COUNTY GOVERNMENT OF MERU

REPUBLIC OF KENYA

2025 MERU COUNTY FISCAL STRATEGY PAPER

Theme

"Enhancing Efficiency for Economic Growth and Community Resilience"

To obtain copies of the document, please contact:

The County Treasury
Meru County Headquarters
P.O. Box 120-60200

FOREWORD

The Meru County fiscal strategy paper 2025 is prepared pursuant to Public Finance Management Act, 2012 (PFMA) Section 117 and outlines the development framework for the FY 2025/26-FY 2027/28 Medium Term Expenditure Framework (MTEF) Period. The CFSP outlines the strategic priorities, programmes and development agenda for FY 2025/26.

The *FY 2025/26 Medium-Term Expenditure Framework* will be guided by the development philosophy of "***making meru happy***" The development for the Financial Year will be anchored on enhancing efficiency for economic growth and community resilience and will be guided by the following principles; infrastructure development for rural and urban areas to improve access to roads, water and sanitation; strengthening cooperatives as vehicle for rural transformation; improving access to universal health coverage; building strategic partnerships for enhanced resource mobilization; automation of government services; youth empowerment and innovation; strengthening public finance management and public sector transformation for performance oriented results and decentralized government services.

The FY 2025/26 revenues are projected to decrease to Kshs 12,422,498,674 from Kshs 13,922,396,833.66 in FY 2024/25 representing a negative growth of 11.7 per cent. This is mainly attributable to lapse of conditional grants amounting to approximately Kshs.649 million. The budget will be funded from three main sources namely: equitable share, Conditional Allocations, loans and Grants and Own Source Revenue. The government is committed to enhance its resource mobilization strategies by building strategic partnerships for development to ensure delivery of the envisaged development outcomes in the medium term.

The recurrent expenditure for the FY 2025/26 is projected to be Kshs 9,476,887,127.73 an increase of 6.0 per cent from Kshs 8,949,964,962.83 in the printed estimates for FY 2024/25. The Development Expenditure is estimated to be Kshs 2,945,611,546.27 representing 23.71%of the total County Budget.

Towards this end, while developing the budget proposals for the medium-term, the Sector Working Groups (SWGs) undertook a critical scrutiny of individual departments and corporations' budgets execution reports to curtail growth of recurrent budgets and ensured that funding priority is accorded to completion of ongoing projects, which are supportive to accelerate inclusive growth and development.

CPA MONICA KAITHIORI KATHONO

COUNTY EXECUTIVE COMMITTEE MEMBER

FINANCE, ECONOMIC PLANNING AND ICT

ACKNOWLEDGEMENT

The 2025 County Fiscal Strategy Paper (CFSP) has been prepared in compliance with the provisions of the Public Finance Management Act, 2012. The paper outlines the current state of the economy, provides fiscal outlook over the medium term and specifies the set strategic priorities and policy goals together with a summary of the Government spending plans, as a basis of the FY 2025/26 budget.

The preparation of the 2025 CFSP was a collaborative effort among various Government Departments and Agencies. We thank all the spending units, i.e Government Departments and Agencies for timely provision of information and we are grateful for their inputs.

We are grateful to the core team from the Budget and Economic Planning Directorates under the guidance of the Director Budget who worked tirelessly to put together inputs from different departments, Corporations and stakeholders and ensured the document was produced in time while maintaining high quality standards.

Finally, I express my sincere gratitude to Sector Working Groups (SWGs) and technical officers for their invaluable contribution and input to the document.

CHARLES MWENDA

CHIEF OFFICER FINANCE, ECONOMIC PLANNING AND ICT

EXECUTIVE SUMMARY

The 2025 Meru County Fiscal Strategy Paper is the second fiscal strategy paper to implement the 3rd generation County Integrated Development Plan 2023-2027. The CFSP outlines the development agenda for the medium term in line with the theme of building a resilient economy for sustainable development. The CFSP is prepared pursuant to provisions of PFM Act, 2012 and outlines the government's strategic priorities, current state of the economy, fiscal outlook over the medium term and expenditure limits that will form the basis of preparing the FY 2025/26 budget. The CFSP prioritizes interventions on infrastructure development for rural and urban areas to improve access to roads, water and sanitation; improving access to universal health coverage; automation of government services; youth empowerment and innovation; strengthening public finance management and public sector transformation for performance-oriented results and decentralized government services. All these are geared towards building a resilient economy for sustainable development.

The 2025 CFSP prioritize on enhanced resource mobilization to fund the Government agenda. The county will leverage on automation to ensure efficiency and enhance service delivery for results. The 2025 CFSP comprises of Five chapters with the following key highlights;

Chapter One; Introduction; The chapter gives the basis of CFSP Preparation. The CFSP is prepared pursuant to PFM Act Section 117 and contains an assessment of the current state of the economy; the financial outlook with respect to the County Government revenue, expenditures and borrowing for the next financial year and over the medium term; the proposed expenditure ceilings for the County Departments and entities; the fiscal responsibility principles and financial objectives over the medium- term.

Chapter Two; National & County Economic outlook; The Kenyan economy remained strong and resilient in the first three quarters of 2024 despite its growth being relatively slower than the corresponding period in 2023. In the first three quarters of 2024, the economic growth averaged 4.5 percent (5.0 percent Q1, 4.6 percent Q2 and 4.0 percent in Q3) compared to an average growth of 5.6 percent (5.5 percent Q1, 5.6 percent Q2 and 6.0 percent in Q3) in 2023. Meru County contributes on average 3.4 per cent of the National Gross Value added with an average Gross County Product of Ksh 257,289.4 million. This is as per County Gross Product report 2024.

Chapter Three; Budget for FY 2025/26 and the MTEF. This chapter highlights the FY 2025/26 Medium-Term Revenue and Expenditure Framework which will be guided by following objectives; Provision of water for irrigation and domestic use, increasing sustainable agriculture production, value addition and market access for targeted value chains; improving urban and rural infrastructural development for socio economic transformation; increasing industrialization and enterprise development by creating a conducive environment for investment and employment creation and enhancing access to quality and affordable health services.

Chapter Four; Medium Term Expenditure Framework; The County is in the second year of implementing the County Integrated Development Plan for the period 2023-2027 whose theme is Making Meru happy. In the preparation of the FY 2025/2026 and Medium-Term Expenditure Framework, the County has taken into account programs outlined in the CIDP and the Governor's manifesto which is anchored on pillars of; Investment in agriculture, Supporting the Micro, Small and Medium Enterprise (MSME) Economy, provision of Quality, Affordable and Accessible Healthcare, Socio-Economic Empowerment and infrastructure Development. Further, the framework prioritizes prudent fiscal policy as a commitment towards sound financial management practices as entrenched in the Public Finance Management Act, 2012.

Chapter five: Statement Of Specific Fiscal Risks.

This chapter details possible risks in the Medium Term and presents mitigation measures the County Government of Meru plans to effect to ensure the risks are cushioned.

Provisions as in PFMA, 2012 S107 2(f) require for Fiscal Risks to be managed prudently. Reg 25 (2) provides that, the County Executive Committee Member shall in the County Fiscal Strategy Paper include a statement of fiscal risks outlining the potential policy decisions and key areas of uncertainty that may have a material effect on the fiscal outlook /framework. Further, Regulation S. 25 (3) states that the County Executive Member for finance shall disclose the specific risks that will impact the implementation of the budget framework.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

CHAPTER ONE:

SUSTAINING A WEALTHY AND ECONOMICALLY VIBRANT COUNTY AGENDA

1.1 Overview

The **Meru County Fiscal Strategy Paper (CFSP) for 2025** outlines the county's strategic priorities and policy goals, serving as a foundation for budget preparation for the fiscal year 2025/2026 and the medium term. Chapter One of this document provides an introduction and overview of the county's fiscal objectives and the legal framework guiding its financial management.

1.2 Legal framework of the Preparation of CFSP

The CFSP is prepared in accordance with Section 117 of the Public Finance Management Act, 2012, which mandates county governments to develop and submit this paper to the County Executive Committee for approval and subsequently to the County Assembly by the 28th of February each year.

1.3 Alignment with National and County Plans

The paper aligns the county's fiscal policies with national objectives outlined in the Budget Policy Statement (BPS) and integrates priorities from the County Integrated Development Plan (CIDP) and the Annual Development Plan (ADP).

1.4 Strategic Priorities/Core Pillars

These priorities aim to improve livelihoods, promote economic growth, and enhance service delivery. The CFSP emphasizes investment in key sectors such as agriculture, infrastructure, health, education, and water services to stimulate socio-economic development and improve the livelihoods of Meru County residents. The **core pillars** of this CFSP typically include:

1.4.1 Infrastructure and Urban Development

Objective: To enhance connectivity, improve urban planning, and provide essential infrastructure for economic development.

Key Focus Areas:

- **Road Network Improvement:** Upgrading rural and urban roads to facilitate transportation.
- **Street Lighting and Security:** Installing streetlights in towns and marketplaces to boost economic activities.
- **Affordable Housing:** Developing low-cost housing to reduce informal settlements.
- **Smart Urban Planning:** Strengthening zoning laws, green spaces, and public transport systems.
- **Water and Sanitation Infrastructure:** Expanding clean water supply, drainage, and sewer systems.

Expected Impact:

- Improved accessibility and reduced transportation costs.
- Enhanced urban development, making towns more livable.
- Increased investment in real estate and commercial businesses.

1.4.2 Healthcare and Social Protection

Objective: To enhance access to quality healthcare and promote social welfare programs for vulnerable populations.

Key Focus Areas:

- **Universal Health Coverage (UHC):** Expanding access to affordable healthcare services.
- **Health Infrastructure Development:** Constructing and upgrading hospitals, clinics, and dispensaries.
- **Maternal and Child Healthcare:** Strengthening immunization programs, maternity care, and nutrition support.
- **Medical Supplies and Equipment:** Ensuring availability of essential medicines and diagnostic tools.
- **Social Welfare Programs:** Supporting persons with disabilities (PWDs), the elderly, and orphans.

Expected Impact:

- Reduced maternal and infant mortality rates.
- Improved disease prevention and healthcare access.
- Better living standards for vulnerable populations

1.4.3 Water, Environment, and Natural Resources

Objective: To ensure sustainable management of water resources, protect the environment, and promote climate resilience.

Key Focus Areas:

- **Water Supply and Distribution:** Expanding boreholes, dams, and water treatment plants.
- **Irrigation and Water Harvesting:** Expanding irrigation schemes to reduce dependence on rain-fed agriculture.
- **Environmental Conservation:** Afforestation, waste management, and pollution control measures.
- **Climate Change Adaptation:** Promoting renewable energy and climate-smart agriculture.
- **Wildlife and Natural Resource Protection:** Ensuring sustainable use of forests, rivers, and mineral resources.
- **Community Awareness:** Educating residents on sustainable environmental practices.

Expected Impact:

- Improved access to clean water and sanitation services.
- Enhanced environmental sustainability and climate resilience.
- Reduced deforestation, pollution, and land degradation.

1.4.4 Education and Youth Empowerment

Objective: To improve access to quality education, enhance technical skills, and create employment opportunities for youth.

Key Focus Areas:

- **Early Childhood Development Education (ECDE):** Strengthening nursery schools with better facilities and trained teachers and recruitment and replacement of ECDE teachers.

- **Technical and Vocational Education and Training (TVET):** Expanding vocational training centers for youth skills development.
- **Education support:** Providing financial aid to needy students.
- **Youth Employment and Entrepreneurship:** Supporting youth start-ups through incubation centers and funding.

Expected Impact:

- Higher literacy rates and improved school performance.
- Increased youth employment through skills training.
- A more innovative and digitally empowered workforce.

1.4.5 Trade, Industry, and Investment

Objective: To stimulate economic growth through enterprise development, industrialization, and investment attraction.

Key Focus Areas:

- **Market Development:** Upgrading local markets and creating trade hubs.
- **Small and Medium Enterprises (SMEs) Support:** Providing financial aid, equipment's, mentorship, and business registration support.
- **Industrial Parks and Economic Zones:** Establishing special zones for manufacturing and agro-processing.
- **Investment Promotion:** Encouraging local and foreign investments through incentives.
- **Tourism Development:** Enhancing cultural, eco-tourism, and hospitality investments.

Expected Impact:

- More job opportunities and economic growth.
- Increased county revenue from trade and industrial activities.
- A diversified economy with reduced reliance on agriculture.

1.4.6 Agriculture and Food Security

Objective: To enhance food production, improve value chains, and ensure food security for county residents.

Key Focus Areas:

- **Crop and Livestock Development:** Promoting improved seeds, fertilizers, and modern farming techniques.
- **Agribusiness and Value Addition:** Encouraging food processing, packaging, and market linkages to enhance farmer incomes.
- **Extension Services:** Strengthening farmer education on climate-smart agriculture and disease control.
- **Subsidies and Financial Support:** Providing subsidized inputs (e.g., seeds, fertilizers) and access to agricultural credit.

