REPUBLIC OF KENYA **MANDERA COUNTY GOVERNMENT**

OFFICE OF THE COUNTY EXECUTIVE COMMITTEE FINANCE AND ECONOMIC PLANNING

COUNTY BUDGET REVIEW AND OUTLOOK PAPER (CBROP)

KENYA VISION 2030

TOWARDS A GLOBALLY COMPETITIVE AND PROSPEROUS NATION

SEPTEMBER 2019

ABBREVIATIONS

CBROP	County Budget Review and Outlook Paper
CFSP	County Fiscal strategy Paper
FY	Financial Year
PFMA	Public Financial Management Act
CIDP	County Integrated Development Plan
CG	County Government
CRA	Commission on Revenue Allocation
GDP	Gross Domestic Product
IFMIS	Integrated Financial Management and Information System
SME	Small and Medium Enterprise
MTEF	Medium Term Expenditure Framework
SRC	Salaries and Remuneration Commission
CBSP	County Public Service Board
KDSP	Kenya Devolution Support Program
PPP	Public Private Partnership
OSR	Own Source Revenue
SWG	Sector Working Groups
Kshs	Kenya Shillings
CG	County Government

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FOREWORD

This County Budget Review Outlook Paper (CBROP) was prepared as required by section 118 of the Public Finance Management Act, 2012. It reviews the actual fiscal performance of the financial year 2018/2019 and makes comparisons to the budget appropriations of the same year. It also provides the recent economic developments and the updated economic and financial forecast with sufficient information to show changes from the forecast in the County Fiscal Strategy Paper (CFSP) of February, 2019.

In reviewing the fiscal performance, this paper analyzes the performance of county own revenue in the FY 2018/2019. It has included the total revenue collected and made comparison to the budgeted revenue for the same year. In addition, possible causes of the low local revenue performance are also highlighted. The paper also provides ministerial expenditures for both recurrent and development for the year under review. A comparison of actual performance against targets for FY 2018/19 is provided.

The preparation of this CBROP will be an important tool that will help in the formulation of 2019/20 budget and will also provide foundation for the 2020 CFSP.

Through proper panning, the county intends to achieve maximum fiscal discipline that ensures proper management of public resources and delivery of expected output. To ensure transparency and accountability, the county executive will involve and relay budget performance and management reports to all county stakeholders as required by the constitution 2010 and Public Finance Management Act, 2012.

In line with presidential directive of zero tolerance to pending bills, the county starting with the 2019/20 supplementary budget, will clear all pending debts including low value projects to create a debt free regime.

Ibrahim B. Hassan
Executive Committee Member
Finance and Economic Planning

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

The County Budget Review and Outlook Paper is prepared in accordance with Section 118 of the Public Financial Management Act, 2012.

The law states that:

1. The County Treasury shall prepare and submit to 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 the 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 the fiscal responsibility principles or the financial objectives in the latest County Fiscal strategy paper; and

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 CBROP has been approved by Executive committee, the County Treasury shall:
a) Submit the paper to the Budget and appropriation Committee of the County Assembly to be laid before the County assembly; and

b) Publish and publicize the paper not later than fifteen days after laying the Paper before County Assembly.

Responsibility Principles in the Public Financial Management Law

In line with the Constitution, the new Public Financial Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudency and transparency in the management of public resources.

The PFM law (Section 107(b)) states that:

1) The county government's recurrent expenditure shall not exceed the county government's total revenue

2) Over the medium term, a minimum of 30% of the County budget shall be allocated to development expenditure

3) The County government's expenditure on wages and benefits for public officers shall not exceed a percentage of the County government revenue as prescribed by the regulations.

4) Over the medium term, the County government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.

5) Public debt and obligations shall be maintained at a sustainable level as approved by County Government (CG)

6) Fiscal risks shall be managed prudently

7) A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future

CHAPTER ONE: INTRODUCTION

1.1 Introduction

This is year's Budget Review and outlook paper (CBROP) is the sixth to be prepared by Mandera County in line with the Public Finance Management Act, 2012 section 118. The CBROP is one of the planning documents that a county must prepare by law. It is supposed to link planning, policy formulation and budgetary allocations.

The PFM Act 2012 requires every county to prepare a CBROP by 30th September of every financial year and submit the same to the County Executive Committee. Upon consideration by the County executive committee, the CBROP must be submitted to the County assembly by the 21st October for consideration and approval. As per the requirement of the PFM Act, this CBROP contains a review of the fiscal performance of the FY 2018/2019.

The main goal of this CBROP is to provide a review of the previous year fiscal performance and how this impacts on the financial objectives and fiscal responsibility principles set out in the PFM Act, 2012.This together with updated macroeconomic outlook provides a basis for revision of the current budget in the context of supplementary estimates and the broad fiscal parameters underpinning the next budget and the medium term. Details of the fiscal framework and the medium term policy priorities will be provided in the County Fiscal Strategy Paper which will be ready early next in line with section 117 of PFM Act 2012.

1.1 Objective of the CBROP

As a planning documents, CBROP endeavors to address several objectives. Key among them is

(a) Provide a review of the county Fiscal performance in the financial year 2018/2019 compared to the appropriation of that year and how this had an effect on the Economic performance of the county.

(b) Provide an updated economic and financial forecast with sufficient information to show any Changes from the most recent forecasts which may have been provided in fiscal documents like the CFSP

(c) Reasons for any deviations from the financial objectives in the CFSP with the proposals to address the deviation

1.2 The structure of the CBROP

The CBROP has five chapters. Chapter one includes introduction and objectives of CPROP. Chapter two provides a review of the fiscal performance in FY 2018/2019 and its implications on the financial objectives. This is followed by brief highlights of the recent economic development and updated macroeconomic outlook in chapter three. Chapter four provides the resources allocation framework while chapter five gives the conclusions and way forward.

