REPUBLIC OF KENYA

MANDERA COUNTY GOVERNMENT

THE COUNTY TREASURY

MEDIUM TERM

COUNTY FISCAL STRATEGY PAPER

CONSOLIDATING ECONOMIC GAINS IN AN ENVIRONMENT OF SUBDUED NATIONAL DEMAND

NOVEMBER 2016

COUNTY VISION AND MISSION

VISION STATEMENT

Regionally competitive and self- reliant county

MISSION STATEMENT

To strategically position ourselves as a county guided by innovative competitiveness in order to achieve progressive, wealthy, healthy, cohesive and secure county

Abbreviations

BPS	Budget Policy Statement
CBROP	County Budget Review and Outlook Paper
CEC	County Executive Committee
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
FY	Financial Year
GDP	Gross Domestic Product
ICT	Information Communication Technology
ADP	Annual Development Plan
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan
NDA	Net Domestic Assets
NFA	Net Foreign Assets
PFMA	Public Finance Management Act
PPP	Public Private Partnership
TVET	Technical Vocational Education and Training
BOP	Balance of Payment

Foreword:

This is the fourth County Fiscal Strategy Paper (CFSP) prepared by Mandera County Government as guided by the Public Finance Management Act 2012 section 117. The CFSP seeks to realize a common future and priorities of the people of Mandera as entrenched in the County Integrated Development Plan and the Second Medium Term Plan of the Vision 2030 for the Financial Year 2017/2018. The Paper sets out 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. It gives a description of the County Government fiscal policy, strategies, and rules as well as providing the fiscal projections and indicative budget ceilings for use in the 2017/2018 Budget.

The purpose of 2017 CFSP is to facilitate proper understanding of the fiscal situation in the county government's proposed budget strategies. The paper will play critical part in the 2017/2018 budgetary process; provide the broad fiscal parameters for the 2017/2018 Budget and the key county government strategies and policies for the management of revenues and expenditures; and the medium-term outlook for government revenues and expenditures. Areas that will get priority attention in the 2017/2018 budget include improvement of road and other transport infrastructure, improved governance and public administration systems, provision of effective and efficient health services , proper policy interventions in the education sector, improving agricultural output and livestock development, enhancing industrialization, trade, enterprise and cooperative development and land based natural resource management.

The county revenue base shall continue to be enhanced towards increased resource envelope. Expenditure will also be committed to priority activities and maintain the principles of efficiency and effectiveness. The county is also committed to engage among others, private actors and development partners to complement and implement a program based budget for the residents of Mandera County

Ibrahim B. Hassan

CEC, FINANCE AND ECONOMIC PLANNING.

ACKNOWLEDGEMENT

This is the fourth Fiscal Strategy Paper prepared by the county and will assist the county in pushing its development agenda as well as setting the sector priorities. The paper seeks to propose the budgetary allocations to the different departments considering the limited resource base. It is however critical to note that the county is highly reliant on funding from the National government and there is need to improve on the amount of local revenue collected. This Will be a key focus of the finance and economic planning department. We will also endeavors on enhancement of revenue collection, ensuring prudent monitoring and evaluation as well as prudent use of resources.

The preparation of the 2017 CFSP was a cooperative effort but a core team in the County Treasury spent a significant amount of time to put together the information used to come up with this CFSP. I sincerely thank everybody who participated in the realization of this document.

MR.ALNOOR MOHAMED

CHIEF OFFICER, FINANCE AND ECONOMIC PLANNING

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CHAPTER ONE: INTRODUCTION

This section gives the background information and the legal requirements for the publication of the County Fiscal Strategy Paper (CFSP).

This section also gives the county's broad strategic priorities and policy goals that will guide the county government in preparing its budget for the 2017/2018 financial year and over the medium term.

1.1 Background information

The Constitution of Kenya, 2010, provided for two levels of government, National and County levels with each having clear functions. To ensure financial discipline and accountability with the way public finances are handled, various legal frameworks have been laid down including the Public Finance Management (PFM) Act, 2012 which requires counties to prepare County Fiscal strategy Paper (CFSP) each year.

