



REPUBLIC OF KENYA



EMBU COUNTY GOVERNMENT

**FINANCE & ECONOMIC PLANNING**

**COUNTY BUDGET REVIEW AND OUTLOOK PAPER**

**Vision**

A prosperous County with Equal Opportunities for all

**Mission**

To ensure effective resource mobilization and optimization for Wealth and Job Creation

**SEPTEMBER 2024**

### **Legal Basis for the Publication of the Budget Review and Outlook Paper**

The Budget Review and Outlook Paper is prepared in accordance with Section 118 of the Public Financial Management Act, 2012. The law states that:

(1) A County Treasury shall:

(a) Prepare a County Budget Review and Outlook Paper in respect of the county for each financial year; and

(b) Submit the paper to the County Executive Committee by the 30th September of that year.

(2) In preparing its county Budget Review and Outlook Paper, the County Treasury shall specify:

(a) The details of the actual fiscal performance in the previous year compared to the budget appropriation for that year;

(b) The updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper;

(c) Information on:

(i) Any changes in the forecasts compared with the County Fiscal Strategy Paper; or

(ii) How actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the County Fiscal Strategy Paper for that financial year; and

(d) Reasons for any deviation from the financial objectives in the County Fiscal Strategy Paper together with proposals to address the deviation and the time estimated for doing so.

(3) The County Executive Committee shall consider the County Budget Review and Outlook Paper with a view to approving it, with or without amendments, within fourteen days after its submission.

(4) Not later than seven days after the County Budget Review and Outlook Paper is approved by the County Executive Committee, the County Treasury shall:

(a) Arrange for the Paper to be laid before the County Assembly; and

(b) As soon as practicable after having done so, publish and publicize the Paper.

### **Fiscal Responsibility Principles in the Public Finance Management**

The Public Finance Management (PFM) Act, 2012 sets out the following fiscal responsibility principles to ensure prudence and transparency in the management of public resources;

- 1) The County Government's recurrent expenditures shall not exceed the county government's total revenue.
- 2) Over the Medium Term, a minimum of thirty percent of the county government's budget shall be allocated to the development expenditures.
- 3) The County Governments' expenditures on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenue as prescribed by the Executive Committee Member for Finance in regulations and approved by County Assembly.
- 4) Over the Medium Term the government's borrowing shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.
- 5) The county debt shall be maintained at sustainable level as approved by county assembly.
- 6) The fiscal risks shall be maintained prudently; and
- 7) A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained taking into account any tax reforms that may be made in the future.

**Table of Contents**

Table of Contents ..... iv

List of Tables ..... v

List of Figures ..... v

Abbreviations ..... vi

*FOREWORD* ..... vii

*ACKNOWLEDGEMENT* ..... ix

*EXECUTIVE SUMMARY* ..... x

I. INTRODUCTION ..... 1

    A. *Overview* ..... 1

    B. *Objectives of CBROP* ..... 1

II. REVIEW OF FISCAL PERFORMANCE FOR THE FY 2023/24 ..... 2

    A. *FY 2023/24 Fiscal Performance* ..... 2

    B. *County Governments' Compliance with Fiscal Responsibility Principles* ..... 15

III. MACROECONOMIC DEVELOPMENTS AND OUTLOOK ..... 16

    A. *Risks to Fiscal Outlook* ..... 25

IV. RESOURCE ALLOCATION FRAMEWORK ..... 28

    A. *Implementation of the FY2024/25 Budget* ..... 28

    B. *Fiscal Policy for FY 2025/26 and Medium Term Budget* ..... 28

    C. *Fiscal Revenue projections* ..... 30

    D. *Expenditure Forecasts* ..... 31

CONCLUSION ..... 34

**List of Tables**

Table 1: Comparison between CFSP 2023/2024 and Approved Budget FY 2023/24 ..... 2  
Table 2: Revenue comparison between CFSP and Supplementary Budget Estimates ..... 2  
Table 3: Revenue Performance in FY 2023/24..... 4  
Table 4: Own Source revenue achievement against target ..... 6  
Table 5: Appropriation in aid achievement against target ..... 8  
Table 6: Comparison of CFSP and Approved Budget Estimates for FY 2023/24 ..... 9  
Table 7: Expenditure under FY 2023/24 in Millions..... 11  
Table 9: Settlement Status of Eligible Pending Bills in FY 2023/24 ..... 13  
Table 10: Projected Revenues FY 2025/26-2027/28 MTEF period ..... 30  
Table 11: Summary of Local Revenue Collection..... 31  
Table 12: Projected expenditures FY 2024/25-2026/27 MTEF period ..... 31  
Table 13: Indicative Sector Ceilings for MTEF period FY 2024/25 – FY 2026/2027 ..... 32

**List of Figures**

Figure 1: Revenue sources contribution to the resource basket FY 2023/24 ..... 6  
Figure 3: Ordinary Local revenue by revenue streams..... 7

**Abbreviations**

AiA	Appropriation in Aid
BROP	Budget Review and Outlook Paper
CBROP	County Budget Review and Outlook Paper
CIDP	County Integrated Development Plan
CPI	Consumer Price Index
FY	Financial Year
MTEF	Medium Term Expenditure Framework
PFMA	Public Finance Management Act

## FOREWORD

The 2024 County Budget Review and Outlook Paper (CBROP) is the third to be published under the leadership of H.E. Governor Cecily Mbarire. This document aligns with the government's commitment to implementing key programs, policies, and reforms outlined in the Governor's manifesto and the County Integrated Development Plan (CIDP) III. These initiatives are designed to drive economic recovery and inclusive growth, in line with the Fourth Medium-Term Plan (2023-2027) and the broader goals of Kenya Vision 2030.

Upon assuming office, the new administration encountered a critical situation involving pending bills exceeding 2.2 billion, which included unremitted staff deductions of over 580 million and unpaid contractors and suppliers; including medical supplies totaling more than 200 million, among other urgent needs. This challenge was compounded by personnel emoluments that exceeded 50%, well above the required threshold of 35%.

Over this period, the county has made significant strides in improving fiscal management and restoring confidence among suppliers, contractors, and staff owed money. Additionally, efforts are ongoing to effectively manage the substantial wage bill.

The county faced a struggling healthcare system that was on the verge of collapse. Immediate measures included settling arrears owed to medical suppliers, such as KEMSA and MEDs, as well as to other suppliers of foodstuffs and essential necessities. Efforts were initiated to revamp the Newborn Unit at Level 5 and the Maternity Wing, alongside the completion of the Badea Wing to increase bed capacity.

The enactment of Facility Improvement Financing for the health sector will enhance the financial autonomy of hospitals, thereby reducing waiting times for essential commodities. Additionally, significant infrastructure development has been achieved with the completion of 38 health facilities, and many more projects in the pipeline, such as the upgrade of Gategi to Level 4 and the improvement of Kianjokoma health centre among others.

In terms of trade, the county government has initiated the relocation of traders to facilitate the construction of an ultra-modern market. The relocated traders are now operating in the new Canaan Market. Additionally, the construction of the Runyenjes Bus Park, along with a tarmacked road and walkways around the town, has been completed.

The county government has also built several markets, including the Miraa Market in the Juakali area of Embu town to enhance the economic opportunities for our traders. Several more markets are either under construction or in the pipeline, including the recently completed Kithimu Market, Kiriari Market, Kawanjara Container Markets, Kiritiri Market shades, and upcoming Miraa Markets in Siakago, Ena, and Kiritiri for the upcoming financial years.

Furthermore, the county ranks among the top five in the construction of County Aggregated and Industrial Parks (CAIP), with a facility located in the Machanga area expected to be completed by the end of this financial year.

In matters of agriculture, the county government has ensured that subsidized fertilizer reaches farmers at the ward level through the Last Mile Program. Additionally, over 38,000 seedlings of macadamia and Hass avocado have been distributed, alongside the construction of water pans and dams, including those at Kangondo, Itiira, Kagumori, and Kariguri Karambari.

The county has also modernized eight coffee factories and improved dairy cooperatives, such as Mburugu and Kawanjara, while continuing to support more farmers. Furthermore, the department has distributed over 200 dairy goats and 300 Galla goats across the county, with plans to distribute over a thousand more in the coming years.

Other priorities include improving water supply through the drilling of boreholes, facilitated by the acquisition of a borehole drilling rig. Efforts to increase water supply also involve the revival of various companies and support for irrigation projects, such as Kyeni Water and Sanitation, Rupingazi Weru, Kyeni Kagaari Gaturi, Gatene Irrigation, Kithimu Irrigation, Muthilu Makima, Embewasco, and the Ruguru Ngandori water project, among others. The outlook for the medium term is promising, with substantial development planned for the near future.

As we look ahead to the FY 2025/26 budget, all spending units are expected to prioritize key programs outlined in CIDP III and the ADP for 2025/2026. These priorities include strengthening healthcare systems, enhancing infrastructure development and connectivity, increasing revenue mobilization efforts, empowering early childhood education, promoting enterprise growth, nurturing talent and sustainability, and formulating proactive economic policies.

In light of resource limitations, Sector Working Groups (SWGs) along with County Departments and Entities are directed to rigorously review, assess, and prioritize budget allocations to align with these objectives. The sector ceilings established for the FY 2025/26 budget and the medium term will serve as the foundation for allocation decisions.

**PROF. JOE K. KAMARIA**

**CECM FINANCE AND ECONOMIC PLANNING**

## **ACKNOWLEDGEMENT**

The 2024 CBROP was developed through the collaborative efforts of all county departments and entities, each contributing valuable information for analysis and inclusion. The document was prepared under the able leadership of H.E Governor Cecily Mutitu Mbarire as well as her Deputy Kinyua Mugo. We also appreciate the invaluable contribution of the County Executive Committee who discussed this document for two weeks. Their dedication was instrumental in the approval of this document.

Special appreciation goes to the dedicated team from the Department of Finance and Economic Planning, whose tireless efforts ensured the successful fulfillment of this statutory requirement. The team worked under the guidance of CECM for Finance and Economic Planning Prof. Joe Kamaria and Chief Officer for Finance Mr. Damiano Muthee. The team comprised Mr. Boniface Muli Lova, Mr. John Njeru Mr. Joshua Mwangi, Mr. Linus Mugambi, Ms. Catherine Gathe, Mr. Peter Njeru, and Ms. Stella Wanyaga. We also extend our gratitude to Mr. Eric Kinyua, Ag. Director Budget and Mr. Katana Ndune, for their invaluable contributions. Lastly, to everyone involved in making this exercise a success, feel appreciated. Your efforts were not in vain, as the CBROP will play a pivotal role in shaping the county's future planning and budgeting processes.

As we move into the crucial phase of preparing the FY 2025/26 budget, it is essential that we strictly follow the established guidelines and deadlines, while also prioritizing public participation and consultation with other key stakeholders. The success of any budget implementation hinges significantly on its quality, underscoring the importance of dedicating sufficient time and resources to its preparation.

Lastly, we thank God for the opportunity to serve. May he always guide us and Bless the great people of Embu.

Erastus Macharia Njeru

Chief Officer- Economic Planning & Budgeting

## **EXECUTIVE SUMMARY**

The County Budget Review and Outlook Paper (CBROP) is a crucial policy document that analyzes the implementation of the previous year's budget to inform and guide the preparation of the upcoming budget. The 2024 CBROP evaluates the budget performance for the fiscal year 2023/2024, laying the groundwork for the fiscal year 2025/2026. This analysis aims to shape our development agenda by highlighting lessons learned and identifying areas that require review, while also pinpointing strengths to build upon in pursuit of a prosperous county with equitable opportunities for all citizens.

