



TURKANA COUNTY GOVERNMENT FINANCE AND ECONOMIC PLANNING

COUNTY FISCAL STRATEGY PAPER

FY 2023/24

FEBRUARY 2023

FOREWORD

One of the key stages in the County budget preparation cycle is the production of the County Fiscal Strategy Paper (CFSP). It sets out the county policy goals and strategic priorities that will be the basis for formulation of the County's Financial Year 2023/2024 budget and the Medium- Term projections. This is an annual planning document that shows the various Fiscal strategies that the County Government of Turkana intends to employ to meet its overall objective of improving the livelihoods of its citizens.

Consequently, through this document the County Government has set out priorities which will lead to the realization of the Governor's Nine Point manifesto with emphasis on food security, water as a universal right, revenue enhancement, public private partnerships, health care, education and partnerships building over the medium-term period. These priorities are based on the third generation CIDP (2023-2027), Annual Development Plan (ADP) 2023- 2024, the Kenya Vision 2030 and the MTP IV. The finalization of this CFSP 2023 was informed by the provisions and guidelines as per the PFM Act, 2012 and the PFM (County Government Regulations 2015).

As a build-up on the County Budget Review and Outlook Paper (CBROP) 2022, which analyzed the performance in the FY 2021/2022 financial year's budget, scanned the current year's fiscal environment and provided an outlook for the FY 2020/2021 and the medium term, this CFSP shows the allocation of resources to all sectors and departments.

The main sources of County revenue, in the medium term, will be the equitable share, conditional grants, local revenue collections and donor funding. The paper covers the following broad areas; highlights of the recent economic developments and the economic outlook; broad strategic priorities and policies for the Medium-Term Fiscal Framework. The fiscal framework presented in the paper ensures a sustainable financing while allowing continued spending on priority programmes. Achievement of the set objectives calls for greater transparency, effectiveness and efficiency in public financial management in order to ensure fiscal discipline.

DR. MICHAEL EREGAE

COUNTY EXECUTIVE COMMITTEE MEMBER – FINANCE & ECONOMIC PLANNING

ACKNOWLEDGEMENT

Much effort, time and dedication has been put in the drafting and submission of the County Fiscal Strategy Paper (CFSP), 2023, as required under the PFM Act, 2012. The objective of the document is to highlight some of the fiscal strategies and plans the County Government has in the financing of the priorities for the period FY 2023/24. I take this opportunity to sincerely thank the general public and all interested groups who participated fully towards

finalization of the CFSP 2023. Your invaluable contributions helped to shape the County Fiscal Framework. It will be very important at this point to highlight that, in the allocation of resources for the fiscal period, various factors were considered and more importantly the pressing needs of the county residents.

As a County Treasury, we are grateful and indebted to our County Executive Member for Finance and Economic Planning for his invaluable guidance and counsel in the development of this document. My sincere gratitude goes to my colleagues the Chief Officers, the CFSP secretariat and the department staff for their contributions and dedication to help this process concluded on time. Equally, we value the useful inputs we received from the public when we undertook consultations through public participation in line with the requirements of the Public Finance Management Act, 2012 and the Constitution. Those inputs are submitted alongside this document.

JAMES ILLIKWEL

CHIEF OFFICER – FINANCE

CHAPTER ONE: INTRODUCTION & LEGAL JUSTIFICATION

1.1 Legal Basis for the Publication of the County Fiscal Strategy Paper

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

- a) The County Treasury shall prepare and submit to County Executive Committee the County Fiscal Strategy Paper for approval and the County Treasury shall submit the approved Fiscal Strategy Paper to the county

assembly, by 28th February of each year;

- b) The County Treasury shall align its County Fiscal Strategy Paper with the national objectives in the Budget Policy Statement.
- c) In preparing the County Fiscal Strategy Paper, the County Treasury shall specify the broad strategic priorities and policy goals that will guide the county government in preparing their budget both for the coming financial year and over the medium term.
- d) The county treasury shall include in its County Fiscal Strategy Paper the financial outlook with respect to county government revenues, expenditures and borrowing for the coming financial year and over the medium term.
- e) In preparing the County Fiscal Strategy Paper, the County Treasury shall seek and take into account the views of -the commission of revenue allocation; the public; the interested persons or groups; and any other forum that is established by legislation.
- f) Not later than fourteen days after submitting the County Fiscal Strategy Paper to the county assembly, the county assembly shall consider and may adopt it with or without amendments.
- g) The County Treasury shall consider any recommendations made by the county assembly when finalizing the budget proposal for the financial year concerned.
- h) The County Treasury shall publish and publicize the County Fiscal Strategy Paper within seven days after it has been submitted to the county assembly.

