

**REPUBLIC OF KENYA**



**MANDERA COUNTY GOVERNMENT**



**OFFICE OF THE COUNTY EXECUTIVE COMMITTEE  
FINANCE AND ECONOMIC PLANNING**

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**COUNTY BUDGET REVIEW AND OUTLOOK PAPER (CBROP)**

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**SEPTEMBER 2020**

## **ABBREVIATIONS**

<b>CBROP</b>	County Budget Review and Outlook Paper
<b>CFSP</b>	County Fiscal Strategy Paper
<b>FY</b>	Financial Year
<b>PFMA</b>	Public Financial Management Act
<b>CIDP</b>	County Integrated Development Plan
<b>CRA</b>	Commission on Revenue Allocation
<b>GDP</b>	Gross Domestic Product
<b>IFMIS</b>	Integrated Financial Management and Information System
<b>SME</b>	Small and Medium Enterprise
<b>MTEF</b>	Medium Term Expenditure Framework
<b>SRC</b>	Salaries and Remuneration Commission
<b>CPSB</b>	County Public Service Board
<b>KDSP</b>	Kenya Devolution Support Program
<b>PPP</b>	Public Private Partnership
<b>OSR</b>	Own Source Revenue
<b>SWG</b>	Sector Working Groups
<b>Kshs</b>	Kenya Shillings
<b>COB</b>	Controller of Budget
<b>BPS</b>	Budget Policy Statement
<b>DANIDA</b>	Danish International Development Agency
<b>KCSAP</b>	Kenya Climate Smart Agriculture Project
<b>ASDSP</b>	Agriculture Sector Development Support Project
<b>KUSP</b>	Kenya Urban Support Project

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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 2019/2020 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, 2020.

In reviewing the fiscal performance, this paper analyzes the performance of county own generated revenue in the FY 2019/2020. It has included the total revenue collected and made comparison to the budgeted revenue for the same year. In addition, possible causes of the underperformance in the local revenue 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 2019/2020 is provided. The preparation of this CBROP will be an important tool that will help in the formulation of 2021/2022 budget and will also provide foundation for the 2021 CFSP.

Through proper planning, Mandera County Government 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 of Kenya 2010 and Public Finance Management Act, 2012.

The FY 2019/2020 was faced with several challenges like the outbreak of COVID-19 pandemic, locust invasions, droughts and floods. This led to the reallocation of funds to control the spread of the coronavirus and to also cushion vulnerable families in Mandera County from the effects of this pandemic. Late disbursement of funds by the National Government is also a huge challenge. Nevertheless, the county's fiscal performance for the FY 2019/20 was generally satisfactory compared to 2018/2019.

**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 prudence 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 year's Budget Review and outlook paper (CBROP) is the **seventh** 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 21<sup>st</sup> 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 2019/2020.

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.

### **1.2 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 2019/2020 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.



### **1.3 The structure of the CBROP**

The CBROP has five chapters. Chapter one includes introduction and objectives of CBROP. Chapter two provides a review of the fiscal performance in FY 2019/2020 and its implications on the financial objectives. This is followed by brief highlights of the recent economic development, updated macroeconomic outlook and County specific outlook in chapter three. Chapter four provides the resources allocation framework while chapter five gives the conclusions and recommendations.

## **CHAPTER TWO**

### **REVIEW OF FISCAL PERFORMANCE IN THE FINANCIAL YEAR 2019/2020**

#### **2.0 Overview**

This chapter discusses the 2019/20 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.

#### **2.0 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 FY 2019/20 the County had a Budget Resource Envelope of Kshs. 13,118,313,037 billion of which Kshs. 6,822,774,456 billion (52%) was allocated for recurrent expenditure and Kshs. 6,295,538,579 billion (48%) 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 activities. 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 2018/19 Financial Year.

The county's fiscal performance for the FY 2019/20 was generally satisfactory despite existence of numerous challenges occasioned by factors such as fund delays and local revenue underperformance. The county government in its FY 2019/20 budget anticipated a local collection of Kshs. 183,559,629 million which was about 1% of the county's annual budget. But only Kshs. 124,961,836 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. 10,222,950,000 (78%). Other notable components of the county's revenue included unutilized funds from the previous financial year amounting to

Kshs. 1,608,234,894 billion. This accounted of 11% of county's total revenue. This money was unspent but committed funds from 2018/2019 financial year. Conditional grants made up 10% of the budget.

The Controller of Budget approved withdrawal of Kshs. 9,343,776,300 billion from the County Revenue Fund (CRF) account, which was 91% of the approved allocations. This amount represented a decrease of 8% from Kshs. 10,142,200,000 billion received in the FY 2018/19 and was meant to fund both development and recurrent expenditures.

The County received Kshs. 904,694,025 million as conditional grants. This comprised of Kshs. 41,586,250 million from Danida Funding for Health sector, Kshs 65,351,998 million from World Bank – THUSCP, Kshs. 25,474,920 million from User Fees foregone (Ministry of Health), Kshs 30,000,000 million from Kenya Devolution Support Program, Kshs 150,826,354 million from Kenya Climate Smart Agriculture Project (KCSAP), Kshs. 8,800,000 million from Kenya Urban Support Project (KUSP) -Urban Institutional Grants (UIG), Kshs 125,752,927 million from Kenya Urban Support Programme and Kshs. 22,113,298 million from Development of Youth Polytechnics Allocation. Transfers of Kshs. 290,185,218 million and Kshs. 21,435,060 million were received for Fuel Levy Fund (State Department of Infrastructure) and Agriculture Sector Development Support Project (ASDSP) respectively. Further, Kshs. 123,168,000 million was received from Ministry of Health Result Based Financing as COVID-19 fund.

The fiscal performance for FY 2019/2020 was promising despite a number of limitations 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. 124,961,836 million instead of the budgeted Kshs. 183,559,629 million. This represents 68% performance. Though this is way below the revenue target as per the budget, it's the highest amount the county has ever collected in 7 years of devolution.
- 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.

- e) The great effects of the Covid-19 pandemic.

