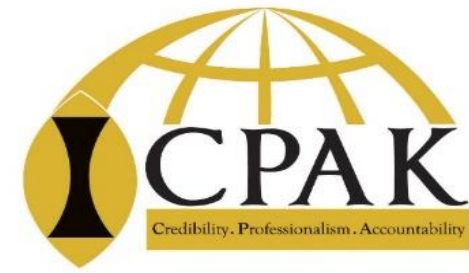


BUDGET REVIEW & EMERGING TAX ISSUES WORKSHOP

DIVISION OF REVENUE BETWEEN THE NATIONAL & COUNTY
GOVERNMENT
FY 2019-20

Hillary Onami
Public Policy & Research – ICPAK

PRESENTATION OUTLINE



Fiscal
Transfer
Framework
in Kenya

Basis for
Revenue
Share

DORB 2019

DORB
STALEMATE

CONSTITUTION REVENUE -SHARING

Article 209 assigns tax powers to the two levels of government



Funding follows functions



Revenue raised nationally shall be shared equitably among the national and county governments

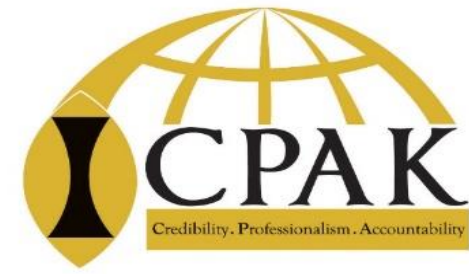


Article 203(1) stipulates the criteria for equitable sharing of revenues.

County governments may be given additional allocations from the national government's share of the revenue, either conditionally or unconditionally

Article 217 (1) mandates the Senate to determine, every five years, the basis for allocating among the counties the share of national revenue that is annually allocated to the county level of government

REVENUE FORMULATION & APPROVAL



❑ Commission on Revenue Sharing: Article 216 (1)

❑ The principal function of the Commission on Revenue Allocation is to make recommendations concerning the basis for the equitable sharing of revenue raised by the national government--

(a) between the national and county governments; and

(b) among the county governments.

Parliament (Article 217(1):

❑ Senate

❑ National Assembly

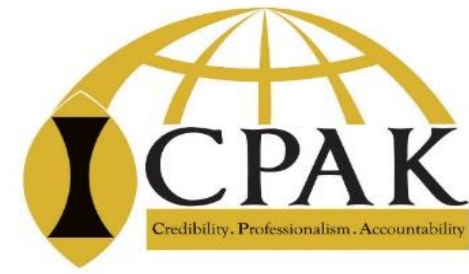


CRITERIA CONSIDERED IN DETERMINING THE EQUITABLE SHARES



- National interest;
- Provision for public debt and other national obligations
- Needs of the national government, determined by objective criteria;
- Need to ensure that county governments are able to perform the functions allocated to them;
- Fiscal capacity and efficiency of county governments;
- Developmental and other needs of counties;
- Economic disparities within and among counties and the need to remedy them;

CONSTITUTIONAL PROVISIONS



Article 203 of the Constitution assigns different—sometimes competing—objectives to the equitable revenue sharing formula, e.g.:

The need to ensure that county governments are able to perform the functions allocated to them;

Economic disparities within and among counties and the need to remedy them;

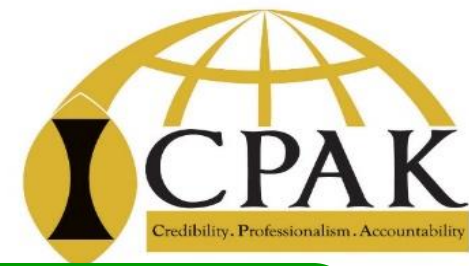
To provide incentives for each county to optimise its capacity to raise revenue;

The allocation formula (implicitly or explicitly) needs to balance these competing objectives:

Not enough redistribution may cause political instability

Too much re-distribution may cause under-funding of areas that are Kenya's engines of economic growth

CONSTITUTIONAL PROVISIONS - TIMELINES



Jan 1 - CRA
submits
recommendations
on Division of
Revenue

Feb 15- Budget
Policy Statement
submitted to
Parliament;
Division of
Revenue and
County Allocation
of Revenue Bills
go to Parliament;
Debt
Management
Strategy Paper
tabled at national
level

April 30 - A
Division of
Revenue Bill –to
divide the revenue
raised by the
National
government
among the
national and
county levels of
government as
per the
constitution

A County
Allocation of
Revenue Bill –to
divide among
counties the
revenues
allocated to the
county level of
government

Parliament shall
consider the
Division of
Revenue and
County Allocation
of
Revenue Bills not
later than thirty
days after the Bills
have been
introduced with a
view to approving
them, with or
without
amendments

HOW MUCH SHOULD COUNTIES RECEIVE




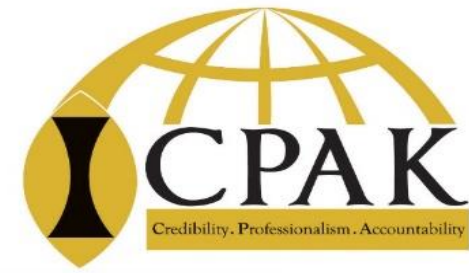
Each year Kenya's Parliament (National Assembly and the Senate) must decide how national revenue will be shared between national and county governments.

This discussion is informed by recommendations from the Commission on Revenue Allocation and the National Treasury.

CRA must table its recommendations in parliament by the 1st of January while National Treasury's recommendations are contained in the Budget Policy Statement (BPS) that is tabled in the National Assembly on or before the 15th of March each year.

We will look at the recommendations made by both agencies on the equitable share and conditional grants.

CRA REVENUE SHARE CRITERION



Over the last six years, a total of **Kshs. 1.572,736trillion** has been shared among county governments using two transitional bases.

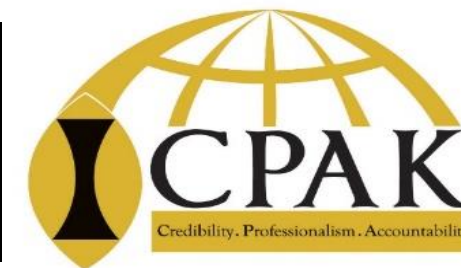


The first basis approved in November 2012 shared **Kshs. 956,736 million** for financial years **2013/14 to 2016/17**.



