REPUBLIC OF KENYA EMBU COUNTY GOVERNMENT

FINANCE & ECONOMIC PLANNING

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

Vision

A prosperous County with Equal Opportunities for all

Mission

To ensure effective resource mobilization and optimization for Wealth and Job Creation

SEPTEMBER 2020

Foreword

County Budget Review and Outlook Paper (CBROP) 2020 is prepared in accordance with the Public Financial Management Act, 2012 section 118. It is prepared against a backdrop of a contracting global economy occasioned by the outbreak and the rapid spread of the Covid-19 Pandemic. The Pandemic and the containment measures has led to contraction of the global economy disrupting businesses including international trade and leading to loss of livelihoods for millions of people globally.

The Pandemic and the containment measures have not only disrupted our ways of lives and livelihoods, but to a greater extent business. Consequently, the Kenyan 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. In terms of fiscal years, the economy is projected to grow by 4.0 percent in the FY 2020/21 and 5.9 percent over the medium term.

The fiscal performance of the FY 2019/20 budget was below target on account of revenue shortfalls and rising expenditure pressures. In particular, the revenue shortfall in the fourth quarter of the FY 2019/20 was largely due to the Covid-19 Pandemic. As we prepare for the FY 2021/22 budget, emphasis will be on strategic interventions that will be towards a steady and sustainable growth trajectory.

The paper covers the following broad areas in review of the fiscal performance of financial year 2019/20; highlights of the recent economic developments and the economic outlook; broad strategic priorities and policies for the Medium Term and the Medium Term Fiscal Framework. This paper details the actual fiscal performance in the financial year 2019/20 compared to the budget allocation for that year. The updated macroeconomic outlook therein also provides us with a basis to revise the 2020/21 budget in the context of the Supplementary Estimates, as well as setting out the broad fiscal parameters for the next budget and medium term.

We are committed to development through equitable sharing of resources in line with the expectations and commitments we have made to the people of Embu County.

DR JOHN NJERU NJAGI
COUNTY EXECUTIVE COMMITTEE MEMBER
FINANCE AND ECONOMIC PLANNING

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

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

(1) A County Treasury shall:

(a) Prepare a County Budget Review and Outlook Paper in respect of the county for each financial year; and

(b) Submit the paper to the County Executive Committee by the 30th September of that year.

(2) In preparing its county Budget Review and Outlook Paper, the County Treasury shall specify:

(a) The details of the actual fiscal performance in the previous year compared to the budget appropriation for that year;

(b) The updated economic and financial forecasts with sufficient information to show changes from the forecasts in the most recent County Fiscal Strategy Paper;

(c) Information on:

(i) Any changes in the forecasts compared with the County Fiscal Strategy Paper; or

(ii) How actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the County Fiscal Strategy Paper for that financial year; and

(d) Reasons for any deviation from the financial objectives in the County Fiscal Strategy Paper together with proposals to address the deviation and the time estimated for doing so.

(3) The County Executive Committee shall consider the County Budget Review and Outlook Paper with a view to approving it, with or without amendments, within fourteen days after its submission.

(4) Not later than seven days after the County Budget Review and Outlook Paper is approved by the County Executive Committee, the County Treasury shall:

(a) Arrange for the Paper to be laid before the County Assembly; and

(b) As soon as practicable after having done so, publish and publicize the Paper.

Fiscal Responsibility Principles in the Public Finance Management Law

The Public Finance Management (PFM) Act, 2012 sets out the following fiscal responsibility principles to ensure prudency and transparency in the management of public resources;

1) The County Government’s recurrent expenditures shall not exceed the county government’s total revenue.

2) Over the Medium Term, a minimum of thirty percent of the county government’s budget shall be allocated to the development expenditures.

3) The County Governments' expenditures on wages and benefits for its public officers shall not exceed a percentage of the county government's total revenue as prescribed by the Executive Committee Member for Finance in regulations and approved by County Assembly.

4) Over the Medium Term the government's borrowing shall be used only for the purpose of financing development expenditure and not for recurrent expenditure.

5) The county debt shall be maintained at sustainable level as approved by county assembly.

6) The fiscal risks shall be maintained prudently; and

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.

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Abbreviations

AiA	Appropriation in Aid
BROP	Budget Review and Outlook Paper
CBROP	County Budget Review and Outlook Paper
CIDP	County Integrated Development Plan
CPI	Consumer Price Index
FY	Financial Year
MTEF	Medium Term Expenditure Framework
PFMA	Public Finance Management Act

I. INTRODUCTION

Objective of BROP

The objective of the BROP is to provide a review of the previous fiscal performance and how this impacts the financial objectives and fiscal responsibility principles set out in the last County Fiscal Strategy Paper (CFSP). 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.

The BROP is a key document in linking policy, planning and budgeting. This year's BROP is embedded on the priorities of the county government while taking on board emerging challenges while implementing the devolved system of government.

The PFM Act 2012 has set high standards for compliance with the MTEF budgeting process. Therefore, it is expected that the sector ceilings for the 2020/21 of the MTEF provided in the previous CFSP will form the indicative baseline sector ceilings for the next budget of 2021/22. However, following the fiscal outcome of 2019/20 and the updated macroeconomic framework these sector ceilings have been modified as indicated in the annex of this BROP.

The rest of the paper is organized as follows: the next section provides a review of the fiscal performance in FY 2019/20 and its implications on the financial objectives set out in the last CFSP submitted to the County Assembly in February 2020. This is followed by brief highlights of the recent economic developments and updated macroeconomic outlook in Section III. Section IV provides the resources allocation framework, while Section V concludes.

