REPUBLIC OF KENYA EMBU COUNTY GOVERNMENT

FINANCE & ECONOMIC PLANNING

COUNTY BUDGET REVIEW AND OUTLOOK PAPER

Vision

A prosperous County with Equal Opportunities for all

Mission

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

SEPTEMBER 2019

Foreword

The County Budget Review and Outlook Paper (CBROP) 2019 is prepared in accordance with the Public Financial Management Act, 2012 section 118. It is prepared against a backdrop of an expanding Real Gross Domestic Product (GDP) which increased to 6.3 per cent in 2018 in comparison with 4.9 per cent in 2017. The growth was attributable to increased agricultural production, accelerated manufacturing activities, sustained growth in transportation and vibrant service sector activities.

Agricultural activities benefitted from sufficient rains that were well spread throughout the country. Similarly, the increased precipitation was a significant boost to electricity generation and consequently favorable to growth during the review period. The Agriculture, Forestry and Fishing sector growth accelerated from a revised growth of 1.9 per cent in 2017 to 6.4 per cent in 2018. The manufacturing sector expanded by 4.2 per cent compared to a revised growth of 0.5 per cent in 2017 mainly buoyed by increased agro-processing during the review period.

The County is on a trajectory path of growth mainly supported by agricultural activities. This is as a result of the improved weather conditions that greatly influence production. Crop production and dairy farming have contributed largely to the growth as a result of the huge percentage of households engaged in agriculture which currently stands at around 80 percent.

The paper covers the following broad areas in review of the fiscal performance of financial year 2018/19; highlights of the recent economic developments and the economic outlook; broad strategic priorities and policies for the Medium Term and the Medium Term Fiscal Framework. The fiscal framework presented in the paper ensures a sustainable financing while allowing continued spending on priority programmes. This paper details the actual fiscal performance in the financial year 2018/19 compared to the budget allocation for that year. The updated macroeconomic outlook therein also provides us with a basis to revise the 2019/20 budget in the context of the Supplementary Estimates, as well as setting out the broad fiscal parameters for the next budget and medium term.

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

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

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

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

(1) A County Treasury shall:

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

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

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

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

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

(c) Information on:

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

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

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

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

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

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

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

Fiscal Responsibility Principles in the Public Finance Management Law

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

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

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

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

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

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

6) The fiscal risks shall be maintained prudently; and

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

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Abbreviations

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

I. INTRODUCTION

Objective of BROP

The objective of the BROP is to provide a review of the previous fiscal performance and how this impacts the financial objectives and fiscal responsibility principles set out in the last County Fiscal Strategy Paper (CFSP). This together with updated macroeconomic outlook provides a basis for revision of the current budget in the context of Supplementary Estimates and the broad fiscal parameters underpinning the next budget and the medium term.

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

The PFM Act 2012 has set high standards for compliance with the MTEF budgeting process. Therefore, it is expected that the sector ceilings for the 2019/20 of the MTEF provided in the previous CFSP will form the indicative baseline sector ceilings for the next budget of 2020/21. However, following the fiscal outcome of 2018/19 and the updated macroeconomic framework these sector ceilings have been modified as indicated in the annex of this BROP.

The rest of the paper is organized as follows: the next section provides a review of the fiscal performance in FY 2018/19 and its implications on the financial objectives set out in the last CFSP submitted to the County Assembly in February 2019. This is followed by brief highlights of the recent economic developments and updated macroeconomic outlook in Section III. Section IV provides the resources allocation framework, while Section V concludes.

II. REVIEW OF FISCAL PERFORMANCE IN 2018/19

A. Overview

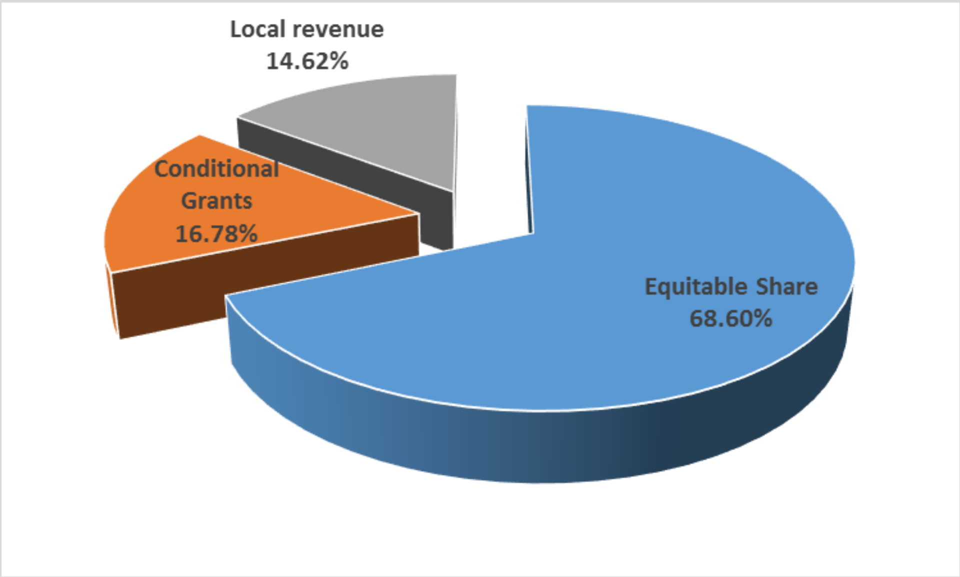
In FY 2018/19, the County had a total revenue basket amounting to Ksh. 6,499,495,361. The equitable share from the national treasury had the highest contribution at Ksh. 4,458,800,000. The targeted ordinary local revenue was Ksh. 653,490,000 while Appropriation in Aid collection target was Ksh 296,510,000. Table 8 provides a breakdown of various revenue sources.

Table 1: Revenue breakdown for FY 2018/19

Revenue Source	**Approved Budget 2018/19**
Equitable Share	4,458,800,000
Level 5 Hospitals	301,040,462
CA-Development of Youth Polytechnics	37,900,000
CG-Compensation for User Fees Forgone	10,724,225
CG-Leasing of Medical Equipment	200,000,000
CG-Road Maintenance Fuel Levy Fund	117,396,321
CG-Kenya Development Support Programme (KDSP)	40,595,727
CA-Transforming Healthcare Systems for Universal Care Project (THSUCP)	50,000,000
CA-World Bank-Universal Care Project-DANIDA	13,770,000
CA-World Bank-National Agricultural and Rural Inclusive Growth Project (NARGIP)	140,435,163
CA-Kenya Urban Support Project (KUSP)	161,092,100
Agricultural Sector Development Support Programme (ASDSP)	17,741,363
Ordinary Local Revenue	653,490,000
Appropriation in Aid	296,510,000
TOTAL	**6,499,495,361**

It is evident that Equitable share contributes the highest proportion of revenue to the County Government accounting for 68.60 percent of the total revenue. Conditional grants account for 16.78 percent while local revenue that comprises both ordinary local revenue and Appropriation in Aid account for 14.62 percent of the total revenue. Figure 3 depicts a visual representation of the contribution of each revenue source to the revenue basket.

