



COUNTY GOVERNMENT OF KWALE
COUNTY TREASURY

MEDIUM TERM

2026 COUNTY FISCAL STRATEGY PAPER

**ACCELERATING THE COUNTY SOCIO-ECONOMIC TRANSFORMATION
FOR INCLUSIVE AND SUSTAINABLE GROWTH**

FEBRUARY 2026

2026 Kwale County Fiscal Strategy Paper

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FOREWORD

This 2026 County Fiscal Strategy Paper (CFSP), sets out the Kwale County Government's policy priorities, fiscal strategy, programme and projects implementation framework for the FY 2026/27 budget and the medium term. It highlights the progress made thus far towards achieving the County socio-economic transformation agenda as postulated in the Third Generation County Integrated Development Plan (CIDP)2023-2027. It is linked to the Fourth Medium Term Plan (MTP IV) of Vision 2030 of the Kenyan Government which is implementing the Bottom-Up Economic Transformation Agenda (BETA).

Gains have been recorded across the major socio-economic sectors in the county including health, education, agriculture, roads, water and social services. Interventions implemented in these sectors have improved livelihoods albeit a few challenges. In this 2026 CFSP, the County Government will consolidate the gains made and address the bottlenecks which continue to derail the achievement of the county socio-economic transformation agenda. With the gains made thus far especially in the economic empowerment of youth and women and infrastructural development, the County Government will intensify efforts to a more targeted transformation to enhance service delivery and continue improving livelihoods for inclusive and sustainable growth.

Over the medium term, emphasis shall be geared towards huge investment in strategic infrastructure development, entrepreneurship promotion, human capital development through training and skills development, agricultural transformation for food security and accelerating industrialization through agri-business and value addition. The priorities will be pursued alongside continued investment in health, water provision, social and community development to guarantee an inclusive and sustainable growth. It is expected that resources including the equitable share of revenue, county own source revenues and additional allocations will fund the county transformation agenda.

The 2026 CFSP is prepared against a backdrop of a resilient but uncertain global economic environment. Global growth is projected at 3.2 percent in 2025, before moderating slightly to 3.1 percent in 2026 reflecting elevated trade-policy uncertainty, tighter financial conditions, and geopolitical tensions weight on global activity. Despite this challenging context, Kenya's economy has demonstrated remarkable resilience, consistently outperforming global and regional averages over the past three years due to deliberate Government policies and the strength of the country's diversified economic base. The economy grew by 4.7 percent in 2024, supported by broad-based

expansion across major sectors. In the first half of 2025, growth remained strong at 4.9 percent and 5.0 percent in the first and second quarters respectively, driven by a robust agriculture sector, recovery in industry, and continued dynamism in services. The outlook for 2025 and 2026 remains positive, with GDP projected to grow by 5.3 percent, bolstered by favorable weather conditions, improved agricultural productivity, climate-smart investments, and sustained implementation of BETA interventions.

The Kenyan Government has maintained a macroeconomic stability reinforced through a fiscal strategy comprised of intensified revenue mobilization effort, and improving the efficiency and transparency of public spending. The County Government of Kwale will take advantage of these interventions by National Government by further expanding the revenue base through the finance bill 2026 and instituting other administrative policy reforms to minimize tax expenditures, enhance compliance and leverage technology to modernize tax processes and curb leakages. On the expenditure side, the County Government will strengthen expenditure management through full operationalization of e-procurement, adoption of accrual accounting and rationalization of non-essential expenditure. The County Government will further exploit the use of Public Private Partnership (PPPs) to undertake commercially viable infrastructure projects. This will reduce pressure on the constrained county's fiscal space.

The County fiscal performance in the FY 2024/2025 was satisfactory despite the challenges associated with constrained cash flows and delays in disbursements. The mid financial year (Quarter 2) of FY 2025/2026 budget implementation results reveals a promising fiscal performance for the FY 2025/2026. As at 31st December 2025 (end of Quarter 2 of FY 2025/2026) the County had absorbed **40.4 percent** (Ksh 4,512,964) of the total budget of Ksh 10,945,501,811. In the first half of the 2025/2026 financial year, the County Government received Ksh. **3,948,385,427**, which is **39.6 percent** of the total annual target of Ksh. **9,964,744,483**. In the FY 2025/2026, the County Government anticipates revenue amounting to **Ksh 9,078,699,643** as equitable share of revenue from the National Government and revenues raised locally amounting to **Ksh 886,044,840**. The receipts from the National Government amounts to Ksh **3,767,660,353** while the revenues collected locally are **Ksh 180,725,074 (20.4 percent)** out of the targeted 886,044,840.

In the FY 2026/2027, the County Government expects to receive **Ksh 9,176,750,268** from equitable share of revenues from the National Government and targets to collect **Ksh 510,347,082**

from county own source revenues and raise **Ksh 400,000,000** for the Facility Improvement Fund (Appropriation -In- Aid). Therefore, a total of **Ksh 10,087,097,350** will fund the FY 2026/2027 budget. Funds reallocation in the FY 2026/2027 budget will be as follows: recurrent expenditure will be allocated Ksh 6,426,570,773 which will be **63.7 percent** of the total budget and development expenditure will take the balance of Ksh 3,660,526,577(**36.3 percent**).In the recurrent expenditure, wages will be allocated Ksh 3,510,971,710 (34.8 percent) of the total budgetary resources and operations and maintenance will amount to Ksh 2,915,599,069 implying 28.9 percent of the anticipated total revenues.

Due to the scarce resources, expenditure prioritization will remain essential. Departments and agencies, together with Sector Working Groups will be required to scrutinize all existing and proposed programmes, eliminate non-essential low-impact activities and ensure that budgetary resources fund our high priority areas to enhance the county socio-economic transformation agenda. All budget proposals for FY 2026/2027 and the medium term must be aligned towards implementation of the strategic interventions under the county socio-economic transformation agenda.

The County Treasury wishes to express its gratitude to all the County Executive Committee Members, all departments and agencies, development partners, non-state actors, citizens and the general public for their valuable contributions to the preparation of this fiscal strategy paper. We applaud their collaboration in ensuring preparation of credible policies and budgets that reflect the development aspirations of the people of Kwale.



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ACKNOWLEDGEMENT

The 2026 County Fiscal Strategy Paper (CFSP) is prepared in compliance with the provisions of section 117 of the Public Finance Management Act, CAP 412A. It outlines the strategic priorities of the County Government, presents the current state of the National economy which has a bearing on the county's economy, and provides medium-term macroeconomic and fiscal projections together with expenditure ceilings for the FY 2026/27 budget and the medium term. The 2026 CFSP also highlights the County Government's financial objectives over the medium term and demonstrates adherence to the fiscal responsibility principles. This fiscal strategy paper aims to enhance public understanding of the Kwale County Government's public finances and to guide informed conversation on the county's economic and development issues.

Implementation of the FY 2025/26 is progressing steadily albeit the challenges faced in the first quarter emanating from slow adoption of e-procurement, revenue shortfalls and emerging expenditure pressures. The County Government has received Ksh. 3,767,660,353 (42 percent) equitable share revenues out of the annual target of 9,078,699,643 and collected Ksh. 180,725,074(20.4 percent) own source revenue against a target of Ksh. 886,044,840. To ensure smooth implementation of the FY 2025/26 budget and maintain financial consolidation, the County Treasury will present Supplementary Estimates which will adjust for revenue underperformance and additional expenditure requirements.

Going forward, the County Government's fiscal policy for the financial year 2026/27 and the medium term will prioritize aggressive revenue mobilization, expenditure optimization and ring-fencing investment on priority programmes. Essentially, the policy will focus on prudent management of the public constrained finances, and augmentation of the interventions under the County transformation agenda including economic empowerment, human capital development, agricultural transformation, improved healthcare access and infrastructural development.

The preparation of this 2026 CFSP was made possible through collaboration by a multitude of players. The paper consolidated inputs from the County departments and agencies, the non-state actors of the County Budget and Economic Forum, development partners and donors, statutory autonomous offices, constitutional commissions, private sector actors and the general public. We are grateful for their invaluable contributions which have enabled us to produce a credible paper that reflects the citizen's development priorities, strengthens accountability, and promotes effective management of public resources. The County Treasury of Kwale wishes to extend its

appreciation to all involved, particularly the dedicated team under the leadership of the County Director of Economic Planning and Budgeting that worked tirelessly in compiling this document.



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DRAFT 2026 CFSP

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 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. Kwale County is one of the six counties in the coastal region under the Jumuiya ya Kaunti za Pwani (JKP) economic bloc. The county has an estimated population of 866,820 of which 49.0 per cent is male and 50.9 per cent female (Kenya National Bureau of Statistics, KNBS 2019). The County has a population density of 105 per km². About 85.4 per cent of the population lives in rural areas of whom 57.0 per cent are female. The youth constituted 33.0 per cent of the population of whom 53.0 per cent were female. The elderly population (over 65year-old) makes up 3.8 per cent of the total population of whom 53.7 per cent were female. The population in school going age group (4-22 years) was 49.3 per cent in 2019. Of the population 112,152(1.7 per cent) are persons with disability. The overall poverty rate in Kwale County is 47.4 per cent against the national poverty rate of 36.1 per cent.

2. The 2026 County Fiscal Strategy Paper (CFSP) is prepared in compliance with the provisions of section 117 of the Public Management Act, 2012. The 2026 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) 2026/2027 and over the medium term. This document is expected to improve the public's understanding of County Government's fiscal matters as well as the strategic priorities which will enhance the well-being of Kwale people.

3. This 2026 CFSP seeks to implement the strategic priorities and programmes articulated in the FY 2026/2027 County Annual Development Plan (CADP). The CADP FY 2026/2027 is linked to the priorities of the County Integrated Development Plan (CIDP) 2023-2027 and the County Sectoral Plans (CSP) 2023-2032. This 2026 CFSP will form a basis for FY 2026/2027 budget and the medium term. The order of funding for priorities in this CFSP is in line with the Governor's manifesto and the CSP and CIDP. A five pillar strategy has been adopted indicating the five main priority areas namely: (a) Healthcare (b) Economic Empowerment (c) Infrastructural Development (d) Human Capital Development (e) Agriculture Transformation.

4. This 2026 CFSP contains; (a) an outline of the strategic priorities and programmes for accelerating the county socio-economic transformation for inclusive and sustainable growth (b) an assessment of the current state of the Kenyan economy which has a bearing on the county economy

(c) the financial outlook with respect to county government revenues and expenditures for the next financial year and over the medium term (d) the proposed expenditure ceilings for the county executive departments and the county assembly (e) the fiscal responsibility principles and financial objectives over the medium term (f) the statement of financial risks. The County Fiscal Strategy Paper 2026 is also aligned to the National strategic objectives in the 2026 Budget Policy Statement (BPS).

1.2 2025 CFSP Preparation Methodology

5. 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 at the ward level to collect views and contributions on the draft 2026 CFSP. Further, in adherence to section 117 (e) of the Public Finance Management Act 2012, 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.

6. This 2026 CFSP is organized as follows: Chapter I introduces the paper. Chapter II provides the strategic priorities and programmes for accelerating the county socio-economic transformation for inclusive and sustainable growth; and 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 as at 31th December 2025 and its implications on the financial objectives given in this 2026 CFSP and the PFMA fiscal responsibility principles are given in chapter III. This is followed by proposed resource allocation framework, fiscal projections and medium-term expenditure framework (MTEF) sector ceilings in chapter IV and chapter V concludes the paper. Statement of financial risks is given in the appendix section.

CHAPTER TWO: ACCELERATING GAINS UNDER THE COUNTY SOCIO-ECONOMIC TRANSFORMATION AGENDA FOR INCLUSIVE AND SUSTAINABLE GROWTH

2.1 Overview.

7. The 2026 County Fiscal Strategy Paper (CFSP) is the fourth to be prepared under the Achari-Chirema administration since assuming office in September 2022. This paper sets out the Kwale County government's priority policies, programs, and interventions to be executed in the financial year 2026/2027 and over the medium term. The 2026 CFSP also outlines the progress made in delivering county socio-economic transformation as postulated in the third Generation of the Kwale County Integrated Development Plan 2023–2027. This paper is aligned to the 2026 Budget Policy Statement (BPS) of the National Government, which is further aligned to the Fourth Medium Term Plan of the Kenya Vision 2030 which implements the Bottom-Up Economic Transformation Agenda (BETA). BETA model is designed to promote inclusive and sustained growth through the value chain approach that directs scarce public resources where they generate the greatest job creation, income growth, and expanded economic participation. The main five pillars of BETA include agricultural transformation, MSME development, housing and settlement, universal healthcare, and the digital super highway. Aligning the County socio-economic transformation agenda to BETA, the County government of Kwale focuses on key strategic priorities, including agricultural transformation, economic empowerment through MSME development, human capital augmentation, universal healthcare, and essential infrastructural development.

8. Budget execution for the past three years, has been impacted by constrained fiscal resources due to erratic disbursement from the National Treasury. However, despite the constraint fiscal space, the county government of Kwale has achieved notable progress in delivery of the County socio-economic transformation agenda outlined in the 2023–2027 County Integrated Development Plan (CIDP). More specifically, notable achievements have been made in Revenue administration, expenditure management, economic, empowerment, infrastructure, expansion, healthcare access, and education outcomes.

9. In the financial year 2026/2027 and the medium term, the county government of Kwale will consolidate the gains realized in the implementation of strategic interventions of the CIDP 2023–2027 in delivering the county socio-economic transformation agenda. The County government of Kwale will scale up investments in infrastructure, healthcare access, economic empowerment, human capital development, and agricultural transformation. This is aimed at guaranteeing enhanced livelihoods, inclusive and sustainable growth.

10. The Achani-Chirema administration will embrace a “Whole of Government” approach to service delivery to ensure effective budget execution. The priorities which the County Government will focus include:-

(i) Agricultural Transformation: The County Government will prioritize modernizing agricultural value addition through promotion of value chains, up-scaling of irrigation to increase the acreage of crop production, enhancing farm mechanization and issuing of high yielding crop seeds varieties and other agricultural inputs. Under livestock development, the County Government will improve productivity through augmented disease control, strengthening extension services, improving animal breeds and ensuring upgrading local livestock market for sustainable farmer incomes.

(ii) Economic Empowerment: The County Government has realized there is huge potential in women and youth entrepreneurship to create job opportunities and raise local incomes. The County Government will continue with its programme of encouraging and mobilizing youth and women to form companies to exploit county government procurement opportunities. In the same vein, the County Government will support traders through the newly inaugurated Kwale Biashara Revolving Fund.

(iii) Promoting Healthcare access: The County Government will upscale investments in healthcare to achieve universal health coverage. The County Government will promote healthcare through increasing stock of medical supplies, augmenting medical equipment and consultative services, recruiting of specialists to undertake oncology, ophthalmology, cardiology, dentistry and others. Other programmes which will be pursued include: expansion of community health services, digital health platforms and deployment of adequate medical personnel.

(iv) Infrastructural Development: Infrastructure is a key enabler in delivering the county socio-economic transformation agenda. Consequently, the County Government will accelerate the development of key infrastructure including roads, energy and water systems to lower the cost of

doing business and ease the movement of people and goods. The County Government will aim at development of climate proof resilient infrastructure.

(v) Human capital development: The County Government will scale up investments in educational support and assistance, training and skills development to create a pool of human capital to hasten achievement of the county socio-economic transformation. Essentially, the bursary schemes will be streamlined to guarantee achievement of its objectives.

11. The enablers to achievement of the strategic priorities under the county socio-economic transformation will include: -

- a. Upholding of macroeconomic stability, by the national Government, strengthening governance and the rule of law to guarantee peace and security and a conducive business environment. Peace is an essential ingredient in the county socio-economic transformation process.
- b. Enhancing fiscal management by expanding the domestic revenue base, enhancing efficiency, accountability and value for money in public spending and ensuring optimum utilization of scarce financial resources.
- c. Scaling up investment in key economic sectors to drive sustainable growth by augmenting agricultural transformation, strengthening industrialization through value addition, promoting environmental conservation and climate change mitigation, supporting tourism promotion and ensuring proper and sustainable land use and management.
- d. Boosting the investment in key infrastructure, including roads, energy and water systems to lower the cost of doing business and to ease the movement of people and goods. Development of efficient transport infrastructure will connect, farmers and traders to the market, enhance economic activities, and thus spur economic growth. Improvement of market infrastructure by implementing climate resilient designs will promote trade and stimulate job creation.
- e. Strengthening human capital development by increasing investment in health and education to ensure development of productive population to achieve both social and economic outcomes.

- f. Promote economic empowerment of youth, women and persons living with disabilities. Additionally, supporting the creative economy, including film, music, arts and digital content to drive innovation, youth employment, and economic diversification.
- g. Aggressive lobbying for timely disbursement of shareable revenues from the National Government, collaboration and partnership in the implementation of viable infrastructural projects in the county.
- h. Undertaking policy, legal and institutional reforms to improve efficiency and effectiveness in public service delivery.

12. Taking into account, the gains made in the three years of implementing the county socio-economic transformation, the County Government of Kwale will focus on the following:

- i) Economic empowerment of the people by promoting MSMEs through financial assistance, training in business acumen and increasing local participation in economic activities.
- ii) Industrialization to promote agricultural produce value addition for job creation and generation of wealth.
- iii) Developing key infrastructure which is climate proof and resilient, including roads, energy, water, and market development.
- iv) Harnessing human capital development through education assistance, skills development, training and innovation.
- v) Revamping healthcare access to improve service delivery, deployment of adequate personnel, supporting health insurance mechanisms, augmenting medical equipment and increasing the scope of specialized services and stock of essential medicines. A healthy and productive population is an essential recipe for rapid, socio-economic transformation.

13. This socio-economic pathway, prioritizes strategic planning, large-scale investment in people, expansion of productive capacity, and robust infrastructure systems to increase the county competitiveness for inclusive and sustainable growth. To finance the Kwale county's transformation agenda, the county government will develop sound physical strategy to mobilize resources and take advantage of anticipated huge investments to be undertaken and negotiate for increased resources to undertake high impact development programs to accelerate the county socio-economic transformation for improved livelihoods, inclusive and sustainable growth. The county Government expects to receive Kshs.1.16 billion as its share of mining royalties in the

current financial year which is 2026/27 and the medium term. Emphasis will be given to agricultural transformation, infrastructure expansion, economic empowerment programmes and value addition industrialisation.

2.2 Implementation of The County Socio-Economic Transformation Agenda In The Third Generation CIDP 2023-27

14. The County Government of Kwale continues to consolidate the gains made in implementation of the Third Generation County Integrated Development Plan 2023–27. The County socio-economic transformation agenda has five core pillars. These key pillars lay the foundation for achieving inclusive and sustained growth to create jobs, generate wealth and reduce poverty. The overall poverty rate in the county is approximately 47.4%, which is significantly higher than the national average of 36.1%. The county socio-economic transformation programmes outlined in the County Integrated Development Plan 2023–2027 aims at reducing poverty to address the high unemployment, inequality and illiteracy levels and high incidences of disease burden. The five core pillars of the county socio-economic transformation agenda: agricultural transformation; economic empowerment through MSME promotions, healthcare, human capital development, and infrastructural development will be integrated to drive economic growth, expand opportunities and enhance social welfare across the county.