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1.2 CFSP 2017 broad strategic priorities and policy goals

The key broad strategic priorities and policy goals which will be the focus during the preparation of this Paper and over the medium term include the following:

1.2.1 Agriculture Livestock and Fisheries

The key policy goal of this sector is to achieve food security and sustainable land management as provided for in the Constitution, under Article 43 on the Bill of Rights which seeks to provide accessibility of adequate food of acceptable quality. This is consistent with the aspirations of the

Second Medium Term Plan (MTP 2013-2017) of Kenya Vision 2030. The broad priorities of this sector include: reducing the dependence on rain fed agriculture through expansion of irrigation; raising agricultural productivity through value addition, increasing market access and adoption of technologies; exploiting irrigation potential; increased commercialization of the sector activities; creating an enabling policy and legal framework, improving efficiency and effectiveness of sector institutions; effective administration and management of land and land based resources; and sustainable management of resources in the sector. The priorities for livestock sector include: improved livestock market access; improvement of livestock marketing infrastructure; increased livestock production; Improved availability of high quality livestock feeds and water; improved livestock breeds; Improved management and dissemination of market information; Promotion of value addition in livestock, livestock products and by-products; creation of a Livestock Development Master Plan; improved Emergency preparedness on drought and livestock diseases; Establishment of a cross border trade; and improved veterinary services

1.2.2 Ministry of Genders, Culture and Social Services

The priorities for this sector include taking care of vulnerable members of the society by coming up with policies and programs specifically designed to suit their unique needs. It looks into priority issues and needs of youth, women and persons with disabilities.

1.2.3 Education and Social Services sector

This sector comprises the education sub-sector and the social services sub-sector. The education sub-sector is mandated to address the following: provision of basic education; tertiary education; quality assurance and standards; teacher resource management, governance and standards; technical vocational education and training (TVET); and youth training.

The social services sub-sector which comprises of youth training; sports; and gender aims to promote sport activities and promote youth and women empowerment.

1.2.4 Health Services sector

The mandate of the sector is to build a progressive, responsive and sustainable technologically-driven, evidence-based and client-centered health system for accelerated attainment of the highest standard of health to the people of Mandera County.

The five most common diseases in order of prevalence are Disease of Upper Respiratory Tract Infection (URTI), Malaria, Pneumonia, Urinary Tract Infection (UTI) and skin disease.

1.2.5 Water, Sanitation, Energy and Natural resources

The priorities and policy goals for this sector include: increased tree cover; exploration of county's minerals; rehabilitation of degraded areas; recovery of illegally acquired forest land; increased access to clean and affordable water; waste management and pollution control; increased rural electrification; and increased wind and solar energy exploitation.

1.2.6 Roads and Public works Sector
Improved road network; rehabilitation of airstrips; improved market access; and improved transport infrastructure are the major priorities under this sector.

1.2.7 Ministry of Public Service and Devolved Units
The strategic priorities and policy goals of this sector include: enhanced public service delivery; enhanced early warning and response mechanisms of public issues; and ensure citizens enjoy services at the lowest level.

1.2.8 Lands, Housing and Physical Planning sector
This sector seeks to address land ownership and registration; resolution of land disputes; settlement of internally displaced persons; management of land resource; land policy development; and improved housing facilities.

1.2.9 Finance, Economic Planning and ICT sector
This sector's priorities and policy goals include: improved local revenue collection; enhanced resource mobilization and utilization; improved financial control; improved development planning, monitoring and evaluation and provision of ICT infrastructure and services

1.2.10, Trade, Industrialization, Investment and cooperative development
This sector comprises of Trade, Industrialization, investment and Co-operatives development. Its major priorities include: promotion of both cross-border and local trade; promotion of industrial development; and promotion of local and foreign investment and strengthening of cooperative development

1.3 Legal Requirements for the publication of the CFSP
The CFSP has been prepared by the County Treasury in accordance with Section 117 of the PFM Act. The Act states that a County Treasury:

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

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

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

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

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

(a) The Commission on Revenue Allocation (CRA);

(b) The public;

(c) Any interested persons or groups; and

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

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

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

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

Fiscal Responsibility Principles for the County Governments

In line with the constitution and the 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.

In summary, this CFSP is expected to set the tone and financial objectives that will guide the preparation and implementation of the 2015/2016 budget as well as provide a summary of the national macroeconomic outlook and how this will affect the County's economic performance.

