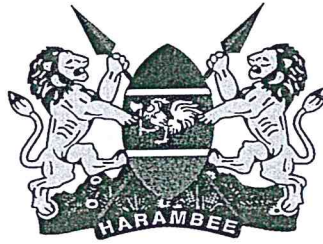


REPUBLIC OF KENYA



PARLIAMENT

THE SENATE

TWELFTH PARLIAMENT (FOURTH SESSION)

REPORT OF THE COMMITTEE ESTABLISHED TO CONSIDER THE
MATTER OF THE THIRD BASIS FOR ALLOCATING AMONG THE
COUNTIES, THE SHARE OF NATIONAL REVENUE

CLERK'S CHAMBERS
THE SENATE
PARLIAMENT OF KENYA
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1.0. BACKGROUND

1. Article 217 (1) of the Constitution of Kenya provides that once every five years, the Senate shall, by Resolution, determine the basis for allocating among the counties, the share of national revenue that is annually allocated to the county level of government. In order to facilitate the workings of the Senate, Article 216 (1) of the Constitution mandates the Commission on Revenue Allocation (CRA) to make recommendations concerning the basis for equitable sharing of revenue raised by the national government, between the national and county governments, and among the county governments.
2. Accordingly, the CRA did submit their recommendations on the third basis to the Senate for consideration. The proposed criteria, by CRA was tabled in the Senate on 30th April, 2019 and was committed to the Standing Committee on Finance and Budget.
3. The Standing Committee on Finance and Budget considered the CRA proposal and conducted public participation on the matter and tabled its report, on the Third Basis for Revenue Allocation Among the County Governments, on Monday, 13th July, 2020 and a Notice of Motion for its adoption was given on the same day.
4. It is in the public domain that the proposal as submitted by the Committee generated considerable controversy in the Senate. This has led to a stalemate in the approval of the Third-Generation formula because of concerns that the proposed formula occasions losses to some counties and gains to other counties.
5. Accordingly, various amendments have been proposed during the debate on the Motion on the Report of the Committee. The many amendments proposed to the Motion and the protracted quest for agreement, led the Senate leadership to engage Senators on a process of consensus building.
6. Debate on the Motion commenced on Tuesday, 28th July, 2020. Subsequently, in nine (9) sittings of the Senate, the ensuing debate on the Report of the Committee on Finance and Budget, has not been concluded for the Senate to make a decision.
7. During the Special Sitting of the Senate held on Monday, 17th August, 2020, in the course of debate, the Senate Minority Leader, Sen. James Orengo, moved a Motion, to adjourn debate. The adjournment Motion

was carried thereby adjourning debate, to allow for consensus building on the third basis for revenue allocation among counties.

2.0. THE COMMITTEE ESTABLISHED TO CONSIDER THE MATTER OF THE THIRD BASIS FOR THE REVENUE ALLOCATION AMONG COUNTIES

2.1. Membership of the Committee

8. While moving the adjournment Motion, the Senate Minority Leader informed the House that consultation among Senators had taken place with a view to appoint a team of Senators to build consensus on the matter. The following Senators were proposed to be part of the team-
- | | |
|--|---------------|
| (i) Sen. Moses Wetang'ula, EGH, MP | - Co-convener |
| (ii) Sen. Johnson Sakaja, CBS, MP | - Co-convener |
| (iii) Sen. (Eng.) Mahamud Mohamed, CBS, MP | - Member |
| (iv) Sen. Stewart Madzayo, CBS, MP | - Member |
| (v) Sen. Kipchumba Murkomen, EGH, MP | - Member |
| (vi) Sen. Mutula Kilonzo Junior, MP | - Member |
| (vii) Sen. Susan Kihika, MP | - Member |
| (viii) Sen. Samson Cherarkey, MP | - Member |
| (ix) Sen. Moses Kajwang', MP | - Member |
| (x) Sen. Anuar Loitiptip, MP | - Member |
| (xi) Sen. John Nderitu Kinyua, MP | - Member |
| (xii) Sen. Ledama Olekina, MP | -Member |
9. The Committee was mandated to build consensus on the matter of the Third Basis for Revenue allocation among counties and advise the Senate Leadership on the way forward.

2.2. Terms of Reference for the Committee

10. At its first meeting held on Tuesday 18th August, 2020, the Committee deliberated and agreed on the following Terms of Reference-
- (i) To build consensus on the matter of the Third Basis for Revenue allocation among counties; and
 - (ii) To advise the Senate Leadership on the progress made with a view to scheduling a *Kamukunji* and later a Special Sitting of the Senate.

2.3. Programme of work and schedule of meetings

11. The Committee deliberated on the programme of work and schedule of meetings and resolved to meet daily until consensus is reached.
12. In building consensus, the Committee was guided by the following, among others-
 - (i) the statistics and analyses by the Parliamentary Budget Office;
 - (ii) meeting with Senators who had filed amendments to the Report of the Standing Committee on Finance and Budget;
 - (iii) meeting with the Commission on Revenue Allocation (CRA);
 - (iv) meeting with the Cabinet Secretary, National Treasury and Planning;
 - (v) leveraging on issues that had been generally agreed upon; and
 - (vi) building consensus on contentious issues before the Senate.
13. In discharging its mandate according to its terms of reference, the Committee held 15 sittings to deliberate on the matter of the Third Basis for Revenue allocation among counties. Minutes of the sittings are appended to this Report.

