COUNTY GOVERNMENT OF KISII

COUNTY TREASURY

MEDIUM TERM

FISCAL STRATEGY PAPER

“Inclusive Growth for Improved Livelihood’’

FEBRUARY 2025

LEGAL BASIS

The Kisii County Fiscal Strategy Paper is prepared in accordance with Section 117 of the Public Finance Management Act, 2012. The law states that:—

1) The County Treasury shall prepare and submit to the County Executive Committee the County Fiscal Strategy Paper for approval and the County Treasury shall submit the approved Fiscal Strategy Paper to the County Assembly by the 28th February of each year;

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

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

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

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

(a) The Commission on Revenue Allocation;

(b) The public;

(c) Any interested persons or groups; and

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

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

7.) The County Treasury shall consider any recommendations made by the county assembly

FISCAL RESPONSIBILITY PRINCIPLES

In line with the Constitution, the Public Finance Management Act, 2012, sets out the fiscal responsibility principles to ensure prudent and transparent management of public resources. The PFM Act (Section 107) (2) which states that:

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

(3) Which states that for the purpose of sub section (2) (d), short term borrowing shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited county government revenue?

(4) Every County Government shall ensure that its level of debt at any particular time does not exceed a percentage of its annual revenue specified in respect of each financial year by a resolution of the County Assembly.

(5) The regulations may add to the list of fiscal responsibility principles set out in sub-section (2)

FOREWORD

The development of the County Fiscal Strategy Paper (CFSP) is one of the key stages in the budget preparation cycle. It sets out the county policy goals and strategic priorities that will form the basis for county's budget formulation for the Financial Year 2025/2026 and the Medium-Term projections. This is an annual planning document that shows the various fiscal strategies that the County Government will employ to meet its overall objective of improved livelihoods for the citizens.

The County priorities and goals outlined in this CFSP are drawn from the County Integrated Development Plan (CIDP 2023-2027) and the FY 2025/2026 Annual Development Plan (ADP) with emphasis on investment in: wealth creation, Social Development, Environmental conservation, ICT and Infrastructure and Governance and devolution. These priorities form key linkage between the county planning policies and the budget process and form the basis for the formulation of 2025/2026 FY budget estimate.

In compliance with the mandate bestowed on the County governments by the Constitution, Kisii County Government is dedicated to prudently utilize the available resources and enhancing fiscal discipline so as improve the living standards of its citizens. The County Government will work on the improved macro-economic environment to overcome development and fiscal challenges and the various interrelationship challenges within the national and county governance structures. The County Government will promote value addition, investment on infrastructure and support especially the small and medium enterprises so as to expand employment opportunities. Over the years, we have learned the need to lay a firm financial base for the County Government through the minimization of debt and maximization of revenues. We intend to achieve this with the CFSP (2025/2026) and the budget estimates to be drawn from the strategy paper.

Considering the above fiscal consolidation plan, the expenditure ceilings in this County Fiscal Strategy Paper have been revised to reflect emerging realities. In this regard, all proposed departmental budgets for FY 2025/26 will be scrutinized to ensure quality and alignment to the County Government Development Agenda as outlined in the Annual Development Plan and other strategic interventions of county interest. I therefore, call upon all County departments to adhere to the hard sector ceilings, and the strict deadlines provided in this document to facilitate the finalization of the FY 2025/26 and the medium-term budget proposals.

KENNEDY OKEMWA ABINCHA
COUNTY EXECUTIVE COMMITTEE MEMBER, FINANCE, ECONOMIC PLANNING AND ICT

ACKNOWLEDGEMENT

The County Fiscal Strategy Paper is prepared in accordance with section 117(1) of the Public Finance Management (PFM) Act, 2012.The paper outlines the broad strategic priorities and policy goals, linkage with the national objectives in the Budget Policy Statement and the financial outlook with respect to county government revenues and spending plans for the Financial Year 2025/2026 and the medium term. The document is expected to improve the public’s understanding of County’s public finances and guide public debate on economic and development matters.

The preparation of the fiscal strategy paper was a collaborative effort among various county departments. We are grateful for their inputs. We thank all the spending units and agencies for timely provision of information. We are extremely grateful to a core team of economists under the guidance of the Director for Budget for spending substantial amount of time consolidating this document to ensure timely provision of the much needed information.

We cannot forget the role of members of the public, Civil Society Organizations, Private sectors, CBEF members and well-wishers for their contributions during the public fora held across the County between 19th, and 21st February, 2025.Their contributions provided inputs to this Strategy Paper.

CONRAD OWINO
Ag. CHIEF OFFICER, ECONOMIC PLANNING AND ICT SERVICES

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ABBREVIATIONS

AIDS	Acquired Immune Deficiency Syndrome
ARV	Antiretroviral
CA	County Assembly
CIDP	County Integrated Development Plan
ECD	Early Childhood Education
FSP	Fiscal Strategy Paper
FY	Financial Year
GDP	Gross Domestic Product
HIV	Human Immune Virus
IFMIS	Integrated Financial Management System
KCG	Kisii County Government
KCIDP	Kisii County Integrated Development Plan
MTEF	Medium Term Framework
MTP	Medium Term Plan
NEMA	National Environment Management Authority
PLWDs	People Living With Disability
SACCO	Savings and Credit Cooperative Society
SMEs	Small and Medium Enterprises
CDF	Constituency Development Fund
CPI	Consumer Price Index
ICT	Information Communication Technology

CHAPTER ONE

1. INTRODUCTION AND BACKGROUND INFORMATION

1.1. Overview

1. The 2025 Fiscal Strategy Paper (FSP) identifies the broad strategic priorities and policy goals that will guide the County Government in preparing its budget for Financial Year (FY) 2025/2026 and the Medium Term.

2. The paper discusses the performance of the FY 2024/2025 budget up to 31st December, 2024 which forms the basis for projecting the financial outlook with respect to the County Government revenues and expenditures for FY 2025/2026 and over the Medium Term.

3. The County priorities outlined in this paper shall form the basis for the formulation of FY 2025/2026 budget and the Medium Term. The framework ensures adherence to principles of public finance and fiscal responsibility principles as set out in the Constitution and the Public Finance Management Act 2012. Specifically, this FSP lays emphasis on adherence to the 30:70 ratio requirements for Recurrent and Development expenditures respectively. It further outlines funding sources i.e. from the equitable share, Own Source Revenue (OSR), conditional allocations from the National Government and revenue from the development partners in form of loans and grants.

4. Broadly, this FSP covers the following: review of the fiscal performance of first half of the FY 2024/2025; highlights of the recent economic developments and economic outlook; strategic priorities and policies for FY 2025/2026 as spelt out in the Annual Development Plan in line with the County Integrated Development Plan (CIDP) 2023-2027 and the fiscal and budget framework and the medium term expenditure framework..

5. The strategic priorities outlined in the paper are in line with those set out in the Annual Development Plan FY 2025/2026 namely:

a) Wealth Creation

b) Social Development

c) Enablers and ICT

d) Environmental Conservation

e) Devolution and Governance

6. The focus of this paper and Medium Term Plan is to expand and maintain roads and ICT infrastructure development specifically roads network in the county, increase employment and investment opportunities through infrastructure in municipalities and other urban areas, expand health infrastructure, enhance environmental mitigation and adaptation measures, increase water reticulation and improve governance in the County.

7. This Fiscal Strategy Paper articulates economic policies and structural reforms as well as sector based expenditure programmes to be pursued by the County Government towards the achievement of its development agenda. Specifically, it emphasizes on continued shift of resources in favour of programmes that enhance development and wealth creation in the County. The proposed fiscal framework in this paper ensures continued fiscal discipline and provides support for broad based development and employment growth.

8. The fiscal framework outlined in this Fiscal Strategy Paper calls for greater fiscal discipline and alignment of resources towards strategic priority areas. In particular, vigilance in expenditure control and clear focus on core mandates by County departments will undertake. Thus, in preparing the 2025/2026 budget, departments will be expected to identify alternative funding sources to supplement the County government's funding of targeted projects and programmes.

9. The County Government will continue creating enabling environment to attract investors. This is meant to set the pace for faster socio-economic development and sustainable growth through public private partnerships (PPPs).

1.2. Objective

10. The objective of the 2025 Fiscal Strategy Paper is to set the base for formulation of FY 2025/2026 County budget. Section 117 of the Public Finance Management Act, 2012 stipulates that each County Treasury shall prepare and submit to the County Executive Committee the Fiscal Strategy Paper for approval, and the County Treasury shall submit the approved Fiscal Strategy Paper to the County Assembly by the 28th February of each year. This Fiscal Strategy Paper contains the following:

- The principles that will guide the 2025/2026 budgetary process;
- The broad fiscal parameters for the 2025/2026 budget and the key strategies and policies for management of revenues and expenditures;
- The broad strategic priorities and policy goals that will guide the preparation of the budget over the medium term;

- A discussion of risks to the budget parameters and budget strategies;
- The medium–term outlook for County Government revenues and expenditures;
- A discussion of how the budget strategies relates to the County priorities as drawn from the County Integrated Development Plan (CIDP); and
- A framework for the preparation of departmental forward budget estimates and the development of detailed budget policies.

1.3. Outline of the 2025/26 Fiscal Strategy Paper

11. The Fiscal Strategy Paper is presented in four Chapters. Chapter one provides the overview and objectives while Chapter Two outlines the economic context within which the 2025/2026 budget will be prepared. It also presents an overview of the recent economic developments and the macroeconomic outlook and risks.

12. Chapter Three, details the Fiscal Policy and Budget Framework that will support planned county development over the medium through the identified County priorities.

13. Chapter Four presents the resource envelope and spending priorities for the proposed FY 2025/2026 budget and medium term.

CHAPTER TWO

2. RECENT ECONOMIC DEVELOPMENT AND MEDIUM-TERM OUTLOOK

Overview

14. The global economy has stabilized, with growth projected at 3.2% in 2024 and 2025, slightly lower than 3.3% in 2023 and below the 2000-2019 historical average of 3.8%. This outlook is supported by easing inflation and supply chain constraints. Growth remains stable in advanced economies at 1.8% and in emerging markets and developing economies at 4.2%, though with variations across countries. Sub-Saharan Africa's growth is expected to rebound to 4.2% in 2025 from 3.6% in 2023-2024, driven by improved economic activity as weather-related shocks subside.

