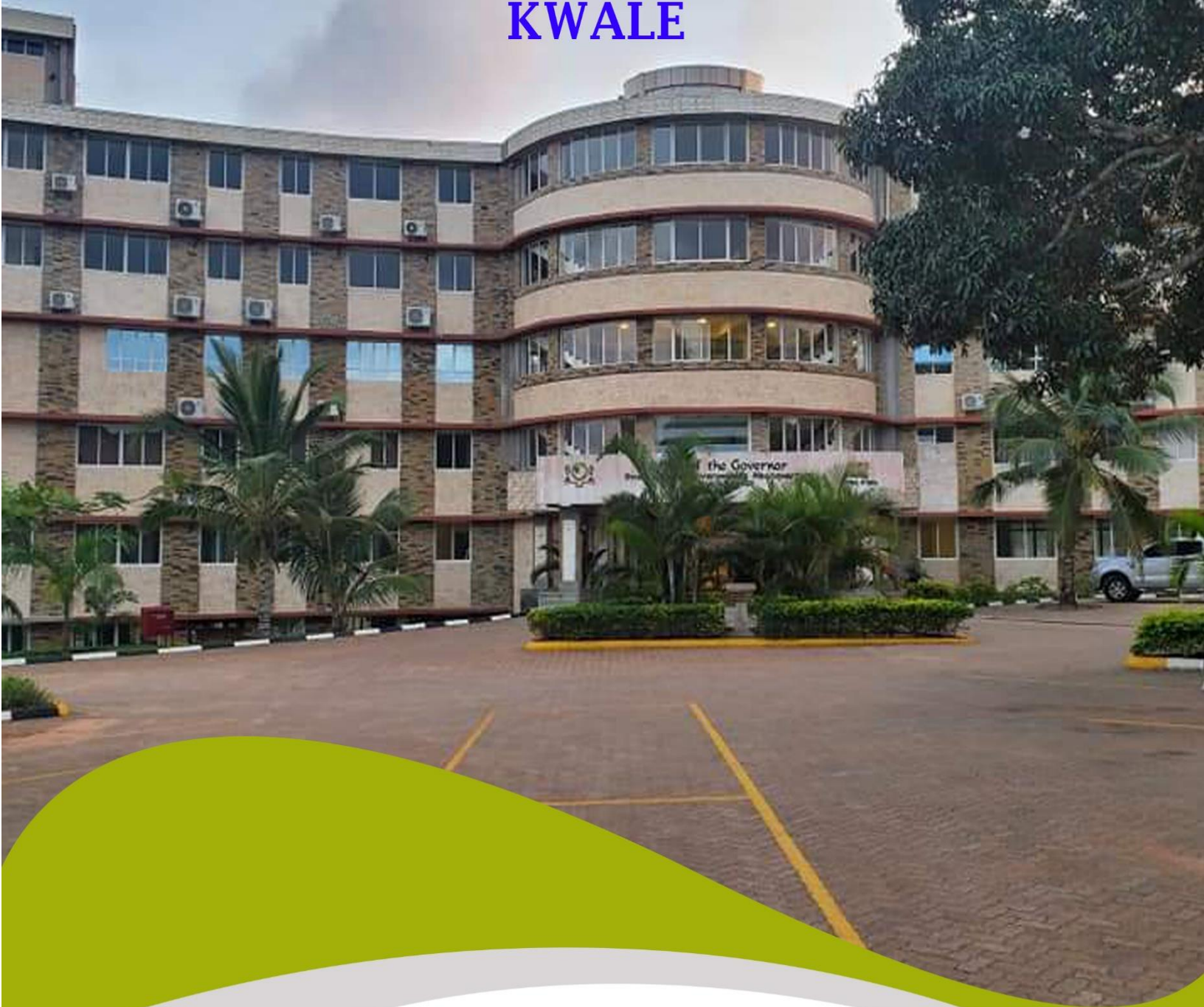


COUNTY GOVERNMENT OF KWALE



COUNTY BUDGET REVIEW AND OUTLOOK PAPER 2020

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Kwale County Treasury

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KWALE

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ABBREVIATIONS AND ACRONYMS

ASDSP	Agricultural Sector Development Support Programme
CADP	County Annual Development Plan
CARA	County Allocation of Revenue Act
CARB	County Allocation of Revenue Bill
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CBROP	County Budget Review and Outlook Paper
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
COVID-19	Coronavirus disease of 2019
DANIDA	Danish International Development Agency
DoRA	Division of Revenue Act
DoRB	Division of Revenue Bill
EAC	East African Community
EU	European Union
EPZ	Export Processing Zone
FY	Financial Year
GDP	Gross Domestic Product
HR	Human Resources
IMF	International Monetary Fund
KBRR	Kenya Banks Reference Rate
KNBS	Kenya National Bureau of Statistics

KUSP	Kenya Urban Support Programme
MTEF	Medium Term Expenditure Framework
MTP	Medium Term Plan
PFMA	Public Finance Management Act
PFMR	Public Finance Management Regulations
PWDs	Persons with Disabilities
SGR	Standard Gauge Railway
WSDP	Water and Sanitation Development Project

FOREWORD

The preparation of the County Budget Review and Outlook Paper (C-BROP) is the responsibility of the County Treasury in the Executive arm of the County Government. It gives me much pleasure to present this 2020 C-BROP as part of our commitment to comply with Articles 35 and 201 of the Kenyan Constitution 2010. This 2020 C-BROP is prepared in fulfillment of the provisions of section 118 of the Public Finance Management Act (PFMA) 2012.

This report is prepared at a time when the world is experiencing ‘*economic damage*’ arising from the negative impact of the Covid-19 global pandemic. Prior to the corona virus disease, world economists had predicted that the global economy would grow by 3.0 per cent. However, with the emergence of covid-19 and its consequent widespread restrictions to curb its spread, the forecast will reduce to 2.4 per cent and even further down depending on how long the effects of the pandemic will last. Gross Domestic Product (GDP) growth for the Kenyan economy in 2020 is expected to decline from an earlier estimate of 6.4 per cent to 3.4 per cent. The other effects on the macroeconomic variables include the depreciation of the Kenyan Shilling, increased inflationary pressure and decline on the domestic financial markets as investors exit the market. Kwale County’s economy operates within the global and domestic economies. Thus the county economy continues to face its share of the challenges arising out of the Covid-19 restrictions which have in effect affected our fiscal performance for the financial year (FY) 2019/2020.

The primary purpose of preparing this 2020 C-BROP is to review the fiscal performance of the FY 2019/2020 budget. This coupled with the review of recent economic developments and updated macroeconomic outlook and fiscal projections made will give the basis for preparation of supplementary estimates for FY 2020/2021 and the focus for FY 2021/2022 budget and the medium term.

Implementation of the FY 2019/2020 budget commenced in the second quarter of the financial year on a very slow pace owing to delays in the release of funds from the National Treasury and late procurement processes due to systems challenges. With the emergence of the Covid-19 global pandemic in the third quarter of the financial year, implementation of development projects came to a standstill due to the imposed restrictions aimed at curbing the spread of the coronas virus. Due to the socio-economic challenges brought by the coronavirus, fiscal measures were undertaken with a bid to cushion the citizens including small scale traders in the sectors of transport, tourism,

wholesale and retail businesses. Among such measures include the introduction of waivers and suspensions on some of the fees and charges levied by the Kwale County Government. As a consequence, own source revenue collection dropped to Ksh 254.4 Million against a target of Ksh 325 Million implying 78.2 per cent performance.

On the expenditure side, the County Government spent Ksh 8.89 Billion against a revised budget of Ksh 13.24 Billion implying an absorption rate of 67.2 percent of the total funds received. Recurrent expenditure was Ksh 5.39 Billion against a target of Ksh 6.17 Billion which represents absorption of 87.2 percent. On the other hand, development expenditure was adversely affected by the Covid-19 restrictions and the late release of funds from the National Treasury. Nevertheless, the county was able to absorb 49.5 per cent of the funds allocated to development expenditures.

Going forward, the County Integrated Development Plan (CIDP) 2018-2022 will continue to be the main guide in resource allocation. As such priorities identified in the CIDP 2018-2022 will receive adequate funding to realize their implementation. This 2020 C-BROP sets in motion the preparation of the FY 2021/2022 budget estimates. Thus it has provided provisional ceilings which are aligned to the achievement of the development aspirations given in the latest County Annual Development Plan FY 2021/2022. It is therefore imperative for the sector working groups and county departments to plan on programmes that will have great impact on the socio economic welfare of the citizens.

BAKARI HASSAN SEBE
CEC MEMBER FINANCE, EXECUTIVE SERVICES & ECONOMIC PLANNING

ACKNOWLEDGEMENT

This 2020 County Budget Review and Outlook has been prepared pursuant to the provisions of section 118 of the Public Finance Management Act 2012. This paper provides the review of the fiscal performance for the financial year 2019/2020 and how this impacts on PFM fiscal responsibility principles and financial objectives given in the 2020 County Fiscal Strategy Paper (CFSP). The actual fiscal performance for the FY 2019/2020 coupled with review of recent economic developments and macroeconomic outlook will form a basis for revision of the FY 2020/2021 budget estimates and will give the focus for the FY 2021/2022 budget and the medium term.

As usual, the preparation of this 2020 C-BROP adopted a consultative and collaborative approach. I take this opportunity to appreciate all those stakeholders who participated in the preparation of this report. The preparation process was coordinated by the County Budget and Economic Planning Unit under the leadership of the County Director Budget and Economic Planning. We are grateful for their dedicated service.

The County Treasury Accounting Services Division also played a crucial role of validating information on projects implementation status by departments. We appreciate the support from departments through the Chief Officers and their principal accountants. In the same vein, I wish to sincerely thank the Revenue Division in the County Treasury for their prompt submission of the report on actual revenues collected in the county for the financial year 2019/2020.

Finally, I wish to convey my gratitude to the County Executive Committee Member for Finance, Executive Services and Economic Planning. In the final stages of preparing this document, the CEC gave his wise counsel, guidance and leadership direction which made it possible to produce a quality report in a timely manner. We wish to invite comments from all stakeholders on this report and specifically proposals on how to improve fiscal performance and projects implementation in the county.

ALEX ONDUKO THOMAS
CHIEF OFFICER FINANCE EXECUTIVE SERVICES & ECONOMIC PLANNING

Legal Basis for the Publication of the County Budget Review and Outlook Paper

Section 118 of the Public Finance Management Act, 2012 states that:-

1. The County Treasury shall prepare and submit to the County Executive Committee for approval, by 30th September in each financial year, a County Budget Review and Outlook Paper which shall include :-

- a) Actual fiscal performance in the previous financial year compared to budget appropriation for that year;
- b) Updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper
- c) Information on how actual financial performance for the previous financial year may have affected compliance with fiscal financial responsibility principles or the financial objectives in the latest County Fiscal Strategy Paper;
- d) The reasons for any deviation from the financial objectives together with proposals to address the deviation and the time estimated to do so.

2. County Executive Committee shall consider the County Budget Review and Outlook Paper with a view to approving it with or without amendments, not later than fourteen days after its submission.

3. Not later than seven days after the County Budget Review and Outlook Paper has been approved by the Executive Committee, the County Treasury shall:-

- a) arrange for the Paper to be laid before the County Assembly
- b) as soon as practicable after having done so, publish and publicize the Paper

CHAPTER ONE: INTRODUCTION

Objective of the 2020 County Budget Review and Outlook Paper (CBROP)

- 1.** The purpose of preparing this 2020 CBROP is to highlight the actual county fiscal performance of the previous financial year 2019/2020 and how this impacts on the financial objectives contained in the latest County Fiscal Strategy Paper 2020. It will further provide an insight into how the 2019/2020 budget implementation affected the fiscal responsibility principles laid down in section 107 of the Public Finance Management Act, 2012.
- 2.** The review of the actual fiscal performance of the previous financial year 2019/2020 coupled with the updated macroeconomic outlook and fiscal projections contained in this 2020CBROP will give the basis for preparation of the supplementary estimates for FY 2020/2021 and the focus for FY 2021/2022 budget.
- 3.** The strategic priorities and development objectives contained in our latest FY 2021/2022 Annual Development Plan have been re-emphasized in this 2020 CBROP for implementation in the FY 2021/2022 budget and the medium term. Our core agenda of transforming Kwale in key sectors of education, health care, water services, roads, agricultural transformation and social welfare development has informed the provisional ceilings given in this document.
- 4.** This 2020 CBROP is organized as follows: Chapter I introduces the paper. Chapter II provides a review of the fiscal performance and its implications on the financial objectives given in the 2020 CFSP and the PFMA fiscal responsibility principles. Recent economic developments and macroeconomic policies and outlook are given in chapter III. This is followed by proposed resource allocation framework, fiscal projections and sector ceilings in chapter IV and chapter V concludes the paper.

CHAPTER TWO: REVIEW OF COUNTY FISCAL PERFORMANCE FY 2019/2020

Overview of the FY 2019/20 Budget

5. The County's approved Supplementary Budget for FY 2019/20 of **Kshs.13.24 billion**, comprised of **Kshs.7.07 billion (53.4%)** and **Kshs.5.98 billion (45.6 %)** allocation for development and recurrent programmes respectively. To finance the budget, the County expected to receive **Kshs.7.79 billion (59.3%)** as equitable share of revenue raised nationally, **Kshs.2.51 billion (19.2 %)** as total conditional grants, generate **Kshs.325 million (2.5%)** from own sources of revenue, and had **Kshs.2.48 billion (19%)** as cash balance from FY 2018/19.

Revenue Performance

6. In the CFSP 2020, our financial objectives and projections speculated a normal operating environment. These plans were premised on: prudent public expenditure, ensuring transparency and accountability, re-orienting resources from non-priority areas to the key development priorities in line with the second County Integrated Development Plan 2018-2022.

7. However, this outlook was hindered by the outbreak and the rapid spread of the Covid-19 pandemic. In particular, the anticipated conditional grants and the equitable share of revenue were negatively affected due to fiscal measures taken by National Government to contain the spread of the Covid-19. The County government's own source revenue had shortfalls due to the harsh operating environment for businesses and the introduction of waivers and suspensions of some fees and charges aimed at cushioning the small scale traders.

8. Consequently, in the FY 2019/2020, the County received Kshs.7.79 billion as equitable share of the revenue raised nationally, collected Kshs.254.45 million from own-source revenue, received Kshs.990.6 million as total conditional grants, and had a cash balance of Kshs.2.48 billion from FY 2018/19. The total funds available for budget implementation during the whole year period amounted to Kshs.11.52 billion against the target of Kshs.13.24 billion as shown in Table 2.1.

The County Budget Review and Outlook Paper 2020

9. In aggregate terms, total transfers including equitable share, OSR and conditional grants to the County in FY 2019/20 amounted to **86.93%** percent of the total allocations as contained in the final revised budget. A hundred percent (**100%**) of the equitable share was transferred to the County CRF, **78.29%** of the targeted OSR was collected, **38.12%** of the budgeted conditional allocations from the National Government’s revenue were transferred, whereas only **37.06%** of the Proceeds from external loans and grants from external development partners allocation as contained in the budget was released to the county coffers.

