



COUNTY BUDGET REVIEW AND OUTLOOK (CBROP)

SEPTEMBER, 2020

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MARAGOLI,

KENYA

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ABBREVIATIONS AND ACRONYMS

BROP		The National Treasury 2020 Budget Review and Outlook Paper
COVID 19		Corona Virus Disease of 2019
CRA	:	Commission of Revenue Allocation
CBROP	:	County Budget Review and Outlook Paper
CFSP	:	County Fiscal Strategy Paper
GDP	:	Gross Domestic Product
FY		Financial Year
IFMIS	:	Integrated Financial Management Information System
KNBS	:	Kenya National Bureau of Statistics
MTEF	:	Medium Term Expenditure Framework
ORS	:	Own Revenue Source
PFM	:	Public Finance Management
SBP	:	Single Business Permit
SWG	:	Sector Working Group

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FOREWORD

The Vihiga County Budget Review and Outlook Paper (CBROP 2020) is prepared at a time of unprecedented worldwide pandemic COVID 19 which has led to contraction of the global economy disrupting businesses including international trade and leading to loss of livelihoods for millions of people globally. Global economic activity is projected to contract by to 4.9 percent in 2020 from a growth of 2.9 percent in 2019 with prospects across countries and regions remaining highly uncertain.

On the national scene, the Pandemic and the containment measures have not only disrupted our ways of lives and livelihoods, but to a greater extent business. Consequently, the economy grew by 4.9 percent in the first quarter of 2020 compared to a growth of 5.5 percent in a similar period in 2019. Overall, the economy is projected to grow by 2.6 percent in the calendar year 2020 and rebound to 5.3 percent in 2021.

The CBROP has been prepared pursuant to section 118 of the Public Financial Management Act, 2012. This review document focused on the fiscal year ending June 2020 compared with the previous year (2018/19).

During the period under review the County Government continued with the Programme based approach linking the financial resources directly to defined policy goals and objectives.

The total County Exchequer Issues in the FY 2019/20 (Kshs. Million) amounted to Kshs 5.59 billion (approximately 80.31 percent of the total projected receipts) against a target of Kshs 6.96 billion.

Receipts from County Own Source of Revenue (OSR) decreased substantially by approximately 17 percent from Kshs 178.18 million collected in FY 2018/19 to Kshs 148.20 million in FY 2019/20, this was attributed by Covid 19 pandemic effects.

Total county expenditure amounted to Kshs 5.75 billion against a target of Kshs 6.96 billion. Further the County expenditure performance revealed a steady increase budget absorption rate from approximately 82.0 percent in FY 2018/2019 to about 73.42 percent in FY 2019/2020.

Factors leading to divergency from fiscal policies;

- Growth in equitable share following the approval of the CARA legislation.
- Inclusion of conditional funds in the CARA legislation to specific programs.
- Inclusion of the balance brought forward from the previous financial year.

- Provision for historical pending bills to comply with the National Treasury requirements.
- Provision for COVID 19 Emergency Response funds.
- Removal of donor funding where there is evidence that the same will not be funded (EU Water Tower).
- To ensure compliance with the provisions of section 135 of the PFM Act, 2012.

The County Government remains committed to maintaining the trend of economic growth and development in line with the needs and commitments made to the people of Vihiga County.

I therefore call for adherence to sector ceilings and strict guidance provided in this document to facilitate the finalization and appropriation of the estimates in the medium-term expenditure framework.

HON. ALFRED INDECHE

County Executive Member, Finance and Economic Planning

ACKNOWLEDGEMENT

The successful preparation of the CROP, 2020 was a collaborative effort of the County Treasury team and the various departments.

This document provides an overview of how the actual performance of FY2019//20 affected our compliance with the fiscal responsibility principals and the financial objectives as well as information showing adjustments made in the projections outlined in the 2019 County fiscal strategy paper.

All sector working groups are expected to ensure that their budgets are aligned to the overall County priorities while taking into account the available resources.

I take this opportunity to thank H.E the Governor and the Deputy Governor for their overall steadfast leadership and guidance to the County Treasury to performing its mandate. I wish to acknowledge all the budget implementing units for their supply of the inputs that qualified the finalization of this document.

May I express my gratitude to the County Executive Committee member for Finance and Economic Planning for his continued provision of technical guidance and leadership as head of the County Treasury.

The attainment of this document was made possible with the inputs from the respective departments. Further I wish to acknowledge the continuous submission of views and suggestion from stakeholders and the public in the course of various stages of the County Budget Preparations process.

LIVINGSTONE IMBAYI

Chief Officer, Finance and Economic Planning.

PREAMBLE

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

The County Treasury is mandated by Section 118 of the Public Finance Management (PFM) Act, 2012 to prepare County Budget Review and Outlook Paper (C-BROP) for the County, which is to be submitted to the County Executive Committee by 30th September of the year. Section 118 (1) of the PFMA, 2012 states that; the 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 30th September of that year. Section 118 (2) of the Act provides details of issues presented in the County Budget Review and Outlook Paper. The section states that: In preparing its County Budget Review and Outlook Paper, the County Treasury shall specify –
 - (i) the details of the actual fiscal performance in the previous year compared to the budget appropriation for that year;
 - (ii) the updated economic and financial forecasts in relation to the changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP);
 - (iii) any changes in the forecasts compared with the CFSP;
 - (iv) how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the CFSP for that financial year; and
 - (v) reasons for any deviation from the financial objectives in the CFSP together with proposed measures to address the deviation and the time estimated for doing so.

Fiscal Responsibility Principles in the Public Financial Management Law

In line with the Constitution of Kenya 2010, the PFM Act, 2012 sets out the fiscal responsibility principles to ensure prudence and transparency in the management of public resources. Section 107 of the PFM Act, 2012 states that:

- (1) The 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.

The limits in the regulations Legal notice number 35 section 25 (1) are as quoted:

.....”25. (1) In addition to the fiscal responsibility principles set out in section 107 of the Act, the following fiscal responsibility principles shall apply in the management of public finances—

- (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 Act;
- (b) the limit set under paragraph (a) above, shall not exceed thirty-five (35) percent of the county government’s total revenue;
- (c) for the avoidance of doubt, the revenue referred to in paragraph (b) shall not include revenues 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 governments 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 revenues of the county government or twice the personnel emoluments of that county assembly, whichever is lower;
- (g) pursuant to section 107(5) of the Act, if the county government actual expenditure on development shall be at least thirty percent in conformity with the requirement under section 107(2)(a) of the Act;
- (h) if the county government does not achieve the requirement of regulation 25(1)(f) above at the end of the financial year, the county executive committee member for finance shall submit a responsibility statement to county assembly explaining the reasons for the deviation and provide a plan on how to ensure annual actual expenditure outturns as well as medium term allocation comply with the provisions of Section 107 (2) (a) of the Act and these regulations in the subsequent years; and
- (i) the compliance plan above shall be binding and the county executive committee member for finance shall ensure implementation “

(2) In managing the County Government's public finances, the County Treasury shall adhere to 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 plan a minimum of Thirty percent 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, considering 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.

The regulations may add to the list of fiscal responsibility principles set out in subsection (2)

1.0 INTRODUCTION

The County Budget Review and Outlook Paper 2020 (CBROP) is prepared in line section 118 of the Public Finance Management (PFM) Act, 2012. The paper reviews the fiscal performance of the County for the financial year 2019/2020; the updated macro-economic and financial forecasts; and deviations from the approved County Fiscal Strategy Paper (CFSP) 2019 and reasons for such deviations.

1.1 Objectives of CBROP

The objective of the paper is to provide a review of the previous fiscal performance of the County and how this impacts the macro-economic outlook specifically:

- (i) Updated economic and financial forecasts in relation to the changes from the forecasts in the most recent County Fiscal Strategy Paper (CFSP);
- (ii) Details of the actual fiscal performance in the previous year compared to the budget appropriation for that particular year;
- (iii) Any changes in the forecasts compared with the CFSP;
- (iv) Indication on how actual financial performance for the previous financial year may have affected compliance with the fiscal responsibility principles, or the financial objectives in the CFSP for that financial year; and
- (v) Reasons for any deviation from the financial objectives in the CFSP together with proposed measures to address the deviation and the time estimated for doing so.

1.2 Significance of CBROP

The paper is a policy document and links planning with budgeting. It is significant in the budget making process within the Medium-Term Expenditure Framework (MTEF) as it reviews previous fiscal performance for the year and identifies any deviations from the budget with the aim of providing realistic forecasts for the coming year. It also assesses how fiscal responsibility principles were adhered as provided in section 107 of the PFM Act 2012. In addition, the updated macroeconomic and financial outlook provides a basis for any budget revision and sets out broad fiscal parameters for the next budget.

1.3 Structure of CBROP

This paper has four other sections. Section two reviews the County's fiscal performance for the previous year. It is divided into three sub-sections, namely, The Overview, Fiscal Performance and Implications of Fiscal Performance. Section three reviews recent economic developments and has four subsections of Recent Economic Developments, Economic Outlook & Policies, Medium Term

Fiscal Framework and Risks to the Outlook. Section four sets out how the County Government intends to operate within its means. It establishes the resources envelop (total revenues) it expects then allocates these across departments by setting expenditure ceilings for each department. In addition, it has four subsections: adjustment to the proposed budget; the medium-term expenditure framework; proposed budget framework; and projected fiscal balance and likely financing. And lastly, section five gives a conclusion of the entire paper.

2.0 REVIEW OF COUNTY FISCAL PERFORMANCE IN 2019/20 FY

This section details the County's fiscal performance for the financial year FY 2019/20 in relation to the budget appropriation for the year; and implications arising from the fiscal performance for the period under review.

2.1 OVERVIEW OF THE FY 2019/20 BUDGET

The County's approved Fourth Supplementary Budget for FY 2019/20 was Kshs.6.96 billion, comprising of Kshs.2.82 billion (40.4 per cent) and Kshs.4.15 billion (59.6 per cent) allocation for development and recurrent programmes respectively

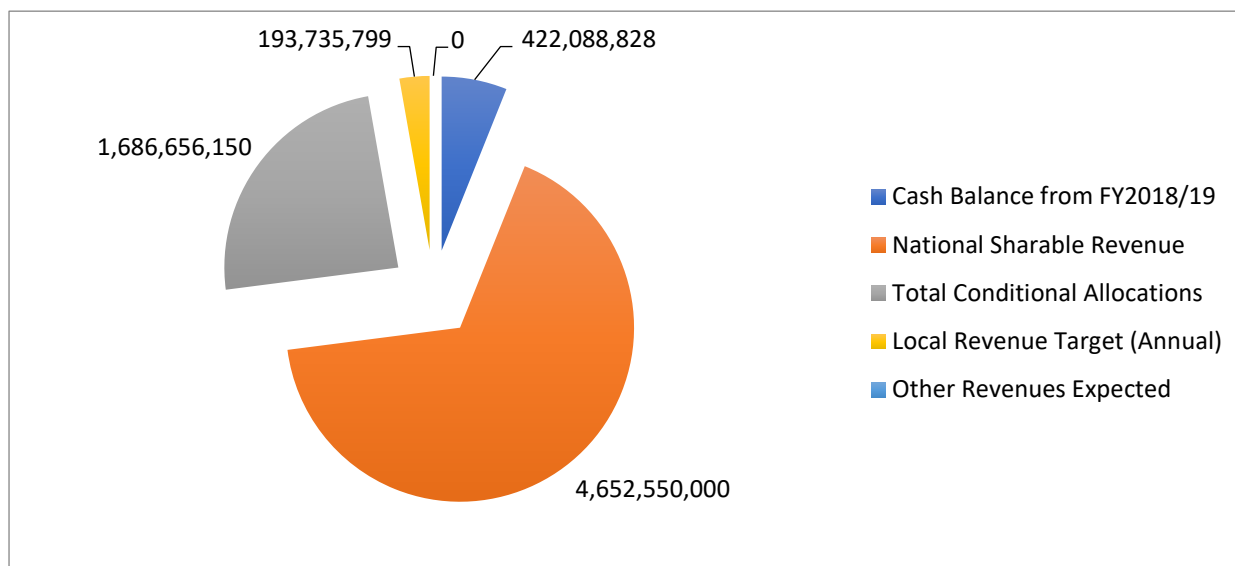
To finance the budget, the County expected to receive Kshs.4.65 billion (66.9 per cent) as equitable share of revenue raised nationally, Kshs.1.69 billion (24.2 per cent) as total conditional grants, generate Kshs.193.7 million (2.7 per cent) from own sources of revenue (2.8 per cent) and had Kshs.422.09 million (6.1 per cent) as cash balance from FY 2018/19.