2.3 The Key Priorities of the County Socio-Economic Transformation Agenda

2.3.1 Agricultural Transformation for Inclusive and Sustainable Growth

15. Agriculture is a key pillar of the County socio-economic transformation and the main driver of inclusive and sustainable development. More than 3/4 of the County population resides in the rural areas implying agriculture has the highest potential employment multiplier for the vast economically marginalized groups. Due to this realization, the County Government will continue to prioritize agricultural development to enhance productivity, ensure food security, generate wealth and reduce rural poverty.

16. In the financial year 2026/27 and the medium term, the county government will continue to sustain the inputs provision program to consolidate the gains already achieved. Additionally, the county government will enhance farm mechanization, support the fertilizer subsidy program by the National Government, and improve extension services and training farmers in modern farming practices. This will help the resource constrained farmers, enhance productivity and alleviate the food insecurity situation. In the same vein, the department of agriculture will work together with

other relevant county departments to adopt climate change mitigation measures, develop irrigation and agriculture systems to limit the reliance on rain fed agriculture and address the climate related problems, including drought.

17. To promote crop diversification and strengthen agricultural high value chains, the county government will support implementation of the National Agricultural Value Chain Development Project (NAVCDP) in the current financial year 2025/26. The County Government through the department of agriculture is supporting 5 value chains, including mangoes, bee keeping, tomatoes, cashew-nuts and poultry for about 3,103 farmers. This is projected to increase in the financial year 2026/2027 with the anticipated increased funding. To support livestock productivity in the county, the County Government will strengthen disease control through artificial insemination and animal breeding to support genetic improvement programs. Other interventions will include vaccination against the major diseases to protect livestock assets and increase market access for livestock products.

18. The County Government is also involved in the Kenya Marine Fisheries and Socio-Economic Development (KEMFSED) project. This project is aimed at enhancing livelihood through sustainable community-driven projects. Key interventions for which the county government is involved include promoting of seaweed farming with 21 groups receiving over Kshs 23 million in grants, construction of a modern fish landing site at Mwaepe in Kinondo Ward, and establishment of the National Mariculture Resource and Training (NAMARET) Center in Shimoni. Through this project, the county government intends to empower local communities in the blue economy, boost fish production, and improve market access for fish products.

19. The County Government will in the financial year 2026/2027 and the medium term, increase the acreage under cash crop production exploiting rice, cotton, cashew-nuts, coconuts, pulses, mangoes and citrus fruits production. Strengthening of farmers' cooperatives, promoting digital agriculture, agricultural insurance coverage, and agricultural financing will also be exploited. There is huge potential to increase agricultural productivity as bottlenecks related to climate variability and market risks will be addressed.

2.3.2 Economic Empowerment through Transformation of Micro, Small and Medium Enterprises (MSMEs)

20. The MSMEs sector contributes to about 40 percent to the GDP of Kenya's economy. This sector accounts for the highest number of businesses in Kenya almost 98 percent. Despite its important role, the MSMEs sector faces structural constraints, including limited access to affordable credit, punitive collateral requirements, high interest rates, restrictive licensing frameworks, inadequate infrastructure, weak market linkages, and low technical and managerial capacity.

21. The County Government of Kwale through its economic empowerment program has taken deliberate and decisive action to encourage women and youth to mobilize themselves and form companies to prospect for county procurement opportunities. Already over 300 women and youth companies have been formed and over 100 have secured procurement opportunities. This move has created jobs, generated incomes, and in the long run will reduce poverty and address income inequality.

22. To deepen financial inclusion and provide affordable credit to the micro, small and medium enterprises, the County Government of Kwale has initiated the Kwale Biashara Revolving Fund with Ksh 51 million budgeted in the financial year 2025/26 and is projected to rise to Kshs 100 million in the financial year 2026/27 and the medium term. Alongside this, the County Government through the department of Trade and Enterprise Development will continue to enhance access to business development services through technical training, market intelligence, and linkages to both domestic and export markets. The County Government has established business development training centers dubbed as "Biashara centers" in the four sub counties.

23. To strengthen the cooperative movement and enhance farmers bargaining power, the National Government advances prioritizing the enactment of the Cooperative Societies Act. The County Government will take advantage of this development and customize the Cooperative Societies Act to promote the cooperative movement, strengthen governance and management of cooperative societies in the county. The County Government has in the past offered support to various cooperatives in the county through weights and measures control, training of the cooperative members and provision of machinery equipment.

2.3.3 Healthcare

24. Universal health coverage aims at ensuring equitable access to quality health services for all Kenyans. Achieving universal health (UHC) remains a cornerstone of the National Government's social policy under the Bottom-Up Economic Transformation Agenda. Universal healthcare is also a key pillar of the County socio-economic transformation as outlined in the County Integrated Development Plan 2023–2027. The county government is supporting the national government plan to complete enrollment of all eligible Kenyans in social health authority (SHA), targeting 35 million people.

25. To expand primary healthcare networks, the National Government is integrating community health units, health centers, and hospitals in two coordinated systems that provide a continuum of care. These networks promote effective referrals and integrated community-based care. To support this initiative, the county government has invested heavily in health, infrastructural development, including construction of 36 new health facilities, equipping the existing 5 hospitals with modern medical equipment and construction and equipping of renal dialysis units. To reduce dependence on overseas medical referrals, the County Government has established a cancer treatment center at the Kwale Hospital to provide early cancer diagnosis.

26. Under the community health strategy, the county government has recruited Community Health Promoters (CHPs) to serve in the community health units. The county government has streamlined the monthly stipends and is offering equipment to the CHPs. Challenges still exist courtesy of unequal distribution of the CHPs. The County Government targets to increase the number of CHPs to address this bottleneck.

27. Digitalization of health services remains a key focus to improve efficiency, transparency, and coordination across facilities. The county government will continue to implement an integrated health information system to enhance service delivery, coordination and strengthen accountability across the County healthcare system. This system will involve supply chain management, claims management and automation of medical records. To strengthen financial resilience and sustainability, the national government enacted the Facility Improvement Fund (FIF) Act which is implemented at the county level. The County Governments, Kwale included, customized the Act

to suit their situation. This Act provides for financial sustainability and enhanced health outcomes as funds are retained at the facility level and can be ring-fenced for provision of health products, and other essential goods and services of the facility. These reforms have improved maternal and child health outcomes and enhanced supply chain management systems.

28. In the last three years, the county of Kwale has implemented strategic interventions to strengthen primary healthcare, expand health infrastructure, improve service delivery, and ensure sustainable financing. Although bottlenecks still exist due to inadequate supply of medicines, inadequate deployment of health personnel, limited emergency care and referrals, limited modern medical equipment, and constrained budgetary resources, the County Government of Kwale is partnering with various local and international healthcare institutions to address these challenges. Going forward in the financial year 2026/27 over the medium term, the county government will work towards recruitment of more health personnel, install an integrated health management system to address medical supplies bottlenecks and enhance service delivery, streamlining the SHA claims management, revamp the referral system by acquiring more assets, rehabilitate the existing dilapidated facilities and invest in modern medical equipment.

2.3.4 Infrastructure Development

29. This is one of core pillars of the county socio-economic transformation agenda. Infrastructure development is a key enabler of economic transformation. It provides essential connectivity for the movement of people, goods and services, accessible water resources supporting agriculture and human settlements, and sustainable management of natural resources. Infrastructure investment reduces transactions cost, opens new markets, and facilitate the movement of goods and people. For this reason, the County Government will invest heavily in: construction of climate proof roads (including tarmacking), construction of water pans, small and medium sized dams, expanding water pipeline network, and clean energy generation.

2.3.4.1 Roads and Transport Network

30. Expansion of the roads and transport network is a priority of the County Government of Kwale. In the FY 2026/27 and the medium term, the County Government of Kwale plans to tarmac about 50 kilometres of roads, cabro paving of access roads countywide, undertake routine maintenance, through grading and murraming and opening up of new roads. The County Government targets to prioritize construction and rehabilitation of key road circuits to enhance connectivity across the

county. The county roads will connect rural areas to markets, while the rural access and feeder roads will open agricultural zones to trade. Expansion of the road network in the county will encompass upgrading of the roads to bitumen standard. This will enhance the County competitiveness and build investor confidence.

31. Kwale County boasts of the ongoing construction of trunk roads by the National Government. Among the national trunk roads under construction include: the 79 km Samburu – Kinango – Kwale road. This will improve connectivity, boost tourism, and improve cross border trade once it becomes fully operational. Cognizant of the critical role roads play in economic transformation, the county government targets to complete the upgrading to bitumen standard of the following roads: Vinuni – Magodzoni – Tiwi Sokoni Road (6.5 kilometers) and the Tsimba- Vyongwani – Lunguma road (about 10 kilometers). The County Government will also prioritize cabropaving, grading and murraming of feeder roads within the Municipalities of Diani, Kwale, Lungalunga and Kinango.

2.3.4.2 Water and Irrigation

32. The development of efficient and effective water infrastructure is a priority of the county government. The County Government is committed to ensure universal access to clean and safe water, improve sanitation and expanded irrigation to strengthen water security and food production. According to the Water Act of 2016, water related functions remain a shared responsibility between the 47 county governments and the national government.

33. According to the latest statistics given by the Kenya National Bureau of Statistics (2023), water access in Kwale County has improved from 35 percent in 2013 to approximately 57 percent in 2023. The County Government of Kwale has increased investment in water infrastructure, including the drilling and equipment of over 100 boreholes, expansion of water pipelines about 350 km and construction of six medium sized dams and 15 water pans. Ongoing projects which will boost water supply include the Mwache dam construction, and the planned infrastructure for Diani municipality and the surrounding areas by the World Bank.

34. Despite the investment in water infrastructure, there still exists a water supply gap. The county produces an average of 25,000 m³ per day which is significantly below the daily demand of 66,447 m³. Further, residents particularly in the arid areas still travel 1 - 2 km to fetch water. The major challenges to provision of efficient and effective water services in the county include climate

variability manifested in prolonged drought, land degradation and destruction of water catchment areas, and the destruction of water infrastructure through vandalism. The County Government intends to address these challenges through robust environmental protection strategies, sensitization of water users and the general public on sustainable water management, strengthening collaboration with water resource users and residents' associations and the county water companies. Additionally, the county government will enhance capacity of the Kwale Water and Sewage Company (KAWASCO) and closely monitor its operations to ensure there is efficiency and effectiveness in water service delivery.

35.Through the department of Environment and Natural Resources and the department of Social Services, the county government is working with several partners to increase the number of households with improved sanitation systems. To improve on sanitation, the county government launched the Diani urban project which started with the Mabokoni – Kilole water project. This will improve water supply and by extension hygiene. The Diani/Ukunda urban project will provide 10,000,000 L³ a day through the boreholes in Kilole and new pipelines, serving Diani, Ukunda, Tiwi, and Kombani.

36.The World Bank is a key stakeholder and funding partner for the Kenya Water Security and Climate Resilience Project (KWSCR) in the Water Sanitation Development Project (WSDP). The County is implementing the KSh 2.5 billion World Bank funded initiative to improve supply in Diani, Ukunda and neighbouring areas. The major focus would be to increase water production through construction of nine boreholes, new storage water tanks and upgrading the Ng'ombeni – Ukunda line to provide 10 million litres per day. The World Bank will establish a new water quality laboratory, public ablution blocks and office construction to enhance KAWASCO's operational capacity.

2.3.4.3 Public Lighting

37.Under the public lighting initiative, the County Government of Kwale is actively rolling out solar powered street lighting in Diani and other urban centers and floodlights in key trading centers. The aim of this program is to enhance security, reduce crime and boost a 24-hour economy. The County Government has also installed street lights in major trading areas such as Mwaruphesa, Malomani, Moyeni, and Mackinnon Road in the upper region of the county. The initiative is part

of the broader strategy of the County Government to boost infrastructure, increase investments and provide a conducive environment for business.

38. Going forward in the FY 2026/27 and the medium term, the County Government plans to scale up investment in installation of solar-powered street lights in various county wards including Gombato, Kinondo, Ramisi, Dzombo, Mwereni, Vanga, Tsimba-Golini, Ng'ombeni, Tiwi, Mkongani, Puma and Mackinnon Road. The County Government targets the trading centers with a view of boosting security and creating an enabling environment for trade and commerce. To promote clean cooking in sustainable energy, the County Government initiated the energy saving jikos program by facilitating construction of more than 1000 clean cooking jikos spread across the 20 wards in the county. The County Government has distributed the energy saving jikos to more than 200 ECDE centers to assist in the school feeding program. The initiative has improved livelihoods and enhanced environmental conservation.

2.3.5 Human Capital Development

39. Human capital is a critical driver of economic development, serving as the foundation for enhanced productivity, innovation, and sustained economic growth. The County Government has prioritized human capital formation as among its core pillars of the County's socio-economic transformation agenda. Education is universally recognized as a cornerstone for human capital development and a key determinant of long-term economic growth. In this respect, the County Government has scaled up investment over the years in early childhood education and technical vocational training.

40. The aim of Kwale County Early Childhood Education program is to create a strong educational foundation for young learners through improved policies and increased investment in early childhood education. The county has constructed over 570 ECDE centers and employed 912 qualified teachers. The ECDE facilities are equipped with modern teaching equipment and materials as well as social amenities to create a conducive learning environment for the young children. Additionally, the County Government has initiated a feeding program in each of the ECDE centers to support children's nutrition and enhance learning.

41. Going forward, the County Government will rehabilitate the ECDE centres which were constructed in the early years of devolution and equip them with modern equipment and learning materials to enhance learning. Despite the commendable number of qualified teachers, there are still deficits when in some ECDE centres due to growing number of young learners. The county government targets to recruit additional 1,366 teachers to reduce the teacher: pupil ratio and guarantee quality learning.

42. The County Government of Kwale under the leadership of Governor Fatuma Achani, focuses on reducing youth unemployment through enhanced vocational training. The county administration has invested in upgrading of Vocational Training Centres (VTCs) from 13 at the start of devolution to 43 at the end of 2025. The new facilities have been equipped with modern tools and equipment and new market-driven courses have been introduced including carpentry, welding, mechanics among others. In addition to the VTC infrastructure development and provision of modern tools and equipment, the County Government launched a KSh 30 million grant and over KSh 46 million in bursaries to support students from disadvantaged backgrounds. The County Government has also recruited over 130 instructors to facilitate training in market-driven areas such as plumbing, electrical engineering, masonry and ICT.

43. In the FY 2026/27 and the medium term, the County government will strengthen partnership and collaboration to enhance skills development and training and also for provision of modern equipment and tools. As articulated in the third generation of the County Integrated Development Plan, the County Government will transform the VTCs into “centres of excellence”, at least one centre in each of the six sub-counties. The County Government’s efforts have resulted in increased enrollment in the VTCs from about 1,000 to over 3,700 since the beginning of devolution. The other strategic interventions by the County government will be to rehabilitate the existing VTCs with modern tools and equipment. More importantly, the County Government targets to employ additional 281 instructors to facilitate quality training and skills development in the VTCs as the number of students surge.

44. The Kwale County Government, under the Governor Achani’s Elimu Ni Sasa initiative has been operating a major bursary scheme among the highest in the country (KSh. 500 million annually) to support exceptionally needy students, and those from vulnerable backgrounds. The

programme was established to combat high school dropout rates so as to boost education retention as well as enhancing human capital development. The programme targets over 10,000 to 30,000 beneficiaries annually in national schools, day and boarding schools, colleges and universities. Funds are distributed through ward-based committees to ensure they reach the intended beneficiaries.

45. Despite some challenges arising from the temporary suspension of issuing bursaries by the Controller of Budget (CoB), the County administration remains committed to the programme. The Kwale County Assembly passed the Kwale County Bursary and Scholarship Fund Act, 2024 thus establishing a legal framework for managing the fund to increase retention and transition rates. The bursaries are designed to be paid directly to institutions with oversight from ward and county committees. In 2025, the court ordered temporary freeze on county level bursary disbursement arguing that funding secondary and tertiary education is not a devolved function. Recently, the County Government signed formal intergovernmental agreements with the National Government to legitimize the funds transfers. Going forward, the county administration will align operations of the bursary and scholarship scheme with national standards to effectively manage the funds and continue supporting the needy students.

2.4 Enablers

46. The county's socio-economic transformation requires a robust enabling environment for it to be realized. Economic development in Kwale County is primarily driven by a mixture of nature resources exploitation, infrastructure development, the blue economy, agricultural diversification and tourism. The County Government is committed to strengthening implementation of these critical enablers providing the infrastructure, institutional frameworks, and capacity necessary for sustainable socio-economic transformation. The enablers provide the mechanisms, for which the County Government seeks to create a conducive environment to enhance service delivery, encourage private sector growth and ensure equitable access to opportunities countywide.

2.4.1 Infrastructure

47. Infrastructure development is the cornerstone for socio-economic transformation. It acts as the backbone of economic development by reducing production costs, enhancing productivity and connecting markets, ultimately acting as a catalyst for sustained growth. It provides essential connectivity for movement of people, goods and services, reliable energy supply powering

productive activities, accessible water resources supporting agriculture and human settlements and sustainable management of natural resources. It is for this reason that the County Government will continue investing heavily in infrastructure including: expansion of the road network, construction of water pans, small and medium sized dams and associated irrigation infrastructure and clean energy generation.

48. The major development projects carried out in the county by the National Government which will transform infrastructure include: the KSh 20 billion Mwache multipurpose dam; the KSh 3 billion Kwale – Kinango road; the KSh 606 million regional maritime transport and port logistics centre in Shimoni and implementation of affordable housing programmes to improve living conditions. The County Government of Kwale is also transforming its infrastructure including cabropaving the over 10 kilometers of beach access roads, upgrading of rural roads such as the Vukani – Tiwi Sokoni, Mwangwei – Majoreni, Tsimba – Lunguma, Kinondo - Tsimba hills and Deri – Ndavaya roads. Development of the Kshs 500 million County Aggregation and Industrial Park (CAIP), Construction of the Diani Market, Installation of over 92 floodlights and 150 solar powered streetlights, and upgrading infrastructure in the municipalities of Lungalunga, Kinango, Kwale and Diani will catalyze socio-economic transformation in the county.

48. Water and irrigation infrastructure development is critical in improving the access to clean and safe water, sanitation and food production. The County Government is heavily investing in irrigation infrastructure to boost food security and reduce reliance on rain-fed agriculture in semi-arid areas of Kinango and Lungalunga. The County is constructing drip irrigation systems targeting high value crops like tomatoes and kales for smallholder farmers. In addition, the farmers are supported through the KEMSFED projects.