Expected Impact:

- Increased agricultural productivity and food self-sufficiency.
- Higher incomes for farmers and agribusiness investors.
- Reduced post-harvest losses and better market access.

CHAPTER TWO:

RECENT ECONOMIC DEVELOPMENTS AND POLICY OUTLOOK

2.1 Overview

This section highlights the global, regional, national and county economic developments and outlook, risks to the outlook, their mitigation measure and their impact on the County's economic development. The challenges and lessons learnt from this review, will help the county to forecast and set medium term targets and achievable goals/objectives to be implemented in 2025/26 financial year and the medium term.

2.2 Global and Regional Economic Overview

Global economy has stabilized with global growth projected at 3.2 percent in 2024 and 2025 from 3.3 percent in 2023 supported by easing of global inflation and supply chain constraints. The outlook reflects stronger-than-expected growth in the USA, some large emerging market economies such as India, and improved growth prospects in the UK. The main risks to the global growth outlook relate to disruptions to the disinflation process, potentially triggered by new spikes in commodity prices amid persistent geopolitical tensions, a possible resurgence of financial market volatility with adverse effects on sovereign debt markets, a deeper growth slowdown in China and an intensification of protectionist policies which would exacerbate trade tensions, reduce market efficiency, and further disrupt supply chains.

2.4 Kenya Economic Development Overview

The Kenyan economy remained strong and resilient in the first three quarters of 2024 despite its growth being relatively slower than the corresponding period in 2023. In the first three quarters of 2024, the economic growth averaged 4.5 percent (5.0 percent Q1, 4.6 percent Q2 and 4.0 percent in Q3) compared to an average growth of 5.6 percent (5.5 percent Q1, 5.6 percent Q2 and 6.0 percent in Q3) in 2023. The growth in the first three quarters of 2024 was primarily underpinned by strong performance in the agriculture sector, a slight recovery of the manufacturing sector, and the resilience of services sector. All the economic sub-sectors except mining and construction recorded positive growth rates in the first the quarters of 2024, though the magnitudes varied across the economic activities. The diversified structure of the Kenyan economy remains a key source of resilience to domestic and external shocks.

The primary sector (Agriculture & Mining) grew by an average of 4.2 percent in the first three quarters of 2024 (5.0 percent in the first quarter, 4.4 percent in the second quarter and 3.2 percent in the third quarter) mainly supported by strong agricultural activities despite a contraction in mining and quarrying. In the first three quarters of 2024, the agriculture sector remained robust growing by 6.1 percent in the first quarter, 4.8 percent in the second quarter and 4.2 percent in the third quarter. This growth was supported by favorable weather conditions and the impact of Government interventions to lower the cost of production. However, the sectors' performance was somehow curtailed by heavy rains and floods, between March and June 2024, that led to loss of livestock and damage to croplands.

Industrial sector performance remained subdued, with growth of the sector slowing down to an average of 0.8 percent in the first three quarters of 2024 (1.0 percent Q1, 0.8 percent Q2 and 0.6 percent Q3). This was mainly on account of a slowdown in activities from electricity& water supply and contraction of the construction sub-sectors.

The activities in the **services sector** continued to sustain strong growth momentum in the first three quarters of 2024 averaging 5.6 percent (6.2 percent Q1, 5.3 percent Q2 and 5.3 percent Q3). The performance was largely characterized by significant growths in accommodation and food service, financial and insurance, information and communication, real estate, and wholesale and retail trade sub-sectors.

Inflation Developments

Overall inflation declined and has remained below the mid-point of the target band of 5.0 percent since June 2024, mainly reflecting significant declines in energy prices and continued easing of food prices. Inflation declined to 3.0 percent in December 2024 from 6.6 percent in December 2024 and a peak of 9.6 percent in October 2022. Easing inflation has been supported by abundant supply of food arising from favorable weather conditions, lower fuel inflation attributed to appreciation of the exchange rate and lower international oil prices, and the decline in non-food non-fuel (NFNF) inflation reflecting impact of previous monetary policy tightening.

Interest Rates Developments

Interest rates have declined in line with the easing of the monetary policy. The interbank rate declined to 11.4 percent in December 2024 compared to 11.7 percent in December 2023 and has remained within the prescribed corridor around the CBR (set at CBR± 150 basis points). The 91-day Treasury Bills rate also declined to 10.0 percent in December 2024 from 15.7 percent in December 2023.

Foreign Exchange Reserves

The banking system's foreign exchange holdings remained strong at US$. 16,312.1 million in November 2024, an improvement from US$. 14,211.1 million in November 2023. The official foreign exchange reserves held by the Central Bank stood at US$. 9,578.0 million compared to US$ 7,397.6 million over the same period in 2023**.** Commercial banks foreign exchange holdings decreased to US$. 6,734.1 million in November 2024 from US$. 6,813.5 million in November 2023. The official reserves held by the Central Bank in November 2024 represented 4.9 months of import cover as compared to the 3.9 months of import cover in November 2023. These reserves continue to provide adequate cover and buffer against any short-term shocks in the foreign exchange market.

2.5 Kenya Economic Outlook

Kenya's GDP is projected to grow 5.4% in 2024 and 5.6% in 2025, driven by services and household consumption. Inflation is expected to fall to 6.2% in 2024 and 5.5% in 2025, as food and global inflation both decline. Monetary policy is expected to be accommodative due to projected stable inflation and exchange rates. The fiscal deficit is projected to narrow to 5.9% of GDP in 2024 and 5.0% in 2025 in response to a revenue-led fiscal consolidation program. The current account deficit is projected to narrow to 4.6% of GDP in 2024 and 4.5% in 2025 as a recovery in global trade reduces the trade deficit. However, the outlook is subject to considerable risks, including tight global financing, drought, political instability in neighboring countries, and slow recovery of global growth. Risk mitigation measures in the medium to long term include building fiscal and external buffers (e.g., foreign exchange reserves), strengthening disaster preparedness, and accelerating structural transformation.

2.6 Meru County Economic Outlook

Meru County's Economic growth continues to remain strong and resilient regardless of challenges occasioned by global and regional dynamics.

Meru County contributes on average 3.4 per cent of the National Gross Value added with an average Gross County Product of Kshs. 257,289.4 million. The GDP per capita for Meru County was Kshs. 297,650 as at 2023. Meru County has shown steady growth in GVA with an average growth rate of 3.14 per cent from 2013-2022, which is lower than the national average growth of 4.37 per cent.

Meru County is one of the top Counties in Agricultural Production, benefiting from a diverse range of crops, including tea, coffee, maize, vegetables, potatoes, and raw milk.

According to County Gross Product 2024, Meru County Average County Share of Agriculture, Forestry and Fishing GVA from 2019-2023 was the highest at 8%, Secondary sector activities contributed an average of 1.3 Percent, while services sector average contribution to GVA was 1.3 per cent.

Meru County Economy

Table 1: Meru County Gross Product

Year	County Share of GCP (%)	GCP at Current Prices (Kshs. Million)	GCP at constant (2016) Prices (Kshs. Million)	GCP Per Capita
2018	3.1	267,260	228,892	178,053
2019	3.3	306,874	242,576	198,532
2020	3.3	329,977	242,484	210,791
2021	3.4	378,770	259,940	238,919
2022	3.3	415,078	260,857	253,718
2023	3.4	483,974	280,590	297,650
5 Year Average (2019 - 2023) 4.2%				

Source: County Gross Product 2024

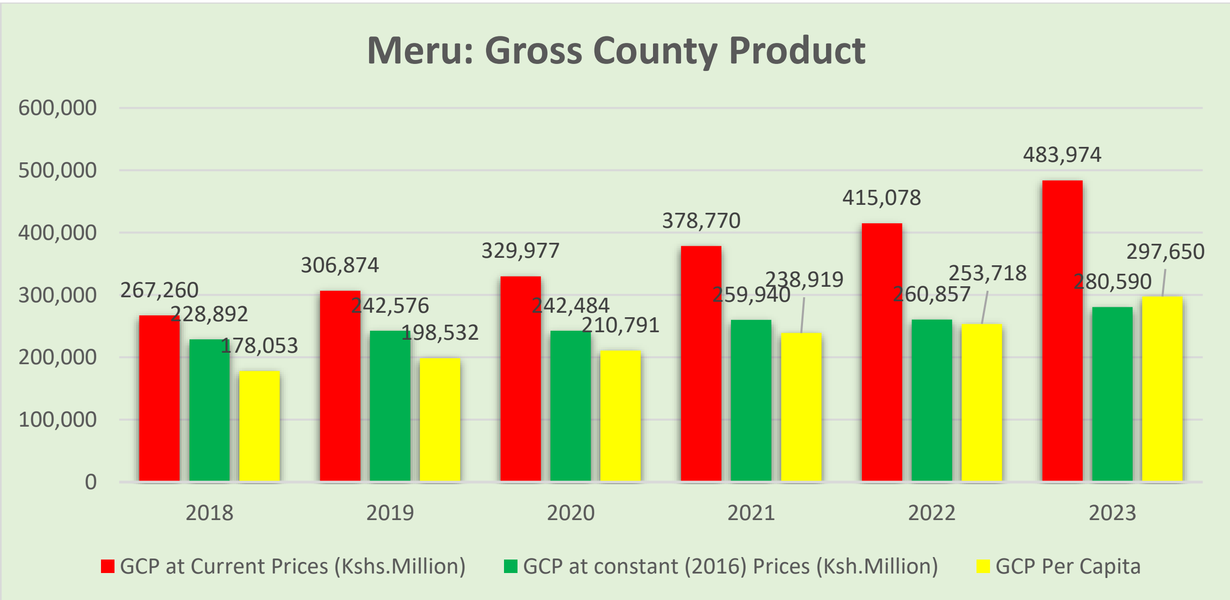


Figure 1: Analysis of Meru County growth rate

Meru County Sectoral Gross County Product 2020 - 2023

Economic Activities	2020	2021	2022	2023
Agriculture, forestry and fishing	182,778	211,033	214,119	274,829
Mining and quarrying	3,655	4,367	5,660	4,902
Manufacturing	16,334	17,669	19,637	22,197
Electricity supply	1,852	1,805	1,689	1,074
Water supply; waste collection	1,009	1,002	1,004	992
Construction	7,628	8,671	9,704	10,226
Wholesale and retail trade; repair of motor vehicles	9,614	10,523	11,821	13,100
Transport and storage	31,444	39,267	50,606	58,882
Accommodation and food services activities	545	936	1,031	1,335
Information and communication	4,020	4,199	4,638	4,905
Financial and Insurance activities	6,602	8,066	9,414	10,956
Real estate activities	19,385	20,926	22,355	24,579
Professional and technical services	4,470	5,023	5,269	5,776
Administrative support services	2,088	2,379	2,939	3,482
Public administration and defence	15,654	15,580	20,073	18,056
Education	11,972	15,154	15,725	16.418
Human health and social work activities	6,939	7,696	6,789	7,324
Other Service activities	6,051	6,789	7,377	8,024
Financial services indirectly measured	-2,062	-2,252	-2,429	(3,083)
GCP	**329,977**	**378,832**	**407,419**	**483,974**

2.7 Meru County Fiscal Outlook.

The County's economy is expected to remain steadfast in the FY 2025/26 and over the medium term. Towards economic turnaround, the County government will focus on enhancing resource mobilization internally and externally. This will enable the county to reduce dependence on the National exchequer which has been decreasing over time. The County will additionally explore avenues of diversification of economic activities beyond the agriculture and tourism sectors as well as promote innovation and entrepreneurship towards socio-economic transformation in the County.

The County will also create strategic partnerships targeting development partners as well as enhance own source resource mobilization for county development

2.8 County Government Fiscal Performance.

2.8.1 FY 2023/24 Revenue and Expenditure Performance

In FY 2023/24, the County Government had a revised budget of Kshs 12,231,175,663 comprised of recurrent budget Kshs 8,482,054,443.06 (69.35%) and development Kshs 3,749,121,220 (30.65%). The Budget was funded from four main sources namely; Equitable share – Kshs 9,892,625,170 (80.88%), Appropriation in Aid – Kshs. 500,000,000(4%), Kaguru Training Centre- Kshs 16,000,000 (0.13%), Own Source Revenue – Kshs 550,000.00 (4.0%) and conditional allocations loans and grants – Kshs 1,240,765,605(10.1%).

