

**REPUBLIC OF KENYA
COUNTY GOVERNMENT OF KILIFI**

COUNTY TREASURY



MEDIUM TERM

COUNTY FISCAL STRATEGY PAPER

**FROM STRUCTURAL TO PEOPLE FOCUSED
TRANSFORMATION: A FIVE POINT AGENDA
FOR ACTION**

FEBRUARY 2018

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CHAPTER 1: FROM STRUCTURAL TO PEOPLE FOCUSED TRANSFORMATION: A FIVE POINT AGENDA FOR ACTION

Introduction

1. This 2018 County Fiscal Strategy Paper (CFSP) carefully considers the transformative agenda that has been implemented from 2013 to 2017 and shifts focus from structural to people transformation. During the period 2013-2017, the County focused on transitioning from centralized to devolved system of governance by setting necessary administrative and functional structures to facilitate implementation of programmes and projects as well as take public goods and services to the people. The combination of efforts and challenges towards these structural reforms together with inherent transitional challenges such as inadequate technical capacity slowed actualization of some benefits to the people.
2. The other set of structural transformation was in the form of infrastructural projects such as construction of Early Childhood Education and Development (ECDE) classrooms, construction of markets and construction of health facilities. These infrastructural projects laid the foundation for taking public goods and services to the people but were not an end in them. They are a means to availing benefits to the people. It is in pursuit of actualization of the benefits of these infrastructural projects to the people that this 2018 CFSP focuses on.
3. Finally, the county government implemented programmes, projects and activities that focused on further devolving governance to improve service delivery; raise income of the poor by channeling spending to productive sectors of the County's economy; broaden the reach of social sector services such as health, education, water and sanitation; increase linkage of rural areas to major infrastructural projects to improve livelihoods of residents; and widen resource mobilization base while improving business environment. These strategies created the environment to premise the shift to people-focused transformation. The people-focused transformation extends the gains made under these strategies by shifting to a five point agenda for implementation over the medium term.
4. The five point agenda entails:
 - i. Food sufficiency,
 - ii. Provision of safe water,
 - iii. Good performance and quality education,
 - iv. Accessible, equitable and quality health care services, and
 - v. Beneficial use of land and enhanced housing supply
5. The five point agenda responds to ordinary challenges encountered by residents of Kilifi and seeks to avail goods and services offered by the county government in ways that transform their life. The agenda views expected results from the standpoint of the people such that the utmost concern with any programme or project undertaken by the county government of Kilifi is how it avails food on the table, safe water for domestic, agricultural and livestock use, good performance and quality education, better and affordable health care services and land use that benefits the residents of Kilifi.
6. This 2018 CFSP casts policy goals spelled in the 2018 Budget Policy Statement (BPS) into County context in a way that avails results to the residents of Kilifi. The alignment of the 2018 CFSP to 2018 BPS has enabled the County to draw from national objectives and policies and come up with initiatives upon which implementation of the five point agenda is anchored. This implies that the County will address key issues of concern to residents of Kilifi within the 2018 BPS programme and policy environment.
7. Therefore, the remaining part of this chapter present details for implementation of the five

point agenda in FY 2018/19 and over the medium term.

Food sufficiency

8. The County Government of Kilifi will continue incentivizing farmers to shift from traditional farming methods to modern methods of farming so as to attain food sufficiency. The County's position is that food sufficiency is a pre-condition to food security such that when food sufficiency is attained then food security is assured. Therefore, in order to attain food sufficiency, the County will stimulate crop, meat, milk and culture and capture fish production at small holder and large scale production. The areas of focus for achieving food sufficiency in the County will flourish under the national initiatives spelled in the 2018 BPS such as coordinated irrigated Agriculture, use of locally blended fertilizer, revolutionized animal and fish feed regime, and incentivized post-harvest technologies. Industrial processing of agricultural produce will also be pursued to create additional jobs along the agricultural value chain.
9. Staple food is an important constituent of a household's food basket in Kilifi County. The other constituents of the food basket are fruits and vegetables, milk, meat, fish and eggs. Food consumption pattern varies with household's disposable income. Therefore, subsistence or small holder production of food crops especially staple food crops such as maize, cassava, cowpeas, beans, green grams and other cereals is one sure way of putting food on the table. The commonly used farming method for growing these crops is shifting cultivation. This not only reduces yields but underutilizes much of the arable land.
10. In view of the above, the County's investment in 43 tractors sought to increase the cropped area and shift farmers from traditional to modern farming methods. To increase efficiency in the usage of these tractors, there will be regular intervals for maintenance and servicing combined with regular trainings of the machine operators to improve their competencies. These tractors were used to cultivate 4,800 acres between March to May and September to mid November 2017. The acreage cultivated under this incentive is projected to increase to 6,800 acres in 2018.
11. Further, the County will continue with programmes targeting improved use of farm inputs in form of certified maize seeds, assorted vegetable seeds, fertilizer, and agrochemicals. In FY 2018/19 distribution of inputs purchased by the County will also be informed by efforts to demonstrate the linkage between cropped acreage, use of improved farm input and productivity. This shifts focus from distribution of these farm inputs to imparting modern farming methods to farmers in the County which underlies the people-focused transformation.
12. Production of tree crops such as coconut, cashewnut, mangoes, and citrus together with others such as pawpaw and banana raises household income which is sometimes consumed but mostly used to pay school fees. This has a cross-linkage effect of improving the levels of education attained which in turn builds into a household's human capital base. The County will continue incentivizing farmers to take up coconut, cashewnut and mango growing by providing improved varieties to increase crop productivity. The programme will also be extended to youth and women groups who will be incentivized through extension services to do nurseries for coconut, cashewnut and mango. So far, county government has provided to farmers 250,000 coconut seedlings, 131,000 cashewnut seedlings, 70,000 mango seedlings.
13. The ongoing efforts focused on putting in place a farmer data management system whereby 7,400 farmers have been registered and through this system messages are also forwarded to registered farmers seek to enhance food sufficiency. In addition, 42 farmer trainings were conducted, 34 field days and 62 demonstrations whereby 23,521 farmers were reached, alongside trade shows, coconut festivals and the observation of national world food day celebrations are a bid to promote subsistence and small holder farming practices

and enhance food sufficiency.

