KILIFI COUNTY GOVERNMENT

THE COUNTY TREASURY

MEDIUM TERM

COUNTY FISCAL STRATEGY PAPER

PROMOTING ECONOMIC TRANSFORMATION FOR A SHARED PROSPERITY

FEBRUARY, 2015

Legal Basis for the Publication of the County Fiscal Strategy Paper

The County Fiscal Strategy Paper is published in accordance with Public Finance Management Act No. 18 of 2012, Section 117 which requires the County Treasury to:

1. Prepare and submit to the County Executive Committee the County Fiscal Strategy Paper for approval and the County Treasury shall submit the approved Fiscal Strategy Paper to the County Assembly, by the 28th February of each year.
2. Align its County Fiscal Strategy Paper with the national objectives in the Budget Policy Statement.
3. Specify the broad strategic priorities and policy goals that will guide the county government in preparing its budget for the coming financial year and over the medium term.
4. Include in its County Fiscal Strategy Paper the financial outlook with respect to county government revenues, expenditures and borrowing for the coming financial year and over the medium term.
5. Seek and take into account the views of—

   (a) The Commission on Revenue Allocation;

   (b) The public;

   (c) Any interested persons or groups; and

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

This Section of the law also requires that;

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

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

<u>Fiscal Responsibility Principles for the County Government</u>

In line with Article 201 of the Constitution of Kenya, 2010, the Public Finance Management Act, No. 18 of 2012 sets out the fiscal responsibility principles to ensure prudent and transparent management of public resources. The fiscal responsibility principles under Section 107 of the PFM Act, 2012 are:

(a) The county government's recurrent expenditure shall not exceed the county government's total revenue;

(b) Over the medium term a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure;

(c) The county government's expenditure on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenue as prescribed by the County Executive member for finance in regulations and approved by the County Assembly;

(d) Over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;

(e) The county debt shall be maintained at a sustainable level as approved by county assembly;

(f) The fiscal risks shall be managed prudently; and

(g) A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.

1. PROMOTING ECONOMIC TRANSFORMATION FOR A SHARED PROSPERITY

Overview

1. The 2015 **County fiscal strategy paper (2015 CFSP)** succeeds the 2014 County Fiscal strategy Paper, and it seeks to extend the prioritization of programs of the Kilifi county Government to be implemented in the Medium Term Expenditure Framework (MTEF) under the devolved system of Government.

2. This County fiscal strategy paper is framed against a backdrop of uneven and sluggish global recovery. World economic output is expected to strengthen gradually from3.3 percent growth in 2014 to 3.8 percent in 2015, driven mainly by growth in advanced economies. Although the euro area has exited recession, growth remains anemic, hampered by high unemployment, large debt stocks, and tight private sector borrowing conditions.. Despite deceleration in 2014, growth in emerging markets and developing economies is projected to increase modestly in 2015, supported by stronger domestic demand and some recovery in global demand.

3. In Sub-Saharan Africa, growth is expected to remain strong, at about 5 percent in 2014 and 5.75 percent in 2015, driven by sustained infrastructure investment, buoyant services sectors, and strong agricultural production, even as oil-related activities provide less support for the oil producers. In a few countries, economic activities are facing headwinds from the recent Ebola outbreak, inappropriate domestic policies, and more recently, macroeconomic.

4. On the domestic front, growth prospects remain strong, inflation has been contained at single digit, interest rates are trending downwards and exchange rate is broadly stable, public debt remains sustainable and both fiscal and external buffers have been strengthened, despite the downside risks associated with the sluggish global recovery. The resilience built over the year on account of sound macroeconomic management has helped to sustain growth. As result, the economy rebounded from 0.2 percent in 2008 to 8.4 percent in 2010, before slowing down to 6.1 percent and 4.5 percent in 2011 and 2012, respectively. In 2013, the economy grew by 5.7 percent and is now expected to expand by 5.3 percent in 2014, rising to 6.9 percent in 2015 and 7.0 percent over the medium term.

5. Today, Kenya is considered a “frontier” economy with bright prospects. As such the basic foundation for economic transformation is now in place. However, a number of challenges still need to be addressed as part of the Transformation to underpin shared prosperity. Our economy remains vulnerable to external and domestic shocks, in particular, to droughts and other weather-related shocks, the frequency of which has increased in the recent past, given the prevalence of rain-fed agriculture and high dependency on hydro-power generation. At the same time, the growing integration to global markets, while creating new financing opportunities, exposes our economy to more vulnerability, especially due to changes in global risk sentiments.

6. Despite the progress made thus far, challenges remain. The challenge of high cost of living driven by high food and energy prices continues to be of concern to the Government. Food insecurity, declining agricultural productivity, insecurity, weak transport and logistics as well as weak investment climate will continue to constrain the economy from achieving its full potential. The emerging high and unsustainable public sector wage and fiscal related challenges surrounding devolution, if not addressed early enough, will also be a drag on our development effort in the medium term.

7. The need to address these challenges and build on our successes forms the basis of the Kilifi county Government's Development Strategy of achieving economic transformation for a shared prosperity. This Strategy covers five broad pillars, namely:

    - **Pillar I:** Investing in agricultural transformation and food security, including opening up at least one million acres of new land under irrigation in order to expand food supply, reduce food prices so as to bring down the cost of living, support expansion of agro-processing industries and spur export growth and support other sectors such as manufacturing and tourism;
    - **Pillar II:** Investing in quality and accessible healthcare services and quality education as well as social safety net to reduce burden on the households and complement and sustain our long term growth and development; and
    - **Pillar III**: scaling up investments in key infrastructure such as water supplies to reduce cost of doing business and make our products cheaper and competitive in the domestic, national and international markets.
    - **Pillar IV**: Creating conducive business environment by maintaining macroeconomic stability, deepening structural and governance reforms to reduce the cost of doing business and improving security in order to encourage innovation, investment, growth and expansion of economic and employment opportunities;
    - **Pillar V:** Further entrenching devolution through strengthening sub counties for better service delivery and enhanced rural economic development.

Programs for achieving economic transformation for a shared prosperity

9. This County fiscal strategy paper articulates priority economic policies and structural reforms as well as sectoral expenditure programs to be implemented under the Medium Term Expenditure Framework for 2015/16, 2016/2017, 2017/2018 in order to achieve the county Government's development goal of economic transformation for a shared prosperity.

Pillar I: Agricultural Transformation and Food Security

10. Prioritizing investment in agriculture is crucial to county's economic transformation for a shared prosperity. Investing in agricultural reforms and transformation will spur an inclusive economic growth with knock-on effects on related sectors of agro-processing; storage and

transport; wholesale and retail; construction; financial services as well as export diversification and growth. In addition, expanded agricultural output will increase food supply, reduce food related prices and bring down the cost of living. It will also create employment opportunities, promote overall rural development and improve the economic welfare of county residents.

11. The strategy focuses on identifying local, national and international markets that can be supplied with county's agricultural products and negotiating forward contracts with buyers on the same, then structuring product specific viable supply chains to meet the secured markets. The viability of the forward contracts, and supervised production that ensures optimal use of inputs will enable smallholder and livestock farmers to be provided with: (i) financial resources and the necessary investment needed to meet the forward contracts, irrespective of their incomes; (ii) all the necessary inputs, machinery, technical know-how and supervision on standards, all being measures necessary to increase agricultural productivity and crop yield, anchored on access to market and adequate financial and technical resources - the central pillars of a functional agriculture value chain, which is necessary to transform agriculture into a business venture.

12. The strategy entails unlocking agricultural productivity among smallholder, as well as commercial farmers by guaranteeing reliable markets and competitive prices and then assisting them to achieve optimal production. This will be achieved by investing in research and extension services, soil management, high yielding seeds, wide application of appropriate technology, mechanization to achieve the highest level of production as well as re-organizing the farmers into viable cluster groups to reach economies of scale, so that they access services such as driers, coolers, storage to eliminate post-harvest losses.

13. Similarly, agricultural products will be directed to their ideal agro ecological zones where yields and return on investments will be highest. The reorganization and commercialization of farming zones will be undertaken and affected farmers provided with alternative and better farming options. The Government will also, in partnership with financial sector actors, structure financial instruments (Agri-Business Fund) to support alternative agricultural initiatives amongst smallholder farmers, expand agri-business ventures and support crop specific value addition initiatives. Given the challenges of climate change, a program to educate farmers on smart agriculture will be implemented in order to drive and sustain agricultural output and create more employment, especially for the youth. Farmers will also be supported to embrace irrigated agriculture such as use of irrigation kits.

14. Similarly, in the aquaculture program – the Fish Enterprise Project started in 2009, will be expanded by securing forward markets for farmers, which in turn will widen coverage, enhance farmers support through extension, support fish feeds production initiatives, support quality fingerlings production initiatives, and better farming methods, access to modern storage and handling facilities, and link farmers to finances, aquaculture laboratory and training facility and other services. Fish ponds in the village farms will be continued in fiscal year 2015/16. This project is expected to improve nutrition, provide income generation to farm level and develop future agri-business farmers in our society. This initiative is expected to encourage investments along the value chain thus making fish farming a viable

commercial venture. A support will be extended to the fishermen to enable them in exploiting the potential of Exclusive Economic Zone (EEZ). This will involve availing deep sea fishing boats to the fisher communities, and improvement in the fisheries related infrastructure including fish depots, ice plants and fish port.

15. The full potential of livestock and poultry farming as well as that of dairy remains untapped, with huge potential growth for beef, leather products poultry and honey as well as milk and its by-products that can be a catalyst for economic transformation. The County Government will continue enhancing modern commercial livestock, dairy, poultry farming and bee keeping, focusing on improving breeding stocks, initiating artificial insemination units and use of embryo transfer technology. Others include construction of slaughter houses and model structure of a livestock export zone, securing forward contracts for various livestock and dairy products. In addition, resources will be prioritized for investment in key infrastructure, including marketing and livestock training facilities, curriculum development, produce handling, storage, agro-processing, value addition facilities, bio energy development, development of range lands and promotion of fodder production and conservation. In order to ensure healthy livestock the County will enhance modern disease control technologies (for both boundary and trans-boundary diseases) vector control and zootomic diseases management.

16. The County Government, in addition to expanding on-going irrigation projects, will initiate new irrigation scheme.

Pillar II: Access to Quality health services and education

17. A healthy population is essential for higher productivity and sustained long term development of a nation. We have achieved notable progress, especially in controlling communicable diseases (tuberculosis, HIV/AIDS and malaria) and attaining marked decrease in child mortality, but other health challenges associated with affluence and accidents are emerging – putting pressure on our health care system. The aim of the county Government policy reforms is to enable all Kenyans access to modern and well-equipped health facilities and well trained and motivated health care workers.

18. Non-communicable disease continues to be a challenge and continued screening and management is a prerequisite. Community sensitization needs enhancing through community strategy strengthening. Development of systems to support and expand health care services and sanitation at the community level. A program for health care infrastructure upgrade and equipment modernization will be implemented. County health bills will be put in drafted and enacted a vehicle to provision of quality healthcare services and enhance efficiency,

effectiveness accountability framework for the management of public resources and medical supplies at the facility levels.