CHAPTER TWO

REVIEW OF FISCAL PERFORMANCE IN THE FINANCIAL YEAR 2018/2019

2.0 Overview

This chapter discusses the 2018/19 budget performance and its implementation. It provides comparisons between actual budget performances against the targeted results. This will be useful in providing a basis for setting out broad fiscal parameters for subsequent budgets as well as a way forward for Mandera County.

2.1 Fiscal Performance

The County Government's mandate as stipulated by the Constitution of Kenya is discharged by Departments through implementation of projects and programs. These projects and programs are allocated funds through County Budgeting process.

In the 2018/19 FY the County had a Budget Resource Envelope of Kshs. 13,709,957,408 billion of which Kshs. 6,633,042,110 billion (48%) was allocated for recurrent expenditure and Kshs. 7,076,915,298 billion (52%) was allocated for development expenditure. The allocation to development was in line with Fiscal Responsibility requirements in the PFM Act 2012 (section 107) requiring that at least 30% of the County Budget be dedicated for development. The County Budget revenues were made up of transfers from the Equitable Share, National Government Conditional Grants, Donor Funding, Own Source Revenues (OSRs) and Unspent Balances carried forward from the 2017/18 Financial Year.

The county's fiscal performance for the FY 2018/19 was generally very satisfactory despite existence of numerous challenges occasioned by factors such as fund delays and local revenue underperformance. The county government in its 2018/2019 budget expected a local collection of Kshs. 179,287,568 million which was about 1.3% of the county's budget. But only Kshs. 95,421,471 million was realized at the end of the financial year. On other revenue streams, the equitable share of revenue allocated by Commission on Revenue Allocation accounted for Kshs. 10,142,200,000 (74%). Other notable components of the county's revenue included unutilized funds from the previous financial year amounting to Kshs. 2,421,546,956 billion. This accounted of 18% of county's total revenue. This money was unspent but committed funds from 2017/2018 financial year. There was also some Kshs. 32,653,125 million by Danish government and Kshs. 100,000,000 million from World Bank to support health sector. 51.6% of the budget was allocated to recurrent expenditure while 48.4 % was for development expenditure.

The fiscal performance for FY 2018/2019 was promising despite a number of short comings which included;

a) Delays in disbursement of funds from the national government thereby delaying implementation of county programs.
b) Under performance of the local revenue. The county collected only Kshs. 95,421,471 million instead of the budgeted Kshs. 179,287,568 million.
c) Frequent IFMIS breakdowns impacting negatively on the county's absorption of funds.
d) Security challenges which negatively affected many sectors of the county's operations and economy.

2.2 Revenue Performance

The following table shows revenue analysis for the FY 2018/2019 as realized from local sources and the equitable share from national government with deviations

Table 1: Revenue Analysis *(Source: County Treasury, Mandera)*

Revenue	Approved	Actual	Deviation	% Deviation
Equitable Share (Kshs.)	10,142,200,000	10,142,200,000	-	0.00%
Compensation for User Fee Foregone	25,474,920	25,474,920	-	0.00%
Road Maintenance Fuel Levy	267,035,293	267,035,293	-	0.00%
Rehabilitation of Village Polytechnics	31,240,000	23,586,200	7,653,800	24.5%
Transforming Health Systems for Universal Care Project (World Bank)	100,000,000	85,173,208	14,826,792	14.8%
Kenya Climate Smart Agriculture Project (World Bank)	150,000,000	54,858,856	95,141,144	63.4%
Kenya Devolution Support Programme (World Bank)	58,673,488	235,542,828	235,542,828	501%
Kenya Urban Support Project (KUSP) (World Bank)	175,819,500	175,819,500	-	0.00%
DANIDA - Universal Healthcare in Devolved System Programme	32,653,125	32,653,125	-	0.00%
Agriculture Sector Development Support Programme (ASDSP) II + Bal C/F in FY 2017/18	37,000,000	10,161,036	26,838,964	72.5%
Local revenues	179,287,568	95,421,471	83,866,097	46.7%
Unspent Balances 2017/2018	2,421,546,956	2,421,546,956	-	0.00%
Kenya Urban Support Project (KUSP) (World Bank)	-	41,200,000	41,200,000	0.00%
Development of youth Polytechnics b/f	29,831,415	29,831,415	-	0.00%
Danida Funds from 2017/2018 reflected in the supplimentary that was not passed	25,000,000	25,000,000	-	0.00%
Unspents RMLF b/f	34,195,144	34,195,144	-	0.00%
TOTAL (Kshs.)	**13,709,957,409**	**13,699,699,952**	**563,743,113**	**4%**

An analysis of the table indicates that the County generated a total of Kshs.95.49 million from own revenue sources in FY 2018/19 deviating from the budgeted amount by 46.7%. This amount, however, represented an increase of Kshs.33.93 million compared to that realized in FY 2017/18. The slight improvement in internal revenue is attributed to strict oversight and strengthening of the revenue department.

During the reporting period, receipts for Kenya Devolution Support Programme grant recorded the highest performance in percentage terms, and accounted 501 per cent of the annual target. World Bank and rehabilitation of youth polytechnic had some slight deviations from the targets.

These sources of revenue performed below expectations and hence have impacted negatively on the budget implementation process. The rest of the revenue source has shown good performance. The fiscal performance for the FY 2018/2019 was therefore considered a great success.

