

# The Third Basis of County Revenue Sharing Formula

Why the BIG fight? How should the resources be allocated to avoid crowding out?

**Dr Abraham Rugo Muriu,  
Country Manager-IBP Kenya**

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Uphold public interest

# Outline



- A case for devolution: why did we do it?
- Why a formula?
- History of the formula
- Concerns around the 3<sup>rd</sup> formula
- Future of devolution

# Why did we devolve?



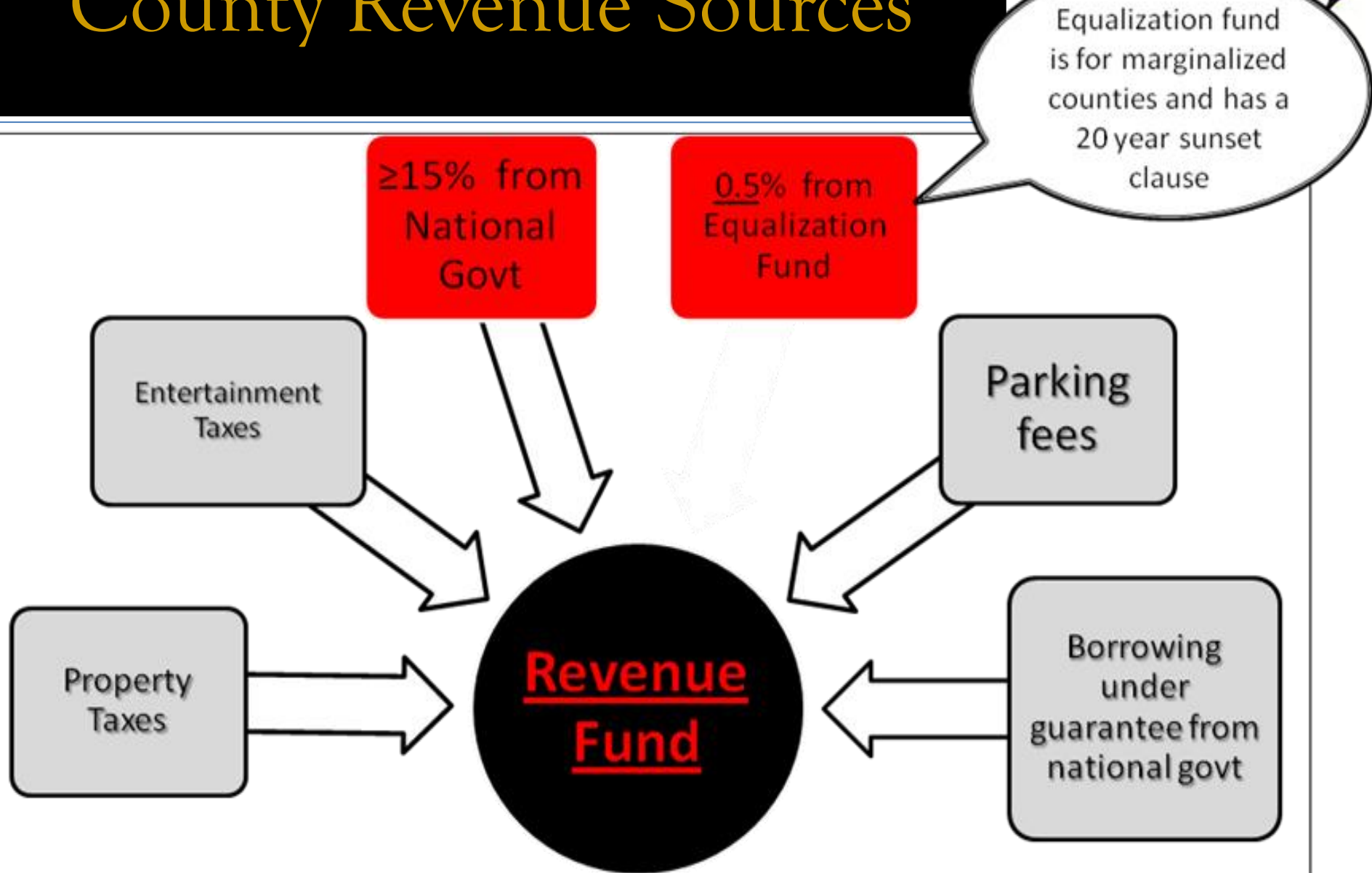
- Addressing the excesses of a centralized executive power
- Equity in Resource allocation
- Representation and greater accountability in Decision making and implementation
- Improved service delivery – better matching of needs with policies and response time to local needs

