



ANALYSIS OF KWALE COUNTY FISCAL STRATEGY PAPER FY 2017/2018

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Monday 6th February, 2017

Introduction

Section 117 (1) of the Public Finance Management Act 2012 directs County Treasuries to prepare and submit to the county Executive Committee the County Fiscal Strategy paper (CFSP) for approval and the CFSP shall be submitted to the county assembly by 28th February of every year.

We done this analysis to help the public and other interested parties to give informed views on the Kwale CFSP FY 2017/2018.

There four main components of the CFSP. These are: **performance, projections, priorities and ceilings.**

Summary of findings and recommendations

- a) The budget for FY 2017/2018 is expected to be Ksh. 7.88 billion out of which Ksh. 7.39 billion will be equitable share (to be received from the national government);
- b) Local sources will raise Ksh. 273.5 million
- c) The balance of Ksh. 372.7 million will be raised through conditional grants.
- d) The Kwale County government should clearly indicate the wards in which development projects will be implemented for effective public participation.
- e) The residents of Kwale County affected by mining activities should be provided with basic services such as ECDE centers, clean piped water, healthcare facilities and proper housing.
- f) All stakeholders at the National and County level should come together and find ways of implementing the Mining Act 2016 to benefit the local communities. That is, the communities should get their fair share of the mineral proceeds (royalties).
- g) The Kwale County Government should formulate strategies for sealing loopholes on local revenue collection, train its tax collection officers to increase their

efficiency and seek for alternative dispute resolution for the many cases pending in court on the issue of land rates.

- h) Kwale County should embark on updating the existing local tax laws to make sure the tax burden is equitably distributed to all tax payers.
- i) The County Treasury should be clear on the projected deficit of Ksh. 433 million. Is this the gap in budget that needs to be filled by loans or does it include grants as indicated in the CFSP?

Expenditure summary

Kwale County Expenditure is expected to be Ksh. 3.32 billion (42.1%) of the budget as recurrent and Ksh. 4.56 billion (57.9%) to be spent on capital projects.

PRIORITIES

a) Agriculture, Rural and Urban Development Sector

The Agriculture, Rural and Urban Development Sector will receive a total of Ksh. 439 million out of which Ksh. 228.9 will be recurrent and Ksh. 210 million will be used as capital expenditure.

The sector has prioritized attainment of food security; sustainable land management; vaccination and disease control; and improved urban infrastructure; livestock insurance schemes;

- Supply of inputs – fertilizer and planting materials
- Setting up of irrigation schemes
- Operationalization of fish landing sites
- Physical planning of towns

b) Education Sector

This is made up of department of education and Research and Human Resources. This department is in charge of ECDE and youth training.

- Budget Required: Ksh. 1.29 Billion
- Recurrent = Ksh. 256.6 million
- Development expenditure = Ksh. 1,035.5 million

Challenges in education sector

The education sector is facing challenges such as inadequate number of ECDE teachers, delay of exchequer releases, inadequate health and nutrition support services, inadequate funding, inadequate learning and playing materials.

c) **Health Sector**

The County government of Kwale is boasting of having established 22 new health facilities; 19 maternity wings and recruited 540 healthcare staff.

Health sector Priorities

- Strengthening the community health strategy by facilitating and equipping Community Health Volunteers (CHVs)
- Establishment of emergency response services
- Elimination of communicable and non-communicable diseases
- Provision of essential medicines and rehabilitation and construction of health facilities

To implement these programmes, the sector has been allocated **Kshs 1.64 Billion** in the financial year 2017/18. **Kshs 1.052 Billion** will be for recurrent items and **Kshs 603.7 Million** will be for development expenditure.

d) **The General Economic and Commercial Affairs sector**

In order to implement the sector programmes, the sector has been allocated **Kshs.348.7** for the financial year 2017/18. Recurrent expenditure allocation will be **Kshs.100.7 Million** and **Kshs.248 Million** will be for development expenditure.