Figure 1: Revenue sources contribution to the resource basket FY 2018/19

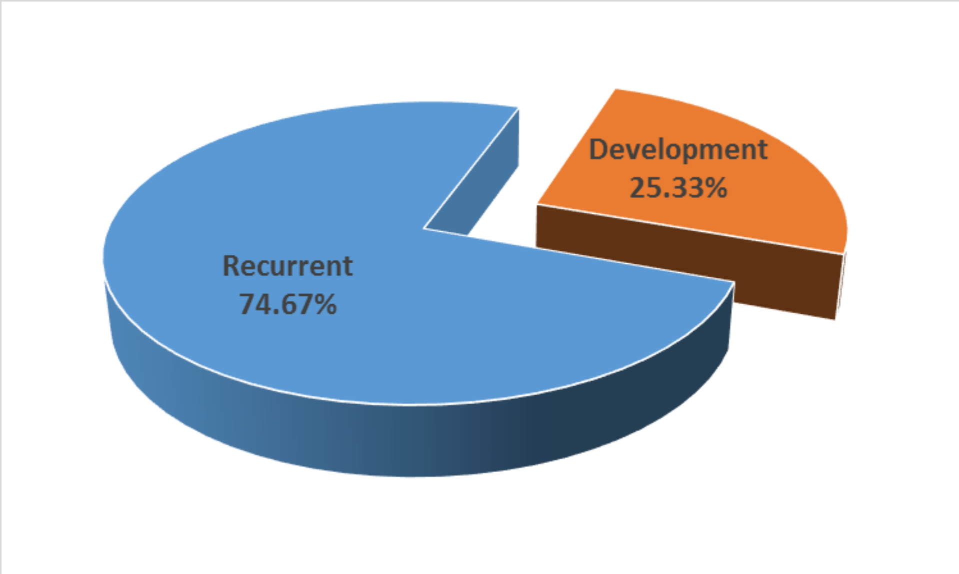


B. 2018/19 Fiscal Performance

Expenditure

The county incurred an expenditure totaling Ksh. 5,373,626,282.97 which represents 78.71 percent absorption rate. The expenditure comprises of recurrent expenditure at Ksh. 4,012,398,576.27 while development expenditure stands at Ksh. 1,361,227,706.70. It is imperative to note that recurrent expenditure accounted for 74.67 percent of the overall expenditure while development expenditure is at 25.33 percent.

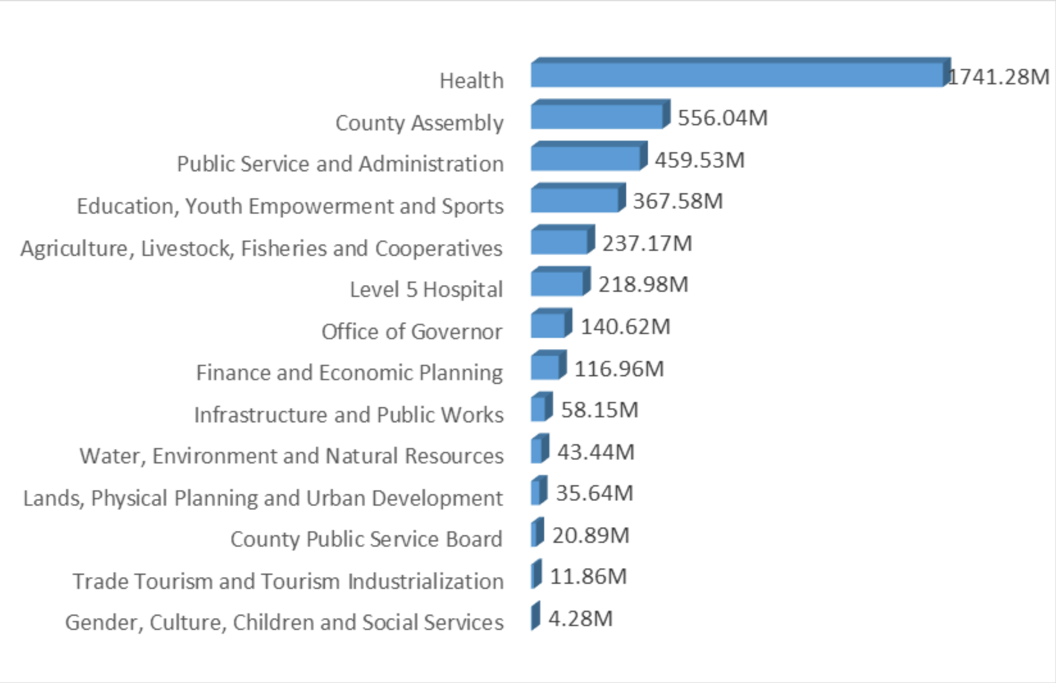
Figure 2: Expenditure by spending for FY 2018/19



Recurrent Expenditure

The Health department incurred the highest recurrent expenditure amounting to about Ksh. 1.7 Billion which is as a result of the huge wage bill for the health sector workers. The County Assembly was second with a total expenditure of about Ksh. 556.0 Million while Public Service and Administration incurred a total expenditure amounting to Ksh. 459.5 Million. Gender, Culture, Children and Social Services incurred the lowest expenditure at Ksh. 4.28 Million.

Figure 3: Recurrent expenditure by department



The overall absorption rate of recurrent expenditure stood at 86.09 percent. Public Service and Administration had the highest absorption rate at 98.09 percent followed by the County Assembly at 93.81 percent. Level 5 hospital came third with an absorption rate of 93.01 percent. Lands, Physical Planning and Urban Development had the lowest absorption rate at 39.05 percent. Table 10 provides the absorption rates of recurrent expenditure by department.

