Foreword

The 2014 National Budget Policy Statement set out five broad strategies which aimed at transforming the Kenyan economy. In the 2015 Budget Policy Statement the nation aims at enhancing transformation of the economy by ensuring successful implementation of the five pillar strategy. In the 2015 Kwale County Fiscal Strategy Paper, we set out policy priorities and programs which will spearhead the transformation of the county economy while at the same time complement the nation's efforts in realizing the Kenya's Vision 2030.

The fiscal policy framework which this paper adopts and proposes for the preparation of the 2015/16-2017/18 MTEF Budget continues to be one that will ensure there is efficiency and effectiveness in public service delivery. The county government's effort will be to link policies, planning and budgeting, implement the expenditure reforms and ensuring prudent financial management. In order to create fiscal space to finance our core priority areas in education, health, physical infrastructure, water services and agricultural productivity, the growth of non-priority expenditures will be curtailed. In the preparation of the 2015/16-2017/18 MTEF budget, the main guiding factors will be:-

i. Preparing a balanced budget that is affordable and sustainable to ensure the county government spends within its income and avoiding a finance gap.
ii. Careful evaluation and costing of all existing policies, programs and projects to avoid cost variations and wastage.
iii. Building a link between our recurrent and development budget and maintenance of the recurrent to development ratio of 40 to 60 percent in the medium term
iv. Developing a performance driven and results based budgeting to improve the link between expenditure and results.

In keeping in line with the national broad strategic objectives as outlined in the Kenya's 2015 Budget Policy statement (BPS), this 2015 Kwale County Fiscal Strategy Paper (CFSP) will adopt the five pillar strategy. The five pillar strategy include:-

i. Creating a conducive business environment in order to encourage innovation, investment, growth and expansion of economic and employment opportunities;

ii. Investing in agricultural transformation and food security to expand food supply, reduce food prices, support expansion of agro- processing industries and spur export growth;
iii. Investment in first class transport and logistics hub and scaling investments in other key infrastructure including roads, energy and water to reduce cost of doing business and improve competitiveness;
iv. Investing in quality and accessible health care services and quality education as well as social safety net to reduce the burden on households and complement and sustain our long term growth and development through enhanced productivity, and
v. Further entrenching devolution for better service delivery and enhanced equitable development.

The priority strategies set out in this 2015 Kwale CFSP will link with the nine thematic areas and strategies set out in the Kwale CIDP, MTP II and the objectives of the Kenya's Vision 2030. In executing our priority programs stipulated in the nine thematic areas set out in the CIDP for the last two years of devolution, much progress has been achieved. Agricultural output has improved following agricultural mechanization, provision of farm inputs and animal breeding. Trade subsector has operationalised trade loans to small scale traders. In education, overall ECDE enrolment has reached 72 percent with increased infrastructural development and the scholarship and bursary scheme has been revamped to increase the beneficiaries' bracket. The health sector has registered improvement in the provision of medical drugs and health facilities' infrastructural development. Much still need to be done in the infrastructure, energy and water sectors.

The economic growth momentum has been held back by emerging challenges particularly insecurity and its negative impact on the tourism sector. Besides insecurity, other challenges include;

i. Poor education standards and inadequate skilled manpower,
ii. Low agriculture, livestock and fisheries production
iii. Low and stagnating investment in trade, industry and tourism
iv. Lack of collateral and weak capital base
v. Poor delivery of quality health services
vi. Poor infrastructure and unreliable energy supply, and

vii. Uncoordinated and weak citizen participation

This 2015 CFSP will set out priorities and earmark significant resources to address these challenges. As we implement the CIDP in the coming Financial Year 2015/2016, we shall build on the achievements made so far in most of our sectors and through the policies set out in this 2015 CFSP, efforts will also be made to address the existing as well as emerging challenges.

In this 2015 CFSP, we review the progress we have made in the past two years of devolution and the priorities spelt out in the 2014 CFSP. The county economic transformation can be achieved by implementing the set out priorities in this 2015 CFSP. We are confident that this will form a basis to decisively deal with the concerns of Kwale citizens on insecurity, unemployment, low incomes and high poverty levels, food insecurity among others. With improved infrastructure in education, health, water, energy, transport and ICT, we envisage sustainable and accelerated pace of economic growth to realize our vision of being a competitive, industrialized and socio-economically self- sustaining and secure county.

BAKARI HASSAN SEBE,

CEC MEMBER, FINANCE AND ECONOMIC PLANNING.

Acknowledgement

This is the second County Fiscal Strategy Paper (CFSP) to be tabled in the Kwale County Assembly. It outlines the broad strategic macroeconomic issues and fiscal framework, together with a summary of sectoral spending plans, as a basis for preparation of the 2015/2016 county budget and the medium term. It firms up the recommendations and conclusions reached in the latest CBROP of September 2014. This document is expected to improve the Kwale citizens' understanding of county's public finances and guide public debate on Kwale County economic and development matters.

Preparation of this document was a collaborative effort with input from the sectors, departments and other county organs. We are grateful for their inputs. Much of the inputs in this paper came from the comments raised in the 2015 Budget Policy statement, the County Allocation of Revenue Bill,2015 and the Division of Revenue Bill,2015. We are also grateful to the citizens and other stakeholders for their contributions during the public participation forums held between the 10th and13th of February,2015. This provided invaluable input to this 2015 CFSP.We express our gratitude to the recently formed Kwale County Budget and Economic Forum in complying with the provisions of section 137 of the PFM Act ,2012.We specifically mention the following members:- Mr. Abdallah Sopai, Sheikh Kassim Zani, Rev. Peter Dani, Mr. Masai Mwawira, Mr. Daudi Digo, Mr. Patrick Yasisi, Mr. Japhet Wande, Mr.Ali Tsuma, Ms. Rehema Kalumu, Ms. Mwanahamisi Hamisi and Ms. Bibi Masha.

Special thanks go to the Economic Planning team which spent a significant amount of time putting together this paper. Finally, as it is not possible to mention everybody here, we are particularly grateful to the entire staff of the County Treasury for their dedication, sacrifice and commitment to public service.

ALEX ONDUKO THOMAS,

CHIEF OFFICER, FINANCE AND ECONOMIC PLANNING.

Legal Basis for the Publication of the County Fiscal Strategy Paper

Section 117 of the Public Finance Management Act, 2012 states;

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
    b) the public
    c) any interested persons or groups
    d) any other forum that is established by the PFM Act 2012

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 National and County Governments

Section 107 of the Public Finance Management Act, 2012 sets the principles of fiscal responsibility.

Subsection (2) states that:

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 revenues as prescribed by the County Executive member for finance in regulations and approved by the County Assembly.
d) Over the medium term, the county government's borrowing 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 suitable level as approved by County Assembly
f) the financial risks shall be managed prudently, and
g) a reasonable degree of predictability with respect to the level of tax bases shall be maintained, taking into account any tax reforms that may be made in the future
h) Short term borrowing as mentioned in (d) above shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited county government revenue.

ABBREVIATIONS

BPS	Budget Policy Statement
CBROP	County Budget Review and Outlook Paper
CBOs	Community Based Organizations
CCG	Council of County Governors
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
COFOG	Classification of Functions of Government
CRA	Commission on Revenue Allocation
ECDE	Early Childhood Development Education
FY	Financial Year
IBEC	Intergovernmental Budget and Economic Council
IFMIS	Integrated Financial Management Information System
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan
NGOs	Non-Governmental Organizations
PER	Public Expenditure Review
PFM	Public Finance Management
SRC	Salaries and Remuneration Commission
SWGs	Sector Working Groups

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I. ENHANCING ECONOMIC TRANSFORMATION FOR A SHARED PROSPERITY

Overview

1. This 2015 County Fiscal Strategy Paper is the second to be prepared under the County Government of Kwale. It reaffirms and reiterates the Kwale County Government priority programs outlined in the 2014 County Fiscal Strategy Paper and the 2013 CIDP. It seeks also to link the 2015 Budget Policy Statement five pillar transformation strategy covering:-

i. Creating a conducive business environment
ii. Investing in agricultural transformation and food security
iii. Investing in first- class transport and logistics
iv. Investing in quality and accessible health care services and quality education and
v. Supporting devolution for better service delivery and enhanced economic development.

2. The implementation of sectoral programs as outlined in this 2015 County Fiscal Strategy Paper is expected to spur economic growth, create employment opportunities, raise household incomes of the citizens, improve security and improve quality of life of the citizens. This CFSP therefore puts emphasis on the Kwale County Government's priority programs and projects to be implemented in the Medium Term Expenditure Framework for 2015/2016- 2017/2018 that will transform the county's economy.

3. Kwale County economy has bright prospects in agriculture, trade, tourism and the mining sectors. However, this has been beset by a number of challenges including insecurity, high unemployment, high dependency on rain-fed agriculture, low investment in trade and tourism, inadequate and expensive energy sources, poor infrastructure in education, health and water provision and poor transport and logistics network.

Although the National economy has grown by 5.3 percent in 2014 and expected to rise to 6.9 percent in 2015 and 7.0 percent over the medium term, there will be little impact on the county's economy if these challenges are not adequately addressed. The priority economic policies and sectoral expenditure programs outlined in this 2015 County Fiscal Strategy Paper are expected to address these challenges and foster sustained high and inclusive economic growth for the county's prosperity.

4. The county economy has in the recent past shown growing potential with the renewed investments in the mining and agro-business sector. This coupled with reduced international oil prices will offer an opportunity to increased investment as a result of increased household incomes and savings due to reduced food prices. The National macroeconomic indicators show good economic growth prospects with single digit inflation rate, declining interest rates, stable exchange rate and a sustainable public debt. The stabilization of the national macroeconomic indicators will aid in achieving the county's economic transformation agenda. Successful execution of programs outlined in this 2015 CFSP is expected to raise economic efficiency, productivity and in turn, make Kwale County's products competitive, thus creating job opportunities and ensuring a secure county.

Enhancing Economic Transformation For A Shared Prosperity

Pillar 1: Creating a Conducive Business Environment for Employment

5. As outlined in our 2014 CFSP and reiterated in the 2015 BPS, conducive business environment can be created by

i. Maintaining Macroeconomic stability
ii. Deepening structural and governance reforms and
iii. Improving security so as to encourage innovation and investment, foster growth and expansion of economic and employment opportunities.

Maintenance of Macroeconomic Stability

6. Maintenance of macroeconomic stability is key to creating conducive business environment. As outlined in the 2015 BPS, the National Government will continue to pursue prudent fiscal and monetary policies that are supportive of accelerated economic growth.

7. As outlined in the 2014 CFSP, our fiscal policy will aim at optimal allocation of resources and in so doing, allocate more resources to priority programs with the highest impact on stated objectives. This 2015 CFSP reiterates that expenditure growth in non-priority areas will be eliminated and more resources will be shifted from recurrent to capital expenditure to realize the county's economic transformation agenda.

8. The first half of 2014/2015 has not realized adequate local revenue only Ksh. 96.9 Million achieved against a target of Ksh.250 Million. This implies more efforts need to be done on revenue collection. This situation is expected to improve in the third quarter of the FY 2014/2015 as the project on automation of revenue collection system is completed, the Finance Act is in place and more efforts are introduced to collect rent and rates arrears which are the major county own revenue sources. This 2015 CFSP proposes that expenditure framework is contained and re-oriented towards priority capital programs and a proper monitoring and evaluation is carried out through the newly formed Transform Kwale Unit. Expenditure efficiency will also be entrenched through cost benchmarking and budget performance undertaken by the County Treasury.

9. As outlined in the 2013 First County Integrated Development Plan, this 2015 CFSP also proposes that deliberate efforts be undertaken to reduce the cost of doing business through:-

i. Harmonization of licenses to avoid multiple licensing
ii. Computerization of licensing processes to facilitate online and timely applications and
iii. Consolidation of issuance of licenses at a "one stop" centre

10. The nation's monetary policy aims at maintaining low and stable inflation rate at 5 percent, low and stable bank lending rates, and stable exchange rates. This will boost business as capital becomes affordable to facilitate business growth. Increased exports and attraction of foreign business investors is expected as households savings are improved due to reduced food prices. However following the reduced international oil prices, the gains to the national economy have not trickled down to induce positive impact on livelihoods. The county economy as with the other counties in the country is expected to gain from this if the economic growth challenges mentioned in this paper are addressed.

Structural Reforms to Facilitate Business and Employment Growth

11. The nation's growth target of 10 percent will only be achieved if there is economy-wide efficiency and increased productivity. The 2014 BPS proposed a number of initiatives with the main aim of creating a more conducive business environment and improving efficiency and effectiveness of public service delivery so as to facilitate private sector growth. In the 2014 CFSP, the County government proposed deeper structural reforms to be undertaken to complement the national government efforts.

12. Governance

County's economic transformation requires institutional strengthening that ensures efficiency. While there is progress on the governance front, much still need to be done to entrench good governance and zero- tolerance to corruption. As outlined in the 2014 CFSP, this paper proposes the development of county anti- corruption policy, strengthening of the legal office and prosecution capacity at the same time strengthen governance policies on revenue administration, public works, public procurement and

employment by County Public Service Board. Again, as outlined in the 2014 CFSP, this paper reiterates the development and entrenchment of a code of conduct for all county public officers.

13. PFM Oversight Institution and Financial Reporting

To ensure there is efficiency, effectiveness, transparency and accountability in the use of public finances, capacity building will be taken from time to time to familiarize PFM staff on system usage and timely financial reporting. Sound working relationship will be reaffirmed and strengthened between the County PFM staff and PFM Oversight institutions such as the National Treasury(NT), Office of the Auditor General (OAG), Office of the Controller of Budget(OCOB) and Public Procurement and Oversight Authority(PPOA). This will enhance transparency and accountability in financial matters.

14. Expenditure Management

As emphasized in the 2014 CFSP, transformation of this county's economy will largely depend on execution of the public expenditure reforms. In addition to the recent civil service rationalization exercise, the county government needs to initiate programs to fully realize economic transformation by improving efficiency and effectiveness in public resources utilization and budget execution.

As mentioned in the 2014 CFSP, the County Treasury together with the Transform Kwale Unit should institute and strictly enforce the following measures:-

i. Undertake a rationalization exercise of all public expenditures to identify and remove expenditure overlaps and wastage.
ii. Develop in the first half of FY 2015/2016, a framework for enforcing cost benchmarks for projects and consumables
iii. Adopt a performance benchmark of at least 80 percent of the development budget for each sector/ department at the end of the FY.
iv. Conduct every year, at least one Public Expenditure Tracking for all sectors where there are value for money concerns (social audits)

v. Entrench program based budget and monitor performance of departments on the development budget
vi. Make fully operational the Integrated Financial Management Information System (IFMIS) in all departments and operationalize the e-procurement model by end of year 2015.
vii. Update the County Asset Register for all county assets and ensure a transparent and accountable disposal of all unused, old and obsolete assets.
viii. Instituting fleet management systems and fuel usage control by fitting all the existing fleet of county vehicles with tracking devices and use of plastic electronic cards for vehicle fuelling. This will ensure optimal utilization of the assets, avoid wastage and curb incidences of fuel pilferage.

