KISII COUNTY GOVERNMENT

FINANCE AND ECONOMIC PLANNING DEPARTMENT

FY 2020/21

COUNTY FISCAL STRATEGY PAPER (CFSP)

February 2020

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LEGAL BASIS

Section 117 of the PFM Act, 2012 provides for the preparation including contents of the County Fiscal Strategy Paper, thus –

(1) The County Treasury shall prepare and submit to the County Executive Committee a County Fiscal Strategy Paper (CFSP) for approval and the County Treasury shall submit the approved Fiscal Strategy Paper to the county assembly, by the 28th February of each year.

(2) The County Treasury shall align its County Fiscal Strategy Paper with the national objectives in the Budget Policy Statement;

(3) In preparing the County Fiscal Strategy Paper, the County Treasury shall specify the broad strategic priorities and policy goals that will guide the county government in preparing its budget for the coming financial year and over the medium term;

(4) The County Treasury shall include in its County Fiscal Strategy Paper the financial outlook with respect to county government revenues, expenditures and borrowing from and within for the subsequent financial year and over the medium term; and

(5) In preparing the County Fiscal Strategy Paper, the County Treasury shall seek and take into account the views of:

(a) The Commission on Revenue Allocation;

(b) The public;

(c) Any interested persons or groups; and

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

(6) Not later than fourteen days after submitting the County Fiscal Strategy Paper to the county assembly, the county assembly shall consider and may adopt it with or without amendments.

(7) The County Treasury shall consider any recommendations made by the county assembly when finalizing the budget proposal for the financial year concerned.

(8) The County Treasury shall publish and publicize the County Fiscal Strategy Paper within seven days after it has been submitted to the county

FISCAL RESPONSIBILITIES

Section 107 of the PFM Act, and Regulations 26 of the PFM County Regulations provides that the County Treasury shall manage its public finances in accordance with the principles of fiscal responsibility set out and shall not exceed he limits stated in the regulations.

The following are the fiscal responsibility principles set out in the PFM Act, 2012.

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

LIST OF ABBREVIATIONS AND ACRONYM

CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
PFM	Public Finance Management
EYE	Early Years in Education
SDGs	Sustainable Development Goals
FY	Financial Year
BPS	Budget Policy Statement
GDP	Gross Domestic Product
ADP	Annual Development Plan
MSMEs	Micro, Small and Medium Enterprises
KYEOP	Kenya Youth Employment and Opportunities Project
ATC	Agricultural Training Centre
KTRH	Kisii Teaching and Referral Hospital
KDSP	Kenya Devolution Support Programme
NHIF	National Hospital Insurance Fund
CRA	Commission on Revenue Allocation
KDSP	Kenya Devolution Support Programme
SACCO	Savings and Credit Cooperative
CBR	Central Bank Rate
BPS	Budget Policy Statement
CBEF	County Budget and Economic Forum

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FOREWORD

The County Fiscal Strategy Paper (CFSP) is prepared in line with Section 117 of the PFM Act, 2012. This is the third CFSP to be prepared in the implementation of the second generation of the County Integrated Development Plan (CIDP) 2018-2022. The Paper sets out the county's priority programs to be implemented in the Financial Year (FY) 2020-2021 and over the medium term.

The focus in the FY 2020-21 and over the medium term will be in the implementation of programmes in Agriculture, Water, Health, Roads, Trade and Urban Development. These strategic priorities are capital intensive and taking into account the limitation in our resource envelope, their implementation will therefore be spread over the medium-term period. Proper implementation of these programs as expounded in this CFSP will raise county economic efficiency and productivity and in turn, make our county competitive, thus creating vast opportunities for productive jobs and securing livelihoods and are in harmony with the “Big Four Agenda” of the National Government for the realization of the Kenya Vision 2030.

Moses Onderi,

CEC Finance and Economic Planning.

ACKNOWLEDGEMENT

Preparation of the CFSP 2020 was guided by provisions of Section 117 of PFM Act, 2012. The Paper presents a budget framework for the next Medium-Term Expenditure Framework (MTEF 2020/2021- 2022/2023). It sets departmental ceilings in line with priorities and programmes as guided by Annual Development Plan (ADP) 2019 and County Budget Review and Outlook Paper (CBROP) 2019.

The preparation of the CFSP 2020 was an inclusive process. Departmental reports on the status of projects played a significant role in arriving at the final fiscal policy determination for the next MTEF period in addition to input from the general public and County Budget and Economic Forum (CBEF) members.

I, therefore, take this opportunity to sincerely thank the general public and all interested groups who participated in the public participation meetings held in February toward for finalization of the CFSP 2020. Your valuable contributions helped to shape the County Fiscal framework.

We are especially grateful to the County Executive Member for Finance and Economic Planning for his guidance and stewardship in achieving this planning and budget document. Special thanks to the staff in the Economic Planning Directorate for coordination and harmonization process. The team spent a significant amount of time to put together the report.

Zablon Ongori

CO- Economic Planning and Development

CHAPTER ONE

RECENT ECONOMIC DEVELOPMENT AND MEDIUM-TERM OUTLOOK

1.1 Overview

1. Most economies all over the world faced economic hardships in 2019, however, the Kenyan economy remained resilient and grew by an average of 5.5 percent in the first three quarters of 2019. The growth was mostly supported by strong performance in the services sector. Growth momentum is expected to pick up to 6.1 percent in 2020 and further to 7.0 percent over the medium term supported by a strong rebound in the agricultural output, steady recovery in industrial activities, robust performance in the services sector, and investments in strategic areas under the "Big Four" Agenda.

2. According to Budget Policy Statement (BPS) 2020, the economy continues to register macroeconomic stability with low and stable interest rates and a competitive exchange rate to support exports. At 5.8 percent in December 2019, year-on-year overall inflation remained stable and within the 5 (+/-2.5) percent target largely due to lower food prices following favorable weather conditions. Inflation is expected to remain within target bands in 2020, largely due to lower energy prices and expected stability in food prices.