Table 1: Summary of Fourth Supplementary Budget FY 2019/20

VOTE	VOTE TITLE	Compensation to Employees	Other Recurrent	Development	Totals
1	Office of The Governor	94,138,950	109,131,415	5,000,000	208,270,365
2	Finance & Economic Planning	82,548,246	272,542,926	451,000,000	806,091,172
3	Agriculture, Livestock, Fisheries & Cooperatives	102,994,444	57,432,111	581,954,347	742,380,902
4	Health Services	857,875,535	306,072,287	384,878,617	1,548,826,439
5	Education, Science, Technical and Vocational Training	173,910,663	166,692,506	205,008,882	545,612,051
6	Gender, Culture, Youth, Sports and Social Services	28,614,760	116,570,497	61,984,335	207,169,592
7	Trade, Industry, Tourism and Entrepreneurship.	15,470,960	73,635,245	48,938,036	138,044,241
8	County Public Service Board	6,987,903	28,283,800	0	35,271,703
9	Environment, Water, Energy & Natural Resources.	29,595,534	103,409,276	101,101,849	234,106,659
10	Transport, Infrastructure & Communication	26,502,334	98,592,930	459,302,873	584,398,137
11	Physical Planning, Land and Housing	9,031,590	104,756,703	489,909,322	603,697,615
12	County Assembly	321,199,548	300,755,619	20,000,000	641,955,167
13	Administration and Coordination of County Affairs	518,475,907	137,335,016	3,395,812	659,206,735
	TOTAL COUNTY EXPENDITURE	2,267,346,373	1,875,210,331	2,812,474,073	6,955,030,777

Source: Vihiga County Treasury

Figure 1. Shows the expected sources of budget financing in the FY 2019/20



Source: Vihiga County Treasury

Table 2: Conditional grants contained in the CARA, 2019 as a percentage of total 2019/20 budget

S/No	Revenue	Annual CARA, 2019 Allocation (in Kshs)	Annual Budget Allocation (in Kshs)	% of Total Budget
A	National Government			
1	Equitable Share of Revenue Raised nationally	4,652,550,000	4,652,550,000	66.89
2	Compensation for User Fee Foregone	12,657,201	12,657,201	0.18
3	Leasing of Medical Equipment	131,914,894	131,914,894	1.90
4	Road Maintenance Fuel Levy Fund	132,065,719	170,542,168	2.45
5	Rehabilitation of Village Polytechnics	67,743,298	84,402,044	1.21
	Sub Total	344,381,112	399,516,307	5.74
B	Other conditional Grants			-
1	Transforming Health systems for Universal care Project	56,065,640	93,311,492	1.34
2	IDA (WB) Credit (National Agricultural and Rural Inclusive Growth Project NAGRIP	350,000,000	527,152,314	7.58
3	IDA (WB) Credit: Kenya Urban Support Project (KUSP) –Urban Development Grant (UDG)	250,950,700	438,361,024	6.30
4	DANIDA Grant	13,312,500	13,312,500	0.19
5	IDA (WB) Credit: Kenya Devolution Support Project (KDSP) Level 2 Grant	30,000,000	71,604,116	1.03
6	Sweden - Agricultural Sector Development Support Programme (ASDSP) II)	15,724,263	33,398,397	0.48

7	Covid 19 Emergency Response		60,000,000	0.86
8	IDA (WB) Credit: Kenya Urban Support Project (KUSP) –Urban Institutional Grants (UIG)	8,800,000	50,000,000	0.72
	Sub Total	724,853,103	1,287,139,843	18.51
D	Other Sources of Revenue			-
1	Own Source Revenue	-	193,735,799	2.79
2	Balance b/f from FY2018/19	-	422,088,828	6.07
	Sub Total	-	615,824,627	8.85
	Grand Total	5,721,784,215	6,955,030,777	100.00

Source: Vihiga County Treasury

The conditional grants contained in the CARA, 2019 amounts to Kshs.1.07 billion compared to the approved Fourth supplementary budget of Ksh.1.69 this increase is attributed to additional funding for Covid 19 Emergency Response of Kshs. 60 million.

2.2 FISCAL PERFORMANCE

During the FY 2019/20, the County received Kshs.4.25 billion as equitable share of revenue raised nationally, Kshs.830.98 million as total conditional grants and had a cash balance of Kshs.429.29 million from FY 2018/19. The County also raised Kshs.148.2 million from own source revenue.

In overall, Own source revenues for 2019/20 FY decreased by 16.8 per cent compared to the previous year which over shadows the efforts made in FY 2018/19 with an increase of 24.0 percent. The revenue shortfalls for the FY 2019/2020 was largely due to the Covid 19 pandemic and the measures undertaken by the government to prevent the spread, which led to closure of markets and business premises which are the main sources of OSR for the county. Actual OSR income was Kshs. 148 million which was below the projected Kshs. 194 million.

Total expenditure amounted to Kshs5.11 billion comprising of Kshs 3.79 and Kshs1.32 billion for recurrent and development expenditure respectively compared to previous year 2018/19 with a total of Kshs 5.75 billion comprising of Kshs 4.11 billion and Kshs 1.64 billion for recurrent and development expenditure respectively.

Table 3: Comparison of expenditures in financial year 2018/19 and 2019/20 in Billions

	2018/19 Kshs.	2019/20 Kshs.	% Variance
Recurrent expenditure	4.11	3.79	-7.79
Development expenditure	1.64	1.32	-19.51
Total	5.75	5.11	-11.13

Source: Vihiga County Treasury

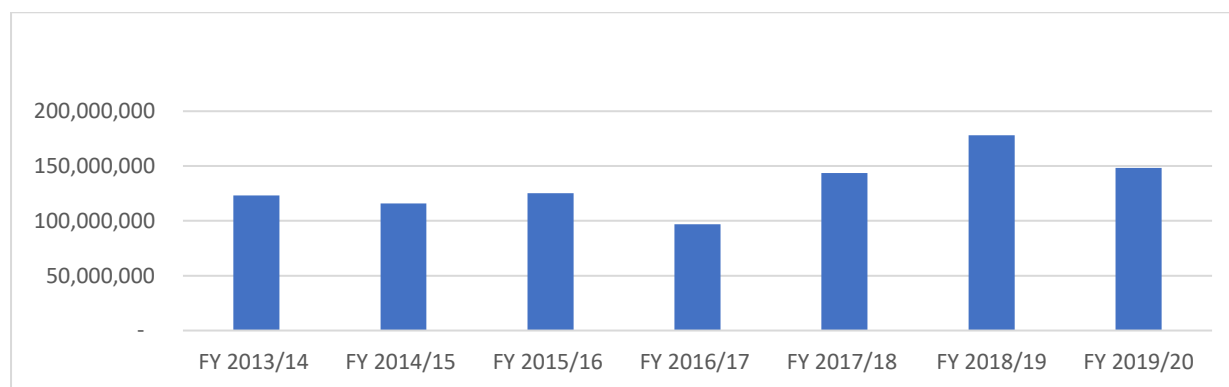
From the table above, there was a marked reduction in expenditure both in recurrent and development. This was attributed by the COVID 19 pandemic and the containment measures put in place which not only disrupted ways of lives and livelihoods, but to a greater extent business.

2.2.1 Own Source Revenue (OSR)

In 2019/20 FY, the County collected own source revenue amounting to Kshs 148.20 against a target of Kshs.193.74 million which is about 28.5 percent below target.

Trends in the OSR since FY 2013/14 has been on an increasing rate except in FY 2016/17 which was an electioneering year and FY 2019/20 which was affected by the Covid 19 pandemic as shown in the figures below.

Figure 2. Yearly trend in OSR collection from the 2013/14 FY to 2019/20 FY



Source: Vihiga County Treasury

Table 4: Vihiga County, Trend in ORS by Quarter from FY 2013/14 to the FY 2019/20

Trend in Local Revenue Collection by Quarter from FY 2013/14 to FY 2019/20 (Kshs.)							
	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20
QTR. 1	18,825,000	25,624,320	29,925,190	23,563,100	12,820,045	32,673,478	50,087,994
QTR. 2	17,683,250	23,095,640	34,891,710	15,954,700	29,069,063	30,214,350	32,738,910
QTR. 3	41,034,020	29,423,870	27,377,470	26,129,400	50,549,434	59,145,673	45,956,975
QTR. 4	45,786,700	37,896,590	32,925,190	31,300,700	51,092,210	56,137,646	19,415,258
	123,328,970	116,040,420	125,119,560	96,947,900	143,530,752	178,171,146.58	148,199,137

Source: Vihiga County Treasury

From the table above it is observed that collections in the 3rd and 4th quarter of FY 2019/2020 there was significant decrease in expected collections as compared to same period in the previous years, this was due to the Covid 19 pandemic and its effects.

The performance of third and fourth quarters were affected by the outbreak of the Covid 19 pandemic which led to suspension of collection in some streams for three months from April to June 2020.

Table 5: ORS Performance per stream 2019/20

No.	STREAM	1ST QT	2NDQT	3RD QT	4TH QT	TOTAL
1	Parking Fee	10,829,610	9,562,840	9,164,140	264,810	29,821,400
2	Market	5,007,400	4,455,130	3,872,260	10,770	13,345,560
3	SBP	4,405,475	1,012,962	13,906,757	2,612,384	21,937,578
4	SBP Application	166,000	38,705	111,500	41,000	357,205
5	Plot Rent	104,610	61,793	815,788	172,933	1,155,124
6	Plot Rate	78,438	517,194	145,088	22,160	762,880
7	Stall Rent	598,350	552,880	492,550	164,000	1,807,780
8	House Rent	658,762	795,212	664,156	1,084,816	3,202,946
9	Group Registration	42,050	13,300	36,850	1,700	93,900
10	Fines& Penalties	49,000	48,430	-	-	97,430
11	Tender Documents	-	-	-	-	-
12	Physical Planning	182,000	211,000	165,500	69,000	627,500
13	Unclamping	-	-	-	-	-
14	Miscellaneous	1,653,965	-	2,820,201	1,089,529	5,563,695
15	Facility Imp. Fund	12,106,324	10,813,547	7,819,436	5,593,710	36,333,017
16	Public Health	606,550	531,770	875,600	239,150	2,253,070
17	Liquor	3,679,500	272,000	297,000	-	4,248,500
18	Water &Admin.	268,600	195,350	363,620	107,660	935,230
19	Hire of Machines	610,640	300,640	233,080	819,700	1,964,060
20	Plan App.& Approval	580,000	400,350	407,500	397,550	1,785,400
21	Inspection	233,000	221,500	236,500	300,500	991,500
22	Electrical Scrutiny	104,520	106,000	69,000	88,000	367,520
23	Mechanical Scrutiny	80,000	57,000	40,000	43,000	220,000
24	Adverts	182,550	139,350	727,000	2,833,000	3,881,900
25	Land Boundary	121,780	74,000	123,700	-	319,480
26	Weights &Measures	-	8,500	107,450	-	115,950
27	Obstruction	-	-	-	-	-
28	Ground Rent	102,238	6,800	64,000	2,500	175,538
29	Slaughter Mgmt.	95,180	84,100	39,000	8,670	226,950
30	Conservancy	815,000	193,100	1,087,060	254,100	2,349,260
31	Veterinary	519,870	649,385	550,695	672,980	2,392,930
32	Search Fee	26,400	520	-	-	26,920
33	Fertilizer	16,800	-	-	26,150	42,950
34	Way Leave	27,300	-	-	-	27,300

35	Stock Sale	707,380	262,030	480,330	200	1,449,940
36	Renovation	3,500	22,750	23,140	6,500	55,890
37	Hire of Hall	-	-	-	-	-
38	Sand & Murram	60,570	61,440	31,400	1,000	154,410
39	Miscellaneous	2,390,357	1,564,320	21,200	-	3,975,877
40	Tea Cess	-	-	-	-	-
41	Noise Emission	-	-	-	-	-
42	Vihiga FM	-	-	-	2,556,032	2,556,032
	TOTAL	47,113,719	33,233,898	45,791,501	19,483,504	145,622,622
	TRANSFER TO CRF	50,087,994	32,738,910	45,956,975	19,415,258	148,199,137

Source: Vihiga County Treasury

- Sale of tender documents was suspended upon operationalization of e-procurement platform.
- Unclamping and obstruction are charges related to infringement captured under other miscellaneous income.
- The county currently has one hall for hire which is in a bad state causing potential clients to avoid it.
- Failure to collect Tea cess was caused by the late operationalization of Vihiga County Tea Cess Act.
- Failure to collect on noise emission was caused by non-decentralization of the collection function.