15. Key risks to global growth include inflationary pressures from geopolitical tensions; financial market volatility with adverse effects on sovereign debt markets; a potential slowdown in China, and rising protectionism and reduced market efficiency, which could disrupt trade and supply chains.

2.1 Recent Economic Development

16. In 2024, the Kenyan economy demonstrated resilience, maintaining an average growth rate of 4.5% in the first three quarters, despite a slowdown from 5.6% in 2023. This growth was primarily driven by a strong agricultural sector, a gradual recovery in manufacturing, and the continued strength of the services sector. Agriculture remained a key pillar of economic performance, expanding by 6.1% in the first quarter, 4.8% in the second, and 4.2% in the third. Favorable weather conditions and government interventions aimed at reducing production costs played a crucial role in sustaining this growth. However, the sector faced setbacks between March and June, when heavy rains and floods led to significant livestock losses and cropland destruction.

17. Meanwhile, the manufacturing sector, which accounts for nearly half of the industrial sector's output, experienced notable growth in food production, while non-food manufacturing showed mixed performance. Despite these fluctuations, the sector remained a key driver of economic stability. The industrial sector experienced subdued growth, averaging 0.8% in the first three quarters of 2024 (1.0% in Q1, 0.8% in Q2, and 0.6% in Q3). This slowdown was driven by reduced electricity and water supply due to lower geothermal, wind, and solar power generation, as well as a decline in construction activity following a slowdown in public infrastructure projects.

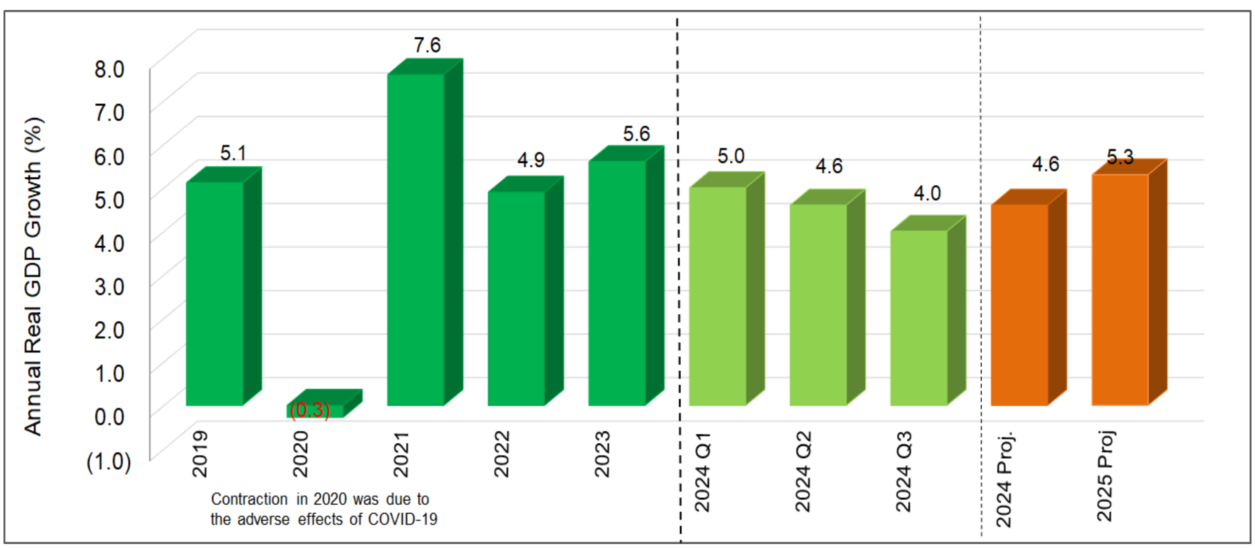
18. The services sector maintained strong growth in the first three quarters of 2024, averaging 5.6% (6.2% in Q1, 5.3% in Q2, and 5.3% in Q3). Growth was driven by accommodation and food services, financial and insurance, ICT, real estate, and trade. The

hospitality sector benefited from high-profile international conferences in Nairobi (April–June) that attracted a number of participants, while the ICT sector saw increased voice traffic, internet use, and mobile money transactions, despite a decline in the use of domestic Short Messaging Services (SMSs).

19. Overall, Kenya's real Gross Domestic Product (GDP) grew by 5.6% in 2023, up from a revised growth of 4.9% in 2022 as per the Economic Survey 2024. It is projected to expand by 4.6% in 2024 and rebound to 5.3% in 2025 due to expansion of key sectors of the economy, on the background of a slowdown in private sector credit growth. These projections will mainly be supported by: a rebound in agricultural activities that had contracted in 2022 and implementation of more BETA activities in 2024 and 2025; a robust services sector and recovery of manufacturing sector; robust agricultural productivity and improvement in exports. The outlook will be reinforced by implementation of policies and reforms under the priority sectors of the Bottom-Up Economic Transformation Agenda (BETA) and improvement in aggregate demand. Additionally, implementation of prudent fiscal and monetary policies will continue to support economic activity.

Figure 2.1 presents the annual growth rate trend from 2016 to 2022 and projections for 2024 and 2025.

Figure 2.1: Annual Real GDP growth rates from 2016-2022



Data source: KNBS (Various), Draft BPS, 2025

2.1.1 Gross County Performance (Gross Value Addition & Gross County Product) and Contribution to GDP

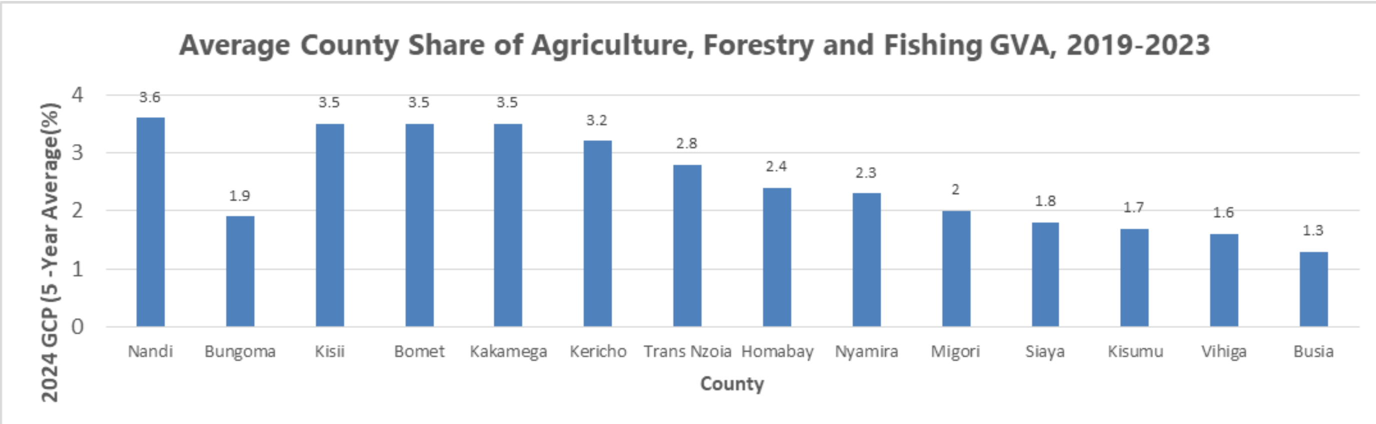
20. The Gross County Product (GCP) 2024 report highlights the economic contributions of Kenya's counties, showing that Nairobi (27.5%), Kiambu (5.6%), Nakuru (5.2%), and Mombasa (4.8%) lead in GVA contribution, while most counties (33) contribute less than 2% each. Commercial hubs, population density, and agriculture play key roles in county economic performance.

21. The agricultural sector, contributing 21.6% of GDP, remains a major driver of county economies. Meru, Nakuru, Nyandarua, Murang'a, and Kiambu lead in diverse agricultural production, while Murang'a, Nandi, Kisii, Kericho, and Kiambu dominate tea farming. Bungoma, Narok, Trans Nzoia, and Uasin Gishu are major grain producers, contributing 15.9% to agricultural GVA. Fishing activities in Homa Bay, Kisumu, Siaya, Mombasa, and Marsabit account for 6.5% of agricultural GVA.

22. In Kisii County, agriculture remains a key economic pillar contributing to the County's GCP, contributing an average of 42.14% to the county's Gross Value Added (GVA) driven by bananas, tea, and dairy farming, benefiting from a national rebound in agricultural output. The Agriculture sector also serves as the primary employer in the county, accounting for approximately 72.96% of the workforce. The service sector, retail, health, and education sectors are emerging as areas of potential growth, showcasing potential for diversification beyond agriculture. Lower contributions by the manufacturing sector suggest an opportunity for investment in agro-processing industries to add value to local agricultural products.

23. Figure 2.2 shows that agriculture contributed 21.6% to GDP from 2019-2023, with counties like Meru, Nakuru, Nyandarua, Murang'a, and Kiambu leading in diverse agricultural production. However, 25 counties contributed less than 2% each to agricultural GVA. Grain farming counties, such as Bungoma and Uasin Gishu, contributed 15.9%, while the fishing industry had a smaller impact compared to crop and animal production, counties with significant fishing activities, including Homa Bay, Kisumu, Siaya, Mombasa, and Marsabit, contributed 6.5% to the total agricultural GVA. This demonstrates the role of fishing in the broader agricultural economy, despite its more limited contribution compared to other sectors.

