COUNTY GOVERNMENT OF KISII

MEDIUM-TERM

FY 2023/24

COUNTY FISCAL STRATEGY PAPER

(CFSP)

" Economic Recovery for Inclusive Growth"

2023

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 of 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 concerning 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 consider 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 2012 and Regulations 26 of the PFM County Regulations provides that the County Treasury shall manage its public finances by the principles of fiscal responsibility set out and shall not exceed the 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 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 concerning the level of tax rates and tax bases shall be maintained, considering any tax reforms that may be made in the future.

FOREWORD

This County Fiscal Strategy Paper (CFSP) is the first one prepared in the implementation of the County Integrated Development Plan (CIDP) 2023-27 in the realisation of the County's aspiration of "prosperity *for all*" under the leadership of H.E Paul Simba Arati. It outlines the current state of the economy concerning the County, provides a macro-fiscal outlook over the medium term, and specifies the set strategic priorities and policy goals together with a summary of Government spending plans, as a basis for the FY 2023/24 budget and medium term.

As we prepare the budget for the FY 2023/24 and the medium term, I wish to emphasise that resources are limited while at the same time, the Government is confronted with significant expenditure demands including financing the Post COVID-19 Recovery strategies and the County priorities identified by the public during public participation on the CIDP 2023-2027 and H.E Paul Simba Arati's priorities as presented in the FY 2023/234 ADP. The priorities identified include Devolution and Governance; Wealth Creation; Social Development; Sustainable Environmental Conservation; and Enablers and ICT. These priorities are aligned with the pillars of the Kenya Vision 2030, Sustainable Development Goals (SDGs), and Africa Agenda 2063.

Therefore, the focus of this Policy is to safeguard livelihoods, jobs, businesses recovery, and establishment of industrial base. In this respect, the County Government will focus on critical expenditures with the highest impact on the well-being of county residents, strengthen the implementation of programmes and measures that ensure more inclusive growth, and avail liquidity to the private sector through the Trade Credit Scheme and payment of pending bills.

Kennedy Okemwa Abincha
County Executive Committee Member
FINANCE, ECONOMIC PLANNING, AND ICT SERVICES

ACKNOWLEDGMENT

The FY 2022/23 County Fiscal Strategy Paper (CFSP) has been prepared in compliance with the provisions of the Public Finance Management Act, 2012. The preparation was through a collaborative effort among various stakeholders. We are grateful for their input. We thank H.E the Governor Hon. Paul Simba Arati for his leadership and guidance in the formulation of this Paper. We also thank all departments for the timely provision of information.

We are grateful for the comments received from the County Budget and Economic Forum (CBEF), and the public during public participation conducted on 21st February 2023 in all the Sub-Counties (separate report available for scrutiny). Finally, we are grateful to the core team from the Economic Planning Directorate under the guidance of Dr. Onchari Kenani (Economic Advisor) for tirelessly putting this document together and ensuring that it is produced in time to facilitate the preparation of the FY 2023/24 and medium-term budget that is geared "towards Economic Recovery for Inclusive Growth".

Dr. Mwengei K.B. Ombaba

Chief Officer

ECONOMIC PLANNING AND ICT SERVICES

Table of Contents

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS AND ACRONYM

BPS	Budget Policy Statement
CA	Communication Authority
CBD	Central Business District
CBEF	County Budget and Economic Forum
CBK	Central Bank of Kenya
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
COB	Controller of Budget
COVID-19	Coronavirus Disease
CRA	Commission on Revenue Allocation
CRF	County Revenue Fund
ERS	Economic Recovery Strategy
ECDE	Early Childhood Development Education
FLLoCA	Finance for Locally Led Climate Action
FY	Financial Year
GCP	Gross County Product
GDP	Gross Domestic Product
ICT	Information Communication Technology
IT	Information Technology
KIHBS	Kenya Integrated Households Budget Survey
KNBS	Kenya National Bureau of Statistics
KShs.	Kenya Shillings
KTRH	Kisii Teaching and Referral Hospital
MCAs	Member of County Assembly
MSMEs	Micro-Small and Medium Enterprises

MTEF	Medium Term Expenditure Framework
NAVCDP	National Agricultural Chain Development Project
NHIF	National Hospital Insurance Fund
NOFBI	National Optic Fibre Network Backhaul Initiative
OSR	Own Source Revenue
PFM	Public Finance Management
PHC	Primary Health Care
PPP	Public Private Partnership
SDG	Sustainable Development Goals
UHC	Universal Health Care
USD	United State Dollar
VTC	Vocational Training Centre

CHAPTER ONE

ECONOMIC RECOVERY AGENDA TO PROMOTE INCLUSIVE GROWTH

1.1 Overview

1. The FY 2023-24 County Fiscal Strategy Paper (CFSP) is the first to be prepared under the Government of H.E. Paul Simba Arati to implement the County Integrated Development Plan (CIDP) 2023-2027. It also implements the Kisii County post COVID-19 Economic Recovery Strategy.
2. The CFSP sets out the priority programmes, policies and reforms of the Administration that will be implemented in the Medium-Term Expenditure Framework (MTEF). The document is framed against a backdrop of national economic slowdown occasioned by inflation, lingering effects of the COVID-19pandemic, and persistent supply chain disruptions.
3. In the context of these challenging times according to the Budget Policy Statement (BPS) 2023, Kenya's economy remains resilient with an impressive economic performance of 7.5 percent in 2021 largely on account of bold economic policies and structural reforms as well as sound economic management implemented overtime. However, the momentum has been disrupted again by the Russia-Ukraine conflict that has seen disruption in global trade with increased fuel, fertilizer, and food prices.
4. For the first time in five years the inflation rate in Kenya is above the Government target range mainly driven by supply side constraints occasioned by external shocks. Aside from these shocks, the Kenyan economy is confronted by various bottlenecks including recurrent drought affecting agricultural productivity; declining manufacturing productivity; skewed access to finance for business and development; rigidities in business regulatory framework; weak governance; and fiscal risks including pension's liabilities, stalled public projects, pending bills; and high debt service that has hindered the economy from achieving its full potential.
5. At the County level, Own Source Revenue performed well in the FY 2021/22. For the first time since 2013, the County raised KShs.404 million. However, the first half of FY 2022/23 has recorded a decline from KShs 131 million to KShs.90 million representing a growth of -31.3 percent. Just like the National Government, the County is confronted with declining agricultural productivity, low industrial base, skewed development, low access to finance for private investment, high pending bills, high level of unemployment especially among the youth resulting in high poverty levels.
6. Overall poverty in the county is estimated at 41.7 percent against a lower national figure of 36.1 percent according to the 2015/16 Kenya Integrated Household

and Budget Survey (KIHBS) Report. There is a need therefore, to come up with strategies to reduce the food poverty index to less than 30 percent over the planning period 2022-2027. Some of the factors considered contributing to the high poverty index in the county include low agricultural productivity due to land segmentation, inadequate extension services, over-reliance on rain-fed agriculture and poor marketing strategies; high unemployment levels among the youth due to few industries; environmental degradation because of high population and urbanization; poor road network and market infrastructure hampering trade; and high cost of accessing health services.

7. The aspiration of the County Government of Kisii in the FY2023/24 and over the medium term is to improve the livelihood of the County residents through investments in key priority areas that support a healthier workforce, job creation, and increased earnings from agricultural production which is the backbone of the Kisii economy. The County aspiration of prosperity for all as envisioned in the CIDP 2023-2027 will be realized through the proposed five priority areas, namely:

a) Wealth Creation
b) Social Development
c) Sustainable Environmental Conservation
d) Enablers and ICT
e) Devolution and Governance

8. The priorities are in harmony with the national government's five sectors identified in the BPS (2023) that are envisaged to have the biggest impact on the economy as well as on household welfare. These include Agriculture; Micro, Small and Medium Enterprise (MSME); Housing and Settlement; Healthcare; and Digital Superhighway and Creative Industry.

1.2 County Priorities

9. The County Government of Kisii will implement policies and structural reforms and promote investment in five core thematic areas that are expected to have the highest impact at the bottom of the income earnings. These are: Wealth Creation, Social Development, Sustainable Environmental Conservation, Enablers and ICT and Devolution and Governance.

1.2.1 Wealth Creation

10. Overall poverty in the County is estimated at 41.7 percent compared with the national figure at 36.1 percent (2015/16 KIHBS). Therefore, there is a need to pursue economic empowerment programmes geared towards poverty reduction and improved livelihood. This will be achieved through offering the best financial

services as the hub of the region, operationalizing the 24-hour economy in municipalities and townships, and expanding retail and hospitality services. Investment in manufacturing especially in Agro processing will not only create jobs but provide a farm market for farm produce thereby improving the livelihood of the farmers.

11. The County's economy and livelihood are much driven by agriculture which is depended upon by over 90 percent of the county's rural population. Substantial investments in agriculture are 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.

12. 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 the growth of related sectors of the economy.

13. Therefore, the County Government will continue to implement measures in the agricultural sector 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.

14. To promote the growth of the livestock sub-sector, the County Government will expedite the development of a County Livestock Policy; upscale AI Services; and expand veterinary services to all wards. Further, to improve livestock productivity, the Government plans to supply doses of assorted vaccines for livestock disease control and purchase and install milk coolers across the county.

15. To increase fish production, the Government will expedite the development of the County Fish Production Policy and develop Regulations on Fisheries Laws to provide a regulatory framework for fisheries in the County. The County Government will also train farmers on fish management, equip fish multiplication centres, and establish Kisii County Fish Marketing SACCO to enhance fish farmers' earnings.

16. To mitigate losses among smallholder farmers and boost their productivity, the County Government in partnership with development partners will construct modern markets with cold storage facilities, encourage sales through SACCOs, and encourage the use and adoption of crop and livestock insurance policies to cushion farmers against climate change-related risks. This will also contribute to the

stabilisation 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 insurance firms, and development partners.

17. Trade (wholesale, retail, and motor vehicle repair) is the second largest economic activity in the county hence the County Government will focus to create an environment conducive to business through provision of credit through County Trade Scheme, construction of markets, designating sites for hawkers in Kisii Central Business District (CBD), construction of industrial park and innovation centre, training entrepreneurs and linking them to financial institutions for financial support. Other interventions will include revising market fees downward and combining trade licences to reduce the cost of doing business and digitalize licensing.

18. The County has a low base for industrial development, therefore in the FY 2023-24 and over the medium term, the County Government will implement policies to strengthen the Jua Kali sector by building their capacities to produce high quality of construction materials such as doors, windows, gates, and hinges. As part of the process, the County Government will construct an industrial park, upgrade, and support Jua Kali by linking it with technical and vocational education institutions. This will see enterprises that produce housing products to emerge or expand, and ultimately more create jobs.

1.2.2 Social Development

19. Investment in social development is key to realising Vision 2030 and SDGs. Focus on this pillar involves investment in Early Childhood Development Education (ECDE), and Vocational Training Centres (VTC) through infrastructure development, equipping the centres with modern state-of-the-art facilities. Promote access to secondary and tertiary education through a reformed County Bursary Fund.

20. Access to quality and affordable healthcare is critical for socio-economic development. It is estimated that Kenyan families spend a total of KShs 150 billion in out-of-pocket expenditures on health services a year (BPS, 2023). For this reason, the County Government will continue to implement the Universal Health Care plan that will lift this punitive burden from the shoulders of County residents and their businesses. The strategy will involve revitalization of primary healthcare by laying more emphasis on preventive and promotive strategies. Many critical health illnesses, including cancer, heart complications, kidney failure and hypertension, can be detected and addressed at this level without the need for a hospital visit or admission. To enhance accessibility, the County Government in conjunction with the National Government will provide NHIF cover to needy households.

21. The County Government will promote investment to expand existing health infrastructure and improve procurement of medical supplies. Pharmaceuticals and consumable medical supplies account for an estimated 10 percent of total health expenditures. To improve health outcomes and reach of healthcare services, the County Government will leverage information technology to drive responsiveness, efficiency, seamlessness between providers, transparency, and fraud prevention. The strategy will involve deployment of an integrated state-of-the-art health information system that will enable every resident of the County to own and control access to their health record.

22. Water is an essential component of society. Lack of water is a barrier to sustainable socio-economic development. The provision of safe water is critical in fighting COVID-19 and other infectious diseases through hand washing. Therefore, scarcity of water and lack of collection and distribution systems can be costly. Generally, domestic water supply serves as a basic component of welfare in its role as a direct consumer commodity, it also functions as an element of socioeconomic infrastructure. Water contributes to a wide variety of natural productive processes, including directly productive activities such as food production and manufacturing operations, and as an element of basic economic infrastructure. There is therefore a need to provide clean, safe, and reliable for domestic, urban, agricultural, and industrial use.

23. Additionally, enhanced social protection programmes notably the Simba shelter care, delivering reliable rural housing schemes and eliminating grass-thatched houses and dilapidated structures, new urban housing schemes, and social welfare programmes for the elderly. Investments in sports and arts will be key to talent development.

1.2.3 Sustainable Environmental Conservation.

24. In the recent past, Kisii County has experienced a decline in water levels and a change in rain patterns due to climate change. More than half of the boreholes sunk over the last seven years are either dry or have a low discharge making reticulation impossible. Many springs are now dry and the volume of water in rivers has greatly reduced, hindering the execution of economic activities like farming, and even making water for domestic use expensive.

25. The decline of water in rivers and drying of springs is largely attributed to the planting of eucalyptus trees (blue gum) which are known for high consumption of water in wetlands. River degradation has led to an extensive loss of habitats and additional pressures on the aquatic and terrestrial species that use them. It also affects

the quality of our drinking water, resilience to climate change, and ability to store and hold back flood water.

26. Damage to river systems has been so extensive that an urgent need has emerged, not only to conserve but to restore these systems. Best farming practice, river and catchment restoration can deliver multiple benefits including improvements to water quality, biodiversity, water supply security, and reductions in flood risk and pollution. Therefore, the focus in the FY 2023-24 and over the medium term will be to protect the wetlands, rain catchment areas and riparian areas in addition to solid waste management.

1.2.4 Enablers and ICT

27. The three pillars of the Kenya Vision 2030 are anchored on enablers, largely on road infrastructure. Roads are the arteries through which the economy pulses. By linking producers to markets, workers to jobs, students to school, and the sick to hospitals, roads are vital to any development agenda.

28. Overtime, the County Government has pursued ambitious projects that have doubled the number of gravelled roads and in collaboration with the national Government paved roads. However, the need for roads remains immense as one third of classified roads needs either reconstruction or rehabilitation. Over the medium term, the County Government will continue to invest in road infrastructure by completing all roads under construction. It will also prioritise upgrading and maintaining rural access roads as well as improve road infrastructure in urban informal settlement especially Nubia area and critical county roads that have the highest immediate economic impact.

