REPUBLIC OF KENYA

COUNTY GOVERNMENT OF NYERI

COUNTY FISCAL STRATEGY PAPER, 2023

"THE BOTTOM – UP ECONOMIC TRANSFORMATION AGENDA FOR INCLUSIVE GROWTH"

FEBRUARY, 2023

FOREWORD

The Nyeri County Fiscal Strategy Paper (CFSP)2023 is the first one to be prepared post the August 2022 general elections. It is therefore the first strategy paper that is intended to set in motion priority programs, policies, and reforms for the new administration by creating a direct linkage between the development agenda to the Medium-Term Expenditure Framework. The CFSP comes at a time when preparations to finalize on the preparation of the CIDP 2023-2027 and ADP 2023/2024 are in full gear. However, sufficient arrangements have been put in place to ensure that the developmental wishes and aspirations of the Nyeri Citizenry as captured in the various public participation forums, sector hearings and memorandum submission channels have been captured and prioritized based on the available resources. In addition to this, the achievement of the progressive strategies as enshrined in the developmental pillars of the new administrations manifesto have also informed the preparation of this document.

However, it is imperative to note that the Fiscal Strategy paper is prepared against a backdrop of rising inflation characterized by rising food and fuel prices as well as a general increase in the cost of living. These issues have been exacerbated by geo-political tensions and disruptions in the global supply chains. For the first time in five years, the economy is in a situation where the Inflation rate is beyond the targeted upper bound. Additionally, climate-change related occurrences such as recurrent drought has continued to affect the Nation's as well as the County's agricultural productivity potential leaving a significant number of people at the risk of starvation.

Nevertheless, the Kenyan Economy has remained relatively resilient to these shocks as a result of its highly diversified nature and timely government interventions geared towards economic recovery. Therefore, to reinforce the input by the National Government, the County Government will enhance its efforts towards implementing policies and programs that are aligned to the National Development agenda. Programmes and projects will be geared towards economic turnaround, inclusive growth, creating a conducive environment for businesses job creation, and safeguarding livelihoods.

To meet its development goal and to supplement the amount of equitable share received from the National Government as well as conditional grants from development partners, the County Government will come up with measures geared towards strengthening revenue mobilization and reinforce the County fiscal strategic plan. The County Government will continue implementation of cost–cutting measures and alignment of resources to programmes in the CIDP to accelerate growth, employment creation and poverty reduction.

I would like to sincerely thank H.E the Governor and the entire County Executive for administering the formulation of this document. I would also wish to thank the public who provided useful thoughts and comments that contributed to redesigning the policy as we concluded the preparation of this document. Finally, I urge all County departments to adhere to the provided ceilings and to ensure proper prioritisation of key expenditure items to facilitate the finalization of the FY 2023/24 and the medium-term budget proposals.

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ACKNOWLEDGEMENT

The 2023 County Fiscal Strategy Paper (CFSP) is prepared in compliance with the provisions of section 117 of the Public Finance Management Act 2012. It outlines the current state of the economy, setting out the macro-fiscal outlook over the medium term and specifies the strategic priorities and policy goals together with a summary of County spending plans as the basis for preparation of the budget for the FY 2023/2024. This publication is intended to improve the public understanding on County's public finances and hence guide public debate on economic planning and development.

As we finalize the County budget for the FY 2023/2024 and the medium term, I wish to emphasize that we are operating under tight resource constraints. This has warranted tough choices to ensure that scarce resources are directed towards priority areas of socio-economic transformation while ensuring that debt levels are sustained. On the other hand, the County Government is confronted with significant expenditure demands including financing the environment conservation and climate change mitigation activities, protecting livelihoods and improving the overall economic performance. Appropriate prioritization of expenditure is therefore necessary to ensure focus is on critical sectors with the highest positive impact on the well-being of the citizens. In this regard, the County Government will continue to prudently manage the public resources over the 2023/2024-2025/2026 Medium Term Expenditure Framework (MTEF) period.

While developing the budget proposals for the medium-term, the County Treasury undertook a critical scrutiny of budget execution reports of all County department and spending units in a view of curtailing growth of recurrent budget. In allocation of resources priority will be accorded to completion of ongoing projects, new proposed projects and flagship projects especially those which are supportive of accelerating inclusive growth and sustainable development.

The preparation of the 2023 CFSP was a collaborative effort among various County departments/entities and we are grateful for their timely inputs. We are also grateful to the County residents whose participation in the process of budget preparation provided invaluable input to this 2023 CFSP.

Special thanks goes to the County Executive Member for Finance and Economic Planning for steering the entire process of preparation of this policy document. I also wish to appreciate officers from all County departments and spending units for their immense contribution and input in the development of this County Fiscal Strategy Paper (CFSP). Finally, I am grateful to the core team from the Economic Planning, Budgeting, Monitoring and Evaluation unit who worked tirelessly to put together inputs from different departments, stakeholders and the public to ensure the document was timely prepared while maintaining high quality standards.

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LIST OF ABBREVIATIONS

ADP	Annual Development Plan
ASDSP	Agriculture Sector Development Support Programme
BPS	Budget Policy Statement
CARA	County Allocation of Revenue Act
CECM	County Executive Committee Member
CHVs	Community Health Volunteers
CIDP	County Integrated Development Plan
CRA	Commission on Revenue Allocation
DANIDA	Danish International Development Agency
EDF	Enterprise Development Fund
EIA	Environmental Impact Assessment
FIF	Facility Improvement Fund
FLLoCA	Financing Locally-Led Climate Actions
GDP	Gross Domestic Product
GIS	Geographical Information System
ICT	Information and Communication Technology
IFMIS	Integrated Financial Management Information System
KCSAP	Kenya Climate Smart Agricultural Project
KDSP	Kenya Devolution Support Program
KEMSA	Kenya Medical Supplies Agency
KEPSA	Kenya Private Sector Alliance
KIBT	Kenya Institute of Business Training
KISP	Kenya Infrastructure Support Program
KUSP	Kenya Urban Support Program
MSMEs	Micro Small and Medium sized Enterprises
MTP	Medium Term Plan
MTEF	Medium Term Expenditure Framework
NCPWD	National Council for Persons with Disabilities.
NEMA	National Environment Management Authority
NHIF	National Hospital Insurance Fund
NITA	National Industrial Training Authority
PFM	Public Finance Management
THS	Transforming Health Systems
TVET	Technical and Vocational Education and Training
UHC	Universal Health Coverage

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Legal Basis for the Publication of the County Fiscal Strategy Paper

The County Fiscal Strategy Paper is published in accordance with Section 117 of the Public Finance Management Act, 2012. The law states that:

1) The County Treasury shall prepare and submit to 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 28th February of each year.
2) The County Treasury shall align its County Fiscal Strategy Paper with the national objectives in the Budget Policy Statement.
3) In preparing the County Fiscal Strategy Paper, the County Treasury shall specify the broad strategic priorities and policy goals that will guide the County government in preparing their budget both for the coming financial year and over the medium term.
4) The County treasury shall include in its County Fiscal Strategy Paper the financial outlook with respect to County government revenues, expenditures and borrowing for the coming financial year and over the medium term.
5) In preparing the County Fiscal Strategy Paper, the County Treasury shall seek and take into account the views of -

(a)the commission of revenue allocation;

(b) the public;

(c)the interested persons or groups;

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

6) Not later than fourteen days after submitting the County Fiscal Strategy Paper to the County assembly, the County assembly shall consider and may adopt it with or without amendments.
7) The County Treasury shall consider any recommendations made by the County assembly when finalizing the budget proposal for the financial year concerned.
8) The County Treasury shall publish and publicize the County Fiscal Strategy Paper within seven days after it has been submitted to the County assembly.

Fiscal Responsibility Principles for the National and County Governments

In line with the Constitution, the Public Finance Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudent and transparent management of public resources. The PFM act, 2012, (Section 15) states that:

1) Over the medium term, a minimum of 30 percent of the national and County budgets shall be allocated to development expenditure
2) The national government's expenditure on wages and benefits for public officers shall not exceed a percentage of the national government revenue as prescribed by the regulations.
3) 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.
4) Over the medium term, the national and County government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.
5) Public debt and obligations shall be maintained at a sustainable level as approved by Parliament for the National Government and the County assemblies for the County Governments.
6) Fiscal risks shall be managed prudently; and
7) A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.

ABOUT THE COUNTY FISCAL STRATEGY PAPER

The County Fiscal Strategy Paper (CFSP) is a County government policy document that sets out the broad strategic priorities and policy goals that will guide the County departments and entities in preparing their budgets, both for the following financial year and over the medium term. It looks at how the past and the present settings can inform the future.

In the paper, there is an indication on how adherence to the fiscal responsibility principles, prudency and transparency in management of public resources will be achieved in line with the Constitution and the Public Finance Management (PFM) Act, 2012 are underlined.

Section 117 of the PFM Act, 2012, provides that the County Treasury shall prepare and submit to the County Executive Committee the CFSP for approval. Subsequently, the approved CFSP is submitted to the County Assembly, by the 28th of February each year. The County Assembly shall, not later than 14 days after the CFSP is submitted, table and discuss a report containing its recommendations and pass a resolution to adopt it with or without amendments. The County Executive Committee Member for Finance shall take into account resolutions passed by County Assembly in finalizing the budget for the FY 2023/24.

The County Fiscal Strategy Paper contains:

(a) an assessment of the current economic situation including macroeconomic forecasts;

(b) the financial outlook with respect to local revenue and expenditures for the next financial year and over the medium term;

(c) the proposed expenditure ceilings for the departments and entities, including the County Assembly.

(d) the fiscal responsibility principles and financial objectives over the medium-term including total pending bills; and

(e) Statement of Specific Fiscal Risks.

The preparation of the CFSP was a consultative and all-inclusive process that involved engagement of all the stakeholders, taking into consideration the views of: County Governments departments; the public; and other interested person.

I. THE BOTTOM – UP ECONOMIC TRANSFORMATION AGENDA FOR INCLUSIVE GROWTH

1.1 Overview

1. The 2023 Fiscal Strategy Paper sets out the priority programs, policies and reforms of the County Government that will be implemented in the Medium-Term Expenditure Framework (MTEF). It presents the Bottom–Up Economic Transformation Agenda geared towards economic shift and inclusive growth. The document is framed against a backdrop of global economic slowdown occasioned by the ongoing Russia-Ukraine conflict, elevated global inflation, lingering effects of the COVID-19 pandemic, persistent supply chain disruptions and the food security and climate effects.

2. In the context of these challenging times, the economy remains robust with an inspiring economic performance of 7.5 percent in 2021 largely on rebound from negative growth the previous year on account of bold economic policies and structural reforms as well as sound economic management implemented overtime. The momentum has however been slowed again by the Russia-Ukraine conflict that has disrupted global trade through increased fuel, fertilizer and food prices. The inflation rate in Kenya is above the Government target range mainly driven by supply side constraints occasioned by external shocks. Besides these shocks, the economy is confronted by various bottlenecks including: recurrent drought affecting agricultural productivity; declining manufacturing productivity; skewed access to finance for business and development; rigidities in business regulatory framework; weak governance; and fiscal risks including pension's liabilities, stalled public projects, pending bills; and high debt service that has hindered the economy from achieving its full potential.

3. The Kenya Kwanza's Bottom-Up Economic need to address these challenges, bolster resilience while building on successes realized overtime forms the basis of the Kenya Kwanza Government's Bottom-Up Economic Transformation Agenda. The Agenda is geared towards economic turnaround and inclusive growth. Special focus will be placed on increased employment, more equitable distribution of income, social security while also expanding the tax revenue base.

