

**REPUBLIC OF KENYA
COUNTY GOVERNMENT OF KILIFI**

COUNTY TREASURY



COUNTY BUDGET REVIEW & OUTLOOK PAPER

SEPTEMBER 2020

FOREWORD

The 2020 Kilifi County Budget Review Outlook Paper (CBROP) is prepared in line with Section 118 of the Public Finance Management (PFM) Act, 2012. The 2020 CBROP presents updated economic and financial forecasts with sufficient information that will inform the budget proposals for the next financial year. It also reviews previous year's budget and provides an outlook for the forthcoming budget year

The paper examines recent economic developments and fiscal performance in FY 2019/20 against corresponding appropriations. This entails analysis of total revenue collected versus projected revenue and highlighting the causes for deviations. The analysis also includes expenditure performance of county departments with highlights on actual performance of FY 2019/20 and its compliance with the fiscal responsibility principles in the PFM Act of 2012. Additionally, the paper provides an overview of how the actual performance of the FY 2019/20 affected the financial objectives as detailed in the 2019 County Fiscal Strategy Paper (CFSP).

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FOR FINANCE AND ECONOMIC PLANNING

LEGAL BASIS FOR THE PUBLICATION OF THE COUNTY BUDGET REVIEW AND OUTLOOK PAPER

The Kilifi County Budget Review and Outlook Paper is prepared in accordance with Section 118 of the Public Finance Management (PFM) Act, 2012 which states that:

1. A County Treasury shall;
 - a. Prepare a County Budget Review and Outlook Paper (CBROP) in respect of the county for each financial year; and
 - b. Submit the paper to the County Executive Committee by 30th September of that year.
2. In preparing the County Budget Review and Outlook Paper, the County Treasury shall specify:
 - a. The details of actual fiscal performance in the previous financial year compared to the budget appropriation for that year;
 - b. The updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP);
 - c. Information on-
 - i. any changes in the forecasts compared with the CFSP or;
 - ii. how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles or the financial objectives in the CFSP for that year; and
 - d. Reasons for any deviation from the financial objectives in the CFSP together with proposals to address the deviation and the time estimated for doing so.
3. The County Executive Committee shall consider the CBROP with a view to approving it, with or without amendments, within fourteen days after its submission.
4. Not later than seven days after the CBROP is approved by County Executive Committee, the County Treasury shall:
 - a. Arrange for the CBROP to be laid before the County Assembly; and
 - b. As soon as practicable after having done so, publish and publicize the paper.

FISCAL RESPONSIBILITY PRINCIPLES IN THE PUBLIC FINANCE MANAGEMENT ACT, 2012

Section 107(2) of the Public Finance Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudence and transparency in the management of county public resources. The PFM Act states that:

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

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CHAPTER ONE: INTRODUCTION

Overview

1. This 2020 CBROP is the seventh to be prepared by the county government and is prepared in compliance with Section 118 of the Public Finance Management (PFM) Act of 2012. It is a key public finance document that links policy, planning and budgeting thus promote transparency and accountability in public financial management. These key policies, policy goals and strategic priorities are contained in planning and budgeting documents particularly the County Integrated Development Plan (CIDP) 2018-2022, the County Annual Development Plans (CADP) for FY 2019/20 and 2020 County Fiscal Strategy Paper (CFSP), and implemented through FY 2019/20 budget. Therefore, 2020 CBROP provides expenditure and resource mobilization outturn in relation the fiscal strategy and sheds light on the adequacy of underlying macroeconomic and fiscal projections on fiscal policies and budget implementation.

Objective of 2020 CBROP

2. The objective of the 2020 CBROP is to review the fiscal performance for FY 2019/20 and how this performance impacts on financial objectives and fiscal responsibility principles set out in the 2020 County Fiscal Strategy Paper (CFSP). To this end, economic developments and outlook presented in the 2020 CFSP are updated as part of the basis for adjustment of FY 2020/21 budget and medium-term fiscal framework is set to provide indicative resource envelope and expenditure estimates for FY 2021/22 and medium term. The assumptions used in projecting revenue and expenditure for FY 2020/21 are also updated and fiscal outturn for FY 2019/20 together with that of quarter one of FY 2020/21 are taken into account to detail appropriate revisions that will maintain the priority financial objectives and adhere to the fiscal responsibility principles set in 2020 CFSP. In addition to this, priority is accorded to strategic interventions and flagship projects in the County Integrated Development Plan (CIDP) 2018-2022, for implementation.

Organization of the 2020 CBROP

3. The rest of 2020 CBROP is organized as follows:

Chapter 2 provides fiscal performance for FY 2019/20 and its implication on the financial objectives set in 2020 CFSP.

Chapter 3 provides recent economic developments and outlook

Chapter 4 provides Indicative resource allocation framework

Chapter 5 concludes.

CHAPTER TWO: FISCAL PERFORMANCE FOR FY 2019/20 AND ITS IMPLICATION ON FINANCIAL OBJECTIVES

Overview

4. This chapter presents the actual fiscal performance of FY2019/20 against the budget appropriations. It also assesses the impact of this performance on the financial objectives and fiscal responsibility principles and indicates the progress made towards attaining the sustainable, people focused transformative agenda espoused in the 2020 County Fiscal Strategy Paper.
5. The overall fiscal performance for FY 2019/20 was characterized by revenue shortfalls and higher than usual recurrent expenditure pressure due to the effects of measures put in place, both domestically and globally, to contain the coronavirus disease (COVID-19) Pandemic during the second half of the fiscal year. Aggregate revenue amounted to Ksh.13,457,439,820 representing 89 percent of the targeted revenue while aggregate expenditure was Ksh.12,648,165,808 representing 84 percent of the targeted expenditure. On the revenue side, the Own Source Revenue (OSR) raised by the County was Ksh. 794,390,255 against Ksh. 1,100,000,000, representing 72 percent of the targeted revenue. Regarding expenditure on 'drivers' and 'enablers' of the sustainable people focused agenda for wealth creation, a total of Ksh.10,098,410,652 was spent on 'drivers' while Ksh.2,549,759,035 was spent on 'enablers' representing 83 percent and 87 percent of respective approved allocations.

FY 2019/20 Fiscal Performance

6. FY 2019/20 fiscal performance is classified into:
 - i. Revenue Performance
 - ii. Expenditure Performance
 - iii. Overall Fiscal Balance

Each of these is presented in detail in the sub-sections that follow.

(i) Revenue performance

7. The County government's revenue basket comprises of the following sources:
 - a. Equitable share of revenue raised nationally
 - b. Conditional grants and
 - c. Own source revenue (OSR)

The performance of each category is discussed below.

(a) Equitable Share of revenue Raised Nationally

8. The County's equitable share of revenue raised nationally in FY2019/20 was Ksh.10,444,500,000. There was a lag in the disbursement of funds at the start of the financial year which culminated to delays in the disbursement of the entire allocation as shown in the table below.

Table 1: Disbursement of Equitable Share of Revenue Raised Nationally FY 2019/20

Date	Description	Amount
19-Sep-2019	Equitable share for July 2019	522,225,000
25-Sep-2019	Equitable share for August & Sept 2019	1,295,118,000
13-Nov-2019	Equitable share for October 2019	835,560,000
06-Dec-2019	Equitable share for November 2019	1,044,450,000
08-Jan-2020	Equitable share for December 2019	940,005,000
31-Jan-2020	Equitable share for January 2020	1,096,672,500
26-Feb-2020	Equitable share for February 2020	940,005,000
27-Mar-2020	Equitable share March 2020	835,560,000
30-Apr-2020	Equitable share April 2020	1,096,672,500
24-Jun-2020	Equitable share May 2020	940,005,000
05-Aug-2020	Equitable share June 2020	898,227,000
Total		10,444,500,000

Source: County Treasury

(b) Conditional Grants

9. The revised conditional grants for FY2019/20 increased to Ksh.2,553,600,882 from Ksh. 2,013,738,785 on account of additional grants and unspent or undisbursed grants from FY 2018/19. The additional grants were Covid-19 Emergency Fund of Ksh.296,052,000; SlovakAid-Desktop Support for Vocational Training of Ksh.1,140,000 and Kenya Devolution Support Programme level II Grant of Ksh.153,800,563.
10. In FY2019/20 the total disbursements of conditional grants stood at Ksh.1,294,943,821, falling short of the target by Ksh.1,258,657,061, representing 50.7 percent of the targeted conditional grants as shown in Table 2 below.

Table 2: Conditional Grants and their Disbursement FY 2019/20

CONDITIONAL GRANTS AND THEIR DISBURSMENTS FY 2019/20				
Description of Grants	Original Grants	Revised Grants	Disbursed Grants	Undisbursed Grants
Compensation for user fee forgone	25,969,864	26,056,268	25,969,864	86,404
Leasing of medical equipment	131,914,894	131,914,894		131,914,894
Road maintenance Fuel levy	296,474,063	320,311,583	296,474,063	23,837,520
Rehabilitation of Village Youth Polytechnic	58,863,298	58,863,298	58,863,298	0
Kenya Devolution Support Programme (KDSP)	30,000,000	186,659,473	30,000,000	156,659,473
National agricultural and Rural inclusive Growth Project (NARIGP)	350,000,000	350,000,000	204,559,883	145,440,117
Agriculture Sector Development Support Programme (ASDSP)	19,723,695	19,723,695	18,853,079	870,616
Water and Sanitation Development Project	600,000,000	600,000,000	45,015,440	554,984,560
Universal Health care in Devolved System Program (DANIDA)	32,775,320	44,850,320	44,418,750	431,570
Transforming Healthcare Systems for Universal Care Project (THSUCP)	137,494,851	137,494,851	118,565,287	18,929,564
Kenya Urban Support Programme- Urban Institutional Grant (KUSP-UIG)	330,522,800	380,534,500	245,211,098	135,323,403
Covid-19 Emergency Response		296,052,000	205,947,000	90,105,000
SlovakAid-Desktop Support for Vocational Training		1,140,000	1,066,059	73,941
Total	2,013,738,785	2,553,600,882	1,294,943,821	1,258,657,061

