

**REPUBLIC OF KENYA**



**COUNTY GOVERNMENT OF  
KILIFI**

**THE TREASURY**

**2022 COUNTY BUDGET  
REVIEW AND OUTLOOK PAPER**

**SEPTEMBER, 2022**

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This 2022 Kilifi County Budget Review and Outlook Paper has been compiled using latest information, some of which is unaudited or subject to revision.

To obtain copies of the document, please contact: The County Treasury

P. O. Box 519 KILIFI, KENYA

The document is also available on the website at: [www.kilifi.go.ke](http://www.kilifi.go.ke)

## **FOREWORD**

Preparation of the 2022 Kilifi County Budget Review Outlook Paper (CBROP) takes place at a time of global economic recession due to the Ukraine-Russia war as well as the slowed down post COVID 19 pandemic recovery that have led to disrupted supply chains, global hyperinflation that has resulted in increased fuel and oil prices; resulting into decreased financial space at the household, macro and global levels. The global economic growth rate projection has slowed down to 3.2% from 6.1% in 2021. In light of this, Kenya's economy is projected to grow by 5.5% in 2022, attributable to resilient post pandemic recovery strategies as well as various economic stimulus programmes rolled out.

In Kilifi County, the fiscal performance in the FY2021/22 was satisfactory, with the county's average budget absorption of 85%. The cumulative expenditures for the County stood at Ksh. 13,545,901,082, against a total budget of Ksh. 15,952,827,550. The revenue performance was average with a cumulative own source revenue collection of Ksh. 843,787,223 against a target of Ksh. 1,118,754,087.

As FY2022/23 is a transition year, the first quarter of the financial year has passed by with limited budget and financial activities due to the general election as well as a change in government at the County. However, the County is hopeful to start on a positive trajectory once the new government settles in and the transition finalized.

For the FY2022/23 and the medium term, emphasis remains on an aggressive own source revenue collection, financial prudence and prioritization as well as a structured clearance of pending bills. Expenditures over this said period will be channeled to improve public service delivery as well as improving productivity and transforming livelihoods.

**HON. MAUREEN MWANGOVYA**  
**COUNTY EXECUTIVE COMMITTEE MEMBER FINANCE AND ECONOMIC**  
**PLANNING**

## **LEGAL BASIS FOR THE PUBLICATION OF THE COUNTY BUDGET REVIEW AND OUTLOOK PAPER**

The Kilifi County Budget Review and Outlook Paper is prepared in accordance with Section 118 of the Public Finance Management (PFM) Act, 2012 which states that:

- 1) A County Treasury shall;
  - a) Prepare a County Budget Review and Outlook Paper (CBROP) in respect of the county for each financial year; and
  - b) Submit the paper to the County Executive Committee by 30th September of that year.
- 2) In preparing the County Budget Review and Outlook Paper, the County Treasury shall specify:
  - a) The details of actual fiscal performance in the previous financial year compared to the budget appropriation for that year;
  - b) The updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP);
  - c) Information on-
    - i. any changes in the forecasts compared with the CFSP or;
    - ii. how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles or the financial objectives in the CFSP for that year; and
  - d) Reasons for any deviation from the financial objectives in the CFSP together with proposals to address the deviation and the time estimated for doing so.
3. The County Executive Committee shall consider the CBROP with a view to approving it, with or without amendments, within fourteen days after its submission.
4. Not later than seven days after the CBROP is approved by County Executive

Committee, the County Treasury shall:

- (a) Arrange for the CBROP to be laid before the County Assembly; and
- (b) As soon as practicable after having done so, publish and publicize the paper.

## **FISCAL RESPONSIBILITY PRINCIPLES**

The fiscal responsibility principles are set out in Section 107(2) of the Public Finance Management(PFM) Act, 2012, and Regulation 25 of PFM (County Government) Regulations, 2015 to ensure prudence and transparency in the management of county public resources. Thus, Section 107(2) of the PFM Act 2012 provides that:

- (a) The county government's recurrent expenditure shall not exceed the county government's total revenue;
- (b) Over the medium term a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure;
- (c) The county government's expenditures on wages and benefits shall not exceed a percentage of the county government's total revenue as prescribed by the County Executive Member for finance in regulations and approved by the County Assembly
- (d) Over the medium term, the county government's borrowings shall be used only for the purpose for financing development expenditure and not for recurrent expenditure;
- (e) The county debt shall be maintained at a sustainable level as approved by the County Assembly.
- (f) The fiscal risks shall be managed prudently; and
- (g) A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future.

Further, Regulation 25 of the PFM (County Government) Regulations of 2015 specifically provides that:

- a) the County Executive Committee Member with the approval of the County Assembly shall set a limit on the county government's expenditure on wages and benefits for its public officers pursuant to section 107(2) of the Act;
- b) the limit set under paragraph (a) above, shall not exceed thirty-five

- (35) percent of the county government's total revenue;
- c) for the avoidance of doubt, the revenue referred to in paragraph (b) shall not include revenues that accrue from extractive natural resources including as oil and coal;
  - d) the county public debt shall never exceed twenty (20%) percent of the county governments total revenue at any one time;
  - e) the county annual fiscal primary balance shall be consistent with the debt target in paragraph (d);
  - f) the approved expenditures of a county assembly shall not exceed seven per cent of the total revenues of the county government or twice the personnel emoluments of that county assembly, whichever is lower;
  - g) pursuant to section 107(5) of the Act, the county government actual expenditure on development shall be at least thirty percent in conformity with the requirement under section 107(2)(a) of the Act;
  - h) if the county government does not achieve the requirement of regulation 25(1)(f) above at the end of the financial year, the county executive committee member for finance shall submit a responsibility statement to county assembly explaining the reasons for the deviation and provide a plan on how to ensure annual actual expenditure outturns as well as medium term allocation comply with the provisions of Section 107 (2) (a) of the Act and these regulations in the subsequent years; and
  - i) the compliance plan above shall be binding and the county executive committee member for finance shall ensure implementation



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## **CHAPTER ONE: INTRODUCTION**

### **1.0. INTRODUCTION**

The CBROP 2022 endeavors to examine the attainment of the economic priorities and strategic intervention areas set out in CFSP 2022. The paper also checks on the attainment of the fiscal responsibility principles as per Section 107 of the PFM Act, 2012. In addition, the updated macroeconomic and financial outlook provides a basis for any budget revision and sets out broad fiscal parameters for the next budget. Further, the paper is expected to provide indicative sector expenditure projections for the FY 2023/2024 budget and in the medium term to guide Sector Working Groups (SWGs). These will be firmed up in the CFSP 2023.

### **1.1. OBJECTIVES OF CBROP**

The objectives of the CBROP are anchored in the legal provisions of the PFM Act, Section 118. The CBROP provides a review of the previous fiscal performance and how these impact on the financial objectives and fiscal responsibility principles to be set out in the subsequent County Fiscal Strategy Paper (CFSP). As such, it amalgamates fiscal policy to the policy direction of the County thus significantly impacting on the development and performance matrix of the County in the various sectors.

These, together with macroeconomic outlook provides a basis for revision of the current budget in the context of the broad fiscal parameters underpinning the next budget and the medium term. Details of the fiscal framework and the medium-term policy priorities will be firmed up in the CFSP 2022.

Specifically, the CBROP provides:

- Review of the previous fiscal year in terms of revenue and expenditure performance across the County departments
- Analysis of the prevailing macroeconomic conditions and their impact to the subsequent financial years

- Updated economic and financial forecasts in relation to the changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP);
- Indication on how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the CFSP for that financial year; and
- Reasons for any deviation from the financial objectives in the CFSP together with proposed measures to address the deviation and the time estimated for doing so.

## **1.2. ORGANIZATION OF THE CBROP**

This paper has four sections. Chapter One provides a comprehensive introduction to the CBROP. Chapter Two reviews the county's fiscal performance for the previous year as per the revenues and expenditures as well as economic classifications of the entries. Chapter three reviews recent economic developments in terms of the macroeconomic indicators. Chapter Four sets out how the county government intends to operate within its means. It establishes the resources envelope (total revenues) it expects then allocates these across departments by setting expenditure ceilings for each department. Lastly, Chapter Five gives a conclusion of the entire paper.

## CHAPTER TWO: FISCAL PERFORMANCE FOR FY 2021/22 AND ITS IMPLICATION ON FINANCIAL OBJECTIVES

### 2.0 OVERVIEW

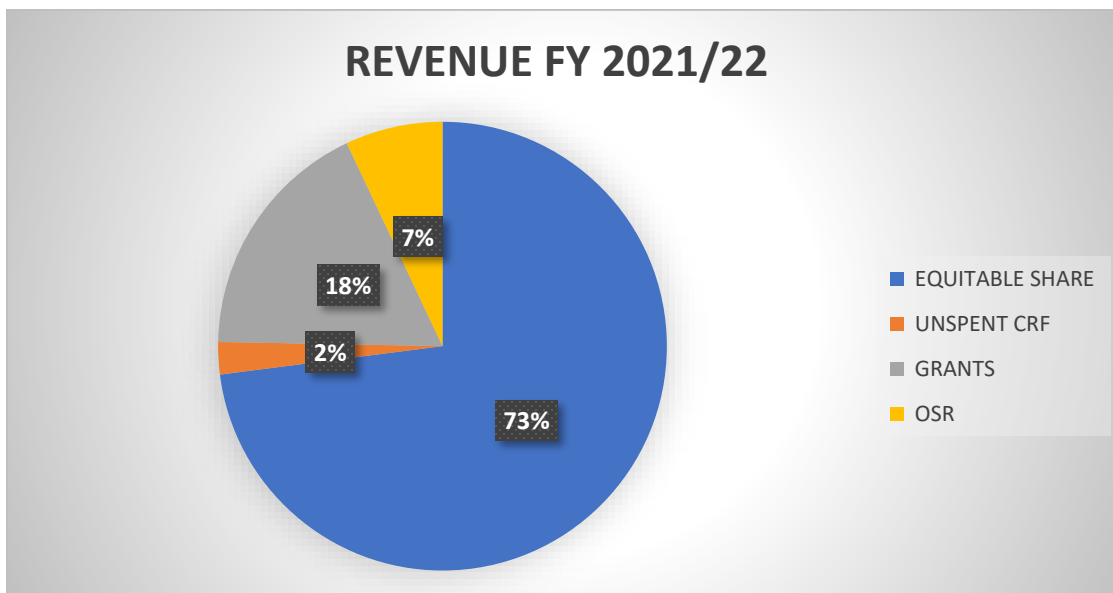
This chapter provides an overview of the performance and the implementation of the budget for the financial year 2021/22 and how it affected the compliance during the implementation of the Kilifi County CFSP 2021. The county's FY2021/22 approved supplementary No. 3 estimates was at Ksh. 15,952,827,550; comprising of Ksh. 9,981,517,998 (63%) and Ksh. 5,971,309,551 (37%) allocation for the recurrent and development expenditure respectively.

