



The Third Revenue Sharing Basis/Formula: Will this lead to Equity

Presentation by:

Lineth Nyaboke Oyugi
Director, Research and Policy
Commission on Revenue Allocation (CRA)
Thursday, 4th March 2019

Presentation Outline



- ❑ The Principle of Equity/Fairness
- ❑ Responsibility on Revenue Sharing:
 - ❑ Commission on Revenue Sharing
 - ❑ Parliament
- ❑ Objectives of revenue Sharing
- ❑ Criteria for Revenue Sharing
- ❑ Previous framework for Revenue Sharing

Presentation Outline Cont...



- ❑ Comparable intergovernmental financing framework
- ❑ Framework for Third Revenue Sharing Formula
- ❑ Comparison of the Current/previous formulae
- ❑ Conclusions: Has the Third basis lead to Equity
- ❑ Plenary Q&A session

The Principle of Equity/Fairness



- Need
- Minimum/ Maximum Shares
- Fiscal Capacity
- Effort
- Efficiency
- Decision Making Process

Responsibility on Revenue Sharing



- ❑ Commission on Revenue Sharing: Article 216 (1)
- ❑ Parliament (Article 217(1):
 - ❑ Senate
 - ❑ National Assembly

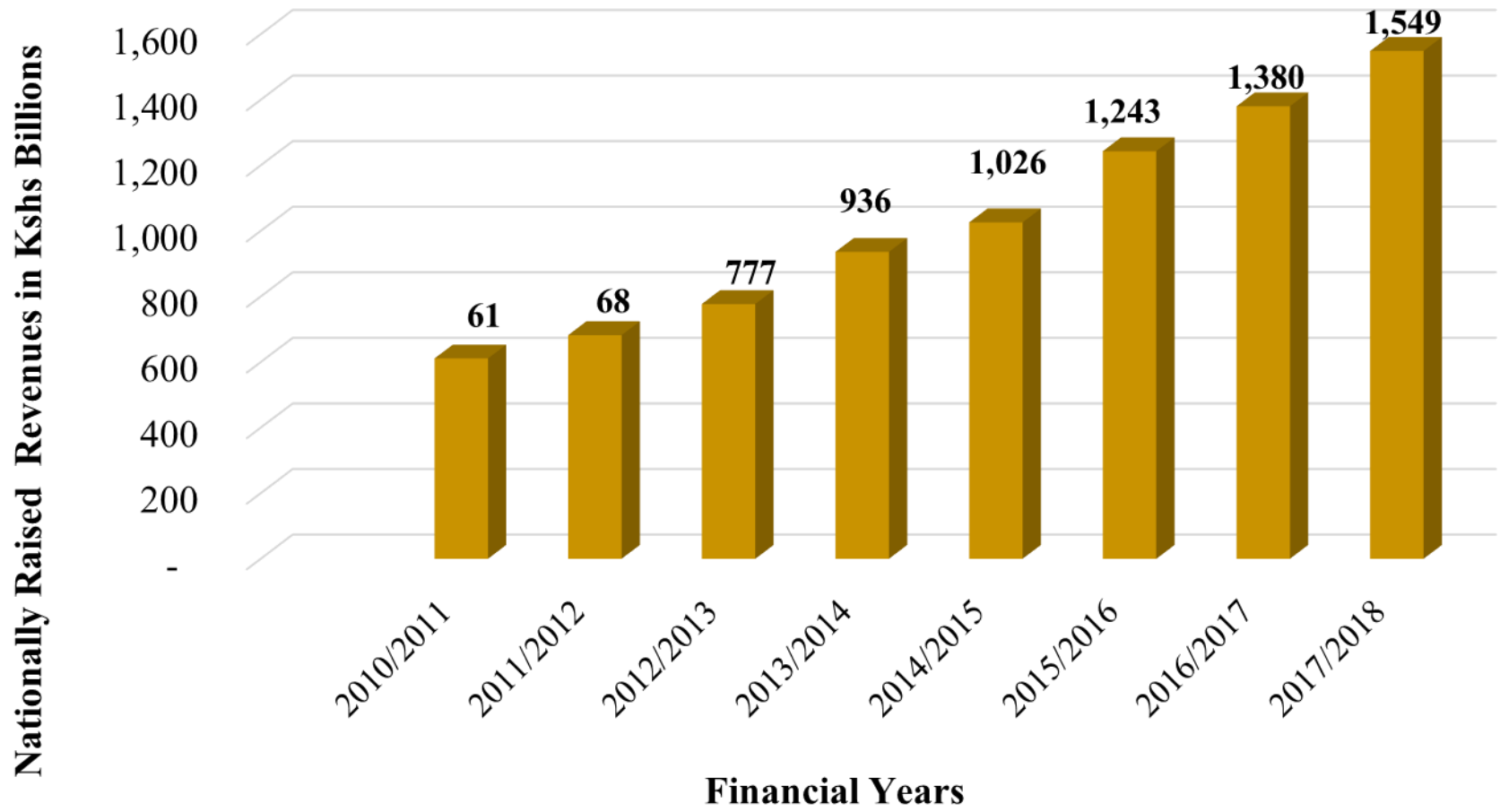
What revenue is being shared?



