved up 12 places to position 80. Further, in September 2017, Standard and Poors Global Ratings affirmed Kenya's short and long term foreign and local currency sovereign credit rating at B+/B citing Kenya's strong growth prospects which will facilitate fiscal consolidation.

3.1. Recent Economic Developments and Outlook

129. In the advanced economies, growth is expected to pick up to 2.3 percent in 2018 and 2017, up from 1.7 percent in 2016. This forecast reflects the expectation that favorable global financial conditions and strong sentiment will help maintain the recent acceleration in demand, especially in investment with a noticeable impact on growth in economies with large exports. In addition, the U.S. tax reform and associated fiscal stimulus are expected to temporarily raise U.S. growth, with favorable demand spillovers for U.S. trading partners especially Canada and Mexico.

130. Among emerging market and developing economies, higher domestic demand in China and continued recovery in key emerging market economies supported growth in 2017. Growth in emerging and developing economies is projected to increase from 4.4 percent in 2016 to 4.7 percent in 2017 and 4.9 percent in 2018. The projected growth is driven primarily by the strengthening of growth in commodity exporters; a gradual increase in India's growth rate and a lower but still high trend growth rate in China.

131. The broad-based slowdown in sub-Saharan Africa is easing and growth is expected to improve from 1.4 percent in 2016 to 2.7 percent in 2017 and further to 3.3 percent in 2018, partly supported by a recovery in growth of larger commodity exporters such as Nigeria and South Africa. In addition, the easing of drought conditions in the Eastern and Southern Africa have contributed to the positive outlook. However, downside risks have increased following policy uncertainties and delays in the implementation of policy adjustments in Nigeria and South Africa. Many of the faster growing economies in sub Saharan African economies continue to be driven by public spending, with debt levels and debt service costs rising.

132. In the East African Community (EAC) region, economic growth is estimated to stabilize at 5.4 percent in 2016 and 2017, a slowdown from a 6.1

percent growth in 2015. The prolonged effect of drought experienced in 2016 and continued in 2017, dampened agricultural output and GDP growth in Uganda, Tanzania and Rwanda. In addition, there was a slowdown in credit growth across countries in the region, which further dampened the growth. Further, insecurity and political tensions continued to constrain economic activities in countries such as Burundi, Somalia, and South Sudan. In 2018, economic growth is projected to increase to 5.9 percent supported by a stable macroeconomic environment, ongoing infrastructure investments, and strong private consumption.

3.1.2 Macroeconomic stability (Inflation, Interest Rates, Exchange rate)

133. Inflation rate has been low, stable and within the Government target range of 5+/-2.5 percent in the period 2013 to 2017 as a result of prudent monetary and fiscal policies. Inflation averaged 6.7 percent during the period 2013-2017 compared with 7.4 percent during 2002-2007 and 10.6 percent during 2008-2012 (Chart 1.3). Inflation during the period 2008 - 2012 was highly volatile following a steep depreciation of the Kenya Shilling and policy responses.

134. Interest rates remained stable and low in the period 2013-2017 except June – December 2015 when world currencies were under pressure. During the period, the policy rate (Central Bank Rate) was adjusted appropriately to anchor inflation expectations. The rate is currently (January 2017) at 10.0 percent since August 2016. The interbank rate has remained low at 7.7 percent in December 2017 from 5.9 percent in December 2016 due to ample liquidity in the money market, while the 91-day Treasury bill rate declined to 8.0 percent from 8.4 percent over the same period. The 182 day and the 364-day Treasury bills averaged 10.6 percent and 11.1 percent in December 2017 from 10.5 percent and 11.0 percent in December 2016, respectively.

135. The Kenya Shilling exchange rate remained broadly stable against major international currencies. As at December 2017, the shilling exchange rate against the Dollar was at KES. 103.1 from KES. 102.1 in December 2016. Against the Euro and the Sterling pound, the Shilling weakened to KES. 122.0 and KES. 138.2 in December 2017 from KES. 107.7 and KES. 127.7 in December 2016, respectively

3.1.3 Surplus in Balance of Payments as Current Account Improves

136. The overall balance of payments position improved to a surplus of US$ 879.7 million (1.2 percent of GDP) in the year to November 2017 from a deficit of US$ 821.4 million (1.3 percent of GDP) in the year to November 2016 due to the improvement in the financial account that more than offset the widening current account deficit.