Table 2.1: Revenue Performance for FY 2019/2020

Source	Annual CARA,2019 Allocation-Kshs.	Annual Revised Budget-Kshs	Actual Funds received-Kshs.	Actual Receipts as a % of Annual Revised Budget
Equitable Share of Revenue	7,785,900,000	7,785,900,000	7,785,900,000	100.00
County Own Source Revenue		325,000,000	254,445,870	78.29
SUB TOTAL	7,785,900,000	8,110,900,000	8,040,345,870	99.13
CONDITIONAL ALLOCATIONS FROM NATIONAL GOVERNMENT 1				
Development of Youth Polytechnics	59,793,298	74,646,131	59,793,298	80.10
Compensation for User Fees Forgone	15,209,593	15,209,593	15,209,593	100.00
Leasing of Medical Equipment	131,914,894	131,914,894	0	-
Road Maintenance Levy	221,007,938	554,658,944	221,007,939	39.85
SUB TOTAL	427,925,723	776,429,562	296,010,830	38.12
CONDITIONAL ALLOCATIONS FROM DEVELOPMENT PARTNERS' LOANS AND GRANTS				
World Bank Grant on Kenya Devolution Support Programme	30,000,000	62,970,782	30,000,000	47.64
World Bank Grant for Universal Health Care Project	157,706,559	232,432,564	147,037,619	63.26
DANIDA Grant to Supplement Financing of County Health facilities	22,500,000	22,500,000	30,900,000	137.33
Water and Sanitation Development Project (WSDP)	300,000,000	700,000,000	45,015,440	6.43
World Bank KUSP - Urban Development Grant	50,000,000	100,000,000	35,761,940	35.76
World Bank KUSP - Urban Institutional Grant	8,800,000	50,000,000	8,800,000	17.60
World Bank Loan for National Agricultural and Rural Inclusive Growth Project	350,000,000	446,856,687	241,448,671	54.03
Agricultural Sector Development Support Programme-ASDSP	19,348,633	34,063,104	18,540,528	54.43
EU Grant for Instrument for Devolution Advice and Support	44,360,883	88,497,081		
<i>Covid -19 Conditional Grant</i>		<i>137,082,000</i>	<i>137,082,000</i>	<i>100.00</i>
SUB TOTAL	982,716,075	1,874,402,218	694,586,198	37.06
TOTAL GRANTS	1,410,641,798	2,650,831,780	990,597,028	37.37
<i>Income Brought Forward</i>		<i>2,484,289,495</i>	<i>2,484,289,495</i>	
GRAND TOTAL	9,196,541,798	13,246,021,275	11,515,232,393	86.93

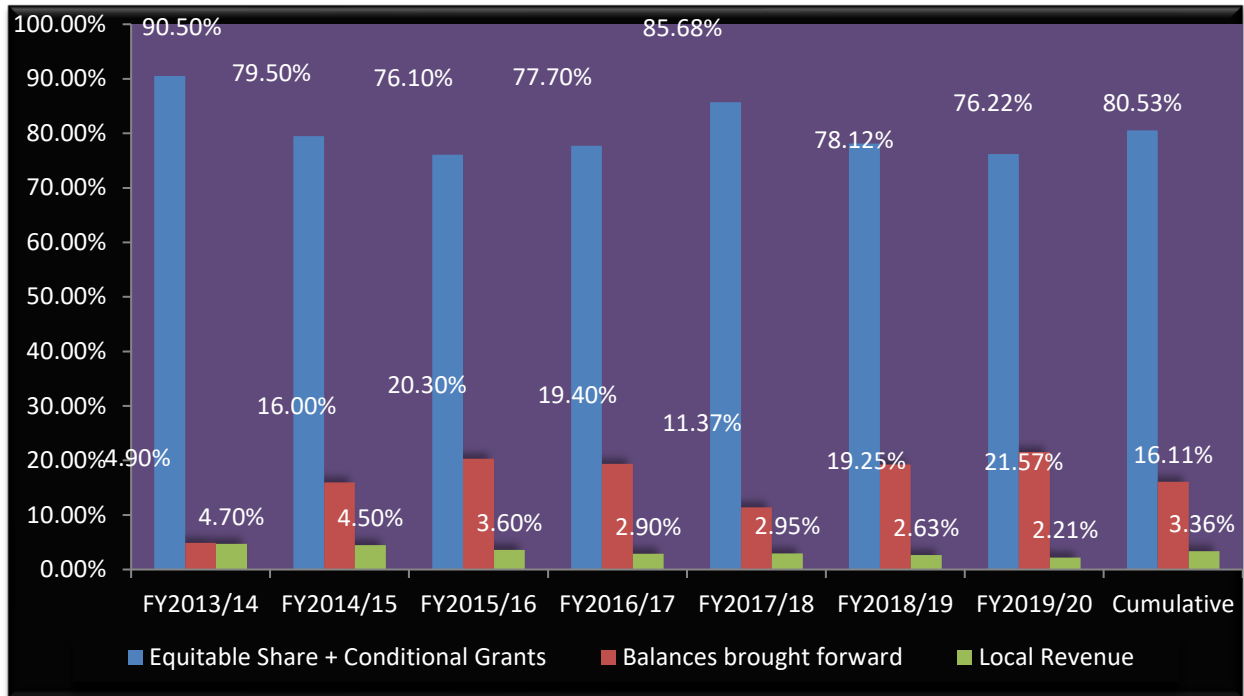
Source: Kwale County Treasury

10. The National Treasury in realization of the hard economic times which would impact on revenue collection by the Kenya Revenue Authority KRA and other measures taken forecasted the shortfalls in fiscal performance and therefore proposed amendments to the Division of Revenue Act (**DoRA**) **2019** and the **CARA 2019**. The National Treasury had requested Parliament in the amended DoRA 2019 to reduce the equitable share allocated to County Governments by Ksh 30 billion. In addition, the National Treasury had committed through the Summit to transfer the remaining **16.08 percent** of the transfers to the County Government as soon as the revenue performance improves pursuant to Article 219 of the Constitution of Kenya, 2010 which states “*A county's share of revenue raised by the national government shall be transferred to the county without undue delay and without deduction, except when the transfer has been stopped under Article 225*”. However the proposed amendment was not passed in the two houses-the Senate and the National Assembly.

11. This 2020 CBROP is quite different as it is being prepared amidst an unprecedented situation arising out of the Covid-19 pandemic, which has brought about major economic and social challenges. Jobs and lives have been lost and businesses have been closed globally and throughout the country. The Government of Kenya in collaboration with her development partners allocated and disbursed to Kwale County **Kshs 137.08 million** as ***Covid -19 Conditional Grant*** and an extra **Kshs. 8.4 million** as **DANIDA grant** in the FY 2019/2020 to assist in cushioning the individuals and businesses against the negative impacts of the pandemic and to facilitate payment of allowances for frontline health workers dealing with Covid-19. This amount was not in CARA 2019 but was transferred to the County Government of Kwale pursuant to Article 223 of the Constitution on Supplementary appropriation.

12. Since the onset of devolution from FY 2013/14 to FY 2019/20, County Government of Kwale has received **Ksh 51.7 billion** cumulatively, **80.55 %** of which is equitable share, **16.11 %** being conditional grants, and a further **3.36% percent** being OSR. **(Figure2.1)**

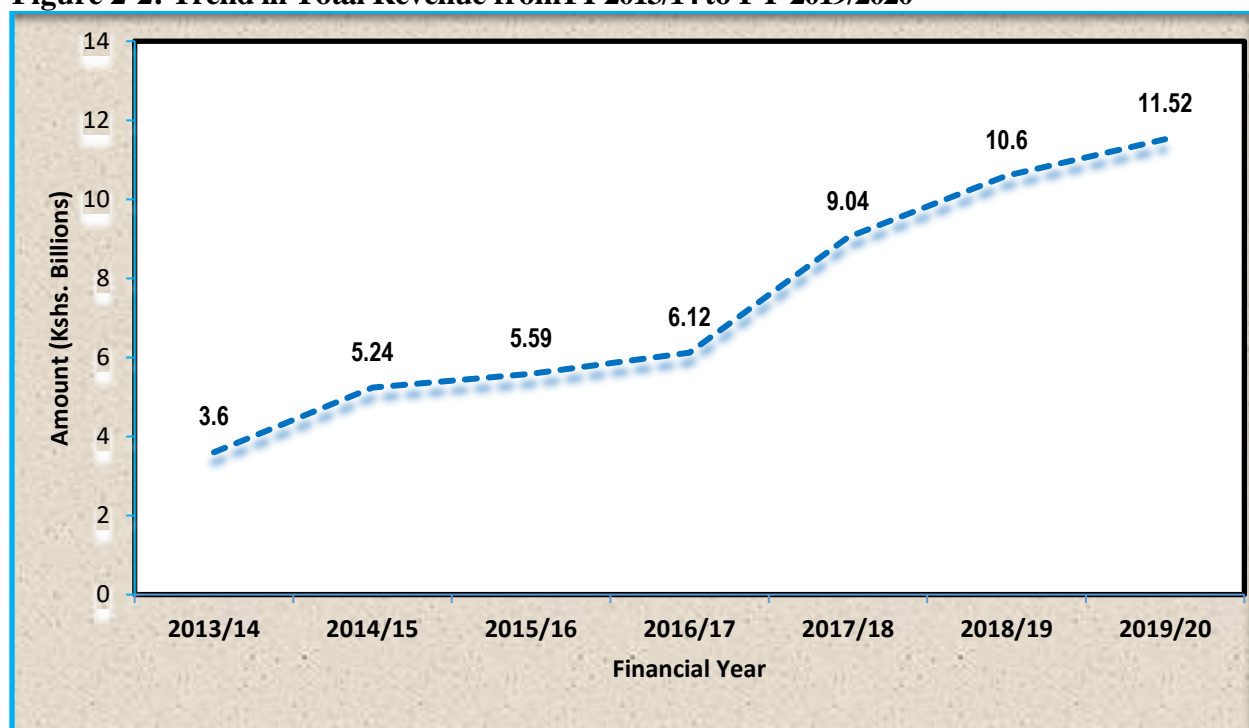
Figure 2-1: Revenue collection from all sources from FY 2013/2014 to FY 2019/2020



Source: Kwale County Treasury

13. The analysis of actual revenues received shows that the County government has again been having an incremental and cumulative growth of revenue over the years since the inception of devolution. The actual releases/issues have been increasing over the years and in the FY 2019/2020, the County received revenues totaling to **Ksh.11.52 billion** (including balances brought forward from previous financial year) from a low of **Ksh.3.6 billion** in the FY 2013/14. The graph below visualizes the revenues received from FY 2013/2014 to FY 2019/2020.

Figure 2-2: Trend in Total Revenue from FY 2013/14 to FY 2019/2020



Source: Kwale County Treasury

Performance of Conditional Grants

14. As shown in Table 2.1 the total Conditional Grants Received was **Ksh. 990.6 (37.37%) million** against **Ksh. 2.65 Billion** as allocated in the revised budget for FY 2019/2020. This was a huge shortfall of **62.63%** and vastly hindered implementation of programmes financed by the grants. The DANIDA Grant to Supplement Financing of County Health facilities was over funded by **37.33 % (Kshs 8.4 million)** and the County also received **Ksh 137.08 million** which were meant for Covid-19 funds to cushion the county against the economic effects of the pandemic, minimize the spread of the virus and to provide necessary tools and equipment for both frontline health workers and the infected patients in the county.

Performance of the Equitable Share

15. During the period under review the County Government of Kwale reported a slight growth in actual transfers from the National Government as equitable share by **2.67%**, i.e. **Kshs 7.7 billion** against **Kshs. 7.5billion** received in the previous financial year FY2018/2019. Sluggish transfers to the County Revenue Fund (CRF) account was witnessed therefore affecting project implementation, operations and service delivery in the county. The table below provides an overview of how the equitable share was disbursed to the CRF within the review period.

Table 2.2: Schedule of Equitable Share Released FY 2019/2020-Kwale County

EQUITABLE SHARE REVENUE DISBURSEMENTS 2019/20						
Budgeted Allocation	% of Total	Date Disbursed	FT. Number	Amount disbursed	Running Balance	S/N O
7,785,900,000					7,785,900,000	
Q1	17.4	19-Sep-19	FT192628WZY9	389,295,000	7,396,605,000	1
		25-Sep-19	FT1926824DB0	965,451,600	6,431,153,400	2
Q2	18.0	13-Nov-19	FT19317B9Q40	622,872,000	5,808,281,400	3
		6-Dec-19	FT19340HC1YP	778,590,000	5,029,691,400	4
Q3	36.5	8-Jan-20	FT20008P2GGN	700,731,000	4,328,960,400	5
		31-Jan-20	FT20031GJZ1F	817,519,500	3,511,440,900	6
		26-Feb-20	FT200579SCN3	700,731,000	2,810,709,900	7
		27-Mar-20	FT200874KJC	622,872,000	2,187,837,900	8
Q4	19.5	30-Apr-20	FT20121BDSZF	817,519,500	1,370,318,400	9
		24-Jun-20	FT20176TDML G	700,731,000	669,587,400	10
Q1 FY 2020/21	8.6	5-Aug-20	FT20218JGH39	669,587,400	-	11
				7,785,900,000		

Source: Kwale County Treasury

16. Analysis of the equitable share funds released to the CRF indicates that; two (2) disbursements of **Ksh 1.35 billion (17.4%)** were done in the first quarter (Q1), two (2) disbursements of **Kshs.1.4 billion (18%)** in second quarter (Q2), four (4) disbursements of **Kshs. 2.84 billion (36.5%)** in

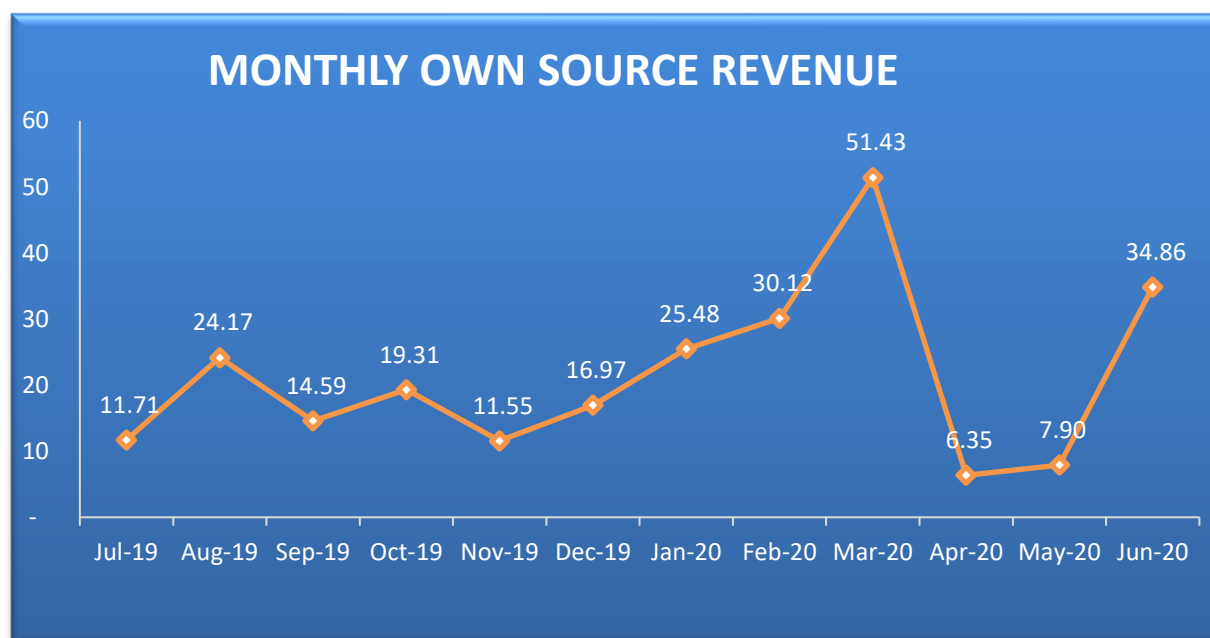
third quarter (Q3) and 2 disbursements of **Kshs. 1.5 billion (19.5%)** in the fourth quarter (Q4) of the review period. Further, a total of **Kshs. 669.59 million (8.6%)** of the equitable share of revenue allocated for the period FY2019/20 was disbursed in **the second (2nd)** month of the first quarter (Q1) of the succeeding FY 2020/2021. Due to this trend, programme and project implementation for the FY 2019/2020 was affected attributing to low the absorption rates for the development budget. The other reason for the underperformance was revenue shortfalls both at the national and the county government of Kwale due to the economic impacts brought about by Covid-19 pandemic and delayed work plans preparation by the county treasury officials due to lockdown and cessation of movements between Kwale and Nairobi.

Performance of Own Source Revenue

17. During the period July 2019 to June 2020, the County Government of Kwale generated a total of Ksh 254.44 million in Own Source Revenue (OSR) against an annual target of Ksh. 325 million for the FY 2019/20 (**Figure 1**). This represents **78.29 percent** of the annual OSR target during the period, which is a notable decrease from the impressive **103.93 percent** of the annual OSR target for a similar period in the FY 2018/19.

18. The drastic decline in the monthly collection was experienced in the months of April 2020 and May 2020 as shown in the graph below indicating **Ksh 6.3 million** and **Ksh 7.8 million** respectively, from a high of **Ksh 51.42 million** in March 2020. This is largely attributed to the rapid economic shock as a result COVID-19.

Figure 2-3: Actual Monthly Revenue Collected for the FY 2019/2020



Source: Kwale County Treasury

Expenditure Performance Analysis by Economic Classification

19.Total expenditure in the FY 2019/20 was **Ksh 8.89 billion** against a revised target of **Ksh 13.24 billion**, representing an under spending of **Ksh 4.34 billion (32.81 % deviation from the revised budget)** and an absorption rate of **67.19%**. (Table 2.2). This shortfall was attributed to lower absorption in both recurrent and development expenditures by the County Government of Kwale departments.

20.The recurrent expenditure amounted to **Ksh 5.39 billion** (including payments of commitments from previous financial years) against a revised budget of **Ksh 6.17 billion**, representing an under-spending of **Ksh 777.95 million** and an absorption rate of **87.4%**. The under expenditure in recurrent category was mainly due to below target expenditure on operation and maintenance attributed to scaled down operations of the County Government of Kwale in the last half of the FY due to Covid-19 pandemic.