29. Kenya is a strong leader in the Information, Communication and Technology space. Appropriate policy framework, constitutionally protected freedoms of expression, media, information, and communication has cemented the country’s position as a regional and continental hub of innovation overtime. Despite this feat, there is tremendous potential for the country to become a global leader, employing hundreds of thousands of young people and generating immense wealth if the young people are facilitated to plug into the global digital economy. For this reason, the County Government will promote investment in the digital and the creative economy to further enhance productivity and overall competitiveness in the region.

30. In the FY 2023-24 and over the medium term, the County Government will digitise and automate all critical Government processes in the County, with a view to bringing at least 60 percent of all Government services online at greater convenience to citizens.

1.2.5 Devolution and Governance

31. The objects of the devolution of government under Article 174 of the Kenyan Constitution are to promote the democratic and accountable exercise of power; to foster national unity by recognizing diversity; to give powers of self-governance in the exercise of the powers of the State and to make decisions affecting them; to recognize the right of communities to manage their affairs and to further their development; to protect and promote the interests and rights of minorities and marginalised communities; to promote social and economic development and the provision of proximate, easily accessible services throughout Kenya; to ensure equitable sharing of national and local resources throughout Kenya; to facilitate the decentralisation of State organs, their functions, and services, from the capital of Kenya; and to enhance checks and balances and the separation of powers.

32. The object of devolution is tenable with a good governance structure that engages and allows the citizen to make decisions in matters that affect them. The County Government will therefore focus to strengthen governance structures up to the village level to provide a platform for the public to contribute to project identification and implementation to unlock the potential of the great county of Kisii.

33. The County Government's economic turnaround plan will be underpinned by sound and innovative policy and structural reforms across all socio-economic sectors, efficient infrastructure, climate-change mitigation mechanisms, and will foster strict compliance with the Constitution and the rule of law. Most importantly, the Government shall endeavour to ensure zero tolerance to corruption by making all public servants accountable and submitting to the oversight of County Assembly and other constitutionally mandated institutions.

34. To strengthen Devolution and Governance in the FY 2023-24 and medium term, the County Government will:

a) Complete the Governor's residence.
b) Construct the Deputy Governor's residence.
c) Construct the Speaker's residence.
d) Construct the County Headquarter
e) Construct the debating chambers in the assembly.
f) Establish village councils as provided for in the section of the County Government Act 2012.

1.3 Implementation of the Kisii County Post COVID-19 Economic Recovery Strategy

35. The fundamental pillar of the post-COVID-19 Economic Recovery Strategy (ERS) is a sound macroeconomic framework. The other key pillars include accelerated growth in private sector investment; enhanced allocations to strengthen health care systems; supported recovery and growth of MSMEs; fully implemented ERS; up-scaled investment in ICT and digital infrastructure; and better disaster preparedness and management. In addition, the County Government will pay greater attention to economic governance, inequality, social cohesion, gender, and youth.

1.3.1 Enhanced budgetary allocations to strengthen Health Care Systems.

36. The COVID-19 pandemic has overstretched the county's health care system. To address this, the Government has enhanced allocations to the health sector through equitable share. The County has also received significant financial assistance from development partners including the World Bank. This support will strengthen health care systems with the requisite equipment, supplies, and medical personnel.

1.3.2 Enhanced Role of the Private Sector in the Recovery Strategy

37. The COVID-19 Pandemic has reduced economic activities in the private sector leading to massive job losses, pay cuts, and reduced contribution to government revenue. The private sector is expected to play a significant role in financing the implementation of Post COVID-19 ERS by taking advantage of opportunities arising from investment in ICT, technological innovations, PPP framework, and increased trade in goods and services because of open and free movement between counties.

38. To promote private sector investment and enhance its role in the recovery and growth strategy, the County Government will expedite the passing and implementation of legislation that will facilitate private sector participation in the construction and maintenance of infrastructures including market sheds and shops. The County Government will also expedite the payment of pending bills to increase money in circulation. The County Government will further prioritise the attraction of Diaspora funds for investment in projects and operationalize the public procurement regulations and embrace the e-procurement platform.

1.3.3 Support Recovery and Growth of MSMEs

39. The Post-Covid-19 ERS will prioritise renewed growth in MSMEs which were severely impacted by the measures put in place by the Government to contain the spread of the Pandemic such as restrictions on movement and curfews which led to significant loss of business by MSMEs. Towards this end, the post-COVID-19 ERS

will prioritise the implementation of the following programme: MSME Credit Guarantee Scheme and MSMEs Capacity Building Programme.

1.3.4 Enhancing ICT capacity for business continuity.

40. The status of ICT access and use in the county is low, especially among households. Approximately 43.8 percent of the population aged 3 years and above own a mobile phone which is lower than the national average of 47.3 percent. The perception that individuals do not need to use the internet and the high cost of service and equipment are the leading reasons that the people in the County don’t have an internet connection. The county used ICT to facilitate public participation in the budget process during the pandemic.

41. In the new normal driven COVID-19, the County will fast-track the implementation of various projects to ensure business continuity and build the resilience of the County against future pandemics and disasters as follows:

i) Support programmes in partnership with the private sector that will enable households to acquire ICT assets such as smartphones and laptops and increase mobile phone ownership 43.8 percent of the households to 100 percent in line with the global agenda for Universal Access to Mobile Telephony.
ii) Adopt programmes to ensure ubiquitous access to reliable and affordable internet (internet everywhere) by applying aerial and satellite-based communication technologies.
iii) Focus on the balanced development of information infrastructure and technological innovation capabilities through the development of ICT centres in vocational training centres and resource centres across the County.
iv) The IT personnel in the County can be deployed to support the development of ICT competence and skills among the public.
v) Enhance internet connectivity to public buildings and key trade centres to boost e-commerce, especially for MSMEs in trade and business. The National Optic Fibre Network Backhaul Initiative (NOFBI) programme is to be expanded to the sub-county administrative units to further enable the deployment of e-governance solutions.
vi) Increase ICT budgetary allocation. This is aimed at giving strategic prominence to planning, budgeting, and investment in ICT.
vii) Review and implement ICT policies and procedures to manage ICT and mitigate cyber threats. Collaborate with the National Computer Incident Response Team (CIRT) and the Communications Authority (CA) towards

managing cyber threats, disasters, and pandemics. This is because enhanced use of ICT is known to raise threats and risks related to cyber-crime and misinformation.

1.3.5 Strengthening County government's preparedness and response to pandemics and disasters.

42. Kisii County is affected by several disasters ranging from fire outbreaks to the collapse of buildings. The County has a County Disaster Management Act and a County Emergency Health Services Fund Act. However, the County was adversely affected by COVID-19, prompting the need to:

i. Work towards preventive action as a priority initiative, including improved capacity on surveillance and detection, infection control, containment, and communication strategies as well as reviewing and reinforcing relevant laws.
ii. Take steps to ensure that quarantining, surveillance, and screening measures are designed to comprehensively address containment and infection issues while limiting the impact on trade in most goods and services.
iii. Prevent, protect against, control, and provide a public health response to the international spread of disease in ways that are restricted to public health risks, and which avoid unnecessary interference with trade.
iv. Provide training to community leaders, responders to emergencies, and volunteers, improving knowledge and capacity in disaster management.
v. Collaborate with regional health institutions, Organizations and agencies, municipalities, and other organisations and persons in the planning and coordination of the provision, in the County, regionally and locally integrated emergency health services, urgent health services, and ancillary health services.
vi. Collaborate with experts in the areas of public health and disaster risk management in the training of all health professionals within the County.

1.3.6 Mainstreamed Diaspora Resources to Support the ERS

43. The Kenyan Diaspora wields significant financial and intellectual resources that can support the post-COVID-19 economic recovery. For this reason, mainstreaming Diaspora intellectual and financial resources, business networks and economic diplomacy is a key component of the post-COVID-19 ERS. Towards this end, the Government will provide the requisite incentives for the Diaspora to invest in infrastructure projects including in key sectors of ICT and digital infrastructure,

housing, health, education and manufacturing, and clean energy and green projects. The department of Public Service, County Administration and Public Participation, through liaison office, will also engage Diaspora associations and their business networks to facilitate such initiatives.

1.4 Conducive Business Environment for Employment Creation

44. The business environment has been affected by the COVID-19 Pandemic and continues to remain uncertain. However, despite all the reservations brought about by the Pandemic, the County Government remains committed to creating and sustaining a conducive business environment by reducing market rates in the Finance Act 2022, enhancing security to attract investors, and promoting trade that is geared toward job creation.

1.4.1 Reduction in rates, taxes, levies, and amalgamation of licences

45. Low taxes, rates, and levies provide the necessary conducive environment for private sector investments as a ground for sustained economic growth. The County Government continues to put policies that will stimulate the economy to safeguard livelihoods, jobs, businesses, and industrial recovery. In particular, the County Government has kept market rates and levies down to boost economic activity. To ensure full recovery, the County Government will abolish some levies and rates to attract more investment, especially among mama mboga and mitumba traders as well as amalgamate licences to ease the cost of doing business.

1.4.2 Payment of pending bills

46. The Government will prioritise the payment of pending bills to provide funds for further investment and ensure adequate money in circulation.

1.4.3 Enhancing Security

47. To maintain economic stability and attract investment, security is critical. A safe and secure environment remains a prerequisite for achieving the Kenya Vision 2030. To achieve this, the County Government will work closely with the National Government Security agencies, install streetlights in all markets and risky places, construct backstreet roads in all urban centres and open village roads to facilitate patrols.

1.4.4 Infrastructure Development for inclusive Growth

48. To ensure businesses thrive in an enabling environment and realise significant progress in manufacturing and Agro processing, the County Government continues to build a strong transport system to enhance connectivity in the County. This will in turn support growth in the other sectors of the economy. Given this, the

County Government has put in place deliberate efforts to scale up a robust network of high-quality roads to enable residents to enjoy the benefits of expanded infrastructure assets, interconnectivity, and competitiveness leading to improvement and better ranking in the ease of doing business in the country.

49. To ensure every resident enjoys the benefits of an expanded road network, the County Government in partnership with the National Government has been scaling up the construction of tarmac roads, and urban and rural roads in every part of the county. This will continue to open many areas to economic activities and spur growth in other sectors of the economy.

50. During the FY 2021/22, the County Government constructed 200 Km of new roads and rehabilitated 400 Km of roads. Additionally, over the same period, the Government constructed two-foot bridges. Among other major projects that the County Government is undertaking, is the construction of roads in Kisii Municipality and major roads connecting sub-counties. Going forward, in the FY 2023/24 and over the medium-term period, the County Government has committed to construct and maintain 2,000 Km of roads through the implementation of various programmes and projects.

51. Air transport is one of the sectors that was adversely hit by the containment measures put in place to prevent the further spread of the COVID-19 Pandemic. Despite this, the County Government is committed to making Kisii County a strategic transport hub in support of the economic recovery agenda to promote inclusive growth. In achieving this, the County in partnership with the National Government is also committed to repairing and expanding the Suneka airstrip to have a competitive edge in the region.

1. 4.5 Supply of reliable energy

52. The socio-economic status and the general well-being of society largely depend on access to stable, reliable, and affordable energy supply. In this regard, the County Government in partnership with the National Government is committed to ensuring an efficient and reliable transmission distribution of affordable, clean, and reliable energy. This will be done through the installation of transformers across the county to ensure that major markets are connected to the national grid.

1.4.6 Promoting the use of Information Communication Technology (ICT)

53. Information, communication, and Technology play a big part in today's digital economy. Amidst the disruptions caused by the COVID-19 Pandemic and most people working from home, ICT has taken centre stage in driving activities in other economic activities and as such has shown great potential to increase economic growth and improve the lives of the residents.

54. The Government takes cognizance of the critical role ICT and innovation play in overall national development. As such, the attainment of the county's priorities in the realisation of the inclusive growth agenda hinges on the country's ability to reap the full potential of technological advancement and innovations in ICT in the country. Going into FY 2023/24, the Government will continue to make huge investments in the ICT sector, this will greatly improve access to government services and enable the youth to access job opportunities even outside Kenya. All the vocational training centres, and sub-county offices will be equipped with ICT equipment. Going forward, the County Government will digitise its services including revenue collection to leverage ICT connectivity in the County.

1.4.7 Stimulating Tourism Recovery, Sports, Culture and Arts.

55. Sports and culture remain the cornerstone of our tourism strategy in Kisii County. Therefore, tourism transformation and its integration with the promotion of commerce, sports, culture, and arts will be positioned as a key driver of inclusive growth and employment creation. Great strides have been made to support these sub-sectors. The County Government has completed the construction of the Gusii Stadium with sportsmen and women already enjoying state-of-the-art facilities.

56. The tourism sector was one of the worst hit sectors by the COVID-19 Pandemic and the ensuing containment measures. The sector is expected to recover gradually following the ease of travel restrictions.

57. Going forward and building on the progress made thus far, the County Government working, in partnership with key stakeholders, will, among other measures: continue supporting the development and performance of music, drama, and dance; exhibition of works of art and crafts; and fostered discussions of matters of literacy, historical, scientific, and educational importance.

1.4.8 Empowering Youth and Women for Employment Creation

58. The most pressing challenge today is the lack of jobs for the Kenyan youth. The County Government targets to provide empowerment opportunities to unemployed youths, in addition to access to services and support programmes.

59. The County Government also continues to allocate funds to the different youth empowerment programs. The outbreak of the COVID-19 Pandemic exacerbated the need for loans to enable the youth and women to start businesses. In addition, and in a bid to cushion unemployed youth from the adverse effect of the COVID-19 Pandemic the County Government in partnership with the National Government and other development partners will engage youth groups and women in cleaning services and maintenance of roads.