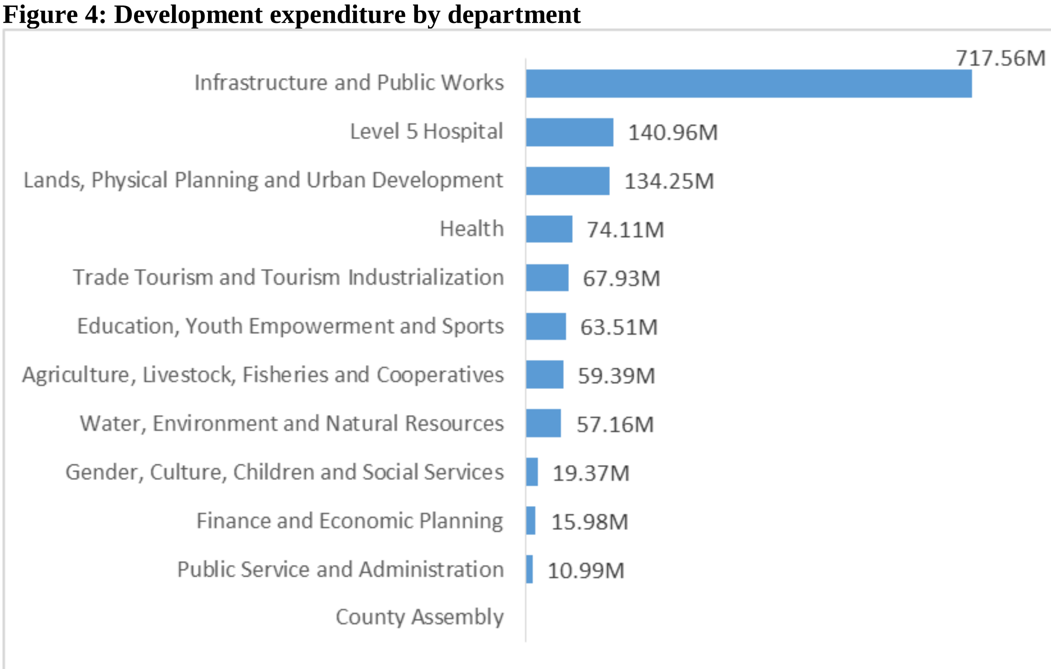
Table 2: Absorption levels of recurrent expenditure by department

Department	2018/2019 Approved Budget	2nd Sup. Revised Approved Budget 2018/19	Expenditure FY 2018/19	Absorption Rate
Office of Governor	159,374,925	171,888,600	140,624,390	81.81%
County Public Service Board	34,130,089	27,719,990	20,886,862	75.35%
Public Service and Administration	474,446,913	468,450,349	459,525,847	98.09%
County Assembly	592,744,226	592,744,226	556,036,802	93.81%
Gender, Culture, Children and Social Services	10,860,468	8,481,789	4,284,624	50.52%
Finance and Economic Planning	138,537,283	174,627,421	116,957,408	66.98%
Lands, Physical Planning and Urban Development	58,745,494	91,256,869	35,637,200	39.05%
Trade Tourism and Tourism Industrialization	23,966,126	18,884,403	11,857,295	62.79%
Agriculture, Livestock, Fisheries and Cooperatives	326,335,322	379,278,427	237,171,057	62.53%
Water, Environment and Natural Resources	60,880,730	57,382,226	43,436,525	75.70%
Health	1,806,869,810	1,929,095,411	1,741,279,045	90.26%
Level 5 Hospital	193,921,793	235,447,052	218,978,191	93.01%
Infrastructure and Public Works	67,538,098	68,318,151	58,146,851	85.11%
Education, Youth Empowerment and Sports	559,119,189	437,377,478	367,576,479	84.04%
Total	**4,507,470,466**	**4,660,952,392**	**4,012,398,576**	**86.09%**

Development Expenditure

The Infrastructure and Public Works department incurred the highest recurrent expenditure amounting to about Ksh. 717.6 Million followed by Level 5 hospital which incurred a total expenditure of about Ksh. 141.0 Million while Lands, Physical Planning and Urban Development department incurred a total expenditure of about Ksh. 134.3 Million. The County Assembly did incur any expenditure while Public Service and Administration incurred about Ksh. 11.0 Million. It is important to note that the amount of expenditure incurred was also dependent on the amount allocated in the budget within FY 2018/19 for each individual department. Figure 13 provides a summary breakdown of development expenditure incurred by each department.

Figure 4: Development expenditure by department



The overall absorption rate of development expenditure stood at 62.84 percent. Public Service and Administration had the highest absorption rate at 99.95 percent followed by the Infrastructure and Public Works at 84.0 percent. Trade, Tourism, Tourism and Industrialization came third with an absorption rate of 79.74 percent. The County Assembly had had the lowest absorption rate of development funds at zero percent. Table 11 provides the absorption rates of development expenditure by department.

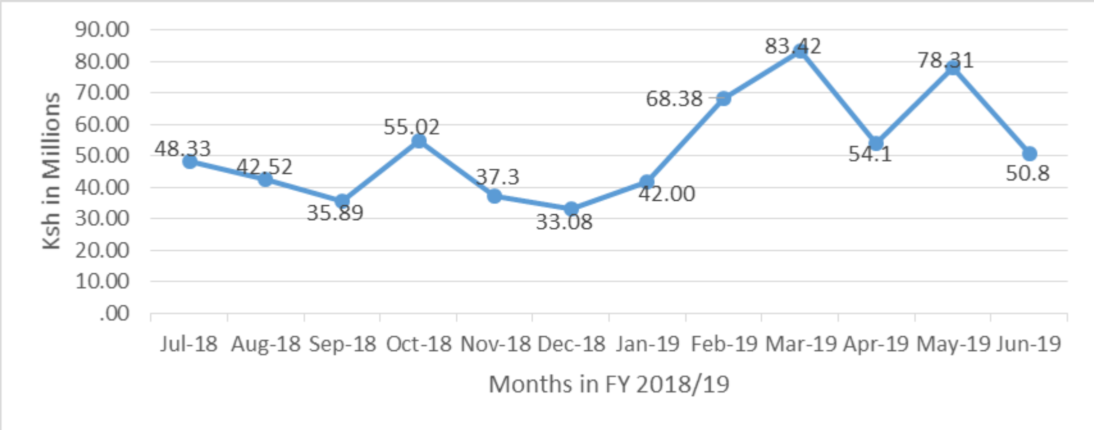
Table 3: Absorption rates of development expenditure by department

Portfolio/Department	Approved Budget FY 2018/19	Final Approved Supplementary FY 2018/19	Expenditure FY 2018/19	Absorption Rate
Office of Governor	-	-	-	No funds
County Public Service Board	-	-	-	No funds
Public Service and Administration	21,058,295	11,000,000	10,994,677	99.95%
County Assembly	45,000,000	72,000,000	-	0.00%
Gender, Culture, Children and Social Services	61,137,786	38,500,000	19,366,242	50.30%
Finance and Economic Planning	15,968,029	21,000,000	15,981,032	76.10%
Lands, Physical Planning and Urban Development	137,050,000	188,352,932	134,246,583	71.27%
Trade Tourism and Tourism Industrialization	92,518,018	85,191,869	67,933,352	79.74%
Agriculture, Livestock, Fisheries and Cooperatives	150,672,570	160,234,936	59,391,781	37.07%
Water, Environment and Natural Resources	157,410,665	83,820,477	57,163,968	68.20%
Health	214,840,039	247,230,026	74,111,822	29.98%
Level 5 Hospital	236,526,754	291,124,880	140,962,460	48.42%
Infrastructure and Public Works	611,931,201	854,291,738	717,564,898	84.00%
Education, Youth Empowerment and Sports	185,770,175	113,540,136	63,510,893	55.94%
Total	**1,929,883,532**	**2,166,286,994**	**1,361,227,707**	**62.84%**