Table 6: ORS Comparison Table 2019/20 Budget & FY 2019/20 Actuals

SR. No	RECEIPTS	APPROVED BUDGET 2019/20	ACTUAL 2019/20	VARIANCE	% Variance
1	Parking Fees	50,925,646	29,821,400	- 21,104,246	-41
2	Land Rates	5,162,760	817,100	- 4,345,660	-84
3	Plot, Stall, house Site Rent	474,141	6,341,388	5,867,247	1237
4	Single Business Permits	31,723,190	24,644,043	- 7,079,147	-22
5	Plans Inspection/Approval	7,543,944	3,056,310	- 4,487,634	-59
6	Advertising (Billboards)	2,252,635	3,881,900	1,629,265	72
7	Hire of Machines (Lease and rental of Machines)	1,073,271	1,964,060	890,789	83
8	Fertilizer	15,401,663	42,950	- 15,358,713	-100
9	Market and Trade Fees	25,610,565	13,345,560	- 12,265,005	-48

10	Inspection and Impound Fees	152,246	1,088,930	936,684	615
11	Livestock Cess	3,062,575	1,449,940	- 1,612,635	-53
13	Public Health Service	3,454,885	2,253,070	- 1,201,815	-35
14	Weights and Measures	167,500	115,950	- 51,550	-31
16	Hire of Hall	83,775	-	- 83,775	-100
18	Facility Improvement Fund	35,415,318	36,333,017	917,700	3
19	Group registration	198,713	93,900	- 104,813	-53
20	Sand and Murram	147,938	154,410	6,473	4
21	Land Boundary Disputes	838,425	319,480	- 518,945	-62
22	Noise Emission	16,500	-	- 16,500	-100
23	Veterinary Services	3,645,158	2,619,880	- 1,025,278	-28
24	Water supply administration Fees	2,575,950	935,230	- 1,640,720	-64
25	Liquor license	2,159,063	4,248,500	2,089,438	97
26	Miscellaneous		9,539,572		
27	Vihiga FM		2,556,032	2,556,032	
	TOTAL	192,085,859	145,622,622	- 46,463,237	-24
	TRANSFER TO CRF	192,085,859	148,199,136	- 43,886,723	-23

Source: Vihiga County Treasury

- The huge variance in the parking fees was caused by suspension of collection of the same in the 4th quarter.
- The huge variance in the land rates was caused by lack of enabling legislation (Finalization of the Valuation Roll is in progress) to enforce collection of the same.
- The huge variance in plot, stall, site and house rent was brought by the commencement of remittance of house rent for government employees through the payroll.
- The huge variance in plans inspection and approval stream was caused by lack of capacity in personnel to effectively enforce collections in the stream.
- Non collection in the Fertilizer stream was caused by failure to sale fertilizer in the last financial year.
- The huge variance in inspection and impoundment fees was due to combining the collections with fines and penalties.
- The huge variance in Vihiga FM was due to absence of collection account in the previous years.

Table 7: ORS Comparison Table 2018/19 Actuals and FY 2019/20 Actuals

NO	RECEIPTS	FY 2018/19	FY 2019/20	VARIANCE	%VARIANCE
1	Parking Fees	34,673,460	29,821,400	- 4,852,060	-14
2	Land Rates	1,072,409	817,100	- 255,309	-24
3	Plot, Stall, Site Rent	3,997,257	6341388	2,344,131	59
4	Single Business Permits	33,357,445	24,644,043	- 8,713,402	-26
5	Plans Inspection/Approval	2,358,020	3,056,310	698,290	30
6	Advertising (Billboards)	5,298,055	3,881,900	- 1,416,155	-27
7	Hire of Machines (Lease and rental of Machines)	3,033,400	1,964,060	- 1,069,340	-35
8	Fertilizer	1,599,190	42,950	- 1,556,240	-97
9	Market and Trade Fees	13,667,460	13,345,560	- 321,900	-2
10	Inspection and Impound Fees	997,339	1,088,930	91,591	9
11	Livestock Cess	1,578,340	1,449,940	- 128,400	-8
12	Public Health Service	4,133,485	2,253,070	- 1,880,415	-45
13	Weights and Measures	173,900	115,950	- 57,950	-33
14	Hire of Hall	7,400		- 7,400	-100
15	Facility Improvement Fund	40,715,184	36,333,017	- 4,382,167	-11
16	Group registration	199,400	93,900	- 105,500	-53
17	Sand and Murram	141,850	154,410	12,560	9
18	Land Boundary Disputes	730,400	319,480	- 410,920	-56
19	Noise Emission				
20	Veterinary Services	2,420,238	2,619,880	199,642	8
21	Water supply administration Fees	1,971,630	935,230	- 1,036,400	-53
22	Liquor license	84,000	4,248,500	4,164,500	4958
23	Miscellaneous	21,975,964	9,539,572	-12,436,392	-57
24	Vihiga FM receipts		2,556,032	2,556,032	100
	TOTAL COLLECTION	174,185,826	145,622,622	-28,563,204	-16
	TRANSFER TO CRF	178,171,146	148,199,137	-29,972,009	-17

Source: Vihiga County Treasury

From the table above, we can observe most of the revenue streams exhibit negative variance when compared to the previous year, this is attributed to Covid 19 pandemic effects.

Proposed Recommendations for Revenue Performance

- The directorate of Revenue Administration services is developing post-Covid 19 strategies going forward to address the drop-in revenue collection.
- The revenue amount collected shall be reported separately to avoid lumping amounts under miscellaneous so as to identify revenue streams separately.
- The county needs to undertake refurbishment and renovation of the hall at Sabatia Subcounty to attract potential clients.
- The Counts should hasten operationalization of Vihiga County Tea Cess Act to facilitate collection of revenue from Tea Cess.
- The County needs to decentralize collection of noise emission fees by allowing market collectors to collect revenue from the stream together with advertisement fees.
- The County needs to hasten the process of preparation of the valuation roll to facilitate collection of revenue from the land rates stream.
- The department of finance needs to remit the amount owed of Kshs.10 Million deducted from the year 2013.
- The County needs to hire more technical personnel to support enforcement of collections in plans inspections and approval stream.
- Vihiga FM has potential to collect more revenue if they can do more advertisements. They can operationalize the calls and SMS services to earn commission with service providers.
- Automation of revenue collection and collection systems.

2.2.2 Disbursement from Exchequer

During the period under review, the Controller of Budget authorized withdrawal of Kshs.5.59 billion from the CRF account, which was 80.3 per cent of the Approved fourth Supplementary Budget FY 2019/20.

Table 8: Exchequer Issues per Department including Donor Funding

Department	Exchequer Issues in the FY 2019/20 (Kshs. Million)		
	Rec	Dev	Totals
Agriculture, Livestock, Fisheries & co-operatives	160.43	249.41	409.84
Lands, Housing & Physical Planning	72.59	195.99	268.58
Transport & Infrastructure	125.10	238.15	363.25
Industrialization, Trade & Tourism	89.11	29.81	118.92

County Health Services	1,163.95	150.23	1,314.18
Education, Science & Technology	340.60	128.41	469.01
County Executive	202.77	0.74	203.51
County Assembly	597.00	9.51	606.51
Finance & Economic Planning	339.24	450.15	789.39
County Public Service Board	35.27	-	35.27
Public Service & Administration	655.81	3.07	658.88
Gender, Culture, Youth & Sports	145.19	27.61	172.80
Environment, Water, Natural Resources & Forestry	133.00	43.18	176.18
TOTAL	4,060.06	1,526.26	5,586.32

2.2.3 Expenditure Performance

Total expenditure in the FY 2019/20, amounted to Kshs 5.11 billion against a target of Kshs. 6.96 billion as per the Approved fourth supplementary Budget FY 2019/20 as shown from table 9 below.

When we compared total expenditure of FY2018/19 and FY 2019/20 of Kshs 5.76 billion and Kshs. 5.11 billion respectively, with absorption rate of 82 and 73 percent respectively, this shows a decrease of 9 percent in terms of absorption rate.

In addition, a total of Kshs 4.11 billion was spent on recurrent activities in FY 2018/19 and Kshs. 3.79 billion spent in FY 2019/2020 with absorption rates of 91 and 92 percent respectively. This shows a slight increase in absorption of the recurrent budget by one percent. Development expenditure was Kshs 1.64 billion and Kshs 1.32 billion for FY 2018/19 and FY 2019/20 respectively shows a reduction in absorption of the development budget by 19 percent.

Table 9: Absorption rates of FY2019/20 and FY 2018/19 compared in Kshs billion

<i>Expenditure</i>	<i>Budget 2018/19</i>	<i>Actuals Expenditure 2018/19</i>	<i>Budget 2019/20</i>	<i>Actuals Expenditure 2019/20</i>	<i>Absorption % 2018/19</i>	<i>Absorption % 2019/20</i>	<i>% Change</i>
Recurrent	4.52	4.11	4.14	3.79	91	92	1
Development	2.49	1.64	2.82	1.32	66	47	-19
Totals	7.01	5.76	6.96	5.11	82	73	-9

Source: Vihiga County Treasury

2.2.3. 1 Recurrent Expenditure

The total recurrent expenditure for FY 2019/20 amounted to Kshs.3.79 billion comprising of comprised of Kshs 2.17 billion incurred on personnel emoluments and Kshs1.62 billion on operations and maintenance. As compared to Kshs 2.4 billion on personnel emoluments and Kshs. 1.71 billion on operations and maintenance for the FY 2018/19. In general, this shows that there was significant reduction in expenditures which can be attributed to the COVID 19 pandemic and the containment measures put in place and delay of disbursements/undisbursed funds from the national treasury.

Table 10: FY 2019/20 and FY 2018/19 Expenditure by Economic Classification compared

	FY 2018/19	FY 2019/20	% Change
	Kshs. Actual Expenditure	Kshs. Actual Expenditure	
Personnel Emoluments	2.40	2.17	-9.6%
Operations and Maintenance	1.71	1.62	-5.3%
Development Expenditure	1.64	1.32	-19.8%
Total	5.75	5.11	-11.2%

Source: Vihiga County Treasury

2.2.3. 2 Development Expenditure

The total development expenditure of Kshs1.32 billion represented 47 per cent of the annual development budget and 19 percent of the total budget of Kshs 6.96 billion for FY2019/20. From the above table we can observe a significant reduction in absorption of developments. Although the poor absorption rate can be attributed to the Covid 19 pandemic effects, there has been tendency of departments to initiate development projects late in the financial year. Programmes should be spread over the financial year as per work plans.