CHAPTER TWO

RECENT ECONOMIC DEVELOPMENT AND MEDIUM-TERM OUTLOOK

2.1 Overview

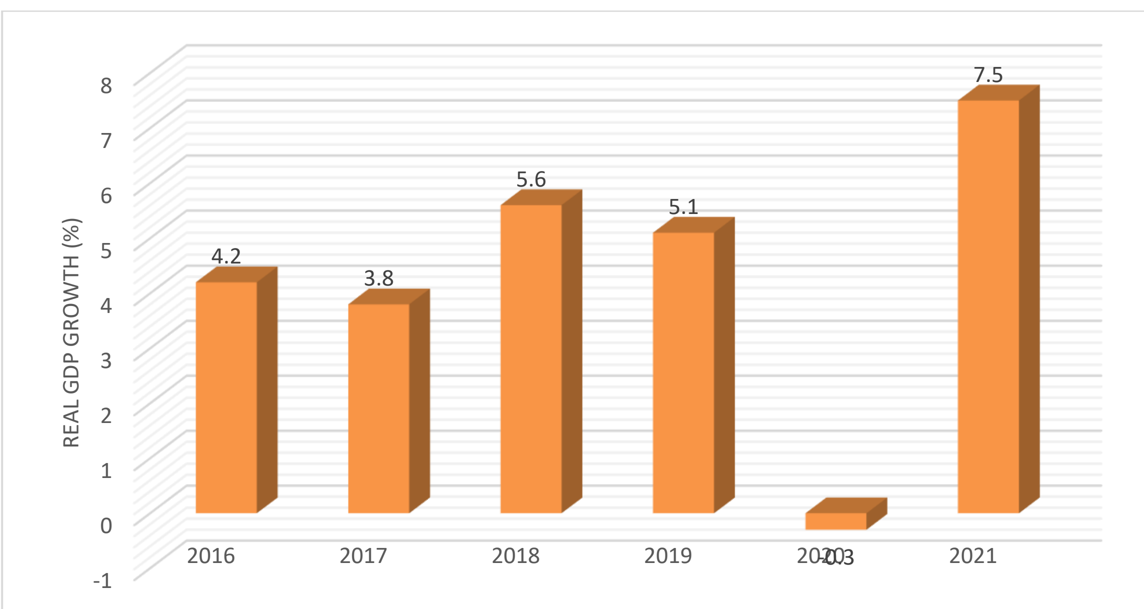
60. This section discusses the performance of macroeconomic parameters namely GDP, inflation rates, exchange rate, interest rate, credit, and foreign remittances. These variables are nationally computed but influence operation in all 47 counties. Further, the section discusses the County's fiscal performance in the first six months of FY 2022/23 in terms of revenue and expenditure. It also proposes the fiscal policy to guide expenditure in the FY 2023/24 and over the medium term. Finally, it presents the growth prospects (Economic Outlook) and outlines the risks to the growth prospects.

2.2 Recent Economic Development

2.2.1 Gross Domestic Product (GDP)

61. In 2021, the Kenyan economy demonstrated remarkable resilience and recovery from COVID-19 shock due to the diversified nature of the economy and the proactive measures by the Government to support businesses. The economy expanded by 7.5 percent in 2021, a much stronger level from a contraction of -0.3 percent in 2020 (BPS 2023). Figure 2.1 presents the annual growth rate trend.

Figure 2. 1: Annual Real GDP Growth Rates



Source of Data: compiled from 2023 BPS report.

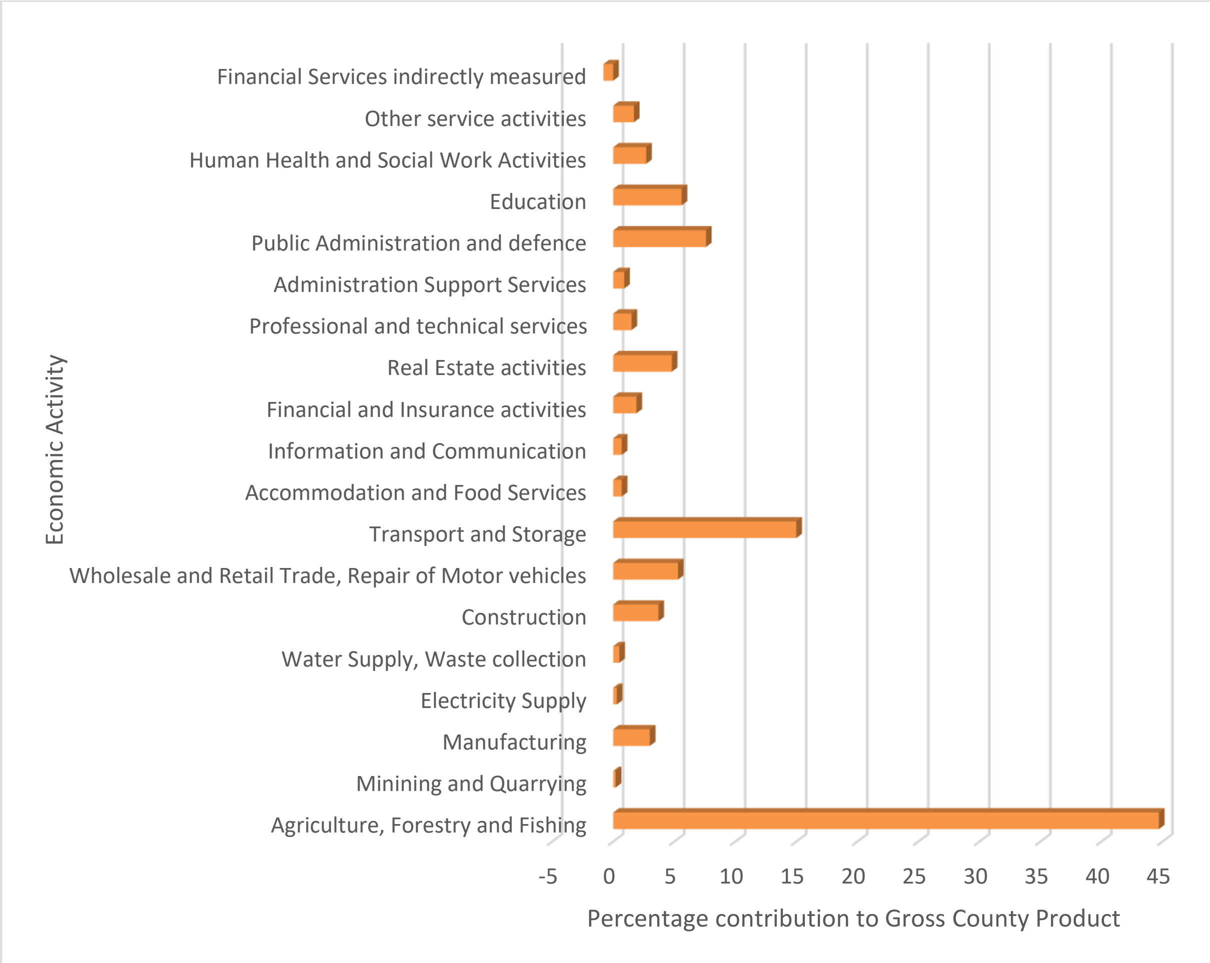
62. The growth momentum continued in the first three quarters of 2022 averaging 5.5 percent despite subdued performance in agriculture and weaker global growth. The economy grew by 6.7 percent in the first quarter and 5.2 percent in the second quarter compared to a growth of 2.7 percent and 11.0 percent in similar quarters in 2021.

63. In the third quarter of 2022, the economy grew by 4.7 percent compared to a growth of 9.3 percent in the corresponding quarter of 2021. Most sectors posted slower growth owing to the significantly high growth rates recorded in the third quarter of 2021 that signified recovery from the impact of the COVID-19 pandemic. The growth in the third quarter of 2022 was mainly supported by the service sectors particularly Accommodation and Food Service activities, Wholesale, and retail trade, Professional, Administrative and Support services, Education and Financial and Insurance activities. The growth was however slowed by declines in activities of the Agriculture, Forestry and Fishing, and Mining and Quarrying sectors.

64. The Agriculture Sector recorded a contraction of 0.6 percent in the third quarter of 2022 compared to a growth of 0.6 percent recorded in the corresponding quarter of 2021. The slowdown in performance of the sector was mainly attributed to unfavourable weather conditions that prevailed in the first three quarters of 2022. In Kisii County, the decline was reflected in the decline in vegetable and tea production. However, the sector's performance was cushioned from a steeper contraction by improved production in fruits, coffee, and cane. Kisii County is the leading producer of chewing canes and supplies canes to Trans Mara Sugar Factory in Narok County. Agriculture is estimated to contribute 45 percent of the Gross County Product (GCP)in Kisii. Figure 2.2 presents the GCP by economic activity at current prices in 2020.

65. The performance of the industry sector slowed down to a growth of 3.4 percent in the third quarter of 2022 compared to a growth of 8.3 percent in the same period in 2021. This was mainly on account of normalisation of activities in the manufacturing sub-sector after the strong recovery in 2021. Manufacturing sub-sector expanded by 2.4 percent in the third quarter of 2022 compared to 10.2 percent growth recorded in the same period of 2021. The growth in the industry sector was supported by positive growths in the Electricity and Water Supply sub-sector and construction sub-sector which grew by 4.7 percent and 4.3 percent, respectively. However, the contribution of Kisii County is very minimal because of low industrial establishment in the county.

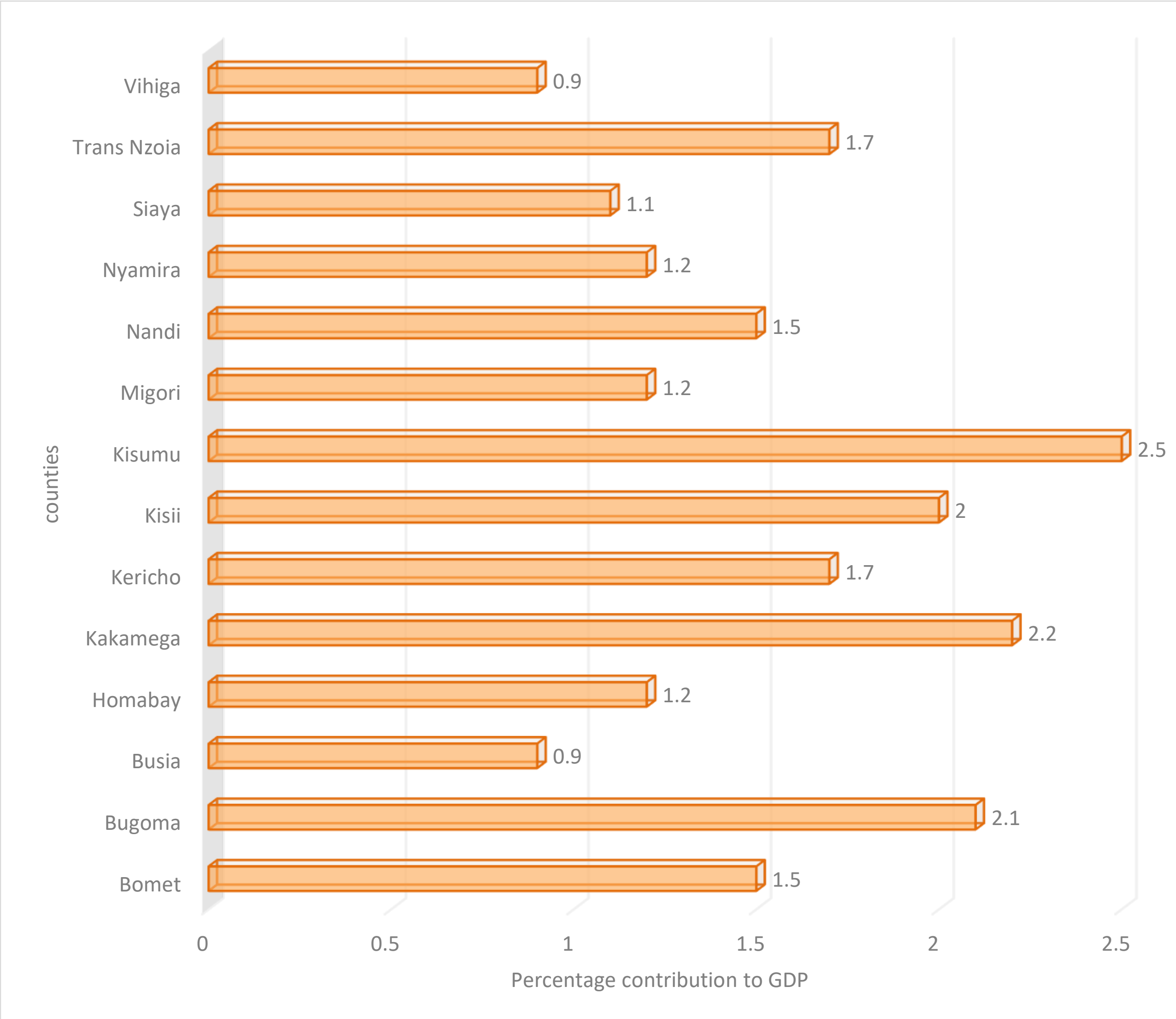
Figure 2. 2: GCP contribution by Economic Activity in 2020 (%)



Source of Data: Compiled from Gross County Product Report (2021)

66. The activities in the services sector normalised and remained strong in the third quarter of 2022 after a strong recovery in 2021 from the effects of COVID-19 pandemic. The sector growth slowed down to 6.1 percent in the third quarter of 2022 compared to a growth of 11.4 percent in the third quarter of 2021. This performance was largely characterised by substantial growths in accommodation and food services, wholesale, and retail trade, professional, administrative and support services and education sub-sectors. The sub-sectors are vibrant in Kisii County. Kisii is the economic hub in the region due to its strategic location, it is the entry point to Migori and Homa Bay Counties from Nairobi. The main wholesales in the region are in Kisii Municipality. As a result of high economic activities, Kisii County is one of the highest contributors to the nation's Gross Domestic Product (GDP) in the Lake Region Economic Bloc as presented in Figure 2.3.