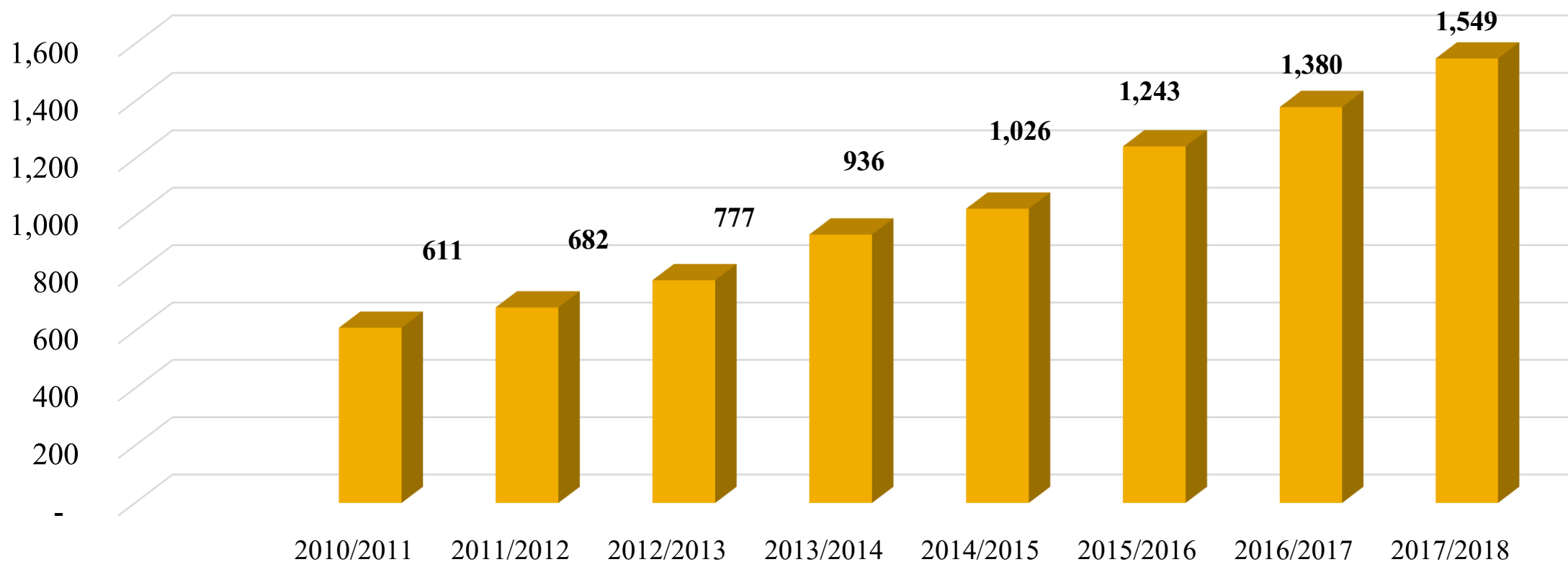
The second basis was approved by Parliament in June 2016 and used to share revenue for financial years **2017/18 and 2018/19** amounting to **Kshs 616,000 million**.

