REPUBLIC OF KENYA

COUNTY GOVERNMENT OF HOMA BAY

DEPARTMENT OF FINANCE, ECONOMIC PLANNING AND SERVICE DELIVERY

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

September 2020

FOREWORD

This County Budget Review and Outlook Paper (CBROP) has been prepared in accordance with the provisions of Section 118 of the Public Financial Management Act, 2012. The paper reviews the recent economic developments and the actual fiscal performance of the FY 2019/2020 in comparison to the budget appropriations for that financial year, 2019/2020. In addition, it provides information on changes in forecasts as indicated in the County Fiscal Strategy Paper (CFSP) 2020 and, how the actual financial performance for the financial year may have affected compliance with the fiscal responsibility principles and the County financial objectives for that year. The paper equally sets the tone for the preparation of the FY 2021/2022 budget estimates.

By the end of the FY 2019/2020, the County Government of Homa Bay had had fiscal receipts to operate with amounting to KSh. 8,295,042,721. Against the revised estimates of KSh. 8,969,578,696, this represented an average revenue performance of 92.5%. However, against the FY 2019/2020 original estimates of KSh. 8,337,787,696 this represented a revenue performance of 99.5%. Year on year from the FY 2018/19 to 2019/20, this represented an increase of KSh. 1,287,547,687 (18.4%) and is explained largely by the balance carried forward the previous year.

The actual expenditure during the FY 2019/20 amounted to KSh. 7,262,543,172 which represented 87.6% of the total actual revenue. Out of this total, the County spent KSh. 5,168,988,394 (71.2%) on recurrent activities and a further KSh. 2,093,554,778 (28.8%) on development activities. There was a remarkable improvement in the absorption rate for development expenditure (59.7%) compare to (31%) recorded in the previous financial year. This improvement was largely attributed to increased utilization of funds under the Ward Based Development budget of KSh. 800 million.

Owing to the widespread effect of Covid-19 pandemic, revenue collection for the FY 2020/21 is expected to decline slightly while expenditures for the fiscal year will have to be rationalized to ease fiscal pressure in some areas and create fiscal space for others. Based on national economic indicators as well as county-specific economic growth indicators, the economic and financial outlook will be updated accordingly to enable appropriate action.

The County Government remains committed to ensuring prudent management of public resources thereby guaranteeing value for money. Specifically, the County Treasury will continue to aggressively monitor and guide implementation of development programmes by all sectors. This will improve the absorption rate of development funds and hence improve service delivery. It is therefore my expectation that this paper will be useful in enhancing financial discipline and observing fiscal responsibilities as outlined in section 107 of the PFM Act 2012. It is only cost-effective utilization of public resources that will assure the realization of aspirations of the people of Homa Bay.

Hon. Nicholas K'Oriko
CEC Member Finance & Economic Planning
County Government of Homa Bay

ACKNOWLEDGEMENT

The 2020 Budget Review and Outlook Paper (BROP) has been prepared in accordance with the Public Finance Management (PFM) Act, 2012 and its Regulations. The document provides the fiscal outturn for the FY 2019/20, the macro-economic projections and sets the sector ceilings for the FY 2021/22 and the Medium Term Budget. The document also provides an overview of how the actual performance of the FY 2019/20 affected our compliance with the fiscal responsibility principles and the financial objectives spelt out in the PFM Act as well as information showing adjustments made in the projections outlined in the 2020 Budget Policy Statement.

The preparation of this CBROP was a collaborative and consultative effort among various departments. Many officers worked tirelessly and over time to put together this document. Therefore, I wish to applaud their efforts under the able leadership of members of the County Executive Committee and Chief Officers. In particular, I wish to recognize the leadership of H.E the Governor Hon. Cyprian Awiti, H.E. the Deputy Governor Hon. Hamilton Orata and the CEC Member responsible for Finance, Economic Planning and Service Delivery, Hon. Nicholas K'Oriko for shepherding this development to ensure a credible document has been produced.

I particularly appreciate the contribution of the technical wing especially those from the County Directorate of Budget and Economic Affairs for their tireless efforts towards ensuring that this document was completed in good time. Special thanks also go to the officers from accounts, reporting and revenue directorates who worked so hard to provide relevant information in the required formats.

Mr. Noah Otieno
Chief Officer – Finance, Economic Planning & Service Delivery
County Government of Homa Bay

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ABBREVIATIONS AND ACRONYMS

A-I-A	Appropriation in Aid
APR	Annual Percentage Rate
ARUD	Agriculture Rural and Urban Development
CBROP	County Budget Review and Outlook Paper
CBK	Central Bank of Kenya
CBR	Central Bank Rate
CECM	County Executive Committee Member
CFSP	County Fiscal Strategy Paper
CIDP	County Integrated Development Plan
CPI	Consumer Price Index
CRA	Commission on Revenue Allocation
CRF	County Revenue Fund
DANIDA	Danish Development Agency
DUAs	Departments, Units and Agencies
EAC	East African Community
ECD	Early Childhood Development
FY	Financial Year
GDP	Gross Domestic Product
HIV	Human Immuno-Deficiency Virus
ICT	Information and Communications Technology
IFMIS	Integrated Financial Management Information Systems
IPSAS	International Public Sector Accounting Standards
KBRR	Kenya Bank's Reference Rates
KNBS	Kenya National Bureau of Statistics

MDAs	Ministries, Departments and Agencies
MDG	Millennium Development Goals
MTEF	Medium Term Expenditure Framework
MTP	Medium-Term Plan
NDA	Net Domestic Asset
NFA	Net Foreign Asset
NSE	Nairobi Stock Exchange
PFM	Public Financial Management
PPP	Public Private Partnership
WASH	Water and Sanitation Hygiene
SACCO	Savings and Credit Cooperatives
SDGs	Sustainable Development Goals
SNA	System of National Accounts
SSA	Sub- Saharan Africa
TSA	Treasury Single Account
USA	United States of America
USD	United States Dollar

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Legal Basis for the Publication of the Homa Bay CBROP 2020

The Homa Bay County Budget Review and Outlook Paper is prepared in accordance with Section 118 (1) of the Public Financial Management Act, 2012. The law states that: 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 Financial Management Act, 2012

The Principles and Framework of Public Finance established by chapter twelve of the Constitution of Kenya, 2010 requires a County Government to uphold openness, accountability, equity, prudence, responsibility and clear reporting in management of public finance**.**

Section 103 of the PFMA establishes the County Treasury to monitor, evaluate and oversee the management of public finances and economic affairs on behalf of a County Government. The PFM Act bestows the responsibility of enforcing fiscal responsibilities envisaged in the constitution on the County Treasuries

In line with the Constitution, the new Public Financial Management (PFM) Act, 2012, sets out the fiscal responsibility principles to ensure prudency and transparency in the management of public resources. The PFM law (Section 1o7) states that:

(1) A County Treasury shall manage its public finances in accordance with the principles of fiscal responsibility set out in subsection (2), and shall not exceed the limits stated in the regulations.

(2) In managing the county government's public finances, the County Treasury shall enforce the following fiscal responsibility principles:

(a) The county government's recurrent expenditure shall not exceed the county government's total revenue;

(b) Over the medium term a minimum of 30% of the county government's budget shall be allocated to the development expenditure;

(c) 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;

(d) Over the medium term, the government's borrowings shall be used only for the purpose of financing development expenditure and not for recurrent expenditure;

(e) The county debt shall be maintained at a sustainable level as approved by county assembly;

(f) The fiscal risks shall be managed prudently; and

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

(3) For the purposes of subsection (2) (d), short term borrowing shall be restricted to management of cash flows and shall not exceed five percent of the most recent audited county government revenue.

(4) Every county government shall ensure that its level of debt at any particular time does not exceed a percentage of its annual revenue specified in respect of each financial year by a resolution of the county assembly.

(5) The regulations may add to the list of fiscal responsibility principles set out in subsection (2). Specifically, the PFM Regulations provides further that:

(a) The County Executive Committee member with the approval of the County Assembly shall set a limit on the County Government's expenditure on wages and benefits for its public officers pursuant to Section 107(2) of the PFM Act;

(b) The limit set under paragraph (a) above, shall not exceed thirty-five (35) percent of the County Government's total revenue at any one time;

(c) For the avoidance of doubt, the revenue referred to in paragraph (b) shall not include revenue that accrue from extractive natural resources including as oil and coal;

(d) The county public debt shall never exceed twenty (20%) percent of the county government total revenue at any one time;

(e) The county annual fiscal primary balance shall be consistent with the debt target in paragraph (d);

(f) The approved expenditures of a county assembly shall not exceed seven per cent of the total revenue of the county government or twice the personnel emoluments of that county assembly, whichever is lower;

(g) pursuant to section 107(5) of the PFM Act, if the county government actual expenditure on development shall be at least 30% in conformity with the requirement under section 107(2)(a) of the Act;

(h) if the county government does not achieve, the requirement of regulations 25(1)(f) above at the end of the financial year, the County Executive Committee member for finance shall submit a responsibility statement to the County Assembly explaining the reasons for the deviation and provide a plan on how to ensure annual actual expenditure outturns as wells as the medium term allocation comply with the provisions of section 107(2)(a) of the Act and these regulations in the subsequent year; and

(i)The compliance plan above shall be binding and the County Executive Committee member for finance shall ensure implementation.

1.0 INTRODUCTION

1.1 Background

1. The Homa Bay County Budget Review and Outlook Paper (CBROP) is prepared in line with Section 118 of the Public Finance Management Act 2012. The Act requires that every County prepares a CBROP by 30th September of that financial year and submit the same to the County Executive Committee (CEC).

1.2 Objective of the 2020 CBROP

2. The objectives of this CBROP is to review the County fiscal performance in the financial year 2019/2020 compared to the appropriation of that year and how this affected the economic performance of the county; provide an updated economic and financial forecast with sufficient information to show changes from the forecasts in the County Fiscal Strategy Paper. 2020; and give reasons for any deviation from the financial objectives in the CFSP together with the proposals to address the deviation and the time estimated for doing so.

3. The CBROP will be aligned to policy, planning and budgeting. It will be embedded on the Kenya's vision 2030. Third Medium Term Plan (CIDP) 2018-2022. Sector working groups will be formed to undertake performance reviews of programs currently being undertaken and also develop and prioritize programs for the Medium Term period of FY 2018/19 – FY 2020/21

4. The updated outlook will thereafter be firmed up in the County Fiscal Strategy Paper (CFSP), 2018 to reflect any changes in economic and financial conditions. In accordance with section 117 of the Public Finance Management Act 2012, the CFSP will be submitted to the County Assembly not later than 28th February 2021.

1.3 Significance of CBROP

5. The worth of CBROP is that it ensures that the County Government reviews its previous year's performance. It also guarantees that the County Government makes forecasts based on both the County and the national economic outlook and their likely impact on the level of future revenues and prompts the County Government to set preliminary sector ceilings in light of this review of revenue.

1.4 Structure of CBROP

6. The CBROP has five sections; Section 1 provides the main introductory part of the CBROP; Section 2 reviews the fiscal performance of FY 2019/20 and its implications on the financial objectives as set out in the 2019 CFSP submitted to the County Assembly on 28Th February, 2019; Section 3 provides brief highlights of the recent economic developments and the updated macroeconomic outlook; Section 4 details the resource allocation framework for FY 2021/22; and Section 5 provides the conclusion and next steps.

2.0 REVIEW OF THE FY 2019/2020 FISCAL PERFORMANCE

2.1 Overview

7. The fiscal performance and absorption of the approved supplementary budget of FY 2019/2020 (81%) was significantly higher than that of FY 2018/2019 (70.8%). This improvement is attributable to exchequer receipts at the beginning of the financial year, specifically in the month of July 2019, which were appropriated. However, full absorption rate was not attained due to the widespread effect of the Coronavirus pandemic (Covid-19) which hampered County government operations in the last quarter of the fiscal year (Q4), and partly due to the untimely disbursement of funds from the National Government. As at the close of the financial year, only KES. 6,161,685,300 had been received as part of the equitable share of revenue from the National Government, representing an 8.6% shortfall in the targeted revenue figure.

8. The County government registered improved local revenue collection in 2019/2020 totaling to KSh. 118,503,747 excluding A-I-A, against the revised target of KSh. 117,334,645. This was an improvement compared to collections for the corresponding financial year 2018/19 of KSh. 101,919,420.