Figure 2.2: Average County Share of Agriculture, Forestry and Fishing GVA, 2019-2023



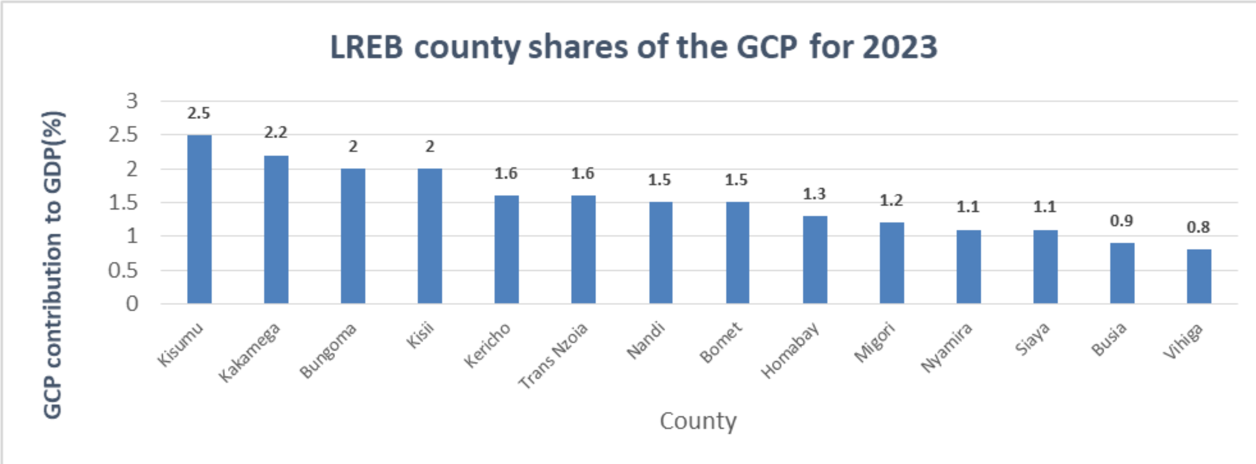
Source of data: KNBS GCP Report, 2024

24. Other significant indicators include employment and poverty rate. On employment, the GCP 2024 report indicates that of the total population projected at 1,344,907 for Kisii County as at 2023, 597,082 were employed (272,076 female and 325,006 male). On poverty rates, Nationally, the overall poverty headcount rate for individuals was at 39.8 per cent, meaning that nearly 20 million people could not meet their basic food and non-food needs., with higher poverty rates in the rural areas (42.9%) than in urban areas (33.2%). For Kisii County, poverty rates have declined from 41.7% in 2015/16 to 41.1% in 2019 43.9% in 2020,37.2% in 2021 and to 32.9% in 2022.

25. To reduce poverty and create more employment opportunities, Kisii County could focus on job creation in agro-processing, retail, and services sector while also equipping youth by investing in vocational training to equip them with skills for emerging sectors. The county can also support infrastructure investments, aligning with the national Bottom-Up Economic Transformation Agenda (BETA) that include expanding road networks for improved market access as well as electrification to enable agro-processing and other industries.

26. In the Lake Region Economic Bloc (LREB), Kisumu County had the highest share of the Gross County Product (GCP), while Vihiga County contributed the least at 0.8%. Kisii County's GCP stood at 2.0%, a figure consistent over the 2019-2023 period. The GCP per capita for Kisii County steadily grew from KSh 184,198 in 2019 to KSh 268,484 in 2023. Figure 2.3 shows the contributions of LREB counties to the GCP.

Figure 2.3: LREB county shares of the GCP for 2023

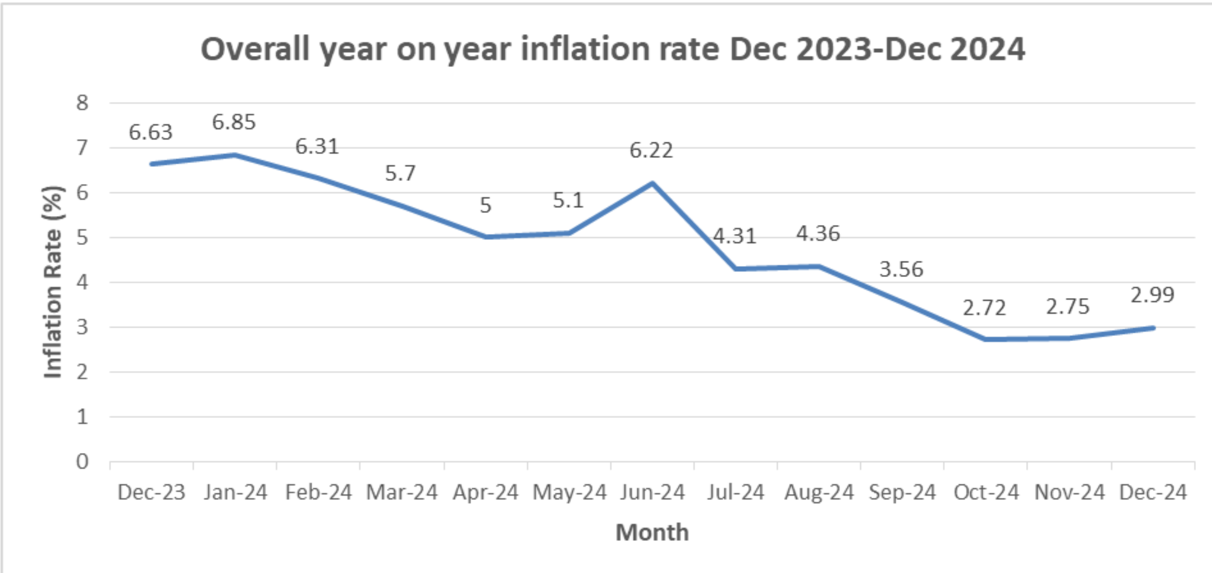


Source of data: KNBS GCP Report, 2024

2.1.2 Inflation rates

27. Inflation remained within the government's target of 5.25%, and has remained below the mid-point of the target band of 5.0 percent since June 2024. Overall inflation increased to 3.0 percent in December 2024 from 2.8 percent in November 2024, on account of a modest increase in food and fuel inflation. Food inflation increased to 4.8 percent from 4.5 percent in November, due to an increase in prices of select food items. Changes in inflation were primarily due to lower energy prices, easing food prices arising from favorable weather conditions, a stronger exchange rate, lower fuel inflation attributed to lower international oil prices, and the impact of previous monetary policy tightening.

Figure 2.4: Overall year on year inflation rate Dec 2023-Dec 2024



Source of data: CBK Reports, 2024

28. Food inflation remained a key driver of overall year-on-year inflation though it declined to 4.8 percent in December 2024 from 7.7 percent in December 2023. The easing of food prices was supported by increased food supply arising from favorable weather conditions, continued Government interventions particularly through subsidized fertilizer, and the general easing of international food prices. Prices of most vegetable food items increased in the month of December 2024 compared to the same period in 2023 while those of non-vegetable food items declined significantly during the same period.

29. Fuel inflation declined to -1.0 percent in December 2024 from 13.7 percent in December 2023. The decline largely reflected the easing global oil prices and appreciation of the Kenya Shilling's which resulted in a downward adjustment of pump prices; and lower electricity prices. Core (non-food non-fuel) inflation has remained low and stable reflecting the impact of tight monetary policy and muted demand pressures.

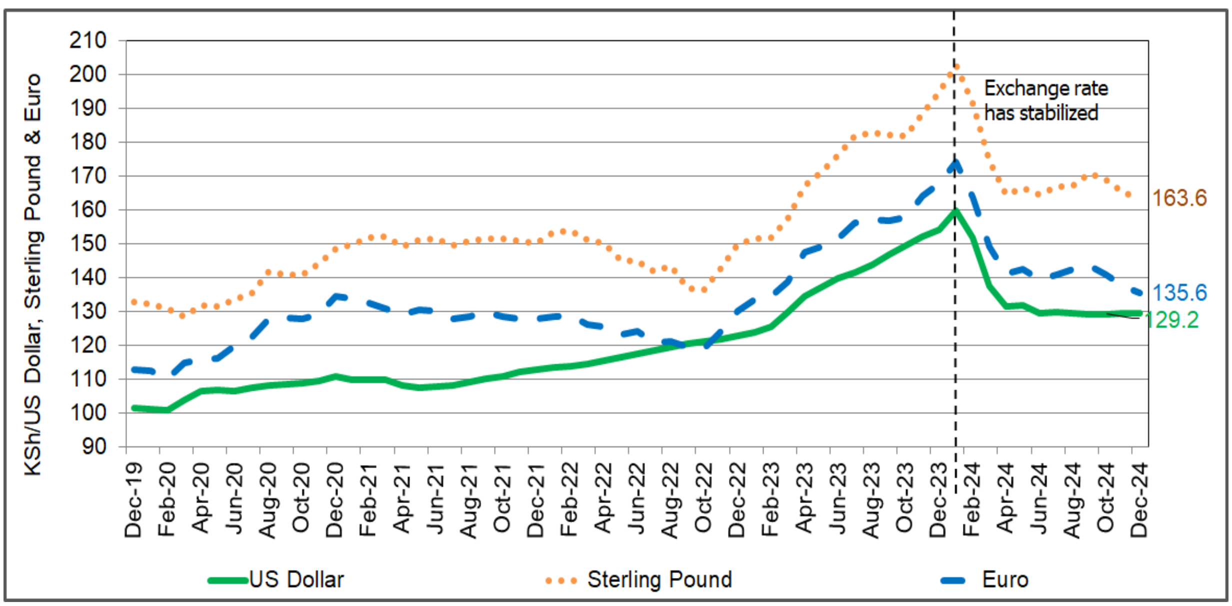
30. Given that inflation is below the mid-point of the target range and the exchange rate has stabilized, the Central Bank of Kenya through the Monetary Policy Committee (MPC) has gradually eased monetary policy by lowering the Central Bank Rate (CBR), initially to 12.75 percent from 13 percent in August 2024 to 12.0 percent in October 2024 and further to 11.25 percent in December 2024. The easing of the monetary policy stance is aimed at improving credit to the private sector thereby supporting economic activities.

31. Inflation is expected to stabilize at 6.5%, reflecting better food supply and energy cost management. This stability is crucial for Kisii, where agriculture productivity affects household purchasing power. Lower inflation supports affordable farm inputs and consumer goods, benefiting households and farmers.