49. The County Government has constructed over 25 small and medium sized dams with components of small-scale irrigation schemes and reservoirs to store water for livestock use. These include among others Nyalani, Mwena, Silaloni, Mwaluvuno, Kizingo and Mwakalanga dams. These dams serve as a catalyst for modern irrigation farming, reducing dependency on rain-fed agriculture and promoting agribusiness development.

50. The County Government of Kwale is actively pursuing industrialization as a key enabler of economic growth, job creation, wealth generation, inequality and poverty reduction. This is done through the establishment of key infrastructure, focusing on agro-processing and leveraging private partnerships. The key projects aimed at transforming the primary agricultural and service-based economy include the KSh. 500 million Kwale County Aggregation and Industrial Parks (CAIPs) in Mwananyamala, Lungalunga subcounty. This park aims to add value to crops such as cashew-nuts, cassava, tomatoes and other farm produce. The other key project with a similar objective is the Fruit Processing Plant in Shimba hills.

51. Other initiatives to industrialization include the construction of a ginnery in Kinondo aimed at boosting local cotton production and incomes. This is supported by the National Government to the tune of KSh 100 million. Private investment also includes the Devki Steel industry in Samburu, the Romika Shoe factory in Ukunda, mineral extraction (titanium) in Nguluku, rare earth elements in Mrima, Silica sand at Waa and cement at Matuga. This will speed up industrialization in the county. The development of the Kwale County Aggregation and Industrial Park will act as a hub for aggregation, processing and market access, supporting the modernization of agriculture and the strengthening of value chains. This will enhance productivity, reduce input costs, minimize post-harvest losses, and promote value addition.

2.4.2 Blue Economy

52. The blue economy has huge potential to drive inclusive green growth and transformation as envisioned by the Bottom-Up Economic Transformation Agenda. The blue economy encompasses a range of sectors including fisheries, aquaculture, maritime biotechnology, tourism, marine transport and logistics. The National Government can tap the rich marine resources found in Kwale County to empower the local communities, improve livelihoods and contribute to national economic growth.

53. Kwale County is strategically positioned to become a hub for the blue economy in Kenya. The county can leverage on its rich marine resources to boost local livelihoods by focusing on sustainable fishing, aquaculture and tourism. The major investments made so far in this sector include: the KSh 2.6 billion Shimoni Fish Port designed to handle 50,000 metric tonnes of fish annually, the National Marine Hatchery in Shimoni supporting aquaculture; the maritime training hub almost 94% complete is expected to train locals in maritime transport and port logistics.

54. The County Government has initiated several interventions to boost performance in the blue economy sector. These include: modernization of fishing through the distribution of over 75 fiber glass boats with outboard engines, fishing gear and coolers to enhance catch and reduce post-harvest losses. The County has also constructed fish landing sites (e.g. Mwaepe), supported the seaweed farmers (e.g. in Kibuyuni), and trained 120 women as coxswains and BMUs for better co-management of resources. The County Government has actively participated in projects targeting the restoration of mangroves and sea-grasses with the potential for significant annual revenue from carbon credits.

55. The County Government has collaborated with organizations like the German Corporation for International Cooperation (GIZ) and the Kenya Marine Fisheries Socio-Economic Development (KEMFSED) project to enhance aquaculture, support SMEs and create jobs. The County Government is progressively transforming fishing from the traditional, subsistence methods to structured, sustainable and profitable commercial enterprises ultimately spurring economic development. Recent developments under Blue Economy in the county include the UN Women Gender Responsive Blue Economy (2025-2029), a new four-year program funded by Canada to promote sustainable fisheries, aquaculture and circular business in Tsunza, Ukunda and Shimoni. In partnership with Human Rights Agenda (HURIA), UN Women targets to train about 500 women and youth in conflict resolution and establish the Kwale Peace Network to prevent violent extremism. UN Women is also supporting women in community-led, sustainable management of wetlands and coastal ecosystems.

2.4.3 Environment and Climate Change

56. Provision of a clean, secure, and sustainable environment, alongside robust climate change mitigation and adaptation measures, remains central to achieving the aspirations of the Bottom Up Economic Transformation Agenda (BETA) and Vision 2030. In this regard, the Government has continued to mainstream environmental conservation, climate resilience, reversal of deforestation, biodiversity protection, and land restoration across all programmes at both national and county levels. Environmental protection and climate change mitigation and adaptation are also key priorities in the county socio economic transformation agenda. The aim of the environmental conservation initiatives is rehabilitating land, combating the effects of drought and securing a sustainable green future for the county.

57. The County Government of Kwale is actively implementing environmental protection and climate change initiatives through the Kwale County Climate Change Action Plan (KCCCAP) 2023-2027. Some of the initiatives under this plan include: -

- i. Protection of mangroves, coral reefs and sea grass through community-based groups like the Mwazaro and the Mikoko Pamoja project in Gazi and Makongeni areas of Kinondo ward. The Mikoko Pamoja is a community-based initiative focusing on biodiversity, carbon credits and inclusive local economic prosperity.
- ii. Planting of over 600,000 trees in the three-year period of the current administration. The target is to plant 30 million trees by 2032. The programme aims to restore over 10,000 hectares of forest to fight degradation.
- iii. Through the 10-year Shimba Hills Ecosystems plan (2023-2032) in collaboration with KWS, KFS and WWF- Kenya, the County Government is protecting vital water catchment and endangered species like the sable antelope.
- iv. Promotion of Farmer Managed Natural Resources (FMNR) and agroforestry to improve soil retention and reduce water loss. This is done in conjunction with World Vision Kenya with over 20,000 farmers already on board in Kwale. The program also includes training on agroforestry, sustainable value chain development and financial literacy.
- v. The county government promotes the sustainable use of resources, such as regulated charcoal harvesting and works with Beach Management Units (BMUs) to protect marine life and boost the blue economy.
- vi. The County is integrating climate change strategies into key sectors such as agriculture, water and physical planning through the Financing Locally Led Climate Action (FLLoCA) project. This includes building community resilience and creating a 20-ward bottom-up approach to climate action.

2.4.4 The Services Economy

2.4.4.1 Financial Services

58. The financial services sector plays a pivotal role in economic transformation by facilitating access to credit, savings, investments and financial inclusion. The growth of financial services increases the availability of funding by mobilizing idle savings and enabling faster transactions which boosts overall economic development. Financial services in Kwale County, consisting of

commercial banks, SACCOs, microfinance institutions and government funds, drive economic growth by improving financial inclusion and funding key sectors like agriculture, tourism and mining. The growth of digital banking and improved financial literacy has enabled faster, more convenient payments, micro-savings and credit access.

2.4.4.2 Tourism Sector

59. The tourism sector is the leading foreign exchange earner and therefore a key pillar of the economy. Its multiplier effects extend across key sectors including agriculture, trade, manufacturing, environment and infrastructure thereby playing a critical role in creating jobs, enhancing community livelihoods and sustainable economic transformation. Tourism is a primary driver of economic development in Kwale County, particularly through beach tourism in Diani and ecotourism initiatives like the marine parks. It stimulates the local economy by creating jobs, enhancing infrastructure, fostering MSMEs and providing support for the tourism value chain.

60. The National Government has developed the National Tourism Policy (2025-2030) to transform Kenya's tourism sector into an internationally competitive and sustainable industry. The policy aims to promote sustainable tourism that supports economic development, environmental conservation and community participation while strengthening legal and institutional frameworks for effective sector coordination. It seeks to enhance quality standards, integrate tourism priorities into national and county development plans, mobilize resources for sustainable growth, incentivize investment and promote innovative market responsive tourism products. The County Government of Kwale will domesticate the National Tourism Policy to enhance tourism in the county.

61. Although, tourism is a shared function between the devolved governments and the National Government, the Kwale County Government has intensified efforts to promote tourism. Key initiatives by the county government of Kwale include:

- i) Construction of beach access roads and installation of streetlights at the beaches to enhance safety and access;
- ii) Installation of floodlights along roads in Diani and in other public areas to foster a 24 hour economy.
- iii) Promotion of new tourism attraction centres and supporting community-based tourism such as the eco-resort projects in Lungalunga.

- iv) Actively promoting Diani Beach through tourism fairs and expos internationally and attraction sites like Chale Island.
- v) Partnering with institutions like the Kenya Utalii College to train local hoteliers and beach operators to improve service standards.
- vi) Exploiting strategic partnership like the signing of agreements with the Dakhla Oued Ed-Dahab region in Morocco, to promote exchange programmes in tourism, culture and investment.

62. Kwale County's efforts in enhancing performance in the tourism sector have achieved major milestones including: -

- i. The arrival of the First cruise ship (MV SH Diana) in October 2025 which docked at the newly developed Shimoni Port with over 120 tourists visiting sites like the Kisite Mpunguti Marine Park.
- ii. Diani Beach has been recognized for eight consecutive years as the Africa's leading beach destination with top resorts like Leopard Beach Resort and Spa, Baobab Resort and Spa and Chale Island winning prestigious awards in 2024.
- iii. Promotion of Local Tourism through the "Hapa ni Wapi" campaign. This is being used to promote lesser –known, local tourist sites to increase domestic visitors during holiday seasons.
- iv. Improved infrastructure and marketing have sparked increased investor interest in real estate and hospitality thus creating jobs and spurring economic growth.
- v. Diversification of tourist attraction through the County Governments effort to promote cultural tourism.
- vi. The upgrading of the Ukunda airstrip to a fully functional airport with improved infrastructure and increased tourist arrival.

2.4.5 Sports, Arts and Culture

2.4.5.1 Sports and arts

63. Sports and arts are vital for holistic development, fostering, physical health, mental well-being, social, cohesion, and economic growth. They build discipline, teamwork and resilience individuals while also acting as tools for education, cultural expression, and community unity. Sports and arts drive economic development through employment, tourism, and innovation.

64. In recognition of the role of sports and arts in economic development, the County Government of Kwale has actively invested in this sector to empower the youth, curb crime, and promote social cohesion. In addition to utilizing county funds, the County Government has partnered with the National Government to accomplish major sporting infrastructure. The key sports development projects and initiatives which the County Government of Kwale has undertaken include the following: -

- i. The construction of Kwale Stadium in Kinarini Kwale town. This is a flagship state of the art 6,000-seater stadium project designed to host national and international events. It includes a modern athletic track, football and basketball pitches, offices and upcoming facilities like a swimming pool.
- ii. Construction and upgrading of 20 local sports fields to enhance grassroots participation in the wards, including recent projects in Dziriphe, Mkelekeleni and Mvinden.
- iii. Support teams to teams through the provision of sports gear, kits and dedicated county sports bus for team transportation.
- iv. Establishment of sports academy in partnership with the national government. The Matuga Kshs 57 million sports academy features athletics track, volleyball, basketball and netball courts, plus training classrooms and a social hall.
- v. Kwale County hosted the 2025 Confederation of African Cycling (CAC) Road Cycling African Championships in Diani.
- vi. The County Government has collaborated with private sector institutions to nurture talents and develop sports and arts. It has partnered with private donors to sponsor sports activities at the grassroots like football tournaments where the county government collaborated with Rashid Abdalla Foundation and others.

65. In the FY 2026/27, and over the medium term, the County Government will continue to promote and develop sports at all levels. The County Government will construct new sports fields in Kitsukwa and Upgrade Mwangulu and Vuga fields. In addition, the County Government will strengthen the promotion and coordination of sports industry to support sustainable livelihoods and establish and operationalize sports academies to nurture talents.

2.4.5.2 Culture and Heritage

66. Culture and heritage are vital drivers of economic development, acting as catalysts for tourism, jobs creation and urban revitalization while enhancing local livelihoods and social capital. They transform cultural assets such as historic sites, traditions and arts into economic value, generating revenue for local businesses and promoting sustainable development. The National Government's BETA aims to conserve Kenya's diverse cultures and heritage with commercialization of indigenous knowledge. The Kwale County Government is actively developing its culture and heritage sector to promote social cohesion, boost tourism and foster economic growth.

67. The key culture and heritage interventions adopted by the County Government of Kwale include the following:

- i. **Cultural Infrastructure:** The construction of the Kshs. 50 million Bomas of Kwale, Cultural centre in Diani and investing in a modern recording studio for artists and constructing community-specific infrastructure such as Samburu Cultural Curio Stalls.
- ii. **Cultural and arts competitions:** The county has been hosting annual cultural extravaganzas to promote local talent and cultural competitions from the ward level to the county level. These events are used to select teams for national festivals, promoting and preserving traditional dances, crafts and music.
- iii. **Preservation of cultural forests:** The county is part of the coastal region that recognizes the sacred Kaya forests, which are managed as cultural and spiritual centers.

68. The County Government intends to strengthen the cultural sector to improve local livelihoods, particularly for artists, artisans and performers. The County Government uses cultural, sporting and leadership programmes to engage youth and combat social issues like drug abuse and delinquency. Additionally, the County Government is integrating cultural heritage with the county's existing 'beach and safari' tourism model (e.g. Diani Beach) as a core strategy for attracting tourists.

69. In the FY 2026/27 and over the medium term, the County Government will construct the Kwale Heritage and Convention Centre in Diani for Kshs 50 million, modern social halls in Kaphingo and Bishop Kalu and rehabilitate the social halls in Mwabila, Malomani, Kirewe, Nyango and Mzinji. Under this sector, the County Government will establish new public libraries in Shimba

Hills and Ukunda, Mvindi. For community development services, the County Government will construct modern public toilets in areas like Mwaroni and Nyango.

2.4.6 Women and Youth Empowerment

70. Women and youth empowerment drives economic development by fostering inclusive growth, reducing poverty and increasing productivity through entrepreneurship and skills training. Youth and women empowerment remains a key pillar of the county socio-economic transformation agenda. Investing in youth and women improves household incomes, boosts economic growth and enhances social stability. Key interventions on the youth development agenda aims to equip youth with entrepreneurial and life skills, enhance employability and unlock the potential of youth-owned Micro, Small and Medium Enterprises (MSMEs). Key impacts of youth and women empowerment include: -

- i. Empowering women directly leads to poverty reduction as they often reinvest in their families and communities.
- ii. Empowered, educated and skilled women and youth improve organizational performance and diversify production in sector like agribusiness and technology.
- iii. Targeted interventions for women and youth reduce inequality and create more resilient, sustainable economies.

71. The key drivers of youth and women empowerment include: financial inclusion and access to loans, credit and financial services; skills development and training for the youth to enter the formal labour market; policy and structural reforms to remove legal and social barriers; and provision of entrepreneurship opportunities to augment participation in value chains and access the government procurement opportunities. The major challenges to youth and women empowerment include: the persistent disparities in access to education, financial resources and for women disproportionate responsibility for unpaid care works; limited or lack of representation in leadership, decision making and technical roles; and youth high unemployment rates and limited access to decent work, necessitating targeted and tailored support initiatives. The County Government has put up interventions to address these challenges.

72. The County Government of Kwale is actively empowering women and youth through economic activities, including assistance in the registration of over 300 specialized companies with over 50 securing county government tenders. The key strategies and initiatives, the county government of Kwale is implementing include: prioritizing the 30 percent rule access to government procurement opportunities (AGPO), awarding tenders to firms owned by women, youth and persons with disabilities to foster economic resilience; implementing the Biashara Revolving Fund to provide low-interest loans to registered business, enhancing their capital base for expansion; capacity building and training in business skills and entrepreneurship enabling participants to move from small scale activities to larger economic opportunities; and focusing on provision of agricultural inputs to the rural women and youth to increase productivity and enhance livelihoods. The department of social services and talent management coordinates the youth and women empowerment programmes focused on skills development, mentorship and economic inclusion.

73. Under the women agenda for development, the County Government of Kwale will consolidate gains made over the years in advancing gender equality. The County Government will continue to promote the inclusion of women in decision making, enhancing their economic empowerment and intensifying efforts to curb Gender-Based Violence (GBV) and Female Genital Mutilation (FGM). The County Government will further strengthen community development and social empowerment targeting the youth and women. The County Government is promoting gender equality through 50 percent female county executive committee membership, 30 percent tender allocation for women, youth and PWDs through the Kwale County Sexual and Gender-Based Violence Act, 2023. The County Government has established SGBV rescue centers, safe houses and legal support for integrated gender responsive budgeting.

74. Additional efforts in Gender Equality include gender mainstreaming in all the county development plans and budgets, and the adoption of Gender Responsive Budgeting where the county has developed a GRB framework to ensure resource allocation directly supports women, youth and persons living with disabilities (PLWDs). Further, the County Government has established Gender-Based Recovery Centres in every sub-county in partnership with the Coalition on Violence Against Women (COVAW). The department of Social Services and Talent Management has collaborated with the National Government to establish gender desks in police stations and providing safe spaces for survivors of GBV.

2.4.7 Governance

75. Enhancing governance and adherence to the rule of law provides an enabling environment for sustainable development. The Constitution of Kenya 2010 establishes separation of powers, independence of institutions and accountability mechanisms ensuring good governance. Article 10 of the constitution articulates national values including the rule of law, democracy, transparency and accountability. Consequently, the Kenyan Government has prioritized strengthening governance within the public service through implementation of a series of reforms, laws and policies designed to enhance professionalism, transparency and service delivery.

76. The County Government will benefit from the reforms, laws and policies initiated by the National Government. The reforms have been made in the Judiciary which has improved the access to justice. These include establishment of e-court systems, online case management, establishment of Employment Courts and the use of alternative dispute resolution mechanisms.

77. Public service transformation has been cascaded to all the counties. The County Government is implementing performance management systems linking staff evaluation to service delivery outcomes, adoption of e-government platforms including e-citizen portals, e-procurement and records digitization and targeted capacity building programs for public servants. These initiatives have improved efficiency, responsiveness and compliance across government institutions.

78. Under Public Finance Management, the county government is implementing the Integrated Financial Management System (IFMIS) to strengthen transparency and accountability in the management of public funds. The County Government is also carrying out citizen engagement in policy development allowing for public participation in budget formulation and county development planning. This enhances legitimacy in decision making and fosters public trust and empowers citizens to hold the government accountable.

79. The National Government has intensified efforts to combat corruption, led by the Ethics and Anti-Corruption Commission (EACC). The County Government is implementing the reforms which were introduced to combat corruption. These reforms include the enforcement of asset declaration requirements for all public officers, digitization of procurement and public finance management. This has enhanced transparency, accountability and public trust in governance.

80. For security and stability, the National Government has continued investment in police modernization, intelligence, community policing, border management and counter terrorism activities, enhancing coordination between national and county security agencies to address emerging threats. The County Government of Kwale has implemented several security management initiatives primarily focusing on collaboration with national agencies to ensure safety, particularly for tourists and festive seasons. Kwale has adopted a County Action Plan (CAP) anchored on the national strategy to counter radicalization focusing on preventive, restorative and rehabilitation measures. Additionally, the county utilizes a decentralized administrative structure (sub counties, locations, sub locations) to bring security services closer to the people.

