



**COUNTY GOVERNMENT OF KISUMU**

# **FISCAL STRATEGY PAPER**

---

**KISUMU COUNTY**

**2017**

*Economic Transformation for the Residents of Kisumu County*

© County Fiscal Strategy paper (CFSP) 2016  
For copies of the document, please contact

County Treasury  
County government of Kisumu  
P. O. Box 2738-40100  
**Kisumu, Kenya**

Tel: +254-20-2252-299  
Fax: +254-20-341-082

The document is also available on the internet at: [www.kisumu.go.ke](http://www.kisumu.go.ke)

## FOEWORD

This is the 2017/2018 County Fiscal Strategy Paper (FSP) for Kisumu prepared as a pre-requisite to the budget for 2017/2018 which is the year when the next general elections will be held. For this reason the preparation of the FSP has come about three months earlier in order to meet the budget deadline of 31<sup>st</sup> March 2017. The paper highlights the legal framework underlying the fiscal responsibility for the County Government while reviewing the recent economic development and laying emphasis on the fiscal policy outlook and its determinant factors. It determines the resource envelope and criteria for sharing the funds among the county departments and entities. The paper also highlights the priority programmes earmarked for implementation in the FY 2017/2018 for each department.

The paper bases its recent economic developments on Kenya National Bureau of Statistics (KNBS) reports that estimates the GDP growth at 6.2% during the second quarter of 2016. This is attributed to improved performance in agriculture, forestry and fishing; transportation and storage; real estate; and wholesale and retail trade sectors. The same quarter also witnessed a slowdown in inflation mainly due to relatively stable costs of transportation during the quarter. Inflation edged downwards significantly to average at 5.6 per cent during the quarter compared to 7.0 per cent in the same quarter of 2015. Slowdowns in the rise of consumer prices for housing, water, energy and communication services also contributed to the deceleration in inflation. The KNBS report further observe that in general, the Kenyan Shilling strengthened against the main trading regional currencies (South Africa Rand, Ugandan Shilling and Tanzanian Shilling) but depreciated against the major world currencies (US dollar, the Euro and Japanese Yen) in the second quarter.

The fiscal policy in this paper is geared towards strengthening social and economic pillars including agriculture and food security; industrialization and enterprise development; health and education while at the same time maintaining infrastructure and financial services as the enablers. The expenditure framework that requires that a minimum of 30% of the budget allocated to development expenditure is maintained with this paper placing development expenditure at about 35%. The PE has a slight reduction from 38% the previous year to 37% which is above the required 35% and below.

For the FY 2017/2018, it is forecasted that resource envelope comprising of share of national revenue, other conditional allocations and locally collected revenue will total of Kshs. 8.669 billion. This is composed of Kshs. 7.293 billion equitable shares from the national government; conditional grants and other national allocations and revenue generated from local sources amounting to Kshs. 1.376 billion.

The resources available have been proposed to be shared using the following criteria: Non-discretionary expenditure take the first charge and include statutory obligations such as salaries, gratuity and pension that are financed by the Kisumu County Government. These expenditures are projected at 37% of the total revenue; Development expenditures are shared out on the basis of CIDP/ADP priorities as well as strategic interventions to boost revenue

base and stimulate the economic growth as outlined in the Governor's blueprint. The development expenditures are projected to take up about 35%.

## **ACKNOWLEDGEMENT**

The Kisumu County Fiscal Strategy Paper (CFSP) for the FY 2017/2018 is the fourth to be prepared by the County Government of Kisumu and has taken into consideration the stakeholder views expressed during public participation forums conducted in all the sub-counties.

I take this opportunity to thank His Excellency the Governor for providing an enabling environment for conducting the various activities that constitute the cycle for preparation of the CFSP. I also wish to thank residents of Kisumu County and all stakeholders for their participation in preparation of the Annual Development Plan (ADP) and the CFSP for the FY 2017/2018. In particular my appreciation goes to members of County Assembly whose presence during the public participation exercise focused the participants to priority areas.

My sincere gratitude goes to the leadership of the department of Finance and Planning as well as staff of Budget and Planning Directorates for the meticulous planning process that has resulted to the timely preparation of this document and in equal measure I applaud the ad-hoc committee that compiled the report in time to allow the budget preparation process to start.

**GEORGE OKOTH-ONGAYA**

**EXECUTIVE COMMITTEE MEMBER-FINANCE AND PLANNING**

## TABLE OF CONTENTS

<b>FOREWORD</b> .....	<b>I</b>
<b>ACKNOWLEDGEMENT</b> .....	<b>III</b>
<b>TABLE OF CONTENTS</b> .....	<b>IV</b>
<b>CHAPTER 1</b> .....	<b>1</b>
<b>INTRODUCTION</b> .....	<b>1</b>
<b>ORGANIZATION OF THE 2016/17 COUNTY FISCAL STRATEGY PAPER</b> .....	<b>1</b>
<b>LEGAL BASIS FOR THE PUBLICATION OF THE FISCAL STRATEGY PAPER</b> .....	<b>1</b>
<b>FISCAL RESPONSIBILITY PRINCIPLES FOR THE NATIONAL AND COUNTY GOVERNMENTS</b> .....	<b>2</b>
<b>OVERVIEW OF THE COUNTY FISCAL STRATEGY PAPER</b> .....	<b>3</b>
<b>COUNTY SECTOR REVIEW</b> .....	<b>4</b>
PILLAR I: AGRICULTURE AND FOOD SECURITY .....	4
PILLAR II: INDUSTRIALIZATION AND ENTERPRISE DEVELOPMENT.....	4
PILLAR III: TOURISM.....	5
PILLAR IV: TECHNOLOGY .....	8
PILLAR V: SPORTS AND TALENT DEVELOPMENT.....	8
PILLAR VI: HEALTH.....	8
PILLAR VII: EDUCATION .....	9
<b>CHAPTER 2</b> .....	<b>15</b>
<b>RECENT ECONOMIC DEVELOPMENTS AND POLICY OUTLOOK</b> .....	<b>15</b>
ECONOMIC PERFORMANCE .....	15
INFLATION .....	15
INTEREST RATES.....	16
<b>LOCAL SCENE</b> .....	<b>17</b>
COUNTY FISCAL PERFORMANCE AND CHALLENGES .....	18
EXPENDITURE.....	18
REVENUE.....	19
<b>CHAPTER 3</b> .....	<b>21</b>
<b>FISCAL POLICY AND BUDGET FRAMEWORK</b> .....	<b>21</b>
FISCAL POLICY .....	21
BALANCED BUDGETS ARE MANDATORY .....	21
FISCAL STRUCTURAL REFORMS.....	22
COUNTY SECTOR PRIORITIES.....	22
<b>CHAPTER 4</b> .....	<b>25</b>
<b>RESOURCE ENVELOPE AND CRITERIA FOR RESOURCE ALLOCATION</b> .....	<b>25</b>
DETERMINATION OF RESOURCE ENVELOPE .....	25
CRITERIA FOR RESOURCE SHARING.....	26

# Chapter 1

## INTRODUCTION

The Constitution 2010 created a devolved system of government that established counties. The county governments are responsible for spearheading development and service delivery in the counties through a process that links planning and budgeting as stipulated in the County Government Act 2012. Section 117 of the PFM Act outlines responsibilities of county governments with respect to the County Budget Process.

This Fiscal Strategy Paper identifies the broad strategic priorities and policy goals that will guide the county in preparing its budget for Financial Year 2017/2018. The paper discusses the performance of the Financial Year 2016/17 budget which forms the basis for projecting the financial outlook with respect to the County Government revenues and expenditures for financial year 2017/2018.

The Public Finance Management Act, 2012 stipulates that county governments prepare and submit a County Fiscal Strategy Paper (CFSP) to the County Assembly by the 28th February of each year.

### **Organization of the 2016/17 County Fiscal Strategy Paper**

Chapter one covers the legal basis for the fiscal strategy paper and fiscal responsibility principles for the government. The chapter also presents the overview of the county fiscal strategy paper and county sector review in relation to the objectives of county blue print, the CIDP.

Chapter two outlines the recent economic developments and policy outlook. It provides the economic context of the 2017/18 budget formulation. This mainly centres on the national scene.

Chapter three covers the fiscal policy and budget framework. It explores the framework that will support growth over the medium term, while continuing to pursue seamless resource flow and management of sustainable public debt.

Chapter four presents the resource envelope and spending priorities for the proposed 2017/18 budget.

### **Legal Basis for the Publication of the Fiscal Strategy Paper**

This Fiscal Strategy Paper is prepared in pursuant to Public Finance Management Act, 2012 Section 117 which stipulates thus:

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

- (2) The County Treasury shall align its County Fiscal Strategy Paper with the national objectives in the Budget Policy Statement.
- (3) In preparing the County Fiscal Strategy Paper, the County Treasury shall specify the broad strategic priorities and policy goals that will guide the county government in preparing its budget for the coming financial year and over the medium term.
- (4) The County Treasury shall include in its County Fiscal Strategy Paper the financial outlook with respect to county government revenues, expenditures and borrowing for the coming financial year and over the medium term.
- (5) In preparing the County Fiscal Strategy Paper, the County Treasury shall seek and take into account the views of —
  - the Commission on Revenue Allocation;
  - the public;
  - any interested persons or groups; and
  - any other forum that is established by legislation.
- (6) Not later than fourteen days after submitting the County Fiscal Strategy Paper to the county assembly, the county assembly shall consider and may adopt it with or without amendments.
- (7) The County Treasury shall consider any recommendations made by the county assembly when finalizing the budget proposal for the financial year concerned.