15. Tax and Revenue Reforms

As pointed out in the 2014 CFSP, the county government's strategy for strengthening revenue efforts and improving the ease of doing business will prioritize measures to simplify tax systems, leverage automation, expand the tax base, rationalize tax incentives and exemptions and expand the tax net to capture the informal sector.

The other specific measures which this 2015 CFSP proposes include:-

i. Submission of 26 Bills to the County Assembly for enactment as part of revenue raising measures to increase our tax base
ii. Automation of revenue collection system and revenue administration to improve efficiency in revenue collection
iii. Increasing enforcement efforts and equipping revenue officers with the requisite tools and equipment including uniforms to carry out efficient and effective revenue collection.
iv. Initiating efforts to collect rates and rent arrears as one of the major revenue sources through possible persuasion, negotiation, litigation and other means.
v. Engaging the National Government through the National Treasury to acquire our share of the revenue collected as royalties and also reinstating the mining levy which the County Assembly approved.

16. Enhancing security for sustained growth and employment

This 2015 CFSP recognizes that without security the county economy will not grow on a sustainable basis and the objective for creating jobs for the county citizens will not be realized. Recent security challenges have caused dismal performance of the tourism sector leading to general loss of jobs and negative multiplier effect on other sectors of the county economy like agriculture ,trade and investments.

To enhance security and stability in the county's economy, this 2015 CFSP proposes the following measures:-

i. Fast- track completion of street lighting in all major centres including Kwale, Ukunda, Kinango, Taru, Msambweni, Kombani, Samburu, Lunga Lunga among others in collaboration with private partners.
ii. Setting up of County Policing Authority and strengthening the partnership between communities and security agencies for neighborhood safety. The County Government through the County Public Service Board has embarked on sourcing suitable members for the County Policing Authority.
iii. Setting up of rehabilitation centres starting with Kwale town to rehabilitate hard drug addicts in a bid to prevent crime. This is conducted through the Department of Community Development, Culture and Talent Management.
iv. Resettlement programs for squatters and historical injustice victims through the department of lands, physical planning and natural resources. Perimeter surveys of settlement schemes in Mwamdudu and Mtaa have been completed and technical meetings and negotiations for Kombani, Kikadini I and II and Vanga settlement schemes are still ongoing .

PILLAR 11: Agricultural Transformation and Food Security

17. Majority of the Kwale county population live in rural areas and mostly dependent on agriculture for their livelihood. Leveraging on agricultural transformation is a sure way of raising rural households' incomes and thus making a lasting solution to poverty. It will spur growth in related sectors of the county economy such as agro-processing, storage and transport, industry, wholesale and retail trade, export and in turn, the county's economic transformation. Increased agricultural productivity will also increase food supply, reduce food prices and bring down the cost of living, create employment and promote overall rural development.

18. The department of Agriculture, Livestock Development and Fisheries will initiate a number of strategies to unlock agricultural productivity potential among smallholder and livestock farmers as well as commercial farmers.

A comprehensive agricultural transformation strategy will include:-

i. Agricultural mechanization through establishment of demonstrated agricultural machinery. As outlined in the 2014 CFSP and 2014/2015 County Budget, the provision of tractors to county farmers continues to be a priority and in this coming financial year 2015/2016 more tractors with ploughs and harrows will be procured. The right timing for tilling of agricultural land by the tractors will be ensured.

ii. Enhancing the subsidizing of agricultural farm inputs such as agricultural fertilizer, high yielding seeds, to reach a wider spectrum of county farmers. As is the case with the tilling of farms by tractors, right timing for distribution of farm inputs will be undertaken.

iii. Enhancing the integrated agriculture, livestock and fisheries programme through increased agricultural productivity by:

- Establishing a large irrigation scheme in the county and four small scale irrigation schemes at each Sub County to serve between 50- 100 farmers

- Increasing livestock production by improving and replacing livestock breeds, disease control and establishment of livestock related industries such as tanneries, animal feeds and meat processing.
- Increased fish production by fast tracking the rehabilitation of the Shimoni port and other landing sites, establishment of a fish processing plant and the provision of necessary fishing equipment and skills to support the local fishermen.

iv. Establishment of agricultural markets and storage facilities and make them accessible to local farmers to eliminate post- harvest losses. The fast tracking of the establishment of storage granaries in areas such as Lunga Lunga, Dzombo and other highly agricultural productive wards such as Kubo South as outlined in the 2014/2015 County Budget will be undertaken.

19. Due to the challenges of climate change and the dependency on rain- fed agriculture, efforts will be made to continue educating farmers on smart agriculture in specific identified areas with a view to improve and sustain agricultural output. As mentioned in this 2015 CFSP, youth comprise majority of the county's population in the rural areas. To help raise rural incomes and thus enhance rural development, the agricultural transformation strategy in this 2015 CFSP recognizes the participation of youth in agriculture. Further, this 2015 CFSP proposes the provision of farmers' irrigation kits, fish ponds, water harvesting equipment and seedlings tree planting to youth farmers groups and training and encouraging them to uphold the spirit of cooperation and hard work to increase farm yields, create employment and ensure sustainable food security in the county.

20. As outlined in the 2014 CFSP, agricultural productivity will be enhanced throughout the county by partnering with financial services providers to support farmers. Efforts will be made to reorganize farmers into viable cluster groups and form farmers SACCOS which can be financed under the County Agricultural Revolving Fund. The SACCOs will ensure engage in organised agricultural produce marketing and arrange for training of farmers in productive and sustainable farming methods.

21. Another strategic objective the county government will initiate through the department of Agriculture is creation of an enabling environment for the agriculture development through the domestication of the existing national policies and laws into county legal framework. Among such include the policy on aquaculture, agricultural revolving fund (earlier mentioned), irrigation and agricultural produce marketing.

Supporting Growth of Trade, Industry, Investment and Tourism for Employment Creation

22. This 2015 CFSP recognizes that increased agricultural productivity spurs the growth of industries and trade, which are powerful ingredients in the transformation of the county's economy. It is for this reason that the Kwale County Government has identified trade and industrialization as a catalyst for moving agriculture up the value chain. Value addition in agriculture and the growth of livestock related industries will grow the county's economy and create employment. The departments of trade and agriculture will prioritize and establish jua- kali sheds and livestock related industries such as food processing industries and revive collapsing industrial plants such as the Mariakani dairy plant.

23. In the 2013 CIDP, the department of trade has identified the promotion of MSSE as one of its strategic interventions to boost trade and transform the county's economy. This 2015 CFSP lays more emphasis on enhancement of this program to support small and medium enterprises to acquire appropriate and relevant modern skills and also establish small industrial plants for value addition of agricultural produce. In the same vein, the already established Kwale County Trade Revolving Fund will be strengthened and enhanced to increase the financial support to the local entrepreneurs.

24. The tourism sector in the county has not been performing well in the recent past. This has led to loss of jobs for the county citizens. To promote tourism and guarantee jobs for the county citizens, this CFSP 2015 continues to give priority to programmes

aimed at giving more life to this ailing industry. Among the measures proposed include(i) continued campaign to make Kwale County as an attractive tourist and investment destination (ii) continue upgrading resort cites such as the Maji motto resort to make them more attractive to tourists (iii)continue marketing Kwale through the Miss Tourism Kwale Chapter.(iv) enhancing security through collaboration with the National Government, Community policing and encouraging cooperation and cohesion among communities for neighbourhood safety.

25. As outlined in the 2014 CFSP, little work has been done on the promotion of public private partnership in investment. This 2015 CFSP proposes the development of PPP policy which will guide the formation of investment companies to address potential investment opportunities like industrialization of the quarrying sector, investing in a state of the art county hotel, establishment of a county mining company among others. This will assist in the county economy transformation agenda.

Empowering the Youth and Women for Employment Creation

26. The Kwale County Government remains steadfast in addressing joblessness among the youth, women and the physically challenged persons. In this 2015 CFSP, the County Government will build on- going youth and women support programs to tap the creativity talent and knowledge of the young people so as to encourage entrepreneurship and innovation. The County Government will continue with the skills development programmes and expand credit access to make youth the main drivers of the county economy. In the 2014/2015 financial year, the County Government allocated Kenya Shilling 33 Million for the youth and intends to increase this allocation so as to widen the beneficiaries' bracket. In the financial year 2015/2016, a special fund for the physically challenged persons will be established to assist this group in entrepreneurship and innovation.

27. The Kwale County Government recognizes that investing in the potential of the youth will reap demographic dividend in the youth. It is for this reason that a comprehensive

youth development programme will be put in place encompassing talent management, investment in labour intensive sectors such as rural feeder roads construction, building youth entrepreneurial capacities and engaging them in building community assets while at the same time instilling in them a sense of discipline, integrity, focus and civic duty. The ultimate goal is to build all- round holistic youth that can ensure a brighter county in the future.

28. The 2014 CFSP proposed for the entrenching in County Procurement Policy the requirement for at least 30 percent of all public procurement to be reserved for the youth, women and physically challenged persons. In this 2015 CFSP, strict adherence to this procurement law will be enforced and youth, women and the physically challenged persons encouraged to take up these opportunities. A more proactive approach will be undertaken by domesticating the Buy- Kenya Build Kenya policy into a Buy- Kwale Build Kwale initiative to help boost local production and encourage formation of viable enterprises especially among the youth and women.

Youth, Sports, Culture, Heritage and Talents

29. Kwale County remains committed to transform tourism as a key driver of employment to the citizens. The tourism transformation agenda will be driven by sports, culture and heritage. As elsewhere reported, Kwale County has a rich culture and heritage. More so, the youth have shown immense talents in the arts and sports which need to be nurtured to aid the tourism strategy. In this 2015 CFSP, the County Government will:-

i. Continue the programme on preservation and protection of our culture and the cultural sites- the famous “Kayas”,
ii. Encourage the growth of youth talents in sports and the arts by developing well equipped stadia and talent centres,
iii. Continue promote cultural activities by repackaging Kwale as a favourite cultural destination.

iv. Establish sports and talent centres for the physically challenged persons-(people with special abilities).

Part 111: Transport, Logistics, Energy and Water for Inclusive Growth

30. The County Government of Kwale recognizes that development of modern infrastructure is a key driver of the county economy transformation agenda. As pointed out in the CIDP, the county is endowed with vast natural resources but most of these resources have remained undeveloped due to poor infrastructural facilities. To realize rapid and sustainable agricultural, trade, industrial and tourism development, our strategy for economic transformation should prioritize investment in infrastructure to reduce the cost of doing business and enhance competitiveness. Kwale County road network is in deplorable and poor condition for investment and general development. Water infrastructure is still wanting and is inaccessible to most of county rural population. Electricity costs are increasingly becoming high as is the cost of fuel. The rural folk depends mostly on charcoal firewood as a source of fuel resulting into untold environmental degradation.

Expanding Road Network to Facilitate Economic Transformation

31. As envisaged in the 2014 CFSP, improvement and expansion of the road network within the county will facilitate faster and cheaper movement of people and goods to enhance trade and general competitiveness of the county economy. The department of Infrastructure and Public Works in conjunction with Public Administration(former-Decentralized Units) have embarked on a program of opening up feeder roads and murraming of roads linking key circuits and areas with high social and economic impact. In the FY 2014/2015,250 kilometers have been upgraded and in the coming FY 2015/2016, the county aims at upgrading 651 kilometers of roads.

Access to Adequate, Affordable and Reliable Energy Supply

32. The county economic transformation agenda will be achieved through efficiency and productivity in the major socio economic sectors. This requires significant investment in adequate, affordable and reliable energy supply. Generation of power into the National Grid of about 5,000MW by the Kenya Government is expected to reduce the cost of power making electricity affordable and accessible to a wide spectrum of the population. As pointed out in the 2015 BPS, this additional power supplies at a much lower tariff, will significantly reduce cost of doing business, spur growth of enterprises and industries and accelerate the realization of the planned economic transformation agenda.

33. In the 2015 BPS, the National Government through Kenya Power Company will implement a program to connect at least one Million Kenyans in 2015 and subsequently reduce the connection cost and time by at least 60 percent in the medium term. At the county level, this 2015 CFSP reinforces the National Government's commitment to connect each ward headquarters and all primary and secondary schools with electricity from the National Grid by the end of the year 2017. Further, the County Government has the intention of encouraging usage solar and bio-mass to produce energy for households and small medium size enterprises within the county as part of adopting the green energy initiative. Initiatives mentioned in the 2013- 2017 Medium Term Plan (CIDP) such as assessing the viability of hydroelectricity generation along Umba and Marere rivers will be explored. Other sources of power generation such as Coal power from the Taru basin and thermal power in Ukunda will be undertaken through Public Private Partnership initiative. These interventions will complement generation of power for both industries and households.

Making Water Accessible to Households and Farmers

34. The 2014 CFSP envisages that the county intends to improve access and reliability of water supply through the rehabilitation and expansion of the water supply systems. This 2015 CFSP recognizes that sustainable access to industrial and household water is essential for county economic transformation. Further, provision of safe drinking water and sanitation will complement our efforts towards improved health care and productivity of our labour.

35. The county Government in the last two financial years has initiated various projects on rehabilitation of water supply systems such as the Kibaoni- Kinango pipeline, Mkanda-Kikoneni-Dzombo pipeline, Kasemeni- Bofu, Mzima-Mackinon road pipeline, Kayabombo- Matuga-Marere-Mwaluphamba pipeline, Kasemeni-Bofu pipeline; a number of boreholes,minidams and water pans. This is expected to end the problem of accessing safe drinking water for households. In the 2013 CIDP, the county intends to rehabilitate the Tiwi and Msambweni aquifers, and the Umba and Pemba rivers to provide adequate water for the anticipated increased demand as a result of establishment of new irrigation schemes, domestic and livestock water needs and the development of the Resort city and the increased industrial and commercial activities.

Pillar IV: Access to quality social services

36. As outlined in 2014 BPS, human capital development remains a central pillar of attaining a sustainable economic transformation for a shared prosperity. The strategy will ensure that all Kenyans are healthy, educated and equipped with basic life skills to realize their full potential and dignified life. The 2014 CFSP outlined the strategy for county human development as improving equitable access to quality health care and educational services as well as encouraging fully participation of the vulnerable groups in county's development.

