

REPUBLIC OF KENYA



COUNTY GOVERNMENT OF TRANS NZOIA

COUNTY FISCAL STRATEGY PAPER

“THE TAKE OFF: PATHWAY TO ECONOMIC TRANSFORMATION AND PROSPERITY”

FEBRUARY 2019

Foreword

The 2019 County Fiscal Strategy Paper (CFSP) for the Financial year 2019/20 and the medium term 2020/21 and 2021/22 respectively reiterates the county government's development objectives of creating employment, increasing land productivity, and reducing the number of the poor in the population.

Strategies to enable the county attain the above stated objectives include;

- creating a conducive business environment that promotes investment in the county;
- investing in key interventions particularly in the agricultural sector to increase productivity, reduce post-harvest loses, ensure food security ,promote value addition and diversification;
- investing in infrastructural development in areas such as county roads, fresh produce markets, health facilities and other social infrastructure, including street lighting and provision of water;
- investing in quality and accessible health care services and quality education as well as strengthening the social safety net to reduce the burden of dependence on the households and promote shared and equitable growth and
- Supporting the county public service for better service delivery.

The above key interventions have translated into opening up and paving of backstreets in Kitale town such as the Alakara Hotel-Co-op Bank loop and Lulu and Bongo Hotel area backstreets, Construction of 100 Bodaboda sheds across the county including Kitale town, and major market centres of Maili Saba, Kiminini, Sibanga, Barberton, Sikhendu, Saboti among others, distribution of Mavuno fertilizer to farmers to combat soil acidity, 3 grain storage warehouses were constructed at Saboti, Kwanza and Kiminini. In addition, Renovation of Kitale County Hospital, Improved integrated solid waste management through purchase and installation of street litter bin, medium sized litter bin, Bulk bin and skip loader truck, Support to the needy through Elimu bursary fund, and Facilitation for acquisition of title deeds among others. The gains from the above interventions go a long way to address the county development objectives and create a strong base for raising more revenues locally.

While the above trends are expected in the financial year 2019/20, the low agricultural produce prices, coupled with increasing cost of input are likely to depress the growth momentum. In addition, volatility in oil prices in the world market and unpredictable rainfall patterns may distort the framework upon which this policy is based on. But overly, County and national development parameters point to a positive growth.

The 2019 is the sixth County Fiscal Strategy Paper to be prepared by the County Government of Trans-Nzoia since the inauguration of the county government in 2013 under the new constitutional dispensation. The overall objective of the CFSP is to link policy, planning and budgeting. Specifically, the CFSP seeks to:

- Ensure a sound and sustainable balance between the county Government's spending, revenue and borrowing requirements that are in line with the law and economical sustainability;
- Set out strategies of enhancing local revenue collection to augment the CRA allocations;

- Outline policy initiative and spending that support growth in the key sectors of the economy including agriculture, health care services, trade and industry whose contribution to employment creation is vital in the county economy.
- It will also be a means of communicating and disseminating the county's budget proposal and therefore encourage transparency and partnership in the budget making process during the public hearings
- It provides an updated resource envelop and presents a fiscal framework for 2019/20 budget and the medium term.

This strategy is aligned to the country's growth objectives of 50% poverty reduction, 50% job creation, and increasing productivity by 50%. In consistent with PFM Act 2012, resource allocation has been aligned to the County's 2nd medium-term plan, the County integrated Development Plan (CIDP) which is also aligned to the National government's big 4 development agenda namely food security, affordable housing, universal health care and manufacturing..

This policy has also been aligned to the National Budget policy statement (BPS) whose theme is **Creating Jobs, Transforming Lives-Harnessing "The Big Four"** through; (i) creating a conducive business environment for job creation; (ii) investing in sectoral transformation to ensure broad based and sustainable economic growth with a major focus on agricultural transformation to ensure food security and increased farm yields; (iii) investing in infrastructure in areas such as transport, logistics, energy and water; (iv) investing in quality and accessible health care services and quality education as well as strengthening the social safety net to reduce the burden on households and promote shared prosperity; and (v) further consolidating gains made in devolution in order to provide better service delivery and enhanced economic development.

This agenda is well entrenched the 2019/20 county budget where the focus is on:-

- Training and Capacity Building & motivation of county staff for effective service delivery;
- Entrenching Citizen participation in the county development process;
- Creating enabling investment environment;
- Fast tracking the implementation of the CIDP;
- Creating an enabling environment for growth in business and investments;
- Re-engineering the county systems of service delivery in order to attain the development objectives of the County;
- Rehabilitating, expanding and maintenance of county roads
- Promoting agricultural productivity and diversification,
- Ensuring easy access to basic social services including water, education and health care

The performance in the 1st half of 2018/19 has also greatly informed this strategy. There has been a major underperformance on the local revenue collections as well expenditure on capital projects. This situation is attributed to the various factors as explained later in this paper which include but not limited to political scenario of the FY 2018/19. However, improvement is foreseen at the start of 2019 calendar year as seen in improved local revenue collection and absorption rate of the development funds. Consequently, the budget ceilings set out for FY 2019/20 have been adjusted accordingly.

Other factors that impacted negatively the growth process in the local economy include; rising cost of living, food insecurity, declining agricultural produce prices, inadequate and high cost of energy, drought and fall army worm invasion, poor transport network, and high and unsustainable public sector wage bill. However, their impacts were dampened by increased maize harvests, and increased milk production among others.

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Acknowledgement

The 2019 CFSP has been developed as per the requirements of the Public Finance Management Act, 2012. The CFSP outlines the county's broad strategic macroeconomic issues and medium term fiscal framework, together with a summary of the county Government's spending plans, as a basis of the 2019/20 and medium term budget. It will therefore pronounce the county's development objectives and policy direction in the MTEF period 2019/20-2021/22.

In line with the PFM act 2012, the preparation of the 2019 CFSP has been a collaborative effort from all the County Departments whose inputs form the basis upon which the paper is based. We are also grateful for the capacity training facilitated by various development partners including AHADI (USAID), and the Kenya School of Government in collaboration with the COG among others. Other county government organs whose inputs were considered include the C.E.C. Members, the County Assembly, the Budget and Economic Forum and public consultative fora. The County Budget Review and Outlook Paper, 2018, MTEF sector reports for 2019/20-2021/22, the national government's "Big Four Development Agenda, all provided inputs to this 2019 CFSP.

My special appreciation goes to the office of H.E the Governor, the County Secretary, the C.E.C. Members, the budget secretariat and the taskforce comprising of officers from the county treasury and planning department for their dedication and commitment in ensuring quality and professionalism in the production of this document.

EMMANUEL SIKUKU WANJALA
CHIEF OFFICER FINANCE

Abbreviations

A.I.A	Appropriation-in-Aid
AHADI	Agile and Harmonized Assistance for Devolved Institutions
BPS	Budget Policy Statement
C.R.A.	Commission of Revenue Allocation
CADP	County Annual Development Plan
CBROP	County Budget Review and Outlook Paper
CECM	County Executive Committee Member
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
DANIDA	Danish International Development Agency
ECD	Early Childhood Development
GDP	Gross Domestic Products
ICT	Information Communication Technology
IFMIS	Integrated Financial Management Information System
KDSP	Kenya Devolution Support Programme
MSE	Micro and Small Enterprise
MTEF	Medium Term Expenditure Framework
MTP III	Medium Term Plan
O&M	Operations & Maintenance
PFM	Public Financial Management
USAID	United States of Agency International Development

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REGULATORY FRAMEWORK

A. Legal Basis for County Fiscal Strategy Paper

The basis of developing and preparing the County Fiscal Strategy Paper is contained in Article 117 of the PFM Act 2012 which states that;

- i. 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.
- ii. The County Treasury shall align its County Fiscal Strategy Paper with the national objectives in the Budget Policy Statement.
- iii. 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.
- iv. The County Treasury shall include in its County Paper the financial outlook with respect to county government revenues, expenditures and borrowing for the coming financial year and over the medium term.
- v. In preparing the County Fiscal Strategy Paper, the County Treasury shall seek and take into account the views of —
 - a. The Commission of Revenue Allocation;
 - b. The public;
 - c. Any interested persons or groups; and
 - d. Any other forum that is established by legislation

B. County Government Fiscal Responsibility Principles

This County Fiscal Strategy Paper for the financial year 2019 has been developed and takes into account the principles of public finance together with the fiscal responsibility principles of county governments that includes;

- i. Ensuring that the county government's recurrent expenditure shall not exceed the county government's total revenue;
- ii. Ensuring that over the medium term a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure;
- iii. Ensuring that 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;
- iv. Ensuring that over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure in particular, 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;
- v. Ensure that the county debt shall be maintained at a sustainable level as approved by county assembly;
- vi. Ensure that the fiscal risks shall be managed prudently; and
- vii. that 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.