### **Fiscal Responsibility Principles for the National and County Governments**

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

### **Overview of the County Fiscal Strategy Paper**

Kisumu County has prepared County Fiscal Strategy Papers for the last three years with its focus on the seven pillars for sustained growth. The pillars are highlighted in the CIDP as follows: - Agriculture and Food security; Industrialization and Enterprise development; Tourism; Technology; Sports and Talent Development; Health and Education while Infrastructure, Finance and ICT serves as enablers.

This Fiscal Strategy paper provide information on the county government spending as well as information on revenue collection that is used to inform the sector ceilings. It looks at performance on the 2016/2017 budget implementation up to 30<sup>th</sup> September 2016 and makes projections indicating the overall revenue and expenditure expected for the 2017/2018 financial year.

In order to come up with sector allocations, the paper outlines county key sector priorities to help identify areas to fund and by what proportion of the total budget. It provides sector ceilings representing the budget limits, i.e. the amount of money the county plans to spend in meeting the identified priorities in the 2017/2018 financial year.

## County Sector Review

### ***Pillar I: Agriculture and food security***

The prosperity for Kisumu County will be accelerated if the County makes substantive investment in agriculture. The pillar aims at among other things, improvement of agricultural production, promotion of market access and product development, promotion of sustainable land use, access to credit and agricultural inputs, fish safety and quality assurance and value addition.

The Pillar compares well to Agricultural transformation and food security pillar in the Budget policy statement which prioritizes investment in agricultural reforms and productivity enhancement as a way of raising rural incomes and making lasting inroads into poverty reduction.

In the County there is a high potential for sorghum production. Rice is grown widely in the Kano Plains. Most of the water for irrigation comes from river Nyando, whose annual floods displace huge numbers of people. Kano plains also hosts sugarcane fields that supply Kibos, Muhoroni and Chemelil sugar factories located within the County.

Fishing sector is also faced with challenges of over fishing, unsustainable fishing methods and hyacinth menace. The strategy is to carry out law enforcement, sensitize fishers in collaboration with stakeholders to engage in other income activities and water hyacinth control. The strategy to promote the gains so far realized by the County in agriculture will include agricultural mechanization to increase acreage under production, making available high yielding seeds, zoning and earmarking specific crops for high yield regions and forging partnerships with the National Government to ensure availability of subsidized fertilizer. Given the challenges in the Agricultural sector, the County will also put in place the following mitigation measures to reverse their adverse effects: de-siltation of the river banks particularly along river Nyando and Miriu; encouraging farmers to adopt the drought – tolerant crops such as sorghum and cassava, investment in smallholder irrigation schemes.

The Livestock producers are not realizing full potential from livestock enterprises due to low quality genetic resource base, inefficiency in production systems and high disease and pests' manifestation.

### ***Pillar II: Industrialization and Enterprise Development***

The Industrialization, Enterprise Development has a big vision to drive the Industrialization agenda for the County government of Kisumu by creating a conducive environment for investment through the Development of various enterprises, vibrant Co-operative sector and Industrial development for wealth and employment creation.

The department expects to achieve this broader vision through four (4) key programmes namely:

- (1) Administration , Planning and Support Services
- (2) Co-operative Development

(3) Industrialization

(4) Enterprise Development

Embedded in these programmes are projects arising from public participation and articulated in the Annual Development Plan 2016/17. On a broader perspective the focus will be on capacity and skills development as a pre-requisite to enterprise development and industrialization. Hence the department has planned to scale up the mentorship programme for Youths, Women and People with disability and establish the enterprise Development fund to support and provide business start-ups.

### ***Pillar III: Tourism***

The Tourism sector in Kenya continues to play an important role in the country's economic development through its contribution to the Gross Domestic Product (GDP), foreign exchange earnings, employment and poverty reduction. In the recent times tourism has maintained its position as one of the leading foreign exchange earner together with tea and horticulture.

The County Government of Kisumu is prioritizing investment in tourism sector with an aim of developing new and/or conserving of its existing tourism attractions. These include Community Based Tourism products, heritage products for diversification, creating opportunities for hospitality sector expansion among others. With these, the County Government aims at doubling the number of tourists to the County and providing favourable trickling down effect of revenues to the locals.

Diversification and development of tourism products will largely be pursued by the County to avoid over reliance on traditional beach and wildlife tourism that Kenya has always relied on for a long time. These include cultural tourism, sports tourism, agro-tourism, (Meetings, incentives, conferences, and exhibitions) MICE tourism, nature based tourism, heritage sites, educational and research, unique scenery and landscape, arts and crafts, community based tourism, adventure tourism, and beach based tourism activities and events tourism.

Kisumu County has unique features such as the shoreline of Lake Victoria, Kit Mikayi, Ndere, Island National Park, and Impala Park among others which collectively make Kisumu a major tourist destination. Kisumu International Airport currently has a major potential to deliver international tourists and visitors direct to the County.

The County recently hosted tourism and Luo cultural festival that will culminate with an annual Kisumu Cultural Festival that will be hosted in the city. Deliberate efforts will be made to promote authentic cultural experiences and launch high value cultural heritage festival through theatre, arts, music and culinary aspects. So far, cultural dancers from Kajulu, Kolwa and Nyakach have been identified for revival of cultural performances. The construction process of a heritage site at Katito is ongoing and will act as cultural and heritage demonstration centre.

The County will also provide a platform for tourism and investment through exhibitions. The County will be hosting an annual Tourism and Trade Investment Expo for businesses and tourism players.

The County Government will be exploring possibilities of converting Kisumu City as Tourism Resort City. There are also talks with Tourism Fund towards development of floating facilities and amusement parks in the County.

Educational Tourism is being considered for Kisumu has great potential in this area. When our medical facilities are fully developed Kisumu will have a big advantage as medical tourism destination.

Promotion of lake recreational activities will help the County develop and promote water sports like boat racing and sports fishing. The annual Lake Victoria boat race which begins from the 5 sub-counties bordering the lake is a new product aimed at promoting water sports. This will be carried out annually to open up the shore line not only for fishing but also for other tourism activities. Paga Beach is one of the prioritized beaches earmarked for development in order to open Ndere Island National Park.

Through research and development, the County Government will determine priority areas in order to open up the region for investment in the hospitality sector and other potential tourism services.

The County is also working towards opening up Kisumu for Meetings, Incentives, Convention and Exhibitions (MICE) in the region. The County Government of Kisumu recently signed an MOU with KICC to build an 8 billion Kisumu International Conference Centre that will open up MICE tourism not only for the County but also for the region. In addition, promotion and branding of the County is expected to pick up through several marketing activities and initiatives.

The County Government through the Department of Commerce, Tourism and Heritage will give priority to use of modern information systems to market and promote tourism products and services. This will involve use of website and social media to enable tourism information management as well as creation of awareness.

In a summary, the Department of Tourism and Heritage section is currently undertaking the following programs:-

- Identification, cataloguing, profiling of existing and potential tourism products in each sub county
- Development of promotional materials
- Branding the County
- Diversification of tourist source markets in the County
- Promotion and hosting tourism functions and events
- Development of earmarked Community Based Tourism products in each Sub-County
- Construction of Heritage Center at Katito

## Commerce

The largest trading partner to Kenya is Uganda. Kisumu County is not far away from Uganda and it is also a gateway to the greater Lakes Region and beyond. It is therefore imperative that the County exploits its strategic position and reaps the benefits thereof. This will be done through provisions of services, hospitality facilities and other essential services to bring in investors and customers. In a nutshell the county will benefit from creating a conducive environment for trade and investment to thrive.

The mandate of the department of Commerce, Tourism and Heritage is to take up and fully support trade, tourism and investments as an engine for economic growth. To address Kisumu County's economic growth and thereby create more opportunities for everyone, Trade development and Tourism are the key priority sectors that need to be targeted.

In service delivery, the department has been able to train traders in entrepreneurial skills, provide capital for expanding business, inspect weighing equipments annually in the county, and grading hotels to ensure that tourist standards are met.

The budget for the 2017/18 will be utilized to ensure that the department sustains tourism marketing campaigns and also develops and diversifies new and the existing tourist's products hence make Kisumu a competitive tourist destination

The Directorate of Trade has the duty to boost the incomes of the residents of Kisumu through business and value addition by training the business community on available opportunities and on best business practices. The department helps to capacity build traders on business management skills so that they can manage the growth of their businesses and contribute to the wealth creation in the county.

The weights and measures department ensures that customers get value for their money by getting the right quantities of goods and services. The department further ensures fair business practices are maintained and the right and accurate weights and measures are used.

The programs for the department from the trade section are as follows;

- To have modern, clean and efficient markets (markets to be constructed in modern standard to ensure better working environment for traders). This will ensure well developed and operational trade infrastructure.
- To maintain the market infrastructure and general cleanliness of the markets
- Provision of Private Sector Development through enterprise and entrepreneurship development. The enterprise and entrepreneurship development programs activities include the provision of Business Development services, specifically capacity building of MSMEs on sound business skills. The training aims to equip the small investors with business and entrepreneurial skills to enable them graduate to higher levels and formalize their businesses. Provision of information on business related issues, advisory services and business counseling services\
- Access to business finance/ loans through Kisumu Trade Fund Scheme and the Kisumu Trade Development Joint Loan Board. The purpose of the Scheme is to

provide access to affordable credit to Micro & Small Enterprises (MSEs) to enable them compete and graduate into vibrant enterprises.

- The role of the department is to promote trade, investment and private sector development. The loans scheme is a core poverty reduction programme through which the department strives to increase access to affordable credit to MSEs, to enable them to compete and graduate into vibrant enterprises.
- Promotion of fair trade practices through calibration and verification of weights and measures equipment and creation of consumer awareness.

