

COMMISSION ON REVENUE ALLOCATION



COMMISSION ON REVENUE ALLOCATION
Promoting an equitable society

**RECOMMENDATIONS ON SHARING OF REVENUE RAISED BY THE NATIONAL
GOVERNMENT BETWEEN THE NATIONAL GOVERNMENT AND COUNTY
GOVERNMENTS AND AMONG COUNTY GOVERNMENTS**

Presented to the Devolution and Health Stakeholders Consultative Meeting
24 October, 2012 -- Nairobi, Kenya

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OUTLINE

- Introduction
- Vertical share
- Horizontal share

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INTRODUCTION

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THE CRA MANDATE

- Under Article 216 of the Constitution, the principal function of CRA is to make recommendations concerning the basis for the equitable sharing of revenue raised by the national government.
- The CRA recommendations are also based on a statutory provision, CRA Act No. 16 of 2011. **CRA is the only institution that has a legal mandate to provide revenue sharing recommendations to parliament.**

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PROCESS OF APPROVING THE FORMULA BY PARLIAMENT

ARTICLE 217 - ON DIVISION OF REVENUE

A. CRITERIA OF ARTICLE 203 (1)

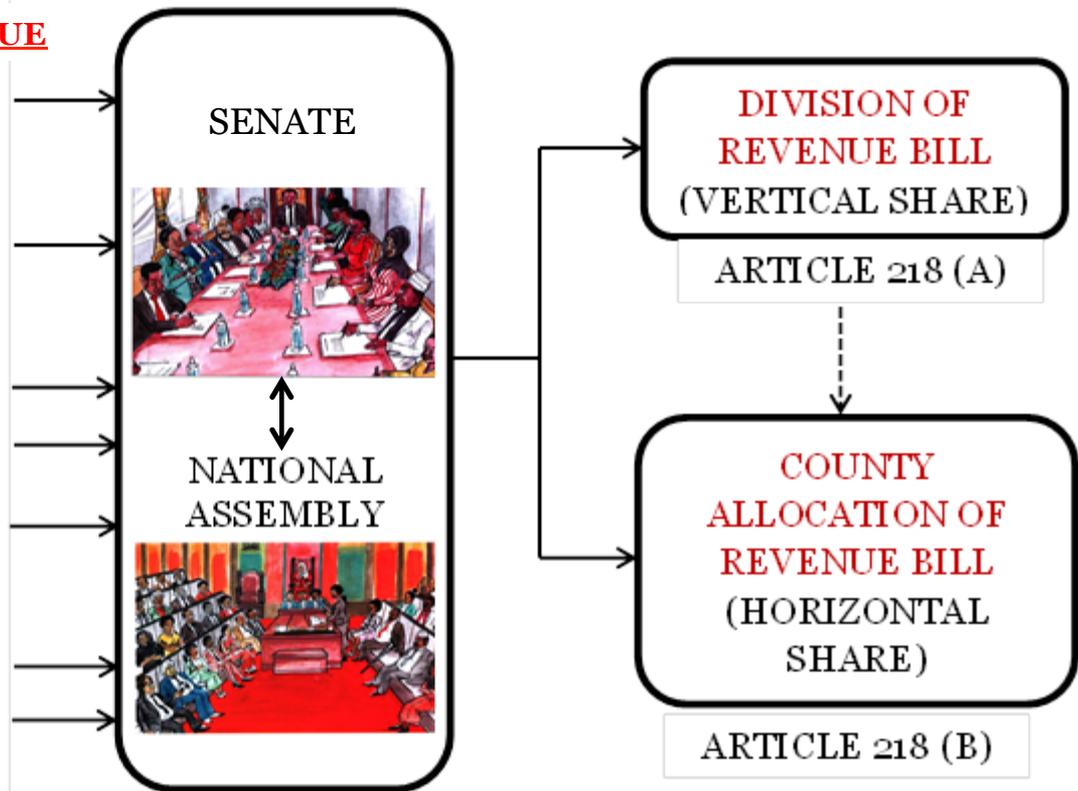
B. REQUEST AND CONSIDER THE RECOMMENDATIONS OF CRA

C. CONSULT:

- COUNTY GOVERNORS
- CABINET SEC. FINANCE
- ANY ORGANIZATION OF COUNTY GOVERNMENTS

D. INVITE SUBMISSIONS FROM:

- THE PUBLIC
- PROFESSIONAL BODIES



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CRA Process in Developing Vertical and Horizontal Formulae

- Step 1:** Training of secretariat staff and commissioners, and extensive desk research.
- Step 2:** Preliminary engagement with stakeholders, including Treasury and Parliament.
- Step 3:** Peer-to-Peer Learning i.e. learning from independent commissions/institutions from Ethiopia, South Africa, India, Uganda and Brazil.
- Step 4:** Critical assessment of the constitutional stipulations, including functions.
- Step 5:** Costing of national and county governments' functions.

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CRA Process in Developing Vertical and Horizontal Formulae

Step 6: Development of the vertical and horizontal formulae.

Step 7: Launch of the proposed horizontal formula parameters and weights on 28th February, 2012 to seek public views.

Step 8: Launch of the horizontal and vertical formulae on the 26th April, 2012 for public comments.