4. The priority programmes are classified under two categories; core pillars and the enablers which aim at creation of a conducive business environment for socio-economic transformation. Under the core pillars, the Government seeks to increase investments in five sectors envisaged to have the biggest impact on the economy as well as on household welfare. These include: Agricultural Transformation; Micro, Small and Medium Enterprise (MSME) Economy; Housing and Settlement; Healthcare; and Digital Superhighway and Creative Industry. To make these programmes feasible, the Government will implement strategic interventions under the following key enablers: Infrastructure; Manufacturing; the Services Economy, Environment and Climate Change; Education and Training; Social Protection; Sports, Culture and Arts

5. The budgeting process for the priority programmes will be done through a value chain approach under various clusters. This process ensures there is no break in the cycle in the resource allocations for a value chain. The process also ensures adequate resources are allocated to any entity along the value chain and helps to eliminate duplication of roles and budgeting of resources.

6. All the priority programmes will be implemented through a value chain approach under several clusters. This will ensure no break in the cycle either by not allocating requisite resources to any entity along the value chain and also eliminate duplication of allocations and roles.

7. The Government in effort of addressing the current economic challenges, will employ the various priority economic policies, structural reforms, fiscal consolidation plan and sectoral expenditure programs outlined in this CFSP 2023. This will also bolster resilience to shock as part of the strategy for socio-economic transformation and inclusive growth. Over the medium term, the Government through the Fourth Medium-Term Plan (2023-2027) will prioritize implementation of economic recovery strategies to re-position the economy on a steady and sustainable growth trajectory.

1.2 Core Thematic Areas

8. In order to achieve greatest impact to all citizens including ones in the bottom of the economy, the Government will implement policies and structural reforms and promote investment in five core thematic areas. These are: Agricultural Transformation; Micro, Small and Medium Enterprise (MSME) Economy; Housing and Settlement; Healthcare; and Digital Superhighway and Creative Economy.

1.2.1 Agricultural Transformation and Inclusive Growth

9. The Agricultural sector is the major contributor to the Kenyan economy, contributing on average 21.4 percent of the GDP directly, forming approximately 65 percent of Kenya's total exports and has the highest employment multiplier in the economy. However, due to the prolonged drought as a result of failed rain and high global fertilizer prices agricultural productivity in the country has been declining resulting in severe food shortage. The spread of the COVID-19 pandemic worsened the situation with world fertilizer prices having more than doubled in the past two years, affecting productivity of Kenyan farmers.

10. The County Government has continued to support the agriculture sector and has been able to mainstream food and nutrition security through procurement and distribution of 4,500 of 2kg packets of high value beans and 400 bags of 50kg certified Irish potato seeds for farmers; supported tea industry through procurement of 100,000 high yielding tea seedlings clone, rehabilitated five (5) tea buying centers; In coffee industry, farmers were supported with 17,500 coffee seedlings and 360.71 tons of manure and renovated Ruiruiru coffee factory, For livestock, County procured and distributed 36,666 KARI improved Kienyeji chicks and 41 dairy goats with an objective of improving livestock breeds; 18,131 animals were served with free Artificial insemination services; 74,499 animals were vaccinated. Completion of pasteurizer housing and procurement of yoghurt cup filling machine for Iria-ini Dairy Cooperative; supported Mweiga Dairy and Kiamwangi Dairy self-help group with milk pre-chiller equipment and 600 doses of sexed semen.

11. To increase fish production, the County supported fish farmers with 448bags of 25kg each of fish feeds and distributed 80,000 fingerlings to fish farmers, supported 20 indigenous chicken farmer groups with solar powered egg incubators for production of chicks, supported one group with feed mill and startup ingredients for feed formulation to reduce cost of production of livestock.

12. Investing in agriculture sector will enhance economic recovery which will be based on the following seven factors.

i) **Quick turnaround**: Agriculture offers the quickest payback period for investments. Increasing production only requires addressing the cost, quality and availability of inputs and providing farmers with the working capital to buy adequate supply of the inputs as well as other direct production expenses such as ploughing of land and labour.
ii) **Cost of living**: The cost of living can only be resolved by raising agricultural productivity. The battle is between farmers needing higher incomes and consumers who want low prices. Food accounts for 54 percent of household expenditures but poor households spend more than 60 percent.
iii) **Foreign exchange**: Dependence on food imports has grown considerably in recent years. Three food commodities: edible oils, wheat and rice are consuming an equivalent of 25 percent of goods' export earnings. Kenya has the capacity to produce a bigger share of its consumption of edible oils and rice competitively.
iv) **Jobs**: Agriculture has the highest employment multiplier effect, owing to its strong forward and backward linkages to other sectors of the economy. Research conducted by Kenya Institute for Public Policy Research and Analysis (KIPPRA) shows that four of the five value chains with the highest job creating impact are agricultural.
v) **Incomes:** Two thirds of Kenyans derive all or part of their incomes from agriculture. Thus agriculture-led growth will put more money in people's pockets directly than any other sector. Ending poverty:
vi) **Industrialization:** The manufacturing sector is largely agriculture-based, with food processing and beverage manufacturing contributing 40 percent and 48 percent of manufacturing employment and GDP respectively. When non-food agro-processing is added, agro-processing becomes more than half of the manufacturing sector.

13. The Government will over the medium term, develop policy, legal and institutional reforms to provide an enabling environment for agricultural productivity. In particular, the Government will:

i) Provide adequate affordable farm inputs to farmers through well managed farmer organizations;
ii) Deploy modern agricultural risk management instruments that ensure farming is profitable and income is predictable,
iii) Transform poor farmers from food deficit to surplus producers through input finance and intensive agricultural extension support,
iv) Raise productivity of key value food chains and other value chains e.g. maize, daily, beef
v) Collaborate with the National Government in boosting tea value chain.

1.2.2 Transforming the Micro, Small and Medium Enterprise (MSME) Economy

14. The Micro, Small and Medium Enterprise (MSME) Economy is a major contributor to the economy, employing about 85 percent of non-farm jobs. Access to credit is a stimulant that enhance growth in the MSME economy. However, high interest rates crowd out the private sector and the MSMEs. The Government is committed to ensure citizens access affordable credit.

15. The Government initiated the Hustlers Fund as an intervention to correct market failure problems at the bottom of the pyramid and to cushion the MSMEs against high cost of credit. This program aims to lift those at the bottom of the pyramid through structured products in personal finance that includes savings, credit, insurance and investment.

16. Implementation of appropriate policies coupled with enhanced investments in the agriculture sector will lead to creation of a conducive business environment for economic growth, creation of jobs and improved livelihoods. Further, the County government plans to undertake initiatives to support Micro, Small and Medium Enterprises (MSMEs) and Traders. The County will grant waivers to enable businesses cope with the slow business activities during the drought and high cost of living period.

17. To support the sector, Enterprise Development Fund (EDF) Board has ensured that the loans are affordable to the majority. Currently the loan interest rate is at an affordable rate of 5% per annum on reducing balance. This is in an effort to support businesses from the adverse climate changes and hard economic times. Moreover, the fund will enable creation of employment through business expansion and technology acquisition, asset finance and will promote self-employment.

18. As part of other interventions the County will through the Enterprise Development Fund programme, identify potential beneficiaries and make disbursement to the successful traders, ease the process of obtaining trade licences, review and rationalize all business fees and charges, assist in establishment of industrial park and business incubation Centre in some TVET institution with collaboration with the National Government.

1.2.3 Healthcare

19. Efforts for promotion of quality and affordable healthcare is critical for socio-economic development. It is estimated that Kenyan families spend a total of Ksh 150 billion in out-of-pocket expenditures on health services a year. For this reason, the Government will continue to implement the Universal Health Care plan that will lift this punitive burden from the shoulders of citizens and their businesses. The strategy will involve revitalization of primary healthcare by emphasizing on preventive and promotive strategies. Many critical health illnesses, including cancer, heart complications, kidney failure and hypertension, can be detected and addressed at this level without the need for a hospital visit or admission.

20. The Government is planning to reform the National Health Insurance Fund (NHIF) as an interventions of challenges being experienced in the sector. Progress has been made in enrolling more members into the insurance scheme.

21. For better service delivery, the Government will leverage on information technology to drive responsiveness, efficiency, seamlessness between providers, transparency and fraud prevention. The strategy will involve deployment of an integrated state-of-the-art health information system that will enable every Kenyan to own and control access to their health record.

22. In order to build a better human resource for healthcare, the National Government will work with County Governments to build a centralized system of Human Resource management. Measures will be put in place to address the challenge of inadequate human resources in the public hospitals and the poor industrial relations between health professionals. This will address the in-equitability in distribution of health professional and will enable doctors get equal treatment in capacity building, and solve the shortage in health specialists in the County health services.

23. The County government has ensured promotion of Universal Health Coverage through the following; procured and supplied health commodities to all 127 County Government health facilities with essential medicine availability rate of over 80%, recruitment of several health care workers who were deployed to various facilities, engagement with the national government and the donor community for enhanced collaboration and partnerships, construction of the 175-bed capacity level 4 hospital in Narumoru.

24. Going forward, the County will increase overall health budget using health services fund, donor funds and support from other development partners, strengthen operationalization of Nyeri Health Service Fund Act 2021 and its regulations to ease collection, use and management of Facility Improvement Fund (FIF), Fast track promotions of health workers to minimize apathy and costly industrial actions by health workers, ensure provision of medical equipment service contracts to reduce the down time of essential equipment.

1.2.4 Digital Superhighway and Creative Economy

1.2.4.1 Digital Superhighway

25. Being a strong leader in the Information, Communication and Technology space, Kenya has cemented the country's position as a regional and continental hub of innovation overtime by employing appropriate policy framework, constitutionally protected freedoms of expression, media, information and communication.

26. The County Government will collaborate with National Government on plans to support extension of National Optic Fibre Backbone infrastructure work to ensure universal broadband availability. There are also plans to digitize and automate all critical Government processes throughout the country, with a view to bringing at least 80 percent of all Government services online for greater convenience to citizens.

27. For enhanced network connectivity and security of ICT equipment, the Government invested in development programs and projects which included; Equipping of the ICT Hub at Whispers Park, Perimeter wall fencing at Nyeri Hill base Station (Wide Area Base Transmission), and Installation of Local Area Network at 4 Sub counties. The County continuously has strived to automate all operations including local revenue collection which has promoted efficient and effective service delivery.

1.2.4.2 Creative Economy

28. The youth in the County are talented in a diverse spectrum of creative work which includes music, theatre, graphic design, digital animation, fashion and craft, among others. The creative industry can add value to Kenya's exports such as fashion, leather products and craft industries that can employ millions of Kenyan youths.

29. The County Government has majorly continued to support growth of the economy by promoting the youth in sporting activities. For instance, the County facilitated 180 participants in the KICOSCA games, completed construction of perimeter wall at Ruring'u stadium, completed levelling of Kigogoini playground and procured and distributed sports uniform and Equipment to local teams.

30. In March 2022, the County with the theme 'Nurturing Creativity, Inspiring Dreams and Promoting Sustainable Talents and Skills through Technology', trained 50 creatives on artists in animation and creatives in areas such as gaming, animation, filming, voice recording, script writing, film story boards and 3D and 2D design. The training benefited people aged between 16-75 years of age.

1.3 Enablers

31. The Government's Bottom – Up Economic Transformation Agenda will be guided by innovative policy and structural reforms targeted at all socio-economic sectors, building efficient infrastructure, climate-change mitigation mechanisms, as well as foster strict compliance with the Constitution and the rule of law.

1.3.1 Infrastructure

32. The Government will intensify County-wide connectivity through water, road, energy and ICT infrastructure to foster an enabling environment for economic recovery and inclusive growth.

