# COUNTY GOVERNMENT OF KWALE

# COUNTY TREASURY

MEDIUM TERM

# 2021 COUNTY FISCAL STRATEGY PAPER

***Unlocking County's Economic Potential Towards County Transformation Agenda***

**FEBRUARY 2021**

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## FOREWORD

This 2021 County Fiscal Strategy Paper (CFSP) is prepared at a time when the world is experiencing unprecedented hard economic times arising out of the Covid-19 pandemic. The pandemic resulted in imposition of containment measures to curtail its spread. These measures have disrupted businesses, economic activities and livelihoods. The global economy is projected to have contracted by 4.4 percent in 2020.

Kenya has had its share of the negative impact of the pandemic. Since the confirmation of its first covid-19 case in 13th March 2020, the Kenyan government instituted stringent measures to curb the spread of the disease. These measures have adversely affected businesses and economic activities. The economy was hard hit significantly with the growth projected at an all low level of 0.6 percent in 2020. This was largely due to the significant contractions in the services and industry subsectors.

On the local scene, the county economy was also hard hit by the pandemic. There was loss of man hours and thereby incomes in the arts, entertainment and recreation, accommodation and food services sectors. Similarly there were losses in the transport, education, manufacturing, construction and real estate sectors. The loss of jobs, loss of productivity and output resulted in in a downturn of the county economy.

To help resuscitate the Kenyan economy, a number of policy measures were introduced under the Economic stimulus package. These together with the reopening of the economy triggered an improvement in economic activities albeit at a weak and slow pace. Going forward, the National Government will continue the implementation of policies whose focus will be to provide an enabling environment for economic recovery to safeguard livelihoods, jobs, businesses and industrial growth. More specifically, the Government will strengthen implementation of programmes and measures that will ensure a more inclusive growth, faster macroeconomic stability and avail liquidity to the private sector including initiating innovative products to boost credit to Micro, Small and Medium Enterprise (MSMEs).

On the local scene, Kwale County urgently responded to the social and economic effects of the Covid-19 pandemic in order to recover and regain an upward growth trajectory. The County Government in its Post Covid-19 Reengineering & Economic Recovery Strategy will pursue measures in six (6) pillars: boosting private sector activities; policy, legislation and institutional reforms; strengthening county government's preparedness and response to pandemic and disasters; enhancing ICT capacity for business continuity, human capital development and infrastructural development.

The funding for this strategy paper will be about **Ksh 8.65 Billion** whose source will be the **Equitable Share of Revenue (Ksh 8.32 Billion)** and **County Own Source Revenues (Ksh 275**

**Million).**The emergence of Covid-19 pandemic and its effects have led to underperformance of revenues thus narrowing the fiscal space. As the reality of the pandemic come into being, it will be necessary to align expenditures to the available fiscal space. This will involve curtailing growth of recurrent budgets especially on operations and maintenance and emphasis put on existing programmes which are consistent with our development agenda. More specifically, particular emphasis will be given to flagship projects and other ongoing projects to guarantee their completion for faster growth and comprehensive benefit to the citizens.

Going forward, the revenue administration measures that have been put in place and the improving macroeconomic environment will boost revenue collection. The enhanced revenue collection at the National level will guarantee funding to the counties. It will also enable implementation of the initiatives under the post Covid-19 Economic Recovery Strategy. These coupled with expenditure rationalization measures that will be undertaken will create adequate fiscal space to implement the county's transformative and priority programmes in the FY 2021/2022 budget and the medium term.

In the drafting of this strategy paper, we consulted widely among various stakeholders. The policy initiatives and strategic priorities highlighted in this CFSP have inputs from various stakeholders. We are grateful for their inputs. Finally, I would like to thank my County Executive Committee colleagues, their Chief Officers, staff of the Finance and Economic Planning departments, stakeholders, members of the CBEF and the general public for their valuable contributions.

**HON. BAKARI HASSAN SEBE**
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## ACKNOWLEDGEMENT

This 2021 CFSP has been prepared in accordance with the provisions of sections 117 of the Public Finance Management Act 2012. It highlights the current state of the economy, provides macro-fiscal outlook over the medium term, county performance by mid of financial year 2020/2021, specific departments strategic priorities and programmes, projections of expected revenues and expenditures and the spending plans and ceilings for departments. These will form a basis for the FY 2021/2022 and the medium term budget.

In the preparation of this paper, we take into cognizant of the reality of scarce resources while expenditure demands keep growing every year. The scarce resources are caused by the underperformance of the economy resulting in lower revenue collection. This is due to the occurrence of the Covid-19 pandemic and its continued negative impact on the economy. It is high time that we undertake expenditure rationalization by curtailing non-critical recurrent expenditures and focus on priority programmes that have higher positive impact on the well-being of the citizens.

This 2021 CFSP has set out policy measures which prioritize strategic programmes anchored in the second County Integrated Development Plan (CIDP) 2018-2022 and the Governor's Manifesto to the people of Kwale. This paper has been aligned to the 2020 Budget Policy statement. The policy measures put forward in this paper are expected to position the County to take advantage of the ongoing National Government strategic investments as espoused in the "Big Four" plan (MTP III).

The preparation of this 2021 CFSP was a collaborative effort bringing together a number of county government agencies. We appreciate their valuable inputs. Much appreciation goes to H.E. The Governor and H.E. The Deputy Governor for their guidance while developing the document. I would like to thank the CEC members, my colleagues Chief Officers, sectors/departments working groups, CBEF non-state actors and other stakeholders who provided information to this 2021 CFSP.

Finally, we are grateful to the County Economic Planning Unit that co-ordinated the finalization of this document. The County Economic Planning team under the guidance of the Director, Budget and Economic Planning tirelessly put together this paper and ensured it was produced in time while maintaining quality standards.

**ALEX ONDUKO THOMAS**
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## ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| BPS | Budget Policy Statement |
| CBEF | County Budget and Economic Forum |
| CBROP | County Budget Review and Outlook Paper |
| CBOs | Community Based Organizations |
| CBK | Central Bank of Kenya |
| CBR | Central Bank Rate |
| CCG | Council of County Governors |
| CEC | County Executive Committee |
| CECM | County Executive Committee Member |
| CFSP | County Fiscal Strategy Paper |
| CIDP | County Integrated Development Plan |
| CO | Chief Officer |
| COFOG | Classification of Functions of Government |
| CPI | Consumer Price Index |
| CHVs | Community Health Volunteers |
| ECDE | Early Childhood Development Education |
| EU | European Union |
| FY | Financial Year |
| IBEC | Intergovernmental Budget and Economic Council |
| IFMIS | Integrated Financial Management Information System |
| KBRR | Kenya Banks Reference Rate |
| KNBS | Kenya National Bureau of Statistics |
| MTEF | Medium Term Expenditure Framework |

| | |
|---|---|
| MTP | Medium Term Plan |
| NGOs | Non-Governmental Organizations |
| PER | Public Expenditure Review |
| PFMA | Public Finance Management Act |
| PWDs | Persons with Disabilities |
| SGR | Standard Gauge Railway |
| SDGs | Sustainable Development Goals |
| SMEs | Small and Medium Enterprises |
| SSA | Sub -Saharan Africa |
| SWGs | Sector Working Groups |
| US | United States |
| TVET | Technical Vocational Education Training |
| WEO | World Economic Outlook |
| WSTF | Water Services Trust Fund |

***About The County Fiscal Strategy Paper***

***The County Fiscal Strategy Paper (CFSP)*** is a county government policy document that sets out the county's strategic priorities and policy objectives that will guide the preparation of the county budget for the coming financial year and over the medium term. Section 117 of the Public Finance Management Act (PFMA), 2012 states that the County Treasury shall prepare and submit to the County Executive Committee the CFSP for approval. Then the approved CFSP is to be submitted to the County Assembly by the 28th of February each year.

The County Assembly shall in not more than 14 days after the CFSP is submitted, table and discuss a report containing its recommendations and pass a resolution to adopt it with or without amendments. The County Executive Committee Member for Finance shall take into account resolutions passed by the County Assembly in finalizing the Budget for the coming financial year.

The County Fiscal Strategy Paper contains:

a) 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.
b) An assessment of the current state of the national economy including macro-economic forecasts.
c) The financial outlook with respect to county government revenues, expenditures and borrowing for the financial year and over the medium term.
d) The proposed expenditure ceilings for the county government departments and the Assembly.
e) The fiscal responsibility principles and financial objectives over the medium term.
f) Statement of specific risks.

The preparation of the County Fiscal Strategy Paper is a consultative process that involves seeking and taking into account the views of the Commission on Revenue Allocation (CRA); the public; any other interested persons or groups; and any other forum that is established by the PFM Act 2012. The County Treasury shall align its County Fiscal strategy Paper with the national objectives in the Budget Policy Statement.

## The Constitution of Kenya 2010 on Principles of Public Finance

Article 201 of the Kenyan Constitution, 2010 sets out the following principles of public finance –

a) there shall be openness and accountability, including public participation in financial matters;

b) the public finance system shall promote an equitable society, in particular-

i. the burden of taxation shall be shared fairly;

ii. revenue raised nationally shall be shared equitably among national and county governments; and

iii. expenditure shall promote the equitable development of the country, including by making special provision for marginalized groups and areas;

c) the burdens and benefits of the use of resources and public borrowing shall be shared equitably between present and future generations;

d) public money shall be used in a prudent and responsible way; and

e) financial management shall be responsible, and fiscal reporting shall be clear.

## Fiscal Responsibility Principles for the National and County Governments

Section 107 of the Public Finance Management Act, 2012 sets the principles of fiscal responsibility.

Subsection (2) states that:

In managing the county government's public finances, the County Treasury shall enforce the following fiscal responsibility principles: -

a) the county government's recurrent expenditure shall not exceed the county government's total revenue
b) over the medium term a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure
c) the county government's expenditure on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenues as prescribed by the County Executive member for finance in regulations and approved by the County Assembly.
d) Over the medium term, the county government's borrowing 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 suitable level as approved by County Assembly
f) the financial risks shall be managed prudently, and
g) a reasonable degree of predictability with respect to the level of tax bases shall be maintained, taking into account any tax reforms that may be made in the future
h) Short term borrowing as mentioned in (d) above shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited county government revenue.

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# CHAPTER ONE: INTRODUCTION

## 1.1 Overview

**1.** This 2021 County Fiscal Strategy Paper (CFSP) is prepared in compliance with the provisions of section 117 of the Public Management Act, 2012. The 2021 CFSP sets out the broad strategic priorities and policy goals that will guide the county government in preparing the budget for the financial year (FY) 2021/2022 and over the medium term. This document is expected to improve the public's understanding of County Government's fiscal matters as well as strategic priorities to improve the well-being of Kwale people.

**2.** This 2021CFSP seeks to accelerate the implementation of our strategic priorities and policy goals articulated in the 2018-2022 County Integrated Development Plan (CIDP). The CIDP 2018-2022 is implemented by five successive annual development plans which we are in the third phase. This strategy paper links the actualization of policies and programmes outlined in the 2020/2021 County Annual Development Plan (CADP).The order of funding for priorities is in line with the objectives set out in the CIDP and has adopted the five main priority areas as espoused in the 2021/2022 CADP namely (a) Education (b) Healthcare (c) Infrastructural Development (d) food security (e) promotion of tourism, trade and investment.

**3.** This 2021 CFSP contains; (a) an assessment of the current state of the Kenyan economy which has a bearing on the county economy (b) the financial outlook with respect to county government revenues and expenditures for the next financial year and over the medium term(c) the proposed expenditure ceiling for the county executive departments and the county assembly (d) the fiscal responsibility principles and financial objectives over the medium term (e) the statement of financial risks. The County Fiscal Strategy Paper 2021 is aligned to the National Objectives in the 2021 Budget Policy Statement and forms the basis for implementation of the 2018-2022 County Integrated Development Plan.

### 1.2 2021 CFSP Preparation Methodology

**4.** Article 201 emphasizes as one of the principles of public finance: openness and accountability including public participation in financial matters. In pursuit of this provision, the County Treasury will hold public participation fora across the sub counties to collect views and contributions on the draft 2021 CFSP. Further, in adherence to section 117 (e), the County Treasury shall seek and take into account the views of: the Commission on Revenue Allocation (CRA), the Public, any interested persons or groups and any other forum that is established by legislation.

**5.** This 2021 CFSP is organized as follows: Chapter I introduces the paper. Chapter II provides an assessment of the current state of the Kenyan economy which has a bearing on the county economy and a review of the fiscal performance for half year 2020/2021 and its implications on the financial objectives given in this 2021 CFSP and the PFMA fiscal responsibility principles. Programmes and Strategies for Economic Recovery and County Transformation are given in chapter III. This is followed by proposed resource allocation framework, fiscal projections and sector ceilings in chapter IV and chapter V concludes the paper.

# CHAPTER II: RECENT ECONOMIC DEVELOPMENTS AND MEDIUM TERM OUTLOOK

## 2.1 Overview

**6.** The 2021 CFSP is prepared against a background of a contracting global economy courtesy of the outbreak of the Covid-19 pandemic. This pandemic and its resultant containment measures have adversely affected global economies disrupting businesses and livelihoods. The global economy is projected to have contracted by 4.4 percent in 2020 but economic recovery strategies initiated may bring it back to a growth of 5.2 percent in 2021.

**7.** The Kenyan economy was also adversely affected by the Covid-19 Pandemic owing to the stringent measures initiated to curb its spread. Livelihoods, businesses and economic activities were disrupted. The Kenyan economy contacted by 5.7 percent in the second quarter of 2020 from a growth of 4.9 percent in the first quarter in 2020. Thus the estimated growth in 2020 was about 0.6 percent far away from the earlier projection of 2.6 percent in the 2020 Budget Review and Outlook Paper (CBROP).

**8.** The economy continues to perform well following the implementation of the Economic recovery strategies under the Economic Stimulus Package. The opening of the economy and relaxing of some of the containment measures have had positive results. Economic growth is projected to grow by 3.5 percent in FY 2020/2021 and further to 6.2 percent over the medium term. The economy continues to register macroeconomic stability with low and stable interest rates and a competitive exchange rate that supports export. Overall inflation remained at favourable range of 5 +/- 2.5. Inflation rate was at 5.8 percent in December 2019 but dropped to 5.6 percent in December 2020 owing to reduction in food prices.

**9.** The US Dollar currency has been affected in the global makers due to decreased economic activities and uncertainties following the Covid-19 outbreak. This affected the country's foreign market although remaining stable. Improvements in the trade balance between Kenya and its trading partners have improved the current account deficit. The current account deficit has improved from 5.8 percent in 20119 to 5.1 percent in 2020.

**10.** The County economy was adversely affected by the outbreak of the Covid-19 pandemic and its spread. There were losses in employment in the sectors of trade, transport, education, arts and recreation, accommodation and food services, real estate, construction and manufacturing. Covid-19 disrupted the operations of businesses and supply chains hence affecting demand and supply of most goods and services in the county. Most of the private sector activities (60.7%) are in the services sector with only 8.3 percent in manufacturing (KNBS, 2016). Most of the enterprises in the county are in the micro enterprises category about 92.2%. Majority of them get their raw materials from peer micro small and medium enterprises (MSMEs) within the County. The MSMEs widely sell their products to individual consumer (78.2%) within the county. There was a general spillover effect in business as some of the firms were adversely affected. The general county economy went low as depressed incomes, loss of employment and reduced economic activities were registered.

## 2.2 Recent Economic Development and Outlook

### 2.2.1 Global and Regional Economic Developments

**12.** The outbreak and spread of the Covid-19 pandemic and the containment measures imposed led to devastated global economies. The global economy registered a negative 4.4 percent growth downwards from a growth of 2.8 percent in 2019. This is one of the worst ever witnessed global economic outlook.

**13.** Advanced economies had an average growth of negative 5.8 percent in 2020 compared to 1.7 percent in 2019. Significant effect were in United States (-4.3 percent), Japan (-5.3 percent) and the United Kingdom (-9.8 percent). Growth in the European Union region contracted by the 8.3 percent in 2020 from a growth of 1.3 percent in 2019.

However, in China where the virus was first reported, the economy grew by 1.9 percent in 2020. This was a slowdown from a growth of 6.1 percent in 2019. All major economies in the emerging markets and developing countries contracted by 3.3 percent in 2020 from a growth of 3.7 percent in 2019. Table 1 below depicts this scenario.

**Table 1: Global economic growth (%)**

| | Actual | Estimated | Projected |
|---|---|---|---|
| | 2019 | 2020* | 2021** |
| **World** | 2.8 | -4.4 | 5.2 |
| **Advanced Economies** | 1.7 | -5.8 | 3.9 |
| **Of Which : USA** | 2.2 | -4.3 | 3.1 |
| **Emerging and Developing Economies** | 3.7 | -3.3 | 6.0 |
| **Of Which : China** | 6.1 | -1.9 | 8.2 |
| **India** | 4.2 | -10.3 | 8.8 |
| **Sub-Saharan Africa** | 3.2 | -3.0 | 3.1 |
| **Of Which : South Africa** | 0.2 | -8.0 | 3.0 |
| **Nigeria** | 2.2 | -4.3 | 1.7 |
| **EAC-5** | 6.2 | 1.0 | 4.5 |
| **Of Which : Kenya** | 5.4 | 0.6 | 6.4 |

**EAC-5: Burundi,Kenya,Rwanda,Tanzania and Uganda**

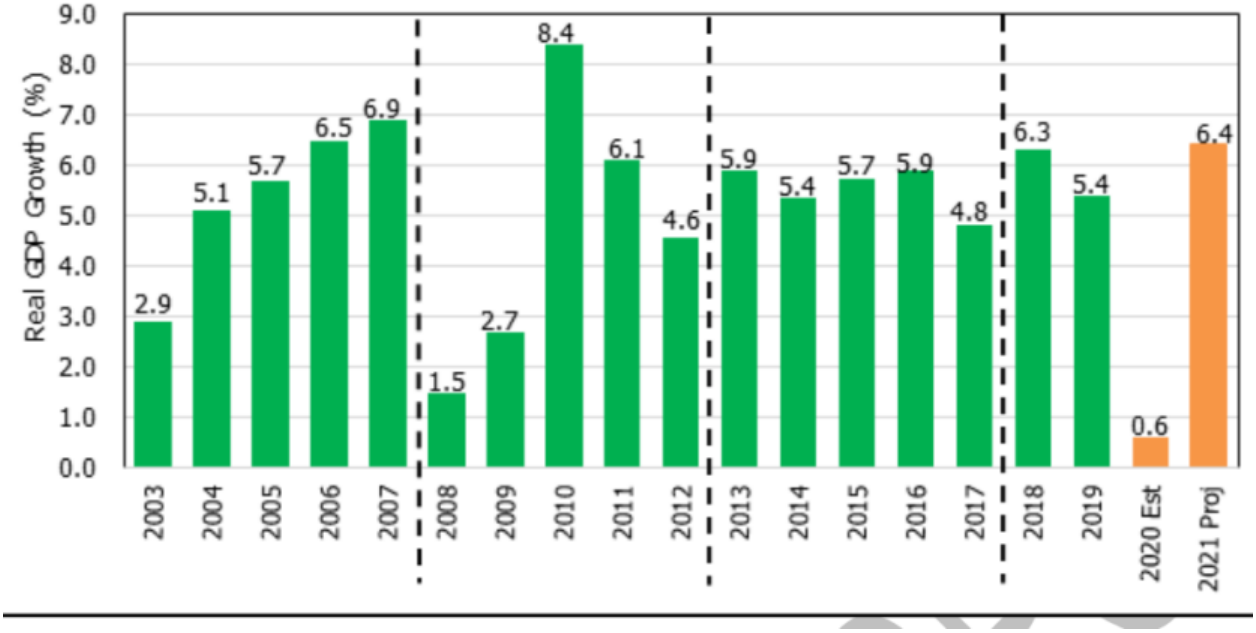
***Source of data-October 2019 WEO; Projections by the National Treasury***

**14.** In Africa, the hardest hit economies were those which were dependent on tourism and commodity experts. The Sub-Saharan African region has had its share of the negative impact of the pandemic. The region economies contracted by 3.0 percent in 2020 compared to a growth of 3.2 percent in 2019. In the East African Community (EAC) region, economic growth slowed down to 1.0 percent in 2020 from a growth of 6.2 percent in 2019.

### 2.2.2 Kenya's Economic Developments

**15.** In 2020, the Kenyan economy was adversely affected by the outbreak of the Covid-19 Pandemic and its containment measures, which not only disrupted normal livelihoods but also impacted negatively businesses and economic activities. Consequently, the economy slowdown to around 0.6 percent in 2020 from an impressive growth of 5.4 percent in 2019. With the opening of the economy and strategic re-engineering and economic recovery measures put in place, the economy is projected to recover and grow by about 6.2 percent in 2021 and above 6.4 percent over the medium term.