3. The foreign exchange market remains stable supported by the narrowing of the current account deficit. The current account deficit was estimated at 4.3 percent of GDP in 2019 down from 5.0 percent in 2018. The narrowing deficit reflects strong growth in Diaspora remittances and tourism receipts, higher tea and horticultural exports, slower growth in imports due to lower food imports and the decline in international oil prices.

1.2 Economic Development

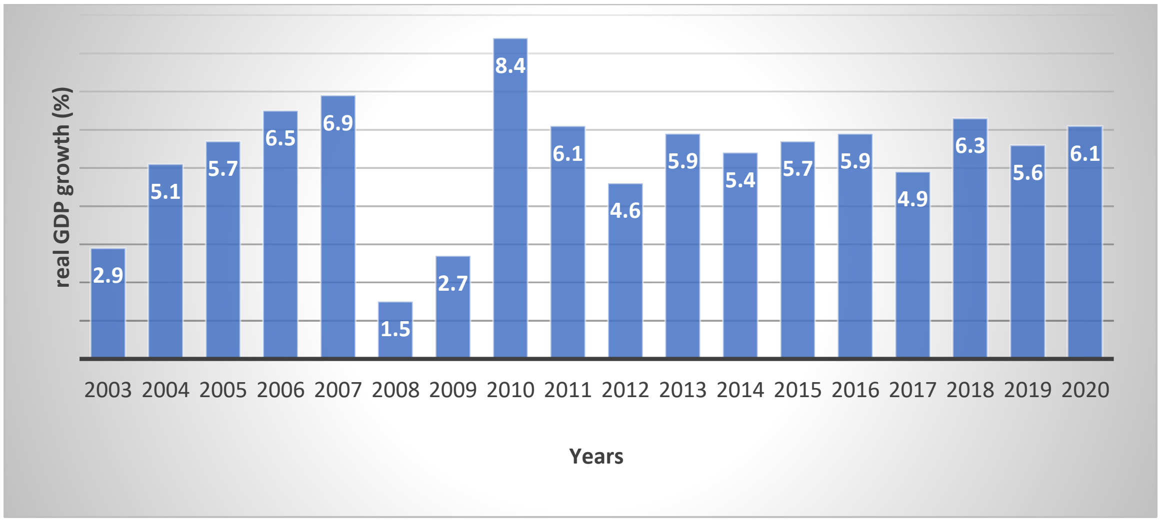
4. The macroeconomic parameters that are used to measure the economic performance of the Kenyan economy are centrally computed. The County relies on the national figures in assessing its performance.

1.2.1 Gross Domestic Product (GDP)

5. Kenya's economic growth has remained strong and resilient even under emerging global challenges, supported by strong public and private sector investment and appropriate economic and financial policies (BPS, 2020). The broad-based economic growth has averaged 5.7 percent for the period 2013 to 2017 outperforming the average growth rate of 4.7 percent in the period 2008 to 2012 and 5.4 percent in the period 2003 to 2007. Growth was estimated at 5.6 percent in 2019 and projected

to recover to 6.1 percent in 2020. Figure 1.1 illustrates the GDP growth over the years.

Figure 1.1: Trends in Kenya's Economic Growth Rates percent



Source of data: KNBS website.

6. Per capita income rose from KShs 113,539 in 2013 to an estimated KShs 202,859 in 2019, a 79 percent increase. This enabled generation of around 831,000 new jobs per year in the period 2013 - 2018 up from 656,500 new jobs per year in the period 2008 -2012. The jobs were mainly in the private sector and government agencies through internship programme.

7. Growth in GDP was supported by non-agriculture sector mainly through the service industry. The service sector recorded improved growth in accommodation and restaurant (9.0 percent), transport and storage (7.1 percent) and financial and insurance (5.6 percent). Growth of activities in information and communication (8.4 percent) and real estate (4.9 percent) also remained vibrant.

8. The services sector contributed 3.0 percentage points to real GDP growth in the third quarter of 2019 largely supported by Transport and storage (0.5 percentage points), wholesale and retail trade (0.4 percentage points) and Real estate (0.4 percentage points).

9. The agriculture sector recorded a decrease in growth by 3.2 percent in the third quarter of 2019 compared to a growth of 6.9 percent in a similar quarter of 2018, as a result of delayed long rains. Consequently, the sector's contribution to GDP growth declined to 0.6 percent in the third quarter of 2019 compared to 1.3 percent in the same period in 2018.

10. The decline in agriculture sector affected the manufacturing sector. The slowdown in the manufacturing sector was attributed to the fall in agro-processing activities, a reflection of declining agricultural production.

1.2.2 Interest rates

11. Interest rates were low and stable for the period 2008 to 2011 due to ample liquidity in the money market. However, interest rates increased in 2012 following tight monetary policy stance in order to ease inflationary pressures. Interest rates remained stable and low in the period 2013 to October 2019, except from June to December 2015 when world currencies were under pressure. During the period, the Central Bank Rate (CBR) was adjusted appropriately to anchor inflation expectations.

12. The Central Bank Rate was reduced to 8.5 percent on 25th November 2019 from 9.0 percent in August 2018 as there was room for easing monetary policy stance to support economic activity. The interbank rate declined to 5.9 percent in December 2019 from 8.2 percent in December 2018 due to enhanced liquidity in the money market.

13. The interest rates for government securities have been declining indicating that the implementation of government domestic borrowing program supported market stability. The 91-day Treasury bills rate declined to 7.2 percent in December 2019 compared to 7.3 percent in December 2018. The 182-day Treasury bills rate declined to 8.2 percent from 8.4 percent while 364-day increased to 9.8 percent from 9.7 percent.