## 2.1 Revenue Performance

The following table shows revenue analysis for the FY 2019/2020 as realized from local sources and the equitable share from national government with deviations

**Table 1: Revenue Analysis**

REVENUE SUMMARY FY 2019/2020		Actual 2018/2019	Approved 2019/2020	Revenue Received	Percentage
Funding Types	Revenue summary By Sources	Kshs	Kshs	Kshs.	%
<b>Equitable Sharable Revenue</b>	Equitable share of Revenue	10,142,200,000	10,222,950,000	9,343,776,300	91%
<b>Own Source Revenue</b>	Local Revenue Collections	179,287,568	183,559,629	124,961,836	68%
<b>Unutilized Exchequer from FY 2018/2019</b>	On-Going Development Projects funds b/f from 2017/2018	2,421,546,956	1,210,949,522	1,165,236,232	96%
	2018/2019 FY Projects that could not be implemented that are shelved 2019/2020	-	163,769,117	163,769,117	100%
<b>Conditional Grant by National Government Institutions</b>	Road Maintenance Fuel Levy (Conditional Grant)	267,035,293	290,185,219	290,185,218	100%
	Development of youth Polytechnics	31,240,000	22,113,298	22,113,298	100%
	Foregone user fees in Health Facilities in rural Area (Conditional Grant)	25,474,920	25,474,920	25,474,920	100%
	Agricultural Sector Development Support Program (ASDSP) (Co-finance by National Govt)	-	2,500,000	2,500,000	100%

<b>Conditional Grants - Development Partners</b>	World Bank/Japan Funding for Health sector - Transforming Health care - Universal Health	100,000,000	65,351,998	65,351,998	100%
	World Bank Funding for Health sector - Transforming Health care - Universal Health	-	14,570,058	14,570,058	100%
	World Bank/Japan Funding for Health sector - Transforming Health care - Universal Health 2018/19 B/f	-	14,826,792	-	-
	Danida Funding for Health sector - Transforming Health care - Universal Health	32,653,125	30,281,250	41,586,250	
	Kenya Devolution Support Program - Level I	-	30,000,000	30,000,000	100%
	Kenya Devolution Support Program b/f	58,673,488	235,542,828	235,542,828	
	Kenya Devolution Support Program for 2018/2019 funds to be released in 2019/2020	-	58,673,488	-	
	Kenya Urban Support Program (Conditional Grant) b/f	-	98,923,344	98,923,344	100%
	Kenya Urban Development Support Program	175,819,500	175,819,500	125,752,927	72%
	Kenya Urban Institutional grant	-	8,800,000	8,800,000	100%
	Danida Funds from 2015/2016 reflected in the supplementary that was not passed	25,000,000	-	-	0%
	Unspents RMLF b/f	34,195,144	-	-	0%
	Kenya Climate smart Agriculture Project (NEDI)	150,000,000	200,000,000	150,826,354	75%
	Agricultural Sector Development Support Program (ASDSP)	37,000,000	22,822,072	21,435,060	94%
	Kenya Urban and Institutional Grant b/f	-	41,200,000	41,200,000	100%

	Ministry of Health Result Based Financing/ COVID	-	-	123,168,000	
	<b>TOTAL</b>	<b>13,709,957,408</b>	<b>13,118,313,035</b>	<b>12,095,173,740</b>	<b>92%</b>

*Source: County Treasury, Mandera*

An analysis of the table indicates that the County generated a total of Kshs. 124.96 million from own revenue sources in FY 2019/20 deviating from the budgeted amount by 32%. This amount, however, represented an increase of Kshs. 29.47 million compared to that realized in FY 2018/19. The slight improvement in internal revenue is attributed to strict oversight and strengthening of the revenue department.

An amount of Kshs. 11,305,000 million which was not budgeted for was received from Danida Funding for Health sector - Transforming Health care - Universal Health while Kshs. 91,323,000 million from Grant of Kshs 5 billion for Covid- 19 Responses among the 47 Counties – Mandera Share and Kshs. 31,845,000 million for Medical Staff Allowances were also received to support the county’s Covid-19 pandemic containment.

During the reporting period, receipts for equitable share grant recorded a deviation of 9% in percentage terms while Kenya Urban Development Support Program and Kenya Climate Smart Agriculture Project (NEDI) also had marginally over 25% 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 decent performance. The fiscal performance for the FY 2019/2020 was, therefore, considered a great success.

The following challenges were, however, notable:

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 32%.
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.
4. The COVID-19 menace did the greater damage to the course of revenue collection

and project implementations. Most traders in Mandera County closed their businesses for close to four months. Resources were also diverted from initially planned programmes to counter, manage and maintain the virus pandemic.

5. The infestation of desert locusts and floods resulted in destruction of homes, deaths, agricultural output and infrastructure.

**Table 2: Monthly Local Revenue Collections**

<b>FY 2019/20 Total monthly local revenue collection for Mandera County Government</b>		
<b>Month</b>	<b>Amount collected in Kshs.</b>	<b>Cumulative collections</b>
<b>Jul-19</b>	9,388,898.00	9,388,898.00
<b>Aug-19</b>	8,221,083.00	17,609,981.00
<b>Sep-19</b>	7,201,550.00	24,811,531.00
<b>Oct-19</b>	6,860,638.00	31,672,169.00
<b>Nov-19</b>	8,403,634.00	40,075,803.00
<b>Dec-19</b>	10,198,382.00	50,274,185.00
<b>Jan-20</b>	11,252,751.00	61,526,936.00
<b>Feb-20</b>	12,651,768.00	74,178,704.00
<b>Mar-20</b>	13,672,536.20	87,851,240.20
<b>Apr-20</b>	6,962,052.80	94,813,293.00
<b>May-20</b>	11,408,498.00	106,221,791.00
<b>Jun-20</b>	18,740,045.00	124,961,836.00
<b>Total Collections for FY 2019/2020</b>		<b>124,961,836.00</b>

*Source: Revenue Directorate, Mandera County Government*

The highest OSR collection was realized in the month of June 2020 amounting to Kshs. 18,740,045 million, while the least collection was in the month of October 2019 amounting to Kshs. 6,860,638 million.

The table 3 summarizes comparisons between actual local revenue collections in FY 2018/19 and what was realized for the year under review.