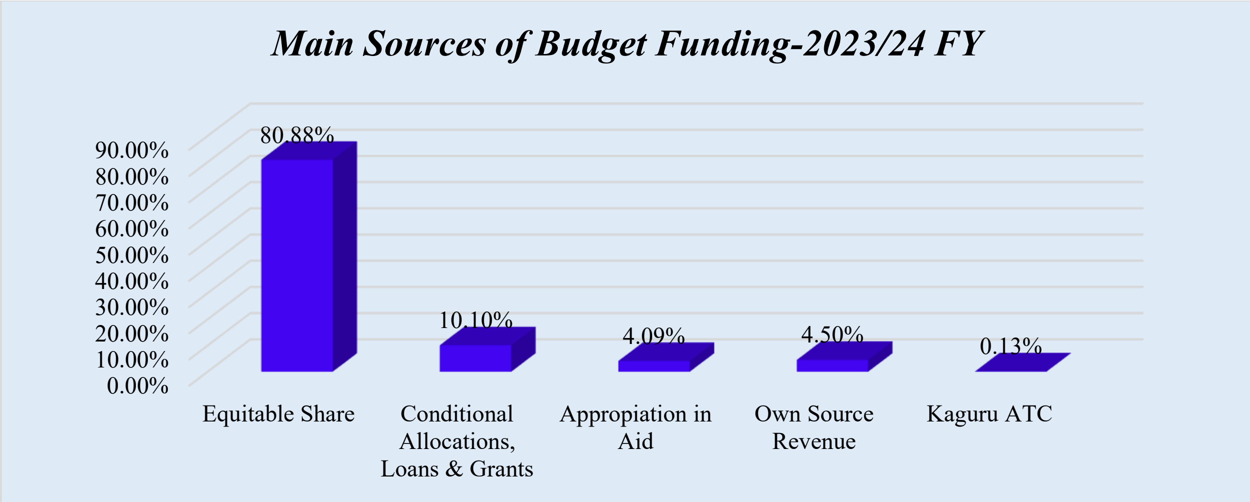


Figure 2: Sources of Budget Funding

2.8.2 Revenue Performance

The overall revenue performance for FY 2023/24 was 90.74 Per cent (Kshs 11.098, 653,096.75) out of the total budgeted revenues of Kshs 12,231,175,663.31. This was occasioned by delay in disbursement of Conditional Grants and equitable share by National Treasury, below target Own Revenue Collection. Own Source collections were affected by; non collection in most of the revenue streams during and after transition from the previous County Government due to political citations; under collection on land rates revenue targets which were pegged on collection from arrears owing to an updated valuation roll; Perennial challenge of mobility due the unavailability of enough vehicles affected revenue collection and enforcement in all sub counties.

Table 2: Analysis of FY 2023/24 Revenue Performance

S/No	Revenue Category	Fy 2023/24 Approved Budget Estimates	Fy 2023/24 Supplementary Budget 1	Actual (July 2023 to Date)	Percentage
A	**B**	**C**	**D**	**E**	**E/D*100**
1	Equitable Share	9,892,625,172.00	9,892,625,172.00	9,101,215,160.00	92.00%
2	Conditional Grants	1,143,186,317.81	905,068,476.81	657,750,597.00	72.67%
3	Own-source Revenue	550,000,000.00	550,000,000.00	381,805,168.00	69.42%
4	Hospital FIF	300,000,000.00	500,000,000.00	580,129,111.25	116.03%
5	Kaguru ATC & AMS	16,000,000.00	16,000,000.00	10,271,046.00	64.19%
6	FY 2022/23 Balances	0.00	31,784,886.00	31,784,886.00	100.00%
7	Conditional grants FY 2023/24 balances		335,697,128.50	335,697,128.50	100.00%
Total		**11,901,811,489.81**	**12,231,175,663.31**	**11,098,653,096.75**	**90.74%**

Source; County Treasury

2.8.3 FY 2023/2024 Local revenue collections

At the end of the financial year, the total own source revenues collected amounted to Kshs. 380,405,168.10 against a target of Kshs. 500,000,000 representing 69.42 per cent performance. Own Source Revenue performance registered a mild growth in terms of target achieved. During the 1st and 2nd quarters of the fiscal year revenue was not performing very well but the last two quarters i.e. 3rd and 4th revenue registered a great improvement. This improvement was attributed mainly by:

1. Improvement on the revenue system i.e. automating all revenue streams to seal loopholes.

2. Having stakeholders' meetings to iron out on pertinent issues such as market murraming, market repair and streamlining on matatu sector and collections of various streams.

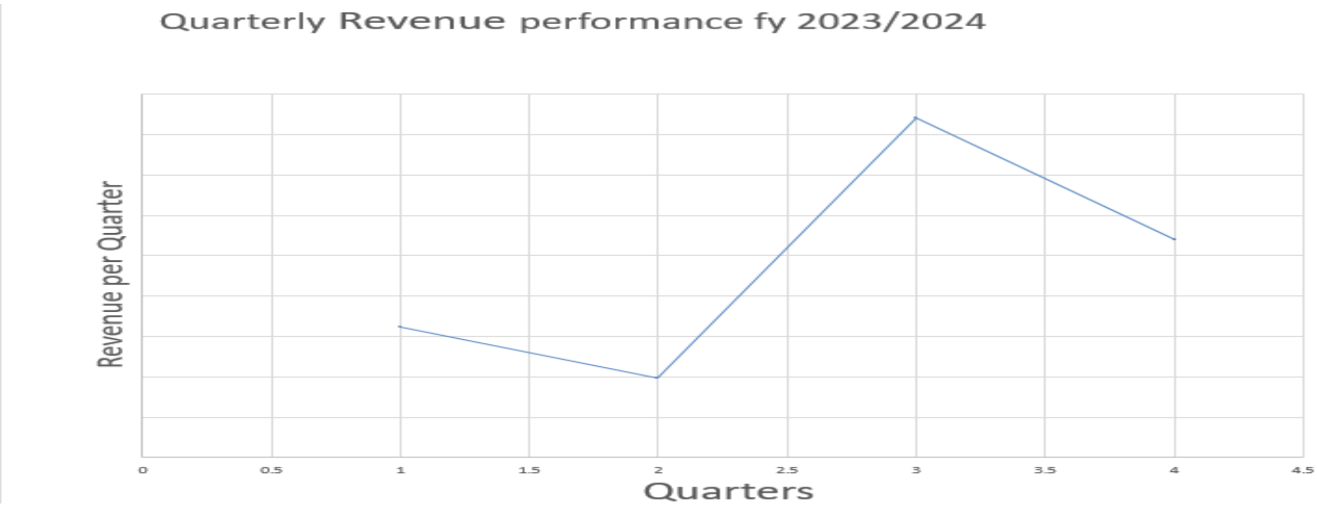
3. Operationalizing matatu payments on monthly stickers by having 24/7 operation.

4. Carrying out night barrier operations to ensure maximum payment on cess.

5. Media sensitization on revenue payment.

Figure 2: Revenue performance per quarter for the FY 2023/2024

MERU COUNTY TOTAL REVENUE COLLECTION ANALYSIS YR 2023/2024 PER QUARTER					
		1st Quarter	**2nd Quarter**	**3rd Quarter**	**4th Quarter**
	Total collection (KSH)	**64,820,023.00**	**39,147,678.00**	**168,425,933.00**	**108,011,534.10**



As shown by the figure 3 above, revenue performance during the 3rd quarter increased owing to the fact that our major revenue streams i.e Single business permit, land rates and plot rents have their deadlines on March 31st hence most of the taxpayers opting to pay during this period to avoid penalties which accrues as from the 4th quarter as opposed to 4th quarter which has low customers turn out hence low revenue performance is experienced.

Analysis of Own Revenue Source Actual Performance for FYs 2019/20-2023/2024

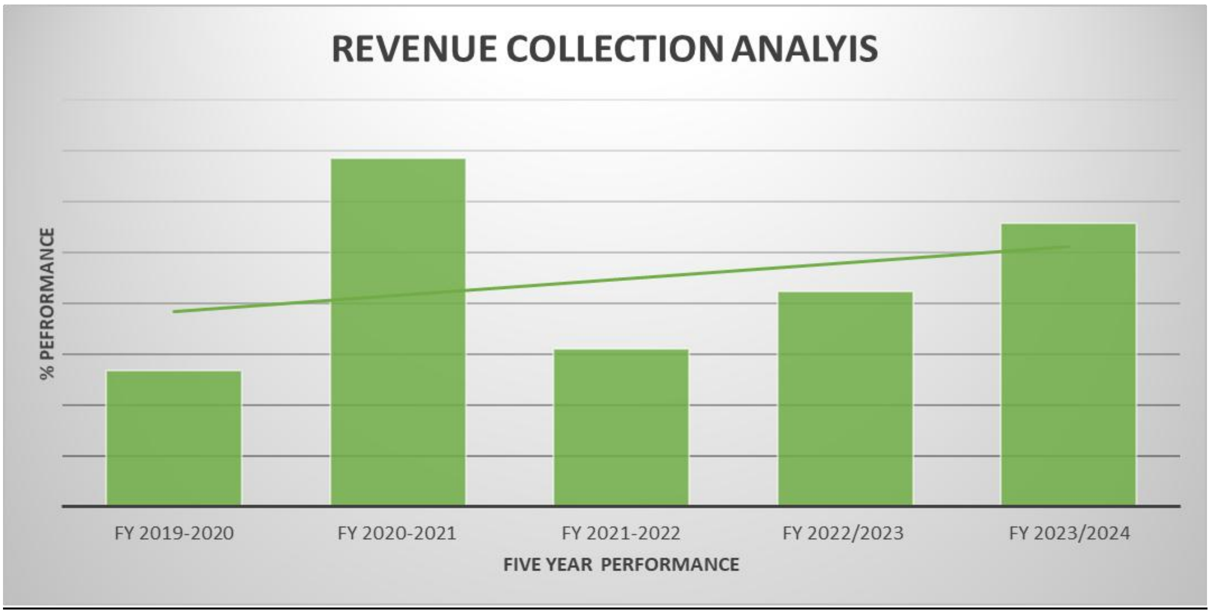


Figure 3: Analysis of revenue performance for the FYs 2019/20-2023/2024

The overall performance between the FYs 2019/20-2020/21 was an upward trend, while a decrease was recorded during the FY 2021/22 and a marginal increase during the precedent years. Increase recorded between the FYs 2018/19-2020/21 and 2021/2022 -2022/2023 was mainly accredited to increased surveillance, increased willingness of the populace to pay fees and enhancing reporting of all revenues collected by County Government entities.

However, Own Source Revenue has not been performing well in the recent years as the County has continually failed to achieve set targets due to challenges that have hindered performance of the various revenue streams. Some of these challenges include;

Weak legal and policy framework.

The county is yet to formulate the following policy and legislations relating to Meru County

a) Tariffs and Pricing Policy
b) Meru County Finance Bill 2024/2025
c) Meru County Outdoor Advertising and Signage Control and Regulation Bill 2025
d) Meru County Trade and Markets Control and Regulation Bill 2025
e) Meru County Agricultural Transportation Control and Regulation Bill 2025
f) Meru County Natural Resources Transportation Control and Regulation Bill 2025
g) Meru County Rating Bill 2025
h) Meru County Valuation Roll

Lack of the legal and policy framework has made it difficult for the revenue staff to do enforcement of revenue collection.

Poor market infrastructure

The county has dilapidated market sheds, lack of toilets, poor drainage system, poor market access roads, lack of murraming, fencing of markets due to lack of enough funds by the county to improve and rehabilitate these infrastructures. These has led to tax payers refusing to pay county fees and charges.

Lack of enough Vehicles

Perennial challenges of mobility due the unavailability of enough vehicles was affected revenue collection across the county.

Inadequate budget allocation which has severely affected the operations of the board.

Budget constraints has reduced the board budget which has severely affected the board operations in terms of revenue mobilization across the county.

Political interference

In some sub counties we have faced hostility from tax payers due to the incitements from our political leaders.

The Best practices that county opts to adopted in ensuring maximum revenue collection include:

1. **Clear Communication**: Providing clear and consistent information about taxes, fees, and penalties. Ensure residents know their obligations and how funds are used.
2. **User-Friendly Payment Systems**: Implementing online payment options and mobile applications to make it convenient for residents to pay revenues.
3. **Regular Training for Staff**: Ensuring that officials are trained in the latest revenue collection techniques, customer service, and compliance measures.
4. **Public Engagement and Transparency**: Holding public meetings and workshops to educate residents about revenue needs and collection processes, fostering trust and cooperation.
5. **Robust Follow-Up Procedures**: Establishing a system for timely follow-up on overdue accounts, including reminders and payment plans to improve compliance rates.
6. **Incentives for Compliance**: Recognizing the best taxpayers and the best collectors by having a taxpayers' day.
7. **Collaboration with Other Agencies**: Partnering with other departments and other agencies.
8. **Evaluation and Adjustment**: Regularly reviewing the effectiveness of collection strategies and making necessary adjustments based on performance metrics and feedback

3.1.1 Own Source Revenue Mobilization

The County has continuously enhanced revenue mobilization through Meru County Revenue

Board which is mandated to Collect and receive county revenues; administer and enforce

County laws related to revenue; assess, collect and account for all revenue in accordance with the county laws related to revenue and advising the county executive committee on all matters related to administration and collection or revenue under county laws. Through the board, the County has put in place various strategies, processes and procedures to be adopted to ensure revenue collection is maximized.