9. Revenue from the National Government consisted of KSh. 6,161,685,300 in equitable share of national revenues and KSh. 266,461,728.90 in conditional grants. Table 1 below provides a summary of transfers from National Government, including conditional grants.

Table 1: Summary of Receipts from the National Government FY 2019/2020

Revenue Source	Amount (KSh.)
Equitable Share	6,161,685,300
Road Maintenance Levy Fund (RMLF)	201,434,082
Universal Health Care	47,973,188
Rehabilitation of Youth Polytechnics	35,163,298
DANIDA	19,968,750
User Fees Forgone	22,185,346
Kenya Urban Support Programme (UDG)	85,371,975
Kenya Urban Support Programme (UIG)	8,800,000

Kenya Devolution Support Programme (KDSP)	30,000,000
National Agricultural Inclusive Growth Project	248,805,986
Agricultural Sector Development Support Programme (ASDSP)	7,679,002
Total	**6,869,066,927**

Source: Homa Bay County Treasury

2.1.2 County Revenue Performance

10. As at the close of the 2019/2020 financial year, total operating income including A-I-A amounted to KSh. 8,295,042,721. Against the revised estimates of KSh. 8,969,578,696, this represented an average revenue performance of 92.5% while against the original estimates of KES. 8,337,787,696 this represented a strong performance of 99.5%.

11. The actual marginal increase in operating income from 2018/19 to 2019/20 was KSh. 1,287,547,687 representing an 18.4% increase. This was an improvement compared to the growth rate of 12.4% registered between 2017/18 and 2018/19. Figure 1 below gives a summary of revenue performance by source for FY 2019/2020

Figure 1: Revenue Performance by Source – 2019/2020

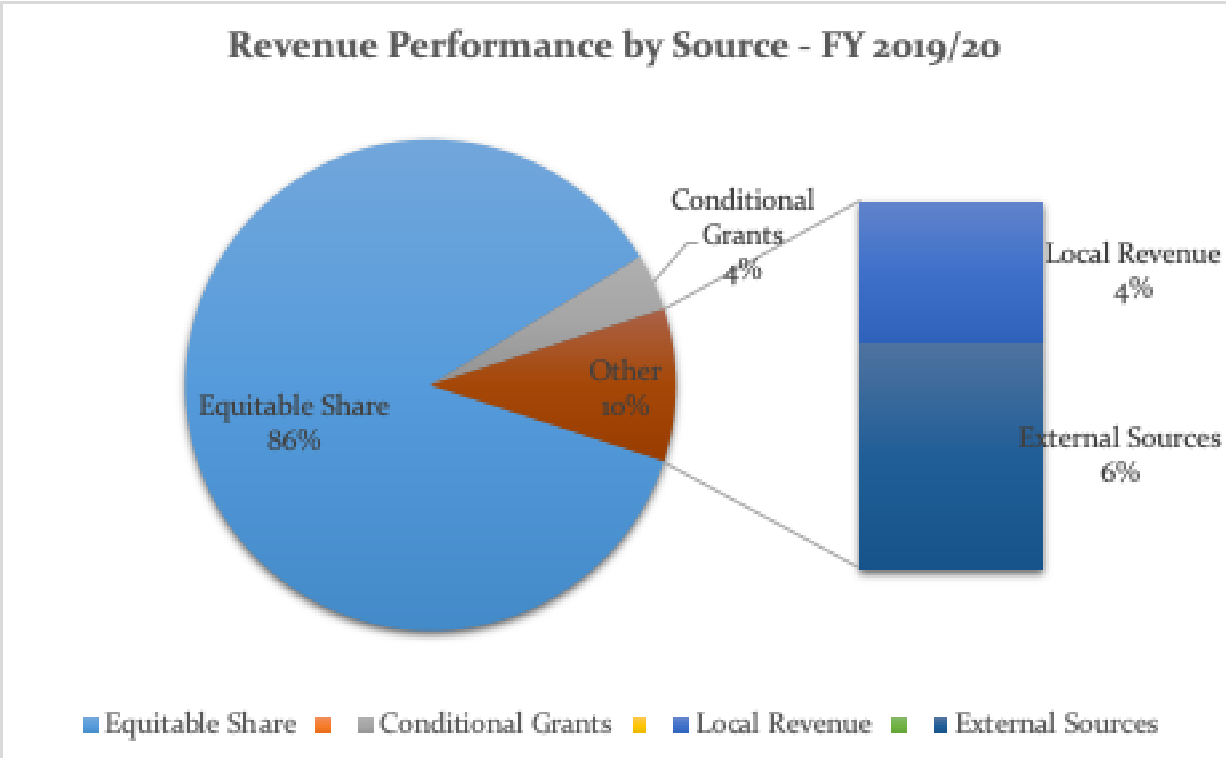


Table 2: Revenue Growth from 2018/2019 to 2019/2020

	2018/19		2019/20			Deviation as a % of Budget
	Actual	**Budget**	**Actual**	**Revised Budget**	**Deviation**	
Exchequer releases	5,618,088,000	6,688,200,000	6,161,685,300	6,741,450,000	(579,764,700)	8.6%
Conditional Grants	189,495,832	444,954,827	288,782,726	380,624,069	(91,841,343)	24.1%
External Resources	250,442,504	416,987,531	448,598,903	599,801,103	(151,202,200)	25.2%
Own Source Revenue	89,385,153	118,813,555	118,503,747	117,334,645	1,169,102	1.0%
A-in-A	125,654,378	54,082,862	156,091,866	60,256,877	95,834,989	159.0%
Returned CRF Issues	734,429,167	744,200,675	945,088,179	1,070,112,000	(125,023,821)	11.7%
Other Incomes	0	0	176,292,000	0	176,292,000	N/A

Total	**7,007,495,034**	**8,467,339,450**	**8,295,042,721**	**8,969,578,694**	**(674,535,973)**	**7.5%**

Source: Homa Bay County Treasury

1.4.1.1 Equitable Share of National Revenue

12. The County Government of Homa Bay was allocated a total of KSh. 6,741,450,000 through the County Allocation of Revenue Act, 2019 for the financial year 2019/20. This represented a marginal increase of KSh. 53,250,000 (0.8%) over the allocations of KSh. 6,688,200,000 for the previous financial year 2018/19.

13. Monthly exchequer releases were relatively stable throughout the year 2019/2020, especially in the second half of the year, despite earlier delays witnessed in quarter one (Q1). By the end of June 2020, the county had received KSh. 6,161,685,300 from the National Treasury as part of the equitable share due the County Government. This represented 91.4% of the total amount due as equitable share for the FY 2019/2020, and a 9.7% increase from the 2018/19 financial year, when KSh. 5,618,088,000 of the total shareable revenue expected from the National Treasury was received. The KSh. 945,088,179 received at the start of the FY 2019/2020 on 05.07.2019 was however balance carried forward from the 2018/19 financial year. Table 3 below captures exchequer releases from the National Treasury as part of Equitable Share.

Table 3: Exchequer Releases during the Twelve Months of FY 2019/2020

Quarter of Release	July 2019	Sept 2019	Sep 2019	Oct 2019	Nov 2019	Dec 2019	First Half Total 2019/20
Date		19.09.2019	25.09.2019		05.11.2019	06.12.2019	**Total**
Amount		337,072,500	835,939,800		539,316,000	674,145,000	**2,386,473,300**

Quarter of Release	Jan 2020	Jan 2020	Feb 2020	Mar 2020	May 2020	June 2020	Second Half Total 2019/20
Date	08.01.2020	31.01.2020	26.02.2020	27.03.2020	07.05.2020	24.06.2020	**Total**
Amount	606,730,500	707,852,250	606,730,500	539,316,000	707,852,250	606,730,500	**3,775,212,000**

14. For the 2019/20 financial year, equitable share accounted for over 75% of the total approved supplementary budget, while own source revenue accounted for only 2% of the approved supplementary budget. This trend calls for a paradigm shift in the County's revenue framework to reduce over-reliance on the disbursements by the exchequer.

1.4.1.2 Collection of County Internal Revenue

15. The County Government of Homa Bay collected a total of KSh. 118,503,747 of local revenue excluding A-I-A for the FY 2019/20. This represented a 32.6% increase in own source revenue collections from the previous KSh. 89,385,153 for the FY 2018/19. This was against the background of dampened economic activity towards the close of the financial year (Q4) due to the widespread effects of the coronavirus pandemic. The collection exceeded the set target of KSh. 117,334,645 by 1%.

16. In terms of appropriations in aid, the County Treasury was able to collect KSh. 156,091,866 representing a performance of 156% compared to the set target of KSh. 60,256,877. The total A-in-A collections in FY 2019/20 represented a growth of 24.2% from the KSh. 125,654,378 recorded in the FY 2018/19.

17. In a bid to strengthen local revenue collection, the County Government of Homa Bay will continue to embrace the modern and technologically enhanced methods of revenue collection. Some of such measures include: the formation of an inspectorate that will ensure enforcement on collections – this will also be augmented by the recruitment of more than 300 enforcement officers across the entire County; ensuring that revenue collectors bank directly all revenues collected to avoid revenue leakages. Equally, the County Government is in the process of signing a service agreement with Kenya Revenue Authority to collect some streams in behalf of the County Government.

Tables 4 below shows the trend of local revenue collection by category for FY 2019/20, compared to FY 2018/2019.

Table 4: Own Source Revenue Collections during the FY 2019/2020 by Category

Description	**2019 - 2020**	**2018 - 2019**
	KSh.	**KSh.**
Land rates	1,942,706	1,619,211
Lease transfers/extension/change of use	4,000	147,925
Lease Charges (Consent/transfers)	0	10,000
Stalls/plot/ground rents	1,164,942	365,899
Business Permits	28,282,265	20,825,411
Market/Trade centre fees	27,094,832	22,053,227
Approval of plans/transfers/certificates	1,527,620	737,675
Housing fees	23,000	140,000
Fish Cess	5,356,153	4,071,105
Other Cess Incomes	5,784,913	5,863,688
Motorbike fees	2,193,596	1,005,545
Site Value Rates	3,908	14,106
Kiosk Rent	3,541,510	3,511,665
Slaughter House fees	975,122	1,040,860
Stock Auction Fees (Cattle/ goats/sheep)	3,718,296	3,708,785

Description	2019 - 2020	2018 - 2019
Stock Movement Fees	249,330	291,950
Veterinary Charges	201,500	248,000
Advertising/bill boards	44,000	196,000
Landing fees (boats, planes, etc)	24,000	27,500
Bus park fees/ parking fees	24,893,094	17,691,410
Liquor licensing	0	-
Administration fees (Search/Beaconing)	25,100	40,350
Sanitation fees	8,390	303,240
Noise Pollution permit fees	4,400	-
Fire Inspection fees	0	27,000
Hire of Machinery and Equipment	6,000	16,610
Sale of tender documents	0	2,000
Conservancy fees/wildlife grants	0	3,300
Nursery School fees	0	-
Water Charges (Application/survey)	2,345	50,770
Registration of groups/schools/renewal	0	6,400
Fines and penalties	969,697	36,575
Survey/subdivision fees	0	-
Weights and measures fees	287,900	-
Bricks/sand/Murram/Stones	7,686,692	2,555,115
Miscellaneous incomes	2,488,436	2,773,829
Health Sector Charges (A-I-A)	156,091,866	125,654,378
Total	**274,595,613**	**215,039,531**