The CBROP provides a valuable opportunity for the county to assess its fiscal performance and establish the necessary systems and controls to promote fiscal discipline and accountability in budget implementation. It serves as a reflective tool for implementers, offering a performance scorecard that highlights achievements and areas for improvement.

This document also examines the county's recent economic developments by highlighting key focus areas in the implementation of the recently concluded budget. It identifies significant budgetary expenditures as the county government aims to unlock its economic potential. Additionally, it outlines the policy directions that reflect the county government's priorities, enabling the private sector and other non-state actors to align their efforts as we collectively strive for the prosperity of our great county.

The preparation of the CBROP is grounded in legal requirements and is mandated by the budget process. Specifically, Section 118 of the PFM Act provides the legal foundation for this document, alongside additional good practice standards and the constitutional provisions governing the use of public funds in Kenya. The CBROP evaluates the county's fiscal performance within the context of both the national and global economic environments. It considers not only economic factors but also the political, social, environmental, and technological influences that affect the county's economic performance.

During the review period, the County of Embu achieved an impressive 99.5% of its revenue targets, significantly contributing to the reduction of pending bills. However, delays in the release of exchequer funding hindered the timely implementation of county programs and projects. The county prioritized health and education as essential enablers of economic prosperity, while substantial funding was allocated to infrastructure development, particularly the road network, given its critical role in unlocking the county's economic potential. Additionally, the county government made deliberate investments in the productive sectors of agriculture, livestock, fisheries, and cooperatives, recognizing their vital role as the main economic drivers of the county.

These developmental milestones were achieved against a backdrop of a challenging macroeconomic environment and political uncertainty, which negatively affected government performance. However, the resilience of the county's leadership and staff played a crucial role in maintaining stability, providing essential support for economic development efforts in the county.

## I. INTRODUCTION

### A. Overview

1. The **County Budget Review and Outlook Paper (CBROP)** is a critical document prepared in line with the **Public Finance Management (PFM) Act, 2012** and its accompanying regulations. It provides a detailed assessment of the county's financial performance for the **Fiscal Year (FY) 2023/24**, including an evaluation of how well the county has adhered to the financial objectives outlined in the PFM Act.

### B. Objectives of CBROP

2. The **2024 County Budget Review and Outlook Paper (CBROP)** offers a comprehensive review of the fiscal performance for the **FY 2023/24**, with a focus on how well the county adhered to the **objectives and principles** set out in the **Public Finance Management (PFM) Act, 2012**. This review is essential in assessing whether the county's financial strategies and budgetary allocations were implemented effectively
3. The **County Budget Review and Outlook Paper (CBROP)** will play a key role in shaping the development of the **FY 2025/26 budget**, which will detail the specific programmes and projects to be implemented over the medium term, as outlined in the **County Integrated Development Plan (CIDP) 2023-2027**.
4. The structure of the document is organized as follows: **Section II: Fiscal Performance Review for FY 2023/24**: This section provides an in-depth review of the county's fiscal performance for the financial year 2023/24. It also discusses how this performance impacts the financial objectives set in the **2024 County Fiscal Strategy Paper (CFSP)**, identifying any deviations from planned targets and their implications.
5. **Section III: Recent Economic Developments and Outlook**: This section highlights recent developments in the local and national economy, discussing key macroeconomic trends and their potential impact on the county's budget and financial planning. It also includes projections for economic performance in the near future.
6. **Section IV: Proposed Resource Allocation Framework**: This section outlines the proposed framework for resource allocation in the upcoming fiscal year and the medium term. It details how resources will be distributed across sectors, guided by the county's priorities and the sector ceilings presented in the CBROP.
7. **Section V: Conclusion**: This section summarizes the key findings and recommendations of the CBROP, emphasizing the way forward in budget preparation and financial management.

## II. REVIEW OF FISCAL PERFORMANCE FOR THE FY 2023/24

### A. FY 2023/24 Fiscal Performance

8. The total revenue for FY 2023/24, as per the approved budget estimates was Ksh 7,952,599,418, compared to an initial target of Ksh 7,713,799,127 outlined in the CFSP for FY 2023/24. The Approved Budget Estimates for FY 2023/24 indicate that the equitable share of revenue from the National Government was Ksh 5,341,810,744, while the target for own source revenue was set at Ksh 750,000,000. Table 1 presents a comparison between the approved CFSP 2023/24 and the revised Approved Supplementary budget for FY 2023/24.

Table 1: Comparison between CFSP 2023/2024 and Approved Budget FY 2023/24

Item	Approved CFSP 2023/2024	Revised Supplementary Estimated FY-2023/2024	Variation	% Change
Equitable Share of Revenue from National Government	5,341,810,744	5,341,810,744	0	0.00
Loans and Grants	1,068,918,109	1,386,452,588	317,534,479	29.71
Own Source Revenue and AiA	750,000,000	750,000,000	0	0.00
Unspent Exchequer Funds for FY 2022/2023	553,070,274	474,336,086	-78,734,188	(14.24)
<b>Total</b>	<b>7,713,799,127</b>	<b>7,952,599,418</b>	<b>238,800,291</b>	<b>3.1</b>

9. There was a total variation of Ksh 238,800,291 in the revenue projections between the Approved Supplementary Budget Estimates for FY 2023/24 and those outlined in the CFSP 2023/24. This variation resulted from an increase in loans and grants amounting to Ksh 317,534,479, offset by a reduction of closing balances from FY 2022/24 by Ksh 78,734,188. Overall, this represents a 3.0 percent variation from the projections in the CFSP 2023/24. Table 2 provides a detailed breakdown of all revenue streams, comparing the CFSP 2023/2024, the revised supplementary budget for FY 2023/2024, and any variations across the revenue streams.

Table 2: Revenue comparison between CFSP and Supplementary Budget Estimates

Description of Resource Item	CFSP Ceilings 2023/2024	Revised Supplementary Estimated FY-2023/2024	Variance	% Change
Equitable Share of Revenue from National Government	5,341,810,744	5,341,810,744	0	0%
Conditional Grant for Leasing of Medical Equipment	124,723,404	124,723,404.30	0.00	0%

Conditional Grant for Aggregated Industrial Parks Programme	250,000,000	250,000,000	0	0%
Conditional Grant for Provision of Fertilizer Subsidy Programme	110,930,145	110,930,145	0.00	0%
Unconditional Allocations to County Governments from Court Fines and Mineral Royalties	2,142	2,142	0	0%
National Agricultural and Rural Inclusive Growth Project (NARIGP)	150,000,000	219,676,900	69,676,900	32%
Conditional Allocation for National Agricultural Value Chain Development Project (NAVCDP)	250,000,000	317,192,729	67,192,729	21%
Livestock Value Chain Support Project	35,809,200	35,809,200	0	0%
Conditional Allocation for Primary Health Care in Devolved Context-DANIDA Grant	7,854,000	21,063,000	13,209,000	63%
Financing Locally Led Climate Action (FLLoCA).	11,000,000	159,500,000	148,500,000	93%
Agricultural Sector Development Support Programme (ASDSP)	961,306	4,806,156	3,844,850	80%
Emergency Locust Response Project (ELRP)	106,400,361.14	106,400,361.14	0.00	0%
Aquaculture Business Development Project (ABDP)	10,237,551	10,237,551	0	0%
Kenya Nutrition Support Grant	11,000,000	21,931,000	10,931,000	50%
Local Sources	382,801,875	382,801,875	0	0%
Appropriations In Aid (AiA)- Ministerial	367,198,125	367,198,125	0.00	0%
Unspent Exchequer Funds for FY 2022/2023	553,070,274	436,473,281	-116,596,993	-27%
Unspent Closing balance- FY 2022/2023- Water Department	0	32,000,000	32,000,000	100%
Unspent closing balances for Conditional Allocation for COVID-19 Expenses	0	5,862,805	5,862,805	100%
Government of Peoples' Republic of China Grant-Kwanjara Smart Container	0	4,180,000	4,180,000.00	100%
<b>Total Revenue</b>	<b>7,713,799,127</b>	<b>7,952,599,418</b>	238,800,291	3%

## Revenue Performance

10. The actual total revenue received was Ksh 6,809,122,625.95, falling short of the target of Ksh 7,952,599,418 by Ksh 1,143,476,792.05. The total equitable share amounted to Ksh 4,914,465,884, against a target of Ksh 5,341,810,744, resulting in a shortfall of Ksh 427,344,860 and reflecting a performance rate of 92%.
11. In contrast, local revenue collection reached Ksh 746,494,074.35, against a target of Ksh 750,000,000, resulting in an impressive performance of 99.5 percent. This strong performance in local revenue collection outperformed other fiscal years and can be attributed to several factors, including the automation of revenue processes, the expansion of the revenue base, improved human resources in revenue management, and a reduction in revenue leakage.

Table 3: Revenue Performance in FY 2023/24

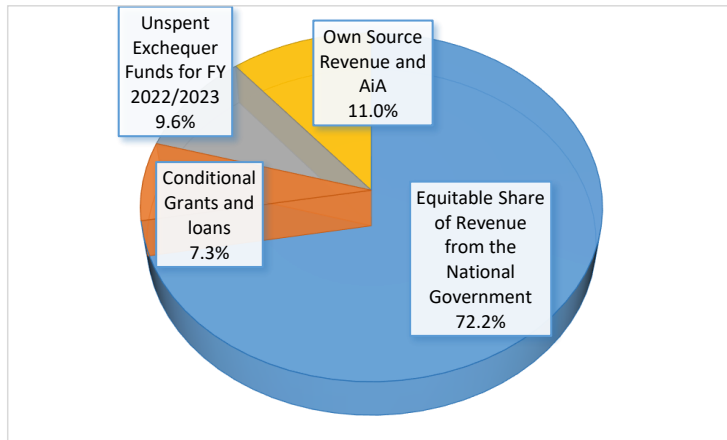
S/No.	Revenue Stream	Annual Targeted Revenue (Kshs.)	Actual Revenue (Kshs.)	Variance (Kshs.)
		A	B	C=B - A
<b>a) Equitable Share and Conditional Grants</b>				
1	Equitable Share of Revenue from the National Government	5,341,810,744	4,914,465,884	(427,344,860)
2	Conditional Grant for Leasing of Medical Equipment	124,723,404	0	(124,723,404)
3	Conditional Grant for Aggregated Industrial Parks Programme (CAIP)	250,000,000	64,000,000	(186,000,000)
4	Conditional Grant for Provision of Fertilizer Subsidy Programme	110,930,145	0	(110,930,145)
5	Un-conditional Allocations to County Governments from Court Fines and Mineral Royalties	2,142	0	(2,142)
6	Agriculture and Rural Inclusive Growth Project (NARIGP)	150,000,000	4,261,826	(145,738,174)
7	Conditional Allocation for National Agricultural Value Chain Development Project(NAVCDP)	250,000,000	198,906,697	(51,093,303)
8	Livestock Value Chain Support Project	35,809,200	0	(35,809,200)
9	Conditional Allocation for Primary Health Care in Devolved Context-DANIDA Grant	7,854,000	0	(7,854,000)
10	Financing Locally Led Climate Action(FLLoCA)-County Climate Institutional Support (CCIS) Grant	148,500,000	112,946,646	(35,553,354)
11	Agricultural Sector Development Support Programme (ASDSP)	961,306	961,306	0