#### ***Pillar IV: Technology***

The County further prioritizes investment in modern technology adoption in order to enhance productivity and efficiency. The sectors that are focused include Agriculture, Commerce & Tourism, and Information and Communication Technology all with the objective of enhancing Information dissemination and optimizing revenues from local sources.

The Government remains fully committed to scaling up the implementation of e-revenue to reduce cost of revenue collection, curb pilferages and reduce human interface in the collection process. The County has rolled-out e-ticketing targeting parking fees and market fees.

#### ***Pillar V: Sports and talent development***

This strategy aims at furthering the sporting culture and enhancing empowerment of the youth through developing of sports facilities/stadia. The County will rehabilitate three stadia namely Ogada, Muhoroni and Nanga. The department seeks to upgrade electricity capacity in Moi Stadium to meet the levels needed for floodlights. In order to further promote sport, the department intends to establish a sports academy.

#### ***Pillar VI: Health***

The Mission of the sector is to transform the livelihoods of the people of Kisumu County through responsive and sustainable technologically driven evidence based and client centered health system for accelerated attainment of highest standards of health. In line with the National Government strategy on healthcare reforms which aims at building a lasting healthy Kenya with higher productivity for sustained economic transformation and given that health is largely a responsibility of the County Government; the sector will prioritize investments that are in line with the new Sustainable Development Goals. The main target for the sector will be to improve access to quality health care services that the people of Kisumu need without the risk of financial hardship when paying for them (Universal Health Coverage).

As provided in the constitution of Kenya and in line with Vision 2030, the county shall ensure provision of equitable and affordable healthcare at the highest standards. The County plays a significant role in improvement of access and better health care for the citizens. As such, functions under this sector includes county health facilities and pharmacies, ambulance services, promotion of primary health care, licensing and control of undertakings that sell food to the public.

The main source of revenue generation from the sector is the Facility Improvement Fund (FIF) which is the payments made by clients to cost share services rendered by the health facilities (County and Sub-county Hospitals only). The other source of revenue for the sector is Public Health Revenue which is raised through licensing of Public health services and service providers.

***Pillar VII: Education***

The vision of the Department of Education is: To be a caring and integrated system of social services that facilitates human development. The mission is: To be a vibrant and dynamic Ministry excelling in service delivery and working to realize full potential of the human capital to build a productive and prosperous county.

The 2016/2017 budgetary allocation had been mostly used in the establishment, and in some cases, rehabilitating ECD centres, Youth Polytechnics, social halls and cultural centres all as contained in the CIDP. It is hoped that the allocations for FY 2017/18 will be among other routine expenditures be used in providing the facilities to operationalize these facilities. To this end the department is trying to put in place proper mechanisms taking advantage of strengths and opportunities to achieve our vision.

***Child Care and Protection and Services***

To support the department’s vision of a caring and an integrated system of social services that facilitates human development, the department’s flagship project to be implemented in 2017/18 FY is Social Protection Fund. This project which was started in the last financial year will be expanded to cover a wider spectrum so as to benefit more people. The program targets the vulnerable (the elderly needy children, persons with severe disability) members of our society within the County.

National Hospital Insurance Fund (NHIF): the department intends to collaborate with NHIF to support and relieve vulnerable households/ families of medical expenses through enrolling them for NHIF services.

The Cash Transfer Fund to supplement the National Government effort in attempting to assist the elderly (only vulnerable) to enhance resilience in this hard economic times was initiated in 2016/17 Financial year and it is hoped to be increased to cover more people.

***Culture and Art***

The 2 phase of the on- going construction of Sigoti Cultural centre project will be started and another Cultural resource centre will be constructed in Seme Sub County. During the year there will as well be a validation exercise for the Culture policy.

***Alcoholic Control Drinks***

The Rehabilitation centre to mitigate on drugs and substance abuse among the citizen that was constructed in the 2016/17 financial year will be operationalized after purchase and installation the requisite equipment.

Carry out civic education on dangers of excessive consumption of Alcoholic drinks, on misleading or deceptive inducements and advertisements by the producers/sellers of Alcoholic drinks

Carry out research on the Economic, social and health consequences of Alcohol production, sale, consumption, treatment and rehabilitation of persons dependent on Alcoholic drinks

### ***Betting and Gaming***

A public participation on the Draft Betting Policy will be carried out, enforcement on casino operators and issuance of pool table or amusement games licensing within the sub counties will be prioritised.

### ***Sport and Talent Development***

The second phase of construction of the Sport Academy will be done .Upgrading of Moi Stadium, Muhoroni, Ogada and Nanga pitch to help the department tap streams of revenue and also create an opportunity for the citizens to lead healthier lives. We intend to start a sports lottery to mobilize fund for sports talent development. An increased allocation for the Sports sector should be prioritized to tap into the huge talent available in Kisumu County.

The department has taken over the management of the Jomo Kenyatta Sports Ground and laid the necessary administrative changes that will see it improve in revenue generation

### **Early Childhood Development**

The Department will build ECD Classrooms in areas that have not been covered but will focus more on equipping the once already complete. The ECD feeding programme initiated in the 2016/17 financial year will receive added focus so that all Children in pre- School are covered.

### **Bursary and Scholarship program**

Other than the Bursary program run by the Department, a Scholarship program was introduced in 2016/17 financial year and is envisaged to get more funding to serve more people. The expenditure on these two programs is expected to rise by some 25% from shs.130, 000,000 of the previous year.

The department targets to raise revenue from the Jomo Kenyatta Sports and other sources including Alcoholic Drinks Licensing and Social Halls.

## **Enablers**

### **Roads, Transport and Public Works**

The Department of Roads, Transport and Public Works is charged with the responsibly of constructing and maintaining integrated Transport Infrastructure and services and Public works activities. During the finance year 2015/16, the department developed a 5-year strategic Plan which will give strategic direction from 2015 50 2020. The department has made commendable progress towards achieving departmental Mission, vision and core Values. The staff have carried out field reconnaissance and designed, took off and costed all



measurements for roads and bridges earmarked for construction in 35 wards forming Kisumu County. All bills of quantities for roads and Public works activities have been prepared and procurement processes followed towards selecting competent contractors through competitive bidding.

The department has also prepared fleet, procured equipment and planned policies aimed at efficient management of county Motorized fleet. A total of 13 No. equipment have been taken over by the department from National Government (Mechanical Trust fund – MTF) as per the sharing agreement provided to us by the Transition Authority, these equipments were formerly in the custody of Mechanical and Transport Engineering Department within Ministry of Transport and infrastructure at the national level.

In the Financial Year 2016/2017, the department has offered professional and Technical advice to various departments from county Government of Kisumu and other state Agencies. These services which are offered by Public Works Section range from design of architectural drawings, preparation of Bills of Quantities, Project Management to fire Safety Measures.

In order to improve on the quality of roads constructed by the county, the department has sought partnership with Manufacturers of soil Stabilization products such as permazyme and probase. Soil samples have been taken from three sub-counties for laboratory analysis in Nairobi.

## **Water**

The Mission of the Water and Sanitation services Sector Division of Kisumu County is: *To facilitate the provision of potable, affordable, Water and Safe Sanitation Services for healthy Kisumu County Residents.*

The County Government of Kisumu has made great strides in the realization of this commitment during the 2016-2017 MTEF. The focus is geared towards ensuring that people living in the formal and informal settlements have access to clean water and safe sanitation and ensuring that the rural folk access portable water within a reasonable distance and at affordable cost. In the MTEF, the County Government through the sector Division has constructed a number of Boreholes, Rehabilitation of the existing water supplies as well as constructing new schemes all spread across the seven Sub-Counties.

The sector is currently awaiting the accent of the Water policy which is greatly expected to streamline the operations of the various actors, safeguard the gains achieved through the Water Act 2002 and make the Water Service Providers to be more accountable to their consumers as outlined in the Bill of rights in the new Constitution 2010.

The main programmes to be undertaken by the Water and Sanitation Services sector in the MTEF period 2016/17 – 2017/18 include the following:

- Improvement of the existing water supply schemes through rehabilitations.
- Finalize the County Water Policy, Strategic Plan and the Water Bill and streamline the operations and service delivery of various actors and stakeholders within the

sector to the Water Act 2016.

- Resource Mobilization-Apply to Water Sector Trust Fund and other Development partners for assistance through grants to supplement the County resources for Infrastructure Development and Capacity Building in line with the Water Act 2016.
- Develop new water facilities within the commercially unviable rural areas of the County.

## **Energy and Mining**

The vision of Energy and Mining Department is: Accessible, affordable Energy and sustainably managed mineral resources for improved livelihood of Kisumu County residents. The mission is to facilitate provision of sustainable, affordable, reliable secure energy and well managed mineral resources through community participation for socio-economic development of Kisumu County.

The department has the following strategic overview:- To provide efficient services to affiliated bodies/departments, To develop, rehabilitate and sustain energy facilities, To streamline and explore mining activities within the County, To provide energy audit to county operations and To increase diversification of energy sources.

Programs by the department include:- energy services and prospecting; energy production and audit; and mining efficiency. The functions of the department are: - County Energy Planning; County Energy Regulation; and County operations and development meant to increase energy access.

### ***County Energy Planning***

- Preparation of County energy plans, incorporating petroleum and electricity master plans
- Physical planning relating to energy resource areas
- Provision of land and rights of way for energy infrastructure.
- Collect and maintain energy data
- Facilitation of energy demand by planning for industrial parks and other energy consuming activities.
- Preparation and implementation of disaster management plans.