Source: Homa Bay County Treasury

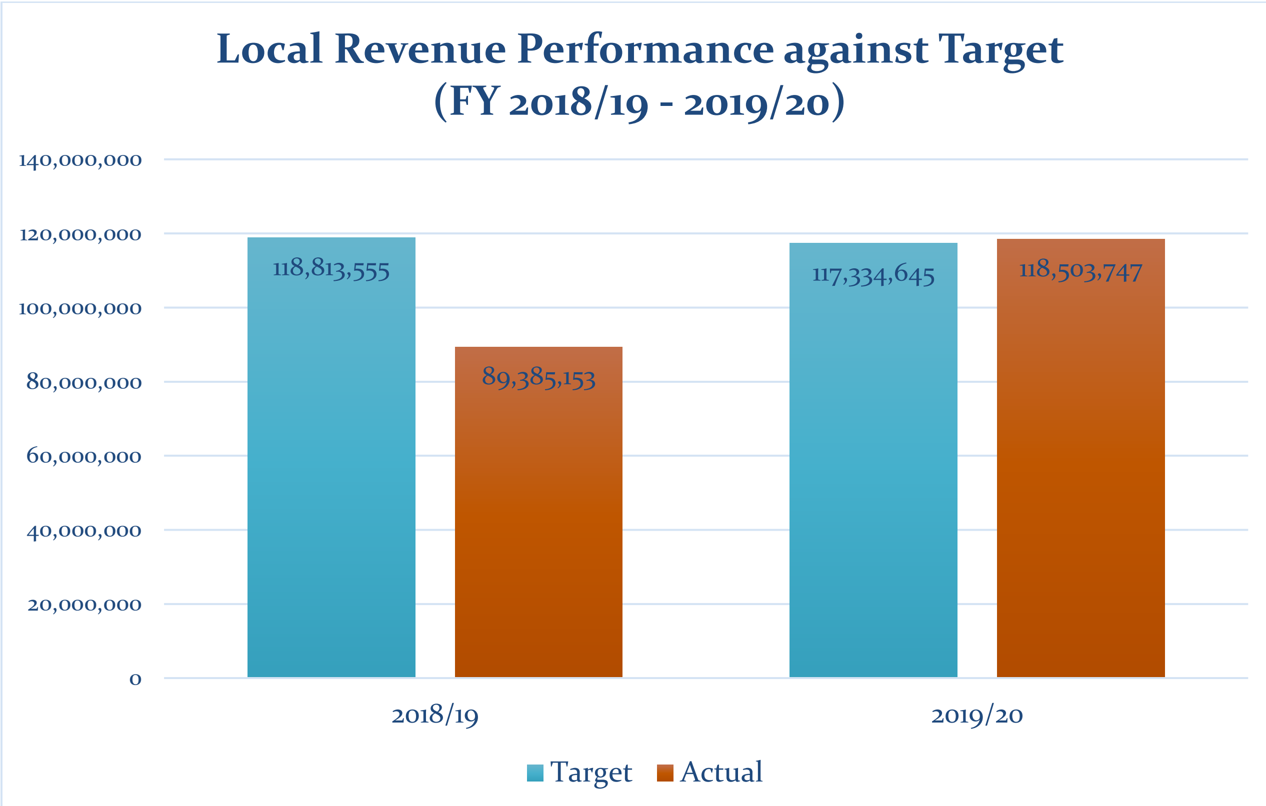
18. Excluding the A-in-A from the Health sector, which accounted for 56.8% of total local revenue, the department of Trade and Industries remains the highest contributor with 20.2% compared to 16.3%

in the FY 2018/2019 thereby recording a remarkable improvement in collections. Revenue from business permits recorded an impressive growth of KSh. 7,456,854 compared to FY 2018/19. This represented a contribution of 10.3% towards the total local revenue collected. Collections from Bus Park Fees also improved tremendously recording a growth rate of 40.7% compared to FY 2018/19. The other best performing revenue stream was the Market/Trade Centers fees at 9.9%. Stock auction fees from cattle sales recorded a steady performance to register KSh. 3,718,296 compared to KSh. 3,708,785 in the FY 2018/2019. Other significant contributors included Bricks/Sand/Murram/Stones – KSh. 7,686,692 while collections from fish Cess also recorded significant growth of 31.6% to close at KSh. 5,356,153, compared to KSh. 4,071,105 collected in 2018/19.

19. Some of the fundamental issues that must be addressed in the context of county government revenue reforms include redesigning the current revenue structure as well as strengthening financial management. Additional measures are required to enhance taxpayers' compliance and to improve the accountability of revenue collectors and receivers. There is need for greater emphasis on the cost-effectiveness of revenue collection, taking into account not only the direct costs of tax administration, but also the overall costs to the county economy, including the compliance costs to the taxpayers. In addition, losses through corruption and tax evasion need to be reduced. Such improvements may take a long time to achieve, although automation and additional simplification of the local revenue system should provide a positive contribution towards these aims.

Figure 2 below shows a summary of local revenue performance between 2018/19 and 2019/20 including A-I-A.

Figure 2: Local Revenue Performance Against Target, excluding A-I-A (2018/19 – 2019/20)



2.1.2.3 Mobilization of External Resources

20. Mobilization of external financial and in-kind resources to undertake development efforts of the County Government of Homa Bay continues to be an important area for consideration. The County Government recognizes the importance of the issue of external resource mobilization and will work to set up an external resource mobilization and debt management unit in line with the Homa Bay County Assembly recommendations.

21. Strengthening of the Resource Mobilization Unit is a key strategy in attracting external resources through improved grant seeking and Public Private Partnerships. Measures are being instituted to improve grant support from foreign governments and international institutions. This implies application of relevant principles such as effectively communicating gratitude and work done with support previously provided to enhance cause and organization visibility and credibility; highlighting the uniqueness of our organization by emphasizing our USP (Unique Selling Proposition); ensuring transparency in our work and use of funds

received; and making it easy for our donors to contribute. The County Government is therefore focused on strengthening follow-ups and using modern methods to engage prospective development partners.

1.4.2 County Expenditure Performance

22. The actual expenditure during the FY 2019/20 amounted to KSh. 7,262,543,172 which represented 89.8% of the total funds released for operations. Out of this total, the County spent KES. 5,168,988,394 (71.2%) on recurrent activities and a further KSh. 2,093,554,778 (28.8%) on development activities. There was a remarkable improvement in the absorption rate for development expenditure (59.7%) compare to (31%) recorded in the previous financial year. This improvement was largely attributed to increased utilization of funds under the Ward Based Development budget of KSh. 800 million.

23. The County Government of Homa Bay maintained a decent approach to spending with recurrent expenditure taking slightly more than the recommended 70% of the total expenditure compared to 83.9% for the previous year. It is therefore imperative to manage this fiscal pressure ad especially, bring down staff emoluments to sustainable levels.

1.4.3 County Expenditure by Broad Economic Classification

24. The recurrent expenditure for the FY 2019/20 represented an absorption rate of 94.7% of the revised recurrent budget, while development expenditure represented an absorption rate of 59.7% of the revised development budget. Table 4 below provides a summary of the actual spending against revised estimates for both recurrent and development votes for the FY 2019/2020.

Table 5: County Government Total Expenditure

	2018/19	**2019/20**			
	Actual	**Actual**	**Revised Budget**	**Deviation**	**Percentage Absorption**
Recurrent Expenditure	5,031,250,564	5,168,988,394	5,460,291,695	291,303,301	94.7%
Development Expenditure	967,468,694	2,093,554,778	3,509,287,001	1,415,732,223	59.7%
Total	**5,998,719,258**	**7,262,543,172**	**8,969,578,696**	**1,707,035,524**	**81.0%**

25. In the FY 2019/20, the County Government of Homa Bay had a budget absorption rate of 81% against the revised total budget. This represents an improvement from the FY 2018/19 when 70.8%

of the budget was absorbed. The improvement in the absorption rate was largely attributable to the commissioning of Ward Based Development projects which were launched in quarter 3 of the financial year.

26. Compensation to employees for the FY 2019/20 despite being higher (43.4%) than the prescribed 35%, was much lower than the amount paid to staff in the previous financial year 2018/19 at 52.3%. A total of KES 3,155,135,753 was paid to employees compared to KES. 3,136,349,023 paid out in the FY 2018/2019. KES. 919,171,373 was used up to procure current goods and services, while a further KES. 816,000,000 was transferred to the County Assembly of Homa Bay for recurrent purposes. Table 6 below provides the breakdown of recurrent expenditure by broad economic classification.

Table 6: Breakdown of Current Expenditure by Economic Classification

	Actual Expenditure 2018/2019	**Initial Estimates 2019/2020**	**Revised Estimates 2019/2020**	**Cumulative Expenditure 2019/2020**	**Exp. % of the Revised Recurrent Budget**
Compensation to Employees	3,136,349,023	3,485,647,263	3,129,276,805	3,155,135,753	100.8%
Recurrent operations & Maintenance Services	1,894,901,541	1,939,070,498	1,011,101,046	919,171,373	90.9%
Transfers to Other Government Units (HBCA)	-	932,232,576	932,232,576	816,000,000	87.5%
Other Grants and Transfers	-	-	257,605,986	257,605,986	100%
Social Security Benefits	-	21,075,282	21,075,282	21,075,282	100%
Total Recurrent	**5,031,250,564**	**5,424,717,761**	**5,460,291,695**	**5,168,988,394**	**94.7%**

Source: Homa Bay County Treasury

1.4.4 Resource Consumption by Spending Entities

27. Actual expenditure returns for the FY 2019/2020 indicate that the departments of health and the County Assembly were the biggest spenders accounting for 34.8% and 11.9% of the actual total spending respectively. This was consistent with spending patterns for FY 2018/2019. The Office of the Governor accounted for 8.9% of total actual expenditure while the department of Roads, Transport and Public Works followed closely at 8.5%. The Department of Education and ICT and the Department of Finance and Economic Planning accounted for 7.4% and 7.5% of the actual total recurrent spending in the county respectively. The lowest spenders included the County Public Service Board and the newly enacted Homa Bay Municipal Board both at 0.7%.

28. In terms of absorption, the department of Water and Environment (99.5%) and the department of Trade, Industries, Investments and Cooperatives (99.2%) had the highest absorption rates of their recurrent allocations for the FY 2019/2020. This however, was a decline from the absorption levels registered in FY 2018/2019 in which the Office of the Governor and the department of Finance, Economic Planning and Service Delivery over absorbed the recurrent allocations (absorption rates of above 100%). The department of Health Services (103.5%) and the department of Finance, Economic Planning and Service Delivery (102.2%) had the highest absorption rates of above 100% of their development allocations, while the Office of the Governor (100%) was the other with the highest absorption rate. The Homa Bay Municipal Board (25.1%) recorded the lowest absorption rate on their development allocation despite the progress made on their biggest capital project (Homa Bay Municipal Market). The departments of Lands, Housing, Urban Development and Physical Planning, and the department of Agriculture, Livestock, Fisheries and Food Security were the other lowest spenders at 27.4% and 27.5% respectively. Table 6 below provides a synopsis of the absorption of expenditure by broad economic classifications (votes) of recurrent and development.

29. Overall, spending entities absorbed 94.7% of their recurrent budgets while 59.7% of the development budget was absorbed mainly due to late remittances of development funds by the National Treasury.

Table 7: Absorption of Recurrent and Development Expenditure by Spending Entities

VOTE HEAD	Analysis of the FY 2019/2020 Recurrent Expenditure	Analysis of the FY 2019/2020 Development Expenditure

	Actual Expenditure	Revised Budget Estimates	Rate of Absorp.	Actual Expenditure	Revised Budget Estimates	Rate of Absorp.
Agriculture, Livestock and Fisheries	170,712,332	198,973,123	85.8%	140,850,287	511,310,484	27.5%
Tourism, Culture and Sports	45,024,179	51,581,669	87.3%	151,537,298	172,040,250	88.1%
Transport and Infrastructure	71,548,799	74,918,799	95.5%	543,701,943	898,348,181	60.5%
Energy and Natural Resources	25,759,957	35,782,555	72.0%	48,715,260	70,556,936	69.0%
Education and ICT	415,005,743	560,230,308	74.1%	125,821,574	145,409,899	86.5%
Health	2,111,394,976	2,198,947,895	96.0%	418,286,506	404,320,190	103.5%
Lands, Housing and Physical Planning	52,018,620	52,163,399	99.7%	29,196,919	106,399,418	27.4%
Trade, Industry, Investments and Cooperatives	196,461,490	197,949,199	99.2%	225,098,927	246,757,711	91.2%
Water and Environment	126,739,118	127,358,105	99.5%	211,863,040	362,645,920	58.4%
Finance and Economic Planning	293,773,645	316,484,750	92.8%	253,560,595	248,214,212	102.2%

Office of the Governor	592,066,321	612,298,418	96.7%	55,000,000	55,000,000	100%
Public Service Board	45,614,437	70,694,705	64.5%	4,860,362	6,000,000	81.0%
County Assembly Service Board	816,000,000	932,232,576	87.5%	45,000,000	122,283,800	36.8%
Homa Bay Municipal Board	12,485,610	30,676,194	40.7%	40,097,634	160,000,000	25.1%
County Total	**5,168,988,394**	**5,460,291,695**	**94.7%**	**2,093,554,778**	**3,509,287,001**	**59.7%**

Source: County Treasury of Homa Bay

2.1.4 Budget Outturn for the FY 2019/20

30. An analysis of the budget outturn indicates that, during the FY 2019/2020, the resources made available for spending by the various counties entities fell short of the total revised budget by KSh. 880,828,148 representing a 9.8% of the total planned spending. As table 8 below further indicates, the total actual expenditure is below total budgetary allocation for the FY 2019/2020 by KES. 1,707,035,524, representing an overall budget outturn of 81%.