The following challenges were, however, prominent:

1. Low local revenue performance continued to be major headache for the county government though an improvement in collection has been observed. Local revenue underperformed by a whopping 47%.
2. Incidences of insecurity such as frequent terror activities along the major highways have scaled down county's economic prospects.
3. Delayed disbursement of funds from the national government had negatively affected county's budget execution.

Table 2: Local Revenue Collections

Total Monthly Revenue Collection for Mandera County in FY 2018/2019		
Month	**Amount Collected in Kshs.**	**Cumulative Collections**
July	5,548,290	5,548,290
August	8,143,320	13,691,610
September	6,677,350	20,368,960
October	6,953,300	27,322,260
November	7,278,120	34,600,380
December	6,444,760	41,045,140
January	9,154,150	50,199,290
February	9,226,530	59,425,820
March	9,222,110	68,647,930
April	8,502,360	77,150,290
May	9,917,900	87,068,190
June	8,418,723	95,486,913
Total Collections for FY 2018/2019		**95,486,913**

Source: Revenue Directorate, Mandera County Government

The highest OSR collection was realized in the month of May 2019 amounting to Kshs. 9,917,900 million, while the least collection was in the month of July 2018 amounting to Kshs. 5,548,290 million.

The table below summarizes comparisons between local revenue targets and what was realized for the year under review.

Table 3: FY 2018/19 Revenue Collection by Stream

MANDERA COUNTY GOVERNMENT OWN SOURCE REVENUE FOR FY 2018/19 REPORT			
REVENUE ITEMS	**Budgeted amounts in Kshs.**	**Total amount collected in Kshs.**	**Percentage**
Hospital Collection	27,320,000	20,314,460	21%
Land Rents	22,310,115	17,885,270	19%
Single Business Permit	18,767,852	9,776,850	10%
Miraa Movements	19,201,845	7,892,200	8%
Barriers	1,877,431	7,495,200	8%
Land Transfers	10,078,000	5,707,000	6%
Slaughter Fees And Charges	5,173,030	4,415,290	5%
Livestock Markets	8,551,098	3,048,300	3%
Markets Stalls	3,868,865	2,997,030	3%
Tender And Quantity Surveying Fees	927,591	2,712,000	3%
Livestock Movement	4,463,527	2,548,700	3%
Income From Water Management	9,944,467	2,136,950	2%
Agriculture Mechanization Services	4,900,000	1,976,000	2%

Others	10,586,878	1,916,043	2%
Public Health	9,100,000	1,026,300	1%
Stores	3,235,201	926,720	1%
Buspark/Taxis	1,178,491	756,450	1%
Building Plan	3,685,817	741,400	1%
Rental Income	118,745	556,300	1%
Produce Cess	1,491,170	367,400	0%
Income From Quaries	3,308,958	291,050	0%
Local Flights Tickets-Mandera Airstrip	5,500,000	-	-
Hire Of Public Works Equipments	3,500,000	-	-
TOTAL	**179,089,080**	**95,486,913**	**100%**

Source: Revenue Directorate, Mandera County Government

During the year under review, the total expected revenue from all sources for the county revenue sources was Kshs. 13,709,957,409 billion. Out of this amount, the budgeted amount from local collections was Kshs. 179,089,080 million (1.3%). Despite this budgeted figure, only Kshs. 95,486,913 million was realized at the end of financial year.

An analysis of local revenue performance shows the revenue streams that yielded the highest were hospital collections (21%) and land rates (19%) while income from Quarries recorded zero percentage (0%) as a result of closure of Quarry activities in the county due to insecurity problems in the area.

As shown above, the county's local collection has underperformed for the year under review. The following factors are chiefly responsible for the poor performance:

- Closure of quarries, sand and blast sites due to terrorism
- Frequent closure of the Kenya Somalia boarder due to insecurity
- Lack of enforcement capacity
- Poor infrastructure that makes the cost of doing business very high. This means few businesses survive in our county.
- Persistent devastating droughts that has negatively impacted the economic powers of the communities
- General insecurity that discourages investment in the county.

Expenditure Performance

The county's approved budget for FY 2018/2019 was Kshs. **13,709,957,408** billion. A total of Kshs. **12,079,289,196** billion was spent on both development and recurrent activities. This absorption accounted for **88%** of the total approved budget. The recurrent expenditure for the year was Kshs. **6,312,015,359** billion against a target of Kshs. **6,633,042,110** billion. The recurrent budget absorption was **95%,** an increase from 87% recorded in FY 2017/18. Development expenditure recorded an absorption rate of **81**%, which was an increase from 67% attained in FY 2017/18. The actual expenditure on development programmes amounted to Kshs. **5,767,273,837** billion against a budgeted figure of Kshs. **7,076,915,298** billion.

The overall budget execution status for both the development and the recurrent votes was satisfactory for the FY 2018/2019.

Table 4: Total Expenditure

Expense Category	Annual Budget (Kshs.)	Total Expenditure (Kshs.)	Variance (Kshs.)	Absorption Rate (%)
Recurrent	6,633,042,110	6,312,015,360	321,026,750	95%
Development	7,076,915,298	5,767,273,837	1,309,641,461	81%
Total	**13,709,957,408**	**12,079,289,197**	**1,630,668,212**	**12%**

Source: County Treasury, Mandera County

The variance of Kshs. 1,630,668,212 billion led to lower absorption of both recurrent (95%) and development expenditure (81%) by the County Departments. In particular, underperformance by the development vote was occasioned by late releases of funds others being released as late as 5th July 2019.