Executive Summary

The 2019 County Fiscal Strategy Paper is the 6th to be prepared by the County Government of Trans Nzoia since the inauguration of the County Government in 2013. This report has been prepared in line with the PFM act 2012. It provides a financing framework that aligns the Resource Allocation to County Integrated Development Plan (CIDP) 2018-2022, sector plans and the national Medium Term Plan (MTP III). The strategies outlined herein compliments the presidential development initiative, the “Big Four Agenda”. Thus it links policy, planning and budgeting.

This CFSP provides a brief review of the economic and fiscal performance of both the national and county government in FY 2017/18 and the 1st half of FY 2018/19, and presents the Economic and Fiscal Outlook that defines the expenditure plan for 2019/20 and in the Medium Term.

The 2019 County Fiscal Strategy Paper (CFSP) reiterates the county government’s development objectives of creating employment, increasing land productivity, supporting special interest groups and reducing the number of the poor in the population. This framework will therefore prioritize:-

- Creating a conducive business environment that promotes investments in the county;
- Investing in key interventions particularly in the agricultural sector to increase productivity;
- Promoting diversification in the agricultural sector;
- Investing in infrastructural development of the county roads, retail and wholesale markets, health facilities and other social infrastructure,
- Provision of quality health care
- Empowering youth, women and the vulnerable members of the society

This framework has been prepared on the backdrop of rebound in agricultural sector, steady recovery in the industrial and manufacturing sector a robust performance in the services sector resulting in a steady growth of 5.8 percent, 6.2 percent and 6.0 percent in the first, second and third quarters of 2018 respectively, up from 4.7 percent recorded in similar quarters in 2017.

Nationally, total revenue collection including Appropriation in Aid (A.i.A) calls for a review of the fiscal framework upon which the 2018 budget was premised on and consequently the equitable share to the counties was affected. The fiscal performance at the national level has had significant impact on the county’s economic and fiscal performance.

Fiscal performance was below average in the first half of the year. The projected total revenue in the FY 2018/19 is Ksh. 8,042,560,324 .The actual receipts from 1st of July to 31st of December 2018 is Kshs 2,721,645,173 comprising of disbursements from the National Government is Ksh. 2,626,184,991.10 and revenue raised locally of Ksh. 77,456,401. Expenditure including commitments in the first half of the year was Ksh. 3,061,080,295 hence underperforming by Ksh 960,199,977.

In the MTEF period 2019/20-2021/22, the government will continue to pursue prudent financial management practices while enhancing the county's local revenue. The completion of the Kitale Bus Park, the completion of ongoing construction of the fresh produce markets spread across the county will improve revenues raised locally in addition to enhancing local investments hence creating job opportunities for the youth. The county will undertake to fully automate all the county local revenue source.

The total revenue projection including conditional grants in the FYs 2019/20, 2020/21 and 2021/22 is projected at Ksh. 7,323,061,736; 7,090,885,500 and 7,328,694,590 respectively. The projected revenues has been allocated across the sector and programmes on the basis of the need to finance infrastructure development, provide essential county services, promote savings and investment, generally support economic growth and reduce poverty in line with the county's overarching development goal "transforming Trans Nzoia through Poverty reduction, wealth creation and agro industrialization".

The following criteria were used in apportioning sector budgets in the Fy 2019/20 and in the medium term:

- i. **Non-Discretionary Expenditures:** comprised of statutory obligations such as salaries and pensions and must be given first priority.
- ii. **On-going projects:** emphasis has been given to completion of on-going capital projects and in particular agriculture and infrastructure projects with high impact on poverty reduction, equity and employment creation.
- iii. **Strategic sector interventions:** priority was also given to sector specific interventions on areas of agriculture and food security, value addition, health care, education, youth and women empowerment and training, social welfare, trade, industrialization, Human resources development, social equity and environmental conservation as well as interventions arising from the stakeholder consultations and public participation forums.
- iv. **Counterpart funding for donor supported projects.**

The major risk in attainment of the expenditure plan outlined herein include;

- Weaker revenue performance in the medium term.
- Expenditure pressures with respect to sector/departmental operations and maintenance budgets.
- Demands for employment of extra personnel due to gaps specifically in all the departments.
- Unpredictable weather, pests and emerging diseases which may result in realignment of the budgets to fund any emergencies arising.
- Slow budget implementation pace in the Spending units in the financial year 2018/19 in the development expenditures may result in huge pending bills carried over to the financial year 2019/20 and the medium term.
- Delays in Disbursements from the national treasury
- The anticipated completion of the Kitale Business park and other markets if not completed as schedules are likely to depress local revenue receipts;

- Ongoing consultations on the implementation of revenue sharing formula three (3) by the CRA. A change of base may that does not maintain the current status will require review of this CFSP.

1. RECENT ECONOMIC DEVELOPMENTS AND MEDIUM TERM OUTLOOK

1.1. Introduction

This section seeks to respond to the question of the need for this annual exercise and its role in ensuring prudent management of the County's financial resources. The basis of preparing this important financial management document is contained in article 117 of the PFM Act and has taken cognizance of the fiscal responsibility principles as spelt out in the Act and the Constitution of Kenya as pertaining to the county budget process in terms of content, timelines, key players and stakeholder involvement.

The document broadly gives a snapshot of the current social economic setting of the county's economy and based on the current scenario incorporates their implication on the current fiscal framework as well as informs the coming years' budget proposals as well as in the medium term. The County fiscal strategy paper therefore links policy, planning and budgeting.

What's contained in the County Fiscal Strategy paper?

The County Fiscal Strategy Paper contains;-

- (a) An assessment of the current state of the economy
- (b) Financial outlook with respect to county revenues, expenditure and borrowing in the coming financial year and in the medium term;
- (c) Proposed ceiling for county ministries and agencies;
- (d) The fiscal responsibility principles and financial objectives over the medium term; and
- (e) Statement of specific risks.

Stakeholder Participation:

In preparing the county fiscal strategy paper, the county government has sought and taken into account the views of the following in line with the law;-

- (a) The Commission on Revenue Allocation;
- (b) The public;
- (c) Any interested persons or groups; and
- (d) Any other forum that is established by the legislation
- (e) Recommendations from the county assembly once the paper has been submitted before the floor for discussion

County Fiscal Strategy Paper Preparation Process

The preparation of the CFSP is the fourth stage in the budget preparation process and has been developed in accordance with the PFM Act 2012. This document precedes the preparation of three important documents, that is, the **County Annual Development Plan (CADP)**, the County Budget Review and Outlook Paper (CBROP) and the MTEF sector Reports.

The preparation of the 2019 CFSP has been a collaborative effort from all the County Departments whose MTEF sector reports form the basis upon which the paper is based. The CADP presents the county development priorities which are then linked to the financial resources allocation process through the

MTEF which is preceded by the (CBROP) where the budget implementation is reviewed and the review report forms the basis of MTEF sector reports.

A Budget task force with membership from across the entire county government departments supported by a secretariat of officers from the department of Finance and economic planning was constituted and a draft prepared. The draft prepared was enriched by views from the members of the public collected during the consultative meetings held in each ward. The views of the County Economic and budget forum were also sought during its preparation. In addition, consultation was also carried out with the County Assembly budget committee. The draft was presented before the cabinet whose comments and inputs were incorporated before its submission to the County Assembly for discussion and approval.

Organization of the Report

This strategy has been organized into three chapters; Chapter One provides the Background, Overview of the Economic and Fiscal Performance for FY 2017/18 and bi-annual Performance for FY 2018/19. Chapter Two provides the Medium Term Strategic Priorities and Interventions. On the other hand, Chapter three presents the County's Fiscal Policy and Budget Framework in the Medium Term while providing the underpinning Fiscal and Budget Framework and setting the Resource Envelop and the Overall Spending Priorities.

1.2 Global and Regional Economic Developments

Globally, the economy registered growth was 3.6% in 2017 up from 3.2% in 2016. This growth was driven by improvements in investment, trade, and industrial production, coupled with strengthening business and consumer confidence. This growth was primarily driven by improving domestic demand in advanced economies, China and emerging market economies.