II. REVIEW OF FISCAL PERFORMANCE IN 2019/20

A. Overview

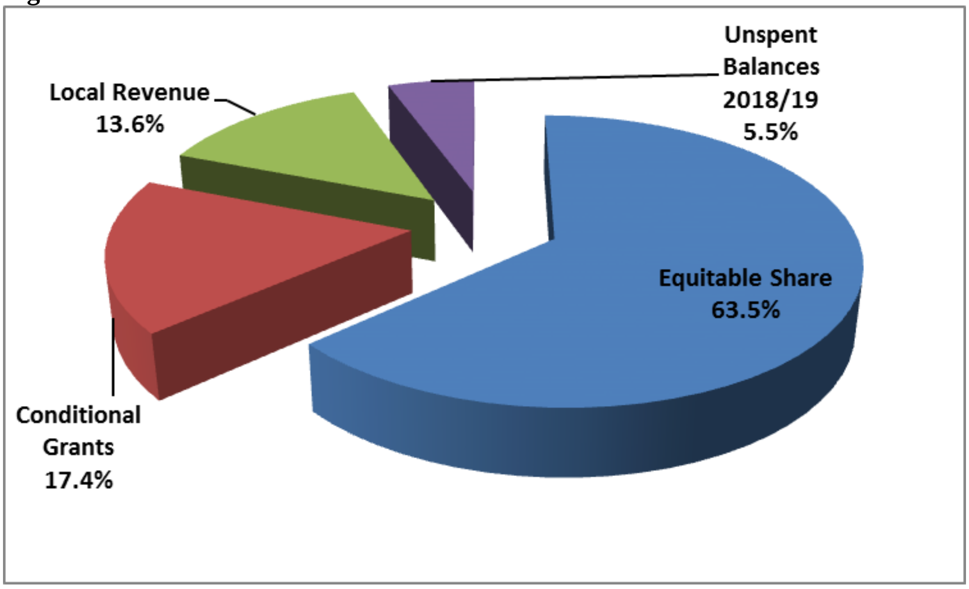
In FY 2019/20, the County had a total revenue basket amounting to Ksh. 6,780,224,341. The equitable share from the national treasury had the highest contribution at Ksh. 4,304,400,000. The targeted ordinary local revenue was Ksh. 531,000,000 while Appropriation in Aid collection target was Ksh. 389,000,000. Table 1 provides a breakdown of various revenue sources.

Table 1: Revenue breakdown for FY 2019/20

Revenue Sources	Revised Supplementary II 2019/20
Equitable Share of revenue from National Government	4,304,400,000
Conditional Grant to the Level Five Hospital	301,040,462
Conditional Allocation for Development of Youth Polytechnics	33,603,298
Conditional Grant for Compensation for User Fees Forgone	10,724,225
Conditional Grant for Leasing of Medical Equipment	131,914,894
Conditional Grant from Road Maintenance Fuel Levy Fund	122,183,250
Transforming Healthcare Systems for Universal Care Project THSUCP)	44,569,827
THSUCP Surplus Disbursed Funds (Part of 2020/2021Allocation)	93,598
Agricultural and Rural Inclusive Growth Project (NARIGP)	350,000,000
Kenya Devolution Support Programme (KDSP)- level 1	30,000,000
Kenya Urban Support Project (KUSP)	119,892,100
Kenya Urban Support Project (KUSP)-Urban Institutional Grant (UIG)	8,800,000
Universal Healthcare in Devolved System Program (DANIDA)	13,312,500
AgriFose programme (Swedish Government) Agriculture Department	15,418,468
Local sources	531,000,000
Other local Revenue Sources– Ministerial	389,000,000
2018/2019 Unspent Balances (CRF recurrent and Development)	160,603,490
2018/2019 Unspent balances for conditional allocations and loans& grants.	213,668,230
TOTAL	**6,780,224,341**

It is evident that Equitable share contributes the highest proportion of revenue to the County Government accounting for 63.5 percent of the total revenue. Conditional grants account for 17.4 percent while local revenue that comprises both ordinary local revenue and Appropriation in Aid account for 13.6 percent of the total revenue. Unspent balances from FY 2018/19 accounted for 5.5 percent of the overall revenue. Figure 1 depicts a visual representation of the contribution of each revenue source to the revenue basket.

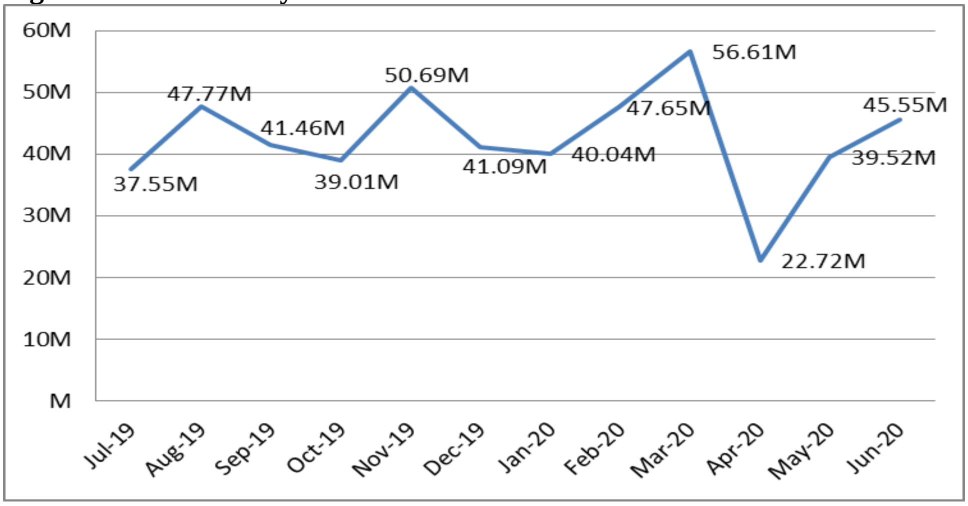
Figure 1: Revenue sources contribution to the resource basket FY 2019/20



Local Revenue Performance 2019/20

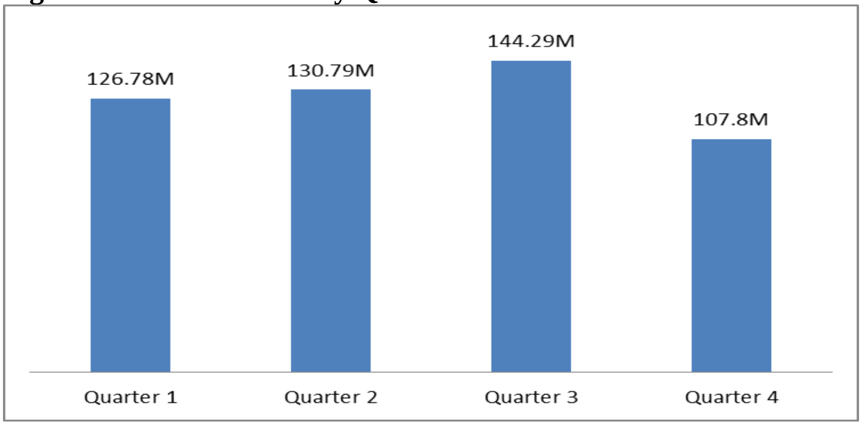
The actual local revenue collected for the FY 2019/20 amounted to Ksh. 509,651,141 which included ordinary local revenue at Ksh. 226,098,461 with Appropriation in Aid at Ksh. 283,593,698. Further analysis shows an increasing trend from the month of January 2020, February 2020 and peaking in the month of March 2020 which stood at about Ksh. 56.61 million but declined in the month of April to about 22.72 million. Figure 3 shows the trend for the period between July 2019 and June 2020.