The county projects to mobilize Kshs.550.142 million as its own source of revenue during the FY 2025/2026.

Table 9: Revenue Targets and Projections

S/NO	REVENUE STREAM	PROJECTED TARGET FY 2025/2026	PROJECTED TARGET FY 2026/2027	PROJECTED TARGET FY 2027/2028
1	Single business permit	175,958,100.00	183,606,542.75	186,397,330.50
2	Cess	88,336,850.00	92,253,692.50	96,170,535.00
3	Parking fees	80,932,625.00	84,479,256.25	88,025,887.50
4	Market fee	38,918,465.00	40,864,388.25	42,810,311.50
5	Land Rates	37,612,010.00	39,492,610.50	41,373,211.00
6	Outdoor adverts. & Signboard	64,610,850.00	67,341,392.50	70,071,935.00
7	Building plans	27,603,890.00	28,984,084.50	30,364,279.00
8	Plot Rent	7,087,615.00	7,441,995.75	7,796,376.50
9	House rent/Stall rent	10,168,780.00	10,677,219.00	11,185,658.00
10	Slaughter house fees	4,412,030.00	4,632,631.50	4,853,233.00
11	Meat Inspection and Veterinary Services	581,600.00	610,680.00	639,760.00
12	Impounding fees & Fines	3,721,210.00	3,907,270.50	4,093,331.00
13	Toilets fee	654,705.00	687,440.25	720,175.50
14	Application fees	62,170.00	65,278.50	68,387.00
15	Income from county properties/Estates	376,695.00	395,529.75	414,364.50
16	Fire section fee	109,695.00	115,179.75	120,664.50
17	Refuse collection fee	303,680.00	318,864.00	334,048.00
18	Transfer & Subdivision fee	1,486,735.00	1,561,071.75	1,635,408.50
19	Sale of County Documents.	175,500.00	184,275.00	193,050.00
20	Audit Fees/Sacco registration	1,407,430.00	1,477,801.50	1,548,173.00
21	Weight and Measures	1,940,665.00	2,037,698.25	2,134,731.50
22	Surrender of Imprest/Salary/Govt Remmittances	2,893,290.00	3,037,954.50	3,182,619.00
23	Burial permit (MTRH)	14,040.00	14,742.00	15,444.00
24	Libray fees	773,715.00	812,400.75	851,086.50
	TOTALS	550,142,100.00	575,000,000.00	600,000,000.00

The board main aim is to maximise revenue collection, therefore board intends to adopt and apply a number of strategies/recommendation as highlighted below;

i. All the revenue streams have been automated hence a big milestone in ensuring maximum collection in all revenue streams which has made all the payments to adopt the cashless mode.

ii. We are developing Meru County Finance bill 2025, which will enable us take care of additional revenue streams that have been identified/mapped.

iii. We are holding departmental meetings with internal stakeholder's who's' activity affect revenue collection. Such department includes; Agriculture/Livestock &Fisheries, Trade Department, Cooperative (Weight and measures), Land &Physical planning, Environment -Garbage collection in residential building, PSA, Municipality board,

iv. We are developing a policy on impounds disposal.

v. Preparation of valuation roll and enhancement of laws related to land rates.

vi. Facilitation to acquire more vehicles for revenue operations.

vii. Harmonize all revenue streams to be collected by revenue board e. g Public Health, alcohol board, Investment Corporation etc.

viii. To construct more cess point shelters in our cess points.

ix. Development of a performance management policy which will guide implementation of the following performance management tools;

- Performance Contract (P.C)
- Staff performance appraisals (SPAs).
- Rapid Result Initiative (RRI).
- Business Process Re-engineering-(BPR)

x. Improving revenue Compliance strategies by implementing outreach programs to educate residents about revenue obligations and benefits

xi. Enhancing Technology: Utilizing online platforms for tax payments and tracking to streamline the collection process

xii. Partnerships with stakeholders: Collaborating with stakeholders to promote local revenue initiatives and encourage compliance.

xiii. The board will also consider motivating its staff who will surpass the set targets.

By implementing the above, Meru County Revenue Board will work towards improving their revenue collection efforts, which in turn will contribute to sustainable economic development and better service delivery to citizens of Meru hence making Meru happy.

2.8.4 Equitable share, conditional allocations, loans and grants

In FY 2023/24, the revenue performance for equitable share, conditional allocations loans and grants was 88 percent. The allocations for the county conditional allocations has declined due to the conversion of fuel levy, village polytechnics compensation for user fees funds to equitable share. The Government received 92% of the allocated equitable share and 73 percent of the Conditional grants.

Table 3: FY 2022/23 Annual Revenue Receipts per item:

S/No.	Revenue Category	Annual Budget Allocation (Kshs)	Actual Receipts (Kshs.)	Actual Receipts as Percentage of Annual Budget Allocation (%)
A	Equitable Share of Revenue Raised Nationally	9,892,625,172	9,101,215,160	92.0
Sub total		**9,892,625,172**	**9,101,215,160**	**92.0**
B	**Conditional Grants**			
1.	IDA (World Bank) Credit (National Agricultural and Rural Inclusive Growth Project NAGRIP)	5,000,000	4,261,826	85.2

2.	IDA (World Bank) Credit (National Agricultural Value Chain Development Project (NAVCDP)	200,000,000	198,912,147	99.5
3.	DANIDA Grant	19,733,230	14,668,500	74.3
4.	Sweden - Agricultural Sector Development Support Programme (ASDSP) II	6,105,100	1,605,100	26.3
5.	Kenya Informal Settlement Programme (KISP)II	67,546,296	67,546,296	100.0
6.	Emergency Locust Responses Projects (ELRP)	121,171,561	119,986,828	99.0
7.	Aquaculture Business Development Programme (ABDP)	23,306,584	-	-
8.	Aggregated Industrial Parks Programme	250,000,000	62,500,000	25.0
9.	Financing Locally Led Climate Action Programme (FLLoCA) Program, County Climate Institutional Support (CCIS)	11,000,000	-	-
10.	Financing Locally Led Climate Action Programme (FLLoCA) Program, County Climate Resilience Investment (CCRI)	188,269,899	188,269,900	100.0
11.	Conditional grant for transfer Library services	12,902,906	-	-
Sub total		**905,035,576**	**657,750,597**	**72.7**
C	**Other Sources of Revenue**			
12.	Ordinary Own Source Revenue	550,000,000	381,805,168	69.4
13.	Ordinary Appropriation in Aid (A-I-A)	16,000,000	10,271,046	64.2
14.	Facility Improvement Fund (FIF)	500,000,000	580,129,111	116.0
Sub Total		**1,066,000,000**	**972,205,325**	**91.2**
D	**Other Sources of Revenue**			
15.	Unspent balance from FY 2022/23(Inclusive of grants balances)	367,514,915	367,514,915	100
Sub Total		**367,514,915**	**367,514,915**	**100**
Grand Total		**12,231,175,663**	**11,098,685,997**	**90.7**

Source: County Treasury

2.8.5 Expenditure Performance

The County targeted to receive revenue totalling to Kshs. **12.231** billion for the FY 2023/2024. Actual receipts for the year amounted to Kshs.**11.098 billion** by end of the financial year whereas total expenditure amounted to **Kshs. 10.96 billion**. This expenditure comprised of **Kshs 7.98 billion** on **recurrent expenditure** Kshs **2,618.97 billion** and **Kshs 2.97** billion on **development expenditure** and Kshs. **990.34 million transfer to County Assembly**.

Analysis of expenditure against approved budget estimates represented an overall absorption rate of 89.57%. Recurrent expenditure for FY 2023/24 amounted to Kshs. 7.981.95 billion, whereas development expenditure amounted to Kshs. 2.974 billion.

Table 4: Overall Recurrent and Development Expenditure

Description	2023/24 FY	2023/24 FY		
	Actual (Kshs. Million)	Approved Budget Est' (Kshs. Million)	Actual Receipts (kshs. Million)	% Absorption
	a	b	c	e=(c/b)
Economic Classification				
Recurrent Expenditure	4,880.71	7,499.66	6,999.59	0.93
County Assembly	982.39	982.36	982.36	0.99
Recurrent Total	**8,482.07**	**8,482.02**	**7,981.95**	0.96
Development Expenditure				
County Executive	3,636.35	3,709.12	2,966.02	1
County Assembly	40	40	7.98	0.2
Development Total	**3,676.35**	**3,749.12**	**2,974.30**	0.99
Total Expenditure	12,158.42	**12,231.18**	**10,956.28**	**0.99**

2.9 FY 2024/25 Revenue and Expenditure Performance

2.9.1 Revenue Performance.

In FY 2024/25, the Government has an approved Budget of Kshs 13,922,396,833.66 with Kshs 8,949,964,962 (64.28%) directed towards recurrent budget and 4,972,431,870 (35.72%) directed towards development budget. The County Budget is funded from six main sources namely; Equitable share from the National Government of Kshs. 1087, 9160,115 (78.14 Per cent), own-source revenues Kshs 500,000,000.00 (3.59 per cent), conditional grants Kshs 1,143,186,317.81 (14.19 percent), Appropriation –in-Aid Kshs. 550,000,000.00 (3.95 Percent) and Kaguru Training centre Kshs. 17,000,000 (0 .12 percent).
The overall half year (July- December) revenue performance was Kshs. 5,382,793,233.30 which is equivalent to 38 percent of total budgeted revenue.

Source; County Treasury

2.9.2 Expenditure Performance for current FY 2024/25. (Half year)

Analysis of FY 2024/2025 Half Year returns show an overall cumulative absorption rate of 35 percent (Kshs.4.810) for the period July- December 2024. Transfer to County Assembly and use of goods and services recorded the highest recurrent absorption rate of 44 percent i.e. Kshs. 440.86 million. Overall county recurrent expenditure resulted to an absorption rate of 45% whereas Development expenditure represented 16 percent absorption rate.

Table 5: FY 2024/25 Budget performance as at December 2024.

Economic Classification	FY2024/25 Approved Budget	Expenditures as at 31st December 2024	Absorption
Salaries	5,417,555,412.41	2,886,646,876.45	53.28%
O&M	2,519,031,255.42	701,265,900.55	30.88%
Transfer to County Assembly	1,145,395,621.00	440,860,018.00	38.88%
Total Recurrent	**6,562,953,807.86**	**4,028,772,795**	**62.62%**
Development	4,840,414,544.83	781,580,233.08	16.15%
Total	**11,403,368,352.69**	**4,810,353,028.08**	**42.89%**

Source; County Treasury

2.10 Public Participation and Involvement of Stakeholders

The constitution of Kenya and the County Government Act 2012 has mandated Public participation in governance processes.

The CFSP was developed through a participatory approach with the involvement of Sector Working Groups and diverse stakeholders. Citizens were given an opportunity to deliberateon their development issues and challenges and prioritize interventions from the 46 Wards and thematic groups (youth, women, PLWHIV, and PWDs). Inputs from different groups including development partners, professionals and elected leaders were sought and incorporated

2.11 Risks to the Economic & Fiscal Outlook and Mitigation Measures

This section outlines the potential risks in the medium term and the mitigation measures the county will put in place to ensure the risks are cushioned.

There are downside risks emanating from domestic as well as external sources. On the domestic front, risks relate to unpredictable weather conditions due to the impact of climate change which could adversely affect agricultural production and result to domestic inflationary pressures and food insecurity. Additionally, tight fiscal space due to the impact of the multiple shocks that have affected the global and the domestic economy might lead to tight liquidity conditions for financing the budget.