3.0. CONSIDERATION OF THE THIRD BASIS FOR REVENUE ALLOCATION AMONG COUNTIES

3.1 PRESENTATION BY THE PARLIAMENTARY BUDGET OFFICE

14. The Committee was briefed by Parliamentary Budget Office on the key tenets to consider in developing a basis for equitable sharing of revenue as indicated below-
 - (i) Criteria for an Effective Revenue Transfer System**
 - (a) Revenue Adequacy- The county governments should have sufficient resources to undertake the designated responsibilities;
 - (b) Local tax effort and expenditure control- it should ensure sufficient tax efforts;
 - (c) Equity-transfers should vary directly with local fiscal needs and inversely with local fiscal capacity; and
 - (d) Transparency and Stability- the formula should be stable for at least a few years (3-5 years) to allow long-term planning.

(ii) 2nd Basis for Allocation of Revenue

- (a) The Second basis had been used to share revenue among counties in the FYs 2017/18 – 2019/20. During this period, there had been significant changes in allocation of resources annually. This is as a result of changes in the *Fiscal Effort Factor*.
- (b) Applying 2nd basis to allocate resources for FY 2020/21 would still lead to significant losses occasioned by the Fiscal Effort variable.

(iii) The Macroeconomic Framework

- (a) There was no guarantee that the revenues would substantially increase to trigger an increase in equitable share. This is because ordinary revenue has been on a downward trend; and
- (b) That by the financial year 2023/24, the Pre-Covid equitable share projection was poised to stand at Kshs.341 billion. This may be unachievable considering the current global and regional economic challenges.

(iv) The CRA recommendation to the Senate on the third basis for revenue allocation among counties;

(v) The recommendation by the Standing Committee on Finance and Budget on the third basis for revenue allocation among counties;

(vi) The amendments to the Committee Report as proposed by Senators.

(vii) Factors to consider in determining the Third Basis for Revenue allocation among counties-

- (a) The Baseline- either allocations for 2019/20 or 2nd basis formula keeping in mind that in 2nd basis formula, there will be gainers and losers due to fiscal effort factor;
- (b) The poverty data to be applied - KIBHS 2015/16 or 2009..
- (c) The population census to be applied - 2019 Census or 2009.
- (d) The timelines for enforcing the new formula and for how long the formula is to last.
- (e) Whether to cushion counties with negative variances.
- (f) The threshold of loss which would be bearable so as not to disrupt delivery of services; for example 5 percent reduction.

(viii) Comparative perspectives

The Committee was taken through a study of revenue allocation in comparable jurisdictions such as India, Ethiopia and Nigeria,

15. The Committee thereafter identified the following principles to guide their deliberations-

- (a) Reducing the losses to a minimum level without disenfranchising the counties that would gain;
- (b) No county should get less than what they got in the financial year 2019/2020;
- (c) A framework for cushioning counties that would have a loss be put in place;
- (d) The need to set a maximum limit of loss of revenue of which a county may suffer.

3.2 MEETING WITH THE HONOURABLE SENATORS WHO HAD FILED AMENDMENTS TO THE MOTION BEFORE THE HOUSE

16. During its Third Sitting, the Committee held a meeting with Honourable Senators who had filed amendments to the Motion on the Report of the Standing Committee on Finance and Budget. The following Senators appeared before the Committee and elaborated on their amendments before the House-

- (i) Sen. Petronila Were, MP
- (ii) Sen. Kimani Wamatangi, MP; and
- (iii) Sen. James Orengo, EGH, SC, MP

3.3 MEETING WITH THE CABINET SECRETARY, NATIONAL TREASURY AND PLANNING

17. During its Seventh sitting, the Committee held a meeting with Hon. Nelson Gaichuhie, the Chief Administrative Secretary (CAS), representing the Cabinet Secretary, National Treasury and Planning, who informed the Committee that-

- (a) the revenue collection performance for the Financial Year 2020/21 was not impressive;

- (b) before Covid-19, the equitable share allocation for the Financial Year 2021/22, had been expected to increase to Kshs. 325 Billion based on the medium-term framework projection;
- (c) The National Treasury had no allocation that could be used to cushion counties as they only deal with the equitable share of revenue.

18. The Committee noted the presentation by the CAS and asked the National Treasury to formally submit, in writing, the projected shareable revenues for the financial years 2021/22 to 2024/25.

3.4 MEETING WITH THE COMMISSION FOR REVENUE ALLOCATION

19. During its Seventh sitting, the Committee held a meeting with Dr. Jane Kiringai, the Chairperson of the Commission on Revenue Allocation (CRA) who informed the Committee that its recommendation to the Senate in April, 2019 was based on the population data of 2009 where the CRA had proposed that 15% of the increase in equitable share be set aside to cushion the counties which would suffer a revenue shortfall;
20. The CRA then presented three new options for the Committee to consider as an amendment to the proposal earlier submitted to the Senate. The options are predicated on the following assumptions-
- (a) that the allocation for the financial year 2020/21 would be based on the allocation factor used in the financial year 2019/20;
 - (b) that the land parameter would be amended by uncapping it at the top and capping it at the bottom at 1%;
 - (c) that of the available shareable revenue of Kshs. 316.5 Billion, Kshs. 304.5 Billion would be shared according to the preferred Basis while Kshs. 12 Billion would be used to cushion the counties with a negative revenue variance.
21. The Options presented by CRA are-
- a) Option 1 which proposes a reduction in the Health index from 17% to 15%, reduction in the Fiscal Effort index and the Fiscal Prudence index to 1% and an increase in the Roads index to 8%;
 - b) Option 2 which proposes a reduction in the Population index from 18% to 16%, reduction in the Fiscal Effort index and the Fiscal Prudence index to 1% and an increase in the Roads index to 8%; and
 - c) Option 3 which proposes a reduction in the Fiscal Effort index and the Fiscal Prudence index to 0% and an increase in the Roads index to 8%.