Recurrent Expenditure

As stated earlier, the county performed well in the execution of the recurrent budget for the FY 2018/19. The county had a total recurrent budget of Kshs. **6,633,042,110** billion. Except the county assembly, all other ministries were able to absorb above 90% of their recurrent budget within the financial year. The ministry of Gender, Youth and Social Service and the ministry of Lands, Housing and Physical Planning exhausted their recurrent budget within the financial year and had the highest percentage of recurrent expenditure to recurrent budget at 100%. The ministry of Agriculture, Livestock and Fisheries, the ministry of Education, Culture and Sports; the ministry of Water, Environment and Natural Resources and the ministry of Health Services recorded an absorption rate of above 99%. The county assembly was the lowest spender of recurrent budget in the year at an absorption rate of 84%.

The table below shows a tabulated analysis of county's total recurrent expenditure for FY 2018/2019 per ministry as at 30th June 2019.

Table 5: Recurrent Expenditure by Ministries

Name the Programme	Recurrent budget	Total Recurrent Expenditure	Deviations from the target	Absorption Rate in percentage
County Assembly	810,631,525.00	680,451,909.30	130,179,615.70	84%
Agriculture Livestock and Fisheries	205,064,461.89	202,640,092.35	2,424,369.54	99%
Education, Culture and Sports	604,834,063.57	599,446,254.96	5,387,808.61	99%
Gender, Youth and Social Service	97,312,979.57	96,979,517.58	333,461.99	100%
Finance, Economic Planning, ICT and Special Program	569,892,792.36	535,799,256.85	34,093,535.50	94%
Health Services	1,716,693,900.17	1,700,563,601.17	16,130,299.01	99%
Trade, Investments, Industrialization and Cooperative Development	47,069,254.16	45,069,253.18	2,000,000.97	96%
Lands, Housing and Physical Planning	63,202,036.37	63,202,035.57	0.8	100%
Office of the Governor and Deputy Governor	667,598,465.70	610,422,764.22	57,175,701.48	91%
County Public Service Board	70,060,763.83	65,023,613.29	5,037,150.54	93%
Public Service, Management and Devolved Unit	1,267,128,478.43	1,211,491,834.18	55,636,644.25	96%
Public Works Roads and Transport	102,812,511.20	93,312,508.34	9,500,002.86	91%
Water, Environment and Natural Resources	410,740,877.82	407,612,718.85	3,128,158.97	99%
TOTAL	**6,633,042,110**	**6,312,015,359.84**	**321,026,750**	**95%**

Source: County Treasury

Development Expenditure

In the FY 2018/19, the county's gross development budget was Kshs. **7,076,915,298** billion. Kshs. **5,767,273,837** billion representing 81% of the development vote was utilized within the financial year. No ministry was able to exhaust its entire development vote. The ministry of Public Service, Management and Devolved Unit recorded the highest absorption rate of development budget at 97%. This was followed of by the ministry of Gender, Youth and Social Services and the ministry of Water, Environment, Sanitation and Natural Resources with absorption rates of 96% and 94% respectively. The lowest performers in the development budget execution were the county assembly (25%) and ministry of Land, Housing and Physical planning (29%).

Table 6: Development Expenditure by Ministries

Ministry	Development Budget	Development Expenditure	Deviations from Target	Absorption Rate in percentage
County Assembly	211,263,509.55	53,469,968.00	157,793,541.55	25%
Agriculture Livestock and Fisheries	649,985,726.27	366,632,820.51	283,352,905.76	56%
Education, Culture and Sports	498,823,674.00	319,248,959.20	179,574,714.80	64%
Gender, Youth and Social Service	129,050,000.00	123,392,747.00	5,657,253.00	96%
Finance, Economic Planning, ICT and Special Program	159,923,837.25	135,461,000.00	24,462,837.25	85%
Health Services	810,941,000.00	594,048,124.60	216,892,875.40	73%
Trade, Investments Industrializations and Cooperative Development	285,226,040.50	265,779,425.53	19,446,614.97	93%
Lands, Housing and Physical Planning	156,703,084.66	45,433,968.24	111,269,116.42	29%
Public Service, Management and Devolved Unit	453,000,000.00	438,773,089.00	14,226,911.00	97%
Public Works Roads and Transport	2,030,512,603.08	1,832,712,601.84	197,800,001.23	90%
Water, Environment and Natural Resources	1,691,485,823.00	1,592,321,133.00	99,164,690.00	94%
GRAND TOTAL	**7,076,915,298**	**5,767,273,837**	**1,309,641,461**	**81%**

Source: County Treasury

Table 7 provides a summary of development projects with the highest expenditure in the financial year.

Table 7: List of Development Projects with the Highest Expenditure in FY 2018/19

S/No.	Project Name	Project Location	Project Budget	Project Expenditure in FY 2018/19 (Kshs.)	Absorption Rate (%)
1	Tarmac Roads Lot 1	Countywide	268,484,715	268,484,715	100
2	Roads Maintenance Fuel Levy for 2018/2019 (Takaba-Gith- er, Rhamu - Malka Mari, Kutayu - Elwak, Elwak-Elgolicha, Awara-Morothiley & Guba-Choroqo)	Takaba-Gither, Rhamu - Malka Mari, Kutayu - Elwak, Elwak-Elgolicha, Awara-Morothiley & Guba-Choroqo	267,035,293	267,035,293	100
3	Completion of County Headquarter	County Headquarter	245,000,000	245,000,000	100
4	Tarmac Roads Lot II	Countywide	244,723,103	244,723,103	100
5	Completion of Rest House	County Assembly	140,000,000	140,000,000	100
6	Procurement/Equipment Leasing (A & E and Maternity at Elwak and MCRH)	A & E and Maternity at Elwak and MCRH	75,000,000	75,000,000	100
7	Constructions of modern slaughter house in Mandera East	Mandera East	61,291,705	61,291,705	100
8	Elwak SME market Park completion	Elwak SME market Park	57,101,136	57,101,136	100
9	Proposed paved parking and drainage system at Elwak SME market Park	Elwak SME market Park	50,000,000	50,000,000	100
10	Mandera County Rehabilitation Centre	Mandera Town	44,000,000	44,000,000	100

