

# Revenue Sharing and 3<sup>rd</sup> Revenue Formula – Will it lead to Equity?

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Governments*

*By Elias Wakhisi–  
Manager - Public Policy & Research - ICPAK  
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# OUTLINE

1. → INTRODUCTION

2. → EQUITY VS INEQUALITY

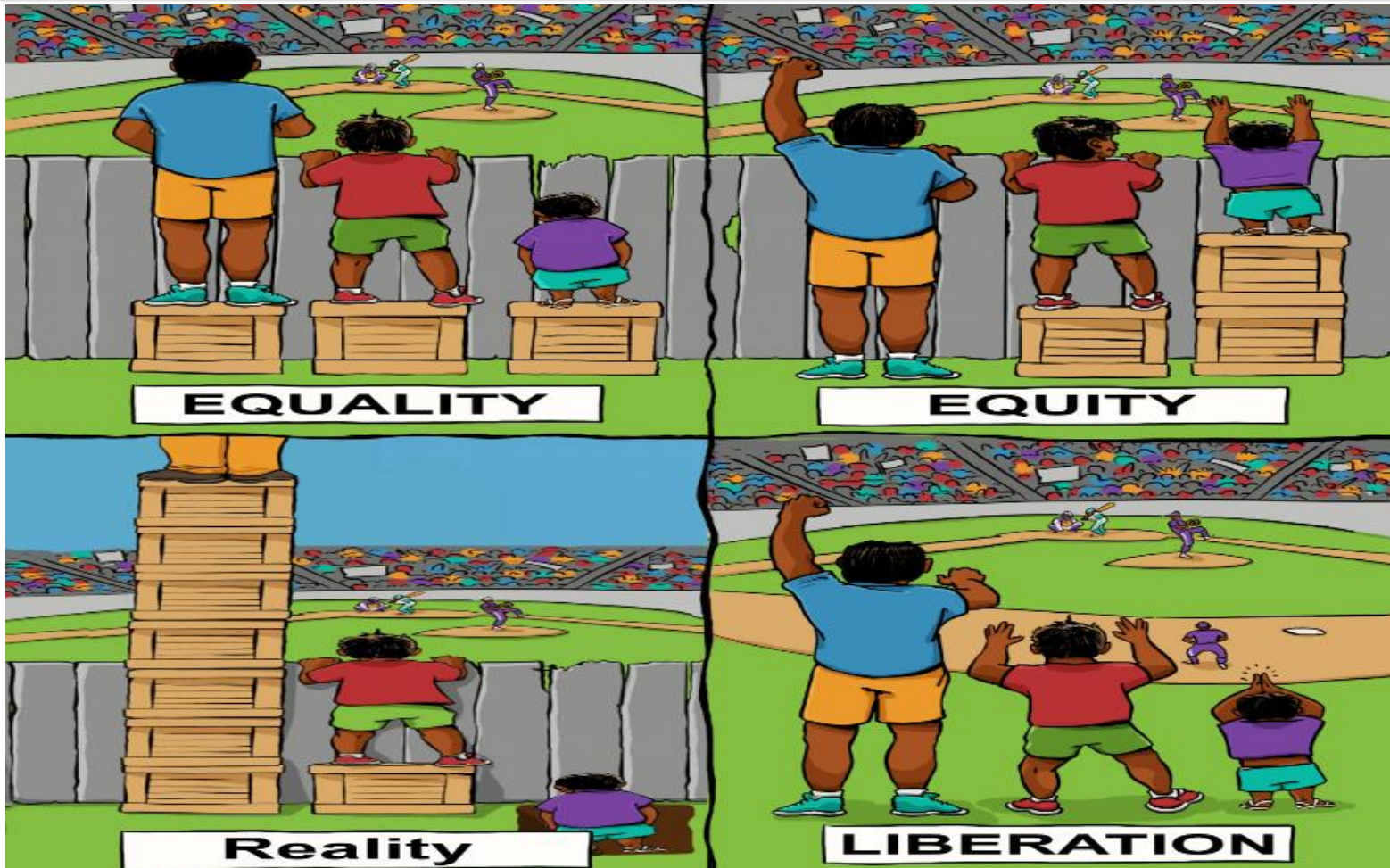
3. → CONVERGENCE ON EQUITY

4. → FISCAL RESPONSIBILITY AS A PANACEA

# Introduction- Revenue Sharing Process

- ❑ CoK transformed our governance thro' devolved system of Government (Art 174)
- ❑ Art. 216 of CoK mandates to make recommendations concerning the basis for equitable sharing of revenue raised by the national government:
  - a) between the national & county governments (Vertical share)
  - b) among the county governments (Horizontal share)
- ❑ The two levels of government that are distinct and interdependent to each other.
- ❑ Schedule 4 of the Constitution assigns functions