1.2.3 Inflation rate

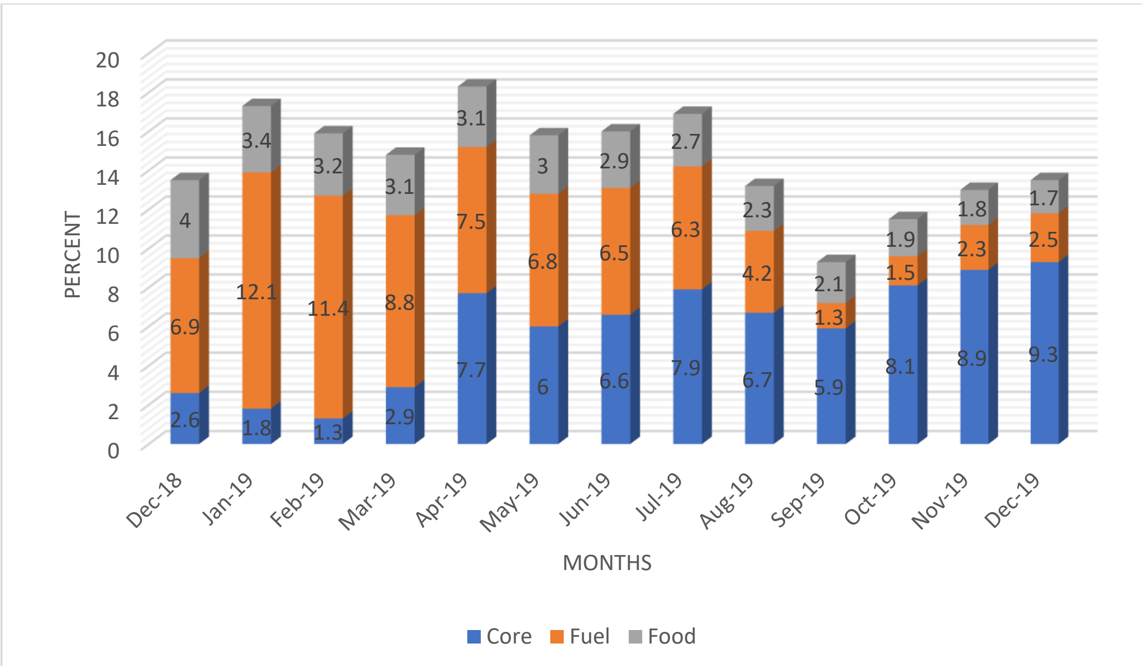
14. Year-on-year overall inflation remained low, stable and within the Government target range of 5+/-2.5 percent in December 2019 at 5.8 percent up from 5.7 percent in December 2018 reflecting higher food prices.

15. The delay in the onset of rains resulted in lower agricultural activities and raised food inflation from March 2019. Food inflation increased from 2.6 percent in December 2018 to 9.3 percent in December 2019 reflecting rising prices of key food items. The rise in food inflation contributed the most to overall inflation in the period under review. The food prices especially maize flour affected all households in the country, households in Kisii County included.

16. However, Core inflation (Non-Food-Non-Fuel) remained below 5.0 percent in the period under review reflecting subdued demand pressures in the economy. Fuel inflation declined from 6.9 percent in December 2018 to 2.5 percent in December 2019 on account of declining energy prices. Figure 1.2 presents the summary of components of inflation.

Kenya's rate of inflation compares favorably with the rest of Sub-Saharan African countries and its peers such as Nigeria and Ghana whose inflation rates were 11.9 percent and 8.2 percent, respectively in November 2019. However, Uganda and Tanzania registered lower rates at 3.0 and 3.8 respectively in November, 2019.

Figure 1.2: Components of Inflation



Source of data: KNBS website.

1.2.4 Exchange rate

The Kenya Shilling has been relatively stable supported by continued narrowing of the current account deficit and adequate foreign reserve buffer. The Shilling appreciated against the US Dollar and the Euro exchanging at an average of KShs 101.4 and KShs 112.7 in December 2019 from KShs 102.3 and KShs 116.4 in December 2018, respectively. However, against the Sterling Pound, the Shilling weakened exchanging at an average of KShs 133.0 in December 2019 compared to KShs 129.7 in December 2018.

Generally, the Kenya Shilling has continued to display relatively less volatility, compared to most Sub-Saharan currencies. This stability reflects strong inflows from tea and horticulture exports, resilient Diaspora remittances and improved receipts from services particularly tourism.

1.3. Fiscal performance

Budget execution started on a slow note in the first quarter of the FY 2019/20. The slowdown was due to delays in the County Allocation of Revenue proposed in the revised Division of Revenue Bill, 2019.

1.3.1 Revenue performance

The County experienced delays in the disbursement of funds from the National Government. This was occasioned by delay in the passage of the Division of Revenue Bill hence low absorption of development funds in the first quarter.

The disbursements from the National Treasury were further delayed due to lengthy negotiations on the settlement of pending bills across the counties. However, the flow of funds to the County is now up to date.

A total of KShs.4.9 Billion out of the expected KShs.6.1Billion had been disbursed to the County by 31st December, 2019 representing 80.3 percent of the expected half year revenue. Table 1.1 presents the summary of disbursement.

