

REPUBLIC OF KENYA



COUNTY GOVERNMENT OF KILIFI

THE COUNTY TREASURY

2019 COUNTY FISCAL STRATEGY PAPER

**TOWARDS REALIZING PEOPLE-FOCUSED TRANSFORMATION
AGENDA FOR WEALTH CREATION**

FEBRUARY, 2019

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This County Fiscal Strategy Paper (CFSP) has been compiled using latest information, some of which is unaudited or subject to revision.

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CHAPTER 1: INTRODUCTION

Overview

1. The County Fiscal Strategy Paper (CFSP) is prepared and published in accordance with Section 117 of the Public Finance Management (PFM) Act No. 18 of 2012. It specifies 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. Included in the CFSP is the County's financial outlook with respect to revenues, expenditures and borrowing.

Preparation of the 2019 CFSP

2. The broad strategic priorities and policy goals spelled in the 2019 CFSP are derived from the County Integrated Development Plan (CIDP) 2018-2022, Annual Development Plan (ADP) for FY 2019/20, public views obtained during Consultative Forums on Budget Proposals for FY 2019/20.

3. This paper is also aligned to the 2019 Budget Policy Statement (BPS) which outlines priority policies and strategies to implement the 'Big Four' Agenda as prioritized in the Third Medium Term Plan (MTP-III) of Vision 2030. The 'Big Four' Agenda prioritizes implementation of policies and programmes for;

- (i) Supporting job creation by increasing value addition and raising the manufacturing sector's share to GDP;
- (ii) Focusing on initiatives that guarantee food security and nutrition to all Kenyans;
- (iii) Providing universal health coverage thereby guaranteeing quality and affordable healthcare to all Kenyans; and
- (iv) Supporting construction of at least five hundred thousand (500,000) affordable new houses to Kenyans.

In this regard the 2019 CFSP contextualized the Big Four Agenda to the county level to make it more responsive the development and social aspiration of the Kilifi residents.

4. In compliance with legal requirements, the County sought and took into account the views of the Commission on Revenue Allocation, Controller of Budget, County Budget and Economic Forum and other key stakeholders within the County.

Structure of the 2019 CFSP

5. The 2019 CFSP is organized as follows:

Chapter one provides the background and legal basis for the preparation of the CFSP.

Chapter two spells the broad strategic priorities and policy goals towards attaining people-focused transformation agenda for employment creation.

Chapter three examines how macro-economic factors influence county's plans and financial forecasts.

Chapter four shows how the county complies with principles of public finance and fiscal responsibility principles as well as set the budget framework for coming financial year.

Chapter five is the conclusion.

CHAPTER 2: PEOPLE-FOCUSSED TRANSFORMATION FOR WEALTH CREATION

Overview

6. The people-focused transformation, as implemented under five key policy goals was initiated under 2018 CFSP in an effort to avail benefits derived from County functions at the doorstep of the people. The 2018 CFSP laid the foundation for shifting from structural to people-focused transformation. This witnessed implementation of policy measures that directed resources towards completion of ongoing projects, operationalizing completed projects and recruiting of additional staff such as ECDE teachers, and medical staff so as to realize intended benefits of the projects.

7. This 2019 CFSP bolsters the success of previous years' development efforts by further directing resources towards improving people's livelihoods by meeting basic, social needs and creating opportunities for wealth creation.

8. This CFSP harmonizes the various County departments' goals and development priorities with the midterm development agenda of the County Government. The 2019 CFSP addresses itself towards the achievement of the following midterm agenda:

- (i) Ensure food sufficiency for all residents;
- (ii) Provide safe water coverage to 65% of the residents
- (iii) Promote good performance and quality education;
- (iv) Ensure accessible, equitable and quality healthcare services, and;
- (v) Secure beneficial use of land, other natural resources and build environment.

Ensuring food sufficiency for all residents

9. To achieve food sufficiency, the County Government aims at enhancing her food and nutrition security position in line with 'The Big Four' Agenda, propounded in the 2019 Budget Policy Statement. The pursuit for food sufficiency is grounded on the predominance of subsistence food crop cultivation and a related primary concern for households in the County to put safe, nutritious and sufficient food on the table. At the household level, incomes earned from cash crops, livestock, livestock products and fisheries serve to supplement shortfall in subsistence food supply as well as meet other

needs including education and health. This, in part, informs the continued efforts of the county government to incentivize the shift from traditional to commercial oriented and modern agricultural practices. The other rationale for the shift is the linkage between agriculture and other sectors especially manufacturing and value addition, which are focal areas under 'The Big Four' Agenda.

10. Going forward, the county government will adopt agricultural planning as a holistic approach to solving problems as opposed to piecemeal solutions. The county department of agriculture will shift the focus of its extension network from farmers to production units in order to improve efficiency of the extension services.

11. The broad strategic priorities, programmes and projects for implementation are specified in the following paragraphs.

12. In order to further incentivize the shift from subsistence to commercial agriculture, the county department of agriculture will continue to subsidize mechanization services. However, there has been inefficiency in the way tractors have been managed which resulted to reduced acreage of tilled land from 4800 acres in 2017 to 2600 acres in 2018. To address this, the department will develop a tractor fleet management system to schedule, monitor and control tractor operations. Additionally, to optimize the use of tractors, the department will put them into multiple uses including hauling, bed forming, auguring and ridging.

13. To promote uptake of improved technological traits such as better yield, pest tolerance and drought resistance in food crops, the county government will continue supporting farmers by providing fertilizer and certified seeds. However, going forward, distribution of these inputs will be done through a cooperative model to improve on efficiency.

14. To reduce reliance on rain fed agriculture, the county government had laid irrigation infrastructure that covered 8,700 acres and benefiting 2,925 farmers by 2018. The irrigation infrastructure along River Galana/Sabaki; namely Balagha and Burangi

Irrigation Schemes was washed away by floods during the long rains of 2018. In response to this exogenous shock, the county government has developed the Kilifi County Irrigation Scheme Productivity Enhancement Programme (KCISPEP) to re-install the infrastructure, expand and safeguard it. As such, the new irrigation infrastructure will employ tractor driven, power take off generators which can be shifted to higher grounds during flooding. This is a shift from the previous regime of pumps and pipes.

15. To disseminate technological innovations in agriculture, the county government will train production units on agricultural technological innovation in a bid to build their capacity to manage farms, handle harvest and constitute them as satellite value-addition centers.