**Table 3: FY 2019/20 Revenue Collection by Stream**

**ACTUAL COUNTY OWN GENERATED RECEIPTS**

<b>OSR COLLECTIONS AS AT 30.06.2020</b>	<b>Actual collections FY 2019 - 2020</b>	<b>Actual collections FY 2018 - 2019</b>
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<b>Revenue Stream</b>	<b>Kshs</b>	<b>Kshs</b>
Hospital Collection	21,577,484	20,314,460
Land Rents	33,999,995	17,885,270
Single Business Permit	12,043,890	9,776,850
Miraa Movements	6,843,700	7,892,200
Barriers	5,809,701	7,495,200
Land Transfers	8,736,350	5,707,000
Slaughter Fees And Charges	6,771,711	4,415,290
Livestock Markets	2,395,975	3,048,300
Markets Stalls	3,700,870	2,997,030
Tender And Quantity Surveying Fees	689,500	2,712,000
Livestock Movement	4,931,720	2,548,700
Income From Water Management	5,951,897	2,136,950
Agriculture Mechanization Services	623,000	1,976,000
Others	3,201,008	1,850,601
Public Health	1,635,770	1,026,300
Market Shades	1,075,480	-
Stores	308,250	926,720
Bus park/Taxis	725,469	756,450
Building Plan	1,722,250	741,400
Rental Income	1,194,352	556,300
Produce Cess	411,624	367,400
Income From Quarries	611,840	291,050
<b>Total</b>	<b>124,961,836</b>	<b>95,421,471</b>

*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. 13,118,313,037 billion. Out of this amount, the budgeted amount from local collections was Kshs. 183,559,629 million (1%). Despite this budgeted figure, only Kshs. 124,961,836 million was realized at the end of financial year. This represented a revenue shortfall of Kshs. 58,597,793 (32% deviation from the approved target). The revenue collection increased remarkably by Kshs. 29,540,365 million compared to FY 2018/2019. An analysis of local revenue performance shows the County's top performing streams included Land rates, Hospital collections, Single Business Permits, Land Transfers, Miraa Movements, Slaughter charges, Income from water management and barriers. Notable nosedive in revenue collection was on income from Tender and Quantity Surveying Fees, Agriculture Mechanization Services



and Income from Quarries.

As shown above, the county's local collection has underperformed for the year under review.

The following factors were chiefly responsible for the poor performance:

- Closure of quarries, sand and blast sites due to terrorism threats.
- 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 and heavy floods experienced in the month of April that has negatively impacted the economic powers of the communities.
- General insecurity that discourages investment in the county.
- an inadequate legislation framework to prosecute defaulters.
- The COVID-19 pandemic.

## 2.2 Expenditure Performance

The county's approved supplementary budget for FY 2018/2019 was Kshs. **13,118,313,036.00** billion. A total of Kshs. **11,588,084,289.70** billion was spent on both development and recurrent activities. This absorption accounted for **88%** of the total approved supplementary budget. The recurrent expenditure for the year was Kshs. **6,535,667,369.07** billion against a target of Kshs. **6,822,774,456.85** billion. The recurrent budget absorption was **96%**, an increase from 95% recorded in FY 2018/19. Development expenditure recorded an absorption rate of **80%**, which was a decrease from 81% attained in FY 2018/19. The actual expenditure on development programmes amounted to Kshs. **5,052,416,920.63** billion against a budgeted figure of Kshs. **6,295,538,579.15** billion.

The overall budget execution status for both the development and the recurrent votes was satisfactory for the FY 2019/2020.

**Table 4: Total Expenditure**

Expense Category	Annual Budget (Kshs.)	Total Expenditure (Kshs.)	Variance (Kshs.)	Absorption Rate (%)
Recurrent	6,822,774,456.85	6,535,667,369.07	287,107,088	96%
Development	6,295,538,579.15	5,052,416,920.63	1,243,121,659	80%
<b>Total</b>	<b>13,118,313,036.00</b>	<b>11,588,084,289.70</b>	<b>1,530,228,746</b>	<b>88%</b>

*Source: County Treasury, Mandera County*

The variance of Kshs. 1,530,228,746 billion led to lower absorption of both recurrent (96%) and development expenditure (80%) by the County Departments. In particular, underperformance by the development vote was occasioned late releases of funds from the National Treasury.

### **2.2.1 Recurrent Expenditure**

As stated earlier, the county performed well in the execution of the recurrent budget for the FY 2019/20. The county had a total recurrent budget of Kshs. 6,822,774,456.85 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 Lands, Housing Developments and Physical Planning and the Ministry of Public Works Roads and Transport recorded the highest overall absorption rate at 100% followed by the Ministry of Agriculture, Livestock and Fisheries, the Ministry of Education, Culture and Sports, the Ministry of Finance & Economic Planning and ICT and the County Public Service Board all recording an absorption rate of 99%. The Ministry of Water, Energy, Environment, Natural Resources Tourism and Wildlife and the Ministry of Health Services recorded an absorption rates at 98% and 97% respectively. The county assembly was the lowest spender of recurrent budget in the year at an absorption rate of 89%.

The table below shows a tabulated analysis of county's recurrent expenditure for FY 2018/2019.

#### **Table 5: Recurrent Expenditure by Ministries**

The table below represents total recurrent expenditure for the FY 2019/2020 per ministry as at 30th June 2020.

<b>Table 5: Recurrent Expenditure FY 2019/2020</b>	<b>July 2019 - June 2020</b>		
<b>Sector/Department</b>	<b>Approved Estimates (Kshs.)</b>	<b>Actual Expenditure (Kshs.)</b>	<b>% of absorption</b>
County Assembly	691,834,897.00	614,348,508.00	89%

Ministry of Agriculture, Livestock and Fisheries	279,153,965.35	276,571,281.20	99%
Ministry of Education, Culture and Sports	404,665,461.00	399,284,161.79	99%
Ministry of Gender, Youth and Social Services	83,358,197.00	76,792,655.00	92%
Ministry of Finance & Economic Planning and ICT	841,069,859.23	828,645,736.89	99%
Ministry of Health Services	1,843,512,198.00	1,790,003,919.19	97%
Ministry of Trade, Investments, Industrialisation, and Cooperative Development	50,287,724.13	46,542,004.00	93%
Ministry of Lands, Housing Developments and Physical Planning	286,889,249.85	286,889,250.17	100%
Office of the Governor and Deputy Governor	482,208,601.73	467,436,011.32	97%
County Public Service Board	56,759,224.00	56,327,224.00	99%
Ministry of Public Service Management and Devolved Units	1,116,183,327.34	1,017,047,088.56	91%
Ministry of Public Works Roads and Transport	110,957,792.22	110,957,791.69	100%
Ministry of Water, Energy, Environment, Natural Resources Tourism and Wildlife	575,893,960.01	564,821,737.25	98%
<b>Total</b>	<b>6,822,774,456.85</b>	<b>6,535,667,369.07</b>	<b>96%</b>