2.1.3 Kenya Shilling Exchange rate

32. In 2024, Kenya's foreign exchange market remained stable despite global uncertainties and a strong U.S. dollar. The Kenya Shilling started the year weak but strengthened from mid-February, stabilizing against major currencies. By December 2024, it had appreciated by **19.0%** against the U.S. Dollar (from Ksh 159.7 in January to Ksh 129.4), **22.2%** against the Euro (Ksh 174.3 to Ksh 135.6), and **19.3%** against the Sterling Pound (Ksh 202.9 to Ksh 163.6). This improvement was driven by increased inflows from agricultural exports, remittances, and foreign investments, while demand came from growing economic activities in manufacturing, wholesale, and retail sectors. The stronger exchange rate boosted investor confidence, attracted foreign direct investment, reduced debt service costs, and stabilized interest rates. Figure 2.5 displays the exchange rate performance.

Figure 2.5: Kenya Shillings Exchange Rate 2024

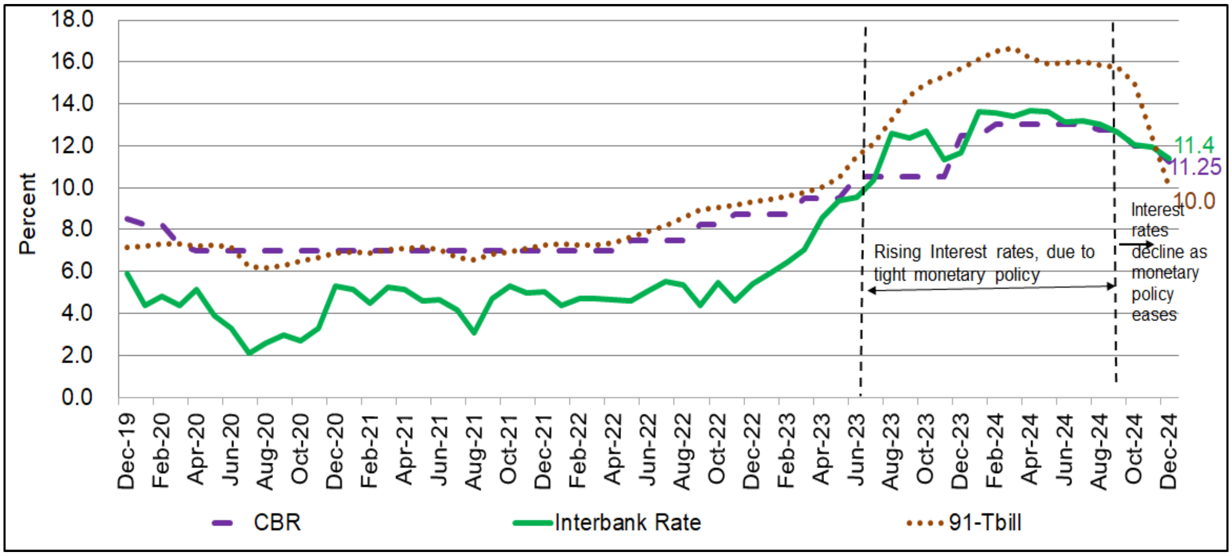


Source: National Treasury, 2024 Draft Budget policy statement

2.1.4 Interest rates

33. Interest rates have declined in line with the easing of the monetary policy. The interbank rate declined to 11.4 percent in December 2024 compared to 11.7 percent in December 2023 and has remained within the prescribed corridor around the CBR (set at CBR± 150 basis points). The 91-day Treasury Bills rate also declined to 10.0 percent in December 2024 from 15.7 percent in December 2023 **(Figure 2.6).**

Figure 2.6: Short Term Interest Rates, Percent



Source: National Treasury, 2024 Draft Budget policy statement

34. Commercial banks average lending and deposit rates increased in the year to November 2024 in tandem with prevailing tight monetary policy stance thereby reflecting high cost of investable funds. The average lending rate increased to 17.2 percent in November 2024 from 14.6 percent in November 2023 while the average deposit rate increased to 10.4 percent from 10.1 percent over the same period. Consequently, the average interest rate spread increased to 6.8 percent in November 2024 from 4.5 percent in November 2023.

2.2.5 Monetary and Credit Developments

35. Broad money supply, M3, grew by 1.6 percent in the year to November 2024 compared to a growth of 21.1 percent in the year to November 2023**.** The slowdown in growth of M3 was due to a decline in the growth of Net Domestic Assets (NDA) particularly the domestic credit.

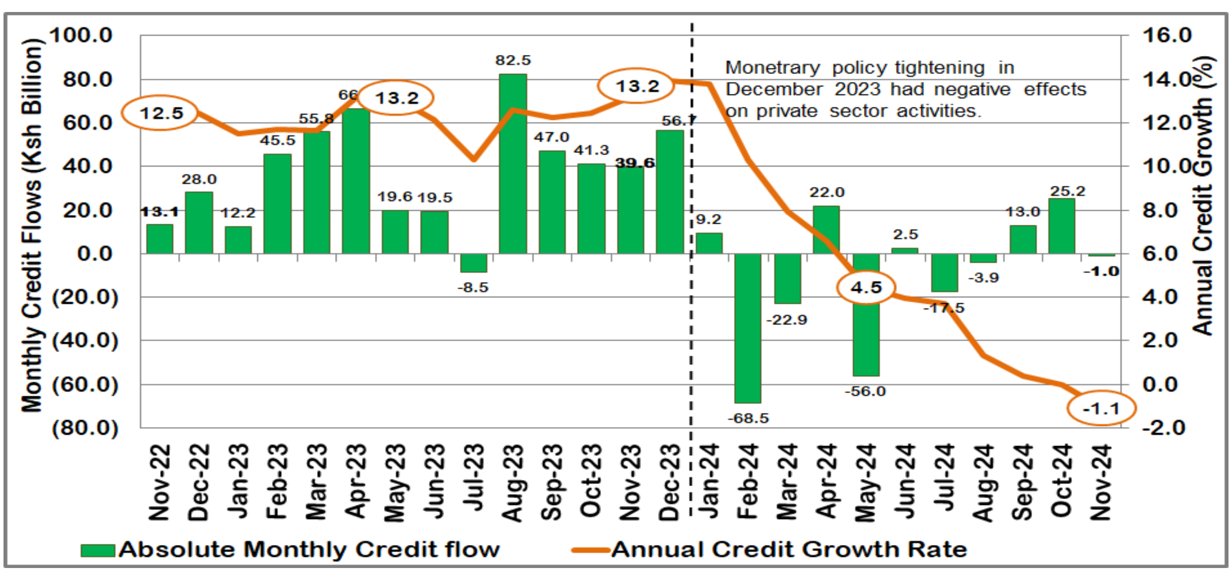
The primary source of the growth in M3 was the resilience in the Net Foreign Assets (NFA) of the banking system, mainly reflected in the stability of commercial banks' Foreign Assets.

36. Net Domestic Assets (NDA) contracted by 2.2 percent in the year to September 2024, compared to a growth of 10.9 percent over a similar period in 2023. The slowdown in growth of the NDA was due to a decline in growth of the domestic credit to the private sector. The domestic credit extended by the banking system to the Government increased to grow by 16.6 percent in the year to November 2024 compared to a growth of 14.4 percent in the year to November 2023.

37. Growth in private sector credit from the banking system declined by 1.1 percent in the year to November 2024 compared to a growth of 13.2 percent in the year to November 2023, due to the impact of exchange rate appreciation on foreign currency denominated loans and the lagged effects of monetary policy tightening. Reduced credit growth was observed in manufacturing, finance and insurance, trade (exports) and building and construction sub-sector. These are some of the sub-sectors with significant foreign currency denominated loans.

38. The Monthly (month on month) credit flows to the private sector have slowed down since December 2023 following the monetary policy action of increasing the central bank rate to manage inflation expectation which resulted in the increased cost of credit**.** With the strong easing of monetary policy stance, credit to the private sector is expected to recover as lending rates decline. Sustained demand particularly for working capital due to resilient economic activity and the implementation of the Credit Guarantee Scheme for the vulnerable MSMEs will continue to support private sector credit uptake. Figure 2.8 highlights year-on-year private credit flows from November 2022 to November 2024.

Figure 2.8: Private Sector Credit



Source: National Treasury, 2024 Draft Budget policy statement; Central Bank of Kenya Reports

2.1.5 Diaspora Remittances

39. In 2024, Kenya's diaspora remittances reached a record high of approximately $4.95 billion (KSh 640.8 billion), marking an 18% increase from $4.19 billion (KSh 542.4 billion) in 2023. December 2024 alone saw remittances of $445.4 million, the highest monthly inflow to date. North America remained the largest source, accounting for 51% of total remittances throughout the year. This surge in remittances has bolstered Kenya's foreign exchange reserves, contributing to the stability and appreciation of the Kenyan Shilling against major currencies. Table 2.1 show the trend in diaspora remittances in 2024.

Table 2.1: Trend in diaspora remittances in 2024(USD '000)

Month	North America	Europe	Rest of World	Total Remittances (USD '000)
Jan-24	227,764.71	85,970.23	98,675.10	412,410.04
Feb-24	216,261.02	68,506.15	101,166.51	385,933.68
Mar-24	229,327.94	70,459.26	107,984.99	407,772.19
Apr-24	214,547.83	74,874.09	107,874.65	397,296.56
May-24	226,417.81	68,225.28	109,804.30	404,447.39
Jun-24	206,630.55	62,654.47	102,307.78	371,592.80
Jul-24	227,532.70	73,721.62	113,003.32	414,257.64
Aug-24	250,084.59	68,447.17	108,668.97	427,200.73
Sep-24	243,361.37	70,484.84	104,649.09	418,495.31
Oct-24	247,934.48	71,364.49	117,883.06	437,182.04
Nov-24	242,877.06	71,350.29	109,021.52	423,248.87
Dec-24	242,410.58	74,544.64	128,430.12	445,385.34
Total	**2,775,150.64**	**860,602.53**	**1,309,469.41**	**4,945,222.59**

Data Source: Central Bank of Kenya Reports

40. These macroeconomic indicators have direct implications for Kisii County's fiscal strategy. Elevated inflation rates can erode purchasing power, affecting both consumers and businesses. Higher interest rates may increase the cost of borrowing, potentially impacting county-funded projects and private sector investments.