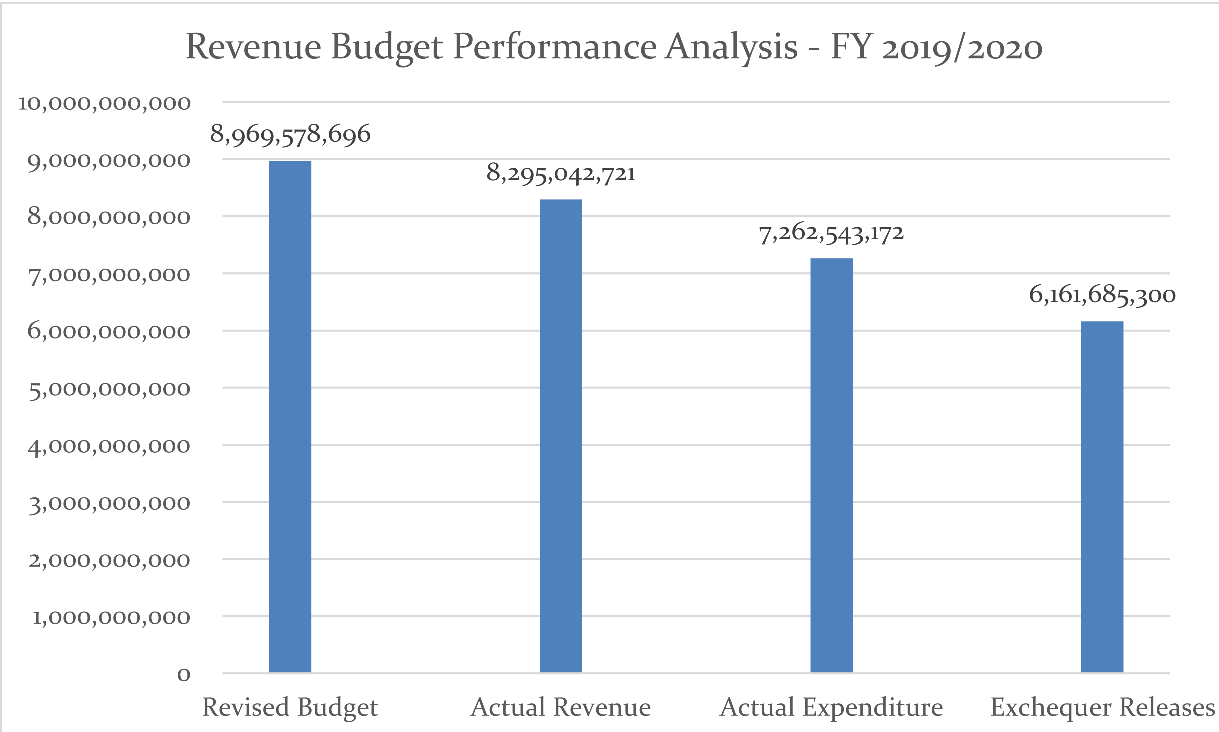
Table 8: Budget Outturn for the FY 2019/20

Receipt/ Expense Item	Original Budget	Adjustments	Final Budget	Actual on Comparable Basis	Budget Utilization Difference	% of Utilization
	A	B	C= A+B	D	E= C-D	F= D/C %
RECEIPTS						
Exchequer Releases	7,149,771,000	(408,321,000)	6,741,450,000	6,161,685,300	579,764,700	91.4%
Internal Revenue	207,591,524	(30,000,000)	177,591,525	274,595,613	(97,004,088)	154.6%
Loans and Grants	980,425,172	0	980,425,172	737,381,629	243,043,543	75.2%
Other Receipts	0	0	0	176,292,000	(176,292,000)	N/A
Returned CRF Issues	0	0	1,070,112,000	945,088,179	125,023,821	88.3%

Receipt/ Expense Item	**Original Budget**	**Adjustments**	**Final Budget**	**Actual on Comparable Basis**	**Budget Utilization Difference**	**% of Utilization**
	A	B	C= A+B	D	E= C-D	F= D/C %
Total Receipts	**8,337,787,696**	**(438,321,000)**	**8,969,578,696**	**8,295,042,721**	**674,535,976**	**92.5%**
PAYMENTS						
Compensation of Employees	3,485,647,263	95,399,307	3,581,046,570	3,155,135,753	425,910,817	88.1%
Other Operations	1,939,070,498	5,163,542	1,879,245,125	919,171,373	960,073,752	47.3%
Recurrent Payments	**5,424,717,761**	**100,562,849**	**5,460,291,695**	**5,168,988,394**	**291,303,301**	**94.7%**
Development Payments	**2,913,069,935**	**531,228,151**	**3,509,287,001**	**2,093,554,778**	**1,415,732,223**	**59.7%**
Total Payments	**8,337,787,696**	**631,791,000**	**8,969,578,696**	**7,262,543,172**	**1,707,035,524**	**81.0%**

Source: County Treasury of Homa Bay

Figure 3: Budget Performance Analysis FY 2019/2020



2.1.5 Fiscal Pressure, Debts and Deficits

2.1.5.1. Fiscal Pressures

31. During the FY 2019/2020, the County Government of Homa Bay continued to operate within a tight fiscal space where projected growth in revenue was minimal. In particular, the ever-growing compensation to employees continues to put pressure on fiscal diligence as well as recurrent expenditure. A number of issues also continued to undermine efforts to enhance the fiscal space including the emergence of the Covid-19 pandemic which necessitated reallocation of resources to mitigate the effects of the disease. Moreover, with a better part of the financial year ravaged by this disease thereby dampening meaningful economic activities, local revenue collection was hard hit as most businesses remained closed. This effect was felt at a national level too where tax incentives to cushion citizens meant foregoing tax revenues.

32. Overall, the County Government of Homa Bay adopted for low rate of taxation so that there is low pressure on taxpayers. This has meant relatively low receipts for the county government budget. However, it is estimated that this low taxation rate is likely to boost the overall effort to achieve

stability of the county economy and make more disposable income available at household level for accelerating economic growth and therefore leading to an increase in tax revenues to the MTEF budget for FY 2019/20-2021/22.

2.1.5.2. Debts

33. The stock of eligible pending bills for the County Government also continues to remain a challenge. As of 30th June 2020, the stock of pending bills had grown to KES. 646,637,491 as shown in Table 10 below. It is the intention of the County Government to clear this outstanding bill within the FY 2020/21 by setting aside resources through a supplementary budget.

Table 9: Summary of Pending Bills as at 30th June 2020.

	DEPARTMENT	RECURRENT	DEVELOPMENT	TOTAL
1	Executive Services	3,514,954	-	3,514,954
2	Finance and Economic Planning	-	5,221,226	5,221,226
3	Tourism, Culture and Sports	287,200	-	287,200
4	Water and Environment	-	202,688,718	202,688,718
5	Health Services	-	20,082,332	20,082,332
6	Transport and Infrastructure	-	186,112,007	186,112,007
7	Energy and Mining	-	13,037,961	13,037,961
8	Public Service Board	2,729,000	-	2,729,000
9	Agriculture, Livestock and Fisheries	-	25,907,360	25,907,360
10	Trade and Industrialization	-	117,735,819	117,735,819
11	Education and ICT	-	20,838,672	20,838,672
12	Department of Lands, Housing and Physical Planning	-	48,482,243	48,482,243
	TOTAL	**6,531,154**	**640,106,337**	**646,637,491**

Source: County Treasury of Homa Bay

2.1.5.3. Deficits

34. For the FY 2019/20, the County Government of Homa Bay had projected a resource envelop of KSh. 8,969,578,696 out of which only KSh. 8,295,042,721 was received. This included KSh. 945,088,179 balance brought forward from the FY 2018/19. The County Government was able to formulate and operationalize a balanced budget in line with policy positions adopted by the National Treasury and Constitutional Offices such as the CRA and the Controller of Budget.

35. Based on an analysis of the budget outturn for the FY 2019/2020, 19% of the projected revenue was not spent while 7.5% of the projected revenue was not realized.

36. In line with good Public Finance Management practice, the County Government of Homa Bay is advocating for a leaner government sector with a number of productive activities out-sourced or privatized to the private sector to supply.

1.5 Analysis of Sectoral Performance

2.2.1 Agriculture, Rural and Urban Development Sector

37. Agriculture, Rural and Urban Development Sector is one of the key sectors for the county's sustained economic growth. The sector consists of three sub sectors namely: Agriculture, Livestock and Fisheries Development sub sector; Lands, Housing and Physical Planning sub sector and County Municipal Board. The goal of the sector is to attain food security, sustainable land management and affordable housing.

2.2.1.1 Agriculture, Livestock and Fisheries Development

38. Out of the approved budget of KSh. 710,283,607 for the FY 2019/20, the sub-sector was able to: transfer of technology where maize and green gram seeds were distributed to 4o farmers in 40 wards; distribute 1.5 tons of rice seeds given by the national government to 750 farmers; promote traditional high value crops by distributing beans and green grams to 8 farmers in 8 sub counties; procure and distribute 33 tons of maize, beans, green grams, spider plants and black nightshade to 16,500 farmers; office block at Kigoto post-harvest handling facility completed, warehouse construction at roofing level; form and capacity build 600 common interest groups/vulnerable and marginalized groups; promote 20 technologies innovation and management practices; train 40 out of the target

100 farmer field school community facilitators; offer grant support to 20 CDDCs for farmer groups; select 14 producer organizations; formulate 5 value chain upgrading grants; conduct 27 stakeholder sensitization forums for sub county and ward stakeholders; conduct 600 baseline survey for projects; train 160 youth on poultry production and marketing; carry out artificial insemination (AI) on 966 animals funded by ILRI; develop BoQs for the construction of a new slaughter house; spray and treat 4,300 cattle against tsetse fly; vaccinate 7,210 cattle against BQ and LSD; purchase 7,000 fingerlings for farmed fish production; purchase and distribute 230 bags of fish feeds; construct 4 toilets at fish landing sites.

2.2.1.2. Lands, Housing and Physical Planning

39. Out of the approved budget of KES 158,562,817 for the FY 2019/20, the sub-sector was able to: establish and operationalize the Homa-Bay Municipal Board; complete preliminary work on the affordable housing project; complete the Symbio-City Quick win project; survey and demarcate 12 market centers, and facilitate construction of Homa Bay Municipal market which is at 81% completion rate.

2.2.1.3. County Municipal Board

40. Out of the approved budget of KES 190,676,194 for the FY 2019/20, the board was able to: develop Homa Bay Municipality Integrated Development Plan (IDEP), review the Strategic Urban Development Plan (Spatial Plan) and formulate a Solid Waste Management Policy. The Board also managed to get a representation in the recently concluded 10th session of the World Urban forum (WUF10); this is the largest global gathering on the future of cities convened by (UN-Habitat).

2.2.2 Energy, Infrastructure and ICT

2.2.2.1 Energy and Mining

41. Out of the approved budget of KES 106,339,491 for the FY 2019/20, the sub-sector was able to: install transformers in 20% of the 40 wards targeted; install 80% of street lights out of the 8 sub counties; maintain and repair 40 solar lights out of a target of 200; 20% works done on the energy centre and adoption of operation nyangile out; 80% of construction mineral mapping done.