Figure 2. 3: County Contribution to Gross Value Added (GVA) % in 2020

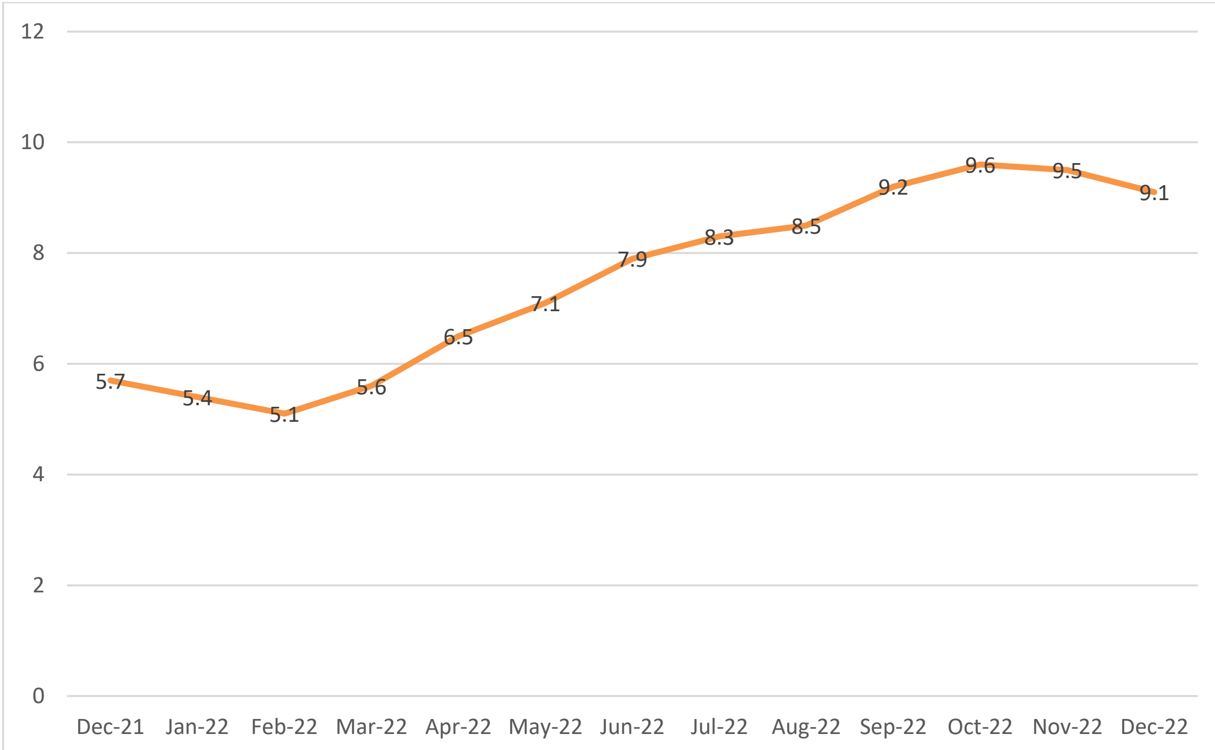


Source of Data: Compiled from Gross County Product Report (2021)

2.2.2 Inflation rates

67. According to BPS (2023), year-on-year inflation rate eased for the second consecutive month in December 2022 but was still above the 7.5 percent upper bound target. Inflation rate eased to 9.1 percent in December 2022 from 9.5 percent in November 2022 due to a decline in food prices because of favourable rains and declining international prices of edible oils. However, this inflation rate was higher than the 5.7 percent recorded in December 2021 as illustrated in Figure 2.4.

Figure 2. 4: Inflation trend over the last 12 month



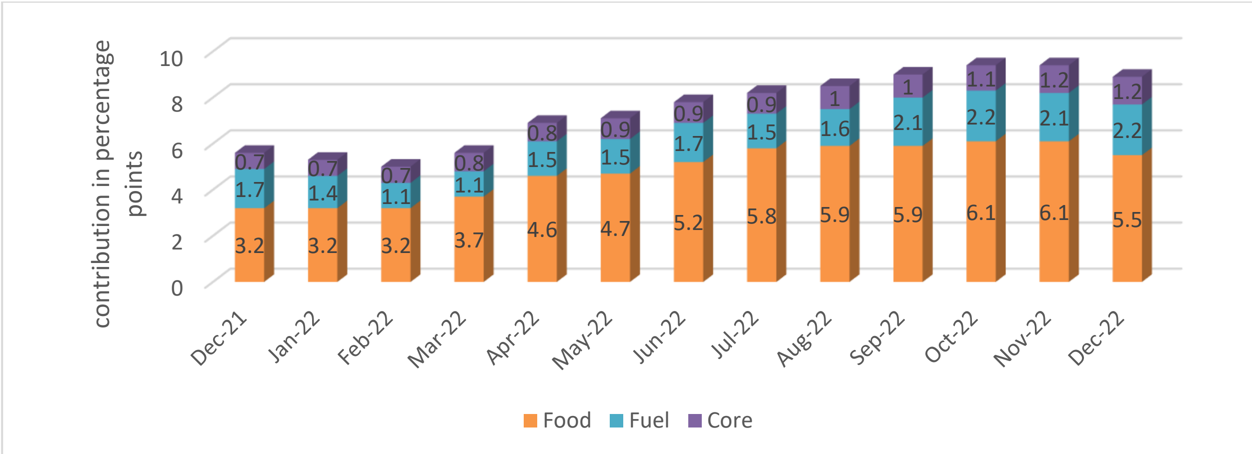
Source of Data: Compiled from KNBS reports.

68. Food inflation remained the main driver of overall year-on-year inflation in December 2022, contributing 5.5 percentage points, an increase, compared to a contribution of 3.2 percentage points in December 2021 as illustrated in Figure 2.5. The increase was mainly attributed to unfavourable weather conditions and supply constraints of key food items particularly maize grain (loose), fortified maize flour, cooking oil (salad), cabbages, beef with bones and mangoes.

69. Fuel inflation also increased to contribute 2.2 percentage points to year-on-year overall inflation in December 2022 from a contribution of 1.7 percentage points in December 2021. This was mainly driven by increases in electricity prices due to higher tariffs and increased prices of kerosene/paraffin, diesel, and petrol on account of higher international oil prices.

70. The contribution of core (non-food non-fuel) inflation to year-on-year overall inflation has been low and stable, consistent with the muted demand pressures in the economy, supported by prudent monetary policy. The contribution of core inflation to overall inflation increased to 1.2 percentage points in December 2022 compared to 0.7 percentage points contribution in December 2021.

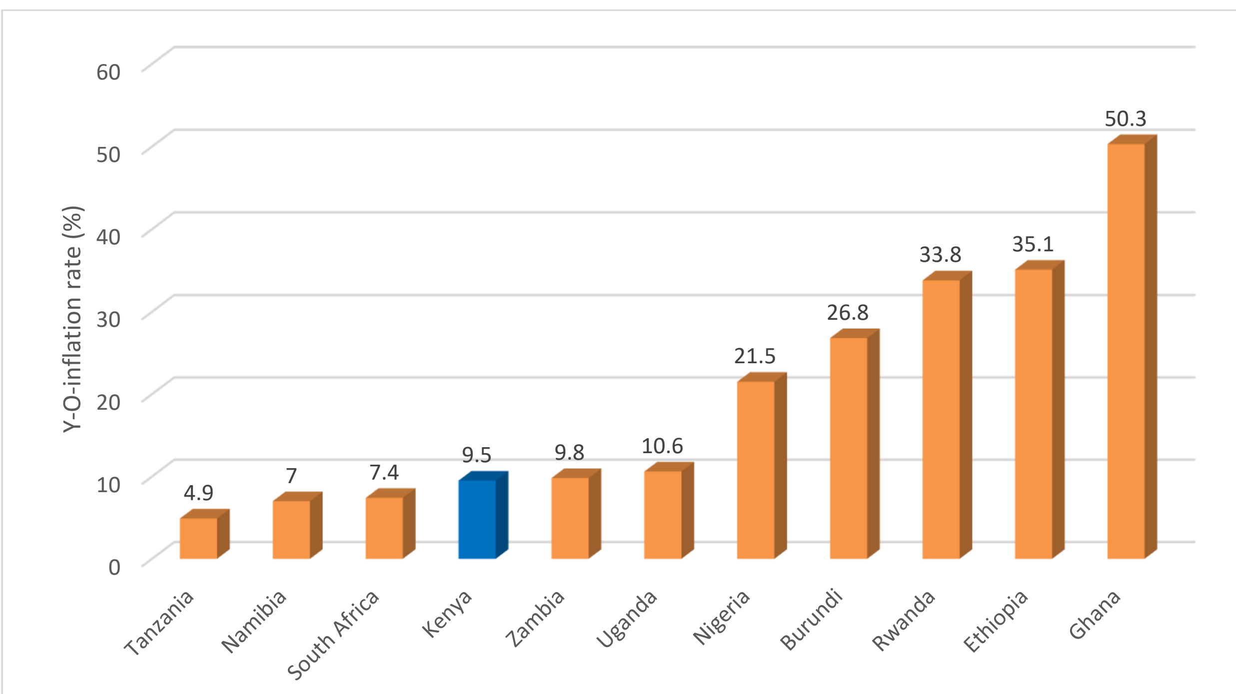
Figure 2. 5: Contribution to inflation in percentage points.



Source of Data: KNBS website

71. While inflation has been rising and remains high in most economies, Kenya's inflation rate at 9.5 percent in November 2022 which is the highest is much lower than that of some countries in the Sub-Saharan African region that have double digits' inflation (BPS,2023). Figure 2.6 presents the inflation rate in the month of November 2022 in selected African countries.

Figure 2. 6: Inflation Rates in selected African Countries (November 2022)



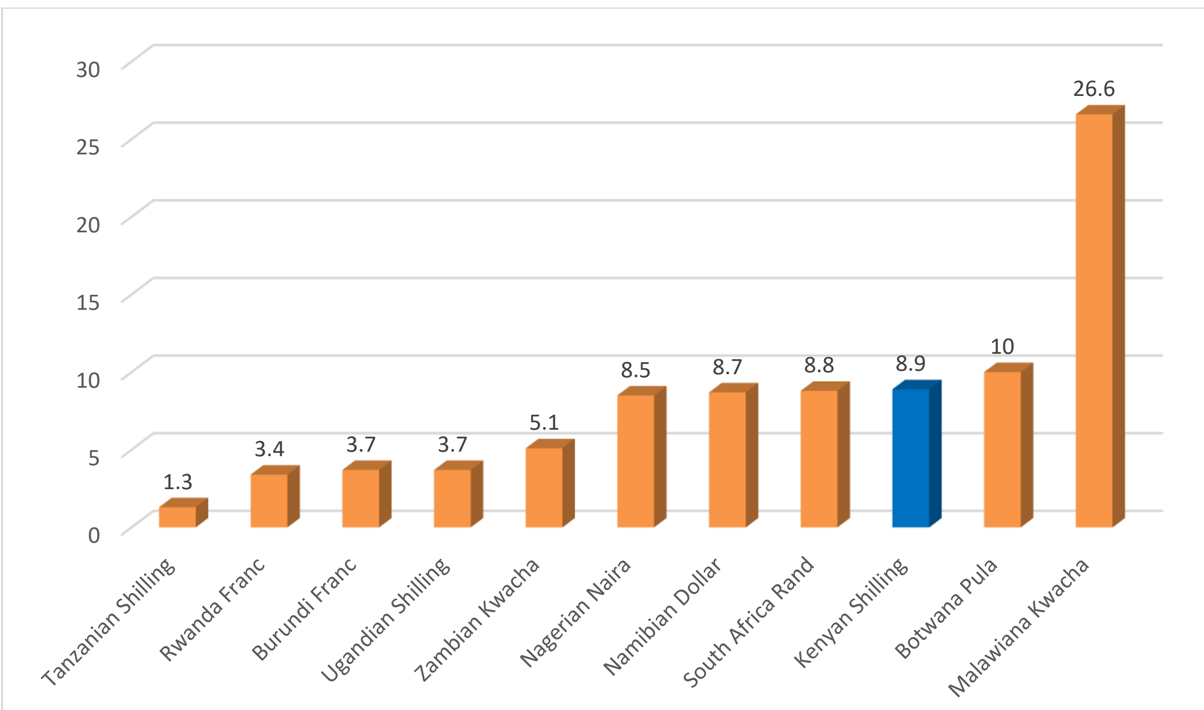
Source of Data: Various Central Banks.

2.2.3 Kenya Shilling Exchange rate

72. The foreign exchange market has largely remained stable despite the tight global financial conditions attributed to strengthening US Dollar and uncertainties regarding the ongoing Russian-Ukraine conflict. Due to the strong dollar, the exchange rate to the Kenya shilling like all world currencies has weakened to exchange at KShs. 122.9 in December 2022 compared to KShs. 112.9 in December 2021. Against the Euro, the Kenya shilling also weakened to KShs 130.0 from KShs 127.6 over the same period. The Kenyan Shilling strengthened against the Sterling Pound to KShs 149.8 in December 2022 from KShs. 150.2 in December 2021 (BPS, 2023).

73. In comparison to Sub-Saharan Africa currencies, the volatility of the Kenya Shilling exchange rate has remained relatively low at 8.9 percent against the US Dollar in November 2022 as shown in Figure 2.7. The depreciation rate of the Kenya Shilling was lower than that of Botswana pula, and Malawi Kwacha. The stability in the Kenya Shilling was supported by increased remittances, adequate foreign exchange reserves and improved exports receipts.

Figure 2. 7: Performance of Selected Currencies against the US Dollar (December 2021 to December 2022).



Source of data: Various Central Banks

2.2.4: Interest rates

74. Monetary policy stance remains tight to anchor inflation expectations due to the sustained inflationary pressures, the elevated global risks, and their potential impact on the domestic economy. In this regard, the Central Bank Rate was raised from 8.25 percent to 8.75 percent in November 2022.

75. The interbank rate remained stable at 5.4 percent in December 2022 compared to 5.0 percent in December 2021 while the Treasury bills rates increased in December 2022 due to tight liquidity conditions. The 91-day Treasury Bills rate was at 9.4 percent in December 2022 compared to 7.3 percent in December 2021.

76. Commercial banks' lending rates remained relatively stable in October 2022 supported by the prevailing monetary policy stance during the period. The average lending rate was at 12.4 percent in October 2022 from 12.1 percent in October 2021 while the average deposit rate increased to 7.0 percent from 6.4 percent over the same period. Consequently, the average interest rate spread declined to 5.4 percent in October 2022 from 5.7 percent in October 2022.

2.2.5 Credit

77. Broad money supply, M3, grew by 7.2 percent in the year to December 2022 compared to a growth of 6.1 percent in the year to December 2021 (BPS, 2023). The growth in December 2022 was mainly due to an increase in domestic credit, particularly net lending to the private sector as illustrated in Table 2.1.

Table 2. 1: Comparison of Growth in Credit over the years in the month of December in KShs in Billion

	December		
	2020	2021	2022
Domestic Credit	4,245.8	4,876.9	5,439.7
Government net	1,343.3	1,723.6	1,924.3
Other Public sectors	91.2	100.1	81.9
Private sector	2,811.3	3,053.2	3,433.5

Source of Data: CBK website

78. Growth of domestic credit extended by the banking system to the Government moderated to 11.6 percent in the year to December 2022 compared to a growth of 28.3 percent in the year to December 2021. Lending to other public sectors also declined during the period, mainly due to repayments by county governments and parastatals. Private sector credit improved to a growth of 12.5 percent in the 12 months to December 2022 compared to a growth of 8.6 percent in the year to December 2021 as illustrated in Table 2.1.

79. All economic sectors registered growth rates reflecting increased credit demand following improved economic activities. Strong credit growth was observed in the following sectors: mining, transport and communication, agriculture, manufacturing, business services, trade, and consumer durables. The sectors in point are vibrant in Kisii County, hence, there is no doubt that the residents are the beneficiaries of the credit. According to the Central Bank of Kenya (CBK) records, Kisii County controls over 60 percent of money in circulation in the Nyanza region necessitating the establishment of the CBK currency hub in Kisii.

