

Approved for tabling.



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REPUBLIC OF KENYA


THE NATIONAL ASSEMBLY

TWELFTH PARLIAMENT

FOURTH SESSION

THE BUDGET AND APPROPRIATIONS COMMITTEE REPORT ON THE THIRD
BASIS FOR REVENUE ALLOCATION AMONG THE COUNTY GOVERNMENTS

SEPTEMBER, 2020

 THE NATIONAL ASSEMBLY PAPERS LAID	
DATE:	24 SEP 2020
	DAY: Thursday
TABLED BY:	Hon. Kenneth Keigo, MP Chairperson
CLERK AT THE TABLE:	A. Musandu

CHAIRPERSON'S FOREWORD

Mr. Speaker, on behalf of the Members of the Budget and Appropriations Committee and pursuant to Articles 95(4) (a) and 217(3 and 4) of the Constitution, section 7 of the Public Finance Management Act and Standing Order 41; it is my pleasure to present to this House the committee report on the Third Basis for allocating the share of the National Revenue among the counties.

Mandate of the Committee

Mr. Speaker, Article 221 (4 and 5) of the Constitution and the Public Finance Management Act, 2012 provide for the establishment of a Committee of the National Assembly whose main role is to take the lead in budgetary oversight. In this regard, Standing Order 207 establishes the Budget and Appropriations Committee with specific mandates among which is to:

- i. Investigate, inquire into and report on all matters relating to coordination, control and monitoring of the national budget;
- ii. Discuss and review the estimates and make recommendations to the House;
- iii. Examine the Budget Policy Statement presented to the House;
- iv. Examine Bills related to the national budget including appropriation bills; and
- v. Evaluate tax estimates, economic and budgetary policies and programmes with direct budget outlays.

Membership of the Committee

Mr. Speaker, the Budget and Appropriations Committee as currently constituted comprises of the following Honourable Members:

Member	Constituency	Party
1. Hon. Kanini Kega, CBS, M.P- Chairperson	Kieni	Jubilee
2. Hon. Moses Lessonet, M.P- Vice Chairperson	Eldama Ravine	Jubilee
3. Hon. CPA John Mbadi, EGH, CBS, M.P.	Suba South	ODM
4. Hon. Richard Onyonka, M.P.	Kitutu Chache South	Ford Kenya
5. Hon. Samwel Moroto, M.P.	Kapenguria	Jubilee
6. Hon. Millie Odhiambo, M.P.	Suba North	ODM
7. Hon. Twalib Bady, M.P.	Jomvu	ODM
8. Hon. (Dr.) Makali Mulu Benson, M.P.	Kitui Central	Wiper
9. Hon. Benard Masaka Shinali, M.P.	Ikolomani	Jubilee
10. Hon. John Muchiri Nyaga, M.P.	Manyatta	Jubilee

11. Hon. Jude Njomo, M.P.	Kiambu Town	Jubilee
12. Hon. (Dr.) Korei Ole Lemein, M.P.	Narok South	Jubilee
13. Hon. Sarah Paulata Korere, M.P.	Laikipia North	Jubilee
14. Hon. Francis Kuria Kimani, M.P.	Molo	Jubilee
15. Hon. Mercy Wanjiku Gakuya, M.P.	Kasarani	Jubilee
16. Hon. Naisula Lesuuda, OGW, M.P.	Samburu West	KANU
17. Hon. Sakwa Bunyasi, M.P.	Nambale	ANC
18. Hon. Samuel Atandi, M.P.	Alego Usonga	ODM
19. Hon. Danson Mwashako, M.P.	Wundanyi	Wiper
20. Hon. Fatuma Gedi Ali, CBS, M.P.	Wajir County	PDR
21. Hon. Florence Chepng'etich Koskey Bore, M.P.	Kericho County	Jubilee
22. Hon. James Gichuki Mugambi, M.P.	Othaya	Jubilee
23. Hon. (Dr.) John K. Mutunga, M.P.	Tigania West	Jubilee
24. Hon. (Eng.) Mark Nyamita, M.P.	Uriri	ODM
25. Hon. Paul Abuor, M.P.	Rongo	ODM
26. Hon. Qalicha Gufu Wario, M.P.	Moyale	Jubilee
27. Hon. Wangari Mwaniki, M.P.	Kigumo	Jubilee