14. The County will continue investing in upgrading of livestock breeds for beef and dairy products. In this regard, 15 Boran bulls are used in breeding camps while 40 dairy cows are used by farmer groups for demonstration. In the previous financial year, the County conducted 433 farmer demonstrations with a total farmer attendance of 5,577. In addition 10,699 farmers were reached through 649 Barazas. The County has trained 41 members of staff on livestock extension services with a view of enhancing the reach of key messages to livestock keepers. Artificial Insemination services were also administered where 1,241 heads of cattle were inseminated by bull semen from improved exotic breeds ranging from Brown Swiss, Guernsey, Ayrshire and Fleckvieh. Efforts to preserve livestock products have mainly focused on milk cooling plants such as Zowerani Milk Cooling Plant, Manyeso Milk Cooling Plant and Bamba Milk Cooling Plant. In addition to these efforts, the County will, together with partners such as National Drought Management Authority (NDMA), undertake community capacity building on fodder conservation and home-based feed formulation towards Ending Drought Emergencies (EDE).
15. To enhance fish production, the County will boost marine capture, promote fish hatcheries and facilitate establishment of feedlots for fish while promoting uptake of post-harvest technologies to reduce rampant post-harvest losses of fish. The County has supported fisher folk using the Malindi Ungwana Bay with a boat, held 5 training for Beach Management Units (BMUs) and 2 trainings for Mari culture fish farming groups. The County will continue improving fish handling and marketing infrastructure such as what has been done through construction of three fish depots in Watamu, Mayungu and Kuruwitu fish landing sites as well as rehabilitation of fish handling depot at Ngomeni fish landing site. Development partners such as Food and Agriculture Organization (FAO) have also weighed in the efforts to improve fish quality and processing by training 5 members of staff who will be train BMUs.
16. Production of castor will also be promoted by seeking waivers on importation of hybrid seeds as part of incentivizing private investment in the County. Investment in promotion of coconut, cashew nut and mangoes will continue in an effort to attract private investors looking for ready produce to set up their firms in Kilifi. Pineapple has also attracted interest of processing farms in the County thereby forming the basis for effort to increase produce.
17. Initiatives to promote large scale production of food and other crops involve reaching out for a collaboration arrangement with National Irrigation Board (NIB) to access 400,000 acres near Galana-Kulalu Irrigation Scheme to grow maize and rice.
18. The initiatives spelled above also possess the potential of creating jobs among rural folk and urban dwellers thereby increasing household's disposable income that supplement efforts of putting food on the table. The jobs come in many ways including through forward linkages where private investors process the ready produce into finished products. Jobs are also created along the value-chain including preservation and storage of surplus produce, taking surplus produce to market places and traders of surplus produce who are mostly women.
19. To further incentivize efforts towards food sufficiency, investment in improving infrastructural projects such as opening access roads to markets and putting market shades will be given priority. Residents of Kilifi interested in taking-up entrepreneurial opportunities along the value-chain will be offered interest-free credit facilities under the 'Mbegu-Fund' arrangement.

Provision of Safe Water

20. To provide clean, safe, accessible and affordable water, the County has heavily invested in extension of water infrastructure, encouraged community participation in water management issues, constructed water pans and dams and desalinated underground water to make it fit for both domestic and livestock consumption. Piped water supply remains the safest way

of availing water to the residents of Kilifi. The County's investment in new and extension of pipelines by more than 80 kilometers has led to an increase in the proportion of households with access to piped water from less than 40 percent in 2012 to 48.1 percent in 2017. With the rehabilitation of Mzima springs and Baricho water works, which are the main water sources to Kilifi and Mariakani Water and Sewerage Companies (KIMAWASCO) and Malindi Water and Sewerage Company (MAWASCO), investment in new and extension of pipelines is targeted to increase the proportion of households with access to piped water to 63.3 percent. The rehabilitation of wells together with new ones that are being dug at Baricho and the pipelines from Kakuyuni to Kilifi and Kakuyuni to Marereni will give the county government an edge to invest in the extensions from the trunk and better still do water kiosks as long-term and short term solutions to areas that were underserved with piped water before.

21. To address the growing demand for water, the County will invest in alternate ways of availing water such as shallow well, boreholes, pans and dams, and encourage rain water harvesting. The County's water projects along these sources will have a water treatment and desalination plant to ensure that the water is fit for both human and livestock consumption. The County together with other partners such as the NDMA and National Government Constituency Development Fund (NG-CDF) has invested in 1,205 shallow wells, 135 water pans, 90 small earth dams and 50 boreholes. The County has acquiring a water drilling rig with a view to reduce the cost of doing boreholes and avail more safe water to residents of Kilifi. In addition, households and communities will further be encouraged to build shallow wells, sub-surface dams and also undertake roof catchments to harvest rainwater.
22. To increase forest cover which stands at a national average of 6.07 percent, the County will partner in efforts to address deforestation mainly propagated through illegal logging and charcoal burning by mobilizing and motivating community participation in tree planting, and encourage uptake new technologies such as briquetting machines. Uptake of green energy will be encouraged including use of solar lanterns and solar street lights. Biogas plants will also be showcased as alternative energy sources to reduce reliance of wood fuels that escalates deforestation. These will be part of the efforts to climate proof the County from adverse effects of climate change. So far, climate change effects have manifested as extreme droughts and erratic weather patterns that have resulted to failed crop and poor yields from rain-fed agriculture and livestock loses due to lack of water, pasture and browse. Efforts will also be channeled towards integrating environmental programs and coping mechanisms that mitigate climate change in agricultural activities. The new and old initiatives towards this end include adoption of drought tolerant crop varieties, expanding and improving the quality of extension services and improving pasture and rangeland management.

Good Performance and Quality Education

23. The County Government recognizes that good performance and quality education is one of the key result areas in the people-focused transformative agenda. Four environments have been identified as key pathways to achieving good performance and quality education. They are:
 - i. Physical;
 - ii. Academic,
 - iii. Economic and
 - iv. Social cultural environments.
24. The County's investment in physical facilities such as ECDE classrooms, and furniture will be combined with improving attractiveness of the learning institutions. This will be in the form of improving recreational facilities, lawns, flower gardens, general hygiene and cleanliness, waste management, ventilation, lightening and working space of these learning institutions.