Figure 2: Embu county local revenue FY 2019/20



A deeper analysis of revenue collected during the FY 2019/20 shows that the third quarter had the largest share of local revenue collected at about Ksh. 144.29 million while the fourth quarter had the lowest collection standing at about Ksh. 107.8 million due to Corvid-19 effects. Figure 4 provides a breakdown of revenue collected by quarter.

Figure 3: Local Revenue by Quarter FY 2019/20



Ordinary local revenue

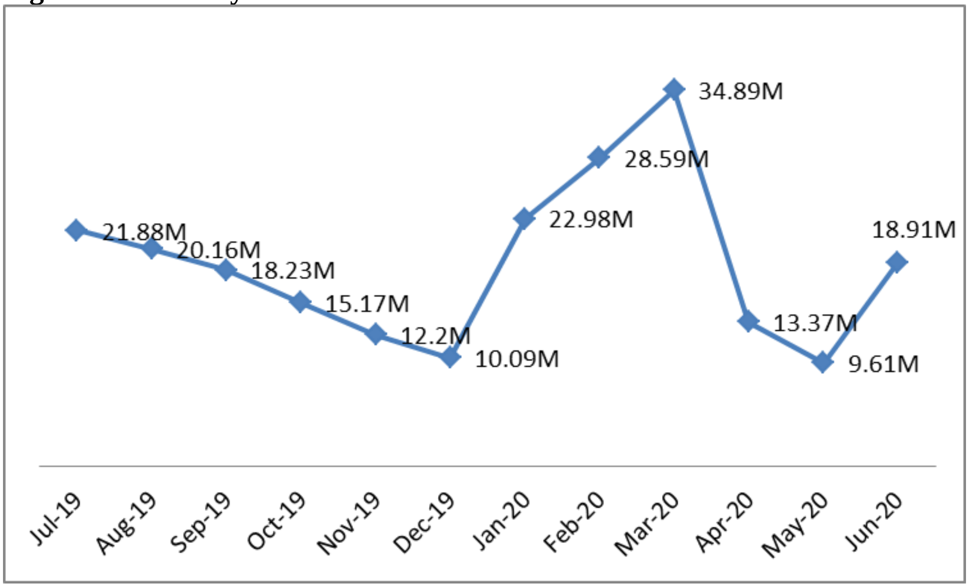
The total revenue collected amounted to Ksh. 226,098,461 against a target of Ksh. 531,000,000 accounting for 42.6 percent. Single business permits revenue stream has the highest collection of ordinary local revenues at Ksh. 76.78 million followed closely by cess at about Ksh. 66.4 million while parking fee collections amounted to about Ksh. 23.14 million. Table 4 presents a summary of ordinary local revenue.

Table 2: A summary of ordinary local revenue by revenue stream

Revenue Stream	Target	Actual	% Actual
Single Business Permit	123,500,000	76,778,954	62.17%
Cess	60,000,000	66,396,431	110.66%
Street Parking - Bus parking fees	40,000,000	23,139,328	57.85%
Market fees	30,000,000	20,506,057	68.35%
Land Rates and Plot Rents	206,000,000	12,278,777	5.96%
Advert Fees	25,000,000	8,259,732	33.04%
House Stall	20,000,000	6,419,756	32.10%
Technical planning Fees	15,000,000	5,109,481	34.06%
Administration Fees	1,000,000	2,313,471	231.35%
Stock Fees	3,000,000	2,200,000	73.33%
Slaughter House fees	3,000,000	1,153,460	38.45%
Miscellaneous revenue	2,000,000	913,109	45.66%
Enforcement	1,500,000	629,905	41.99%
Water charges	1,000,000	-	0.00%
Total	**531,000,000**	**226,098,461**	**42.58%**

Ordinary local revenue collected in FY 2019/20 shows a sharp increase of revenue collected in the month of January 2020 which stood at about Ksh. 22.98 million increasing further in the month of February 2020 before peaking in March at about Ksh. 34.89 million. Figure 5 shows the trend of ordinary local revenue during the FY 2019/20.

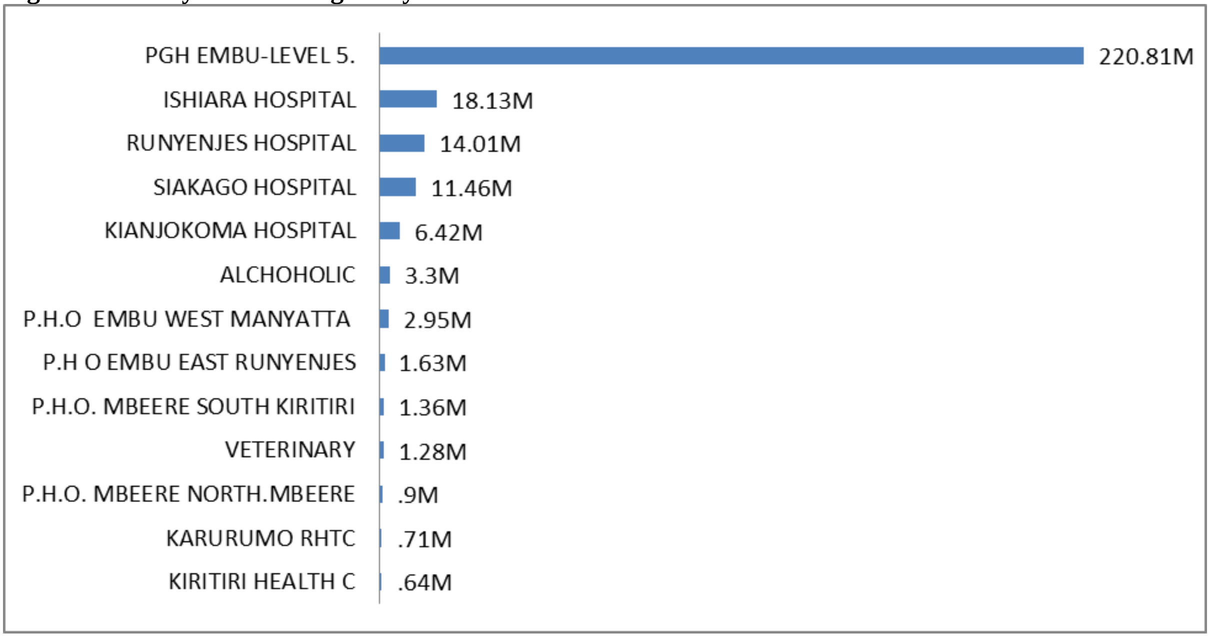
Figure 4: Ordinary Local Revenue



Appropriation in Aid

In the FY 2019/20, Level 5 hospital contributed the largest amount at about Ksh. 220.81 Million followed by Ishiara Hospital at about Ksh. 18.13M. Figure 6 shows the various departments/institutions contributions towards the county local revenue kitty.