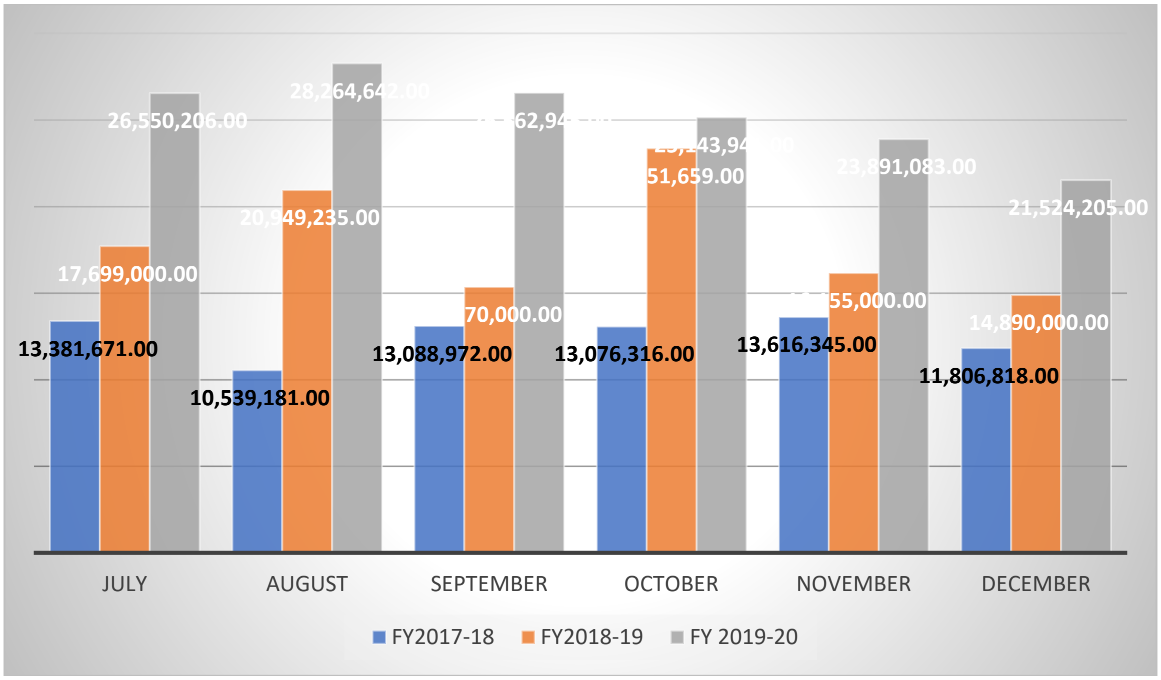
Table 1.1: Summary of half year revenue received

Revenue Component	FY 2019/2020 half year budgets (KShs)	Amount Received	%
Equitable share	3,813,000,000	2,756,208,600	72.3
Conditional share	391,984,695	250,238,096	63.8
Loans and grants	509,594,825	302,306,656	59.3
Domestic Revenue	250,000,000	151,937,022	60.8
Unspent Balances for FY 2018/2019	1,154,815,962	1,531,924,409	132.7
Total	**6,119,395,482**	**4,992,614,783**	**81.6**

Source of data: County Treasury

Domestic revenue collection for the first half of the FY 2019/2020 amounted to KShs. 151,937,022. However, the revenue grew by 40 percent from KShs. 108,414,894 recorded in same period in 2018 as presented in figure 1.3.

Figure 1.3: Local revenue performance in the first half year for the period FY 2017/18-FY2019/20



Source: County Treasury

The growth in revenue in the period was as a result of enhanced revenue collection measures across the streams including the automation of most of these streams. This will continue in the next half of the FY to ensure realization of the projected revenues. The implementation of cashless system in parking will be closely monitored to test its robustness and expand it to other revenue streams.

1.3.2 Expenditure performance

Total expenditure for the first half of the FY 2019/2020 amounted to KShs.4.3 billion comprising of KShs.3.3 billion for recurrent and KShs.1 for development. This is detailed in table 1.2.

Table1.2: Half Year Expenditure by Departments

Department	Recurrent (KShs)	Development (KShs)	Total (KShs)	% of expenditure
County Assembly	345,832,868	29,747,213	375,580,081	33
County Executive and Public Service Board	198,519,310	0	198,519,310	36
Administration and Stakeholder Management	284,938,756	9,103,643	294,042,399	42
Finance and Economic Planning	587,582,281	12,559,686	600,141,967	48

Agriculture and Co-operative Development	165,993,959	224,233,869	390,227,828	34
Energy, Water, Environment and Natural Resources	54,569,809	55,332,128	109,901,937	26
Education, Youth Affairs and Social Development	229,070,120	64,847,720	293,917,840	36
County Health Services	1,246,930,421	241,305,971	1,488,236,392	36
Lands, Physical Planning and Urban Development	38,201,564	51,781,470	89,983,034	41
Roads, Public Works and Transport	63,860,599	233,791,444	297,652,043	28
Trade Development, Industry and Tourism	34,004,392	22,470,881	56,475,273	25
Culture and Social Services	33,908,834	12,448,070	46,356,904	27
Kisii Municipality	51,102,023	58,974,999	110,077,022	25
Total	**3,334,514,936**	**1,016,597,094**	**4,351,112,030**	**36**

1.4 Fiscal Policy

Going forward into the medium term, the Government will continue channeling resources to priority areas with an aim of stimulating the economy. To achieve these targets, the Government will continue to restrict growth in recurrent spending while doubling its effort in domestic resource mobilization.

The domestic revenue is expected to increase from **KShs. 330 million** recorded in FY 2018/19 to **KShs.500 million** in the FY 2019/20. To mobilize revenues, the Government has put in place revenue enhancement measures to boost performance and cushion against further revenue shortfalls by strengthening revenue collection administration and compliance through:

i. Expanding automation to cover all sub-counties;
ii. Identification and elimination of revenue administration gaps and stop revenue leakages, including leveraging on information technology to improve collection efficiency, through the use of third-party data and ensure compliance of registered professionals;
iii. Broadening the revenue base;
iv. Updating the valuation roll;

1.5 Economic Outlook

Kisii County's economic growth prospects for the FY 2020/21 and over the medium term will largely be influenced by the national growth prospects, the emerging global and national challenges and the County internal risks.

The economy expanded by 6.3 percent in 2018 up from the 4.9 percent growth registered in 2017. The growth momentum continued in the first three quarters of 2019, with the economy expanding by an average of 5.4 percent. The latest economic indicators in the third quarter of 2019 point to continued economic recovery that will culminate to an overall projected growth of about 5.9 percent in the FY 2019/2020. Economic growth is further projected to rise to 6.2 percent in the FY 2020/2021 and 6.9 percent by FY 2023/24.