16. In order to boost household incomes, promote value-addition and create employment opportunities, the county government will continue to support revamping and rehabilitation of tree crops especially cashewnut, coconut, mangoes and citrus fruits. Other than the support of partners involved in expansion, replanting and revitalizing tree crops, the County targets to provide 4,000 hybrid coconut seedlings, 16,500 coconut seedlings, 6,700 mango seedlings, and 62,500 cashew nut seedlings in FY 2019/20.

17. To tap into the national government project for commercialization of growing genetically modified cotton by availing seeds to farmers, particularly Basillus Thuringensis (BT) cotton seeds, the county government will introduce cotton as an alternative cash crop. The County will consume results from research and development with a view to introduce other alternative cash crops in the county.

18. To promote growth of livestock production and productivity, the County will continue to provide services to secure livestock well-being and provide assurance on quality of products. The specific measures to achieve this are improving animal genetics, enhance animal disease control and management and optimize livestock product value-addition and marketing. To improve animal genetics, the county government continues to support uptake of high yielding breeds for poultry, rabbits, goats, beef and dairy cows

by offering extensive follow-up services to farmers through farmers' trainings, field days, on-farm demonstration, farm visits, barazas and organized learning tours.

19. To enhance animal disease control and management, the County has regularly carried out vaccinations and vector control campaigns and clinical interventions. After the heavy rains in 2018, the county government moved with speed to prevent an outbreak of Rift Valley Fever and Anthrax. The county government will continue to invest in vaccination crushes as well as provide vaccinations against animal diseases.

20. To safeguard human health and provide quality control and assurance on meat products, the county government will continue inspecting livestock products under the veterinary public health services for prevention and control of zoonotic diseases. Further, to offer support to the leather industry which has been prioritized in the 'Big Four' Agenda, the county government will continue to inspect hides and skin for quality control and assurance.

21. In a bid to preserve milk, the county government will complete the construction of milk cooling plants which are currently at various stages of completion. The county government will establish a milk processing plant to achieve value addition and marketing of milk and milk products.

22. Kilifi County boasts of the longest coastline in Kenya, at 268 KM; and an expansive, exclusive economic zone of 200 nautical miles. This presents the county with a pedestal opportunity to harness the Blue Economy as an emerging investment frontier. The county government targets to improve marine fisheries production by undertaking spatial mapping. Spatial maps provide information which guide fisher folks to the fishing sites thus safeguard against free range fishing. To meet the demand of skilled women, men and youth on blue economy, the county will offer trades in Vocational Training Centres tailored towards craftsmanship in fishing, boat making and gear making. Further, the county government will upscale support offered to the 17 Beach Management Units (BMU) by constructing fish landing sites, depots and cold storage facilities.

Progressively provide safe water

23. Provision of safe water to the residents of Kilifi remains a key priority for the county government. Currently, water provision covers 63% of the population and access to portable water is within 5KM on average. Going forward, the county government will undertake water infrastructure development projects with a view to reduce the distance to piped and portable water sources to 3.2km and increase the population served by clean and safe water to 65%. Towards this end, the county government will further invest in constructing more dams, water pans, boreholes and extension of pipelines.

Promoting good performance and quality education

24. To offer quality education and secure good performance, the county government will continue to invest and ensure there is an improvement in the learning environments.

25. With regards to physical environment, the County has 1,519 Early Childhood Development Education (ECDE) centres consisting 813 public and 706 private institutions. To further improve the physical environment, the County has completed construction of 251 ECDE classrooms while 80 are at advanced stages of completion. Improvement in physical environment tends to attract and retain pupils such that the total enrolment in 2018 stood at 135, 491 composed of 67,078 girls and 68,413 boys. This translates to a gross enrolment rate of 81.5 percent and net enrolment rate of 78.9 percent. Going forward, the county department for education and ICT will upgrade and equip existing infrastructure in conformity with requirements of the Competence Based Curriculum (CBC). All new ECDE centres will comply with this requirement.

26. To reverse the perception that VTC are for primary school dropouts and respond to the requirement for 100 percent transition from primary to secondary school, the county government will upgrade and equip infrastructure as well as diversify existing trade lines in the VTCs and TVETs under its jurisdiction.

27. To improve academic environment, the county government will recruit additional ECDE teachers and build their capacity to embrace the new curriculum. For disability

mainstreaming, the county will construct and equip special needs ECD centers to ensure holistic and focused wellbeing of every individual.

28. Further, the County will roll out the digital literacy programme in 35 ECDE centres. This is in addition to the rolling out of the new curriculum for which the county government has invested significant resources. The County has taken up the formation of play groups (day care centers) as recommended by the Kenya Institute of Curriculum Development (KICD) and this will have an inherent shift in the provision of early childhood education. To embrace this, the county has adopted a pedagogical system of teaching; a new scheme for which the learners will use toys and charts and other learning materials provided for their holistic learning experience, as well as embrace the jolly phonic teaching approach supported by a British Education Charity for a year after which the county government will run the programme by itself.

29. The Ward Scholarship Fund remains the most reliable tool and widely appreciated response offered by the County to reduce the economic burden for education on households. To enhance its capacity to administer loans to university and college students, the Fund will partner with Higher Education Loans Board (HELB) to make the Fund revolving.

30. To boost retention and nutrition of children in ECDE centres, the county government will continue with the school milk programme to learners in addition to constructing supporting infrastructure for the national government school feeding programme.

Ensure accessible, equitable and quality healthcare services

31. The county has continuously invested in health infrastructure in previous years in terms of opening up of new dispensaries and health centers as well as upgrading the existing sub county and county hospitals, projects which are at various stages of completion. In order to reduce the distance to the nearest medical facility, the county government will continue investing resources towards completing stalled and ongoing

projects. This includes completing the Kilifi County Health Complex which is a flagship project.

32. To improve the health facilities' capacity and to increase access to specialized diagnostic health care, the county government will acquire medical equipment for various health facilities through purchase and leasing options. The government will also ensure there is reliable supply of pharmaceutical and non-pharmaceutical supplies in all health facilities.

33. The recommended World Health Organization Nurse Population ratio is 23:10,000 and Doctor Population ratio is 23:10,000. Currently the doctor population ratio is 1:10,000 and nurse population ratio is at 5:10,000. To progress towards this benchmark and also improve on the quality of medical services offered, the county government will continue to employ more doctors, nurses and other specialized personnel.

