REPUBLIC OF KENYA

EMBU COUNTY GOVERNMENT

FINANCE & ECONOMIC PLANNING

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

Vision

A prosperous County with Equal Opportunities for all

Mission

To ensure effective resource mobilization and optimization for Wealth and Job Creation

SEPTEMBER 2016

Foreword

This County Budget Review and Outlook Paper (CBROP), prepared in accordance with the Public Financial Management Act, 2012 section 118. It details the actual fiscal performance in the financial year 2015/16 compared to the budget appropriation for that year. It presents the recent economic developments and actual fiscal performance of the FY 2015/2016 and makes comparisons to the budget appropriations for the same year. It further provides updated macro-economic and financial forecasts with sufficient information to show changes from the projections outlined in the County Fiscal Strategy Paper (CFSP) 2016.

In this Paper, we will also provide an overview of how the actual performance of the FY 2015/2016 affected our compliance with the fiscal responsibility principles and the financial objectives as detailed in the 2016 CFSP. The paper is being prepared at a time when significant progress has been made in operationalizing the County Government.

The County priorities and goals outlined herein are based on the County Integrated Development Plan (2013-2018) with emphasis on investment in: Infrastructure, Accessible and affordable healthcare, Agriculture and food security, accessibility of water and education. These priorities shall form the basis for formulation of FY 2017/18 budget in the Medium Term. The paper therefore links county planning and policies to Budget which is the main objective of the Medium Term Expenditure Framework.

The paper covers the following broad areas in review of the fiscal performance of financial year 2015/2016; highlights of the recent economic developments and the economic outlook; broad strategic priorities and policies for the Medium Term and the Medium Term Fiscal Framework. The fiscal framework presented in the paper ensures a sustainable financing while allowing continued spending on priority programmes. Achievement of the set objectives calls for greater transparency, effectiveness and efficiency in public financial management in order to ensure fiscal discipline.

We are committed to maintain the trend of economic growth and development in line with the expectations and commitments we have made to the people of Embu County. Towards this end, we shall ensure there is transparency and accountability by relaying our performance indicators to the public as well as publicizing other publications as required by the Constitution 2010 and the Public Finance Management Act, 2012.

MR JOHN NJERU NJAGI
COUNTY EXECUTIVE COMMITTEE MEMBER
FINANCE AND ECONOMIC PLANNING

Legal Basis for the Publication of the Budget Review and Outlook Paper

The Budget Review and Outlook Paper is prepared in accordance with Section 118 of the Public Financial Management Act, 2012. The law states that:

(1) A County Treasury shall:

(a) Prepare a County Budget Review and Outlook Paper in respect of the county for each financial year; and

(b) Submit the paper to the County Executive Committee by the 30th September of that year.

(2) In preparing its county Budget Review and Outlook Paper, the County Treasury shall specify:

(a) The details of the actual fiscal performance in the previous year compared to the budget appropriation for that year;

(b) The updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper;

(c) Information on:

(i) Any changes in the forecasts compared with the County Fiscal Strategy Paper; or

(ii) How actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the County Fiscal Strategy Paper for that financial year; and

(d) Reasons for any deviation from the financial objectives in the County Fiscal Strategy Paper together with proposals to address the deviation and the time estimated for doing so.

(3) The County Executive Committee shall consider the County Budget Review and Outlook Paper with a view to approving it, with or without amendments, within fourteen days after its submission.

(4) Not later than seven days after the County Budget Review and Outlook Paper is approved by the County Executive Committee, the County Treasury shall:

(a) Arrange for the Paper to be laid before the County Assembly; and

(b) As soon as practicable after having done so, publish and publicize the Paper.

Fiscal Responsibility Principles in the Public Finance Management Law

The Public Finance Management (PFM) Act, 2012 sets out the following fiscal responsibility principles to ensure prudency and transparency in the management of public resources;

1) The County Government’s recurrent expenditures shall not exceed the county government’s total revenue.

2) Over the Medium Term, a minimum of thirty percent of the county government’s budget shall be allocated to the development expenditures.

3) The County Governments' expenditures on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenue as prescribed by the Executive Committee Member for Finance in regulations and approved by County Assembly.

4) Over the Medium Term the government's borrowing shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.

5) The county debt shall be maintained at sustainable level as approved by county assembly.

6) The fiscal risks shall be maintained prudently; and

7) 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.

Table of Contents

List of Tables

Abbreviations

AiA	Appropriation in Aid
BROP	Budget Review and Outlook Paper
CBROP	County Budget Review and Outlook Paper
CIDP	County Integrated Development Plan
CPI	Consumer Price Index
FY	Financial Year
MTEF	Medium Term Expenditure Framework
PFMA	Public Finance Management Act

I. INTRODUCTION

Objective of BROP

1. The objective of the BROP is to provide a review of the previous fiscal performance and how this impacts the financial objectives and fiscal responsibility principles set out in the last County Fiscal Strategy Paper (CFSP). This together with updated macroeconomic outlook provides a basis for revision of the current budget in the context of Supplementary Estimates and the broad fiscal parameters underpinning the next budget and the medium term.

2. The BROP is a key document in linking policy, planning and budgeting. This year's BROP is embedded on the priorities of the county government while taking on board emerging challenges while implementing the devolved system of government.