Source: County Treasury, Mandera County Government

### 2.2.2 Development Expenditure

In the FY 2019/20, the county's gross development budget was Kshs. **6,295,538,579.15** billion. Kshs. **5,052,416,920.63** billion representing 80% of the development vote was utilized within the financial year. Only one ministry was able to exhaust its entire development vote. The Ministry of Finance and Economic Planning recorded the highest overall absorption rate at 100% followed by the Ministry of Education, Culture and Sports at 97%. The Ministry of Gender, Youth and Social Services and the Ministry of Agriculture, Irrigation and Livestock recorded the third and fourth highest absorption rates at 90% and 86% respectively. The County Assembly was the worst performer recording only 44%.

**Table 6: Development Expenditure by Ministries**

<b>Table 6: Development Expenditure FY 2019/2020</b>	<b>July 2019 - June 2020</b>
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Sector/Department	Approved Estimates (Kshs.)	Actual Expenditure (Kshs.)	% of absorption
County Assembly	268,827,225.55	118,825,754.55	44%
Ministry of Agriculture, Livestock and Fisheries	1,055,031,659.90	908,538,369.23	86%
Ministry of Education, Culture and Sports	452,144,520.50	440,148,370.00	97%
Ministry of Gender, Youth and Social Services	59,848,646.00	53,957,658.00	90%
Ministry of Finance & Economic Planning and ICT	413,374,886.75	413,374,886.80	100%
Ministry of Health Services	825,218,229.52	676,317,121.60	82%
Ministry of Trade, Investments, Industrialization, and Cooperative Development	232,269,803.61	198,721,707.75	86%
Ministry of Lands, Housing Developments and Physical Planning	307,742,294.00	212,064,007.40	69%
Ministry of Public Service Management and Devolved Units	246,297,599.00	205,149,252.00	83%
Ministry of Public Works Roads and Transport	1,283,376,908.33	975,422,900.30	76%
Ministry of Water, Energy, Environment, Natural Resources Tourism and Wildlife	1,151,406,806.00	849,896,893.00	74%
<b>Total</b>	<b>6,295,538,579.15</b>	<b>5,052,416,920.63</b>	<b>80%</b>

Source: County Treasury, Mandera County Government

**Table 7: List of Development Projects with the Highest Expenditure in FY 2019/20**

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

S/No.	Project Name	Project Location	Project Budget	Project Expenditure as at FY 2019/20 (Kshs.)	Absorption Rate (%)
1	Proposed Completion of County Headquarters	Mandera East	455,354,521	330,308,680	73
2	Proposed Completion of County Guest House	Mandera East	308,671,300	197,903,560	64
3	Proposed construction of Mandera Teachers Training College	Mandera East	250,000,000	80,000,000	32
4	Proposed Kutulo (Malbe) water pan for irrigation projects in Kutulo sub county	Kutulo	207,092,828	135,000,000	65
5	Proposed construction of regional livestock market	Mandera East	146,000,000	51,569,600	35
6	Proposed Koromey irrigation projects	Mandera East	128,000,000	61,728,395	48
7	Phase II of Elwak SME Park	Mandera South	100,000,000	57,000,000	57

8	Upgrading of borehole 11	Mandera South	75,000,000	44,000,000	60
9	Proposed fencing of Takaba Airstrip	Mandera West	70,123,456	29,177,065	42
10	Proposed Administration block at Mandera Technical Training Institute	Mandera East	69,850,000	50,000,000	72
11	Additional work at A&E at MCRH	Mandera East	60,125,000	30,000,000	50
12	Construction of KMTC	Mandera East	60,000,000	60,000,000	100
13	Proposed construction of modern slaughter house	Mandera East	58,752,258	58,752,258	100
14	Emergency pharmaceutical to Takaba sub county Hospital	Mandera West	57,993,800	57,993,800	100
15	Liability for Medical and equipment supply	Countywide	56,067,000	56,067,000	100
16	Construction of level 4 hospital at Kutulo	Kutulo	55,000,000	32,983,181	60
17	supply of pharms and non-pharms	Countywide	50,865,000	50,865,000	100
18	construction of box culvert along Khalalio Road	Mandera East	49,697,462	19,590,428	39
19	Proposed upgrade of Harshilmi primary School	Mandera West	48,758,616	30,199,519	62
20	Box culvert on Takaba - Banisa Road at Lagwarera	Mandera West	41,968,800	19,724,698	47
21	Proposed Expansion Of Arda Boji Earthpan By 60,000 Cubic Metre In Mandera South Sub-County	Mandera South	40,004,387	40,004,387	100
22	Supplies of pharmaceutical to MCRH	Mandera East	35,667,500	35,667,500	100
23	Construction of Municipality Office Blocks	Mandera East	31,102,895	31,102,895	100
24	Afforestation Program	Mandera East	30,170,000	15,700,000	52
25	Proposed construction of livestock demonstration farm	Mandera East	30,105,610	30,105,610	100
26	Proposed dining block at Mandera Technical	Mandera East	28,979,955	27,732,369	96
27	Proposed paved parking and drainage system at Elwak SME market Park	Mandera South	28,000,000	28,000,000	100
28	Construction of maternity at MCRH	Mandera East	24,983,181	24,983,181	100
29	Change of Kamor border patrol base to Kamor Health center	Mandera East	22,000,000	15,000,000	68
30	Proposed Construction Of Water Supply System At Fincharo In Mandera South Sub-County	Mandera South	21,961,990	17,569,592	80

*Source: County Treasury, Mandera County Government*

### **2.3 Implication of 2019/2020 fiscal performance on fiscal responsibility principles and financial objectives contained in the 2019 CFSP**

Fiscal responsibility is essential to creating a better, stronger and more prosperous administrative and financial management system in the Mandera County Government.