The availability and adequacy of these attractive facilities will motivate learning and teaching in our schools. School attractiveness is also aimed at reversing the notion that has been reinforced by the poor state of physical environment that the society undervalues the work schools do. Otherwise how can the society permit schools be in the state they are when the physical environment where teachers and pupils are matters? This requires provision of play tools to align with the approach that early learning is dominated by play and entrench digital literacy in the County. The County will extend efforts to improve physical facilities and attractiveness to vocational centres. Play fields will also be improved and mini stadiums done as part of efforts to improve physical attractiveness of schools while engaging youths in gainful activities related to sports and other games.

25. With regards to academic environment the county government will focus efforts on three key areas namely;
 - i. Teaching and learning material resources; where furniture; storage, display textbooks and exercise material, educational media and general equipment will be provided.
 - ii. Teaching and learning; the county government will keenly assess the kind of programs established in schools, methods of learning and teaching, syllabus completion, the pace and scope of change in schools, control over the curriculum punctuality, supervision on teaching methods, alertness to new thinking, approaches, guiding and coaching, punctuality, completion of tasks and activities in an effort to reorient the outlook of our children.
 - iii. Supervision and Guidance; the county government will actively undertake field visits to provide quality assurance and ensure standards are maintained while securing teacher adequacy and distribution. Prefects will be encouraged to take leadership lessons as they link teachers and students. Boards of Management (BoMs), school management committees, parents and other stakeholders should be on board in helping the child education. The County will proactively ensure that there is collective responsibility on the obligation of sponsors to influence improved performance as well as emphasize impacting of sponsors' morals in schools. This will be done through sensitization of stakeholders in schools. As institution based stakeholders, they represent the interest of their institutions and not their individual interest. Therefore, there must be feedback mechanism to their institutions particularly on resolutions made.
26. The county government through the Ward Scholarship Administration Fund has provided vital support in funding education at secondary, tertiary and university levels. This is done in full recognition of the weak economic power of parents in supporting children education in terms provision of necessary learning materials and fees mostly associated with lack of proper education by parent. In this regard, the county government will redefine the Ward Scholarship Administration Fund and refocus it on bright but needy students as well as reduce the burden of paying school fees by households that are poor.
27. With regards to social cultural environment, the county government will continue implementation of programmes that enhance self-esteem of learners by celebrating success at the spur of the moment. Ceremonies to celebrate our success and other motivational tools such as awarding gifts and presents to learners are but some of the programmes that will seek to enhance self-esteem. The county recognizes that Ganze sub-county, that has often been associated with adverse socio-economic indicators such as illiteracy, poverty, stunting and malnutrition also produced the best candidate in the County in the 2017 Kenya Certificate of Primary Education (K.C.P.E) having scored 429 marks out of the possible 500 marks. This contrasting facts informs the County's focus on school-socio-metrics such as teacher student

interaction, teacher and administration interaction and language used in schools towards modeling better social cultural environments aligned to our community identity and cultural diversity which are our strength. In terms of gender parity on access to education, the enrolment and completion gaps between boys and girls will be addressed through campaigns for equal access to education between boys and girls. To improve retention of both girls and boys in ECDE, the free-pre-primary education programme will be enhanced through regular provision of milk. This is one sure way of breaking the linkage between low access and retention rates of girls and boys associated with practices that take the girls to fetch water and firewood while the boy herds and they both contribute to putting food on the table.

28. The transformations in the above mentioned environments will closely be monitored and evaluated so as to consolidate our progress in these respects as well as align resultant benefits with those of Vision 2030 projects. The county government encourages surveillance and seizure of opportunities that present themselves through Vision 2030 projects such the Standard Gauge Railway (SGR) which has hospitality aspects. Tourism and hospitality continues to be the competitive advantage of the County such that hospitality aspects brought with the SGR are low hanging fruits to benefit residents of the County both directly and indirectly. Other projects with that the county government is looking at as to boost our tourism and hospitality industry are the upgrading to bitumen standard of Malindi-Sala Gate road, Mariakani-Kaloleni road, Mariakani-Bamba-Kilifi road.
29. The county government will integrate Information Communication and Technology in education by investing in data centres and developing approaches that will improve the type of data to be mined. There will also be efforts to revisit and realign the multiplicity of purpose of the Multi-purpose hall that have been done so far. It should be possible to carry out multiple functions in these halls at the same time and not different functions on different days in the same hall. This transformation will make these halls live to their true meaning of multi-purpose halls by hosting numerous activities at the same time.
30. 30. The county government will also model business incubation centers to facilitate transitioning of techniques and skills learned in vocational training centres and youth polytechnics into business ventures that makes our graduates for these institutions into employers and employment seekers. Start-up capital will be provided through 'Mbegu-Fund' once business proposals are found to be viable for funding.

Adequate Health Care Services

31. A healthy population is essential for higher productivity and sustained long term development of the County. The county government has made notable progress, especially in controlling communicable diseases (tuberculosis, HIV/AIDS and malaria) and attained marked decrease in child mortality, but other health challenges associated with affluence and accidents are emerging and are putting pressure on our health care system.
32. The County Government will continue directing investments to the health sector that enable all residents access modern and well-equipped health facilities and well trained and motivated health care workers. This will involve recruitment of more health workers, expansion of training opportunities and facilities as well, development of systems to support and expand health care services and sanitation at the community level. These efforts have also received a shot in the arm from the national government program that seeks to upgrade health care infrastructure and equipment modernization through leasing of medical equipment. The county government will also finalize the development of a health policy and institutional and legal framework for enforcement of health care standards. In addition an efficient, effective and accountable framework for the management of essential medicines and medical supplies at the facility levels will be put in place. These measures are aimed at addressing the often loaded Kiswahili statement by residents of Kilifi that "spitali hazina madawa". When this statement is loosely

translated, the meaning is lost to “there are no drugs in hospitals”. However, the measures spelled above, to which the county government is committed, attend to the true meaning of this statement.

Beneficial Use of Land

33. To address lack of proper documentation exhibited by squatters, the county government has taken measures to establish settlement schemes so as to settle the squatters. To militate against lack of housing schemes, the county government intends to develop a low cost housing scheme project for areas with potentials for slums. To ensure planned formal settlement the county government will demarcate land and assign housing estates to such in all major towns of the County. These estates will be planned to have all amenities such as water, electricity, sewerage system and other essential services. This controlled development will have designs and drawings to set the standards. The County’s mortgage scheme will form the basis for improving housing.