Advanced economies registered a 2.2% growth driven by increased activities in USA, Canada, Europe and Japan. This is expected to decline to 2% reflecting a slowdown in Japan and Europe. The USA economy is projected to grow by 2.3% in 2018 resulting from supportive financial condition, strong business and consumer confidence. On the other hand, driven by strengthening commodity exporters, growth in India and China, economic growth in emerging markets and developing economies is projected at 4.9% in 2018.

Supported by large commodity exporters such as Nigeria and South Africa, easing drought conditions in the Eastern and Southern Africa, growth in sub-Saharan Africa, is expected to grow by 3.4%. This is albeit increased uncertainties in policy implementation in Nigeria and South Africa, rising debt levels and debt service costs as a result of high public spending.

In the East African Community (EAC) region, economic growth stabilized at 5.4% in 2017 down from the growth of 6.1% recorded in 2016. This was as a result of prolonged drought in the region, dampened

agricultural output in Uganda, Tanzania and Rwanda, slowdown in credit growth across, insecurity and political tensions in countries such as Burundi, Somalia and South Sudan. Supported by stable macroeconomic environment, ongoing infrastructure investments and strong private consumption, growth is projected to grow by 5.9% in 2018.

1.3 National Domestic Economic Developments

Registering a growth of 4.8% in 2017 slightly lower than the projected 5.1%, Kenya's economy remained resilient despite the adverse weather conditions, prolonged electioneering period, and suppressed demand for credit by the private sector against, a growth of 5.8% recorded in 2016. The growth was a result of robust activities in the service sectors particularly accommodation and restaurant, real estate, wholesale and retail trade and ICT. This was however, constrained by subdued performance in agriculture forestry and fishing, manufacturing, electricity and financial intermediation sectors.

At 6.7% in 2017, inflation rate has been low, stable and within the government target range of 5+/-2.5. This was made possible by the prudent monetary and fiscal policies, despite the increase in food prices resulting from drought conditions that ravaged most parts of the country.

Broad money supply grew by 8.4% in 2017 compared to 6.2% registered in 2016. The growth was on account of increased domestic credit to the government and other public sector. Credit to the private sector slowed down in the period to the election but picked up slightly to 2.7% in November. The sector receiving lions' share of the domestic credit included, real estate, manufacturing, trade and private household consumables.

Exchanging at Ksh. 103.1 Ksh 122 and Ksh. 138.2 against the dollar, the Euro and Sterling pound respectively, the Kenya shilling exchange rate remained broadly stable against major international currencies. This stability was supported by receipts from tea and horticulture, tourism earnings, coffee exports and diaspora remittances.

Interest rates remained fairly stable and low throughout the year. The central Bank rate has remained at 10% since August 2016. The interbank rate has remained low at 7.7%. On the other hand, the 91-day Treasury bill rate declined to 8.0 % from 8.4%. The commercial banks' average lending interest stabilized at 13.7 percent during the year. Domestic credit grew by 8.4%. Private sector credit increased to 2.7%.

The Overall balance of payments position improved to a surplus of US \$ 879.7 million from a deficit of US \$ 821.4 million in 2016. The current account balance registered a deficit of US \$ 5,110.1 million in 2017 from a deficit of US \$ 3,452.5 million in 2016.

The banking system's foreign exchange holding was at US \$ 9,202 million. The official foreign exchange reserves held by the central bank remained strong at US\$ 7,872.1 million (4.6 months of import cover) while commercial banks holdings was at US \$ 2,282.8 million in 2017.

1.4 National Fiscal performance

Revenue collection has lagged behind the targets in the first five months of the 2017/18 financial year. On the other hand, expenditures pressures have been high due to prolonged drought, the repeat presidential election as well as salary awards to nurses and university staff. Collection of ordinary revenue underperformed by Ksh. 29.7 billion while ministerial A-I-A fell short by Ksh. 22.9 billion resulting in overall shortfall of Ksh. 52.6.

Total expenditure and net lending amounted to Ksh. 720.2 billion against a target of Ksh. 824.2 billion. The shortfall was as a result of lower than projected disbursements to county governments due to the delayed enactment of the county revenue allocation Act and slow absorption of development expenditure by the national government.

The combined performance of the revenues and expenditures resulted to an overall deficit (excluding grants) of Ksh. 161.8 billion. The deficit was financed through foreign borrowing amounting to Ksh. 49.6 billion while the balance of Ksh. 114.4 billion was sourced from the domestic money market.

The fiscal performance has necessitated a review of the 2017/18 budget to reflect revenue performance and accommodate emerging priorities and salary and election expenditure pressures. The revenues are projected at Ksh. 1,643.1 billion down from the earlier projection of Ksh. 1,704.5 billion. Total expenditures and net lending are projected at Ksh. 2,323,2 billion. The deficit of Ksh. 620.8 billion will be financed by Ksh. 293.8 and Ksh. 323.2 billion from the domestic and external borrowing.

1.5 County Economic Performance

The county government's development objectives during the year under review were; doubling youth employment, doubling land productivity, and reducing by half the population below the poverty line in the county. The key Strategies to enable the county attain the above stated objectives included;

- (i) creating a conducive business environment for job creation;
- (ii) investing in key interventions particularly in the agricultural sector to increase productivity, reduce post-harvest loses, ensure food security and promote value addition and crop diversification;
- (iii) investing in infrastructural development in areas such as county roads, fresh produce markets, health facilities and other social infrastructure, including street lighting and provision of water;
- (iv) investing in quality and accessible health care services and quality education as well as strengthening the social safety net to reduce the burden on the households and promote shared and equitable growth, and
- (v) Support the County Public Service for better service delivery.

Key Milestones for 2018 included; -

Under Infrastructure Development; - Sikhendu and Kwanza markets were completed while Saboti market constructed under the Economic Stimulus Programme, the department sponsored MSEs to three trade fairs and exhibitions. Kitale and Kiminini Integrated Urban Development plans were completed in addition to processing of title deeds. Other key developments include installation of bridges and culverts, opening up and paving of backstreets, completion of boda boda parking sheds. In addition to routine maintenance of existing street lighting and high mast floodlights and various county roads.

Under agricultural development the key milestones include; - procurement of a mobile cereal dryer; completion of three grain storage warehouses; distribution of subsidized mavuno fertilizer. Other achievement included establishment and Equipping of Tissue Culture Banana Laboratory; distribution of TC Banana plantlets, promotion of tea farming subsidy, promotion of coffee farming subsidy, and procurement of assorted modern farm machinery in addition to the procurement of a modern drag line for desilting dams.

In order to empower women and youth, the revolving youth and women fund activities were up scaled, Welfare services for the disabled and elderly were provided. The County also rehabilitated sports facilities, and sponsored a team to participate in KICOSCA Games. In addition, various sports teams were supported by way of grants, and assorted sports equipment.

In environmental management and water supply services; - piped schemes were implemented, water points were constructed. Most of the water projects are complete and a population of 186,450 is accessing clean potable water. Other activities included drilling of boreholes, spring protection, and sinking of wells. In addition, the County Government also acquired skip loaders and side-loaders and refuse containers(bulk bin) for efficient solid waste management.

In education; - construction of ECDE classrooms and VTC twin lab blocks were undertaken, ECDC and VTC learning and instructional materials were procured and distributed. In addition, Kshs. 50million was disbursed under Elimu Bursary Fund.

In Health; - the construction of the county referral hospital is ongoing, renovations of and equipping of county health facilities as well as supply of drugs and other medical supplies were undertaken.

1.6 County Fiscal Performance

The fiscal performance at the national level has had significant impact on the county's economic and fiscal performance. The prolonged electioneering period and the delayed enactment of the County Revenue Allocation Bill has reduced the targeted disbursements to county governments, thus raising the issue of absorption capacity to utilize the CRA allocation in the remaining quarter.

The fiscal performance for Fy 2017/18 was quite impressive. Estimated total revenues was Ksh. 6,628,528,220 of which Ksh. 6,310,337,968 (95.2%) was realized. The revenues received coincides with the actual expenditure thus giving an overall expenditure of over 90 %.

The Fiscal performance of the first half of the FY 2018/19 has not been impressive. With an estimated expenditure of Ksh. 8,042,560,324 the county recorded an expenditure of Ksh. 3,061,080,295 (38 % against an ideal of 50%) giving a shortfall of Kshs. 4,981,490,029. A summary of sector performance is provided in tables 1, 2 and 3 below.