In the year under review, the county thus met the fiscal responsibility requirement in the PFM Act, 2012 (Section 107) that requires at least 30% of the overall county budget be dedicated to development expenditure.

In order to finance the budget, the county's revenue basket was Ksh. 11,641,592,941; (73%) as equitable share, Ksh. 370,687,591 (2%) as unspent revenue from FY2020/21, 2,821,792,931 (18%) as conditional allocations and Ksh. 1,118,754,087 (7%) as own source revenue.

These are illustrated below.

*Figure 1: Revenue Sources FY2021/22*



*SOURCE: Kilifi County Treasury, 2022*

## 2.1. FISCAL PERFORMANCE FY2021/22

FY 2021/22 fiscal performance is classified into:

- Revenue Performance
- Expenditure Performance
- Overall Fiscal Balance

Each of these is presented in detail in the sub-sections that follows.

### 2.1.1. REVENUE PERFORMANCE

The County government's revenue basket comprises of the following sources:

- a) Equitable share of revenue raised nationally
- b) Conditional grants and
- c) Own source revenue (OSR)

The performance of each category is discussed below.

#### 2.1.1.1 EQUITABLE SHARE OF REVENUE RAISED NATIONALLY

The County's equitable share of revenue raised nationally in FY2021/22 was Ksh.11,641,592,941.00.

The disbursement of the allocation as shown in the table below.

*Table 1: Disbursement of Equitable Share of Revenue Raised Nationally FY 2021/22*

Date	Description	Amount
25.08.2021	Exchequer release for Equitable share for August 2021	931,327,436
23.09.2021	Exchequer release for Equitable share for September 2021	989,535,400
19.10.2021	Exchequer release for Equitable share for October 2021	989,535,400
19.12.2021	Exchequer release for Equitable share for December 2021	931,327,435
04.01.2021	Exchequer release for Equitable share for January 2022	989,535,400
22.02.2022	Exchequer release for Equitable share for February 2022	931,327,435
24.03.2022	Exchequer release for Equitable share for March 2022	989,535,400
20.04.2022	Exchequer release for Equitable share for April 2022	989,535,400
13.05.2022	Exchequer release for Equitable share for May 2022	931,327,435
15.06.2022	Exchequer release for Equitable share for June 2022	1,047,743,365
17.06.2022	Exchequer release for Equitable share for June 2022	989,535,400
JULY		931,327,436
<b>TOTAL</b>		<b>11,641,592,941</b>

*SOURCE: Kilifi County Treasury, 2022*



### 2.1.1.2 CONDITIONAL GRANTS

The revised conditional grants for the FY 2021/2022 stood at 2,821,792,931 an increment from 2,307,306,489 in FY2020/21. This was due to the additional grants from Kenya Informal Settlement and Improvement Project (KISIP), 200,000,000, UNFPA 9th Country Programme Implementation - 8,864,000 and Kenya Devolution Support Programme (KDSP) Level II Grant - 146,940,110.

In FY 2021/2022 actual funds disbursed as conditional grants totaled to 1,065,000,200; composed of unspent grants in FY 2020/21 brought forward (revoted) and the new disbursements in FY 2021/22. The conditional grants disbursed thus stood at Ksh. 1,065,000,200 (40%) against the target of Ksh. 2,821,792,931.

Table 1: Disbursement of Conditional Grants FY2021/22

DESCRIPTION OF GRANTS	ORIGINAL GRANT/APPROVED ESTIMATES	REVISED GRANT (SUPP III)	DISBURSED GRANT (ACTUAL RECEIVED)/ Bal B/F FY 2020/21	UNDISBURSED GRANT
<b>Total Conditional Grants from the National Government Revenue</b>	<b>156,044,047</b>	<b>156,044,047</b>	<b>1,414,586</b>	<b>154,629,461</b>
Compensation for User Fee Foregone	-	1,331,589	-	1,331,589
Leasing of Medical Equipment	153,297,872	153,297,872	-	153,297,872
Road Maintenance Fuel Levy Bal FY 2020/21	-	1,414,586	1,414,586	-
Rehabilitation of Village Polytechnic	-	-	-	-
<b>Total Conditional allocations to County Governments from Loans and Grants from Development Partners</b>	<b>2,154,008,617</b>	<b>2,665,748,884</b>	<b>1,065,000,200.40</b>	<b>1,600,748,684</b>
Grants	2,154,008,617	-	-	-

Transforming Health Systems (THS) for Universal Health Project		76,186,044	36,548,223.80	39,637,820
National Agricultural and Rural Inclusive Growth Project (NARIGP)	-	254,610,493	178,716,886.85	75,893,606
Kenya Urban Support Programme (KUSP) Urban Development Grant	-	86,390,336	-	86,390,336
DANIDA Grant (Universal Healthcare in Devolved System Programme)	-	23,141,250	11,570,625.00	11,570,625
Water & Sanitation Development Programme (WSDP) / WSDP Bal FY 2020/21	-	1,841,150,756	721,191,016	1,119,959,740
Kenya Devolution Support Programme (KDSP) Level II Grant / KDSP Bal FY 2020/21	-	146,940,110	102,491,953	44,448,157
Agricultural Sector Development Support Programme (ASDSP) II / KDSP Bal FY 2020/21	-	28,465,895	14,481,496	13,984,399
UNFPA 9th Country Programme Implementation	-	8,864,000	-	8,864,000
Kenya Informal Settlement and Improvement Project -KISIP	-	200,000,000	-	200,000,000

*SOURCE: Kilifi County Treasury, 2022*

### **2.1.1.3 OWN SOURCE REVENUE**

By the end of June 2022, the total revenue generated from County Own Source Revenue (OSR) amounted to Ksh. 843,787,223 against a target of Ksh. 1,118,754,087. This was a 75% achievement of the revenue target, thus a shortfall of Ksh.274, 966, 863 (25%). There was a general increase in revenue collection in FY 2021/22 compared to FY 2020/21 where the actual revenue collection was Ksh. 829,717,651. The increase in revenue collection is attributed by the following interventions by the directorate of resource mobilization:

- (a) Conduction of sensitization programs to stakeholders,
- (b) Frequent checks and balances on most of the revenue streams,
- (c) Timely interventions on areas where revenue leakages were detected,
- (d) Periodic revenue clerks rotation for accountability and to enhance internal control systems,
- (e) Profiling the largest defaulters, and making a door to door follow ups for payment.
- (f) Enforcement and inspection for compliance.
- (g) Team-work through collaboration amongst departments.

Analysis of OSR by stream shows a significant increase in a number of revenue streams majorly being; FIF and NHIF which surpassed its target by 56% by netting Ksh99,623,213.50 against a target of Ksh. 176,804,637 followed by, building plan approval and inspection surpassing target by 45% by netting Ksh. 11,172,096.66 against a target of Ksh. 25,000,000. This result is attributed to; enforcement of revenue collection, and automation. The other revenue streams performed largely below their respective revenue targets as shown in the table below.

The following streams netted less than 50% of their respective targets:

- Business permit
- Market fees
- Plot ground rent
- House rent

- Food hygiene fees
- AMs &ATCs
- Slaughter house and livestock sale yards

HSIF/ FIF over performed in FY 2021/22. There was an increase of Ksh. 113.9 million compared with what was collected in FY 2020/21. The increase was due to increase in the services offered to the public as a result of the opening up of the Kilifi Medical Complex which also acts as a County Referral Hospital, non-Cash transactions, automation of the process of fees payment via a KCB Mpesa agent, upgrading of medical health facilities, introduction of new charges in the Finance Act., reconciliation and recovery of NHIF accrued balances payable to county hospitals, secondment of revenue clerks to the hospital facilities pay points and timely reconciliation of the records for effective reporting and internal control.

Land rates under performed in FY 2021/22 compared to FY 2020/21. Collection dropped by Ksh. 62.8 million. The following reasons explains the negative deviation; failure to implement the FY2021/2022 county revenue work plan due to budgetary constraints, negative attitude of rates payers towards compliance due to political uncertainties before, during, and after electioneering period, non-operationalization of the revised and completed county valuation roll due to delay in passage of the rates struck by the county assembly vide 2022 Finance Bill, failure to issue waiver on interest to the land rates payers which would prompt them to pay current and outstanding rates.

Other reasons include non-completion of the revenue collection cycle where legal action can be taken against defaulters for non-compliance, uncoordinated revenue collection processes with the lands department especially for beneficiaries of existing and new established upgrading schemes within the county, inadequate enforcement mechanism due to ineffective county inspection and enforcement team that lacks a prosecution mandate, office accommodation challenges in sub county revenue offices of Mtwapa in Kilifi South Sub County and Watamu Revenue office in Kilifi North subcounty.

Cess on natural resources under performed as well, it dropped by Ksh. 29 million from FY 2020/21. The following reasons attributed to the shortfall; completion of mega national government projects, the Lamu port, SGR, Dongo Kundu bypass in Mombasa, the projects consumed a lot of quarry materials subjected to cess fees payment, transporters pulling out their vehicles from picking materials from quarry sites as a result of high fuel prices by failure of the national government to provide fuel subsidy, closure of majority of operators due to political uncertainty, before, during and after electioneering period.

Other reasons include the estimation of tonnage on materials picked as the county lacks equipment to determine the tonnage of goods, late payment of cess fees from Bamburi and Mombasa Cement relating to the FY2021/2022 paid in July, 2022, under staffing in the revenue management directorate which resulted in the identification of staff gaps and lack of automation in the cess revenue stream, closure of Athi river (ARM) Cement factory which was among the largest cess payers due to insolvency and the subsequent acquisition by National Cement in April 2022.

*Table 2: Own Source Revenue Streams Performance FY2021/22*

<b>REVENUE STREAMS</b>	<b>ESTIMATED REVENUE FY 2021/22</b>	<b>ACTUAL REVENUE FY 2021/22</b>	<b>VARIANCE</b>	<b>ACTUAL REVENUE %</b>
FIF & NHIF	176,804,637	276,427,851	99,623,214	156%
Land Rates and other Land Revenue	195,000,000	107,510,206	-87,489,794	55%
Cess on natural resources	315,000,000	244,805,804	-70,194,196	78%
Business Permit	105,000,000	50,045,462	-54,954,538	47%
Parking fees	50,000,000	25,163,907	-24,836,093	50%
Market fees	25,000,000	9,769,231	-15,230,769	39%
Billboards & Signage	30,000,000	31,270,722	1,270,722	104%
Building Plan approval and Inspection	25,000,000	36,172,097	11,172,097	145%
Rent/Stall rents	15,000,000	7,900,250	-7,099,750	53%
Survey fees and plot rents	1,266,000	697,050	-568,950	55%
Plot ground rent	10,000,000	4,792,982	-5,207,018	48%
House rent	40,000,000	9,807,862	-30,192,138	25%
Refuse Collection	1,262,000	1,632,600	370,600	129%
Food Hygiene Fees	10,000,000	3,779,710	-6,220,290	38%
Liquor license	6,000,000	6,657,000	657,000	111%
AMS \$ATCs	25,000,000	4,327,310	-20,672,690	17%
Leasing of Plant and Equipment	20,000,000	-	-20,000,000	0%

Slaughter House and Livestock sale Yards	10,000,000	1,499,520	-8,500,480	15%
Others	58,421,450	21,527,660	-36,893,790	37%
<b>TOTAL</b>	<b>1,118,754,087</b>	<b>843,787,223</b>	<b>(274,966,863)</b>	<b>75%</b>

*SOURCE: Kilifi County Treasury, 2022*

To increase own source revenue, the county has undertaken the following measures to boost revenue collection:

- Diversification of revenue streams
- **Establishment** of County courts to collect fines
- Integration of Kilifi Electronic Data Management System with County-Pro
- Fully automating revenue collection and establishing one-stop-shop payment and approval for all licenses
- Waivers and subsidy on land rates
- Actualization of the valuation roll and land audits to correctly capture the various land parcels

The table below shows the trend analysis for the period between 2020/21 and 2021/22 that has helped in prediction of the revenue expected to be collected in the FY 2022/23.