137. The current account balance registered a deficit of US$ 5,110.1 million (7.0 percent of GDP) in the year to November 2017 from a deficit of US$ 3,452.5 million (5.4 percent of GDP) in the year to November 2016. This reflects the widening of the trade account balance and the increased payments to foreign investors (due to high interest payments) despite an improvement in the secondary income account balance particularly increased workers' remittances.

3.1.4 Overview of the Economic Performance

138. Growth of the Kenyan economy remained resilient; broad based and registered strong performance in the past 5 years supported by strong public and private sector investment and appropriate economic and financial policies. The economy, specifically, grew at an average of 5.5 percent per year in the five years (2013 - 2017) outperforming the average growth rate of 4.7 percent in the period 2008 to 2012. The value of goods and services produced therefore raised the per capita income to an estimated KES. 174,200 in 2017. The economy generated an average of 817.0 thousand new jobs per year in the period 2013 - 2017 up from 656.5 thousand jobs per year in the period 20082012.

139. However, uncertainty associated with elections coupled with the effects of adverse weather conditions slowed down the performance of the economy in 2017. As a result, the economy is estimated to grow by 4.8 percent in 2017, which is a slowdown from the estimated growth of 5.1 percent in the 2017 Budget Review and Outlook Paper (BROP).

140. In 2017, the economy grew by 4.4 percent in Quarter 3, 5.0 percent in Quarter 2, and 4.7 percent in Quarter 1, largely supported by robust activities in the service sectors particularly; accommodation and restaurant; real estate and information and communication. The growth was somewhat constrained by subdued performances in agriculture forestry and fishing, manufacturing, electricity and financial intermediation sectors

141. Services remain the main source of growth; the sector grew from 5.0 percent in 2012 to 6.8 percent in 2016 supported by favorable performance of ICT, real estate, wholesale and Retail Trade, Transport and Storage and Accommodation and Restaurants. Accommodation and Restaurants has been the fastest growing sector. It grew from 3.1 percent in 2012 to 13.3 percent in 2016 supported by the improved security situation that led to removal of travel advisories from major tourist originating countries.

142. The growth of the financial and insurance sector accelerated from 6.0 percent in 2012 to 9.4 percent in 2015 supported by reforms aimed at creating a conducive business environment. However, the sector slowed down to 6.9 percent in 2016 and is estimated at 3.2 percent in 2017 partly due low

domestic credit to the private sector and a decline in the growth of interest income

3.2 Implementation of the FY 2018/19 Budget of Homa Bay County

143. Implementation of the 2018/19 budget is progressing well despite initial challenges encountered at the beginning of the financial year when there was delay in receipts of funds from the national treasury. The County Treasury has prepared and dispatched guidelines to all Departments/Units/Agencies (DUAs) on budget implementation to ensure priority programmes are implemented as identified in the approved budget and other policy documents and plans. Further, to reduce unnecessary pressure on expenditures, the county government will institute measures aimed at reducing unnecessary expenses and introduce controls which will ensure adherence to the approved budget allocations.

144. Some of the measures include directing DUAs to prepare and submit their annual work plans, cash flow plans, and procurement plans to the County Treasury for control purposes and for onward transmission to the National Treasury to facilitate release of exchequer. Implementation of priority programmes will be tracked and feedback given periodically. Expenditures outside the planning framework are also being rejected in line with requirements of the County Government Act, 2012.

3.3 Macroeconomic Outlook and Policies

3.3.1 Growth Prospects

145. Kenya's economic growth prospects for the FY 2018/19 and over the medium term takes into account the global and sub-Saharan Africa growth recoveries. The growth projection takes into account the strategic objectives of the Government as outlined in the third MTP of Vision 2030. Real GDP is projected to expand by 5.3 percent in FY 2017/2018, 5.9 percent in FY 2018/2019, 6.3 percent in FY 2019/2020 and 6.9 percent by FY 2021/22. This growth will be supported mainly by the implementation of "The Big Four" Plan, sustained investment in infrastructure, strong agricultural production due to improved weather conditions, buoyant services sector, continued recovery in tourism, increased investor and consumer confidence, and macroeconomic stability.

146. The outlook, therefore points to a continued coordination of monetary and fiscal policies for overall macroeconomic stability which will support robust growth, lower fiscal deficits, contain inflation within the target range and a gradual improvement in the current account balance.

147. In addition, the measures being undertaken by the Government under "the Big Four" Plan to boost the manufacturing sector; enhance food security and nutrition; build affordable housing; and achieve Universal Health Coverage are expected to boost growth, create jobs and promote inclusive growth.