1.2 Fiscal Responsibility Principles in the Public Financial Management Law

- a) In line with the Constitution, the Public Financial Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudence and transparency in the management of public resources. The PFM law (Section 107(b)) states that:
- b) A County Treasury shall manage its public finances in accordance with the principles of fiscal responsibility set out in subsection (2) and shall not exceed the limits stated in the regulations;
- c) In managing the county government's public finances, the County Treasury shall enforce the following Fiscal responsibility principles;
- d) The county government's recurrent expenditure shall not exceed the county government's total revenue; Over the medium term a minimum of thirty percent of the county government's budget shall be allocated to the development expenditure;
- e) The county government's expenditure on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenue as prescribed by the County Executive member for Finance in regulations and approved by the County Assembly;
- f) Over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;
- g) The county debt shall be maintained at a sustainable level as approved by county assembly;
- h) The fiscal risks shall be managed prudently; and
- i) A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, considering any tax reforms that may be made in the future;
- j) For the purposes of subsection (2) (d), short term borrowing shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited county government revenue;
- k) Every county government shall ensure that its level of debt at any time does not exceed a percentage of its annual revenue specified in respect of each financial year by a resolution of the county assembly;
- l) The regulations may add to the list of fiscal responsibility principles set out in subsection of Public Finance Management Act.

1.3 Participation/Sector Hearings and Involvement of Stakeholders

Public participation provides an all-inclusive avenue for identifying and prioritizing Government projects and activities under the budgeting process by key stakeholders and the public. In this regard, the County Fiscal Strategy Paper (CFSP) 2023 was subjected to public hearings by various Stakeholders, Institutions and the public through a public participation exercise in line with the **Turkana Public Participation Act, 2016**.

CHAPTER TWO: RECENT GLOBAL AND NATIONAL ECONOMIC DEVELOPMENTS AND MEDIUM-TERM OUTLOOK

2.1 Overview

The Kenyan economy has been expanding at 5.5 percent in 2022 as compared to the 7.5 percent recorded in 2021. Real GDP is expected to have grown by 5.5 percent in 2022 supported by the services sector despite subdued performance in agriculture and weaker global growth. The economy is projected to rebound to 6.1 percent in 2023, reinforced by the Government's Bottom-Up Economic Transformation Agenda geared towards economic turnaround and inclusive growth.

The coordination between monetary and fiscal policies continued to support macroeconomic stability with interest rates remaining relatively stable. Year-on-year overall inflation rate declined for the third consecutive month in January 2023. Inflation rate eased to 9.0 percent in January 2023 from 9.1 percent in December 2022 and 9.5 percent in November 2022 due to a decline in food prices following the favourable rains and declining international prices of edible oils. However, this inflation rate was higher than the 5.4 percent recorded in January 2022.

The external sector has remained stable despite the tight global financial conditions attributed to strengthening of US Dollar and uncertainties regarding the ongoing Russian-Ukraine conflict. Due to the strong dollar, the exchange rate to the Kenya shilling, like all world currencies, has weakened but strengthened against other major international currencies. The current account deficit was generally stable at 5.2 percent of GDP in the 12 months to November 2022 compared to 5.4 percent of GDP in November 2021 on account of improved receipts from service exports and resilient remittances. The official reserves held by the Central Bank in November 2022 represented 4.2 months of import cover as compared to the 5.6 months of import cover in November 2021. It, therefore, fulfilled the requirement to maintain it at a minimum of 4.0 months of imports cover to provide adequate buffer against short term shocks in the foreign exchange market.

2.2 Revenue Performance

Revenue collection to December 2022 grew by 11.1 percent compared to a growth of 27.3 percent in December 2021. This decline in rate of growth is attributed to the fact that the previous FY's growth was anchored on a lower base – a contraction recorded in the FY 2019/20 reflecting the effects of COVID-19 pandemic. As at end December 2022, the cumulative total revenue inclusive of Ministerial Appropriation in Aid (A-i-A) was Ksh 1,147.0 billion against a target of Ksh 1,158.2 billion. This performance was Ksh 11.2 billion below the set target.