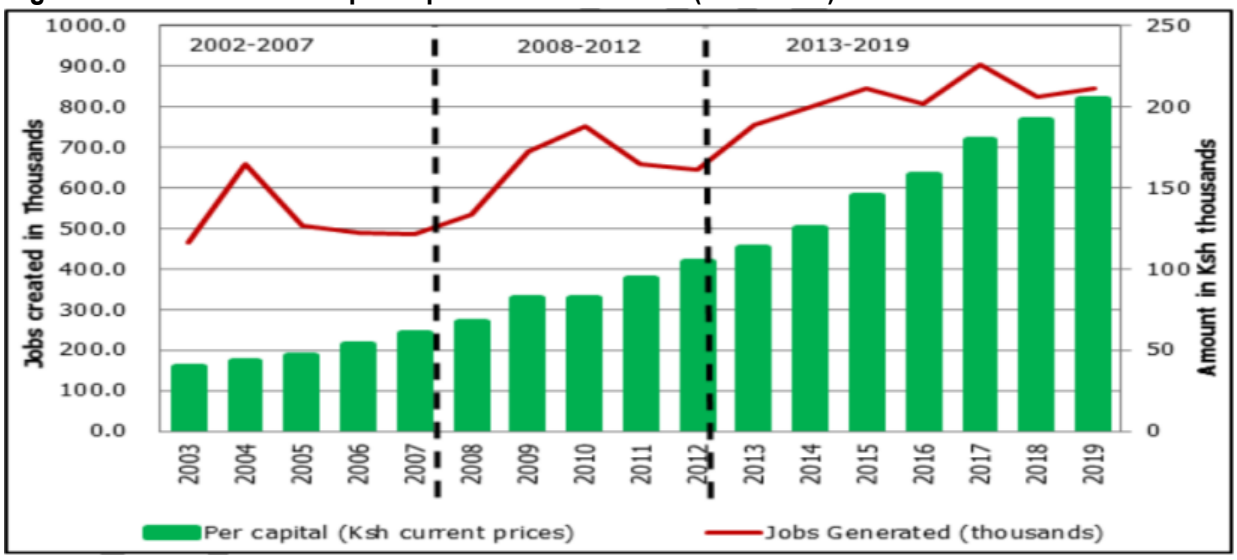
**Figure 1: Trends in Kenya's Economic Growth Rates in Percent**




***Source: National Treasury***

**16.** Income per capita rose from Ksh. 113,539 in 20113 to Ksh. 204,783 in 2019, a compounded annual growth rate of 11.5 percent. This is owing to growth of devolution and other national priorities which have been implemented since 2013 across all sectors of the economy. As a result 827,000 new jobs per year in the period 2013-2019 were registered compared to 656,000 new jobs per year registered in the period 2008-2012 (Figure 2).

**Figure 2: Trends in Income per capita and Job Created (2003-2019)**




***Source: National Treasury***

### 2.2.3 Sectoral Real GDP Growth Rates

**17.** The economy grew by 4.9 percent in the first quarter of 2020 compared to a growth of 5.5 percent in the first quarter of 2019. This slowdown in growth was as a result of the decline in economic activities in most of the country's major trading partners due to the uncertainty associated with the Covid-19 pandemic. The imposition of measures aimed at containing the spread of the Covid-19 resulted in underperformance of most sectors of the economy. As a result, the economy contracted by the 5.7 percent in quarter two of 2020 from a growth of 5.3 percent in the same quarter in 2019. Most of the sectors contracted with the highest contraction being witnessed in accommodation and restaurant at (83.3). The economy was supported by the improved performance of Agriculture, Forestry and Fishing activities, Health Services and Mining and Quarrying activities.

**Figure 2: Sectoral Real GDP Growth, Rates, Percent**

| Sectors | Sector Growth (%) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2018 | | | | 2019 | | | | 2020 | |
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 |
| Primary Industry | 6.6 | 5.8 | 6.6 | 3.7 | 4.6 | 3.0 | 2.5 | 3.8 | 5.1 | 6.5 |
| Agriculture, Forestry and Fishing | 6.7 | 5.9 | 6.8 | 3.9 | 4.7 | 2.9 | 2.4 | 4.0 | 4.9 | 6.4 |
| Mining and Quarrying | 3.1 | 3.5 | 3.2 | 1.2 | 1.4 | 5.0 | 3.4 | 0.3 | 9.5 | 10.0 |
| Secondary Sector (Industry) | 4.6 | 5.1 | 6.2 | 6.7 | 4.9 | 5.4 | 4.7 | 4.0 | 4.1 | (1.0) |
| Manufacturing | 3.2 | 3.9 | 5.1 | 5.2 | 3.5 | 4.0 | 3.2 | 2.3 | 2.9 | (3.9) |
| Electricity and Water supply | 6.1 | 8.3 | 8.1 | 9.5 | 7.8 | 7.3 | 6.4 | 6.4 | 6.3 | (0.6) |
| Construction | 6.7 | 5.6 | 7.3 | 7.7 | 6.1 | 7.2 | 6.6 | 5.7 | 5.3 | 3.9 |
| Tertiary sector (Services) | 6.2 | 6.0 | 6.6 | 8.0 | 6.4 | 6.8 | 6.7 | 6.8 | 5.4 | (11.0) |
| Wholesale and Retail trade | 5.6 | 6.5 | 7.3 | 7.9 | 6.3 | 7.8 | 6.1 | 6.4 | 6.4 | (6.9) |
| Accomodation and Restaurant | 13.3 | 15.1 | 15.5 | 21.5 | 11.0 | 12.1 | 9.9 | 9.0 | (9.3) | (83.3) |
| Transport and Storage | 6.5 | 6.6 | 8.5 | 11.8 | 6.4 | 7.6 | 7.6 | 9.2 | 6.1 | (11.6) |
| Information and Communication | 13.2 | 11.7 | 9.8 | 10.6 | 10.2 | 7.8 | 8.1 | 9.4 | 9.7 | 4.3 |
| Financial and Insurance | 4.0 | 3.5 | 5.1 | 8.5 | 6.3 | 5.2 | 8.1 | 6.6 | 6.2 | 4.2 |
| Public Administration | 5.5 | 6.1 | 7.1 | 8.1 | 8.9 | 8.7 | 8.4 | 6.2 | 6.7 | 5.7 |
| Others | 5.1 | 5.0 | 4.9 | 4.8 | 4.8 | 5.8 | 5.6 | 5.2 | 4.6 | (19.2) |
| of which Real Estate | 5.2 | 4.5 | 3.8 | 3.1 | 4.8 | 6.0 | 5.5 | 5.1 | 4.3 | 2.2 |
| Education | 5.3 | 5.2 | 5.5 | 7.0 | 4.3 | 6.0 | 6.0 | 5.5 | 5.3 | (56.2) |
| Health | 4.1 | 3.4 | 5.3 | 4.5 | 5.4 | 6.2 | 5.5 | 6.2 | 5.8 | 10.3 |
| Taxes less subsidies | 6.1 | 6.0 | 6.2 | 4.3 | 4.7 | 4.0 | 4.2 | 4.5 | 3.4 | (14.2) |
| Real GDP | 6.2 | 6.0 | 6.6 | 6.5 | 5.5 | 5.3 | 5.2 | 5.5 | 4.9 | (5.7) |
| of which Non-Agriculture | 6.0 | 6.0 | 6.6 | 7.5 | 5.9 | 6.4 | 6.2 | 6.0 | 5.2 | (8.5) |

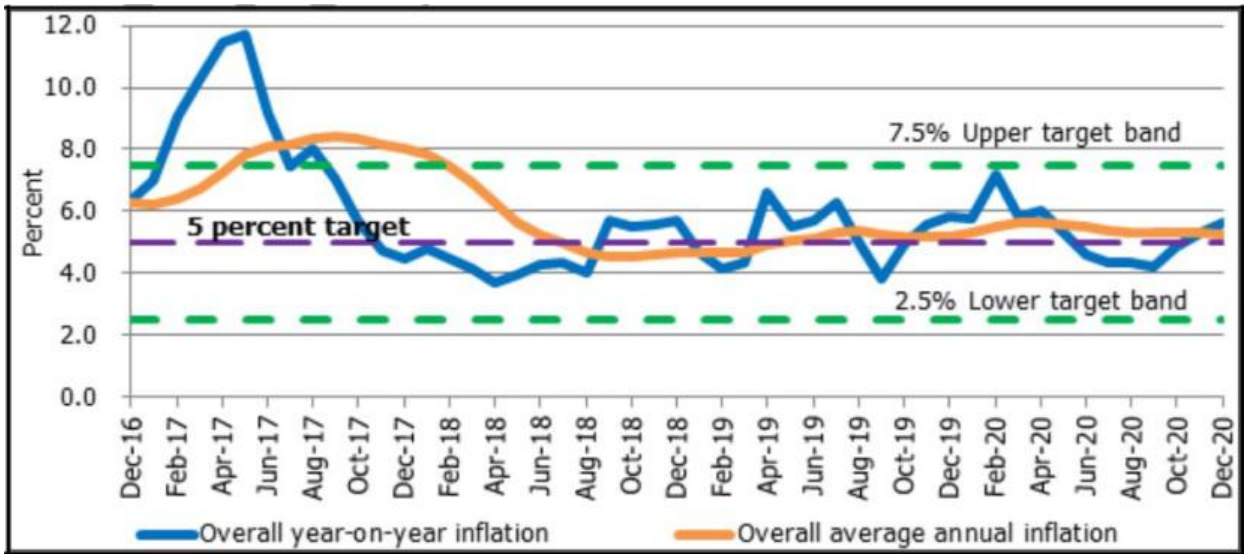
***Source of Data: Kenya National Bureau of Statistic***s

## 2.3 Macroeconomic Environment

### 2.3.1 Inflation Rate

**18.** Year on year overall inflation rate remained low, stable and within the target range of 5 +/- 2.5 percent since end 2017 demonstration prudent monetary policies. The inflation rate was at 5.6 percent in December 2019. This lower inflation was supported by a reduction in food prices.

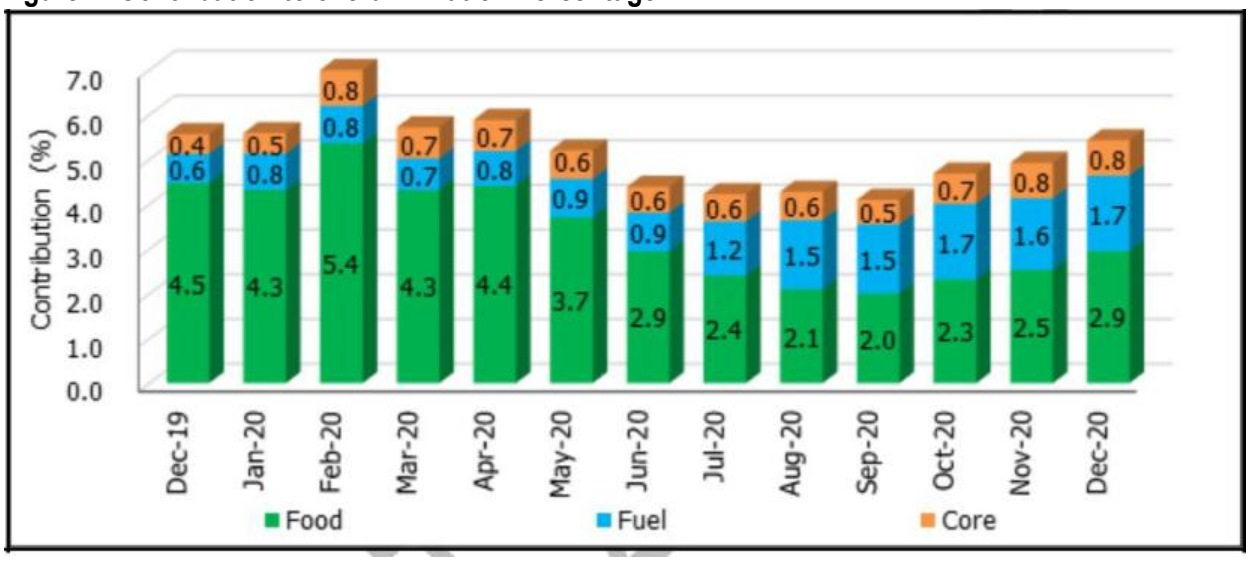
**Figure 3 : Inflation Rate Percent**




***Source of Data: Kenya National Bureau of Statistics***

**19.** Both food and core inflation (Non-food Non-fuel) contribution to inflation remained low in December 2020 compared to same period in 2019. Food inflation which is the main source of overall inflation declined from 4.5 percent in December 2019 to 2.9 percent in December 2020 owing to a reduction in food prices Core Inflation (Non-Food Non-Fuel) contribution to inflation remained low at 0.8 percent in December 2020 compared to 0.4 percent in December 2019.

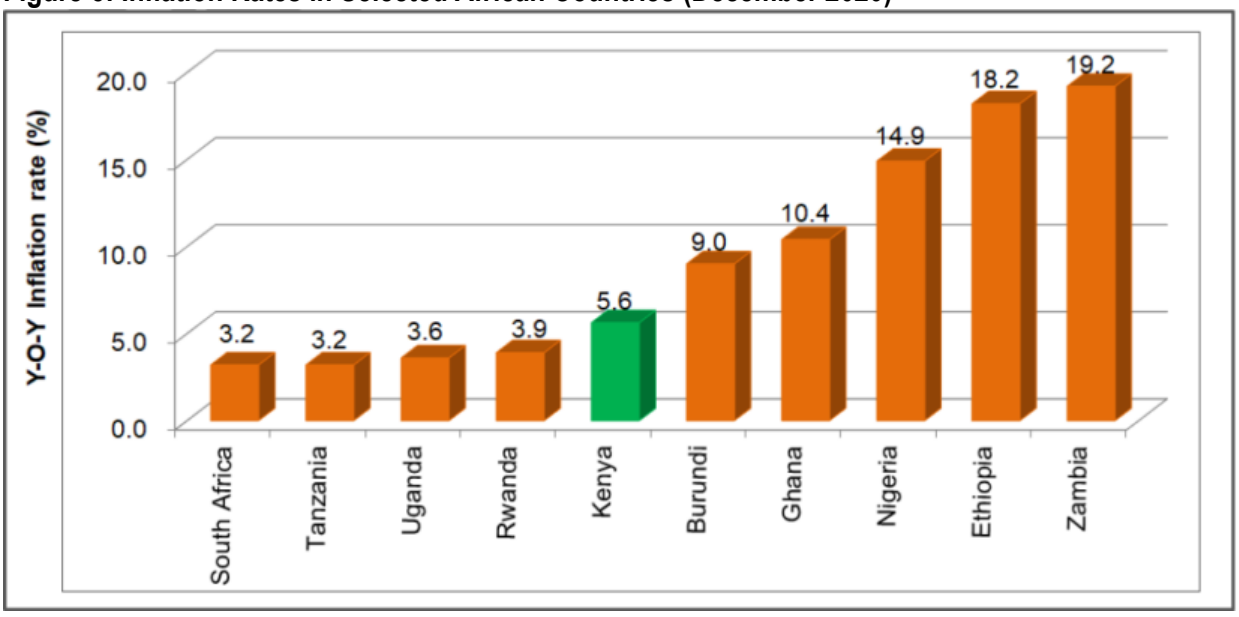
**Figure 4: Contribution to overall Inflation Percentage**




***Source of Data: Kenya National Bureau of Statistics***

**20.** In comparison to other Sub-Saharan Africa countries, Kenya's rate of inflation remained favourably. Kenya recorded a lower inflation rate than most of the countries including Burundi, Ghana, Nigeria, Zambia and Ethiopia in December 2020.

**Figure 5: Inflation Rates in Selected African Countries (December 2020)**



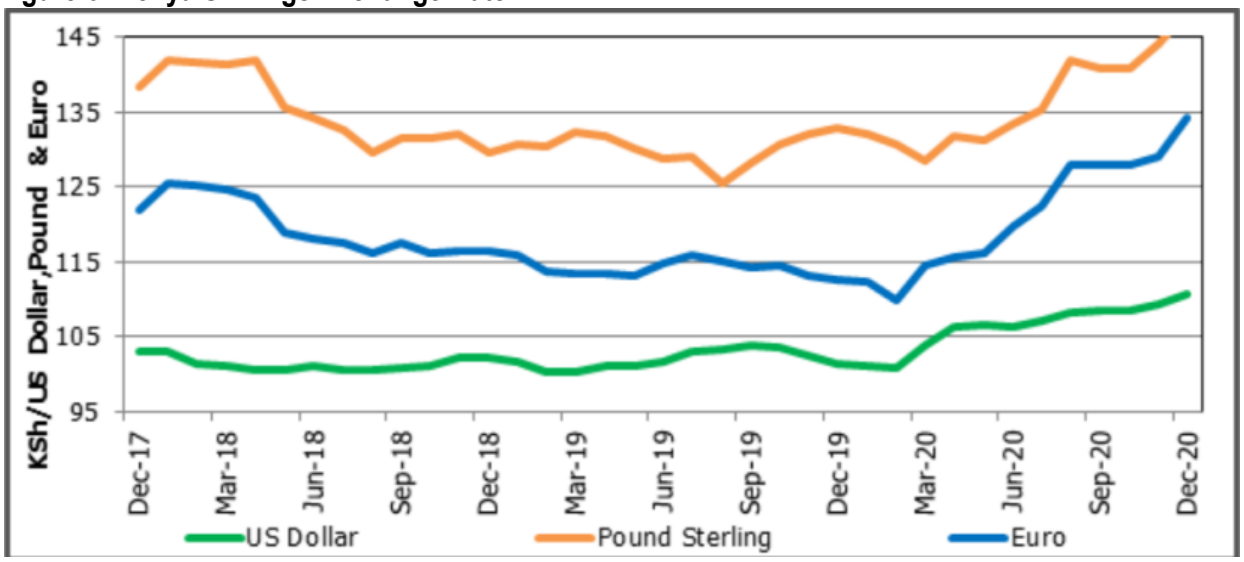

***Source of Data: Various National Central Banks***

### 2.3.2 Kenya Shilling Exchange Rate

**21.** The shilling to the dollar exchanged at Kshs 110.6 in December 2020 compared to Kshs 101.5 in December 2019. Thus the foreign exchange market remained fairly stable. The emergence of the Covid-19 pandemic resulted in uncertainty in the global foreign exchange market.

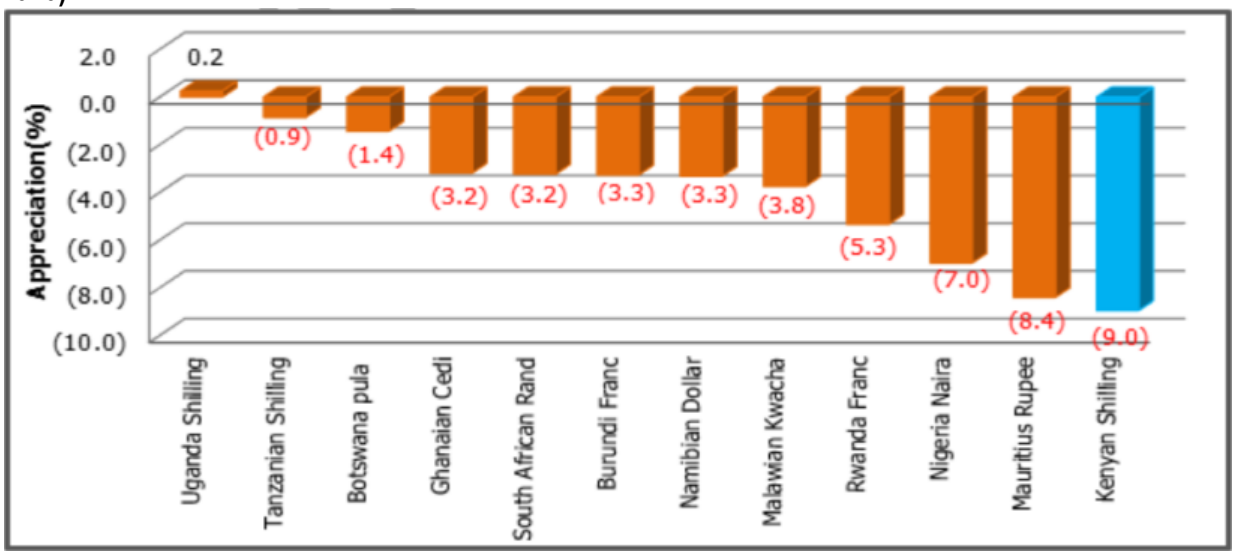
**22**. The Kenyan Shilling has remained stable owing to increase diaspora remittance and adequate foreign exchange reserves. Like most Sub-Saharan Africa currencies, the Kenya shilling has remained relatively stable weakening by only 0.9 percent against the US Dollar.