Parliamentary Budget Office

1. Ms. Phyllis Makau Director, Parliamentary Budget Office
2. Mr. Martin Masinde Senior Deputy Director, Parliamentary Budget Office
3. Mr. Joseph Ndirangu Fiscal Analyst II / Clerk, Budget and Appropriations Committee
4. Mr. Danson Kachumbo Fiscal Analyst II / Clerk, Budget and Appropriations Committee

Procedure for Examination of the Senate Resolution on the Third Basis for Revenue Allocation among the County Governments.

The resolution of the Senate on the Third Basis for Revenue Allocation among the county governments was received vide a message to the National Assembly on Friday, 18th September 2020. Pursuant to Standing Order 41, the Senate resolution was committed to the Budget and Appropriations Committee for consideration. The Committee has reviewed and considered the message and has made recommendations which are contained in this report.

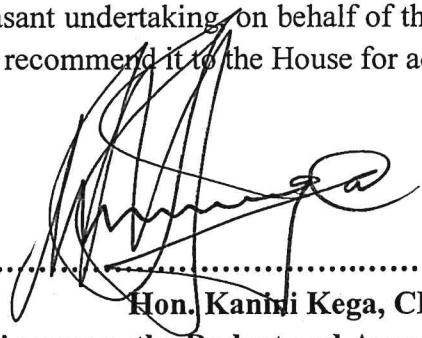
In reviewing the Third Basis for Revenue Allocation among Counties, the Budget and Appropriations Committee held two (2) sittings. The Committee observed that despite an advert in the local dailies seeking submissions from members of the public and other stakeholders, none was received.

Acknowledgements

The Committee is grateful to the Office of the Speaker of the National Assembly, the Office of the Clerk of the National Assembly, and the Parliamentary Budget Office for their invaluable support to the Budget and Appropriations Committee as we discharged our mandate of considering the Third Basis for Revenue Allocation among the county governments.

It is therefore my pleasant undertaking, on behalf of the Budget and Appropriations Committee, to table this report and recommend it to the House for adoption.

Signed:



Hon. Kanisi Kega, CBS, M.P.
Chairperson, the Budget and Appropriations Committee

Date: 23rd SEP' 2020

I. INTRODUCTION

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 the share of national revenue that is annually allocated to the county level of government among the Counties. 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. Since the promulgation of the 2010 Constitution, there have been two formulae. The first basis for sharing revenue among counties was approved by the 10th Parliament in November 2012 and was used to share revenue for Financial Years 2013/14; 2014/15, 2015/16 and 2016/17. The second basis was approved by the 11th Parliament in June 2016 and has been used to share revenue among counties in the FYs 2017/18; 2018/19 and 2019/20.
3. The first basis for revenue sharing approved by the 10th Parliament in November 2012 was based on five parameters with different weights, namely: Population (45 percent), Poverty gap (20 percent), Land Area (8 percent), Basic Equal Share (25 percent) and Fiscal Responsibility (2 percent). The second basis for sharing revenue approved by the 11th Parliament in 2016 was based on six parameters as follows: Basic Equal Share (26 percent), Population (45 percent), Land Area (8 percent), Poverty gap (18 percent), Fiscal Effort (2 percent) and Development Factor (1 percent). The second basis was meant to provide adequate funding to County governments to enable them to effectively undertake their assigned functions; correct economic disparities and minimize the development gap; and incentivize counties to optimize capacity to raise revenue.