2.2 Fiscal Performance and Emerging Challenges

41. The County's approved budget for FY 2024/25 was Kshs.14.5 billion, comprising Kshs.5.5 billion (37 percent) and Kshs.9.0 billion (63 percent) allocation for development and recurrent respectively. The sources of finance for this budget were the equitable share from the national government, Own Source Revenue (OSR) and conditional grants from development partners and National Government.

42. In the first six months of the financial year, fiscal outcome was fairly low, with the persistence of revenue shortfalls amid rising expenditure pressures related to the rising wage bill. These pose risks to the stability of the budget for 2024/202025 in the face of resource requirement for County development.

2.2.1 Expenditure by Economic Classification

Analysis of expenditure by economic classification as at 31st December 2024 indicates that the County Executive spent Kshs. 2.1 billion on employee compensation, Kshs.143 million on operations and maintenance, and Kshs.463 million on development activities. Similarly, the County Assembly spent Kshs.267 million on employee compensation and Kshs.154 million on operations and maintenance as shown below:

Table 1: Expenditure by Economic Classification

Expenditure classification	Budget		Expenditure		Absorption rate	
	County Executive	County Assembly	County Executive	County Assembly	County Executive	County Assembly
Recurrent expenditure	7,897,667,648	1,124,637,995	2,312,361,542	422,259,815	29.28	37.55
Compensation of employees	5,877,304,081	651,402,051	2,168,403,068	267,358,979	36.99	41.04
Operations and maintenance	2,020,363,567	473,235,944	143,958,474	154,900,836	7.13	32.73
Development expenditure	5,433,906,045	76,722,235	463,479,090	-	8.53	-

Total	**13,331,573,693.0**	**1,201,360,230**	**2,775,840,632**	**422,259,815**	**20.82**	**35.14**

Table 2: Recurrent Budget Out-turn for the First Six Months of FY 2024/2025

Department	Recurrent budget	Recurrent expenditure	Absorption rate
County executive and public service board	400,114,950	119,160,244.00	29.8
Administration and stakeholder management	613,028,145	195,890,250.00	32.0
Finance, economic planning, and ICT services	1,188,900,000	290,189,813.00	24.4
Agriculture, Livestock, Veterinary, Fisheries and Cooperative development	291,106,497	43,799,121.00	15.0
Water, Energy, Environment, Natural Resources and Climate Change	131,186,382	29,073,855.00	22.2
Education, Technical Training and Innovation	964,859,123	268,601,000.00	27.8
County health services	3,513,904,652	1,156,633,201.00	32.9
Lands, physical planning and urban development	230,100,000	38,909,000.00	16.9
Infrastructure roads and public works	255,000,000	71,722,457.00	28.1
Trade, Tourism, industry and Marketing	85,673,042	25,791,492.00	30.1
Culture, Youth, Sport and Social Services	100,852,345	29,036,475.00	28.8
Kisii Municipality	107,957,337	41,888,500.00	38.8
Ogembo municipality	14,985,175	1,666,134.00	11.1
County assembly	1,124,637,995	422,259,815.00	37.5
Grand Total	**9,022,305,643**	**2,734,621,357.00**	**30.3**

Source: Kisii County Treasury

2.2.2 Expenditure on compensation of employees

43. In the half year, expenditure on employee compensation was Kshs. **2,168,403,068** for County executive while Kshs**. 267,358,979** was for county assembly. Personnel emoluments had an absorption rate of **37.31%.** The table below shows personnel emoluments versus the absorption rate in the departments.

Table 2a: Expenditure on compensation of employees

Department	Budget	Expenditure	Absorption rate
County executive and public service board	250,000,000	110,237,904.00	44.1
Administration and stakeholder management	468,100,000	192,628,160.00	41.2
Finance, economic planning, and ICT services	530,000,000	218,052,220.00	41.1
Agriculture, Livestock, Veterinary, Fisheries and Cooperative development	270,000,000	42,936,121.00	15.9
Water, Energy, Environment, Natural Resources and Climate Change	70,000,000	29,073,855.00	41.5
Education, Technical Training, Innovation and Manpower Development	675,000,000	268,545,000.00	39.8
County health services	3,089,204,081	1,105,516,930.00	35.8
Lands, physical planning and urban development	85,700,000	34,249,000.00	40.0
Infrastructure roads and public works	190,000,000	71,722,457.00	37.7
Trade, Tourism, industry and Marketing	70,000,000	25,685,812.00	36.7
Culture, Youth, Sport and Social Services	80,000,000	28,640,975.00	35.8
Kisii Municipality	95,000,000	39,448,500.00	41.5
Ogembo municipality	4,300,000	1,666,134.00	38.7
County assembly	651,402,051	267,358,979.00	41.0
Grand Total	**6,528,706,132**	**2,435,762,047.00**	**37.31**

2.2.3 Expenditure on operation and maintenance

44. The County Executive and County Assembly had an operation and maintenance of Kshs. 143,958,474 and Kshs. 154,900,836 respectively representing a 12% absorption rate. The table below shows expenditure on operation and maintenance.

Table 2b: Expenditure on operation and maintenance

Department	O&M budget	O&M Expenditure	Absorption rate
County executive and public service board	150,114,950.00	8,922,340.00	5.9
Administration and stakeholder management	144,928,145.00	3,262,090.00	2.3
Finance, economic planning, and ICT services	658,900,000.00	72,137,593.00	10.9
Agriculture, Livestock, Veterinary, Fisheries and Cooperative development	21,106,497.00	863,000.00	4.1
Water, Energy, Environment, Natural Resources and Climate Change	61,186,382.00	-	-
Education, Technical Training, Innovation and Manpower Development	289,859,123.00	56,000.00	0.0
County health services	424,700,571.00	51,116,271.00	12.0
Lands, physical planning and urban development	144,400,000.00	4,660,000.00	3.2
Infrastructure roads and public works	65,000,000.00	-	-
Trade, Tourism, industry and Marketing	15,673,042.00	105,680.00	0.7
Culture, Youth, Sport and Social Services	20,852,345.00	395,500.00	1.9
Kisii Municipality	12,957,337.00	2,440,000.00	18.8
Ogembo municipality	10,685,175.00	-	-
County assembly	473,235,944.00	154,900,836.00	32.7
Total	**2,493,599,511.00**	**298,859,310.00**	**12.0**

2.3 Development Expenditure

Table 3 below shows the development expenditure across the departments.

Table 3: Development expenditure across the department

Department	Development budget	Development expenditure	Absorption rate
County executive and public service board	200,000,000	79,866,372	39.9
Administration and stakeholder management	43,500,000	1,982,700	4.6
Finance, economic planning, and ICT services	246,000,000	9,960,825	4.0
Agriculture, Livestock, Veterinary, Fisheries and Cooperative development	476,586,576	50,526,434	10.6
Water, Energy, Environment, Natural Resources and Climate Change	708,955,963	63,123,568	8.9
Education, Technical Training, Innovation and Manpower Development	399,171,428		0.0
County health services	699,871,055	66,833,219	9.5
Lands, physical planning and urban development	239,503,308	9,350,000	3.9
Infrastructure roads and public works	1,770,306,009	175,737,002	9.9
Trade, Tourism, industry and Marketing	423,611,706	6,098,970	1.4
Culture, Youth, Sport and Social Services	86,300,000	0	0.0
Kisii Municipality	80,000,000	0	0.0
Ogembo municipality	60,100,000	0	0.0
County assembly	76,722,235	0	0.0
Grand total	**5,510,628,280**	**463,479,090**	**8.4**

Source: Kisii County Treasury

45. Tables 2 and 3, indicate that by the end of first half, the County Government absorbed 38.7 percent of funds released by the National Government for development and recurrent expenditure respectively.

46. To enhance execution of development expenditure, the County has instituted various measures which include; timely preparation of procurement plans, annual work plans and regular monitoring of projects and programmes. This will ensure efficient and timely procurement processes in the County to avoid delay in implantation.

47. In adherence to the financial regulations, the County Treasury shall ensure that departmental expenditures are within the approved ceilings in the Fiscal Strategy Paper.

48. Additionally, a budget monitoring, evaluation and reporting framework will be developed by the County Treasury to monitor, evaluate and oversee the management of public finances and

economic affairs of the County Government. This will ensure efficient reporting hence timely project implementation.

2.4 Own Source Revenue Performance

49. In the First half of the FY 2024/2025, Revenue collection slightly declined from 147.9 Million realized in the previous FY 2023/2024 to Ksh 144.8 Million. This was attributed to a decline in the revenue system's transition and non-compliant traders. Table 4 compares revenue stream collection in the first half of the FY 2024/2025 with the previous financial years.

Tab 4: Revenue Out-turn for the First Six Months of FY 2024/2025

Half-Year Revenue Stream Collection Comparison by FY			
Revenue Stream	**FY2022/23**	**FY2023/24**	**FY2024/25**
Advertisement	2,872,570.00	5,698,620.00	6,560,113.00
Betting & Gaming	-	-	48,500.00
Cess	2,007,547.00	4,908,439.50	4,277,195.00
Clamping	73,000.00	350,000.00	652,000.00
Conservancy Fees	-	-	50,410.00
Distribution Permit	-	-	603,000.00
Environment	1,388,000.00	2,779,400.00	3,822,129.00
Fire Inspection	-	-	2,133,001.00
Fisheries	131,753.00	307,478.00	258,865.00
Hire of County Halls	31,000.00	53,000.00	11,000.00
Hire Services	-	-	2,000.00
Hire Stadium	100,000.00	14,000.00	432,735.00
Impounding	193,908.00	1,346,700.00	1,930,797.00
Land Rates	1,954,505.00	9,864,254.00	6,641,777.00
Library Fees	-	181,360.00	24,637.00
Livestock Market	-	-	709,130.00
Market Gate Fees	20,915,440.00	22,148,100.00	18,706,810.00
Motorbike Stickers	553,700.00	10,826,872.00	2,678,100.00
Parking	14,404,250.00	16,906,570.00	19,141,863.00
Penalties	-	-	789,534.00
Physical Planning	19,031,591.00	29,502,679.06	25,342,395.00
Public Health	-	-	189,246.00
Rent Management	2,151,280.00	3,158,550.00	4,289,150.00
Reserved Parking	255,000.00	439,000.00	-
Sacco Management	19,807,100.00	23,266,400.00	32,487,695.00
Salary Overpayment	-	-	25,700.00
Single Business Permit	8,769,250.00	14,770,830.00	11,175,862.00
Slaughterhouse Fees	237,950.00	319,950.00	876,750.00
Weights & Measures	754,680.00	1,070,080.00	928,020.00
Total	**95,632,524.00**	**147,912,282.56**	**144,788,414.00**

Source: County Treasury

50. To address the challenges of revenue shortfalls and expenditure pressures, the County Government will step up efforts on revenue administration and mobilization to eliminate leakages and increase revenue targeted collection while rationalizing expenditure to avoid budget deficit.