Table 11: Budget Performance by Department in the FY 2019/20(Budget Absorption Rate)

Department	Budget Allocation (Kshs. Million)			Expenditure in The FY 2019/20 (Kshs. Million)			FY 2019/20 Absorption rate (%)		FY 2019/20 Overall Absorption rate (%)
	Rec	Dev	Totals	Rec	Dev	Totals	Rec	Dev	Total
Agriculture, Livestock, Fisheries & co-operatives	160.43	581.95	742.38	150	259.4	409.40	93.50%	44.57%	55.15%
Lands, Housing & Physical Planning	113.79	489.91	603.7	55.8	56.7	112.50	49.04%	11.57%	18.64%
Transport & Infrastructure	125.1	459.3	584.4	106.7	260.5	367.20	85.29%	56.72%	62.83%
Industrialization, Trade & Tourism	89.11	48.94	138.05	80.9	28.4	109.30	90.79%	58.03%	79.17%
County Health Services	1,163.95	384.88	1548.83	1,093.70	44.2	1,137.90	93.96%	11.48%	73.47%

Education, Science & Technology	340.6	205.01	545.61	327.2	135.3	462.50	96.07%	66.00%	84.77%
County Executive	203.27	5	208.27	201.5	-	201.50	99.13%		96.75%
County Assembly	621.96	20	641.96	556.6	13.1	569.70	89.49%	65.50%	88.74%
Finance & Economic Planning	355.09	451	806.09	312.7	446.8	759.50	88.06%	99.07%	94.22%
County Public Service Board	35.27	-	35.27	28.9	-	28.90	81.94%		81.94%
Public Service & Administration	655.81	3.4	659.21	639.4	-	639.40	97.50%		96.99%
Gender, Culture, Youth & Sports	145.19	61.98	207.17	125.7	21.4	147.10	86.58%	34.53%	71.00%
Environment, Water, Natural Resources & Forestry	133	101.1	234.1	101.9	49.6	151.50	76.62%	49.06%	64.72%
TOTAL	4142.57	2812.47	6955.04	3781	1315.4	5,096.40	91.27%	46.77%	73.28%

Source: Vihiga County Treasury

From the table above the overall absorption rate is 73.4 percent which is a shortfall of 26.6 percent to attain 100 percent absorption.

The recurrent absorption rate is 91.51 percent with development absorption rate standing at 46.77 percent.

2.2.4. Budget Comparison between CFSP 2017 ceilings and FY 2019/20 budget

In Table 12 below shows that there was great variance between CFSP forecasted ceilings, budget and the actual expenditures in respective budget allocations. There is significant variance between Ceilings and actual expenditures in all the departments. This means that ceilings are lower than the actual expenditures of the departments. The overall Approved budget (fourth supplementary budget) allocations per department are higher than the ceiling allocation. Some of the reasons for the budget divergency to the CFSP include:

- Growth in equitable share following the approval of the CARA legislation.
- Inclusion of conditional funds in the CARA legislation to specific programs.
- Inclusion of the balance brought forward from the previous financial year.
- Provision for historical pending bills to comply with the National Treasury requirements.
- Provision for COVID 19 Emergency Response funds.
- Removal of donor funding where there is evidence that the same will not be funded (EU Water Tower).
- To ensure compliance with the provisions of section 135 of the PFM Act, 2012.

Comparison between CFSP 2017 ceilings and 2019/20 FY budget allocation showed a general growth in budget allocations occasioned by increase in equitable share and the conditional grants.

Table 12: Comparison of Actual Expenditure with CFSP 2019 and FY 2019/20 Budget

<i>Department</i>	<i>BUDGET 2019/20 Kshs. Million</i>	<i>2019 CFSP Kshs. Million</i>	<i>Actual Expenditure in The FY 2019/20 Kshs Million</i>	<i>Variance between ceiling and expenditure</i>	<i>Variance between ceiling and Budget</i>
Agriculture, Livestock, Fisheries & co-operatives	742.38	138.53	409.4	270.87	603.85
Lands, Housing & Physical Planning	603.7	176.65	112.5	-64.15	427.05
Transport & Infrastructure	584.4	333.38	367.2	33.82	251.02
Industrialization, Trade & Tourism	138.04	136.4	109.3	-27.1	1.64
County Health Services	1548.83	1374.2	1137.9	-236.3	174.63
Education, Science & Technology	545.61	466.73	462.5	-4.23	78.88
County Executive	208.27	260.97	221.5	-39.47	-52.7
County Assembly	641.96	593.68	569.7	-23.98	48.28
Finance & Economic Planning	806.09	340.75	759.5	418.75	465.34
County Public Service Board	35.27	39.13	28.9	-10.23	-3.86
Public Service & Administration	659.21	291.98	629.4	337.42	367.23
Gender, Culture, Youth & Sports	207.17	193.31	147.1	-46.21	13.86
Environment, Water, Natural Resources & Forestry	234.11	247.78	151.5	-96.28	-13.67
TOTAL	6955.04	4593.49	5106.4	512.91	2361.55

Source: Vihiga County Treasury

2.2.5. Expenditure by economic classification

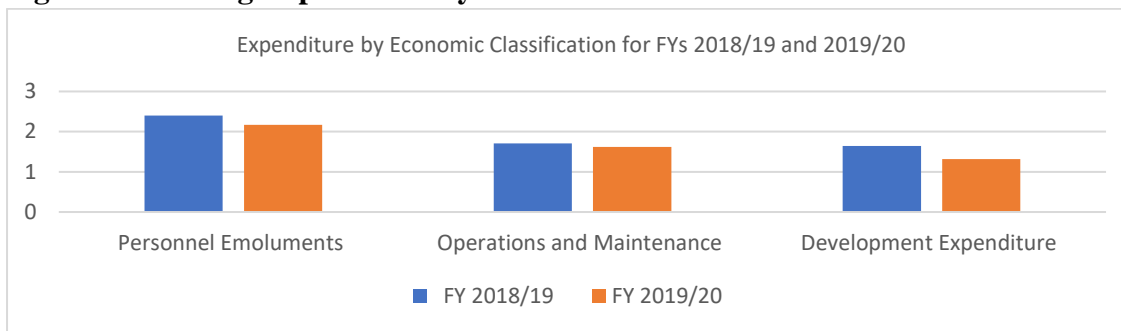
The table 13 below shows actual expenditure by economic classification; personnel emoluments at Kshs. 1,620.00 million, which is 59,9 per cent of the County Governments total revenue and has increased by 11.80 per cent from the previous year 2018/19 FY. Development expenditure fell short by 62.50 per cent from the targeted amount of Kshs.1.70 billion.

Table 13: Showing Expenditure by Economic Classification

Economic Class	FY 2018/19	2019/20	% Change
	Kshs. billion	Kshs. billion	
Personnel Emoluments	2.40	2.17	-9.5%
Operations and Maintenance	1.71	1.62	-5.2%
Development Expenditure	1.64	1.32	-19.5%

Source: Vihiga County Treasury

Figure 3. Showing Expenditure by Economic Classification



2.2.5 Implication of 2019/20 FY Fiscal Performance

- There was a shortfall in own source revenue collection by 23.50 per cent compared to the target that was set, the target for the FY 2019/20 was set at Kshs. 193,735,799 with collections been done to Kshs. 148,199,137.
- Personnel emoluments decreased from Kshs 2.40 billion in FY 2018/19 to Kshs 2.17 billion in FY 2019/20, this represented a 9.5 percent decrease. The decrease can be attributed to the delay in payment of June salary which was paid at the closure of the Financial Year.
- The personnel budget in FY 2019/20 was at Kshs 2.27 billion and the actual expenditure on personnel emoluments was Kshs. 2.17 billion, representing 95.6 percent absorption.
- The personnel emolument budget was at Kshs. 2.27 billion, representing a ratio of 32.6 percent of the total budget, for FY 2019/2020 budget. During the FY 2019//2020 the actual expenditure for personnel emoluments stood at Kshs. 2.17 billion which represented a 31.2 percent of the total budget for FY 2019/2020. The implication of this means that the County was able to meet one of the fiscal responsibility principles on personnel cost which requires it to be at 35 percent.
- There was a significant reduction in absorption of the total budget for FY 2019/2020. The overall absorption budget for the FY 2019/2020 was 73.42 percent, which was a reduction compared to the FY 2018/2019 which had an absorption rate of 82.03 percent.

The County should implement the following recommendations in order to improve budget execution;

- The county treasury should liaise with the National treasury to ensure that funds allocated to the county are released in a timely manner in line with CARA disbursement schedule.
- Automation of revenue collection, to help reduce revenue loss and improved collection.
- Delay and or non-disbursement of budgeted fund by the national treasury has serious implication on budget implementation. This affects the cashflow and the planned activities and programs remain un done or unpaid for.

3.0 RECENT ECONOMIC DEVELOPMENTS AND OUTLOOK

This section presents Recent Economic Developments; Medium Term Fiscal Framework; and Risks to the Outlook. Its purpose is to turn the attention from the past to the present time and the immediate future. In this section, the County Government discusses its assessment of the prospects for growth after analyzing the recent economic events and circumstances.

3.1 Recent Economic Developments

As per the 2019 Budget Review and Outlook Paper, the global economic growth slowed down to 3.2 percent in 2019 compared to 3.6 percent in 2018 owing to increased trade tensions and tariff hikes between China and United States, weakening of consumer and business confidence in the Euro area and tightening of financial conditions for emerging markets. They include further trade and technology tensions that dent sentiments to slow investment; a protracted increase in risk aversion that exposes the financial vulnerabilities continuing to accumulate after years of low interest rates; and mounting disinflationary pressures that increase debt service difficulties, constrain monetary policy space to counter downturns, and make adverse shocks more persistent than normal.

Despite the global economic challenges, Kenya's economy continues to register strong economic performance. In 2019, Kenya's economic growth averaged 5.7%, placing Kenya as one of the fastest growing economies in Sub-Saharan Africa. The recent economic expansion has been boosted by a stable macroeconomic environment, positive investor confidence and a resilient services sector.

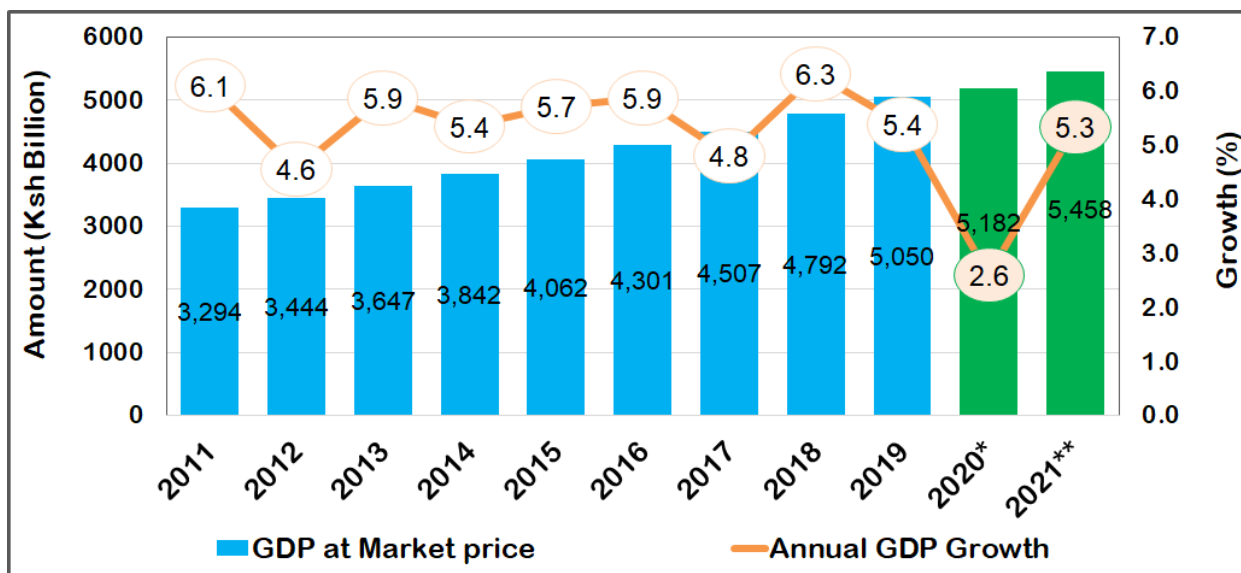
However, the pace of economic activity was hurt by slowdown in agriculture, building and construction as well as manufacturing. Agriculture, which accounts for more than one third of the national GDP for 2019 slowed to 3.6 percent compared to six percent the previous year. Building and construction contracted to 6.4 percent compared to a growth of 6.9 percent in 2018, largely on reduced activity on the standard gauge railway (SGR) project. Similarly, the manufacturing sector, which is expected to churn out most of the high-quality jobs under President Uhuru Kenyatta's Big Four Agenda, slowed to 3.2 percent from 5.3 percent the previous year. Financial and insurance sectors, however, posted improved growth of 6.6 percent compared to 5.3 a year earlier.