19. Pre-school teachers to be employed to serve in the public ECD Centres in Kilifi County. This will greatly boost the teachers' morale since all of them are lowly paid by the communities they serve. An ECD resource centre will be built at the county headquarters to facilitate teacher training. At the moment teacher training programmes are conducted on hired premises. Model ECD Centres will be built and equipped as proposed in our development Programme. This will enhance access and quality of children learning programmes.

20. The county has launched a Ward scholarship fund worth to bright and needy students from poor families to assist them have access to higher education. If well utilized, the fund will improve retention and completion rates amongst students

Pillar III: Transport, Energy and Water, Environment, Forest and Natural Resources for Inclusive Growth

21. To support sustainable water supplies, rehabilitated small lakes, established tree nurseries, commercial forest woodlots & sustainable forest management, encourage expansion of commerce, grow export of goods & services and expand economic opportunities for employment, the County Government will scale up investment in infrastructure by; promoting use of cheaper source of energy, opening rural access roads, water supplies and a vibrant Natural Resources & Mining and Environmental policy management.

22. Access to adequate, affordable and reliable energy supply is necessary to reduce cost of doing business, spur growth of enterprises and industries, and accelerate the realization of the planned economic transformation agenda. The County Government will promote use of green energy to ensure enough energy for households and small and medium size enterprises spread throughout the county.

23. Environmental conservation and sustainable access to water is essential for sustained overall development. Priority will be given to sustainable exploitation, utilization, management and conservation of the environment and protection of water catchment areas. Over the next year, a comprehensive program of water harvesting will continue being implemented, aimed at covering every part of the county. This entails construction of small dams, water pans and rehabilitation of existing dams and pans to make water accessible for households, irrigation and livestock development.

Pillar IV: Creating a Conducive Business Environment for Employment

24. The objective of the reforms under Pillar IV is to create conducive business environment by deepening structural and governance reforms in order to encourage innovation, investment,

growth and expansion of economic and employment opportunities in the county. It is with this respect that the ICT department believes that the ICT centers proposed will act as ICT Incubation hubs where creativity and innovation will be nurtured. We will encourage partnering with the business community through joint ventures or PPPs thereby bringing in investors.

25. ICT is a great contributor to the gross domestic product of the Kenya. The County is positioning itself to capture this market by creating awareness, interest and capacity in ICTs, thereby bringing growth and creating economic opportunities and employment, directly or indirectly as a result of these ICT centers. The department of ICT promotes fair trade practices through ensuring the use of proper standards of measurement in trade. Additionally the department ensures consumer gets value for money by ensuring that no counterfeits or sub-standard goods are sold within the county. The department develop policies and regulations to enable smooth business operations as well as provide affordable credit to traders for expansion of their businesses through SME trade fund in collaboration with the national government. Business development services are also offered through training, counseling and consultancy services.
26. Savings and credit cooperatives commonly known as SACCOS form the bulk of the cooperative societies in the county. The SACCOS have been instrumental in mobilizing savings and advancing savings to the unbanked. The department has been promoting the formation of youth and women SACCOS and intends to capacity build both the management and members. The department will also encourage investment in housing through strengthening the housing cooperatives. The department will continue to promote good governance practices in the cooperative movement through the enforcement of governance instruments including auditing of cooperative societies. The department has been supporting the formation of transport cooperatives in the county as a way of helping them conform to the transport regulations. The department will continue to support boda boda groups through training and sensitization.

27. Wholesale and retail trade is a major economic activity in the county. Infrastructural development in terms of markets has been haphazard and limited. The department will continue with refurbishment of the existing markets as well as creating more stalls to improve the business environment. The department will enhance development and use of ICT infrastructure in its operation for efficiency in service delivery.

Empowering the Youth and Women for Employment Creation

28. Unemployment, especially among the youth, women and persons with disability remains a major challenge to our development and social stability. Over the medium term, the County Government will collaborate with national government and build on recent youth and women support initiative to further encourage entrepreneurship, innovation and the creative knowledge of the young people. Skills development through trainings and sensitizations to enable access to credit will be given priority for this group to be dynamic drivers of growth

and employment creation. The County Government will facilitate expansion of credit access, construction and equipment of youth empowerment centers to fully cater for needs of youth in every sub-county and to the ward level eventually.

29. The requirement for at least 30 percent of all public procurement to be reserved for the youth, women and persons with disability will be fast tracked, entrenched and strict adherence upheld.

Youth Sports, Culture, Heritage and Talents

30. Kilifi youth have immense talents in diverse areas, especially in sports and arts. These talents will be nurtured as catalyst for growth and development. The County Government will build standard sports stadia incorporating indoor and outdoor sports facilities in every sub-county as well as rehabilitate the existing sports facilities.
31. Various sports programmes will be developed to build capacity for sports managers and administrators. Sports competitions and tournaments will be held to identify,expose and nature sports talents.

32. As a county, our cultural heritage forms the basis on which communities and peoples values, beliefs, norms, identity, rituals and material culture are passed on from generation to generation. The Government will continue promoting cultural heritage as a form of identity and preservation.

Structural Reforms to Facilitate Business and Employment Growth

33. ***Governance****:* The Government will implement well-targeted governance and anti-corruption reforms covering: (i) corruption prevention; and (ii) improving governance in priority areas, of medical supplies, public works, revenue administration, procurement and lands. This will provide a framework for consultation, monitoring and reporting to enhance accountability in the public service.

34. ***Expenditure Management:*** As part of economic transformation, the public expenditure reforms will be deepened to improve efficiency and effectiveness in utilization and execution of budget. This will entail rationalizing public expenditures to remove overlaps and waste, developing and enforcing cost benchmarks for projects and consumables, entrenching performance benchmark of at least 80 percent of the development budget, and strengthening the program budget. Expenditure tracking and value for money audits will be undertaken regularly to ensure efficiency in use of resources The integrated financial management information system (IFMIS) will be made fully operational as an end-to-end transaction platform. The Procure-to-Pay which integrates master item lists and cost benchmarks will be embraced in 2014 National government.

35. ***Asset Management:*** Efficient management of Government assets will be given priority as part of expenditure reforms. The County Treasury will undertake an asset registration exercise and establish an updated Asset Registry for all County Government assets.

36. ***Revenue Reforms****:* The strategy for strengthening revenue efforts and improve ease of doing business will prioritize measures to simplify revenue systems, leverage automation, expand the revenue base, rationalize levy incentives and waivers.

37. The County Government will collaborate with national government to ensure secure environment for doing business, Security is central to stability and encouraging investments, accelerating growth and in turn creating employment, especially for our youth. Therefore, the County Government will build on the on-going national efforts by enhancing collaboration, coordination, and scaling up investments aimed at strengthening security of our county borders and throughout the county.

38. Develop standards and guidelines for installation of integrated closed circuit television (CCTV) system in urban centers and expand street lighting, rehabilitate alcohol and drug addicts and to strengthen partnership between communities and security agencies for neighborhood safety.

Pillar V: Further Entrenching Devolution for Better Service Delivery

39. The devolved system of Government continues to receive shareable revenues as per the law. It is important to ensure that devolution achieves the objectives of better service delivery and rapid local economic development as well as jobs creation in line with our Vision 2030, but this can only occur if accountability and fiscal discipline in the use of devolved resources are entrenched and macroeconomic environment remains stable. There is therefore great need to lay a strong economic foundation that will generate the resources for the entire County and jobs for the unemployed youth, women and the disabled.

40. The county Government will deepen its support to sub-counties as the centers for service delivery and economic expansion, especially in the areas of public financial management, good governance practices and supporting them to be fully operational. Close collaboration between the national and county government in terms of implementing the national development agenda, and critical policy initiatives will be encouraged. This will include moderating the zeal by counties to raise additional revenues and safe guarding a thriving business environment supportive of the private sector.

II. RECENT ECONOMIC DEVELOPMENT AND POLICY OUTLOOK IN KENYA

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

Overview of Recent Economic Performance

42. The Kenya National Bureau of Statistics (KNBS) initiated the process of rebasing and revising of the National Accounts Statistics (NAS) in 2010 and completed the exercise in September 2014. The rebased GDP estimates in nominal terms for 2013 is Ksh 4,757.5 billion which represents 25.3 percent increase from the previous estimates. This translates to US$ 1,269 in GDP per capita in 2013 up from US$ 994 in 2013, placing Kenya at lower middle income economy. Kenya’s economy is now ranked as the 9th largest in Africa and 4th largest in SSA.

Growth Update

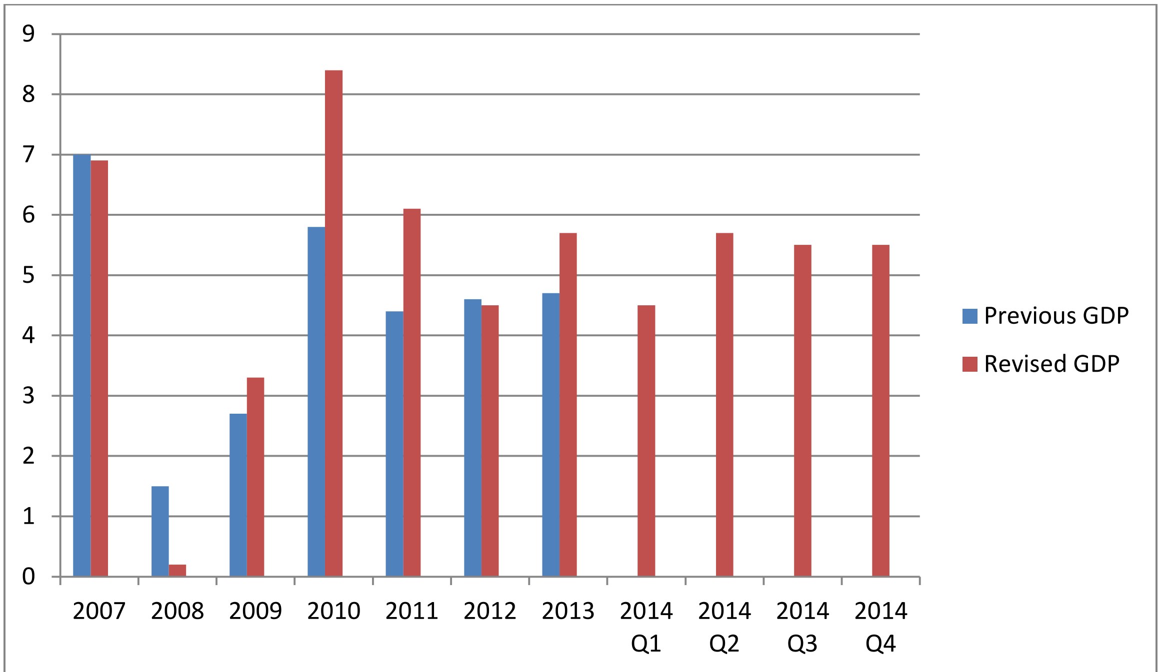
43. The economy grew by 5.7 percent in 2013, up from 4.5 percent growth in 2012. The increase in growth in 2013 was supported by improved activities in agriculture, forestry and fishing (5.1 percent), manufacturing (5.9 percent), wholesale and retail trade (9.2 percent), financial and insurance activities (9.3 percent) and information and communication (13.5 percent).

44. In the first three quarters of 2014 the economy expanded by 5.2 percent on average compared with 6.6 percent in the same period in 2013. On account of performance during the first three quarters and the projected growth of 5.3 percent in 2014, the fourth quarter growth of 2014 is estimated to be at 5.5 percent.

