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Submission on 3rd Generation Formula

Comments, Reviews and Input



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Introduction

The proposed third-generation formula is comparatively aligned to functions compared to its predecessors – first and second basis. The commission has made great steps towards a greater objective rational and transparent resource sharing criterion in efforts to ensure local governments are commensurately resourced to deliver on their respective mandates.

As the Senate consider approving the recommendations, we take this opportunity to share our observations, comments and input for consideration. The comments, reviews and input in this document applies to selective parts of the formula and builds from similar submission we made earlier to the commission.

Comments, Reviews and Input

Section 4.2.1. (ii) Agriculture Services

The proposed measures for the demand for agricultural services must not punish counties that practice non-agricultural based economic transformation as currently proposed.

The proposal suggests that counties with population that practice non-agricultural economic undertakings, particularly those with significant proportion of urban rural land will be marginalized by the formula on this parameter. A third of Kenya's population are urban-based as argued in the blog below.

In 2011, [Wolfgnag Fengler](#), a senior economist at the World Bank estimated that over 30% of Kenya's population will be urban by 2020 and 50% by 2030. The third-generation formula does not cater for this population trend thus, not living to its outlined principles of equity (ii) and adequacy (iv) in section 1.3.

Section 4.2.1. (iii) Other County Services

The commission argue that the recommendations are founded in the principles outlined in the proposal, however, in sub-section 4.2.1 (iii) the commission deviates from its principle (vi) **“Simple and Transparent”** [inter-governmental transfer] formula. The commission proposes a transfer of funds for various county functions and services under “Other county services” parameter.

This makes the parameter somewhat complex to measure for prudence and efficiency.

Even as the commission argue that all the services grouped together under this parameter are population-based, there are better measures that can offer closer alignment between functions and resources and allow for the assessment of the functionality of the formula. We are proposing that this section is split into three sub-parameters that apply different measures as shown below:

4.2.1. (iii): Other county services parameter			
Sub-parameter	Breakdown	Original measure	Proposed measure
Sub-parameter - 1	Pre-primary education; village polytechnics and; homecraft centres and childcare facilities	Population	Facility gaps and enrollment data ¹
Sub-parameter - 2	Cultural activities; animal control and welfare; disaster management; control of drugs and pornography and; implementation of specific national government policies on natural resources and environmental conservation	Population	Population
Sub-parameter - 3	Public entertainment and public amenities and; fire-fighting services	Population	Urban population

Section 4.2.1. (iv) Basic Share

Basic share parameter must be based on some measurable factor. While county governments share certain administrative structures that are equal, units such as civic wards are significantly unequal to account for and justify the high-weight accorded to basic share.

Administrative structures have significant cost-burden in terms of staff and operating cost thus, inform the number and cost associated with elective positions (Members of County Assembly), number of Ward Administrators, Ward Office staff and office running costs.

Consider Nairobi county for example with highest elective wards at 85 and Lamu/Isiolo with the lowest number of wards at 10. In terms of expenditure, this implies that for every 1000 shillings that Lamu/Isiolo spends on MCA's salary, gratuity and allowances,

¹ facility gaps and enrolment data

- a. Under five population to ECDE teacher ratio to cater for teacher needs
- b. Gross-enrolment of VTCS ratio to instructors to cater for VTCs instructor needs
- c. Average distance to VTCs, ECDE to cater for land differentials related costs.
- d. VTCs, ECDE enrolment data [average distance to facility] and classroom capacity to cater for infrastructure related needs.

Nairobi will incur 8.5 times more that amount. The same goes for ward administrators, Assembly staff and ward office costs. This disparity should be taken into account while constructing the formula, including consideration of the specific and available data in making the basic proxy for equal costs more transparent and objective.

Section 4.2.2. (ii) Poverty Levels

The commission proposes application of Poverty Levels as a proxy measure for developmental needs and economic disparities among counties. However, the structure and design of the parameter should be adjusted.

As currently designed in the recommendation, the parameter tend to incentivize county governments to maintain high poverty levels to continue receiving more revenues through the formula or encourage manipulation of poverty data for the same reason.

In essence, the purpose of the parameter should be to address root causes of poverty in efforts to eradicate it or minimize it overtime and not to contain it as an inherent condition. We propose a reduction in the weight accorded to the parameter to 10% and application of the following indicators in two parts:

- a. 7% for conditional grants targeting commonly known root causes of poverty across counties. The approach used to establish marginalized areas for the Equalization Fund Policy is considered here.
- b. 3% reward for counties making greater efforts to implement the conditions attached to the conditional grant discussed in (a) whose measures could include preciseness and viability of the efforts made by counties to address poverty or rather, to implement and exceed the conditions set by the commission and other institutions such senate and national treasury.

Clarifications

Allocations to health and agriculture is cited to have been made within the requirements of Abulaj and Maputo declaration, however, it also claims that the formula is not a budgeting tool.

In order to assess and hold both the formula and the government of Kenya accountable to the requirements of both Maputo and Abuja declaration, the claims made in the proposal should be clarified:

- a. Is the commission referring to 17% and 10% of the national budget or the vertical share allocation to county governments? Or
- b. Is it requiring county governments to allocate the respective percentages in their budgets to the health and agriculture?