Building a Healthier Kwale Population

37. The Kwale County's strategy on health care aims to build a healthy population that can ensure higher productivity for sustained economic transformation and long term county development. This strategy shall build on the progress achieved and continue accomplish the programs as outlined in the CIDP. The strategy will involve; recruitment of more health workers, expansion of training facilities, development of a framework for supervision and quality assurance and development of systems to support and expand health care services and sanitation through the department of public health.

38. This 2015 CFSP adopts the strategies as laid down in the 2014 CFSP by augmenting for their implementation. These strategies includes:-

i. Development of modern and well- equipped county referral hospital to improve access to specialized diagnostics and treatment services. It is still in the county health care transformation programme to develop Msambweni Hospital to an ultra-modern and well- equipped referral hospital with specialized medical equipment,

ii. Enhancing the supply of essential medicines and supplies at the facility level by developing efficient ,effective and accountable framework

iii. Improvement in the management of health facilities by reconstituting hospital management boards run by members with the requisite skills, experience commitment, purpose and integrity.

iv. Proactive mitigation of health risk factors such as drug abuse, alcohol use ,unsafe sex, unsafe water sanitation and hygiene. These can be done by strengthening community based civic education on containment of the main risk factors undertaken by community health units.

v. Establishing a programme on environmental sanitation and hygiene upto ward level to curb incidences of the spread of communicable and infectious diseases

vi. Incentives to community health workers will be instituted such as the provision of motorcycles, uniforms, medicine kits and regular allowances.

vii. On drug and substance abuse the county government through the department of community development has earmarked to establish at least two rehabilitation centres.

Towards Quality and Relevant Education for Kwale Citizens

39. The county mandate on education is on early childhood development education and youth training. Over the three decades, poor education standards have been witnessed with evident poor performance in national examinations consistently. Right from Early Childhood Development Education, there have been challenges to which the current county government inherited. These challenges include inadequate education infrastructure, inadequate number of teachers, low transition rates and school access in terms of distance. These challenges have been aggravated by the population's low income levels. Kwale County's absolute poverty stands at 74.9%.There are incidences of brilliant students from poor families who drop out of school because of lack of school/college fees.

40. As outlined in the 2014 CFSP, and now reiterated in this 2015 CFSP , the strategies that need to be reinforced shall include;

i. Enhancing and strengthening the support to needy students through scholarship programmes, bursaries and grants. Tremendous progress has been achieved over the last two years. 9,500 beneficiaries have been realized with KSh260 Million worth of bursaries being disbursed. The Department of Education is proposing for an upward movement of the scholarship and bursary scheme budget to KSh.400 Million.

ii. Strengthening Early Childhood Development Education infrastructure by constructing more ECDE centres at least three in each ward to address the challenge of access in terms of distance and increase ECDE enrolment.

iii. Expanding and modernizing technical and professional training by developing more youth polytechnics. The current strategy is to construct one polytechnic in every sub county and going forward to construct village polytechnics at least one in each county ward, staffing and equipping them. This strategy shall also aim at introducing relevant courses that will aid the county's development agenda. More so this effort shall be extended to increase transition rate to about 90 percent by end of the year 2016.

iv. Introducing programs on civic education to sensitize the community on the importance of education and discourage retrogressive cultural and traditional practices that have adversely affected education. Concerted efforts among the county administration, CBOs and local professionals will be instituted to counsel and motivate students to work hard in their education,

v. Developing education delivery standards and strengthening quality control and educational inspectorate services in order to enforce and uphold quality education.

Scaling Up Social Protection

41. As the county implements its economic transformation agenda, it shall allocate resources to meet unexpected emergencies to those sections of our society who may suffer welfare shocks such as hunger and other calamities. The County Government is cognizant of the fact that a large portion of the county is semi- arid and is dependent on rain-fed agriculture. In times of drought and crop-failure, food starvation has been witnessed in some sections of our society. To help alleviate hunger, save life and ensure a productive population, the county will apportion part of its annual budget to the emergency fund. The long-term solution would be to enhance investment in expanded agricultural production and urban farming through irrigation and green housing schemes. For the disabled persons within our society, this 2015 CFSP

proposes the establishment of a fund specifically for the disabled to assist them to participate in the economic transformation agenda.

Pillar V: Further Entrenching Devolution for better service Delivery

42. The National government strategy to further entrench devolution for better service delivery aims at strengthening institutions and capacity to link inter-governmental fiscal transfers with revenue raising capacity of the county government in order to enhance political and financial accountability for efficiency and effectiveness in service delivery, alleviation of poverty and convergence in county development. In the 2015 BPS, the county allocation of its equitable share from the National Government for FY 2015/2016 has been raised to Ksh.5,090,842,160.00 from the current FY 2014/2015 of Ksh.4,472,304,285.00. This may not be adequate to actualize the county economic transformation agenda in the coming financial year 2015/2016. To supplement this, more effort will be geared towards raising additional revenues. As the campaign to raise revenue continues, caution will be taken to safeguard and ensure a thriving business environment supportive of the private sector. To ensure the county delivers on its objective of better service delivery and economic transformation, close collaboration with the National Government will be enhanced and fiscal discipline in the use of public resources will be entrenched.

Outline of the 2015 County Fiscal Strategy Paper

Recent economic developments and policy outlook

43. Section II outlines the economic context in which the 2015/16 MTEF budget is prepared. It provides an overview of the recent economic developments and the macroeconomic outlook covering the national and county scenes.

Fiscal Policy and Budget Framework

44. Section III outlines the fiscal framework that is supportive of growth over the medium- term, while continuing to provide adequate resources to facilitate the county economic transformation agenda.

Medium- Term Expenditure Framework

45. Section IV presents the resource envelope and spending priorities for the proposed 2015/16 MTEF budget and the medium term. Sector achievements and priorities are also reviewed for the 2015/16 MTEF period.

Conclusion

46. Section V concludes this paper.

II. RECENT ECONOMIC DEVELOPMENTS AND POLICY OUTLOOK

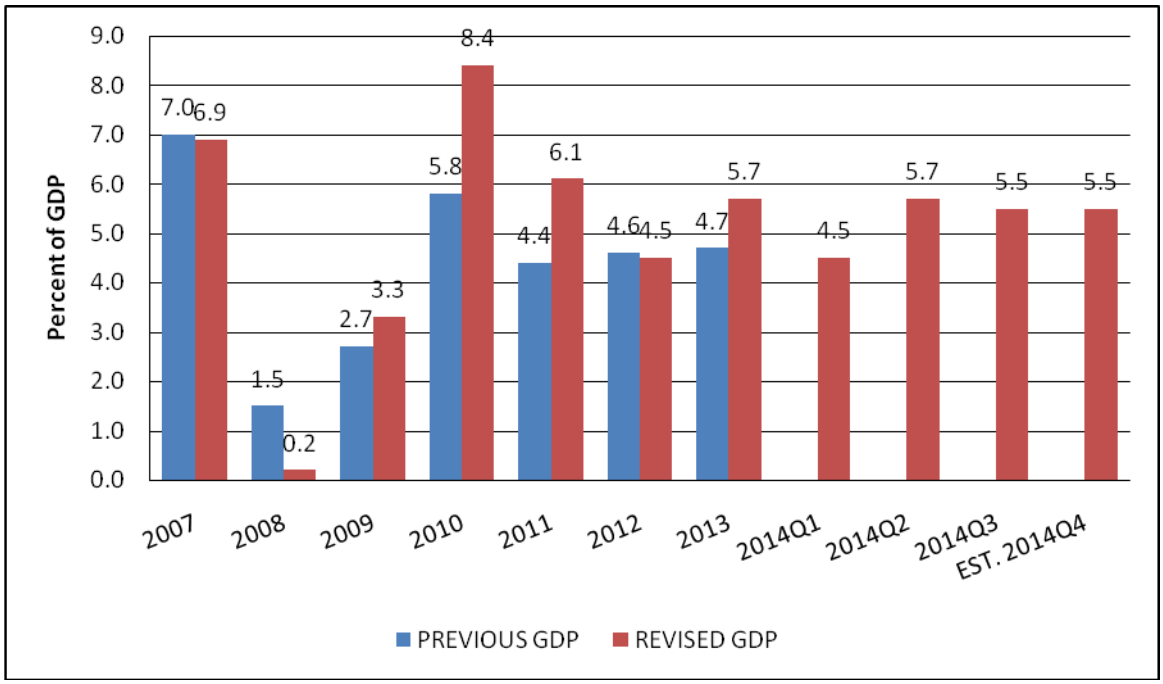
Overview of Recent Economic Performance

47. The completion of rebasing and revising of the national accounts statistics in September, 2014 resulted in rebased GDP estimates in nominal terms for 2013of about Ksh 4,757.5 billion .This placed Kenya at lower middle income Kenya. Kenya's economy is now ranked as the 9th largest in Africa and the fourth largest in SSA.

Growth Updates: National Economy

48. The latest updates from the Kenya National Bureau of Statistics (Economy Survey, 2014) shows that Kenyan economy grew by 5.7percent in 2013 and by 5.5 percent in 2014. Going forward, there is a promising outlook as the country continues to implement sound economic policies. The economy is projected to grow by 6.9 percent in 2015 and 7.0 percent in the medium term. This level of growth will be underpinned by the continued good performance in agriculture, forestry and fishing, manufacturing, real estates, wholesale and retail trade, financial and insurance activities and information and communication.

Figure 2.0: Comparison in Kenya's GDP Growth Rates



Source: KNBS

49. The 2015 CFSP is prepared under such a background. The envisaged growth in the national economy is expected to trigger a stimulus to the county economy. The continued bold implementation of national economic policies is expected to have a multiplier effect on all economic sectors of the country. This coupled with the ongoing investment in mining and agro-processing industries; increased retail trade and substantial real estate investment will spur economic growth in the country and create employment opportunities for the citizen's private credit stabilizers.

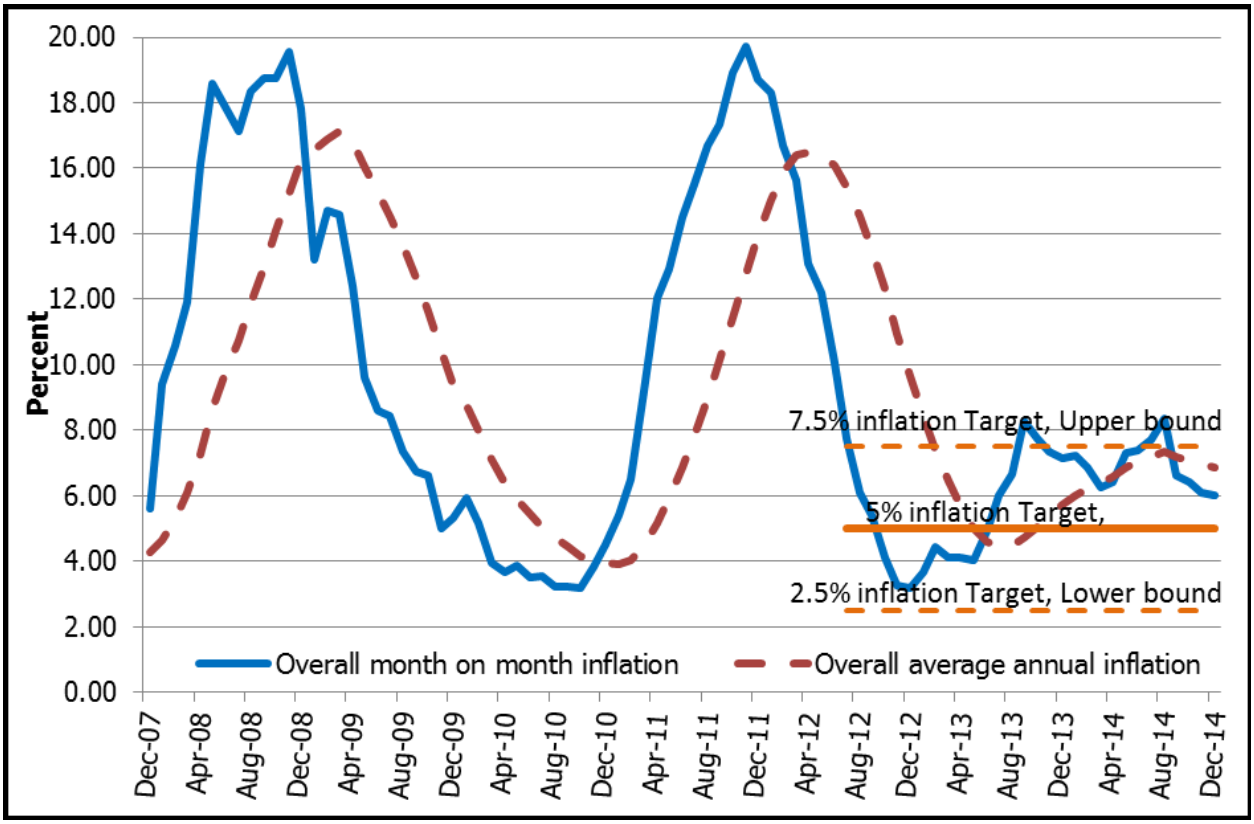
50. According to the 2015 BPS, net credit to government contracted by 38.0 percent in the year to November 2014 compared with a growth of 10.3 percent in a corresponding period in 2013. Bank credit to the private sector amounted to Ksh 1,857.3 Billion in November 2014 from 1,519.3 Billion in November, 2013, representing an increased growth of 22.2 percent in November 2014 from 20.0

percent growth in the same period in 2013. The private sector credit flow was mainly to productive sectors although there was considerable lending to private households.

Inflation within single digit

51. Overall month on month inflation declined further to 6.0 percent in December 2014 from 6.1 percent in November 2014 and 6.4 percent in October 2014. On average, the annual inflation rate was 6.9 percent in December 2014 compared to 5.7 percent in December 2013. The decline in overall inflation in December 2014 was largely attributed to lower fuel inflation. Fuel inflation eased from 6.4 percent in November 2014 reflecting a fall in the retail price of kerosene, diesel and petrol. Non – food non-fuel inflation also eased from 3.8 percent in November 2014 to 3.7 percent in December 2014.