Table 3: Revenue Projections FY2022/23

<b>REVENUE STREAMS</b>	<b>ACTUAL REVENUE FY 2020/2021</b>	<b>ACTUAL REVENUE FY 2021/2022</b>	<b>PROJECTED FY 2022/2023</b>
FIF & NHIF	162,517,034	276,427,851	250,000,000
Land Rates and other Land Revenue	170,329,040	107,510,206	448,612,472
Cess on natural resources	273,840,434	244,805,804	340,000,000
Business Permit	57,731,023	50,045,462	105,000,000
Parking fees	25,515,572	25,163,907	67,500,000
Market fees	9,285,225	9,769,231	25,000,000
Billboards & Signage	29,147,422	31,270,722	30,000,000
Building Plan approval and Inspection	51,174,860	36,172,097	25,000,000



Rent/Stall rents	7,432,190	7,900,250	15,000,000
Survey fees and plot rents	537,730	697,050	1,266,000
Plot ground rent	5,686,017	4,792,982	10,000,000
House rent	2,677,814	9,807,862	40,000,000
Refuse Collection	2,267,500	1,632,600	1,262,000
Food Hygiene Fees	5,035,910	3,779,710	10,000,000
Liquor license	-	6,657,000	6,000,000
AMS \$ ATCs	-	4,327,310	25,000,000
Leasing of plant and equipment	-	-	16,387,528
Slaughter House and Livestock sale Yards	1,045,190	1,499,520	10,000,000
Others	25,494,690	21,527,660	41,472,000
<b>TOTAL</b>	<b>829,717,651</b>	<b>843,787,224</b>	<b>1,467,500,000</b>

*SOURCE: Kilifi County Treasury, 2022*

## 2.1.2. EXPENDITURE PERFORMANCE

### 2.1.2.1 ACTUAL EXPENDITURE

In FY2021/22, the County Government of Kilifi spent a total Kshs. 11,986,577,309, representing 75% of its total budget. This comprised of Kshs. 8,658,904,091 (72%) recurrent expenditure and Kshs. 3,327,673,218 (28%) development expenditure.

Table 4: Actual Expenditure FY2021/22

DEPARTMENT	ACTUAL EXPENDITURE			ABSORPTION RATE	
	REC	DEV	TOTAL	REC	DEV
COUNTY ASSEMBLY	993,548,118	4,855,728	998,403,846	100%	0%
OFFICE OF THE GOVERNOR	334,571,553	0	334,571,553	100%	0%
COUNTY ATTORNEY	105,434,164	0	105,434,164	100%	0%
FINANCE	330,567,523	457,117,822	787,685,345	42%	58%
ECONOMIC. PLANNING	34,393,093	0	34,393,093	100%	0%
AGRICULTURE	74,485,032	137,672,839	212,157,871	35%	65%
LIVESTOCK	17,588,068	20,194,855	37,782,923	47%	53%
FISHERIES	20,577,964	11,358,262	31,936,226	64%	36%
WATER AND SANITATION	17,296,076	863,168,924	880,465,000	2%	98%
ENVIRONMENT	206,621,111	4,250,000	210,871,111	98%	2%
EDUCATION	419,972,538	88,652,745	508,625,283	83%	17%
ICT	17,655,670	0	17,655,670	100%	0%
MEDICAL SERVICES	968,929,389	488,515,532	1,457,444,921	66%	34%
PUBLIC HEALTH	32,877,950	0	32,877,950	100%	0%
ROADS	317,193,879	963,788,225	1,280,982,104	25%	75%
LANDS ENERGY	185,468,968	131,720,576	317,189,544	58%	42%
PHYSICAL PLANNING	12,111,285	30,935,623	43,046,908	28%	72%
GENDER	75,677,207	27,389,344	103,066,551	73%	27%
TRADE	50,021,845	94,820,582	144,842,427	35%	65%
COOPERATIVES	9,258,225	0	9,258,225	100%	0%
CPSB	17,668,592	0	17,668,592	100%	0%
DEVOLUTION & DISASTER MANAGEMENT	295,880,018	3,232,161	299,112,179	99%	1%
PUBLIC SERVICE MANAGEMENT	4,121,105,822	0	4,121,105,822	100%	0%
<b>TOTAL</b>	<b>8,658,904,091</b>	<b>3,327,673,218</b>	<b>11,986,577,309</b>	<b>72%</b>	<b>28%</b>

SOURCE: Kilifi County Treasury, 2022

### 2.1.2.2 AGGREGATE EXPENDITURE

During the period under review, the County Government had a total of Kshs. 1,592,727,618 in outstanding commitments (Kshs. 867,900,072 recurrent and Kshs.

724,827,546 development). This translates into a total cumulative expenditure to Kshs. 13,579,304,925, representing an absorption of 85% of the 2021/22 budget which was at Ksh. 15,952,827,550.

This comprised Kshs. 9,526,804,163 (70%) aggregate recurrent expenditure and Kshs. 4,052,500,764 (30%) aggregate development expenditure.

*Table 5: Expenditure Performance FY2021/22*

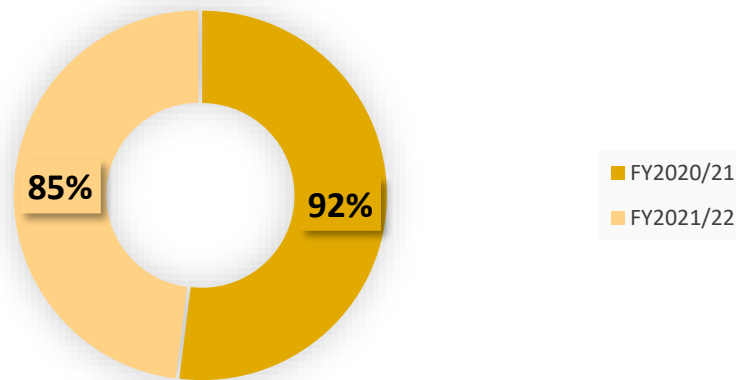
DEPARTMENT	REVISED ESTIMATES III	CUMULATIVE EXPENDITURE	ABSORPTION
COUNTY ASSEMBLY	965,000,000	998,403,846	103%
OFFICE OF THE GOVERNOR	405,814,382	405,814,382	100%
COUNTY ATTORNEY	111,880,767	137,626,958	123%
FINANCE	889,756,338	876,462,358	99%
ECONOMIC. PLANNING	61,199,386	61,199,386	100%
AGRICULTURE	440,953,160	234,368,472	53%
LIVESTOCK	57,546,378	43,457,050	76%
FISHERIES	78,777,982	36,386,244	46%
WATER AND SANITATION	1,879,569,018	906,683,210	48%
ENVIRONMENT	238,611,241	210,871,111	88%
EDUCATION	597,253,140	562,028,477	94%
ICT	23,962,166	17,655,670	74%
MEDICAL SERVICES	1,937,693,779	1,655,935,049	85%
PUBLIC HEALTH	190,629,643	32,877,950	17%
ROADS	1,739,845,843	2,038,371,746	117%
LANDS ENERGY	966,049,346	324,946,399	34%
PHYSICAL PLANNING	86,929,547	43,046,908	50%
GENDER	196,421,402	177,022,064	90%
TRADE	181,272,328	189,872,915	105%
COOPERATIVES	13,850,827	9,258,225	67%
CPSB	37,827,265	24,817,612	66%
DEVOLUTION & DISASTER MANAGEMENT	428,230,876	304,745,867	71%
PUBLIC SERVICE MANAGEMENT	4,423,752,737	4,287,453,028	97%
<b>TOTAL</b>	<b>15,952,827,550</b>	<b>13,579,304,928</b>	<b>85%</b>

*SOURCE: Kilifi County Treasury, 2022*

This aggregate expenditure indicates a marginal decline from **92 percent** from the 2021/21 budget.

*Figure 2: FY2020/21 Vs FY2021/22 Absorption*

## FY2021/22 Vs FY2020/21 Absorption



*SOURCE: Kilifi County Treasury, 2022*

It is important to take cognizance of the fact that the more than 100% absorption rates in a number of departments. This has been occasioned by previous years pending bills and commitments that tend to push expenditure beyond the set budgetary allocation. As pending bills are a first charge on a supplementary budget, departments are compelled to pay for them first and still take into account the current year's resource needs which means that sometimes the expenditures of a department will not be honored in the financial year that they were appropriated and incurred, leaving them as commitments that have not been paid, thus spilling over into the new financial year as pending bills. This perpetuity thus leads to a continuance spill over and no financial year's expenses are totally incurred and paid for in the same financial year.

In FY2020/21, the County Division of Medical Services had the highest expenditure amounting to Kshs.3,450,186,984, while the County Division of Co-operative Development had the lowest spending at Kshs. 4,682,880. In FY2021/22, with the County Department of Roads had the highest spending Ksh. 2,038,371,746, while the County Division of Cooperative Development spending stood at Kshs. 9,258,225.

### 2.1.2.3 RECURRENT AND DEVELOPMENT EXPENDITURE

The revised recurrent and development budget allocations for FY2021/22 were **Kshs. 9,981,517,998** and **Kshs. 5,971,309,551** respectively; totaling to Ksh. **15,952,827,550**.

The cumulative expenditure for recurrent expenditure was **Ksh. 9,526,804,163**. This corresponds to a 60% absorption rate for recurrent expenses.

On the other hand, development expenditures for the period under review amounted to **Kshs. 4,052,500,764**, representing a 25% absorption of the development expenditure budget.

This is attributable to the compliance of the PFM regulations that development expenditures should be at least 30 percent of the County's total budget. Most of the development projects are implemented between the third and fourth quarters due to delays in exchequer releases.