34. To achieve universal health care, the county will strengthen the Community Health Strategy (CHS) by establishing new community units, training of Community Health Volunteers (CHV) and Community Health Workers (CHW). This will build from the ongoing efforts to finalize the Community Health Strategy Policy which is undergoing public participation together with other policies and legislations under consideration namely;

- (i) Kilifi Health Services Improvement Fund Act 2016 – being implemented
- (ii) Kilifi Maternal, Neonatal, Child, Adolescent Health Bill – being amended
- (iii) Blood Transfusion Policy-with a satellite in Malindi – undergoing public participation
- (iv) Universal Health Coverage Framework – under review by the County Attorney
- (v) County Health Bill
- (vi) Environmental Health and Sanitation Bill – under review by the County Attorney.

Secure beneficial use of land, other natural resources and built environment

35. Land is a crucial factor of production. In the context of the county government, it is a crucial enabler for most of the sectors attaining their development goals as well as an important resource in which most economic activities take place. The CFSP 2019 will thus focus on increasing the usability of land and attaining maximum benefits and utility from this resource.

36. To improve the usability of land and intensify production efforts on it, the county government aims at addressing the issue of land ownership through adjudication, survey and mapping of land. The county government targets to improve the land tenure system and increase the number of people with legal titles. In this regards, the county government will establish settlement schemes for squatters.

37. The county government plans to acquire and secure land for housing and industrial investments using the land banking concept thereby enhancing the capacity of the county government to venture into public private partnerships in the aforementioned areas. In addition to this, the county government will develop a housing master plan that will highlight the investment opportunities in this sector.

38. It is important to take cognizance of the fact that the utilization of land will be based on crucial enablers such as ICT and a comprehensive data bank. Therefore, a land management resource will be put in place and as such, embracing the county land management information system (CLMIS) and the land management information system (LMIS) is crucial to achieve this end. The county government will complete the construction of the Geographical Information System (GIS) laboratory and establish an online platform to ease access, and manipulation of land information.

39. In line with Urban Areas and Cities Act, the county government will operationalize the Kilifi and Malindi municipalities. The operationalization will include the building of institutional capacities of these urban units. While the aforementioned are the key areas of focus in the 2019 CFSP, the County will invest in crucial enablers that will allow the attainment of these goals.

40. ICT is a crucial enabler that is important for the automation and running of departments' systems and processes, allowing for efficient and effective service delivery. As such the county government will focus on the automation of HR records, payment services across the County health facilities to boost revenue collection and eliminate pilferage, creation of a digital valuation roll and rolling out of a digital literacy programme across 35 model schools. In addition to this, the county government plans to increase the ICT infrastructure and internet connectivity across departments to improve on service delivery and boost the integrity of the systems and processes for posterity.

41. Gender and youth services are important enablers for the achievement of the County's development agenda. Strategic focus will be advanced to tailor made programs for women and youth, more so through training and awareness creation of pertinent issues like reproductive health, teenage pregnancies and family planning; in a bid to reverse the early teenage pregnancies scourge and population burst. For economic empowerment, there will be sensitization and trainings on the Blue Economy trade lines as well as talent centres to nurture and enhance the various talents into sustainable business ventures. This will feed into the overall economic posterity. Social protection services will also be advanced to the elderly, OVCs and PWDs through the cash transfer program as well as construction of safety houses for the elderly and victims of GBV and SGBV.

42. The county government will support the establishment of avenues through which citizens can trade and engage in other economic activities in a market system. Establishment of markets and completion of those under construction is a key area for consideration in this CFSP, so as to increase the market spaces for trade to thrive in. Secondly, there will be dedicated efforts towards revitalizing the cooperative model of economic activity as it is important towards galvanizing the gains of a variety of ventures, including but not limited to agriculture, fishing, dairy, mining and housing sectors. This will be done through awareness creation, sensitization, training and business incubation. Thus allow for new initiatives to be rolled out and efficient marketing of the products and services.

43. The county government appreciates the role of a clean environment in the attainment of its developmental milestones. Therefore, there will be concerted efforts towards curbing air and water pollution. As such, the county department of environment will roll out a tree planting and mangrove restoration exercise, to increase the forest cover from 8 to 9.5 percent. Other efforts include the demarcation of Dakacha forest to avoid resource conflict and facilitate carbon trading. The town beautifications will also be enhanced, with solid waste management as a key initiative.

44. The road network in the county is a key enabler of development as it opens up areas to social amenities and other economic centers. In this CFSP, priority will be given to the construction of the 5.5KM Malindi beach road, to open up the area for tourism. Additionally, there will be road rehabilitation and upgrading services, to maintain the roads.

45. Clean energy is a key and reliable avenue through which sustainable investments can be made. In this regard, solar street lighting will be undertaken on major roads as well as the construction of high mast solar lamps in strategic areas, thus stretching the economic hours in these areas. Supply of solar lanterns to schools is another intervention through which quality education is attained as it allows for a better learning environment. Solar systems have also been installed at boreholes and other water points, improving access to clean water.

Additionally, there will be investments in alternative sources of energy such as briquette making to allow for adoption of green energy as well as economic empowerment of youth and women groups which will participate in the venture.

46. Sports and culture is also a crucial enabler in the attainment of the development goals. This CFSP aims at boosting the county's sporting profile through rehabilitation and equipping of sports facilities as well as the construction of a modern stadium. Rehabilitating the cultural sites in the county is an initiative that will boost the tourism profile of the county.