Local Revenue Performance 2018/19

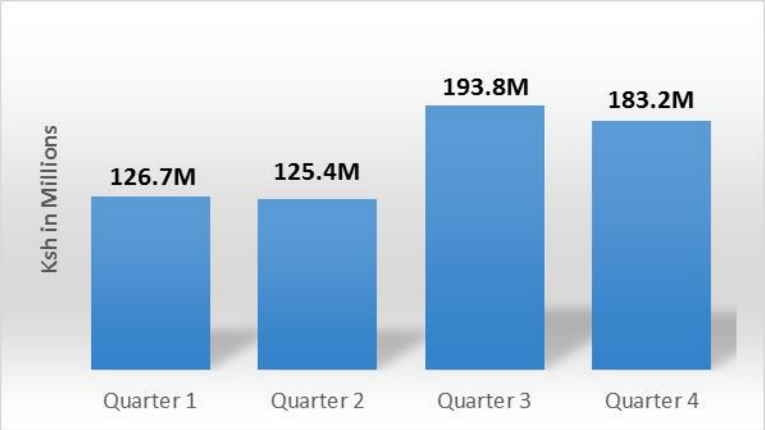
The actual local revenue collected for the FY 2018/19 amounted to Ksh. 629,145,707 with ordinary local revenue collection amounting to Ksh. 280,077,212 and Appropriation in Aid at Ksh. 349,068,495. Further analysis shows an increasing trend from the month of January 2019, February 2019 and peaking in the month of March 2019 which stood at about Ksh. 83.42 million and but declined in the month of April to about 54.1 million. Figure 3 shows the trend for the period between July 2018 and June 2019.

Figure 5: Embu county local revenue FY 2018/19



A deeper analysis of revenue collected during the FY 2018/19 shows that the third quarter had the largest share of local revenue collected at about Ksh. 193.8 million while the second quarter had the lowest collection standing at about Ksh. 125.4 million. Figure 4 provides a breakdown of revenue collected by quarter.

Figure 6: Local Revenue by Quarter FY 2018/19



Ordinary local revenue

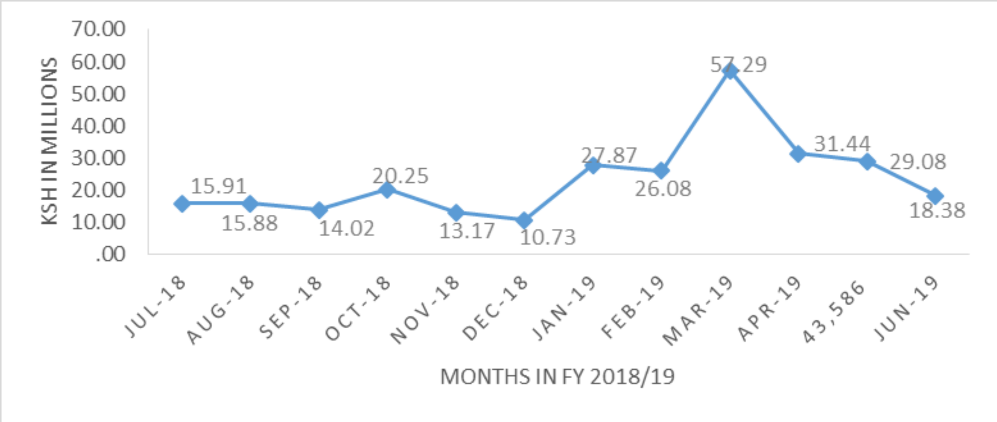
The total revenue collected amounted to Ksh. 280,077,212 against a target of Ksh. 649,870,000 accounting for 43.1 percent. Table 9 presents a summary of ordinary local revenue.

Table 4: A summary of ordinary local revenue by revenue stream

Revenue Stream	Target	Actual	% Actual
Enforcement	2,500,000	690,450	27.62%
Slaughter House fees	3,600,000	900,300	25.01%
Miscellaneous revenue	6,500,000	1,067,721	16.43%
House Stall	12,000,000	9,338,073	77.82%
Street Parking	18,000,000	11,967,225	66.48%
Technical planning Fees	10,000,000	13,391,599	133.92%
Land Rates and Plot Rents	369,770,000	14,127,428	3.82%
Bus park	25,000,000	20,179,200	80.72%
Advert Fees	2,500,000	22,163,787	886.55%
Market fees	25,000,000	32,321,211	129.28%
Cess	65,000,000	64,749,850	99.62%
Single Business Permit	110,000,000	89,180,368	81.07%
Total	**649,870,000**	**280,077,212**	**43.10%**

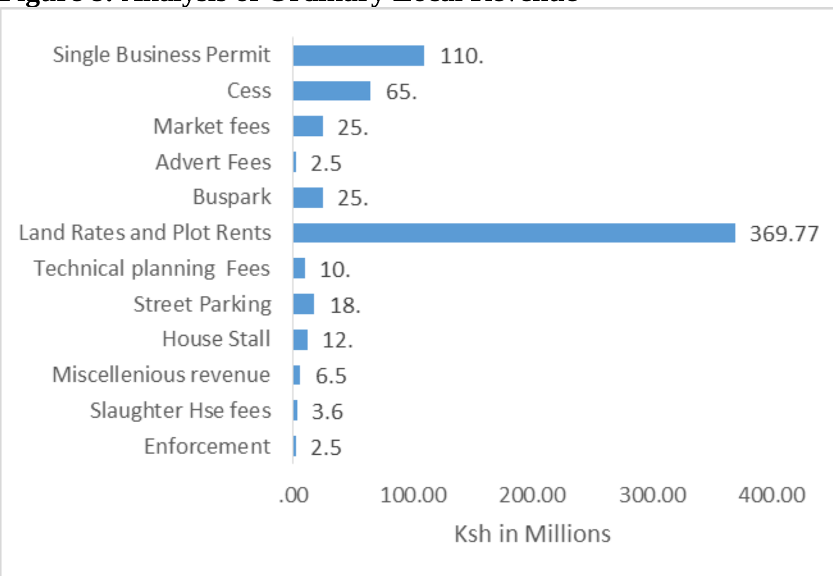
Ordinary local revenue collected in FY 2018/19 shows a sharp increase of revenue collected in the month of January 2019 which stood at about Ksh. 27.87 million which declined in the month of February 2019 before showing a sharp increase in March which stood at about Ksh. 57.29 million. Figure 5 shows the trend of ordinary local revenue during the FY 2018/19.