*Table 6: Recurrent Vs Development Expenditure FY2021/22*

DEPARTMENT	CUMULATIVE EXPENDITURE		
	REC	DEV	TOTAL
COUNTY ASSEMBLY	993,548,118	4,855,728	998,403,846
OFFICE OF THE GOVERNOR	405,814,382	-	405,814,382
COUNTY ATTORNEY	137,626,958	-	137,626,958
FINANCE	417,693,271	458,769,087	876,462,358
ECONOMIC. PLANNING	61,199,386	-	61,199,386
AGRICULTURE	94,577,229	139,791,242	234,368,472
LIVESTOCK	23,262,195	20,194,855	43,457,050
FISHERIES	25,027,982	11,358,262	36,386,244
WATER AND SANITATION	17,647,576	889,035,634	906,683,210
ENVIRONMENT	206,621,111	4,250,000	210,871,111
EDUCATION	437,121,417	124,907,060	562,028,477
ICT	17,655,670	-	17,655,670
MEDICAL SERVICES	1,077,053,445	578,881,604	1,655,935,049
PUBLIC HEALTH	32,877,950	-	32,877,950
ROADS	552,064,559	1,486,307,187	2,038,371,746
LANDS ENERGY	193,225,823	131,720,576	324,946,399
PHYSICAL PLANNING	12,111,285	30,935,623	43,046,908
GENDER	137,133,178	39,888,886	177,022,064

TRADE	67,133,744	122,739,171	189,872,915
COOPERATIVES	9,258,225	-	9,258,225
CPSB	24,817,612	-	24,817,612
DEVOLUTION & DISASTER MANAGEMENT	295,880,018	8,865,849	304,745,867
PUBLIC SERVICE MANAGEMENT	4,287,453,028	-	4,287,453,028
<b>TOTAL</b>	<b>9,526,804,163</b>	<b>4,052,500,764</b>	<b>13,579,304,928</b>

*SOURCE: Kilifi County Treasury, 2022*

### 2.1.2.4 EXPENDITURE ANALYSIS ACCORDING TO ECONOMIC CLASSIFICATION

Of the total expenditure in FY2021/22, operations and maintenance ranked the highest, followed closely by personnel emoluments and development expenditure having the lowest spending. Relative to FY2020/21, expenditures increased by Kshs. 1,311,976,217. This is illustrated in the table below.

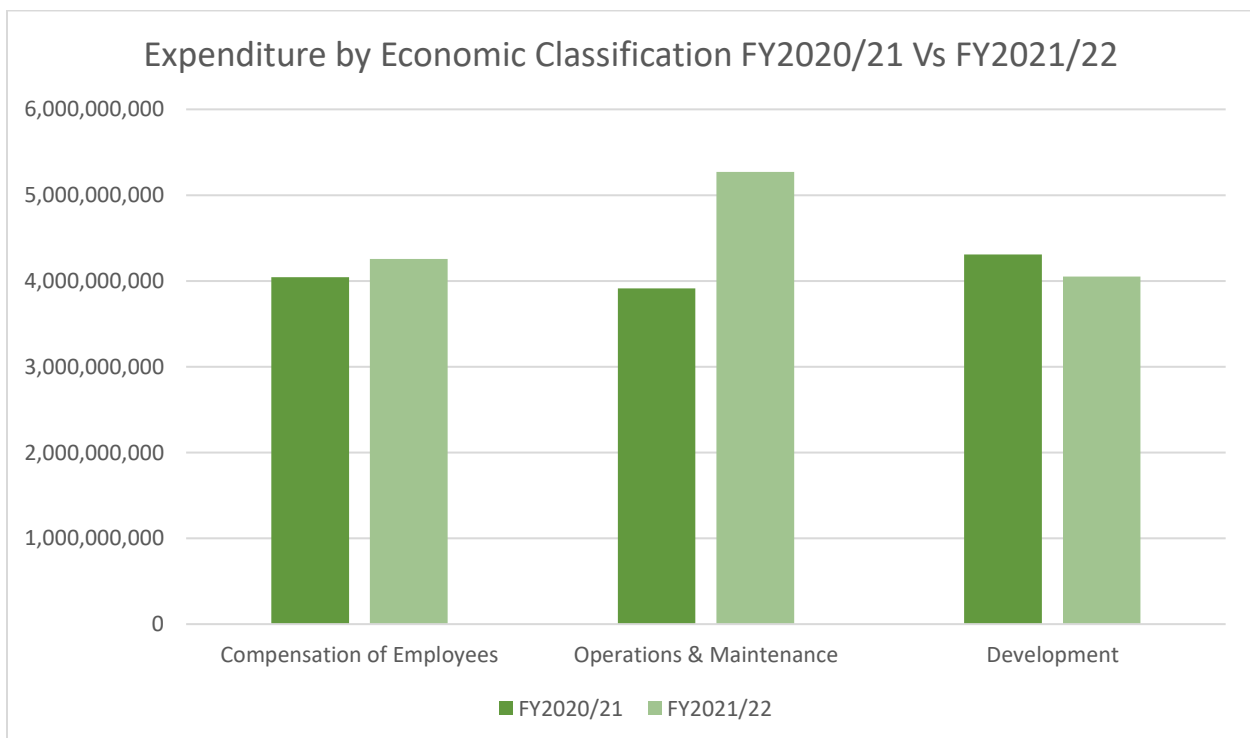
*Table 7: Expenditure by Economic Classification FY2021/22*

ITEM	FY2020/21	FY2021/22
Compensation of Employees	4,043,700,783	4,255,966,987
Operations & Maintenance	3,914,094,848	5,270,837,176
Development	4,309,533,080	4,052,500,764
<b>TOTAL</b>	<b>12,267,328,711</b>	<b>13,579,304,928</b>

*SOURCE: Kilifi County Treasury, 2022*

The figure below shows the trend in economic classification expenditure performance.

*Figure 3: Expenditure by Economic Classification Fy2020/21 Vs FY2021/22*



SOURCE: Kilifi County Treasury, 2022

**2.1.2.4.1 COMPENSATION TO EMPLOYEES**

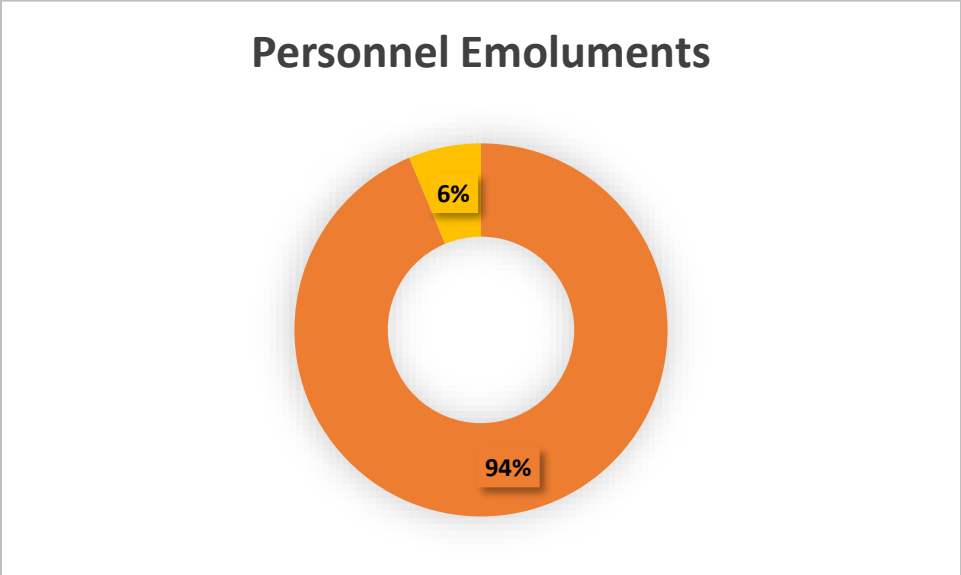
Following the County Treasury’s directive to shift all personnel emoluments to one host department for efficiency and transparency, salaries and allowances to staff were moved to the County Division of Public Service Management. Actual spending stood at **Ksh. 4,255,966,987** (94 percent) against a target of **Kshs. 4,541,492,247**, with an unspent amount of **Kshs. 285,525,260** (6 percent).

Table 8: Expenditure on Personnel Emoluments

DEPARTMENT	REVISED ESTIMATES III	ACTUAL EXPENDITURE
Public Service Management	4,541,492,247	4,255,966,987

SOURCE: Kilifi County Treasury, 2022

Figure 4: Unspent Personnel Emoluments



SOURCE: Kilifi County Treasury, 2022

**2.1.2.4.2 OPERATIONS AND MAINTENANCE**

The expenditure on operations and maintenance stood at **Kshs. 5,270,837,176** against **Kshs. 5,440,025,751**. The biggest spender was the County Division of Medical Services



while the County Division of Co-operative Development had the lowest spending as seen in O&M expenditure trends

*Table 9: Expenditure on Operations and Maintenance*

DEPARTMENT	REVISED ESTIMATES III	CUMULATIVE EXPENDITURE	VARIANCE	ABSORPTION RATE
COUNTY ASSEMBLY	474,674,454	566,086,869	91,412,415	119%
OFFICE OF THE GOVERNOR	405,814,382	405,814,382	-	100%
COUNTY ATTORNEY	111,880,767	137,626,958	25,746,191	123%
FINANCE	392,166,070	417,693,271	25,527,201	107%
ECONOMIC. PLANNING	61,199,386	61,199,386	-	100%
AGRICULTURE	95,258,519	94,577,229	(681,290)	99%
LIVESTOCK	23,262,195	23,262,195	-	100%
FISHERIES	25,027,982	25,027,982	-	100%
WATER AND SANITATION	22,395,329	17,647,576	(4,747,753)	79%
ENVIRONMENT	234,361,241	206,621,111	(27,740,130)	88%
EDUCATION	438,753,139	437,121,417	(1,631,722)	100%
ICT	23,962,166	17,655,670	(6,306,496)	74%
MEDICAL SERVICES	1,118,079,918	1,077,053,445	(41,026,473)	96%
PUBLIC HEALTH	180,799,371	32,877,950	(147,921,421)	18%
ROADS	373,885,515	552,064,559	178,179,044	148%
LANDS ENERGY	431,445,276	193,225,823	(238,219,453)	45%
PHYSICAL PLANNING	17,943,450	12,111,285	(5,832,165)	67%
GENDER	143,088,668	137,133,178	(5,955,490)	96%
TRADE	85,232,919	67,133,744	(18,099,175)	79%

COOPERATIVES	13,850,827	9,258,225	(4,592,602)	67%
CPSB	37,827,265	24,817,612	(13,009,653)	66%
DEVOLUTION & DISASTER MANAGEMENT	420,030,876	295,880,018	(124,150,858)	70%
PUBLIC SERVICE MANAGEMENT	309,086,036	458,947,290	149,861,254	148%
<b>TOTAL</b>	<b>5,440,025,751</b>	<b>5,270,837,176</b>	<b>(169,188,576)</b>	<b>97%</b>

*SOURCE: Kilifi County Treasury, 2022*

### 2.1.2.4.3 DEVELOPMENT EXPENDITURE

The County's development expenditure was absorbed after the second quarter of the financial year. This delay was as a result of late disbursement of funds from the national treasury and uncertainties during the electioneering period. As has been the trend, the largest spender on development expenditure was the County Department of Roads, **Kshs. 1,486,307,187**, while the Division of Devolution and Disaster management spent a total **Kshs. 8,865,849** of its development expenditure. This is shown in the table below.