Source: County Treasury

(c) Own Source Revenue

11. By the end of June 2020, the total revenue generated from County Own Sources amounted to Ksh.794,390,255 against a target of Ksh.1,100,000,000 representing a shortfall of 28 percent (Ksh311, 217,774). This shortfall is attributed to the socio-economic effects of containment measures of COVID-19 pandemic which heavily weighed on key revenue streams due to the reduced economic hours imposed by the dusk to dawn curfew as well as the cessation of movement in and out of the County that led to significant reduction in economic activities.
12. Analysis of OSR by stream shows that Health Service Improvement Fund (HSIF) surpassed its target by 36 percent by netting Ksh.179,400,631 against a target of Ksh.132,000,000. This is an indication of the increase in number of residents seeking health services despite the COVID-19 pandemic. The other revenue streams performed largely below their respective revenue targets as shown in table 3. In particular, the following streams netted less than 50 percent of their respective targets:
 - Food Hygiene Fees,
 - Survey fees and Plot rents,
 - Slaughterhouse and Livestock Sale Yards,
 - Land Rates and other Land Revenue,
 - Refuse Collection,
 - Market fees,
 - Business Permit,
 - Building Plan approval and Inspection
13. Over the years, persistent shortfalls in OSR has led to budget implementation challenges resulting from adjustments of the budget to allow for payment of pending bills and ongoing projects that take up the allocations for respective programs and projects in the financial year under implementation. This calls for OSR projections that are conservative and in line with the prevailing macroeconomic conditions. However, for FY2019/20, there was an unprecedented economic shock due to the COVID-19 pandemic that could only be mitigated and not avoided.
14. To increase own source revenue, the county is in the undertaking the following: -
 - Diversification of revenue streams
 - Establishment of prosecution system
 - Integration of Kilifi Electronic Data Management System with County-Pro
 - Fully automating revenue collection and establishing one-stop-shop payment and approval for all licenses
 - Waivers and subsidy on land rates

Table 3: Own Source Revenue Collection, FY 2018/19 and FY 2019/20

Revenue Stream	Approved Estimates FY 2019/20 Ksh.	Actual Revenue FY 2019/20 Ksh.	Actual Revenue FY 2019/20 (%)
Receipts from Administrative Fees and Charges - Collected as (Health Service Improvement Fund)	132,000,000	179,400,631	136%
Land Rates and other Land Revenue	337,710,413	131,437,899	39%
Cess on natural resources	339,932,316	276,601,301	81%
Business Permit	88,732,482	42,495,339	48%
Parking fees	50,008,379	29,805,584	60%
Market fees	16,569,337	7,439,593	45%
Billboards & Signage	26,370,253	24,837,467	94%
Building Plan approval and Inspection	9,242,007	26,827,201	290%
Rent/Stall rents	5,874,241	5,411,657	92%
Survey fees and plot rents	3,102,184	1,179,405	38%
Plot ground rent	9,908,832	7,292,635	74%
House rent	15,000,000	10,468,655	70%
Refuse Collection	6,343,947	4,384,327	69%
Food Hygiene Fees	15,118,139	4,152,351	27%
Slaughterhouse and Livestock sale Yards	3,539,470	3,526,063	100%
Others	40,548,000	39,130,147	97%
TOTAL	1,100,000,000	794,390,255	72%

Source: County Treasury

Withdrawal for the County Revenue Fund (CRF) Account

15. The withdrawals from the County Revenue Fund (CRF) Account for the FY 2019/20 amounted to Ksh.12,425,769,766 against a revised estimate of Ksh.15,034,621,946. Total withdrawals from equitable share of revenue raised nationally and OSR generated stood at Ksh.11,327,613,447 against a target of Ksh.12,481,021,064. This comprised of Ksh.8,195,458,110 and Ksh.3,132,155,337 for recurrent and development purposes, respectively.
16. With regards to grants, the county government withdrew Ksh.1,098,156,316 out of the disbursed amount of Ksh.1,444,296,003 out of which Ksh.188,953,901 was recurrent and Ksh.909,202,418 was for development expenditures as provided in table 4.

Description	Approved Estimates	Revised Estimates	Withdrawal from County Revenue Fund Account FY 2019/20		
	FY 2019/20	FY 2019/20	Recurrent	Development	Total
Equitable Share and Local Revenue	10,348,000,000	12,481,021,064	8,195,458,110	3,132,155,337	11,327,613,447
Compensation for user fee forgone	25,969,864	26,056,268	25,969,864		25,969,864
Leasing of medical equipment	131,914,894	131,914,894			
Road maintenance Fuel levy	296,474,063	320,311,583		318,621,145	318,621,145
Rehabilitation of Village Youth Polytechnic	58,863,298	58,863,298		58,863,298	58,863,298
Kenya Devolution Support Programme (KDSP)	30,000,000	186,659,473			
National agricultural and Rural inclusive Growth Project (NARIGP)	350,000,000	350,000,000		211,138,359	211,138,359
Agriculture Sector Development Support Programme (ASDSP)	19,723,695	19,723,695		30,353,079	30,353,079
Water and Sanitation Development Project	600,000,000	600,000,000		45,015,440	45,015,440
Universal Health care in Devolved System Program (DANIDA)	32,775,320	44,850,320	44,418,750		44,418,750
Transforming Healthcare Systems for Universal Care Project (THSUCP)	137,494,851	137,494,851	118,565,287		118,565,287
Kenya Urban Support Programme-Urban Institutional Grant (KUSP-UIG)	330,534,500	380,534,500		245,211,097	245,211,097
Covid-19 Emergency Response		296,052,000			
SlovakAid-Desktop Support for Vocational Training		1,140,000			
Total	12,361,750,485	15,034,621,946	8,384,412,011	4,041,357,755	12,425,769,766

(ii) Expenditure performance

17. The expenditure analysis in this section shows the actual obligations met in the financial year as well as the commitments made to pay, which are the unmet obligations of the departments. The analysis will be in two levels. Level 1 shows the aggregate expenditure wherein expenditure lines are classified as either 'drivers' or 'enablers' of the County's development agenda of sustainable, people-focused transformative agenda. The next level of analysis is at the disaggregated level where the expenditures are classified into the economic classifications such as compensation to employees, use of goods and services, and development.

Aggregate Expenditure

18. The total expenditure for the County during FY 2019/20 was Ksh.12,648,169,808 against a target of Ksh.15,034,621,947. This represents an absorption rate of 84 percent of the approved budget. The expenditure outlays herein separate the met obligations (actual expenditure) as well as the commitments to pay (unmet obligations). Thus, total expenditure, including commitments was Ksh.13,428,027,106 representing 89 percent of the approved budget.
19. Following the County's development agenda that is focused on sustainable transformative agenda for wealth creation; some departments are classified as the 'drivers' of the agenda because of their direct contribution to the attainment of the seven-point agenda. These 'drivers' registered an absorption rate of 83 percent to the total allocation for the 'drivers' and cumulatively utilized Ksh.10,098,410,652. The remaining departments/divisions are classified as 'enablers' of the transformative agenda because they have an indirect, yet crucial effect to attainment of the goals. Cumulatively, Ksh.2,549,759,155 was utilized on these 'enablers' representing 87 percent of the budget allocation to 'enablers.'
20. With commitments, the County government spent Ksh.10,938,144,721 on the 'drivers' of its development agenda and Ksh.2,489,882,385 on the 'enablers' which clearly points to the commitment to realizing the agenda by dedicating significant amount of resources on the same. The analysis of the 'drivers' and enablers' of the sustainable people-focused agenda is provided in table 5 below:

Table 5: Aggregate Expenditures FY 2019/20

DEPARTMENT	ORIGINAL ESTIMATES FY2019/20	REVISED ESTI- MATES FY2019/20	ACTUAL EXPENDI- TURES FY2019/20	COMMITMENTS FY2019/20	CUMULATIVE EX- PENDITURE FY2019/20
DRIVERS					
County Division for Agriculture	410,323,597	827,212,828	679,818,723	11,080,618	690,899,341
County Division for Livestock	120,815,764	164,162,453	146,218,699	2,899,510	149,118,209
County Division for Fisheries	109,509,180	108,440,210	79,947,985	20,200,472	100,148,457
County Division for Water & Sanitation	590,205,360	1,344,028,804	820,601,584	206,367,288	1,026,968,872
County Division for Environment & Solid Waste Management	40,790,702	62,090,702	58,343,255	2,557,091	60,900,346
County Division for Education	1,156,652,798	1,449,209,117	1,203,002,227	136,666,461	1,339,668,688
County Division for ICT	11,226,139	69,826,139	18,612,652	17,533,712	36,146,364
County Division for Medical Services	3,042,220,190	3,631,312,777	3,169,023,750	137,427,876	3,306,451,626
County Division for Public Health	404,998,458	638,666,596	544,742,361	47,440,280	592,182,641
County Division for Roads, Transport and Public Works	1,374,192,637	1,683,065,704	1,637,712,097	85,726,671	1,723,438,768
County Division for Lands and Energy	292,391,349	324,984,462	224,344,717	45,619,152	269,963,869
County Division for Physical Planning, Urban Development and Housing	93,160,493	176,945,536	109,220,057	44,698,974	153,919,031
County Division for Gender, Culture, Sports, Social Services	347,169,099	378,207,033	313,291,397	74,166,885	387,458,282
County Division for Public Service Management	311,345,866	588,767,560	575,975,086	7,349,079	583,324,165
County Division for Devolution and Disaster Management	244,849,925	302,694,276	262,061,360		262,061,360
Kilifi Municipality		116,193,668	80,846,352		80,846,352
Malindi Municipality		252,745,048	174,648,350		174,648,350
SUB TOTAL	8,549,851,557	12,118,552,913	10,098,410,652	839,734,069	10,938,144,721
% OF GROSS TOTAL	54.80%	74.23%	83%	5.59%	64.20%
ENABLERS					
County Assembly	998,455,640	1,003,455,640	999,517,108	24,992,836	929,713,558
Office of the Governor	278,938,877	373,849,649	345,932,318	16,704,741	345,604,058
County Attorney	92,575,000	102,575,000	84,959,472	9,729,595	93,619,767
County Division for Finance	1,974,945,435	853,494,299	638,123,142	36,823,018	577,501,004
County Division for Economic Planning	53,456,532	88,456,532	25,939,401	47,260,947	79,667,325
County Division for Trade, & Tourism	347,416,824	386,213,130	370,412,339	45,085,017	374,884,157
County Division for Cooperative Development	10,178,850	27,478,850	25,044,071	328,000	25,684,746
County Public Service Board	55,920,071	80,545,935	59,831,303	2,107,680	63,207,770
SUB TOTAL	3,811,887,229	2,916,069,035	2,549,759,155	183,031,834	2,489,882,385
% OF GROSS TOTAL	26.98%	23.86%	87%	3.85%	21.00%
GROSS TOTAL	12,361,738,786	15,034,621,948	12,648,169,808	1,022,765,903	13,428,027,106

Source: County Treasury

Recurrent and Development Expenditures

21. In FY 2019/20, the revised development and recurrent allocation was Ksh.5,780,500,170 and Ksh.9,254,121,777, respectively. The County spent Ksh.4,082,368,546 and Ksh.8,565,801,261 on development and recurrent outlays, representing 32 percent and 68 percent of the total expenditure of Ksh.12,648,169,808, respectively. Further analysis of recurrent and development expenditure is provided in table 6 below.