CHAPTER 3: RECENT ECONOMIC DEVELOPMENTS AND STRUCTURAL REFORMS

Overview

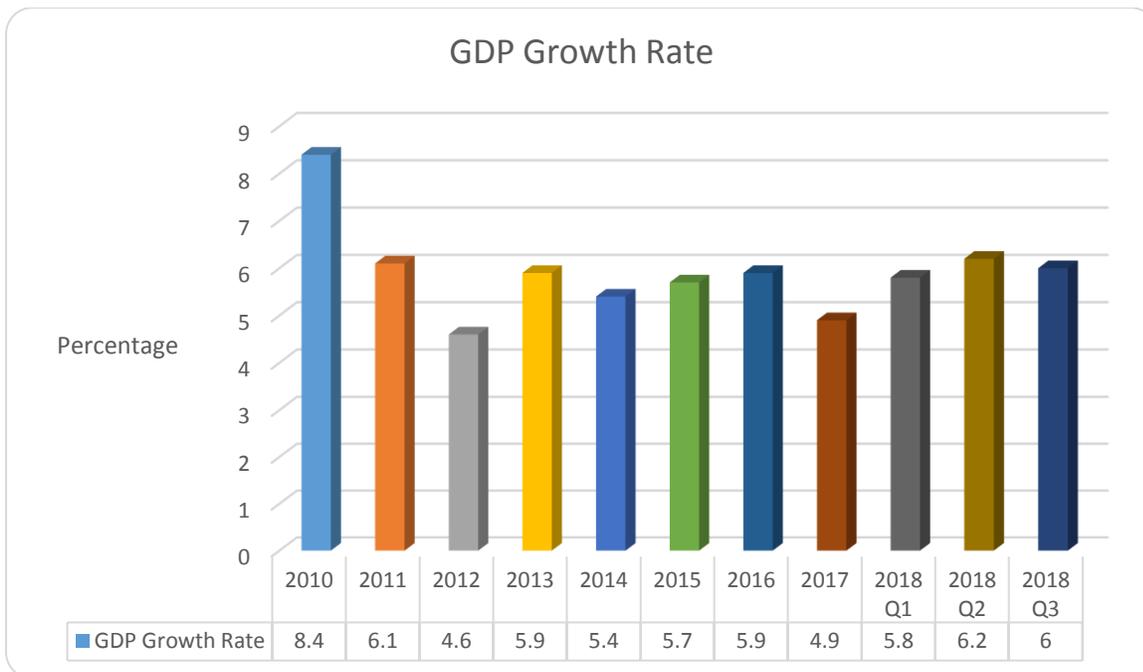
47. National Economic performance has a direct impact on how the county performs in terms of both revenue allocation and utilization. Growth in the economy translates to more revenue collected hence higher allocations to the county governments. Similarly county government's prudent performance in implementation of projects and programmes has a direct impact on economic growth.

Gross Domestic Product

48. Economic activities picked up in 2018 after the 2017 general elections. The economy grew by 5.8 percent, 6.2 percent and 6.0 percent in the 1st, 2nd and 3rd quarter of the 2018 respectively up from 4.7 % in similar quarters in 2017. Growth for the first three quarters of 2018 averaged 6.0 percent and is projected to grow by 6.0 percent in 2018 up from 4.9 percent in 2017. This growth is supported by a strong rebound in agricultural output, steadily recovering industrial activity, and robust performance in the services sector.

49. Kenya's economic growth has remained strong and resilient even under emerging global challenges, supported by strong public and private sector investment and appropriate economic and financial policies. The broad-based economic growth has averaged 5.6 percent for the last five years outperforming the average growth rate of 4.7 percent in the period 2008 to 2012 and 4.6 percent in the period 2002 to 2007.

Figure 1: Trends in Kenya's Economic Growth Rates in Percentage



Source of Data: Kenya National Bureau of Statistics

Real and sectoral GDP growth rates

50. The rebound in economic activity in 2018 is a reflection of improved rains, better business sentiment and easing of political uncertainty. The economy grew by 6.0 percent in the third quarter of 2018 and 6.2 percent in the second quarter of 2018 up from 5.8 percent in the first quarter of 2018, averaging 6.0 percent in the first three quarters of 2018. Growth is projected at 6.0 percent in 2018 up from 4.9 percent in 2017, which is in line with the 2018 Budget Review and Outlook Paper (BROP) projection (Table 1.1).

51. In the third quarter of 2018, the economy grew by 6.0 percent compared to a growth of 4.7 percent in a similar quarter in 2017, mainly supported by improved weather conditions which led to increased agricultural production and agro processing activity in the manufacturing sector. In addition, this growth was supported by pickup in activities of accommodation and food services, electricity and water supply and construction sectors.

52. Agriculture sector recovered and recorded growth of 5.2 percent in the third quarter of 2018 compared to a growth of 3.7 percent in a similar quarter of 2017, supported by improved weather conditions. This enabled the agriculture sector to contribute 1.0 percentage points to GDP growth in the third quarter of 2018 compared to 0.7 percentage points in the same period in 2017. The current recovery in the agriculture sector is broad-based and reflected in the expansion of output of key food and cash crops such as tea, coffee and fruits.

53. The Non-agricultural sector (service and industry) remained vibrant and grew by 5.8 percent in the third quarter of 2018 up from a growth of 5.1 percent in a similar quarter in 2017. It has the largest percentage points to real GDP growth at 4.0 percentage points mainly supported by the service sector.

54. Services remained the main source of growth and expanded by 5.9 percent in the third quarter of 2018 compared to a growth of 5.6 percent in the same quarter in 2017. The service sector was supported by improved growth in accommodation and restaurant (16.0 percent), wholesale and retail trade (6.8 percent), transport and storage (5.4 percent) and financial and insurance (2.6 percent). Growth of activities in information and communication (9.1 percent) and real estate (5.8 percent) remained vibrant despite the slowdown relative to the same quarter in 2017. Services contributed 3.1 percentage points to real GDP growth in the third quarter of 2018 largely supported by wholesale and retail trade (0.6 percentage points), Real Estate (0.5 percentage points) and Transport and storage (0.4 percentage points).

55. The performance of Industry improved to a growth of 5.1 percent in the third quarter of 2018 compared to a growth of 2.3 percent in the same quarter in 2017 following increased activities in the manufacturing, construction and electricity and water supply sectors. The recovery of the manufacturing sector was attributable to agro-processing activities that benefitted substantially from increased agricultural production.

56. Growth in the Electricity and Water supply remained vibrant driven by increased use of less input intensive sources of energy such as hydro generated electricity

supported by sufficient rainfall and geothermal power generation coupled with a slowdown in growth of thermal generation.

57. The industry sector accounted for 0.9 percentage points to growth in the third quarter of 2018, largely driven by the construction and manufacturing sectors which contributed 0.4 percentage points and 0.3 percentage points, respectively.