3. The PFM Act 2012 has set high standards for compliance with the MTEF budgeting process. Therefore, it is expected that the sector ceilings for the 2016/2017 of the MTEF provided in the previous CFSP will form the indicative baseline sector ceilings for the next budget of 2017/18. However, following the fiscal outcome of 2015/16 and the updated macroeconomic framework these sector ceilings have been modified as indicated in the annex of this BROP.

4. The rest of the paper is organized as follows: the next section provides a review of the fiscal performance in FY 2015/16 and its implications on the financial objectives set out in the last CFSP submitted to the County Assembly in February 2016. This is followed by brief highlights of the recent economic developments and updated macroeconomic outlook in Section III. Section IV provides the resources allocation framework, while Section V concludes.

II. REVIEW OF FISCAL PERFORMANCE IN 2015/2016

A. Overview

5. The fiscal performance in 2015/16 was fairly satisfactory, despite the challenges with shortfall in revenues and mounting expenditure pressures with limited structures in the county. The absorption of development expenditure was also low at 40.1% hence requiring more focused efforts towards increasing the percentage of development funds absorbed. The County had an approved budget estimate of Ksh. 5,732,345,285 that was financed by equitable contribution from the national treasury at 66.95%, local revenue at 6.62%, grants to the health services 6.49%, Balance brought forward from 2014/15 at 14.70%, Road Maintenance Fuel Levy at 0.85% and Appropriation in Aid at 4.38%.

6. On the expenditure side, the County Government incurred high expenditure on salary for the devolved functions staff and establishment of County Government legal institutions that are part and of county structures. The actual recurrent expenditure amounted to Kshs. 3,024,845,281.00 which accounts for 76.44% with development expenditure accounting for 23.56% at Kshs. 932,312,230.00

B. 2015/16 Fiscal Performance

7. The table below presents the fiscal performance for the FY 2015/16 and the deviations from the approved estimates against the actual expenditure.

Table 1: Summary of Approved Budget Estimates FY 2015/16

DEPARTMENT	APPROVED	ACTUAL	DEVIATION	% DEVIATION
RECURRENT EXPENDITURE				
Health	1,380,514,416	1,290,983,733	89,530,683	6.49%
Level Five Hospital	246,540,926	149,276,348	97,264,578	39.45%
Agriculture & Irrigation, Livestock, Fisheries and Co-operative Development	256,902,562	221,630,155	35,272,407	13.73%
County Assembly	484,312,222	465,541,050	18,771,172	3.88%
Office of the Governor	394,569,792	370,086,662	24,483,130	6.21%

DEPARTMENT	APPROVED	ACTUAL	DEVIATION	% DEVIATION
Finance & Economic Planning	73,219,280	40,434,744	32,784,536	44.78%
Infrastructure, Public Works, Housing and Energy	68,282,866	50,942,712	17,340,154	25.39%
Education, Science and Technology	145,542,246	129,313,797	16,228,449	11.15%
Youth Empowerment & Sports	18,962,069	7,195,390	11,766,679	62.05%
Gender, Culture and Social Services	7,301,349	4,232,448	3,068,901	42.03%
Trade, Tourism, Investment and Industrialization	13,113,580	8,544,148	4,569,432	34.85%
Lands, Water, Environment and Natural Resources	79,352,288	64,272,819	15,079,469	19.00%
Public Service and Administration	232,742,548	219,515,484	13,227,064	5.68%
County Public Service Board	5,837,266	2,875,791	2,961,475	50.73%
TOTAL	**3,407,193,410**	**3,024,845,281**	**382,348,129**	**11.22%**
DEVELOPMENT EXPENDITURE				
Health	257,797,633	23,438,562	234,359,071	90.91%
Level Five Hospital	156,299,101	135,540,325	20,758,776	13.28%
Agriculture & Irrigation, Livestock, Fisheries and Co-operative Development	117,990,987	92,860,221	25,130,766	21.30%
County Assembly	35,000,000	-	35,000,000	100.00%
Office of the Governor	-	-	-	
Finance & Economic Planning	463,288,497	47,407,140	415,881,357	89.77%
Infrastructure, Public Works, Housing and Energy	800,750,803	391,156,256	409,594,547	51.15%
Education, Science and Technology	82,660,705	23,657,031	59,003,674	71.38%
Youth Empowerment & Sports	68,471,892	55,790,292	12,681,600	18.52%
Gender, Culture and Social Services	52,637,000	7,739,220	44,897,780	85.30%
Trade, Tourism, Investment and Industrialization	103,274,051	75,215,192	28,058,859	27.17%
Lands, Water, Environment and Natural Resources	183,981,206	79,309,991	104,671,215	56.89%
Public Service and Administration	3,000,000	198,000	2,802,000	93.40%
County Public Service Board	-	-	-	
TOTAL	**2,325,151,875**	**932,312,230**	**1,392,839,645**	**59.90%**
TOTAL EXPENDITURE	**5,732,345,285**	**3,957,157,511**	**1,775,187,774**	**30.97%**
Revenue				
Local Sources	379,549,232	216,502,573	163,046,659	42.96%
Appropriations in Aid (AiA)-Ministerial	251,213,147	180,023,039	71,190,108	28.34%
Equitable Share from National Government	3,837,939,840	3,837,939,840	-	0.00%
Conditional Grant for Level Five Hospital	192,882,857	192,882,857	-	0.00%
Conditional Allocation for Free Maternal Health Care	57,593,200	57,593,200	-	0.00%