Figure 2.1: Inflation Rate



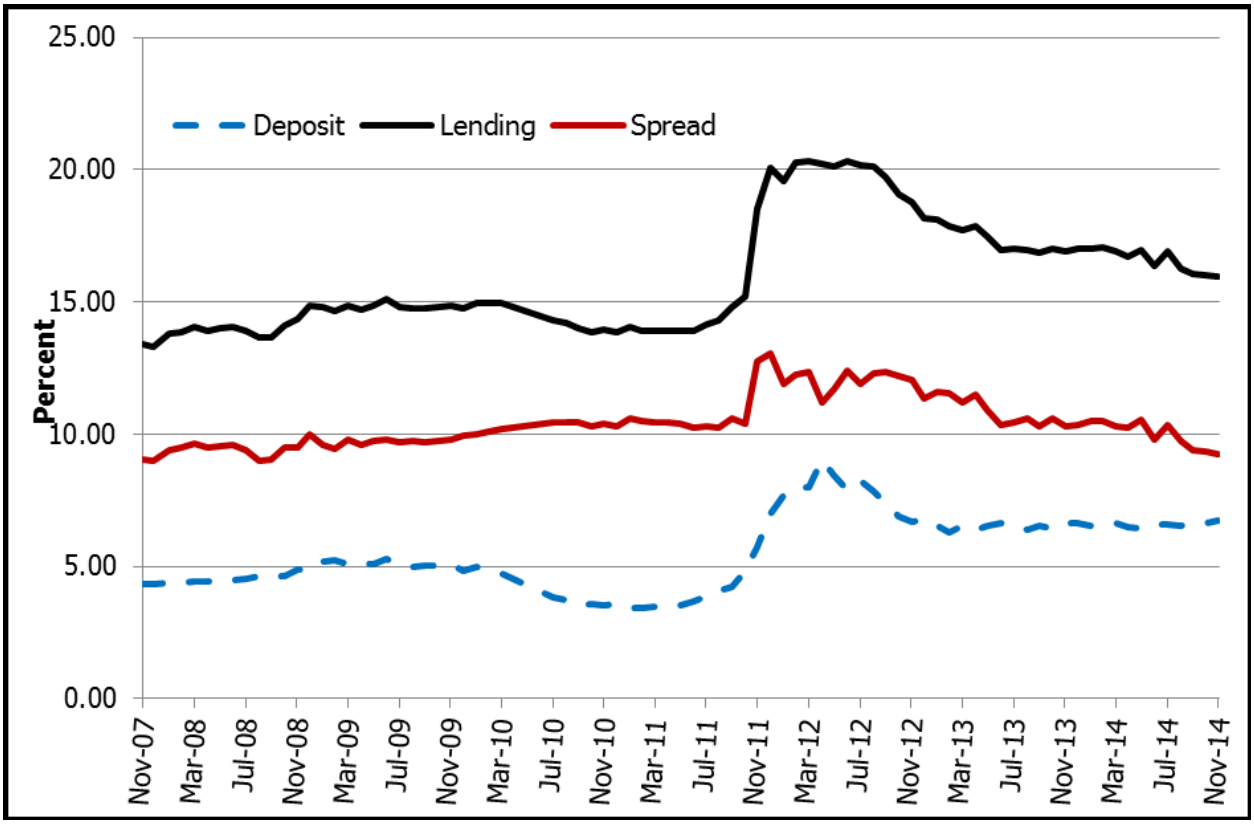
Source: KNBS and CBK

52. Food inflation however, rose from 7.4 percent in November 2014 to 7.5 percent in December, 2014. This reflects the 12 month change in the 'food and non alcoholic beverages' index, which rose from 7.5 percent in November 2014to 7.7 percent in December, 2014.

Commercial Bank Interest Rates Declining: The Kenya Banks Reference Rate (KBRR) remained at 9.13 percent.

53. Commercial banks average lending declined to 15.9 percent in November 2014 compared with 17.0 percent in November 2013 while the deposit rate increased to 6.7 percent from 6.6 percent over the same period. This narrowed interest rate spread from 10.3 percent in November to 9.2 percent in November 2014 reflecting mainly a decline in the lending rate.

Figure 2.2: Commercial Banks Lending and Deposit Interest Rates

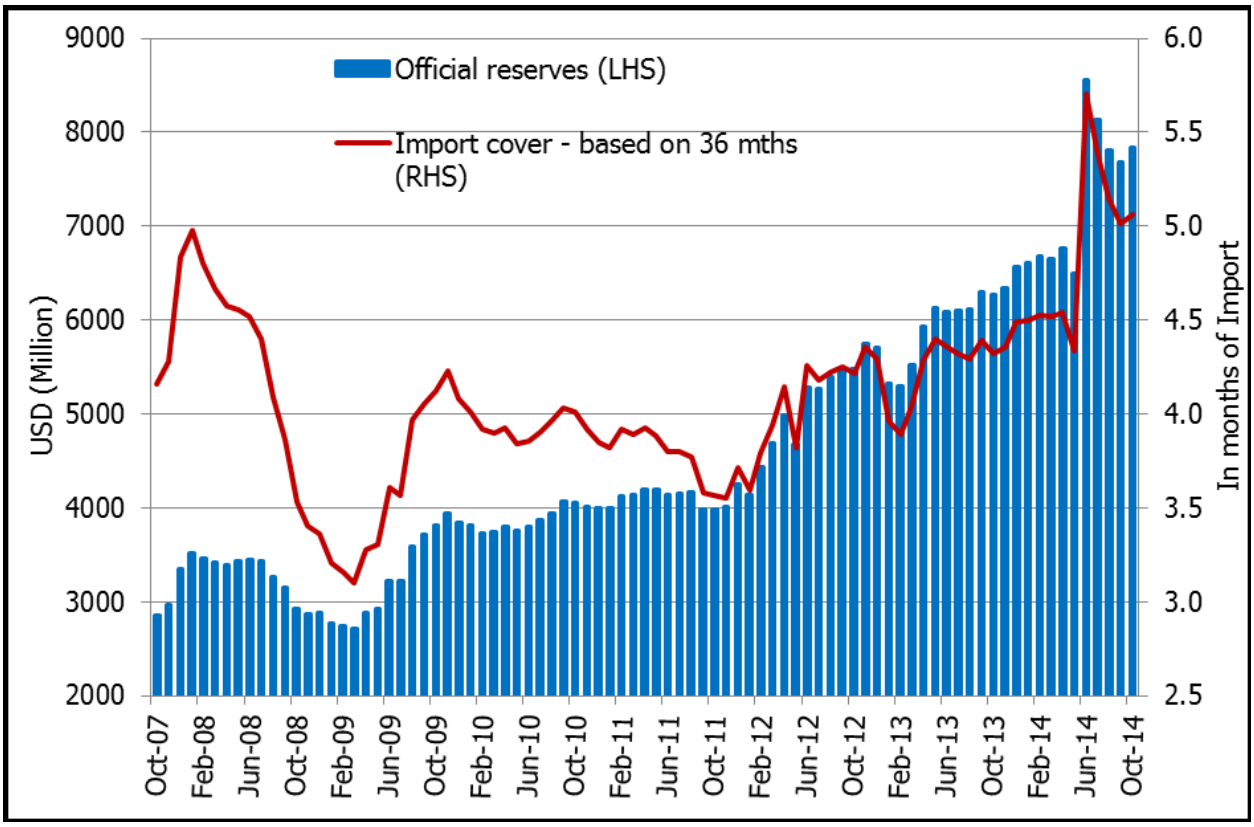


Source: CBK

Improved Foreign Exchange Reserves

54. The gross foreign exchange holdings of the banking system increased by 19.6 percent from US$ 7,859 Million in October 2013 to US $ 9,400 Million in October 2014. Gross official reserves held by the Central Bank increased to US $ 7,839 Million(5.06 months of import cover) in October 2014 , an improvement from US $ 6,263 Million (4.32 months of import cover) in October 2013 due to purchase from interbank money market and receipt of proceeds from the sovereign bond issuance.

Figure 2.3: Official Foreign Reserves ((US$ Million)

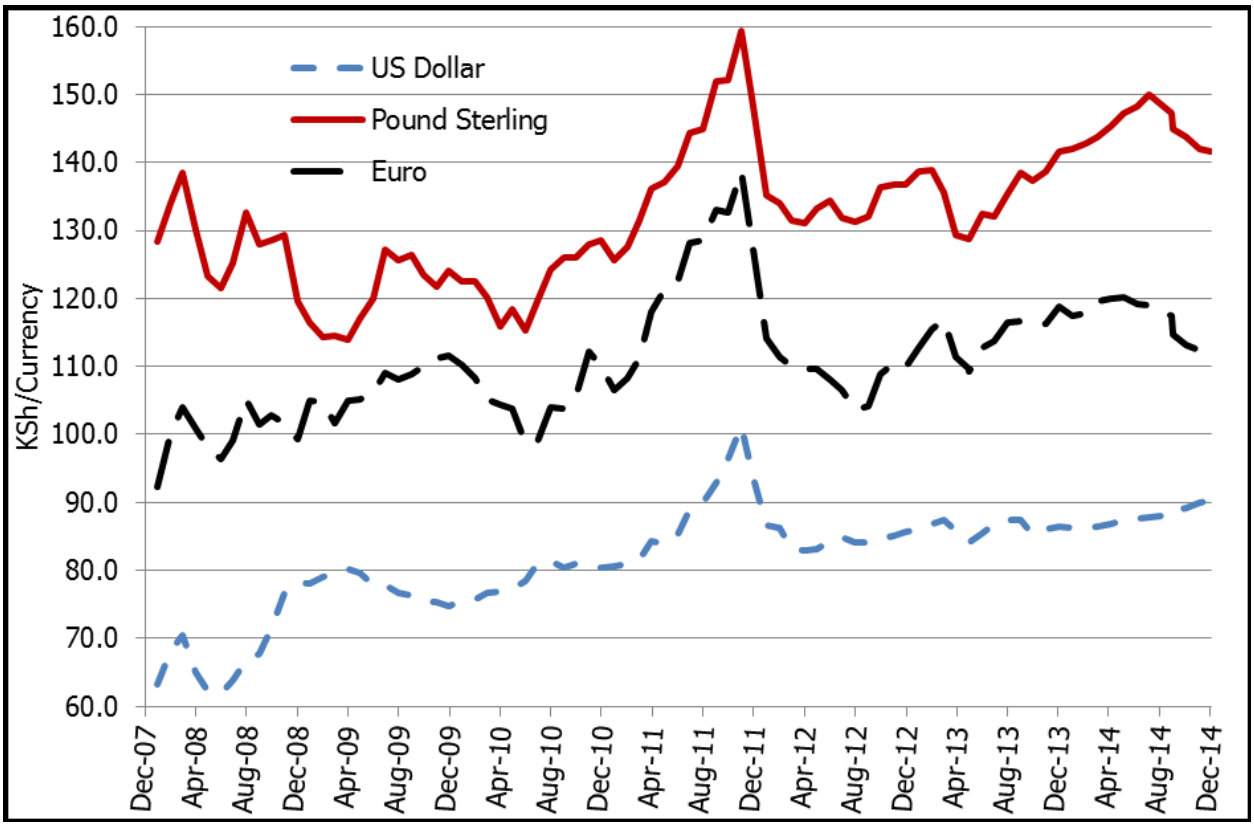


Source: CBK

The Shilling Exchange Rate

55. The Kenya shilling exchange rate demonstrated mixed performance against major foreign currencies. The currency depreciated against the US dollar to Ksh 90.5 in December 2014, from Ksh 90.0 in November 2014 and Ksh 89.2 in October 2014.

Figure 2.4: Kenya Shilling Exchange Rate.



Source: CBK

Stock market remain vibrant

56. The stock market was vibrant shown by improvement in the NSE 20 share index from 4,927 points in December 2013 to 5,113 points in December 2014. This represents a 3.8 percent increment. There was an increase of 21.0 percent on shareholders wealth. Market capitalization which reassures shareholders wealth improved from Ksh 1901 billion in December 2013 to Ksh 2300 billion in December 2014.

57. Equity market turnover for the month of December 2014 stood at 28.6 billion from ksh17.1 billion in November 2014 representing a 67.3 percent increase. However, the band turnover decreased from Ksh 52.6 billion in November to Ksh40.7 billion in December.

Update on Fiscal Performance and Emerging challenges.

58. The FY 2014/15 fiscal framework assumed a stable macroeconomic and continuation of our policy to contain non priority and unproductive expenditures. In this 2015 CFSP, the County Government intends to continue with this policy by reducing the recurrent expenditures even further to allow for more allocation to the development budget. The ratio of recurrent expenditure to development expenditure has been proposed to be 44 to 56 percent. This is proposed in the latest supplementary budget submitted to the County Assembly.

Implementation Progress and Emerging Fiscal Challenges

59. Implementation of the FY2014/15 budget is progressing well despite initial challenges encountered at the start of the financial year. At the centre of the challenges in the issue of maintaining the CRA budget ceilings. This culminated in the authorization of only fifty percent of the county budget to run county operations. As at 31st December, 2014, the fifty percent allocation for use in the recurrent budget has been utilized. Adequate measures have been put in place to ensure only priority and critical recurrent expenditure are undertaken to ensure efficient and effective utilization of future allocation.

60. Fiscal outcome by the end of December, 2014 has been satisfactory. Revenue collection for the second quarter fell short of the target by 8 Million although it indicates an improvement from the financial year 2013/2014. The county is facing challenges in collecting revenue from the Tourism Sector (bed levy) and the mining sector (mining levy). These two revenue streams are key in enhancing revenue and achieving our target of Ksh.500 Million.

61. Total cumulative revenue collected as at end of December, 2014 amounted to Ksh.96.7 Million which was below the target of Ksh.250 Million by Ksh.153Million.

This shortfall was a result of the underperformance in the main revenue resources- land rates, mining levy and bed occupancy.

62. Total expenditures amounted to Ksh. 700,100,915.00 against a target of Ksh2, 062,990,404 at the end of December 2014. This reflected an absorption rate of 34 percent (Daily Nation Jan 29 2015, Report by the NT on exchequer issues to CGs).

2014/2015 Revised Estimates

63. Towards the end of the first quarter of 2014/2015, there were expenditures made on the Kwale Investment and Cultural Festival, Community and Sport events, National convocation and others. This necessitated the revision of the County Budget in the form of Supplementary estimates. There were also pending and ongoing projects which had to be rebudgeted (revoting). The total expenditure proposed for funding consideration is therefore about Ksh6, 483,457,850.00. It was proposed that these expenditures be funded through expenditure rationalization. .There were also conditional grants (DANIDA and World Bank) and capturing of the Emergency Fund (Ksh 40 Million). The overall fiscal framework after the revisions is depicted in Table 2.0 below.