### ***County Energy Regulation***

- Regulation and licensing of retail petroleum service stations.
- Regulation and licensing of County gas reticulation systems.
- Regulation and licensing of designated parking for petroleum tankers.
- Customize National codes for energy efficiency and conservation in buildings to local conditions

### ***Increase energy Access***

- Electricity and gas reticulation
- Provide and maintain adequate street lighting.
- Provision of designated parking for petroleum tankers
- Implementation of County electrification projects.
- Undertake feasibility studies and maintain data with a view to availing the same to developers of energy resources and infrastructure.
- Protection of energy infrastructure including oil and gas fields and pipelines, refineries, power plants, control centres, electric supply lines, substations and depot
- Undertake energy efficiency and conservation within the County

### **Green Energy**

The Green Energy and Climate Change department has the mandate to promote, coordinate, mainstream and sustain green energy technologies to adopt and mitigate climate change.

The department has received many requests through public participation in the past three years mainly on solar lighting. The department has targeted to increase the number of solar street lights in the County. The demand of the solar street lights is very high and therefore the maintenance cost is expected to remain a challenge as well as theft cases of the equipment. The department therefore recommends a public private partnership (PPP) so that the partners take up the responsibility of managing, maintenance and security. Additionally, agreement will be drafted that facilitate the generation of revenue to the county which can be used to meet the gap in the budget. However the department recommends monochrome lights which are more sustainable and with long life compared to polychrome lighting systems.

### **Communication Information Technology (CIT)**

In order to attain the sector's desired objectives, the sector publishes a County magazine which is distributed to members of the public for free. The magazine that is produced on quarterly basis carries content that is heavy on what the County Government has achieved since inception. The ultimate objective is to keep the citizens abreast of what is going on in the County. Readers are encouraged to share feedback that is envisaged to go a long way in improving the content of the magazine and also highlighting issues that need to be addressed by the County Government. The magazine will complement the Bulk SMS platform, which regularly updates members of the public and other stakeholders through interactive communication. Besides, the department will acquire and install digitized screens in all the sub-counties. These will act as notice boards through which information is disseminated to members of the public.

To showcase pictorial and visual evidence of various development projects initiated by the County Government, the department will produce short documentaries. These documentaries will complement County Updates, a weekly e-newsletter informing various stakeholders on what the County Government has been up to during the week. It also contains scholarships

and employment opportunities. The goal is to make the residents appreciate what the County Government is doing.

### **County Public Service Board Strategy**

Kisumu County Public Service Board (PSB) is an independent institution established in terms of Article 235(1) of the Kenyan Constitution and given effect by Sections 56 and 57 of the County Governments Act. The Article provides for a County Public Service Board in each county with control over the County Public Service. The County Public Service Board has the responsibility of ensuring that the County Public Service has adequate, skilled and competent personnel.

In fulfilment of its mandate, the board will undertake the following:-

- Strengthening the institutional capacity of the Board, by developing and implementing criteria for engagement with agencies and organizations as partners to support various board initiatives.
- Strengthening the County Public Service for improved service delivery, in collaboration with the County Executive, by putting in place an appropriate Human Resource Information Management System that can maintain a database of all staff.
- Enhancing the productivity of the Kisumu County Public Service, through development of competency profiles for all the job categories in the County.
- Promoting a healthy and safe working environment for the Kisumu County Public Service; in line with this, it plans to undertake sensitization processes on workplace health and safety throughout the Kisumu County Public Service, and monitor compliance with the same.
- Enhancing public participation and information sharing; the board will develop strategies for dissemination of information to the public, and print adequate copies of the strategy to ensure that the public has easy access to information and public awareness on the operations of the board.
- Promoting Public Service Values and Best Management Practices in the County; the board will develop a programme to disseminate and inculcate national values and principles of public service at all levels of the Kisumu County Public Service, through forums aimed at creating high level of awareness among staff on values and principles.

## Chapter 2

### RECENT ECONOMIC DEVELOPMENTS AND POLICY OUTLOOK

#### *Economic performance*

The economy experienced a relatively conducive environment for growth during the second quarter of 2016. All the economic sectors recorded positive growths, though with significant variations. Overall, the economy is estimated to have expanded by 6.2 per cent during the second quarter of 2016 compared to 5.9 per cent during the same quarter of 2015. This growth was mainly supported by better performances in the activities of; agriculture, forestry and fishing; transportation and storage; real estate; and wholesale and retail trade.

#### Kenya GDP Annual Growth Rate



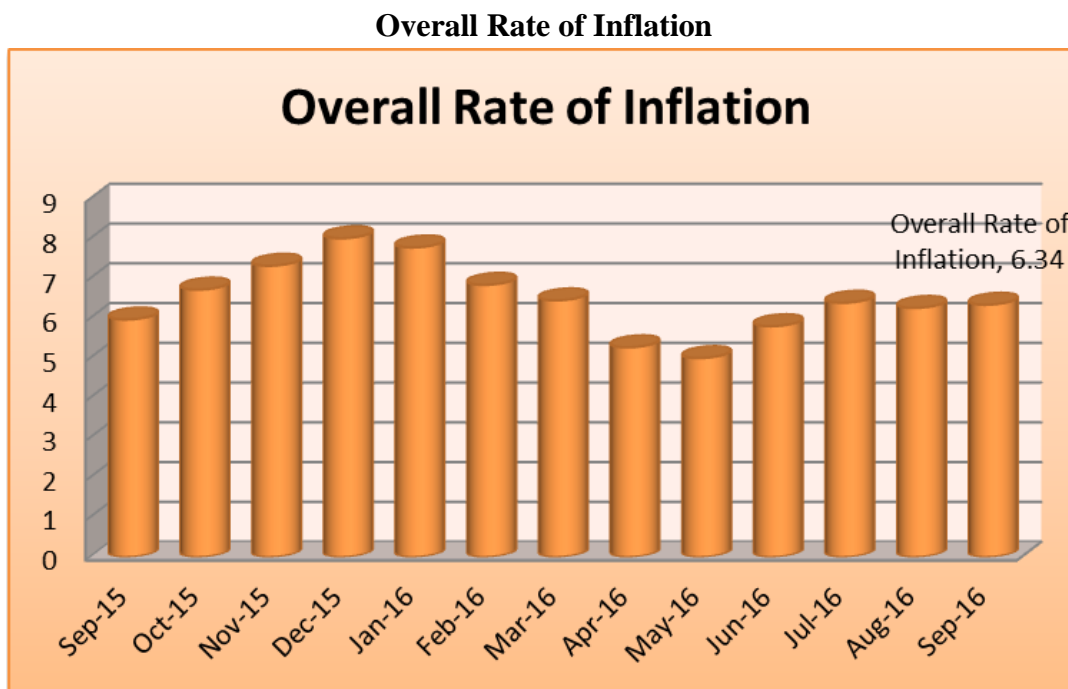
Source: Kenya National Bureau of Statistics

#### *Inflation*

The second quarter experienced a relatively stable macroeconomic environment despite a remarkable rise in interest rates. Inflation edged downwards significantly to average at 5.6 per cent during the quarter compared to 7.0 per cent in the same quarter of 2015. The slowdown in inflation was mainly due to the near stagnation of costs of transportation during the quarter. Slowdowns in the rise of consumer prices for housing, water, energy and communication services also contributed to the deceleration in inflation.

The 12-month overall inflation rose from 6.7 percent in October 2015 to 8.0 percent in December, and was above the upper bound of the Government’s target range. These developments reflected high food prices, and the impact of the revised Excise taxes implemented from 1st December, 2015. The contribution of food inflation to overall inflation rose from 4.6 percentage points in October to 5.4 percentage points in December while the

CPI category alcoholic beverages, tobacco and narcotics contribution rose to 0.3 percentage points, reflecting the revised excise tax introduced in December 2015 (Table 1). Nevertheless, reductions in food and fuel prices contributed to the decline in overall inflation to 5.3 percent in April 2016, which was within the Government’s target range.



Source: KNBS

Month-on-month non-food-non-fuel (NFNF) inflation increased from 4.8 percent in October 2015 to 5.8 percent in April, 2016, largely due to the revised excise tax introduced in December 2015. Growth in credit to private sector was consistent with the targets for the period. The lower prices of petroleum products relative to historical averages, coupled with stability of the exchange rate of the Shilling, moderated any risks of imported inflation.

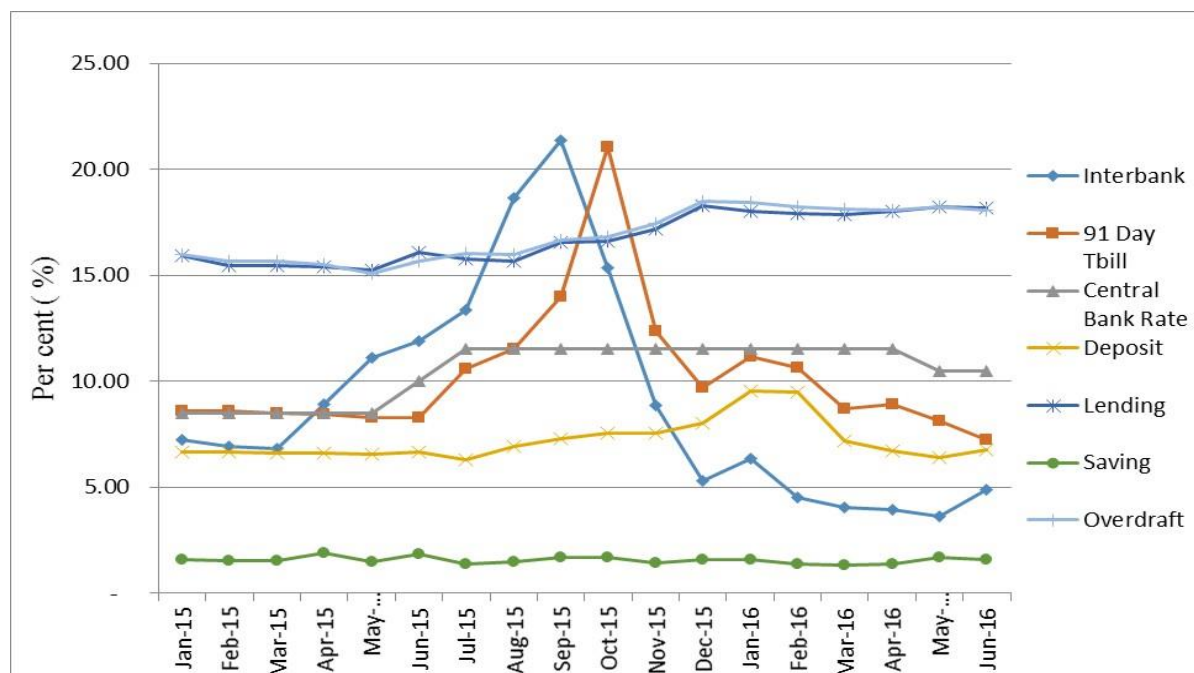
The monetary policy measures in place, the stable exchange rate, and moderate petroleum products prices are expected to moderate inflationary pressure. The main risks to inflation relate to volatility in international oil prices, volatility in food prices in case of unfavourable weather conditions, pressures attributed to implementation of taxation measures in the Government Budget, and uncertainties in global financial markets particularly with respect to Brexit, which may have implications on the foreign exchange market.

