

Overview of the 3rd Gen. Revenue Sharing Formula

December 3, 2019 - Nairobi, Kenya

Timothy Kiprono | ED, OGI Kenya

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3rd Gen. Revenue Sharing Formula – legal background

- ✓ Article 216 (1) (b) of the Constitution of Kenya mandates CRA to develop basis for sharing revenue among the county governments;
- ✓ The proposal is currently before the Senate as stipulated under 217 (2) (b) for review and with view of approval;
- ✓ The 3rd generation formula will be used to share revenue from [post 2019/20] to 2023/24 (5yrs);
- ✓ So, what is in the proposed formula? We take quick look at it in the next slides



Overview of the 2nd Generation Formula objectives



✓ Provide adequate funding to enable county governments to undertake functions assigned to them;



✓ Correct for economic disparities and minimize the development gap;



✓ Stimulate economic optimization and incentivize counties to optimize capacity to raise revenue.

Summary | 2nd Gen. Formula

	Parameter	Weight
1	Population	45%
2	Basic Equal Share	26%
3	Poverty	18%
4	Land Area	8%
5	Fiscal Effort	2%
6	Development Factor	1%



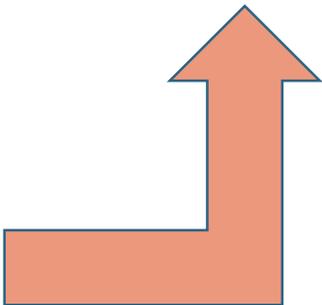
Objectives of the 3rd Gen. Formula



✓ to enhance service delivery;

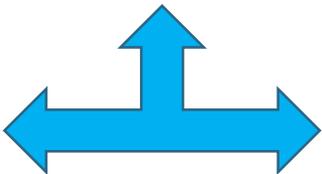


✓ to promote balanced development;



✓ to incentivize counties to optimize capacity to raise revenue and;

✓ to incentivize prudent use of public resources.



➤ The transfer framework provides for three delivery components:
1) service delivery; 2) balanced development, and; 3) incentive.

Summary | 3rd Generation Formula

	Parameters	Percentage Weights
1	Basic Minimum Share	20%
2	Other county services	18%
3	Health	17%
4	Poverty	14%
5	Agriculture	10%
6	Land Area	8%
7	Urban Services	5%
8	Roads	4%
9	Fiscal Effort	2%
10	Fiscal Prudence	2%





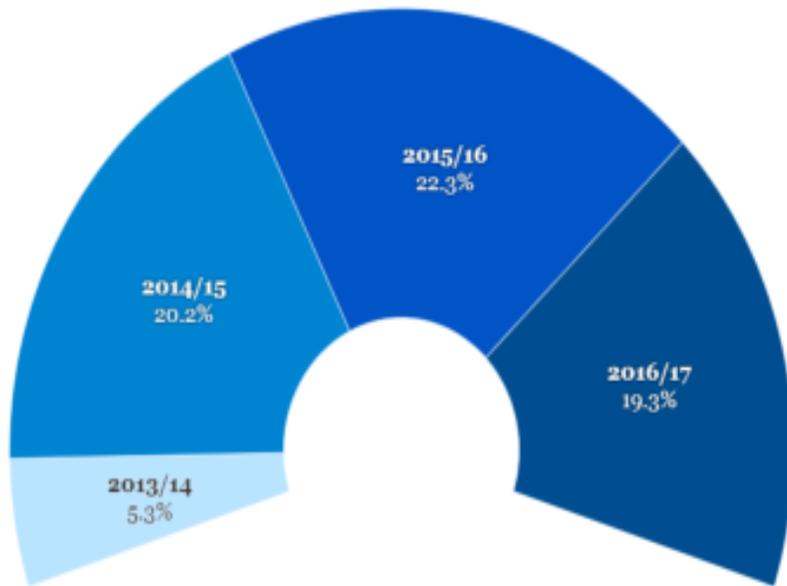
Objective 1

4.2.1. To enhance equitable service delivery

Health Service Index (17%) structure

Proportion of health expenditure as an overall government spending

County Level



- ✓ health facility-gaps (weighing 20%) – to measure expenditure needs for health infrastructure;
- ✓ three years average number of primary health care visits to levels 2 and 3 health facilities (weight at 60%) and;
- ✓ three years average in-patient days in levels 4 and 5 hospitals (weight at 20%);