22. The Committee noted that the CRA had preference on Option (b) above. The Committee further noted that all the options presented would each lead to at least twenty-seven (27) counties suffering revenue shortfall as opposed to the proposal by the Standing Committee on Finance and Budget which had only eighteen (18) counties with a shortfall.

3.5 DELIBERATIONS BY THE COMMITTEE ON THE VARIOUS PROPOSALS

23. The Committee requested and deliberated on various proposals and resultant simulations, as presented by the Parliamentary Budget Office, on the projected growth for the equitable share over the medium term and the guiding principles of ensuring smooth flow of revenue to counties. The following proposals were deliberated on-

- (a) Allocating the first Kshs 221.55 Billion of the equitable share to counties using the allocation factor used in the financial year 2019/20. The remainder of the amount be allocated using the Finance and Budget Committee proposal on the Third Basis;
- (b) Allocating the first Kshs 221.55 Billion of the equitable share to counties using the allocation factor used in the financial year 2019/20. Then the rest of the amount by using the following basis Population 18%, Health 17%, Agriculture 10%, Urban Services 5%, Land 8%, Poverty 14%, Basic share 20% and Roads 8%;
- (c) Allocating the first 50% of the Kshs 316.5 Billion using the allocation factor used in the financial year 2019/20. The remainder of the amount be allocated using the Finance and Budget Committee proposal on the Third Basis;
- (d) Allocating the first Kshs 273 Billion of the equitable share to counties using the allocation factor used in the financial year 2019/20. The remainder of the amount be allocated using the Finance and Budget Committee proposal on the Third Basis;
- (e) Allocating the first Kshs. 250 Billion using allocation factor used in financial year 2019/20. Then the rest of the amount by using the following basis Population 18%, Health 17%, Agriculture 10%, Urban Services 5%, Land 8%, Poverty 14%, Basic share 20% and Roads 8%;
- (f) Allocating the first Kshs. 273 Billion using allocation factor used in financial year 2019/20. Then the rest amount by using the following basis Population 18%, Health 17%, Agriculture 10%, Urban Services 5%, Land 8%, Poverty 14%, Basic share 20% and Roads 8%;
- (g) Year 1 (2020/21) - Allocate Kshs 316.5 Billion using the allocation factor used in financial year 2019/20; Year 2 (2021/22) - Equitable share projections at Kshs 325 Billion. Allocate the first Kshs 316.5 Billion using the allocation factor used in financial year 2019/20 and the balance of Kshs. 8.5 Billion using the Committee on Finance and Budget

proposal; Year 3 (2022/23) – Equitable share projections at Kshs 331 Billion. Allocate all the funds using the Committee on Finance and Budget proposal but limit the maximum reduction of allocation that a county may suffer at 10% of FY 2019/20 allocation; and Year 4 (2023/24) – Equitable share projections at Kshs 341 Billion. Allocate all the funds using the Committee on Finance and Budget proposal but limit the maximum reduction of allocation that a county may suffer at 10% of FY 2019/20 allocation.

- (h) Year 1 (2020/21) - Allocate Kshs 316.5 Billion using the allocation factor used in financial year 2019/20; Year 2 (2021/22)- Equitable share projections at Kshs 325 Billion - Allocate the first Kshs 273 Billion using the allocation factor used in financial year 2019/20 and the balance using the following basis- Population 18%, Health 17%, Agriculture 10%, Urban Services 5%, Land 8%, Poverty 14%, Basic share 20% and Roads 8%; Years 3 & 4 (2022/23- 2023/24) -Equitable share projections at Kshs 331 and 341 Billion respectively. Allocate the first Kshs 273 Billion using the allocation factor used in financial year 2019/20 and the balance using the following basis- Population 18%, Health 17%, Agriculture 10%, Urban Services 5%, Land 8%, poverty 14%, Basic share 20% and Roads 8%.
- (i) Year 1 (2020/21) - Allocate Kshs 316.5 Billion using the allocation factor used in financial year 2019/20; Year 2 (2021/22)- Equitable share projections at Kshs 320 Billion - Allocate the first Kshs 316.5 Billion using the allocation factor used in financial year 2019/20 and the balance using the following basis- Population 18%, Health 17%, Agriculture 10%, Urban Services 5%, Land 8%, Poverty 14%, Basic share 20% and Roads 8%; Years 3 & 4 (2022/23- 2023/24) -Equitable share projections at Kshs 331 and 341 Billion respectively. Allocate the first Kshs 273 Billion using the allocation factor used in financial year 2019/20 and the balance using the following basis- Population 18%, Health 17%, Agriculture 10%, Urban Services 5%, Land 8%, poverty 14%, Basic share 20% and Roads 8%.
- (j) Year 2020/21 (Year 1) - allocate Kshs 316.5 Billion using the allocation factor used in financial year 2019/20; 2021/22 (Year 2) – Taking that Equitable share will be Kshs 325 Billion, allocate the first Kshs 316.5 B using the allocation factor used in financial year 2019/20. The rest be allocated using the Committee on Finance and Budget proposal but apply land parameter without square root; 2022/23 (Year 3) – taking that the Equitable share will be Kshs 331 Billion allocate all the fund using the Committee on Finance and Budget proposal but apply land parameter without square root and limit the maximum reduction of allocation that a county may suffer at 10%, 7.5%, 5% and 3% of FY 2019/20 allocation; and 2023/24 (Year 4) – taking that the Equitable share will be Kshs 341 Billion allocate all the fund using the Committee on Finance and Budget proposal but apply land parameter without square root and limit the maximum reduction of allocation that a county may suffer at 10%, 7.5%, 5% and 3% of FY 2019/20 allocation.