CHAPTER III: RECENT ECONOMIC DEVELOPMENTS AND MEDIUM-TERM OUTLOOK

3.1 Global Economic Outlook

81. Global economic growth is projected to remain resilient through 2025 and 2026, despite ongoing geopolitical tensions, trade policy shifts, and inflationary pressures. Weak global demand and heightened geopolitical tensions continue to pose significant risks to the global outlook.

82. Global growth projections have been revised slightly upward by both the International Monetary Fund (IMF) and OECD. Advanced economies are stabilizing, while emerging markets are benefiting from stronger exports and remittances. Growth is expected to remain modest at about 1.6 percent in both 2025 and 2026. In the United States, growth is projected at 2.0 percent in 2025, rising slightly to 2.1 percent in 2026, supported by resilient household spending, strong business investment, particularly in AI-related technologies, and easing financial conditions. Meanwhile, growth in the Euro Area is projected at 1.2 percent in 2025 and 1.1 percent in 2026. This moderate expansion is underpinned by rising real wages, which bolster household consumption, as well as investment in technology and equipment, although progress is constrained by trade-policy uncertainty, weaker export demand and subdued business confidence.

3.2 Risks and Uncertainties

83. Geopolitical tensions in the Middle East and trade fragmentation remain a key risk. Others include technology expectations where overvaluation or slower adoption could dampen investment and policy fatigue. In this case, fiscal buffers need rebuilding, and monetary policy must balance inflation control with growth.

84. The global economy is projected to remain resilient despite significant challenges, according to the Organization for Economic Co-operation and Development. The Outlook projects global GDP growth of 4.4% in 2026, up from 3.7% in 2025, and 4.6% in 2027. The global economy has stabilized, with growth expected to be 4.6% in 2027 and 4.4% in 2026, slightly up from 3.7% percent in 2025. This is supported by a reduction in global inflation and easing supply chain issues. Inflation is easing globally, with nearly half of advanced economies and 60% of emerging markets returning to central bank targets. The outlook reflects stronger-than-anticipated growth in the USA, several large emerging market economies like India, and an improved growth forecast for the UK.

85. Growth prospects vary significantly across regions. GDP growth in the United States is projected to be 1.9% in 2026, before rising to 2.2% in 2027. In the euro area, the recovery in real household incomes, tight labour markets and reductions in policy interest rates continue to drive growth. Euro area GDP growth is projected at 1.3% in 2026 and 1.4% in 2027. Growth in Japan is projected to decline by 0.6% in 2026 but then decline/rise to 0.8% in 2027. China is expected to continue to slow, with GDP growth of 4.4% in 2026 and 5.4% in 2027

86. According to the region's most recent economic update, growth in Sub-Saharan Africa is projected to grow by 4.2% in 2025, from 3.0% in 2024, and to accelerate to 5.4% in 2026–27. Rising conflict and violence across the region exerts a dampening effect on economic activity, with climate shocks poised to exacerbate this fragility. About 485 million people in the region are still living in extreme poverty in 2025. The region continues to grapple with high debt distress risks, with 60% of IDA-eligible countries in the region at high risk or already in debt distress.

87. However, key risks to global growth include disruptions in the disinflation process, which could be triggered by commodity price spikes due to ongoing geopolitical tensions, potential volatility in financial markets that could negatively impact sovereign debt, a further slowdown in China's growth, and an escalation of protectionist policies, which could worsen trade tensions, reduce market efficiency, and disrupt supply chain

TABLE 3.1: GLOBAL ECONOMIC PERFORMANCE

ECONOMY	ACTUAL	ESTIMATED	PROJECTION	PROJECTION
	2023	2024	2025	2026
UNITED STATES	2.5	2.6	2.0	2.1
CHINA	5.2	5.0	4.8	4.2
GERMANY	0.1	0.2	0.2	0.9
INDIA	8.2	7.0	1.1	6.2
JAPAN	1.9	0.7	6.6	0.6
UNITED KINGDOM	0.1	0.7	1.3	1.3
SUB-SAHARAN	3.4	3.7	6.0	5.0
KENYA	5.6	5.2	4.8	4.9
FRANCE	0.4	0.5	0.7	0.9
ITALY	0.3	0.4	0.5	0.8
RUSSIA	0.4	0.5	0.6	1.0

Source: IMF World Economic Outlook, October 2024. *National Treasury Projection

88. Economic growth in advanced economies is expected to remain steady at 3.4 percent in 2026 and 3.2 percent in 2025, up slightly from 3.1 percent in 2024. In the United States, growth is forecasted at 2.2 percent in 2025 due to stronger consumption, non-residential investment, and labor market demand. However, growth is projected to slow to 1.9 percent in 2026 as fiscal policies tighten and a cooling labor market dampens consumption. In the euro area, growth is anticipated to pick up, driven by improved export performance, particularly in goods, stronger domestic demand, rising real wages boosting consumption, and a gradual easing of monetary policy supporting investment. Meanwhile, Japan is expected to see a slowdown in growth, influenced by temporary supply disruptions and the waning effects of one-off factors, such as the surge in tourism that boosted activity in 2024.

89. Growth in emerging markets and developing economies is forecasted to stay steady at 4.2 percent in both 2024 and 2025, although there will be differences across key economies. In Sub-Saharan Africa, growth is expected to recover to 4.6 percent in 2027, up from 4.4 percent in 2026 and 3.7 percent in 2025. This recovery is attributed to stronger economic activity as the negative effects of past weather-related shocks diminish and supply constraints gradually ease.

90. Growth in the emerging market and developing economies is projected to decline relatively modestly, from 4.1 percent in 2024 to 4.0 percent in both 2025 and 2026, although with notable shifts across regions. In sub-Saharan Africa, growth is projected to decline to 3.3 percent in 2025 from 4.0 percent in 2024 reflecting worsening climate change related shocks, inflationary and exchange rate pressures, and domestic supply issues, including, notably, in the electricity sector. Growth in the region is expected to rebound to 6.0 percent in 2025, picking up in four fifths of the sub-Saharan Africa's countries, and with strong performances in non-resource intensive countries.

91. Africa can lead the way toward inclusive growth by investing in its human resources. In the next 30 years, the region will see the highest growth in its working-age population compared to all other regions, with an expected increase of 740 million people by 2050. Each year, up to 12 million young people will enter the job market, yet only about 3 million formal wage jobs are currently being created annually. As the region's economies recover more quickly in the coming years, policies should focus on distributing the benefits of growth more equitably by investing in human capital, promoting economic diversification, and encouraging job-friendly economic growth.

Table 1: GDP GROWTH PROJECTIONS FOR 2024 AND 2025, YEAR-ON-YEAR

REGION/ COUNTRY	Actual	Estimated
	2025	2026
World		
Advanced Economies	2.4	2.6
Of which: USA	1.7	1.9
Emerging and Developing Economies	4.7	4.7
Of which: China	4.2	4.1
India	6.5	6.2
Sub – Saharan Africa	3.1	5.0
Of which: South Africa	0.8	0.8
Nigeria	1.9	1.9
EAC – 5	5.9	5.9
Of which: Kenya	4.8	4.9
EAC – 5: Burundi, Kenya, Rwanda, Tanzania and Uganda		

Source: October 2018 WEO; * Projections by the National Treasury

92. The UN World Economic Situation and Prospects (WESP) 2024 reports that Africa's economic growth is anticipated to pick up slightly, with the average GDP potentially rising to 3.5 percent. However, challenges such as debt sustainability issues, fiscal pressures, and climate change

introduce uncertainties. This 3.5 percent growth projection represents a modest increase from the 3.3 percent recorded in 2024.

3.3 Domestic Economic Performance

93. Kenya's GDP is projected to grow 4.8% in 2025 and 4.9% in 2026, driven by services and household consumption. Inflation is expected to fall to 5.5% in 2025 and 5.2% in 2026, as food and global inflation both decline. Monetary policy is expected to be accommodating due to projected stable inflation and exchange rates. The fiscal deficit is projected to narrow to 5.0% of GDP in 2025 and 4.8% in 2026 in response to a revenue-led fiscal consolidation program. The current account deficit is projected to narrow to 4.5% of GDP in 2025 and 4.3% in 2026 as a recovery in global trade reduces the trade deficit.

94. The Kenyan economy demonstrated strength and resilience during the first three quarters of 2025, although its growth was slower compared to the same period in 2024. For the first three quarters of 2025, the average economic growth was 4.8 percent (5.0 percent in Q1, 4.6 percent in Q2, and 4.0 percent in Q3), compared to 5.6 percent on average in 2024 (5.5 percent in Q1, 5.6 percent in Q2, and 6.0 percent in Q3). This growth in 2025 was mainly driven by strong performance in agriculture, a slight recovery in manufacturing, the resilience of the services sector and the upcoming economic power house of the private sector in Kenya. All economic sub-sectors, except mining and construction, showed positive growth during the first three quarters of 2025, although the growth rates varied across different sectors. The diversified nature of the Kenyan economy continues to be a crucial factor in its ability to withstand domestic and external shocks

Table 2: Sectoral GDP Performance

Sectors	Annual Growth Rate		Quarterly Growth Rates					
	2023	2024	2024-Q1	2024-Q2	2024-Q3	2025-Q1	2025-Q2	2025-Q3
1.Primary Industry	5.6	4.2	5.0	4.4	3.2	4.9	5.1	5.4
1.1.Agriculture	6.5	5.0	6.1	4.8	4.2	6.0	6.3	6.6
1.2.Mining	(6.5)	(9.5)	(14.8)	(2.7)	(11.1)	(9.2)	(9.7)	(10.1)
2.Secondary Industry	2.5	0.8	1.0	0.8	0.6	2.9	3.1	3.2
2.1.Manufacturing	2.0	2.3	1.2	3.3	2.3	2.1	2.2	2.3
2.2.Electricity&Water	2.8	1.4	2.4	1.0	0.9	1.0	1.1	1.1
2.3.Construction	3.0	(1.6)	0.1	(2.9)	(2.0)	(5.7)	(5.9)	(6.3)
3.Tertiary Sector	6.8	5.6	6.2	5.3	5.3	2.9	3.0	3.2
3.1.Wholesale&Retail	2.7	4.7	4.9	4.4	4.8	4.9	5.2	5.4
3.2.Accommodation	33.6	34.2	28.0	26.6	13.7	14.1	14.8	15.5
3.3.Transport&Storage	6.2	4.2	3.9	3.6	5.2	4.4	4.6	4.9

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3.4.Communication	9.3	7.0	7.8	7.2	6.1	6.7	7.0	7.4
3.5.Financial&Insurance	10.1	5.4	7.0	5.1	4.7	7.6	7.9	8.3
3.6.Public Administration	4.6	5.4	5.8	5.1	5.4	5.8	6.1	6.4
Others of which: Professional,Admin &.	6.1	5.4	5.9	5.1	5.1	5.6	5.9	6.2
Support Services	9.4	8.2	9.9	6.8	7.8	4.4	4.6	4.9
Real Estate	7.3	6.0	6.6	6.0	5.5	5.3	5.6	5.8
Education	3.1	3.6	4.0	3.1	3.8	4.2	4.4	4.6
Health	4.9	5.1	5.5	5.5	4.4	4.7	4.9	5.2
Taxes Less Subsidies	2.2	4.6	4.5	5.8	3.4	3.5	3.7	3.9
Real GDP	5.6	4.5	5.0	4.6	4.0	4.6	4.8	5.1

Source of Data: Kenya National Bureau of Statistics

95. The primary sector experienced an average growth of 5.1 percent in the first three quarters of 2025 (4.9 percent in Q1, 5.1 percent in Q2, and 5.4 percent in Q3), primarily driven by strong agricultural performance despite a decline in mining and quarrying. Throughout the first three quarters of 2025, the agriculture sector remained strong, growing by 6.0 percent in Q1, 6.3 percent in Q2, and 6.6 percent in Q3. This growth was bolstered by favorable weather conditions and government efforts to reduce production costs and offering subsidies on fertilizers.

96. Mining and quarrying activities saw an decline in the first three quarters of 2025, primarily due to reduced production cost of key minerals such as titanium, soda ash, and gemstones. This downturn was largely caused by the closure of Base Titanium’s Kwale mine, which ceased its mining operations in Kenya in December 2024 due to the depletion of commercially viable ore.

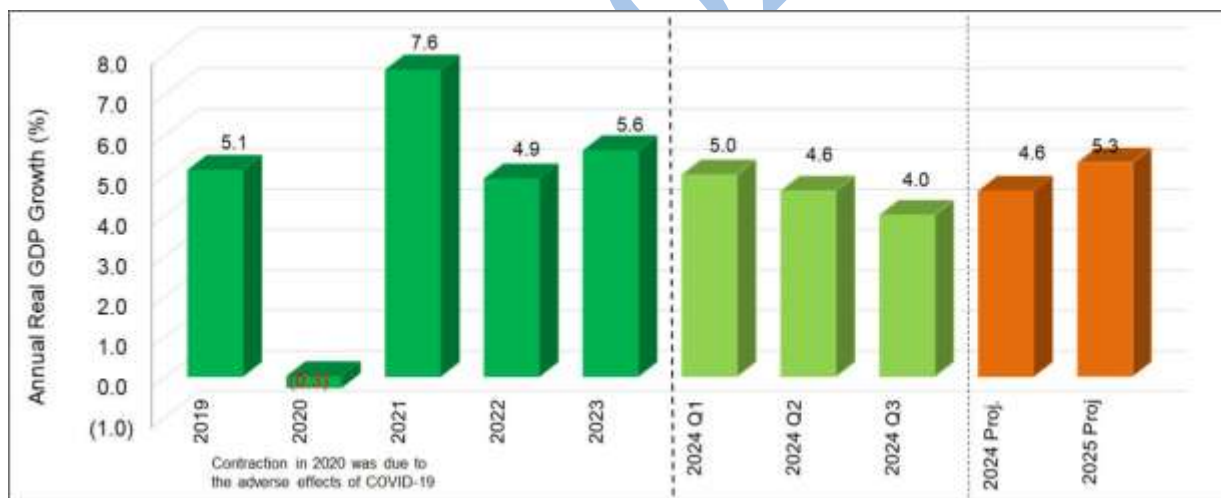
97.The performance of the industrial sector remained weak,though slight improvement in the economy saw a rise in the industrial sector performances with its growth rising to an average of 3.1 percent in the first three quarters of 2024 (2.9 percent in Q1, 3.1 percent in Q2, and 3.2 percent in Q3). This was primarily due to improvements in electricity sector and water supply activities, along with a contraction in the construction sub-sectors.

98.The services sector maintained strong growth in the first three quarters of 2025, with an average growth rate of 3.0 percent (2.9 percent in Q1, 3.0 percent in Q2, and 3.2 percent in Q3). This performance was largely driven by substantial growth in sub-sectors such as accommodation and food services, financial and insurance services, information and communication, real estate, and wholesale and retail trade. The accommodation and restaurant services sector benefited from

several prominent international conferences held in Nairobi between April and June 2024, which attracted significant global participation. Growth in the information and communication sector was fueled by increased voice traffic, internet usage, and mobile money transactions, despite a decline in domestic Short Messaging Services (SMSs).

99. Taking into account the performance of the economy in the year 2025 and the slowdown in private sector credit growth to key sectors of the economy growth is estimated to expand overall by 4.6 percent in 2025 and 5.3 percent in 2026. These projections are mainly supported by: a robust services sector and recovery of manufacturing sector; robust agricultural productivity and improvement in exports. The outlook will be reinforced by implementation of policies and reforms under the priority sectors of the Bottom-Up Economic Transformation Agenda (BETA) and improvement in aggregate demand. Additionally, implementation of prudent fiscal and monetary policies will continue to support economic activity.

Figure 1: ANNUAL REAL GDP GROWTH RATES, PERCENT



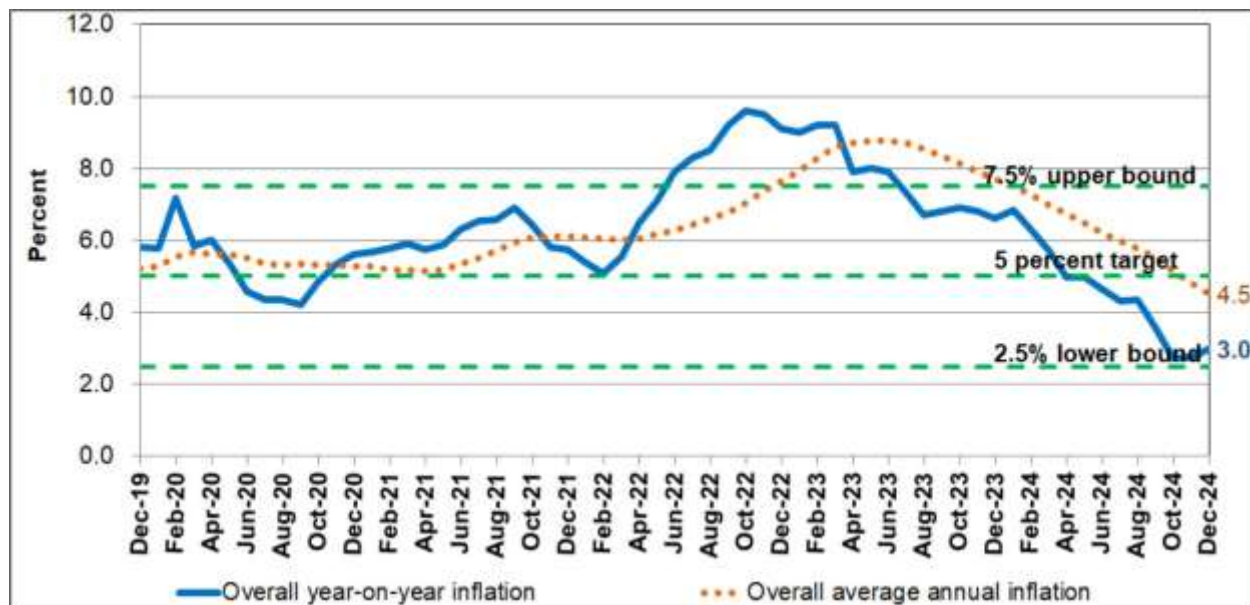
Source: Kenya National Bureau of Statistics

3.3.1 Inflation Developments

100. Overall inflation has decreased and stayed below the 5.0 percent target mid-point since June 2025, primarily due to significant drops in energy prices and ongoing reductions in food prices. Inflation fell to 3.0 percent in December 2025, down from 6.2 percent in December 2024 and a peak of 9.6 percent in October 2023 (Figure 2.2). This decline in inflation has been supported by favorable weather conditions leading to a plentiful food supply, lower fuel inflation due to an

appreciating exchange rate and falling international oil prices, and a reduction in non-food, non-fuel (NFnF) inflation, influenced by prior monetary policy tightening

Figure 2: Inflation Rate, Percent



Source of Data: Kenya National Bureau of Statistics

101. Food inflation continued to be a major contributor to overall year-on-year inflation, though it decreased to 4.8 percent in December 2025, down from 5.8 percent in December 2024. The reduction in food prices was driven by a higher food supply due to favorable weather conditions, ongoing government support, especially through subsidized fertilizer, and a general decrease in international food prices. While the prices of most vegetable-based food items rose in December 2025 compared to December 2024, the prices of non-vegetable food items saw a notable decline during the same period.