45. The economy is estimated to have expanded by 5.5 percent in the third quarter of 2014 compared to a revised estimate of 6.2 percent in the same period of 2013. The growth was mainly supported by robust growths in; construction (11.0 percent), finance and insurance (9.9 percent), wholesale and retail trade (7.2 percent); information and communication (6.6 per cent); and agriculture and forestry (6.2 per cent). All the sectors of the economy recorded positive growths except accommodation and food services (hotels and restaurants) which has consistently been on the decline since last year.

46. Going forward, the growth outlook is promising due to continued implementation of bold economic policies and structural reforms as well as sound economic management. The economy is projected to grow by 5.3 percent, 6.9 percent in 2014 and 2015, respectively, and 7.0 percent over the medium term. This level of growth will be underpinned by the continued good performance in agriculture, forestry and fishing, manufacturing, real estate, wholesale and retail trade, financial and insurance activities and information and communication.

Comparison in GDP Growth Rates



Source: KNBS

Broad Money Supply, M3 within target

47. Growth in broad money supply, M3, increased to 17.3 percent in the year to November 2014 from a growth of 12.2 percent in the year to November 2013. The improvement in M3 was attributed to an increased growth in both the net foreign assets (NFA) and the net domestic assets (NDA) of the banking system

48. Growth of the NDA of the banking system increased to 17.7 percent in the year to November 2014 from a growth of 16.1 percent over a similar period in 2013. The improved growth in NDA in 2014 was due to the increase in both the domestic credit and other assets net of the banking system.

49. Annual growth of the NFA of the banking system increased by 15.4 percent in the year to November 2014 from a contraction in growth of 2.0 percent over a similar period in 2013 mainly due to the improvement in the official foreign assets of the Central Bank by Ksh. 107.3 billion that more than offset the decline in the foreign assets of the banking institutions.

Private Sector Credit stabilizes

50. Net credit to Government contracted by 38.0 percent in the year to November 2014 compared with a growth of 10.3 percent in a corresponding period in 2013. Bank credit to the private sector amounted to Ksh 1,857.3 billion in November 2014 from 1,519.3 billion in

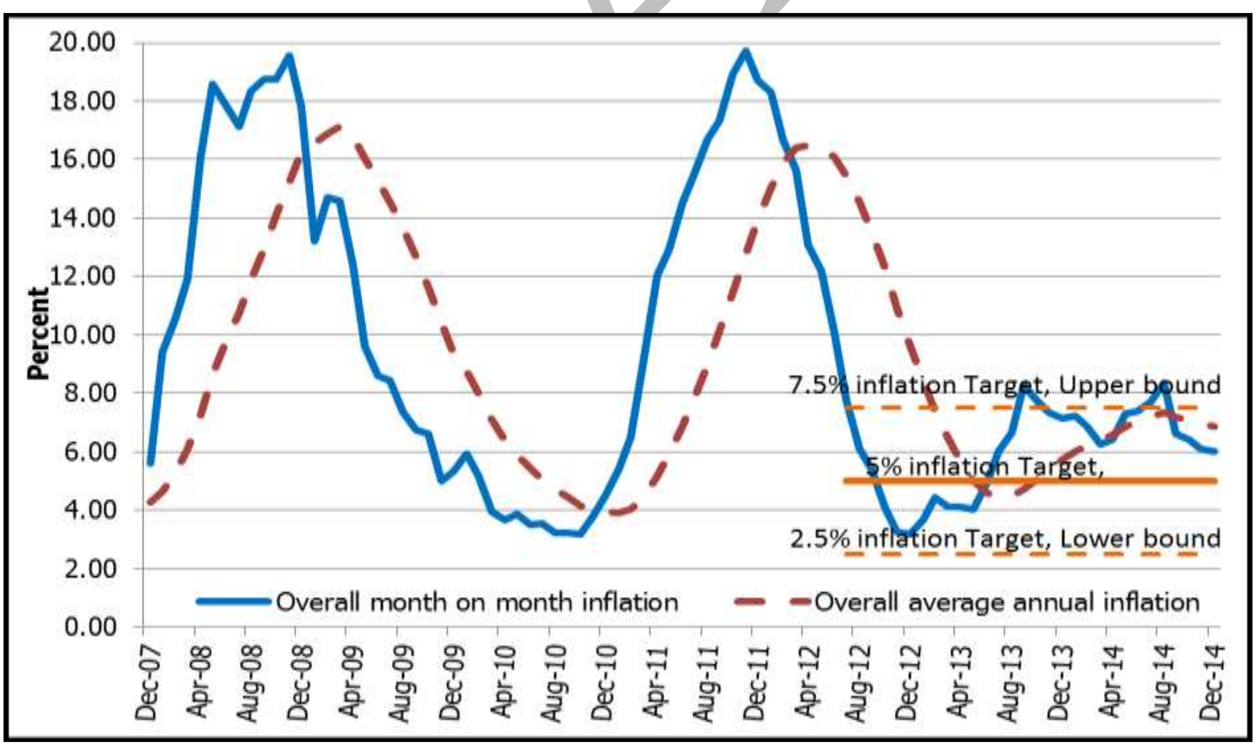
November 2013, representing an increased growth of 22.2 percent in November 2014 from 20.0 percent growth in the same period in 2013**.** The private sector credit flow was mainly to productive sectors though a pick up is also noted in sectors with consumption bias such as private households.

Inflation Rate

51. Overall month on month inflation declined further to 6.0 percent in December 2014 from 6.1 percent in November 2014 and 6.4 percent in October 2014. On average, the annual inflation rate was 6.9 percent in December 2014 compared to 5.7 percent in December 2013.

52. The decline in overall inflation in December 2014 was largely attributed to lower fuel inflation. Fuel inflation eased from 6.4 percent in November 2014 to 6.0 percent in December 2014 reflecting a fall in the retail price of kerosene, diesel and petrol. Non-food non-fuel inflation also eased from 3.8 percent in November 2014 to 3.7 percent in December 2014.

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



Source: KNBS and CBK

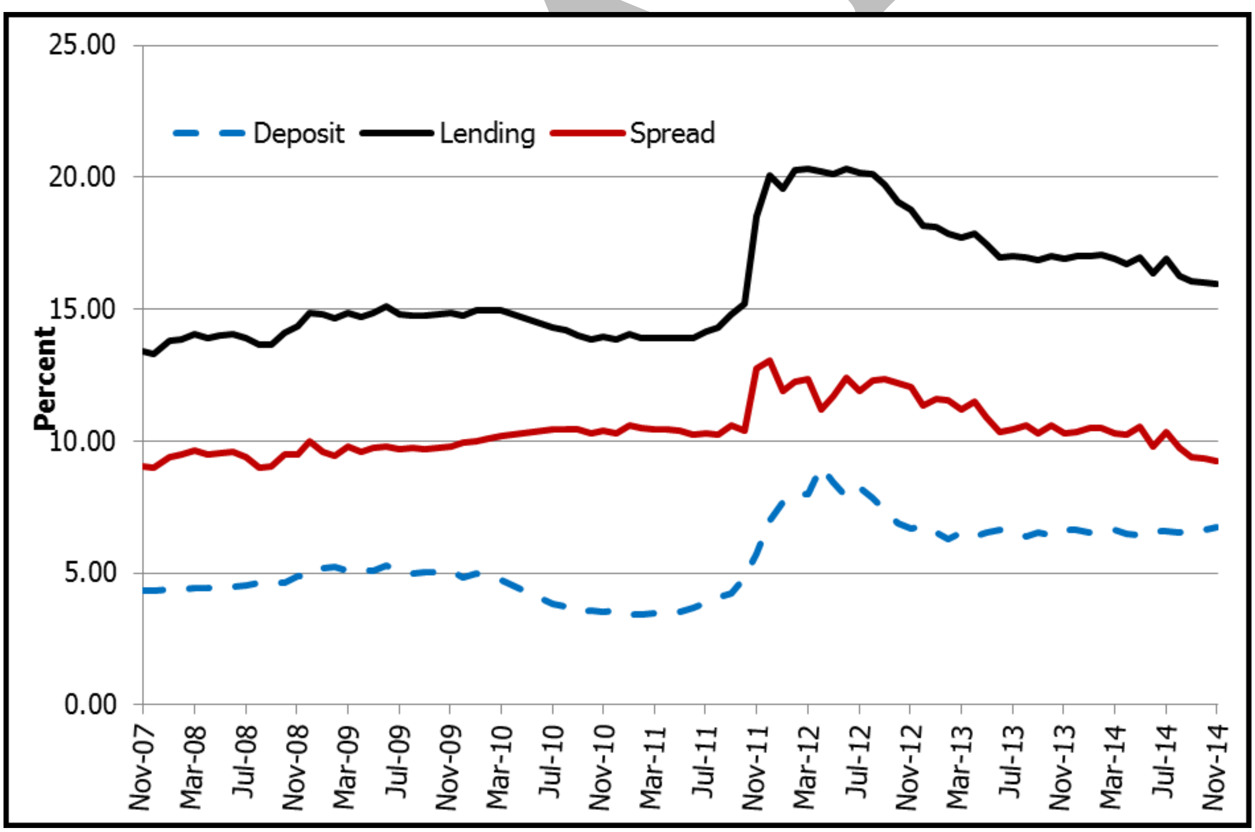
Interest Rates have eased progressively

54. The Central Bank Rate remained at 8.5 percent in December 2014 and the short term interest rates oscillated around the CBR. The average interbank rate averaged 6.9 percent in December and November 2014 from 6.8 percent in October 2014.

55. The 91-day Treasury bill rate declined to 8.6 percent in December 2014 from 8.7 percent in November 2014 and 8.7 percent in October 2014. The 182 day Treasury bill increased to 9.6 percent in December 2014 from 9.2 percent in November 2014 and 8.9 percent in October 2014 while the 364 day Treasury bill rate averaged at 10.5 percent in December and November 2014 from 10.3 percent in October 2014.