# Equity, Equality and Reality



Uphold

Public

Interest

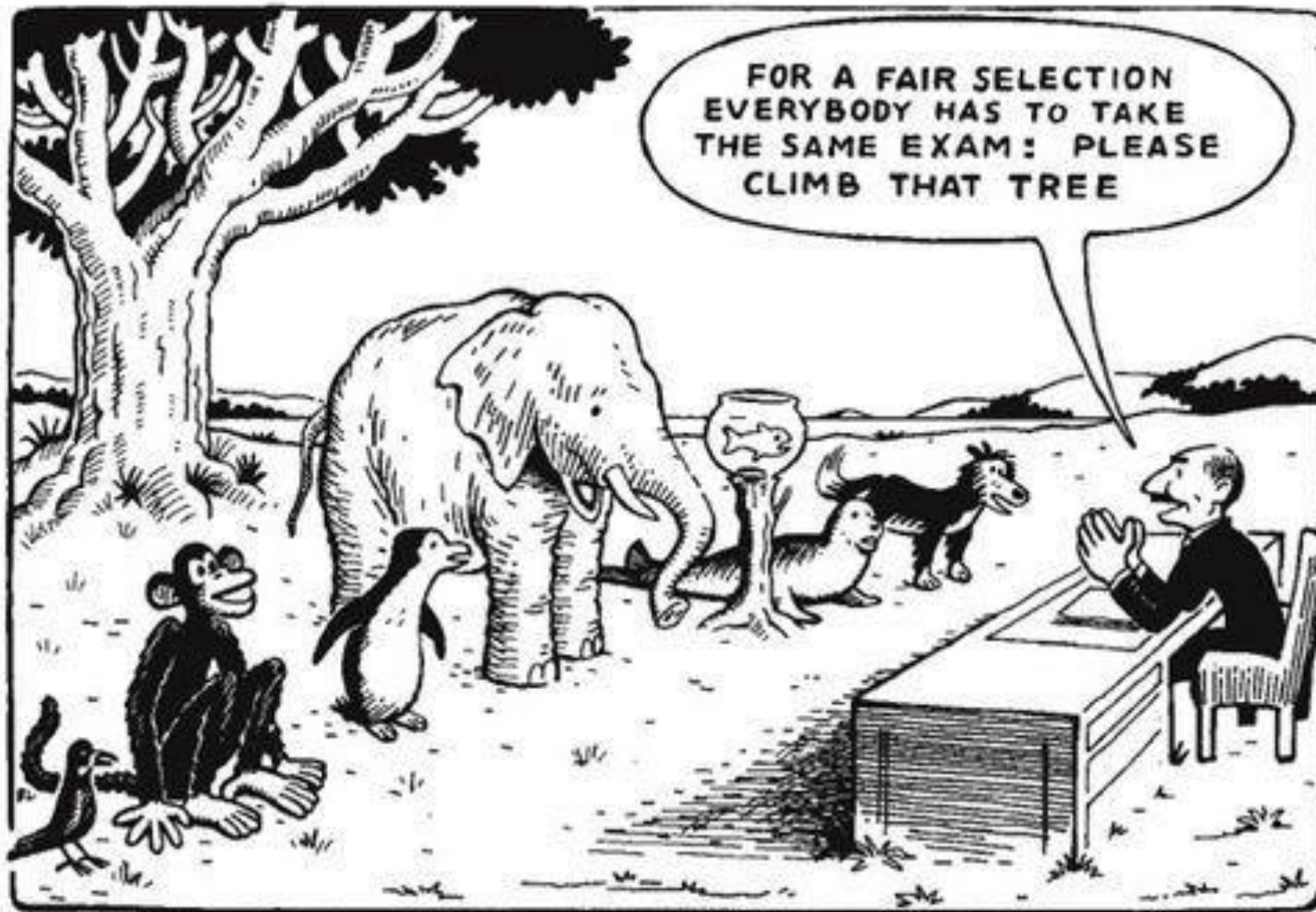
# Principles of Equity

## According to IBP, Principles of Fairness

1. **Need-** people who need more should get more
2. **Minimum shares/basic needs-** everyone deserves at least some minimal share of resources
3. **Capacity** - a person or population can meet their own needs;
4. **Effort** - people deserve more when they make more of an effort;
5. **Efficiency-** resources should be allocated where they will be used most effectively
6. **Process-** decisions produced through a fair process are intrinsically better than those produced by an unfair process;



# What is Fairness? To who?



Uphold .

Public .

Interest

# Equity Concerns in Revenue Share



- ❑ **Vertical Equity:** Arising out of revenue share between the two levels of government
- ❑ **Horizontal Equity-** Achieved through sharing of revenue among counties
- ❑ **Intra-county equity-** fairness in resource allocation, appointments within the county

## .....And Equality ?

- ❑ Reference to the SID Report, “Exploring Kenya’s Inequality: Pulling Apart or Pooling together, 2015”
- ❑ **Why should we care most about inequality?**
- ❑ **On ethical front** - the way social, economic & political benefits are shared in a society is a reflection of how fair a society’s institutions are to those living in it.
- ❑ **On Instrumental front:** inequality has a negative impact on poverty reduction, economic growth and the stability of a country



# .....And Equality ?



Equality = Sameness

GIVING EVERYONE THE SAME  
THING ———→ It only works if  
everyone starts from the same  
place



© 2014, Saskatoon Health Region

Equity = Fairness

ACCESS TO THE SAME  
OPPORTUNITIES ———→ We  
must first ensure equity before we  
can enjoy equality