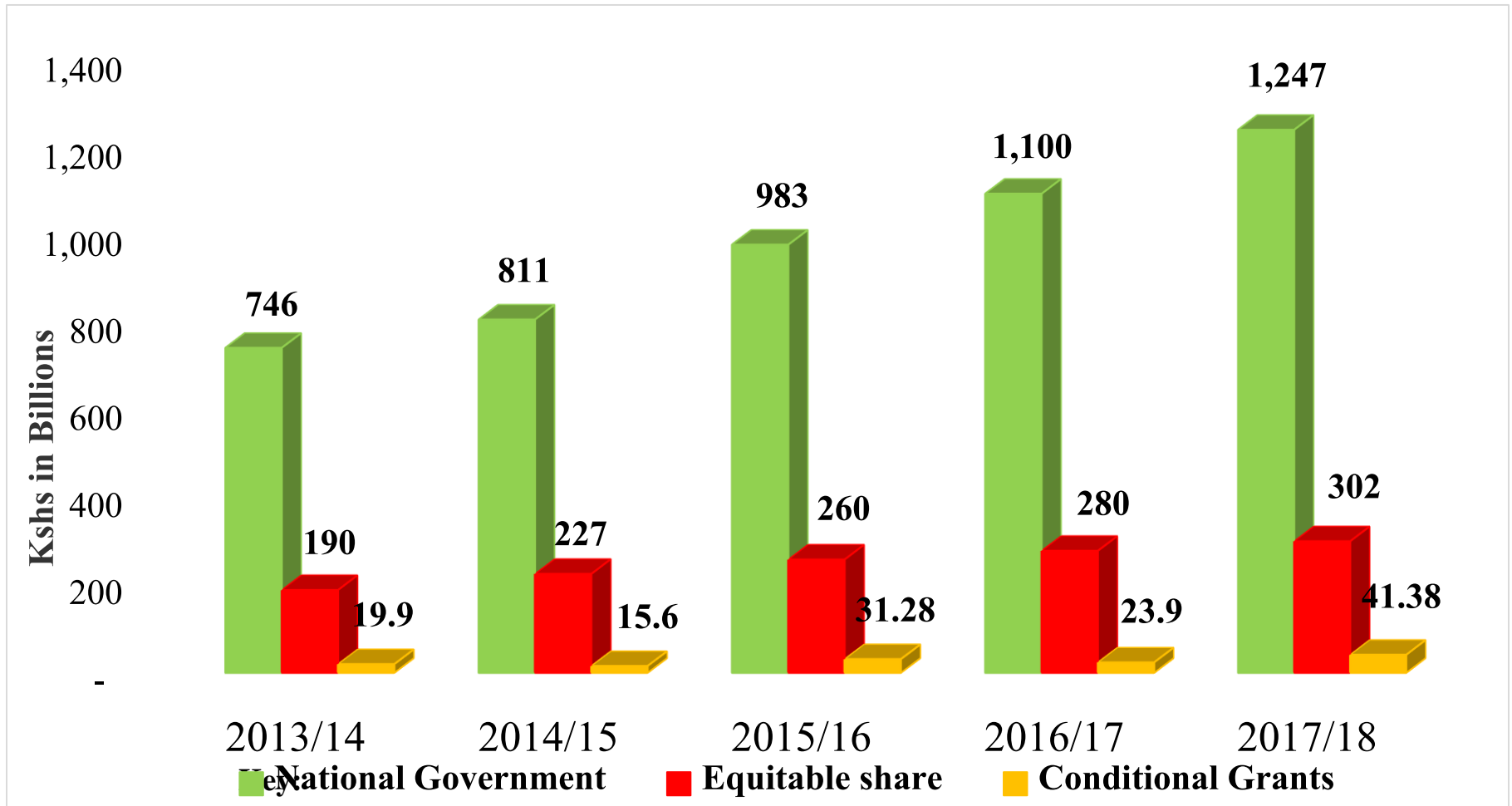
- ❑ Commission on Revenue Sharing: Article 216 (1)
- ❑ Parliament (Article 217(1):
 - ❑ Senate
 - ❑ National Assembly