Source: County Treasury-Mandera

Implication of 2018/19 fiscal performance on fiscal responsibility principles and financial objectives contained in the 2018 CFSP

During the period under review, the county had planned to collect revenue amounting to Kshs. 13,709,957,408 billion. At the close of the financial year, the county had received revenues amounting to Kshs. 13,699,699,952 billion. This implies that the baseline ceilings for subsequent budgets ought to be adjusted considering the underperformance in revenue collection in the FY 2018/19. Consequently, this may affect the financial performance objectives stipulated in CFSP 2018.

The review of budget for the FY 2018/19 reveals that revenue underperformance was in both local revenue collection and external revenue. Therefore, the overall revenue performance in FY 2018/19 points to the need for enhancement of local revenue collection measures and the national government transfers as determined by the Commission for Revenue Allocation (CRA) is consistent in future.

Additional implications borders on the capacity of the county government to implement its budget in FY 2019/20 and in the subsequent years. In view of the foregoing, appropriate measures have been applied in the context of this CBROP, taking into account the budget outturn for 2018/19. The County Treasury will work closely with revenue agencies to improve local revenue collection.

Continuing in Fiscal Discipline and Responsibility Principles

In line with the Constitution of Kenya 2010 and PFM Act 2012 Mandera County Government has adhered to the fiscal responsibilities as set out in the law as follows;

Over the medium term a minimum of 30 percent of the county government's budget shall be allocated to the development expenditure. In the fiscal year under review the county allocated Kshs. 7,076,915,298 billion which was 52% the county total budget for the 2018/2019.

The county government's expenditure on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenue as prescribed by the County Executive member for finance in regulations and approved by the County Assembly. The County expenditure on wages and salaries is about 21 per cent which is below 35% set in the 2015 County Government regulations.

The county debt shall be maintained at a sustainable level as approved by county assembly and the county government's recurrent expenditure shall not exceed the county government's total revenue. During the period under review the County Government did not borrow and when the regulations are set in place that allow County Governments to borrow, all the borrowings will be for financing of development projects.

A reasonable degree of predictability with respect to the level of tax rates and tax bases shall be maintained, taking into account any tax reforms that may be made in the future. The County Government has continued to adopt a more rational approach in revenues and expenditure forecasts based on acute environment and potential of the County to expand its revenue base. The County Finance Act 2018 has not significantly altered the rates of taxation and in future the anticipation is that it could be predicted.

Fiscal risks shall be managed prudently. The county treasury has considered all possible risks and provided for unforeseen emergencies and disaster in the budget in the tune of Kshs. 150 million in the financial year under review.

CHAPTER THREE
RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

3.1 Introduction

Mandera County Government operates within the dynamics of the national and global macroeconomic environment. The impact of global and national economic variability influences directly and indirectly the county fiscal decisions and operations. Economic growth, measured quantitatively as the Gross Domestic Product (GDP) of a country is a parameter that influences national government transfers to the counties given the positive correlation between growth and national revenue performance. Exchange rate fluctuations also affect the county processes with currency depreciation making our imports more expensive. This greatly affects the manufacturing sector since it mostly depends on imported raw materials and intermediate goods in its industrial processes, leading to a slowdown in the county's industrialization. Interest rates affect the cost of local borrowing while inflation changes the costs of goods and services and may affect their affordability as per existing plans.

3.2 Global and Regional Economic Development

Global growth is projected to remain steady and grow by 3.7 percent in 2018 and 2019. The leveling-off is driven by the recently announced trade measures, including the tariffs imposed on $200 billion of US imports from China, closure of output gaps in advanced economies, moderation in trade and investment, and a gradual tightening of financing conditions due to ongoing withdrawal of accommodative monetary policy in advanced economies. Global growth optimism is constrained by rising trade tensions likely to have a negative impact on confidence, asset prices, global trade and investments. The Global financial crisis in 2008 and that has caused global inflation to increase. The year 2018 recorded an inflation rate of 3.78% as compared to an inflation of 3.2% in the year 2017, and is estimated to hit a rate of 3.83% in the year 2019 as per the Statista Ratings.

In the East African Community (EAC) region, Economic Growth is estimated to have risen to 5.9 percent in 2018 from 5.3 percent in 2017, the growth has been driven by a rebound in agricultural activity due to favorable weather conditions and a pickup in private sector credit growth. In 2019, economic growth is projected to increase to 6.3 percent supported by a stable macroeconomic environment.

3.3 National Macro-Economic Outlook

The 2019 BPS indicate the following outlook at the National level:

Growth of the Kenya Economy remained resilient, provisional estimates of gross domestic product indicate that the economy expanded by 6.0 per cent during the third quarter (Jul - Sept) of 2018 which was an improvement compared to a 4.7 per cent growth during a similar quarter in 2017. The gross domestic product projects that the Economy will expand by 6.2% in the year 2019.