Table 1: Sectoral Real GDP Growth Rates, Percent

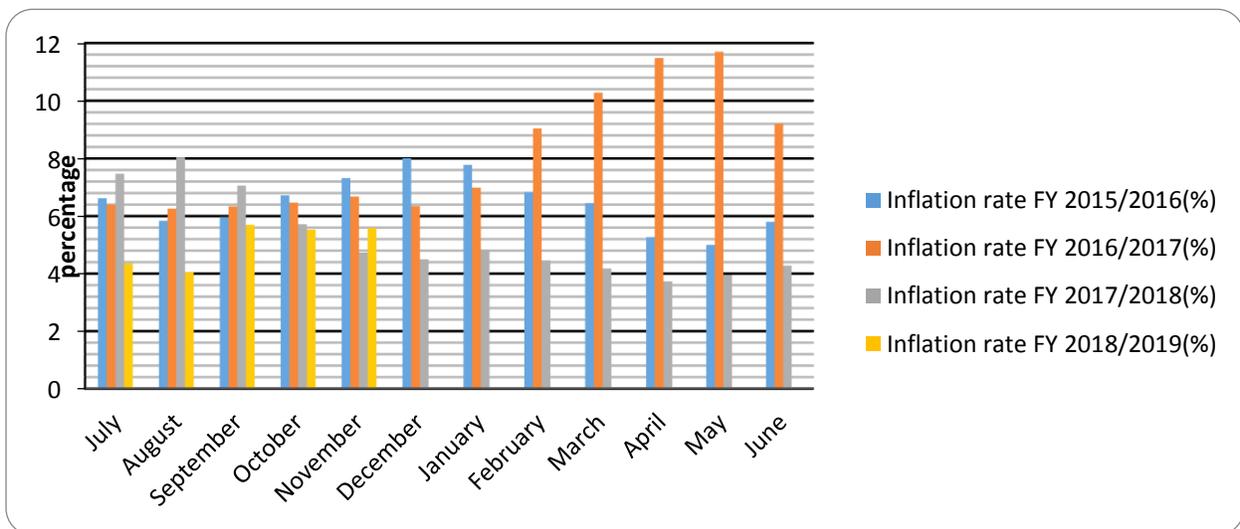
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 Q1 | 2018 Q2 | 2018 Q3 |
|---|------|-------|------|------|------|------------|------------|------------|
| Primary Sector | 5 | 4.8 | 5.6 | 4.9 | 1.8 | 5.3 | 5.3 | 5.4 |
| Of which: Agriculture | 5.4 | 4.4 | 5.3 | 4.7 | 1.6 | 5.3 | 5.4 | 5.2 |
| Mining | -4.2 | 14.9 | 12.3 | 9.5 | 6.1 | 4.5 | 3.5 | 8.5 |
| Industry | 5.9 | 5.6 | 7 | 5.5 | 3.4 | 4.1 | 4.8 | 5.1 |
| Of which: Manufacturing | 5.6 | 2.5 | 3.6 | 2.7 | 0.2 | 2.3 | 3.1 | 3.2 |
| Electricity and Water supply | 6.6 | 6.1 | 8.5 | 8.3 | 5.6 | 5.1 | 8.6 | 8.5 |
| Construction | 6.1 | 13.1 | 13.8 | 9.8 | 8.6 | 7.2 | 6.1 | 6.8 |
| Services | 5.4 | 6.3 | 6.4 | 6.5 | 6.2 | 6.4 | 6.7 | 5.9 |
| Of which: Wholesale and Retail trade | 8.4 | 6.9 | 5.9 | 3.4 | 5.8 | 6.2 | 7.7 | 6.8 |
| Accommodation and Restaurant | -4.6 | -16.7 | -1.3 | 13.3 | 14.7 | 13.5 | 15.7 | 16 |
| Transport and storage | 1.3 | 5.5 | 8 | 7.8 | 7.4 | 7.1 | 7.8 | 5.4 |
| Information and Communication | 12.5 | 14.5 | 7.4 | 9.7 | 11 | 12 | 12.6 | 9.1 |
| Financial and Insurance | 8.2 | 8.3 | 9.4 | 6.7 | 3.1 | 2.6 | 2.3 | 2.6 |
| Real estate | 4.1 | 5.6 | 7.2 | 8.8 | 6.1 | 6.8 | 6.6 | 5.8 |
| GDP Growth | 5.9 | 5.4 | 5.7 | 5.9 | 4.9 | 5.8 | 6.2 | 6 |
| Of which: Non Agricultural GDP | 5.4 | 6.1 | 6.4 | 6.4 | 5.9 | 6 | 6.3 | 5.8 |

Source Data: Kenya National Bureau of Statistics

Inflation Rates

58. Inflation has been low, stable and within the Government target range of 5+/-2.5 percent in the period 2015 to 2018 (averaging 6.4 percent) as a result of prudent monetary and fiscal policies (Figure 2). The inflationary pressure witnessed in 2017 due to drought that affected food prices eased in 2018 supported by improved weather conditions that resulted in lower food prices.

Figure 2: Overall Inflation Rate (%), FY 2015/16 and FY 2017/18



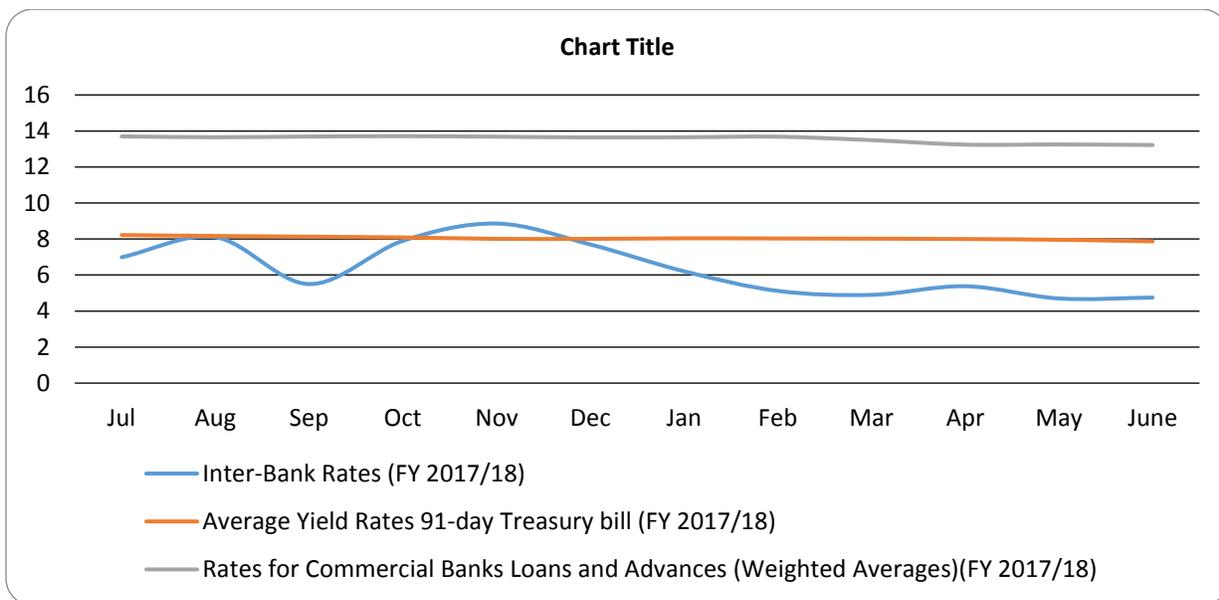
Source: Kenya National Bureau of Statistics