As at December 2022, ordinary revenue recorded a growth of 9.1 percent compared to a growth of 24.2 percent in December 2021. This growth was also recorded in all broad categories of ordinary revenue. Specifically, Income tax grew by 11.2 percent, Value Added Tax (VAT) by 5.9 percent, Excise taxes by 5.4 percent, and Import duty by 18.2 percent. In nominal terms, ordinary revenue collection to December 2022 was Ksh 985.0 billion against a

target of Ksh 1,028.1 billion. This performance was Ksh 43.2 billion below the target. Ministerial A-i-A inclusive of the Railway Development Levy was Ksh 162.1 billion against a target of Ksh 130.1 billion recording a surplus of Ksh 32.0 billion and recorded a growth of 25.0 percent growth for the period ending December 2022.

2.3 Expenditure Performance

Total expenditure and net lending for the period ending December 2022 was Ksh 1,468.8 billion, which was above the projected amount of Ksh 1,448.9 billion by Ksh 19.9 billion. Recurrent spending amounted to Ksh 1,121.4 billion; development expenditure was Ksh 206.3 billion while transfer to County Governments was Ksh 141.1 billion.

Recurrent spending was above the projected target by Ksh 106.8 billion mainly on account of above target expenditure on operations and maintenance and contribution to civil servants' superannuation scheme. Development expenditure was below target by Ksh 28.4 billion on account of below target disbursements to both domestic and foreign financed programmes by Ksh 11.4 billion and Ksh 15.2 billion respectively. Fiscal operations of the Government by end of December 2022 resulted in an overall deficit including grants of Ksh 219.3 billion against a projected deficit of Ksh 285.1 billion. This deficit was financed through net domestic borrowing of Ksh 124.1 billion and net foreign financing of Ksh 95.2 billion.

2.3 Economic Outlook

The economy is expected to grow by 5.5 percent in 2022 and recover in 2023 to 6.1 percent and maintain that momentum over the medium-term (in terms of fiscal years the economic growth is projected at 5.8 percent in the FY 2022/23 and 6.1 percent in the FY 2023/24). This growth will be supported by a broad-based private sector growth, including recoveries in agriculture while the public sector consolidates. From an expenditure perspective, private consumption is expected to support aggregate demand, supported by the ongoing labour market recovery, improved consumer confidence, and resilient remittances.

The growth outlook will be reinforced by the Government's development agenda geared towards economic turnaround and inclusive growth. Special focus will be placed on; increased employment, more equitable distribution of income, social security while also expanding the tax revenue base, and increased foreign exchange earnings. The economic turnaround programme will seek to increase investments in at least five sectors envisaged to have the biggest impact on the economy as well as on household welfare. These include: Agriculture; Micro, Small and Medium Enterprise (MSME); Housing and Settlement; Healthcare; and Digital Superhighway and Creative Industry.

In furtherance of the agenda on inclusive growth and innovation in Micro, Small, and Medium Enterprises (MSMEs), the Government has launched the Hustlers Fund, as an intervention to correct market failure problems at the bottom of the pyramid. This program aims to lift those at the bottom of the pyramid through structured products in personnel finance that includes savings, credit, insurance and investment. To address the adverse impact of the ongoing drought, the Government in partnership with the Development Partners and the private sector under the

auspices of the National Steering Committee on Drought Response has provided response to affected persons, regions and communities.

The Committee will work with both the National and County Governments in strengthening the national capacity for resilient recovery to protect development gains from recurrent drought.

2.4 Risks to the Economic Outlook

There are down side risks to this macroeconomic outlook emanating from domestic as well as external sources. On the domestic front, risks emanate from climate change resulting in Unfavourable weather conditions. This could affect agricultural production and result to domestic inflationary pressures. On the external front, uncertainties in the global economic outlook have also increased which could impact on the domestic economy. These risks include: the possible worsening of the Russia - Ukraine conflict which could heighten the risk of oil and commodity price volatility and elevated inflationary pressures; lingering effects of COVID-19 (coronavirus) pandemics; and global monetary policy tightening, especially in the United States, could increase volatility in the financial markets.