21. Development expenditures was **Ksh 3.50 billion** implying an **absorption rate of 49.55%**. This was due to delayed transfers from the National Treasury, lengthy procurement processes and strict guidelines set by the Ministry of Health across the country as a measure to contain the spread of the **COVID-19**, especially during the last quarter of the FY 2019/20.

Table 2.3: Total Expenditures by Economic Classification for the Period Ending 30th June, 2020 (Ksh)

Expenditure Classification	FY 2019/20		% Absorption
	Approved Estimates	Actual Expenditure*	
Total Recurrent	6,172,382,802	5,394,432,554	87.4
Personnel Emoluments	3,004,697,100	2,977,336,010	99.3
Operations & Maintenance	3,167,585,702	2,417,096,544	76.3
Total Development			
Development Expenditure	7,073,638,472	3,505,078,743	49.6
TOTAL EXPENDITURE	13,246,021,274	8,899,511,298	67.2

Source of Data: County Treasury, County Government of Kwale

Departmental Expenditure Performance Analysis

22. As at the end of FY 2019/20, the highest expenditures were recorded by the Departments of; Medical & Public Health Services at **27.75%** of the total expenditure, followed by Education at **16.26%**, and Water Services at **9.82%**, cumulatively accounting for **53.83%** of total expenditure. On the other hand, the Department of County Public Service Board was the lowest spender accounting for a paltry **0.33%** of the total expenditure followed by Departments of; Tourism & ICT at **1.41%**; Environment & Natural Resources at **1.6%** and Executive Services at **1.79%**, all accounting for only **5.1%** of the total expenditure as shown in **Table 2.3** below.

23. In terms of funds absorption, the County Assembly of Kwale recorded the highest absorption rate in the FY 2019/2020 at **88.6%** followed by the departments of Tourism and ICT and Public Service and Administration at **85.8%** and **84.24%** respectively. While lowest absorption capacities were experienced in the Kwale Municipality at **1.83%** and Water Services and Trade, Investment & Cooperatives at **46.62%** and **52.93%** respectively.

Table 2.4: Departmental Expenditures, for the Period Ending 30th June, 2020 (Ksh)

DEPARTMENT	June-20			
	Approved Estimates	Actual* Expenditure	Absorption Capacity (%)	% of Total Expenditure
3061 Finance & Economic Planning	594,599,365	459,513,259	77.28	5.16
3062 Agriculture, Livestock & Fisheries	974,191,252	622,361,345	63.88	6.99
3063 Environment & Natural Resources	196,534,533	141,996,167	72.25	1.60
3064 Medical & Public Health Services	3,495,447,711	2,469,338,444	70.64	27.75
3065 County Assembly	936,706,782	829,953,447	88.60	9.33
3066 Trade, Investment & Cooperatives	362,802,691	192,031,460	52.93	2.16
3067 Social Services & Talent Management	473,731,374	353,348,510	74.59	3.97
3068 Executive Services	262,956,725	159,651,275	60.71	1.79
3069 Education	2,051,892,741	1,446,981,674	70.52	16.26
3070 Water Services	1,875,286,917	874,315,197	46.62	9.82
3071 Roads & Public Works	1,133,078,701	708,444,361	62.52	7.96
3072 Tourism & ICT	146,070,860	125,325,284	85.80	1.41
3073 County Public Service Board	52,643,471	29,618,449	56.26	0.33
3074 Public Service & Administration	544,578,151	458,754,076	84.24	5.15
3075 Kwale Municipality	112,000,000	2,050,100	1.83	0.02
3076 Diani Municipality	33,500,000	25,828,250	77.10	0.29
TOTAL	13,246,021,275	8,899,511,299	67.19	100.00

Source of Data: County Treasury

Departmental Recurrent Expenditure Performance

24. The Kwale County Government's recurrent expenditure amounted to **Ksh 5.39 billion** against a target of **Ksh 6.17 billion**, representing an under-spending of **Ksh 777.95 million** translating to an absorption rate of **87.4%**. The under expenditure in recurrent category was mainly due to below target expenditure on operation and maintenance in most of the departments.

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25. As at the end of FY 2019/20, recurrent expenditures for the departments of Medical & Public Health Services, Education and County Assembly accounted for a high of **66.54%** of the total expenditures combined, each at **37.59%**, **16.3%** and **12.65%** respectively and contrary the Departments of County Public Service Board, Tourism & ICT and Trade, Investment & Cooperatives accounted for a low of **2.53%** combined, each at **0.55%**, **0.91%** and **1.07%** respectively as demonstrated in **Table 2.4** below.

Table 2.5: Departmental Recurrent Expenditures, for the Period Ending 30th, June 2020

DEPARTMENT	June-20			
	Approved Estimates (Kshs.)	Actual Expenditure*	Absorption Capacity (%)	% of Total Expenditure
3061 Finance & Economic Planning	569,293,766	447,595,318	78.62	8.30
3062 Agriculture, Livestock & Fisheries	200,912,521	188,840,904	93.99	3.50
3063 Environment & Natural Resources	71,243,808	70,656,688	99.17	1.47
3064 Medical & Public Health Services	2,443,674,265	2,027,518,576	82.97	37.59
3065 County Assembly	689,345,444	682,641,541	99.03	12.65
3066 Trade, Investment & Cooperatives	62,469,414	57,839,574	92.59	1.07
3067 Social Services & Talent Management	190,849,051	183,038,157	95.91	3.39
3068 Executive Services	142,069,365	108,057,478	76.06	2.00
3069 Education	909,030,408	879,145,514	96.71	16.30
3070 Water Services	82,209,771	81,332,998	98.93	1.51
3071 Roads & Public Works	166,139,506	149,366,929	89.90	2.77
3072 Tourism & ICT	47,126,513	49,141,218	104.28	0.91
3073 County Public Service Board	52,643,471	29,618,449	56.26	0.55
3074 Public Service & Administration	479,875,499	428,675,361	89.33	7.95
3075 Kwale Municipality	62,000,000	10,850,100	17.5	0.20
3076 Diani Municipality	3,500,000	113,750	3.25	0.00
TOTAL	6,172,382,802	5,394,432,555	87.40	100.00

Source of Data: County Treasury

26. Highest absorption capacities were recorded by the Departments of; Tourism & ICT at **104.28%** ; Environment & Natural Resources at **99.17%**, and County Assembly at **99.03%** while lowest absorption capacities were recorded by the newly established bodies of Diani and Kwale Municipalities and County Public Service board at **3.25%, 17.5% and 56.26%** respectively.

Personnel Emoluments Expenditure Performance

27. The fiscal responsibility principles states that the county government's expenditure on benefits and wages for its public officers shall not exceed a percentage of the county government's total as proposed by the County Executive Member for Finance and approved by the County Assembly. The Public Finance Management Regulations 2015 (For County Governments) has put a threshold of 35 per cent. In the financial year 2019/2020, the County Government spent **Ksh 2.98 Billion**. This represents about 33.5 percent of the total expenditures which amounted to **Ksh 8.89 Billion**. Therefore the County Government's expenditure on personnel emoluments was within the threshold of 35 per cent.

28. Going forward this may not be attainable due to expanded services and the need to recruit more employees to ensure there is effective service delivery. This coupled with the clamour for increased allowances for staff in the Health department will complicate the issue of maintain the threshold. Job evaluation and curbing of unnecessary expenditures on allowances will be carried through expenditure rationalization.

29. In terms of absorption of funds allocated to personnel emoluments, the Kwale County Government's expenditure amounted to **Ksh 2.98 billion** against a target of **Ksh 2.99 billion**, representing an absorption rate of **99.1%** as demonstrated in **Table 2.5** below.

Table 2.6: Departmental Personnel Emoluments Expenditures, for the Period Ending 30th June, 2020 (Ksh)

DEPARTMENT	PERSONNEL EMOLUMENTS JUNE-20			
	Approved Estimates	Actual Expenditure*	Absorption Capacity (%)	% of Total Expenditure
3061 Finance & Economic Planning	239,654,207	216,657,870	90.40	7.28
3062 Agriculture, Livestock & Fisheries	146,518,853	149,882,470	102.30	5.03
3063 Environment & Natural Resources	25,581,648	26,217,668	102.49	0.88
3064 Medical & Public Health Services	1,508,572,240	1,511,565,623	100.20	50.77
3065 County Assembly	252,995,911	251,878,861	99.56	8.46
3066 Trade, Investment & Cooperatives	23,934,891	22,717,328	94.91	0.76
3067 Social Services & Talent Management	33,360,230	32,203,991	96.53	1.08
3068 Executive Services	74,747,729	67,776,528	90.67	2.28
3069 Education	374,404,483	398,389,262	106.41	13.38
3070 Water Services	30,005,693	27,225,737	90.74	0.91
3071 Roads & Public Works	78,798,371	71,125,947	90.26	2.39
3072 Tourism & ICT	20,578,251	22,752,940	110.57	0.76
3073 County Public Service Board	30,800,315	13,699,975	44.48	0.46
3074 Public Service & Administration	158,844,278	165,241,810	104.03	5.55
3075 Kwale Municipality	-	-	-	-
3076 Diani Municipality	-	-	-	-
TOTAL	3,004,697,100	2,977,336,010	99.1	100.00

Source of Data: County Treasury

30. The Departments of Medical &Public Health Services, Education and County Assembly cumulatively accounted for **72.61%** of the total recurrent expenditure, each at **50.77%**, **13.38%** and **8.46%** respectively, whereas Departments of County Public Service Board, Tourism &ICT and Environment &Natural Resources recorded a low of **2.1%** cumulatively, each at **0.46%**,**0.76%** and **0.88%** respectively.

31. Highest absorption capacities were recorded by the Departments of; Tourism &ICT at **110.57%**, Education at **106.41%** and Public Service and Administration at **104.03%** respectively, while lowest absorption capacities were recorded by the Departments of County Public Service board at **44.48%**, and Departments of; Finance &Economic Planning, Executive Services, Water Services and Roads & Public Works all tying at about **90%**.

Operations and Maintenance Expenditure Performance

32. The Kwale County Government's Operations and Maintenance expenditure amounted to **Ksh 2.42 billion** against a target of **Ksh 3.17 billion**, representing an absorption rate of **76.16%** shown in **Table 2.6** .

33. The Departments of Medical &Public Health Services, Education and County Assembly cumulatively accounted for **59.06%** of the total recurrent expenditure, each at **21.35%**, **19.89%** and **17.82%** respectively, whereas Departments of; County Public Service Board, Tourism &ICT and Agriculture, Livestock &Fisheries recorded a low of **3.36%** cumulatively, each at **0.66%**,**1.09%** and **1.61%** respectively.

34. Highest absorption capacities were recorded by the Departments of; Environment &Natural Resources at **116.59%**, Water at **103.65%** and Tourism &ICT at **99.4%** respectively, while lowest absorption capacities were recorded by the Departments of Medical &Public Health Services at **55.18%**, Executive Services at **59.83%** and County Public Service Board at **72.88%** respectively.

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The main reason for the over absorption in the department of Environment and Natural Resources was attributed to the fact that votes meant for Mwavumbo ranch were reallocated from development to recurrent budget in the supplementary budget without sufficiently providing for the resources in the recurrent specific line item.

Table 2.7: Departmental Operations and Maintenance Expenditures, for the Period Ending 30th June, 2020 (Ksh)

DEPARTMENT	OPERATIONS AND MAINTENANCE JUNE-20			
	Approved Estimates	Actual Expenditure*	Absorption Capacity (%)	% of Total Expenditure
3061 Finance & Economic Planning	329,639,559	230,937,448	70.06	9.55
3062 Agriculture, Livestock & Fisheries	54,393,668	38,958,434	71.62	1.61
3063 Environment & Natural Resources	45,662,160	44,439,020	97.32	2.20
3064 Medical & Public Health Services	935,102,025	515,952,953	55.18	21.35
3065 County Assembly	436,349,533	430,762,681	98.72	17.82
3066 Trade, Investment & Cooperatives	38,534,523	35,122,246	91.14	1.45
3067 Social Services & Talent Management	157,488,821	150,834,166	95.77	6.24
3068 Executive Services	67,321,636	40,280,950	59.83	1.67
3069 Education	534,625,925	480,756,252	89.92	19.89
3070 Water Services	52,204,078	54,107,261	103.65	2.24
3071 Roads & Public Works	87,341,135	78,240,982	89.58	3.24
3072 Tourism & ICT	26,548,262	26,388,278	99.40	1.09
3073 County Public Service Board	21,843,156	15,918,474	72.88	0.66
3074 Public Service & Administration	321,031,221	263,433,551	82.06	10.90
3075 Kwale Municipality	62,000,000	10,850,100	17.5	0.44
3076 Diani Municipality	3,500,000	113,750	3.25	0.00
TOTAL	3,167,685,702	2,417,096,544	76.3	100.00

Source of Data: County Treasury

Development Expenditure Performance Analysis

35. The Kwale County Government’s Operations and Maintenance expenditure amounted to **Ksh 3.51 billion** against a target of **Ksh 7.07 billion**, representing an absorption rate of **49.55%**.

Table 2.8: Departmental Development Expenditures, for the Period Ending 30th June, 2020 (Ksh)

DEPARTMENT	DEVELOPMENT JUNE-20			
	Approved Estimates	Actual Expenditure*	Absorption Capacity (%)	% of Total Expenditure
3061 Finance & Economic Planning	25,305,599	11,917,941	47.10	0.34
3062 Agriculture, Livestock & Fisheries	773,278,731	433,520,441	56.06	12.37
3063 Environment & Natural Resources	125,290,725	62,539,479	49.92	1.78
3064 Medical & Public Health Services	1,051,773,446	441,819,868	42.01	12.61
3065 County Assembly	247,361,338	147,311,906	59.55	4.20
3066 Trade, Investment & Cooperatives	300,333,277	134,191,886	44.68	3.83
3067 Social Services & Talent Management	282,882,323	170,310,353	60.21	4.86
3068 Executive Services	120,887,360	51,593,797	42.68	1.47
3069 Education	1,142,862,333	567,836,160	49.69	16.20
3070 Water Services	1,793,077,146	792,982,199	44.22	22.62
3071 Roads & Public Works	966,939,195	559,077,432	57.82	15.95
3072 Tourism & ICT	98,944,347	76,184,066	77.00	2.17
3074 Public Service & Administration	64,702,652	30,078,715	46.49	0.86

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DEPARTMENT	DEVELOPMENT JUNE-20			
	Approved Estimates	Actual Expenditure*	Absorption Capacity (%)	% of Total Expenditure
3075 Kwale Municipality	50,000,000	-	-	-
3076 Diani Municipality	30,000,000	25,714,500	85.72	0.73
TOTAL	7,073,638,472	3,505,078,744	49.55	100.00

Source of Data: County Treasury

36. The Departments of Water, Education and Roads & Public Works cumulatively accounted for **51.43%** of the total recurrent expenditure, each at **22.62%**, **16.2%** and **15.95%** respectively, whereas Departments of; Finance & Economic Planning, Executive Services and Environment & Natural Resources recorded a low of **3.6%** cumulatively, each at **0.34%**, **1.47%** and **1.78%** respectively. Highest absorption capacities were recorded by; Diani Municipality at **85.72%** and the Departments of; Tourism & ICT at **77%** and Social Services & Talent Management at **60.21%** respectively as shown in the **Table 2.7** above.

Overall Balance and Financing

37. In line with the performance in expenditure and reduced revenues occasioned by delayed transfers by the National Government and severe economic impact of **Covid-19** pandemic, the overall fiscal balance amounted to **Kshs. 2.62 billion** over the period under review.

38. Given that the County was operating on a balanced budget, the above deviation was basically as a result of revenue shortfalls both at the National and County Government and under spending by the County departments due to the reasons earlier cited. The amount will be carried forward and factored in the first supplementary budget of the FY2020/21.

Fiscal Performance for the FY 2019/20 in Relation to Financial Objectives

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39. The fiscal performance in the FY 2019/2020 has affected the financial projections and objectives set out in the PFM Act 2012 and outlined in the 2020 CFSP and the Budget for FY 2020/21 in the following ways:

(i) The baseline ceilings for spending departments will be adjusted in line with the revised resource envelope under the updated macroeconomic framework that will be provided in the 2021 CFSP taking into account the performance in project execution in the FY 2020/21 budget by the Departments in the County Government of Kwale

(ii) The under-spending in development budget for the FY 2019/2020 has implications on the base used to project expenditures in the FY 2020/21 and the medium term. Appropriate revisions have been undertaken in the context of this CBROP taking into account the budget outturn for the FY 2019/20.

40. As highlighted above, the reasons for the deviations from the financial objectives include: implications of COVID-19 pandemic on the economy – adversely impacting both revenue performance and absorption of both recurrent and development projects, lower than projected revenue collection; under-spending in both recurrent and development and delayed releases by the National treasury in the FY 2019/2020.