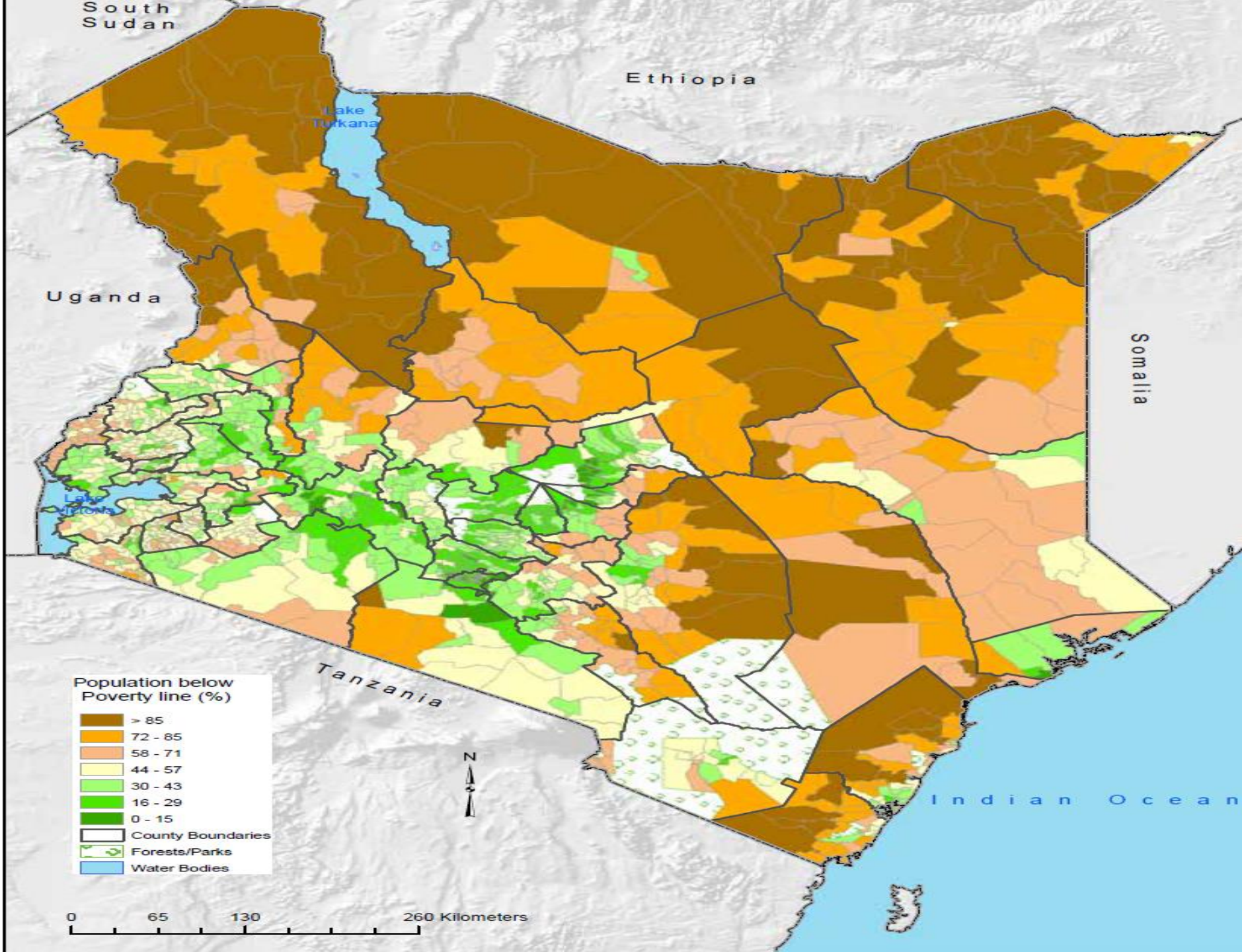
# Case of Inequality in Kenya- some #Facts

<b>Salient issue</b>	<b>example</b>
<b>Inequalities in all the variables are extreme</b>	Wajir County out of a population of 522,830 people, only 2,242 people can afford to spend Ksh7,200 or above.
<b>Kenyans living in different regions have completely different lifestyles &amp; access to services</b>	Individuals in Nairobi County have 15.4 times more access to secondary education than those living in Turkana County
<b>Kenyans living within the same region have completely different lifestyles &amp; access to services</b>	Magarini Constituency in Kilifi County has 84.5% of its population living in poverty compared with Rabai Constituency in the same county where only 39% of the population lives in poverty