102. Fuel inflation dropped to -1.0 percent in December 2025, down from 12.7 percent in December 2025. This decrease was mainly due to the reduction in global oil prices and the appreciation of the Kenyan Shilling, which led to lower pump prices, along with a decrease in electricity prices. Core (non-food, non-fuel) inflation has remained low and steady, reflecting the effects of strict monetary policies and subdued demand pressures. Since inflation is below the target range's mid-point and the exchange rate has stabilized, the Central Bank of Kenya, through the Monetary Policy Committee (MPC), has gradually relaxed its monetary policy by reducing the Central Bank Rate (CBR).

3.3.2 Monetary and Credit Developments

103. In 2026, Kenya's monetary and credit landscape has shifted toward stabilization, reflecting the cumulative impact of reforms and easing measures after the turbulence of 2023–2024.

3.3.3 Broad Money (M3) and Liquidity

104. Moderate expansion: Unlike the sharp slowdown in 2024, M3 growth in 2026 is expected to align with overall GDP growth of 4.9–5.2%, supported by fiscal and monetary reforms.

Drivers: Stability in Net Foreign Assets continues, while Net Domestic Assets are gradually recovering as private sector credit demand picks up.

3.3.4 Credit Trends

105. Government borrowing: Public sector credit remains elevated, tied to ongoing infrastructure financing and debt management strategies under the 2026–2029 Medium-Term Debt Management Plan.

106. Private sector credit: After contraction in 2024, credit growth is rebounding in 2026, aided by lower lending rates and targeted schemes for MSMEs. Sectors like trade, manufacturing, and construction are regaining momentum as exchange rate pressures ease.

3.3.5 Policy Environment

107. Monetary easing: The Central Bank's earlier tightening cycle has given way to a more accommodative stance, balancing inflation control with growth support.

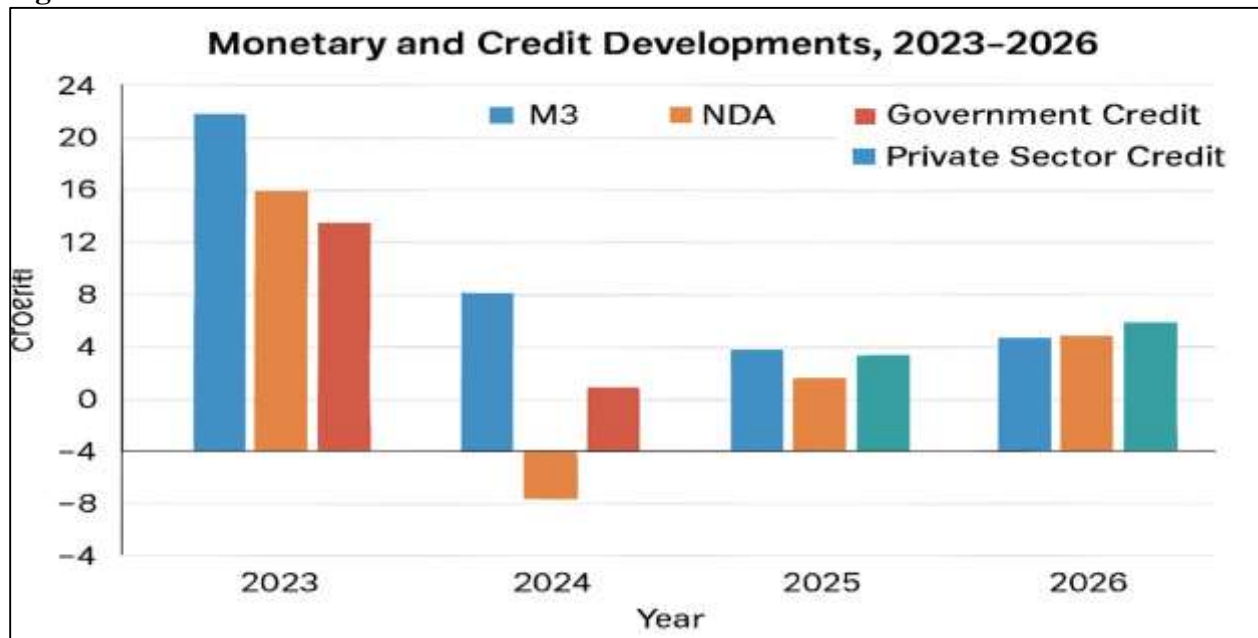
Structural reforms: Fiscal consolidation, debt restructuring, and private sector incentives are reinforcing confidence in the financial system.

Capital markets: 2025's bull run in equities has carried into 2026, with investors reallocating from fixed income to higher-yielding assets, reflecting optimism in Kenya's growth trajectory.

Interpretation

108. The contractionary pressures of 2024 have given way to cautious optimism in 2026. Government borrowing remains a stabilizing but heavy influence, while private sector credit is finally recovering. The macroeconomic outlook is more balanced, with reforms anchoring growth and monetary easing supporting liquidity.

Figure 3: Private Sector Credit



109. The graph above shows how Kenya's monetary indicators evolved between 2023, 2024, 2025, and 2026. It explains the dramatic slowdown in 2024, followed by a gradual recovery in 2025 and stronger stabilization in 2026:

110. M3 (Broad Money Supply): From 21.1% in 2023 down to 1.6% in 2024, then recovering to 5% in 2026.

Net Domestic Assets (NDA): Positive growth in 2023 (+10.9%), contraction in 2024 (-2.2%), then back to +4% in 2026.

Government Credit: Consistently strong, peaking at 16.6% in 2024, but moderating to 8% in 2026.

Private Sector Credit: From +13.2% in 2023 to -1.1% in 2024, then recovering to +5% in 2026.

110. This visualization highlights the **policy cycle**: rapid expansion in 2023, contraction in 2024 due to tighter monetary policy, and a gradual rebound by 2026 as easing measures and MSME support programs take effect.

3.4 Kenya's Financial Landscape in 2026

3.4.1 Interest Rate Trends

111. Interbank Rate: After peaking in 2023–2024, the interbank rate has moderated to around 9.8% in early 2026, reflecting sustained monetary easing.

Treasury Bills: The 91-day T-bill rate has stabilized at 8.5%, down from 10.0% in December 2024, signaling improved liquidity and investor confidence.

3.4.2 Lending and Deposit Rates:

112. Lending rates eased to 15.1%, down from 17.2% in 2024, while the deposit rates remained steady at 10.2%, narrowing the interest rate spread to 4.9%, a sign of healthier banking competition.

3.4.3 External Sector Developments

113. Current Account Deficit: The deficit has narrowed to 3.2% of GDP, supported by strong agricultural exports (tea, horticulture, coffee); continued growth in diaspora remittances; and stable service sector inflows, especially tourism and ICT. Despite rising imports of machinery and fuel, export growth has kept pace, reducing the merchandise trade deficit to US\$ 9.8 billion.

Remittances remain a key buffer for the current account, with current position at more than US\$ 5.5 billion. The net financial inflows have normalized to US\$ 4.2 billion, with a shift toward direct investments and concessional borrowing. The portfolio inflows remain subdued due to global rate volatility, but domestic bond uptake has improved.

3.4.4 Foreign Exchange Reserves

114. CBK Reserves: Now at US\$ 10.1 billion, covering 5.1 months of imports, offering strong protection against external shocks.

Commercial Bank Holdings: Slightly up to US\$ 6.9 billion, reflecting improved forex liquidity and investor sentiment.

3.4.5 Exchange Rate Developments

115. After appreciating sharply in 2024, the Kenya Shilling has stabilized around Ksh 132/USD, Ksh 138/Euro and Ksh 165/GBP. The drivers of stability include strong export earnings and remittances, resilient investor inflows into equities and infrastructure, and lower external debt service costs due to favourable exchange rates.

Table 3: Interest Rate Trends

Indicator	2023	2024	2025 (Est.)	2026 (Est.)
Interbank Rate	11.7%	11.4%	10.8%	9.8%
91-Day T-Bill Rate	15.7%	10.0%	9.2%	8.5%
Average Lending Rate	14.6%	17.2%	16.0%	15.1%
Average Deposit Rate	10.1%	10.4%	10.3%	10.2%
Interest Rate Spread	4.5%	6.8%	5.7%	4.9%

Table 4: External Sector and Forex Reserves

Indicator	2023	2024	2025 (Est.)	2026 (Est.)
Current Account Deficit (% GDP)	4.4%	3.6%	3.4%	3.2%
Remittances (USD Billion)	4.17	4.80	5.20	5.50
CBK Forex Reserves (USD Billion)	7.40	9.58	10.1	12.5
Import Cover (Months)	3.9	4.9	5.1	5.4

116. Strong remittance growth and export performance helped narrow the current account deficit, while the forex reserves surged to record highs, reinforcing Kenya's external buffers.

Table 5: Exchange Rate Developments

Currency	Jan 2024	Dec 2024	Jan 2025	Dec 2025	Jan 2026	Feb 2026
USD/KES	159.7	129.4	129.3	128.9	129.0	128.6
EUR/KES	174.3	135.6	134.8	134.2	134.0	133.8
GBP/KES	202.9	163.6	162.8	162.1	161.9	161.7

3.5 Fiscal Performance

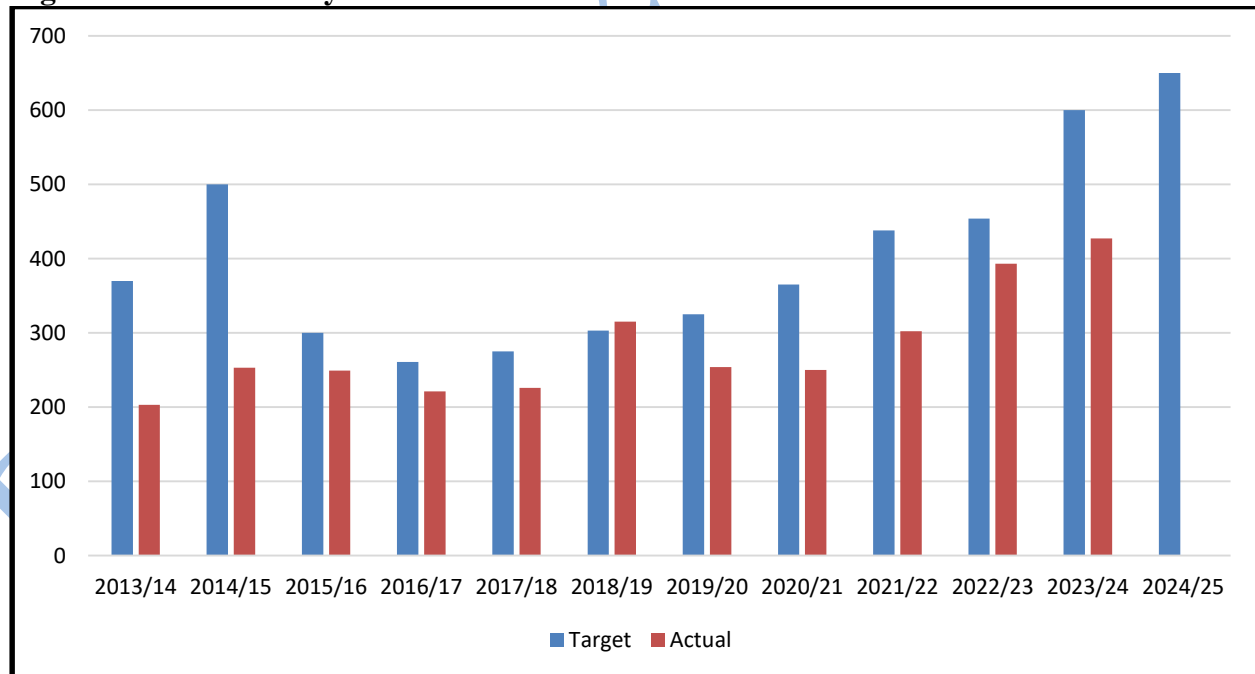
3.5.1 Overview

117. The budget execution in the FY2025/26 has progressed steadily, though with challenges arising from slow adoption of e-procurement, revenue shortfalls, and emerging expenditure pressures. However, to ensure smooth implementation of the FY2025/26 budget and maintain fiscal consolidation, the County treasury will seek to harmonize the pending bills and commitments to reflect the true position through the first Supplementary Estimates to adjust for revenue underperformance and additional expenditure requirements.

3.5.2 County Revenue Performance

118. During the first half of the current financial period, 2025/2026, the County Government recorded a total revenue of Kshs.3,950,647,466.00 representing a 36.3 percent of the total annual target of Kshs.10,885,543,382.00. Own Source Revenue (OSR) recorded a collection of 20.65 percent amounting to Kshs.182,987,113.00 against an annual target of Kshs.886,044,840.00. This represents a decline compared to 46.9 percent of the approved target achieved in a similar period in 2024/2025.

Figure 4: Kwale County historical trends in own source revenue collection



Source: Kwale County Treasury

TABLE 6: OWN SOURCE REVENUE PERFORMANCE FY 2024/2025 AND FY 2025/2026

No	Revenue Stream	Annual Targeted (Ksh.) FY2024/2025	Actual Revenue (Ksh.) as at 31 st Dec 2024	Annual Targeted (Ksh.) FY2025/2026	Actual Revenue (Ksh.) as at 31 st Dec 2025
1	Cess	26,582,800	17,706,924	47,218,200	27,449,667
2	Land/Poll Rate	13,050,000	9,981,022	87,000,000	11,325,892
3	Single/Business Permits	9,606,489	4,217,865	154,982,200	6,289,294
4	Property Rent	7,285,775	3,357,203	12,618,360	2,025,880
5	Parking Fees	29,624,650	9,035,481	55,071,420	10,849,360
6	Market Fees	6,441,020	5,530,180	18,565,080	5,414,795
7	Advertising	5,319,650	3,120,890	25,508,350	1,529,700
8	Hospital Fees	219,787,556	83,708,466	400,000,000	93,866,130
9	Public Health Service Fees	-	543,900	-	902,400
10	Physical Planning and Development	11,280,000	4,689,500	22,560,000	6,464,634
11	Hire Of County Assets	2,690,000	513,000	18,167,200	390,000
12	Conservancy Administration	3,070,000	2,527,300	6,640,000	1,186,300
13	Administration Control Fees and Charges	9,071,270	2,097,278	20,360,910	4,672,652
	Park Fees	-	-	4,971,541	200,000
16	Other Fines, Penalties, And Forfeiture Fees	75,400	86,740	150,800	142,000
17	Miscellaneous receipts	6,115,390	16,926,229	12,230,779	10,278,409
	Total	350,000,000	164,041,978	886,044,840	182,987,113

Source: Kwale County Treasury

119. In the first half of the 2025/2026 financial year, the County Government collected Ksh.182,987,113, which is 20.7% of the annual target of Ksh.886,044,840. In comparison, during the same period of the 2024/2025 financial year, the government collected Ksh.164,041,978 out of an annual target of Ksh.350,000,000, achieving 46.9%. This indicates a decline in the performance of own-source revenue. As of December 31, 2025, the county government had received Ksh.3,767,660,353 in equitable share, out of a budgeted amount of Ksh.9,078,699,643 reflecting a performance of about 41.5%. In comparison, during the same period in 2024, the county government had budgeted Ksh. 8,887,499,175 for the equitable share but only collected Ksh.

4,266,274,035 which was approximately **48%**. This indicates a decline in the collection of the equitable share from the National Government.

3.5.3 County Expenditure Performance

120. The budget implementation for FY2025/2026 is progressing smoothly, despite challenges due to delays in the release of funds from the National Treasury. By the end of December 2025, the County had spent **Ksh 4,757,180,117** out of the revised total budget of **Ksh 11,886,102,123** reflecting an absorption rate of **40%**. In comparison, during the same period in FY 2024/2025, the total actual expenditure was **Ksh.4,352,130,687** against a budget of **Ksh.15,039,218,850** which resulted in a **28.9%** absorption rate. This indicates a noticeable decline in absorption.

3.5.4 Recurrent Expenditure

121. In the first two quarters of the 2025/2026 financial year, the county spent **Ksh 3,127,636,893** out of a budget of **Ksh 6,577,607,433** representing **47.5%** of the budget. In the same period of the 2024/2025 financial year, the county spent **Ksh 2,706,375,960** against a revised budget of **Ksh 8,114,805,976** which accounts for **33.4%** of the budget. This shows an improvement in the absorption of recurrent expenditure.

TABLE 3.5: ANALYSIS OF RECURRENT EXPENDITURE AS AT 31ST DEC 2024 AND 31ST DEC 2025

CODE VOTE	Revised Estimates FY2024-2025	Actual Expenditure As at 31st Dec 2024	Absorption Rate (%)	Revised Estimates FY2025-2026	Actual Expenditure As at 31st Dec 2025	Absorption Rate (%)
3061 Finance and Economic Planning	922,016,219	321,693,277	34.9	374,610,800	160,908,083	43.0
3062 Agriculture, Livestock and Fisheries	195,106,635	77,502,027	39.7	46,709,470	16,998,871	36.4
3063 Environment and Natural Resources	131,520,902	25,059,460	19.1	58,147,097	22,058,716	37.9
3064 Health Services	3,057,898,446	1,101,887,240	36.0	547,147,413	284,050,566	51.9
3065 County Assembly	799,893,995	97,201,851	12.2	659,893,327	244,215,647	37.0
3066 Trade, Investment and Cooperatives	115,461,098	30,477,933	26.4	35,906,838	17,957,638	50.0

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3067 Social Services & Talent Management	126,124,863	50,331,476	39.9	68,119,799	42,343,116	62.2
3068 Executive Services	163,967,428	47,083,539	28.7	119,520,956	36,378,667	30.4
3069 Education	1,303,382,385	585,987,329	45.0	608,636,246	175,820,801	28.9
3070 Water Services	143,291,246	53,345,823	37.2	40,573,005	31,508,981	77.7
3071 Infrastructure and Public Works	180,678,096	49,301,134	27.3	119,050,998	50,399,943	42.3
3072 Tourism and ICT	106,219,662	56,844,572	53.5	32,594,254	21,452,737	65.8
3073 County Public Service Board	85,027,980	14,474,210	17.0	46,523,247	6,038,064	13.0
3074 Public Service and Administration	326,008,673	114,961,294	35.3	3,515,051,674	1,882,702,725	53.6
3075 Kwale Municipality	44,500,202	2,582,210	5.8	9,042,490	5,183,244	57.3
3076 Diani Municipality	55,432,502	13,345,735	24.1	17,896,452	6,915,750	38.6
3077 Office of the County Attorney	198,133,070	54,648,823	27.6	172,180,578	93,996,087	54.6
3078 Lungalunga Municipality	23,410,676	4,131,097	17.6	7,809,255	6,617,547	84.7
3079 Kinango Municipality	24,187,215	914,105	3.8	9,453,075	2,075,740	22.0
3080 Promotive and Preventive	112,544,685	4,602,825	4.1	88,740,459	20,013,970	22.6
GRAND TOTAL	8,114,805,978	2,706,375,960	33.4	6,577,607,433	3,127,636,893	47.5

Source: Kwale County Treasury

3.5.5 Personnel Emoluments

122. The county spent a total of **Ksh. 1,840,924,287** on salaries against the total allocation of **Ksh.3, 626,864,825** on personnel emoluments for the financial year 2025/2026 representing **54.5** percent absorption. In the same period in 2024/2025 the county spent **Ksh.1,545,672,550** against a budget of **Ksh.3,660,771,711** which was **42.2** percent.