Step 9: Held consultative forums on the formulae with professionals, county professional forums, religious groups and other stakeholders.

Step 10: CRA made public consultative visits to all 47 counties during the period 4th-18th June, 2012.

Step 11: Analysed results of all consultations and developed the recommendations.

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VERTICAL FORMULA

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DEFINITION OF SHAREABLE REVENUE

- Article 203 (3)- *shareable revenue shall be calculated on the basis of the most recent audited accounts of revenue received, as approved by the National assembly.*
- CRA Act 2(1) - “*all taxes imposed by the national government under Article 209 of the Constitution and any other revenue (including investment income) that may be authorised by an Act of Parliament, but excludes revenues referred to under Articles 209(4) and 206(1)(a)(b) of the Constitution*”.

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AUDITED YEAR 2010/2011 GOVERNMENT EXCHEQUER RECEIPTS

	PARTICULARS	FY 2010/11
		KSHS. MILLION
1	Opening Balance	2,674
2	Income Tax - PAYE	137,055
3	Income Tax - Corporations	121,596
4	Withholding Tax	-
5	Immovable Property	-
6	Second Hand Motor Vehicle Purchase Tax	-
7	VAT - Local Goods	90,211
8	VAT - Imported Goods	81,670
9	Excise Tax	80,567
10	Licence under Traffic Act	2 ,464
11	Royalties	-
12	Customs Duties	46,072
13	Other Taxes from International Trade	20,599
14	Stamp Duty	6,800
15	Land Rent	1,073
16	Fees Under Traffic Act	-
17	Motor Driver's Licenses	-
18	Land Adjudication and case Fee	-
19	Sale of Freehold Interest in Agriculture Land	-
20	Other Profits & Dividends	11,086
21	Profits & Dividends from CBK	0
22	Interest Received	759
23	Misc. Revenues	7,823
24	Fines, Penalties & Forfeitures & Other Charges	290
	SUB TOTAL - SHAREABLE REVENUE	610,739

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AUDITED YEAR 2010/2011 GOVERNMENT EXCHEQUER RECEIPTS Cont...

	PARTICULARS	FY2010/11
		KSHS. MILLION
1	Contribution from Govt. Emp. To S.&W.S within Govt.	-
2	Recurrent Recovery Over Issues 2008/09	2,457
3	Development Recovery Over Issues 2008/09	815
4	Loans from Foreign Govt. through Exchequer	17,016
5	Loans to Non-Financial Public Enterprises	1,126
6	Loans to Financial Institutions	33
7	Grants from Foreign Govt. through Exchequer	7,468
8	Domestic lending - T/Bills	4,000
9	Domestic lending - T/Bonds	186,300
10	Civil Contingencies Fund Recoveries	1,075
11	Net Domestic Borrowing (CBK)	-
	SUB TOTAL - NON-SHAREABLE REVENUE	220,290
	GRAND TOTAL	831,029

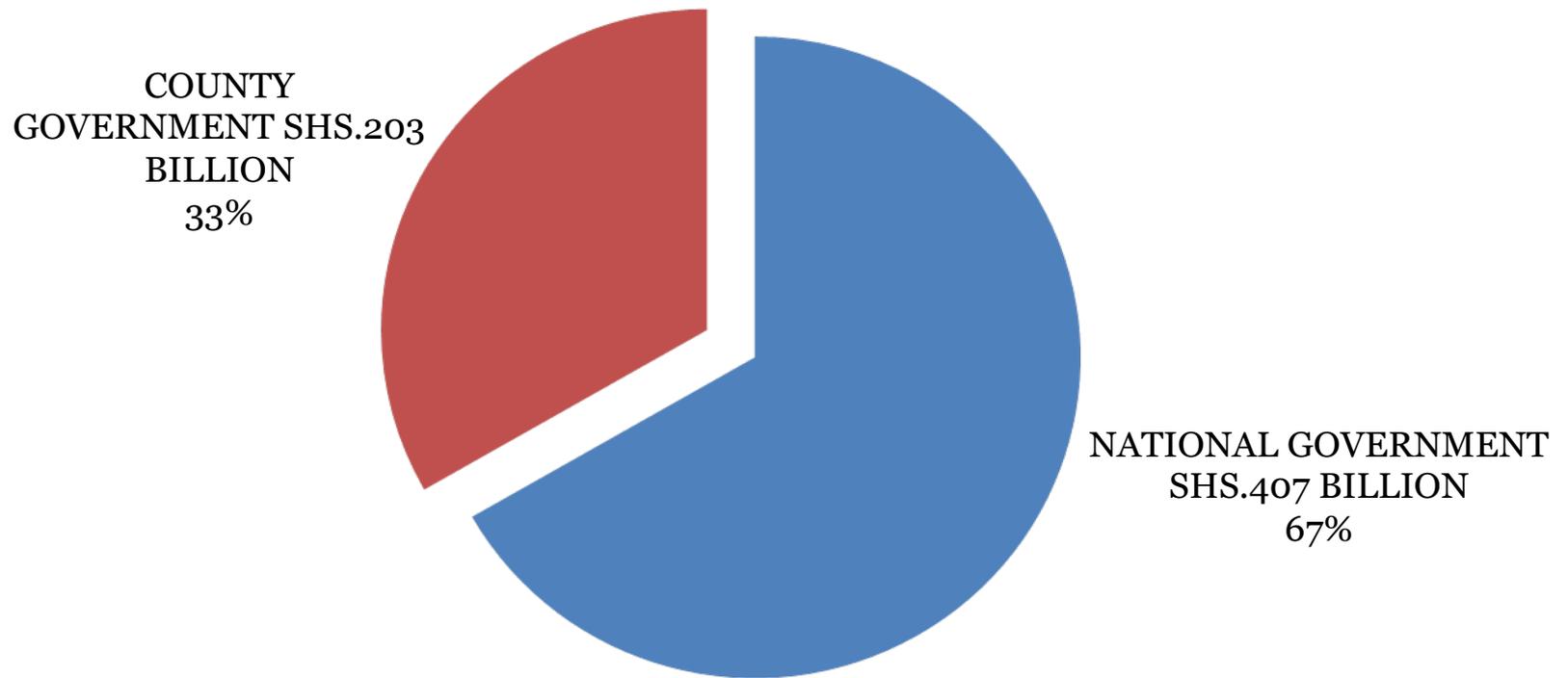
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ESTIMATED 2012/13 COUNTY GOVERNMENT BUDGET		
		SHS. MILLION
A	ESTIMATED BY TREASURY	148,000
B	ESTIMATED REMUNERATION OF COUNTY EXECUTIVE AND COUNTY ASSEMBLIES	15,000
C	ESTIMATED RUNNING EXPENSES FOR COUNTY EXECUTIVE AND COUNTY ASSEMBLIES	7,500
	SUB TOTAL	170,500
D	RUNNING EXPENSES FOR COUNTY AND SUB-COUNTY PUBLIC SERVICE (PROCUREMENT, ACCOUNTING, AUDITING, FINANCIAL SYSTEM, HRM AND ICT)	13,800
	SUB TOTAL	184,300
E	10% CONTINGENCY (PROVISION FOR TENDENCY TO HOLD AT THE CENTRE BY MINISTRIES)	18,430
	TOTAL SHARE OF COUNTIES	202,730