REVENUE SHARED



Nationally Raised Revenues

Nationally Raised Revenues in Kshs Billions



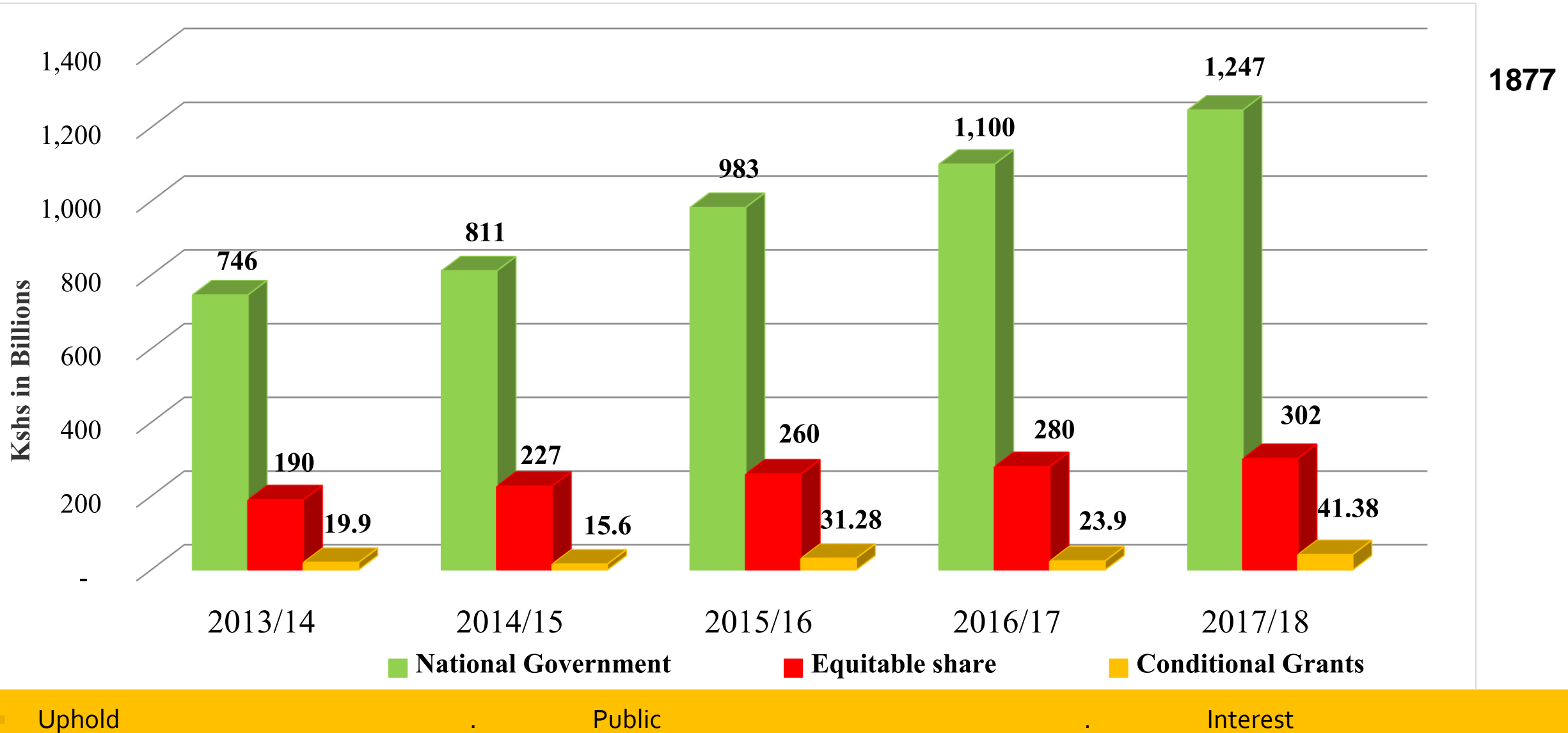
Financial Years

Uphold

Public

Interest

SHARING OF NATIONALLY RAISED REVENUES



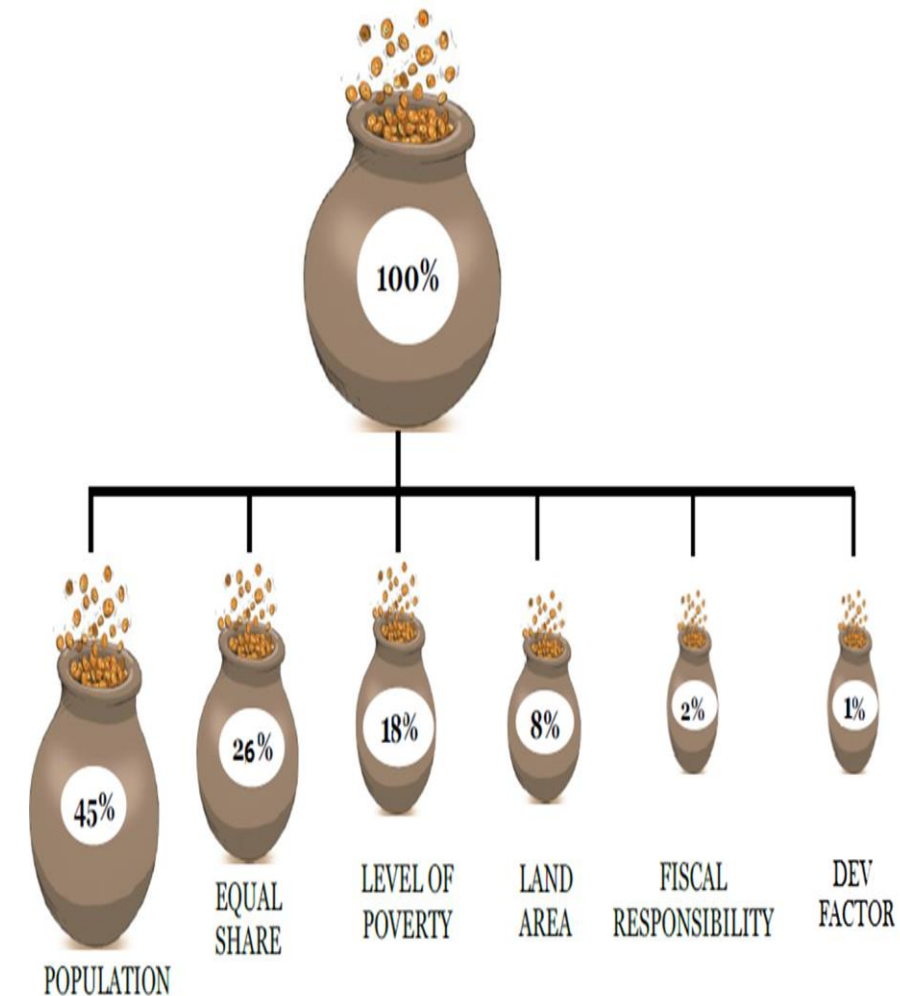
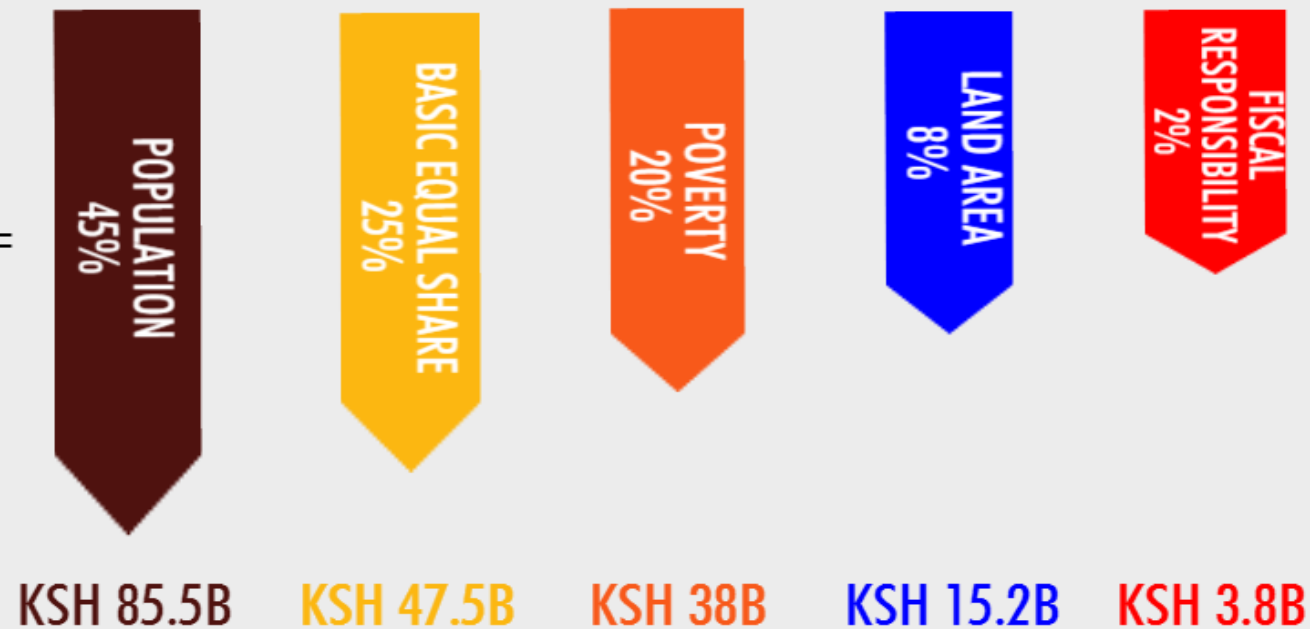
CRA REVENUE SHARE CRITERION

How is the Equitable Share Distributed Among Counties?

Total Equitable Share distributed to counties in 2013/14 through the Commission on Revenue Allocation (CRA) formula

KSH 190 Billion

The CRA Formula =



3rd REVENUE SHARING FORMULA



Objective	Parameter	Indicator of Expenditure Need	Assigned Weight
1. 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%
2. 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%
3. Incentivise fiscal effort	Fiscal effort	Fiscal effort index	2 %
4. Incentivise fiscal prudence	Fiscal prudence	Fiscal prudence index	2 %

Source: CRA 2019

Uphold

Public

Interest

3rd REVENUE SHARING FORMULA



Objective 2. Promote balanced development			
2.1 Infrastructure	• County transport	Land area	8 %
	• Trade development and regulation	Rural access index	4 %
		Poverty	14%
2.2 Urban Services	<ul style="list-style-type: none"> • Urban services and environment ✓ Control of air pollution, noise pollution, other public nuisances and outdoor advertising. ✓ Fire-fighting services and disaster management. ✓ Control of drugs and pornography. ✓ County public works and services for storm water management, water and sanitation services 	Urban households	5 %

Objective 3. Incentivize capacity to raise revenue			
3.1 Revenue collection	• County revenue collection	Fiscal effort index	2 %
Objective 4. Incentivize prudent use of public resources			
4.1 Prudent use of public resources	<ul style="list-style-type: none"> • Establishment of Internal audit committee • Establishment of the County Budget and Economic Forum • Expenditure on development • Opinion of the External Auditor 	Prudence index	2 %

Source CRA 2019



Uphold



Public



Interest

DISCONNECT BETWEEN VERTICAL AND HORIZONTAL BASIS: 2ND REVENUE



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

The transfer basis did not delineate allocations assigned to the respective objectives, posing a challenge in assessing the adequacy of revenues allocated to different counties.