DEPARTMENT	APPROVED	ACTUAL	DEVIATION	% DEVIATION
Conditional Allocation for Compensation for User Fees Forgone	12,032,884	12,032,884	-	0.00%
Conditional Allocation for Leasing of Medical Equipment	95,744,681	95,744,681	-	0.00%
Conditional Allocation from Road Maintenance Fuel Levy Fund	48,754,599	48,754,599	-	0.00%
Conditional Additional allocation grant to supplement financing for County Health Facilities (DANIDA HSSF FUNDS)	13,750,000	13,750,000	-	0.00%
Refunds B/F 2014/15	842,884,845	842,884,845	-	0.00%
Total Revenue	**5,732,345,285**	**5,498,108,518**	**234,236,767**	**4.09%**

Source: Embu County Treasury

8. The approved total revenue for the FY 2015/16 was Ksh. 5,732,345,285.00 but the actual revenue received amounted to Ksh 5,498,108,518 which accounted for 95.91% of the target. This was as a result of local revenue targets that fell short by 42.96% as well as Appropriation in Aid by various departments that fell short by 28.34%.

Revenue Performance 2015/16

9. Total cumulative local revenue collections amounted to Ksh. 396,525,612 compared to a target of Ksh 630,762,379 which represents a revenue shortfall of Ksh. 234,236,767 that is under collection by 37.14 %. The National treasury released to the County Government a total of Ksh. 3,837,939,840 as equitable share of the county as per the 2015 County Revenue Allocation Act.

10. The underperformance in local revenue collection was largely across all the revenue collection sites and revenue strings. Local revenue collection as per classification are shown in Table 2 below:

Table 2: Revenue Streams for FY 2015/16

REVENUE STREAMS	FY 2015/16			
	APPROVED	ACTUAL	DEVIATION	% DEVIATION
Single Business permit	103,785,695	58,079,141	45,706,554	44.04%
House Stall	13,162,291	7,949,533	5,212,758	39.60%
Market Fees	44,262,237	22,334,263	21,927,974	49.54%
Street and Bus Parking Fees	58,801,889	32,245,595	26,556,294	45.16%
Cess	77,878,340	53,525,687	24,352,653	31.27%
Land rates	20,072,166	12,460,639	7,611,527	37.92%
Enforcement	3,121,427	1,378,300	1,743,127	55.84%
Technical Fees	20,804,320	5,707,504	15,096,816	72.57%
Administration Fees	245,567	-	245,567	100.00%
Advert Fees	5,580,014	3,225,924	2,354,090	42.19%
Slaughter Fees	1,515,781	864,175	651,606	42.99%
Miscellaneous	24,611,278	16,054,677	8,556,601	34.77%
Stock Auction Fees	4,340,748	2,223,030	2,117,718	48.79%
Water Charges	1,367,479	454,105	913,374	66.79%
Appropriation in Aid	251,213,147	180,023,039	71,190,108	28.34%
Total	**630,762,379**	**396,525,612**	**234,236,767**	**37.14%**

Source: Embu County Treasury

11. The deviation on single business permits is due to a shortage of staff to enforce the need to have single business permits for businesses operating in the county. The reduced Cess collection has mainly been caused by closure of sand collection points by TARDA, that of Market fees has been caused by a lack of market infrastructure in most major markets in the County.

Deviation on slaughter fees was due to closure of the slaughter houses for renovation. The deviation on land rates were due to the late implementation of the valuation roll, the deviation on Street and Bus Parking Fees was due to the recent matatu strikes that affected the main bus terminus.

III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

11. Nationally, the macroeconomic environment has continued to improve. The outlook remains favourable and will impact on the county economy. However, inherent risks remain.

A. Recent Economic Developments

12. Key macroeconomic indicators remained relatively stable. East Africa's biggest economy started the year on a solid footing. Kenya's GDP grew by 5.6% in 2015 and is estimated to grow to 6.9% in 2016. On average the economic growth of Kenya between 2011 and 2014 has been 5.43% which is much lower than the projected growth in 2016. The positive outlook is predicated on infrastructure investments. Fiscal consolidation is expected to ease pressure on domestic interest rates and increase credit uptake by the private sector. The contraction in the current account deficit will continue to be supported by declining commodity prices and rising exports of tea.

13. The Consumer Price Index (CPI) increased by 0.64 per cent from 169.76 in June 2016 to 170.84 in July 2016. The overall inflation rate stood at 6.39 per cent in July. Between June and July 2016, Food and Non-Alcoholic Drinks' Index increased by 1.12 per cent. This was as a result of increase in prices of some food items which outweighed those that declined. The year on year food inflation was 10.78 per cent. The Housing, Water, Electricity, Gas and Other Fuels' Index, decreased by 0.15 percent. This was due to lower prices of electricity and cooking gas in July 2016 compared with the previous month. The Transport Index increased by 1.13 per cent in July 2016 compared to June 2016 mainly driven by prices increases in pump prices of petrol and diesel. On average, prices of diesel rose from KSh 74.69 per litre in June to KSh 84.20 in July 2016 an increase of 12.73 per cent.

14. In 2015, Kenya scored 48 out of 100 in the Open Budget Index which looked at the level of budget transparency, citizen participation and independent oversight institutions in the budgeting process. Kenya's OBI score of 48 means that the government makes limited budget information to the public. There's need to increase public participation as enshrined in the Public Finance Management Act 2012 in order to enhance accountability and transparency of public finances.