59. Month-on-month overall inflation remained stable and within target at 5.58 percent in November 2018 from 5.53 percent in October 2018, owing to a decline in food prices particularly maize, onions and tomatoes following improved weather conditions and a decline in energy prices following lower costs in prices of electricity and diesel.

Interest Rates

60. The average yield rate for the 91-day Treasury bills, which is the benchmark for the general trend of interest rates, took a downward trajectory fluctuating from a range of 8.22 percent in July, 2017 to 7.87 percent in June 2018. The rates for commercial banks loans and advances recorded a high rate of 13.7113 percent and dipped to 13.22 percent in October 2017 and June 2018 respectively. This general downward trend is attributable to the interest rate cap on lending. Interbank rates in FY 2017/18 were fairly unstable and hit 8.86 percent in November 2017 and a low of 4.7 percent in May, 2018. Figure 3 below analyses the trends in these interest rates.

Figure 3: Analysis of Trends in Interest Rates (%), FY 2017/18



Source: Central Bank of Kenya

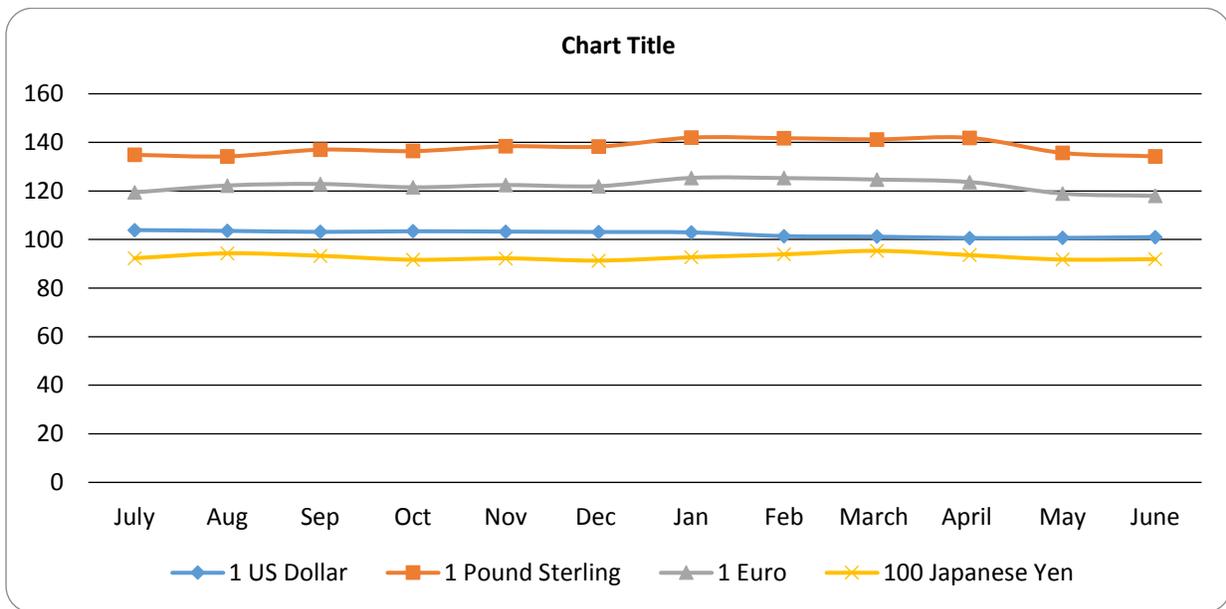
Exchange Rates

61. The Kenya Shilling exchange rate remained broadly stable and competitive against major international currencies. Against the dollar, the exchange rate has been relatively less volatile exchanging at Ksh. 101 in June 2018 from Ksh. 103.88 in July 2017. Against the Euro and the Sterling pound, the Shilling also strengthened to Ksh. 117.97 and

Ksh.134.24 in June 2018 from Ksh 119.4 and Ksh 134.86 in July 2017, respectively (Figure 4).