*Table 10: Development Expenditure*

DEPARTMENT	REVISED ESTIMATES III	CUMULATIVE EXPENDITURE
COUNTY ASSEMBLY	63,500,000	4,855,728
FINANCE	497,590,267	458,769,087
AGRICULTURE	345,694,641	139,791,242
LIVESTOCK	34,284,183	20,194,855
FISHERIES	53,750,000	11,358,262
WATER AND SANITATION	1,857,173,689	889,035,634
ENVIRONMENT	4,250,000	4,250,000
EDUCATION	158,500,001	124,907,060
MEDICAL SERVICES	819,613,860	578,881,604
PUBLIC HEALTH	9,830,272	-
ROADS	1,365,960,328	1,486,307,187
LANDS ENERGY	534,604,070	131,720,576
PHYSICAL PLANNING	68,986,097	30,935,623
GENDER	53,332,734	39,888,886

TRADE	96,039,409	122,739,171
DEVOLUTION & DISASTER MANAGEMENT	8,200,000	8,865,849
<b>TOTAL</b>	<b>5,971,309,551</b>	<b>4,052,500,764</b>

*SOURCE: Kilifi County Treasury, 2022*

#### **2.1.2.4.4 WITHDRAWAL FROM THE COUNTY REVENUE FUND (CRF) ACCOUNT**

The withdrawals from the County Revenue Fund (CRF) Account for the FY 2021/22 amounted to Ksh. 11,517,577,760. This comprised of Ksh. 8,200,039,175 and Ksh. 3,317,538,586 for recurrent and development expenditure respectively.

*Table 11: Withdrawal from the County Revenue Fund Account FY2021/22*

DESCRIPTION	APPROVED ESTIMATES FY 2021/22	REVISED ESTIMATES FY 2021/22	WITHDRAWALS	
			RECURRENT	DEVELOPMENT
Equitable Share and local revenue	11,641,592,941	12,012,280,532	8,126,920,326	2,227,957,834
Compensation for User Fee Foregone	-	1,331,589	-	-
Leasing of Medical Equipment	153,297,872	153,297,872	-	-
Road Maintenance Fuel Levy KRB	-	1,414,586	-	-
Rehabilitation of Village Polytechnic KCVPG	-	-	-	-
Loans and grants	2,154,008,617	-	-	-
CCIS (County Climate Institutional Support)	-	-	25,000,000	-
Transforming Health Systems (THS) for Universal Health Project	-	76,186,044	36,548,224	-
National Agricultural and Rural Inclusive Growth Project (NARIGP)	-	254,610,493	-	178,916,887

Kenya Urban Support Programme (KUSP)- Urban Development Grant	-	86,390,336	-	20,000,000
Kenya Informal Settlement and Improvement Project (KISIP)	-	200,000,000	-	20,000,000
UNFPA 9TH Country Programme Implementation	-	8,864,000	-	-
DANIDA Grant (Universal Healthcare in Devolved System Programme)	-	23,141,250	11,570,625	-
Water & Sanitation Development Programme (WSDP)	-	1,841,150,756	-	751,190,416
Kenya Devolution Support Programme (KDSP) Level II Grant	-	146,940,110	-	102,491,953
Agricultural Sector Development Support Programme (ASDSP) II	-	28,465,895	-	16,981,496

*SOURCE: Kilifi County Treasury, 2022*

### 2.1.3 OVERALL FISCAL BALANCE

The overall fiscal balance in FY 2021/22 was a surplus of Kshs. 343,177,614.

*Table 12: Overall Fiscal Balance*

ITEM DESCRIPTION	ACTUAL (REVENUE/EXPENSE) FY2020/21	APPROVED ESTIMATES FY2021/22	REVISED ESTIMATES III FY2021/22	ACTUAL (REVENUE/EXPENDITURE) FY 2021/22
<b>Total Revenue</b>	<b>14,137,403,808</b>	<b>14,873,899,430</b>	<b>15,952,827,550</b>	<b>13,922,482,542</b>
Equitable Share	10,444,500,000	11,641,592,941	11,641,592,941	11,641,592,941

Conditional Grants	2,231,096,832	2,307,306,489	2,821,792,931	1,066,414,786
Local Revenue	832,361,953	925,000,000	1,118,754,087	843,787,224
Health Services Improvement Fund (HSIF)	-	-	-	-
Unspent CRF (Revote of the Budget)	629,445,023	-	370,687,591	370,687,591
Unspent/Undisbursed Conditional Grants	-	-	-	-
<b>Total Expenditure</b>	<b>13,468,383,246</b>	<b>14,873,899,430</b>	<b>15,952,827,550</b>	<b>13,579,304,928</b>
Recurrent	8,627,596,850	9,060,783,423	9,981,517,998	9,526,804,163
Development	4,840,786,396	5,813,116,007	5,971,309,551	4,052,500,764
<b>Fiscal Balance</b>	<b>669,020,562</b>	<b>0</b>	<b>0</b>	<b>343,177,614</b>

*SOURCE: Kilifi County Treasury, 2022*

## **2.2 FISCAL PERFORMANCE FOR THE FY 2021/22 IN RELATION TO FINANCIAL OBJECTIVES**

The overall financial performance of the FY 2021/2022 modifies the financial objectives set in the 2021 County Fiscal Strategy Paper and the FY 2022/2023 Budget. All these are aligned with the 2022 Budget Policy Statement.

The actual expenditure will be used to adjust the FY 2022/2023 budget and inform the ceilings in the 2022 County Fiscal Strategy Paper. This ceiling was meant to ensure that there is maximum utilization of public resources so as to catalyze local economic growth and efficiency of service delivery.

The actual own source revenue for FY 2021/22, Kshs. 843,787,223, will be used to adjust, the FY 2022/2023 budget and to set the OSR projections in the next CFSP. This will reflect the anticipated increase in revenue collection from different revenue streams. The revenue increase witnessed from these streams are as a

result of factors such as enforcement of revenue collection, automation and Economic recovery after the effects of the COVID-19 Pandemic.

### **2.3 FISCAL PERFORMANCE AND COMPLIANCE TO FISCAL RESPONSIBILITY PRINCIPLES**

The County Government's expenditure for the FY 2020/21 adhered to the provisions stated in the PFM Act that guide; Development Expenditure: The development expenditure stands at Ksh. 4,052,500,764 equivalent to 30% of the total expenditure. This is in accordance with the provisions stated in the PFM Act, that development budget should be at least 30%. Thus, this is in compliance to the fiscal responsibility principle.

Recurrent Expenditure: The recurrent expenditure amounted to Ksh. 9,526,804,163 representing 70% of the total expenditure.

Compensation to Employees: This entry stands at 31% of the total expenditure; which is in compliance to the fiscal responsibility principle. That personnel emoluments should not exceed 35% of the budget.

## **CHAPTER THREE: RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK PERFORMANCE**

### **3.0 OVERVIEW**

The war in Ukraine has triggered a costly humanitarian crisis that demands a peaceful resolution. At the same time, economic damage from the conflict will contribute to a significant slowdown in global growth in 2022 and add to inflation. Fuel and food prices have increased rapidly, hitting vulnerable populations in low-income countries hardest.

Following more than two years of pandemic, spillovers from the Russian Federation's invasion of Ukraine are set to sharply hasten the deceleration of global economic activity, which is now expected to slow to 3.2 percent in 2022. The war in Ukraine is leading to high commodity prices, adding to supply disruptions, increasing food insecurity and poverty, exacerbating inflation, contributing to tighter financial conditions, magnifying financial vulnerability, and heightening policy uncertainty.

Growth in emerging market and developing economies (EMDEs) this year has been downgraded to 3.8 percent, as negative spillovers from the invasion of Ukraine more than offset any near-term boost to some commodity exporters from higher energy prices. Meanwhile, EMDE policy makers need to refrain from implementing export restrictions or price controls, which could end up magnifying the increase in commodity prices.

With rising inflation, tightening financial conditions, and elevated debt levels sharply limiting policy space, spending can be reprioritized toward targeted relief for vulnerable households. Over the long run, policies will be required to reverse the damage inflicted by the dual shocks of the pandemic and the war on growth prospects, including preventing fragmentation in trade networks, improving education, and raising labor force participation.

### **3.1 RECENT ECONOMIC DEVELOPMENTS**

According to the IMF World Economic Outlook (WEO) July 2022 update, growth of the global economy is expected at 1.7 percent in the fourth quarter of 2022 and is expected to improve to 3.2 percent in the fourth quarter of 2023. Annual global output growth is expected to slow down to 3.2 percent in 2022 and moderate at 2.9 percent in 2023, down from 6.1 percent in 2021. This represents 0.4 percentage-point downward revision for 2022 compared to the April 2022 WEO, reflecting the adverse effects of the war in Ukraine, concerns over China's increased cases of COVID-19 infections, supply chain challenges, and reduced fiscal support in the advanced and emerging economies.

Advanced economies are expected to grow by 1.3 percent and 1.5 percent in the fourth quarters of 2022 and 2023, respectively. Growth in the advanced economies is projected at 2.5 percent in 2022 and is expected to moderate to 1.4 percent in 2023, reflecting weaker economic activity in the first two quarters combined with slow growth in private consumption on account of monetary policy tightening arising from elevated inflation. However, supply-side factors of this inflation present a challenge for monetary policy.

Growth in Emerging Market and Developing Economies (EMDEs) is estimated at 2.1 percent in the fourth quarter of 2022 and by 4.7 percent in the fourth quarter of 2023. On annual basis, EMDEs is expected at 3.6 percent in 2022, largely affected by limited fiscal space and dependence on energy and food imports for basic consumption. The growth is anticipated to improve in 2023 to 3.9 percent. Growth in China is expected at 3.3 percent in 2022, a downgrade of 1.1 percent from the April 2022 WEO, reflecting weaker demand due to increased COVID-19 outbreaks and lockdowns. Economic activity in Sub-Saharan Africa (SSA) is expected to grow by 3.8 percent in 2022 and 4.0 percent in 2023. Nigeria and South Africa are expected to be the key drivers of growth in sub-Saharan Africa.

The economy sustained strong growth momentum in the first quarter of 2022. It grew by 6.8 percent compared to 2.7 percent in a similar quarter of 2021. The strong



performance was supported by continued recovery in manufacturing, construction, transport and storage, education, accommodation and food services, and wholesale and retail trade. The agriculture sector contracted by 0.7 percent compared to growth of 0.4 percent in a similar quarter of 2021, mainly on account of unfavorable weather conditions.