**Interest Rates**

Interest on commercial bank loans rose significantly to an average of 18.15 per cent during the second quarter of 2016 compared to 15.57 per cent in the same quarter of 2015. This rise was despite the downward revision of Central Bank Rate (CBR) from 11.5 per cent that was in place since June 2015, to 10.5 per cent towards the end of May 2016. Generally, the Kenyan Shilling strengthened against the main trading regional currencies (South Africa Rand, Ugandan Shilling and Tanzanian Shilling) but depreciated against the major world

currencies (US dollar, the Euro and Japanese Yen) in the review quarter. Measured against the same quarter of 2015, the current account deficit recorded an improvement of 6.1 per cent to stand at KSh 141.9 billion in the quarter under review. This was mainly due to a rise in exports against a contraction of imports.

**Trends in Interest Rates, January 2015 – June 2016**



Source: KNBS

The interbank rate remained below the CBR during the six months to April 2016 reflecting improved liquidity conditions in the market. Liquidity management operations by the CBK ensured stability in the interbank market. The CBK used Reverse Repos to address the resultant temporary liquidity shortages in segments of the market following the temporary placement of Chase Bank Limited in receivership. Open Market Operations through Term Auction Deposits and Repos were also used by CBK to withdraw liquidity from segments of the market with surpluses.

**Local scene**

The macro-economic stability witnessed at the national level also reflected at the county level thus providing a ray of hope to potential investors. This however, needs to be backed by a sense of assured stability especially in the political scene as the country heads towards an election year. Such confidence will encourage investments that are geared towards employment creation.

As the gate way to the great lakes region and its strategic location as a regional centre for commerce and transportation, Kisumu County is yet to reap its full potential. The county is most known for its link with Lake Victoria the second largest fresh water lake in the world. The lake contributes a very large part to the economy of the county since it supports the

fishing and fish processing industry one of the county's main economic activity. Opportunities exist for further development of this sector for local and export markets, industrial and commercial services, tourism, agricultural value addition and other business investment opportunities.

The county is a popular tourist destination and a significant link in the western Kenya tourism circuit. There is great potential for tourism development and management to increase the number of tourist arrivals and earnings from tourists.

The County Government continued to focus on improvement of infrastructure in order to spur growth in all the sectors of the economy, revitalize the social sector and encourage the growth of commerce and the service sector.

One of the greatest challenges facing the county is the growing number of unemployed youths. Through the Access to Government Procurement Opportunities (AGPO) initiative, the County Government ensured that the disadvantaged groups including the youth access county government tenders amounting to millions of shillings. In order to create the much needed employment opportunities, focus is also on activities that will enhance support for micro-small enterprises (MSEs) development, establishment of modern market infrastructures, and enhancement of accessibility of market information as well as promoting fair trade practices.

## County Fiscal Performance and Challenges

### *Expenditure*

Total expenditure in the first quarter of the FY 2016-2017 amounted to Kshs 1.45 billion against a target for the quarter of Kshs 2.12 billion representing an under spending of Kshs 661 million for the period, a 31% drop from the projected expenditure.

Recurrent expenditure in the first quarter of the financial year amounted to Kshs 1.28 billion against a target of Kshs 1.47 billion for the quarter. This is about Ksh 186 million below projection for the period (i.e. 1<sup>st</sup> quarter 2016/2017) equivalent to an under spending of 13%.

Development expenditure in the same period was Kshs 172 million compared to a target of Kshs. 647 million for the quarter representing an under spending of 73%. This represented an under-spending by 73% for the period. The table below 2.4 presents the fiscal performance for the period July – December 2015 and the deviations from the approved budget estimates.

Late receipt of funds disbursement from the national treasury, delays in procurement and slow completion of development projects has led to low absorption of development funds.



**Fiscal Outturn July – September 2016**

Total Revenue Sources	Budget 2016-17 Ksh '000	Estimate Sept2016 Ksh '000	Actual Sept2016 Ksh'000	Deviation Ksh'000	% Deviation
<b>A. REVENUE</b>					
Opening balance from treasury					
Equitable Share (estimated at 20% increase)	6,130,158	1,532,540	1,042,127	(490,413)	(32)
DANIDA Grants	8,290	2,073	0	(2,073)	(100)
World Bank	30,418	7,605	0	(7,605)	(100)
Conditional allocations - other loans & Grants	30,000	7,500	0	(7,500)	(100)
Level 5 conditional Grant (reducing)	351,445	87,861	59,746	(28,115)	(32)
Conditional Allocation for free Maternal healthcare	118,016	29,504	0	(29,504)	(100)
Conditional Allocation for Compensation for User Fees forgone	21,854	5,464	0	(5,464)	(100)
Conditional Allocation for Leasing of Medical Equipment	95,745	23,936	0	(23,936)	(100)
Conditional Allocation for Roads Maintenance Fuel Levy Fund	94,190	23,548	23,547	0	0
Annual Local Revenue	1,570,390	392,598	211,210	(181,388)	(46)
<b>TOTAL REVENUE</b>	<b>8,450,506</b>	<b>2,112,627</b>	<b>1,336,630</b>	<b>(1,975,997)</b>	<b>(94)</b>
<b>B. EXPENDITURE</b>					
Recurrent Expenditure	5,878,597	1,469,649	1,283,358	(186,291)	(13)
Development Expenditure	2,586,506	646,627	171,972	(474,655)	(73)
<b>TOTAL EXPENDITURE</b>	<b>8,465,103</b>	<b>2,116,276</b>	<b>1,455,330</b>	<b>(660,946)</b>	<b>(31)</b>

Source: Kisumu County Treasury

**Revenue**

The table below presents performance of local revenue in the 1<sup>st</sup> quarter of 2016/2017 and the projected revenues per stream as compared to the projected revenue for the quarter.

The projected revenue from local sources in the 1<sup>st</sup> quarter of 2016/2017 was Kshs 392 million but only Ksh 211 million was realised in the quarter representing a drop of Kshs 181 million or an under performance of 46.2%. Revenue collected from the main streams in the same quarter was Kshs. 118 million against a targeted collection of Kshs. 268 million. This represented a shortfall of Kshs 150 million or 55.9%.

**Local Revenue Projection and Collections as at 30<sup>th</sup> September 2016 (1<sup>st</sup> Quarter)**

	Actual 2015/2016 Kshs	Actual 1St Q 2016/17 Kshs	Estimate 1St Q 2016/17 Kshs	Deviation	% Deviation
Market Fees	82,223,325	20,244,300	28,250,000	(8,005,700)	-28.3
Parking Fees	82,064,951	22,724,270	22,809,765	(85,495)	-0.4
Bus Park Fees	117,842,506	29,611,000	34,212,121	(4,601,121)	-13.4
Boda Boda self regulatory fees	-	0	6,250,000	(6,250,000)	-100.0
Rents	38,095,833	10,825,504	10,000,000	825,504	8.3
Land Rates	138,485,703	8,532,166	64,108,345	(55,576,179)	-86.7
Single Business Permit	102,692,607	6,697,820	28,750,000	(22,052,180)	-76.7
Building Plans	18,024,376	6,983,820	13,000,000	(6,016,180)	-46.3
Liquor Licenses	17,073,658	1,226,375	7,642,573	(6,416,198)	-84.0
Sign Board Promotions etc	58,658,636	6,722,318	25,000,000	(18,277,682)	-73.1

Public Health	2,427,644	1,155,750	3,500,000	(2,344,250)	-67.0
Sundry Revenues	47,691,236	3,701,088	25,000,000	(21,298,912)	-85.2
<b>Sub Total for Main Revenue streams</b>	<b>705,280,475</b>	<b>118,424,411</b>	<b>268,522,805</b>	<b>(150,098,394)</b>	<b>-55.9</b>
Health	255,478,738	81,747,961	86,424,637	(4,676,676)	-5.4
Agriculture	12,195,158	4,011,384	5,000,000	(988,616)	-19.8
Commerce, Trade and Tourism	1,452,810	425,590	600,000	(174,410)	-29.1
Industrialisation/ Cooperatives	57,120	0	375,000	(375,000)	-100.0
Educ. Sports, Social services etc	1,899,040	2,353,901	500,000	1,853,901	370.8
Physical Planning/ Public works	2,525,920	1,978,793	5,000,000	(3,021,207)	-60.4
Water	-	1,813,420	9,000,000	(7,186,580)	-79.9
Roads	-		15,000,000	(15,000,000)	-100.0
Energy and Mining	-		625,000	(625,000)	-100.0
Green Energy	-		1,250,000	(1,250,000)	-100.0
Environment	-	454,300	300,000	154,300	51.4
<b>Total Revenue from other sources</b>	<b>273,608,786</b>	<b>92,785,349</b>	<b>124,074,637</b>	<b>(31,289,288)</b>	<b>-25.2</b>
<b>Gross Revenue from local sources</b>	<b>978,889,261</b>	<b>211,209,760</b>	<b>392,597,441</b>	<b>(181,387,681)</b>	<b>-46.2</b>

Source: Kisumu County Treasury

## Challenges

Underperformance in revenue collections was largely due to weak enforcement especially in collections from the main revenue streams such as single business permits and land rates. However with the waiver of land rates fees and penalties, it is expected that collection may improve in the 2<sup>nd</sup> quarter. Administrative challenges such as under establishment in all areas of revenue collection and logistical challenges have continued to hamper performance in revenue collection. Some of the logistical challenges lack of transport has been addressed with procurement of additional vehicles for the revenue directorate.