1.6.1 Revenue Performance

Table 1 provides a summary of approved revenue against the actual revenue realized in the financial year 2017/18. A Shortfall of Ksh. 318,190,252 in revenue was recorded during the year under review.

Table 6: Approved and Actual Revenue Realized by Source FY 2017/18

SOURCE	APPROVED	ACTUAL	VARIANCE
CRA Allocation	5,647,400,000	5,647,400,000	-
Local Sources	400,000,000	246,062,902	(153,937,098)
Universal Health Care Project	113,923,776	35,601,180	(78,322,596)
Agriculture and Rural Growth Project	50,000,000	50,609,855	609,855
DANIDA	22,821,679	14,723,664	(8,098,015)
User Fees	21,304,915	20,209,153	(1,095,762)
World Bank – KDSP	43,386,482	43,386,482	-
Kenya Urban Support Programme	20,000,000	-	(20,000,000)
Youth polytechnics Development	39,109,877	39,109,877	-
Road Maintenance Fuel Levy	217,278,809	178,630,435	(38,648,374)
Unspent Balance C/F	53,302,682	34,604,420	(18,698,262)
Total	6,628,528,220	6,310,337,968	(318,190,252)

Source: CBROP 2018

The revenue shortfall is as a result of uncollected revenues from local sources. Table two provides a snapshot analysis of the estimated local revenue against the actual receipts by department in the financial year 2017/18.

Table 7: Local Revenue Report FY 2017/18

Department	Budgets	Actuals	variance
Agriculture, Livestock And Fisheries	8,350,000	4,820,149	(3,529,851)
Trade, Commerce And Industry	18,800,000	13,639,980	(5,160,020)
Environment, Water And Natural Resources	50,000,000	3,043,279	(46,956,721)
Works, Transport And Infrastructure	74,000,000	11,133,838	(62,866,162)
Health	95,250,000	66,156,262	(29,093,738)
Physical Planning, Lands And Housing	23,000,000	8,040,205	(14,959,795)
Gender, Youth, Sports, Culture And Tourism	3,600,000	197,790	(3,402,210)
Finance and Economic Planning	127,000,000	138,677,315	11,677,315
Grand Total	400,000,000	246,062,902	(153,937,098)

Source - Draft Revenue Report FY 2017/18

The table shows all the departments underperformed leading to a shortfall of 38.5 % in own source revenue. Only finance and Economic Planning surpassed the target.

1.6.2 Revenue Performance for 2018/19

The projected revenue in the FY 2018/19 is Ksh. 8,042,560,324. The actual receipts from 1st of July 2018 to 31st of December 2018 Ksh. 2,721,645,173. Disbursements from the national government is Ksh.

2,626,184,991.10 while revenue raised locally is Ksh. 77,456,401. Table 3 provides a summary of the performance of the local revenue in the first half of the FY 2018/19 by sector.

Table 8: Projected local Revenue and Actual collection up to December 2018 by Department.

Departments	Budget	1 st Half	Variance
1. Agriculture, Livestock and Fisheries	13,200,000	635,490	(12,564,510)
2. Trade, Commerce and Industry	17,500,000	6,505,830	(10,994,170)
3. Water, Environment and Natural Resources	18,250,000	404,150	(17,845,850)
4. Works, Transport and Infrastructure	14,000,000	188,950	(13,811,050)
5. Health, Corporate Health	150,250,000	37,793,660	(112,456,340)
6. Physical Planning, Lands and Housing	26,000,000	2,949,450	(23,050,550)
7. Gender, Youth, Sports, Culture and Tourism	1,550,000	-	(1,550,000)
8. Education and ICT	750,000	1,684,480	934,480
9. Finance and Economic Planning	258,500,000	27,294,391	(231,205,609)
Totals	500,000,000	77,456,401	(422,543,599)

The actual local revenue collected from all the sectors in the six months of July to December 2018 was Ksh. 77,456,401 against a projected annual target of Ksh. 500,000,000. This is a paltry 15.5 % of the estimated annual local revenue for the county in the FY 2018/19. Only Education and ICT surpassed the target levels for the half year. While Gender, Youth, Sports, Culture and Tourism has not recorded any revenue.

1.6.3 Expenditure Performance

The Expenditure during the FY 2017/18 and the six months' period for FY 2018/19 is per tables 4, 5 and 6 below. The estimated expenditure for both recurrent and development was kshs. 6,628,528,220 and actual expenditure was 5,839,385,755. Hence the overall underperformance was kshs. 789,142,465.

Table 9: Departmental Expenditure Report FY 2017/18

Sector	Detail	Approved Budget	Actual	Variance
Agriculture, Livestock	Recurrent	295,392,246	290,244,336	5,147,910
	Development	109,361,849	62,745,030	46,616,819
Trade, Commerce & Industry	Recurrent	61,701,034	54,387,511	7,313,523
	Development	79,953,686	21,750,902	58,202,784
Water, Environment & Natural Resources	Recurrent	72,568,298	63,351,706	9,216,593
	Development	188,397,053	155,821,241	32,575,812
Public Works, Infrastructure	Recurrent	343,155,308	291,191,965	51,963,343
	Development	565,978,809	319,909,505	246,069,304
Health Services	Recurrent	1,570,724,082	1,672,920,532	(102,196,450)
	Development	592,394,773	271,345,020	321,049,753
Lands, Housing & Urban Development	Recurrent	94,948,240	85,103,266	9,844,974
	Development	78,203,502	10,875,000	67,328,502
Gender, Youth, Culture	Recurrent	139,789,643	132,108,811	7,680,832

Sector	Detail	Approved Budget	Actual	Variance
	Development	78,207,863	9,195,700	69,012,163
Governance, PSM,CPSB	Recurrent	416,564,851	416,006,806	558,045
	Development	45,841,250	15,287,032	30,554,218
Education, ICT	Recurrent	400,290,613	395,956,037	4,334,576
	Development	154,509,877	68,912,697	85,597,180
Finance, Economic PI	Recurrent	706,611,223	956,806,565	(250,195,342)
	Development	29,495,051	15,013,668	14,481,383
County Assembly	Recurrent	530,452,425	530,452,425	-
	Development	73,986,544	-	73,986,544
Total Expenditure	Recurrent	4,632,197,963	4,888,529,960	-256,331,997
	Development	1,996,330,257	950,855,795	1,045,474,462

The absorption rate especially for the development funds in the FY 2017/18 was quite low. This is associated with the prolonged electioneering period and delay in enactment of the County Allocation of Revenue Bill.

The projected budget for fy 2018/19 is kshs. **8,042,560,324** against which an expenditure of kshs. **3,061,080,295** was recorded as at 31st December, 2018.

Table 10 ; Summary Expenditures Report for 6 Months FY 2018/19

Particulars	Approved Budget	Actual (Six Months)	Variance
Personnel	2,470,695,291	1,141,773,854	1,328,921,437
Operations & Maintenance	2,396,445,275	1,551,614,448	844,830,827
Development	3,175,419,758	367,691,993	2,807,727,765
TOTAL	8,042,560,324	3,061,080,295	4,981,480,029

Source; IFMIS Returns

The implementation of the budget for the financial year 2017/18 and the first half of the financial year 2018/19 has been hampered by a number of factors including:

- Shortfall in revenue collection both from the national disbursement and locally generated revenues.
- Delayed disbursement from the national treasury
- Challenges in E-procurement process
- Prolonged electioneering period including litigation issues and political tension before the building bridges initiative.
- Delay in appointments of County CEC members and COs

With an expenditure of Ksh. 1,551,614,448, operations and maintenance takes the lion's share of the recorded expenditure in the first half of the financial year 2018/19, followed by personnel emoluments at Ksh. 1,141,773,854 indicating 55.3% for total recurrent expenditure while Development recorded an expenditure of Ksh. 367,691,993 indicating 11.6%.

From the foregoing fiscal performance analysis and the need to align the budget with the national development initiative of the "Big Four" the fiscal framework will be revised **accordingly** to take into consideration the low absorption rate of the development budget and the shortfall on local revenues raised. Other factors that necessitates the revision of the fiscal framework includes expenditure rationalization and need for additional staff to fill gaps identified. The new framework has revised the projected revenues from the current figure of Ksh. **8,042,560,324** to Ksh. **7,323,061,736** on account of the reduction in the equitable share and shortfall in local revenue collection in the previous years. This includes the grants and loans amounting to Ksh. 1,181,061,736 which has been partially categorized to the various departments.