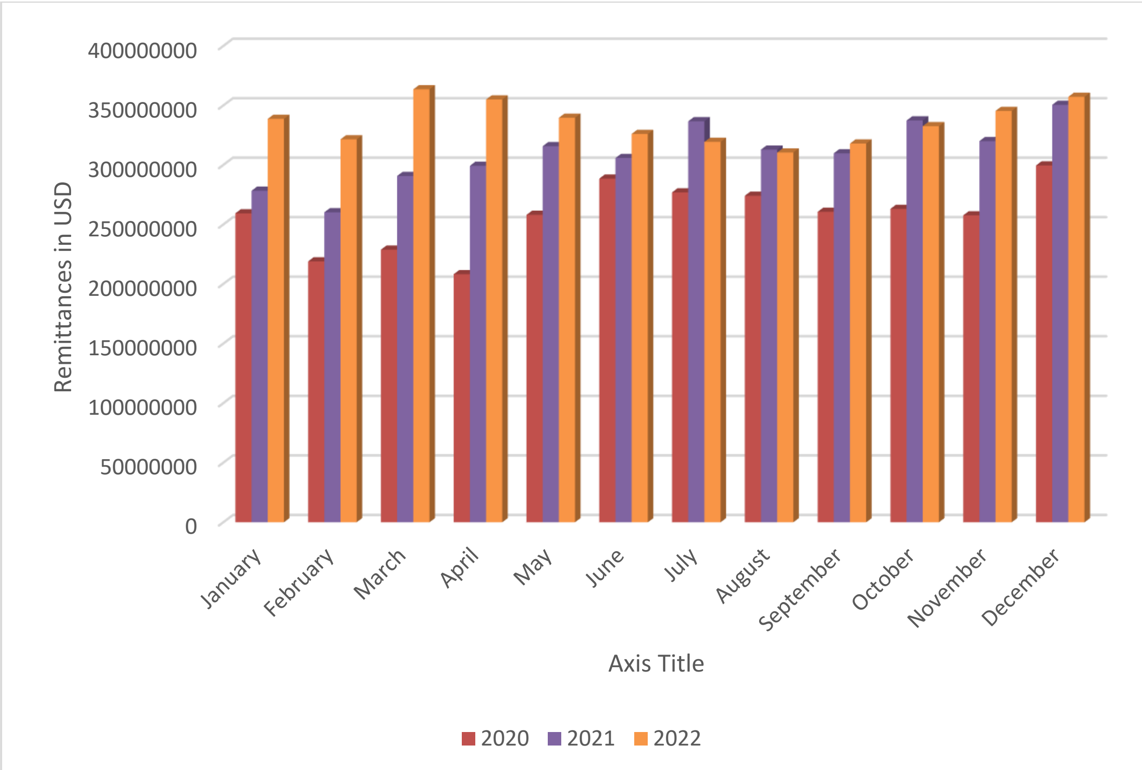
80. The Government has launched the Hustlers Fund, as an intervention to correct market failure problems that led to predatory lending. This program aims to lift those at the bottom of the pyramid through structured products in personal finance that includes savings, credit, insurance, and investment. The residents are therefore encouraged to register and access this facility.

2.2.6 Diaspora Remittances

81. Despite the global challenge, diaspora remittances have a growth from USD.3.094 billion in 2020 to USD 4.068 billion and USD 4.027 billion in 2021 and 2022 respectively. Figure 2.8 presents the comparison between 2020, 2021 and 2022 per month. Diaspora remittances are normally sent to support friends and relatives as well as for investment purposes according to Diaspora Remittances Survey (2021). In most cases, investment by the diaspora is in the construction industry, especially in real estate and this sector recorded growth.

82. It is believed that the bulk of the remittances got to Kisii due to the large number of sons and daughters of Omogusii in America and Europe and strong ties at home. This may partly justify the huge money in circulation in the county given that Kisii is not an industrial county.

Figure 2. 8: Comparison of diaspora remittances over the years.



Source: CBK website

83. Remittances are directly used to provide food for families, access health services and quality education, as well as clean water and sanitation. Compared to foreign aid, the households-to-households nature of remittances makes remittances an important and direct vehicle in achieving accelerated poverty reduction. Therefore, the government should come up with strategies to encourage remittances.

2.3 Fiscal Performance

2.3.1 Revenue performance

84. A total of **KShs.3,817,915,263** out of a budget of KShs.11,113,855,495 had been disbursed to the County by 31st December 2022 representing **34** percent disbursement of the revised approved budget. Table 2.2 presents the summary of revenue performance in the first six months of FY 2022/23.

Table 2. 2: Revenue Performance in the first six months of FY 2022/23

Revenue Stream	Main Approved Budget (KShs)	Approved Supplementary Budget (KShs)	Amount received as of 31st December 2022 (KShs)	% Absorption on the approved revised budget
Equitable Share	8,894,274,509	8,894,274,509	2,935,531,897	33
Leasing of medical equipment	110,638,298	110,638,298	0	0
National Agricultural and Rural Inclusive Project (NARIP)	324,295,427	171,890,010	0	0
Agriculture Sector Development Support Programme (ASDSP)-SIDA	9,525,128	10,517,407	0	0
National Agricultural Value Chain Development Project (NAVCDP)-World Bank Credit	0	70,000,000	0	0
DANIDA	16,408,200	25,045,875	0	0
Kenya Urban Support Programme (KUSP)	0	2,339,915	0	0
Finance for Locally Led Climate Action Programme (FLLoCA)	125,000,000	22,000,000	0	0
Unspent Balances from FY 2021/22	1,784,527,129	1,057,149,481	792,330,286	75
Own Source Revenue	650,000,000	750,000,000	90,053,080	12
Total	11,914,668,691	11,113,855,495	3,817,915,263	34

Source of data: County Treasury.

85. The County had received a total of KShs.2.835 billion out of KShs.4.447 billion in the first half representing 63.8 percent of the targeted revenue. The unmet target was occasioned by delay of disbursement of funds by the exchequer. As of 31st December 2022, the County had not received disbursement for October, November, and December.

86. Over the review period, a total of **Kshs.792,330,286** of the unspent balance from the previous year was disbursed representing **75 percent** of the money owed to the County according to the supplementary budget figure. The figure of KShs.1.057 billion was an estimate as the budget was approved before the closure of the financial year. Going forward, the figure will be revised accordingly in the subsequent supplementary budget to avoid carrying over pending bills to the next FY.

87. The county raised **KShs. 90,053,081** locally in the first six months of the FY 2022/23 compared to **KShs.131,988,620** raised in the FY 2021/22 in the same period

as illustrated in Table 2.3. The own resource revenue raised during the period under review accounts for 12 percent of the total target revenue. A comprehensive analysis will be done to enable the revision of the target from KShs.750 million to a lower and realistic figure in the subsequent supplementary budgets to avoid creating bills.

Table 2. 3: Comparison of Revenue in the first two quarters over the last four years.

	2019/20	2020/21	2021/22	2022/23
1st Quarter	81,377,793	42,813,959	66,536,000	49,987,334
2nd Quarter	70,559,229	57,591,752	65,452,620	40,065,747
Total	**151,937,022**	**100,405,711**	**131,988,620**	**90,053,081**

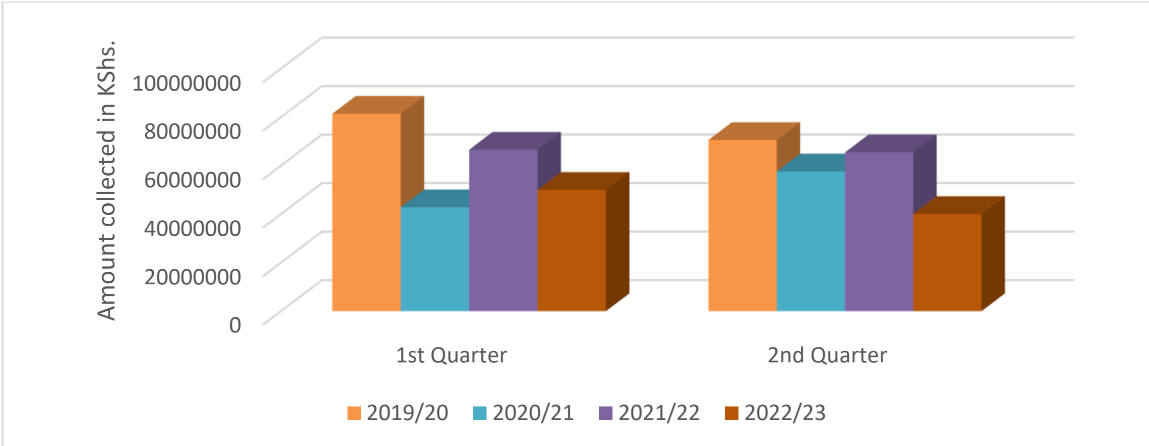
Source: County Treasury

88. The negative growth is attributed to the 2022 general election. During this period, it was impossible to collect market levies as politicians incited traders from paying levies, many markets were used as political rally grounds, motor bike operators did not buy stickers. Transition uncertainties also affected the revenue performance. Figure 2.9 presents the comparison of revenue collected in the first two quarters over the years.

89. The County did not receive any disbursement for loans and grants. Going forward the County has put measures to ensure that once the funds are received are committed to ensure that the funds are utilised before the end of the financial year.

90. The County did not receive funds for leasing of medical equipment. The funds are normally used to pay for medical equipment already supplied to the county. Going forward, the County Government will ensure that all these equipment are installed, are in use and funds are put aside for maintenance.

Figure 2. 9: Own Source Revenue in first two quarters trend over the years.



Source: Kisii County Treasury

2.3.2 Expenditure performance

91. Total expenditure in the first half of FY 2022/23 amounted to **KShs.3,422,017,860**representing **30.8 percent** of the total approved revised budget and **89.6 percent** of revenue received.

92. Recurrent expenditure amounted to **KShs.3,314,350,277** representing **42.04 percent** of the approved revised recurrent budget and **86.8 percent** of the total revenue received in the first half. Table 2.4 presents the summary of recurrent expenditure across the departments.

Table 2. 4: Summary of Expenditure by classification

Category	Institution	Main Approved budget in KShs	Approved Revised budget (Supplementary) KShs	Actual Expenditure as of 31st December 2022 KShs	% of absorption on the supplementary budget
Development	Assembly	339,350,465	119,350,465	22,127,103	18.5
	Executive	3,321,465,647	3,174,342,987	85,540,480	2.7
Recurrent	Assembly	1,344,649,046	1,313,747,771	322,321,062	24.5
	Executive	6,909,203,533	6,506,414,272	2,992,029,215	46
Total		11,914,668,691	11,113,855,495	3,422,017,860	30.8

Source of Data: County Treasury

93. Expenditure on development in the first half amounted to **KShs. 107,667,583** representing **one (1.0) percent** of the total expenditure. This is far below the recommended ratio of at least 30 percent of the expenditure/revenue. Going forward, the government will prioritise payment in development. The expenditure in the county assembly occurred in refurbishing the old assembly while in the executive, the expenditure was incurred in veterinary services, in water, roads and in the health sector.

94. Expenditure on recurrent accounted for KShs.3,314,350,277 representing **30 percent** of the total expenditure. A larger percentage was on personnel emolument. Tables 2.5 and 2.6 presents the expenditure in development and recurrent per department respectively.

Table 2. 5: Development expenditure in the first half of FY 2022/23 by department

Department	Approved budget FY 2022/23 in KShs	Revised Budget FY 2023/24	Actual expenditure in the first quarter	Absorption rate (%) of the total revised budget
County Assembly	339,350,465	119,350,465	22,127,103	18.5
Office of the Governor and Deputy Governor	33,000,000	23,000,000	0	0
Public Service, County Administration and Public Participation	79,283,140	44,083,140	0	0
Finance, Economic Planning, and ICT Services	47,482,391	77,482,391	2,322,320	3.0
Agriculture, Livestock, Fisheries, and Cooperative Development	727,499,372	486,586,234	35,560,000	7.3
Water, Environment, Energy, Natural Resources, and Climate Change	286,325,419	177,325,425	13,764,200	7.8
Education, Technical Training, and Innovation	143,004,133	291,404,133	0	0
Medical Services, Public Health, and Sanitation	702,039,060	715,439,060	8,027,737	1.1
Lands, Physical Planning and Urban Development	96,550,049	101,550,049	0	0
Infrastructure, Roads, and Public Works	818,609,426	763,709,426	25,866,223	3.4
Trade, Tourism, Industry, and Marketing	84,518,374	127,414,293	0	0
Youth, Sports, Culture, Arts, and Social Services	73,663,329	103,663,329	0	0
Kisii Municipality	186,190,948	219,385,507	0	0
Ogembo Municipality	43,300,000	43,300,000		0
Total	3,660,816,106	3,293,693,452	107,667,583	3.3

95. Over the review period, the absorption rate of development stood at 3.3 percent of the revised development budget. The low absorption is because payment of the pending bills was momentarily stopped to allow scrutiny of the bills. Substantial amount is expected to be paid once the verification exercise is concluded. Most of the development items in the development budget are pending bills from the previous years.

Table 2. 6: Recurrent expenditure in the first half of FY 2022/23 by department

Department	Main Approved budget FY 2022/23 in KShs	Approved Revised budget FY 2022/23 KShs	Actual expenditure in the first quarter KShs	Absorption rate (%) of the total approved budget
County Assembly	1,344,649,046	1,390,629,982	322,321,062	23
Office of the Governor and Deputy Governor	449,225,082	412,125,082	153,547,191	37
Public Service, County Administration and Public Participation	467,663,991	473,513,991	245,083,000	52
Finance, Economic Planning, and ICT Services	1,032,499,436	931,430,675	497,137,643	53
Agriculture, Livestock, Fisheries, and Cooperative Development	414,252,401	310,857,401	142,883,814	46
Water, Environment, Energy, Natural Resources, and Climate Change	134,136,800	109,146,800	32,336,849	30
Education, Technical Training, and Innovation	554,846,157	438,441,157	284,204,827	65
Medical Services, Public Health, and Sanitation	3,200,143,517	3,109,730,553	1,361,817,077	44
Lands, Physical Planning and Urban Development	145,620,000	120,250,000	72,216,729	60
Infrastructure, Roads, and Public Works	200,422,555	186,132,555	73,991,392	40
Trade, Tourism, Industry, and Marketing	97,419,998	88,629,998	34,788,585	39
Youth, Sports, Culture, Arts, and Social Services	94,777,596	82,488,578	38,987,475	47
Kisii Municipality	112,996,000	161,585,271	55,034,633	34
Ogembo Municipality	5,200,000	5,200,000	0	0
Total	8,253,852,579	7,820,162,043	3,314,350,277	43

Source of Data: County Treasury

96. Overall absorption recurrent averaged at 43 percent of the revised budget. However, absorption in Lands, Education, Finance and Administration were above 50 percent. A huge amount of money was used in compensating employees. Table 2.7 presents a summary of personnel expenditure per department in the first half.