The growth outlook for the FY 2019/2020 and the medium term is supported by a stable macroeconomic environment, investments in the strategic areas under the "Big Four" Agenda and their enablers, and existing business and consumer confidence in the economy. Further, the ongoing public investments in infrastructure projects, growth in tourism, resilient exports and the associated benefits from regional economic integration in the sub region will reinforce the projected growth.

The growth in the economy is expected to increase business operation in the county which will foster growth in domestic revenue. The domestic revenue is expected to increase from the current annual average of Kshs.330 million to KShs. 500 million over the medium-term period. As a result, development ratio is expected to increase from 31 percent to 35 percent over the medium-term period.

1.6 Risk to Economic Outlook

The macroeconomic outlook is faced with risks from both external and domestic sources. Risks from global economies relate to increased volatility in the global financial markets due to prolonged negotiations between the U.S.A and China, the slower growth of the Chinese economy, uncertainties over the nature and timing of Brexit and the pace of normalization of monetary policy in the advanced economies.

At the County level, the economy will continue to be exposed to risks arising from public expenditure pressures, particularly related to wage related recurrent expenditures and the inevitable climate change and variability which has enhanced the frequency of disaster such as landslides, droughts and destruction of physical infrastructure and locust invasion.

To protect the County from climate related risks and disasters, the Government has put in place various policies, strategies and financial risk protection instruments to cushion the county against budget disturbances emanating from the need to address the unforeseen natural disaster. In particular, the Government has put in place a Disaster Risk Financing Strategy which outlines various financial protection instruments in the county with the assistance of the national government in the event of a disaster.

In addition, the county government's efforts to enhance domestic resource mobilization and expenditure rationalization will significantly reduce wage related pressures and reduce pending bill accumulation thus creating fiscal space necessary for economic sustainability. Further, the county government has laid foundations to enhance faster and lasting growth through the key priority areas in line with the "Big

Four" Agenda, which will enhance growth momentum, and positively impact on the lives of people through jobs creation and poverty reduction.

The Government is investing in green house farming to reduce dependence on rain-fed agriculture, diversify agriculture through fish farming and livestock farming through enhancement of Artificial Insemination (AI) services. Further, the Government is accelerating infrastructure development to support manufacturing, investment in banana processing plant and markets will be the focus.

CHAPTER TWO

COUNTY DEVELOPMENT PRIORITIES AND INTERVENTIONS

2.0 Overview

The 2020 CFSP, is the third to be prepared under the second generation of the CIDP (2018-2022) in line with the "Big Four" Agenda of the national government which is geared towards the attainment of the Kenya Vision 2030. The medium-term expenditure framework for 2020/21-2023/24 ensures resource allocation based on prioritized programmes are aligned to the "Big Four" agenda. It also focuses on strategic theme of "kick starting the County transformative agenda" towards an accelerated economic growth, poverty reduction and employment creation.

The five priorities adopted over the medium term in the County Development Plan (2019) are expected to form an integral part in transforming the local development by creating employment and improving standards of living, building on our competitive base and reduce poverty. In the next fiscal year, county programmes, projects and policies will be guided by the strategic priorities namely:

i. Water and Environment Conservation;
ii. Health Care Services;
iii. Roads Infrastructure Development;
iv. Agriculture;
v. Trade and Enterprise Development

Therefore, in the allocating resources, emphasis will be laid on the priorities over the medium-term. Departments will also align their programmes towards the key strategic areas.

2.1 Water Reticulation

The County government recognizes that protecting and conserving the environment is fundamental to sustain access to clean water, clean environment and a healthy productive population. Indeed, safe drinking water and sanitation do complement efforts towards improved primary health care and productivity of Labour. Provision of clean water through reticulation will contribute to the realization of the "Big Four Agenda" of the National government through Universal Health Care; Food security and nutrition. Furthermore, access to clean and safe water will be achieved through investment on clean water infrastructure and management. Over the medium-term period, the County government will focus on rehabilitating water schemes in the rural areas and construction of new ones.

Further, to ensure equity in reticulation, the Government has purchased a drilling rig which will be used to drill boreholes across the county especially in areas that cannot be served by pipes due to topographical nature. In this regard, 10 thousand litre plastic tanks will be supplied to hospitals and schools across the County. The roof catchment will not only provide institutions with clean water for domestic use, but provide water for irrigation as a way of ensuring steady supply of horticultural crops in realization of food and nutrition security in the County.

On environment, the County government will continue to invest environmental conservation and Solid waste management through massive tree planting, removing blue gum trees along the riparian land and water catchment areas, soil erosion control measures, building sewerage structures in urban areas; protection of ecosystems and investing on climate change adaptation mechanisms.

2.2 Agriculture

The County's economy and livelihood is much driven by agriculture which is depended upon by over 70 percent of county's rural population. Substantial investments in agriculture is the key to economic transformation because it is the main driver of the non-agricultural sectors with a multiplier effect in manufacturing, transportation and other social services. When the sector performs well, the entire economy performs well.

Improving agricultural productivity through programmes such as cash crop promotion, livestock production, and fisheries would thus be an effective way to enhance food security, employment creation, income generation, industrialization and ultimately, economic transformation through stimulating growth of related sectors of the economy.

Therefore, the Government will continue to implement measures in the agricultural sector in order to ensure food security. The focus will be on intensifying extension services, encouraging non rain fed agriculture through training on greenhouses management, increasing access to agricultural inputs, implementing programmes to support smallholder farmers to sustainably produce and market various commodities, and supporting large-scale production of staples.