CHAPTER TWO: RECENT GLOBAL, NATIONAL AND COUNTY ECONOMIC DEVELOPMENTS

2.1 Recent Global and National Economic Developments

Growth Update

According to 2017 budget policy statement released by National Treasury, the Kenyan economy has sustained its robust growth in the past decade supported by significant structural and economic reforms. The economy grew by 5.6 percent in 2015 compared to 5.3 percent growth in 2014. The economy further improved and grew at 6.2 percent in quarter two of 2016 up from5.9 percent growth registered in quarter one of 2016. This strong growth was
Supported by improved performance in agriculture, forestry and fishing (5.5 percent), mining and quarrying (11.5 percent), transport and storage (8.8 percent), Electricity and water supply (10.8 percent), wholesale and retail trade (6.1 percent), accommodation and restaurant (15.3 percent) and information and communication (8.6 percent). Growth in other sectors, particularly manufacturing, construction, financial and insurance and real estate, though slightly lower compared to quarter two of 2015

Inflation rate

Overall month on month inflation rose slightly to 6.47 percent in October 2016 from 6.34 percent in September 2016 due to increase in food prices. The annual average inflation rate remained at 6.5 percent in the year to October 2016 was within the target range of 2.5 percent on either side of the 5.0 percent target
Inflation rates within the EAC region have remained low due to prudent monetary and fiscal policy management and lower oil and commodity prices. High inflation rates in Ghana, Nigeria and Zambia reflects difficult economic conditions as a result of foreign currency shortages resulting from lower commodity revenues and slow policy adjustment
.

Money and Credit

Growth of broad money supply, M3, slowed to 8.1 percent in the year to September 2016 compared to a growth of 13.5 percent in the year to September 2015. The slowdown in the growth was largely on account of a decline in the uptake of domestic credit both by the Government and the private sector.

Net Foreign Assets (NFA) of the banking system grew by 52.0 percent in the year to September 2016 from a contraction of 12.8 percent over a similar period in 2015 following increased accumulation of foreign assets of the Central bank. Meanwhile, the Net Domestic Assets (NDA)

of the banking system increased by 0.1 percent in the year to September 2016 from the growth of 20.0 percent over a similar period in 2015. The slowdown of NDA was occasioned by decline in domestic credit and other assets net of the banking system.
Domestic credit slowed to an annual growth of Ksh 66.4 billion (2.4 percent) in the year to September 2016 compared with a growth of Ksh 526.0 billion (23.3 percent) in September 2015. The slowdown was mainly attributed to a decline in lending to the Government of Ksh 36.0 billion, the private sector of Ksh 103.6 billion and the other public sectors by Ksh 1.2 billion.

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Interest rates

The moderate demand pressures on the overall inflation in the recent months, have led to the easing of the monetary policy stance in the East African countries, conversely, tight monetary policy has been adopted in commodity-exporting countries due to the substantial depreciation of the currency experienced that has translated into high inflation.
In Kenya, short term interest rates remained low due to the improvement of liquidity conditions in the money market. The interbank rate declined to 4.1 percent in October 2016 from 4.9 percent in September 2016 and 21.3 percent in September 2015, while the 91-day Treasury bill rate declined to 7.8 percent from 8.1 percent and 14.0 percent over the same period
The implementation of the Banking (Amendment) Act, 2015 effective September 14, 2016, that cap interest rates on banks' loans at 4.0 percent above the base rate (currently at 10.0 percent) and sets the minimum interest paid for a saving product at 70.0 percent of the same base rate has led to the narrowing of the interest rate spread from 11.3 percent in August 2016 to 7.0 percent by September 14, 2016**.** As a result of the new Act, Kenya has the lowest lending rate among the East African Countries
The average lending rates which had increased to 17.7 percent in August 2016 from 15.7 percent in August 2015 have declined to 14.0 percent. Similarly, the deposit rate which had decreased to 6.4 percent in August 2016 from 6.9 percent in August 2015 have risen to 7.0 percent from September 14, 2016 as provided in the Banking (Amendment) Act, 2015
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BALANCE OF PAYMENT (BOP)

The overall balance of payments position recorded a deficit of US$ 1,225 million in the year to August 2016 from a surplus of US$ 716 million in the year to August 2015. As a share to GDP, the current account deficit improved to 5.9 percent in August 2016 from 7.9 percent in August 2015. This is attributed to a 22.5 percent improvement in the value of the merchandise account reflecting a decline in payments for merchandise imports.

The decline in commodity prices has adversely impacted the exports of Africa's major exporters of non-oil, non-renewable resources. In some cases, this has more than offset the improvement in the oil trade balance resulting to the widening of the current account balance. In oil rich countries, the current account balances tend to swing from large surpluses to large deficits and these swings are typically accompanied by declines in international reserves

Foreign Exchange Reserves

The banking system's total foreign exchange holdings increased by 11.8 percent to US$ 10,355 million in August 2016 from US$ 9,265 million in August 2015. This was due to the increase of the Official reserves held by the Central Bank (constituting the bulk of the gross reserves) to US$ 8,144 million (5.5 months of import cover) in August 2016 from US$ 6,963 million (4.4 months of import cover) in August 2015. However, reserves held by commercial banks decreased to US$ 2,211 million in 2016 from US$ 2,303 million in 2015

The shilling Exchange rate

The Kenya Shilling exchange rate has continued to display relatively less volatility compared with the major regional currencies and strengthened by 1.4 percent for the period October 2015 to October 2016. The stability of the Kenya shilling exchange rate reflects improved export earnings from tea and horticulture, a reduction in the imports of petroleum products due to lower oil prices, resilient Diaspora remittances and improved tourism performance.