Risk Category	Risk	Mitigation Measures
Fiscal/Economic Risk	The declining own source revenue projects a risk to the county government expenditure and implementation of programmes/projects. Unmet revenue targets contribute to growing pending dues for the county which stifle implementation of county budgets.	-The county will ensure revenue compliance and enforcement; embrace automation and cashless revenue collection mechanism -The County Treasury will continue to prioritize resources to offset the pending bill stock, while ensuring that commitments are done with availability of resources.
	The county economy is likely to be faced with the risk of increasing public expenditure pressures, mainly on recurrent expenditure particularly on the wages. This may lead to reduction in implementation of development expenditure budget thus declined economic growth.	The County Administration shall institute policies to curtail recruitment of new staff, conduct staff audit to inform placement and deployment of staff in line with their cadre

	The county economy is susceptible to external economic shocks like inflation which could lead to increased cost of budget implementation and increased stress on government projects and programmes.	The County shall undertake to budget within its actual resources
	Inadequate resources	Enhance resource mobilization
	Inefficiencies in government expenditure	Strengthen outcome oriented expenditure
	Poor performance of the economy	Invest in the productive sector of the economy
	Poor conceptualization, scoping and costing of projects and programs	Conduct comprehensive pre-feasibility and feasibility studies for all projects and programs with all stakeholders.
Capacity Risks	Aging work force	Enhance knowledge management and succession management
	Inadequate human capacity (number of employees and level of knowledge and expertise)	Capacity build and right placement of staff
	Staff turnover	Improve work environment and staff welfare
Political Risks	Changes and Inconsistency in government priorities	Align development strategies to the government aspirations
Legal Risks	Inadequate legal and regulatory frameworks	Develop and implement policies and regulations
Environmental Risks	The continuing drought and effects of climate change pose a threat to the main economic activities in the county. The recent drought led to reduced livestock/agricultural production and productivity hence adversely affecting livelihoods for the county residents.	-Integration and mainstreaming of climate change measures into county programmes and projects will remain a priority -Develop and implement strategies for risk mitigation and preparedness -The County administration shall enhance disaster and emergency preparedness to mitigate the effects against draughts, fire, flash floods and strong winds
Social Risks	Mental health issues and Terminal Illnesses	Awareness creation on mental health and terminal illness among staff

Table 6: Risk to economic and fiscal outlook

CHAPTER THREE:

BUDGET FOR FY 2025/26 AND THE MEDIUM TERM

3.1 Fiscal Framework for FY 2025/26 and Medium-Term Budget

The FY 2025/26 and the medium-term budget is based on the Government's policy priorities and macroeconomic policy framework set out in Chapter I and Chapter II. To support the Bottom - Up Economic Transformation Agenda and CIDP 2022-27, the Government will continue with the growth friendly fiscal consolidation plan by containing expenditures and enhancing mobilization of revenues in order to foster service delivery.

Revenue Projections

In the FY 2025/26 total revenue including Appropriation-in-Aid (A-i-A) is projected at Kshs 13.441 billion from the projected Kshs 13.108 billion in FY 2024/25 Approved Supplementary Budget. Of this, Own Source Revenue is projected at Kshs.1.845 billion. OSR performance will be underpinned by the on-going reforms in revenue collection geared towards minimizing leakages and improving tax compliance.

Expenditure Projections

The overall expenditure is projected at Kshs 13.461 billion in FY 2025/26 from the projection of Kshs 13.108 billion in FY 2024/25. The FY 2025/26 comprise: recurrent expenditure of Kshs 9.462 billion (70.39 percent of budget); development expenditure of Kshs.3.999 billion (30 percent of budget) respectively.

Deficit Financing

The county intends to have a balanced budget hence there will be no deficit financing.

3.2 FY 2025/26 and Medium-Term Budget Priorities

The FY 2025/26 and the Medium-Term Framework the county will focus on the implementation of the CIDP 2023-2027, Annual Development Plan 2025/2026 and also align to the National Governments Bottom-up Economic Transformation Agenda (BETA) as prioritized in the Medium-Term Plan (MTP) IV for Kenya Vision 2030.

The FY 2025/26 and the Medium-Term Framework will concentrate on the thematic areas outlined in Chapter 1. The agenda aims to achieve sustainable development and economic empowerment for the Meru people, impacting both the economy and household welfare.

To achieve this, the County Government will implement strategic interventions in the following key areas: MSME empowerment; infrastructure development; construction and maintenance of road networks; urban development; agricultural investments for food security and household use; Value addition, health services; provision of water for irrigation and domestic use; youth, women, men, and PWDs empowerment; and socio-economic empowerment.

The implementation of these priority programs aims to create jobs, provide social security to the majority of the Meru people, expand the tax revenue base, and improve the foreign exchange balance.

3.3 Budgetary revenue projections for the FY 2025/26 and the Medium-Term

The revenue projections to the two Arms of the County Government including SAGAs affiliated to the County Government of Meru is summarized in the Table **below**.

COUNTY GOVERNMENT OF MERU FY 2025-2026 COUNTY FISCAL STRATEGY PAPER(CFSP) PROJECTED REVENUES					
REVENUE STREAM	**Approved Supplementary Revenue Budget FY 2024/25**	**Collections for FY 2024/25 3rd Quarter**	**Projected FY 2025/26 Revenue Budget**	**Outer FY 2026/27**	**Outer FY 2027/28**
Revenues from County Own Sources					
a. County Own Revenue	530,000,000.00	276,287,614.55	800,000,000.00	850,000,000.00	900,000,000.00
b. Appropriation in Aid- Hospital FIF	550,000,000.00	498,922,561.00	1,025,500,000.00	1,076,775,000.00	1,130,613,750.00
c. Kaguru Training Centre	17,000,000.00	10,018,688.75	20,000,000.00	22,000,000.00	26,342,000.00
d. Insurance Compensation for THS Vehicle	4,660,700.00				
e.County Basic Salary Arrears	43,915,785.00				
Sub-total	**1,145,576,485.00**	**785,228,864.30**	**1,845,500,000.00**	**1,948,775,000.00**	**2,056,955,750.00**
Allocations from County Reveneu Fund					
a. Equitable Share for FY 2024/25	9,944,340,480.00	5,767,717,302.00	10,084,340,480.00	10,286,027,289.60	10,491,747,835.39
b. Roll-over equitable share from FY 2023/24	791,410,012.00	791,410,012.00			
c. Cash Balance from FY 2023/24	47,967,278.00	47,967,278.00			
Sub-total	**10,783,717,770.00**	**6,607,094,592.00**	**10,084,340,480.00**	**10,286,027,289.60**	**10,491,747,835.39**
Conditional Loans and Grants					
a.World Bank for national agricultural value chain development project (NAVCDP)	151,515,152.00		231,250,000.00	235,875,000.00	240,592,500.00
b.Aquaculture business Development	23,306,984.00		23,306,984.00	23,773,123.68	24,248,586.15
d.Aggregated Industrial Park	187,500,000.00	54,131,578.00		-	-
e.Danida	12,382,500.00		12,382,500.00	12,630,150.00	12,882,753.00
f.World Bank Emergency Locust Response Project (ELRP)	104,600,000.00		104,600,000.00	106,692,000.00	108,825,840.00
g.Kenya Devolution Support Programme(KDSP II)- Recurrent	37,500,000.00		37,500,000.00	38,250,000.00	39,015,000.00
h.Worl Kenya Informal settlement Improvement Project-KISIP II	193,506,111.00			-	-
i.World credit Financing Locally-Led Climate Action	188,269,899.00	11,000,000.00	283,269,899.00	288,935,296.98	294,714,002.92
j.Community Health Promoters-conditional funding	111,480,000.00		111,480,000.00	113,709,600.00	115,983,792.00
k.World Bank KUSP (Kenya Urban Support Programme)-UIG	35,000,000.00		28,150,000.00	28,713,000.00	29,287,260.00
l.World Bank KUSP (Kenya Urban Support Programme)-UDG	121,688,538.00		336,534,125.00	284,264,807.50	220,744,853.65
m.Transfer to Library Services	12,902,906.00			-	-

n.Kenya Agricultural Business Development Projects(KABDP)			10,918,919.00	11,137,297.38	11,360,043.33
o.Kenya Devolution Support Programme(KDSP II)-Development			352,500,000.00	359,080,442.87	366,262,051.73
Sub-Total	**1,179,652,090.00**	**65,131,578.00**	**1,531,892,427.00**	**1,503,060,718.41**	**1,463,916,682.78**
Total	**13,108,946,345.00**	**7,457,455,034.30**	**13,461,732,907.00**	**13,737,863,008.01**	**14,012,620,268.17**

3.3.1 Criteria for Resource Allocation

County Government Departments and Entities must follow the development strategies and policies outlined in this CFSP. The County Treasury will coordinate and review departmental program/project submissions to ensure alignment with the following guidelines:

i. Programs should support sustainable development and the economic empowerment of the people.

ii. Linkage to ADP 2025/2026 and the 2023-2027 CIDP.

iii. Programs should support climate change mitigation and adaptation.

iv. Programs should address the core mandate of the MDAs, with clear expected outputs and outcomes.

v. Programs should address viable stalled/ongoing projects.

vi. Programs should be cost-effective, efficient, and sustainable.

vii. Programs should align with the requirements of the County Government Act, the Constitution, and other relevant laws.

Baseline estimates reflect the current spending levels of departments/entities under respective programs. In the recurrent expenditure category, non-discretionary expenses take priority, including employee compensation, utilities, interest payments, rent, medical expenses, and insurance premiums.

Development expenditures are allocated based on flagship projects in CIDP 2023-2027, ADP 2025/26 and aligned with the National Government's Bottom-Up Economic Transformation Agenda and MTP IV priorities.

The following criteria was used in apportioning capital budget:

a. *On-going projects:* emphasis was given to completion of on-going capital projects and in particular infrastructure projects with high impact on poverty reduction, equity and employment creation;

b. *Counterpart funds:* priority was 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; and

c. *Strategic policy interventions:* further priority was given to policy interventions covering the entire county, regional integration, social equity and environmental conservation.

3.4 Details of Sector Priorities

Table 3.2 provides the projected baseline ceilings for the FY 2025/26 and the medium term, classified by sector. **Annex Table 4** provides a summary of expenditures by programmes for the FY 2025/26–2027/28 period.

Table 3.2: Summary of Budget Allocations per sectors for the FY2025/26 – 2027/28 (Kshs Million)

Code	Sector	Description	Approved Supplementary Budget Estimates	2025/26 CFSP Ceiling	Outer Years	
			2024/25	**2025/26**	**2026/27**	**2027/28**
1	**Agriculture, Rural and Urban Development (ARUD) Sector**	**Sub-Total**	**670.57**	**1,201.36**	**1,225.39**	**1,249.89**
		Rec-Gross	119.37	188.25	192.015	195.8553
		Dev-Gross	551.20	1013.11	1033.3722	1054.039644
2	**Energy, Infrastructure and ICT**	**Sub-Total**	**1207.57**	**623.13**	**635.5926**	**648.304452**
		Rec-Gross	40.9	43.13	43.9926	44.872452
		Dev-Gross	1166.67	580	591.6	603.432
3	**General Economic and Commercial Affairs**	**Sub-Total**	**473.02**	**149.28**	**152.2656**	**155.310912**
		Rec-Gross	25.33	26.28	26.8056	27.341712
		Dev-Gross	447.69	123	125.46	127.9692
4	**Health**	**Sub-Total**	**1,503.45**	**1,648.10**	**1,681.06**	**1,714.68**
		Rec-Gross	704.71	1033.85	1054.527	1075.61754
		Dev-Gross	798.74	614.25	626.535	639.0657
5	**Education, Science, culture and Arts**	**Sub-Total**	**450.52**	**461.4**	**470.628**	**480.04056**
		Rec-Gross	260.52	324.84	331.3368	337.963536
		Dev-Gross	190	136.56	139.2912	142.077024
8	**Public Administration & Intergovernmental Relations**	**Sub-Total**	**8,191.52**	**8,395.83**	**8,563.75**	**8,735.02**
		Rec-Gross	7,714.20	7,658.05	7,810.49	7,966.70
		Dev-Gross	477.32	738.49	753.2598	768.324996
6	**Social Protection, Culture and Recreation Sector**	**Sub-Total**	**156.06**	**252.69**	**257.7438**	**262.898676**
		Rec-Gross	44.73	138.49	141.2598	144.084996
		Dev-Gross	111.33	114.2	116.484	118.81368
7	**Environmental Protection, Water and Natural Resources**	**Sub-Total**	**593.6**	**660.44**	**673.6488**	**687.121776**
		Rec-Gross	43.8	48.89	50.8878	51.905556
		Dev-Gross	549.8	630.55	622.761	635.21622
	Grand Total	**Sub-Total**	**13,246.31**	**13,461.73**	**13,710.56**	**13,984.78**
		Rec-Gross	8,953.56	9,462.07	9,651.31	9,844.34
		Dev-Gross	4,292.75	3,999.66	4,059.25	4,140.44

3.4 Sector Priorities

3.4.1 Environmental Protection, Water, and Natural Resources

The sector supports sustainable and productive rural livelihoods and is crucial for agriculture, food production, and ecosystem health. Achievements from the 2021/22-2023/24 MTEF period include planting over 226,000 trees, rehabilitating wetlands, prosecuting illegal dumping cases, and drilling 66 boreholes, among other initiatives. These efforts underscore the sector's role in sustaining the county's environment and natural resources.

In the fiscal year 2025/26, the sector's priorities will focus on ensuring safe water access for drinking and irrigation, equipping and distributing water to households, and providing storage aids for water harvesting. The county plans to drill and equip more boreholes, distribute water from steel tanks, and build a decentralized treatment facility through the Water Services Trust Fund. Efforts to capacity build water management structures, particularly involving women and youth, are also a key focus.