12	Emergency Locust Response Project (ELRP)	106,400,361	105,215,628	(1,184,733)
13	Aquaculture Business Development Project(ABDP)	10,237,551	0	(10,237,551)
14	Kenya Nutrition Support Grant	11,000,000	7,500,000	(3,500,000)
14	Gov't of the People's Republic of China Grant-Kwanjara Smart Container Market	4,180,000	4,180,000.00	0
15	Unspent Exchequer Funds for FY 2022/2023	650,190,565	650,190,565	0
		1,860,788,674	1,148,162,668	(712,626,006)
	<b>Sub-Total</b>	<b>7,202,599,418</b>	<b>6,062,628,552</b>	<b>(1,139,970,866)</b>
	<b>b) Own Source Revenue and AiA</b>			
1	Local Sources	382,801,875	416,744,407	33,942,532
2	Appropriations in Aid (Ministerial)	367,198,125	329,749,667	(37,448,458)
	<b>Sub-Total</b>	<b>750,000,000</b>	<b>746,494,074.35</b>	<b>(3,505,926)</b>
	<b>Total Revenue</b>	<b>7,952,599,418</b>	<b>6,809,122,625.95</b>	<b>(1,143,476,792)</b>

12. Conversely, the Conditional Grant for the Aggregated Industrial Parks Programme (CAIP) and the Financing Locally Led Climate Action (FLLoCA)-County Climate Institutional Support (CCIS) Grant underperformed, falling short by Ksh 186,000,000 and Ksh 35,553,354, respectively. Additionally, the National Agricultural and Rural Inclusive Growth Project (NARIGP), which was allocated Ksh 150,000,000 under the County Government Additional Allocations Act (CGAAR), also experienced a shortfall as the funds were not disbursed to the counties as expected.
13. Several other grants provided under the County Government Additional Allocations Act (CGAAR), including the Livestock Value Chain Support Project (Ksh 35,809,200), Conditional Allocation for Primary Health Care in Devolved Functions (Ksh 7,854,000), and the Aquaculture Business Development Project (ABDP) (Ksh 10,237,551), were not disbursed to the counties at all. This practice by the National Government of allocating grants in the CGAAR but failing to release the funds creates a variance in the resource basket. As a result, it gives the public the false impression of underperformance in revenue mobilization, when in fact, the expected funds were simply not made available.
14. Furthermore, there was a shortfall in local revenue amounting to Ksh 3,505,926. However, local sources revenue achieved a surplus of Ksh 33,942,532, translating to an achievement rate of 8.9% above the set target.

15. The Equitable Share accounted for 72.2% of the overall revenue, while loans and grants contributed 7.3%. Own source revenue represented 11% of the total. Figure 1 illustrates the percentage contributions of various revenue sources to the overall revenue basket.

Figure 1: Revenue sources contribution to the resource basket FY 2023/24



### Local Revenue Performance

16. The total local revenue collected was Ksh 746,494,074.35, achieving 99.5% of the target of Ksh 750,000,000. Ordinary local revenue contributed Ksh 362,585,512, falling short of the target of Ksh 373,008,652, resulting in a performance rate of 97%. In contrast, appropriation in aid generated Ksh 383,908,563 against a target of Ksh 435,860,000, leading to a performance rate of 88%. Table 4 illustrates the performance trends for both own-source revenue and appropriation in aid.

Table 4: Own Source revenue achievement against target

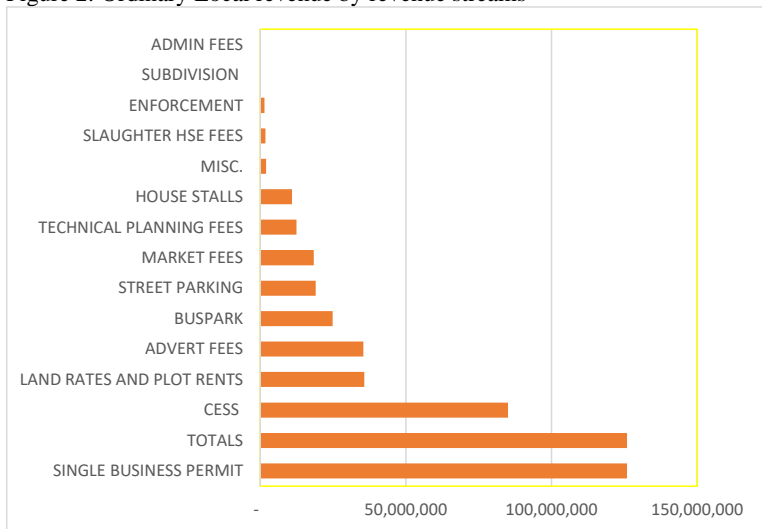
Source	Target	Actual	% Variance On Target
Single Business Permit	125,956,000	118,245,709	-6%
House Stalls	10,916,320	11,887,267	9%
Market Fees	18,321,474	25,839,641	41%
Buspark	24,880,280	27,235,040	9%
Street Parking	18,988,400	20,251,627	7%
Cess	85,067,738	73,059,381	-14%
Land Rates And Plot Rents	35,752,000	25,213,018	-29%
Subdivision	-	6,665,415	100%
Enforcement	1,500,000	589,946	-61%
Technical Planning Fees	12,442,280	10,664,406	-14%

Admin Fees	-	-	0%
Advert Fees	35,400,000	40,957,462	16%
Slaughter House Fees	1,784,160	1,404,170	-21%
Misc.	2,000,000	572,430	-71%
Audit Fee	-	-	0%
<b>Totals</b>	<b>373,008,652</b>	<b>362,585,512</b>	<b>-3%</b>

17. The own revenue collection totaled Ksh 362,585,512, reflecting a performance rate of 97.2% against the target of Ksh 373,008,652. Notably, other market fees and advertising fees achieved performance rates of 41% and 16%, respectively, marking the highest actual revenue performance among all revenue streams compared to their set targets.

18. The disaggregated data on ordinary local revenue collection indicates that single business permits were the highest contributors, generating Ksh. 118,245,709 and accounting for 32.6% of the total revenue collected. Cess ranked as the second highest contributor, bringing in Ksh. 73,059,381, which represents 20.1% of the overall ordinary local revenue. Figure 3 offers a visual representation of the performance of the various revenue streams.

Figure 2: Ordinary Local revenue by revenue streams



19. The actual appropriation in aid collection was Ksh 362,585,512 against a target of Ksh 373,008,652 reflecting 97.2 percent performance. Table 5 provides a breakdown of actual AiA collected against the target AiA.

Table 5: Appropriation in aid achievement against target

Department	AiA	Target	Actual	% Achievement
Trade, Tourism, Investment, Industrial Development and Marketing	Weight And Measures	1,036,000	1,008,480	-3%
	Alcoholic	50,628,000	31,589,348	-38%
	<b>Sub-Total</b>	51,664,000	32,597,828	-37%
Youth Empowerment and Sports, Gender, Culture, Children and Social Services	Users Fees For Social Halls	-	105,030	0%
	Stadium Users Fees	1,500,000	1,029,600	-31%
	<b>Sub-Total</b>	1,000,000	1,134,630	13%
Health	Embu Level 5	260,000,439	275,971,725	6%
	Siakago Level 4	6,500,000	7,902,677	22%
	Runyenjes Level 4	11,157,000	13,570,999	22%
	Ishiaru Level 4	10,000,500	14,458,948	45%
	Kiritiri Level 4	1,100,564	2,174,268	98%
	Health Facilities - Level 3&2	2,016,325	15,671,051	677%
	Public Health	15,501,832	11,723,799	-24%
	<b>Sub-Total</b>	306,276,660	341,473,466	11%
Agriculture, Livestock, Blue Economy and Cooperative Development	Veterinary	4,031,400	4,062,805	1%
	<b>Sub-Total</b>	4,031,400	4,062,805	1%
Lands, Physical Planning and Urban Development	COUNTY HOUSES	10,513,363	4,639,834	-56%
	<b>Sub-Total</b>	10,513,363	4,639,834	-56%
<b>TOTAL</b>		373,485,423	383,908,563	3%

20. The Appropriation in Aid data reveals that the Health sector contributed the largest share of funds, totaling Ksh. 341,473,466, surpassing the target of Ksh. 306,276,660 by 11%. Notably, the Embu Level 5 Hospital accounted for Ksh. 275,971,725, which represents 90% of the total collected from the health sector.

21. Following closely, the Trade, Tourism, Investment, Industrial Development, and Marketing sector was the second highest performer, achieving 63.1% of its set target, with alcohol licensing making a significant contribution.

#### Expenditure Performance

22. The Public Finance Management (PFM) Act, 2012 provides for fiscal responsibility principles to be enforced by the County Governments in management of public finances. The PFM Act under Section 102(2) and PFM Regulations, 2015 outline that, the County Treasury shall enforce the following fiscal responsibility principles:

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

- b) Over the medium term a minimum of thirty percent of the county government’s budget shall be allocated to the development expenditure;
  - c) The County Government expenditure on wages shall not exceed 35 percent of total revenue as prescribed by the County Executive Committee for Finance.
23. The total Approved Supplementary Budget 2023/24 amounted to Ksh 7,952.60 million against the Approved CFSP total amount of Ksh 7,714.8 million reflecting a substantive variation of 3.1 percent.
24. Under the recurrent budget, the Department of Finance and Economic Planning recorded the highest deviation from the set ceiling in the CFSP 2023/24, at 264 percent. This significant deviation was primarily due to the inclusion of the Equalization Fund and pending bills in the ceiling for Finance and Economic Planning in the CFSP 2023/24, which were later redistributed to other departmental budgets in the final approved budget for 2023/24. Additionally, the reprioritization of pending bills in the final budget also significantly influenced these deviations.
25. The Department of Youth and Gender recorded the second-highest deviation from the set ceilings, standing at 146 percent. This deviation was attributed to the reallocation of the Equalization Fund to support youth development programs and sports activities. Consequently, the departmental ceiling increased from the 34 million set in the CFSP 2023/24 to 180 million in the final approved budget for 2023/24.
26. The third-highest deviation was noted in the Public Service and Administration Department, which was driven by the allocation of pending bills for statutory deductions and an increase in insurance costs.
27. Under the development budget, notable deviations were identified in the Departments of Roads and Public Works, Education, and the Climate Change Unit, with deviations of 54 percent, 168 percent, and 138 percent, respectively. These deviations were caused by the redistribution of Equalization Funds in the Roads and Education departments. In the Climate Change Unit, the deviation was due to the inclusion of FLOCCA conditional grants, which had not been accounted for in the resource basket during the preparation of the approved CFSP 2023/2024.
28. The delay by the national government in providing the approved ceilings in the BPS paper on time, prior to the finalization of the Fiscal Strategy Paper, continues to contribute to deviations between the ceilings in the CFSP and the final approved budgets.