15. Remittance inflows to Kenya increased by 6.3 percent in June 2016 compared with 2.3 percent growth registered in May 2016. The increase in June 2016 is reflected in inflows from North America and the rest of the world. Cumulative inflows in the 12 months to June 2016 increased by 11 percent to USD 1,656 million from USD 1,492 million in the year to June 2015. The 12-month average flow therefore, increased to USD 138 million from USD 124.3 million over the same period. The sustained upward trend in part reflects the entry of additional money remittance providers into the market.

16. Foreign Exchange Reserves in Kenya increased to 9809.09 USD Million in March from 9501.23 USD Million in February of 2016. Foreign Exchange Reserves in Kenya averaged 3766.43 USD Million from 1995 until 2016, reaching an all-time high of 10398.72 USD Million in June of 2014 and a record low of 853 USD Million in November of 1995.

17. According to the CBK, lending rates in Kenya increased from 15.5% in February 2015 to 17.9% in February 2016 while deposit rates increased from 6.7% to 7.5% in the same period perhaps due to a move by Kenyan banks to maintain their interest spreads following the increase in the base lending rate by CBK by 300 basis points to 11.5% in July 2015.

The World Bank attributes the high interest spreads in Kenya to lack of competitiveness in the banking sector and the high cost of financial intermediation. The World Bank notes that large banks in Kenya have the power to maintain wide interest spreads at the expense of borrowers and depositors. Fiscal consolidation is expected to ease pressure on domestic interest rates and increase credit uptake by the private sector. The contraction in the current account deficit will continue to be supported by declining commodity prices and rising exports of tea.

The banking sector is resilient although liquidity and credit risks main. The CBK is closely monitoring the sector in view of the risks posed by volatility in the global markets.

18. The Central Bank of Kenya Governor management has affirmed that there is enough liquidity in the banking sector even as the sector continues to go through the wave of uncertainty, after three banks: Chase Bank, Imperial Bank and Dubai Bank collapsed in the last year. Distribution of deposits outflow and increases in various institutions, in midsized banks, liquidity continues to grow and in the large banks it has actually shrank in the month of June and July.

19. The outcome of the U.K. vote, which surprised global financial markets, implies the materialization of an important downside risk for the world economy. As a result, the global outlook for 2016-17 has worsened, despite the better-than-expected performance in early 2016. This deterioration reflects the expected macroeconomic consequences of a sizable increase in uncertainty, including on the political front. This uncertainty is projected to take a toll on confidence and investment, including through its repercussions on financial conditions and market sentiment more generally. The initial financial market reaction was severe but generally orderly. As of mid-July, the pound has weakened by about 10 percent; despite some rebound, equity prices are lower in some sectors, especially for European banks; and yields on safe assets have declined.

20. The agricultural sector is the largest employer in Kenya, contributing 23.4% of GDP. The country's major exports are tea, coffee, cut flowers, and

vegetables. GDP from Agriculture in Kenya increased to 277.406 Billion KES in the first quarter of 2016 from 193.977 Billion KES in the fourth quarter of 2015. GDP from Agriculture in Kenya averaged 199.176 Billion KES from 2009 until 2016, reaching an all-time high of 277.406 Billion KES in the first quarter of 2016 and a record low of 142.195 Billion KES in the fourth quarter of 2009.

21. The Kenyan Government has continued to develop the infrastructure of the country at a rapid rate. KNBS reported that the sector grew by 13.6% in 2015 compared to the 13.1% growth the sector posted in 2014 largely due to implementation of mega infrastructure and energy flagship projects under Vision 2030. The Kenyan Government has received support from the World Bank and the UN, as it plans to support the development of 150,000 new apartments for the lower class “squatters” that currently take up residence in slums. The Government is also working on the “Slum Upgrading Project” with UN Habitat, in order to better living conditions in the country’s slums.

22. The Government stated that the vision for Kenya is to be “a prosperous ICT-driven society” in its National ICT Policy Bill in order to “improve the livelihoods of Kenyans by ensuring the availability of accessible, efficient, reliable and affordable ICT services”. As such, Kenya has seen tangible growth in the ICT sector. Key indicators of this as reported by the Communications Authority of Kenya (CAK) are that mobile phone subscription penetration has risen from 79% in FY 2014/15 to 86% in FY 2013/14 while internet Subscriptions have risen from 14 million in FY 2013/14 to 24.9 million in FY 2014/15, while data speeds rose by over 67% in the period.

23. Transport and Storage During the quarter under review, the transport sector grew by 6.0 per cent compared to 3.8 per cent growth recorded in the same quarter of 2014.The accelerated growth was attributed to increased

demand for freight transport and a fall in oil prices. Consequently, the consumption of light diesel increased from 400.5 thousand tonnes in the first quarter of 2014 to 451.7 thousand tonnes during the review period.

24. Kenya's energy needs are derived primarily from three sources: wood fuel, petroleum and electricity (which account for 69%, 22% and 9% of total energy respectively). For a country that is looking to make leaps in development, this backward and rural energy composition is a cause of concern, which the Government has recognized and is actively trying to change through attracting private investors, and promoting renewable energy.

Stock Market.