Figure 5: AiA by contributing entity

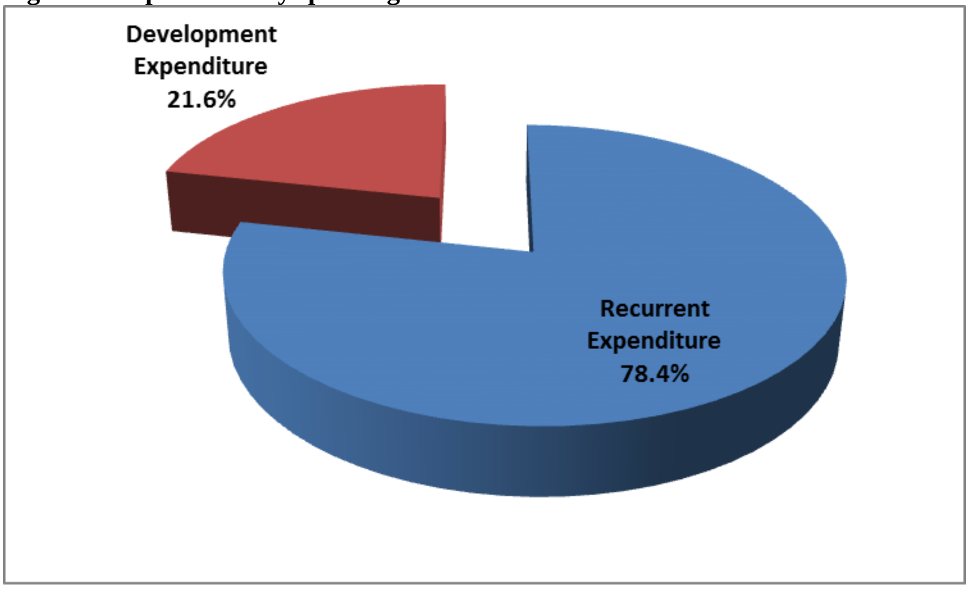


B. 2019/20 Fiscal Performance

Expenditure

The county incurred an expenditure totaling Ksh. 5,201,804,139 which represents 76.7 percent absorption rate. The expenditure comprises of recurrent expenditure at Ksh. 4,077,572,486 while development expenditure stood at Ksh. 1,124,231,653. It is imperative to note that recurrent expenditure accounted for 78.4 percent of the overall expenditure while development expenditure is at 21.6 percent.

Figure 6: Expenditure by spending for FY 2019/20



Recurrent Expenditure

The Health department incurred the highest recurrent expenditure amounting to about Ksh. 1.8 Billion which is as a result of the huge wage bill for the health sector workers. The County Assembly was second with a total expenditure of about Ksh. 493.8 Million while Education, Science and Technology incurred a total expenditure amounting to Ksh. 356.7 Million. Youth Empowerment, Sports, Gender, Culture, Children and Social Services incurred the lowest expenditure at Ksh. 10.6 Million. Table 2 provides a breakdown of recurrent expenditure by department and respective absorption rates.

Table 3: Absorption levels of recurrent expenditure by department

Department	Revised Supplementary 2019/20	Recurrent Expenditure 2019/20	Absorption Rate
Office of Governor	206,055,869	184,964,525	89.8%
County Public Service Board	43,329,357	39,347,178	90.8%
Public Service and Administration	347,623,618	333,501,852	95.9%
Finance and Economic Planning	151,923,669	103,801,263	68.3%
Lands, Physical Planning and Urban Development.	69,573,274	38,225,517	54.9%
Investment, Industrialization, Trade And Tourism	22,804,459	20,814,235	91.3%
Agriculture, Livestock, Fisheries and Co-Operative Development	272,282,382	242,105,597	88.9%
Water, Environment and Natural Resources.	57,396,828	49,588,505	86.4%
Health	1,910,123,697	1,841,564,447	96.4%
Embu Level 5 Hospital	355,491,472	301,457,448	84.8%
Infrastructure, Public Works and Housing.	64,636,060	61,012,088	94.4%
Education, Science and Technology	380,554,890	356,730,943	93.7%
Youth Empowerment, Sports, Gender, Culture, Children and Social Services	19,307,475	10,613,960	55.0%
County Assembly	592,518,588	493,844,928	83.3%
TOTAL	**4,493,621,638**	**4,077,572,486**	**90.7%**

The overall absorption rate of recurrent expenditure stood at 90.7 percent. Health department had the highest absorption rate at 96.4 percent followed by Public Service and Administration at 95.9 percent. Infrastructure, Public Works and Housing came third with an absorption rate of 94.4 percent. Lands, Physical Planning and Urban Development had the lowest absorption rate at 54.9 percent.

Development Expenditure

The Infrastructure and Public Works department incurred the highest development expenditure amounting to about Ksh. 662.9Million followed by Level 5 hospital which incurred a total expenditure of about Ksh. 119.3 Million while the County Assembly incurred a total expenditure of about Ksh. 94.6 Million. The Public Service and Administration incurred the least expenditure at about Ksh. 8.0 Million. It is important to note that the amount of expenditure incurred was also dependent on the amount allocated in the budget within FY 2019/20 for each individual department.

The overall absorption rate of development expenditure stood at 49.2 percent. The County Assembly had the highest absorption rate at 94.6 percent followed by the Infrastructure, Public Works and Housing at 79.7 percent. Trade, Tourism, Tourism and Industrialization came third with an absorption rate of 79.2 percent. Agriculture, Livestock, Fisheries and Co-operative Development had the lowest absorption rate of development funds at 3.9 percent. Table 3 provides a breakdown of development expenditure by departments and respective absorption rates.