24. During the deliberations, the Committee raised the following concerns-

- (a) Credibility of data from various institutions. The Committee noted that the data used requires to be subjected to scrutiny as some may not reflect the actual situation on the ground; and
- (b) Some data applied in the basis was subject to annual changes- the Committee noted the need to resolve on whether the data to be applied on the basis will be fixed or will change to reflect the annual dynamics.

4.0. COMMITTEE RECOMMENDATIONS FOR FURTHER CONSENSUS BUILDING

25. Following the above deliberations, the Committee recommended that the following two options of the Third Basis for Revenue allocation among counties be presented to the Senate Leadership and later to a *Kamukunji* for deliberation and further consensus building-

(a) Option 1

1) Equitable Share for 2020/21

Maintain Allocation ratio for FY 2019/20

2) Equitable share for FY 2021/22- 2024/25 (Details of the parameters are given in Appendix 1)

a) Equitable share not exceeding Kshs.316.5 billion

Maintain Allocation ratio for FY 2019/20

b) Any additional amount of Equitable share above Kshs.316.5 billion and below Kshs. 325 billion

The following formula shall apply

CA= 0.18*Population Index_i+ 0.17*Health Index_i+0.10* Agriculture Index_i+ 0.05*Urban Index_i+0.14* Poverty Index_i+ 0.08*Land Area Index_i+0.08*Roads Index_i +0.20* Basic Share Index_i ¹ (Details of the parameters are given in appendix 2)

c) Equitable share of Kshs. 325 billion and above

The following formula shall apply-

i) Equitable share of Kshs. 273 billion:

Maintain allocation ratio for FY 2019/20

ii) Equitable share of Kshs. 273 billion and above

¹The formula will use the 2019 population and 2015/16 KIHBS poverty statistics

The following formula shall apply

$$CA = 0.18 * \text{Population Index}_i + 0.17 * \text{Health Index}_i + 0.10 * \text{Agriculture Index}_i + 0.05 * \text{Urban Index}_i + 0.14 * \text{Poverty Index}_i + 0.08 * \text{Land Area Index}_i^2 + 0.08 * \text{Roads Index}_i + 0.20 * \text{Basic Share Index}_i^3 \text{ (Details of the parameters are given in Appendix 2)}$$

Appendix 2: Explanation of the Parameters

Where,

| Parameter | Indicator of Expenditure Need |
|-----------------------|---|
| Health services | <p>Health index- health facility-gaps (20%), three years average number of primary health care visits to levels 2 and 3 health facilities (60%) and three years average in-patient days in levels 4 and 5 hospitals (20%)</p> <p>Facility gap factor_i = $\frac{\text{Facility gap funding in county } i}{\sum_{i=1}^{47} \text{facility gap funding in county } i}$</p> <p>Primary health care factor_i = $\frac{\text{No. of primary health care visits in county } i}{\sum_{i=1}^{47} \text{No. of primary health care visits in county } i}$</p> <p>In – patient days factor_i = $\frac{\text{No. of in – patient days in county } i}{\sum_{i=1}^{47} \text{No. of in – patient days in county } i}$</p> |
| Agriculture services | <p>Agriculture Index_i = $0.005 * \text{Minimum Share index} + 0.095 * \frac{\text{Rural households in county } i}{\sum_{i=1}^{47} \text{Rural households in county } i}$</p> |
| Other county services | <p>Population index_i = $\frac{\text{Population in county } i}{\sum_{i=1}^{47} \text{Population in county } i}$</p> |
| Minimum share | <p>Basic share index</p> <p>= $0.19 * \text{Equal Share index} + 0.01 * \frac{\text{inverse of population in county } i}{\sum_{i=1}^{47} \text{inverse of population in county } i}$</p> |
| Land | <p>Land area index_i = $\frac{\text{Land area in county } i}{\sum_{i=1}^{47} \text{Land area in county } i}$</p> |
| Roads | <p>Roads index_i = $\frac{\text{Rural access index in county } i}{\sum_{i=1}^{47} \text{Rural access index in county } i}$</p> |
| Poverty level | <p>Poverty index_i = $\frac{\text{No. of poor people in county } i}{\sum_{i=1}^{47} \text{No. of poor people in county } i}$</p> |
| Urban service | <p>Urban Index_i = $\frac{\text{urban household in county } i}{\sum_{i=1}^{47} \text{Urban Household in County } i}$</p> |