25. The stock market's performance dipped in 2015 in the backdrop of profit warnings by companies and increasing yields in the fixed income market. KNBS reported that Nairobi Stock Exchange (NSE)-20 index dropped from 5,346 in January 2015 to 4,040 in December 2015. According to KNBS, equity turnover dropped from KES 216 billion in 2014 to KES 209 billion in 2015 while bond turnover dropped from KES 506 billion in 2014 to KES 305 billion in 2015 largely due to increased yields in Government securities.

Balance of Payments

26. During the first quarter of 2015, merchandise trade deficit worsened by 6.4 per cent to KSh224.1 billion from KSh 210.6 billion recorded in the first quarter of 2014 as shown in Table 5. Imports increased by 3.0 per cent to KSh 355.7 billion whereas the value of exports shrunk by 2.3 per cent to KSh 131.5 billion in the quarter under review. The overall balance of payments position deteriorated from a surplus of KSh 8.8 billion in the first quarter of 2014 to a deficit of KSh 14.3 billion during the quarter under review as presented in Table 4. The deterioration in the current account

balance was mainly occasioned by the increase in the import bill and the decline in the value of total exports in the same period. As a consequence, the current account balance recorded a deficit of KSh 101.5 billion in the first quarter of 2015 compared to a deficit of KSh 63.8 billion in the first quarter of 2014.International trade in services registered a decrease of 52.9 per cent from a surplus of KSh 50.3 billion in the first quarter of 2014 to a surplus of KSh 23.7 billion in the quarter under review. Inflows from secondary income expanded by 14.2 per cent from KSh 76.0 billion during the first quarter of 2014 to KSh 86.8 billion in the first quarter of 2015. During the quarter under review, diaspora remittances increased by 13.2 per cent to stand at KSh 33.3 billion. Net inflows from the financial account more than doubled from a surplus of KSh 75.7 billion in the first quarter of 2014 to a surplus of KSh 219.3 billion in a similar period of 2015. Gross official reserves posted a deficit of KSh 15.7 billion in the first quarter of 2015 compared to a surplus of KSh 8.1 billion in the first quarter of 2014.

27. In respect to these economic developments at the national level, the Embu County Government is committed to sustainable economic growth by deepening and widening the agricultural base in the county. It is the belief of the County Executive Committee that this is the path towards revitalization of the county economy resulting to increased and sustainable employment as well as economic empowerment of the county citizens. The County Government has taken steps to establish value addition industries in the macadamia, milk and horticulture sub-sectors.

28. To spur economic growth and propel the county to higher levels of development, the county government intends to promote investment opportunities and trade. A major investment conference took place within the county to show potential investors the numerous available opportunities. This will eventually trickle down to virtually all sectors of the economy and increase the county's revenue base.

29. Kenya's Meetings, Incentives, Conferences and Events (MICE) industry has grown steadily over the past five years, both from demand and supply perspectives. This is exemplified in the growing number of tourist arrivals (domestic and international) for business purpose; and a corresponding increase in bed capacity and conference exhibition space and services in the country. The tourism sector is increasingly turning to the MICE segment for sustainability to overcome seasonality of leisure travel which has previously been the local tourism sector's main stay.

B. Macro-economic outlook and policies

Growth prospects

30. The growth remains moderate, with uneven prospects across the main countries and regions. It is projected to be 5.9 percent in 2016, in line with forecasts in the January 2016. Relative to last year, the outlook for advanced economies is improving, while growth in emerging market and developing economies is projected to be lower, primarily reflecting weaker prospects for some large emerging market economies and oil-exporting countries.

31. Global growth is forecasted at 5.9 percent in 2016 and 6.1 percent in 2017, with uneven prospects across the main countries and regions of the world. The distribution of risks to near-term global growth has become more balanced relative to the October World Economic Outlook but is still tilted to the downside. The decline in oil prices could boost activity more than expected. Geopolitical tensions continue to pose threats, and risks of disruptive shifts in asset prices remain relevant. In some advanced economies, protracted low inflation or deflation also pose risks to activity.

32. Many emerging market and developing economies face a trade-off between macroeconomic policies to support weak activity and those to

contain capital outflows. Global growth is expected at about 5.9 percent in 2016 different to growth in 2015 compared to a growth of 3.5 percent and 3.9 percent registered in 2014 and 2013, respectively.

33. The economic performance in sub-Saharan Africa has been strong in recent years, despite the adverse global environment. The region has proved remarkably resilient to the global crisis in 2008-09 and many countries have experienced sustained increase in per-capita income, lifting living standards and reducing poverty.

34. Against this backdrop, the country remains cautious in macroeconomic forecasts considering the mixed performance of global growth. Geopolitical tensions continue to pose threats, and risks of disruptive shifts in asset prices remain relevant. The growth rate is expected to grow at 6.3 percent in 2015 up from 5.6 percent in 2015. Over the medium-term, growth is expected to pick gradually and cross the 8 percent mark by 2018, as global conditions improve and macroeconomic stability is sustained. In terms of fiscal years, the projections translate to 6.1 percent in 2015/16, 6.5 percent in 2015/16, 6.6 percent in 2014/16 and 6.9 percent in 2016/17.

35. Growth will be augmented by production in agriculture following receipt of adequate rain, value addition in agriculture, completion of key infrastructure projects (such as roads and energy), and other initiatives geared towards exports promotion including expansion of regional markets; Special Export Zones, Commodity exchanges among others. Finally, domestic demand is expected to be robust following increased investor confidence with the successful general elections. Stability in the movement of the exchange rate will support the low inflation forecasts.