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RECOMMENDATIONS ON SHARING REVENUE RAISED NATIONALLY BETWEEN THE NATIONAL AND COUNTY GOVERNMENTS FOR THE FINANCIAL YEAR 2012/2013

SHAREABLE AUDITED REVENUE FOR 2010/2011 = SHS.610 BILLION



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ATTRIBUTES OF A GOOD REVENUE SHARING FORMULA AMONG COUNTY GOVERNMENTS

1. AS **SIMPLE** AS POSSIBLE ;
2. BASED ON **AVAILABLE OFFICIAL DATA** ;
3. **HAS INCENTIVES** FOR EFFICIENT FISCAL MANAGEMENT;
4. **MINIMISE INEQUALITIES** AMONG COUNTIES; AND
5. GIVES EFFECT TO THE **PROVISIONS OF THE CONSTITUTION**

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SUMMARY OF PARAMETERS USED BY OTHER COUNTRIES

	Parameter	Countries
1	Population	Nigeria, India, Indonesia, Philippines
2	Population density	Nigeria
3	Equal share	South Africa, Nigeria, Philippines
4	Land Area/Terrain	India, Nigeria, Indonesia, Philippines
5	Education	South Africa, Nigeria, Ethiopia
6	Internal Revenue Effort	Nigeria
7	Health	South Africa, Nigeria, Ethiopia
8	Water	Nigeria, Ethiopia
9	Poverty	South Africa, Indonesia

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SUMMARY OF PARAMETERS USED BY OTHER COUNTRIES

	Parameter	Countries
10	Economic Activity	South Africa
11	Fiscal distance capacity	India
12	Fiscal discipline	India
13	Construction index	Indonesia
14	Administration and general service costs	Ethiopia
15	Urban development	Ethiopia
16	Rural road/Inland waterways	Ethiopia, Nigeria
17	Agriculture and rural development	Ethiopia
18	Environment	Ethiopia
19	Micro and small scale enterprise development	Ethiopia

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PARAMETERS CHOSEN FOR SHARING REVENUE

1. Population
2. Poverty Index
3. Land Area
4. Basic Equal Share
5. Fiscal Responsibility

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PARAMETERS CONSIDERED BUT NOT CHOSEN

1. Human Development Index (HDI) – (No country has used HDI)
2. County GDP
3. Gender Development Index
4. Fiscal Capacity

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POPULATION

- Use **official** data from KNBS
- The selection is based on two factors:-
 - **Cost of services** depend on population size
 - Promotion of **equitable society** on per capita basis

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POVERTY

- Use **official** data from KNBS
- Poverty captures material deprivation in terms of satisfaction of basic needs.
- **Poverty Gap Index** is used- *the Index considers the average extent to which individuals fall below the poverty line.*

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BASIC EQUAL SHARE

- Every county has **basic fixed expenses** irrespective of size, population and poverty levels.
- This is critical for effective governance and administration at county level.