Under the environment and natural resources sub-sector, funds will be allocated to maintaining dumpsites, controlling environmental pollution, enforcing environmental regulations, removing asbestos, and installing climate-friendly roofs. Additionally, the sector will procure garbage skip loaders and bins, rehabilitate catchment areas, and provide tree seedlings to institutions.

The budget allocation for these programs in FY 2025/26 is Kshs. 669.84 million, with Kshs. 630.55 million dedicated to development expenditure and Kshs. 48.89 million for recurrent expenses.

3.4.2 Agricultural, Rural and Urban Development sector.

The sector in encompasses a variety of sub-sectors including Lands & Housing, physical planning & Urban Development, Agriculture, livestock & Veterinary Services, and fisheries. According to the 2023 Gross County Product Report by the Kenya National Bureau of Statistics, Meru is among the top five counties in agricultural production, excelling in fruit yields and forest resources. The sector's contributions are integral to the County Integrated Development Plan 2023-2027 and the overall Development Agenda.

During the 2021/22-2023/24 Medium-Term Expenditure Framework (MTEF) period, several notable achievements were made. These include the ongoing project of operationalizing a GIS laboratory, surveying and beaconing five markets, completing residences for the governor and deputy governor, and constructing the Ontulili modern market. Further accomplishments include distributing assorted farming inputs, training thousands of farmers, vaccinating livestock, and advancing various fish farming initiatives. Additionally, the sector facilitated the procurement and distribution of farming equipment, seeds, and livestock insemination doses, as well as improving numerous sub-county offices.

Looking ahead to the MTEF period 2025/26-2027/28, the sector has ambitious plans backed by substantial resource allocations for each fiscal year. These plans involve land adjudication support, developing housing policies, and enhancing market land use and integrated plans. Other initiatives include spatial planning, issuing agricultural inputs, constructing water pans and farm ponds, and supporting livestock and fish farming through extensive distribution and training programs. The sector's goals also encompass the development of municipality infrastructure, elevating informal settlements, and adopting advanced fish value addition technologies, all supported by Kshs. 1210.81 billion in annual funding of the FY 2025/26.

3.4.3 Education sector.

The Education Sector in Meru County is comprised of two sub-sectors: Early Childhood Education (ECDE) and Technical Vocational Education and Training (TVETs). This sector is pivotal in driving social and economic development by fostering education and training that contributes to a knowledge-based economy.

In the last Medium-Term Expenditure Framework (MTEF) period, the sector achieved significant milestones including the construction and completion of 65 ECDE classes, training of VTC managers and ECDE teachers, supporting VTCs with conditional grants, building 11 sanitation units, and procuring furniture for 219 ECDE classes. Additionally, bursaries were issued benefiting 52,000 learners, nine TVET workshops were constructed, and exam fees for 5,600 trainees were subsidized.

In the fiscal year 2025/26, the sector plans to focus on several key priorities aimed at increasing access to quality early childhood education for 60,000 children in marginalized and remote areas. This includes purchasing learning materials for ECDE learners across the county, Recruitment and replacement of ECDE teachers, implementation of Scheme of service for teachers, developing infrastructure in TVET institutions to boost learner capacity, and issuing bursaries. Moreover, the sector aims to enhance employability by imparting relevant knowledge and skills to the youth, and providing access to educational, informational, and recreational resources. Plans also include the construction of ECDE classes across various wards, day care centers, and workshops as per the public participation report.

To implement these programs, the sector has been allocated Kshs.461.4 million. The allocations consist of both recurrent and development expenditures, with Kshs.324.84 million, set aside for recurrent expenses, and Kshs.136.56 million earmarked for development expenditures during the FY 2025/26.

3.4.4 The Energy, Infrastructure and ICT Sector

The sector comprising Roads & Transport, Energy, public works, and ICT sub-sectors plays a critical role in driving socio-economic progress within Meru County. It acts as both a driver and an enabler, advancing sustainable, efficient, and effective infrastructure that supports other sectors of the economy. This sector is instrumental in enhancing the county's overall development by focusing on key areas such as transportation, energy, public works, and information and communication technology.

During the medium term of 2021/22-2023/24, the sector achieved significant milestones including the installation of 3.8 km of culverts, construction of 14 bridges, grading and murraming of 3,500 km of roads, construction of 150 gabions, installation of 308 floodlights, and the development of ICT infrastructure. These accomplishments have greatly improved the county's infrastructure, making it more accessible and efficient for residents and businesses alike.

Looking ahead to the fiscal year 2025/26 and the medium term, the sector plans to implement various strategic interventions to further enhance road network connectivity, promote reliable and clean cooking energy strategies, and generate renewable energy through bio digesters. Additionally, the sector aims to improve ICT infrastructure to increase connectivity, develop ICT websites and data center systems to support the automation of government services, and promote research and innovation.

The sector has allocated substantial resources for these programs with Kshs.43.43 million for recurrent and kshs. 580 million for development respectively in the fiscal years 2025/26.

3.4.5 Health sector

The goal of Meru County's health sector is to provide equitable, affordable, and quality healthcare to all citizens. The government aims to enhance cost-effective, preventive, and promotive healthcare systems with a special focus on controlling communicable and non-communicable diseases, reproductive health, child health, and emergency services.

Significant achievements during the 2021/22-2023/24 medium term include providing universal health care for 795 families, establishing a food safety lab, infectious disease unit, and non-communicable disease unit, operationalizing a cancer center and ICU plant, and opening three new theaters. Other accomplishments include operationalizing county blood transfusion services, promoting health sessions, offering nutritional services to children, reducing drug abuse cases, constructing standard health infrastructures, and conducting 80 training sessions for staff.

Looking ahead to the fiscal year 2025/26, the sector plans several key interventions. These include upgrading and equipping model health centers, automating the medical supplies system, constructing and equipping various dispensaries, replacing health workers, and decreasing out-of-stock pharmaceutical and non-pharmaceutical commodities. Additional priorities are establishing human resource through replacement, recruitment and promotion of medics and IT systems, strengthening the community health strategy, completing and equipping Level 5 hospitals, equipping the Cancer Centre, providing essential medical commodities and equipment, developing and implementing health policies, improving youth health through 16 facilities offering youth-friendly services, increasing access to vaccines for preventable diseases, ensuring marginalized and vulnerable populations access healthcare services, reducing gender-based violence (GBV) and teenage pregnancies, and improving maternal and child health and emergency medical services.

To implement these programs, the sector during the FY 2025/26 has been allocated Kshs.1,033.85 billion for recurrent and Kshs.614.25 million for development programmes. These resources will support the planned interventions and ensure the health sector continues to provide quality healthcare services to the residents of Meru County.

3.4.6 Social Protection, Culture and Recreation Sector

The Social Protection and Recreation Sector in includes sports, culture, youth affairs, gender and social development, and the Meru Youth Service (MYS). Its development agenda focuses on promoting youth empowerment through talent identification and development, capacity building, establishing ICT and innovation hubs, and sports promotion. The sector also emphasizes gender mainstreaming, empowering persons with disabilities (PWDs) through assistive devices and seed capital provision, and cultural integration. The social protection aspect aims to support the vulnerable and counter teenage pregnancies to contribute to inclusive economic development.

During the 2021/22-2023/24 medium-term period, the sector achieved numerous milestones, including recruiting 700 MYS members, organizing talent development exhibitions, disbursing Kshs.11 million to youth groups, upgrading and constructing a stadium, and distributing sports equipment to 150 youth groups. Additional accomplishments include issuing motorbikes to youth groups, providing Kshs.5 million in seed capital to PWDs, establishing three recording studios, participating in various sports tournaments, offering cash transfers to 450 women groups, and procuring 5,300 assistive devices. The sector also issued 300 SHIF cards to the elderly.

In FY 2025/26, the sector plans key interventions such as issuing 1,000 assistive devices to vulnerable groups, providing social care for the elderly through SHIF, and promoting gender and PWD mainstreaming through capacity building and advisory boards. Other priorities include supporting talent and sports development, upgrading and maintaining two stadia, formulating a county culture heritage policy, mapping and protecting cultural sites, and constructing a cultural center. The sector also aims to upgrade 45 public playgrounds, enhance youth development through MYS, construct a training camp and a rehabilitation center, involve the community in programs like Ng'arisha Mtaani and youth in agriculture, and establish four talent academies.

These programs will be supported by allocations of Kshs. 255.69 million in the fiscal years 2025/26.

3.4.7 General Economic and Commercial Affairs.

The Cooperatives, Trade, and Tourism sector in Meru County achieved significant milestones during the2021/22-2023/24 Medium-Term Expenditure Framework (MTEF) period. Key accomplishments include the construction of modern kiosks and toilets, ongoing development of the County Aggregate Industrial Park, calibration and verification of weights equipment, and the formation of new SACCOs with a seed capital disbursement of Kshs.17 million. The sector also saw upgrades to the Sacred Lake Nkunga tourist site, arboretum development, rehabilitation of Igombe crater tourist site, and the promotion and formation of 27 potato, miraa, macadamia, and banana cooperatives, along with capacity building sessions for farmers.

Looking forward to FY 2025/26 and the medium term, the sector plans to promote trade development by supporting entrepreneurship and fair-trade practices, constructing new markets, and renovating existing ones. The aim is to create a conducive environment for investment and enhance marketing and market access for county products through value addition. Additionally, the sector focuses on empowering Micro, Small, and Medium Enterprises (MSMEs), promoting local tourism, and positioning Meru as a top tourism destination. Key tourism interventions include profiling and packaging county tourism investment opportunities, ecotourism activities, and capacity building through training, seminars, and refresher courses.

To further support these initiatives, the sector will also assist in coffee value addition and marketing, support various agricultural sector initiatives such as dairy, potato, banana, sweet potato, and macadamia, and establish MSMEs revolving funds and seed capital for SACCOs. The sector aims to convert Community-Based Organizations (CBOs) to cooperatives and partner with investors to execute projects through public-private partnerships (PPPs) and joint ventures.

These programs will be supported by allocations of Kshs. 26.28 million and Kshs. 123 million for recurrent and development respectively in the fiscal years 2025/26.

3.4.8 Public Administration & Intergovernmental Relations (PAIRS).

The sector in Meru County encompasses Legal Affairs & Public Service Administration, Finance & Economic Planning, Office of the Governor, Public Service Board, County Assembly, County Revenue Board, Meru Microfinance Corporation, and Meru Investment Corporation. It plays a crucial role in providing leadership, oversight, and policy, promoting prudent public finance management and accountability, and coordinating county sectoral development planning and statistics. Additionally, it supports devolution, effective coordination of government services, and ensures efficient and effective public service delivery.

Over the medium term, the sector aims to reengineer public service through human reforms to promote integrated service delivery, decentralization, and enhance employee productivity and satisfaction. The sector will continue supporting automated government services to ensure efficiency, effectiveness, revenue mobilization, and automation of registry and public finance management. Resource mobilization strategies will be enhanced, targeting both internal and external revenue sources, with a focus on developing strategic partnerships for development.

Key interventions for FY 2025/26 and the medium term include building and strengthening strategic partnerships with development partners, institutionalizing and strengthening the performance management system, and enhancing research, innovation, and sustainability for development. Other priorities include developing human resource plans, policies, schemes of service and guidelines, legislative representation and oversight for the county assembly, and ensuring the delivery of government key pledges. The sector also aims to advance loans to customers through microfinance cooperation and provide prudent financial services.

To implement these programs, the sector has been allocated Kshs.7, 658.05 billion for recurrent and Kshs.738.49 million for development in the FY 2025/26.

3.5 Public Participation/ Sector Hearings and Involvement of Stakeholders

Public participation and involvement of stakeholders in the medium-term budget process is a Constitutional requirement. The PFM Act, 2012 (CAP 412A) also requires that the input of the public be considered before the budget proposals are firmed up. In fulfillment of this requirement, the Sectors Public Hearings were conducted from **22th to 23rd, January 2025** across the 45 wards in the county.

CHAPTER FOUR:

MEDIUM TERM EXPENDITURE FRAMEWORK.

4.1 Overview

The County is in the second year of implementing the County Integrated Development Plan for the period 2023-2027 whose theme is Making Meru happy. In the preparation of the FY 2025/2026 and Medium-Term Expenditure Framework, the County has considered programs outlined in the CIDP and the Governor's manifesto which is anchored on pillars of; Investment in agriculture, Supporting the Micro, Small and Medium Enterprise (MSME) Economy, provision of Quality, Affordable and Accessible Healthcare, Socio-Economic Empowerment and infrastructure Development. Further, the framework prioritizes prudent fiscal policy as a commitment towards sound financial management practices as entrenched in the Public Finance Management Act, 2012.