56. The Kenya Bank's Reference Rate (KBRR) remained at 9.13 percent. Commercial banks average lending declined to 15.9 percent in November 2014 compared with 17.0 percent in November 2013 while the deposit rate increased to 6.7 percent from 6.6 percent over the same period. This narrowed interest rate spread from 10.3 percent in November 2013 to 9.2 percent in November 2014 reflecting mainly a decline in the lending rate

Commercial Banks Lending and Deposit Interest Rates

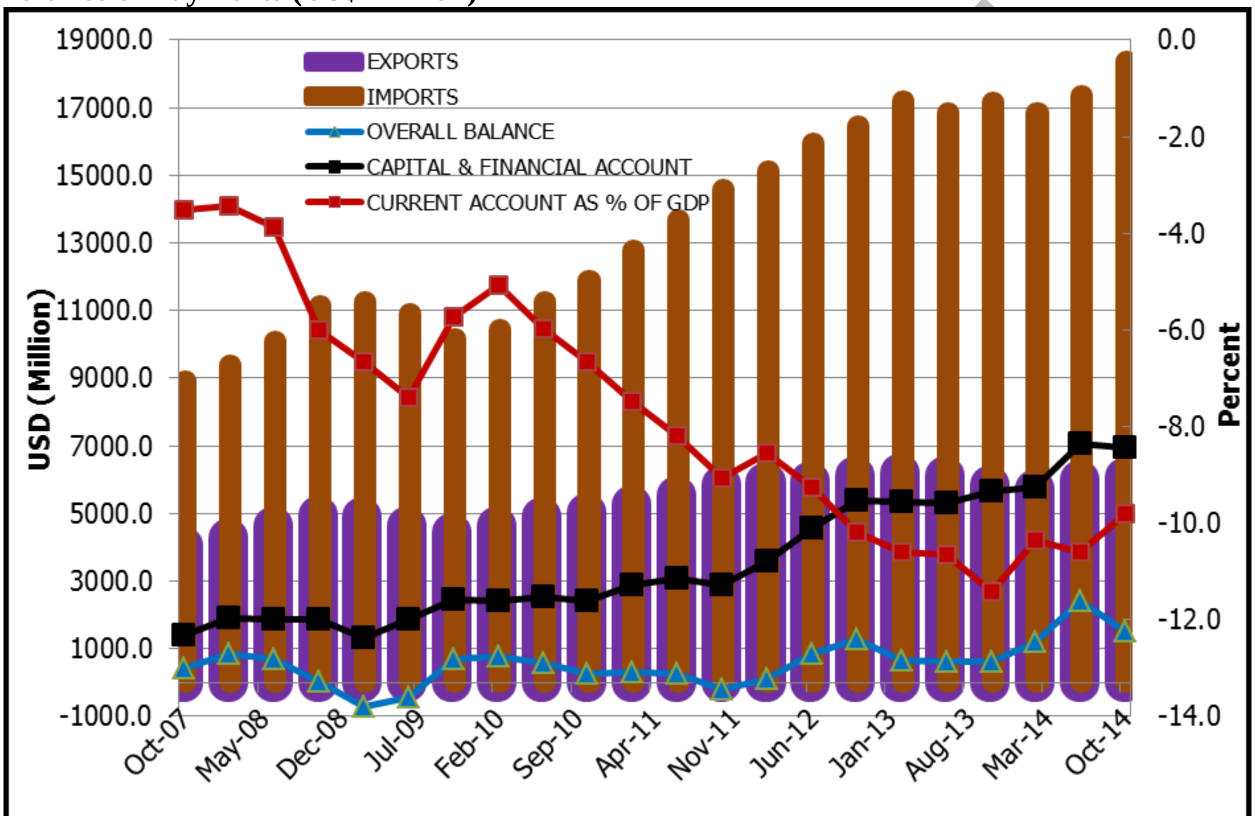


Source: CBK

BOP in surplus as the current account improves

57. Overall balance of payments position recorded a surplus of US$ 1,507 million in the year to October 2014 from a surplus of US$ 607 million in the year to October 2013. The improved surplus reflected an increase in the capital and financial account that more than offset the increasing deficit in the current account.

Balance of Payments (US$ Million)



Source: CBK

58. The current account deficit increased by 7.6 percent to US$ 5,422 million in the year to October 2014 from US$ 5,041 million in the year to October 2013. As a share to GDP, current account deficit amounted to 9.8 percent from 10.0 percent over the same period. This was largely attributed to the widening of the merchandise account by US$ 980 million to US$ 12,272 million in the year to October 2014 that more than offset the improvement in the value of service account by 9.6 percent. The widening of the merchandise account was as a result of the increasing imports as the exports remained fairly stable.

59. The surplus in the capital and financial account improved to US$ 6,929 million in the year to October 2014 from US$ 5,647 million in the year to October 2013. The improved surplus was recorded in both the financial account and the Capital account. The financial account increased by US$ 1,223.7 million in October 2014 following increased short term flows including errors and omissions in recorded transactions, and a drawdown on commercial banks deposits held abroad.

Improved Foreign Exchange Reserves

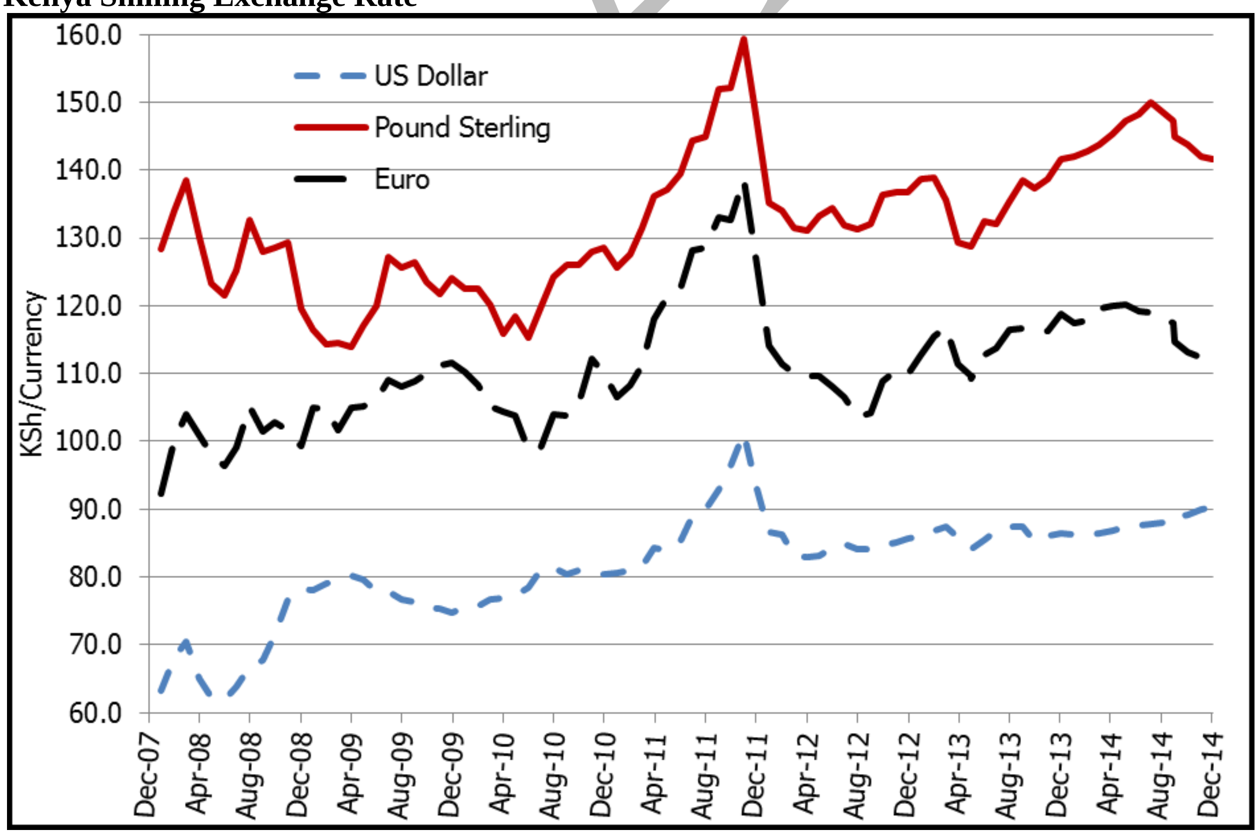
57. The gross foreign exchange holdings of the banking system increased by 19.6 percent from US$ 7,859 million in October 2013 to US$ 9,400 million in October 2014 Gross Official reserves held by the Central Bank increased to US$ 7,839 million (5.06 months of import cover) in October 2014, an improvement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

The shilling Exchange rate demonstrates mixed performance

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

59. Against the Sterling pound, the shilling appreciated to Ksh 141.4 in December 2014 from Ksh 142.0 in November 2014 and Ksh 143.7 in October 2014 and against the Euro it appreciated to Ksh 111.5 in December 2014 from Ksh 112.3 in November 2014 and Ksh 113.2 in October 2014. Diaspora remittances, increased foreign investor participation in the NSE and enhanced confidence following successful issuance of the sovereign bond continues to support the Kenya shilling exchange

Kenya Shilling Exchange Rate



Source: CBK

Stock market remains vibrant

60. Activity in the stock market remained vibrant in the year to December 2014. The NSE 20 share index improved to 5,113 points in December 2014 from 4,927 points in December 2013, representing an increase of 3.8 percent. Market capitalization that measures shareholders' wealth improved from Ksh 1,901 billion in December 2013 to Ksh 2,300 billion in December 2014 representing an increase of 21.0 percent

61. Equity Market turnover for the month of December 2014 stood at Ksh 28.6 billion from Ksh 17.1 billion in November 2014 representing a 67.3 percent increase. December 2014 bond turnover stood at Ksh 40.7 billion, 22.6 percent lower than the Ksh 52.6 billion recorded in November 2014

Update on Fiscal Performance and Emerging Challenges

62. The FY 2014/15 fiscal framework assumed a stable macroeconomic environment and continuation of the National Government's policy of containing non- priority and unproductive expenditures. After taking into account adjustments made by the National Assembly, total expenditures were projected at Ksh 1,597.8 billion and total expected revenues of Ksh 1,240.0 billion (including and grants), the overall budget deficit (including grants) in 2014/15 is projected to be about Ksh 357.8 billion

63. However, after taking into account net external financing of Ksh 165.8 billion (2.9 percent of GDP and domestic loan repayment receipts of Ksh 2.0 billion, this will leave a deficit of Ksh 190.1 billion (equivalent to 3.4 percent of GDP), which would be financed by net borrowing from the domestic market.

Implementation Progress and Emerging Fiscal Challenges

64. Implementation of the FY 2014/15 budget is progressing well despite initial challenges encountered at the start of the financial year. Adequate measures have been taken to ensure priority programmes are fully implemented. Implementation of priority programmes will be tracked and feedback provided periodically.

65. Fiscal outcome by the end of December 2014 year has been generally satisfactory and underlying macroeconomic assumptions (growth and inflation) maintained. Expenditure are slightly lagging though and ordinary revenue recording shortfall. Despite ordinary revenues (inclusive of the Railway Development Levy) recording a slight shortfall against the target, it grew by 12.7 percent compared to the same period in the previous financial year. Excluding the levy ordinary revenues grew by 12.9 percent.

66. Total cumulative revenue collection including A-I-A by the end of November 2014 amounted to Ksh 517.2 billion which was below the target of Ksh 560.4 billion by Ksh 43.3 billion. Ordinary revenue amounted to Ksh 491.3 billion against a target of Ksh 513.2 billion (Ksh 21.9 billion below the target). This shortfall was as a result of the underperformance of

all the broad categories of ordinary revenues except Other revenues which recorded a surplus of Ksh 1.6 billion; Income tax recorded the highest shortfall of Ksh 12.3 billion followed by VAT (Ksh 6.2 billion), Import Duty (Ksh 4.0 billion) and Excise duty (Ksh 1.0 billion. Cumulative ministerial A-I-A (inclusive of Railway Development levy) recorded an under performance of Ksh 21.4 billion.

67. Total expenditures and net lending amounted to Ksh 614.0 billion against a target of Ksh 765.2 billion (or Ksh 151.2 billion below target) at the end of December 2014. The shortfall was as a result of underperformance in both the recurrent and development expenditures by Ksh 44.3 billion and Ksh 82.5 billion respectively. County transfers by December 2014 amounted to Ksh 83.6 billion against a target of Ksh 105.5 billion. The underperformance in development expenditures is due in part to the slow take off in domestically funded development programmes (inclusive of Equalization Fund) by Ksh 36.7 billion and foreign financed programmes by Ksh 46.0 billion.