This include cost for techers competence& performance management,reforms and innovation in provision of teaching service and service delivery reengineering

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Agriculture Index(10%)



✓ **Schedule four of the CoK2010 assign Agr function to counties, extension service is at the core of this responsibility;**

✓ Ideally, each administrative ward should be served by five extension officers for each of agriculture sub-sectors (crop, livestock, veterinary, fisheries and irrigation);



✓ However, the commission cites absence of farmers register for more objective measure for the parameter;



✓ Thus, the proposed formula is constructed based on rural households as a proxy measure of expenditure need for extension services

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Other Services Index(18%)

SUSTAINABLE
DEVELOPMENT
GOALS



+



+



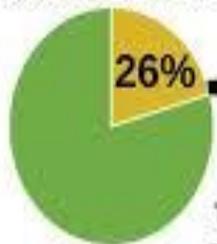
- ✓ This parameter lumps: ECDE and vocational training + public entertainment + animal control & welfare + fire-fighting services & disaster management + control of drugs and pornography among several others;
- ✓ The commission consider population as sufficient proxy as measure for service needs;
- ✓ The county's proportion of population based on the KPHC 2009 is used to construct the parameter, weighing 18 per cent.

Basic Share Index(20%)



2nd Revenue Formula

BASIC EQUAL SHARE



The basic equal share is included in the formula in order to fund the cost of running common functions such as county executives and assemblies.



County Assemblies



County Executive

- ✓ Fairness dictates that all counties share at least some common characteristics;
- ✓ Basic Share parameter is meant to cater for these shared similarities among counties;
- ✓ For that reason, each county will receive an equal share of the amount allocated under this parameter;
- ✓ CRA says it is meant for admin functions and coordination of public participation;
- ✓ 19 per cent of the weight accorded to the index is shared equally among all counties while one per cent based on the inverse of a county's population.





Objective 2:4.2.2. To Promote Balanced Development

Land Area Parameter (7%)



Extra Land Area = Extra
cost for similar service

- ✓ The index says, a county with a larger area incur additional administrative costs to deliver comparable standards of service to citizens;
- ✓ Thus, revenues allocated based on land area parameter is meant to provide counties with adequate resources to cater for related costs [affected by land size];
- ✓ The county's proportion of the land area is used to construct the parameter measurements.

Poverty Index(14%)



- ✓ The index is meant to promote constitutional goal of ensuring that all Kenyans have access to basic services, irrespective of where they live;
- ✓ It measures underdev't, thus used as a proxy for developmental needs and [for addressing] economic disparities among counties;
- ✓ To measure disparities, the parameter uses head count [#of poor people] as a county's proportion of poor people.



Urban Services Index(5%)

11 SUSTAINABLE CITIES AND COMMUNITIES

60 per cent of the world's population will live in cities by 2030

SUSTAINABLE CITIES: WHY THEY MATTER

What's the goal here?
To make cities inclusive, safe, resilient and sustainable

Why?
The world is becoming increasingly urbanized. Since 2007, more than half the world's population has

growth— contributing about 60 per cent of global GDP. However, they also account for about 70 per cent of global carbon emissions and over 60 per cent of resource use.

What are some of the most pressing challenges that cities face today?

- ✓ Solid waste management + control of air pollution + noise pollution + other public nuisances + outdoor advertising are urban services counties are responsible for;
- ✓ Other include: county public works + services such as storm water management;
- ✓ CRA has considered county's proportion of urban households as provided for in the KPHC of 2009 as a measure of expenditure needs;



Roads Index(4%)



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- ✓ The 4th schedule of CoK assigned the responsibility of county roads to county governments;
- ✓ In constructing the parameter, the commission considered county's rural access index (RAI) as measure of expenditure needs for roads;
- ✓ World Bank estimated 13.5 million Kenyan to have no access to an all-season road in 2015;
- ✓ RAI is the proportion of a county's population who have access to a motorable road within two kilometers based on data from the Kenya Roads Board from 2017;



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Objective 3&4

- ✓ 4.2.3&4. To incentivize Counties to:
 - Optimize capacity to Raise Revenue
 - Prudently Use of Public Resources

Fiscal Effort(2%)