Table 6: Performance of Recurrent and Development Expenditures FY 2019/20

DEPARTMENT/DI VISION	APPROVED ESTIMATES FY 2019/20			ACTUAL EXPENDITURES FY 2019/20			ABSORPTION RATE (%)		
	REC.	DEV.	TOTAL	REC.	DEV.	TOTAL	REC.	DEV.	TOTAL
County Assembly	803,455,640	200,000,000	1,003,455,640	803,305,180	196,211,928	999,517,108	100	98	100
Office of the Governor	373,849,649		373,849,649	348,362,885		348,362,885	93	0	93
County Attorney	102,575,000		102,575,000	84,963,672		84,963,672	83	0	83
County Division for Finance	694,065,357	159,428,942	853,494,299	648,852,206	5,960,854	654,813,060	93	4	77
County Division for Economic Planning	88,456,532		88,456,532	25,939,401		25,939,401	29	0	29
County Division for Agriculture	308,782,392	518,430,436	827,212,828	303,214,864	376,603,859	679,818,723	98	73	82
County Division for Livestock	21,415,764	142,746,689	164,162,453	18,055,869	128,082,143	146,138,011	84	90	89
County Division for Fisheries	21,009,180	87,431,030	108,440,210	15,518,769	64,429,215	79,947,985	74	74	74
County Division for Water & Sanitation	227,930,095	1,116,098,708	1,344,028,803	226,469,118	594,213,153	820,682,271	99	53	61
County Division for Environment, Natural Resources & Wildlife	60,290,702	1,800,000	62,090,702	56,353,255	1,990,000	58,343,255	93	111	94
County Division for Education	933,854,977	515,354,140	1,449,209,117	886,842,344	316,159,883	1,203,002,227	95	61	83
County Division for Information, Communication & Technology	69,826,139		69,826,139	18,612,652		18,612,652	27	0	27
County Division for Medical Services	3,070,544,550	560,768,227	3,631,312,777	2,865,157,335	278,897,013	3,144,054,348	93	50	87
County Division for Public Health	613,166,596	25,500,000	638,666,596	530,546,983	14,195,378	544,742,361	87	56	85
Roads, Transport & Public Works	338,588,322	1,344,477,382	1,683,065,704	328,130,971	1,309,581,126	1,637,712,097	97	97	97
County Division for Lands & Energy	140,134,878	184,849,584	324,984,462	125,661,062	98,683,655	224,344,717	90	53	69
County Division for Physical Planning, Urban Development and Housing	81,075,595	95,869,941	176,945,536	60,092,374	49,127,683	109,220,057	74	51	62
Gender, Culture, Social Services and Sports	141,456,348	236,750,685	378,207,033	140,491,609	172,755,788	313,247,397	99	73	83
County Division for Trade, & Tourism	160,963,075	225,250,055	386,213,130	151,296,539	219,476,083	370,772,622	94	97	96
County Division for Cooperative Development	27,478,850		27,478,850	25,304,181		25,304,181	92	0	92
County Public Service Board	80,545,935		80,545,935	65,021,003		65,021,003	81	0	81
Public Service Management	586,267,560	2,500,000	588,767,560	575,979,972	2,500,000	578,479,972	98	100	98

Devolution, Public Service and Disaster Management	269,449,925	33,244,351	302,694,276	242,498,332	19,563,028	262,061,360	90	59	87
Kilifi Municipality	19,600,000	96,593,668	116,193,668	11,650,006	69,196,346	80,846,352	59	72	70
Malindi Municipality	19,338,716	233,406,332	252,745,048	7,480,678	164,741,412	172,222,089	39	71	68
TOTAL	9,254,121,777	5,780,500,170	15,034,621,947	8,565,801,261	4,082,368,546	12,648,169,807	93	71	84
PERCENTAGE				68%	32%	84%			

Source: County Treasury

Expenditure Analysis According to Economic Classification, FY 2019/20

22. In this sub-section, expenditure for FY 2019/20 has been according to the following economic classification:

Compensation to Employees

23. The approved estimates for compensation to employees in FY 2019/20 amounted to Kshs. 4,286,690,361 representing 28.5 percent of the total revenue for the County. This complies with the fiscal responsibility principle where no more than 35 percent of the County's total revenue is allocated to wages and benefits for its public officers. On the expenditure side, the County also complies with this fiscal responsibility principle where 34.1 percent of the total expenditure was spent on compensation to employees. This means that compensation to employees, which is non-discretionary expenditure, exerted more pressure on cash flow. The analysis of compensation to employees is provided in table 7 below.

Table 7: Expenditure Performance on Compensation to Employees FY 2019/20

DEPARTMENT/DIVISION	APPROVED ESTIMATES FY 2019/20	ACTUAL EXPENDITURE FY 2019/20	COMPENSATION TO EMPLOYEES FY 2019/20	
	TOTAL (REC.&DEV.)	TOTAL (REC.&DEV.)	APPROVED ESTIMATES	ACTUAL EXPENDITURE
County Assembly	1,003,455,640	999,517,108	384,681,347	384,961,721
Office of the Governor	373,849,649	348,362,885	145,617,030	143,034,474
County Attorney	102,575,000	84,963,672		
County Division for Finance	853,494,299	654,813,060	231,911,781	214,831,094
County Division for Economic Planning	88,456,532	25,939,401		
County Division for Agriculture	827,212,828	679,818,723	230,549,601	219,849,172
County Division for Livestock	164,162,453	146,138,011		
County Division for Fisheries	108,440,210	79,947,985		
County Division for Water & Sanitation	1,344,028,803	820,682,271	184,578,123	203,473,551
County Division for Environment, Natural Resources & Wildlife	62,090,702	58,343,255		
County Division for Education	1,449,209,117	1,203,002,227	484,918,647	516,561,758
County Division for Information, Communication & Technology	69,826,139	18,612,652		
County Division for Medical Services	3,631,312,777	3,144,054,348	2,144,285,834	2,138,977,913
County Division for Public Health	638,666,596	544,742,361		
Roads, Transport & Public Works	1,683,065,704	1,637,712,097	94,113,723	128,126,492
County Division for Lands & Energy	324,984,462	224,344,717	52,684,989	48,887,802
County Division for Physical Planning, Urban Development and Housing	176,945,536	109,220,057		
Gender, Culture, Social Services and Sports	378,207,033	313,247,397	35,742,915	40,171,508
County Division for Trade, & Tourism	386,213,130	370,772,622	45,729,911	47,275,516

County Division for Cooperative Development	27,478,850	25,304,181		
County Public Service Board	80,545,935	65,021,003	34,460,066	31,603,927
Public Service Management	588,767,560	578,479,972	207,520,074	193,225,578
Devolution, Public Service and Disaster Management	302,694,276	262,061,360		
Kilifi Municipality	116,193,668	80,846,352	3,868,000	3,599,961
Malindi Municipality	252,745,048	172,222,089	6,028,320	3,353,028
TOTAL	15,034,621,947	12,648,169,807	4,286,690,361	4,317,933,498
PERCENTAGES		84%	28.5%	34.1%

Source: County Treasury

Use of Goods and Services

24. The approved estimates for use of goods and services in FY 2019/20 amounted to Ksh.4,967,431,416 representing 33.0 percent of the approved estimates. A total of Ksh.4,247,867,764 was spent on use of goods and services representing 33.6 percent of the total expenditure. This implies that use of good and services exerted negligible expenditure pressure on cash flow. The analysis on use of goods and services in the County during FY 2019-20 is shown in table 8 below.