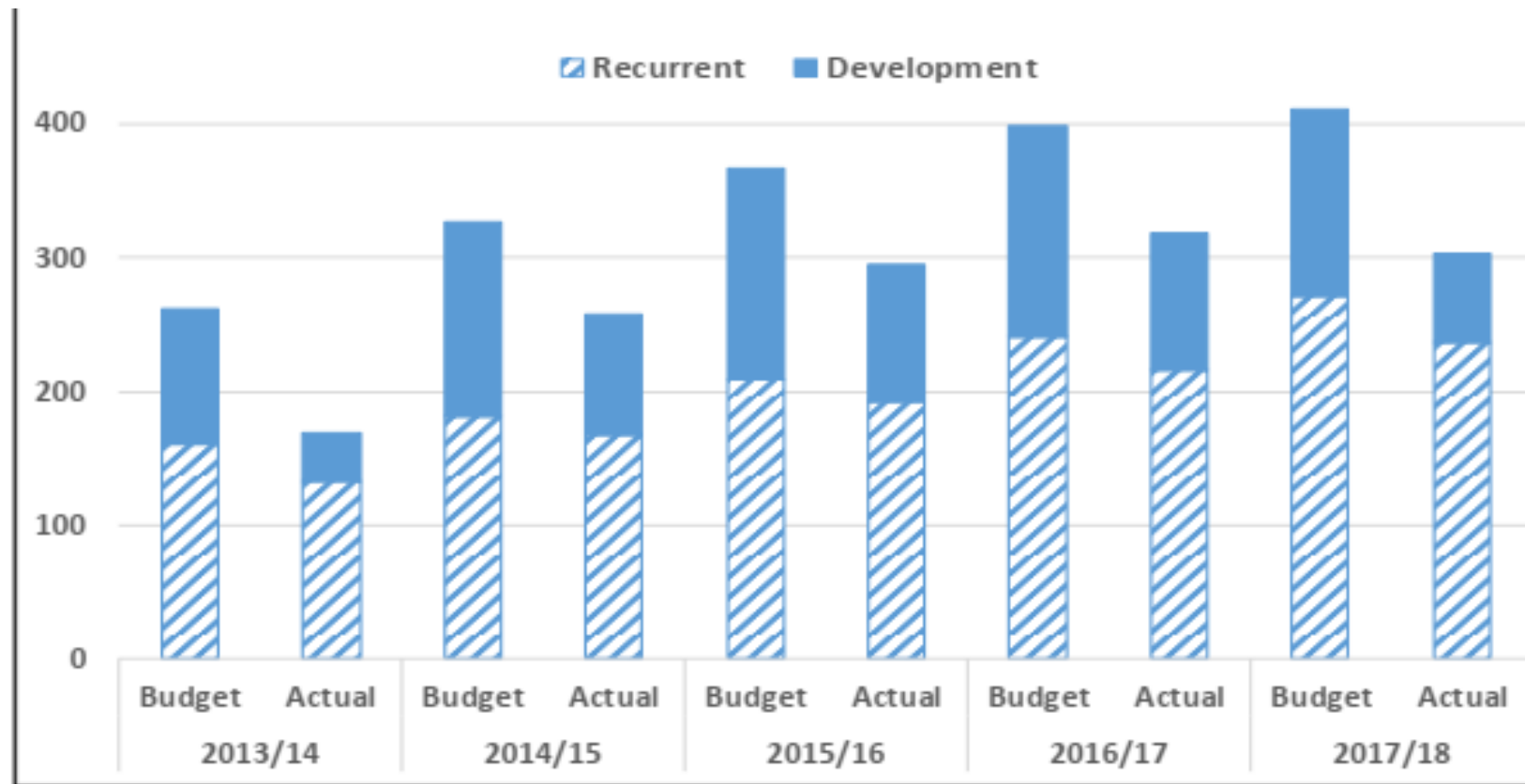
A revenue sharing framework driven by multiple objectives should provide for multiple transfer framework.

Uphold

Public

Interest

COUNTY FINANCIAL MANAGEMENT FY 2017/18



Source of data: Controller of Budget

County Governments' collective budget increased at a decreasing rate by:

25% in FY 2014/15;

13% in FY 2015/16; and,

9% in FY 2016/17.

This trend may be indicative of more realistic budgeting by the Counties.

Actual spending continues to grow as well at a decreasing rate.

52% In FY 2014/15,

14% in FY 2015/16, and

8% in FY 2016/17.

In FY 2017/18, Counties' actual spending was Ksh 303.8b, Ksh 15.2b below FY 16/17 & 5% contraction.

**ALLOCATION OF REVENUE RAISED NATIONALLY AMONG THE
NATIONAL AND COUNTY GOVERNMENTS FOR THE FINANCIAL YEAR
2019/20**



Type/level of allocation	Amount in KSh.	Percentage (%) of 2014/15 audited and approved Revenue i.e. KSh.1,038,035 Millions
A. National Government*	1,561,416,497,191	
Of which:		
1. <i>Leasing of Medical Equipment</i>	6,200,000,000	
2. <i>Compensation for user fees forgone</i>	900,000,000	
3. <i>Level 5 hospitals</i>	4,326,000,000	
4. <i>Supplement for construction of county headquarters</i>	485,152,184	
5. <i>Rehabilitation of Youth Polytechnics</i>	2,000,000,000	
B. Equalization Fund	5,760,000,000	0.6%
C. County equitable share	310,000,000,000	30%
D. Total shareable revenue	1,877,176,497,191	