To promote the growth of the livestock sub-sector, the Government will expedite the development of a County Livestock Policy; enactment of Livestock Feeds Policy and Regulations in order to address the set standards and expected contributions in feed industry; and expand veterinary services to all wards. Further, to improve livestock productivity, the Government plans to produce doses of assorted vaccines for livestock diseases control, procure and install 45 milk coolers across the county.

To increase fish production, the Government will expedite the development of the County Fish Production Policy, to provide regulatory framework for fisheries in the county.

To mitigate losses among smallholder farmers and boost their productivity, the Government has constructed modern markets with cold storage facilities, encourage sales through SACCOs, encourage the use and adoption of crop and livestock insurance policies with the goal of cushioning farmers against climate related risks. This will also contribute to stabilization of farmers' incomes, increased investment in agriculture through leveraged access to finance and enhanced farmers' risk mitigation. In achieving this, the Government will partner with the local financial institutions and insurances firms and development partners.

2.3 Improving Health Care Services

The Constitution of Kenya 2010 guarantees the people of Kenya the right to healthcare and gives the County Government specific responsibilities to deliver on this right. The health sector endeavors to provide good health and wellbeing and sanitation in line with the "Big Four Agenda" in realization of the Sustainable Development Goals (SDGs) No. 3 & 6. The sector is an indirect contributor of economic growth by contributing to a healthy population given that a healthy population is able to work productively and thus contribute to economic growth.

In strengthening health systems, priority will be on completion of on-going construction of health infrastructure, ensuring availability and timely supply of drugs, procurement of medical equipment, recruitment of health personnel and promotion of innovative health financing.

In addition, the County government will lay emphasis in prevention, control and treatment of communicable diseases. The County Government will also focus on reproductive, maternal, neonatal, child health, adolescent health, nutrition and health promotion.

The Government will also partner with Kisii University and other partners for refresher courses to all medical staff in the County.

2.4 Roads infrastructure Improvement.

Infrastructure investment is key in promoting economic growth, job creation, empowerment of small businesses and provision of essential services to Kenyans. For this reason, the Government has invested heavily in new roads, walkways in Kisii town, foot bridges and car parks and bridges. Over the medium term, the Government will focus on developing urban roads to reduce congestion especially in Kisii Municipality through partnerships with the national government and other development partners. Already, the Government has launched KShs 164 million project for construction of pedestrian walkways, urban roads and drainage system within Kisii Municipality through World Bank support. The upgrade, which is part of the Kisii Municipality Regeneration Programme, will see the repair of more than 30 kilometers of roads. Completion of these roads will contribute immensely to business operation in the Municipality. Over the medium term, resources will also be directed towards maintenance of the already built roads and opening up of feeder roads (village roads) in all the 45 wards for easy movement of goods and services.

2.5 Trade and Enterprise Development

Trade and enterprise are the commercial engines of the County contributing to economic growth, employment, wealth and most importantly harnessing the county competitiveness as well actualizing the County priorities in line with the "Big Four "agenda of job creation. For this reason, the County government will continue to support job creation for the youth and support innovations across the entire value chain in collaboration with industry players.

Principally, the County government will seek partnership with the private sector to build fruit processing industry, support production of construction materials like tiles and bricks. Specific measures and incentives will be implemented to boost these sub-sectors and increase job creation.

To support agro-processing, resources will be directed towards investment in local value addition in other fruits like pineapple, passion fruits, and sugar cane. Other areas will include investments aquaculture, fish feed mills and animal feeds.

As the County government transforms jua kali sector, new job opportunities that require deeper skills and knowledge will be created through investments in Vocational across the County. The objective is to enhance the quality of vocational college graduates to meet the local industrial needs and become internationally competitive.

CHAPTER THREE

RESOURCE ALLOCATION FRAMEWORK

3.1 Overview

The fiscal framework for the FY2020/21 Budget is based on the Government's policy priorities set out in the ADP 2019. The framework will continue with the fiscal consolidation policy to strengthen domestic revenue generation and reduction of pending bills. With the fiscal consolidation strategy, departments will have to adopt the culture of doing more with less that is available with a view to promote sustainability and affordability.

Sustainability, affordability and strict prioritization are therefore expected to be the norm rather than an exception under this strategy. To achieve this, we need to ensure that: Spending is directed towards the most critical needs of the county and is well utilized; more outputs and outcomes are achieved with existing or lower level of resources; and Departments request for resources are realistic and take into account the resource constraints.

3.2 Revenue projection

There are three main sources of funding for the County Budget, namely: Transfers from the National Government as provided under Article 201 of the Constitution; Own Source Revenue (domestic/local revenue); and Loans and Grants. The resource envelope available for allocation among the spending units is based on the recommendations from the Commission on Revenue Allocation, The Senate, National Assembly, National Treasury, COB and County Treasury. The County is projecting revenue of KShs. 11.3 billion comprising of various sources as illustrated in Table 3.1.

Table 3.1: Projected revenues

Source of Revenue	Approved Budget	Proposed	Projections	
	KShs	KShs	KShs	
	2019/20	2020/2021	2021/22	2022/23
Equitable Share	7,626,000,000	7,817,550,000	8,130,252,000	8,455,462,080
Conditional Allocation – KTRH	417,572,254	417,572,254	434,275,144	451,646,149
Conditional Allocation – RMLF	221,007,938	233,001,661	242,321,727	252,014,596
Conditional Allocation –Village polytechnics	74,553,298	70,549,894	73,371,890	76,306,765
Cond. – Compensation for user fees foregone	26,138,997	26,138,997	27,184,557	28,271,939
Leasing of medical equipment	131,914,894	132,021,277	137,302,128	142,794,213
Other Loans and Grants	931,971,656	364,718,901	379,307,657	394,479,963
Own source revenue	500,000,000	650,000,000	700,000,000	750,000,000
Unspent balances	2,309,631,924	1,574,309,376	1,637,281,751	1,702,773,021

Total	**12,238,790,961**	**11,285,862,360**	**11,761,296,854**	**12,253,748,726**

The figures for equitable share, conditional allocations, loans and grants were extracted from the 2020 BPS while, domestic revenue figure is based on the revenue trends over the years and underpinned by on-going reforms in revenue administration. The unspent balances are projections from the County Treasury.