Table 8: Expenditure Performance on Use of Goods and Services FY 2019/20

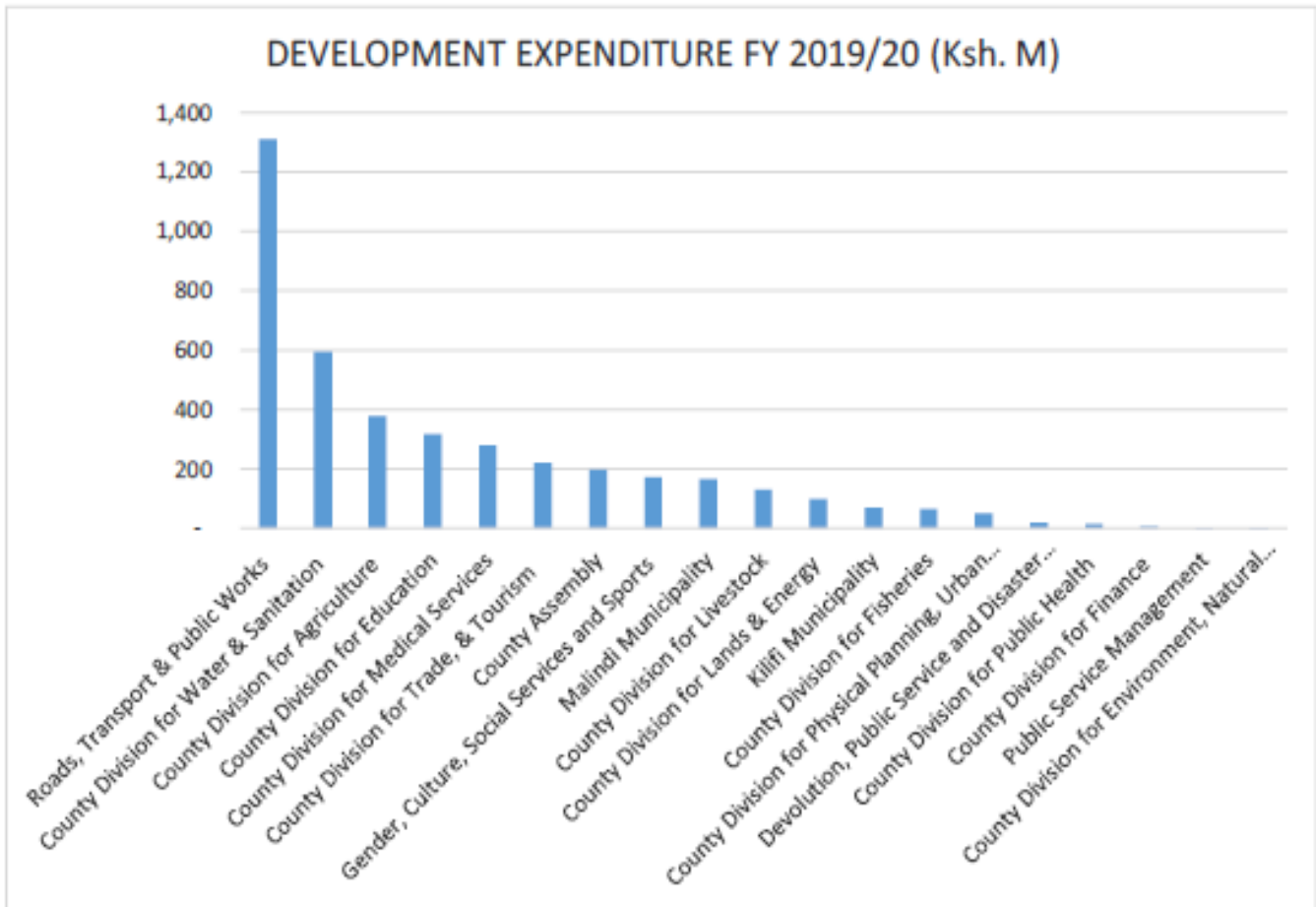
DEPARTMENT/DIVISION	APPROVED ESTIMATES FY 2019/20	ACTUAL EXPENDITURES FY 2019/20	USE OF GOODS AND SERVICES FY 2019-20	
	TOTAL (REC.&DEV.)	TOTAL (REC.&DEV.)	APPROVED ESTIMATES	ACTUAL EXPENDITURE
County Assembly	1,003,455,640	999,517,108	418,774,293	418,343,459
Office of the Governor	373,849,649	348,362,885	228,232,619	205,328,411
County Attorney	102,575,000	84,963,672	102,575,000	84,963,672
County Division for Finance	853,494,299	654,813,060	462,153,576	434,021,111
County Division for Economic Planning	88,456,532	25,939,401	88,456,532	25,939,401
County Division for Agriculture	827,212,828	679,818,723	78,232,791	83,365,692
County Division for Livestock	164,162,453	146,138,011	21,415,764	18,055,869
County Division for Fisheries	108,440,210	79,947,985	21,009,180	15,518,769
County Division for Water & Sanitation	1,344,028,803	820,682,271	43,351,972	22,995,567
County Division for Environment, Natural Resources & Wildlife	62,090,702	58,343,255	60,290,702	56,353,255
County Division for Education	1,449,209,117	1,203,002,227	448,936,330	370,280,586
County Division for Information, Communication & Technology	69,826,139	18,612,652	69,826,139	18,612,652

County Division for Medical Services	3,631,312,777	3,144,054,348	926,258,716	726,179,422
County Division for Public Health	638,666,596	544,742,361	613,166,596	530,546,983
Roads, Transport & Public Works	1,683,065,704	1,637,712,097	244,474,599	200,004,479
County Division for Lands & Energy	324,984,462	224,344,717	87,449,889	76,773,260
County Division for Physical Planning, Urban Development and Housing	176,945,536	109,220,057	81,075,595	60,092,374
Gender, Culture, Social Services and Sports	378,207,033	313,247,397	105,713,433	100,320,100
County Division for Trade, & Tourism	386,213,130	370,772,622	115,233,164	104,021,023
County Division for Cooperative Development	27,478,850	25,304,181	27,478,850	25,304,181
County Public Service Board	80,545,935	65,021,003	46,085,869	33,417,076
Public Service Management	588,767,560	578,479,972	378,747,486	382,754,394
Devolution, Public Service and Disaster Management	302,694,276	262,061,360	269,449,925	242,498,332
Kilifi Municipality	116,193,668	80,846,352	15,732,000	8,050,045
Malindi Municipality	252,745,048	172,222,089	13,310,396	4,127,650
TOTAL	15,034,621,947	12,648,169,807	4,967,431,416	4,247,867,764
PERCENTAGE		84%	33.0%	33.6%

Development Expenditure Performance FY 2019/20

25. The County's development expenditure was adversely affected by COVID-19 pandemic containment measures which delayed completion of projects as well as exacerbated delays in disbursements of the equitable share of revenue to the County and shortfall in Own Source Revenue collection. In FY 2019/20, the County's development budget was 38.4 percent of the total budget. The total development expenditure was well within the fiscal responsibility development threshold at ksh.4,082,368,546 representing 32 percent of the total expenditure despite the cash flow challenges mentioned earlier. Figure 1 provides development expenditure performance for each division in FY 2019/20.

Figure 1: Development Expenditure Performance FY 2019/20



Source: County Treasury

Overall fiscal balance, FY 2019/20

26. The overall fiscal balance in FY 2019/20 decreased to a surplus of Ksh.814,878,042 from Ksh.1,504,982,650 in FY2018/19. This is a pointer to challenges to deliver goods, render services or complete works/projects in time for processing of payments within the fiscal year due to the effects of COVID-19 containment measures which took effect in the second half of the fiscal year. The analysis on fiscal balance is presented in Table 9.

Table 9: Overall Fiscal Balance on a commitment basis, FY 2018/19-FY 2019/20

ITEM DESCRIPTION	ACTUAL (REVENUE/ EXPENDITURE) FY 2018/19	APPROVED ESTIMATES FY 2019/20	ACTUAL (REVENUE/ EXPENDITURE) FY 2019/20
Total Revenue	13,337,111,004	15,034,621,946	13,463,047,849
Equitable Share	10,833,000,000	10,444,500,000	10,444,500,000
Conditional Grants	1,050,768,550	2,553,600,882	1,287,636,530
Local Revenue	692,158,949	968,000,000	614,989,624
Health Services Improvement Fund (HSIF)	160,678,219	132,000,000	179,400,631
Unspent CRF	465,431,659	936,521,064	936,521,064
Unspent/Undisbursed Conditional Grants	135,073,627		
Total Expenditure	11,832,128,354	15,034,621,946	12,648,169,807
Recurrent	8,270,552,461	9,254,121,776	8,565,801,261
Development	3,561,575,893	5,780,500,170	4,082,368,546
Fiscal Balance	1,504,982,650	-	814,878,042

Source: County Treasury

Fiscal performance for the FY 2019/20 in relation to financial objectives

27. The County's fiscal performance in FY2019/20 has affected the financial objectives set in the 2020 County Fiscal Strategy Paper and FY 2020/21 budget which were aligned to the 2020 Budget Policy Statement in the following ways:

- i. Equitable share of revenue in the approved budget for FY 2020/21 is set to decrease to Ksh.10,444,500,000, from the projected Ksh.10,602,750,000.
- ii. Own Source Revenue in FY 2020/21 and the medium term will be adjusted to reflect the revenue performance in FY 2019/20 as well as the anticipated negative effects of the COVID-19 pandemic to both the domestic and international economy.
- iii. The expenditure outturn for FY 2019/20 will be used to adjust FY 2020/21 budget and base expenditure ceilings set for FY 2021/22 and medium term with a view to contain recurrent expenditure and increase development expenditure.

Fiscal responsibility principles

28. The County government's fiscal outturn in FY 2019/20 adhered to the fiscal responsibility principles. The development allocation exceeded the 30 percent base and stood at 38 percent of the total budget. Actual expenditure on development was at 32 percent of the total expenditure. The underspending is attributable to the macroeconomic shock of the COVID-19 pandemic which also momentarily halted implementation of projects due to the dusk to dawn curfew and cessation of movement to and from the County.

CHAPTER THREE: RECENT ECONOMIC DEVELOPMENTS AND OUT-LOOK PERFORMANCE

Overview

29. The County's performance is dependent on the National economic performance as well as formulation and implementation of sound economic policies in the County Government. Therefore, macroeconomic management and performance of sectors in the economy affects transfers to County Governments much the same way that it affects own source revenue collection. Therefore, a good economic outturn is a boost to the sub national government units.
30. In the context of the ongoing global COVID-19 (coronavirus) pandemic, which has devastated many countries, with significant human, economic and social costs. Consequently, the global economic outlook has been highly uncertain, with unprecedented turmoil in the financial markets even as policymakers in the advanced economies announced ambitious supportive packages. While the extent of the adverse effects of the pandemic on the Kenyan economy is still evolving, it is already evident that the impact may be severe.
31. As a result of the pandemic, economic growth is expected to decline significantly in 2020, from a baseline estimate of 6.2 percent to possibly 3.4 percent, arising from reduced demand by Kenya's main trading partners, disruptions of supply chains and domestic production. The fundamental concerns and anxieties centre on the health impact, job losses, and duration of the crisis. The ongoing interventions by the Government are aimed at containing the pandemic and moderating the economic and social impact.