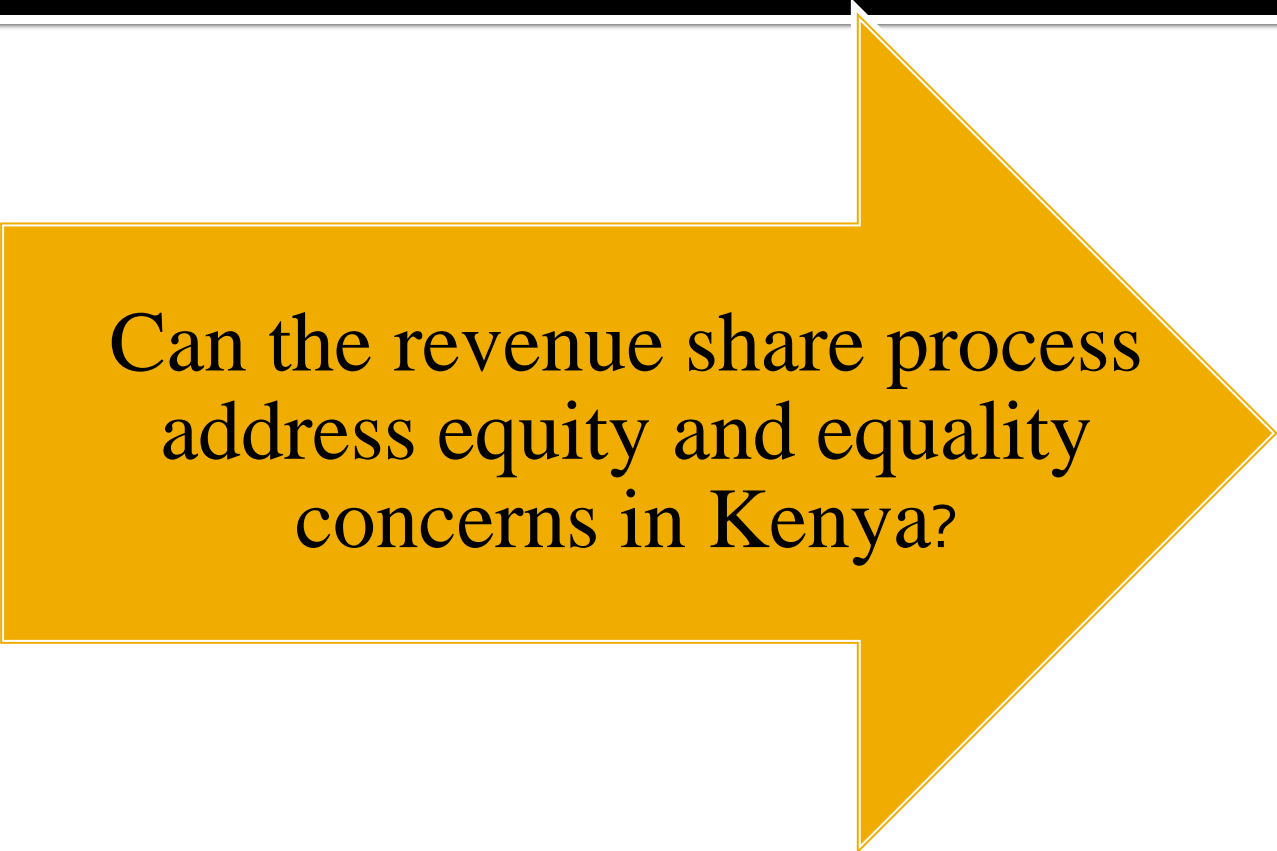
# Case of Inequality in Kenya- some #Facts

<b>Salient issue</b>	<b>example</b>
<b>In spite of past development policies and funds, levels of deprivation remain extremely high in some areas compared to others</b>	<ul style="list-style-type: none"> <li>❖ Only 23% of households in Kenya use electricity for lighting.</li> <li>❖ A household in Nairobi is 36 times more likely to have electricity for lighting compared with those in Tana River</li> </ul>
<b>Geographical location is a major determinant of vulnerability</b>	Individuals in urban areas have one & half times more access to improved water sources than their rural counterparts
<b>Some counties are deprived of some things &amp; are well endowed in others</b>	Narok County has the highest proportion of individuals (i.e 80% of the population) lacking access to improved sources of water yet it is among the counties with the lowest poverty gap





# The Mirage of Equity



Can the revenue share process  
address equity and equality  
concerns in Kenya?