More so, Kenya's economy is being hit hard through supply and demand shocks on external and domestic fronts, interrupting its recent broad-based growth path. Apart from the COVID-19 (coronavirus) pandemic, the attack which started early 2020, has affected many parts of Kenya especially the North East. It has had a negative impact on the food security and growth of the agriculture sector in the country. Real gross domestic product (GDP) growth is projected to decelerate from an annual average of 5.7% (2015-2019) to 1.5% in 2020. However, if it takes longer than expected to bring the COVID-19 pandemic under control, GDP could contract by 1.0% in 2020, and see a

delay in the projected recovery to 5.2% growth in 2021. The downside risks include a protracted global recession undermining Kenya’s export, tourism and remittance inflows, further tightening of COVID-19 health response measures that disrupt the domestic economic activity, fiscal slippages and weather-related shocks.

Prior to the outbreak of COVID-19 Pandemic, Kenya’s economy was strong and had expanded by 5.4% in 2019. Growth is projected to decline to 2.6% in 2020 due to the adverse impacts of COVID-19

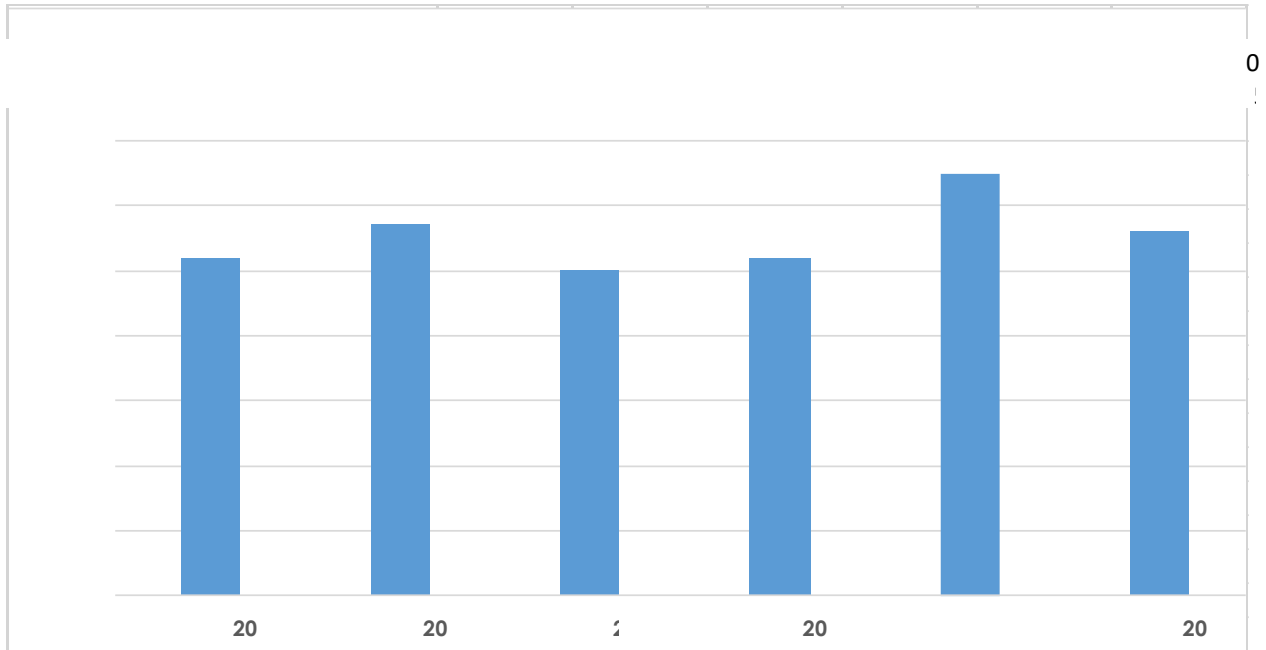
Figure showing the Annual GDP Growth Rates and the GDP at Market Price



However, according to the Economic Survey report the Economic activity was notably subdued in the first quarter of 2019 relative to the performance recorded in the same quarter of 2018. During the period, the economy expanded by 5.6 per cent. The growth, albeit significantly slower than that of the first quarter of 2018, was mostly supported by growths in the service sector industries such as wholesale and retail trade, transportation, accommodation and food services, financial and insurance activities.

The quarter was characterized by slowdown in agricultural activities following delay in the onset of long rains. The agriculture, forestry and fishing sector grew by 5.3 per cent compared to a growth of 7.5 per cent in the first quarter of 2018. The slowdown in agricultural growth somewhat affected agro-processing and consequently led to slowed manufacturing activities during the review period.

First Quarter GDP Growth Rates

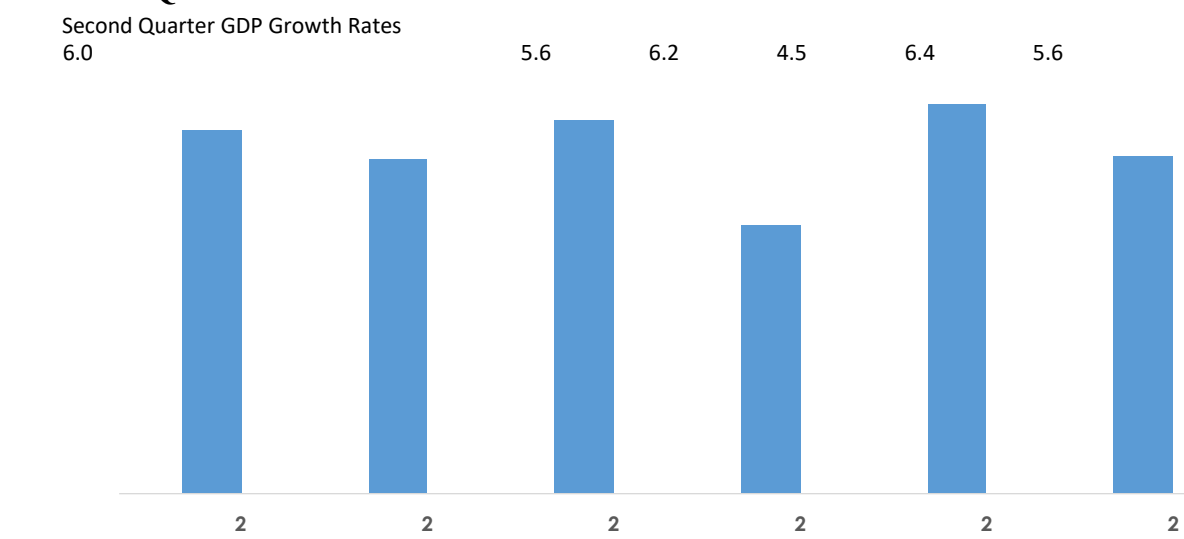


Source: KNBS

Generally, macroeconomic factors were favorable to growth during the quarter under review. The average inflation in the period under review eased to 4.40 per cent from 4.49 per cent in the first quarter of 2018. The Kenya Shilling strengthened against all its major trading currencies during the quarter under review compared to the same quarter of 2018. The Shilling gained strongly against the South African Rand, Euro and Pound Sterling. The Kenyan currency also strengthened against the Japanese Yen, Ugandan and Tanzanian Shillings and marginally against the US Dollar. Weighted interest rates on commercial banks' loans and deposits averaged at 12.49 per cent in the period under review compared to 13.61 per cent in the first quarter of 2018. This was as a consequence of a downward review of the Central Bank Rate to 9.00 per cent during the period under review. The Nairobi Securities Exchange (NSE) 20 Share Index averaged at 2,915 points in the quarter under review compared to an average of 3,780 points during the same quarter in 2018.

Value of total exports declined to KSh 156.9 billion in the quarter under review from KSh 161.7 billion during the same quarter of 2018 mainly due to a reduction in value of exports to Far East Asia. Similarly, value of imports declined by 3.9 per cent to KSh 421.2 billion from KSh 438.5 billion in the first quarter of 2018. The deficit in the current account balance narrowed to KSh 78.8 billion during the quarter under review from KSh 117.1 billion in a similar quarter of 2018.

SECOND QUARTER GDP GROWTH RATES

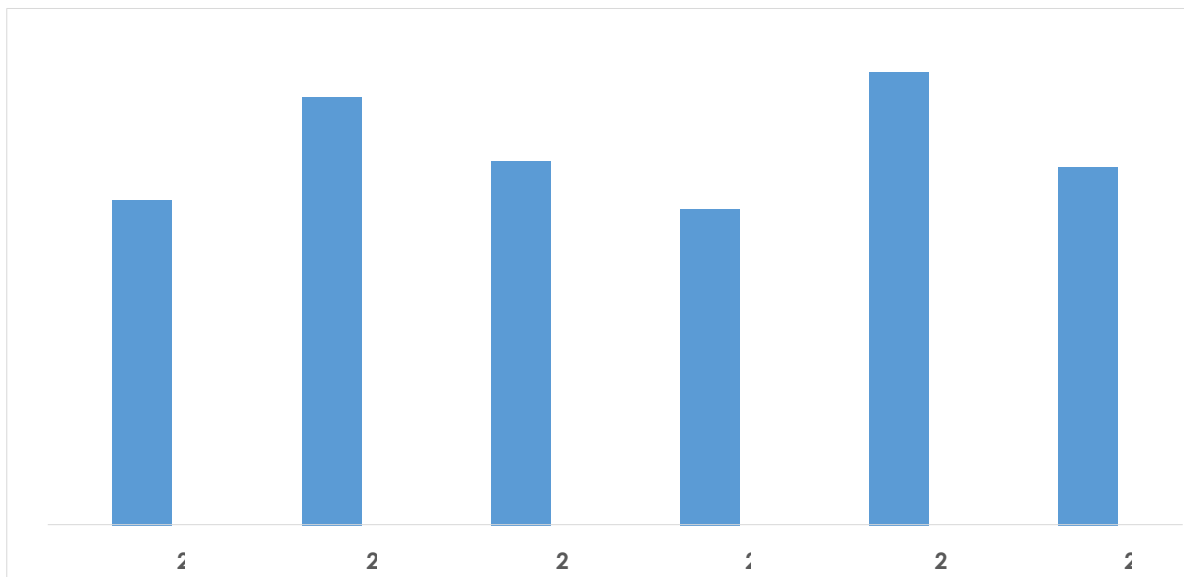


In general, the key macroeconomic aggregates remained well anchored and therefore supportive of economic growth. Inflation edged upwards from an average of 3.98 per cent during second quarter of 2018 to 5.92 per cent during the quarter under review.

The rise in inflation was mainly on account of higher prices of food and beverages and rising cost of transportation during the quarter. The Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 9.0 per cent throughout the quarter in review.