The economy continues to register macroeconomic stability with low and stable interest rates and a competitive exchange rate to support exports. Month-on-month overall inflation remained stable and within target at 5.7 percent in December 2018 from 5.6 percent in November 2018, largely on account of low food prices following favorable weather conditions and a decline in energy prices due to lower prices of electricity and diesel. However, overall inflation increased from 4.5 percent in December 2017 to 5.7 percent in December 2018 on account of an increase in international oil prices.

The foreign exchange market remains stable supported by a continued narrowing in the current account deficit. The current account deficit is expected to narrow to 5.2 percent of GDP in 2018 from 6.3 percent in 2017, with strong performance of agricultural exports particularly tea and horticulture, increased diaspora remittances, strong receipts from tourism, and lower imports of food and Standard Gauge Railway (SGR) related equipment relative to 2017.

Over the medium term, economic growth is expected to rise gradually to 7.0 percent per annum due to investments in strategic areas under the “Big Four” Plan that aim to increase job creation through the manufacturing sector, ensure food security and improved nutrition, achieve universal health coverage and provide affordable houses to Kenyans. These efforts will support the business environment, create jobs and ultimately promote broad based inclusive growth.

Kenya continues to be ranked favorably in the ease of doing business and as a top investment destination. In the 2019 World Bank’s Doing Business Report, Kenya was ranked position 61 in 2018 moving 19 places from position 80 in 2017.

3.4 Domestic Economic Development

As of 2018 Estimates, Kenya had a GDP of $85.980 billion making it the 69th largest economy in the world.

Per capita GDP was estimated at $1,790. The rebound in economic activity in 2018 is a reflection of improved rains, better business sentiment and easing of political uncertainty. Growth is projected at 6.0 percent in 2018 up from 4.9 percent in 2017. From the supply side, growth was mainly driven by a recovery in activities of Agriculture as well as improved output in Wholesale and Retail Trade, Manufacturing, and Real Estate sectors. On the other hand, Financial and Insurance; Transportation and Storage; Construction; Electricity Supply; and Mining and Quarrying recorded marked slowdown in the growth. Growth of activities in the Information and Communication was robust while Accommodation and Restaurants slowed significantly but remained relatively strong. Under the 'Big Four' agenda, the Government has prioritized the delivery of affordable housing, rolling out universal health coverage, increasing the share of manufacturing in the economy, and improving food security.

Inflation has been low, stable and within the Government target range of 5+/-2.5 percent in the period 2013 to 2018 (averaging 6.4 percent) as a result of prudent monetary and fiscal policies. The inflationary pressure witnessed in 2017 due to drought that affected food prices eased in 2018 supported by improved weather conditions that resulted in lower food prices. Month-on-month overall inflation remained stable and within target at 5.7 percent in December 2018 from 5.6 percent in November 2018, owing to a decline in food prices particularly maize, onions and tomatoes following improved weather.

The Kenya Shilling exchange rate remained broadly stable against major international currencies. As at December 2018, the shilling exchange rate against the Dollar was at Kshs. 102.3 from Kshs. 103.1 in December 2017. Against the Euro and the Sterling pound, the Shilling strengthened to Kshs. 116.4 and Kshs. 129.7 in December 2018 from Kshs. 122.0 and Kshs. 138.2 in December 2017, respectively. The Kenya shilling exchange rate has continued to display relatively less volatility, compared to most sub-Saharan currencies. This stability reflects strong inflows from tea and horticulture exports, resilient diaspora remittances and improved receipts from services particularly tourism.

Interest rates remained stable and low in the period 2013-2018 except June- December 2015 when world currencies were under pressure. During the period the policy rate was adjusted appropriately to anchor inflation expectations. The central bank rate was reduced to 9.0 % on July 2018 from 9.5% in March 2018 as there was room for easing monetary policy stance to support economic activity.

The overall balance of payments position was at a deficit of 1,333.9 US$ million in the year to October 2018 from a surplus of US$ 490.5 million in the year to October 2017. This deficit was due to a decline in the financial account despite an improvement in the capital and current accounts. The current account balance improved to a deficit of US$ 4,660.6 million in the year to October 2018 compared to a deficit of US$ 5,141.8 million in the year to October 2017. This improvement was supported by strong growth of agricultural exports particularly tea and horticulture, increased diaspora remittances strong receipts from tourism, and lower imports of food and SGR –related equipment relative to 2017.

In August 2018, the foreign exchange reserves for Kenya were 9,015 million US dollars. Though Kenya's foreign exchange reserves fluctuated substantially in recent months, it tended to increase through September 2013 - August 2018 period ending at 9,015 million US dollars in August 2018.

3.5 County Outlook

The major economic activities in the County include livestock farming, small-scale trade and quarrying. Nomadic pastoralism is the backbone of Mandera County with camels, goats, sheep and cattle being the main type of livestock reared. The region's vast pasture land has allowed this activity to be viable. But long droughts in the region and rampant diseases pose a threat to the livestock year in year out affecting livestock production. This further worsened the food insecurity situation in the county, thus forcing the county to inject resources in the Agriculture and Livestock sector.

The County's poor roads cause delays in deliveries of commodities and increase in transport costs that are in turn transferred to the consumer, with prices varying upward to 50% on some products as compared to recommended retail prices in other areas. Improvement of infrastructure within the County, in conjunction with the National Government will enable other productive sectors to thrive. Investment in Trade, Industrialization and Cooperative sector will help in the creation of employment in the informal sector. The construction of major roads cutting across the County will ease movement and transportation of goods and services; this will open up the County for trade and development. To this effect the county has invested in road construction which has greatly improved accessibility to market places as well as movement of human capital to all parts of the county.