² The Land Area index is capped at 7%

³ The formula will use the 2019 population and 2015/16 KIHBS poverty statistics

| | |
|---------------|--|
| Fiscal effort | $\text{Fiscal effort index}_i = \frac{\text{OSR collections of county } i}{\text{GCP of county } i}$ |
|---------------|--|

The basis used is as shown-

| No. | Parameter | Weight |
|-----|-----------------|-----------------|
| 1 | Population | 18% |
| 2 | Health | 17% |
| 3 | Agriculture | 10% |
| 4 | Urban | 5% |
| 5 | Roads | 8% |
| 6 | Poverty | 14% |
| 7 | Land | 8% capped at 7% |
| 8 | Basic Share | 20% |
| 9 | Fiscal Effort | 0% |
| 10 | Fiscal Prudence | 0% |

(b) Option 2

1. Equitable Share for FY 2020/21

Maintain Allocation ratio for FY 2019/20⁴

2. Equitable share for FY 2021/22

i) Equitable share not exceeding Kshs.316.5 billion

Maintain Allocation ratio for FY 2019/20⁵

ii) Any additional amount of Equitable share of Kshs.316.5 billion and above

The following formula shall apply-

$CA = 0.16 * \text{Population Index}_i + 0.20 * \text{Health Index}_i + 0.12 * \text{Agriculture Index}_i + 0.04 * \text{Urban Index}_i + 0.14 * \text{Poverty Index}_i + 0.05 * \text{Land Area Index}_i + 0.01 * \text{Fiscal Effort}_i + 0.07 * \text{Roads Index}_i + 0.01 * \text{Prudence Index}_i + 0.20 * \text{Basic Share Index}_i$ ⁶ (Details of the parameters are given in Appendix 1)

3. Equitable share for FY 2022/23- 2024/25

i) The following formula shall apply-

$CA = 0.16 * \text{Population Index}_i + 0.20 * \text{Health Index}_i + 0.12 * \text{Agriculture Index}_i + 0.04 * \text{Urban Index}_i + 0.14 * \text{Poverty Index}_i + 0.05 * \text{Land Area Index}_i$ ⁷ $+ 0.01 * \text{Fiscal Effort}_i + 0.07 * \text{Roads Index}_i + 0.01 * \text{Prudence Index}_i + 0.20 * \text{Basic Share Index}_i$ ⁸ (Details of the parameters are given in Appendix 1)

ii) 10% cap on the losses as a result of application in the formula under (3) (i).