In the Sub Saharan Africa region, large currency depreciations especially in Nigeria reflects challenging macroeconomic conditions as the countries adjust to lower commodity revenues.

Capital markets

The capital market recorded mixed performance in both equities and bonds market segments in the year to October 2016. Activities at the stock market slowed down with the Nairobi Securities Exchange (NSE) 20 share index recording 3,202 points in October 2016 compared to 3,869 points in October 2015. Market capitalization was at Ksh 1,982 billion in October 2016 compared to Ksh 2,046 billion in September 2015. The drop in market capitalization is as a result of an increase in share supply which depressed the overall share prices.

There has been a gradual recovery of the NSE reflecting restoration of market stability and improved confidence in the economy. The NSE index had been weighed down by the prolonged uncertainty in the global financial markets, and capital outflows from emerging and frontier market economies

5.2 Impact of Global and National developments on County Economic Development

The county's economic development has improved significantly as a result of the above positive global and national economic developments. The recent drop in fuel prices has positively impacted all the sectors in the county. Notably, the cost of doing business has gone down.

Despite positive macroeconomic environment, factors such frequent insecurity incidences, frequent closure of Kenya Somalia boarder and high commodity prices due to rise in the national inflation may impact negatively on the county economy.

CHAPTER THREE: GLOBAL AND NATIONAL ECONOMIC OUTLOOK

3.1 National Economic Development Outlook

Kenya's economic growth prospects for the FY 2017/2018 and the medium term takes into account the global slower growth in demand, particularly investment, which is especially pertinent to generate international trade flows in the form of capital goods and intermediate inputs. Further, it takes cognizance of the domestic environment including the general election to be held in August 2017. The growth profile accommodates the strategic objectives of the Government as outlined in the second Medium Term Plan (MTP) of Vision 2030, considering progress made in implementation of key projects.

The outlook, therefore points to a continued robust growth, lower fiscal deficits, contained inflation within the target range and a gradual improvement in the external current account balance.

Real GDP is projected to expand by 6.0 percent in FY 2016/2017, 6.2 percent in FY 2017/2018, 6.5 percent in FY 2018/2019 and. 6.6 percent by FY 2019/2020. This high growth will be supported by ongoing investments in infrastructural development, resilient domestic demand, continued recovery in the tourism sector and growth of exports in the sub region. In addition, the growth will be supported by structural reforms aimed at improving competitiveness of the private sector and promoting overall productivity in the economy.

3.2 Impact of the National Economic Outlook to the County Economy

The condition at the national economy will undoubtedly directly impact on the Economic situation of Mandera County. More importantly a lower growth rate will imply that the country's revenue base will be subdued, implying a lower share of National Revenue to Mandera County. To this end, in order to cushion the County Government from these external vulnerabilities, the Government will strive to put in place legislation that will enhance revenue collection, minimize or eradicate wastages in expenditures by emphasizing on value for money. In addition, the county government will identify the significant risks posed by the macroeconomic environment and will put in place appropriate measures to manage and mitigate them. Other factors that could derail the county's economic prospect include drought, political tensions because of impending elections in 2017, and constant litigations against the county by some of the residents, insecurity and negative politics which would adversely affect the revenue collections and outcomes of development expenditures. On the recurrent expenditures, the county will endeavor to reduce wastage, increase efficiency and facilitate delivery of quality services

3.3 FISCAL PERFORMANCE OF THE 2015/2016 BUDGET

3.3.1 Introduction

The 2016/2016 budget passed by County Assembly is Kshs **12,020,686,821.** The equitable share of revenue allocated by Commission on Revenue Allocation accounted for Kshs. 9,663,203,837 and projected local revenue collection is Kshs. 265,643,516. 36% of the budget is for recurrent expenditure while 64% is for development expenditure. The table shows the revenue sources of 2016/2017 budget