Table 6: Comparison of CFSP and Approved Budget Estimates for FY 2023/24

Portfolio	Recurrent Ceilings in Millions			Development Ceilings in Millions			Total Ceilings in Millions		
	CFSP Ceilings 2023/2024	Approved Budget 2023/24	%Variation	CFSP Ceilings 2023/2024	Approved Budget 2023/24	%Variation	CFSP Ceilings 2023/2024	Approved Budget 2023/24	%Variation
Office Of The Governor	204	276	-72	15	15	0	219	291	33
Finance And Economic Planning	845	581	264	928	1	927	1773	582	-67
Education, Vocational Training Centers	369	381	-11	14	182	-168	383	563	47

Health	1938	1,913	25	135	185	-51	2073	2,098	1
Roads, Public Works, Energy And Transport	36	40	-4	100	604	-504	136	644	375
Trade, Tourism, Investment, Industrial Development And Marketing	28	26	2	410	339	71	438	365	-17
Agriculture, Livestock, Blue Economy And Cooperative Development	301	291	10	730	731	-1	1030	1,021	-1
Lands, Mining Housing, Physical Planning, And Urban Development	67	68	-1%	15	53	-38	82	121	48
Water, Irrigation, Environment, Climate Change And Natural Resources	51	32	19	30	151	-121	81	183	125
Youth Empowerment And Sports, Gender, Culture, Children And Social Services	34	180	-146	10	21	-11	44	201	357
Administration, Public Service, Devolution, Governance, Ict And Gdu	473	578	-105	7	8	-2	479	586	22
County Public Service Board	30	30	0	0	-	0	30	30	0
County Assembly	665	624	41	106	30	76	771	654	-15
Embu Level 5 Hospital	100	224	-124	30	116	-86	130	340	162
Embu County Revenue Authority	10	13	-3	10	8	2	20	21	6
Climate Change Unit	15	17	-2	7	145	-138	22	162	634
Embu Municipality	2	49	-47	0	42	-42	2	91	4435
<b>Total</b>	<b>5,168</b>	<b>5,321</b>	<b>-153</b>	<b>2546</b>	<b>2,631</b>	<b>-86</b>	<b>7,714</b>	<b>7,953</b>	<b>3.1</b>

29. Total expenditure for the fiscal year 2023/24 reached Ksh 6,638.95 million, falling short of the target of Ksh 7,952.60 million. This represents an underspending of Ksh 1,313.64 million, equating to a 17% deviation from the approved supplementary budget. The shortfall was primarily due to low spending on development expenditures, which resulted from delays in project implementation, a shortfall in local revenue collection, and un-disbursed donor funds.

30. The total recurrent expenditure amounted to Ksh 5,052.51 million, compared to a target of Ksh 5,321.13 million, resulting in an underspending of Ksh 268.62 million. This shortfall was primarily attributed to the exchequer's failure to release the June installment, which impacted both recurrent and development expenditures.

31. Development expenditure totaled Ksh 1,586.44 million, falling short of the target of Ksh 2,191.7 million, resulting in a shortfall of Ksh 605.26 million. This deficit was primarily due

to delays in project implementation, delays in exchequer releases, and undisbursed donor funds allocated to the development budget.

Table 7: Expenditure under FY 2023/24 in Millions

Department	Recurrent Expenditure			Development Expenditure			Approved Supplementary FY 2023/24 (Kshs.)	Total	Absorption rate
	Approved Supplementary FY 2023/24 (Kshs.)	Actual Expenditure	Absorption rate	Approved Supplementary FY 2023/24 (Kshs.)	Actual Expenditure	Absorption rate			
Office of Governor	276.28	268.01	97.0	15.00	15.00	100	291.28	283.01	97.2
County Public Service Board	29.57	27.77	93.9	-	-	0.00	29.57	27.77	93.9
Public Service and Administration	577.56	546.86	94.7	8.20	7.88	96	585.76	554.73	94.7
County Assembly	624.02	549.81	88.1	30.00	29.21	97	654.02	579.02	88.5
Finance and Economic Planning.	581.38	579.32	99.6	1.00	1.00	100	582.38	580.32	99.6
Trade Tourism Investment and Industrialization	26.01	25.00	96.1	338.68	119.68	35	364.68	144.68	39.7
Agriculture, Livestock, Fisheries and Co-Operative Development	290.63	231.70	79.7	730.76	356.68	49	1,021.39	588.38	57.6
Water Environment and Natural Resources	31.99	30.28	94.7	151.16	128.08	85	183.15	158.36	86.5
Health	1,912.54	1,852.96	96.9	185.31	120.30	65	2,097.85	1,973.26	94.1
Embu Level 5 Hospital	224.33	222.03	99.0	116.00	21.98	19	340.33	244.02	71.7
Infrastructure, Public Works and Housing.	39.76	36.98	93.0	603.82	521.62	86	643.58	558.60	86.8
Education, Science and Technology	380.83	370.14	97.2	181.87	162.25	89	562.70	532.39	94.6

Youth Empowerment and Sports and Gender Empowerment	179.99	169.84	94.4	21.24	9.48	45	201.23	179.33	89.1
Lands, Physical Planning and Urban Development & Water	67.83	67.45	99.4	53.48	37.86	71	121.32	105.31	86.8
Embu County Revenue Authority (ECRA)	12.86	8.81	68.5	8.30	-	0.0	21.16	8.81	41.6
Embu Municipal Board	48.55	48.55	100	42.15	22.15	53	90.70	70.70	77.9
Climate Change Unit	17.00	17.00	100	144.50	33.27	23	161.50	50.27	31.1
<b>Total</b>	<b>5,321.13</b>	<b>5,052.51</b>	<b>95.00</b>	<b>2,631.46</b>	<b>1,586.44</b>	<b>60</b>	<b>7,952.60</b>	<b>6,638.95</b>	<b>83.5</b>

### Absorption Rate

32. The total expenditure reached Ksh 6,638.95 million, falling short of the target of Ksh 7,952.60 million by Ksh 1,313.64 million, representing a shortfall of 17%. Within this total, recurrent expenditure amounted to Ksh 5,052.51 million, which was below the target of Ksh 5,321.13 million. Additionally, development expenditure stood at Ksh 1,586.44 million, also not meeting its target of Ksh 2,631.46 million.
33. The absorption rate, which measures the performance of actual expenditure against the approved budget, provides valuable insights into spending efficiency. During this period, the overall absorption rate was recorded at 83.5 percent. Specifically, the recurrent expenditure absorption rate stood at 95 percent, while the development expenditure absorption rate was significantly lower at 60 percent. For a detailed breakdown of absorption rates by department, please refer to Table 8.
34. The Finance and Economic Planning Department achieved the highest absorption rate at an impressive 99.6 percent, closely followed by the Office of the Governor at 97.2 percent. The Administration, Public Service, Devolution, Governance, ICT, and GDU Department ranked third with a rate of 97.7 percent.
35. The actual recurrent expenditure played a significant role in driving these high departmental absorption rates. The Finance and Economic Planning Department led with an impressive absorption rate of 99.6 percent, largely due to allocations aimed at clearing pending bills. Following closely was the Health Department, which recorded an absorption rate of 96.9

percent. This department's recurrent expenditure primarily focused on providing larger salaries for medical staff and funding the purchase of essential drugs and commodities.

36. In contrast, development expenditure displayed lower absorption rates, with only two departments exceeding the 95 percent threshold. The Finance and Economic Planning Department achieved a development expenditure absorption rate of 99.6 percent, while the Office of the governor reported a rate of 97.2 percent.

### Pending Bills

37. The County Government remains committed to maintaining debt owed to suppliers at sustainable levels in accordance with Section 123 of the PFM Act. During the period under review, the County accumulated pending bills totaling Ksh 2,453,218,092. This total comprised Ksh 1,225,409,954 for recurrent pending bills and Ksh 1,227,808,137 for development pending bills.

38. In the fiscal year 2023/24, eligible pending bills amounting to Ksh 640.65 million were settled, with Ksh 301.5 million coming from recurrent expenditure and Ksh 339.2 million from development expenditure. The settlement status of eligible pending bills for FY 2023/24 is detailed in Table 9.

Table 8: Settlement Status of Eligible Pending Bills in FY 2023/24

SUMMARY OF PROGRESS REPORT ON SETTLEMENT OF PENDING BILLS AS AT 30 <sup>TH</sup> JUNE, 2024					
S/No.	DEPARTMENT	Vote	Outstanding Pending Bill Amount as of 30 <sup>th</sup> June, 2023 (Kshs.)	Amount Paid (Kshs.)	Outstanding Pending Bill Amount as of 30 <sup>th</sup> June 2024 (Kshs.)
1	Office of Governor	Recurrent	35,170,460	0	35,170,460
		Development	1,000,000	0	1,000,000
		<b>Total</b>	<b>36,170,460</b>	<b>0</b>	<b>36,170,460</b>
2	County Public Service Board	Recurrent	237,800	0	237,800
		Development	0	0	0
		<b>Total</b>	<b>237,800</b>	<b>0</b>	<b>237,800</b>
3	Public Service and Administration	Recurrent	36,941,563	0	36,941,563
		Development	16,796,512	1,984,174	14,812,337
		<b>Total</b>	<b>53,738,074</b>	<b>1,984,174</b>	<b>51,753,900</b>
4	Finance and Economic Planning	Recurrent	649,123,808	300,000,000	349,123,808
		Development	0	0	0
		<b>Total</b>	<b>649,123,808</b>	<b>300,000,000</b>	<b>349,123,808</b>

5	Trade, Tourism, Investment and Industrialization	Recurrent	10,173,663	0	10,173,663
		Development	80,369,382	19,477,653	65,878,040
		<b>Total</b>	<b>90,543,045</b>	<b>19,477,653</b>	<b>76,051,704</b>
6	Agriculture, Livestock, Fisheries and Co-Operatives	Recurrent	2,066,710	0	2,066,710
		Development	8,828,985	750,000	8,078,985
		<b>Total</b>	<b>10,895,695</b>	<b>750,000</b>	<b>10,145,695</b>
7	Water, Environment and Natural Resources	Recurrent	2,429,069	0	2,429,069
		Development	58,869,477	22,052,374	47,199,075
		<b>Total</b>	<b>61,298,547</b>	<b>22,052,374</b>	<b>49,628,144</b>
8	Health Services	Recurrent	150,770,316	0	150,770,316
		Development	114,951,220	66,294,147	48,657,073
		<b>Total</b>	<b>265,721,536</b>	<b>66,294,147</b>	<b>199,427,389</b>
9	Embu Level 5 and Referral Hospital	Recurrent	284,890,195	0	284,890,195
		Development	166,690,074	11,697,032	154,993,042
		<b>Total</b>	<b>451,580,269</b>	<b>11,697,032</b>	<b>439,883,237</b>
10	Infrastructure, Public Works, Housing and Energy	Recurrent	199,500	0	199,500
		Development	670,693,433	190,186,481	480,506,952
		<b>Total</b>	<b>670,892,933</b>	<b>190,186,481</b>	<b>480,706,452</b>
11	3673000000 Education, Science and Technology	Recurrent	49,849,614	1,499,900	48,349,714
		Development	41,322,701	16,873,616	24,449,085
		<b>Total</b>	<b>91,172,315</b>	<b>18,373,516</b>	<b>72,798,799</b>
12	Youth Empowerment, Sports, Gender, Culture, Children and Social Services	Recurrent	1,171,928	0	1,171,928
		Development	19,111,365	9,836,924	9,274,442
		<b>Total</b>	<b>20,283,293</b>	<b>9,836,924</b>	<b>10,446,370</b>
13	Lands, Physical Plan & Urban Devt, Water, Environment & Natural Resources	Recurrent	0	0	0
		Development	49,174,988	0	49,174,988
		<b>Total</b>	<b>49,174,988</b>	<b>0</b>	<b>49,174,988</b>
14	Embu County Revenue Authority	Recurrent	2,385,328	0	2,385,328
		Development	0	0	0
		<b>Total</b>	<b>2,385,328</b>	<b>0</b>	<b>2,385,328</b>
<b>TOTAL Recurrent</b>			<b>1,225,409,954</b>	<b>301,499,900</b>	<b>923,910,054</b>

<b>TOTAL Development</b>	<b>1,227,808,137</b>	<b>339,152,402</b>	<b>904,024,019</b>
<b>GRAND TOTAL</b>	<b>2,453,218,092</b>	<b>640,652,302</b>	<b>1,827,934,073</b>

39. The county will continue encouraging fiscal discipline across all departments to avoid accumulation of pending bills. Further, The County has revised the revenue targets to realistic figures to help address the recurring revenue gap that has resulted to pending bills.