In view of the above, **we recommend:**

- For increased participation and sensitization of the members of the County Assembly, the executive and the public to ensure that all stakeholders are on board in the budget making process as required by law.
- Re-engineering the local revenue raising and management strategies to increase local revenues
- Setting realistic revenue targets to avoid situation of pending bills.
- Capacity building on e-procurement and sensitization of local contractors, suppliers and user departments on e-procurement to fast track the procurement process.
- Adherence to the county annual procurement plan to enhance implementation of budget and subsequently service delivery.

1.7 Fiscal Policy Outlook

The government will continue to pursue prudent financial management practices while enhancing the county's local revenue. The focus is on striking a balance between the expanding expenditure demands against limited resource revenues constrained by declining local revenue and unstable transfers from the national government.

The key initiatives to be undertaken to increase the revenue base includes;- improvement on the automated revenue collection system, simplification of Collection process in line with national best practices and improved compliance with enhanced administrative measures and implementation of the revised valuation roll recommendations. In addition, the County Government will undertake various researches in view to identifying new sources, improving tax compliance levels and expanding revenue base. The county will also embrace asset financing, endorsement of PPP as well as seeking for donor support in form of grants and loans from domestic and external sources, in line with the regulations as set out in the PFM Act and other financial regulations.

The completion of the Kitale Bus Park, modernization of Kitale main Market, the construction of modern kiosk, the completion of ongoing construction of the sub county markets and fresh produce markets spread across the county will improve revenues raised locally in addition to enhancing local investments hence creating job opportunities for the youth.

The total revenue in FYs 2019/20, 2020/21 and 2021/22 is projected at Kshs. 7,323,061,736, 7,090,885,500 and 7,328,694,590 respectively.

1.8 Risks Associated with the Outlook

The risk to the outlook for 2019 and medium term include, inability to realize the estimated local revenues and slow pace of implementation of the development budget. Other risks include overreliance on maize as the main cash crop by most of the county residents, unpredictable weather patterns and low private investments in the county, late disbursement of CRA equitable allocation by the national treasury, uncertainty of the national transfers to the county government as the allocation formula is under review, delay by local contractors and suppliers in delivering projects in timely manner among other issues.

II. STRATEGIC PRIORITIES AND INTERVENTIONS

2 Aligning the County Development Framework to the National Development Agenda “The Big Four”

2.1 Overview

In order to ensure that the national Transformative Agenda is on course, the National government has identified four key strategic areas of focus in the medium term namely;-

- i. Supporting value addition and raise the manufacturing sector’s share of GDP to 15% by 2022. This will accelerate economic growth, create jobs and reduce poverty;
- ii. Focusing on initiatives that guarantee food security and improve nutrition to all by 2022 through expansion of food production and supply, reduction of food prices to ensure affordability and support value addition in the food processing value chain;
- iii. Providing Universal Health Care coverage thereby guaranteeing quality and affordable healthcare to all Kenyans; and
- iv. Providing at least five hundred thousand affordable new houses to Kenyans by 2022, hence improving living conditions for Kenyans.

Investment in the above key areas will create jobs, enhance access to the basic needs of the Kenyan people, improve their quality of life, lower the cost of living and reduce poverty and inequality. These development goals blends perfectly with the County’s’ medium term development agenda of reducing poverty, raising household incomes and reducing unemployment among the county’s youth population. In specific key investments include;-

- Promoting adoption of modern agriculture practices;
- expanding the crop diversification programme,
- reducing post-harvest losses
- Promoting value addition for agricultural produce;
- Rehabilitation of water dams.
- Increase access to safe and reliable water supply
- Increase forest cover and promote sustainable environmental practices
- Promote skills development
- Establish modern wholesale and retail Markets in Kitale town;
- construction of Jua Kali sheds and modern kiosks in selected centres;
- Revamping NAWIRI fund;
- Develop and promote investment opportunities in the county;
- Grade, murrum and compact roads in the county and also address drainage system;
- Upgrade some roads to bitumen standards in the county;

- Rehabilitation, equipping and construction of health facilities;
- Combat communicable and non -communicable diseases;
- Upscale the social welfare safety net to cover health sector;
- Sourcing and capacity building, and motivate human capital for effective and efficient service delivery
- Implementing the integrated urban development and County Spatial Plans
- Promote women and youth empowerment programmes;
- Promote sports, identify and nurture youth talent;
- Develop and promote new tourism products;
- Re-engineering of management processes across all sectors

2.2 County Strategic Priorities

The overall overarching development agenda is to improve the quality of life of the county residents by reducing distress conditions and increasing their empowerment through increased incomes and employment creation. The key investment areas of focus by sector is as provided below;

2.2.1 Agriculture, Livestock, Fisheries and Co-operative Development

Overarching development objective of the sector in the medium term is ***“To promote a competitive and sustainable agriculture, livestock, fisheries and a vibrant co-operative movement”***. This is the backbone of the county economy. The priorities for the sector include; - Promotion of soil Improvement technologies and entrench the adoption of conservation agriculture techniques by increasing appropriate equipment in every ward. The County will also expand the crop diversification programme, enhance markets and marketing channels for the agricultural produce, reduce post-harvest losses and promote value addition for coffee, milk and maize among others.

In livestock, the county will expand the AI programme, increase the number of milk coolers, and rehabilitate the communal cattle dips, and promote disease control by working jointly with the neighboring counties.

The county will also undertake programmes of promoting cooperative societies and adopt new technologies of fish and poultry farming.

2.2.2 Water, Environment and Natural Resources

The sector objective in the medium term is ***“To be the leading agency in the integrated conservation, protection, management and utilization of water, environment, natural resources and climate change management for sustainable development in the county”***. To deliver on the objective, priority projects to be funded include among others extension of Water Gravity Schemes, sink more Boreholes, rehabilitation of water dams. Plant more trees annually, promote climate change mitigation measures, establish a new Solid Waste Management site and procure side loaders, refuse containers, an exhauster and construct exhaustible public toilets to cover major market centres.

The county will partner with other agencies (Government and Development Partners) on implementation of major projects e.g. Kiptogot-Kolongolo Water project, augmentation of Kapolet Phase 2, Sosio-Teldet, treatment works for Mt. Elgon and Kisawai-khalwenge water project.

The County also plans to establish a county water service provider to manage the water supplies and sewage services within the county.

2.2.3 Education, ICT and Vocational Training

This is a key sector for the success and development of Trans Nzoia County. The sector's development objective in the medium term is *“To provide quality education training and research for empowerment of individuals to become competent and responsible citizens who meet the global labour market demands”*. The priority projects in the sector for the financial year 2019/20 and the medium term includes; construction of ECDE classrooms with sanitation facilities, equip all ECDE Centers and Vocational Training Centers to enhance quality Teaching/Training. In addition, the sector has targeted; enhancing skills development by supporting the VTCs and the trainees in the county for employment creation and support needy students access education. The county will lobby and support the national government to establish a public university in the county.

2.2.4 Trade, Commerce and Industry

The sector's development objective in the medium term is *“To facilitate trade, investments and industrial development by championing an enabling and sustainable environment”*. The priority projects for the sector in the medium term includes: complete construction and rehabilitation of market infrastructure, construction of Jua Kali sheds and modern kiosks in selected centres; Revamping NAWIRI and Joint Loans Board (JLB) fund; establishment of an industrial and commercial centre at Suam border town to promote cross border trading.

The department also plans to develop and promote investment opportunities within the county. The department will also promote fair trade practices and consumer protection by ensuring verification and use of correct weights and measures.

2.2.5 Works, Transport & Infrastructure

The sector objective is *“To provide an efficient, affordable and reliable infrastructure for sustainable economic growth to Trans-Nzoia residents and development through construction, modernization, rehabilitation and effective management of all infrastructural facilities”*. The priority projects for the sector in the medium term include; open up all the backstreets in Kitale town and tarmac all critical roads in Kitale town, Grade, murrum and compact roads in the county. The sector also plans to light up all the streets in Kitale, Kiminini, Sibanga and other market centres, install high mast lights in county market centres, completion of Modern Bus Park and equip the Fire station to meet its demand.

The department will identify and develop bus parking facilities in the major markets within the county. The department will ensure timely support to other departments in preparation of plans, designs and BQs for buildings work and supervision/quality control of the construction activities.