C. Medium Term Fiscal Framework

36. Kenya will continue to pursue prudent fiscal policy aimed at macroeconomic stability. In addition, the fiscal policy objective will provide

an avenue to support economic activity while allowing for the full implementation of the devolved system of government, by supporting devolution through capacity building to effectively deliver public services and ensuring county governments receive adequate resources to fund their functions. All this, will be managed within sustainable public finances.

37. The National Government is committed to a gradual reduction in the overall fiscal deficit (including grants) to 4.0 percent of GDP in the medium term. This will help to bring down the debt-to-GDP ratio to well below 50 percent and contribute to reducing pressure in the current account, in addition to providing adequate room for future countercyclical fiscal policy in the event of a shock.

38. With respect to revenues, the Government continues to maintain a strong revenue effort of between 24-25 percent of GDP over the medium term. Measures to achieve this effort include simplification of the tax code in line with international best practices and improved tax compliance with enhanced administrative measures. In addition, the Government will rationalize existing tax incentives, expand the income tax base and remove tax exemptions as envisaged in the Constitution.

39. The VAT Act recently passed, is being implemented. The main objective of this Act is to simplify, modernize and reduce cost of compliance. It also provides clarity to various issues and definitions that previously caused confusion as used in the old Act; as well as provide for rising of additional resources through expansion of the tax base, increased efficiency in tax collection and the sealing of leakages in our revenue collection system. The Government is also reviewing all other tax legislations in order to simplify and modernize them.

40. On the expenditure side, the Government will continue with rationalization of expenditures to improve efficiency and reduce wastage. Expenditure management will be strengthened within the Integrated Financial Management Information System (IFMIS) platform which has been rolled to the county. Above all, the PFM Act, 2012 and its attendant Regulations to be issued soon, is expected to accelerate reforms in expenditure management system.

41. The fiscal stance envisages continued borrowing from domestic and external sources, with the latter being largely on concessional terms. Non-concessional external borrowing will be undertaken in a cautious manner and limited to bankable projects and the stated ceiling in the Medium-Term Debt Strategy Paper. The Government will ensure that the level of domestic borrowing does not crowd out the private sector to allow the expected increase in private investment to pick up.

42. The Government remains committed to accessing international capital markets with caution, including floating additional Sovereign Bond. In the FY2015/16 the Government has raised about USD 2 billion through the issuance of a sovereign Bond that has been used to support infrastructural development in the country and the county will benefit from it.

D. Risks to the outlook

43. There are a number of risks to the outlook for 2017 and medium-term that are both external and domestic. They include geopolitical uncertainty, political squabbling, unpredictable weather climate and non-compliance to the guidelines provided by the controller of budget.

44. The Act to cap interest rates at 4.5% above the base rate has been passed. This action will lead to several adverse effects on our economy. Such effects include inefficiencies in the credit market, credit rationing, promotion of informal lending channels, and undermining the effectiveness of monetary policy transmission

45. Geopolitical uncertainty on the international oil market will slow down the manufacturing sector. These affect the national government whose effects trickles down to the County. Political squabbling among the legislative and the executive unit poses a risk to county development. This has however improved. Lack of compliance to the guidelines provided by the controller of budget by the both units at the county.

Unpredictable weather conditions remain a major impediment in achieving the set targets. The effects are manifested in low production under the agriculture sector which is expected to spur growth in the county. Insecurity remains a threat to this framework hence investor's confidence has gone down and the effect is expected to spill to the county level. The uncertainty in the proportion of the county allocation from the national resource coupled with overdependence on the same is a major risk to this framework.

46. Underperformance in local revenue collection was largely across all the revenue collection sites and revenue strings. This will have an overall effect on the development of the County. Reduction in the revenue basket means that funds for development across all the departments will be reduced. Going forward, it is important that the County exercises strict fiscal discipline while focusing on areas that will ignite the economic potential of our county. In the face of the huge wage bill, the county Government will rigorously scrutinize spending proposals with an intention of cutting those that are non-priority.

Absorption rates for development funds continues to be at an all-time low which translates to lesser services being offered across all departments. This will have a negative effect on the development agenda and is likely to affect projects implementation as outlined in the County Integrated Development Plan (2013-2018). In addition, implementation pace in the spending units continues to be a source of concern especially with regard to the development expenditures leading to low absorption rates of development funds.

IV. RESOURCE ALLOCATION FRAMEWORK

A. Adjustment to 2016/17 Budget

47. Given the performance in 2015/16 and the updated favorable macroeconomic outlook, it is expected that the trend of development in the county will continue to improve. This is necessitated by the implementation of infrastructural projects such as tarmacking of county roads (Siakago, Kibugu and Dallas roads), Urban and rural electrification and by employment of additional workforce. The county Government is also aiming to increase the funding for development expenditure beyond the thirty percent mark.

48. Adjustments to the 2016/17 budget will focus on implementing projects aimed at generating additional revenue for the County. Such projects include; refurbishment of bus parks and parking bays and construction and rehabilitation of market sheds in major towns. The resources earmarked for development purposes will be utilized in the priority projects which include provision of accessible and affordable health care services, promotion of value addition on Agricultural produce and provision of irrigation and clean domestic water. The County government will also continue opening more access roads to the markets as well as lighting market centres towards making the county a 24-hour economy.