# The Mirage of Equity– Equalisation Fund?

## Allocations to the Equalisation Fund since 2013/14

Year	Amount(millions)
2013/14	3,400
2014/15	3,400
2015/16	6,000
2016/17	6,000
2017/18	7,700
2018/19	4,700
<b>TOTAL</b>	<b>31,200</b>



# .....Convergence on Equity



In the first image, it is assumed that everyone will benefit from the same supports. They are being treated equally.

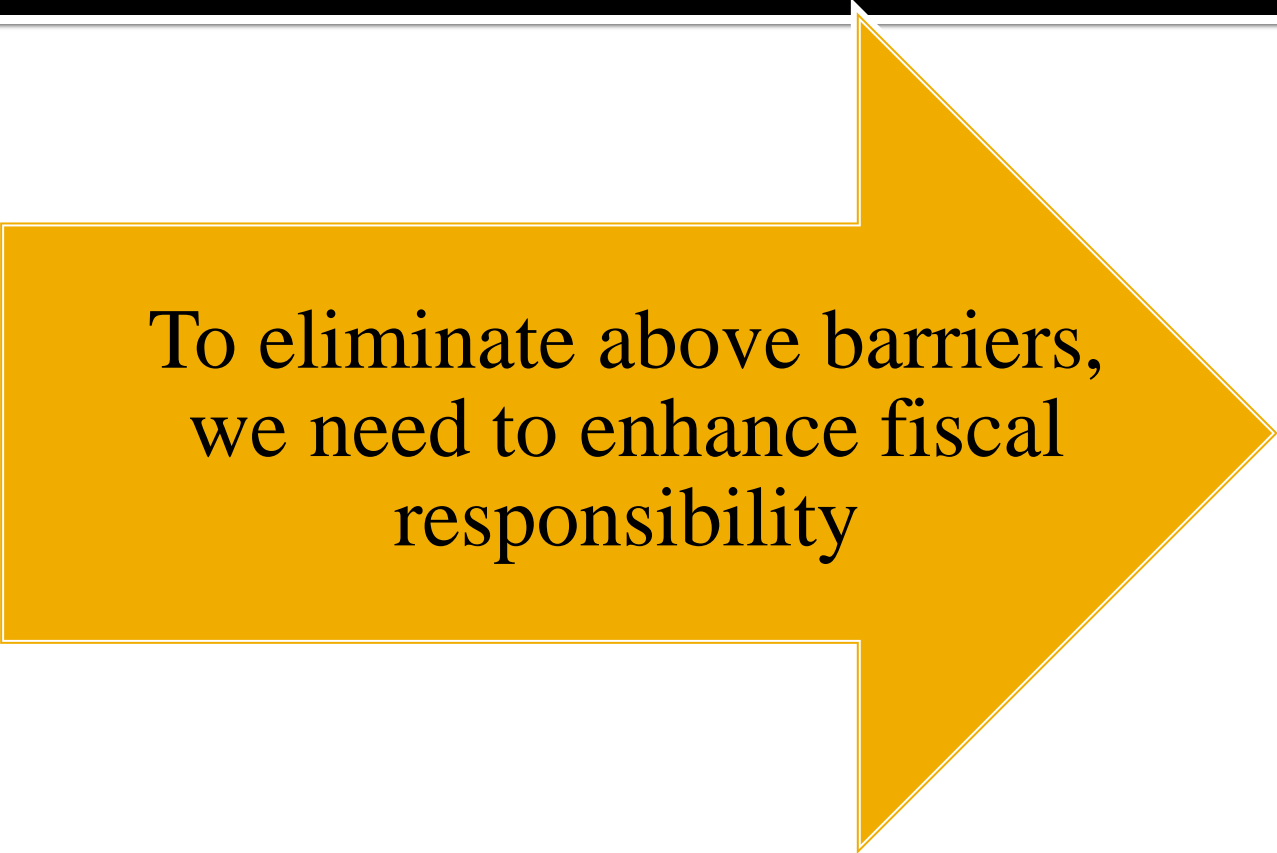


In the second image, individuals are given different supports to make it possible for them to have equal access to the game. They are being treated equitably.