**Figure 6: Kenya Shillings Exchange Rate**




***Source of Data: Central Bank of Kenya***

**Figure 7: Performance of selected currencies against the US Dollar (December 2019 to December 2020)**

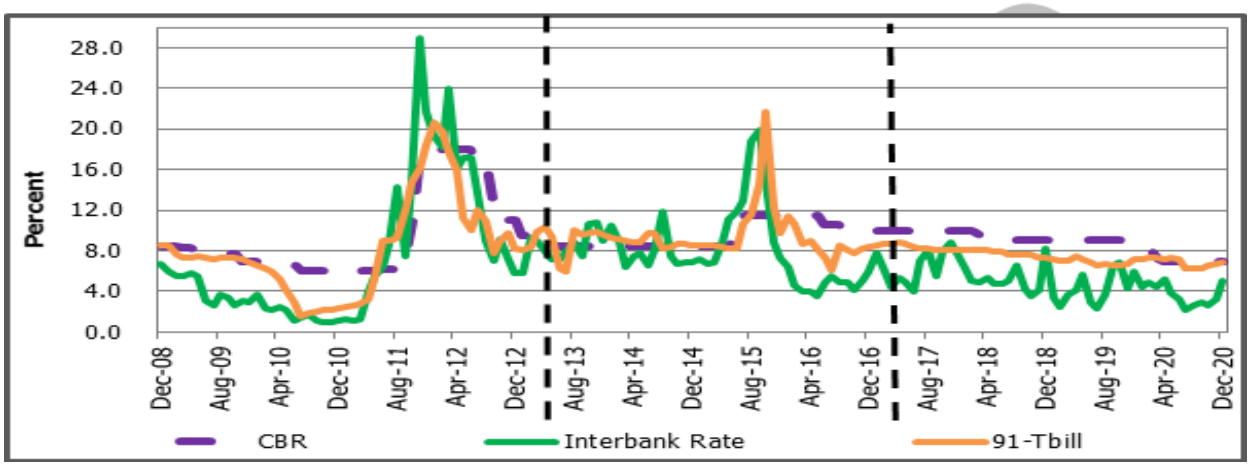



***Source of Data: Various National Central Banks***

### 2.3.3 Interest Rates

**23.** The easing of the monetary policy and ensuring adequate liquidity in the money market led to the decline in interbank rate from 6.0 percent in December 2019 to 501 percent in December 2020. To support credit access by borrowers especially the (MSMEs) Micro, Small and Medium Enterprises, the Central Bank Rate was retained at 7.00 percent throughout the year to guarantee lower lending rates. Thus short term interest rates remained fairly low and stable.

**Figure 8: Short Term Interest Rates, Percent**




***Source of Data: Central Bank of Kenya***

**25.** The Treasury Bills rate remained low and stable over the period. The 91- day Treasury Bills rate was at 6.9 percent in December 2020 from 7.2 percent in December 2019. Over the same, the 182- day Treasury Bills rate declined to 7.4 percent from 8.2 percent while the 364- day decreased to 8.3 percent from 9.8 percent.

### 2.3.4 Foreign Exchange Reserves

**26.** The official foreign exchange reserves held by the Central Bank was at US Dollar 8,765.1 million (5.4 months of import cover) in September 2020 compared with US Dollar 9,441.6 (5.8 months of import cover) in September 2019. This fulfills the requirement to maintain reserves at minimum of 4.0 months of import cover to provide adequate buffer against short terms shocks in the foreign exchange market.

### 2.3.5 Money and Credit

**27.** Growth in broad money supply. M3 improved to 14.2 percent in the year November 2020 compared to a growth of 5.9 percent in the year to November 2019. This improved growth in M3 was attributed to an increase in the Net Domestic Assets (NDA) of the banking system which improved to register a growth of 20.8 percent from a growth of 3.5 percent over a similar period in 2019. The Net Domestic Assets improvement was largely due to the increase in net credit flows to both the Government and the private sector.

**28.** The easing of Covid-19 containment measures towards the end of 2020 resulted in improved economic activity in most sectors of the economy. Improved economic activity increased the demand for Credit by the private sector. As a consequence, private sector credit grew by 8.1 percent in the 12 months to November 2020 compared to a growth of 7.3 percent in the year to November 2019.

**Figure 9: Money Supply and Credit, Ksh Billion**

| | 2018 November | 2019 November | 2020 November | 2018-2019 November | 2019-2020 November | 2018-2019 November | 2019-2020 November |
|---|---|---|---|---|---|---|---|
| COMPONENTS OF M3 | | | | | | | |
| 1. Money supply, M1 (1.1+1.2+1.3) | 1,409.6 | 1,460.2 | 1,759.9 | 50.6 | 299.7 | 3.6 | 20.5 |
| 1.1 currency outside banks (M0) | 224.0 | 191.6 | 224.9 | 32.4 | 33.3 | (14.5) | 17.4 |
| 1.2 Demand deposits | 1,117.3 | 1,186.0 | 1,377.9 | 68.7 | 191.9 | 6.2 | 16.2 |
| 1.3 Other deposits at CBK | 68.3 | 82.6 | 157.1 | 14.3 | 74.5 | 20.9 | 90.2 |
| 2. Money supply, M2 (1+2.1) | 2,699.4 | 2,849.4 | 3,238.2 | 150.0 | 388.8 | 5.6 | 13.6 |
| 2.1 Time and savings deposits | 1,289.8 | 1,389.2 | 1,478.3 | 99.4 | 89.1 | 7.7 | 6.4 |
| **Money supply, M3 (2+3.1)** | **3,269.0** | **3,462.0** | **3,952.3** | **192.9** | **490.3** | **5.9** | **14.2** |
| 3.1 Foreign currency deposits | 569.6 | 612.5 | 714.1 | 42.9 | 101.6 | 7.5 | 16.6 |
| SOURCES OF M3 | | | | | | | |
| 1. Net foreign assets (1.1+1.2) | 691.8 | 795.6 | 730.6 | 103.8 | 65.0 | 15.0 | (8.2) |
| 1.1 Central Bank | 731.5 | 839.4 | 753.6 | 107.9 | 85.8 | 14.7 | (10.2) |
| 1.2 Banking Institutions | (39.8) | (43.8) | (23.0) | 4.1 | 20.8 | (10.2) | 47.5 |
| 2. Net domestic assets (2.1+2.2) | 2,577.3 | 2,666.4 | 3,221.7 | 89.1 | 555.3 | 3.5 | 20.8 |
| 2.1 Domestic credit (2.1.1+2.1.2+2.1.3) | 3,358.9 | 3,605.5 | 4,235.9 | 246.6 | 630.4 | 7.3 | 17.5 |
| 2.1.1 Government (net) | 828.6 | 903.9 | 1,332.3 | 75.3 | 428.4 | 9.1 | 47.4 |
| 2.1.2 Other public sector | 107.0 | 100.7 | 90.8 | 6.3 | 10.0 | (5.9) | (9.9) |
| 2.1.3 Private sector | 2,423.3 | 2,600.8 | 2,812.8 | 177.6 | 212.0 | 7.3 | 8.1 |
| 2.2 Other assets net | (781.6) | (939.1) | (1,014.2) | 157.5 | 75.1 | (20.1) | (8.0) |

***Source of Data: Central Bank of Kenya***

**29.** Net Foreign Assets (NFA) of the banking system contracted by 8.2 percent in the year to November 2020 compared to a growth of 15.0 percent in the year to November 2019. The contraction in growth of the NFA was mainly reflected in the decline of the foreign currency reserves by the Central Bank. The NFA of commercial banks improved during the review period as a result of an increase in the commercial bank's deposits with the non-resident banks.

### 2.3.6 Balance of Payments

**30.** There was an improvement in the current account balance. The current account deficit stood at $4,921.0 million (5.0 percent of GDP) in September 2020 from US $5,009.1 million (5.3 percent of GDP) in September 2019. This improvement in the current account balance resulted in an improved to a surplus of US $1,217.2 million (1.2 percent of GDP) in the year to September 2020 from a deficit of US $1,058 million (1.1 percent of GDP) in the year to September 2019.

**31.** The improvement in the current account balance was mainly due to the improvement in the merchandise account balance and Net primary income balance. The balance in the merchandise

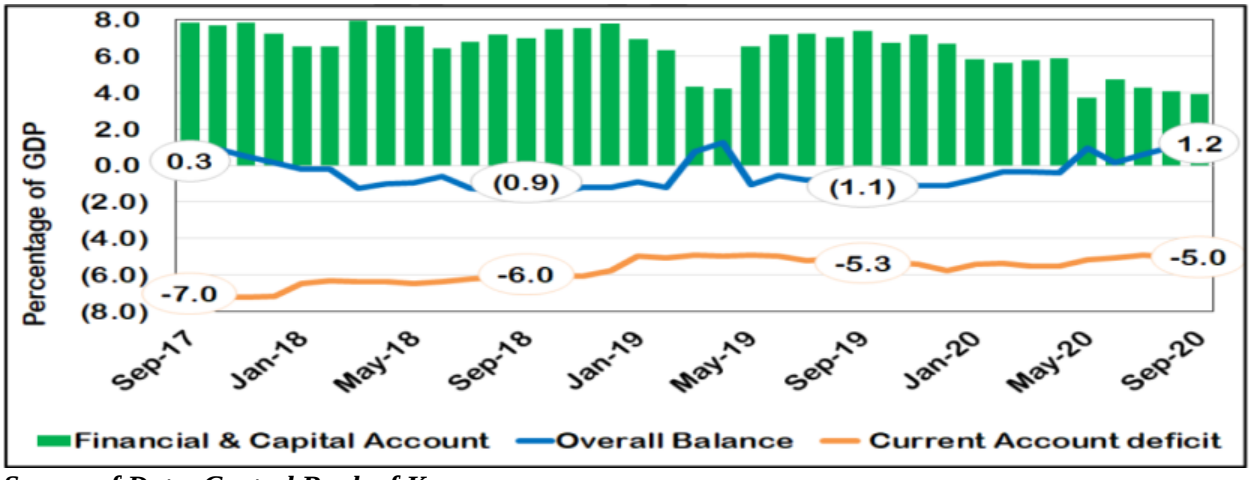
account improved by US $ 1,340.1 million to a deficit of US $8,947.5 million in the year to September 2020 on account of a decline in imports and a marginal increase in exports. Exports grew by 2.8 percent in the year to September 2020. The increase in export was as a result of increased tea exports due to increased production and increased demand for tea from the UK. On the other hand, the imports declined on account of reduction in the volume of oil importation and decline in the value of imported manufactured goods, particularly iron, steel, machinery and transport equipment such as vehicles and SGR related imports.

**Figure 10: Balance of Payments (Million)**

| | | | | | | Year to September 2020 | | Percent of GDP | |
|---|---|---|---|---|---|---|---|---|---|
| | Sep-18 | Sep-19 | Mar-20 | Jun-20 | Sep-20 | absolute change | Percent Change | Sep-19 | Sep-20 |
| **Overall Balance** | **(777.5)** | **(1,058.0)** | **(340.5)** | **179.9** | **1,217.2** | **2,275.2** | **(215.1)** | **(1.1)** | **1.2** |
| A) Current Account | (5,273.9) | (5,009.1) | (5,635.7) | (5,066.9) | (4,921.0) | 88.1 | (1.8) | (5.3) | (5.0) |
| *Merchandise Account (a-b)* | (10,204.4) | (10,287.6) | (10,442.8) | (9,460.0) | (8,947.5) | 1,340.1 | (13.0) | (11.0) | (9.1) |
| a) Goods: exports | 6,139.3 | 5,849.6 | 6,070.1 | 5,923.6 | 6,014.3 | 164.8 | 2.8 | 6.2 | 6.1 |
| b) Goods: imports | 16,343.7 | 16,137.2 | 16,512.8 | 15,383.6 | 14,961.8 | 1,175.4 | (7.3) | 17.2 | 15.2 |
| *Net Services (c-d)* | 1,493.0 | 1,869.6 | 1,352.7 | 1,028.1 | 509.3 | 1,360.2 | (72.8) | 2.0 | 0.5 |
| c) Services: credit | 5,160.5 | 5,674.9 | 5,333.0 | 4,783.4 | 4,190.2 | 1,484.6 | (26.2) | 6.1 | 4.3 |
| d) Services: debit | 3,667.5 | 3,805.3 | 3,980.3 | 3,755.3 | 3,680.9 | 124.4 | (3.3) | 4.1 | 3.7 |
| *Net Primary Income (e-f)* | (1,496.5) | (1,837.9) | (1,778.2) | (1,647.6) | (1,488.5) | 349.5 | (19.0) | (2.0) | (1.5) |
| e) Primary income: credit | 181.3 | 226.9 | 226.6 | 198.2 | 185.4 | 41.5 | (18.3) | 0.2 | 0.2 |
| f) Primary income: debit | 1,677.9 | 2,064.8 | 2,004.8 | 1,845.8 | 1,673.9 | 391.0 | (18.9) | 2.2 | 1.7 |
| *Net Secondary Income* | 4,934.0 | 5,246.8 | 5,232.6 | 5,012.6 | 5,005.6 | 241.2 | (4.6) | 5.6 | 5.1 |
| g) Secondary income: credit | 4,986.0 | 5,299.4 | 5,286.8 | 5,064.1 | 5,060.3 | 239.1 | (4.5) | 5.7 | 5.1 |
| h) Secondary income: debit | 52.0 | 52.6 | 54.2 | 51.5 | 54.7 | 2.2 | 4.1 | 0.1 | 0.1 |
| B) Capital Account | 246.0 | 206.8 | 189.6 | 146.1 | 157.8 | 48.9 | (23.7) | 0.2 | 0.2 |
| C) Financial Account | (5,902.6) | (6,714.3) | (5,720.5) | (4,597.6) | (3,702.3) | 3,012.0 | (44.9) | (7.2) | (3.8) |

***Source of Data: Central Bank of Kenya***

**Figure 11: Performance of Balance of Payments and its components**




***Source of Data: Central Bank of Kenya***

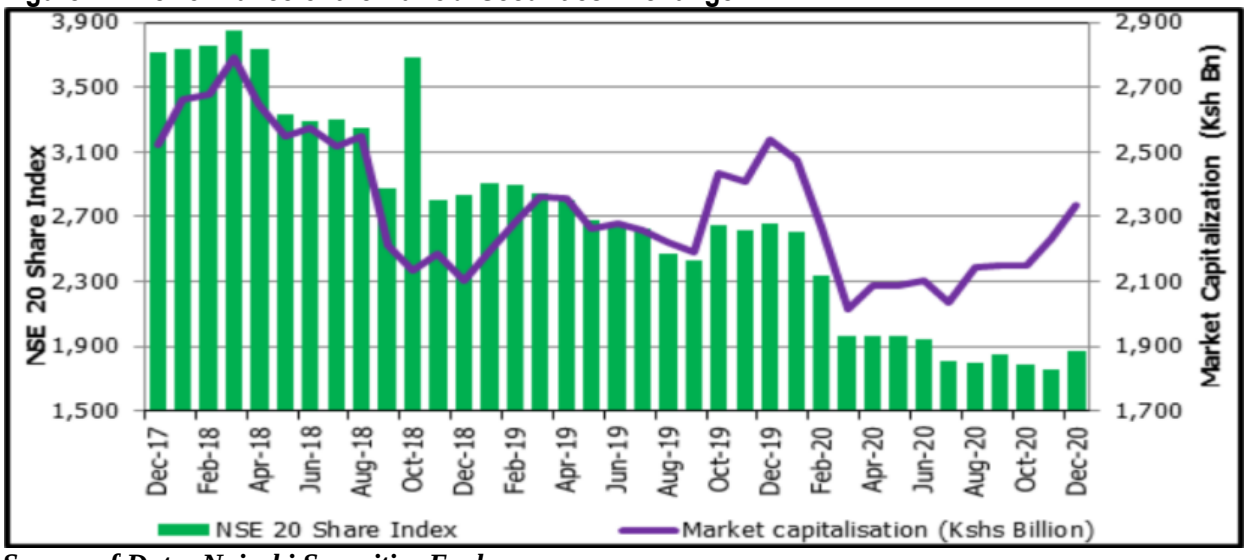
**32.** Although the capital account balance registered a surplus of US $157.8 million in the year to September 2020, this was a US $48.9 million decline to the balance witnessed in September 2019. Net Financial Inflows declined to US $3,012.0 million from US $6,714.3 million in the year to September 2019. The financial inflows were mainly in the form of direct investments and other investments which stood at US $482.4 million and US$4,420.4 respectively in September 2020.

**33.** The uncertainty surrounding the Covid-19 pandemic and its resultant containment measures led to a decline in transport services and tourism travel receipts. Although cargo throughout performed well during this period and provided a buffer in terms of transport receipts, the overall net services declined by 72.8 percent in the year to September 2020.

### 2.3.7 Nairobi Securities Exchange

**34.** The Financial markets were adversely affected by the emergence of the Covid-19 pandemic. Activity in the capital markets declined in December 2020 compared to December 2019, with equity share prices declining as shown by the NSE 20 Share Index. The NSE 20 Share index was at 1,868 points by end of December 2020 compared to 2,654 points by end of December 2019. Consequently, market capitalization declined from Ksh 2,540 billion to Ksh 2,337 billion over the same period.

**Figure 12: Performance of the Nairobi Securities Exchange**




***Source of Data: Nairobi Securities Exchange***

## 2.4 Fiscal Performance

### 2.4.1 Overview

**35.** The outbreak of Covid-19 and the containment measures put in place to curb its spread had devastating effects on the economy. There were shortfalls in revenue collection and rising expenditure pressures. The shortfall in revenue was as a result of weak business environment and tax reliefs introduced in April 2020 to support people and businesses from the adverse effect of Covid-19 pandemic.

**36.** The relaxation of some of the containment measures and gradual opening of the economy will improve revenue collection. Revenue will improve due to increased demand for inputs as well as improved domestic sales. Effective January 2021, Revenue performance will be boosted following a reversal of tax reliefs introduced in April 2020.

**37.** On the expenditure side, the National Government has embarked on prioritization and rationalization of expenditures to ensure only the most prioritized expenditures are undertaken and wasteful recurrent expenditures are curtailed. Priority expenditures should be those that the most impactful programmes that yield the highest welfare benefits to the citizens.

### 2.4.2 Revenue Performance

#### 2.4.2.1 National Revenue Performance

**38.** Revenue collection nationally was affected by the Covid-19 pandemic which resulted in difficult operating environment. Revenue collection to December 2020 declined by 14.0 percent in December 2019. The cumulative total revenue inclusive of Ministerial Appropriation in Aid (A-I-A) amounted to Ksh 800.1 billion against a target of Ksh 907.7 billion, with shortfalls recorded in both ordinary revenues (Ksh 75.8 billion) and Ministerial A-I-A (Ksh 31.8 billion).

**39.** Ordinary revenue collection to December 2020 amounted to Ksh 726.4 billion which was a contraction of 15.3 percent compared to a growth of 18.8 percent over the same period in 2019. The contraction was due to a decline in the growth of all broad categories of ordinary revenues

except import duty which grew by 0.5 percent during the review period. Specifically; Income tax declined by 15.8 percent due to tax reliefs, Value Added Tax (VAT) declined by 15.3 percent and Excise taxes declined by 0.6 percent.

**40.** Ministerial AIA revenue recorded growth though below the set target. Ministerial AIA revenue recorded 1.6 percent growth for the period ending December 2020 compared to a growth of 0.2 percent over a similar period in 2019. Ministerial A-I-A inclusive of the Railway Development Levy amounted to Ksh 73.6 billion against a target of Ksh 105.4 billion.

### 2.4.2.2 County Revenue Performance

**41.** Following the disruption of economic activities and businesses arising out of the containment measures of the covid-19 pandemic, the county government suspended various charges and fees collected locally. The county government waived parking fees, market fees, cess and single business permits, matatu sticker charges, interest on land rates and hospital charges. This resulted in an overall loss of revenues of about Ksh 90 million.

**42.** The County Government has a revenue projection of Ksh. 9,193,642,690.00 for the financial year 2020 – 2021. Ksh. 7,659,300,000.00 is equitable share, Ksh. 406,363,515.00 conditional grants, Ksh. 762,337,859.00 is other loans and grants, and Ksh. 334,181,316 own source revenue. As at 31st December 2020, the revenues realized were as follows:-

**Table 2: Revenue Performance by Source as at 31st December 2020**

| Source | Actual | Projection | Percentage realized |
|---|---|---|---|
| **Equitable Share** | 1,954,260,900.00 | 7,659,300,000.00 | 25.51 |
| **Conditional Grants** | 57,071,257.00 | 406,363,515.00 | 14.04 |
| **Loans and Grants** | 232,232,004.70 | 762,337,859.00 | 30.46 |
| **Own source revenue** | 71,576,380.00 | 334,181,316.00 | 21.42 |
| **Total** | **2,315,140,541.70** | **9,162,182,690.00** | 25.27 |

***Source of data: Kwale County Treasury***

**43.** Revenues collected as at 31st December 2020 were Ksh71 Million against a target of 98 Million. This was a decline compared to revenues collected the same period in 2019. In

December 2019 the county government had collected Ksh 98 Million. Revenues are expected to get a boost following gradual opening of the economy and the reinstating of most of the levies in the county. The county government targets to collect **Ksh 334 Million** by the end of the financial year 2020/2021.