During the period under review, the county had planned to collect revenue amounting to Kshs. 13,118,313,036 billion. At the close of the financial year, the county had received revenues amounting to

Kshs. 12,095,173,740 billion. This represented a revenue deficit of 8% (Kshs. 1,023,139,296) from the FY 2019/2020 approved supplementary target. This implies that the baseline ceilings for subsequent budgets ought to be adjusted considering the under-performance in revenue collection in the FY 2019/20. Consequently, this may affect the financial performance objectives stipulated in CFSP 2019.

The review of budget for FY 2019/20 reveals that revenue underperformance was in both local revenue collection and external revenue. Therefore, the overall revenue performance in FY 2019/20 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 the FY 2020/2021 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 FY 2019/20. 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;

- i. 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. 6,295,538,579 billion which was 48% the county total approved supplementary budget for the 2019/2020.
- ii. 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 18% which is below 35% set in the 2015 County Government regulations.
- iii. 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.
- iv. 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.

- v. 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. 100 million in the financial year under review.

### **General Challenges affecting budget/fiscal performance**

Mandera County faces a number of Fiscal challenges including;

- Cash flow challenges from the national government
- Swelling wage bill
- Erratic IFMIS connectivity challenges
- Accrued pending Bill
- Staff capacity gaps
- Late approval of budget
- Insecurity/Terrorism Threats

## **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**

The outbreak and spread of the Covid-19 Pandemic and the ensuing containment measures have devastated global economies. As a result, the global economy is projected to contract by 4.9 percent in 2020 from a growth of 2.9 percent in 2019 with prospects across countries and regions remaining highly uncertain. The projected rebound in 2021 depends critically on the pandemic fading in the second half of 2020, allowing containment efforts to be gradually scaled back and restoring consumer and investor confidence. Nonetheless, IMF estimates show that the level of estimated GDP at the end of 2021 in both advanced and emerging markets is expected to remain below the pre-virus baseline, highlighting the long-term effects of the pandemic.

Real GDP growth in the East African Community declined to 5.9% in 2019 from 6.6% in 2018, with a deceleration recorded across all countries in the bloc. The COVID-19 pandemic has set-off the first recession in Sub-Saharan Africa in 25 years with the region's economy expected to contract by 1.6% in 2020, the worst reading on record. The World Bank estimates that the pandemic will cost the region between \$37 and \$79 billion in estimated output losses in 2020, through a reduction in agriculture productivity, weakening supply chains, increasing trade tensions and exacerbating political and regulatory uncertainty.



### **3.2.1 Domestic Economic Development**

The Kenyan economy has been battered by the COVID-19 pandemic and added to that was the infestation of desert locusts and floods that have resulted in destruction of homes, deaths, agricultural output and infrastructure. From these shocks, all sectors of the economy have been adversely affected. The Pandemic and the containment measures slowed down economic activities in key sectors of the economy in the first quarter of 2020, resulting to a lower growth of 4.9 percent compared to a growth of 5.5 percent in a similar period in 2019. Overall, taking into account the available indicators for second quarter for 2020, the economy is projected to grow by 2.6 percent in the calendar year 2020 compared to the initial projection of 6.1 percent in the 2020 Budget Policy Statement. The economy is projected to rebound to 5.3 percent in 2021 and 5.9 percent over the medium term. 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 slowdown in the first quarter of 2020 was mainly due to the uncertainty surrounding the Covid-19 pandemic that was already slowing economic activity in most of the country's major trading partners. The contraction by 9.3 percent in the accommodation and food services sector exacerbated the decelerated growth in the first quarter of 2020. On the positive side, the economy was supported by strong agricultural activities that strengthened to 4.9 percent in the first quarter of 2020 from 4.7 percent over the same period in 2019. A resilient non-agriculture sector also supported growth, despite a slowdown to 5.2 percent from 5.9 percent over the period under review.

The agriculture sector grew by 4.9 percent in the first quarter of 2020 compared to a growth of 4.7 percent in the same period in 2019 supported by favorable weather conditions. Tea production and cane deliveries grew by 49.2 percent and 10.2 percent, respectively in the first quarter of 2020 relative to 2019. However, the production of coffee and formal milk intake declined by 11.8 percent and 1.2 percent over the same period. The first quarter of 2020 recorded strong growth in earnings from agricultural exports. Earnings from the exports of fruits, cut flowers, coffee, tea and vegetables grew by 128.8 percent, 112.4 percent, 94.8 percent, 56.6 percent and 29.6 percent in the quarter under review relative to the same quarter of 2019. The contribution of agricultural sector to the overall GDP growth was 1.3 percentage points in the first quarter of 2020, an increase from 1.2 percentage points in the same quarter of 2019. Indicators in the sector also point to continued strong performance in the second quarter majorly on account of improved weather conditions and increased credit extension to the sector. The sector received Ksh 2.5 billion net credit in April 2020, Ksh 0.9 billion in May but recorded a net repayment of Ksh 0.3 billion in June 2020.

The non-agricultural sector (service, industry and mining and quarrying) remained resilient and grew by 5.2

percent in the first quarter of 2020, down from 5.9 percent in the same quarter of 2019. The services and industry sector contributed 3.3 percentage points to real GDP growth in the first quarter of 2020 mainly supported by strong performance in the services sector. Activities in the mining and quarrying sector recovered to record a growth of 9.5 percent in the first quarter of 2020 up from 1.4 percent in the first quarter of 2019. The sector's growth is attributed to increased production from prior quarters across all products in Base Titanium Limited which operates Kenya's largest mine. The industry sector growth declined from 4.9 percent in the first quarter of 2019 to 4.1 percent in the first quarter of 2020 due to slowdown the performance of manufacturing, construction and electricity and water supply activities. Nevertheless, the sector accounted for 0.7 percentage points to real GDP growth in the first quarter of 2020. The manufacturing sector is estimated to have expanded by 2.9 percent in the first quarter of 2020 compared to a growth of 3.5 percent in a similar quarter of 2019. This is reflected by the decline in consumption of electricity to a growth of 2.4 percent in the first quarter of 2020 compared to a growth of 2.8 percent in the first quarter of 2019. Growth in the sector was mainly supported by the manufacture of non-food products such as cement production, assembly of motor vehicles and cigarette production that increased by 4.6 percent compared to a growth of 3.3 percent in the corresponding period of 2019. The sectors contribution to growth was 0.3 percentage points in the first quarter of 2020. The performance of the manufacturing is poised to improve with recovery observed in June 2020 from a contraction in the previous months. Credit extended to the sector will be partly to support pandemic induced manufacturing, working capital requirements and new activities in the sector.