2.2.2.2 Transport and Infrastructure Sub-Sector

42. Out of the approved budget of KES 973,266,980 for the FY 2019/20, the sub-sector was able to: inspect 350 buildings; maintained 50% of plant and machinery; graded and graveled 133 Km of roads; maintained 383 Km of roads and; constructed 3 single span bridges.

2.2.2.3 Information and Communication Technology Sub-Sector

43. Out of the approved budget of KES 5,711,674 for the FY 2019/20, the sub-sector was able to: upgrade the county website.

2.2.3 General Economic and Commercial Affairs Sector

44. The General Economics and Commercial Affairs Sector comprises of two sub-sectors namely: The Department of Trade, Industrialization, Cooperatives and Enterprise Development; and the Tourism sub-sector. The sector aims at strengthening cooperatives, growth and development of commerce, tourism promotion and development, savings and investment mobilization, employment creation, and industrial and entrepreneurship development.

2.2.3.1 Trade, Industrialization, Cooperatives and Enterprise Development

45. Out of the approved budget of KES 444,706,910 for the FY 2019/20, the sub-sector was able to: construct 5 kiosks under FOSA at Magunga, gravel 18 markets; construct 23 toilets; complete 12% works on the animal feeds projects; complete 5% works on the Kigoto Maize Processing Plant; and facilitate upgrading of Nyakwere Market.

2.2.4 Health Sector

46. Out of the approved budget of KES 2,603,268,085 for the FY 2019/20, the sub-sector was able to: renovate 2 general wards; construct 20 new facilities; acquire 2 fully equipped ambulances; purchase 2 utility vehicles; construct 4 maternity wards; complete 80% works on the KMTC project; construct 8 and renovate 2 staff houses; maintain 10 other health facilities; renovate 8 wards out of the target of 30; 15 machinery maintained and repaired; acquire 2 generators; purchase 1 triage equipment; acquire 50 waste disposal equipment.

2.2.5 Education Sector

47. Out of the approved budget of KSh. 705,640,207 for the FY 2019/20, the sector was able to: construct 3 EYE classrooms out of the 10 targeted; renovate 7 VTCs out of the 7 targeted; capacity build 50 county staff on covid-19; supply tools and equipment to 7 VTCs; purchase stationery for ECDE administration worth KSh. 900,000 and conducted 84 EYE assessments.

2.2.6 Public Administration and Government Relations Sector

48. The sector comprised of four sub-sectors namely; The County Executive or The Office of the Governor (including the Office of the Deputy Governor and the County Secretary), the County Treasury or the County Planning Unit, the County Public Service Board and the County Assembly.

2.2.7 The County Executive (Office of the Governor)

49. Out of the approved budget of KES 667,298,418 for the FY 2019/20, the sub-sector was able to: construct Ward Administrator's offices in Kitare (Gembe Ward), Gwassi North Ward, Imbo (Homa Bay West Ward) and Rakwaro (Wang'chieng' Ward); construct Sub County Administrator's office in Kabondo; renovate the First Lady's office block,

2.2.8 Finance, Economic Planning and Service Delivery

50. Out of the approved budget of KES 564,698,962 for the FY 2019/20, the sector was able to: complete the automation of revenue collection across all the 8 sub counties; under the Covid-19 emergency response, the sub-sector was able to; deliver and install 10,000 litres water tanks to Kandiege, Nyangiela, Ober and Nyagoro-Rangwe health centres; deliver and install 10,000 litres water tanks to Kisegi, Tom Mboya, Pala Koguta, Malela health centres; complete staff houses at Ober health facility; renovate old dispensary block, main facility block and staff houses at Malela isolation centre; fence and construct sentry box at Malela isolation centre; renovate and upgrade ICU at the HBCTRH; renovate children's block at Rachuonyo sub county hospital; renovate and upgrade staff house and main building at Miriu isolation/quarantine centre; renovate and upgrade Kisegi health centre in Suba South; install and piping of oxygen plant at HBCTRH; renovate Ober health centre in Kabondo Kasipul.

2.2.9 County Public Service Board

51. Out of the approved budget of KES 76,694,705 for the FY 2019/20, the sector was able to: secure drawing plan for the construction of an office block; recruited and employed 100 Universal Healthcare Workers

2.2.10 The County Assembly

52. Out of the approved budget of KES 1,054,516,376 for the FY 2019/20, the sub-sector was able to: fully put in place the framework for representation, oversight and legislation; provide a legal framework for operationalization of respective county functions; establish relevant offices, accommodate and operationalize with 74 staff who were recruited at the head-quarter and 120 staff placed at the wards. Already, 18 bills have been enacted for the complete operationalization of the County Government. On the infrastructure front alone, the main assembly hall and all its offices, conference and committee rooms have been modernized and equipped. All systems including for water and sewerage, ICT as wells burglar-proof windows and doors; and a high perimeter fencing complete with modern parking lot have been put in place.

2.2.11 Social Protection, Culture and Recreation Sector

53. Out of the approved budget of KES 223,621,919 for the FY 2019/20, the sector was able to: hold 1 cultural festival during Piny luo event, supported the campaign against teenage pregnancy, initiated drafting of child protection policy, gender based violence policy all are at final stage and to be completed in the current FY,have staffs at the safe space in Makongeni ,supply 160 sport kits to different teams, organize football tournaments in different wards, complete construction of super structure for Homa-Bay stadium, partition of lounges and media center within the stadium.

2.2.12 Environment Protection, Water and Natural Resources Sector

54. Out of the approved budget of KES 490,004,025 for the FY 2019/20, the sector was able to: drill and equip 33 boreholes across the county; protected 3 springs; rehabilitate 3 boreholes; rehabilitate, construct and expand 4 rural water pipelines; install 5 roof catchment tanks to schools; rehabilitate 1 water pan; cleaned 4 towns of Mbita, Kendu Bay, Homa Bay and Rodi; establish 1 tree nursery; purchase and supply tree seedlings to 15 schools.

Tables 10 and 11 below summarize sectoral performance analysis for the all the sectors, including their rates of absorption for both recurrent and development.

Table 10: Sectoral Budget Performance Analysis – 2019/20 – Recurrent

Recurrent Budget				
Departments	Original Estimates FY 2019/20 KSH	Revised Estimates **FY 2019/20 KSH**	Actual Expenditure **FY 2019/20**	% Absorption Rate
Agriculture, Rural and Urban Development Sector	198,973,123	198,973,123	170,712,332	85.8%
Lands, Housing and Physical Planning	60,163,399	52,163,399	52,018,620	99.7%
Energy and Mineral Resources	35,782,555	35,782,555	25,759,957	72.0%
Transport and Infrastructure	84,918,799	74,918,799	71,548,799	95.5%
Trade, Industry, Investments and Cooperatives	217,949,199	197,949,199	196,461,490	99.2%
Health	2,268,013,003	2,198,947,895	2,111,394,976	96.0%
Education & ICT	550,230,308	560,230,308	415,005,743	74.1%
Office of the Governor	549,935,570	612,298,418	592,066,321	96.7%
Finance and Economic Planning	224,484,750	316,484,750	293,773,645	92.8%
County Public Service Board	70,694,705	70,694,705	45,614,437	64.5%
County Assembly Service Board	932,232,576	932,232,576	816,000,000	87.5%
Social Protection, Culture and Recreation	51,581,669	51,581,669	45,024,179	87.3%
Environment Protection, Water and Natural Resources	157,358,105	127,358,105	126,739,118	99.5%
Homa Bay Municipal Board	22,400,000	30,676,194	12,485,610	40.7%
TOTAL	**5,424,717,761**	**5,460,291,695**	**5,168,988,394**	**94.7%**

Table 11: Sectoral Budget Performance Analysis – 2019/20 – Development

Development Budget				
Departments	**Original Estimates FY 2019/20 KSH**	**Revised Estimates FY 2019/20 KSH**	**Actual Expenditure FY 2019/20**	**% Absorption Rate**
Agriculture, Rural and Urban Development Sector	616,534,284	511,310,484	140,850,287	27.5%
Lands, Housing and Physical Planning	172,702,230	106,399,418	29,196,919	27.4%
Energy and Mineral Resources	79,231,936	70,556,936	48,715,260	69.0%
Transport and Infrastructure	420,424,374	898,348,181	543,701,943	60.5%
Trade, Industry, Investments and Cooperatives	157,935,404	246,757,711	225,098,927	91.2%
Health	344,320,190	404,320,190	418,286,506	103.5%
Education & ICT	111,734,899	145,409,899	125,821,574	86.5%
Office of the Governor	88,000,000	55,000,000	55,000,000	100%
Finance and Economic Planning	251,216,648	248,214,212	253,560,595	102.2%
County Public Service Board	6,000,000	6,000,000	4,860,362	81.0%
County Assembly Service Board	122,283,800	122,283,800	45,000,000	36.8%
Social Protection, Culture and Recreation	212,040,250	172,040,250	151,537,298	88.1%
Environment Protection, Water and Natural Resources	330,645,920	362,645,920	211,863,040	58.4%
Homa Bay Municipal Board	0	160,000,000	40,097,634	25.1%
TOTAL	**2,913,069,935**	**3,509,287,001**	**2,093,554,778**	**59.7%**

3.0. RECENT ECONOMIC DEVELOPMENTS AND MEDIUM-TERM OUTLOOK

3.1 Overview

55. The economic performance of the County is dependent on the formulation and implementation of sound policies by both the National and County Government.

56. The Kenyan economy remains resilient and grew by an average of 5.5 percent in the first three quarters of 2019, mostly supported by strong performance in the services sector. Growth momentum is expected to pick up to 5.6 percent in 2019, 6.1 percent in 2020 and further to 7.0 percent over the medium term supported by a strong rebound in the agricultural output, steady recovery in industrial activities, robust performance in the services sector, and investments in strategic areas under the "Big Four" Plan.

57. The economy continues to register macroeconomic stability with low and stable interest rates and a competitive exchange rate to support exports. At 5.8 percent in December 2019, year-on-year overall inflation remained stable and within the 5 (+/-2.5) percent target largely due to lower food prices following favorable weather conditions. Inflation is expected to remain within target in 2020, largely due to lower energy prices and expected stability in food prices.

58. The foreign exchange market remains stable supported by the narrowing of the current account deficit. The current account deficit is estimated at 4.3 percent of GDP in 2019 down from 5.0 percent in 2018. The narrowing deficit reflects strong growth in diaspora remittances and tourism receipts, higher tea and horticultural exports, slower growth in imports due to lower food imports and the decline in international oil prices.

3.2 Domestic Economic Developments

59. Kenya's economic growth has remained strong and resilient even under emerging global challenges, supported by strong public and private sector investment and appropriate economic and financial policies. The broad-based economic growth has averaged 5.7 percent for the last six years (2013 to 2018) outperforming the average growth rate of 4.7 percent in the period 2008 to 2012 and 5.4 percent in the period 2003 to 2007. Growth is estimated at 5.6 percent in 2019 and projected to recover to 6.1 percent in 2020.

60. A resilient non-agricultural sector continues to support economic growth. The economy grew by an average of 5.5 percent in the first three quarters of 2019 and the full year growth is estimated at 5.6 percent in 2019 down from 6.3 percent in 2018

61. In the third quarter of 2019, the economy grew by 5.1 percent compared to a growth of 6.4 percent in a similar quarter in 2018, mainly supported by strong performance in the services sub-sector such as information and communication, transportation and storage, and accommodation and restaurant.

62. The agriculture sector recorded a decreased growth of 3.2 percent in the third quarter of 2019 compared to a growth of 6.9 percent in a similar quarter of 2018, as a result of delayed long rains. Consequently, the sector's contribution to GDP growth declined to 0.6 percent in the third quarter of 2019 compared to 1.3 percent in the same period in 2018.

63. The non-agricultural sector (service and industry) remained vibrant and grew by 5.7 percent in the third quarter of 2019 down from a growth of 6.5 percent in a similar quarter in 2018. It has the largest percentage contribution to real GDP growth at 4.0 in the third quarter of 2019, mainly supported by the services sector.