3.2.1 Equitable Share

Equitable share forms the bulk of financing to the County. It is the shareable revenue available for all the counties based on the CRA formula. It comprises 61 percent of the total revenue to Kisii County. Equitable share finances operations in the County Assembly and Executive.

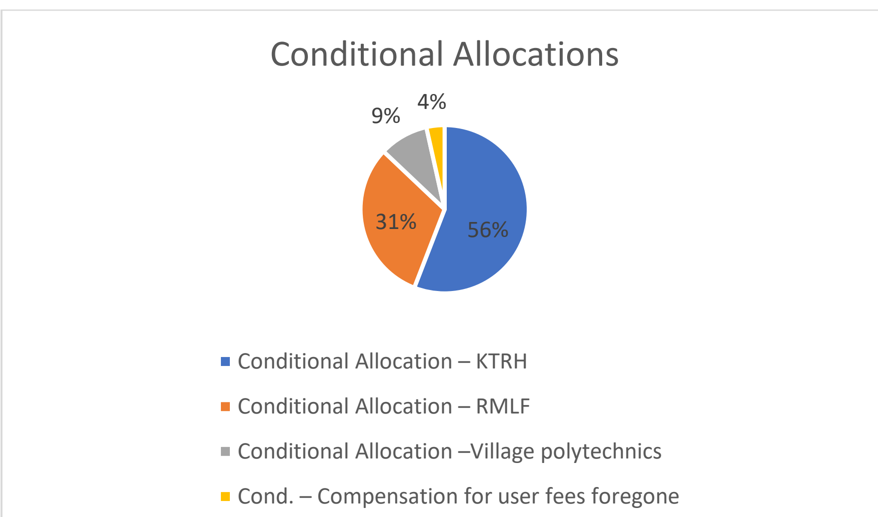
3.2.2 Loans and Grants

The loans and grants comprise 3.2 percent of the total revenue. The grants will finance Human Resource Development, Health Care, Agriculture and Urban Development.

3.2.3 Conditional Share

Conditional share forms 6.5 percent of the total County revenue. The conditional share will finance specific projects in health education, and roads as presented in Figure 3.1.

Figure 3.1: Conditional share distribution



3.2.4 Own Source of Revenue (domestic revenue)

Locally generated revenue will comprise 6.1 percent of the projected County revenue in the FY 2020/21 and over the medium term. The revenue will be raised from various streams as in Figure 3.2.

Fig: 3.2: Revenue Streams

3.2.5 Unspent balances

Unspent balances will account for 13.9 percent of county revenue. It consists of consisted of unreleased funds and bank balance. Section 109 of the PFM Act,2012 states that unspent balances from the previous FY are re-budgeted in the following year.

The funds will be utilized in paying mostly the pending bills.

3.3 Expenditure projection

The total expenditure in the forward budget is expected to decrease by 8.5 percent from KShs.12.2 billion in FY2020/21 to KShs.11.3 billion. The expenditure is expected to be within the principle responsibility of at least 30 percent of the expenditure going to development. In the recurrent expenditure category, non-discretionary expenditures take first charge. These include payment of pending bills and, salaries for Constitutional office holder and pensions

Development expenditures have been shared out on the basis of the flagship projects in the CIDP and the ADP priorities. The following criteria was used in apportioning capital budget:

- Pending bills: emphasis was given to completed works that has not been paid
- On-going projects: emphasis was given to completion of on-going capital projects and in particular infrastructure projects with high impact on poverty reduction, equity and employment creation.
- Counterpart funds: priority was also given to adequate allocations for donor counterpart funds which is the portion that the Government must finance in support of the projects financed by development partners.
- Strategic policy interventions: further priority was given to policy interventions covering the entire county in the five priority areas.

The county Revenue will be shared among the two arms of the County Government namely Executive and County Assembly. Allocations to the County Assembly and the Governor's offices are guided by the ceilings from the CRA. While the allocation among the ten department in the executive with a mandate of implementing projects will be faced on the above criterion. Table 3.2 presents the ceilings over the medium-term period.

Table 3.2: proposed ceilings

DEPARTMENT	Approved Budget 2019/2020	Proposed Ceilings 2020/2021
OFFICE OF THE GOVERNOR AND DEPUTY GOVERNOR	545,253,288	492,077,579
KISII COUNTY ASSEMBLY	1,138,150,705	994,847,318
ADMINISTRATION AND STAKEHOLDER MANAGEMENT	705,664,973	726,663,560
FINANCE AND ECONOMIC PLANNING	1,242,622,954	1,217,403,802
AGRICULTURE ,LIVESTOCK,FISHERIES, AND COOPERATIVES DEVELOPMENT	1,162,312,670	1,005,546,373
ENERGY, WATER ,ENVIRONMENT AND NATURAL RESOURCES	421,456,579	312,944,842
EDUCATION AND MANPOWER DEVELOPMENT	820,266,782	744,798,196
MEDICAL SERVICES	4,093,880,441	4,172,761,739
LANDS, PHYSICAL PLANNING AND URBAN DEVELOPMENT	221,742,514	170,865,240
ROADS,PUBLIC WORKS AND HOUSING	1,061,937,456	885,279,599
TRADE, INDUSTRY AND TOURISM	226,229,306	142,441,641
CULTURE,SPORTS, YOUTHS AND SOCIAL SERVICES	173,350,855	128,171,462
KISII MUNICIPALITY	425,922,438	292,061,009
TOTAL	**12,238,790,961**	**11,285,862,360**

Source: County Treasury, 2020

3.3.1 County Assembly

This department plays a key role in the implementation of development programmes in the County through oversight and legislation. It also plays the role of strengthening the democratic space and governance in the County. To this end, in the FY 2020/2021 the department has been allocated a total of **KShs 995** million their recurrent and development expenditures.