The upside risk to the domestic economy relate to faster than projected rebound in economic activities that would result in higher Government revenues providing fiscal space that would support fiscal consolidation. The Kenyan Government continues to monitor the domestic and external environment and will take appropriate policy measures to safeguard the economy against the adverse effects of the risks if they were to materialize

CHAPTER THREE: COUNTY DEVELOPMENT PRIORITIES FOR THE MEDIUM TERM

Introduction

This chapter emphasizes goals and priority programs intended to reflect emerging realities and priorities in the Governor's Nine Point Agenda which focuses on water; food security; health services & sanitation; revitalizing education & child protection; land, minerals and natural resource management; trade industries & enterprise development; peace building & conflict resolution; wealth creation/county revenue enhancement; collaboration and strategic partnership.

3.1 Lands, Housing & Urban Areas Management:

Provision of efficient and effective Land and Energy administration that promote security of tenure, equitable accessible to land and energy with sustainable utilization of renewable energy sources.

Mission

To develop integrated land and energy development for Turkana County that will Identify the development need, priorities and recommend on that the polices, measures and strategies for sustainable development to provide a spatial Framework to guide sustainable development and manage land for equitable access and ownership and provision of green sustainable energy.

Ceilings for FY 2023/2024.

To achieve the county priorities in the FY 2023/24 the department has been allocated a Budget ceiling of Kshs. 249,709,215.36. From the allocation, Kshs. 95,592,248.77 will be for Recurrent Expenditure while Kshs. 154,116,966.59 will be for Development Expenditure.

3.2 Lodwar Municipality

The priorities for FY 23/24 include but not limited to:

- a) Operations and maintenance of the Lodwar Municipality Board, which received a total budget allocation;
- b) Capital projects for Lodwar municipality include:
 - i. Review of Lodwar Municipality Spatial Plan;
 - ii. Development of web-based GIS for the municipality;
 - iii. Preparation of Environmental, Health & Sanitation Plan for the Municipality;
 - iv. Construction of River Protection Structures along river Turkwel;
 - v. Ensuring climate change adaptation & mitigation;
 - vi. Operationalization and maintenance of fire station, provision of firefighting services, emergency preparedness and disaster management;
 - vii. Operationalization & Maintenance of parking Lots;

- viii. Establishment and development of recreational parks;
- ix. Construction of taxi/bus parks to promote transport within the municipality;
- x. Beautification of green spaces for Lodwar municipality;
- xi. Construction and completion of markets and construction of public toilets within Lodwar municipality at, Nakwamekwi, Nawaoitorong, Kanamkemer, Carlifornia Market;
- xii. Maintenance of flood lights & high mast lights in Lodwar Township & Kanamkemer Wards;
- xiii. Construction of 3 Km road in Lodwar Township Ward of Lodwar Municipality;
- xiv. Fencing of Kanamkemer Cemetery;
- xv. Rehabilitation of Lodwar Town Arboretum, Phase II;
- xvi. Purchase and supply of extension service unit.

Ceilings for FY 2023/2024

To achieve the county priorities in the FY 2023/24, Lodwar Municipality has been allocated a Budget ceiling of **Kshs. 196,105,814.38**. From the allocation, **Kshs. 44,134,220.28** will be for Recurrent Expenditure while **Kshs. 151,971,594.10** will be for Development Expenditure.

CHAPTER 4: BUDGET FRAMEWORK FY 2023/2024

4.1 Fiscal Framework Summary

The fiscal framework for the FY2023/24 and the medium-term budget is based on the Government's policy priorities and macroeconomic policy framework set out in Chapter II. The County will also continue to prioritize implementation of programmes outlined in the County Integrated Development Plan (CIDP) 2023-2032. Further, the framework prioritizes prudent fiscal policy as a commitment towards sound financial management practices as entrenched in the Public Finance Management Act, 2012.

Sustainability, affordability and prioritization will guide programme/project identification and implementation. This will be achieved through spending that is directed towards the most critical needs of the County and well utilized. There will also be increased focus on improvement of both efficiency and productivity of recurrent expenditure. The focus for development expenditure will seek to ensure equitable development, completion of projects on time and align the projects priorities in line with the Governor's Nine Point Agenda. There is need to refocus efforts on key streams, broadening the revenue collection base in order to increase revenue collection through automation of more revenue streams while continually sealing any existing leakages.