# Why did we devolve?



1. **Decentralization** of services to all parts of Kenya
2. **Accountability & Separation of powers** between the executive and legislative arms of national and county governments
3. **Finance to follow functions**. Budgeting and implementation to be based on **comprehensively developed plans** that have long term and short-term goals of the county
4. **Equity over equality** as a running principle. Aim to have people served according to their needs
5. **Institutionalization of public participation** in all processes of the county government (CE & CA)
6. **Non-Discrimination and inclusion of all people**

# County Revenue Sources



# Why a formula?



- Functions should determine the vertical sharing of revenue between National and County level of government
- Distribution between 47 counties with varying needs and development progress.
- Incentive for fiscal prudence and fiscal effort
- A fair, transparent and predictable mechanism of expected national revenue

# First Basis, 2013-2016



Parameter	Weights
Population	45
Equal Share	25
Poverty	20
Land Area	8
Fiscal responsibility	2

Used to share KES. 956, 736 Million over the 2013/2014 to 2016/2017 Financial years

# Second Basis, 2017-2019



No.	Parameter	Weights
1	Population	45%
2	Basic Equal Share	26%
3	Poverty	18%
4	Land Area	8%
5	Fiscal Effort	2%
6	Development Factor	1%
	<b>TOTAL</b>	<b>100%</b>

*Source: CRA 2016*

Used to share KES. 932, 500 Million for the FY 2017/18-2019/20



# Main drivers for 3<sup>rd</sup> Formula



- A longer period for the formula, from 3 to 5 years.
- Need to have more direct measures of need to inform the parameters
- Recognition of developments including changes in population, improved access to services and thus shifts in poverty levels
- Need more predictable allocations amidst unclear actual management of functions including some form of recentralization. Case in point being NMS and Nairobi City County
- Dwindling fiscal space as a result of bulging public debt Wanting accountability in use of public resources meaning low legitimacy to the public

# The reality of Public Debt



Year	Public Debt Service	Sharable Revenue	Counties' allocation	Growth in Public Debt Service	Growth in Sharable Revenue	Growth in County Allocation
2014/15	250.97	1,031.82	229.93			
2015/16	250.39	1,152.97	273.07	0%	12%	19%
2016/17	307.16	1,305.79	294.02	23%	13%	8%
2017/18	453.36	1,486.29	314.21	48%	14%	7%
2018/19	687.57	1,688.49	331.23	52%	14%	5%
Average				30%	13%	10%

# County Expenditures!



	Sector	Sector Share of Total Recurrent Budget	Sector Share of Total Development Budget	Total Sector Share of Total Budget
1	Health	30.1%	14.0%	23.5%
4	Roads	3.7%	25.1%	12.5%
5	County Assembly	13.6%	3.9%	9.6%
6	County Executive	11.4%	3.9%	8.3%
2	Water	3.8%	12.6%	7.4%
3	Agriculture	4.9%	7.5%	5.9%
	<b>Total Budget</b>	<b>867,936</b>	<b>604,571</b>	<b>1,472,506</b>
	Share of Recurrent and Development Expenditure	59%	41%	100%

Source: COB Reports Covering 2014/15 to 2017/18

**Table 1: Summary of the Third Basis**

Objective	Parameter	Indicator of Expenditure Need	Assigned Weight
<b>1. To enhance service delivery</b>	Health services	Health index	17%
	Agriculture services	Agricultural index	10 %
	Other county services	Population index	18 %
	Urban services	Urban index	5%
	Minimum share	Basic share index	20%
<b>2. To promote balanced development</b>	Land	Land area index	8 %
	Roads	Rural Access index	4 %
	Poverty level	Poverty head count index	14 %
<b>3. Incentivise fiscal effort</b>	Fiscal effort	Fiscal effort index	2 %
<b>4. Incentivise fiscal prudence</b>	Fiscal prudence	Fiscal prudence index	2 %
<b>Total</b>			100%

*Source: CRA 2019*

# CRA Proposal vs. Approved!



Index	CRA (%) 2019	Senate (%) (17.09.2020)	Difference
Health index	17	17	0
Agricultural index	10	10	0
Population index	18	18	0
Urban index	5	5	0
Basic share index	20	20	0
Land area index	8	8	0
Rural Access index	4	8	+4
Poverty head count index	14	14	0
Fiscal effort index	2	0	-2
Fiscal prudence index	2	0	-2
Total	100	100	

# What does the future hold?



- Back to the basics \_function analysis, unbundling and costing followed by appropriate engagement
- Rethinking OSR types and their full potential
- Strict timelines for approval of revenue sharing laws\_DORA & CARA
- Public Debt and Pensions Management to avoid crowding out spending on other critical services including the devolved ones
- Accountability to ensure service delivery improvements despite the political contestations
- CRA and Senate need to provide clear set of development information that can help inform the progress made in devolution.

# Interactive Session