Figure 7: Ordinary Local Revenue



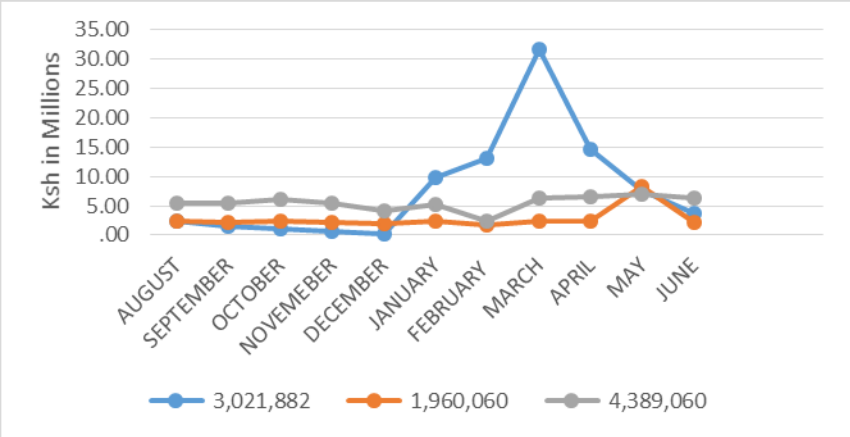
Single business permits revenue stream has the highest collection of ordinary local revenues at Ksh. 89.18 million followed closely by cess at about Ksh. 64.75 million while market fee collections amounted to bout Ksh. 32.32 million. It also evident that land rates contributed to a partly 14.13M which is way below the expected amount but with the implementation of valuation roll more money is expected to be collected from this specific revenue stream. Figure 6 shows the contribution of each revenue stream from the largest to the smallest showing how different revenues streams contribute to the county revenue.

Figure 8: Analysis of Ordinary Local Revenue



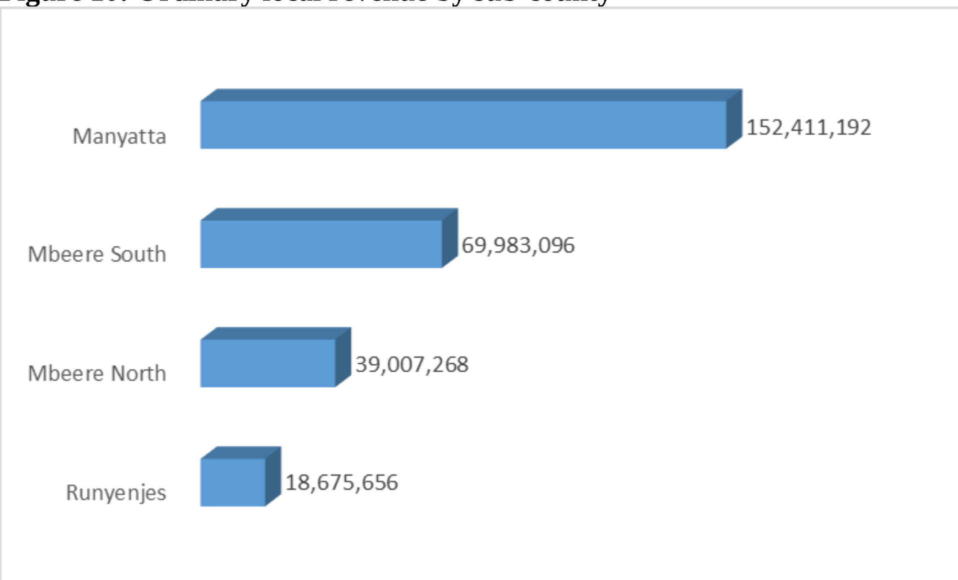
A further breakdown of ordinary revenue collected in FY 2018/19 for the leading revenue streams shows that single business permits shot to a high of about Ksh. 30.3 million in March, 2019. The main reason for the increase is as a result of business permit renewals which is usually done at the beginning of any given calendar year. Figure 7 shows the trend of the key revenue streams for FY 2018/19.

Figure 9: Ordinary Local Revenue streams



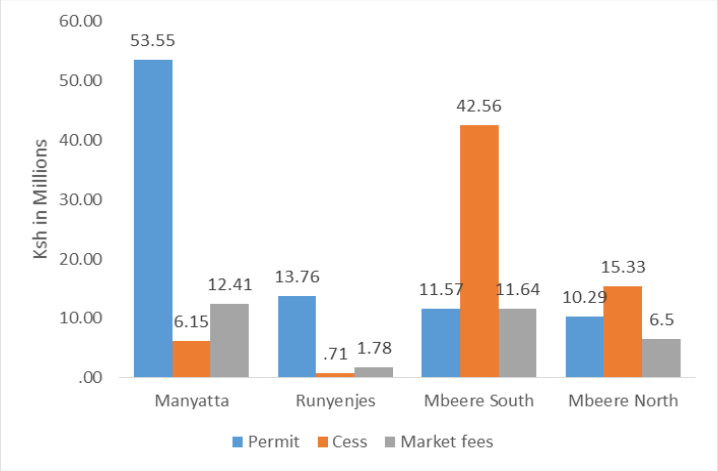
Manyatta sub-county generated the highest amount of local revenue at Ksh. 152,411,192 with Runyenjes contributing the lowest amount at Ksh. 18,675,656.

Figure 10: Ordinary local revenue by sub-county



The highest contribution for ordinary local revenue under Manyatta sub-county is business permits with cess contributing the highest amount for Mbeere South sub-county at about Ksh. 42.56 million. Figure 9 shows the leading revenue streams contribution by sub-county.

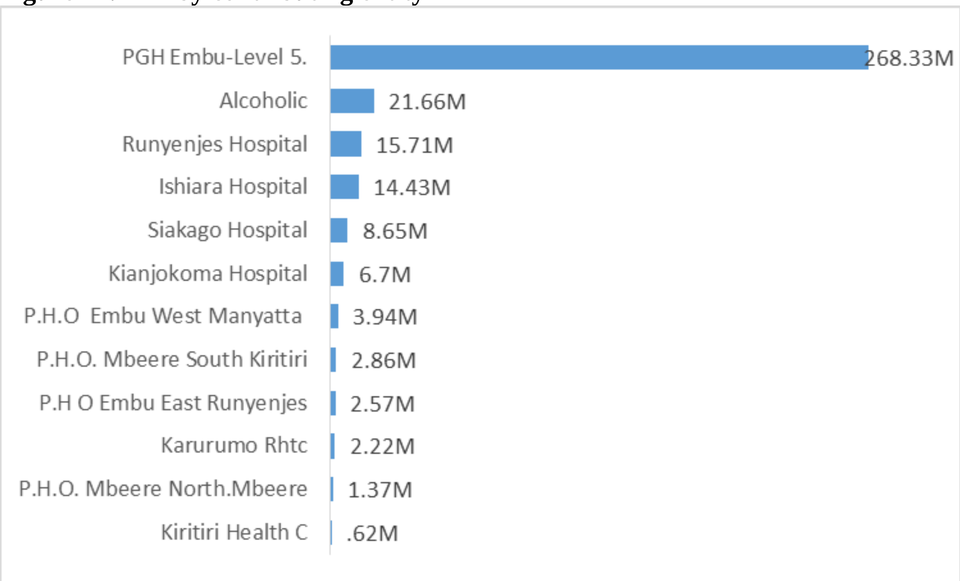
Figure 11: Sampled Revenue streams by Sub-county in Ksh. Millions



Appropriation in Aid

In the FY 2018/19, Level 5 hospital contributed the largest amount at about Ksh. 268.33 Million followed by alcohol licensing at about Ksh. 21.66M. Figure 10 shows the various departments/institutions contributions towards the county local revenue kitty.