This is a good practice if the money will be used as planned. Kwale is one of the counties that spends more on development as compared to recurrent spending.

e) **The social protection, culture and recreation sector**

During the FY 2017/2018 Kwale County will embark on upgrading of sports fields, empowerment of marginalized groups, promote culture and sports.

Priorities FY 2017/2018

- Completion of the Kwale county stadium
- Continuation of the youth, women and PWDs empowerment
- Promotion sport, culture and art, and the promotion of community library services
- Resources required: **Kshs273 Million** in the FY 2017/18 budget
- Out of which recurrent expenditure will be **Kshs91.5 Million** and **Ksh. 181.5 Million** will be for development projects

f) Public Administration and International Relations

This sector is made up of the department of Public Service and Administration, the County Treasury, the County Public Service Board, the County Executive Services and the County Assembly.

Priorities for this sector in FY 2018/2018 include: promoting effective public participation in planning and budgeting. The completion of infrastructural projects will be given priority. The sector requires **Kshs.1.9 Billion** to implement these priorities out of which **Kshs 1.36 Billion** will be for recurrent activities and **kshs.541.8 Million** will be for development expenditure.

g) Water Infrastructure Sector

The Water and Infrastructure sector is domiciled under the department of water services. The main objective of this sector is to improve access to safe portable water from the estimated current 45 percent to 75 percent by 2017.

Milestones under the Water Infrastructure:

- 1) Construction of 11 pipelines,
- 2) construction of three new dams,
- 3) construction of twenty new boreholes,
- 4) construction of six elevated single towers for water distribution

h) Water sector Priorities

In FY 2017/2018 Kwale County plans to work on pipeline construction, construct water pans, dams and drill boreholes.

This sector is also in charge of construction of roads and installation of street lights. The street lights are playing a great role in enhancing security of residents.

The water infrastructure sector has a resource requirement of **Kshs 1,399.3 Million** in order to implement the proposed priorities in FY 2017/2018. Out of that amount **Ksh. 190.9 Million** will be for recurrent expenditure and the balance (Ksh. 1,208.4 million) will be spent on development.

PROJECTIONS

For the Financial Year 2017/2018, Kwale's projected resource envelope (total revenue) is Ksh. **7,886,806,793**. This is the total revenue from all sources. The county is expecting its equitable share from the National government to be Ksh. **7,239,095,072**. This will be a large increase from what was actually received in FY 2016/2017 at Ksh. **5,530,693,069**.

The conditional grants and loans will drop from Ksh **372,711,721** allocated in FY 2016/2017 to **Ksh 433,394,643** in FY 2017/2018. This is due to the freeze on DANIDA grant among other factors.

In FY 2017/2018, Kwale County embraced realistic targets to avoid having a large deficit at the end of the year. On that note, the target for local revenue collection will be scaled down from **Ksh. 330,000,000** in FY 2016/17 to **Ksh 275,000,000** in FY 2017/2018.

Table 4: County Revenue Estimates MTEF FY 2016/17- FY2018/19

SOURCE OF REVENUE	REVENUE ESTIMATES FY2016/2017	REVENUE ESTIMATES FY2017/2018	REVENUE ESTIMATES FY2018/2019
Equitable Share of Revenue from National Government	5,530,693,069.00	7,239,095,072.00	6,197,473,425.15
County Own Revenue	330,000,000.00	275,000,000.00	287,153,311.83
Sub Total	5,860,693,069.00	7,514,095,072.00	6,484,626,736.98

Kwale County recognizes the fact that there are external shocks that may affect the future budget implementation performance. This is because Kwale economy does not operate in isolation. The changes in national and international economic land scape has an impact on Kwale budget implementation performance.

The upcoming general elections has an impact on the economy. The agricultural production will be affected by the unpredictable weather environment. As you know Agriculture is the backbone of Kenya's economy.

On improving security, Kwale County is planning to spend more in expanding the installation of street lights in all urban centers. The county government will also set up rehabilitation centers for drug addicts. This will help in minimizing crimes. The resettlement of squatters will also be implemented under department of lands, physical and natural resources.