148. Inflation is currently within the Government's target range and is expected to remain so in the medium term underpinned by prudent monetary and fiscal policies, favorable weather outlook, relatively lower international oil prices, and a stable exchange rate which is expected to dampen any risks of imported inflation. The interest rates are expected to remain low and stable over the medium term supported by improved liquidity conditions, and the proposed fiscal consolidation.

149. Kenya's external position is projected to strengthen over the medium term supported by a narrower current account deficit. The improvement in the overall balance reflects lower petroleum products import bill reflecting lower international oil prices and improved performance of tea and horticulture exports; strong diaspora remittances; recovery in tourism, and increased foreign direct investment in infrastructure.

3.3.2 Medium Term Fiscal Framework

150. The fiscal policy objective of the County Government of Homa Bay is focused on enhancing rapid economic growth and development and ensuring effective delivery of public goods and services in a sustainable manner. Specifically, the Fiscal Policy underpinning the FY 2018/19 budget and MTEF is aimed at a revenue growth of more than 222 percent over the medium term and containing growth of total expenditure. Further, the policy aims at shifting more public resources from recurrent to capital investment so as to promote sustainable and inclusive growth.

151. The fiscal policy over the medium term will focus on:

- Increasing county resources through enhanced resource mobilization (both internal and external resource), broadening of the tax base in order to grow revenue to finance priority development., strengthening revenue administration capacity through organizational and modernization reforms and automation of revenue collection processes in order to enhance revenue collection.

- Rationalization of expenditures in the non-productive areas to create requisite fiscal space for productive sectors. Additionally, with the ongoing public service rationalization, redundancies and duplications will be eliminated in the public service.

- Full implementation of the integrated financial management system (IFMIS) as an end-to-end transaction platform and Government Payment Gateway and adoption of leasing of assets in government to ensure revenue and expenditure efficiency.

- Expenditure tracking and value for money audits to ensure efficiency and effectiveness in use of resources at all levels of government coupled with strengthening of project planning and management as well as engagement with development partners.

- Enhancement of revenue collection efforts to ensure all potential taxpayers make their contribution towards the county's development agenda. In line with this, the County Government of Homa Bay has prepared its finance bill and all revenue collection legislations in order to simplify, modernize and reduce cost of compliance to them.

152. More specifically, the revenue targets for the FY 2018/19 and the medium term will be achieved through:

- Improving revenue intake by applying readily available data mining and analytic techniques and by billing appropriately and collecting effectively.

- Leveraging on the private sector expertise when developing pricing strategies for revenue-generating products and services to ensure optimization of pricing.

- Making county government physical and digital assets work harder for taxpayers: sell, rent or lease the assets; and offer premium, value-added services related to the asset for which customers will readily pay.

153. With regard to expenditures, the County Government will continue with the policy of rationalization of expenditures to improve efficiency and reduce wastage. The absorption capacity in capital projects will continue to be improved through e-procurement which will also ensure that public financial resources are used prudently and for intended purposes. The continued use of electronic procurement system through the IFMIS "Procure to Pay" module

eliminates manual procurement challenges that the national government had experienced in the past.

154. The fiscal stance of the county only envisages non-concessional external borrowing that will be limited to capital projects and within the ceiling stated in the County Debt Management Strategy Paper. The debt management strategy aims at ensuring public debt sustainability. The strategy envisages diversification of financing sources beyond commercial sources of financing.

3.3.3 Risks to the Economic Outlook

155. The microeconomic outlook is prone to risks. Risks from the global economies and at the country level has an effect on how the sectors of the county perform.

156. Risks from the global economies relates to uncertainties in the global financial markets particularly with regard to the U.S. economic and trade policies, normalization of monetary policy in the advanced economies and the Brexit outcome. The recent geopolitical tensions building around production and use of nuclear weapons if not addressed could weigh down global growth with negative impact on trade and financial flows.

157. Domestically, the economy will continue to be exposed to risks arising from adverse weather conditions until the mitigating measures of food security under "The Big Four" Plan are put in place. At the county level, additional risks could emanate from public expenditure pressures especially recurrent expenditures.