Table 2. 7: Summary of Personnel Emolument, Operation and Maintenance Expenditure per department in the first six months of FY 2022/23

Department	Personnel Emoluments Expenditure in KShs.	Operation and Maintenance Expenditure in KShs
County Assembly	166,161,984	156,159,078
Office of the Governor and Deputy Governor	128,399,490	25,147,701
Public Service, County Administration and Public Participation	240,824,362	4,258,638
Finance, Economic Planning, and ICT Services	261,632,960	235,504,683
Agriculture, Livestock, Fisheries, and Cooperative Development	127,003,814	15,880,000
Water, Environment, Energy, Natural Resources, and Climate Change	32,116,541	220,308
Education, Technical Training, and Innovation	284,204,827	0
Medical Services, Public Health, and Sanitation	1,249,872,900	111,944,177
Lands, Physical Planning and Urban Development	47,858,629	24,358,100
Infrastructure, Roads, and Public Works	67,335,514	6,655,878
Trade, Tourism, Industry, and Marketing	34,747,185	41,400
Youth, Sports, Culture, Arts, and Social Services	38,243,675	743,800
Kisii Municipality	30,206,566	24,828,067
Ogembo Municipality	0	0
Total	**2,708,608,447**	**605,741,830**

Source of Data: County Treasury

97. Over the last six months of the FY 2022/23, expenditure on personnel emoluments amounted to KShs.2,708,608,447 representing 82 percent of the total recurrent expenditure. The expenditure on personnel emolument represents 49 percent of the approved salaries for the whole year. However, most departments do not have adequate funds to cover for the next six months except for County assembly, water and Environment, Medical Services and Kisii Municipality. Going forward, a comprehensive analysis of the salaries will be done, and adequate funds allocated in the subsequent supplementary budgets to cover for the deficit. Table 2.8 presents the summary of personnel emolument expenditure in the first six months in FY 2022/23.

Table 2. 8: Summary of Personnel Emolument Expenditure in first six month against the approved budget

Department	Approved /(Revised) Budget FY 2022/23 KShs	Personnel Emoluments Expenditure in KShs.	Balance KShs.
County Assembly	550,655,607	166,161,984	384,493,623
Office of the Governor and Deputy Governor	209,545,082	128,399,490	81,145,592
Public Service, County Administration and Public Participation	407,363,991	240,824,362	166,539,629
Finance, Economic Planning, and ICT Services	451,172,993	261,632,960	189,540,033
Agriculture, Livestock, Fisheries, and Cooperative Development	251,616,493	127,003,814	124,612,679
Water, Environment, Energy, Natural Resources, and Climate Change	78,466,800	32,116,541	46,350,259
Education, Technical Training, and Innovation	417,076,157	284,204,827	132,871,330
Medical Services, Public Health, and Sanitation	2,749,204,081	1,249,872,900	1,499,331,181
Lands, Physical Planning and Urban Development	70,000,000	47,858,629	22,141,371
Infrastructure, Roads, and Public Works	115,632,555	67,335,514	48,297,041
Trade, Tourism, Industry, and Marketing	59,219,998	34,747,185	24,472,813
Youth, Sports, Culture, Arts, and Social Services	60,000,000	38,243,675	21,756,325
Kisii Municipality	96,500,000	30,206,566	66,293,434
Ogembo Municipality	0	0	0
Total	5,516,453,757	2,708,608,447	2,807,845,310

Source of Data: Compiled from County Treasury reports.

2.4 Fiscal Policy

98. The fiscal policy stance over the medium term aims at supporting the economic recovery agenda of the County Government through provision of core services, ensuring equity, and minimising costs through the elimination of duplication and inefficiencies, creation of employment opportunities and improving the general welfare of the people. To achieve this aspiration, the County Governments aims to reduce the pending bill from KShs.1,886,799,938 in December 2022 to less than **KShs 500** million in June 2023 and over the medium-term period. This will unlock funds for new projects and ensure circulation of money in the economy.

99. The fiscal policy will target to grow Own Source Revenues to **KShs. 1.2 billion** in the FY 2023/24 and to over KShs.2.1 billion over the medium term. To achieve this target, revenue from the hospitals, public health, liquor licensing, hire of plant and machineries, fisheries, ATC, and veterinary services will be channelled to the County Revenue Fund (CRF) account as provided for in Articles 207 of the Kenyan Constitution. Additionally, Revenue performance will be underpinned by the ongoing reforms in revenue collection through digital platforms and revenue administration.

100. To mobilise 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. The measures include:

i. Strengthening the Audit function in the revenue department.
ii. Enhanced arrears collection programme.
iii. Compliance level reviews with a focus on enforcement risk framework to support targeted enforcement.
iv. Identification and elimination of revenue administration gaps and stop revenue leakages, including leveraging information technology to improve collection efficiency, by use of third-party data.
v. Broadening the revenue base.
vi. Updating the valuation roll.

101. The fiscal policy also targets to reduce personnel emoluments to within the required threshold of 35 percent of the total revenue. To achieve this, the County Government will implement the county human resource audit report (remove ghost workers from the payroll, suspend employees with forged certificates and recover money earned irregularly) to unlock money for development activities.

2.5 Economic Outlook

102. Kisii County's economic growth prospects for the FY 2023/24 and over the medium term will largely be influenced by the national growth prospects, according to BPS (2023), the Kenyan economy is expected to grow by 5.5 percent in 2022 and recover in 2023 to 6.1 percent and maintain that momentum over the medium-term (in terms of fiscal years the economic growth is projected at 5.8 percent in the FY 2022/23 and 6.1 percent in the FY 2023/24). This growth will be supported by a broad-based private sector growth, including recoveries in agriculture while the public sector consolidates. From an expenditure perspective, private consumption is

expected to support aggregate demand, supported by the ongoing labour market recovery, improved consumer confidence, and resilient remittances.

103. The growth outlook will be reinforced by the Government's development agenda geared towards economic turnaround and inclusive growth. Special focus will be placed on increased employment, more equitable distribution of income, social security while also expanding the tax revenue base, and increased foreign exchange earnings.

104. The economic turnaround programme will seek to increase investments in at least five sectors envisaged to have the biggest impact on the economy as well as on household welfare. These include Agriculture; Micro, Small and Medium Enterprise (MSME); Housing and Settlement; Healthcare; and Digital Superhighway and Creative Industry. These sectors are key to the Kisii county economy given that it entirely relies on agriculture and trade (wholesale and Retail). Agriculture and MSMESs jointly contribute to over 82 percent of the Kisii County GCP.

105. In furtherance of the agenda on inclusive growth and innovation in Micro, Small, and Medium Enterprises (MSMEs), the National Government has launched the Hustlers Fund, as an intervention to correct market failure problems at the bottom of the pyramid. This program aims to lift those at the bottom of the pyramid through structured products in personal finance that includes savings, credit, insurance, and investment. The County Government has created a County Trade Credit Scheme to supplement the National Government effort. The fund will provide capital to the struggling MSMEs from the negative impact of COVID-19.

2.6 Risks to Economic Outlook

106. According to the BPS (2023), there are downside risks to this macroeconomic outlook emanating from national as well as external sources. On the national front, risks emanate from climate change resulting in unfavourable weather conditions. This could affect agricultural production and result in domestic inflationary pressures. Tea and vegetable production are likely to be adversely affected resulting in low earnings.

107. On the external front, uncertainties in the global economic outlook have also increased which could impact on the domestic economy. These risks include: the possible worsening of the Russia - Ukraine conflict which could heighten the risk of oil and commodity price volatility and elevated inflationary pressures; lingering effects of COVID-19 (coronavirus) pandemics; and global monetary policy tightening, especially in the United States, could increase volatility in the financial markets.

108. The upside risk to the domestic economy relates to faster than projected rebound in economic activities that would result in higher Government revenues

providing fiscal space that would support fiscal consolidation. The National 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 materialise.

109. At the level, the County Government is continually monitoring the climate change risk and taking appropriate measures to strengthen resilience in the economy. To cushion the county against the downsides of the risks, the County Government will continue to implement the Post COVID-19 Recovery Strategy to protect the lives and livelihoods of the residents. Implementation of the County priorities will unlock better growth, and positively impact the lives of people through job creation and poverty reduction.

CHAPTER THREE

RESOURCE ALLOCATION FRAMEWORK

3.1 Overview

110. The fiscal framework for the FY 2022/23 Budget is based on the Government's policy priorities set out in the FY 2023-24ADP and the County Post COVID-19 Economic Recovery Strategy. To support the recovery agenda, the County Government will continue with the fiscal consolidation plan by containing expenditures and enhancing mobilisation of revenues to reduce pending bills without compromising service delivery. Therefore, departments will have to adopt the culture of doing more with less than is available with a view to promoting sustainability and affordability.

111. Sustainability, affordability, and strict prioritisation 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 utilised; more outputs and outcomes are achieved with existing or lower levels of resources, and Department requests for resources are realistic and considered the resource constraints.

3.2 Revenue projection

112. 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 a revenue of KShs. 12.285billion, KShs.12.924billion, and KShs.13.074billion in FY 2023/24, FY 2024/25, and FY2025/26 respectively as illustrated in Table 3.1.

Table 3. 1: Projected Revenue over the Medium Term

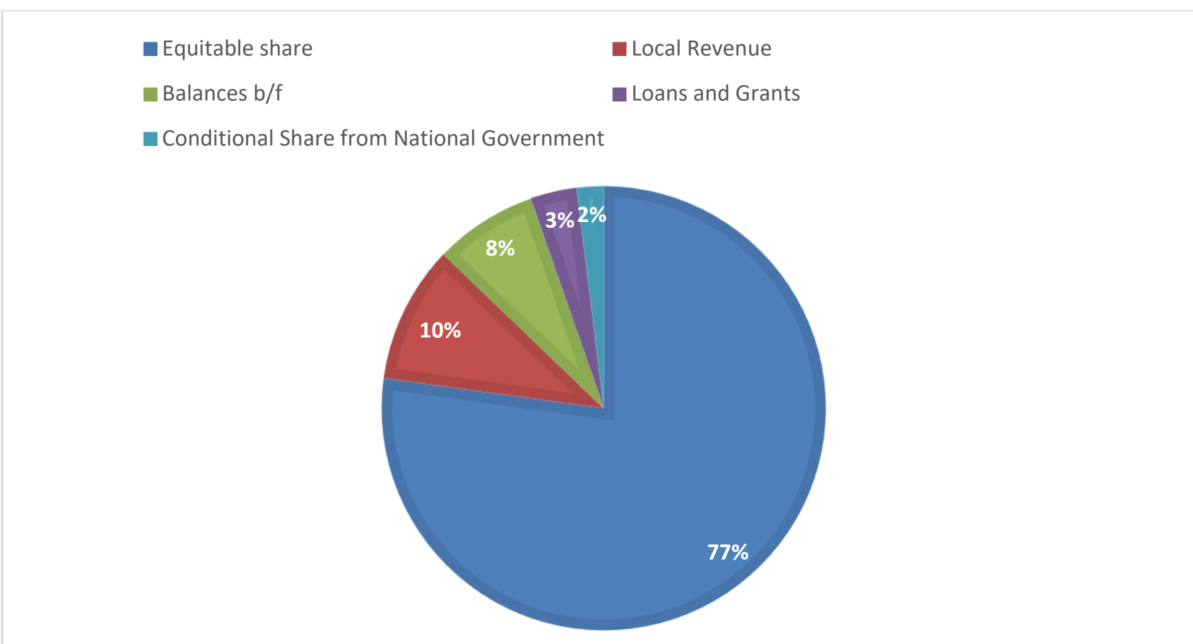
Revenue Stream	Main Approved Budget FY 2022/23 (KShs)	Approved Supplementary Budget FY 2022/23 (KShs)	Proposed Budget FY 2023/24 (KShs)	Projected (KShs)	
				FY 2024/25	FY 2025/26
Equitable Share	8,894,274,509	8,894,274,509	9,248,560,518	9,248,560,518	9,248,560,518
Loans and grants	475,228,755	301,793,207	403,648,936	392,648,936	392,648,936

Revenue Stream	Main Approved Budget FY 2022/23 (KShs)	Approved Supplementary Budget FY 2022/23 (KShs)	Proposed Budget FY 2023/24 (KShs)	Projected (KShs)	
				FY 2024/25	FY 2025/26
Conditional share/grand from NG	110,638,298	110,638,298	233,281,211	233,281,211	233,281,211
Unspent Balances from FY 2022/23	1,784,527,129	1,057,149,481	900,000,000	950,000,000	1,000,000,000
Own Source Revenue	650,000,000	750,000,000	1,200,000,000	2,100,000,000	2,200,000,000
Total	11,914,668,691	11,113,855,495	11,985,490,665	12,924,490,665	13,074,490,665

Source of Data: County Treasury

113. The figures for equitable share, loans and grants, and conditional share from the National Government are extracted from the 2023 BPS while the domestic revenue figure is based on the revenue projections underpinned by ongoing reforms in revenue administration. The unspent balances are projections from the County Treasury. Figure 3.1 presents the summary of revenue sources and their respective percentages.

Figure 3. 1: Percentages of Revenue Sources in FY 2023/24



Source: County Treasury

3.2.1 Equitable share

114. Equitable share forms the bulk of financing to the County. It accounts for 77 percent of the revenue. It increased by KShs.354, 286,009 representing a growth of 4.0 percent. The distribution of equitable shares is based on the third-generation formula by the CRA. Equitable share finances operations in the County Assembly, Executive, and Departments.

3.2.2 Own Source of Revenue (domestic revenue)

115. Locally generated revenue will account for 10 percent of the projected County revenue in the FY 2023/24 and 15 percent over the medium term. The County has a potential of raising over KShs.2.1billion according to the Comprehensive Own Source Revenue Potential and Tax Gap Report by Commission on Revenue Allocation (2022). Table 3.2 illustrates the OSR projection by main streams. However, it will take time for the strategies put in place to bear fruits, therefore the target for FY 2023/24 has been placed at KShs.1.2billion and KShs.2.1 billion, and KShs.2.2 billion in the FY 2024/25 and FY 2025/26 respectively.