- ✓ Imposing of property and entertainment taxes, charges and fees for services rendered is reserved for county governments [article 209 (3)];
- ✓ Article 203(i) further provides incentives for counties to optimize their capacity to raise revenue;
- ✓ The Gross County Product (GCP), relied by CRA, measures the size and structure of a county's economic activity, thus used as a proxy to estimate a county's revenue potential;
- ✓ CRA proposes application of data from COB & KNBS to construct a ratio of a county's actual Own Source Revenue (OSR) to GCP as a measure of fiscal effort

Fiscal Prudence+(2%)



- ✓ Article 216(3)(c) empowers CRA to encourage fiscal responsibility + transparent & accountable governance, Article 174(a)(c)(d)(i);
- ✓ In Article 201(d)(e) counties must be prudent on use of public finances + optimize their capacity to raise revenue, Article 203(i);
- ✓ Alongside independent audit by OAG, PFMA Section 155(5) requires counties to establish internal audit committees and to establish CBEF, Sec. 137;
- ✓ OAG's opinion of county's expenditures + dev't expenditure absorption+ internal audit committee + the CBEF are used to construct the parameter measure.

How much will your county get from the new formula?

- ✓ Counties were estimated to share 335.7 billion in 2019/20, however this allocation was slashed down to 316.5 billion;
- ✓ To demonstrate the effect of the formula on county allocation, we look at each county's share based on the original proposal;
- ✓ 15% of the proposal will be shared among counties whose allocation will reduce by over 5% under the new formula to cushion against disruption of service delivery;
- ✓ The county share (less 15% i.e. ksh 332.4 billion is split into three parts:
 - Ksh 216 billion is shared under objective 1
 - Ksh 103 billion is shared under objective 2
 - Ksh 13 billion is shared under objective 3&4

County allocations based on objectives

Shares under objective one (1) = Ksh 216Billion

No	County	Total (65%)	No	County	Total (65%)
1	Nairobi City	9,582	25	Kwale	4,539
2	Kakamega	8,680	26	Kericho	4,536
3	Nakuru	7,321	27	Kirinyaga	4,325
4	Bungoma	7,259	28	Narok	4,202
5	Kiambu	6,945	29	Nyandarua	4,040
6	Meru	6,911	30	Mombasa	4,008
7	Kisii	6,094	31	Baringo	3,814
8	Machakos	5,919	32	Embu	3,787
9	Kilifi	5,532	33	Nyamira	3,707
10	Migori	5,482	34	Kajiado	3,602
11	Murang'a	5,420	35	West Pokot	3,595
12	Kitui	5,351	36	Vihiga	3,487
13	Kisumu	5,327	37	Wajir	3,329
14	Makueni	5,081	38	Garissa	3,176
15	Turkana	4,876	39	Laikipia	3,170
16	Siaya	4,859	40	Elgeyo-Marakwet	3,090
17	Uasin-Gishu	4,852	41	Tharaka-Nithi	2,889
18	Trans-Nzoia	4,779	42	Taita-Taveta	2,716
19	Nyeri	4,776	43	Marsabit	2,552
20	Homa-Bay	4,697	44	Tana-River	2,522
21	Nandi	4,696	45	Samburu	2,432
22	Mandera	4,638	46	Lamu	2,173
23	Bomet	4,586	47	Isiolo	2,151
24	Busia	4,566			

Shares under objective two (2) = Ksh 103 billion

No	County	Total (31%) (31%)	No	County	Total (31%) (31%)
1	Nairobi City	7,062	25	Homa-Bay	1,878
2	Turkana	5,730	26	Baringo	1,851
3	Mandera	4,321	27	Migori	1,793
4	Wajir	3,947	28	Makueni	1,772
5	Nakuru	3,820	29	Isiolo	1,735
6	Kitui	3,747	30	Nandi	1,711
7	Kilifi	3,612	31	Trans-Nzoia	1,689
8	Garissa	3,294	32	Meru	1,623
9	Marsabit	3,121	33	Bomet	1,578
10	Kiambu	2,977	34	Taita-Taveta	1,437
11	Kajiado	2,927	35	Siaya	1,435
12	Tana-River	2,855	36	Laikipia	1,424
13	Kakamega	2,699	37	Kericho	1,296
14	Narok	2,464	38	Murang'a	1,140
15	Uasin-Gishu	2,345	39	Nyandarua	1,106
16	Bungoma	2,273	40	Vihiga	1,001
17	Mombasa	2,264	41	Elgeyo- Marakwet	964
18	Samburu	2,054	42	Nyeri	933
19	West Pokot	2,006	43	Nyamira	815
20	Kisii	1,990	44	Embu	811
21	Machakos	1,979	45	Tharaka-Nithi	628
22	Kwale	1,955	46	Kirinyaga	575
23	Busia	1,954	47	Lamu	556
24	Kisumu	1,902			