**Table 3: County Revenue Performance as at 31st December 2020**

| | | Estimates half year FY 2019/2020 | | | Estimates half year FY 2020/2021 | | |
|---|---|---|---|---|---|---|---|
| No | Revenue Stream | Annual Targeted Revenue (Kshs.) | Actual Revenue (Kshs.) | Percent Performance | Annual Targeted Revenue (Kshs.) | Actual Revenue (Kshs.) | Percent Performance |
| 1 | Land Rates | 53,461,248 | 7,994,604 | 14.95 | 47,077,497 | 7,291,157 | 15.49 |
| 2 | Single Business Permit | 66,888,950 | 2,932,992 | 4.38 | 60,826,416 | 3,816,720 | 6.27 |
| 3 | House and Stall Rent | 1,345,478 | 532,600 | 39.58 | 4,252,000 | 1,618,400 | 38.06 |
| 4 | Market Fees | 5,131,137 | 2,419,316 | 47.15 | 3,520,000 | 1,718,173 | 48.81 |
| 5 | Royalties and Cess | 12,103,401 | 3,439,623 | 28.42 | 25,074,400 | 11,664,251 | 46.03 |
| 6 | Auction Fees | 7,248,568 | 3,538,795 | 48.82 | 6,800,000 | 2,811,468 | 41.35 |
| 7 | Advertisement | | | | 14,043,700 | 1,790,700 | 12.75 |
| 8 | Parking Fees | 16,498,419 | 7,870,382 | 47.70 | 15,400,000 | 5,515,897 | 35.82 |
| 9 | Revenue From Hospitals | 106,532,667 | 44,124,680 | 41.42 | 132,080,533 | 26,530,793 | 20.09 |
| 10 | Building Plan Approval | 2347200 | 963,250 | 41.04 | 4,000,000 | 1,388,348 | 34.71 |
| 11 | Land Revenue | 4,148,735 | 2,020,493 | 48.70 | 3,155,773 | 3,521,957 | 111.60 |
| 12 | Slaughter | 481,801 | 282,532 | 58.64 | 530,000 | 216,931 | 40.93 |
| 13 | Refuse Collection Fee | 0 | 0 | | 1,400,000 | 528,000.00 | 37.71 |
| 14 | Miscellaneous | 3,449,105 | 618,820 | 17.94 | 4,146,300 | 1,139,950 | 27.49 |
| 15 | Revenue from Trade and Cooperatives | 17,198,406 | 10,778,101 | 62.67 | 1,480,200 | 67,200 | 4.54 |
| 16 | Revenue from Agriculture and Fisheries | 18,970,388 | 10,106,304 | 53.27 | 2,200,000 | 1,235,525 | 56.16 |
| 17 | Public Health and Sanitation | 9,194,497 | 685,120 | 7.45 | 8,194,497 | 720,910 | 8.80 |
| 18 | **Total Own Source Revenue** | **325,000,000** | **98,307,612** | 30.25 | **334,181,316** | **71,576,380** | 21.42 |
| 19 | **National Government Transfers** | **8,895,842,555** | **2,892,524,558** | 32.52 | **8,828,001,374** | **2,243,564,162** | 25.41 |
| **Total Revenue** | | **9,220,842,555** | **2,990,832,170** | 32.44 | **9,162,182,690** | **2,315,140,542** | 25.27 |

***Source of Data: County Treasury***

### 2.4.3 Expenditure Performance

#### 2.4.3.1 National Expenditure Performance

**44.** National Government total expenditures and net lending for the period ending December 2020 amounted to Ksh 1,191.0 billion which was below the projected amount by Ksh 67.9 billion. Recurrent spending amounted to Ksh 798.7 billion which was below the projected target by 44.3 billion. The reason for the low spending was due to scaling down of National

Government operations in the first quarter of the FY 2020/2021 because of the covid-19 pandemic. Specifically, this was lower than targeted expenditure on operations and maintenance and lower that projected payments in compensation of employees, pension and foreign interest.

**45.** Development expenditure of the National Government amounted to Ksh 262.8 billion which was below target by Ksh 6.8 billion. The lower than expected expenditure was due to below target disbursement of foreign financed payments by Ksh 48.8 billion. Disbursement to domestically financed programmes was above target by Ksh 44.7 billion. Transfer to County Governments amounted to Ksh 129.5 billion of which the equitable share amounted to Ksh 115.0 billion.

### 2.4.3.2 County Government Expenditure Performance

**46.** Budget execution in the first half for the FY 2020/2021 was hampered by revenue shortfalls and rising expenditure pressures. With the outbreak of Covid-19 pandemic, the county government reallocated its budget away from non-priority areas to undertake programmes to help fight the pandemic. The county government budgeted Ksh.160 million to undertake Covid-19 pandemic programmes. Total expenditure for the period ending December 2020 amounted to Ksh 3,996,229,979 which was below the target of Ksh5, 959,546,629. As at the end of the mid-year 2020/2021, the County Government had absorption rate of 33.5 percent.

**Table 4: County Government Expenditure as at 31st December 2020**

| CODE VOTE DESCRIPTION | Approved Estimates(Ksh) | Actual Expenditure(Ksh) | Absorption% |
|---|---|---|---|
| 3061 FINANCE AND ECONOMIC PLANNING | 535,211,577 | 414,519,814 | 77.4 |
| 3062 AGRICULTURE, LIVESTOCK AND FISHERIES | 839,166,002 | 216,933,524 | 25.9 |
| 3063 ENVIRONMENT AND NATURAL RESOURCES | 302,819,963 | 75,794,341 | 25.0 |
| 3064 MEDICAL AND PUBLIC HEALTH SERVICES | 2,959,544,911 | 1,304,176,015 | 44.1 |
| 3065 COUNTY ASSEMBLY | 824,200,366 | 281,869,443 | 34.2 |
| 3066 TRADE, INVESTMENT AND COOPERATIVES | 346,202,198 | 62,609,540 | 18.1 |
| 3067 SOCIAL SERVICES AND TALENT MANAGEMENT | 437,684,972 | 67,717,935 | 15.5 |
| 3068 EXECUTIVE SERVICES | 192,785,963 | 51,624,949 | 26.8 |
| 3069 EDUCATION | 2,131,811,011 | 674,888,922 | 31.7 |
| 3070 WATER SERVICES | 1,274,920,979 | 363,528,574 | 28.5 |
| 3071 ROADS AND PUBLIC WORKS | 1,338,509,210 | 239,589,016 | 17.9 |
| 3072 TOURISM AND ICT | 149,060,347 | 29,026,615 | 19.5 |
| 3073 COUNTY PUBLIC SERVICE BOARD | 50,402,791 | 18,422,804 | 36.6 |
| 3074 PUBLIC SERVICE AND ADMINISTRATION | 431,736,620 | 193,555,177 | 44.8 |
| 3075 KWALE MUNICIPALITY | 59,056,358 | 1,618,910 | 2.7 |
| 3076 DIANI MUNICIPALITY | 45,980,000 | 354,400 | 0.8 |
| **TOTAL** | **11,919,093,268** | **3,996,229,979** | **33.5** |

***Source: Kwale County Treasury***

**47.** Recurrent spending amounted to Ksh 2,846 million against the annual allocation of Ksh 5,479 Million which translates to about 51.9 percent absorption. Development expenditures amounted to Ksh 1,149, million against the annual allocation of Ksh 6,439 Million. This implies development funds absorbed from the start of the financial year to mid-year was **17.9.** This low absorption of development funds is attributed to scaling down of operations due to the Covid-19 pandemic and the delay in release of funds from the National Treasury.

**Table 5: County Expenditure Performance by Vote and Economic Classification**

| | Recurrent Expenditure as at 31st December 2020 | | | Development Expenditure as at 31st December 2020 | | |
|---|---|---|---|---|---|---|
| **CODE VOTE DESCRIPTION** | **Approved Estimates** | **Actual Expenditure** | **Absorption %** | **Approved Estimates** | **Actual Expenditure** | **Absorption %** |
| 3061 FINANCE AND ECONOMIC PLANNING | 513,223,920 | 410,120,147 | 79.91 | 21,987,657 | 4,399,667 | 20.01 |
| 3062 AGRICULTURE, LIVESTOCK AND FISHERIES | 196,688,689 | 84,551,495 | 42.99 | 642,477,313 | 132,382,029 | 20.60 |
| 3063 ENVIRONMENT AND NATURAL RESOURCES | 141,694,144 | 58,410,318 | 41.22 | 161,125,819 | 17,384,023 | 10.79 |
| 3064 MEDICAL AND PUBLIC HEALTH SERVICES | 1,982,620,276 | 1,211,670,215 | 61.11 | 976,924,635 | 92,505,800 | 9.47 |
| 3065 COUNTY ASSEMBLY | 589,345,444 | 232,543,979 | 39.46 | 234,854,922 | 49,325,464 | 21.00 |
| 3066 TRADE, INVESTMENT AND COOPERATIVES | 80,307,265 | 24,738,150 | 30.80 | 265,894,933 | 37,871,390 | 14.24 |
| 3067 SOCIAL SERVICES AND TALENT MANAGEMENT | 146,665,596 | 35,926,091 | 24.50 | 291,019,376 | 31,791,844 | 10.92 |
| 3068 EXECUTIVE SERVICES | 123,556,335 | 49,625,121 | 40.16 | 69,229,628 | 1,999,828 | 2.89 |
| 3069 EDUCATION | 1,032,490,162 | 438,609,370 | 42.48 | 1,099,320,849 | 236,279,552 | 21.49 |
| 3070 WATER SERVICES | 73,107,455 | 29,906,334 | 40.91 | 1,201,813,524 | 333,622,240 | 27.76 |
| 3071 ROADS AND PUBLIC WORKS | 153,411,638 | 61,716,478 | 40.23 | 1,185,097,572 | 177,872,538 | 15.01 |
| 3072 TOURISM AND ICT | 52,878,867 | 17,923,893 | 33.90 | 96,181,480 | 11,102,722 | 11.54 |
| 3073 COUNTY PUBLIC SERVICE BOARD | 50,402,791 | 18,422,804 | 36.55 | - | - | 0.00 |
| 3074 PUBLIC SERVICE AND ADMINISTRATION | 333,593,900 | 170,254,400 | 51.04 | 98,142,720 | 23,300,777 | 23.74 |
| 3075 KWALE MUNICIPALITY | 5,000,000 | 1,618,910 | 32.38 | 54,056,358 | - | 0.00 |
| 3076 DIANI MUNICIPALITY | 5,000,000 | 354,400 | 7.09 | 40,980,000 | - | 0.00 |
| **TOTAL** | **5,479,986,482** | **2,846,392,105** | **51.94** | **6,439,106,786** | **1,149,837,874** | 17.86 |

***Source of data: Kwale County Treasury***

## 2.5 County Economic Performance

**48.** Kwale County Gross County Product (GCP) accounted for 1.1 per cent of total Gross Domestic Product (GDP) as at 2017 . The GCP increased from Ksh. 47,981 in 2013 to Ksh 86, 278 in 2017 representing an annual average growth rate of 13.2 per cent. The main economic activities driving the Gross County Product (GCP) in Kwale County are agriculture, forestry and fishing (46.0 per cent); accommodation and food service activities (8.0 per cent); and Real estate activities (7.0 per cent).

**49.** The service sector contributes 47.0 per cent of GCP while agriculture, manufacturing and other industries sector shared 45.8 per cent, 0.35 per cent and 7.0 per cent, respectively. The services sector includes such activities as wholesale and retail trade. Agriculture is mainly dominated by crop farming and livestock production while industries and manufacturing include production of consumer goods such as plastics, furniture, textiles, and food processing.

**50.** Covid-19 pandemic affected economic activities and livelihoods in the county. The containment measures affected the tourism and hospitality industry, labour participation, agriculture sector, the services sector including education, water and health sectors, micro, small and medium enterprises, transport, housing, real estate and infrastructural development. Under labour participation , the May 2020 KNBS COVID_19 Survey, shows that 44.0 per cent of workers in Kwale county recorded decreased income; while 74.9 per cent recorded working as unpaid workers. The county had 67.3 per cent of workers in informal sector and 15.3 per cent never attended to work due to COVID-19.

**51. For the Agricultural sector**, the May 2020 KNBS COVID-19 survey found 15.2 per cent of the households in Kwale county had instances where the household or a member of the household could not access the markets/grocery stores to purchase food items, mainly because of closure of the markets/grocery stores (88.2 per cent). Foods most affected were the fruits and vegetables -which are necessary for boosting the immune system of the population. Further, with restrictions affecting seamless movement of food commodities, 84 per cent of households in Kwale County indicated experiencing an increase in food prices. It is important to note that 13.1 per cent of households' purchase food products from open-air markets, 23.3 per cent from kiosks and 49.8 per cent from general shops (KIHBS 2015/16).

**52.** Disruptions in marketing activity, as a result of movement restrictions, prevented the small-scale producers from taking their products to the market leading to loss of income and purchasing power among households. In addition, physical extension services offered to farmers was disrupted due to the pandemic and the associated mitigation measures.A decline in labor participation was experienced with subsistence agricultural and fishery workers recording the highest difference of 8 hours between the usual and actual hours worked in a week. Other

affected sub categories included - agricultural, fishery and related laborers (8 hours difference); food and related products machine operators (8 hours difference); food processing and related trades workers (14 hours difference); and farm workers (3 hours difference).

**53.** The services sector was also affected. As a result of global travel restrictions imposed to contain spread of COVID-19 pandemic, in March – August 2020 period, the county saw a decline in number of visitors, who are attracted to the county's sandy beaches, rich cultural and heritage assets, water sports, Shimba Hills National Reserve, Mwaluganje Sanctuary, and Kisite/Mpunguti Marine Park – by an estimated 55 per cent over the previous year's figure of 77,500[1] to 34875 tourists, who were mainly domestic tourists. As a result, the 15 star-rated tourist hotels in the county registered a 60 per cent decline in occupancy rate forcing them to downscale operations and employment, since foreign tourists, who are their main clients postponed their travel plans. The decline in tourist receipts to the county economy in 2020 was estimated at over KSh.1.7 Billion[2], which includes lost earnings and livelihoods by hotels, employees, tours and travel agents, and other tourism value chain players. In addition, the decline in visits to the marine parks and museums led to a loss in park entry fees of an estimated KSh.63.9 Million[3].

**54.** The COVID-19 pandemic had a devastating impact on education sector, mainly the loss of learning and teaching time. Due to higher proportion of digital divide in the county, online learning process was not effective. In some instances, only 4.3 per cent of households in Kwale county owned Desktop Computer/ Laptop/ Tablet and about 90.0 per cent of household had no access to internet connectivity, (Kenya Population and Housing Census (KPHS 2019)). In addition, the suspension of school feeding programs had implications on the food security and nutritional status of many children, especially those that depended on the programme.

**55.** According to May 2020 KNBS COVID_19 Survey, most of county residents did not visit health facilities amidst the pandemic. This could affect the health outcomes in the County both in medium and long term. The pandemic also resulted into closure of stadiums and playgrounds;

[1] KNBS Economic Survey 2020
[2] Tourist arrivals declined by 42625. Assuming average length of stay per tourist is 4 days, spending at least KSh.10,000 per day; total loss in revenue is 42625 x 4 x 10,000 = KSh.1,705,000,000.
[3] http://www.kws.go.ke/sites/default/files/parksresorces%3a/kenya%20wildlife%20service%202020-2021%20conservation%20fees.pdf ; 42625 foreign tourists x sh.1500 park entry fee = ksh.63,937,000

hence the county was not actively participating sporting activities leading to temporary stoppage of youth talent identification programmes in the county. This notwithstanding the instituted COVID-19 measures especially public health interventions on water, sanitation and hygiene (washing hands and sanitation) contributed to reduction in common diseases such as diarrhea and common cold

**56.** The micro, small and medium enterprises sector was adversely affected. Majority of MSMEs in Kwale County operate in the wholesale and retail trade, repair of motor vehicles and motorcycles (60.7%); accommodation and food services (13.6%); manufacturing (8.3%); arts, entertainment and recreation (5.4%); financial and insurance activities (4.2%). MSMEs in Kwale County are largely located in commercial premises (72.1%). This implying that most businesses in the County faced difficulties in meeting their rental obligations due to income disruptions resulting from COVID-19 pandemic. According to the May 2020 KNBS COVID_19 Survey, 78.5 per cent of the non-farm businesses attributed non-payment of household rental obligations to reduced incomes/earnings, 12.6 per cent experienced delayed incomes/earnings while 8.9 per cent attributed the same to temporary layoffs/closure of businesses. For those involved in farm businesses, 78 per cent attributed the same to reduced incomes/earnings while 22 per cent were affected by delayed incomes/earnings.

**57.** Accommodation and food services sector were hard hit and lost 22.2 hours while wholesale and retail trade sector lost 10.1 hours in usual and actual hours worked in a week (May 2020 KNBS COVID_19 Survey). Equally, the manufacturing sector lost 11.3 hours implying a potential loss of productivity, output and employment.

**58.** The transport sector was also affected by the containment measures instituted in response to the pandemic. The measures led to an increase in fares charged to cover the operating costs of service providers as well as affecting mobility options for commuters. As a result of the COVID-19 pandemic, passengers using public transport services saw expenditure on fares increase by 30.9 per cent. Residents responded by changing their travel patterns with 44.6 per cent of the population traveling less often, while 9.3 per cent were unable to travel due to the pandemic.

**59.** Housing and rental business was also affected. Majority of households (77.0 per cent) own the housing units they occupy while 22.9 per cent of the households under rental tenure. Individuals are the primary providers of rental housing at 91.3 per cent, followed by private companies (4.0 per cent); National Government (2.1 per cent); County Government (1.2 per cent); Parastatals (0.7 per cent); and FBO/NGO/Church based housing at (0.7 per cent). With the advent of COVID-19 pandemic households' ability to pay rent was affected, with 42.4 per cent of the population indicating inability to pay rent on the agreed date. The main reason being reduced incomes /earnings, reported by 58.9 per cent of the population.

## 2.6 Fiscal Policy

**60.** The county government is cognizant of the limited fiscal space arising out of revenue underperformance at both the local and National levels. Although revenue performance may improve due to the gradually opening of the economy, there will be need to exercise expenditure prioritization. The county government will evaluate and rationalize expenditures to curtail growth in non-priority recurrent expenditures.

**61.** Going forward into the medium term, the county government will domesticate the expenditure prioritization policy of the National Government to ensure only the crucial and priority programmes are funded with a view of achieving the transformative development agenda. Funds will be reallocated to provision of core services and priority development expenditures which will ensure inclusive growth, creation of employment opportunities and improving the general welfare of the citizens.

**62.** The County Government will continue to restrict growth in recurrent spending save for crucial expenditures on salaries and wages of employees. Under resources mobilization, the county government will double its effects in revenue collection by implementing and enforcing the new revenue policies under liquor control and others and also ensure prudent revenue administration. Revenues are expected to be boosted by the economic recovery strategy in the Post Covid-19 Economic Stimulus Programme.

**63.** The fiscal policy which will be adopted in this 2021 CFSP will be one that guarantees adequate funds for completion of on-going flagship projects which have reached their estimates term. In implementation of these public investment projects, the county government will take into account requirements of the Public Investment Management (PIM) regulation under the PFM Act 2012. The PIM regulations will ensure there is increased efficiency, effectiveness, transparency and accountability in public spending. In particular the implementation of PIM regulations will streamline the initiation, execution and delivery of public investment projects. It will also curtail runaway project costs, eliminate duplications and improve working synergy among implementation actors for timely delivery of development projects.

**64.** Given the revenue enhancement measures, the economic recovery strategies and the expenditure rationalization measures put in place, it is expected that adequate funding will be realized to implement the FY 2021/2022 and the medium term budget. The total revenues excluding grants is projected to increase from **Ksh 8,120 Million** in FY 2020/ 2022 to **Ksh 8,647 Million** in FY 2021/2022 which will be equivalent to an increment of about **6.5 percent.**

## 2.7 Economic Outlook

### 2.7.1 Global Growth Outlook

**65.** The Global economy contracted by 4.4 percent in 2020 but is projected to rebound to 5.2 percent in 2021. This growth will be supported by increased consumption and investment. The advanced economies which contracted by 5.8 percent in 2020 are expected to grow to 3.9 percent in 2021 owing to improved growths in the major economies particularly the United States and the United Kingdom. In the European Union growth is projected to improve to 5.2 percent in 2021 from a contraction of 8.3 percent in 2020.

**66.** The emerging economies which had contracted by 3.3 percent in 2020 are projected to improve to 6.0 percent in 2021 courtesy of the forecasted growths of Emerging and Developing economies of Asia, Latin America and the Caribbean. The Sub-Saharan Africa region is

expected to grow to 3.1 percent in 2021 as the region recovers from the adverse effects of the Covid-19 pandemic.

### 2.7.2 Domestic Growth Outlook

**67.** The Kenyan economy had been projected to grow by 2.6 percent in 2020 as given by the 2020 Budget Review and Outlook Paper (BROP). However, figures released by the IMF and the recent indicators of the economy contracting by 5.7 percent, economic growth for 2020 is now estimated at 0.6 percent. The economy is projected to recover to 6.4 percent in 2021 owing to implementation of the Economic Stimulus Programme and the post-Covid-19 Economic re-engineering and recovery strategy.