64. Services remained the main source of growth and expanded by 5.7 percent in the third quarter of 2019 compared to a growth of 6.5 percent in the same quarter of 2018. The service sector was supported by improved growth in accommodation and restaurant (9.0 percent), transport and storage (7.1 percent) and financial and insurance (5.6 percent). Growth of activities in information and communication (8.4 percent) and real estate (4.9 percent) also remained vibrant

65. The performance of industry declined to 4.5 percent in the third quarter of 2019 compared to 5.8 percent in the same quarter in 2018 following subdued activities in the manufacturing, electricity and water supply and construction sectors. The slowdown in the manufacturing sector was attributed to the fall in agro-processing activities, a reflection of declining agricultural production.

66. The industry sector accounted for 0.8 percentage points of growth in the third quarter of 2019, largely driven by construction and manufacturing sectors with a contribution of 0.4 and 0.3 percentage points respectively.

67. Inflation Rate: Year-on-year overall inflation remained low, stable and within the Government target range of 5+/-2.5 percent in December 2019 at 5.8 percent up from 5.7 percent in December 2018 reflecting higher food prices.

68. The delay in the onset of rains resulted in lower agricultural activities and raised food inflation from March 2019. Food inflation increased from 2.6 percent in December 2018 to 9.3 percent in December 2019 reflecting rising prices of key food items.

69. The contribution of core inflation to overall inflation has been low and stable reflecting muted demand pressures in the economy on account of prudent monetary policies. The major driver of overall inflation from December 2018 to March 2019 was fuel inflation. However, beginning March 2019 food inflation has been the major driver of inflation.

70. Kenya's rate of inflation compares favorably with the rest of Sub-Saharan African countries and its peers such as Nigeria and Ghana whose inflation rates were 11.9 percent and 8.2 percent, respectively in November 2019.

3.3 Kenya Shilling Exchange Rate

71. The Kenya Shilling has been relatively stable supported by continued narrowing of the current account deficit and adequate foreign reserve buffer. The Shilling appreciated against the US Dollar and the Euro exchanging at an average of Ksh 101.4 and Ksh 112.7 in December 2019 from Ksh 102.3 and Ksh 116.4 in December 2018, respectively. However, against the Sterling Pound, the Shilling weakened exchanging at an average of Ksh 133.0 in December 2019 compared to Ksh 129.7 in December 2018

72. The Kenya Shilling has continued to display relatively less volatility, compared to most Sub-Saharan currencies. This stability reflects strong inflows from tea and horticulture exports, resilient diaspora remittances and improved receipts from services particularly tourism

73. Interest Rates: Interest rates were low and stable for the period 2008 to 2011 due to ample liquidity in the money market. However, interest rates increased in 2012 following tight monetary policy

stance in order to ease inflationary pressures. Interest rates remained stable and low in the period 2013 to October 2019, except from June to December 2015 when world currencies were under pressure. During the period, the Central Bank Rate (CBR) was adjusted appropriately to anchor inflation expectations. The Central Bank Rate was reduced to 8.5 percent on 25th November 2019 from 9.0 percent in August 2018 as there was room for easing monetary policy stance to support economic activity.

74. The interbank rate declined to 5.9 percent in December 2019 from 8.2 percent in December 2018 due to enhanced liquidity in the money market. The interest rates for government securities have been declining indicating that the implementation of government domestic borrowing program supported market stability. The 91-day Treasury bills rate declined to 7.2 percent in December 2019 compared to 7.3 percent in December 2018. The 182-day Treasury bills rate declined to 8.2 percent from 8.4 percent while 364-day increased to 9.8 percent from 9.7 percent.

75. NFA of the banking system in the year to November 2019 grew by 15.0 percent, a deterioration, compared to a growth of 29.4 percent in the year to November 2018. The decline in NFA of the Central Bank partly reflects declined foreign currency deposits. On the other hand, increase in NFA of commercial banks, partly reflected increase in growth of their deposit holdings with nonresident banks alongside decreased borrowings from non-residents

76. Meanwhile, NDA declined to register a growth of 3.5 percent in the year to November 2019 from a growth of 3.9 percent over a similar period in 2018. This is largely due to a decline in net credit flows to other public sectors. However, net credit flows to the government and the private sector increased during the review period.

77. Annual credit to the private sector grew by 7.3 percent in the year to November 2019, compared to a growth of 3.0 percent in the year to November 2018. In particular, it was observed that credit to consumer durables, manufacturing, trade, finance and insurance and mining and quarrying sectors experienced strong growths of 25.9 percent, 5.7 percent, 7.3 percent, 15.8 and 31.2 percent, respectively. This offset the substantial loan repayments recorded in the building and construction sectors in the year to November 2019. Private sector credit growth is expected to strengthen in 2019 relative to 2018, due to the repeal of interest rate cap

3.4 Balance of Payments

78. The overall balance of payments position improved to a deficit of US$ 873.3 million (0.9 percent of GDP) in the year to October 2019 from a deficit of US$ 1352.4 million (1.5 percent of GDP) in the year to October 2018. This deficit was due to a decline in the capital and financial account despite an improvement in current accounts. The capital account declined by US$ 38.6 million to US$ 223.6 million in the year to October 2019, reflecting a decline in project grants. Similarly, financial account deteriorated to US$ 6,346.3 million in October 2019 compared to US$ 5,829.5 million in October 2018. The financial inflows were mainly in the form of other investments, direct investments and portfolio investments which stood at US$ 3,680.8 million, US$ 1,357 million and US$ 1,284.4 million, respectively in October 2019. Other investment inflows mainly include foreign financing for Government infrastructure projects.

3.5 Foreign Exchange Reserves

79. Foreign exchange reserves have increased from around 3.0 months of import cover in 2003 to above 5.0 months of import cover in 2019. This fulfils the requirement to maintain at least 4 months of imports cover, and the EAC region's convergence criteria of 4.5 months of imports cover and thus provide an adequate buffer against short term shocks in the foreign exchange market.

3.6 Fiscal Performance

80. Budget execution started on a slow note in the first quarter of the FY 2019/20. The slowdown was due to delays in the county allocation of revenue proposed in the revised Division of Revenue Bill, 2019. In addition, expenditure rationalization was effected to reflect lower revenues after the realization that the revenues would perform less than earlier projected leading to a wider fiscal deficit

81. The exercise to clean-up the development project portfolio triggered by the budget rationalization on inclusion of new projects in the budget also slowed down the uptake of development expenditures in the first quarter of FY 2019/20. However, this picked up strongly in the second quarter of FY 2019/20. The Government embarked on expenditure rationalization to ensure a sustainable fiscal position in the FY 2019/20 and the medium term, and reaffirm its commitment to the fiscal consolidation plan and to prudent fiscal management in general.

3.7 Revenue Performance

82. Revenue collection to December 2019 grew by 15.9 percent compared to the same period in the FY 2018/19. This growth was driven in part by a rebound effect, after the poor performance in the previous financial year as well as the effect of the tax policy measures introduced in the Finance Act 2019. Despite the growth, cumulative ordinary revenue fell short of the December target by KSh. 138.7 billion. The shortfall was in all broad categories of ordinary revenues with income tax recording the highest shortfall on account of depressed performance in Pay as You Earn followed by excise tax and VAT.

83. As the financial year progresses, we will closely monitor the performance of income tax from individuals (P.A.Y.E), excise taxes and taxes from international trade and transactions (Import duty) which performed below the cumulative December 2019 targets. Income tax from corporations is expected to bounce back to target levels by the third quarter due to the strong performance recorded in the economy in the first half of the financial year. Value Added Tax (VAT) on locally produced goods remained largely on target and is expected to remain on course into the second half of the year.

84. In nominal terms, total revenue collection including Appropriation in Aid (A.i.A) by December 2019 amounted to Ksh 920.6 billion (equivalent to 8.9 percent of GDP) against a target of Ksh 1,059.3 billion (equivalent to 10.2 percent of GDP). The recorded shortfall of Ksh 138.7 billion was due to underperformance in ordinary revenue by Ksh 88.4 billion and A.i.A amounting to Ksh 50.3 billion.

3.8 Fiscal Policy

85. Going forward into the medium term, the Government will continue in its fiscal consolidation path with the overall fiscal deficit being maintained broadly at the levels outlined in this BPS. This will ensure debt is maintained within sustainable levels. The fiscal deficit is expected to decline from 7.7 percent of GDP in FY 2018/19 to 3.3 percent by FY 2023/24. This deliberate fiscal consolidation plan also resonates well with the East African Monetary Union's (EAMU) protocol target ceiling of 3.0 percent of GDP.

86. To achieve this target, the Government will continue to restrict growth in recurrent spending and double its effort in domestic resource mobilization. In the FY 2019/20, the Government is implementing a raft of tax policy measures through the tax amendment law and the Finance Act, 2019 whose revenue yield is estimated at about 0.3 percent of GDP. In addition, the modernized Income Tax Bill currently undergoing legal drafting, will also ease administrative bottlenecks, improve compliance and boost revenue collection, thereby supporting the government's fiscal consolidation efforts

87. Further, the establishment of Public Investment Management (PIM) Unit at the National Treasury continues to play a great role in enhancing efficiency in identification and implementation of priority social and investment projects. This takes into account the Government's efforts to increase efficiency, effectiveness, transparency, and accountability of public spending. In particular, the implementation of PIM regulations under the Public Finance Act will streamline the initiation, execution and delivery of public investment projects. It will also curtail runaway project costs, eliminate duplications and improve working synergy among implementation actors for timely delivery of development projects.

88. In this regard, expenditures as a share of GDP are projected to decline from 26.0 percent in the FY 2018/19 to 23.6 percent in the FY 2020/21 and further to 21.7 percent in the FY 2023/24.

89. On the other hand, revenues as a share of GDP are projected to remain at 18.0 percent in the medium term. The additional resources are expected to support the fiscal consolidation program and bring the fiscal deficit down to 3.3 percent of GDP by FY 2023/2.

90. Given the expenditure rationalization and the revenue enhancement measures put in place, fiscal deficit inclusive of grants is projected to reduce from Ksh 715.2 billion (equivalent to 7.7 percent of GDP) in the FY 2018/19 to Ksh 569.4 billion (equivalent to 4.9 percent of GDP) in the FY 2020/21 and further to Ksh 547.2 billion (equivalent to 3.3 percent of GDP) in the FY 2023/24. To finance the fiscal deficit in the FY 2020/21, domestic borrowing is projected at Ksh 318.9 billion, foreign financing at Ksh 247.3 billion and other domestic financing Ksh 3.2 billion

3.9 Economic Outlook

91. Owing to weaker trade and investment at the start of the year, global economic growth is expected at 3.3 percent in 2020 from a projection of 2.9 percent in 2019. The sluggish growth reflects the continued geopolitical tensions between the U.S.A and Iran, subdued investment and demand for consumer durables in emerging markets, developing economies and rising energy prices.

92. As a result of the weaker prospects in the United States as its fiscal stimulus fades and the forthcoming increase in the consumption tax rate in Japan, growth in the advanced economies is expected to ease to 1.6 percent in 2020 from 1.7 percent in 2019

93. Growth in the emerging markets and developing economies is expected to pick up to 4.4 percent in 2020 from an estimated growth of 3.7 in 2019. Similarly, the sub-Saharan Africa region is expected to remain relatively robust growing by 3.5 percent in 2020 from 3.3 percent in 2019

3.10 Domestic Growth Outlook

94. On the domestic scene, despite the challenging global environment, Kenya's economy has remained strong and resilient. The economy expanded by an average of 5.4 percent in the first three quarters of 2019. The latest economic indicators in the fourth quarter of 2019 point to continued economic recovery that will culminate to an overall projected growth of about 5.6 percent in 2019. Economic growth is further projected to rise to 6.1 percent in 2020 and 7.0 percent over the medium term. In terms of fiscal years, economic growth is estimated at 6.2 percent in the FY 2020/21 up from an estimate of 5.8 percent in FY 2019/20.

95. The growth outlook for the FY 2020/21 and the medium term is supported by a stable macroeconomic environment, investments in the strategic areas under the "Big Four" Agenda and their enablers, and existing business and consumer confidence in the economy. Further, the ongoing public investments in infrastructure projects, growth in tourism, resilient exports and the associated benefits from regional economic integration in the sub region will reinforce the projected growth. The economic growth projections over the medium term are aligned to those of the MTP III.

3.11 County Economic Outlook

96. The transport sector is directing its focus towards opening of 151KM of New roads, maintenance of 326Km of classified roads network, gravelling of 240km km of existing roads, Construction of 3 single span bridges, maintenance of existing plant and machinery, construction of 12 boda boda shades. This in turn has led to improved accessibility to health centers, market places and movement of people, goods and services hence improving economic activities.