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LAND SIZE

- Use **official data** from KNBS
- **Cost of service delivery** depends on the size of a county
- To ensure equity, CRA placed **minimum** and **maximum** contribution to total land mass at 1% and 10%, respectively

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FISCAL RESPONSIBILITY

- Builds **financial performance incentive mechanism** that will ensure:
 - Good Fiscal management
 - Exploitation of revenue potential
- **Initial equal weight** is recommended for every county since there are no historical fiscal performance evaluation measures

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HORIZONTAL FORMULA

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COUNTY EQUITABLE SHARE FORMULA

$$Ca_i = P_i + PV_i + A_i + BS_i + FR_i$$

WHERE;

i = COUNTIES 1 to 47

Ca_i = COUNTY REVENUE SHARE

P_i = COUNTY'S SHARE OF POPULATION COMPONENT

PV_i = COUNTY'S SHARE OF POVERTY COMPONENT

A_i = COUNTY'S SHARE OF LAND AREA COMPONENT

BS_i = COUNTY'S EQUAL SHARE COMPONENT

FR_i = COUNTY'S SHARE OF FISCAL RESPONSIBILITY COMPONENT

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HOW WEIGHTS WERE ASSIGNED

1. Extent to which a parameter gives effect to the provisions of the constitution.
2. Monte Carlo simulations –CRA generated several scenario.
3. Broad-based consultations, including county visits.

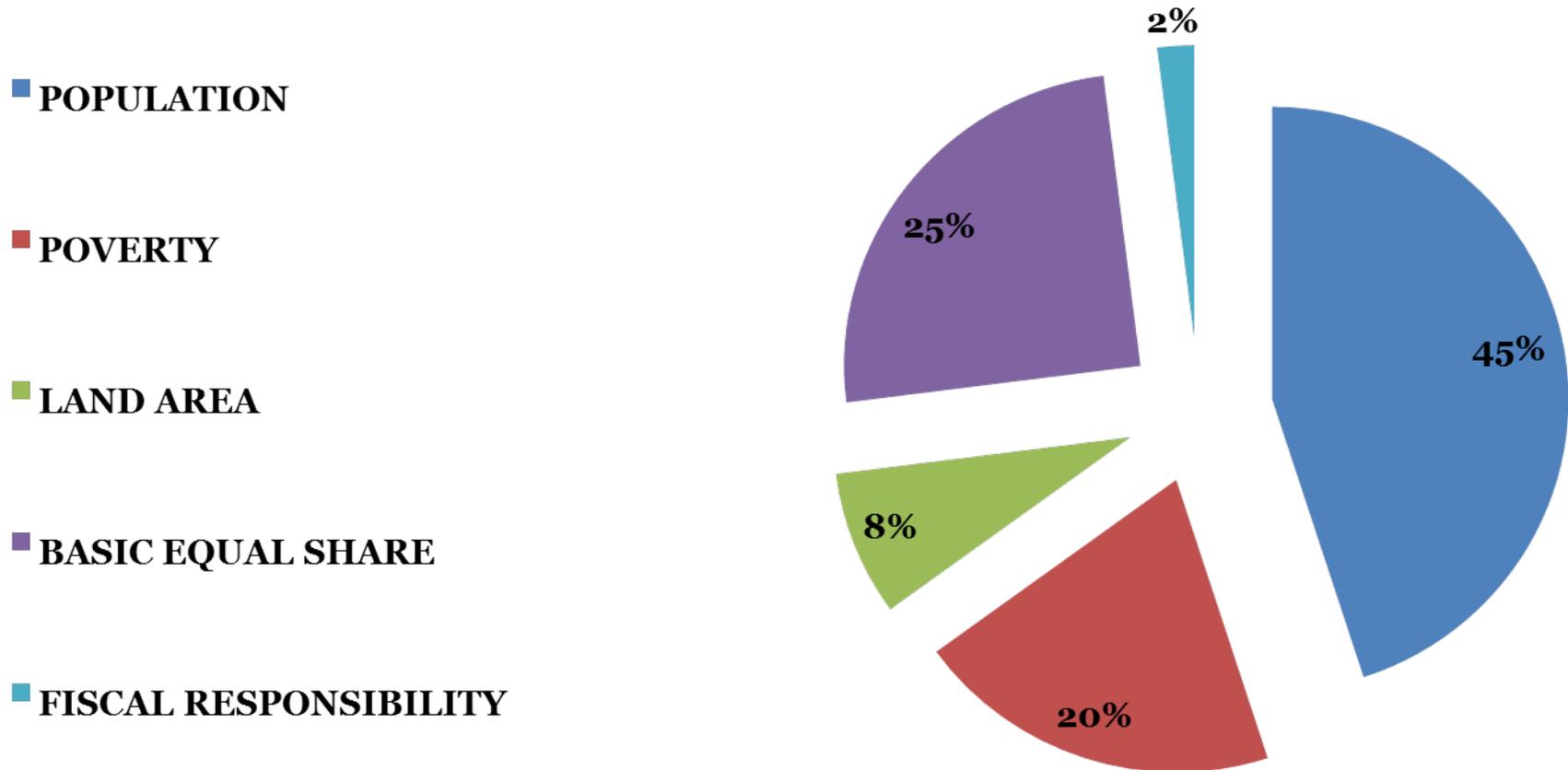
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PARAMETER WEIGHTS (%)