Table 4: Absorption rates of development expenditure by department

Department	Revised Supplementary 2019/20	Development Expenditure 2019/20	Absorption Rate
Office of Governor	-	-	-
County Public Service Board	-	-	-
Public Service and Administration	15,213,565	8,000,000	52.6%
Finance and Economic Planning	45,000,000	10,871,169	24.2%
Lands, Physical Planning and Urban Development.	234,435,190	23,514,829	10.0%
Investment, Industrialization, Trade And Tourism	51,451,802	40,732,327	79.2%
Agriculture, Livestock, Fisheries and Co-Operative Development	403,252,921	15,808,532	3.9%
Water, Environment and Natural Resources.	67,459,984	27,173,806	40.3%
Health	248,495,783	59,236,314	23.8%
Embu Level 5 Hospital	184,131,337	119,332,080	64.8%
Infrastructure, Public Works and Housing.	831,756,587	662,885,355	79.7%
Education, Science and Technology	59,112,545	36,976,315	62.6%
Youth Empowerment, Sports, Gender, Culture, Children and Social Services	46,292,989	25,150,747	54.3%
County Assembly	100,000,000	94,550,179	94.6%
TOTAL	**2,286,602,703**	**1,124,231,653**	**49.2%**

III. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

A. Overview

International overview

World real GDP recorded a decelerated growth of 2.9 per cent in 2019 compared to a growth of 3.5 per cent in 2018, the slowest growth since the 2007/2008 global financial crisis. The deceleration in growth was recorded in both advanced economies (particularly the Euro Area) and Emerging Market and Developing Economies (EMDEs). This was mainly attributed to continuous policy uncertainty, declines in global trade and investment, and a slowdown in labour productivity. The uncertainty in policy led to trade tensions between China and USA, and between the European Union (EU) and United Kingdom (UK), with the manufacturing sector being the hardest hit.

Advanced economies are estimated to have expanded by 1.2 per cent in 2019 compared to a growth of 2.2 per cent in 2018. Sub-Saharan Africa's growth slightly slowed to 3.1 per cent in the review period from 3.3per cent growth in 2018. The growth was mostly supported by favorable weather conditions that led to increased agricultural production as well as high infrastructural investments. In the review period, the inflation rate for the advanced economies was 1.4 per cent while the EMDE's recorded an inflation rate of 5.0 per cent. Globally, easing of the inflation rate from 2.3 per cent in 2018 to 2.0 percent in 2019 was mainly attributable to decline in energy prices; reduction in world trade prices of food and agricultural raw materials; and modest wage levels in most countries.

High levels of crude oil production in USA softened the weak supply experienced in some of oil producing countries affected trade sanctions and political tensions such as Iran, Venezuela and Libya . In 2019, annual average Murban Adnoc crude oil prices dropped from US Dollars 71.48 in 2018 to US Dollars 64.92 in 2019. The global price of agricultural raw materials declined by 5.7 per cent in 2019 as compared to a 1.9 per cent increase in 2018.The growth in global trade volume slowed to 1.2 per cent in 2019 compared to an expansion of 3.7 per cent in 2018. Decelerated growth was highly pronounced in the advanced economies and the EMDE's such as China and South Asia. The slowed trade was echoed by the persistent trade policy uncertainties and restrictions among most of the countries; contraction in manufacturing activities; decline in air freight and passenger transport. The recent structural changes and self-sufficiency in technology led to decrease in demand of imports especially from China which further had a negative impact on global trade. The prolonged uncertainty on Brexit also slowed trade especially in the Euro area.

The world's current account surplus remained at 0.4 per cent in 2019, as in 2018. The most notable driver of current account changes in 2019 was the decline in oil prices and value of manufactured products. The overall fiscal balance as a percentage of GDP stood at a deficit of 3.2 per cent in 2019 compared to a deficit of 2.9 per cent in 2018.The global labor force participation rate slowed to 60.7 per cent in 2019 compared to 61.4 per cent in 2018. The slowdown was attributed to decline in global economic activities especially in manufacturing sector coupled with increased automation. About 3.3 billion of the 5.7 billion of the working age population were employed, translating to 57.4 per cent of the working population. In the same year, unemployment rate was estimated at 5.4 per cent compared to a 5.3 per cent growth in 2018. The slowdown in unemployment rate was mainly from the high income countries.

Regional overview

Africa's economic outlook continues to brighten. Its real GDP growth, estimated at 3.4 percent for 2019, is projected to accelerate to 3.9 percent in 2020 and to 4.1 percent in 2021. Leading the way are six economies among the world's 10 fastest growers: Rwanda, Ethiopia, Côte d'Ivoire, Ghana, Tanzania, and Benin. East Africa's economies are slowly transitioning from agriculture to services. The contribution of agriculture to the region's GDP went down from an average of 33.4 percent at the turn of the millennium to

28.3 percent in 2018.This was against an increase in the contribution of services to GDP from 44.6 percent in the early 2000s to 53.8 percent in 2018.

This movement is more prominent in Seychelles, Eritrea, Kenya and Rwanda where services contribute 80, 67, 60 and 47 percent of GDP, respectively. However, services are not the higher value-added activities in the region to trigger the desired structural transformation. In line with this shift, the ILO had estimated that the number of employment opportunities in the region's service sector would have more than doubled to 40.8 million while those in agriculture would have increased at a slower pace from 56.7 million to 97.6 million in 2020. These estimates are no longer tenable given the ongoing supply and demand shocks related to COVID-19-business disruptions have lowered production while the loss of income, fear of contagion and heightened uncertainty has made people to spend less, thus lowering aggregate demand with the service sector being hit the hardest.

Domestic overview

Performance of Kenya's economy in 2020, like most economies all over the world, will largely be determined by how long life and economic activities are going to be disrupted by the Coronavirus disease (Covid-19). Most of the economic activities have so far been slowed down by restrictions resulting from containment and cessation of sections of the population, the nationwide curfew and stoppage of international passenger travel. The first case of Covid-19 in the country was confirmed on the 12th March 2020 and a raft of precautionary and preventives measures have increasingly been implemented to counter the impact of pandemic on the population as well as socioeconomic aspects.

Weak global economy is also likely to negatively impact on Kenya's exports, more so horticultural products and the tourism sector. The global economy was projected to remain suppressed in 2020 due to slowdown in industrial output, weak business confidence and increased trade tensions, even before the rapid spread of the Coronavirus disease into a worldwide pandemic. The onset of the long rains was timely during the first quarter of 2020 while the rains were well spread across the country. Weather forecast points to a possibility of near normal long rains in most parts of the country while most of key agricultural zones are expected to receive slightly above normal rainfall in 2020.