II. COMMISSION ON REVENUE ALLOCATION (CRA)

PROPOSAL ON THIRD BASIS FOR SHARING REVENUE

4. Pursuant to Article 216(2) of the Constitution, the Commission on Revenue Allocation (CRA) submitted its recommendation on the third basis of sharing revenue among counties to the Senate for consideration. The proposed criteria by CRA was tabled in the Senate on the 30th of April, 2019 and was committed to the Standing Committee on Finance and Budget.

5. The CRA proposal for the third basis of sharing revenue among counties was based on the following objectives: (a) to enhance service delivery, (b) to promote balanced development, (c) to incentivize counties to optimize capacity to raise revenue, and (d) to incentivize prudent use of public resources.
6. In the CRA proposal, there is a shift towards service oriented approach of revenue sharing where new parameters such as health index, agricultural services, other county services and urban services were introduced and thus increasing the number of parameters to ten.
7. In comparison, the first two basis for sharing revenues (1st and 2nd Basis) were nearly the same with minimal changes entailing introduction of additional parameter (development index) and altering (the weighting) in the second basis. The 1st and 2nd basis had basic equal share at 25 percent and 26 percent, respectively while the third basis had proposed 20 percent. Poverty is also a common parameter across the three formulas at 20 percent in the 1st basis, 18 percent in the 2nd Basis, and proposed 14 percent in the 3rd Basis of revenue sharing. The share of land area parameter is constant at 8 percent across the 1st, 2nd and 3rd Basis of sharing revenue while that of fiscal effort is also constant at 2 percent across all the three Basis of revenues sharing.

III. REVIEW OF THE SENATE RESOLUTION ON THIRD BASIS FOR REVENUE ALLOCATION AMONG THE COUNTY GOVERNMENTS

8. The Committee noted that the Senate resolution had proposed that the basis will be as follows:
 - (i) To hold harmless and ensure no county receives less resources and that there is no disruption in service delivery at the county level, all counties will receive the same resources as they received in 2019/20; and
 - (ii) To ensure there is predictability in resource allocation to counties, commencing from 2021/22 financial year to 2024/25, the formulae shall apply on a basis of fifty (50%) of the Kshs.316.5 Billion and the remaining amount shall be applied to the formula as given in annex 1.
9. The parameters of this formula include and are distributed as follows 18% Population, 17% Health, 10% Agriculture , 5% Urban , 14% Poverty, 8% Land , 8% Roads and 20%

Basic share. These parameters will use the 2015/16 Kenya Integrated Budget and Household Statistics (KIHBS) and the 2019 population census.

IV. COMMITTEE OBSERVATIONS

10. The Committee made the following observations;

- (i) The Senate took too long to consider the recommendations of the Commission on Revenue Allocation (CRA) on the third basis for revenue allocation among county governments. Indeed the CRA submitted the recommendation for consideration on 30th April, 2019.
- (ii) The issue of the quantum figure estimated at Kshs. 370 Billion does not have the force of law. The National Assembly will be guided by available resources, national interests among other factors when deciding on the vertical sharing of revenue between the two levels of government.
- (iii) In calculating the indexes attached to the parameters, there is need to use the current data as provided by KIHBS 2015/16 and 2019 population census and any other data that is provided by government authorities.
- (iv) The parameters are not exhaustive as they do not include services such as water.

V. COMMITTEE RECOMMENDATIONS

11. Having considered the above matters, the committee recommends to this House as follows:

- (i) **That**, the Third Basis for allocation of the national revenue among county governments be approved.