What is being shared

Nationally Raised Revenues



Sharing of Nationally Raised Revenues



Objectives of Revenue Sharing



1. To enhance equitable service delivery
Fourth Schedule
Article 187
Article 203(1)(d)
provide adequate revenues to ensure that
county governments are able to perform
functions assigned to them

Objectives of Revenue Sharing



2. Promote balanced Development

Article 203:

provides for economic optimisation

Consider development and other needs
of counties

Address economic disparities

Objectives of Revenue Sharing



3. Incentivise counties to optimize capacity to raise revenue

- Counties have different endowments/potentials
- Article 209. Empowers counties to raise revenues
- Article 203: provides for provision of incentives to optimise capacity to raise revenue

Objectives of Revenue Sharing



4. Incentivise prudent use of public resources
 - Article 216(3)(c). Encourage fiscal Responsibility
 - Article 203 (1)(e): Provides for consideration of Efficiency of county governments

Comparable intergovernmental financing framework



No.	Parameter	Name of Country Using the Parameter
1	Population	Philippines; India; Ethiopia
2	Poverty	India; Ethiopia; South Africa
3	Land Area	Philippines; India; Ethiopia
4	Equal Share	Philippines; South Africa
5	Fiscal Responsibility /Fiscal Effort/Capacity Distance	Philippines; India; Ethiopia
6	Development/ Expenditure Needs	Ethiopia
7	Sectoral Model (Education; Health; Social Development; Backlog; & Economic Activity; Institutional capacity	South Africa