Appendix 1: Explanation of the Parameters

⁴ The formula will use the 2009 population and 2009 poverty statistics

⁵ The formula will use the 2009 population and 2009 poverty statistics

⁶ The formula will use the 2019 population and 2015/16 KIHBS poverty statistics

⁷ The Land Area index is capped at 7%

⁸ The formula will use the 2019 population and 2015/16 KIHBS poverty statistics

Where,

| Parameter | Indicator of Expenditure Need | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|-----------------------|--|----------------|----------|---------------------------|------------------|-------------|-----------|---|---------------|----------------|---|---------------------------|------------------|-----------|---|---------|---|------------|---|---|-------------------------|--------------|---|-------------------|------|-----------|---|---|--------------------------|----------|---|---------------------------|------------------|---|------------------------------|----------|---|-------------------|------|--------|---|
| Health services | <p>Health index- health facility-gaps (20%), three years average number of primary health care visits to levels 2 and 3 health facilities (60%) and three years average in-patient days in levels 4 and 5 hospitals (20%)</p> <p>Facility gap funding in county i</p> $\text{Facility gap factor}_i = \frac{\text{Facility gap funding in county } i}{\sum_{i=1}^{47} \text{facility gap funding in county } i}$ $\text{Primary health care factor}_i = \frac{\text{No. of primary health care visits in county } i}{\sum_{i=1}^{47} \text{No. of primary health care visits in county } i}$ $\text{In - patient days factor}_i = \frac{\text{No. of in - patient days in county } i}{\sum_{i=1}^{47} \text{No. of in - patient days in county } i}$ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Agriculture services | $\text{Agriculture Index}_i = 0.005 * \text{Minimum Share index} + 0.095 * \frac{\text{Rural households in county } i}{\sum_{i=1}^{47} \text{Rural households in county } i}$ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Other county services | $\text{Population index}_i = \frac{\text{Population in county } i}{\sum_{i=1}^{47} \text{Population in county } i}$ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Minimum share | <p>Basic share index</p> $= 0.19 * \text{Equal Share index} + 0.01 * \frac{\text{inverse of population in county } i}{\sum_{i=1}^{47} \text{inverse of population in county } i}$ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Land | $\text{Land area index}_i = \frac{\text{Land area in county } i}{\sum_{i=1}^{47} \text{Land area in county } i}$ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Roads | $\text{Roads index}_i = \frac{\text{Rural access index in county } i}{\sum_{i=1}^{47} \text{Rural access index in county } i}$ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Poverty level | $\text{Poverty index}_i = \frac{\text{No. of poor people in county } i}{\sum_{i=1}^{47} \text{No. of poor people in county } i}$ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Urban service | $\text{Urban Index } i = \frac{\text{urban household in county } i}{\sum_{i=1}^{47} \text{Urban Household in County } i}$ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Fiscal effort | $\text{Fiscal effort index}_i = \frac{\text{OSR collections of county } i}{\text{GCP of county } i}$ | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Fiscal prudence | <table border="1"> <thead> <tr> <th>No.</th> <th>Variable</th> <th>Indicator</th> <th>Score</th> <th>Responsible</th> <th>Weighting</th> </tr> </thead> <tbody> <tr> <td rowspan="4">1</td> <td rowspan="4">Audit Reports</td> <td>Non- Qualified</td> <td>4</td> <td rowspan="4">County Executive Assembly</td> <td rowspan="4">CE=90% CA=10%</td> </tr> <tr> <td>Qualified</td> <td>2</td> </tr> <tr> <td>Adverse</td> <td>0</td> </tr> <tr> <td>Disclaimer</td> <td>0</td> </tr> <tr> <td rowspan="2">2</td> <td rowspan="2">Development Expenditure</td> <td>At least 30%</td> <td>1</td> <td rowspan="2">County Government</td> <td rowspan="2">100%</td> </tr> <tr> <td>Below 30%</td> <td>0</td> </tr> <tr> <td>4</td> <td>Internal Audit Committee</td> <td>In place</td> <td>1</td> <td>County Executive Assembly</td> <td>CE=90% CA=10%</td> </tr> <tr> <td rowspan="2">4</td> <td rowspan="2">County Budget Economic Forum</td> <td>In place</td> <td>1</td> <td rowspan="2">County Government</td> <td rowspan="2">100%</td> </tr> <tr> <td>Not In</td> <td>0</td> </tr> </tbody> </table> | No. | Variable | Indicator | Score | Responsible | Weighting | 1 | Audit Reports | Non- Qualified | 4 | County Executive Assembly | CE=90% CA=10% | Qualified | 2 | Adverse | 0 | Disclaimer | 0 | 2 | Development Expenditure | At least 30% | 1 | County Government | 100% | Below 30% | 0 | 4 | Internal Audit Committee | In place | 1 | County Executive Assembly | CE=90% CA=10% | 4 | County Budget Economic Forum | In place | 1 | County Government | 100% | Not In | 0 |
| No. | Variable | Indicator | Score | Responsible | Weighting | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1 | Audit Reports | Non- Qualified | 4 | County Executive Assembly | CE=90% CA=10% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | Qualified | 2 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | Adverse | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | Disclaimer | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 2 | Development Expenditure | At least 30% | 1 | County Government | 100% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | Below 30% | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 4 | Internal Audit Committee | In place | 1 | County Executive Assembly | CE=90% CA=10% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 4 | County Budget Economic Forum | In place | 1 | County Government | 100% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | Not In | 0 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

The basis used is as shown-

| No. | Parameter | Weight |
|-----|-----------------|--------|
| 1 | Population | 16% |
| 2 | Health | 20% |
| 3 | Agriculture | 12% |
| 4 | Urban | 4% |
| 5 | Roads | 7% |
| 6 | Poverty | 14% |
| 7 | Land | 5% |
| 8 | Basic Share | 20% |
| 9 | Fiscal Effort | 1% |
| 10 | Fiscal Prudence | 1% |

CONSENSUS BUILDING ON THE PROPOSED FORMULA

26. Following a *Kamukunji* meeting that was held on 15th September, 2020, the Senate was briefed that the Senate leadership had held a consultative meeting with H.E the President on the Third Basis for allocating Revenue among the counties, the share of national revenue.
27. The *Kamukunji* was informed that H.E the President directed that in the financial year 2021/2022 the equitable share be increased by Kshs. 53.5 Billion.
28. In this regard, the Committee was tasked to build consensus and consider the implication of the further allocation on the formulae.

5.0. COMMITTEE RECOMMENDATIONS

29. At its meeting held on 17th September, 2020. The Committee deliberated on the Third Basis for Revenue Allocation and recommended the following as the Third basis for revenue allocation among counties for the financial years 2020/2021 to 2024/2025 which shall consist of the Allocation Ratio and the Formula.

Where-

- i) **Allocation Ratio** = the shareable revenue allocated to the counties in the financial year 2019/2020.
- ii) **Formula** = $0.18 * \text{Population Index}_i + 0.17 * \text{Health Index}_i + 0.10 * \text{Agriculture Index}_i + 0.05 * \text{Urban Index}_i + 0.14 * \text{Poverty Index}_i + 0.08 * \text{Land Area Index}_i^9 + 0.08 * \text{Roads Index}_i + 0.20 * \text{Basic Share Index}_i^{10}$.

Where,

| Parameter | Indicator of Expenditure Need |
|-----------------|--|
| Health services | Health index- health facility-gaps (20%), three years average number of primary health care visits to levels 2 and 3 health facilities (60%) and three years average in-patient days in levels 4 and 5 hospitals (20%) |