**DIVISION
OF
REVENUE
BILL 2019**

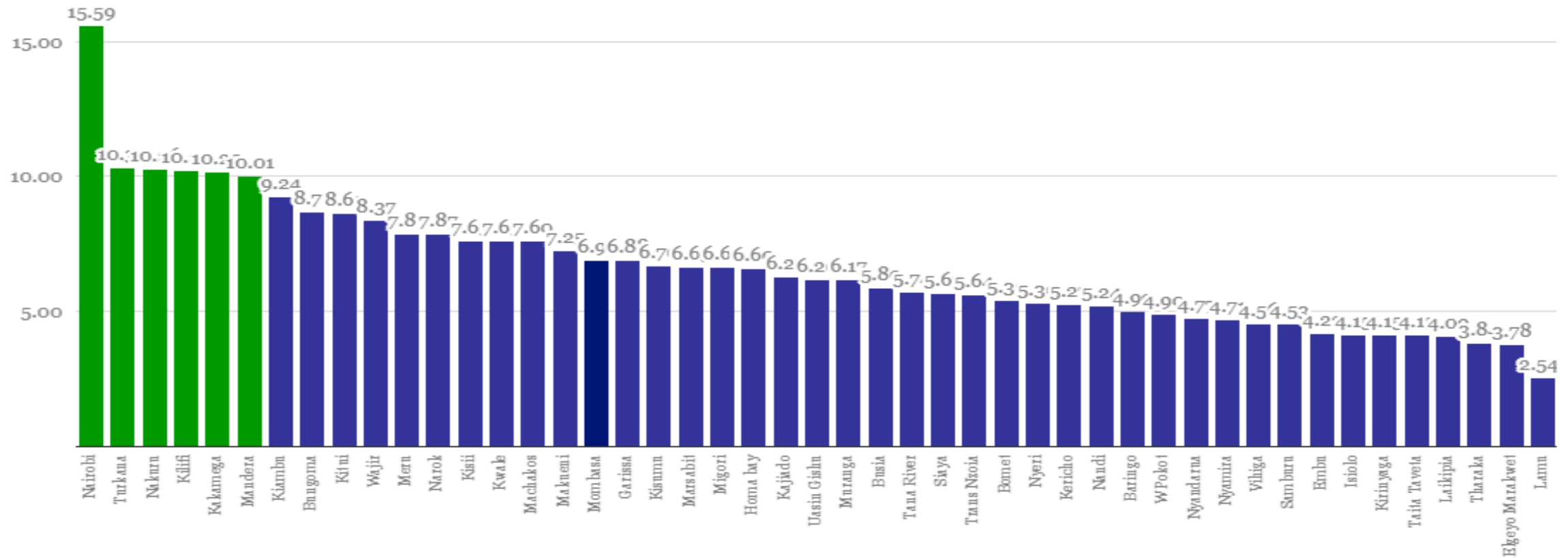
Memo items	
1. County equitable share	310,000,000,000
2. Additional conditional allocations(National Government share of Revenue) of which;	13,911,152,184
2.1. Leasing of Medical Equipment	6,200,000,000
2.2 Compensation for user fees forgone	900,000,000
2.3 Level 5 hospitals	4,326,000,000
2.4 Supplement for construction of county headquarters	485,152,184
2.5 Rehabilitation of Youth Polytechnics	2,000,000,000
3. Allocation from Fuel Levy Fund (15%)	8,984,062,500
4. Conditional allocations (Loans and grants) of which:	38,704,877,210
4.1 IDA-Kenya Devolution Support Program (KDSP) Level 1	1,410,000,000
4.2 IDA-Kenya Devolution Support Program (KDSP) (Level 2 Grant)	4,890,000,000
4.3 IDA-Transforming Health Systems for Universal Care Project	2,994,247,736
4.4 DANIDA-Universal Healthcare For Devolved System Program	986,583,544
4.5 IDA-National Agriculture and Rural Inclusive Growth Project (NARIGP)	7,232,719,940
4.6 EU-Instruments for Devolution Advice and Support (IDEAS)	492,698,583
4.7 IDA (World Bank) - Kenya Climate Smart Agriculture Project (KCSAP)	3,643,298,670
4.8 World Bank- Kenya Urban Support	11,464,702,500

DIVISION OF REVENUE BILL 2019

COUNTY ALLOCATION BILL 2019



Equitable Share.



Only 6 counties will get more than Sh10 bn

Uphold

Public

Interest

THE DORB 2019 STALEMATE



The looming cash crisis in the 47 counties

What are the Implications?

DAILY NATION

NEWS

BUSINESS

COUNTIES

SPORTS

BLOGS & OPINION

LIFE & STYLE

Referendum is only way out of current funds impasse: CoG

WEDNESDAY JUNE 21 2019



**DIVISION
OF
REVENUE
BILL 2019**



CASHLESS COUNTIES: Looming cash crisis in the 47 counties Part

CONCERNS ON DIVISION OF REVENUE 2019



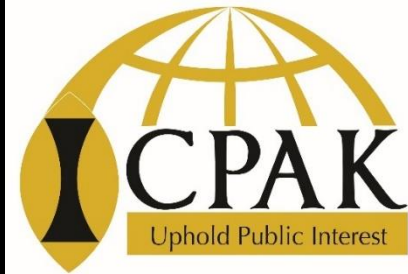
		Proposed Growth		Basis for Proposed Revenue Growth				Equitable Share Approved in the DoR (2019/20 is proposed)	Growth in DOR approved Amounts
	Year	CRA	National Treasury	CRA	National Treasury	Ordinary Revenue	Growth in National Ordinary Revenue		-
1	2015/16	10.4%	10.4%	3-Year average growth in ordinary revenue	3-Year average growth in ordinary revenue	1,152.97	13%	259.77	15%
2	2016/17	15.0%	7.8%	3-Year average growth in ordinary revenue	Not provided	1,306.57	13%	280.30	8%
3	2017/18	15.0%	6.7%	3-Year average growth in ordinary revenue	3-Year average month on month inflation	1,365.06	4%	302.00	8%
4	2018/19	8.5%	4.0%	3-Year average inflation	Not Clear	1,651.52	21%	304.96	1%
	2018/19 Proposed Revision					-		314.00	3%
	2019/20	6.9%	2.0%	3-Year average inflation	Not Clear	1,877.18	14%	310.00	2%

Uphold

Public

Interest

Growth of Conditional Grants



Current Conditional Grants (Billions)	2015/16 DORA	2016/17 DORA	2017/18 DORA	2018/19 DORA	Recommendations 2019/20		% Increase of National Treasury Grants to DORA
					2019/20 (National Treasury)	2019/20 (CRA)	
Level 5 hospitals	3.60	4.00	4.20	4.33	4.33		0%
Free maternal health care	4.30	4.12	-	-	-	-	-
Compensation for user fees forgone	0.90	0.90	0.90	0.90	0.90		0%
Leasing of medical equipment	4.50	4.50	4.50	9.40	6.20	9.40	-34%
Road Fuel Levy Fund	3.30	4.31	11.09	8.27	8.98	8.98	9%
Development of Youth Polytechnics			2.00	2.00	2.00		0%
Supplement for construction of county headquarters			0.61	0.61	0.48		-21%
Grant to 5 Cities						5.0	
Total	16.60	17.83	23.3	25.5	22.9		-10%