Activities in Electricity and water supply subsector declined to 6.3 percent in the first quarter of 2020 down from 7.8 percent in the same period of 2019. Total electricity generation expanded by 2.2 percent in the first quarter of 2020 compared to a growth of 7.0 percent in the corresponding quarter of 2019. Growth in the electricity sector was supported by increased generation of electricity from hydro (29.8 percent) due to sufficient rainfall and geothermal (10.6 percent) coupled with a decline in generation of electricity from thermal sources (47.4 percent). However, generation of electricity from solar, and wind declined by 3.2 percent, and 37.0 percent respectively. The electricity and water supply sub-sector contributed 0.2 percentage points to real GDP growth.

The construction sector grew by 5.3 percent in the first quarter of 2020 compared to 6.1 percent in a similar period in 2019. Its contribution to growth was 0.3 percentage points in both quarters. The decelerated growth in the sector was due to a decline in importation of fabricated metal products and cement, and construction related materials on account of disruption in international trade and the business environment

as a result of the Covid-19 pandemic. Nonetheless, the sector performance was strong mainly supported by considerable growth in consumption of cement which rose by 11.9 percent compared to a contraction of 2.5 percent in the first quarter of 2019. The sector's growth was further supported by increased credit to the sector which grew by 4.2 percent to stand at Ksh 352.9 billion in the period under review in the period under review.

The services sector expanded by 5.4 percent in the first quarter of 2020 compared to a growth of 6.4 percent in the same quarter in 2019. Activities in information and communication (9.8 percent), wholesale and retail trade (6.4 percent), transport and storage (6.2 percent), financial and insurance (6.0 percent), and real estate (4.3 percent) remained vibrant supporting the growth in the services sector. The sector accounted for 2.6 percentage points in the first quarter of 2020, compared to 3.0 percent in the first quarter of 2019.

The performance of activities in the transport and storage sector declined to 6.2 percent in the first of quarter of 2020 from 6.4 percent recorded in the first quarter of 2019 following imposition measures to contain the spread of covid-19 towards the end of the quarter. Growth in the sector was mainly supported by a 0.8 percent increase cargo throughput at the port of Mombasa, 20.6 percent decline in the average international oil price and 7.1 percent growth in the stock of credit advanced to transport and communication in March 2020.

The information and communication technology (ICT) sector grew by 9.8 percent in the first quarter of 2020 down from 10.2 percent in the same quarter in 2019. The growth was supported by increased number of mobile transactions and growth in imports of telecommunication equipment. While the total number of mobile money subscriptions and transactions declined in the quarter, the value of mobile money transactions grew by 2.1 percent to Ksh 1,086.9 billion. The sector's performance was also enhanced by increased access and use of internet services.

The financial and insurance sector performance was weaker in the quarter under review expanding by 6.0 percent in 2020, compared to 6.3 percent in 2019 but it's contribution to real GDP growth remained 0.4 percent in both quarters. On the other hand, following the confirmation of Covid-19 case in Kenya in March 2020, activities in the health sector increased marginally from 5.4 percent in quarter one of 2019 to 5.8 percent in the first quarter of 2020.

The wholesale and retail trade sector remained vibrant, expanding by 6.4 percent in the first quarter of 2020 compared to 6.3 percent in a similar quarter in 2019. Dry maize and beans fetched better prices in in the first quarter 2020 compared to the same period in 2019, supporting wholesale and retail sector. Motor gasoline premium, light diesel oil and kerosene prices increased during the period under review. The sector

contributed 0.4 percentage points to Real GDP in both quarters.

Accommodation and food service activities contracted by 9.3 percent in the first quarter of 2020 compared to a growth of 11.0 percent in the first quarter of 2019. Activities in the Accommodation and restaurant sector were adversely affected by Covid-19 pandemic as international travels were either cancelled or suspended, hotels closed or scaled down their operations for indefinite period and movement restrictions imposed in nearly all the countries. These measures resulted to a decline in the number of international visitor arrivals through the two major airports from 364,744 in the first quarter of 2019 to 294,053 in the review period.

### ***Inflation Rate***

Year-on-year overall inflation has remained within the government target range since end 2017 demonstrating prudent monetary policies. The inflation rate was at 4.4 percent in August 2020, declining from 5.0 percent in August 2019 (Figure 7). This decline reflected favourable weather conditions which resulted to declines in the prices of key food items such as cabbages, tomatoes, Irish potatoes, spinach and loose maize grain. Paraffin, petrol, diesel and 200KWh electricity prices also declined during the same period due to lower international oil prices. The contribution of core inflation to overall inflation has been low and stable reflecting the impact of the reduction of VAT and muted demand pressures in the economy on account of prudent monetary policies. The contribution of fuel inflation has also been low, a reflection stable energy prices despite the increase in the Petroleum development levy in July 2020. The major driver of overall inflation in the period under review has been food inflation. Kenya's rate of inflation compares favorably with the rest of Sub-Saharan Africa countries. In July 2020, Kenya recorded a lower inflation rate than Uganda, Ghana, Rwanda, Nigeria, Zambia, and Ethiopia.

### ***Kenya Shilling Exchange Rate***

The foreign exchange market has experienced some volatility in 2020, largely due to uncertainties with regard to the impact of Covid-19 Pandemic and a significant strengthening of the US Dollar in the global markets. However, the Kenya Shilling remained competitive supported by a stable current account deficit. The Shilling depreciated against the US Dollar, Sterling pound and the Euro exchanging at an average of Ksh 107.3, Ksh 135.3 and Ksh 122.5 in July 2020 from Ksh 103.2, Ksh 128.7 and Ksh 115.8 in July 2019, respectively. In comparison to most Sub-Saharan Africa currencies the Kenya Shilling has remained relatively stable. In the year to August 2020, the Shilling weakened by 4.7 percent against US Dollar. This depreciation in Kenya Shilling was lower than the depreciation in Ghanaian Cedi, Rwanda Franc, Botswana

pula, Nigerian Naira, Mauritius Rupee, South African Rand and Namibian Dollar.