Figure 12: AiA by contributing entity



II. RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

A. Overview

International overview

The global economy experienced growth of 3.6 per cent in 2018, a slight decrease from a 3.8 per cent growth in 2017. The advanced economies are estimated to have increased by 2.4 per cent in 2018 compared to a growth of 2.5 per cent in 2017. The growth was experienced in the USA as a result of a fiscal stimulus that boosted domestic demand. Growth in emerging markets and developing economies decelerated from 4.7 per cent in 2017 to 4.6 per cent in 2018. Sub-Saharan Africa region remained on a recovery path growing by 3.0 per cent during the review period compared to a growth of 2.9 per cent in 2017. In 2018, the global inflation rose to 3.6 per cent compared to that of 3.2 per cent in 2017, mainly attributable to robust global oil demand. Prices of agricultural produce remained broadly stable but declined slightly in the second half of the year.

World trade volume increased by 3.9 per cent in 2018 compared to a growth of 5.2 per cent in 2017. The growth in trade was mainly attributable to trade tensions involving major economies and elevated trade policy uncertainties. The volume of exports in advanced economies grew by 3.4 per cent in 2018 compared to a growth of 4.4 per cent in 2017. Similarly, the volume of exports in the emerging markets and developing economies grew by 4.7 per cent in the review period compared to a growth of 6.9 per cent in 2017, largely affected by increase in oil prices. The overall fiscal deficit as a percentage of GDP stood at 2.9 per cent in 2018 compared to 2.3 per cent in 2017. The global economy showed improved labor market conditions during that period, with an estimation of 3.3 billion people in the labor market. The global unemployment rate dropped from 5.7 per cent in 2017 to 5.3 per cent in 2018. The labor participation rate stood at 61.4 per cent in 2018.

Regional overview

The East African region economy experienced a growth of 5.9 per cent in 2018, which was a slight increase from 5.3 per cent growth in 2017. The growth was attributable the increased production of agriculture in Kenya, Uganda and Rwanda following the drought experienced in 2017. Rwanda's real GDP growth stood at 8.6 per cent, the highest growth in the region. This was supported by strong growth in the services and industrial sectors. Low cost of food and non-alcoholic beverages resulted to a decrease in inflation rate from 4.8 per cent in 2017 to 1.4 per cent in 2018. The current account deficit as a percentage of GDP increased to 7.8 per cent in 2018 from 6.8 per cent in 2017 partly attributed to a deterioration in terms of trade.

In Uganda, real GDP grew by 6.2 per cent in 2018 compared to a growth of 5.0 per cent in 2017. The growth was fueled by increased investment in public infrastructure as well as the vibrance in services and industrial sectors. Importation of capital goods resulted to the increase in current account deficit to GDP ratio to 6.8 per cent in 2018. . The economy of Tanzania is estimated to have expanded by 6.6 per cent in 2018 compared to a growth of 6.8 per cent in 2017, supported by private investment and services sector. The current account deficit as a percentage of GDP increased to 3.7 per cent in 2018 from 3.3 per cent in 2017 due to higher volumes of imports in 2018. The increase in volume of imports was due to importation of transport equipment, building and construction materials for infrastructure projects. Burundi's real GDP growth stood at 0.1 per cent in 2018 while current account deficit as a percentage of GDP widened to 13.4 per cent in the review period.

Domestic overview

The Kenya's economy is estimated to have expanded by 6.3 per cent in 2018 showing an increase from 4.9 per cent in 2017. The growth could be as a result of increased agricultural production, accelerated manufacturing activities, sustained growth in transportation and vibrant service sector activities. Agricultural activities were attributable to the sufficient rains that were well spread throughout the country. Similarly, the increased precipitation was a significant boost to electricity generation and consequently favorable to growth during the review period. The Agriculture, Forestry and Fishing sector growth accelerated from a growth of 1.9 per cent in 2017 to 6.4 per cent in 2018. The manufacturing sector expanded by 4.2 per cent compared to a revised growth of 0.5 per cent in 2017 mainly as a result of increased agro-processing during the review period. Other sectors that grew notably in 2018 include Electricity Supply, Transportation and Storage, Information and Communication Technology, Accommodation and Food Services at 10.5, 8.8, 11.4, 16.6 per cent, respectively in 2018.

The growth realized was anchored on a relatively stable macroeconomic in 2018. Inflation remained low at 4.7 per cent in 2018 compared to 8.0 per cent in 2017 majorly as a result of considerable declines in prices of food after the shortage experienced in 2017. The current account deficit narrowed to stand at Ksh 441.8 billion in 2018 compared to KSh 503.4 billion in 2017 mainly due to a faster growth of imports of goods and services.

Agriculture remains a key driver of growth in Kenya and a major contributor to poverty reduction. Finally, to boost farmers' incomes, the policy could seek to address post-harvest losses and marketing challenges by fast-tracking implementation of the national warehousing receipt system and commodities exchange, while scaling up agro-processing and value addition to increase returns on agricultural produce.

B. Medium Term Economic Outlook

Global growth outlook

Global economic growth is projected to grow by 3.3 per cent in 2019. The expected growth is as a result of removal of accommodative monetary policy in advanced economies coupled with slowdown in global trade. Growth in the USA is expected to expand by 2.7 per cent in 2019. The real GDP of the UK is projected to increase by 1.4 per cent in 2019 buoyed by fiscal stimulus in the 2019 budget coupled with effect of prolonged uncertainty regarding Brexit outcome.

In the OECD economies, real GDP is projected to decelerate to 2.1 per cent in 2019. In the Euro area, growth is projected to slow down to 1.8 per cent in 2019. The reduction in the level of economic activity in the region is partly due to weak industrial production in Germany following introduction of revised auto emission standards, weak domestic demand in Italy and negative effect of industrial action in France. Real GDP in the BRIICS is projected to grow by 3.9 per cent in 2019. China's economy is projected to decelerate to 6.3 per cent in 2019, mainly due to trade tensions with the USA.