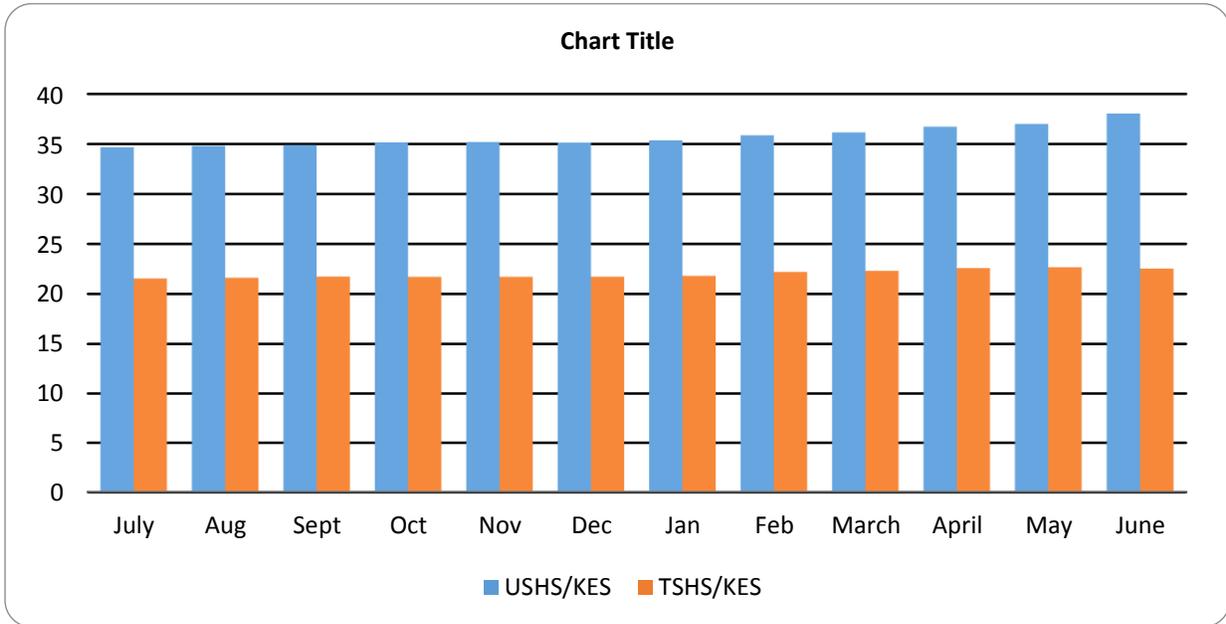
62. The Kenya Shilling exchange rate has continued to display relatively less volatility, compared to most local Currencies (Figure 5). This stability reflects strong inflows from tea and horticulture exports, resilient diaspora remittances and improved receipts from services particularly tourism.

Figure 4: End of Month Mean Exchange rate of Kenya Shillings against Major Selected Currencies, FY 2017/2018



Source of Data: Central Bank of Kenya

Figure 5: End of Month Mean Exchange rate of Kenya Shillings against Local Selected Currencies, FY 2017/2018



Source of Data: Central Bank of Kenya

CHAPTER 4: FISCAL POLICY AND BUDGET FRAMEWORK

Prudent fiscal policy

63. This 2019 County Fiscal Strategy Paper (CFSP) will continue to support the development agenda by putting more effort on the implementation of projects in the next County Integrated Development Plan 2018-2022, Annual Development Plan, 2018, and sectoral (departmental) plans. The County Government has oriented expenditure towards priority programmes towards attaining the five point agenda for action while instilling fiscal discipline due to shrinking fiscal space. In this regard, departments are required to do more with less that is available through prioritization and directing spending towards most critical needs. There is also need for departments to achieve more outputs and outcomes with existing or lower level of resources and make realistic bids for resources.

Observing fiscal responsibility principles

64. The County government appreciates that implementation of the people-focused agenda affects the fiscal stance it takes. Therefore the county government will ensure strict adherence to the Fiscal Responsibility Principles under Section 107 of the PFM Act, 2012 and Regulation 25 of Public Finance Management (County Government) Regulations 2015 such that;

- (i) Over the medium term a minimum of 30% of the county budget shall be allocated to development expenditure.
- (ii) Expenditure on wages and benefits for public officers shall not exceed thirty five (35) percent of the county government's revenue as prescribed under Regulation 25(1) (b).
- (iii) Over the medium term, the county government borrowing if any; shall be used only for the purposes of financing development expenditure and not for recurrent expenditure. It is the governments' policy to procure external financing only for development projects a practice which is in line with this principle.

- (iv) County public debt obligations shall be maintained at sustainable level as approved by County Assembly and shall never exceed twenty (20) percent of the county government's total revenue at any one time in accordance to Regulation 25(1)(d).
- (v) Ensure efficiency and improved productivity of expenditure while at the same time ensuring that adequate resources are available for operations and maintenance.
- (vi) Increase the absorption of resources allocated for development purposes from the current levels to over 80 percent. This will give the envisaged impetus to economic development and further improve the credibility of our budget.

Fiscal Structural Reforms

65. Underpinning this 2019 CFSP is the effort to live within the County's means and meet own source revenue collection target. On the expenditure side, the county government will continue developing expenditure management systems aimed at improving efficiency and eliminate non-priority expenditure. Thus far, the County has fully operationalized modules of the Integrated Financial Management Information System (IFMIS) rolled out by the National Treasury. The County will also use the Hyperion Planning and Budgeting Module to prepare the Programme Based Budget once it is fully rolled out for county governments to use.

2019/20 Budget Framework

66. The Kilifi County FY 2019/20 budget framework corresponds with the limited fiscal space the County now faces. Spending will be rationalized to the extent possible by preserving priority capital expenditure and social sector spending and containing recurrent expenditures particularly personnel emolument.

67. The amount of equitable share due to the county is currently under review as the Commission for Revenue Allocation is still working and finalizing on the third revenue sharing formula. However, there are clear indication that the County's equitable share is shrinking in FY 2019/20 and the medium term. This is informed by the horizontal revenue

sharing formula proposed by CRA. Table 2 below presents revenues, actual and estimates from FY 2017/18-FY 2019/20

Table 2: Revenue Estimates for FY 2017/18-FY 2019/20

| DESCRIPTION | ACTUAL REVENUE FY 2017/18 | APPROVED ESTIMATES FY 2018/19 | REVENUE ESTIMATES FY 2019/20 |
|--|---------------------------|-------------------------------|------------------------------|
| Equitable Share | 9,950,900,000 | 10,833,000,000 | 9,348,000,000 |
| Facility Improvement Fund (FIF) | 59,056,231 | 445,535,172 | 249,311,340 |
| Land Rates and other Land Revenue | 126,238,602 | 313,677,194 | 193,493,743 |
| Cess on natural resources | 141,702,601 | 341,052,835 | 340,128,239 |
| Business Permits | 70,150,392 | 114,623,556 | 92,232,604 |
| Parking Fees | 17,832,833 | 21,488,039 | 18,159,971 |
| Market Fees | 11,744,236 | 15,258,534 | 16,582,028 |
| Bill Boards and Signage | 17,844,177 | 16,604,823 | 8,339,839 |
| Building Plan approval and Inspection | 2,119,318 | 8,102,161 | 5,790,044 |
| Rent/Stall rents | 5,306,499 | 6,896,158 | 3,683,013 |
| Survey fees and plot rents | 1,742,540 | 2,307,628 | 31,305 |
| Sale of Tender Documents | 23,000 | 625,010 | 1,064,813 |
| Plot ground rent | 2,558,333 | 6,198,608 | 4,904,381 |
| House rent | 37,614,075 | 1,963,043 | 1,129,762 |
| Refuse Collection | 505,803 | 563,781 | 1,363,204 |
| Food Hygiene Fees | 679,700 | 1,143,701 | 3,049,011 |
| Slaughter House and Livestock sale Yards | 743,839 | 2,088,733 | 921,400 |
| Others | 26,469,802 | 46,937,545 | 59,815,305 |
| TOTAL | 10,473,231,980 | 12,178,066,521 | 10,348,000,000 |

68. The county government expects to receive conditional grants amounting to Ksh. 2,013,738,785 which will be expended by respective departments as shown in the table below.