The County government has made significant investments in roads, health and water structures. Healthcare system has improved tremendously through provision of medical supplies, construction of maternities and dispensaries. Construction and equipping of additional boreholes has improved water accessibility for both human and animals. The County Government has also expanded agricultural growth through the supply of pump sets, construction of canals, provision free certified seeds and fertilizers to improve productivity.

Livestock development and value addition to livestock products continued through improved access to livestock markets such as construction and repairs of existing livestock markets, provision of livestock feeds, improved animal health and general disease control. In an endeavour to uplift the lives of the vulnerable members, the county provided cash transfers, housing and restocking of livestock to vulnerable families in every sub-county of Mandera.

The county government will continue undertaking appropriate measures to put the county economy on an improved growth path in the medium term.

3.6 Medium Term Fiscal Framework

The Government of Kenya has adopted a policy of expenditure prioritization with a view to achieving the transformative development agenda which is anchored on provision of core services, ensuring equity and minimizing costs through the elimination of duplication and inefficiencies, implementation of the constitution, creation of employment opportunities and improving the general welfare of the people.

The County Government is committed to fiscal discipline in order to promote productive sector growth and overall economic growth. In this regard, expenditure management and revenue administration reforms have been implemented with ministries expected to adopt the culture of doing more with less that is available with a view to promote sustainability and affordability. Sustainability, affordability and strict prioritization are therefore expected to be the norm rather than an exception in the county.

Mandera County Government Administration has been working to implement the CIDP (2018-2022) in place which is inclusive of the "Big four" agenda, the Governor's Transformative agenda, the County's Flagship Projects, the County residents' aspirations among Other Departmental Projects and initiatives in order to achieve the issues affecting the Mandera County residents as stipulated in the current CIDP, and at the same time revive the County's Economy.

Some of the key areas covered under the Big Four Agenda include:

(a) Enhancing Food and Nutrition Security to all Kenyans by 2022 - Under this cluster, the objective is to ensure all citizens enjoy food security and improved nutrition by 2022.

(b) Providing Universal Health Coverage and Guaranteeing Quality and Affordable

Healthcare to all Kenyans - under this cluster, the relevant MDAs will be implementing identified interventions with the objective of expanding Universal Health Coverage.

(c) Provision of Affordable and Decent Housing for all Kenyans - under this cluster, the Government intends to provide decent and affordable housing by constructing at least five hundred thousand housing units by 2022.

(d) Supporting value addition and raising the manufacturing sector share of GDP to 15 percent by 2022 - under this cluster, the objective is to increase the share of manufacturing sector to GDP to 15 percent by 2022.

For the County Government, all the development programs will revolve around the national policy although emphasis will be placed on the funding of devolved functions which is the core business of county government. The following areas will receive the greatest attention in the 2020/2021 budget:

i. Creation of key infrastructural facilities and public works necessary for stimulating countywide economic growth.
ii. Provision of water and food security
iii. Enhanced good governance, transparency and accountability in the delivery of public goods and service.
iv. Promotion of social economic development and stability
v. Promotion of trade and commerce to spur economic growth and development
vi. Promotion of environmental protection and roper and prudent use of land resource
vii. Completion of all ongoing projects and payment of all pending liabilities

3.7 Risks to the Outlook

The county government has a good prospect of performing better in the following financial year. However, the following factors pose considerable risks to the realization of the county's noble objectives:

- The high East African Community Regional economic Inflation rate estimated to go up to 7.8% in 2019, which may lead to increase of prices of Goods and services domestically.
- Overreliance on national government funding due to weak local revenue performance.
- There is risk of decreased funding for county governments due to the austerity measures adopted by national government occasioned by a biting cash crunch.

- Insecurity that hampers the smooth operations of county programs/projects and scares away investors and skilled manpower.
- Frequent IFMIS breakdowns and challenges that slow down the county's ability to absorb funds in a timely manner.
- Frequent boarder closures. The closure of Kenya-Somalia boarder from time to time may disrupt movement of goods and services thereby leading to low own source revenue collections for the county.
- Existence of pending liabilities that will consume large amount of funds.
- Political disturbances from the county assembly and frequent litigations from members of public have the potential to delay timely implementation of projects.
- Persistent drought and other calamities that lead to deviation of resources.

3.8 Measures to Mitigate on the Risks

The County Government will employ the following measures to mitigate on the risks to the outlook to safeguard the stability of the county economy;

- Enhancing Own Source Revenue collection to reduce over reliance on National Government Funding and Disbursements;
- Timely initiating the procurement process for development projects;
- Civic education- building the capacities for communities to understand the roles played by both the National and County Government to avoid scenarios where the residents demands the County Government starts planning and financing of functions under the National Government or vice versa;
- Proper Coordination with the National Government Departments in execution of concurrent functions;
- Improving the ease of doing business in the County and creating conducive business environment in the County to attract private investments;
- Investment in staff capacity development, retention and productivity;
- Developing of supportive systems and frameworks e.g. M&E, Revenue Collection, and Investment Promotion;
- Preach peace to all political leaders and champion unity of purpose;
- Focus on developing the County Infrastructure mainly the roads, energy, public works and physical planning;
- Mainstreaming of crosscutting issues especially on youth, women and persons with disability on development matters;
- Value addition for agricultural produce, horticulture and floriculture;
- Improved marketing channels for agricultural produce;
- Strengthening the Agricultural Mechanization Station to offer mechanization services;
- Increase subsidies for agricultural inputs especially certified seeds and fertilizer;
- Development of a comprehensive County land use policy

- Lobbying with the National Treasury for timely and adequate release of funds; and
- Motivation of staff to increase their productivity.