1.3.1.1 Water

33. Major parts of Nyeri County's agricultural land require irrigation, against only a small percent that is irrigated. Irrigation is the single most important game changer in agriculture. To enhance access to safe water for domestic and industrial use, the Government has planned to construct and fence dams, water pans and boreholes. Additionally, there are plans to undertake water extension activities to unconnected areas by provision of pipes and fittings and provision of water storage tanks. There will also be establishment of green spaces and provision of tree seedlings to locals for planting which will aid in management of the water catchment areas as well as acting as a strategy for regulation of the adverse climate change effects.

1.3.1.2 Roads

34. The Government will prioritize upgrading and maintenance of roads as well as improve road infrastructure in all County wards, as roads have the highest immediate economic impact. As a measure for ensuring proper road conditions the County will educate citizens on importance of planting grass and vegetation on the drainage channels and discouraging encroachment by farming on the road reserves.

1.3.1.3 Electricity

35. While generation capacity and total electricity connections have increased considerably in the recent years, electricity in the County remains expensive and unreliable. Due to the high electricity bills being incurred, the Government plans to invest in solar lighting as a cost reduction strategy.

36. The County is also cognizant of the adverse effects caused by climate change across the globe, hence championing for the incorporation of renewable energy sources such as biogas systems in our everyday activities. This not only simplifies household chores for families but also saves them from the daunting task of firewood collection thus led destruction to the environment.

1.3.2 Manufacturing Sector

37. To improve productivity in the sector, the Government has adopted a value chain approach through the Bottom-Up initiative that will address the bottlenecks that impede the growth of manufacturing sector and enhance the country's competitiveness.

1.3.2.1 Leather and Leather Products

38. The County has a big potential to develop its leather sector given the available market in uniformed services and schools. Key challenges in the sector arise from: poor quality of hides and skins, lack of skills, and limited leather factories in the country. As part of the economic turnaround strategy, the Government will support value chains in the leather sector in order to increase recovery and enhance quality of hides and skins to enable creation of jobs.

39. There is plan by the Government to support the shoe production line at Rukira Youth Polytechnic to increase in production which will in turn create more jobs for the youth in marketing of the shoes. This will also be an incentive for diversification in the future.

1.3.2.2 Dairy Products

40. Dairy farmers struggle with the high cost of feed and challenges of storage, preservation of milk and access to markets for their products. The Government will assist the farmers to reduce the cost of production by providing Artificial Insemination services to them as well as training them on the best rearing practices through the County extension officers. In addition, the Government plans to purchase and distribute dairy goats to farmers to boost their production and milk pasteurizers for storage.

1.3.3 The Services Economy

1.3.3.1 Tourism Sector

41. Tourism in the County has a great potential of attracting great number of tourists from all parts of the Country. To support the sector, the Government will focus on a bottom up job-creating tourism industry by nurturing a tourism ecosystem that supports independent travel particularly for young people.

42. The County will train artists in animation and creatives, train mountain tour guides, porters & cooks, develop cultural villages, facilitate capacity building of cultural groups, develop Wangari Mathai park at the Cultural center and diversify tourism by promoting niche market products.

1.3.4 Environment and Climate Change

43. Conservation of the environment and response to the effects of climate change are a key priority in the Government's socio-economic transformation agenda. The Government will continue to mainstream issues of environment conservation, climate change mitigation and adaptation, halt and reversal of deforestation, biodiversity loss and land degradation, in all Government programmes and across the County.

44. Among the key strategies of the Government is collaboration with the national Government in growing 15 billion trees by year 2030 nation-wide whose objective will be to increase the national tree cover from the current 12 percent to 30 percent over that period.

45. For sanitation and solid waste management, the Government will continue with the management of dumpsites through pushing, compacting of garbage and murraming the roads to make them all weather. To ease refuse collection, more trucks and skips will be procured. Through the established partnership with private sectors, sustainable waste management will be enhanced through installation of bio digesters and composting of organic wastes to produce organic fertilizer, establishment of electrical and electronic waste collection facility and procuring a glass crusher upon which the glass powder will be used in the manufacturing of Cabro-blocks.

46. For enhancing locally-led climate resilience actions, the Government in collaboration with the National Government and Development Partners has developed an innovative Financing Locally-led climate Action (FLLoCA) Program. The Program is designed to encourage cross-agency collaboration and vertical linkages from community level up to national level in addressing climate change. The programme will support the Government to put in place participative climate change policy and legislative frameworks in order to be able to access pooled finance to support implementation of locally-led climate actions.

1.3.5 Education and Training

47. Education is the ultimate means of ensuring an equitable society. As part of its economic turnaround and inclusive growth strategy, the Government will facilitate impartation of the necessary skills and competencies to learners under the Early Childhood and in Vocational Training Centres. This will enable learners to effectively play their part by contributing to the nation building effort, and partaking of the dividends of shared prosperity.

48. For realization of quality skills and competences the Government will establish and upgrade the existing infrastructure in both ECDE and Polytechnics as well as improving the playgrounds in the County which will go a long way in identification and development of talents.

1.3.6 Social Protection

49. The vulnerable members are given great attention by the Government in all its operations. To support the people living with disability, the Government will continue to give them priority in participation during formulation of policies, planning, budgeting and execution of government strategies.

50. The special groups (youth, women and marginalized) are given priority in procurement of goods and services for the County. In addition, the County has continued to provide food to citizens in the hunger stricken areas.

51. The County government has so far been able to undertake the following activities through the department of Gender and social services; conducting capacity Building for staff on HIV/AIDS, drug and substance abuse, gender based violence, road safety and employees wellness, exercised care and protection of the orphaned and vulnerable children in Karatina Children Home, empowerment of special groups through purchase of profit making merchandise, supported disaster victims with building materials and food rations, Completion of phase 2 of recreation park at Ihururu, Construction of mast for Toll free line, Laying of cabro and gate at Nyeri fire station, Rehabilitation of fence and mechanical works at Karatina children home, Completion of Karatina children home, Mechanical works at proposed Kiawara Fire station, Construction of fence at Karatina Fire station, Launching of leather hub at Rukira youth polytechnic

1.3.7 Sports, Culture and Arts

52. The Government recognizes sports and the arts as an industry that can employ the youth and help grow the economy. Kenya sporting prowess portends tremendous opportunity to build a sports economy value chain that includes hosting of international sporting events, training facilities and manufacturing of sports apparel and equipment.

53. The County has majorly continued to support and promote the youth in sporting activities through facilitation of participants in the KICOSCA games, complete construction of perimeter wall at Ruring'u stadium, completed levelling of Kigogoini playground and procure and distribute sports uniform and equipping the local teams

54. The Government is also considering partnering with the National Government in sponsoring talented youths to the National Youth Talent Academy where they will be assisted in furthering their skills and talents.

1.3.8 Youth Empowerment and Development Agenda

55. The County Government is committed to building the capacity of our youth. There are two unique programs that have been very successful; the one-year internship program and the three months' industrial attachment. Each year, the County Government strives to engage 200 youth for a one-year internship program in all areas of County operations, who are competitively selected through the County Public Service Board, and are then attached to a mentor. The intern earns a stipend of Kshs. 10,000, for certificate holders, Kshs. 11,000, for diploma holders and Ksh. 12,000, for degree holders to enable them meet their basic needs.

56. The County has had four successful cohorts of interns under this program. The County Government engaged the fourth cohort of 183 interns in the FY 2022-23, after successfully mentoring 151 in the first cohort of the FY 2018-19, 185 in the second cohort in the FY 2019-20, and 192 in the third cohort in the FY 2021-2022.

57. The County Government has far had a total of 711 interns and absorbed 49 interns from the 1st, 2nd, 3rd and 4th cohort into the County Public Service in various departments. More to that, a total of 1,350 students from different learning institutions have benefited through the industrial attachments. The success of this program has been confirmed by the number of interns who have secured employment before completing the one-year cycle, both with the County Government and other organizations. The County Government is looking forward to continuing with the program.

1.3.9 Engaged Citizenry

58. The County government is committed to ensure a harmonious working relationship with the legislative arm of the County Government, Assembly of Nyeri to safeguard the aspirations of the citizens. There has been consistent engagement and inclusion of the members of the public in decision making to guarantee ownership of the projects and programmes being carried out. This has made the preparation and approval of County budgets timely and in tandem with the PFM Act 2012 and all other relevant laws. The County Government will continue to ensure that its planning, budgeting and reporting systems are in conformity with the best practices in financial reporting.

1.3.10 Public Service Management

59. The Department of County Public Service Management is responsible for overall policy coordination and direction on public service, human resource development, capacity development and internship programme for the County Public Service. It is generally charged with providing leadership in Human Resource development function in the County Public Service for in an effort to promote staff Motivation and employee satisfaction for effective service delivery.

60. The County Government of Nyeri has a total of three thousand and eight hundred eighty-six (3886) employees. The employees fall under three categories: employees devolved from the National Government, those inherited from the defunct Local Authorities and employees engaged by the County Public Service Board.

61. The County Government has been running the County Payroll by the 10th of every month thereby enabling the employees to be paid in good time and thus becoming a key motivator to the staff.

62. To enhance efficiency, the County Government has undertaken an exercise to ensure all staff have acquired payroll numbers so as to discard the manual payroll. Further, the County has ensured that its staff members have a medical cover and a work-injury and group life cover as well as making sure that the County Public Service strictly adheres to the Public Officers Ethics Act, 2003.

63. In recognition of the need to adhere to the public finance regulation on having personnel emoluments not exceed 35% of the County budgets as well as enhance staff motivation, the County implemented a voluntary early retirement programme. This programme was geared towards encouraging willing officers to retire voluntarily, a measure that ultimately will have a positive effect towards reducing the County wage bill. Further, the County Government, translated the terms of service for most of its staff from Contract to Permanent and pensionable in an effort to reduce the budget on payment of 31% gratuity to 15% Pension contribution.

64. Further, officers who had served one complete contract have had their terms translated to permanent and pensionable terms in an effort of assuring job security and enhance staff satisfaction and engagement. This translation of terms also gives the County Government a far-reaching positive effect on the reduction of the County wage bill, considering the fact that the County will not incur the cost of paying gratuity at the rate of 31% of their basic pay, but will only pay 15% as contribution to the employees' pension.

1.4 Implementation Framework

65. Three pillars will be used in implementation of the policy priority areas in the Bottom – Up Economic Transformation Agenda. The pillars will be prioritization, sequencing and financing.

1.4.1 Prioritisation

66. This will be a critical pillar because resources are scarce for satisfaction of the unlimited needs. Limited resources mean that we must chose, but choosing one person's preferences over another can create winners and losers, thereby undermining the goodwill needed to have everyone pulling in the same direction. Priorities to be chosen are those that will have impact on the following objectives; bringing down the cost of living, eradicating hunger, creating jobs, expanding the tax base, improving our foreign exchange balance and inclusive growth.

1.4.2 Sequencing

67. The imperative to alleviate the suffering that Kenyans are undergoing makes sequencing critical. In the context of severe resource constraints, interventions that can increase Government revenue quickly, making it much easier to finance other things. The following timeframes have been thought of as interventions;

- **Quick wins.** These are interventions that will have economic impact within six months. Examples include dairy and seasonal crops and resolution of pending bills.

- **Short term.** These are interventions that will deliver impact within 6 - 18 months. Examples include establishing feedlots for cattle and rehabilitation of crops such as coffee and nut trees.

- **Medium term.** These are interventions that will deliver impact between 18 – 36 months. Examples include housing programmes, Universal Health Care (UHC), coffee, fruit and nut trees.