## Chapter 3

### FISCAL POLICY AND BUDGET FRAMEWORK

#### *Fiscal Policy*

The fiscal policy will continue to support socio-economic activities within a context of sustainable public financing. Since devolution, the County Government has given substantial allocation towards priority programmes in all its thirteen main sectors under the medium-term expenditure framework (MTEF)

In accordance to the provision of the constitution 2010, the Public Finance Management (PFM) Act, 2012, and in keeping with prudence and transparent management of public resources, the County Government has adhered to the fiscal responsibility principle in the statutes as follows:

#### ***Balanced Budgets are mandatory***

The County's Resource Envelop will depend mainly on the equitable share and Conditional grants from the National Treasury as contained in the County Allocation of Revenue Bill 2015, plus the locally collected revenue mainly categorized as Main revenue streams and departmental revenue. The County's projected total revenue for 2017/18 has been projected at Ksh.8,668,979,029 with an equal total expenditure.

#### **At least thirty percent of total expenditure is dedicated to development expenditure**

Over the medium term, 34.97% of the Projected County Government's total revenue has been allocated to development expenditure with the department of Finance receiving the highest allocation of Ksh. 644,972,040 to address/offset the pending bills. The county has over the medium term, continued to put strategies in place to contain recurrent expenditure so as to allocate more resources towards development.

#### **Limit county wage bill to thirty-five per cent of the County Government's total revenue**

The County Government's expenditure on statutory obligations like wages, pension and other benefits for public officers for 2017/18 has been estimated at Ksh. 3,235,909,630 which is 37.33% of the County Government revenue slightly above the prescribed limit of 35%. The health sector will utilize the highest at Ksh.1,602,695,841 which represents 49.52% of the total allocation towards Personal Emoluments vote. This implies that the county will have to freeze employment for a while as it tries to widen/ increase its revenue base.

#### **County debt financing only used for development**

County Government's borrowings is not envisaged in the FY2017/2018. However, if need occurs in the cause of the Financial year, the funds shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;

#### **Sustainable debt**

The county's debt shall be maintained at a sustainable level not exceeding fifteen percent of the County Government's total revenue as approved by the County Assembly; Currently, County debts and the inherited historical debts from the defunct local authority and devolved functional units which have not yet been fully settled are already being profiled in the county debt management strategy paper. 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.

### **Prudent risk management**

Fiscal risks shall be managed prudently. That is, the CEC Member for Finance should outline key areas of uncertainty that may have a material effect on the fiscal outlook and the potential policy decisions they may portend

### **Predictable taxes**

A reasonable degree of predictability 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.

### ***Fiscal Structural Reforms***

This policy aims at increasing allocation of more resources to development expenditure as it continues with the following programmes:

- Enhancing revenue mobilization; expanding e-revenue scope, GIS property mapping linkage to revenue collection modules and identifying new revenue streams.
- Expenditure efficiency and effective implementation of budget programs; embrace fully e-procurement, internet banking and preparation of budget through IFMIS.

### ***County Sector Priorities***

This fiscal strategy paper is focusing on the county government's seven pillars for sustained growth which are meant to help achieve the county's vision. The vision for this strategy paper is "economic transformation for the residents of Kisumu County".

The seven pillars are aligned to objectives and aspirations of the Kenya vision 2030, the SDGs and the Second Medium Term Plan 2013-2017 and are anchored on key enablers as the foundation.

### **Finance and Economic Planning**

Focus will be on improving overall management and general administrative support services to other departments. The treasury intends to promote efficiency in management of public financial resources and revenue collection. Among the activities to be undertaken by the treasury are: rolling out of the e-payment, assets management services, management of public financial resources, budget formulation, coordination and management services, and public debt management.

Other services that will be undertaken include the following: monitoring and evaluation system; capacity building and training; and formulation of county planning policy; In the

same period, the department will embark on formulation of the second Kisumu County Integrated Development Plan (CIDP).

### **Agriculture and Food security**

The county will make substantive investment towards food security through provision of Agricultural farm inputs, promotion of livestock production, promotion of market access and product development, promotion of sustainable land use, fish safety and quality assurance and value addition.

### **Roads and Public works**

Infrastructure will remain a top priority in the county during the 2016/17 fiscal year. Emphasis will be on opening up and routine maintenance of feeder roads, expansion and improvement of road network,

### **Health Services and Promotion of Health Investments**

Improved access to high quality health care will be met through completion of ongoing health infrastructure developments, investment in medical equipment for health facilities, and recruitment of additional medical staff.

### **Commerce, Tourism and Heritage**

The county intends to offer high quality tourism products, to increase the number of tourist arrivals and earnings as well as creating an enabling environment for trade and investment to thrive. To achieve this, the department intends to undertake the following programmes: - to provide overall management and central administrative support services to the department; creation of conducive business environment for trade development and to enhance fair trade practices and consumer protection;

### **Communication Information Technology (CIT)**

The CIT platform holds greater potential for service transformation in the county. The County will continue investing in modern ICT infrastructure while progressively building human resource capacities for optimal outcome.

### **Lands, Housing and Physical Planning**

The County intends to invest in the purchase of land for development purposes. Other programmes include enhanced enforcement of the building code, spatial planning, regeneration of public spaces and the finalization of the valuation roll will be addressed as a matter of priority.

### **Education, Culture, Youth, Sports and Social services**

Focus will be on enhanced education standards by increasing enrolment and retention in early Childhood Education, accelerating expansion and equipment of Vocational training facilities in order to empower the youth with skills and competencies for the labour market. Programs for promoting good cultural practices, sports and recreational facilities for sustainable development will be implemented.

### **Energy and Mining**

The county aims at providing efficient services to affiliated bodies/departments; developing, rehabilitating and sustaining energy facilities as well as streamlining and exploring mining activities within the County.

### **Industrialization, Enterprise Development**

The County will focus on policy, legal and institutional reforms in the co-operatives sub-sector. Other initiatives include capacity building of co-operative societies and promotion of co-operative marketing and value addition.

Other priorities will include facilitation of appropriate technical skills in deserving MSEs; promotion, formation and registration of MSE sectoral associations; development of a comprehensive data bank of County MSEs and development of business incubation centres and linking them to markets.

### **Water, Environment and Natural Resources**

The county will aim at reducing the average distance families need to travel to a safe water source. Sustainability of water sources and resources as well as availability and access to water and sanitation services are priority goals during coming year. Other priorities of the department include tree planting, environmental conservation and conservation of the Lake Victoria bio-diversity.

### **Governance and Administration**

Strategic leadership, clear policy direction and a well thought development agenda are crucial for the achievement of socio-economic and political development of people of Kisumu County. Proper management of county affairs including the county public service, maintaining inter-governmental relations, managing communication and protocol will ensure satisfactory service delivery.

## Chapter 4

### RESOURCE ENVELOPE AND CRITERIA FOR RESOURCE ALLOCATION

#### Determination of Resource Envelope

The resource envelope available for allocation among the spending entities in Kisumu County comprises of:

- ✓ Share of National Revenue, which finances over 80 per cent of the budgeted expenditure; consists of equitable share and conditional grants.
- ✓ Locally Collected revenue including property rates, entertainment taxes, levies, fees and charges

The table below shows that revenues are projected at Kshs.8.82 billion in FY2017/18, a slight improvement over FY 2016/17 revenue estimates which was Ksh.8.46 billion. Allocation for Equitable share of National Revenue is expected to increase by a small margin to Ksh.6.49 billion from Kshs.6.13.96 billion in FY 2016/17, an increase of about 6 per cent basing on the projected economic growth of 6.2% as per KNBS available statistics.

Further, guided by prudence all other conditional grants are expected to stagger at the same amounts allocated in FY 2016/17.

The County experienced depressed own revenue performance of 35 % in FY 2015/16 while the revenue collection performance in the first quarter of FY 2016/17 has plummeted by 46% of the budgeted revenues. It is therefore necessary to revise the FY 2016/17 annual estimates as per the CBROP's FY 2016/17 forecast.