CHAPTER 2: RECENT ECONOMIC DEVELOPMENTS AND STRUCTURAL REFORMS

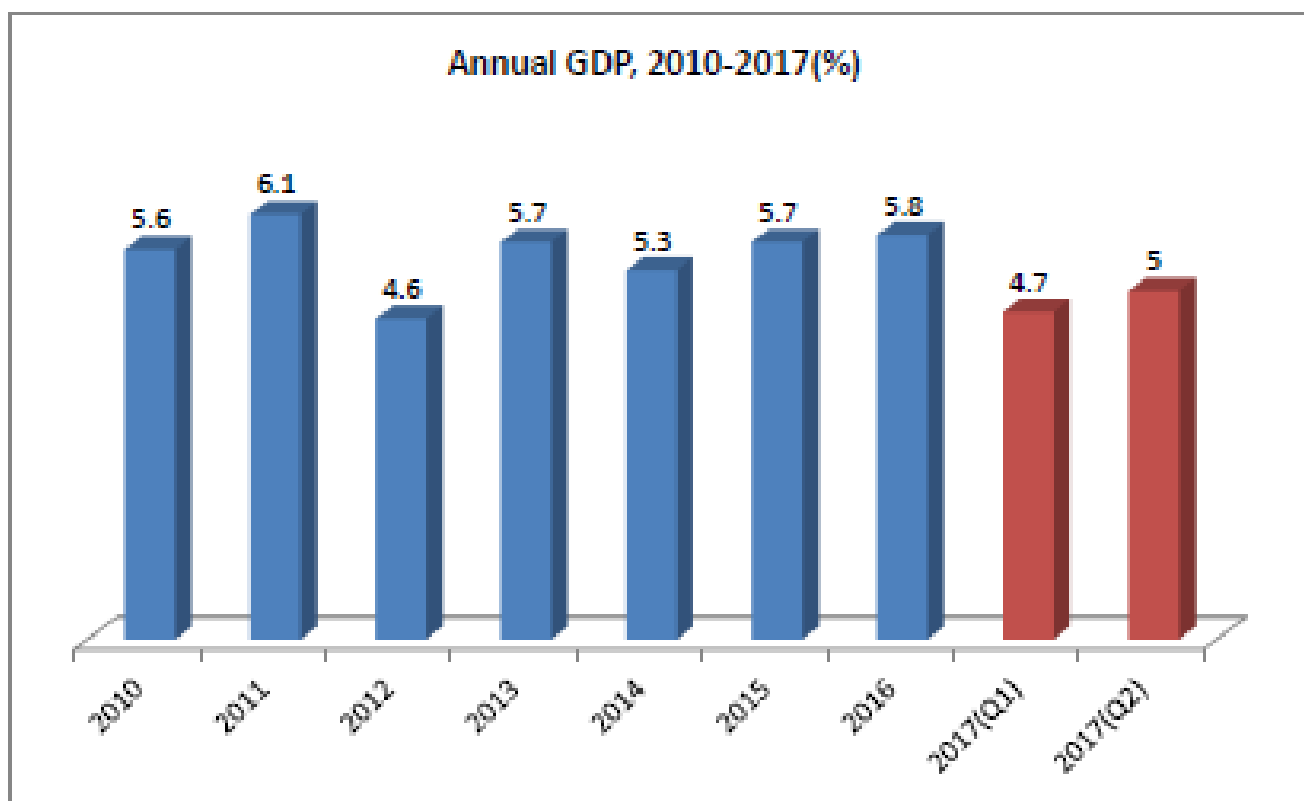
Overview

1. The performance of the national economy is a key determinant to allocation and utilization of resources in the country. Thus, macroeconomic management and performance of sectors in the national economy affects transfers to county governments much the same way that it affects own source revenue collection in the County.
2. Recent economic developments have had a negative impact to the national economy in 2017 leading to a downward revision of economic growth from 5.5 percent to 5.1 percent. The severe drought that started in 2016, the prolonged electioneering period leading to the August 2017 General elections followed by the impending repeat Presidential Election in October 2017 and the subdued credit growth to the private sector attributable to interest rate capping will slow economic growth prospects in 2017. This chapter highlights the performance of key macroeconomic variables such as Gross Domestic Product (GDP); inflation rate; interest rates; and exchange rates and links their performance to resource allocation and utilization in the County.

Gross Domestic Product

3. Kenya's economy is estimated to have expanded by 5.8 percent in 2016 compared to a revised growth of 5.7 percent in 2015. The sectors that recorded significant growth were accommodation and food services; information and communication; real estate; and transport and storage. This growth was hampered by persistent drought in 2016 that negatively impacted agriculture and electricity supply. Economic growth is estimated to have decelerated to 4.7 percent during the first quarter of 2017 before gaining to 5.0 percent in the second quarter (Figure 1). The economic outlook for 2017 has been revised downwards to 5.1 percent from 5.9 percent as earlier projected in the 2017 Budget Policy Statement (BPS) on account of developments related to severe drought that started in 2016, prolonged electioneering period due to the 2017 General elections and subdued credit growth due to interest rate capping. The economy is projected to grow at 6.5 percent in FY 2018/19 and 7.1 percent over the medium term. The projected growth will also boost economic activities in the County and improve own source revenue especially when the ongoing recovery of tourism is taken into consideration.

Figure 1: GDP Growth Rates, 2010-2017(%)