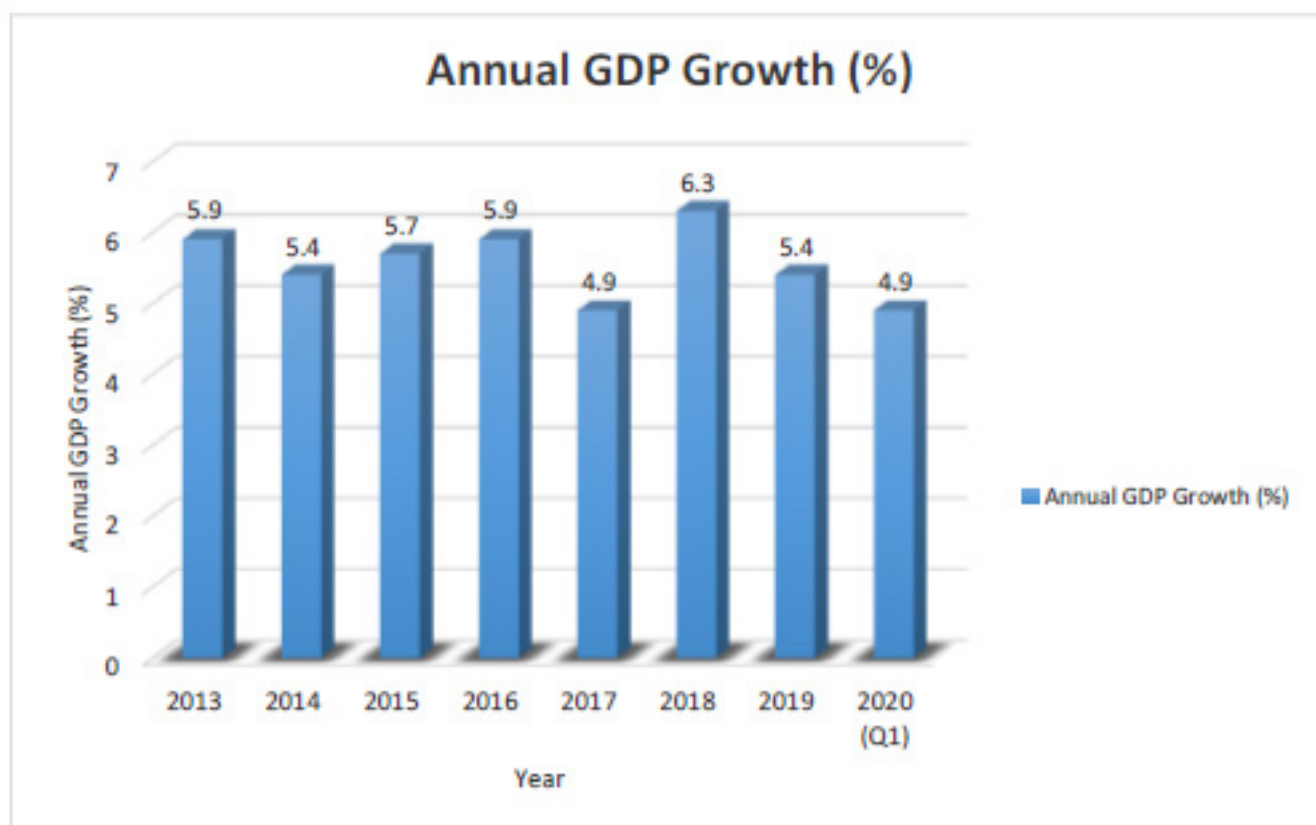
Recent economic developments

32. Global growth is projected at -4.9% in 2020, 1.9% points below the April 2020 World Economic Outlook (WEO) forecast. The COVID-19 pandemic has had a more negative impact on economic activity in the first half of 2020 than anticipated and the recovery is projected to be more gradual than previously forecast. In 2021 global growth is projected at 5.4%.
33. The outlook for 2020 for sub-Saharan Africa is considerably worse than was anticipated in April and subject to much uncertainty. Economic activity is projected to contract by some 3.2%, reflecting a weaker external environment and measures to contain the COVID-19 outbreak. Growth is projected to recover to 3.4% in 2021 subject to the continued easing of restrictions that has started in recent weeks and, importantly, if the region avoids the same epidemic dynamics that have played out elsewhere. Regional policies should remain focused on safeguarding public health, supporting people and businesses hardest hit by the crisis, and facilitating the recovery.
34. In 2019, Kenya's economic growth averaged 5.4%, placing Kenya as one of the fastest growing economies in Sub-Saharan Africa. The recent economic expansion has been boosted by a stable macroeconomic environment, positive investor confidence and resilient services sector. Kenya's economy has been hit hard through supply and demand shocks on external and domestic fronts, interrupting its recent broad-based growth path. Apart from COVID-19 pandemic, the locust attack which started early 2020, has affected many parts of Kenya especially North Eastern. It has had a negative impact on the food security and growth of the agriculture sector in the country. Real GDP growth is projected to decelerate from an annual average of 5.7% (2015-2019) to 1.5% in 2020.
35. A sectoral analysis of Kenya's economy is done through an analysis of the domestic output, which is comprehensively done in the Gross Domestic Product as follows:

Gross Domestic Product

36. Gross domestic product is the monetary value of all goods and services produced in country geographical borders over a specific period of time. It is the widest quantitative measure of a nation's total economic activity. Economy performance in the third quarter of 2019 was comparatively slower than in the corresponding quarter of 2018. Real GDP is estimated to have expanded by 5.1% in the third quarter. In the first quarter of 2020, Real GDP grew by 4.9%. Though Kenya was somewhat spared the brunt of the COVID-19 pandemic in the first quarter of 2020, the economy was affected by the resultant uncertainty that was already slowing economic activity in some of the country's major trading partners. Agriculture, Forestry and Fishing sector grew by 4.9% compared to 4.7% in the corresponding quarter of 2019. The growth was supported by robust growth in Transportation and Storage (6.2%), Financial and Insurance Activities (6.0%), Construction (5.3%), Information and Communication (9.8%) and Wholesale and Retail trade (6.4%). The decelerated growth recorded in the period under review was aggravated by 9.3% contraction in accommodation and food service activities that were heavily weighed on by corona virus containment measures. In 2019, the Kenyan economy grew by 5.4% which was a decrease from the previous year 6.0%. This was due to a slowdown in agriculture, building and construction as well as manufacturing.
37. In 2019, the Kenyan economy grew by 5.4% which was a decrease from the previous year 6.0%. This was due to a slowdown in agriculture, building and construction as well as manufacturing.

Figure 2: Annual GDP Growth (%), 2013-2020



Source: Kenya National Bureau of Statistics

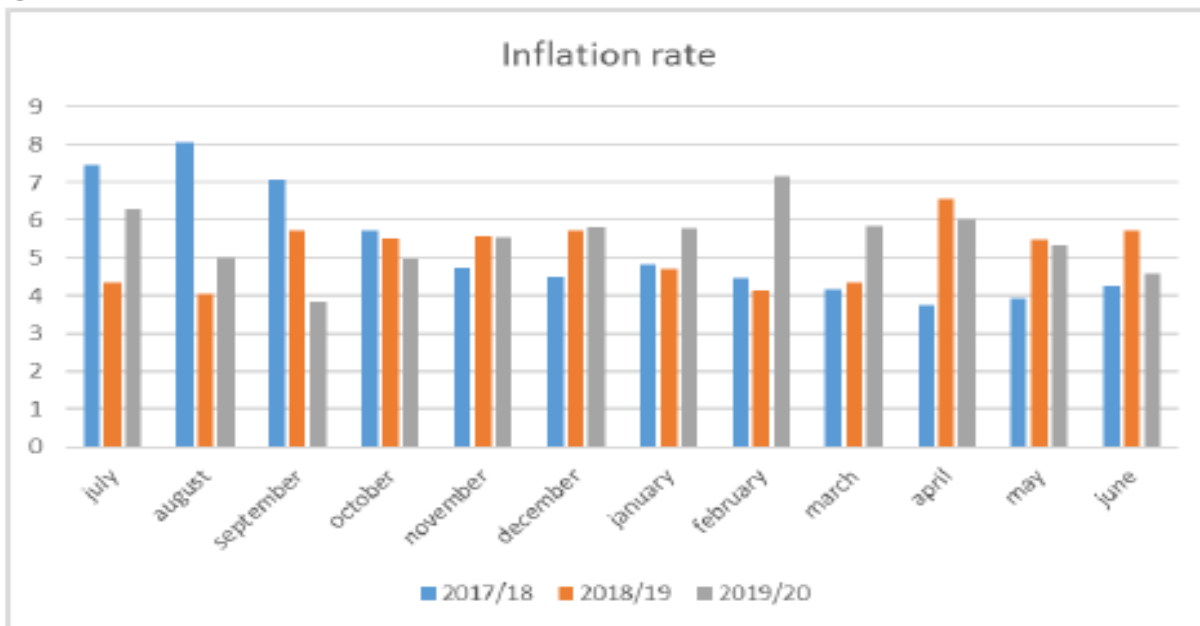
A sectoral analysis of the economic output is as follows:

38. The primary sector which include Agriculture, forestry and fishing, mining and quarrying recorded an increase in growth from 4.6 percent in the first quarter of 2019 to 5.1 percent in the first quarter of 2020. Agriculture sector recorded a growth of 5.1 percent in the first quarter of 2020 compared to 4.6 percent over the same period in 2019. The sector contribution to GDP was 1.3 percent in the first quarter of 2020 compared to 1.2 percent in the first quarter of 2019. This was as a result of favourable rainfall in the first quarter which saw an improvement in tea and sugarcane production.
39. The secondary sector which include; Manufacturing; Electricity and water and Construction decreased from 4.9 percent in the first quarter of 2019 to 4.1 percent in 2020 over the same period. This was as a result of slowdown in key sub-sectors of electricity and water, manufacturing and construction as a result of the Covid-19 pandemic which slowed down economic activities in the country.
40. The services sector which include wholesale and retail trade, accommodation and restaurants, transport and storage, information and communication, financial and insurance amongst others recorded a growth of 5.4 percent in first quarter of 2020 compared to 6.4 percent which was recorded over the same period in 2019. This was the main source of growth overall and the various sub-sectors remained vibrant throughout 2019. The contribution of this sector to GDP was 2.6 percent in the first quarter of 2020 compared to 3.0 percent in the first quarter of 2019.
41. Other macroeconomic indicators performed as follows:

Inflation rate

42. This is the rate at which prices increases over time, resulting in a fall in the purchasing value of money. In 2018, the average inflation rate in Kenya amounted to about 4.69% compared to the previous year, a significant decrease from 7.99% the year prior. The Kenya National Bureau of Statistics (KNBS) said that the decrease in the price of maize grain, maize flour, sugar and beans contributed to overall low inflation in 2018. This was due to improved weather conditions. The average inflation rate in 2019 was 5.2%, which was an increase from the previous year. The increase in inflation was as a result of increase in food prices.
43. The Consumer Price Index (CPI) decreased by 0.31 per cent from 108.60 in May 2020 to 108.27 in June 2020. The overall year on year inflation in June 2020 stood at 4.59 per cent compared to a revised inflation rate of 5.33 per cent recorded in May 2020.
44. Overall inflation is expected to remain within the target range in the near term, reflecting lower food prices with the favourable weather conditions, a decline in international oil prices and muted demand pressures.