However, growth of the horticulture sub-sector is expected to be constrained by impacts of the covid-19; primarily suppressed external demand and increased costs of production arising from operational challenges. Earlier in the year, the country experienced invasion of the desert locusts, mostly in the arid and semi-arid areas, but the government has so far managed to mitigate their negative impact on the economy particularly in the agriculture sector.

The restriction of movement (countries lockdown) of population has significantly slowed performance of activities of Transportation and storage, Education, Accommodation and food services. Other sectors whose activities have been restrained, albeit at a lesser degree, include Manufacturing; Construction; Wholesale and retail trade; Public administration and defence; and Mining and quarrying. Demand for Financial and insurance services, Real estate and other services are also expected to be suppressed due to slowdown in economic activities and declining disposable incomes. However, increasing demand for health services is likely to boost the performance of the Human health and social work sector.

B. Medium Term Economic Outlook

Global growth outlook

The world economy is expected to slow to 3.5 percent in 2019 and drop to 3.2 percent in 2020.The US economic cycle will play a key role in how the story unfolds. The US is leading the growth rankings of advanced economies, with real GDP likely to climb 3 percent this year. The large tax cuts announced early in the year are boosting consumption, investment, and job creation. The tax stimulus has come at a time when the economy was already firing on all cylinders. Job creation has been strong and the unemployment rate has dropped to levels that economists generally consider to be full employment. This strong performance has led the Federal Reserve to gradually tighten monetary policy.

The Canadian economy grew by a strong 3 percent in 2017, but decelerated significantly in the second half of the year. This created a soft handoff heading into 2018, and economic growth was modest in the first quarter. After a strong second quarter, the pace of economic growth in Canada is poised to moderate. Over the past decade, the Canadian consumer has been the key driver of economic growth. Wallets have been kept open by strong job creation, declining unemployment, rising personal income, low interest rates, and strong real estate markets. But, the pace of spending is about to cool.

The south African growth remains persistently sluggish, with the 2020 budget read in February 2020 yet again lowering GDP growth projections .GDP growth is estimated at only 0.3 per cent for 2019 (down from an expected 0.5 per cent in the 2019 Medium-Term Budget Policy Statement or MTBPS). Data released by Statistics South Africa in March 2020 lowered the 2019 estimate to 0.2 per cent, with the country slipping into a technical recession in 2019 (two consecutive quarters of negative quarter-on-quarter growth)

Domestic economic outlook

Kenya's GDP growth averaged 5.4% in 2019 and had been projected to grow at about 5.7% in 2020 amid robust private consumption, higher credit growth, and rising public and private investment. Further, as the COVID-19 pandemic hampers revenue base collections, the negative outlook on Kenya's financing risks becomes exposed. As such, the large gross borrowing requirements, which include amortization of external bilateral debt and the need to refinance a large stock of short-term domestic debt, have seen rating agency Moody's change Kenya's sovereign credit outlook to “negative” from a previous outlook of “stable”. In light of the COVID-19 pandemic, GDP growth is expected to decline to 1.0%.

This is majorly due to: Reductions in household and business spending (about 50%) due to liquidity constraints; Disruption in supply chain for key inputs in machinery and chemicals (about 30 percent);Decline in imports from affected countries (about 3.1% estimated decline in total import value); A decline in tourism activity (about 20 percent) due to a standstill in the global aviation industry; and A decline in government spending in different sectors due to a USD 658m shortfall in revenue collection in the remaining 3months to the 2019/20 fiscal year end.

Monetary policy outlook

During the first quarter of 2020, inflation was significantly higher compared to a similar quarter of 2019 on account of higher food and beverage prices. The scenario is likely to be replicated for some of the remaining months, leading to edging upwards of inflation in 2020 but remain well within the central bank’s target. Fall in oil prices and a reduction in Value Added Tax(VAT) rate are likely to be supportive of low inflation as well as cushion the consumers from rising cost of living to a certain extent. However, the weakening of Kenya Shilling against the US Dollar is likely to result to rise in prices of imports and somehow contribute to the rise in inflation.

External sector outlook

During the review period, the total exports declined by 2.9 per cent in the value of exports to KSh 596.7 billion, while total imports increased by 2.4 per cent to KSh 1,806.3 billion, over the same period. As a result, the balance of trade deteriorated by 5.2 per cent to a deficit of KSh1, 209.7 billion. The total value of trade transactions increased from KSh 2,378.8 billion in 2018 to KSh 2,403.0 billion in 2019. Horticulture; tea; articles of apparel and clothing accessories; coffee; and iron and steel, remained the leading export earners, collectively accounting for 59.0per cent of the total value of domestic exports. On the other hand, major imports included: petroleum products; industrial machineries; iron and steel; road motor vehicles; plastics in primary and non-primary form; and pharmaceutical products, which collectively accounted for 49.5 per cent of the total import bill.

The overall Balance of Payments position improved from a surplus of KSh 103.4 billion in 2018 to a surplus of KSh 106.4 billion in 2019, on account of a build-up in official reserves. The current account balance worsened to a deficit of KSh 567.0 billion in 2019 from a deficit of KSh 511.3 billion in 2018. The financial account net inflows declined by 3.9 per cent from a surplus of KSh 662.0 billion in 2018 to a surplus of KSh 636.3 billion in 2019. This was mainly occasioned by declines in net inflows of direct investment and other investment liabilities.

Fiscal policy outlook

Real GDP grew by an estimated 5.9% in 2019, driven by household consumption and investment on the demand side and services on the supply side (such as public administration, information technology, finance and insurance, and transport and storage). GDP was down from 6.5% in 2018, caused mainly by unfavorable weather and reduced government investment. At 5.2%, inflation remains within the central bank's 5 ± 2.5% target band.

The exchange rate remained stable due to the narrowing current account deficit, from 5.0% of GDP in 2018 to 4.9% in 2019 thanks to increased transfers. Foreign exchange reserves rose from $9 billion in 2018 to $9.4 billion at the end of August 2019, equivalent to 6 months of imports, or more than the East African Community convergence criterion of 4.5 months. The fiscal deficit is estimated at 7.5% of GDP in 2019, down from 8.8% in 2017, thanks to ongoing fiscal consolidation and greater domestic resources mobilization. Public debt rose to 58% of GDP in 2019, up from 41% in 2013, and became more no concessional (67%) than concessional (33%).