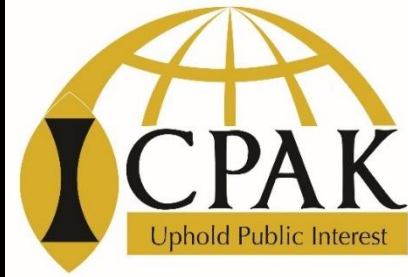
Uphold

Public

Interest

Evaluation of the Bill against Article 203 (1) of the Constitution.							Growth over years.				Growth Between 2019/20 and 2015/16
	ITEM DESCRIPTION (KSh. Millions)	FY 2015/16	FY 2016/17	FY 2017/18	FY2018/19	FY2019/20	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	
	ORDINARY REVENUE (EXCLUDING AIA)	1,152,972	1,306,568	1,365,063	1,651,517	1,877,176	13.3%	4.5%	21.0%	13.7%	63%
A	National Interest [Article 203 (I)(a)]	79,189	79,685	82,696	84,186	94,168	0.6%	3.8%	1.8%	11.9%	19%
	Enhancement of security operations (police vehicles, helicopters, defence etc.)	17,700	18,900	20,556	27,800	27,974	6.8%	8.8%	35.2%	0.6%	58%
	National irrigation and fertilizer clearance	12,500	8,700	8,880	11,775	11,103	-30.4%	2.1%	32.6%	-5.7%	-11%
	Youth empowerment	17,055	18,544	18,544	7,442	16,226	8.7%	0.0%	-59.9%	118.0%	-5%
	National social safety net - (for older persons, OVC, child welfare, presidential bursary, severe disability)	14,354	16,924	17,305	26,812	26,362	17.9%	2.3%	54.9%	-1.7%	84%
	Primary school digital literacy program	17,580	13,408	13,408	6,333	8,400	-23.7%	0.0%	-52.8%	32.6%	-52%
	School examination fees (KSCE and KCPE)	-	3,209	4,003	4,024	4,103	#DIV/0!	24.7%	0.5%	2.0%	
B	Public Debt (Art. 203 [1][b])	250,390	307,155	462,243	637,396	585,703	22.7%	50.5%	37.9%	-8.1%	134%
C	Other National Obligations (Art 203 [1][b])	324,583	371,743	398,589	427,239	491,269	14.5%	7.2%	7.2%	15.0%	51%
	Pensions, Constitutional Salaries and Other	rowth	60,169	68,702	90,573	109,526	#VALUE!	14.2%	31.8%	20.9%	
	Constitutional Commissions (Art. 248(2)) i.e. CRA, SRC, NI-C, NM, IEBC, TSC	189,066	208,763	224,623	233,619	261,387	10.4%	7.6%	4.0%	11.9%	38%
	Independent Offices(Art. 248(3)) - i.e. AG and CoB	4,720	4,723	5,177	6,412	6,336	0.1%	9.6%	23.9%	-1.2%	34%
	Parliament	27,277	31,480	30,915	34,490	39,501	15.4%	-1.8%	11.6%	14.5%	45%
	Other Constitutional Institutions-State Law Office and DPP	6,863	6,359	6,498	7,602	8,765	-7.3%	2.2%	17.0%	15.3%	28%
	Other statutory bodies (e.g. EACC, RPP, WPA, CAJ, IPOA, NGEC)	4,697	4,855	5,484	5,724	5,937	3.4%	13.0%	4.4%	3.7%	26%
	Judiciary	-	17,759	17,678	13,458	18,937	#DIV/0!	-0.5%	-23.9%	40.7%	
	Other Statutory Allocations/Earmarked Funds	37,343	37,635	39,512	35,361	40,880	0.8%	5.0%	-10.5%	15.6%	9%
D	Emergencies [Art. 203 (1)(k)]	7,245	7,245	9,294	6,419	6,418	0.0%	28.3%	-30.9%	0.0%	-11%
	Contingencies	5,000	5,000	5,000	5,000	5,000	0.0%	0.0%	0.0%	0.0%	0%
	Strategic Grain Reserve	2,245	2,245	4,294	1,419	1,418	0.0%	91.3%	-67.0%	-0.1%	-37%
	Equalization Fund [Art. 203 (1) (g) and (h)]	6,000	6,000	7,727	4,700	5,765	0.0%	28.8%	-39.2%	22.7%	-4%
E	BALANCE TO BE SHARED BY THE 2 LEVELS OF GOVERNMENT	485,565	534,740	404,414	491,576	693,854	10.1%	-24.4%	21.6%	41.1%	43%
F	COUNTY GOVERNMENT ALLOCATION FROM REVENUE RAISED NATIONALLY, of which;-	273,073	295,020	314,205	322,193	323,911	8.0%	6.5%	2.5%	0.5%	19%
	a)Equitable Share of Revenue	259,775	280,300	302,000	304,962	310,000	7.9%	7.7%	1.0%	1.7%	19%
	b)Additional conditional allocations financed from revenues raised nationally	13,298	14,720	12,205	17,231	13,911	10.7%	-17.1%	41.2%	-19.3%	5%
G	BALANCE LEFT FOR THE NATIONAL GOVERNMENT	212,493	239,720	90,309	169,383	369,943	12.8%	-62.3%	87.6%	118.4%	74%

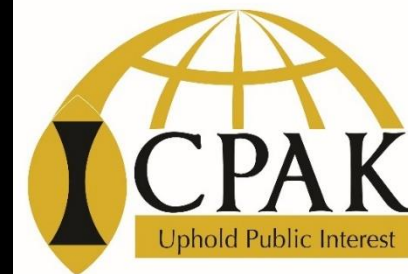
Public Debt Trends



Trends in Kenya's Total Public Debt (Ksh million)

	2013 June	2014 June	2015 June	2016 June	2017 June	2018 June
Domestic Debt	1,050,555	1,284,327	1,420,444	1,815,133	2,112,710	2,478,835
External Debt	843,562	1,138,505	1,423,252	1,796,198	2,294,153	2,568,398.70
Grand Total	1,894,117	2,422,832	2,843,696	3,611,331	4,406,863	5,047,234