PARAMETER	CRA INITIAL RECOMMENDATION	COUNTIES' PROPOSAL	CRA FINAL RECOMMENDATION
POPULATION	60	47.6	45
EQUAL SHARE	20	21.6	25
POVERTY	12	18.0	20
LAND AREA	6	8.3	8
FISCAL RESPONSIBILITY	2	3.0	2
OTHERS	-	1.6	-
TOTAL	100	100	100

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PARAMETERS AND WEIGHTS IN THE RECOMMENDED HORIZONTAL FORMULA



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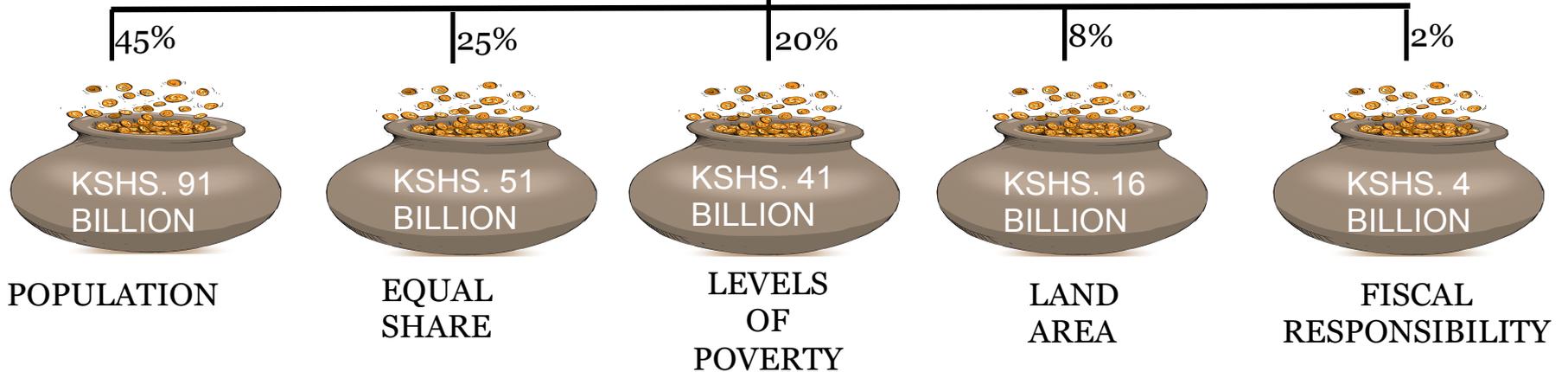
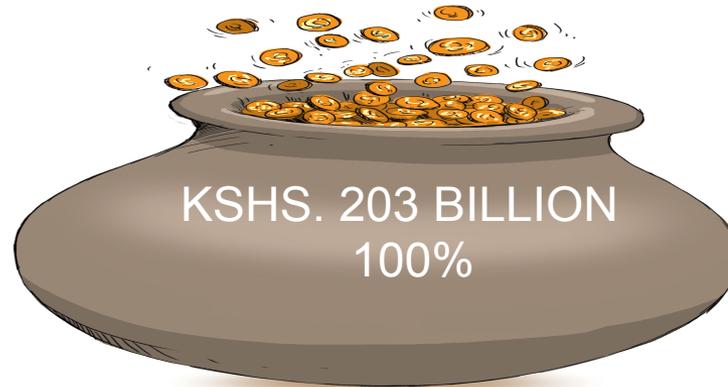
RECOMMENDED PARAMETERS, WEIGHTS AND AMOUNTS YEAR 2012/2013 - KSHS. 203 BILLION

	PARAMETER	%	KSHS
1.	POPULATION	45%	91,350,000,000
2.	EQUAL SHARE	25%	50,750,000,000
3.	LEVELS OF POVERTY	20%	40,600,000,000
4.	LAND AREA	8%	16,240,000,000
5.	FISCAL RESPONSIBILITY	2%	4,060,000,000
	TOTAL	100	203,000,000,000

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AMOUNTS OF REVENUE TO BE SHARED THROUGH EACH PARAMETER

YEAR 2012/2013 - KSHS. 203 BILLION



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TOTAL REVENUE ALLOCATION FOR EACH COUNTY GOVERNMENT **YEAR 2012/2013 - KSHS. MILLION**

NO.	COUNTY	POPULATION	TOTAL REVENUE
1	NAIROBI CITY	3,138,369	10,156
2	TURKANA	855,399	8,189
3	MANDERA	1,025,756	6,998
4	KAKAMEGA	1,660,651	6,961
5	BUNGOMA	1,630,934	6,604
6	NAKURU	1,603,325	6,342
7	KIAMBU	1,623,282	5,832
8	KILIFI	1,109,735	5,815
9	KITUI	1,012,709	5,679
10	WAJIR	661,941	5,652
11	KISII	1,152,282	5,543
12	MACHAKOS	1,098,584	5,289
13	MERU	1,356,301	5,074
14	MAKUENI	884,527	4,665
15	MIGORI	917,170	4,561
16	GARISSA	623,060	4,510
17	KISUMU	968,909	4,440
18	HOMA-BAY	963,794	4,403
19	MURANG'A	942,581	4,185
20	NAROK	850,920	4,132
21	MOMBASA	939,370	4,062
22	UASIN-GISHU	894,179	4,056
23	MARSABIT	291,166	4,055
24	KWALE	649,931	4,005
25	TRANS-NZOIA	818,757	3,985