### ***Interest Rates***

Short-term interest rates remained fairly low and stable. The Central Bank Rate was retained at 7.0 percent on July 29, 2020 same as in April 2020 to signal lower lending rates in order to support credit access by borrowers especially the Small and Medium Enterprises distressed by Covid-19 pandemic. The interbank rate remained low and fairly stable at 2.5 percent in August 2020 from 3.6 percent in August 2019 in line with the easing of the monetary policy and adequate liquidity in the money market. The 91-day Treasury Bills rate declined to 6.2 percent in August 2020 compared to 6.4 percent in August 2019. Over the same period, the 182-day Treasury Bills rate declined to 6.6 percent from 7.1 percent while the 364-day decreased to 7.5 percent from 9.2 percent. The improved liquidity in the money market has resulted in stable commercial bank rates. The average lending rate declined from 12.5 percent in June 2019 to 11.9 percent in June 2020 while the average deposit rates declined from 7.2 percent to 6.9 percent. This led to a decrease in the average interest rates spread by 0.3 percentage points over the review period.

### ***Money and Credit***

Growth in broad money supply, M3, declined to 8.4 percent in the year to June 2020 compared to a growth of 9.2 percent in the year to June 2019. The decline in growth of M3 is attributed to decline in growth of other deposits at CBK and foreign currency deposits. However, the growth in M3 was supported by improvement in the growth of demand deposits, time and savings deposits as well as currency outside banks. NFA of the banking system in the year to June 2020 contracted by 5.8 percent, compared to a growth of 24.2 percent in the June 2019. The contraction in growth of the NFA was mainly reflected in the contraction of the foreign currency reserves by the Central Bank. On the other hand, increase in growth of NFA of commercial banks, is partly attributed to decrease in growth of deposits by foreign banks and increased deposits with foreign banks. Meanwhile, Net Domestic Assets (NDA) increased to register a growth of 13.5 percent in the year to June 2020 from a growth of 4.7 percent over a similar period in 2019. This is largely due to an improvement in net credit flows to the both the government, private sectors and other public sector.

### ***Balance of Payments***

The overall balance of payments position improved to a surplus of US\$ 179.3 million (0.2 percent of GDP) in the year to June 2020 from a deficit of US\$ 492.7 million (0.5 percent of GDP) in the year to June 2019.

This was mainly due to narrowing of the financial account deficit. The capital account balance registered a surplus of US\$ 149.6 million in the year to June 2020. However, this was a decline by US\$ 65.6 million compared to the balance witnessed in June 2019. Financial inflows declined to US\$ 4,485.1 million in June 2020 compared to US\$ 6,634.8 million in June 2019. The financial inflows were mainly in the form of direct investments, portfolio investments and other investments which stood at a deficit of US\$ 662.1 million, US\$ 1,189.2 million and deficit of US\$ 5,019.2 million, respectively in June 2020. The current account deficit worsened by 1.2 percent to US\$ 4,795.3 million (4.7 percent of GDP) in the June 2020 compared to a deficit of US\$ 4,737.4 million (5.0 percent of GDP) in the year to June 2019 mainly due to a decline in net secondary income and net services. The balance in the merchandise account improved by US\$ 705.8 million to a deficit of US\$ (9,458.9) million in the year to June 2020 on account of a decline in imports that more than offset the decline in exports.

### ***Foreign Exchange Reserves***

The banking system's foreign exchange holdings remained strong at US\$ 13,680.9 million in June 2020 up from US\$ 13,187.3 million in June 2019. The official foreign exchange reserves held by the Central Bank improved to US\$ 9,739.9 million (5.9 months of import cover) in June 2020 compared with US\$ 9,655.9 million (6.0 months of import cover) in June 2019. This fulfils the requirement to maintain reserves at minimum of 4.0 months of imports cover to provide adequate buffer against short term shocks in the foreign exchange market. Commercial banks holdings increased to US\$ 3,940.9 million in June 2020 from US\$ 3,531.4 million in June 2019.

### ***Nairobi Securities Exchange***

Activity in the capital markets declined in August 2020 compared to August 2019, with equity share prices declining as shown by the NSE 20 Share Index. The decline reflects the volatility in the financial markets as a result of the uncertainty surrounding the corona virus pandemic. The NSE 20 Share Index was 1,794 points by end of August 2020 compared to 2,468 points by end August 2019. Consequently, market capitalization declined from Ksh 2,222 billion to Ksh 2,144 billion over the same period.

## **3.3 Global and National Macro-Economic Outlook**

### **3.3.1 Global Growth Outlook**

The outbreak and spread of the Covid-19 Pandemic and the ensuing containment measures have devastated global economies. As a result, the global economy is projected to contract by 4.9 percent in 2020 from a

growth of 2.9 percent in 2019. This economic outlook is worse than the growth reported during the 2008 - 2009 global financial crisis. On a positive note, world economic growth is projected to rebound to 5.4 percent in 2021 mainly supported by a gradual strengthening in consumption and investment is also expected to firm up. Growth in the advanced economies is projected at negative 8.0 percent in 2020 recovering to 4.8 percent in 2021. This reflects deeper than anticipated effects of the pandemic on economic activity in the first half of 2020 and more gradual recovery in the second half of the year. Significant contraction of the economy is projected in the United States (-8.0 percent), Japan (-5.8 percent), the United Kingdom (-10.2 percent), Germany (-7.8 percent), France (-12.5 percent), and Italy and Spain (-12.8) percent. Growth in the Euro area is expected to contract by 10.2 percent in 2020 before recovering to grow at 6.0 percent in 2021.

The emerging markets and developing economies are also projected to contract by 3.0 percent in 2020. Better prospects are however expected in 2021 with growth forecasted at 5.9 percent; this recovery is well echoed in the forecasted growths of Emerging and Developing Asia and Europe, Latin America and the Caribbean, and Sub-Saharan Africa.