⁹ Land Area capped at 7%

¹⁰The formula will use the 2019 population and 2015/16 KIHBS poverty statistics

| | |
|-----------------------|--|
| | $\text{Facility gap factor}_i = \frac{\text{Facility gap funding in county } i}{\sum_{i=1}^{47} \text{facility gap funding in county } i}$ $\text{Primary health care factor}_i = \frac{\text{No. of primary health care visits in county } i}{\sum_{i=1}^{47} \text{No. of primary health care visits in county } i}$ $\text{In - patient days factor}_i = \frac{\text{No. of in - patient days in county } i}{\sum_{i=1}^{47} \text{No. of in - patient days in county } i}$ |
| Agriculture services | $\text{Agriculture Index}_i = 0.005 * \text{Minimum Share index} + 0.095 * \frac{\text{Rural households in county } i}{\sum_{i=1}^{47} \text{Rural households in county } i}$ |
| Other county services | $\text{Population index}_i = \frac{\text{Population in county } i}{\sum_{i=1}^{47} \text{Population in county } i}$ |
| Minimum share | Basic share index $= 0.19 * \text{Equal Share index} + 0.01 * \frac{\text{inverse of population in county } i}{\sum_{i=1}^{47} \text{inverse of population in county } i}$ |
| Land | $\text{Land area index}_i = \frac{\text{Land area in county } i}{\sum_{i=1}^{47} \text{Land area in county } i}$ |
| Roads | $\text{Roads index}_i = \frac{\text{Rural access index in county } i}{\sum_{i=1}^{47} \text{Rural access index in county } i}$ |
| Poverty level | $\text{Poverty index}_i = \frac{\text{No. of poor people in county } i}{\sum_{i=1}^{47} \text{No. of poor people in county } i}$ |
| Urban service | $\text{Urban Index } i = \frac{\text{urban household in county } i}{\sum_{i=1}^{47} \text{Urban Household in County } i}$ |

30. The Third Basis for revenue allocation among counties for the financial years 2020/2021 to 2024/2025 shall be applied as follows-

a) Equitable Share for 2020/21

The Third Basis shall be applied as follows-

County Allocation = Allocation Ratio + 0(Formula).

b) Equitable share for 2021/2022 to 2024/2025 of Kshs.370 billion and above


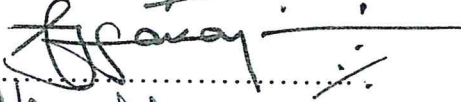
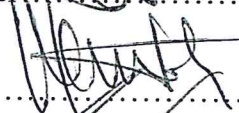
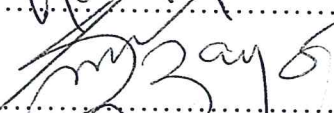
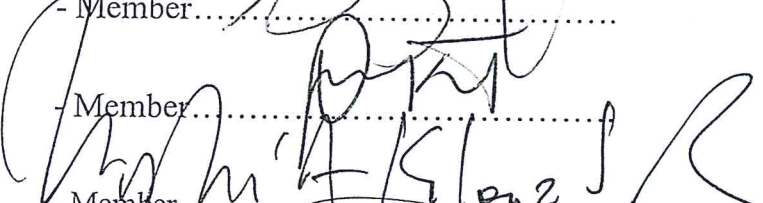


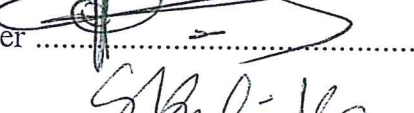



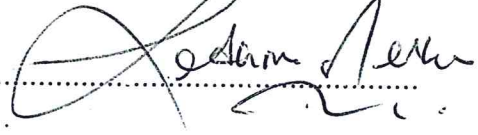
The Third Basis shall be applied as follows-

County Allocation = 0.5 (Allocation Ratio) + ((Equitable Share - 0.5 (Allocation Ratio)*(Formula)).

PROVIDED that for the duration of the operation of the Third Basis for allocating revenue among the counties, no county shall receive in any financial year an amount of shareable revenue that is less than the amount of shareable revenue received by the county in the financial year 2019/2020.

ADOPTION OF THE REPORT

We, the undersigned Members of the Committee established to consider the matter of the Third Basis for allocating among the counties, the share of national revenue, do hereby append our signatures to adopt the Report-

- 1. Sen. Moses Wetang'ula, EGH, MP - Co-convener... 
- 2. Sen. Johnson Sakaja, CBS, MP - Co-convener... 
- 3. Sen. (Eng.) Mahamud Mohamed, CBS, MP - Member... 
- 4. Sen. Stewart Madzayo, CBS, MP - Member... 
- 5. Sen. Kipchumba Murkomen, EGH, MP - Member... 
- 6. Sen. Mutula Kilonzo Junior, MP - Member... 
- 7. Sen. Samson Cherarkey, MP - Member... 
- 8. Sen. Moses Kajwang', MP - Member... 
- 9. Sen. Susan Kihika, MP - Member... 
- 10. Sen. Anuar Loitiptip, MP - Member... 
- 11. Sen. John Kinyua Nderitu, MP - Member... 
- 12. Sen. Iedamia Olekina, MP - Member... 

6.0. ANNEXES

- i) Simulation for the proposed formula.
- ii) Minutes of the Committee sittings.