2.2.6 Health Services

The objective of the sector in the medium term is *“To systematically build a progressive, responsive, sustainable, technology-driven, evidence-based and client-centred healthcare system; for accelerated attainment of the highest standard of health to all the residents of Trans Nzoia County”*. The sector’s priority projects include; equip and operationalise exiting health facilities in wards, ensure consistent supply of pharmaceuticals and non-pharmaceuticals in the all the health facilities, completion of the County Referral and teaching Hospital and in partnership with other stakeholders equip and operationalise the hospital. The sector will also focus to develop and avail a medical insurance programme that will provide medical cover to vulnerable groups and aim at universal coverage, distribution of mosquito nets, rehabilitate and upgrade sub county hospitals to meet the full demands of level 3 hospitals. Other priorities include; skills development for improved service delivery, establishing a health fund to ensure adequate financing of health care systems, automation of health management systems. The department will also acquire lands for expansion of health facilities and ensure that all hospital land secure titles.

2.2.7 Lands, Housing and Urban Development

The development objective of the sector in the medium term is *“To improve the livelihoods of Trans Nzoia citizenry through efficient administration, management of the land resource for equitable access to secure land tenure, affordable, decent housing and organized urban development in a sustainable environment”*. The key priority projects for the sector include finalization and implementation integrated urban development Plans for Kitale and Kiminini. The department also plans to develop integrated plans for upcoming urban centres of Sibanga, Saboti, Suam, Endebess, Kwanza, Sikhendu, Kachibora and all other urban centres. The development of the county Spatial plan is at 80% completion level and the department plans to complete it in the financial year 2019/2020. In addition, the government will acquire land for expansion of Kitale town and airstrip expansion and other public infrastructure development.

The department is also a beneficiary of the Kenya Urban Support Programme funded by World Bank and among the activities to be carried out is the establishment and operationalization of the Kitale Municipal Board and implementation of the activities as per the financing agreement.

Other projects include facilitation of issuance of title deeds for the residents and all government properties. The department will also take lead in identification and documentation of all public lands/houses belonging to the county.

2.2.8 Gender, Youth, Culture, Sports & Tourism

The Sector development objective for the financial year 2019/20 and in the medium term is *“To mobilize the community to preserve culture, promote sports and tourism development, support social welfare*

and child protection and identify and nurture youth talents in Trans Nzoia County". The key projects for implementation during the period include; operationalize the Bahati Children Rescue Centre and Youth Empowerment Center (Elgon Hub) for business incubation, technology acceleration and talent development. The sector will ensure that youth and women owned enterprises deliver at least 30% of the tender opportunities in the county, ensure adherence to the *one-third gender rule* in all new job opportunities in the County. Establishment of a high altitude-training center will also be a priority.

Other targeted development initiative will include organize, train and provide startup grants to SACCOs for youth and special groups, enhance the revolving kitty and introduce grant and credit lines to be extended to individuals and to support innovations. The department will also organize sports tournaments across the county to encourage talent discovery and empower young people to participate in national leagues. The county also plans to build a modern stadium in Kitale town, sponsor community cultural activities and offer grants to respective community Councils of Elders as well as continue with the establishment of a drug and substance abuse rehabilitation center to cater for drug dependent persons in the county. The department also plans to develop and promote new tourism products e.g. mountaineering and heritage homes in the county besides improving the existing tourist attractions of Mt Elgon National and Saiwa swamp national parks. The national government is in the process of handing over the Kitale Museum and the department intends to refurbish and modernize the existing infrastructure to attract more visitors.

2.2.9 Governance, Public Service Management and County Public Service Board

The Sector development objective for the financial year 2019/20 and in the medium term is *"To provide overall leadership and policy direction in human resource mobilization, management and accountability for quality public service delivery"*. The key projects for the sector is to ensure the county attracts and retains qualified and competent personnel, establish conducive working environment, develop and implement performance management system, human resources development and ensure compliance to established policies and procedures. The department also plans to construct sub county offices and Governor's residence. In effort to nurture and mentor young graduates the department will establish an internship programme. The department also plans to re-engineer the enforcement and communication units.

The County Public Service Board plans to establish an online job application system and complete the construction the office block.

Under governance the department will carry out civic education and ensure effective coordination of public participation. The department plans to provide support to internal audit function and establish governance delivery unit. Other targeted development projects include entrenchment of governance and national values, compliance and quality service and public and corporate communication.

2.2.10 Finance and Economic Planning

The Sector development objective for the financial year 2019/20 and in the medium term is *“To provide general guidance and policy direction in financial management, resource mobilization, accountability and transparency in resource utilization for quality public service delivery”*.

This Sector is responsible with ensuring prudent management of financial resources, formulating economic and fiscal policies to facilitate socio –economic development, resource mobilization and control of public financial resources

The key priority projects include; - general automation, resource mobilization, providing planning services, including county statistics and documentation. The county plans to re-engineer the financial management, procurement and planning function to make it more accountable, transparent and responsive to the various stakeholders with focus to delivery of value for money projects and services. In order to enhance own source revenue, the department plans to restructure the revenue function and processes to make it more responsive and seal loopholes of revenue leakages through adoption of cashless collection technology.

The sector will also enhance the planning function and establish a robust monitoring and evaluation system to enhance efficiency and project completion rate.

2.3 Public Participation/Involvement of Stakeholders

The law requires that the input of the public be taken into account before the Budget proposals are firmed up. In this regard, public participation exercise was conducted on 18th February to Friday 22nd February 2019 at designated venues in all the County’s 25 wards. A total of 2,842 county residents participated in the exercise. The views and priorities of the stakeholders consulted which cut across all sectors have been taken into account in finalizing the report. A detailed separate report on public participation is available.

III. FISCAL POLICY AND BUDGET FRAMEWORK IN THE MEDIUM TERM

3.1 Overview National Fiscal Policy Framework

The 2018 Medium-Term Fiscal Policy aims at supporting rapid and inclusive economic growth, ensuring sustainable debt position and at the same time supporting the devolved system of Government for effective delivery of services while taking into account regional integration protocol (East African Community Monetary Union protocol's fiscal targets). Specifically, the Fiscal policy underpinning the FY 2018/19 Budget and MTEF aims at raising revenue collection including A.I.A from Ksh. 1,643.1 billion (18.9 percent of GDP) in FY 2017/18 to Ksh. 1,849.4 billion (19 percent of GDP). Ordinary revenue are projected at Ksh. 1,684 billion in FY 2018/19 up from Ksh. 1,486.3 billion in FY 2017/18. This revenue performance will be underpinned by on-going tax reforms and revenue administration.

In the FY 2018/19, Overall expenditure and net lending are projected at Ksh. 2,488.4 billion from the projected estimated Ksh. 2,323.1 billion in the FY 2017/18. Recurrent expenditure is estimated at Ksh. 1,509.1 billion. Wages and salaries for teachers and civil servants is expected to reduce to 4.5 percent of GDP in the FY 2018/19 from 4.6 percent in the FY in 2017/18. On the other hand, development expenditure in nominal terms is Ksh. 658.9 billion. A contingency of Ksh. 5 billion and an additional Ksh. 8.4 billion conditional grants to marginal areas have been provided.

The fiscal deficit in the FY 2018/19 (excluding grants) is Ksh. 639 billion. Including grants, the overall fiscal deficit is projected at Ksh. 588.5 billion in 2018/19. The deficit will be financed by net external financing of Ksh. 214.7 billion, net domestic borrowing of Ksh. 396.6 billion and other domestic receipts of Ksh. 4.2 billion.

In line with the PFM and national government fiscal policy, the county is keen on maintaining a balanced budget any additional requirements will either be financed through reallocation or by grants from development partners, direct foreign investments, remittances by the local Diasporas or on PPP basis especially for the infrastructural projects or on asset financing.

3.2 Budgetary Allocations for the FY 2019/20-2021/22 MTEF

The resource envelope available for allocation among the sectors/programmes is based on the fiscal policy and medium term fiscal framework as explained above.

Revenue Projections

The total projected revenue for the County in the FY 2019/20 is **Ksh. 7,323,061,736** out of which Kshs. **5,642,000,000** is the equitable share (2019 BPS), and Kshs. **500,000,000** is projected local revenue while the remainder Ksh. **1,181,061,736** is conditional grants and loans from the National Government and Development Partners.