- **Long term.** These are interventions whose impact is expected to be felt between 3 and 5 years and beyond, but need to be started in good time.

1.4.3 Financing Principles and Framework

68. Fiscal consolidation: The plan must be financed within a budget deficit target of 3 percent by financial year 2026/27. This will be achieved by;

(a) Ensuring that 2023 Budget Policy Statement revenue projection will not exceed the average growth in preceding three years and expenditure growth capped at 75 percent of the revenue growth rate

(b) Budget neutrality. For new programmes to be financed, the resources must be released by another programme or project that is either completed or closed.

69. Infrastructure Fund/Bank: An infrastructure fund will be established with initial capitalization from privatization proceeds, with a view to progressively reducing the financing of commercially viable infrastructure projects from the budget.

70. Aid resources: Water, health, education and environment/climate change will be prioritized in the utilization of grants and concessional loans.

71. Pending bills: To remove pressure of settling pending bills from the annual budget allocations, a transactions advisor will be engaged to advise on securitization of the outstanding bills subject to verification.

Delivery: Value Chain Approach

72. Competition for resources among sectors often undermines rational allocation of resources, and also wastage due to duplication, fragmentation and lack of coordination. To mitigate this, the Government has adopted a value chain approach in budgeting. Under the process, the budgeting for the priority programmes will be done through a value chain approach under five clusters: i) Finance and Production Economy; ii) Infrastructure; iii) Land and Natural Resource; iv) Social Sectors; and v) Governance and Public Administration. This process ensures there is no break in the cycle in the resource allocations for a value chain. The process also ensures adequate resources are allocated to any entity along the value chain and helps to eliminate duplication of roles and budgeting of resources.

II RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

2.1 Overview

73. In the year 2022, the Kenyan economy continued to expand, albeit at a slower pace than the 7.5 percent recorded in 2021. Real GDP is expected to have grown by 5.5 percent in 2022 supported by the services sector despite subdued performance in agriculture and weaker global growth. The economy is projected to rebound to 6.1 percent in 2023, reinforced by the Government's Bottom – Up Economic Transformation Agenda geared towards economic turnaround and inclusive growth.

74. The coordination between monetary and fiscal policies continued to support macroeconomic stability with interest rates remaining relatively stable. Year-on-year overall inflation rate declined for the third consecutive month in January 2023. Inflation rate eased to 9.0 percent in January 2023 from 9.1 percent in December 2022 and 9.5 percent in November 2022 due to a decline in food prices following the favorable rains and declining international prices of edible oils. However, this inflation rate was higher than the 5.4 percent recorded in January 2022.

75. The external sector has remained stable despite the tight global financial conditions attributed to strengthening of US Dollar and uncertainties regarding the ongoing Russian-Ukraine conflict. Due to the strong dollar, the exchange rate to the Kenya shilling, like all world currencies, has weakened but strengthened against other major international currencies. The current account deficit was generally stable at 5.2 percent of GDP in the 12 months to November 2022 compared to 5.4 percent of GDP in November 2021 on account of improved receipts from service exports and resilient remittances. The official foreign exchange reserves at 4.2 months of import cover in November 2022 continues to provide adequate buffer against short term shocks in the foreign exchange market.

76. The fiscal policy continues to pursue growth friendly fiscal consolidation to preserve debt sustainability. This will be achieved through enhancing revenue collection and curtailing non-core expenditures while prioritizing high impact social and investment expenditure. As such, fiscal deficit is projected to decline from 5.7 percent of GDP in FY 2022/23 to 4.4 percent of GDP in FY 2023/24.

2.2 Recent Economic Developments

Global and Regional Economic Developments

77. The interaction of events in the global and local economic scenes greatly determines the resultant economic indicators and consequently the felt impact by the various players within the economy. Therefore, it is crucial to analyze these recent economic developments in a bid to understand their impact on planning at the County level.

78. The global economy has recently been characterized by uncertainties brought about majorly by geo-political tensions such as the Russian-Ukrainian war, disruptions in global supply chains and rising inflation among others. Globally, the economy is anticipated to grow at a rate of 2.9 percent in 2023 which is lower than the 3.4 percent growth rate that had been estimated in 2022. This slowdown is associated with a decline in the growth rate of advanced economies to 1.2 percent in 2023 compared to an estimated growth rate of 2.7 percent in 2022.

79. The resumption of economic activities in China is expected be one of the leading causes of a slight economic expansion in developing nations in 2023. The Chinese economy is expected to improve to 5.2 percent from 3.0 percent in 2022 leading to an overall improvement in the growth outlook of developing nations from an estimated 3.9 percent in 2022 to 4.0 percent in 2023. The sub-Saharan African region is expected to record a moderate growth rate of 3.8 percent in 2023.

Domestic Economic Developments

80. The highly diversified nature of the Kenyan economy enabled it to remain relatively resilient to the various economic shocks occurring in the global scene as highlighted above. This was further complimented by timely govern ment interventions geared towards supporting business and general economic recovery. The ensuing impact of these factors was an economic expansion by 7.5 percent in 2021 compared to a contraction of 0.3 percent in 2020.

81. The positive momentum recorded in 2021 continued in to the first three quarters of 2022 with an average growth rate of 5.5 percent during this period. A comparative analysis between the first three quarters of 2022, compared to the same period in 2021 indicates that the Kenyan economy grew by 6.7 percent, 5.2 percent, and 4.7 percent in the first, second and third quarter of 2022 respectively, compared to a growth rate of 2.7 percent, 11.0 percent, and 9.3 percent within the same periods in 2021.

82. The higher growth rates recorded in the second and third quarters of 2021 were mainly a reflection of the economy's recovery from the impact of covid-19. On the other hand, growth in 2022 and mostly in the third quarter was supported by strong recoveries in the service sector wholesale and retail trade, professional, administrative and support services, education, and financial and insurance activities. Nevertheless, the relatively lower growth rate in 2022 was as a result of declined Agricultural, Forestry and Fishing, and Mining and Quarrying activities.

83. Agricultural sector activities were negatively affected by unfavourable weather conditions. Consequently, the sector contracted by 0.6 percent in the third quarter of 2022 compared to an expansion by the same percentage points in the same period in 2021. However, improved production of fruits, coffee and cane prevented the sector from experiencing a greater contraction than what was recorded.

84. Occurrences similar to those in the Agricultural sector were recorded in the industrial sector. The sector recorded a growth rate of 3.4 % in the third quarter of 2022 compared the 8.3% growth recorded in 2021. However, the significantly higher growth rate recorded in 2021 was on account of resumption of normal activities following the easing of Covid-19 containment measures. The growth rate recorded in 2022 in the industrial sector was mainly as a result of improvement in the Electricity and Water Supply sub-sector and construction sub-sector which grew by 4.7 percent and 4.3 percent respectively. However, the manufacturing subsector recorded a lower expansion rate of 2.4 percent in the third quarter of 2022 compared to 10.2 percent growth recorded in the same period of 2021.

85. The performance of the service sector continued to record a strong growth in the third quarter of 2022 though not as strong as what was recorded in a similar period in 2021. This was mainly supported by strong performances in the accommodation and food services, wholesale, and retail trade, professional, administrative and support services and education sub-sectors. The sector grew by an estimated 6.1% in 2022 compared to 11.4 in 2021.

Inflation Rate

86. The relative easing of disruptions in the global supply chain and improved food prices had a positive impact on the inflation levels in the County. This was signified by a decline in the inflation rate in January 2023 to 9 percent compared to 9.1 percent and 9.5 percent in December and November 2022 respectively. Despite the declining trend, the inflation rate remained above the targeted upper bound of 7.5 percent. Comparatively, the inflation rate in January 2023, was more than the recorded rate in the same period in January 2022.

87. The rising cost of food items was one of the most significant contributors to the overall year-on-year overall inflation. Food inflation contributed 5.2 percentage points in January 2023 compared to 1.4 percentage points in January 2022. Additionally, fuel inflation also contributed a significant 2.4 percentage points to year-on-year inflation in January 2023, up from a contribution of 1.4 percentage points in January 2022. The high fuel prices were associated with increased oil prices coupled by the scaling down of the fuel subsidy as well as an increase in electric energy tariffs.

88. On the other hand, the contribution of non-food and non-fuel inflation to overall inflation remained relatively low and stable. Despite the fact that inflation has been rising in most world economies, the Kenyan situation is better than that of some countries in the Sub-Saharan African region which are dealing with double-digit inflation levels

Kenya Shilling Exchange Rate

89. Globally, the US Dollar has been appreciating against most major world currencies. As a result of this the exchange rate of the Kenyan Shilling against the dollar weakened from Kshs.113.4 in January 2022 to Kshs. 123.9 in January 2023. The exchange rate of the Kenyan Shilling also depreciated against the Euro but gained against the sterling pound.

90. Comparatively, the rate of depreciation of the Kenyan Shilling against the dollar was less compared to the performance of other Sub-Saharan Africa currencies. This performance by the Kenyan Shilling against other currencies can be attributed to improved exports, remittances, and sufficient foreign exchange reserves.

Interest Rates

91. Interest rates are a crucial monetary tool that the government utilizes to either expand or contract the economy. In the face of rising inflation and growing risks and uncertainties in the global economy, the Central Bank Rate was raised from 8.25 percent to 8.75 percent in November 2022 and retained at the same rate on 30th January 2023. The adjustment was an effort towards cushioning the economy against the global and domestic pressures.

92. The increase in the Central Bank Rate also translated to an increase in the interbank rate from 4.4 percent in January 2022 to 6 percent in January 2023.Within the same period, the 91-day Treasury Bills rates increased by 2.2 percentage points, from 7.3 percent to 9.5 percent.

93. The indicators in the commercial banking market remained relatively stable between November 2021 and November 2022. The average lending rate in November 2022 was at 12.6 percent compared to 12.2 percent in the same period in 2021. Additionally, the average deposit rate increased to 7.1 percent from 6.4 while the net interest rate reduced to 5.5 percent from 5.7 percent over the same period.

Money and Credit

94. The performance of the Broad Monetary Supply, M3 was boosted by an increase in domestic credit particularly net lending to the private sector. Consequently, M3, grew by 7.2 percent in the year to December 2022 compared to a growth of 6.1 percent in the same period in 2021.

95. However, a decline in the Country's Net Foreign Asset curtailed the growth of the M3 indicator. NFAs declined by 51.9 percent in December 2022 compared to a contraction of 21 percent in 2021. This outcome was influenced by reduced foreign reserves at the Central Bank occasioned by debt repayment as well as a rise in the cases of commercial banks borrowing from foreign sources.

96. The reopening of the economy post Covid-19 improved business activities and consequently led to growth of credit in the private sector. This growth supported the improvement of Net Domestic Assets from 12.4 percent in December 2021 to 16.7 percent in December 2022. However, the lending from commercial banks to the Government reduced to 11.6 percent in December 2022 from 28.3 percent in December 2021.

97. There was a further decline in debts associated to other public institutions such as County governments and parastatals as a result of improved repayment. The rise in the demand for credit by the private sector as a result of improvement in economic activities also led to an improvement in private sector lending to 12.5 percent in the 12 months to December 2022 compared to a growth of 8.6 percent in the year to December 2021.

98. The introduction of the Hustler fund by the Government is intended to correct credit demand and supply failures that often lead consumers into the trap of predatory lenders. This fund will enable the bottom of the pyramid credit consumers to access affordable credit and other products such as savings, insurance, and investment.