Table 2.0 Kwale County Supplementary Budget Estimates 2014/15

	INCOME	**Approved Budget Estimates- KSh**	**Revised Budget Estimates -KSh**
	County Own Revenue	500,000,000.00	500,000,000.00
	Equitable Share(National Government Disbursement)	4,500,000,000.00	4,472,544,358.00
	Reallocation of Funds from FY 2013/2014	661,869,200.00	1,401,704,075.00
	Emergency Fund	-	40,000,000.00
	Conditional Grants	-	69,209,417.00
	TOTAL INCOME	**5,661,869,200.00**	**6,483,457,850.00**
	EXPENDITURE	**Approved Budget Estimates- KSh**	**Revised Budget Estimates-KSh**
	Office of the Governor	183,820,000.00	247,212,115.00
	Office of the Deputy Governor and Public Administration	267,340,000.00	284,764,385.00
	Finance and Economic Planning	748,623,411.00	499,680,338.00
	Agriculture, Livestock and Fisheries	432,540,000.00	483,843,218.00
	Education	547,800,000.00	785,752,612.00
	Health	1,137,541,400.00	1,398,591,622.00
	Trade and Cooperatives Development	182,914,889.00	201,980,840.00
	Infrastructure and Public Works	304,690,000.00	395,053,267.00
	Community Development, Culture and Talent Management	223,420,000.00	359,315,075.00
	Tourism and ICT	145,860,000.00	229,341,872.00
	Lands, Physical Planning and Natural Resources	116,219,500.00	177,041,520.00
	County Assembly	966,750,000.00	966,750,000.00
	County Public Service Board	76,080,000.00	44,832,088.00
	Water Services	328,270,000.00	409,298,898.00
	TOTAL EXPENDITURE	**5,661,869,200.00**	**6,483,457,850.00**

Source: Kwale County Treasury

Economic Policy and Outlook

External Environment

64. World economy is expected to grow gradually, from 3.3 percent growth in 2014 to about 3.8 percent in 2015. This growth will be driven mainly by growth in the advanced economies. However, there are challenges like high unemployment, large debt stocks and tight private sector borrowing which may hamper growth.

65. In the emerging markets, economies are projected to grow from the figure of 2.7 percent in 2014 to about 3.9 percent in 2015. However, this needs to be supported by security improvement and reduced tensions and regional conflicts. In sub-Saharan Africa, growth is expected to remain strong , at about 5 percent in 2014 and 5.75 percent in 2015.this will be driven by sustained infrastructure investment, vibrant services sectors and strong agricultural production. However, challenges such as Ebola outbreak, macro economic imbalances and inappropriate domestic policies may hamper economic activities. All the undergoing assumption, ceteris paribus, will depend on maintenance of macroeconomic stability, moderate fiscal consolidation and a highly accommodative monetary policy. Again, the issue of insecurity and geographical tensions may hinder economic growth prospects.

Kenya's Growth Prospects

66. The Kenyan economy is projected to expand by 6.9 percent in 2015 and 7.0 percent in 2018 from the projected 5.3 percent in 2014. This will be sustained by continued good performance across all sectors of the economy. This projected growth also assumes normal weather pattern in 2015 and the medium term. Inflation is expected to remain at single digit at about 5.0 percent target. This will be achieved by maintenance of a prudent monetary policy and stability of food and oil prices and shilling exchange rate to the major international currencies. Other factors include: increased agricultural production, increased investment in infrastructure, and

expansion of retail and wholesale trade, financial intermediation among others. More so, there is a great need to restore investor confidence for increased investments which shall accommodate increased domestic demand.

Risk to the Outlook

67. The risks to the outlook for 2015/16 and the medium term include continued weak growth in advanced economies that will impact negatively on exports and tourism activities. Further, geographical uncertainty on the international oil market will slow down the manufacturing sector.

68. The impact of insecurity on tourism and depressed rainfall which could affect exports and agricultural production remains a risk to the growth outlook. Loss of employment opportunities in the tourism sector has been witnessed in the recent past and the situation continues to worsen off although measures have been in place to restore security. The county government in conjunction with the national government is working out measures to safeguard macroeconomic stability as this risk materializes.

III. FISCAL POLICY AND BUDGET FRAMEWORK

Overview

69. As pointed out in 2014 CFSP, the county's medium term fiscal policy remains at supporting rapid economy that is sustainable to ensure effective service delivery. Our policy shall still remain in the 2015/16 budget. More public resources will be shifted from recurrent to capital expenditure so as to promote sustainable and inclusive growth. The 2015/16 fiscal policy aims at a revenue effort of 10% of our total revenue to be raised locally (County own revenue)

Fiscal Responsibility Principles

70. In line with the constitution 2010, the public finance management Act,2012, Kwale county has adhered to the fiscal responsibility principles as set out in the statutes as follows:-

i. Over the medium term, a maximum of 60% of the county budget shall be allocated to development expenditure. The latest supplementary estimates have allocated 56 percent of county budget to development with the expectation that it will expand to 60 percent over the medium term.

ii. The county government's expenditure on wages and benefits for its employees shall not exceed a percentage of the county government revenue as prescribed by regulations. On wages and benefits, the share of to our total revenue was 25 percent in financial year 2013/14, and is projected at 22 percent in financial year 2014/2015 and is set to decline to about 20 percent by financial year 2017/18.

iii. Over the medium term, the county government borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure. It is our policy to procure any external financing only for capital projects. Although counties have not been allowed to borrow, strict adherence to this policy will be ensured once the permission is granted.

iv. Public debt and obligations shall be maintained at a substantial level as approved by the County Assembly. In our medium term debt strategy, the county government shall at all times ensure public debt sustainability. At the same time ensure moderate domestic borrowing so as not to crowd out private sector borrowers given our strategy to spur private investment to accelerate economic growth. At the moment, a debt management strategy is not in place as we await national government permission to borrow and the borrowing guidelines.

v. Fiscal risks shall be managed prudently. The county government shall study the macroeconomic forecasts issued by the national government and utilize them for projections in the budget. To cater for urgent and unforeseen expenditure, a 2 percent of our revenue allocation is factored in our budget.

vi. 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. On this principle, the county treasury will initiate a research based on macroeconomic factors in the county to ensure there is a degree of predictability in all the local taxes, rates and charges levied by the county government.

Fiscal Structural Reforms

71. The Fiscal policy underpinning the financial year 2015/16 budget and MTEF aims at revenue of Ksh 423 Million over the medium term and containing the growth of total expenditure. Further the policy aims at shifting more public resources from recurrent to development expenditure to promote sustainable and inclusive growth.

The county fiscal policy shall undertake reforms in the areas below:

i. Enhancing revenue mobilization, including broadening the revenue base. Revenue collection efforts will be enhanced to ensure all potential sources are covered. Revenue administration shall be reinforced through recruitment of more revenue officers. Automation of the revenue collection system is top on the county revenue mobilization agenda.

ii. Expenditure rationalization will be undertaken with vigour to eliminate all non-productive areas and unwarranted expenditures.

iii. Expenditure efficiency and effective execution of budget programs through enforcement of cost benchmarks for all projects and consumables will be undertaken. As mentioned earlier, a project implementation performance benchmark of at least 80 percent will be enforced. Expenditure tracking and value for money audits will be carried out in all sectors to ensure efficiency and effectiveness in the use of public resources. The institutionalizing of the transform Kwale unit will play a key role in this.

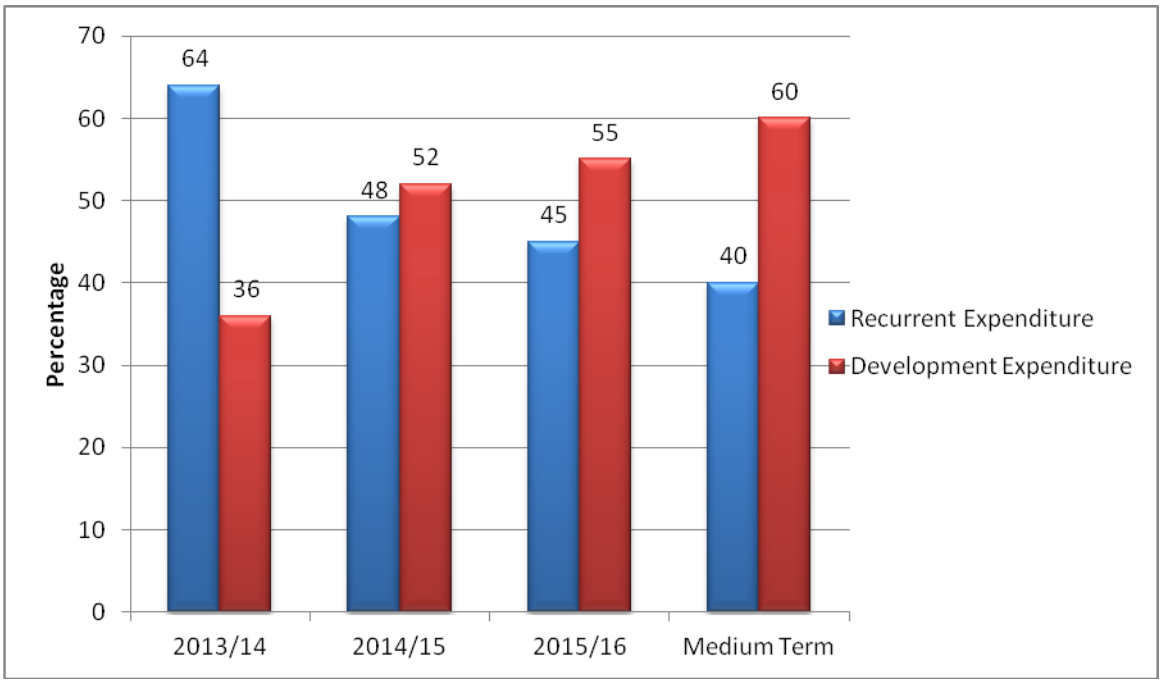
iv. Adoption of e- procurement in all public procurement in our county departments is also a priority to ensure expenditure economy, efficiency, transparency, accountability and prudent use of public resources as well as improvement in absorption capacity in capital projects funding.

2015/2016 Budget Framework

72. The medium term fiscal framework for FY 20015/2016 is set based on fiscal framework set above. Our general county output is expected to increase on the assumption that weather conditions are conducive to agricultural production; insecurity is checked to restore investor confidence and revive the tourism sector performance and that performance in other sectors of our economy continues to be good. More so macroeconomic stability is guaranteed; inflation remains to be low and stable, food and oil prices are low and exchange rate is stable.

The trend in expenditure from 2013/14 onwards and projected recurrent and development ratios in the medium term is as depicted in the table below.

Figure 3.0: Expenditure Trend in Recurrent and Development Expenditures

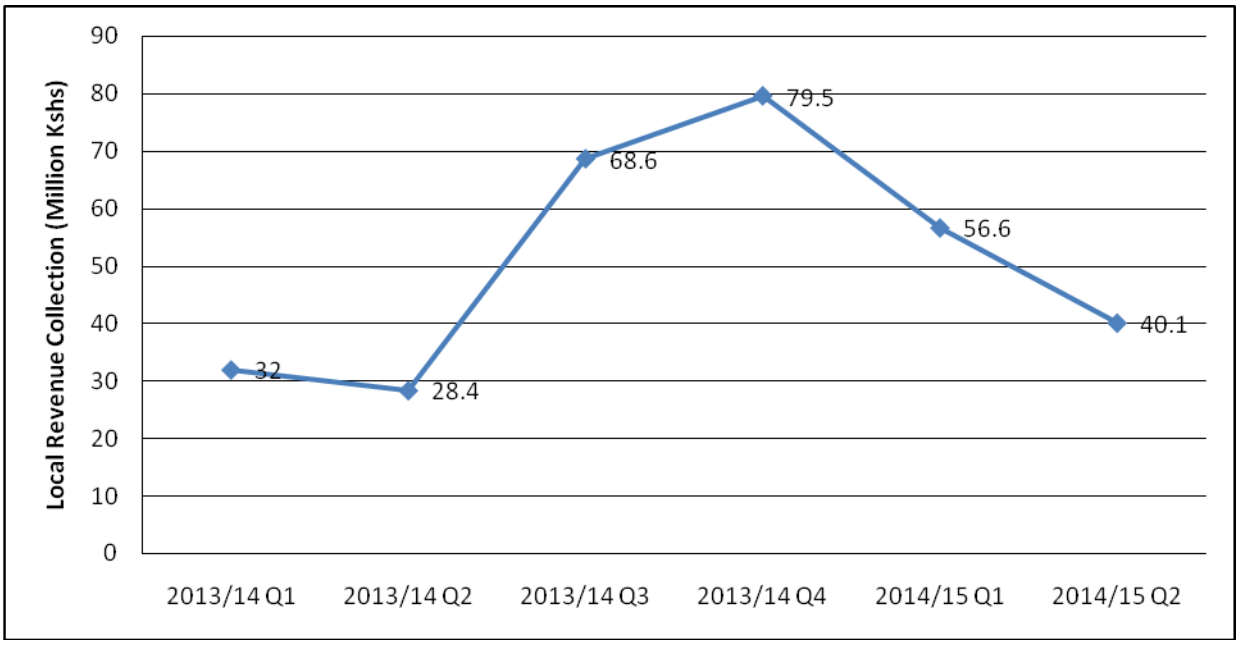


Source: *Kwale County Treasury*

Revenue Projections

73. The total available revenue in the first half of FY 2014/15 was Kshs. 2.3 billion. The County Treasury prepared the 2013/14 final accounts and reconciled the actual cash balance brought forward to be Kshs. 993 million. From the equitable share, the County received Kshs. 1.3 billion as national shareable revenue and collected Kshs.96.7 million from the revenue local sources. The County managed to collect Kshs.56.6 million in the first quarter and Kshs.40.1 million in the second quarter. The local revenue raised in the first half of FY 2014/15 of Kshs.96.7 million was 19 per cent of the annual local revenue target of Kshs.500 Million. However, this was a 59% improvement from Kshs.60.4 million collected in the same period of FY 2013/14. The figure below shows the trend of local revenue collection by quarter.

Figure 3.1: Quarterly Trend in Local Revenue Collection



Source: *Kwale County Treasury*

74. In addition, during the first half of 2014/15, the County received exchequer issues of Kshs. 2.23 billion comprising of Kshs.1.23 billion (55 per cent) for recurrent expenditure and Kshs.994 million (45 per cent) for development programmes.

75. The FY 2015/2016 budget targets local revenue collection of Ksh.300Million (about 40 percent reduction) from Ksh.500 Million in FY 2014/2015. This will be dependent upon fast tracking of the implementation of the automation of the revenue collection system and enhancement our collection efforts. Revenue from the National Exchequer will be Ksh.5, 090,842,160.00 up from the Ksh.4, 472,304,285.00 allocated in the FY 2014/2015. Other revenue sources shall include the following

i. **Additional conditional and unconditional allocations** from the share of the national government as contemplated under Article 202(2) of the Constitution. For FY 2015/16 the County Government shall receive **KSh 280,449,354.00.**

ii. **Borrowing**-provided the national government guarantee is obtained as well as the approval of the County Assembly. For this FY2014/15, the county government has no arrangement to borrow funds.

iii. **Grants and donations from development partners** in accordance with section 138 and 139 of the PFM Act, 2012. The County will receive Kshs. 59, 379, 322.00 in the FY 2015/16.

iv. **Equalization Fund** established under Article 204 of the Constitution for purposes of providing basic services including water, roads, health facilities and electricity to marginal areas in order to bring those services in the marginal areas to national standards. This has not been factored in because of the ongoing court battles on the control of the funds.