Table 2.9: Overall Budget Outturn for the FY 2019/2020 Kshs. Millions

Source	FY 2019/2020 Budget No. 4	Actual Funds received	Actual receipts as a percentage of Annual Allocation (%)
TOTAL REVENUES	13,246,021,275	11,515,232,393	86.93
Equitable Share of Revenue	7,785,900,000	7,785,900,000	100.00
County Own Source Revenue	325,000,000	254,445,870	78.29
Grants	2,650,831,780	990,597,028	37.37
Income Brought Forward	2,484,289,495	2,484,289,495	100.00
TOTAL EXPENDITURE	13,246,021,275	8,899,511,299	67.19
Total Recurrent	6,172,382,802	5,394,432,555	87.40

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Personnel Emoluments	3,004,697,100	2,977,336,010	99.10
Operations & Maintenance	3,167,685,702	2,417,096,544	76.30
Total Development	7,073,638,472	3,505,078,744	49.55
Development	7,073,638,472	3,505,078,744	49.55
OVERALL BALANCE (COMMITMENTS C/F)	-	2,615,721,094	-

Compliance with Fiscal Responsibility Principles

Development Expenditure

41. In managing the County Government's finances, the Public Finance Management Act, 2012 Section 107(b) requires that over the medium term, a minimum of **30 percent** of each County Government's budget shall be allocated to development expenditure. County Government of Kwale complied with this legal requirement in their FY 2019/2020 by allocating **53.4%** on its development budget.

Personnel Emoluments

42. Regulation 25(1) (b) of the PFM (County Governments) Regulations, 2015, requires that the county government's expenditure on wages and benefits for its public officers should not exceed **thirty-five (35) percent** of the county government's total revenue. Again the County Government of Kwale kept the wage bill below the legal threshold by allocating **33.46%** on personnel emoluments.

Own Source Revenue

43. A reasonable degree of predictability with respect to the level of local revenue bases shall be maintained, taking into account any reforms and mitigation steps that may be made in the future especially a time like this, in the event of unforeseen global economic crisis.

CHAPTER THREE: RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

A. Recent Economic Developments

44. This section gives economic overview in which 2020/21 budget was prepared. It outlines the recent National and County Government economic developments and macroeconomic outlook.

Real sector developments

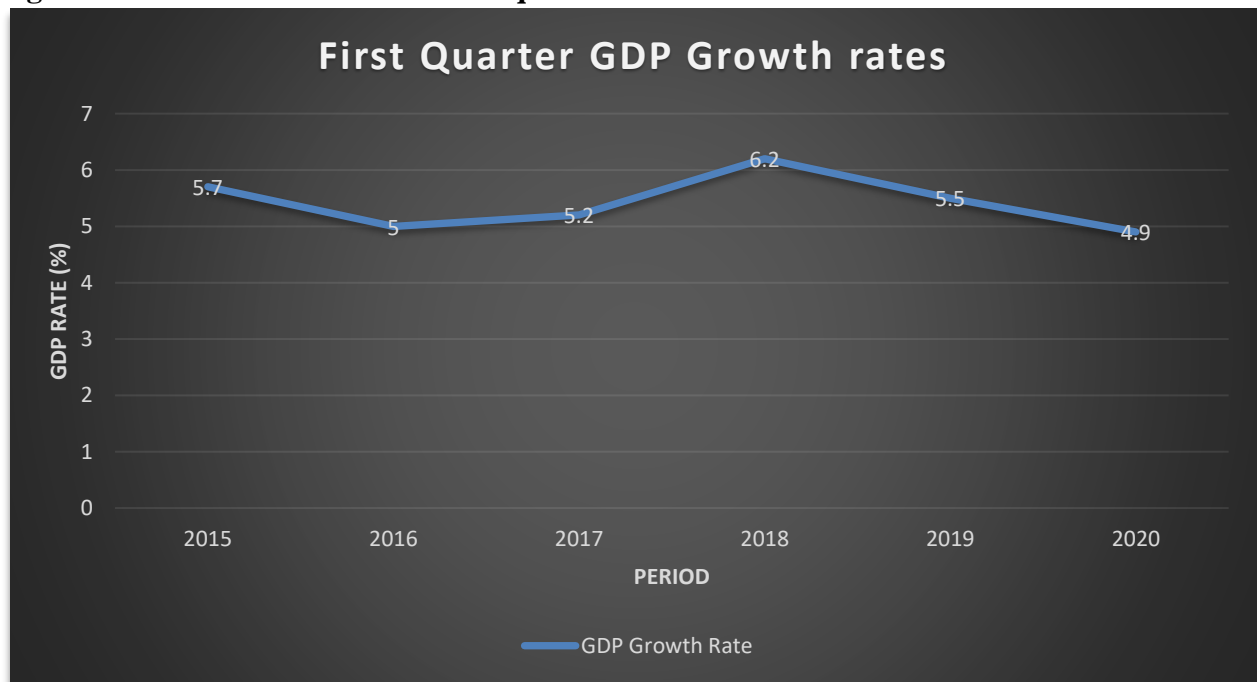
Overview

45. Economic performance in most sectors slowed in the first quarter of 2020 compared to the corresponding quarter of 2019. Real GDP grew by **4.9 per** cent during the review period compared to **5.5**per cent growth in the first quarter of 2019. 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.

46. During the first quarter, there was heightened agricultural activities that significantly anchored the overall economic performance. Agriculture, Forestry and Fishing sector grew by 4.9 per cent

compared to **4.7per** cent in the corresponding quarter of 2019. The growth was also supported by robust growths 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%).

Figure 3.1: GDP Growth rates for 1st quarter 2020



Source: KNBS 2020

47. The macroeconomic environment that prevailed in the first quarter of 2020 was premised on the need to cushion the economy from the anticipated potential shocks related to the COVID-19 pandemic. During the quarter, the Kenyan Shilling depreciated against the US Dollar and Japanese

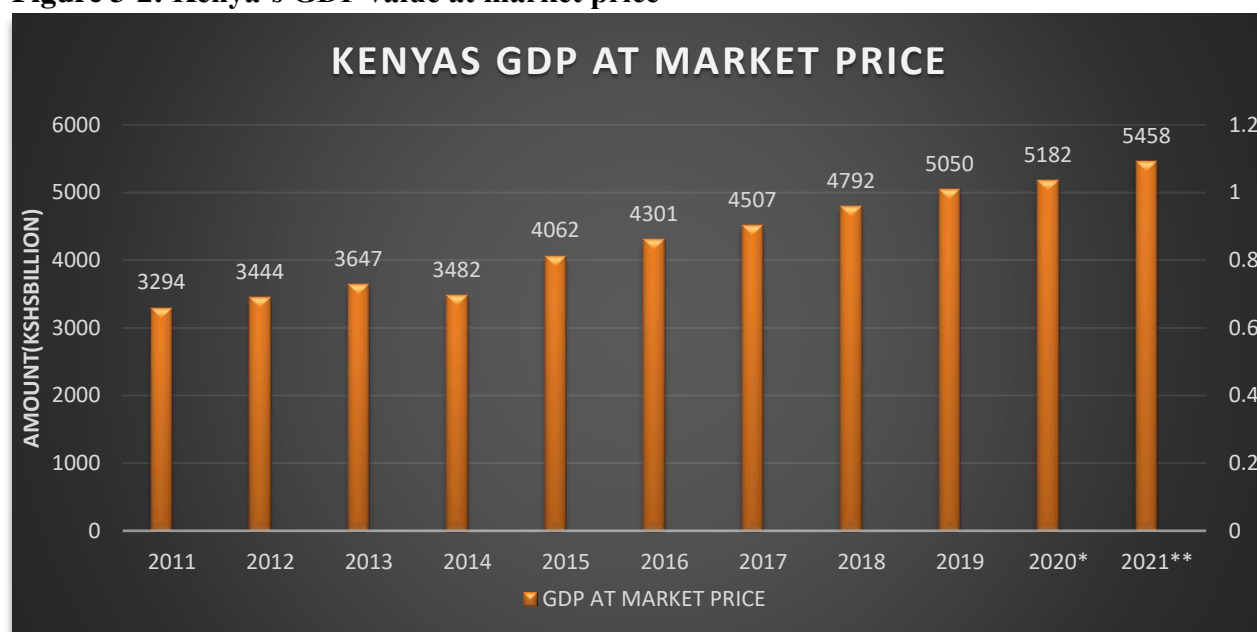
Yen, but gained ground against Euro and the Pound Sterling. Similarly, the Shilling appreciated against all the regional currencies, most notably against South African Rand at 6.4 per cent.

48. The Monetary Policy Committee (MPC) lowered the Central Bank Rate (CBR) to **7.25** per cent in March 2020 from 8.25 per cent in February 2020. The CBR was lower in the review period compared to the first quarter of 2019 (9.0 per cent). The easing of CBR was mainly geared towards stimulating economic activity amid the outbreak of the COVID-19 pandemic in Kenya in mid-March 2020. Broad money supply increased from Kshs **3,415.3 billion** as at March 2019 to Kshs **3,661.0 billion** as at March 2020. Reduced economic activity was also manifest in constrained activity at the Nairobi Securities Exchange (NSE). The (NSE) 20 Share index dropped to 1,966 points in March 2020 from 2,846 points in March 2019. During the quarter under review, the current account deficit expanded by 10.2 per cent to Ksh 110.9 billion from Ksh 100.6 billion in the corresponding quarter of 2019.

Gross Domestic Product Growth

49. Prior to the outbreak of COVID-19 Pandemic, Kenya's economy was strong expanding by 5.4% in 2019. Growth is projected to decline to 2.6% in 2020 due to the adverse impact of COVID-19 but rebound to 5.3% of GDP in 2021. The graph below shows the cumulative Kenya's GDP value at market prices over a period of time.

Figure 3-2: Kenya’s GDP value at market price



Covid-19 and the Kenyan Economy

50. Kenya has put in place its own mitigation strategies and the ramifications are being felt throughout the economy. According to a vulnerability index developed by the Overseas Development Institute (Raga and Velde 2020), Kenya is among the top ten most vulnerable economies to COVID 19 due to its interconnectedness with China and the fact that it is not well equipped to address the impact of the health pandemic. Since confirming its first COVID 19 case on 13th March 2020 and with the number of cases continuously increasing, the Kenyan government has instituted stringent measures to curb the spread of the disease. These include a dusk to dawn curfew; nationwide school closures; work from home directive; prohibition of public gatherings including religious services, weddings and funerals; suspension of all international travel; isolation of recent travelers for 14 days; closure of bars and restaurants (except takeaway services); and passenger distancing guidelines in public service vehicles. This is an unprecedented situation and the economy has taken a significant hit.

Real Sector Impacts of Covid-19 Pandemic

The demand side

51. This aspect considers total demand for final goods and services. Indeed, High consumer spending (high demand) leads to increased production and thriving businesses. This result in increased employment and higher incomes, which further stimulate demand thereby leading to higher economic growth.

52. The government's mitigation strategies have led to reduced incomes. The work from home directive, prohibition of public gatherings, closure of bars and restaurants and dusk to dawn curfew have resulted in reduced working hours with some institutions, especially MSMEs with unstable cash flows, having to lay off workers or at least requiring them to take unpaid leave for an unspecified period of time. This has resulted in declining incomes and has adversely affected aggregate demand.

53. The service sector is arguably the most affected in terms of reduced income and lost employment as it specifically caters to activities that relate to public gatherings. This sector is the biggest contributor to economic growth, having contributed approximately 3 percentage points to an estimated 5.6 percent GDP growth in 2019. The loss of income from the service sector will therefore come at a great cost to the economy. The most affected subsectors in the Service sector are wholesale and retail, accommodation and restaurant as well as transport and storage.

Transport and storage sub sector

54. The work from home directive, passenger distancing guidelines and a dusk to dawn curfew means that many public service vehicles are unable to earn much revenue even with a reduced commute time due to fewer passengers per commute and restriction of working hours. Air transportation is arguably the worst hit. Even before the ban on all international flights, the suspension of flights to China had resulted in an estimated revenue loss of Ksh. 800 million per month. With a ban on all international flights, the revenue loss will be much worse. Railway transportation has also been significantly affected with the Kenya railways suspending temporarily

the Madaraka Express (ME) Passengers Service express train between Nairobi and Mombasa; the Nairobi-Suswa service; and the Nairobi Terminus-Ngong Commuter Service. The Passenger Service Inter-county train and the Nairobi Commuter rail schedules have also been revised to cater to the new reality.

Accommodation and restaurant

55. The ban on international travel, work from home directive and closure of bars and restaurants except for takeaway services has significantly reduced activity in this sector and with many of the workers being daily wage earners, it is possible that many have been laid off or have taken unpaid leave.

Wholesale and retail

56. Reduced economic activity, declining incomes and uncertainty over the future will invariably reduce consumer spending thereby reducing aggregate demand. However, a spike in spending was experienced in short term mostly due to panic buying in anticipation of a complete lockdown. This increased spending is expected to decline gradually as the stockpiling of goods tapers off and the purchasing power goes down. Indeed, many consumers are presently restricting their purchases to basic goods, mostly foodstuff and household supplies. Expenditure on other items not in this category is likely to decline due to uncertainty over future income.

The supply side

57. This aspect considers the ability of the economy to supply goods and services using a set of factors of production i.e. labor and capital. Industries that rely on imported raw materials and intermediate goods have experienced a sudden disruption in their supply chains. In the initial stages of the pandemic, a KEPSA report had indicated that Ksh. 3.1 billion worth of imports from China may have to be sourced from other markets and this will come at a higher cost. The KEPSA report indicates that approximately 21% of Kenya's total imports are from China and by end of February, 2020 these had declined by 36.6%.

58. Globally, many manufacturing industries may have to suspend operations altogether. Business uncertainty and reduced working hours means that many companies including those that could potentially continue production, have had to significantly scale down operations pending the outcome of the current crisis. Even before the country reported its first case, approximately 61% of businesses had already reported feeling the effect of COVID 19 on their businesses with some reporting financial losses.

59. These statistics are likely to worsen as the disease continues to spread. Reduced supply/shortage of goods means higher prices for goods and services. However, with declining purchasing power of consumers, many businesses may have to scale down operations. In the Stanbic Bank PMI report for March 2020, many firms reported lost sales due to weak cash flows in households leading to reduced demand for goods and services. On the other hand, output prices increased due to inflated prices of raw materials. This has been attributed to reduced imports from china on account of COVID 19.

60. Most of these import goods constitute industrial supplies, machinery and other capital equipment. The ban on international travel has also affected business related travels as well as investments, which rely on foreign expertise and foreign companies. This will significantly reduce foreign capital as well as foreign investment inflows.

Outlook of Key Macroeconomic Variables

Inflation

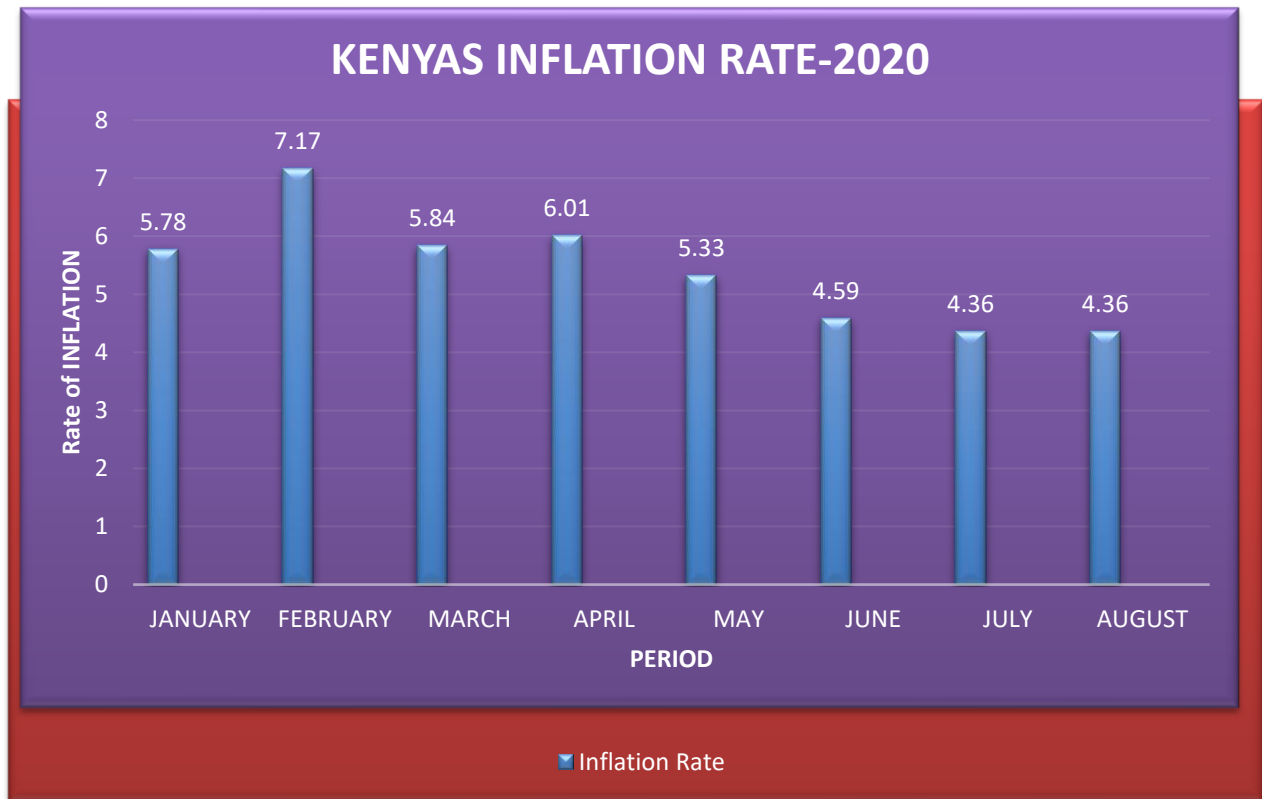
61. Inflation is likely to remain within the government target range of 2.5% to 7.5%. In the month of March, inflation was estimated at 6.06% with the Consumer Price Index (CPI) having increased by 0.18 percent from 106.33 in February 2020 to 106.53 in March 2020. This was mostly driven by food inflation. It should be noted that these numbers are based on the new CPI whose base period is February 2019.