97. Significant efforts have been made to boost the agricultural sector which is the main economic stay of the County. These efforts include; completion of post-harvest handling facility at Kigoto ; transfer of technologies through model farms; upscaling upland and irrigated rice production; promotion of traditional high value crops; purchase of tractors; training of BMUs; purchase of patrol boats for surveillance and control of illegal fishing; construction, rehabilitation and stocking of fish ponds with fingerlings and fish feeds; construction of toilets at fish landing sites, and purchase and distribution of food grade cooler boxes. This has led to improved production in the agriculture sector.

98. To spur development in our urban centers, through the Kenya Urban Support Program, the County has established Municipal Boards in Homabay. The municipality will be charged with the responsibility of promoting development along five key investment areas, i.e. waste management (solid and liquid), storm water drainage, connectivity (roads and street lights), urban social and economic development (markets, bus parks and slaughter houses) and fire and disaster management.

99. Trade, Industrialization, Cooperatives and Enterprise Development Sub Sector strategy focused on improving the productivity of agriculture through value addition. Development of sub-counties through the formation of special economic zones and industrial development parks. These shall be established to attract foreign direct investment, skill and new technology necessary to grow the share of manufacturing in the county economy. Up to 20% additional funding shall therefore have to be innovatively mobilized to target innovation in, capacity building of and research on the informal sector.

100. Over the medium-term, the department focused on improving the quality of delivery and infrastructure facilities for EYE learning; and vocational training; Strengthening the standards in all

institutions by conducting quality assurance and standards assessments in VTCs and EYE centres across the county.

3.12 Medium Term Fiscal Framework

101. The County Government has prepared a County Integrated Development Plan II (CIDP) 2018-2022 that will guide planning and budgeting for the next five years. The CIDP preparation process was participatory, consultative and captured inputs from the relevant stakeholders and citizen views through public participation forums in all the forty wards. The CIDP was prepared as per the new guidelines issued by the Ministry of Devolution and Planning (MoDP).

102. The County Government has several conditional grants from the World Bank/National Government which include the Kenya Devolution Support Programme (KDSP), Kenya Urban Support Programme, leasing of medical equipment, operation of level 5 hospitals, road maintenance fuel levy, rehabilitation of village polytechnics and compensation of user fee forgone

103. KDSP supports capacity building activities in five Key Result Areas (KRA) namely; Public Finance Management, Planning and Monitoring and Evaluation, Human Resources and Performance Management, Civic Education and Public Participation and Investment implementation and Social and Environmental Performance

104. The County Government will continue to focus on capacity building for the youth through rehabilitation of village polytechnics. These will fill the technical skills gap required by industries within the County as well as promoting self-employment and innovation among the youth.

105. The National Government, through the National Treasury, has prepared a draft policy on Enhancement of County Governments Own-Source Revenue. The Policy proposes a standardized framework (institutional, policy and legal) for own source revenue raising measures and enforcement. It also proposes measures to broaden the Counties' revenue bases and enhance revenue administration capacity. This Policy has been triggered by key five concerns which are: The smallness of Counties' Own-Source Revenue and its diminishing share vis-à-vis total resources; The manner in which Counties plan and budget for local revenue; Legal questions relating to some revenue-raising measures; The short- and long-term fiscal and macroeconomic ramifications of the

measures; and, Utilization of collections as well as reporting and accounting procedures. However, underlying these concerns is the question about how each County can optimize its Own Source Revenue within the existing rules of Public Finance Management (PFM).

3.13 Risks to the Economic Outlook

106. The macroeconomic outlook is faced with risks from both external and domestic sources. Risks from global economies relate to rising global oil prices due to tensions between U.S.A and Iran, uncertainty of the trade agreement between the United Kingdom and the European Union as well as uneven and sluggish growth in advanced and emerging market economies could hamper the forecasted growth. The low commodity prices and the risk of energy prices taking an upward trend, if the rising geopolitical tensions are not subdued, could negatively impact our exports.

107. The widespread effects of the novel coronavirus (Covid-19) remain the biggest threat to the global, regional and domestic economies with its effect on global and local businesses, unemployment and reallocation of resources towards the pandemic expected to continue into the current and coming financial years. Nationally, revenue collection though improved as at the end of August 2020 according to the National Treasury, is expected to remain below target due to depressed import activities and subdued airport operations. This is expected to translate into lower revenue projections over the medium term, especially on equitable shareable revenue from the National Government.

108. Additionally, the economy will continue to be exposed to risks arising from public expenditure pressures, particularly wage related recurrent expenditures and the inevitable climate change and variability which has led to an increase in frequency of disasters such as landslides, droughts and destruction of physical infrastructure. In addition, the desert 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 energy generation and agricultural output leading to higher inflation that could slow down economic growth. The Government continually monitors these risks to inform appropriate mitigating measures to preserve macroeconomic stability and strengthen resilience in the economy.

109. To cushion the country against the downsides of these risks, the Government is deepening reforms in the financial sector to ensure a stable and strong financial system in Kenya. The Government is also safeguarding macroeconomic stability through prudent fiscal and monetary policies. In particular, the Government continues to accumulate foreign exchange reserves to deal with external shocks. In addition, the ongoing enhanced domestic resource mobilization and expenditure rationalization will significantly reduce wage related pressures and reduce debt accumulation thus creating fiscal space necessary for economic sustainability

110. To protect the country from climate related risks and disasters, the Government has put in place various policies, strategies and financial risk protection instruments that help to cushion the economy against budget disturbances emanating from the need to address the unforeseen natural disaster. In particular, the Government has put in place a Disaster Risk Financing Strategy which outlines various financial protection instruments in the economy in the event of a disaster. Additionally, the Government is expanding irrigation schemes to reduce dependence on rain-fed agriculture, diversifying exports and promoting value addition in agriculture.

111. At the county level, additional risks could emanate from public expenditure pressures especially recurrent expenditures, under performance in revenue collection, Delays in funds flow from National Government, Over-reliance on national government transfers, bureaucracies in procurement procedures which lead to delays and inefficiencies and Poor flow of information

112. Delays in disbursements of funds by the national Government will be another challenge as this will lead to disruptions in implementing programs.

113. Public expenditure pressures especially recurrent expenditures pose fiscal risks to the future economic performance of the County. With the commitment to improve infrastructure within the County e.g. roads and water, there is need to put strategies in place to manage recurrent expenditures.

114. Both Governments shall continually monitor these risks and taking appropriate monetary and fiscal policy measures to maintain macroeconomic stability, strengthen the economy's resilience and address constraints to potential economic growth.

115. On risks emanating from domestic sources, the National Government has laid foundations to enhance faster and lasting growth through the "Big Four" Plan, which will unlock better growth, and positively impact on the lives of people through jobs creation and poverty reduction. As such, the Government is expanding irrigation schemes to reduce dependence on rain-fed agriculture, diversifying exports and promoting value addition. Further, the Government is accelerating infrastructure development to support manufacturing and expand intra-regional trade by deliberately targeting new markets for our products. Enhanced domestic resource mobilization and expenditure rationalization will significantly reduce wage related pressures and debt accumulation thus creating fiscal space necessary for economic sustainability.

116. The county shall: enhance resource mobilization; ensure timely submission of reports; increase internal revenues; cost effective measures to reduce expenditure; continuous review and rationalization of public procurement procedures and regulations; and Continuous enhancement of communication channels at all levels of the department.

3.14 Medium Term Fiscal Framework

117. The fiscal policy objective of the County Government of Homa Bay is focused on enhancing rapid economic growth and development and ensuring effective delivery of public goods and services in a sustainable manner. Specifically, the Fiscal Policy underpinning the FY 2019/20 budget and MTEF is aimed at a revenue growth of 3 percent and 5 percent for recurrent and development respectively over the medium term and containing growth of total expenditure. Further, the policy aims at shifting more public resources from recurrent to capital investment so as to promote sustainable and inclusive growth.

118. The fiscal policy over the medium term will focus on: Increasing county resources through enhanced resource mobilization (both internal and external resource), broadening of the tax base in order to grow revenue to finance priority development., strengthening revenue administration capacity through organizational and modernization reforms and automation of revenue collection processes in order to enhance revenue collection; Rationalization of expenditures in the non-productive areas to create requisite fiscal space for productive sectors; Additionally, with the on-

going public service rationalization, redundancies and duplications will be eliminated in the public service;

119. Full implementation of the integrated financial management system (IFMIS) as an end-to-end transaction platform and Government Payment Gateway and adoption of leasing of assets in government to ensure revenue and expenditure efficiency; Expenditure tracking and value for money audits to ensure efficiency and effectiveness in use of resources at all levels of government coupled with strengthening of project planning and management as well as engagement with development partners; and Enhancement of revenue collection efforts to ensure all potential taxpayers makes their contribution towards the county's development agenda. In line with this, the County Government of Homa Bay has prepared its finance bill and all revenue collection legislations in order to simplify, modernize and reduce cost of compliance to them.

120. More specifically, the revenue targets for the FY 2020/21 and the medium term will be achieved through: Improving revenue intake by applying readily available data mining and analytic techniques and by billing appropriately and collecting effectively; Leveraging on the private sector expertise when developing pricing strategies for revenue-generating products and services to ensure optimization of pricing; Making county government physical and digital assets work harder for taxpayers: sell, rent or lease the assets; and offer premium, value-added services related to the asset for which customers will readily pay.

121. With regard to expenditures, the County Government will continue with the policy of rationalization of expenditures to improve efficiency and reduce wastage. The absorption capacity in capital projects will continue to be improved through e-procurement which will also ensure that public financial resources are used prudently and for intended purposes. The continued use of electronic procurement system through the IFMIS "Procure to Pay" module eliminates manual procurement challenges that the national government had experienced in the past.

122. The fiscal stance of the county only envisages non-concessional external borrowing that will be limited to capital projects and within the ceiling stated in the County Debt Management Strategy Paper. The debt management strategy aims at ensuring public debt sustainability. The strategy envisages diversification of financing sources beyond commercial sources of financing.

4.0 RESOURCE ALLOCATION FRAMEWORK

4.1 Guiding Principles

123. The resource allocation framework is anchored on the principles of public finance management as specified in Article 201(b) of the Constitution. In the quest to attain the County vision of being, “a wealthy, healthy and industrialized count.” The county aligns its resource allocation criteria to meet those of the National government which are aimed at promoting equitable development of the county at large, including making special provision for marginalized groups and areas. The following are the county guiding principles in resource allocation for the MTEF period 2019/20-2021/22:

4.1.1 Equity

124. The principle will aim to ensure that basic services are provided to address disparities within the county. The previous resource allocation framework was based on a strategy of channeling resources to areas of high returns with an aim to attain rapid economic growth. In addressing marginalization of certain areas within the county, the county will aim at providing quality water, quality early childhood education, access to quality health care services and good access roads.

4.1.2 Effectiveness

125. Funds shall be spent in a way that achieves the purpose for which it was established. This implies that basic fiduciary standards will be upheld i.e. funds will be spent only when there is an approved budget, a secure process will be followed to authorize expenditure, and the process is documented. With the expenditure returns focusing more on performance outputs and outcomes realized.

4.1.3 Efficiency

126. This principle recognizes that funds shall be spent in a prudent and responsible way. The county will put in place measures to improve costing of programmes and activities; change the allocation of spending i.e. improve on health care funding; ensure proper maintenance of departmental facilities, equipment and vehicles; and lastly, improve on paperless communication through the leverage of ICT.

4.1.4 Economy

127. The principle will aim at maximizing the use of resources. Selection of projects will be based on the degree to which the programme or project will address the core challenges of poverty and unemployment; expected outputs and outcomes; and degree to which the programme or the project will accelerate equitable and sustainable growth towards transforming the county development agenda.

4.1.5 Transparency

128. The funds shall be managed in a way that will ensure openness about allocation, utilization and accounting.

4.2 Adjustments to the FY 2019/20 Budget

129. The Medium Term Fiscal Framework (MTFF) for the FY 2020/21 emphasizes on the guiding principles aforementioned on public spending and improving revenue collection inclusive economic growth and continued fiscal discipline.