Balance of payments

99. Regarding the balance of payment, the Country experienced an improvement in the capital account. However, there was a deficit in the merchandise account as a result of increased import of petroleum products due to increased global prices. The overall impact of this was a surplus in the BOP position by 2,245.4 million (2.0 percent of GDP) in November 2022 from a deficit of USD 976.8 million (0.9 percent of GDP) in November 2021

100. The country's current account remained relatively stable at 5.2 percent of the Gross Domestic Product (GDP) in November 2022 compared to the 5.4 percent recorded in November 2021. This performance can be attributed to the improved position of the service and secondary income accounts as well as a depreciation in the net primary income balance and merchandise account.

101. As mentioned before, the deterioration of the merchandise account was a result of increased imports and import prices mainly attributed to rise in demand and prices of oil and associated products which overshadowed the improvement in export earnings. The export earnings position was driven by better prices for tea and manufactured goods. However, there was a decline in earnings from horticultural products.

102. Improvement in the position of the service account was associated with the easing of international travel restrictions leading to an increase in receipts from tourism and international travel. Additionally, increased remittances contributed to an improvement in receipts in the secondary income account. Lastly, net financial inflows in the form of other investments, financial derivatives and direct investments resulted in an improved capital account balance position in November 2022 compared to November 2021.

Foreign Exchange Reserves

103. The banking system's foreign exchange holdings reduced by USD 2,095.3 million between November 2022 and November 2021 to stand at USD 11,407.7 million. Out of this, USD 7,548.8 million was held by the Central Bank, while USD 3,859.2 million was held by commercial banks. The foreign exchange holding by the Central Bank in November 2022, was an equivalent of 4.2 months of imports cover. Although this was a decline from the 5.6 months import cover recorded in November 2021, it was still within the permissible minimum requirement of 4 months.

Banking Sector

104. The banking sector continued to register a stellar performance as at December 2022 with the core and total capital adequacy ratios of 16.2 percent and 19.0 percent respectively. These ratios were above the statutory limit of 10.5 percent and 14.5 percent, respectively. Emerging trends in this sector include consolidation of banks as a strategy to build resilience and capitalize on emerging business opportunities and regulation of digital lenders.

Capital Markets Development

105. The capital market recorded a decline in activities in December 2022. This trend was as a result of recessionary fears and stricter monetary policies in the global economy leading to an outflow of investors. The NSE 20 Share Index recorded a 227 points loss to stand at 1,676 points while the market capitalization reduced from to Kshs 1,986 billion from Kshs 2,593 billion between December 2021 and December 2022.

2.3Fiscal performance

Financial Year 2022/23 Budget

106. In the first half of the FY 2022/23, budget implementation was affected by delay disbursement of funds as well restructuring of the government after the general election. However, the situation is slowly improving after the preparation of the supplementary budget that allocated funds for settlement of pending bills and the already complete ongoing projects that could not be settled within the original budget.

107. The County Treasury prepared a supplementary budget, which was subsequently approved by the County Assembly in the month of November 2022. The supplementary budget focused on expenditure rationalization and prioritization to ensure that pending bills and ongoing works are paid.

108. The County Government will continue to strengthen monitoring of projects and programmes both at the departmental and County level to guarantee value for money and optimal benefit accrue to target population. This will ensure that projects are done to expectation and within the stipulated time.

109. The County Assembly approved the first supplementary budget for the FY 2022/23 in November 2022 to realign it with the County Allocation of Revenue Act, 2022 and allocate the balance accruing from the FY 2021/22 which was mainly conditional grants. The total approved supplementary budget estimates for the financial year is Kshs. 7,608,472,106 comprising of Kshs 5,325,930,474 for recurrent and Kshs 2,282,541,632 for development. These expenditures are financed by the locally collected revenue, the equitable share, conditional grants and transfers from other government entities as shown below;

Table 1: Sources of Revenue for the Supplementary Budget FY 2022/23

	Revenue Source	**Revised Budget as per CARA 2020/21**
Equitable Share	**Equitable Share**	**6,228,728,555**
Conditional Grants	Kenya Informal Settlement Programme	30,000,000
	DANIDA	17,409,938
	Kenya Climate Smart Agriculture Project (KCSAP)- Grants	124,713,230
	Agriculture Sector Development Support Programme (ASDSP)	15,674,770
	IDA (World Bank) Credit- FLLOCA Climate Change Grant Level 1	22,000,000
	IDA (World Bank) Credit- National Agricultural Value Chain Development	70,000,000
	IDA (world bank)-Kenya Urban Support Program	2,339,915
		282,137,853
Local Revenue	Own Source Revenue	**800,000,000**
Balance brought forward	**Balance brought forward**	
	Equitable Share	288,304
	Transforming Health Systems for Universal Health Care (THS -UCP)	45,711,078
	Kenya Climate Smart Agriculture Project (KCSAP)- Grants	58,447,975
	Kenya Development Support Programme (KDSP) Level 1	31,761,633
	Kenya Development Support Programme (KDSP) Level 2	125,955,129
	Roads Levy	22,720,433
	Kenya Urban Support Programme UDG	2,743,024
	Kenya Urban Support Programme UIG	5,807,236
	Covid-19 Grant	4,170,886
Approved Total Revenue	**Approved Total Revenue**	**7,608,472,106**

Source: Department of Finance and Economic Planning, 2022

Revenue Performance

110. By end of December 2022, cumulative revenue receipts amounted to Kshs. 2,740,057,489, comprising of Kshs 2,553,778,711 from the national sources and Kshs 322,248,546 as local revenue. The amount of local revenue collected during the first half of the FY 2022/23 was Kshs 322,248,546 as compared to Kshs 398,309,446 over the same period in the FY 2021/2022 which indicates a decrease of 19.10 percent. The main sources of County own source revenue are market fees, cess, hospital and sanitation levies, parking fees, single business permit, liquor license and land rates.

Table 2: Cumulative Revenue Out-turn, July – December 2022

REVENUE SOURCE	AMOUNT RECEIVED AS AT 31.12.2022
Equitable Share	2,553,778,711
Kenya Informal Settlement Programme	0.00
DANIDA	0.00
IDA (world bank)-Kenya Urban Support Programme	0.00
Kenya Climate Smart Agriculture Project (KCSAP)- Grants	0.00
Agriculture Sector Development Support Programme (ASDSP)	0.00
IDA (World Bank) Credit- FLLOCA Climate Change Grant Level 1	0.00
IDA (World Bank) Credit- National Agricultural Value Chain Development	0.00
Total Exchequer	**2,553,778,711**
Local Revenue	**186,278,778**
Balance brought forward from FY 2021/22	**297,317,394**
TOTAL REVENUE	**3,037,374,883**

Source: Department of Finance and Economic Planning, 2022

Expenditure Performance

111. By the end of the first half of FY 2022/23, recurrent expenditure was Kshs. 2,188,873,638 representing 41.1% of the approved supplementary budget. The department of County Public Service and Solid Waste Management had the highest absorption at 52.82 percent while Office of the County Secretary absorbed the least at 24.0%.

Table 3: Recurrent Expenditure - July To December, 2022

Head/Department	Approved Estimates	Cumulative Expenditure	Percentage Absorption
County Assembly	835,166,124	262,814,602	31.47
Office of the Governor and Deputy Governor	123,863,962	52,483,924	42.37
Office of the County Secretary	312,938,074	75,119,613	24.00
Finance and Economic Planning	755,092,027	231,085,698	30.60
Lands, Physical Planning, Housing and Urbanization	49,952,583	19,154,788	38.35
Health Services	2,250,690,140	1,098,396,642	48.80
Gender, Youth and Social Services	59,964,024	23,155,946	38.62
County Public Service and Solid Waste Management	107,266,756	56,662,619	52.82
Agriculture, Livestock and Fisheries	240,402,843	120,240,609	50.02
Trade, Culture, Tourism and Co-Operative Development	48,825,025	18,827,094	38.56
Education and Sports	296,344,783	125,488,952	42.35
Water, Irrigation, Environment & Climate Change	72,914,777	28,036,090	38.45
County Public service Board	36,828,187	17,998,436	48.87
Transport, Public Works, Infrastructure and Energy	95,946,698	38,661,480	40.29
Office of the County Attorney	39,734,471	20,747,145	52.21
TOTAL	**5,325,930,474**	**2,188,873,638**	**41.10**

112. On the other hand, development expenditure for the first half of FY 2022/23 was Kshs. 453,902,634 representing 19.89 percent of the approved supplementary budget. The department of Transport, Public Works, Infrastructure and Energy had the highest absorption at 36.52 percent while the County Assembly, Office of the Governor and Deputy Governor and County Public Service had not started absorbing their budgets by end of this period. This can be attributed to the delay in rolling out of the projects for the current financial year as well as delay in completion of the ongoing projects accruing from the FY 2021/22.

Table 4: Development Expenditure- July to December 2022

Department/Entity	Printed Estimate	Actual Expenditure	Percentage Absorption
County Assembly	52,500,000	0	0.00
Office of the Governor and Deputy Governor	20,000,000	0	0.00
Office of the County Secretary	45,546,256	2,306,814	5.06
Finance and Economic Planning	250,229,574	4,904,195	1.96
Lands, Physical Planning, Housing and Urbanization	234,778,175	43,541,448	18.55
Health Services	382,098,499	79,862,365	20.90
Gender, Youth and Social Services	55,845,500	19,986,033	35.79
County Public Service and Sanitation Management	62,136,499	16,092,202	25.90
Agriculture, Livestock and Fisheries	355,213,290	41,845,635	11.78
Trade, Culture, Tourism and Co-Operative Development	101,903,199	36,679,076	35.99
Education and Sports	39,600,000	8,330,253	21.04
Water, Irrigation, Environment & Climate Change	181,985,300	20,401,213	11.21
County Public service Board	8,000,000	0	0.00
Transport, Public Works, Infrastructure and Energy	492,705,340	179,953,400	36.52
TOTAL	**2,282,541,632**	**453,902,634**	**19.89**

In future, the County will accelerate the implementation of projects and settlement of the already completed ones to ensure increased absorption of funds and guarantee benefit to the society.

2.4 Fiscal Policy

113. The County Government's fiscal policy stance over the medium term aims at supporting the Bottom - Up Economic Transformation Agenda through growth of a friendly fiscal consolidation plan designed to slow down any growth in County public debt and implement an effective liability management strategy, without compromising service delivery to citizens. This is expected to boost the County's debt sustainability position and ensure that citizens development agenda honours the Fiscal responsibility principles.

114. Budget implementation in the first half of FY 2022/23 progressed well albeit below target performance. Revenues collected decreased during the said period as compared to same period in FY 2021/22 due to heightened political activities towards the general election and subsequent formation of new administration. However, revenues are expected to improve during the remaining part of the financial year following stabilization in the governance structure and laid down strategies for enhancing mobilization of resources.

115. Overall recurrent expenditures were within programme targets largely attributed to payment of personal emoluments. However, development expenditure targets were not fully met partly due to delay in disbursement of funds by the National Treasury.

Revenue Performance

116. By end of the first half of FY 2022/2023, the total local revenue collected was Kshs. 322,248,546 compared to Kshs. 398,309,445 collected during the same period in FY 2021/2022. This represent a 19.10% decrease which is attributed to the heightened political activities towards the general elections during the year.

117. During the same period, the amount received from the exchequer was KShs. 2,553,778,711 which was far much below the targeted amount thereby hampering implementation of projects and programmes earmarked for the period.

Expenditure Performance

118. Over the medium term, the County government will continue to sustain efforts to improve efficiency in public spending and ensure value for money by employing prioritization policy which will support achievement of the transformative development agenda which is anchored on;

- Ensuring efficient and effective service delivery
- Promoting equity and minimizing costs through the elimination of duplication and inefficiencies
- creation of employment opportunities and
- improving the general welfare of the people.