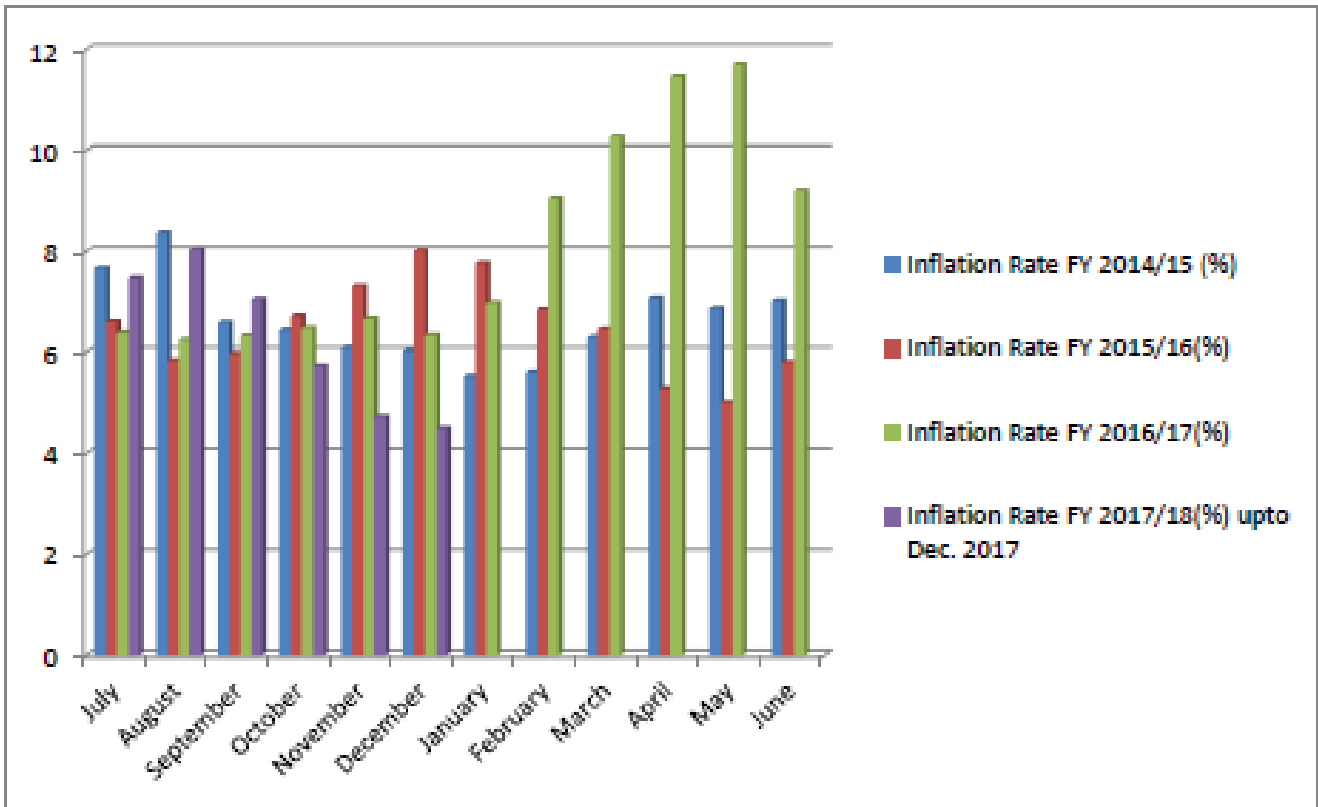


Source: Kenya National Bureau of Statistics

Inflation rate

4. In the first half of FY 2016/17 the rate of inflation remained within target range of between 2.5 and 7.5 percent. There was run-away inflation in the second half of FY 2016/17 due to surge in food prices that was evidenced by comparably high wholesale prices on key food crops. This was largely attributable to adverse weather conditions that prevailed for the better part of the fiscal year and prompted government action to temporarily exempt import on maize, sugar and powdered milk to contain demand-driven inflationary pressures. It is expected that inflation will decline and fall within the target range in FY 2017/18 (**Figure 2**).

Figure 2: Overall Inflation Rate (%), FY 2014/15 and FY 2017/18

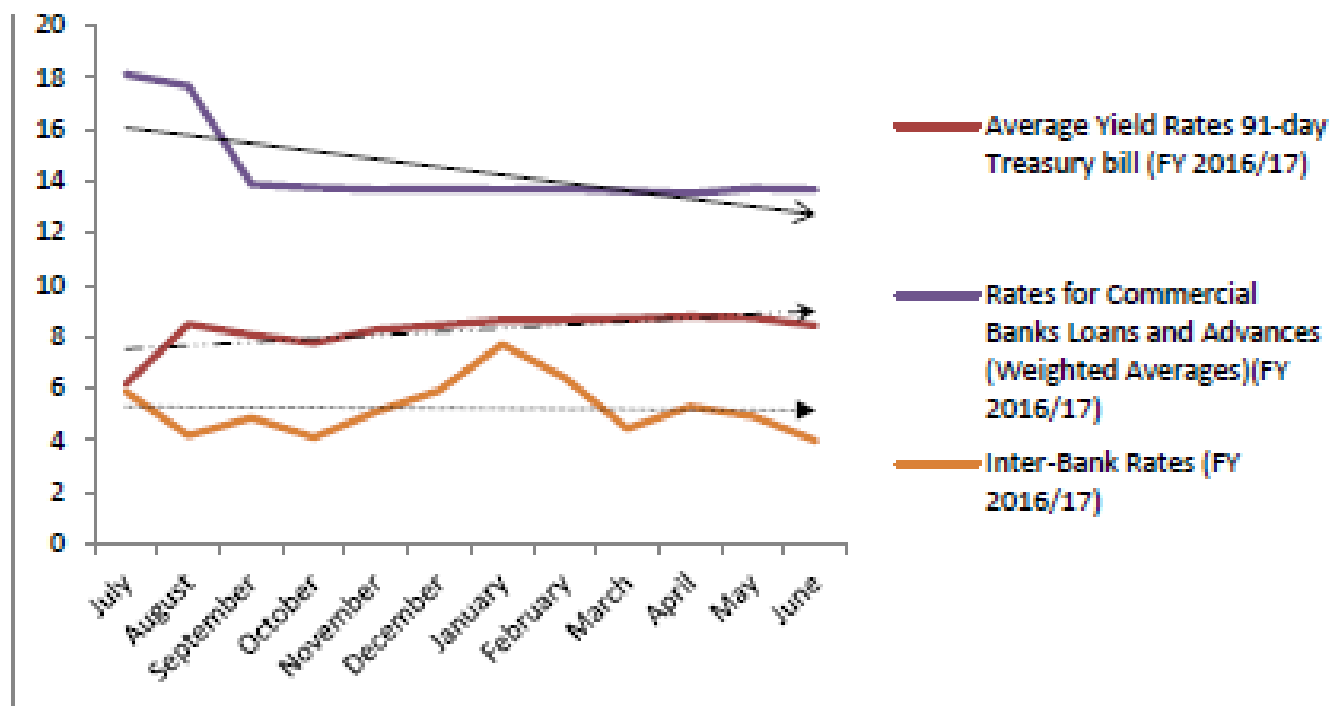


Source: Kenya National Bureau of Statistics

Interest Rates

5. The average yield rate for the 91-day Treasury bills, which is the benchmark for the general trend of interest rates, took an upward trajectory fluctuating from a range of 6.16 percent in July, 2016 to 8.42 percent in June 2017. The rates for commercial banks loans and advances recorded a high rate of 18.1 percent and dipped to 13.52 percent in July 2016 and April 2017 respectively. This general downward trend is attributable to the interest rate cap on lending. Interbank rates in FY 2016/17 were fairly unstable and hit 7.7 percent in January 2017 and a low of 3.99 percent in June, 2017. Figure 3 below analyses the trends in these interest rates.