68. Taking into account the performance of revenues and expenditures by the end of December 2014, the overall fiscal balance (on a commitment basis and excluding grants), amounted to a deficit of Ksh 96.8 billion (equivalent to 1.4 percent of GDP) against a targeted deficit of Ksh 204.8 billion (equivalent to 3.4 percent of GDP). Including grants, the fiscal balance (on a commitment basis) recorded a deficit of 1.3 percent of GDP against a targeted deficit of 3.0 percent of GDP. The deficit incurred at the end of December 2014 was financed through net foreign financing of Ksh 27.9 billion and net domestic repayments of Ksh 62.5 billion.

Comparison of County's Approved Budget Estimates against Actual Expenditure By December 2014

DEPARTMENT	APPROVED BUDGET ESTIMATE 2014/15	ACTUAL EXPENDITURE
County Assembly	817,645,535	291,649,170
County Executive	891,570,777	578,851,170
Finance And Economic Planning	1,015,431,955	759,137,955
Agriculture	578,296,709	316,665,257
Environment And Natural Resources	242,743,023	144,944,177
Education, Youth Affairs And Social Development	713,139,225	257,597,038
County Health Services	1,381,270,551	918,073,850
Physical Planning And Development	311,021,653	61,964,836
Public Works And Services	515,701,225	150,813,344

DEPARTMENT	APPROVED BUDGET ESTIMATE 2014/15	ACTUAL EXPENDITURE
ICT & E-Government	108,898,337	47,490,340
Trade Development And Regulation	215,473,699	66,884,434
County Public Service Board	100,955,580	45,277,370
TOTAL	**6,892,148,269**	**3,639,348,941**

RECENT COUNTY ECONOMIC DEVELOPMENTS

69. During the financial year 2013/2014 the county managed to prepare corporate County Strategic Plan (2013-2017) and draft Departmental Strategic Plans (2013-2017) which will guide the departments in preparation of departmental work plans and performance contracting. This will go a long way in tracking the implementation of CIDP; Strategic Plans; Annual Development Plans; the Millennium Development Goals, MTP 2 (2013-2017) and Vision 2030.

70. The following are key achievements of the department during the year 2013/2014-2014/2015:

Agriculture, Livestock and fisheries Development

71. Despite the challenges, the department realized some key achievements highlighted below:-
    - To achieve the objective of modernizing agriculture for food security the department managed to Procure and distribute the following certified seeds, cassava cuttings, cashew nut and Coconut seedlings to farmers: certified of maize seeds, cashew nuts seedlings, mango seedlings, cow peas seeds, green gram seeds and cassava chippers. In terms of infrastructure the department managed to procure 10 tractors; 4 vehicles and 14 motor vehicles
    - Training of staff on agri-business, nutrition and group dynamics, fodder/pasture, Bee keeping, meat and dairy goat management, rabbit, dairy, poultry and beef production, Participated in 2 Trade Shows & Exhibitions and field days
    - To strengthen institutional capacity the department managed to draft two bills namely: - Plant health and Agriculture Development Fund Draft Bills and Animal Welfare, Abattoir bill, Animal Disease Control and Livestock Sale Yard Draft Bills
    - To enhance livestock productivity and management the department of livestock development organized farmers training in cattle dip management and general disease control; in livestock development, pasture grass seeds and various Fodder and pasture

seeds and cuttings were procured and distributed. A total 315 meat goats and 420 rabbits were distributed to farmers. Purchased the following veterinary vaccines and equipments; A.I equipments and foot pumps

- In enhancement of fisheries production frame survey/census for fishermen and fisheries infrastructure and fishery awareness and licensing exercises were carried out. Construction of a fish depot at Mtwapa fish landing site was started and four deep freezers procured for fish storage by the fisher folk. In addition, 96 BMU officials were trained on BMU financial management and Finance Management books for 11 beach management units were published and a draft co-management training manual developed.

72. All these were geared towards the realisation of the Kenya's Vision 2030 economic pillar and MTP 11 and the millennium development goal number 1 of eradicating extreme poverty and hunger.

Environmental, Water, Forest and Natural Resources

73. The departmental goals are provision of clean and safe water; sustainable development, exploitation and management of the environment and natural resources and development of institutional capacity.

74. Key achievements in the recent past are:-extension of 78km of pipeline which is expected to benefit 31,000 people and with water volume of 132,257 cubic meters and rehabilitation of 1.5 km water pipeline to benefit 2000 pupils. Several initiatives that started during the period such distribution of tree seedlings and starting of community forest associations which are aimed at increasing the forest. The initiatives at this department aimed at ensuring that there is clean and safe water to the people and increasing forest. Most of the projects implemented were aimed towards the country blue print vision 2030 social pillar and MDG goal number 7.

Health Services

75. Notable achievements for the department are:-Assorted equipment for health facilities purchased namely: (7 delivery beds, 3 autoclave machines-75L, 3 autoclave machines -100L, 6 Paediatric Ambu Bags, 6 Adult Ambu bags, 24 assorted air-ways, 8 rolls of Mackintosh, 6 baby weighing scales, 24 patient screens, 100 patient beds with mattresses and pillows, 6 Adult weighing scales, 24 delivery packs, 6 twin bottles electric suction machines with foot switch, 6 small meko burners, 24 Plastic Aprons, 18 covered waste bins, 24 pairs of surgical boots, 24 assorted size endotracheal tubes, 12 office tables.

76. Purchase of motor vehicles namely:- Chief Officer of Health Vehicle (X-trail); Utility Vehicle (Toyota Land cruiser); 5 waste collection trucks; 12 ambulances; 5 Tuktuks at Kilifi, Malindi and Mariakani (waste management)

77. **Plants and equipment** purchased as follows: Purchase of Generators at Malindi , Mariakani and Bamba, Gende & Kilifi; Construction of 5 power generator Houses (Bamba, Kilifi,

Mariakani Hospitals and Gede Health Centre); Construction of an Incinerator at Kilifi and Mariakani Hospitals; Procurement of Laundry machine at Kilifi ,Malindi and Mariakani Hospitals(3); 6 refrigeration equipment for mortuaries in Malindi and Kilifi District hospitals; Install solar power (panels, battery, inverter, electrical accessories) Midoina, Muryachakwe, Bombi, Matolani, Sosoni,Mmangani, Gandini, Dzikunze, Madamani, Makanzani, Mirihini, Dungicha, Palakumi, Bagamoyo, Shangia, Makanzani,Kinarani, Mrima wa Ndege, Jila

78. Purchased **specialized medical equipment** as below:-Oxygen Generator, Anaesthetic Machine and oxygen concentrators at Malindi District Hospital Oxygen concentrators at Kilifi County Hospital;Oxygen concentrators at Malindi Sub County Hospital; Oxygen concentrators at Mariakani Sub County Hospital; Dental Chair at Kilifi County Hospital; Dental Chair at Malindi Sub County Hospital; Anaesthetic Machine at Kilifi County Hospital; Anaesthetic Machine at Malindi Sub County Hospital; Anaesthetic Machine at Mariakani Sub County Hospital; Oxygen generator at Mariakani Sub County Hospital; Physio/Occupational/ Orthopedic Equipment (Kilifi, Malindi,& Mariakani hospitals); Laboratory equipment (Kilifi, Malindi,& Mariakani hospitals); Motorized spraying equipment; Assorted Theatre equipment (Kilifi, Malindi,& Mariakani hospitals); Assorted Maternity equipment (Kilifi, Malindi,& Mariakani hospitals); Ultrasound Machines (Kilifi, Malindi,& Mariakani hospitals; Incubators (Kilfi, Malindi,& Mariakani hospitals); CT Scan(Kilifi hospital); Renal Dialysis (Kilifi hospital); Digital Xray Machine(Kilifi hospital); Laundry machine at Bamba SH; Laundry machine at Malindi SCH; Laundry machine at Bamba SH

79. The following **infrastructures** were constructed :- Construction of staff quarters at Kiwandani dispensary; Construction of Maternity ward at Mrima wa Ndege Dispensary; Construction of Maternity ward at Lenga Dispensary; Construction of Maternity wing and Theatre block at Jibana SDH; Construction of Staff houses at Jila Health centre; Refurbishment of Mortuary at Malindi district hospital; Construction of Maternity ward at, Kombeni Dispensary; Construction of Mortuary at Kilifi district hospital; Renovation at Madzimbani Mariakani; Completion of Malimo dispensary; Refurbishment of Bagamoyo dispensary; County Ware house (stores, cold chain, cold room and filing area); Construct maternity unit & operating theatre at Marafa Health Center;Construct maternity unit & operating theatre at Rabai Health Center; Construct maternity unit & operating theatre at Bamba sub-County Hospital; Construct and equip new dispensaries Gandini & Mwembe Kati; Harvest rain water(overhead tanks, roof catchment systems, piping) in rural health facilities(Midoina, Muryachakwe, Bombi, Matolani, Sosoni,Mmangani, Gandini, Dzikunze, Madamani, Makanzani, Mirihini, Dungicha, Palakumi, Bagamoyo, Shangia, Makanzani,Kinarani, Mrima wa Ndege, Jila, Chakama; Rehabilitate in patient wards, kitchen, laundry Gede Dispensary; Rehabilitate inpatient wards, kitchen, & maternity unit Chasimba Health Center; Rehabilitate inpatient wards, kitchen, & maternity unit Vipingo Health Center; Rehabilitate maternity unit at Mirihini Dispensary

waste management infrastructure put in place as follows:- Construction of Garbage receptacles at Mariakani, Malindi ,Kilifi and Mtwapa; Street waste bins receptacles at Mariakani, Malindi ,Kilifi and Mtwapa; Rehabilitation of dump site (Access road, site holding & sorting stations, security shed) at Malindi-Mayungu; Rehabilitation of dump site at Mariakani (Access road, site holding & sorting stations, security shed); Rehabilitation of dump sites at ,Mtondia (Access road, site holding & sorting stations, security shed

Trade, industrialization, cooperative development, tourism and wildlife

80. The goals of this department are:-enhance the growth and development of trade and industries; develop and manage a vibrant co-operative sector and promote an innovative tourism Industry.

81. Some of the key achievements that have been realized are: - In the trade sub sector several programmes undertaken and in pipeline include refurbishment of Kwa Jiwa market in Malindi and Establishment of micro-finance fund. In tourism sub- sector the following achievements were realized:- Hosting of Kilifi County Miss tourism beauty pageant; Development of Tourism/Investment portal and purchase of beach cleanup equipments and machines. Enhanced ICT Facilities for the Department and in co-operative sub-sector Registered 10 new co-operatives; revived one co-operative society and also plans are in place to refurbish cooperative building. The department also Drafted bills; Liquor licensing, Micro Finance (Mbegu Fund), Tourism; Draft Tourism Policy.