In the third image, all three can see the game without any supports or accommodations because the cause of the inequity was addressed. The systemic barrier has been removed.

## Possible Solution?



To eliminate above barriers,  
we need to enhance fiscal  
responsibility

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# Fiscal Responsibility as a solution to equity concerns

- ❑ Just look at the amount of billions we lose at National & County Level .....
- ❑ Fiscal discipline therefore could be the panacea.
- ❑ Article 216(3 c) mandates CRA to consider fiscal responsibility when making recommendations
- ❑ PFMA Sections 15 and 105 – Fiscal responsibility principles for NG & CG
- ❑ ICPAK has been at the forefront in advocating for increase in weighting for fiscal responsibility parameter

# Treatment of Fiscal Responsibility in 1<sup>st</sup> & 2<sup>nd</sup> Revenue Sharing Formula

Parameter	Weights 1 <sup>st</sup> Generation Formula	2 <sup>nd</sup> Generation Formula
Population	45	45
Equal share	25	25
Poverty	20	18
Land Area	8	8
<b>Fiscal Responsibility</b>	<b>2</b>	<b>1</b>
Development Factor	-	1
Personnel Emolument	-	2
<b>Total</b>	<b>100</b>	<b>100</b>

# ICPAK Proposed Parameters on Fiscal Responsibility



1. Structural balance between recurrent & capital expenditure;
2. Absorption capacity of development Funds.
3. Proportion of the direct personnel costs (wages and benefits) against total recurrent expenditures
4. Maximization on Own Source Revenue(OSR).
5. Compliance to PFM Systems: Internal Audit function, Audit Committees, Reports of Auditor General, Controller of Budget & functional CBEFs among others



# ICPAK Proposed Parameters on Fiscal Responsibility

$$\mathbf{FRi = SBi+ACi+Ri+PCi + CFi}$$

Where:

- **FRi** = Measure of Fiscal Responsibility of a given County *i*
- **i** = 1,,2.....47.
- **SBi** = Revenue allocated to a county on the basis of Structural Balance between Recurrent and Capital Expenditure parameter.
- **ACi** = Revenue allocated to a county on the basis of Absorption Capacity parameter.
- **Ri**= Revenue allocated to a county on the basis of Own Revenue generated.
- **PCi** = Revenue allocated to a county on the basis of Proportion of Direct Personnel Costs against total recurrent expenditure parameter.
- **CFi**= Revenue allocated to a given county on the basis of a county's compliance with PFM requirements & structures

## THIRD BASIS FOR REVENUE SHARE

- ❑ The Third Basis for Revenue share is an improvement!
- ❑ The Focus on enhancing service delivery will take us to the path of equity(Health -15%; Agriculture 10%; Water 3%;Urban Services & Environment 3%; Other County Services 18%; Public Admin 20%)
- ❑ The inclusion of a parameter on revenue collection will also spur OSR
- ❑ Fiscal Prudence at 3% is an improvement on the previous weighting.
- ❑ Fiscal prudence – need to move beyond establishment of structures such Audit Committees/CBEFs to instead use effectiveness

# CONCLUSION

- ❑ The Third Basis for Revenue share is an improvement!
- ❑ Focus should dwell more on removing barriers to equity.
- ❑ Fiscal prudence is the key to achieving equity in Kenya
- ❑ Counties must embrace these besides strengthening PFM systems, governance and participatory practices!

“Fairness does not mean everyone gets the same. Fairness means everyone gets what they need.” — **Rick Riordan**





Q&A



**Elias Wakhisi**  
**Institute of Certified Public Accountants of Kenya**  
**[Elias.Wakhisi@icpak.com](mailto:Elias.Wakhisi@icpak.com)**

**Thank You!!**