Revenue source	**Amount (kshs)**
Equitable share of Revenue	9,663,203,837
Local Revenue Collections	265,643,516
Danida Funds to Rural Healt facilities	7,310,000
World Bank Funding for Health sector	42,477,798
Fuel levy	148,476,828
Kenya Devolution Support Program	39,304,000
Free Marternity Reimbursement	55,335,158
Foregone user fees in Health Facilities in rural Area	15,521,730
Unspent funds from 2015/2016	1,783,413,954
Total	**12,020,686,821**

3.3.2 Fiscal Performamce Analysis for each department

3.3.2.1 Health Services sector:

This ministry was allocated Kshs **1,832,729,903** in the year under review of which **1,002,458,125** was recurrent and **830,271,779** was for development. Key projects in the development budget of the ministry include construction of Mandera Accident and Emergency Unit at 112.275m, construction of Elwak Accident and Emergency Unit at 100m and establishment of Maternity Wing at Mandera Referral Hospital at a cost of 27m

3.3.2.2 Water, Energy and Natural Resources sector:

This ministry was allocated Kshs **2,290,800,314** in 2016/17 financial year. Major allocation in the development budget was directed towards improving existing water infrastructure as well as developing new ones. Notable allocations went construction of 60,000m3 mega dams across the sub counties, construction of underground water tanks, drilling and commissioning of boreholes

3.3.2.3 Roads, Public works and transport Sector:

This ministry received lion's share of the county's development budget this financial year. It was allocated Kshs 2,587,365,301 consisting of ksh **2,461,697,665** development budget and **125,667,635** recurrent budget. Key projects in the development budget include Construction of B9 road (Kutulo-Dabaciti 1) at 111.86m and Proposed Constructions of Domal -Murutho Road at 66m.

3.3.2.4 Agriculture, Livestock and Fisheries :

This ministry received total budget of Kshs. 588,078,158 for both recurrent and development expenditure in the financial year under review. The major items that featured in the development budget of this ministry are development of Shantoley farming infrastructure in Rhamu/other river Rhine areas at a cost of 24m and construction of Farming Infrastructure development at Arda Garbicha farms at same cost of 24m.

3.3.2.5 Ministry of Genders, Culture and Social Services

This ministry was allocated a budget of 130,988,526. It doesn't have new notable projects but will continue implementing ongoing projects specifically issues relating to Youth, Women, and

Persons with Disability development Programs at a cost of 59m

3.3.2.6 Trade, Industrialization, investment and Co-operatives development:

In the 2016/17 financial year, the ministry was allocated Kshs. **524,876,932** of which 45,696,835 is recurrent and 479,180,097 is development. The major focus of the ministry's development budget is construction of various new market and a construction of a new SME park in Elwak at a cost of 160.6m

3.3.2.7 Ministry of Education, Culture and Sports:

A total budget of 737,899,533 was allocated to this ministry. Ksh 432,948,522 was for recurrent and Ksh 304,951,011 was for development. Apart from Construction of ECD classroom Mandera West at 1.475m, the rest of development budget is geared towards of completion of projects initiated in previous financial years.

3.3.2.8 Ministry of Public Service and Devolved Units:

This ministry was allocated a total budget of ksh 763,007,670. Ksh 558,615,431 was recurrent and 204,392,239 was for development. The ministry will construct Phase II Kamor Enforcement Camp at a cost of 15m. The rest of the development budget will be used to complete ongoing projects.

3.3.2.9 Land, Housing and physical planning sector:

This ministry received Kshs. 200,307,967 in the financial year under review. Its development budget of 139.8m is dedicated to completion of ongoing projects

3.3.2.10 Finance and Economic Planning sector:

The ministry was allocated kshs. **1,137,662,097.** Its development budget was 594,569,131 and recurrent budget ksh 543,092,966 .The ministry's development budget was earmarked for completion of ongoing projects.

3.3.3 Revenue Performance

3.3.3.1 Local Revenue

The table below shows the monthly local revenue collections as at November 2016

Table 1: Monthly local revenue collections

MONTH	AMOUNT COLLECTED IN KSH
July	4,497,235
August	4,523,165
September	4,713,006
October	?
November	?
Total	**28,758,077.58**

From the table above, the county's local revenue collection remains low. For the first five months of the 2016/2017 financial year, the county was only able to collect a paltry ksh 28,758,078.