**68.** Going forward, economic growth is projected to grow by 5.5 percent in FY 2020/2021, but will slow down to 3.5 percent in FY 2021/2022 due to the uncertainty associated with the upcoming 2022 general elections. However, it will recover to about 6.2 percent over the medium term (FY 2023/2024). The main driving forces for the envisaged growth in the FY 2020/2021 and the medium term will be the stable macroeconomic environment, ongoing investments is strategic priorities under the "Big Four" agenda, the ongoing public investments in infrastructure projects, the Economic Stimulus Programme being implemented and the planned Post Covid-19 Economic Recovery Strategy, turn around in trade as economies recover from Covid-19 pandemic and expected favourable weather conditions. These factors will increase consumer demand and investment in both the public and private sector.

### 2.7.3 County Economic Outlook

**69.** The County Government (CG) will continue to pursue a fiscal policy which will be supportive of macroeconomic stability. Furthermore, our fiscal policy objective will provide support to ensure growth of economic activities while allowing for sustainable management of public finances. As such, the CG is committed to settling all the pending bills and other debts by and ensuring expenditure is strictly done depending on availability of funds.

**70.** The County Fiscal policy will continue to support County development economic activities as espoused in the second CIDP 2018-2022 within a context of sustainable public financing. Investment in industrial development and markets will continue to be a pillar for realizing rapid

economic growth. The County Government will fast track the construction of the fruit processing plant in Shimba hills Kubo South ward. This plant will have multiplier effect on the economy as it will catalyze growth in other sectors including agriculture and horticultural production, housing, infrastructure, food vendors, small and medium sized enterprises growth. It will eventually assist in creating wealth and poverty reduction

**71.** The County Government will intensify its effort in the next financial year 2021/2022 and over the medium term to enhance revenue collection. Measures to raise revenues will include: upgrading of the county revenue automated system, streamlining revenue collection in hospitals and operationalizing the enacted revenue laws which will introduce new revenue streams .

## 2.8 Risks to the Economic Outlook

**72.** The Economic outlook is likely to be influenced by the duration of the Covid-19 pandemic. The continued persistence of the Covid-19 pandemic will render all efforts to resuscitate economies invalid. The covid-19 containment measures will affect consumption demand, employment, supply chains and general productivity. There is the danger of cross-border spill overs occasioned by weaker external demand. As such global economies may not realize the bouncing back status.

**73.** The Kenyan economy will face the risks of reduced tourists' arrivals, weaker external demand in the global economies, lower gains in trade, underperformance of most sectors including transport, construction, manufacturing, real estates, hotel and accommodation and other service sectors. These risks will eliminate from the continued implementation of the containment measures due to the Covid-19 pandemic. Other risks will emanate from public expenditure pressures, particularly wage related current expenditures and the erratic weather related shocks that could have negative impact on energy generation and agriculture productivity.

**74.** Risks to the county economic outlook will emanate from revenue underperformance at the national level. This will imply lower or reduced funding for county operations and

implementation of development priority programs. Apart from reduced funding, the other major risks will include increased wage bill.

**75.** Other risks to the county economic outlook include erratic weather and natural calamities including drought, floods, famine which will impact negatively on energy generation and food production. This will trigger inflation as prices of foods and fuel sky rocket.

**76.** The continued implementation of the containment measures for the Covid-19 pandemic will also have a bearing on consumption demand and growth in most of the economic sectors. Growth will be hampered in tourism, trade, construction, manufacturing, transport and agriculture due to reduced productivity and consumption demand. Weaker external demand and reduced tourist arrivals in the county will have negative impact to the local economy.

**77.** The county government in conjunction with the National Government will take appropriate measures to mitigate these risks. The county government will be relieved of these risks as the National Government implements appropriate monetary and fiscal policy measures to preserve macroeconomic stability and strengthen resilience in the economy.

**78.** The county government will also benefit from the National Government programmes intended to cushion the citizens against the downside of the risks majorly arising from the Covid-19 pandemic. The National Government is implementing an Economic Stimulus Package to protect lives and livelihoods. This coupled with the Post Covid-19 Economic Recovery Strategy will unlock growth and make the economy more resilient to any challenges.

**79.** The county government will continue to strengthen partnership and collaboration to ensure a multi -stakeholder approach to build synergies in mitigating the risks. The County Government is working towards strengthening disaster preparedness to counter any emerging risks like severe climate change and other emerging diseases like the Corona virus disease.

**80.** The county government will continuously monitor and carefully evaluate all the risks to the outlook and institute mitigation measures appropriately.

# CHAPTER THREE: PROGRAMMES AND STRATEGIES FOR ECONOMIC RECOVERY AND CONTINUED COUNTY TRANSFORMATION

## 3.1 Preamble

**81.** The County Fiscal Strategy Paper (CFSP) 2021 will continue the County Government's commitment towards the realization of the county socio-economic transformation agenda. The programmes and strategies highlighted in this 2021 CFSP have aligned to the objectives of the County Integrated Development Plan 2018-2022 and the Governor's pledges and promises that were made when seeking county leadership for the second term. The programmes reflect the development aspirations of the Kwale citizens and the interventions match those which were approved by the County Assembly in the latest County Annual Development Plan.

**82.** As highlighted in the approved County Annual Development Plan for FY2021/2022**,**the County Government will continue investing resources in the implementation of the strategic programmes identified in the five main strategic areas namely; (i)enhancing education to create a robust and skilled human resource base, (ii)investing in infrastructure including roads, water supply systems, industrial plants, markets and energy connectivity, (iii)guaranteeing access to universal health care through improved services and health insurance cover for all, (iv) expanding food and agricultural production through farm mechanization, strengthening extension services, livestock development and promotion of the Blue economy, and (v)strengthening land tenure systems, sustainable management of the environment and natural resources for improved livelihood.

**83.** The Budget Policy statement 2021 from the National Treasury has indicated robust strategic interventions which this 2021 CFSP seeks to align and put emphasis. These include implementation of the Economic Stimulus Package for Economic Recovery in the Post Covid-19 era, "Big Four" Plan and the MTP III investment projects for attaining the Vision 2030. The County Government will support these interventions by investing resources to take advantage of the accruing benefits.

**84.** The Big Four Plan seeks to i) Support value addition and raise the share of manufacturing sector to GDP, ii) Enhance food and nutrition security to all Kenyans by 2022, iii) Provide universal health coverage to guarantee quality and affordable healthcare to all Kenyans, and iv)

Provide affordable and decent housing for all Kenyans. The enablers for the "Big Four" Plan are i) Creation of a conducive business environment for investment, trade and job creation, ii) Investing in infrastructure development to unlock growth potential and drive the "Big Four" plan, iii) Investing in sectoral transformation for broad based sustainable economic growth, iv) Enhancing service delivery through devolution, v) Investing in Kenyans for a shared prosperity, and vi) Entrenching structural reforms to support the "Big Four" plan.

**85.** This 2021 CFSP is prepared under uncertainty arising from the Covid-19 pandemic. Several measures were instituted at both National and County Government levels to curb the spread of the disease including social distancing, hand hygiene, and preparation of facilities for care and treatment of confirmed cases. In responding to the pandemic, counties have come up with county-specific COVID-19 prevention guidelines including the cessation of movement ,setting up quarantine and isolation facilities , launching nutrition support systems and even specifying protocols for social gatherings.

**86.** As the country progresses to recovery and allow the economy to thrive, County Governments found it necessary to develop a socio-economic strategy to facilitate re-engineering and recovery of their economies from the impact of COVID-19 pandemic. The recommendations emerging from the County COVID-19 Economic Re-engineering and Recovery Strategy and Specific County Strategies will go a long way in informing the policies articulated in this 2021 CFSP, ultimately strengthening the devolved system of government in the post-COVID period.

### 3.2 Policies and Strategies Towards Economic Recovery

**87.** This 2021 CFSP outlines priority economic policies and structural reforms as well as programs to be implemented in the Budget FY 2021/2022 and the medium term which will guarantee economic recovery and "building back better" the economy and alleviate the socio economic effects of the Covid-19 pandemic. The policy measures and programs to be undertaken will put the county in the right path towards achieving the county's development goal of economic transformation for continued growth.

**88.** Covid-19 disrupted the operations of businesses and supply chains hence affecting demand and supply of most goods and services in the County. This coupled with other socio economic

effects have resulted in a retarded growth of the economy. To recover from the social and economic effects of the Covid- 19 pandemic and regain an upward growth trajectory, the County Government has come up with a six pillar strategy which includes;- boosting private sector activity; policy, legislation and institutional reforms; strengthening County government's preparedness and response to pandemic and disasters; enhancing ICT capacity for business continuity, human capital development and development of the Diani resort city.

**Enhanced Role of the Private Sector in the Recovery Strategy**

**89.** The private sector plays a critical role in the Kwale County economy. Most of the private sector activities (60.7%) are in the services sector with only 8.3 per cent in manufacturing (KNBS 2016). In terms of size, most of the enterprises in the County are in the micro category (92.2%), 6.3 per cent are small, 1.2 per cent are medium while 0.3 per cent are medium enterprises. Since most firms are micro in nature, this implied that the informal sector tends to dominate the private sector in Kwale County. Services sector activities include the wholesale and retail trade, repair of motor vehicles and motorcycles (60.7%); accommodation and food services (13.6%); arts, entertainment and recreation (5.4%); financial and insurance activities (4.2%).

**90.** In strengthening the private sector, efforts targeted at improving the business environment in the County, include the following:

- Collaboration with the National government to ensure security is enhanced to reduce on crime and create a peaceful business environment.
- County government to collaborate with the Anti-Counterfeit Agency (ACA) and Kenya Revenue Authority (KRA) to sensitize MSEs on issues of counterfeits and dumping of goods.
- Partnership with other institutions both from public and private spheres to facilitate development of adequate and well-equipped worksites with workshops, common user facilities, incubation centers and showrooms for artisans which is cluster informed and fully serviced.
- Provide access to affordable energy and public lighting in collaboration with the national government and other stakeholders.
- Initiate and strengthen self-sustaining funds dedicated and easily accessible to

MSMEs in the County; promoting tailor made financial literacy programmes for MSMEs and establishing a framework for micro leasing for the MSMEs.

- Develop appropriate road infrastructure especially the county roads while collaborating with the private sector through PPP's to get financing of the projects.

**Supporting Recovery and Growth of MSMEs**

**91.** MSMEs face various including financial and technical capacity, market environment, and worksite and related infrastructure (KIPPRA 2019). On worksites, MSEs face inadequate and unequipped worksites, lack of public toilet facilities, lack designated areas for waste disposal, poor road infrastructure, and frequent power interruptions. On technical capacity MSEs are characterized by low levels of innovation, lack of training and apprenticeship Programme for artisans, fragmentation due to multiplicity of players who offer training and capacity building, and lack of monitoring and evaluation of training programmes. With the market environment, MSMEs face inadequate market for their local products; stiff competition among themselves; and unfair trade practices which manifest through; contract enforcement, counterfeiting, dumping (substandard goods) and misrepresentation (through weight, price, and ingredient). MSEs also face bottlenecks related to; insecurity; multiple licenses and permits; numerous procedures for obtaining licenses; and shortage of raw materials.

**92.** The crisis offered a platform to address structural issues related to private sector development and collaboration, in designing new growth models in industrial/manufacturing development and innovation as well as participate in national and global value chains are useful through;

- Agro - processing for value addition with important areas of focus include coconut, mango, fish, cassava, cotton, cashew nuts, sugarcane, leather production and processing. Kwale County will continue to collaborate with agro-processing companies such as **KISCOL limited**, **Serendi Kenya** limited formerly known as **Coast Coconut limited**.
- Exploration and processing of minerals such as titanium, iron ore, manganese, coal, cement, coral rock harvesting, quarrying, ballast, and sand harvesting for both domestic and export markets. **Base Titanium limited** has been of great help in provision of

employment opportunities for Kwale residents.

- The textile and wearing apparel sectors can be enhanced to provide PPEs for use within the County and potentially for the export market. Recently, H.E the governor endorsed a partnership with **ROMIKA** limited, a new leather company situated at Mvindeni in Diani municipality, Msambweni Sub County that deals with manufacture of leather shoes and other leather products.

**Policy, Legislative, and Institutional Reforms**

**93.** The County Government of Kwale through the County Assembly has enacted several laws and policies for various functions within the County. The County Government has laws for the transport industry, education fund, forest conservation and management, emblems and names protection, creation of a disaster management fund, animal disease control, liquor control, regulation of quarrying, public participation and others. In recognizing that good legal and policy frameworks contribute to the prevention of infectious diseases, and improves public service delivery, the County will endeavor to:

- Establish a regulatory framework to provide the legal architecture for management of COVID-19 and other infectious diseases that may occur in future.
- Introduce additional channels and strategies for conducting public participation digitally and through other means while observing rules on social and physical distancing to continue ensuring the participation and involvement of the public.

**Strengthening County Capacity for Disaster Risk Management**

**94.** Kwale County is prone to perennial flooding and drought which lead to severe and long-term ecological and social damage. The emergence of Covid-19 has added to the socio economic challenges In light of these challenges, the County will:

- Provide a clear policy, legislative and institutional structure for the mitigation of, preparedness for, response to and recovery from pandemics and disasters.
- Form and maintain partnerships with international organizations, national government, other county governments, the private sector, civil society, research institutes and academia.

- Engage the services of public health, veterinary and environmental experts to equip key decision and policy makers at County level with a better understanding and knowledge of COVID-19 and other similar diseases.
- Adopt a collaborative, multisectoral, and interdisciplinary approach to disaster risk reduction and management of pandemics.
- Enlist the assistance of various health and environmental experts for successful public health interventions on COVID-19 and other similar diseases.

**Promoting the use of Information, Communication and Technology (ICT)**

**95.** The status of ICT access and use in the county is low, especially among households. Approximately 36.7 per cent of the population aged 3 years and above own a mobile phone, which is below the national average of 47.3 per cent. The County will fast track the implementation of various projects to ensure business continuity and build resilience of the County against future pandemics and disasters as follows:-

- Collaborate with the Communications Authority and telecom service providers to utilize the Universal Service Fund as a "last resort" in providing ICT access in remote areas and islands where market forces fail to expand access.
- Support programmes in partnership with the private sector that will enable households acquire ICT assets such as smart phones and laptops and increase mobile phone ownership from the low of 36.7 per cent to 100 per cent in line with the global agenda for Universal Access to Mobile Telephony
- Harness the power of technology and use innovative solutions to bridge the gender digital divide.
- Build and equip youth empowerment, ICT centers and ICT laboratories as provided in the CIDP FY 2018-2022.
- Enhance internet connectivity to public buildings and key trade centers to boost e-commerce especially for MSMEs in trade and business.

**Promoting Human Capital Development**

**96.** In the year 2015, the Kenya Housing and Demographic Survey (KDHS 2015/2016) indicated that the average years of schooling in the county was 6.4 years out of the target of at least 12 years if entire population was to attain completed basic education including primary and secondary education. The human development index (HDI) was 0.48 as compared to national average of 0.52. The HDI at county level measures extent to which the counties can mobilize the economic and professional potential of the citizens. Thus, with a rating of 0.48 this implies the county loses about 52 per cent of its economic potential due to lack of adequate education and health. About 35.0 per cent of the children were stunted. Childhood stunting is associated with developmental delays that can significantly and adversely impact a person's ability to learn (both during and after the years in school), thereby limiting their ability to reach their full potential. As a result, this perpetuates inequality across generations. The NHIF coverage was 28.5 per cent while the number of children vaccinated was 84.5 per cent, implying 15.5 per cent of the population were susceptible to infectious diseases in the event of any outbreak.

**97.** The labour sector needs to gradually shift from an emergency response to recovery and building resilience. Recovery strategies that the County will implement include:

- Promote implementation of stronger labour market interventions and policy reforms that drive employment creation. The County will deepen technical education, training, innovation and skills development among the youth.
- To promote investment and entrepreneurship through provision of loans, Kwale County will improve access to finance for small and medium enterprises through lending institutions. This has been well outlined in the county ADP 2021-2022 through the department of Tourism and enterprise development.
- Create more employment opportunities through the development of pro employment policies; investment in education and training and skills development; and investments within the key sectors of Agriculture, Infrastructure, Technology and innovation

**Exploiting Diani Resort City as a comparative advantage**

**98**. The Kenya Vision 2030 provides for the development of Diani in Kwale as one of the three resort cities, along with Isiolo and Kilifi, to expand the accommodation capacity and other facilities. Diani resort city is planned with the unique theme of wellness and an exposure of tourists to the rich culture of Kenyan communities, interspersed with high quality facilities. The County also has unique advantages in the Blue Economy. Geographically, Diani offers access to beach amenities and kite surfing, skydiving and deep-sea fishing activities, access to dolphin watching at Kisite, access to Shimba Hills National Reserve and Mwaluganje Elephant Sanctuary, and it is within 2 hours access to Tsavo Game Park. Diani Beach has been awarded the best beach destination in Africa for 5 years running, and in 2019, the World Travel Awards declared Diani Beach.

**99.** The County will optimize on these comparative advantages by:

- Upgrading, opening up and Cabro paving of beach access roads shall be implemented as outlined in the county approved ADP FY 2021-2022 hence developing tourism infrastructure to further tap the tourism potential.
- Implementing the blue economy strategy in tourism, complemented by fisheries, maritime transport and mineral exploration activities in Kwale,
- Promoting diversification of tourism by offering diverse and niche products in the County,
- Preparing a tourism development master plan which will focus on tourism zoning, product development and quality standard of tourism services.
- Providing infrastructure to support manufacturing and value addition investments

## 3.3 Sectoral Transformation for Broad Based Sustainable Economic Growth

**100.** This 2021 CFSP has set out policy measures, which prioritize strategic programmes, anchored in the second County Integrated Development Plan (CIDP) 2018-2022 and the Governor's Manifesto to the people of Kwale. The policy measures put forward in this paper are expected to position the County to take advantage of the ongoing National Government strategic investments as espoused in the "Big Four" plan (MTP III).

**Supporting Growth of Manufacturing for Job Creation**

**101.** The manufacturing sector is one of the top three sectors contributing 0.3 per cent to the Kwale Gross County Product (GCP). Hence, it is essential in supporting recovery of the economy of Kwale County from the effects of COVID-19 pandemic. Manufacturing in Kwale County include food and food products (46.5%), wearing apparel (25.5%), furniture (16.9%), wood and wood products (7.3%), and fabricated metal products, except machinery and equipment (3.8%). The key products useful in value addition and driving manufacturing include; coconut, mango, sugarcane, cassava, cotton, sisal, cashew nuts, fish, leather, textiles, livestock, dairy, craft, titanium, iron ore, manganese, cement, coral rock harvesting, quarrying, ballast, salt and sand harvesting. The sector is important to the County due to its potential in revenue and employment generation.

**102.** To enable the county reap from the benefits from Manufacturing, the County government will:

- Cushion the businesses and traders through affordable credit; waiver of some County taxes, cess, and other charges.
- Encourage locally production of Personal Protective Equipment (PPEs), in the County, such as masks, sanitizers, hospital beds and ventilators. It is an opportunity to spur innovation and promote manufacturing and industry development and generation of jobs for the youth.
- Provide incentives and subsidies to attract more investors and entrepreneurs.
- Establish cottage and light industries for coconut and cashew nut production and value addition.
- Promote the fishing industry by procuring assorted fishing accessories, which include fishing boats and nets, and distribute them to Beach Management Units (BMUs).
- Tap and harness the major fish reserves found in Shimoni, Vanga, Msambweni, Diani and Tiwi.
- Explore the potential for offshore oil and gas in collaboration with the national government and private investors.
- Provide the necessary legal and policy framework to guide the exploitation of the County's rich assortment of minerals.

**Food and Nutrition Security to all Kwale Residents**

**103.** Agriculture accounts for the largest share of economic activity in Kwale County. More than 40 per cent of the county's economic activity is driven by the agriculture sector. In 2017, agriculture accounted for KES 39,610 million out of the total KES 86,278 million Gross County Product (GCP). This translates to about 45.9 per cent of the county's GCP. About 58 per cent of the households produce crops, 42 per cent produce livestock, 0.1 per cent practice aquaculture and about 2.6 per cent are involved in fishing. Only 1.1 per cent of households uses irrigation for farming where the main source of water for irrigation is from rivers at 53.3 per cent, water from deep wells at 32.4 per cent, water from shallow well at 14.3 per cent.

**104.** Currently, 3,000 farmers in Nyalani community within Puma ward have benefited from revitalization of land to produce horticulture crops. In addition, there are opportunities in building the capacity of farmers in produce handling/ output/ improved product standards, adoption of modern farming technologies (e.g. water harvesting techniques, fodder establishments) and practices and adopt sustainable land management practices to minimize environmental degradation.