62. Going forward, the food outlook for 2020 is potentially favorable if a number of ongoing challenges are addressed promptly. According to the Famine Early Warning Systems Network, food availability increased in early 2020 and with a forecast of above average rainfall in the March to May long rains season, food and pasture production improved further. Cooler temperatures are also likely to mitigate the impact of the desert locust invasion thereby contributing to a favorable food outlook.

63. However, noticeable evidence suggests that some farmers are struggling to plant due to shortage of labour, seeds and fertilizer. Given the ongoing health pandemic, the social distancing directive and fear of infection have led to fewer laborers per farm. Furthermore, many farmers are finding it difficult to access seeds and fertilizers as many agrovets are closed with seed producers having suspended operations in keeping with the government directive to stay at home and minimize movement. As a result, retail shops are selling seeds at very high prices and it is feared some unscrupulous traders could be selling uncertified seeds. If this scenario is not dealt with, the country may find itself having to deal with a food crisis in addition to the health crisis in a few months to come. This requires the government to take charge of food production especially through distribution of seeds and fertilizer as well as putting in place mechanisms to ensure farmers can safely continue with their activities while avoiding infection.

64. Fuel inflation is also expected to be low as global fuel prices have plummeted and currently stands at 26.5 US dollars per barrel from 69.9 \$ per barrel in December 2019. This is on account of reduced oil demand due to reduced public and private transportation as a result of restrictions on movement which has reduced demand for transportation, decline in manufacturing and ban on international travel. As a result, fuel and transportation costs may not increase significantly. The risk of increased cost of goods on account of supply chain disruptions is likely to be offset by a general reduction in aggregate demand therefore the impact on headline inflation may not be significant.

Figure 3-3: Inflation rates in Kenya from the month of January 2020



Source: The central Bank of Kenya

65. Kenya’s rate of inflation compares favorably with the rest of Sub-Saharan Africa countries. In July 2020, Kenya recorded a lower inflation rate than Uganda, Ghana, Rwanda, Nigeria, Zambia, and Ethiopia (Figure 3.4)

Figure 3-4: Inflation Rates in Selected African Countries

Source: National Central Banks

Interest rates

66. In light of the adverse economic outlook, the Central Bank of Kenya lowered the Central Bank Rate (CBR) to 7.25 percent from 8.25 percent and reduced the Cash Reserve Ratio (CRR) to 4.25 percent from 5.25 percent in order to support economic growth and stabilize financial markets. However, given the uncertainty of the business environment, the impact of this measure remains uncertain. 91- day Treasury bills rate has remained largely unchanged at 7.2 percent since January 2020.

67. In the week ending March 20th 2020, it is reported that Treasury bills were undersubscribed with investors preferring liquidity due to reduced confidence in the market following the COVID 19 outbreak. Lending rate, Savings and Deposit rate have remained largely unaffected and are currently at 12.24%, 4.02% and 7.11% respectively. Given the decline in economic activity and reduced income, there is likely to be an increase in non-performing loans.

Table 3.3: Comparative interest rates in Kenya since January 2019 to July 2020

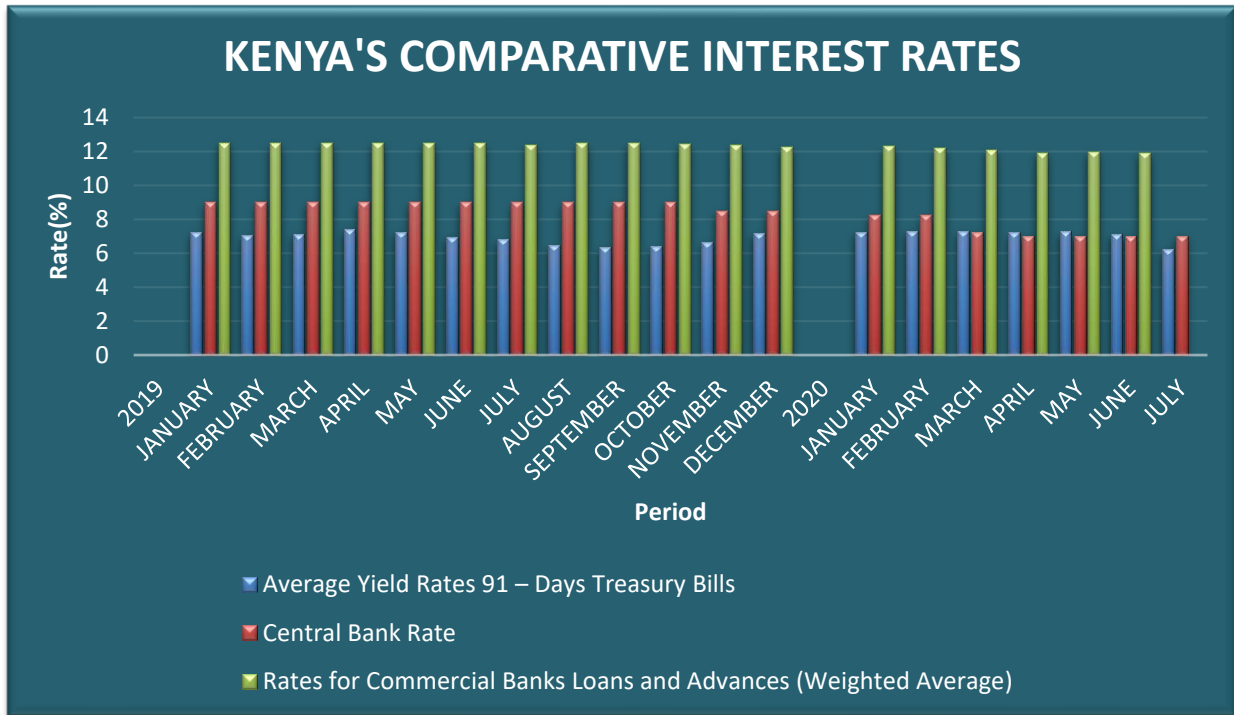
MONTH/YEAR	91 – Days Treasury Bills	Central Bank Rate	Rates for Commercial Banks Loans and Advances	Overdraft Rates	Average Deposit Rate	Inter – Bank Rates	Savings (Commercial Banks Rates)
2019							
JANUARY	7.23	9	12.5	12.15	7.34	3.32	5.14
FEBRUARY	7.06	9	12.47	12.13	7.28	2.51	5.16
MARCH	7.13	9	12.51	12.13	7.22	3.72	5.06
APRIL	7.41	9	12.5	12.15	7.17	4.12	4.75
MAY	7.23	9	12.47	12.13	7.2	5.61	4.71
JUNE	6.94	9	12.47	12.12	7.19	2.98	4.77
JULY	6.81	9	12.39	11.89	6.97	2.28	4.77
AUGUST	6.44	9	12.46	11.97	6.91	3.7	4.54
SEPTEMBER	6.35	9	12.47	11.99	6.98	6.59	4.58

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MONTH/YEAR	91 – Days Treasury Bills	Central Bank Rate	Rates for Commercial Banks Loans and Advances	Overdraft Rates	Average Deposit Rate	Inter – Bank Rates	Savings (Commercial Banks Rates)
OCTOBER	6.38	9	12.43	11.88	6.96	6.86	4.44
NOVEMBER	6.65	8.5	12.38	11.63	6.56	4.24	4.47
DECEMBER	7.17	8.5	12.24	11.67	7.11	6.03	4.02
2020							
JANUARY	7.23	8.25	12.29	11.97	7.07	4.39	4.25
FEBRUARY	7.31	8.25	12.19	11.82	7.06	4.84	4.2
MARCH	7.29	7.25	12.09	11.79	7.07	4.4	4.15
APRIL	7.21	7	11.92	11.55	7.01	5.13	4.21
MAY	7.27	7	11.95	11.61	6.96	3.91	4.18
JUNE	7.14	7	11.89	11.24	6.86	3.27	4.15
JULY	6.24	7				2.12	

Source: Kenya National Bureau of Statistics 2020

Figure 3-5: Kenya’s comparative interest rates



Source: KNBS 2020

Exchange rate

68. The shilling is under pressure to depreciate due to reduced forex earnings mainly on account of reduced exports. As at 2nd April 2020, the exchange rate stood at Ksh. 105 to the dollar. With a depreciated currency, it will be even more expensive for industries continuing with operations to source raw materials and intermediate goods. This may lead to cost push inflation. With the decline in consumer spending, it may not make sense to continue with expensive production due to the likelihood of incurring losses and some importers may scale down operations. A depreciated shilling may also wipe out the gains of a reduced oil import bill given the reduction in global oil prices. More shillings will be required to import the same amount of oil.

69. Going forward, declining diaspora remittances pose a risk to the exchange rate. However, reduced dollar demand as some importers suspend operations may balance out the effects thereby stabilizing the exchange rate. However, should they continue with normal operations, then a higher dollar demand may lead to further depreciation.

70. The lack of an IMF standby loan facility to help cushion the Kenyan Shilling from economic shocks is also significant risk to the exchange rate outlook. Given the unfolding situation, it may be prudent for the Kenyan authorities to consider managing the foreign exchange rate in a manner that is beneficial to the export sector.

External Sector Developments

Trade Balance

Exports

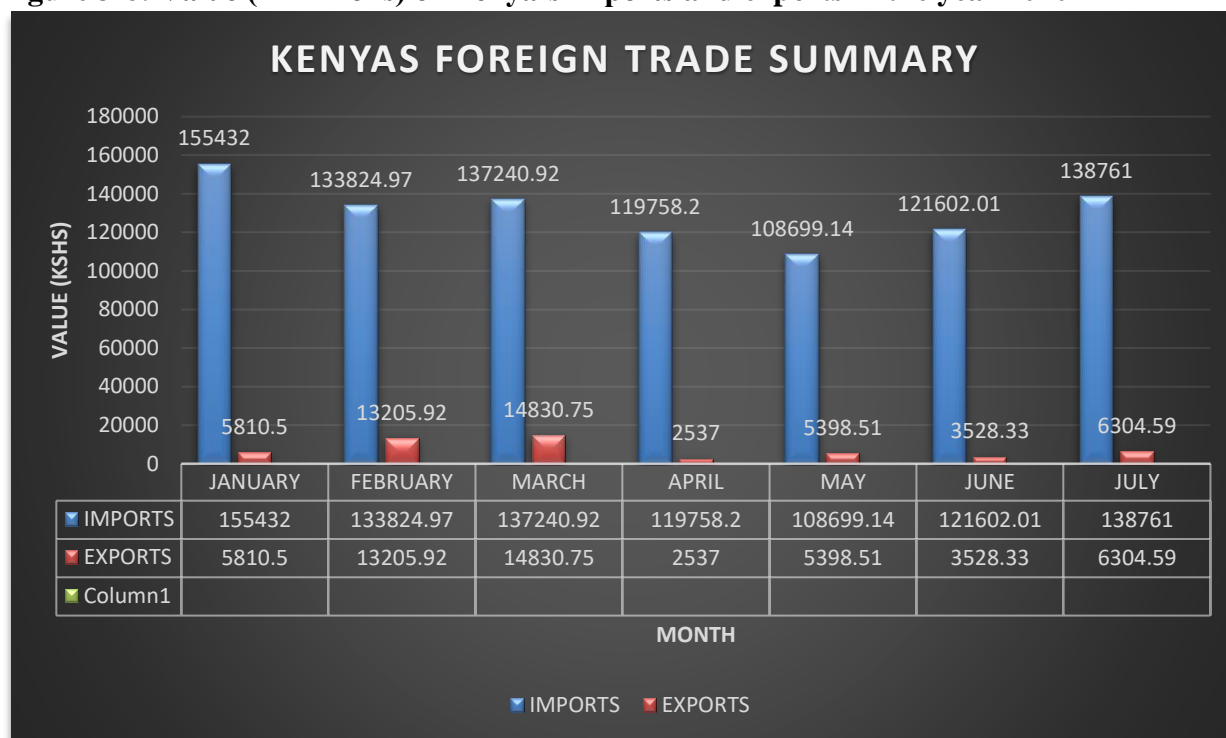
71. In light of the COVID 19 pandemic, it is estimated that the country may experience a minimum 25 percent decline in export revenue. Many of the affected countries particularly in Europe are key trading partners of Kenya. Declining global income implies reduced demand for Kenyan exports and with declining commodity prices, export earnings will fall significantly. Available statistics show a decline in most commodity prices implying that even the little that the country is managing to export is earning much lower.

72. The covid-19 pandemic has affected the Horticultural and Tourism sectors. It is estimated that the flower sector is losing approximately Ksh. 250 million per day and may lose half of its value (approximately Ksh. 60 billion) by end of 2020. Consequently, the sector has laid off 30,000 temporary workers and sent another 40,000 workers on leave (unpaid?). For the Tourism and hospitality sector which accounts for 8.3 percent of Kenya' total employment; about 1.1 million jobs are now in jeopardy. The cancellation of international travel has adversely affected the sector given that it relies directly on international travel. As a result, many hotels are experiencing extremely low occupancies and may have to shut down.

Imports

73. The country's oil import bill, which accounts for 19% of total imports. The outlook for importation of industrial supplies, machinery and other capital equipment remains uncertain given that most industries have scaled down operations due to reduced aggregate demand as well as higher input costs occasioned by supply chain disruptions. It is therefore estimated that the import value will decline by approximately 3%.

Figure 3-6: Value (in Billions) of Kenya’s imports and exports in the year 2020



Source: The Central Bank of Kenya-2020

Foreign Exchange Reserves

74. Though there is some optimism expressed over the forex reserves which currently stand at 8,251 million US dollars (5.01 months of import cover) and are expected to provide adequate buffer against short term shocks, downside risks remain evident. Over the past year, Kenya’s forex reserves have mostly been driven by remittances. Available statistics on foreign remittances shows a slight decline in the month of February to 218,991 USD from 259,392 USD.

Nairobi Securities Exchange

75. Following announcement of the first case of COVID 19 in Kenya, total market capitalization shrunk by Ksh. 120 billion with major stocks like Safaricom and KCB bank significantly declining. This outcome is attributed to risk aversion by foreign investors on account of expected negative impact of the health pandemic to economies across the world.

Table 3.4: The Nairobi Security Exchange Limited

Month/YEAR	Number of Transactions	Number of Shares (Million)	Value of Shares (Million Ksh)	NSE 20 Share Index
2019				
JANUARY	24,798	557	16,200	2,983
FEBRUARY	23,444	425	14,173	2,916
MARCH	20,808	448	15,917	2,846
APRIL	18,923	295	9,865	2,797
MAY	23,308	452	12,494	2,677
JUNE	18,211	334	10,538	2,633
JULY	20,683	374	11,453	2,628
AUGUST	18,893	322	8,652	2,468
SEPTEMBER	19,481	368	10,558	2,432
OCTOBER	19,944	451	16,019	2,643
DECEMBER	17,537	357	11,966	2,654
2020				
JANUARY	21,418	336	12,336	2,600
FEBRUARY	17,610	385	12,265	2,337
MARCH	26,251	639	19,092	1,966
APRIL	20,941	439	12,660	1,958
MAY	24,065	430	14,573	1,948
JUNE	25,903	553	12,302	1,942
JULY	28,225	517	13,470	1,804

Source: NSE limited

B. Medium Term Economic Outlook

Global growth outlook

76. The outbreak of a novel coronavirus disease (COVID 19) in China has quickly morphed into a global pandemic that is threatening the world economy. In December 2019, China alerted the World Health Organization (WHO) to a rising number of cases of unusual pneumonia in Wuhan, a port city of 11 million people in the central Hubei Province. China took decisive measures to block the spread of the virus; placing several cities in Hubei province under lockdown, imposing travel restrictions, closure of entertainment venues and restriction of movements outside homes.