158. The Government will monitor the above risks and take appropriate measures to safeguard macroeconomic stability.

4.0 RESOURCE ALLOCATION FRAMEWORK

4.1 Guiding Principles

159. The resource allocation framework is anchored on the principles of public finance management as specified in Article 201(b) of the Constitution. In the quest to attain the County vision of being, "a wealthy, healthy and industrialized county," as outlined in the County Integrated Development Plan, the county aligns its resource allocation criteria to meet those of the National government which are aimed at promoting equitable development of the county at large, including making special provision for marginalized groups and areas. The following are the county guiding principles in resource allocation for the MTEF period 2018/19-2020/21:

4.1.1 Equity

160. The principle will aim to ensure that basic services are provided to address disparities within the county. The previous resource allocation framework was based on a strategy of channeling resources to areas of high returns with an aim to attain rapid economic growth. In addressing marginalization of certain areas within the county, the county will aim at providing quality water, quality early childhood education, access to quality health care services and good access roads.

4.1.2 Effectiveness

161. Funds shall be spent in a way that achieves the purpose for which it was established. This implies that basic fiduciary standards will be upheld i.e. funds will be spent only when there is an approved budget, a secure process will be followed to authorize expenditure, and the process is documented. With the expenditure returns focusing more on performance outputs and outcomes realized.

4.1.3 Efficiency

162. This principle recognizes that funds shall be spent in a prudent and responsible way. The county will put in place measures to improve costing of programmes and activities; change the allocation of spending i.e. improve on health care funding; ensure proper maintenance of departmental facilities, equipment and vehicles by developing a digitalized asset registry; and lastly, improve on paperless communication through the leverage of ICT.

4.1.4 Economy

163. The principle will aim at maximizing the use of resources. Selection of projects will be based on the degree to which the programme or project will address the core challenges of poverty and unemployment; expected outputs and outcomes; and degree to which the programme or the project will

accelerate equitable and sustainable growth towards transforming the county development agenda.

4.1.5 Transparency

164. The funds shall be managed in a way that will ensure openness about allocation, utilization and accounting.

4.2 Shareable Revenue

165. For the financial year 2018/19, the county government overall expenditure is projected at KES. 8,389,061,167 up from the estimated KES. 7,449,146,517 in FY 2017/18. This represents a revenue growth of 12.6 per cent. The expenditure in the FY 2018/19 includes KES. 7,960,200,249 expected as grant from the national Government as equal share; KES. 295,183,654 as internal revenue collections; and KES. 133,677,263 as other grants.

4.3 Medium-Term Expenditure Framework

166. Allocation and utilization of resources in the medium term will be guided by the priorities outlined in the County Integrated Development Plan (CIDP 2018-2022), Fiscal Strategy Paper (FSP) and other county plans; and in accordance with section 107 of the PFM Act 2012. The county government will prioritize expenditures within the overall sector ceilings and strategic sector priorities drawn from the county goals included in the CIDP 2018-2022.

167. The approach of the medium-term expenditure framework for FY2018/19-2020/2021 will be on increasing predictability of resource flows and the criteria by which funding decisions are made. The framework will reduce the gap between commitments and resources and have a medium-term perspective in terms of financing and planning.

168. The medium term expenditure framework will focus on, (1) Improving macroeconomic balance by developing a consistent and realistic resource framework; (2) Improving the allocation of resources to strategic priorities between and within sectors; (3) Increasing commitment to predictability of both policy and funding so that departments can plan ahead and programs can be sustained; and (4) Providing spending units with a hard budget constraint and increased autonomy, thereby increasing incentives for efficient and effective use of funds.

169. Strengthening of the county sectors will provide a building block to achieving a comprehensive medium-term approach. In overall, the County Government fiscal policy will aim to maximize the potential for county own

sources of revenue and continued expenditure rationalization to ensure maximum economy in resource use.

170. Based on the Medium-Term Framework, the County Government of Homa Bay will continue focusing on;

- Improving both the Health and Education sectors by ensuring there is improved and accessible health care and education services within the region. Focus will be on improved ECD Education; promotion of quality education; and improved transition to and retention at all levels of education. Under health services, the focus will be on construction, rehabilitation and equipping of health facilities; operationalization of the community sstrategy, promotion of environmental health and sanitation, control of diseases, support to training of specialized cadres and provision of essential supplies.
- Improving infrastructure countywide, such as roads, energy and in ICT and ensuring availability of safe water for the residents of Homa Bay. The allocation to the sector will continue to rise over the medium term. This is in line with the government policy of developing infrastructure for accelerating sustainable growth.
- Increasing agricultural productivity and output; increasing livestock production and productivity; improving management, conservation, control and development of fisheries; urban and rural development controls; creating a conducive environment for business and investment; and promoting selected industrial clusters around key agriculture, livestock and fisheries' product.
- Other priority programmers including social welfare, youth empowerment, tourism, culture and sports will also receive adequate resources.