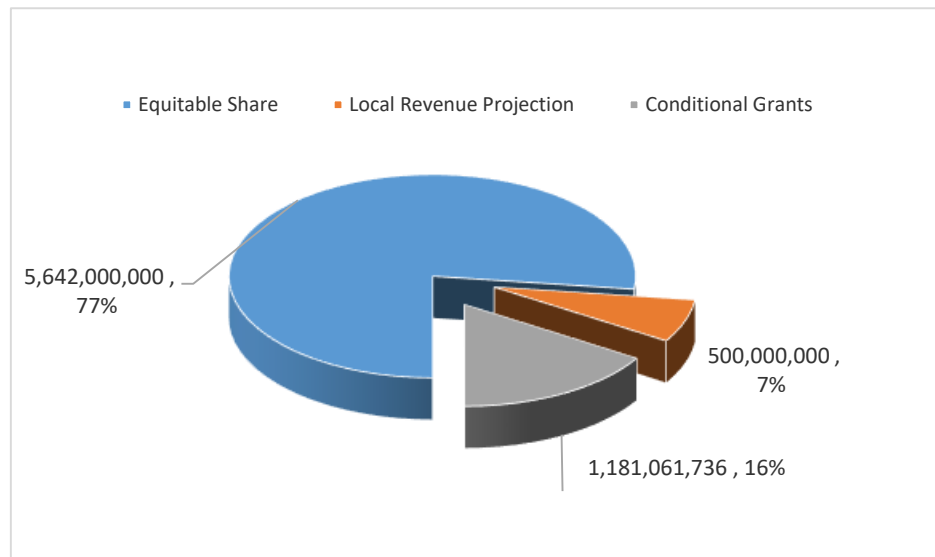
Table 6: Projected County Resources 2018/19-2020/21

Classification	Approved 2018/19 ksh	Proposed 2019/20 Ksh.	Projected 2020/21 Ksh.	Projected 2021/22 Ksh.
Equitable share	5,620,600,000	5,642,000,000	5,690,885,500	5,828,694,590
Local Revenue Projection	500,000,000	500,000,000	550,000,000	600,000,000
Conditional grants and loans	827,932,892	1,181,061,736	850,000,000	900,000,000
Total Expenditure	6,948,532,892	7,323,061,736	7,090,885,500	7,328,694,590

Source: BPS/ County Revenue Office

The equitable share takes the lions’ share of the projected county revenue in 2019/20 and in the medium term. This is closely followed by conditional grants. The local revenue forms a small fraction of the projected revenue. The county should undertake serious revenue enhancement to reduce the overreliance on grants from the National Government.

Figure 1 : Projected Revenue for Financial Year 2019/20



The projected resource will be to Kshs. **7,090,885,500** and kshs. **7,328,694,590** in the financial year 2020/21 and FY 2021/22 respectively. The resource envelop in the medium term includes conditional grants which is not available for sharing across the sectors therefore, the ceiling set below does not include them in the proposed projects

A summary of the projected local revenue in 2019/20 financial year and the medium term by sector is provided in the table below.

Table 7: Projected local Revenue by Sector 2018/19-2020/21

Department	2017/18	2018/19	2019/20	2020/21
Agriculture, Livestock and Fisheries	8,350,000	4,795,745	4,795,745	5,754,894
Commerce and Industry	18,800,000	67,140,420	67,140,420	80,568,504
Environment, Water and Natural Resources	50,000,000	3,836,595	3,836,595	4,603,914
Public Works, Transport and Infrastructure	74,000,000	109,591,489	109,591,489	111,509,787
Health	95,250,000	152,945,876	152,945,876	183,535,051
Lands, Physical Planning and Urban Development	23,000,000	3,836,595	3,836,595	4,603,914
Gender, Youth, Sports, Culture and Tourism	3,600,000	1,918,299	1,918,299	2,301,958
Finance and Economic Planning	127,000,000	155,934,982	155,934,982	157,121,978
Total	400,000,000	500,000,000	500,000,000	550,000,000

Source: Revenue Office

From the foregoing, Ksh. 500 million will be raised locally. The figures have been arrived at taking into consideration; revenue enhancement initiatives and current collection trends. Health Services, Finance and Public Works Departments are the key revenue collecting departments for the County.

Expenditure Projections

The above projected revenue has been allocated under the two broad classifications of Recurrent and Development as follows;

Table 8: Summary of Expenditure Forecast for 2018/19-2020/21

Expenditure Category	Approved Ksh.	Proposed Estimates	Projected	Projected
	2018/19	2019/20	2020/21	2021/22
Recurrent	4,867,140,566	4,628,054,381	4,740,885,500	4,828,694,590
Development	3,175,419,758	2,695,007,355	2,350,000,000	2,500,000,000
Total	8,042,560,324	7,323,061,736	7,090,885,500	7,328,694,590

Source: County Budget Office

The recurrent expenditure of Ksh. 4,628,054,381 includes non-discretionary expenditures that include payment of statutory obligations such as salaries and pensions and must be given first priority. Other components of the recurrent expenditure are operations and maintenance. The above estimates include conditional grants from the national government for health, agriculture and education department.

Development expenditure of Ksh. 2,695,007,355 has been shared out on the basis of ongoing programmes, departmental flagship priorities and identified public needs and includes loans and conditional grants.

3.3 Resource Envelope and Allocation/Prioritization criteria

The key features of sectoral allocation are anchored on the need to finance investment and to directly support economic growth and reduce poverty in line with the county's overarching development goal "transforming Trans Nzoia through Poverty reduction, wealth creation and agro industrialization".

The following criteria were used in apportioning capital budget:

- v. ***Non-Discretionary Expenditures***: comprised of statutory obligations such as salaries and pensions and must be given first priority.
- vi. ***On-going projects***: emphasis has been given to completion of on-going capital projects and in particular agriculture and infrastructure projects with high impact on poverty reduction, equity and employment creation.
- vii. ***Strategic sector interventions***: priority was also given to sector specific interventions on areas of agriculture and food security, value addition, health care, education, youth and women empowerment and training, social welfare, trade, industrialization, Human resources development, social equity and environmental conservation.
- viii. ***Donor Supported /PPP projects***: Donor funded /PPP programmes must be financed to the extent of the county government commitments.

In-line with the big-four national development agenda

A summary of the proposed sector allocation is provided in tables 6, 7 and 8 below. A full list of programmes for 2019/20 financial year by sector has been annexed.

Table 9: Proposed Expenditure Summary by Sector 2019/20

Sector	Personnel Emoluments	Operation and Maintenance	Total Recurrent	Development	Total Allocation	Grants and Loans	Grand Total
A	B	C	D = B+C	E	F = D+E	G	H=G+F
Agriculture,Livestock	188,244,493	100,033,360	288,277,853	174,064,109	462,341,962	374,768,813	837,110,775
Trade,Commerce & Industry	28,864,644	33,219,658	62,084,302	110,049,966	172,134,268		172,134,268
Water,Environment & Natural Resources	39,683,834	73,966,083	113,649,917	178,679,226	292,329,143		292,329,143
Public Works,Roads and Infrastructure	87,899,330	92,789,154	180,688,484	200,346,187	381,034,671	163,509,938	544,544,609
Health Services,Health Corporate Services	1,288,418,388	321,246,195	1,609,664,583	341,365,197	1,951,029,780	153,219,809	2,104,249,589
Lands	35,685,167	64,284,080	99,969,247	67,258,730	167,227,977		167,227,977
Gender	19,207,237	41,847,908	61,055,145	97,290,735	158,345,880		158,345,880
Governance and Public Service Management	314,936,616	128,816,352	443,752,968	54,583,518	498,336,486		498,336,486
County Public Service Board	5,775,000	24,771,367	30,546,367	30,823,461	61,369,828		61,369,828
Education and ICT	248,187,108	150,989,263	399,176,371	105,658,774	504,835,145	61,188,298	566,023,443
Finance and Economic Planning	126,740,342	598,370,371	725,110,713	94,838,868	819,949,581		819,949,581
County Assembly	284,083,053	329,995,378	614,078,431	58,986,848	673,065,279		673,065,279
Grants and Loans* Unallocated						428,374,878	428,374,878
Total	2,667,725,212	1,960,329,169	4,628,054,381	1,513,945,619	6,142,000,000	1,181,061,736	7,323,061,736
%ages to Total							
%age of total excluding grants/loans	43%	32%	75%	25%	100%		
%age of total including grants/loans	36%	27%	63%	21%	84%		

Source: Budget Office

The above table shows that 84% of the total budget will be funded by the equitable share and own source revenue while 16% will come from development partners. The personnel emolument will account for 36% of the total budget while the development expenditures will account for 45% (38% from equitable share and own source revenue and 7% from development partners). It is assumed that all the development partners' grants and loans will go towards development activities.