### **3.1.1. GROSS DOMESTIC PRODUCT**

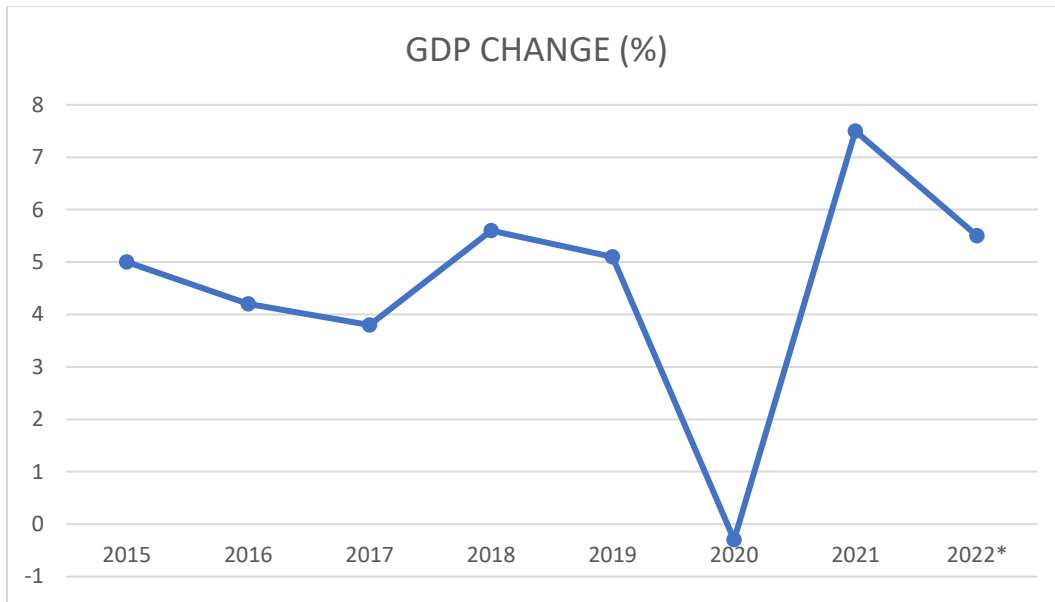
Kenya's real gross domestic product (GDP) is projected to grow by 5.5 percent in 2022 and 5.2 percent on average in 2023-24. This growth rate, while still strong, will be a moderation following a remarkable recovery in 2021 from the worst economic effects of the pandemic, when the country's economy grew by 7.5 percent, much higher than the estimated average growth in Sub-Saharan Africa of 4 percent.

A sectoral analysis of the economic output is as follows:

- i. The Non-Agriculture sector remained the main driver of growth in the first quarter of 2022, growing by 8.7 percent, compared to 3.2 percent in a similar quarter of 2021, and contributed 7.1 percentage points to real GDP growth.
- ii. Transport and Storage sector rebounded and grew by 8.1 percent compared to a contraction of 7.9 percent in a similar quarter of 2021, supported by further easing of domestic and international travel restrictions. The improved performance was reflected in increased passenger and freight transport by SGR, which increased by 12.7 percent and 8.6 percent, respectively, during the quarter.
- iii. Accommodation and Food services sector rebounded strongly and grew by 56.2 percent compared to a contraction of 33.0 percent in a similar quarter of 2021. Activity in the sector continues to normalize following further easing of domestic and international restrictions. This was reflected in higher tourist arrivals through JKIA and MIA airports by 85.1 percent compared to the same quarter of 2021.
- iv. Wholesale and Retail Trade sector growth was strong at 8.7 percent compared to 7.5 percent in a similar quarter of 2021. Growth was supported by pickup in activity in related sectors.

- v. Information and Communication sector expanded by 6.1 percent compared to 10.1 percent in a similar quarter of 2021. Activity in the sector remained strong, reflecting increased digitalization of the economy.
- vi. Financial and Insurance sector recorded strong growth of 14.4 percent compared to 11.8 percent growth in the same quarter of 2021, reflecting increased growth of credit to the private sector.
- vii. Industry activity remained buoyant during the quarter growing by 5.5 percent compared to 4.3 percent in the same quarter of 2021, and contributed 1.0 percentage points to real GDP growth.
- viii. Manufacturing sector growth remained strong at 3.7 percent compared to 2.1 percent in the same quarter of 2021, as activity in both food and non-food subsectors increased. The food subsector grew by 6.4 percent, mainly supported by increased processing of coffee. The nonfood subsector also increased, supported by production of cement which increased by 30.1 percent.
- ix. Construction sector growth was strong at 6.4 percent compared to 6.8 percent in the same quarter of 2021, supported by continued Government investment in infrastructure projects, reflected in a 25.8 percent increase in cement consumption and increased imports of inputs such as iron and steel.
- x. The agriculture sector contracted by 0.7 percent compared to a growth of 0.4 percent in the same quarter of 2021. Activity in the sector remained subdued following inadequate rains last year and delayed onset of rains during the quarter under review which adversely affected production. Contribution of the sector to overall GDP growth stood at -0.1 percentage points during the quarter under review

Figure 5: Gross Domestic Product



SOURCE: CBK, 2022

### 3.1.2 INFLATION RATE

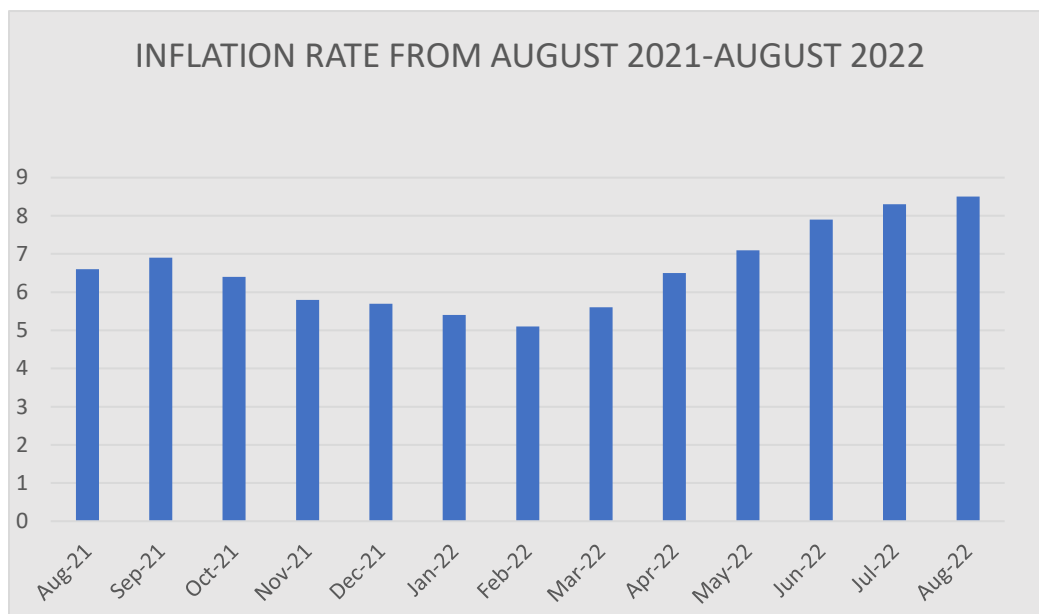
Overall inflation remained elevated during the second quarter driven by supply side factors that drove food and energy prices upwards. It increased to 7.2 percent from 5.3 percent in the first quarter. Food prices increased, on account of unfavorable weather conditions and global supply chain disruptions further exacerbated by the Russia-Ukraine conflict. Despite continued government interventions to stabilize pump prices, fuel prices increased due to elevated international oil prices arising from higher demand and the Russia-Ukraine conflict. Non-food Non-fuel (NFNF) inflation remained low at 2.7 percent compared to 2.1 percent in the first quarter, reflective of muted demand pressures in the economy.

Food inflation increased to 12.8 percent in the second quarter of 2022 from 9.2 percent in the previous quarter, on account of unfavorable weather conditions which affected agricultural production.

Fuel inflation increased to 9.2 percent in the second quarter of 2022 from 6.8 percent in the previous quarter, despite continued government interventions to stabilize energy

prices. The increase was mainly due to elevated international oil prices and the uncertainties surrounding the Russia-Ukraine conflict. Energy inflation was the main driver of fuel inflation. Its contribution increased as higher energy prices led to a significant increase in energy inflation.

*Figure 6: Inflation*

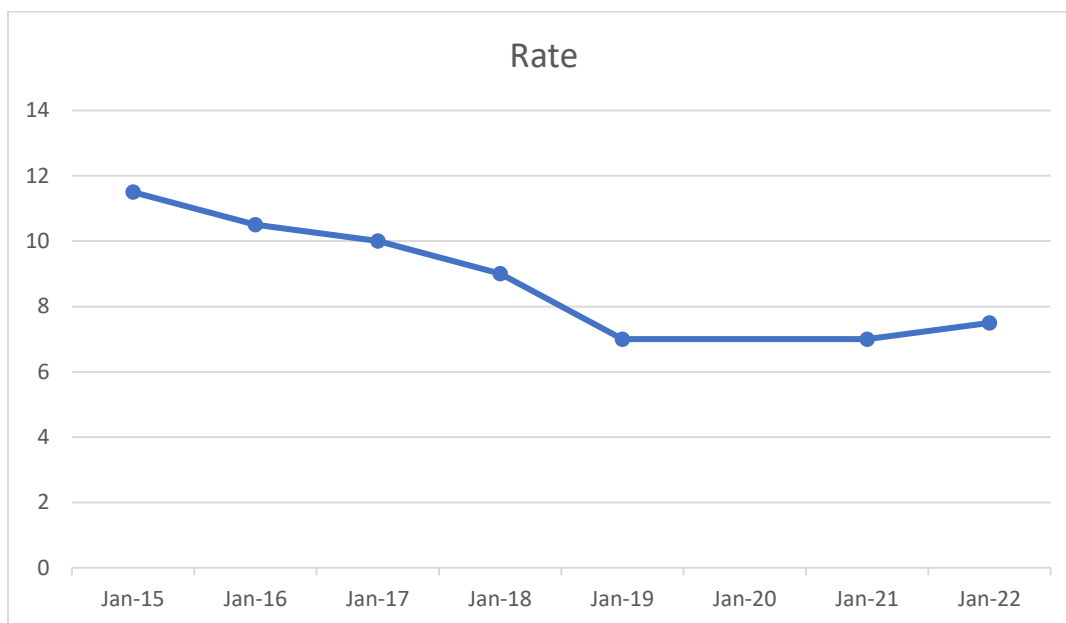


*SOURCE: KNBS, 2022*

### **3.1.3 INTEREST RATES**

Measures by the Central Bank of Kenya (CBK) that maintained an accommodative monetary policy stance cushioned the economy and helped bolster recovery. Inflation has recently moved higher to 7.1 percent year-on-year in May 2022 as domestic food prices, and fuel prices in March, April and May, increased following the surge in global commodity prices due to the war in Ukraine. The full impact of the global oil price and other commodity prices shock on domestic prices has been cushioned by government subsidies which have, however, come at a fiscal cost. In response to the ongoing surge in global commodity prices and supply disruptions that have added to inflationary risks, the CBK increased the Central Bank Rate from 7 to 7.5 percent in their May 30 meeting to anchor inflationary expectations.