Land, Housing, Energy and Physical Planning

82. The department has initiated and plans to complete the following projects by the end of financial year 2014/2015. These are Chakama settlement scheme phase 11; Tsanagalaweni adjudication session; Prison/ Kiwandani/ Shagala informal settlement

ICT, e-Government, Culture and Social Services

83. The strategic goals of this department in the medium term are:- Leverage ICT for efficient service delivery; promote and manage culture and social services and enhance institutional capacity

84. During the Financial year 2013/2014 the department achieved the following:-installed broadband internet at the Deputy Governor's Office; Installed and Configured a LAN and PABX Telephone system at the office of the Executive member for Tourism; Installed a structured LAN at the Treasury offices in Kilifi Town; Interconnected the Deputy Governor's Office and the Governor's Office; Interconnected the County Headquarters with the Sub-counties of Malindi, Kilifi North, Mariakani and Kilifi South(RRI Project); Developed the ICT Integrated Strategic plan (RRI Project); Introduced e-payment platforms (RRI Project); promoting the use of ICTs in the work environment; Prepared an electronic ICT assets register in Access; Prepared the 2013/14 FY asset maintenance schedule; installed,

configured, Consolidated and operationalized LAIFOMS at Malindi Town Hall; installed, configured, Consolidated and operationalized LAIFOMS at Mariakani Town Hall; installed, configured, Consolidated and operationalized LAIFOMS at Treasury offices in Kilifi; Established the Website Management Committee; Developed the County Government of Kilifi Official Web portal (RRI Project); Developed the County Government of Kilifi Official Tourism Web portal (RRI Project); Drafted the County Information, Communication & e-Government Bill (RRI Project); Organized several ICT Workshops and Seminars for staff

85. In 2014/2015 financial year the following programmes and projects are ongoing and planned:- setting up of ICT centres at several youth polytechnics such as Muyeye (Malindi); Dzitsoni (Kilifi South); Mkwajuni; (Kilifi North); Kaloleni (Kaloleni); Gongoni resource centre (Magarini) and Mwamtsunga Youth polytechnic (Rabai).

Roads, Public Works and Transport

86. The departments' strategic focus is to improve roads and drainage systems; improvement and diversification of transport services; development and maintenance of appropriate public works services and strengthening of institutional capacity.

87. Notable achievements on the recent years were: - Opening of 120 km access roads; Rehabilitation of Kilifi and Malindi Storm Water Drainages; Installation of road furniture (bollards, road bumps installations); Installation of solar streetlights; Rehabilitation and maintenance of streetlights Installation of 12NO. 30m long monopole high mast lights; Rehabilitation of Mariakani Bus Park; Various bills prepared and presented; County Transport Bill 2014 Presented To County Assembly; County Traffic Bill 2014 Presented To County Assembly and County Transport Policy Presented To County executive; Supervision Of The Construction of Pwani University Medical Lab and Library and Preparation of Tender Documents and BQs, Design for; Health, Education, Agriculture & Fisheries, Trade.

88. The county is committed towards the achievement of quality early childhood education and the achievement of international development commitments like the Millennium Development Goals **Education, youth affairs, cultural and social services**
(MDGs).

89. The county has 799 public and 830 private ECD Centres with a total of 1718 Teachers in public ECD centres, 492 primary schools and 120 secondary schools as well as 277 adult literacy centres. The county will need to emphasize a lot on advocacy on the importance of ECD education so as to increase the Gross enrolment rate from 59 percent.

90.

91. In primary schools, the Teacher/Pupil ratio is 1:59 which is higher than the recommended 1:40. The Gross enrolment rate is 95.8 percent with boys being more than girls in the primary schools. The completion rate is 83.7 percent but the transition rate is only 45 percent thus

implying that there are a high number of pupils who complete primary school but do not proceed to secondary school. The proportion of the population that is 5 km or more from the nearest primary school is 65.1 percent and thus there is need to invest in more primary schools.

92. The literacy level of the population aged 15 and above remains low. Those with ability to read and write stands at 65.5 percent while 34.5 percent cannot. The adult literacy level in the county is 65.3 per cent.
93. The gross enrolment rate in secondary school in the county is very low at 42.5 percent while the net enrolment rate is 34 percent with differentials being reflected with boys having a higher enrolment rate than girls. There is need to emphasize on the girl child education as well as put up more secondary schools especially because 72.4 percent of the community have to travel 5 km or more to access the nearest public secondary school.
94. To realize and improve on the above mentioned statistics the county managed to undertake the following programmes:-
    - To increase and improve physical facilities and infrastructure the department started phase one construction of an ECD Resource centre has started at Fumbini village in Kibarani Ward. It consists of 6 classrooms, an office block, a hostel and toilets; Construction of 25 model ECD centres built in 14 wards across the county. These are at various levels ranging from foundation to roofing to completion. Over the medium term the county targets to construct at least one model ECD centre in each ward totaling to 35. 1000 desks have been donated to various primary schools in the county and more are to be donated so that the learning infrastructure is improved.
    - Funds have been set aside for purchase of desks; renovation and completion of youth polytechnics in Kaya fungo; Mwawetsa and Sokoke wards. Also planned are funds for construction of a social hall in Gede and Marafa and a Library in Malindi during the financial year 2014/2015
    - To enhance access to quality education the department issued bursaries of Ksh. 350,000,000 (million) towards the County Ward Scholarship Fund with each ward receiving Ksh. 10,000,000. Disbursement has been done to secondary schools, colleges, universities and other vocational institutions. This has been increased with each ward expected to get 15m in the financial year 2014/2015.

Risks to the Outlook

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

96. Public expenditure pressures, especially recurrent expenditures, pose a fiscal risk. Wage pressures and the inefficiencies in devolved services may limit continued funding for development expenditure.

97. The impact of insecurity on tourism and depressed rainfall which could affect exports and agricultural production respectively remains a risk to the growth outlook.

98. The government will undertake appropriate measures to safeguard macroeconomic stability should these risks materialize.

III. FISCAL POLICY AND BUDGET FRAMEWORK

Overview

99. The 2015 medium term- fiscal policy aims at supporting rapid development and ensuring effective delivery of public goods and services in a sustainable manner. Specifically, the fiscal policy underpinning the F/Y 2015/2016 budget and MTEF aims at increasing revenue by 10% and containing growth of the total expenditure. Further, the policy aims at shifting more public resources from recurrent to capital investment so as to promote sustainable and inclusive growth specifically;

    - Over the medium term a minimum of 30% of the county budget shall be allocated to development expenditure. The government is committed to a reduction in the recurrent expenditure to devote more resources to development.
    - The county governments' expenditure on wages and benefits for public officers shall not exceed a percentage of the county government revenue as prescribed by the regulations. On wages and benefits, the share to county government revenues was 69 per cent in the F/Y 2013/2014 and is projected at 57 per cent in the F/Y 2014/2015 declining to less than 54 per cent by F/Y 2017/2018. Once the share is prescribed in the regulation, the county government will ensure that this principle is strictly adhered to.
    - 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.
    - Public debt obligations shall be maintained at sustainable level as approved by county assembly.
    - Efficiency and improving the productivity of expenditure while at the same time ensuring that adequate resources are available for operations and maintenance of the devolved system of governance
    - Increase the absorption of resources made for development purpose 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. The above will be done through strengthening project planning and management. It is also expected to benefit from the reviewed public procurement law which is intended to eliminate inherent delays embedded in the current procurement process.

Continuing with Prudent Fiscal Policy

100. Fiscal policy will continue to support economic activity within a context of sustainable public financing. The County Government has oriented expenditure towards priority programmes in healthcare, agriculture, education and setting up a comprehensive administrative structure under the medium-term expenditure framework (MTEF). These initiatives shall be rolled out in priority of high impact, highly visible basis so as to not only

jump start socio-economic development but also serve as motivation and synergy efforts of the people of Kilifi County.

Observing Fiscal Responsibility Principles

101. The government recognizes that the fiscal stance it takes today will have implications into the future. Therefore, and in line with the constitution and the public finance management (PFM) act of 2012, the principle of sharing the burden and benefits of the use of resources and public borrowing between the present and future generation implies that we have to make prudent policy decisions today so that we do not impose an unwarranted debt burden on future generations. Also to ensure that development portfolio is not crowded out by the county government, we shall ensure adherence to the ratio of development to recurrent of at least 30:70 over the medium term as outlined in the law. Once the PFM regulations are finalized it is expected that the county government will respect ratios guiding the wages levels in general and expenditure management on items such as office goods and their pricing that should as much as possible reflects actual market prices.

102. Timelines on paying goods should be minimized to enable county government get competitive prices in the market.

103. The respect and observance of the fiscal rules set out in the PFM law and its regulations is important and necessary to entrench fiscal discipline.

104. In this regard, the government will observe the fiscal rules set out in the PFM law so as to entrench fiscal discipline. Observance of the fiscal rules has been as follows:

Fiscal Responsibility Principles

105. In line with the constitution, the new public finance management (PFM), Act 2012, and in keeping with the prudence and transparent management of public resources, the government has adhered to the fiscal responsibility principles as set out in the statutes as follows:

a) *Over the medium term, a minimum of 30% of the county budget shall be allocated to development expenditure.*

The county government's development budget allocation over the medium term is above 30 per cent, the minimum set out in the law. In the F/Y 2013/14 the county government allocated 31 per cent to development, however by closure of the financial year, the preliminary outcome indicates that development expenditure stood at about 18 per cent of the total county government expenditure due to low uptake of budgeted revenue by county departments.

106. Over the medium term, development expenditure is budgeted to expand to 43 per cent in the F/Y 2014/15 and further to 44 per cent in F/Y 2015/16 and around 46 per cent in F/Y 2017/18.

Revenue and expenditures

Financial year	**2013/14**	**2014/15**	**2015/ 2016**	**2016/2 017**	**2017/ 2018**
Equitable Share	4, 952,705,468				
Local Resources	481,725,212.9 0				
Total Revenue	5,434,430,680. 90				
Salaries & Wages	1,059,449,229. 00				
O&M/ Others	2,262,578,927. 00				
Development	448,879,706.0 0				
Total Expenditure	3,770,907,862. 00				

b) *The county government expenditure on wages and benefits for public officers shall not exceed a per cent age of the county of the county government revenue as prescribed by the regulations.*
On wages and benefits, the share to county government revenue was……………..per cent in F/Y 2013/2014, and is projected at………….. in F/Y 2014/15 and increasing to …………..per cent by 2017/2018. Once the share is prescribed in the regulations, the county government will ensure that this principle is strictly adhered to.

c) *Over the medium term, the county government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure*.
It is the government's policy to procure external financing only for development projects a practice which are in line with this principle.

d) Public debt and obligations shall be maintained at a sustainable level as approved by county assembly
e) Fiscal risks shall be managed prudently

Fiscal Structural Reforms

107. Underpinning the fiscal program are measures to raise locally collected revenue from Ksh 850 million in the financial year 2014/2015 and to Ksh 1.0 billion by 2015/2016. This will be achieved through measures to simplify the levy structures and expand revenue base. The levy compliance and enforcement unit shall be strengthened through training and investment in motor vehicles to enhance mobility in the county. These measures coupled with the ongoing revenue collection automation initiatives should eliminate leakages and contribute toward achieving the revenue targets.

108. On the expenditure side, the county Government will continue developing expenditure management systems aimed at improving efficiency and reduce wastage in line with the PFM law. Expenditure management will be strengthened with expansion of Integrated Financial Management Information System (IFMIS) module. The County Government will fully operationalize the Integrated Financial Management System (IFMS) modules as and when they are made fully operational by the National Treasury. The county government shall also embrace need-based staff recruitment in a bid to contain the wage bill and associate recurrent expenditure in the financial year 2015/2016. The county will act promptly on the recommendations of ongoing payroll cleansing and staff rationalization once concludes.