**B. County Governments’ Compliance with Fiscal Responsibility Principles**

40. In accordance with the Public Finance Management Act of 2012 and the Public Finance Management Regulations of 2015, and in the spirit of prudent and transparent management of public resources, the County Government has adhered to the fiscal responsibility principles to a considerable extent, as outlined below.

**A. Recurrent Expenditure as a percentage of Total Revenue**

41. The PFM Act of 2012 stipulates that a County Government’s recurrent expenditure must not exceed seventy percent of its total its total revenue. In the fiscal year 2022/23, the total recurrent expenditure was Ksh 5,052.51 million, while the total revenue available amounted to Ksh 7,372.7 million, representing 68.5 percent of the total revenue. This indicates that the total recurrent expenditure remained within the thresholds established by the Public Finance Management Act by the end of FY 2023/24.

**B. Development Budget as a Percentage of the Total Budget**

42. Section 107(b) of the Public Finance Management Act, 2012 mandates that a minimum of 30 percent of each County Government’s budget be allocated to development expenditure over the medium term. In the approved supplementary budget for FY 2023/24, the total budget amounted to Ksh 7,372.7 million, with Ksh 5,116.86 million allocated to recurrent expenditure and Ksh 2,255.88 million designated for development expenditure. This allocation for development expenditure represents 31.5 percent of the overall budget. Thus, it conforms to Section 107(2)(b) of the PFM Act, 2012, which stipulates that at least 30 percent of the budget must be allocated to development expenditures.

**C. Expenditure on Personnel Emoluments**

43. The Public Finance Management (County Government) Regulations, 2015 stipulate that expenditure on wages and benefits for public officers shall not exceed 35 percent of total revenues. In the fiscal year 2023/2024, total expenditure on emoluments amounted to Ksh 3,630.4 million against total revenue of Ksh 7,372.7 million. This translates to 49.2 percent of the overall budget allocation, indicating that the county has not adhered to this fiscal responsibility principle.

44. The substantial wage bill is attributed to factors beyond the county government’s control. Notably, the current revenue distribution formula does not account for inherited non-

discretionary devolved costs. Additionally, the county inherited provincial staff, as Embu town served as the headquarters of the former Eastern Province.

### **III.MACROECONOMIC DEVELOPMENTS AND OUTLOOK**

#### **A. World Economic Outlook**

45. Global economy has stabilized with global growth projected at 3.2 percent in 2024 and 3.3 percent in 2025 from 3.3 percent in 2023 (Table 14). The outlook reflects economic recovery in China, Euro area and UK, despite a slowdown in activity in the USA and Japan. The main risks to the global growth outlook relate to further escalation of geopolitical tensions, interest rates remaining higher-for-even-longer in advanced economies, and policy uncertainty attributed to changes of Government in some major economies. Global inflation has moderated, with central banks in some major economies lowering interest rates. International oil prices have moderated, but the risk premium from the Middle East conflict has increased following the recent escalation.
46. Global economic output showed resilience in the first half of 2024, with modest growth anticipated in 2024 and 2025, mainly due to improving economic activities in the United States, China, and India. Global growth was estimated at 3.3 percent for 2023 is projected to continue at the same pace in 2024 and 2025. However, the divergence in output across the countries at the beginning of the year narrowed partly attributed to waning cyclical factors and a better alignment of growth with the potential. Even though global headline inflation concerns are diminishing, core inflation remains persistently high. Financial market conditions have remained stable throughout 2024, reflecting improved global investor sentiment and a softening of labor markets. However, the outlook faces significant downside risks, including escalating conflicts in the Middle East, uncertainties around the US elections, and consistently high interest rates in advanced economies.

**Table 14: Global Economic Performance**

Economy	Growth (%)			
	Actual	Estimate	Projections	
	2022	2023	2024	2025
<b>World</b>	3.5	3.3	3.2	3.3
<b>Advanced Economies</b>	2.6	1.7	1.7	1.8
<i>Of which: USA</i>	1.9	2.5	2.6	1.9
<i>Euro Area</i>	3.4	0.5	0.9	1.5
<i>United Kingdom</i>	4.3	0.1	0.7	1.5
<i>Japan</i>	1.0	1.9	0.7	1.0
<b>Emerging and Developing Economies</b>	4.1	4.4	4.3	4.3
<i>Of which: China</i>	3.0	5.2	5.0	4.5
<i>India</i>	7.0	8.2	7.0	6.5
<b>Sub-Saharan Africa</b>	4.0	3.4	3.7	4.1
<b>Of which: South Africa</b>	1.9	0.7	0.9	1.2
<b>Nigeria</b>	3.3	2.9	3.1	3.0
<b>Kenya*</b>	4.9	5.6	5.2	5.4

Source: IMF World Economic Outlook, July 2024. \*National Treasury Projection

47. Growth in the advanced economies is projected to remain stable at 1.7 percent in 2024 and 1.8 percent in 2025. Growth in the US has been revised downwards by 0.1 percentage points from the World Economic Outlook (WEO) April projections as consumption moderated and the labor market eased. Growth prospects for the Euro area were revised upwards by 0.1 percentage points following strong momentum in the services sector and higher than expected net exports in the first half of the year. The Euro area and the UK are projected to grow by 0.9 percent and 0.7 percent, respectively in 2024. In the emerging market and developing economies, growth is projected at 4.3 percent in 2024 and 2025, reflecting stronger activity in Asia particularly China and India. In Sub-Saharan Africa (SSA), economic growth is projected to rise from an estimated 3.4 percent in 2023 to 3.7 percent in 2024 and 4.1 percent in 2025. Growth has been revised downwards by 0.1 percentage points in the April WEO attributed to a weaker growth outlook in Nigeria on account of weaker than expected activity in the first quarter of 2024. Nigeria and South Africa are expected to grow by 3.1 percent and 0.9 percent in 2024, respectively.

48. Global financial conditions remained accommodative boosted by positive corporate valuations. Global headline inflation is expected to fall to 5.9 percent and 4.4 percent in 2024 and 2025, respectively. Which is a slower pace due to higher-than-average inflation in services prices. World trade growth is expected to increase 3.1 percent and 3.4 percent in 2024 and 2025, respectively. Annual average oil prices and non-fuel commodity prices are projected to increase by 0.8 percent and 5.0 percent in 2024, respectively.

#### **Kenya's Economic Performance and Outlook**

49. The Kenyan economy is currently unwinding from the effects of negative and persistent global and domestic shocks that had pushed the economy to its lowest activity level. These shocks included COVID-19 pandemic and its ensuing effects, conflict in Eastern Europe and Middle East that led to global supply chain disruptions and the adverse effects of climate change from

the prolonged drought in 2021 to the floods in the first half of 2024. These shocks escalated the cost of essential household commodities including fuel prices, and led to a rapid depreciation of the Kenya Shilling exchange rate, piling pressure on public debt.

50. Various government interventions, structural reforms and policies have supported economic recovery. The economy grew by 5.6 percent in 2023 from 4.9 percent in 2022, a demonstration of resilience and the beginning of economic recovery. The growth was largely driven by a strong rebound in the agricultural subsector, which benefited from favorable weather conditions after two years of severe droughts and the robust performance of the services sector. The performance of the industrial sector has particularly manufacturing which has remained subdued. This growth momentum has continued in 2024 with the economy expanding by 5.0 percent in the first quarter compared to a growth of 5.5 percent in the corresponding quarter in 2023.
51. The primary sector grew by 5.0 percent in the first quarter of 2024 compared to a growth of 5.3 percent in the first quarter of 2023. This was as a result of the robust growth in the agriculture, forestry and fishing sub-sector despite a contraction in the mining and quarrying sub sector. Activities in the agriculture, forestry and fishing sub-sector expanded by 6.1 percent in the first quarter of 2024 compared to a growth of 6.4 percent in a similar quarter in 2023. The performance was evident in the significant increase in production of tea, milk and sugarcane during the quarter under review. Mining and Quarrying sub-sector contracted by 14.8 percent in the first quarter of 2024 compared to a contraction of 11.0 percent over the same period in 2023. This was due to a decline in production of most minerals such as titanium, soda ash and gemstone.
52. **Industrial sector performance** remained subdued, with growth of the sector slowing down to 1.1 percent in the first quarter of 2024 from a growth of 2.5 percent in a similar quarter of 2023. This was mainly on account of a slowdown in activities in all its sub-sectors i.e. the manufacturing, electricity & water supply and construction subsectors.
53. The Manufacturing sub-sector grew by 1.3 percent in the first quarter of 2024 compared to 1.7 percent growth in the corresponding quarter of 2023. In the manufacture of food products, growth was supported by tea and dairy processing in spite of the decline in the production of soft drinks. In addition, the production of cement declined in the review period. The Electricity and water supply sub-sector also recorded a decelerated growth of 2.4 percent in the first quarter of 2024 compared to a growth of 3.7 percent in the corresponding quarter of 2023 supported by an increase in hydroelectric power generation and a decrease in thermal power generation. Activities in the construction sub-sector similarly registered a decelerated growth of 0.1 percent compared to 3.0 percent growth recorded in the first quarter of 2023. The slowdown in the construction sub-sector was reflected in the decline in the volume of cement consumption and imported bitumen. However, the volume of iron and steel imported increased during the review period.
54. The activities in the services sector continued to sustain strong growth momentum in the first quarter of 2024 and grew by 6.2 percent compared to a growth of 6.5 percent in a similar period in 2023. 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. Accommodation and food service activities reflected post COVID recovery in spite of the lingering effects of the pandemic. Consequently, the sub-

sector grew by 28.0 percent in the first quarter of 2024 compared to a growth of 47.1 percent recorded in the corresponding quarter of 2023.

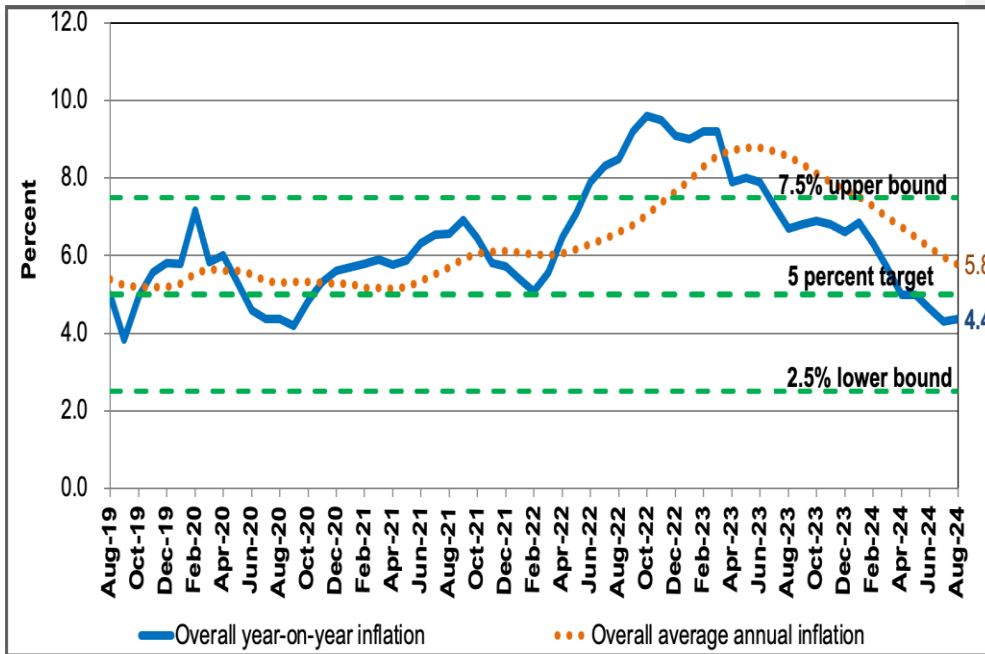
55. Financial and insurance sub-sector grew by 7.0 percent in the first quarter of 2024 compared to 5.9 percent in the corresponding quarter of 2023 on account of increased profitability of the subsector. The information and communication subsector grew by 7.8 percent compared to a growth of 9.5 percent, over the same period supported by increased voice traffic, internet use and mobile money despite a decline in the use of domestic Short Messaging Services (SMSs). Activities in Transportation and Storage sub-sector slowed down to record a growth of 3.8 percent in the first quarter of 2024 compared to a growth of 6.6 percent in a corresponding period in 2023. The growth in the sub-sector was mainly supported by increased activities in Port throughput and an increase in the number of international passenger arrivals and departures.
56. Available economic indicators for the first half of 2024 point to mixed performance in the economy reflecting sustained performance in agriculture, improved exports and services sector and subdued industrial sector.. In view of this and other consideration including domestic and external factors, economic growth is projected at 5.2 per cent in 2024 and 5.4 per cent from earlier projections of 5.5 per cent, respectively. These projections are underpinned by broad-based private sector growth and ongoing Government interventions and strategies under the Bottom Up Economic Transformation Agenda (BETA). Additionally, implementation of prudent fiscal and monetary policies will continue to support economic activity