Table 3. 2: Projected Revenue by Major Streams in FY 2023/24 and Potential Revenue by CRA

No	Revenue Stream	Proposed in FY 2023/24 million (KShs)	Potential in FY according to CRA report in million (KShs)
1	Property Rates	50	152.2
2	Building Plan approvals fees	70	37.3
3	Single Business Permits/Trading Licensing	120	268.1
4	Liquor Licensing fees	30	71.2
5	Advertising and Sign Boards fees	30	54.3
6	Parking fees	120	91.2
7	Agricultural Transportation fees (cess), veterinary services, Fisheries, and Revenue from ATC	20	247.8
8	Hospital and Public health Service fees	560	722.9
9	Market Trade Centres fees	60	107.6
10	Natural Resources Mining fees/trading fee (soapstone, ballast, logging, bricks etc.)	10	101.6
11	Environment and Conservancy Administration fees (solid waste management/collection fee from households, pollution-car wash, garages)	20	121.3
12	Administration fees and changes (application fees, hire of culture hall, hire of stadium, market plots rent, shop rent, house rent etc.)	10	107.3
13	Motor vehicles stickers, boda boda stickers	80	

No	Revenue Stream	Proposed in FY 2023/24 million (KShs)	Potential in FY according to CRA report in million (KShs)
14	Fines, penalties, and other forfeitures	10	15.7
15	Technical services/hire of plant and machineries, weight and measures, valuation fee, land transfers, sub-division, dispute resolution and boundary marking etc.)	10	92.1
	Total	**1200**	**2,190.6**

Source of Data: CRA report (2022)

3.2.4 Loans and Grants

116. The loans and grants account for 3 percent of the total revenue. The grants will specifically finance programmes in the Health Sector, Agriculture and Rural Development Sector, and in the Climate change programme. The loans and grants are presented in Table 3.3.

Table 3. 3: List of loans and grants

Item	Main Budget FY 2022/23 KShs	Approved Supplementary Budget FY 2022/23 KShs	Proposed Revenue FY 2023/24	Projected Revenue in KShs.	
				FY 2024/25	FY 2025/26
National Agricultural and Rural Inclusive Project (NARIP)	324,295,427	171,890,010	100,000,000	100,000,000	100,000,000
Agriculture Sector Development Support Programme (ASDSP)-SIDA	9,525,128	10,517,407	0	0	0
National Agricultural Value Chain Development Project (NAVCDP)-World Bank Credit	0	70,000,000	150,000,000	150,000,000	150,000,000
DANIDA	16,408,200	25,045,875	11,000,000	0	0
Kenya Urban Support Programme (KUSP)	0	2,339,915	0	0	0
Finance for Locally Led Climate Action Programme (FLLoCA)-County Climate	125,000,000	22,000,000	11,000,000	11,000,000	11,000,000

Item	Main Budget FY 2022/23 KShs	Approved Supplementary Budget FY 2022/23 KShs	Proposed Revenue FY 2023/24	Projected Revenue in KShs.	
				FY 2024/25	FY 2025/26
Institutional Support (CCIS) Grant					
Finance for Locally Led Climate Action Programme (FLLoCA)- County Climate Resilience Investment Grant	0	0	131,648,936	131,648,936	131,648,936
Total	**475,228,755**	**301,793,207**	**403,648,936**	**392,648,936**	**392,648,936**

Source of Data: Compiled using data from the County Treasury

3.2.5 Balances carried forward.

117. Balances carried forward will account for 8 percent of county revenue. It consists of unreleased funds from the exchequer and unspent balances at the CRF account. Under the provision of the PFM Act, 2012 and its regulations, unspent balances from the previous FY are re-budgeted in the following year. In this regard, the funds will be utilised in paying pending bills and June salary that is unlikely to be paid before the closure of the FY 2022/23.

3.2.6 Conditional Share from the National Government

118. This category will account for 2 percent of the total projected County revenue. It comprises allocation for industrial park, money for transfer of library services and lease of medical equipment. Lease of medical equipment money is normally deducted at source to pay for the medical equipment bought by the National Government on behalf of the counties. Table 3.4 presents the summary of conditional share from the National Government.

Table 3. 4: Summary of conditional share

Item	Main Budget FY 2022/23 KShs	Approved Supplementary Budget FY 2022/23 KShs	Proposed Revenue FY 2023/24	Projected Revenue in KShs.	
				FY 2024/25	FY 2025/26
Leasing of medical equipment	110,638,298	110,638,298	124,723,404	124,723,404	124,723,404
Industrial Park	0	0	100,000,000	100,000,000	100,000,000
Library Services	0	0	8,557,807	8,557,807	8,557,807

Total	110,638,298	110,638,298	233,281,211	233,281,211	233,281,211

3.3 Expenditure projection

119. The total expenditure in the forward budget is expected to expand by **7.8 percent** from **KShs.11.113 billion** in FY 2022/23 to **KShs.11.985 billion** in FY 2023/24. The expansion is due to increase in equitable share and own source revenue projection, loans and grants, and conditional share from the National Government. The expenditure in the forward budget is expected to be within the principle of fiscal responsibility of at least 30 percent of the expenditure going to development.

3.4 FY 2022/23 and Medium-Term Priorities

120. The Government is committed to implementing priority programmes under the County Integrated Development Plan (CIDP) 2022-2027 to achieve the aspirations of the residents in the realisation of Vision 2030 while considering the need to optimise the use of Own Source Revenue (OSR) and other resources during the period. The Government will in this regard develop a framework for better quality services based on strong links between resources, budgeting, monitoring, and clear expectations for delivering planned outcomes.

121. The FY 2023/24 and the Medium-Term Budget framework builds up on the County Government's efforts to stimulate and sustain economic activity, mitigate the adverse impact of COVID-19 pandemic on the economy and reposition the economy on a sustainable and inclusive growth trajectory. This will be achieved through implementation of programmes supporting economic recovery and additional priority programs of the Government.

122. These priorities notwithstanding, the Government will strive to ensure that public spending leads to high-quality outcomes within a sustainable and affordable framework. In this regard, spending will be directed towards the most critical needs of the county with the aim of achieving quality outputs and outcomes with existing or lower levels of resources. Further, the County Government will ensure departments' requests for resources are realistic and consider the resource constraints, considering the fiscal consolidation policy.

3.5 Budgetary Allocations for the FY 2022/23 and the Medium Term

123. The county Revenue will be shared among the two arms of the County Government namely the Executive and County Assembly. Allocations to the County Assembly and the Governor's offices are guided by the ceilings from the CRA.

124. While the allocation among the ten departments in the executive with a mandate of implementing projects that affect the public will be based on the criterion

discussed herein. Table 3.5 presents the ceilings for FY 2023/24 and the medium-term and details of economic classification are presented in Table 3.6. The baseline estimates reflect the current departmental spending levels in sector programmes. In the recurrent expenditure category, non-discretionary expenditures take the first charge. These include payment of pending bills, salaries for staff, and pensions.

125. Development allocation has been shared out based on the projects in the CIDP and the ADP priorities. The following criteria were used in apportioning the capital budget:

i. **Personnel Emoluments:** Salaries will take first charge.
ii. **Pending bills:** the emphasis was given to completed works that have not been paid for. It is now a requirement that departments must pay pending work before giving out new work.
iii. **On-going projects**: the emphasis was given to the completion of ongoing capital projects and in particular infrastructure projects with a high impact on poverty reduction, equity, and employment creation.
iv. **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.
v. **Post-COVID-19 Recovery**; Consideration was further given to interventions supporting Kisii County Post-Covid 19 Economic Recovery.
vi. **Strategic policy interventions**: further priority was given to policy interventions covering the entire county in the five priority areas.

Table 3. 5: Summary of Budget Allocations for the FY 2023/24 – 2025/26(KShs Million)

Institution	Approved Budget FY 2022/23 KShs	Approved Revised Budget FY 2022/23	Proposed Budget FY 2023/24 Million (KShs)	Projections in Million (KShs)	
				FY 2024/25	FY 2025/26
County Assembly	1,683,999,511	1,509,980,447	1,090	1,144	1,100
Office of the Governor and Deputy Governor	482,225,082	435,125,082	535	665	710
Public Service, County	546,947,131	517,597,131	775	780	680

Institution	Approved Budget FY 2022/23 KShs	Approved Revised Budget FY 2022/23	Proposed Budget FY 2023/24 Million (KShs)	Projections in Million (KShs)	
				FY 2024/25	FY 2025/26
Administration and Public Participation					
Finance, Economic Planning, and ICT Services	1,079,981,827	1,008,913,066	1,280	1,280	1,230
Agriculture, Livestock, Fisheries, and Cooperative Development	1,141,751,773	797,443,635	835	940	1,144
Water, Environment, Energy, Natural Resources, and Climate Change	420,462,225	286,472,225	557	572	750
Education, Technical Training, and Innovation	697,850,290	729,845,290	1,190	1,125	1,200
Medical Services, Public Health, and Sanitation	3,902,182,577	3,825,169,613	3,638	4,058	4,000
Lands, Physical Planning and Urban Development	242,170,049	221,800,049	350	365	250
Infrastructure, Roads, and Public Works	1,019,031,981	949,841,981	635	680	740
Trade, Tourism,	181,938,372	216,044,291	365	455	420

Institution	Approved Budget FY 2022/23 KShs	Approved Revised Budget FY 2022/23	Proposed Budget FY 2023/24 Million (KShs)	Projections in Million (KShs)	
				FY 2024/25	FY 2025/26
Industry, and Marketing					
Youth, Sports, Culture, Arts, and Social Services	168,440,925	186,151,907	310	330	400
Kisii Municipality	299,186,948	380,970,778	345	420	380
Ogembo Municipality	48,500,000	48,500,000	80	110	70
Total	**11,914,668,691**	**11,113,855,495**	**11,985**	**12,924**	**13,074**

Table 3. 6: Proposed sharing of funds by economic classification per department

Department	Proposed total Budget. FY 2023/24 (KShs) Million	Proposed Development (KShs) Million	Proposed Operation and Maintenance (KShs) Million	Proposed Personnel emolument (KShs) Million
County Assembly	1,090	150	380	560
Office of the Governor and Deputy Governor	535	135	150	250
Public Service, County Administration and Public Participation	775	200	85	490
Finance, Economic Planning, and ICT Services	1,280	200	550	530
Agriculture, Livestock, Fisheries, and Cooperative Development	835	500	65	270
Water, Environment, Energy, Natural Resources, and Climate Change	557	431	56	70
Education, Technical Training, and Innovation	1,190	255	260	675

Department	Proposed total Budget. FY 2023/24 (KShs) Million	Proposed Development (KShs) Million	Proposed Operation and Maintenance (KShs) Million	Proposed Personnel emolument (KShs) Million
Medical Services, Public Health, and Sanitation	3,638	419	619	2,600
Lands, Physical Planning and Urban Development	350	200	50	100
Infrastructure, Roads, and Public Works	635	450	45	140
Trade, Tourism, Industry, and Marketing	365	250	45	70
Youth, Sports, Culture, Arts, and Social Services	310	180	50	80
Kisii Municipality	345	230	50	65
Ogembo Municipality	80	60	10	10
Total	**11,985**	**3660**	**2415**	**5,910**

3.5.1 County Assembly

126. This department plays a key role in the implementation of development programmes in the County through representation, oversight, and legislation. It also plays the role of strengthening the democratic space and governance in the County. To this end, in the FY 2023/2024 the department has been allocated a total of **KShs.1.090 billion** to implement programmes where the bulk of the funds will be for recurrent expenditure, to cater for salaries for staff, allowances for MCAs, and for general office operation. The County Assembly will allocate KShs.150million to development to construct the new debating chamber, Speaker's residence, and selected ward offices. These are multiyear projects; hence they will be funded in phases over the medium term.

3.5.2 Executive (Governor's Office)

127. The office 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. It also plays a key role in inter-governmental relations and peacebuilding. In the FY 2023/24, the office of the Govern has been allocated a total of **KShs.535 million**. Development budget has been allocated **KShs.135million** for construction of the County Headquarter, Completion of the Governor's residence, construction of a perimeter wall around the County Public Service Offices.

3.5.3 Public Service, County Administration and Public Participation

128. 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 resources for efficient and effective service delivery. To enable it to discharge the above, the department has been allocated **KShs.775 million** in the FY 2023/234. Development budget has been allocated **KShs.200 million** to complete/construct sub-county offices, ward offices, pit latrines, fencing of offices, equipping, construction of houses to vulnerable families, provision of water tanks to women, supply of umbrella to traders, provision of food relief to vulnerable families, and provision of meals in ECDE centres through school feeding programme.

3.5.4 Finance, Economic Planning, and ICT

129. This department is mandated to provide overall leadership and policy direction in resource mobilisation, management, and accountability for quality public service delivery. Strategies to attain the overall goal include strengthening the directorate of Monitoring and Evaluation, continuous training of staff on e-Procurement and adherence to the provisions of the PFM Act, Participatory planning and budgeting as well as mainstreaming cross-cutting issues to planning and budgeting, purchasing insurance policies for all County assets and purchasing motor vehicles. To achieve this, in the FY 2023/2024, the department has been allocated **KShs 1.280** billion. Development budget has been allocated **KShs.200 million** for expansion of ICT infrastructure, digitising government services and automation of OSR. Part of the operation and maintenance funds will pay NHIF super cover for all county employees, insurance for motor vehicles and office building, Plant and Machinery, staff mortgage, and emergency fund.

3.3.5 Agriculture, Livestock, Fisheries and Cooperative Development

130. The department is mandated to carry out crop and animal husbandry, 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. The sector contributes over 70 percent of the county's income directly and indirectly. The challenges facing the sector include competing land uses, fragmentation of land, uncertified seeds, adverse weather conditions, poor marketing, and lack of access to credit.

131. The sector aims to address the above challenges by raising agricultural productivity through improvement in the provision of extension services, improving livestock and crop breeds through subsidised husbandry services and promoting sustainable management of fisheries and Cooperatives. To achieve the above targets, **KShs 835 million** has been allocated for the sector in the 2023/2024 budget.

Development has been allocated **KShs.500 million** including **KShs.250 million** loans and Grants from World Bank to finance National Agricultural Value Chain Development Project (NAVCDP) and NARIP.

3.3.6 Water, Environment, Natural Resources, Energy, and Climate Change

132. 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.

133. The department envisions encouraging the usage of green energy and supplying clean and safe drinking water through rehabilitation and expansion of the existing water schemes, spring protection, drilling boreholes, and 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, planting of trees, and carrying out Climate Change activities. To achieve its objective, the sector has been allocated **KShs. 557 million** in FY 2023/2024. A total of KShs.431million has been earmarked for development purposes out of which **KShs.131 million** is a grant from World Bank. The operation and maintenance amount are inclusive of a World Bank grant under FLLoCA of **KShs. 11 million** for institutional support in climate change action.

3.3.7 Infrastructure and Public Works

134. The sector is a key enabler for sustained development of the economy through the provision of the necessary infrastructure. To provide the infrastructure, the sector will construct roads, maintain roads, construct footbridges, and supervise buildings among others. The sector faces a few challenges that limit its optimal operations, including inadequate road construction equipment, topographical problem, and encroached road reserves, continuous heavy rains which destroy roads and sweep culverts among others.