**105.** As the agro-food sector gradually shifts from an emergency response to re- engineering, recovery and building resilience, Kwale County will adopt the following strategies:

- Develop partnership with development partners, such as, the National Government, NGOs, Research Institutions and the Private sector in enhancing agro-processing and value addition capacities of the county. The county has great potential in agro-processing and value addition.
- Rehabilitation and reconstruction of the fishing ports and fish-landing sites; establishment of fishing plants; and support the seaweed plant farming in the county;
- Provision of storage and cooling facilities particularly at collection points to minimize spoilage and post-harvest losses;
- Promote agricultural production through expansion of county's efforts to revitalize/rehabilitate land like the Nyalani dam project
- Enhance farmers access to quality and affordable inputs including climate resistance and

high livestock breeds, certified seeds, water, animal feeds, AI services, fertilizers, livestock vaccination and ploughing services by county tractor hire services;

- Establish programmes for surveillance of disasters such as extreme weather conditions, crop pest and diseases, and livestock disease at the county level equipped with relevant technical specialists and finances to effectively prepare, respond and prevent risks;
- Digitize the agro-food sector to support: - training and building capacities of farming households in modern agricultural technologies, provision of advisory and information services, marketing agricultural produce at a wider scope beyond the county level, and improving access to innovative support services including credit and insurance services;
- Boost fisheries and aquaculture in the county, by investing in suitability mapping; infrastructure development; availing affordable and sustainable fish feeds; diversification and domestication of fish species.

**Environmental Conservation and Water Supply**

**106** .The World Health Organization (WHO) as one of the measures to curb transmission of COVID-19 emphasized frequent and correct hand hygiene. This has placed a higher demand for water more so at the households, health care facilities, marketplaces, public places and among essential services provides. About 72 per cent of the households had access to water and soap while 93.7 per cent of the households did not have a designated hand washing facility in their households (May 2020 KNBS COVID-19 survey).There is low access to piped water, which stands at 18.2 per cent in urban 11.4 per cent in rural, and 12 per cent in peri-urban areas. Additionally, is low access to piped sewer among households, which is 12.5 per cent urban and less than 5 per cent for both Peri-urban, and rural households. 46.5 per cent of rural, 12.4 per cent of urban and 30.4 per cent of peri urban households do not have a toilet facility. Less than 0.5 per cent of the population has no access to toilet facility. Sharing of a toilet facility with other households is common stands at 54.4 per cent rural, 60.7per cent urban and 49.3 per cent Peri-urban.

**107.** The 2018-2022 CIDP intended to achieve the following under WASH, irrigation, environment conservation and management. The County will implement the following strategies

for recovery:

- Increase water supply in households, institutions and public places through drilling of boreholes and development of dams, water pans in all the sub- counties.
- Expand and rehabilitate the existing piped water connection infrastructure to help improve access to water.
- Enhance water quality through establishing water quality testing and treatment facilities
- Protect the water catchment areas by mapping out all water sources and water catchment areas
- Strengthen Public Private Partnerships to increase water piping and supply infrastructure
- Enhance Capacity building on management of water supplies to help reduce Non-Revenue Water and increase functionality rate of already developed water facilities.
- Build toilets in communities, households, schools, health care facilities, marketplaces and public places to help increase access to improved sanitation

**Infrastructure Development for Inclusive Growth**

**108.** The county has a total of 4,766.23 Kilometers of classified road network. Approximately 50.5 per cent of the paved road network is in good condition, 15.0 per cent in fair condition and 30.9 per cent in poor condition. While 9.3 per cent of the unpaved road network is in good condition, 51.9 per cent fair and 38.8 per cent in poor condition. The main means of transport used in the County is walking at 33.4 per cent, followed by motorbike 20.7 per cent, TukTuk 16.3 per cent, PSV matatus at 9.3 per cent, own bicycle 6.9 per cent, and private car at 6.7 per cent. On average, residents travel 3.84 Kilometers to their workplace, which is beyond the threshold distance for walking but within the threshold for cycling.

**109.** To enhance mobility options for residents and maintain the roads in good condition to support economic, social and subsistence activities, the county will:

- Encourage urban-rural connectivity by investing in sustainable transport and mobility infrastructure linked to sea and land.
- Collaborate with transport sector stakeholders to register transport operators into formal

organizations to enable future County Government support and funding during times of emergency

- Re-develop bus parks and termini to address crowding and social distancing concerns stipulated in the public health guidelines.
- Identify county significant infrastructure projects, with project speed emphasis, for implementation to support economic recovery from the effects of the pandemic and to take advantage of the blue economy opportunities in maritime transport.
- Increase in public lighting to promote security and open up areas for 24 hour economy

**Stimulating Tourism Recovery**

**110.** Tourism is a key sector for the creation of wealth, increasing employment opportunities, reducing poverty and fostering economic growth in the County of Kwale. The key tourist attractions in the County include physical attractions / nature-based tourism (Shimoni Caves, Kongo Mosque). Others include: Beach tourism (Diani beach – which has been voted the Best Beach Destination in Africa for five years consecutively; Beach hotels); Cultural and heritage tourism; Wildlife tourism (Shimba Hills National Reserve, Mwaluganje Sanctuary, Kisite/Mpunguti Marine Park, Marine parks and reserves), Sports tourism (water sports); and Eco-tourism (the marine sites that offer eco-tourism opportunities). Tourism potential is notably huge, as there still exists untapped cultural resources, nascent tourist sites especially within islands (Funzi, Wasini etc.) and sports tourism.

**111.** Kwale County has 15 star-rated hotels with a total capacity of 1913 rooms and 3797 beds. In addition, there are several unclassified hotels in the county. Accommodation and food services account for 14.7 per cent of Total GCP, highlighting the strategic importance of hospitality sub-sector to socio-economic development of the County. Regarding linkage with other sectors, the recently expanded Ukunda Airstrip, the upgrading of Samburu – Diani road to bitumen standards, and completion of the Dongo Kundu bypass will open up the south coast to tourism growth. The County has invested in developing tourism-supporting infrastructure (opening up beach access roads, pedestal walkways, street lights), constructing public amenities (Washrooms) along the Beach access road, marketing and promotion (participation in expos and exhibitions- national and international) and capacity building (beach operators) to promote Kwale as a tourist destination.

**112.** Re-engineering of tourism sector in the county will include:

- Improving sanitation aspects in tourism attraction sites and accommodation facilities to deal with spread of Covid-19 and ensure health of tourists.
- Promoting domestic tourism to cushion the sector against external shocks such as pandemics;
- Provide incentives to investors to put up hotels in the hinterland to enable visitors enjoy the vast natural scene that will be supplemented by the neighboring rich Tsavo National Park.
- Package Kwale as a favorable tourism investment destination through deliberate efforts to reduce the cost of doing business in the county; attract PPP projects in the tourism sector; integrated development program to leverage on the upcoming Dongo-Kundu bypass.
- Improve on safety and security of tourists, especially along the beaches.
- Development of relevant and progressive tourism policies and legislation

**Universal Health Coverage for all citizens**

**113.** The County has a total of five (5) government hospitals, ten (10) health centers and ninety (90) dispensaries located in Msambweni, Matuga, Lunga-Lunga and Kinango Sub-Counties. The doctor and nurse population ratio stand at 1:76,741 and 1: 3,133 respectively as compared to WHO recommendation on Doctor or Nurse Population of 1:230. In addition, the county has a total of (36) private health facilities and (9) health facilities owned by faith-based organizations. The average distance to the nearest health facility within the County is 7 kilometers as compared to the required maximum of 3 kilometers.

**114.** The health sector requires enhanced investment in health systems, more specialized health workforce, capacity building of community health workers and the medical officers, upgrading of working conditions and provision of requisite health commodities and equipment, especially in relation to personal protective equipment and occupational safety. Specifically, the County will:

- Revamp, expand, modernize and equip health facilities, including, the Msambweni Referral Hospital to handle almost all emergency and routine medical procedures. In

addition, consider equipping maternity wings to boost maternal health services in the County

- Support health workers personnel with logistics throughout the county to enable them complete important tasks such as mass net distribution, polio vaccination campaigns, TB awareness campaigns and COVID-19 awareness campaigns.
- Promote and support public and community health including the installation of hand washing facilities in homes and institutions such as schools, workplaces and health care facilities within Kwale County; and enforcing wearing of facemasks in the entire county.
- Provide additional funding for strengthening of UHC (universal health coverage) by improving uptake of health insurance, improving diagnostic services in the health facilities and for staffing of health facilities, recruitment, capacity building and retention of health workforce in specialized services like urology, oncology, surgery and emergency medical care as envisioned in CIDP 2018-2022.
- Establish a county disaster team for effective respond in case of any other form of a disease outbreak.
- Establish a factory for manufacturing quality mask and PPEs that meet international standards. The surplus will be sold to other counties or international markets while generating more revenue for the county.
- Proactively address the mental health needs including those of the health workforce, mental illnesses from depression, especially in response to shut- downs, economic downturns, uncustomary care and burial of affected relatives.
- The County will invest in research and development to spur innovation in health sector including in the area of medicine

**Access to Quality and Affordable Education and training**

**115.** The County has 1,072 Early Childhood Development Education (ECDE) centers spread evenly in the county with 82.0 per cent being public and 16.0 per cent being private .The total enrolment stands at 77,067 pupils of which 52.0 per cent are boys and 48 per cent are girls. This translates to a gross enrolment of 83.7 per cent and a net enrolment 81.2 per cent. There is 2,087 ECDE teachers in the County.

**116.** The county has total of 471 primary schools comprising of 392 and 79 public and private primary schools respectively with a total enrolment of 178,166 pupils which constitute a gross enrolment rate of107.5 per cent and a net enrolment rate of 76.1 per cent. The primary school teacher population is 4,892, which translate to a teacher/pupil ratio of 1:36. The county has 79 secondary schools with a total enrolment of 25,739 students, which constitutes a gross enrolment rate of 35.5 per cent, and a net enrolment is 25.3 per cent. The secondary school teacher population is 1,173 this translates to a teacher student ratio of 1:21 though the teacher distribution is uneven with hinterland schools experiencing high teacher shortage. The tertiary institutions in the County include a Kenya School of Government (KSG), Kenya Medical Training College and 34 registered public and four private vocational training centers. The county is on the process of constructing an ECDE Teachers training college in Puma ward, Kinango Sub County. The County has no university but has a satellite campus of Technical University of Mombasa (TUM).

**117.** The County Government's mandate on Education is pre-primary education and vocational training. To enhance ECDE and Vocational Training in the County, the strategies will include:

- The County will promote construction of new ECDE centres to address the problem of access in certain areas and recruit more skilled teachers, as envisioned on CIDP 2018-2022.
- Carry out more supervision and quality assurances exercises to promote education quality and standards and the capacity building of boards of management for ECDE centres and the VTCs.
- Provision of teaching and learning materials ,modern equipment and tools in ECDE centres and the VTCs
- The county needs to create awareness and effectively engage parents on matters education. This will go along in addressing negative attitudes and retrogressive cultural practices. There is need to develop ICT in this county so that communication can be effective and online learning can take place effectively.
- Continuing the school feeding program to ensure children are retained in schools and thereby improve on the retention rates.

**118.** Kwale County has had poor education standards resulting in weak human capital development. This coupled with the high poverty situation in the county led to the county leadership to undertake a deliberate effort to uplift education standards in the county. The scholarship and bursary was borne out of this realization as an affirmative action to support students from needy families acquires higher education. This is the main programme which drives the county transformation agenda on education whose theme is "Elimu ni sasa". The County Government has been issuing bursaries and scholarship to students from needy families and established the Governor's scholarship programme for National School students. This has transformed education in the county. The County Government started from a lower figure of Ksh 110 Million in FY 2014/2015 but has now been capped at Ksh 400 Million. The total investment in bursaries up to end of FY 2019/2020 stands at Ksh 2.25 Billion. The number of students who have benefitted have in FY 2019/2020 are over 22,000. The County will streamline management of this program to continue delivering the desired results.

**Empowering Youth and Women and PWDs and Curtailing Gender Based Violence**

**119.** Teenage pregnancies and gender-based violence are pertinent issues that affect the youth, women and boys and girls in Kwale County. Evidence indicates 4,052 cases of teenage pregnancies were reported between January and May 2020 (KHIS, 2020) and six cases of GBV (HAK, 2020). That said COVID-19 compounded the situation necessitating targeted interventions to address the same. The County will:

- Prioritize elimination of gender stereotypes, transforming gender norms and revoke discriminatory practices for effective realization of the rights of women and girls
- Community training and sensitization programmes targeting teenage boys and girls to deal with increased cases of teenage pregnancies.
- Launch hotlines/helplines using toll-free calls and SMS numbers for gender- based violence victims.
- Collaboration between the county, state agencies, and other partners to strengthen capacities of various stakeholders including, political leadership within the county, women's groups, religious leaders, and community leaders to combat harmful practices that breed GBV.

**Environment and Natural Resources Management**

**120.** The county has a rich ecosystem that includes forests, rivers and hills. Efforts to conserve the environment are hampered by increasing population, which exerts pressure on the natural resources, encroachment on wetlands, land degradation, deforestation, illegal logging, water pollution, charcoal burning and land pollution. The major sources of energy for cooking used by households are firewood at 81.6 per cent, charcoal 9.7 per cent, liquefied gas at 4.4 per cent and Kerosene 3.8 per cent. Use of firewood and charcoal has a negative effect on environment management and conservation. Majority of the households in the county dispose their solid waste dump in the compound at 39 per cent, 5.9 per cent dump in the street/ open field, and 43 per cent burn in open air. On the other hand, the county government for disposal collects 2.9 per cent. Community associations collect about 0.4 per cent. This means that only a small portion of household solid waste is safely disposed, thus exposing many households to environmental and health hazards.

**121.** To address the environmental challenges, the County will:

- Provide and promote alternative sources of clean energy for cooking.
- Increase forest cover and biodiversity conservation through tree planting
- Facilitate and promote climate change financing and investments programmes.
- Provide waste collection services at households, promote and facilitate regular waste collection, environment clean up exercises at neighborhoods and in towns.
- Promote and facilitate regular waste collection, environment clean up exercises at neighborhoods and in towns.
- Develop and implement solid waste management strategy

# CHAPTER FOUR: BUDGET FOR FY 2021/2022 AND THE MEDIUM TERM

## 4.1 Fiscal Framework Summary

**122.** The theme of the FY2021/22 fiscal budget aims at building back better from the effects of the Covid – 19 pandemic. Specifically, this 2021 CFSP identifies priorities and strategies for enhancing resilience and sustainable economic recovery.

**123.** The fiscal framework for the FY2021/22 Budget is based on the County's policy priorities and macroeconomic policy framework set out in Chapter I and Chapter II. Efficiency and effectiveness of public spending and ensuring revenue targets are met are the major concerns for the County during the MTEF for FY2021/22. The county will seek to ensure financial discipline for sustainable county development. Sustainability, affordability and strict prioritization are therefore expected to be the norm rather than an exception under this strategy.

## 4.2 Revenue Projections

**124.** In the FY2021/22 Kwale county government has projected revenue collection of about **Ksh.8, 647,000,000.00** from all the revenue sources excluding conditional grants and loans. The county government is expecting to receive **Ksh.8,372,000,000.00** as its equitable share of revenue from the National Government. This will be a great improvement from previous financial year's allocation of **Ksh.7,659,300,000.00**.The Conditional grants and National Government grants and loans is projected to **Ksh.1,178,555,997.00**. The County Government expects to collect Ksh.275, 000,000.00 as county own source revenue during the financial year FY2021/2022.

**125.** The table below shows the Kwale County Expected Revenue Envelope for the MTEF period FY2021/22-2023/24**.**

**Table 6: Summary of County Revenue Envelope Showing the Grants types**

| Source | FY2020-2021 (Ksh Million) | FY2021-2022 (Ksh Million) | FY2022-2023 (Ksh Million) | FY2023-2024 (Ksh Million) |
|---|---|---|---|---|
| **Own Source Revenue** | **365,641,316** | **275,000,000** | **288,750,000** | **303,187,500** |
| **Equitable Share of Revenue from National Government** | **7,659,300,000** | **8,372,000,000** | **8,790,600,000** | **9,230,130,000** |
| **CONDITIONAL GRANTS** | | | | |
| Compensation for User Fees Forgone | 15,209,593 | 14,814,598 | 15,555,327 | 16,333,094 |
| Leasing of Medical Equipment | - | 153,297,872 | 160,962,765 | 169,010,903 |
| Road Maintenance Levy | 228,285,028 | 228,285,028 | 239,699,279 | 251,684,243 |
| Development of Youth Polytechnics | 56,299,894 | 54,837,777 | 57,579,665 | 60,458,649 |
| COVID-19 Conditional Grant balance | 106,569,000 | - | - | - |
| **Total Conditional Grants** | **406,363,515** | **451,235,275** | **473,797,038** | **497,486,890** |
| **LOANS AND GRANTS** | | | | |
| World Bank Grant on Kenya Devolution Support Programme | 75,000,000 | 73,052,239 | 76,704,850 | 80,540,093 |
| World Bank Grant for Kenya Urban Support Project | - | - | - | - |
| DANIDA Grant to Supplement Financing of County Health facilities | 22,140,000 | 21,565,021 | 22,643,272 | 23,775,435 |
| World Bank Grant for Universal Health Care Project | 35,200,000 | 34,285,851 | 36,000,143 | 37,800,150 |
| World Bank Loan for National Agricultural and Rural Inclusive Growth Project | 199,640,546 | 194,455,851 | 204,178,643 | 214,387,575 |
| EU Grant for Instrument for Devolution Advice and Support | 15,624,891 | - | - | - |
| Water and Sanitation Development Project (WSDP) | 400,000,000 | 389,611,941 | 409,092,538 | 429,547,164 |
| Agricultural Sector Development Support Programme | 14,732,422 | 14,349,819 | 15,067,309 | 15,820,675 |
| **Total Loans and Grants** | **762,337,859** | **727,320,722** | **748,619,448** | **786,050,420** |
| **GRAND TOTAL** | **9,193,642,690** | **9,825,555,997** | **10,301,766,486** | **10,816,854,811** |

***Source: Kwale County Treasury***

### 4.3 Expenditure Projections

**126.** In the financial year 2021/2022, Kwale county overall expenditures are projected at **Ksh.9.8 Billion which is an increase** from the approved total expenditure of **Ksh.9.2Billion** in the FY2020/2021 budget. Recurrent expenditures are expected to slightly increase to **Ksh6.1 Billion** from **Ksh.5.30 Billion** in the current **FY 2020/21**. Development expenditures are projected to decline to **Ksh.3.7 Billion** from **Ksh.3.9 Billion** in the current FY2020/21.In this 2021 CFSP, it is proposed that development programmes be allocated **37.7**per cent while the balance of **62.3** per cent be allocated to recurrent expenditure

**Table 7: Medium Term Recurrent Expenditure Framework for the period FY 2021/2022 – FY 2023/2024**

| SECTOR | | Estimates 2020/21 | Ceiling 2021/22 | PROJECTIONS | |
|---|---|---|---|---|---|
| | | | | 2022/23 | 2023/24 |
| **AGRICULTURE, RURAL AND URBAN DEVELOPMENT** | **TOTAL** | **308,966,534** | **336,568,705** | **353,397,140** | **371,066,997** |
| Agriculture, Livestock and Fisheries | Sub Total | 187,200,447 | 203,924,391 | 214,120,611 | 224,826,641 |
| Environment and Natural Resources Management | Sub Total | 111,766,087 | 121,750,944 | 127,838,491 | 134,230,416 |
| Kwale Municipality | Sub Total | 5,000,000 | 5,446,685 | 5,719,019 | 6,004,970 |
| Diani Municipality | Sub Total | 5,000,000 | 5,446,685 | 5,719,019 | 6,004,970 |
| **ENERGY, INFRASTRUCTURE AND ICT** | **TOTAL** | **153,411,638** | **167,116,988** | **175,472,837** | **184,246,479** |
| Roads and Public Works | Sub Total | 153,411,638 | 167,116,988 | 175,472,837 | 184,246,479 |
| **GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS** | **TOTAL** | **119,815,673** | **130,519,657** | **137,045,640** | **143,897,922** |
| Tourism and Enterprise Development | Sub Total | 119,815,673 | 130,519,657 | 137,045,640 | 143,897,922 |
| **HEALTH SERVICES** | **TOTAL** | **1,913,437,936** | **2,244,724,759** | **2,356,960,997** | **2,474,809,047** |
| **EDUCATION** | **TOTAL** | **1,027,990,162** | **1,084,092,978** | **1,138,297,627** | **1,195,212,508** |
| **PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS** | **TOTAL** | **1,564,007,628** | **1,783,685,432** | **1,872,869,704** | **1,966,513,189** |
| County Assembly | Sub Total | 589,345,444 | 641,995,853 | 674,095,646 | 707,800,428 |
| County Executive Services | Sub Total | 123,556,335 | 134,594,499 | 141,324,224 | 148,390,435 |
| Public Service and Administration | Sub Total | 333,593,900 | 363,396,209 | 381,566,019 | 400,644,320 |
| Finance and Economic planning | Sub Total | 467,109,158 | 588,793,240 | 618,232,902 | 649,144,547 |
| County Public Service Board | Sub Total | 50,402,791 | 54,905,631 | 57,650,913 | 60,533,458 |
| **SOCIAL PROTECTION, CULTURE AND RECREATION** | **TOTAL** | **146,665,596** | **159,768,274** | **167,756,688** | **176,144,522** |
| **ENVIRONMENTAL PROTECTION, WATER AND NATURAL RESOURCES** | **TOTAL** | **69,107,455** | **75,281,314** | **79,045,380** | **82,997,649** |
| **SUB TOTAL** | **TOTAL** | **5,303,402,622** | **5,981,758,107** | **6,280,846,012** | **6,594,888,313** |
| Conditional Grants & Loans | **TOTAL** | | 143,717,709 | | |
| **GRAND TOTAL** | | **5,303,402,622** | **6,125,475,816** | **6,280,846,012** | **6,594,888,313** |