The Sub-Saharan African region has not been spared the negative impact of the pandemic with the region projected to contract by 3.2 percent in 2020. Consistent with forecast in the other regions, economic growth in the region is expected to recover to 3.4 percent in 2021 as most of the economies in the region recover from the adverse effects of the Covid-19 pandemic.

### **3.3.2 Domestic Growth Outlook**

On the domestic scene, prior to the outbreak of Covid-19 pandemic, Kenya's economy was strong and resilient despite the challenging global environment. The economy expanded by 4.9 percent in the first quarter of 2020 supported by the agricultural sector on account of favorable weather conditions. Leading economic indicators for the second quarter point to continued strong performance in agriculture, mainly due to favorable weather conditions and lifting of restrictions in the key export markets. However, the negative effects of covid-19 on the economy are projected to more than offset the gains in the agricultural sector leading to an overall projected growth, in calendar years, of 2.6 percent in 2020. On a positive note, economic growth is projected to recover to 5.3 percent in 2021 and 5.9 percent in the medium term. In terms of fiscal years, economic growth is projected to grow by 4.0 percent in FY 2020/21 and further to 5.9 percent over the medium term. This growth outlook for the calendar year 2020 and the FY 2020/21 and the medium term, will be supported by the stable macroeconomic environment, investments in the strategic

areas under the “Big Four” agenda, the ongoing public investments in infrastructure projects, the Economic Stimulus Program being implemented and the planned Post Covid-19 Economic Recovery Strategy. These factors will push up consumer demand and increase both public and private sector investment reinforcing the projected growth. The economic growth projections over the medium term are aligned to those of the Third Medium Term Plan (2018-2022) which is implementing Vision 2030.

### **Monetary Policy Outlook**

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

### **External Sector Outlook**

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

### **Fiscal Policy Outlook**

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

### **3.4 County Specific 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 economy of Mandera County for the FY 2020/2021 is likely to be suppressed due to restrained activities in retail trade. In order to remain resilient, the County government has operationalized Covid-19 Emergency Response Fund and will also focus on implementing interventions towards post-Covid-19 recovery.

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

### **3.5 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 II (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 (500,000) 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 2021/2022 budget:

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

### **3.6 Risks to the Economic 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 which may lead to increase of prices of Goods and services domestically.
- Exposure to risks arising from public expenditure pressures, particularly related to wage related recurrent expenditures and the inevitable climate change and variability which has enhanced the frequency of disaster such as landslides, droughts and destruction of physical infrastructure.
- Locust invasion witnessed in the country in late 2019 and early 2020 poses a risk to agricultural production and food security. These shocks are likely to have negative impact on agricultural output leading to higher inflation that could slow down economic growth.
- Over-reliance on national government funding due to weak local revenue performance.
- Delayed disbursement of funds from the exchequer is another fiscal risk that the county might run in to. Delayed disbursement leads to late owing of obligation by the county and might lead to interest charges by the county suppliers and service providers. This increases the county's operating costs

and leads further to accumulation of pending bills.

- 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. Litigations and court injunctions can also derail timely execution of the Budget. These litigations can arise from county's processes especially procurement where perceived unfair competition may land the county in a court of law. Orders to repeat the whole procurement process will expose the county to disadvantages of time value of money, increase operation costs and lose valuable time in delivering the Budget.
- Persistent drought and other calamities that lead to deviation of resources.

### **3.7 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. The county will enhance the capacity of the Directorate of Revenue to ensure efficiency in revenue collection;
- 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 demand 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 social and economic environment in the County to attract private investments while also encouraging innovation, growth and expansion of economic and employment opportunities;
- Investment in staff capacity development, retention and productivity;
- Developing of supportive systems and frameworks e.g. M&E, Revenue Collection, and Investment Promotion;
- The county will apply the spirit of the Public Procurement and Disposal Act, 2015 which explicitly outlines how procurement should be conducted to the procurement risks.
- 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.
- Strict adherence to the provisions of the law and existing legal frameworks
- The Public Finance Management Act, 2012 section 110 provides for establishment of an emergency fund to allow for forward budgeting and appropriation for funds for emergencies or amendment of the budget through a supplementary. The Budget will always be cognizant of natural calamities like floods and famine which may befall the county and force the county to rework its budget to accommodate the situation. This will divert funds from strategic areas and affect smooth implementation of the programmes in the Budget.

## **CHAPTER FOUR**

### **RESOURCE ALLOCATION FRAMEWORK**

#### **4.1 Introduction**

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 2021/2022, 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 2021/2022, the county expects a total resource envelope of about 12.5 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 2021/2022 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 2019/2020 as compared to the previous years. We, therefore, anticipate a local revenue collection close to 200 million for FY 2021/2022. The National Treasury has directed counties to maintain a balanced budget. To realize this, the county will continue to 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 2021/2022 will be rolled out on the background of updated medium term framework and outlook with expenditure ceilings for the ministries being provided in the 2021 County Fiscal Strategy Paper to be released in February 2021.

## **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 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 continue heeding 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 in the previous financial years. This has 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 elevate 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, the Covid-19 pandemic and political disturbances. The county 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 2020 CBROP has highlighted the key County Government policies and objectives that will underpin the creation of the FY 2021/2022 budget. The fiscal framework discussed is also in line with tone of the CIDP II, the sectorial objectives, the ADP and the fiscal responsibility principles outlined in the 2012 PFM law.

The FY 2021/22 and the Medium Term Budget is being prepared against the backdrop of a slowdown in the growth of the global economy. The Pandemic and the associated 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. Kenya has not been spared, Mandera being one of the worst hit Counties. The Pandemic and the containment measures have not only disrupted our ways of lives and livelihoods, but to a greater extent business. Consequently, the economy is projected to slow down to 2.6 percent in 2020 from the 5.4 percent registered in 2019.

Given the tight resource constraints amidst significant revenue shortfalls occasioned by the adverse effects of the Covid-19 Pandemic, the Mandera County Government will continue to ensure proper prioritization of public expenditures to the most impactful programmes with highest welfare benefits to its citizens. As such, the creation of the FY 2021/2022 budget will be broad based and consultative. To achieve this, the accounting officers have already been advised through budget circular issued in August 2020 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 2021 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.