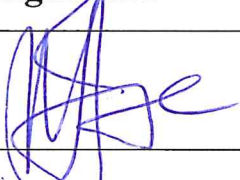
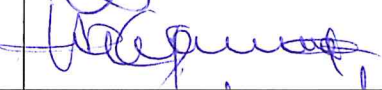
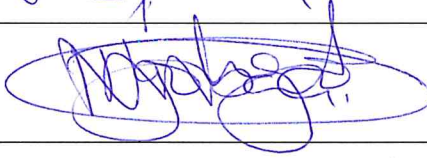
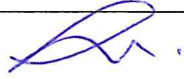
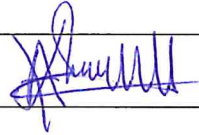


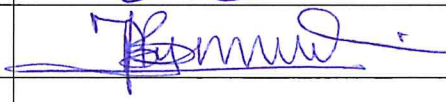
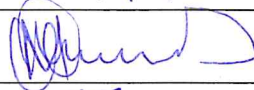

ADOPTION SCHEDULE

Members attendance list

Budget and Appropriations Committee:

Date 23/09/2020

Time...10:00... Sitting: ...1st.....

Name		Signature
1.	The Hon. Kanini Kega, CBS, M.P.- Chairperson	
2.	The Hon. (CPA) Moses K. Lessonet, M.P. - Vice Chairperson	
3.	The Hon. (CPA) John Mbadi, EGH, CBS, M.P.	
4.	The Hon. Samwel Moroto, M.P.	
5.	The Hon. Millie Odhiambo, M.P.	
6.	The Hon. Richard Onyonka, M.P.	
7.	The Hon. Alfred Kiptoo Keter, M.P.	
8.	The Hon. Badi Twalib, M.P.	
9.	The Hon. Benard Masaka Shinali, M.P.	
10.	The Hon. Jude Njomo, M.P.	
11.	The Hon. (Dr.) Korei Ole Lemein, M.P.	
12.	The Hon. (Dr.) Makali Mulu, M.P.	
13.	The Hon. Sarah Paulata Korere, M.P.	
14.	The Hon. Francis Kuria Kimani, M.P.	Virtual.
15.	The Hon. Mercy Wanjiku Gakuya, M.P.	
16.	The Hon. Josephine Naisula Lesuuda, OGW, M.P.	

Name		Signature
17.	The Hon. Sakwa Bunyasi, MP	
18.	The Hon. Samuel Atandi, M.P.	Virtual.
19.	The Hon. (Dr.) John Kanyuithia Mutunga, M.P.	
20.	The Hon. Florence C. K. Bore, M.P.	
21.	The Hon. (Eng.) Mark Nyamita, MP	
22.	The Hon. Paul Abuor, MP	
23.	The Hon. James Gichuki Mugambi, M.P.	
24.	The Hon. Danson Mwashako, MP	
25.	The Hon. Fatuma Gedi Ali, CBS, M.P.	
26.	The Hon. Qalicha Gufu Wario, M.P.	
27.	The Hon. Wangari Mwaniki, M.P.	

Signed.....

Date.....

Committee Clerk

Signed.....

Date.....

Director of Committee Services

ANNEX 1

The Third Basis for allocating among the counties the Share of National Revenue that is annually allocated to the county level of government, for the Financial Years 2020/2021 to 2024/2025 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** = $0.18 * \text{Population Index}_i + 0.17 * \text{Health Index}_i + 0.10 * \text{Agriculture Index}_i + 0.05 * \text{Urban Index}_i + 0.14 * \text{Poverty Index}_i + 0.08 * \text{Land Area Index}_i^1 + 0.08 * \text{Roads Index}_i + 0.20 * \text{Basic Share Index}_i^2$

¹ Land Area capped at 7%

² 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 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	$\text{Land area index}_i = \frac{\text{Land area in county } i}{\sum_i^{47} \text{Land area in county } i}$
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	$\text{Urban Index } i = \frac{\text{urban household in county } i}{\sum_{i=1}^{47} \text{Urban Household in County } i}$

The Third Basis for allocating among the counties the share of national revenue that is annually allocated to the county level of government for the financial years 2020/2021 to 2024/2025 shall be applied as follows-

(a) Equitable Share for 2020/21

County Allocation = Allocation Ratio + 0 (Formula).