The performance of the Kenyan Shilling against its major trading currencies generally improved during the review quarter compared to its performance during the same quarter in 2018. On average, the Kenyan Shilling gained against most major international currencies including the Euro, Pound Sterling and Japanese Yen by 11.95 per cent, 5.29 per cent, and 5.10 per cent, respectively. However, the Kenyan currency marginally ceded ground against the US Dollar and Ugandan Shilling by 0.53 per cent and 0.78 per cent, respectively. The Nairobi Security Exchange (NSE) 20 Share Index declined from an average of 3,451 points in second quarter 2018 to 2,701 points during the review quarter. There was a deceleration in growth of money supply (M3) from 2.44 per cent in second quarter 2018 to 0.71 per cent during the quarter under review.

Third Quarter GDP Growth Rates



During the review quarter, macroeconomic indicators showed mixed performances but largely pointed to reduced economic activity compared to the third quarter of 2018. Inflation edged upwards to average at 5.03 per cent during the review quarter compared to 4.70 per cent in the same quarter of 2018. The rise in inflation was mainly on account of higher prices of food, house rent, cooking fuels and rising cost of transportation during the quarter in relation to the same quarter of 2018. The Kenyan Shilling depreciated by 2.8 per cent against the American Dollar but gained ground against the Pound Sterling (2.9 per cent) and the Euro (1.8 per cent). The local currency appreciated against all regional currencies but the most notable was against the Tanzanian Shilling at 19.7 per cent. The Monetary Policy Committee (MPC) maintained the Central Bank Rate (CBR) at 9.0 per cent throughout the quarter in review. Broad money supply (M3) rose from KSh 3,261.1 billion as at September 2018 to KSh 3,435.1 billion as at September 2019. The Nairobi Securities Exchange (NSE) 20 share index declined from 2,876 points during the third quarter of 2018 to 2,432 points in the third quarter of 2019. During the quarter under review, the current account deficit narrowed by 7.6 per cent to KSh 101.0 billion from KSh 109.3 billion in the same quarter of 2018.

SECTORAL ANALYSIS

Agriculture, Forestry and Fishing

The sector's gross value added is estimated to have expanded by 3.2 per cent during the review quarter compared to 6.9 per cent in the third quarter of 2018. The sector's growth was hampered by notable drop in production of key crops during the period under review. Production of tea declined by 9.6 per cent from 115.2 thousand metric tonnes in the third quarter of 2018 to 104.2 thousand metric tonnes during the review period. The volume of vegetable and fruit exports declined by 28.0 and 11.3 per cent, respectively during the third quarter of 2019, an indication of depressed production.

In the county government, Performance of the sector was supported by an increase in production of tea and local vegetables and fruits

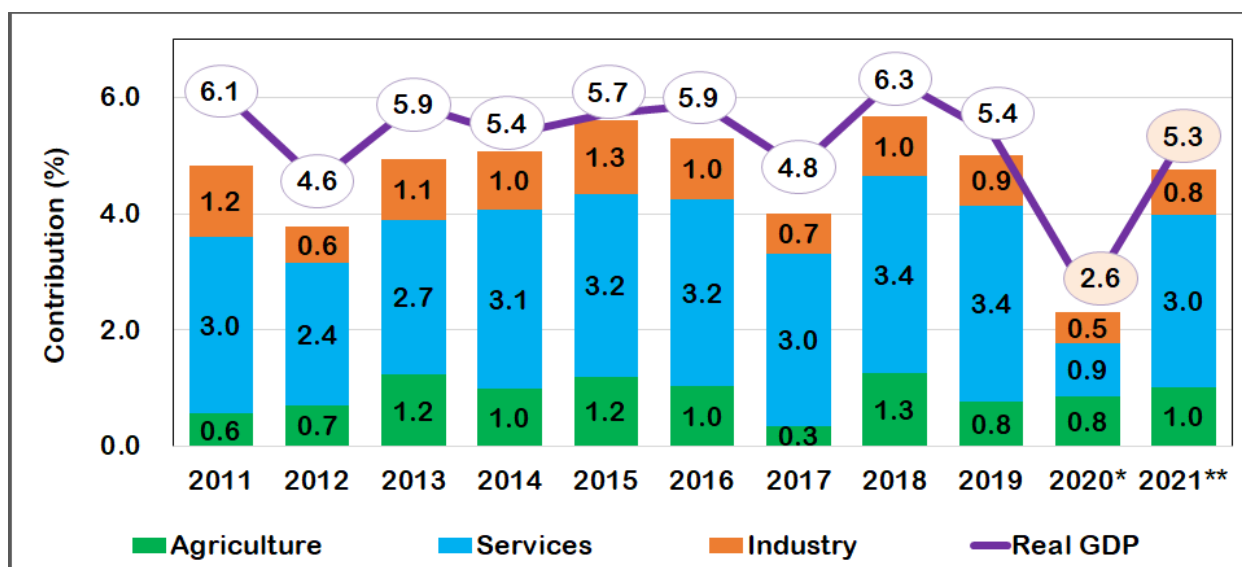
Accommodation and Food Service Activities

Accommodation and Food services sector recorded a decelerated growth of 9.0 per cent in 2019 compared to a growth of 15.7 per cent in the same quarter of 2018. Despite the slowed growth, visitors’ arrivals through the major towns increased.

Construction

The construction sector grew by 6.6 per cent compared to 6.0 per cent growth recorded in the same period of 2018. The depressed growth was reflected in the cement consumption which contracted by 4.5 per cent as compared to 4.2 per cent in 2018. Furthermore, uptake of credit in the sector dropped by 5.6 per cent. In the review period, the overall import of construction related materials was relatively high compared to that of 2018.

Annual analysis on agriculture, services and industry



On annual basis, the agricultural sector supported the growth rate at 0.8% in 2019 which is a decline of 0.5% from 2018. The industry and services sector realized a growth rate of 0.9% and 3.4% to the real GDP consecutively.

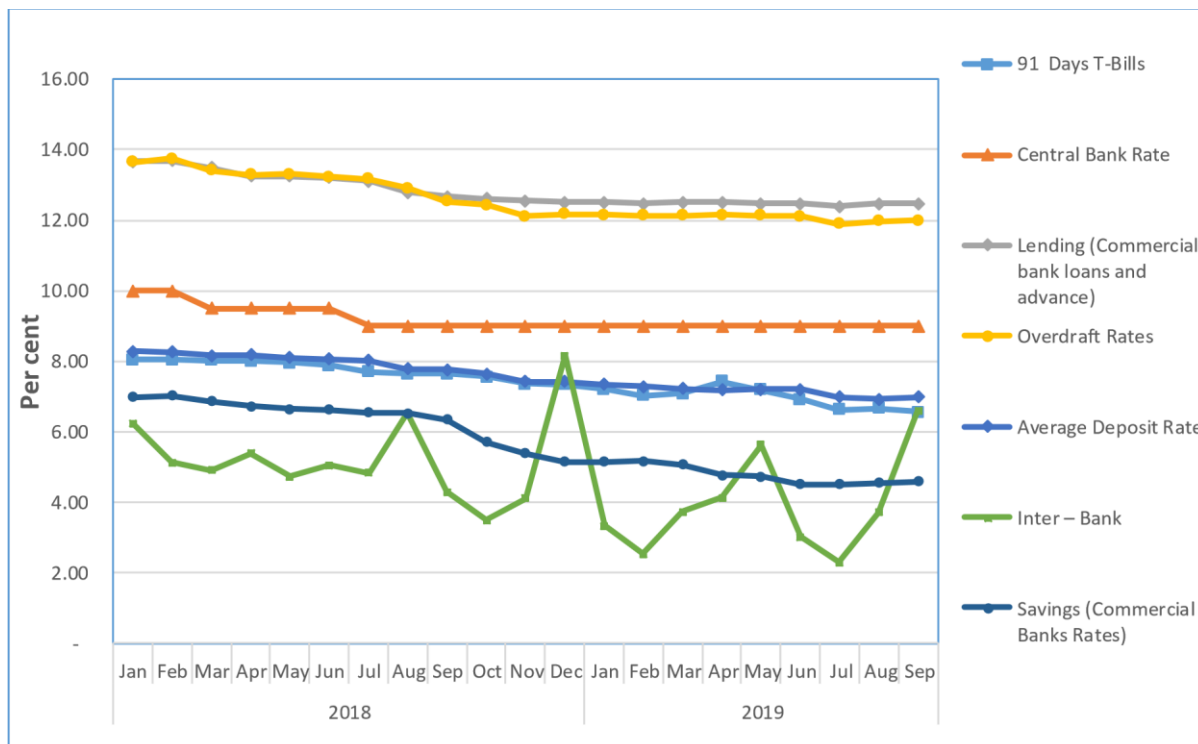
However, the Agricultural sector is expected to support growth in 2020 and 2021 as a result of the prevailing favorable weather conditions. The Services and Industry sectors contribution to Real GDP growth is estimated to decline in 2020 on account of the negative effects of COVID-19 pandemic and increase in 2020

Vihiga county GDP

The County Government of Vihiga relies on the National Government statistics to know its economic performance. According to KNBS economic survey 2018 report, the economic growth averaged at 6.0. According to quarterly GDP reports released by the KNBS the economic growth rate in 2019 based on the quarterly average is expected to be more than 5.7 percent. The Gross County Product (GCP) survey undertaken by KNBS and the pilot report shows that the GDP share estimate of Vihiga County to the National GDP is at 1.2 percent.

Vihiga County’s GDP per capita in 2019 was at ksh. 92,572. This ranks Vihiga County as the second lowest contributor to the National GDP in the Western region

Trends in Interest Rates, January 2018 to September 2019



The Figure shows the value of shares traded and the NSE 20 share index from January 2018 to September 2019. The Nairobi Securities Exchange (NSE) 20 Share index dropped from 2,876 points during the third quarter of 2018 to 2,432 points in the third quarter of 2019. The total value of shares traded reduced from KSh 12.0 billion in September 2018 to KSh 10.6 billion in September 2019.

NSE 20-Share Index and Value of Shares Traded, January 2018 to September 2019

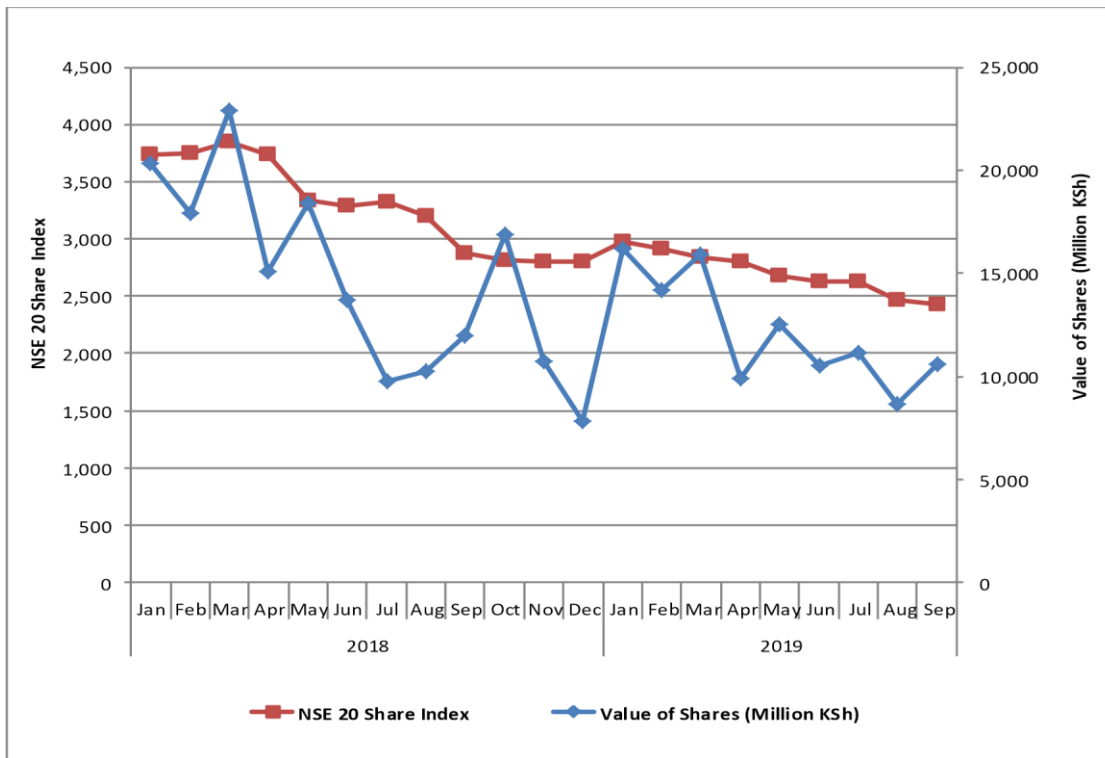


Figure above shows the value of shares traded and the Nairobi Stock Exchange (NSE) 20 share index from January 2018 to September 2019