Public debt/obligations effect to sharable revenue



Share to Ordinary Revenue

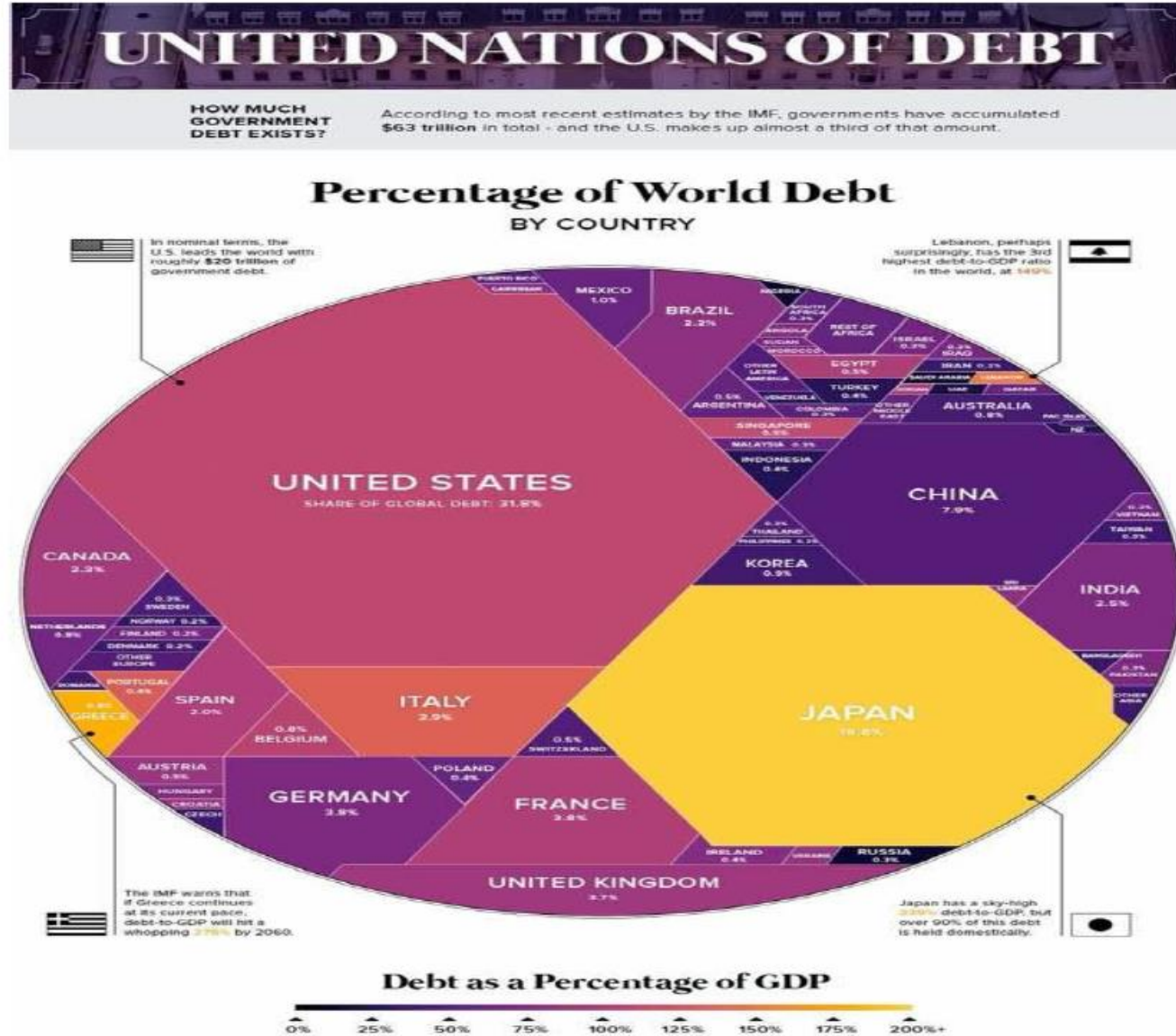
ITEM DESCRIPTION (KSh. Millions)	FY 2015/16	FY 2016/17	FY 2017/18	FY2018/19	FY2019/20	FY 2015/16	FY 2016/17	FY 2017/18	FY2018/19	FY2019/20
ORDINARY REVENUE (EXCLUDING AIA)	1,152,972	1,306,568	1,365,063	1,651,517	1,877,176					
Public Debt	250,390	307,155	462,243	637,396	585,703	21.7%	23.5%	33.9%	38.6%	31.2%
Pensions, Constitutional Salaries and Other	54,617	60,169	68,702	90,573	109,526	4.7%	4.6%	5.0%	5.5%	5.8%
BALANCE TO BE SHARED BY THE 2 LEVELS OF GOVERNMENT	485,565	534,740	404,414	491,576	693,854	42.1%	40.9%	29.6%	29.8%	37.0%
COUNTY GOVERNMENT ALLOCATION FROM REVENUE RAISED NATIONALLY, of which;-	273,073	295,020	314,205	322,193	323,911	23.7%	22.6%	23.0%	19.5%	17.3%
a)Equitable Share of Revenue	259,775	280,300	302,000	304,962	310,000	22.5%	21.5%	22.1%	18.5%	16.5%
b)Additional conditional allocations financed from revenues raised nationally	13,298	14,720	12,205	17,231	13,911					
BALANCE LEFT FOR THE NATIONAL GOVERNMENT	212,493	239,720	90,309	169,383	369,943	18.4%	18.3%	6.6%	10.3%	19.7%