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TABLE 3.6: ANALYSIS OF PERSONNEL EMOLUMENTS AS AT 31ST DEC 2024 AND 31ST DEC 2025

CODE VOTE	Revised Estimates FY 2024-2025	Actual Expenditure as at 31st Dec2024	Absorption Rate (%)	Estimates FY 2025-2026	Actual Expenditure as at 31st Dec2025	Absorption Rate (%)
3061 Finance and Economic Planning	191,827,567	97,030,703	50.6	-	-	0.0
3062 Agriculture ,Livestock and Fisheries	141,138,616	62,560,588	44.3	-	-	0.0
3063 Environment and Natural Resources	29,439,457	17,023,612	57.8	-	-	0.0
3064 Health Services	1,799,738,514	787,172,133	43.7	-	-	0.0
3065 County Assembly	308,612,771	69,135,805	22.4	280,144,638	135,733,492	48.5
3066 Trade ,Investment and Cooperatives	39,847,363	15,788,606	39.6	-	-	0.0
3067 Social Services & Talent Management	39,180,227	16,206,664	41.4	-	-	0.0
3068 Executive Services	74,462,091	31,621,540	42.5	-	-	0.0
3069 Education	645,483,712	300,556,292	46.6	-	-	0.0
3070 Water Services	47,819,744	19,225,585	40.2	-	-	0.0
3071 Roads and Public Works	57,482,129	21,302,625	37.1	-	-	0.0
3072 Tourism and ICT	25,481,817	10,561,569	41.4	-	-	0.0
3073 County Public Service Board	33,018,286	13,358,950	40.5	10,745,561	-	0.0
3074 Public Service and Administration	201,176,390	84,127,878	41.8	3,335,974,626	1,840,924,287	55.2
3075 Kwale Municipality	4,336,730	-	0.0	-	-	0.0
3076 Diani Municipality	6,397,893	-	0.0	-	-	0.0
3077 Office of the County Attorney	12,384,502	-	0.0	-	-	0.0
3078 Lungalunga Municipality	1,471,951	-	0.0	-	-	0.0
3079 Kinango Municipality	1,471,951	-	0.0	-	-	0.0
3080 Preventive	-	-	-	-	-	-
GRAND TOTAL	3,660,771,711	1,545,672,550	42.2	3,626,864,825	1,840,924,287	54.5

Source: Kwale County Treasury

3.5.6 Development Expenditure

123. During the review period, the County spent **Ksh. 1,629,543,224** out of the revised annual budget of **Ksh5,308,494,690** which means the County Government utilized **30.7%** of the development budget. In comparison, during the same period in FY 2024/2025, the County Government had used **23.8%** of its development budget, having spent **Ksh. 1,645,754,727** out of an allocation of **Ksh.6,924,412,876**.

Table 7: COMPARISON OF DEVELOPMENT EXPENDITURE AS AT 31ST DECEMBER 2024 AND 31ST DECEMBER 2025

Code	Vote	Revised Estimates FY2024/2025	Actual Expenditure as at 31 st Dec 2024	Absorption Rate (%)	Revised Estimates FY2025/2026	Actual Expenditure as at 31 st Dec 2025	Absorption Rate (%)
3061	Finance and Economic Planning	27,557,019	0	0.0	24,179,000	-	0.0
3062	Agriculture, Livestock and Fisheries	428,018,962	180,613,223	42.2	106,224,827	54,757,076	51.5
3063	Environment and Natural Resources	637,612,247	48,020,886	7.5	247,237,773	79,638,575	32.2
3064	Medical and Public Health Services	337,105,406	110,225,797	32.7	251,024,456	87,427,036	34.8
3065	County Assembly	439,415,654	0	0.0	280,706,985	-	0.0
3066	Trade, Investment and Cooperatives	630,470,390	62,223,020	9.9	345,720,554	75,534,181	21.8
3067	Social Services and Talent Management	304,110,942	147,283,841	48.4	103,630,504	-	0.0
3068	Executive Services	-	-	0.0	50,000,000	-	0.0
3069	Education	427,390,361	134,524,302	31.5	623,858,630	106,792,372	17.1
3070	Water Services	1,935,539,952	511,097,714	26.4	827,143,931	886,544,224	107.2
3071	Roads and Public Works	1,078,912,721	231,288,145	21.4	1,692,496,404	171,785,777	10.1
3072	Tourism and ICT	43,050,844	11,093,259	25.8	23,395,000	-	0.0
3073	County Public Service Board	15,000,000	-	0.0	9,991,345	-	0.0
3074	Public Service and Administration	-	-	0.0	383,453,031	-	0.0
3075	Kwale Municipality	112,459,627	57,620,793	51.2	36,708,508	1,342,585	3.7
3076	Diani Municipality	118,781,066	36,569,066	30.8	52,415,893	48,672,818	92.9
3077	Attorney	-	-	0.0	-	-	0.0
3078	Kinango Municipality	62,531,202	13,408,556	21.4	21,405,326	2,275,280	10.6
3079	Lungalunga Municipality	57,723,102	37,029,277	64.1	14,558,484	1,716,968	11.8
3080	Preventive	268,733,381	64,756,848	24.1	214,344,039	113,056,332	52.7
	TOTAL	6,924,412,876	1,645,754,727	23.8	5,308,494,690	1,629,543,224	30.7

Source: Kwale County Treasury

3.6 FISCAL POLICY

3.6.1 Overview

124. The County's fiscal policy for FY2026/27 and the medium term focuses on backing Kwale County's priority programs outlined in the Governor's manifesto and MTP IV, through a fiscally sustainable growth plan. This plan aims to reduce the annual growth of non-essential recurrent expenditures while also implementing a robust strategy for managing liabilities, all without affecting the delivery of services to residents. This is anticipated to strengthen Kwale County's long-term economic development and growth strategy. Fiscal consolidation will be reinforced through ongoing efforts to improve domestic revenue collection, reassess and optimize spending, while protecting key government programs and social expenditures

3.6.2 Own source Revenue Mobilization

125. The income for the fiscal year FY 2026/27 will be estimated using the actual revenue performance data from FY2024/2025. To enhance revenue collection in the county, further efforts are required. The Kwale County Government will adopt a combination of tax administrative and policy measures to enhance revenue collection by the County Revenue Directorate, aiming to exceed Kshs. 1 billion in the medium term and promote economic activity. Specifically, the Government will prioritize efforts to mobilize domestic resources, including: upgrading the automated revenue management system; expanding the recruitment and training of revenue collection staff; Implementing revenue mapping to improve efficiency in revenue collection.

3.6.3 Expenditure Reforms

126. The Kwale County Government will continue efforts to enhance expenditure management and boost the efficiency and effectiveness of public spending. These efforts will involve: introducing austerity measures to reduce government recurring costs; implementing a comprehensive e-procurement system to ensure better value for money and greater transparency in procurement; expanding the use of Public-Private Partnerships (PPPs) for financially viable projects to encourage private sector involvement in public service delivery; and fast-tracking governance reforms aimed at crucial County sectors.

3.7 Fiscal Responsibility Principles

128. In accordance with the Constitution, the Public Finance Management (PFM) Act of 2012, the PFM (County Government) Regulations of 2015, and in the interest of responsible and transparent

handling of public funds, Kwale County has followed the fiscal responsibility principles outlined in the law as detailed below:

Development Expenditure

129. The Public Finance Management Act, 2012 Section 107(b) mandates that at least 30 percent of each County Government's budget be dedicated to development expenditure over the medium term. In line with this legal obligation, the County Government of Kwale allocated **44.7 percent** of its budget to development expenses in the FY2025/2026.

Recurrent Expenditure

130. The PFM Act 2012 also outlines that expenditure on the recurrent budget should not surpass the county's total revenue. For the period FY 2025/2026 half year period, the actual recurrent expenditure amounted to 3.13 billion, out of the total anticipated revenue of Kshs. 11.8 Billion. In conclusion, the County prepared her budgetary plans in accordance with the required legal framework.

Personnel Emoluments

131. Regulation 25(1) (b) of the PFM (County Governments) Regulations, 2015, mandates that the county government's spending on wages and benefits for public officers should not exceed 35 percent of its total revenue. The County Government of Kwale complied with this requirement by allocating 30.5 percent of its revenue to personnel emoluments, staying below the legal limit in the FY2025/2026

Own Source Revenue

132. In accordance with Section 107 (2g) of the PFM Act, 2021, a reasonable level of predictability regarding local revenue sources shall be upheld, considering any reforms and actions implemented to guide the county on its transformative path. To ensure a reasonable level of predictability in revenue rates and the revenue base, the County prepared and approved the Kwale Biashara Fund Act and the Kwale County Finance Act. These legislations aim to provide guidelines on taxation policies that support economic growth, promote diversification within the county's economy, improve its competitive advantage, and create tax incentive programs aligned with the County Government's development goals. They also seek to encourage investment and establish a flexible fiscal space that includes revenue-enhancing tax policies and administrative reforms for the medium term. Additionally, the County continues to implement revenue-raising reforms by

modernizing and simplifying tax laws to ensure predictability and improve compliance in the tax system. The primary goal is to generate sufficient tax revenues, create a stable tax environment, and minimize tax expenditures.

3.8 Updated Macroeconomic Outlook for Kenya (2025–2026)

3.8.1 Overview

133. Kenya’s economic growth is projected to *strengthen gradually* after a slowdown in 2024. The Ministry of Finance projects growth at around 5.3% for both 2025 and 2026, indicating a stabilizing expansion in economic activity. Independent forecasts show GDP expanding between about 4.9% and 5.2% in 2026, reflecting resilient private sector performance and improved macroeconomic conditions.

Multilateral institutions like the World Bank and IMF project average growth of about 4.9% over 2025–2027, supported by a recovery in agricultural productivity, services, and construction, though risks from high public debt and structural constraints persist.

134. The key drivers are continued agricultural recovery aided by better weather and productivity measures; strong service performance in tourism, ICT-enabled services, and financial intermediation; and modest industry rebound as credit conditions ease and infrastructure projects support activity.

3.8.2 Sectoral Outlook

135. Agriculture-Agricultural output remains critical, underpinning rural incomes and export earnings, though weather variability (e.g., drought conditions) continues to pose risks to food production and prices.

Services-Services are expected to remain the largest contributor to growth, driven by tourism recovery, digital financial services, and expanding business activities.

Industry-Industrial growth is projected to improve modestly as production costs ease and private sector credit gradually recovers, supporting manufacturing and construction.

Demand-Side Trends-Domestic Demand: Household consumption remains high relative to GDP, supported by remittances and improving real incomes as inflation moderates.

Private Sector Credit: After contraction in 2024, private sector lending is *recovering*, albeit gradually, helping to sustain investment demand.

Inflation & Monetary Policy

136. Inflation: Consumer price inflation remains *within or around the Central Bank of Kenya's target range* (roughly 3–6%), with recent data showing inflation around the mid-4% range.

Monetary Policy: The central bank has eased policy rates to stimulate credit and growth, with expectations of further adjustments depending on inflation and external conditions.

External Sector & Remittances

137. Exports: Kenya's exports are projected to rebound, supported by agricultural and horticultural products, regional trade integration, and global demand improvements. Remittance inflows remain a stable support for the current account and household incomes. While the deficit remains manageable, it may widen moderately with rising imports tied to investment and domestic demand.

Fiscal & Debt Outlook

138. The fiscal position remains under pressure, with projected deficits widening (e.g., around 5.3% of GDP for FY 2026/27), driven by infrastructure financing needs and revenue shortfalls. The Kenya's public debt levels remain *elevated*, necessitating careful management to ensure sustainability and reduce rollover risks. High interest payments absorb a significant share of tax revenue.

3.8.3 Key Risks to the Outlook

139. Fiscal Vulnerabilities: Elevated public debt and widening deficits could crowd out private investment and strain public finances.

Weather and Climate Shocks: Droughts or floods could disrupt agricultural output and food prices.

Global Uncertainty: Trade tensions, commodity price volatility, and global demand slowdowns could impact exports and investment flows.

Structural Constraints: Weak formal job creation and productivity gaps in key sectors remain longer-term challenges.

Table 8: Kenya Key Macroeconomic Indicators (2023–2026)

Indicator	2023 (Actual)	2024 (Est/Proj)	2025 (Proj)	2026 (Proj)
Real GDP Growth (annual %)*	5.1%	5.0%	5.3%	5.3%
Inflation (average %)	7.7%	7.0%	5.2%	5.4%
Budget Deficit (% of GDP)	–5.6%	–4.7%	–4.0%	–3.1%
Public Debt (total % of GDP)	73.2%	73.3%	70.3%	67.8%
Current Account Balance (% of GDP)	–4.0%	–4.1%	–4.2%	–4.2%

Sources: IMF Country Report and Kenya authorities' estimates.

Monetary Policy Management

140. Over the medium term, monetary policy will continue to prioritize price stability, with inflation anchored within the target range of 5 ± 2.5 percent, while supporting exchange rate stability and orderly financial market conditions. Inflation is expected to remain within the target band during 2025 and 2026, supported by improved domestic food supply conditions, easing supply-side pressures, and a stable macroeconomic environment. Food inflation is projected to remain contained, reflecting favorable weather conditions and improved agricultural output, while fuel inflation is expected to stay moderate due to base effects, relative exchange rate stability, and subdued international oil price pressures. Nevertheless, inflation risks remain tilted to the upside, largely due to uncertainties in global energy markets arising from geopolitical tensions, particularly in the Middle East and the Russia–Ukraine conflict, as well as potential climate-related supply shocks.

141. The Central Bank of Kenya (CBK) will continue to strengthen the Monetary Policy Framework and Operations to enhance the effectiveness of policy transmission and better anchor inflation expectations. Reforms undertaken in recent years—including the refinement of liquidity management tools and improvements in market-based operations—have contributed to more effective alignment between the policy rate and short-term market rates. The narrowing of the interest rate corridor around the Central Bank Rate (CBR) and the rationalization of the Discount Window pricing have improved interbank market functioning, reduced volatility in overnight rates, and enhanced access to central bank liquidity. These measures are expected to continue supporting stable interest rates and more predictable monetary conditions over the medium term.

142. To further enhance interbank market efficiency and promote transparency in the foreign exchange market, the CBK has continued implementing reforms aimed at deepening price discovery and improving market confidence. Key measures include:

(i) the operationalization of an electronic matching system (EMS) in the interbank foreign exchange market, which has improved transaction transparency and efficiency; (ii) the removal of administrative constraints on indicative bid–offer spreads, allowing market forces to play a greater role in exchange rate determination; and (iii) the adoption of a transaction-based methodology for determining the CBK reference exchange rate, based on the weighted average of actual interbank transactions from the previous trading day. These reforms have strengthened the credibility of the exchange rate framework, reduced speculative behavior, and supported a more resilient foreign exchange market. Going forward, monetary policy will remain data-driven and flexible, balancing the need to maintain price stability with supporting sustainable economic growth and safeguarding financial sector stability.

Table 9: Kenya’s Macroeconomic Indicators And Projections

Indicator	2023 (Actual)	2024 (Estimate)	2025 (Projection)	2026 (Projection)
Real GDP Growth (%)	5.6	4.6	5.3	5.2
Inflation (Average, %)	7.7	6.8	5.2	5.4
Overall Fiscal Balance (% of GDP)	–5.6	–4.7	–4.0	–3.8
Public Debt (% of GDP)	73.2	73.3	70.0	68.0
Current Account Balance (% of GDP)	–4.0	–4.1	–4.2	–4.2
Gross Fixed Capital Formation (% of GDP)	17.8	18.1	18.6	19.0
Private Sector Credit Growth (%)	6.2	4.0	7.5	9.0
Exchange Rate (KES/USD, average)	145.0	155.0	150.0	148.0
Foreign Exchange Reserves (months of imports)	3.8	4.0	4.3	4.5

Source: *The National Treasury*

3.9 Growth Prospects

143. Kenya’s economy is expected to maintain a moderate but resilient growth trajectory in 2025 and 2026, supported by a recovery in agricultural production, continued expansion of the services sector, and gradual improvement in industrial activity. Growth is projected to average about 5.0–5.3 percent over the period, in line with projections by the International Monetary Fund (IMF) and the World Bank, although the outlook remains subject to heightened global uncertainties.

Key drivers of growth include agriculture, supported by improved weather conditions and productivity-enhancing interventions; services, particularly information and communication technology (ICT), financial services, trade, and tourism; and construction, driven by ongoing public and private infrastructure investments

Inflation

144. Inflationary pressures, which intensified in recent years due to elevated food and energy prices, are expected to remain contained over the medium term. In 2025 and 2026, inflation is projected to remain within the Central Bank of Kenya's target range of 5 ± 2.5 percent, supported by improved agricultural output, easing global supply chain pressures, and prudent monetary policy management. However, risks remain, particularly from volatility in international oil prices and climate-related shocks that could affect food supply.

Debt Levels

145. Kenya's public debt remains elevated, reflecting historical fiscal deficits and large infrastructure investments. Debt sustainability will continue to be a key policy priority in 2025 and 2026, with the Government focusing on fiscal consolidation, enhanced domestic revenue mobilization, and prudent borrowing strategies. Efforts to lengthen debt maturities, reduce refinancing risks, and limit non-concessional borrowing will be critical in safeguarding macroeconomic stability.

Monetary Policy

146. The Central Bank of Kenya (CBK) is expected to maintain a data-driven and flexible monetary policy stance, balancing the need to anchor inflation expectations with supporting economic recovery. Monetary policy actions will continue to focus on maintaining price stability, ensuring orderly financial market conditions, and supporting private sector credit growth as inflationary pressures ease.