2015/16 Budget Framework

109. The 2015/16 budget framework is set against the back ground of the fiscal framework set above; the National government strategic objectives as outlined in the Vision 2030, MTP11 and the approved County Integrated Development Plan.

Revenue Projections

110. The 2015/2016 budget has revenue target of 1(one) billion. The county treasury is expected to institute measures to expand revenue base and eliminate revenue leakages. In addition, key in achieving this target will be quick enactment of the finance bill 2015.

Expenditure Forecasts

111. The recurrent expenditures are expected to increase by about 15 per cent from the 2014/2015 levels as the devolved administrative structures become fully operational and the full cost of the devolved functions become more apparent. This increase is attributed to the wage bill of staff recruitment at ward levels. Goods and services ceiling for the department are determined by funding allocation for them in the current year budget at the starting point. These ceilings are then reduced to take into await one-off expenditures in the FY2014/2015 and then an adjustment factor is applied to take into account the general increase in prices

Development Expenditure

112. Consistent with the objective of allocating adequate resources towards development outlays and the need to ensure completion of projects, the development expenditure is projected 2015/16 at Ksh 2.4 billion up from last financial year 2014/15 of Kshs 2.6 billion which is 44 per cent of the entire county budget.

113. The entire development budget will be funded from the equitable share of revenue as allocated through the county revenue allocation legislation. With improvement in procurement production and planning (following the expected review of Procurement and Disposal Act),the absorption rate of development funds is expected to increase resulting in incidental increase in economic activities and growth of the county.

Summary

114. The fiscal policy is basically aimed at ensuring stable county government operations, efficiency and economical spending focused on pro poor programs. Fiscal policy outlined in this CFSP aims at improving revenue efforts as well as containing total expenditures. This will be achieved through administrative and legislative reforms aimed at enhancing resource mobilization, improving efficiency in government expenditures and reducing wastage.

115. The fiscal policy will also endeavor to adhere to medium term debt targets as provided in the medium term debt management strategy that aims at ensuring public debt sustainability.

IV MEDIUM TERM EXPENDITURE FRAMEWORK

Resources Available

Equitable share

116. Article 202 of the constitution requires that revenue raised nationally be shared equitably among the national and county governments. According to Article 203(2) of the constitution, in dividing the shareable revenue between the two levels of government each financial year, county governments must be allocated an equitable share of revenue that is not less than 15% of most recent audited revenue received as approved by the National Assembly. In order to arrive at the County Governments' equitable share of revenue for the financial year 2015/16, the adjusted baseline of the estimated cost of devolved functions (FY 2014/15) was increased by an agreed rate of revenue growth. After making the adjustment the County Governments of Kilifi equitable share of revenue in the financial year 2015/16 is estimated to be Ksh. 7,261,713,329 up from 6,635,257,258.(Table 4.1)

117. The equitable share of revenue is an unconditional allocation to the county governments and therefore county governments are expected to plan, budget, spend and account on the funds allocated independently. The Constitution does not explicitly prescribe the upper limit of the equitable share of revenue to be allocated to either levels of government. Nevertheless, the constitution provides some principles that could inform the decision on how high up the equitable allocation to each level of government can be set.

Evaluation of the Division of Revenue in Relation to Article 203(1) of the Constitution

118. Although the Constitution does not explicitly prescribe the upper limit of the equitable share of revenue to be allocated to either level of Government, it does provide some principles that could inform the decision on how high up the equitable allocation to either level of Government can be set.

119. First, the Constitution requires the equitable division of revenue to take into account the functions assigned to each level of Government. This calls for accurate costing of the functions assigned to each level of Government. In this regard, the costing of the functions assigned to County Governments was undertaken through a consultative process during the preparation of the MTEF Budget for 2013/14. This costing forms the baseline for purposes of determining the division of the equitable share of revenue for each level of Government in subsequent financial years.

120. Second, Article 218(2) of the Constitution requires division of revenue between the two levels of government and across County Governments to take into account the criteria set out

in Article 203(1) of the Constitution. The criteria include factors such as: national interest, public debt and other national obligations, needs of the disadvantaged groups and areas etc.

Projected Shares of Revenue for years 2015/16, 2016/2017 and 2017/2018

121. County Government's equitable share of revenue is projected to increase from Ksh 253.5 billion in 2015/16 to Ksh 309.0 billion in 2017/18 while the allocation for the Equalisation Fund is expected to remain constant in 2016/17 and then drop to Ksh 5.3 billion in 2017/18

Horizontal Division of Revenue among Counties

122. Section 190 of the Public Finance Management Act, 2012 requires the Cabinet Secretary for finance to prepare and submit to Parliament a County Allocation of Revenue Bill, setting out the division of County Governments' share of revenue among counties. County Governments will also get additional conditional allocations from the loans and grants.

123. The allocations comprise of the equitable share of Ksh. 253.5 billion, distributed based on the formula for sharing revenue approved by Parliament in accordance with Article 217 of the Constitution.

Sources of Additional Resources for County Governments

124. In addition, County Governments will also get the following additional conditional allocations:

125. Article 202(2) of the Constitution provides for additional allocations to County Governments from the National Government's share of revenue, either conditionally or unconditionally. Pursuant to this Article, the National Government proposed to allocate the following additional conditional allocations to support specific national policy objectives to be implemented by County Governments:

- Conditional Grant in support of Free Maternal Health Care of Ksh 132,730,986. This grant is to be transferred to County Governments on a reimbursement basis after confirmation that the County Government provided maternal health care services in their health facilities in accordance with agreed specifications. This grant is intended to facilitate access to free maternal health care in order to reduce the high maternal and child mortality rates in Kenya on the basis of share of county population to the national population.
- Conditional Grant to facilitate the leasing of health care equipment of Ksh 56,716,918. This grant is intended to facilitate the purchase of modern specialized health care equipment in at least two health facilities in the County Government over the medium term. This will facilitate easy access to specialized health care services

and significantly reduce the distance that Kenyans walk in search of such services this year allocation to County Government was done on the basis of the revenue sharing formula approved by Parliament in accordance with Article 217 of the Constitution.

- The county government of Kilifi does not have level-5 hospital as such will not receive level-5 hospital allocation.
- Conditional Grant from the Road Maintenance Fuel Levy Fund of Ksh. 94,528176. In order to enhance County Governments capacity to repair and maintain county roads the National Government proposed to transfer 15 percent of the Road Maintenance Fuel Levy Fund to the County Governments and shared on the basis of the revenue sharing formula approved by Parliament in accordance with Article 217 of the Constitution.
- In addition the county expects to receive an additional conditional allocation in form of donor loans and grants of Ksh. 83,305,600 from proceeds of a grant from the Government of Denmark and a loan from the World Bank . These funds are intended to support the delivery of health services in county health facilities and with a view to increase access to health care services by Kenyans and in particular the poor. The funds are to be allocated to County Governments on the basis of the criteria specified in the financing agreement between the Government of Kenya and the development partners. County Government was allocated additional conditional allocations from the loans and grants received from development partners and the Government counterpart funding derived from the National Government's share. The conditional allocations from proceeds of loans and grants, however, will not be transferred to County Governments in the financial year 2015/16 due to the following reasons:
    i. There exists financing agreements guiding the structures and management framework of all the programmes/projects, the alteration of which would take long and delay implementation of programmes/projects;
    ii. Loans and grants earmarked for devolved functions are tied to on-going contracts with suppliers, the alteration of which may have legal and cost implications;
    iii. Some of the programmes/projects funded by loans and grants have agreed implementation structures transcending more than one County and therefore it may not be possible to place the responsibility for their management in one County Government; and
    iv. The financing agreements also specify the funds flow modalities which may not be consistent with what is contemplated under the intergovernmental arrangement.

126. It is therefore expected that the loans and grants under the existing financing agreement will be managed by the National Government but with involvement of County Governments in the Project Steering Committees and Project Implementation Units for each programme/project. In addition, reporting arrangements as well as the conditions

attached to the implementation of the programme/project will be clearly spelt out in Project Implementation Frameworks to be agreed with County Governments prior to the release of the funds and implementation of the projects.

127. It is estimated that Ksh 6.0 billion or 0.8 percent of the most recent audited revenue will be allocated to the Equalisation Fund in financial year 2015/16.

128. In addition to the resources obtained from the National Government as equitable share or additional conditional or unconditional allocations County Governments can raise additional resources from the following sources:

- Own revenues from specific County revenue raising measures through imposition of property taxes, entertainment taxes, as well as any other tax they are authorised to impose by an Act of Parliament as well as user fees and charges authorised by county laws.
- Borrowing, provided the National Government guarantee is obtained as well as the approval of the respective County Assembly. In readiness for borrowing by County Governments the PFM Regulations that have been submitted to Parliament for approval have further clarified the framework for County borrowing. The framework provides for among other things:
  - i. Sources/types of debt available to County Governments.
  - ii. Purposes for which debt may be contracted;
  - iii. Procedures of borrowing, which includes the process of approval (including issuance of guarantee) and guarantee eligibility criteria;
  - iv. Borrowing limits. It has been proposed that the debt stock of a county government should not exceed 20 percent of that County Government last audited revenue while the debt service costs are to be capped at 15 percent of the County Government last audited revenue; and
  - v. Mechanisms to enforce compliance with law as well as reporting requirements.
  - vi. Grants and donations from development partners in accordance with section 138 and 139 of the Public Finance Management Act, 2012.
  - vii. Equalization Fund established under Article 204 of the Constitution for purposes of providing basic services including water, roads, health facilities and electricity to marginal areas in order to bring these services in the marginal areas to national standards.

Fiscal Discipline

129. County Governments must will ensure that county resources are used in a prudent and responsible way as required under Article 201(d) of the Constitution.

In addition, county Governments will comply with the fiscal responsibility principals set out in the Public Finance Management Act. County Treasury isalso responsible for ensuring compliance with the set fiscal targets. In this regard, County Treasury will ensure each County Government's recurrent expenditure does not exceed their annual revenue. In addition, County Treasury shallensure County Governments' development budgets do not fall below 30 percent of their total budget over the medium term.

130. A key factor that will limit the capacity of County Governments to adhere to the set fiscal responsibility principals is the tendency to recruit additional staff without due regard to the County fiscal capacity. It is also the responsibility of each County Treasury to guard against the growth of the wage bill to unsustainable levels that may be detrimental to economic development. It should be noted that a wage bill limit will be set in the Public Finance Management Regulations that will soon be tabled in Parliament for approval and County Government will be required to comply with the set limits when regulations are approved by Parliament. County Treasury will therefore continue to be conservative in terms of the budgetary provisions for salaries and allowances.

Resource Envelope

131. The resource envelope for the County Government of Kilifi is linked with the second Medium Term Plan (2013-2017) of the Kenya Vision 2030.The second medium term plan is the primary document which outlines the consensus on policies ,reform measures, projects and programmes which the national government will implement from 2013-2017. The resource envelope of the county entails budget resources raised through national government allocations as per the Commission for Revenue Allocation; local revenue collections through land rates, parking fees, plot rates, and licenses. The resource envelope available for allocation among the spending agencies is based on the updated medium term fiscal framework which is outlined in Section III. In addition to the equitable share of revenue, county governments are also expected to get additional resources from the following sources:

i. ***Own revenues***

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

ii. ***Borrowing***

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

iii. ***Grants and donations***

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

iv. ***Equalization Fund***

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

132. **National Government Allocations** : National Government Allocations as per the Commission on Revenue Allocation for the County Government of Kilifi for the financial year 2013/2014 was Ksh. 5,820,419,123.The total equitable share for FY 2014/2015 is Ksh.6,335,537,520 while the BPS set it at Ksh. 7,261,713,329 for the FY 2015/16.