Figure 3: Analysis of Trends in Interest Rates (%), FY 2016/17

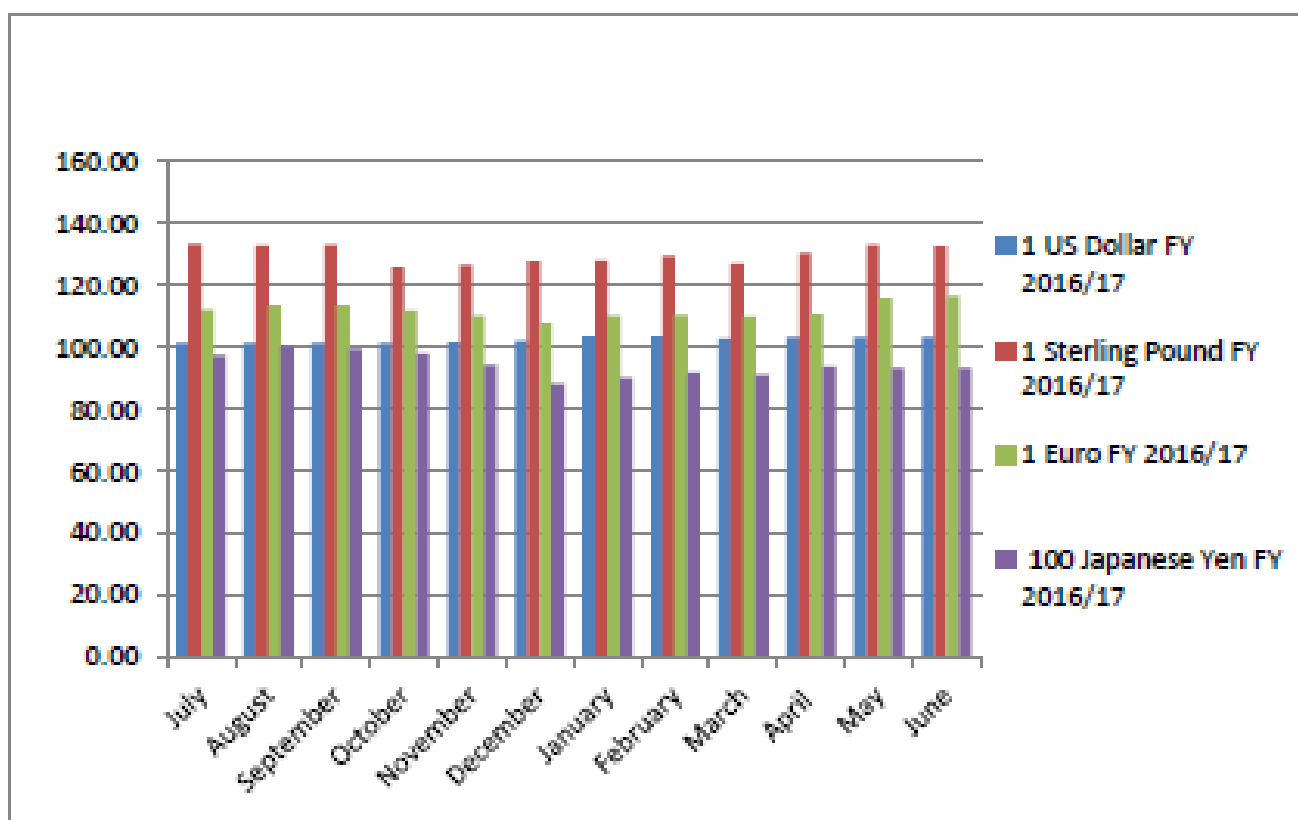


Source: Kenya National Bureau of Statistics

Exchange Rates

- The exchange rate of the Kenyan shilling to US dollar remained fairly stable in FY 2016/17. The Kenya Shilling exchanged at a low of Ksh.101.27 to the US dollar in September 2016 and a high of Ksh.103.75 in January 2017. The Kenya Shilling to Sterling pound fluctuated from a high of Ksh.133.42 in July 2016 and a low of Ksh.125.47 in September 2016. The Kenya Shilling to the Euro exchanged at a low of Ksh.107.67 in December 2016 and a high of Ksh.116.24 in June 2017. The Kenya Shilling to Japanese Yen slopped downwards in the period under review having exchanged at a high of Ksh.100.24 in August 2016 and a low of Ksh.88.1 in December 2016. Figure 4 presents the exchange rates of these major currencies for FY 2016/17.

Figure 4: Exchange Rates FY 2016/2017



Source: Kenya National Bureau of Statistics

Structural Reforms

34. This 2018 CFSP is anchored on the successes achieved in the ongoing structural reforms in governance, social and economic spheres. Sustainable development, however, requires entrenchment of these reforms. The county government will implement ongoing reform programmes, using its own resources and in collaboration with other institutions, to ensure transparency and accountability and improve efficiency and effectiveness in public resource utilization. The County will among others; re-train and re-deploy staff into fields of their competence and recruit critical staff on a need basis in order to contain the growing wage bill. Other initiatives will include continued capacity building to overcome challenges related to implementation of e-procurement, programme-based budgeting; result-based management, establishment of County Statistics unit, revamping Monitoring and Evaluation (M&E), effective public participation and budget absorption rates.

FY 2017/18 Revised Estimate

35. Revision of FY 2017/18 budget was necessitated by the need to reflect:

- i. Equitable share of revenue allocation provided in the CARA,
- ii. Revision of conditional grants as provided in CARA,
- iii. Revision of unspent revenue balances as at end of FY 2016/17,
- iv. Provisions accommodating pending bills and arrears emanating from FY 2016/17.
- v. Provisions to give priority to on-going projects to secure their completion before new ones commence.