The table below on the other hand shows the performance of the revenue side of the budget for the first five months of FY 2016/2017

Source	Estimates FY 2016/2017	Actual	Utilization
	Kshs	Kshs	
Equitable share of Revenue	9,663,203,837	2,415,829,669.00	25%
Local Revenue Collections	265,643,516	28,758,077.58	11%
Danida Funds to Rural Healt facilities	7,310,000	0	0%
World Bank Funding for Health sector	42,477,798	0	0%
Fuel levy	148,476,828	37,119,207	25%
Kenya Devolution Support Program	39,304,000	0	0%
Free Marternity Reimbursement	55,335,158	8,112,500	15%
Foregone user fees in Health Facilities in rural Area	15,521,730		0%
Unspent Fund for On going Projects from the previous FY (Unreleased funds by the exchequer)	1,783,413,954	1,799,504,349	101%
Total	**12,020,686,821**	**4,289,323,802**	**36%**

Source: Mandera County Treasury

From the table above, the county received ksh 4,289,323,802 for the first five months of 2016/2017 financial year. Included in this amount is ksh 1,799,504,349 which was unspent funds from 2015/2016 financial year.

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CHAPTER 4: FISCAL FRAMEWORK AND STRUCTURAL MEASURES FOR FY 2017/2018 AND THE MEDIUM-TERM

The 2017County Fiscal Framework aims at ensuring funding of sustainable development Programmes and at the same time enhancing operational capacity of the county government through striking an appropriate balance between fiscal consolidation and supporting the devolved structure of government, all these within sustainable public finances.

The 2017 County Fiscal Strategy Paper will give special consideration to areas such:

- A prudent fiscal management that will ensure a deliberate balance between development and recurrent expenditure and matching total expenditure to expected revenue in the FY 2017/2018 and over the medium term. The county will endeavor to eliminate non-priority expenditure and emphasize on value for money in the budget.
- The county will sustain and improve on its reforms in budget expenditure management. This will also endeavor to roll out revenue enhancement programs to boost its local revenue collection and thus create fiscal space for spending on priority development programmes. Reforms in the revenue department will enhance and diversify local revenue collection.
- Efficiency and improving the productivity of expenditure while at the same time ensuring that adequate resources are available for operations and maintenance of the county operations.
- The county will allocate adequate resources in order to continue and expand the sub county operations to take services closer to the people
- The county will endeavor to expedite its budget execution in the FY 2017/2018 by ensuring that timely implementation of development projects

Continuing with Prudent Fiscal Policy

Fiscal policy will continue to support economic activity within a context of sustainable public financing. The County Government has oriented expenditure towards priority programmes in water, infrastructure, healthcare, education, agriculture and setting up a comprehensive sub county level administrative structure over the medium-term expenditure framework (MTEF). These initiatives shall be rolled out in priority of high impact, highly visible basis so as to not only jump start socio-economic development of the county but also serve as motivation and synergy efforts of the Mandera county citizenry. Emphasize will be given to projects and programs that yield maximum yield and value to the citizenry as envisaged in the county planning documents such as annual development plan (ADP)

Observing Fiscal Responsibility Principles

In line with Public Finance Management Act 2012, the county seeks to ensure that expenditure is accommodated within available resources such that in the medium term there shall be no borrowing. In the event that unforeseen beneficial capital project is identified over the medium-term, it shall be considered along the overriding parameter that such project demonstrates fiscal responsibility that becomes even more important since the constitution requires the government to progressively provide for a minimum basic standard of economic and social rights to its citizens within available resources.

This can be achieved in a large part through efficiency and improving the productivity of expenditure while at the same time ensuring that the fiscal rules set out in the PFM law and its regulations are observed. This Fiscal strategy paper reiterates that the county government's commitment to observe the fiscal rules set out in the PFM law and its regulations is important and necessary to entrench fiscal discipline. In this regard, the County Government will observe the fiscal rules set out in the PFM law so as to entrench fiscal discipline.

The Constitution of Kenya 2010 requires that the Government progressively provide for a minimum basic standard of economic and social rights to its citizens within available resources.

For spending to increase on a sustainable basis to meet these basic needs, we should be prepared to match the increased expenditure demands with a corresponding increase in revenue yield through efficient collection and widening of levy base. It is therefore imperative to reform and modernize the levy regimes to ensure stability of revenue effort, while at the same time continuing to restructure expenditure systems to ensure efficiency and create fiscal space required to fund these basic needs expenditures on sustainable basis.