CHAPTER FOUR
RESOURCE ALLOCATION FRAMEWORK

Mandera County's medium term expenditure framework (MTEF) will refocus expenditure on priority sectors by reducing non-priority expenditures. All proposed projects will be evaluated to ensure their appropriateness in addressing county's core objectives and aspirations.

The second Mandera County Integrated Development Plan (2018-2022) will be used to guide identification of investment programmes and projects by departments as well as guaranteeing regional distribution balance in terms of development projects. Therefore, it is imperative to note that the only projects and programmes to be funded in the MTEF are those captured in the CIDP. But for year on year basis and including the following financial year, the resource allocation will be based on the Annual Development Plans.

In terms of proposed allocations for FY 2020/2021, the health, social sectors, early childhood education, vocational training will continue to receive adequate resources. These sectors are already receiving a significant share of resources in the budget and are required to utilize the allocated resources more efficiently to generate fiscal space to accommodate and achieve their strategic objectives.

On improving infrastructure the County Government will commit a substantial share of resources targeting physical infrastructures, such as roads, energy, water and irrigation. The funding to these sectors will increase interconnectivity, communication, reliable and affordable energy, as well as increased access to clean domestic water and irrigation water.

The national government has already started an integrated water and sewage project which will solve perennial water shortages in Mandera town and its environs. This project is funded by African Development Bank (ADB) and will take about two years to complete. Once it is complete, this project will turn Mandera into a modern municipality with immense opportunities for growth and development.

The county government will also invest heavily in projects under Departments of Roads & Public Works, Lands, Housing & Physical Planning, Culture, Sports & Youth Development, Trade and Cooperative Development. The county government will in particular ensure that all the ongoing projects under these sectors are fast tracked and completed.

4.2 Revenue Outlook

In the FY 2020/2021, the county expects a total resource envelope of about 12 billion. The county's main source of revenue has been the equitable share from national government and this will continue to be the case in the coming Financial Year. The county expects an increase in its equitable share for FY 2020/2021 due to larger audited national government budget accounts. Other principal sources of revenue for the county include the Fuel Levy Fund (State Department of Infrastructure), World Bank, DANIDA, Youth Polytechnics Support Grant and Ministry of Health through the User Fees foregone and local revenue receipts.

The County Treasury has continued to focus extensively on establishing structural reforms aiming at rationalization of revenue collection procedures, harmonizing local revenue policies as well as decentralization of local revenue collections to the ward level. These measures have already yielded results as evidenced by increased collections for the FY 2018/2019 as compared to previous years. We, therefore, expect a local revenue collection of over 200 million for FY 2020/2021. The National Treasury has advised counties to maintain a balanced budget. To realize this, the county will explore long term and innovative revenue raising measure such as public private partnerships (PPP) to achieve its development objectives in the face of limited resources.

Finally, the proposed budget for FY 2020/2021 will be rolled out on the background of updated medium term framework and outlook with expenditure ceilings for the ministries being provided in the 2020 County Fiscal Strategy Paper to be released in February 2020.

4.3 Medium-Term Expenditure Framework

The county government has prioritized key strategic interventions across all departments to accelerate economic growth for social economic transformation and prosperity.

The main areas being boosting agriculture productivity, improved access to quality health care and clean water, expanding access to affordable energy access, empowering youth and promoting education and facilitating infrastructural development. Using the lessons learnt in the previous phase of devolution the county will allocate resources to key result areas that will spur economic growth and development. There is already a national directive by the president that government entities cannot engage in a new project unless all ongoing projects are completed and fully paid. Mandera County Government will heed to this call and ensure priority is given to ongoing projects over new investment programs. The county will also adopt reforms in its budget expenditure management and deepen financial management reforms. A lot of capacity building on public finance has already taken place through the KDSP. This is expected to have sensitized key officials on key areas such as budgeting and procurement.

Key infrastructural projects such as the county headquarter, the tarmacking of Mandera town roads and the Mandera water system by ADB are expected to complete in the near future and uplift the county's economic prospects. The county with its new reforms on local revenue collections expects to avoid big revenue shortfalls that lead to budgets deficits.

Despite the positive outlook in the medium term, there are risks to the county's medium term expenditure framework such as insecurity, limited resources, long droughts, funds delays and political disturbances.

The county Government will monitor these risks and will adopt appropriate measures to safeguard the economic welfare and stability of the population.

CHAPTER FIVE

CONCLUSION AND NEXT STEPS

The 2019 CBROP has highlighted the key county government policies and objectives that will underpin the creation of the 2020/2021 budget. The fiscal framework discussed is also in line with tone of the CIDP, the sectorial objectives, the ADP and the fiscal responsibility principles outlined in the 2012 PFM law.

The creation of the FY 2020/2021 will be broad based and consultative. To achieve this, the accounting officers have already been advised through budget circular to form Sector Working Groups (SWGs). The SWGs will do a detailed and careful costing of various programs and projects and ensure the key priorities of every sector are articulated in the coming budget. These SWGs is the only vehicle through which county ministries can bid for resources and justify allocations.

The 2020 CFSP which will be issued mid-February next year will provide a more updated fiscal framework and will add more flesh to the information already provided in this CBROP. Further, the CFSP will give a clear budget ceiling to every sector. This will enable SWGs to prioritize their projects and come up with a balanced budget that accommodates their priority programs.