36. These revisions took into account the fiscal developments during the first quarter of FY 2017/18 while securing continuous provision of key services; implementation of strategic interventions and flagship projects and that in cases of adverse consequences on original planned projects and programmes it is a result of unavoidable logical implication of the trade-offs and reallocations within the available resource envelope.
37. Consequently, the revised budget affected new projects and their distribution to each Ward; the agreed minimum allocation for projects to each Ward, a practice that ensures equitable distribution of projects to Wards; and Ward Development Projects (WDP). This was deemed unavoidable because, apparently, the remedial action on some of the issues that the revised budget sought to address, such as pending bills and on-going projects, could not be fashioned to satisfy these objectives. The distribution of pending bills and arrears, and on-going projects did not take any particular order.
38. On the revenue front, automation of revenue collection which will be rolled out in the second half of FY 2017/18 will, together with other administrative measures will help in sealing revenue loopholes. The County will also consolidate the gains made on the legislative front by operationalizing laws that enable revenue collection including the Finance Bill, once enacted, so as to boost revenue collection to meet and possibly exceed the set target.

CHAPTER 3: FISCAL POLICY AND BUDGET FRAMEWORK

Continuing with Prudent Fiscal Policy

39. This 2018 County Fiscal Strategy Paper (CFSP) will continue to support the development agenda by putting more effort on the implementation of projects in the next County Integrated Development Plan 2018-2022, Annual Development Plan, 2017, and Sectoral (departmental) plans. The County Government has oriented expenditure towards priority programmes in the five point agenda for action and ring-fenced allocation to flagship projects, executive staff car loans and mortgages, staff medical insurance cover, credit facility popularly known as 'Mbegu Fund', drought mitigation measures and social safety nets in form of cash transfer to the elderly.

Observing Fiscal Responsibility Principles

40. The County government appreciates that the fiscal stance it takes today will have implication in the future. Therefore the county government will ensure strict adherence to the Fiscal Responsibility Principles under Section 107 of the PFM Act, 2012 and Regulation 25 of Public Finance Management (County Government) Regulations 2015. It is however noted that implementation of Regulation 25 has generated more controversy particularly the ceiling on County Assemblies and County Executives. In spite of this, the County will observe the fiscal responsibility entailing:

- i. i. Over the medium term a minimum of 30% of the county budget shall be allocated to development expenditure. The projected development budget for FY 2018/19 is 38.07 percent.
- ii. Expenditure on wages and benefits for public officers shall not exceed thirty five (35) percent of the county government's revenue as prescribed under Regulation 25(1) (b). Projected personnel emoluments for FY 2018/19 is 27.94 percent.
- iii. Over the medium term, the county government borrowing if any; shall be used only for the purposes of financing development expenditure and not for recurrent expenditure. It is the governments' policy to procure external financing only for development projects a practice which is in line with this principle.
- iv. County public debt obligations shall be maintained at sustainable level as approved by County Assembly and shall never exceed twenty (20) percent of the county government's total revenue at any one time in accordance to Regulation 25(1)(d).
- v. Ensure efficiency and improved productivity of expenditure while at the same time ensuring that adequate resources are available for operations and maintenance.
- vi. Increase the absorption of resources allocated for development purposes from the current levels to over 80 percent. This will give the envisaged impetus to economic development and further improve the credibility of our budget.

Fiscal Structural Reforms

41. Underpinning this 2018 CFSP is the effort to create fiscal space and catalyze improved own source revenue collection through operationalizing legislations such as Kilifi County Health Services Improvement Fund Act, the Liquor Licensing Act, the Betting Control Act, the Valuation for Rating Act and Rating Act- to ensure set target for own source revenue collection are met.
42. On the expenditure side, the county government will continue developing expenditure management systems aimed at improving efficiency and eliminate non-priority expenditure. Thus far, the County has fully operationalized modules of the Integrated Financial Management Information System (IFMIS) rolled out by the National Treasury. The County will also use the Hyperion Planning and Budgeting Module to prepare the Programme Based Budget once it is fully rolled out for county governments to use. Departments are also expected to come up with plans to designate some entities as county government entities such as Agricultural Technical Centers and Agricultural Mechanization Centers with a view to improve efficiency and effectiveness in service delivery and raising more revenue for use by these entities.

2018/19 Budget Framework

43. The Kilifi County FY2018/19 budget framework focuses efforts to create fiscal space by widening resource mobilization base and improving efficiency of government spending as well as reorient fiscal spending to protect the vulnerable and address infrastructure gaps to foster people focused growth and development. In response to the limited fiscal space the County now faces, spending will be rationalized to the extent possible by preserving priority capital expenditure and social sector spending and containing recurrent expenditures particularly personnel emolument. The table below presents the 2018/19 budget framework.

Table 1: 2018/19 Budget Framework

DESCRIPTION	Actual	Approved Estimates	Projected Estimates	
	FY 2016/17	FY 2017/18	FY 2018/19	"FY 2018/19 (%)"
REVENUE	9,287,583,089	11,979,397,200	13,062,707,963	100%
Equitable Share	8,029,167,703	9,950,900,000	10,833,000,000	82.93%
Unspent CRF		72,743,547		
Conditional Grants	638,321,809	1,026,090,396	1,229,707,963	9.41%
Health Service Improvement Fund	65,608,701	208,413,052	100,468,651	0.77%
Land Rates and other Land Revenue	222,904,581	217,815,688	313,677,194	2.40%
Cess on natural resources	128,366,720	255,086,204	341,052,835	2.61%
Business Permits	67,414,245	157,974,770	114,623,556	0.88%
Parking Fees	22,415,974	41,747,093	21,488,039	0.16%
Market Fees	15,917,455	7,349,685	15,258,534	0.12%
Bill Boards and signage	17,321,882	22,917,678	16,604,823	0.13%
Building Plan approval and Inspection	8,452,043		8,102,161	0.06%
Rent/Stall rents	7,193,960	593,864	6,896,158	0.05%
Survey fees and plot rents	2,407,280		2,307,628	0.02%
Sale of Tender Documents	652,000		625,010	0.00%
Plot ground rent	6,466,287		6,198,608	0.05%
House rent	2,047,815		1,963,043	0.02%
Refuse Collection	588,127	1,038,631	563,781	0.00%
Food Hygiene Fees	1,193,090	4,779,771	1,143,701	0.01%
Slaughter House and Livestock sale Yards	2,178,932	6,194,987	2,088,733	0.02%
Others	48,964,485	5,751,834	46,937,545	0.36%
EXPENDITURE	10,843,121,165	11,979,397,200	13,062,707,963	100%