77. New cases started emerging in countries outside China. Statistics from the World Health Organization indicate that as at **1st April 2020**, there were **823,626** confirmed cases spanning across more than 200 countries with 40,598 deaths reported. As a result, many countries have adopted drastic mitigation strategies that include lockdowns and curfews, banning of international travel, closure of public venues and work from home directives which, though necessary, are having a significant adverse impact on economic activities

78. The global economy is facing a recession that may persist through 2020. Even before the COVID 19 pandemic, global economic growth projections were modest; estimated at **2.52** to **3.33** percent for 2020 and these were downgrades from previous forecasts. Following the health pandemic, it is projected that the global economy will achieve negative growth for 2020.

79. With a significant reduction in global economic activity and the fact that the end of the pandemic is not yet in sight, negative economic growth in two successive quarters seems imminent. According to UNCTAD (2020), a deceleration of the global annual economic growth below **2.5** percent is often considered the recessionary threshold for the global economy. UNCTAD estimates that one percentage drop in global economic growth results in 900 billion US dollars in lost income. Thus the cost of the virus is likely to wipe out approximately 2 trillion US dollars off the global economy. This will have an adverse impact, particularly on developing economies which depend on trade and investment, tourism, foreign expertise and financial assistance from the developed economies.

Domestic Growth Outlook

Overview

80. The National Treasury now expects the economy to grow below its initial projection of 2.5 percent in April due to the damaging shocks of coronavirus pandemic, which continues to hammer job opportunities. The pandemic has led to underperformance in most sectors with consumption still depressed and new investments paused. This will be the third year running that the economy will be slowing, having dropped from 6.3 percent in 2018 to 5.4 percent last year, and making the

slowest expansion since 0.23 percent in 2008 when Kenya suffered twin shocks of deadly post-election violence and global crisis.

81. Growth this year is expected to be supported by farming activities as well as financial and ICT resilience on the back of phased reopening of the country from July 6 2020. Domestic growth outlook of the economy will be outlined by reviews of critical sectors of the economy such as Agriculture, Accommodation and food services, Electricity and water services etc. during the first quarter 2020.

Agriculture, Forestry and Fishing

82. Agriculture sector recorded a growth of 4.9 per cent in the first quarter compared to 4.7 per cent growth recorded in the corresponding quarter of 2019. Production of key food crops showed mixed performances during the quarter in review as evidenced by movement in their respective prices. Whereas prices of fruits were generally higher during the period under review, most vegetable prices were lower compared to the first quarter of 2019, implying that supply was relatively adequate. The sector benefited from favorable rainfall that saw tea production increase from 106.3 thousand metric tonnes in the first quarter of 2019 to 158.6 thousand metric tonnes during the review period. In addition, performance in the sector was also supported by increased production of sugarcane as evidenced by a 10.2 per cent increase in the volume of cane delivered to millers. However, in the horticultural subsector, the volume of cut flowers exported decreased from 49,163 metric tonnes in the first quarter of 2019 to 42,639 metric tonnes.

Accommodation and Food Service

83. The sector contributes at least Ksh. 70 billion to the GDP and is big employer with robust supply linkages with agriculture, wholesale and retail trade, manufacturing and other sectors. Closure of restaurant and bars further depresses the performance of the sector with a risk of major job losses if the pandemic persists. The response package for this sector should comprise keeping workers on payroll (social transfers) and business support. Despite financing and implementation challenges, supporting laid off workers in the sectors for two to three months would greatly depress the negative social-economic impact of the pandemic on workers in this sector. The situation could be reversed depending on how resilience and adaptive the Government will be in combating the

spread of coronavirus. The Government could aid businesses partially to keep their workers in the pay roll for 2-3 months. GOK funding would be from savings through extensive expenditure cuts and emergency borrowing. The second set of intervention should comprise direct or indirect support to hotels, and eligible entertainment businesses through government backed concessional lifeline credit facilities through the commercial banking system.

Manufacturing

84. Manufacturing is one of the Big Four Agenda and therefore critical for realization of economic growth and development. The sector contributes at least Ksh. 700 billion to the GDP. The pandemic presents a major shock to the vulnerable sector. The impact on the sector is mixed, with certain subsectors likely to boost production to meet essential goods demand, while other manufacturing may suffer depressed demand and production activity. Both food and health products manufacturing are likely to stay alive in absence of a total “lockdown” of the country.

85. Food production will receive some boost from persistence of domestic demand for essential food items, while health products manufacturing will benefit from expected expansion in manufacturing of essential medical and protective equipment to deal with the unfolding pandemic. For food manufacturing, reduction of transport and supply disruptions and any direct support to increase production capacity could help greatly. It is notable that most food products are either exempt or zero rated from value added tax(VAT).

86. The sector may thrive through the crisis and can be considered for targeted taxation to supplement government limited resources. Direct fiscal support to businesses in the health manufacturing will be required to boost the manufacture of medical and protective items and equipment for Covid-19.

Financial, Insurance and Capital Markets

87. The banking system has remained strong in the recent past, but the COVID-19 pandemic presents unprecedented shocks. Though the sector may not suffer major immediate impact, overtime the wider negative effects on the economy, consumer confidence and incomes could affect its performance. Broad impacts include possible rise in non-performing loans, constrained

credit risk environment and therefore potential lower profitability. However, recent monetary policy measures including reduction of the cash reserve requirement could increase liquidity and therefore growth in credit. Government domestic borrowing is likely to rise as revenue collection suffers due to the pandemic.

88. In the insurance sector, premiums payments could decline due to individual and business income shocks while risk could proliferate, affecting the sectors overall performance. In the financial sector, capital markets have endured the most of the pandemic since February as foreign investors exited the market. The pressure on the stock markets may persist with capital flight, limited retail activity, and negative business sentiment.

89. Some of the response measures suggested include helping curtail deeper economic recession by providing resources for direct on-lending to affected sectors in the economy such as manufacturing, construction and real estate, as noted above. Given expected negative shock on revenues, it may be important to restore excise duties on financial sector fees if social transfers to vulnerable populations are enhanced.

Education and Health

90. Education and health sectors are critical sectors for both public and private sectors. The value of the two sectors exceeds Ksh. 600 billion and has significant impact on social welfare and development. However, the two sectors are affected by the pandemic asymmetrically. Health sectors activity is expected to rise as a frontline sector to respond to COVID-19 pandemic while most education institutions have been closed indefinitely. On education, private component of education providers could suffer lost incomes due to continued school and college closure. The response by the government here should maintain teacher salaries and physical facilities. COVID-19 represents some opportunities for the health sector. The government may use this moment to enhance health facilities and medical supplies and ensure full rollout of the Universal Health Care (UHC) Programme which is a part of the Big Four Agenda. Equally, the government should increase resources for to train health workers and directly support local manufacturing firms to increase production of medical and protective supplies

Construction and Real Estate

91. Combined, construction and real estate sectors contribute at least Ksh. 1,200 billion to the GDP. The two sectors are key to the well-being of the economy. Thus, a major contraction in these sectors could hurt the ability of the economy to effectively weather the storm. Preliminary information shows that the major effects on construction include shorter working hours, supply disruptions, but lower demand for housing for instance could follow within the next quarter.

92. Fading consumer confidence could therefore greatly affect the sector. Public housing could alternatively face financing challenges as the government uses scarce resources largely to deal with the scourge and respond to emergency interventions. The rental market is also likely expected to face headwinds associated with demand for rentals and diminished incomes of tenants. Critical interventions are therefore required to mitigate delayed negative impact on construction and real estate. For the private sector firms the government can lead effort to keep the sectors operational and workers on payroll. Equally, concessional credit facilities to support construction activity may be considered within the next two months. While rent concessions would be applicable in some cases, especially for low income earners.

93. Housing is a part of the Big Four Agenda, and thus requires sustained support through the pandemic. The government should ringfence resources for provision of affordable and social housing for low income earners. These should be scaled to help replace the sprawling slums and congested estates.

Other productive sectors: ICT, Transport and Storage, others

94. Information communication and technology is a critical sector as an enabler to the performance of other sectors. The pandemic's initial imputed impact on the sector appears insignificant but may be affected due to international supply disruptions. Still call, mobile data, and mobile money usage could rise strongly during this time. Given the sector may thrive during crisis; it can be seen as a possible area to pick up taxes during the crisis.

Monetary policy outlook

95. The main objective of monetary policy, over the medium term, will be to maintain stable prices. Overall inflation is expected to remain within the target range in the short run, despite the disruptions occasioned by the COVID-19 pandemic. This will be supported by favorable weather conditions, lower international oil prices, muted demand pressures and the reduction of Value Added Tax (VAT) from 16 percent to 14 percent. The Central Bank of Kenya will continue to monitor developments in the money and foreign exchange market and take appropriate measures in the event of adverse shocks

External Sector Outlook

96. The Kenya Shilling is expected to remain stable in 2020 because of a stable current account deficit. The current account deficit is expected to narrow to 5.1 percent of GDP in 2020 from 5.8 percent in 2019 supported by a lower oil import bill and lower imports of SGR-related equipment.

Fiscal Policy outlook

97. The revenue projections over the medium term takes into account the consistent decline in the share of revenue to GDP in the last five years, the negative impact of the Covid-19 pandemic on revenue collection and the impact of personal and corporate income tax relief extended to individuals and businesses to mitigate the impact of the pandemic. As such, the Government will take cautious and realistic revenue projections for FY 2021/22 and the medium term to manage expectations and improve budget credibility. Fiscal policy over the medium-term aims at enhancing revenue mobilization and strengthening management of public debt to minimize cost and risks of the portfolio, while accessing external concessional funding to finance development projects.

C. Risks to the Macroeconomic Outlook

98. This macroeconomic outlook is not without risks from both external and domestic sources. Risks from the global economies relate to persistence of the Covid-19 pandemic and required

lockdowns, voluntary social distancing and its effect on consumption, the ability of laid off workers securing employment in other sectors, rising operating cost to make work places more hygienic and safe, reconfiguration of disrupted global supply chains, extent of cross-border spill overs occasioned by weaker external demand and funding shortfalls.

99. On the domestic front, risks will emanate from weaker external demand, reduced tourist arrivals due the Covid-19 fears and restrictions and further restrictions of movement should they become necessary to control the surge in infections.

100. In addition, the economy will continue to be exposed to risks arising from public expenditure pressures, particularly wage related recurrent expenditures and the erratic weather related shocks that could have negative impact on energy generation and agricultural output leading to higher inflation that could slow down growth.

101. The main risks to the foreign exchange market in 2020 relate to continued uncertainties occasioned by the Covid-19 pandemic. Nevertheless, the official foreign exchange reserves, at 5.9 months of import cover in June 2020, will continue to provide an adequate buffer against short term shocks in the foreign exchange market. However, with emerging structural imbalances, growth may be less impressive than in recent years. Public debt has risen; debt service is diverting funds from public welfare programs and macroeconomic vulnerabilities have increased. Monetary policy efficacy in stimulating demand has also waned. On a brighter note, the external position has rebalanced favorably. However, this reflects diminishing international trade which maybe unhealthy in the longer term.

County Macroeconomic Outlook

102. The County government will remain steady in implementing sound fiscal polies to create the necessary conditions for enhanced economic prosperity. The policies will focus on enhancing implementation of critical development programmes in health, water, cooperative development, roads infrastructure and agricultural production, and also push for austerity measures to ensure

prudent management of public resources. The County government will pursue broad strategies and policies towards realization of the County's main transformation programmes thus: investing in health services, strengthening water services, investing in roads infrastructure and improving agricultural production and food security.

103. Other important areas that the government will also focus on include industry and trade development; education, youth training, sports development and social protection; and partnerships in housing and solid waste management. Under investment, the County Government will adequately fund the ongoing industrial project in Shimba hills in Kubo South ward. This will offer job opportunities to citizens and spur economic activities in the county. The opening of the fresh produce market at Kombani in Waa-Ngombeni ward will trigger production in other sectors and the County Government is keen in guaranteeing its completion by the end of FY 2021/2022 to offer more opportunities to the citizens. The County Government is also committed to implementing strategies aimed at strengthening participation of the youth, women and PWDs in the socio-economic development of the County.

104. The County Government will also strengthen its partnership with the National Government and other development partners to fast track implementation of key projects aimed at revitalizing the economy and creating more opportunities for the citizens. Key development projects include the Shimoni port development, the Diani airport development, the Kwale-Kinango road completion and the Dongo Kundu Special Economic Zone project. The Dongo Kundu southern by pass will touch some of the areas in the county thus opening them for more economic activities.

Risks to the County Macroeconomic outlook

105. Reduced Funding. The county operates within the framework of global economy and the world scenario will therefore affect the economy of the county through exports, tourism, among others. In the event of a downturn in the global economy, the domestic economy will be affected as well as the county economy. This will have an impact on the equitable share of revenues to be received by the county as well as collection of local revenue. Reduced revenues will impact

negatively on implementation of key projects and thus the county's development agenda. To mitigate the risk of reduced funding, the county will turn to mobilization of funding in own source revenue and from development partners to meet the targeted revenues for FY 2020/2021.

106. Late Disbursement of Funds Delayed disbursement of funds from the exchequer is another fiscal risk that the county might run in to. Delayed disbursement leads to late owning of obligation by the county and might lead to interest charges by the county suppliers and service providers. This increases the county's operating costs and leads further to accumulation of pending bills. To mitigate this, the county shall prepare a procurement plan and cash flow early to allow for departments to organize for financial requisitions from the exchequer

107. Procurement Process. The procurement and contract administration process are prone to risks. There are risks in developing specifications, selecting the appropriate procurement methods, preparing tender documents and advertising, evaluation and selection of firms and individuals, negotiating the contract, and contract administration. The risks may be understatements, overstatements or misinterpretation of the need. The County will adhere to the requirements of the Public Procurement and Asset Disposal Act, 2015 which explicitly outlines how procurement should be conducted to the above mentioned risks.

108. Natural calamities. There are natural calamities like floods and famine which may befall the county and force the county to rework its budget to accommodate the situation. This will divert funds from strategic areas and affect smooth implementation of the programmes in the Budget. The Public Finance Management Act, 2012 section 110 provides for establishment of an emergency fund to allow for forward budgeting and appropriation for funds for emergencies or amendment of the budget through a supplementary.

109. Court cases. Litigations and court injunctions can also derail timely execution of the Budget. These litigations can arise from county's processes especially procurement where perceived unfair competition may land the county in a court of law. Orders to repeat the whole procurement process will expose the county to disadvantages of time value of money, increase operation costs and lose valuable time in delivering the Budget. Strict adherence to the provisions of the law and existing legal frameworks

110. Planning, Budgeting and Public Participation Processes. The County has effectively adopted participatory budgeting which is a bottom-up arrangement to planning. This ensures project ownership and sustainability thereof. This opportunity may be abused by intensive and skewed lobbying for residents to have projects just for the sake of having them without regard to full utilization of its potential and maintenance costs. Sometimes projects are placed in the name of ensuring regional balance without looking at the need it is serving in that particular location. The county will restructure the public participation to ensure it is results oriented.

111. Approval Process of County Plans and Budgets All county plans, budgets, policies and laws have to be approved by the county assembly. The approval process requires adequate consultation and time to ensure that there is full interrogation and ownership of the plans, budgets, policies and laws before approval. The county will restructure the public participation to ensure its results oriented. With regard to approvals by the county assembly, the executive will ensure adequate time and consultation is allowed for each of the laws, policies, plans and budget. As the executive starts on preparation of these documents, it will be mandatory to design a road map scheduling the process and allow adequate time for the county assembly to interrogate the documents and subsequent approval.

112. Technical Risks. Anticipated technical risks are associated with engineering designs, site specific characteristics, construction and installation, and operation and maintenance. The county will strengthen the sections, which carries out design reviews, procurement support, construction supervision and test run support to control design and construction quality to ensure that no time is lost in design and site changes.

113. Inadequate Legal Framework Weak or inadequate legal frameworks may pose great risks in delayed implementation of projects due to litigations as a result of loop holes in the legal framework in the county institutions. Each department will be required to profile its entire institutional legal framework.

114. The County Government will monitor and evaluate all the imminent risks to the future fiscal policies and put up mitigating measures to ensure the risks are minimized.