51. Specific measures the County is putting in place to address the revenue administration and management are; enhancement of revenue automation across the streams, broadening revenue base, enhancing enforcement services, setting targets, development of valuation role; renovating and upgrading County Government houses for monthly rent; registering all the vehicles using the enclosed bus park; fencing all open air markets in the county and enhancing collection of coffee, tea, sugarcane, log and other cess while enforcing the collection of land rates in the county.

2.5 Macroeconomic Policies and Outlook

2.5.1 Growth Prospects

52. Growth will be bolstered by investments in agriculture with the assumption that the prevailed favourable weather conditions in the previous year will persist and that the ongoing key infrastructural projects such as roads and ICT are completed in time. Domestic demand is expected to be robust following a drop in inflation at the national level, increasing foreign remittances, and fostering of investor confidence.

53. On the other hand, the County Government of Kisii will continue with strategic interventions to accelerate growth and improve competitiveness. Specifically, the following strategies will be implemented:

a) Investment in Infrastructure and ICT

54. Poor road network negatively affect economic development since it restricts movement of people, goods and services. The county will continue with Investments in key infrastructural projects to realize its development objectives of employment and wealth creation and poverty reduction while encouraging private participation across the county sectors.

b) Investment in Agro-processing

55. The county will invest in agriculture to ensure sustainability in food security and wealth creation given that the sector has the highest multiplier effect due to its forward and backward linkages to other sectors of the county economy. There is availability of enormous raw materials in the county to support value addition in the agricultural sector. The County Government will

place major emphasis on agricultural inputs; marketing; value addition; agricultural extension services; and staffing.

c) Supporting Manufacturing and Small and Medium Enterprises (SMEs)

56. The County government will ensure support for the manufacturing sector, Micro, Small and Medium Enterprises for productivity and wealth creation. This initiative will address the bottlenecks impending the growth of manufacturing and competitiveness of the manufacturing sector in the county while providing affordable credit to traders. This will also be realized over the medium term through the completion of the Agro processing Industrial Park at Tongeri in Bomachoge Borabu.

d) Investment in Urban Development for Sustainable Development

57. The County government will ensure adequate planning to address the issues of urban expansion, functional specialization and sustainability. This is due to the fact that the municipalities of Kisii and Ogembo together with other urban centres are growing largely at an unprecedented and challenging pace thus posing serious challenges for development opportunities.

f. Investment in Environmental Conservation

58. Climate change remains a key concern not only in the County but globally given its adverse impacts on the economy. In this regard, the County government will strengthen capacity to plan, budget, implement and monitor climate resilience investment. The Kisii County Climate Change Fund and its legislation is operational and this will help strengthen the County government's capabilities climate change management.

2.5.2 *Sustaining Inclusive Growth*

59. The County Government will mobilize significant resources and provide an appropriate environment for businesses to thrive to ensure sustainability of inclusive growth through continuous building of transparency, responsiveness, accountability efficiency and effectiveness. Further, emphasis will be laid on the implementation of the key priorities as outlined in the Annual Development Plan while ensuring that resources reach the lowest administrative units in line with the Constitution.

2.6 *Economic Outlook*

60. The national economy is projected to remain strong and resilient in 2024 and over the medium term supported by the continued robust growth of the services sectors, the rebound in agriculture and the ongoing implementation of measures to boost economic activity in priority

sectors by the Government. As such, the economy is expected to remain strong and expand by 5.6 percent in 2024.

61. From the supply side, this growth will be driven by a strong recovery in the agriculture sector supported by the anticipated adequate rainfall in most parts of the country and a decline in global commodity prices that will reduce the cost of production. Additionally, Government intervention measures aimed at lowering the cost of production such as the ongoing fertilizer subsidy program and provision of adequate affordable working capital to farmers will support growth of the sector.

62. On the demand side, growth will be driven by an improvement in aggregate demand. This will be supported by household private consumption and robust private sector investments coupled with Government investments as the public sector consolidates. This growth will also be supported by improvement in the external account supported by strong export growth and resilient remittances.

63. The persisting revenue and expenditure pressures and deficits at the National level are likely to affect the realization of enough revenue to support County Government programs. To address this, the County will collaborate and partner with development and implementing partners within the County to substitute government resources from the Equitable Share. On the downside, the growth will be hampered by a decline in domestic demand as a result of elevated inflation rates. The reduction in domestic demand is likely to suppress private investment. At a more local level, this is likely to affect the attainment of the projected Own Source Revenue amounts.

64. At county level, over the medium-term resources will be channeled to the County Priorities, namely: Wealth creation; Devolution and Governance; Social Development; Roads, ICT and Infrastructure, and finally Environmental conservation.

2.7 Risk*s* to the Economic Outlook

65. The County is exposed to risks related to the national economy that may affect growth within the County. At the local level, risks relate to unpredictable weather conditions due to the impact of climate change which could adversely affect agricultural production and result in food insecurity and inflationary pressures given that most of the agriculture practiced in the County is rain-fed.

66. Over the years, the County experienced revenue shortfalls**.** This may be attributed to weakness in revenue forecasting, overdependence on transfers from the National Government and overreliance on grants and external funding. This occurrence may cause implicit budget deficits and negatively impact County Budget financing.

67. Underperformance in both the achievement of budget targets and execution of the budget, particularly in regards to the development budget. The continuous underperformances in budget executions lead in poor score in overall credibility of the budget process.

68. Vulnerability to Economic Shocks may pose serious risk to the economic outlook due to sudden changes in the global economy such as the Russia-Ukraine conflict, adjustments in the global monetary policy especially in the USA which may lead to volatility in financial markets and fluctuations in commodity prices, potentially leading to inflationary pressures.

69. The continued increase in discretionary expenditure on operations and maintenance and non-discretionary expenditure especially on debt redemption at the National Government will continue to put a squeeze on County Government sharable revenue. The ever-increasing and volatile global oil prices are likely to lead to a loss in output across various sectors and higher inflation in oil-importing countries like Kenya. This will have an effect on both public and private consumption.

CHAPTER THREE

3. FISCAL POLICY AND BUDGET FRAMEWORK

3.1 Overview

70. The 2025 Medium-Term Fiscal Framework for the County aims at striking an appropriate balance between resource mobilization for County development programmes/projects and continued fiscal consolidation, while providing room for the constitutional requirements and implementation of County Integrated Development Plan 2023-2027. Specifically, the 2025/2026 Fiscal Strategy Paper aims at ensuring the following:

- That the level of expenditure is adequate to sustain County development through continued investment in the five County priorities wealth creation, Social development, Infrastructure and ICT, Environmental conservation and Devolution and Governance sustaining of the County wage bill, and a balanced budget in FY 2025/2026 and the medium term.

- Ensure transparency, accountability and efficiency in the management of the County resources and provision of adequate resources towards the implementation of the Kisii CIDP 2023-2027.

- Observing the fiscal responsibility principles of retaining the ratio of recurrent expenditure at 70 percent and that of development at minimum 30 percent. This will be realized through moderation and efficiency in spending as well as improved revenue collection following the outlined reforms in revenue administration and management.

3.2 Fiscal Policy Framework

71. The County government's fiscal policy will continue to support County development activities while providing room for the implementation of the CIDP within a context of sustainable public financing. The County Government will continue reorienting expenditure towards key priority programmes/projects of Wealth creation, Social development, Infrastructure and ICT, Environmental conservation and Devolution and Governance. This process will be strengthened in the FY 2025/26 by supporting the growth in OSR as part of the County Government's efforts on commitment to the observance of the fiscal responsibility principles envisioned in our Constitution. At the same time, the County government will ensure prudent utilization of its resources in a framework that minimizes wastage and improve efficiency in of resource management.

72. Based on the budget out turn over the past six months of the FY 2024/25 and in view of the interventions the County Government has made especially in revenue collection and

expenditure management, it is expected that both revenue and expenditure current trends will be adequately addressed over the 2025/26 financial year and the medium term.

73. In the FY 2025/2026, the total resource basket has been projected at **KShs. 15.3 billion**, with local revenues projected at KShs **2.3 billion**, Equitable share at **Kshs 9.7 billion**, Conditional allocations from the National government **Kshs. 160.6 million** while Loans and Grants from development partners is **Kshs. 1.04 billion**. The overall resource basket has gone up from **KShs.15.15 billion** in FY 2024/2025 to **KShs. 15.3 billion** in FY 2025/2026. Departmental ceilings for FY 2025/26 have been adjusted accordingly. Table 4 presents the County Government fiscal projections over the medium term.