Year	Quarter	Agriculture	Mining and quarrying	Manufacturing	Electricity & water supply	Construction	Wholesale and retail trade	Accommodation & restaurant	Transport and storage	Information and communication
2018	1	876,437	17,058	178,920	50,174	99,727	146,091	17,574	146,237	29,365
	2	861,801	15,752	179,258	62,396	118,906	158,690	12,330	173,992	25,391
	3	736,655	18,736	177,928	54,580	125,022	190,053	17,447	180,289	26,112
	4	570,138	15,730	153,235	52,178	139,881	167,452	19,278	210,833	36,377
2019	1	1,002,913	17,209	186,166	53,117	117,036	156,733	18,188	164,637	31,977
	2	915,681	15,872	191,080	68,474	136,514	170,510	13,553	195,334	27,762

	3	759,950	20,725	187,549	63,627	141,372	199,283	17,901	211,015	28,329
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Year	Quarter	Financial & insurance	Public administration	Professional, administrative and support services	Real estate	Education	Health	Other services	FI SI M	All in du st. at basic prices	Taxes on products	GDP at market prices	GDP, seasonally adjusted
2018	1	139,613	69,320	34,935	152,249	95,787	29,925	24,982	(41,856)	2,066,537	176,554	2,243,091	2,144,252
	2	122,444	81,194	37,627	154,706	95,960	34,159	25,151	(35,082)	2,124,676	184,885	2,309,561	2,193,217
	3	143,254	76,958	37,809	158,408	96,149	35,210	26,152	(48,147)	2,052,614	207,470	2,260,084	2,270,395
	4	129,571	83,046	39,969	160,349	95,286	35,467	26,340	(44,500)	1,890,629	201,619	2,092,248	2,315,960
2019	1	149,403	76,931	38,441	165,359	108,512	32,164	26,539	(43,665)	2,301,659	194,862	2,496,521	2,358,242
	2	132,947	87,786	40,784	169,307	107,598	36,823	26,153	(38,582)	2,297,596	200,441	2,498,037	2,393,667
	3	153,661	83,754	40,825	170,187	107,158	36,879	26,948	(47,773)	2,201,389	219,984	2,421,373	2,436,599

Gross Domestic Product by Activity, Growth Rates

Year	Quarter	Agriculture	Mining and quarrying	Manufacturing	Electricity and water supply	Construction	Wholesale and retail trade	Accommodation & restaurant	Transport and storage	Information and communication
2018	1	7.5	2.4	3.8	6.5	6.6	5.9	13.1	8.5	12.5
	2	6.5	2.9	4.7	8.4	5.4	6.2	15.4	8.4	11.1
	3	6.9	3.3	4.6	7.8	7.0	6.5	15.7	9.0	9.8
	4	4.0	2.7	3.7	8.7	7.3	6.6	21.3	9.3	11.8
2019	1	5.3	2.2	3.2	6.1	5.6	5.5	10.1	6.7	10.4
	2	4.2	5.7	4.2	5.6	7.2	6.0	10.6	7.2	11.3
	3	3.2	4.3	3.1	4.9	6.6	4.7	9.0	7.1	8.4

Year	Quarter	Financial & insurance	Public administration	Professional, administrative and support services	Real estate	Education	Health	Other services	FISIM	All industries at basic prices	Taxes on products	GDP at market prices	GDP, seasonally adjusted
2018	1	5.2	6.2	6.1	5.3	5.3	4.5	4.2	0.2	6.7	5.7	6.6	2.0
	2	4.5	5.9	7.5	4.6	5.8	4.1	5.1	0.1	6.4	5.5	6.3	0.9
	3	5.3	6.1	6.7	3.8	5.9	5.5	4.9	1.7	6.5	5.6	6.4	1.5
	4	7.2	6.4	3.6	2.8	6.4	4.0	5.3	2.3	6.2	4.4	6.0	1.6
2019	1	5.5	6.5	6.3	4.2	5.4	4.0	3.2	-2.8	5.6	5.8	5.7	1.5
	2	7.2	6.0	5.0	5.4	6.0	5.2	2.3	4.6	5.7	4.6	5.6	1.1
	3	5.6	5.8	5.0	4.9	5.7	4.8	2.2	-4.5	5.2	4.2	5.1	1.0

Employment, Earnings and Consumer Prices

A total of 84,200 new jobs were created in 2018 with 76,200 new jobs created in the in formal sector. Employment in the informal sector accounted for 69.5 percent of total employment in the period under review. Wage employment in modern sector increased from 269,900 people in 2017 to 276,500 people in 2018. The number of self-employed and unpaid family workers within the modern sector rose from 13,900 people in 2017 to 15,200 people 2018. Inflation as measured by Consumer Price Index decreased by 0.90 percent from 203.61 in July 2019 to 201.78 in August 2019. The overall year to year in august 2019 stood at 5.00 percent

Money, Banking and Finance

Inflation has remained within the CBK target range of 2.5-7.5 percent 2019, reaching a 5-year low of 4.65 percent in February 2019 and then increasing moderately in the second half of 2019 to an average of 5.4 percent that's in August. In November 2019, The Banking Act amended in section 56 whereby any agreement or arrangement to borrow or lend which was made or entered into, or varied pursuant to the provisions of section 33B, shall continue to be in force on such terms, including interest rates, and for the duration specified in the agreement or arrangement: Provided that the interest rate chargeable under that agreement or arrangement may be varied downwards.

The cap on lending rates was however retained at a maximum of 4 percentage points above CBR, restricting commercial banks' lending rate to a maximum of 13 percent.

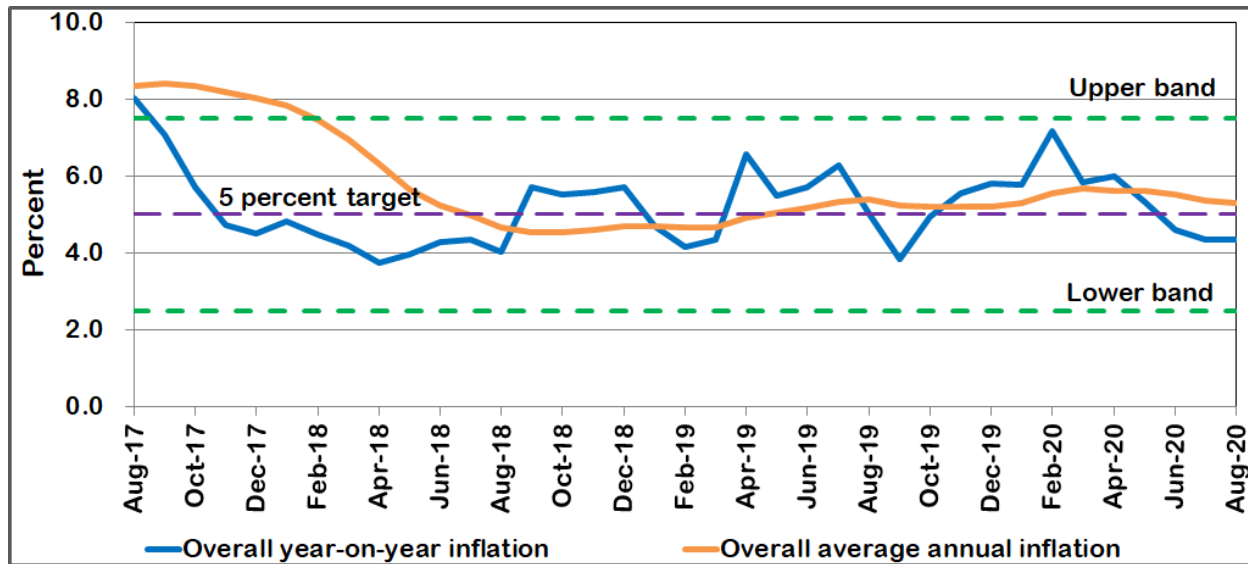
Overall year on year inflation rate

Year	Month	12-Month Inflation
2020	June	4.59
2020	May	5.33
2020	April	6.01
2020	March	5.84
2020	February	7.17
2020	January	5.78
2019	December	5.82
2019	November	5.56
2019	October	4.95
2019	September	3.83
2019	August	5
2019	July	6.27
Year	Month	12-Month Inflation
2019	June	5.7
2019	May	4.49
2019	April	6.58
2019	March	4.35
2019	February	4.14
2019	January	4.7
2018	December	5.71
2018	November	5.58
2018	October	5.53
2018	September	5.7
2018	August	4.04
2018	July	4.35

The average annual inflation rate for 2019 amounted to 5.2% which is an increase from the previous year, 2018, of 4.69%. The average inflation rate reflects the annual percentage change in the cost to the

average consumer of acquiring a basket of goods and services which may be fixed or changed at specified intervals.

Figure showing year on year inflation rate



Public Finance

The government plans to spend Ksh. 3.08 Trillion which is an increase from Ksh. 2.53trillion in 2018/19 fiscal year. Revenue collection is projected at Kshs.2.01 trillion. The proposed budget spending for the year 2019-2020 will have major emphasis on the Big 4 agenda i.e. Universal Health, Affordable housing, increasing manufacturing to the economy and improving food; and nutrition security.

By august 2019, the government deficit was at 14.6 Billion. The finance ministry targets a deficit of 6.2% of the GDP for the fiscal year. The government had set a target to bring the deficit down to 5.6% of GDP from 7.7% in 2018. The fiscal deficit will be financed by net external financing of 331 billion shillings and other net domestic receipts of 3.2 billion shillings.

The County Government will engage the National Government and development partners for additional resources to support implementation of targeted development interventions. The Government will also engage stakeholders to develop a comprehensive policy and legislative framework to regulate exploitation of the vast natural resources in the County. The policy will address itself to licensing, attracting investors, taxation and sustainable use of the resources.

In the medium term the County Government will strengthen expenditure management focusing on expenditure productivity. This will be done by full implementation of the Integrated Financial Management Information System (IFMIS) across departments. The County Government will continue

to monitor expenditures closely to avoid channeling resources to unproductive expenditure areas. Major expenditure areas will be expected to include personnel emoluments (P.E), development and operations. The Government will also upscale implementation of programmes targeting the vulnerable including the youth, women and people living with disabilities (PWDs) to enhance their participation in the socioeconomic development of the County. The County Government of Vihiga does not anticipate any long term borrowing in the medium term. However, the fiscal responsibility principles will remain the guiding framework for its public finance management discourse

3.4 Risks to the Outlook

Various risks impact on the county economic performance. These may include adverse changes in macro- economic factors such as increase in inflation and interest rates, low growth in investments and failure of the National Government to meets its revenue targets.

At the county government level risks arise out of uncertainty both from internal and external factors as shown in table 3 below. Managing such risks by recognizing and preparing for possible eventualities is an integral part of planning. The county government and other agencies will pursue various mitigation measures to avert such risks.