External Trade and Investment

147. Kenya's position as a regional hub for trade and investment is expected to support growth over the medium term. Export performance is projected to improve, supported by regional integration, diversification of export markets, and recovery in tourism. Sustained efforts to attract

foreign direct investment (FDI), particularly in manufacturing, renewable energy, agribusiness, and ICT, will be important in enhancing competitiveness and job creation.

Social Challenges

148. Despite the positive growth outlook, unemployment, poverty, and income inequality remain key challenges. Continued implementation of social protection programs, skills development initiatives, and targeted employment creation strategies will be essential to ensure that economic growth translates into inclusive and broad-based socio-economic development.

Economic Impact on Infrastructure and Energy Projects

149. USAID also supported several infrastructure and energy projects, which were crucial for Kenya's long-term economic growth. This included funding for roads, renewable energy projects, and water supply systems. **Delayed or halted infrastructure projects:** Some projects that were to be funded or co-funded by USAID saw delays or cancellations, which affected Kenya's ambitions to improve its infrastructure. **Energy sector setbacks:** USAID had provided support for initiatives in renewable energy, such as solar power and wind energy projects. The funding cuts hampered Kenya's ability to diversify its energy mix and develop cleaner, more affordable energy sources.

Reduction in Foreign Direct Investment (FDI)

150. Foreign aid, including USAID, often acts as a signal to other donors and investors about the stability and reliability of a country. The withdrawal of U.S. financial assistance could have signaled to the global investment community that Kenya was facing challenges in securing support from its traditional partners. This might have made Kenya less attractive to foreign investors, potentially leading to a reduction in foreign direct investment. The reduction in USAID aid also risked destabilizing Kenya's status as a key regional player in East Africa, potentially affecting its regional economic influence.

Impact on Regional Trade and Security Cooperation

151. USAID is not only involved in direct aid projects but also in fostering stability and regional trade in East Africa. The U.S. provided financial support to regional cooperation efforts, trade facilitation, and cross-border security.

152. Decreased security cooperation: Kenya's role as a partner in counterterrorism efforts, especially in Somalia, was affected. U.S. aid supported security operations and counterterrorism training, which, if withdrawn, could have compromised Kenya's ability to maintain regional security and stability.

153. Decline in regional economic integration: Without the U.S. support for regional economic programs, Kenya could have faced challenges in improving trade and investment flows within the East African Community (EAC) and beyond.

Social and Political Consequences

154. The reduction of USAID support had broader social implications. USAID-funded programs in Kenya helped support democratic processes, human rights advocacy, and civil society initiatives. A loss of financial aid to these areas could have led to: **Strained relations between Kenya and the U.S.:** Kenya may have found itself needing to balance its relationship with the U.S. while seeking alternative sources of funding, potentially diversifying its partnerships, **Increased political instability:** Reduced financial aid to governance and democracy-related initiatives could have weakened civil society, making it more difficult to advocate for good governance, rule of law, and anti-corruption efforts.

Shifting Sources of Aid

155. With the U.S. cutting aid, Kenya sought to diversify its aid and development partnerships with other countries. China, the European Union, and other countries began to step up their financial support, though this did not necessarily replace the level of U.S. assistance. **Increased reliance on Chinese investment:** Kenya began turning to China for infrastructure funding, but this came with a different set of risks, such as higher levels of debt and a potential loss of economic autonomy., **Greater dependence on international organizations:** Kenya leaned more on multilateral institutions like the World Bank and the African Development Bank to fund key projects, but these funds often came with stricter conditions and longer timelines.

156. The Government keeps monitoring both the domestic and global environment and will implement suitable policy actions to protect the economy from any negative impacts if the risks materialize

Global Macroeconomic Outlook

157. Global economic growth in 2025 is expected to remain broadly similar to 2024, reflecting resilient performance in the United States and several emerging market economies, alongside subdued growth in advanced European economies. Growth in the Eurozone is expected to remain modest, while China's growth is projected to continue moderating due to structural challenges, including weaknesses in the real estate sector.

158. The global outlook remains clouded by elevated geopolitical risks and policy uncertainty. Key risk factors include ongoing geopolitical tensions, particularly Russia's war in Ukraine and persistent instability in the Middle East, as well as uncertainty surrounding global trade and economic policies.

159. Global growth continues to be uneven across regions and sectors. Services remain the primary driver of growth, while industrial production has shown weaker momentum. Inflation in advanced economies has declined significantly, although price pressures in services remain elevated.

160. In 2025, global growth is projected to remain steady, with economic expansion in the United States moderating slightly but remaining robust, while the Eurozone experiences a gradual recovery. Inflation in advanced economies is expected to continue easing, prompting further monetary policy easing in some jurisdictions, particularly in Europe. However, global financial conditions are likely to remain tight compared to historical norms.

161. Overall, risks to the global outlook remain tilted to the downside. Escalation of trade tensions, renewed supply chain disruptions, or further geopolitical shocks could dampen growth and reignite inflationary pressures. Conversely, easing geopolitical tensions or stronger-than-expected productivity gains could support improved global growth prospects.

3.7 Risks to the Economic Outlook

162. Despite a generally stable macroeconomic environment, Kenya's economic outlook faces both external and domestic risks. Heightened geopolitical tensions continue to disrupt global supply chains and contribute to volatility in international oil prices, raising import and production costs. Domestically, climate variability poses a significant risk to agricultural production, food security, and inflation.

163. Tight global and domestic financial conditions may constrain access to financing, potentially reducing exports, tourism receipts, and remittance inflows. Rising fuel prices could further exacerbate import costs and widen the trade deficit.

164. At the county level, risks include a rising public sector wage bill, which limits fiscal space for development spending, and delays in disbursement of funds from the National Treasury. Such delays can hinder project implementation, reduce private sector activity, and negatively affect sectors such as construction and manufacturing. Weak revenue performance at both national and county levels could constrain fiscal space and affect the growth of equitable share allocations. Additionally, strict fiscal consolidation measures may tighten liquidity conditions, dampening overall demand. Climate-related risks remain a key threat to growth sustainability.

3.7.1 Risks Associated with Development Partner Support

165. Kenya remains reliant on development partner support to finance critical programs in health, agriculture, infrastructure, and social protection. Any reduction or delay in external development assistance, arising from shifts in donor priorities or global economic pressures, could adversely affect the implementation of key development programs.

166. Reduced external support could place additional pressure on the national budget, particularly in sectors such as healthcare, where donor funding has historically played a significant role. This may necessitate increased domestic financing, further straining public resources.

167. Development partner financing also plays an important signaling role for private investment. A decline in concessional financing or project support could weaken investor confidence and slow foreign direct investment inflows.

168. To mitigate these risks, the Government continues to **diversify development financing sources**, strengthen partnerships with multilateral institutions, enhance domestic resource mobilization, and prioritize efficient use of available resources.

169. The Government will continue to closely monitor both domestic and global developments and will implement appropriate policy measures to mitigate adverse risks and safeguard macroeconomic stability.

CHAPTER IV: BUDGET FOR FY 2024/2025 AND THE MEDIUM TERM

4.1 FISCAL FRAMEWORK FOR FY 2026/27 AND MEDIUM-TERM BUDGET

170. The FY 2026/27 budget and the medium-term expenditure framework are anchored on the County Government's policy priorities and the macroeconomic strategy outlined in Chapters II and III. In advancing the County Socio- Economic Transformation Agenda (CSET), the County Government will sustain its growth-supportive fiscal consolidation efforts by restraining expenditures and strengthening revenue mobilization. This approach is intended to moderate the pace of public debt accumulation while ensuring that delivery of essential public services remains uncompromised.

4.2 Revenue Projections

171. Total revenues, inclusive of Appropriation-in-Aid, are forecast at KSh 10,087,097,350 in FY 2026/27, up from the projected KSh 9,564,744 in FY 2025/26. Within this, county own source revenue is pegged at 510,347,082 compared to the projected KSh 486,044,840 in FY 2025/26. The facility Improvement Fund target is Ksh 400,000,000. Revenue performance will be supported by ongoing reforms in tax policy and revenue administration aimed at broadening the tax base and enhancing compliance.

SOURCE	FY 2025/2026	FY 2026/2027	FY 2027/2028
	Amount in Ksh	Amount in Ksh	Amount in Ksh
Equitable Share	9,078,699,643	9,176,750,268	9,275,859,171
Own Source Revenue	486,044,840	510,347,082	535,864,436
Facility Improvement Fund (FIF)	400,000,000	400,000,000	400,000,000
TOTAL	9,964,744,483	10,087,097,350	10,211,723,607

4.3 Expenditure Projections

172. Overall expenditures both recurrent and development are projected at KSh 10,087,981,707 in FY 2026/27, compared to KSh 9,964,744,483 for FY 2025/26. The FY 2026/27 expenditure outlook comprises recurrent spending of KSh 6,382,455,310 and development expenditure of KSh 3,660,526,577 as tabulated below:-

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Economic Classification	FY 2025/2026	FY 2026/2027	FY 2027/2028
	Amount in Ksh	Amount in Ksh	Amount in Ksh
Development Expenditure	3,020,433,655	3,660,526,577	3,369,868,790
Recurrent Expenditure	6,944,310,828	6,426,570,773	6,841,854,817
Total Budget	9,964,744,483	10,087,097,350	10,211,723,607
Percent (%)			
Development Expenditure	30.3	36.3	33
Recurrent Expenditure	69.7	63.7	67

173. The FY 2026/27 and the Medium-Term Framework will continue on the implementation of the county socio-economic transformation as articulated in the County Integrated Development Plan 2023-2027 which is aligned to the core strategic objectives of the Kenya Kwanza Administration's Bottom-up Economic Transformation Agenda (BETA) as prioritized in the Medium-Term Plan (MTP) IV for Kenya Vision 2030. The Agenda is geared towards economic turnaround and inclusive growth, and aims to increase investments in the five core pillars envisaged to have the largest impact to the economy as well as on household welfare. These include: Agricultural Transformation and Inclusive Growth; Micro, Small and Medium Enterprise (MSME); Housing and Settlement; Healthcare; and Digital Superhighway and Creative Industry.

174. The County Government will prioritize implementation of strategic interventions under the county socio economic transformation agenda: Infrastructure Development, Universal Health Coverage; Agricultural Transformation, Human capital Development and Economic Empowerment through promotion of MSME. The enablers to the core pillars of the transformation agenda include: Industry; Blue Economy; Services Economy, Environment and Climate Change; Education and Training; Youth and Women Development Agenda; Sports, Culture and Arts; and Governance.

3.3 Budgetary Allocations for the FY 2026/27 and the Medium-Term

TOTAL EXPENDITURE CEILINGS FY 2026/2027- FY2028/2029			
SECTOR	PROJECTIONS		
	Ceiling FY2026/2027	FY2027/2028	FY2028/2029
3061 Finance and Economic Planning	756,125,750	775,028,893	794,404,616
3062 Agriculture, Livestock, and Fisheries	389,131,637	398,859,928	408,831,426
3063 Environment and Natural Resources	295,073,866	302,450,713	310,011,981
3064 Curative Health Services	2,563,974,434	2,628,073,795	2,693,775,640
3065 County Assembly	925,396,495	948,531,407	972,244,693
3066 Trade, and Cooperatives	404,569,340	414,683,574	425,050,663
3067 Social Services & Talent Management	301,362,741	308,896,810	316,619,230
3068 Executive Services	196,635,615	201,551,505	206,590,293
3069 Education	1,515,265,274	1,553,146,906	1,591,975,578
3070 Water Services	545,433,889	559,069,736	573,046,480
3071 Roads and Public Works	656,483,799	672,895,894	689,718,291
3072 Tourism and ICT	173,726,231	178,069,387	182,521,122
3073 County Public Service Board	96,553,868	98,967,714	101,441,907
3074 Public Service and Administration	358,693,825	367,661,171	376,852,700
3075 Kwale Municipality	122,336,730	125,395,148	128,530,027

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3076 Diani Municipality	169,552,747	173,791,566	178,136,355
3077 County Attorney	56,991,388	58,416,172	59,876,577
3078 Lungalunga Municipality	112,144,861	114,948,483	117,822,195
3079 Kinango Municipality	112,144,861	114,948,483	117,822,195
3080 Promotive and Preventive Health Services	335,500,000	343,887,500	352,484,688
Total	10,087,097,350	10,339,274,784	10,597,756,654

Source: The Kwale County Treasury

Expenditure Allocation based on Economic Classification for FY 2026/27 budget

VOTE	P.E	O & M	Recurrent	Development	Total Expenditure
3061 Finance and Economic Planning	181,827,567	524,298,183	706,125,750	50,000,000	756,125,750
3062 Agriculture, Livestock, and Fisheries	141,138,616	68,368,021	209,506,637	179,625,000	389,131,637
3063 Environment and Natural Resources	29,439,456	68,579,410	98,018,866	197,055,000	295,073,866
3064 Curative Health Services	1,701,738,514	612,235,920	2,313,974,434	250,000,000	2,563,974,434
3065 County Assembly	308,612,771	316,783,724	625,396,495	300,000,000	925,396,495
3066 Trade, and Cooperatives	39,847,363	55,946,977	95,794,340	308,775,000	404,569,340
3067 Social Services & Talent Management	39,180,227	40,857,514	80,037,741	221,325,000	301,362,741
3068 Executive Services	74,462,091	72,173,524	146,635,615	50,000,000	196,635,615
3069 Education	605,483,712	550,081,562	1,155,565,274	359,700,000	1,515,265,274
3070 Water Services	47,819,744	68,659,145	116,478,889	428,955,000	545,433,889
3071 Roads and Public Works	57,482,129	68,810,093	126,292,222	530,191,577	656,483,799
3072 Tourism and ICT	23,681,817	44,644,414	68,326,231	105,400,000	173,726,231
3073 County Public Service Board	33,018,286	63,535,582	96,553,868	0	96,553,868
3074 Public Service and Administration	201,176,390	107,517,435	308,693,825	50,000,000	358,693,825
3075 Kwale Municipality	4,336,730	18,000,000	22,336,730	100,000,000	122,336,730
3076 Diani Municipality	6,397,893	19,154,854	25,552,747	144,000,000	169,552,747
3077 County Attorney	12,384,502	44,606,886	56,991,388	0	56,991,388
3078 Lungalunga Municipality	1,471,951	10,672,910	12,144,861	100,000,000	112,144,861
3079 Kinango Municipality	1,471,951	10,672,910	12,144,861	100,000,000	112,144,861
3080 Promotive and Preventive Health Services	-	150,000,000	150,000,000	185,500,000	335,500,000
TOTAL	3,510,971,710	2,915,599,063	6,426,570,773	3,660,526,577	10,087,097,350
PERCENTAGE	34.8	28.9	63.7	36.3	100

Source: Kwale County Treasury

4.4 Key Priorities for the 2026/2027 Medium Term Budget

175. The Medium-Term framework for the period 2026/27 – 2028/29 will further support the ongoing priorities and strategies for resilient and sustainable socio- economic development in order to achieve the county’s socio-economic transformation agenda taking into account;

- Ensuring sustained food production and promotion of cash crops through value chains and value addition under agricultural transformation;
- Achieving universal health coverage through efficient supply of adequate essential medicines, health infrastructure expansion, deployment of adequate personnel and digitization of health delivery services
- 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 human capital development through provision of education bursaries and scholarships under the “Elimu Ni Sasa” initiative
- Support youth, women and persons with disability to enable them actively contribute to the economic recovery agenda through the Kwale County Biashara Revolving Fund
- Enhancing good governance and effective public service delivery while at the same time ensuring transparency and accountability and improved fiscal discipline.

176. The approved annual development plan FY 2026/27 will guide the 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 third generation CIDP 2023-2027 and also to the core pillars of the Kenya Kwanza Bottom-Up Economic Transformation Agenda. The plan proposes high impact programmes which are linked to attainment of the Governor’s manifesto, objectives of the Kenya’s Vision 2030 under the Fourth Medium Term Plan (MTP IV) and the World Agenda 2030 Sustainable Development Goals (SDGs).

177. Key county priorities may be categorized as follows: (i) Agricultural transformation with emphasis on increased crop and livestock productivity through value chains and value addition (iii) Improve access to quality pre-primary education through recruitment of more competent personnel , and continued support to bright students from needy families (iv) Achieving universal health coverage through reduced 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 and provision of capital for business (vi) To achieve inclusivity and empower community for equitable and sustainable development . The process will ensure adequate resources are allocated to achieve these goals and avoid duplication of roles and budgeting of resources. Spending in these essential interventions is aimed at achieving quality outputs and outcomes with optimum utilization of resources.

4.5 Allocation Baseline Ceilings

178. Departments and agencies are expected to ensure efficiency in allocation of resources through the programme based budgeting approach and reviewing the portfolio of externally funded projects. Departments and agencies are also encouraged to restructure and re-align their spending plans with the county government priority programmes. Realization of these objectives will be within the hard budgetary constraint and ceilings provided in this 2026 CFSP. The following criteria will serve as a guide for allocating resources:

- i) Linkage of programmes with the strategic objectives of the County socio- economic transformation agenda priorities;
- ii) Linkage of the programme with the priorities of Medium-Term Plan IV of the Vision 2030;
- iii) Linkage of programmes that support mitigation and adaptation of climate change;
- iv) Completion of ongoing projects, viable stalled projects and payment of verified pending bills;
- v) Degree to which a programme addresses job creation and poverty reduction.
- vi) Degree to which a programme addresses the core mandate of the Departments and agencies, Expected outputs and outcomes from a programme;
- vii) Cost effectiveness, efficiency and sustainability of the programme; and,
- viii) Requirements for furtherance and implementation of the Constitution.

179. The baseline estimates reflect the average departmental spending levels in the last two financial years FY 2023/24 and FY 2024/2025 and the current financial year 2025/2026 up to the second quarter ending 31st December 2025. In the recurrent expenditure category, non-discretionary expenditures take first charge. These include payment of pending bills , salaries and

mandatory expenditures like provision for medical supplies, staff medical cover and bursary scheme.

180. Development expenditures have been allocated on the basis of the flagship projects in the third County Integrated Development Plan 2023-2027 and the strategic interventions aimed at achieving the county socio economic transformation agenda. further priority was given to policy interventions covering the entire nation, regional integration, social equity and environmental conservation. 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.
- (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.

4.6 Finalization of Spending Plans

181. 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 the detailed budgets will be 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 FY2026/27 budget and over the medium term.

- Strategic interventions in the areas of food security enhancing programmes, healthcare coverage, infrastructure development and public facilities and other policy interventions to enhance social equity; and county competitiveness
- Specific considerations to enhance job creation for the youth based on sound initiatives identified within and outside the normal budget preparation.