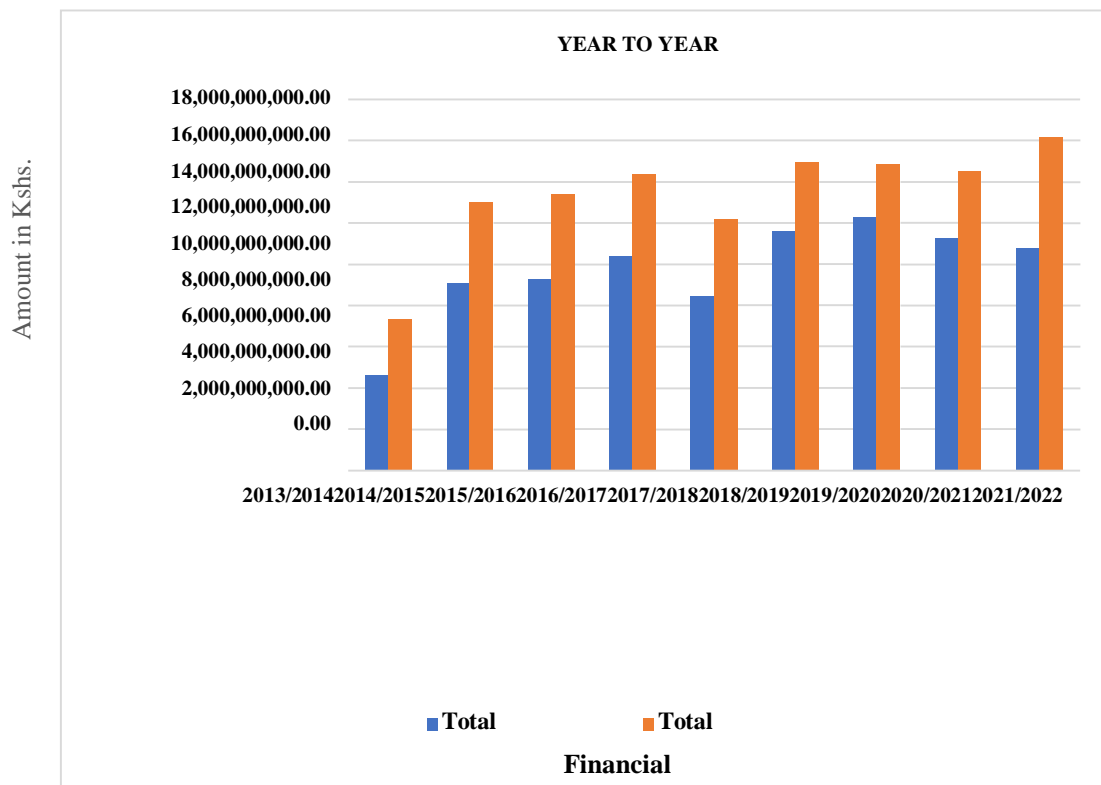
4.1 Fiscal Performance.

The County budget estimates for FY 2021/2022 was KES.16,188,835,692.20 comprising of KES 9,880,508,897.70 (61.03%) as recurrent expenditure and KES. 6,308,326,794.50 (38.97%) being development expenditure. FY 2021/2022 recorded the lowest expenditure as compared to last three preceding years as shown in Figure 4.1 below. The expenditure lower absorption rate is attributed to electioneering period challenges, delay in approval of funds by other National Government entities, uncertainties on change of governments made the key contractors not to complete projects on time. FY 2013/2014 had the least expenditure due to low total county revenue and lack of adequate personnel.

Table 1: Year to Year Analysis of Budget versus Expenditure

FINANCIAL YEAR	TOTAL EXPENDITURE	TOTAL BUDGET
2013/2014	4,606,655,178.55	7,324,684,863.90
2014/2015	9,040,611,198.00	12,994,806,146.00
2015/2016	9,239,924,801.00	13,383,307,695.00
2016/2017	10,376,634,361.00	14,365,952,550.43
2017/2018	8,415,946,117.60	12,150,678,594.00
2018/2019	11,558,662,453.00	14,924,810,127.70
2019/2020	12,244,281,504.07	14,842,631,145.02
2020/2021	11,242,158,912.25	14,478,839,126.04
2021/2022	10,766,493,467.45	16,188,835,692.20

Figure 1: Year to Year Analysis of Budget versus Expenditure



Source: Turkana CBROP 2022

The total revenue realized was KES. 14,783,190,373 which was 91.32 per cent of the projected revenue targets. Equitable share amounted to KES. 11,600,561,514 ,the total receipts from conditional grants cumulatively amounted at KES 252,181,885 while the revenue collected locally amounted to KES. 204,349,844. The balance carried forward available at the County Revenue Fund Account was KES. 2,726,097,130 which comprised of KES. 2,338,840,344 as Equitable Share from FY 2020/2021 and KES. 387,256,785.50 as the conditional grants carried forward.