The focus for development expenditure will seek to ensure equitable development while making provisions for any marginalized groups in the County. There is need to refocus efforts on key revenue streams, broadening the tax collection base in order to increase revenue collection through adoption of a unitary revenue collection platform

4.1 Compliance to Fiscal Responsibility Principles

In keeping with prudent and transparent management of public resources, the County Government will adhere to the following Fiscal Responsibility Principles (FRPs) as set out in statute as follows:

i) **Development budget:** The Government projected development index for FY 2025/26 is 30 percent. Over the medium-term development expenditure is expected to increase to 30% this is in line with the stipulated guideline in PFM Act 2012 to allocate a minimum of ***thirty percent*** of the County Governments' budget to development expenditure. In this regard, there is need to ensure the adherence to this fiscal responsibility principle both at the budget approval stage as well as during the actual implementation of the budget;

ii) **Compensation to employees:** Regulation 25 (1) (a) and (b) of the PFM (County Governments) Regulations 2015 provides that the County Governments' expenditure on wages and benefits for its public officers shall not exceed thirty-five (35) percent of the County Government's total revenue. FY 2025/2026 budget estimates for compensations to employees are projected at 41% which is an improvement from 43% during FY 2024/25 Approved Supplementary Budget estimates. Adherence to this fiscal rule for the County Government has been weak over the previous fiscal years, however the County Government has put up measures to weed out ghost and redundant workers by procuring a biometric payroll audit system and enforcing performance management with the aim to bring down the wage bill towards the threshold provided in law;

iii) **Borrowing:** Regulation 25 1 (d) of the PFM (County Governments) Regulations 2015 provides that the county public debt shall never exceed twenty (20%) percent of the County Governments' total revenue at any one time. The County Government has no intentions to borrow for the FY 2025/2026 and over the medium term.

iv) **Taxes:** In line with Section 15 2 (e) of the PFM Act 2012, County Government is to maintain a reasonable degree of predictability with respect to the level of tax rates and tax bases taking into account any tax reforms that may be made in the future while putting in place legislations for own source revenue collection; In this regard the County Government is in the process of developing Finance bill for the FY 2025/2026 with consultation with all key stakeholders and

v) **Fiscal risk**: County Governments of Meru will manage fiscal risks prudently in line with PFM Act Section 15 2 (e).

4.2 Performance review

4.2.1 Fiscal Performance

In the FY 2024/2025 (current Financial Year), the County's approved budget is Kshs.13.922 billion comprising of Kshs. 10.88 billion Equitable Share, Kshs. 1.98 billion Conditional Grants, Kshs. 550 million Hospital FIF, kshs.17 million Kaguru training centre and Kshs. 500 million as targeted Own Source Revenues.

Table 13 below provides a summary of total expenditures and total revenues for medium term FY 2021/22 to 2023/24.

	FY 2021/22		FY 2022/23		FY 2023/24	
Kshs. Billion	**Approved Budget**	**Actual Expenditure**	**Approved Budget**	**Actual Expenditure**	**Approved Budget**	**Actual Expenditure**
Total Revenue						
Total Expenditure	12.54 B	10.01 B	12.65 B	11.46 B	12.23	11.1
Total Development	4.15 B	2.59 B	3.72 B	2.64 B	3.75	2.97
Total recurrent	8.39 B	7.42 B	8.93 B	8.82 B	8.48	7.98
Wages	5.10 B	5.08 B	5.78 B	5.78 B	5.06	5.06
Other Recurrent	3.29 B	2.34 B	3.15 B	3.04 B	3.42	2.93
% of Development in Total Budget	33.09%	25.87%	29.41%	23.04%	30.65%	24.32%
% of Recurrent in Total Budget	66.91%	74.13%	70.59%	76.96%	69.35%	65.26%
% of Wages in Total Revenue	40.67%	50.75%	45.69%	50.43%	45.58	45.56

Table 7: Summary of County Revenues and Expenditures from FY 2021/22 to 2023/24.

4.2.2 Allocation to Development Expenditure over the Medium-Term

As indicated in Table above, the total County Governments' approved Development expenditures over the last medium-term accounted for 33.09%, 29.41% and 30.65% translating to an average of

31.05 % of the total budget. Section 107 (2) (b) of the Public Finance Management Act (PFMA) 2012 requires County Governments to allocate a minimum of 30 percent of their budget over medium-term to development expenditure.

4.2.3 Actual Development Expenditure over the Medium Term

The total actual development expenditure for the FY 2021/22, FY 2022/23 and FY 2023/24 accounted for 25.87%, 23.04% and 24.32% respectively of the total actual budget for the same period as indicated in Table above.

As evidenced from the expenditures reported, allocated are in line with the legal requirement to allocate a minimum of 30% to development. County development may be compromised with higher allocations going to recurrent expenditures especially wages hence there is need for relevant institutions, including the National treasury, Controller of Budget and CRA ensure increased allocation and timely disbursement especially for conditional grants to increase actual expenditures by County Government on development expenditures.

Meru County has not reported any borrowing to finance its expenditure so far.

4.2.4 Compliance with the Requirement on Expenditure on Wages and Benefits

Regulation 25(1) (b) of the PFM (County Governments) Regulations 2015, requires County Governments to ensure that expenditure on wages and benefits for employees does not exceed 35 percent of their total revenue. Over the medium -term expenditure on wages and benefits for the FY 2021/22, FY 2022/23 and 2023/24 accounted for 50.8%, 50.4% and 45.6% of the total revenue, respectively as shown in Table 4.1. Which is higher than the threshold.

4.3 Prudent Management of Fiscal Risks

4.3.1 Pending Bills.

According to Section 94 (1) (a) of the PFM Act, 2012, failure to make any payments as and when due by 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, the government has continued allocating funds towards payment of pending bills to suppliers. As at the end of financial year 2023/2024 accrued eligible pending bills amounted to Kshs. 1.724 billion. During the FY 2024/25, the County Government made provision for pending bills totaling to Kshs.1, 003 billion which will be paid by end of June 2025 resulting to a balance of Kshs.721.24million. Owing to the commitment by the County Government to clear all owed pending bills from previous financial years, the County has in the FY 2025/26 allocated to pay pending bills amounting to Kshs.283.003 leaving a balance of Kshs.438.237 million which will be paid in the subsequent financial years.

Table 8: Status of pending bills

No	Description	Amount
1	Pending brought forward as at 30th June 2024	1,724,601,106.34

2	Less: Provision in FY 2024/2025 Budget	1,003,358,836.96
3	Balance unprovided for as at 1st July, 2024	721,242,269.38
4	Provision in FY 2025/2026	**283,003,535.00**
5	Balance to be provided in the subsequent financial years	438,238,734.38

Source of Data: County Treasury.

4.3 FY 2025/2026 and Medium-Term Budget Priorities

The objective of the paper is to streamline the development priorities in the medium-term, aiming for a transformative development agenda that promotes sustainable economic growth with a focus on economic recovery strategies. To achieve this, the County Government will strive to pursue the main projects and other development initiatives as stated in the County Integrated Development Plan (2023-2027), Annual Development Plan (ADP) 2025/26, the Governor's Manifesto, and other County policies. These efforts will be directed towards improving the delivery and provision of quality services, generating employment opportunities, enhancing the well-being of Meru residents, and ensuring equity while reducing costs by eliminating duplication and inefficiencies. During the medium term, the County Government's expenditure will prioritize the following key areas:

4.3.1 Strategic Priority I: Infrastructure development and networking

The County Government has identified infrastructure development as a key priority, with plans to invest in improving informal settlements, urban infrastructure, roads, markets, Sub County and ward Offices, Rehabilitation Centres, ECDE classrooms, sanitation blocks, Vocational Training Centres, dispensaries, and healthcare facilities. This investment will be made in the medium term to enhance development in all parts of the county.

4.3.2 Strategic Priority II: To provide Quality, Affordable and Accessible Healthcare

The Kenyan constitution guarantees every citizen the right to the highest attainable standard of health, emphasizing access to quality healthcare for all, including vulnerable groups. The County Government prioritizes preventive and promotive healthcare programs to empower individuals in making healthier choices and reducing disease risks. Investments in health infrastructure, pharmaceuticals, and medical supplies are aimed at enhancing services across Meru County. Leveraging ICT connectivity and implementing a state-of-the-art health information system are key strategies. Nationally, efforts include NHIF reforms, with 12 million Kenyans enrolled in the past decade.

4.3.3 Strategic Priority III: Water

Water plays a crucial role in promoting sustainable growth and reducing poverty. It serves as an essential input across various sectors, including agriculture, industry, energy, transportation, and health. Ensuring access to clean water and sanitation is a fundamental duty of the County, relying on effective governance and natural resource management. The government’s strategy to achieve this goal involves investing in water infrastructure, such as constructing large dams, creating water pans, drilling boreholes, and improving existing water distribution systems.

4.3.4 Strategic Priority IV: Supporting the Micro, Small and Medium Enterprise (MSME) Economy

The Micro, Small, and Medium Enterprise (MSME) sector significantly contributes to the economy by employing approximately 85% of non-farm workers. Access to credit is crucial for MSME growth. However, high interest rates hinder private sector development and affect MSMEs. The County Government is committed to ensuring affordable credit access for residents. They allocate resources annually to support MSMEs through microfinance corporation lending programs, targeting persons with disabilities (PWD), women, and youth empowerment. Additionally, the County Government committed to secure trading spaces in towns and markets to boost MSMEs.

4.3.5 Strategic Priority V: Investment in Agriculture

Agriculture is the primary economic activity in the county, with rain-fed farming contributing significantly to household income (approximately 80%). However, prolonged droughts and high global fertilizer prices have led to a decline in agricultural productivity. In response, the County Government plans to support farmers by providing quality inputs, enhancing market access, promoting fish farming, expanding dairy production, controlling animal diseases and pests, improving surveillance, and offering artificial insemination services. These efforts aim to boost productivity and ensure sustainable agricultural development across the County.

4.4 Intergovernmental Fiscal Transfers

Article 202 (2) of the Constitution provides that County Governments may be given additional allocations from the National Government's share of revenue, either conditionally or unconditionally. Management of intergovernmental fiscal transfers is provided in the PFM Act, 2012, its Regulations and National Treasury Circular No. 8 of 2017.

4.4.1 Additional Allocations

In the CGAAB, 2024, for FY 2024/25, the National Treasury proposes to allocate a total of Kshs. 58.242 billion as additional allocations (Conditional and Unconditional). Out of this Kshs. 11.486 billion will be financed from the National Government share of revenue and Kshs. 46.756 billion as additional allocations from proceeds of loans and grants from development partners. In order to continue operationalizing the National Government's programme on County Aggregation and Industrial Parks, each County Government will be allocated Kshs. 250 million as a conditional grant in FY 2024/25. The additional conditional allocations are meant to support specific national policy objectives to be implemented by County Governments (Table 15).

	Additional (Conditional & Unconditional) Allocations from the National Government's Share of revenue for Financial Year 2024/2025	
S/No.	**Additional Allocation**	**Amount in Ksh**
1.	Unconditional allocation financed from court fees and fines emanating from contravention of County Legislation (10 counties)	108,660,979
2.	Unconditional allocation financed from the 20% Share of Mineral Royalties (32 counties)	2,934,923,147
3.	Conditional allocation for the Construction of County Headquarters (4 counties: Lamu, Isiolo, Nyandarua & Tana River)	768,130,000
4.	Conditional allocation for County Aggregated Industrial Parks (CAIP) Programme - Ksh 250 million per county for remaining 29 counties)	7,250,000,000
5.	Conditional allocation for Transfer of Library Services function (33 counties)	424,616,045
	A. Sub Total 1	**11,486,330,171**
	Additional Conditional Allocations Financed from proceeds of loans and grants from Development Partners for Financial Year 2024/25	
S/No.	**Additional Allocation**	**Amount in Ksh**
1.	IDA (World Bank) Credit - National Agricultural Value Chain Development Project (NAVCDP)	6,765,000,000
2.	IDA (World Bank) Credit - Food Systems Resilience Project (FSRP)	3,315,000,000
3.	IDA (World Bank) Credit - Water & Sanitation Development Project	5,700,000,000
4.	DANIDA Grant - Primary Health Care in Devolved Context Programme	487,500,000
5.	IDA (World Bank) Credit - Financing Locally - Led Climate Action (FLLoCA) Program – County Climate Resilience Investment (CCRI) Grants	6,187,500,000
6.	KfW (German Financial Cooperation) Credit - Co-Financing Locally- Led Climate Action (FLLoCA) Program – County Climate Resilience Investment (CCRI) Grant	1,200,000,000
7.	KfW (German Financial Cooperation) Credit - Drought Resilience Programme in Northern Kenya (DRPNK) Project	919,994,940
8.	IDA (World Bank) Credit - Emergency Locust Response Project (ELRP)	1,900,000,000
9.	IFAD - Kenya Livestock Commercialization Project (KeLCoP)	378,730,000
10.	IFAD - Aquaculture Business Development Project (ABDP)	300,000,000
11.	IDA (World Bank) Credit – Kenya Urban Support Project (KUSP) – Urban Development Grant (UDG)	7,852,888,960
12.	IDA (World Bank) Credit – Kenya Urban Support Project (KUSP) – Urban Institutional Grant (UIG)	1,575,000,000
13.	IDA (World Bank) Credit - Kenya Informal Settlement Improvement Project (KISIP II)	10,109,198,488
14.	UNFPA Grant - 10th Country Kenya Programme	65,190,000
	B. Sub Total 2	**46,756,002,388**
	TOTAL (A +B)	**58,242,332,559**

Source: The National Treasury

Table 9: Additional Allocations to County Governments for FY 2024/25

4.5 Equalization Fund.

The Equalization Fund is established under Article 204 of the Constitution with an allocation of a half percent (0.5%) of all revenue collected by the National Government each year on the basis of most recently audited accounts of revenue approved by the National Assembly and shall use the

Equalization Fund only to provide basic services including water,roads, health facilities, and electricity to marginalized areas to the extent necessary to bring the quality of those services in those areas to the level generally enjoyed by the rest of the nation, so far as possible.
To guide the management and implementation of the Equalization Fund, the PFM (Equalization Fund Administration) Regulations, 2021 were developed. The regulations provide for establishment of three county committees; County Technical Committee, Subcounty Technical Committee, and the Project Identification and Implementation Committee which the County Government of Meru has already complied with.