171. Reflecting the above medium-term expenditure framework, the tables below provide the expected revenue inflow and expenditure over the MTEF period 2018/19-2020/21.

Table 9: Expected Revenue Inflow over the Medium Term.

Nature of Revenue	FY2018/2019	FY2019/2020	FY2020/2021
Equitable Share of National Revenue	6,688,200,000	6,925,603,520	7,217,808,099
Conditional Grants from National Government	444,854,827	481,546,117	519,838,884
Other grants and loans (from Development Partners)	425,935,827	468,578,387	517,447,014
Local Revenue (including A-in-A)	172,996,417	207,591,524	238,170,676
Expected Gross Revenue Inflow	**7,732,086,904**	**8,083,319,548**	**8,493,364,673**

Table 10: Expected Expenditure during the MTEF period 2018/19-2020/21

Entity Code	Name of Spending Entity	Estimates FY 2018/2019	Estimates FY 2018/2019	Estimates FY 2019/2020	Estimates FY 2020/2021
		Recurrent	Development		
5111	Agriculture, Livestock and Fisheries Development	193,177,789	202,543,551	415,507,407	436,282,777
5112	Tourism, Culture, Social Development and Sports	69,496,766	106,705,000	183,621,919	192,803,015
5113	Transport and Infrastructure	72,736,698	501,795,905	601,804,499	631,894,724
5114	Energy and Mineral Resources	34,740,345	75,458,987	115,014,491	120,765,216
5115	Education and ICT	534,204,183	119,600,334	675,810,659	709,601,192
5116	Health	2,073,692,084	440,385,996	2,598,308,143	2,728,223,550
5117	Lands, Housing and Urban Development	68,119,805	204,859,267	285,265,629	299,528,910
5118	Trade, Industry and Investment	192,183,688	150,414,670	355,884,603	373,678,833
5119	Water and Environment	152,774,859	311,990,879	488,004,025	512,404,226
5120	Finance and Economic Planning	111,150,243	503,123,355	632,701,806	664,336,896
5123	County Assembly	907,264,362	59,317,904	996,766,092	1,046,604,397

5122	County Public Service Board	33,432,205	1,000,000	96,694,705	107,408,588
5121	Office of the Governor	533,918,029	78,000,000	637,935,570	669,832,349
EXPENDITURE BY ECONOMIC CLASSIFICATION		4,976,891,056	2,755,195,848	-	-
TOTAL EXPENDITURE			**7,732,086,904**	**8,083,319,548**	**8,493,364,673**
PROJECTED REVENUE			**7,732,086,904**	**8,083,319,548**	**8,493,364,673**

5.0 CONCLUSION AND NEXT STEPS

176. The fiscal strategy presented herein will be focused on achieving the objectives outlined in the PFM Act and lay ground for the financial year 2018/2019 in terms of preparing the county strategy papers. Fiscal discipline will be important in ensuring proper management of funds and delivery of expected output.

177. During the period under review, there are different challenges that have been identified some of which were identified in the previous reporting period that remains unresolved among them are: delay in exchequer releases; risks associated with project implementation; inadequate skilled human capital.

178. Going forward the set of policies outlined in this CBROP reflect the changed circumstances and are broadly in line with the fiscal responsibility principles outlined in the PFM act and regulations. They are also consistent with the national strategic objectives pursued by the National Government as a basis of allocation of public resources.

179. The county shall continue to mobilize more resources through enhanced revenue collection, private public partnership and creation of conducive environment for investor attraction.

180. Emphasis will be put on the rationalization of expenditure with a view to funding only core services and reducing recurrent expenditure as a proportion of the total expenditure. Actual outputs will be reported and specifics will be provided for all projects of location, allocations and expenditures.

181. Governance principle as envision on the Constitution of Kenya shall guide in allocating resources amongst priority programmes. First, provision will be made for mandatory expenditures including salaries, rents and utilities. Then resources will be allocated towards completing on-going projects. Finally, new projects will be considered on the basis of their linkages to existing plans; degree to which they contribute to alleviation of poverty; degree to which they address the core mandate of the spending unit; the expected output and outcome from the programme; linkage with other programmes and their cost-effectiveness and sustainability.

182. The next County Fiscal Strategy Paper (CFSP) will be finalized by the February 2019 deadline as per the PFM act.