Fiscal Structural Reforms

The county government will undertake fiscal programs are aimed at raising locally collected revenue from Ksh 265million in the FY 2016/2017 to 300million by 2017/2018. This will be achieved through:

i. Simplification of the tax structures and expand revenue base at ward levels
ii. Strengthening levy compliance and enforcement through staff training and revenue enhancement programs
iii. Set up a comprehensive, optimal and sustainable structure that covers all areas and revenue centers**.** Currently there are many areas in the county which doesn't even have collectors. Where there are collectors, supervisions are poor and enforcement even worse. The county will determine the optimal staffing level in all facet of revenue collection and ensure enforcement adequately resourced.
iv. Customer awareness. Community members will be integrated in this programme so as to create awareness and so that the community can gain acceptance on the enacted policy framework and legislation.
v. Provide the staff with proper tools and equipment such as computers, vehicles, offices, stationeries etc. for them to effectively perform their duties**.** The county government will do its best to facilitate movement of staff. In improving the revenue collection, the staff will be provided with general conducive environment to work.
vi. Consider introducing an incentive program matched by high but achievable target setting to motivate and hold staff accountable to improve productivity.
vii. Revamping the Organizational structure of the revenue department to make it flexible and responsive to the revenue objectives of the county

For external revenue raising strategies, the county government will pursue the following:

i. Establishing or initiating joint funding frameworks and mechanisms with national government for capital projects or other sector based programs.

ii. Streamlining financial management systems to enhance customer service and realization of value for money

iii. Borrowing money subject to approval and guarantee by relevant institutions. This may be necessary if the county becomes unable to fund its capital projects from available resources.

iv. Strengthening relationships and partnerships with development partners and other non-state actors for supporting some of the core programs. The county government will explore the system of basket funding or pooling of resources.

v. Developing public private partnership models for providing core public services.

On the expenditure side, the Government will continue developing and improving expenditure management systems aimed at improving efficiency and reduces wastage in line with the PFM law.

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The county government shall also embrace need-based staff recruitment in a bid to contain the wage bill and associate recurrent expenditure in the financial year 2017/2018.

2017/2018 Budget Framework

The 2017/18 budget framework is set against the background of the fiscal framework set above, the National government strategic objectives as outlined in the Vision 2030, MTP II, the 2017BPS and the county government broad policies as domesticated in the CIDP, department strategies and programmes.

Revenue Projections

The FY 2016/17 budget targets revenue collection from the county to increase by about 35 million from the current financial year which stands at . 265million. This performance will be underpinned by increase in tax revenue yield through efficient collection, widening of tax bases and reasonable tax rates. The revenue department is expected to institute measures to expand revenue base and eliminate tax leakages.

Expenditure Forecasts

The key policy document guiding the county government's funding allocation is second MTP (2013-2017) of Vision 2030 and the CIDP, the ADP and this CFSP which provides the updated development priorities by the county. In FY 2017/18, overall expenditures are projected at Kshs 13 billion

Development Expenditure

Consistent with the objective of allocating adequate resources towards development outlays and the need to ensure completion of projects, the county will commit 60% of available resources to development expenditure.

The entire development budget will be funded from the equitable share of revenue as allocated through the county revenue allocation legislation. With improvement in procurement process and planning, the absorption rate of development funds is expected to increase resulting in incidental increase in economic activities and growth of the county. Development spending in 2017/2018 will require focusing on water infrastructure, upgrading of health facilities, school infrastructure, roads improvement, energy supply, trade and livestock markets, environment conservation and land based resource management.

Recurrent Expenditure

Recurrent expenditures are estimated at 40% of the entire budget. The recurrent expenditure is expected to facilitate efficient running of county operations including sub county offices operations

Risks and challenges to the 2017/18 Budget framework

The realization of the development goals for the county will not be without risks and challenges. The following risks and challenges are highlighted:

- **T**he county has weak local revenue base which make its dependence on national government for funding very high
- Frequent incidences of insecurity in the county may hamper efficient budget execution
- Being an electioneering periods, political tensions may impact negatively on county's operations and programs
- The frequent hitches caused by IFMIS and e-procurement may slow down fund absorption and efficient utilization of budget resources
- Delays of exchequers releases by national treasury may make county cash flows unpredictable and unreliable
- The pressure to settle previous years pending bills may consume substantial resources thereby leaving inadequate funds for new projects

Summary

The county Fiscal policy will support growth within a sustainable path of county spending. The county will complete all mega projects started in previous financial years and county residents will reap the benefits of these projects once they completed.

CHAPTER FIVE: RESOURCE ENVELOPE AND CRITERIA FOR RESOURCE ALLOCATION

Resources Available

Equitable share

Article 202 of the constitution requires that revenue raised nationally be shared equitably among the national and county governments. According to Article 203(2) of the constitution, in dividing the shareable revenue between the two levels of government each financial year, county governments must be allocated an equitable share of revenue that is not less than 15% of most recent audited revenue received as approved by the National Assembly. In this regard, the equitable share of revenue that is to be allocated to the County Government of Mandera in 2017/2018 as per the 2017 draft Budget Policy Statement (BPS) is expected to be kshs. 10.9 billion.