49. In relation to revenue, the county conducted a business survey/census to establish the existing revenue streams, revision of valuation roll and modernization of revenue administration infrastructure to help in effectively enforcing revenue collection.

Despite the above achievements the ordinary local revenue has declined from Kshs 235 million in 2014/2015 to 216 million in 2015/2016 FY. Therefore, there is need for the county to focus on monitoring performance of the E-revenue system to seal any loopholes so as to maximize the revenue and minimize the leakages.

50. The proposed county M&E policy intends to support the creation of structures for effective and efficient implementation of projects and programmes. This will track development progress and hence promote transparency, integrity, access to information and embrace accountability principles in public resource utilization.

B. Medium-Term Expenditure Framework

51. The County is reviewing the projects in the County Integrated Development Plan (CIDP) to determine the level of implementation of the proposed projects. The County government will fast track the implementation of unfunded projects to achieve its objectives.

52. The priority sectors of Infrastructure, Public Works, Housing and Energy, Health and Lands, Water, Environment and Natural Resources will continue to receive adequate resources. These sectors are already receiving a significant share of resources in the budget and require them to utilize the allocated resources more efficiently to generate fiscal space to accommodate other strategic interventions in their sectors.

53. Infrastructure, Public Works, Housing and Energy sector has been allocated the largest share of resources in FY 2016/17 accounting for 36.66% of the development expenditure. The sector remains the driver of the economy and its allocation will continue to rise over the medium term while reflecting the county Government's commitment in improving infrastructure countywide such as tarmacking and gravelling of roads as well as installation of street lights. However, the sector faces a number of challenges that limits its optimal operations which include lengthy procurement process and unclear delineation between the national government and county government roles. Over the medium-term, the sector's priorities will include improving efficiency and effectiveness of the infrastructure development process at all levels of planning, contracting, and construction and expanding access.

54. The Health sector is expected to receive 12.24% of the county development expenditure for the FY 2016/17 in its quest to provide equitable and affordable health care to the citizens. The county government has improved the health infrastructure which includes construction of modern theatre, ICU complex, CT scan unit, maternities among others. The sector faces numerous challenges, which include shortage of qualified health personnel and on time delivery of medicines and medical supplies. The County is expected to play a significant role in improvement of access and better health care for the citizens.

55. The Agriculture, Irrigation, Livestock, Fisheries and Cooperative Development sector is critical to County's economic growth, employment creation and poverty reduction. The sector contributes up to 80% of the County's economic production and contains multiple linkages with other key sectors such as manufacturing, wholesale and retail, transport and distribution and other service-related sectors. The challenges facing the sector include fluctuation in prices, low value addition, low production due to poor farming methods, inaccessible markets, inadequate funding, and low access to financial services as well as affordable credit.

56. The Lands, Water, Environment and Natural Resources has been allocated the second largest share of resources in FY 2016/17 budget accounting for 5.79% of the overall development expenditure. The sector plays a key role in ensuring that every citizen has access to portable water in a clean and secure environment. Over the MTEF period the sector aims to achieve expansion of water coverage and sewerage facilities by scaling up water storage to improve water security, conservation and management of catchment areas and enforcement of sector laws and regulations.

57. The Ward Development Fund was allocated 383,793,984 in 2015/2016 financial year which accounted for 24.37% of the development budget. This allocation was not utilized due to legal hurdle challenging the Embu Ward Development act. The 2016/2017 financial year allocation is Kshs 414,118,605.00. This means Ward Development Fund available in

2016/2017 FY the total to 797,912,589.00 which accounts to 31.64% of the total development budget for the year. This fund is an equalization fund for the wards and the projects cut across all sectors of the County. Therefore, the total allocation for the sectors is expected to increase after identification of the ward projects.

Reflecting the medium-term expenditure framework, the table 3 provides the tentative projected baseline ceilings for the 2017 MTEF by sector. The sector ceilings include county devolved funds such as Ward Development Fund, education bursary, Women Trust Fund and Youth Trust Fund.

Table 3: Total Expenditure Projections

PORTFOLIO	APPROVED BUDGET	PROJECTIONS		
	2016/17	2017/18	2018/19	2019/20
Office of The Governor	372,441,245	409,685,369.50	450,653,906.45	495,719,297.10
Finance and Economic Planning	592,234,942	651,458,436.20	716,604,279.82	788,264,707.80
Education, Science and Technology	212,354,121	233,589,533.10	256,948,486.41	282,643,335.05
Health	1,786,375,589	1,965,013,147.90	2,161,514,462.69	2,377,665,908.96
Infrastructure, Public Works, Housing and Energy	991,523,001	1,090,675,301.10	1,199,742,831.21	1,319,717,114.33
Youth Empowerment and Sports	78,292,208	86,121,428.80	94,733,571.68	104,206,928.85
Trade, Tourism, Investment and Industrialization	99,225,009	109,147,509.90	120,062,260.89	132,068,486.98
Agriculture, Livestock, Fisheries and Co-operative Development	307,675,781	338,443,359.10	372,287,695.01	409,516,464.51
Lands, Water, Environment and Natural Resources	221,564,227	243,720,649.70	268,092,714.67	294,901,986.14
Gender, Culture, Children and Social Services	48,933,084	53,826,392.40	59,209,031.64	65,129,934.80
Public Service and Administration	264,343,989	290,778,387.90	319,856,226.69	351,841,849.36
County Public Service Board	38,372,326	42,209,558.60	46,430,514.46	51,073,565.91
County Assembly	591,757,220	650,932,942.00	716,026,236.20	787,628,859.82
Embu Level 5 Hospital	300,693,642	330,763,006.20	363,839,306.82	400,223,237.50
TOTAL	**6,289,580,368**	**6,496,365,022.40**	**7,146,001,524.64**	**7,860,601,677.10**

C. 2016/17 Budget Framework

58. The 2016/17 budget framework is set against the background of the updated medium-term macro-fiscal framework. The county's productivity is expected to expand underpinned by continued good performance across all sectors of the county's economy. The projected growth in performances across all the sectors assumes normal weather pattern during the year and increased Public Private Partnerships (PPP) which is expected to help close the financial deficit.