133. **Local Revenue Collection** from land rates, parking fees, plot rates and licenses was budgeted at Ksh. 735,819,493 for 2013/2014 financial year.the county government continues to faces challenges in meeting its annual budgeted amount from its local resources The county government expects to raise Ksh. 850,000,000 in the financial year 2014/2015.This will be raised through license fees, parking fees ,plot rates and land rates charged by the county government.

Prioritization and Allocation of Resources

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

Spending Priorities

135. The Second MTP (2013-2017), together with CIDP 2014-2017, sector priorities in ADP 2015-2016 and departmental Strategic Plans 2014-2018 will guide resource allocation in the MTEF budget. Resources to non-priority expenditures will critically be reviewed with a view to remove and shift them to priority programmes. This will help eliminate inefficient and wasteful public spending and promote public trust in public spending in line with Constitutional and the PFM Act, 2012 requirements on budgetary transparency, accountability and effective management of the economy. As the FY

2015/16 MTEF budget is finalized, expenditures will be critically reviewed to ensure that they are geared towards identified priorities.

136. The main focus of the FY 2015/16 budget is as follows;

i. A bulk of budgetary resources will be allocated to the social sector consisting of the departments of Health Services and Education, Youth and Sports with a combined allocation of 33 per cent of the total budget. Health Services will be allocated 21 per cent while Education, Youth and Sports will be allocated 13 per cent of the total budget. These resources will go towards the provision of better health services aimed at improving health outcomes by refurbishing and equipping health facilities, acquiring waste management equipment such as trucks, garbage receptacle and waste bins as well as provide better housing to medical staff. Adequate resources will also go towards implementing flagship programmes such as construction of 11 ECD centers and school feeding programmes aimed at improving pupil's nutrition, attendance and retention.

ii. The development budget will also significantly increase to reflect infrastructural development priorities initiated in the Supplementary budget of FY 2014/15. Allocation of resources will be guided by programmes aimed at maintaining and upgrading existing roads, opening rural access roads by designing, constructing and maintaining new roads and extending water pipeline and constructing water pans to promote the provision of affordable, clean and safe water to residents.

iii. Other priority areas including agriculture, trade development and ICT will be given priority in allocation of resources.

DETAILS OF DEPARTMENTAL PRIORITIES

137. The medium term expenditure framework for 2015/16 – 2017/18 ensures continuity in resource allocation based on prioritized programmes aligned to the Second MTP (2013-2017) of Vision 2030, first CIDP 2014 and strategic policy initiatives of the county administration to accelerate growth, employment creation and poverty reduction. The recent achievements and key priority targets for each sector are based on the reports from the departmental Sector Working Groups (SWG) reports.

Agriculture, Livestock Development and Fisheries

138. The sector's goal is to attain food security by development of agriculture and agri-business; development of Livestock and provision of veterinary services; and development and management of fisheries which is consistent with the aspirations of the Second MTP (2013-2017) of Vision 2030 and strategic policy initiatives of the county administration. To achieve this goal, the sector will undertake key policy measures aimed at value addition and marketing; technology transfer; adoption of new technologies; exploiting irrigation potential; exploiting the potential of Exclusive Economic Zone (EEZ); creating an enabling policy and legal framework; improvement of efficiency and effectiveness in sector institutions; infrastructure development and sustainable management of sector resources.

139. The Department of Agriculture, Livestock Development and Fisheries was established in April, 2013 to undertake key agricultural functions devolved to County governments including crop and animal husbandry, livestock sale yards, County abattoirs, Plant and animal disease control and fisheries. Key achievements made for the period the department has been operational are; developing Plant, Health and Agriculture Development Fund Bills; Animal Welfare, Abattoir, Animal Disease Control and Livestock Sale Yard Draft Bills; undertaking fishing awareness and licensing training; distributing to farmers certified seeds, cassava cuttings, cashew nut and Coconut seedlings; and vaccinating cattle, goats, sheep and dogs.

140. Implementation of planned projects in the department have been delayed mainly due to inadequate technical staffing levels and delays in procurement of farm inputs coupled with high cost of farm inputs, inadequate agricultural equipment and poor infrastructure; inadequate access to information and weak research-extension linkages. These challenges have been mitigated by stakeholder's goodwill enjoyed by the department which together with implementation of above mentioned sector priorities and continued active stakeholder engagement will yield to improved implementation of projects and increase public trust in the delivery of services as envisaged under the Constitution.

141. To undertake the set priorities, the sector requires Ksh. 836 million in the FY 2015/16 to implement four key programmes namely; Agriculture Development; Livestock Development; Veterinary Services Improvement and Fisheries Development.

Education Youth and Sports

129. The core mandate of the department of Education, Youth and Sports is to develop and manage education; promote youth development and empowerment; and develop and manage sports. Key challenges that the sector is addressing include inadequate staffing and poor learning facilities in the education sector; an increasing rate of unemployment among the youth, drug abuse and early sexual debut leading to teenage pregnancies and high school drop rates; and poorly maintained sports facilities, inadequate community

sports grounds and lack of sports equipment. Efforts geared towards dealing with these challenges during the financial year 2013/14, were implemented through projects such as the bursary fund, construction of model ECD centers, donation of desks, facilitation of networking and collaborations between the youth and Non-Governmental Organizations (NGOs), facilitating operationalization of Uwezo Fund and Youth Enterprise Development Fund and organizing county football tournaments.

130. The department priorities to be implemented during the MTEF period 2015/16-2017/18 are; pre-primary education funding programme to provide textbooks and mid-day meals in schools with a view to increase attendance, retention and completion rates as well as improve learning outcomes. The department will recruit ECD caregivers, provide them with in-service training and come up with co-curricular activities for ECD centers and rehabilitate the 12 ECD centers formerly owned by local authorities as well. Priority initiatives targeting the youth include talent search and mentorship, youth councils and talent academies. The department will upgrade sports fields, construct sports stadium and form county sports team complete with coaches and managers whose activities will be financed through sports fund. Vocational training institutions will be upgraded and youth centers will be integrated with youth polytechnics in partnership with the department of ICT, e-Government, Culture and Social Services.

Information, Communication and Technology (ICT), Culture and Social Services

The mandate of the department is to develop and manage information communication technology; promote and deliver e-Government services; promote and preserve positive culture for socio-economic development; and promote and manage social services. During the Medium Term Expenditure Framework (MTEF) budget for 2013/14, the department developed county's website; developed sub-county connectivity and e-Government platform; and information and communication and e-Government policy. Other key achievements include promoting cultural festivals; recognition of aged and persons with disabilities; and sensitized community groups for registration.

The strategic focus of the department for the 2015/16 budget and over the medium term entail leveraging on ICT to take county government services to the people by building ICT resource centers in Youth Polytechnics and interconnecting them to schools; provide voice over internet protocol (VOIP) phones and video conferencing facilities to improve internal communication in county government offices and interconnecting all major hospitals to share information including patient's data files for referral cases. The department will also set up radio and television station to enhance two-way communication as well as publish periodical magazines/newspapers. Priority will also be given towards establishing youth incubation centers with a view to tap their potential on ICT usage and create employment opportunities by operating self-sustainable projects; facilitate involvement of youth groups in business; training them on entrepreneurial skills and assist them get markets; and undertake betting control and licensing. The department will also focus on opening access to promote economic gains of cultural sites by rehabilitating Kayas, constructing multi-cultural centre and campaign for promotion of Gede ruins to a world heritage site so as to reap the attendant benefits of having such a marvel in the County.

Trade, Industrialization, Cooperative Development, Tourism and Wildlife

Department of Water, Environment, Forest and Natural Resources

Kilifi county has two main water schemes, Baricho water works and Mzima springs;permanent rivers such as Sabaki, shallow wells; protected and unprotected water springs; water pans; dams and boreholes resulting to an average distance of 5 kilometers to the nearest water point per household. Half of the population use toilets and 10 percent of the households dispose their garbage or solid waste through an organized system. A range of unexploited minerals abound in the County. The County is also confounded with environmental concerns such as air and water pollution, soil degradation due to erosion of fertile top-soils, deforestation; and, poor solid and liquid waste management systems in major urban areas and towns including poor drainage systems that increases exposure to water-borne diseases.

In the medium term 2013/14, the Department of Water, Environment, Forest and Natural resources rolled out programmes to mitigate challenges mentioned above and deal with emerging ones. Key achievements in this regard include the state of the environment study which led to the development of an Environmental Action Plan which now guides implementation of sustainable and environmental-friendly initiatives such as sand harvesting structure, county tree planting programme and minimizing noise pollution. The department has also taken steps towards protecting the community from being side-lined by mineral investors by engaging in the development of natural resource management and exploitation programme to enhance knowledge on the status and economic viability of mineral resources.

The strategic priority for the department in the 2015/16 budget is to develop water infrastructure in a more cost effective manner thereby improve accessibility and affordability of water. Bulldozers, borehole drilling machines and low loaders will be purchased in the 2015/16 budget year with a view to build 70 medium-sized dams over the medium term. The department will also modernize the sewerage system of the county's major urban areas of Malindi, Kilifi and Mtwapa.

Department of Lands, Housing, Physical Planning and Energy

The department is charged with management of land use and ownership; promotion and development of adequate, affordable and quality housing; development and utilization of energy resources.

In the 2013/14 budget, the department issued title deeds, prepared Kilifi town development plan, and audited energy potential of the County. These programmes were meant to address immediate concerns with land ownership, organized development of towns and green energy sources.

For the 2015/16 budget and over the medium term, the policy goals of the department are to ensure proper management of land use and ownership, promote the provision of adequate and affordable housing and promote management and development of green energy. The priority programmes to be undertaken to achieve these goals include land adjudication; ground survey; GIS facility; town and market center development planning; acquisition of land for public utilities; purchase of hydro-machines for making interlocking blocks; tenant purchase scheme; and energy promotional centers to show-case bio-gas and solar energy.

Department of Roads, Transport and Public Works

The ongoing infrastructural development undertaken by the national government is a clear reiteration that infrastructure development is an enabling pillar for attainment of Vision 2030 aspirations. The functions of the department of Roads, Transport and Public Works such as construction, maintaining and rehabilitating county roads; street lighting; traffic and parking and public roads transport, ferries and harbors, storm water systems in urban areas, water and sanitation and firefighting services plugs the County into the agenda of providing enabling infrastructural facilities for the attainment of the aspirations spelt in Vision 2030.

In the 2013/14 budget, the department put in place measures to undertake its functions and key achievements include tarmac of Watergate Hotel to Kilifi Hospital road, cabro works of statehouse road, pedestrian walk-ways, gravelling and grading of roads, construction of new roads, construction of bus and car parks at Mariakani and Kaloleni, erecting road bumps in critical areas to improve safety, road signage, earth drainage and de-silting of drainages.

In the 2015/16 budget and over the medium term, the priority programmes of the department entails roads construction, rehabilitation and maintenance including drainage system; transport safety and system involving construction of bus parks, road markings and erecting bumps; and disaster and firefighting management system.