CHAPTER FOUR: RESOURCE ALLOCATION FRAMEWORK

Adjustment to the 2020/2021 budget

115. The 2019/2020 financial year was characterized by an economic slowdown and as such, the budget implementation for FY2019/2020 was greatly hampered. This can be attributed to delays in the disbursement of funds from the National exchequer and the COVID-19 pandemic which had both behavioral and economic effects. Budget reallocations, reduced government spending due to slow execution of programmes and projects, lock downs and curfews were experienced in the second half of the FY2019/2020.

116. Based on the aforementioned, the county absorption rates on the development budget was further inhibited and continue to pose a great concern in the implementation of the FY2020/2021 budget. The Senate standoff in the approval of the third generation revenue sharing formula, delayed disbursement of funds from the exchequer and the COVID-19 pandemic will negatively impact on the delivery of services with a possible shutdown of counties due to a serious cash flow crunch.

117. The economic effects of COVID-19 will extend even after the pandemic is averted. As a result, adjustments to the FY2020/2021 budget will take into account the actual performance of expenditure in the first quarter and departmental absorption capacity in the first quarter of FY2020/2021. Other considerations in the Medium Term will include strengthening the health systems at the county level through investment in the six building blocks of health systems strengthening namely; improved health service delivery, health workforce development, information systems, access to essential medicines, health system financing and leadership and governance.

118. The county government of Kwale will continue to rationalize public spending on recurrent expenses to save on scarce resources and reallocate them to development priorities. The county will also ensure that there is optimum allocation of resources and that there is prudent expenditure to utilize resources efficiently and effectively.

119. As regards to revenue, the county treasury will strive to ensure no more losses in county own revenue. Capacity building of the revenue collecting officers and speedy enactment of the recent county revenue laws and finance bill 2018 to ensure reduction in revenue losses.

The Medium Term Expenditure Framework

120. This medium term Expenditure framework (MTEF) FY 2021/22-2023/24 is being prepared concurrently with the first supplementary budget FY 2020/2021. It is also prepared immediately after submission of the county annual development plan (CADP) 2021/2022 to the county

assembly for review and approval. This is in line with the constitutional requirement that the budget process should be guided by a development plan.

121. The implementation of the sector programs/projects in this medium term framework is informed by the second County Integrated Development plan (CIDP) 2018-2022, The governors manifesto, Third medium term plan (MTP III), the big Four agenda, Kenya Vision 2030 and the sustainable development goals (SDGs). The plan will fast-track the implementation of the flagship projects in the county for rapid economic growth and realization of the transformation agenda.

122. The county government of Kwale will prioritize the implementation of the programs and projects as highlighted in the proposed CADP 2021/2022. On infrastructural development, major projects to be implemented in the plan include Tarmacking of Kona Ya Musa –Mabokoni-Kona Masai road 2.0 km, Kona ya Jadini - Neptune Road Junction at Lotfa Resort and Mkilo-Kalalani road 2.0km. The county will also prioritize the completion of medium sized dams namely Mwakalanga dam, Dziweni dam, Bofu, Kaza Moyo dam and Kizingo dam.

123. On health care services, the county will prioritize provision of universal healthcare services through improved services and health insurance cover for all. The county has earmarked to establish an Oncology Center at the Kwale sub county hospital to enhance diagnosis of cancer and other cancer-related illnesses.

124. To ensure availability of skilled workforce, the county will continue to prioritize the scholarship and bursary scheme to guarantee learners 100 percent access to tertiary institutions including universities and other middle level tertiary institutions. The implementation of the ECDE teachers training college is still on – course.

125. Under the plan, the county will also aim at enhancing food security through expansion of food

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and agricultural production. The county intends to achieve this through farm mechanization, strengthening extension services, livestock development and promotion of the blue economy.

126. Based on the actual performance and in consideration of the strategic priorities given in the Annual Development Plan FY 2021/2022 the below table gives the provisional ceilings and their ranking for the FY 2021/2022 budget.

Table 4.1: Provisional Development Expenditure Ceilings for the FY 2021/2022 and their ranking

CODE	SECTOR	CEILING FY2021/2022	PERCENTAGE	RANK
D3061	Finance & Economic Planning	20,531,508	0.9	12
D3062	Agriculture, Livestock and Fisheries	143,336,447	6.4	7
D3063	Environment and Natural Resources	129,543,666	5.8	8
D3064	Health	252,938,554	11.3	4
D3065	County Assembly	87,558,464	3.9	9
D3066	Trade, Investment and Cooperatives	174,582,795	7.8	6

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D3067	Social Services and Talent Management	183,614,004	8.2	5
D3068	Executive Services	0	0.0	
D3069	Education	324,780,317	14.5	2
D3070	Water Services	544,086,325	24.3	1
D3071	Roads and Public Works	300,506,256	13.4	3
D3072	Tourism & ICT	49,073,188	2.2	10
D3073	County Public Service Board	0	0.0	
D3074	Public Service & Administration	31,972,990	1.4	11
SUB TOTAL		2,242,524,514	100.0	
GRANTS ESTIMATES		1,030,979,167		
GRAND TOTAL		3,273,503,681		

Source: Kwale County Treasury

127. Based on the above expenditure framework for FY2021/2022, the table below provides the tentative projected baseline ceilings for the FY 2021/2022.

Budget Framework FY2021/2022– 2023/24 MTEF, classified by sector.

Table 4.2: Medium Term Development Expenditure Framework for the period FY 2021/2022 – FY 2023/2024

SECTOR		Approved Estimates FY2020/2021	Ceiling FY2021/2022	PROJECTIONS	
				FY2022/2023	FY2023/2024
AGRICULTURE, RURAL AND URBAN DEVELOPMENT	TOTAL	897,739,490	272,880,113	286,524,118	300,850,325
Agriculture, Livestock and Fisheries	Sub Total	641,577,313	143,336,447	150,503,269	158,028,433
Environment and Natural Resources Management	Sub Total	161,125,819	129,543,666	136,020,849	142,821,892
Kwale Municipality	Sub Total	54,056,358	0	0	0
Diani Municipality	Sub Total	40,980,000	0	0	0
ENERGY, INFRASTRUCTURE AND ICT	TOTAL	1,185,097,572	300,506,256	315,531,569	79,623,904
Roads and Public Works	Sub Total	1,185,097,572	300,506,256	315,531,569	79,623,904

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GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS	TOTAL	362,076,413	223,655,983	234,838,782	246,580,721
Trade, Investment and cooperative development	Sub Total	265,894,933	174,582,795	183,311,935	192,477,531
Tourism and ICT	Sub Total	96,181,480	49,073,188	51,526,847	54,103,190
HEALTH SERVICES	TOTAL	877,524,635	252,938,554	265,585,482	278,864,756
EDUCATION	TOTAL	1,099,320,849	324,780,317	341,019,333	358,070,299
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	TOTAL	432,814,927	140,062,962	147,066,110	154,419,416
County Assembly	Sub Total	234,854,922	87,558,464	91,936,387	96,533,207
County Executive Services	Sub Total	69,229,628	0	0	0
Public Service and Administration	Sub Total	98,142,720	31,972,990	33,571,640	35,250,221
Finance and Economic planning	Sub Total	30,587,657	20,531,508	21,558,083	22,635,988
County Public Service Board	Sub Total	0	0	0	0
SOCIAL SERVICES AND TALENT MANAGEMENT	TOTAL	291,019,376	183,614,004	192,794,704	202,434,439
WATER SERVICES	TOTAL	1,205,813,524	544,086,325	571,290,641	599,855,173
SUB TOTAL	TOTAL	5,918,591,859	2,242,524,514	2,354,650,739	2,220,699,033
Conditional Grants and Loans	TOTAL		1,030,979,167		
GRAND TOTAL		5,918,591,859	3,273,503,681	2,354,650,739	2,220,699,033

Source: Kwale County Treasury

FY 2021/2022 Budget Framework

128. The FY 2021/2022 budget framework is set against the background of the updated medium-term macro-fiscal framework set above. Kenya's economy grew by 4.9 percent in the first quarter of 2020 compared to a growth of 5.5 percent in a similar period in 2019. Overall, the economy is projected to grow by 2.6 percent in the calendar year 2020 and rebound to 5.3 percent in 2021. This is a significant decline from a growth of 5.7 percent realized in 2019. This can be attributed to the outbreak and spread of COVID – 19 pandemic that resulted in a decline in economic activities and shortfalls in revenue.

129. The government instituted monetary policy measures through the Monetary Policy Committee to avert a possible case of recession. These measures included a reduction in the cash reserve ratio by 1 percentage point, from 5.25% to 4.25%; a reduction of interest rate by a 1 percentage point, from 8.25% to 7.25%. Fiscal measures were also undertaken, they included,

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corporate income tax reduction from 30% to 25%; individual income tax reduction from 30% to 25%; 100% tax waiver to individuals earning less than USD 240; VAT reduction from 16% to 14%; injection of a USD 10 million social protection stimulus package for the elderly and underprivileged citizens; and a temporary delisting of loan defaulters from the Credit Reference Bureau.

130. The progressive reopening of the economy therefore provides an avenue towards recovery (preparing for rebound) and thriving (ensuring success in the post COVID-19 environment). The County Government will seek to implement the priorities as outlined in the CADP FY2021/2022 to move the county towards the transformation agenda.

Revenue Projections

131. The revenues for the fiscal year FY 2021/2022 will be forecasted using the actual revenue performance figures for FY 2019/2020. The ongoing automation of the county revenue collection system, capacity building of the revenue collecting officers and speedy enactment of the recent county revenue laws and finance bill 2018 will ensure efficiency in own revenue collection.

132. In the FY 2021/2022, revenue collection including both conditional and unconditional grants and loans is projected at **Kshs. 8,395,325,444.00**. This represents **7.3** percent decline from **Kshs. 9,056,471,942.00** in the current FY 2020/2021. The county expects to receive **Kshs. 6,971,714,972.00** in FY 2021/2022 as her equitable share of revenue from the national government, a reduction of **9.0** percent from Kshs. **7,659,300,000.00** allocated during the current FY 2020/2021 period. The county own source of revenue is projected to stand at **Kshs.275,081,712.00** in the FY 2021/2022 budget, a reduction from Kshs. **365,641,316.00** targeted for the FY 2020/2021.

Table 4.3: Summary of County Revenue Envelope Showing the Grants types

SOURCE OF REVENUE	APPROVED ESTIMATES FY2020/21	REVENUE ENVELOPE FY2021/2022
Equitable Share of Revenue from National Government	7,659,300,000	6,971,714,972
County Own Source Revenue	365,641,316	275,081,712
SUB TOTAL	8,024,941,316	7,246,796,684

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CONDITIONAL GRANTS		
Compensation for User Fees Forgone	15,209,593	15,209,593
Leasing of Medical Equipment		132,021,277
Road Maintenance Levy	228,285,028	228,285,028
Development of Youth Polytechnics	56,299,894	56,299,894
COVID-19 Conditional Grant balance	106,569,000	-
SUB TOTAL	406,363,515	431,815,792
LOANS AND GRANTS		
World Bank Grant on Kenya Devolution Support Programme	75,000,000	45,000,000
DANIDA Grant to Supplement Financing of County Health facilities	22,140,000	22,140,000
World Bank Grant for Universal Health Care Project	35,200,000	35,200,000
World Bank Loan for National Agricultural and Rural Inclusive Growth Project	199,640,546	199,640,546
EU Grant for Instrument for Devolution Advice and Support	15,624,891	-
Water and Sanitation Development Project (WSDP)	400,000,000	400,000,000
Agricultural Sector Development Support Programme-ASDSP	14,732,422	14,732,422
SUB TOTAL	762,337,859	716,712,968
Income brought forward from FY 2019/2020 Budget		
Commitments B/F on Programmes for FY 2019/2020	2,734,050,576	-
SUB TOTAL	2,734,050,576	-
GRAND TOTAL	11,927,693,266	8,395,325,444

Source: Kwale County Treasury

Table 4.4: Summary of County Own Revenue streams FY 2021/2022

CODE	REVENUE SOURCE	ACTUAL FY2019-2020	AMOUNT FY2021-2022
1420200	RECEIPTS FROM ADMINISTRATIVE FEES & CHARGES	303,000.00	327,574.00
1520100	LAND RATES	40,032,270.00	43,278,931.00
1520200	BUSINESS PERMITS	38,859,344.00	42,010,880.00
1520300	CESSSES	8,357,506.00	9,035,309.00
1520500	PLOT RENTS	3,537,011.00	3,823,867.00
1530100	ADMINISTRATIVE SERVICES FEES	1,517,113.00	1,640,153.00

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1530200	VARIOUS FEES	98,500.00	106,488.00
1530300	NATURAL RESOURCES EXPLOITATION	17,588,107.00	19,014,522.00
1530500	LEASE/RENTAL OF INFRASTRUCTURE ASSETS	1,012,600.00	1,094,723.00
1540100	OTHER MISCELANEOUS REVENUES	4,413,201.00	4,771,116.00
1550100	MARKET/TRADE CENTRE FEE	3,839,610.00	4,151,007.00
1550100	AUCTION	5,227,485.00	5,651,440.00
1550200	VEHICLE PARKING FEE	13,414,677.00	14,502,622.00
1560100	HOUSING	1,268,250.00	1,371,106.00
1580100	PUBLIC HEALTH SERVICES	3,999,500.00	4,323,864.00
1580200	PUBLIC HEALTH FACILITIES OPERATIONS	91,621,840.00	99,052,473.00
1580400	SLAUGHTER HOUSES ADMINISTRATION	473,174.00	511,549.00
1590100	TECHNICAL SERVICES FEES	18,882,682.00	20,414,088.00
	LOCAL REVENUE	254,445,870.00	275,081,712.00

Source: Kwale County Treasury

Expenditure Projections

133. The county expenditure is projected to be **Ksh 8,395,325,444** in FY 2021/2022 which is decline of about **Ksh.661, 146,496** against the estimated overall fiscal expenditure of **Ksh. 9,056,471,942** in FY 2020/2021.

134. Development expenditure is expected to decrease to Kshs. **3.05Billion** from Kshs. **3.48Billion** in the current FY 2020/21, accounting for **36.3** percent of the total county expenditure.

135. Recurrent expenditures is projected to decrease to Kshs. **5.35Billion** up from Kshs **5.44Billion** in the current FY 2020/2021, which represents **63.7** percent of the county overall expenditure. **Ksh. 3,339,417,205** is to be allocated to fund personnel emoluments (P.E) and **Ksh.1, 893,139,994** for county operations and maintenance (O & M). This implies that **44.67 percent** and **25.33 percent** of the total county budget for FY 2020/2021 will be allocated to personnel emoluments and O & M respectively.

CHAPTER FIVE: CONCLUSION AND NEXT STEPS

136. The Covid-19 pandemic continues to affect economies sending shockwaves throughout the Kenya economy. This will led to a slowdown in macroeconomic growth outlook. Therefore, the preparation of the County Medium term budget FY 2021/2022 shall be anchored against the tremendous reduction in both global and domestic economic growth. The global pandemic has resulted in limited domestic fiscal space and has caused greater impact on the resource allocations to the Counties.

137. Going forward, the county departments should absorb the full impact of revenue collection shortfalls witnessed during this Covid-19 pandemic period, by implementing expenditure cuts in all discretionary areas such as travels, training and entertainment including suspending all non-critical development spending. The resources under development budget need to be reoriented to support the procurement of essential medical items like ventilators and facemasks.

138. Given the impact of the revenue shortfall and widening deficit, there will be need to rationalize the overall county spending. Non-essential services in the recurrent expenditure should be revised downwards through the introduction of supplementary estimates in the County Assembly. There is need to revise the county budget allocations to more critical sectors such as health during the Covid-19 period.

139. The County should also consider resources mobilization strategies aimed at funding development programmes that will trigger growth in other sectors, create employment opportunities and alleviate poverty. The county economic stimulus package should focus on development programmes on the ongoing investment in industry which will catalyze economic activities and offer employment opportunities during the Covid-19 crisis period.

140. Resource allocation in the FY 2021/2022 budget will be made on the basis of how programmes demonstrate delivery of targeted results as prioritized in the 2020/2021 Annual Development Plan. Departments will be tasked to support their programmes with detailed project concepts detailing viability, costs, and interlinkages with departments and how these programmes achieve the desired development agenda.

141. This paper has provided indicative sector ceilings. The Sector Working group reports will form the basis from which the resource allocation panel will determine departmental resource distribution. Resources will be allocated across departments, and affected in the in 2019 CFSP and Budget for FY 2019/20. Accounting officers are advised to plan within the set sector ceilings.

142. The mid-term review of the CIDP 2018-2022 has been slated to be done in November to December 2020. The results obtained in this paper will be a critical reference point to realign our development agenda in the context of the Covid-19 pandemic.