#### **Inflation Developments**

57. The overall year-on year inflation is within the Government target range of  $5\pm 2.5$  percent largely driven by easing food and fuel prices. Overall inflation remained stable at 4.4 percent and 4.3 percent in August and July 2024, respectively, thereby remaining below the mid-point of the target for three consecutive months. This is a drop from 6.7 percent in August 2023, and a peak of 9.6 percent in October 2022(Figure 10). Favourable weather conditions coupled with targeted government interventions have partly led to the reduction in the cost of food production thereby lowering food inflation. Other factors expected to support low inflation include the pass-through effects of the strengthening exchange rate, decreases in electricity and pump prices and the CBK monetary policy stance.
58. To anchor inflation expectations and address exchange rate pressures, the Central Bank of Kenya through the Monetary Policy Committee (MPC) tightened the monetary policy by raising the Central Bank Rate (CBR) from 10.5 percent in July 2023 to 13.0 percent in February 2024. However, in the MPC meeting held on August 6, 2024, the Committee decided to lower the CBR to 12.75 per cent as the previous measures had contributed to lowering overall inflation to below the mid-point of the target range, stabilized the exchange rate, and anchored inflationary expectations.
59. Food inflation remained a key driver of overall year-on-year inflation though it declined to 5.3 percent in August 2024 from 7.5 percent in August 2023. The easing of food prices was supported by increased food supply arising from favorable weather conditions, continued Government interventions particularly through subsidized fertilizer, and the general easing of international food prices. Prices of most vegetable food items increased in the month of August 2024 compared to the same period in 2023 while those of non-vegetable food items declined during the same period.

60. Fuel inflation declined to 4.7 percent in August 2024 from 14.2 percent in August 2023. The decline largely reflecting the easing global oil prices and appreciation of the Kenya Shilling's which resulted in a downward adjustment of pump prices; and lower electricity prices. Core (non-food non-fuel) inflation has remained low and stable reflecting the impact of tight monetary policy and muted demand pressures.

**Figure 10: Inflation Rate, Percent**



Source of Data: Kenya National Bureau of Statistics

**Monetary and Credit Developments**

61. Broad money supply, M3, grew by 6.0 percent in the year to June 2024 compared to a growth of 13.4 percent in the year to June 2023 (Table 16). The slowdown in growth of M3 was due to a decline in the growth of Net Domestic Assets (NDA) particularly the domestic credit. The primary source of the growth in M3 was an improvement in the Net Foreign Assets (NFA) of the banking system. The NFA of the banking system in the year to June 2024 expanded by 53.2 percent compared to a growth of 29.5 percent in the year to June 2023. The increase in Net Foreign Assets, mainly reflected an increase in commercial banks' Foreign Assets.

62. Net Domestic Assets (NDA) contracted by 0.2 percent in the year to June 2024, compared to a growth of 11.5 percent over a similar period in 2023. The slowdown in growth of the NDA reflects a decline in growth of the domestic credit to both the Government and the private sector. The domestic credit extended by the banking system to the Government decreased to a

growth of 7.9 percent in the year to June 2024 compared to a growth of 13.0 percent in the year to June 2023. Lending to other public sectors grew by 1.5 percent compared to a contraction of 0.5 percent over the same period

63. Growth in private sector credit from the banking system slowed to 4.0 percent in the year to June 2024 compared to a growth of 12.2 percent in the year to June 2023, reflecting the impact of exchange rate appreciation on foreign currency denominated loans and monetary policy tightening. Reduced credit growth was observed in manufacturing, trade (exports) and building and construction. These are some of the sectors with significant foreign currency denominated loans
64. The Monthly (month on month) credit flows to the private sector have slowed down since December 2023 following the monetary policy action of increasing the central bank rate to manage inflation expectation which resulted in the increased cost of credit. Sustained demand particularly for working capital due to resilient economic activity, the implementation of the Credit Guarantee Scheme for the vulnerable MSMEs and the projected economic growth for 2024 will continue to support private sector credit uptake

#### **Interest Rates Developments**

65. Interest rates in the year to August 2024 increased reflecting the tight monetary policy stance. The interbank rate increased to 12.97 percent in August 2024 compared to 10.48 percent in August 2023 and has remained within the prescribed corridor around the CBR (set at CBR± 150 basis points). The 91-day Treasury Bills rate increased to 15.8 percent in August 2024 compared to 13.3 percent in August 2023 while the 182-day Treasury Bills rate also increased to 16.7 percent from 13.2 percent over the same period. The 364-day Treasury Bills rate increased to 16.9 percent in August 2024 from 13.6 percent in August 2023. This has increased the cost of borrowing by Government from the domestic market
66. Commercial banks average lending and deposit rates increased in the year to July 2024 in tandem with the tightening of the monetary policy stance thereby reflecting high cost of investable funds. The average lending rate increased to 16.8 percent in July 2024 from 13.8 percent in July 2023 while the average deposit rate increased to 11.3 percent from 8.4 percent over the same period. Consequently, the average interest rate spread decreased to 5.6 percent in July 2024 from 5.4 percent in July 2023

#### **B. Kenya's Macroeconomic Outlook**

67. Kenya's economic performance is projected to remain stable over the medium term. Growth is expected to moderate from 5.6 percent in 2023 to a forecast of 5.2 percent in 2024 and 5.4 percent in 2025. The growth in 2024 and 2025 will benefit from the enhanced agricultural productivity and a resilient services sector. The rebound in Kenya's agricultural sector is expected to be largely driven by favourable weather conditions and productivity-enhancing government interventions. The industrial sector will see growth primarily in manufacturing largely reflecting reduction in costs of production and easing of exchange rate pressures; and in construction partly attributed to increased public spending on affordable housing. The services sector is expected to remain resilient, with ICT reforms boosting growth in financial services, health, and public administration. However, increased uncertainties in both the external and domestic environments, such as the escalation of geopolitical tensions and

potential disruptions in supply chain networks, could negatively impact commodity markets and slow down this potential growth.

68. On the demand side, aggregate domestic demand is expected to remain resilient even as public sector consolidates with the private sector playing a stronger role in Kenya's medium-term recovery. Bumper agricultural harvests, moderate inflation, a recovery in employment, and modest growth of credit to private sector will support growth in private consumption. Moreover, remittance inflows to Kenya are projected to remain resilient, providing further support to household incomes. Private consumption is expected to complement moderate government consumption in the context of fiscal consolidation.
69. Private investment will be supported by measures aimed at improving competitiveness, inclusivity, market efficiency, positive business sentiment, access to the international market, and projected FDI inflows. Investment will also benefit from an increased focus on Public Private Partnerships (PPPs), following the near completion of the harmonization of the Public Investment Policy, which will align PPP and Public Investment Management frameworks. In the medium term, the Government targets PPP investments in key economic sectors to complement its development agenda. These sectors include Agriculture, Roads and Transport, Urban Development and Housing, Energy, Water, Information, Communication Technologies (ICT), and Health. The PPPs are also expected to partly fill the investment financing gap in the wake of ongoing fiscal consolidation efforts which would reduce government domestic borrowing and lower yields on government securities.
70. Government consumption and investments are expected to slowdown in 2024 and 2025 due to the ongoing growth friendly fiscal consolidation efforts. However, the development will be complimented with private sector investments in commercially viable development projects. Growth over the medium term will also be driven by sustained Government investments in the Bottom Up Economic Transformation Agenda. Particularly, investments in the nine priority value chains (Leather, Cotton, Dairy, Edible Oils, Tea, Rice, Blue economy, Natural Resources (including Minerals and Forestry), and Building Materials). Government interventions towards climate change adaptation and mitigation measures that include rehabilitation of wetlands and reforestation are expected to support growth over the medium term.
71. Kenya's external position is expected to remain supportive of macroeconomic stability. Overall, the current account deficit is expected to be stable in the medium term. Exports are expected to recover, both from improvements in the global and regional trade outlook, and domestic conditions. Exports are expected to benefit from the ongoing implementation of trade agreements such as regional economic communities and the AfCFTA. Increased remittance inflows and tourism receipts are expected to further provide foreign exchange buffer. Imports are expected to grow as domestic demand recovers, particularly of raw materials, fuels, and intermediate goods, consistent with investment growth and the stability in the foreign exchange market.

### **Monetary Policy Management**

72. The monetary policy stance over the medium term will aim at achieving and maintaining overall inflation within the target range of  $5\pm 2.5$  percent while maintaining a competitive exchange rate and stable interest rates. The flexible margin of 2.5 percent on either side of the inflation target is to cater for effects of external and domestic shocks and recurrence of extreme weather events that not only affect economic activities but also pose major fiscal risk.

Maintaining the inflation rate at this level will help preserve macroeconomic stability and reduce undesirable fluctuations in economic performance. The targeted inflation will be supported by muted demand pressures consistent with prudent monetary policy and easing of domestic and global food and oil prices coupled with Government measures to lower cost of production.

73. The ongoing implementation of reforms to modernize Monetary Policy Framework and Operations continues to enhance monetary policy transmission and improve distribution of liquidity in the interbank market. In particular, the introduction of the interest rate corridor, currently set at CBR  $\pm$  250 basis points, has ensured that the interbank rate (operating target), and closely tracks the CBR. The reduction of the applicable interest rate to the Discount Window from the current 600 basis points above CBR to 400 basis points above CBR has improved access to the Window. In addition, the width of the interest rate corridor was narrowed to  $\pm$  150 basis points in June 2024, and the discount window lowered from 400 basis points above CBR to 300 basis points to further enhance efficiency in the interbank market and strengthen alignment of the policy rate with the interbank rate. The Central Bank of Kenya has recently undertaken the following major reforms in the operation of the interbank foreign exchange market:

- i) Introduction of electronic matching systems (EMS) in the interbank market;
- ii) Requirement of maximum spread of 20 cents on indicative quotes in the interbank market removed; and
- iii) The CBK published exchange rate is now a weighted average rate of all interbank transactions executed the previous day. Previously, the published rate was based on the indicative rate provided by selected major players in the interbank market.