Review of Previous Bases

Previous framework for Revenue Sharing

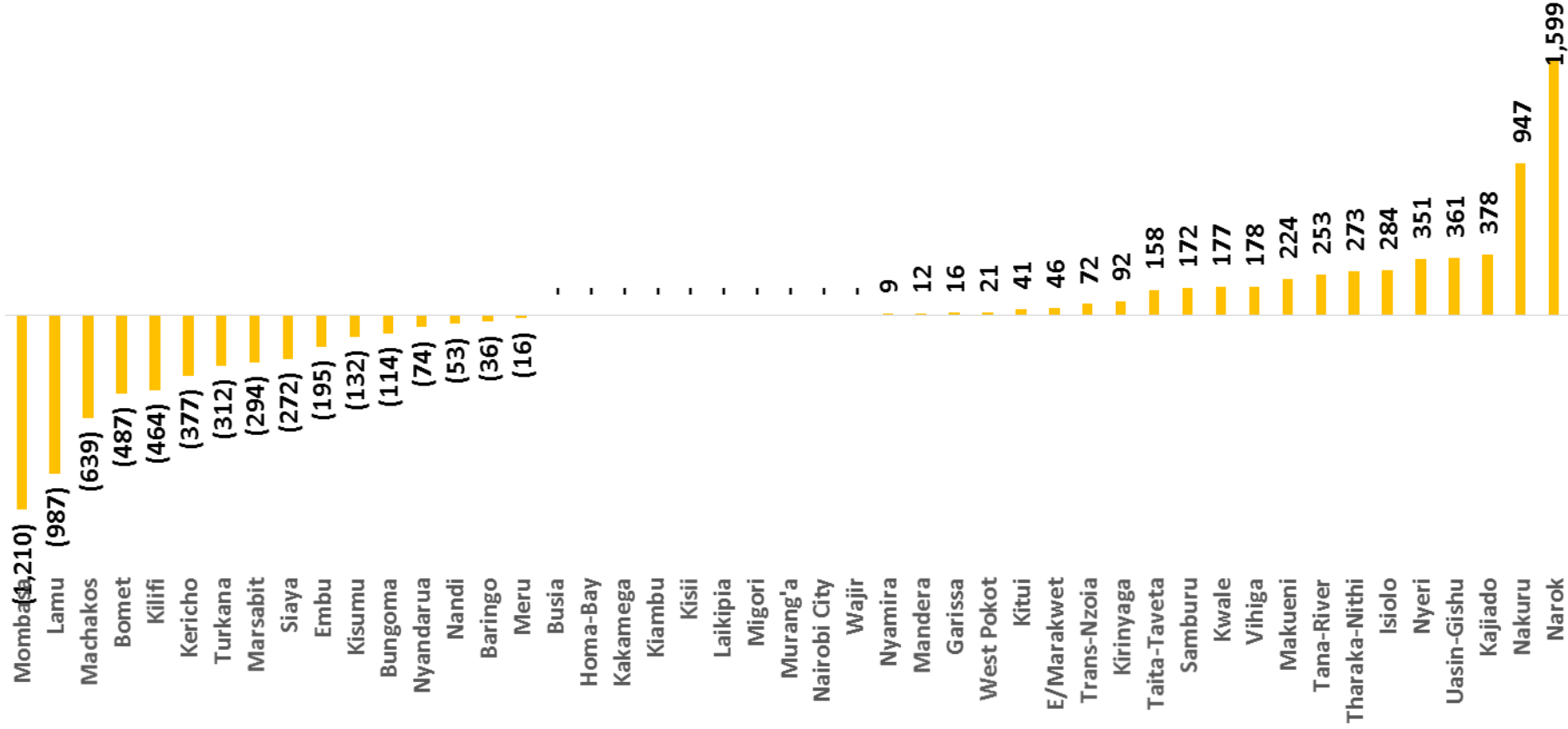


		First Basis	Second Basis
No.	Parameter	Weights	Weights
1	Population	45%	45%
2	Basic Equal Share	25%	26%
3	Poverty	20%	18%
4	Land Area	8%	8%
5	Fiscal Effort	2%	2%
6	Development Factor	-	1%
	TOTAL		100%

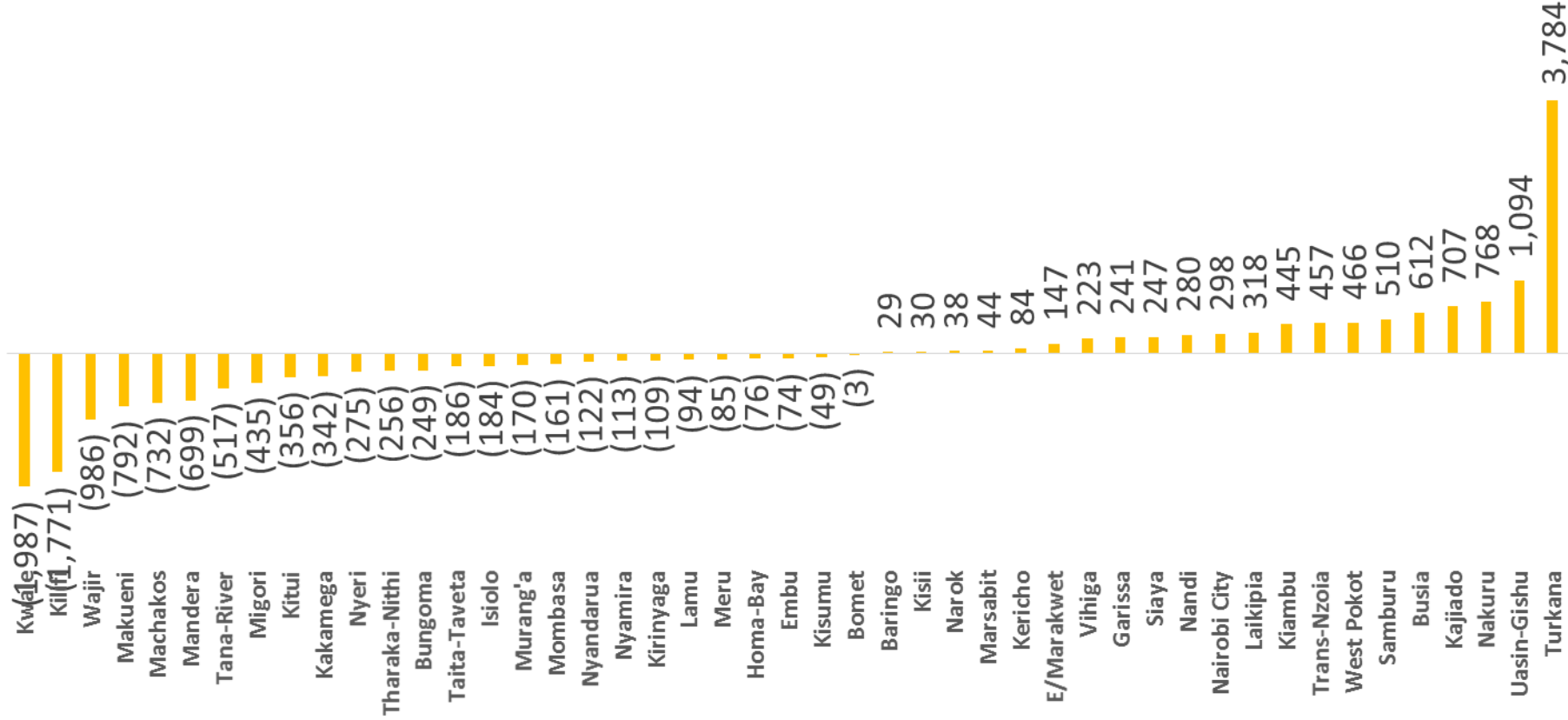
Disconnect between Vertical and Horizontal Basis:

County Functions		Actual Allocation	
A. Devolved Functions		2017/18	2018/19
1	Health Services	86,151	90,768
2	Planning & Development	58,000	56,554
3	Agriculture, Livestock & Fish.	23,479	24,195
4	Culture, Public Entertainment & Amenities	3,596	3,858
5	Youth Affairs and Sports	5,202	5,582
6	Trade, Coop Dev. & Regulation	5,210	5,590
7	Roads & Transport	47,489	48,958
8	Lands, Housing & Public Works	6,778	7,275
9	Water, Natural Resources & Environmental	8,517	8,860
10	Pre-Primary Education	2,795	2,800
B. Sub Total Devolved Functions		247,217	254,441
11	New Structures CA/CE	54,783	59,559
C. Total Equitable Share		302,000	314,000

2. Measure of the Fiscal Effort used creates instability



3. Measure of poverty used creates instability



4. Unfunded Mandates



Revenue sharing framework does not take into account unique needs of urban areas

The Third Basis for Revenue Sharing

Framework for Third Revenue Sharing Formula



Objective	Parameter	Indicator of Expenditure Need	Assigned Weight
To enhance service delivery	Health services	Health index	17%
	Agriculture services	Agricultural index	10 %
	Other county services	Population index	18 %
	Minimum share	Basic share index	20%
To promote balanced development	Land	Land area index	8 %
	Roads	Rural Access index	4 %
	Poverty level	Poverty head count index	14 %
	Urban service	Urban index	5%

Framework for Third Revenue Sharing Formula



Objective	Parameter	Indicator of Expenditure Need	Assigned Weight
Incentivise fiscal effort	Fiscal effort	Fiscal effort index	2 %
Incentivise fiscal prudence	Fiscal prudence	Fiscal prudence index	2 %

Has the Third Basis Achieved Equity:

1. Through the Basis
2. Through implementation

Equity/Fairness



No	County	Population	Allocation 2018/19	Recommendation 2019/20
1	Nairobi City	3,138,369	15,794	16,991
2	Kakamega	1,660,651	10,331	11,734
3	Nakuru	1,603,325	9,451	11,407
4	Turkana	855,399	10,770	10,847
5	Kiambu	1,623,282	9,357	10,255
6	Bungoma	1,375,063	8,949	9,867
7	Kilifi	1,109,735	10,833	9,560
8	Kitui	1,012,709	8,729	9,491
9	Mandera	1,025,756	10,142	9,192
10	Meru	1,356,301	8,007	8,706
11	Kisii	1,152,282	7,693	8,237
12	Machakos	1,098,584	8,321	8,236
13	Migori	917,170	6,720	7,575
14	Uasin-Gishu	894,179	5,935	7,512
15	Wajir	661,941	8,478	7,477

Equity/Fairness...



No	County	Population	Allocation 2018/19	Recommendation 2019/20
16	Kisumu	968,909	6,908	7,469
17	Narok	850,920	6,374	7,336
18	Makueni	884,527	7,128	7,280
19	Kajiado	687,312	5,997	6,924
20	Busia	743,946	5,966	6,798
21	Kwale	649,931	7,536	6,791
22	Murang'a	942,581	6,249	6,764
23	Mombasa	939,370	8,227	6,763
24	Homa-Bay	963,794	6,688	6,741
25	Trans-Nzoia	818,757	5,621	6,634
26	Garissa	623,060	6,939	6,634
27	Nandi	752,965	5,369	6,569
28	Siaya	842,304	6,029	6,531
29	Bomet	730,129	5,935	6,402
30	Kericho	752,396	5,715	6,128

Equity/Fairness...