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143. Sector working groups will continue to be the main vessel for engagement for reviewing of performance and planning for future programmes. County Treasury will provide the framework for undertaking programme expenditure reviews for departments and also the analysis of previous years interventions which will culminate in review of the County Integrated Development Plan 2018-2022.

144. Public participation in planning and budgeting will be realigned to ensure focus on more transformative projects at both the ward level and county headquarters. The participation at the ward levels will be guided the key result areas as highlighted in the ward development plans customized from the CIDP. Communities will be tasked to prioritize interventions that will realize the set targeted results. This paper has also provided the budget calendar for FY2021/2022. This serves as a reminder to accounting officers of important budget making events and dates which they should adhere to.

APPENDICES

APPENDIX I: Medium Term Recurrent Expenditure Framework for the period FY 2021/2022 – FY 2023/2024

SECTOR		Approved Estimates FY 2020/2021	Ceiling FY 2021/22	PROJECTIONS	
				FY 2022/23	FY 2023/24
AGRICULTURE, RURAL AND URBAN DEVELOPMENT	TOTAL	348,681,083	272,409,937	286,030,433	300,331,955
Agriculture, Livestock and Fisheries	Sub Total	196,986,939.00	190,808,432.00	200,348,853.60	210,366,296.28
Environment and Natural Resources Management	Sub Total	141,694,144.00	78,601,505.00	82,531,580.25	86,658,159.26
Kwale Municipality	Sub Total	5,000,000.00	1,500,000.00	1,575,000.00	1,653,750.00

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Diani Municipality	Sub Total	5,000,000.00	1,500,000.00	1,575,000.00	1,653,750.00
ENERGY, INFRASTRUCTURE AND ICT	TOTAL	153,411,638.00	152,759,311.00	160,397,276.55	168,417,140.38
Roads and Public Works	Sub Total	153,411,638.00	152,759,311.00	160,397,276.55	168,417,140.38
GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS	TOTAL	133,186,132.00	127,919,582.00	134,315,561.10	141,031,339.16
Trade, Investment and cooperative development	Sub Total	80,307,265.00	79,307,265.00	83,272,628.25	87,436,259.66
Tourism and ICT	Sub Total	52,878,867.00	48,612,317.00	51,042,932.85	53,595,079.49
HEALTH SERVICES	TOTAL	2,082,020,276.00	2,100,000,000.00	2,205,000,000	2,315,250,000
EDUCATION	TOTAL	1,032,490,162.00	869,683,378.00	913,167,546.90	958,825,924.25
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	TOTAL	1,610,122,390	1,497,259,231	1,572,122,192	1,650,728,302
County Assembly	Sub Total	589,345,444.00	589,345,444.00	618,812,716.20	649,753,352.01
County Executive Services	Sub Total	123,556,335.00	122,894,469.00	129,039,192.45	135,491,152.07
Public Service and Administration	Sub Total	333,593,900.00	232,149,579.00	243,757,057.95	255,944,910.85
Finance and Economic planning	Sub Total	513,223,920.00	503,570,070.00	528,748,573.50	555,186,002.18
County Public Service Board	Sub Total	50,402,791.00	49,299,669.00	51,764,652.45	54,352,885.07
SOCIAL SERVICES AND TALENT MANAGEMENT	TOTAL	146,665,596.00	144,068,140.00	151,271,547.00	158,835,124.35
WATER SERVICES	TOTAL	69,107,455.00	68,457,621.00	71,880,502.05	75,474,527.15
SUB TOTAL	TOTAL	5,575,684,732.00	5,232,557,200	5,494,185,060	5,768,894,313
Conditional Grants and Loans			117,549,593		
GRAND TOTAL		5,575,684,732.00	5,350,106,793	5,494,185,060	5,768,894,313

Source: The County Treasury

APPENDIX II: Medium Term Development Expenditure Framework for the period FY 2021/2022 – FY 2023/2024

SECTOR		Approved Estimates FY2020/2021	Ceiling FY2021/2022	PROJECTIONS	
				FY2022/2023	FY2023/2024
AGRICULTURE, RURAL AND URBAN DEVELOPMENT	TOTAL	897,739,490	272,880,113	286,524,118	300,850,325
Agriculture, Livestock and Fisheries	Sub Total	641,577,313	143,336,447	150,503,269	158,028,433

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Environment and Natural Resources Management	Sub Total	161,125,819	129,543,666	136,020,849	142,821,892
Kwale Municipality	Sub Total	54,056,358	0	0	0
Diani Municipality	Sub Total	40,980,000	0	0	0
ENERGY, INFRASTRUCTURE AND ICT	TOTAL	1,185,097,572	300,506,256	315,531,569	79,623,904
Roads and Public Works	Sub Total	1,185,097,572	300,506,256	315,531,569	79,623,904
GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS	TOTAL	362,076,413	223,655,983	234,838,782	246,580,721
Trade, Investment and cooperative development	Sub Total	265,894,933	174,582,795	183,311,935	192,477,531
Tourism and ICT	Sub Total	96,181,480	49,073,188	51,526,847	54,103,190
HEALTH SERVICES	TOTAL	877,524,635	252,938,554	265,585,482	278,864,756
EDUCATION	TOTAL	1,099,320,849	324,780,317	341,019,333	358,070,299
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	TOTAL	432,814,927	140,062,962	147,066,110	154,419,416
County Assembly	Sub Total	234,854,922	87,558,464	91,936,387	96,533,207
County Executive Services	Sub Total	69,229,628	0	0	0
Public Service and Administration	Sub Total	98,142,720	31,972,990	33,571,640	35,250,221
Finance and Economic planning	Sub Total	30,587,657	20,531,508	21,558,083	22,635,988
County Public Service Board	Sub Total	0	0	0	0
SOCIAL SERVICES AND TALENT MANAGEMENT	TOTAL	291,019,376	183,614,004	192,794,704	202,434,439
WATER SERVICES	TOTAL	1,205,813,524	544,086,325	571,290,641	599,855,173
SUB TOTAL	TOTAL	5,918,591,859	2,242,524,514	2,354,650,739	2,220,699,033
Conditional Grants and Loans	TOTAL		1,030,979,167		
GRAND TOTAL		5,918,591,859	3,273,503,681	2,354,650,739	2,220,699,033

APPENDIX III: Medium Term Expenditure Framework for the period FY 2021/2022 – FY 2023/2024

SECTOR		Approved Estimates FY 2020/2021	Ceiling FY 2021/2022	PROJECTIONS	
				FY 2022/2023	FY 2023/2024
AGRICULTURE, RURAL AND URBAN DEVELOPMENT	TOTAL	1,246,420,573	545,290,050	572,554,553	601,182,280

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Agriculture, Livestock and Fisheries	Sub Total	838,564,252	334,144,879	350,852,123	368,394,729
Environment and Natural Resources Management	Sub Total	302,819,963	208,145,171	218,552,430	229,480,051
Kwale Municipality	Sub Total	59,056,358	1,500,000	1,575,000	1,653,750
Diani Municipality	Sub Total	45,980,000	1,500,000	1,575,000	1,653,750
ENERGY, INFRASTRUCTURE AND ICT	TOTAL	1,338,509,210	453,265,567	475,928,845	499,725,288
Roads and Public Works	Sub Total	1,338,509,210	453,265,567	236,229,566	248,041,044
GENERAL ECONOMIC, COMMERCIAL AND LABOUR AFFAIRS	TOTAL	495,262,545	351,575,565	369,154,343	387,612,060
Trade, Investment and cooperative development	Sub Total	346,202,198	253,890,060	266,584,563	279,913,791
Tourism and ICT	Sub Total	149,060,347	97,685,505	102,569,780	107,698,269
HEALTH SERVICES	TOTAL	2,959,544,911	2,352,938,554	2,470,585,482	2,594,114,756
EDUCATION	TOTAL	2,131,811,011	1,194,463,695	1,254,186,880	1,316,896,224
PUBLIC ADMINISTRATION AND INTERNATIONAL RELATIONS	TOTAL	2,042,937,317	1,637,322,193	1,719,188,303	1,805,147,718
County Assembly	Sub Total	824,200,366	676,903,908	710,749,103	746,286,559
County Executive Services	Sub Total	192,785,963	122,894,469	129,039,192	135,491,152
Public Service and Administration	Sub Total	431,736,620	264,122,569	277,328,697	291,195,132
Finance and Economic planning	Sub Total	543,811,577	524,101,578	550,306,657	577,821,990
County Public Service Board	Sub Total	50,402,791	49,299,669	51,764,652	54,352,885
SOCIAL SERVICES AND TALENT MANAGEMENT	TOTAL	437,684,972	327,682,144	344,066,251	361,269,564
WATER SERVICES	TOTAL	1,274,920,979	612,543,946	643,171,143	675,329,700
SUB TOTAL	TOTAL	11,927,091,518	7,475,081,714	7,848,835,800	8,241,277,590
Conditional Grants and Loans			1,148,528,760		
GRAND TOTAL		11,927,091,518	8,623,610,474	7,848,835,800	8,241,277,590

Source: The County Treasury

APPENDIX IV: Calendar for FY 2021/2022 Budget Preparation

Activity	Responsibility	Deadline
Develop and issue MTEF Guidelines	County Treasury	10-Aug-20
Launch of Sector Working Groups	County Treasury	15-Aug-20
Performance Review and Strategic Planning	Departments	30-Aug-20
Review and update of Strategic Plans	„	„
Review of programme outputs and outcomes	„	„

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Preparation of Annual Development Plan(ADP)		
Convene public hearings on County ADP FY2021/2022	County Treasury	17-Aug-20
Report writing on Public Participation hearings	County Treasury	24-Aug-20
Submit Public Participation Report to Chief Officers for discussion	County Treasury	25-Aug-20
Compilation and Consolidation of Draft CADP FY2021/2022	County Treasury	26-Aug-20
Submit Final Draft CADP FY2021/2022 to County Executive Committee for Approval	County Treasury	27-Aug-20
Submit CADP FY2021/2022 to County Assembly	County Treasury	1-Sep-20
Preparation of County Budget Review and Outlook Paper(C-BROP), 2020		
Review of Sector Performance Review Reports	County Treasury	11-Sep-20
Draft C- BROP	County Treasury	18-Sep-20
Submit C-BROP to County Executive Committee for approval	County Treasury	30-Sep-20
Submit C-BROP to County Assembly	County Treasury	23-Oct-20
Mid-term Review of the 2018-2022 County Integrated Development Plan		
Release of guidelines for mid-term review of 2018-2022 CIDP	County Treasury	5 –Nov 20
Review of programme outputs and outcomes by departments	Departments	27-Nov-20
Consolidation of reports from departments for the review	County Treasury	15-Dec 20
Preparation of 2021 County Fiscal Strategy Paper (C-FSP)		
Draft CFSP	County Treasury	29-Jan-21
Convene Public hearings on the CFSP FY 2021/2022	County Treasury	15-Feb-21
Review of views on the Draft CFSP FY 2021/2022	County Treasury	22-Feb-21
Submission of Proposed CFSP to Executive Committee for approval	County Treasury	24-Feb-21
Submission of Approved CFSP FY 2021/2022 to County Assembly	County Treasury	26-Feb-21
Preparation of Budget Estimates for FY 2021/2022		
Issue Final Guidelines on preparation of the Budget	County Treasury	15-Mar-21
Submission of Budget proposals to the County Treasury	Departments	31-Mar-21
Draft Budget Estimates for FY 2021/2022	County Treasury	2-Apr-21
Convene Public Hearings on the Draft Budget Estimates	County Treasury	5-Apr-21
Submission of Draft Estimates to Executive Committee for approval	County Treasury	15-Apr-21
Review of Draft Budget Estimates	County Treasury	19-Apr-21
Submission of Budget Estimates to the County Assembly	County Treasury	30-Apr-21
Approval of County Budget Estimates for FY 2021/2022		
Discussion of Budget Estimates by Assembly Committees	County Assembly	3-31May-21
Budget and Appropriations Committee convene Public Hearings	Budget Committee	11-June-21
Discussion of the Budget Estimates by the County Assembly	County Assembly	15-June-21
Review of Budget Estimates(Amendments if any)	County Treasury	18-June-21
Submission of Final Budget Estimates to County Assembly	County Treasury	25-June-21
Preparation of County Appropriation Bill, 2020	County Treasury	28-June-21
Budget Statement	County Treasury	30-June-21
Appropriation Bill passed and assented to by the Governor	County Treasury	30-June-21

SUMMARY OF REPORT BY THE COMMITTEE ON FINANCE, BUDGET AND APPROPRIATIONS OF THE COUNTY ASSEMBLY ON THE COUNTY BUDGET REVIEW AND OUTLOOK PAPER

COMMITTEE OBSERVATIONS

The committee made the following observations:

1. That during the year under review the County Government had a slight growth of Equitable share from 7.5 billion in the FY 2018/2019 to 7.785 billion for FY 2019/2020 an increase of 2.6%.
2. That there was a sluggish transfer of funds from the National Treasury affecting implementation, operations and service delivery in the County attributed by the spread of Covid-19 pandemic.
3. That the period under review the County collected a total of Own Resource Revenue of Ksh 254.4 million against a target of Ksh 325 million representing a collection 78.3% which is notable a decrease from the impressive 103% of annual Own Resource Revenue for similar period in the FY 2018/2019. This was mainly attributed to Covid-19 pandemic.
4. The County received Conditional Grants of Ksh 990,597,028 against a target of Ksh 2,650,831,780 creating a huge shortfall of 62.6% hindering the implementation of programmes to be financed by the grants.
5. The County also received 137.08 million for Covid-19 funds to cushion the County against socio-economic effects of the pandemic.
6. The total expenditure in the FY 2019/2020 was 8.89 billion against a revised budget of Ksh 13.24 billion representing an under absorption of Ksh 4.34 billion.
7. The County had a recurrent expenditure of Ksh 5.39 billion against a budget of Ksh 6.17 billion representing an under expenditure of Ksh 777.95 million
8. The development expenditure was below target by Ksh 3.56 billion translating to an absorption rate of 49.5%.
9. The County had an expenditure of Ksh 2,977,336,010 on Personnel Emoluments against a set budget of Ksh 2,998,797,100 representing an absorption rate of 99.28%.
10. The County had an expenditure of Ksh 2,417,096,554 on Operations and Maintenance against a budget of Ksh 3,173,585,702 representing an absorption rate of 76.16 %.

11. That delays in the release of funds to the County Revenue Fund account hindered the implementation of projects and service delivery in the County.
12. That highest fund release to CRF account was Ksh 4.3 billion (56% of equitable share) was done in the Third and Fourth quarter of the period under review putting pressure on the departments in rushing to implement their development projects before closure of the year. This explains the high amount of commitments carried out to the next financial year's budget.
13. That up to date the County government has not enacted an updated valuation roll which is a major instrument in revenue collection
14. The County Government has not enacted the Kwale County Finance bill 2018 which has greatly hindered collection of revenue.
15. That the County Government has not embraced fully automation of revenue collection to reduce leakages in revenue collection.

Compliance with Fiscal Responsibility Principles

Development Expenditure

In managing the County Government's finances, the Public Finance Management Act, 2012 Section 107(b) requires that over the medium term, a minimum of **30 percent** of each County Government's budget shall be allocated to development expenditure. County Government of Kwale complied with this legal requirement in their FY 2019/20 by allocating **39.39%** on its development budget.

Personnel Emoluments

Regulation 25(1) (b) of the PFM (County Governments) Regulations, 2015, requires that the county government's expenditure on wages and benefits for its public officers should not exceed **thirty-five (35) percent** of the county government's total revenue. Again the County Government of Kwale kept the wage bill below the legal threshold by allocating **33.46%** on personnel emoluments.

Own Source Revenue

A reasonable degree of predictability with respect to the level of local revenue bases shall be maintained, taking into account any reforms and mitigation steps that may be made in the future especially a time like this, in the event of unforeseen global economic crisis.

COMMITTEE RECOMMENDATIONS

Mr Speaker sir, the committee recommends as follows:

1. In future, the County Budget Review and Outlook Paper shall clearly capture the analysis of the pending bills for the year under review, their status up to the time of preparation of the paper.
2. The County Assembly shall within two months after the adoption of this report enact the Kwale County Finance bill,2018 to enable ease collection of revenue.
3. The County Government shall speed up the fully automation of revenue to minimize loss of revenue through leakages.
4. That the Department of Finance and Economic Planning shall within four months after the adoption of this report launch the valuation roll to enable improvement of revenue collection especially on land rates.
5. The County Departments shall work in coordination to ensure the targeted Own Source Revenue collection is achieved.
6. That the County Government shall strictly adhere to its procurement plan to ensure a higher absorption rate for both Development and Recurrent expenditures.
7. That the County Executive shall liaise with development partners to ensure timely disbursements of Grants and Conditional loans.
8. That the Senate together with the Council of Governors shall engage the National Treasury to ensure timely release of funds to Counties.