Figure 3: Overall Inflation Rate (%), FY 2017-2020

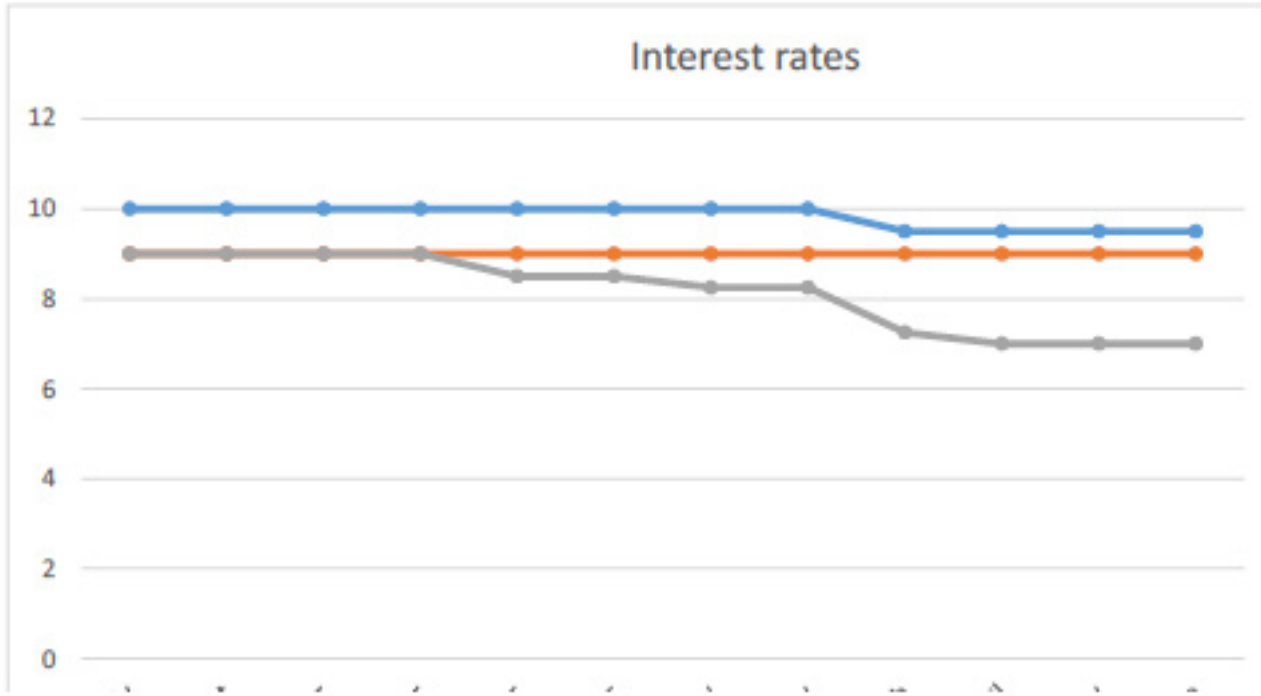


Source: Kenya National Bureau of Statistics

Interest rates

45. The Central Bank Rate (CBR) is reviewed and announced by the Monetary Policy Committee (MPC) at least every two months. A reduction of the CBR signals an easing of monetary policy and a desire for market interest rates to move downwards. Lower interest rates encourage economic activity and thus growth. When interest rates decline, the quantity of credit demanded should increase. The CBR remained constant at 9 percent between July, 2018 and September, 2019. It then dropped to 8.5 percent in November, 2019 due to the repeal of the interest caps on commercial bank loans.
46. The Monetary Policy Committee welcomed the repeal noting that they had led to a significant rationing of credit, particularly to the most vulnerable. It noted that this reform should restore the clarity of monetary policy decisions and strengthen the transmission of monetary policy. Further, banks have adopted the Banking Sector Charter, which defines a commitment to entrench a responsible and disciplined banking sector which is cognizant of, and responsive to, the needs of their customers.
47. The effects of the lowering of the CBR in November 2019 continued to be transmitted in the economy, but also there was room for further accommodative monetary policy to support economic activity. The MPC therefore decided to lower the CBR to 8.25 percent from 8.50 percent.
48. Central banks in the major advanced economies are implementing accommodative monetary policy to stabilize the financial markets and support economic growth. In light of this adverse economic outlook, the MPC therefore decided to lower the Central Bank Rate (CBR) to 7.25 percent in March, 2020 from 8.25 percent. This policy action was to prevent the COVID-19 health crisis becoming a severe economic and financial crisis.
49. The Committee noted that the policy measures adopted in March were having the intended effect on the economy, and are still being transmitted. However, in light of the continuing adverse economic outlook, the MPC decided to augment its accommodative monetary policy stance. The MPC therefore decided to lower the Central Bank Rate (CBR) to 7.00 percent in April, 2020 from 7.25 percent.

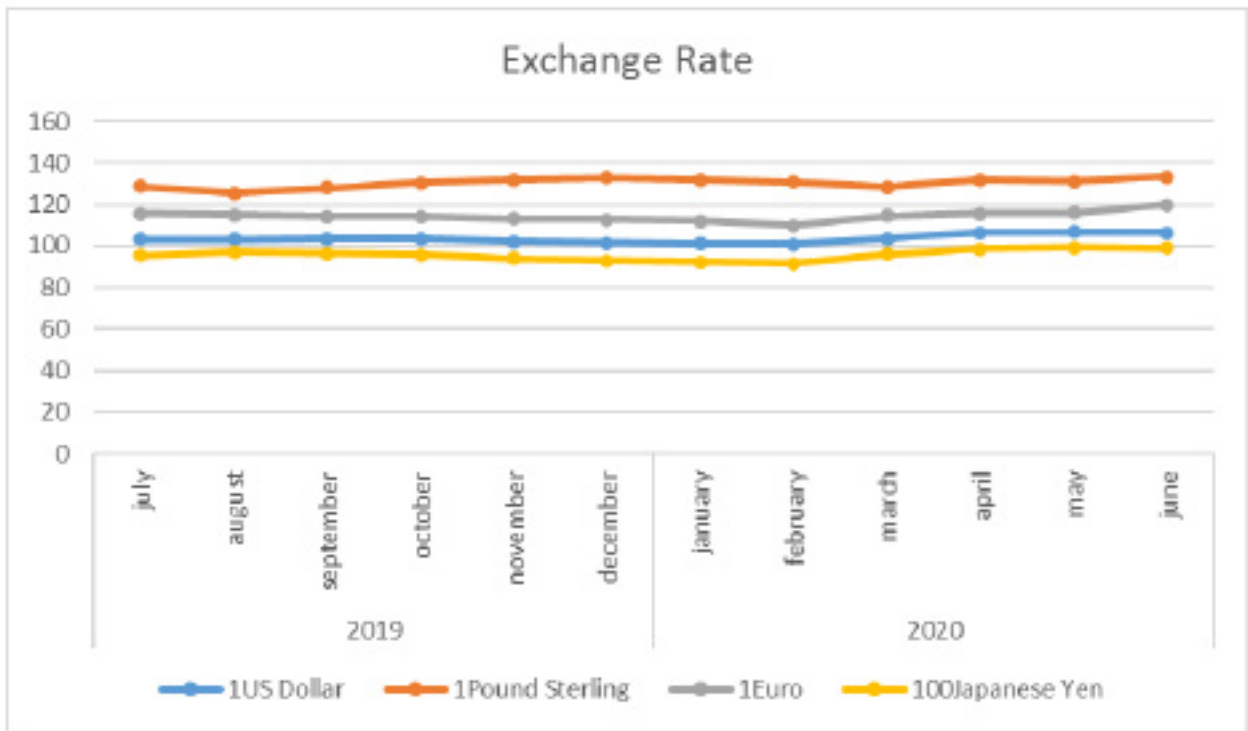
Figure 4: Analysis of Trends in Interest Rates (%), FY 2017/18, 2018/19, 2019/20



Exchange rates

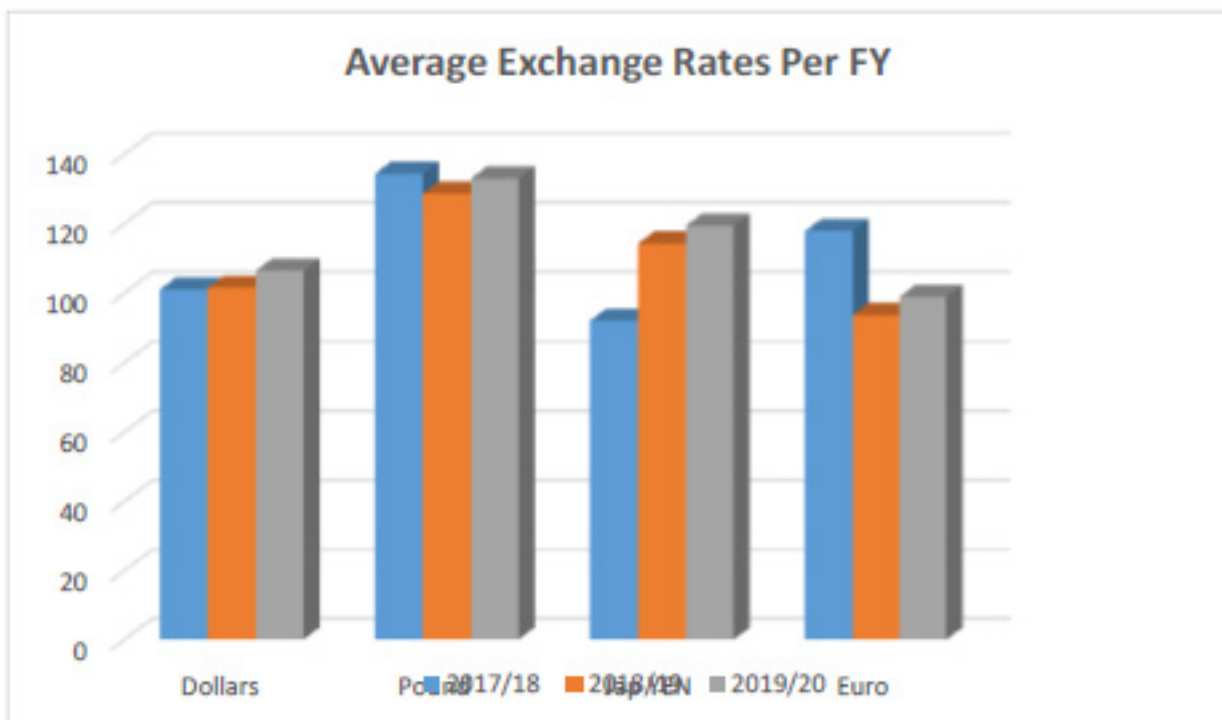
- 50. The exchange rate of the Kenyan shilling to US dollar remained fairly stable in FY 2019/20. The Kenya Shilling exchanged at a low of Ksh.100.79 to the US dollar in February 2020 and a high of Ksh.106.68 in May 2020. The Kenya Shilling to Sterling pound fluctuated from a high of Ksh.133.38 in June 2020 and a low of Ksh.125.59 in August 2020. The Kenya Shilling to the Euro exchanged at a low of Ksh.109.94 in February 2020 and a high of Ksh.119.83 in June 2020. The Kenyan Shilling to Japanese Yen sloped downwards in the period under review having exchanged at a high of Ksh.99.55 in May 2020 and a low of Ksh.91.58 in February
- 51. The foreign exchange market has recently experienced some volatility largely due to uncertainties with regard to the impact of COVID-19 and a significant strengthening of the US dollar in the global markets. The current account deficit is projected at 4.0–4.6 percent of GDP in 2020, but the outcome will depend on the duration and intensity of the pandemic, and its impact on exports particularly horticulture, transport and tourism services, and imports. A lower petroleum product import bill is also expected to moderate the impact of COVID-19 on the current account.
- 52. The CBK foreign exchange reserves, which currently stand at USD 8,251 million (5.01 months of import cover), continue to provide adequate cover and a buffer against short-term shocks in the foreign exchange market. The figure below presents the exchange rates of these major currencies for FY 2019/20.