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TOTAL REVENUE ALLOCATION FOR EACH COUNTY GOVERNMENT Cont.. YEAR 2012/2013 - KSHS. MILLION

NO.	COUNTY	POPULATION	TOTAL REVENUE
26	SIAYA	842,304	3,904
27	NANDI	752,965	3,716
28	BOMET	724,186	3,678
29	BUSIA	488,075	3,646
30	KERICHO	758,339	3,520
31	NYERI	693,558	3,477
32	BARINGO	555,561	3,470
33	KAJIADO	687,312	3,448
34	WEST POKOT	512,690	3,371
35	NYANDARUA	596,268	3,366
36	NYAMIRA	598,252	3,247
37	TANA-RIVER	240,075	3,114
38	VIHIGA	554,622	3,025
39	EMBU	516,212	2,999
40	SAMBURU	223,947	2,776
41	KIRINYAGA	528,054	2,765
42	LAIKIPIA	399,227	2,696
43	TAITA-TAVETA	284,657	2,586
44	ELGEYO-MARAKWET	369,998	2,556
45	THARAKA-NITHI	365,330	2,452
46	ISIOLO	143,294	2,389
47	LAMU	101,539	1,603
	TOTALS	38,610,097	203,000

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TOTAL REVENUE ALLOCATION PER COUNTY GOVERNMENT BY PARAMETER YEAR 2012/2013 - KSHS. MILLION RECOMMENDED TO COUNTY GOVERNMENTS 32.8%: KSHS.203,000 MILLION

NO.	COUNTY	45%		25%	20%	8%	2%	100%	PER PERSON
		POPULATION		BASIC EQUAL SHARE	POVERTY Revenue	LAND AREA Revenue	FISCAL RESPONSIBILITY	TOTAL REVENUE	
		Individuals No.	Revenue						
1	ISILOLO	143,294	339	1,080	247	637	86	2,389	16,669
2	LAMU	101,539	240	1,080	39	158	86	1,603	15,791
3	MARSABIT	291,166	689	1,080	739	1,461	86	4,055	13,928
4	TANA-RIVER	240,075	568	1,080	413	966	86	3,114	12,970
5	SAMBURU	223,947	530	1,080	551	528	86	2,776	12,395
6	TURKANA	855,399	2,024	1,080	3,538	1,461	86	8,189	9,573
7	TAITA-TAVETA	284,657	673	1,080	317	429	86	2,586	9,085
8	WAJIR	661,941	1,566	1,080	1,495	1,425	86	5,652	8,538
9	BUSIA	488,075	1,155	1,080	1,179	146	86	3,646	7,470
10	GARISSA	623,060	1,474	1,080	760	1,110	86	4,510	7,239
11	ELGEYO-MARAKWET	369,998	875	1,080	368	146	86	2,556	6,907
12	MANDERA	1,025,756	2,427	1,080	2,752	653	86	6,998	6,823
13	LAIKIPIA	399,227	945	1,080	347	238	86	2,696	6,752
14	THARAKA-NITHI	365,330	864	1,080	275	146	86	2,452	6,711
15	WEST POKOT	512,690	1,213	1,080	761	230	86	3,371	6,575

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TOTAL REVENUE ALLOCATION PER COUNTY GOVERNMENT BY PARAMETER YEAR 2012/2013 - KSHS. MILLION RECOMMENDED TO COUNTY GOVERNMENTS 32.8%: KSHS.203,000 MILLION

NO.	COUNTY	45%		25% BASIC EQUAL SHARE	20% POVERTY Revenue	8% LAND AREA Revenue	2% FISCAL RESPONSIBILITY	100% TOTAL REVENUE	PER PERSON
		POPULATION Individuals No.	Revenue						
16	BARINGO	555,561	1,314	1,080	713	277	86	3,470	6,246
17	KWALE	649,931	1,538	1,080	1,094	208	86	4,005	6,163
18	EMBU	516,212	1,221	1,080	466	146	86	2,999	5,810
19	NYANDARUA	596,268	1,411	1,080	643	146	86	3,366	5,645
20	KITUI	1,012,709	2,396	1,080	1,350	767	86	5,679	5,608
21	VIHIGA	554,622	1,312	1,080	401	146	86	3,025	5,455
22	NYAMIRA	598,252	1,415	1,080	519	146	86	3,247	5,427
23	MAKUENI	884,527	2,093	1,080	1,205	201	86	4,665	5,274
24	KILIFI	1,109,735	2,626	1,080	1,706	317	86	5,815	5,240
25	KIRINYAGA	528,054	1,249	1,080	203	146	86	2,765	5,236
26	BOMET	724,186	1,713	1,080	653	146	86	3,678	5,079
27	KAJIADO	687,312	1,626	1,080	105	550	86	3,448	5,017
28	NYERI	693,558	1,641	1,080	524	146	86	3,477	5,013
29	MIGORI	917,170	2,170	1,080	1,079	146	86	4,561	4,973
30	NANDI	752,965	1,781	1,080	622	146	86	3,716	4,935
31	TRANS-NZOIA	818,757	1,937	1,080	736	146	86	3,985	4,867
32	NAROK	850,920	2,013	1,080	502	451	86	4,132	4,856