119. This will consequently limit growth in public expenditures to ensure attainment of fiscal consolidation path over the medium term and it will also ensure debt is maintained within sustainable levels.

120. The Government continues to implement initiatives to boost local revenue performance and enhance compliance. These revenue supporting initiatives will over the medium to long term help in revenue recovery and drive revenue performance. The initiatives include:

- Broadening of the revenue base
- Issuance of waivers on penalty and interests on land rates;
- Strengthening the internal audit function;
- Compliance level reviews with a focus on enforcement risk framework to support execution;
- Continuous Capacity building of revenue collection staff.
- Out of court settlement of revenue collection litigations.

2.5 Economic Outlook

121. The Kenyan economy is projected to grow at 5.8 percent in the FY 2022/23 and 6.1 percent in the FY 2023/24. This is expected to be maintained over the medium-term. This growth is attributed to a broad-based private sector growth, including recoveries in agriculture while the public sector joins in. From an expenditure perspective, private consumption is expected to support aggregate demand, supported by the ongoing labour market recovery, improved consumer confidence, and robust remittances.

122. The growth outlook will be reinforced by the Kenya Kwanza government's development agenda geared towards economic recovery and inclusive growth. Special focus will be placed on; increased employment, more equitable distribution of income, social security while at the same time expanding the tax revenue base, and increased foreign exchange earnings. The economic recovery programme will seek to increase investments in at least five sectors envisaged to have the biggest impact on the economy as well as on household welfare, that is, Agriculture; Micro, Small and Medium Enterprise (MSME); Housing and Settlement; Healthcare; and Digital Superhighway and Creative Industry.

123. In prolongation of the agenda on inclusive growth and innovation in Micro, Small, and Medium Enterprises (MSMEs), the Kenya Kwanza government has launched the Hustlers Fund, which aims at correcting the market failure problems at the bottom of the pyramid. This program seeks to lift those at the bottom of the pyramid through structured products in personnel finance that includes savings, credit, insurance and investment.

124. To address the adverse effects of the ongoing drought, the Kenya Kwanza government in collaboration with the Development Partners and the private sector under the patronage of the National Steering Committee on Drought Response has provided response to affected persons, regions and communities. The Committee is working with both the National and County Governments in strengthening the national capacity for resilient recovery to protect development gains from recurrent drought.

2.6 Risk to the Economic Outlook

125. There are down side risks to this macroeconomic outlook emanating from domestic as well as external sources. From the domestic sources, risks emanate from climate change resulting in unfavourable weather conditions. This has really affected agricultural production resulting to domestic inflationary pressures which have depressed the economy to a great extent.

126. From the external sources, uncertainties in the global economic outlook have also increased which have negatively impacted on the domestic economy. These risks include: the possible worsening of the Russia - Ukraine conflict which could heighten the risk of oil and commodity price volatility and raised the inflationary pressures; prolonged effects of COVID-19 (coronavirus) pandemics; and global monetary policy tightening, especially in the United States, which have equally increased volatility in the financial markets.

127. The upside risk to the domestic economy relate to faster than projected recovery in economic activities that have resulted in higher Government taxes providing fiscal space that would support fiscal consolidation. The Kenyan Government continues to monitor the domestic and external environment and will take appropriate policy measures to safeguard the economy against the adverse effects of the risks if they were to materialize.

III. BUDGET FY 2023/2024 AND THE MEDIUM TERM FRAMEWORK

3.1 Fiscal Framework Summary

128. The FY2023/24 fiscal framework and the medium-term budget is founded on the Government's policy priorities and macroeconomic policy framework set out in Chapter I and Chapter II. The County will continue with the fiscal consolidation plan by containing expenditures and enhancing revenues mobilization in order to slow down growth in public debt without compromising service delivery. In this regard, all County departments will be encouraged to adopt efficiency in allocation of resources to reduce non-priority spending. This is expected to enhance the County's debt management position and ensure that the County's development agenda fulfils the principle of equitable distribution of resources.

129. The County will continue upholding fiscal responsibility principles in utilization of resources to guarantee sustainable economic growth and development. The Government policies will enhance smooth implementation of the projects and programs as well as supporting economic activities in the County. The fiscal framework will also ensure resources allocated for development activities are aligned to the County priorities for prime benefit to all County citizens.

3.1.1 Revenue Projections

130. In the FY 2023/24, Own Source Revenue is projected at Kshs 800 Million. This revenue is expected to be enhanced by the Finance Act, 2023 and an expanded enforcement team. The County will continue to leverage on the automated revenue management system to improve revenue performance.

3.1.2 Expenditure Projections

131. The County Integrated Development Plan 2023-2027 and Annual Development Plan 2023/24 will outline priority development programmes and projects that were identified, during the public participation forums and sector hearings, for implementation during the FY 2023/24. The projects and programmes are aimed at providing solutions to the development challenges facing the County in order to achieve its vision of “A wealthy County with happy, healthy and secure people”. These projects and programmes will guide in preparation of the budget estimates for the same period.

3.1.3 Deficit Financing

132. The County expenditures will be restrained to guarantee debt sustainability and intergenerational equity in line with the Constitution of Kenya, 2010, Section 107 of the PFM Act, 2012 and Regulation 25 of the PFM (County Governments) Regulations, 2015. The law sets out the Fiscal Responsibility Principles which the County Governments have to adhere to and enforced through the County Treasury.

133. The Financial Year 2023/24 budget will be a balanced one. Pending bills and possible roll-overs from FY 2022/2023 will be settled by all departments as first charge. This may result from shortfall in the current projected revenue collection and late disbursement of funds by the National Treasury forcing the County Treasury to seek ways of addressing the consequences of the deficit.

134. The County Treasury remains devoted in strengthening the fiscal policy to reduce possibilities of deficit. This will be achieved through strengthening revenue mobilization, widening revenue base, conducting revenue potential study, containing unproductive expenditures and leakages during the medium term period.

3.1.4 Key Priorities for the 2023/2024 Medium Term Budget

135. The CIDP 2023-2027 and the Annual Development Plan 2023/24 outlines the aspirations of Nyeri people. In order to realize these aspirations, the achievements of the last five years will be used as building blocks as the County Government transits to the next five-year planning period. In this regard, through the Medium-Term Framework of 2023/24 – 2025/26, the County Government will implement priority programmes under the Annual Development Plan 2023/24 to accelerate economic recovery and enhance service delivery.

136. The above will be achieved through strong linkages between policy, budgeting, implementation and monitoring of planned outcomes. This will help County Government to ensure that public spending remains affordable within a sustainable framework. In this regard, public spending will be directed towards the most critical needs of the County with the aim of bringing down the cost of living; eradicating hunger; creating jobs; and provide the greater majority of our citizens with much needed social security. Further, the County Government will ensure departments requests for resources take into account the resource constraints in light of the fiscal consolidation policy. Additionally, public spending will be directed towards the most critical needs of the County with the aim of achieving quality outputs and outcomes with optimum utilization of resources.

3.1.5 Allocation Baseline Ceilings

137. The baseline estimates mirror the current departmental and entities spending levels in their The current departmental and entities spending levels in their programmes will form the baseline ceilings for the budget allocations. In the recurrent expenditures, non-discretionary expenditures take first charge. These include payment of salaries/wages and gratuity for employees, medical and motor vehicle insurance covers, water and electricity bills among others.

138. Development expenditures have been allocated out on the basis of the flagship projects in the CIDP 2023-2027, ADP 2023-2024 and public views collected during public participation on CFSP. The following factors were considered in apportioning development budget;

- ***On-going projects:*** emphasis should be given to completion of on-going capital projects and in particular infrastructure projects with high impact on poverty reduction, equity and employment creation.
- ***Donor funds:*** priority will be given to adequate allocations for donor funds (Conditional grants) and counter funding by the County Government.
- ***Strategic policy interventions****:* on this, priority should be given to policy interventions covering the entire County on matters of social equity and environmental conservation.

3.1.6 Criteria for resource allocation.

139. In completion of the Medium-Term Frame work Budget FYs 2023/2024 – 2025/2026, there will be in-depth analysis to inhibit spending on non-productive areas and ensure resources are directed to priority projects and programmes. Any additional resources will be used to fund key County strategic priorities which includes;

- Projects and Programmes identified during the public participation forums for the FY 2023/2024 budget and subsequent ones over the medium term.
- Linkage of projects and programmes with the priorities that address Governor's Transformation Agenda;
- Linkage of the project or programme with the priorities of Medium-Term Plan IV of the Kenya Vision 2030;
- Degree to which a project or programme addresses job creation and poverty reduction;
- Degree to which a project or programme addresses the core mandate of the department;
- Cost effectiveness and sustainability of the project or programme;
- Areas aimed at improving food security, improving infrastructure and other social economic enablers of development as outlined in the CIDP 2023-2027.
- Requirements for furtherance and implementation of the Constitution.

IV. DEPARTMENTAL ALLOCATION OF RESOURCES

4.0 Introduction

140. Choice of projects and programmes to be implemented in a specific financial year should be done through public participation and sector hearings as stipulated in the Constitution of Kenya 2010 and the PFM Act 2012. The preparation of this County Fiscal Strategy Paper, 2023 takes into account the above requirements. The public participation forums provide a platform for project prioritization considering the scarcity of resources against the many competing needs.

141. The County Integrated Development Plan (2023-2027) and the Annual Development Plan FY 2023/24 outlines the County Government's transformative agenda and are the basis for preparation of this document. It is therefore important to note that there is need for continuous capacity building of the technical personnel to equip them with necessary skills to implement and efficiently operate with the e-procurement, Integrated Financial Management Information System & Internet Banking system updates, budget making process, resource allocation, monitoring and evaluation for optimal service delivery.

4.1 Departmental Budgeting

142. County Governments are required to allocate a minimum of 30 percent of their budget over medium-term to development expenditure as provided for under Section 107 (2) (b) of the PFMA, 2012. It's in this line that the FY 2022/23 budget for the County will be prepared. The County Treasury will issue guidelines to the County departments and spending units on the preparation of FY 2023/24 budget with specific ceilings as adopted by the County Assembly through this paper. The departments are expected to prepare their budgets within the approved ceilings. Each department is expected to plan, formulate, execute and report on their budgets.

4.2 Resources available

143. Based on the National Government transfers as provided for in the Budget Policy Statement, 2023, the County government is commitment to spend within its means as well as adhere to the austerity measures set up by the National Treasury. In the FY 2023/2024, the County Treasury projects a total budget of Kshs 7,790,581,737. This amount includes the equitable share of revenue raised nationally and loans & grants from the National Government entities and donors.

4.3 External Sources

144. This will comprise of equitable share, Transfer of Library services and conditional grants (FLLoCA, ASDSP, DANIDA, National Agricultural Value Chain Development, Aggregated Industrial Parks Programme and KISIP II). It will also include transfers from National Government Ministries and Agencies channeled through the County Revenue Fund (CRF).

145. In financial year 2023/24, the Budget Policy Statement, 2023 proposes that the County will receive Kshs 6,502,850,265 as equitable share which is inclusive of Kshs 24,582,673 for transfer of Library services to the County. In addition, as envisaged in Article 202(2) of the Constitution, the County Government expects to receive loans & grants amounting to Kshs 487,731,472 from the national government entities and donors.

4.4 Internal Sources

146. These are the own source of revenues from specific County revenue raising measures through imposition of land rates, parking fees, entertainment taxes, as well as any other tax and user fees and charges as authorized to impose. These fees and charges are included in the revenue administration Act, 2014 and subsequent Finance Bills prepared each and every year. In the FY 2023/24 budget the local revenue is projected at Kshs 800 Million, the same amount estimated in the FY 2022/2023.