#### Resource Envelope (Kenya shillings)

	BUDGET FY2016/2017	PROJECTION FY2016/2017	ESTIMATE FY2017/2018	ESTIMATE FY2018/2019	ESTIMATE FY2019/2020
Opening Balance		717,229,233			
Equitable Share	6,130,158,037	6,130,158,037	6,497,967,519	6,887,845,570	7,301,116,304
DANIDA	8,290,000	8,290,000	8,787,400	9,314,644	9,873,523
World Bank	30,418,403	30,418,403	32,243,507	34,178,117	36,228,804
Conditional allocations - other loans & Grants	30,000,000	30,000,000	31,800,000	33,708,000	35,730,480
Level 5 conditional Grant (reducing)	351,445,087	351,445,087	372,531,792	394,883,700	418,576,721
Conditional allocations for free Maternal Health care	118,015,691	118,015,691	125,096,632	132,602,430	140,558,576
Conditional allocations for compensation for user fees forgone	21,854,292	21,854,292	23,165,550	24,555,483	26,028,812
Conditional allocations for leasing of medical equipment	95,744,681	95,744,681	101,489,362	107,578,724	114,033,447
Conditional allocations for road maintenance fuel levy Fund	94,189,837	94,189,837	99,841,227	105,831,701	112,181,603
<b>Sub Total for National Revenue streams</b>	<b>6,880,116,028</b>	<b>6,880,116,028</b>	<b>7,292,922,989</b>	<b>7,730,498,368</b>	<b>8,194,328,270</b>
<b>Local Main Revenue Stream</b>					

Market Fees	113,000,000	113,000,000	113,000,000	119,780,000	126,966,800
Parking Fees	91,239,061	91,239,061	106,684,436	113,085,502	119,870,632
Bus Park Fees	136,848,485	136,848,485	173,000,000	183,380,000	194,382,800
Boda Boda self regulatory fees	25,000,000	25,000,000	25,000,000	26,500,000	28,090,000
Rents	40,000,000	40,000,000	49,524,583	52,496,058	55,645,821
Land Rates	256,433,380	256,433,380	256,433,380	271,819,383	288,128,546
Single Business Permit	115,000,000	115,000,000	160,000,000	169,600,000	179,776,000
Building Plans	52,000,000	52,000,000	23,431,689	24,837,590	26,327,846
Liquor Licenses	30,570,293	30,570,293	22,195,755	23,527,500	24,939,150
Sign Board Promotions etc	100,000,000	100,000,000	76,256,227	80,831,601	85,681,497
Public Health	14,000,000	14,000,000	3,155,937	3,345,293	3,546,011
Sundry Revenues	111,597,354	111,597,354	82,075,906	87,000,460	92,220,488
<b>Sub Total for Main Revenue streams</b>	<b>1,085,688,573</b>	<b>1,085,688,573</b>	<b>1,090,757,913</b>	<b>1,156,203,388</b>	<b>1,225,575,591</b>
Health Services and Promotion of Health Investment	345,698,546	345,698,546	332,122,359	352,049,701	373,172,683
Agriculture, Livestock and Fisheries	20,000,000	20,000,000	15,853,705	16,804,927	17,813,223
Trade, Tourism and Heritage	2,400,000	2,400,000	1,888,653	2,001,972	2,122,091
Industrialization/ Cooperatives	1,500,000	1,500,000	74,256	78,711	83,434
Education, Gender, Sports and Culture	5,000,000	5,000,000	2,468,752	2,616,877	2,773,890
Land, Housing and Physical Planning	20,000,000	20,000,000	3,283,696	3,480,718	3,689,561
Water	36,000,000	36,000,000	9,000,000	9,540,000	10,112,400
Roads, Transport & Public Works	60,000,000	60,000,000	60,000,000	63,600,000	67,416,000
Energy and Mining	2,500,000	2,500,000	2,500,000	2,650,000	2,809,000
Green Energy and Climate change	5,000,000	5,000,000	5,000,000	5,300,000	5,618,000
Environment and Natural Resources	1,200,000	1,200,000	2,000,000	2,120,000	2,247,200
<b>Total Revenue from other sources</b>	<b>499,298,546</b>	<b>499,298,546</b>	<b>434,191,421</b>	<b>460,242,906</b>	<b>487,857,481</b>
<b>Gross Revenue from local sources</b>	<b>1,584,987,119</b>	<b>1,584,987,119</b>	<b>1,524,949,334</b>	<b>1,616,446,294</b>	<b>1,713,433,072</b>
<b>TOTAL GROSS REVENUE</b>	<b>8,465,103,147</b>	<b>9,182,332,380</b>	<b>8,817,872,323</b>	<b>9,346,944,662</b>	<b>9,907,761,342</b>

### Criteria for Resource Sharing

In FY 2017/18 the fiscal policy framework re-emphasizes on resource allocation towards programmes in the County Government's identified thematic areas as outlined in the County Integrated Development Plan (CIDP). The framework focuses on strategic policy intervention aimed at improving food security, employment creation, poverty reduction and development of devolution units for better service delivery. The resources available are shared using the following criteria:

- i. **Non-discretionary expenditure:** In the recurrent expenditure category, non-discretionary expenditures take the first charge and include statutory obligations such as salaries, gratuity and pension that are financed by the Kisumu County Government. These expenditures are projected at 37 per cent of the total revenue.
- ii. Development expenditures are shared out on the basis of CIDP priorities as well as strategic interventions to boost revenue base and stimulate the economic growth. The



pillars and enablers of development as outlined in the CIDP namely: *agriculture, industrialization, health, education, water and roads* have each been allocated a minimum of 4 per cent of the total development allocation. For on-going projects, emphasis is given to completion of the on-going projects with high impact on poverty reduction, social injustices, employment and wealth creation. Infrastructure projects with the County Government's commitment to improve infrastructure, construction of roads, development of water and sanitation network, energy and construction of offices will be given priority. The operations and maintenance expenditure entail departments/county entities expenditure for basic operations and maintenance. It accounts for 32 per cent of the total estimated revenue. An allocation to County Health Services and Promotion of Health Investments is highest accounting for 28.8 per cent of the total budget due to the huge workforce in the department. This is followed by the allocation to the City of Kisumu which accounts for 9.3 per cent of total budget.

Medium Term Departmental Ceilings, 2016/17 – 2019/20

DEPARTMENTS	Category	2016/17	2017/18	PROJECTIONS		% SHARE OF TOTAL EXPENDITURE			
		REVISED ESTIMATES	CEILINGS	2018/19	2019/20	2016/17 Estimate s	CFSP Ceiling 2017/18	Projections 2018/19	Projections 2019/20
Agriculture, Livestock & Fisheries	Sub-total	442.5	507.24	584.42	622.41	5.02%	6.36%	6.74%	7.18%
	Rec. Gross	272.5	265.96	275.66	293.58	3.09%	3.00%	3.18%	3.39%
	Dev. Gross	170	241.28	308.76	328.83	1.93%	3.36%	3.56%	3.79%
Health	Sub-total	2468.22	2,537.55	2700.68	2876.22	27.99%	29.39%	31.15%	33.18%
	Rec. Gross	2,338.28	2,338.29	2447.06	2606.12	26.52%	26.63%	28.23%	30.06%
	Dev. Gross	222.87	199.26	253.62	270.10	2.53%	2.76%	2.93%	3.12%
Education, Youth, Sports and Culture	Sub-total	524.7	561.55	518.27	551.95	5.95%	5.64%	5.98%	6.37%
	Rec. Gross	378.45	385.14	330.80	352.31	4.29%	3.60%	3.82%	4.06%
	Dev. Gross	146.25	176.85	187.46	199.65	1.66%	2.04%	2.16%	2.30%
Office of the Governor and County Administration*	Sub-total	592.5	576.26	679.99	724.19	6.72%	7.40%	7.84%	8.35%
	Rec. Gross	465	463.21	514.59	548.04	5.27%	5.60%	5.94%	6.32%
	Dev. Gross	127.5	113.04	165.40	176.15	1.45%	1.80%	1.91%	2.03%
Roads, Transport & Infrastructure	Sub-total	419.35	379.90	307.83	327.84	4.76%	3.35%	3.55%	3.78%
	Rec. Gross	119.35	255.87	197.56	210.40	1.35%	2.15%	2.28%	2.43%
	Dev. Gross	300	124.03	110.27	117.44	3.40%	1.20%	1.27%	1.35%
Finance & Planning	Sub-total	1793.56	596.66	1179.88	1256.57	20.34%	12.84%	13.61%	14.50%
	Rec. Gross	752.62	487.54	496.21	528.46	8.54%	5.40%	5.72%	6.10%
	Dev. Gross	1,040.94	109.12	683.67	728.11	11.80%	7.44%	7.89%	8.40%
Communication Information Technology (CIT)	Sub-total	192.62	261.35	260.97	277.94	2.18%	2.84%	3.01%	3.21%
	Rec. Gross	65.12	84.52	73.51	78.29	0.74%	0.80%	0.85%	0.90%
	Dev. Gross	127.5	176.85	187.46	199.65	1.45%	2.04%	2.16%	2.30%
Industrialization, Energy & Enterprise Development	Sub-total	392.93	532.4	536.65	571.53	4.46%	5.84%	6.19%	6.59%
	Rec. Gross	120.93	151.49	101.08	107.65	1.37%	1.10%	1.17%	1.24%
	Dev. Gross	272	380.91	435.56	463.88	3.08%	4.74%	5.02%	5.35%
Kisumu City	Sub-total	851.84	821.53	926.26	986.47	9.66%	10.08%	10.68%	11.38%
	Rec. Gross	749.46	675.89	771.88	822.05	8.50%	8.40%	8.90%	9.48%
	Dev. Gross	102.38	145.63	154.38	164.41	1.16%	1.68%	1.78%	1.90%
Lands, Housing and Physical Planning	Sub-total	186.44	208.47	263.73	280.87	2.11%	2.87%	3.04%	3.24%
	Rec. Gross	30.04	30.02	32.16	34.25	0.34%	0.35%	0.37%	0.40%
	Dev. Gross	156.4	178.56	231.57	246.62	1.77%	2.52%	2.67%	2.84%
Tourism, Trade & Heritage	Sub-total	255.69	272.02	319.78	340.57	2.90%	3.48%	3.69%	3.93%
	Rec. Gross	76.76	52.35	55.13	58.71	0.87%	0.60%	0.64%	0.68%
	Dev. Gross	178.93	219.67	264.65	281.85	2.03%	2.88%	3.05%	3.25%
Water, Environ't & Natural Resources	Sub-total	407.38	389.27	340.92	363.08	4.62%	3.71%	3.93%	4.19%
	Rec. Gross	157.38	180.68	110.27	117.44	1.78%	1.20%	1.27%	1.35%
	Dev. Gross	250	208.59	230.65	245.64	2.84%	2.51%	2.66%	2.83%
County Assembly*	Sub-total	656.62	537.45	569.70	606.73	7.45%	6.20%	6.57%	7.00%
	Rec. Gross	656.62	537.45	569.70	606.73	7.45%	6.20%	6.57%	7.00%
	Dev. Gross	0	0	0.00	0	0.00%	0.0%	0.00%	0.00%
<b>TOTAL</b>	<b>Total</b>	<b>8,817.87</b>	<b>8668.93</b>	<b>9189.07</b>	<b>9786.36</b>	<b>100.00%</b>	<b>100.00%</b>	<b>106.00%</b>	<b>112.89%</b>
	<b>Rec. Gross</b>	<b>6,119.33</b>	<b>5,637.38</b>	<b>5975.62</b>	<b>6364.04</b>	<b>69.40%</b>	<b>65.03%</b>	<b>68.93%</b>	<b>73.41%</b>
	<b>Dev. Gross</b>	<b>2,698.54</b>	<b>3031.55</b>	<b>3213.44</b>	<b>3422.32</b>	<b>30.60%</b>	<b>34.97%</b>	<b>37.07%</b>	<b>39.48%</b>