SIMULATION FOR ILLUSTRATION ONLY

Sharing Kshs. 370 billion using allocation factor on Kshs. 158.25 billion and the remaining funds using parameters and weights below

| Parameter | | Weights | | | |
|-----------|-----------------|--------------------|-----------------------|---|--|
| | population | | 18% | | |
| | Health | | 17% | | |
| | Agriculture | | 10% | | |
| | Urban services | | 5% | | |
| | Roads | | 8% | | |
| | Poverty | | 14% | | |
| | Basic Share | | 20% | | |
| | Land area | | 8% | capped at 7 % | |
| | | | 100% | | |
| No | County | 2019/20 Allocation | FY 2020/21 Allocation | Allocation at E. share of Kshs.370bn for FY 2021/22 | Change between FY19/20 Allocation & Proposed FY 2021/22 Allocation |
| 1 | Tharaka-Nithi | 3,924.60 | 3,924.60 | 4,214.20 | 289.60 |
| 2 | Nyamira | 4,810.80 | 4,810.80 | 5,135.34 | 324.54 |
| 3 | Vihiga | 4,652.55 | 4,652.55 | 5,067.36 | 414.81 |
| 4 | Isiolo | 4,241.10 | 4,241.10 | 4,710.39 | 469.29 |
| 5 | Kwale | 7,785.90 | 7,785.90 | 8,265.59 | 479.69 |
| 6 | Marsabit | 6,773.10 | 6,773.10 | 7,277.00 | 503.90 |
| 7 | Mombasa | 7,057.95 | 7,057.95 | 7,567.35 | 509.40 |
| 8 | Lamu | 2,595.30 | 2,595.30 | 3,105.65 | 510.35 |
| 9 | Taita-Taveta | 4,241.10 | 4,241.10 | 4,842.17 | 601.07 |
| 10 | Tana-River | 5,855.25 | 5,855.25 | 6,528.41 | 673.16 |
| 11 | Makueni | 7,406.10 | 7,406.10 | 8,132.78 | 726.68 |
| 12 | Elgeyo-Marakwet | 3,861.30 | 3,861.30 | 4,606.53 | 745.23 |
| 13 | Samburu | 4,620.90 | 4,620.90 | 5,371.35 | 750.45 |
| 14 | Nyandarua | 4,874.10 | 4,874.10 | 5,670.44 | 796.34 |
| 15 | Narok | 8,039.10 | 8,039.10 | 8,844.79 | 805.69 |
| 16 | Nyeri | 5,412.15 | 5,412.15 | 6,228.73 | 816.58 |
| 17 | Embu | 4,304.40 | 4,304.40 | 5,125.24 | 820.84 |
| 18 | Murang'a | 6,298.35 | 6,298.35 | 7,180.16 | 881.81 |
| 19 | Garissa | 7,026.30 | 7,026.30 | 7,927.21 | 900.91 |
| 20 | Wajir | 8,545.50 | 8,545.50 | 9,474.73 | 929.23 |
| 21 | Kirinyaga | 4,241.10 | 4,241.10 | 5,196.18 | 955.08 |
| 22 | Laikipia | 4,177.80 | 4,177.80 | 5,136.27 | 958.47 |
| 23 | Mandera | 10,222.95 | 10,222.95 | 11,190.38 | 967.43 |
| 24 | Kericho | 5,380.50 | 5,380.50 | 6,430.66 | 1,050.16 |
| 25 | Homa-Bay | 6,741.45 | 6,741.45 | 7,805.35 | 1,063.90 |
| 26 | Kisii | 7,785.90 | 7,785.90 | 8,894.27 | 1,108.37 |
| 27 | Busia | 6,013.50 | 6,013.50 | 7,172.16 | 1,158.66 |
| 28 | Siaya | 5,791.95 | 5,791.95 | 6,966.51 | 1,174.56 |
| 29 | Bomet | 5,507.10 | 5,507.10 | 6,691.10 | 1,184.00 |
| 30 | Kisumu | 6,836.40 | 6,836.40 | 8,026.14 | 1,189.74 |
| 31 | Kilifi | 10,444.50 | 10,444.50 | 11,641.59 | 1,197.09 |
| 32 | Migori | 6,773.10 | 6,773.10 | 8,005.02 | 1,231.92 |
| 33 | Baringo | 5,095.65 | 5,095.65 | 6,369.39 | 1,273.74 |
| 34 | West Pokot | 5,000.70 | 5,000.70 | 6,297.28 | 1,296.58 |
| 35 | Machakos | 7,754.25 | 7,754.25 | 9,162.30 | 1,408.05 |
| 36 | Trans-Nzoia | 5,760.30 | 5,760.30 | 7,186.16 | 1,425.86 |
| 37 | Meru | 8,039.10 | 8,039.10 | 9,493.86 | 1,454.76 |
| 38 | Kajiado | 6,424.95 | 6,424.95 | 7,954.77 | 1,529.82 |
| 39 | Kitui | 8,830.35 | 8,830.35 | 10,393.97 | 1,563.62 |
| 40 | Nandi | 5,348.85 | 5,348.85 | 6,990.87 | 1,642.02 |
| 41 | Uasin-Gishu | 6,330.00 | 6,330.00 | 8,068.86 | 1,738.86 |
| 42 | Burigoina | 8,893.65 | 8,893.65 | 10,657.44 | 1,763.79 |
| 43 | Kakamega | 10,412.85 | 10,412.85 | 12,389.41 | 1,976.56 |
| 44 | Turkana | 10,539.45 | 10,539.45 | 12,609.31 | 2,069.86 |
| 45 | Kiambu | 9,431.70 | 9,431.70 | 11,717.53 | 2,285.83 |
| 46 | Nakuru | 10,476.15 | 10,476.15 | 13,026.12 | 2,549.97 |
| 47 | Nairobi City | 15,919.95 | 15,919.95 | 19,249.68 | 3,329.73 |
| | | 316,500.00 | 316,500.00 | 370,000.00 | 53,500.00 |