4.5 Allocation of Revenue among Departments

147. Departmental allocation for recurrent and development spending during FY 2022/23 is provided in table 5 below;

Table 5: Approved Supplementary Budget Allocations by County Departments and Units, July 2022 – June 2023

DEPARTMENT	RECURRENT	% OF TOTAL	DEVELOPMENT	% OF TOTAL	TOTAL	% OF TOTAL
Executive Office of the County Governor	123,863,962	2.33	20,000,000	0.88	143,863,962	1.89
Office of the County Secretary	312,938,074	5.88	45,546,256	2.00	358,484,330	4.71
Finance and Economic Planning	755,092,027	14.18	250,229,574	10.96	1,005,321,601	13.21
Lands, Housing, Physical Planning and Urbanization	49,952,583	0.94	234,778,175	10.29	284,730,758	3.74
Health Services	2,250,690,140	42.26	382,098,499	16.74	2,632,788,639	34.60
Gender Youth and Social Services	59,964,024	1.13	55,845,500	2.45	115,809,524	1.52
County Public Service and Solid Waste Management	107,266,756	2.01	62,136,499	2.72	169,403,255	2.23
Agriculture, Livestock and Fisheries	240,402,843	4.51	355,213,290	15.56	595,616,133	7.83
Trade, Culture, Tourism and Co-operative Development	48,825,025	0.92	101,903,199	4.46	150,728,224	1.98
Education and Sports	296,344,783	5.56	39,600,000	1.73	335,944,783	4.42
Water, Environment and Climate Change	72,914,777	1.37	181,985,300	7.97	254,900,077	3.35
County Assembly	835,166,124	15.68	52,500,000	2.30	887,666,124	11.67
County Public Service Board	36,828,187	0.69	8,000,000	0.35	44,828,187	0.59
Transport, Public Works, Infrastructure and Energy	95,946,698	1.80	492,705,340	21.59	588,652,038	7.74
Office of the County Attorney	39,734,471	0.75	0	0.00	39,734,471	0.52
TOTAL	**5,325,930,474**	**100.00**	**2,282,541,632**	**100.00**	**7,608,472,106**	**100.00**

Source: Department of Finance and Economic Planning, 2023

4.6 Fiscal Discipline

148. According to Section 94 (1) (a) of the PFM Act, 2012, failure to make any payments as and when due by a State organ or a public entity may be an indicator of a serious material breach or a persistent material breach of measures established under the Act. In this context, any pending commitment by the end the financial year will be treated as first charge in the subsequent budget.

149. County Governments are required under Regulation 25(1) (b) of the PFM (County Governments) Regulations, 2015 to ensure that expenditure on wages and benefits does not exceed 35 percent of their total revenue. Our County is working towards fulfilling this requirement by putting in place the necessary measures e.g. Voluntary Early Retirement.

150. Section 107 (2) (b) of the PFMA, 2012 provides that County Governments should allocate a minimum of 30 percent of their budget over the medium-term to development expenditure. Our County complied with this legal requirement and allocated at least 30 percent of their approved budget to development in FY 2022/2023 and will continue doing so in future budgets.

151. The County Government continue putting efforts in expanding the revenue base and opening up more revenue streams. This, combined with other strategies, will reduce over-reliance on external sources of revenues from the National Government and development partners thereby releasing more resources to capital projects and programmes.

152. According to a report by the Auditor General, most of the County Governments owe money to the various pension funds (LAPTRUST, LAPFUND and County Pension Fund) which have accumulated over the years. Therefore, there is need for the County Governments to take stock of all the pension liabilities and ensure proper recording. Our County has prioritized the settling of these liabilities to ensure County staff do not retire without a pension or gratuity.

4.7 Equity in Allocation of Resources

153. The CFSP 2023 seeks to continue addressing the specific challenges brought about by compression of the economy, ADP 2023/2024 and the realities of the FY 2022/2023 actual revenue collections and expenditures. It therefore focuses on the critical infrastructural development and human capital as a means of promoting long-term economic growth and scale up investments in the County's priority areas. Critical consideration continues to be given to underdeveloped areas in resource allocation to ensure equity.

V. 2023/24 EXPENDITURE FRAMEWORK

5.0 Resource Envelope

154. The resource envelope that is applied for the setting of departmental ceilings and allocations is based on the fiscal and budget framework outlined in Section IV and was based on the proposed County allocations as indicated in the Budget Policy Statement, 2023 for national sources. In this resource envelope, the equitable share from national government is expected to finance nearly 81 percent of the total County budget for FY 2023/2024, 9 percent will be financed through conditional grants from development partners while 10% will be financed from local revenue collections.

155. The percentage of income received from the National Government as equitable share is determined through the Revenue Sharing formulae by the Commission on Revenue Allocation

(CRA). However, it is important to note the ratio of equitable share relative to the OSR for FY 2023/24 remains high. In this regard, it is imperative for the County Government to be more committed in developing strategies to improve the performance of local revenue over the medium term. This will reduce over-reliance on exchequer releases from the National Government which will translate to operational efficiency and timely payments of debts.

156. The difference between the budgetary estimates and the equitable share will be funded through the County own generated revenue, loans and grants. The County will also strengthen its resolve to increase its local revenue collection as an approach to meet the expanding and strained budgetary needs. Further, the County will continue engaging and partnering with the private sector and development partners to fund some of the development activities during the financial year FY 2023/24.

157. The County Government envisions a balanced budget that will be fully funded by the resource envelop in order of priority as outlined in this document. The resource basket will therefore be sourced from the revenue collected from local sources, equitable share, loans and grants.

5.1 Spending Priorities

158. The County has developed the Draft Annual Development Plan for the FY 2023-2024 and is in the process of developing the third-generation County Integrated Development Plan for the period 2023-2027. The preparation of these documents, as well as identification and prioritizing of strategic development programmes for inclusion in these plans has been all-inclusive and consultative. The identification of the programmes is also guided by the Medium-Term Plan (MTP IV) of the Kenya Vision 2030, the Bottom-Up Economic Transformation Agenda and the Governor's Manifesto among other national and international development blueprints and agreements. The following criteria will be used in appropriating for capital projects:

- **Ongoing projects:** Emphasis was given to completion of ongoing capital projects and in particular infrastructure projects with high impact on poverty reduction, equity, and employment creation.
- **Roll over projects:** These are projects earmarked to be undertaken in the financial year 2022/23 but they didn't start due to various challenges faced during financial year.
- **Counterpart funds***:* priority was also given to adequate allocations for donor counterpart funds which is the portion that the Government must finance in support of the projects financed by development partners;
- **County flagships:** These are projects that are considered to have a huge impact or a multiplier effect cutting across multiple wards and departments and that require a significant proportion of the County appropriation.
- **County newly proposed projects:** Proposals from the public participation and the departments were also considered in the determining of the departmental allocations.
- **Strategic policy thrusts and interventions:** Further priority was given to policy intervention covering the entire County for social equity and environmental conservation.

159. The above projects and policy interventions as contained in the planning documents have high impact on poverty reduction, investment, equity, employment and wealth creation. In addition, the Constitution and the PFM Act, 2012 requires the national and County governments to promote budgetary transparency, accountability and effective financial management of their respective jurisdictions. Therefore, inefficient and wasteful public expenditure will continue being eliminated at all costs in order to promote trust in public spending.

160. In finalizing the preparation of the 2023/24 MTEF budget, the County Government will continue to undertake austerity measures aimed at minimizing expenditure on the non-productive areas and programmes and ensuring that resources are allocated optimally to priority programmes that have immense impact accruing to the intended beneficiaries.

5.2 2022/23 Expenditure Estimates

161. The approved supplementary budget for the FY 2022/23 amounts to Kshs. 7,608,472,106 comprising of Kshs. 5,325,930,474 for recurrent and Kshs. 2,282,541,632 for development. This budget will be financed through local revenue collections, equitable share from the National Government and conditional grants.

162. In the first half of FY 2022/23 The County's own revenue was Kshs. 186,278,778 which is less than the previous collection of Kshs 217,392,684 over the same period. These amounts exclude collections made through the Health Service Fund since they are not appropriated for through the County budget. Evidently, there was a general decline in collections in the first half of FY 2022/23 compared to the same period in FY 2021/22. This trend could be due to the heightened political activities and the transition period that characterized a significant part of this first half of FY 2022/23. Moving forward, it is therefore imperative to enhance revenue mobilization efforts to ensure that this gap is bridged, and the revenue targets are met. In addition to local revenue collections, the County received Kshs. 2,553,778,711 received from National Treasury as equitable share and conditional grants over the same period.

163. The Implementation of the FY 2022/23 Budget begun at a slow pace due to the General elections, and subsequent formation of the new administration. Further, there was a significant number of roll over projects that accrued from the FY 2021/22 and as well as pending bills resulting from failure of release of June disbursement by the National Government

164. Expenditure burdens with respect to personal emoluments continue to increase and are way above the ceiling prescribed in the PFM (County government) regulations), 2015 thereby limiting the amount for development, operations, and maintenance. In addition, implementation pace in the spending units and County departments continues to be of concern especially with regard to the development expenditures and absorption of funds. These risks will be monitored closely, and the County Treasury will take the appropriate measures through revised budgets.

165. Implementation of the FY 2022/23 will continue to emphasize on efficiency and effectiveness of public spending as well as improving revenue collection to stimulate and sustain economic activities, boost the economy and re-position the economy on a steady and sustainable growth path.

5.3 Medium-Term Expenditure Estimates

166. The table below shows the projected baseline ceilings for the FY 2023/24 budget estimates classified by County departments and spending units.

Table 6: Approved Budgetary Allocations for Financial Year 2023-2024

	PERSONAL EMOLUMENT	O&M	CONDITIONAL/ COUNTY WIDE	TOTAL RECURRENT	CONDITIONAL GRANT	COUNTY WIDE PROJECTS	WARD SPECIFIC PROJECTS	TOTAL DEV	TOTAL BUDGET
Executive Office of the Governor and Deputy Governor	83,742,790	65,782,527		149,525,317		64,000,000	7,500,000	71,500,000	221,025,317
Office of the County Secretary	82,866,320	42,827,848		125,694,168		23,750,000		23,750,000	149,444,168
Finance, Economic Planning and ICT	432,553,961	52,754,567	280,000,000	765,308,528		70,000,000		70,000,000	835,308,528
Lands, Housing, Physical Planning, Urbanization and Energy	35,329,369	23,988,174		59,317,543	102,139,147	186,319,603	110,700,000	399,158,750	458,476,293
Health Services	2,345,222,755	42,515,085	11,405,700	2,399,143,540		448,406,849	28,000,000	476,406,849	2,875,550,389
Gender, Youth, Social Services and Sports	63,354,636	11,180,588	14,000,000	88,535,224		49,750,000	37,750,000	87,500,000	176,035,224
County Public Service and Public Administration	96,119,039	18,350,477	180,000,000	294,469,516		15,500,000		15,500,000	309,969,516
Agriculture, Livestock and Fisheries	223,388,333	18,152,363		241,540,696	138,186,625	141,769,465	15,000,000	294,956,090	536,496,786
Trade, Culture and Tourism	41,169,560	11,494,585		52,664,145	150,000,000	90,950,000	6,250,000	247,200,000	299,864,145
Education	239,593,813	11,026,210	100,000,000	350,620,023		35,000,000	35,300,000	70,300,000	420,920,023
Water, Environment and Solid waste Management	69,240,677	13,224,324		82,465,001	136,000,000	167,500,000	38,000,000	341,500,000	423,965,001

County Assembly	227,109,345	465,584,416		692,693,761		70,000,000		70,000,000	762,693,761
County Public Service Board	28,876,480	12,951,707		41,828,187		6,000,000		6,000,000	47,828,187
Transport, Public Works and Infrastructure	67,155,407	9,969,200	5,000,000	82,124,607		36,902,832	126,500,000	163,402,832	245,527,439
Office of the County Attorney	6,238,480	21,238,480		27,476,960		-	-		27,476,960
TOTAL	**4,041,960,965**	**821,040,551**	**590,405,700**	**5,453,407,216**	**526,325,772**	**1,405,848,749**	**405,000,000**	**2,337,174,521**	**7,790,581,737**

Source: County Assembly of Nyeri, 2023

5.4 Baseline ceilings

5.4.1 Recurrent expenditure projections

167. The total recurrent budget for FY 2023/2024 will be Kshs 5.453 billion as compared to Kshs. 5.326 Billion in FY 2022/23 revised Budget estimates. The recurrent estimates account for approximately 70% of the total County budget which consist of all non-discretionary expenditures such as payment of statutory obligations namely; wages, salaries, pension, payee, and utilities, taking first charge.