4.7 Details of Sector Priorities

4.7.1 Agriculture, Rural and Urban Development (ARUD) Sector

182. The ARUD sector encompasses three key sub-sectors: Agriculture, Livestock and Fisheries, Lands and Physical Planning, and the Municipalities. It is instrumental in executing the county's development agenda, aligning with the Vision 2030, Medium-Term Plans, the Bottom-Up Economic Transformation Agenda (2022-2027), the Agricultural Sector Transformation and Growth Strategy (2019-2029), Sustainable Development Goals, and other policies. The main objective of the sector is to be the leading agent towards achievement of food security and agricultural transformation, essential physical infrastructure, rural and urban development. This is a key sector in achieving the county socio economic transformation agenda.

183. The county intends to undertake several programs in order to transform the agricultural sector and to promote agricultural productivity and promote agro processing through value addition. Under the crop development division, the county government will continue to undertake rehabilitation and upscaling of micro-irrigation in order to improve food and income security among households. In addition, farm mechanization will be strengthened as well as the provision of high yielding seeds varieties and seedlings to enhance crop productivity.

184. Under the livestock production sub sector, the county will continue with the construction/rehabilitation of cattle dips to improve on animal health. In order to ensure diversification in livestock production, the livestock division will promote bee keeping through construction and provision of more beehives. In addition, the division will also undertake promotion of local poultry rearing to boost incomes of the local small holder farmers. To support the fisheries department, the county will continue construction of more fish landing sites, provision of fishing gear, training of the fisherfolk, provision of coolers to curb post-harvest losses. Security will be revamped to provide safe and secure environment to the local fisherfolk. Up scaling of sea weed production

will be given priority to continue to be a game changer for job creation and generation of wealth for the local households.

185. To undertake these programmes, the sector will require **Kshs.1,200.4 Million, Kshs.1,230.4 Million, and Kshs.1,261.2 Million** in the financial year 2026/27, 2027/28 and 2028/29 respectively, **KShs379.7Million, KShs389.2Million, and KShs398,9Million** will be for recurrent purposes and **Kshs.820.7 Million, Kshs.841.2 Million and Kshs.862.2 Million** will be for development expenditure 2026/27, 2027/28 and 2028/29 respectively,

4.7.2 Energy, Infrastructure and Information, Communication and Technology Sector

186. The Energy, Infrastructure, and ICT (EII) Sector is crucial to county's socio-economic development, serving as both a driver and enabler across various sectors. It aims to promote sustainable infrastructure in roads, transport, digital connectivity, and energy, aligning with Kenya Vision 2030, Bottom-Up Economic Transformation Agenda (BETA), the Fourth Medium-Term Plan (MTP IV) 2023–2027, regional commitments like Africa Agenda 2063, and the Sustainable Development Goals (SDGs). 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.

187. The county government is committed to provision of efficient, affordable and reliable physical infrastructure for sustainable socio-economic growth through construction, modernization, rehabilitation and effective management of county infrastructural facilities. The county government intends to upgrade and expand the road network particularly upgrading to bitumen standard of key circuit roads, increase streetlighting in key trading centres to provide security and induce a 24 hour economy and digitize most of the county processes to enhance service delivery.

188. In order to implement the prioritized programmes, the sector has been allocated **Ksh.656.5Million, Ksh.672.9Million and Ksh.689.7Million** for the financial years 2026/27, 2027/28 and 2028/29 respectively, Recurrent expenditure allocation is **Ksh126.30Million, Ksh129.50Million and Ksh132.70Million** for FY2026/27, 2027/28 and 2028/29 respectively, whereas Development expenditure for the same period is **Ksh530.20Million, Ksh543.5Million, and Ksh557.00 Million** respectively.

4.7.3 General Economic and Commercial Affairs Sector

189. The General Economic and Commercial Affairs (GECA) sector has a high potential to promote rapid transformation agenda in the county. It consists of Trade and Enterprise Development; and Tourism. The sector plays a vital role in fostering economic growth through policy development, programme implementation, and project execution that promote trade, industrialization, investment, enterprise development, market access, private sector growth, employment, and competitiveness at local, regional, and international levels. It also emphasizes environmental conservation and climate change mitigation in its initiatives. The main objective of the sector is to promote, coordinate and implement integrated socio – economic policies and programmes for a rapidly industrializing economy.

190. 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. To promote economic empowerment through trade and entrepreneurship, the sector will implement the Kwale County Biashara Revolving Fund to offer affordable credit to traders to acquire capital for business expansion.

191. 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 construct a domestic tourist market in Diani. The completion of the County Aggregation and Industrial Parks(CAIPs) in Mwanyamala will also be given priority to unlock the huge potential in agro processing and value addition for job creation, wealth generation and poverty reduction.

192. In order to implement the prioritized programmes, the sector has been allocated **Ksh.578.30Million, Ksh.592.80Million and Ksh.607.60Million** for the financial years 2026/27, 2027/28 and 2028/29 respectively, Recurrent expenditure allocation is **Ksh.164.10Million, Ksh.168,20Million and Ksh.172.50Million** for 2026/27, 2027/28 and 2028/29 respectively, whereas development expenditure for the same period is **Ksh.414.20Million, Ksh.424.50Million, and Ksh.435.10Million** respectively.

4.7.4 Health

193. The health sector in the county 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 sector continues to advance its commitment to the constitutional right to health, aligning with national development frameworks such as Vision 2030, MTP IV, and BETA. Guided by the Kenya Health Policy (2014–2030) and Universal Health Coverage (UHC), significant progress has been made from FY 2022/23 to 2024/25 in strengthening community health systems, expanding specialized services, and implementing health financing reforms.

194. The county government will emphasize Availability of essential medicines, enhanced Human resource capacity, specialized and referral services expansion including oncology treatments and dialysis, alongside infrastructure upgrades across the county facilities. Health financing reforms with SHIF registration will be pursued. Looking ahead to FY 2026/27–2028/29, the sector aims to deepen UHC implementation by strengthening community health, expanding health financing schemes, increasing health workforce, enhancing regulation, promoting local manufacturing, advancing digital health, and modernizing laboratories and referral systems. Emphasis will also be placed on emergency preparedness, antimicrobial resistance containment, climate resilience, and governance.

195. The County Government will prioritize resource mobilization, regulation under the Social Health Authority, digital health expansion, and improved coordination of disease control programs. To implement the prioritized programmes, the sector has been allocated **Ksh.2,899.50Million, Ksh.2,971.90Million** and **Ksh.3,046.30Million** for the financial years 2026/27, 2027/28 and 2028/29 respectively,. Recurrent expenditure allocation is **Ksh.2,463.90Million, Ksh.2,525.50Million** and **Ksh.2,588.70Million** for FY 2026/27, 2027/28 and 2028/29 respectively, whereas development expenditure for the same period is **Ksh.435.50Million, Ksh.446.40Million,** and **Ksh.457.50Million** respectively.

4.7.5 Education

196. The Education Sector is vital for human capital development, providing inclusive, equitable, and quality education, training, and research. The main objective of this sector in the county government 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.

197. 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 addition, to deploy and train more ECDE teachers, modernize the teaching materials and equipment and enhancing the school feeding programme. 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.

198. 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.

199. To undertake these programmes, the sector will require **Ksh.1,515.30Million**, **Ksh.1,553.20Million** and **Ksh.1,600.00Million** in the financial year 2026/27, 2027/28 and 2028/29 respectively. **Ksh.1,155.60Million**, **Ksh.1,184.60Million**, and **Ksh.1,214.10Million** will be for recurrent purposes and **Kshs.359.70Million**, **Ksh.368.70Million** and **Ksh.377.90Million** will be for development expenditure for the FY 2026/27, 2027/28 and 2028/29 respectively.

4.7.6 Public Administration and International Relations Sector (PAIR)

200. The Public Administration and International Relations (PAIR) Sector play a vital role in coordinating government functions, including planning, administration, public finance, and legislative activities, while also fostering intergovernmental relations. 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.

201. Between FY 2022/23 and 2024/25, the sector implemented programs aligned with the Bottom-Up Economic Transformation Agenda (BETA), Kenya Vision 2030, Fourth Medium Term

Plan (2023–2027), and the County Integrated Development Plan 2023-2027. Notable achievements include strengthening government coordination, enhancing performance management, and promoting transparency and accountability. Additionally, it promoted public service transformation, capacity building, monitoring and evaluation, citizen engagement, ethics, and good governance, contributing to better service delivery, job creation, and socio-economic development. For FY 2026/27 to 2028/29, the sector will focus on improving the service delivery through creation of an enabling environment for projects and programmes implementation.

202. In order to implement the prioritized programmes, the sector has been allocated **Ksh.2,390.40Million**, **Ksh.2,450.20Million** and **Ksh.2,515.40Million** for the financial years 2026/27, 2027/28 and 2028/29 respectively,. Recurrent expenditure allocation is **Ksh.1,940.40Million**, **Ksh.1,988.90Million** and **Ksh.2,042.60Million** for FY 2026/27, 2027/28 and 2028/29 respectively, whereas development expenditure for the same period is **Ksh.450.00Million**, **Ksh.461.30Million**, and **Ksh.472.80Million** respectively.

4.7.7 Social Protection, Culture and Recreation Sector

203. The Social Protection Sector is vital for the county's socio-economic development, aligning with Vision 2023, MTP IV, and the Bottom-Up Economic Transformation Agenda. It promotes sustainable employment, labour practices, talent development, gender equality, community empowerment, and cultural preservation. 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 development. Between 2022/23 and 2024/25, the sector advanced sports and creative industries through infrastructure upgrades. In addition ,the sector carried out youth empowerment with youths accessing services, leadership training, and skills development.

204. To achieve inclusivity and empower community for equitable and sustainable development, this sector will construct and equip two modern libraries in Shimbahills and Ukunda which will enhance development of mental capabilities and research. The sector will fast track the completion of the modern county stadium in Kwale Kinarini and improve the already existing sports fields so as to offer an enabling environment for arts, sports and talent development. Future priorities include modernizing museums, protecting cultural sites, hosting festivals, establishing music studios, and nurturing youth talents including musicians. Youth programs will include trainings in life and technical skills, mentorship in entrepreneurship, and providing ICT, counselling, and

career services to youths. In addition, the sector will support community groups, persons with disabilities, and enhance child protection, gender equality, and women's economic empowerment through bursaries, sanitary products, GBV prevention, and financial aid.

205. In order to implement the prioritized programmes, the sector has been allocated **Ksh.301.40Million, Ksh.308.90Million** and **Ksh.318.70Million** for the financial years 2026/27, 2027/28 and 2028/29 respectively. Recurrent expenditure allocation is **Ksh.80.00Million, Ksh.82.00Million** and **Ksh.86.10Million** for the financial years 2026/27, 2027/28 and 2028/29 respectively, whereas development expenditure for the same period is **Ksh.221.30Million, Ksh.226.90Million**, and **Ksh.232.50Million** respectively.

4.7.8 Environmental Protection, Water and Natural Resources

206. The Environment Protection, Water, and Natural Resources (EPWNR) Sector is vital to Kenya's socio-economic development, focusing on food security, climate resilience, water security, biodiversity, and sustainable resource management. During FY 2022/23–2024/25, the sector implemented numerous initiatives resulting in commendable progress in irrigation, water and sanitation, environmental protection, climate change response, and forestry. In agriculture, the sector expanded irrigated land boosting community and smallholder productivity. Water storage increased through the implementation of mega projects like the Diani water project.

207. 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 and construct medium sized dams. Additionally Kwale County will enforce climate change mitigation measures such as purchase of energy saving jikos in order to improve on energy conservation and protect the environment.

208. In order to implement the prioritized programmes, the sector has been allocated **Ksh.545.40Million, Ksh.559.10Million** and **Ksh.576.00Million** for the financial years FY 2026/27, 2027/2028 and 2028/2029 respectively. Recurrent expenditure allocation is **Ksh.116.50Million, Ksh.119.40Million** and **Ksh.125.40Million** for FY 2026/27, 2027/2028 and 2028/2029 respectively, whereas Development expenditure for the same period is **Ksh.429.00Million, Ksh.439.70Million**, and **Ksh.450.70Million** respectively.

CHAPTER FIVE: CONCLUSION AND NEXT STEPS

209. This 2026 County Fiscal Strategy Paper will inform the county budget in the coming financial year FY2026/2027 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 2026/2027 budget. Departments and agencies are advised to adhere to the ceilings in preparation of their budgets.

210. 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 Bottom -Up Economic Transformation Agenda and priorities of the MTP IV for the Vision 2030.

211. The latest 2025 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 2026 Finance bill and implement other revenue raising measures including the conclusion of the valuation roll process which is guided by the Valuation for Rating Act(Cap 266) and the New National Rating Act 2024.

212. Section 117 of the Public Finance Management Act 2012 requires that county governments seek and take into consideration views of the public, the Commission on Revenue Allocation and other interested persons or groups. Consequently, comments from the Commission on Revenue Allocation, the Controller of Budget, the civil society organizations the non-state actors of the County Budget and Economic Forum, the public and other interest groups will be considered when finalizing the preparation of this 2026 CFSP. The county will conduct meaningful engagement with the citizens and other stakeholders before the end of February 2025 to collect inputs for consideration in the final document before submission to the County Assembly.

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 2026 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 macroeconomic variables create risks to both revenue and expenditure projections in this 2026 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 2026 CFSP percent, wages are equal to 34.8 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 effects on Tourism

18. Criminal gangs attacks have become real and have had an adverse effects on recovery of tourism. The effects of criminal gangs on security and safe of the citizens 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.

19. 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 2024/2025, the allocation to development in the revised estimates was 54.1 percent of the total budget and actual expenditures on wages was 31.2 percent of the total revenues. In the fiscal outlays presented in this 2026 CFSP, the County Government continues to observe this requirement and has allocated 36.3 percent of the total budget to development in FY 2026/2027 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 2025/2026, and is projected at 34.8 percent in FY 2026/2027.

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. 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.

5. 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: MEDIUM TERM EXPENDITURE FRAMEWORK SECTORAL RECURRENT CEILINGS FY 2026/2027 -2028/2029

SECTOR		Ceiling FY2026/2027	PROJECTIONS	
			FY2027/2028	FY2027/28
AGRICULTURE, RURAL AND URBAN DEVELOPMENT	TOTAL	379,704,702	389,197,320	398,927,253
Agriculture, Livestock and Fisheries	Sub Total	209,506,637	214,744,303	220,112,910
Environment and Natural Resources Management	Sub Total	98,018,866	100,469,338	102,981,072
Kwale Municipality	Sub Total	22,336,730	22,895,148	23,467,527
Diani Municipality	Sub Total	25,552,747	26,191,566	26,846,355
Kinango Municipality	Sub Total	12,144,861	12,448,483	12,759,695
Lungalunga Municipality	Sub Total	12,144,861	12,448,483	12,759,695
ENERGY, INFRASTRUCTURE AND ICT	TOTAL	126,292,222	129,449,527	132,685,765
Roads and Public Works	Sub Total	126,292,222	129,449,527	132,685,765
GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS	TOTAL	164,120,571	168,223,586	172,429,175
Trade, Investment and cooperative development	Sub Total	95,794,340	98,189,199	100,643,929
Tourism and ICT	Sub Total	68,326,231	70,034,387	71,785,247
HEALTH SERVICES	TOTAL	2,463,974,434	2,525,573,795	2,588,713,140
Curative Health Services	Sub Total	2,313,974,434	2,371,823,795	2,431,119,390
Preventive Health Services	Sub Total	150,000,000	153,750,000	157,593,750
EDUCATION	TOTAL	1,155,565,274	1,184,454,406	1,214,065,766
PUBLIC ADMINISTRATION & INTERNATIONAL RELATIONS	TOTAL	1,940,396,940	1,988,906,863	2,042,564,132
County Assembly	Sub Total	625,396,495	641,031,407	657,057,193
County Executive Services	Sub Total	146,635,615	150,301,505	154,059,043
Public Service and Administration	Sub Total	308,693,825	316,411,171	324,321,450
Finance and Economic planning	Sub Total	706,125,750	723,778,893	741,873,366
County Public Service Board	Sub Total	96,553,868	98,967,714	103,916,100
Office of the County Attorney	Sub Total	56,991,388	58,416,172	61,336,981
SOCIAL SERVICES AND TALENT MANAGEMENT	TOTAL	80,037,741	82,038,685	86,140,619
WATER SERVICES	TOTAL	116,478,889	119,390,861	125,360,404
GRAND TOTAL		6,426,570,773	6,587,235,043	6,760,886,255
Source: The Kwale County Treasury				

ANNEX IV: MEDIUM TERM EXPENDITURE FRAMEWORK SECTORAL DEVELOPMENT CEILINGS FY 2026/2027- FY 2028/2029

SECTOR		Ceiling FY2026/2027	PROJECTIONS	
			FY2027/2028	FY2027/28
AGRICULTURE, RURAL AND URBAN DEVELOPMENT	TOTAL	820,680,000	841,197,000	862,226,925
Agriculture, Livestock and Fisheries	Sub Total	179,625,000	184,115,625	188,718,516
Environment and Natural Resources Management	Sub Total	197,055,000	201,981,375	207,030,909
Kwale Municipality	Sub Total	100,000,000	102,500,000	105,062,500
Diani Municipality	Sub Total	144,000,000	147,600,000	151,290,000
Kinango Municipality	Sub Total	100,000,000	102,500,000	105,062,500
Lungalunga Municipality	Sub Total	100,000,000	102,500,000	105,062,500
ENERGY, INFRASTRUCTURE AND ICT	TOTAL	530,191,577	543,446,366	557,032,526
Roads and Public Works	Sub Total	530,191,577	543,446,366	557,032,526
GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS	TOTAL	414,175,000	424,529,375	435,142,609
Trade, Investment and cooperative development	Sub Total	308,775,000	316,494,375	324,406,734
Tourism and ICT	Sub Total	105,400,000	108,035,000	110,735,875
HEALTH SERVICES	TOTAL	435,500,000	446,387,500	457,547,188
Curative Health Services	Sub Total	250,000,000	256,250,000	262,656,250
Preventive Health Services	Sub Total	185,500,000	190,137,500	194,890,938
EDUCATION	TOTAL	359,700,000	368,692,500	377,909,813
PUBLIC ADMINISTRATION & INTERNATIONAL RELATIONS	TOTAL	450,000,000	461,250,000	472,781,250
County Assembly	Sub Total	300,000,000	307,500,000	315,187,500
County Executive Services	Sub Total	50,000,000	51,250,000	52,531,250
Public Service and Administration	Sub Total	50,000,000	51,250,000	52,531,250
Finance and Economic planning	Sub Total	50,000,000	51,250,000	52,531,250
County Public Service Board	Sub Total	0	0	0
Office of the County Attorney	Sub Total	0	0	0
SOCIAL SERVICES AND TALENT MANAGEMENT	TOTAL	221,325,000	226,858,125	232,529,578
WATER SERVICES	TOTAL	428,955,000	439,678,875	450,670,847
GRAND TOTAL		3,660,526,577	3,752,039,741	3,845,840,735
Source: <i>The Kwale County Treasury</i>				