Real GDP in Sub-Saharan Africa is projected to grow by 3.5 per cent in 2019, supported by investment in large economies and robust growth in non-resource intensive countries. The real GDP of the EAC region is expected to grow at 6.3 per cent in 2019.

Domestic economic outlook

Performance of Kenya's economy looks less optimistic in 2019 on account of a number of factors. The 2019 long rains have delayed and weather forecast indicate that most parts of the country will experience depressed rainfall, while a number of others may record almost long rains failure. If this materializes, direct negative impacts will be felt within the activities of agriculture, electricity and water supply sectors. Further impacts could be experienced in industries that have strong interlinkages with these sectors. However, activities of the tourism sector are likely to remain vibrant supported by strong expansion in tourists' arrivals.

The construction industry is expected to follow the current trend given the ongoing infrastructural development by the government as well as the prevailing private sector confidence.

A gradual increase in international oil prices in the course of the year is anticipated, especially if an agreement on production cuts by the Organization of the Petroleum Exporting Countries (OPEC) and their partners is implemented. There are prospects of production cuts being partly offset by an increase in shale output from the USA, as well as slowed demand emanating from effects of a deterioration in global economic expansion. All in all, it is more probable that the international oil prices will rise and lead to higher domestic pump prices.

On the demand side, growth is likely to be driven by both the public consumption as well as private sector investment. Public consumption is projected to be underpinned by the ongoing development in infrastructure. Private consumption might not expand as rapidly as that of public, but is likely to remain robust in 2019 and therefore supportive of growth, while business confidence should remain strong enough to back up expansion in investment. Exports are likely to be constrained by a subdued external demand against a background of a slowdown in global trade. Overall, the economic growth is likely to slow down, but key macroeconomic indicators are likely to remain within desirable ranges throughout 2019.

Monetary policy outlook

Inflation is likely to rise significantly, largely driven by increase in food prices as a result of constrained domestic production in 2019. This could worsen if the magnitude of the expected rise in fuel prices ends up being substantial. The Kenyan Shilling exchange rate against major trading currencies is expected to remain stable supported by diaspora remittances and a significant level of reserves.

The monetary policy stance focused on maintaining inflation within the Government's range of plus or minus 2.5 per cent of the 5.0 per cent medium-term target. Pursuant to the objective of price stability and to boost output, the Central Bank of Kenya (CBK) adopted accommodative monetary policy by reviewing the Central Bank Rate (CBR) from 10.00 per cent, to 9.50 per cent in March 2018 and 9.00 per cent in July 2018. The easing of monetary policy aimed at reducing cost of borrowing particularly for the private sector to stimulate production and boost economic growth. Overall, interest rates dropped during the review period except for the interbank rate. The 91-Day Treasury bill dropped to 7.34 per cent in December 2018 from 8.01 per cent in December 2017. Loans and advances increased by 12.0 per cent to KSh 358.6 billion in 2018. Capital reserves increased by 19.3 per cent to KSh 107.1 billion in 2018.

External sector outlook

In 2018, the Kenya Shilling strengthened against the US Dollar trading at an annual average of KSh 101.3 compared to KSh 103.4 in 2017, while it weakened against the Euro and the Pound Sterling. In the securities market, the value of ui6bonds traded rose to KSh 558 billion in 2018 from KSh 429 billion in 2017. Total number of shares traded dropped from KSh 7.1 billion in 2017 to KSh 6.3 billion in 2018. The Nairobi Securities Exchange (NSE) 20-Share index dropped by 23.7 per cent to 2,834 points in December 2018.

Gross premium income of life insurance grew by 17.4 per cent to KSh 87.3 billion while those of general insurance business grew by 2.2 per cent to KSh 127.5 billion in 2018. Assets of the pensions fund grew by 21.1 per cent from KSh 353.5 billion in June 2017 to KSh 423.7 billion in June 2018. The increase was due to increased investment in Guaranteed Funds and Government securities.

Fiscal policy outlook

Fiscal policy over the medium-term aims at supporting rapid and inclusive economic growth, ensuring a sustainable debt position by narrowing the budget deficit and at the same time supporting the devolved system of Government for effective service delivery.

Over the medium term, driven by continued reforms in revenue administration and revenue enhancement measures, revenue collection is expected to rise to about 18.6 percent of GDP by FY 2021/22. Expenditures will decline gradually FY 2021/22 due to continued austerity measures instituted on less productive areas of spending across the Government.

As a result, the overall budget is projected to gradually decline from the 6.7 percent of GDP (target was 7.2 percent) in FY 2017/18 to 5.7 percent of GDP in FY 2018/19, to 4.6 percent of GDP in FY 2019/20 and below 3.1 percent of GDP by FY 2021/22. This is in line with the fiscal consolidation programme that targets a deficit of 3.0 percent of GDP by FY 2022/23.

C. Risks to the Domestic Economic Outlook

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

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

The main risk to the county outlook remains the challenges associated with the timely release of resources from the National Government to the

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

Secondly, the county revenue projections are subject to a number of general risks that can affect collections. These include resistance that may arise from County Finance Bill, 2019, tax evasion and avoidance, weak revenue administrative structures and significant fluctuations in major revenue sources due to changes in the economic environment. The county has procured a consultant to automate all the revenue streams and it's anticipated that most challenges associated with revenue collection will be addressed in due course. The County Government will monitor the above risks and take appropriate measures to safeguard macroeconomic stability.

IV. RESOURCE ALLOCATION FRAMEWORK

A. Adjustment to 2018/19 Budget

The Medium Term Fiscal Framework (MTFF) for the FY 2019/20 emphasizes on efficiency and effectiveness of public spending and improving revenue collection while at the same time supporting rapid and inclusive economic growth. Adjustments to the 2019/20 budget will focus on implementing projects supporting inclusive economic growth, while focusing on the priority areas as outlined in the governors manifesto and the Big Four Agenda. The resources earmarked for development purposes will be utilized in the priority areas which include provision of accessible and affordable health care services, promotion of value addition on Agricultural produce, development of infrastructure, promotion of green energy among others.

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

The proposed county M&E policy intends to support the creation of structures and M&E units for effective and efficient implementation of projects and programmes. This will help monitor implementation of both donor and county funded projects.

B. Medium-Term Expenditure Framework,

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

Revenue Projections: In the FY 2019/20 the county projects to collect revenue amounting to Ksh 900 Million and is projected to increase to Ksh 990 Million in the FY 2020/21 amounting to 10% increase.

Expenditure Projections: In FY 2019/2020 budget, the overall expenditure amounts to Ksh 6.6 billion. These expenditures comprises of development of Ksh 2,279,601,065 (34.48 percent) and recurrent of Ksh 4,331,361,359 (65.52 percent) comprising of Ksh 3.1 billion remuneration (47.04 percent) and Ksh 1.2 billion (18.47 percent) operations.