Uphold

Public

Interest

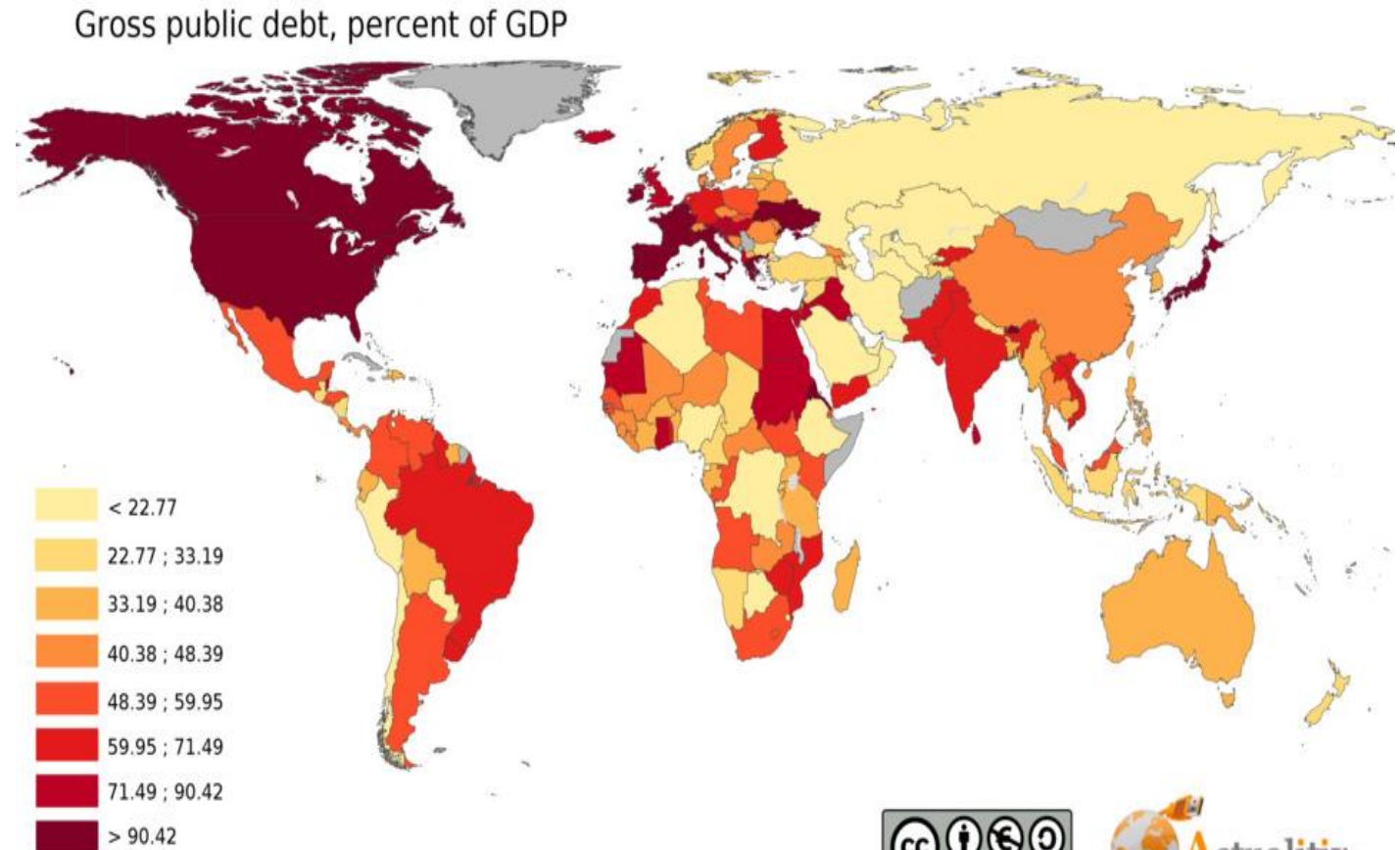
Global Benchmarks



50 per cent of global debt held by US, China and Japan. What then, make these nations the world strongest economies, in spite of the astronomical levels of indebtedness – Japan at 229% debt/GDP ratio?

Comparative Debt/DGP Ratios

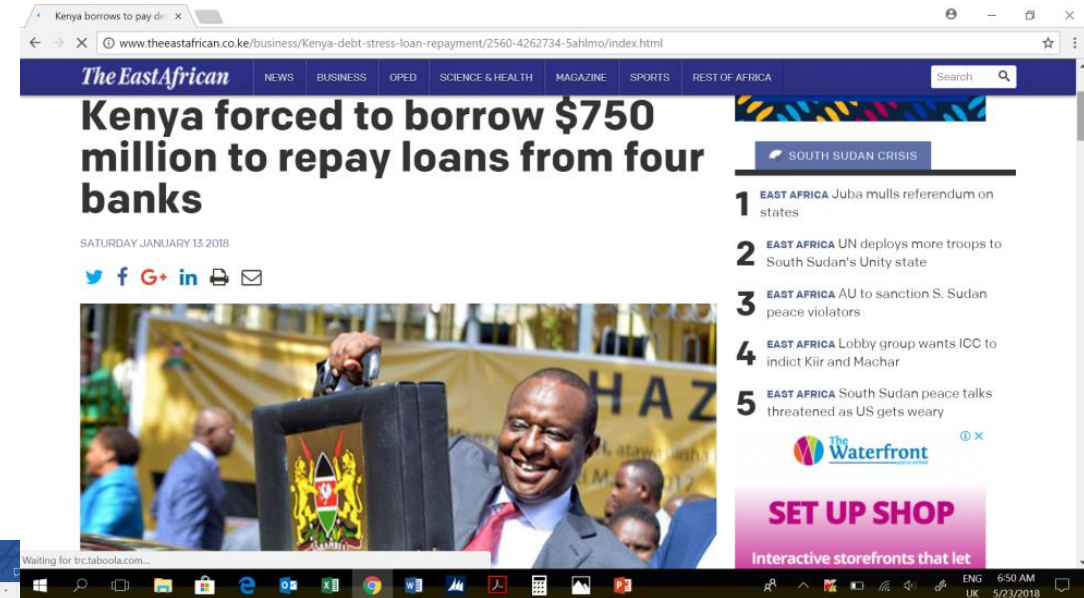
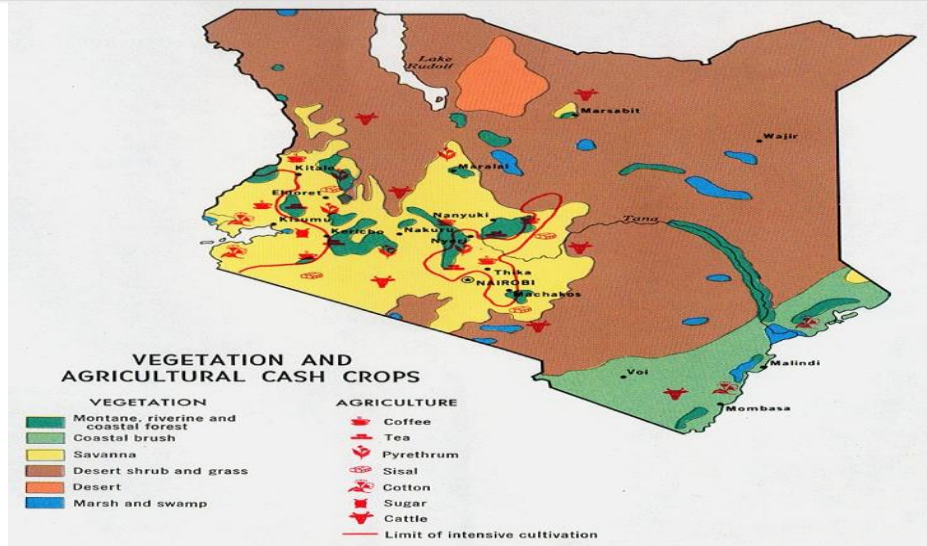
Country	Debt/GDP 2016
Japan	229.3
Greece	180.18
Lebanon	152.29
Italy	133.02
Cabo Verde	128.75
Eritrea	127.42
Portugal	125.72
Republic of Congo	117.7
Buhtan	112.83
Gambia	112.68
Singapore	110.58
United State of America	105
Kenya	55.2
Kazakhstan	17.37
Russia	17.35
Saudi Arabia	17.01
DRC	16.99
Botswana	15.45
Uzbekistan	14.14
Solomon Islands	10 .04
Estonia	8.71
Afghanistan	7.64



Source : IMF - 2015
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Debt Service Costs



How sustainable is the Kenyan DEBT SITUATION?

Key Questions



Are all government debt stocks appropriately costed?



Have proceeds from debt been applied in full compliance with the law?



Are we running on appropriate tenures?



Have we struck an appropriate mix between domestic and external debt stocks?

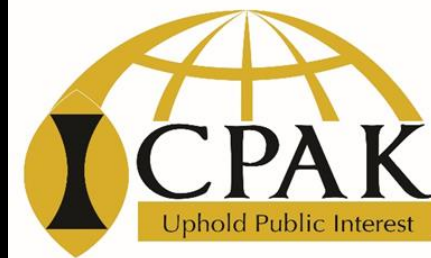


How complete and comprehensive in reporting is the national debt register?



In all these, the fundamental question what lessons can we borrow from Japan to better out debt management strategy?

ICPAK RECOMMENDATIONS



Revenue collection: there is need for stronger strategies to enhance revenue collection such as sealing tax loss loopholes and widening the tax base;



Re-negotiate debt repayment by stretching the debt tenure quantum.



Although, the bulk of Kenya's external public debt carries concessional terms, recent commercial borrowing entails significant repayment needs in 2019 and 2024 (2014 sovereign bond issuance).



Expand our exports – to raise foreign currency

THANK YOU



Talk to me!



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