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

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

MINUTES OF THE 49th SITTING OF THE BUDGET AND APPROPRIATIONS COMMITTEE HELD ON TUESDAY, 15TH SEPTEMBER, 2020 IN COMMITTEE ROOM 9, MAIN PARLIAMENT BUILDINGS AT 10.00 A.M.

PRESENT:

- 1) **Hon. Kanini Kega, CBS, M.P. – Chairperson**
- 2) **Hon. (CPA) Moses Lessonet, M.P. – Vice Chairperson**
- 3) Hon. (CPA) John Mbadi, EGH, CBS, M.P.
- 4) Hon. Millie Odhiambo, M.P.
- 5) Hon. Alfred Kiptoo Keter, M.P.
- 6) Hon. Benard Masaka Shinali, M.P.
- 7) Hon. (Dr.) Korei Ole Lemein, M.P.
- 8) Hon. (Dr.) Makali Mulu, M.P.
- 9) Hon. Naisula Lesuuda, OGW, M.P.
- 10) Hon. Sakwa Bunyasi, M.P.
- 11) Hon. Mercy Wanjiku Gakuya, M.P.
- 12) Hon. Samuel Atandi, M.P.
- 13) Hon. Francis Kuria Kimani, M.P.
- 14) Hon. Florence C. K. Bore, M.P.
- 15) Hon. Danson Mwashako, M.P.
- 16) Hon. Qalicha Gufu Wario, M.P.
- 17) Hon. Fatuma Gedi Ali, CBS, M.P.
- 18) Hon. Paul Abuor, M.P.

ABSENT WITH APOLOGY:

- 1) Hon. Samwel Moroto, M.P.
- 2) Hon. Richard Onyonka, M.P.
- 3) Hon. Bady Twalib Bady, M.P.
- 4) Hon. Jude Njomo, M.P.
- 5) Hon. Sarah Korere, M.P.
- 6) Hon. (Dr.) John K. Mutunga, M.P.
- 7) Hon. (Eng.) Mark Nyamita, M.P.
- 8) Hon. James Gichuki Mugambi, M.P.
- 9) Hon. Wangari Mwaniki, M.P.

PARLIAMENTARY BUDGET OFFICE

- 1) Ms. Phyllis Makau
- 2) Mr. Martin Masinde

Director, PBO
Senior Deputy Director, PBO

COMMITTEE SECRETARIAT

- | | |
|------------------------|------------------------|
| 1) Mr. Joseph Ndirangu | Fiscal Analyst / Clerk |
| 2) Mr. Danson Kachumbo | Fiscal Analyst II |
| 3) Mr. Benard Omondi | Sergeant at Arms |
| 4) Ms. Mercylyn Kerubo | Audio Officer |

AGENDA

1. Preliminaries & Confirmation of Agenda
2. *Briefing by PBO on the message from the Senate on the Third Basis of revenue sharing among the county Governments*
3. *Consideration of the submitted memoranda(if any) by the public and other stakeholders*
4. *Discussion and Adoption of the Committee Draft Report*
5. Any Other Business (A.O.B)

MIN. NO. NA/BAC/2020/211: PRELIMINARY

The Chairperson welcomed the committee members to the meeting and called the meeting to order at 10.30a.m. Thereafter, led the committee through prayer.

MIN. NO. NA/BAC/2020/212: BRIEFING BY PBO ON THE MESSAGE FROM THE SENATE ON THE THIRD BASIS OF REVENUE SHARING AMONG THE COUNTY GOVERNMENTS

The Chair welcomed the Director to brief the Committee on the Message from the Senate on the Third Basis of Revenue Sharing among Counties. The presentation highlighted the following:

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.

Since the promulgation of the 2010 Constitution, there have been two formulas. The first basis for sharing revenue among counties was approved by the 10th Parliament in November 2012 and used to share revenue for Financial Years 2013/14; 2014/15, 2015/16 and 2016/17. The Second basis was approved by the 11th Parliament in June 2016 and has been used to share revenue among counties in the FYs 2017/18; 2018/19 and 2019/20.