More of it is held externally (16% of GDP) than domestically (9% of GDP), but the domestic share is increasing. The debt creates risks for refinancing, cost escalation, and foreign exchange. Because of expected liquidity challenges, the IMF elevated Kenya's debt stress rating from low to moderate in 2018. Kenya's economic growth has not been inclusive enough: poverty fell to 36% in 2015/16 from 46% in 2005/6. Unemployment fell marginally from 9.5% in 2014 to 9.3% in 2018. The bottom income quintile receives only 4% of income.

C. Risks to the Domestic Economic Outlook

There are always risks in the macroeconomic outlook. Risks from the global economies relates to uncertainties in the global financial markets particularly with regard to the U.S. economic and trade policies, normalization of monetary policy in the advanced economies and the Brexit outcome. The recent geopolitical tensions building around production and use of nuclear weapons if not addressed could weigh down global growth with negative impact on trade and financial flows.

Domestically, the economy will continue to be exposed to risks arising from adverse weather conditions until the mitigating measures of food security under "The Big Four" Plan are put in place. Additional risks could emanate from public expenditure pressures especially recurrent expenditures.

The main risk to the county outlook remains the challenges associated with the timely release of resources from the National Government to the Counties and the expected reduction of the county equitable by the national Government. The observed delays in effecting the transfer of funds to the County will definitely affect the performance and if the equitable is reduced the development budget will suffer adversely. However, the county shall engage the concerned institutions for timely release of funds.

Secondly, the county revenue projections are subject to a number of general risks that can affect collections. These include resistance that may arise from County Finance Bill, 2020, tax evasion and avoidance, weak revenue administrative structures and significant fluctuations in major revenue sources due to changes in the economic environment. The county has procured a consultant to automate all the revenue streams and it's anticipated that most challenges associated with revenue collection will be addressed in due course.

The County Government will monitor the above risks and take appropriate measures to safeguard macroeconomic stability.

IV. RESOURCE ALLOCATION FRAMEWORK

A. Adjustment to 2020/21 Budget

The Medium Term Fiscal Framework (MTFF) for the FY 2020/21emphasizes on efficiency and effectiveness of public spending and improving revenue collection while at the same time supporting rapid and inclusive economic growth. Adjustments to the 2020/21 budget will focus on implementing projects supporting inclusive economic growth, while focusing on the priority areas. The resources earmarked for development purposes will be utilized in the priority areas which include provision of accessible and affordable health care services, promotion of Agricultural production and value addition to achieve food security and development of infrastructure among others.

In relation to revenue, with automation, the local revenue is expected to rise while more focus should be directed to Appropriation in Aid (AiA). Close monitoring of revenue streams and sealing of loopholes is essential in order to maximize revenue collection and minimize any leakages. Over the years there has been under performance in AiA collection and more effort should be redirected to enhance revenue.

B. Medium-Term Expenditure Framework,

The County has a draft County Integrated Development Plan (CIDP) for the year 2018 -2022 in place that has guided and will continue to guide the county on the development plans for the period.

Revenue Projections: In the FY 2020/21 the county projects to collect revenue amounting to Ksh 909 Million and is projected to increase to Ksh 918 Million in the FY 2020/21 amounting to 10% increase.

Expenditure Projections: In FY 2020/2021 budget, the overall expenditure amounts to Ksh 6.5 billion. These expenditures comprises of development of Ksh 2,149,239,311 (33.25 percent) and recurrent of Ksh 4,315,419,007

(66.75 percent) comprising of Ksh 3.0 billion remuneration (47 percent) and Ksh 1.3 billion (20 percent) operations.

The priority sectors are Health, Infrastructure, Public works, Energy & Transport, county Assembly and Agriculture, livestock & Cooperative Development and they received the highest share of the resources in the budget. With efficient use of resources, these sectors will drive the economic growth either directly or indirectly as drivers.

Health sector has been allocated Ksh. 2,080,812,567 which amounts to 32.19% of the total budget in FY 2020/21. The sector focuses on completion and operationalization of health facilities. The sector remains a key social sector and aims at guaranteeing accessible quality and affordable health care.

Infrastructure, Public works, Energy and Transport sector is expected to receive 18.39% of the county development expenditure for the FY 2020/21. The Government's will focus on improving transport infrastructure (both by improving infrastructure within the county as well as links to the county). This will improve market accessibility hence facilitating ease of doing business within and outside the county. Substantial Government spending on infrastructure as an enabler in the economic growth alongside private investment flows will unlock growth potential

The Agriculture, Livestock, Fisheries and Cooperative Development sector is critical to County's economic growth, employment creation and poverty reduction. The sector is expected to receive 7.66% of the county development expenditure for the FY 2020/21. The sector contributes greatly to the County's economic production and contains multiple linkages with other key sectors such as manufacturing, wholesale and retail, transport and distribution and other service-related sectors.

Agricultural value addition has also been identified as having the potential to act as a catalyst for the take-off of county's industrial sector. Agri-business initiatives have received support from the Government.

Table 5: Expenditure Projections

PORTFOLIO	APPROVED BUDGET	PROJECTIONS		
	2020/2021	2021/2022	2022/2023	2023/2024
OFFICE OF THE GOVERNOR	234,803,232	246,543,394	258,870,563	271,814,091
FINANCE AND ECONOMIC PLANNING	170,966,077	179,514,381	188,490,100	197,914,605
EDUCATION,SCIENCE AND TECHNOLOGY	344,245,592	361,457,872	379,530,765	398,507,303
HEALTH	2,080,812,567	2,184,853,195	2,294,095,855	2,408,800,648
INFRASTRUCTURE,PUBLIC WORKS, ENERGY AND TRANSPORT	1,188,733,361	1,248,170,029	1,310,578,531	1,376,107,457
INVESTMENT,INDUSTRIALIZATION, TRADE AND TOURISM	67,077,491	70,431,366	73,952,934	77,650,581
AGRICULTURE,LIVESTOCK,FISHERIES AND COOPREATIVE DEVELOPMENT	495,281,477	520,045,551	546,047,828	573,350,220
LANDS,HOUSING,PHYSICAL PLANNING, URBAN DEVELOPMENT,WATER,IRRIGATION,ENVIRONMENT AND NATURAL RESOURCES	193,983,792	203,682,982	213,867,131	224,560,487
YOUTH EMPOWERMENT AND SPORTS	41,188,750	43,248,188	45,410,597	47,681,127
GENDER,CULTURE,CHILDREN AND SOCIAL SERVICES	52,197,340	54,807,207	57,547,567	60,424,946
PUBLIC SERVICE ,ADMINISTRATION AND DEVOLUTION	417,721,865	438,607,958	460,538,356	483,565,274
COUNTY PUBLIC SERVICE BOARD	43,058,317	45,211,233	47,471,794	49,845,384
COUNTY ASSEMBLY	732,557,624	769,185,505	807,644,780	848,027,019
EMBU LEVEL 5 HOSPITAL	376,215,923	395,026,719	414,778,055	435,516,958
EMBU COUNTY REVENUE AUTHORITY	25,814,910	27,105,656	28,460,938	29,883,985
TOTAL	**6,464,658,318**	**6,787,891,234**	**7,127,285,796**	**7,483,650,085**