\* CRA Ceilings apply

**Annex 1: Medium Term Recurrent Expenditure Ceilings, 2015/16 – 2018/19**

DEPARTMENTS	Category	2016/17	2017/18	Projections	Projections	% Share of total expenditure			
		Revised Estimate	Ceilings 2018/19	2018/19	2019/20	2014/15 Estimates	Ceiling 2017/18	Projections 2018/19	Projections 2019/20
Agriculture, Livestock & Fisheries	Gross	272.5	265.97	275.67	293.59	4.48%	4.35%	4.73%	4.73%
	P/E	186.94	184.41	189.22	201.52	3.07%	3.01%	3.24%	3.24%
	O&M	85.56	89.08	86.45	92.07	1.41%	1.46%	1.48%	1.48%
Health	Gross	2245.36	2338.29	2447.05	2606.11	36.88%	38.21%	41.96%	41.96%
	P/E	1535.4	1592.43	1698.85	1809.28	25.22%	26.02%	29.13%	29.13%
	O&M	709.96	745.855	748.20	796.83	11.66%	12.19%	12.83%	12.83%
Education, Youth, Sports and Culture	Gross	378.44	385.14	330.80	352.31	6.22%	6.29%	5.67%	5.67%
	P/E	176.8	152.40	159.37	169.73	2.90%	2.49%	2.73%	2.73%
	O&M	201.64	232.73	171.43	182.58	3.31%	3.80%	2.94%	2.94%
Office of the Governor and County Administration*	Gross	465	463.21	514.60	548.05	7.64%	7.57%	8.82%	8.82%
	P/E	173.7	163.21	196.34	209.11	2.85%	2.67%	3.37%	3.37%
	O&M	291.3	300.0	318.25	338.94	4.79%	4.90%	5.46%	5.46%
Roads, Transport & Infrastructure	Gross	119.35	255.87	197.56	210.40	1.96%	4.18%	3.39%	3.39%
	P/E	64.14	64.14	36.73	39.12	1.05%	1.05%	0.63%	0.63%
	O&M	55.21	191.73	160.83	171.29	0.91%	3.13%	2.76%	2.76%
Finance & Planning	Gross	752.62	487.54	496.21	528.46	12.36%	7.97%	8.51%	8.51%
	P/E	200.1	80.0	64.21	68.39	3.29%	1.31%	1.10%	1.10%
	O&M	552.52	407.54	431.99	460.07	9.08%	6.66%	7.41%	7.41%
Communication Information Technology (CIT)	Gross	65.12	84.52	73.51	78.29	1.07%	1.38%	1.26%	1.26%
	P/E	21.31	21.31	6.51	6.93	0.35%	0.35%	0.11%	0.11%
	O&M	43.81	63.21	67.00	71.36	0.72%	1.03%	1.15%	1.15%
Industrialization, Energy & Enterprise Development	Gross	120.9	151.49	101.08	107.65	1.99%	2.48%	1.73%	1.73%
	P/E	47.9	39.25	35.11	37.39	0.79%	0.64%	0.60%	0.60%
	O&M	73	112.24	65.97	70.26	1.20%	1.83%	1.13%	1.13%
Kisumu City	Gross	749.46	675.89	771.88	822.05	12.31%	11.05%	13.23%	13.23%
	P/E	653.99	566.86	656.31	698.97	10.74%	9.26%	11.25%	11.25%
	O&M	95.47	109.03	115.57	123.08	1.57%	1.78%	1.98%	1.98%
Lands, Housing and Physical Planning	Gross	30.04	30.02	32.17	34.26	0.49%	0.49%	0.55%	0.55%
	P/E	16.45	11.28	12.31	13.11	0.27%	0.18%	0.21%	0.21%
	O&M	13.59	18.74	19.86	21.16	0.22%	0.31%	0.34%	0.34%
Commerce, Tourism & Heritage	Gross	76.76	52.35	55.14	58.73	1.26%	0.86%	0.95%	0.95%
	P/E	41.99	14.11	14.60	15.54	0.69%	0.23%	0.25%	0.25%
	O&M	34.77	38.25	40.55	43.18	0.57%	0.63%	0.70%	0.70%
Water, Environment & Natural Resources	Gross	157.38	168.96	110.27	117.44	2.59%	2.76%	1.89%	1.89%
	P/E	51.17	33.25	50.14	53.40	0.84%	0.54%	0.86%	0.86%
	O&M	106.21	135.73	60.13	64.04	1.74%	2.22%	1.03%	1.03%
County Assembly*	Gross	654.62	656.62	569.73	606.76	10.75%	10.73%	9.77%	9.77%
	P/E	292.79	292.79	310.36	330.53	4.81%	4.78%	5.32%	5.32%
	O&M	361.83	363.83	259.37	276.23	5.94%	5.95%	4.45%	4.45%
<b>TOTAL</b>	<b>Gross</b>	<b>6087.55</b>	<b>6119.33</b>	<b>5832.30</b>	<b>6211.40</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
	<b>P/E</b>	<b>3462.68</b>	<b>3258.15</b>	<b>3327.80</b>	<b>3544.11</b>	<b>56.88%</b>	<b>53.24%</b>	<b>57.06%</b>	<b>57.06%</b>
	<b>O&amp;M</b>	<b>2624.87</b>	<b>2861.18</b>	<b>2504.50</b>	<b>2667.29</b>	<b>43.12%</b>	<b>46.76%</b>	<b>42.94%</b>	<b>42.94%</b>

\* CRA Ceilings apply

DEPARTMENTAL CEILINGS 2017/2018

Department	PE	PE %	DEVT	DEVT %	O&M	O&M%	TOTALS	% of Total allocation
Office of the Governor	163,213,561	5.01	113,041,623	4.19	300,000,000	10.49	576,255,184	6.54
Finance and Planning	80,000,000	2.46	109,117,844	4.04	407,541,848	14.24	596,659,692	6.77
Lands	11,279,820	0.35	178,458,272	6.61	18,735,249	0.65	208,473,341	2.36
Agriculture, Livestock and Fisheries	184,411,089	5.66	241,277,695	8.94	81,555,663	2.85	507,244,447	5.75
Commerce, Tourism & Heritage	14,106,036	0.43	219,666,596	8.14	38,246,528	1.34	272,019,160	3.08
Roads	64,140,000	1.97	124,027,748	4.60	191,728,441	6.70	379,896,189	4.31
Water	33,249,131	1.02	208,591,374	7.73	135,726,451	4.74	377,566,956	4.28
Environ & Nat Resources	11,704,824	0.36		-	-	-	11,704,824	0.13
Education	152,409,275	4.68	176,847,172	6.55	232,734,250	8.13	561,990,697	6.37
Gender, Youth	-	-	-	-	-	-	-	-
Industrialization	36,620,831	1.12	380,909,606	14.12	112,236,802	3.92	529,767,239	6.01
Energy and Mining	-	-	-	-	-	-	-	-
Green Energy & Climate Change	2,632,012	0.08	-	-	-	-	2,632,012	0.03
City of Kisumu	566,856,875	17.40	145,638,848	5.40	109,034,371	3.81	821,530,094	9.32
CIT	21,310,000	0.65	176,847,172	6.55	63,208,472	2.21	261,365,644	2.96
Health Services	1,592,433,709	48.88	199,263,821	7.38	745,853,274	26.07	2,537,550,804	28.78
Kisumu County Public Service Board	31,000,000	0.95	4,000,000	0.15	60,745,040	2.12	95,745,040	1.09
County Assembly	292,787,796	8.99	-	-	363,829,008	12.72	656,616,804	7.45
Provision for Pending Bills	-	-	150,000,000	5.56	-	-	150,000,000	1.70
Ward Development Fund	-	-	270,854,196	10.04	-	-	270,854,196	3.07
<b>TOTAL</b>	<b>3,258,154,959</b>	100.00	<b>2,698,541,967</b>	100.00	<b>2,861,175,397</b>	100.00	<b>8,817,872,323</b>	100.00
% Allocation for FY 2017/2018	36.9%		30.6%		32.4%		100.0%	