Table 4: County Government Fiscal Projections over the Medium Term

Item	2024/2025	2025/2026	2026/2027	2027/2028
Revenue/Grants				
Equitable Share	9,305,835,688	9,722,580,296	10,163,483,508	10,570,022,848
Conditional Share, Loans and Grants	582,000,670	1,035,722,093	1,078,190,977	1,121,318,616
Unconditional Allocations from National Government	117,616	117,616	122,321	127,213
Conditional Allocations from National Government	550,013,194	160,628,277	167,053,408	173,735,544
Unspent Balances for FY 2024/2025	3,852,384,894	2,162,429,237	1,357,061,848	1,357,061,848
Own Source Revenue	865,000,000	2,265,000,000	2,365,600,000	2,449,834,000
Total Revenue	**15,155,352,062**	**15,346,477,519**	**15,131,512,062**	**15,672,100,069**
Recurrent	8,998,556,587	10,452,810,653	10,396,515,703	10,812,376,331
Development	6,156,795,475	4,893,666,866	4,734,996,359	4,859,723,738

Source: County Planning Department

3.3 Fiscal Responsibility Principles

74. Over the medium term, the County Government will ensure strict adherence to Section 107 of the Public Finance Management (PFM) Act of 2012 which outlines the fiscal responsibility principles.

75. Over the medium term, the County government will match the increased expenditure demands with a corresponding increase in revenue yield through efficient collection, widening of revenue base and reasonable revenue rates in a bid to comply with the fiscal responsibility principles. This will be realized through reforms in revenue mobilization and management and continuous restructuring of expenditure systems to ensure efficiency and create fiscal space for funding the priority expenditures on sustainable basis.

3.4 Fiscal Structural Reforms

76. The County Government will implement a mix of revenue administrative and revenue policy measures in order to boost revenue collection efforts by the County Treasury.

77. In the FY 2025/26 and over the medium term, the County Government will focus on resource mobilization efforts that include:

1 Strengthening revenue administration for enhanced compliance through expansion of the revenue base, minimizing revenue expenditures, leveraging on technology to revolutionize revenue processes, sealing revenue loopholes and enhancing the efficiency of revenue system; and,

2 Focus on revenues that County Departments can raise through the services they offer to the public.

3 Implementation of the revenue administrative reforms will target to: i) Reduce revenue expenditures, thereby adding revenues; ii) Expand the revenue base and strengthen revenue compliance as envisaged under the Finance Bill; iii) Rationalize revenue structure to promote local production and encourage investments. As a start, the enactment of the Finance Act, 2024 has paved way for transformative changes with potential benefits to County residents.

3.5 Expenditure Reforms

78. The County Government will sustain measures to strengthen expenditure control and improve efficiency and effectiveness in public spending. These measures will include: implementation of austerity measures aimed at reducing County Government recurrent expenditure; roll out an end-to-end e-procurement system to maximize value for money and increase transparency in procurement; utilize a Human Resource Management System which has been rolled out to all National Government Ministries and Departments as well as all County Governments in order to improve the management of the wage bill; scale up use of Public Private Partnerships (PPPs) framework for capital projects.

3.6 Kisii County 2025/2026 Budget Framework

79. The Kisii County 2025/2026 budget framework is set against the background of the County Government's strategic objectives and priorities as outlined in the Annual Development Plan (ADP) 2025/26. The County is expected to realize key developments by directing adequate budgetary allocations to the project activities and programmes of the priority areas as identified in the ADP.

3.6.1 Revenue Projections

80. The Kisii County 2025/2026 financial year budget targets local revenue collection of **Kshs 2.3 million**, equitable share of **KShs.9.7 billion** from the National Government, **KShs 160.6 million** for conditional allocations from National Government, **KShs 1.04 billion** for Loans and Grants from development partners and **KShs 2.16 billion** for unspent balances for FY 2024/2025. This performance will be underpinned by the on-going reforms in revenue administration and management.

3.6.2 Expenditure Forecasts

81. The County Government's funding allocation decisions for the FY 2025/2026 are guided by the Annual Development Plan which outlines the priority areas to be addressed in the FY 2025/2026 in the realization of the County development agenda. Overall expenditures are projected at **KShs 15.3 billion** comprising of **KShs. 4.9 billion** for the development budget and **KShs 10.4 billion** for recurrent budget respectively.

82. The County will also ensure prudence in expenditure management through identification of slow-moving programmes to fast moving ones and identify saving from such programmes by modifying or cutting down non-priority activities.

83. Efficiency saving initiative will be adopted by the County to ensure that funds are directed to service delivery rather than non-essential spending.

3.6.3 Recurrent Expenditure

84. The County Government will ensure that the recurrent expenditure is kept below 70 percent of the County budget so as to realize more money for implementation of development projects. This is in line with the fiscal responsibility requirement for County Governments that requires the recurrent expenditure to be at a maximum of 70 percent of the total budget. During the FY 2025/2026, the recurrent budget has been projected

85. The County will exercise essential controls and ensure prudent management of the wage bill by ensuring that department's budget for all their human resource requirements is based on human resource plans clearly indicating the in-post.

86. DevelopmentThe County Government will endeavour to allocate adequate resources towards development outlays and aspire to complete critical infrastructure priority projects and programmes in collaboration with development partners. During the FY 2025/2026, the ceiling for development expenditures including the donor funded projects is **KShs 4.9 billion** representing 31.9 percent of the total budget.

CHAPTER FOUR

4. MEDIUM TERM EXPENDITURE FRAMEWORK

4.1 Resource Environment

87. In the FY 2025/2026 and the medium term, the County Government will be financed through the equitable share from the national government, own source revenue, conditional allocations form the national government and Loans and Grants from development partners. The resource envelope available for allocation among the spending units in the county is based on the medium term fiscal framework outlined in Chapter Three.

4.2 Spending Priorities

88. Prioritization of resource allocation will be based on the ADP 2025/2026 which spells out programmes to achieve County priorities identified during the County-wide budget consultative meetings.

89. The County Government will promote budget transparency, accountability and effective financial management of resources based on clearly set priorities to ensure that budgets are directly linked to plans.

90. Spending proposals will undergo rigorous scrutiny to identify areas of inefficient and non-priority expenditure with a view to making savings to be redirected to deserving priority expenditures as indicated in the table x below.

Targeted Expenditures for Scrutiny
Recurrent
Domestic Travel and Subsistence, and other transportation Costs
Foreign Travel and Subsistence, and other transportation costs
Printing, Advertising and Information Supplies and Services
Training Expenses
Hospitality Supplies and Services
Office and General Supplies and Services
Minor Alterations to Buildings and Civil Works
Purchase of Office Furniture and General equipment
Refurbishment of Building
Purchase of Motor vehicles

91. The County Government will reorient its expenditure programmes to focus on the following priority areas:

4.2.1 Wealth Creation

92. The priority includes areas include investment in agriculture to ensure sustainability in food security and wealth creation given that the sector has the highest multiplier effect due to its forward and backward linkages to other sectors of the county economy. Support for the manufacturing sector, Micro, Small and Medium Enterprises is also key for productivity and wealth creation. This will be done through the on- going construction of the aggregated industrial park at Tongeri and provision of affordable credit to traders through the Joint Loan Board Credit Scheme.

4.2.2 Social Development

93. The social development agenda of the county will be realized through programmes and projects in Health, Water, Education and Sports respectively. Health is key to enhancing productivity and the welfare of our people. In strengthening health systems, the Government will continue with the programme of construction and completion of health infrastructure throughout the county. In the FY 2025/2026, the sector will put in place important infrastructure aimed at achieving the highest standards of health through primary health care measures while ensuring a steady supply of drugs in the health facilities.

94. During the FY 2025/26, the county government will strive to provide equitable access to safe and affordable drinking water for the County residents and improving of water quality through construction and rehabilitation of water schemes, spring protection and drilling of boreholes.

95. In education, the county government will endeavor to build on the gains of skilling programmes in the Vocational Training Centres by upgrading, completing and equipping a number of them into effective institutions of learning and skills development.

96. The County Government will also continue to scale up and enhance social protection programmes with improved targeting and selection mechanisms to uplift the wellbeing of the vulnerable.

4.2.3 Enablers and ICT

97. Information and Communications Technology is key to enhancing socio-economic transformation and improving efficiency and productivity. Therefore, in the FY 2025/2026 and the medium term, adequate resources will be directed towards ICT.

98. Resources will also be directed towards upgrading and rehabilitating of the county roads to enhance connectivity of rural areas to markets, promote investments in these areas, reduce the cost of transport, promote competitiveness and facilitate faster and more inclusive county development, employment creation and poverty reduction.

4.2.4 Environmental Conservation

99. Climate change remains a key concern not only in the County but globally given its adverse impacts on the economy. In this regard, the County government will strengthen capacity to plan, budget, implement and monitor climate resilience investment. The Kisii County Climate Change Fund and the legislation on the same are operational. During the financial year, priority will be given towards strengthening the capabilities to manage climate change.

4.2.5 Devolution and Governance

100. To strengthen devolution and governance, adequate resources will be provided towards the completion of Governor's residence, County headquarters, Speaker's residence and ward offices.

4.3 Medium –Term Expenditure Estimates

101. In the FY 2025/2026 development budget expenditure, infrastructure and roads development takes a large share of expenditure followed by the social sectors of water, Health, education and water. In the recurrent expenditure category, non-discretionary expenditures take first charge which includes payment of pending bills, salaries and pension. With health leading.

102. Overall, in the FY 2025/2026 budget, recurrent expenditure account for 68.1 percent of the projected budget while development expenditure is at 31.9 percent of the total resource basket. The Own Source Revenue will finance 12 percent of the budget while the rest will be financed by conditional allocations from National Government and loans and grants from the development partners.

103. Development expenditures are shared out on the basis of the County priorities, economic development enablers as well as other strategic interventions to deal with unemployment, poverty reduction, wealth creation and accelerated growth. The following guidelines was used in the appropriation of resources:

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

- **Strategic policy interventions:** priority was also given to policy interventions covering the entire county in the key priority areas.

- **Counterpart Funding:** Priority was given to allocations for counterpart funding for donor funded projects. This is the County Government's share to finance such projects.

- **Pending bills:** Emphasis was given to completed works that have not been paid for.

4.4 Details of Sector Priorities

104. The medium-term spending estimates for Kisii County 2025/2026-2027/2028 will ensure continuity in resource allocation from the last FY based on prioritized programmes aligned to the CIDP, Vision 2030 and policy initiatives to accelerate growth, wealth creation, poverty reduction and improved governance. Sectorial ceilings are given in Table 5 below.