The unrealized revenue was KES. 1,405,645,319 which was the exchequer amount for the month of June not released of KES. 1,008,744,480 and conditional grants of KES. 421,250,683

Table 3: FY 2021/2022 OSR Collection by Stream

REVENUE STREAMS	AMOUNT COLLECTED IN KSHS.	%
Cess	71,547,848.00	35.0%
Transport Operation Fee	801,450.00	0.4%
Slaughter/Auction Fee	10,086,300.00	4.9%
Advertisement	146,200.00	0.1%
Parking Fee	2,631,560.00	1.3%
Land Survey/Application/Building Approval Fee	10,093,550.00	4.9%
House Rent/Kiosks/Stalls	1,346,600.00	0.7%
Royalty	18,184,040.00	8.9%
Corporates	12,860,621.00	6.3%
Liquor Licenses	179,850.00	0.1%
Health (Public Health & Cost Sharing)	14,885,692.00	7.3%
Single Business Permit	37,850,080.00	18.5%
Market Fee	17,211,475.00	8.4%
Weights And Measures	188,800.00	0.1%
Trade Fair	-	0.0%
Other Fees And Charges	3,134,846.00	1.5%
Environment	-	0.0%
Charcoal Cess/Permits	32,000.00	0.0%
Sbp Mass Collection Kakuma Refugee Camp	3,168,932.00	1.6%
TOTAL	204,349,844.00	100.0%

4.2 Absorption rates

In the period under review, the total county expenditure (including the Turkana County Assembly) amounted to KES. 10,766,493,467 which was 67 per cent of the revised budget estimates. Public Service, Administration and Disaster Management had the highest expenditure of KES. 4,702,566,473 (including personnel emoluments and staff benefits and purchases of humanitarian relief food). Office of the Deputy Governor had the least expenditure of KES. 24,532,887 owing to the low budgetary allocation.

With respect to the absorption rate of the departments, the County Assembly spent 100 per cent of the budgetary allocation. Lodwar Municipality had the least expenditure of 17 per cent.

Table 4: FY 2021/2022 Expenditure by Entity and Category

Department	Annual Budget(1)	Current Expenditure (1)	Development Expenditure (2)	Total Expenditure (3) Year-To-Date	Absorption Rate(%)(4)
Governance	684,901,589.70	321,456,877.95	97,991,042.15	419,447,920.10	61%
Office of the Deputy Governor	35,424,423.00	24,532,887.75	-	24,532,887.75	69%
County Attorney	152,662,484.00	91,832,220.15	-	91,832,220.15	60%
Finance and Economic Planning	1,507,404,550.20	650,030,330.35	212,695,469.35	862,725,799.70	57%
Water Services	912,695,545.53	81,567,451.90	334,440,177.25	416,007,629.15	46%
Health & Sanitation Services	1,330,190,763.56	257,822,544.85	474,325,705.80	732,148,250.65	55%
Trade, Gender and Youth Affairs	513,587,120.90	61,277,539.40	281,704,539.70	342,982,079.10	67%
Education, Sports and Social Protection	1,424,756,569.94	618,245,207.65	195,887,728.65	814,132,936.30	57%
Public Service, Administration & Disaster Management	5,339,708,213.50	4,694,321,043.14	8,245,430.35	4,702,566,473.49	88%
Infrastructure Transport & Public Works	591,412,493.40	138,765,080.10	226,083,296.15	364,848,376.25	62%
Agriculture, Pastoral Economy & Fisheries	1,485,609,765.12	94,841,690.00	525,971,090.56	620,812,780.56	42%
Tourism, Culture and Natural Resources	414,780,381.03	83,903,158.45	60,682,523.00	144,585,681.45	35%
Lands, Energy, Housing & Urban Areas Mgt.	500,650,282.35	102,418,109.40	69,497,631.40	171,915,740.80	34%
County Assembly	976,950,164.00	823,127,562.25	154,733,428.00	977,860,990.25	100%
County Public Service Board	91,674,297.97	42,159,591.85	-	42,159,591.85	46%

Lodwar Municipality	226,427,048.00	31,336,578.00	6,597,531.90	37,934,109.90	17%
TOTAL	16,188,835,692.20	8,117,637,873.19	2,648,855,594.26	10,766,493,467.45	67%