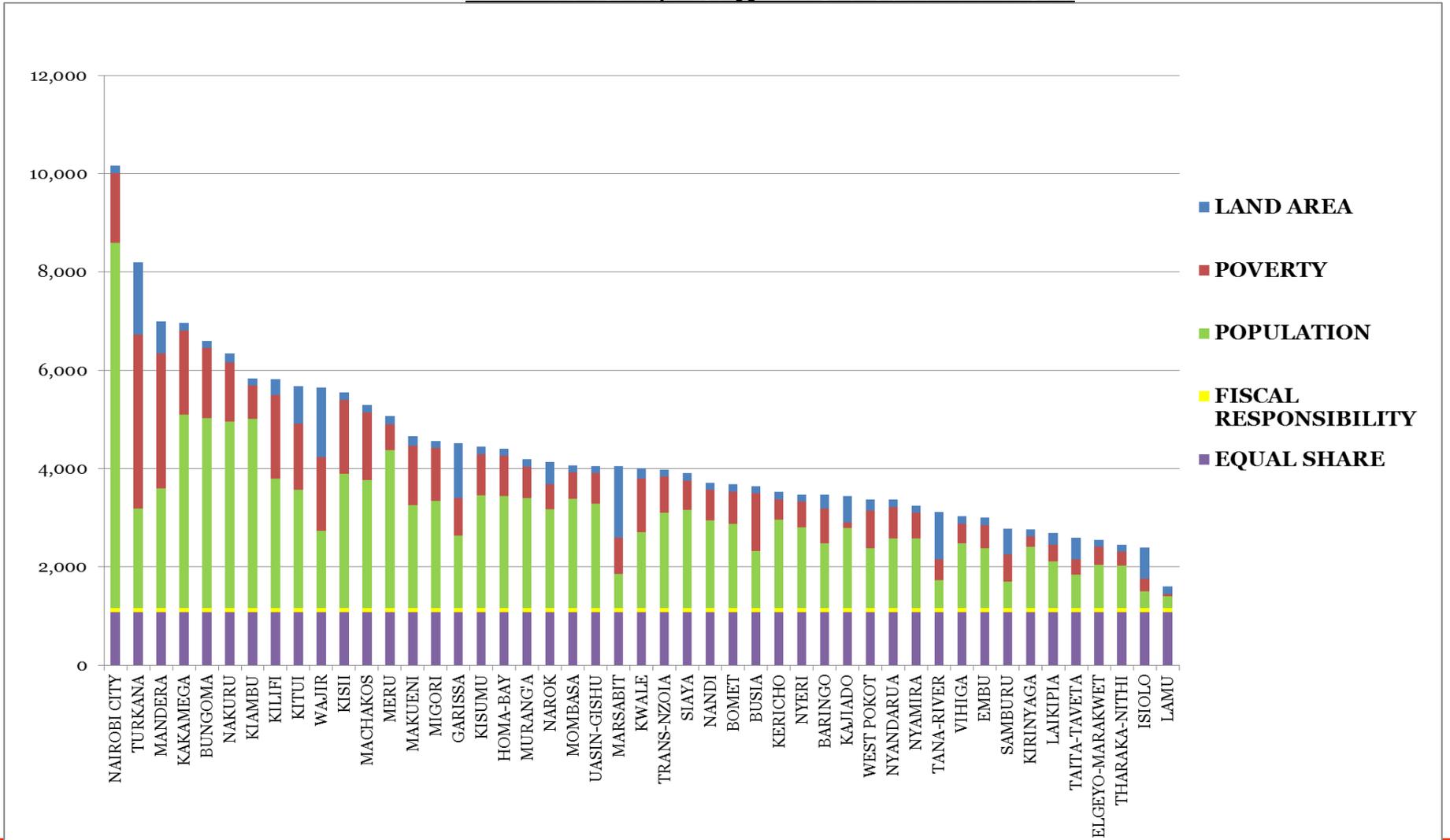
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TOTAL REVENUE ALLOCATION PER COUNTY GOVERNMENT BY PARAMETER YEAR 2012/2013 - KSHS. MILLION RECOMMENDED TO COUNTY GOVERNMENTS 32.8%: KSHS.203,000 MILLION