PERFORMANCE

Mining Sector

Mining is a function of the National Government but the host counties receive a share of the mining proceeds. This is the reason why Kwale County has analyzed the sector in its CFSP FY 2017/2018. According to the national government mining is projected to contribute 10% towards Kenya's GDP by 2030.

Table 1: Actual Revenue Collection as at end of first quarter of FY2016/2017

REVENUE SOURCES	Jul-16	Aug-16	Sep-16	TOTAL
Land Rates	6,538,362.00	1,265,594.00	3,013,567.00	10,817,523.00
Single Business Permit	965,999.00	854,635.00	806,270.00	2,626,904.00
House and Stall Rent	184,350.00	261,400.00	535,650.00	981,400.00
Market Fees	305,225.00	444,875.00	418,200.00	1,168,300.00
Royalties	1,494,430.00	1,869,175.00	1,927,710.00	5,291,315.00
Cess	762,153.00	1,020,217.00	856,278.00	2,638,648.00
Transit Goods	628,320.00	523,360.00	465,440.00	1,617,120.00
Auction Fees	401,270.00	587,285.00	614,340.00	1,602,895.00
Advertisement	688,550.00	703,700.00	2,252,000.00	3,644,250.00
Parking Fees	717,750.00	749,550.00	930,850.00	2,398,150.00
Revenue From Hospital	1,237,340.00	3,826,015.00	2,783,955.00	7,847,310.00
Building Plan Approval	25,936.00	267,091.00	166,847.00	459,874.00
Land Revenue	-	308,000.00	128,200.00	436,200.00

Table 1: Shows the amount of royalties the Kwale County received between July and Sep 2016

The Kenya National Bureau of Statistics has reported that the overall value of minerals rose from (Ksh. 21 billion) or 14.7% in 2014 to Ksh. 24.2 billion in 2015. This good performance was due to increasing prices from titanium minerals i.e. rutile, ilmenite and zircon in the international export markets.

These minerals are mined in Kwale County at the coastal part of Kenya. The Kenya National Bureau of Statistics (KNBS) further noted that half of the mineral earnings were due to titanium exports.

The Base Titanium Limited, a subsidiary of Australian Base Resources is doing the mining at Nguluku and Maumba divisions of Kwale.

The County Government of Kwale has reported that the company has generated employment for many Kenyans in Kwale. The company has also implemented several development projects as part of Corporate Social Responsibility (CSR).

There are many other minerals in Kwale County including but not limited to: gemstones at Kuranze, Coal at Maji ya Chumvi, Silica sand at Waa, Tiwi and Ramisi and oil -gas at onshore and offshore are yet to be extracted.

Manufacturing

In Kwale County there are 4 main manufacturing industries. These are: Kwale International Sugar Company Limited, Coast Calcium Limited, Bixa Limited and Base Titanium Limited.

Local Revenue Collection

The revenue collection performance has been a great challenge for many counties in Kenya. Kwale County collected Ksh. 45.1 million as at 30th September, 2016. This was an improvement by 12.5 percent compared to a similar quarter in FY 2015/2016 when the county collected Ksh. 40.6 million.

The annual target for local revenue collection in FY 2016/2017 is **Ksh. 330 million**. Currently, revenue collection is facing a number of obstacles including lack of regulations and update the existing tax laws, revenue leakages as well as court cases on land rates which have dragged on for many years.

Anticipated Risks on Budget Implementation

- Delayed disbursement of funds from the national treasury
- Uneven and sluggish growth in the advanced economies
- Huge wage bill which affects development

- Unreliable rainfall patterns which affects the performance of the local economy since Kenya largely depends on agriculture.

Emergence Fund

Emergence Fund allocation is created to cater for unforeseen spending caused by events such as disasters. In the FY 2016/2017, the County Government had allocated a total of Ksh. 79 million for emergencies to help families in the dry area of Kinango and Lungalunga deal with hunger and starvation. These areas have not received adequate rainfall for the last 2 years leading to crop failure.

References

Kwale County Fiscal Strategy paper FY 2017/2018