C. 2020/21 Budget Framework

The 2020/21 budget framework is set against the background of the updated medium-term macro-fiscal framework. The county's productivity is expected to expand underpinned by continued good performance across all sectors of the county's economy. The expected performance growth across all the sectors assumes normal weather pattern, good political environment, stable macro-economic environment and increased Public Private Partnerships (PPP) which is expected to help close the financial deficit.

The strategic priorities for the current budget are infrastructural development, access to health services, promotion of competitive agriculture through irrigation and sustainable livestock sub-sectors and access to clean and safe drinking water. The development expenditure of these sectors will create employment as well as generate revenue.

Revenue projections

The County revenue from local sources will be raised through levies, permits, rents, service-charge and rates, and from its share of the National revenue as part of the devolved funds. The 2020/21 budget target for revenue collection is expected to be Ksh. 909,000,000 and projected to increase to 918,000,000 which represents a 10% increase. The table 6 below highlights the various revenue streams and their expected target over the medium term period.

Table 6: Ordinary Local Revenue Projections 2020/21 – 2023/24

REVENUE STREAMS	APPROVED BUDGET			PROJECTIONS
	2020/2021	2021/22	2022/23	2023/24
Single Business Permit	114,635,000	115,781,350	116,939,164	118,108,555
House Stall	20,200,000	20,402,000	20,606,020	20,812,080
Market Fees	30,300,000	30,603,000	30,909,030	31,218,120
Bus Parking Fees	40,400,000	40,804,000	41,212,040	41,624,160
Technical planning fees	15,150,000	15,301,500	15,454,515	15,609,060
Cess	60,600,000	61,206,000	61,818,060	62,436,241
Land Rates	196,960,000	198,929,600	200,918,896	202,928,085
Enforcement	1,515,000	1,530,150	1,545,452	1,560,906

REVENUE STREAMS	APPROVED BUDGET			PROJECTIONS
	2020/2021	2021/22	2022/23	2023/24
Admin. Fees	1,010,000	1,020,100	1,030,301	1,040,604
Advert Fees	25,250,000	25,502,500	25,757,525	26,015,100
Slaughter Fees	3,030,000	3,060,300	3,090,903	3,121,812
Miscellaneous	2,020,000	2,040,200	2,060,602	2,081,208
Stock Fees	3,030,000	3,060,300	3,090,903	3,121,812
Water Charges	1,010,000	1,020,100	1,030,301	1,040,604
TOTAL	**515,110,000**	**520,261,100**	**525,463,711**	**530,718,348**

Table 7: Appropriation in Aid Projections 2020/21 – 2023/24

REVENUE STREAMS	APPROVED BUDGET	PROJECTIONS		
	2020/2021	2021/22	2022/23	2023/24
Trade Tourism, Investment and Industrialization	25,250,000	25,502,500	25,757,525	26,015,100
Lands, Housing, Physical Planning, Urban Development, Water, Irrigation, Environment and Natural Resources	3,030,000	3,060,300	3,090,903	3,121,812
Agriculture, Livestock, Fisheries and Cooperative Development	10,100,000	10,201,000	10,303,010	10,406,040
Health	353,500,000	357,035,000	360,605,350	364,211,404
Youth Empowerment and Sports	1,010,000	1,020,100	1,030,301	1,040,604
TOTAL	**392,890,000**	**396,818,900**	**400,787,089**	**404,794,960**

Table 8: Summary of Revenue Collection 2020/21 – 2023/24

REVENUE STREAMS	APPROVED BUDGET	PROJECTIONS		
	2020/2021	2021/22	2022/23	2023/24
Local Revenue	516,110,000	521,271,100	526,483,811	531,748,649
Appropriation in Aid	392,890,000	396,818,900	400,787,089	404,794,960
TOTAL	**909,000,000**	**918,090,000**	**927,270,900**	**936,543,609**

Expenditure Forecasts

The key policy document guiding the County Government's funding allocation decisions is the County Integrated Development Plan, which provides the updated development priorities of the county. The County Government Act, 2012 requires that all county governments prepare and implement an integrated development plan. The Integrated County Development Plans are, according to the act, five year plans that are implemented through annual budgetary allocation by the county governments. In addition, all planning is expected to be inspired by the Kenya Vision 2030 and be aligned to the second Medium Term Plan of Kenya Vision 2030.

In agriculture, the county government will prioritize on value addition. Improved and efficient crop production is being enhanced through irrigation projects and improved certified seeds for continued and sustained crop production. Completion of ongoing projects as well as construction of milk processing plant will form priority of the sector.

In Infrastructure, improvement of road network in the county by constructing bitumen standard roads still remain the priority as it was in financial year 2020/21 as well as grading and regular maintenance of all the feeder roads in the county.

In trade, tourism and investment sector, the county government will continue to establish proper marketing strategy aimed at opening up of some key tourist destinations. In the health sector, the county will prioritize on completion of health facilities, equipping, staffing.

Education, Science and Technology priorities will include adequately equipping of VTCs and construction/ completion/ renovation of ECDE classes, provision of bursaries to enhance retention and completion rates for those in higher education facilities.

In Finance and planning sector, the county continues to implement strategies to enhance revenue collections and strengthening of Monitoring & Evaluation.

V. CONCLUSION AND NEXT STEPS

In the FY 2020/2021 the county is forcing on Health, infrastructure, Agribusiness and proper resource management to ensure inclusive sustainable growth and development. Going forward, the set of policies outlined will focus on supporting "*Big 4 Agenda*". In order to support this agenda the agriculture department has received support from national government through NARIGP and ASDSP projects to support agricultural development. The county is also developing infrastructure to support and attract investors in manufacturing sector in the county.