Figure 7: Interest Rates

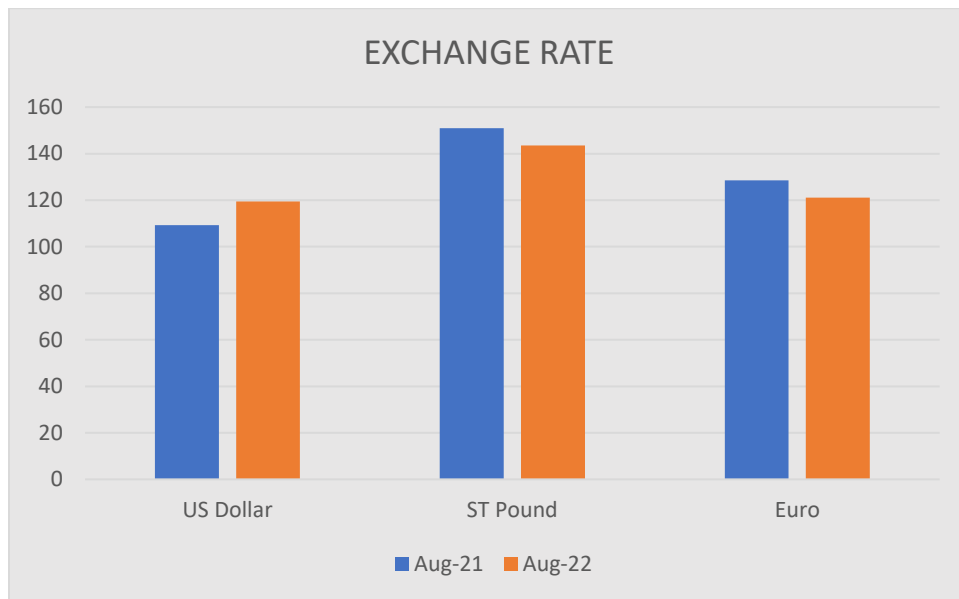


SOURCE: CBK, 2022

### 3.1.4 EXCHANGE RATES

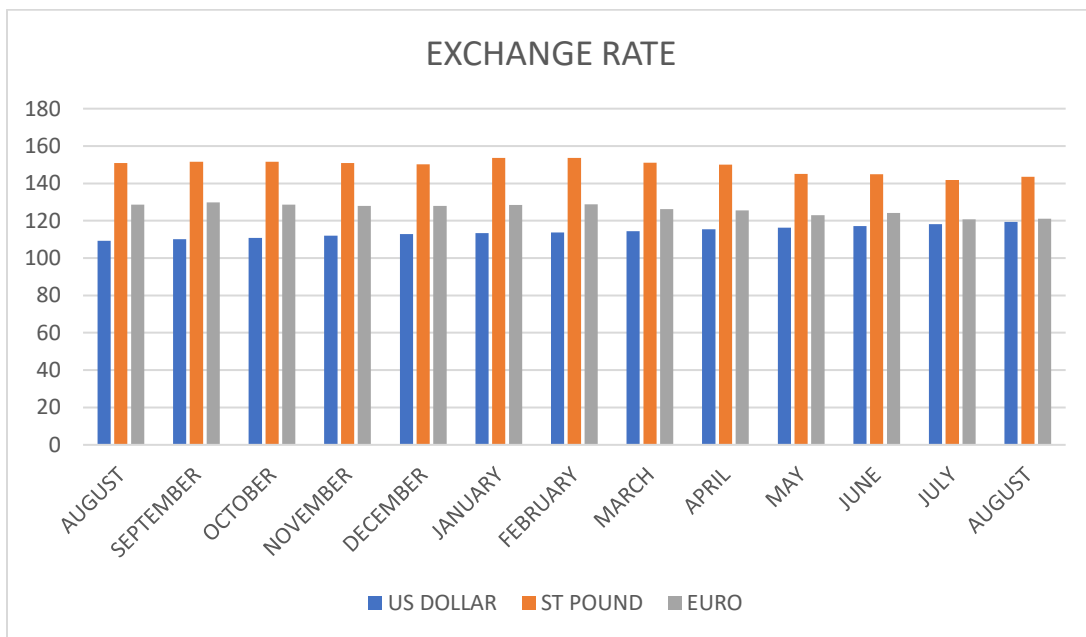
The Kenya Shilling exchange rate was stable against major international currencies amid high demand for the US dollar in the international markets. The Kenya Shilling weakened by 7.9 percent against the US Dollar to exchange at an average of 116.3 in the second quarter of 2022 compared with 107.8 in a similar quarter in 2021. It however, strengthened against the Sterling Pound, the Euro, and the Japanese Yen. In the EAC region, it strengthened against most currencies during the review period

Figure 8: Exchange Rate



SOURCE:KNBS, 2022

Figure 9: Annual Trend in Exchange Rates



SOURCE: KNBS, 2022

### **3.2. MEDIUM TERM FISCAL FRAMEWORK**

In order to ensure stability of the economy and provide an avenue to support economic activity while allowing for sustainable management of public finances, the County Government will continue to pursue prudent fiscal policy. It has also committed itself to ensure payment of all pending bills for the shortest period possible and ensuring expenditure is strictly done guided by availability of funds going forth.

The County Government will continue to pursue prudent fiscal policy as it puts effort into firming economy in the county and sustainably utilizing public finances. Allocation and utilization of resources in the medium term will be guided by the priorities outlined in County Integrated Development Plan (CIDP) and other County plans; and in accordance with section 107 of the PFM Act 2012. For effective utilization of public finances for enhanced expenditure productivity, the County Government will prioritize expenditures within the overall sector ceilings and strategic sector priorities. This will help to ease pressure on expenditure and to provide adequate cushion against unforeseen events.

The county government has put in place mechanisms that would ensure maximum realization of its own source revenue this which will be used to cater mostly of the recurrent expenditure.

### **3.3. RISKS TO ECONOMIC AND FISCAL OUTLOOK**

A tentative recovery in 2021 has been followed by increasingly gloomy developments in 2022 as risks began to materialize. Global output contracted in the second quarter of this year, owing to downturns in China and Russia, while US consumer spending undershot expectations. Several shocks have hit a world economy already weakened by the pandemic: higher-than-expected inflation worldwide—especially in the United States and major European economies—triggering tighter financial conditions; a worse-than-anticipated slowdown in China, reflecting COVID- 19 outbreaks and lockdowns; and further negative spillovers from the war in Ukraine.

The risks to the outlook are overwhelmingly tilted to the downside. The war in Ukraine could lead to a sudden stop of European gas imports from Russia; inflation could be harder to bring down than anticipated either if labor markets are tighter than expected

or inflation expectations unanchored; tighter global financial conditions could induce debt distress in emerging market and developing economies; renewed COVID-19 outbreaks and lockdowns as well as a further escalation of the property sector crisis might further suppress Chinese growth; and geopolitical fragmentation could impede global trade and cooperation. A plausible alternative scenario in which risks materialize, inflation rises further, and global growth declines to about 2.6 percent and 2.0 percent in 2022 and 2023, respectively, would put growth in the bottom 10 percent of outcomes since 1970. Downside in Kenya risks could stem from the 2022 general election, a surge in COVID-19 infections (vaccine rollout was at 30% by mid-April 2020), limited access to external resources, and natural factors. Risk mitigation could include organizing election-education events, continuing growth-friendly structural reforms to build resilience to shocks, and addressing COVID-19 vaccine hesitance.



## **CHAPTER FOUR: RESOURCE ALLOCATION FRAMEWORK**

### **4.0 OVERVIEW**

This section outlines how the County Government of Kilifi intends to utilize its limited resources to deliver on its mandate. It shows the total revenue expected and allocates these resources across the County's departments and agencies through expenditure projections of each department.

### **4.1. IMPLEMENTATION OF THE FY 2022/23 BUDGET**

The FY 2022/23 budget will be implemented strictly to finance projects aligned to the Governor's manifesto and completion of ongoing and stalled projects. Eligible pending bills will also be prioritized. The county government projects to receive revenue amounting to Ksh. 15,831,254,403. Revenue from the Equitable share will amount to Ksh. 11,641,592,941, conditional grants Ksh. 2,722,161,462 and Ksh. 1,467,500,000 from own source revenue (OSR). On the other hand, total expenditures are projected at Ksh 15,831,254,403 with recurrent expenditures projected at Ksh 9,109,896,524, development expenditures are projected at Ksh 6,721,357,878. The projected fiscal balance in the FY 2022/23 budget will be Ksh. 0.

### **4.2. FY 2023/24 BUDGET FRAMEWORK**

The budget framework is set by the Constitution of Kenya, the PFM Act, 2012, and the County Government Act, 2012 among other legislations. The FY 2023/24 budget framework particularly focus on aggressive own source revenue mobilization including policy measures that will increase the local revenue collection.

These measures are aimed at improving the county's local revenue (OSR) so as to meet the revenue targets. This will greatly reduce the instances of pending bills. The measures are: Diversification of revenue streams, Establishment of prosecution system, Integration of Kilifi Electronic Data Management System with County-Pro and Fully automating revenue collection and establishing one-stop-shop payment and approval for all licenses. Expenditure measures will include cost budgeting, a review of portfolio of externally funded projects to restructure and re-align with the government priority programmes and

reducing non-priority spending.

In the FY 2023/24 total revenue is projected at Ksh 13,255,842,941. Of this, local revenue (OSR) is projected at Ksh. 1,614,250,000 and the equitable share projected at Ksh. 11,641,592,941. The OSR measures in place will assist in achieving the own source revenue targets.

On the other hand, the overall expenditure is projected at Ksh. 13,255,842,941. Of this, recurrent expenditure will amount to Ksh. 7,627,908,343 while development expenditure will amount to Ksh. 5,627,934,598 prioritized spending and reducing costs by doing away with redundancies and inefficiencies will be the norm of the day.

#### **4.3. MEDIUM TERM REVENUE PROJECTION**

The County's resource envelope comprises of equitable share, conditional grants and locally collected revenues (OSR). With an increasingly constrained fiscal space, the County treasury is putting in place measures to enhance collection of own source revenue to increase the resource basket to meet the expected targets in the medium term this will aid in attaining the set revenue targets, the county government will continue to pursue the following strategies, which include;

The full automation of revenue collection; Paperless Transactions through completion and handing over of Kilifi Revenue Management System (KRMS) Kilifipay, Integration of Kedams, ATC, Veterinary Services, Hiring of Plant and Machinery, Public Health, Weights and Measures with Kilifipay, Initiating of USSD, Extension of County Services at Huduma Centre, Automation of Cess and Parking Fees Collection, Guaranteed Internet Connectivity in all Sub County Revenue Offices and Cashless payment for revenue payments above Ksh.1000.