74. Additionally, the implementation of the DhowCSD, an upgraded Central Securities Depository infrastructure, has greatly enhanced efficiency in investment in Government Securities. The DhowCSD also continues to improve the functioning of the interbank market by facilitating collateralized lending amongst commercial banks and further reducing segmentation in the interbank market.

#### **Risks to the economic outlook**

75. Kenya's growth outlook portrays a stable macroeconomic environment in the medium term. However, there are downside risks to this macroeconomic outlook emanating from domestic as well as external sources. External risks include further escalation of geopolitical tensions – particularly the wars in the Middle East and Ukraine; potential worsening of supply disruptions due to the shipping crisis in the Red Sea and Suez Canal, which could result in higher import and production costs; and uncertainty about the evolution of international oil prices. Internally, extreme weather (drought or floods) could weaken agricultural output, lead to destruction of capital, increase food insecurity and lead to a surge in cases of water-borne diseases.

76. Lower than anticipated global economic growth and particularly in major exports destination could reduce Kenya's exports, tourism receipts, and remittances growth, while increase in global fuel prices could increase Kenya's imports bill. Tight global financial conditions arising from lower-than-expected return of global inflation to target levels could aggravate Kenya's vulnerabilities towards meeting external financing requirements. However, the government's

commitment to fiscal consolidation and prioritizing concessional borrowing is expected to mitigate this risk.

77. The upside risk to the domestic economy relate to fast-tracked implementation of structural reforms under BETA and the Fourth Medium-Term Plan (MTP) IV. Early normalization in global financing conditions and lower international fuel and food prices would strengthen Kenya's external balances. Faster than projected rebound in economic activities that would result in higher Government revenues providing fiscal space that would support fiscal consolidation. Continued coordination between monetary and fiscal policies are expected to result to a stable macroeconomic conditions which is a necessary condition for investment and savings thereby promoting economic growth.
78. The Government continues to monitor the domestic and external environment and will take appropriate policy measures to safeguard the economy against the adverse effects of the risks if they were to materialize.

#### **Embu County**

79. The development agenda of the County over the medium term is heavily linked to national and international aspirations as outlined in Kenya's Vision 2030, BETA and the Fourth Medium-Term Plan (MTP) IV as well as other regional and international plans and agreements. Consequently, global, and national economic indicators have a significant impact on the economic outlook at the county level. It is therefore crucial to track these occurrences with the aim of making appropriate local adjustments.
80. From a financial perspective, it is crucial to recognize that both internal and external factors negatively impacting national economic and financial trends can create a ripple effect on county governments. These influences can disrupt expenditure patterns and shape the overall economic agenda. Understanding this interconnectedness allows county officials to better anticipate budgetary challenges and adjust their fiscal strategies accordingly.
81. In Embu County, favorable weather conditions coupled with supply of subsidized fertilizer significantly impacted on agricultural productivity, leading to bumper harvests, individual farmers experiencing higher yields. However, this surplus led to lower market prices due to forces of demand and supply.
82. Recently, the private sector has been investing in the construction of an avocado processing plant creating job opportunities at the site and encouraging new businesses to emerge nearby. Additionally, many investors are establishing quarry sites, metal roofing industries, macadamia companies, and dairy factories. These developments will contribute to job creation in the County over the medium term. Focusing on value addition in Embu will enhance market access for avocado farmers, thereby increasing their purchasing power.
83. There are increased activities towards the service sector; there is significant growth of accommodation and food service especially around the major education institutions and towns
84. The implementation of Health sector Facility Implementation Fund (FIF) started in the first quarter of 2024 with an aim to collect, retain, manage and account revenue. The autonomy in the management of the fund will help the health sector to have access of more funds for the purchase of health products and technologies on need basis thereby improving access to quality health services

85. At the beginning of FY 2023/24, Embu County reported a stock of pending bills amounting to Kshs.2.49 billion, comprising Kshs.1.26 billion for recurrent expenditure and Kshs.1.23 billion for development activities. In the FY 2023/24, the County settled pending bills amounting to Kshs.671.30 million which comprised Kshs.332.15 million for recurrent expenditure and Kshs.339.15 million for development programmes. Therefore, as of the end of FY 2023/24, the outstanding amount was Kshs.1.82 billion

86. The withdrawal of Finance Bill 2024 will greatly affect the implementation of budget 2024/2025 as projections have been revised downwards in Supplementary. Further During the public outcry on Finance Bill 2024, rowdy mob lit fire and burned the Embu county Headquarters, this will affect the implementation of FY 2024/25 budget and the is likelihood that the budget will be reviewed to include renovation of the offices as well as offer allocation for rent for office space, this will not only affect approved budget but also the development component.

#### **A. Risks to Fiscal Outlook**

##### **Late disbursement of funds**

87. This presents a significant risk for county operations and development. This risk stems from potential delays in the transfer of resources from the National Government (Equitable Share) to the Counties. Such delays can severely impact county performance and development budgets, leading to potential setbacks in planned projects and services. By end of financial year 2023-24 the county had not received one disbursement thus derailing projects and programmes implementation. To mitigate this risk, the county should proactively engage with relevant institutions to ensure timely fund transfers.

##### **Pending bills:**

88. The County has outstanding pending bills which have accrued over the years since inception of devolution in the year 2013-2014. The county faces risks related to debt management as pending bills affect the implementation of the current budget. Litigations arising from non-payment of money owed to third parties has often led to cost arising from court awarded damages further compounding this problem. It is also important to note that pending bills are first charge to any budget provision.

##### **Over-Reliance on Rain Fed Agriculture:**

89. 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. More so it affects the production along the value chain which is the main reason of construction of County Aggregation and Industrial Park (CAIP). There is need to increase investment in irrigation to mitigate against this risk.

##### **Inflation and Exchange Rate Risks**

90. Kenya's annual inflation rate ticked up to 4.4% in August 2024 from a near four-year low of 4.3% in the prior month. The main upward pressure came from prices of food & non-alcoholic beverages

(5.3% vs 5.6% in July); housing & utilities (4.2% vs 3.9%); and transportation (3.9% vs 4%). On a monthly basis, consumer prices were flat in August, after falling by 0.2% in the prior month. This impacted negatively on main sectors of the County economy.

### **Non Realization of Revenue Targets**

91. The over-estimation and under-performance of Own Source Revenues has over the years affected the budget implementation. The Own Source Revenue projections are subject to a number of general risks that can affect collections. The increasing pressure for enhanced budget allocations to County functions has consistently resulted in the overestimation of Own Source Revenues (OSR). Consequently, OSR has consistently fallen short of expectations over the years leading to supplementary budgets. It's essential to manage the expectations of various entities to prevent stretching the current fiscal position too thin.

### **Huge Wage bill and the Pending civil Servants CBA Implementation**

92. According to Section 25(1)(b) of the PFM (County Governments) Regulations, 2015, County Governments are mandated to ensure that their wage bill does not surpass 35 percent of their total revenue. However, in the fiscal year 2023/24, employee compensation was above 50%. Furthermore, a policy review is underway regarding the terms of employment for healthcare workers and the entire County public service where all Civil servants are set to receive a salary increment of between Ksh1,000 and Ksh30,000 following the government's decision to honour the second phase of the Collective Bargaining Agreement (CBA). This review will increase the ratio further hence reducing development funding in the county.
93. If this upward trajectory in wage expenditure is not addressed and if additional revenue sources for the county are not secured, it will place significant pressure on the limited fiscal capacity. This in turn will impede the County Governments' ability to meet their financial obligations in other critical expenditure areas.

### **Climate Change**

94. Climate change leads to more extreme weather events such as floods, hurricanes, and wildfires, the County will likely experience increased costs related to disaster response and recovery. Unpredictable weather conditions and changing climate patterns can disrupt agricultural production in the County. This disruption can result in lower crop yields translating to decreased agricultural revenue. This will further cause increased costs of crop insurance and disaster relief programs. Climate externalities can negatively affect the County's agricultural sector, which is a significant contributor to its economy. Climate change can also affect the tourism sector which is an emerging source of revenue for the County.
95. To adapt to the effects of climate change, the County needs to invest in climate smart infrastructure projects, such as flood control systems, resilient energy systems, and transportation improvements.

These investments can be costly and impact the County's fiscal planning and budget allocation. It is crucial for the County to incorporate climate change considerations into its fiscal planning and policy decisions to mitigate these potential adverse effects on its fiscal outlook

#### **IV. RESOURCE ALLOCATION FRAMEWORK**

##### **A. Implementation of the FY2024/25 Budget**

96. The implementation of the FY 2024/25 budget commenced amidst Gen Z demonstrations, which introduced economic challenges due to political uncertainty. Nevertheless, local revenue collection has shown strong performance. This, along with positive revenue results from FY 2023/24, supports realistic projections for FY 2024/25 and establishes a solid foundation for the expenditure estimates in both the upcoming fiscal year and the Medium-Term Budget. Building on this confidence, local revenue for FY 2024/25 is projected at Ksh 1 Billion.
97. The Medium-Term Fiscal Framework (MTFF) for FY 2024/25 emphasizes the need for efficient public spending and enhanced revenue collection to stimulate and sustain economic activity, ultimately positioning the economy on a steady growth path. Increasing local revenue is crucial, and efforts will focus on expanding the revenue base. We anticipate improved performance in revenue from both local sources and national transfers in the future.
98. However, expenditure pressures, particularly recurrent costs, present fiscal risks. Wage pressures are a significant factor limiting allocations for development projects. Additionally, concerns remain about the pace of implementation within spending units and county departments, particularly regarding development expenditures and fund absorption. These risks will be closely monitored, and the County Treasury will make necessary adjustments through revised budgets.

##### **B. Fiscal Policy for FY 2025/26 and Medium-Term Budget**

99. The County Government will maintain its policy of prioritizing expenditures to support economic recovery and advance its transformative development agenda. This agenda focuses on delivering essential services, creating job opportunities, enhancing the overall welfare of residents, and ensuring equity while reducing costs by eliminating duplication and inefficiencies. Achieving these objectives will impact the budget ceilings.
100. In the finance and Economic planning sector, the government will continue to monitor the implementation of the CIDP and other key programs while maintaining a transparent and accountable system for managing public finances. To boost revenue, the county plans to acquire a new revenue management system.
101. In the Education, Vocational Training Centers, the county government will focus on constructing ECDE classrooms, establishing kitchens in ECDE centers, and renovating existing facilities. It is also committed to building appropriate sanitation facilities to enhance the health, safety, and security of children in these settings. Additionally, in vocational training centers (VTCs), the sector plans to operationalize non-functional VTCs, refurbish current facilities, and construct dormitories and dining halls in existing centers.
102. Over the medium term, the health sector aims to provide quality, affordable preventive, curative, and rehabilitative health care services to all county residents. Key priorities include

operationalizing the Facility Improvement Fund (FIF) and equipping health facilities with necessary medications and personnel.