1. THE FIRST BASIS FOR SHARING REVENUE

The first basis for revenue sharing was approved by the 10th Parliament in November 2012. This basis was based on five parameters, namely: Population, Poverty, Land Area, Basic Equal Share and Fiscal Responsibility. The fiscal responsibility parameter was used to encourage counties to manage their fiscal resources prudently and optimize revenue-raising potential as per Article 203(1)(i). In the application of the first-generation formula, the fiscal responsibility factor (two percent of the equitable share) was allocated equally among each county given that there was no established history of financial management of county governments (which had not been established). The equal allocation therefore, put the counties at the same level to undertake fiscal reforms needed to enhance revenue collection and utilization

Table 1 shows the parameters and weights used in the 1st generation formula

Parameter	Weights (%)
Population	45%
Equal Share	25%
Poverty Gap	20%
Land area	8%
Fiscal Responsibility	2%
Total	100%

2. THE SECOND BASIS FOR SHARING REVENUE

The second basis for sharing revenue was approved by the 11th Parliament in 2016 and was based on six parameters. These were- Basic Equal Share, Population, Land Area, Poverty, Fiscal Effort and Development Factor.

The basis was meant to achieve the following objectives

- i. provide adequate funding to enable county governments to undertake functions assigned to them,
- ii. correct economic disparities and minimize the development gap,
- iii. stimulate economic optimisation and incentivise counties to optimise capacity to raise revenue.

The basis used is as shown in table 2

Parameter	Weights (%)
Population	45%
Equal Share	26%

Poverty Gap	18%
Land area	8%
Fiscal Effort	2%
Development Factor	1%
Total	100%

Unlike in the first revenue sharing formula which used the fiscal responsibility parameter to allocate equal revenues to all counties to set up financial management systems, the second-generation formula, the fiscal effort parameter was varied depending on a county's fiscal effort as measured by the increase in revenue per capita

In the second-generation formula, there was the inclusion of the development factor parameter with a weight of one percent, which gave effect to the revenue sharing criteria as articulated in Article 203 (1)(h) and (g), which requires county developmental needs and economic disparities among counties be considered in revenue allocation.

3. CRA PROPOSAL ON THIRD BASIS FOR SHARING REVENUE

Pursuant to Article 216(2) of the Constitution, The CRA submitted 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.

The proposal submitted by CRA as the third basis for sharing revenue among counties was based on the following objectives

- a) to enhance service delivery,
- b) to promote balanced development,
- c) to incentivise counties to optimise capacity to raise revenue, and;
- d) to incentivise prudent use of public resources.

In the proposed third basis for revenue sharing, there is a shift towards functional approach of revenue sharing where new parameters such as health index, agricultural services, other county services and urban services have been introduced increasing the number of parameters to ten.

The following table outlines the parameters proposed by the CRA

Objective	Parameter	Indicator of Expenditure Need	Assigned Weight
To enhance service delivery	Health Services	Health Index	17%
	Agricultural 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%
Incentivize fiscal effort	Fiscal Effort	Fiscal Effort Index	2%
Incentivize fiscal prudence	Fiscal prudence	Fiscal Prudence Index	2%

Source: CRA, 2019

The Third Basis for Revenue Allocation among the County Governments as approved by the Senate

The Senate reviewed the recommendations by the CRA and subjected it to public participation and made a decision which was guided by

- i) Need to hold harmless- where no county shall receive less allocation against the allocation for the FY 2019/20 to ensure that services are not disrupted at the county level. This is also in line with Article 203 (1)(j) of the constitution which provides for stable and predictable allocations of revenue.
- ii) The change in population and poverty statistics following the release of the 2015/16 Kenya Integrated Households Budget Survey and the 2019 population census. The new statistics changed figures substantially and it put pressure on the sharing of resources.