The National Treasury proposes to allocate Kshs 7,867 million to the Equalization Fund being 0.5% of the actual revenues raised nationally of Kshs 1,573.4 billion for FY 2019/20, as per the records of the National Treasury and Kshs 3,533 million towards payments arising from Equalization Fund arrears.
With 13 sub-locations in Meru County being earmarked by the CRA as marginalized as per the third policy and criteria for sharing revenue, Meru is to benefit as follows:

No.	Project Name	Sub-Location	Location	Ward	Sub-County	Amount (KShs.)
1.	Routine Maintenance and Spot Improvement Activities: Rimberia – Mundaki Road Project	Kamberia	Mula	Karama	Tigania East	5,416,404.00
2.	Borehole drilling at Kandebene village	Nturingwi	Ngaremara	Muthara	Tigania East	6,000,000.00
3.	Installation of a transformer at Giika - Kiegoi and connection of power to the surrounding households	Ugoti	Giika	Akachiu	Igembe South	5,309,087.57
4.	Ugoti Day Secondary School: Purchase of 150 desks and 150 chairs	Ugoti	Giika	Akachiu	Igembe South	600,000.00
5.	Improvement to Gravel Standards of Marega – Mwai – Rigii Road [G410686(1)] – 3kms	Marega	Giika	Akachiu	Igembe South	5,683,526.00
6.	Igokine Kithakanaro B Irrigation Water Project	Igokine	Kiringa	Abogeta East	Imenti South	5,995,000.00
7.	Administrative costs	For County Technical Committee (CTC): ≈3% of Kshs. 29,927,012.00				922,994.43
8.	Total					29,927,012

Table 10: List of Projects from Meru County FY 2022 – 2023.

S/no	Project Name	Sub-Location	Location	Ward	Sub-County	Amount (KShs.)
1.	Installation of a transformer at Murambene and connection of power to the surrounding households	Ugoti	Giika	Akachiu	Igembe South	4,532,291
2.	Improvement to Gravel Standards of Marega – Mwai – Rigii Road [G410686(1)] – 1.9 kms	Marega	Giika	Akachiu	Igembe South	4,339,837
3.	Igokine Kithakanaro B Irrigation Water Project Phase 2	Igokine	Kiringa	Abogeta East	Imenti South	4,493,800
4.	Routine Maintenance and Spot Improvement Activities: Rimberia – Mundaki Road Project Phase 2	Kamberia	Mula	Karama	Tigania East	4,125,177
5.	Grading and Gravelling Kandebene –Mweronkoro – Matabithi Access Road.	Nturingwi	Ngaremara	Muthara	Tigania East	4,615,935
6.	Administrative costs	For County Technical Committee (CTC): ≈3% of Kshs. 22,790,763.00				683,722.89.00
7.	Total					22,790,763

Table 11: List of Projects from Meru County FY 2023 - 2024

4.7 Emerging Issues and Policy Interventions

4.7.1 Transfer of Functions and Cooperation between National and County Governments

Article 6 (2) of the Constitution provides that the governments at the national and county levels are distinct and interdependent and shall conduct their mutual relations on the basis of consultation and cooperation. The National Government is committed to ensuring that intergovernmental relations between the County Governments and the National Governments are conducted in line with the Constitutional provisions. Articles 187 and 189 of the Constitution provides for the transfer of functions and powers between levels of Government as well as cooperation between the National and County Governments. In this regard, The National Treasury through an interagency task force developed the Public Finance Management (Amendment) Bill, 2023 to operationalize these provisions. The bill is in the process of being submitted to the Cabinet for approval before its submission to Parliament. 84 Draft 2024 Budget Policy Statement 307. The enactment of this law by Parliament will facilitate the financing of transferred functions and cooperation between the two levels of Governments. It will also provide for cooperation between the two levels of Government and amongst counties that intend to implement inter-county projects.

4.7.2 Integrated County Revenue Management System (ICRMS)

In order to support County Governments, enhance their own source revenue through automation, it is recommended that all the County Governments adopt an Integrated County Revenue Management System. In view of the above, there is an ongoing process to develop and commission this integrated system that will enhance OSR administration and management at the County level for improved service delivery. This will ensure uniformity in the collection, recording and reporting of own source revenues across the 47 County Governments. Further, it will enable County Governments to generate reliable data for revenue forecasting and revenue enhancement.

4.7.3 County Governments Public Finance Management

The County Governments are faced by a number of challenges in the management of public finance as identified by a Multi-Agency Task force formed by the National Treasury and Economic Planning in the financial year 2022/2023. Some of the challenges highlighted include; weak linkage between planning and budget formulation, inability of County Governments to adhere to the Public Procurement Act resulting in high outstanding pending bills, low development budget absorption, under-performance in own-source revenue, weak oversight by County Assembly and a weakened internal audit function among others. Non-adherence to fiscal responsibility principles, inadequate understanding of the Office of the Controller of Budget's role in approval of county requisitions, high wage bill and weaknesses in human resource. As the National Treasury allocated resources towards addressing some of these challenges through capacity building of County Governments and work closely with the County Governments through the relevant bodies such as the Intergovernmental Budget and Economic Council to enhance fiscal relations between the two levels of Government the County Government has also allocated funds for capacity building on public finance management to bridge the gap.

4.7.4 Intergovernmental Agreements in respect of the Additional Conditional Allocations

The County Governments Additional Allocations Act of 2021 amended the PFM Act 2012 by introducing section 191A – 191E. The section provided, among other things, that County Governments and the National Government would enter into Intergovernmental Agreements in respect of the additional conditional allocations. It further provides that the agreements shall be the basis for the requisition of conditional allocation funds from the County Revenue Funds. In order to unlock access to additional allocations by the County Governments in line with this legal provision, the National Treasury through a multi-agency task force has finalized the development of the model Intergovernmental Conditional Allocation Transfer Agreement, subjected it to public consultations countrywide and submitted the draft to the office of the Attorney General on the 10th November,2023 for legal drafting. A response on this is being awaited. Additionally, the National Treasury has written to both the Clerk of the National Assembly and the Clerk of Senate, requesting Parliament to fast-track the approval of the CGAAB, 2023, which when enacted into an Act will trigger the operationalization of the intergovernmental transfer agreements pursuant to sections 191A to 191E of the PFMA, 2012. Delay in passing this bill has adversely affected absorption of development budget by Counties since during the current FY 2023/2024 budget there was no disbursement of additional allocation as at the end of half year period ending December,2023. Fast-tracking of the approval process pf CGAAB will facilitate the processes leading to timely disbursements of and requisition of the funds for additional conditional allocations made to County Governments.

4.7.5 Transfer of the Library Services Function

The Fourth Schedule of the Constitution provides that library service is a devolved function and hence the need to devolve it to the County Governments. The Library Services function was unbundled and attendant resources amounting to Kshs. 424,616,045, being the sum of Kshs. 421,379,947.20 (payroll budget, and operations and maintenance) and Kshs. 3,236,100 (total leave allowance) were factored in the equitable share for FY 2023/24.

4.8 Partnership linkages

The Government has identified a number of key sectors including water, housing, urban development, Agriculture, roads, trade and industry in which it wishes to work with the private sector through the Public Private Partnerships framework. The PPP envisages mobilizing resources within the FY 2025/26 and over the medium term, based on the current projects in the PPP pipeline. To achieve this, all projects will be screened for commercial viability as PPPs, before being considered for implementation within the Budget.

CHAPTER FIVE:

STATEMENT OF SPECIFIC FISCAL RISKS.

This chapter details possible risks in the Medium Term and presents mitigation measures the County Government of Meru plans to effect to ensure the risks are cushioned.

Provisions as in PFMA, 2012 S107 2(f) require for Fiscal Risks to be managed prudently. Reg 25 (2) provides that, the County Executive Committee Member shall in the County Fiscal Strategy Paper include a statement of fiscal risks outlining the potential policy decisions and key areas of uncertainty that may have a material effect on the fiscal outlook /framework. Further, Regulation S. 25 (3) states that the County Executive Member for finance shall disclose the specific risks that will impact the implementation of the budget framework.

5.1 Overview

The underlying goal of fiscal policy mainly includes; expenditure rationalization, strengthening management of public debt towards minimizing costs and risks to the county's portfolio, and enhancing revenue mobilization measures while still accessing external sources to complement funding of the county's development project. To that end, the CFSP details anticipated risks that are expected to impact implementation of the FY 2025/26 budgeting framework. A risk management plan is therefore crucial in outlining mitigation measures which the county will employ to cushion against budget disturbances.

Generally, the County Government plans to manage fiscal risks through measures including; prudent expenditure management, implementation of E-procurement and ensuring that pricing of services and items reflect current market prices. Towards catering for unforeseen and emergency expenditures the County Government will ensure they are catered for with minimum impact on the budget and work plans.

5.2 Specific risks and their mitigation measures

5.2.1 Late Disbursement of funds from National Treasury.

Receipts from the National Exchequer usually constitute the largest chunk of the County's resource basket. This has made the County over reliant to the National treasury in order to implement its development initiatives. Owing to this, instances which the County receives late disbursements leads to increased operating costs in addition to accumulation of pending bills. Ultimately, this leads to poor service delivery, poor budget absorption, and delays submission of statutory deductions.

Mitigation measure: Foremost, the County will tighten expenditure priorities. This will be complemented with extensive measures of increasing own source revenue and enhanced engagements with development partners for public private partnerships.

5.2.2 Pending Bills

Pending bills/debts are basically unsettled financial obligations that accrue at the end of any given financial year. This is mostly occasioned from failure to pay for services and or goods that have been properly procured. Pending bills in the County have historically been also bought about from delayed cash disbursements, revenue shortfalls or overestimation, carryover works, poor planning and in some instances expenditures outside approved work plans. Regardless. The County Government of Meru is constantly ensuring prudent verification processes with bills that are eligible being paid on time. An issue of concern still remains on ineligible bills brought about by either lack of required attachments, works being partially done, and fraudulent claims.

Mitigation measure: The County Government will strive to sure that both the level and rate of growth in debt is fundamentally sustainable since high debt portfolio will continue to impact negatively on the County operations. In addition, as detailed in this report adequate funds will be allocated in the FY 2025/26 for debt serving purposes.

5.2.3 Climate change and Natural Disasters

Recent times have been occasioned by rapid climate change, global warming and unforeseen calamities and natural disasters. These have been having direct impact on implementation of the Counties agenda mostly due to increased public funding and channeling of funds to mitigate the disasters.

Mitigation measure: The County will focus on exploring climate change adaptation and mitigation measures. This will entail exploitation of green economy considerations aimed at placing the county's economy on a green and climate change resilient recovery path. Additionally, over the medium term, the County will prioritize implementation of environmental conservation programmes including water harvesting techniques, reforestation, and investments in green energy climate smart agriculture.

5.2.3 Contingency Liabilities

The County Government of Meru has of recent been facing a number of litigations across different matters. This has been having a huge impact on budget implementation result of increased legal and court cases. Additionally, cases which the county has been ordered to pay litigants are expected to have huge impact to the budget that are likely to lead to late or non-remittance of statutory deductions and impact the overall collection of revenue to be channeled to the County's development agenda.

Mitigation Measures: The County Government will put more effort towards dispute resolution mechanisms as well as ensure full compliance with legal requirements on statutory deductions so as to avoid penalties and interests.