103. The Roads, Transport, Energy and Public Works will work to improve the county road network by upgrading earth and gravel roads to bitumen standards. This initiative includes opening county feeder roads, constructing bridges, and creating drifts. To support ongoing infrastructure improvements, the sector will continue routine maintenance of existing earth and gravel roads. Additionally, there is a commitment to incorporating modern technology for sustainable energy solutions.
104. The Trade, Investment, Tourism, Industrial Development and Marketing sector is dedicated to creating a supportive environment for traders through various initiatives. Additionally, the construction of the County Aggregation and Industrial Park (CAIP) is currently underway. In tourism development, the county will enhance visibility along the Mt. Kenya Southeastern Route by establishing viewpoints and improving accessibility to tourism sites with new access roads. To promote investment, the county will highlight opportunities through local and international trade fairs, foster public-private partnerships, and support industrial development by promoting Micro, Small, and Medium Enterprises (MSMEs).
105. In the Agriculture, Livestock, Blue Economy and Cooperative Development sector, the county government plans to enhance cooperative development to support farmers in value addition and market access. This initiative aims to boost food production, improve food and nutrition security, and enhance the livelihoods of the farming community. Key priorities include providing subsidized fertilizer, promoting pasture establishment, ensuring feed quality, renovating slaughterhouses, and fostering market opportunities and value addition to reduce vulnerability.
106. The Lands, Mining, Housing, Physical Planning and Urban Development is focused on strengthening financial planning by developing a comprehensive County Spatial Plan. This initiative aims to enhance market strategies, increase revenue generation, and establish Market Development Plans. Additionally, the sector is committed to operationalizing the Municipality of Embu and improving the town's housing and physical environment.
107. The Water, Irrigation, Environment, Climate Change and Natural Resources sector aims to provide adequate, affordable, reliable, and high-quality water in a sustainable manner. In the area of Environment, Climate Change, and Natural Resources, the county is committed to ensuring a clean, healthy, and sustainably managed environment.
108. The Youth Empowerment and Sports, Gender, Children, Culture and Social Services aims to foster talent development by enhancing competitive capabilities in sports and the broader creative industry. In the youth empowerment area, the plan focuses on implementing strategies that stimulate economic growth and address the community's socio-economic needs. It also emphasizes upholding the dignity of people with disabilities and the elderly through networking programs, training opportunities, and the promotion of cultural events.

### C. Fiscal Revenue projections

109. The overall revenues for FY 2024/25 are projected at Ksh. 7,372,743,222 which comprises of equitable share, conditional grants and loans from National Government and other development partners and Own Source Revenue. The Own Source Revenue will be raised through levies, permits, rents, service charge and rates. The 2024/25 budget target for revenue collection is expected to be Ksh. 1,000,000,000 which is projected to increase to Ksh. 1,050,000,000 in FY 2025/2026 which represents a 5 percent increase. Over the medium term, the local revenues are projected to increase to Ksh. 1,102,500,000 in FY 2026/27 and Ksh. 1,157,625,000 in FY 2027/28. Table 9 provides a breakdown of the various revenue streams and their expected targets over the medium-term period.

Table 9: Projected Revenues FY 2025/26-2027/28 MTEF period

DESCRIPTION OF REVENUE ITEM	2024/2025	2025/2026	2026/2027	2027/2028
Equitable Share of Revenue from National Government	5,548,094,359	5,825,499,077	6,116,774,031	6,422,612,732
Conditional Allocation for National Agricultural Value Chain Development Project (NAVCDP)	151,515,152	151,515,152	151,515,152	151,515,152
DANIDA Grant To Finance Primary Health Care in Devolved Context	6,630,000	6,630,000	6,630,000	6,630,000
Conditional Additional Allocation for Community Health Promoters	60,300,000	60,300,000	60,300,000	60,300,000
Financing Locally Led Climate Action (FLLoCA)-County Climate Resilience Investment (CCRI) Grant	148,500,000	148,500,000	148,500,000	148,500,000
Emergency Locust Response Project (ELRP)	104,600,000	0	0	0
Aquaculture Business Development Project (ABDP)	10,237,551	10,237,551	10,237,551	10,237,551
Kenya Devolution Support Programme II	37,500,000	37,500,000	37,500,000	37,500,000
Kenya Urban Support Programme-Urban Institutional Grants	35,000,000	35,000,000	35,000,000	35,000,000
Kenya Urban Support Programme- Urban Development Grants	52,595,562	52,595,562	52,595,562	52,595,562
Kenya Agricultural Business Development Project (KABDP)	10,918,919	10,918,919	10,918,919	10,918,919
Conditional Additional Allocation for Maintenance of County Roads from the Road Maintenance Levy Fund (RMLF)	211,127,369	211,127,369	221,683,737	232,767,924
Local Sources	480,544,657	504,571,890	529,800,484	556,290,509
Appropriations In Aid (AiA)- Ministerial-Other	21,200,000	22,260,000	23,373,000	24,541,650
Appropriations In Aid (AiA)-Health	498,255,343	523,168,110	549,326,516	576,792,841
<b>TOTAL REVENUE</b>	<b>7,377,018,912</b>	<b>7,599,823,630</b>	<b>7,954,154,952</b>	<b>8,326,202,841</b>

110. In the FY 2024/25, The County is expected to collect Ksh. 1,000,000,000 as local revenue comprising of Ordinary local revenue and appropriation in Aid. This is projected to increase by 5 percent annually over the medium term.

Table 10: Summary of Local Revenue Collection

Revenue Streams	Approved Budget		Projections	
	2024/2025	2025/2026	2026/2027	2027/2028
Local Revenue	480,544,657	504,571,890	529,800,484	556,290,509
Appropriation in Aid	519,455,343	545,428,110	572,699,516	601,334,491
<b>Total Revenue Collection</b>	<b>1,000,000,000</b>	<b>1,050,000,000</b>	<b>1,102,500,000</b>	<b>1,157,625,000</b>

#### External resource mobilization; strengthening partnerships and collaborations

111. The limited resources coupled with the many competing needs require the county to engage other stakeholders to help address the myriad of challenges facing the county. To this end, the county intends to:

- Strengthen partnerships and collaboration with stakeholders to help mobilize more resources towards more development outcomes. This action will target the National Government, development partners, civil society organizations, and private sector institutions among others.
- Develop a Public Private Partnership (PPP) regulatory framework for the county that guides private sector engagement in the development realm over the medium term.
- Strengthen and build the capacity of the County revenue mobilization unit.

#### Conditional allocations, Loans & Grants

112. The county government will enhance its engagement with development partners and the National Government to fund specific County Government development initiatives through conditional allocations, loans and grants.

#### D. Expenditure Forecasts

##### Expenditure Projections in FY 2024/2025 budget

113. The overall expenditure amounts to Ksh 7,372,743,222. These expenditures comprise of development of Ksh 2,255,884,922 (30.6 percent) and recurrent of Ksh 5,116,858,300 (69.4percent). The recurrent expenditure comprises of remuneration of Kshs 3,461,676,199 (46.95percent) and operations & maintenance of Kshs 1,655,182,101 (22.45 percent).

Table 11: Projected expenditures FY 2024/25-2026/27 MTEF period

Economic classification	2024/2025	2025/2026	2026/2027	2027/2028
Personal Emoluments	3,461,676,199	3,600,143,247	3,744,148,977	3,893,914,936
Operation and Maintenance	1,655,182,101	1,737,941,206	1,824,838,266	1,916,080,180
<b>Total Recurrent</b>	<b>5,116,858,300</b>	<b>5,338,084,453</b>	<b>5,568,987,243</b>	<b>5,809,995,116</b>
Development	2,255,884,922	2,261,739,177	2,385,167,709	2,516,207,725

<b>Total Expenditure</b>	<b>7,372,743,222</b>	<b>7,599,823,630</b>	<b>7,954,154,952</b>	<b>8,326,202,841</b>
Development Index	30.60%	29.76%	29.99%	30.22%
Emoluments Index	46.95%	47.37%	47.07%	46.77%
Operation and Maintenance Index	22.45%	22.87%	22.94%	23.01%

### Sector indicative ceilings

114. The County Government will continue with its policy of expenditure prioritization with a view to achieving the transformative development agenda, which is anchored on provision of core services. This will ensure equity, minimize costs through the elimination of duplication, inefficiencies, and improving the general welfare of the people. Realization of these objectives will have implications in the budget ceilings to be provided in this Budget Review and Outlook Paper.

115. The following criteria will serve as a guide for allocating resources:

- a) Completion of the ongoing projects
- b) Completion of stalled projects
- c) Linkage of the Programme with the objectives of CIDP and ADP

*Table 12: Indicative Sector Ceilings for MTEF period FY 2024/25 – FY 2027/2028*

Portfolio	Approved Budget		Projections	
	2024/2025	2025/2026	2026/2027	2027/2028
Office of the Governor	275,682,650	287,240,914.8	301,561,868.9	315,723,391.6
Finance And Economic Planning	197,430,177	205,707,630.4	215,963,584.1	226,105,360.9
Education, Vocational Training Centres	588,898,561	613,588,709.4	644,180,367.1	674,431,455.8
Health	2,210,901,654	2,303,595,869.2	2,418,446,118.5	2,532,017,770.0
Roads, Public Works, Energy and Transport	747,959,780	779,318,725.6	818,173,175.4	856,595,068.7
Trade, Tourism, Investment, Industrial Development and Marketing	231,719,552	241,434,620.9	253,471,813.2	265,374,998.6
Agriculture, Livestock, Blue Economy and Cooperative Development	495,496,440	516,270,613.1	542,010,287.9	567,463,409.7
Lands, Mining Housing, Physical Planning and Urban Development	167,239,469	174,251,147.4	182,938,777.0	191,529,689.5
Water, Irrigation, Environment, Climate Change and Natural Resources	140,170,123	146,046,892.6	153,328,344.2	160,528,733.4
Youth Empowerment and Sports, Gender, Culture, Children and Social Services	230,410,148	240,070,318.9	252,039,491.3	263,875,413.9
Administration, Public Service, Devolution, Governance, ICT And GDU	786,734,460	819,719,072.0	860,587,759.6	901,001,466.7
County Public Service Board	35,850,883	37,353,966.3	39,216,320.9	41,057,942.4
County Assembly	806,347,072	758,124,896.3	771,350,030.7	806,089,177.3

Embu Level 5 Hospital	97,615,800	101,708,437.9	106,779,309.8	111,793,728.9
Embu County Revenue Authority	54,500,000	56,784,965.8	59,616,090.7	62,415,697.3
Climate Change Unit	184,224,310	191,948,094.5	201,518,039.8	210,981,445.4
Embu Municipality	121,562,143	126,658,754.8	132,973,573.2	139,218,090.4
<b>TOTAL</b>	<b>7,372,743,222</b>	<b>7,599,823,630</b>	<b>7,954,154,952</b>	<b>8,326,202,841</b>

## CONCLUSION

116. The review of the county's performance over the past year shows significant improvement in fiscal management compared to previous years. Development expenditure absorption increased to Ksh 1.59 billion, up from Ksh 1.18 billion in the prior year. The accuracy of own-source revenue predictions has also improved, with a performance rate of over 99%, which will help prevent the future accumulation of pending bills. Historical pending bills are being progressively cleared, further strengthening the county's fiscal position.
117. Additionally, Personnel Emoluments are on a declining trend. If this continues in the medium term, the figures will approach the 35% threshold, down from the historical high of over 50%. Over this period, the county has made significant progress in enhancing fiscal management and restoring confidence among suppliers, contractors, and staff who are owed money. Efforts are also ongoing to manage the substantial wage bill more effectively.
118. Looking ahead to the medium term, the county is making significant strides in development projects across key sectors. Efforts towards achieving food security are well underway, alongside the construction of additional markets for traders and improved road infrastructure to enhance accessibility. In healthcare, substantial investments are being made to improve services, while in education, the focus is on expanding Early Childhood Development and Education (ECDE) and Vocational Training Centers (VTCs), along with the provision of bursaries to support students.
119. In terms of water provision, the county's drilling rig will be instrumental in drilling boreholes, particularly in arid areas, complemented by increased investment in water pans, dams, and infrastructure for water companies. Additionally, irrigation projects are being prioritized to expand access to water. The medium-term outlook is promising, with robust development initiatives planned to drive growth and improve the quality of life for residents.

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