Table 3: Conditional Grants FY 2019/20

| Department | Description | Recurrent | Development | Total |
|---|--------------------------------------|-------------------|----------------------|----------------------|
| Health | Compensation for user fees foregone | 25,969,864 | | 25,969,864 |
| | Leasing of Medical Equipment | | 131,914,894 | 131,914,894 |
| Education | Rehabilitation of Youth Polytechnics | | 58,863,298 | 58,863,298 |
| Roads | Road Maintenance Levy Fund | | 296,474,063 | 296,474,063 |
| Unclassified (includes, KDSP, NARIG, UIG,ASDSP) | Loans and Grants | | 1,500,516,666 | 1,500,516,666 |
| Total Conditional Grants | | 25,969,864 | 1,987,768,921 | 2,013,738,785 |

69. The budget allocation FY 2019/20 provided below excludes conditional grants which will be distributed to respective departments as shown in the table above.

Table 4: Budget Allocation FY 2019/20

| DEPARTMENTS | PERSONNEL EMOLUMENTS (A) | OPERATION & MAINTENANCE(B) | STRATEGIC INTERVENTION (C) | FY 2019/20 CEILING (D) | FY 2018/19 CEILINGS (E) | DEVIATION (D/E) | PERCENTAGE OF THE TOTAL |
|---|--------------------------|----------------------------|----------------------------|------------------------|-------------------------|-----------------|-------------------------|
| County Assembly | 477,752,402 | 290,703,238 | 200,000,000 | 968,455,640 | 1,214,680,971 | 80% | 9.36% |
| Office of the Governor | 145,331,560 | 154,431,341 | | 299,762,902 | 345,810,088 | 87% | 2.90% |
| County Attorney | | 97,959,096 | - | 97,959,096 | 139,258,000 | 70% | 0.95% |
| County Division for Finance | 199,926,083 | 344,502,687 | 50,000,000 | 594,428,769 | 3,003,849,994 | 20% | 5.74% |
| County Division for Economic Planning | - | 33,456,532 | 875,000,000 | 908,456,532 | | | 8.78% |
| County Division for Agriculture | 233,319,599 | 74,953,998 | 100,000,000 | 408,273,596 | 644,634,318 | 63% | 3.95% |
| County Division for Livestock | | 21,615,764 | 15,000,000 | 36,615,764 | 149,840,728 | 24% | 0.35% |
| County Division for Fisheries | | 21,009,180 | 30,000,000 | 51,009,180 | 492,310,863 | 10% | 0.49% |
| County Division for Water & Sanitation | 104,575,567 | 64,329,793 | 240,500,000 | 409,405,361 | 141,218,000 | 290% | 3.96% |
| County Division for Environment | | 40,290,702 | | 40,290,702 | | | 0.39% |
| County Division for Education | 351,692,071 | 501,197,430 | 150,000,000 | 1,002,889,501 | 1,405,171,255 | 71% | 9.69% |
| County Division for Information, Communication and Technology | | 2,226,139 | | 2,226,139 | | | 0.02% |
| County Division for Health Services | 2,049,848,285 | 579,720,857 | 530,000,000 | 3,159,569,142 | 2,955,253,111 | 107% | 30.53% |
| County Division for Public Health | | 106,964,746 | | 106,964,746 | 165,250,124 | 65% | 1.03% |
| Roads, Transport and Public Works | 119,583,570 | 217,585,003 | 410,000,000 | 747,168,574 | 920,428,400 | 81% | 7.22% |
| County Division for Lands & Energy | 43,915,732 | 72,475,617 | 150,000,000 | 266,391,349 | 270,551,948 | 98% | 2.57% |
| County Division for Physical Planning & Urban Development | | 105,660,493 | - | 105,660,493 | 139,540,000 | 76% | 1.02% |
| Gender, Culture and Social Services | 37,168,009 | 45,901,091 | 180,000,000 | 263,069,099 | 212,967,451 | 124% | 2.54% |
| County Division for Trade & Tourism | 47,173,646 | 60,643,178 | 190,000,000 | 297,816,824 | 214,971,302 | 139% | 2.88% |
| County Division for Cooperatives | | 10,178,850 | | 10,178,850 | | | 0.10% |
| County Public Service Board | 35,893,834 | 20,026,237 | | 55,920,071 | 61,509,147 | 91% | 0.54% |
| Devolution, Public Service and Disaster Management | 183,362,642 | 332,125,027 | - | 515,487,669 | 585,462,263 | 88% | 4.98% |
| | 4,029,543,000 | 3,197,957,000 | 3,120,500,000 | 10,348,000,000 | 13,062,707,963 | 79% | |
| | 38.94% | 30.90% | 30.16% | - | | | |

Revision of Ceilings

70. The projected ceilings for FY 2019/20 budget are based on non-discretionary expenditure especially personnel emoluments, strategic interventions to implement the five-point agenda, and previous allocations on operations and maintenance as adjusted by an equitable factor on shrinking fiscal space. In the event that the equitable share of revenue is Ksh. 10,230,000,000 as indicated in the 2019 Budget Policy Statement, the additional Ksh. 882,000,000 will be used to finance projects proposals submitted during public consultative forums on Budget Proposals for FY 2019/20 and other priority programmes and projects from departments that have been left out due to resource constraints. Additional revision of these ceilings will be prioritized in accordance to critical areas spelled below:

- i. Ongoing projects;
- ii. Counterpart funds;
- iii. Budget proposals from public forums; and
- iv. Strategic policy interventions.

CONCLUSION

71. The CFSP 2019 aims at catalysing revenue collection efforts of the County as well as undertaking contractionary expenditure goals, where more will be achieved with less.