The equitable share of revenue is an unconditional allocation to the county governments and therefore county governments are expected to plan, budget, spend within that allocation. The Constitution does not explicitly prescribe the upper limit of the equitable share of revenue to be allocated to either levels of government.

Nevertheless, the constitution provides some principles that could inform the decision on how high up the equitable allocation to each level of government can be set. First, the Constitution requires the equitable division of revenue allocation to take into account the functions assigned to each level of government.

Second, Article 218(2) of the Constitution requires division of revenue between the two levels of government and across county governments to take into account the criteria set out in Article 203(1) of the Constitution. The criteria include factors such as: national interest, public debt and other national obligations including needs of the disadvantaged groups and areas.

In addition to the equitable share of revenue, county governments are also expected to receive additional resources from the following sources:

i. ***Additional conditional and unconditional allocations***

This is from the share of the national government as contemplated under Article 202(2) of the Constitution

ii. ***Own revenues***

This is done from specific county revenue raising measures through imposition of property taxes, entertainment taxes, as well as any other levies that are authorized to be impose by an Act of Parliament as well as user fees and charges authorized by county laws.

iii. ***Borrowing***

Counties may also borrow provided national government guarantee is obtained as well as the approval of the respective county assemblies.

iv. ***Grants and donations***

Grants and donations may also be obtained from development partners in accordance with section 138 and 139 of the Public Finance Management Act, 2012.

v. ***Equalization Fund***

An equalization fund is established under Article 204 of the Constitution for purposes of providing basic services including water, roads, health facilities and electricity to marginalized areas in order to improve these services.

The resource envelope of the county entails budget resources raised through national government allocations as per the Commission for Revenue Allocation; local revenue collections; and any other funding source.

PRIORITIZATION AND ALLOCATION OF RESOURCES

The County Government will continue with its policy of expenditure prioritization with a view to funding core services, ensuring equity and minimizing costs through the elimination of duplication and inefficiencies.

The following criteria will serve as a guide for allocating resources:

1. ***Linkages of the Projects and programmes with the objectives of Second Medium Term Plan of Vision 2030*:** The projects and programmes to be implemented in the county will be linked to county priorities as per the second Medium Term Plan (2013-2017). This will ensure there is harmonious development at the national and county levels.

2. ***Linkage of projects and programmes with the objectives of the County Integrated Development Plans and the Annual Development Plans*:** The county fiscal strategy paper will ensure that there are linkages between projects and programmes proposed in the Mandera County Integrated Development Plan (2013-2017) and its ADPs.

3. ***Degree to which a programme addresses core poverty interventions*:**

Another criterion that will be used in prioritization and allocation of resources is that programmes that address core poverty interventions will be given a priority.

4. ***Degree to which the programme is addressing the core mandate of the county entity*:** Projects and Programmes that address the core mandate of the county entity will be given priority over other projects and programmes.

5. ***Expected outputs and outcomes from a programme***: Projects and Programmes that have high output and impact will be selected for implementation over those that have a low output and low impact.

6. ***Linkage of a project /programme with other projects/programmes***:

Projects and programmes that are linked will be given priority over others.

7. ***Cost effectiveness and sustainability of a projects/ programmes***: Projects and programmes that are cost effective and sustainable will be given a higher priority over those that are unsustainable and have a high cost.

CHAPTER SIX: DETAILS OF RESOURCE ALLOCATION AND CEILINGS

This section provides resource alloction to various ministries innterms of recurrent and development. The proposed allocations in the 2017/2018 budget will be as follows:

Departments	**Recurrent Expenditure**	**Developments Expenditure**	**Total Departmental Allocation**
Ministry of Agriculture Livestock and Fisheries			
Ministry of Education, Culture and Sports			
Ministry of Gender, Youth and Social Service			
Ministry of Finance			
Ministry of Health Services			
Ministry ofTrade, Investments Industrializations and Cooperative Development			
County Assembly			
Lands, Housing and Physical Planning			
Office of the Governor and Deputy Governor		-	
County Public Service Board		-	
Ministry of Public Service, Management and Devolved Unit			
Public Works Roads and Transport			
Ministry of Water, Environment and Natural Resources			
GRAND TOTAL			
	40%	**60%**	**100%**

Annexes