Figure 5: Exchange Rates FY 2019/2020



Source: Kenya National Bureau of Statistics

Figure 6: Average Exchange Rates FY 2017/2018, 2018/19 & 2019/20



Source: Kenya National Bureau of Statistics

53. The Kenya Shilling exchange rate remained volatile against major international currencies as shown on the table above. Against the dollar, the exchangerate has been relatively volatile exchanging at an average of Ksh. 106.50 in the FY 2019/20 from Ksh. 101.59 in FY 2018/19. Against the Euro and the Sterling pound, theShilling also strengthened to an average of Ksh98.99 and Ksh.133.04 in FY 2019/20 from Ksh 93.72 and Ksh 128.68 in FY 2018/19, respectively.
54. COVID-19 is already having an impact on the exchange rate. The Kenyashilling weakened to a five-month low on 17th March 2020. The local currency wastraded at 103.38 against the dollar at the close of business, the lowest since October30th 2019, when it exchanged at 103.40 to the US\$.31. The shortage of imports fromChina for instance, which accounts for an estimated 21% of the country's imports, isexpected to exert pressure on the exchange rate as local importers look for alternativemport markets, which may be more expensive. This is bound to increase demand for the dollar from merchandise importers and result in an exchange rate depreciation.

Medium term fiscal framework

55. revenue performance. The 2020/21 budget targets revenue collection (including Appropriations-in-Aid) of Ksh. 1.89 trillion, equivalent to 16.8% of GDP. Of this, ordinary revenues are projected at Ksh. 1.63 trillion (14.5% of GDP).
56. Total projected revenue for 2020/21 is unchanged from the estimated revenues of Ksh. 1.89 trillion (equivalent to 18.6% of GDP) in the financial year 2019/20.Total expenditure in the financial year 2020/21 is projected at Ksh. 2.79 trillion, translating to 24.7% of GDP from an estimated Ksh. 2.77 trillion (27.2% of GDP) in 2019/20.
57. The fiscal deficit (including grants) is projected to decline to Ksh. 840.6 billion (7.5% of GDP) in 2020/21 from Ksh. 842.7 billion (8.3% of GDP) in the financial year 2019/20. The fiscal deficit for the year 2020/21 will be financed through net external financing of Ksh. 347.0 billion (3.1% of GDP), net domestic financing of Ksh. 493.4 billion (4.4% of GDP) and other net domestic repayments of Ksh. 627 million.
58. Kenya's current account balance worsened from a deficit of Ksh. 734.9 billion in 2018 to Ksh. 789.9 billion in 2019, for the fiscal year ending June 30. The COVID-19 global pandemic is expected to have a large medium-term negative impact on the Kenyan economy. IMF estimates indicate that economic growth could slow to 1.0% in 2020 before rebounding to 6.1% in 2021. To put this estimate into context, Kenya's economic growth in 2008 was 0.2% as a result of post-election violence, drought and the global financial crisis.
59. The recovery of Kenya's economy from the effects of the COVID-19 pandemic is predicated on normal weather supportive of agricultural output and a swift and well-targeted policy response to COVID-19.
60. The FY 2020/21 budget was assented on July 7 2020. The budget aims to address the 2020 CFSP people-focused transformative agenda initiated two previous financial years through the implementation of the County Integrated Development Plan (CIDP) 2018-2022. This agenda extends to the County the achievement of the economic and social pillars of Kenya Vision 2030 which are prioritized in the Third Medium Term Plan (MTP III) 2018-2022 which seeks to transform lives by advancing The fiscal framework of the 2020/21 budget and the medium-term hasbeen revised to take into account the adverse impact of the COVID-19 pandemic on socio-economic development through the "Big Four" Plan. The County pulled out specific policies and programmes in the 2020 BPS that relate directly to the County's policy goals, which are:

- i. Ensuring food self-sufficiency,
- ii. Progressively providing safe water,
- iii. Promoting good performance and quality education,
- iv. Ensuring accessible, equitable and quality healthcare services,
- v. Securing beneficial use of land, other natural resources and built environment,
- vi. Developing competitive connectivity infrastructure, and
- vii. Empowering the community and cushioning vulnerable groups.

61. There is bound to be a delay and shortage in funds due to the impasse in passing of the County Allocation of Revenue Bill (CARA) 2020 by the Senate. This may affect the budget implementation cycle as well.
62. The county fiscal framework is anticipated to correspond with contractionary fiscal space whereby we anticipate lower economic outturn due to long run effects of the COVID-19 pandemic.

Risks to Economic and Fiscal Outlook

63. Macroeconomic developments constitute one of the largest and highest probable sources of fiscal risk. Sources of risk include various shocks to macroeconomic variables (economic growth, commodity prices, interest rates, or exchange rates) as well as calls on several types of contingent liabilities (obligations triggered by an uncertain event: including both explicit liabilities-those defined by law or contract, e.g., debt guarantees-and implicit liabilities-moral or expected obligations for the government, based on public expectations or pressures, e.g., bailouts of banks or public sector entities).
64. Risks to the growth outlook remains on the downside. The greatest uncertainty to Kenya is the extent of the impact of COVID-19 global pandemic. Kenya is only at the beginning of a very uncertain path as the COVID-19 shock is expected to significantly reduce growth. A more severe global recession due to the virus would undermine Kenya's export demand, tourism receipts and remittance inflows. Other residual downward risks include possible fiscal slippages and weather-related shocks. Unanticipated large-scale community transmission of COVID-19 together with likely tougher government measures (like full lockdowns) and extension of restrictions for a longer time, could disrupt domestic economic activity more severely and reduce growth below the baseline. The extent of the COVID-19's impact on the economy could add excess fiscal pressures resulting into another round of fiscal slippage, which could derail efforts to contain debt growth and further crowd out private sector-led growth after the crisis. Drought and a second-round of locust invasion (in mid-year), if they materialized, could also reduce agricultural output and hurt rural incomes.
65. The economy will continue to be exposed to risks arising from public expenditure pressures, particularly related to wage related recurrent expenditures and the inevitable climate change. These shocks are likely to have negative impact on energy generation and agricultural output leading to higher inflation that could slow down economic growth. Quantifying and managing fiscal risk-guaranteed debt, public-private partnerships, public corporation liabilities and public pensions, plus pending bills and payments-is the one area we haven't quite got to. The County will closely monitor such risks with a view to take appropriate measures and safeguards should they materialize.

CHAPTER FOUR: RESOURCE ALLOCATION FRAMEWORK

Overview of resource allocation in FY 2019/2020

66. An analysis of expenditure pattern and absorption capacity of departments in the FY 2019/20, shows slow uptake of the budget, with total absorption rate at 84 percent. The fiscal outturn is thus satisfactory with most of the developing expenditures absorbed. The recurrent expenditures however had a higher absorption rate at 68 percent against the approved level of 62 percent.
67. Own Source Revenue (OSR) collection was lower than the projected amount; with only Ksh 778,782,226 collected out of the projected 1,100,000,000 shillings, marking a 72% attainment, compared to a 63% attainment in FY 2018/19. Though not equal to the projected amount, this was a significant improvement as compared to FY 2018/19, where the revenue shortfall was 36%. Specifically, there was a positive deviation in the HSIF revenue stream, with rents stream surpassing the projected amounts. All other streams had negative deviations from the projected amounts.
68. Of significant mention is the delay in disbursements of the equitable share from the exchequer to the County government as well as the deviation in collected revenue, coupled by the global COVID-19 pandemic. These phenomena led to a reorientation in expenditure, focusing on the flagship projects as well as prioritized development projects; with a focus on ongoing projects. The containment measures instituted by the government in response to the COVID-19 pandemic negatively impacted economic activities in the County. The dusk to dawn curfew reduced the economic hours and the cessation of movement in and out of the County disrupted movement of economic goods and services. These led to a reduction in the expenditure outlays and limited the fiscal activities, thus impacting, significantly, on the budget utilization. The introduction of the Malindi and Kilifi municipalities allowed for an increased fiscal space and this budget allocates them with their independent budget allocations.
69. At the national level there has been a proposed change in the allocation of funds per the Division of Revenue Bill, 2019 and the County Allocation of Revenue Bill, 2020. The National Senate deliberations on the revenue allocation formula have been long and uncertain. The uncertainty has been detrimental as it is almost the end of the first quarter yet there is a persistent deadlock and no disbursements of funds to the devolved units. In addition to this, the new allocation of revenue formula disadvantages Kilifi County resulting into a significant loss of approximately 1.2 billion Kenyan Shillings for FY 2020/21. The bill is yet to be finalized and passed, making it uncertain just how much the county will have as its equitable share. However, it is important to take cognizance of the fact that the FY 2020/21 budget was done with the amounts in the Division of Revenue Bills of 2020.