DESCRIPTION	Actual	Approved Estimates	Projected Estimates	
	FY 2016/17	FY 2017/18	FY 2018/19	FY 2018/19 (%)
County Assembly	846,382,702	1,050,223,148	1,214,680,971	9.30%
Office of the Governor	324,910,944	563,129,935	345,810,088	2.65%
Office of the County Attorney	-	-	139,258,000	1.07%
Finance & Economic Planning	435,933,251	631,974,614	3,003,849,994	23.00%
Agriculture and Crop Husbandry	633,637,351	543,994,856	644,634,318	4.93%
Livestock Production and Fisheries	-	190,654,156	149,840,728	1.15%
Water & Sanitation	1,270,052,043	988,591,492	492,310,863	3.77%
Environment, Natural Resources & Wildlife	-	156,870,000	141,218,000	1.08%
Education and ICT	1,374,264,402	1,446,059,658	1,405,171,255	10.76%
Medical Services	2,619,834,538	2,812,696,300	2,955,253,111	22.62%
Public Health	-	52,917,273	165,250,124	1.27%
Roads, Transport & Public Works	1,824,153,038	1,668,863,879	920,428,400	7.05%
Lands, Energy and Housing	379,265,228	347,264,969	270,551,948	2.07%
Physical Planning and Urban Development	-	8,640,000	139,540,000	1.07%
Culture, Social Services and Sports	181,460,850	261,674,232	212,967,451	1.63%
Trade, Tourism & Cooperative Development	226,179,216	324,916,393	214,971,302	1.65%
County Public Service Board	58,150,447	90,434,179	61,509,147	0.47%
Devolution, Public Service and Disaster Management	668,897,155	840,492,116	585,462,263	4.48%
FISCAL BALANCE	(1,555,538,076)	-	-	-

Revenue Projections

The projected own source revenue in FY 2018/19 budget would be up-scaled from Kshs. 929,663,259 to Kshs. 1,000,000,000 which is 7.66 percent of the total revenue estimates. This projection is based on previous performance on efforts to address prevailing challenges to ensure targeted own source revenue collection is attained. The county government will adopt the Appropriation-in-Aid approach in a bid to encourage departments charged with specific revenue streams to raise more and fund their activities, projects and programmes.

Expenditure Forecasts

44. The overall expenditure budget for the County in FY 2018/19 is projected at Kshs. 13,062,707,963. Compensation to employees is projected at 27.94 percent of the total budget while use of goods and services will constitute 33.99 percent. On use of goods and services, the County will amongst other key outputs ensure provision for education support, supply of educational material to ECDE and Youth Polytechnics, supply of essential drugs to health facilities, provide extension services, maintenance of roads and other civil works and provision ICT related services.
45. Development expenditure will constitute 38.07 percent of the total budget and will be used to fund priority programmes and initiatives spelled in the five point agenda for action among other initiatives such as infrastructure developments inroads to open access to various utility areas.

Apportionment of the Baseline ceilings

46. The projected baseline ceiling for the FY 2018/19 budget provided are based on previous allocations and performance. However, the County will further rationalize them according to the priority of programmes developed by the department in addressing key issues such as:
- i. Revenue raising measures;
 - ii. Programme implementation cycle;
 - iii. Programmes to end poverty and hunger;
 - iv. Programmes addressing vulnerabilities and marginalization;
 - v. Response of the programmes to emerging challenges
47. The allocation for Ward Development Programmes (WDP) has been set at Ksh. 875, 000,000. WDP are a critical component of the County's effort to ensure equitable allocation of development resources, community participation in identifying Ward specific projects and fulfillment of promises made by Members of the County Assembly to the electorate
48. The approved expenditure ceilings for each department disaggregated into recurrent and development is provided in the table below.

Table 2: Expenditure Ceilings FY 2018/19 Budget

DEPARTMENT	RECURRENT		DEVELOPMENT		TOTAL	
	FY 2017/18	FY 2018/19	FY 2017/18	FY 2018/19	FY 2017/18	FY 2018/19
County Assembly	900,423,148	864,680,971	149,800,000	350,000,000	1,050,223,148	1,214,680,971
"Office of the Governor"	563,129,935	345,810,088			563,129,935	345,810,088
Office of the County Attorney		139,258,000			-	139,258,000

Finance & Economic Planning	593,974,614	1,535,093,664	38,000,000	1,468,756,330	631,974,614	3,003,849,994
"Agriculture and Crop Husbandry"	334,830,052	422,783,323	209,164,804	221,850,995	543,994,856	644,634,318
"Livestock Production and Fisheries"	35,450,419	36,874,524	155,203,737	112,966,204	190,654,156	149,840,728
Water & Sanitation	207,381,037	190,833,228	781,210,455	301,477,635	988,591,492	492,310,863
"Environment, Natural Resources & Wildlife"	53,495,000	44,100,000	103,375,000	97,118,000	156,870,000	141,218,000
Education and ICT	913,177,449	788,945,610	532,882,209	616,225,645	1,446,059,658	1,405,171,255
Medical Services	2,261,413,173	2,175,109,194	551,283,127	780,143,917	2,812,696,300	2,955,253,111
Public Health	40,285,273	165,250,124	12,632,000	-	52,917,273	165,250,124
Roads, Transport & Public Works	347,744,314	318,469,214	1,321,119,565	601,959,186	1,668,863,879	920,428,400
"Lands, Energy and Housing"	271,247,969	178,014,313	76,017,000	92,537,635	347,264,969	270,551,948
"Physical Planning and Urban Development"	8,640,000	43,500,000		96,040,000	8,640,000	139,540,000
"Culture, Social Services and Sports"	141,044,963	81,324,266	120,629,269	131,643,185	261,674,232	212,967,451
"Trade, Tourism & Cooperative Development"	105,365,456	77,124,758	219,550,937	137,846,544	324,916,393	214,971,302
"County Public Service Board"	90,434,179	61,509,147			90,434,179	61,509,147
"Devolution, Public Service and Disaster Management"	762,134,166	520,617,912	78,357,950	64,844,351	840,492,116	585,462,263
Gross Total	7,630,171,147	7,989,298,336	4,349,226,053	5,073,409,627	11,979,397,200	13,062,707,963
"Budget Threshold"	63.69%	61.16%	36.31%	38.84%	100.00%	100.00%

Summary

49. The fiscal policy outlined in this CFSP aims at improving revenue efforts as well as containing total expenditures. This will be achieved through administrative and legislative reforms aimed at enhancing resource mobilization, improving efficiency in government expenditures and eliminate non-priority expenditure.

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