Type of Risk	Inherent Risk	Likelihood	Impact	Mitigation	Responsibility Center
Strategic risks	Change in National Policies	Medium	Inability to adjust to the changes in the short run leading to inefficiencies	Capacity building and institutionalizing reforms	National Treasury
	Noncompliance with PFMA and other government regulations	Low	Increased audit issues and inefficiencies	Capacity building, adherence to regulations and strengthening of institutions	County Treasury
Organizational /Administrative risks	Communication Failure & reporting framework	MEDIUM	Weak coordination and collaboration	Strengthen the county communication strategy	County Public Service & Administration
	Delayed in enactment of the county Allocation Revenue Bill	HIGH	Inability of the county to timely implement its mandate and objectives	Enhanced PPPs to abridge the resource gaps	Senate/National Assembly
	Variation of county allocation formula	HIGH	Inability of the county to receive sufficient funds to implement planned programmes	Improves OSR and enhanced PPPs	CRA
	Mismanagement/ Misappropriation of Public Finances	MEDIUM	Curtail effective provision of services	Adherence to PFMA and other regulation	County Departments, entities and staff
	Expenditure pressure due expanded programs and increasing wage bills	HIGH	Diminishing proportion of development expenditure	Cuts in recurrent expenditure and sustainable planning	County Departments and entities

Financial Risks	Low Own Source Revenue collected	MEDIUM	Low Liquidity levels	Enhanced OSR	County Directorate of Revenue
	Delay in exchequer releases	HIGH			National Treasury
Technological risks	Failure/ Network challenges with IFMIS	Low	Delayed transactions on IFMIS	Upgrading of systems	National Treasury/ County ICT Department
	Technology failure and Cyber attacks	Medium	Possible interference with county operations	Improved security of systems	County ICT
	Changes of technology	Medium	Inability to efficiently perform tasks	Enhanced capacity building and upgrading	County ICT & all Departments

4.0 RESOURCE ALLOCATION FRAMEWORK

4.1 Adjustments to the FY 2020/21 Budget

From the national treasury BROP, The Medium-Term Fiscal Framework (MTFF) for the FY 2020/21 emphasizes on efficiency and effectiveness of public spending and improving revenue collection to stimulate and sustain economic activities, mitigate the adverse impact of COVID-19 pandemic on the economy and re-position the economy on a steady and sustainable growth trajectory.

The underperformance in both revenue collection and expenditure in the FY 2019/20 has implications on the financial objectives outlined in the CFSP 2020 and the FY2020/21 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 and the first two months of FY 2020/21.

In light of these challenges, the revenue projections for FY 2020/21 have to be revised taking into account a lower projection base- shortfall in FY 2019/20), revenue performance and the prolonged effects of COVID-19 Pandemic on economic activities and the measures put in place to curb its spread. Expenditure projections for FY 2020/21 have to be revised to accommodate the weak revenue performance by reallocations of the existing budgetary provisions and additional expenditure on productive areas of spending across the Government programmes.

Actual Revenues for the FY 2020/21 have not yet been determined under the third-generation revenue sharing formulae, due to delay in legislating the CARA 2020 which is still in the Senate. However, we anticipate an increase of revenues of about Kshs. 414.81 million to Kshs. 5,335.34 million to our County.

4.2 FY 2021/22 Budget Framework

The FY 2021/22 budget framework builds up on the Government's efforts through the Economic Stimulus Programme and the Post Covid-19 Economic Recovery Strategy to stimulate and sustain economic activities, mitigate the adverse impact of COVID-19 pandemic on the economy and re-position the economy on a steady and sustainable growth trajectory. This is in addition to expenditure rationalization and revenue mobilization programmes that the County has to put in place.

The Government will continue to emphasize on the implementation of policy measures such as the zero-based budgeting process, adoption of the “no new projects” policy, and re-alignment with the “Big Four” Plan and reducing spending on programmes, which are not of high priority. As a result, the overall fiscal deficit is expected to decline.

Through the 2020 BROP the National government projects in the FY 2021/22 revenue collection including Appropriation-in-Aid (A-i-A) at Ksh 1,872.6 billion (15.0 percent of GDP). Of this, ordinary revenues are projected at Ksh 1,656.2 billion (13.2 percent of GDP). However, at the County level we shall base our projections on the growth of the GDP as anticipated in the BROP 2020 and subject to CARA 2020

Through CARA 2020 bill Equitable share is projected to increase by Kshs 414.81 million to Kshs 5.335 billion.

It is assumed that total conditional grants will remain the same at Kshs. 1.67 billion, though they are shrinking we hope to have other new grants coming specially to cushion counties on post COVID 19 effects.

OSR is projected to increase by 30 percent to Kshs. 231.62 million

Table 14: County Government Fiscal Projections in Kshs. in the Medium Term

Sources/FY	FY 2019/20	FY 2021/22	FY2022/23
		Projection	Projection
County Equitable share as per CARA 2019	4,652,550,000	5,335,340,000	5,602,107,000
Own Source Revenue FY 2019/20 Actuals	178,171,146	231,622,490	243,203,615
Conditional Grants	1,686,656,150	1,686,656,150	1,770,988,958
Total	6,517,377,296	7,253,618,640	7,616,299,572

Source: Vihiga County Treasury

4.3 Medium Term Expenditure Framework

Allocation and utilization of resources in the medium term will be guided by the priorities outlined in County Integrated Development Plan (CIDP) and other County plans; and in accordance with section 107 of the PFM Act 2012. For effective utilization of public finances for enhanced expenditure productivity, the

County Government will prioritize expenditures within the overall sector ceilings and strategic sector priorities.

4.4 Expenditure Forecasts

In the proposed 2021/22 budget, overall expenditures are projected to increase by 3.8 percent same as the revenue negative growth in the same period as indicated in the table below. In this regard, the County Government will over the medium term ensure compliance with the fiscal responsibility principles as outlined in the sections 107 of the PFM Act 2012. The County Government is expected to enhance expenditure productivity in the proposed year and manage the rising wage bill to be within the required limit.

Table 15: Summary of Expenditure Projections in Kshs. Millions 2020/21 FY and MTEF

Department	BUDGET (Supplementary 4) 2019/20 Kshs. Million)	Projected Estimates 2020/21 at 111%	Projected Estimates 2020/21 at 105%
Agriculture, Livestock, Fisheries & co-operatives	742.38	824.04	865.24
Lands, Housing & Physical Planning	603.7	670.11	703.61
Transport & Infrastructure	584.4	648.68	681.12
Industrialization, Trade & Tourism	138.05	153.24	160.90
County Health Services	1,548.83	1,719.20	1,805.16
Education, Science & Technology	545.61	605.63	635.91
County Executive	208.27	231.18	242.74
County Assembly	641.96	712.58	748.20
Finance & Economic Planning	806.09	894.76	939.50
County Public Service Board	35.27	39.15	41.11
Public Service & Administration	659.21	731.72	768.31
Gender, Culture, Youth & Sports	207.17	229.96	241.46
Environment, Water, Natural Resources & Forestry	234.1	259.85	272.84
TOTAL	6,955.04	7,720.09	8,106.10

Source: Vihiga County Treasury

5.0 CONCLUSION

The Vihiga CBROP 2020 is being prepared against the backdrop of a slowdown in the growth of the global economy. The Pandemic and the attendant containment measures has led to contraction of the global economy disrupting businesses including international trade and leading to loss of livelihoods for millions of people globally. Kenya has not been spared. The Pandemic and the containment measures have not only disrupted our ways of lives and livelihoods, but to a greater extent business. Consequently, the economy is projected to slow down to 2.6 percent in 2020 from the 5.4 percent registered in 2019.

To cushion citizens and businesses from the adverse effects of Covid-19 Pandemic and stimulate economic recovery, the National Government has indicated that it will continue to implement measures in the context of the Economic Stimulus Programme and the Post Covid-19 Economic Recovery Strategy. As a County government we are ready to comply with these policies and guideline once they are rolled down to us.

From the analysis in this paper, it is evident that The County Government generally complied with the principles of fiscal responsibility including the minimum wage rate.

The county will also strengthen its revenue collection and management systems with the goal of generating more revenues to strive towards budgetary self-reliance.

Fiscal discipline will be important in ensuring proper management of funds and delivery of expected output. Effective and efficient utilization of funds by the various departments will be crucial in ensuring the county delivers her functions. Plans and programme are strictly adhered to achieve the objectives of the County government.

APPENDIX 1

RESOURCE ENVELOP 2019/20 SUPPLEMENTARY FOUR

S/No	Revenue	Annual CARA, 2019 Allocation (in Kshs)	Annual Budget Allocation (in Kshs)	% of Total Budget
A	National Government			
1	Equitable Share of Revenue Raised nationally	4,652,550,000	4,652,550,000	66.89
2	Compensation for User Fee Foregone	12,657,201	12,657,201	0.18
3	Leasing of Medical Equipment	131,914,894	131,914,894	1.90
4	Road Maintenance Fuel Levy Fund	132,065,719	170,542,168	2.45
5	Rehabilitation of Village Polytechnics	67,743,298	84,402,044	1.21
Sub Total		344,381,112	399,516,307	5.74
B	Other conditional Grants			-
1	Transforming Health systems for Universal care Project	56,065,640	93,311,492	1.34
2	IDA (WB) Credit (National Agricultural and Rural Inclusive Growth Project NAGRIP)	350,000,000	527,152,314	7.58
3	IDA (WB) Credit: Kenya Urban Support Project (KUSP) –Urban Development Grant (UDG)	250,950,700	438,361,024	6.30
4	DANIDA Grant	13,312,500	13,312,500	0.19
5	IDA (WB) Credit: Kenya Devolution Support Project (KDSP) Level 2 Grant	30,000,000	71,604,116	1.03
6	Sweden - Agricultural Sector Development Support Programme (ASDSP) II)	15,724,263	33,398,397	0.48
7	Covid 19 Emergency Response		60,000,000	0.86
8	IDA (WB) Credit: Kenya Urban Support Project (KUSP) –Urban Institutional Grants (UIG)	8,800,000	50,000,000	0.72
Sub Total		724,853,103	1,287,139,843	18.51
D	Other Sources of Revenue			-
1	Own Source Revenue	-	193,735,799	2.79
2	Balance b/f from FY2018/19	-	422,088,828	6.07
Sub Total		-	615,824,627	8.85
Grand Total		5,721,784,215	6,955,030,777	100.00

APPENDIX 2
SUMMARY OF COMPENSATION OF EMPLOYEES, OTHER RECURRENT
EXPENDITURE & DEVELOPMENT FY 2019/20

VOTE	VOTE TITLE	Compensation to Employees	Other Recurrent	Development	Totals
1	Office of The Governor	94,138,950	109,131,415	5,000,000	208,270,365
2	Finance & Economic Planning	82,548,246	272,542,926	451,000,000	806,091,172
3	Agriculture, Livestock, Fisheries & Cooperatives	102,994,444	57,432,111	581,954,347	742,380,902
4	Health Services	857,875,535	306,072,287	384,878,617	1,548,826,439
5	Education, Science, Technical and Vocational Training	173,910,663	166,692,506	205,008,882	545,612,051
6	Gender, Culture, Youth, Sports and Social Services	28,614,760	116,570,497	61,984,335	207,169,592
7	Trade, Industry, Tourism and Entrepreneurship.	15,470,960	73,635,245	48,938,036	138,044,241
8	County Public Service Board	6,987,903	28,283,800	0	35,271,703
9	Environment, Water, Energy & Natural Resources.	29,595,534	103,409,276	101,101,849	234,106,659
10	Transport, Infrastructure & Communication	26,502,334	98,592,930	459,302,873	584,398,137
11	Physical Planning, Land and Housing	9,031,590	104,756,703	489,909,322	603,697,615
12	County Assembly	321,199,548	300,755,619	20,000,000	641,955,167
13	Administration and Coordination of County Affairs	518,475,907	137,335,016	3,395,812	659,206,735
	TOTAL COUNTY EXPENDITURE	2,267,346,373	1,875,210,331	2,812,474,073	6,955,030,777