**Source:** ***Kwale County Treasury***

**Table 8: Medium Term Development Expenditure Framework for the period FY 2021/2022 – FY 2023/2024**

| SECTOR | | Estimates 2020/21 | Ceiling 2021/22 | PROJECTIONS | |
|---|---|---|---|---|---|
| | | | | 2022/23 | 2023/24 |
| **AGRICULTURE, RURAL AND URBAN DEVELOPMENT** | **TOTAL** | **557,681,329** | **270,630,113** | **284,161,619** | **298,369,700** |
| Agriculture, Livestock and Fisheries | Sub Total | 369,193,700 | 141,086,447 | 148,140,769 | 155,547,808 |
| Environment and Natural Resources Management | Sub Total | 104,490,000 | 129,543,666 | 136,020,849 | 142,821,892 |
| Kwale Municipality | Sub Total | 47,017,629 | - | - | - |
| Diani Municipality | Sub Total | 36,980,000 | - | - | - |
| **ENERGY, INFRASTRUCTURE & ICT** | **TOTAL** | **763,219,212** | **485,047,812** | **509,300,203** | **534,765,213** |
| Roads and Public Works | Sub Total | 763,219,212 | 485,047,812 | 509,300,203 | 534,765,213 |
| **GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS** | **TOTAL** | **250,300,845** | **221,582,795** | **232,661,935** | **244,295,031** |
| Tourism and Enterprise Development | Sub Total | 250,300,845 | 221,582,795 | 232,661,935 | 244,295,031 |
| **HEALTH SERVICES** | **TOTAL** | **549,970,131** | **344,422,778** | **361,643,917** | **379,726,113** |
| **EDUCATION** | **TOTAL** | **543,168,337** | **423,176,429** | **444,335,250** | **466,552,013** |
| **PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS** | **TOTAL** | **226,420,000** | **140,062,965** | **147,066,113** | **154,419,419** |
| County Assembly | Sub Total | 143,000,000 | 87,558,464 | 91,936,387 | 96,533,207 |
| County Executive Services | Sub Total | - | - | - | - |
| Public Service and Administration | Sub Total | 66,220,000 | 31,972,990 | 33,571,640 | 35,250,221 |
| Finance and Economic planning | Sub Total | 17,200,000 | 20,531,511 | 21,558,087 | 22,635,991 |
| County Public Service Board | Sub Total | - | - | - | - |
| **SOCIAL PROTECTION, CULTURE AND RECREATION** | **TOTAL** | **180,637,056** | **196,453,339** | **206,276,006** | **216,589,806** |
| **ENVIRONMENTAL PROTECTION, WATER AND NATURAL RESOURCES** | **TOTAL** | **831,676,605** | **583,865,662** | **613,058,945** | **643,711,892** |
| **SUB TOTAL** | **TOTAL** | **3,903,073,515** | **2,665,241,893** | **2,798,503,988** | **2,938,429,187** |
| Conditional Grants & Loans | **TOTAL** | | 1,034,838,288 | | |
| **GRAND TOTAL** | | **3,903,073,515** | **3,700,080,181** | **2,798,503,988** | **2,938,429,187** |

Source: *Kwale county Treasury*

### 4.4 Budgetary Allocations for the FY 2021/22 and the Medium Term

**127.** The budgetary ceiling allocations for the various county sectors are summarized in the table below:

**Table 9:Provisional Expenditure Ceilings for the FY 2021/22 and their ranking**

| DEPARTMENT | CEILING FY2021/2022 | PERCENTAGE | RANK |
|---|---|---|---|
| COUNTY EXECUTIVE SERVICES | 134,594,499.00 | 1.56 | 12 |
| PUBLIC SERVICE AND ADMINISTRATION | 395,369,199.00 | 4.57 | 7 |
| FINANCE AND ECONOMIC PLANNING | 609,324,751.00 | 7.05 | 3 |
| AGRICULTURE, LIVESTOCK AND FISHERIES | 345,010,838.00 | 3.99 | 10 |
| EDUCATION | 1,507,269,407.00 | 17.43 | 2 |
| HEALTH | 2,589,147,537.00 | 29.94 | 1 |
| TOURISM AND ENTREPRISE DEVELOPMENT | 352,102,452.00 | 4.07 | 8 |
| SOCIAL SERVICES AND TALENT MANAGEMENT | 356,221,613.00 | 4.12 | 9 |
| ROADS AND PUBLIC WORKS | 652,164,800.00 | 7.54 | 6 |
| ENVIRONMENT AND NATURAL RESOURCES | 251,294,610.00 | 2.91 | 11 |
| WATER SERVICES | 659,146,976.00 | 7.62 | 4 |
| COUNTY PUBLIC SERVICE BOARD | 54,905,631.00 | 0.63 | 13 |
| COUNTY ASSEMBLY | 729,554,317.00 | 8.44 | 5 |
| KWALE MUNICIPALITY | 5,446,685.00 | 0.06 | 14 |
| DIANI MUNICIPALITY | 5,446,685.00 | 0.06 | 14 |
| **SUB TOTAL** | **8,647,000,000.00** | **100.00** | |
| GRANTS ESTIMATES | 1,178,555,997.00 | | |
| **GRAND TOTAL** | **9,825,555,997.00** | | |

Source: Kwale *county Treasury*

### 4.5 Key Priorities for the 2021/22 Medium Term Budget

**128**. The Medium-Term Budget 2021/22 – 2023/24 will further support the ongoing priorities and strategies for resilient and sustainable economic recovery in order to achieve the county's development transformation agenda taking into account;

- Ensuring sustained production and delivery of goods and services within available resources;
- Fast track development of critical infrastructure in the county such as roads, water and others so as reduce the cost of doing business as well as promoting competitiveness

- Supporting the vulnerable members of the society through provision of social safety net programmes including the "Elimu Ni Sasa" initiative
- Support youth, women and persons with disability to enable them actively contribute to the economic recovery agenda through the Youth, Women and PWD Fund, and the Trade Revolving Fund;
- Building a resilient, more productive and competitive economy;
- Enhance the efficiency of public service delivery while at the same time ensuring accountability and improved fiscal discipline.

**129.** The approved annual development plan FY 2021/22 will guide in identification of key priorities to be implemented by the county in the medium term. The Annual Development Plan priorities are linked to the realization of county strategic objectives mentioned in the second generation CIDP Plan 2018-2022 and also to the programmes and projects to be implemented in the Third MTP of Vision 2030. The plan proposes high impact programmes which are linked to attainment of the Governor's manifesto, objectives of the Kenya's Vision 2030 Third Medium Term Plan (MTP III) and the Big Four Agenda and the Sustainable Development Goals (SDGs)

**130.** Key county priorities may be categorized as follows: (i) Promotion of agricultural and livestock productivity in the region through purchase and distribution of high breed seeds and animal to farmers (ii) Fisheries development through purchase of assorted fishing accessories to fishermen (iii) Improve access to quality pre-primary education by increasing the number of ECDEs centres and recruitment of more competent personnel , construction of an ECDEs teachers training college and continued support to bright students from needy families (iv) To reduce disease burden associated with unhealthy lifestyles and environmental health risk factors through provision of preventive and promotive healthcare services (v) To create conducive environment for trade expansion and industrialization through infrastructural development (vi) To achieve inclusivity and empower community for equitable and sustainable development .

### 4.6 Allocation Baseline Ceilings

**131.** The baseline estimates reflect the current departmental spending levels in sector programmes. Expenditure forecasts for FY 2021/2022 will be revised to accommodate some of

the county fiscal challenges through reallocations of the existing budgetary provisions supported by monetary/fiscal measures instituted on less productive areas of spending across the county.

**132.** The county will give priority to projects which are considered to foster a great economic impact across the entire county. Therefore, the County Government will commit itself to improving the implementation and absorption capacity of capital projects. Capital projects will be apportioned funds according to the following criteria:

(i) **On -going projects:** adequate funds shall be allocated to complete on- going projects which had budget shortfalls and are crucial in realization of the county transformation agenda.

(ii) **Flagship projects:** high impact projects with multiplier effect across the county sectors will be given priority and adequate funds provided to realize county faster transformation and changing lives of the citizens.

(iii) **Counterpart funding: projects** initiated by development partners especially under the provision of clean and safe water to residents and agricultural transformation and food security shall also receive adequate funding.

(iv) **Post-Covid 19 Recovery:** Consideration will further be given to interventions supporting Post-Covid 19 recovery.

(v) **Strategic interventions:** priority will also be given to other strategic interventions in education, social services, youth, women and persons with disabilities empowerment and environmental conservation.

### 4.7 Finalization of Spending Plans

**133.** The finalization of the detailed budgets will entail thorough scrutiny to curtail spending on non-productive areas and ensure resources are directed to priority programmes. Since detailed budgets are scrutinized and the resource envelope firmed up, in the event that additional resources become available, the county will utilize them to accommodate key strategic priorities.

Specifically, the following will receive priority:

- Interventions identified during the stakeholders' consultation for the FY2021/22 budget and over the medium term.
- Strategic interventions in the areas of manufacturing, food security enhancing programmes, affordable housing, health coverage and public facilities and other policy interventions to enhance regional integration and social equity; and
- Specific consideration to enhance job creation for the youth based on sound initiatives identified within and outside the normal budget preparation.

## 4.8 Details of Sector Priorities

### 4.1.1 Agriculture, Rural and Urban Development (ARUD) Sector

**134.** The main objective of the sector is to be the leading agent towards achievement of food security and agricultural income generation in the region**.** The county will achieve this objective through Promoting competitive and innovative commercially oriented modern agriculture in an enabling environment.

**135.** The county intends to undertake several programs in order to revamp the agricultural sector and to promote agricultural productivity in the region. Under crop development sub sector, the county will continue to undertake rehabilitation and upscaling of micro-irrigation in order to improve food and income security among households.

**136.** Under the livestock production sub sector, the county will continue with the construction/ rehabilitation of vaccination crushes and cattle dips to improve on animal health. In order to ensure diversification in agricultural production, the sector will establish two apiaries and purchase beehives to promote bee keeping. The sector will also undertake promotion of local poultry rearing which will boost dietary intakes among households. This will also improve the household incomes. To support the fisheries department, the county will purchase a modern rescue boat which will help in maintaining security to local fishermen and up scaling of see weed production that will help in Increased & enhanced production of sea products.

**137.** To undertake these programmes, the sector will require **Kshs.607.20Million** in the financial year 2021/22. KShs**336.57million** will be for recurrent purposes and **Kshs.270.63 Million** will be for development expenditure.

### 4.1.2 Energy, Infrastructure and Information, Communication and Technology Sector

**138.** The sector has a sole objective of providing efficient, affordable and reliable physical infrastructure for sustainable socio-economic growth through construction, modernization, rehabilitation and effective management of county infrastructural facilities. This sector provides the requisite foundation for rapid county economic transformation. The county will undertake several programs under the sector which will aid in opening up of remote areas to development as well as improving on the service delivery.

**139.** The county is committed to the establishment of a fully-fledged fuelling bay and workshop at the county headquarters which will enhance service delivery. To improve on the county's preparedness to disaster caused by accidental fires, the sector will finalize on the construction of a fire station. The county will also continue with the installation of street lights and floodlights which will boost security.

**140.** In order to implement the prioritized programmes, the sector has been allocated Ksh.**652.16**Million, **Ksh.684.77**Million and Ksh.**719.01**Million for the financial years 2021/22, 2022/2023 and 2023/2024 respectively. Recurrent expenditure allocation is **Ksh167.12**Million, **Ksh175.47**Million and **Ksh184.25**Million for FY 2021/22, 2022/2023 and 2023/2024 respectively, whereas Development expenditure for the same period is **Ksh485.05**Million, **Ksh509.30Million**, and **Ksh534.77Million** respectively.

### 4.1.3 General Economic and Commercial Affairs Sector

**141.** The sector has a high potential to promote rapid transformation agenda in the county. It consists of Enterprise Development; and Tourism and ICT as the main divisions. The main objective of the sector is to promote, coordinate and implement integrated socio – economic policies and programmes for a rapidly industrializing economy.

**142.** To create conducive environment for trade expansion and industrialization, the county will create new and rehabilitate the existing markets. This will lead to increased market accessibility and improved incomes to households. To ensure that youth are fully employed, the county will establish boda-boda sheds across the region in order to improve on the level of youth unemployment crisis.

**143**. To promote industrial development, manufacturing and value addition, the county will fast track the establishment of a fruit processing plant which will increase job opportunities and improve income of residents. To create an enabling environment for increased tourism activities, the county will construct/rehabilitate beach access roads as well as Construction of Eco-lodge and outdoor picnic and sporting facility.

**144.** In order to implement the prioritized programmes, the sector has been allocated **Ksh.352.10**Million, **Ksh.369.71**Million and **Ksh.388.19**Million for the financial years FY 2021/22, 2022/2023 and 2023/2024 respectively. Recurrent expenditure allocation is **Ksh**.130.52Million, **Ksh.137.05Million** and **Ksh.143.90Million** for FY 2021/22, 2022/2023 and 2023/2024 respectively, whereas development expenditure for the same period is **Ksh.221.58Million**, **Ksh.232.66Million**, **and Ksh.244.30Million** respectively.

### 4.1.4 Health

**145.** This sector is mandated with provision of affordable and quality healthcare services to households. The primary objective of the sector is to provide quality, acceptable and affordable health care services for sustainable development. The county will continue to improve its healthcare infrastructure through construction and rehabilitation of dispensaries and maternity wings across the region. In order to provide treatment to cancer and other related diseases, the County Government will prioritize the establishment of an Oncology Centre. This will improve access to the much needed cancer diagnostic services in the entire region.

**146.** To implement the prioritized programmes, the sector has been allocated **Ksh.2,589.15Million, Ksh.2,718.60Million** and **Ksh.2,854.54Million** for the financial years 2021/22, 2022/2023 and 2023/2024 respectively. Recurrent expenditure allocation is

**Ksh.2,244.72Million**, **Ksh.2,356.96Million** and **Ksh.2,474.81Million** for FY 2021/22, 2022/2023 and 2023/2024 respectively, whereas development expenditure for the same period is **Ksh.344.42Million**, **Ksh.361.64Million**, and **Ksh.379.73Million** respectively.

### 4.1.5 Education

**147.** The main objective of the sector is to transform education through the provision, promotion and coordination of quality education and training. The sector's vision is to be the best provider of pre-primary education and technical training in the region. This will be achieved through the integration of research, technology and innovation for rapid and sustainable socio-economic development in the county.

**148.** To improve access to quality pre-primary education to all children in the county, the county will continue to establish more ECDEs centers across the county. In the addition, to train and empower ECDE teachers, the county will fast track the construction of the ECDE Training College in Kinango Sub County.

**149.** In order to empower the youth in technical, vocational and entrepreneurship knowledge and skills, the county will rehabilitate and construct more youth polytechnics, provide modern tools and equipment, recruit more competent instructors and introduce viable market driven courses.

**150.** The County government will embark on more campaigns to create awareness and sensitize the citizens on the importance of education especially vocational training among the youth. In addition, the county government will streamline education assistance to students from needy families to pursue their studies for future county human capital development and inclusive prosperity.

**151.** To undertake these programmes, the sector will require **Ksh.1, 507.27Million** in the financial year 2021/22. **Ksh.1,084.09Million** will be for recurrent purposes and **Kshs.423.18Million** will be for development expenditure.

### 4.1.6 Public Administration and International Relations Sector (PAIR)

**152.** The sector is comprised of; County Executive Services, Public Service and Administration, Finance and Economic planning (County Treasury), County Public Service Board and the County Assembly. The main objective of this sector is to promote an equitable, all-inclusive and democratic society through establishment of effective governance structures and systems for achievement of rapid socio-economic and political transformation in the county.

**153.** In FY2021/22 and the medium term, the sector will focus on improving the service delivery to residents through creation of an enabling environment for county employees to execute their duties.

**154.** In order to implement the prioritized programmes, the sector has been allocated **Ksh.1,923.75Million**, **Ksh.1,962.28Million** and **Ksh.2,060.40Million** for the financial years 2021/22, 2022/2023 and 2023/2024 respectively. Recurrent expenditure allocation is **Ksh.1,783.69Million**, **Ksh.1,872.87Million** and **Ksh.1.966.51Million** for FY 2021/22, 2022/2023 and 2023/2024 respectively whereas development expenditure for the same period is **Ksh.140.06Million**, **Ksh.147.07Million**, and **Ksh.154.42Million** respectively.

### 4.1.7 Social Protection, Culture and Recreation Sector

**155**. The sector has a mandate to Provide and promote appropriate social and cultural services, community empowerment and nurture and develop sports, arts and talents to foster sustainable livelihood. To promote culture and social services for sustainable development, the County Government will construct and equip a modern audio-visual recording studio which will enhance development of Youth's talents across the county.

**156.** To achieve inclusivity and empower community for equitable and sustainable development, this sector will construct and equip a modern library which will enhance development of mental capabilities and research. The sector will fast track the completion of the modern county stadium and improve the already existing sports fields so as to offer an enabling environment for arts, sports and talent development.

**158.** In order to implement the prioritized programmes, the sector has been allocated **Ksh.356.22Million**, **Ksh.374.03Million** and **Ksh.392.73Million** for the financial years 2021/22, 2022/2023 and 2023/2024 respectively. Recurrent expenditure allocation is **Ksh.159.77Million, Ksh.167.76Million** and **Ksh.176.14Million** for the financial years 2021/22, 2022/2023 and 2023/2024 respectively, whereas development expenditure for the same period is **Ksh.196.45Million**, **Ksh.206.28Million**, and **Ksh.216.59Million** respectively.

### 4.1.8 Environmental Protection, Water and Natural Resources

**159.** The main objective for the sector is to ensure development and distribution of clean and accessible water resources under water services management. This include water pipeline systems rehabilitation, construction of water dams and pans, drilling of boreholes, provision of water harvesting and storage facilities to provide clean water for domestic and industrial use.

**160.** To improve the access, quality and storage of water for sustainable development, the county will undertake several programs such as drilling of new boreholes, conducting hydrological surveys, test pumping of existing boreholes etc. As part of flagship project, major dams will be constructed across the county in order to improve on the access to clean water for both agricultural and domestic purposes. To improve, conserve and protect natural resources, Kwale County will enforce climate change mitigation measures such as purchase of energy saving jikos in order to improve on energy conservation.

**161.** In order to implement the prioritized programmes, the sector has been allocated **Ksh.659.15Million, Ksh.692.10Million** and **Ksh.726.71Million** for the financial years 2021/22, 2022/2023 and 2023/2024 respectively. Recurrent expenditure allocation is **Ksh.75.28Million, Ksh.79.05Million** and **Ksh.83.00Million** for FY 2021/22, 2022/2023 and 2023/2024 respectively, whereas Development expenditure for the same period is **Ksh.583.87Million, Ksh.613.06Million**, and **Ksh.643.71Million** respectively**.**

# CHAPTER FIVE: CONCLUSION

**162**. This 2021 County Fiscal Strategy Paper will inform the county budget in the coming financial year and over the medium term. It will guide departments and sector working groups in the preparation of their budgets. The revenue and expenditure projections once firmed up will be the basis for the FY 2021/2022 budget.

**163.** The County Government is committed to implementation of the policies highlighted in this fiscal plan to achieve faster county socio- economic transformation. To be in line with the national objectives of transforming the nation, the County Government will strengthen the relationship with the National Government to realize the goals of the Big Four Plan and priorities of the Vision 2030.

**164**. The latest 2020 County Budget Review and Outlook paper made a number of recommendations and conclusions for revenue collection enhancement and prudent expenditure management. To enhance revenue collection by broadening the tax base and ensure efficient administration, the County Government will enact the Finance bill and other implement the affiliated acts which have been approved by the County Assembly.

**165.** The Covid-19 pandemic has adversely affected the country's economy in general. This will have an impact on revenue collection nationally which may trickle down to the county in the form of reduced funding. The county will mitigate this risk by rationalizing expenditure through curtailing non-essential recurrent expenditures in the bracket categorized as "use of goods and services".

# ANNEX I: STATEMENT OF SPECIFIC FISCAL RISKS

## Introduction

**1.** The Fiscal strategy paper is prepared against of improved economy and greater prospects for growth. However risks which may derail smooth implementation still remain. The Public Finance Management Act 2012 requires that counties prepare “Statement of Fiscal Risks" as a way to mitigate and manage risks prudently.