135. The total budget estimate for the sector is **KShs 635 million** in FY 2023/2024 out of which **KShs.450million** will be for development, mainly maintenance of existing roads. It is expected that every ward will get **KShs.7million** for road maintenance, **KShs.50 million** for county roads, **KShs.50million** for construction of bus parks, and **KShs.35 million** for footbridges.

3.3.8 Medical Service, Public Health, and Sanitation

136. The department is responsible for providing equitable and affordable health care to the County residents. To achieve this, the department will construct and

equip the health facilities within the County, provide ambulatory services, purchase of pharmaceutical and non-pharmaceutical supplies, and develop health human resources among others. To achieve the above the department has been allocated **KShs 3.638 billion** in FY 2023/2024. A total of **KShs.419 million** has been earmarked for development purposes, the figure includes **KShs 124 million** for lease of medical equipment. The recurrent amount includes a conditional share of **KShs.11million** from DANIDA and a maximum of **KShs.500million** for facility improvement fund (FIF). However, the amount to FIF will depend on the amount raised. The fund will be used to purchase drugs among other things.

3.3.9 Trade, Tourism, Industry, and Marketing

137. This department is responsible for market development, industrial promotion, promotion of tourism development, creating an environment conducive to investment, and establishment of the County Trade Scheme.

138. To achieve these goals, the County Government has allocated **KShs 365** in FY 2023/2024. Development has been allocated **KShs.250million** for the construction of market shades, construction of retail markets, construction of toilets, establishment of industrial park and Trade Credit Scheme.

3.5.10 Education, Technical Training, and Innovation.

139. 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 a competitive labour force. The sector faces many challenges including inadequate Infrastructure, learning materials, and staff.

140. In the FY 2023/2024, the sector intends to put up more ECD centres, purchase learning materials and construct necessary facilities for ECD centres. For vocational training centres (village polytechnics), the County Government intends to construct workshops, purchase tools, absorb caregivers/ECDE teachers into a permanent and pension scheme, provide meals in ECDE centres, and provide a bursary to needy students. To this end, the sector has been allocated **KShs 1.190billion** in FY 2023/2024. Operation and maintenance have been allocated **KShs.260 million** out of which **KShs.225 million** will be used to advance bursary to need students, initiation of digital learning and school feeding programme.

3.5.11 Lands, Physical Planning and Urban Development

141. The department is responsible for the preparation of physical development plans (PDPs) and spatial plans, street lighting programmes, solid waste management, construction, and maintenance of urban roads, beaconing of public land, and aid in dispute resolution of land-related matters. To achieve the above targets, in FY

2023/2024, the sector has been allocated **KShs**. **350 million** out of which KShs.200 million will be used for development, mainly to construct roads and drainage in major towns, development of County Spatial Plan and revision of valuation roll. A total of KShs.30million under operation and maintenance will be used to manage solid wastes.

3.5.12 Youth, Sports, Culture, Arts, and Social Services

142. 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 construction/refurbishment of sports facilities. Though some of the programmes are executed by the National Government, the County Government is undertaking them for the well-being of the residents.

143. To achieve the above targets, the sector has been allocated **KShs. 310 million** in FY 2023/2024 out of which **KShs.180million** will be used for development purposes. Development programmes will include construction of social halls, playground, construction of children rescue centre, and equipping of libraries. Under recurrent, **KShs. 10 million** will be used to promote sporting activities, **KShs.10million** to promote cultural activities, **KShs.5million** to assorted supportive items for people living with disability, and **KShs.5million** to purchase tanks for women and purchase of umbrellas for traders.

3.5.13 Kisii Municipality

144. This is a sub-department in charge of the management of Kisii Municipality through the provision of services and infrastructure for the municipal residents. Some of the services provided include the construction of walkways and backstreet roads, 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, organise the transport system, and major streets in the municipality.

145. To achieve the above targets, in the FY 203/2024 budget, the sector has been allocated **KShs 345 million** out of which, **KShs.230million** will be used for development purposes and **KShs.35million** under operation and maintenance will be used to manage solid waste.

3.5.14 Ogembo Municipality

146. The Ogembo Municipality has been allocated **KShs.80 million** in the FY 2023/24 out of which **KShs.60 million** will be used for infrastructure and management of solid wastes.

CHAPTER FOUR

FINANCIAL MANAGEMENT

4.1 Compliance with fiscal responsibility principle

147. In line with the Constitution, the Public Finance Management (PFM) Act, 2012, and the PFM County Government Regulations, 2015, and in keeping with prudent and transparent management of public resources, the Government has adhered to the fiscal responsibility principles as set out in the statute as follows:

a) Development ratio

148. Consistent with the requirements of the law, the County Government's allocation to development expenditures has been above 30 percent of its Departmental expenditures. In the FY 2023/24, development has been allocated a total of **KShs.3.66 billion** out of a total budget of **KShs. 11.985 billion** represents 30.0 percent of the total budget. This is an improvement from **KShs.3.293 billion** allocated in the FY 2022/23 revised budget representing 29.6 percent of the total revised budget. However, absorption in development expenditure over the years has been below the required threshold. Table 4.1 presents expenditures on development in the recent past.

Table 4. 1: Development Expenditures as a Percent of Total County Government Budget and actual expenditure in FY 2018/19-2023/24

FY	Total Budget Million KShs.	Dev. Allocation million KShs.	% of Dev. to budget	Total Exp. million KShs.	Exp on dev. million KShs.	% of Dev. Exp. to total exp
FY 2018/19	11,878	4,039	34.0	9,562	2,285	23.9
FY 2019/20	12,926	4,167	32.2	9,444	2,544	26.9
FY 2020/21	12,671	4,049	32.0	10,779	2,595	24.1
FY 2021/22	12,591	3,965	31.5	9,590	2,080	21.7
FY 2022/23	11,113	3,294	29.6			
FY 2023/24	11,985	3,660	30.5			

149. Going forward, the County Government will prioritise payment in development in expenditure to ensure compliance with the fiscal responsibility.

b) Personnel Emoluments ratio

150. The law requires that the County Government's expenditure on the compensation of employees (including benefits and allowances) shall not exceed 35 percent of the County Government's equitable share of the revenue plus other revenues generated by the County Government under Article 209 (4) of the Constitution. The County is in the process of conforming to this regulation. The County Government's share of wages and benefits to revenues was 55.5 percent in the FY 2021/22 and is projected at 49.6 and 49.3 percent in the FY 2022/23 and FY 2023/24 respectively.

151. Going forward, the County Government will implement human resource audit recommendations that are geared towards reducing the wage bill in the County. Therefore, in the FY 2023/24 and over the medium term, personnel emolument is projected to decline to 40 percent and 35 percent in the FY 2023/24 and FY2024/25 respectively. Table 4.2 presents the trend of personnel emoluments over the years.

Table 4. 2: Salaries and wages as a percentage of County expenditure.

Financial Year	**Personnel Emolument (KShs)**	**Total Expenditure (KShs)**	**Percentage of Personnel Emoluments over the total expenditure (KShs)**
2013/14	2,180,529,367	4,768,837,893	45.7
2014/15	3,153,150,000	6,540,000,000	48.2
2015/16	3,564,678,554	7,940,449,048	44.9
2016/17	4,148,352,797	7,985,608,570	51.9
2017/18	4,755,348,686	8,582,978,655	55.4
2018/19	4,970,075,151	9,561,759,161	52
2019/20	4,911,563,254	9,444,226,902	52
2020/21	5,428,126,282	9,779,271,222	55.5
2021/22	5,702,631,700	9,591,506,763	59.5
2022/23	5,516,453,757	11,113,855,495	49.6***
2023/24	5,910,000,000	11,985,000,000	49.3***

Source of Data: County Treasury.

**** Estimated expenditure based on budget*

c) Operation and Maintenance ratio

152. The law requires that the County Government's expenditure on recurrent activities shall not exceed 70 percent of the County Government 's total revenue. In conformity to this regulation, the County Government's recurrent expenditure for the FY 2023/24 has been estimated at KShs.8.325billion representing 69.45percent of the

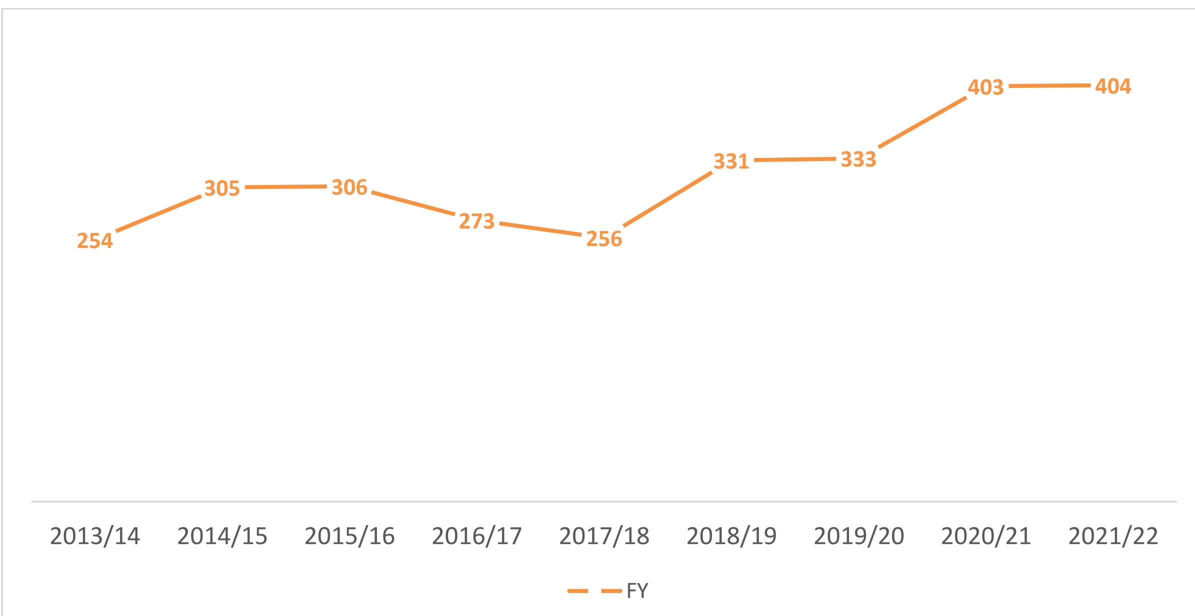
total revenue. This is an improvement from KShs. 7.820 billion in the FY 2022/23 representing 70.4 percent of the total revised budget. In the FY 2021/22, recurrent expenditure amounted to KShs.7.71billion accounting for 80.4 percent of the total expenditure.

153. The ratio is expected to improve from 69.45 percent in FY 2023/24 to 60.0 percent over the medium term owing to the strategies put in place among them revenue enhancement and austerity measures on operation and maintenance expenditure.

4.2 Own Source Revenue performance

154. Despite disruptions caused by the 2022 general election and COVID-19 pandemic negative impact, OSR recorded growth. County Governments collected a total of KShs 404 million in Own Source Revenue (OSR) against an annual target of KShs.700million in the FY 2021/22 representing 57.7 percent of targeted revenue. The revenue recorded a growth of 0.25 percent from KShs.403 raised in FY 2020/21. Figure 4.1 presents the summary of revenue performance over the years and Table 4.3 presents the comparison of targets against the actuals over the years.

Figure 4. 1: Own Source Revenue trend in millions



Source: County Treasury

Table 4. 3: Revenue performance over the years.

FY	Amount approved. KShs	Actual amount raised. KShs.	% of the amount raised
2013/14	654,720,252	254,246,635	38.8
2014/15	630,000,000	305,553,548	48.6
2015/16	700,000,000	306,129,638	43.7
2016/17	725,000,000	273,316,074	37.7
2017/18	950,000,000	256,280,000	27.0
2018/19	950,000,000	330,969,208	34.8
2019/20	870,000,000	333,151,175	38.3
2020/21	650,000,000	403,001,860	62.0
2021/22	700,000,000	404,554,620	57.7

Source: County Treasury

155. The amount raised is exclusive of revenue from hospitals which is estimated at KShs.550million, revenue from liquor licensing, revenue from the veterinary services, revenue from hire of plant and machineries among others. With all these revenues combined, Kisii County has a potential of raising over KShs.2.1 billion in any given financial year. However, this requires strategies that are likely to take time before the benefits are realised. Among the strategies proposed to enhance revenue collection are revision of valuation roll and automation of all revenue streams.

4.3 Pending Bills

156. The Public Finance Management Act, 2012, provides for mechanisms to assess and determine financial problems encountered by County government entities. Section 94 (1) (a) of the PFM Act, 2012, identifies as a material breach failure to make any payments as and when due by a State organ or a public entity. As of 31st December 2022, according to the County Treasury records, County had an outstanding bill of KShs.1.886 billion distributed across the departments as shown in Table 4.4.

Table 4. 4: Distribution of pending bills by departments as of 31st December 2022

No	Department	Development Pending bills in KShs	Recurrent Pending bills in KShs	Outstanding Pending Bills Amount As at 31st December 2022
1	Public Service, County Administration and Participatory Development	45,410,831	33,206,061	78,616,892

No	Department	Development Pending bills in KShs	Recurrent Pending bills in KShs	Outstanding Pending Bills Amount As at 31st December 2022
2	Trade, Tourism, Industry and Marketing	10,626,729	27,613,363	38,240,092
3	Water, Environment, Natural Resources and Climate Change	62,259,101	30,640,034	92,899,135
4	Agriculture, Fisheries, Livestock Development, and Cooperative Development	59,502,344	44,846,962	104,349,306
5	Lands, Physical Planning, Housing and Urban Development	49,143,035	21,317,770	70,460,805
6	County Executive	22,719,911	34,785,030	57,504,941
7	Medical Services, Public Health, and Sanitation	33,559,446	23,333,632	56,893,078
8	Youth, Sports, Culture, Arts and Special Services	50,937,511	4,259,152	55,196,663
9	Finance, Economic Planning, and ICT Services	2,322,320	69,1659,040	693,981,360
10	Infrastructure, Energy and Public works	554,123,769	16,721,183	570,844,952
11	Kisii Municipality	25,241,567	8,633,130	33,874,697
12	Education, Technical Training, Innovation and Social Services	31,692,268	2,245,749	33,938,017
	Total	947,538,832	939,261,106	1,886,799,938

Sources of data: County treasury

157. Development accounted for 50.2 percent of the total amount of pending bills. Finance, Economic Planning, and ICT Services has the highest share of recurrent at KShs.693 million representing 36.7 percent of the total pending bill value of which the bulk of the money is contributions to pension schemes. Section 25 (d) of the PFM Act 2012 regulations requires counties to maintain public debt at 20% of the total County revenue at any time. Going forward, the County Government will pay genuine bills by 31st June 2023 to unlock funds for implementation of new projects in the FY 2023/24 and ensure that the debt is within the required threshold.