Shares under objective three (3) = Ksh 13 billion

No	County	Total (4%)	No	County	Total (4%)
1	Narok	670	25	Nakuru	266
2	Samburu	508	26	West Pokot	253
3	Mombasa	491	27	Nyeri	252
4	Makueni	427	28	Turkana	241
5	Kilifi	415	29	Kisumu	240
6	Kajiado	395	30	Bomet	239
7	Kitui	393	31	Siaya	236
8	Isiolo	388	32	Mandera	234
9	Kakamega	355	33	Kirinyaga	229
10	Nairobi City	347	34	Nyamira	215
11	Machakos	338	35	Lamu	206
12	Bungoma	335	36	Murang'a	204
13	Kiambu	333	37	Taita-Taveta	203
14	Baringo	333	38	Wajir	201
15	Laikipia	318	39	Tana-River	199
16	Uasin-Gishu	315	40	Meru	172
17	Migori	301	41	Homa-Bay	167
18	Kwale	297	42	Trans-Nzoia	166
19	Kericho	296	43	Garissa	163
20	Nyandarua	295	44	Nandi	162
21	Embu	291	45	Tharaka-Nithi	156
22	Busia	278	46	Kisii	153
23	Vihiga	267	47	Elgeyo-Marakwet	92
24	Marsabit	267		Total	13,297

Additional Allocations to Cushion 8 Counties

- ✓ Article 203(d) and (j) require the criteria to ensure that county governments are able to perform functions allocated to them;
- ✓ The shift in revenue sharing framework is likely result in changes in counties' allocations, negatively affecting ongoing costs;
- ✓ The commission has proposed 15% of the county share revenue to be shared among counties with over 5% reduction in 2019/2020;
- ✓ Eight (8) counties will be negatively affected and thus, are proposed to share the 15% (Ksh. 3,250) as shown in the next slide.



Eight (8) counties share Ksh.3,250 million

No	County	Allocation Factor	Additional Allocation
1	Mombasa	20%	642
2	Kilifi	17%	558
3	Marsabit	14%	466
4	Wajir	13%	439
5	Mandera	13%	416
6	Kwale	10%	327
7	Lamu	8%	269
8	Garissa	4%	134

- ✓ These eight (8) counties would be cushioned against reductions in the equitable shares if the new formula was applied.
- ✓ The cushioning would last for a year, after which stabilization will resume
- ✓ Of the Ksh 3,250 million, Mombasa received the highest share of 20%
- ✓ Garissa receives the least share of 4%.

Observations

- ✓ Water as parameter was in the initial draft, but has been eliminated;
- ✓ Even having made aligned the formula closer to needs, CRA still has highly population.
- ✓ Disparities btw 2009 vs 2019 census raises a new challenge for the commission on population;
- ✓ CRA has not explained how coordination of public participation under Basic Share is measured. +CBEF + internal audit committees etc – is existence sufficient measure?
- ✓ ECDE is critical function of county governments to be lumped under “other county services” + adoption of general population as indicator measure for all education and training undermine the function;
- ✓ CRA cites to have designed the proposed formula in line with Maputo and Abuja declaration i.e. 10% and 17% for agr and health. But in what way? There is need for clarification there. Is CRA asking counties to set aside budgetary allocation to those set minimums? If so, what about national government?



Additional information and links

- ✓ access the complete CRA proposed formula from this link
https://www.ogikenya.org/sdm_downloads/cra_third-basis-...unty-governments/
- ✓ access spreadsheet with detailed calculations for each county under of the formula's parameters - https://www.ogikenya.org/sdm_downloads/spreadsheet-calc...proposed-formula/
- ✓ Read our submission to Senate from this link
https://www.ogikenya.org/sdm_downloads/submission-on-3r...neration-formula/