No	County	Population	Allocation 2018/19	Recommendation 2019/20
31	Baringo	555,561	5,087	5,998
32	Nyeri	693,558	5,024	5,962
33	Marsabit	291,166	7,002	5,940
34	West Pokot	512,690	4,930	5,854
35	Tana-River	240,075	5,558	5,576
36	Nyandarua	596,268	4,930	5,441
37	Kirinyaga	528,054	4,113	5,129
38	Samburu	223,947	4,427	4,994
39	Laikipia	399,227	4,113	4,912
40	Embu	516,212	4,459	4,888
41	Vihiga	554,622	4,459	4,755
42	Nyamira	598,252	4,773	4,737
43	Taita-Taveta	284,657	4,051	4,356
44	Isiolo	143,294	3,925	4,275
45	Elgeyo-Marakwet	369,998	3,768	4,146
46	Tharaka-Nithi	365,330	3,642	3,672
47	Lamu	101,539	3,548	2,934
	Total			332,416

Fairness: Whose Perspective???



- National government
- County governments
- Politicians
- Citizens

Fairness: Whose Perspective???



□ What do counties spend money on?

3 YEAR AVERAGE WAGE BILL EXPENDITURE (%)

No	County	Wage Bill	No	County	Wage Bill	No	County	Wage Bill
1	Taita Taveta	58	17	Nakuru	49	33	Trans Nzoia	40
2	Elgeyo Marakwet	57	18	Homa Bay	48	34	Kajiado	39
3	Nairobi City	56	19	Bomet	45	35	Nandi	39
4	Tharaka Nithi	56	20	Mombasa	44	36	Makueni	38
5	Meru	53	21	Murang'a	44	37	Narok	38
6	Embu	52	22	Siaya	44	38	Wajir	38
7	Kirinyaga	52	23	Uasin Gishu	44	39	West Pokot	38
8	Kisumu	52	24	Bungoma	43	40	Kitui	35
9	Machakos	52	25	Busia	42	41	Samburu	35
10	Vihiga	52	26	Kericho	42	42	Tana River	33
11	Nyamira	51	27	Migori	42	43	Kwale	32
12	Baringo	50	28	Isiolo	41	44	Kilifi	30
13	Kiambu	50	29	Garissa	40	45	Turkana	30
14	Kisii	50	30	Kakamega	40	46	Marsabit	24
15	Nyeri	50	31	Lamu	40	47	Mandera	19
16	Laikipia	49	32	Nyandarua	40		Average	43

3 YEAR AVERAGE DEVELOPMENT EXPENDITURE (%)

No	County	Expenditure	No	County	Expenditure	No	County	Expenditure
1	Mandera	51	17	Mombasa	30	33	Bungoma	26
2	Turkana	47	18	Siaya	30	34	Elgeyo/Marakwet	25
3	Tana River	45	19	West Pokot	30	35	Lamu	25
4	Kakamega	43	20	Garissa	30	36	Samburu	25
5	Kitui	42	21	Uasin Gishu	29	37	Baringo	25
6	Marsabit	42	22	Nyandarua	29	38	Kirinyaga	22
7	Kwale	41	23	Trans Nzoia	29	39	Kisumu	22
8	Kilifi	40	24	Nandi	29	40	Meru	21
9	Murang'a	36	25	Laikipia	28	41	Vihiga	21
10	Wajir	35	26	Embu	27	42	Nyamira	21
11	Isiolo	35	27	Narok	27	43	Nyeri	21
12	Migori	33	28	Homa Bay	26	44	Kiambu	21
13	Busia	31	29	Tharaka -Nithi	26	45	Nakuru	19
14	Bomet	31	30	Machakos	26	46	Nairobi City	13
15	Makueni	31	31	Kisii	26	47	Taita/Taveta	11
16	Kenya	30	32	Kajiado	26		Average	29

Fairness???



❑ Has the 3rd Basis addressed the following principles?

- ✓ Need
- ✓ Minimum/ Maximum Shares
- ✓ Fiscal Capacity
- ✓ Effort
- ✓ Efficiency
- ✓ Decision Making Process

Third Basis for Revenue Sharing



□ Plenary Q&A session