Adjustments to the FY 2020/21 budget

70. Adjustments to the FY 2020/21 budget are necessitated by the expected reduction in equitable share from Ksh.10,602,750,000 to KSHS. 10,444,500,000 because of revision of revenue sharing formula brought about by the third basis of revenue division. Thus, adjustment to the FY 2020/21 budget will be made by considering the FY 2019/20 fiscal outturn, implementation progress for FY 2020/21 and preparation of forthcoming FY 2021/22 budget. The fiscal outturn for the FY 2019/20 budget is satisfactory but budget implementation was marred with lower than expected OSR collection and delays in disbursement of funds by the national government as well as the COVID-19 pandemic. In the FY2020/21, expenditure will be rationalized to prioritize COVID-19 containment measures, coping mechanism, and completion of ongoing projects while cutting down on discretionary recurrent expenditure and trading off non-priority development projects. In addition to this, the County Treasury will appropriate moneys to offset pending bills as a priority in

compliance to the national government directives. The FY 2020/21 budget also incorporated re-voted projects emanating from FY 2019/20 in a bid to cushion goods and service providers and contractors from undue delays in payments especially when projects are completed and have to wait for supplementary budget for payments to be made.

71. Therefore, the revision of the FY2020/21 budget forms a basis for the preparation of the FY2021/22 budget and is the base year for the revenue projection. The expenditure options for FY2021/22 will be mostly based on conclusion of ongoing as well as flagship projects to ensure prudent utilization of resources as well as check on stalled projects as that is the second last year of the CIDP 2018-22 life span.

Budget framework FY 2020/21

72. The budget framework FY 2020/21 is intended to improve the fiscal space for the county to complete ongoing flagship projects and programmes in the CIDP 2018-2020 by improving efficiency and effectiveness in OSR collection and continued alignment of revenue and expenditure to also address delays in payments of goods and services as it affects timely completion of projects. The framework is anticipated to correspond with contractionary fiscal space whereby we anticipate lower economic outturn due to long run effects of the COVID-19 pandemic. The prolonged senate deliberations on the county allocation of revenue bill are expected to bring about delays in exchequer payments which will have detrimental impact on the county expenditure and absorption rate of the budget. Therefore, this calls for bold policy decisions to contain recurrent expenditure spending so as to release resources for development expenditure. There is also need to increase the revenue basket by scouting for additional revenue sources through grants and donor support.
73. The revenue projections provided herein are limited to the equitable share and the OSR streams. The conditional grants have been excluded as these are determined and appropriated to the relevant departments. The projections are conservative, bearing in mind the shrinking fiscal space. They are also provisional and based on the assumption that the equitable share allocation will hold in the financial year. This is in accordance with the third basis formula for equitable sharing of revenue which is recommended by the Commission on Revenue Allocation (CRA) to be used for FY 2019/20 to 2023/24.

The table below presents projections for equitable share and own source revenue for FY 2021/22 to FY 2023/24.

REVENUE

DESCRIPTION	ACTUAL REVENUE FY APPROVED ESTIMATES		PROJECTIONS		
	2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24
Equitable Share	10,444,500,000	10,602,750,000	9,396,485,000	9,450,399,000	10,546,434,000
Health Service Improvement Fund	178,247,301	94,383,844	160,452,534	144,407,281	187,729,465
Land Rates and other Land Revenue	127,419,214	126,387,790	132,707,179	72,988,949	102,184,528
Cess on natural resources	280,212,344	448,953,608	471,401,288	424,261,160	700,030,913
Business Permits	45,790,743	60,777,250	54,699,525	51,964,549	57,161,004
Parking Fees	28,287,363	29,248,289	23,398,631	24,568,563	36,852,844
Market Fees	8,221,152	11,677,048	8,173,933	7,356,540	8,827,848
Bill Boards and signage	27,279,244	12,669,431	16,470,261	18,117,287	20,834,880
Building Plan approval and Inspection	5,148,405	5,713,060	5,998,713	2,999,357	5,398,842
Rent/Stall rents	6,116,950	5,835,845	6,127,638	5,208,492	5,729,341
Survey fees and plot rents	743,148	1,266,734	1,140,060	912,048	957,651
Sale of Tender Documents	-	21,000	-	-	-
Plot ground rent	9,041,740	6,728,051	6,055,246	4,238,672	8,477,344
House rent	30,045,167	54,873,993	27,436,996	32,924,396	49,386,593
Refuse Collection	2,874,720	1,262,806	1,641,648	1,477,483	1,772,979
Food Hygiene Fees	3,129,100	1,912,780	956,390	1,052,029	1,578,044
Slaughter House and Livestock sale Yards	1,020,605	1,600,657	800,329	880,361	1,144,470
Others	35,205,030	36,687,814	25,681,470	23,113,323	32,358,652
TOTAL	11,233,282,226	11,502,750,000	10,339,626,841	10,266,869,490	11,766,859,398

74. The projections for FY 2021/22 show a reduction of County OSR, based on anticipated unfavorable economic environment brought about by the COVID-19 pandemic. Revenue streams from industries such as Hotel industry, Trade, Transport and Entertainment will be significantly affected due to the various policies implemented to curb the effects of the COVID-19 pandemic. The county revenue projections for the subsequent year FY 2022/23 further reduces due to the anticipated negative impacts of the electioneering period, which always impact the economy negatively. The economic environment is expected to stabilize in the FY 2023/24, as there is bound to be increased economic activities as people emerge from the election induced slump; hence the projected rise in the county revenue collection.
75. The expenditure projections for the FY 2020/21 budget comprise both recurrent and development expenditures. Recurrent projections stand at 57% in FY2020/21 and 63% in FY2021/22 and at 69% in FY2022/23. The intended growth in expenditure corresponds to the corresponding increase in the total revenue basket. On the other hand, development expenditure projections stand at 43% in FY2020/21 and 37% in FY2021/22 and at 31% in FY2022/23.
76. In allocating resources, there will be prioritization of the flagship projects as the CIDP is in its sunset years. Ongoing projects are also at the top of the priority list to curtail stalled projects thus effectively utilize the scarce resources allocation will this be based on:
- Programme Performance Review findings will be used to determine
 - allocation of resources to on-going programmes.
 - Ongoing activities of the county government flagship projects and programmes will be accorded priority.
 - Linkage of the programme with the objectives of Vision 2030.
 - Linkage of the programme with the objectives of the CIDP 2018-2022.
 - The degree to which a programme addresses wealth and employment creation will be paramount.
 - The degree to which the programme is addressing the core mandate of the County department will be given appropriate consideration.
 - The expected outputs and outcomes from a programme should be provided explicitly.
 - Cost effectiveness and sustainability of the programme is key to programme funding.
 - Immediate response to the requirements of the implementation of the constitution.
 - 77. Other key considerations during review of budget proposals FY 2020/21 will be:
 - Delayed disbursement of funds from the exchequer account due to the prolonged debate on County Allocation of revenue bill in the Senate;
 - The upcoming regime change that is due in a year's time will mean a rush to complete ongoing and flagship projects;
 - The impending expiry of the five-year term of the 2018-2022 CIDP will see sectors trying to complete the five-year plan they had set;

- Analysis of the baseline expenditure and remove all the “one-off” expenditure for the previous years;
- Identification and pending of activities of low priority in order to realize savings that should be directed to high priority programmes;
- Allocation of resources to projects that have been fully processed including feasibility studies done, with detailed designs, necessary approvals and land secured as well as pay attention to the estimated requirements for each of the stages of the project cycle;
- Requirements for innovation/inventions to ensure efficiency savings in departmental Budgets through reduction of operating costs and elimination of non-core service delivery activities
- Detailed explanation for the rescheduling of projects which should include savings and financial implications.

78. Going forward, County Department and Divisions will bid for resources in their respective sectors. This will entail convening sector working group meetings where programme and project objectives and outcomes will be the basis for bidding for resources. Sectors must remain within expenditure projections as they prepare and submit their budget proposals.

The table below shows the expenditure projection for FY2021/22 as well as the medium term.

EXPENDITURE			
DEPARTMENT	PROJECTIONS		
	FY 2021/22	FY 2022/23	FY 2023/24
3111 County Assembly	659,419,115	654,778,949	750,442,171
3112 Office of the Governor	197,522,313	196,132,398	224,787,347
3124 County Attorney	63,399,682	62,953,554	72,151,070
3113 County Division for Finance	496,928,190	493,431,432	565,521,777
3125 County Division for Economic Planning	61,585,593	61,152,231	70,086,573
3114 County Division for Agriculture	520,001,346	516,342,227	591,779,840
3126 County Division for Livestock	147,116,497	146,081,275	167,423,753
3127 County Division for Fisheries	107,104,855	106,351,185	121,889,096
3115 County Division for Water & Sanitation	1,020,266,955	1,013,087,593	1,161,099,718
3128 County Division for Environment, Natural Resources & Wildlife	121,891,710	121,033,989	138,717,058
3116 County Division for Education	1,185,837,824	1,177,493,382	1,349,525,197
3129 County Division for Information, Communication & Technology	57,662,542	57,256,785	65,622,003
3117 County Division for Medical Services	2,758,500,866	2,739,089,990	3,139,271,111
3130 County Division for Public Health	373,199,652	370,573,540	424,714,344
3118 Roads, Transport & Public Works	995,580,388	988,574,739	1,133,005,535
3119 County Division for Lands & Energy	342,652,119	340,240,962	389,950,176

3131 County Division for Physical Planning, Urban Development and Housing	148,785,991	147,739,022	169,323,697
3120 Gender, Culture, Social Services and Sports	221,421,195	219,863,110	251,985,116
3121 County Division for Trade, & Tourism	304,983,218	302,837,127	347,081,640
3132 County Division for Cooperative Development	10,108,727	10,037,594	11,504,087
3122 County Public Service Board	45,900,102	45,577,115	52,235,933
3133 Devolution, Public Service and Disaster Management	157,999,080	156,887,281	179,808,516
3123 Public Service Management	274,132,553	272,203,552	311,972,498
3134 Kilifi Municipality	17,611,023	17,487,098	20,041,964
3135 Malindi Municipality	50,015,305	49,663,359	56,919,178
Total	10,339,626,841	10,266,869,490	11,766,859,398

CHAPTER 5 – CONCLUSION

79. The FY 2021/22 budget is being prepared on the backdrop of an impasse on the third generation Revenue sharing formula and failure of the National Assembly to pass the County Allocation of Revenue Bill leading to delayed disbursement of the equitable share of revenue to county governments. It is also prepared on the backdrop of the Global COVID-19 pandemic and its impact on the revenue and expenditure.
80. The County Government expenditures in the FY 2021/22 will be aligned with the set objectives in the 2021/22 Annual Development Plan and 2020 CBROP and the link between planning, budgeting and implementation will be strengthened with special focus given to ongoing projects.
81. The policies set out in the 2020 CBROP will guide departments in the preparation of Sector (Departmental) Working Group Reports for 2021/22 Financial year. The expenditure projections will provide ceilings to county departments in preparing SWG reports.

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