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

Health sector has been allocated Ksh. 2,033,429,281 which amounts to 30.76% of the total budget in FY 2019/20. The sector focuses on completion and operationalization of health facilities. The sector remains a key social sector and aims at guaranteeing accessible quality and affordable health care.

Infrastructure, Public works, Energy and Transport sector is expected to receive 11.35% of the county development expenditure for the FY 2019/20. The Government's will focus on improving transport infrastructure (both by improving infrastructure within the county as well as links to the county). This will improve market accessibility hence facilitating ease of doing business within and outside the county. Substantial Government spending on infrastructure as an enabler in the economic growth alongside private investment flows will unlock growth potential

The Agriculture, Livestock, Fisheries and Cooperative Development sector is critical to County's economic growth, employment creation and poverty reduction. The sector is expected to receive 11.22% of the county development expenditure for the FY 2019/20. The sector contributes greatly to the County's economic production and contains multiple linkages with other key sectors such as manufacturing, wholesale and retail, transport and distribution and other service-related sectors.

Agricultural value addition has also been identified as having the potential to act as a catalyst for the take-off of county's industrial sector. Agri-business initiatives have received support from the Government. The Government is keen on targeting the youth who are increasingly considering it as a viable commercial venture.

The education, science and technology sector has been allocated 526,205,530 which amounts to 7.96% of the total budget in its quest to provide basic education and impact technical still to the youth. Under basic education the sector focuses on construction, refurbishment and equipping of ECDE classes and polytechnics. The sector emphases on early childhood education and empowering the youth through polytechnics. Reflecting the medium-term expenditure framework, the table 5 provides the tentative projected baseline ceilings for the 2019 MTEF by sector.

Table 5: Expenditure Projections

PORTFOLIO	APPROVED BUDGET	PROJECTIONS		
	2019/2020	2020/2021	2021/2022	2022/2023
Office of the Governor	212,630,869	226,395,853	241,237,412	257,251,205
Finance and Economic Planning	162,713,731	175,782,424	190,029,880	205,568,849
Education	526,205,530	563,697,908	604,334,397	648,405,203
Health	2,033,429,281	2,140,254,800	2,253,902,175	2,374,899,164
Infrastructure, Public Works, Energy and Transport	750,396,804	823,962,502	904,825,810	993,714,131
Investment, Industrialization, Trade and Tourism	124,391,888	135,879,824	148,478,503	162,297,478
Agriculture, Livestock, Fisheries and Cooperative Development	741,966,339	801,033,978	865,403,221	935,580,022
Water and Irrigation	181,472,453	196,915,966	213,795,680	232,250,891
Lands, Housing, Physical Planning, Urban Development, Environment and Natural Resources	187,763,771	205,007,570	223,914,446	244,648,254
Youth Empowerment, Sports Gender, Culture, Children and Social Services	140,054,297	153,579,289	168,437,563	184,761,678
Public Service and Administration	405,255,262	422,963,789	441,530,489	461,004,672
County Public Service Board	32,531,357	34,112,663	35,785,227	37,555,500

PORTFOLIO	APPROVED BUDGET	PROJECTIONS		
	2019/2020	2020/2021	2021/2022	2022/2023
County Assembly	762,907,624	821,700,388	885,672,509	955,313,925
Embu Level 5 Hospital	349,243,218	384,167,540	422,584,294	464,842,723
Total	**6,610,962,424**	**7,085,454,495**	**7,599,931,606**	**8,158,093,695**

C. 2019/20 Budget Framework

The 2019/20 budget framework is set against the background of the updated medium-term macro-fiscal framework. The county's productivity is expected to expand underpinned by continued good performance across all sectors of the county's economy. The expected performance growth across all the sectors assumes normal weather pattern, good political environment, stable macro-economic environment and increased Public Private Partnerships (PPP) which is expected to help close the financial deficit.

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

Revenue projections

The County revenue from local sources will be raised through levies, permits, rents, service-charge and rates, and from its share of the National revenue as part of the devolved funds. The 2019/20 budget target for revenue collection is expected to be Ksh. 900,000,000 and projected to increase to 990,000,000 which represents a 10% increase. The table 6 below highlights the various revenue streams and their expected target over the medium term period.

Table 6: Revenue Projections 2019/20 – 2022/23

REVENUE STREAMS	APPROVED BUDGET	PROJECTIONS		
	2019/20	2020/21	2021/22	2022/23
Single Business Permit	113,500,000	124,850,000	137,335,000	151,068,500
House Stall	20,000,000	22,000,000	24,200,000	26,620,000
Market Fees	30,000,000	33,000,000	36,300,000	39,930,000
Parking Fees	40,000,000	44,000,000	48,400,000	53,240,000
Cess	60,000,000	66,000,000	72,600,000	79,860,000
Land Rates	196,000,000	215,600,000	237,160,000	260,876,000
Enforcement	1,500,000	1,650,000	1,815,000	1,996,500
Tech. Fees	15,000,000	16,500,000	18,150,000	19,965,000
Admin. Fees	1,000,000	1,100,000	1,210,000	1,331,000
Advert Fees	25,000,000	27,500,000	30,250,000	33,275,000
Slaughter Fees	3,000,000	3,300,000	3,630,000	3,993,000
Miscellaneous	2,000,000	2,200,000	2,420,000	2,662,000
Stock Fees	3,000,000	3,300,000	3,630,000	3,993,000
Water Charges	1,000,000	1,100,000	1,210,000	1,331,000
Appropriation in Aid	389,000,000	427,900,000	470,690,000	517,759,000
Total	**900,000,000**	**990,000,000**	**1,089,000,000**	**1,197,900,000**

Expenditure Forecasts

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

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

In Infrastructure, improvement of road network in the county by constructing bitumen standard roads still remain the priority as it was in financial year 2019/20 as well as grading and regular maintenance of all the feeder roads in the county.

In trade, tourism and investment sector, the county government will continue to establish proper marketing strategy aimed at opening up of some key tourist destinations. In the health sector, the county will prioritize on completion of health facilities, equipping, staffing. At level 5 hospital construction of new Badea Block B, construction of water intake, pipe work and storage tank as well as purchase of specialized equipment and machines

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

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

V. CONCLUSION AND NEXT STEPS

In the FY 2019/2020 the county is forcing on Health, infrastructure, Agribusiness and proper resource management to ensure inclusive sustainable growth and development. Going forward, the set of policies outlined will focus on supporting "*Big 4 Agenda*". In order to support this agenda the agriculture department has received support from national government through NARIGP and ASDSP projects to support agricultural development. The county is also developing infrastructure to support and attract investors in manufacturing sector in the county.