130. Over performance in revenue collection and underperformance in expenditure in the FY 2019/20 brought about by the emergence of Covid-19 pandemic and prolonged procurement process both has implications on the financial objectives outlined in the 2020 Fiscal Strategy Paper and the 2020/21 Budget. In particular, the baseline for projecting both the revenue and expenditures for the FY 2020/21 and the medium term has changed given the outcome of FY 2019/20.

131. Expenditure projections for the third quarter of the FY 2019/20 and FY 2020/21 have been revised to accommodate the impact of Covid-19 on the economic performance through trade-offs and reallocations of the existing budgetary provisions supported by austerity measures instituted by Ministry of Health and the National Treasury. This has resulted to a reallocation of the 2019/20 supplementary budget where funds for trainings, travelling and bursary transferred to fight the pandemic. Whereas for the 2020/21 original budget the allocation for the KDSP programme was also transferred for the same purpose.

4.3 Medium Term Fiscal Projections

132. The Medium-Term Fiscal Policy aims at supporting rapid and inclusive economic growth continue the fiscal consolidation programme while creating fiscal space for the implementation of the “Big Four” Plan and the Governors’ Manifesto. In this regard, and driven by continued reforms in revenue administration and revenue enhancement measures, revenue collection is projected to KSh. 385,511,169 up from an actual collection of KSh. 274,595,613.

133. To mobilize revenues and cushion against further revenue shortfalls, the County Government has put in place measures aimed at strengthening tax administration and compliance. These, among others include: Enhanced supervision of revenue collection, decentralization of structured revenue i.e. single business permits and land rates and continued automation of revenue streams.

134. However to cushion against overspending, the County Government shall strive to reduce the wage bill in the following ways going forward: Those exiting through natural attrition be replaced by redeployment of the existing staff; Employment in crucial positions only; Capacity building and redeployment of the existing staff establishment to enable them handle diverse functions; Contractual engagement of employees in emerging needs e.g COVID 19 pandemics; Continuous auditing of the payroll for proper payroll management to ensure right salaries without exaggeration; Scrapping public entities and merging others with duplicates roles; Increasing the collection of the local revenue; Outsourcing services where necessary and Going forward, new entrants should be engaged on contractual basis to eliminate payment of pensions during retirements.

135. Given the expenditure and revenue enhancement measures the Government has put in place to boost revenue collection and prudent public spending. Particular emphasis will be placed on: • Increasing efficiency, effectiveness and accountability of public spending; • Containing the growth of recurrent expenditure in favor of capital investment (as mentioned above); and • Ensuring capital expenditures are thoroughly scrutinized and aligned with “the Big Four” Plan, the Third MTP and strategic policy interventions by the County Government.

4.4 FY 2021/22 Budget Framework

136. The FY 2021/22 budget framework builds up on the fiscal consolidation agenda, which the Government has been implementing to contain growth of expenditure and raise revenues. Some of the policy measures that the Government has been implementing include adoption of the zero-based budgeting process, adoption of the "no new projects" policy and reducing spending on programmes.

4.4.1 Revenue projections

137. Under Shareable Revenue for the financial year 2020/21, the county government overall expenditure is projected at KES. 7,862,589,002 down from the revised estimates of KES. 8,337,787,696 in FY 2019/20. This represents a revenue drop of 5.7 %. The expenditure in the FY 2020/21 will be funded by KSh. 6,741,450,000 expected as equitable share of revenue from the National Government, KSh. 385,511,169 as local revenue collections, KSh. 395,535,075 as Conditional Grants from National Government, KES. 309,416,619 as other grants and loans (from Development Partners) and finally KSh. 30,676,139 as other receipts including balances from the previous year.

Table 12: Expected Revenue Inflow during the MTEF period 2019/20 and 2020/2021

Nature of Revenue	FY 2019/2020	FY 2020/2021
Equitable Share of National Revenue	7,149,771,000	6,741,450,000
Conditional Grants from National Government	380,624,069	395,535,075
Other grants and loans (from Development Partners)	599,801,103	309,416,619
Own Source Revenue (including A-in-A)	207,591,524	385,511,169
Other receipts including balances from the previous year	0	30,676,139
Total Revenue	**8,337,787,696**	**7,862,589,002**

4.5 Medium-Term Expenditure Framework

138. Allocation and utilization of resources in the medium term will be guided by the priorities outlined in the County Integrated Development Plan (CIDP 2018-2022), Fiscal Strategy Paper (FSP) and other county plans; and in accordance with section 107 of the PFM Act 2012. The county

government will prioritize expenditures within the overall sector ceilings and strategic sector priorities drawn from the county goals included in the CIDP 2018-2022.

139. The approach of the medium-term expenditure framework for FY2019/20-2021/2022 will be on increasing predictability of resource flows and the criteria by which funding decisions are made. The framework will reduce the gap between commitments and resources and have a medium-term perspective in terms of financing and planning.

140. The medium term expenditure framework will focus on, (1) Improving macroeconomic balance by developing a consistent and realistic resource framework; (2) Improving the allocation of resources to strategic priorities between and within sectors; (3) Increasing commitment to predictability of both policy and funding so that departments can plan ahead and programs can be sustained; and (4) Providing spending units with a hard budget constraint and increased autonomy, thereby increasing incentives for efficient and effective use of funds.

141. Strengthening of the county sectors will provide a building block to achieving a comprehensive medium-term approach. In overall, the County Government fiscal policy will aim to maximize the potential for county own sources of revenue and continued expenditure rationalization to ensure maximum economy in resource use.

4.5.1 Expenditure Projections

142. Taking this into account, the overall expenditure for FY 2021/22 is projected at KSh. 8,598,738,978 up from KSh. 7,862,589,002 in the current FY 2020/21. These expenditures comprise among others, recurrent projection of KES 5,635,624,030 and development projection of KSh. 2,963,114,947. for the FY 2020/21(See table below).

Table 13: Expected Expenditure during the MTEF period 2019/20-2021/22

Vote Number	Name of Spending Entity	Revenue/Expense Category	RECURRENT		DEVELOPMENT	
			Approved/ Printed 2020/21	Proposed Ceiling 2021/22	Approved/ Printed 2020/21	Proposed Ceiling 2021/22
5111	Department of Agriculture, Livestock, Fisheries and Food Security	**Gross**	**178,973,123**	**152,574,587**	**359,416,619**	**414,300,000**
		A-I-A	58,274,799	71,006,643		
		Net				
		Salaries	123,507,660	127,212,890		
		Grants				315,194,589
		Others (esp. Funds)				
5112	Department of Tourism, Sports, Youth, Gender, Culture and Social Services	**Gross**	**51,581,669**	**78,836,738**	**112,000,000**	**156,300,000**
		A-I-A		1,000,000		
		Net				
		Salaries	39,033,620	40,204,629		
		Grants				
		Others (esp. Funds)				
5113	Department of Roads, Public Works and Transport	**Gross**	**74,918,799**	**49,296,570**	**781,589,735**	**920,712,708**
		A-I-A	20,868,000	22,674,800		
		Net				
		Salaries	35,581,848	36,649,303		
		Grants				208,216,122
		Others (esp. Funds)				480,000,000
5114	Department of Energy and Mining	**Gross**	**35,782,555**	**21,684,228**	**70,000,000**	**76,900,000**
		A-I-A		4,800,000		
		Net				
		Salaries	8,084,040	8,326,561		
		Grants				
		Others (esp. Funds)				20,000,000
5115	Department of Education and ICT	**Gross**	**534,230,308**	**544,914,914**	**120,000,000**	**130,100,000**
		A-I-A		9,900,000		
		Net				
		Salaries	354,280,164	364,908,569		
		Grants				43,252,905
		Others (esp. Funds)		103,000,000		40,000,000
5116	Department of Health	**Gross**	**2,080,866,777**	**2,368,026,392**	**360,320,190**	**343,300,000**
		A-I-A	149,347,885	159,139,520		

		Net		-		-
		Salaries	1,948,364,108	2,045,782,313		
		Grants		73,596,596		153,297,872
		Others (esp. Funds)				160,000,000
5117	Department of Lands, Housing, Urban Development & Physical Planning	**Gross**	**51,163,399**	**51,675,033**	**72,702,230**	**119,667,870**
		A-I-A	7,031,132	7,125,600		
		Net				
		Salaries	30,111,180	31,014,515		
		Grants				
		Others (esp. Funds)				
5118	Department of Trade, Industrialization & Enterprise Development	**Gross**	**192,949,199**	**133,327,897**	**100,935,404**	**83,900,000**
		A-I-A	4,700,000	4,841,000		
		Net				
		Salaries	122,144,244	125,808,571		
		Grants				
		Others (esp. Funds)				20,000,000
5119	Department of Water Services, Sanitation, Environment & Forestry	**Gross**	**119,384,105**	**120,100,410**	**280,000,000**	**316,300,000**
		A-I-A	3,400,000	4,060,000		
		Net				
		Salaries	56,039,636	57,720,825		
		Grants				
		Others (esp. Funds)				200,000,000
5120	Department of Finance, Economic Planning & Service Delivery	**Gross**	**227,484,743**	**433,121,622**	**121,216,648**	**104,246,317**
		A-I-A	141,889,353	147,946,034		
		Net				
		Salaries	228,154,872	239,562,616		
		Grants				34,500,526
		Others (esp. Funds)		70,000,000		50,000,000
5121	County Executive/ Office of the Governor	**Gross**	**600,298,418**	**612,904,685**	**46,000,000**	**40,000,000**
		A-I-A				
		Net				
		Salaries	423,841,788	436,557,042		
		Grants				
		Others (esp. Funds)				
		Gross	**77,694,705**	**78,704,736**	**2,000,000**	**5,000,**

		A-I-A				
		Net				
5122	County Public Service Board	Salaries	16,939,860	17,448,056		
		Grants				
		Others (esp. Funds)				
5123	County, Assembly Service Board	**Gross**	**923,232,576**	**969,394,205**	**122,283,800**	**100,600,000**
		A-I-A				
		Net				
		Salaries	514,200,836	529,626,861.1		
		Grants				
		Others (esp. Funds)				
5124	Homa Bay Municipal Board	**Gross**	**18,973,123**	**22,062,013**	**130,000,000**	**141,588,052**
		A-I-A				
		Net				
		salaries	4,376,004	5,251,205		
		Grants				**140,361,500**
		Others (esp. Funds)				
EXPENDITURE BY ECONOMIC			**5,184,124,376**	**5,635,624,030**	**2,678,464,62**	**2,963,114,94**
PROJECTED EXPENDITURE 2021/22						**8,598,738,978**
APPROVED EXPENDITURE 2020/21						**7,862,589,002**
EXPECTED INCREASE						**736,149,976**

5.0 CONCLUSION AND NEXT STEPS

143. Going forward, the County through all the spending entities is committed to the course of changing the life of its people through prudent utilization of available merger resources to implement key development priority programmes, projects and improve access to essential basic services.

144. To achieve the aspiration above, all the County spending units will be expected to make use of the findings of the overall assessment of budget performance for the FY 2019/20 in terms challenges, what worked, what did not work and possible lessons to inform execution of the current budget for FY 2020/21 which is yet to pick up once the stalemate in the senate is addressed. The outcome of the senate however is likely to introduce some slight changes which will be reflected in the supplementary budget and above all how the budget for FY 2021/22 will look like considering priorities in the CADP 2021, "Big 4 Agenda", MTP III and CIDP with likelihood of increase in equitable share to counties which will be a boost to County's commitment to deliver development and services to its people.

145. All the departments will be expected to implement strategies, policies and measures of increasing revenue collection considering low performance of (OSR) witnessed in 3rd and 4th quarter of FY 2019/20 and 1st quarter FY 2020/21 largely attributed to by Covid-19 pandemic that impacted on economic sectors. Efforts to rationalize County expenditures will be key since it will ensure progressive reduction in recurrent expenditures and releasing more budgets to capital expenditures to support the county respond to its development priority goals/objectives.

146. The provision ceilings and priorities in the framework will be firmed up in the County Fiscal Strategy Paper to be finalized by February 2021 as per PFM Act 2012 it's expected then that the Fiscal Strategy Paper will have final ceilings that all the departments will work with in formulating their budget estimates.