Table 2.1 Kwale County Fiscal Projections FY 2014/15- 2017/18

REVENUE SOURCE	1ST QUARTER 2014/15	2ND QUARTER 2014/15	ACTUALS (As at 31st Dec 2014)	BUDGET 2014/2015	BUDGET 2015/16	PROJECTIONS	
						2016/17	2017/18
		Kshs	Kshs	Kshs	Kshs	Kshs	Kshs
Land Rates	9,972,322.00	7,476,030	17,448,352	114,784,104	118,262,514.40	130,088,765.84	143,097,642.42
Single Business Permit	6,914,474.00	2,284,116	9,198,590	43,580,628	47,938,690.80	52,732,559.88	58,005,815.87
House and Stalls Rent	387,000.00	508,600	895,600	1,000,000	1,100,000.00	1,210,000.00	1,331,000.00
Market Fees	1,675,929.00	1,286,838	2,962,767	4,723,488	5,195,836.80	5,715,420.48	6,286,962.53
Royalties	6,457,615.00	4,806,051	11,263,666	6,660,200	7,326,220.00	8,058,842.00	8,864,726.20
Cess	4,177,199.00	2,623,980	6,801,179	27,418,112	30,159,923.20	33,175,915.52	36,493,507.07
Transit Goods	3,382,967.00	2,912,710	6,295,677	12,000,000	13,200,000.00	14,520,000.00	15,972,000.00
Auction Fees	1,363,680.00	1,768,265	3,131,945	7,473,040	8,220,344.00	9,042,378.40	9,946,616.24
Advertisement	4,076,936.00	2,000,350	6,077,286	7,560,000	8,316,000.00	9,147,600.00	10,062,360.00
Parking Fees	1,556,500.00	1,203,120	2,759,620	9,633,160	10,596,476.00	11,656,123.60	12,821,735.96
Revenue from Hospital	11,443,515.00	9,555,830	20,999,345	29,197,440	32,117,184.00	35,328,902.40	38,861,792.64
Building Plan Approval	2,011,119.00	1,204,703	3,215,822	6,000,000	6,600,000.00	7,260,000.00	7,986,000.00
Land Revenue	399,800.00		399,800				
Garbage Fees	882,500.00	906,500	1,789,000	4,080,000	4,488,000.00	4,936,800.00	5,430,480.00
Administration	44,450.00	23,300	67,750	109,828	120,810.80	132,891.88	146,181.07
Miscellaneous	1,716,283.00	1,490,000	3,206,283	5,780,000	6,358,000.00	6,993,800.00	7,693,180.00
Agriculture	156,377.00		156,377				
Mineral Levy		0.00	0.00	120,000,000	0.00	0.00	0.00
Bed Levy		0.00	0.00	100,000,000	0.00	0.00	0.00
LOCAL REVENUE	56,618,666.00	**40,050,433**	**96,669,099**	**500,000,000**	**300,000,000.00**	**385,000,000.00**	**423,500,000.00**
NATIONAL GOVERNMENT REMITTANCE	337,405,738.00	2398013127	2,735,418,865	4,472,544,358	5,365,463,493.00	5,599,926,376	6159919014
TOTAL REVENUE	**394,024,404.00**	**2,438,063,560**	**2,832,087,964**	**4,972,544,358**	5,665,463,493.00	**5,984,926,376.00**	**6,583,419,013.60**

Source: *Kwale County Treasury*

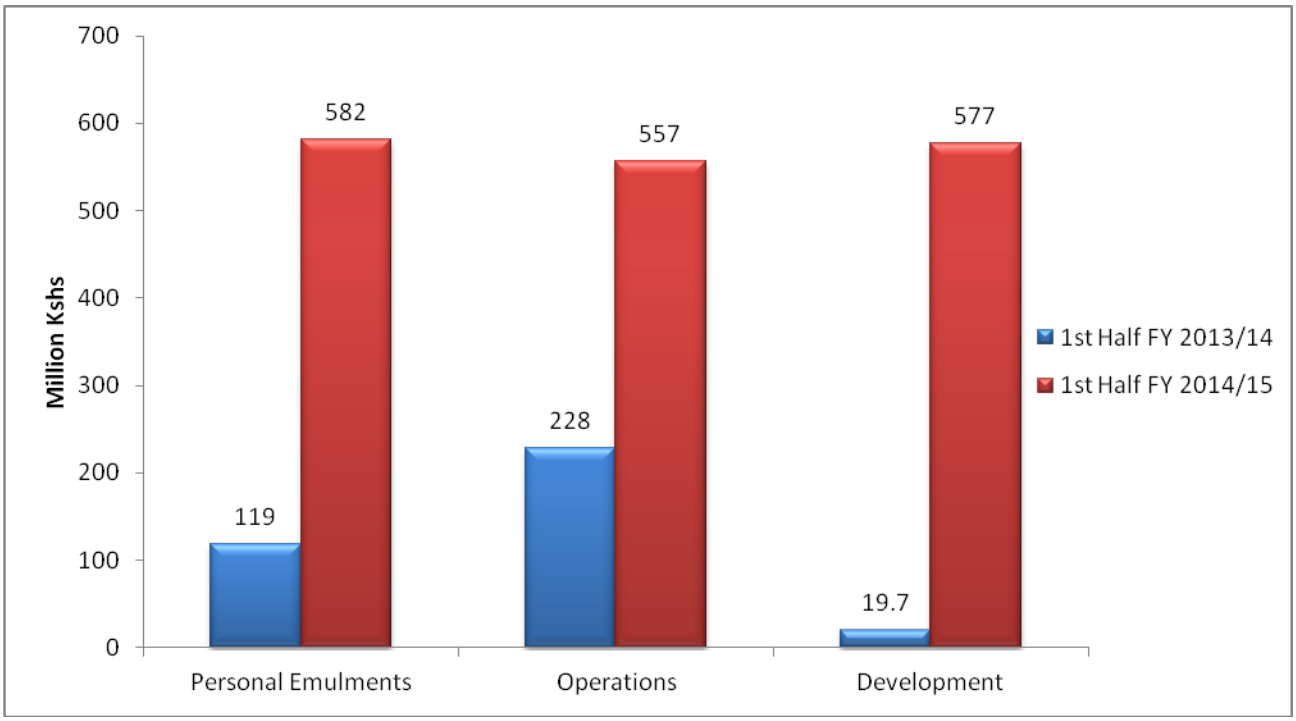
Expenditure Forecasts

76. The total expenditure for the first half of FY 2014/15 was Kshs. 1.72 billion representing a 77 per cent of the total funds released indicating an improvement from the Kshs.427 million spent in the same period of FY 2013/14. The expenditure on recurrent activities was Kshs.1.14 billion (66 per cent) and Kshs. 577 billion (34 per cent) on development programmes. Recurrent expenditure was 92 per cent of the funds released while development expenditure accounted for 58 per cent.

77. The recurrent expenditure represented an absorption rate of 45 per cent of the annual recurrent budget, an increase from an absorption rate of 14.2 per cent realized in the same period of FY2013/14. Development expenditure recorded an absorption rate of 34 per cent of the annual development budget, an improvement compared to the same period in FY 2013/14 when the County spent 1.3 per cent of annual development budget.

78. Analysis of the recurrent expenditure of Kshs.1.14 billion shows that the County spent Kshs.582 million on personnel emoluments which represents 51 per cent of the total recurrent expenditure and Kshs.557 million on operations and maintenance expenditure which is 49 per cent of the total recurrent expenditure for the first half of FY 2014/15. The table below provides a detailed analysis of this trend.

Figure 3.2: First Half FY 2014/15 Expenditures (KSh. Million), Kwale County



Source: *Kwale County Treasury*

79. As we have to maintain a balanced budget, our expenditure will match our revenues. In terms of percentage of allocation, salaries and wages shall be allocated 20 percent, operations and maintenance 20 percent and development expenditure 60 percent. This will be in line with our fiscal policy and fiscal policy principles as laid down in the Constitution 2010 and Public Finance Management Act, 2012 Section 107.

80. The FY 2014/2015 budget structuring on allocations to departments will be used as basis for expenditure ceilings on goods and services for the sectors/ departments. We intend to use the order of priorities in allocation beginning with health, education, agriculture, infrastructure, trade and so on. The expenditure ceilings on goods and services will then be reduced to take into account one- off expenditure in FY 2014/2015 and then an adjustment factor is applied to take into account the general increase in prices.

81. Development expenditures will take about 55 percent of the county budget and shall be financed fully. The development budget is set to grow further due to pending and ongoing projects which need to be funded before new ones. We do not anticipate any borrowing as such no external budgetary resources will be factored in the 2015/2016 budget.

82. The fiscal policy outlined in this 2015 CFSP aims at improving revenue efforts as well as containing expenditure. This can only be achieved through the enactment of administration and legislative reforms aimed at enhancing revenue mobilization, improving efficiency and economy in public expenditure. The gains expected from this policy will avail the much needed resources to scale up investment in human capital, including on health and education, and physical infrastructure, boost trade and agricultural productivity so as to achieve the county's economic transformation agenda.

IV. MEDIUM TERM EXPENDITURE FRAMEWORK

Resource Envelope

83. The resource envelope available for allocation among the spending units is based on the updated medium term fiscal framework outlined in Section III.

Table 2.2: Revenue Allocation for Kwale County 2015/2016

Equitable Share of Income -2015/2016	5,090,842,160
Compensation for user fees forgone	15,149,869
Conditional Allocations Free Maternal Health	104,441,400
Conditional Allocations -Road Maintenance	65,113,404
Leasing of medical equipment	95,744,681
World Bank loan to supplement financing of county health facilities	45,759,322
DANIDA Grant to supplement financing for county health facilities	13,620,000
Total Government Disbursement	**5,430,670,836**
County Own Revenue	**300,000,000**
Total County Revenue	**5,730,670,836**

Source: 2015 Budget Policy Statement

84. National Government disbursement to the county will finance about 94 percent of our expenditure priorities in the 2015/2016 budget. Out of this, equitable share will account for about 85 percent of our budget, 9 percent will be financed by conditional grants and 6 percent will be financed by county own revenues.

85. Our strategy for the medium term will be to cover a bigger portion of the recurrent expenditure from our own revenue sources and then a small portion and all our development endeavors to be financed by National Government disbursement. Going forward, this strategy will bode well for long- term sustainability of our public finances.

Key County Priorities for the 2015/2016 Medium Term Budget

86. Careful evaluation and critical review of expenditures will be done to identify the non-priority expenditures and eliminate wastage. The resources that will be saved will be shifted to the more priority programmes. The 2013 CIDP and planned sector priorities will guide resource allocation in the 2015/16 budget. The criteria used in this 2015/16 resource allocation are derived from National Treasury circular No 10/2014 of August, 2014.

The criteria include:

i. Linkage of programmes to the medium term plan 11 of Kenya vision 2030for period 2013-2017.
ii. Linkage with the 2013-2017 CIDP flagship projects and strategic interventions.
iii. Degree to which programmes addresses core mandate of the sectors / departments.
iv. Expected output and outcomes.
v. Linkage of a programme with other programmes
vi. Cost effectiveness and sustainability of the programme.
vii. Immediate response to the requirements of implementation of the constitution.

87. The constitution and the PFM Act, 2012 requires county governments to promote budgetary transparency, accountability and effective management of public resources. In line with this, the county government will strive at eliminating inefficient and wasteful public spending at all levels in order to promote public trust in public spending.

88. Based on the criteria earlier mentioned, the MTEF budget for 2015/16 will focus on the following;

i. Allocating the bulk of budgetary resources to our critical social areas. The education and health sectors will receive a combined allocation of about 30 percent of total discretionary expenditure.

ii. The second largest allocation will fall under the energy, infrastructure and IT sector will account for about 25 percent of the budgetary resources. This will be geared towards rejuvenating the county roads, water services provision and investment in robust ICT platforms.

iii. Other priority areas including public administration and governance, community development ,gender and youth affairs, trade and tourism promotion, agriculture and rural development will be given priority in the allocation of resources. These sectors will receive about 45 percent of budgetary resources.

Baseline Ceilings

89. The baseline estimates reflects the current departmental spending levels in sector programmes. In the recurrent expenditure category, salaries to employees take a significant portion of the budgetary resources accounting for about 25 percent of the total budget income. Expenditure on operations and maintenance accounts for about 20 percent of the projected revenue.

Development expenditures which account for about 55 percent of our budgetary resources will be shared out on the basis of the County Integrated Development Plan and the sector priorities and strategic interventions laid out in this 2015 County Fiscal

Strategy Paper. Deliberate efforts to revamp the agricultural and rural development and general economic affairs sectors have been factored in to help deal with the problems of unemployment and general insecurity and also remove constraints to faster economic growth to aid our economic transformation agenda.

Specific guideline that will be applied include:-

i. Ongoing projects: emphasis should be given to completion of ongoing projects and in particular infrastructure projects before funding any new ones,
ii. Strategic interventions: priority will be given to policy intervention areas which can reduce unemployment and poverty and ensure equity and inclusiveness.

Spending Plans

90. Finalization of the preparation of the detailed budgets will entail thorough scrutiny to curtail spending on non- productive areas and ensure resources are directed to policy priority programmes. As we scrutinize the detailed budgets and resource envelope is firmed up, it is highly likely that additional resources will be saved. These savings on our resources will then be utilized to accommodate key strategic priorities.

The county's specific areas of consideration for additional resources will include:-

i. Important and crucial interventions that will be identified during the stakeholders consultation for the 2015/2016 MTEF budget,
ii. Implementation of the current laws on devolution covering areas/ sectors not accommodated within the baseline ceilings of the sectors/ departments,
iii. Strategic interventions in the area of education, health, infrastructure and agriculture (especially food security enhancing programmes),
iv. Specific considerations to job creation for the youth based on sound initiatives identified within and outside the normal budget preparation.

Details of Sector Priorities

91. The medium term expenditure framework for 2015/2016- 2017/2018 ensures continuity in resource allocation based on prioritized programmes aligned to the CIDP which mirrors the Kenya Vision 2030. Specific strategy policy initiatives as outlined in this 2015 CFSP have been considered in the resource allocation. These policy initiatives are geared towards accelerating economic growth, employment creation and poverty reduction. The recent achievements and key priority targets for each sector are based on the reports from the Sector Working Groups (SWGs) and the input from the public hearings held for preparation of this 2015 County Fiscal Strategy Paper.