3.3.2 Executive

The sector is responsible for providing overall policy direction, coordination of county government, communication services and legal advice to government agencies. It also plays a major role in promoting integrity and transparency in county governance, inter-governmental relations and peace building.

In order to implement the prioritized programmes, the sector has been allocated **KShs. 492** million for the 2020/2021 financial year for both recurrent and development expenditures.

3.3.3 Administration and Stakeholder Management

The department plays a key role in linking all other departments with key stakeholders, coordinating, and supervising the day-to-day County Government affairs, and managing human resource for efficient and effective service delivery. To enable it discharge the above, the department has been allocated **KShs 727** million in the 2020/2021 FY for both recurrent and development expenditures.

3.3.4 Finance and Economic Planning

This department is mandated to provide overall leadership and policy direction in resource mobilization, management and accountability for quality public service delivery. Strategies to attain the overall goal include establishment of directorate of Monitoring and Evaluation Directorate, continuous training of staff on e-Procurement and adherence to the provisions of PFM Act, Participatory planning and budgeting as well as mainstreaming crosscutting issues to planning and budgeting. To achieve this, in the FY 2020/2021, department has been allocated **Ksh 1.2** billion

3.3.5 Agriculture and Cooperative Development

The department is mandated to carry out crop and animal husbandly, livestock market yards, abattoirs, plant and animal diseases control, fisheries and cooperative societies. This sector is critical to the county's economic growth, employment creation, food security and poverty reduction. It contributes to growth of other sectors such as manufacturing, wholesale and retail, as well as transport. The challenges facing the sector include; competing land uses, fragmentation of land, uncertified seeds, adverse weather conditions, poor marketing and lack of access of credit.

The sector aims to address the above challenges by raising agricultural productivity through improvement in the provision of extension services; improved livestock and crop breeds through subsidized husbandry services and promotion of sustainable management of fisheries and forestry. To achieve the above targets, KShs **1** billion has been allocated for the sector in the 2020/2021 budget.

3.3.6 Energy, Water, Environment and Natural Resources

This is a critical sector in the County economy with the role of ensuring that every citizen has access to safe and clean water. Under the sector, the assigned functions to the County Governments include soil and water conservation, forestry, storm water management, water sanitation services, air pollution, noise pollution, other public nuisance and outdoor advertising.

The department envisions to encourage the usage of green energy, supply clean and safe drinking water through expansion of the existing water schemes and spring protection, starting new water schemes, drilling boreholes, encouraging and supporting roof harvesting in public institutions. The goal in the medium term is to reduce the distance to the water points through water reticulation. The sector will increase forest cover by establishing a tree nursery and planting of trees. To achieve its objective, the sector has been allocated **KShs. 313** million in the FY 2020/2021.

3.3.7 Roads, Public Works and Housing

The sector is a key enabler for sustained development of the economy through provision of the necessary infrastructure. In order to provide the infrastructure, the sector will develop motor and non-motor (MT&NMT) road transport system, supervision of buildings among others. The sector faces a number of challenges that limit its optimal operations, including: inadequate funds, inadequate road construction equipment, topographical problem, and encroached road reserves, continuous heavy rains which destroy roads and sweep culverts among others. The total budget estimate for the sector is **KShs 885** million in FY 2020/2021.

3.3.8 Health Services

The department is responsible for providing equitable and affordable health care to the County residents. To achieve this, department will construct and equip the health facilities within the County, provide ambulatory services, purchase of pharmaceutical and non-pharmaceutical supplies, develop health human resource among others. To achieve the above the department has been allocated **KShs 4.2** billion in FY 2020/2021.

3.3.9 Trade, Tourism and Industry

This department is responsible for market development, promotion of tourism development and creating environment conducive for investment.

To achieve these goals, the County Government has allocated **KShs 142** million in FY 2020/2021.

3.3.10 Education

The sector's goal is to enhance access to basic quality education, provide learning materials and equipment, and exploit talents as well as skills development to create competitive labor force. The sector faces many challenges including inadequate Infrastructure, learning materials and staff.

In the FY 2020/2021, the sector intends to put up more ECD centers, disburse bursary fund, purchase learning materials and construct necessary facilities for ECD centers. For village polytechnics, the sector intends to construct workshops and purchase tools.To this end, the sector has been allocated **KShs 745** million in FY 2020/2021

3.3.11 Lands, Physical Planning and Urban Development

The department is responsible for preparation of physical development plans (PDPs) and spatial plans, street lighting programme, solid waste management, construction and maintenance of urban roads, beaconing of public land and aid in dispute resolution of land relates matters. To achieve the above targets, in the FY 2020/2021, the sector has been allocated **KShs 171** million.

3.3.12 Culture, Youth, Sports and Social Services

The sector is involved in vocational rehabilitation and training; social infrastructure development and gender mainstreaming; provision of safety nets to the elderly and vulnerable groups, community support services; prevention and promotion of County culture and heritage; provision of public library services; training of youth in life skills and refurbishment of sports facilities. Though, some of the programmes are executed by the National Government, the County Government is undertaking for the wellbeing of the residents. To achieve the above targets, the sector has been allocated **KShs 128** million in FY 2020/2021.

3.3.13 Kisii Municipality

This is a sub-department in charge of the management of Kisii Municipality through provision of services and infrastructure for the municipal residents. Some of the services provided include; waste management; disaster response services; provision of safe and clean water; improved sewerage systems among others. The sector intends to rehabilitate the drainage system, improve access to clean and safe water, ease congestion, organize transport system, and name major streets in the municipality. To achieve the above targets, in the FY 2020/2021 budget, the county has allocated the department **KShs 292** million.