Full implementation of Kilifi County Hospital Services Improvement Fund (HSIF Act, 2016). On the same wavelength, will channel all Departmental meetings and workshops to the Mtwapa ATC upon its refurbishment. The county government will undertake Land and Property reforms - uploading and operationalization of the completed Valuation Roll, approval of the Rates truck and capturing of Beneficiaries of the completed upgrading

schemes and conducting Land Audit for the purpose of zoning and defining appropriate Land use and actively pursue land rates defaulters through recovery as provided in section 17 (i) & (ii) of Rating Act.

Conducting revenue clinics to sensitize the public on the various revenue streams, importance of the compliance with respect to payment of county taxes, fees and the benefits therein. The directorate of resource mobilization will promote effective operations of the county markets by pooling all traders to occupy the newly established and refurbished Markets and encourage them to pay as per guidelines. Staff Capacity enhancement through Training and any other capacity enhancement programmes will also be done regularly. The table below presents projections for equitable share and own source revenue for FY 2023/24 to FY 2025/26.

*Table 13: Projection for Equitable Share and Own Source Revenue*

DESCRIPTION	ACTUAL	APPROVED	PROJECTIONS		
	REVENUE FY 2021/22	ESTMATES FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
Equitable Share	11,641,592,941	11,641,592,941	11,641,592,941	11,641,592,941	11,641,592,941
FIF & NHIF	276,427,851	250,000,000	275,000,000	302,500,000	332,750,000
Land Rates and other Land Revenue	107,510,206	448,612,472	493,473,719	542,821,091	597,103,200
Cess on natural resources	244,805,804	340,000,000	374,000,000	411,400,000	452,540,000
Business Permit	50,045,462	105,000,000	115,500,000	127,050,000	139,755,000
Parking fees	25,163,907	67,500,000	74,250,000	81,675,000	89,842,500
Market fees	9,769,231	25,000,000	27,500,000	30,250,000	33,275,000

Billboards & Signage	31,270,722	30,000,000	33,000,000	36,300,000	39,930,000
Building Plan approval and Inspection	36,172,097	25,000,000	27,500,000	30,250,000	33,275,000
Rent/Stall rents	7,900,250	15,000,000	16,500,000	18,150,000	19,965,000
Survey fees and plot rents	697,050	1,266,000	1,392,600	1,531,860	1,685,046
Plot ground rent	4,792,982	10,000,000	11,000,000	12,100,000	13,310,000
House rent	9,807,862	40,000,000	44,000,000	48,400,000	53,240,000
Refuse Collection	1,632,600	1,262,000	1,388,200	1,527,020	1,679,722
Food Hygiene Fees	3,779,710	10,000,000	11,000,000	12,100,000	13,310,000
Liquor licence	6,657,000	6,000,000	6,600,000	7,260,000	7,986,000
AMS \$ATCs	4,327,310	25,000,000	27,500,000	30,250,000	33,275,000
LEASING OF PLANTS AND EQUIPMENT	-	16,387,528	18,026,281	19,828,909	21,811,800
Slaughter House and Livestock sale Yards	1,499,520	10,000,000	11,000,000	12,100,000	13,310,000
Others	21,527,660	41,472,000	45,619,200	50,181,120	55,199,232
<b>Total</b>	<b>12,485,380,165</b>	<b>13,109,092,941</b>	<b>13,255,842,941</b>	<b>13,417,267,941</b>	<b>13,594,835,441</b>

#### **4.4. MEDIUM-TERM EXPENDITURE FRAMEWORK**

The County Government will keep on prioritizing expenditures in order to carry out its agenda for transformative growth. This agenda is centered on providing essential services, fostering employment possibilities, enhancing overall welfare of the populace, and ensuring equity while reducing costs by doing away with redundancies and inefficiencies. The achievement of these goals will have an impact on the budget ceilings set forth in this CBROP 2022. The following criteria will determine resource allocation:

1. Linkage of programmes to the Governor’s manifesto
2. Support completion of ongoing projects;
3. Linkage of the programme with the priorities of Medium-Term Plan IV of the Vision 2030;
4. Degree to which a programme addresses job creation and poverty reduction;
5. Expected outputs and outcomes from a programme;
6. Cost effectiveness and sustainability of the programme;

The table below presents the tentative estimated baseline ceilings for the FY 2023/24 - FY 2025/26 classified by Departments, based on the aforesaid medium-term expenditure framework.

*Table 14: Medium-Term Expenditure Framework*

DESCRIPTION	APPROVED ESTIMATES		PROJECTIONS					
	FY 2022/23		FY 2023/24		FY 2024/25		FY 2025/26	
	REC	DEV	REC	DEV	REC	DEV	REC	DEV
County Assembly	900,000,000	150,000,000	753,588,967	125,598,161	762,765,908	127,127,651	772,860,544	128,810,091
Office of the Governor	164,870,685	-	138,049,699	-	139,730,820	-	141,580,053	-
County Attorney	121,432,340	35,000,000	101,677,857	29,306,238	102,916,055	29,663,119	104,278,072	30,055,688
County Division for Finance	290,824,738	25,781,690	243,513,682	21,587,552	246,479,106	21,850,438	249,741,073	22,139,612
County Division for Economic Planning	88,456,785	-	74,066,730	-	74,968,689	-	75,960,843	-
County Division for Agriculture	77,522,650	433,114,044	64,911,349	362,655,516	65,701,816	367,071,808	66,571,331	371,929,728
County Division for Livestock	27,290,735	40,284,183	22,851,107	33,730,795	23,129,380	34,141,557	23,435,480	34,593,395
County Division for Fisheries	24,484,854	122,858,869	20,501,684	102,872,320	20,751,347	104,125,063	21,025,975	105,503,080
County Division for Water & Sanitation	64,956,854	2,637,310,195	54,389,743	2,208,275,405	55,052,082	2,235,167,008	55,780,655	2,264,747,770
County Division for Environment, Natural Resources & Wildlife	57,428,675	156,598,295	48,086,240	131,123,053	48,671,817	132,719,823	49,315,952	134,476,271
County Division for Education	421,765,287	445,764,202	353,152,963	373,247,761	357,453,536	377,793,041	362,184,166	382,792,849
County Division for Information, Communication & Technology	25,456,672	-	21,315,408	-	21,574,979	-	21,860,508	-
County Division for Medical Services	1,146,569,826	637,599,129	960,047,078	533,875,188	971,738,194	540,376,532	984,598,422	547,528,011
County Division for Public Health	98,811,438	92,394,089	82,736,899	77,363,518	83,744,440	78,305,624	84,852,735	79,341,940
Roads, Transport & Public Works	237,765,413	906,700,000	199,085,991	759,199,018	201,510,390	768,444,277	204,177,229	778,614,062
County Division for Lands & Energy	381,256,170	439,500,000	319,233,826	368,002,612	323,121,343	372,484,019	327,397,612	377,413,566
County Division for Physical Planning, Urban Development and Housing	38,364,415	146,000,000	32,123,333	122,248,877	32,514,520	123,737,581	32,944,825	125,375,155
Gender, Culture, Social Services and Sports	63,456,828	203,106,498	53,133,739	170,065,351	53,780,783	172,136,347	54,492,531	174,414,443
County Division for Trade, & Tourism	37,528,785	226,470,419	31,423,643	189,628,454	31,806,309	191,937,683	32,227,241	194,477,835
County Division for Cooperative Development	32,200,567	-	26,962,213	-	27,290,550	-	27,651,720	-
County Public Service Board	63,698,442	-	53,336,048	-	53,985,556	-	54,700,014	-
Devolution, Public Service and Disaster Management	121,594,131	22,876,265	101,813,328	19,154,779	103,053,175	19,388,039	104,417,007	19,644,625
Public Service Management	4,624,160,235	-	3,871,906,815	-	3,919,057,536	-	3,970,923,330	-
<b>TOTAL</b>	<b>9,109,896,524</b>	<b>6,721,357,878</b>	<b>7,627,908,343</b>	<b>5,627,934,598</b>	<b>7,720,798,332</b>	<b>5,696,469,609</b>	<b>7,822,977,320</b>	<b>5,771,858,121</b>

Source: Kilifi County Treasury

## **CHAPTER FIVE: CONCLUSION**

The fiscal performance for FY 2021/22 had an impact on the financial goals outlined in the previous County Fiscal Strategy paper. To support the economic recovery, the budget for FY 2023/24 and the medium term will prioritize revenue mobilization and core expenditure reductions.

The County is making headway in resolving some of the previously recognized barriers to budget implementation. Despite advances, the following issues continue to impede successful budget implementation: Delays in departments submitting budget implementation/performance and spending reports to the County Treasury; in most cases, submitted reports are not in the necessary mandated formats; off-budget, off-plan expenditures; and pending bills that affect resource distribution.

To improve budget execution, the County should undertake the following recommendations:

- The county departments should follow Section 166 of the PFMA, 2012 in submitting quarterly reports in the desired format,
- The County Government should devise strategies to improve local revenue collection, primarily through revenue automation and civic education on the importance of OSR to the public via the proposed 2021 Finance Bill,
- The county should spend within its means and avoid any leakages.

Going forward, the policies established in this CBROP will reflect changing circumstances and will be broadly consistent with the fiscal responsibility principles outlined in the PFM Act of 2012. They are also aligned with the county's strategic objectives, which serve as the foundation for allocating public resources.

**ANNEX I****Table 15: Outstanding Commitments**

<b>DEPARTMENT</b>	<b>O&amp;M ACCUMULATED AMOUNT IN FY 2021/22</b>	<b>STAFF ALLOWANCES</b>	<b>TOTAL RECURRENT</b>	<b>DEVELOPMENT ACCUMULATED AMOUNT IN FY 2021/22</b>
EXECUTIVE	97,024,283	6,411,340	103,435,623	-
COUNTY ATTORNEY				
FINANCE	96,644,655	17,287,386	113,932,041	1,651,265
AGRICULTURE	22,960,187	7,256,155	30,216,342	2,118,403
WATER	-	351,500	351,500	25,866,710
EDUCATION & ICT	8,337,465	8,811,413	17,148,878	36,254,315
HEALTH	92,643,736	15,480,321	108,124,056	90,366,072
ROADS	234,870,680	-	234,870,680	522,518,962
LANDS	-	7,756,855	7,756,855	-
GENDER	53,507,147	7,948,824	61,455,971	12,499,542
TRADE	15,784,519	1,327,380	17,111,899	27,918,589
PSM	159,378,736	6,968,470	166,347,206	5,633,688
CPSB	-	7,149,020	7,149,020	-
<b>TOTAL</b>	<b>781,151,409</b>	<b>86,748,664</b>	<b>867,900,072</b>	<b>724,827,546</b>