Agriculture, Rural and Urban Development (ARUD) Sector

92. This sector is comprised of the department of Agriculture, Livestock Development and Fisheries and the department of Lands, Physical Planning and Natural Resources. The goal of this sector is to attain food security, sustainable land management, housing and sustainable urban infrastructure development. Article 43 of the Constitution 2010 in the Chapter on Bill of Rights, provides for accessibility of food of acceptable quality and accessible and adequate housing which is consistent with the aspirations of Vision 2030 (Second MTP 2013-2017).

The key objectives of the sector under the department of Agriculture, Livestock and Fisheries include: enhancing food security and increased income, increasing agricultural productivity through value addition, increasing market access, promoting sustainable land use in agricultural activities, enhancing efficiency and effectiveness of institutions, promoting agribusiness culture through adoption of appropriate technologies for crop productivity, livestock and fisheries development.

Under Lands, Physical Planning and Natural Resources the objectives of the sector include effective administration and management of land and land based resources, enhancing urban development and sustainable management of natural resources.

93. The ARUD sector has been identified as one of the six sectors in the national economy that will deliver the 10 percent economic growth rate under the Vision 2030. At the county level, the agriculture sub sector under the ARUD sector remains the back bone of the county's economy contributing over 80 percent to the county's community livelihood.

94. During the period 2013/2014- 2014/2015 MTEF period, the Agriculture sub sector implemented the food security and household income programme with seven sub-programmes which led to the realization of the following key achievements:-

i. In the Agriculture, Livestock and Fisheries sub sector, over 95,000 acres of land were put under crop production, over 60 metric tonnes of subsidized fertilizer was procured and distributed, over 48 tonnes of maize seeds and 100 tonnes of pulses were distributed. To improve on agricultural productivity through market access, upgrading of the Mwangulu auction ring has commenced and is still ongoing.

   In livestock development, under beef cattle improvement 24 beef offspring were distributed in 2013/14 and increased to 75 in 2014/15. Under dairy cattle improvement, 36 breeds were procured and distributed in 2013/14 and later increased to 60 in 2014/15. For meat goat improvement, 420 breeds were procured and distributed in 2013/14 and later increased to 540 in 2014/15. Dairy goat promotion saw 100 breeds procured and distributed in 2013/14 and increased to 250 in 2014/15. In the promotion of local poultry, the sub sector procured and distributed 5,180 local poultry. Regarding livestock vaccination, the County Government procured 135,000 doses of semen used for vaccination.

In addition, the county government rehabilitated 11 cattle dips within the county. Bee keeping also received a big boost through the provision of 80 beehives, 80 harvest kits and 12 catcher boxes.

In the fish promotion sub- programme, 16 fish ponds were accomplished and two rescue boats were also procured.

ii. In the Lands, Physical Planning and Natural Resources sub sector, the main programme of land management for sustainable development realized a number of achievements. Apart from notices being given to settlers on proposed public land sites, technical meetings on the establishment of settlement schemes and adjudication areas have been done. Perimeter survey of Mwamdudu settlement scheme was completed, perimeter survey of Mtaa settlement area commenced and community consultations for Kombani, Kikadini 1 and Kikadini 2 and Vanga settlement schemes are ongoing.

The programme on forest development and environmental management saw tree planting in institutions in eight Wards and commencing of consultation with community and Kaya elders to conserve the sacred forests.

95. During the period 2015/16- 2017/18 MTEF period, focus will be directed to the following priority areas: increasing agricultural productivity through input subsidy programme, mechanized agriculture, irrigation agriculture, improved animal breeding and artificial insemination, construction of grain storages, improved training to farmers on smart agriculture, cattle disease control and establishment of cold storages and exploration of deep sea fishing for fish production. Others include sensitization on poultry farming and vaccine provision, value addition in livestock products and establishment/revival of food processing plants. The sector will also consider the establishment of county farms in each ward that will be under the control of the county government. These farms will be cultivated by the county tractors, provided with high yielding seeds , manure/fertilizer and other inputs and act as a

demonstration of smart agriculture. This will ensure the county is self sufficient in food production and food security is attained in the medium term.

96. The sector will also seek to improve market access through the improvement of market infrastructure and revival of agro- processing industrial plants. The lands sub sector will address land based conflicts in collaboration with the National Land Commission (NLC) and the Ministry of Lands, establish county spatial data infrastructure, tackle the problem of squatter and informal settlements and plan for development of social and physical urban infrastructural facilities.

97. To achieve the above, the sector will require Ksh.937.20 Million for the FY 2015/16. Out of this, Ksh.776.70 Million is the requirement from the Agriculture, Livestock and Fisheries, while Lands, Physical Planning and Natural Resources will require Ksh.160.50 Million. During the FY 2015/16, the sector has been allocated Ksh.549 Million of which Ksh.247 Million is for recurrent expenditure and Ksh.302 Million for development programmes.

Energy, Infrastructure and ICT Sector

98. Energy, Infrastructure and Information, Communication and Technology is a key sector for sustained economic growth and social development. The sector aims to expand and sustain physical structure to support growth and development of the county economy.

99. During the FY 2013/14 and half year of 2014/15 period, the sector implemented two major programmes namely public works infrastructure improvement and ICT infrastructure development.

The key achievements in the sector include:-

i. Infrastructure and public works sub sector: 250Kms of roads were rehabilitated, purchase of the grader and rehabilitation of several housing units

ii. ICT Sub sector: operationalising of IFMIS was completed in the Finance department and is set to be rolled out to other departments. Networking has been done save for a few units.

100. During the 2015/16- 2017/18 MTEF period, the Infrastructure and Public Works sub sector plans to construct/ rehabilitate 651Kms of roads. The sector will check on the quality of workmanship of the roads rehabilitated and give priority to those adversely affected roads and put up a road maintenance program to ensure all roads are rehabilitated. In the ICT sub sector, the county government will roll out networking infrastructure to operationalize IFMIS in all departments.

101. To achieve the above mentioned outputs, the sector will require Ksh.850Million for the 2015/16 Financial Year. During this period, the sector has been allocated Ksh.383 Million, out of which Ksh.172 Million is for recurrent and Ksh.211 Million for development programmes.

Social Protection, Culture and Recreation Sector

102. This sector is mandated to address the issues of culture promotion, development and promotion of sports and youth affairs, preservation of Kwale County's cultural heritage, women welfare, the physically challenged welfare, general community and social development. This is handled by the department of Community Development, Culture and Talent Management.

103. During the 2013/14- 2014/15 MTEF period, the sector organized sports programmes for the youth and facilitated teams to successfully participate at the National Competitions, held an annual cultural event, initiated development of sports facilities including the Kwale Stadium.

104. During the 2015/16- 2017/18 MTEF period, the sector priorities will aim at creating an enabling environment for the development and promotion of Kwale rich

cultural heritage for generation of revenue and creation of employment. Development of a sports policy to guide sports activities, a sports academy and talent centre to help nurture top level skills and support to football clubs and musical bands and others to ensure their continuity . Library services enhancement will increase the access to information and knowledge resources to the Kwale citizens. The sector will continue with the rehabilitation programme for the drug and substance abuse affected youth and initiate a programme for the promotion and protection of the social welfare of children.

105. To implement these programmes, the sector will require Ksh.526.80 Million. Out of this, Ksh.113.50 Million will be for recurrent and Ksh.413.3 Million for development programmes. The county budget allocation to this sector is Ksh. 299 Million, out of which Ksh.134 Million will be for recurrent expenditure and Ksh. 165 Million will be for development programmes.

Education Sector

106. The County education sector is mandated to address the following; provision of early childhood development education and youth training. In the county the sector is fully represented by the department of Education, Research and Human Resource Development.

107. During the 2013/14- 2014/2015 MTEF period, Early Childhood Development Education (ECDE) enrolment increased from less than 50 percent to 72 percent, 16 ECDE centres were constructed and work on 22 centers is still ongoing. During the FY 2013/14, the school feeding programme had an allocation of Ksh.7 Million and about 2000 pupils benefitted. The scholarship and bursaries scheme disbursed Ksh.260 Million to needy students from poor families and a total of 9,500 students benefitted. A total of 450 caregivers were recruited. Under the youth training programme, four polytechnics were rehabilitated and the number of youth in the polytechnics increased to 2,000.

108. Among the sector priorities for the 2015/16- 2017/18 MTEF period include; increasing the number of ECDE centres and equipping them; quality assurance and standards enhancement; exploring research, technology and innovation; enhancing technical youth training and development and continuing supporting needy students in the scholarship and bursaries programme. In the youth training, the county government will consider establishing home craft centres to create employment and raise incomes of the youth. The sector requires Ksh.1.57 billion to implement these programmes. The budget allocation to this sector is Ksh.853 Million which comprises of Ksh.183 Million for recurrent and Ksh.670 Million for development programmes. Scholarships and bursary scheme will receive Ksh.400 Million in the FY 2015/16.

Health Sector

109. The mandate of the sector is to build a progressive, responsive and sustainable technologically- driven, evidence- based and client- oriented health system for accelerated attainment of the highest standard of health for all Kenyans. At the county level, the sector is represented by the department of Medical and Public Health.

110. Kwale County still faces a high disease burden. Outpatient morbidity in the county is caused by high prevalence of malaria, diseases of the respiratory systems, contaminated and communicable diseases and accidents. In the MTEF period, 2013/14- 2014/15, achievements have been realized in a number of indicators including infant mortality rate reducing from 56 in 2013/2014 to 50 in 2014/2015. Maternal mortality ratio for the county is still high at 65.The sector carried out a number of programmes including; provision of medical drugs, upgrading of health facilities, construction of maternity wings, public heath sanitation, child vaccination and malaria prevention and treatment. In addition, the County Government procured 4 ambulances one in each sub county.

111. In order to sustain the gains made and improve on sector performance, the Kwale County Government has decided to invest substantial resources in this sector during

the 2015/16- 2017/18 MTEF period. Among the priorities for this sector include:- community health programme by facilitating and equipping community health workers, provision of ambulance services for quick emergency cases, promotion of public health and sanitation, upgrading of health facilities, enhancing the provision of medical drugs and establishment of emergency response units at the ward level. Most of the public health programmes are dependent on donors for funding. The county received Ksh.11.4 Million conditional grant from DANIDA and Ksh.57 Million conditional grant from the World Bank in the financial year 2014/15. The sector is expected to benefit as conditional grant to the tune of Ksh.104 Million in the latest County Allocation of Revenue Bill,2015 This will be for free maternal health .The sector will also receive KSh 59 Million additional grants to supplement financing of county health facilities.

112. During the 2015/16- 2017/18 MTEF period, the sector requires Ksh.3.6 billion. In the FY 2015/16 the sector has been allocated Ksh.1.34 billion. This comprises of Ksh.736 Million and Ksh.602 Million for recurrent and development programmes respectively.

113. Although significant progress has been made in the supply of medical drugs and improved health facilities infrastructure and containing the threat of communicable diseases such as HIV and AIDS, Malaria, Pneumonia, TB and Cholera, there are still challenges of rising incidences of cancer, hypertension, heart diseases and diabetes due to changing life styles.

Road traffic accidents causing injuries, disability and death further propel the big burden to the sector resulting in new challenges and strain on the health care delivery system. Other emerging challenges facing the sector include:-

i. Health workers to population ratio: dwindling by the day due to increased population and fewer health workers.

ii. Over reliance on external funding which form a significant share of the sector's budget

iii. The continued shrinking of child nutrition status has the potential to cause future declines in health status.

General Economic and Commercial Affairs Sector

114. The sector, at the National level contributes significantly to the country's GDP and is approximated to be around 35 percent. It is still among the key areas with potential of accelerating economic growth and development for the achievement of the development blue print Vision 2030. At the county level, this sector comprises of the department of Trade, Industry and Cooperatives Department and the department of Tourism and Investment. The ICT unit under the Tourism, Investment and ICT docket is included in the energy, infrastructure and ICT sector. This is one of the important sectors in the county geared towards transforming the county economy.

115. During the 2013/14- 2014/15 MTEF period, the sector implemented ten programmes which contributed to general awareness of trade opportunities in Kwale, promotion of Kwale as a tourist and investment destination, enforcing governance in cooperative leadership, promotion of wholesale and retail trade through financial assistance in trade loans (Kwale County Trade Revolving Fund), the development of a business centre in Msambweni sub county with more coming up in every sub county in the 2015/16- 2017/18 MTEF period.

Notable achievements for the sector include:-

i. Trade and cooperatives development sub sector: provision of alternative markets to increase market access for the county products; MSE training in product development; packaging and market standards; trade and industry exhibitions; strengthening the cooperative movement and enforcing governance in cooperatives; market infrastructure development- design of fruit collection centres and rehabilitation of existing markets in Lung Lunga, Tiwi and Samburu.

ii. Tourism and Investment Sub Sector: the upgrading of the Maji Moto resort for tourism promotion; the miss tourism, Kwale Chapter; investment festival dubbed Kwale destination are among the initiatives the department has undertaken to promote tourism.

116. During the 2015/16- 2017/18 MTEF period, the sector will focus on promoting Kwale as an investment and tourist attraction destination and develop business centres to tap the entrepreneurial potential of the citizens. The sector will also take advantage in development of the Special Economic Zone and master planning in Mombasa and Dongo Kundu to establish retail markets and SME parks. Others in the offing include the establishment and formation of KeDec, enhancing management of the Trade Revolving Fund, strengthening governance in cooperative societies, market infrastructure development and continued training of SME operations in business acumen and product development.

117. The sector programmes that have been prioritized for funding in the 2015/16-2017/18 MTEF period include: cooperative development and management; trade development and promotion; tourism development and promotion; market infrastructural development and general administration, planning and support services.

To implement these programmes, the sector requires Ksh.605 Million. The budgeted allocation to this sector is Ksh.357 Million during the financial year 2015/16. This comprises of Ksh.137 Million and Ksh.220 Million for recurrent and development programmes respectively.

118. The sector is faced with numerous challenges and emerging issues which need to be addressed to enable the sector realize its target. These include travel advisories which hinder international tourists and potential investors from visiting the county; insecurity; poor infrastructure; unreliable and high cost of energy; low access to credit

facilities and financial services; high interest rates; budget constraints and multiple trade regulations.

Public Administration and Internal Relations Sector (PAIRS)

119. The sector plays a key role in enhancing public service, organization and coordination of county government business through planning, mobilization of financial and human resources, public resource management, oversight and county legislation. In addition, the sector links all other sectors with rest of the governments and the world on matters of cooperation and resource mobilization.