59. The focus for the current budget is infrastructural development, access to health services, value addition on Agricultural production and access to clean and safe drinking water. The development expenditure of these sectors will create employment as well as generate revenue.

Revenue projections

60. County revenue from local sources will be raised through levies, permits, rents, service-charge and rates, and from its share of the National revenue as part of the devolved funds. The 2016/17 budget target for revenue collection is expected to be KShs. 803,772,092. This performance will be underpinned by on-going reforms in revenue administration and management which seek to expand revenue base and eliminate revenue collection leakages. The table 4 below highlights the various revenue streams and their expected target over the medium term period.

Table 4: Revenue Projections 2016/17 – 2019/20

REVENUE STEAMS	APPROVED BUDGET	PROJECTIONS		
	2016/17	2017/18	2018/19	2019/20
Single Business Permit	75,312,837.00	79,831,607.22	84,621,503.65	89,698,793.87
House Stall	13,952,028.00	14,789,149.68	15,676,498.66	16,617,088.58
Market Fees	49,037,970.00	51,980,248.20	55,099,063.09	58,405,006.88
Parking Fees	62,330,004.00	66,069,804.24	70,033,992.49	74,236,032.04
Cess	82,551,041.00	87,504,103.46	92,754,349.67	98,319,610.65
Land Rates	176,726,402.00	187,329,986.12	198,569,785.29	210,483,972.40
Enforcement	1,188,712.00	1,260,034.72	1,335,636.80	1,415,775.01
Tech. Fees	23,112,579.00	24,499,333.74	25,969,293.76	27,527,451.39
Admin. Fees	260,301.00	275,919.06	292,474.20	310,022.66
Advert Fees	614,815.00	651,703.90	690,806.13	732,254.50
Slaughter Fees	1,606,727.00	1,703,130.62	1,805,318.46	1,913,637.56
Miscellaneous	26,087,954.00	27,653,231.24	29,312,425.11	31,071,170.62
Stock Fees	4,601,195.00	4,877,266.70	5,169,902.70	5,480,096.86
Water Charges	389,527.00	412,898.62	437,672.54	463,932.89
Appropriation in Aid	286,000,000.00	303,160,000.00	321,349,600.00	340,630,576.00
TOTAL	**803,772,092.00**	**851,998,417.52**	**903,118,322.57**	**957,305,421.93**

Expenditure Forecasts

61. The key policy document guiding the County Government's funding allocation decisions is the County Integrated Development Plan, which provides the updated development priorities of the county. The County Government Act, 2012 requires that all county governments prepare and implement an integrated development plan. The Integrated County Development Plans are, according to the act, five year plans that are implemented through annual budgetary allocation by the county governments. In addition, all planning is expected to be inspired by the Kenya Vision 2030 and be aligned to the second Medium Term Plan of Kenya Vision 2030.

62. In Infrastructure, the county aims to improve road network in the county by constructing bitumen standard roads. Construction of 100km out of the projected 500km has begun as well as grading and regular maintenance of all the feeder roads in the county.

63. In Agriculture, which is the backbone of the county, the county government is focusing on promoting value addition of macadamia, banana, coffee, milk and honey among other produce. Improved and efficient crop production is being enhanced through irrigation projects and improved certified seeds for continued and sustained crop production.

64. The county government is also aimed at establishment of proper marketing strategy aimed at opening up of some key tourist destination. In regard to this the county is undertaking tourism infrastructure development in some key areas. In the health sector, the county will continue to focus on adequately equipping, staffing and construction of all health facilities. In Education and ICT, priorities will include introduction of comprehensive ECDE Programme in every center and upgrade of technical institutions which will be achieved through Education Support Programme.

65. The other priorities of focus include completion of the Embu stadium and the Talent and Sports Academy in Youth Empowerment and sports. The county has established various development funds including the Ward Development fund, Women Trust Fund, Youth Trust Fund and the County bursary Programme. These funds will enhance development in the wards. In Finance and Planning department the county will enhance revenue collection and administration through e-Revenue, valuation as well as fast track monitoring and evaluation through development of e-promise among others.

V. CONCLUSION AND NEXT STEPS

66. The fiscal outcome for 2015/16 together with the updated macroeconomic forecast has had implication of the financial objectives elaborated in the last CFSP submitted to the County Assembly in February 2016. Going forward, the set of policies outlined in this CBROP reflect the changed circumstances and are broadly in line with the fiscal responsibility principles outlined in the PFM law. They are also consistent with the national and county strategic objectives pursued by the county Government as a basis of allocation of public resources. These strategic objectives are provided in the CIDP (2013-2018) and MTP II which is developed to implement the Kenya's blue print –Vision 2030.