On 17th September, 2020, the Senate resolved that pursuant to Article 217 (1) of the Constitution, the Third Basis for allocating among the counties the share of national revenue that is annually allocated to the county level of government, for the Financial Years 2020/2021 to 2024/2025 shall consist of the Allocation Ratio and the Formula,

The basis for the 3rd generation formula as approved by the Senate is as shown in table 5-

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%

Table 6, shows a summary of the application of the Third Basis for revenue allocation among counties for the financial years 2020/2021 to 2024/2025 as approved by the Senate-

Table 6: Summary of the third basis for revenue allocation among counties for FYs 2020/2021 to 2024/2025		
Financial Year	Equitable share	Formula
FY 2020/21	Kshs. 316.50 billion	<i>County Allocation</i> = Allocation Ratio + 0 (Formula).
FY 2021/22-2024/25	Kshs. 316.5 billion to Kshs. 369.99 billion	<i>County Allocation</i> = Allocation ratio+ (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 ¹ +0.08*Roads Index _i +0.20* Basic Share Index _i) ²
	Kshs.370 billion and above	<i>County Allocation</i> = 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.

It is upon this that the Senate approved the third basis for revenue allocation among county governments and forwarded the resolution to the National Assembly in accordance to Article 217 (3) of the Constitution.

Committee Deliberations:

The Committee observed the following:

- a) The 370 billion amounts allocated for FY 2020/21 – 2024/25 was political and not scientific. It was further observed that the Senate are relying on a promissory note, the additional 53 billion depends on the Country's economic performance.
- b) The parameters on the Third Basis should use the most recent data. Accuracy and other factors should have been considered e.g. fisheries so as to promote equity.

¹ Land Area capped at 7%

²The formula will use the 2019 population and 2015/16 KIHBS poverty statistics

- c) There should be clear timelines on when the revenue sharing formula should be implemented. The proposed criteria, by Commission on Revenue Allocation was tabled in the Senate on 30th April, 2019 and was committed to the Standing Committee on Finance and Budget. However, it has taken several months for Senate to approve the formula.
- d) The marginalization policy must be fast tracked including the guidelines so as to ensure the envisaged benefits of the article 204 of the Constitution can be achieved and in future the parameters should be expounded to allow inclusion of other factors.

MIN. NO. NA/BAC/2020/213: CONSIDERATION OF THE SUBMITTED MEMORANDA (IF ANY) BY THE PUBLIC AND OTHER STAKEHOLDERS

The Secretariat informed the Committee that the Clerk's Office had not received any submissions from the Public.

MIN. NO. NA/BAC/2020/214: DISCUSSION AND ADOPTION OF THE COMMITTEE DRAFT REPORT

The Chairperson welcomed the Parliamentary Budget Office to brief the Committee on the Draft Report. After deliberations, the Committee **ADOPTED** the report with the following observations and recommendations:

The Committee made the following observations;

- (i) The Senate took too long to consider the recommendations of the Commission on Revenue Allocation (CRA) on the third basis for revenue allocation among county governments. Indeed, the CRA submitted the recommendation for consideration on 30th April, 2019.
- (ii) The issue of the quantum figure estimated at Kshs. 370 Billion does not have the force of law. The National Assembly will be guided by available resources, national interests among other factors when deciding on the vertical sharing of revenue between the two levels of government.
- (iii) In calculating the indexes attached to the parameters, there is need to use the current data as provided by KIHBS 2015/16 and 2019 population census and any other data that is provided by government authorities.
- (iv) The parameters are not exhaustive as they do not include services such as water.

Committee Recommendation

That, the Third Basis for allocation of the national revenue among county governments be approved.

MIN.NO.NA/BAC/2020/215: ANY OTHER BUSINESS & ADJOURNMENT

There being no other matters to consider, the meeting was adjourned at 12.10 p.m. The next sitting will be communicated at a later date.

SIGNED



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HON. KANINI KEGA, CBS, M.P.

CHAIRPERSON, BUDGET AND APPROPRIATIONS COMMITTEE

23rd SEP 2020
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DATE