120. During the MTEF period 2013/14 – 2014/15, the sector implemented ten programmes with an overall absorption rate of 70 percent. A wide range of outputs were realized. These include: creation and operationalization of county government structures, development and launch of the county integrated development plan, and preparation of several county bills (26 Bills), county human resource planning, selection and recruitment. The programmes that will be financed during 2015/16-2017/18 MTEF period shall be in line with the sector mission of providing overall policy, leadership and oversight in economic management, efficient and effective public service delivery, resource mobilization and implementation of the constitution. Among the programmes which will be implemented in this sector on the executive arm of the county government include:-county executive management services, coordination and supervision of county business,stengthening media and public communication, community policing, efficient and effective management of public financial resources, effective policy formulation ,coordination and implementation, performance management, human resources management and development, strengthening public participation in policy formulation, execution and evaluation and monitoring and evaluation of county programs and projects. In addition, the executive arm under the department of public service and administration will ensure full implementation of the law requirements of establishing county government decentralized units upto the village level by

During the 2015/16 – 2017/18 MTEF period , the sector will implement (12) programs which have been allocated Ksh.1.6 billion, Ksh.1.8 billion and Ksh.1.9 billion for the FY 2015/16, FY 2016/17 and FY 2017/18 respectively.

County Assembly

121. This arm of the Kwale County Government is still negotiating its expenditure limits with County Revenue Allocation Commission following budget ceilings released this current FY 2014/2015. The expenditure limits proposed are subject to changes that will be made by CRA as we come to prepare the 2015/16 county budget. During the FY 2015/16, priorities of the County Assembly will include construction of the county assembly complex, strengthening its key mandate of oversight, legislation and representation and implementation of the car loan and mortgage scheme to county assembly staff as part of its commitment to promote staff welfare and in fulfillment of the provisions of statutes such as the SRC circulars . Based on available budgetary resources and in conformity with statutory requirements, this paper proposes allocation for County Assembly to be Ksh. 704 Million, Ksh. 774 Million and Ksh. 851 Million for the FY 2015/16, FY 2016/17, and FY 2017/18 respectively.

Environment Protection, Water and Natural Resources Sector

122. The Environment Protection , Water And Natural Resources Sector ‘s functions are carried in the department of Lands , Physical planning and Natural Resources and the Water Service Unit under the department of Water ,Infrastructure and Public works. The performance of the sector was constrained by both internal and external factors that included budget constraints, long procurement procedures, governance issues, insecurity, environmental challenges such as climate change and limited value addition.

123. During the financial year 2013/14 and half year period for FY 2014/15, the department of water services under this sector implemented water projects worth Ksh. 381 Million. These included 14 water projects and three dams in collaboration with the National Government. In addition, eleven pipelines were surveyed and designed. 20 new boreholes sites were also surveyed and pump testing and cleaning for 12 boreholes was done. During the third quarter period of FY 2014/15, the department will procure a drilling rig. The construction of Nyalani dam jointly financed by Kwale County and Kenya Red Cross international was completed.

124. During the 2015/16- 2017/18 MTEF period , the department of water services will continue to collaborate with relevant water sector stakeholders and consistently engage the Ministry of Water and Irrigation and the World Bank to finance water projects in the county as part of the Kenya Water Security and Climatic Resilient Project (KWSCRP).

125. The main priority programme will be developing, maintaining and managing water supply systems through major sub programmes. Development of water supply systems, assessment, survey and design of water supply system and rehabilitation and maintenance of water supply systems , enhanced water storage and protection of water sources, support to KWAWASCO, and environmental impact assessment. Environmental protection and conservation of natural resources have been prioritized under the department of Lands,Physcal planning and Natural Resources.

126. To implement these programmes, the sector requires Ksh.603 Million with Ksh. 68 Million being recurrent and Ksh. 521 Million for development programmes. During the FY 2015/16 the sector has been allocated Ksh. 340 Million out of which Ksh. 68 Million will be for recurrent expenditures and Ksh. 272 Million will finance the development programmes.

127. The sector is facing a number of challenges and emerging issues in effecting its mandate. The major challenges include budget constraints, presence of uncoordinated development which results in duplication and misallocation of resources, governance

issues in the water administration, and non performing county water company-KWAWASCO. Emerging issues will be as a result of climate change and prolonged drought and mining and industrialization which are a threat to provision of safe and quality water.

V. CONCLUSION

128. The 2015 CFSP has outlined policies and programmes largely re-emphasizing the 2014 CFSP and the 2013 County Integrated Development Plan. These policies and programmes reflect the attainment of the national strategic objectives and goals as outlined in the 2015 BPS and the MTP II of Kenya's Vision ,2030.In formulating these policies and programmes, strict adherence and consistency to the fiscal responsibility principles as laid down in the Constitution ,2010 and Public Finance Management Act,2012 has been done**.**

129. The overall fiscal framework outlined in this 2015 CFSP is envisaging a moderate growth of county revenues as a result of the moderate increase in the equitable share of income from the National Government. The expenditure framework expressed in this paper takes into account of this and has proposed a significant incremental expenditure in the energy, infrastructure and ICT sector. However the social sectors-education and health continue to receive significant share of our resources keeping in line with our objective of human capital development and building of a healthy productive population.

130. The budget framework proposed in this 2015 CFSP has allocated adequate resources to achieve our growth objectives in trade, industry, tourism, investment, agriculture and land development and in community development affairs. This is expected to create employment opportunities, create wealth, reduce poverty and uplift the living standards of the Kwale citizenry.

Table 5.1 Medium Term Expenditure Framework 2014/15 -2017/18 Sector Ceilings

SECTOR		ESTIMATES 2014/15	CEILING 2015/16	PROJECTIONS	
				2016/17	2017/18
AGRICULTURE, RURAL AND URBAN DEVELOPMENT	**SUB TOTAL**	**660,884,738.00**	**549,500,483.00**	**604,450,531.30**	**664,895,584.43**
Agriculture, Livestock and Fisheries		483,843,218.00	402,297,204.00	442,526,924.40	486,779,616.84
Lands, Physical Planning and Natural Resources		177,041,520.00	147,203,279.00	161,923,606.90	178,115,967.59
ENERGY, INFRASTRUCTURE AND ICT	**SUB TOTAL**	**461,179,854.00**	**383,453,480.00**	**421,798,828.00**	**463,978,710.80**
Infrastructure and Public Works		395,053,267.00	328,471,742.00	361,318,916.20	397,450,807.82
ICT		66,126,587.00	54,981,738.00	60,479,911.80	66,527,902.98
GENERAL ECONOMIC,COMMERCIAL AND LABOUR AFFAIRS	**SUB TOTAL**	**365,196,125.00**	**356,814,885.20**	**392,496,374.00**	**431,746,011.09**
Trade and Cooperative Development		201,980,840.00	221,107,593.20	243,218,353.00	267,540,187.77
Tourism and Investment		163,215,285.00	135,707,292.00	149,278,021.20	164,205,823.32
HEALTH	**SUB TOTAL**	**1,398,591,622.00**	**1,337,590,929.00**	**1,471,350,021.90**	**1,618,485,024.09**
EDUCATION	**SUB TOTAL**	**785,752,612.00**	**853,323,365.00**	**938,655,701.50**	**1,032,521,271.65**
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	**SUB TOTAL**	**1,998,406,838.00**	**1,610,914,454.80**	**1,772,005,900.28**	**1,949,206,490.31**
County Assembly		966,750,000.00	703,815,798.00	774,197,377.80	851,617,115.58
Office of the Governor		247,212,115.00	205,547,456.00	226,102,201.60	248,712,421.76
Public Service and Administration		284,764,385.00	236,770,738.00	260,447,811.80	286,492,592.98
County Treasury		499,680,338.00	415,465,166.00	457,011,682.60	502,712,850.86
County Public Service Board		44,832,088.00	49,315,296.80	54,246,826.48	59,671,509.13
SOCIAL PROTECTION, CULTURE AND RECREATION	**SUB TOTAL**	**359,315,075.00**	**298,756,797.00**	**328,632,476.70**	**361,495,724.37**
ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES	**SUB TOTAL**	**409,298,898.00**	**340,316,442.00**	374,348,086.20	411,782,894.82
TOTAL	**TOTAL**	**6,483,457,850.00**	**5,730,670,836.00**	**6,303,737,920.00**	**6,934,111,711.56**

Source: Kwale County Treasury

Table 5.2 2014/15-2017/18 Medium Term Expenditure Framework Recurrent Sector Ceilings

SECTOR		ESTIMATES 2014/15	CEILING 2015/16	PROJECTIONS	
				2016/17	2017/18
AGRICULTURE, RURAL AND URBAN DEVELOPMENT	**SUB TOTAL**	**181,065,815.00**	**247,275,217.35**	**272,002,739.09**	**299,203,012.99**
Agriculture, Livestock and Fisheries		148,856,295.00	181,033,741.80	199,137,115.98	219,050,827.58
Lands, Physical Planning and Natural Resources		32,209,520.00	66,241,475.55	72,865,623.11	80,152,185.42
ENERGY, INFRASTRUCTURE AND ICT	**SUB TOTAL**	**115,059,220.00**	172,554,066.00	189,809,472.60	208,790,419.86
Infrastructure and Public Works		103,567,184.00	147,812,283.90	162,593,512.29	178,852,863.52
ICT		11,492,036.00	24,741,782.10	27,215,960.31	29,937,556.34
GENERAL ECONOMIC,COMMERCIAL AND LABOUR AFFAIRS	**SUB TOTAL**	**68,542,576.00**	136,640,999.70	150,305,099.67	165,335,609.64
Trade and Cooperative Development		39,696,496.00	75,572,718.30	83,129,990.13	91,442,989.14
Tourism and Investment		28,846,080.00	61,068,281.40	67,175,109.54	73,892,620.49
HEALTH	**SUB TOTAL**	**822,066,039.00**	937,590,929.00	1,031,350,021.90	1,134,485,024.09
EDUCATION	**SUB TOTAL**	**335,091,652.00**	183,995,514.25	422,395,065.68	464,634,572.24
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	**SUB TOTAL**	**1,292,144,835.00**	927,988,867.40	1,020,787,754.14	1,122,866,529.55
County Assembly		705,000,000.00	492,671,058.60	541,938,164.46	596,131,980.91
Office of the Governor		146,212,115.00	92,496,355.20	101,745,990.72	111,920,589.79
Public Service and Administration		144,606,465.00	106,546,832.10	117,201,515.31	128,921,666.84
County Treasury		251,494,167.00	186,959,324.70	205,655,257.17	226,220,782.89
County Public Service Board		44,832,088	49,315,296.80	54,246,826.48	59,671,509.13
SOCIAL PROTECTION, CULTURE AND RECREATION	**SUB TOTAL**	**66,582,019.00**	134,440,558.65	147,884,614.52	162,673,075.97
ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES	**SUB TOTAL**	**27,709,632.00**	68,000,000.00	74,800,000.00	82,280,000.00
TOTAL	**TOTAL**	**2,908,261,788.00**	2,808,486,152.35	3,089,334,767.59	3,398,268,244.34

Source: Kwale County Treasury

Table 5.3 2014/15-2017/18 Medium Term Expenditure Framework Development Sector Ceilings

SECTOR		ESTIMATES 2014/15	CEILING 2015/16	PROJECTIONS	
				2016/17	2017/18
AGRICULTURE, RURAL AND URBAN DEVELOPMENT	**SUB TOTAL**	**479,818,923**	302,225,265.65	332,447,792.22	365,692,571.44
Agriculture, Livestock and Fisheries		334,986,923	221,263,462.20	243,389,808.42	267,728,789.26
Lands, Physical Planning and Natural Resources		144,832,000	80,961,803.45	89,057,983.80	97,963,782.17
ENERGY, INFRASTRUCTURE AND ICT	**SUB TOTAL**	**339,151,555**	210,899,414.00	231,989,355.40	255,188,290.94
Infrastructure and Public Works		291,486,084	180,659,458.10	198,725,403.91	218,597,944.30
ICT		47,665,471	30,239,955.90	33,263,951.49	36,590,346.64
GENERAL ECONOMIC,COMMERCIAL AND LABOUR AFFAIRS	**SUB TOTAL**	**322,928,100**	220,173,885.50	242,191,274.05	266,410,401.46
Trade and Cooperative Development		162,284,344	145,534,874.90	160,088,362.39	176,097,198.63
Tourism and Investment		160,643,756	74,639,010.60	82,102,911.66	90,313,202.83
HEALTH	**SUB TOTAL**	**576,525,581**	400,000,000.00	440,000,000.00	484,000,000.00
EDUCATION	**SUB TOTAL**	**454,660,960**	670,327,850.75	516,260,635.83	567,886,699.41
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	**SUB TOTAL**	**751,094,091**	879,381,432.05	967,319,575.26	1,064,051,532.78
County Assembly		261,750,000	211,144,739.40	232,259,213.34	255,485,134.67
Office of the Governor		101,000,000	113,051,100.80	124,356,210.88	136,791,831.97
Public Service and Administration		140,157,920	130,223,905.90	143,246,296.49	157,570,926.14
County Treasury		248,186,171	228,505,841.30	251,356,425.43	276,492,067.97
County Public Service Board		0.00	0.00	0.00	0.00
SOCIAL PROTECTION, CULTURE AND RECREATION	**SUB TOTAL**	**292,733,056**	164,316,238.35	180,747,862.19	198,822,648.40
ENVIRONMENT PROTECTION, WATER AND NATURAL RESOURCES	**SUB TOTAL**	**381,589,266**	272,316,442.00	299,548,086.20	329,502,894.82
TOTAL	**TOTAL**	**3,598,501,532**	2,922,184,683.00	3,214,403,151.30	3,535,843,466.43

Source: Kwale County Treasury

FLAGSHIP PROJECTS

DEPARTMENT	FLAGSHIP PROJECTS
Agriculture, Livestock Development and Fisheries	• Kwale Integrated Agricultural Development Project • Shimoni Fisheries Integrated Development Programme (fish port facility) • Kwale Livestock Integrated Development Programme
Trade, Industry , Investment and Tourism	• Manufacturing and Value Addition Industries/ Plants • Wholesale Market • Resort City in Diani
Water, Infrastructure and Public Works	• Samburu- Kinango- Kwale Tarmac Road • Construction of 3 large dams in Kinango and Lunga Lunga Sub Counties • Augmentation of Tiwi Water Aquifer System • One County Teacher Training College
Health	• Establishment of Functional Community Units
Education	• Educational Scholarship Fund Project • Establishment of Tertiary colleges/Institutes/University • Model Schools and Polytechnics • One County Teacher Training College

	• Six Academic of Excellence
Governance	• Establish a Community Audit System
Community Development	• Talent Academy • Integrated Cultural Development Project
Lands, Mining and Natural Resources	• Transformation of the Mining and Extractive Industry to be an Enterprise undertaken by the County Government

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