Table 5: Projected Sector Ceiling for 2025/2026 and the Medium Term

Medium –Term Sector Ceilings				
		(KShs Millions)		
Sector.	**Approved Revised Budget FY 2024/2025 Budget**	**Proposed Budget FY 2025/2026**	**Projected Budget FY 2026/2027**	**Projected Budget FY 2027/2028**
County Assembly	1,201,360,230	1,124,637,995	1,169,623,515	1,228,104,691
Executive Office of the Governor and County Public Service Board	638,180,317	830,114,950	863,319,548	906,485,525
Office of the County Attorney	0	60,000,000	62,400,000	65,520,000
Public Service & County Administration	651,585,592	983,803,145	1,023,155,271	1,074,313,034
Finance, Economic Planning and ICT	1,306,755,413	1,069,017,616	1,111,778,321	1,167,367,237
Agriculture, Livestock, Fisheries, Co-operative Development & Irrigation	617,375,010	679,357,345	706,531,639	741,858,221
Water, Environment, Natural Resources, Energy and Climate Change	1,382,161,278	921,065,638	957,908,264	1,005,803,677
Education, Technical Training and Innovation	1,246,280,628	1,039,378,479	1,080,953,619	1,135,001,300
Medical Services, Public Health and Sanitation	4,255,446,762	5,448,151,018	5,666,077,059	5,949,380,912
Lands, Physical Planning, Housing & Urban Development	444,409,165	289,485,692	301,065,120	316,118,376
Infrastructure, Roads and Public Works	2,020,408,274	2,085,000,000	2,168,400,000	2,276,820,000

Trade Tourism and Industry and Marketing	623,420,324	264,284,748	274,856,138	288,598,945
Youth, Sports, Culture, Arts and Social Services	261,402,345	187,152,345	194,638,439	204,370,361
Kisii Municipality	433,981,549	309,943,373	322,341,108	338,458,163
Ogembo Municipality	72,585,175	55,085,175	57,288,582	60,153,011
Total	**15,155,352,062**	**15,346,477,519**	**15,960,336,620**	**16,758,353,451**

Table 6: Proposed Sharing of funds by Economic Classification per Department (FY 2025/2026

Department	P.E	O&M	Recurrent	Development	Total Ceilings
County Assembly	651,402,051	473,235,944	1,124,637,995	-	1,124,637,995
Executive Office of the Governor and County Public Service Board	220,000,000	410,114,950	630,114,950	200,000,000	830,114,950
County Attorney's Office	30,000,000	30,000,000	60,000,000	-	60,000,000
Public Service & County Administration	550,000,000	70,428,145	620,428,145	363,375,000	983,803,145
Finance, Economic Planning and ICT	530,000,000	489,017,616	1,019,017,616	50,000,000	1,069,017,616
Agriculture, Livestock, Fisheries, Co-operative Development & Irrigation	270,000,000	21,106,497	291,106,497	388,250,848	679,357,345
Water, Environment, Natural Resources, Energy and Climate Change	70,000,000	50,186,382	120,186,382	800,879,256	921,065,638
Education, Technical Training and Innovation	760,000,000	29,859,123	789,859,123	249,519,356	1,039,378,479
Medical Services, Public Health and Sanitation	3,350,929,868	1,667,079,794	5,018,009,662	430,141,356	5,448,151,018
Lands, Physical Planning, Housing & Urban Development	85,700,000	99,282,384	184,982,384	104,503,308	289,485,692
Infrastructure, Roads and Public Works	220,000,000	65,000,000	285,000,000	1,800,000,000	2,085,000,000
Trade Tourism and Industry and Marketing	70,000,000	15,673,042	85,673,042	178,611,706	264,284,748
Youth, Sports, Culture, Arts and Social Services	80,000,000	20,852,345	100,852,345	86,300,000	187,152,345
Kisii Municipality	95,000,000	12,957,337	107,957,337	201,986,036	309,943,373
Ogembo Municipality	4,300,000	10,685,175	14,985,175	40,100,000	55,085,175
Totals	**6,987,331,919**	**3,465,478,734**	**10,452,810,653**	**4,893,666,866**	**15,346,477,519**

4.4.1 County Assembly

105. The County Assembly plays a key role in the implementation of development programmes in the county as it has the oversight role. It also plays the role of strengthening the democratic space and governance in the county. Due to the crucial role of the sector, it has been allocated **KShs. 1,124,637,995 billion** in FY 2025/2026.

4.4.2 Executive Office of the Governor, County Attorney and County Public Service Board

106. The office is responsible for the provision of overall policy direction, in coordination and management of the county government affairs. It is also critical in the promotion of integrity and transparency in county governance. This sector requires considerable funding to oversee the discharge of its mandate through provision of leadership and policies in county governance. The sector has been allocated **KShs. 890,114,950 million** in the FY 2025/2026.

4.4.3 4.4.4 Public Service and County Administration

107. The sector plays a key role in enhancing public service delivery, organization and coordination of County Government business. In addition, the sector links all other sectors with stakeholders. The sector is key in the provision of policy direction in the county governance, coordination and supervision of County Government affairs. It is also key in promoting efficient and effective human resource management and public service integrity. The sector will construct and complete administration offices in the sub-counties and wards to enhance service delivery. To achieve the above objectives, the sector has been allocated **KShs. 983,803,145 million** in the FY 2025/2026.

4.4.4 Agriculture, Livestock, Fisheries, Cooperative Development and Irrigation

108. This sector is critical to the county's economic growth, wealth creation and poverty reduction. The sector provides linkage to other key sectors such as manufacturing, wholesale and retail, transport and distribution and other service-related sectors. The challenges facing the sector include land subdivisions, uncertified seeds, low production and productivity, poor marketing and marketing infrastructure, low value addition and competitiveness, inadequate physical infrastructure and low access to financial services as well as affordable credit.

109. The sector aims to address the above challenges by raising agricultural productivity through improvement in the provision of extension services; improved livestock breeds through artificial insemination; increased adoption of appropriate livestock production technologies and promotion of sustainable management of fisheries. To achieve the above targets, **KShs. 679,357,345 million** has been allocated for the sector in the 2025/2026 budget.

4.4.5 Education, Technical Training and Innovation

110. The sector's goal is to enhance access to basic quality education, provide learning materials and equipment and skills development through tertiary institutions for competitive labour force. The sector faces many challenges including inadequate infrastructure, inadequate learning materials and staffing. In the FY 2025/2026, the sector intends to construct and complete classrooms in ECDE centres, purchase learning materials, construct workshops and hostels in the Vocational Training Centres (VTCs). The sector has been allocated **KShs. 1,039,378,479 billion** in FY 2025/2026.

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

111. This is a critical sector in the county economy with the role of ensuring that every citizen has access to safe and clean water and secure environment. Under the sector, mitigation and adaptation measures on climatic change and outdoor advertising will be addressed. The goal of the sector in the medium term is to reduce the distance to the nearest water points through water reticulation. To achieve the above objectives, the sector has been allocated **Kshs. 921,065,638 billion** in the FY 2025/2026.

4.4.7 Finance, Economic Planning and ICT Services

112. The key role of the sector is to provide overall leadership and policy direction in resource mobilization, management and accountability for quality public service delivery. Strategies to attain the overall goal include: strengthening monitoring and Evaluation, continuous training of staff on e-procurement and adherence to the provisions of the PFM Act, Participatory planning and budgeting, enhancing strategies for revenue collection and compliance as well as mainstreaming cross cutting issues to planning and budgeting while improving ICT infrastructure in the county. To achieve this, in the FY 2025/2026, the sector has been allocated **Kshs. 1,069,017,616 billion.**

4.4.8 Medical Services, Public Health and Sanitation

113. The sector is responsible for the provision of equitable and affordable health care to the county residents. To achieve this, the sector will undertake construction and equipping programmes of the health facilities, purchase pharmaceutical and non- pharmaceutical supplies develop health human resources and promote preventive health among others. To achieve this, the sector has been allocated **Kshs. 5,448,151,018 billion** in the FY 2025/2026.

4.4.9 Lands, Physical Planning Housing and Urban Ddevelopment

114. This sector is in charged with the development of physical development plans, spatial plans, solid waste management, construction and maintenance of urban roads, administration of public lands and housing. To achieve the above targets, in FY 2025/2026, the sector has been allocated **Kshs. 289,485,692 million.**

4.4.10 Infrastructure, Roads and Public Works,

115. The sector is a key enabler for sustained development of the county economy. The sector's priorities include improved road network in the county, general improved infrastructure and supervision of buildings among others. The total budget estimate for the sector is **Kshs. 2,085,000,000 billion** in FY 2025/2026.

4.4.11 Youth, Culture, Arts and Social Services

116. The sector is charged with social infrastructure development, gender mainstreaming, provision of public library services, training of youth in life skills and refurbishment of sports facilities and promotion of sporting activities. To achieve the above targets, the sector has been allocated **Kshs. 187,152,345 million** in FY 2025/2026.

4.4.12 Trade, Tourism, Industry and Marketing

117. This sector is charged with market development, tourism promotion, and creation of an environment conducive for investment and the implementation of County Trade Credit scheme. To achieve these goals, the sector has been allocated **Kshs. 264,284,748 million** in the FY 2025/2026.

4.4.13 Kisii Municipality

118. The Kisii Municipality is charged with the responsibility of managing Kisii town through the provision of services and infrastructure development. Some of the services provided include, improved sewerage systems, construction of walkways and backstreet roads, waste management roads, bus parks among others. To achieve the above targets, in the FY 2025/2026, the Kisii Municipality has been allocated **KShs. 309,943,373 million.**

4.4.14 Ogembo Municipality

119. The Ogembo municipality is charged with the responsibility of managing Ogembo town through the provision of services and infrastructure for the residents. Some of the services

provided include, improved sewerage systems, construction of walkways and backstreet roads, waste management among others. To achieve the above targets, in the FY 2025/2026, the Ogembo Municipality has been allocated. **KShs**. **55,085,175 million.**