NO.	COUNTY	45%		25% BASIC EQUAL SHARE	20% POVERTY Revenue	8% LAND AREA Revenue	2% FISCAL RESPONSIBILITY	100% TOTAL REVENUE	PER PERSON
		POPULATION Individuals No.	Revenue						
33	MACHAKOS	1,098,584	2,599	1,080	1,368	156	86	5,289	4,815
34	KISII	1,152,282	2,726	1,080	1,505	146	86	5,543	4,811
35	KERICHO	758,339	1,794	1,080	414	146	86	3,520	4,642
36	SIAYA	842,304	1,993	1,080	598	146	86	3,904	4,634
37	KISUMU	968,909	2,292	1,080	835	146	86	4,440	4,582
38	HOMA-BAY	963,794	2,280	1,080	811	146	86	4,403	4,569
39	UASIN-GISHU	894,179	2,116	1,080	629	146	86	4,056	4,536
40	MURANG'A	942,581	2,230	1,080	643	146	86	4,185	4,440
41	MOMBASA	939,370	2,223	1,080	527	146	86	4,062	4,324
42	KAKAMEGA	1,660,651	3,929	1,080	1,720	146	86	6,961	4,192
43	BUNGOMA	1,630,934	3,859	1,080	1,433	146	86	6,604	4,049
44	NAKURU	1,603,325	3,793	1,080	1,195	188	86	6,342	3,956
45	MERU	1,356,301	3,209	1,080	525	174	86	5,074	3,741
46	KIAMBU	1,623,282	3,841	1,080	679	146	86	5,832	3,593
47	NAIROBI CITY	3,138,369	7,425	1,080	1,419	146	86	10,156	3,236
	TOTALS	38,610,097	91,350	50,750	40,600	16,240	4,060	203,000	5,258

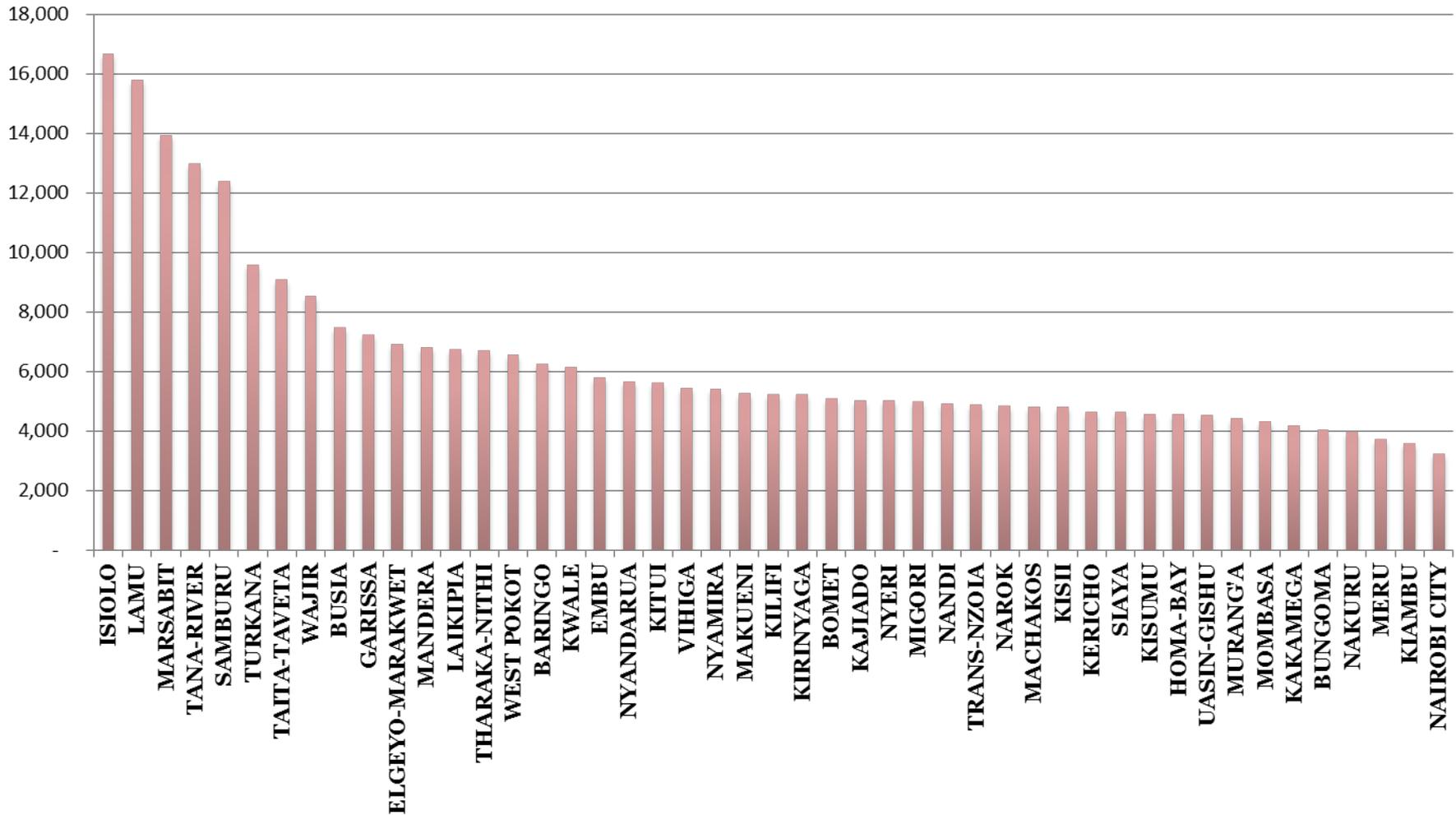
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TOTAL REVENUE ALLOCATION PER COUNTY GOVERNMENT BY PARAMETER YEAR 2012/2013 - KSHS. MILLION



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COUNTY PER PERSON ALLOCATION YEAR 2012/2013 - KSHS. MILLION



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Amina Ahmed – Commissioner



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