168. The County wage bill is at 51.88 percent of the total budget thereby leaving very little amount for other operations and maintenance especially after considering the utility bills. The allocation for operations and maintenance is also further compounded by the 30 percent requirement for development and the allocations for conditional grants.

5.4.2 Development expenditure projections

169. On the other hand, 30% percent of the total budget estimate, amounting to Kshs. 2.337 billion, is reserved for funding planned development projects and programmes in line with the PFM Act, 2012. The development expenditure is shared out on the basis of the County priorities, consideration of ongoing projects and programmes, the draft ADP 2023/2024, the views of the public and other stakeholders as articulated during the public participation and sector hearing forums for the CIDP 2023-2027 and the County flagship projects.

VI. CONCLUSION

170. In conclusion, the County Treasury will continue working closely with the National Treasury, the Office of the Controller of Budget and other relevant agencies to enhance performance of its functions. Further, the County Government will continue to build the capacity of its personnel to ensure that it adheres to the fiscal responsibility principles to guarantee value for money and prudence in management of public resources.

171. The ceilings set in this strategy paper will guide in the formulation of the FY 2023/2024 County budget. In addition, this document is prepared at a time when the County is in the process of preparing the development blueprints that will set out its agenda both in the short term and in the long-term. While these plans are in the draft phase, the views of the public and all relevant stakeholders have sufficiently been considered through public participation, sector hearings and information technology-based channels. The collected views are the basis for planning, prioritization, and resource allocation. Despite the fact that there are numerous competing needs, the County continues to grapple with constrained resources. Therefore, it is necessary for all County entities and spending units to allocate the available resources in order of priority to exterminate possible wastage so as to achieve maximum social and economic benefits to the citizens of Nyeri.

ANNEX I: OWN REVENUE SOURCES COLLECTED IN THE FIRST HALF OF THE FY 2022/2023

Revenue Stream/Source	Approved Target FY 2022/2023 (Kshs)	Achievement by end of 2nd Quarter 2022/2023(Kshs)	Percentage Performance 2022/2023
Liquor License	60,000,000	9,683,123	16.14
Agricultural Mechanization Station	1,607,143	18,000	1.12
Wambugu Agricultural Training Centre	7,500,000	549,847	7.33
Veterinary Charges	5,357,143	2,711,790	50.62
Slaughtering Fees	2,635,097	1,059,110	40.19
Nyeri Slaughter House	500,000	-	-
Kiganjo Slaughter House	120,000	-	-
Sale of Fertilizer/lime	762,857	-	-
Gura Fishing Camp/fisheries revenue	30,000	-	-
Coffee Permit	375,000	164,100	43.76
Market Entrance/Stalls/Shop Rents	46,314,286	16,257,420	35.10
Weights and Measures	4,000,000	996,320	24.91
Co-operative Audit	2,059,974	195,840	9.51
Hospital Services*	-	-	-
Public Health	14,328,008	2,520,550	17.59
Burial Fees	193,500	70,600	36.49
Commision 3%/Agency Fee (Fees from KHC, Insurance Firms, e.t.c.)	6,964,286	2,437,809	35.00
Business Permits	133,301,786	12,191,292	9.15
Ambulant Hawkers Licences (Other than BSS Permits)	1,071,429	249,280	23.27
Miscellaneous	2,000,000	1,005,550	50.28
Document Search Fee/Dublicate receipts	85,714	21,000	24.50
Impounding Charges/Court Fines, penalties, and forfeitures	3,341,346	555,560	16.63
Application Fee	6,428,571	933,140	14.52
Parking clamping/ Penalties/Offences fees	3,214,286	267,190	8.31
Sale of Old Office Equipment and Furniture (Aseets)	-	1,008,005	-
Central Kenya show annual permit	200,000	130,500	65.25
Right-of-Way / Way-Leave Fee (KPLC, Telkom, e.t.c.)	4,285,714	559,290	13.05
Cess (Quarry, Produce, Kaolin, e.t.c.)	85,000,000	22,362,037	26.31
Street Parking Fees	65,000,000	10,930,803	16.82
Enclosed Bus Park	85,208,200	38,033,161	44.64
Fire-Fighting Services	18,137,141	1,519,400	8.38
Land Rates/ Other Property Charges	66,667,328	9,224,127	13.84
Ground Rent - Current Year / Temporary Occupation License (TOL), New Occupation, Space Rent, Retainers fees	4,285,714	1,003,276	23.41
Ground Rent - Other Years	3,214,286	592,341	18.43
Hire of Plant & Machinery	-	-	-
Plot Transfer Fee/Business Subletting / Transfer Fee	642,857	515,500	80.19
Housing Estates Monthly Rent	30,000,000	14,384,873	47.95
Approvals (Extension of users, Pegging for Kiosk, Subdivision, transfer, Amalgamation,	6,806,292	9,030,229	132.67

Revenue Stream/Source	Approved Target FY 2022/2023 (Kshs)	Achievement by end of 2nd Quarter 2022/2023(Kshs)	Percentage Performance 2022/2023
survey, Occupation Cert, boundary dispute e.t.c.)			
Sign Boards & Advertisement Fee	39,838,926	4,364,640	10.96
Buildings Plan Approval Fee	32,956,084	13,297,573	40.35
Buildings Inspection Fee	2,460,000	648,700	26.37
Consent to Charge Fee/Property Certification Fee (Use as Collateral)	598,393	212,000	35.43
Sales of Council's Minutes / Bylaws	2,037,857	630,000	30.91
Debts Clearance Certificate Fee	1,607,143	885,752	55.11
Hire of Grounds (Kamukunji,Whispers park) / Social Hall Hire	214,286	88,600	41.35
Food Ration (KRT) Nursery School	326,786	122,950	37.62
Food Ration (Kingongo) Nursery School	396,429	204,250	51.52
Food Ration (Nyakinyua) Nursery School	-	-	-
Stadium Hire(Ruringu,Karatina etc)	53,571	37,500	70.00
Public Toilets/Use of public toilets	160,714	111,895	69.62
Refuse Collection Fee/Tipping charges/Garbage Dumping Fee/waste disposal charges	47,604,712	4,457,355	9.36
Noise Regulation/Pollution	-	-	-
TOTAL LOCAL SOURCES	**800,000,000**	**186,278,778**	**23.28**

Source: Directorate of Revenue, 2023

ANNEX II: SOURCES OF BUDGET FUNDING IN FY 2023/2024

No	Classification	Description	Total in KShs.
1	**Equitable Share**		**6,478,267,593**
2	**Transfer of Library Services**		**24,582,672**
3	Loans and Grants	Kenya Informal Sector Programme (KISP II)	102,139,147
		DANIDA	11,405,700
		IDA (World Bank) Credit- National Agricultural Value Chain Development Programme (NAVCDP)	122,511,855
		Aggregated Industrial Parks Programme	100,000,000
		Sweden- Agricultural Sector Development Support Programme (ASDSP) II	15,674,770
		IDA (World Bank) Credit (Financing Locally- Led Climate Action (FLLoCA) Program -County Climate Institutional Support (CCIS) Grants	11,000,000
		IDA (World Bank) Credit- FLLOCA Climate Change Grant Level 2	125,000,000
		Total	**487,731,472**
4	Estimated Local Revenue	OSR	800,000,000
	Estimated total amount for budgeting		**7,790,581,737**

ANNEX III: HIGHLIGHTS OF THE PUBLIC PARTICIPATION ON PREPARATION OF THE CFSP, 2023 AND THE MTEF BUDGET 2023/2024-2025/2026

GENERAL CONCERNS AND OBSERVATIONS

1. There is therefore need to consider roads connecting two or more wards and sub-counties which are likely to be left out by the ward specific projects.
2. Ongoing and incomplete projects should be given first priority in budgeting to avoid the possibility of stalled projects.
3. There is need to allocate funds for mental health issues as well as creating awareness to the affected persons.
4. There is need to shift to solar street lighting so as to reduce the electricity bills.

PRIORITY PROJECTS AND SPECIFIC REQUESTS

1. Agriculture, Livestock and Fisheries

- **Subsidized farm inputs**: Provision of lime, quality seeds, fertilizers; Active agricultural extension officers
- **Milk Collection Center:** There is need to operationalize the already established milk collection centers to ensure service delivery and stir economy in our community.
- **Cattle Dip:** There is also need to repair and upgrade cattle dips to enhance pest control and vaccination of livestock in the County and increase production.
- **A.I. Services:** Though the Nyeri County government has been providing A.I. services to Dairy farmers, the service needs to be upscale to reach out to those areas which are yet to benefit.

2. Water, Environment and Solid Waste Management

- **Water Projects:** The various water projects across the County need to be operationalized so as to get value for the invested money and as well benefit the community.
- There is need for construction of water pans and dams for water reservation.
- Drilling and equipping of boreholes across the County.
- It's also prudent to maintain the water tanks at various water project and establish functional sewerage system in all towns to ensure clean and secure environment.
- Demarcation and fencing of water towers.
- **Tree Planting:** To ensure environmental conservation and improvement in the County, there is need to be provided with seeds and tree seedlings for planting preferably through the organized groups.
- There is need to improve on garbage collection services which has been a challenge to most of the towns and estates.

3. **Health Services**
    - There is a request for equipping and functioning of Maternity wing, construction of waiting bay, provision of drugs and as well operationalization of the health facilities to operate 24 hours to cater for cases that might be required round the clock.
    - There is need to change the Asbestos roofing to iron sheets in our facilities to ensure better use of the collected water and reduce the health hazards associated with the asbestos.
    - Water infrastructure in the health facilities should be improved so as to improve sanitation and hygiene.
    - Establishment of Level IV hospital in Kieni West sub County remain a big goal that need to accomplished.

4. **Transport, Public Works and Infrastructure**
    - Grading and gravelling of roads should be enhanced.
    - **Culvert:** Installation of culvert and foot bridges is crucial for all County roads for better drainage of the roads and enhance accessibility.

5. **Education**
    - Construction and renovation of E.C.D.E. Toilets
    - Continued support for the Vocational center (Technical Institute) across the County.
    - Equipment of E.C.D.E Centers and VTCs across the County.

6. **Gender, Youth, Social Services and Sports**
    - **Social Amenities**: To stir growth and development, we request consideration of youth empowerment centers.
    - Levelling, fencing and construction of ablution block at all County stadiums and playgrounds.

7. **Trade, Culture and Tourism**
    - More markets need to be constructed, provide sanitation services within the markets and continue maintaining the already existing ones.

8. **Lands, Housing, Physical Planning, Urbanization and Energy**
    - Planning, surveying of all colonial villages and issuance of title deeds
    - Installation of streetlights to enhance security across the County.