**2.** This “Statement of Specific Fiscal Risks" for the county will give an assessment of the risks that will potentially affect budget execution and the attainment of strategic priorities and financial objectives set out in this 2021 County Fiscal Strategy Paper. Potential risks to our fiscal strategy will emanate from expenditure pressures, revenue underperformance, and changes in the macroeconomic environment, weather / climatic conditions and potential insecurity. The County Government will craft measures to mitigate these risks.

## Risks in Changes in Macroeconomic Assumptions

**3.** The underlying assumptions in macroeconomic environment may adversely change and pose risks to the domestic economy which may in turn affect the county economy. Macroeconomic variables changes such as reduced real GDP growth rates, increased inflation, depreciated exchange rate and the volatility of commodity prices on imports will have an effect on revenues to be generated.

**4.** An unfavorable macroeconomic environment will result in reduced growth and incomes which will have downward effect of revenues both at the national level and county level. Unexpected changes in in macroeconomic variables create risks to both revenue and expenditure projections in this 2021 CFSP as they play a key role in the formulation of the budget.

## Risks associated with slow execution of development budget

**5.** The execution of development budget has been slow due to lower absorption rates by departments. Some of the reasons for the slow implementation of the development budget include delays in the release of funds, lengthy procurement procedures, and inadequate capacity and contractor issues.

**6.** The County Government is fully aware of the reasons causing slow execution of development projects. The County Government will lobby for faster release from the National Treasury, ensure prompt procurement processes and strengthen capacity as well as evaluate and act appropriately on contractor issues.

## Risks related to Underperformance of Own Source Revenue (OSR)

**7.** Underperformance in OSR has been caused by a number of factors including inappropriate forecasting, inefficiencies in revenue collection, lack of relevant legislative framework and inadequate enforcement. The underperformance will impact negatively on the total revenues against the planned expenditures. More so, some expenditures like wages are non-discretionary and such cannot be reduced or deferred. This necessitates budget cuts on development expenditure and staggering or non-completion of the development programmes/projects.

**8.** The County Government will mitigate this risk by lobbying for faster enactment of the Finance Bill, implementation of the revenue raising acts which have been passed by the County Assembly, intensifying compliance and enforcement efforts in revenue collection.

## Risks associated with Wages Expenditures

**9.** Regulation 25(1) (b) of the Public Finance Management 2012 for County Governments requires that a county wage bill shall not exceed 35 percent of the total revenue. In this 2021 CFSP percent, wages are equal to 30 percent of the total expected revenues. Thus our fiscal objectives on wages meet the threshold set. However there are risks emerging from increase employment in essential services which may in the long run increase the wage bill.

**10.** There is a strong inverse correlation between development expenditures and wage bill. The higher the wage bill the less will be the development expenditure. Therefore higher wage bill will retard development in the county. The County Government will mitigate this risk by establishing an optimal staffing structure to ensure the wage bill is sustainable and does not affect the development agenda.

## Risks inherent in financial reporting and expenditure arrears

**11.** Lack of reconciliation between financial statements and balances in the IFMIS has led to misrepresentation in financial reporting. This risk has been caused by the lack of capacity and also connectivity. The County Government will ensure these challenges are addressed and all transactions are captured on IFMIS.

**12.** Management of pending bills has been a concern over the period and has adverse effect on budget execution. In general, pending payments older than 90 days constitute a fiscal risk with major potential consequences to the economy .The escalation in pending bills is caused mainly by: i) underperformance of OSR; ii) technical challenges with cash flow management; and, iii) violation of laid down procurement regulations. This risk is being mitigated through the ongoing audit of County Governments' pending bills. The audit will lead to a better understanding of the extent of the risk and thereafter inform the design of specific mitigation measures.

**13**. Meanwhile, the cash accounting method currently applied by County Governments presents challenges in terms of monthly and annual financial reporting on pending bills and other liabilities (as well as assets). This is due to the fact that cash accounting does not require recognition of liabilities as well as assets; rather, only their associated cash inflows and outflows.

**14.** To deal with this challenge, the National Treasury and the Public Sector Accounting Standards Board (PSASB) have initiated a review of the Standard Chart of Accounts as well as development of policy guidelines on management of assets and liabilities. These are preparatory steps for a possible future migration to accrual accounting. This will further enhance closer monitoring of County Governments' pending bills as they will have to be recognized on the face of financial statements.

## Risks due to effects of Climate Change and Natural Disasters

**15.** Climate change effects include extreme weather conditions such as drought, storms and floods, potential sea rise and beach erosion, effects on biodiversity, fragile ecosystems, water supply systems damage. Climate change will have a negative impact on food production. The fiscal implications of climate change to our plan will be serious and immediate. It will directly affect our revenues and expenditures. Reduced revenues and increased expenditures will distort the county budget formulation.

**16.** In addition, food production will also be affected by natural disasters such as severe and prolonged drought, heavy rains as well as floods. Heavy rains can also lead to damage of essential infrastructure including buildings, roads, bridges, electricity poles and transformers. Apart from causing lower food production, natural disasters and climate change have the fiscal implications of reduced revenues and increased expenditures which will distort the county budget implementation.

**17.** The County Government will monitor the situation and adopt appropriate measures such as allocation money for such emergencies to help restore situation and sustain social welfare.

## Risks associated with Insecurity and the advent of terrorist attacks and the "Al-Shabaab" Menace.

**18.** Terrorist attacks have become real and have had an adverse on recovery of tourism. In the past, European nations have been issuing travel advisories to their citizens to be cautious when visiting the country particularly the tourist towns at the coast .This has been escalated by the emergence of the "Al-Shabaab" group who claim responsibility of most of the terrorist attacks in the country.

**19.** The effects of terrorist attack are immense and devastating to the economy. Tourism which is the main stay of our local economy once affected it triggers shocks in other sectors including agriculture, transport, entertainment and trade. Insecurity leads to a general loss of revenues and employment opportunities.

**20.** The County Government in conjunction with non-state organizations is working on programmes to curb violent extremism among the youth.

## ANNEX II: ADHERENCE TO FISCAL RESPONSIBILITY PRINCIPLES

**1.** The County Government has adhered to the fiscal responsibility principles as set out in the PFM Act 2012.The County Government's allocation to development expenditures has been above the 30 percent of its total expenditures. In the FY 2020/2021, the allocation to development in the revised budget was 54.1 percent of the total expenditures. In the fiscal outlays presented in this 2021 CFSP, the County Government continues to observe this requirement and has allocated 30 percent of total expenditures to development in FY 2021/2022 and over the medium term.

**2.** 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 total revenues. In conformity to this regulation, the County Government's share of wages and benefits to revenues was 25.1 percent in the revised supplementary FY 2020/2021, and is projected at 31 percent in FY 2021/2022 owing to increased recruitment of personnel in Health and Education sectors.

**3.** PFM Act section 107(2) (c) requires the County Treasury to ensure that the County Government`s borrowings is used only for purposes of financing development expenditure and not for recurrent expenditure. Currently the County Government has no intention of borrowing.

**4.** The Act also requires that the public debt obligations be maintained at sustainable levels. Currently the County Government has no debt and in case a need arises for borrowing sustainability shall be ensured.

**5.** To manage fiscal risks prudently as required, the County Government will curtail spending on non-priority areas, sustain the wage bill by controlling recruitment save for essential service areas and ensure efficiency in revenue collection.

**6.** On the principle of maintaining a reasonable degree of predictability with respect to the level of tax rates and tax bases, the County Government will amend most of the taxes in the upcoming Finance Act 2020 to ensure predictability and sustainability in future.

# ANNEX III: SUMMARY OF COMMENTS FROM PUBLIC PARTICIPATION HELD IN AUGUST 2020 FOR THE COUNTY ANNUAL DEVELOPMENT PLAN 2021/2022

### Agriculture, Livestock and Fisheries

The priorities identified in the County Annual Development Plan public participation still featured in this 2021 CFSP.Under crop production priories that were mentioned include: strengthening of extension services & farmers training, provision of high yielding drought resistance certified seeds, farm mechanization and provision of fertilizers & manures. Others are up scaling micro-irrigation and revitalization of the Nyalani Dam project to encourage commercial small scale agriculture and agro- business.

To increase livestock production, the public emphasized on livestock disease control, improvement of animal breeds, promotion of local poultry, beekeeping and construction of abattoirs. Under fisheries, priorities suggested include: provision of fishing accessories, fish landing sites development, training in modern fishing methods and investing in fish post-harvest technologies.

### Education

Stakeholders during the public participation praised the County Government's efforts in enhancing education standards through the Bursary/Scholarship fund. The public proposed for its continuation but to include secondary day scholars and increase bursaries for those admitted in lower categories of schools other than national schools. Bursary to be allocated on equity basis based on the student population in each ward. In addition, it was suggested the bursary kit be increased to Ksh 500Million.

Under Early Childhood Development Education, the public proposed the construction of new ECDE centres in areas where they are lacking and the number of children is high.Commensurating with this is the recruitment of more ECDE teachers to ensure quality education .To guarantee high pupils' completion and retention rates, the public proposed for the continuation of the school feeding programme. Other proposals include; provision of arts and play equipment and teaching materials.

Vocational training was also proposed to be strengthened through equipping and adequate staffing of the VTCs. The grant to students under the village polytechnics be increased to accommodate more students.

**Health**

The public proposed for the maintenance and repairing of most health facilities and improve them to good condition. Health facilities with worn out floors need urgent repair. There is also need to operationalize some of the health facilities which are complete but there is no service rendered.

Another suggestion was on diagnosis of medical conditions which is lacking in many health facilities compelling people to travel long distances. The public suggested that all dispensaries should have medical laboratory to offer diagnosis of diseases and checkup of medical conditions. In the same vein the County Government should assist the Community Health Volunteers and Health workers by providing them with medical kits and monthly stipends to motivate them.

The public indicated that there are problems and hiccups at the Msambweni County Referral Hospital. The hospital needs a facelift and major repairs and maintenance in the wards both male and female and sanitation areas. Provision of equipment was also suggested especially adding more wheelchairs to assist patients. The public also suggested for the strengthening of the accident and emergency services. Proper handling of patients and other clients was also stressed through training of the medical personnel on interpersonal relationship to stimulate courteous service delivery.

The public proposed for the increase in the funds allocated to Health to cater for adequate supply of medicines, recruitment of specialized medical personnel, purchase of specialized medical equipment and improvement of health infrastructure.

**Tourism and Enterprise Development**

Tourism has been the main driver of the County's economy. However tourism deteriorated during the **pe**riod from 1997 to 2016. This was mainly due to insecurity and the emergence of more tourist attractive destinations in the region. In the recent past, tourism will continue to be affected courtesy of the containment measures of the Covid-19 pandemic.. The public made several suggestions as priorities to be undertaken by the tourism sector to guarantee its recovery

and sustainability. The public suggested for the promotion of tourism through the establishment of more tourist attraction sites in such areas like Maji moto, Lwayo ra Mlungu, Shimoni slave caves, Kilibasi and others. Other suggestions include the improvement of infrastructure and sanitation facilities along the beaches and the maintenance of the street lights along the beach access roads.

Under Trade, the public proposed for the revival of the trade revolving fund and increase the access of credit to entrepreneurs. Others include the opening up of more markets and the fast tracking the construction of the retail market in Ukunda to offer an alternative to the market at Ibiza which was abolished.

### Social Services and Talent Management

The promotion of sports and youth empowerment was emphasized. The public stressed for the fast tracking of the construction of the county stadium in Kwale. Improvement on most of the wards sports field has taken too long and the public pointed out on the poor workmanship.

On community empowerment, the public called on the revival of the Youth, Women and People with disability fund which has not been operative owing to various reasons. Alongside this proposal was training of youth and women in income generating activities. Other suggestions on community empowerment include reviving of cultural competitions, sports competitions, construction of libraries and social halls.

### Environment and Natural Resources Management

Conservation of natural forests commonly referred to as Kaya forests come out in most of the public hearings. The public proposed for capacity building and awareness for communities to protect and conserve the forests. Alongside this was the suggestion to encourage planting of trees in institutions such as schools and colleges to conserve the environment. The other suggestions include encouraging use of energy saving jikos and clean energy like gas and electricity and avoid excessive charcoal burning.

On sustainable land management and improvement of land tenure system, the public suggested for the adjudication of community lands and group ranches and settle the landless and give them

titles .Other views include the completion of the county spatial plan, towns and urban development plans and setting up structures for the new municipalities of Kwale and Diani.

**Roads and Public Works**

Most of the county access roads are still in bad conditions and not passable. The County Government should continue opening up new roads and rehabilitate the existing roads to improve on connectivity. Work on the roads should be done before the heavy rains in March/ April and workmanship should be improved. Other suggestions include fast tracking of the tarmacking of key roads mentioned in the County Annual Development Plan and the construction of bridges, drifts and culverts.

On energy and electricity, the County Government should continue with the construction of streetlights and floodlights in major trading centres and towns to improve on security and encourage 24-hour economy.

**Water Services**

Water supply and distribution has been a major problem in the county despite water sources being abundant. The public lamented on the water supply and distribution system in the county. The public for construction of new pipelines and rehabilitation of the existing ones and at the same time fast track the construction of medium sized dams and water pans in the semi-arid areas.

**ANNEX IV: Summary of Expenditure Ceilings by Vote and Programmes for the FY 2021/2022**

| Department | Programme | Budget-Ksh |
|---|---|---|
| AGRICULTURE, LIVESTOCK AND FISHERIES | Crop Development | 62,200,000.00 |
| | Livestock Development | 64,636,447.00 |
| | Fisheries Development | 12,250,000.00 |
| | General Administration and Support Services | 205,924,391.00 |
| | **SUB-TOTAL** | **345,010,838.00** |
| | | |
| ENVIRONMENT AND NATURAL RESOURCES | Forestry, Environment & Mining | 35,000,000.00 |
| | Urban and Rural Planning Development | 24,543,666.00 |
| | Land Administration and Management | 70,000,000.00 |
| | General Administration and Support Services | 121,750,944.00 |
| | **SUB-TOTAL** | **251,294,610.00** |
| | | |
| WATER SERVICES | Water Sources Development Services | 583,865,662.00 |
| | General Administration, and Support Services | 75,281,314.00 |
| | **SUB-TOTAL** | **659,146,976.00** |
| | | |
| EDUCATION | Vocational Training | 49,630,317.00 |
| | Early Childhood Development Education | 373,546,112.00 |
| | Bursary and Scholarship | 400,000,000.00 |
| | General Administration and Support Services | 684,092,978.00 |
| | **SUB-TOTAL** | **1,507,269,407.00** |
| | | |
| HEALTH | Preventive and Promotive Health care Services | 277,801,333.00 |
| | Curative and Rehabilitative Health care Services | 66,621,445.00 |
| | General administration, Health Management & Support services | 2,244,724,759.00 |
| | **SUB-TOTAL** | **2,589,147,537.00** |
| | | |
| SOCIAL SERVICES AND TALENT MANAGEMENT | Culture and Social Services Development | 3,300,000.00 |
| | Sports, Arts and Talent Development | 144,724,784.00 |
| | Community Empowerment/Development | 48,428,555.00 |
| | General Administration, Planning and Support Services | 159,768,274.00 |
| | **SUB-TOTAL** | **356,221,613.00** |
| | | |
| TOURISM AND ENTERPRISE DEVELOPMENT | Market infrastructure Development Services | 39,175,475.00 |
| | Trade Development Services | 11,500,000.00 |
| | Weights and Measures | 3,000,000.00 |
| | Investments | 126,907,300.00 |
| | Tourism Development Services | 24,000,000.00 |
| | ICT infrastructural Development Services | 17,000,000.00 |
| | General Administration, Planning and Support Services | 130,519,677.00 |
| | **SUB-TOTAL** | **352,102,452.00** |
| | | |
| ROADS AND PUBLIC WORKS | Roads | 696,686,870.00 |
| | Public works | |
| | County Public Lighting and Electrification | 16,645,970.00 |

| | | |
|---|---|---|
| | General Administration, Planning and Support Services | 167,116,988.00 |
| | **SUB TOTAL** | **880,449,828.00** |
| | | |
| FINANCE AND ECONOMIC PLANNING | Economic and Financial Policy Formulation and Management | 44,275,201.00 |
| | Revenue Mobilization and Administration | 64,625,266.00 |
| | Public Finance Management | 29,771,411.00 |
| | General Administration, Planning and Support Services | 470,652,873.00 |
| | **SUB-TOTAL** | **609,324,751.00** |
| | | |
| PUBLIC SERVICE AND ADMINISTRATION | Infrastructural Development Services | 14,972,990.00 |
| | Waste Management | 14,000,000.00 |
| | General Administration, Planning and Support Services | 366,396,209.00 |
| | **SUB-TOTAL** | **395,369,199.00** |
| | | |
| COUNTY EXECUTIVE SERVICES | General Administration, Planning and Support Services | 146,433,322.00 |
| | **SUB TOTAL** | **222,933,322.00** |
| | | |
| COUNTY PUBLIC SERVICE BOARD | General Administration, Planning and Support Services | 54,905,631.00 |
| | **SUB TOTAL** | **54,905,631.00** |
| | | |
| COUNTY ASSEMBLY | County assembly infrastructural development services | 87,558,464.00 |
| | General Administration, Planning and Support Services | 641,995,853.00 |
| | **SUB-TOTAL** | **729,554,317.00** |
| DIANI MUNICIPALITY | General Administration, Planning and Support Services | 5,446,685.00 |
| | **SUB-TOTAL** | **5,446,685.00** |
| KWALE MUNICIPALITY | | |
| | General Administration, Planning and Support Services | 5,446,685.00 |
| | **SUB-TOTAL** | **5,446,685.00** |
| **GRAND TOTAL** | | **8,875,285,028.00** |

**ANNEX V: Medium Term Expenditure Framework for the period FY 2021/2022 – FY 2023/2024**

| SECTOR | | Estimates 2020/21 | Ceiling 2021/22 | PROJECTIONS | |
|---|---|---|---|---|---|
| | | | | 2022/23 | 2023/24 |
| **AGRICULTURE, RURAL AND URBAN DEVELOPMENT** | **TOTAL** | **782,650,234** | **607,198,818** | **637,558,759** | **669,436,697** |
| Agriculture, Livestock and Fisheries | Sub Total | 556,394,147 | 345,010,838 | 362,261,380 | 380,374,449 |
| Environment and Natural Resources Management | Sub Total | 216,256,087 | 251,294,610 | 263,859,341 | 277,052,308 |
| Kwale Municipality | Sub Total | 5,000,000 | 5,446,685 | 5,719,019 | 6,004,970 |
| Diani Municipality | Sub Total | 5,000,000 | 5,446,685 | 5,719,019 | 6,004,970 |
| **ENERGY, INFRASTRUCTURE AND ICT** | **TOTAL** | **916,630,850** | **652,164,800** | **684,773,040** | **719,011,692** |
| Roads and Public Works | Sub Total | 916,630,850 | 652,164,800 | 684,773,040 | 719,011,692 |
| **GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS** | **TOTAL** | **370,116,518** | **352,102,452** | **369,707,575** | **388,192,953** |
| Tourism and Enterprise Development | Sub Total | 370,116,518 | 352,102,452 | 369,707,575 | 388,192,953 |
| **HEALTH SERVICES** | **TOTAL** | **2,463,408,067** | **2,589,147,537** | **2,718,604,914** | **2,854,535,160** |
| **EDUCATION** | **TOTAL** | **1,571,158,499** | **1,507,269,407** | **1,582,632,877** | **1,661,764,521** |
| **PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS** | **TOTAL** | **1,790,427,628** | **1,923,748,397** | **1,962,284,904** | **2,060,399,150** |
| County Assembly | Sub Total | 732,345,444 | 729,554,317 | 766,032,033 | 804,333,634 |
| County Executive Services | Sub Total | 123,556,335 | 134,594,499 | 141,324,224 | 148,390,435 |
| Public Service and Administration | Sub Total | 399,813,900 | 395,369,199 | 415,137,659 | 435,894,542 |
| Finance and Economic planning | Sub Total | 484,309,158 | 609,324,751 | 639,790,989 | 671,780,538 |
| County Public Service Board | Sub Total | 50,402,791 | 54,905,631 | 57,650,913 | 60.533,458 |
| **SOCIAL PROTECTION, CULTURE AND RECREATION** | **TOTAL** | **327,302,652** | **356,221,613** | **374,032,694** | **392,734,328** |
| **ENVIRONMENTAL PROTECTION, WATER & NATURAL RESOURCES** | **TOTAL** | **900,784,060** | **659,146,976** | **692,104,325** | **726,709,541** |
| **SUB TOTAL** | **TOTAL** | **9,122,478,508** | **8,647,000,000** | **9,021,699,087** | **9,472,784,042** |
| Conditional Grants & Loans | **TOTAL** | | 1,178,555,997 | | |
| **GRAND TOTAL** | | **9,122,478,508** | **9,825,555,997** | **9,021,699,087** | **9,472,784,042** |

Source: *Kwale county Treasury*