Table 10: Proposed Recurrent Expenditure by Sector 2019/20-2021/22

DEPARTMENTS	APPROVED BUDGET	PROPOSED 2019/20 CEILINGS	PROJECTED 2020/21	PROJECTED 2021/22
Agriculture, Livestock, Fisheries & Co-Operative Development	313,912,426	288,277,853	343,281,560	350,598,984
Trade, Commerce & Industry	38,440,206	62,084,302	54,664,264	61,981,688
Water, Environment & Natural Resources	85,836,773	113,649,917	116,868,371	124,185,795
Public Works, Infrastructure & Roads	279,417,573	180,688,484	256,553,945	263,871,369
Health Corporate, Health Services	1,675,587,663	1,609,664,583	1,639,664,583	1,646,982,007
Lands, Planning & Urban Development	66,138,019	99,969,247	93,223,034	100,540,458
Gender, Youth, Culture	72,419,912	61,055,145	86,816,024	94,133,448
Governance & Public Service Management	598,396,467	443,752,968	503,065,562	510,382,986
County Public Service Board	32,273,241	30,546,367	33,298,741	40,616,165
Education & ICT	344,416,644	399,176,371	409,286,289	416,603,713
Finance & Economic Planning	746,223,211	725,110,713	583,040,754	590,358,178
County Assembly	614,078,431	614,078,431	621,122,673	628,440,097
Total	4,867,140,566	4,628,054,381	4,740,885,800	4,828,694,888

Source: Budget Office

From the forgoing, the executive with an allocation of Ksh. 4,013,975,950 (87%) takes the lion's share of the recurrent budget while the legislature's allocation is Ksh. 614,078,431 (13%).

Table 11: Proposed Development Expenditure 2019/20 - 2021/22

Departments	APPROVED BUDGET	PROPOSED 2019/20 CEILINGS	PROJECTED 2020/21	PROJECTED 2021/22
Agriculture, Livestock, Fisheries & Co-Operative Development	418,456,324	174,064,111	227,041,972	242,178,107
Trade, Commerce & Industry	53,260,458	110,049,967	16,267,382	17,351,874
Water, Environment & Natural Resources	377,022,607	178,679,227	211,775,883	225,894,275
Public Works, Infrastructure & Roads	514,399,687	200,346,188	268,423,385	286,318,278
Health Corporate, Health Services	638,940,697	341,365,186	269,585,601	287,557,974
Lands, Planning & Urban Development	426,906,900	67,258,731	48,198,070	51,411,275
Gender, Youth, Culture	74,556,750	97,290,736	99,559,186	106,196,465
Governance & Public Service Management	42,000,000	54,583,519	62,255,068	66,405,406
County Public Service Board	27,348,461	30,823,461	35,155,610	37,499,312
Education & ICT	284,999,989	105,658,776	120,508,796	128,542,716
Finance & Economic Planning	177,527,885	94,838,869	73,951,776	78,881,895
County Assembly	140,000,000	58,986,848	67,277,271	71,762,423
Grants and Loans*-Unallocated		1,181,061,736	850,000,000	900,000,000
Total	3,175,419,758	2,695,007,355	2,350,000,000	2,500,000,000

The development budget has declined from the current allocation of Ksh. 3,175,419.758 to Ksh. 2,695,007,355 in the FY 2019/20. It is projected to decline to Ksh.2.35 billion and Ksh. 2.5 billion in fy 2020/21 and fy 2021/22 respectively mainly due to decline in grants and loans. The grants and loans have not been allocated to departments and it is assumed that all the loans and conditional grants from both the national government and development partners are for development.

Statement of Specific County-level Fiscal Risk

Given the budget implementation performance in the first half of the FY 2018/19 budget the key risks include;

- Weaker revenue performance in the medium term.
- Expenditure pressures with respect to sector/departmental operations and maintenance budgets.
- Demands for employment of extra personnel due to gaps specifically in Education, Health and Public works.
- Unpredictable weather, which may result in realignment of the budgets to fund any emergencies arising.
- Slow budget implementation pace in the Spending units in the financial year 2018/19 in the development expenditures may result in huge pending bills carried over to the financial year 2019/20 and the medium term.
- The anticipated completion of the Kitale Business park and other markets if not completed as schedules are likely to depress local revenue receipts;
- The ongoing revenue sharing formula may affect the CRA allocation incase a change of base that does not favor or maintain the current status.

ANNEXES

Annex I; Proposed Development Programmes for the FY 2019/2020

		2018/19 approved programmes	Recommended for 2019/20
	Agriculture,		
		418,456,324	174,064,109
		328,151,455	136,500,246
p1	Administrative and Support Services	12,000,000	29,000,000
p2	Crop Development	275,931,000	90,769,856
p3	Value Addition and Market Access	40,220,455	16,730,390
			-
	Livestock, Fisheries And Co-Operative Development	90,304,869	37,563,863
p4	Co-operative Development	1,500,000	623,950
p5	Livestock Productivity Improvement	40,495,364	31,844,743
P6	Other Enterprises	48,309,505	5,095,170
			-
	Trade, Commerce And Industry		-
		53,260,458	110,049,966
P1	Medium and small Enterprises	44,260,458	89,763,815
P2	Trans Nzoia County Investment Program	9,000,000	20,286,151
			-
	Water, Environment And Natural Resources		-
		377,022,607	178,679,226
P1	Water Resources Management	250,022,607	136,300,000
P2	Environment Management and protection	40,000,000	18,956,871
P3	Administrative and Support Services/Policy, Legal Framework and Institutional Reforms	87,000,000	23,422,355
			-
	Public Works, Infrastructure And Roads		-
		514,399,687	200,346,187
P1	Infrastructure Development	120,281,019	71,500,000
P2	Road Construction and Road Maintenance	394,118,668	128,846,187
			-
	Corporate Health,Health Services,		-
		638,940,697	341,365,197
P1	Administrative and Support Services	636,940,697	340,327,953
p1	Preventive and Curative Health Services	2,000,000	1,037,244
			-
	Lands, Planning And Urban Development		-
		426,906,900	67,258,730
P1	Land Survey and Planning	390,306,900	37,758,730
P2	Government Property	36,600,000	29,500,000
			-

		2018/19 approved programmes	Recommended for 2019/20
	Gender, Youth, Culture		-
		74,556,750	97,290,735
P1	Social protection	23,950,000	31,252,879
P2	Sports Promotion	30,500,000	39,800,118
P3	Culture development and promotion	20,106,750	26,237,738
			-
	Governance and Public Service Management		-
		42,000,000	54,583,518
P1	Governance - Infrastructure Development	17,600,000	22,873,093
P1	Public Service Management - Infrastructure Development	24,400,000	31,710,425
			-
	County Public Service Board		-
		27,348,461	30,823,461
P1	Governance and County Values	27,348,461	30,823,461
			-
	Education And ICT		-
		284,999,989	105,658,774
P1	Special Programme	3,013,851	1,117,332
P2	ECDE	166,041,541	70,500,000
P3	Vocational Training Development	115,944,597	34,041,442
			-
	Finance and Economic Planning		-
		177,527,885	94,838,868
P1	Finance Management Services	146,560,484	78,295,477
P2	County Research and Development Planning	30,967,401	16,543,391
			-
	County Assembly		-
		140,000,000	58,986,848
P1	Infrastructure Development	140,000,000	58,986,848
			-
	Grand Totals	3,175,419,758	1,513,945,619

Annex II; Proposed Recurrent Expenditure for the FY 2019/20

Sector	Personnel Emoluments	Operation and Maintenance	Total Recurrent
A	B	C	D = B+C
Agriculture, Livestock	188,244,493	100,033,360	288,277,853
Trade, Commerce & Industry	28,864,644	33,219,658	62,084,302
Water, Environment & Natural Resources	39,683,834	73,966,083	113,649,917
Public Works, Roads and Infrastructure	87,899,330	92,789,154	180,688,484
Health Services, Health Corporate Services	1,288,418,388	321,246,195	1,609,664,583
Lands	35,685,167	64,284,080	99,969,247
Gender	19,207,237	41,847,908	61,055,145
Governance and Public Service Management	314,936,616	128,816,352	443,752,968
County Public Service Board	5,775,000	24,771,367	30,546,367
Education and ICT	248,187,108	150,989,263	399,176,371
Finance and Economic Planning	126,740,342	598,370,371	725,110,713
County Assembly	284,083,053	329,995,378	614,078,431
Total	2,667,725,212	1,960,329,169	4,628,054,381

Figure 2; Proposed Personnel Emoluments and Operations and Maintenance

